

**The Emerging Impact Investing Industry:
A potential source for bringing social enterprise to scale**

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Thank you.

And thank you everyone for being here today, it's great honor to be here. Especially in this beautiful sitting here in KDI.

So I wanted to thank first Dr. Hyun and Dr. Ham and Dr. Shin from KDI. Also the our host, Professor Park from Yonsei, Professor Lee from KAIST, and also my personal host, Professor Ray Horton and Sandra Nevali from Colombia Business School in New York who have helped me to come here. I'm an adjunct professor at Colombia Business School, while also working in the Rockefeller Foundation.

I must say with so many Phds and academics in the room, I'm a little intimidated; there are so many people much smarter than I am. Luckily I've had the opportunity in the last two years to meet with more than five hundred investors around the world, and the presentation I will give you about impact investing as a potential source for the financing of social enterprises draws on this experience. I have also been asked by the some people here to speak slowly. This is a great problem for me because I get so excited when I talk about social enterprise that I often speak very quickly, so I will try and contain my enthusiasm.

Let me just start by saying that we've been asked to bring a global perspective. I'm also very excited to learn the Korean perspective because what I have to share with you comes from experiences we have had not only in the United States but also in Europe and Africa and elsewhere. But I do think that the Korean situation - and especially the role of government here - is quite unique. So what I will present to you is based on my experiences, but I certainly look forward to hearing from you, how you think this would or would not necessarily apply in Korea.

The last thing I would say is that we've been talking quite a bit about the global recession, and in New York City, especially where many of our banker friends no longer have jobs, people can be quite depressed these days. They say that I am the last happy investor in New York; I'm so excited about impact investing and what it can mean for social enterprise, that I, despite the recession, am very excited and so

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wanted to share with you some quick thoughts. Many of the thoughts that I am describing are captured in a recent report that I have here that is available online. This was done by the consulting company monitor Institute and I have a few copies I can hand out, but at the end of the presentation I will have a web site and you can download this. If anyone here wants to translate this into Korean, we would love to talk about that, if you find this talk useful, at least to have some of these ideas available to a wider audience.

So let me quickly get into the presentation. And I'm only going to talk today about social enterprises and fund raising - how social enterprises can raise capital in order to grow, expand and extend their services. And what we see is that social enterprises are stuck in the middle. On one hand, a for-profit business can gain investments from the mainstream investors, who try and seek on an adjusted basis...you know, they focus on a financial return. And if we think about investments coming from minus a hundred per cent when you give away your money, up to zero when you get your money back, and a good investor, a great investor would try and have an adjusted portfolio around twenty percent. For-profit businesses can tap into four profit investors. On the other hand, charities can tap into those foundations or governments or donors who don't worry about losing their money because it's a gift. But what they want to do is to maximize the social return. They're giving money away in order to enable the charity or non-profit to solve problems.

Social enterprises are often stuck in the middle. They want to create solutions to social problems, but they also in many cases are able to make some money; but often not enough money to be attractive to the for profit investors. And yet, many of the charities don't know what to do with them, because they don't simply want gifts, they want investments. So we call this area in the middle - where many social enterprises exist, a part of the missing middle, and that's where the social enterprises are stuck. And, so the current system makes it quite difficult for these enterprises to raise funds.

When you think about the three stages about social enterprise - for profit companies, for the start-up phase, they might use their own money, they might get money from what we call "Angel-Investors," Investors willing to take a risk, put a little bit of money and get the idea started. Often when they try and grow, they can grow with bank loans, there are venture capitalists who are willing to invest. And in some cases and in some sectors the government can support them, and finally when they are ready to really grow much bigger in scale up, they can sell their companies to a bigger company, they can list their company on a public exchange, or again they can get some government

funding. That's how four profit companies are able to start to grow and finally scale.

