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Lessons and Challenges in Supporting Corporate Impact Venturing to Achieve the Sustainable Development Goals (SDGs)

To achieve the Sustainable Development Goals (SDGs), the world needs profitable business solutions capable of attracting commercial capital to grow and deliver impact at scale. Large corporations are uniquely positioned to develop such businesses but face significant barriers. Driving Impact Venture Action (DIVA) was created in 2015 as a not-for-profit entity to partner with corporations to overcome these barriers. Its experience to date suggests that there is great potential in "corporate impact venturing." Large corporations are lining up to co-develop impact ventures, and impact investors are ready to allocate capital to opportunities that are sufficiently mature. However, there is one important gap that remains to be filled: philanthropic support to mature the DIVA organization, expand the partnership base, and engage in more early-stage venture development projects.

The Opportunity and the Challenge

Nearly 200 countries have agreed on an ambitious set of priorities to end poverty, protect the environment, and ensure prosperity for all – the 2030 Sustainable Development Goals, or SDGs. Achieving them will take tremendous effort, requiring an additional $2.4 trillion in investment every year.[1] While public services and civil society programs will be vital, to close the gap, the world needs profitable business solutions capable of attracting commercial capital to deliver impact at scale, or "impact ventures."

Impact ventures can originate in many places, but there is unique and largely untapped potential in impact ventures driven by large corporations making strategic bets on new opportunities for growth – *corporate* impact ventures. Two commonly cited examples are Vodafone's M-Pesa mobile payment service and Cemex's Patrimonio Hoy home construction program. M-Pesa now reaches more than 90% of households in Kenya and has been credited with lifting 2% of the population there out of extreme poverty. Patrimonio Hoy has saved more than half a million families more than two thirds of the time and one third of the cost it used to take to add a room to their homes and enabled them to do it more safely.

"By translating social needs and ambitions into innovative business solutions, multinational corporations have a critical role to play in accelerating the SDG agenda and helping to realize its ambitions."
Peter Bakker, President and CEO, WBCSD

[1] Schmidt-Traub, Guido. 2015. "Investment Needs to Achieve the Sustainable Development Goals." Sustainable Development Solutions Network.

M-Pesa and Patrimonio Hoy demonstrate the comparative advantage of large corporations when it comes to impact venturing: the ability to execute at scale. Large corporations not only bring technologies, products, and services capable of supporting sustainable development; they also know how to grow an organization, expand a product range, meet ISO standards, manage complex supply and distribution chains, and the many other things needed to operate a business at scale. And they bring resources to invest – if the venture creates enough value for the firm.

Unfortunately, venturing out into new businesses is a risky endeavor – like any other form of innovation. This problem is compounded when firms seek to address social and environmental challenges in less mature markets. Costs may be higher, margins may initially be lower, and the time required to break even may be longer than for other innovation investments a large corporation could make. Pursuing impact ventures is associated with an opportunity cost.

In addition, corporations often have capability gaps when it comes to impact venturing. When new business ideas involve unfamiliar markets or business models, corporations may find that they lack the knowledge, skills, or systems required to execute successfully. These capability gaps may relate to insights on consumers rarely studied by market research firms, the ability to manage informal distribution networks, or the systems required to process hundreds of thousands of small transactions.

The combination of capability gaps and opportunity costs results in a "pioneer gap" for corporate impact ventures – a lack of resources for the early stages of venture creation and development. There's a reason M-Pesa and Patrimonio Hoy are cited so often: many corporate impact ventures are unable to move beyond the idea stage, and many others are cut or converted to CSR programs before they can scale.

"DSM technology is doing a lot of good in the world already, but we would like to do even more. That will require going to places where we don't have a footprint or working in ways where it's hard to make the business case. That's why we want to work with partners like DIVA."
Pieter Wolters, Managing Director, DSM Venturing, and Vice President, DSM Innovation Center

The "Pioneer Gap"

Researchers from Monitor and Acumen Fund coined the term "pioneer gap" for the lack of money and technical support available to impact ventures in the early stages of their development, when they are designing business plans, developing products, validating commercial viability, and preparing the conditions for scale. Monitor and Acumen focused on impact ventures driven by entrepreneurs; we find that the pioneer gap applies to corporate impact ventures, too.

