



**In late 2010, four highly-paid (INSEAD MBA) financiers walked away from lucrative jobs and set up a private equity company to prove that creative and equitable investment can change the world. They call it “responsible capitalism”.**

It began as an exchange of pleasantries, a chance meeting in an office corridor between the regional heads of two leading Swiss banks. The conversation between the men, both INSEAD alumni with a shared background in high finance and developing economies, turned to development funding and impact investing and became a discussion that didn't stop. Amplified by like-minded friends, the ideas took root culminating in the creation of Willow Impact Investors, the Middle East's first impact investment company.

Willow has a unique business model that aims to transfer not just capital but experience, technology and expertise, to make a profound and lasting impact on small to medium-sized businesses in developing nations, while offering investors returns on a par with, or better than, many regular emerging markets funds.

“It's not about philanthropy,” insists Willow co-founder and managing partner, **Pasha Bakhtiar** (MBA'03D) whose initial conversation with Nic Farah (MBA'96J) got the ball rolling.

“Philanthropy has proven it can only do so much; what we're trying to do is empower a different segment of the population which hasn't had access to something we regard as a basic tool to growth –

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and that's capital.”

### Filling the finance gap

With micro-financiers providing loans to grow very small businesses, and emerging market private equity funds focusing on the US\$30 million-plus deals, Willow believe it is the small to medium-sized businesses needing between US\$1 million and US\$6 million to grow their enterprise which are falling through the cracks.

“If we can't get capital down to those segments, which fuel up to 80 percent of the economies in some markets, there are going to be problems,” Bakhtiar told INSEAD Knowledge.

### No trade-offs



Impact investing, where capital is invested to help commercial, local enterprise provide scalable solutions to social problems, is a relatively new but

fast-growing asset class with particular appeal to fund managers and retail investors in developing markets. The Monitor Institute, part of the international management consulting firm, Monitor Group, estimates it could expand to one percent of the current global assets under management within ten years – a figure estimated at around US\$500 billion. On the down side, industry critics note a lack of track record of successful investments and – as pointed out in Credit Suisse’s 2012 report “Investing for impact: How social entrepreneurship is redefining the meaning of return” – concerns that the potential for far-reaching social good comes with financial risk. “There are very few examples of exits out there,” agrees **Christine Driscoll Goulay**, Associate Director of INSEAD’s Social Entrepreneurship Programme. “So, while impact investing is very important as a great combination of business acumen while achieving social good, we really don’t know if this type of investment works from a financial point of view. It really still is in a phase of experimentation which is exciting but risky.”

Driscoll Goulay told INSEAD Knowledge that while the potential in the market was “seductive” it needed to be tempered with reality. Many social enterprises were at too early a stage for “proof of concept”, she notes and there was a chance the growing attraction of impact investment companies – there are now 200 funds globally – could lead to excessive competition and a “bubble” in the impact investing market.

But for Bakhtiar there is no need for trade-offs between impact and profits. “Financial assessment goes hand-in-hand with impact when making our investments decisions. It may take five years to realise, but we truly believe returns of around 20 percent are not far from reality.”

### Taking the leap

It is this shared assumption that responsible investments can make money, and that more people than ever are looking to do good as well as make good, that brought the Willow team together. Bakhtiar, Farah and fellow INSEAD alumni **Nadine Kettaneh** (MBA’94) had been meeting regularly for more than 12 months, discussing ways in which investors could make the biggest impact on a country’s social development, when Bakhtiar, who had been having similar discussions with his friend Gabriel Rabinovici in New York, suggested they all get together.

“So, there were the three of us working weekends here in Dubai and Gabriel in New York when we realised it had gone beyond ‘let’s get together for coffee’,” says Bakhtiar. “We had to put our money where our mouth was or it just wouldn’t take off. As

with all entrepreneurial ventures we had to make the very painful and difficult decision to step away from our comfortably paid jobs in traditional finance and that’s what we all decided to do simultaneously.”

Initially setting up in Dubai (Willow is registered in Luxemburg but has offices in Dubai, Nairobi and New York) the group had a view to raising the bulk of their funds in the oil-rich Gulf region but found investors wary. “We do have ultra-high net worth individuals from the Middle East (amongst our investors),” says Bakhtiar “but we also have high net worth family offices in Europe, we have American asset managers and institutionals. It’s really anyone who has an understanding of what private equity growth capital is and of what it means to deploy patient capital.” The Willow partners invested about US\$2 million of their own savings into the company and agreed to take a two-and-a-half year salary hiatus.

### First investment

In October this year, two years after quitting their jobs and half way to reaching their US\$80 million capital raising target, they completed their first investment, acquiring a 35 percent stake in Bio Food Products Ltd, a Kenyan dairy food producer with a vision to expand its lines to include nutritionally-fortified products and to develop a string of chilling plants giving small farm-holders better access to market.

“Bio is beautifully run with very high standards in its environmental and social codes of conduct, it has strong governance and a very strong reputation for quality,” notes Kettaneh. “And it’s a place where we can really make a difference.”

By buying into the company Willow becomes an active partner, taking two board positions and assisting management, bringing with it technical and financial support. “We bring with us all our relationships and our networks to help open new markets,” says Kettaneh. “In a way this has become our business so we grow it like we would our own.”

By creating milk-chilling and collection facilities in selected rural areas, the Bio-Willow partnership will help maintain the quality of milk needed for Bio’s products while helping reduce wastage and contributing to food and income security. Providing a greater number of small farmers with access to market supports small enterprises and employment and encourages the creation of “business hubs” in rural areas.

Willow also aims to have a positive impact on the dairy industry as a whole by sharing best practices and expertise with suppliers. Finally, says Kettaneh,

by increasing its product range to include nutritionally fortified products, Bio is helping keep children healthy and able to travel to school.

### Infrastructure the biggest challenge

Willow's geographical focus is the eastern swathe of Africa from Ethiopia to Mozambique where lack of infrastructure poses the biggest challenge.

Corruption, says Bakhtiar, is not on the table. "We don't work or invest with businesses that engage in that type of practice and we have a very stringent due diligence process which enables us to go deep enough to know what's going on."

The global economic crisis, he notes, has neither "catalysed" nor impeded Willow's progress. "Being based in Dubai we have access to areas of the world which are actually still growing," adds Kettenah. "We don't just look at the Western doom and gloom, we also have access to the Middle Eastern world and the African world."

### Tweaking the model

With its first investment finalised, the company is looking to its second. It has about 15 opportunities under consideration including pedal-powered lighting, food logistics and renewable cook-stove technology.

"People from Bill Gates to Warren Buffett to Jeffrey Sachs all advocate the need for more creative and innovative forms of capitalism," says Bakhtiar. "We've taken a model and we're tweaking it in our own way, which is small scale, but we're hoping for it to become more widespread. It needs to happen, we can't have an increasing gap in wealth disparity eternally."

*INSEAD runs events on impact investing in its Social Impact Catalyst and is the European partner for the International Impact Investing Challenge hosted by Kellogg School of Management and sponsored by the Calvert Foundation.*

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