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**Eradicating
Poverty
through Profit**

Making Business Work for the Poor



An International Conference on the Private Sector & the Public Good

Session Summary Reports: Track 9

Capital Investment

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World Resources Institute

Summary:

What is the role of financial intermediaries in eradicating poverty? How can such institutions educate investors on emerging market opportunities, thereby spurring increased investments by the private sector? What is the role of governments, and what other institutions are necessary to facilitate investment in low-income communities? These two sessions focused on understanding the role of capital investment in stimulating development, and what steps must be taken to ensure that all investors, both social and financial, are satisfied with their returns.

Session 1: Financial intermediaries: A key to successful deployment of capital in emerging markets.

Moderator: Amber Nystrom, *Founder, Director, Social Fusion*

Panelist: Paul Fletcher, *Senior Managing Partner, Actis*

Panelist: Peter Johnson, *Partner, Developing World Markets*

Panelist: Bob Pattillo, *Founder, Gray Ghost Capital*

Panelist: Jan Piercy, *Advisor, ShoreBank Corporation*

Key findings:

The session began with Bob Pattillo recounting stories of people accessing financial services throughout history, concluding that to eradicate poverty through capital investment, an entity must have a clear understanding of markets. His firm, Gray Ghost Capital, began as a philanthropic venture, but is now functioning as a for-profit microfinance fund. As one of only two such funds worldwide, Gray Ghost is currently bringing on partners such as Deutsche Bank, in order to spur further corporate investment.

Jan Piercy pointed out that there is a continuum of investors: from shareholders seeking to maximize financial returns to philanthropic investors seeking to catalyze social benefits. She asserted the need for a hybrid sector that is neither private nor social, but, like her company **ShoreBank**, is organized to meet the requirements of the full spectrum of investors. In order to increase participation by the private sector, investors must be given information and education to help them overcome their assumptions about the poor, such as their ability to save and repay back loans. Ms. Piercy also stressed the need for cooperation between the public and private sectors, pointing out that governments play a key role in developing institutions that enable investment in low-income communities.

Paul Fletcher gave a brief intro on **ACTIS**, a private equity business focusing on poor countries, and then discussed the powerful development impacts which might come from direct equity investment in sectors that are critical for macro-level infrastructure development. Such investments energize SME development, leading to job creation.

Developing World Markets is another socially-minded for-profit enterprise. The 10-year old company invests in pre-IPO companies in emerging markets, and is also raising equity from investors to channel into microfinance programs. Partner Peter Johnson stressed the role of governments in acting as a catalyst for private investors by providing subsidized financing for high-risk initiatives.

The panel agreed that progress has been made in overcoming the erroneous assumptions about the credit-worthiness of the poor, and involving the private sector in emerging market investment. Challenges identified to future investment in these



markets included: dealing with assumptions about who are the target BOP communities; shifting the paradigm in defining the market requirements to serve the BOP; logistical disconnect between MFIs and potential investors, and the need to bridge the information gap; involvement of institutional investors; involvement of more public policy, particularly in the US; the need for trade and other macroeconomic reform; and the need for more partnerships, both intra-organization and between organizations, and between the public and private sectors. The [Microfinance Information Exchange](#) was identified as a good resource site.

Session 2: Harnessing synergies: Social and environmental interventions and the bottom line.

Moderator: Robert Rubinstein, *Brooklyn Bridge / Triple Bottom Line Investment Conference*

Panelist: Noah Beckwith, *Economics & Development, Aureos Advisors*

Panelist: T. David Hodgkinson, *Special Advisor, ASEAN China Investment Fund*

Panelist: Sara Olsen, *Founding Partner, SVT Consulting*

Key findings:

Noah Beckwith began by discussing [Aureos Capital](#), a joint venture started in 2001. The JV primarily invests in Africa with over 50 investors. It consists of 19 funds, with US\$376 million in committed capital and 163 investments. The initial challenge was determining how to clarify the role of sustainability in its investments. This determination was made based on the following assumptions: 1) developmental and commercial objectives are mutually reinforcing; 2) developmental criteria are intrinsic to the investment process; and 3) developmental objectives are pursued in a commercial framework.

Mr. Beckwith stated that the most important focus for its funds was on commercial viability. He cited [two African examples](#) - Brookside Dairy in Kenya and Lake Harvest Aquaculture in Zimbabwe - in which the funding was used to provide both social and environmental interventions with the SMEs, noting that there is a symbiotic relationship between suppliers, producers and customers. He also noted that another challenge in this area was harnessing synergies and building metrics for measurement into the business model.

Sara Olsen discussed [Social Venture Technology Consulting](#), which assists companies in non-financial returns analysis and works with early-stage companies to establish procedures that will help them value non-financial issues. [Social Return on Investment Analysis](#) attempts to quantify non-financial impacts, translating those impacts into dollar-value equivalents. Ms. Olsen cited both the increased efforts of CalPERS in creating an SRI fund and the success of the Calvert Foundation as examples in which quantification of non-financial returns is important. She also discussed her consideration of the three stages of a company's CSR efforts: 1) storytelling; 2) the systematic stage; and 3) the sustainability stage.

David Hodgkinson discussed the [ASEAN China Investment Fund](#), which is funded by six core investors and has a socially-responsible investment component. He noted that to roll out a socially-responsible investment, it is critical for it to be consensus-based. The panel agreed that there is still a long way to go in calculating the social and environmental impacts when products don't reflect their current costs. This will remain a challenge in the near future, until standardized methods of quantifying non-financial outcomes are developed.

