The Catalyst

SPECIAL REPORT

INCLUSIVE GROWTH

Palladium

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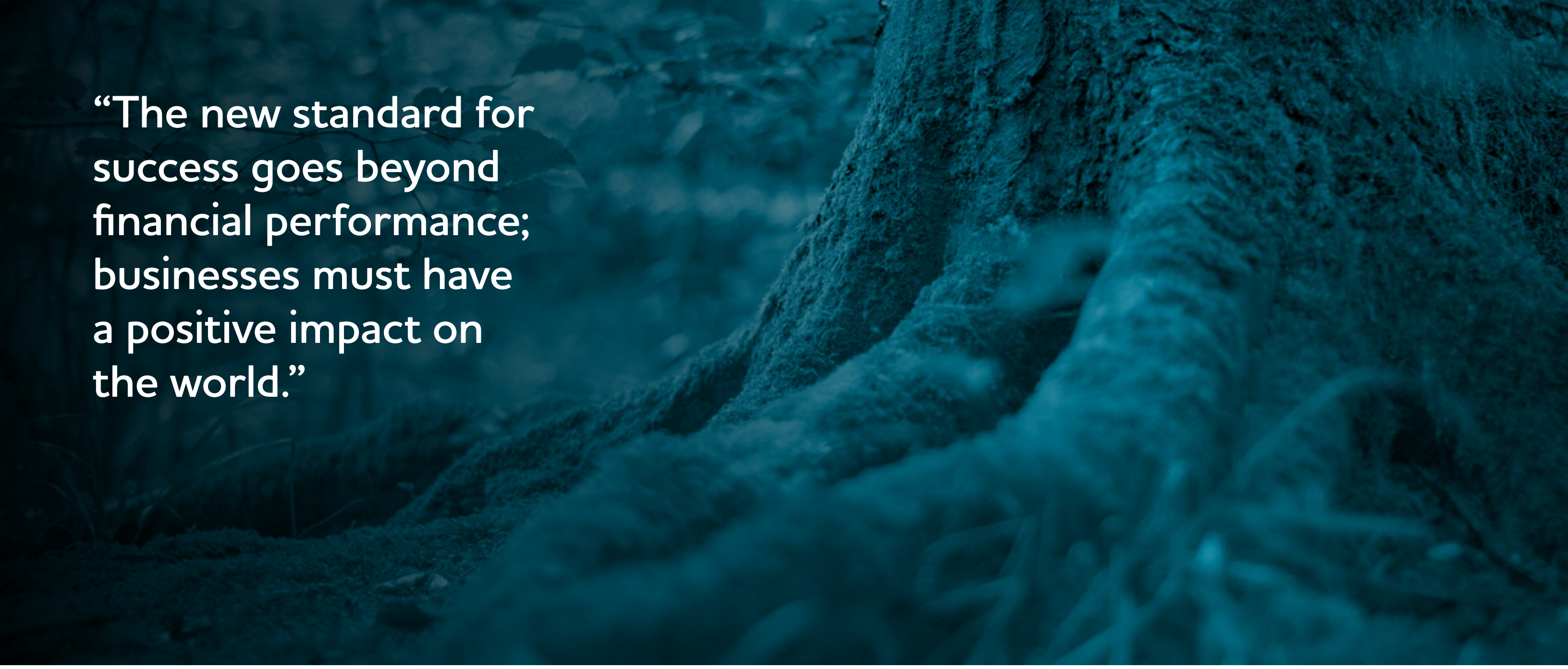

“The new standard for success goes beyond financial performance; businesses must have a positive impact on the world.”

Letter from the Editor

From the recent statement by top CEOs expanding corporate purpose beyond shareholder primacy, to Larry Fink’s now infamous letters, we’re approaching a watershed moment for corporations and investors. In short: social impact is no longer solely the responsibility of the public sector.

Society is demanding more from companies and chief executives than ever before. The new standard for success goes beyond financial performance; businesses must have a positive impact on the world.

The choice of theme for this inaugural Special Report was an easy one for our team at *The Catalyst*. What companies, governments, investors, and civil society area really talking about is *inclusive growth* – growth that benefits all stakeholders.

Back in 2017, Palladium’s thought leaders laid out a set of principles for success in the seminal Harvard Business Review article *Inclusive Growth: Profitable Strategies for Tackling Poverty and Inequality*. What they found is that implementing these strategies at scale is exactly as challenging as it sounds. It’s no simple task to integrate a company’s core business with social outcomes or to engage with key stakeholders in local communities (both of which are absolutely necessary).

But beyond even those practical challenges, many companies suffer from a lack of ambition. They’re simply not thinking big enough.

The articles in this report have been curated from those published by our thought leaders over the past year. Each approaches this topic from a different perspective, be it a particular industry, stakeholder, case study, or point of view.

