Alix: Hi everybody. Thank you for joining us just after lunch. I hope we will be able to be so lively and so dynamic. That we will counteract any effects of sitting in a dark room after you've just had your sandwiches, it's my personal goal. Usually when I

[00:00:30] run these things, I say that you should tweet me and let me know if it's too boring or if we should change topics. But, [inaudible 00:00:34], the rules of the game here, we're not allowed to do that. I will just have to really be keeping an eye on you as much as I can, to see if where we're going is interesting and useful for all of us that are here in this room.

We're here today to talk about the private sector and the intersection between

[00:01:00] evidence and innovation and crowding in resources for and to the private sector in developing countries.

I myself, I'm going to introduce myself very briefly. I'm going to try and do justice to the bios of this team panel that we have here. Then, I've got some questions to kick us off with for each guest and then I think we'll really try and have a conversation as well. The central question that we're really here to talk about is this, the role of

[00:01:30] public money, tax payer resources in supporting social innovation in the private sector. What's the right role for that? How do we think about that? How do we use or should we use rigorous evidence of impact to mediate that role? What are different approaches to doing this using public money to support the private sector? How do we use screens of evidence of impact to help us decide how to

[00:02:00] deploy many? Are we doing a good job of it? Should we do more of it or should we do less of it and rely on market tests to help us determine where to deploy funds? What is a market test?

I could go on about these questions all afternoon because this is actually, this is my day job, is these questions. I'm the CEO of something called the Global Innovation Fund, which is a nonprofit, social first, investment vehicle that we sometimes call a

[00:02:30] VC for [inaudible 00:02:32] places. Our mission is to find, fund and scale up cost effective evidence based innovations that have the potential to measurably improve the lives of people who live under $5 a day. We were founded to invest in taking risks to identifying new solutions to old problems in development. To deliberately take the smart risks that can crowd in the private sectors, to solve

[00:03:00] some of these challenges.

As you can see, I spend my day thinking about exactly the topics I hope this panel is going to educate me about. The donors to the Global Innovation Fund are bilateral aid agencies. They even trusted us to invest the resources as a venture capitalist might. The twist on how we work is we use a positive screen of social impact to help determine how we should invest our funds. Some of you may have seen, my

[00:03:30] colleagues Ken and Michael in an earlier session today, talking a little bit about exactly how we do indeed do that.

What I want to learn about here and this week here at USAID and with my fellow panelists here is how we can do a better job of that collectively, at GIF in particular and with our partners in Development Finance Institutions. With that as a way of

[00:04:00] introduction, let me briefly introduce the panelists. I'll as each of them a couple of questions so that you get a flavor of the experience and fire power that we've assembled here on this stage and then I think we'll try and really have a conversation together.

[00:04:30] So, I'll begin a bit out of order and introduce you to Ben Leo. He is the Chief Executive Officer of Fraym, which is an Africa data analytics firm. He's also a visiting fellow at the Center for Global Development, who are very well represented in this event here today at AID. At CGD, his research compliments very well the work that his company does. He focuses on the rapidly changing development finance environment, private capital flows, infrastructure, and debt dynamics. Thank you for being here Ben.

Ben Leo: It's a pleasure.

Alix: [00:05:00] Kola Masha to my immediate left, is the Managing Director of Babban Gona. I will let Kola describe Babban Gona to you in just a moment but briefly, this is a full service firm providing extension and cooperative services to farmers in northern Nigeria. As if that weren't enough, Kola is also a Managing Director at Doreo Partners, an agriculture focused African impact investing firm. So, we're fortunate that you can wear either hat I suppose and think about how you approach this question of evidence of impact when you're spending money or when you're [00:05:30] working at Babban Gona. So, we really look forward to your views.

Kola Masha: Sure.

Alix: My furthest left is David McKenzie, lead economist in the development research group Finance and Private Sector Development unit at the World Bank. David is a co-founder and regular contributor to the Development Impact blog, which I know I'm a power user of and I'm sure many of you in this room are too. David's research [00:06:00] really focuses on questions around migration, enterprise development and methodologies that can help us get the most that we can out of data from developing countries. Thanks for being here David.

[00:06:30] Finally, but not least, Mari Kuraishi co-founded GlobalGiving with Dennis Whittle and is currently the president of that organization. I'll let Mari tell us a bit about GlobalGiving in just a moment but briefly, this is a platform that helps social entrepreneurs and donors find each other and make matches to drive for impact more quickly. Thank you for being here Mari.

Mari Kuraishi: You're welcome.

