A Sustainability Case Study

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Introduction

This case study is a contribution to a broader research stream aimed to bring more insight into the field of sustainable finance, impact investment, and especially the area of microfinance. The idea behind sustainable finance is that private capital can be deployed with profit motives to address social, economic, and environmental issues. The goal of this paper is to identify core characteristics, values, achievements, successes, and issues faced by a company involved in this area of finance and to share them with organisations and individuals aspiring to learn about and engage in this field.

This paper seeks not only to contribute to knowledge and awareness in the field of sustainable finance and impact investment, but also to nurture current and future efforts of the faculty and research cohorts of Business School Lausanne in the field of sustainability.

The company under review in this paper has been carefully screened and analysed so that its story can provide a good learning experience for readers. Technical aspects, details, arguments, and explanations in the field of sustainable finance, impact investment, and microfinance are provided in the appendix for more clarity and to help synthesize some points. Finally, readers should be aware that this case study is a part of a doctoral thesis and has been presented to comply with some pre-set criteria by the Business School Lausanne in terms of structure, clarity, and argument presentation.

Sustainable Finance, Impact Investment, and Microfinance

The field of sustainable development explores the role businesses can play in making the world a more sustainable and inclusive place. This is borne out of the fact that due to diminishing resources, governments alone cannot solve all the social, economic, and environmental issues facing humanity. This is not only true in the developing world, but also for the more developed countries. Information abounds on increasing levels of global warming, hunger, famine, inequality, and the billions of people, especially in the developing world that have no access to, or are totally excluded from the global financial and economic value chain.

Governments and philanthropists have traditionally taken the lead in addressing social, economic, and environmental issues around the world, but this has proven insufficient. The resources at the disposal of governments in most countries of the world are increasingly diminishing; this was not helped by the 2008-2009 financial crises which mutated into a sovereign crisis. This has limited the ability of governments to meet even the most essential public needs and in some countries, have led to severe austerity measures, thus ignoring the needs of those at the bottom of the socio-economic pyramid. While philanthropy has been helpful, there is a realisation that it cannot alone address the numerous issues facing the world. This is mainly due to the infrequent flow of resources (funds) from donors, lack of discipline and accountability, and in some cases outright waste and corruption. The financial crisis also diminished the resources available to donors for their various philanthropic initiatives as most philanthropists were negatively impacted by it. While the resources available to both governments and philanthropists have been diminishing, the social, economic, and environmental issues facing mankind are increasing. In the light of this reality, there is a need for business to contribute to solve these problems.

The role the financial sector can play in making the world a more sustainable place is at the centre of the concept of sustainable finance. The financial sector has over the years been criticised for excluding most of the world's population from its activities and value chains. It has also been accused of reckless

behaviours and practices, and in some cases, outright gambling that either destroys economic values or only benefits a few. The role of the financial sector in the 2008-2009 crises that still persist in most parts of the world did not help its image and reputation either. The underlying thesis of sustainable finance is that the financial sector, with its power of information, resource allocation techniques, and discipline can play a role in addressing issues facing mankind in a way that is not only sustainable and inclusive but also makes business and economic sense.

Even before the 2008-2009 financial crises, there was a realisation within the financial sector that the practice of reckless behaviour and "bad investments" are hurtful, not only for mankind but for the financial sector itself. This realisation initially led to the concept of **Responsible/Ethical Investment**. Responsible investment discourages investment in companies whose business activities produce harmful effects on the environment and the people. Investments in companies like tobacco firms, ammunition producing firms, and oil companies, along with those whose activities pollute the environment are discouraged under responsible investment. This concept is usually termed "negative investment screening" as investments in companies whose activities produce negative externalities are avoided. While Responsible Investment was a good start, there was a realisation that it is not reaching far enough. While investments in companies whose activities produce harmful effects are discouraged, there was no move to intentionally target and invest in companies and businesses that improve social, economic, and environmental issues. This realisation led to the concept of **Impact Investment** which can be argued, is a more developed version of Responsible Investment. Arguably, Impact Investment presents a more targeted way of addressing the various social, economic, and environmental issues facing the world.

While Responsible investment discourages investment in companies whose business activities generate negative externalities and employs negative investment screening, positive screening is at the centre of Impact Investment. A 2010 case study published by Bridges Ventures together with The Parthenon Group and Global Impact Investing Network (GIIN) defines Impact Investment as ''*actively placing capital in businesses and funds that generate social and/or environmental good and a range of returns, from principal to above market, to the investor*''. Brest & Born (2013) defined Impact Investing as "*actively placing capital in enterprises that generate social or environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns ranging from highly concessionary to above market*". There are other definitions which we shall cover in the later parts of this case study, but the underlying philosophy of impact investment is that private capital can be meaningfully deployed in addressing social, economic, and environmental issues using market tools and applying business logic.

Actively targeting and investing in companies and businesses that addresses social, economic, and environmental issues can take the form of equity or debt investment. Equity investment entails investing and partaking in the ownership of these companies. This may involve investing in green technology, clean energy companies, biological agriculture, etc. Debt investment on the other hand takes the form of providing loans to companies and businesses. In impact investment, it can be argued that the most widely used tool is debt investment and within this area, the most popular and mature is Microfinance.

According to KPMG (2010), "*Microfinance involves the supply of financial services to poor or low-income earning individuals, very often women, which may include micro-credits, i.e. very small loans, often repayable within 6 to 12 months, micro-savings programs and micro-insurance*". Billions of people in the world, especially in the developing countries lack access to formal banking services. Even in developed countries of the world, billions are still excluded from banking activities. This is mainly due to the fact that they lack collaterals and other requirements to secure loans and credits from banks, thus they cannot engage in productive economic activities. This economic segment of the global population commonly

referred to as those at the bottom or base of the economic pyramid (BoP) is the target population of microfinance. The figure below from the World Bank highlights their numbers and income.

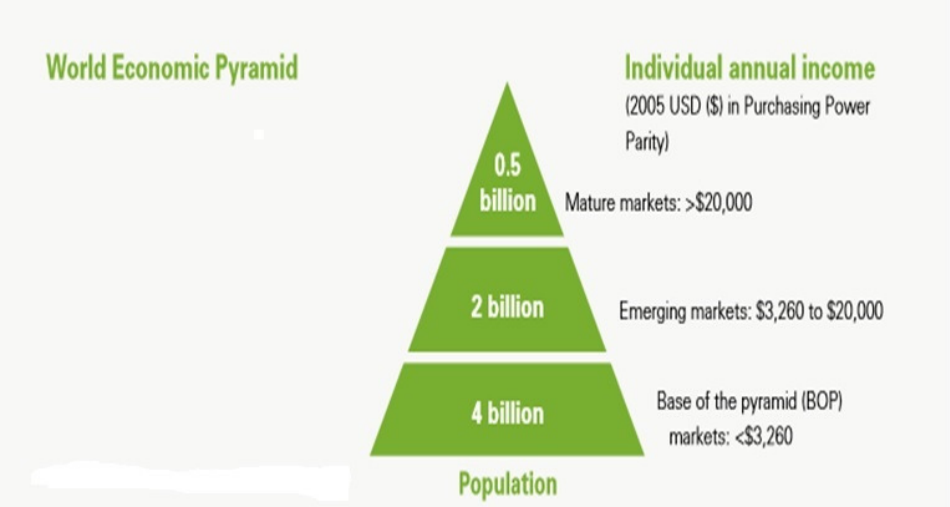


Figure 1. World Economic Pyramid. Source: World Resources Institute, World Bank (2007).

The World Bank defines people at the bottom of the socio-economic pyramid (BoP) as those whose annual income is below $ 3 260. People in this economic bracket have low paying jobs and in most cases, have no formal employment. Also, they are mainly found in rural areas in the developing world where banking services, if present at all, are accessible only to the wealthy. According to the World Bank (2007) 4 billion people or about 62% of the World's population is located at the bottom of the economic pyramid. As they lack access to either formal banking services or collaterals to secure credits where banking services exist, they often engage in informal borrowing to meet their short and long term financial needs and engage in business activities. These informal loans are often provided by predatory or "shark" lenders with high interest rates and unscrupulous means of debt recovery. Higher interest rates and the means of debt recovery make borrowers pay what is often referred to as ''bottom of the pyramid penalty''. Above all, the loans are often very small, irregular and not scalable to achieve any meaningful economic goals, thus leaving billions trapped in poverty and at the base of the economic pyramid.

As a tool of economic empowerment and inclusiveness, microfinance aims at providing financial access to the poor by providing a steady loan flow. The European Commission (2012) defined micro-credit as "*a loan or lease under EUR 25,000 to support the development of self-employment and micro-enterprises. It has a double impact (sometimes also referred to as '**the two sides of the microfinance coin**'): an **economic impact** as it allows the creation of income generating activities and a **social impact** as it contributes to financial inclusion and therefore to the social inclusion of individuals*". Going by the above definition of micro-credit, it can be argued that, if properly structured and implemented, micro-loans and microfinance can serve both social and economic purposes and can contribute in making the world a more financially inclusive and sustainable place.

In 1974, Professor Muhammad Yunus, a Bangladeshi economist from Chittagong University, led his students on a field trip to a poor village. They interviewed a woman who made bamboo stools, and learnt that she had to borrow the equivalent of 15p to buy raw bamboo for each stool made. After repaying the middleman, sometimes at rates as high as 10% a week, she was left with a penny profit margin. Had she been able to borrow at more advantageous rates, she would have been able to amass an economic cushion and raise herself above subsistence level. Realizing that there must be something terribly wrong with the economics he was teaching. Yunus took matters into his own hands and from his own pocket; he

lent the equivalent of $27 to 42 basket-weavers. He found that it was possible with this tiny amount not only to help them survive, but also to create the spark of personal initiative and enterprise necessary to pull themselves out of poverty. Against the advice of banks and government, Yunus carried on giving out 'micro-loans', and in 1983 formed the Grameen Bank, meaning 'village bank' founded on principles of trust and solidarity. In Bangladesh today, Grameen has 1,084 branches, with 12,500 staff serving 2.1 million borrowers in 37,000 villages. On any working day Grameen collects an average of $1.5 million in weekly instalments. Of the borrowers, 94% are women and over 98% of the loans are paid back, a recovery rate higher than any other banking system. Grameen methods are applied in projects in 58 countries, including the US, Canada, France, The Netherlands and Norway. In 2006, Yunus and the bank were jointly awarded the Nobel Peace Prize, "*for their efforts to create economic and social development from below*" (Big Think, 2008).

This singular act by Yunus provided an insight that private capital could be used in meaningful ways to address social issues, mostly through loans and credits to those that have no access to loan facilities. Moreover, it shows that when done properly, it can lead to a win-win situation where investors make profits and borrowers get better lives. Above all, it can be scaled and replicated in different countries and locations. Yunus's innovation therefore, led to the realisation that providing micro-loans and credits to people at the bottom of the social pyramid could be sound business, and more importantly that it was scalable and able to address different social and environmental issues. The realisation that private capital could be deployed profitably and commercialised to help the poor provided the basis and philosophy on which BlueOrchard Finance S.A. was formed.

BlueOrchard – History and Business Model

Having shed some light on the areas of sustainable finance, impact investment and microfinance, and having highlighted ways they can be used as tools to address social, economic, and environmental issues, the next section of this paper will try to tell the story of a company, which has chosen microfinance not only as a business model, but as a way to contribute to inclusive finance by providing financial access to those at the bottom of the socio-economic pyramid, mainly in the developing countries of world.

This section will review BlueOrchard's history and its business model so as to understand its positioning in the microfinance value chain. This will help the reader understand how the company reached its current position as a leader in the field of microfinance, inclusive finance, and financial sustainability. Contents of this section are based on information from the company's website, archival documents provided by the company to the author, information to investors, interviews granted by the staff of the company, and external information obtained from the Internet.

BlueOrchard is a pioneer in the field of microfinance, the first commercial manager of microfinance debt investment and is well recognised as a leader in sustainability by the financial industry, regulators, peers and NGOs. The company has received numerous awards and recognitions for its initiatives not only in microfinance, but in the financial sector as whole. Together with Morgan Stanley, BlueOrchard was awarded the "Sustainable Deal of the Year" in 2008 by the Financial Times, during its "Financial Times Sustainable Banking Awards'' for its BOLD2007-1 Product. This was in recognition of the company's success in bridging the gap between microfinance and the capital markets (Brugger, Fanconi & de Muralt 2016 p.57). In 2006, one of BlueOrchard's managed Funds was among the first Fund to be granted the LuxFLAG Microfinance Label by LuxFLAG, a Luxembourg-based NGO. The LuxFLAG label confirms that a

microfinance investment vehicle predominantly invests in microfinance and meets the international standards in the responsible investment sector, thus certifying a true commitment to the double bottom line (BlueOrchard Microfinance Investment Managers, 2015). On 21st October 2014, BlueOrchard was selected (for the second time) for the "ImpactAssets 50" 2014 (IA 50), an online listing of top impact investment fund managers. The IA 50 is the only free, public, searchable database of outstanding impact investing fund managers. The showcase includes a range of funds across the globe, spanning diverse issue areas and investments, with demonstrated and compelling social and environmental impact. Fund managers included in the IA 50 2014 manage a combined $ 15.5 billion in assets devoted to creating measurable, positive impact (BlueOrchard Microfinance Investment Managers, 2014).

In July 2014, BlueOrchard became a founding member of Swiss Sustainable Finance (SSF), a platform that promotes sustainability in the Swiss financial industry and aims to promote Switzerland as the leading centre for sustainable finance. More than 60 organisations – financial service providers, investors, research organisations, public sector entities and others have joined forces to foster social and environmental aspects in investment and financing solutions. Planned activities include the development of practical tools, promotion of training and education for financial specialists as well as provision of market data and in order to foster further integration of sustainability principles into the Swiss financial marketplace (BlueOrchard Microfinance Investment Managers, 2014).

One of the major issues affecting microfinance clients is over-indebtedness. This is a practice where borrowers either continually borrow from one microfinance firm or from multiple firms with the risk of pushing clients deeper into debt and poverty. As part of its efforts to contribute to responsible finance and especially to the microfinance space, BlueOrchard has collaborated with other microfinance investment managers to address this issue.

Over-indebtedness is very common among microfinance clients in Cambodia, one of the countries in which BlueOrchard operates. In order to address this issue, BlueOrchard joined forces with two other microfinance investment managers, Incofin SM and Oikocredit, to fund and help design a study on over-indebtedness in Cambodia. Research was conducted by the Cambodian Institute of Development Study (CIDS) and eight of the leading microfinance institutions in Cambodia, with a focus on understanding the drivers of over-indebtedness in the most saturated areas of the country. The ultimate objective was to use this information to help identify effective ways to reduce the incidence of over-indebtedness among microfinance borrowers. The final report was published in 2013 and has given rise to numerous local initiatives to mitigate the risk of over-indebtedness at the level of individual institutions (MFIs) and the whole industry (BlueOrchard Microfinance Investment Managers, 2013). BlueOrchard has not only pioneered the field of commercial microfinance, but has led industrial initiatives to improve and spread best practices and customer protection. It will be argued that the company ranks very high in the Business Sustainability Typology Matrix proposed by Dyllick & Muff in 2015, which will be further elaborated in this paper.

Company History

BlueOrchard Finance S.A. is an unlisted company and was originally incorporated in Geneva, Switzerland on 27th March 2001 as a limited company ("Societe Anonyme"). BlueOrchard Asset Management (Luxembourg) S.A. was incorporated on 26th June 2012 as a limited company. The company also has local offices in Peru (Lima, since 2007), Cambodia (Phnom Penh, since 2010), Luxembourg (since 2012), Georgia

(Tbilisi, since 2013), Kenya (Nairobi, since 2013), and Zurich (since 2014) where it is incorporated now, forming the Headquarter.

BlueOrchard was founded in 2001 by Jean-Philippe de Schreval, Ernst Brugger, and Melchior de Muralt as the first commercial manager of microfinance debt investment worldwide. Jean-Philippe de Schreval is a financial analyst with extensive experience in emerging and developing markets. He is a pioneer in the field of microfinance and before founding BlueOrchard was dedicated to the management of the Dexia Micro-Credit Fund. Ernst A. Brugger is a founding partner and President of BHP – Brugger and Partners Ltd.; a consulting firm specialized in sustainability strategies for private and public organizations. He has consulted for businesses and institutions in Europe, US, Latin America, Africa and Asia for many years. Ernst Brugger's focus is on Sustainability in and through capital markets (http://www.whartonzurich07.com). Melchior de Muralt is a managing partner of Pury Pictet Turrettini & Cie. S.A. (PPT), a prominent independent asset management firm based in Geneva. PPT is a pioneer in the socially responsible investment arena and in addition to BlueOrchard, Melchior de Muralt is a co-founder of the Electrical Investment Company (managers of the EIC Utility and Renewable Energy Funds), and of the Guilé European Engagement Fund, engaged in strategic corporate social responsibility based on the principles of the UN Global Compact. He is also a member of the International Committee of the Red Cross.

