

Fall 2012

Investing with an Impact: Moving Business Beyond Profits

Graham Pansing Brooks
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Investing with an Impact:
Moving Business Beyond Profits

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Fall 2012

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ABSTRACT

“Impact Investing” is an emerging concept that focuses on developing a common ground between capital investment and philanthropy. This relatively new theory of social entrepreneurialism focuses on creating positive social impacts while also maintaining an economic commitment to investor returns. This innovative concept has been notably championed by Credit Suisse as well as other financially based institutions and NGO’s. The purpose of this paper is to explore and address the defining factors within the developing and growing field of Impact Investment. The increased effort by business towards moving beyond standard methods of Corporate Responsibility has resulted in the catalyzed formation of new methods to achieving sustainable business on an international level. This paper will take a look the historical factors that have lead to the standardization of the sustainable development movement that is central to the notion of Impact Investment. From this platform, this paper will attempt to identify the foundation for the Impact Investment field as a concept derived from the fusion of venture capital Core Business models and social impact Philanthropic models. This paper will look to understand various sustainable business models to achieving Impact Investment. Furthermore, collaboration between the public sector and private sector has become viewed as necessary for social, environmental, and economic impact. This paper will take a look at the abilities and skills the public and private sectors can provide to a collaborative effort towards social enterprise in the developing world. Next, this paper will look to identify the major themes within Impact Metrics and the effectiveness of attempting to measure the arbitrary concepts of social and environmental impact. This paper will then discuss the prevalent and complicating challenges Impact Investor actors must realize, address, and overcome to attain impact. Finally, this paper will look towards the future of Impact Investment and the direction it must take to maximize the effectiveness of all defining factors. Impact Investment is an exciting and inspiring business concept that is working to prove that the difference between profit maximization efforts and philanthropy is not as great as once was thought.

PREFACE

During my sophomore year at Emory University, I took a class with the overarching theme of Sustainability and another focused on Development. These classes, in combination with my course work in Economics, I developed an in-depth interest regarding the economics of the sustainable development movement.

When identifying a study abroad program, the international relations focus of the School for International Training (SIT) program in Geneva, Switzerland sparked my interest. After researching the program, Switzerland, and potential economic connections, I was exposed to the field of Impact Investment through a publication produced by the Research Institute of Credit Suisse.

The initial intention of this paper was to analyze the developing field of Impact Investment from the perspective and understanding of the private sector. Due to the extenuating circumstances, I was required to return to the United States for two weeks during my research. This absence from Switzerland placed even more strict time constraints upon my project. Contacting and attempting to organize meetings with Impact Investment experts within the private sector, proved to be exceedingly difficult. After reaching out to over twenty-five members of the private sector, only nine people responded, and only four of whom were available for interviews.

Much of my initial research was supported by a publication released by the Research Institute of Credit Suisse. Due to the hierarchical structure of Credit Suisse, reaching individuals within this institution was nearly impossible. Credit Suisse does not provide any personal emails and the organization is, furthermore, not permitted to release employee emails. In a desperate attempt to contact Credit Suisse employees, I decided to walk into the Credit Suisse office in Geneva. After an hour and a half of talking to the receptionist, attempting to open a bank account in order to talk to any banking employee, and ultimately refusing to be turned away (I explained that I was willing to wait in the lobby, all day, until I could speak with

an employee), the receptionist agreed to make a phone call to one of the banks employees. Finally I was able to talk with a portfolio manager. He agreed to forward along my information to other Credit Suisse bankers who were directly involved in Impact Investments. He explained that the hierarchical structure of Credit Suisse would make it difficult for employees to gain clearance in order to talk to me about my research topic. This meeting was my only interaction within the private sector. For this reason, my paper is centered through the lens of the public sector.

The sections within my paper represent a few of the major foci of the Impact Investment movement. It is important to understand the origination of the information cited within this paper are primarily produced and sourced from the United Nations. This paper will cover and outline the major categories of: Historical Sustainable Development; Defining Impact Investment; Sustainable Business Models; Impact Metrics; Public-Private Collaboration; Challenges to Impact Investment; and the Future of Impact Investment.

ACKNOWLEDGEMENTS

I would first and foremost like to thank my parents, Patty and Loel, for their unwavering and incredible support, guidance, and love. They have provided me this amazing opportunity to spend this semester studying abroad in Geneva, Switzerland. I would also like to thank the rest of my family, especially Taylor and Avary, for their continued support during this emotional, trying, exciting, and adventure filled semester. They have been the rock and strength I needed this semester. Thank you.

I would like to acknowledge the School for International Training (SIT) for hosting this program. The Academic Directors, Dr. Lambert and Dr. Csurgai; The Academic Coordinator, Aline Dunant; The Home-stay Coordinator, Christina Cornes; and countless others who made this semester's program possible. Thank you to those who helped make my research possible and advanced my understanding of this fascinating field. Thank you to my Academic Advisor, Shigehisa Kasahara. I would also like to thank the people who made time for me to interview them and pick their brains about Economics, Development, and Impact Investment: Ronald Derks, Richard Bolwijn, and Alexandre Vautravers.

Thank you to my Home-stay family for making my time in Switzerland such an wonderful experience. Your support and kindness will always be held dear in my heart. I will greatly miss you all.

There are countless others that helped make this project and this semester possible, and to those not mentioned above, thank you. Your efforts have not gone unnoticed and I am deeply appreciative for the work and guidance you have provided me, the program, and my fellow students.

And finally, a special thank you to all of the students with whom I have embarked on this great adventure. You all have made this an incredibly special semester, through the good times and the hard times. We will always REMember.

I. Introduction

“Impact Investing” is an emerging concept that focuses on developing a common ground between capital investment and philanthropy. This relatively new theory of social entrepreneurialism focuses on creating positive social impacts while also maintaining an economic commitment to investor returns. This innovative concept has been notably championed by Credit Suisse as well as other financially based institutions and NGO’s. The purpose of this paper is to explore and address the defining factors within the developing and growing field of Impact Investment. The increased effort by business towards moving beyond standard methods of Corporate Responsibility has resulted in the catalyzed formation of new methods to achieving sustainable business on an international level.

The historical relevance of the sustainable development provides a context through which to understand the foundation of the field of Impact Investment. There are a wide variety of social business models that intend to promote positive social and environmental impacts. These inclusive business strategies look to address a range of development projects from water purification to education to microcredit distribution. Due to the broad spectrum of impact that inclusive business models look to influence, collaboration between the public and private sector is crucial for the success and promotion of Impact Investments. Private-public partnerships allow both sectors to use their skills, abilities, and strengths in collaborative effort to positively impact the developing world. Due to the intrinsic nature of business, social and environmental impact metrics are becoming increasingly important in order to encourage the continuation of inclusive business models. The public sector must work to encourage positive investment environments through which businesses will be able to identify social needs and quantify investment impacts. Attempting to measure social and environmental impact is only the beginning of the challenges that face the field of Impact Investment. There exist a multitude of challenges to the public sector, private sector, and the societies of beneficiaries that are targeted by impact investments. All three players must look to understand, address, and overcome the challenges that are present within Impact Investment, and their success is critical to the future success of both the sustainable development movement and the Impact Investment field. Impact Investment is an exciting and inspiring business concept that is proving that the difference between profit maximization efforts and philanthropy is not as great as once was thought.

