

# Innovative Finance for Development IF4D

October 24, 2017

Day 1

# Innovative Finance for Development is ...

## The Rockefeller Foundation

The use of financing mechanisms to mobilize private sector capital in new and more efficient ways for projects to create a more resilient and inclusive world.

## WEF/OECD:

The strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets.... channels private investment to sectors of high-development impact While at the same time delivering risk-adjusted returns.

## Dalberg:

A range of approaches to mobilize resources and to increase the effectiveness and efficiency of financial flows that address social and environmental challenges.

## World Bank:

Innovative financing involves risk mitigation and credit enhancement through the provision of collateral (either existing or future assets), spreading risk among many investors, and guarantees by higher-rated third parties. Innovative financing is not limited to financial engineering.

# Introductions & Training Objectives

Alicia Phillips Mandaville @apmandaville

Verónica Olazabal, TheRockefeller Foundation @veroviews

9-9:45am

# Our Project Team



**ALICIA MANDAVILLE  
PHILIPPS**

Vice President, Global  
Development Policy and  
Learning  
InterAction



**BULBUL GUPTA**

Social Innovation  
Advisor,  
USAID, Packard, Asia  
Foundation, Clinton  
Global Initiative, HFA  
'16



**LUISA CORDOBA**

Senior Manager,  
InterAction  
Business Council



**BEN BESTOR**

Senior Program  
Associate  
InterAction

# Agenda – Day 1 - Learning

## *IF4D Intentions, Tools, Stakeholders*

- Framing
- Survey Findings
- Why Are We Here?
- Networking Lunch
- Business Model Canvas
- Break
- Panel w/Private Investors

# Agenda – Day 2

## *Applying Tools, ;Multilateral Stakeholders*

- Peacebuilding Case Study
- UN Panel
- **Lunch Break**
- SDG Design Labs using Business Model Canvas, Presentations
- Wrap-Up!

# Training Objectives - Interaction

- Survey Says... **“What” “Where” “How”**
- Understand INGO member motivations for IF4D – **“Why”**
- Member needs towards IF4D – **“What”** and **“How”**
- Identify INGO members value-add in IF4D
- Support members to add value to their IF4D efforts
  
- Support from Rockefeller Foundation

# Groundrules

- Punctuality
- Technology
  - Please self-regulate, save for breaks time
- Active, Respectful, Inclusive Participation
  - Active Listening
  - Debate with Respect
  - Practice your pitch; Keep jargon to a minimum
  - Make a proposal; don't just ask what you can do.
- Honest Feedback – constructive criticism is the only way we can serve you better!



# Let's get started!

- ❖ Name
- ❖ Organization
- ❖ One Word Status on where Org is on IF4D:  
Cool/Warm/Hot?
- ❖ 1 Key Learning Objective for Training (sticky)
- ❖ 1 Fear/Concern (sticky)
- ❖ 1 Issue your Organization is working to resolve