With their backgrounds in emerging markets and responsible investments, a belief that sustainable development can be achieved through capital markets, and that private funds can profitably be deployed to address social and environmental issues, they took over the management of the microfinance portfolio of the Dexia Micro-Credit Fund DMCF (later renamed BlueOrchard Microfinance fund in July 2012) with assets under management of $10 million. Jack Lowe, an experienced businessman and a financier, was later appointed as CEO and Roland Dominice as CFO. The company currently has Dr Patrick Scheurle as its Chief Executive Officer (www.blueorchard.com).

Over the subsequent years, BlueOrchard has grown its assets under management significantly, to more than $ 1 billion (estimated as of 31st of August 2015, including advisory mandates) and increased its product range to include several managed funds, mandates and structured products. The company currently employs 60 people, including 27 investment professionals, and through its investment vehicles, has lent funds to more than 300 Micro Financial Institutions (MFIs) in 60 countries throughout the world.

BlueOrchard states its vision as ***"to contribute to building a strong, healthy and sustainable inclusive financial system worldwide that empowers the working poor, and helps them to improve their standard of living and that of their families"*** and its mission *as* ***"to be a leading socially responsible asset manager, providing innovative financing solutions to institutions in emerging markets, and financial and social returns to investors"*** (www.blueorchard.com).

BlueOrchard's Business Model

A good understanding of BlueOrchard's business model can be obtained by looking at the microfinance value chain as shown in the figure below.

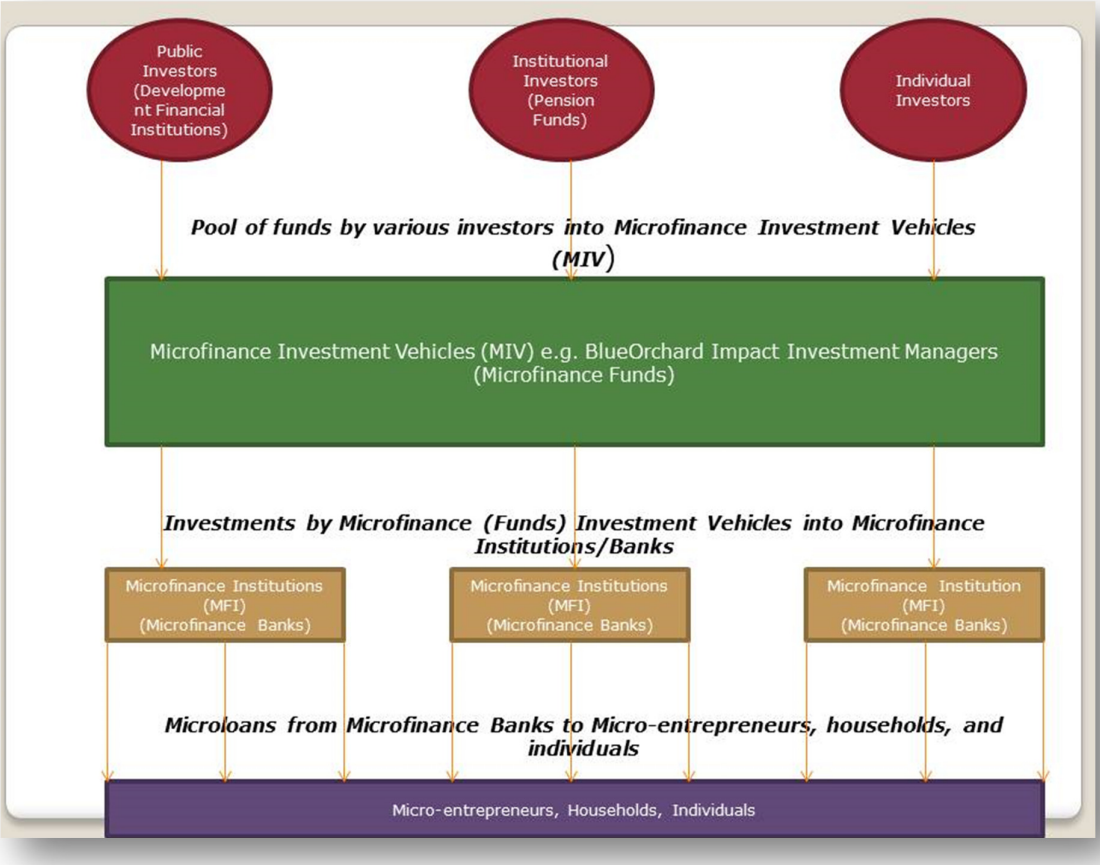


Figure 2. The Microfinance Value Chain– adapted from KPMG, 2010.

Within the microfinance investment space, BlueOrchard acts as an investment manager for Microfinance Investment Vehicles (MIV) creating a bridge between the financial markets and microfinance institutions (MFIs). The business model entails pooling funds from investors such as high net worth individuals, family offices, pension funds and institutional investors like development financial institutions and investing them in Microfinance institutions. Microfinance institutions, then lend these funds to micro and small enterprises and low income households through credits (mainly small micro-credits and micro-loans). Microfinance institutions – whether in the form of not-for-profit organisations, banks, cooperatives, and specialised non-bank financial companies –provide a more formal, efficient and protected means to deliver a full range of financial products to meet the various needs of the poor. Clients of MFIs are ''micro''-entrepreneurs, individuals who run tiny businesses to support themselves and their families, small and medium sized businesses (SMEs) and to a lesser extent, low income salaried workers (www.samaif.com). So far, the company has deployed in excess of $ 3 billion in loans to microfinance institutions, providing access to micro-credit to over 20 million individuals across 60 countries.

BlueOrchard's Sustainability Journey

Due to the nature of its foundation, BlueOrchard's sustainability journey is a bit different from a typical commercial company. As will be explained in later sections of this paper, BlueOrchard was born as a Business Sustainability 3.0 company. The company was created for the purpose of addressing and alleviating some of the most challenging global issues like poverty, unemployment and financial exclusion

using the tools of microfinance. With this in mind, it can be argued that its social and economic missions were clear from the beginning and it did not have to undergo any ***sustainability transformation*** like most commercial companies.

With its social and economic mission well defined and articulated from the onset, the sustainability journey of BlueOrchard can be divided into 3 main phases. The earlier phases involve adapting, replicating and scaling its business and operations to reach more customers in ever more countries. The company later reached out to other players within the financial sector to develop and offer more products. Finally, in order to grow, diversify its reach, and create more impact, BlueOrchard collaborated with major stakeholders like Development Financial Institutions (DFIs) and governments to develop more specialised products aimed at solving some of the difficult issues facing the developing world.

Also, in this section, the social and financial performance of BlueOrchard's investments will be examined; a look will be taken at the frontiers encountered by the company in the course of doing business and the lessons learned. The section will conclude by examining the measures taken by BlueOrchard to consolidate existing business and markets by way of maintaining sustainability along its value chain and the microfinance industry.

Phase I (2001-2004): Adapting, Replicating, and Scaling

After taking over Dexia Microfinance Fund and having proved that private capital can be profitably deployed to address social issues. BlueOrchard concentrated mainly in adapting and replicating the most successful business model, while shunning the lesser ones. During this phase, the goal was to expand the size of the Dexia Microfinance Fund (later renamed BlueOrchard Microfinance Fund) to reach more countries and customers. Building on the success of the BlueOrchard Microfinance Fund, a second fund was launched during this period to expand the product portfolio of the company. Details of the funds launched by the company during this period are as follows:

2001 BlueOrchard Microfinance Fund (BOMF), (formerly Dexia Micro-Credit Fund). The BOMF is a Luxembourg Investment Company (Société d'Investissement à Capital Variable or SICAV) dedicated to direct debt financing of microfinance programs worldwide. The fund, launched in 1998, was the first fully commercial microfinance fund to make loans to microfinance institutions catering to micro-entrepreneurs who otherwise would not have access to financial services. The loans made by this fund have reached over 20 million people in more than 60 countries through disbursements of over 1.1 billion USD (www.mixmarket.org).

2004 BlueOrchard Microfinance Securities 1 (BOMS1). This collateral debt obligation (CDO) closed in two tranches (2004 and 2005) for a total of USD 87 million and financed 14 outstanding MFIs (microfinance institutions) in 9 emerging economies with attractive 7-year loans at fixed rates. These loans were financed through the issuance of notes with different risk and return profiles to investors in the United States and Europe.
This securitization/collateralisation marks an important innovation in the area of microfinance: it is the first time that debt obligations have been issued, backed by a portfolio comprised of loans to microfinance institutions, and was sold exclusively to private institutional and individual investors (www.mixmarket.org).

Phase II (2005-2006): Early Collaborations

The success of BlueOrchard's microfinance products did not go unnoticed by practitioners and players within the financial sector. During this period, BlueOrchard's experience and skills were leveraged by other financial institutions to structure and manage financial products for solving social issues. The company was engaged either as manager, co-manager or advisor of the following funds during this period:

2005 Saint-Honore Microfinance Fund (SHMF). The St. Honoré Microfinance Fund, sponsored by Rothschild Bank and co-managed by BlueOrchard Finance S.A., provides loan capital to funds, second-tier lending institutions, and other organizations providing loans to growing microfinance institutions (www.mixmarket.org).

2006 BBVA Codespa Microfinanzas. The BBVA CODESPA Microfinanzas fund, co-managed by BlueOrchard was created in 2006 arising from a joint venture between BBVA and CODESPA Foundation in the microfinance area. The primary aim of this fund was to foster the development of the microfinance industry in Latin America, channelling the funding for microfinance institutions. The BBVA CODESPA Microfinanzas fund is the first banking investment product in Spain aimed at the development of microfinance in the Latin American region, in addition to being the Spanish market's first free investment fund (www.codespa.org).

Phase III (2006-2015): Collaborations with Governments and Development Financial Institutions

Having established itself and built a reputation as a leader in the microfinance field, the next phase of BlueOrchard's sustainability journey involves collaborating with major stakeholders like governments and other development financial institutions (DFIs) to develop and manage more impactful products. This phase also marks the expansion of BlueOrchard's business activities from microfinance to other areas of impact investment. It can be argued that while governments and development financial institutions have the means, they sometimes lack the skills, experience, expertise, and discipline to address the major social and economic issues facing humanity. In this relationship, various governments provided the funds and leveraged BlueOrchard's skills and expertise. The following financial products were developed during this phase:

2006 BlueOrchard Loans for Development 2006 (BOLD 2006). BOLD 2006-1 is a Collateralized Debt Obligation (CDO) closed by BlueOrchard on April 22, 2006, in partnership with Morgan Stanley and the Dutch Development Bank (FMO). The fund issued bonds to investors, and the proceeds are used to issue a portfolio of loans to a diversified group of microfinance institutions (MFIs), which are retail micro-lenders. The total amount raised was $99.1 million, and loans were disbursed to 22 MFIs in 13 different countries and 5 different currencies (www.microcapital.org).

2007 BlueOrchard Loans for Development 2007 (BOLD 2007). BOLD 2007-1 is a Collateralized Debt Obligation (CDO) closed by BlueOrchard on May 31, 2007, in partnership with Morgan Stanley and the Dutch Development Bank (FMO). The fund issued bonds to investors, and the proceeds are used to issue a portfolio of loans to a diversified group of microfinance institutions (MFIs), which are retail micro-lenders. The total amount raised was $110.1 million, and loans were disbursed to 20 MFIs in 12 different countries: Azerbaijan, Bosnia, Cambodia, Colombia, Georgia, Kenya, Mongolia, Montenegro, Nicaragua, Peru, and Russia (www.microcapital.org). Two tranches of the bonds issued for this product was given a rating by Standards & Poor's. It was a first for a microfinance transaction of this nature to be rated by a mainstream rating agency. The rating of these notes put the microfinance sector on the map of mainstream private

investors, opening it up to investors who were unable to buy unrated products (Brugger, Fanconi & de Muralt 2016 p. 58).

2009 Microfinance Enhancement Facility (MEF). Co-advised by BlueOrchard Finance S.A., Cyrano Management S.A. and ResponsAbility Investments AG), the MEF's objective is to ensure that microfinance continues to stimulate growth, create jobs and reduce poverty in emerging markets. Initiated in February 2009 by The German Development Bank - KfW Entwicklungsbank ("KfW") and International Finance Corporation ("IFC"), a member of the World Bank Group, Microfinance Enhancement Facility S.A., SICAV-SIF ("MEF") was set up in February 2009 and has been designed to support the microfinance institutions facing difficulties in securing financing by providing them with much needed financing at a time when investment was in high demand but finance was in low supply. The idea was to provide liquidity to the microfinance market in order to counterbalance the withdrawal of private investors that were affected by the financial crisis of 2008-2009 and could not spare funding and resources to invest in emerging economies and alternative asset classes such as microfinance. MEF has now reached the size of $ 700 million and is one of the largest microfinance vehicles (Brugger, Fanconi & de Muralt 2016 p. 59).

2010 Microfinance Growth Fund (MiGroF) – The ''Obama'' fund for Latin America. Advised by BlueOrchard, MIGROF is a lending facility for microfinance institutions in Latin America and the Caribbean, providing medium- and long-term loans throughout the region. MIGROF invests in senior debt of established MFIs and expects to reach approximately 4.5 million poor and low-income clients, about 55% of whom are expected to be women. The MiGroF project was announced by US President Barack Obama during his speech at the 5th Summit of the Americas in Port of Spain, Trinidad and Tobago. The project was designed in response to an urgent need to finance funding gaps of MFIs in Latin America in the wake of global financial crisis. The Inter-American Development Bank is the sponsor of the fund. Other large investors in the fund are The Norwegian Microfinance Initiative, The Inter-American Development Bank's Multilateral Investment Fund, Banamex (the Mexican affiliate of Citigroup), the Overseas Private Investment Corporation, the Corporación Andina de Fomento, Inter-American Investment Corporation, and ACCION International.

2013 Microfinance Initiative for Asia (MIFA). Advised by BlueOrchard, the MIFA Debt Fund, an initiative of MIFA, is a project of the International Finance Corporation (IFC), KfW Bankengruppe (German Development Bank), Federal Ministry for Economic Cooperation and Development (BMZ in German). The objective of the fund is to increase financial access for micro-borrowers and low-income households in Asia. The fund offers market-based debt financing and supports capacity building among financial entities that serve micro-entities. As of 30 September 2015, MIFA's asset under management is over $ 135 million and the fund has disbursed about $ 131 Million in 70 loans to more than 42 MFIs in 12 countries. So far, the MFIs in the MIFA portfolio have reached more than 6 million micro-entrepreneurs, with female micro-entrepreneurs representing 70% of all clients (Brugger, Fanconi & de Muralt 2016 p. 61, 62).

2014 Regional Education Fund for Africa (REFFA). Managed by BlueOrchard, REFFA is a unique thematic fund designed to address the needs of the education sector in Africa. The purpose of the fund is to provide customised financial services for the educational sector by supporting secondary, higher and vocational education in Africa. Besides actual investments, the fund also provides dedicated technical assistance and capacity building to REFFA investees. KfW on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) made an initial equity investment of EUR 15 million to sponsor REFFA Fund and the target fund size is $ 70 million. This investment will be used to provide funding to a number of African financial intermediaries (banks, microfinance institutions, NGOs, etc.) that have an existing education portfolio targeting secondary and tertiary schools and/or students.

2015 Climate Insurance Fund (CIF). Co-managed by BlueOrchard and CelsiusPro, The CIF is an unprecedented thematic fund designed to reduce the vulnerability of micro, small and medium enterprises as well as low-income households to weather-related threats. The frequency and severity of weather fluctuations have and continue to increase substantially as a result climate change. Developing countries with limited coping capacity are particularly affected by these events and the losses they cause. The objective of the Climate Insurance Fund is to contribute to the adaptation of climate change by improving access to and the use of insurance in the developing countries and emerging markets. To that end, the Climate Insurance Fund provides financing to qualified insurance companies and intermediaries based in developing countries that offer insurance solutions against extreme weather events/natural catastrophes and/or agricultural insurance. The Fund was set up in 2013 by the KfW Development Bank, on behalf of the German Ministry for Economic Cooperation and Development (BMZ). Currently, $ 60 million has been committed for investments and EUR 17.5 million for technical assistance (BlueOrchard Impact Investment Managers, 2015).

Having had a look at the various microfinance products either managed or advised by BlueOrchard, the next section of this paper will examine the social and financial performance of these products especially the company's flagship fund called the BlueOrchard Microfinance Fund.

Performance

As an impact investor, the performance of BlueOrchard should be measured both by the economic and social values created for its investors and for society, this is usually referred to as '***the two sides of the microfinance coin'***. Here, we take a look at both social and financial returns created by the BlueOrchard Microfinance Portfolio.