I hope you’ll find something in these pages that resonates with you, and if so, I welcome you to get in touch.

All the best,

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Navigating the Last Mile to Inclusive and Sustainable Growth

BY
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APPEARED IN
ImpactAlpha

Alicia Herrera and her husband, Bertilo Oyola, are partners of the Peru Cocoa Alliance.
Credit: Alianza Cacao Peru

ABOUT THE AUTHOR
Eduardo has spent nearly four decades designing and executing market-led approaches to accelerate inclusive economic growth and generate employment opportunities. He has worked in 64 countries and is a recognised expert in the areas of inclusive supply chain solutions and public-private alliances. Eduardo was co-founder and CEO of CARANA Corporation, now part of Palladium.

The dirty secret across impact investing, corporate social responsibility and sustainability is that most pilot programs, borne out of good intentions, fail to ever become a self-sustaining force.

Considerable hype and promotion often accompany these projects and usually succeed in creating awareness upon launch. But when the plug is pulled, or when funding runs out, it occurs with little fanfare or enduring results.

Consider Chipotle's initiative to position its brand against the "industrialized" agricultural complex. In 2014, the fast-casual restaurant chain went on a media blitz to promote its web series, Farmed and Dangerous. The campaign initially put Chipotle in the vanguard of the "clean food" movement. Its management was roundly celebrated for using locally sourced, non-GMO ingredients. But the campaign quickly backfired following a succession of e-coli outbreaks that invited scrutiny into the company's supply chain.

Chipotle is not alone in seeing its sustainability efforts either stall or misfire altogether. But the breakdown – by virtue of overlooking the intricacies throughout the larger system – underscores one of the biggest obstacles for any enterprise trying to effect positive social change. In this era in which even the bad actors will try to benefit from a socially responsible halo, those committed to a cause can be distinguished by their willingness to collaborate with participants across their value chain to create lasting systemic change. This often requires a catalyzing partner who can map out where their efforts will be most effective and align their goals with those of their stakeholders.

> **"A catalyst brings stakeholders together around shared objectives and measurable outcomes."**

To understand why such a catalyst is so vital, it helps to recognize the disparate roles of those pursuing social change and their inherent limitations. To generalize, most corporate social responsibility, or CSR, programs focus on social and environmental outputs. The aim may be to help as many people as possible, but the organisation is often detached from resulting complications. The programs can also struggle to scale when related initiatives fail to attract the commitment of the core business.

Government agencies and grant-makers have a similar top-down focus. The nature of their financing is generally structured to fill temporary funding needs versus "bootstrapping" commercially viable, self-sustaining enterprises.

The perspectives of impact investors can sometimes be the toughest to pin down. Some approach their commitments with an obvious philanthropic bent, whereas others view "market-rate" returns as obligatory. Across this spectrum, all impact investors remain challenged by a limited pipeline of opportunities.

The role of the catalyst is not only to understand the system and the specific aptitudes of the different actors, but to provide the connective tissue that brings these constituencies together around shared objectives and measurable outcomes.

To cite a hypothetical example, a corporate strategy focused on the company's supply chain may begin with an objective to help

X number of smallholder farmers increase yields and provide a pathway out of poverty. This top-down approach creates an aspirational goal, quantifies the desired impact, and (if achieved) benefits the companies bottom line while moving the needle on a social challenge.

What is overlooked are the knock-on effects that can sometimes be more harmful than the identified cause for which they're trying to solve. If a market doesn't exist for the increased yield, for instance, the farmers may be worse off when prices plummet from higher productivity. Moreover, what is the environmental impact? Do the measures taken to support biodiversity minimize soil degradation? These factors, if not addressed, could create more pronounced, longer-term challenges.

What's often conspicuously absent in these independent efforts, is an appreciation for the larger system and the possible links between all of the constituencies involved.

CATALYST IN ACTION

Most industries across both developed and emerging markets have changed dramatically over the past decade. This is due to several factors, but most prominently technological advances, population growth, climate change and shifting global power structures. In food systems, these and other pressures have made the existing framework obsolete.

Nobody is satisfied. Farmers struggle to earn a living wage. In the U.S., amid an economic boom, over 40 million Americans remain food insecure. Supply chains – as Chipotle's woes established – are woefully inadequate. The scope of the issues is more than any one company, government, or investor can solve on their own.

The Peru Cacao Alliance provides a case study of what's possible when different stakeholders, aligned behind a shared vision, take a bottom-up approach to rethink the larger system. The Alliance is a USAID-supported public-private partnership created in 2012 to promote fine-flavor cacao cultivation in the Peruvian Amazon. But it wasn't focused solely on helping farmers expand their productivity. The program solicited cooperation across the supply chain to facilitate transparency and traceability. It channeled funding to new technology and bio-diverse "growing" models to ensure farmers could maximize available land while meeting international standards with regard to quality and supply. And the Alliance helped identify a market opportunity through emphasizing the production of more specialized (and lucrative) varieties of cacao.