Alix: So just to remind us, we're thinking about this question of how we should use public money to support, scale up, private firms in developing countries and the innovations that they're working on. This question of the role and evidence in mediating the decision making by those who are entrusted with spending these tax [00:07:00] payer resources. So, Kola, I'm going to put you a little bit on the spot and after briefly telling us about Babban Gona, how did you react to the engagement with

GIF and the discussions that we've had around independent evaluation? How does that fit into your business plan or not? What lessons do you have for other social entrepreneurs thinking about that question of measuring impact?

[00:07:30]
Kola Masha: Well, thank you very much Alix. So to begin, I'll just briefly give a sense of Babban Gona and what we do. So, Babban Gona is a model we developed several years ago as an innovative approach to address the underlying structural reason why small scale farmers are poor. That is, their low economies of scale. So, we solve that low economy of scale challenge by bringing economies of scale to thousands of small holder farmers through a model we've developed called an agricultural franchise,
[00:08:00] where we're franchising a network of grass root level farmer cooperatives and support them with a full suite of services from training to most importantly credit, agricultural inputs and we help them aggregate, store and market their produce to enable them to dramatically increase the price they can get for their products.

From an impact standpoint, we think about our impact in terms of the way we're
[00:08:30] able to directly increase their yield. On average, the Babban Gona member over the last six years has increased their yield to more than double the national average and increased their net income to more than three times above the national average. This has enabled us to scale to become the single largest maize producing entity in Nigeria in the last five years. Hopefully we can continue to grow to hit our target of a million farmers by 2025.

[00:09:00] Now, to the question of impact, impact is something that is exceptionally important to us. I think we developed, we designed Babban Gona specifically to address what we feel is the most serious social challenge facing not just Nigeria but the entire region, which is dramatic rise in insecurity, driven by a significant growth in youth unemployment. We see our role in this by unlocking the power of agriculture as a
[00:09:30] job creation engine and creating an economic buffer to the spread of insecurity. For us, the impact that we are most closely interested in is our ability to enable our farmers to dramatically improve their net incomes and then in turn think about how they utilize those net incomes to improve their lives and the lives of their families.

With the work and the partnership with GIF, I think one of the things I've really
[00:10:00] appreciated in the partnership is that it's, not just in terms of the debt financing that you've provided that's catalyzed in almost additional six times the capital, sorry, 10 times the capital, but also recognizing that as an organization with an ambition to grow to a million farmers, we would have to raise somewhere in the range of about $1 billion in working capital. The role that a robust evidence based study, which we're working with you to design and execute, could do in unlocking
[00:10:30] additional capital is a critical part to our growth story.

Alix: So, that's when, thank you so much for that. That's a hypothesis to flag for all of us to consider and come back to. I'm sure actually that Mari you'll have a view on that, is, it has rigorous evidence of impact where you take on these questions of what is the correct counterfactual? Are the farmers who agree to be in Babban Gona

[00:11:00] programs systematically different than other farmers? Those naughty questions. If we have rigorous evidence of impact, does that crowd in more funding? That would be a very interesting question. If we had somebody here from a DFI actually or a [inaudible 00:11:15], who have much larger pots of money available to them than the GIFs of the world do, how that hypothesis sits with them. I think that's something that all of us collectively in this sector want to learn more about.

[00:11:30] Actually maybe, if you guys don't mind, I'm going to go a tiny bit out of order and I am going to come to Mari and ask you first, to tell our folks here in the audience a little bit about GlobalGiving and how you partner with the private sector. I am also interested in your views on this hypothesis. Does rigorous evidence of impact help social businesses or social enterprises more generally attract more funding?

[00:12:00]
Mari Kuraishi: This is all a wonky crowd, so I can lay out what GlobalGiving actually does. If you go to globalgiving.org, you'll see, give to the Puerto Rico Relief Fund and we make it really easy for you to support local organizations in Puerto Rico who are doing what they can to dig themselves out of the hurricane that just devastated them. What we don't do on that website is to go on about why we exist. Dennis and I co- [00:12:30] founded GlobalGiving after having spent many years at the World Bank, to pioneer and extend a scalable model of bottom up development.

It was our hypothesis that having a lot of experts and a lot of money fly in, determine what countries, enterprises, communities needed and tell them what to [00:13:00] do and walk away, was not in the long run and in a dynamic sense, a sustainable model for development, or at least it needed to be complimented by a model of bottom up model of development. So, that's what GlobalGiving does. It creates a platform for organizations and leaders anywhere in the world to post activities that they think will benefit their communities and in turn, for ordinary donors as well as [00:13:30] corporations, to support those models. We vet those organizations, we provide them huge amounts of support including in measuring their impact and we think that that's going to create a market as it were, for that kind of bottom up development.

As to the question, and we work with a, let me address the private sector part first. We work with probably about 90-100 companies in employee giving, cause related, [00:14:00] marketing, corporate philanthropy, all forms essentially of corporate social responsibility. That accounts for probably more than 50% of our annual donation flow, which this year should be somewhere around $50 million. So, corporations play a very big role in what we do.