II. Derivation of ‘Sustainable Development’

2.1 *Environmentalism to Sustainability*

The concept of sustainability took hold primarily due to the work of environmentalists¹ who noted the negative environmental impacts of many production based industries. The sustainability issue gathered attention and support, ultimately culminating in the foundation of a movement focused on the protection of the environment and the promotion of renewable energy sources as well as an effort towards limiting negative human impact on global ecosystems². The sustainability movement highlighted the fact that, as the global community continued to grow, our world would encounter the inevitable challenge of responding to and meeting unlimited demands shackled with a limited supply of resources. The sustainability movement promoted a vision of the future; encouraging people to think about the type of global community citizens wanted to leave to the subsequent generations. This view differed from environmentalism, which looked to first and foremost address environmental concerns for moral reasons³. However, the sustainability movement attained limited success in part due to the contested validity of sustainability motivators, such as global warming, and the sustainability movement's inability to escape its connection to the rapidly fading environmental movement, which was often viewed as being out of touch with the needs and desires of society^{4 5}. The sustainability movement did, however, bring about a new understanding of the ways in which the environment and society are vitally connected. This new progressive way of thinking ultimately proved to be

¹ Gilman, Robert. "Sustainability: The State of the Movement." *In Context* 25 (1990): 10. Print.

² Ibid.

³ Gilding, Paul. "The Earth is full - CNN.com." *CNN.com - Breaking News, U.S., World, Weather, Entertainment & Video News*. N.p., n.d. Web. 18 Apr. 2012.

⁴ Barringer, Felicity. "Paper Sets Off a Debate on Environmentalism's Future." *The New York Times*. N.p., 6 Feb. 2005. Web. 25 Nov. 2012. <http://www.nytimes.com/2005/02/06/national/06enviro.html?_r=0>.

⁵ Gilman, Robert.

too divisive⁶ and misunderstood to make any substantial progress. The sustainability model was still missing a critical interconnected element: the role of the economy.

2.2 The Emergence of Sustainable Development

In the decades that followed World War II, the issue of development established itself as a primary concern throughout the international community, which was catalyzed due to prevalent Cold War tensions between Russia and the United States⁷. What ultimately ensued was a development race; a perceived face off between communism and capitalism. The American and Russian induced global obsession with first world vs. second world economic models dictated development for more than three decades. Developmental strategies became solely focused on economic indicators from increasing GDP to individual income and thus, the growth and prosperity of regional economies became one of the leading criteria for debating the effectiveness and ultimate superiority of one economic model over the other, i.e. communism versus capitalism⁸. Development became about economics. However, both the sustainability movement and development movement soon expanded their respective paradigms in an important bilateral manner. With an increasing importance placed upon global issues in relation to sustainability and development through the middle and late 20th century, the social, environmental and intergenerational concerns of the sustainability movement became infused with global, economic, and social concerns of development. These two forces collided, culminating in the emergence of what is now known as the sustainable development movement⁹.

⁶ The Sustainability Movement often met resistance due to activist platforms and mobilization efforts like Al Gore's "*An inconvenient truth*." The sustainability movement embodied concerns regarding society, environment, and the economy but placed an unequal emphasis on its defining factors. Other sources: Rochberg, Daniel. "International Climate Change Policy." Foundations of Sustainability. Emory, Atlanta, GA. 15 Nov. 2011. Lecture.

⁷ Pupavac, Venessa. "International Development Politics and Global Security." *Global Security and International Political Economy* Vol. I: *EOLSS*. Web. 25 Nov. 2012.

⁸ Ibid.

⁹ Sources defining the Sustainable Development movement; Bill Hopwood, Mary Mellor and Geoff O'Brien, "Sustainable Development: Mapping Different Approaches" *Sustainable Development* 2005,13: 38-52.; "What is Sustainable Development?" *International Institute for Sustainable Development (IISD)*. N.p., n.d. Web. 23 Apr. 2012. <<http://www.iisd.org/sd/>>.

2.3 Understanding Sustainable Development (*The Triple Bottom Line*)

The sustainable development movement intended to direct international attention to a wide variety of issues which had either been historically ignored or had never been viewed as pivotal concerns to the global community. The movement commits itself to the protection and promotion of futurity; inter- and intra- generational equity; geographic equality; social justice; environmental protection; procedural, inter-species, and economic equity; and, among many other pursuits, poverty reduction¹⁰. Ultimately, what the sustainable development movement provided global policy makers was an opportunity to initiate conversations on how best to



Figure 1

Sustainable Development Model:
Understanding the Triple Bottom Line

advocate for and ensure the longevity of social, economic, and environmental prosperity on both a regional and universal level¹¹.

This three pronged approach towards understanding the connection between social, economic, and environmental development with an encompassing focus on sustainability, has become what is known as the Triple Bottom Line¹². Intrinsic within the concept of the triple bottom line, is the notion of equity between the three underlying principles of the sustainable development movement¹³. While there

exists a wide range of opinions regarding how sustainable development issues should be addressed, it is becoming increasingly accepted, as expressed in Figure 1¹⁴, that the economy plays a central role when attempting to frame the inclusiveness and interconnectedness of the issues that define and constitute the sustainable development movement.

The success of the sustainable development movement has been supported and edified by the inclusion of the field of economics as one of the three central foci (environment, society,

¹⁰ Ibid.

¹¹ Ibid.

¹² The concept to the Triple Bottom Line was founded upon the “three Ps:” profit, people, and planet (“Idea:”), or Economy, Society, and Environment respectively. The theory is that by using the “three Ps” as a guideline, businesses should earn capital profits, generate a positive impact upon society, and work towards alleviating a company’s harmful effects on the environment.

¹³ “Idea: Triple bottom line | The Economist.” *The Economist - World News, Politics, Economics, Business & Finance*. N.p., n.d. Web. 3 May 2012. <<http://www.economist.com/node/14301663>>

¹⁴ Ibid. This new model of the Triple Bottom Line implies that the three concepts regarding the Environment, Society, and the Economy are not simply overlapping but are, instead, intrinsically interconnected.

economics) of the movement. It is important to recognize the role of economics in advancing the sustainable development movement. Unlike the environmental movement, which placed its efforts towards prioritizing and protecting the environment, the sustainable development movement established equivalent importance upon all three pillars¹⁵. This shift in focus clarified the concerns that surrounded economic sustainability which were, initially, more clearly defined than those encompassing social sustainability, and less controversial than the concerns that were central to environmental sustainability. While it is true that all three factors of the sustainable development movement are said to be understood with equal importance, the fact that the movement embodied economic concerns as one of the three central pillars proved to be the catalyzing force necessary to elevate the importance of the sustainable development movement on the agendas of international policy makers¹⁶.

The emergence of economic factors as the third pillar of sustainable development marked a critical paradigm shift in the way that the dynamics of the world are viewed and understood. It became apparent, on a global level, that addressing prevalent international issues would require both a universal commitment to collaboration between all sectors of society and an increased understanding of the economic factors that inherently exist within all facets of society. This requires an understanding that the concerns of society in addressing development are not strictly environmental, social, or economic, but are complexly integrated within each other¹⁷.

¹⁵ Ibid

¹⁶ Rochberg, Daniel. "International Climate Change Policy." Foundations of Sustainability. Emory, Atlanta, GA. 15 Nov. 2011. Lecture.

¹⁷ Ibid.

III. Impact Investing

3.1 *The Continuum of Investment*

Within the private sector, there exist diverse opportunities for the expansion and growth of investor's portfolios. As is evident in Figure 2¹⁸, types of investments vary based upon the intent and desired outcome of the investor. Along this spectrum, it is becoming commonly noted that these "diverse approaches through which business contributes to social development can be understood not as separate and distinct models, but rather as existing along a continuum, differing in their respective emphasis or focus on commercial and community objectives." ("Discussion Paper: Foundations of Social Investment." pg. 3) The seven structures of investment, as defined by the United Nations are: Core Business, Responsible Business, Inclusive Business, Shared Value, Social Business, Strategic Social Investment, and Philanthropy¹⁹. These seven categories exist along a continuum and are thus subject to



multilateral interactions between other levels of investment strategies. The two end points of the continuum, Core Business and Philanthropy, have historically been viewed as countervailing business strategies that are inherently different in a broad sense, from financial strategies to ethical motivators. The concept of impact investment can be found between the two bookends of the continuum and thus embodies a commitment to both commercial and community ventures. The potential of impact investment is evident in the middle ground between Core Business and

¹⁸"Discussion Paper: Foundations of Social Investment." N/A. United Nations Global Compact and Principles For Social Investment Secretariat, n.d. Web. 12 Nov. 2012. <www.unglobalcompact.org/docs/issues_doc/development/PSI_Foundations_of_Social_Investment.pdf>. 3.

