

Philanthropy and Corporate Social Responsibility

Beyond CSR:

How to Enhance Corporate Philanthropy through Impact Investment

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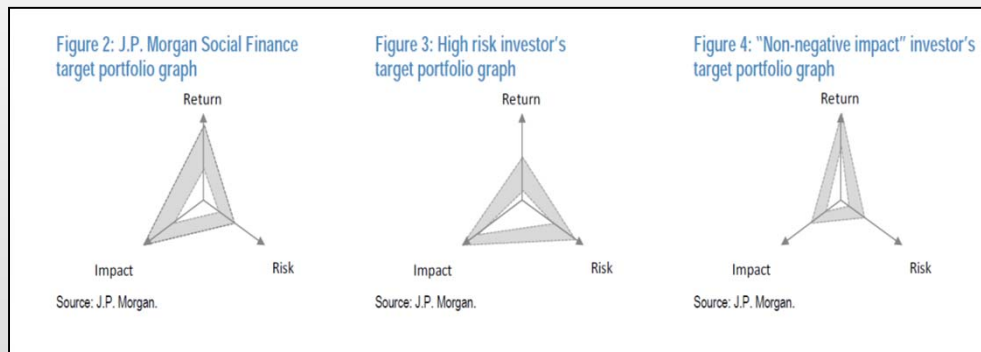
I. Introduction (1/2)

- “Impact investments” are investments made into companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return (**Giin Definition**).
- Impact investment is a new way of deploying capital that can combine the demand for profitability with a desire to solve social and environmental problems. Impact investment offers a middle way between philanthropy and pure financial investment.
- Shifts in the global economy leave insufficient public funding and insufficient philanthropic funding to tackle alone the world’s social and environmental challenges.
- Impact investment compared to:
 - CSR; and
 - Philanthropy.

I. Introduction (2/2)

Elements of impact investment:

- **Intentionality:** The investment must be motivated by the intention to create social or environmental good.
- **Profitability:** varies from one case to the other; investors expect in some cases receiving market rate returns but are in other cases satisfied with below market rate returns; in certain cases, investors even accept the risk of a partial loss of their investment.





//. The Example of the Global Health Investment Fund («GHIF») (1/4)

- Developed by the Bill & Melinda Gates Foundation (BMGF), Lion's Head Global Partners and JPMorgan Chase & CO with the Partnership of the Governments of Canada and Sweden, the GHIF is a USD 108 million **social impact investment fund** designed to provide capital for medical research and development. A particular focus is given to drugs, vaccines, diagnosis against global health diseases that disproportionately burden low-income countries (TB, Malaria, Pneumonia, diarrhea, etc.).
- **The purpose of the GHIF** is to attract the private sector capital to invest in global health. The philosophy behind the GHIF is that philanthropic grant making alone will not suffice to generate enough resources to solve global health or other societal issues.



// The Example of the Global Health Investment Fund («GHIF») (2/4)

Global Health Investment Corporation
Managing Member

Lion's Head
Investment Manager

Manages the day-to-day operations of the Fund

Investor Advisory Committee

Advises on Fund Governance
and investors' matters

Investment Committee

Independent committee to
approve investments

Charitability Oversight
Committee

Reviews compliance, monitors the
charitability aspects of investments
and approves them

