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Priming SDG Markets

Can International Donors and Implementers Create An Impact Investment Pipeline?

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TABLE OF CONTENTS

1	Executive Summary
5	Introduction
8	Chapter 1: Landscape of International Donors and Their Top Implementing Organizations
9	Analytical Methodology
9	Defining the Donor Universe
11	Public Donor Data Methodology
13	Private Donor Data Methodology
14	Approach to Determining the Best-Positioned Implementing Partners
16	Scale Analysis: Deep Dive of the Largest Public and Private Donor
18	Frequency Analysis
19	Public Donors and Their Implementing Partners
20	Private Donors and Their Implementing Partners
21	Cross-over Analysis: Implementers with Scaled and Numerous Donor Relationships
23	Profiles of Target Implementing Partners for Deeper Analysis
24	Key Insights of Chapter 1 Donor Landscape
26	Chapter 1 Summary
27	Chapter 2: Understanding Early Movers: Capabilities and Needs of Implementing Organizations
28	Analytical Methodology
29	Areas of Focus
31	Analysis of Implementing Organizations
31	Overview of Historical Experience
38	Overview of Mission, Structure, and Governance
42	Overview of Commercialization Opportunities and Challenges

47	Overview of Finance and Economics
51	Overview of Human Capital for Commercialization
56	Overview of Core Competencies for Commercialization
58	Overview of Legal/Regulatory Considerations for Commercialization
61	Chapter 2 Summary
63	Chapter 3: International Nongovernmental Organization (INGO) Commercialization Platforms: Two Case Studies
64	Case Study Methodology
66	Case Study: FHI Ventures
67	Commercial Origins: 1971-1986
68	Episodic Wins: 1986-2013
70	Structured Experiment A: The Catalyst Fund, 2013-2017
72	Structured Experiment B: FHI Ventures, 2017-Present
75	Case Study: Mercy Corps Venture Fund
76	Commercial Origins: 1981-1989
77	Episodic Wins: 1989-2014
79	Structured Experiment A: The Social Innovations Team, 2014-2015
81	Structured Experiment B: Mercy Corps Venture Fund, 2015-Present
84	Common Insights from FHI 360 and Mercy Corps
87	Chapter 3 Summary
89	Conclusion
92	Acknowledgments
93	Appendix A: Donor Profiles
103	Appendix B: Implementing Organization Profiles
108	Appendix C: Survey Questions
115	About the Authors

EXECUTIVE SUMMARY

**“ TO FULFILL THE SDGS, THE
INTERNATIONAL DONOR
SYSTEM MUST RE-ORIENT ITSELF
TO TRANSLATE ITS PROGRAMS
INTO OPPORTUNITIES THAT
REACH PRIVATE MARKETS AND
COMMIT TO FAR-REACHING,
SYSTEMIC CHANGE. ”**



EXECUTIVE SUMMARY

Leveraging the power of markets is critical to fulfilling the bold ambitions of the United Nations Sustainable Development Goals (SDGs). The SDGs are a collection of 17 global goals set by the UN General Assembly in 2015. Embedded in the SDGs are 232 indicators that relate to ending poverty, protecting the planet, and engendering prosperity for all by 2030. Thirty-five of the indicators seek to improve the lives of the world's children.¹ Estimates suggest that achieving the SDGs requires \$2.5 trillion in additional annual investment over and above current international donor commitments, which has created a consensus around the urgent need to forge effective mechanisms for cooperation between the international donor community and the private sector.²

International donors—comprised of both public sector agencies and private philanthropies—have sought to attract private capital to this mission. Much of the attention in this arena has centered on blended finance structures in which a combination of public, philanthropic, and private sectors invest together; however, the \$15 billion annual blended finance market represents a small fraction of the broader international donor industry.³ The estimates of the potential impact investment market range from \$502 billion to \$26 trillion and cover all potential asset classes. While the growth of blended finance is notable and important, it is constrained by bottlenecks in project transaction costs, project design, and project pipeline development.^{4,5} As a result, to fulfill the SDGs, the international donor system must re-orient itself to translate its programs into opportunities that reach private markets and commit to far-reaching, systemic change.

Such change is difficult to implement. So, in pursuing this shift, can the international donor community learn from other large-scale social innovation systems that

1. "UNICEF Data: Monitoring the Situation of Children and Women," accessed December 12, 2019, <https://data.unicef.org/children-sustainable-development-goals/>.

2. Mara Niculescu, "Impact Investing to Close the Funding Gap" (United Nations Development Programme, July 13, 2017), <http://www.undp.org/content/undp/en/home/blog/2017/7/13/What-kind-of-blender-do-we-need-to-finance-the-SDGs-.html>.

3. "The State of Blended Finance 2019" (Convergence: Blending Global Finance, 2019), https://assets.ctfassets.net/4c9qlwde6qy0/58T9bhxExlNh2RilxWxSNe/ba56fa36c81349640179779ddd68cc99/Convergence_-_The_State_of_Blended_Finance_2019.pdf.

4. "Creating Impact: The Promise of Impact Investing" (IFC, 2019), https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/promise-of-impact-investing.

5. Susanna Rust, "Impact Investing: Tricky, but Worthwhile" (Investments and Pensions Europe, May 2019), <https://www.ipe.com/reports/special-reports/impact-investing/tricky-but-worthwhile/10030927.article>.



have proven successful? The United States and other advanced economies have highly-developed systems for advancing innovations from early-stage ideas to market. In life sciences, for example, the US National Institutes of Health provides grants to universities and academic medical centers. These organizations have well-established processes for packaging early-stage science projects into early-stage companies for the private sector to bring to the next phase of commercial development. The international donor community has many of the same components that could be adapted to produce more investable innovation opportunities. There are large-scale donors that provide billions in grants and service contracts to private implementing organizations (IOs) to execute projects ranging from early-stage product design to last-mile distribution and service delivery. In most cases, the need for these donor-backed interventions has resulted from the lack of a vibrant private sector. Also, there is a diverse, growing field of impact private equity investors seeking early-stage investment opportunities aligned to the SDGs.⁶ Given prior successful implementation models, and impact investors' readiness to provide capital, does an opportunity exist for donors' IOs to provide systematic coordination leading to the transition of donor-backed projects to private markets at scale?

In this paper, the Milken Institute's Center for Financial Markets partnered with the UBS Optimus Foundation to study how IOs of international donor programs could become a fulcrum for generating more market-based solutions and better outcomes for children globally. We addressed this question in three stages.

1. We distilled the global market for child health and education programs to identify prominent IOs within the field, as well as attributes of the donor landscape that could impede a systematic commercialization effort. Ultimately, we determined that a handful of the more than 500 identified IOs had the breadth of relationships, scale, and foundational operational capacity needed to translate donor programs into investment opportunities. Beyond identifying IOs for subsequent analysis, this market distillation offered insights for repositioning the sector for more effective private-sector partnerships. These insights covered transparency, the availability and comparability of data, and the scalability of interventions.
2. We surveyed and interviewed a subset of high-potential IOs across seven areas to gauge their interests in, experiences with, and capacity to transition donor-backed programs to private capital markets. The data indicated that the commercialization of donor-backed programs is a timely strategic question facing the IOs. A majority

6. "Annual Impact Investor Survey: The Ninth Edition" (GINN, 2019), https://thegiin.org/assets/GIIN_2019%20Annual%20Impact%20Investor%20Survey_webfile.pdf.



of the survey respondents have begun to build structures and intermediary organizations to enable some (or parts) of their programs to be commercialized. A prominent example of such a structure is investment fund subsidiaries that align to the IOs' organizational mission, much like the corporate venture capital functions prevalent in other innovation-driven industries. However, the degree to which IOs are currently pursuing or are prepared to pursue these opportunities center around their leadership's views on both external market forces and internal organizational readiness.

3. We conducted case studies of two IOs that are further along in their development, having built similar investment fund strategies to systematize their approach, with the hope of identifying lessons for other stakeholders. FHI 360 and Mercy Corps both began an organizational journey over 30 years ago in transitioning donor-backed programs to commercial endeavors. After a series of episodic successes—building contract medical research organizations in the case of FHI 360, and microfinance institutions in the case of Mercy Corps—both IOs began to experiment with leveraging their internal expertise to develop a systematic approach for building social enterprises. With the lessons from those intrapreneurship activities, each launched investment funds to provide capital and expertise to early-stage businesses aligned to their mission. These latest approaches are beginning to mature, and the IOs are facing similar decisions about their future paths. The broader IO community will be able to use these lessons as they contemplate their own approaches to commercialization.

Overall, the SDGs have served the international donor community well in creating a focus for addressing challenges that have been unmet since the creation of global development institutions after 1945. However, with a financing need that can only be filled by leveraging both public and private capital, the question we posed was how to make the SDGs accessible to the corporations, asset managers, and others that have a demonstrated interest in impact investments. As the private sector service providers to international donors, IOs could become that access point by translating their donor initiatives into investment opportunities. While many leaders in the field see this need and are beginning to build institutional structures to fulfill it, as a system, significant work remains. Donor transparency and standardization are needed to make projects and technologies market-ready. IOs need to improve their technical skills and investor networks. In the end, convergence is, in fact, occurring between the international donor community and financial markets, but the 2030 SDG deadline is approaching more quickly than the rate of systemic change. Leadership across the public, private, and nonprofit sectors must accelerate the process to serve the world's children now.

INTRODUCTION

“ CAN THE CONVEYER BELT MODEL OF COMMERCIALIZATION IN THE UNITED STATES BE ADAPTED TO THE INTERNATIONAL DONOR SYSTEM THAT IS SEEKING TO SOLVE THE HEALTH AND EDUCATION CHALLENGES FACING CHILDREN IN DEVELOPING COUNTRIES? ”



INTRODUCTION

In any industry, shepherding innovation from early-stage concept to commercial market requires systematic collaboration across various stakeholder groups. In some sectors, there are well-established, efficient relationships among stakeholders to facilitate the innovation journey. For example, in the United States, federal government agencies have long-standing funding relationships with universities, hospitals, and other institutions to conduct research and implement projects on the government's behalf. The 1980 implementation of the Bayh-Dole Act gave private recipients of federal research funding ownership of their intellectual property, and these implementing organizations created technology transfer functions dedicated to translating these early-stage government-backed projects into commercial enterprises in many sectors (e.g., telecommunications, agriculture, biotechnology, etc.). Indeed, these implementing organizations, or Technology Transfer Organizations (TTOs) of research universities alone launched more than 1,000 firms in 2015.⁷ These TTOs have standard approaches to facilitate this commercialization process and to assist these early-stage firms in securing funding from venture capitalists and other investors. That helps bring the projects to market for the benefit of producers, consumers, investors, and society at large. In addition, knowledge management in TTOs has moved increasingly towards shared platforms that enhance the identification and exchange of best practices. By moving from push (grant) toward pull mechanisms (prizes, co-investing, and collaborative fund structures), TTOs are establishing new tools for ideation and portfolio diversification.

We found that the international development and impact investment systems have not yet built a similar systematic commercialization process—a conveyor belt of sorts—to take innovations to market for the benefit of children in developing countries. On the one hand, large-scale donors provide billions of dollars in grants and service contracts to large implementing organizations. On the other hand, a large, diverse field of impact investors is looking for early-stage investments. But, currently, there is no systematic capability to translate between these two universes. The result is a common refrain: Donors and their implementers lament the private sector for not investing in their initiatives, and impact investors continue to struggle with sourcing commercially-viable deals. Can the conveyor belt model of commercialization in the United States be adapted to the international donor system that is seeking to solve the health and education challenges facing children in developing countries?

7. Ross DeVol, Joe Lee, and Minoli Ratnatunga, "Concept to Commercialization" (Milken Institute, April 2017), <https://assets1c.milkeninstitute.org/assets/Publication/ResearchReport/PDF/Concept2Commercialization-MR19-WEB.pdf>.



Source: Milken Institute Analysis, 2019

The first step toward answering that question is to analyze the relationships of international donors and the organizations implementing their programs. Two questions immediately arise: Who are the major public and private donors to international child health and education initiatives that can serve as a catalyst? Who are the organizations that are implementing these donor programs? Chapter One explores those questions and identifies organizations to analyze regarding their market incentives, expertise, financial wherewithal, and legal authorities to pursue commercialization of donor-backed projects.

In Chapter Two, we focus on the targeted list of implementing organizations and their capabilities in the field. We seek to answer four questions: What are their objectives related to commercialization efforts? What have they achieved thus far? What strategies allowed them to achieve desired results? What are the common trends among the implementing organizations?

Finally, in Chapter Three, we selected two implementing organizations for comparative case studies. The case studies describe in chronological order the key decisions leading to their commercial structures in place today. These two IOs have a similar fund structure; however, their paths towards this result varied considerably. These case studies illuminate the challenges other IOs may face as they advance toward commercialization.

CHAPTER

01

**LANDSCAPE OF
INTERNATIONAL
DONORS AND THEIR
TOP IMPLEMENTING
ORGANIZATIONS**



ANALYTICAL METHODOLOGY

Defining the Donor Universe

Many innovations targeting children in developing countries originate outside of donor-backed initiatives and episodically from within donor-backed programs. The purpose of this study is to determine whether these donor-funded programs can systematically generate more commercial opportunities by increasing the capabilities of the partners that implement them on donors' behalf. When done effectively—as seen in innovation sectors in developed countries—the donors fund a large number of proof-of-concepts, and the donors' implementing partners translate certain of these proof-of-concepts into enterprises capable of attracting funding from private investors. However, because the probability of success in this commercialization process is small, creating scale in both financial and project number terms is critical to attracting investors. That's because investors need to be convinced of commercial returns before allocating a meaningful amount of capital.

For developing countries' health and education initiatives, the universe of international donors covers both public- and private-sector organizations. Private donors are particularly diverse and fragmented. A global philanthropy study authored by researchers at the Hauser Institute for Civil Society at Harvard University and funded by UBS Wealth Management identified more than 260,000 foundations operating across 39 countries. Importantly, over 90 percent of these donors reported assets of less than \$10 million, and nearly half reported assets of less than \$1 million.⁸ Given the need for scale in a successful model for commercializing donor-backed programs, we limited our analysis of private donors to the organizations that are providing the most funding to health and education initiatives according to a recently published study of private philanthropy donors by the Organization for Economic Co-operation and Development (OECD).⁹ We selected private donors that provided significant support for programs focused on children and/or youth in the health and education sectors.

8. Paula D. Johnson, "Global Philanthropy Report" (Harvard Kennedy School and the UBS Optimus Foundation, 2019), <https://www.ubs.com/global/en/wealth-management/uhnw/philanthropy/shaping-philanthropy.html>.

9. "Private Philanthropy for Development" (OECD, March 23, 2018), <https://www.oecd.org/dac/private-philanthropy-for-development-9789264085190-en.htm>.



Table 1 lists these private donors along with their ranking in terms of their overall level of giving to development programs.

Table 1: Private Donors

OVERALL GIVING RANK	DONORS	AVG. ANNUAL GIVING 2013-15 (\$ IN MILLIONS)
1	Bill & Melinda Gates Foundation	\$3,875.7
2	Children's Investment Fund Foundation	249.3
6	MasterCard Foundation	177.7
7	Bloomberg Philanthropies	139.2
8	IKEA Foundation	135.3
9	Wellcome Trust	131.2
11	Rockefeller Foundation	120.5
26	MacArthur Foundation	38.8
28	Omidyar Network Foundation, Inc.	35.5

Source: OECD (2018), "Private Philanthropy for Development," *The Development Dimension*, OECD Publishing, Paris (<https://www.oecd.org/dac/private-philanthropy-for-development-9789264085190-en.htm>)

In the public sector, the primary flow of international donor support is known as official development assistance (ODA), a term coined by the 30 countries that form the Development Assistance Committee (DAC) of the OECD to measure aid. ODA targets are based on a percentage of the donor country's gross national income, and as a result, ODA volumes vary substantially. Similar to the approach for defining the set of private donors, we selected public donors who provided significant support for programs focused on children and/or youth in the health and education sectors.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

Concessional funding provided by donor countries for the promotion of economic development and social welfare in developing countries.



Table 2 lists these public donors, along with their ranking in the overall level of ODA funding.

Table 2: Country ODA

OVERALL ODA RANK	COUNTRIES	AVG. ANNUAL ODA 2015-17 (\$ IN MILLIONS)
1	United States	\$28,401.5
2	Germany	17,855.9
3	EU Institutions	15,488.8
4	United Kingdom	11,523.4
7	France	5,816.0
9	Sweden	4,035.7
11	Norway	3,295.0
12	Canada	2,919.9
13	Switzerland	2,609.8
18	Belgium	1,277.3

Source: OECD.stat, extracted on 17 Apr 2019 17:07 UTC (GMT) (<https://stats.oecd.org/>)

Public Donor Data Methodology

ODA flows comprise contributions of donor countries for the promotion of economic development and social welfare in developing countries. This assistance is provided in myriad ways, through a variety of channels, and for different purposes. Provided that the support is on concessional terms, ODA can take the form of grants, loans, equity investments, or other structures and be delivered by government agencies at all levels, or indirectly via multilateral institutions. Countries report their ODA to the OECD annually. As shown in Table 2, the official OECD data were used to identify the top public donors (i.e., countries) and to understand their focus on health and education.

To determine the most prominent public agencies in health and education initiatives and their implementing organizations, country-level ODA must be disaggregated by the delivery channel. Each donor country has a distinct institutional architecture for its foreign assistance. Some countries distribute funds primarily through multilateral



institutions, such as the World Bank, while others focus on government-to-government relationships through their foreign affairs ministries. While these are critical channels of international cooperation, they do not represent the focus of this research. This particular analysis focuses on each country's lead development agency, which designs and funds programs for implementation through a direct relationship with implementing organizations. Figure 1 illustrates this hierarchy.

Each donor country and its lead development agency also have distinct approaches to reporting and transparency regarding the distribution of funds to implementing organizations. Some countries produce annual reports on their ODA channels and top funding recipients for their respective legislative or oversight bodies, or public consumption. Others provide information on individual government transparency programs or international data repositories, including the International Aid Transparency Initiative (IATI). Still, others provide limited data publicly or provide information that is not analyzable from the vantage point of identifying top implementing organizations. Lastly, even donors with identical objectives sometimes use different naming conventions, which further complicates comparative analysis.

Figure 1



Source: Milken Institute Analysis, 2019

In summary, as a result of institutional and data transparency complexities, the data-gathering methodology in this study was highly donor-specific. However, as a general rule, the methodology is structured as described in Figure 1: a disaggregation of country-level ODA to determine the country's lead development agency, and subsequent identification of the top implementing organizations for that development agency, with a focus on health and education expertise.



Private Donor Data Methodology

The universe of the largest private donors to health and education initiatives globally is based on the total financial support provided by these organizations from 2013 to 2015, as reported by the OECD.¹⁰

However, similar to the public sector, the reporting of private donors varies substantially. The nomenclature used to describe program types in health and education is inconsistent and sometimes grouped differently. Moreover, private donors have highly individualized methods for disclosing their top funding recipients. Certain organizations, such as the Bill & Melinda Gates Foundation (BMGF), are fully transparent, producing project-level data that can be sorted and filtered for analysis. Other donors provide certain information to the OECD or disclose limited information through their annual reports or tax filings, which reduces the ability to generate a complete picture of their key partners. And others do not disclose funding recipients in any fashion and thus are impossible to analyze from that perspective.

As a result of institutional and data transparency complexities, the data gathering methodology for private donors was also highly organization-specific. Global private giving is opaque and fragmented, but the top health and education funders were identified in an OECD study of foundations. With private donors, as a general rule, the top implementing partners were the organizations that received the most funding from those donors in recent fiscal years, where information was available.

10. "Private Philanthropy for Development," OECD.



Approach to Determining the Best-Positioned Implementing Partners

Through the processes described above, we collated a donor list that consisted of both private and public donors. We identified the private donors from the OECD 2018 Private Donor Study. The public donors were identified first by determining the countries providing the most relevant ODA funding; of those countries, key government agencies responsible for leading the distribution of ODA constituted the public donor list. Table 3 provides an overview of the 19 donors, both private and public, and indicates sector areas of relevance where they rank in the top 10 of global donors.

Given the data structure limitations, we used a three-step process to identify the key implementing organizations to these donors that could be approached for piloting a commercialization strategy. First, we used the thorough public data available and scale of funding provided by the United States Agency for International Development (USAID) on the public donor side, and the Bill and Melinda Gates Foundation (BMGF) on the private donor side. We conducted a scale analysis to identify the top organizations that received the most health and education funding from them between 2015 and 2017. This analysis provides context as to the scale of the implementers' funding sources.

Second, with limited data for the remaining public and private donors, especially regarding the amounts of their funding distributions, we conducted a frequency analysis to determine which implementing partners had the most relationships across the donor universe. This analysis addressed the need for breadth of relationships and expertise and diversity of funding.

Lastly, we assembled and then augmented the results of the scale and frequency analyses through a qualitative review of organizational capacity and interests. We did this to ensure that we did not exclude implementers with specialized expertise and strong market-positioning due to data transparency issues. We profiled the resulting set of organizations, which will be the starting point for Chapter 2, which offers a deeper analysis of the opportunity for an implementing organization to create a commercialization capability, either individually or as a shared utility across multiple organizations.



Table 3: Public and Private Donors (Ranking and Sector Overview)¹¹

OVERALL GIVING RANK	PRIVATE DONORS	TOP 10 GIVING BY SECTOR		
		CHILD & YOUTH*	HEALTH	EDUCATION
1	Bill & Melinda Gates Foundation	Yes	Yes	
2	Children's Investment Fund Foundation	Yes	Yes	Yes
3	MasterCard Foundation	Yes	Yes	Yes
4	Bloomberg Philanthropies		Yes	
7	IKEA Foundation	Yes		
9	Wellcome Trust		Yes	
11	Rockefeller Foundation			
12	MacArthur Foundation			
13	Omidyar Network Foundation, Inc.			

ODA RANK	COUNTRY ODA	HEALTH	EDUCATION
1	USAID (United States)	Yes	Yes
2	BMZ (Germany)	Yes	Yes
3	DG Devco (EU Institutions)	Yes	Yes
4	DFID (United Kingdom)	Yes	Yes
7	AFD (France)	Yes	Yes
9	SIDA (Sweden)	Yes	
11	NORAD (Norway)		Yes
12	Global Affairs Canada (Canada)	Yes	Yes
13	SDA (Switzerland)		
18	Enabel (Belgium)		

*Child & Youth focus not provided for ODA country funding.

Source: OECD (2018), *Private Philanthropy for Development, The Development Dimension*, OECD Publishing, Paris, (<https://www.oecd.org/dac/private-philanthropy-for-development-9789264085190-en.htm>); OECD.stat, extracted on 17 Apr 2019 17:07 UTC (GMT)

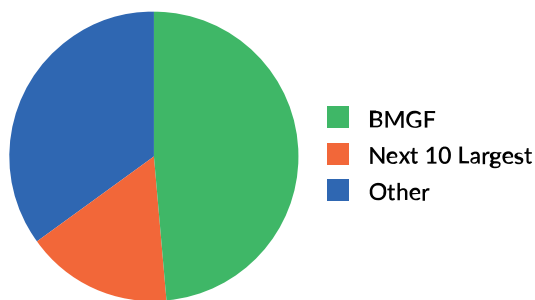
11. A list of top donors was identified considering a few variables. First, the majority were selected due to having the greatest outflow to child development-related projects. Institutions at greater scale have larger capabilities and greater potential to impact extensive populations. Second, we considered diversity in size and geography. Smaller institutions in the market, such as the Omidyar Network and the Belgian Development Cooperation, were selected to understand not just the capabilities of the largest institutions but also the institutions working on expanding.