For more, see "From Blueprint to Scale: The Case for Philanthropy in Impact Investing."

A New Vehicle

Driving Impact Venture Action (DIVA) was launched in 2015 to bridge the pioneer gap for corporations to engage in impact venturing. DIVA both co-develops and co-invests with corporations in corporate impact ventures.

On one hand, DIVA brings in the capabilities needed to turn ideas into investable ventures. Reaching investability requires market research, a well-defined value proposition, a compelling business plan and financial model, and ideally some tangible evidence from prototyping or piloting on the ground. There also needs to be a legal entity to invest in, partnerships negotiated and implemented, investors cultivated, pitches made, due diligence facilitated, and much more. DIVA does all this through its own staff and partners – such as consulting firms and local operators – providing the necessary mix of knowledge, skills, and on-the-ground capacity.

At the same time, DIVA invests directly in the early stages and mobilizes co-investment in the later stages of each venture's journey from idea to scale. The organization does this by bringing in investors with varying levels of impact orientation, risk appetite, and return requirements. In the early stages, when risk is highest, DIVA invests alongside the corporation using seed funding from investors with a primary focus on impact, high risk willingness, and no or low financial return expectations. Then, as the venture matures, DIVA lines up investors that are interested in delivering impact, but also require higher levels of financial return, and can provide the more significant levels of funding needed for operational scale-up. Throughout the venturing process, DIVA thus reduces the opportunity cost and risk of corporate impact venturing to its corporate partners.

"Impact venturing is a difficult journey for large corporations. There are different people and organizations supporting different parts of it. A vehicle like DIVA, which brings them together to cover the whole journey, is very exciting."
Thomas Videbaek, COO & Executive Vice President of Research, Innovation & Supply, Novozymes

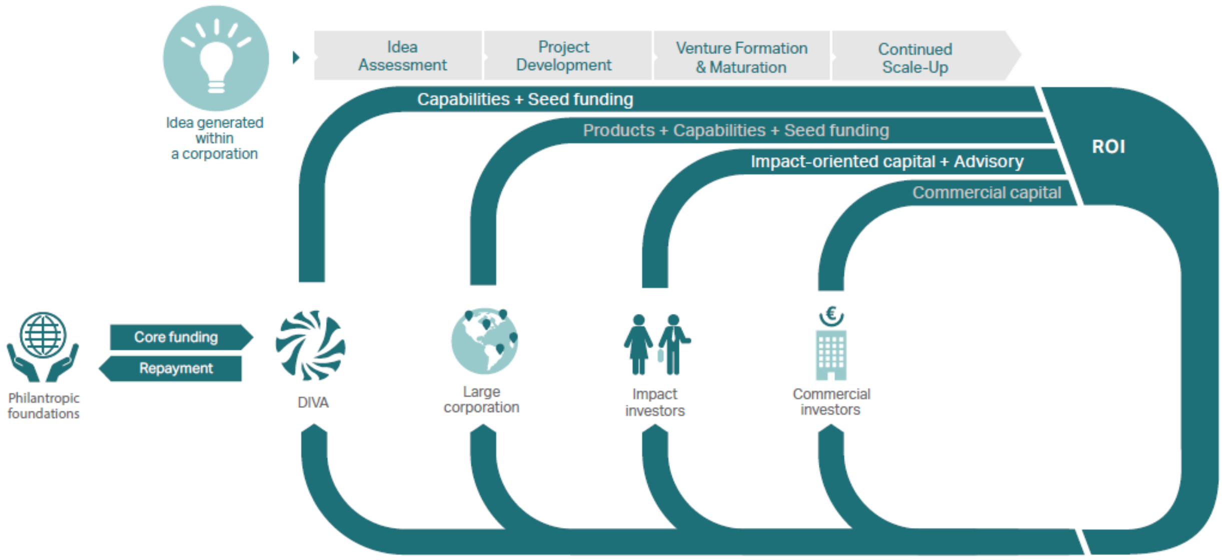
At the core of the model, DIVA relies on three key stakeholder groups to play roles that they are accustomed to:

- **Corporations** bring their ideas for impact ventures; relevant technologies, products, and services; the know-how, logistical capabilities, supply chains, and distribution networks to scale; and resources to co-invest.

