

Stanford SOCIAL INNOVATION REVIEW

Field Report
Filling Out the Middle
By Brandon Keim

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FIELD REPORT

KEEPING BUSY:
Employees of Honey Care
Africa tend to a beehive on
a farm in Kenya.

Filling Out the Middle

The Aspen Network of Development Entrepreneurs targets a “missing” segment in emerging economies.

BY BRANDON KEIM

Honey Care Africa, founded in 2000, was a classic early-millennium story of social enterprise success. Its business plan—sell cost-subsidized beehives to farmers in Kenya, buy honey from them at fair-trade prices, and market the honey to upscale retailers—helped thousands of rural households. It gave farmers much-needed income and an alternative to practices that result in poaching and deforestation. The organization received an Equator Prize from the United Nations, plaudits from the World Bank, and funding from high-profile development agencies and foundations.

There was just one problem: Honey Care Africa couldn't make ends meet. Without nonprofit support, it couldn't stay in business. In 2010, the organization regrouped. It brought on a new CEO and enlisted the services of Open Capital Advisors, a financial intermediary based in Nairobi. Open Capital, part of a new generation of impact investors, helped Honey Care Africa revise its model. Under its new plan, Honey Care reduced its reliance on farmers—most of whom didn't actually *like* working with bees—and hired local technicians to manage the hives. Farmers would still receive income for keeping hives on their property, but the new division of labor would enable yields and revenues to rise.

Next, Honey Care needed to acquire working capital. Open Capital brought in the Gramen Foundation, the Lundin Foundation, and Root Capital, and it created an investment structure that minimized risk for those investors while allowing Honey Care to grow. Two critical factors united Open Capital and its investment partners: a belief that market-based

tools can promote social good—and membership in the Aspen Network of Development Entrepreneurs (ANDE).

ANDE, headquartered in Washington, DC, has chapters in six regions: Brazil, Central America and Mexico, East Africa, India, South Africa, and West Africa. It's a hybrid entity that combines elements of a think tank with elements of a trade association. ANDE is not itself an impact investor. Rather, it helps people who work in that sector, and it puts particular emphasis on fostering the growth

of the sector that finances SGBs is ANDE's core mandate. “We're not about impact investing per se,” says Randall Kempner, executive director of ANDE. “Our vision is, we work with the full scope of players relevant to building a vibrant ecosystem in an emerging market.”

DEFINING A SECTOR

ANDE traces its roots to informal discussions that took place among people at several organizations—including Acumen, Root Capital, and the Grassroots Business Fund—that would become founding members of the network. For each of those organizations, SGBs represent one part of a broader portfolio; ANDE, by contrast, brings dedicated focus to that segment of the developing-world economy.



of small and growing businesses, or SGBs. In development circles, SGBs are known as “the missing middle.” They tend to be overlooked by grassroots microfinance organizations and corporate lenders alike, and as a result they have limited access to both financial and social capital.

Many people in the development community believe that SGBs are critical to prosperity. They're arguably more efficient at alleviating poverty than very small or very large businesses, they create high-wage jobs, and they promote innovation. Nourishing

The network launched in 2009, with startup support from the Bill & Melinda Gates Foundation, the Rockefeller Foundation, and six other prominent funding institutions. ANDE had 32 founding members. From that base, the network has swelled to encompass 170 member organizations that work in a total of roughly 150 countries. To date, according to ANDE's 2013 impact report, member-managed funds have directly invested \$1.7 billion in SGBs. In addition, member organizations have spent \$400 million on services such as training and research.

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Cumulatively, ANDE members have worked with about 60,000 SGBs.

It's an impressive trajectory. And although ANDE is able to leverage the reputation and the resources of its parent organization—the Aspen Institute, a high-profile think tank—its operations remain fairly lean. (It started with just 2 employees, and now has only 11.) The network, in fact, owes much of its success to its core strategy: From the start, Kempner decided not to finance beneficiary companies directly.

Instead, ANDE focuses on helping member organizations in nonfinancial ways. “We’re trying to support the intermediaries,” says Kempner. “I trust that they’re going to have impact.” Much of that support consists of bringing people together through conference calls, network conferences, and the like—simple but important activities that strengthen the social fabric of the SGB sector. Membership in ANDE, says Annie Roberts, a cofounder and partner at Open Capital, “helps us connect with people we might not have met otherwise and gives us a lot of credibility in the market.”