Most importantly, the farmers themselves aren't merely passive beneficiaries on the receiving end of fleeting social largesse. They're full-fledged business partners. They were called on to articulate the nuanced challenges they face, outline distinct areas of need, and enlist peers so the program could reach critical mass.

Palladium, serving as the catalyst and recognizing the machinations of the larger system, was able to mobilize over 30 different Alliance partners across the local, regional and international markets, in the both the private and public sectors. Collectively, through synthesizing the disparate perspectives, the Alliance was able rethink altogether how the system could accommodate each constituency based on current needs and long-term considerations.

> **"If the effort only focused on the number of farmers receiving help, it would have failed."**

If the effort only focused on the number of farmers receiving help, it would have failed. The success factor was Palladium's role in identifying the overlapping objectives across the value chain – from the producer cooperatives and technology companies to the U.S. and Peruvian national governments as well as local and regional agencies. Public-sector contributors still get their callout in the 18,000 farming families who have benefitted or the $90 million raised. The real story, though, is the market-led transformation to create a more inclusive and profitable system. Peru went from being a marginal producer and niche player to becoming the No. 2 producer of fine-flavor cacao in the world.

A catalyst doesn't have to be a third-party consultant. It can be an in-house strategy team with access to adequate resources. It can be an NGO whose specified mission is to create self-sustaining commercial solutions. It can even be a grant-making institution or impact investor that offers matching or "challenge" funds to incentivize and help orchestrate participation. Harvard Professor George Serafeim, suggests that the investor community, in particular, is uniquely positioned as "stewards of the commons" to encourage "pre-competitive" collaborations and instill stability in these partnerships.

It can even be a company, armed with lessons from past mistakes, committed to doing better. It's worth noting that since its initial missteps, for instance, Chipotle has emerged as a role model in the restaurant space thanks to its approach to reforming its supply-chain. The company began by mapping out the entire ecosystem for each ingredient on its menu, and now requires every supplier to provide the geographical origin of their raw materials and offer environmental metrics such as water usage, energy usage and employee welfare. Often, sustainability efforts can be an iterative process to truly innovate.

The key is that the catalyst can build trust, spark innovation, outline and implement a proof of concept, and then actively structure and raise funds to ensure the initiative takes root. This requires a holistic point of view that appreciates the larger systemic issues and the actors involved, as well as the "unknown" unknowns.

It's the catalyst who will facilitate the collaboration required to see that good intentions translate into the common good.

Can Tobacco Companies Contribute to Development Outcomes?

BY
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APPEARED IN
Devex

ABOUT THE AUTHOR

Christopher has been with Palladium for over 20 years. As CEO, he's passionate about positive impact whilst creating value for the company and clients. Prior to this, Christopher served as Managing Director of Strategy and Corporate Development, which included identifying, analyzing, and capturing new business opportunities globally, as well as Palladium's Impact Investing Asset Management and Advisory business services. He has held senior management roles on projects across the globe.

As a development professional with a strong focus on leveraging the private sector, a recent visit to Malawi has me thinking about the tobacco industry. We all know the significant damage that tobacco does (the World Health Organisation estimates that tobacco kills up to half its users worldwide), but in some markets, Malawi being one, growing tobacco is supporting smallholder farmers with a living wage, lifting them out of poverty and materially better off than many of their counterparts who grow crops such as maize, ground nuts, and soybeans.

While socially responsible investors move to divest from "sin" products (e.g., fossil fuels, weapons, tobacco), the reality remains that 90% of tobacco is grown in low and middle income (LMIC) countries, where commercially viable alternatives for smallholders are scarce. The export value of this crop can be staggering. In Malawi, for example, one of the poorest countries in the world, raw tobacco makes up 59% of total exports.

With the number of smokers declining in high and upper middle income countries, market demand for tobacco, particularly the type grown in Malawi, appears to also be on the decline. The CDC reports that in the U.S., cigarette smoking has declined 6.9% between 2005 and 2016, and new products like e-cigarettes use less tobacco. Concurrently, Malawi's tobacco exports fell by 30% from 2012-2016.

TARGETING OUR EFFORTS

Despite this downward trend, it's noteworthy that at the moment, many tobacco farmers are still making an economically viable living. While the risks to health and safety are real (from nicotine poisoning to pesticide exposure), many of these risks are not unique to tobacco.

This all leads me to the as yet unanswerable question: Do we focus our finite resources on helping the poorest of the poor move out of poverty, or do we prevent others from falling into poverty by getting ahead of future problems now?