Social values created- the positioning of BlueOrchard in the Microfinance Value Chain as an intermediary means that is not in direct contact with the final beneficiaries of the micro-loans (micro-borrowers). A good way of measuring the social returns (impacts) of its loans is to look at the changes these micro-loans make in the lives of the clients of its investee microfinance institutions (MFIs). Below are some examples:

Nylsa: Fruits and Vegetables in Cali, Colombia. Nylsa runs a fruit and vegetable stand in the Alameda Geleria, one of the main markets in Cali, Colombia. She offers everything the region has to offer, pineapple, bananas, peppers, tomatoes, green beans, lulos etc. She has many loyal customers and enjoys the market's busy atmosphere. Every day, she starts work at 4 am to prepare her stand for her first customers. She has two sons, aged 12 and 19. An initial loan of 1 million pesos (approximately $ 550) she received in 2008 from an investee MFI of a BlueOrchard fund helped her jump-start the stand. Her current loan amounts to 10 million pesos. Investing the loan in her business has allowed her to increase her sales and send her son to university. She plans to do the same for her second son and perhaps hire an employee to help her with her stand (http://www.blueorchard.com/client-stories).

Katanga: Making drums in Kabwe, Zambia. Katanga learned the art of playing and constructing traditional drums from his father. In his workshop, he builds drums, marimbas and other folklore instruments. His three children now help him in his work and his daughter Orica co-manages the Katanga foundation with him which trains young musicians. To build his drums, he collects wood, cuts and moulds it before covering it with skins. He also heads a musical group and promotes folkloric music. He received a first loan, worth approximately $ 1,700, in 2011 from an investee MFI of a Blue Orchard fund which he since repaid with interests. He presently holds a loan of the equivalent of $ 5

700. These credits allowed him to buy raw materials and utensils to build his instruments and to promote his enterprise. *"I'm delighted to promote the culture of my ancestors and to do so with the support of a grass-roots financial institution. I would like to show my work internationally*'', says Katanga (http://www.blueorchard.com/client-stories).

Nana Muradeli, Nukriani, Georgia. Nana, a client of FINCA of Georgia an investee MFI of BlueOrchard, lives in Nukriani, a village in Signagi municipality in Georgia. Over the years, she owns a family handicrafts business and manufactures felt rope products. Her husband is a craftsman and drives a cab as well. In 2012, she took her first loan from FINCA Bank and has been a loyal borrower ever since. Her first loan was GEL 1 600 (approximately $ 915) and she used it to set up a sales shop in the centre of Signagi. Nana's family also got involved in cattle-breeding, pig farming, wine-growing and besides developing her handicrafts business she has used FINCA Bank's loans to expand their family farm. Her husband, who is also a client of the bank used loans from FINCA Bank to finance his cab business and repaid fully before Nana took the loan to start the felt business (BlueOrchard Microfinance Investment Managers, 2014).

Ahmo: 2 tons of honey per year, Bosnia Herzegovina. Following in the footsteps of his father, Ahmo is a beekeeper in Bosnia Herzegovina. He learned how to care for the bees and extract the honey as a young boy. With loans from the local MFI (an investee of a BlueOrchard fund), he has bought 80 bee colonies and hives and now produces two tons of honey per year, nearly 4 times more than before. With the additional income, he has been able to install better heaters in his house and save some money he plans to use for his grandchildren's studies (http://www.blueorchard.com/client-stories).

From the information above, it can be seen that BlueOrchard, with its investments, have empowered people in different parts of the world, it can be argued that without such loans, most of these people would have remained in poverty. Having had a look at some of the social values created by BlueOrchard, we will now look at the **economic values created** by the company, the other side of the microfinance coin.

Financial performance. The financial success of BlueOrchard should be measured by the financial performance of the vehicle through which it carries out its mission. To do this, we will take a look at the performance of its flagship fund, the BlueOrchard Microfinance Fund.

In its offering document (fund prospectus) and other documentations required by law for the distribution of investment funds, the BlueOrchard Microfinance Fund targets a return of USD 6M Libor + 300-400 basis points per annum (3% – 4% above the US dollar London Inter-Bank Offered Rate - the interest rates at which banks lend to one another). We will now take a closer look at the performance of the fund since its inception to see if this performance target is being realised by looking at the fund's history presented graphically and in numbers:

Performance of BlueOrchard Microfinance Fund

Fund statistics (since fund inception) 1)

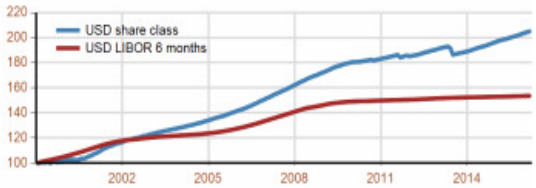
Annualized return	*4.29%*
Average monthly return	*0.35%*
Best month (Dec 2000)	*1.23%*
Worst month (Feb 2013)*	*-2.68%*
Standard Deviation	*1.22*
Sharpe Ratio (risk-free rate of 2.4%)	*1.52*
Correlation with MSCI World	*-0.06*
Correlation with JP EMBI Global	*0.07*
Correlation with 6-month USD Libor Index	*0.40*

*due to provisions on loans to MFIs in Andhra Pradesh

Performance

	USD	EUR	CHF
Share Value (Class I Shares)	10,778.86	10,725.51	10,607.84
Monthly return	0.34%	0.26%	0.20%
Return on investment YTD	3.13%	2.71%	1.93%
Since inception (annualized)	3.83%	3.57%	3.00%
Since inception (total return)	7.79%	7.26%	6.08%
Inception date Class I	Oct 13	Oct 13	Oct 13

Performance history 1)



Monthly performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
USD share class 2015	0.32%	0.30%	0.29%	0.28%	0.29%	0.34%	0.33%	0.35%	0.25%	0.34%		
EUR share class 2015	0.31%	0.27%	0.27%	0.21%	0.24%	0.31%	0.28%	0.31%	0.22%	0.26%		
CHF share class 2015	0.18%	0.15%	0.15%	0.14%	0.18%	0.23%	0.21%	0.25%	0.23%	0.20%		

Annual performance 1)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
USD share class	*7.02%*	*4.89%*	*4.15%*	*5.01%*	*5.70%*	*7.49%*	*6.98%*	*6.06%*	*2.95%*	*2.09%*	*1.00%*	*3.28%*	*-0.67%*	3.78%	3.13%
USD LIBOR 6 months	3.67%	1.87%	1.25%	1.82%	3.78%	5.27%	5.21%	3.06%	1.09%	0.52%	0.51%	0.68%	0.41%	0.34%	0.37%
EUR share class				*5.47%*	*4.61%*	*5.31%*	*5.57%*	*6.41%*	*3.09%*	*2.01%*	*1.37%*	*2.84%*	*-1.06%*	3.71%	2.71%
EUR LIBOR 6 months				2.14%	2.23%	3.24%	4.35%	4.76%	1.39%	1.04%	1.59%	0.74%	0.25%	0.27%	0.05%
CHF share class		*2.43%*	*3.12%*	*3.80%*	*2.97%*	*3.59%*	*3.52%*	*4.91%*	*2.43%*	*1.69%*	*0.29%*	*2.58%*	*-1.19%*	3.39%	1.93%
CHF LIBOR 6 months		1.23%	0.39%	0.60%	0.87%	1.66%	2.64%	2.69%	0.49%	0.27%	0.18%	0.15%	0.08%	0.07%	-0.56%

*YTD as of 30 October 2015

1) Performance history for Class I Shares (in italics) calculated using realized gross performance of Class P Shares and current management fees for Class I Shares (until 31 Oct 2013); from 1 Nov 2013 effective net performance of Class I Shares

Figure 3. Performance of BlueOrchard Microfinance Fund. Source: http://www.blueorchard.com/

A look at the data provided above shows that the BlueOrchard Microfinance Fund not only meets its promised returns of 6M Libor +3%-4% but has consistently outperformed this benchmark. Since inception, the fund has posted an annualised yearly return of 4.29% and average monthly returns of 0.35%. On a share class level, the USD share class has posted between 7.02% and 3.13% since inception compared to its benchmark 6M USD Libor, which has a return of between 3.67% and 0.37%. The EUR share class of the fund equally has a good performance, posting a positive return of between 5.47% and 2.71% compared to the EUR 6M Libor, which returned between 2.14% and 0.05% within the same time horizon. The CHF share class of the fund posted equally good performance, returning between 2.43% and 1.93% since inception. This performance compares favourably better to the benchmark CHF 6M Libor, which returned between 1.23% and -0.56% within the same time frame.

From the information above, it can argued that BlueOrchard Microfinance Fund has produced healthy and consistently positive returns for its investors. With a negative (-0.06) correlation to the MSCI World Index (an index of large and mid-cap companies in 23 developed market countries); and low correlation to both

the JP EMBI Global Index (JP Morgan Emerging Markets Bond Global Index) and 6M USD Libor Index of 0.07 and 0.4 respectively, returns on the BlueOrchard Microfinance Fund have remained positive and stable as disruptions and "noise" in the market has minimal effects on it.

Though past positive performance of any financial instrument or manager does not guarantee similar future performance, the fact that the fund has returned an annualised 4.29% since inception shows that this did not happen by accident. The fund has even done better on currency share class basis with the USD, EUR, and CHF share classes posting total returns of 7.79%, 7.26%, and 6.08% (total returns = capital appreciation plus dividends) respectively since inception. In an environment of low interest rates and negative bank deposit rates, it can be argued that a fund such as BlueOrchard Microfinance Fund with its steady positive and low-volatile returns will be appealing even to investors seeking only financial returns. Since inception, the fund has performed well with 2013 being the only year of negative returns. This negative return in 2013 wasn't a result of bad judgment by BlueOrchard fund managers, but as a result of the impact of the Indian Microfinance crisis which will be explained later in this document.

Frontiers Encountered and Lessons Learned

Having had a look at the financial products developed by BlueOrchard since inception and the social and economic values created by these products, this section will start by exploring the frontiers encountered by BlueOrchard in the course of its business operations and lessons the company learned from them. In the next section we will examine the measures taken by BlueOrchard to preserve its market base by ensuring sustainability within its value chain and the microfinance industry in general.

The story and history of BlueOrchard has not always been rosy, like any other player in the financial market and like any other company doing business in developing countries, BlueOrchard has had its fair share of challenges. It can be argued that the story of the microfinance industry will be incomplete without the crisis that engulfed the industry in India in 2010. This crisis was not only a bitter lesson for the industry, but nearly brought the industry to its knees, tarnished its image and damaged its reputation. It made people question the sustainability of and mission of the microfinance industry as a mechanism for financial inclusiveness and serving the poor.

The background of the crisis can be traced to the rapid growth of the microfinance industry, poor governance, political interference and competition between state-supported financial groups (Self Help Groups – SHGs) and Microfinance Finance Institutions – MFIs in India, especially the Indian state of Andhra Pradesh.

Andhra Pradesh in southeast India is the fifth most populous of India's 28 states, with 75 million inhabitants. Historically, the government of the state has taken measures and large-scale projects to fight poverty, the most prominent being the Society to Eliminate Rural Poverty (SERP). The SERP project encouraged the formation of Self Help Groups (SHGs) as a means to extend training and other nonfinancial services to rural areas, some SHGs also mobilised savings and made loans to members. The success of SHGs in providing loans and other financial services to their members and the wider society led to the proliferation of SHGs in the State of Andhra Pradesh reaching 4.5 million SHGs with 58 million members in 2010 (CGAP, November 2010).

Economic reforms in India in the 1990's opened up space for the private sector to play a larger role in the banking system. This reform led to the emergence of a new breed of Microfinance Institutions (MFIs) which originally operated as non-profit societies and other ownerless legal forms. These new breeds of MFIs soon transferred their operations into for-profit, non-bank finance companies (NBFCs). According to

a document published by the Consultative Group to Assist the Poor (CGAP Group) in 2010, the transformation of these MFIs from non-profits to for-profit NBFCs was complicated and left the companies with unclear voting rights or influence and led to wider governance issues. Despite the complicated transition and governance issues, these MFIs enjoyed rapid growth and were very successful both in serving the poor and in financial profitability.

The proliferation of microfinance institutions (MFIs) and self-help groups (SHGs) and the increased competition between them led to high availability of loans to borrowers. There were cases of multiple borrowing by borrowers between multiple MFIs and SHGs leading to cases of over-indebtedness. Also, there were reported cases of the use of unethical means and practices to recover over-due loans and suicides among borrowers who could not repay. The situation was not helped by the presumed extravagant and luxury lifestyles of MFI employees and owners in Andhra Pradesh. Questions began to arise as to whether MFIs are means of financial inclusion or just another way of making money from the poor?

The issues of over-indebtedness, use of unethical means for loan collection, high interest rates, and exploitation of the poor led to an intervention by the government of the State of Andhra Pradesh. In early October 2010, the Chief Minister of the state passed "an ordinance to protect women self-help groups from exploitation by the microfinance institutions in the State of Andhra Pradesh''. The conditions imposed by this ordinance on MFIs include district-by-district registration, requirements to make collections near local government premises (as against collection in villages), and a shift to monthly (as against weekly) repayment schedules, amongst other measures. This ordinance contributed to an environment where MFI ground-level operations were impeded, and loan collection for MFIs in Andhra Pradesh dropped dramatically. Politicians in the state also did not help matters by their populist pronouncements against MFIs, which was received by clients of MFIs as government support, not to repay loans, clients started questioning their obligations to repay, MFI staffs were intimidated and loan collections and repayments dropped dramatically.

In the face of low loan collections, MFIs in the state of Andhra Pradesh found it difficult to refinance their loans with banks, Microfinance Vehicles (MIVs), and other investors or to raise new equity. The situation got to the point that some MFIs were unable to renegotiate their financing and became illiquid and insolvent and had to close down, those that survived had to scale down their operations dramatically in the state. Investors including microfinance investment vehicles (MIVs) and commercial banks that provided capital for MFIs in the State of Andhra Pradesh suffered not only financial but also reputational issues. The poor borrowers did not fare better either as this resulted in the disappearance of a credit service that they had come to view as reliable in their otherwise uncertain lives (CGAP, November 2010).

Like any other Microfinance Investment Vehicle operating in India, especially in the State of Andhra Pradesh, the 2010 microfinance crisis affected BlueOrchard's investee companies and hence some BlueOrchard microfinance funds either financially or reputationally. This single event not only resulted to significant financial losses and nearly tarnished the image of the Microfinance Industry, it also led to a wide variety of industrial and sectoral initiatives to avoid future recurrence.

Though one of the funds managed by BlueOrchard had investee MFIs located in Andhra Pradesh, the company suffered minimal financial loss as compared to other players in the state. In an interview with the author and BlueOrchard's Chief Executive Officer Dr Patrick Scheurle on the 16th of June 2015, he attributed this to the industry experience and investment practices embedded in BlueOrchard's business strategy. As a matter of practice, diversification, and risk mitigation, country allocation and even regional allocation within countries are restricted so it can manage and absorb losses without much impact on the

funds and the company even in situations like that in Andhra Pradesh. Finally and most importantly, BlueOrchard's funds did not suffer huge cash outflows during the 2010 Andhra Pradesh crisis mainly because their investors have a long term view of the market and did not engage in herd behaviour usually seen in crisis situations in the financial sector.

BlueOrchard has from the onset maintained a strict assessment of social, environmental and governance (ESG) criteria before providing loans to MFIs. The fallout from the microfinance crisis in Andhra Pradesh only helped to strengthen these criteria. Even before this crisis, BlueOrchard's proprietary Social Performance Impact Reporting & Intelligence Tool (S.P.I.R.I.T.) which is used to assess potential investees is strict on issues such as employee protection, environmental issues, and over-indebtedness. As a part of the lessons learned from the crisis, the latest version of SPIRIT went further to make sure employees and borrowers of investees and potential investee MFIs are protected.

In an interview by the author with BlueOrchard's Head of Social Performance Management Lisa Sherk on the 19th of June 2015, she said that the company not only has strict social, environmental, and governance criteria for initial assessment of investee MFIs but also regularly monitors investees to make sure that these are implemented on an ongoing basis with site visits. She went further to state that investee MFI are assigned risk profiles on which site visits and monitoring are based. MFIs are visited at least once every 3 years with those classified as high risk visited at least once a year to make sure issues such as employee's and borrower's protection are properly implemented. On the industry level, BlueOrchard has collaborated and led initiatives with other players within the Microfinance Investment space to address the issues of multiple borrowing and the attendant over-indebtedness; this they believe will clean up the industry and make it not only financially but also socially sustainable.

Maintaining Sustainability across the Value Chain

Because of the nature of the microfinance value chain and its positioning within this value chain; BlueOrchard is not in direct contact with the final recipients of the micro-loans. In order to make sure that both the social and financial goals of its investments are realised and that clients and employees are respected and protected, BlueOrchard has implemented some measures and has continuously improved and strengthened them to ensure sustainability within the microfinance value chain it operates. This section takes a detailed look at those measures.