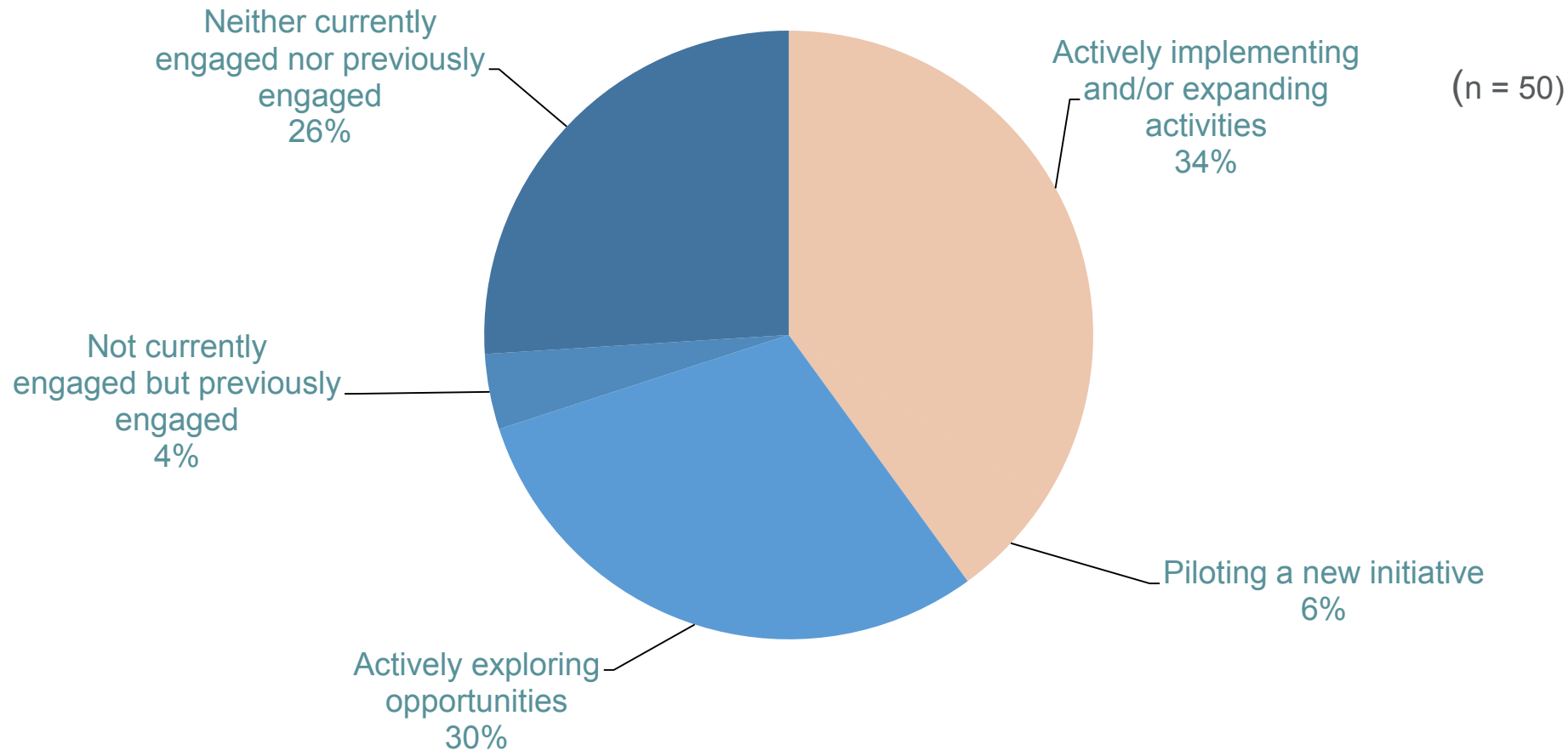
# Survey Key Findings

Phase I of the new InterAction / The Rockefeller Foundation Engagement

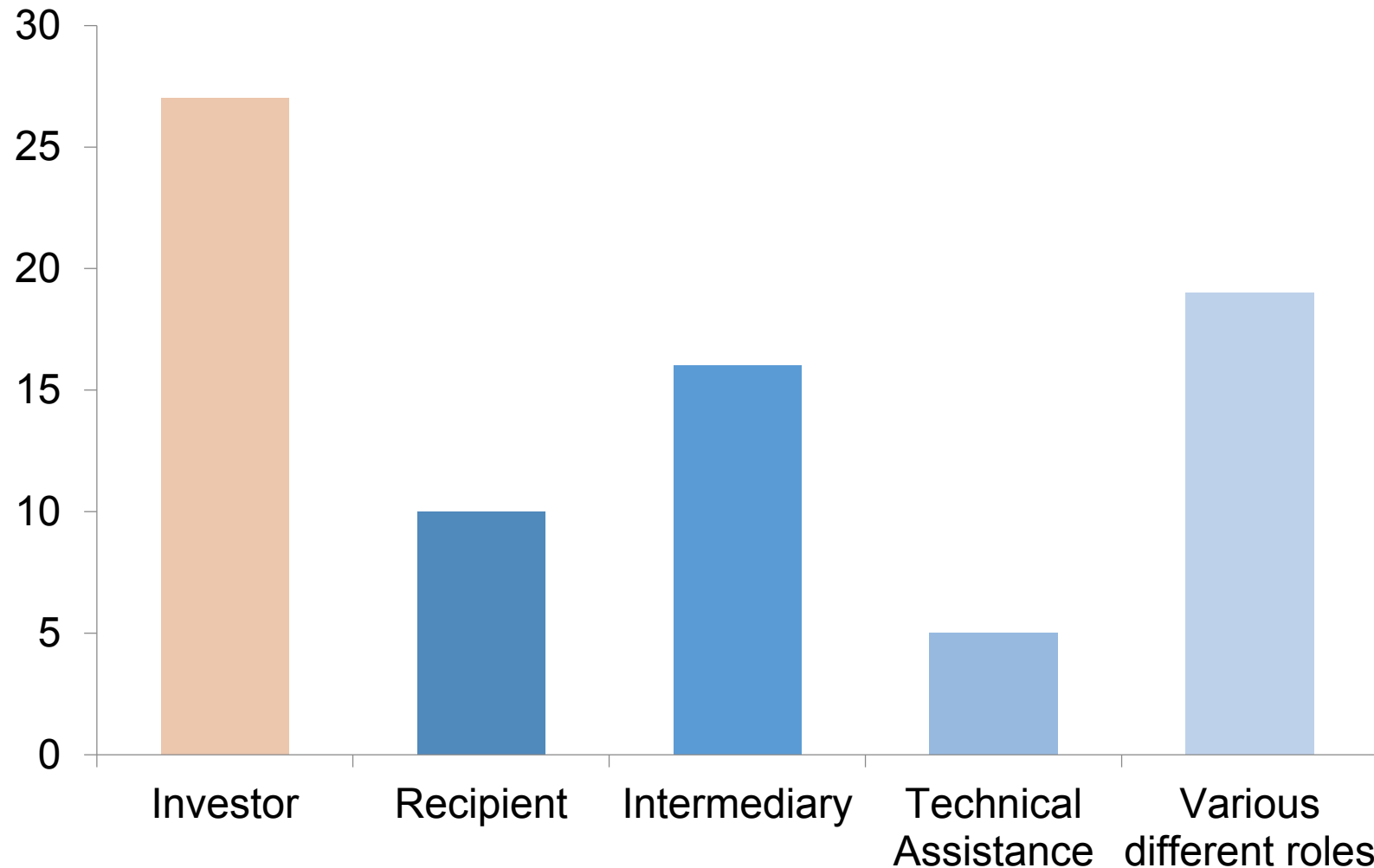
Luisa Córdoba

9:45-10:15

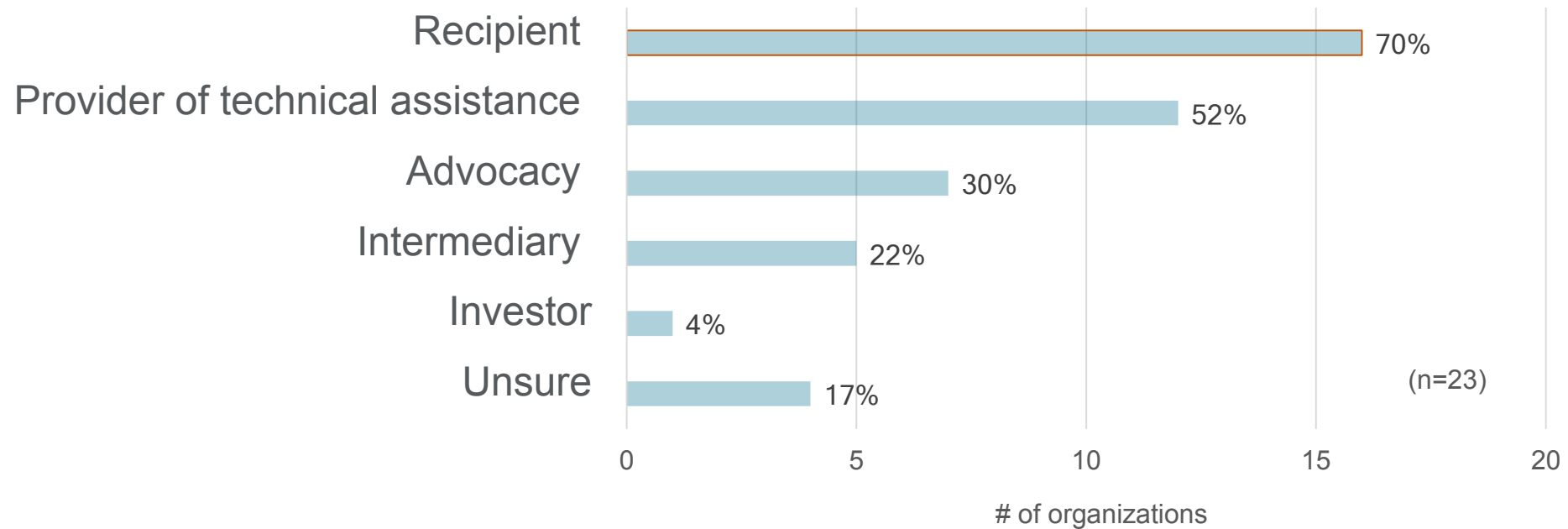
# 40% are implementing IF4D activities; 88% are looking to expand/enter the market



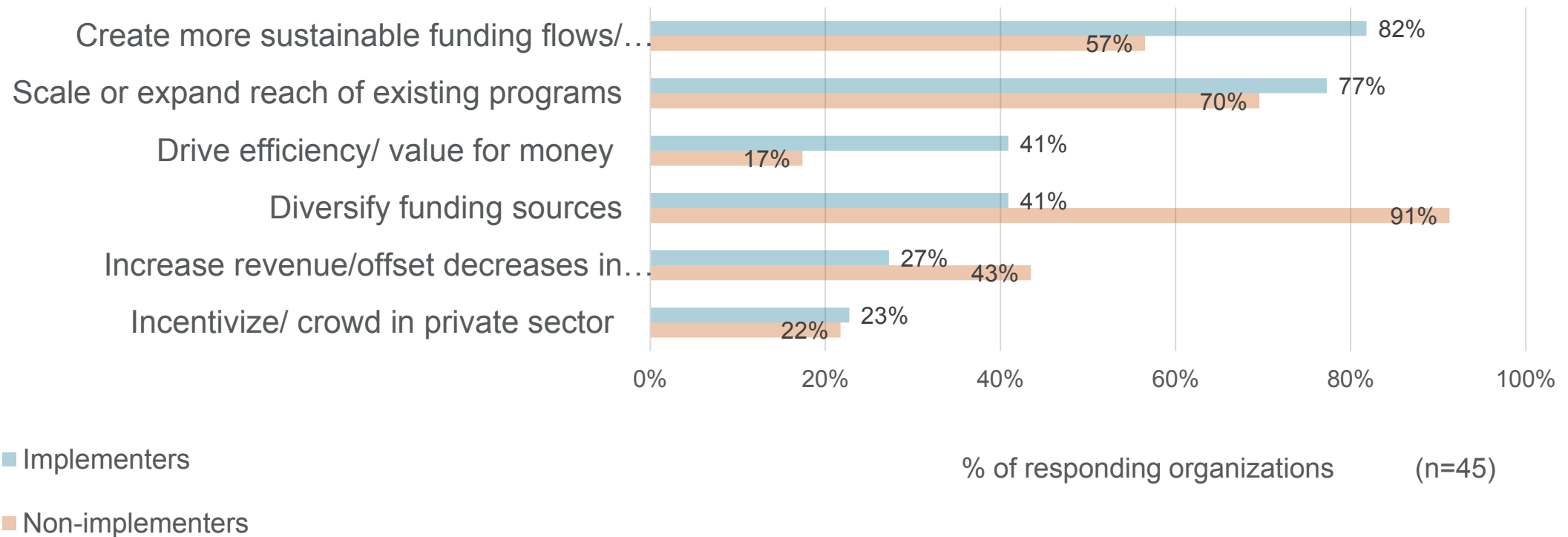
# Among implementers, the most common role was investor”



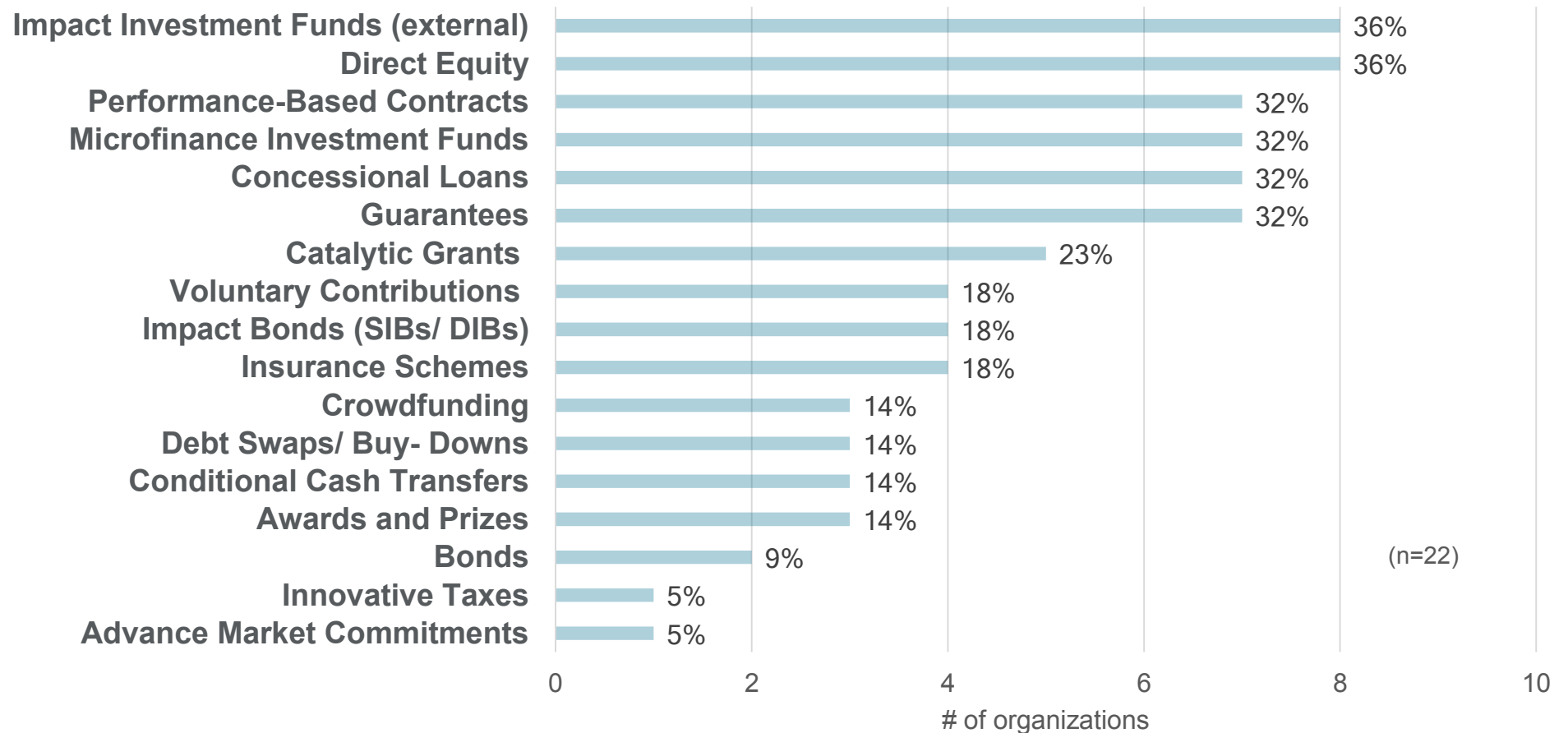
Among non-implementers, the role of most interest was recipient (70%). Only 4% wanted to play an investor role.



