

Global Innovation Fund Roundtable Summary Document – August 2009

On July 22nd, 2009, the Aspen Network of Development Entrepreneurs (ANDE) and the Calvert Foundation convened a group of approximately 40 leaders in the field of economic development to discuss the concept of a U.S. government supported “Global Innovation Fund.” Eleven different concept papers were presented and discussed as part of the roundtable. This document summarizes the discussion and provides some common design principles that emerged from the discussion and subsequent review by the meeting participants. The principles below represent a strong majority view, but not necessarily consensus.

Recommended Design Principles for a Global Innovation/Entrepreneurship Facility

- Small and growing businesses in emerging markets need human, financial, and knowledge capital to thrive. Therefore, both capacity building (business/technical assistance) grants and investment capital components should be included in a global innovation fund. To reflect this dual nature, the mechanism may be more appropriately called a “facility” than a “fund.” Further, the term “entrepreneurship” may be a better descriptor than “innovation.”
- The facility should promote integration across existing U.S. government funded programs and foster alignment between the programs that provide capital and those that provide technical assistance.
- Funds should ultimately be targeted at small and growing businesses, firms that have at least five employees and have plans to expand. The target investment size should be geared to the particular needs of each country, but will likely range from a minimum of \$20,000 to a maximum of \$2 million. Incentives to invest at the lower end of this scale should be considered.
- Taxpayer funds should be utilized to provide investments or grants that have a social and/or environmental return. Evaluation should include metrics beyond simple financial return, potentially including: increased incomes to poor citizens, increased employment for the poor, and other social and environmental metrics.
- The facility should support the development of *local* financial markets and investment expertise. In selecting intermediaries, the facility should consider their impact on building *local* capacity.

- Investment funds should not crowd out private investment, but rather should be aimed at addressing areas where private capital is inaccessible because there are few equity investors and/or local banks are unwilling to lend to small businesses.
- The ultimate type of investment capital employed (debt, equity, quasi-equity) should not be dictated by strict fund guidelines, but be determined based on local market needs, bearing in mind the need for an eventual exit.
- The facility should incorporate a long term perspective which recognizes that true development impact will take years to achieve. Ideally the facility would be designed with a guaranteed multi-year funding stream and a structure that integrates multiple government stakeholders. Still, the facility should be designed to deliver some rapid and visible results in order to make it feasible to sustain its long-term existence.
- The facility should be constructed to ensure as much transparency in the capital flows as possible.

Discussion Summary

Opening Session – Randall Kempner, Executive Director, ANDE

There is a trio of challenges that small and growing businesses (SGBs) face in emerging markets – human capital, knowledge capital, and financial capital. ANDE members work in developing countries to address each of these issues.

Context: There is renewed interest in market-based approaches to development and SGBs by multilaterals and government agencies. Recent speeches by President Obama (in Cairo) and Secretary Clinton (at the Council on Foreign Relations) have moved entrepreneurship to the forefront. Our goal today is to share ideas with our government colleagues about a potential Global Innovation Fund that would support entrepreneurship in the developing world.

Rob Lalka – Global Partnerships Liaison, Office of the Secretary of State

Secretary Clinton refers to smart power as the three D's – defense, diplomacy, and development – and comments that “we will elevate development as a core pillar of American power.” Recently at the Ted@State conference, Jacqueline Novogratz challenged the government to create a Global Innovation Fund. The US government right now has no preconceived notions of what should happen – we are here today to listen and learn from everyone present. We want your ideas.

Concepts for the Global Innovation Fund

Eleven participants submitted draft papers that offered visions for a U.S. government funded global innovation fund: Calvert Foundation, Milken Institute, Benchmark Asset Advisors, Good Energies, CHF International, TechnoServe, SEAF, Kauffman Fellows Program, William Davidson

Institute, Dalberg Global Development Advisors, and Acumen Fund. Each organization provided a brief overview of their concept paper. *(Note: Concept papers are available from ANDE)*

Concept Summaries

1. There is a new class of investors who are more concerned with downside risk than making money on the upside. The GIF should include a built-in risk mitigation structure – when returns come back, the government gets \$1 and the public gets \$3 until private investors have their money back, then they split it 50/50. This kind of subsidy is attractive to social investors and would be in lieu of a TA component. (Calvert Foundation)

2. The GIF should be a mezzanine capital fund – this type of capital would enable structures to grow and have tiers of investors. Thought should be given to side by side funds where there are separate places for grant money and investment money. Government involvement is necessary to act as an investor at a lower rate, to be an enabling/instigator investor, and to conduct TA. (Milken Institute)

3. The government should be involved as a direct investor. The goal should be to create a risk managed instrument and keep it simple with transparent direct investments. (Benchmark Asset Managers)