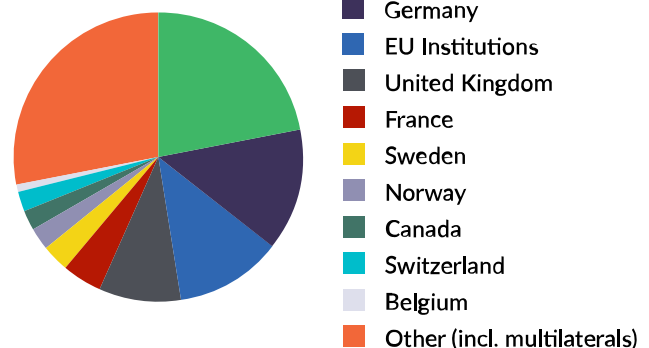
SCALE ANALYSIS: DEEP DIVE OF THE LARGEST PUBLIC AND PRIVATE DONOR

As mentioned above, both USAID and BMGF provide full transparency on their funding, and they are the largest donors in the public and private sectors, respectively. BMGF alone represented nearly 50 percent of total giving by private donors for the 2013-15 period covered in the OECD 2018 Private Donor Study, and accounted for over \$3.8 billion on average; the next largest organization accounted for approximately \$250 million of giving. Chart 1 shows the total private giving for the 2013-15 period. USAID is the primary agency responsible for the distribution of United States ODA, which represents over 20 percent of total global development aid. In 2019, USAID distributed over \$19 billion of development aid, of which \$14.5 billion was direct on a bilateral basis (i.e., excluding distributions to multilateral organizations). Chart 2 shows the total global ODA for the 2015-17 period.

**Chart 1: Global Private Giving
(Avg. 2013-15)**



**Chart 2: Global ODA
(Avg. 2015-17)**



Source: Milken Institute Analysis, 2019 using OECD data

These organizations are also significant providers of aid for both health and education programs. BMGF is overwhelmingly focused on health, but, given its size, the small portion it allocates to education puts it among the largest private



donors to education-focused programs in absolute dollar terms. BMGF also ranked as the largest private donor in the OECD 2018 Private Donor Study focused on child and youth-related programs. Of the \$8.3 billion in health-related ODA funding the United States provided in 2017, USAID allocated \$6.5 billion, and of the \$1.6 billion of education-related ODA the United States provided in that same year, USAID allocated \$1.1 billion. The scale of these two institutions makes their level of transparency instrumental in identifying relevant implementing partners (Detailed Donor Profiles can be found in Appendix A).



FREQUENCY ANALYSIS

We constructed a data set of the top implementing partners for the private and public donors to determine which implementing partners had the broadest exposure across the donor universe identified for this study. Table 4 identifies the top 20 implementing partners that resulted from this analysis.

Table 4: Implementing Partners with the Broadest Exposure Across Both Public and Private Donors

NO.	IMPLEMENTING ORGANIZATION
1	AECOM Technology Corporation
2	BRAC
3	Global Partnership for Education
4	Harvard University
5	Ifakara Health Institute
6	Jhpiego Corporation
7	Johns Hopkins University
8	Management Sciences for Health
9	Marie Stopes International
10	Medicines for Malaria Venture
11	Mercy Corps
12	Natural History Museum
13	Palladium
14	PATH
15	Pathfinder International
16	Population Services International
17	Room to Read
18	Save the Children
19	The Power of Nutrition
20	World Vision

Source: Milken Institute Analysis, 2019



Public Donors and Their Implementing Partners

We identified public donors' implementing organizations using a variety of sources, including donors' annual reports and project databases, and from public databases such as Devex and the International Aid Transparency Initiative (D-Portal). Then, we identified and aggregated the top implementing organizations for the prioritized public donors into one data set to determine which implementing organizations had the broadest exposure across the donor universe identified for this study. Table 5 identifies the top 20 implementing organizations that resulted from this analysis. Further details of each public donor in Table 5 can be found in Appendix A.

Table 5: Implementing Partners with the Broadest Exposure Across Multiple Public Donors

NO.	IMPLEMENTING ORGANIZATION
1	Plan International
2	Save the Children
3	Global Partnership for Education
4	AECOM Technology Corporation
5	BRAC
6	Mercy Corps
7	Abt Associates, Inc.
8	Alliance for International Medical Action
9	Cardno
10	CARE International
11	Clinton Health Access Initiative
12	DAI
13	IMA World Health
14	International Committee of the Red Cross
15	IPE Global Pvt Ltd
16	Marie Stopes International
17	Medicines for Malaria Venture
18	Palladium
19	Population Services International
20	World Vision

Source: Milken Institute Analysis, 2019



Private Donors and Their Implementing Partners

We identified and aggregated the top implementing organizations for the nine private donors into one data set to determine which implementing organizations had the broadest exposure across the donor universe identified for this study. Table 6 identifies the top 20 implementing organizations that resulted from this analysis. Further details of each private donor can be found in Table 6 and in Appendix A.

Table 6: Implementing Partners With The Broadest Exposure Across Both Public and Private Donors

NO.	IMPLEMENTING ORGANIZATION
1	Access Health International
2	African Population & Health Research Center
3	BRAC
4	DKT International
5	EngenderHealth, Inc.
6	FHI360
7	Global Health Innovative Technology Fund
8	Harvard University
9	Ifakara Health Institute
10	Jhpiego Corporation
11	Johns Hopkins University
12	Management Sciences for Health
13	Marie Stopes International
14	PATH
15	Population Services International
16	Room to Read
17	Save the Children
18	The Power of Nutrition
19	The Task Force for Global Health
20	World Vision

Source: Milken Institute Analysis, 2019



CROSS-OVER ANALYSIS: IMPLEMENTERS WITH SCALED AND NUMEROUS DONOR RELATIONSHIPS

Scale, breadth, efficiency, and expertise are critical factors to the creation of a successful commercialization function. This is the case for various reasons; however, these variables can be grouped into issues faced by the implementers, and issues faced by the investors from whom the implementers seek to attract funding for their newly created enterprises. From the implementer perspective, there is a cost to creating the commercialization function, and sufficient throughput is needed to justify that preliminary and ongoing investment. As a result, the best-positioned implementers need stable funding from their donors, scale, and breadth of programming and expertise to create a significant future stream of opportunity. Similarly, from the investor perspective, a successful commercialization entity must produce high-quality investment opportunities that are cost-effective to evaluate. That typically requires the commercialization partner to have dedicated expertise in commercializing projects and an understanding of investor motivations.

Below is the group of IOs that have recurring relationships with a variety of donors, active programming across health, education, and other sectors, and a scale to justify the creation of a new, or enhanced, commercialization function.

We constructed rankings for each implementing partner based on both the breadth of exposure to the target donor universe and the value of grants received from the same donors. Table 7 provides a ranking of the implementing partners based on a combined ranking for both exposure and scale.



Table 7: Cross-Over Analysis

IMPLEMENTING ORGANIZATION	BROADEST DONOR EXPOSURE RANK	VALUE SCALE RANK	OVERALL RANK
PATH	1	1	1
Population Services International	1	1	1
Jhpiego Corporation	2	2	2
Management Sciences for Health	2	2	2
Chemonics International, Inc.		2	3
FHI360		2	3
John Snow International		2	3
Mercy Corp	2		3
Palladium	2		3
RTI International		2	3
Save the Children	2		3

Source: Milken Institute Analysis, 2019



PROFILES OF TARGET IMPLEMENTING PARTNERS FOR DEEPER ANALYSIS

Given the organizational complexities of launching a new function—a function that may be first-of-its-kind for the international development sector—we conducted further analysis based on the researchers’ experience with the organizations in the scale and frequency analyses. To ensure that data transparency issues did not artificially exclude strong candidates, we augmented the list of implementing organizations from the scale and frequency analyses through additional filters such as:

- Which leadership teams are attuned to this sort of opportunity?
- Which organizations have existing capabilities in commercialization, either directly or through a services model?
- Which organizations have the financial resources to consider a commercialization initiative?
- Which organizations may have slightly less scale or donor relationships but better capabilities or teams to execute a strategy such as this one?

Appendix B includes a series of profiles of implementing partners that, on the whole, have (i) the most scaled health and education funding from USAID and BMGF, and (ii) the most other donor funding relationships. In addition, these implementing partners are well-positioned to consider a commercialization initiative, as certain of them have executed examples of the innovation commercialization process, either through individual business building, venture investment programs, or investment advisory work.



KEY INSIGHTS OF CHAPTER 1 DONOR LANDSCAPE

Data transparency: While there are sources available that account for capital outflow from both private and public donor organizations, the level of detail in terms of project, sector focus, project timeline, and capital disbursement vary. Thus, a consistent evaluation of each donor to evaluate the comprehensive donor market was limited. The majority of the time, all these indicators are not present in the data sources, the exception being USAID and BMGF. These two organizations also represent the largest public and private donors. For example, BMGF's average annual giving between 2013 and 2015 was \$3,875.5 million, and the second-largest donor's, CIFF, giving comes to \$249.3 million. The OECD Stat tool had the highest (but not full) level of detail and was used to measure where donor capital was going. Other tools used to supplement these data were D-Portal and Devex. There are efforts such as the International Aid Transparency Initiative (which generated D-Portal, an extensively used source in this chapter) that aim to increase funding transparency. This is a critical effort for identifying investment gaps and addressing them.

Comparability: Donor reporting conventions link to jurisdictional requirements, and so the information provided is highly stratified, creating limitations for rigorous comparison. The OECD Stat tool had the highest (but not full) level of detail and measured where donor capital was going. D-Portal and Devex served as other tools to supplement these data in identifying the implementing organizations that received the majority of donor financing. These sources said that data is incomplete because of the varying levels of detail donor agencies are willing to provide on an annual basis. For private-sector investors seeking to quantify a market opportunity and identify relevant partners to approach for a certain strategy, this is an issue that will impede or slow progress.

Data availability and the SDGs: Beyond donor information gaps, the underlying SDG challenges and related investment gap lack a strong data foundation themselves. Investors rely on data to price risk-return and fulfill their fiduciary duties. The lack of foundational information could hamstring the IOs' ability to market their projects such that investors can perform their traditional due diligence on the investment before they make the investment.



Scalability: Both public and private donor markets are highly fragmented. Standardization and syndication are rare. This lack of alignment is a barrier to entry for new IOs and creates downstream channeling effects in the market. Due to a lack of market matching mechanisms across these implicit donor supply chain channels, investors are likely to remain unable to transact at scale with the donors' IOs in the immediate term.



CHAPTER 1

SUMMARY

This chapter established a methodology for identifying the key implementing organizations to evaluate when considering the potential for creating a systematic commercialization effort for donor-backed health and education initiatives. We identified the set of priority health and education donors using OECD information for the annual ODA flows of public donor countries and then ranked the largest private donors. Subsequently, while data on the recipients of donor funding is highly inconsistent and opaque, we conducted a three-step analysis to determine these donors' critical implementing organizations. First, leveraging the relatively complete and transparent information of the two largest donors—USAID and BMGF—we conducted a detailed review of their projects to determine the implementing organizations that received the most funds, prioritizing health and education. Second, because most of the other donors did not report amounts for their funding recipients on a consistent basis, we used a frequency analysis to highlight the implementing organizations that had the most relationships across the donor universe. Lastly, we augmented the results of the scale and frequency analyses through a qualitative review of organizational capacity and interests to ensure that implementers with specialized expertise and strong market positioning were not excluded due to data transparency issues.

In the next chapter, we will evaluate these implementing organizations in depth, using both public and private information, and through interviews with key leaders to determine their capabilities for launching a commercialization function. We will address seven areas: Historical Experience; Mission, Structure, and Governance; Commercialization Opportunities and Challenges; Finance and Economics; Human Capital; Core Competencies; and Legal and Regulatory Considerations.

CHAPTER

02

**UNDERSTANDING EARLY
MOVERS: CAPABILITIES
AND NEEDS OF
IMPLEMENTING
ORGANIZATIONS**



ANALYTICAL METHODOLOGY

In Chapter One, we identified a small but important cohort of implementing organizations (IOs) for this study. We then selected seven IOs for deeper analysis that could provide insights transferable to the larger group of stakeholders. Selection criteria included the value of their donor contracts, breadth of relationships across the donor universe, and most importantly, publicly reported experience with commercialization models. Table 8 lists the seven IOs we surveyed and interviewed. These organizations are the focus of this chapter.

Table 8: Implementing Organizations

IMPLEMENTING ORGANIZATION	SURVEYED & INTERVIEWED
Chemonics International, Inc.	Yes
FHI360	Yes
Mercy Corps	Yes
Palladium	Yes
PATH	Yes
Population Services International	Yes
Save the Children	Yes
Jhpiego Corporation	
John Snow International	
Management Sciences for Health	
RTI International	

Source: Milken Institute Analysis, 2019

The following analysis of these IOs highlights which of the required commercialization competencies exist within the IOs and what gaps prevent a systematic commercialization function. We conducted a pre-survey interview with senior management of each IO to provide foundational context for this research and the survey.



Once senior management completed the quantitative survey, we analyzed responses and conducted a post-survey interview with the relevant IO personnel to understand and calibrate the survey responses. A quantitative review of survey responses coupled with qualitative insights from the pre- and post-survey interviews formed the overall comparative analysis of the entire IO cohort, which also provides significant insight about the larger universe of IOs donor-funded programs. These analyses did not include a review of a control group (IOs that were not identified for commercialization competencies to see how they evolved over time) and should be seen as illustrative insights only.

Areas of Focus

After completing a review of the IOs to better understand the possibility and benefit of developing a systematic approach for commercializing donor-funded programs, our analysis considered the following higher-order questions:

- Do the IOs embrace the idea of commercializing their donor-funded programs (i.e., Is there a concern of mission drift, or do they see it as a way to extend their mission)?
- What are the limitations—internal and/or external—for commercializing donor-funded programs?
- What are the IOs' perceived core competencies in this area?

With these higher-order questions in mind, we structured a survey around the following seven focus areas (Appendix A) and shared with each of the seven IOs analyzed in this chapter. The goal of each section is defined below. These survey sections also framed the interviews conducted with IO executives.

1. **Historical experience:** understand the organization's experience in commercializing donor-funded programs and in *impact investing*. In addition, this section establishes a clear knowledge of how organizations define the terms *commercialization* and *impact investing* since these are subject to significant interpretation.
2. **Mission, structure, and governance:** understand how well these aspects align with the commercialization of donor-funded projects, from both the perspective of IOs as well as the projects potentially subject to commercialization.
3. **Commercialization opportunities and challenges:** understand what types of donor-backed projects and/or innovations could be run as standalone operations, and what



the anticipated challenges would be to make this transition, recognizing that some projects and innovations are too embedded within other interventions to separate and commercialize.

4. **Finance and economics:** understand the financial requirements for commercializing a project or innovation, how financial support would be provided, and whether this would be a welcome extension of the IO's business model, as perceived by the IO.
5. **Human capital for commercialization:** understand who and how the transition to a commercial enterprise would be managed and whether existing personnel could fill these roles.
6. **Core competencies:** understand the distinguishing core competencies of the IOs that assist commercialization efforts, such as local and global networks, sector knowledge, ability to measure social impact, and access to various forms of capital.
7. **Legal/regulatory considerations:** understand the legal constraints that stem from donor funding that may impact the future direction of a grant-backed innovation; understand the local/regional limitations for newly commercialized enterprises and the structure of the relationship between the IO and the new enterprise.



ANALYSIS OF IMPLEMENTING ORGANIZATIONS

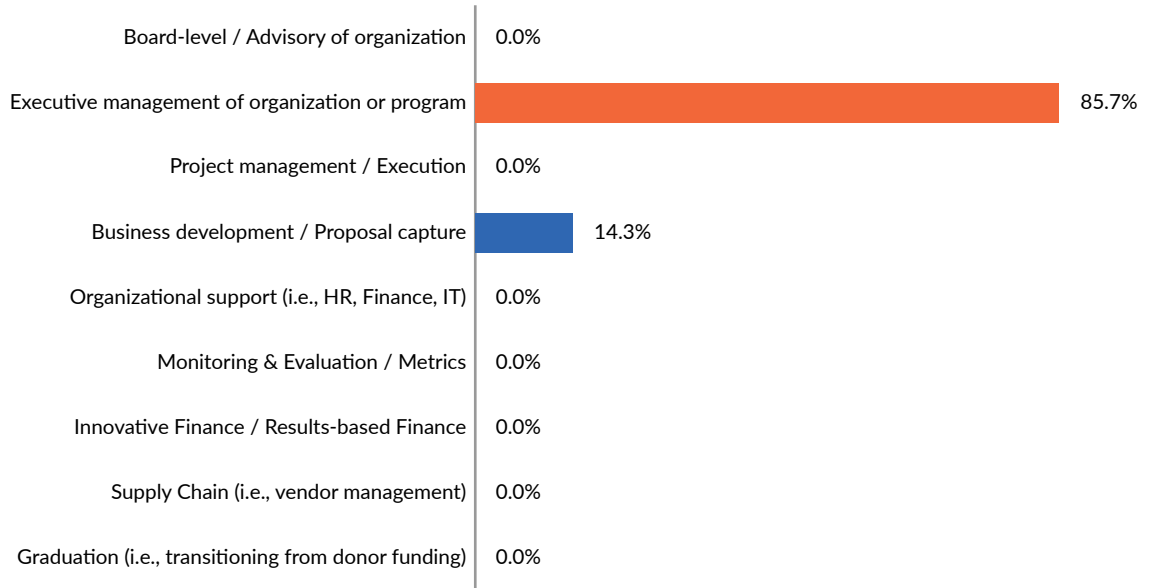
Overview of Historical Experience

KEY TAKEAWAYS

1. The IO cohort generally has some experience either as a recipient or provider of impact investment. However, certain IOs are more advanced and have begun to formalize their impact investment capabilities within the last few years.
2. The IO cohort's definitions of impact investment range from principal repayment to market-rate returns; however, most IOs believe that impact investment involves financial return.
3. There is no universal definition of commercialization within or across the IO cohort, but there is a general belief that commercial business models are financially sustainable without outside subsidy.
4. IOs see the incubation and proof-of-concept phase as the most relevant stage of business maturity for their potential commercialization efforts.



Figure 2: Functional Role of Survey Respondents (percentage of respondents)

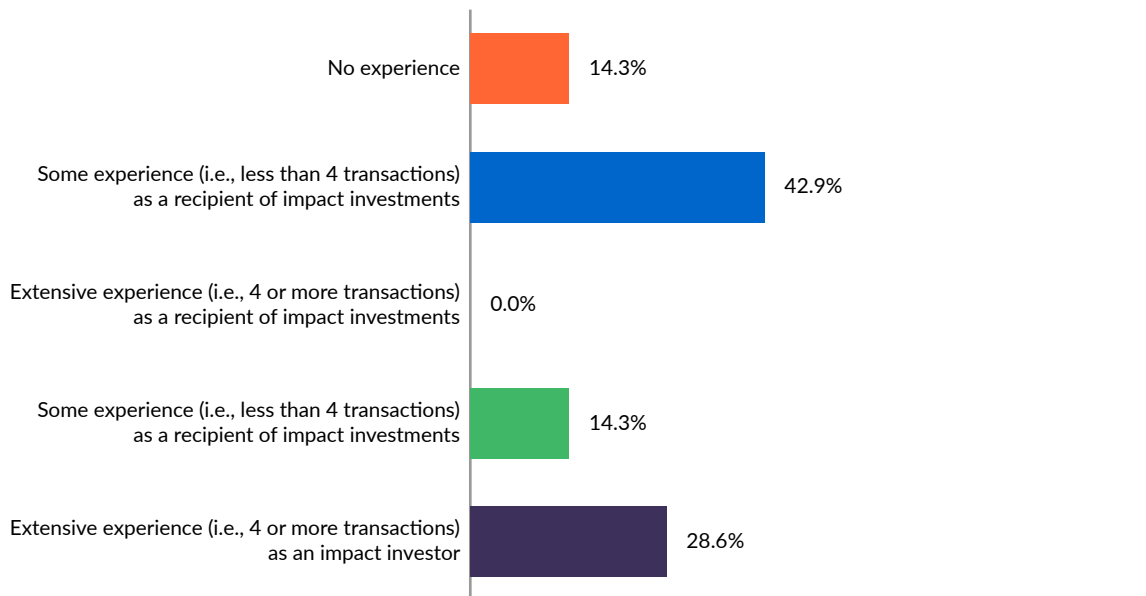


Source: Milken Institute Analysis, 2019

Prior to examining their strategic interests and technical capabilities related to commercializing donor-backed programs, we surveyed the IOs about their historical experience in this area. The survey questions determined the level of familiarity each IO has with the concepts of commercialization, as well as the level of pre-existing commercialization activity from which any proposed intervention would be built. Figure 2 shows that, with one exception, all individuals interviewed and surveyed for this research are in the organization’s executive management.



Figure 3: Impact Investment Experience (percentage of respondents)

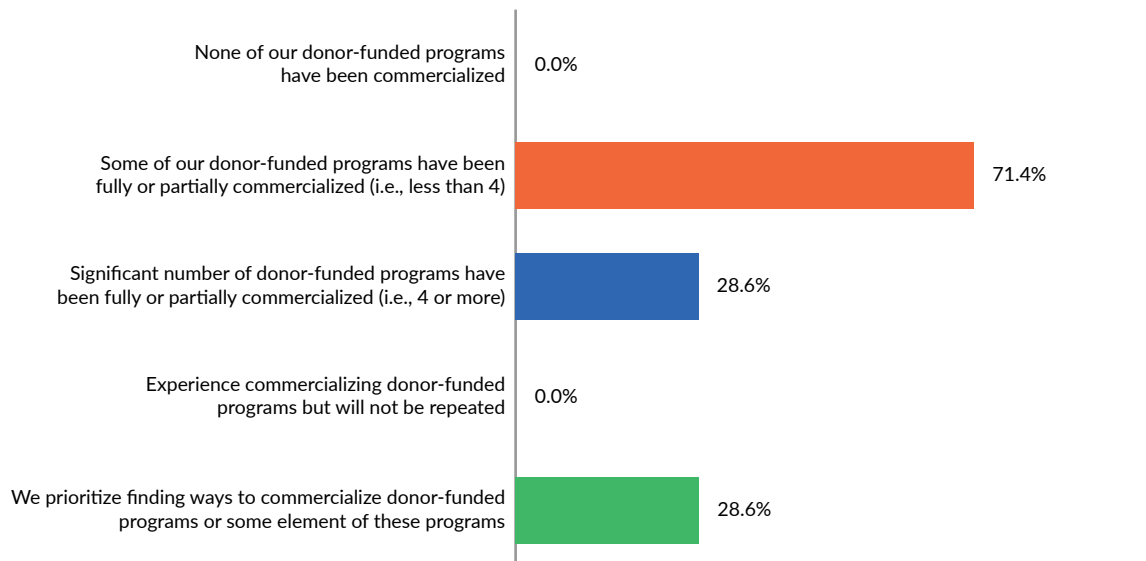


Source: Milken Institute Analysis, 2019

First, we asked IOs about their level of experience over the last four years with both impact investment and commercialization. In terms of impact investment, we framed the question around the IO, or one of its programs or subsidiaries, being either a recipient or provider of capital. As a cohort, the results show relatively little activity in either area. For example, no IO responded that they had completed four or more transactions as a recipient of impact investment over the last four years, but almost half indicated that they had at least some experience in this area. Similarly, almost half the IOs responded that they had at least some experience as a provider of capital over the last four years. Figure 3 shows the full results of the IO historical experience with impact investment.