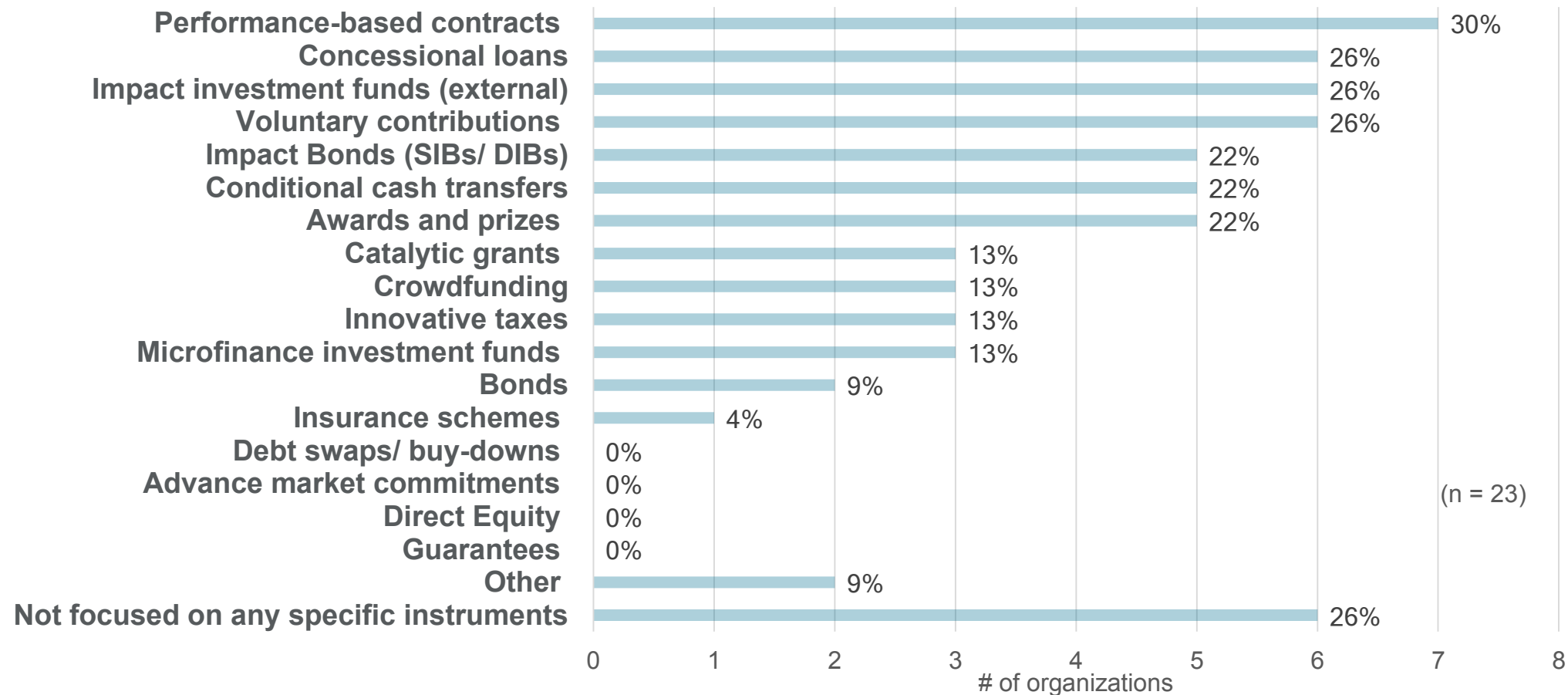
# Implementers are most motivated by recycling capital. Non-implementers are most motivated by diversifying funding



# Implementers: PBCs and impact investing tools; the least common are results-based approaches

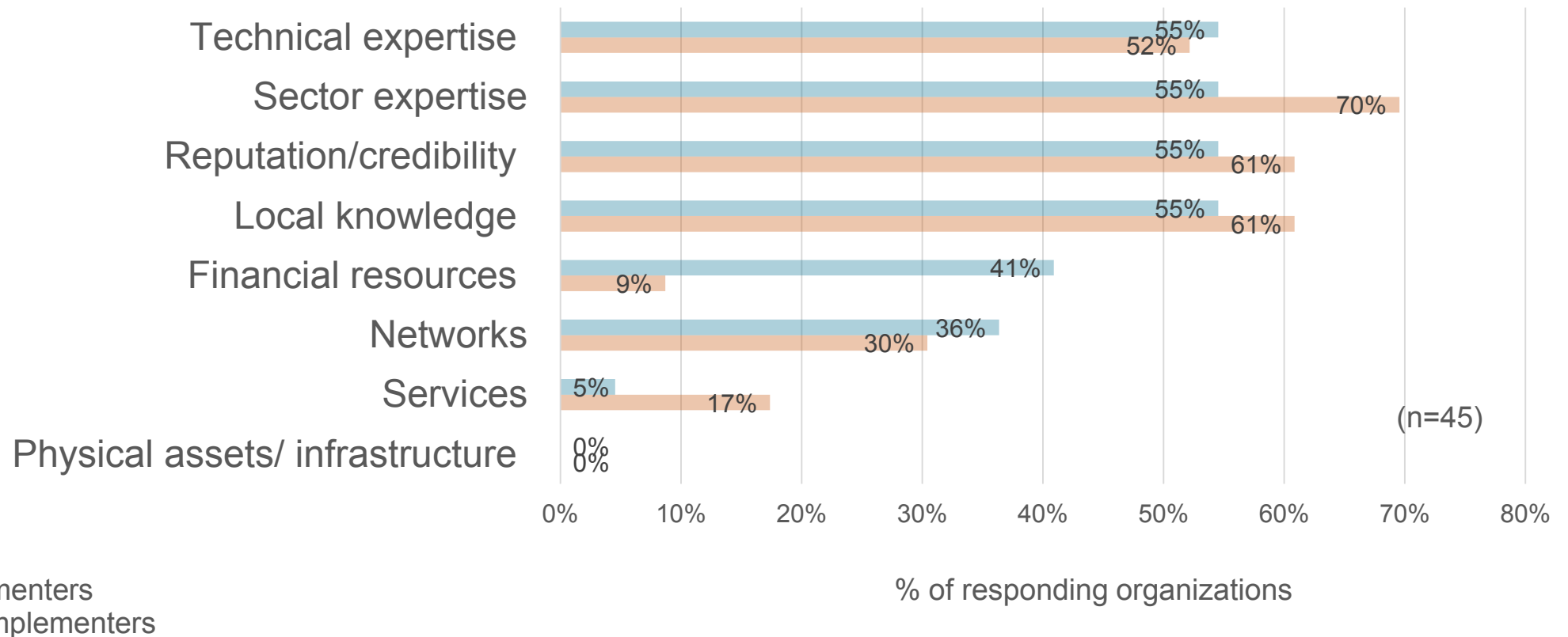


# Non-Implementers: results-based approaches and voluntary contributions; the least common are impact investing tools





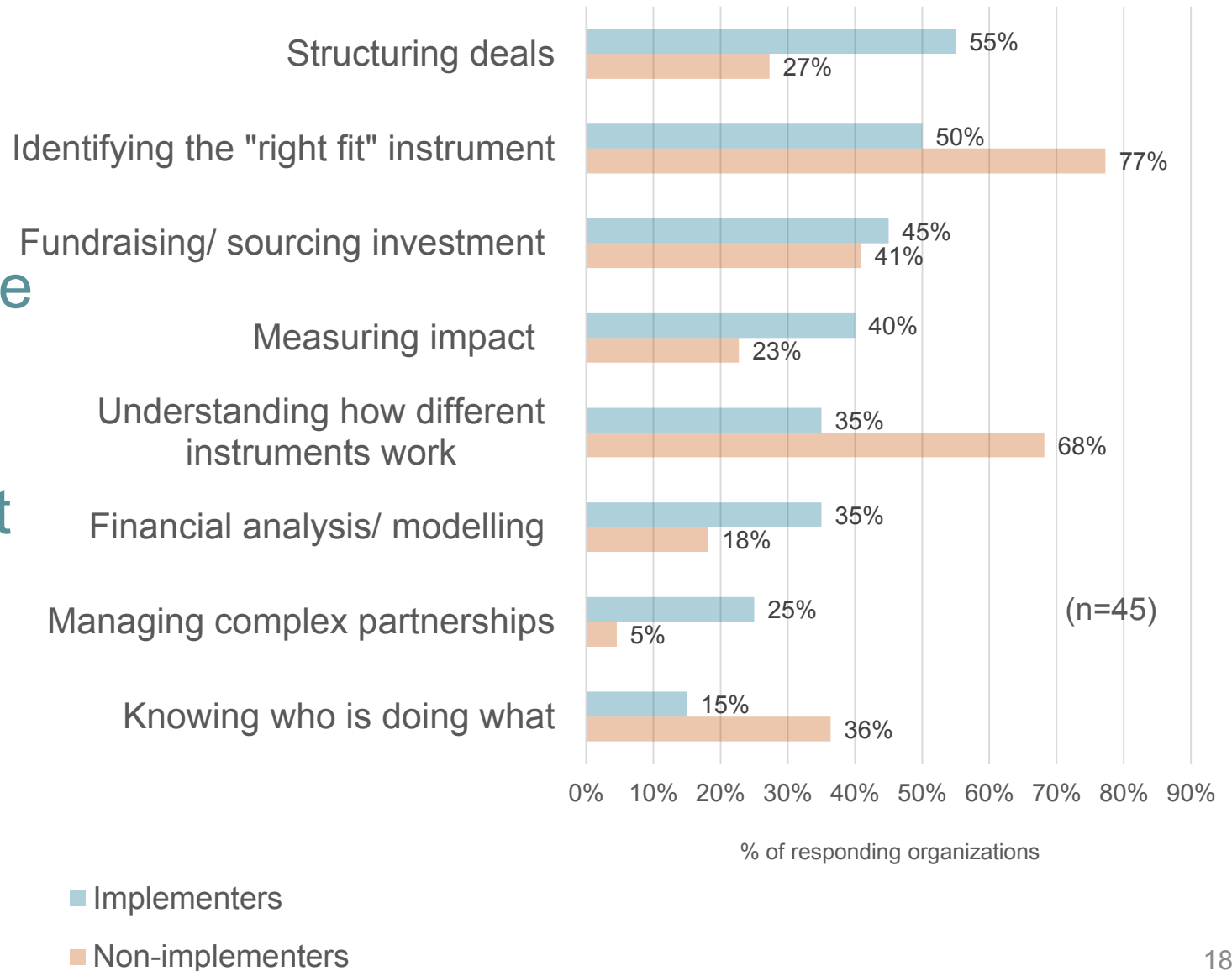
# With the exception of financial resources, there is broad convergence on what NGOs bring to the table



