Assessing the Impact Potential of Investments in Social Entrepreneurship

Last July, in Lugano – Switzerland, I spoke at the first-ever conference on Partnering for Global Impact (PGI). This is an annual platform, organized in collaboration with INSEAD, dedicated to impact investors and social entrepreneurs, so that both sides can meet and make deals that support the scaling up of social enterprises.

During the conference, I met with several heads of family offices and investment banking units who were making impact investments as part of their portfolio. They were seeking advice on where and how to invest in order to achieve a strong societal impact. In particular, they asked for frameworks that could help them in selecting impact investments. This is a frequent request from impact investors, reflecting a gap in our knowledge. While the selection criteria for traditional investments is well understood (expected risk-adjusted return) and there are strategy frameworks to analyze industry profitability (such as Porter's Five Forces framework), there is no practical framework to assess the likelihood that an investment will have a strong positive impact in society. Drawing from my experience with more than 400 social entrepreneurs whom I met during the INSEAD Social Entrepreneurship Program (ISEP), I presented at the conference a framework for assessing the potential for societal impact.

The essence of social entrepreneurship is to develop, validate and scale a sustainable solution to a societal problem[i]. Thus, it is critical for an investor in social entrepreneurship to analyze both the **societal problem** being addressed and the nature of the **proposed solution**.

There are two key drivers of impact for a societal problem:

1- **The extent to which the problem is currently neglected by society.** This can be measured in two ways:

- the extent to which the problem is ignored by society (for example, the world was not aware of the severe negative impact on populations of buried landmines in war-torn regions until recent advocacy efforts from the United Nations).

- how bad is the current dominant solution (for example, until the wide availability of microfinance in Bangladesh, poor people who needed working capital had to borrow it from village money-lenders at a rate of more than 1000% per year).

2- The **importance of the problem** for society. This can also be measured in two ways:

- the size of the problem, usually defined in terms of the number of people that it affects (for example, mental illnesses in the elderly population are increasing at an alarming rate).

- the criticality of the problem, usually expressed in terms of its impact in the target population (for example, cataracts in the eyes, if not treated through a simple surgery, will cause blindness which has a very negative impact in the individual and its family, as well as society).

Important problems that are neglected by society represent a fertile domain of work for social entrepreneurs and deserve to be supported by impact investors because solving these problems is likely to have significant impact in society.

But investors also need to consider the nature of the proposed solution. In particular, they should be looking for solutions with two key characteristics:

1- Focus on **excluded populations**: some segments of the population have been driven away from an active role in society. For example, long-term unemployed people, homeless people, criminal offenders, people with disabilities. Any solution that manages to involve these populations into an active and positive role in society is likely to have a significant impact.

2- The proposed solution **leverages spillovers** that go beyond the direct effect of the interventions. For example, secondary school education in Africa benefits directly the students because they gain access to university educations and can earn higher incomes, but it also has strong spillovers for society due to the higher employability and increased productivity, which will increase the country's GDP and generate more tax revenue.

In summary, the most compelling social entrepreneurial initiatives are the ones that deal with important and neglected problems and propose solutions that target excluded populations and explore spillovers. A good example is Sameer Hajee who became a social entrepreneur in 2009, a few years after graduating from the INSEAD MBA. He focused his social enterprise – Nuru [illegible]w.n[illegible] on the problem of [illegible]ergy [illegible] of Africa and India, a [illegible]ecting 500 million people in those [illegible]ho[illegible]y governments and not well served by markets. The current dominant solution is the use of Kerosene lamps for lighting. But a Kerosene lamp is a very bad solution since it is expensive, provides poor light, can cause illnesses and burns, as well as environmental pollution. Nuru's proposed solution involves replacing these lamps with a renewable energy lantern, targeting the poorest villagers in East Africa and India. The lantern is charged once a month through only 20 minutes of pedaling in a fixed bicycle owned by a micro-entrepreneur who also sells the lights. This solution is ten times less costly for the clients and has significant positive spillovers, leading to fewer fire accidents, improved health conditions, and reduced carbon emission. In addition it provides better light for reading or socializing at home. Nuru Energy thus seems to fulfill the criteria that make it a high potential impact investment[ii].

Social entrepreneurship and impact investing are exciting growth areas that illustrate the best facet of capitalism. Social entrepreneurs provide particular value to society in areas where markets fail and governments ignore. We need clear frameworks that allow impact investors to make the most of their resources by supporting social entrepreneurs focusing on the right problems and bringing effective solutions.

[i] For more information you can check my paper: "A Positive Theory of Social Entrepreneurship" in the Journal of Business Ethics, 111:335–351.

[ii] You can read more about Nuru in the INSEAD Case: "Nuru Energy (A): Financing A Social Enterprise" authored by myself and Anne-Marie Carrick, winner of EFMD 2012 award for best case – Africa Category.

Find article at
https://knowledge.insead.edu/blog/insead-blog/assessing-the-impact-potential-of-investments-in-social-entrepreneurship-2661