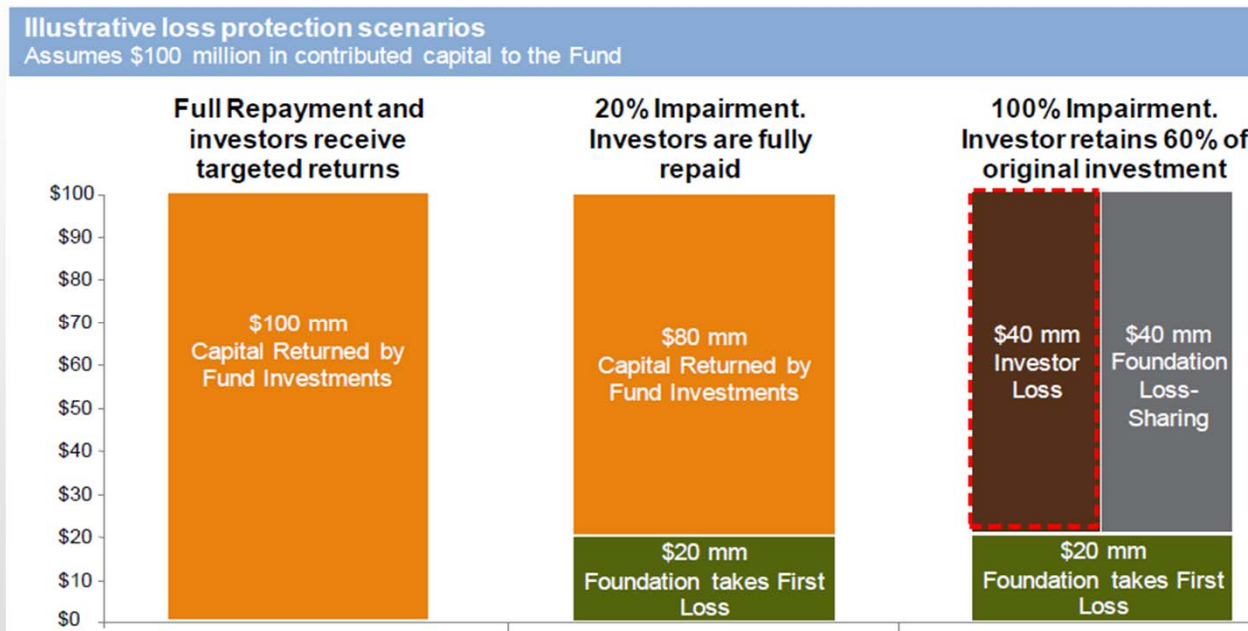
Scientific Advisory
Committee

Scientific and technical
guidance

// The Example of the Global Health Investment Fund («GHIF») (3/4)

To attract investors and minimize their financial burden, creation of a **partial capital warranty** from the BMGF and the Swedish International Development Cooperation Agency (SIDA):

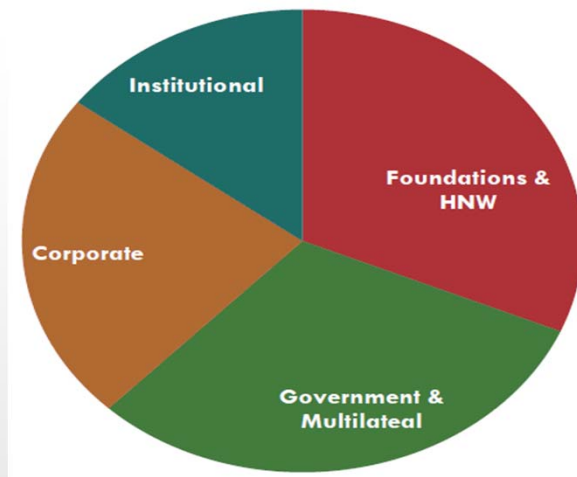
- The risk loss warranty covers the first 20% loss, and
- 50% of any subsequent loss





// The Example of the Global Health Investment Fund («GHIF») (4/4)

1. **The BMGF** has a philanthropic role and targets impact on global health by providing funding and a risk loss warranty for investors.
2. **Social investors:** target impact and accept a limited return or even a partial loss of their investment.