Figure 4: Commercialization Experience (percentage of respondents)



Source: Milken Institute Analysis, 2019

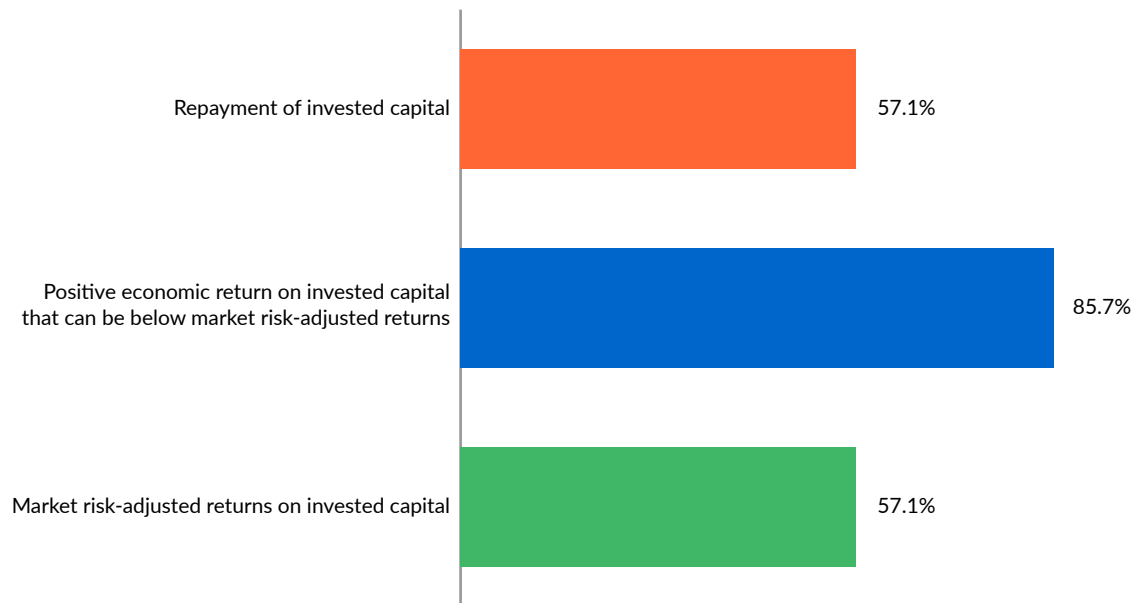
We also surveyed IOs regarding their level of experience over the last four years with commercializing donor-backed programs. Some of the IOs responded that, in general, they prioritize finding ways to commercialize their donor-funded programs. And a majority of the IOs indicated that some—in this case, fewer than four—of their programs had been commercialized over the last four years. Less than a third of the IOs responded that they had commercialized a significant number of donor-backed programs over the last four years.

Importantly, no IO responded that they wouldn't repeat their experience with commercialization. While the commercialization of donor-backed programs has occurred episodically, this response indicates a consistent interest in continuing to develop these activities based on the examples that have occurred to date. Within the health arena, for example, IOs have built and sold businesses, such as contract research organizations, and have commercialized the development of vaccines that originated as part of donor-backed project portfolios.

Outside of health and education, certain of the IOs also have started or invested in commercial endeavors related to their broader impact strategies. For example, IOs have created or transitioned micro-finance institutions to commercially sustainable operations to increase access to financial services for their targeted beneficiaries. Figure 4 shows the full results of IO historical experience with commercializing donor-backed programs.



Figure 5: Defining Impact Investment Return Thresholds (percentage of respondents)

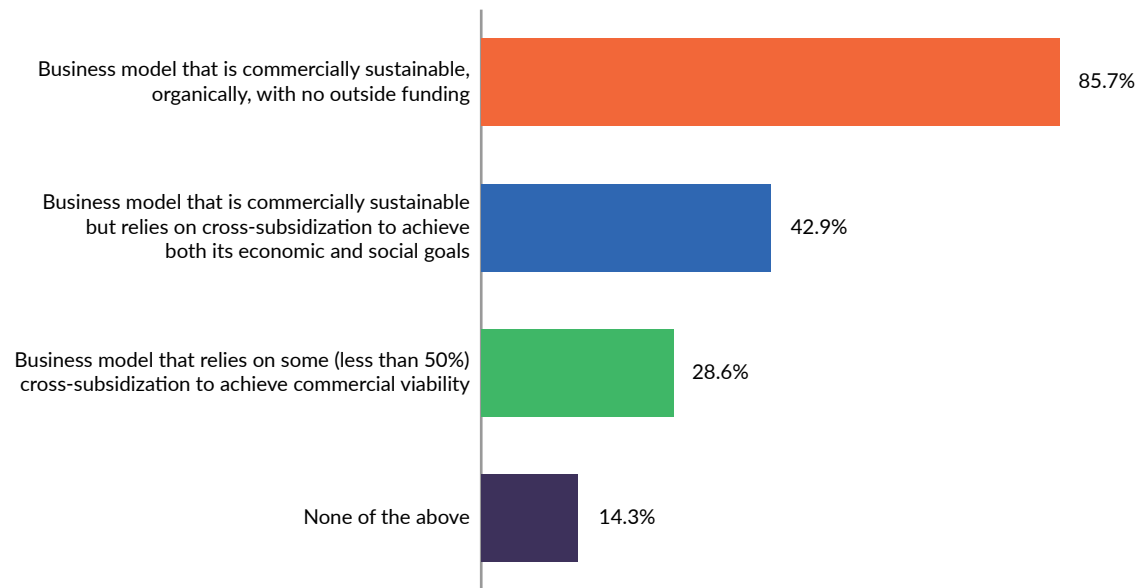


Source: Milken Institute Analysis, 2019

We also surveyed IOs about their organizations' definitions of *impact investing* and *commercial business models* to establish the likely attributes of projects resulting from proposed intervention. IOs view *impact investment* as more of a continuum, with more than half including more than one category of returns in their definitions. For example, they included market-level returns and below market-level returns. Additionally, more than half the IOs indicated that *impact investment* means repayment of capital, signaling that there is an expectation of financial return when approaching the commercialization of projects. Figure 5 shows the full results of IO definitions of *impact investment*.



Figure 6: Defining Commercial Business Model (percentage of respondents)

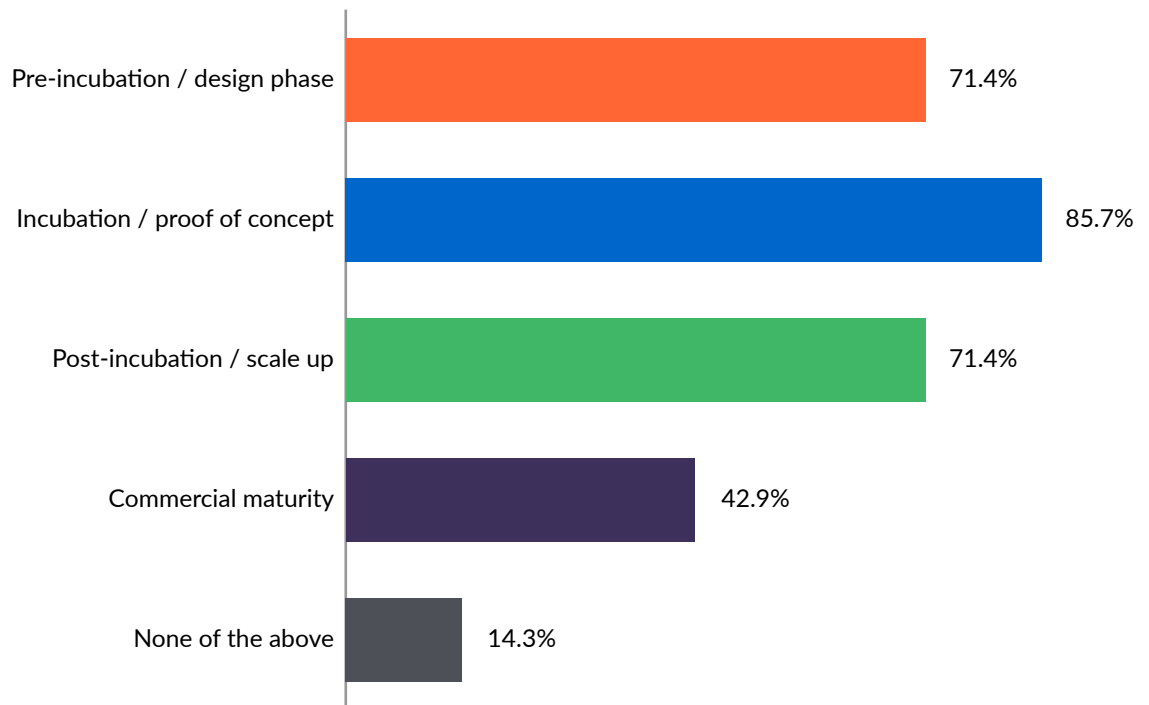


Source: Milken Institute Analysis, 2019

In defining *commercial business model*, some IO responses aligned. For example, the majority of respondents indicated that commercial businesses operate sustainably from their own organic funding and do not need outside financing. Additionally, almost half saw the need for some cross-subsidization from other operations to achieve financial and social goals. However, this level of agreement did not signify universality from a tactical perspective. What respondents deemed a commercial business model ranged from narrow definitions of product development opportunities to expansive interpretations that included services and functions capable of attracting commercial interest. Figure 6 shows the full results of IO definitions of *commercial business model* and indicate that IOs could pursue a variety of blended, structured financing options to lower the capital costs associated with commercialization.



Figure 7: Stages of Business Maturity (percentage of respondents)



Source: Milken Institute Analysis, 2019

Given their experience to date and definition of terms, we also asked IOs about the stage at which they see their organizations typically engaging in commercialization efforts. Options presented ranged from the pre-incubation phase—the point at which a business idea is at its most nascent—through commercial maturity. Here, IOs were broadly inclusive, and on average, indicated between two and three different stages that were relevant to them. While less than half saw commercially mature operations as relevant, the majority indicated incubation or proof-of-concept as a stage at which to engage. Similarly, most indicated both pre-incubation and post-incubation phases as areas of interest. Figure 7 shows the full results of the IO business stage responses.



Overview of Mission, Structure, and Governance

KEY TAKEAWAYS

1. Respondents see the commercialization of donor-backed programs as a core focus and a means to extend their organization's social impact mandate. IOs are building—and have built—various structures to commercialize donor-backed programs.
2. IOs currently display both centralized and decentralized management approaches for the capabilities needed to propel a systematic commercialization effort.
3. Leaders acknowledge that they could pursue commercialization beyond their current levels. Their boards are evaluating these sorts of strategic questions.
4. Views are inconsistent on whether/how many organizational policies would need to change to create a systematic approach to commercialization. Organizational boundaries, policies, and institutional acceptance of potential commercialization are critical variables to a systematic approach.

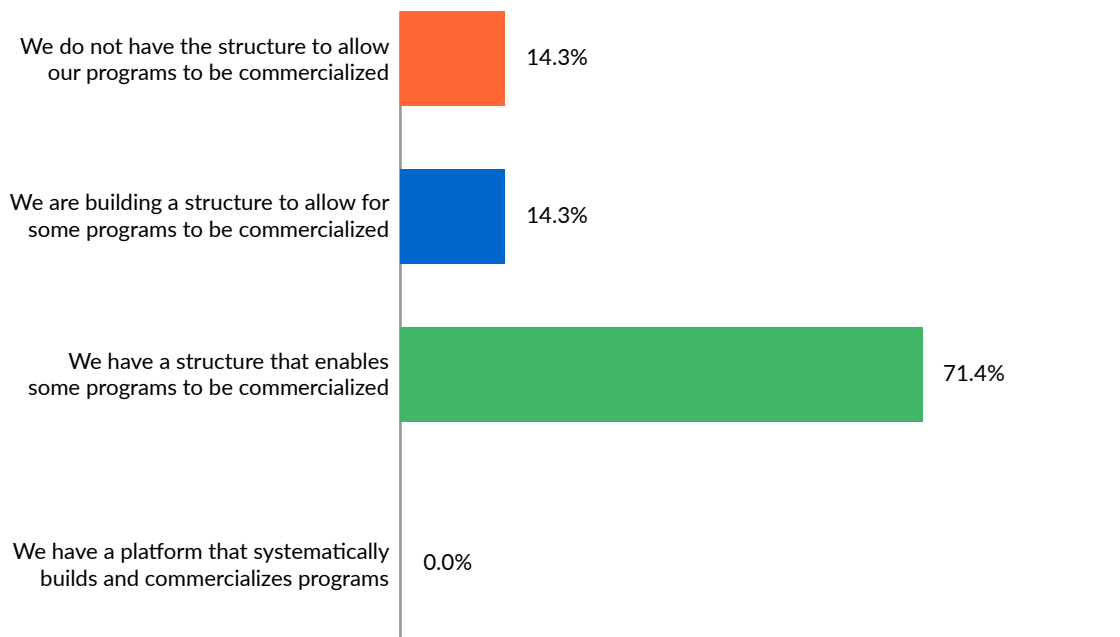
We surveyed and interviewed the IOs about the institutional pillars that could impact their commercialization efforts. These questions about their missions, as well as their organizational and governance structures, were meant to determine the foundational elements that could propel or hinder the IOs' commercialization efforts.

Critically, all IOs agreed that commercialization of donor-funded programs is a core focus of their organization and can extend their organization's social impact mandate. However, despite this unanimity, there are significant differences in terms of how the organizations have pursued commercialization. In terms of mission adherence, certain IOs are not yet comfortable reaping direct financial benefits from commercialized projects, instead favoring the marketing of those success stories to win additional donor funding. Similarly, at different levels of the organizations, there are different views on commercialization. Boards and executive leadership, which typically are responding to broader industry-level issues, see the opportunity to expand their impact and diversify their revenue through commercialization.



Conversely, field-level staff who are executing a specific project may not see the same need or opportunity. As a result, there is not a cohesive organizational perspective or behavior, let alone industry-level view, regarding the implications of commercialization for overarching missions or how it could impact the institutions over the longer term.

Figure 8: Structure in Place to Commercialize Programs (percentage of respondents)



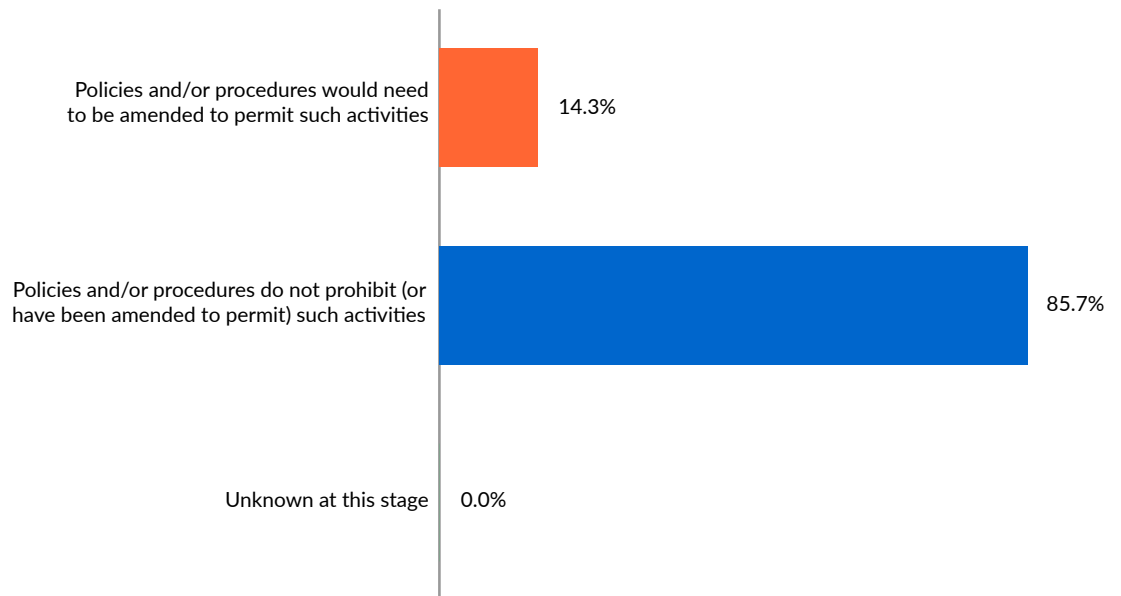
Source: Milken Institute Analysis, 2019

We asked the IOs to describe the state of their organizational structure for commercializing donor-funded programs. As shown in Figure 8, no IO indicated that they have developed a platform to systematically commercialize projects. However, a majority of the IOs indicated that they are structurally set up to permit their programs to be commercialized, and a few indicated that they are either in the process of building a structure for this purpose or do not have one at all. For example, two respondents have established venture funds as wholly-owned, for-profit subsidiaries of their nonprofit parent organizations. In one case, the subsidiary is mandated to invest in opportunities stemming from the parent’s project portfolio. In the other case, the venture subsidiary only invests in projects sourced from outside the parent’s project portfolio, while another fund was created for intrapreneurship to test innovations across the program portfolio. Similarly, one IO has established an impact investment practice that searches for promising projects across the broader portfolio and brings relevant opportunities to the company’s board for consideration. Still others are in the earlier stages of development and are considering structures



for institutionalizing their commercialization activities. While the venture-style investment fund has been a prominent example that draws from the corporate venture capital strategies of other innovation-driven sectors, this approach may not be appropriate for all IOs, especially those not positioned to source and effectively screen a large volume of high-risk opportunities.

Figure 9: Internal Policy Limitations (percentage of respondents)



Source: Milken Institute Analysis, 2019

As shown in Figure 9, we asked IOs whether corporate policies and procedures are a hindrance to the commercialization of their donor-backed programs. The majority indicated that their policies do not prohibit these activities, while the rest see some level of policy amendments as necessary. While policies may not be a formal hindrance to most IOs, leadership recognized that they do not always pursue commercialization activities to the full extent for fear of negative stakeholder reactions and other reasons linked to efficient use of financial resources.

Differences in mission, structure, and governance across the IO cohort relate directly to their experience with commercialization. IOs that have more experience and cohesion in commercialization are more advanced in building a structure to deliver these activities. For example, one IO has acquired a financial advisory firm and is in the process of raising its own dedicated impact fund to invest in projects. Similarly, certain IOs have launched projects as commercial rather than nonprofit entities to allow for long-term profit potential. And at a higher level, IOs have established certain discreet business or functional units as commercial entities to allow for



growth in this fashion. Conversely, those IOs that lack organizational cohesion and experience with commercialization do not yet have these systems or corporate structures.



Overview of Commercialization Opportunities and Challenges

KEY TAKEAWAYS

1. Respondents see opportunities to commercialize functions, programs, and products through spin-outs, intrapreneurship initiatives, and/or incubation/acceleration efforts.
2. Profit potential and scalability are significant challenges, especially in the context of considering market-level financial returns. Targeted returns of certain respondents are too low for commercial investors (equity returns of 8-10 percent). At the same time, we recognize that some Program-Related Investment approaches may view such a return as too high, requiring different structures for investors with different return profiles to engage in different ways.
3. Overall levels of commercial knowledge and experience are a significant hurdle to implementing a systematic approach to commercialization. Respondents indicated that commercialization is a minimally developed practice for their organizations, yet they remained highly interested in developing the additional capacity.
4. IOs have a wide range of views on stakeholder and beneficiary support for commercialization efforts. For example, respondents indicated that they highlight examples of commercialized programs to increase their donor contract win-rates.

In this section, we first asked the IOs to identify areas of perceived opportunity for existing or future commercialization activities. We presented wide-ranging options, granting respondents the ability to think broadly about the potential of their program portfolios and organizational capabilities. The two categories with the most responses were spinning off program activities, such as last-mile service delivery as a commercial venture, and working with suppliers or other implementing partners to commercialize efforts. Approximately half the IO cohort selected all other opportunity areas. These opportunities were: spinning off organizational functions, including monitoring and evaluation; supporting beneficiaries in establishing or



incubating an enterprise; and supporting employees in establishing or incubating an enterprise.

ILLUSTRATIVE COMMERCIALIZATION WITH IO AS A PRODUCER OR CONSUMER LEVERAGING DONOR-FUNDED INTERVENTIONS






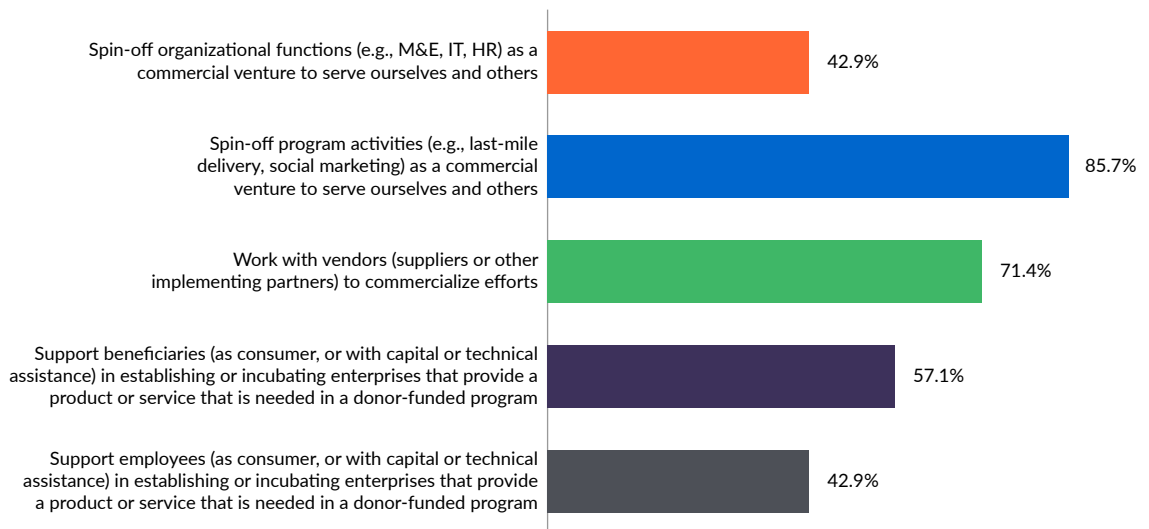
Example of donor funded interventions in disparate programs	To promote creation of a higher efficacy vaccine, donor offers a challenge grant to academic institutions 	To reduce supply disruptions or market distortions, donor funds purchase and warehousing of rare minerals locally 	To reduce the cost of a vaccine and improve affordability, donor offers advanced market commitments 	To reduce wastage of vaccines in transit, donor funds cold chain network 	To increase utilization of a particular vaccine, donor funds social marketing program of subsidized products 
Value Chain Category	Research, Design & Development	Inputs Acquisition / Licensing	Manufacturing / Production	Wholesale Distribution	Retail Sales
Potential commercialization	Based on a deeper understanding of a sector (e.g., medical research), functional area (e.g., CRSPR), or geographic expertise (e.g., central America) establish a commercial fee for service biotech/CRO	Where demand forecasting and economies of scale exist for purchasing power, engage in a commercial wholesaling services	To defray high fixed costs, engage in Original Equipment Manufacturing (OEM) service for other actors	With execution expertise, develop a logistics company ensuring delivery of goods, on consignment	With product marketing, sales and delivery capacity, establish a consumer products company



Figure 10: Commercialization Opportunities (percentage of respondents)

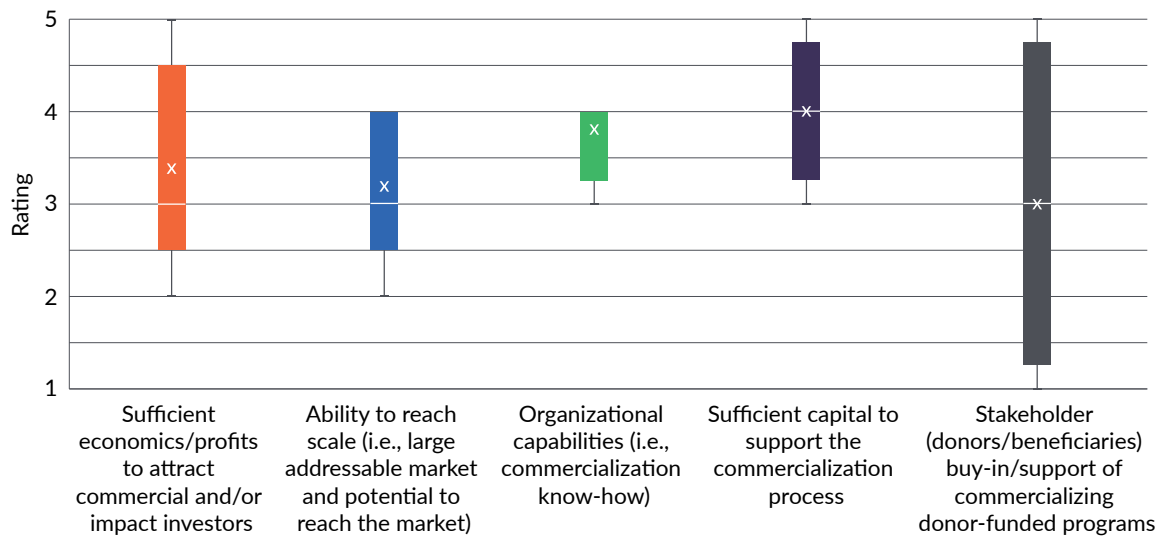


Source: Milken Institute Analysis, 2019

The IOs' views on commercialization opportunities are wide, and to a certain degree, reflect their historical experience. For example, spinning off commercial enterprises and other programs is an activity that many have pursued episodically in areas such as microfinance and contract health research. Similarly, many IOs have collaborated on service delivery as part of project consortia or in a prime-sub contractor relationship, and view commercialization of those sorts of activities as a relevant growth opportunity. For example, a major donor announced a new funding mechanism for minority-owned businesses, and many of these minority-owned businesses do not have adequate back-office systems. As a result, one IO was considering establishing a new commercial subsidiary to offer those back-office services to the minority-owned firms. Lastly, almost half the IOs cited intrapreneurship as a relevant commercialization strategy and one that they have pursued to varying degrees. In that context, however, the IOs indicated that employee-originated projects would need both capital and complementary business management skills because the employees are typically sector or technical experts. Figure 10 shows the survey data on how the IOs identified commercialization opportunities.



