Stanford SOCIAL INNOVATION REVIEW

10th Anniversary Essays

Standing with the Poor

By Jacqueline Novogratz

Stanford Social Innovation Review
Spring 2013

and show that social enterprises are partners and collaborators in the country's development. Nevertheless, our social innovation sector is relatively small when Mexico is compared to other countries in Latin America, such as Chile. One thing that would help us, and I am sure would help social entrepreneurs in many other countries around the world as well, is enactment of new laws and regulations that would make it easier to create and operate social enterprises. This would be an admirable task for a global NGO to take on.

Another reason the Mexican social sector hasn't evolved and reached its full potential is that the government has long been reluctant to collaborate with organizations such as ours. Because there are few opportunities to develop strategic collaborations between the government, the private sector, and civil society, it becomes hard to scale up the impact and replicate successful models.

Last, there is a dearth of civic and philanthropic culture in Mexico. Very few people seem to understand or care about impact indicators, and the lack of professionalization in the social sector is striking. The kind of educational opportunities and consulting support that could encourage a stronger civic and philanthropic culture are sorely lacking. Data are not yet driving strategic investment and philanthropic decisions, which in many cases limits the impact on the ground. It also prevents the sector from showing how the financial and social impact it does have contributes to the country's development.

Despite these obstacles, I am hopeful about the future. Women are the hidden engines of economic growth. By investing in women we are seeing real social and economic development. And we are not alone. Crea is one of many social enterprises that are creating change in Mexico and around the world.

Leticia M. Jáuregui Casanueva is founder and executive director of Crea Comunidades de Emprendedores Sociales, A.C. (Crea), in Mexico City.

STANDING WITH THE POOR

BY JACQUELINE NOVOGRATZ

Ten years ago, as the *Stanford Social Innovation Review* was getting off the ground, the idea of impact investing was also beginning to take hold. The early pioneers, including Root Capital, Omidyar Network, and Acumen Fund, set out to make philanthropic capital more productive in serving the poor. We had seen that neither markets nor top-down government nor aid alone solved problems of poverty. We were encouraged by significant investment and collaboration from the philanthropic community, including the Rockefeller Foundation, the Skoll Foundation, and a group of forward-thinking people who saw the potential for impact investing to bring something new to the conversation on social change. We had no clear roadmap, so we just started and let the work teach us.

A decade later, we've learned that patient capital works. Our $80 million in approved investments has created more than 58,000 jobs and affected more than 100 million people. Moreover, more than 200 organizations now work under the impact investing rubric. Some seek high financial returns; others are more focused on social returns. As more funds have been formed, a new sector has emerged. The Aspen Network of Development Entrepreneurs serves as a trade association to professionalize the field and create

We need to articulate clearly what roles government, civil society, and corporations play in creating ecosystems for social innovations to grow, scale up, and connect to existing markets.

—JACQUELINE NOVOGRATZ, Acumen Fund

a forum to share learning. The Global Impact Investment Rating System (GIIRS) provides metrics to compare results between funds. The Impact Reporting and Investing Standards (IRIS) system, managed by the Global Impact Investing Network, is building standards to make those comparisons more relevant. Ultimately, I believe this pioneering work will affect much larger corporations who understand, as we do, that business as usual is not an option.

As impact investing goes mainstream, I have a lot on my mind. For starters, the work of creating new markets in places where markets have failed and aid has fallen short is long, messy, and difficult. The road to large scale in underserved or nonexistent markets where people earn only a few dollars a day requires not only capital, but also leadership, management support, and strong systems that help support growing companies over time. All of this takes a sort of hard-edged patience and a gritty determination to do what is right, not what is easy.

As I think about the next ten years, I believe that Acumen and the impact investing sector will need to confront several issues head-on. First, we need to have a more nuanced conversation about the types of capital and technical support needed for different kinds of companies at different stages of their development. My colleagues Sasha Dichter and Rob Katz, along with Monitor Inclusive Markets, wrote about this topic in depth in "Closing the Pioneer Gap," in the winter 2013 issue of *Stanford Social Innovation Review*. Suffice it to say here that more philanthropy and more risk-tolerant capital are needed to help early-stage businesses navigate the challenges of creating markets that serve the poor.