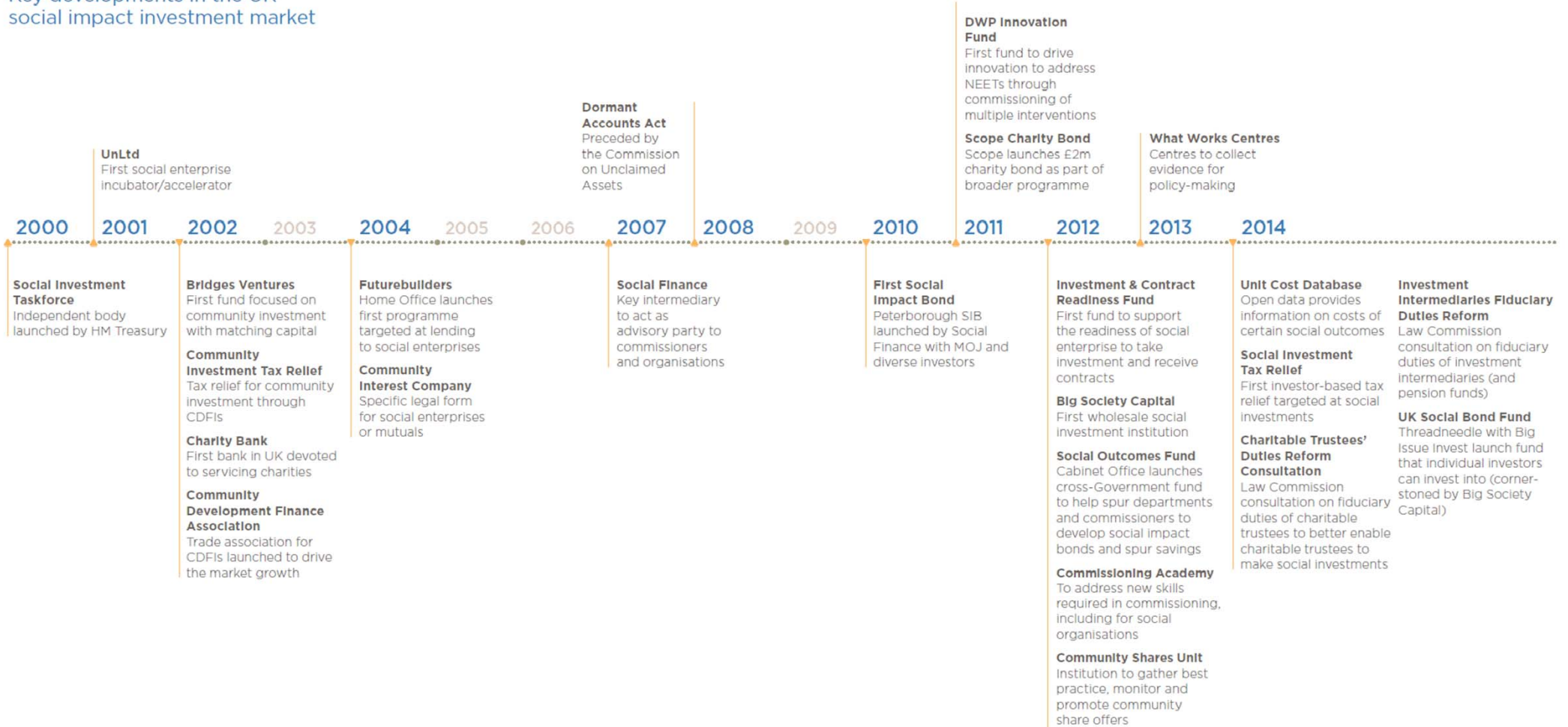
Lion's Head, Global Health Investment Fund Introductory Presentation, 15th DCVM Conference, Delhi, October 2014 p. 9

3. **Pharmaceuticals companies:** receiving funding allowing research in areas that shareholders are not necessarily willing that resources be invested in.