To ensure that its goal of financial inclusion is achieved and that financial access and other services that will enable the poor to improve their lives are provided, financial and social performance are integrated into BlueOrchard's investment process and all investees (MFIs) are assessed with its social performance tool SPIRIT. Using SPIRIT, BlueOrchard assesses and monitors investees in the following areas aligned with the Universal Standards of Social Performance (USSP) and Promoting Environmental Protection, the best practice initiatives in the microfinance industry:

Define and monitor social goals. As social performance can be defined as the effective translation of an institution's mission into practice in line with accepted social values, BlueOrchard starts its assessment of potential investees by looking at their mission statement and how they intend to implement it. The following key elements are looked at when assessing an investee's social goals:

- Does the MFIs mission statement clearly identify its target market, how it aims to serve this market and what social outcomes it hopes to achieve?
- Are specific, measurable social goals included in business planning?

- What is the MFI's actual outreach and does this match its mission statement?
- Does the MFI actively monitor their clients' progress over time?
- Has an objective third party validated the MFI's social performance management – through a social rating, social audit or external assessment?

Ensure board, management and employee commitment to social goals. In this area, BlueOrchard looks at what measures an MFI has taken to ensure that the board, management and staff are able to effectively put the MFI mission into practice. Is there a board or management level committee for social performance management and/or a "social performance champion'' on the board? Does senior management address social performance issues specifically and in a systematic fashion? Do incentives for field staff emphasise quality as much as growth?
Example: Banco FIE in Bolivia was one of the first MFIs financed by BlueOrchard-managed funds. It has shown a strong commitment to social performance since its inception as an NGO in 1985, a commitment it has continued to demonstrate after its transformation to a fully licensed bank in 2010. Banco FIE reaches nearly 250 000 borrowers and 800 000 savers through its nationwide network of branches, the most extensive in Bolivia. The bank's structure is designed to explicitly address Social Performance issues at all levels of the organisation and maintain staff, management and board alignment with its mission. The Deputy President of the board for instance is in charge of leading and monitoring the Corporate Social Responsibility (CSR) efforts of the bank. He meets twice annually with the bank's CSR committee, set up at the management level and presents CSR advances to the board and audit committee.

Design products, services, delivery models and channels that meet clients' needs and preferences. This particular area is allocated one of the highest weightings in SPIRIT, according to BlueOrchard: ''it is, after all, the substance of what client-focussed microfinance offers – services and products that meet the needs of lower-income populations that have traditionally been excluded from mainstream banking services''. What is assessed in this area is the range of services an MFI provides, both financial and non-financial, and how these services are delivered. Does the MFI offer differentiated credit products to meet client needs, while maintaining a balance appropriate to MFI's capacities? Does it provide savings, insurance, remittances, and/or payment services? Does it provide services that help the MFI's target clientele use the financial products more effectively, such as financial education, business development services, as well as general well-being, such as health? Does the MFI actively solicit client feedback and incorporate it systematically to make sure products are meeting the client's needs?
Example: Crezcamos – Colombia. Crezcamos in Colombia, a borrower from BlueOrchard-managed funds since 2011, is an MFI that stands out for its strong commitment to provide appropriate products and services to low income groups in rural areas in the country's North East. Crezcamos currently provides credits to nearly 70 000 borrowers, with almost 60% located in rural areas. Responding to the specific risks faced by agricultural producers, the company is currently piloting an innovative crop insurance product for clients in its Rionegro branch. With its initial target market comprised of its 9 000 agriculture borrowers, the MFI believes that more than 250 000 agricultural producers in the region could benefit from crop insurance.

Treat clients responsibly. Although 86% of MFIs financed by BlueOrchard managed funds endorsed the Smart Campaign's Client Protection Principles (The Smart Campaign is a global campaign committed to embedding client protection practices into the institutional culture and operations of the microfinance industry (http://www.smartcampaign.org/about)), Blueorchard takes a detailed look at the policies and procedures of the MFIs to see how they incorporate the fundamental principles of responsible lending into their policies and procedures. A strong emphasis is put on the rigour of the MFI's underwriting procedures as this it is a critical process to prevent over-indebtedness of clients. A higher score in this

section of SPIRIT is given to MFIs that have been Smart Campaign certified or have received strong assessments in the area of client protection in a rating, social audit or other formal third party review.

Treat employees responsibly. The way an organisation treats its employees reflects a lot at its dedication to social responsibility and assessing MFIs policies towards staffs is an important element of SPIRIT. Microfinance institutions offer attractive local employment opportunities and can also set a positive example for other employers in a country. In this section of the assessment, BlueOrchard looks at how human resource policy is formalised and communicated to staff, if it provides equal opportunity to all and has appropriate training. A look is also taken on staff turnover, how MFIs evaluate and compensate their personnel and if they provide them with opportunities for advancement within the organisation.

Balance financial and social performance. This section is based on the argument that strong financial and social performance can exist side by side, and in many instances enhance one another. An institution that has a stable financial foundation will be able to expand its services to meet the needs of more clients that need its service and provide the confidence to its clients that it will be around over the long term. By the same token, an institution that demonstrates that it cares about its clients' well-being, passes along financial benefits to its clientele and shows commitment to helping develop the wider community can maintain greater client loyalty and more reliable demand for its services into the future. In this section, MFIs are assessed on how they aim to maintain a balance between their financial bottom line and their commitment to serve their clients. Do they pass along efficiency gains through better pricing on products and lower interest rates? Do they maintain reasonable levels of compensation for executives and senior management? Do they contribute to wider community development?

Promote environmental protection. Nearly all institutions financed by BlueOrchard funds have exclusion lists that prohibit financing activities that are particularly harmful to the environment, such as large scale drift net fishing, use of particularly hazardous chemicals or radioactive materials. In this section, BlueOrchard looks at whether the MFI has a comprehensive environmental policy and if it offers specific "Green Loans'' for financing of energy saving or otherwise ecologically friendly products. Promoting the use of energy saving products not only encourages environmental protection, but also brings cost savings and health benefits to clients, making it an ideal microfinance product (BlueOrchard Microfinance Investment Managers, 2015). Besides assessing prospective investees based on these values, Blue orchard does conduct site visits to its portfolio companies to monitor the ongoing implementation of these values.
Having had a look at the sustainability journey of BlueOrchard, the next section of this paper will take a look at how the corporate culture and leadership of BlueOrchard encourages or stifles sustainability by detailing the result of a survey conducted on a selected number of BlueOrchard employees (The survey methodology is detailed in Appendix I and II of this paper).

Employee Survey

As part of the case study, a sustainability-related survey was conducted with the employees of BlueOrchard using the Sustainability Culture and Leadership Assessment (SCALA) methodology. ''*The purpose of The Sustainability Culture and Leadership Assessment (SCALA) is to provide companies with information about their organisation's current capacity for executing sustainability strategies. The assessment is based on data regarding the cultural characteristics that distinguish companies that have demonstrated leadership in sustainability.*

The results of the assessment can be used to:

- *Assess levels of change readiness to support sustainability*
- *Measure levels of agreement and variation in perception across stakeholder groups*
- *Identify areas of particular strength that can be leveraged to meet sustainability goals*
- *Detect areas of possible concern that could be addressed to support sustainability goals, "(SCALA; the Sustainability Culture and Leadership Assessment Pilot, 2015)*".

The survey is comprised of 41 questions aimed at getting an insight into the company's leadership and sustainability culture. 9 employees were chosen by BlueOrchard from different locations to participate in the survey. A breakdown of the participants, their roles within BlueOrchard, their location and seniority are as follows:

- ***Rank –*** 2 senior management staffs, 1 mid management staff, 6 non-managerial staffs
- ***Functions*** – 1 HR staff, 1 Risk Manager, 4 Operations officers, 3 Investment Managers
- ***Location*** – 2 located in Luxembourg, 2 in Switzerland, 1 in Peru, 3 located in Georgia, and 1 Located in Cambodia.
- ***Sex*** – 3 of the participants are male and 6 are female
- ***Age Range*** – 4 of the participants are between 20 and 30 years old, 4 of them are between 31 and 40 years old while 1 one of them is between 41 and 50 years old.

SCALA is organised around six indices:

1. Organisational leadership
2. Organisational systems
3. Organisational climate
4. Change readiness
5. Internal stakeholders
6. External stakeholders

To understand a subject company's data, each item in the index is analysed. In general, items with large percentages in either the ''disagree'' categories, or the ''neither agree nor disagree'' category might indicate some vulnerability. For each item, the mean response from BlueOrchard was compared to a benchmark considered relevant to the company. For the purpose of this survey, the benchmark used are the HBS Mean which comes from the original study of 80+ global companies, and the Bank Mean which is also from the original global study but only includes data from banks. *Ordinarily, BlueOrchard should be compared to a benchmark of either Microfinance Investment Vehicles or Private Equity Companies whose business models and size are comparable to that of BlueOrchard but no such data could be provided by SCALA. This being the case, it can be argued that the Bank Mean is more relevant to BlueOrchard, although BlueOrchard should perform significantly better than the commercial banks included in the Bank Mean*.

Having introduced the SCALA survey, we will now take a look at the responses. To gain a deeper insight into the company's sustainability culture and to measure levels of agreement and variation in perception across stakeholder groups within BlueOrchard, the responses of staff-level employees are compared to those of the management level. More emphasis is placed on the level of agreement or variation within the company as BlueOrchard is expected to perform better than the relevant Bank benchmark. Moreover, the purpose of the survey is to understand the company's organisational and cultural characteristics and how they may foster or hinder sustainability-related initiatives.

Depending on the nature of the question, a lower mean score (lower variability in opinion) is regarded as better and more in agreement, this should help the reader understand the analysis of the SCALA survey conducted on BlueOrchard employees.

Care should be taken when interpreting the result of the survey as the number of participants used for the survey is quite small compared to the actual number of employees within BlueOrchard (very small sample size). Also, there is no proof that the participants were randomly selected and as such, the result may not correctly reflect the true culture of BlueOrchard or the opinion of BlueOrchard's employees.

Organisational Leadership. When asked if the leaders of the company have a clear vision for sustainability, 44% of respondents strongly agreed, 33% agreed, and 22% neither agreed nor disagreed. Within BlueOrchard, the mean score for management level participants is 2.00 while staff level respondents scored 1.67. With a lower mean score (lower variation in opinion), it seems that while most employees of BlueOrchard agree that the management of the company has a clear vision for sustainability, those at the staff level agree more. This is a bit surprising as such topic which is at a strategic level should ordinarily emanate from, and be led by management.

When asked if the leaders in the company are able to inspire others about sustainability-focussed issues and initiatives, 38% of respondents strongly agreed, 38% agreed, 13% neither agreed nor disagreed while 13% disagreed. With a mean of 2.00 for both management and staff-level respondents, there seems to be a company-wide agreement about the ability of BlueOrchard's management to inspire others on sustainability-focused issues and initiatives.

Organisational systems. When asked if the company has embedded sustainability into the operating procedures and policies, 44% of respondents strongly agreed, 11% agreed, 33% neither agreed nor disagreed while 11% disagreed. Within the company, the mean response of management-level participants was 2.00 while that of staff level respondents was 2.17; it seems here that management-level employees have a better grasp of operating procedures of the company than their staff-level colleagues. Of significance here is the percentage of respondents that neither agreed nor disagreed (33%), and those that disagreed (11%). According to SCALA, the high proportion of respondents that fall into this category might indicate some organisational issues; this may also be due to the small sample size used for the survey.

When asked if their organisation has an enterprise-wide management system for sustainability, 75% of respondents answered yes, while 25% of the respondents said that the company doesn't have such system in place. The mean response for management and staff participants are 1.33 and 1.20 respectively, indicating that there is more agreement on the management level in this topic.

Organisational climate. A question was posed to inquire whether the climate within BlueOrchard hinders or promotes sustainability-related goals. Trust within an organisation is important for it to prosper as a business, especially in the area of sustainability. When asked whether the level of trust is high within the organisation, 56% of the respondents strongly agreed, none agreed, 11% neither agreed nor disagreed and 33% disagreed. Within the company, the mean response from staff-level employees is 2.5 while that of the management level respondents is 1.67. The significant difference in response between staff and management to this question might indicate an element of organisational vulnerability. Also, a significant number of respondents fall into the neither agreed nor disagreed, and disagreed category. It seems that either the management and the staff level employees have different understanding and interpretations of what trust is, or there may be a trust issue (real or perceived) within BlueOrhcard. Also, it may be due to

communication and other organisational issues or the small sample size used for the survey which may impact the results.

When asked if continual learning is a core focus of their organisation, 33% of respondents strongly agreed, a further 33% agreed, while 33% neither agreed nor disagreed. In this topic, the mean score of management level respondents is 1.67 while the staff-level respondents have a mean of 2.17. Again, there is a significant difference in opinion between staff and management; it may be that both levels have different view of what continuous learning is. As obtained in some organisations, staff may favour external training while management may think that the best trainings are those provided in-house and which they consider most relevant to the job.

Change readiness. On change readiness, when asked if the company has a strong track record of implementing large-scale changes successfully, 44% of respondents strongly agreed, 11% agreed, 33% neither agreed nor disagreed while 11% disagreed. There is a significant variation of opinion between the management and staff level participants on this topic, the mean score of management level respondents is 1.67 while that of the staff level is 2.33.

On small and incremental projects, 56% of respondents strongly agreed, 22% agreed, and 22% neither agreed nor disagreed when asked if BlueOrchard has a strong track record for implementing small and continuous change successfully. Again, there is a significant difference of opinion between management and staff level respondents in this topic with mean response of 1.33 and 1.83 respectively.

Internal Stakeholders. On whether the company has a clear strategy for engaging all internal stakeholders in its sustainability efforts, 22% of the respondents strongly agreed, 33% agreed, 22% neither agreed nor disagreed while 22% disagreed. There is a small variation of opinion here between management and staff level respondents with mean scores of 2.33 and 2.5 respectively. However, a significant number of the respondents neither agreed nor disagreed, or disagreed that BlueOrchard has a strategy in place for engaging internal stakeholders again indicating some organisational or information issues. Here again, the small sample size used and the non-random way through which survey participants were selected may have impacted the result

Asked if the employees believe that the company values them and their contributions, 33% of respondents strongly agreed, 33% agreed, 11% neither agreed nor disagreed while 22% of the respondents disagreed. With a mean of 2.22, BlueOrchard scored lower than the HBS benchmark which has a mean score of 2.02 and slightly better than the Banking benchmark with a mean of 2.33. The staff-level respondents with a mean response of 2.5 seem to agree less here with their management-level colleagues with a mean of 1.67. BlueOrchard's performance of this index may not be surprising as employees, especially those at lower organisational level tends to associate their employer's appreciation of them with high salaries and other monetary compensations. Moreover, salaries at socially focused companies like BlueOrchard tends to be lower compared to those of traditional financial institutions.

External stakeholders. On whether the company has a mechanism in place to actively engage with external stakeholders about its sustainability efforts, 22% of the respondents strongly agreed, 44% agreed while 33% of respondents neither agreed nor disagreed. The mean score of staff-level respondents to this question is 2.17 while management level respondents have a mean score of 2.00.

Asked if the company encourages sustainability in its supply chain, 33% of respondents strongly agreed, 33% agreed while 33% neither agreed nor disagreed. The mean response of management and staff-level respondents to this question is 1.67 and 2.17, indicating a variation of opinion. This difference between

the management and staff level response is not surprising as external relationships like external stakeholder engagements and supply chain management is mainly of management concerns. However, it is important for management to carry their staff along with such developments through regular communication.

Though not shown in this paper, BlueOrchard performed better than both the Banking and HBS benchmarks in most of the sustainability-related indices based on the response from the SCALA survey participants. However, there are areas where the company scored lower than the benchmarks. In an evolving field like Impact Investment, the ability of companies to quickly adapt to changes and implement best practices may be the difference between winners and losers. Within BlueOrchard, there was a significant difference of opinion between staff and management level employees' response to almost every survey question. Of equal significance is the number of respondents that neither agreed nor disagreed, or disagreed to most questions.

According to SCALA, such significant differences indicate an organisational vulnerability and should have affected the company's sustainability-related performance. However, as presented earlier in this paper, the company has consistently posted strong social and financial performance. The company should take steps to bridge the gap between management and staff as such 'minor' issues may mutate into something bigger and can potentially lead to a decline in productivity and performance. The difference in response between the various hierarchies within BlueOrchard may be real or perceived, or may simply mean that the sustainability culture has not permeated into the company as the management of BlueOrchard would hope. In any case, the difference seems to be consistent and steps should be taken by the company's management to address it. Measures like frequent and consistent communication between management and employees may help bridge this gap.