¹⁹ Ibid, 3-8.

Philanthropy²⁰. The middle of the continuum is less clearly defined, less understood, and underutilized in comparison to the stabilized perception of Core Business and Philanthropy. The remainder of this paper will attempt to provide an increased understanding of the middle structures of investment within the pictured continuum in order to understand the economic opportunities that exist through the promotion of the mutual economic and social benefits of carefully designed, monitored, and intermediated business endeavors. Further, this paper will attempt to identify and project the potential combined role of the public and private sector in promoting the developing field of Impact Investment.

3.2 *Impact Investment*

As previously mentioned, Impact Investment can be identified in the middle of the investment continuum, promoting a balance between social and economic investment goals. Impact Investing is an emerging concept that focuses on developing a common ground between venture capitalism and philanthropy in order to address a wide variety of international concerns including water accessibility, gender equality, promoting education, global health issues, and among countless others, reducing poverty around the world²¹. This relatively new theory of social just use entrepreneurialism focuses on creating positive social impacts while also maintaining an economic commitment to investor returns. This innovative concept has been notably championed by Credit Suisse as well as other financially based institutions and NGO's throughout the world²². At the core of the Impact Investment theory is the notion of the Triple Bottom Line and the equitable commitment to the economic, social, and environmental factors concerning regional, and global, sustainable development. Impact Investment is a dynamic concept that extends through all facets of society and demands a collaborative effort to achieve success. The economic opportunities within the field of Impact Investment are surprisingly vast and yet these opportunities remain almost completely untapped.

²⁰ Ibid, 7.

²¹ "Investing for Impact: How Social Entrepreneurship is Redefining the Meaning of Return ." N/A. Credit Suisse and the Schwab Foundation for Social Entrepreneurship, 5 Jan. 2012. Web. 22 Aug. 2012. <https://infocus.credit-suisse.com/data/_product_documents/_shop/336096/investing_for_impact.pdf>.

²² Ibid.

The theory of Impact Investment has often proved to be advantageous for all parties involved from the investors, to the public and private sector, to the individuals and communities who are targeted by these abundant investment opportunities²³. Impact Investment is changing the name of the game for global investors and it is important for the investors to understand the intricacies and complexities of these types of investment opportunities in order to take advantage of the positive social and economic possibilities that are represented by Impact Investment.

For the most part, businesses have associated their social investment strategies with traditional philanthropic giving, that is, the distribution of wealth already created without any expected social or financial return. The landscape is however changing. Increasingly, business is looking to implement social investment strategies across a range of initiatives that are aligned with their commercial objectives. -Shaun Cannon, Chief Executive Officer, Principles for Social Investment Secretariat ("New Paths to Performance: Strategic Social Investment and Philanthropy." pg. 3)

It is important to increase awareness, understanding, and interest in this developing field in order to quickly move beyond academic discussions and begin identifying, innovating, and investing in development projects to expand human dignity, alleviate poverty, and advance our global community towards a new era of economic and social prosperity. There is no denying the challenges and complexities that permeate the developing world, however, the prospect of overcoming these potential problems remains viable as increased collaboration between all sectors of society has achieved initial success in the quest towards the realization of a sustainably developed world²⁴.

IV. Sustainable Business Models

Businesses are looking for ways to become more involved in Sustainable Development through Impact Investment, which is requiring businesses to develop innovative ways to replicate, scale and promote company involvement within this emerging field of investment. Businesses are looking to establish their investment techniques in correlation with the four main

²³ Ibid.

²⁴ Ibid, 37-39.

principles of social investment; purpose, accountability, respect, and ethics ²⁵. Ultimately businesses must look for projects that ensure that their investments will make a positive impact. Businesses must also be mindful of the culture, traditions, and geopolitical²⁶ situation of local regions in which they intend to invest. Furthermore, the project goals and investment techniques must be understood and aligned with the mission of the company. Investors must be willing to take responsibility for both the intended and unintended consequences of their investments and interactions within developing markets. Social investments are not to be taken lightly as there are significant complexities and challenges that exist as well as very real consequences for failed, misaligned, or poorly constructed projects²⁷. Unsuccessful projects have the potential to further jeopardize or disenfranchise the already vulnerable populations the investments initially intend to support. Therefore, businesses must ensure that they analyze, select, and enact projects that promote ethical techniques for reaching a positive end.

4.1 Inclusive Business Strategy

The economic theory of Inclusive Business promotes an innovative approach to investment, merging banking theories and Keynesian Economics in order to create and spark developing economies ²⁸. Rather than promoting normal business models of frugality and minimum expenditure, businesses are encouraged to develop the perspective that even low income customers have needs and desires and that there can be moral and economic advantages to meeting these needs. Furthermore, businesses are also realizing that they have an opportunity to access these underserved markets by providing access to affordable products and services. The inclusive business strategy understands that the market can be beneficial to both the private sector as well as persons living in poverty. Thus, Inclusive Business Models look towards capacity building and balancing short term profits with long term social and environmental

²⁵ "Principles for Social Investment (PSI)." *N/A*. United Nations Global Compact, n.d. Web. 12 Nov. 2012. <http://www.unglobalcompact.org/docs/issues_doc/development/PSI.pdf>.

²⁶ Csurgai, Gyula. *Geopolitics: schools of thought, method of analysis, case studies*. Pregny: Ed. de Penthes, 2009. Print. 4-5.

²⁷ "Investing for Impact: How Social Entrepreneurship is Redefining the Meaning of Return ." 37-39.

²⁸ Vautravers, Dr. Alexandre J.. Personal interview. 1 Nov. 2012.



Figure 3: Core of Business Impact Model

impacts²⁹. As Roberto Salas explained, businesses will “have some short term impact strategy also, but this is not [its] competitive advantage because a lot of people can do the same. It is the long-term, sustainable, competitive advantage that makes the real difference in five or seven years from now.” (“Delivering Results: Moving Towards Scale.” pg. 20) The commercial viability of inclusive business models have an “inherent capacity to be scaled... to millions of people,” (“Delivering Results: Moving Towards Scale.” pg. 4) by placing an emphasis on the core of business (Figure 3)³⁰ rather than philanthropy, as has been traditionally prevalent within the sustainable development movement.

Businesses must first work to design or identify Inclusive Business Impact Investment opportunities. The most effective way of initiating such opportunities is through foreign governments³¹. There needs to be an established “pipeline of projects,”³² identified by governments as areas where investors have the potential to significantly influence regional economies, societies, and environments. Through these packages of projects, investors will be able to have access to projects that are deemed to be necessary and identified by local authorities as necessary. By placing project identification in the hands of the government, projects are more likely to represent and be indicative of the desires and needs of the locals, since these packaged projects are defined regionally by the people who are most aware of the regional needs, politics, and circumstances. This strategy provides projects with regional focus and helps take issue

²⁹ Jenkins, B, E Ishikawa, A Geaneotes, P Baptista, and T Masuoka. "Accelerating Inclusive Business Opportunities: Business Models that Make a Difference." *N/A*. International Finance Corporation, n.d. Web. 15 Nov. 2012. <www1.ifc.org/wps/wcm/connect/12216300487cbe85bbddf51e3a7223f/InclusiveBusinessReport2011.pdf?MOD=AJPERES>. 4.

