



# CSRI: A Multi-Stakeholder Pay-for-Impact Fund

## Transforming Corporate Social Responsibility into Corporate Social Impact

CSRI enables corporations to increase measurable social impact and reduce costs through participation in a multi-stakeholder, pay-for-impact investment fund. Our fund enables: companies to cost-efficiently scale their impact by partnering with sector specialists; investors to access stable and predictable returns; and society to benefit from a new shared model of value and accountability.

### Opportunity

The global scale of business has generated enormous profits and lifted millions from poverty, but also resulted in negative externalities including job losses, increased income inequality, and environmental damage. Corporations, investors, and social enterprises all seek to mitigate these negative externalities, but their efforts are often separate and fragmented. This presents an opportunity to unite these organizations in a joint effort to meet their impact goals.

- **Corporations** / Seek partners that facilitate and scale their sustainability and CSR objectives.
- **Investors** / Seek steady market rates of return and high-impact investment products.
- **Social Enterprises** / Seek funding and impact-aligned partners.

Failure to unite these efforts leads to waste, uncertain impact, and charges of “greenwashing.”

### Solution

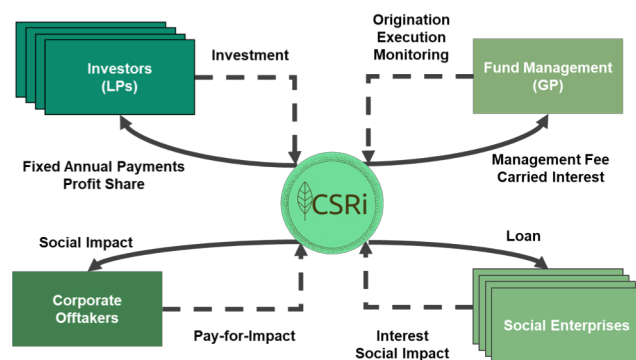
The fund relies on a two-pronged approach to drive social and financial returns:

**FIRST / Pay-for-impact model funded by corporate budgets:** large “Corporate Offtakers” pay a fee for each social impact goal (agreed with, and matching the CSR priorities and strategic aims of, the Corporate Offtaker) achieved by the fund’s portfolio.

**SECOND / Concessionary lending linked to impact:** capital is raised from third-party investors and deployed via a debt instrument that carries an above-market cost of debt, which decreases as borrowers meet specific social impact goals.

Combined, these mechanisms allow Corporate Offtakers to partner with impact and sector experts to implement their social impact priorities, paying only when specific, measurable results are achieved, thus reducing costs and overhead. Social enterprises benefit by accessing capital needed for growth at concessionary rates as their social impact scales, and by submitting to the discipline of quantitative impact goals. Lastly, investors receive a steady market rate return with the potential for upside.

### Fund Structure



**Social Enterprises:** For-profits or non-profits which require capital to scale, are committed to social impact, and who successfully complete the due diligence process (addressing financial sustainability, legal, operations, and social impact). The fund targets those geographies prioritized by the Corporate Offtaker.

**Corporate Offtakers:** Global corporations addressing social or environmental issues. The fund screens Corporate Offtakers based on social impact priorities and budgets, and their willingness to be accountable to rigorous impact reporting standards.

**Investors (LPs):** Impact investors, high net worth individuals, institutional investors and foundations, who receive a fixed return and a share of profits in the fund. Corporate Offtakers are welcome to invest too, thereby generating a return on their CSR and sustainability spending and creating a “shared value” model.

**Impact Outcomes:** Flexibility to focus on issues relevant to the Corporate Offtaker’s sector or impact goals. Annual impact audit of a representative sample of fund’s portfolio to ensure impact is achieved.

### Innovations

1. Shifts focus from a vague CSR “responsibility” to a rigorous, quantitative pay-for-impact model.
2. Offers investors a fixed and steady rate of return tied directly to ground level, quantifiable impact. Such products are historically rare at the impact level.
3. Has no need for grants, guarantees or concessionary capital from foundations. The model does not require government involvement and thus avoids risks associated with obtaining political support.
4. The model can be applied to a range of environmental or social issues according to Corporate Offtakers’ objectives, and thus affords significant scalability and diversified impact.

### Impact

**Social Impact versus Social Responsibility:** Our model enables corporations to elevate their social impact in an accountable and transparent way and only pay for confirmed, measurable results.

**Interest Alignment:** All stakeholders are incentivized to scale impact and ensure net impact is positive:

- As social enterprises increase impact and attain specified social metrics, Corporate Offtakers pay for that impact, resulting in a lower cost of debt for the social enterprises.
- Corporate Offtakers increase their net impact, which has associated marketing and business benefits.
- Fund manager’s (GP) and investors’ (LPs) profit scales with impact, as Corporate Offtaker payments offset lower interest payments.

