



SPEAKING of
INNOVATION

Innovations in Development

Where traditional markets fail

Guest Editorial

BY ALEEM WALJI

AS WE THINK ABOUT the last several decades and what has really moved the needle in international development, we can't help but acknowledge the revolution in financial services to the poor that has now grown into the multi-billion dollar micro-finance industry. And while there is still considerable room to grow and deepen access, when I see the likes of Citigroup, Deutsche Bank, and Morgan Stanley investing in the space, I'm confident that the industry has turned an important corner and is well on its way to reaching scale. In the language of financiers, micro-finance is now an investment class in its own right, attracting a new breed of investors, deepening capital markets, and creating a pathway to further growth.

What is less clear, however, is what happens to successful micro-entrepreneurs beyond micro-finance? What pathways are available to them as they mature, require growth capital, and need non-financial services to meet the demands of growth? While not all micro-entrepreneurs *graduate* beyond micro-finance, the roughly 5-10% that are poised for growth consistently face obstacles: poor linkages between micro-finance institutions (MFIs) and commercial banks, collateral rather than cash-flow based lending decisions, and imprecise metrics to assess social value as they serve largely Base of the Pyramid (BoP) customers.

Micro-entrepreneurs often fill gaps where markets and public agencies fail to meet the needs of poor customers and citizens. They provide water, low-cost education, health services, and a variety of other products and services where traditional markets fail. Therefore, in addition to measuring

WHAT CAN WE DO WITH
INNOVATION
EXISTS
BECAUSE OF
CONSTRAINTS

WHAT WE HAVE?

financial returns on investment, there is a case to be made that the development community should pay more attention to non-financial indicators as well. But that's where things get complicated, most interesting and difficult.

How do you measure social returns on investment? What is the value of increasing literacy rates, reducing infant mortality in a given area, or providing access to safe drinking water? Even if we can't answer such questions precisely, how do we compare investments in the social sector amongst themselves? Can the Gates Foundation talk about the impact of their investments in health and education in a way that allows for assessments in comparison to other Foundations, Governments, or the private sector? Without such basic vocabulary and generally accepted principles of social accounting, how can we expect the social sector to grow and attract larger flows of capital beyond pure philanthropy?

An interesting array of social investment intermediaries are emerging. GIIN (Global Impact Investing Network), for example, is mobilizing *impact investors* interested in social and financial returns to develop standards across industries to enable portfolio analyses and support research promoting an analytical understanding of the industry. Similarly, ANDE (the Aspen Network of Development Entrepreneurs) is a global network of more than 85 investors focused on Small

and Growing Businesses (SGBs) in the developing world. ANDE is committed to dramatically increasing the flow of capital to SGBs most capable of generating jobs and economic growth.

The term *hybrid investing* is starting to emerge thanks to people like Jed Emerson, Timoth Freundlich, Jim Fruchterman and institutions like the Skoll Foundation through its commitment to social entrepreneurship. Hybridity in this context refers to an optimization between financial and social returns on investment. Is this a turning point signalling more inclusive capital markets over time? Can we imagine a day when the NASDAQ and NYSE are complemented by social exchanges where investors can choose from a range of financial products providing different combinations of social and financial returns?

The Development Marketplace (DM) has supported more than 250 social entrepreneurs globally with more than \$60 million in seed grants underwriting innovations in fields as diverse as health, education, agriculture and climate change. These investments were deliberately early-stage and targeted innovative solutions providers from across the developing world. Ten years on, it's an important opportunity to take stock. Where are these entrepreneurs today? How many of them have business models that have proved to be sustainable? What are their

primary constraints to growth? Do they have access to growth funding and from what sources?

We are on the brink of a potentially game-changing force in development. There is a growing recognition that governments acting alone cannot provide public services to all of their citizens. They need partners from civil society, commercial enterprises, and private *non-commercial actors* including social entrepreneurs to complement, support, and create new business models for the delivery of public goods and services. While there is no shortage of actors playing a gap-filling role, there are few models that work at scale. The experience of the Grameen Bank and BRAC in Bangladesh is instructive. While Grameen developed a core set of principles and a franchise-able model to provide micro-credit to the poor, BRAC opted to create a fully forward and backward integrated mega-NGO providing services across the social service supply chain. Both serve millions of people in Bangladesh and beyond. While Grameen has inspired thousands of me-too micro-finance institutions, BRAC has expanded to places like Afghanistan and East Africa with impressive speed.

But there are many paths to scale. There is no one model or one entity that can meet the growing demands of poor and under-served populations throughout the developing world. There is an opportunity to capture the creativity, innovation, and entrepreneurial spark of the social entrepreneurship community and to create the basic financial infrastructure to support their growth. Because of transformation tools like the mobile phone and emerging broadband networks across the developing world, the technology infrastructure is increasingly available and enabling. But what about the enabling financial intermediaries, markets, technical assistance, legal services, angel investors, social venture investors and the like? Where will the Silicon Valley for social entrepreneurship emerge? India, East Africa, East Asia, or somewhere else?

A TOWER OF BABEL TERMS CURRENTLY USED

SOCIALLY RESPONSIBLE INVESTING

SOCIAL INVESTING

MISSION-DRIVEN INVESTING

SUSTAINABLE AND RESPONSIBLE
INVESTING

BLENDED VALUE

VALUES-BASED INVESTING

MISSION-RELATED INVESTING

ETHICAL INVESTING

RESPONSIBLE INVESTING

IMPACT INVESTING

PROGRAM RELATED INVESTING

TRIPLE-BOTTOM LINE


ENVIRONMENTAL, SOCIAL,
AND GOVERNANCE SCREENING

*From: Investing for Social &
Environmental Impact,
Monitor Institute, 2009.*

[www.monitoringinstitute.com/
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What is clear is that we cannot sit on our hands and continue to do business as usual. While considerable gains have been made in reducing global poverty over the past five decades, there are still too many people hungry, too many children dying of preventable illnesses, and too few people with access to clean water, sanitation, and energy. Time is not on our side and waiting for the perfect solution to emerge is not the lesson surfacing from the most successful businesses of our age. Start small, think big, fail fast, iterate. While this sounds more like the

mantra of a technology company than a global development institution, I don't think that development problems are best solved in think tanks, banks, and high level policy institutions alone. They require field testing, rapid prototyping, and perhaps most importantly listening to our users—the citizens. Innovations in development are rarely found in large, multilateral development global development institutions. They are found on the ground, in the field, and in partnership with local communities, civil society groups, and indigenous entrepreneurs. The surest path to scale is pay to attention to what works, identify models and principles that work across contexts, and provide the resources for organic growth.

That's what this issue of *Development Outreach* is about. That's where we hope to shine a bright light. 

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