Blue like an Orange Sustainable Capital

Making Business Mutual Case

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About the Making Business Mutual Case Studies

This series of case studies explores how mutual approaches to business can help companies and their partners tackle some of the most pressing global challenges. The businesses featured in this series share a commitment to objectives beyond purely financial performance, as well as a serious intent to implement mutual practices through new forms of ownership, governance, leadership, measurement and management.

In particular, these cases address the measurement of multiple forms of capital, ecosystem shaping approaches, leadership development, business education, and policy formulation through laws and regulation that promote mutual conduct. The authors appreciate the collaboration of participating companies in creating these cases.

These cases were first developed for the annual *Responsible Business Forum*, the convening event of the Mutuality in Business Project, a joint research programme between Saïd Business School, University of Oxford, and the Catalyst think tank at Mars, Incorporated. The *Responsible Business Forum* brings together global companies, MBA candidates, scholars and activists to share their experience in confronting key challenges in their ecosystems to generate financial, social and environmental value.

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Author's Note: This is a descriptive case study, based on publicly available materials as well as on the information shared by the company described. This case study is not meant to provide critical analysis of the literature or information used to develop it. All errors and omissions are the authors' own.

Case Name	Blue like an Orange Sustainable Capital
About the Company	Blue like an Orange Sustainable Capital is an investment fund, which provides institutional investors with a diversified set of investment opportunities in emerging markets. The Fund seeks to invest in companies and projects that deliver both strong risk adjusted returns and social impact aligned with the Sustainable Development Goals (SDGs).
Ecosystem Pain Points	Sustainable Development Goals (SDGs) are ambitious and require trillions in investment. As a result, the financing needed to implement such goals exceeds the financing available for development. The private sector, therefore, plays a critical role in achieving the SDGs. Channelling surplus savings in advanced economies to long-term investment in developing countries can create a "win-win" for both sides. Development Finance Institutions (DFIs) can play a key role in mobilising the private sector finance and developing public private partnerships to achieve greater development impact.
Business Strategy	Blue like an Orange partners with DFIs and other organisations to source and structure investment opportunities. This collaborative approach helps enhance returns and managing risk of investments while facilitating flexible financing to meet the growing needs of companies. As a result, Blue like an Orange can create new sustainably aligned income streams for global investors. A lack of long-term capital often pushes developing countries towards unsustainable solutions. In response, Blue like an Orange directs long-term private savings in advanced economies towards a range of sustainable development investments in emerging markets. These include, but are not limited to, investments in health, education, agriculture, financial services, and sustainable infrastructure. The initial focus of the Fund will be a mezzanine debt offering. Currently mezzanine debt is limited in emerging markets. Blue like an Orange aims to bring this product to market while meeting the financial and security requirements of large institutional investors.
Performance	Blue like an Orange is developing aa framework for assessing the financial and social impact of its investments. This will include quantitative assessments of both the financial and sustainable development goals of the investments and the fund. BlueOrange will also leverage the robust financial and social diligence assessment already used by the Inter-American Investment Corporation (IIC).
Prognosis	Blue like an Orange currently focuses on investment strategies in Latin America. In the future, the company plans to expand geographically to Asia and Africa. Blue like an Orange will also extend the partnership model to PE Funds, multinationals, local banks and guarantors. The new consulting arm of the business will provide strategy advice.

Making Business Mutual Case Study:
Blue like an Orange Sustainable Capital

About the Company

Blue like an Orange, established in 2016 and launched in 2017, seeks to connect institutional investors looking for market returns and measurable social outcomes with sustainable investment opportunities in emerging markets.

Blue like an Orange, in partnership with Development Finance Institutions (DFIs) and other organisations, will source investment opportunities from a highly selective pipeline. The first DFI cooperation, established with the Inter-American Investment Corporation (IIC) and focused on Latin America and the Caribbean, is expected to deploy USD 750 million over the coming years. The IIC has a long track record and deep experience operating in target markets. The agreement offers opportunity to Blue like an Orange and IIC to create attractive impact investment opportunities. The IIC has a USD 12 billion portfolio of non-sovereign guaranteed loans. This includes the potential to refinance existing borrowers and as well as a robust pipeline of investment opportunities. The collaborative approach may yield a number of attractive opportunities for blending private and development finance to meet SDGs.