Figure 11: Commercialization Challenges



Source: Milken Institute Analysis, 2019

Figure 11 illustrates the range of views of IOs regarding the level of challenge associated with different aspects of commercialization. We asked IOs to rate each of the challenge areas from one to five, with five signifying the highest level of challenge.

The first two challenge areas relate to the attributes of IOs' donor-backed projects. First, we asked IOs to rate the extent to which projects have sufficient profit potential to attract investors. IO responses here ranged from two to five, with most responses at levels three and four. This signifies that profit potential represents a meaningful challenge to be overcome, especially if market-rate investors are the primary audience for transactions. The second challenge area related to project attributes was the ability for projects to reach scale. Responses here ranged from two to four, with an average slightly above three, indicating that this was seen as less of a challenge compared to a project's profit potential. Importantly, projects likely would need to demonstrate both scale and profitability potential to be compelling to investors. For example, an IO cited an active project in South Asia that is delivering health services to millions of people across a particular country; however, the project is designed to operate on a break-even basis, using profits from higher-income customers to subsidize the cost of serving low-income customers. As a result, the financial returns of the enterprise will be limited, which will likely limit its ability to attract commercial capital.



The next two challenge areas relate to the IOs themselves. First, we asked them to rate their organization's level of commercialization know-how. Of all the challenge areas, this one had the tightest distribution of responses, ranging from three to four, with an average slightly below four. This signifies that IOs are consistently concerned that their own capabilities are a key challenge to commercializing donor-backed projects. Second, in this area, we asked IOs to rate the challenge of having access to sufficient capital to support the commercialization process. Of all the areas, this one was rated by the IO cohort as the most difficult. Responses here ranged from three to five, with an average of four.

Lastly, we asked the IO cohort to rate the extent to which support from their stakeholders is a challenge to the commercialization of donor-backed programs. Stakeholders include both the donors that the IOs rely on for funding projects, as well as the beneficiaries of the projects themselves. This challenge area produced the widest distribution of responses, ranging from one to five. Moreover, with an average of three, this was also viewed as the least challenging area.



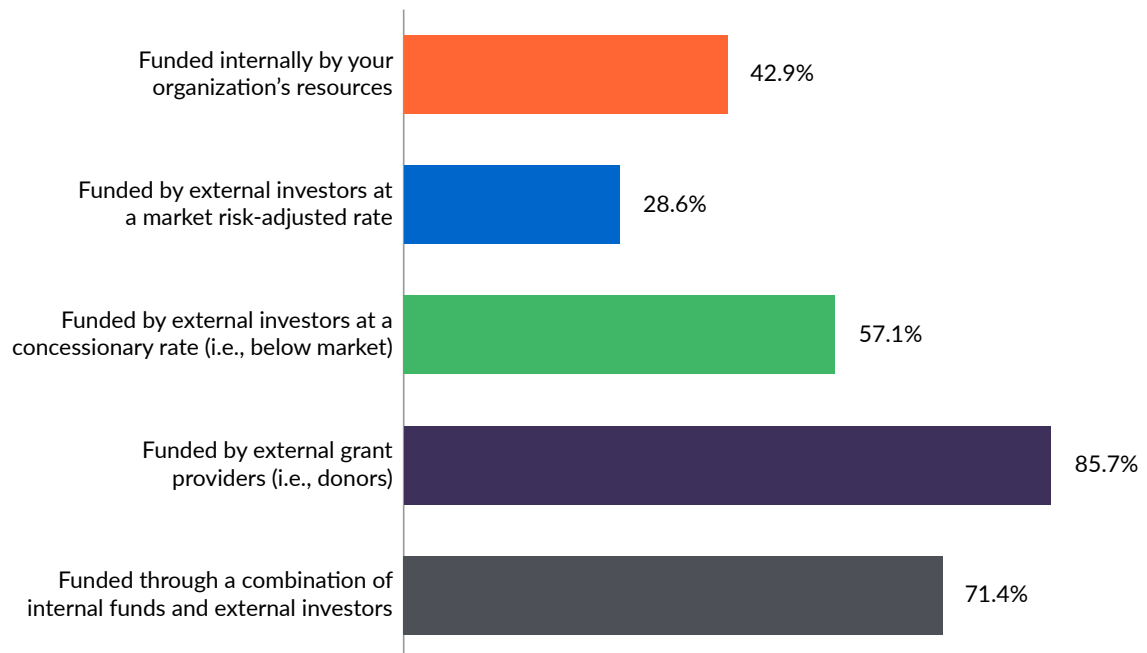
Overview of Finance and Economics

KEY TAKEAWAYS

1. Motivations for commercialization of donor-funded programs centered on attracting more net funding for the program and the organization's social impact.
2. There was a consistent view in surveys and interviews that a systematic approach to commercialization would involve at least partial cost recovery from external partners and a continued economic relationship with the resulting enterprise.
3. Respondents expected that initial funding for commercialization would likely come from either internal resources or external grants.
4. The respondents did not view market-rate funding as an ubiquitous form of support, which potentially limits the investor universe to the extent a blended or alternative solution is not practical.
5. Some respondents indicated financial returns and profit potential are higher than the opportunities they realize for structural and strategic reasons. For example, because they are making commercial investments using funds from philanthropic sources, they are choosing to be diluted rather than to capture returns in the context of future funding rounds.



Figure 12: Funding of Initial Costs (percentage of respondents)



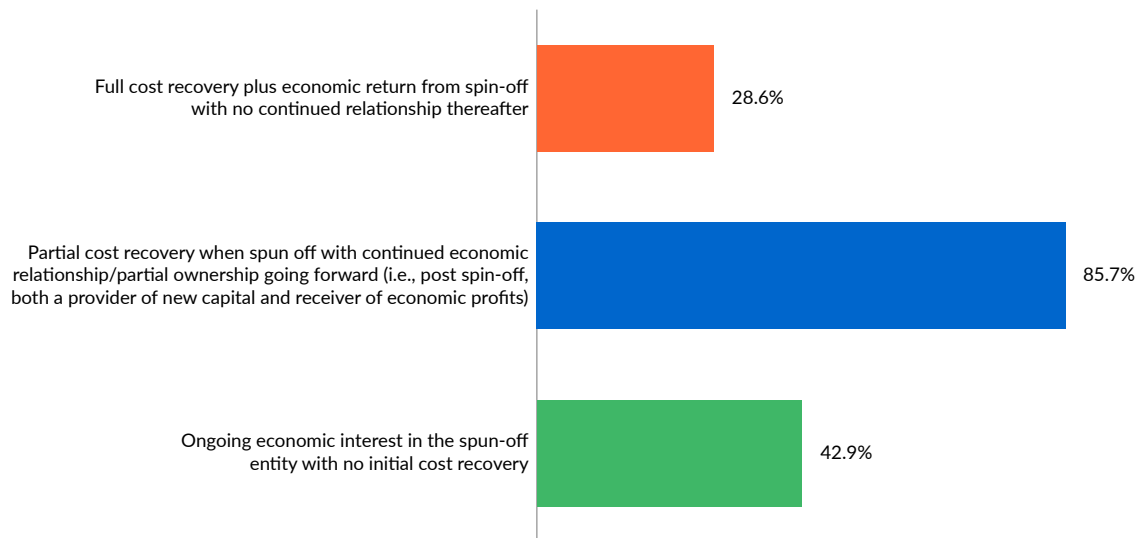
Source: Milken Institute Analysis, 2019

In this section, we surveyed the seven IOs about the financial requirements of commercialization, how financial support would be provided, and whether this would be a welcome extension of their business models.

First, we asked the IOs about the most likely sources and types of funding for initiating their commercialization activities. IOs indicated a mix of different types of funding, with most saying they combined investments from external providers with internal funds. For example, one IO is launching a new commercial health enterprise using internal funds for equity and bank debt for the remaining financing need. Others have pursued additional grant funding and are using philanthropic capital to fund their venture investment initiatives. Additionally, more than half the IOs noted that they would expect funding from external sources to be at below-market rates, and few expected funding at risk-adjusted rates. This potentially limits the investor universe to the extent a blended solution is not practicable. More specifically, few investors are seen as willing to take early-stage risk, validating the need for a blended financing structure to attract investors. Figure 12 shows the full results of how IOs identify the initial costs related to the commercialization of a donor-funded program.



Figure 13: Economic Interest and Engagement Post-Spin-Off (percentage of respondents)

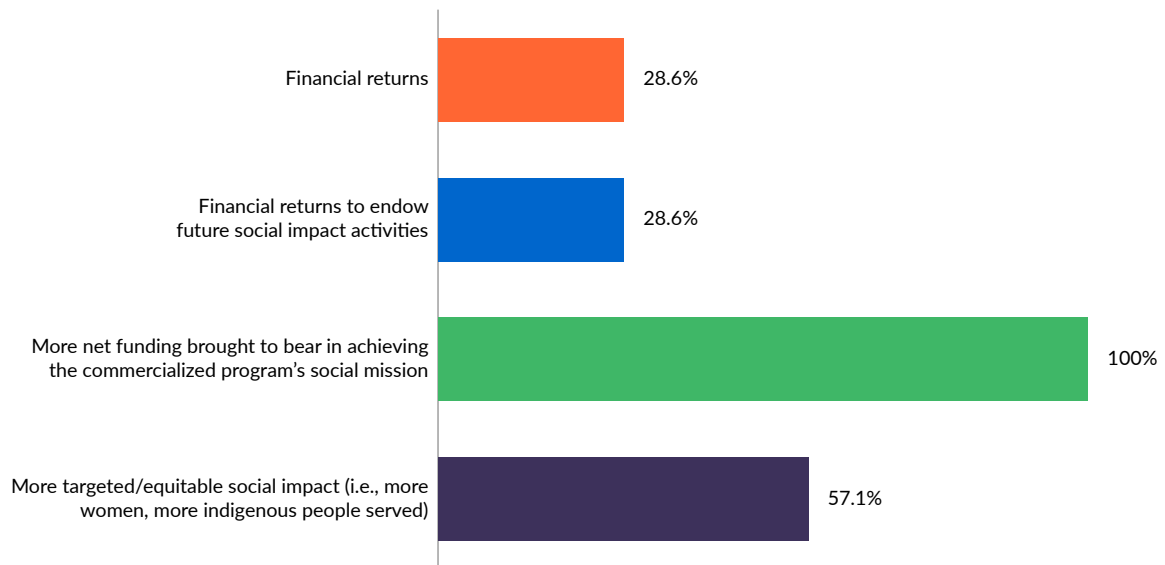


Source: Milken Institute Analysis, 2019

Next, we asked the IOs to describe how they could envision their organization’s relationship with any commercialized project. All but one IO envisioned partial cost recovery and a continued relationship going forward. Less than a third expected full cost recovery from investment in the entity and no continued relationship thereafter. Almost half do not expect any cost recovery but a continued economic stake in the entity. Figure 13 shows the full results of the future economic interest and engagement of IOs to the project after the project commercializes.



Figure 14: Motivations to Commercialize (percentage of respondents)



Source: Milken Institute Analysis, 2019

In terms of the financial motivation behind commercialization, we asked IOs to identify their incentives to commercialize. Strikingly, few identified financial returns as an incentive, and more than half are driven to commercialize as a more targeted approach of their overarching social mission. Importantly, all IOs agreed that attracting more and new sources of funding to their social mission is a central motivation for pursuing commercialization activities. Figure 14 shows the full results.



Overview of Human Capital for Commercialization

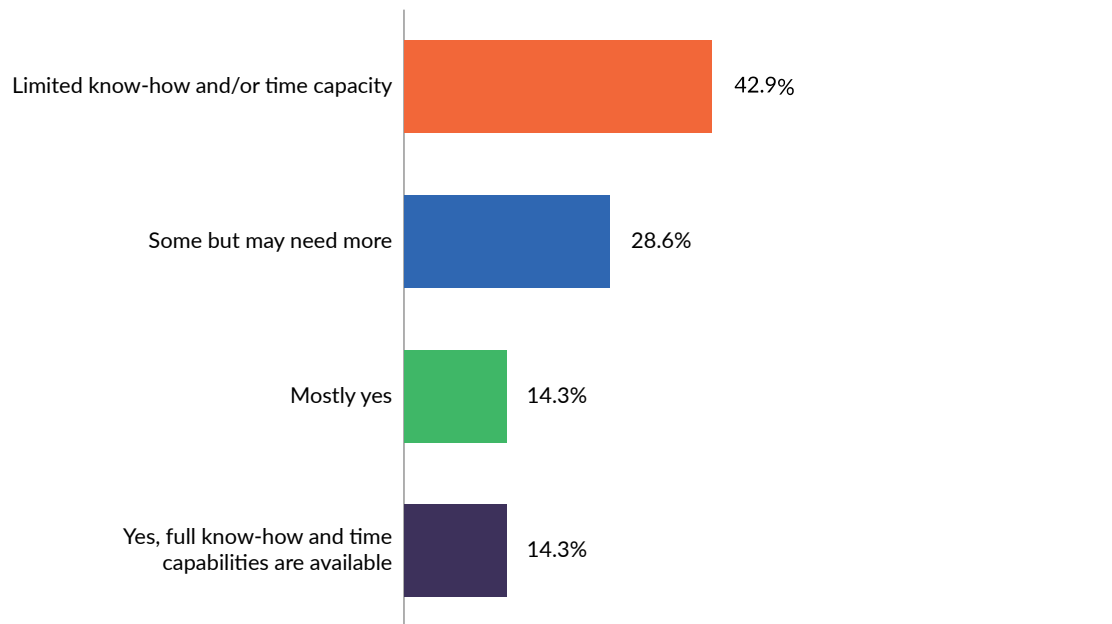
KEY TAKEAWAYS

1. Although pockets of expertise necessary for commercialization exist across the cohort, IOs recognize they have a limited skill base to execute a systematic effort.
2. Respondents cited the movement toward centralization of commercialization activities over time as innovation and investment themes from individual programs have increased, demonstrating the demand for senior management.
3. Consistent skill gaps—ranging from production to financial/legal structuring capabilities—and the cost to attract commercial-oriented staff could imply a rationale for outsourced shared services.
4. Relative to other skill areas, respondents indicated strength in sales and marketing.

Next, we asked the IOs to assess their human capital constraints to commercialization. Overall, close to half the IOs indicated that their employees had limited expertise to successfully shift a project from donor-financed to a commercially sustainable effort. Few said that their staff had the expertise, and the rest of the IOs were equally distributed from limited to full know-how and time capacity.



Figure 15: Capacity of IO Staff (percentage of respondents)

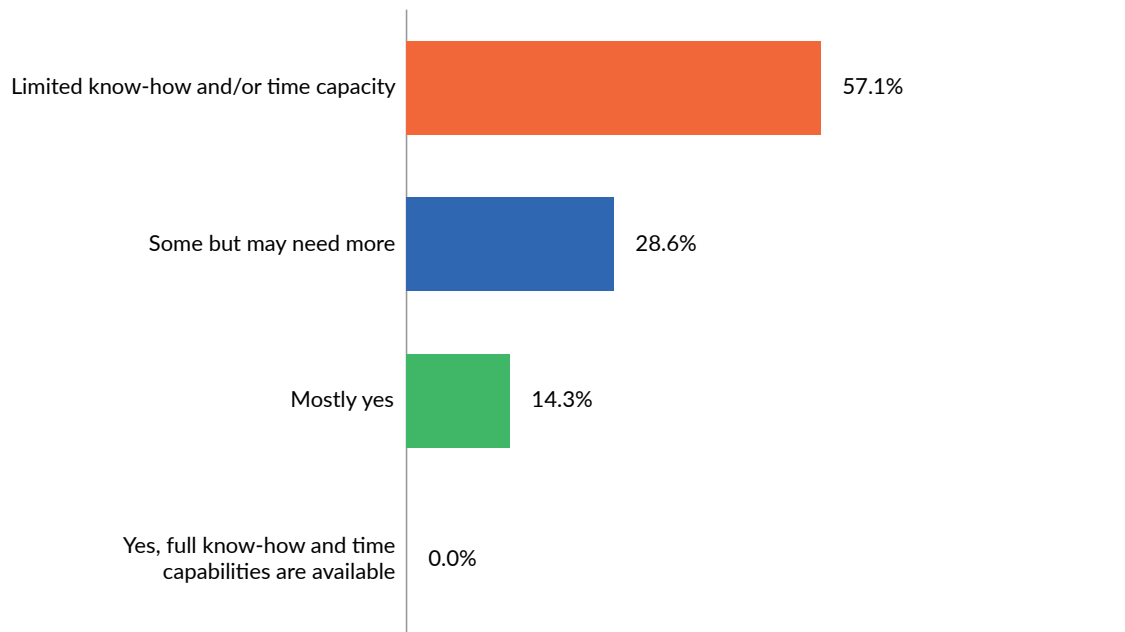


Source: Milken Institute Analysis, 2019

This signifies that pockets of expertise needed for commercialization exist either as a specific unit or dispersed across the organization. On the whole, however, organizations recognize their limited skill base to execute a systematic commercialization effort, and an impetus towards centralization for these efforts. For example, one respondent cited a shift from a broad experience creating commercial microfinance institutions within programs to a centrally managed fund to invest in innovations across the entire program footprint. In addition, some IOs cited the cost of acquiring commercial talent as a particular challenge. For example, donor-backed projects have more difficulty finding financial professionals than is typical for the market. While the IOs seek to pay consistent with industry standards, these project limits—as well as their own profitability and resources—can be constraints. Figure 15 shows the full results of IO staff expertise.



Figure 16: R&D and Manufacturing Capacity (percentage of respondents)

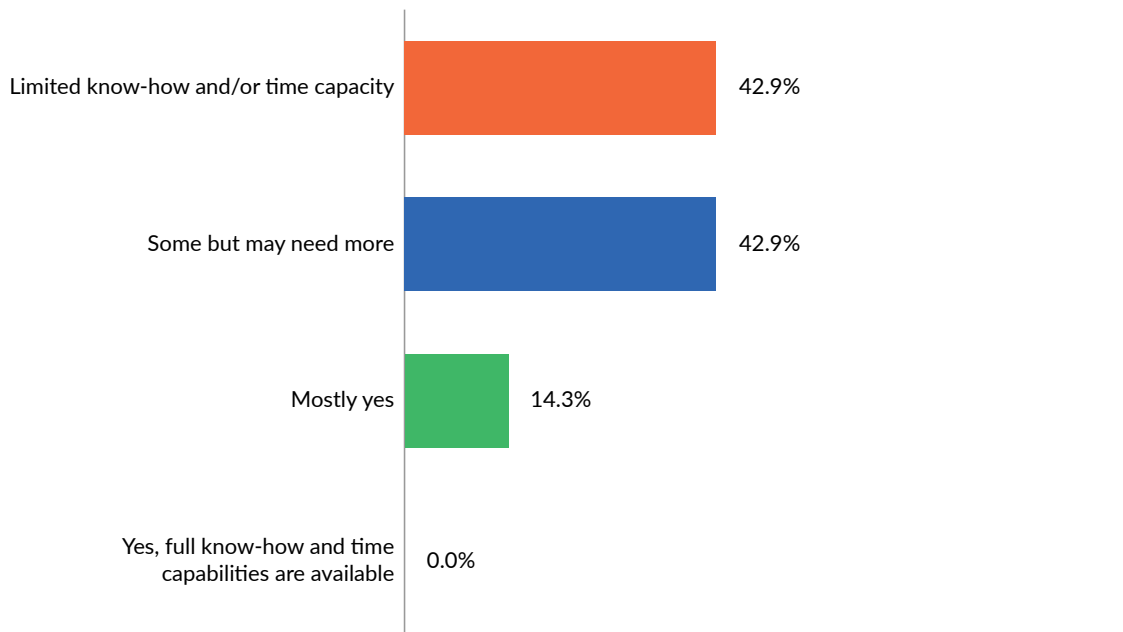


Source: Milken Institute Analysis, 2019

Similarly, we asked IOs to consider the capacity of their R&D and manufacturing resources to support commercialization efforts. More than half of the IO cohort identified limited capacity for their organization, and less than a third identified that they have some commercial-driven production capacity, but need more. None reported having sufficient production capacity. Figure 16 presents the results of the full IO cohort. These insights present a significant challenge for certain types of commercialization projects and could steer IOs away from product-led to services-style opportunities.



Figure 17: Sales and Marketing Capacity (percentage of respondents)

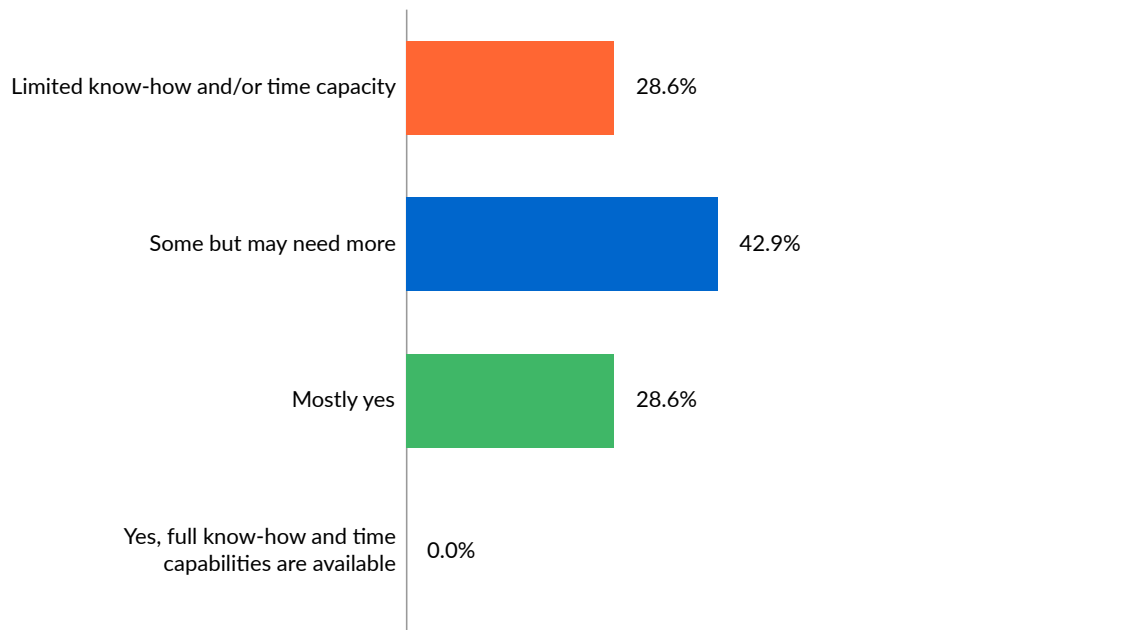


Source: Milken Institute Analysis, 2019

As shown in Figure 17, when asked about sales and marketing capabilities, IOs expressed greater strength compared to R&D and production capacity. A number of the IOs perceive to have some expertise in terms of pricing, advertising, and branding skills to facilitate the commercialization of donor-funded programs. That said, while IOs believe their sales and marketing capabilities are ahead of other areas because of their track records in selling services to donors, they said that additional technical skills related to commercial contract pricing and negotiations were a need.



