

EXPLORING A NEW FINANCIAL PARADIGM in Social Investment

The business sector can be more involved in financing the work of the social sector. Arthur R. Wood makes his case through the sanitation issue and shares Ashoka's plans in paving the way for more collaboration between the social and business sectors.



Today, the best solutions for global social innovation do not only involve direct stakeholders. Increasingly, it has become crucial to engage supporters and investors from the corporate, banking and public sectors to contribute to the financing aspects of these social solutions. For these new parties to come on board, a case needs to be made for their involvement.

Sanitation – The Pressing Social Issue

As stated in the November 2007 headline of *Lancet*, an international medical science journal, sanitation is one of the most cost-effective areas in International Public Health that should be capitalised on and given immediate attention. A survey of British doctors by the *British Medical Journal*¹ similarly revealed the same trend – sanitation was deemed the most important health innovation over the last 150 years, once again highlighting the enormous untapped potential of social investing that exists within this field.

The International Year of Sanitation was launched in 2008 against a backdrop of continued decline in the pace of reaching the United Nations Millennium Development Goals (MDG). By year 2015, the world needs to reduce the number of people without access to basic sanitation by a staggering 1.3 billion. In conjunction with this initiative, it is hence crucial to draw attention to the innovation of financing existing structures in the field of sanitation.

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The moral imperative in this cause is obvious. The fact that poor sanitation is the cause of 1.8 million deaths² a year worldwide – of which 90% are children below the age of five – is a compelling reason why different organisations and individuals are making financial contributions. Sanitation also provides a strategic entry point for development of the social sector. Investing resources in the sanitation field not only bears results for the sector alone, but also yields positive spillover effects for relatable issues such as access to education, productivity, gender equality, agriculture as well as environment.

Sanitation and Social Investment

From detailed studies done in the sanitation field, it has been discovered that the development of a new scalable model, capable of drawing on substantive capital at significantly lower costs, is feasible within the sector.

In the sanitation field, there are some inherent elements that facilitate collaboration. For a start, despite the highly fragmented market within which it is working, the sanitation community remains identifiable as evident from the various players that they have successfully engaged – namely the Water Supply and Sanitation Collaborative Council (WSSCC) as well as the United Nations Children's Fund (UNICEF).

While most financing opportunities in philanthropy are not large enough to attract banks and corporations, the sanitation market is relatively substantive, requiring a minimum of US\$8 billion per year, for a period of 10 years to meet MDG targets. This translates to an estimated investment of US\$85 billion with an estimated US\$650 billion worth of social externalities, presenting scalable opportunities for both the banks and the social sector. The deal is further sweetened by favourable economic estimates. Each dollar that

has been invested in improving access to water and sanitation in developing countries is estimated to reap economic returns ranging from US\$3 to US\$34 to investors.³

It is also relatively easier to measure the social returns on investment with the sanitation industry. The players within the sanitation field are presently making use of a single data source of key performance indicators compiled by the UNICEF and the World Health Organisation (WHO). Furthermore, clear and comprehensible metrics are in place to assess the social impact of sanitation projects undertaken around the world. Several organisations such as the Department for International Development (DFID), WHO, the Water and Sanitation Programme (WSP), UNICEF and *Lancet* have played a part in identifying the relevant indicators, creating a firm foundation for the sanitation field.

The sanitation ground is ripe for engagement. Multilateral organisations such as the WHO and UN thus far have played a critical role within the sanitation sector as they work towards helping developing countries achieve the MDGs. However, these agencies are now beginning to look for new financing sources and are considering collaborations or engagements with banks to create a more sustainable funding process.

Bridging the Gap

Now, within the sanitation field, there are two established, straightforward investing solutions that have been used to finance advancements in the sector. Firstly, there is the donor model which yields a negative 100% return; and secondly, the for-profit model which makes use of capital from commercial ventures to create social impact.