[00:14:30] As to the question of evidence, I would like to believe that evidence matters. I certainly, we have designed the GlobalGiving platform to as much as possible working with organizations that perhaps may have limited capacity in their ability to measure impact and/or think about these questions. We've tried to be their backend. So, we've done things like, pilot apps that integrate into their workflows. [00:15:00] So, we simultaneously make it a lot easier to do their work but we have the data on which we can start building how is this organization doing and benchmark it to

other organizations et cetera. That data in turn informs a ranking inside GlobalGiving, which is not necessarily visible to the public but it's implicitly visible in that, if you go to the India category, you will see 10 pages of organizations with their projects. The top organizations that you see above the fold on the first page,
[00:15:30] are the organizations that have the highest number of effectiveness points.

So, we try to mimic the intentions of Google. Google wants to give you relevant results from the get go, we try to give you the highest impact organizations by this evolving and certainly imperfect measure of evidence. What we have done in the
[00:16:00] past is to experiment, we did this with climate change stuff. We developed a complex algorithm as to whether the activity that the organization was undertaking gave them points on adaptation, whether it was additional, whether it was carbon sequestering, et cetera. A really nice little matrix developed with some of the best environmental scientists. Showed it to donors and they just, they had no idea what
[00:16:30] to do with this. We then experimented with reducing it down to a green leaf, which they were much happier with, surprised. If you clicked on the green leaf, you could still open up the matrix but nobody clicked on the green leaf.

You may think, well, that's just a consumer coming to the website and they really
[00:17:00] don't want to get bogged down in these details. So that's certainly true. One would hope that the investors making decisions with much larger sums of money and following a due diligence process et cetera aren't influenced that way. But, for, I think the ways of the human heart are somewhat inscrutable and the fast thinking versus slow thinking. It is not clear that we don't spend a lot of time justifying and
[00:17:30] rationalizing decisions we have made on like 30 seconds of first impressions that we then back up with a lot of data that we could say, "Yeah, this is a good investment. No problem." So, my heretical thoughts.

Alix: Well, I think it's partly why we begin or even thinking about the programs that's scaled for the public sector, to talk about evidence informed decision making and
[00:18:00] get even a little bit more nuanced in our own language and based on evidence based decision making. So, there are these hard and fast decision rules that experiments or other research can serve or provide to us. That's a great story. I dare say that policy makers are not that different from the people who are coming to your website.

So Ben, let's build on this a little bit more and think, if you don't mind, reflect for us
[00:18:30] a little bit about the experience of IFC or OPEC or other development finance institutions that are making very large investments in emerging economies in infrastructure and other big ticket items that should be the bedrock of growth. Why is it important for DFIs to use evidence of social impact in their decision making? Is this stuff mostly self-evident? Should we be doing more of this or the things that
[00:19:00] GIF has challenged ourselves to do, because we are a social first investor, that's relevant to DFIs who are balancing both commercial returns and development impacts?

Ben Leo: It's a great question and thank you again for the opportunity to be here. I think there's a lot of answers to that question but let me take a couple of stabs. First, I

[00:19:30] think it's obviously incredibly important for the DFIs to be tracking evidence and not just commercial viability of the entities in which they are providing capital to. There's tremendous variability across them. There's a handful that are doing a really good job on this, they take it very seriously, they resource it and they audit the results that are achieved through the transactions that they support. OPEC is one of these. I've spent a lot of time over the years looking at them very, very [00:20:00] closely. IFC does a pretty good job, I think they could strengthen in a number of different areas.

There's a lot of DFIs that are not though. It's just purely a box checking exercise, part entry and there isn't a serious amount of investment in continuing to track [00:20:30] their portfolio over time. I think fundamentally, for most of these organizations, their continued support, politically, grassroots, et cetera, amongst their stakeholders, this is a key ingredient of it. Particularly with OPEC, a lot of the questions that I get when I go up on capital hill and talk with staffers or members, comes back to this point of, "Okay, yes I understand that they, OPEC helps on national security and it's a foreign policy tool and these kinds of things. But, if it's a [00:21:00] developmental institution, how are they actually doing? Is this just a bunch of bankers?" So, I think it's an existential point for them.

One thing that I think is really exciting and this is an axis that I have for my company Fraym and the DFI space, is there's a few DFIs that are doing really cool [00:21:30] stuff that we're working with them on. It not just screens for social impact and development impact alongside of commercial viability, but it's helping their portfolio companies actually achieve it. So, we're working, it's interesting, in the agriculture sector in southern Africa, helping some of their portfolio companies [00:22:00] identify particular population groups both as end consumers as well as inputs, so, it's an agro-processing company. Simultaneously, so, this DFI is helping this portfolio company be more effective commercially and deliver impact. But, alongside of that, be able to geo-spatially track where they're operating and [00:22:30] compare baselines ex ante to how progress is shaping up overtime.