"Raw tobacco makes up 59% of total exports in Malawi, one of the poorest countries in the world."

“Should we be ignoring the needs of these farmers because tobacco is a ‘sin’ product? Whose responsibility is it to intervene?”

PRIVATE SECTOR OPPORTUNITIES

I strongly believe that companies themselves have a role to play, as the sustainability of their business is inextricably linked to the social wellbeing of the ecosystems in which they operate.

In Malawi I visited two tobacco companies to better understand the situation: Alliance One and Limbe Leaf. These companies aggregate and export tobacco from over 30,000 smallholder farmers, and do so in a remarkably structured and controlled way, adhering to extensive environmental and health and safety protocols. The companies are interested in diversifying, and the most obvious answer is to help their farmers to grow other crops, but common alternatives provide a far smaller return to the smallholders. If, as projected, demand for tobacco leaves decrease, the relatively high return on this cash crop won’t matter as they will be forced to sell less and less, reducing income and increasing poverty.

These two companies have been working with their smallholders for many years, and have established expertise in organising farmers, providing access to credit and technology, creating a productive ecosystem, and a deep knowledge of agriculture. With stricter demands placed on tobacco growing, these companies have robust monitoring systems in place that provide a level of supply chain transparency and traceability that many consumers of other products want – products like cocoa and coffee. These skills, services, and systems are in high demand for any crop, and there is a real opportunity to transfer them from tobacco to other products, bringing the benefits to farmers and communities along with them.

While the development of the entire system can create powerful synergies, it also has a potential downside, with the structure and the level of integration in these value chains creating a significant dependency on the corporations. Without a need to lead innovation, farmers lose connections to markets, the desire to explore new production systems, and to be entrepreneurs, further weakening their ability to react to market shifts like is forecast for tobacco.

This need to consider and monitor the performance of the entire ecosystem is imperative to driving inclusive growth.

OVERCOMING THE STIGMA

Despite the looming threat to the livelihoods of tens of thousands of smallholder farmers in Malawi, and the opportunities to create positive social and economic impact, there’s a stigma against development work with the tobacco industry, particularly where potential solutions involve private sector tobacco companies. The recent decision by the International Labour Organisation to cease renewing its public-private partnerships with the tobacco industry for projects that address child labour and tobacco workers is an interesting case in point, and one that goes far deeper than the simple question of whether and how tobacco companies should be part of the solutions to the problems caused by their own industry. What I find myself asking is more fundamental: should we be ignoring the needs of these farmers because tobacco is a “sin” product? Whose responsibility is it to intervene when market forces are at play in a larger ecosystem? Is it morally right to withhold our expertise and assistance?

I don’t have all of the answers, but I see an opportunity to help tobacco farmers diversify to safer and more sustainable crops, and for tobacco companies to shift their own expertise into more reliable markets. With a mind to inclusive growth, we can protect the livelihoods of smallholder farmers, transfer usable and valuable skills from aggregators and exporters, and invest in crops that create more net positive impact – because it’s both the right and the profitable thing to do, for everyone involved.

4 Steps to Achieve the Sustainability Commitments You've Already Announced

BY
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ABOUT THE AUTHOR
Christina leads Palladium's Commercial Innovation Practice out of New York. She specializes in inclusive growth design, market entry, and transformational business strategy. Christina's clients and partners have included Fortune 500, Global 3000, and private equity firms, as well as federal government organisations. Her global experience includes time with Booz Allen Hamilton, Bain & Co, and PricewaterhouseCoopers.

An increasing number of corporations are publicly announcing their sustainability and social impact goals, and taking steps to achieve them (such as making their supply chains more transparent, reducing greenhouse gas emissions, etc.). However, while these types of commitments are becoming almost commonplace, many companies are having difficulty delivering. According to Bain & Company, only 2% of corporate sustainability programs achieve their goals. The same study says that there are three key reasons for this: a lack of resources, competing priorities, and challenges with holding employees accountable. We've seen examples from Walmart to Disney to Target where leaders make very public commitments, but then aren't equipped to follow-through.

> "Only 2% of corporate sustainability programs achieve their goals."

Of course, some companies are making significant progress towards their goals, and there is a lesson to be learned from each example. In a recent study, Palladium thought leader and Harvard Business School professor George Serafeim found evidence that companies who are able to make progress actually increase their valuation. What are these companies doing that others can strive to emulate?

Here are four steps companies can take to deliver on their sustainability commitments:

“Every company operates in an ecosystem – a complex network of people, cultures, processes, and (sometimes competing) interests.”