Figure 18: Capacity of IO Financial & Legal Capabilities (percentage of respondents)



Source: Milken Institute Analysis, 2019

As shown in Figure 18, the largest spread of skills in the IO cohort related to both finance and legal capabilities. To a degree, this is an indicator of the cohort’s overall advancement level with commercialization: Those entities that have begun to commercialize projects have developed or acquired the required talent, and those that are still exploring the right approach are further behind with these capabilities. But, for those organizations that have less advanced finance and legal capabilities, these IOs expect meeting these gaps to be possible as a result of their core capability of sourcing technical talent for projects worldwide. Significant training of commercial finance and legal personnel is necessary before bringing personnel with those skills into a mission-driven organization. Put simply, this is not a “one-way street.”



Overview of Core Competencies for Commercialization

KEY TAKEAWAYS

1. There was a fairly consistent view about IOs' strengths and weaknesses in most areas but differing opinions about finance and investment capabilities, potentially creating opportunities for third-party service providers to provide support in these areas.
2. Knowledge about local markets, sectors, and impact measurement were cited as particular strengths.
3. The IOs have varying levels of expertise and track records in structuring and executing blended finance transactions. This area, along with global investor networks, were rated weaker relative to other competencies measured.

As shown in Figure 19, we also asked IOs to rate their organizational core competencies in six aspects of commercialization. The rating scale ranged from one to five, with one representing organizational weakness and five representing organizational strength. These ratings identify key gaps that would need to be addressed in the context of constructing any proposed commercialization intervention. The six areas of core competency are as follows:

- A. local market intelligence,
- B. global sector networks,
- C. banking and investor networks,
- D. sector expertise,
- E. social impact measurement expertise,
- F. track record of executing blended finance transactions.

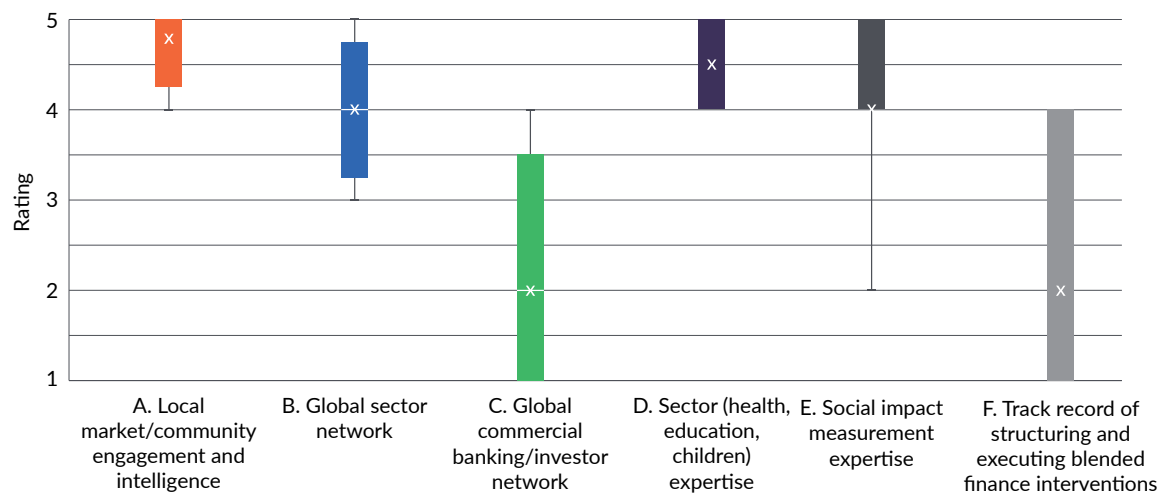
The IO cohort showed strength and less variance in four out of the six categories: categories A, B, D, and E. In categories A and B, IOs identify that they have a robust knowledge of local markets and strong engagement with a global sector-based network. One IO noted that 75 percent of its venture investment transactions originate from teams on the ground aligned with their programs, and the other



25 percent comes from a central team at headquarters. In categories D and E, we asked the IOs to rate their sector expertise and ability to measure social impact. The IOs showed similarly strong ratings in these areas, which is an important and differentiated competency. That is because the impact investment arena continues to grow and seek new ways to measure and justify its approach and/or monetize cost avoidance associated with socially-driven investment groups.

In categories C and F, we asked the IO cohort to rate their global banking and investor networks, as well as their track record in blended finance transactions. Contrary to A, B, D, and E, categories C and F produced a wide range and more low responses, signifying weakness in these two investor-related core competencies.

Figure 19: IO Core Competencies



Source: Milken Institute Analysis, 2019



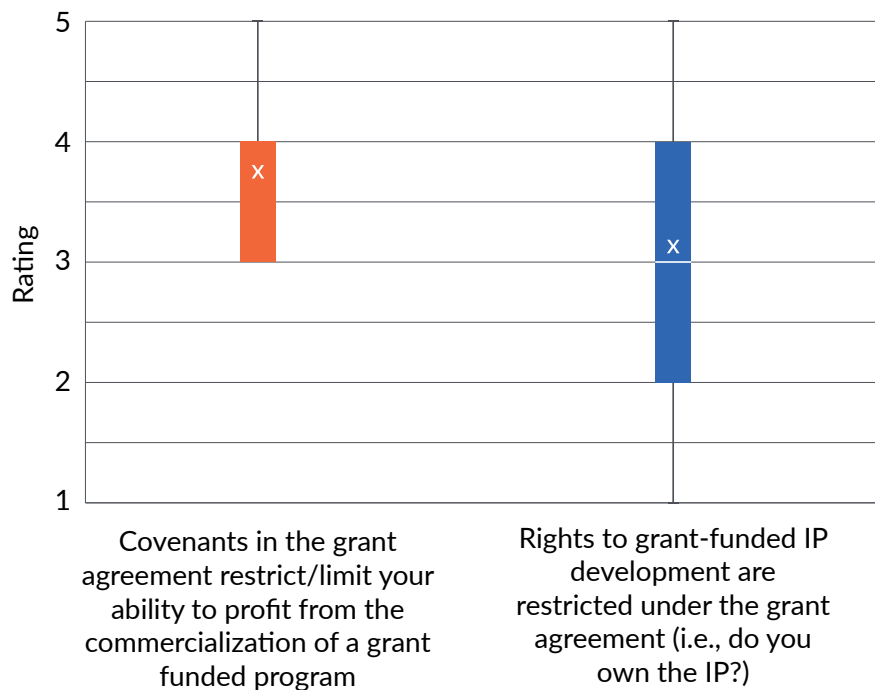
Overview of Legal / Regulatory Considerations for Commercialization

KEY TAKEAWAYS

1. According to some respondents, donors are creating standardized approaches to their contracts to encourage open innovation. A negative impact of this could be the further limiting of IOs to generate profit from intellectual property (IP). A positive impact of this could be a more consistent set of agreements across donors, reducing the need for expensive donor-specific compliance functions, which would improve IO profitability.
2. Covenants in some donors' grant agreements appear to make commercialization difficult without extensive renegotiation, and respondents indicated that procurement officers generally interpret their donors' rules conservatively. As a result, organizations have pursued strategies based on up-front negotiation of these ideas in programs or by commercializing capabilities not governed by program grants.
3. Donors' growing focus on blended finance seems to run counter to their actions in limiting commercialization; however, in advance of a universal approach to commercialization, this could represent an opportunity to focus on certain funding mechanisms that may be deemed appropriate.
4. Views were somewhat inconsistent on where the primary challenge exists—in donor contracts or in local legal restrictions. However, nonprofit respondents indicated that they may not be legally mandated to operate as commercial entities in certain areas.
5. A strength made clear in the IO interviews is their knowledge and relationships with donor organizations, which puts them in a unique position to serve as translation entities between donors and downstream private sector entities.



Figure 20: Contractual Limitations



Source: Milken Institute Analysis, 2019

In the last section of the survey, we asked IOs about contractual and regulatory constraints that could hinder the commercialization of donor-backed projects. We asked them to rate the level of challenge in each area from one (low) to five (high).

As shown in Figure 20, we asked IOs about their ability to profit from their grant-funded projects and their rights to donor-funded IP. Regarding the ability to profit, the most common rating was three or four. There was much more variance in the IOs' rights to donor-funded IP, with a range from one to five. However, the most common rating in this area was three.

During the interview process, many IOs cited challenges with donor contracts not allowing for the ability to profit from projects. Similarly, some IOs indicated that donors are moving toward a more open model of innovation, meaning that there would not be an opportunity to generate or control IP from their projects. As a result, IOs have pursued strategies based on upfront negotiations of these ideas in programs, or by commercializing projects after donor funding has expired. Furthermore, IP-based business models may not be a focal point for generating a pipeline of investable projects, with such activities as last-mile distribution or service delivery potentially presenting more relevant opportunities.



Figure 21: Legal and Regulatory Limitations



Source: Milken Institute Analysis, 2019

We also asked IOs to assess the legal and regulatory environments in which they operate in different countries, in addition to their headquarters country. Here again, they rated these issues from one to five, with five representing the highest level of challenge to commercialization. As shown in Figure 21, IOs responded that local regulations present a moderate barrier to operating a commercial entity in terms of the cost or complexity of operation. IOs rated local regulatory barriers to retaining ownership/interest of the commercialized entity in the future as less of a constraint. However, the IO cohort gave a wide range of responses as to whether they would be legally mandated to operate as a commercial enterprise in their program sectors and regions. These responses are somewhat related to the legal status of the IOs’ parent organization—in other words, whether they operate as a nonprofit or for-profit entity overall. The most common rating in this area was three or four, with responses spanning the entire range of one to five.



CHAPTER 2

SUMMARY

This chapter's purpose was to analyze, using a small subset of organizations, the opportunity for global health and education IOs to develop a systematic approach to commercializing their donor-funded programs. Overall, our analysis indicates that the commercialization of donor-backed programs is a highly relevant and timely strategic question facing the IO cohort. All but one of the IOs view commercialization as a core focus and means to extend their overarching organizational missions in the future. Similarly, all but one of the IOs have created organizational policies that support this sort of activity, and a majority of them have begun to build structures to enable some programs to be commercialized. These movements indicate a recognition of the strategic benefits associated with commercialization, including revenue growth and diversification. However, the degree to which IOs are currently pursuing or are prepared to pursue these opportunities center around their leadership's views on both external market forces and internal organizational readiness.

The two most prominent external forces shaping IO approaches to commercialization are donor relationships and local market receptivity. In many respects, IOs operate as the link between donors and the targeted beneficiaries of the programs that the donors are funding, and, as a result, IOs are highly sensitive to the views of both sets of stakeholders. Donors are IOs' primary source of revenue, and so IOs' motivations and operating strategies tend to stem from donor directives or from perceptions of donor attitudes toward particular approaches. In the area of commercialization, while many IOs note donors' growing interest in private sector approaches and blended finance, they also note a countervailing movement of open innovation policies, which limit the IOs' ability to generate IP or profit from donor programs. There are similar dichotomies with respect to IO views on local market receptivity to commercialization. While some IOs responded that local markets and beneficiaries are positively inclined toward market-based solutions, others cited challenges associated with operating as commercial enterprises or attracting market-rate funds to their projects, which typically serve poorer segments of society. Ultimately, there are differing views among the IO cohort related to the donor and beneficiary implications of commercialization, which results in a different set of strategies and tactics for pursuing the activity.



IOs' views about their organizational readiness to systematize commercialization activities are also varied. While certain themes regarding organizational interests and tactical approaches appear somewhat correlated, core competencies and skills are far from uniform. For example, a majority of IOs cited the business incubation phase as the center of their commercialization interests, and all but one IO cited spinning off program activities as an approach. However, the IOs were more varied in their skill bases. While no IO identified full know-how across all the surveyed capabilities, the cohort's responses were split across each category. Only R&D/manufacturing capabilities received a majority of responses in any single category, but in that case, the majority response was a lack of expertise. Similarly, IO responses varied in core competencies, but, broadly speaking, common strengths related to sectoral and market expertise. Common weaknesses related to investor networks and a lack of experience in structuring transactions. As a result, there is a continuum of IO readiness for commercialization. Organizations reporting more organizational structures stated higher strengths and capabilities to execute on these initiatives.

In the next chapter, we continue this analysis by looking at two specific IOs of the seven analyzed in this chapter: FHI 360 and Mercy Corps. These two IOs are further along in thought and action than some of their peers. They have experimented for the past couple of decades with integrating commercial incentives in their firm, and now are both operating a fund dedicated to it; both funds are only a few years old.

CHAPTER

03

**INGO
COMMERCIALIZATION
PLATFORMS:
TWO CASE STUDIES**



CASE STUDY METHODOLOGY

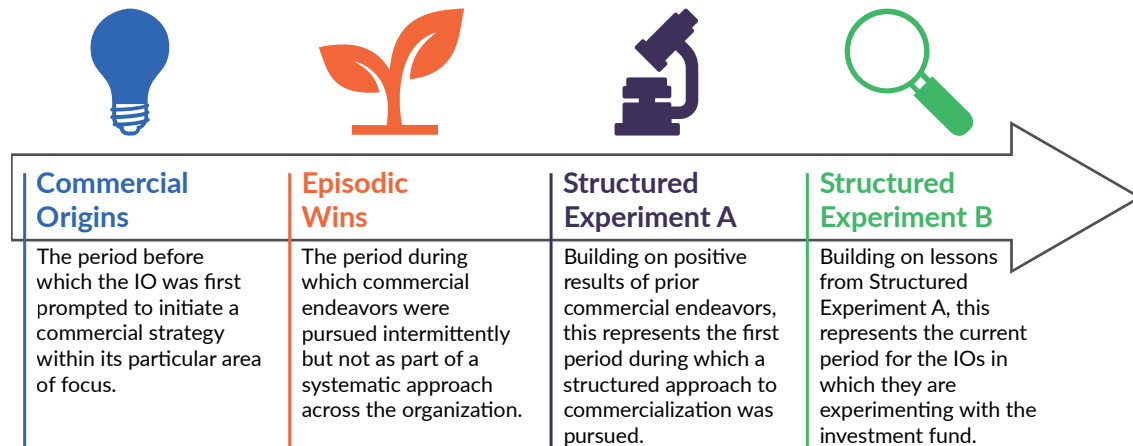
This chapter presents case studies of FHI 360 and Mercy Corps' commercialization initiatives, FHI Ventures, and Mercy Corps Ventures (MCV), respectively. On the surface, their approaches appear similar; however, the way they reached the point of creating these initiatives was distinct. In addition, each approach occurred over different time periods, showing that scaling does not occur in a time-bound, sequential fashion. These case studies illuminate key decisions and highlight important tactical differences and operational changes. By charting the chronology of these initiatives and the lessons learned by their IO sponsors, we seek to expedite the learning of other IOs that are currently considering their own investment funds or other commercial vehicles.

To construct these case studies, the research team conducted in-person interviews with the leadership of both initiatives. These interviews considered the events, decisions, and milestones leading to the creation of the funds. Both INGOs have more than 30 years of operational history that contributed to their decisions to pursue the investment fund model. It was only through understanding their organizational histories that the team could draw conclusions that are relevant for future endeavors.

In addition to management interviews, the team analyzed public and private information. This information included annual reports, investor presentations, and portfolio performance reports.



Each case study begins with an overview of the current investment fund initiatives and then traces the events leading to the formation of the investment funds. This history is presented chronologically across four distinct organizational phases. We believe the four-part framework described below can be useful in tracking future scaling endeavors.





CASE STUDY: FHI VENTURES

FHI Ventures was established in 2017 as the impact investing arm of FHI 360, described more fully on page 49. FHI Ventures is an investor and accelerator targeting a range of sectors, including health, gender, education, and economic development. Each investment is at the post-prototype or early-revenue stage. The FHI Ventures team is comprised of three employees, and its leadership consists of managers from the FHI 360 strategy office. It is structured as a wholly-owned subsidiary of FHI 360. The FHI 360 organizational chart showing its relationship to FHI Ventures is below.



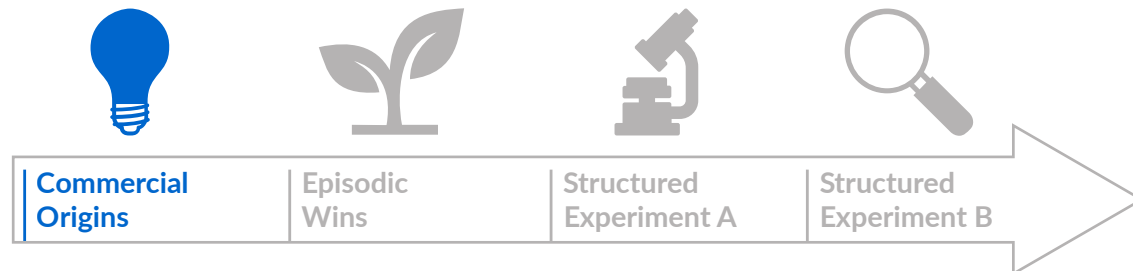
Source: FHI 360

In 2018, FHI Ventures invested \$500,000 in its first portfolio of five early-stage social enterprises. Investment criteria include a transaction size of up to \$100,000, capital need of equity or convertible debt, and a potential to leverage the FHI 360 network to achieve financial and social returns. In June 2019, FHI Ventures executed a second cohort of four investments with similar criteria but intentionally later-seed stage. There was also a distinct focus on health solutions that emerged. It is noteworthy that the initial investments were in early-stage social enterprises, demonstrating at the onset a high degree of willingness to take risk.

The following sections trace the 30-year evolution of FHI 360's commercialization efforts that culminated in the creation of FHI Ventures.



Commercial Origins: 1971-1986



Originally, the goal of FHI 360 was to meet the family planning needs of underserved populations globally through clinical studies that were largely funded by USAID. With a changing funding environment in the early 1980s, however, the board began exploring different solutions for long-term organizational sustainability. In evaluating their strategic alternatives, they determined that they could deliver their services to other types of project sponsors rather than solely to USAID. In particular, during this time, pharmaceutical companies had begun to outsource some of their clinical trial research programs with the idea that the model could reduce development costs and the time required to achieve regulatory approval. FHI began exploring opportunities for service contracts from these commercial organizations.

COMMERCIAL ORIGINS: SEQUENCE OF KEY EVENTS

1. Recognized that commercial organizations, outside of traditional donors such as USAID, would benefit from their clinical research management offering and that diversifying revenue sources would secure the long-term sustainability of the organization.
2. Focused on applying their sectoral, project management, and market expertise to a new set of for-profit clients on a for-profit basis.
3. Determined that full structural separation would be required to satisfy the compliance requirements of a core donor business while allowing for the growth and sustainability of the commercial effort.
4. Identified unrestricted assets to fund the formation and start-up expenses associated with a new commercial enterprise, and set commercial expectations.



Episodic Wins: 1986-2013



In 1986, FHI formed a commercial affiliate, Clinical Research International (CRI), with an initial investment of \$240,000 in exchange for 79 percent of the common stock of CRI. CRI performed its first contract research services for a predecessor organization of Merck and, over time, grew its clientele dramatically across the sector. In 1990, FHI received offers to purchase CRI and eventually sold CRI for a considerable return on its initial investment. The FHI Foundation was established to manage the proceeds of the sale and generate a market rate of return for redeployment in the form of grants across FHI's program areas. After its non-compete agreement expired, FHI leadership recognized an opportunity to re-enter the commercial market, and in 1999, acquired an Internet-based startup, PharmaLink, and launched a new CRO effort called Novella Clinical. Similar to its prior experience with CRI, the business competed successfully and was later acquired in 2013, increasing the foundation's assets to more than \$150 million.¹² This is a remarkable return on invested capital and demonstrated that commercial capital can find market-based risk-adjusted returns.

EPISODIC WINS: SEQUENCE OF KEY EVENTS

1. Formed a commercial subsidiary, Clinical Research International (CRI), with a mandate to manage clinical trials in low-resource settings targeting therapies for underserved populations.
2. Invested \$240,000 in CRI and used proceeds to hire critical new staff and functions.
3. Leveraged an existing technical talent base but supplemented it with key new managers and functional roles needed in a for-profit setting.

12. Albert Siemens, "When Nonprofits Become Market Innovators, Social Returns are Exponential," Stanford Social Innovation Review, December 12, 2016.

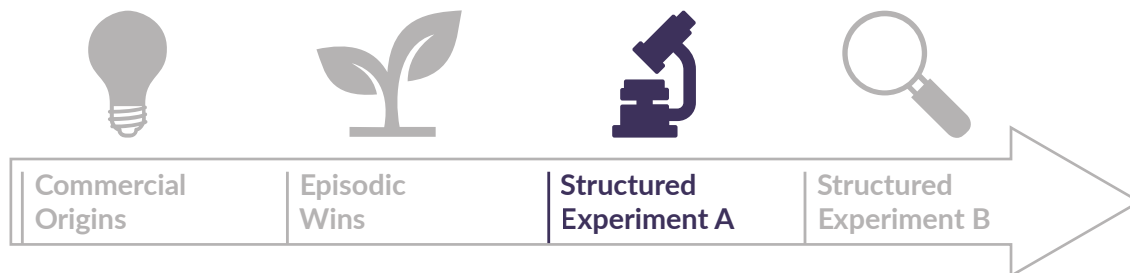


4. FHI consolidated capabilities and service offerings and expanded client base.
5. Used cash flow from CRI operations to fund the growth of the business and expand its capabilities.
6. Used strong CRI operating performance and market conditions to create the opportunity for a strategic sale of the business.
7. Sold CRI following approval by the board and used proceeds to set up a foundation endowment.
8. Managed foundation endowment as a balanced portfolio to generate market returns that would support the broader FHI mission, with a particular focus on addressing HIV/AIDS.
9. Created the possibility to repeat the commercialization endeavor in clinical research services after the non-compete agreement that was executed as part of the CRI sale expired.
10. Validated the market opportunity and underlying health needs in their core areas and evaluated strategic alternatives in building, buying, or partnering in a clinical research enterprise.
11. Determined the commercial opportunity still aligned with the overarching mission and that their re-entry in the market would be beneficial.
12. Determined an acquisition was more efficient than building a business from scratch and acquired PharmaLink in 1999 using a bank line of credit secured by the assets of the foundation.
13. Integrated certain capabilities from FHI's donor-funded projects with PharmaLink, and branded the combined effort Novella Clinical.
14. Broadened skill bases and interests in commercial approaches across the organization from the staff's direct and indirect experience with the CRI and Novella initiatives.
15. Recognized that beyond technical and sectoral expertise, the organization was becoming more adept at identifying and conceptualizing new businesses and innovations as part of their offering to donors and commercial clients.