**Impact Metrics:** Impact metrics will be developed specific to each portfolio to reflect appropriate targets for the set of social enterprises. We will leverage third-party impact tools (such as GIIN’s IRIS) to inform the design of our social impact metrics and report against evolving industry standards.

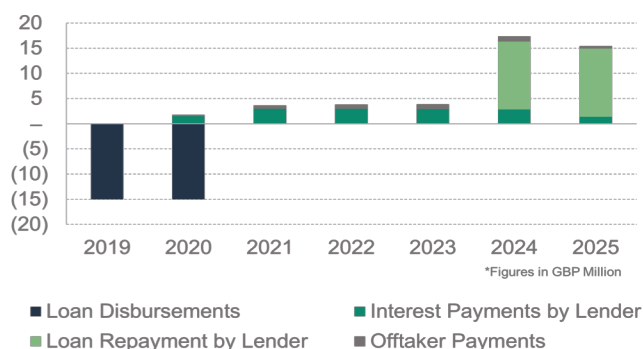
## CSRI Fund I: The Future of Work

A sample CSRI portfolio invests in UK social enterprises that provide job training for underprivileged populations, equipping them with skills needed for an evolving economy, and placing them into jobs. An ideal Corporate Offtaker for this example is UK-headquartered Unilever, which is recognized as a world leader in sustainable business practices, yet has received criticism for its social impact efforts' perceived shortcomings. Unilever has identified the future of work as a strategic priority for their value chain and has committed to identifying new ways of reskilling and redeploying talent. CSRI provides value to Unilever by: measuring, quantifying, and certifying impact; providing an opportunity to expand beyond their existing expertise via a de-risked model; leveraging external capital to tackle a systemic issue; and creating shared value by identifying potential synergies with their own strategic and operational goals.

### Key Fund Details

Fund Currency	GBP
Fund Size	£30,000,000
Term	7 years
Asset Class	Hybrid Fund
Fund IRR	11%
Target LP Returns	5% Guaranteed Return 7.8% Base Case IRR
Fees	Management Fee: 1.5% Carried Interest: 15.0%

### Fund I Cash Flows



### Projected Five Year Performance

Interest Payments	£14.5M
Offtaker Payments	£4.2M
Fund Expenses	£3.2M
Individuals Trained	100,000+ additional individuals
Job Placements	67,000+ additional individuals

### Portfolio Impact Metrics

- **Individuals Trained:** Number of beneficiaries trained over each calendar year (IRIS PI2998).
- **Job Placement Rate:** Percentage of beneficiaries placed in jobs each year (IRIS PI3527).
- **Beneficiary Annual Income:** Average change in salary of beneficiaries after being trained or placed.
- **Job Retention Rate:** Percentage of beneficiaries still employed after one year at the organization where they were placed.

## Scalability

As the importance of CSR has spread globally, companies have increased their CSR spending. Based on recent data, Fortune 500 companies spent \$15B on CSR<sup>1</sup>, FTSE companies spent \$2.5B<sup>2</sup>, and Indian companies spent \$1B<sup>3</sup>. CSRI has the potential to tap not only CSR budgets but also broader corporate resources, with the goal of leveraging private capital to address social impact and sustainability issues. CSRI can be used to address social issues that align with the Sustainable Development Goals (SDGs) and with Corporate Offtakers' strategic priorities, including but not limited to:

SDG	Social / Environmental Issue	Potential Corporate Offtakers
1: No Poverty	Financial Inclusion	Mastercard, Goldman Sachs
4: Quality Education	Childhood Education	Morgan Stanley, Tata Group, MUFG
13: Climate Action	Carbon Emissions Reduction	Toyota, Patagonia, Swire

## Risk Mitigation

Risk	Probability	Materiality	Mitigation
<b>CSRI Model Risks</b>			
Offtaker buy-in and continued interest	Medium	High	Fund tailored to Corporate Offtaker's CSR and strategic priorities Screening and active engagement with Corporate Offtaker
Perceived as greenwashing	Medium	Medium	Rigorous impact reporting, verified by third-party auditor Screening criteria for prospective Corporate Offtakers
Returns not high enough to attract capital to scale	Low	Medium	<b>Potential</b> incorporation of "first-loss" concessionary capital from Corporate Offtakers, philanthropic foundations, or development banks to improve returns for private investors
<b>Model Portfolio Risks</b>			
Borrower defaults	High	Medium	Stringent due diligence and diversification across borrowers minimizes risks Fund I can maintain annual 5% returns despite a 16.7% default rate
Macroeconomic and political risk (e.g., Brexit)	Medium	Medium	Social enterprises are selected based on resilience to, and ability to capitalize on, shocks which can boost demand for retraining and placement services

Notes: <sup>1</sup> CAF Online; <sup>2</sup> Huffington Post; <sup>3</sup> Economic Times.