III. Changing Legal and Regulatory Landscape: the UK Example (1/2)

Key developments in the UK social impact investment market





III. Changing Legal and Regulatory Landscape: the UK Example (2/2)

Recent developments:

1. Big Society Capital is an investment bank launched in 2012 as an independent organization that aims to support and develop social investment in the UK. This entity is supplied with up to £400 million from England's dormant bank accounts and £200 million from the 4 largest UK high street banks. It invests its funds in social investment intermediaries, to encourage investments in social change and increase the finance options.
2. Social Value Act: came into force in 2013 and is designed to open up opportunities for social enterprises to win bids for the delivery of public services by requiring people who commission public services to think about how they can also secure wider social, economic and environmental benefits. The Act provides a justification for commissioners to add social impact in their procurement decisions.
3. In April 2014, the UK has launched the Social Investment Tax Relief (SITR) in order to incentivize risk capital for small social sector organizations. SITR gives individuals who invests in qualified social organizations a reduction of 30% of that investment of their income tax bill for that year.



IV. Rise of Impact Investment (1/2)

Increasing awareness and interest on impact investment around the world.

Impact investing has become an internationalized trend and is now discussed at a global level.

The G8 held in 2013 a forum on Social impact investment, with 150 leaders to discuss the steps to enable and develop the market to operate on a global scale. Further to this forum, the G8 created a Social Impact Investment Taskforce to help catalyze the development of the impact investment markets. The G8 further expressed the need to create common frameworks for a standardization of impact measurement and a better understanding of the market.



IV. Rise of Impact Investment (2/2)

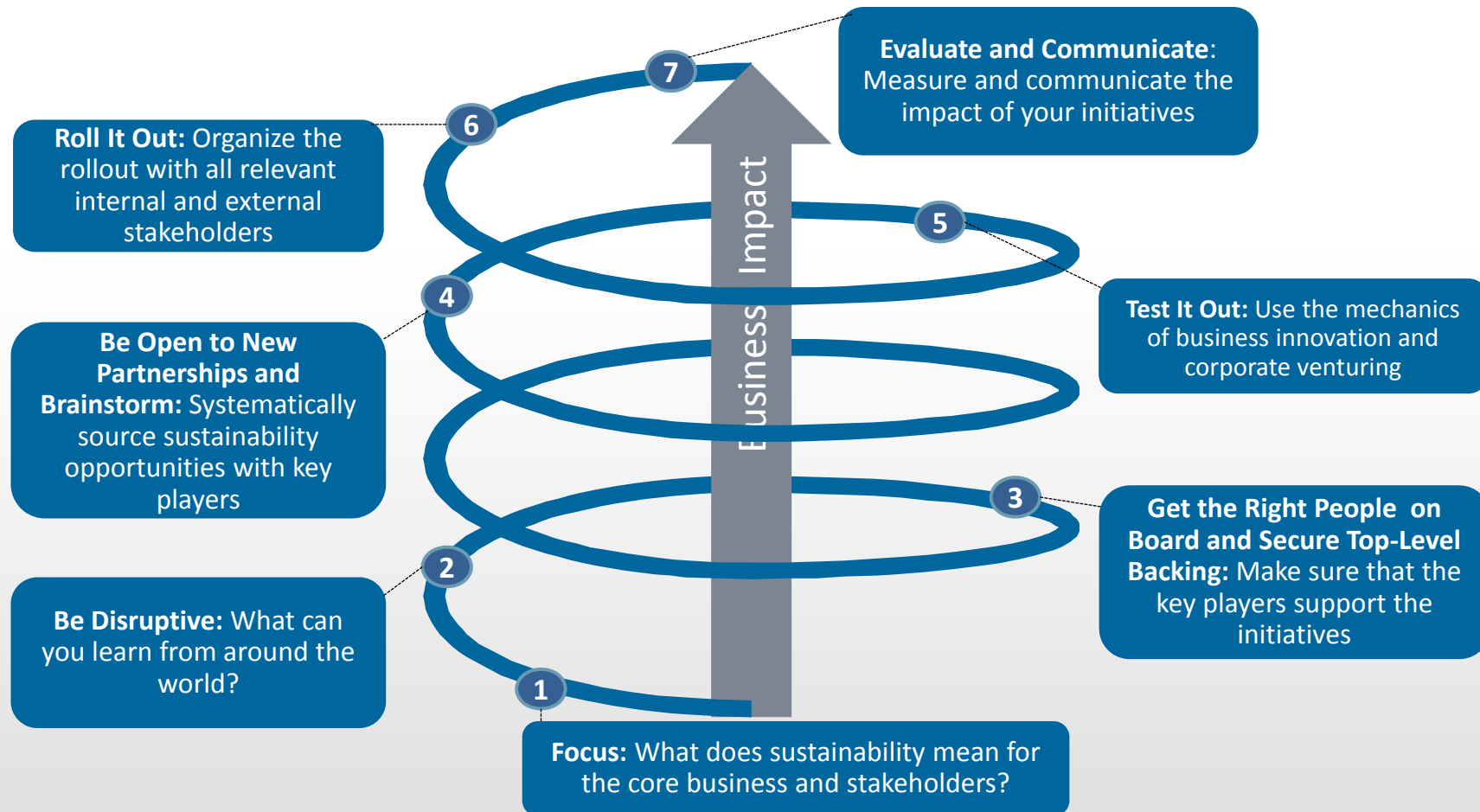
Multilateral projects: the Global Innovation Fund (GIF)