As stated earlier, only a small number of employees from BlueOrchard participated in the survey and there was no evidence that they were randomly selected. Based on these weak premises, it will be difficult to draw a conclusive result from the survey. A more convincing picture can be obtained by having more employees participate in the survey or randomly selecting participants where it is not possible to have a larger sample. Applying a more rigorous statistical method like T-Test to the various response means could have validated the survey's results; unfortunately, such analytical method is out of the scope of the survey analysis.

This paper has so far discussed BlueOrchard's history, its business model, frontiers encountered and lessons learned, we have also had looked at the company's sustainability journey and have, using the employee survey, assessed its sustainability culture. The next section of this paper will assess BlueOrchard's positioning in the Business Sustainability Typology Matrix proposed by Dyllick & Muff (2015). We will first briefly introduce the Dyllick & Muff Business Sustainability Typology (BST), then, based on the criteria of Concern, Organisational Perspectives, and Values Created, analyse the subject company's business activities, and finally, based on the analysis, position BlueOrchard on the Dyllick & Muff Business Typology grid.

The Dyllick & Muff Business Sustainability Typology

In their 2015 paper Dyllick & Muff produced a typology for business sustainability. In their typology Dyllick and Muff provide an answers to **what it means for an organisation to be "truly sustainable", by linking it to improvements of relevant sustainability issues in society**. It differentiates between 4 levels, the

current paradigm of Business-as-usual, Business Sustainability 1.0, and 2.0 and a truly sustainable business, which they call Business Sustainability 3.0. They use the criteria of ***Concerns*** (what social, economic, and environmental issues addressed by a company), ***Organisational Perspective*** (the approach taken by the organisation – how?), and ***Values Created*** – the output/result produced by the company. Below is a summary of the various Business Sustainability types according to Dyllick & Muff (2015).

Business-as-Usual: The Current Economic Paradigm

According to Dyllick & Muff, this captures the current business environment which is based exclusively on the economic value of a firm. Here, economic concerns like access to cheap resources, efficient processes, striving for a stronger market share, etc., are pursued to increase shareholder value resulting in the production of externalised costs that are neither understood, measured, nor declared. The perspective is inside-out, with the business and its objectives as the starting point and main reference for all planning and actions. The main beneficiaries of the values created here are the shareholders of the firm, complemented by management and customers.

Business Sustainability 1.0: Refined Shareholder Value Management

Here, economic, environmental, and social concerns that are voiced by external stakeholders like NGOs, media, governments, or legislation which presents economic risks and opportunities are picked up by businesses and integrated into their existing processes and practices without changing their basic premises and outlook. Even if sustainability concerns are considered in decision making and actions, the objectives remain clearly focused on creating shareholder value.

Applied to the banking industry, BST 1.0 means introducing new compliance rules in the areas of corruption, of money laundering, in dealing with politically exposed persons, ethical codes, and management compensation. New or integrated banking processes may be introduced, climate management, sustainable purchasing, green IT, building infrastructure, and diversity in employment among other measures might be introduced as well. In the area of products and services, sustainability concerns may be integrated into project finance, asset and credit management, increased fee transparency, etc.

Even with these measures, the underlying objectives of BST 1.0 companies remain economic. While introducing sustainability into business will generate positive side-effects for some sustainability issues, their main purpose is to reduce costs and business risks, to increase reputation and attractiveness, etc. Business success still is evaluated from a purely economic view and remains focused on serving the business and its economic goals. The values served may be somewhat refined, but still oriented toward the shareholder value.

Business Sustainability 2.0: Managing for the Triple Bottom Line

Business Sustainability 2.0 entails broadening the stakeholder perspective and taking a triple bottom line approach to business (People, Planet, and Profit). Here, value creation goes beyond shareholder value and includes social and environmental values. Companies create value not just as a side-effect of their business activities, but as deliberately defined goals and programs addressed at specific sustainability issues or stakeholders. Value creation is not only addressed through particular programs, but it is also measured and reported.

Applied to banking, BST 2.0 means contributing sustainable values through programs and actions taken in the area of governance, processes, and products/services. Not only fighting corruption, money laundering, or tax evasion, but also stakeholder dialogues is pursued deliberately with the goal of making measurable contributions in these areas. Objectives are defined and their achievements are managed, measured, and reported. Banking products and services are created and offered around specific objectives in areas such as financing sustainable constructions, healthy living, regional and urban development, or financing business projects for markets and entrepreneurs where new forms of collaboration and financing (e.g., microfinance) are needed.

While BST 2.0's shift is a quantum leap in the value created from the refined shareholder value (BST 1.0) to creating social, economic, and environmental values, it is not yet a "truly sustainable" business according to Dyllick & Muff. The underlying objective of BST 2.0 firms is to invent, produce, and report on measurable results within well-defined sustainability development areas while doing this in an economically sound and profitable manner. The value proposition of business is broadened to include the three dimensions of the "triple bottom line" (people, planet, profit). However, the perspective applied is still inside-out

Business Sustainability 3.0: Truly Sustainable Business

A Business Sustainability 3.0 firm looks first at the external environment within which it operates and then asks itself what it can do to help overcome critical challenges that demand the resources and competencies it has at its disposal. It reflects on questions such as "how can a business use its resources, competencies and experiences in such way as to make them useful for addressing some of the big economic, social or environmental challenges that society is confronted with, e.g. climate, migration, corruption, water, poverty, pandemics, youth unemployment, sovereign debt overload, or financial sustainability". As a result, a BST 3.0 firm translates sustainability challenges into business opportunities, making business sense of societal and environmental issues.

Applying BST 3.0 to banks means a shift from funding unsustainable investments to funding strategic projects of regional relevance (securing of water, food, etc.). According to the outside-in logic, banks start out evaluating relevant sustainability challenges in their social contexts. They then evaluate and decide what challenges they can and want to contribute to. The choice will be among such issues as wealth and income inequalities, youth unemployment, old age assurance, among others. Products and services will include packages of information and consultation, new forms of collaboration, public-private partnerships, new forms of financing and collaterals like microfinance, crowd financing, etc. Also, banks will have to address the challenges of systemic risks created by their collective behaviour for societal groups (e.g., homeowners, students) and whole countries.

BST 3.0 firms see themselves as responsive citizens of society. They shift perspectives from seeking to minimize their negative impacts to understanding how they can create significant positive impact in critical and relevant areas for society and the planet. BST 3.0 represents a very different strategic approach to business. It turns around the traditional "inside-out" approach used by business and applies an "outside-in" approach instead, much like social businesses do. The organisation starts out by reviewing pressing sustainability challenges that society faces, and then engages in developing new strategies and business models that overcome these.

The key characteristics of the Dyllick & Muff BST Typology are summarised in the figure below.

BUSINESS SUSTAINABILITY TYPOLOGY (BST)	Concerns (What?)	Values created (What for?)	Organizational perspective (How?)
Business-as-usual	Economic concerns	Shareholder value	Inside-out
Business Sustainability 1.0	Three-dimensional concerns	Refined shareholder value	Inside-out
Business Sustainability 2.0	Three-dimensional concerns	Triple bottom line	Inside-out
Business Sustainability 3.0	Three-dimensional concerns	Creating value for the common good	Outside-in
The key shifts involved:	1st shift: broadening the business concern	2nd shift: expanding the value created	3rd shift: changing the perspective

Figure 4: Typology of Business Sustainability and their key characteristics (Source: Dyllick & Muff 2015).

Having briefly introduced the Dyllick & Muff Business Sustainability Typology, we will now try to assess BlueOrchard on the 3 different criteria of Concerns (issues addressed), Values Created, and Organisation Perspective (approach) as proposed by Dyllick & Muff.

According to Dyllick & Muff, *''… a BST 3.0 firm translates sustainability challenges into business opportunities, making "business sense'' of social and environmental issues… the truly sustainable organisations ask themselves more challenging questions such as*

1. *Which of burning environmental, societal, or economic issues could be resolved by dedicating our wealth of resources, competencies, talents, and experiences?*
2. *What are the benefits and contributions of our products and services to society and the environment?*
3. *How can we transform our operations to provide solutions (products or services) in a direct and measurable way to the burning issues in the nature and society?*
4. *How can we open up and develop our governance structures to respond more effectively to society's concerns?*
5. *What can we do individually? And where do we need to engage in sector-wide or cross-sectorial strategies*
6. *Where do we need to engage in activities to change the rules of the game bring together the divergent demands of the current economic system and the demands of SD?''* (Dyllick & Muff, 2015 p. 11).

BlueOrchard broadly captures these attributes of a BST 3.0 firm. As a pioneer in the field of commercial microfinance, its goal of using market tools and business logic to address the financial needs of those at the bottom of the socio-economic pyramid was well articulated from the onset.

Concerns

Social, environmental and governance concerns are also well integrated into the company's business strategy. This can be ascertained by looking at the company's Social Performance Impact Reporting & Intelligence Tool (SPIRIT) – with which it assesses and conducts due diligence on investees and potential investee companies.

On the social aspect, investee and potential investee MFIs are assessed on the following criteria amongst others as earlier stated in this paper:

- Does the MFIs mission statement clearly identify its target market, how it aims to serve this market and what social outcomes it hopes to achieve?
- Are specific, measurable social goals included in business planning?
- What is the MFI's actual outreach and does this match its mission statement?
- Does the MFI actively monitor their clients' progress over time?
- Has an objective third party validated the MFI's social performance management – through a social rating, social audit or external assessment?

Also, investees and potential investee companies are assessed on whether their board, management and employees are committed to social goals and that this commitment is shared within the company. Especially, companies are assessed on their ability to design products, services, delivery models and channels that meet clients' needs and preferences. This, according to BlueOrchard is "*after all, the substance of what client-focussed microfinance offers – services and products that meet the needs of lower-income populations that have traditionally been excluded from mainstream banking services*".

Most of the companies financed by BlueOrchard (86%) are signatories to the Smart Campaign's Client Protection Principles. BlueOrchard takes a detailed look at the policies and procedures of the MFIs to see how they incorporate the fundamental principles of responsible lending into their policies and procedures. A strong emphasis is put on the rigour of the MFI's underwriting procedures as this is a critical process to prevent over-indebtedness of clients. A higher score in this section of SPIRIT is given to MFIs that have been Smart Campaign certified or have received strong assessments in the area of client protection in a rating, social audit or other formal third party review. The 2010 microfinance crisis in India has made client protection a very important topic within the industry as there were cases of predatory lending and unfair means of debt recovery. BlueOrchard has not only made client protection a pre-requisite for investing into MFIs but has led an industry initiative to address over-indebtedness as earlier stated in this paper.

In terms of environmental aspects, nearly, if not all the companies financed by BlueOrchard have exclusion lists that prohibit the financing of activities that are particularly harmful to the environment, such as large scale drift net fishing, use of particularly hazardous chemicals or radioactive materials and so forth. In this section, BlueOrchard looks at whether the MFI has a comprehensive environmental policy and if it offers specific "Green Loans'' for financing of energy saving or otherwise ecologically friendly products. Promoting the use of energy saving products not only encourages environmental protection, but also brings cost savings and health benefits to clients, making it an ideal microfinance product. This point has been highlighted earlier in this case study. The assumption that social and environmental issues are not only embedded in BlueOrchard's business strategy, but also within the organisation is further buttressed in the SCALA survey in which 56% of the respondents believe that the company is trying to create economic, social, and environmental values by addressing sustainability issues. In the same survey, 33% of respondents strongly agreed and a further 33% agreed that BlueOrchard encourages sustainability in its supply chain.

Values Created

''... *Making a positive contribution to overcome sustainability issues and thus serving the common good becomes the main purpose of a truly sustainable business. In this perspective, the values created change from the triple bottom line to creating value for the common good, defined as that which benefits society and the planet as a whole. This stands in contrast to the private good of individuals or group…''* (Dyllick & Muff, 2015 p. 11).

BlueOrchard has not only created value for the investors into its funds by way of providing healthy financial returns since inception, the company has equally extended and expanded value creation to include stakeholders like borrowers and the society, thus capturing the common good highlighted above. A look at the performance of the BlueOrchard Microfinance Fund already discussed in this paper shows that it has posted 15 years of continuous positive returns. Its loan portfolio has reached millions of poor people in various parts of the world who otherwise could have been trapped in poverty. Within the industry, BlueOrchard has led and participated in initiatives that aim to protect borrowers. The company has also led initiatives that worked to extend sustainability not only in the microfinance sector but also in the financial industry. It is the philosophy of BlueOrchard that financial and social value creation should go hand in hand.

On loan disbursement and economic empowerment of the poor, BlueOrchard's 2014 board of directors report stated that "… *moreover, outreach and social performance indicators continue to demonstrate the development of impact of the BlueOrchard Microfinance Fund: in excess of 310 000 micro-entrepreneurs were reached by funding provided by BlueOrchard Microfinance Fund (BOMF) as of 30 June 2014, while the total number of micro-entrepreneurs served by microfinance institutions in the portfolio is reported to be close to 13 million. The percentage of rural borrowers was 47%, while the percentage of female borrowers further increased from 53% to 56%. The median loan size to micro-entrepreneurs remained below $ 1 500 underlining that the BlueOrchard Microfinance Fund has remained true to its social mission of serving the unbanked and underbanked populations at the bottom of the pyramid since its launch in 1998…*''(BlueOrchard Microfinance Investment Managers, 2014).

In response to a Financial Times (FT) sustainability award questionnaire, BlueOrchard has this to say about the Social Impacts and Benefits being created by one of its funds, the BlueOrchard Microfinance Growth Fund (MiGrof): ''*MiGrof is fully oriented towards contributing to the achievement of the Millennium Development Goals. MiGrof's strategic goal relates directly to Goal Number 8: 'developing a global partnership for development', in particular to the sub-goal of 'developing countries gaining greater access to the markets of the developed market'. In addition, the fund also contributes towards the accomplishment of Goal Number 1 'Eradicate extreme poverty and hunger', in particular related the sub-goal of achieving a full, productive and decent employment. The fund takes into account the living standards of the country where the investment is proposed. As such, at least 75% of the total number of loans made by an MFI and funded by an MFI loan shall be in amounts less than the greater of 250% of per capita GNP of the relevant country and $ 1000. In general, by transforming lending to individual MFIs into investable products for socially minded investors attracted by stable financial returns and low risks, the fund contributes to financial inclusion and to the growth of entrepreneurship in Latin American developing countries''*... (www.blueorchard.com).

…the fund has reached indirectly more than 95 000 micro-entrepreneurs, 36% of which are located in rural areas and 62% of which are female clients…..finally, the fund has contributed significantly to the promotion of social performance measurement and performance rating: 64% of MiGrof clients report to the MIX on social performance and 80% of them hold an external social rating…" (www.blueorchard.com).

Besides its vast experience and reputation as a microfinance and impact investment manager, BlueOrchard is also involved in industry-wide initiatives on responsible investment practices, including the Mix Gold Platform (an initiative to expand the Microfinance exchange (MIX) beyond traditional microfinance to include Inclusive Finance), Swiss Sustainable Finance Founding Member, UNPRI Principled for Investors in Inclusive Finance, The Smart Campaign – Client Protection Principles, Microfinance Transparency, The Social Performance Task Force, and The Ratings Initiative. These initiatives have led to the creation of industrial standards where there was none and helped provide transparency and accountability not only within the microfinance sector but in the financial sector as a whole.

With the information above, it can be argued that BlueOrchard has created values beyond providing healthy financial returns to its investors and financial inclusion to borrowers. The company has also expanded value creation to the environmental and social spheres, thus contributing to the common good. This transition from a one-fund microfinance firm to a multi-stakeholder business is not only revolutionary to an evolving sector like Microfinance but can enable movements like Inclusive Finance and Impact Investment develop their potentials. BlueOrchard's ability to inspire others about sustainability-focused issues is highlighted in the SCALA survey in which 38% of the respondents strongly agreed and another 38% agreed when presented with this question.

With the evolution of BlueOrchard from a small microfinance fund in 2001 to a major player within the sector, it has grown to engage stakeholders from within the financial industry to national and supranational institutions to identify and address sustainability issues. Stakeholder engagement is not only embedded into the company's business strategy, but it has diffused into and within the organisation. This point is buttressed by the response to the SCALA survey in which 22% of the respondents strongly agreed and another 44% agreed when asked if the company has mechanisms in place to actively engage with external stakeholders about its sustainability efforts. Stakeholder engagement is not only outward-facing, when asked if the company has a clear strategy for engaging all internal stakeholders in its sustainability efforts, 22% of respondents in the SCALA survey strongly agreed and another 33% agreed.