Events hosted by ANDE give leaders of SGBs a chance to expand their network. Fernando Assad, founder of Vivenda, a Brazil-based startup that helps poor families improve their homes, notes that ANDE facilitated an introduction to Itaú, the country’s second-largest bank. And an invitation to participate in an upcoming social housing event organized by ANDE’s Brazil chapter, he says, is potentially even more valuable. It will give him a chance to meet government officials and leaders from a variety of companies in the housing industry.

For ANDE leaders, meanwhile, hosting events offers an opportunity to help shape what people are talking about. The network runs working groups on six issue areas—capacity development, legal affairs, metrics, policy, women’s entrepreneurship, and youth entrepreneurship—and regularly holds discussions around each of them. In a similar initiative, ANDE has undertaken sector-mapping projects in Brazil, Central America, East Africa, and Mexico. By compiling descriptive

lists of companies, foundations, and businesses in each region, the network provides SGBs and other players in this nascent field with a basic tool for finding each other. “It’s a very interesting time,” says Rebeca Rocha, coordinator of ANDE’s Brazil chapter. “We are in a moment when the whole sector is defining itself.”

MAKING A BIG TENT BIGGER

In the impact investing field, a debate has unfolded over the proper balance between creating social impact and pursuing financial gain. To put it another way: Should impact investors accept below-market returns as a cost of doing good? Is doing good the central purpose of impact investment, or is it merely a sideline to a standard investment strategy?

ANDE leaders have declined to take sides in that debate, preferring instead to create common ground where all parties can come together. It’s a strategy that meets with approval among ANDE members. Steve Wright, vice president of poverty insights at the Grameen Bank, generally opposes the profit-maximizing, just-another-asset-class approach to impact investment. Yet he appreciates the chance to interact with investors who have different views. “One of the tremendous values of ANDE is that JP Morgan, Citi, and others are in the tent,” says Wright.

To Paul Basil, who leads another ANDE member organization, the conflict between social value and financial profit matters less than the friction between newcomers and veterans. “The tension comes from a lack of knowledge,” says Basil, founder of Villgro, an innovation incubator based in Chennai, India. “The more you talk, the more lines of communication are open, the more you understand each other.” He cites the value of ANDE-supported investor training programs, which help newly established investment managers adjust to common developing-world challenges—the lack of reliable market data, for example.

Another sector-wide conversation involves developing metrics. ANDE has put its weight behind the Impact Reporting and Investment Standards, or IRIS, a catalogue

of measurements developed by the Global Impact Investing Network. As a condition of membership, ANDE now requires its members to collect IRIS data on five core metrics for each company that they fund: earned revenue, number of full-time employees, level of full-time wages, new investment capital, and greenhouse-gas emissions. IRIS contains hundreds of other metrics, but ANDE considers these five to be the most useful for gauging bottom-line performance.

Officials at ANDE are careful neither to overstate nor to understate the value of the IRIS approach. “It’s just a language,” says Genevieve Edens, impact assessment manager for the network. “It’s not a reporting tool. It’s a way to standardize what we’re counting. By speaking the same language, we can start to compare one company to another, create benchmarks for performance, and create market intelligence. That’s the power of a big network.”

The use of IRIS is still evolving. But already those five core metrics have yielded enough data to help ANDE back up its assertions about the vital role played by SGBs. By the most recent count, 277 companies have reported on their performance via ANDE member organizations, and those companies are growing by an average of 10 percent annually. What’s more, they pay their employees an average annual salary of \$11,500—an amount that is much larger than the minimum wage (and often the median wage) in the countries where those companies operate. “The most important challenge that ANDE helps to address is demonstrating the development and business case for SGBs,” says Willy Foote, CEO of Root Capital.

Today, the aim of ANDE leaders is to make that case to a broad audience of potential investors. During its first half-decade, the network concentrated on supporting its member organizations. Now it’s time to grow beyond that base. “As a first step, our goal was helping people understand the importance of helping SGBs,” says Kempner. “But it’s one thing to build a sector, and another thing to drive more capital to it. Now we need to help others to believe.” ■