16. Used credit line secured by the foundation assets to acquire a separate INGO, AED, to augment their core donor-focused business, which further built their transaction experience.
17. Approved the sale of Novella Clinical in 2013 and deposited the net proceeds (after repayment of bank debt) into the existing foundation endowment.
18. Benefited from a strategic sale of Novella Clinical, which presented the opportunity to generate a strong commercial return and to produce resources for a more systematic approach to commercialization and stronger organizational impact.

Structured Experiment A: The Catalyst Fund, 2013-2017



With two commercial successes generating a substantial asset base and certain organizational and staff expertise, the FHI board and leadership team sought to develop an approach to leverage that expertise for the organization's benefit. In 2013, the FHI Foundation provided a grant to FHI 360 to start an initiative called the Catalyst Fund, which was a tool to engage employees and provide funding to support internally generated ideas. Over a four-year period, a number of Catalyst Awards were granted with an annual total size of \$500,000, and systems to guide the process and link results to the broader organization were established. However, high costs and significant time commitment, and a low implementation/success rate led FHI leadership to search for an improved approach, but not abandon the value created and lessons learned from the process.

THE CATALYST FUND: SEQUENCE OF KEY EVENTS

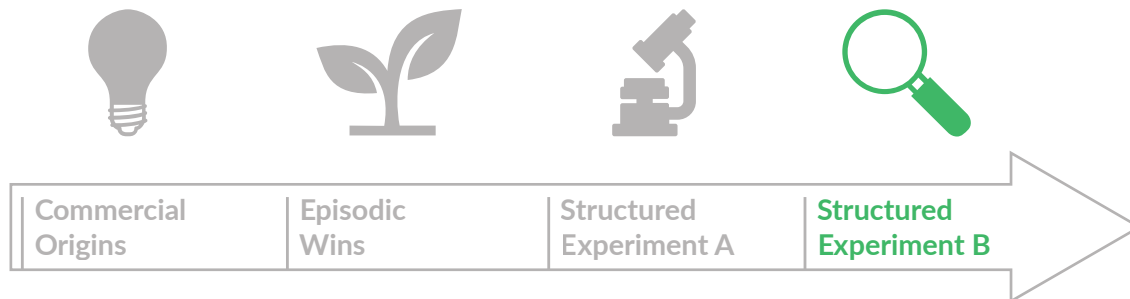
1. Benefited from employees' tremendous knowledge of necessary innovations that could be impactful and sustainable commercially.



2. Hypothesized that beyond providing services, employees could conceptualize business ideas, align them to the program portfolio, and put them on a path of growth.
3. Encouraged employees to explore these innovations, and internal grant funding provided the right mechanism to avoid conflict issues with donor-backed programs. To the extent a project could gain commercial traction, a separation could occur later.
4. Authorized the formation of a fund to support employee commercialization ideas, with oversight by the strategy team in the hope that the ideas could improve overall operations and increase the organization's impact.
5. FHI Board authorized \$500,000 per year in 2013 as a pool to finance the activity.
6. Supported and sourced a wide variety of ideas, including drone-based health delivery models and a suite of mobile applications for monitoring health and education data in remote areas and conflict zones. FHI tied some ideas to ongoing donor-backed programs, and others were imagined as aligned with potential programs.
7. As projects developed, employees wanted to remain employees—not leave to lead start-ups. The organization wanted to retain their talent, so a firm leadership vacuum halted much of the progress.
8. Developed an advisory board and processes to put structure around projects and give them more high-level support to create market traction.
9. Used external investment in human and financial capital to take projects to the next phase. The pure start-up approach was consuming more resources—both direct and indirect—than the organization could offer.
10. Recognized that supporting external venture development is potentially better aligned to FHI's overarching approach and to getting traction in the market. This wider approach sought to harvest the commercial skills and interest that had been nurtured during previous iterations.
11. Decided to suspend the Catalyst Fund in 2017 and search for an approach that could produce a better cost-benefit and generate stronger results for the organization and its mission.



Structured Experiment B: FHI Ventures, 2017-Present



FHI Ventures was established in 2017 as a result of lessons learned from the Catalyst Fund and a number of studies conducted by the FHI executive team to design a more effective commercial innovation platform at FHI. A separate for-profit subsidiary, FHI Ventures, was formalized with a three-year budget commitment and set up as a seed-stage investor and accelerator program. After two years and two cohorts of investments, FHI Ventures saw an imbalance between the cost of delivering services and the amount of capital invested. As its internal budget commitment expires next year, management is reevaluating a transition toward a later stage investment strategy and a more traditional venture capital asset management approach; however, the structure of that approach—whether evergreen or limited life, for example—remains undecided given the long tenor and high-risk attributes of the underlying investments.

FHI VENTURES: SEQUENCE OF EVENTS

1. Hired a third-party firm to explore the right approach and what was needed in the market, shepherded by the strategy office and the broader executive team.
2. Determined that the structure should position the organization to build investor relationships and source external capital for venture requirements.
3. Determined that venture leadership was a key ingredient they did not have and that it was difficult to separate the “idea” from the idea’s originator in the early stages of development.
4. Established that service provision, running programs, technical expertise, and access to markets were a compelling offering that could be packaged and delivered to support venture development.



5. Determined that if supporting outside founders/ventures as non-controlling investors, the ventures could be linked to the donor-program portfolio and create value and impact without conflict.
6. Decided that capturing the fully loaded cost of value-added service delivery, and identifying returns and revenue streams from the program, was key to shaping a permanent system.
7. Ascertained that post-prototype, but pre/early-revenue stage, companies could benefit from their capital and expertise, and could potentially be linked into the program footprint in the near term for synergy.
8. Determined that applying an inclusion investment lens (gender and minority) was a priority aligned with both FHI 360/FHI Ventures' mission and demand from external target LPs. As a result, in the portfolio of companies after two years, women hold 88 percent of the leadership positions and founded four of the companies, while minorities founded two of the companies.
9. Structured for-profit subsidiary in 2017, with leadership provided by strategy staff, to provide equity and convertible debt alongside acceleration services to seed-stage social enterprises aligned to the organization's mission.
10. Created governance construct and investment committees to provide oversight and accountability for the portfolio and program more broadly.
11. Invested \$500,000 in a cohort of five health and data companies and ran them through business acceleration services.
12. Supplemented internal capacity with university and industry partnerships to help provide extra resources for acceleration and growth-oriented services.
13. Linked executive staff and technical experts with the ventures, as well as the overarching program itself, to guide FHI Ventures' development and broaden its impact across the organization.
14. Built a system to capture the full cost of services and program development and fostered linkages between investees and the FHI business development team to generate revenue through the venture's inclusion in funding proposals.

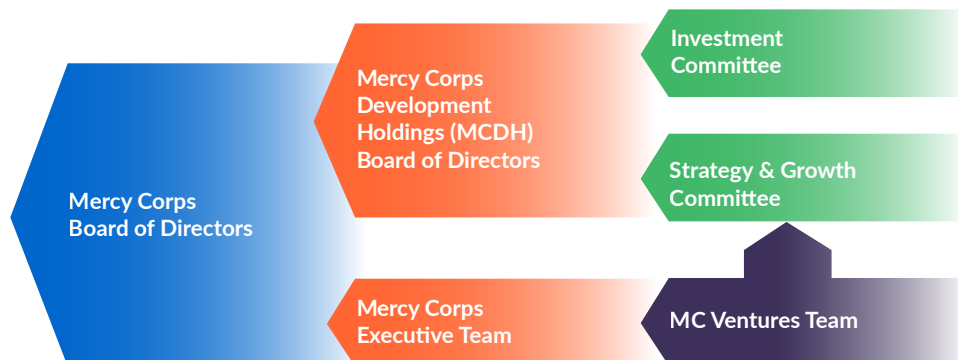


15. Invested \$400,000 in a second cohort of four health startups and ran them through acceleration process.
16. Calculated that over two cohorts, acceleration, and program management cost has been two-and-a-half times the monetary investment in the ventures.
17. Established that this approach has generated broad employee engagement and excitement, which could lead to a more decentralized investee-services approach.
18. Determined that pre/early-revenue companies may be mature enough to include in program proposals and require large-scale support services simultaneously.
19. Currently evaluating suspending the formal acceleration model with a pre-revenue focus and moving toward a fund (i.e., manage external capital) for later-stage enterprises that would align more with program deployment perspectives and require less costly assistance.



CASE STUDY: MERCY CORPS VENTURE FUND

Mercy Corps launched its Venture Fund in 2014, using \$1.5 million in philanthropic capital. Mercy Corps Ventures (MCV) is the impact investing division of Mercy Corps and is governed by the Board of Directors of Mercy Corps Development Holdings LLC, a for-profit entity and wholly-owned subsidiary of Mercy Corps managed by members of the Mercy Corps executive team. MCV has an Investment Committee and a Strategy & Growth Committee, each comprised of MC executives and external advisors that counsel on investments. The governance structure of MCV is presented below.



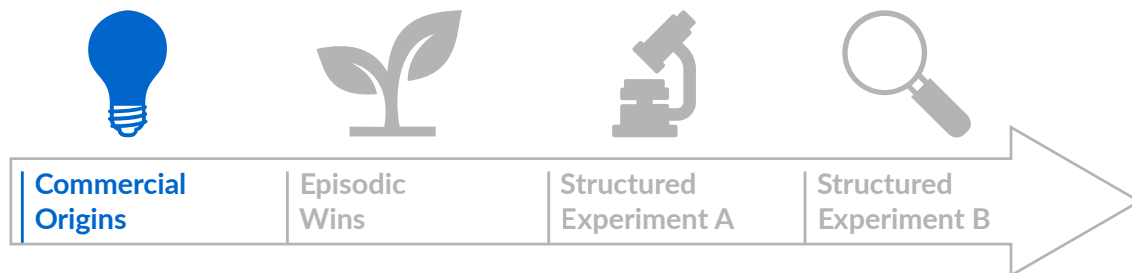
Source: Milken Institute Analysis, 2019

Like FHI Ventures, MCV focuses on seed-stage equity or convertible debt investments. It targets sectors that can improve livelihoods and economic circumstances for the world's most marginalized populations, including agriculture, frontier FinTech, youth employment, and last-mile distribution and logistics. Critically, and like FHI Ventures, which invests when there are clear linkages to its parent company's activities, the MCV team works closely with Mercy Corps country offices to support and grow social enterprises in which MCV has invested.

The following case study traces the 30-year evolution of Mercy Corps' commercialization efforts that culminated in the creation of MCV.



Commercial Origins: 1981-1989



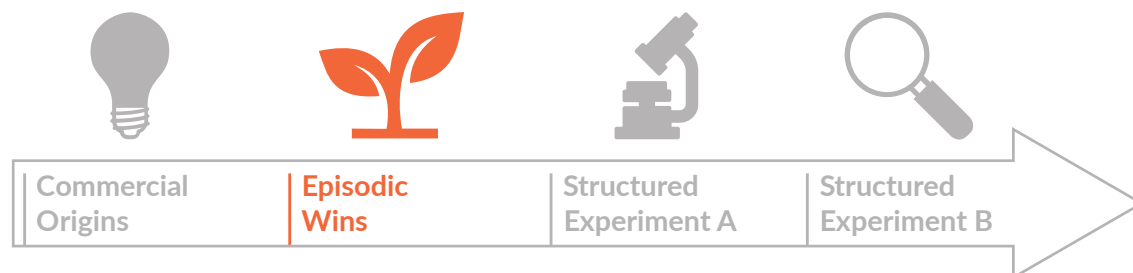
Mercy Corps was founded in 1981 in response to the Cambodian refugee crisis. Over the next few years, as it built humanitarian relief capabilities through this experience, the organization expanded its development work to include other conflict and disaster zones. In the mid-1980s, Mercy Corps' leadership recognized that for its programs to achieve lasting change, sustainable economic activity needed to be created. In many settings in which it operated, however, there was little to no financial services targeting their beneficiaries. As a result, in 1989, Mercy Corps authorized the creation of loan programs to accompany their more traditional grant-based economic development programs.

COMMERCIAL ORIGINS: SEQUENCE OF KEY EVENTS

1. Recognized a lack of economic opportunity for the targeted beneficiaries was limiting the results of its humanitarian work in conflict zones and that access to financial services was a critical missing input for that process.
2. Realized that the organization was adept at running programs for people living outside the regulated economic system, identifying various risks to program success, and managing financial resources in challenging environments.
3. Validated that regulatory constraints and conflicts of interest associated with providing financing in tandem with economic development programming could be managed appropriately.
4. Authorized loan programs to commence as part of their programming in 1989, with the goal of helping people build small businesses and support their families in the organization's countries of interest.
5. Decided that loan programs would be funded by a mix of unrestricted grants at Mercy Corps and fresh donations raised for the purpose.



Episodic Wins: 1989-2014



During the next few decades, Mercy Corps integrated many microfinance loan programs into its portfolio, and as the sector began to professionalize and mature, many of these programs began to achieve commercial scale. Two examples, in particular, demonstrated to Mercy Corps leadership that their organization could start and transition donor-backed programs to commercial-scale enterprises. These two institutions were XacBank in Mongolia and Bank Andara in Indonesia. Both received funding from many private and public donors, and Mercy Corps had an ownership stake in both. XacBank has grown to serve 180,000 depositors and more than 60,000 borrowers, 62 percent of whom live in remote areas, and more than 50 percent of whom are women. Similarly, Andara was co-founded by Mercy Corps and is now a fully-licensed commercial bank providing more than one million Indonesians with access to modern financial services to escape poverty. As markets developed and more investors became interested in impact-oriented strategies, these experiences raised the prospect of broadening Mercy Corps' venture-building capabilities to other sectors outside of financial services.

EPISODIC WINS: SEQUENCE OF KEY EVENTS

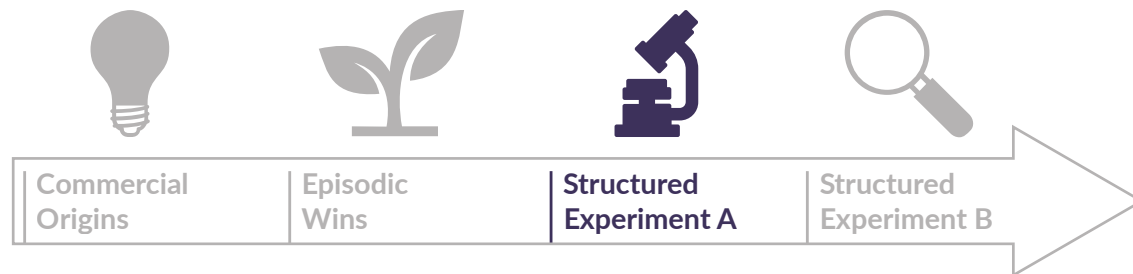
1. Supplemented Mercy Corps staff with new personnel with lending experience. Paid particular attention to localization of hiring so that cultural and community dynamics were sufficiently understood.
2. Recognized that as loan portfolios were deployed as part of programs, the organization had deep market knowledge and an entrepreneurial culture, which collectively enabled a unique vision for what was possible in challenging contexts.
3. Ascertained that strong performance of the loan programs strengthened the organization's network of funders, which was becoming both broader and deeper as results were posted and new needs emerged in new conflict areas.



4. Recognized that investor interest was growing in the microfinance sector as programs were professionalizing, and certain conflict geographies were becoming more stable.
5. Decided to start structuring lending programs as separate enterprises—both commercial and nonprofit—and spinning off existing programs to launch them toward longevity and sustainability.
6. Noted that its microfinance institutions began to achieve scale and operational efficiency with financial support from a variety of institutions, including international finance institutions (IFIs), development finance institutions (DFIs), and local deposit sources.
7. Observed skill bases broaden, including both enterprise development and financing, allowing the organization to identify promising businesses in critical sectors and put them on a path to growth.
8. Developed a unique competency in mitigating the country risk associating with managing enterprises in conflict settings and running a process for structuring growth and asset sales.
9. Saw growing independence of institutions originally backed by donor funding bring key strengths and weaknesses into focus for positioning broader programs to make that transition.
10. Observed the maturation of the microfinance sector into a more formalized asset class along with a broader global movement of impact-oriented investors with interest in the same sectors as Mercy Corps.
11. Recognized that financial market development and its experience in conceptualizing enterprises presented the potential to tap into a new pool of funding to broaden their activities in social enterprises outside of microfinance.
12. Decided to adapt its collective experience to a venture-building initiative outside of financial services.



Structured Experiment A: The Social Innovations Team, 2014-2015



Leveraging its experience in building financial services firms, and its deep understanding of its markets, Mercy Corps started a social ventures group within its innovations department. The goal was to support its field team's entrepreneurial ideas with lean startup pilots of business solutions that aligned with Mercy Corps' impact mission. Over the course of one year, the group launched nine pilots, only one of which was able to commercialize. The primary cause of this low win-rate was that Mercy Corps' staff were not willing to leave the organization to lead the new projects, and Mercy Corps did not want to lose the staff members' expertise. In addition to the low win-rate, high staff and development costs, and the long timeline between idea generation and having a viable enterprise delivering impact at scale pushed the leadership team to explore a strategy centered on externally led startups.

SOCIAL INNOVATIONS TEAM: SEQUENCE OF KEY EVENTS

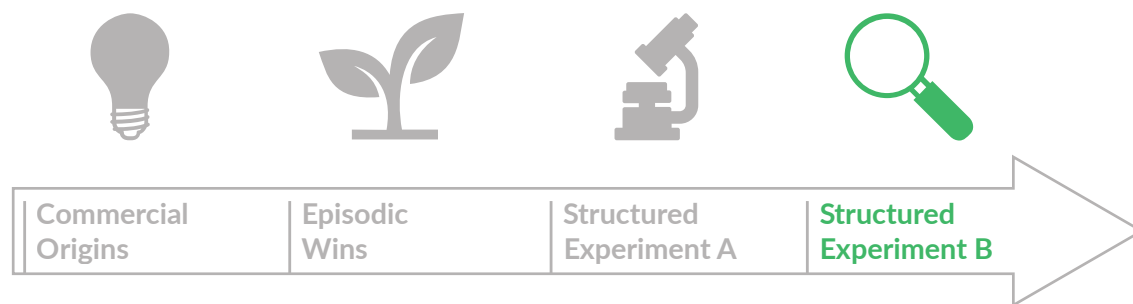
1. Focused on incubating and scaling disruptive venture models from within Mercy Corps based on the hypothesis that its organizational network of 5,000+ experts in the field had unparalleled insight into development challenges, a market orientation, and an entrepreneurial spirit.
2. Created a centralized Ventures Team that would shepherd the creation of lean startup pilots to spin off multiple high-impact ventures from Mercy Corps.
3. Assigned innovation and strategy staff to lead the initiative, and hired additional staff to cover targeted skill gaps, including venture growth and financial structuring.
4. Raised approximately \$1.5 million in new philanthropic capital from existing Mercy Corps board members and individual donors to create the initiative and capitalize the pilots.



5. Identified dozens of promising startup ideas, resulting in nine pilots across Indonesia, Nepal, Tunisia, Uganda, and Kenya.
6. Invested \$10-50,000 in each pilot, and four ideas began generating sales. Few of these ideas advanced to incorporation in their countries and generated sales based on models that solved a core problem, were scalable, and could overcome inherent country risk.
7. Ran pilots for two to three months, with a decision point to either scale up with additional investment, spin out the effort, or terminate.
8. Determined that it would be difficult for internal programs of Mercy Corps with staff leadership to achieve long-term growth.
9. Used centralized and decentralized resources. Centralized philanthropic sources funded pilot development, but the organization used staff and value-added services from across its program portfolio.
10. Determined that not all staff project leaders had the skills and experience and/or desire to exit Mercy Corps and to lead the startups. Although one pilot succeeded in full externalization from Mercy Corps, a broader strategy based on near-term externalizations began to prove implausible.
11. Observed an imbalance between the small likelihood of success and the high cost of internal incubation, driven by the amount of staff time required to test out and incubate each venture.
12. Identified startups during the competitive landscaping process for pilots led by external individuals who had already risked starting an enterprise and were free of many constraints inherent to larger organizations.
13. Decided with board and executive support to shift the remaining capital to investing in and developing a bigger strategy around externally led, seed-stage enterprises aligned to the Mercy Corps mission.



Structured Experiment B: Mercy Corps Ventures, 2015-Present



In 2015, Mercy Corps pivoted from an internally- to externally-led strategy by forming the Mercy Corps Social Venture Fund, which subsequently became Mercy Corps Ventures (MCV). It raised specific philanthropic funding to support the effort. The investment and entrepreneurship professionals that had worked on the previous strategy applied their skills to identifying and investing in external startups, supplemented by the expertise of Mercy Corps' field teams and subject matter experts. Between the Fund's launch and mid-2019, it has made 20 equity or convertible debt investments of \$50,000 to \$250,000 in early-stage ventures operating in agriculture, frontier FinTech, youth employment, and last-mile distribution and logistics. Critically, MCV helps these enterprises partner with Mercy Corps and its partners to provide business growth opportunities, support their business needs, and reinforce impact. This model has achieved two exits, assisted MCV's investees in raising significant sums of follow-on capital, and generated strong social impact metrics; the model has proved successful, and Mercy Corps is now scaling it up. The value-added investee services have been a critical differentiator and allowed MCV's companies to get to Series A funding faster than they otherwise would. This aligns with the objectives of MCV and portfolio companies and is a key aspect of what makes the model scalable. The leadership of MCV has found it important to be able to participate in those subsequent financing rounds and remain as meaningful a part of the capitalization as it is to the operational growth of the investee. MCV is raising additional funding to pursue this and will be following its successful companies into Series A and B rounds and also investing in an additional 25 seed and early-stage companies in the next three years.



MERCY CORPS VENTURE FUND: SEQUENCE OF KEY EVENTS

1. Separated the legal structure by re-purposing an existing Delaware LLC from its legacy MFI activities to have clear processes and procedures to invest in for-profit companies. The entity is disregarded from an accounting perspective within the broader Mercy Corps structure, and all employees are Mercy Corps employees.
2. Included large parts of the management team with relevant experience in finance, law, and frontier and emerging markets in the entity's governance to ensure strategic alignment with MC, generate buy-in, and have the management team contribute to strategic decision-making.
3. Developed a nimble, layered investment approval system with certain transaction authorities delegated to the team from the board.
4. Raised specific philanthropic funding for investments and for the entity holding the investments, but Mercy Corps raised separate grants to fund operating and investee support services. Set the objective of capital preservation across the portfolio during the experimentation phase.
5. Focused on demonstrating that there was a sufficient pipeline of seed-stage ventures in sectors of interest and that Mercy Corps' global resources could provide value to entrepreneurs.
6. Hired specific staff with success as entrepreneurs or investors that knew how to interact with and add value to early-stage organizations. Mercy Corps used local teams, especially for value-added services, but a central team conducted all underwriting.
7. Leveraged its budding track record in identifying and executing investments to refine the model by focusing the investment thesis and building processes. The team created an impact framework and developed standard post-investment support offerings to complement other resources that it provided ventures.
8. Executed 20 investments across the portfolio, achieved two profitable exits, assisted 12 portfolio companies in raising \$32 million in follow-on capital, and experienced three failures. Mercy Corps will invest exit proceeds in future opportunities.



9. Recognized that programmatic linkages are a competitive advantage but also that not all Mercy Corps programs are conducive to partnerships with MCV investees. Mercy Corps also saw that staff is too capacity-constrained to dedicate the time necessary to forge those partnerships.
10. Found asymmetry between the investment sizes and the value that's being provided. The investment amounts are small, resulting in small positions within the capital stack, but the cost and value of delivering support services are high. As a result, MC is developing the capability to make follow-on investments to help balance these two critical components.
11. Identified later stage companies (Series A), including those in the existing portfolio that have begun to mature, need larger funding rounds and fewer support services, or can share the cost of the support services, as a potential focus to bring the initiative to the right scale.
12. Started exploring options for structuring a fund and raising capital to expand its capabilities. This has raised important questions about team structure and incentives within the overall INGO structure.