Organisational perspectives

Discussing a Business Sustainability 3.0 firm, Dyllick & Muff (2015 p. 11) stated that ''*BST 3.0 represents a very different strategic approach to business. It turns around the traditional ''inside-out'' approach used by business and applies an ''outside-in'' approach instead, much like social businesses do. The organisation starts out by reviewing pressing sustainability challenges that society faces, and then engage in developing new strategies and business models that overcome these… As long as they act on an individual company level they can innovate their processes and products or improve their systems of governance and transparency. Impact and reach of their activities, however, will remain limited. By engaging on a sectorial or cross-sectorial level, businesses can change the common approaches and practices shared by all members in an industry and along supply chains. They can do this by creating transparency, sharing best practices, definition of common rules, and setting standards. These collaborative partnerships will increase the impact and outreach of their sustainability strategies*''.

This description of a Business Sustainability 3.0 company by Dyllick & Muff captures the foundation and evolution of BlueOrchard and its business model. The founders of the company identified financial exclusion of the poor as a sustainability challenge. Applying their skills and experience, they set out to address this issue using the tools of microfinance. With the conviction that microfinance can be a powerful and effective tool to tackle financial exclusion, they designed products and delivery models to address it. Thus, it can be argued that BlueOrchard's business model was "pulled'' by the sustainability

challenge of financial exclusion and not “pushed” by the company. This ’’pull’’ as against ’’push’’ approach to business strategy and product development fits into the “outside-in” characteristic of a BST 3.0 company as described by Dyllick & Muff.

In its early days, BlueOrchard was a single-fund microfinance investment advisor that independently raised funds and provided loans to microfinance institutions in targeted countries. The microfinance institutions in turn provided micro-loans to the poor, the unbanked and those who lacked collaterals and as such would be ineligible for loans from banks and other financial institutions. The acceptance and success gained by this single investment vehicle – the BlueOrchard Microfinance Fund BOMF, it can be argued, led to its being scaled up and becoming the first ever fully commercialised microfinance fund.

As the company matured and gained more experience, innovation closely followed in its product development with the launch of its BlueOrchard Microfinance Securities 1, a collateral debt obligation (CDO). The loans behind this fund were financed through the issuance of notes with different risk and return profiles to investors in the United States and Europe. This securitization marks an important innovation in the financing of microfinance: it is the first time that debt obligations have been issued backed by a portfolio comprised of loans to microfinance institutions, and was sold exclusively to private institutional and individual investor. Securitization led to an increase in the funds available for lending to its client MFIs, thus increasing the scale, reach and impact of microfinance as a tool of financial inclusion.

To further expand the use of microfinance as a tool for financial inclusion and poverty alleviation, BlueOrchard reached out to other players within the financial sector not only in product development but also in setting industry standards and best practices. The Saint-Honore Microfinance Fund which was launched in 2005 is sponsored by Rothschild Bank and co-managed by BlueOrchard. Another fund launched within this stage of the company’s evolution is the BBVA Codespa Microfinanzas in 2006. This fund, managed by BlueOrchard came as a result of the collaboration between BBVA and CODESPA Foundation. During this period, BlueOrchard was also involved in many industrial initiatives, especially those related to addressing the issue of over-indebtedness among microfinance clients, employee protection and others that have been highlighted in this paper.

BlueOrchard’s cross-sectoral collaboration and outreach to players outside the impact investment field happened with the launch of the Regional Education Fund for Africa (REFFA) in 2014 and the Climate Insurance Fund in 2015. During this period, the company collaborated with national and development financial institutions to develop products that address sustainability issues other than financial inclusion, venturing into areas like education and climate change.

The Regional Education Fund for Africa aims to provide customised financial services for the educational sector by supporting secondary, higher and vocational education in Africa. The initial investment in this fund was by KfW on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). The fund’s target size is $70 million and the investment will be used to provide funding to a number of African financial intermediaries (banks, microfinance institutions, NGOs, etc.) that have an existing education portfolio targeting secondary and tertiary schools and/or students (www.blueorchard.com).

The Climate Insurance Fund launched in 2015 is a thematic fund designed to reduce the vulnerability of micro, small and medium enterprises as well as low-income households to weather-related risks. The objective of the Climate Insurance Fund is to contribute to the adaptation of climate change by improving access to and the use of insurance in the developing countries and emerging markets. The Fund was set up in 2013 by the KfW Development Bank, on behalf of the German Ministry for Economic Cooperation

and Development (BMZ). Currently, $ 60 million has been committed for investments and EUR 17.5 million for technical assistance (http://wrma.org).

Discussing Business Sustainability 3.0, Dyllick & Muff (2015 p. 10) stated that, *"A truly sustainable business reflects on questions that go beyond those so far considered. It reflects on questions such as "How can business contribute with its products and services to resolve pressing sustainability issues in their societies" or "How can business use its resources, competencies and experiences in such way as to make them useful for addressing some of the big economic, social or environmental challenges the society is confronted with, e.g. climate change, migration, corruptions, water, poverty…".* This statement seems to reflect the idea behind the Regional Education Fund for Africa and the Climate Insurance Fund. With these funds, BlueOrchard is addressing previously unmet social and environmental needs in the areas of education and climate insurance in Africa. These two funds are not only innovative in that they are among the first such commercial funds launched to address climate and educational issues in Africa, but are also long term in thinking and in strategy. The fact that innovation and long term thinking is embedded in BlueOrchard's business strategy is buttressed in the SCALA survey where 44% respondents strongly agreed and another 44% agreed when asked if the company's leaders take a long-term view when making decisions. In the same SCALA survey, when asked if their organisation rewards innovation, 56% of the respondents strongly agreed.

Having had a look at the social, economic, and environmental issues addressed by BlueOrchard based on the criteria of Concerns, Values Created, and Organisational Perspectives employed, it can be argued that the company has met the criteria required for a Business Sustainability Typology 3.0 firm as stipulated by Dyllick & Muff. Also, in some areas like external stakeholder engagement and product innovation to address unmet social, economic, and environmental issues, BlueOrchard is at the level of a Business Sustainability 3.0 firm. Only time will tell if the company will maintain this level of a truly sustainable business which may be difficult for a commercial company due to changing business environments and sometimes legal restrictions.

BlueOrchard - Looking inside the Organisation

It can be argued that one of the best ways of feeling the internal temperature of a company, to see if it practices what it preaches and to verify that its stated mission and goals are not there and to make it look good is to see how its employees feel about it. They are not only very knowledgeable about what is really going within the firm, but they are also very critical. In the SCALA survey conducted among employees of BlueOchard, 44% of respondents strongly agreed and another 33% agreed when asked if the leaders of the company had a clear vision for sustainability. When asked if the company has embedded sustainability into its operating procedures and policies, 44% of respondents in the SCALA survey strongly agreed, 11% agreed, and 33% neither agreed nor disagreed. For an organisation to prosper and realise its stated goals, it can be argued that trust within the organisation should be reasonably high. On the issue of trust, 56% of respondents in the SCALA survey strongly agreed that the level of trust within BlueOrchard is very high.

On whether reward and compensations are linked to the company's sustainability goals, 11% of respondents in the SCALA survey strongly agreed, 67% agreed, 11% neither agreed nor disagreed, while 11% of the respondents disagreed. A breakdown of the respondents to this question, however, shows that management-level employees with a mean response of 2.0, seem to agree more that rewards and compensations are linked more to sustainability goals than staff-level respondents with a mean of 2.33.

A surprising finding of the SCALA survey was the response of employees when asked who is primarily responsible for overseeing sustainability-related issues within the company. It can be argued that for sustainability to become an integrative part of the culture of an organisation there should be a sustainability "leader" or "champion" within the organisation and such a person should be visible to all. 67% of the respondents named the CEO while 33% named the Head of Social Performance Management. Though the sample used for the survey is small and may not be representative enough, there seem to be some communication issues within BlueOrchard. This seems to be reinforced when employees were asked about the issues they think the company is currently not addressing. 50% of the respondents named employee motivation, engagement, and internal communication.

Borrowers' protection and treatment of the employees of the microfinance institutions are some of the threats to the reputation of the microfinance industry. These, together with other issues that might affect the short and long term future of BlueOrchard were presented to Lisa Sherk, BlueOrchard's Head of Social Performance Management during an interview with the author. On the issue of client and employee protection, Lisa said that besides strengthening BlueOrchard's due diligence tool SPIRIT to make sure that these issues are made more prominent, measures such as site visits are undertaken to verify investees' compliance. According to her, investee MFIs are assigned risk profiles with those considered high risk attracting higher numbers of site visits to verify that borrowers are not abused and that employees are treated fairly.

According to Mrs Sherk, besides financial, social and environmental assessments, political risk in the investee countries are not left out of the overall risk assessment procedures. She said that it is BlueOrchard's practice to have local offices and local employees in any investor country. These employees don't only speak the local language, but they have an understanding of the economic and socio-cultural dimensions of the country. This helps BlueOrchard not only to understand better the needs to be addressed in a local context, but also in their stakeholder dialogues.

BlueOrchard and the Future

When asked about the company's future during an interview by the author with Dr Scheurle, BlueOrchard's Chief Executive Officer, he said that the future of BlueOrchard is closely related to the myriads of problems facing those at the bottom of the socio-economic pyramid around the world. According to him, as long as there is poverty, hunger, inequality, and non-availability to the basic necessities of life to many, that BlueOrchard should be in business as its business strategy is to address and if possible eradicate these problems.

Dr. Scheurle stressed that he has confidence in the industry and its future, expressing that there are a lot of investors willing to partner with BlueOrchard in tackling the social, economic, and environmental needs facing the world. Moreover, there are healthy social and economic returns that come with it. He further stated that BlueOrchard's investments have attractive yields compared to traditional debt investments and less volatility than obtained in equity investments.

According to Dr Scheurle, Development Institutions and Governments have a huge funding gap in terms of the needs to be addressed and the funds available to address them, making it necessary for private investors to come in. There is a high demand for funds to address sustainability-related needs in the world, and with a funding gap of $ 2.5 trillion, there is a need for private investors like BlueOrchard to

partner with Development Financial Institutions, governments and NGOs as neither of these bodies can do it alone.

Talking about the long term future of BlueOrchard, Dr Scheurle stated that the goal of the company is to expand the outreach and scope of their fund range and to introduce additional innovation in terms of products and targets driven by the evolution of funding needs in the microfinance industry. Finally, he stated that BlueOrchard is looking beyond the microfinance environment into areas like climate change and sustainable agriculture and is in the process of launching and Equity Fund that will target these areas. Aligned with other BlueOrchard's funds and investments, the investment horizon of the proposed equity fund will be long term as this is the only way the sustainability-related targets of the various stakeholders could be achieved.

Finally, when asked if at some point in time, due to internal or external pressure, BlueOrchard might go through "Mission Drift," where they may abandon microfinance in particular and impact investment in general, Dr Scheurle said that as an unlisted company, BlueOrchard does not suffer from the shareholder pressure as is the case with listed companies. Abandoning sustainability-related investment will be difficult as the company was founded on this basis; moreover the company's infrastructure and human resources are structured around sustainable investment such that it has become a part of its DNA. He said that the company's aim is to scale its operations, adapt and replicate models that have worked and as microfinance matures, BlueOrchard's next target is to move on to equity investments.

Conclusion and Reflection

The purpose of this case is to study a recognised industry leader in financial sustainability, especially in the area of microfinance and impact investing, so as to understand what motivated them to engage in such a business strategy. But also to highlight the financial, social, and environmental values created in the process, the frontiers encountered and lessons learned. Understanding these will help not only contribute to learning, but also to the role(s) private investors can play in addressing sustainability challenges facing humanity. BlueOrchard, with its 15 years of history and having financed over 22 million micro-entrepreneurs in over 60 countries of the world, its leadership in industry best practice, can be said to have contributed significantly to sustainable development.

Insights

Though this case study attempts to tell the story of BlueOrchard as a Microfinance Investment Advisor/Manager and in the format proposed by Business School Lausanne, there are a couple of interesting and emerging insights in the case study.

The most prominent insight in the study is the evolving nature of the financial sector, especially in the area of addressing sustainability-related issues. Traditionally, issues concerning the poor, especially those in the developing world have not been of concern to the financial sector. Put simply, the poor have neither been clients nor considered stakeholders in the financial sector. The fact that business models and strategies are being created to address issues facing the poor shows an evolving and almost a new face of the financial sector. Whether this model can be sustained and scaled to address the many social, economic, and environmental issues facing the poor all over the world remains a question for the future.

Another notable insight in this case study is the history and evolution of BlueOrchard, during an interview with the author and Dr Patrick Scheurle, BlueOrchard's Chief Executive Officer, he stated that the company started with 3 employees as an adviser to the then Dexia Microfinance fund. It later spun off to become an Investment Manager operating only one fund. The company then went on to launch more funds and reached out to other players in the financial sector. This collaboration led to the development of more innovative products to address issues facing the poor. BlueOrchard's current and later stage is a cross-sectorial partnership with Development Financial Institutions and governments to identify sustainability needs and develop financial products and delivery models to address them.

According to Dyllick & Muff (2015 p. 11)…"*Truly sustainable firms engage on different levels of action to increase sustainability impact……..As long as they act on individual company level, they can innovate their processes and products or improve their systems governance and transparency. Impact and reach of their activities, however, will remain limited. By engaging on a sectorial or cross-sectorial level, businesses can change the common approaches and practices shared by all members in an industry and along supply chains…These collaborative partnerships will increase the impact and outreach of their sustainability strategies*". This statement seems to capture the history and evolution of BlueOrchard as explained above.

BlueOrchard can be said to have evolved from a single-fund microfinance company to an industry leader in the field of microfinance and impact investment, the company's ability to gather forces and work with various stakeholders to identify and address social issues buttresses this point. Stakeholder engagement and partnership, it can be argued, presents the most realistic way of addressing the various social, economic, and environmental issues facing humanity today. Most national governments, especially in the developing countries lack the financial resources to tackle the social issues facing the poor in their countries. Development financial institutions on the other hand, lack the expertise and sometimes the discipline to address these issues, getting these various stakeholders to work together may provide the only sustainable solution and strategy for resolving social, economic, and environmental issues facing the world today.

As the 2010 Indian Microfinance crisis indicates, there are substantial risks in doing business in developing countries with very little regulatory oversight. The backlash from this could lead to both financial loss and reputational issues. Though the problems facing the poor are similar in most countries, they need to be interpreted and dealt with in a local context. Local solutions need to be based on an in-depth understanding of the culture and politics of the country; otherwise, helping the poor using a market-based approach might be misunderstood as exploitation. BlueOrchard has done well in this area as it has local staff with detailed knowledge of the social, economic, cultural, and political dimensions of the investee countries.

The final takeaway from this case is that, as usual with companies, especially those that have enjoyed tremendous success in their field, it can happen that the management takes an employees' understanding of their business strategy for granted, believing that everyone is on board and understands. This might explain the answers provided by the respondents in the SCALA survey question where a reasonable majority mistook the CEO as being responsible for sustainability related issues, also, responding to another question, most of those surveyed believe that management should address communication issues within the company. Even if the survey participants were very few and as their views may not reflect that of the entire company, their response highlights a communication issue and should be of concern to BlueOrchard's management. - Though employees surveyed believe that there is a high level of trust within the company, frequent and more open communication can help strengthen this trust.

Questions for the Future

BlueOrchard has excelled in its business model of intentionally deploying both private and public funds to address the needs of those at the bottom of the socio-economic pyramid using the tool of microfinance. It has also championed industry initiatives that help protect borrowers and advocate for financial inclusion for all – Inclusive Finance. Though the company believes that the future of the company is bright and strong, the question then becomes what will happen to BlueOrchard as microfinance matures and different and bigger players enter the field. Also, as BlueOrchard enters the field of equity investment, there is a question on whether it can replicate the success it enjoyed in the field of microfinance, only the future holds the answer to these questions.

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Appendix I – Case Study Approach

Company Selection

The following criteria were used to select the company for the case study:

- The company must be a recognised and verified sustainability leader in its chosen field of business with a third party verification and recognition.
- Sustainability must be embedded in the company's business strategy; it must not be a side project or happen by accident.
- The company must be leading (or at least involved) in industry initiatives aimed at addressing social, economic, and environmental issues.

The first criteria were set to prevent the case of studying companies that are engaged in ''green washing''. To qualify for the case study, a company must be a sustainability leader with verification and /or recognition either by peers, its industry, NGOs, or regulators.

To qualify for the case study, the company must have sustainability embedded in its business strategy. It must intentionally set out to address social, environmental, and economic issues using a market-based (for profit) approach. Sustainability should be the company's main business and should not happen by accident or be a side project of the company. With this criteria, companies involved in philanthropy and corporate social responsibilities are excluded from consideration for the case study, as these practices, though good are not business strategies and there are no profit motives for companies engaging in philanthropy and corporate social responsibility initiatives. This also means that the company must be financially viable, profitable or at least self-sustaining.

Finally, as Impact Investment and sustainable finance are in a very early stages, and as there is a need for knowledge and ideas to be shared in order to know and understand the right tools and methodologies for addressing social, economic, and environmental issues, for any company to qualify for the case study, it must be leading or at least be involved in an industry-wide sustainability initiative.