³⁰ "A Global Compact for Development." *N/A*. United Nations Global Compact, n.d. Web. 11 Nov. 2012. <unglobalcompact.org/docs/issues_doc/development/A_Global_Compact_for_Development.pdf>.

³¹ Bolwijn, Richard. Personal interview. 7 Nov. 2012.

³² Ibid.

identification out of the hands of investors who often operate outside of the regional sphere of impact. Furthermore, businesses can use a variety of techniques through which to channel their investments. Businesses can either invest directly in Impact Investment Projects, often called Foreign Direct Investment (FDI)³³, or they can invest through intermediaries. When investing through intermediaries, businesses must be careful in order to assure that their companies goals, mission, and philosophy align with those of the intermediary. By pursuing this collaborative alignment, investors and intermediaries are able to initiate Impact Investments on a united and collaborative front in order to maximize social and environmental impact, along with economic returns.

4.2 IFC Inclusive Business Models

The International Finance Corporation (IFC)³⁴ has outlined a variety of typical social investment models that impact a spectrum of development fields. Five of the sustainable business models presented by the IFC include; Smallholder Procurement, Micro Distribution and Retail, Last Mile Grid Utilities, Experience Based Customer Credit, as well as Value for Money Degrees³⁵.

Smallholder Procurement refers to the type of investments innovatin agricultural processes. The main focus of Smallholder Procurements are to advance and develop agricultural production methods, techniques, and systems. Through agricultural innovation, increased education, streamlined planting, harvesting, and land regeneration, these types of investments look to increase crop yields and productivity, provide a steady source of income to impoverished farmers, establishing reliable food source, and increase the livelihoods of persons within the agriculture sector. The “Inclusive Business Report” outlines various examples of Smallholder procurement and highlights a company, Esoko³⁶ (Africa), which is attempting to develop a platform through which farmers can electronically exchange information, harvesting techniques,

³³ Kasahara, Shigehisa. Personal interview. 20 Nov. 2012.

³⁴ Jenkins, B, E Ishikawa, A Geaneotes, P Baptista, and T Masuoka. 7-11.

³⁵ Ibid, 12-33.

³⁶ Ibid, 29.

and harvesting information. This platform attempts to streamline the agricultural production for subsistence and smallholder farmers with the hope of encouraging higher agricultural productivity.

Micro Distribution and Retail focuses on providing consumer products to underserved populations that are both affordable and accessible. These types of customers are often called Base of the Pyramid (BoP)³⁷ customers. There is an increased awareness that even impoverished persons have needs and desires that can be served through accessible markets by the private sector. This increased awareness comes along with the notion that not only should people in developing countries be treated as valuable customers, but also that these people represent a legitimate, underutilized, and potentially profitable market of consumers³⁸. Providing products to underserved consumers has a huge potential upside in the way of both social impact and financial returns.

Electricity, gas, and water are all important utilities often unavailable in developing countries³⁹. The Last Mile Grid Utilities model looks to address the lack of sustainable utilities in a responsible and effective way⁴⁰. This model intrinsically promotes efforts towards collective action, or in this case, collective responsibility. The model advocates for local control of the investment established utilities system in order to provide a sense of ownership and promote collective action in the accumulation of user payment⁴¹. Utilities investment project managers place the local beneficiaries in control of the protection and maintenance of the established system. The theory is that by giving the beneficiaries a sense of ownership, the efficiency, management, and futurity of the utilities system will become sustainable. Companies like Manila Water (Philippines) and WaterHealth International (India) are highlighted by the IFC⁴² as organizations making a positive impact through Last Mile Grid Utilities business models.

³⁷ Ibid, 8.

³⁸ Ibid, 7.

³⁹ Ibid, 18-20

⁴⁰ Ibid, 18-20

⁴¹ Ibid, 20.

⁴² Ibid, 26.

Manila Water and WaterHealth International work to provide clean, potable, and affordable drinking water to regions outside of the established network of water lines. Manila Water collects payments from customers and partner with local governments for ownership and management. WaterHealth International operates with the intention to transfer ownership and management to the local communities once the initial investment costs are covered.

Experience Based Customer Credit Models intend to provide loans to individuals who have been identified as persons of reasonable integrity and fiscal responsibility⁴³. These Models of sustainable business are similar to microcredit and micro-financing programs, like Grameen Bank⁴⁴, which focus on smaller loans/investments, lower returns, over a large scale. It is important to work towards increasing the understanding of “the extent to which, in a given region, the poor are able to manage their assets in ways that create paths out of poverty – and what might be done to increase that ability.” (Jenkins, pg. 13) These smaller, start-up ventures, intend to spark local or regional economies⁴⁵ and provide the citizens with the resources and means necessary to innovate, meet their needs, and establish a sustainable source of income to encourage poverty alleviation.

Value for Money Degrees Models look to increase accessibility and affordability of educational opportunities⁴⁶. These models initially promote the value of an education and opportunities that are attainable after receiving a university degree⁴⁷. IFC client, Ideal Invest⁴⁸ (Brazil) operates with a sixty-five-million dollar portfolio which has supported and financed over 17,000 students education since 2006. Furthermore, these type of investment models emphasize a flexible method of paying tuition and promote continued post diploma support. Flexible tuition payment allows for individuals to pay for their education by class or by a stipulated percent of

⁴³ Ibid, 16-17.

⁴⁴ Vautravers, Dr. Alexandre J.. Personal interview. 1 Nov. 2012.

⁴⁵ Ibid.

⁴⁶ Jenkins, B, E Ishikawa, A Geaneotes, P Baptista, and T Masuoka. 24-26.

⁴⁷ Ibid, 24-26.

⁴⁸ Ibid, 32.

their salary for a set number of years after their graduation from university⁴⁹. These educational systems provide a network through which to continue their support even post graduation as graduates look for and apply for jobs. The system of continued outreach helps to ensure that the graduates do not slip back into the obscurity of their developing society and economies⁵⁰.

4.3 The Enabling Role of Government

The type of environment in which businesses are investing is extremely important and defines motivators of success for sustainable business models. It is thus critical that the local government works toward providing and creating a positive environment for businesses to invest. This does not only mean working towards increasing national capacities and developing infrastructure to increase accessibility within emerging markets, but also promoting a context through which governmental policy will encourage and attract investors to sponsor development projects⁵¹. There exist a variety of possibilities which governments are able to pursue in order to stimulate a positive market atmosphere that encourages the presence of sustainable businesses.

Governments can encourage social investments by providing tax incentives to inclusive businesses⁵². However, governments must be wary of the “crowding out effect”, which can limit the effectiveness of social businesses⁵³. Governments can also create an enabling investment environment by providing subsidies that intend to stimulate market consumption⁵⁴. Subsidies also present challenges to governments because they have the potential to lead to the counter-productive economic effects of long term dependency. Both taxes and subsidies, when properly implemented, can lead to the creation of a positive climate for economic growth on a local and national level. Furthermore, procurement mandates, which aim to oversee public-private

⁴⁹ Ibid, 24-26.

⁵⁰ Ibid, 24-26.

⁵¹ "A Framework for Action: Social Enterprise & Impact Investing." *N/A*. United Nations Global Compact and The Rockefeller Foundation, n.d. Web. 13 Nov. 2012. <www.unglobalcompact.org/docs/issues_doc/development/Framework_Social_Enterprise_Impact_Investing.pdf>. 8.

⁵² Ibid, 20.

⁵³ Ibid, 20.