The first Blue like an Orange fund will invest in mezzanine debt. Partnerships with DFIs will enable Blue like an Orange to source and structure opportunities, augmenting their efforts with more flexible mezzanine debt financing. After the initial period, the Fund will broaden its reach and partner with other institutions, as well as with partners that address the needs of entrepreneurs across the target markets.

Background

It is a new era in development finance. The aftermath of the financial crisis resulted in a need to rebuild trust. If used properly, finance can be an effective tool to promote equality and other social goods. In a world of low interest rates, Blue like an Orange's approach helps build the case for facilitating investments in emerging markets. This case presents the early stages of a new investment approach designed to create an income stream for global investors while simultaneously advancing sustainability goals.

The seventeen SDGs offer a comprehensive group of goals for the entire world to achieve. The question, however, of how they will be financed remains open. Although estimates vary, achieving these goals will likely entail an investment of trillions. This open problem requires significant involvement from private sector investment.[1]

Current sources of development financing are unable to meet these needs. For example, official development assistance is approximately USD 143 billion per annum and budgetary constraints faced by donor governments is increasingly limiting growth. Moreover, although the World Bank Group, along with the five regional DFIs and the IMF, committed over USD 400 billion for the next three years, the annual demand for infrastructure investment in developing countries alone is significantly larger than these combined resources. The SDG goals will not be achieved without new approaches and new sources of public and private financing. Although "large pools of private resources exist," at present "only a small share of private funds is being channelled towards investments that support development objectives."

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1 Financing for Development: Unlocking Investment Opportunities," edX Open Learning Campus, *World Bank Group*.

[2] Facilitating private sector investment represents a largely untapped resource to help fund development projects within emerging markets.

In this respect, we have entered a new era in development finance. The Addis Ababa Action Agenda[3] recognises the critical role of the private sector in achieving the SDGs – not only the finance the private sector can provide, but also the innovative solutions and approaches it can bring. The focus has shifted from the amount of development aid available to an emphasis on how to use it to unlock investment opportunities and additional sources of public and private finance. The Monterrey Consensus,[4] along with others, recognises the potential for private investment in growing developing economies. As the World Bank explains, "private investment underpins economic growth, know-how and technology transfer, job creation, and productivity gains."[5] These private industry resources open up vast potential for interaction between advanced economies and developing ones.

Currently, the global economy faces "a combination of surplus savings and low private investment in advanced economies has resulted in a low-growth, low-interest environment."[6] These conditions have created obstacles for long-term investors because such "funds earn marginally low or negative yields."[7] This has heightened anxieties, which, in turn, lowers confidence and "depresses economic activity and interest rates."[8]

The lack of confidence in advanced economies may send long-term investors looking elsewhere for returns. In this way, developing countries may present new opportunities for investors at a time of increasing need:

> Potentially high-productivity investment opportunities in developing countries with young populations await sufficient financing to be channelled to them. Recognising this need, direct private sector investments in developing countries by DFIs have more than doubled over the last ten years, to over [USD] 30 billion in 2013. DFIs are expanding their focus on the private sector, and they are well positioned to design public-private investment solutions. Bridging this gap by unlocking investment opportunities in developing countries could generate welfare gains to both advanced and developing nations. [9]

Investing in developing economies may produce returns and increase value for advanced and developing nations. This interplay has the potential to create new opportunities for investors worldwide.