4. The government has an invaluable role to play in creating a framework by which to address the global energy disparity whereby 25% of the world has no access to electricity. USAID and State specifically are in the position to help SMEs deliver renewable electricity to these portions of the world in a sustainable, scalable way, beyond the means of most NGOs. This can be structured through regional funds under an umbrella fund/facility structure, which have the depth of local market expertise required to support small businesses in this arena lacking access to capital and technical assistance to grow in their respective markets. (Good Energies Foundation) Currently, the intermediaries are taking the risk since they have to source capital from five different sources; USAID could pull all the pieces together so TA becomes linked with investment capital. (E+Co)

5. The GIF should address resource gaps that limit growth SMEs by investing in two types of interventions – a loan guarantee facility to encourage local banks to lend to SMEs and a professional training program to create business development service operators in country. (CHF International)

6. The government should play a role in providing the hardest capital there is – technical assistance. To make an impact, we first need to make sure there is a pipeline of SMEs that are investable. We should start with a global SME/SGB portal to identify entrepreneurs and then build the fundable ones to capacity; however, we must involve the capital suppliers from the start. (TechnoServe) TA is the number one risk mitigation strategy and there must be an interconnection between it and investing. (E+Co) We also must think about the enabling environment in these countries so we don't create dependency. (WRI)

7. If the government wants to play a role in the SME space, it needs to be a seed capital role (some as risk mitigation, some as grants) with basic ground rules and an RFP process. The GIF could act as one place to get all the components acting together but must be low on the bureaucratic side. The GIF may need to have two pillars: 1) basic needs (higher value on social return), and 2) growth (with adequate financial return). (SEAF) The State Department could pick up the challenge fund methodology tailored around the particulars (an accounting firm could be hired to run the RFP contest to avoid bureaucratic challenges). (Grassroots Business Fund)

8. The GIF should support the opening of the American venture capital ecosystem to the rest of the world. This effort -- the Venture Corps -- would envision the creation of a global network of interconnected regional funds in emerging regions to connect dealmakers and to share real-time market knowledge, mentorship by industry veterans, domain expertise, and access to strategic partners and skilled workforce. Such an endeavor would connect local ecosystems to the global venture ecosystem and its capital, people, ideas, and markets. The government is necessary for validation of the effort, for access to global relationships, and potentially to serve as direct investors in technical assistance programs and regional fund creation. (Kauffman Fellows Program)

9. In order to succeed, the GIF must operate on two levels – with investments and capacity building decisions made at the country/regional level and policy/monitoring done through US-based organizations. An implementing agency would report to the State Department and determine objectives, disburse grants, and select local grantees. A monitoring and evaluation agency would work with the regional funds to monitor fund performance and investee activities. The regional/country funds would receive funds, identify partner organizations, and deliver capacity building services to investees. The buffers between congressional committees and agencies are extremely important. (William Davidson Institute)

10. The most impact needs to happen locally to be successful at a global level. So, the GIF should form a network of regional funds aligned with the regional breakdown of the State Department and housed in the White House Office of Social Innovation. The GIF would act as seed capital and fund a centralized back office service provider that would help regional offices lower costs. The regional funds should deploy a blend of grants and debt while the GIF should deploy matching grants and/or credit enhancements. (Dalberg)

11. The GIF should be placed in USAID or at an arm's length. Rather than invest directly, the GIF should work with intermediaries and provide them grant funding for investment and management assistance. Development is about creating market-based approaches to build businesses that can listen to the customer, scale with patient capital, and meet customer needs. (Acumen Fund)

Government Official Response

Representatives from the U.S. Department of State, OPIC, MCC, USAID, White House Office of Social Innovation, and Treasury Department attended the roundtable. The government officials

present mentioned the importance of leveraging the different capabilities of each organization in the room when trying to create an environment to promote entrepreneurship. Funding entrepreneurs in a venture capital model can become problematic for government actors due to the higher risk profile of equity investments.

Officials encouraged the attendees and the private sector as a whole to think of ways in which the provision of technical assistance could be partially transitioned to the private sector in a sustainable way. These government officials know one another and already discuss amongst themselves how to best work together. However, they noted that many agencies could use the help of experts around the table to help make the case for enhanced public-private partnerships and to promote the value of investment in small and growing business as a development engine.

In Sum: Make the Case Now

Within the US government, there is a growing degree of interest in a fund that would support small and growing businesses in emerging markets. Both President Obama and Secretary Clinton have been outspoken in their support of entrepreneurship as a development vehicle and in favor of greater public-private partnerships. Given President Obama's Cairo speech, there may be particular impetus and opportunity in the short term for a Muslim-world focused facility. However, given the level of interest across governmental departments and the opportunity to engage other nations at the upcoming G20 conference in Pittsburgh, this idea has significant potential to develop on a global basis. Proponents of a global innovation/entrepreneurship facility should make the case now as there is clearly a window of opportunity.

Next Steps

Beyond sharing this document with roundtable participants and interested policy makers, the Aspen Network of Development Entrepreneurs will continue to follow this issue and provide advice and guidance as requested. In addition, we may hold additional meetings to develop an official ANDE position paper on the facility.

For additional information about the roundtable discussion, please contact Randall Kempner, Executive Director of ANDE, at Randall.Kempner@aspeninst.org.