⁵⁴ Ibid, 20-22.

partnerships, can be an effective tool for checking and balancing the collaborative activities of the businesses and public sector organizations that are involved⁵⁵. As mentioned, technical assistance through capacity building is an effective instrument to encourage development projects. Policy reformation, investment regulation, and private sector mandates tend to institutionalize an environment for sustainable and impact-oriented investments towards development⁵⁶. Enticing businesses to sustainably invest within foreign markets is an important objective for governments of developing countries as they attempt to increase the amount of support, infrastructure, and market stimulation through the development of the three pillars of the Triple Bottom Line; economy, society, and environment (See, Section 2.3, above).

V. A Collaborative Effort

5.1. *United Nations*

Over time, the United Nations has systematically established itself as one of the leading organizations focusing on the promotion of sustainable development. Like many public sector institutions, the United Nations eventually became aware of the importance of the private sector in the pursuit of sustainable development. As Georg Kell, Executive Director of the UN Global Compact office explained, “the relationship between the UN and the private sector—often strained by mutual suspicion and seemingly irreconcilable goals—has undergone a fundamental and historic transformation.” (“Partnership Assessment Value” pg. 2) However, collaboration did not occur immediately. In June of 1992, the United Nations convened what became known as the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro, the purpose of which was to;

[establish] a new and equitable global partnership through the creation of new levels of cooperation among States, key sectors of societies and people, [to work] towards international agreements which respect the interests of all and protect the integrity of the global environmental and developmental system, [and recognize] the integral and interdependent nature of the Earth, our home. (Report of the United Nations Conference on Environment and Development: Rio de Janeiro, 3-14 June 1992)

⁵⁵ Ibid, 22.

⁵⁶ Ibid, 22-23.

The UNCED established the ground work for a new era of international policy-making with a primary emphasis on sustainable development. The work of the UNCED ultimately culminated in the creation of the Rio Declaration⁵⁷, which envisioned the establishment of global partnerships through which to engage in a free exchange of knowledge and technology, and to develop a network of global support to encourage the continued commitment to the Rio Declaration, which declared; “peace, development and environmental protection [to be] interdependent and indivisible.” (*Rio Declaration on Environment and Development*. Principle 25) The Rio Declaration effectively embodied the notion of the triple bottom line and attempted to address concerns pertaining to environmentalism, economics, human rights, and global partnership⁵⁸. The Rio Declaration represented one of the first global efforts towards sustainable development.

The initial Rio Conference has been followed up by multiple conferences throughout the past twenty years, most notably the Kyoto Conference⁵⁹ in 1997 and the Rio+20⁶⁰ Conference in the summer of 2012. While these initiatives were created through the public sector, the vision and understanding of the important role of the private sector in attaining a sustainably developed world was never lost. As United Nations Secretary-General Ban Ki-moon lamented;

The United Nations and business need each other. We need your innovation, your initiative, your technological prowess. But business also needs the United Nations. In a very real sense, the work of the United Nations can be viewed as seeking to create the ideal enabling environment within which business can thrive. ("Framework for Business Engagement with the United Nations: The United Nations and the Private Sector.")

⁵⁷ *Report of the United Nations Conference on Environment and Development: Rio de Janeiro, 3-14 June 1992*. New York: United Nations, 1992/1993. Print.

⁵⁸ Ibid.

⁵⁹ "Welcome to the United Nations." *Welcome to the United Nations: It's Your World*. United Nations Foundation, n.d. Web. 30 Oct. 2012. <<http://www.un.org/en/>>.

⁶⁰ Ibid.

While collaboration and action was slow to be realized, the public sector helped initiate the conversations that would ultimately lead to an increased commitment towards action of both the public and private sector⁶¹.

5.2 The Private Sector

The private sector has typically committed itself to the economic notion of Corporate Social Responsibility⁶², which has been an important part of most business models. However, Corporate Social Responsibility has become increasingly viewed as a passive and insufficient method of social investment by corporations⁶³. Through the process of globalization, the private sector has become more aware of the economic opportunities available to them in developing countries. This realization of the private sector in correlation with the expanding openness and improved communication efforts between the public and private sector (i.e. UNCED) have proved to be important to the formation of a more uniform effort towards sustainable development⁶⁴. The public sector has started to engage the private sector, opening the private sector to numerous investment opportunities and the chance to diversify the portfolio's of investors. The private sector is beginning to realize that, while philanthropy will always play an important role within society, the notion of Corporate Social Responsibility has the potential to be more effective when corporations invest funds into catalyzing philanthropic⁶⁵ ⁶⁶ opportunities. The quality and scale of impact that corporate investments are producing is becoming increasingly important. For this reason, public-private partnerships have never been so

⁶¹ "Framework for Business Engagement with the United Nations: The United Nations and the Private Sector." *N/A*. United Nations Compact, n.d. Web. 13 Nov. 2012. <www.un.org/millenniumgoals/2008highlevel/pdf/background/UN_Business%20Framework.pdf>. 3-5.

⁶² Jenkins, Beth. "Expanding Economic Opportunity: The Role of Large Firms." *N/A*. Version Corporate Social Responsibility Initiative Report No. 17. Kennedy School of Government, Harvard University, n.d. Web. 15 Nov. 2012. <www.hks.harvard.edu/m-rcbg/CSRI/publications/report_17_EO%20Framing%20Paper%20Final.pdf>.

⁶³ *Ibid*, 17-18.

⁶⁴ *Ibid*, 32-35

⁶⁵ Kramer, Mark. "Catalytic Philanthropy, FSG Social Impact Advisors - YouTube." *YouTube*. FSGImpact, 10 Sept. 2009. Web. 4 Nov. 2012. <<http://www.youtube.com/watch?v=t0tsnU3vZlw>>.

⁶⁶ Gates, Bill. "The Power of Catalytic Philanthropy ." *The Official Site of Bill Gates - The Gates Notes*. N.p., 19 Sept. 2012. Web. 6 Nov. 2012. <<http://www.thegatesnotes.com/Personal/The-Power-of-Catalytic-Philanthropy>>.

important, especially now that the private sector is attempting to not only maximize their profits but also are interested in fostering social and environmental good. The Impact Investment paradigm is making the collaboration and the new vision of social enterprise possible.

5.3 The New Collaborative Model

The public and private sectors have realized that collaboration often yields more consistently successful results than pursuing development projects alone. Increased collaboration indicates that the benefits of partnership are being realized. Public sector institutions, like the United Nations, provide businesses a global platform from which to launch development projects. The universal reach of many of these public sector organizations establishes credibility and legitimacy for many of the development projects and investment strategies in the developing world. Due to the public sector's historic experience in the activation of global development projects, they are able to lend their knowledge and understanding to the private sector corporations looking to become involved in these development projects. The institutional capacities of many public sector organizations, particularly the United Nations, lends in-depth knowledge of the needs, desires, and social environment of a specific region. The knowledge gained through on-the-ground extensions of the public sector is crucially important to the private sector as they attempt to work through the complexities and foreign nature of the developing world. These factors, among others, establish the public sector as an advantageous partner to the private sector.

The private sector is an “engine of growth and development.” (“Delivering Results: Moving Towards Scale.” pg. 4) The effectiveness of the business structure and modeling, establishes the private sector as an extremely beneficial partner in the quest towards development. The nature of business is dependent upon efficiency in all activities and phases of corporate activity. The systematic allocation of resources is central to economic theory and to the core of business model. The resulting business mentality provides a streamlined effectiveness to development focused projects⁶⁷.

⁶⁷ “Delivering Results: Moving Towards Scale.” *N/A*. United Nations Global Compact, n.d. Web. 11 Nov. 2012. <www.unglobalcompact.org/docs/issues_doc/development/Delivering_Results_Moving_Towards_Scale.pdf>.