It's really exciting not just from my company's perspective but just for the broader ecosystem to have a couple of these DFIs that are pushing the envelope, not just on does evidence matter but actually incorporating it into the core of their operations and the continued support they provide to their portfolio companies. It would be [00:23:00] very exciting to see more of that, but it's early days.

Alix: Yeah that is interesting. At GIF, which is a relatively new organization, we've only been around for a couple of years, we spend a lot of time building on that, trying to articulate what is our venture support or more than money offering? We sit in Washington and in London, we're not in Lagos, we invest across many sectors. We're not agricultural specialists. We can't offer the kind of support to Babban [00:23:30] Gona that other investors that you have might be able to do. On the other hand, if we can make some contributions to measurement of impact or creating new tools to make it cheaper and easier to measure impact, maybe that can be a unique offering that we have.

[00:24:00] This is again, we want to build a hypothesis that we are testing out as we try and figure out how to contribute in that space. I think the vision you've just painted there of what Fraym is able to do is really compelling. The more that we can figure out strategies that are light touch, don't require heavy, on the ground data collection but can leverage existing data sets or powerful tools like the ones you're describing, we can make this less onerous and less of a difficult decision for very busy entrepreneurs to think about how much of their own bandwidth to devote to this question of measuring impact. I'll come back and ask you if that resonates for you.

[00:24:30] I want to bring David into this conversation. David, you've published a tremendous amount on the constraints to public sector growth in developing countries. I know I personally have learned so much from reading your work. Then, your frank view is very much welcome here. Perhaps you could talk a little bit about what some of those constraints to growth are that are important heuristics for us to all have in

[00:25:00] our mind. Then, opine a little bit about whether GIF type investors, impact investors, even the DFIs, maybe they're in a different category, are these investors actually addressing those constraints? Could we do a better job of helping to address those if we changed how we behaved? I'm very interested in your thoughts.

David McKenzie: [00:25:30] So, I guess from the first point in terms of working with different types of firms, one of the first things I worked on was looking at very small firms and whether they could ever grow. Whether the subsistence firms that you see on the side of the road everywhere in every development country are just always going to be the same size or whether there's things you can do to help them grow. So, we've tried a whole range of different things in different programs, trying to bring them into the formal sector, tried different types of training programs, tried credit, tried grants, et cetera.

[00:26:00] So, one of the first things we did was very simple was just give $ 150 to some of these firms and see like whether a one time grant could have any effect. We did this in Sri Lanka and then later in Ghana and then Mexico as well. The surprising thing that we found there was, when you gave it to a business run by a man, it had quite a large impact, it would have a permanent impact basically on the profits of these businesses. It seemed like access to finance really was the constraint. We're always a bit cynical about that because whenever you ask any business owner what

[00:26:30] do you need, they always say, " I want money," especially if you're coming from the World Bank. They actually did need money.

Then, when we gave it to the businesses run by a woman, the subsistence businesses did not grow when we gave them the money. That was kind of shocking at the time because there had been this big push for microfinance on women being the ones we need to give money to and that they're the ones that are most constrained, but that sort of raised, well, there's all these other constraints that

[00:27:00] matter and it's not just finance for them. So, this was something where using evidence helped us rethink how we were thinking about that space and trying to think about new programs.

So, getting to the then well, what's organizations like GIF and others doing, I think it's a little bit like some of the work that the bank does in terms of when you're working directly with these businesses, you're helping them overcome the constraints that they individually face, given the system that they operate in. So, I

[00:27:30] think these programs can or sometimes cannot, and it's useful to test but they can be effective in helping individual businesses overcome the constraints that those individual businesses face. What I don't think that GIF and other places like that are geared towards is why there's constraints there in the first place. Why is it that nobody is giving finance to somebody who's got a return that, their profits go up

[00:28:00] 5%, 6% a month when you give them some money and yet nobody is giving them some money. So, that's where all this complimentary work on the investment climate and on understanding why the economy works the way it does is necessary.

Alix: That's super helpful. I strongly agree with that, that we need innovation in how the larger ecosystem of financing works in addition to supporting individual firms. I'm

[00:28:30] sure you can reflect a little bit on that, actually Kola, we were thinking about capital markets in Nigeria. Also interested in your views too in the potential for big data in helping to make decisions. You can choose which one of those you want to take on.