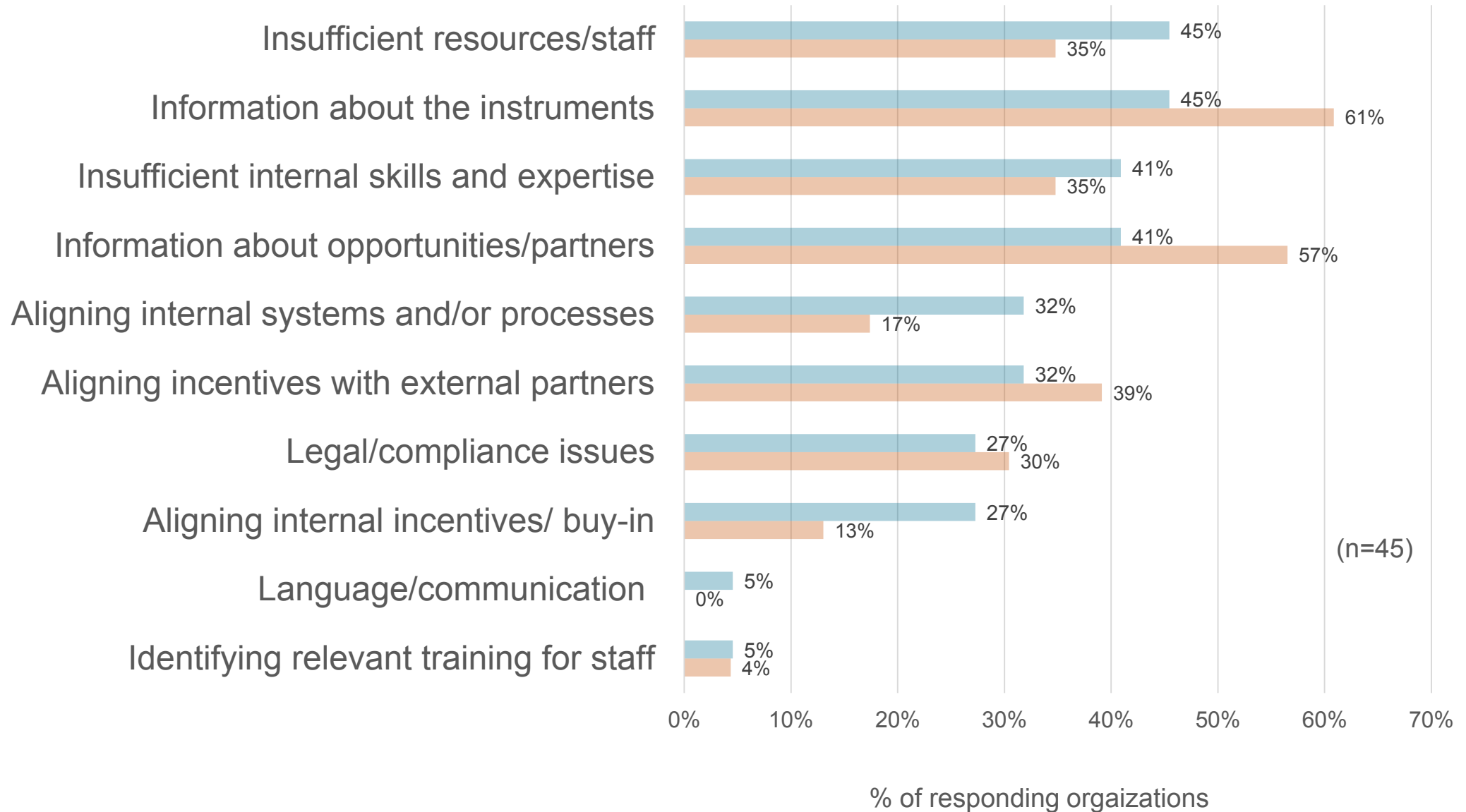
Implementers need more support with the **operational aspects** of IF4D

Non-implementers need more support **understanding the basics**

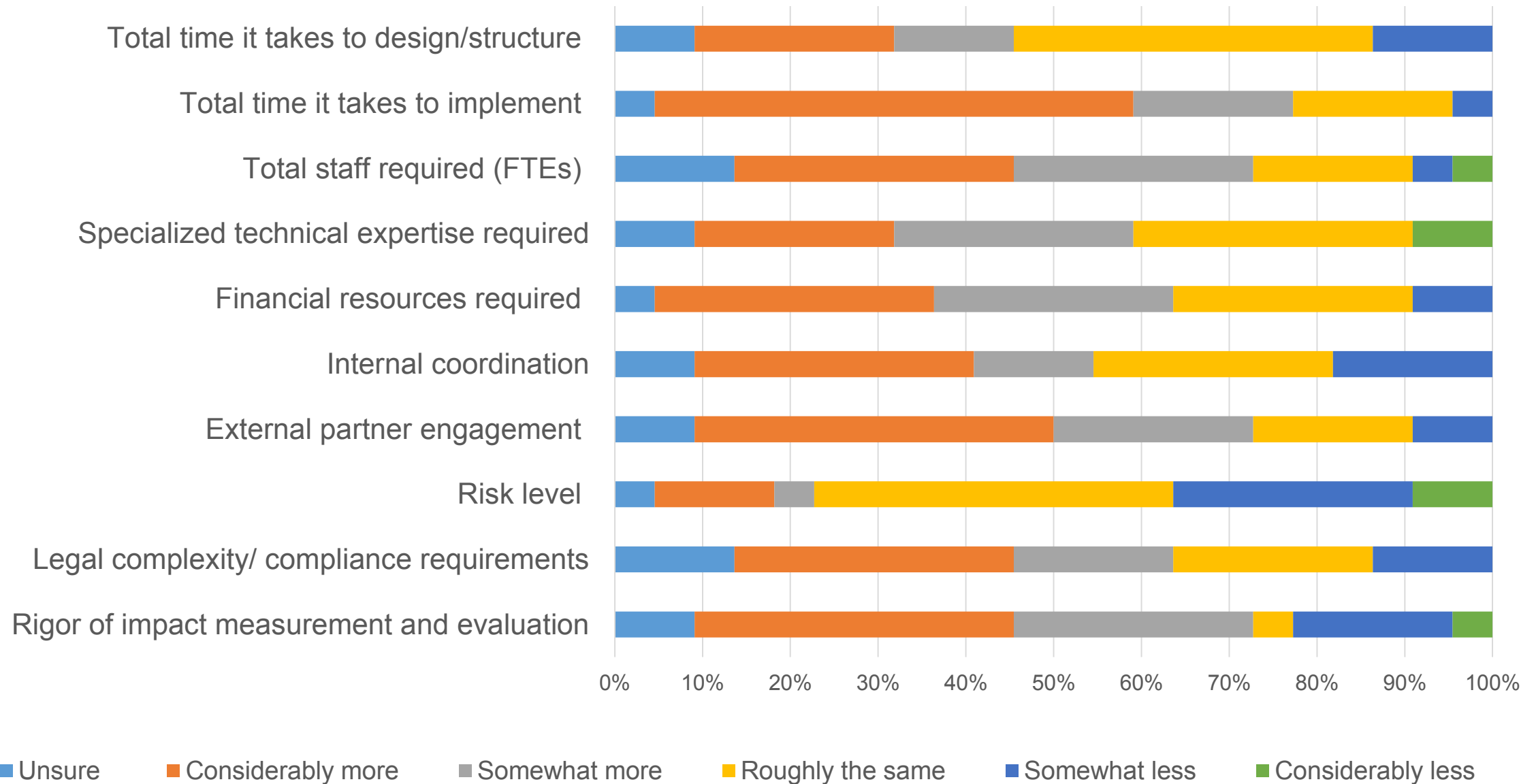
Both need significant support identifying the “right fit” instrument and sourcing investment