Charities and non profits have a different funding cycle. Many cases they'll also start with personal funds and maybe some angel-donors. When they grow they'll grow because charities support them foundations like the Rockefeller Foundation might support them. And they might be able to generate some sort of income from their own charitable activities in a fee-for-service. But finally when they are ready to get much bigger, government can step in or foundations. Social enterprises don't have the same options. They often begin with someone taking personal funds. I know there are some social entrepreneurs in this room, I suspect some of you have worked for nothing.

Maybe you've, you know, asked your parents for little bit of money, spent a little money yourself, and that's quite typical. But, unfortunately, when you start to grow, the only way to grow is through revenues because the banks don't know how to lend to you because you are not maximizing financial return, you are not regular business. Foundations often don't know to deal with a social enterprise because it's not just charity. And government in many cases doesn't know what to do either, and so it's hard to grow, and it's almost impossible to grow much, much bigger because you can't sell yourself to another company because you are new sectors, and you cannot list on the public exchange because you have a social mission; that's quite confusing for investors.

So what I am going to talk about is how Impact investing is a new form of investing that I think can help deal with the challenges that social enterprises face when raising money. We define Impact investments as investments that seek to generate social or environmental benefit to solve social or environmental problems, while also providing the investors with financial return. This might sound quite simple, but in many ways, it's a profound change from the way we, at least in the West, have always thought about solving problems. Before, we've typically thought that if you want to make an investment that should just be about making money. And if you want to solve a problem, you should use charity and give your money away. Impact investing says that a method to pursue social objectives can actually come from investment rather than charity.

So I just wanted to talk about few ways in which the impact investors I work with are thinking about how they can use their investments both to generate social and environmental value or solve social environmental problems, and also to generate some financial return. As I said, this is really about how do we fill in this missing middle, how do we create investments for companies or social

enterprises that want to make some money but also solve problems.

The first way we do it is with what we call the "Double Bottom Line Trade Off." These are impact investors - and I put the big blue circle below the line because these impact investors are willing to make a little bit less financial return if that means they can invest in social enterprises that do great work in solving social problems. You will hear more in a few minutes from the Acumen Fund, which is an example of an impact investor who makes investments but is willing to do so with lower financial return as long as investment is into a social enterprise that generates substantial and important solutions to problems. Rockefeller Foundation, we also make investments like this, these will be loans, private equity investments where we will invest in a social enterprise that can pay us back, but often not much more than that. But by taking our money, they can expand their own business and therefore expand the solutions they are providing. Avish Kar, I wanted to make clear this is not just a western phenomenon. Avish Kar is a new fund based in India and we have just made investment into that fund they will be making investments into social enterprises in rural areas in India.

E & Co. is an organization that makes loans and other investments around the world in social enterprises which provide modern energy, especially in the rural areas things like solar lighting, hydro-electric energy from rivers and so forth. And finally, Root Capital is another organization, they provide loans to farmers to enable them to gather their products and sell them for much higher value. Some of the fair trade coffee we were drinking earlier might have been financed with Root Capital loans. They typically will offer investors one or two percent interest. So, it's a very low return for investor, but it's a very profound social good that they create.

But, just to be clear, impact investing and social enterprise in our view does not mean you have to give up making even more returns. So, some impact investors actually work with on a market rate return, and if you see here, I put the blue line out. What this means is, these are impact investors who say "We can get the same financial return on the Y-axis, but we can generate even more social return if we are thoughtful about how we invest." One of the biggest pension funds in the United States, they used to have about 370 billion dollars of assets, not sure how much they have now, but less than that named TIAA-CREF, they have created a 600 million dollar fund for investments that generate very good market returns but try and increase the social value that they can get.

Many of their investments going to micro-finance, some of them go into building low-income housing in the United States and elsewhere, and they invest in social enterprises delivering renewable energy in a

more green manner. That's just one example of how an impact investor can make very good money but still create good social value. Morgan Stanley, the investment bank, has done this in micro-finance. Blue Orchard is a group in Switzerland, similarly - I will talk little bit more about them later - and City bank has also made some deals in this way.