Kola Masha: Well, I think it's, I think to your point around being able to create GIF's role and

[00:29:00] being able to create an efficient and effective mechanism for assessing and validating your impact, I think it's very important. I think it's about oftentimes, if you look at how much time and effort it takes to develop and resources it takes to finance some of these really robust impact assessments, it becomes very difficult for organizations like us. So, figuring out a way to do that so it's not just a one time

[00:29:30] thing but an ongoing process, something analogous to an annual audit that you do.

Alix: Which is pretty much like what you had described.

Ben Leo: Yeah.

Kola Masha: Exactly. Something where maybe it's a process where you self-report but then there's a process where they validate your self-reporting, similar to how you do financial auditing but where the investors have faith that the numbers that you're reporting are [inaudible 00:29:54] accurate.

[00:30:00]

Alix: That's super, that's very helpful. I'm opening it up a little bit as a conversation for all of us here and building on some of what David has pointed out that, well, I'll structure this conversation a little bit. David, you've [inaudible 00:30:16] that, there are firms who are making a return and should be investible, attractively investible opportunities and they're not attracting capital as demonstrated by the

[00:30:30] experiments that you have run. On the other hand, one of the things you hear a lot and tell me, Ben if you think I'm wrong, but you often hear in DFI impact investing space, that people are very concerned about pipeline. Are there enough deals to make?

[00:31:00] That suggests, if both of these things are true, we have some mismatch in our search process and in our due diligence process, perhaps in our ability to accurately assess risk and when you do a risk adjusted analysis of that rate of return, is it still attractive, et cetera. Perhaps you could reflect on that Ben, of how well are we doing in due diligence and in finding those firms of the kind that David is describing? Can we do a better job of that?

[00:31:30]
Ben Leo: Another great question. In terms of due diligence, I think you're going to get different answers when you talk to different investors. A number of the investors that I talk to do not talk about a problem with the pipeline. That they have plenty of pipeline and they can do plenty of deals. Sometimes you hear the opposite on stages like these. But a number of ... Where I would differentiate that is, at least [00:32:00] what I hear is that there's plenty of pipeline at later stages not upstream, not at a seed round kind of venture, particularly ones that have a focus on double bottom line. I think you're going to be the expert on this in terms of what you guys see and how you experience it.

[00:32:30] Series A, series B, Series C, I think there's no shortage of pipeline, particularly in the African continent, which is where our firm is focused and where I've had the most experience over time. In terms of the actual due diligence on why there are these blockages that David's talking about, I actually, I don't have enough direct experience on that one to give particularly important views.

[00:33:00]
Alix: I'll just reflect for a minute on some of our experiences at GIF, has been that, a key determinant of whether we feel like we have an exciting pipeline of impactful investments is the time horizon that we're willing to use when we're making decisions. If firms are building markets while they're selling into them, timelines of seven to 10 years is often not enough time to see interesting financial rates of [00:33:30] return on investment. That's usually the timeline that closed-in funds sell to their investors, by the way. On the other hand, if you're able to accommodate time horizons that are closer to 15 years, then you do begin to see interesting commercial rates of return and the pipeline seems to grow. If you're willing to earn this commercial return in over, in the out years relative to over the period of time [00:34:00] that traditional closed-in funds commit themselves to.

So, that's been an important learning for us and I think it's actually a challenge for the market, that we think about, do we have enough investment vehicles that can accommodate that kind of patient capital if we do want to really support firms that are delivering social value and where that's a very strong part of the model that they are pitching.

[00:34:30] David, what do we need to know more about? Kola mentioned in his opening remarks that youth unemployment was a big motivator for setting up Babban Gona. I know you and I have actually spoken before about a limited understanding of how well some of the both private and public efforts to train youth and make

[00:35:00] them more employable, that evidence is rather mixed whether we have good solutions in that space. You can correct me if I'm out of date on that. In that space and then the related space of helping firms grow, what are we, what are some of the big questions you're excited about now and that we need to understand more about?

David McKenzie: I think a lot of that research has been at the very micro level. So, there's no, there's sort of a decent body of evidence on business training and finance and things for [00:35:30] very micro-sized businesses on vocational training for trying to teach youth with skills to go into wage work or stuff. What we don't have nearly as much evidence on is how to get firms to scale up and how to both identify the types of firms that have that potential in the first place and then whether there are things that are needed for a firm that's already got 25, 50 workers in a country where 99% of firms have got less than 10. It's not clear whether we need to be, if there's anything we [00:36:00] need to be doing or if there's anything we can do. So, there's a bit that's on the importance of management for these types of firms and that most firms don't know how badly managed they are.

So, it's very hard to get them to voluntarily go and buy this stuff. I think that's where I think there's the sort of interesting thing. It's how do you build that market [00:36:30] that exists here where you've got this whole army of accounting firms and marketing firms and management consultants and all these professional services that help firms who are looking to grow that is much less developed in a lot of the countries we work in. Ideally, we want to build that market solution in a situation where the reputation doesn't exist right now and everybody thinks everybody else is a layman and who should I go and get services from.