1. IDENTIFY YOUR STAKEHOLDERS

Who are the players? Sustainability goals can’t just be the responsibility of an Impact or Sustainability Officer or siloed within one function. This includes external stakeholders as well, which is a common blind spot. Identify your consumers, supply chain actors, regulators, community, industry, and more - anyone who has a stake in your ability to deliver on your commitments.

When Novozymes launched its sustainability goals, it created an executive sustainability board that included each business function’s Vice President. Each board member had direct responsibility for efforts towards the goals.

2. MAP YOUR ECOSYSTEM

Every company operates in an ecosystem – a complex network of people, cultures, processes, and (sometimes competing) interests. It’s impossible to start towards a goal without understanding how your ecosystem is structured, and how all the players interact.

Patagonia is well-known for examining every step of its supply chain, and then going further. The company shares part of its profits with environmental and activist groups that are in the same ecosystem, helping protect the places Patagonia’s customers care about and ensuring the sustainability of their business as a whole. Patagonia is transparent that they have a long way to go, but their efforts demonstrate an understanding of the ecosystem on which they depend, including the stakeholders within it.

3. ALIGN YOUR INCENTIVES

No sustainability goal can be reached if it doesn’t create value for those contributing to it. After identifying all of your stakeholders, the next step is to align their incentives with your sustainability goals. What’s in it for each of them? What are your employees’ incentives for contributing and how are their roles aligned with the overarching corporate and impact goals?

Make reaching your goals a win-win-win for everyone involved – not only one or a handful of leaders within the organization.

4. PUT SUSTAINABILITY AT THE CORE OF YOUR BUSINESS

Traditionally, many companies’ social or sustainability activities have comprised of donating money to a particular cause, such as building a school or sponsoring a soccer team. These philanthropic efforts can make a difference to recipients, but this short-term approach struggles to scale in scope and impact, and fails to create true sustainability. By embedding your sustainability goals within your core business strategy, you can create positive impact that endures.

Mars’ newly launched cocoa sustainability strategy, Cocoa for Generations, is a great example. The plan lays out a pathway for cocoa-growing farmers and their communities to improve their incomes and living conditions, and to enhance child labour monitoring and forest safeguarding. Mars is backing this sustainability plan with $1 billion over ten years, an enormous dedication of resources that will also serve to make its business profitable and sustainable in the long-term – for generations.

By following these four steps, companies will be able to clearly identify which gaps exist, where resources should be focused, and how efficiencies can be found to achieve their sustainability goals.

How Sustainability Can Help Corporations Survive Recessions

BY
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ABOUT THE AUTHOR
Will is a leader in Palladium's New York office, specializing in market entry, and growth strategy and implementation. He has collaborated with Fortune 50 executive clients across financial services, design, technology, security, and brand strategy, as well as clients in the U.S. government. He has supported development and security operations in southern Afghanistan and various parts of Africa, and holds an MA in international economics from The Johns Hopkins University.

It seems intuitive that during a recession, companies need to cut overhead, and Corporate Social Responsibility (CSR) and sustainability programs may be the first to go. However, looking at the Great Recession of 2007-2009 in the United States, data suggests that this thinking is flawed: not only did many companies continue to invest, but those that put sustainability at the core of their operations actually weathered the recession better than those that did not.

ENVIRONMENTAL SUSTAINABILITY INCREASED DURING THE RECESSION

As might be expected, the initial crash in 2007 was followed by a significant decline in corporate responsibility spending, with companies opting to fund particular programs instead of investing in a full CSR department or future innovations. However, a more nuanced view shows that many firms maintained or even accelerated sustainable practices that focused on environmental impact. For example, recycling was one cost-cutting measure that enabled companies to gain operational efficiency.

It appears that firms tended to shift their sustainability strategy in innovative ways that allowed them to create more impact with fewer resources. This adaptation enabled companies to compete more effectively, strengthening capabilities with existing resources.

> "Firms tended to shift their sustainability strategy in innovative ways that allowed them to create more impact with fewer resources."

The 2007 recession demonstrated to C-Suite executives the real financial risk that resource scarcity poses to their businesses: there was a sharp increase in the price of core commodities like oil, iron, and wheat while supplies of food, water, and energy fell. Since then, they have chosen to engage in more sustainable measures in resource efficiency to combat that risk.

HIGH SUSTAINABILITY VS. LOW SUSTAINABILITY

We know environmental sustainability investments can make sense during a recession, but what about social sustainability? What is the value of sustainable programs during tight

> “Companies that put sustainability at the core of their operations actually weathered the recession better than those that did not.”

economic times? At the end of the day, how can a business be persuaded that sustainability is core to its ability to survive and recover from a recession?

Business professors Robert Eccles, Ioannis Ioannou, and Palladium Thought Leader George Serafeim attempted to answer this question in their 2014 paper, which looked at corporate sustainability practices and their relationship with long term performance.