COMMON INSIGHTS FROM FHI 360 AND MERCY CORPS

Both FHI 360 and Mercy Corps originated for distinct purposes and have developed different focuses and capabilities within the global child development arena. But their experiences in creating commercial enterprises from a donor-backed platform imparts many lessons for other IOs. At different times, each has pursued similar approaches and tactics. For example, in recent years, both focused first on supporting internally generated innovations and subsequently pivoted toward externally led opportunities. Using lessons from those periods of experimentation, they are each evaluating the next phase of commercialization and impact investment. Although both have a preference for a more independent asset management capability to drive scale and a focus on later-stage investments, Mercy Corps envisions adding on this focus, while FHI 360 is considering a complete transition. Below are key insights other IOs operating within the global child development arena may use to inform their thinking related to commercialization.

- 1. Intentions matter, but core competencies and human capital drive results.** For example, for different strategic reasons, FHI and Mercy Corps funded and incubated employee ideas. While FHI pursued this approach to improve programming, it realized that ideas needed to be externalized to scale and gain traction. Conversely, Mercy Corps intended to externalize the employee initiatives from the beginning but realized that employees wanted to remain part of the sponsoring institution. In both cases, despite opposite intentions, the people involved could not scale successful enterprises. However, IOs' fundamental value proposition is building teams to implement programs, and so this issue is ultimately surmountable, particularly with key strategic hires who can supplement existing personnel.
- 2. A commercial culture is built over a long period of time.** The venture fund initiatives of both FHI and Mercy Corps are the latest incarnations of a long series of experiments with commercialization. First-order philosophical decisions about commercial solutions driving impact occurred long ago, and over time, the organizations continue to build in that direction. Bringing their culture and their mission along will take time.



3. **There's a natural progression to initiating a commercialization tactic.** Over the course of both organizations' history with commercialization, at each stage of development, a pattern of behavior and decision-making occurred. First, leadership recognized a need or opportunity. Then they validated that the opportunity aligned with their mission. From there, it became a tactical and resource discussion, determining whether the organization had the people and capabilities to win, and how to pay for it and measure progress. Ultimately, despite perceived legal and regulatory challenges to commercializing programs, it is important to note that both organizations got comfortable with the idea of having made the impact/mission determination first.
4. **Market knowledge is critical, regardless of how the market is defined.** During its first foray into commercialization, FHI provided the same service—contract research management—to a new customer base, building a new market. Conversely, Mercy Corps saw an opportunity to provide a new service—lending—to their existing beneficiaries. In either case, specialized knowledge was the ultimate differentiator that enabled a path forward.
5. **Tensions with the broader organization will always exist regardless of whether commercial initiatives are managed centrally or on a decentralized basis.** FHI took a more centralized approach, founding independent companies and separating resources, while Mercy Corps took a more decentralized approach, ingraining the commercial opportunities across the existing program footprint. In both cases, finding synergies, managing incentives, and creating value required a give-and-take approach. Each organizations' boards took an active role in rigorously evaluating progress and charting the next iteration.
6. **Have a hypothesis, but be prepared to pivot based on results.** At each segment in the case study chronology, both FHI and Mercy Corps had a structured approach based on a hypothesis. In some cases, the result was obvious, and in other cases, it was a surprise; regardless, the organizations learned and continued to get closer to a sustainable model for commercialization.
7. **Forge balanced, long-term relationships with partners.** The mix of capital and services should put the investor and investee on equitable footing. For example, FHI Ventures' cost of acceleration services dramatically outpaced the capital invested, calling into question the sustainability of the model. Although Mercy Corps distributed the cost of venture development services across its larger platform, the value of those services to the investee was larger than the capital MCV initially provided. That created a clear need for MCV to provide additional capital as the business grew.



8. Program alignment is possible despite difficulty with high-risk initiatives.

Reaping value from early-stage initiatives is generally a low-probability outcome; seed-round startup failure rates have historically been greater than 80 percent.¹³ At FHI 360, there was early enthusiasm and active engagement among programmatic staff to explore ways to collaborate with FHI Ventures portfolio companies. This was a result, in no small part, from the FHI Ventures Accelerator program design that had intentionally integrated a “pathway to partnerships” feature. The team further leveraged FHI 360’s small business partnership team to formalize the engagement within the organization. However, business development teams at FHI were reluctant to include venture investees in proposals due to the risk that they would not be able to fulfill their responsibility. Similarly, managers of existing programs were sensitive to the opportunity cost of dedicating time to support a venture that might or might not produce results for their program.

9. The broader the portfolio, the more important it becomes to invest later and lighter.

When FHI started a focused commercial entity, and when Mercy Corps started single-market focused microfinance institutions, it became easier, and more necessary, to “go deep.” However, in transitioning to investing in a wider portfolio of ideas, both FHI and Mercy Corps focused on pre-revenue companies operating globally across numerous sectors. Over that experience, both organizations realized a path toward scale might require targeting later-stage—Series A—companies to better balance between the capital and cost for development. Furthermore, as nonprofits with fixed resources, strategic focus on later-stage investments is likely to produce higher success rates, improve integration prospects with the broader organization, and put the INGO on a path for commercial-scale as asset managers.

10. Risk management is inherent in mission adherence. FHI and Mercy Corps—as well as any established organization—have developed reputations in the market that fuel their long-term success. Re-validating mission adherence during each phase of commercial decision making and paying constant attention to whether a strategy, approach, or risk reinforces the mission were essential. It put both FHI and Mercy Corps on a learning-oriented trajectory in which either success or failure could be built upon and explained to the market.

13. Raj Vardhman, “Startup Failure Rate and 80+ Other Startling Statistics About Startups” Small BizGenius, June 23, 2019, <https://www.smallbizgenius.net/by-the-numbers/startup-statistics/>.



CHAPTER 3

SUMMARY

The purpose of this chapter was to leverage the experiences of two specific IOs (FHI 360 and Mercy Corps) by analyzing their efforts to systematically commercialize donor-backed projects—social impact investment funds—to distill insights that may be transferable to a wider set of stakeholders.

Each case study began with an overview of the current investment fund initiatives—FHI Ventures and the Mercy Corps Venture Fund—then traced the events leading to their formation. Ultimately, these initiatives highlighted the organizations’ long learning experience with commercialization. The history was presented chronologically across four distinct organizational phases:

1. Commercial Origins
2. Episodic Wins
3. Structured Experiment A
4. Structured Experiment B

Although the FHI 360 and Mercy Corps trajectories were unique, their experiences highlighted common decisions, milestones, and insights. Other IOs will face their own unique strategic context; however, these shared insights raise questions that any executive team should consider in forming an investment fund to systematize its approach to commercializing donor-backed innovations. These questions are as follows:

1. Does your organization have, or can it have, a strategy to acquire the core competencies and human capital to drive results?
2. Does your organizational culture have, or can it develop, an enduring commitment to commercial interventions?
3. From a sequencing perspective, does your organization see a commercialization opportunity, has it made a decision to pursue one, or is it determining the right resource allocation and tactical approach to developing one?
4. Does your organization have the market knowledge in each of the focus areas to succeed?



5. Is your organization prepared to manage the tensions between donor and commercial endeavors internally and externally?
6. Does your organization have a commercialization hypothesis, and is your team nimble enough to pivot based on results?
7. Do the targeted commercialization opportunities need a reasonable balance of investment and services from your organization?
8. Does your organization intend to link commercialization initiatives directly to existing or future donor-backed programs?
9. Is your organization targeting a broad or focused set of commercialization opportunities?
10. Can you explain and justify success or failure to your stakeholders?

These questions are not exhaustive or rank-ordered. Similarly, the answers to these questions are not mutually exclusive. However, they do provide a foundational framework for IO executive teams to begin to evaluate a commercialization strategy.

CONCLUSION

**“ IF DONE IN THE RIGHT WAY,
IMPACT-ORIENTED INVESTORS
CAN BE RELIED UPON TO
SCALE DE-RISKED MARKETS,
AND DONORS CAN BE FREED
TO FOCUS ON THE MOST
CHALLENGING LOCALES AND
POPULATIONS. ”**



CONCLUSION

Achieving the ambitious objectives laid out in the SDGs by 2030 demands bold new approaches and significantly more resources than the international donor community—both public and private—has ever mobilized. With an annual funding gap of \$2.5 trillion, enlisting private capital to invest in SDG-aligned opportunities is a must. While more and more private investors are integrating social returns into their philosophies and adopting the principle that maximizing shareholder value alone is not enough, the developing country markets that need the additional resources are still risky by most standards. Fortunately, the international donor community has produced episodic wins where their funds have de-risked potential markets sufficiently for impact-oriented private investors to step in with commercial capital. Be it financial services or health-care services, some social enterprises that were once subsidized by donors have now transitioned into commercially sustainable organizations thanks to private capital. For example, the child education and health space has seen evidence of where donor interventions reached a proof-of-concept stage. The IOs that executed them built capacity and capabilities to transfer that expertise into commercially sustainable ventures that advanced the spirit of the SDGs.

If done in the right way, impact-oriented investors can be relied upon to scale de-risked markets, and donors can be freed to focus on the most challenging locales and populations. Achieving this systemic change, however, will require donors to adapt how they structure their funding and IOs to make organizational changes related to how they operate. Fortunately, this research has identified a number of high-level issues that donors, their IOs, and investors should consider.

To continue down this path, additional research into the potential for IOs to systematically commercialize donor-backed projects should focus on both the external factors influencing IOs and the internal organizational readiness of the IOs. From the perspective of external forces, additional research should seek to understand the views of donors and project beneficiaries regarding commercialization. Although this research identified a growing interest in this space, these ideas remain new and, for some, represent a radical departure from “business as usual.” IOs are still adjusting their policies, which are typically driven by donor requirements, to allow for new, commercial entrants. Therefore, future research on IOs’ commercialization activities should include interviews with key donors. Similarly, research on IOs’ primary projects and beneficiaries should determine local market receptivity to commercialization.



Furthermore, future research should segment IO's existing level of activity and expertise. Research on organizations that are less developed in their commercialization activities should consider technical assistance strategies to formalize efforts to create core skills for building a path to scale. Research on organizations that are further along and that have built some infrastructure (which represents most IOs in the survey cohort) should focus on pilot transactions that address specific obstacles to replication and scale.

We describe above the need for further research to fully expand capabilities for IOs and impact investors to match skills with capital. Concurrently, we encourage IOs and impact investors to begin new collaborations. Progress can occur through trial and error and constant testing of assumptions. While there will be inevitable failures, it is only through such temporary setbacks that IOs and impact investors will pave the way for systems change.

The arc of development requires a greater balancing of donor and commercial funding working together to achieve the SDGs. We believe international donors can leverage their IOs and provide a new way for priming markets for private capital that takes a leadership role in ending poverty, protecting the planet, and engendering prosperity for all.



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APPENDIX A: DONOR PROFILES

Profiles of the Largest Public and Private Donors

DONOR I: UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

AGENCY OVERVIEW: Created in 1961, USAID is the United States' primary development assistance agency. It focuses on limiting conflict, preventing the spread of pandemic disease, and counteracting the drivers of violence, instability, transnational crime, and other security threats. USAID works in over 100 countries to promote global health, support global stability, provide humanitarian assistance, catalyze innovation and partnership, and empower women and girls. Notably, USAID tests new ideas and partners through its Global Development Lab, which works with partners to identify innovations, tools, and approaches to solve development challenges.

GIVING SUMMARY (average annual amounts for 2015-17):

- Total Bilateral Giving: \$28.4 billion (USAID, \$18.8 billion)
- Public Donor Rank: 1
- Global Health Giving: \$9.0 billion (USAID, \$6.4 billion)
- Global Health Public Donor Rank: 2
- Global Education Giving: \$1.5 billion (USAID, \$960 million)
- Global Education Public Donor Rank: 2

HEALTH OVERVIEW: USAID has three strategic health priorities: preventing maternal and child death, controlling the HIV/AIDS epidemic, and combatting infectious diseases. USAID's efforts in family planning, maternal and child health, malaria, and nutrition are focused on 25 countries. Additionally, as a key implementer of the US President's Emergency Plan for AIDS Relief (PEPFAR), USAID is integrating applied science, technology, and innovation at scale to address the HIV/AIDS epidemic. Additionally, USAID leads efforts to combat infectious diseases through the Emerging Pandemic Threats program. This program aims to build better capacity to detect outbreaks, mitigate transmission, and prevent epidemics.

EDUCATION OVERVIEW: In November 2018, USAID launched its latest education policy, which aims to achieve sustained, measurable improvements in learning



outcomes and skills development. As part of the 2017 READ Act, USAID released the US government's first-ever strategy on international basic education. The goal of the strategy is to build on the work USAID has done since 2011 in benefiting more than 83 million individuals through its existing basic education initiatives.

IMPLEMENTING PARTNER IDENTIFICATION METHOD: To identify the most relevant implementing organizations, we downloaded a complete data set of USAID's funding activities for the three-year period ending 2017 from the USAID website (<https://www.usaid.gov/>) and sorted for the relevant sector focuses of health and education. To identify the top implementing partners in each sector, we ranked the implementing partners by the total average annual funding received for the relevant sector over the three-year period. We used distributions, not commitments, for this analysis to be consistent with the private donor funding activity collected.

DONOR II: BILL AND MELINDA GATES FOUNDATION (BMGF)

DONOR OVERVIEW: BMGF is the largest private foundation in the world, holding more than \$40 billion in assets. BMGF has five different funding areas, but its principal program is Global Development, which includes nutrition; polio; maternal, newborn and child health; and emergency response. Its second most funded program is Global Health, which includes areas like vaccine development, malaria, and HIV.

GIVING SUMMARY (average annual amounts for 2015-17 per OECD 2018 Study):

- Total Bilateral Giving: \$3.9 billion
- Private Donor Rank: 1
- Global Health Giving: \$3.0 billion (Child Health, about \$1.1 billion)
- Global Health Private Donor Rank: 1 in Health overall and Child Health

HEALTH OVERVIEW: BMGF has invested more than \$13 billion in global health since 1994, which reflects approximately 60 percent of their total giving to date. Their priority health conditions are infectious diseases, such as HIV/AIDS, malaria, and diarrheal diseases, and family health, such as illness and death of mothers and newborns, and nutrition. Additionally, the Bill & Melinda Gates Foundation Medical Research Institute focuses on translational medicine, advancing drug and vaccine candidates to human studies for malaria, tuberculosis, and diarrheal disease. The Institute also works in collaboration with other governments, including India, Nigeria, and Ethiopia on health-care delivery.

EDUCATION OVERVIEW: The BMGF focuses all of its education work in the United States.



IMPLEMENTING PARTNER IDENTIFICATION METHOD: To identify the most relevant implementing partners, we downloaded a complete data set of BMGF’s funding activities for the three-year period ending 2017 and sorted for the relevant sector focuses of health and education. To identify the top implementing partners in each sector, we ranked the implementing partners by the total average annual funding received for the relevant sector over the three-year period. We used distributions, not commitments, for this analysis in order to be consistent with the private donor funding activity collected.

Profiles of Public Donors

PUBLIC DONOR I: UNITED KINGDOM DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID)

AGENCY OVERVIEW: Set up in 1997, DFID leads the UK’s international development assistance. DFID focuses on creating solutions that address poverty and disease, mass migration, insecurity, and conflict. The agency works in countries across Africa, Asia, and the Middle East, many of which are fragile or at risk from fragile neighbors.

GIVING SUMMARY (average annual UK ODA for 2015-17):

- Total Bilateral Giving: \$11.5 billion
- Public Donor Rank: 4
- Global Health Giving: \$1.1 billion
- Global Health Public Donor Rank: 2
- Global Education Giving: \$580 million
- Global Education Public Donor Rank: 6

HEALTH OVERVIEW: Strengthening health systems is a key priority for the UK, which has supported over 30 countries in developing and strengthening health financing strategies and reforms. This work is being followed up by a new program—Making Country Health Systems Stronger—which focuses on health financing, access to medicines, and health information systems. In 2017, UK-funded programs delivered over 144 million treatments for neglected tropical diseases and over 60,000 surgeries to reduce or avoid disability.

EDUCATION OVERVIEW: DFID’s published its new education policy, “Get Children Learning,” in February 2018. This policy focuses on investing in good teaching, backing system reform to deliver classroom results, and increasing support to the most marginalized populations.



PUBLIC DONOR II: EUROPEAN COMMISSION DIRECTORATE-GENERAL FOR INTERNATIONAL COOPERATION & DEVELOPMENT (DG DEVCO)

AGENCY OVERVIEW: DG DEVCO is responsible for formulating the European Union development policy. It distributes external aid, and its core goals are to reduce poverty, to ensure sustainable economic, social, and environmental development, and to promote democracy, the rule of law, good governance, and the respect of human rights, notably through external aid.

GIVING SUMMARY (average annual EU ODA for 2015-17):

- Total Bilateral Giving: \$15.5 billion
- Public Donor Rank: 3
- Global Health Giving: \$850 billion
- Global Health Public Donor Rank: 3
- Global Education Giving: \$1.1 billion
- Global Education Public Donor Rank: 4

HEALTH OVERVIEW: DG DEVCO aligns much of its health programming to global initiatives, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Vaccine Alliance (GAVI). In addition, it funds projects in the area of maternal and child health, and its programs that ended between 2016 and 2017 reported that over three million births were attended by skilled health personnel, reducing maternal mortality.

EDUCATION OVERVIEW: DG DEVCO has a well-established commitment to education development and supports actions on education in approximately 100 countries through a number of its own funding instruments, including 60 countries where education is a focus for the programming period 2014-2020. The EU also funds and supports global education partnerships.

PUBLIC DONOR III: GLOBAL AFFAIRS CANADA (GAC)

AGENCY OVERVIEW: Global Affairs Canada (GAC) leads Canada's international development and humanitarian assistance. The Minister of International Development launched Canada's Feminist International Assistance Policy in June 2017. The goal of this ambitious new policy is poverty eradication. The policy refocuses assistance on the poorest, most vulnerable populations by promoting six interlinked areas for action: gender equality and the empowerment of women and girls; human dignity; growth that works for everyone; environment and climate action; inclusive governance; and peace and security.



GIVING SUMMARY (average annual Canada ODA for 2015-17):

- Total Bilateral Giving: \$2.9 billion
- Public Donor Rank: 12
- Global Health Giving: \$670 million
- Global Health Public Donor Rank: 5
- Global Education Giving: \$230 million
- Global Education Public Donor Rank: 10

HEALTH OVERVIEW: GAC's Human Dignity platform supports access to quality health care, nutrition and education, and principled, timely, needs-based humanitarian assistance that better addresses the needs and potential of women and girls. In 2017, it announced \$650 million over three years to support a comprehensive approach to sexual and reproductive health and rights of women and girls, including reproductive health services; safe, legal abortion and post-abortion care; family planning; comprehensive sexuality education; and prevention of all forms of sexual and gender-based violence. Additionally, Canada has supported the improvement of maternal, newborn, and child health, as reflected in its commitment to intensify efforts for 2015-20 by pledging to spend \$3.5 billion. This support has focused on strengthening health systems, reducing the burden of disease, improving nutrition, and improving data generation and use.

EDUCATION OVERVIEW: N/A

PUBLIC DONOR IV: BELGIAN DEVELOPMENT COOPERATION/ENABEL

AGENCY OVERVIEW: Enabel, the development agency that operates under the Belgian Development Cooperation, is Belgium's principal implementing arm that actively contributes to the SDGs. Fifty percent of its activities are implemented in "fragile" situations, defined by the OECD as a combination of exposure to risk and insufficient coping capacity of the state, system, and/or community to manage, absorb, or mitigate those risks. Fragility can lead to negative outcomes, including violence, the breakdown of institutions, displacement, and humanitarian crises. Approximately 65 percent of Enabel's activities occur in Africa. The European Commission also delegates certain development cooperation tasks to Enabel.

GIVING SUMMARY (average annual Belgium ODA for 2015-17):

- Total Bilateral Giving: \$1.3 billion
- Public Donor Rank: 18
- Global Health Giving: \$126 million
- Global Health Public Donor Rank: 14
- Global Education Giving: \$92 million



HEALTH OVERVIEW: Enabel works on better health-care systems in partner countries by supporting the provision of qualitative and accessible health care, effective insurance systems, quality infrastructure and equipment, and well-trained and motivated medical staff. Enabel also has specific programs to prevent the violation of women's rights, including the eradication of female genital mutilation.

EDUCATION OVERVIEW: Enabel's education work mainly focuses on the provision and improvement of technical and vocational education and training, as well as on quality improvement of basic and secondary education through teacher training, curriculum reform, and the introduction of student-centered teaching methods. Enabel also supports the construction and reconstruction of schools with a focus on student-friendly and green schools.

PUBLIC DONOR V: NORWEGIAN AGENCY FOR DEVELOPMENT COOPERATION (NORAD)

AGENCY OVERVIEW: The five thematic areas given priority in Norwegian development policy are health; education; private-sector development and job creation; climate, renewable energy, and the environment; and humanitarian aid. These five areas account for the majority of Norway's aid budget.

GIVING SUMMARY (average annual Norwegian ODA for 2015-17):

- Total Bilateral Giving: \$3.3 billion
- Public Donor Rank: 11
- Global Health Giving: \$204 million
- Global Health Public Donor Rank: 13
- Global Education Giving: \$400 million
- Global Education Public Donor Rank: 7

HEALTH OVERVIEW: Within the health portfolio, Norad has a mandated focus on reducing health inequities and reaching the poorest, most marginalized populations with development aid. Norway continues to promote good health for all and has made a special commitment to increase maternal, child, and women's health.

EDUCATION OVERVIEW: Norad focuses on schooling for all children, and improvement of education quality and learning outcomes in school. Norway was one of the founders of the International Task Force on Teachers for Education 2030 in 2008. The International Task Force on Teachers for EFA is an international alliance of stakeholders that works together to address the teacher gap to meet Education For All (EFA) goals. It aims



towards ensuring qualified, well-resourced teachers are available and supported in all countries to create and enrich the learning opportunities of every child, youth, and adult with the overall goal of achieving equal, just, and sustainable societies.

Profiles of Private Donors

PRIVATE DONOR 1: BLOOMBERG PHILANTHROPIES

DONOR OVERVIEW: Founded by Michael Bloomberg—the CEO of Bloomberg LLP, and former mayor of New York City—Bloomberg Philanthropies is a private foundation that invests in nearly 480 cities across more than 120 countries. It focuses its funding on the environment, public health, the arts, government innovation, and education.

GIVING SUMMARY (average annual amounts for 2013-15 per OECD 2018 Study):

- Total Bilateral Giving: \$140 million
- Private Donor Rank: 7
- Global Health Giving: \$100 million
- Global Health Private Donor Rank: 5

HEALTH OVERVIEW: Bloomberg Philanthropies' public health program aims to combat widespread health hazards, including a strong focus on tobacco control, road safety, maternal health, and obesity prevention programs. To help reduce maternal deaths and address the demand for reproductive health services, Bloomberg Philanthropies has committed more than \$60 million since 2006 to programs in Africa, Asia, and South America.

EDUCATION OVERVIEW: Bloomberg Philanthropies focuses all its education work in the United States.

PRIVATE DONOR II: CHILDREN'S INVESTMENT FUND FOUNDATION

DONOR OVERVIEW: The Children's Investment Fund Foundation (CIFF), established in 2002, is the largest philanthropy that exclusively focuses on improving the lives of children living in poverty in developing countries. CIFF categorizes its funding into four groups: Climate Change, Survive and Thrive, Child Protection, and Humanitarian Aid. The Survive and Thrive category accounts for most of their funding and includes nutrition, and maternal, newborn, and child health initiatives. This category also constitutes its education-related funding.