[00:37:00]

Alix: Yeah. Mari, do you see the same? How does that resonate for you in thinking about the NGOs and social enterprises you guys vet and support?

Mari Kuraishi: I was just thinking listening to, the story is not dissimilar in the nonprofit world. In fact, even more so as it were because they're not revenue maximizing entities and [00:37:30] therefore you should sort of take that engine away. We deal with a very large number. We deal with over 3,000 organizations. The vast majority of them are quite small. Now, because of our mission, these small organizations are in communities that otherwise have no other NGO working there, we're just as happy to work with that NGO as someone operating in a more competitive and scalable context.

[00:38:00] So, we've tried to see whether we as a platform could become the back office of these organizations. If these organizations were freed up from some of the requirements as setting up systems or whether it is donor stewardship or impact measurement or workflows, et cetera, can we free them up to do their thing and [00:38:30] do more with the funds that they are given.

It's not clear to me, it feels a little bit like scalable organizations are born and not made. That there's only so much you can do in terms of pushing but that obviously can't be the answer because there are huge differences between economies in terms of companies that grow. That said, I do wonder, the nonprofit sector is always beating themselves on the back [inaudible 00:39:02], why don't we have more scalable nonprofits? Why don't we have more Googles and Facebooks in the nonprofit world? Well, if you're in the business of serving hard to reach markets and every community is unhappy in it's own way, just sort of paraphrase [inaudible 00:39:25], by definition, it's not a scalable model. You can't take the cookie cutter and take it to a different community. So, maybe that's just the nature of the work.

[00:39:00]

[00:39:30]

Alix: Let's stick with this topic. This is great. I'm sure that both of you, Ben first and then Kola, let's stick with this question.

Ben Leo: Yeah, I'd love to pull on this thread a little bit more. I'm going to at least partially contradict what I said before, on the due diligence side and the pipeline. I think there are some fascinating things going on right now particularly in the off grid power space, as an example of pipeline, due diligence and where we might be having some challenges. This is a sector that's been quite frothy for a number of years. There's a lot of money going in grant funding, debt funding, equity funding. It's a perfect illustration of the tension between focus on impact and the commercial viability. A number, and they will all go, remain unnamed, but a number of the different organizations that we've worked with that have received money to go to some of these hard to reach communities that Mari was mentioning about in a different context, the funding was either explicitly tied or implicitly tied to reach these neglected communities, so, a lot of money with some directive, and what we're finding is tremendously high nonperformance in terms of repayment.

[00:40:00]

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[00:41:00]

So, they may be doing a fantastic job at reaching neglected communities with life changing power at different, various types of solutions, but receivables at 40%, 50%, 60%, which is not a viable business model, particularly if the grant funding and the G capital stops or decreases. So, the part that I said on the due diligence, a number of DFIs and organizations are doing a fairly good job on it. Here's an example of where the tension in my humble opinion, is a little off between social impact and commercial viability on the due diligence side, where there is now in many ways systemic risks in this particular sector in the continent that I focus on, which is in Africa. We've seen it across many, many, many companies. So, the balance is going to need to get re-calibrated in this way.

[00:41:30]

[00:42:00]

Alix: That goes to the question of scale too. I'd be very curious to hear your thoughts on this. You've in some ways gone over that valley that David was talking about. You can now look back and see what changes, choices and pivots you had to make to be able to do that. I'd love to hear your personal story and your general reflection as well.

[00:42:30]

Kola Masha: Well, I think I just wanted to pull in a couple of thoughts on some of my colleagues discussion. I think at the end of the day, your discussion around limited pipeline, the focus there is, limited pipeline for very high impact type of investments. It really extends from the fact that oftentimes, people see risk there. There's a very

[00:43:00]

high level of procedures and there's actually a high level of very real risks associated with supporting the bottom of the pyramid. I think to David's point on why people aren't investing in that guy on the side of the road is because yes he has very viable business if you invest in him but the risk of investing in him can be very high.

[00:43:30] So, our approach to addressing that challenge has really been around creating these types of franchise models, where effectively, you're going to that micro-business and you're creating a franchise model where you're effectively de-risking that individual and being able to unlock capital to that person and doing it again and doing it again and doing it again. So, in the specific case for us, we started by franchising 16 mini-farmer cooperatives in 2012. From there, we've now scaled to [00:44:00] 4,200 of these mini-farmer cooperatives in the last five years, supporting close to 20,000 farmers in this year alone, deploying $10 million to them. These are uncollaterized, unsecured loans and we have a 99.99% repayment rate. But, it requires that very focused effort on looking at that particular type of business and coming up, ensuring that you're understanding the risks and creating a mitigant for that.