The current capital system operates solely on fragmentation, resulting in a plethora of metrics and a demonstrable lack of collaboration among the different players. It is useful to view the process as a continuum of social and economic impacts, from negative 100% returns witnessed in the donor model to positive market returns attained in the for-profit vehicles. Through cooperation, a process that effectively builds markets and social solutions is created, and moves market solutions to scale accordingly.

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The social capital market that lies midway between the donor and for-profit model is highly fragmented. This is evident in light of recent Stanford University research which revealed that since 1973, fewer than 0.07% of social sector entities garner US\$50 million in revenues, reflecting a fundamental inability of these organisations to scale up.⁴ The high capital allocation cost exceeding 25 to 50% is also another major issue to be taken into consideration. The absence of financial and legal mechanisms or incentives to create and encourage collaboration adds to the inertia.

To maximise the utility of social capital in philanthropy, efforts are needed to lay the groundwork. These activities include identifying scalable, community-led solutions; realising public-private partnerships and legal advancements; as well as creating large-scale, sustainable financing mechanisms which combine private and public sector funding. Covering this ground ensures that existing subsidies or funds will be leveraged to their maximum. In addition, the incentive structure within which commercial and financial players are encouraged to contribute to the social sector has to evolve to allow for effective scaling, while preserving the position of the sector.

The Way Forward

In simple financial terms, the key question is whether we can significantly alter the incentives structure in order to engage all partners across the whole range of investment positions and achieve a market which is incentivised to scale.

This form of collaborative understanding stands at the heart of the Ashoka World Sanitation Financing Facility (WSFF), a platform to provide funding and matching opportunities for donors and recipient groups. The new platform focuses mainly on cross-field solutions and collaborations to resolve some of today's most pressing social issues.

Ashoka has put in place a three-phase developmental process to implement the desired framework.

The first phase brings together multilateral institutions, governments, banks, corporations and social entrepreneurs to identify and aggregate a critical mass of sanitation investment opportunities. Discussions also seek to formalise a qualitative and quantitative

evaluation platform for identifying investment ideas most likely to improve access to sanitation.

The second phase implements innovative funding models with banks and encourages tax and legal innovation to create alternative incentives for communities, foundations, corporations, the citizenry, non-governmental organisations (NGOs), financial institutions and governments to address sanitation. The goal is to foster collaboration and facilitate scale in both the corporate and social sectors by changing the financial incentives along the entire sanitation value chain.

Lastly, Ashoka seeks to work with key players to expand the scalable platform for sanitation projects that can benefit all parties. Competition and scale will attract new partners and thus reinforce the goals of the WSFF.

We hope that Ashoka's experience provides the framework for other philanthropic entities to create and demonstrate collaboration on a practical level. There is a need for change in our existing financial systems. We are working on an evolving paradigm that will create business and banking opportunities such that the philanthropic dollar helps the relevant sanitation institutions to profitably address the bottom of the pyramid. ❖

¹ Miranda Hitti, "Sanitation Gets Top Vote in Medical Advances from Readers of the Journal BMJ" *WebMD Health News* (January 19, 2007) <<http://www.webmd.com/News/20070119/greatest-medical-advancement-sanitation>>

² Cited in *MedIndia*, "Clean Water and Sanitation can Prevent Diarrhoea Deaths in Kids," (November 24, 2007) <<http://www.medindia.net/news/Clean-Water-and-Sanitation-can-Prevent-Diarrhoea-Deaths-in-Kids-29774-1.htm>>

³ UNICEF, World Health Organisation, "Meeting the MDG Drinking Water and Sanitation Target: A Mid Term Assessment of Progress," (2004), 20 <http://www.who.int/water_sanitation_health/monitoring/jmp04.pdf>

⁴ William Foster and Gail Fine, "How Nonprofits Get Really Big," *Stanford Social Innovation Review* (Spring 2007) <http://www.ssireview.org/site/printer/how_nonprofits_get_really_big/>

The views expressed in this article are that of the author's and do not necessarily represent the views of *Ashoka Social Financial Services*.



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