

Corporate Investment Partnerships for Growth and Sustainability

How Companies, International Development Agencies, and Investors Align Around Purpose and Profit

EXECUTIVE SUMMARY



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Today's social and environmental challenges are putting new pressures on companies, international development agencies, and investors.

More than ever, **companies** see it as their responsibility to assume leadership on pressing global issues. This is not just good public relations. It is critical to companies' long-term viability. Investing in sustainability helps companies access new growth opportunities, remain competitive, and mitigate the costs and risks of a rapidly changing and interconnected world.

International development agencies recognize that they cannot solve large, complex development challenges on their own. They understand that working with the private sector can expand their reach by leveraging corporate resources, expertise, technologies, and distribution networks.

And **investors** realize that future opportunities lie in exploring new markets and disrupted sectors and in addressing social and environmental threats. Yet they need trusted partners to take full advantage of these opportunities.

The growing alignment between companies, development agencies, and investors is driving an emerging category of partnership: **corporate investment partnerships**. Corporate investment partnerships bring together the resources of these three key stakeholders, efficiently coordinating investments of capital and capabilities, such as talent, expertise, and local knowledge, to address business, social, and environmental challenges.

The U.S. Agency for International Development (USAID) leads the United States' foreign aid and humanitarian relief efforts and is a catalytic actor driving development results. Recognizing the opportunity for better results, USAID sought deeper insight into corporate investment trends and opportunities for partnership. It commissioned five leading corporate and investment advisory firms,¹ to answer these key questions:

I. What motivates companies to invest in sustainability?

Companies no longer see investments in sustainability as peripheral. Instead, these investments are core to business strategies that create long-term stakeholder value by addressing social, economic, and environmental opportunities and mitigating material risks. Companies increasingly recognize the growth opportunities these investments bring (e.g. through expanding to new markets and sectors); the improved resilience that comes with integrating sustainability into their operations; and the ability to meet consumer and employee demand for companies to address social and environmental issues, rather than focus only on profit.

2. What value can be derived for companies, development agencies, and investors from corporate investment in sustainability?

Corporate investments in sustainability drive value in key areas:²



Growth
by accessing and creating new markets, customers, and products



Risk Management
by reducing threats to growth, returns, or reputation



Returns on Capital
by reducing operational costs, optimizing supply chains, and increasing revenue



Brand Equity
by enhancing public perceptions of the company and thereby attracting and retaining customers and employees

For development agencies and investors, corporate investment in sustainability has the potential to create substantial value in the same four areas:

	Growth	Returns on Capital	Risk Management	Brand Equity
Corporate Investment in Sustainability Helps Development Agencies:	Expand reach (e.g., increase the number of beneficiaries) by leveraging corporate resources, expertise, technologies, and distribution networks	Expand the breadth of impact with fewer resources; improve efforts' sustainability and longevity, delivering better development results	Lower implementation risks, (e.g., by validating new technologies or approaches); reduce market distortion risk	Validate impact, approaches, and expertise, bolstering the development agency as a partner
Corporate Investment in Sustainability Helps Investors:	Access previously uncaptured opportunities and markets (deal flow); diversify portfolios	Improve shareholder returns as companies improve their long-term performance	Reduce portfolio risk by investing in or alongside companies that proactively manage their business risks; mitigate the real or perceived risks of entering unfamiliar markets or sectors by working with companies with global footprints	Attract capital, including from more varied sources; acquire better talent

3. What models do companies use to invest in sustainability?

While the models that companies use are as varied as the companies themselves, the models fall into three main categories:

Innovation Development enables companies to develop new, viable products and services that will increase revenue and market share. Innovation development may take place through closed innovation models such as internal research and development. It may also leverage open innovation models that leverage resources from outside the company, such as hackathons, challenges, incubators, and accelerators.

Investment enables companies to increase their financial returns, achieve their strategic objectives, and increase their impact. This includes direct investments of capital and other resources as well as investments made through funds and fund-like vehicles. Direct investment examples include a direct investment team and a service delivery unit. Fund models include internal or external single-stakeholder funds or multi-stakeholder funds.

Collaboration enables companies to expand into new markets, share distribution channels, and fine-tune business models by leveraging the assets of other organizations to access innovation. Examples include pre-competitive collaboration partnerships, innovation partnerships, joint ventures, and other strategic alliances.

This report explores the models under each of the three categories, including how each model is typically structured and how it can be used to achieve corporate objectives.

4. Why are companies pursuing corporate investment partnerships rather than investing alone?

Not all corporate investment initiatives require partnership. The most effective partnerships form when a company recognizes a clear business need that it cannot solve on its own. This may be because of resource or expertise constraints or because it falls outside of the company's influence, control, or core business area. Companies may also pursue corporate partnerships when the risks of tackling a challenge alone are too high or if a firm wants to increase its brand equity.

5. How can development agencies support corporate investment in sustainability?

Development agencies possess financial and non-financial tools that align well with corporate investment models. For example, by using concessionary or grant capital, development agencies can help test new business models or adapt a successful model to a new market. By leveraging their deep experience supporting supply chains in developing markets, they can build and reinforce local partner capacity and strengthen their supply and value chains. Development agencies' relationships with local governments and familiarity with local regulations can facilitate improved standards and policies, which can accelerate new market entry. Finally, development agencies have the expertise to help companies validate their social and environmental impact, which strengthens their social license to operate and the public perception of their brands.

Corporate investment partnerships have immense potential for enabling new markets, ensuring long-term sustainability, and reducing investor risk. However, advancing these partnerships is not without challenges. This report makes the case for leaders to work collaboratively across corporate, development, and investor organizations to address challenges that affect them all.

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¹This project was conducted by USAID INVEST, which is managed by DAI. DAI partnered with five firms to conduct this research and collaborate on this report: Heliotropy, Hystra, ISF Advisors, KOIS, and Lions Head Global Partners.

²Growth, returns on capital, and risk mitigation were first articulated by Sheila Bonini and Stephan Gerner as the three ways in which sustainability can create value for companies and employees. See: Bonini, Sheila and Gerner, Stephan. "The Business of Sustainability: Putting it into Practice." McKinsey & Co. 2011.

Cover Image:

Employees assemble electronic tablets at the Surtab factory in Port-au-Prince, Haiti. Surtab, which was established in 2013 with funding from USAID, has boosted the technology sector in Haiti. The tablets are produced for commercial sale, but they are also used in education, healthcare and agriculture, increasing efficiency in programs that seek to create a brighter future for Haiti.