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Investing with Impact
Unlocking Value for Business and Society

The U.S. Department of State is fostering a new approach to development and diplomacy that relies on the strength of America's diverse resources. In this vein, the Global Partnership Initiative (GPI), which is located in the Office of the U.S. Secretary of State, is collaborating with private businesses, philanthropies, foundations, universities, faith communities, diaspora groups, and individuals to improve the lives of those in need across the globe. GPI convenes and collaborates with these diverse groups to create market-based solutions that result in shared value for business and society. GPI also acts as a catalyst by launching new projects and seeking new solutions.

CROSS-SECTOR COLLABORATION

In the past few decades, there has been a dramatic shift in the source of U.S. resource flows to developing economies. In 1969, 70 percent of flows were categorized as Official Development Assistance funded by the U.S. government. By 2005, 80 percent of flows came from private capital. These data clearly illustrate that the private sector is playing a larger role in the international arena, particularly in emerging economies. One component of GPI's mission is to help the U.S. government reach out to and engage with these increasingly important global actors and lead efforts to develop cutting-edge partnerships that will achieve results for all stakeholders in a dynamic and changing world. It is becoming clear that such partnerships not only yield sustainable economic growth, but also enable the U.S. to strengthen its ties to foreign partners and provide opportunities for American businesses to reach new markets and customers.

The Department of State looks to form collaborative working relationships that are characterized by shared goals, complementary resources, transparency, and mutual benefit. It has already formed a diverse partnership portfolio address-

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ing energy policy and climate change, economic policy and trade promotion, educational and cultural exchanges, and women's empowerment.

Through its initiative called Investing with Impact, GPI is addressing targeted environmental and social challenges by galvanizing the power, resources, and innovation of business, government and civil society. Collaborating across sectors enables GPI to leverage the assets of diverse organizations in four critical areas: capital, capacity, credibility, and creativity.

IMPACT INVESTING

The rise of impact investment is revitalizing international discussions over how investment contributes to development and stirring activity by the private sector, national governments and international organizations. Increasingly, sources of capital are seeking to contribute to social and environmental progress and sustainable development while securing financial returns. These impact investments cut across all asset classes: cash deposits to fixed income, public equity, private equity, real assets, and alternatives. They also include all investor types: pension and sovereign wealth funds, corporations, foundations, banks, international financial institutions, retail investors, and other specialty investment vehicles.

Over time, responsible investing has become a multi-trillion-dollar industry. Responsible investing has various themes. It can be focused on negative screens that prohibit investment in firms that manufacture or promote certain products and services. It can also be focused on shareholder advocacy and positive environmental, social, and governance screens to target investment in particular companies. Impact investing takes this a step further. It is the explicit incorporation of social, environmental, and developmental objectives into the fabric of business and financial models. It is based on the fundamental belief that it is possible for investors to achieve financial returns and social change simultaneously.

The potential range of impact investment opportunities remains largely unknown. Analysts estimate that impact investments could reach between $500 billion and several trillion dollars over the next decade. To illustrate the magnitude of opportunities in impact investing globally, a few examples are given below.

To address climate change, the International Energy Agency estimates that $1.3 trillion in investment will be required from the energy sector to halve greenhouse gas emissions by 2050. Another $41 trillion will be needed by 2030 to modernize infrastructure systems worldwide. Water infrastructure, at $23 trillion, is the largest portion of this investment. McGraw Hill Construction estimates that the worldwide green-building market will more than double to between $96 billion and $140 billion by 2013. According to the World Resources Institute, the four billion people with annual incomes below $3,000 constitute a $5 trillion global consumer market. Moreover, the 1.4 billion people with per-capita annual incomes between $3,000 and $20,000 represent an even larger market, $12.5 trillion globally.

Despite the enormous potential of impact investing, there are critical gaps in understanding the market conditions necessary for its success, as well as inadequate policy and regulatory frameworks and limited knowledge of financial models that sufficiently incorporate environmental, social, and developmental factors into valuations and alpha forecasts.