- <http://www.globalinnovation.fund/>
- The GIF is a non-profit fund launched in 2014 between the UK Department of International Development (DFID), the United States Agency for International Development (USAID), the Omidyar Network, the Swedish International Development Cooperation Agency (Sida) and the Department for Foreign Affairs and Trade in Australia (DFAT), which have pledged over £125 million pounds within five years.
- The GIF provides funding in social innovations that aim at improving the lives and opportunities of millions of people in the developing world at 3 stages: pilot, test and scaling up depending on how far an innovation is in its development and on the level of evidence that supports its potential for success.
- GIF offers grants, loans (including convertible debt), and equity investments ranging from £30,000 to £10 million.



V. Recommendations (1/4)

For-profit Companies: need to think how to innovate; can use impact investment to upgrade value chains.





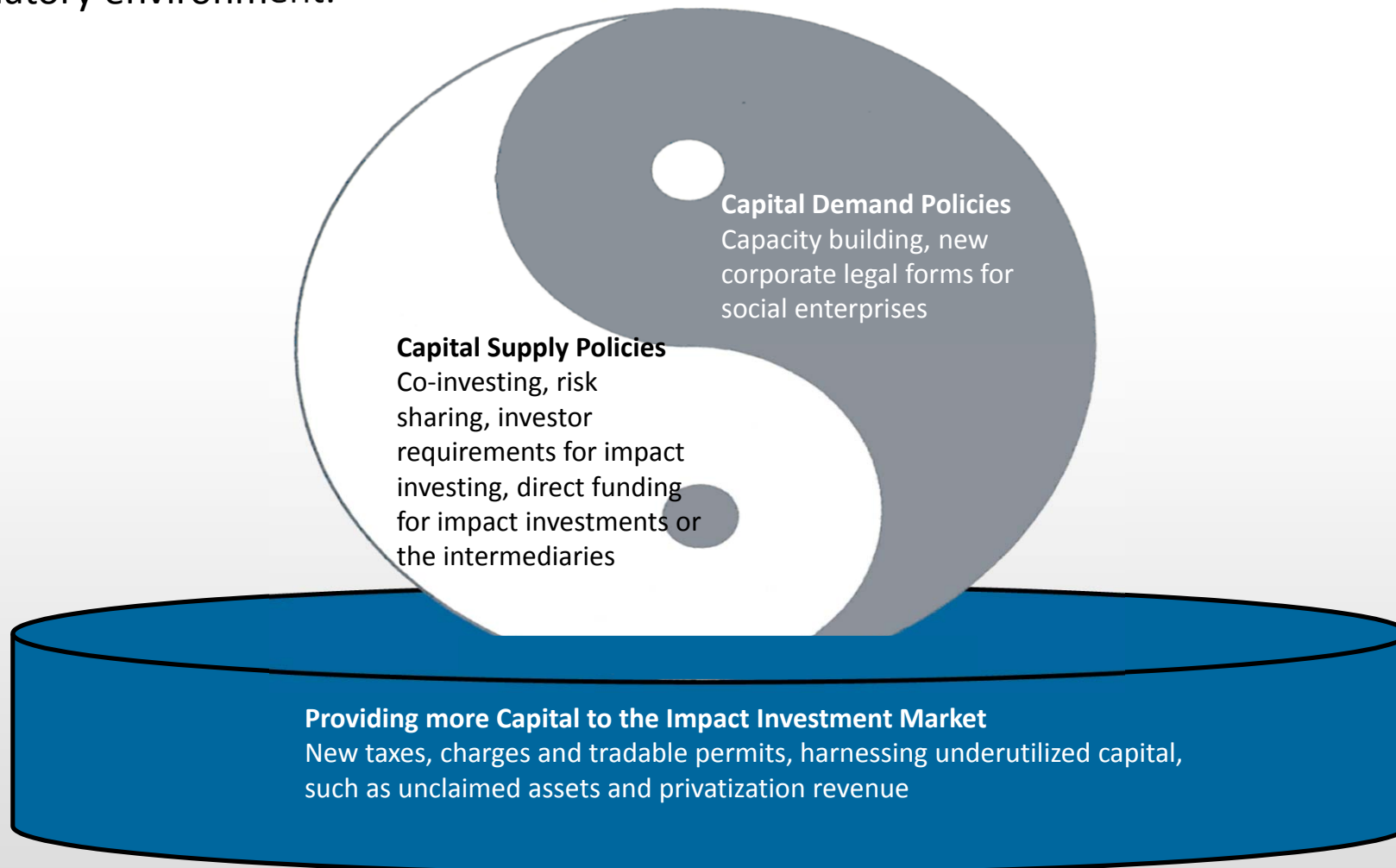
V. Recommendations (2/4)