- **Impact investors** bring funds to invest at various stages of venture maturity, depending on their impact and risk-return preferences.

- **Philanthropic organizations** bring highly concessionary core funding for DIVA's operations (until the portfolio is large and mature enough for DIVA to cover its own core funding needs) as well as support for individual ventures – both financial and non-financial.

Figure 1. DIVA's Approach to Bringing Corporate Impact Ventures to Scale



DIVA's Underlying Structure

Two structures enable DIVA to bring corporations, impact investors, and philanthropic organizations together to bridge the pioneer gap for corporate impact ventures. The first is DIVA Ventures, a US Low Profit Limited Liability Company (L3C). DIVA Ventures uses grants and program-related investments from "impact only" and "impact first" investors to do early-stage venture development with corporations, building up equity stakes. The second are DIVA's Anchor Fund Partners (AFPs), independent impact investment funds with resources from a mix of "impact first" and "finance first" investors dedicated to ventures co-developed by DIVA. Once a venture is formalized, DIVA Ventures sells most of its stake to an AFP and uses the proceeds to pay back its program-related investments. The AFP then makes a cornerstone investment in the venture, kicking off a broader capital raise process.

The Journey So Far

In many respects DIVA and its partners have succeeded in pushing corporate impact venturing forward – but one area lags significantly behind. While corporations and impact investors have stepped forward to play their roles, philanthropic organizations have struggled to commit to the corporate impact venturing space.

Forward-looking multinationals are lining up to co-develop and co-invest in ventures with DIVA.

Following its incorporation in 2015, DIVA obtained seed funding from Novozymes, a Danish multinational that produces industrial enzymes and microorganisms, and DSM, a Dutch multinational active in the fields of health, nutrition and materials. These two companies understood the need for a partner like DIVA from their own corporate impact venturing experience. Novozymes had co-developed and attracted impact investment for a widely acclaimed venture called CleanStar Mozambique, which it started in 2009 and launched publicly in 2012. Lack of capabilities and poor performance ultimately led the venture to be shut down in 2014. For its part, DSM spent two years lining up investment in Africa Improved Foods, its joint venture with IFC, CDC, FMO, and the Rwandan Government, which was launched in 2016. Both Novozymes and DSM wanted to do more, but they needed partners to bring additional capabilities and share the cost and risk.

With support from the World Business Council for Sustainable Development (WBCSD), a global, CEO-led organization of over 200 leading businesses, DIVA went on to identify other companies in similar positions to Novozymes and DSM. Several were eager to work with DIVA, and so the first cohort of venture opportunities was assessed, and work commenced on the first projects.

For example, DSM came forward with a business idea for renewable energy access, and Engro, a diversified multinational based in Pakistan, came forward with a business idea to deliver high-quality, low-cost animal feed to smallholder dairy farmers. In both cases, DIVA worked with the corporation to develop a business model, financial model, impact delivery model, venture development plan, partnership design, legal setup, and financing strategy. DIVA brought in its own team, local partners, and external consultants with field expertise to move the projects forward.

"It's been a great pleasure working with DIVA and Engro to develop the animal feed business. SEED Ventures has established numerous companies in Pakistan, but together with DIVA we look forward to increasing our focus on high-impact opportunities backed by corporations, designed for scale – which is very much called for in Pakistan."
Faraz Khan, CEO, SEED Ventures

Impact investors are keen to fund corporate-backed ventures.

According to the Global Impact Investing Network and J.P. Morgan, deal flow is one of the top two challenges impact investors face.[2] When impact investors look at the landscape, they see significant demand for investment, but a shortage of high-quality investment opportunities with attractive ticket sizes. Corporate impact ventures have two important advantages over most other investment opportunities that impact investors are exposed to: the corporation's track record and the capabilities to execute at scale, internationally.

As a result, impact investors have been eager to engage with DIVA. Through the European Venture Philanthropy Association (EVPA), with EVPA Board member Steven Serneels as its own Board Chairman, DIVA has cultivated a strong network in the impact investment community. Impact investors all along the risk-return spectrum have come forward, including some with an interest in taking early-stage risk. Unsolicited inquiries are also rolling in as DIVA has become a familiar name in the field.