Employee Survey

As part the case study, a survey is conducted on the employees of the company in order to assess the company's capacity and culture for executing its sustainability-related goals. The survey was conducted using the SCALA (Sustainability Culture and Leadership Assessment) tool. According to Miller Consultants, Kentucky, USA, the owners of SCALA, The SCALA survey *''is an assessment instrument composed of items pertaining to culture and leadership. The assessment contains both sustainability-specific contents as well as more general organizational climate content that has been demonstrated in other research to impact the execution of sustainability strategy''* (SCALA; the Sustainability Culture and Leadership Assessment Pilot, 2013).

The survey questions constitute 41 questions aimed at getting an insight into the company's leadership and sustainability culture and also the research needs of the author. The SCALA assessment survey was conducted online among BlueOrchard's employees. The employees were chosen by BlueOrchard from different locations to represent the company for the survey. The survey was done by 9 respondents out of the original 9 that were addressed by BlueOrchard, this represents a response rate of 100%, although the total number is very low (Miller Perkins, 2014). The survey participants from BlueOrchard were: 2 senior managers, 1 mid-level manager, and 6 staff-level (non-managerial) employees who are based in

Luxembourg (2), Switzerland (2), Peru (1), Georgia (3), and Cambodia (1). 33% of the survey participants were male and 67% female; 44% were aged 20-30, 44% between 31-40 years, and 11% 41-50. The survey was conducted between September and October 2015.

The result of the survey was compared against the HBS Mean of 80+ global companies and international (Bank) benchmark composed of 11 financial institutions other than insurance. About half are retail banks. The Bank Benchmark is comprised of companies with more than 1 000 employees. They are located in Germany, United Kingdom, Australia, USA, Spain, France, Canada and Switzerland. The group is mixed in terms of leadership. About half show leadership in some aspects of sustainability. Some are leaders in environmental sustainability, some are leaders in social sustainability and only 2 show leadership in both. The two that are leaders in both are large retail banks. The benchmark data is averaged over all 11 financial institutions (Miller Perkins, 2014). The benchmarks are for comparison only as due to company size, number of responses, and how they are chosen might negatively, positively, not affect how BlueOrchard compares to them. ***Care should be taken when interpreting the result of the survey as the number of participants used for the survey is quite small compared to the number of employees within BlueOrchard. Also, there is no proof that they were randomly selected and as such, the result may not correctly reflect the true culture of BlueOrchard or the opinion of BlueOrchard's employees.***

Data Gathering and Research Method

The author used three data gathering methods for the case study. There was a study of archival documents provided by BlueOrchard, information from the company's website, information from external sources on the Internet, interviews with the principal officers within the company (C-level executives), and employee survey using SCALA. Information provided by BlueOrchard comprises mainly of historical documents, letters to shareholders and regulators, the board of directors reports, fund prospectus, reports from site visits, etc. BlueOrchard was very transparent and forthcoming in providing any documentation and information requested by the author. In the interest of the research, interviews were focussed mainly on the Operations and Sustainability-related topics hence the interview was concentrated on the Chief Operating Officer and Head of Social Performance Management who is responsible for sustainability-related initiatives of BlueOrchard. Finally, because of the data-gathering, researching and reporting technique used in this case study, the study can be said to be Qualitative and not a Quantitative study.

Appendix II – The Sustainability Culture and Leadership Assessment (SCALA) Survey

SCALA On-Line-Henry-BlueOrchard

Welcome to the BlueOrchard Sustainability Culture and Leadership Assessment (SCALA TM) This research project is being conducted by Henry Oguine in conjunction with his doctoral dissertation work. The survey should take approximately 10-15 minutes to complete. Please complete the survey by September 17, 2015. This instrument assesses how you view your company culture and leadership with regards to sustainability. For purposes of this assessment, sustainability is defined as a company's ability to sustain competitive advantage over the long-term through: 1) strong financial performance, 2) industry positioning, and 3) integrating environmental, social and governance (ESG) factors into the core of the company's strategy and operations. Your participation is voluntary. Your answers to the questions are completely anonymous and confidential. You cannot be identified with any of your responses to the survey. And no one except the research analysts will see your anonymous responses to the scales contained in this assessment. Reports will be based on aggregated data so that individual responses will not be revealed. The survey is administrated and hosted by Qualtrics Labs, Inc. headquartered in Provo, Utah, USA. Qualtrics' privacy and data security policies are compliant with the guidelines of European Union via the Safe Harbor Agreement. Qualtrics servers maintain protections consistent with the Safe Harbor Agreement. Thanks very much in advance for your time and contribution. If you have any questions about the SCALA (TM) please contact us at 502-452-1751

Q1 In which region are you located?

- ❍ Africa/Middle East
- ❍ Asia Pacific
- ❍ Australia/New Zealand
- ❍ Europe
- ❍ Global
- ❍ Latin America
- ❍ North America
- ❍ Other _____

Q2 Which of the following categories best describes your position with relationship to your company?

- ❍ C Level Executive
- ❍ Senior Manager
- ❍ Mid Level Manager
- ❍ First Line Manager/Supervisor
- ❍ Other _____

Q3 Your gender is (check one)

- ❍ Male
- ❍ Female

Q4 Within which of the following age groups do you fall?

- ❍ 20 - 30
- ❍ 31-40
- ❍ 41-50
- ❍ 51-60
- ❍ Over 60

Q5 The leaders of this company have a clear vision for sustainability.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q6 The leaders of this company take a long-term view when making decisions.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q7 The leaders of this company have a clear business case for pursuing the goals of sustainability.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q8 The leaders of this company integrate sustainability into their decision-making.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q9 The leaders of this company are able to inspire others about sustainability-focused issues and initiatives.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q10 The leaders of this company are willing to take measured risks in pursuit of sustainability.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q11 The leaders of this company are knowledgeable of the issues pertaining to sustainability.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q12 The leaders of this company are personally committed to issues pertaining to sustainability.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q13 This company has embedded sustainability into the operating procedures and policies.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q14 This organization has an Enterprise-wide management system for sustainability.

- ❍ Yes
- ❍ No

Q15 This company has integrated sustainability-related goals into the performance management system.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q16 Rewards and compensation are clearly linked to the organization's sustainability goals.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q17 The level of trust within this organization is high.

- ❍ Strongly Agree
- ❍ Agree

- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q18 Most people in this company believe that a commitment to sustainability is essential to the company's success in the long-term.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q19 Continual learning is a core focus of this organization.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q20 People in this organization are encouraged to learn more about sustainability from external sources.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q21 This organization rewards innovation.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q22 This company has a strong track record of implementing large-scale change successfully.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q23 This company has a strong track record for implementing incremental (small, continuous) change successfully.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q24 People in this company actively challenge the status quo.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q25 This company has a clear strategy for engaging all internal stakeholders in its sustainability efforts.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q26 By and large, people in this company are engaged in work that is connected to sustainability goals.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q27 Most employees believe that the organization values them and their contribution.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q28 This company has mechanisms in place to actively engage with external stakeholders about its sustainability efforts.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q29 This company encourages sustainability in its supply chain.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

Q30 This company sends a clear and consistent message to external stakeholders about its commitment to sustainability.

- ❍ Strongly Agree
- ❍ Agree
- ❍ Neither Agree nor Disagree
- ❍ Disagree
- ❍ Strongly Disagree

31 In your view, which of the following led your company to start addressing sustainability issues? (You may choose up to 3)

- ❑ The need to manage risk and compliance
- ❑ Desire to improve efficiency and impact the company's bottom line
- ❑ Desire for innovation and growth
- ❑ Desire to engage employees
- ❑ Need for reputation building
- ❑ Desire to create long-term value for stakeholders
- ❑ Ensuring our license to operate
- ❑ Because of our organizational purpose
- ❑ Commitment to client engagement
- ❑ Awareness of our responsibility to the environment
- ❑ Pressure from shareholders
- ❑ Recognition of how our company could address societal needs
- ❑ Our primary approach does not fit any of the categories above. (Please Describe) _____

Q32 What do you think your company is trying to achieve by addressing sustainability issues?

- ❍ Creating economic value for the company and its shareholders
- ❍ Creating economic, social and environmental value
- ❍ Making a positive contribution to solving critical societal challenges
- ❍ I don't know
- ❍ Other. (Please Describe) _____

Q33 How would you rate your own company versus other companies in your industry with regard to sustainability leadership?

- ❑ Much Better
- ❑ Better
- ❑ Somewhat Better
- ❑ Somewhat Worse
- ❑ Worse

Q34 How do you think your company's leaders compare with the leaders of other companies in your region with regard to commitment to sustainability?

- ❍ Much Better
- ❍ Better
- ❍ About the Same
- ❍ Worse
- ❍ Much Worse

Q35 Which of the following do you think best describes your company's current approach to sustainability?

- ❍ Proactive
- ❍ Active
- ❍ Reactive
- ❍ I don't know

Q36 Which of the following do you think best describes your company's level of engagement with sustainability?

- ❑ Very engaged
- ❑ Engaged
- ❑ Neither engaged nor disengaged
- ❑ Disengaged
- ❑ I don't know.

Q37 Describe the social issues that you believe your company addresses especially well.

Q38 Describe the environmental issues that you think your company addresses especially well.

Q39 Describe the social issues that your company is not currently addressing that you wish your company would address.

Q40 Describe the environmental issues that your company is not currently addressing that you wish your company would address >

Q41 Please fill in the title of the primary person who oversees sustainability.

Q42 Thank you for completing the survey.

Annex I – Literature Review

A Market-Based Approach to Addressing Social and Economic Issues

Information abounds on the level of, and increasing rate of global environmental degradation, increase in relative and absolute poverty, social inequality, hunger and starvation, that has the potential to trigger global unrest and climatic distortions.

Philanthropies and foundations have over the years tried to address these issues with minimal successes; this is mainly due to the fact that the magnitude of social and environmental problems that is facing the world is such that cannot be solved by aids alone. According to Rodin & Brandenburg (2014), ''Philanthropy is a powerful force for good. But the funds contributed by global philanthropy, even when combined with the development of aid budgets of many national governments (themselves facing budget constraints), add up to mere *billions*. The cost of solving problems such as water scarcity, climate change, and lack of access to health care, education, and affordable housing runs into *trillions* of dollars". Grabenwarter & Liechtenstein (2012) further buttress this line of argument stating that "even in the space of pure philanthropists, the understanding is gaining ground that the scope of the challenges facing society today can no longer be solved by pure philanthropic approach. Capital accessible through fund raising for philanthropic activities is in no way sufficient to address all the local issue in society, let alone regional and global challenges. These global challenges include the threat of possible climate change, as well as poverty leading to major political instability, human rights issues in supply-chain management…… have grown beyond the scale that can be solved with traditional approaches of charities and philanthropic organisations".

With the increasing awareness that philanthropy, charity ad aids even at their best cannot solve the plethora of problems facing the world, and as the financial crisis has morphed from corporate to sovereign hence constraining donor governments of cash, the question then becomes how best to address the pressing environmental and social issues facing mankind. With Capitalism having come to stay as the dominant economic practice, there has been a call to explore the use of private capital and other market forces that capitalism provides to address the ever increasing global social, economic and environmental issues.

In 2007 the Rockefeller Foundation convened a group of investors, entrepreneurs, and philanthropists at its Bellagio Conference Centre in Italy. Participants were asked what would enable them and others to put more capital to work for social and environmental benefit. By the end of the meeting, the term ***Impact Investing*** was coined (Robin & Brandenburg 2014).

What is Impact Investing?

Since the term Impact Investing was coined in 2007, several, albeit differing definitions have been given to this concept of investment, but the overall consensus is that it involves using private capital to address social and environmental issues. A 2010 case study published by Bridges Ventures together with The Parthenon Group and Global Impact Investing Network (GIIN) defines Impact Investment as ''actively placing capital in businesses and funds that generate social and/or environmental good and a range of returns, from principal to above market, to the investor''. Brest & Born (2013) defined Impact Investing as "actively placing capital in enterprises that generate social or environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns ranging from highly concessionary to above market". The ''Money for Good'' initiative from Hope Consulting (2010) defines impact investing as opportunities that:

- Allow you to put money towards an opportunity that creates a social or environmental benefit,
- Attempt to return at least the principal invested,
- Offer a return on our money (which varies by opportunity), and
- Are not tax deductible (Cheney, Marchant, & Killins 2012).

Grabenwarter & Liechtenstein (2012) define impact investing as ''any profit-seeking investment activity that intentionally generates measurable benefits for society". They argued that like any other investment, returns on impact investment should be market, or above market and that based on their studies of 60 impact investors, any trade-off between profit and social impact was either the investor's choice, lack of sector/business knowledge or shortcomings in strategic set-up. They went further to argue that any business model in which every impact unit has a cost in terms of financial return is a disguised form of philanthropy.

Regardless of the definition and return expectations of different players within the impact investment space, there is a consensus that for an investment to qualify Impact Investment, it must actively and intentionally be seeking to address a given social/environmental issue and must produce an additional and measurable result, above all, it must have a profit intention in order to differentiate it from charity and philanthropy.

Intentionality.

Every economic activity generates a positive impact of some sort, so an investment can generate a social and economic benefit with the intention of doing so. However, for an investment to be classified as an Impact investment, the investment generated has to be intentional, it must be well defined at the onset on the investment, it must be there from the beginning above all, it must be embedded in the overall business strategy. According to O'Donohoe et al (2010), ''the model of business (which could be a fund management firm or a company) into which the investment is made should be designed the intent to make a positive social or environmental impact, and this should be explicitly specified in the company documents. For many impact investments, the intended impact is likely to be focussed on underserved populations, though environmental initiatives may be intended to impact a broader population. The impact is likely to be delivered through the business operations and processes employed, the products or services produced and/or the target population served''. Brest & Born (2013) went further to state that "whatever an investor's intention, the fundamental question is whether an investment actually has a social impact. For example, socially neutral investors, motivated only by profit, have contributed to the social impact of telecommunications companies in both the developed and developing worlds. Yet while social impact can be achieved unintentionally, this does not mean that intention is unimportant. In business, as in philanthropy and all other spheres of life, people are more likely to achieve results that

they intentionally seek". The importance of intentionality in impact investment is further supported by Grabenwarter & Liechtenstein (2012) who stated that the impact generated through impact investing must be deliberate and intentional and that most human activity and virtually all activities financed through investments have some sort of impact on the society. They however said that to be considered impact investment, the impact of an investment activity must be more than a coincidental or merely tolerated by-product of the investment. Going by the information above, it can be argued that investments that create any form of social or environmental benefits without having them originally embedded in their business strategy does and should not qualify as impact investments. The impact must be the intention of the business and should not happen by accident.

Additionality.

Closely associated with intentionality while discussing what qualifies as an impact investment is the concept of additionality. By additionality, it means that the investment made must "add" both social and economic/financial values to the environment in which it is made. There must be verifiable evidence that the investment was responsible for the impact created, causation must be established. Having impact should imply causation, and therefore depends on the idea of counterfactual – on what would have happened if a particular investment or activity had not occurred. The enterprise itself has an impact only if it produces social outcomes that would not otherwise have occurred. And for investment or nonmonetary activity to have an impact, it must increase the quantity or quality of the enterprise's social outcomes beyond what would otherwise have occurred (Brest & Born 2013).

Measurability.

Like any other intervention, the impact created by an investment must be measurable in order to establish that an impact was created as a result of the investment, this should not only be attributed to the investment, but above all, the impact must be beneficial to the community in which the investment is made. Grabenwarter & Liechtenstein (2012), states that ''the social impact created must be tangible, it must be feasible to express social impact in a change theory that reflects the delta induced by the investment compared to a state observable prior to making the investment''. According to them, in order to be considered an impact, the results of an impact activity must contribute to a change in the situation prior to the investment and this resulting change must be quantifiable. They went on to argue that only if such a change can be formulated as an expectation the point of point of investment can it form part of an investment objective against which the observed impact resulting from the investment can eventually be measured. Drexler & Noble (2013) suggested measurable social or environmental impacts across eight investment sectors as follows:

Sector	Illustrative Examples of Measurable Social or Environmental Outcomes
Agriculture	Increase in productivity or crop yield as a result of improved technology or training
Education	Participation rates of girls in secondary education in sub-Saharan Africa
Energy	Number of individuals at the base-of-the

	pyramid who gain access to electricity
Environment	Tonnes of Co_2 equivalent offset as a result of organisation's product or service
Financial Services	Number of micro-insurance products sold to people with AIDS and infected with HIV
Health	Readmission rate of diabetes patients using innovative product for monitoring health
Water	Number of individuals at the base-of-the pyramid who gain access to clean water

While this list or impact measures are neither all-inclusive nor exhaustive the argument is that for an investment to qualify as an Impact Investment, the impact produced must be measurable and above all, must be attributable to the investment.