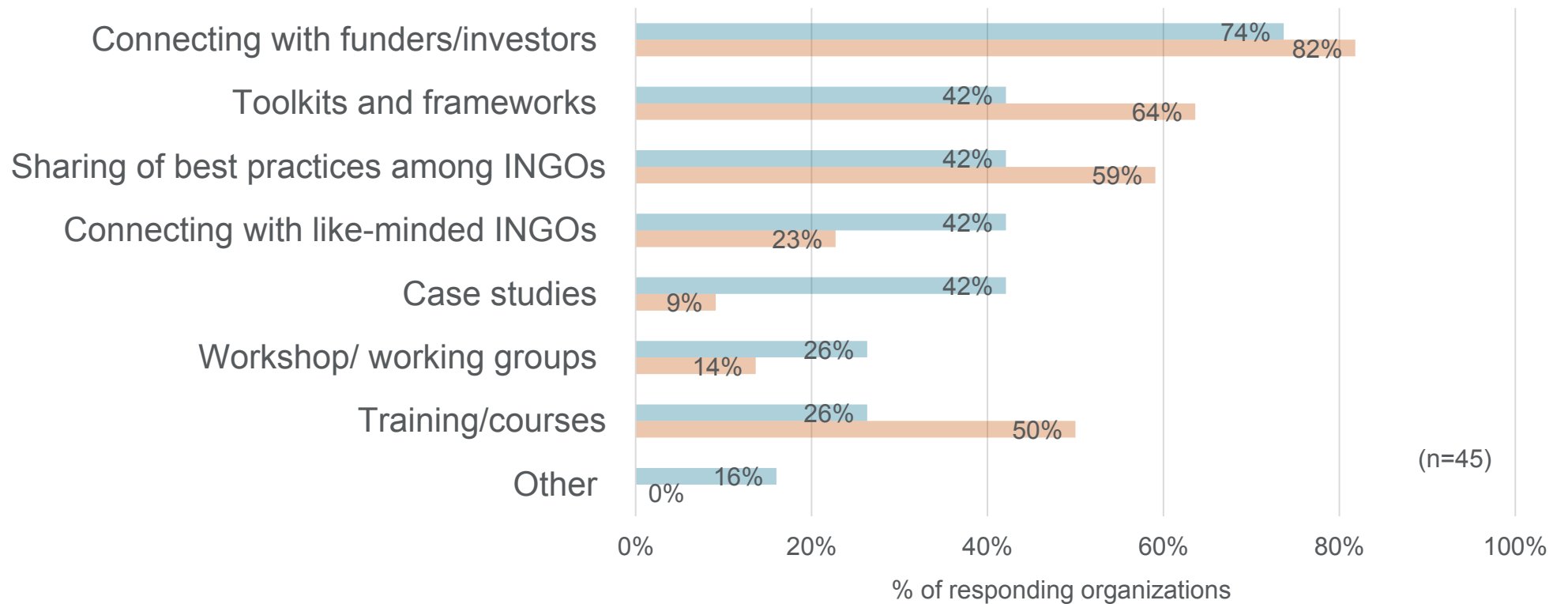
Informational barriers are significant for both groups; **insufficient internal capacity** is also a barrier but more so for implementers than non-implementers



It's not hard to see why: **IF4D activities place a greater burden on NGOs** compared to traditional grants



# Both groups express similar resource needs: **connecting with funders and toolkits and frameworks**



# Any survey-specific questions?



# Demystifying IF4D

Why Innovative Finance? Trends, Needs, **Intentions?**

Bulbul Gupta

10:15-12:15pm

# Key Global Challenges

- 1) **Rapid pace of Technological change** → structural unemployment: what models for “rapid upskilling on demand” for humans?
- 2) **Climate Change** – commodity shocks, resource scarcity → drive for competitiveness; pre-competitive collaboration
- 3) **Demographics – Aging in Developed; Youth Bulge in Developing**
  - Demographic dividend ahead? Customer of the 2030 & beyond = young person of color!
- 4) **Wealth Inequality & Divisiveness increasing in Developed Countries**

*→ All require transformational systems change, collaboration, across paradigms, across silos*

# Key Global Opportunities

- 1) **Demand for Healthy, Nutritious products; organic, etc.**
- 2) **Demand for Supply chain transparency, fair labor**
- 3) **\$48 Trillion Wealth Transfer from Boomers to Millennials:**
  - Impact Investing \$80 Billion 2015 to \$2 Trillion+ in 5-10 years
- 4) **Women make 80-85% of household consumption decisions**
- 5) **Millennials drive responsible consumer, work, investment behaviors – own, & their parents**

# SUSTAINABLE DEVELOPMENT GOALS





# Why are we here?

- Good Capital Project – 10<sup>th</sup> anniversary of impact investing; How do we add value to help scale the field?
    - Measurement, management, legal infrastructure support for the field?
  - G8 Social Investment Task Force - GSG @Chicago 2017 → need more “scaleable enterprises that reach 1 Billion people”
- How do we INGOs get there from where we are?!
- Show meaningful scale for localized solutions?

# IF4D Intent for INGOs. “Why?”

## Intent

- Funding Diversification?
- Revenue Replacement?
- Donor/Board Driven?
- Sustainability of Programs?
- Maximize Social Impact/“Return”?
- Market Pressure?
- Other?

## Benefits

- Resource Mobilization  
*Funds, Partners*
- Financial Intermediation  
*Distribution of Risk*
- Resource Delivery  
*Effective deployment of resources*
- Advances  
*Products & Services*
- Scale Impact  
*New customers & markets*

# IF4D Fears & Challenges for INGOs.

1. The Unknown – not your mom's USAID:
2. Learning the language of investors vs. answering RFPs
3. Unreliable funding stream
4. NICRA/Admin costs
5. Steering a ship off a cliff? Into a Golden Triangle?
6. Taking a calculated risk – invest to grow
7. Need to modify internal systems

# Clarifying IF4D usage for INGOs

- INGO's **intent** for using IF4D
  - Defining goals, end buyers
- IF4D is **NOT** a strategy for revenue replacement
- IF4D is an **approach** to scale impact
- End goal of using IF4D is **NOT** limited to impact investing

# Who are we **solving** for?

## Who are your key **Customers**?

The **next billion** internet users will not look like the **last billion**.





# How will you reach them?

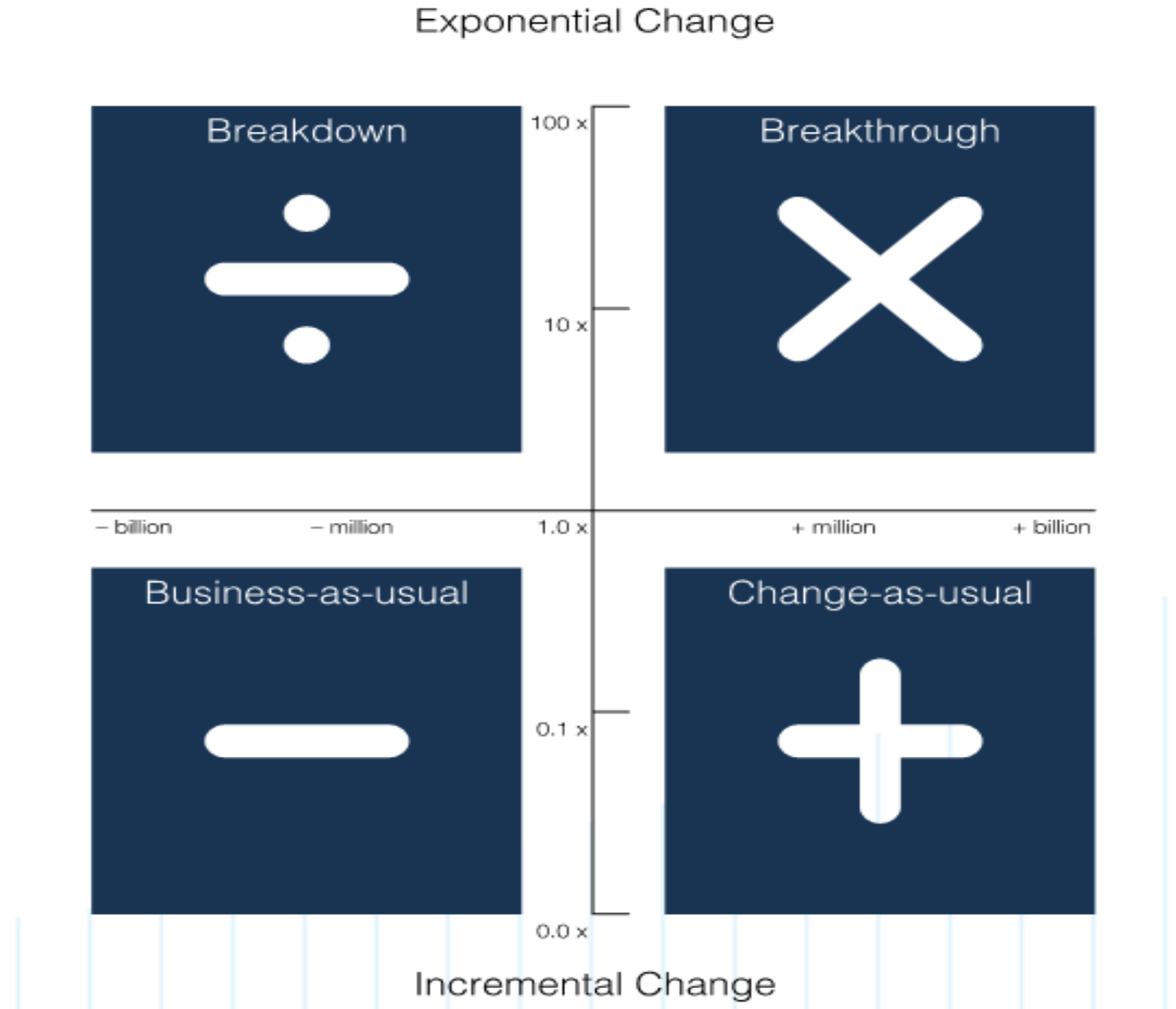
- Modes of Transport
- Transformational Change
- Build-Buy-Partner

A new growth story  
Going for breakthrough  
→ Sustainable Revolution

**Exponential challenges demand exponential solutions.**

Incremental approaches, while important, are no longer sufficient.