Strategy

Blue like an Orange's partnerships with DFIs are at the core of its strategy. The company uses its relationships to source and structure opportunities, augmenting its efforts with complimentary financing that serves the growing needs of clients. Blue like an Orange's

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[2] "Financing for Development: Unlocking Investment Opportunities," edX Open Learning Campus, *World Bank Group*.
[3] For more information, see: http://www.un.org/esa/ffd/ffd3/index.html
[4] For more information, see: http://www.un.org/esa/ffd/monterrey/
[5] "From Billions to Trillions: Transforming Development Finance," Development Committee Discussion Notes, *World Bank Group*, April 2015, http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002(E)FinancingforDevelopment.pdf
[6] "Financing for Development: Unlocking Investment Opportunities," edX Open Learning Campus, *World Bank Group*.
[7] Ibid.
[8] Ibid.
[9] Ibid.

partnership approach, combined with its financing offerings, is designed to fill a gap in the sustainable investing landscape.

Blue like an Orange will invest approximately 80% of its initial fund into mezzanine debt, which will provide flexible terms to clients and upside to investors as compared to traditional debt products. Around 20% may be used to provide equity in deals to provide even more flexibility. The first fund will be approximately USD 750 million, with a focus on Latin America and the Caribbean.

Why is Blue like an Orange working with DFIs?

Several key factors play a role in Blue like an Orange's cooperation with DFIs. These include the benefits of experience, pipeline, de-risking and impact:

- **Experience** - Potential to leverage the infrastructure of DFIs that have a strong track record of investing in emerging markets.

- **Pipeline** - Access to ongoing deals that have the greatest potential to utilise mezzanine debt to achieve scale and help diversify the portfolio.

- **De-risking** - Ability to invest in opportunities that capitalise on the growth potential of the emerging markets, but have been de-risked through a number of mechanisms.

- **Impact** - DFIs have a long track record of investing in socially responsible projects. Working with DFIs will give the Fund an opportunity to build on their existing frameworks.

Blue like an Orange's strategy, in this way may help reduce the concerns of cautious investors and, at the same time, increase experience of investing in new markets. This investment model enables investors to achieve a market return and help advance the SDGs.

Clients – Pension Funds, Institutional Investors, High Net Worth Individuals

Private capital constantly seeks investment opportunities. However, many opportunities in developing countries are often perceived as overly risky or uncertain for the majority of investors.[10] Institutions that partner with, co-invest alongside, and guarantee portions of loans made for such investments help investors rebalance their assessments of risk and reward.[11] This strategy helps channel considerable capital into developing countries. Nonetheless, this type of support remains a very small portion of the DFI approach to financing in developing countries.[12] As Jay Collins explains:

> The challenge for DFI is to be able to take what fits best on the bank's balance sheet and in the bank market, and give it to them: what is best for development banks to them, what is best for capital markets, insurance companies, pension funds to them, and to really be able to segment risk and distribute it accordingly.[13]

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[10] Eytan Bensoussan, Radha Ruparell, and Lynn Taliento, "Innovative Development Financing," Mckinsey & Company, August 2013, http://www.mckinsey.com/industries/social-sector/our-insights/innovative-development-financing
[11] Ibid.
[12] Ibid.
[13] "Financing for Development: Unlocking Investment Opportunities," edX Open Learning Campus, *World Bank Group*.

Sovereign-wealth funds offer more flexibility than other investment types and provide longer-term investment horizons.[14] In recent years, sovereign wealth funds "have been forming innovative coalitions – bringing together such players as multinational corporations and developing-country governments."[15] Their investment decisions are driven by risk-reward equation.[16] However, beyond financial rewards, many funds also seek political-security and industrial-policy dividends for their home countries. [17]

Although some asset classes such as infrastructure are more developed, others are not yet deep enough to attract large pools of capital.[18] DFIs can play a role by offering risk-sharing vehicles to improve the risk-reward profile.[19] Blue like an Orange also plans to communicate with a number of multinational corporations to explore different options for working with multinational companies and the Inter-American Development Bank.

Blue like an Orange and Mezzanine Debt

Mezzanine debt is a form of financing that offers high returns as compared to other debt types. In Blue like an Orange's view, mezzanine debt can help to fill the financing gap in emerging markets by providing financing for growth and expansion, offer a favourable risk-adjusted return profile and give protection through contractual repayment of principal. It also helps align interest between entrepreneurs and investors by providing a non-dilutive alternative to private equity investment. Mezzanine debt keeps ownership in the hands of local entrepreneurs and avoids dilution.