Out of 180 companies they studied, half identified environmental and social sustainability as core to their corporate strategy as early as 1993. These are “High Sustainability Companies.”

The other half were identified as having adopted no sustainable practices over the entire studied period, from 1992 to 2010.

These focused only on profit maximisation, with environmental and social sustainability being viewed as external to their corporate strategy. These are “Low Sustainability Companies”.

Results showed that if you invested $1 in an equally-weighted portfolio of the 90 High Sustainability Companies in 1992, that investment would have grown to USD 22.60 by the end of 2010.

In contrast, the Low Sustainability Companies, given the same equally weighted investment made in 1992 among all profit maximising companies, would only have the investment grow to USD 15.40 by the end of 2010.

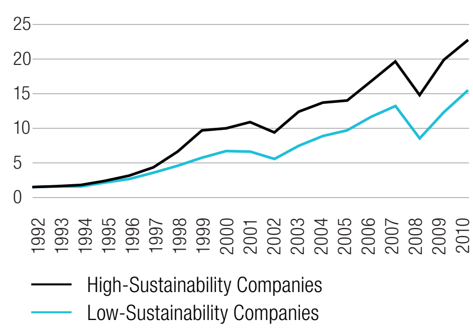
The analysis showed that over the long run, even in the immediate aftermath of a recession, those 90 High Sustainability Companies were actually more capable of profit maximisation than the 90 Low Sustainability Companies who ignored sustainable practices to solely focus on profit maximisation.

Looking at 2008 to 2010, this study shows that the High Sustainability Companies recovered from the recession much more quickly:

- High Sustainability: a 2008 low of $14.39 to a 2010 high of $22.58
- Low Sustainability: a 2008 low of $8.14 to a 2010 high of $15.35

The High Sustainability Companies increased $8.19 versus the Low Sustainability Companies’ $7.21.

EVOLUTION OF $1 INVESTED IN VALUE-WEIGHTED PORTFOLIOS



Companies that have prioritised economic and social sustainability have historically outperformed their peers who deprioritised sustainability.

INCLUSIVE GROWTH

How can a corporation integrate sustainability into the core of its strategy? The key is to adopt “inclusive growth” principles for your business.

An inclusive growth business is one that goes beyond traditional corporate social responsibility initiatives to create profoundly different ways of achieving core commercial objectives while generating positive impact at scale.

For example, imagine a multinational chocolate manufacturer who develops stronger relationships within its agricultural ecosystem, ultimately resulting in increased technical knowledge, higher quality cocoa outputs, improvements in quality of life for smallholder farmers, and increased transparency within its value chain. Inclusive growth practices enable “win-wins” where the primary company is improving the quality of their service or product, and external stakeholders are similarly profiting.

The execution of inclusive growth principles through alignment of stakeholder relationships can be key to a company’s resilience, and a profitable practice to have in place during periods of economic expansion. Companies that have prioritised both economic and social sustainability as core to their business practice have consistently outperformed their peer companies. While many can easily argue for environmental initiatives to achieve bottom line efficiency, a more comprehensive inclusive growth strategy would increase that company’s longevity, profitability, and engagement with key stakeholders.

The numbers are in: sustainability is a competitive advantage on which all companies should capitalise.

For Mining Companies, Community Engagement is Only the Beginning

BY
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Jennifer Prillaman is Senior Editor of The Catalyst, reporting on inclusive growth and impact investing. Jennifer has worked extensively in Nigeria, seeking business opportunities in food security and conflict stabilisation, and has supported microfinance and girls' education programs in Haiti. She has a Master's in International Development from George Washington University.

For the second year in a row, "license to operate" is the number one risk facing mining companies. Governments, consumers, and even shareholders are pressuring these companies to be more innovative in their environmental, social, and governance (ESG) efforts, to engage meaningfully in the communities where they operate, and to create opportunities for social and economic development.

"The operating environment is complex, and mining companies have made efforts and progress over the past 20 years to improve," says Tony Andrews, Principal at the Centre for Responsible Mineral Development and Palladium Advisor. But despite these efforts, the SLO landscape (shorthand for Social License to Operate) is evolving.

"Mining companies need to continue to adapt and innovate to meet the evolving needs of their host communities and society as a whole," Andrews explains.

According to Cornelio Delgado, Palladium's Director of Mining and Sustainability, many leading mining companies are already innovating in this space. "They want to open doors for partnerships in deeper ways," he says. "But more impact is needed."

This means collaboration at the business level, including market-oriented partnerships that create both social outcomes and financial returns. Here are three ways that mining companies can reimagine social and economic development at the local and regional levels.