The notion that, “as Milton Friedman might say, the business of business is business,” (Jenkins, Beth. pg. 4) brings to light another important role of the private sector: investments. The potential financial and social rewards of particular developmental investments is a strong motivator in attracting the private sector towards engaging in the notion of impact investment. It is important to note that the public sector has the financial resources and, more importantly, the desire to contribute and make a difference through socially responsible investments. Furthermore, because so much attention and importance is placed upon the private sector, it has the unique opportunity and ability to engage policy makers in open discussions about improving the national capacity and framework for development and social investment. The public sector has much to offer to a collaborative development effort including advice, brokerage, project implementation and support, and the ability to further encourage productive environments for investments and development⁶⁸. The private sector can provide employment opportunities, income, products and services, institutional clarity and efficiency, along with a network through which to establish a continued collaborative public-private effort. “Both the United Nations and the private sector have come to realize that the real potential in partnering lies in the synergy and scalability of competencies, resources, and expertise that drive successful initiatives.” (“Partners in Development: How Donors Can Better Engage the Private Sector for Development in LDCs.” pg. 3) Collaboration between sectors provides a more complete foundation from which to launch the important goals of sustainable development and poverty alleviation.

The Millennium Development Goals provide a prime example of the collaboration that is making development strategies and investment projects more successful. In 2000, one hundred and eighty-nine world leaders met to create a global framework and agenda for the eradication of extreme poverty by the year 2015⁶⁹. In the initial years after the creation of the MDGs, the private sector played a limited role in the advocacy and achievement of the eight established

⁶⁸ "Framework for Business Engagement with the United Nations: The United Nations and the Private Sector." N/A. United Nations Compact, n.d. Web. 13 Nov. 2012. <www.un.org/millenniumgoals/2008highlevel/pdf/background/UN_Business%20Framework.pdf>.

⁶⁹ "Millennium Development Goals | UNDP ." *United Nations Development Programme*. United Nations, n.d. Web. 14 Nov. 2012. <<http://www.undp.org/content/undp/en/home/mdgoverview.html>>.



Figure 4: The Eight MDGs

goals (Figure 4)⁷⁰. However, in 2008 with the formation of the Business Call to Action, the private sector was challenged to stimulate efforts towards the realization of the Millennium Development Goals ⁷¹. The Business Call to Action helped to establish and encourage collaboration towards the realization of the important United Nations

project towards the alleviation of poverty. In addition, the emergence of the United Nations Global Compact, advanced collaboration efforts between the public and private sectors ⁷². The Global Compact promotes the notion that “business, as a primary driver of globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.” (“United Nations Global Compact.”) Both the Global Compact and the Business Call to Action are advocacy programs that recognize the influence, the effectiveness, and the importance of the private sector in global development.

No longer can the global community be blind to the collaborative potential of the public and private sectors (Figure 5)⁷³.

The existence of the UN Global Compact represents an explicit recognition that companies can be pro-active in their support of human rights, protection of labor, protection of the environment, and the elimination of corruption. Government can provide the right incentives and benchmarks; it is up to individual companies to go further in ways specific to their own abilities and expertise. (“Innovating for a Brighter Future: The Role of Business in Achieving the MDGs.” pg. 21)

⁷⁰ "Partnership Assessment Value: A Tool for Assessing Sustainability and Impact." N/A. United Nations Global Compact, n.d. Web. 12 Nov. 2012. <www.unglobalcompact.org/docs/news_events/8.1/Partnership_value.pdf>.

⁷¹ "Business Call to Action." *Business Call to Action*. N.p., n.d. Web. 14 Nov. 2012. <<http://www.businesscalltoaction.org/>>.

⁷² "United Nations Global Compact." *United Nations Global Compact*. United Nations, n.d. Web. 30 Oct. 2012. <<http://www.unglobalcompact.org/>>.

⁷³ "Partnership Assessment Value: A Tool for Assessing Sustainability and Impact."



Figure 5: The Global compact Principles

If the world hopes to achieve significant progress towards the realization of its developmental goals for the future, i.e. sustainability, MDGs, poverty alleviation, etc., the two main sectors of society must understand their differences and be willing to combine their ambitions and missions in order to achieve a higher level of success than either could hope to accomplish alone.

“The United Nations and business need each other. We need your innovation, your initiative, your technological prowess. But business also needs the United Nations. In a very real sense, the work of the United Nations can be viewed as seeking to create the ideal enabling environment within which business can thrive.” – United Nations Secretary-General Ban Ki-moon ("Framework for Business Engagement with the United Nations: The United Nations and the Private Sector.")

Collaboration is the new name of the game and it is important for the private sector to adapt, initiate, and engage the global community in social business ventures, not only for the benefit of humankind in society, but also in order to ensure the sustained vitality of corporations and social business decades to come.

VI. Impact Metrics

6.1 *The Global Impact Investing Network*

The Global Impact Investing Network (GIIN)⁷⁴ is a non-profit organization which focuses on advancing impact investment and the techniques used to measure social and environmental impact. The GIIN website defines impact investment as “investments made into

⁷⁴ "Global Impact Investing Network." *Global Impact Investing Network*. N.p., n.d. Web. 2 Nov. 2012. <<http://www.thegiin.org/cgi-bin/iowa/home/index.html>>.

companies, organizations, and funds with the intention to generate a measurable social and environmental impact alongside financial returns.” (“Global Impact Investing Network.”) The GIIN attempts to identify and use creative investments and investment indicators in order to promote and advance the improved understanding and increased awareness of the Impact Investment field⁷⁵. The GIIN has several important foci which it has identified as definitive to the success of Impact Investment, including, as its name suggests, providing an extensive network through which to connect investors, companies, project managers, and borrowers⁷⁶. One of the methods for furthering its Impact Investment network, is a platform called Impactbase. The Impactbase platform promotes the collection of and sharing of information regarding Impact Investment projects and the catalyzing vehicles that are effectively achieving development project goals⁷⁷. The largest focus of the GIIN, other than promoting its extensive network, is the development and refinement of impact metrics through its Impact Reporting and Investment Standards (IRIS)⁷⁸.

6.2 The Impact Reporting and Investment Standards

The IRIS is a set of metrics the purpose of which is to track the financial, social, and environmental performance of global projects and impact investments⁷⁹. A major focus of the GIIN is increasing accessibility, standardization, and effectiveness of the IRIS reporting metrics⁸⁰. The IRIS metrics are compiled on a voluntary basis. GIIN members (i.e., investors in funds, individuals engaging in Foreign Direct Investments [FDI], companies, member organizations, and intermediaries) of the GIIN are encouraged to anonymously report the

⁷⁵ Ibid.

⁷⁶ "IRIS: Impact Reporting and Investment Standards." *IRIS: Impact Reporting and Investment Standards*. N.p., n.d. Web. 2 Nov. 2012. <<http://iris.thegiin.org/>>.

⁷⁷ "ImpactBase: ImpactBase is a project of the Global Impact Investing Network (GIIN)." *ImpactBase*. N.p., n.d. Web. 10 Nov. 2012. <<http://www.impactbase.org/>>.

⁷⁸ "IRIS Metrics | IRIS: Impact Reporting and Investment Standards." *IRIS: Impact Reporting and Investment Standards*. Global Impact Investing Network, n.d. Web. 2 Nov. 2012. <<http://iris.thegiin.org/iris-standards>>.

⁷⁹ "IRIS: Impact Reporting and Investment Standards."

⁸⁰ Ibid.

performance data of their companies and projects⁸¹. In this way, the IRIS becomes self sustaining, dependent upon the continued use and confidence in this particular system of reporting metrics. The IRIS system allows GIIN members to make side by side comparisons of various Impact Investment sectors. The metrics themselves are reviewed and updated annually in order to allow for the metrics to evolve, adapt, and expand in correlation to the growth and development experienced throughout the global community⁸². The metrics build upon previous IRIS standards in order to both broaden and deepen the connection and the reach of these Impact Investment metrics⁸³.