Second, we need to articulate clearly what roles government, civil society, and corporations play in creating ecosystems for social

PHOTOGRAPH COURTESY OF ACUMEN FUND

innovations to grow, scale up, and connect to existing markets. When it comes to solving problems of poverty, impact investing can act as a catalyst, but it is not a silver bullet. Successful businesses serving the poor need more than investment capital. They also need infrastructure to enable effective distribution, strong regulatory systems, access to markets, technical assistance as they scale up, and more. Government, for example, is critical in creating favorable business conditions. But government can also help companies where the market is less effective, such as those providing goods and services like clean water, sanitation, and preventive health care, grow by providing strategic subsidies. And large corporations can help connect low-income people to reliable supply chains—this also benefits multinational corporations as they seek to expand in emerging markets.

Third, we need to create stronger measures of impact to help the world understand how capital can be used to build the kind of society we want to create. The sector has taken the first steps toward creating better measures through the development of Pulse, GIIRS, and IRIS. As the sector grows and attracts potentially billions of investment dollars in the coming years, we will need even more robust systems to clarify the tradeoffs between financial and social returns.

People interested in impact investing often talk about "doing well by doing good," the idea that they can generate healthy financial returns while making a positive social impact. This line of thinking implies that tradeoffs don't exist, although we've learned—often the hard way—that they do, especially when we are dealing with low-income markets in far-flung areas. We need better metrics to clarify social outcomes and help us understand whether and how our investments are creating more dignity and choice.

Fourth and perhaps most difficult, we must develop talent and leadership with the moral courage to see the world as it is and with the audacity and skills to imagine and then build it as it could be. Our portfolio companies constantly cite lack of talent as one of their biggest challenges. Some of our companies are growing from a few dozen on staff to more than a thousand in only a few years. One can imagine the recruiting hurdles, the need for new management systems, and the training that is required to achieve that kind of growth. Indeed, leadership is needed the world over as old systems and ways of doing business prove unable to meet society's greatest needs.

We are living in a rare moment in history. We have the tools, skills, awareness, and understanding to solve tough global challenges. Impact investing needs to be part of the solution. The question is not so much *if* as *how*—how we sustain our focus on the moral essence of using investment as a means and not an end, with the goal of building sustainable, scalable systems that provide low-income people with access to choice and real opportunity. For this is where dignity starts, not just for the poor, but for all of us.

JACQUELINE NOVOGRATZ is founder and CEO of Acumen Fund. She is the author of *The Blue Sweater: Bridging the Gap Between Rich and Poor in an Interconnected World.*

RESHAPING U.S. PUBLIC EDUCATION POLICY

BY STANLEY N. KATZ

Twenty-five years ago, if I had been asked to describe the attitude of the major foundations toward education policy, my answer would have been that they were predictably supporting the reform ideas of the leading K-12 academic specialists, who were then concentrated in the best graduate schools of education, especially those at Stanford and Harvard Universities. Lots of ideas were circulating, of course, but the "hot" idea, largely emanating from Stanford, was that of "systemic reform"—the notion that we had not gotten very far by undertaking piecemeal improvements. We needed to come up with grand strategies to improve the entire public education system.

This movement was very much a collaboration between university experts, leading national K-12 organizations, and large foundations. In those days nearly all of the big foundations (Rockefeller, Ford, Pew, MacArthur, and Atlantic) had senior program officers (and separate programs) for education policy in the schools. Some of the program officers, such as Bob Schwartz of Pew, were leaders in making national policy and collaborated openly with state (and to a lesser degree federal) education officials, including the Council of Chief State School Officers and the National Governors Association. By the mid-1990s, however, the "systemic" movement had played itself out, because it could not be successfully implemented. At that point, most of the traditional large foundations abandoned their dedicated education programs and began their current adventure with strategic philanthropy, looking for quicker and more visible accomplishments.

This alliance represents an entirely new philanthropic impact on federal education policy, in an era in which for the first time it can be said that we actually have a federal policy.

—STANLEY N. KATZ, Princeton University

It is interesting to put this development in the context of the earliest philanthropic foundations at the end of the nineteenth century. The origin of modern foundation philanthropy actually lies in the interests that the Slater and Jeanes Funds—and later

PHOTOGRAPH COURTESY OF PRINCETON UNIVERSITY