Around the world, breakthrough innovators are already creating positive impact at scale by combining new mindsets, technologies and business models. Find out more at [projectbreakthrough.io](http://projectbreakthrough.io)



## Rebooting the C-suite agenda From Breakdown to Breakthrough

The Breakthrough Pitch 3.12

Let go of whatever doesn't  
fit  
with tomorrow's realities

Stand back and scan  
emerging trends

Engage with  
perspectives  
of disruptive  
innovators

Embrace  
uncertainty and  
discomfort

**We are here**

Experiment with and  
implement new business  
models

Identify opportunities  
for  
10X thinking and  
solutions

Use the SDGs as  
a north star

Zone of maximum confusion

# Will you Raise: Unicorns, Centaurs, Gazelles, Zebras?...



## Unicorn

- Privately held company
- Technology
- >\$ 1B valuation



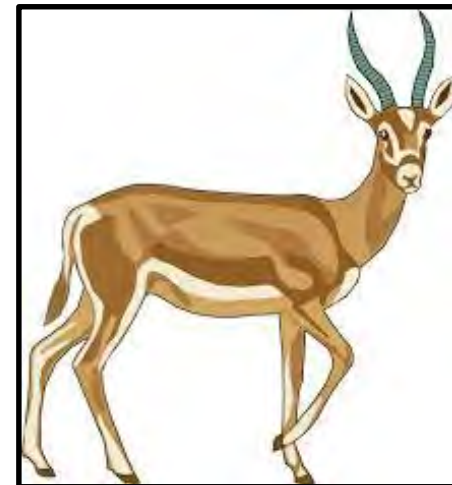
## Zebra

- Privately held company
- Socially responsible charter ... “founders of all stripes”



## Centaur

- Privately held company
- Technology
- \$ 100 mm to \$1B



## Gazelle

- High-growth private company ... “runs fast”
- 20% annualized growth (4 straight years)
- > \$1 mm in revenues





## UNICORN

## ZEBRA



## GAZELLE



### THE WHY

purpose exponential growth  
end game exit, liquidity event, 10x  
outcome monopoly

sustainable prosperity  
profitable, sustainable, 2x  
plurality

### THE HOW

worldview zero sum, winners and losers  
method competition  
natural model parasitism  
resources hoarded  
style assertive  
seeks more

win-win  
cooperation  
mutualism  
shared  
participatory  
enough, better

### THE WHO

beneficiary private, individuals, shareholders  
team composition engineer heavy  
user pays with attention (opaque)

public, communities  
balanced: community managers,  
customer success, engineers  
for value (transparent)

### THE WHAT

growth direction hockey stick  
metric quantity  
priority user acquisition  
obstacle product adoption

regenerative growth  
quality  
user success  
process adoption

-High growth  
-Exit, liquidity

-Winner  
-Competition  
-Hoarded  
-Both  
-More





-Private  
-Balanced  
-For value

-Hockey-like  
-Quantity  
-Acquisition  
-adoption

...or do you feel like a Deer caught in the Headlights?!




# Why Zebras? Social Businesses “Conscious Capitalism”

- ✓ To state the obvious: unlike unicorns, **zebras are real**.
- ✓ Zebra companies are both  and . They will not sacrifice  for .
- ✓ Zebras are mutualistic: they band together in groups to protect and preserve one another. Individual inputs result in stronger collective output → cohort lessons.
- ✓ Zebra companies are built with fearless stamina and capital efficiency, as long as conditions allow them to survive.

# Why are Zebras Hard?



1. **The problem isn't product, it's process.** → Need Systems Change, not just a “new app for that”
2. **You can't be it if you can't see it.** Existing and aspiring business owners haven't seen enough proof (or investors) that they'll have a higher chance of becoming financially successful and socially celebrated if they follow sustainable business practices.
3. **Zebras are stuck between two outdated paradigms, nonprofit and for-profit.**
  - To Hybrid? To BCorp? Easier \$?
4. **Zebra companies are often started by women and other underrepresented founders.**
  - 3% vc goes to women
  - Less than 
  - Although women start 30% of businesses, they receive only 5% of SGB loans and 3% of VC.
  - When surveyed, women say they are in for the long haul: to build profitable, sustainable companies.

→ **NEED MORE CONSCIOUS & DIVERSE STORIES LIKE PATAGONIA, ETSY, 7<sup>TH</sup> GEN, BLAVITY, BLENDOR, ETC.**



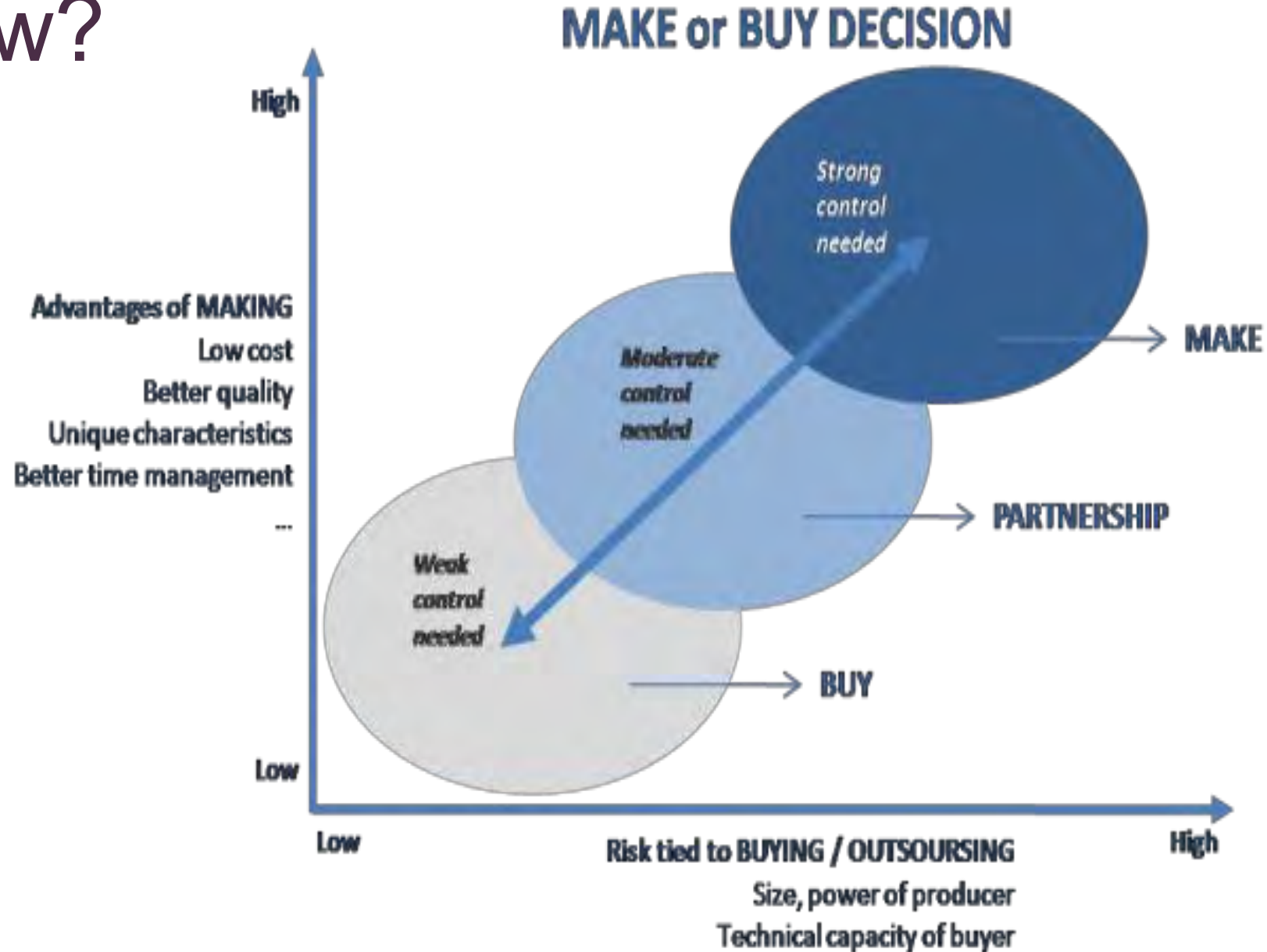


# Are we Gazelles?

- Largely independent; 84% had no foreign participation in their capital.
- financial return rate was 16% higher than competitors and, they were able to finance their growth without increasing capital provided by shareholders.
- Most of the profit was reinvested in the company with a self-financing premium.
- They used angels & debt to leverage the high performance.

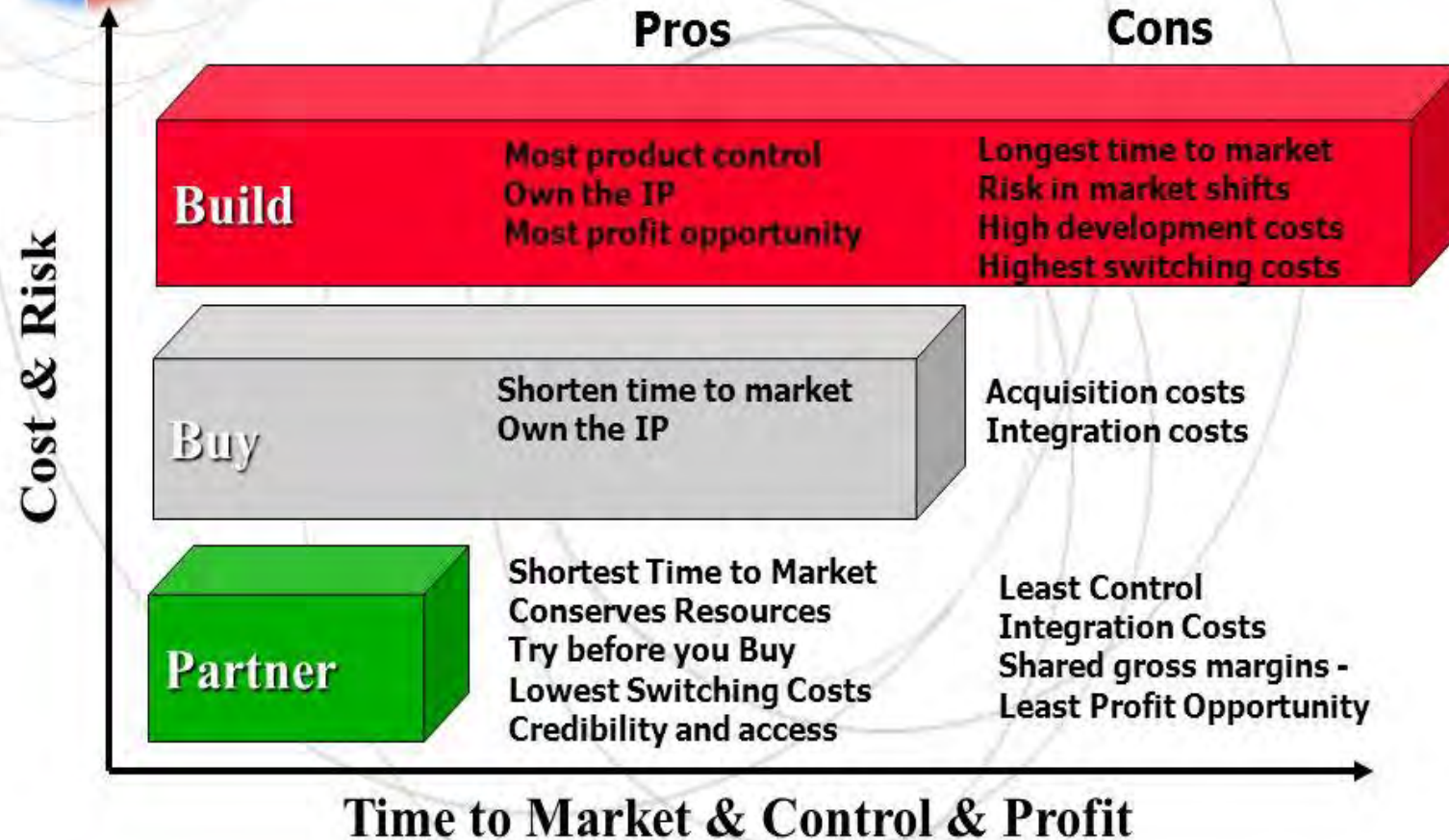
**OR...ARE WE PONIES & BUNNIES FOR NOW, AGILE & GROWING FAST?**