To advance its business and sustainability goals, Blue like an Orange will focus on investments in the following sectors: infrastructure, health, education, energy, financial services, agriculture and housing.

- **Infrastructure** To provide high quality and sustainable information technology, energy (with a focus on renewable), and transport to those who are currently operating with limited or no access.

- **Health** Create access to affordable healthcare services of professional quality, particularly for those who currently have limited access.

- **Education** Increase access to affordable and quality education and education related services as well as skills training, including for those who are currently unemployed or underemployed.

- **Financial Services** Provide affordable financial services to the underserved including SME's, women, and minorities.

- **Agriculture** Support the development of sustainable agriculture and increase financing to smallholder farmers to support local agriculture production and market access.

[14] Eytan Bensoussan, Radha Ruparell, and Lynn Taliento, "Innovative Development Financing," Mckinsey & Company, August 2013, http://www.mckinsey.com/industries/social-sector/our-insights/innovative-development-financing
[15] Ibid.
[16] Ibid.
[17] Ibid.
[18] Ibid.
[19] Ibid.

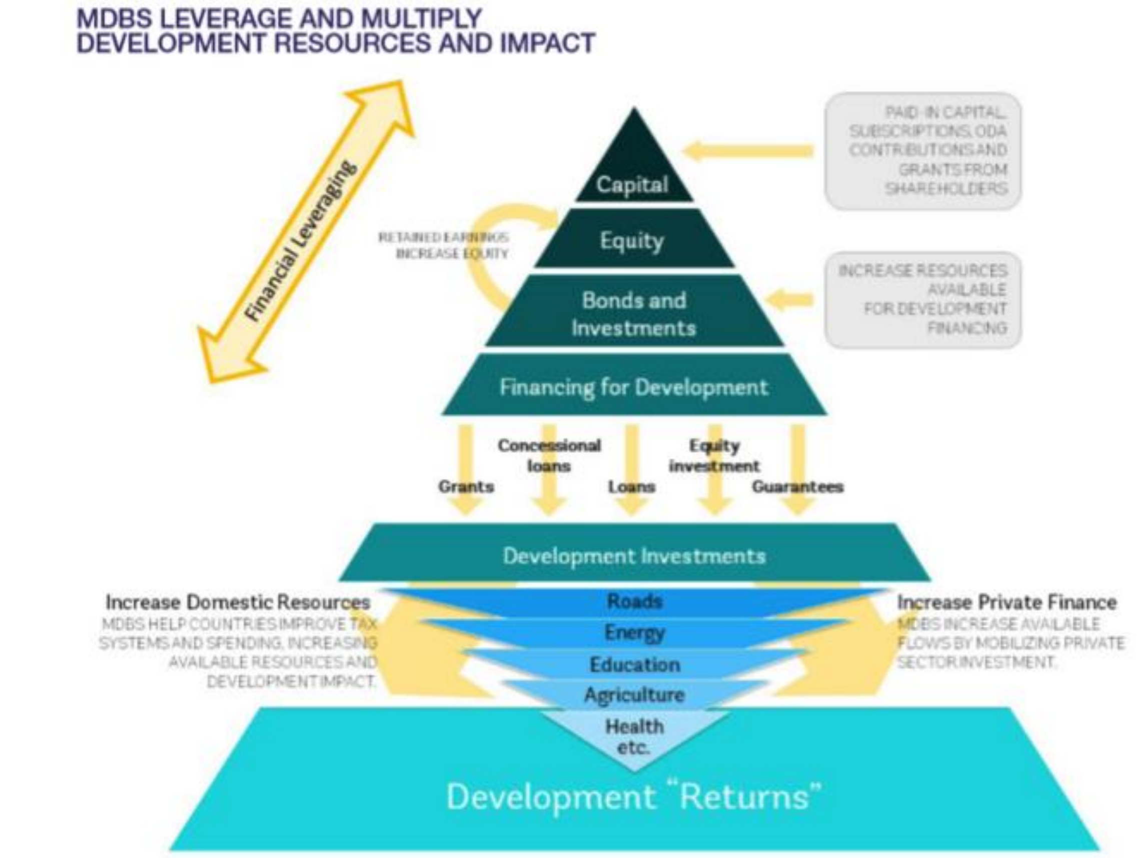

Figure: From Billions to Trillions: MDB Contributions to Financing for Development[1]