6.3 The IRIS Metrics

The sector specific metrics that are utilized in the IRIS system have been intentionally formed to act as a standardized reporting module. The performance indicators attempt to calculate the extent of impact of investments within various sectors including; agriculture, education, energy, environment, financial services, housing, health, water, and a cross sector measurement⁸⁴. Within each of the defined sectors there are specific sub-sectors that provide a more complete and detailed understanding of company performance. The main sectors of measurement look to provide the IRIS metrics a breadth of understanding while the well defined and specific sub-sectors give the IRIS metrics a depth of knowledge which is vital to quantifying social and environmental impact⁸⁵. Furthermore, the framework of the system includes a brief description of the organization and its products/services, financial performance indicators, an overview of the operational and product impact, as well as a glossary of terms specifically important to understanding and developing a more clearly defined context through which to understand the mission of the project-sponsoring organization⁸⁶. The metrics attempt to provide

⁸¹ Kasahara, Shigehisa. Personal interview. 20 Nov. 2012.

⁸² "IRIS Metrics | IRIS: Impact Reporting and Investment Standards."

⁸³ Ibid.

⁸⁴ Ibid.

⁸⁵ Ibid.

⁸⁶ Ibid.

a standardized and universal method for understanding and quantifying the social, environmental, and economic impact of investments⁸⁷.

6.3.1 Challenges to the IRIS Metrics

There are many challenges that are associated with measuring the social and environmental impact of a particular investment project. Part of the problem is attempting to give a value to arbitrary concepts which have often been viewed to be impossible to quantify. The GIIN is on the forefront of this new effort to systematically measure social and environmental impact alongside economic returns. The IRIS metrics represent a work in progress that will forever be plagued by a necessity to be updated, redefined, and expanded. The metrics have a long way to go before they are universally accepted or considered to be an entirely reliable source for understanding the effects of social enterprise projects. GIIN itself recognizes that the system is not perfect, explaining in its Registry Content Disclaimer:

“Neither GIIN nor IRIS endorse any of the listed organizations. Rather, the Registry is analogous to a directory in that it aims no judgement about the quality or quantity of listed metrics or merits of a listed organization’s approach to social and environmental performance measurement.” (“IRIS User Registry Content Disclaimer.”)

This notice is served due to the fact that all information coming into the IRIS framework is voluntarily contributed⁸⁸. The legitimacy of the contributed information is debatable and until the GIIN can confidently promote the validity of resources within their metrics, the IRIS system will be limited in success due to its questionable reliability. This uncertainty places the GIIN and IRIS in a difficult situation as they attempt to balance the need to avoid subjectively passing judgement on projects due to the unconfirmed accuracy of the information with the desired necessity to provide a reliable and standardized universal impact measurement.

6.3.2 Perceptions of the IRIS Metrics

There exist many differing perceptions regarding the necessity to identify a standardized, universal system of metrics due to the fundamentally unreliable nature of the Impact Investment

⁸⁷ Ibid.

⁸⁸ “IRIS User Registry Content Disclaimer.” *IRIS: Impact Reporting and Investment Standards*. Global Impact Investing Network, n.d. Web. 2 Nov. 2012. <<http://iris.thegiin.org/iris-user-registry-content-disclaimer>>.

Metrics. Richard Bolwijn, an Economic Affairs Officer within the United Nations Conference on Trade and Development (UNCTAD), was invited to give a presentation to the United States State Department regarding the intricacies of Impact Investment and the metrics used to quantify social and environmental impact⁸⁹. Mr. Bolwijn presented his conclusion that developed countries were wasting valuable time and resources attempting to define and calculate the Impact Investment field⁹⁰. Mr. Bolwijn explained that it should not be a responsibility of the private sector to ensure the development of institutional capacities and the reliability of metric analysis⁹¹. Further, Mr. Bolwijn claimed that institutional capacities should be a fundamental requirement for any investment and the private sector should focus their investments in areas where the infrastructure is compatible with the type of investment project they are looking to support⁹². Mr. Bolwijn also argued that the criteria for the investment should be set at the portfolio level, i.e., the impact region and the impact sector in which the investment will be targeted⁹³. Beyond defining these criteria, according to Mr. Bolwijn, the private sector should not concern itself with determining metrics to measure success. If the infrastructure is present and the investment is well defined and enacted, then the investment will produce an impact⁹⁴. The private sector must focus on investing with the intention to make a positive impact beyond financial returns. Attempting to spend a large amount of time and energy in measuring impact is not necessary in the sense that investments that build a school, or a hospital, or a water purification plant, etc. will be beneficial to the surrounding communities. Thus, quantifying beyond certain levels of impact investing is a waste of resources, which could be better spent on future investments. Mr. Bolwijn explained that, furthermore, it is naive to believe that metrics are universal⁹⁵. The geopolitical differences between regions is critical to understand in relation

⁸⁹ Bolwijn, Richard. Personal interview. 7 Nov. 2012

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² Ibid.

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ Ibid.

to quantifying successful social and environmental metrics⁹⁶. History, culture, diversity, geographical regions, and climate along with many other factors are important to understand and are not necessarily represented within Impact Investment metrics. The factors that are pertinent to understanding social and environmental impact are too vast to be simplified and quantified into a small number of figures and statistics. What is needed is action, not metrics⁹⁷.

There are others, however, who believe in the importance of metrics regardless of how limited or narrow they may appear to be. Metric quantifiers hold importance to the private sector because they allow persons within the investment entity to understand a simplified snapshot of the impact their investments are making. As Ronald Derks⁹⁸ of the UNDP mentions, it is, however, important not to place too great of importance on the metrics but to understand that they are “a simplified projection of the truth” that provides an avenue through which to “explain complexities to non-experts.” (Derks, Ronald.) Businesses must look to what is beyond the metrics to understand the holistic picture. While metrics may never embody the complete reality of a situation, people tend to work towards numbers and can gain a more developed understanding of the impact of their investments through metrics⁹⁹. However, the unreliability of metrics must be understood. Metrics are not only subject to inconsistent reporting techniques but also to inconsistent interpretive techniques when the private sector attempts to balance their desires to make a positive impact and the potential limitations placed on investments due to overly critical metric results¹⁰⁰. It does not seem to be a realistic possibility to completely move away from the use or desire to include metrics when engaging in Impact Investments.

“Systematic measurement of the societal and business benefits of corporate engagement on pressing community issues is essential to unlocking the next wave of business innovation and investment. In the private sector, numbers accelerate action. While the operating model appropriate for each company may differ, intelligent use of metrics should be a value shared among those committed to positive societal change.” — Margaret Coady, Director of the Committee Encouraging Corporate Philanthropy. (“New Paths to Performance: Strategic Social Investment and Philanthropy.” pg. 10)

⁹⁶ Csurgai, Gyula. *Geopolitics: schools of thought, method of analysis, case studies*.

⁹⁷ Bolwijn, Richard. Personal interview. 7 Nov. 2012

⁹⁸ Derks, Ronald. Personal interview. 8 Nov. 2012.

⁹⁹ Ibid.

¹⁰⁰ Kasahara, Shigehisa. Personal interview. 20 Nov. 2012.

The business mentality and structure appears to only be willing to stretch so far. Quantifiable data will be necessary to continue to attract the private sector towards this model of investment. The metrics are important in that they provide the business a sense of confidence that their investments are appropriately supporting a need in society, being used in efficient and effective ways, and producing a significant and understandable impact within society. With the understanding that the metrics are beneficial yet limited, the public and private sectors must find a balance between spending time and effort on the development of metrics and the continuation of substantial efforts towards action.

