
Enterprise Solutions to Scale

Lessons learned in catalysing sustainable solutions to global development challenges

Executive Summary



SHELL
FOUNDATION

2010

When Shell Foundation (SF) was established in 2000¹, we had ambitious objectives to catalyse scaleable and sustainable solutions to global development challenges. We set about doing this in ways that were new at the time by pioneering an enterprise-based² approach. We concentrated our efforts on tackling social and environmental issues in which the energy industry has a particular responsibility. We also sought to test whether we could harness value-adding links to our corporate parent to maximise charitable benefit.

We have learned a lot about trying to achieve scale and sustainability over the past decade. In keeping with our business principles that enshrine transparency we feel it of value to share our experience. This report highlights, therefore, not only our success stories but also the lessons learned from failure.

Scale means different things to different people. For us, scale is about delivering cost-efficient solutions that impact large numbers of beneficiaries in multiple locations in ways that are ultimately financially viable and self-sustaining. To try and ensure we do not over-report success, only those initiatives that meet all of the following criteria are judged to have achieved the goal of scale:

- Large-scale development outcomes (measurable)
- Multiple country and/or regional operations (measurable)
- Earned income derived from the market (measurable)
- Leverage that matches or exceeds our grant contribution (measurable)
- Management team has competence to execute the venture (subjective)

SF has committed almost US\$111.9 million since inception (see Appendices for further details). To ensure we assess our performance most accurately, this report only covers the US\$78 million committed to initiatives that targeted achieving scale from the outset and which were completed by end 2008. Of this total, 65% achieved scale according to our evaluation criteria, 19% was implemented successfully but showed no evidence of going to scale, and 16% failed to achieve intended outcomes. But underlying these percentages are considerable changes in performance over time that resulted from us adapting our strategy in response to the lessons we learned.

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- 1 Royal Dutch Shell PLC established Shell Foundation (SF) as a UK charity in June 2000 with the objective of protecting and preserving the environment and public health by means of education and research into the provision and use of energy in ways that reduce or eliminate harmful emissions.
 - 2 By enterprise-based we mean a solution that treats the poor as customers not beneficiaries, is based on a viable business model implemented by a committed, competent and disciplined management team, and which from the outset is designed to achieve long-term financial viability that is the basis for scale-up and an exit from subsidy dependence.



Lima Feeds is a Kenyan business supported by GroFin.

In our inception phase (from 2000 to end 2002) – where we largely provided short-term project-based support to multiple not-for-profit organisations – 80% of the initiatives we supported failed to achieve scale or sustainability. This reflected either poor execution or lack of market demand for the proffered products and services. Having changed our strategy to focus on co-developing and implementing new business models with a few carefully selected strategic partners, we now find that 80% of our grants meet our criteria for having achieved scale or sustainability.

Today, two of our strategic partners (EMBARQ³ and GroFin⁴) have achieved verifiable global scale and sustainability and two others (Envirofit⁵ and The Better Trading Company⁶) are well advanced in this respect. While we are proud of

their progress, we believe we can still do more to enhance our overall performance and create more scaleable and sustainable pioneers. Our success to date reinforces our view that while scale can be achieved through public sector programmes and community-based initiatives, the greatest untapped opportunity lies in developing more enterprise-based solutions.

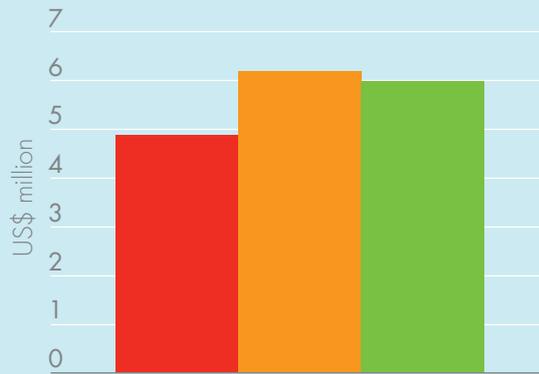
We certainly do not claim that everything we have done has been successful or that we have all the answers. But we have identified some common features underpinning the success of some of our partnerships which we hope may be of interest to others seeking to achieve scale and sustainability.

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- 3 **EMBARQ** aims to improve the quality of life of people living and working in mega-cities in developing countries through the implementation of sustainable solutions to urban mobility.
 - 4 **GroFin** supports the start-up and growth of viable small and medium sized enterprises (SMEs) in emerging economies as a means of enhancing sustainable employment and livelihoods.
 - 5 **Envirofit** aims to achieve a significant long-term reduction in the incidence of Indoor Air Pollution (IAP) at the global level through the market-based development, production and sale of high-quality, durable and affordable improved cookstoves.
 - 6 **The Better Trading Company** acts as an ethical intermediary to help build sustainable supply chains that are both good for business and help to eradicate poverty.