Through the Investing with Impact initiative, the Department of State is partnering with the United Nations Conference on Trade and Development, the Organisation for Economic Co-operation and Development, the United Nations Principles for Responsible Investment, the Inter-American Development Bank, U.S. universities, Mercy Corps, and other organizations to address these gaps and galvanize sources of private capital to tackle high-priority social and environmental challenges. For example, GPI is collaborating with partners to:

- Inform policy-makers about key opportunities and challenges associated with impact investing
- Conduct a study of institutional asset owners on impact investing to document the current state of the market and eventually quantify demand for impact investing products across various asset classes
- Outline the role that sovereign wealth funds and other large institutional investors can play in impact investing, with a focus on sustainable cities as a potential focal point for innovation
- Build the next generation of leaders by engaging business schools in research and analysis and project development, and facilitating impact investing competitions

PIONEERING A NEW MODEL OF ENGAGEMENT IN BRAZIL

Government alone does not have the resources to tackle key social and environmental challenges. Simultaneously, as resources become more strained and new consumers emerge, businesses are seeing the need to adapt to changing market conditions and bring social and environmental factors to the forefront of business strategy to ensure sustainable commercial growth. Thus, GPI is launching a new paradigm of engagement with the private sector that will allow businesses to improve their market position and unlock unprecedented economic value while delivering positive social and environmental impact.

Unleashing a new era of integrated financial, social, and environmental value cannot be achieved by depending on the old model of silos and solo players. Success requires a nontraditional approach outside the reach of individual organizations. It demands leadership, open innovation, collective action, pooled resources, and technology.

To achieve these goals, GPI is catalyzing an initiative that will collaborate with innovative corporations, governments, and civil society to deliver shared value for business and society. We will identify targeted, cross-sector, cross-industry business challenges that strengthen the bottom line and yield positive social and environmental returns. We will then align and aggregate companies that face similar challenges—thus creating efficiencies of scale and demand. Next we will work with leaders in technology, design, and innovation to generate solutions to targeted challenges and opportunities for strategic investment. The unique innovation methodology for the initiative will include a range of tools including open innovation platforms, limited crowd-sourcing, competitions, prizes, and face-to-face interaction. We will turn solutions into actions by catalyzing partnerships and business ventures to address identified demand. Finally, we will facilitate the sharing of best practices among participants and will showcase leading organizations on a global stage.

We will pilot this initiative in Brazil, where developments that are becoming increasingly pronounced in emerging markets are evident—the concurrent growth of the economy, social and demographic shifts, and increasing emphasis on the protection of limited natural resources. Brazil's economy grew by 7.5 percent in 2010, and it is on track to become the world's fifth largest economy. More than 30 million people in Brazil have been catapulted out of poverty in the last eight years and are now emerging as new consumers, coproducers, and clients. Brazil is home to some of the world's most precious ecological assets, including the Amazon and 14 percent of the world's renewable fresh water. And, finally, Brazil will fall increasingly in the world spotlight with Rio+20, the 2014 World Cup, and the 2016 Olympics.

Three initial business streams with significant potential have been identified as possible focus areas for the Brazil pilot:

Fostering Responsible Consumers: The annual income of new consumers at the base of the pyramid in Brazil is over $60 billion. This emerging group has a new relationship with credit and financial services, which affects banks and retailers. New tools are required to gauge credit and consumption habits, along with programs to incent prudent spending.

Reducing the Environmental Impact of Increased Consumption: The Brazilian government recently passed a law requiring that recyclable materials be diverted from landfills to improve recycling rates. This represents a $1.5 billion market opportunity and will also benefit the environment.

Decreasing Losses in the Food Value Chain: Brazil is a world leader in agriculture and food production. Nevertheless, the food value chain has significant inefficiencies, which result in approximately 40 percent post-harvest losses. As food security becomes a larger issue, reducing inefficiencies at the various points in the value chain will provide an opportunity to produce more with the same resources.

A NEW WAY OF DOING BUSINESS

This pilot will serve as a new paradigm of engagement with emerging economies to stimulate sustainable, inclusive economic growth through partnership. It will be replicated in other emerging economies in Latin America, Asia, and Africa. While GPI is collaborating with Mercy Corps to provide initial institutional support for the pilot in Brazil, the initiative will be spun off into an independent organization. This approach is a prime example of GPI's model of serving as an incubator for innovative collaboration around pertinent issues, with the ultimate goal of creating an entirely sustainable and autonomous entity.

The intersection of foreign policy and business requires that government rethink its approach to development and assistance, and how to achieve sustainable economic growth and long-standing social and environmental impact. By harnessing the power of collaboration and innovation, the Department of State is finding newer and more sustainable ways to achieve its objectives.