[00:44:30] In our particular case, we've, for the type of business that we're franchising, we've looked at all the key risks and actually come up with what we call our eight levels of risk mitigation that effectively de-risk those ventures. The reality is, I think that can be replicated in many, many types of businesses that are very focused on that bottom of the pyramid, that micro-entrepreneur, that you can then take to scale [00:45:00] very rapidly. That's why with support of GIF and other partners, that $10 million, we've now scaled that to $25 million that we'll deploy to 8,000 of these mini-farmer cooperatives likely by next year.

Alix: In growing your business from the initial 16 you said, to where you are now, reflecting on, I know it's anecdotal but this is a point about accessing services to [00:45:30] help you professionalize and create systems that would support scale, did that require a change in mindset in your part or in your team's part? Did you have the systems, the services available to you that you needed? Did you have to build more in house that if you were doing this in California, you would have bought those services? Do those points resonate for you?

Kola Masha: [00:46:00] I think there's two parts to it. I think the first part was really first understanding what the issues and the products you want to deploy are. So in our case, literally, I moved to a little village in northern Nigeria, lived there and for the first year for those 16 farmer cooperatives, we literally delivered every possible service we could. When we were providing herbicides to them, we literally would take pre-mixed herbicide in water gallons to their farms to just understand what the full suite of services would be and then tailored that down.

[00:46:30] Specifically to the question around the other systems and structures, what we've found is that particularly when you're working in some of these hard to reach communities, human capital is a very big challenge. What we've had to do is develop a lot of our systems and structures in house so that they're highly tailored, [00:47:00] so there easier to use by the folks we have on the ground. We're fortunate in our organization, we've invested very early in an enterprise systems development team that could code and build all these systems. So, we couldn't make this happen.

Alix: Well, Mari, you were talking about skill is born not made, I don't know, we'll have to see if research bears that question out. Our time is winding down here a little bit [00:47:30] and I want to make sure that we get parting thoughts from each of you in a measured and thoughtful way. I'm conscious a little bit that we're hosted here by our colleagues at USAID, who add an important introspection point themselves. So, we're changing government here in the US and all the opportunities that that brings. Are there particular pieces of advice or from your own experience that you might, I don't want us to have to advise USAID in any serious way but, if we are [00:48:00] thinking about how to continue to do the right kind of support for the private sector as one of the engines for development, what kind of things should we be doing more of? If there's things that we should be doing less of, please tell us that as well.

I'll put that out there for, a fire starter for your closing remarks. But, if there's other comments you want to make sure that you get in, please share those as well. I'm going in reverse order and I'll start with you David if that's okay.

[00:48:30]

David McKenzie: Sure. So, I guess coming back to one of the things you talked about at the start, of when can we just rely on the market test, especially with some of these social enterprises, do we really need to measure impact at all if we see people are buying this stuff, I guess just a couple of thoughts on that and then where to take that. One is just that, often what we think is a market test is not a market test because [00:49:00] these are enterprises are calling themselves nonprofits, they're not paying taxes, they're selling stuff to consumers under this idea that there are some benefits or if you buy some shoes, somebody else will get some shoes and that's somehow going to ... If that's not true and that's really not having any benefit, then you're misleading consumers and things. So, that market test is not always a market test in that sense.

[00:49:30] Then, the other thing is that, reveal preference is not always the right metric when there's all these constraints in these markets. The fact that something's not working maybe doesn't mean that it's not useful. It's just that people don't understand it.

So, on the evidence base, one of the things that I struggle with a lot is we hear organizations like Google and Citi Bank and things, do thousands and thousands of [00:50:00] tests a day and are always trying to test and adapt. Then on the other hand, there's this work that I think is fascinating, which says that, marketers who went and used a million clients and did a marketing experiment could still not tell whether their marketing had worked or not. This is something that I find a lot with these firms. It's that, it's really hard because of all the things that go on and drive the variability of sales, it's actually really, really hard for any one firm to know if anything it's doing is working.

[00:50:30] So, that's where there's this role in aggregating across a lot of firms and building evidence that it's impossible for any one firm by itself to get that evidence for a range of different types of things. It's impossible for anyone to know, is it worth me doing marketing or is it worth me investing and upgrading management than maybe if I get 300 firms that are all doing that, I can learn. That's a big role for the

[00:51:00] public provision. It's building this evidence base that no firm can privately invest in even if they wanted to because they just can't learn by themselves.

Alix: That's a great challenge for us, thank you. Mari.