Purpose – Bringing Together Social and Financial Impact

Lack of access to capital means that some people use credit cards to fund their businesses at a 70% interest rate. Access to finance would release entrepreneurs from taking on expensive and risky credit.

Shifts in international investment patterns are also urgent for climate financing. The deterioration in climate conditions could entail a significant negative impact on development and long-term growth. A lack of long-term capital today is pushing countries and cities towards relatively dirty solutions, which require less upfront investment. Fossil fuels are used instead of renewables. Urban sprawl develops instead of planned cities, and people opt for individual vehicles over mass transit use.[20]

There are many examples of "solutions" that appear less expensive in a short term, but have negative development impact in the long term. Action to shift investment patterns is therefore urgent before decisions are made that lock in carbon-reliant infrastructure in the long run.[21]

Directing idle long-term private savings in advanced economies towards green technologies, sustainable infrastructure, and affordable and quality financial and social services in

[20] "Financing for Development: Unlocking Investment Opportunities," edX Open Learning Campus, *World Bank Group*.
[21] Ibid.

emerging markets would create meaningful new income streams to global investors, thereby enhancing macroeconomic stability and supporting climate resilience.[22]

Performance

Blue like an Orange Capital is developing a framework that aligns the funds mission with the SDG targets that track to key outcomes in their sectors. To achieve their full sustainability potential, they will set target “reach” goals which will drive the focus of the investments. These goals will also help the Fund be transparent with investors about what type of investments are best suited for sustainable investing as well as what sectors are most inclined to help achieve their goals.

Blue like and Orange’s quantitative goals will align with 12 of the 17 SDG’s and track progress against key indicators. Blue like an Orange will also comply with the standards for the field of sustainable investing including: The International Finance Corporations (IFC’s) Environmental and Performance Standards, The Impact Reporting Investing Standards (IRIS) and the United Nations Principles on Responsible Investing (PRI).

When investing with the IIC, Blue like an Orange will use the monitoring and evaluation system developed by IIC: DELTA (the Development Effectiveness Learning, Tracking and Assessment tool.). The DELTA encompasses three key areas: country and IADB goal alignment, project quality (quality of measurement model) and project score based on the project potential for financial and development outcomes. The development metrics cover categories such as additionality, jobs creation, diversity, gender inclusion and financial access. Each project can score between 1-10. Projects with a score of 5 or above are approved to move forward in the investment process. The Fund aims to score an average of 8.

Once a project has reached maturity, the Expanded Annual Supervision Report (XSR) is prepared to measure its development outcome and assess the IIC’s investment performance, work quality and additionality.[23] XSRs serve learning and accountability purposes. For this reason, the Inter-American Development Bank Group’s Office of Evaluation and Oversight (OVE) reviews each XSR to verify the reliability of the analysis, the impartiality and consistency of ratings and the completeness of lessons learned.[24] OVE prepares a report for the IIC’s Board of Executive Directors at the end of each calendar year and summarises its conclusions about the performance of all evaluated projects and the quality of the evaluation process.[25]

Prognosis

Looking ahead, Blue like an Orange will seek to expand both geographically, as well as the variety of products and services offered. It will expand from Latin America into Asia and Africa. Blue like an Orange has set up a consulting business to provide strategy advice. It may also consider establishing a foundation to carry out different types of projects in which making money is not a primary objective.

Blue like an Orange is also considering extending the partnership model to include entities such as private equity funds, multinationals, local banks and guarantors:

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[22] “Financing for Development: Unlocking Investment Opportunities,” edX Open Learning Campus, *World Bank Group*.
[23] “Impact Innovation Capital,” *Inter-American Investment Corporation*, http://www.iic.org/en
[24] Ibid.
[25] Ibid.

