



THE ROLE OF PRIVATE EQUITY IN EMERGING MARKET DEVELOPMENT

Raising the Bar: 2006 Social Enterprise Conference

Columbia Business School

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This year's Social Enterprise Conference, organized by members of the Columbia Business School community, brought together industry leaders, students, academics and practitioners to discuss strategies and challenges in three areas: social and environmental impact, leadership and ethics, and social capital markets.

The conference was organized by students in the Social Enterprise Club and the International Development Club, with support from the Social Enterprise Program and the Leadership and Ethics Board of the Sanford C. Bernstein & Co. Center for Leadership and Ethics.

Professor Scott Gallin opened the conference, moderating a panel entitled "Creative Approaches to Global Health Problems." The session explored innovative strategies to fund initiatives and combat global health problems. Panelists included Patricia Duquette, director of Women's Health and Global HIV/AIDS Initiative, Bristol-Myers Squibb Foundation; Susan Penfield, vice president at Booz Allen Hamilton; Peter Salama, chief of immunization and child survival at UNICEF; and Kate Taylor, senior director of the International AIDS Vaccine Initiative.

Conference participants then had an opportunity to attend one of three breakout sessions on topics such as "Multinationals and Corruption," "Succession Planning on Nonprofit Boards" and "Revisiting Corporate Social Responsibility."

Following a networking lunch participants were treated to the much-awaited keynote address by Jim Sinegal, president and CEO of Costco Wholesale Corporation and recipient of the 2006 Botwinick Prize in Business Ethics. Mr. Sinegal spoke about his experiences at Costco and his support for social enterprise.

In the afternoon, participants enjoyed a plethora of choices when it came to panel discussions. In the first of two afternoon breakout sessions, participants chose among three panels: "Renewable Energy," "The Role of Private Equity in Emerging Market Development" and "The Impact of Private Equity on Education." The second breakout session featured choices

from three additional panels covering the topics “Real Estate Investment and the Future of American Cities,” “Local Initiatives for Economic Empowerment” and “Bottom of the Pyramid: Merging Competitive Strategy with Social Mission.”

David Beim, professor of professional practice in the Finance and Economics Division, moderated the panel “The Role of Private Equity in Emerging Market Development.” The panelists were Thomas Barry, president and CEO of Zephyr Management; Peter Tropper, principal funds analyst in the private equity department of the International Finance Corporation; Bert van der Vaart, president and CEO of the Small Enterprise Assistance Funds; and Yasmina Zaidman, portfolio manager of the Acumen Fund. A summary of the panel follows.

The Changing Landscape

Twenty-five years ago development work was thought to be a state affair run by government- and service-based agencies. Economists’ studies, however, showed that foreign aid not only adds little value to a country’s growth rate but at times actually leads to corruption. These findings have contributed powerfully to the favor that private-sector approaches to development now enjoy on the world stage.

Measuring Success

Success is not easily quantified in social enterprise, according to Yasmina Zaidman. Her Acumen Fund uses a unique combination of financial, social and capacity-building factors to measure progress. On the financial end, a successful venture is one that has repaid its loans, turned a profit and succeeded in leveraging private capital. On the social end, a venture must solve a societal issue. And in terms of capacity building, the venture must improve production by at least a factor of 10. Using the example of a bed-net manufacturer in a malaria-prone region, Ms. Zaidman described how this company not only achieved measurable financial and volume success but, by being the first manufacturer to open a new distribution channel and sell directly to consumers (in addition to the traditional route of selling to aid agencies), also introduced a new way of solving a societal problem.

When measuring success, however, one must also take the attraction of investors into account. Thomas Barry of Zephyr Management noted that success is more often the return to investors that corresponds to the level of risk they are willing to undertake.

Notable Mistakes

The panelists shared with the audience some mistakes they experienced while navigating the emerging markets economic landscape. To the amusement of the audience, Peter Tropper of

the International Finance Corporation (IFC) described a situation in which the IFC, contracting with a manager, had foolishly included a clause stating that this manager can only be fired if he agrees to it. “Somebody obviously wasn’t paying attention!” Mr. Tropper said.

For Bert van der Vaart of Small Enterprise Assistance Funds, the most notable mistakes came in the early days when the company was willing to raise funds with too little capital. “When things go wrong you can lose a lot of credibility on the part of the investor At the end of the day if you don’t have a large enough budget to do the job, don’t do it!”

Recalling how important it is to have adequate incentives and well-trained management, Mr. Barry noted that his biggest mistake involved throwing good money after bad ideas. Ms. Zaidman concurred, sharing that the most notable mistakes occurred when her fund backed poor management teams. For example, she worked with entrepreneurs who were either very shy in terms of growing their business or were interested only in making a quick profit. In these situations, staged funding helps the Acumen Fund avoid unsuccessful deals by allowing for numerous checkpoints along the way.

Conflicts of Interest

The panelists discussed the inherent conflicts between social development goals and financial returns. Indeed, helping the poorest countries oftentimes means helping those with the most corrupt governments. All agreed that one must be careful about the signals one is sending.

The ultimate goal, according to Ms. Zaidman, is for economic and social development to happen together. “We try to help people develop sustainable enterprises, but their customers by definition are poor.” The term *poverty* encompasses those who make four dollars a day and those who make 25 cents a day, and this means that not everyone will be able to afford a given product. Ms. Zaidman acknowledged that not everyone can be helped at once: “The goal is to create a sustainable business that can reach at least part of the population base.”

“Incentives are a very powerful thing,” added Mr. van der Vaart. “You need to think of them carefully or you might end up with perverse results.”

Challenges to Consider

All the panelists agreed that the lack of exit opportunities is one of the biggest challenges they face. Capital markets are usually not a feasible exit option. One approach the group have used is to strategically sell the business venture to those interested in entering the region.

Another challenge deals with the lack of local talent to help run ventures. The best individuals, the group concurred, are those who have been trained by multinational corporations. This locally trained talent often reaches a glass ceiling. Realizing that advancing beyond a certain point in the corporation is unlikely, they are willing to consider working with the funds. To further address this challenge, the Acumen Fund just this year started a fellowship program to help cultivate much-needed talent.

Advice for Students

Some words of wisdom were shared with those students interested in entering the field. First, contrary to popular belief, there is little need for “financial yuppies.” What is in high demand is operational experience. If students are serious about the field, they should consider an operations-related position in a developing country. Issues around distribution and supply-chain management are far more important than financial modeling. An operations-related position in a large multinational corporation such as Unilever or Coca-Cola offers such experience. Finally, serious candidates should want to live in emerging markets and need to have the commitment and willingness to understand local issues. Competition for good jobs, all agreed, is quite fierce.

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