Investment must have Profit Motives.

Together with intentionality, additionality, and measurability, to qualify as an impact investment, and to be differentiated from philanthropy and charity, the investment should have profit motives. The investment must be initiated and conducted with market and economic logic like any other investment the only differentiating factor being the goal of achieving both social/environmental and financial returns. Like in any other investment, profits should be generated from impact investments not only to reward the investor for the investment risk taken, but also enable the investment achieve scale so as to tackle and address further social and/or environmental issues.

Opinion differs among scholars and practitioners on the level of profits being targeted by impact investors and whether there is or should be a trade-off between financial and social/environmental returns. Drexler & Noble (2013) argued that while some investors may well be willing, or indeed require, some trade-off between return and impact, others will seek out opportunities where return fully compensates for risk, this view is also shared by O'Donohoe et al (2010) who claimed that some of the investors they surveyed expect financial returns from their impact investment that would outperform traditional investments in the same category while others expect to trade-off financial returns for social impact. Brest & Born (2013) went even further on this point, in their report; they identified 2 categories of impact investors based on their return expectations. The first category whom they tagged Concessionary (Programme-related) investors are those who are willing to make some financial sacrifice either by taking greater risks or accepting lower returns to achieve their social goals. The Non-Concessionary (Mission-related) investors, they argued are those who are not willing to make any financial sacrifice to achieve their social goals. This view of trade-off is not shared by Grabenwarter & Liechtenstein (2012) who argued that the financial return drivers of funded business models cannot be dissociated from the impact objectives and that if the business model is the means of achieving the impact objective, by definition, there has to be a positive correlation between the impact objectives and the business model's financial return. They finally stated that any business model in which every unit of social/environmental impact has a cost in terms of financial return is a disguised form of philanthropy.

As Impact Investment is a young and evolving field, it should not be surprising to have such different opinion on whether there should be a trade-off on either social/environmental and financial returns, but there seems to be an emerging consensus that there should be a degree of financial returns to at least keep the investment financially sustainable.

Having defined Impact Investment and having stated the conditions an investment must meet in order to be classified as an impact investment, the next section of this paper will try to look at the major difference between Impact Investment; Sustainable and Responsible Investing; and other Social Finance initiatives like Corporate Social Responsibility, Philanthropy, and Charity.

Impact Investment, Sustainable and Responsible Investing, and Others – the Difference.

Impact Investment has often been mistaken for other social finance initiatives like Corporate Social Responsible Investing, Sustainable and Responsible Investing; and in some cases Philanthropy. On the surface, Impact Investing has characteristics similar to these types of initiatives; however, a deeper look shows that it is very different from these types of social and financial movements. According to O'Donohoe et al (2010), the distinguishing factor between Impact Investment from the more matured field of Socially Responsible Investment (SRI) is that SRI seeks to minimize negative impact rather than proactively creating social or environmental benefit. Impact Investment on the other hand, proactively requires the management of social and environmental performance in addition to financial risk and return.

Drexler & Noble (2013) further expanded the differentiating factors between Impact Investment and other social financial initiatives. According to them, '' responsible investment refers to a broad array of investment practices – including socially responsible, sustainable and impact investing – that recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems. Furthermore, socially responsible investing typically refers to the screening of investments that may have some sort of negative impact to the society or to the environment (negative screen). On the other hand, sustainable investing refers to the active incorporation of ESG (environmental, social, and governance) criteria into the investment decision (positive screen); sustainable investing prioritises financial returns above social or environmental returns. While certainly "impactful'', these activities are not "impact investing" by definition, given that they do not intentionally and explicitly set out to deliver the dual objectives of social/environmental outcomes and financial returns".

Rodin & Brandenburg (2014) differentiated impact investment from SRI and Philanthropy as follows:

- At the heart of impact investing is the presence of dual objectives – the desire actively to achieve positive social or environmental results as well as financial ones.
- Impact investing may complement philanthropy and be used by philanthropists, but it is not philanthropy – unlike grants, impact investments are made with an expectation of financial return.
- Impact investing is more than ''doing no harm'' – it is a positive investment made in an enterprise that has the potential to solve a specific problem or deliver a particular service while also turning a profit or at least becoming financially self-sustaining.
- Both impact investors and the business in which they invest in track relevant financial as well as social and environmental performance metrics across their portfolios or enterprises.

With the information above, it can be argued that impact investment differs from sustainable investing in that impact investors actively and intentionally sets out to address social, economic and environmental issues with no intended trade-offs and above, the objectives are embedded in their business strategy. Impact investment differs from Social Responsible Investing (SRI) in that impact investors employ positive (as against negative screening of SRI) screening while making investment decisions. They intentionally seek out and invest in businesses that aims to address a given social and/or environmental issues as against the SRI approach in which businesses whose activities harms the environment are excluded in investments. Finally, unlike philanthropic activities such as grants, impact investors have financial/profit expectations from their investments just like other players in the financial market. As impact investment is still in infancy, it can be argued that the discussion on the difference between it and other social practices will continue until such a time when it is matured enough to decouple itself from these approaches to social investment.

So far we have defined what Impact Investing is, what qualifies an investment to be impactful and the difference between Impact Investment and other social investments. In the next section, we will try to explore the size the impact investment space and look at how companies are using Impact Investment to address social, economic and environmental issues.

Size of Impact Investment Space.

Since the term Impact Investment was coined in 2007, many leading proponents of impact investing have estimated the potential size of the sector. In 2009, the Monitor Institute estimated that the impact investment market could potentially reach $ 500 billion by 2020 (or 1% of total managed assets, estimated at $ 50 trillion. In 2010, JP Morgan and Rockefeller Foundation sized the bottom-of-the pyramid market opportunity across five sectors and estimated that the impact investment sector could reach $ 400 billion to $ 1 trillion by 2020. And in 2012, the Calvert Foundation formed an estimate through a representative survey of investment managers, applying prospective adoption rates to a global investment management industry of $ 26 trillion, and reached a market potential of $ 650 billion (Drexler & Noble 2013).

Using India as an example, Karamchandani et al (2009) estimated the market size for 60% of the income distribution. According to them, India's education market is estimated to be about $ 5.2 billion, a sizeable opportunity by any measure. As points to market comparison, this is about the same size as the global market for radio frequency identification (RFID) chips in 2007, tablet PC in 2009, network security software and devices in 2007, or the anticipated Chinese market for laser printers in 2010. The current healthcare market for the same segment in India is about $ 18 billion (Karamchandani et al 2009)

Though it will be difficult if not impossible to correctly estimate the size of the Impact Investment market, but a good proxy will be the size of the unmet needs of those living at the bottom-of-the pyramid in the developing world. This group of people is described by the World Resources Institute as people earning less than $ 3000 a year (Karamchandani et al 2009). The bottom-of-the pyramid (BoP) has immense and addressable needs in the areas of healthcare, education, energy, and food just to mention but a few. Karamchandani et al 2009, stated that another potential target for impact investors are those commonly described as BoP+, these are people living at the base of economic pyramids in developed countries of the world who may enjoy a higher income but can still benefit from impact investments that expand their access to services and opportunities. Finally, impact investors can devise innovative ways to tackle global issues like environmental degradation, pollution, high CO_2 just to name but a few.

Some Examples of Impact Investments.

Impact investors be them Foundations, Private Equity Funds, Venture Capital Funds, High Net worth Individuals, Bank, Family Offices, Development Financial Institutions (DFIs), Governments or just individuals with innovative ideas have invested in addressing the needs of the people at the base-of-the pyramid both in developing and developed countries of the world. Perhaps the most popular example is micro-finance, a concept developed by Mohammad Yunus to provide credit to people in Bangladesh who ordinarily will not have access to credit. Other than micro-finance, impact investors have been active in so many areas of needs; here we will briefly review 2 examples in the area of affordable clean energy in the developing world and affordable housing in the developed world.

SUNLABOB Rural Energy LTD – Laos

A 2009 report produced by Monitor Company Group cited the role an impact investor played in addressing the energy needs of the people in a rural community in Laos. According to a doctor in the village and stating the difference solar power has made to his work, he said, "Before we had solar, we had to fetch essential medicines and vaccines from elsewhere, because we had no way of keeping them cool here. Often people are very ill by the time they reach here so it could make a difference as to whether they live or die. With solar, we can operate at all hours. We used kerosene lanterns before, but they were dirty and smoky and the light was poor".

The solar energy that lights this village centre is provided by Sunlabob Rural Energy Ltd., a commercial company founded in 2001 to provide renewable energy services to those living in remote Lao villages. Since its establishment, Sunlabob has delivered high-quality photovoltaic (PV) systems to more than 450 villages serving between 300 000 and 400 000 people. Sunlabob uses a business model whereby village franchises rent a solar-recharging station, purchase a number of lanterns – from 24 to 144 depending on village size – and rent the lantern out. Commercial revenues cover all operational costs: the least-expensive Sunlabob PV unit rents for 35 000 Lao Kip ($4.00 per month; households typically spend 36 000 to 60 000 Kip ($4.20 to $7.00) for kerosene and will thus save money immediately by switching to Sunlabob's PV lanterns. Typical renter households earn $20-50 per month and have no access to the power grid.

The Sunlabob example, though difficult to generalise shows that investors can contribute to addressing some of the most pressing social and economic needs with market logic and profit motives. Above all, this shows that the needs can be provided in ways that harms neither the consumer nor the environment, and finally , solutions like this either be scaled to reach others in remote areas of Laos or can be replicated for use by millions of others living in the developing world who have no access to energy.

The New York Acquisition Fund.

A 2012 report produced by Impact Assets together with Insight and CASE at Duke's University demonstrated a case of government, foundations, and financial institutions working together to address a social issue in The New York Acquisition Fund. In 2004 the New York City Housing and Preservation Department (HPD) proposed the $200 million New York Acquisition Fund to address the city's affordable

housing crisis. A previous fund had failed to address a gap in predevelopment financing largely because it did not involve all stakeholders to accurately diagnose the scope of the problem.

With collaboration as a guiding principle, The Rockefeller Foundation quickly emerged as a critical partner, advocating for the project and providing over $1 million in start-up administrative costs during the negotiation and incubation phase. Four other foundations provided $806 000 in start-up grants.

Foundations were also identified as anchor limited partners (LPs)/investors, investing alongside the city in a $40 million guarantee pool designed to leverage commercial bank funding in a 'layered risk' approach.

It took over two years to reach a final agreement that involved the city government, 10 foundations, 16 commercial banks, five community lenders, and two national housing organisations.

Since its launch in 2006, the Acquisition Fund has proven the value of coordination, investing over $150 million in New York City and creating or preserving units of housing. As of 2009, nine initial loans, representing $50.4 million have been fully repaid. Due to its success, the Fund has been used as a model for other cities; governments in New Orleans, Atlanta, Chicago, and Los Angeles have looked to develop similar solutions with local foundations and financial institutions (Clark et al 2012).

The case of the New York Acquisition Fund demonstrates that Impact Investors can not only address the needs of the poor in the developing world in the areas of food and energy, but it can they can all work in addressing the unmet needs of the BoP+ in the developed world and above all, if the intervention is properly implemented, it can generate a multiplicity effect in that it can be replicated in other places thereby reaching a greater number of those in need.

Having had a look at some examples where Impact Investment has been deployed or public good, this paper will briefly look at some challenges facing Impact Investment which, if not resolved may hinder the its potentials to deliver on its promises.

Challenges for Impact Investment.

Asset Class or Investment approach?

There has been a wide debate among practitioners and academicians on whether Impact Investment is an investment philosophy, investment approach or an asset class. This debate has to some extent hindered the acceptance of Impact Investment among mainstream investors and may work against the values impact investment promises to deliver.

Drexler & Noble (2013) described Impact Investment as an investment approach and not an asset class, arguing that Impact Investment is a criterion by which investments are made across asset classes. They went further to argue that an asset class is traditionally defined as securities or investments that behave similarly under varying market conditions and that are governed by a similar set of rules and regulations. Under this definition, they concluded, impact investing is an investment approach across asset classes, or a lens through which investment decisions are made, and not a stand-alone asset class.

O'Donohoe et al (2010) believed that Impact investment is an emerging asset class, arguing that while certain types of impact investments can be categorised within traditional investment classes (such as debt, equity, and venture capital), some features dramatically differentiate impact investments. They

continued by stating that an asset class is no longer defined simply by the nature of its underlying assets, but rather by how investment institutions organise themselves around it. They proposed that an emerging asset class should have the following characteristics:

- Requires a unique set of investment/risk management skills
- Demands organisational structures to accommodate this skillset
- Serviced by industry organisations, associations and education
- Encourages the development and adoption of standardised metrics, benchmarks, and/or ratings.

These characteristics, they argued are present or such asset classes as hedge funds or emerging markets, which channel significant capital flows as a result. With these indicators having materialised in the impact investment space, they concluded that impact investment should be defined as a separate asset class.

Resolving whether Impact Investment is an asset class or an investment approach will really help attract resources, especially among institutional investor who have the resources and network to push impact investment into the mainstream investment space and to deliver on the promises of impact investment in addressing the numerous social and environmental issues facing humanity.

Must Impact Investing entail a trade-off?

The situation of Impact Investment between for-profit and non-profit business activities has led to a discussion on whether impact investment must entail a trade-off between financial and social returns. Within the impact investment space have emerged what some authors call Concessionary (Impact-first) and, non-Concessionary (Finance-first) Investors. Concessionary investors, they argued are willing to sacrifice some financial returns for reasonable social returns, this group is also called Program –Related Investors. Non-Concessionary investors on the other hand, are those who are not willing to make any financial sacrifice for social returns, this group of impact investors are normally referred to as Mission-Related Investors. This classification of Investors is supported by Brest & Born (2013) and O'Donohoe et al (2010).

Grabenwarter & Liechtenstein (2012) disagree with the idea of trade-off or a mandatory trade-off in impact investment; they argued that an investment should be an investment and that Impact Investment is like any other investment. Based on the survey of over 60 impact investors, they were not able to confirm the existence of a mandatory trade-off to be made by impact investors between pursued impact objectives and financial returns and that any trade-off between profit and social impact is either the investor's choice or a result of limited sector/market knowledge and poor strategic set-up.

Clarifying the issue of trade-off is very important to really understand what Impact Investment really is and to differentiate it from purely philanthropic activities like grants. It will also help those who want to distinguish and keep separate their investment and humanitarian activities.

The issue of Impact Measurement and Reporting

While it is easy measure financial performance using the widely available tools and metrics used by traditional investors; it has not been easy to come at a consensus among Impact Investors on how best to measure impacts. Though organisations like GIIN's (Global Impact Investment Network) IRIS (Impact Investment Reporting Standard) has over the years been trying to standardise impact reporting, opinion is still divided among practitioners on what should be measured and on what constitutes an impact. The lack of generally accepted standards of impact measurement and what should be measured have led to a lack of cohesion among impact investors on this topic. In a 2010 survey conducted by JP Morgan together with

The Rockefeller Foundation and Global Impact Investment Network (GIIN), they found out that most impact investors have created their own systems for tracking and measuring impact. This they claim is inefficient for the market as a whole and limits comparability across investments. Among the investors surveyed in the report, only 2% employed a third-party impact measurement system. According to them, a standardized and well-defined social performance metrics will ensure that impact investments can be accessed against a set of rigorous impact criteria and compared more broadly.

On what constitutes an Impact and thus what is to be measured, Drexler & Noble (2013) cite issues like increased productivity or crop yield in agriculture, participant rates of girls in secondary education in Africa in education, number of individuals at the base-of-the pyramid who gain access to electricity in energy, etc., as impact and ought to be measured. Grabenwarter & Liechtenstein (2012) disagree with this measure as they represent not impacts but merely outputs. They argued that the real impacts must mean outcomes, positive outcomes to be precise. They went further to argue that the output of an activity does indeed have a causal link with the investment activity financed and possibly even with the very investment analysed. They concluded that not every output actually stands for an impact and there may be outputs of an investment's funded activity that have no impact or even negative impact. Grabenwarter & Liechtenstein argue that true impacts needs to be assessed by means of collateral damage analysis and that some impacts intended by an investment may be counter-productive when placed in a larger context of negative externalities.

The issues of what constitutes an impact, what is to be measured, what is to be reported and a generally accepted way of reporting them is a very important albeit difficult issue with Impact Investing. Resolving this issue, it can be argued, has the potential of attracting more funds and investors into the Impact Investing space and move it from the present state of niche to mainstream investment.

Other challenges such as imperfect information, scepticism about achieving both financial and social impacts, inflexible institutional practices, small deal size (Brest & Kelly 2013), and also increased competition and adverse market condition like low interest rates for microfinance has been cited as hindering the development of Impact Investment, details of them are beyond the scope of this study. However, it can be argued that as a relatively new field of investment, challenges like these are only natural and will be resolved as the field of Impact Investment evolves.

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