# How?



# How?

## Build, Buy, Partner: *Benefits and Tradeoffs*



# NGO Value-Add in IF4D

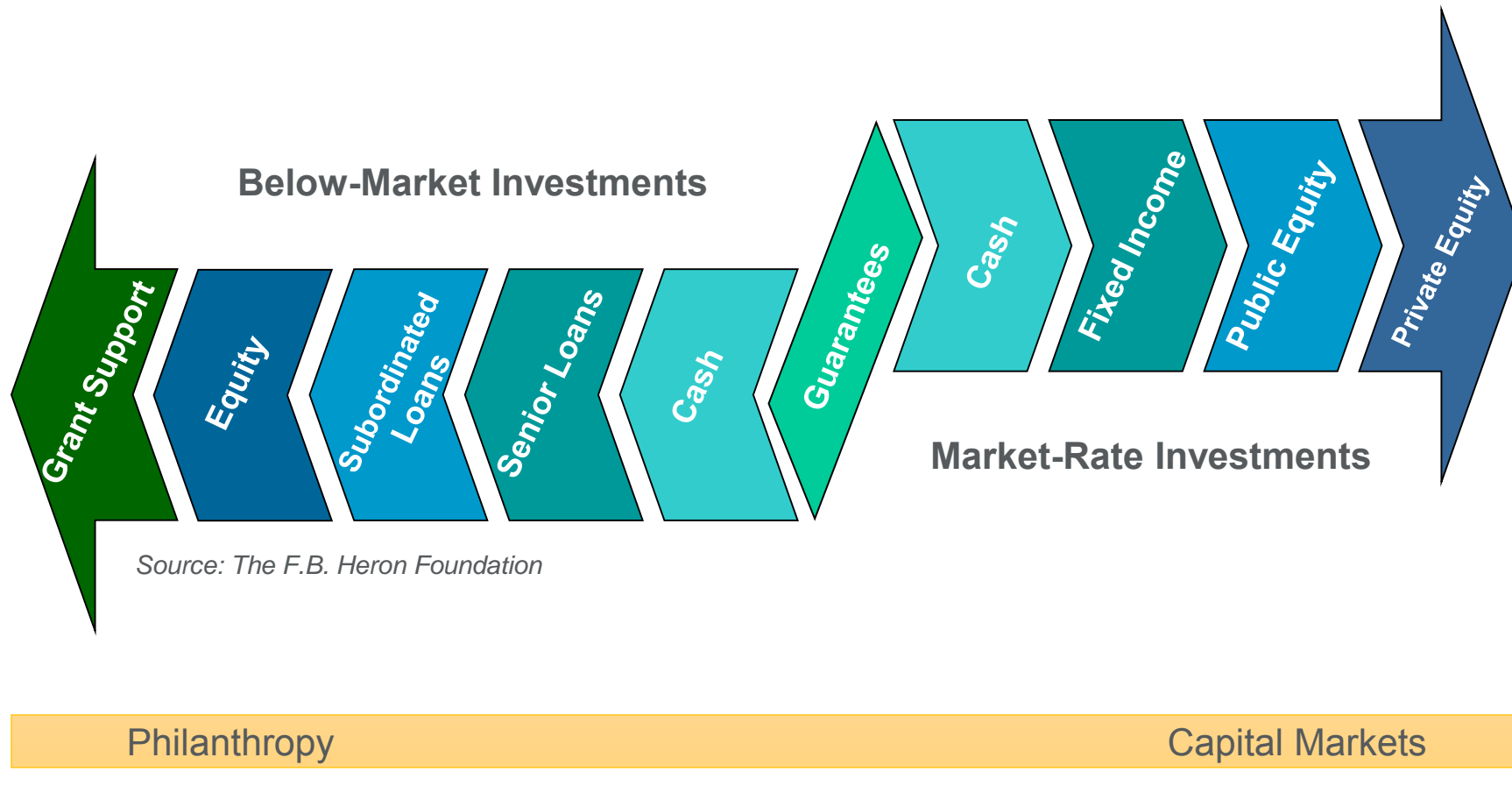
- Ability to deliver High Social Impact **w/ Intent**
- **User-Centric** (when we don't forget them)
- Global & Local Footprint of Staff & Operations
- Experience with Due Diligence; Impact **Measurement** thru Monitoring & Evaluation
- Elevating the “G” in E + S + G!  
(Environmental, Social & Governance)
- Working in Scarcity – places & budgets → more innovation for impact expertise than we know we have



# IF4D Roles for INGOs. “How?”

1. Direct Investments
  - External Fund Launch
2. Build Pipeline of Social & Environmentally Responsible Enterprises
  - Internal Incubation
3. Technical Assistance
4. Independent Assessments
  - Becoming 3<sup>rd</sup> Party Evaluator?
5. More than one of the above

# Continuum of Investments with Impact



# Table Discussions

## (45 mins, 15 mins report back)

- Pick one recorder on white paper & use stickies

### Questions:

- 1) What is your key motivation for IF4D right now?
  - Internal, External?
- 2) What are you working to solve for? (Pick 2-3)
  - As individual organization?
  - As community of INGOs?
  - To the Donor & Investor Community?
  - To Customers?
- 3) What do you feel is the biggest barrier to scaling the above?



# It's about the USER



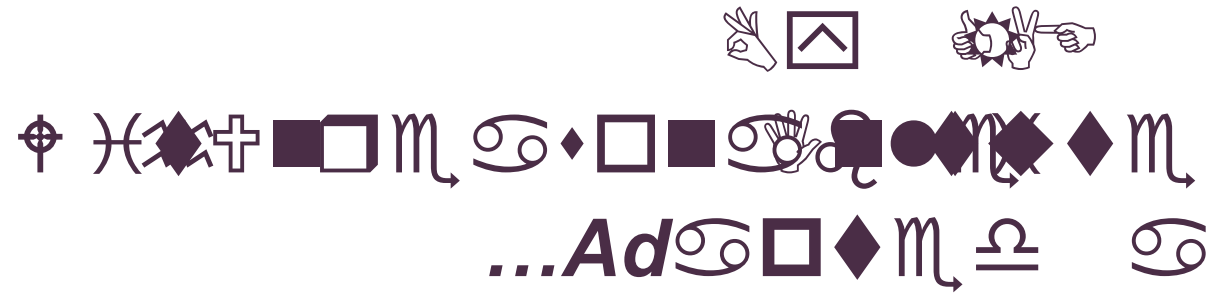


# Networking Lunch 12:15-1:15pm

Next: CARE Business Model Canvas

# Business Model Canvas

1:15 – 3:15



# What does a Business Model Canvas\*\* look like?

**Problem:****Solution:****Unique Value Proposition:**

- Users
- Scalers

**Comparative advantage:****Products:**

- MVP
- MVP2

**Channels:**

- Users
- Scalers

**“Customer” Segments:**

- Users
- Scalers

**Key Success Metrics:**

- SDG
- Min required

**Assumptions:****Risks:** Red, Yellow, Green**Revenues:****Costs:****Build vs. Buy / Partnerships:****Non-financial Resources:**