Mari Kuraishi: I don't know that it's going to come off as advice for USAID as such. I have been

[00:51:30] struck, continuously struck by the fact that in the nonprofit sector, the person who pays for the service or the product is not the person who consumes the product or the service. That in this sort of [inaudible 00:51:42] as a nonprofit, one is inevitably inclined to pay more attention to the funder than to the person you serve, because

[00:52:00] the person you serve isn't paying your bills. It's a broken feedback loop that leads to all sorts of mismatches, your point taken about reveal preference not necessarily being the be all and end all. When there's no data coming back from the person who is consuming your product or service, I think we can go seriously awry. So,

[00:52:30] continued focus on building ways in which we actually talk to the people, the households and the community we're trying to serve, is something that I would hope that could be incorporated into the next push.

Alix: Yeah, excellent, thank you. Ben.

Ben Leo: I'll throw out a couple and one of them is going to be a softball, so, I'm sorry,

[00:53:00] apologies in advance. The first one is, and this is not USAID as an example, but a reminder of first principle, "Do no harm in the interest of promoting a greater good." The specific example is a development agency I know right now, has put out a bid for a particular solution, again in the off grid power space, in terms of

[00:53:30] mapping, mapping prospective customers in an East African country. I'm not sure if the development agency realizes there are not, that there actually is at least one specific firm in that country that does exactly that. By doing this and making it a public good, they are going to put this business out of business. So, it's just a reminder in terms of, as there are objectives to think about the impact on the market more broadly in a micro and a macro way.

[00:54:00] On a more positive side, this is the softball, continuing to invest in these kinds of impact assessments and data collection, on your earlier exchange, there's some impact investors out there now that are doing fascinating things. Like the Rise Fund, which is supported by or is being run by TPG Growth, one of the biggest

[00:54:30] private equity platforms in the world, it's a $2 billion fund. One of the things that they've done is, incorporating social impact into their underwriting process, which is different than most impact firms. It'll be there but it's not a part of the underwriting process.

The way that they have done it is by pulling from rigorous impact studies across a

[00:55:00] variety of different sectors, whether it's J-PAL or the bank or others that are actually doing that, but they've streamlined it into their operations, which is really fresh and it's really exciting. The only way that that's actually going to be able to continue to happen is if there is support predominantly from the development sector to actually complete this. Because, they are expensive and they take a lot of time as you had mentioned before. But, it's a perfect example of a positive externality that enables underlying objectives that I think everyone would share in

[00:55:30] terms of having impact investing become much more rigorous and systematized in its outlook.

Kola Masha: I guess for me, I think there is, I always find this tension sometimes between ensuring that you have the right amount of evidence and ensuring that you are not

[00:56:00] slowing down the process to try to support scale. I think the, the fact of the matter is, when you look at the challenges facing us in the world today, we really don't have very much time. Just take the issue that we've focused on, which is rising insecurity, particularly in Africa. In the last 10 years, the number of armed conflicts on the African continent have gone up seven fold. We fundamentally believe that

[00:56:30] that's driven by the fact that just as auction is to fire, so are unemployed youth to insecurity.

We have, if you look at just Nigeria in the next 10 years, there's going to be four times the number of youth entering an already oversaturated workforce because we have a median age of 18 as a country. So, across all of Africa in the next 20

[00:57:00] years, 400 million people are entering an oversaturated workforce. We fundamentally believe that half of them, roughly 200 million will be able to find opportunities in agriculture through models similar to ours. But, they would in turn require about $150 billion in financing to do that.

So, that's why we designed our model to be very different. We designed it such

[00:57:30] that in a few short years, we'll demonstrate that it's high impact, it works, and it can be profitable, so, it can attract debt from investors that don't traditionally support small scale farmers.

I think for me, I think the advice that I would give is to think about ways in which you can leverage evidence to understand what works, then focus on scaling that

[00:58:00] very rapidly. I think oftentimes, you can use evidence and it can go down this rabbit hole of testing, testing, testing and testing, while the problem gets worse, worse and worse.

Alix: Yes. So I just want to shout out the building on that, the work that the analytics team at GIF has done, which is really pushing us towards having the kind of tools

[00:58:30] that will allow us to do that. To focus on order of magnitude drivers of social impact so that we can incorporate it into term sheets and investment decision making. Yes, then get out of the way and support scaling rather than testing. That's not to say that we don't support exactly the kind of research agenda that David has described. I would like to strongly endorse the need for understanding some of

[00:59:00] these key questions, about the behavior firms who are not micro, one and two people but 30, 40, 50 firms on how they can grow and create forward and backward linkages in the markets in which they operate. That's a fantastic use of public funds, and something that I personally hope we continue to see a real commitment to supporting in addition to investment funds that can help individual firms grow and scale.

[00:59:30] So, I want to end now by thanking all of you for your time and attention. I'm sorry this wasn't a more interactive session and to thank this distinguished panel for their wisdom, experience and expertise that they've shared with us today. Thank you all.