1. CREATE EQUITY; NOT HANDOUTS

Companies are pouring hundreds of millions of dollars into health, education, infrastructure, and other sustainable development initiatives. But communities are now asking for a different kind of relationship, with needs and ideas not found in traditional CSR programs. They want royalties, business partnerships, and skin in the game.

> "Communities are asking for a different kind of relationship. They want royalties, business partnerships, and skin in the game."

"There's a great example in Canada where a coalition of indigenous interests wants to buy one of the pipelines coming in with construction," describes Delgado. "They're saying, 'We don't want CSR money or philanthropy; we want to be owners of the business. We want equity, not handouts.'"

Conflicts with host communities are common during the life of a mine, and can lead to strikes, blockades, and sabotage. For a variety of reasons, including government inefficiency, lack of capacity and often corruption, the communities aren't seeing revenues or long-term benefits coming back to them.

"Community engagement is essential," says Andrews. "But it's just the first step in an evolving relationship that continues for the life of the mine. We need to be talking about community development – building a relationship with the community based on shared objectives and a true understanding of their perspective."

2. DON'T GO IT ALONE

Job creation is often cited as a benefit to communities, but community members don't always have the necessary skills for the jobs available. In fact, "future workforce" is cited as the second greatest risk mining companies are faced with.

In order to mitigate this risk and at the same time optimize capacity-building and skills development in local communities, mining companies can find local partners with which to collaborate – educational institutions, vocational training groups, financial institutions, or even companies in different sectors like agriculture. This way, a company is investing in what is locally available, meeting community needs, and still meeting their own need for a more skilled workforce.

"It's about inviting others to bring their skills and contributions to create scalable and better solutions," says Delgado. "Just as mining companies attract investors for the core of their business, they can help communities attract other investors, entrepreneurs, and industry partners to develop new economic engines that benefit all."

> **"Artisanal minors present the quintessential lose-lose situation in the mining sector."**

3. COLLABORATE WITH UNLIKELY PARTNERS

Artisanal miners present the quintessential lose-lose situation in the mining sector.

These are small-scale or subsistence miners who work independently panning for gold, digging small mines, or working in closed or abandoned mines. Because they are often unregulated or mining illegally, artisanal minors often face great personal danger, have terrible working conditions, and destroy their local environments. The UN reported that small-scale mining is the world's largest source of mercury emissions, making up 40% of the world's total.

Meanwhile, governments are missing out on tax revenues and mining companies risk conflict when artisanal miners encroach on their concessions to conduct illegal mining.

Despite these risks, collaborating with artisanal miners presents a huge opportunity for companies to gain a new social license to operate and turn this situation into a win-win.

"Companies can work with small-scale miners to upgrade, train, and give them better market access, raising their incomes," explains Eduardo Tugendhat, Director of Thought Leadership at Palladium. "They can even add conditions to their training and access, putting labour and environmental requirements in place. This improves the entire system in a way that's collaborative."

Andrews agrees, adding that "collaborating with partners such as developmental institutions and host country governments can also leverage the scope of these initiatives from local communities to regions at scale."

Expectations of the mining industry continue to grow, and innovative solutions lie beyond the mining companies themselves. Finding new partners, and new ways to partner, can help mining companies secure their license to operate. But it can also transform their operating environment away from community dependency to a model built on inclusive growth, diversity, and the potential for real impact at scale.

5 Ways Donors can Mobilise Private Sector Investment for Development

BY
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Private sector finance can create new, sustainable ecosystems.

ABOUT THE AUTHOR

Sinéad leads Palladium's donor-funded business including delivery of the UK Government's Humanitarian and Stabilisation Operations program. Sinéad has over 15 years of experience leading governance, security, and justice programs. She played a key role in DFID's programming in Iraq and subsequently delivered programs in Afghanistan, Palestine, Uganda, and Syria. Sinéad was featured in Management Today's 35 Under 35 and won the Women of the Future Business Award.

It's no longer in question whether private sector capital is needed to reduce global poverty - the funding gap for achieving the Sustainable Development Goals is well known. While the public sector and non-governmental organisations will always have a role to play in achieving the goals, the private sector has to engage with these challenges if we're going to adequately finance development initiatives and target our resources to address the world's needs.

How can aid donors mobilise private sector investment for development? Here are five ways.

1. ADVOCATE FOR IMPACT INVESTING

Impact investments - investments that aim to have a positive social and environmental impact alongside a financial return - are an important tool for mobilising financial resources for developing countries.

Donor governments can promote impact investing by publicly commending organisations that are investing for impact and giving those organisations a platform at government-organised or sponsored events, providing a reputational incentive.

In particular, donors should endorse the efforts of progressive institutional investors who are entering the impact investment space. Today, institutional investors have a low appetite for impact investing. This is partially because so few of them are engaging in it - investors are more likely to invest for impact if there's momentum to do so across the wider community.