- Foundations and other charitable entities should be inspired by examples such as the GHIF which have paved the way to new forms of impact investment involving foundations and for-profit companies.
- It is remarkable that in a short period of time the funds raised by the GHIF have already allowed to accelerate research and development by pharma companies and that some of these investments have already started to deliver better impact.
 - The GHIF has for instance made a USD 7.5 million investments in EuBiologics to support the final stages of the development of new oral cholera vaccine at a target price of USD 1 per dose for public sector buyers.
 - The GHIF has also entered into a collaborative funding agreement with Epistem Holdings Plc, in order to support the development, production and commercialization of its Genedrive® molecular diagnosis platform as well as tests for the diagnosis of infectious diseases. According to this agreement Epistem will make the diagnosis platform available for sale in developing countries according to a framework that reflects the needs of the low and middle income countries. Epistem, for the financing, has issued to the GHIF a five-year convertible bond totaling USD 8 million.
 - The Global Health Investment Fund (GHIF) and Medicines Development for Global Health (Medicines Development) announced in March 2015 a USD 10 million program for the manufacture and registration of moxidectin for the treatment of river blindness (onchocerciasis), a disease which affects more than 37 million people. According to the agreement, the accessibility of moxidectin for river blindness is ensured should the drug be approved.



V. Recommendations/Thoughts (3/4)

Governments also have their role to play at different levels, notably by creating a favorable regulatory environment.





V. Recommendations/Thoughts (4/4)

- Creation of a task force or working group in Switzerland

- Points to be considered:
 - Tax incentives in Switzerland for socially responsible investors; are lessons to be learned from UK example?

 - Government acting in the field of procurement: development of minimal socially responsible standards of corporate tenderers.

 - Demand policies: such as the UK proposal that pension funds be obliged to offer the possibility of impact investing [<http://www.socialimpactinvestment.org/>].

 - Consider new initiatives such as Big Society Capital, an independent financial institution with a social mission, set up to help grow the social investment market [<http://www.bigsocietycapital.com/>].



Thank you for your attention!

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