And finally, there are some people who believe that in fact, by investing in socially oriented enterprises, you can make even more money than just the typical investments, and these are people who believe - as we just heard from Bill Drayton - that the future will honor and value social enterprise even more, and so people who invest in enterprises now that in the future will be more valued because they generate social good, can actually beat the market. I put here, there is a hedge fund in London called "Generations." They were started by someone who used to run Goldman-Sachs asset management division, and by the former vice-president of the United States Al Gore, who won the Nobel Peace prize for his work on climate change. Generations actually believes that by investing with a mind toward impact investing, and buying companies who create good environmental outcomes, that they can actually beat the market. Now, beyond the ways in which people invest, there are also substantial opportunities in impact investing for entrepreneurs. I'm very excited to see quite young people from the room. Impact investing, as this report shows is an emerging industry. And, whenever a new industry emerges, there are substantial opportunities for entrepreneurs who enter into the new industry and build the businesses that serve the investor interests. Because there is a growing interest among investors around the world in impact investing, there are many ways in which entrepreneurial people can create new businesses that serve the investor interests.

And we are seeing these in three major ways within existing investment firms. There are new initiatives starting that tap into impact investing. In 2005, City Bank launched a micro finance unit within their investment bank. They are effectively a unit that structures impact investing deals, so now there are people in City Bank who can become impact investors within City Bank.

J.P. Morgan Chase in 2007 started a new unit in the investment bank in New York called the "Social Sector Finance Unit." They believe they can actually make money by structuring investment deals for groups like "Ashoka" and for many other social entrepreneurs. For them, this is not charity. They actually believe that they can make substantial money by serving this new industry. There are also many exciting start-up firms. One of the reasons I'm the last happy investor in New York is because I need so many of these fascinating young companies that are starting to serve impact investors.

I've just put a few here -Intellicap is based in India, they are investment bank and the consulting company for impact investors. Responsibility is based in Switzerland; they have now raised more than 500 million dollars from their clients in order to place into impact investments. I already talked about Avish Kar and Blue Orchard and Grey Ghost was a fund that used to fund micro finance, but is now funding a wide range of social enterprises including recently a new investment funding India that focuses on investing in private schools that serve very poor children in slum areas.

They believe that they can actually make money by lending to these schools who also generate substantial social value by providing better education to very poor students. They don't think that those schools simply require charity. They believe they can take investments as well. And the finally there are many non-governmental organizations. Investing For Good is a company in London which advises those people who help rich people make investments. I'm telling them how to make impact investments so that they can actually make money as well as doing good. On the bottom left-hand side is the logo for Brack, one of the speakers yesterday mentioned that Brack is now the world largest NGO. They have more than 8 million customers, micro finance customers in Bangladesh. They're also so effective that they can actually take loans from investment banks, like City Bank. So, they are major investors as well in NGO, and I mentioned E & Co. and Root Capital.

So, I want to end there. These are just examples. I have a great privilege in my job at Rockefeller Foundation that I'm able to meet with so many people who are being very innovative in this area. It's easy for me to talk about it. These are the people who are out there everyday trying to build this new industry and make it work. And so, I just wanted to give you a flavor for how impact investing is potential new source for social enterprises in Korea and elsewhere. And I'd be happy during lunch or another time to hear about some of people in this room who are similarly innovative. And one thing largely missing from my presentation is the role of the government. It's not something we think as much about but I am hoping that some of the other speakers in today's session will help me understand how in the place of Korea and elsewhere the government can be brought into this work. In the United States we are very hopeful to work with the new administration on some of these ideas. At the end of the day, the basis for this impact investing work is our understanding that there is not enough charity money in the world to solve the world's problems. And, we as a private foundation, we give away lots of money but for us we don't simply want to help create small solutions. We actually want to end poverty. And, in order to make that happen we know we do not have enough money ourselves as Rockefeller or all the foundations in the world. So,

impact investing for us is a part of the answer how we will be able to make solutions that really change the world and don't simply create a little bit of improvements here and there. We don't believe that impact investing can replace donations. We believe that the world requires governments, it requires charities. But, impact investing is a great way for all of us to be able to make solutions at an even bigger level than we could do alone. Thank you.