> "Governments can make impact investing more effective, efficient, and attractive to businesses."

When institutional investors such as pension funds have more of a reputational incentive to enter this space, they may be more likely to make an allocation for impact and create products that align with the impact agenda.

2. BUILD THE IMPACT INVESTING INFRASTRUCTURE

Donors can help build the infrastructure for impact investing. The UK government's Impact Program is a good example of this. The program is helping to create a market for impact investment in sub-

Saharan Africa and South Asia. It has been addressing the constraints in the impact investing value chain to make impact investing more effective, efficient, and attractive to investors, intermediaries, and businesses. The program has been a significant contributor to building this infrastructure, from networks and intermediaries to innovative structures and thought leadership.

3. DEMONSTRATE THE VIABILITY OF IMPACT INVESTMENTS

Large-scale investors are not willing to take unquantifiable risks. Many of the investments needed to achieve the Sustainable Development Goals are complex, and the risks as well as the success metrics are difficult to assess from an investor perspective. Donor programming has the potential to demonstrate the viability of impact investing through examples of investment initiatives that have a measurable impact and a financial return.

Additionally, institutional investors' perceptions of risk are sometimes excessively high due to their lack of experience investing in developing economies or markets on which there is little information. Donors can play a role by sharing information and insights about markets in which they have a presence or experience investing.

4. DE-RISK IMPACT INVESTMENTS

Donors can help co-create and participate in financial instruments that de-risk impact investments, such as 'development impact bonds' that provide capital loss risk protection or 'guarantees' that partially protect private sector investors against capital losses.

An example of this this is the Utkrisht development impact bond. The bond will support government efforts to reduce maternal and newborn deaths by improving access to, and the quality of care in, private healthcare facilities in Rajasthan, India. USAID and MSD for Mothers have committed a total of up to USD 8 million in 'outcome funding' through the bond. As outcome funders, they will ultimately pay for the results being achieved. UBS Optimus Foundation, in turn, is the private sector 'upfront funder,' providing up to USD 3.5 million initial working capital to cover service providers' costs. All implementation partners are also co-investors. The risk is therefore shared between the donor and investors.

5. STRUCTURE ECOSYSTEM SOLUTIONS WITH THE PRIVATE SECTOR

Donors can also play a role in structuring 'ecosystem solutions' that are both beneficial to businesses and bring social or environmental benefits. Such solutions involve changing the behaviours of multiple players within a given 'ecosystem,' normally by helping to realign incentives, addressing market failures, and creating new partnerships.

An example of an ecosystem solution with the private sector is the USAID-funded Financing Ghanaian Agriculture Project (FinGAP), which helped create a market that linked small and medium-sized enterprises (SMEs) in the agriculture sector that needed financing with financing institutions. The project encouraged local business advisors to support SMEs that wanted to apply for capital. The advisors helped the SMEs with their funding applications and acted as intermediaries between the SMEs and financial institutions. Initially, the project as well as the SMEs paid the advisors for this assistance.

Over time, however, the SMEs learned more about the process of applying for funding, while the financial institutions became more familiar with the sector and began hiring the business advisory service providers directly. The project ultimately facilitated USD 260 million of private capital into the maize, rice, and soy value chains. But, perhaps more importantly, it helped create a new market for business advisory services, which would continue to improve access to finance in Ghana's agriculture sector after the project's end.

> "Engaging in development can change perceptions of the role of the private sector in society."

A DEEPER INVOLVEMENT OF THE PRIVATE SECTOR

Major donors, such as USAID, the Australian Department for Foreign Affairs and Trade, and the UK Department for International Development, are already pursuing the above approaches. They should continue to do so. If successful, private sector investment for development will grow, will complement public initiatives, and will ultimately result in significant poverty reduction. But ideally, engaging in development will also change perceptions of the role of the private sector in society, shifting toward the realisation that making a profit is compatible with 'doing good', and that 'corporate social responsibility' can mean much more than traditional CSR initiatives ever have.

About The Catalyst

The Catalyst is Palladium's online publication, delivering news, perspectives, and in-depth reports from the front lines of our global work. Many of the stories are written by Palladium employees and partners, sharing their experiences and expertise as they work to solve the world's greatest challenges.

The Catalyst aims to inspire, educate, and embolden all readers, from experts in international development and C-Suite executives, to impact investors and community leaders.

About Palladium

Palladium is a global impact firm, working at the intersection of social impact and commercial growth. For over 50 years, we've been helping our clients to see the world as interconnected – by formulating strategies, building partnerships, and implementing programs that have a lasting social and financial impact. We simply call this "positive impact".

We work with corporations, governments, investors, communities, and civil society. With a global network operating in over 90 countries, Palladium is in the business of making the world a better place.

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