# Internal Change Management Considerations

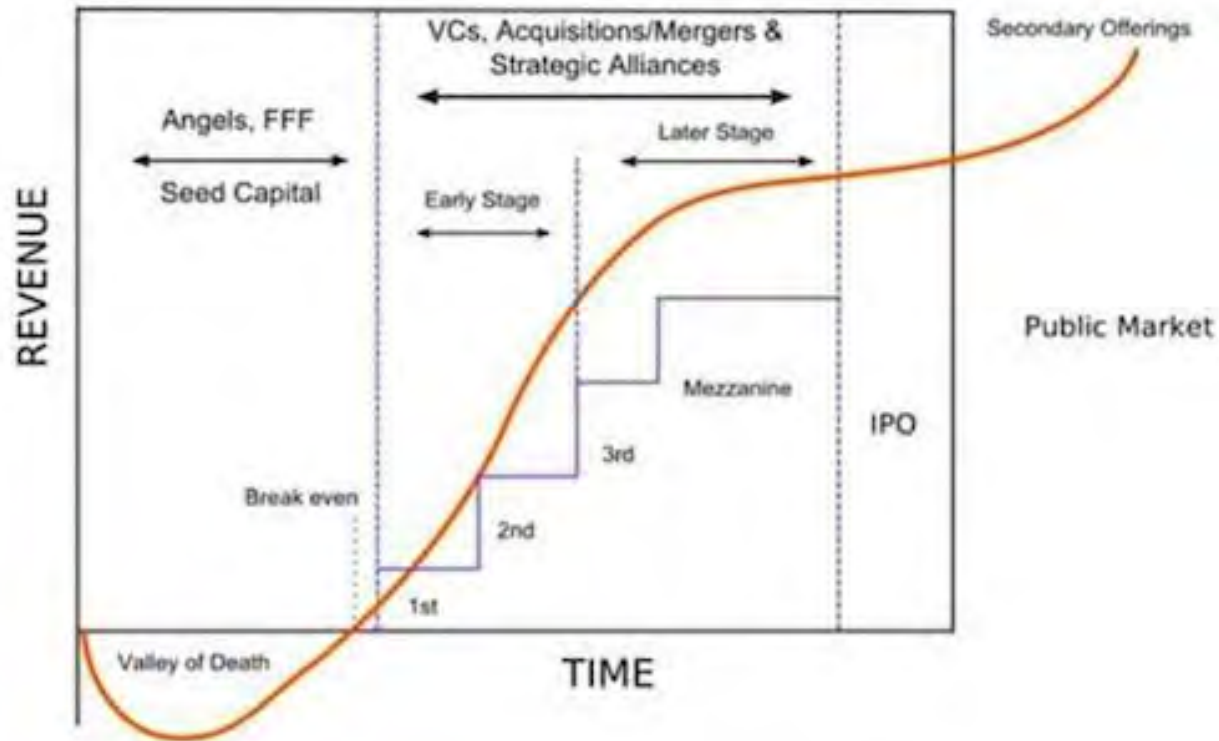
- Need for strategy
  - “70% of change management efforts fail largely due to employee resistance or lack of leadership support”\*
- Key success drivers
  - Active and visible executive sponsorship
  - Dedicated change management resources
  - Employee engagement and participation
  - Frequent and open communication

\* Statistic sourced from McKinsey’s article on Change Management

# External Considerations

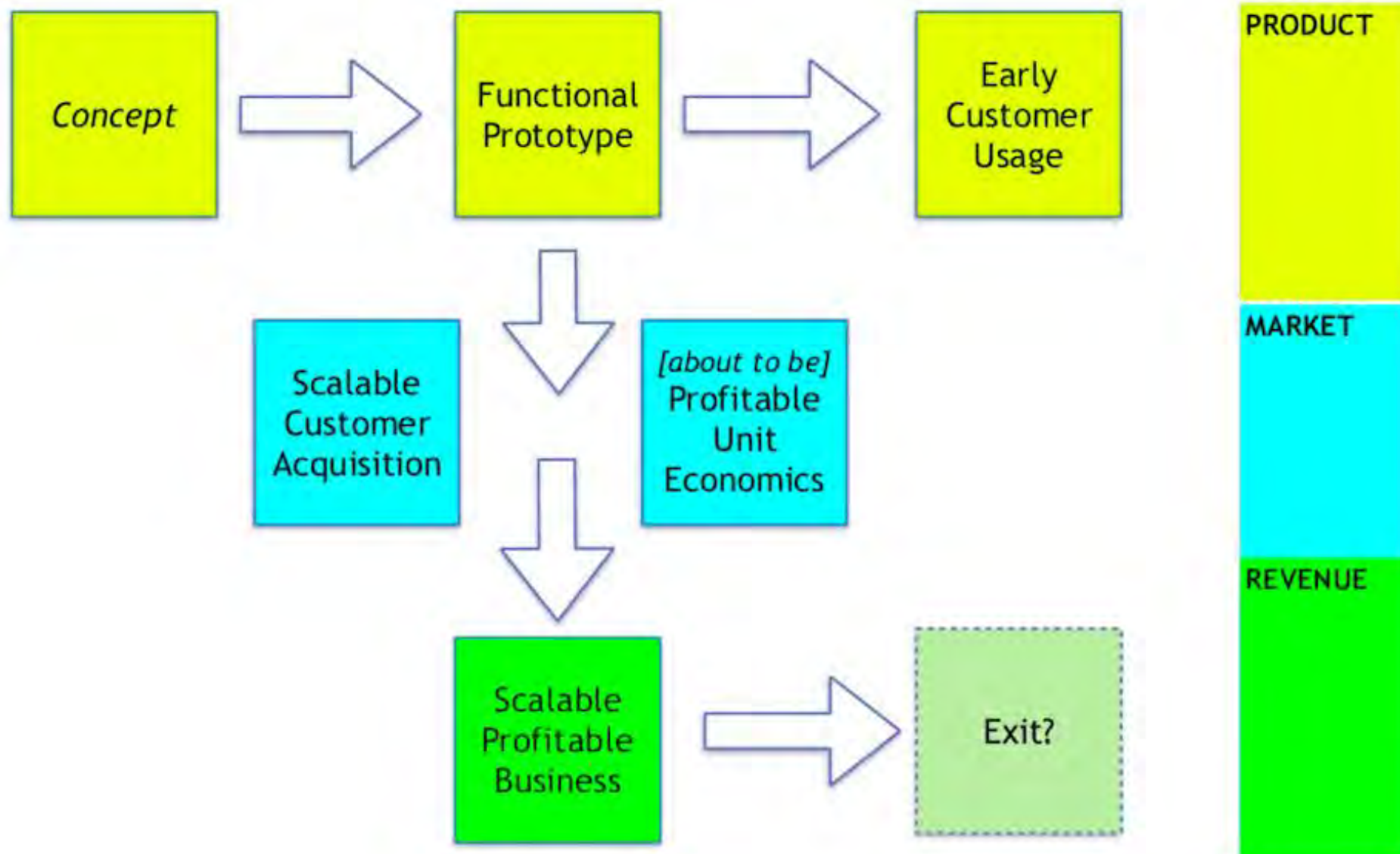
- Need external fund with for-profit structure, separate legal identity for outside investment
  - Some INGOs have separate structure (but often still non-profit), just for reduced NICRA to work with private foundations
  - Have any INGOs done in-country legal structures to raise funds from domestic investors elsewhere?
- Spin-offs of social enterprises incubated
- Stakeholder Relationships to be managed in transition
  - Board, Funders, Partners, Communities, Other?

## Startup Financing Cycle



- Concept
- Product
- Functional Prototype
- Early Users/Customers
- Other Investors
- Profitable Unit Economics?
- Scalable Cust Acquisition?
- Profitable Business
- Scalable Organization
- Exit / Liquidity?

# Investments and Pace





# Investments and Pace

- How many investments at what size/stage will you make?
- How much are you reserving for follow-on investments?
- How fast do you plan to call & deploy capital?
- What Qs will you ask where the answers clearly determine a yes or no decision?
- How do you define "traction"? Do others agree with your definition? Have you seen it before?
- What % of investments do you expect to get to next round? what % do you expect to follow-on? what % do you expect to exit?
- How many small / med / large exits do you expect & when will they exit?

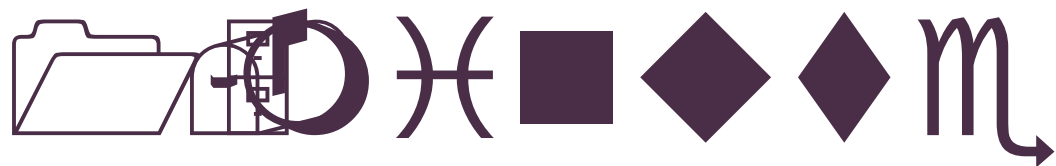


# Branding and Marketing

- How do you plan to generate/access dealflow?
- What kind of brand / image do you stand for?
- Name, logo, graphics, related content, etc
- Do you have a story about your market, about yourself? How to develop & market that story?
- Who on your team is responsible for marketing/PR?
- Content, Community, Events, etc

# What / Why / Who / How?

- What is your Unique / Pointed Observation or Hypothesis?
- Why are YOU well-positioned to execute the strategy?
- Has this been done before? If not, why now? If so, why can you do it as well if not better than others doing similar?
- What is required to be true for you to be successful? What critical assumptions are you making? What if they aren't correct?
- What kind of team / org is required to execute on this strategy? Do you have such a team / can you build one?
- What [historical] evidence do you have that you can do this?



Next: Investor Panel and Day 1 Recap

# 3:30 - 4:30 -- Investors Panel



**Paula Luff**

Director,  
Sustainability &  
Impact  
Inherent Group



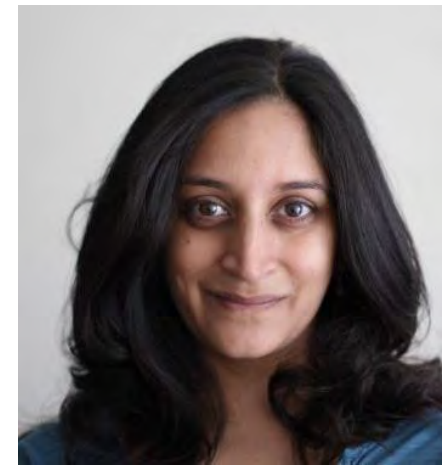
**Georgia Keohane**

Exec. Director, Pershing  
Square Foundation  
Author, *Capital & The  
Common Good*



**Caroline Vance**

Deutsche Bank  
Social Finance  
team, wealth  
Management



**Amie Patel**

Director, Global  
Partnerships  
Elevor Equity

THANK YOU!

END OF DAY 1 – SEE YOU  
TOMORROW 8:30AM!