- **PE Funds:** With influx of private equity into emerging markets, many of the companies in these portfolios need working capital to get the scale necessary for exit. Financing can be a critical bridge to the capital markets.

- **Multinationals:** Many multinationals see their future growth in emerging markets, but have some trepidation about investing in, rather than marketing to, these economies. The Fund provides a de-risked vehicle to gain experience investing in these markets, and a co-investor for their future expansion plans.

- **Local Banks:** There is a lack of affordable flexible, fixed income products available in emerging markets. Currently, fixed income capital is provided mostly by commercial banks, which charge very high interest rates. Blue like an Orange aims to complement these sources and/or provide alternative capital for growing business.

- **Guarantors:** With its relationship in the Development Finance Community, Blue like an Orange can de-risk investments with guarantee structures available from DFIs and philanthropic donors.

- **Insurance Sector:** Degree of preparedness and speed of response to humanitarian crises requires improvement. Insurance sector can play a key role in improving resilience and providing post disaster support. Moreover, "transferring risk to the private sector provides efficient and cost-effective solutions that can relieve strained public-sector budgets."[26]

Blue like an Orange will look to increase its efforts to build up an attractive pipeline of viable projects to private sector investors. This includes working in a systematic fashion, together with DFIs, to find ways to mobilise private sector activity and investment. According to World Bank Group research, possible future approaches to address risk may include:

- Setting up individual or joint mechanisms to provide guarantees, risk insurance, blended finance, and other risk mitigation measures (e.g., structured finance).

- Exploring the possibilities of structuring pooled vehicles or co-investment platforms at national, regional or multilateral levels to reduce individual investor costs for project preparation and execution.

- Providing credit enhancement, allowing risks to be shared with official entities.[27]

Despite the potential challenges that lie ahead, Blue like an Orange's innovative investment model may present a compelling solution to addressing the need for sustainable investment opportunities that have measurable social impact and are attractive to pension funds and other institutional investors.

[26] "Public-Private Insurance Partnerships Bolster Latin American/Caribbean Resilience," *Caribbean Climate Blog*, https://caribbeanclimateblog.com/2017/03/03/5454/

[27] "Multilateral Development Banks," *World Bank Group*, August 2016, http://www.un.org/esa/ffd/wp-content/uploads/2016/01/Multilateral-Development-Banks_WBG_IATF-Issue-Brief.pdf

Saïd Business School

Saïd Business School at the University of Oxford blends the best of new and old. We are a vibrant and innovative business school, yet deeply embedded in an 800-year-old university. We create programmes and ideas that have global impact. We educate people for successful business careers, and as a community seek to tackle world-scale problems. We deliver cutting-edge education programmes and ground-breaking research that transform individuals, organisations, business practice, and society. We seek to be a world-class business school community, embedded in a world-class university, tackling world-scale problems.

Mars Incorporated

Mars' approach to business has long since been guided by five principles – quality, responsibility, efficiency, freedom and mutuality. Together they inform and guide the actions of all Mars associates every day as they do their jobs and interface with the outside world. The Mars' leadership has tasked its economic research unit, Catalyst, to start new work into unexplored territory for business; to identify critical drivers of mutuality and, using business pilots, to develop and test new metrics and management practices that can help boost mutuality in business situations. This work is called the Economics of Mutuality.

The Oxford-Mars Mutuality in Business Partnership

On the back of these promising findings, a multiyear partnership with Oxford University's Saïd Business School was established in 2014 to focus on the development of a business management theory for the Economics of Mutuality with corresponding teaching curriculum, new management practices, and case study research. The research programme has combined the pursuit of normative questions – what is mutuality and how should it be enacted? – with grounded, ethnographic research on current thinking and practices. This has led to the development of field experiments and case studies examining how large corporate actors conceive of and pursue responsible business practices, and how these relate to their financial and social performance.

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