VII. Challenges to Impact

7.1 *Challenges to Businesses*

The historic and current rationale and implementation process of Impact Investment strategies are complex, multifaceted, and present many challenges to all participating actors. For businesses, the first issue that typically comes to light is the challenge of connecting with and establishing a network between the business and the targeted communities that their investments are attempting to impact refer to previous sections discussions. Part of the problem in attempting to reach these communities is intrinsic within the rationale of lending support; for the most part these communities are underserved, underprivileged, and in regions that are often difficult to reach geographically and technologically. Furthermore, businesses do not necessarily have the managerial skills or resources to provide adequate management of the projects. Businesses must be aware of and proactive to institutional problems of development projects¹⁰¹.

Businesses must also overcome the fear that failure is a possibility, as well as the unending pressure to achieve profitability. The types of investments that social enterprise projects attempt to target are high risk, low return, and long term. The riskiness of these potential projects poses a serious challenge for businesses as they attempt to evaluate investment opportunities. They must deal with the increasing amount of pressure from shareholders to

¹⁰¹ Ibid.

achieve short term profits with the long term nature of investment projects. Furthermore, the high risk nature of these projects implies that profitability is not guaranteed and may require patience and the willingness to accept low or zero-rate returns. Attitudes from investors and share holders must be patient and committed. Unfamiliarity, uncertainty, misunderstandings, and skepticism are often prevalent within the investment community and investors must be prepared to “buy-in”¹⁰² to the impact investment models and provide continued financing towards projects. Proper leadership within the investment entity is vitally important to the “buy-in” approach and the continuation of long-term financing. The corporate leaders must be prepared to continue support for projects with potential and not be afraid to pull the plug on projects that have proven to be inefficient.

“Because it’s always easier, isn’t it, to go into the more mature markets, the ones where your business model has been established, where the uncertainties are well managed and well known. To take the risk to go into markets and to supply chains and distribution chains which favour low-income groups and to see that as a business opportunity [not just] an act of doing good, that represents a real act of leadership and courage.”
Graham Baxter, Acting CEO, IBLF (“Delivering Results: Moving Towards Scale.” pg. 16)

In addition, employees and staff members of Impact Investment initiatives require opportunities to provide innovative solutions to developmental projects. As previously mentioned, the potential for slow project progress must be counteracted by providing corporate support and incentives to the employees working within these development projects, which often yield limited success and can be frustratingly challenging.

There are many gaps in understanding that still exist at the corporate level that need to be addressed in order to more effectively achieve positive Impact Investment outcomes. The challenges are prevalent and cannot be ignored, and they must be further counteracted within the development field. Effectively utilizing the potential of the private sector in development is crucial¹⁰³. The private sector is not alone in its challenges, both the public sector and the target beneficiaries have extenuating circumstances that impede and limit developmental success.

¹⁰² “Delivering Results: Moving Towards Scale.” N/A. United Nations Global Compact, n.d. Web. 11 Nov. 2012. <www.unglobalcompact.org/docs/issues_doc/development/Delivering_Results_Moving_Towards_Scale.pdf>.

¹⁰³ Kasahara, Shigehisa. Personal interview. 20 Nov. 2012.

7.2 Challenges in the Public Sector

One of the main challenges that the public sector faces is the necessity to balance initiatives to match their source of financing¹⁰⁴. In other words, the public sector organizations, like the United Nations, are limited in the sense that obligations to their financing partners must often take precedence over personal or institutional desires¹⁰⁵. Organizations, like the United Nations, must yield to the stipulations placed upon the financing they receive for development projects. This places public sector organizations in a difficult position to balance the directed use of their finances with the desire to address to the needs of the targeted communities they intend to support.

7.3 Challenges Within the Targeted Beneficiaries

Major concerns within the communities of the targeted beneficiaries include; unequal access to resources, poor governance and corruption, inadequate infrastructure, and extreme poverty¹⁰⁶. Each of these factors must be understood and addressed in order to establish an enabling and appealing environment for the enhancement of markets through Impact Investment. The beneficiary communities must work to increase accessibility, opportunities, and reliance on their infrastructure to encourage corporate investment. There are many supply-side¹⁰⁷ constraints that limit the effectiveness of business impact investment “such as flawed physical infrastructure, low productivity, insufficient financial resources, a lack of skilled human resources, degradation of the environment, low technological capacity, and the lack of an enabling environment to support entrepreneurship.” (“Partners in Development: How Donors Can Better Engage the Private Sector for Development in LDCs.”) Furthermore, geographic isolation limits foreign investments within targeted communities. As perviously mentioned, governments of the targeted communities must play an active role in promoting a productive environment for investment.

¹⁰⁴ Derks, Ronald. "UNDP." International Studies Seminar. School for International Training. Palais de Nations Unis, Geneva, Switzerland. 11 Oct. 2012. Lecture.

¹⁰⁵ Derks, Ronald. Personal interview. 8 Nov. 2012.

¹⁰⁶ Kasahara, Shigehisa. Personal interview. 20 Nov. 2012.

¹⁰⁷ "Partners in Development: How Donors Can Better Engage the Private Sector for Development in LDCs." *N/A*. United Nations Global Compact, United Nations Development Program, Bertelsmann Stiftung, n.d. Web. 14 Nov. 2012. <www.unglobalcompact.org/docs/news_events/8.1/Joining_forces_for_change.pdf>.

This means encouraging market competition, ensuring that infrastructure capacities are well established, and encouraging a regulatory and political environment that not only promotes investment but that also protects the intended beneficiaries from ineffective social business models.

Trade Liberalization also plays an important role in understanding the challenges that exist within the developing world¹⁰⁸. Policy discussions and a commitment to action must be a priority of the global community, including the beneficiaries of impact investment projects, in order to focus on development in a sustainable way. Unless there is universal commitment towards sustainable development, its success and effects will be limited. An important focus is promoting gradual trade liberalization, i.e., slowly transitioning developing markets into the global market, which is promoted by the economic theory of “Soft Landing.”^{109 110} The theory of Soft Landing encourages countries to develop their local markets and gradually progress towards undifferentiated interaction within the global economy. Enacting policies like the Most Favored Nation Principle will help provide developing countries improve opportunities to catch up with the global markets from which they are looking to benefit ¹¹¹.

VIII. Conclusion

The concept of Impact Investing is rapidly growing and gaining increased support throughout the global community. Through research, it has become clear that the success and advancement of the field of Impact Investment is dependent upon the ability of the public and private sectors to combine and collaborate their development goals for the mutual benefit of all acting parties. Collaboration is the platform upon which networking, project activation, and global investors are able to establish the stability necessary for this international movement. Furthermore, the importance of Impact Investment Metrics has become clear. While the primary

¹⁰⁸ Kasahara, Shigehisa. "Economic Development." International Studies Seminar. School for International Training. Palais de Nations Unis, Geneva, Switzerland. 11 Oct. 2012. Lecture.

¹⁰⁹ Ibid.

¹¹⁰ Kasahara, Shigehisa. Personal interview. 20 Nov. 2012.

¹¹¹ Ibid.

motivation and focus should be the implementation of investments towards sustainable development projects, the insight gleaned through metrics holds significant importance. The subjective nature of many of the established Impact Metrics must be understood and accepted before the Metrics may be used. However, with correct frame through which to analyze Impact Metrics, the Metrics can become a critically motivational tool that provides incentives, inspiration, and both a breadth and depth of knowledge to allow investors to understand the complexities, prevalent within sustainable development projects. With the understanding that Impact Metrics are a snapshot of the truth and by no means should be the sole guiding factor regarding corporate investment decisions, the Metrics can be extremely beneficial and encourage a more efficient sustainable development strategy.

Inclusive business strategies are changing the name of the game for development and helping to redefine the established expectations of corporate social responsibility. The notion of separation between venture capital tendencies and philanthropy is being proven outdated by a new generation of socially conscious business. Businesses are realizing the potential of developing markets and understanding that there is more to gain than financial returns. This new field of Impact Investment is truly moving business beyond profits.

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