"Impact investors like FMO have interpreted corporate backing for the ventures in DIVA's portfolio as a strong positive signal."
Bart de Smet, Senior Investment Officer, NL Business, FMO

[2] J.P. Morgan and the Global Impact Investing Network. 2013. "Perspectives on Progress: The Impact Investor Survey." Online at https://thegiin.org/assets/documents/Perspectives%20on%20Progress2.pdf.

Progressive philanthropic organizations are willing to support individual ventures in DIVA's portfolio – but so far, they are not willing to support DIVA itself.

Philanthropic organizations have expressed interest in DIVA's model but run up against obstacles to investing in it. These include mandates focused on specific development challenges and/or geographies; cultural resistance to investments that help create value for companies; a preference for direct impact over system-level interventions or field-building; and an inability or unwillingness to fund what they perceive as "infrastructure" or "overhead."

Numerous philanthropic organizations have expressed an interest in supporting individual ventures being developed by DIVA. But while such support is valuable, it does not address the need for core funding for DIVA to develop systems, source venture opportunities, form partnerships, raise funds, and so forth.

"There are many that see the vision. The trick is for them to put money into it. Most people want to invest in the innovation, not the infrastructure that makes it possible. They don't ask the wise question, 'How much should I invest to achieve this particular outcome?'"
Albert Siemens, Chairman of the Board, FHI Foundation

The Road Ahead

Many stakeholders are eager to see corporate impact venturing grow and become mainstream. Champions of the SDGs see large-scale business solutions as essential to achieving the goals. Corporations would like to venture out and explore new opportunities to deliver positive societal impact alongside commercial gain. Impact investors are hungry for high-quality investment opportunities backed by strong and reputable parties. And philanthropic organizations (including foundations and development agencies) are increasingly allocating concessionary funding to business solutions that deliver impact.

This eagerness notwithstanding, corporate impact venturing remains a small space illustrated by a few over-used anecdotes. This will not change until corporations are willing and able to take the first steps, maturing ideas for impact ventures into entities that can attract external funding, whether concessionary or commercial. And this will not happen as long as they are expected to do it alone, incurring real opportunity costs and engaging in behavior their shareholders consider overly risky.

As a not-for-profit partner sharing the cost and risk, DIVA is designed to help corporations take the first steps. However, DIVA's ability to bridge the pioneer gap depends on highly concessionary support to fund its core activities – which so far has been limited.

Could corporations continue to provide this support, as Novozymes and DSM have in DIVA's early days? No. DIVA's value proposition is ultimately to reduce the opportunity cost of impact venturing for corporations, so it makes little sense to view corporations as core funding providers. Could impact investors foot the bill? Not in the near term. Impact investors, while faced with limited deal flow, are simply not structured to pay for pipeline building and would have to change mandates and re-secure capital to play that role, likely on less attractive terms.

Philanthropic organizations ought to be the best positioned candidates. They have the resources and they are structured to offer them on highly concessionary terms. In addition, a progressive subset of philanthropic organizations increasingly express interest in being strategic and catalytic with their investments, and they have a growing appetite for what many call “venture philanthropy” – including investing in commercially viable solutions to social and environmental challenges. Unfortunately, DIVA's stakeholders have found that, to date, few philanthropic organizations are actually ready to move from theory to action, and even among the vanguard of venture philanthropy investors, organizations with the mandate to fund the infrastructure to support corporate impact venturing are hard to find.

“Only by taking risks and funding the core is it possible to achieve massive, transformational change.”
Leslie Johnston, Executive Director, C&A Foundation

The stakeholders involved in DIVA remain committed to making corporate impact venturing a mainstream activity as the search for core funding continues, and they welcome dialogue with others interested in this space. When corporate appetite for impact venturing, impact investor appetite for quality deals, and philanthropic appetite for truly catalytic investments come together, corporate impact venturing can become a powerful force for progress toward the SDGs.

“Unleashing the full power of large corporations to drive sustainable development – this is the opportunity for a foundation with the vision, the systems orientation, and the appetite for innovation to seize.”
Steven Serneels, Board Member, European Venture Philanthropy Association and Chairman of the Board, DIVA

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