GIVING SUMMARY (average annual amounts for 2013-15 per OECD 2018 Study):

- Total Bilateral Giving: \$250 million
- Private Donor Rank: 2
- Global Child Health Giving: \$180 million
- Global Child Health Private Donor Rank: 2
- Global Child Education Giving: \$25 million
- Global Child Education Private Donor Rank: 7

HEALTH OVERVIEW: Through CIFF's Survive and Thrive portfolio, it invests in a variety of health initiatives. In nutrition, it partners with Power of Nutrition with the aim of preventing children from stunting. CIFF also focuses on reproductive health care and awareness. For example, one project called Choice 4 Change is working to increase awareness of and access to comprehensive sexual and reproductive health services in Kenya.

EDUCATION OVERVIEW: In education, CIFF aims to provide quality education at an early age. It has partnered with a variety of organizations, such as the Global Partnership for Education Funding and DFID, to develop early childhood education programs to scale using domestic resources across countries. CIFF works with governments, as well as through private sector innovation, such as the Bridge International Academies model of low-cost, pre-primary education to support government-run pre-primary schools.

PRIVATE DONOR III: IKEA FOUNDATION

DONOR OVERVIEW: IKEA Foundation is the philanthropic arm of the INGKA Foundation, the owner of the IKEA Group of companies. Originally only focused on architecture and interior design, the foundation today focuses on addressing the root causes of child labor and promoting children's rights and education. The foundation addresses four fundamental areas of a child's life: shelter, health, education, and a sustainable family income. IKEA Foundation supports programs in more than 40 countries.

GIVING SUMMARY (average annual amounts for 2013-15 per OECD 2018 Study):

- Total bilateral giving: \$135 million
- Private Donor Rank: 8
- Global CHILD Education giving: \$110 million
- Global CHILD Education Private Donor Rank: 1

HEALTH OVERVIEW: IKEA Foundation has partnered with organizations such as the Clinton Health Access Initiative (CHAI), UNICEF, and Rwandan Social Benefit Company



Inyenyeri to aid child health initiatives. For example, its partnership with CHAI included funding of €15 million to help children survive diarrhea and pneumonia in Africa and India.

EDUCATION OVERVIEW: IKEA Foundation also invests millions of euros in educating children in countries like Bangladesh, where child marriage is common. It also funds Right to Play, which is an organization that focuses on education for displaced children in refugee centers.

PRIVATE DONOR IV: MASTERCARD FOUNDATION

DONOR OVERVIEW: The MasterCard Foundation was created in 2006 by MasterCard International and is currently working in 29 African countries. It focuses on social infrastructure goals, including education, access to financial services, youth employability, and rural and agriculture financing.

GIVING SUMMARY (average annual amounts for 2013-15 per OECD 2018 Study):

- Total Bilateral Giving: \$180 million
- Private Donor Rank: 6
- Global CHILD Health Giving: \$11 million
- Global CHILD Health Private Donor Rank: 4
- Global CHILD Education Giving: \$60 million
- Global CHILD Education Private Donor Rank: 2

HEALTH OVERVIEW: Health programs are not a priority for the MasterCard Foundation.

EDUCATION OVERVIEW: The foundation's Innovations in Secondary Education (ISE) program advances new approaches to achieve equitable, high-quality secondary education, with a focus on marginalized and disadvantaged youth. Projects in this initiative work to increase access to secondary education and aim to elevate employability and entrepreneurial skills. ISE also supports innovative projects that seek to improve the motivation and professional development of teachers and that integrate technology into secondary school curricula.

PRIVATE DONOR V: ROCKEFELLER FOUNDATION

DONOR OVERVIEW: Founded in 1913, The Rockefeller Foundation works to solve global challenges related to health, food, power, and economic mobility. The foundation



is a science-driven philanthropy and actively promotes innovations and novel partnerships to accelerate breakthrough solutions.

GIVING SUMMARY (average annual amounts for 2013-15 per OECD 2018 Study):

- Total bilateral giving: \$120 million
- Private Donor Rank: 11

HEALTH OVERVIEW: Rockefeller's health sector programs include building an infrastructure of public health, eradicating diseases, and increasing access to health care. Through its initiatives in Health Equity and Transforming Health Systems, the foundation contributes significantly towards long-term goals of increasing global access to health care through e-health technology, and in working across borders to monitor the transmission of disease through its support of programs in disease surveillance. Tactically, the foundation supports innovative strategies that incentivize individuals, communities, governments, and funders to extend health access to all.

EDUCATION OVERVIEW: The foundation's funding in education is focused principally on scholarship initiatives.

PRIVATE DONOR VI: WELLCOME TRUST

DONOR OVERVIEW: Founded by Sir Henry Wellcome in 1936, the Trust focuses on scientific research funding at universities. The Wellcome Trust has an investment portfolio of over £20 billion. Its goal is to fund scientists' journey from discovery to impact in biomedical science, population health, and medical innovation.

GIVING SUMMARY (average annual amounts for 2013-15 per OECD 2018 Study):

Total Bilateral Giving: \$130 million

- Private Donor Rank: 9
- Global Health Giving: \$130 million
- Global Health Private Donor Rank: 4

HEALTH OVERVIEW: The Wellcome Trust has funded innovations in these areas of health: drugs and medicines, devices, diagnostic tests, and interventions that can change patients' behaviors. For example, the Wellcome Trust has supported an affordable, portable machine that solves issues caused by testing blood in hot, humid, dusty conditions. The machine enables the rapid diagnosis of HIV in newborns in Africa.

EDUCATION OVERVIEW: Wellcome Trust does not fund education programs.



APPENDIX B: PROFILES OF IMPLEMENTING ORGANIZATIONS

IMPLEMENTING ORGANIZATION I: PATH

OVERVIEW: Launched in 1977, PATH is a nonprofit health organization that delivers the expertise, resources, and innovations of private industry to improve health for all. It focuses on innovation, harnessing the power of data and digital tools, and forging partnerships across borders and sectors. Key aspects of its mission include defending against new disease threats and epidemics, creating models to transform health-care delivery, and fostering innovation. PATH has partnered with government leaders, social investors, grassroots groups, and businesses, and specializes in leveraging each partner's expertise to develop, deploy, and scale up innovations for health.

SECTOR AND PRACTICE AREAS: Malaria, Tuberculosis, Sexual and Reproductive Health, Diarrheal Diseases, Nutrition, and Early Childhood Development.

IMPLEMENTING ORGANIZATION II: POPULATION SERVICES INTERNATIONAL

OVERVIEW: PSI was founded in 1970 to improve reproductive health using commercial marketing strategies and now works in over 50 countries in the areas of malaria, family planning, HIV, diarrhea, pneumonia, and sanitation. PSI focuses on ensuring that health services and products are accompanied by robust communications and distribution efforts to drive wide acceptance and proper use. It has more than 8,000 staff that work with local governments, ministries of health, and other local organizations. Its major donors include the governments of the United States, the United Kingdom, Germany, and the Netherlands; the Global Fund to Fight AIDS, Tuberculosis, and Malaria; United Nations agencies; private foundations; corporations; and individuals.



SECTOR AND PRACTICE AREAS: Contraception, HIV and Sexually Transmitted Infections, Malaria, Non-communicable Diseases, Water, Sanitation and Hygiene, Maternal and Child Health, and Respiratory Illness.

IMPLEMENTING ORGANIZATION III: JHPIEGO

OVERVIEW: Founded in 1974, Jhpiego focuses on innovation to save the lives of women and families worldwide. Jhpiego is a nonprofit global leader in the creation and delivery of transformative health-care solutions. In partnership with national governments, health experts, and local communities, Jhpiego builds health providers' skills and develops systems that save lives and guarantee healthier futures for women and their families.

SECTOR AND PRACTICE AREAS: Maternal, Newborn, and Child Health; Family Planning and Reproductive Health; Cervical Cancer; HIV/AIDS and Infectious Disease; Malaria; Gender; Digital Health; and Urban Health and Communities.

IMPLEMENTING ORGANIZATION IV: MANAGEMENT SCIENCES FOR HEALTH

OVERVIEW: Management Sciences for Health (MSH) is a nonprofit organization that works with countries and communities to save lives and improve the health of the world's poorest, most vulnerable people by building strong, resilient, sustainable health systems. MSH seeks to achieve universal health coverage—equitable, affordable access to high-quality health services for all who need them—even in fragile, post-crisis settings. For more than 45 years in 150 countries, MSH has partnered with governments, civil society, the private sector, and thousands of health workers on locally-led solutions that expand access to medicines and services, improve quality of care, help prevent and control epidemics, support inspiring leadership and transparent governance, and foster informed, empowered, and healthier communities.

SECTOR AND PRACTICE AREAS: Health Systems Strengthening, Health Service Delivery, Pharmaceutical Management, Health-Care Financing, Women, Children and Adolescent Health, HIV/AIDS, TB, Malaria, and Family Planning/Reproductive Health.

IMPLEMENTING ORGANIZATION V: CHEMONICS INTERNATIONAL, INC.

OVERVIEW: Chemonics was founded in 1975 and has a network of more than 5,000 local specialists delivering results in nearly 70 countries. It is the implementer of USAID's largest-ever contract—which is currently being executed and targets global health—and has managed thousands of international development projects over its history.



SECTOR AND PRACTICE AREAS: Education and Youth, Environment and Natural Resources, Gender Equality, Health, Peace and Stability, Supply Chain Solutions, and Water.

IMPLEMENTING ORGANIZATION VI: FHI 360

OVERVIEW: Since 1971, FHI 360 has focused on innovative solutions to pressing human development challenges. In 1990, the FHI Foundation was founded using the proceeds from the sale of two for-profit companies spun off from FHI 360—a key example for how donor-backed projects can be commercialized to achieve scale. In 2011, Family Health International and the Academy for Educational Development joined to create FHI 360, expanding FHI’s capabilities to include education, economic development, civil society, and nutrition. In 2018, FHI launched FHI Ventures, a social enterprise accelerator supporting early-stage businesses with the potential for high impact and a commitment to delivering social and financial returns.

SECTOR AND PRACTICE AREAS: Civil Society, Communication and Social Marketing, Crisis Response, Economic Development, Education, Environment, Gender, Health, Nutrition, Research, Technology, and Youth.

IMPLEMENTING ORGANIZATION VII: JOHN SNOW INTERNATIONAL

OVERVIEW: John Snow, Inc., and its nonprofit, JSI Research & Training Institute, Inc., are public health management consulting and research organizations dedicated to improving the health of individuals and communities. Over 35 years, JSI has implemented projects in 106 countries and currently operates from eight US and more than 40 international offices, with more than 500 US-based professionals and 1,600 host country staff. JSI focuses on improving the health of individuals and communities. Its work in partnership with governments, organizations, and host-country experts is to improve quality, access, and equity of health systems.

SECTOR AND PRACTICE AREAS: Health Systems, Public-Private Partnerships, Communities, Facilities, Fragile States, Rural, Urban, and Workplaces.

IMPLEMENTING ORGANIZATION VIII: MERCY CORPS

OVERVIEW: Founded in 1979, Mercy Corps operates in more than 40 countries and focuses on building better lives and transforming communities for good. Mercy Corps operates a venture fund, which makes equity or convertible debt investments in and



supports early-stage ventures with the potential to solve important development problems. In addition, as an early source of capital for these ventures, Mercy Corps also provides technical support by leveraging its global network of 5,000 staff across 44 countries and the relationships they have built across the private and public sectors.

SECTOR AND PRACTICE AREAS: Maternal, Newborn and Child Health, Nutrition, Infectious Diseases, Water and Sanitation, Early Childhood Education, Women and Gender, and Food Security.

IMPLEMENTING ORGANIZATION IX: PALLADIUM GROUP

OVERVIEW: Palladium is a leading implementer of international development programs. Working in over 90 countries and across a broad range of sectors, it offers donor agencies global scale and in-house technical expertise. It works with corporations, governments, investors, communities, and civil society, and has a global network operating in over 90 countries. In addition, Palladium has built a capability to provide direct investment to projects originating from within its program's footprint—an example of the proposed commercialization process—and acquired the advisory business of Enclude Holdings, which is a key ingredient for eventually exiting these investments.

SECTOR AND PRACTICE AREAS: Education and Workforce Development, Health Financing, Health Policy, Health Markets, Impact Measurement, and Innovative Finance.

IMPLEMENTING ORGANIZATION X: RTI INTERNATIONAL

OVERVIEW: For 60 years, RTI has engaged in a range of domestic and international development projects, working with governments, companies, and other nonprofits to improve the human condition. RTI also has other business operations that are valuable in a commercialization context: RTI Health Solutions, Syntegrity, and RTI Innovation Advisors. In 2018, RTI spun off a new company—SWIR Vision Systems, Inc., to commercialize breakthrough infrared camera technology—an example of how donor-backed nonprofits can shepherd novel solutions to market.

SECTOR AND PRACTICE AREAS: Health, Education and Workforce Development, International Development, Energy Research, Environmental Sciences, Social and Justice Policy, Food Security and Agriculture, and Innovation Ecosystems.



IMPLEMENTING ORGANIZATION XI: SAVE THE CHILDREN

OVERVIEW: Founded in 1919, Save the Children’s mission is to inspire breakthroughs in the way the world treats children and achieves immediate and lasting change in their lives. Each year, Save the Children reaches more than 50 million children through its programs in child health, nutrition, education, poverty, protection, and humanitarian responses to emergencies in over 60 countries. In addition to these direct services, the organization works in child rights governance, campaigns, and advocacy to secure the rights of children across the globe.

SECTOR AND PRACTICE AREAS: Health and Nutrition, Education, Child Protection, Child Rights Governance, Advocacy, Child Poverty, Global Campaign, and Humanitarian Work.



APPENDIX C

IMPLEMENTING ORGANIZATION SURVEYS

Survey Questions:

HISTORICAL EXPERIENCE

1. My organization's thematic intervention focus includes (Check all that apply)
 - a. Health/health-related
 - b. Education/education-related
 - c. Child & youth focused
 - d. Other _____

2. My functional role within my organization includes
 - a. Board-level/Advisory of organization
 - b. Executive management of organization or program
 - c. Project management/Execution
 - d. Business development/Proposal capture
 - e. Organizational support (i.e., HR, Finance, IT)
 - f. Monitoring & Evaluation/Metrics
 - g. Innovative Finance/Results-based Finance
 - h. Supply Chain (i.e., vendor management)
 - i. Graduation (i.e., transitioning from donor funding)
 - j. Other _____

3. My organization defines impact investments as “investments with a positive and measurable social impact and... (Check all that apply):
 - a. repayment of invested capital
 - b. positive economic return on invested capital that can be below market risk-adjusted returns
 - c. market risk-adjusted returns on invested capital



4. My organization's impact investing experience within the last 4 years can be described as (Check all that apply):
 - a. No experience
 - b. Some experience (i.e., less than 4 transactions) as a recipient of impact investments
 - c. Extensive experience (i.e., 4 or more transactions) as a recipient of impact investments
 - d. Some experience (i.e., less than 4 transactions) as an impact investor
 - e. Extensive experience (i.e., 4 or more transactions) as an impact investor

5. My organization defines commercial business models as (Check all that apply):
 1. Business model that is commercially sustainable, organically, with no outside funding
 2. Business model that is commercially sustainable but relies on cross-subsidization to achieve both its economic and social goals
 3. Business model that relies on some (less than 50%) cross-subsidization to achieve commercial viability
 4. None of the above

6. My organization could engage in commercialization in the following activity stage (Check all that apply):
 - a. Pre-incubation/design phase
 - b. Incubation/proof of concept
 - c. Post-incubation/scale-up
 - d. Commercial maturity
 - e. None of the above

7. My organization's experience within the last 4 years in commercializing donor-funded programs can be described as (Check all that apply):
 - a. None of our donor-funded programs have been commercialized
 - b. Some of our donor-funded programs have been fully or partially commercialized (i.e., less than 4)
 - c. Significant number of donor-funded programs have been fully or partially commercialized (i.e., 4 or more)
 - d. Experience commercializing donor-funded programs but will not be repeated
 - e. We prioritize finding ways to commercialize donor-funded programs or some element of these programs



MISSION, STRUCTURE, AND GOVERNANCE

8. My organization views the pursuit of its social mission and the commercialization of donor-funded programs or some element of these programs as (Check only ONE):
 - a. Conflicting activities (i.e., there is no way for our social mission and commercialization to overlap)
 - b. A way to extend our social impact but is not a core focus today and/or is not likely to be a core focus going forward
 - c. A way to extend our social impact and is a core focus today and/or will be a core focus going forward

9. My organization's structure & ability to commercialize donor-funded programs is best described as (Check only ONE):
 - a. We do not have the structure to allow our programs to be commercialized
 - b. We are building a structure to allow for some programs to be commercialized
 - c. We have a structure that enables some programs to be commercialized
 - d. We have a platform that systematically builds and commercializes programs

10. My organization's governance structure, policies and procedures, and the commercialization of donor-funded programs are best described as (Check only ONE):
 - a. Policies and/or procedures would need to be amended to permit such activities
 - b. Policies and/or procedures do not prohibit (or have been amended to permit) such activities
 - c. Unknown at this stage

COMMERCIALIZATION OPPORTUNITIES AND CHALLENGES

11. My organization is focusing (or could if prioritized) on the commercialization of (Check all that apply):
 - a. Spin-off organizational functions (e.g., M&E, IT, HR) as a commercial venture to serve ourselves and others
 - b. Spin-off program activities (e.g., last-mile delivery, social marketing) as a commercial venture to serve ourselves and others
 - c. Work with vendors (suppliers or other implementing partners) to commercialize efforts



- d. Support beneficiaries (as consumer, or with capital or technical assistance) in establishing or incubating enterprises that provide a product or service that is needed in a donor-funded program
- e. Support employees (as consumer, or with capital or technical assistance) in establishing or incubating
- f. Enterprises that provide a product or service that is needed in a donor-funded program

12. Rate from 1 (low) to 5 (high) each of the following challenges to the commercialization of the programs that your organization is implementing on behalf of donors:

1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5

- a. Sufficient economics/profits to attract commercial and/or impact investors
- b. Ability to reach scale (i.e., large addressable market and potential to reach the market)
- c. Organizational capabilities (i.e., commercialization know-how)
- d. Sufficient capital to support the commercialization process
- e. Stakeholder (donors/beneficiaries) buy-in/support of commercializing donor-funded programs

FINANCE AND ECONOMICS

13. The initial costs related to the commercialization of a donor-funded program would likely be (Check all that apply):

- a. Funded internally by your organization's resources
- b. Funded by external investors at a market risk-adjusted rate
- c. Funded by external investors at a concessionary rate (i.e., below market)
- d. Funded by external grant providers (i.e., donors)
- e. Funded through a combination of internal funds and external investors

14. The economic returns sought from commercialized donor-funded programs and the level of continued economic support and/or engagement with the spun-off entities is best described as (Check all that apply):

- a. Full cost recovery plus economic return from spin-off with no continued relationship thereafter
- b. Partial cost recovery when spun off with continued economic relationship/partial ownership going forward (i.e., post spin-off, both a provider of new capital and receiver of economic profits)
- c. Ongoing economic interest in the spun-off entity with no initial cost recovery



15. My organization's primary motivation for the commercialization of donor-funded programs is (Check all that apply):
- a. Financial returns
 - b. Financial returns to endow future social impact activities
 - c. More net funding brought to bear in achieving the commercialized program's social mission
 - d. More targeted/equitable social impact (i.e., more women, more indigenous people served)

HUMAN CAPITAL FOR COMMERCIALIZATION

16. Does my organization have the general know-how and time capacity to shift an activity from donor-financed to a commercially sustainable social impact project/effort (Check only ONE):
- a. Limited know-how and/or time capacity
 - b. Some but may need more
 - c. Mostly yes
 - d. Yes, full know-how and time capabilities are available
17. With regards to staff's production (R&D, Manufacturing) capabilities to execute a commercialization strategy, the overall organization or the dedicated program staff has: (Check only ONE)
- a. Limited know-how and/or time capacity
 - b. Some but may need more
 - c. Mostly yes
 - d. Yes, full know-how and time capabilities are available
18. With regards to staff's Sales & Marketing (Pricing, Advertising, Branding) capabilities to execute a commercialization strategy, the overall organization or the dedicated program staff has: (Check only ONE)
- a. Limited know-how and/or time capacity
 - b. Some but may need more
 - c. Mostly yes
 - d. Yes, full know-how and time capabilities are available



19. With regards to staff's financial capabilities (cost controls, margin thresholds) to execute a commercialization strategy, the overall organization or the dedicated program staff has (Check only ONE):

- a. Limited know-how and/or time capacity
- b. Some but may need more
- c. Mostly yes
- d. Yes, full know-how and time capabilities are available

20. With regards to staff's legal capabilities (compliance, reporting) to execute a commercialization strategy, the overall organization or the dedicated program staff has (Check only ONE):

- a. Limited know-how and/or time capacity
- b. Some but may need more
- c. Mostly yes
- d. Yes, full know-how and time capabilities are available

CORE COMPETENCIES

21. Rate from 1 (low) to 5 (high) the following attributes of your organization:

1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5

- a. Local market/community engagement and intelligence
- b. Global sector network
- c. Global commercial banking/investor network
- d. Sector (health, education, children) expertise
- e. Social impact measurement expertise
- f. Track-record of structuring and executing blended finance interventions

LEGAL / REGULATORY CONSTRAINTS

22. Rate from 1 (low) to 5 (high) the following grant contract related constraints you believe your organization may face in the commercialization of donor-funded programs:

1	2	3	4	5
1	2	3	4	5
1	2	3	4	5

- a. Covenants in the grant agreement restrict/limit your ability to profit from the commercialization of a grant-funded program
- b. Rights to grant-funded IP development are restricted under the grant agreement (i.e., do you own the IP?)
- c. Other



23. Rate from 1 (low) to 5 (high) the following legal/regulatory constraints you believe your organization may face in the commercialization of donor-funded programs:

1	2	3	4	5
1	2	3	4	5
1	2	3	4	5

- a. Local regulations would make operating as a commercial entity prohibitively complicated and/or costly (i.e., local regulations are likely to kill the economics)
- b. Local regulations would restrict/limit your organization's ability to retain partial ownership of, and/or hold an economic interest through options/warrants in the commercialized entity going forward
- c. Not legally mandated to operate in sector/region as a commercial entity

About the Authors

ARON BETRU is the managing director of the Center for Financial Markets at the Milken Institute. With more than 20 years of experience, Betru leads the Institute's Access to Capital work, which includes initiatives on Opportunity Zones and minority-owned banks, and other strategic innovative financing initiatives to enhance social impact, both in the US and in developing economies. Betru is a member of the steering group for the Blended Finance TaskForce launched by the Business & Sustainable Development Commission, as well as co-chair for the Partnership for Lending in Underserved Markets, a joint initiative of the Milken Institute and the US Small Business Administration. Prior to the Milken Institute, Betru was the co-founder and CEO at Financing for Development, specializing in innovative financing solutions for international development. Betru pioneered new ways of leveraging guarantee-backed financing of public health commodities, mobilizing millions of dollars in both commercial lending for malaria and trade financing for reproductive health. Betru's extensive experience includes international development roles at the United Nations Foundation, TechnoServe, and Dalberg Global Development Advisors, as well as private sector experience at McKinsey & Co. and Goldman Sachs. Betru is also a term member of the Council on Foreign Relations and a regular contributor to the Global Health and Diplomacy Magazine, writing on innovative finance in public health, as well as a contributor to the global dialogue on pandemic financing with speaking engagements at the National Academy of Sciences and Voice of America Interviews. Betru is a member of the Board of Directors for Calvert Impact Capital and FHI Foundation. He holds an MBA from Columbia University, an MA from Johns Hopkins University School of Advanced International Studies, and a BA in economics and international studies from Northwestern University.

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