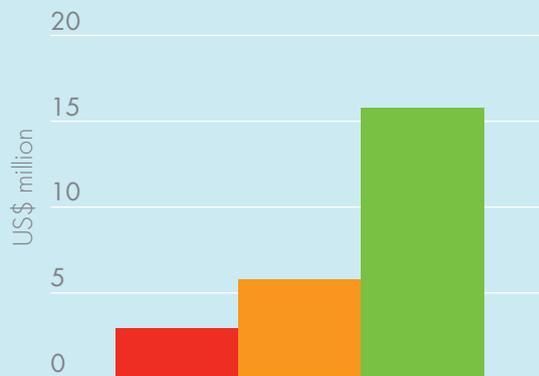
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Performance by Amount*:

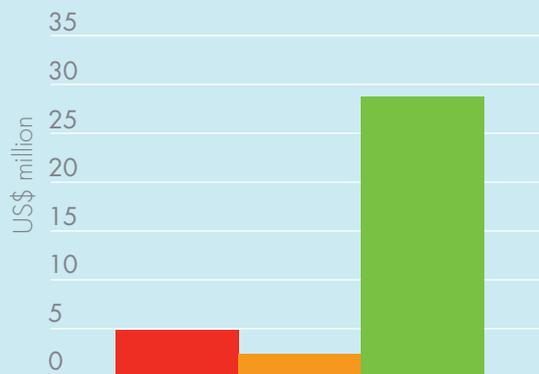
Phase 1: 2000-2002



Phase 2: 2003-2005

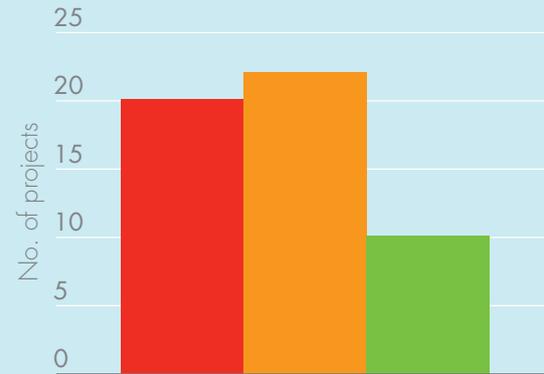


Phase 3: 2006-2008

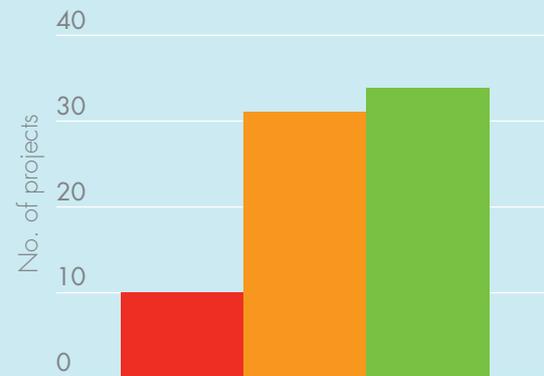


Performance by Count:

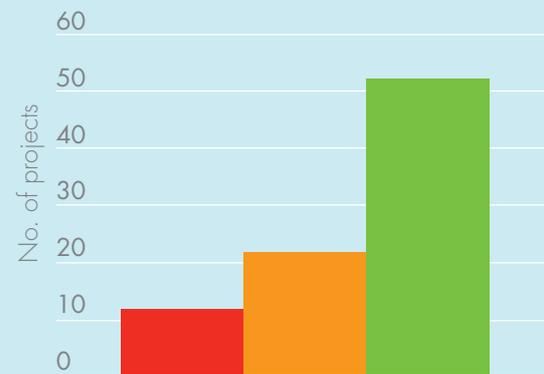
Phase 1: 2000-2002



Phase 1: 2003-2005



Phase 3: 2006-2008



*N.B. Performance in Phase 1 was positively skewed by the success of a single grant awarded to WVRI/EMBARQ of US\$3.75 million in 2002.

Grants/investments were judged to be green if they met our criteria for scale and sustainability (outlined in Page 1). Large-scale development outcomes were measured by evaluating results against pre-agreed performance benchmarks.

- Green** Achieved scale/sustainability
- Orange** Achieved intended project objectives but no evidence of scale
- Red** Failed to meet intended project objectives

Catalysing Disruptive Change Through Angel Philanthropy

The importance of “new”...

We find it striking that in every instance where partnerships achieved scale and measurable social impact it has been with newly created entities that we helped co-found using new business models we co-developed. In all cases we were also the sole partner and subsidy⁷ provider during the development and testing of these business models. By contrast, despite our various efforts, we have never succeeded in helping an existing organisation go to scale. We believe that angel philanthropy⁸ has significant potential to catalyse scaleable solutions to global development challenges.

...and getting the right entrepreneur as a partner...

Testing new solutions with new partners in new markets is inevitably risky. Where we chose the wrong partner with insufficient business acumen, we failed. Our partner selection process has thus evolved considerably such that now we look for entrepreneurial partners who focus entirely on the venture and share the start-up risk by investing their own resources in it. We no longer encourage unsolicited proposals but instead proactively use our

networks to identify the best people to partner with – although we admit we still have much to learn about the art of partner selection.

...who shares an aligned vision of scale

It is hugely important to have an aligned vision with partners, from the outset, with respect to achieving scale and sustainability. This means having a plan to achieve both social impact and financial viability from inception and which is subject to regular measurement and reporting. It is also based on recruiting the best staff and developing the most efficient operating systems essential for managing the complex multiple location operations that scale entails. Where we have partnered with individuals or organisations who did not share this early ambition to achieve scale, we found it virtually impossible to “retrofit” the subsequent capacity needed to achieve it.

7 Our use of the term subsidy refers to the provision of grants (our primary financial instrument) but could equally refer to “patient capital” as deployed by others.

8 We define Angel Philanthropy as: Investing in a new venture without a proven track record or documented impact but with a new business-based concept, a new product in a new market which has the intrinsic goal of going to scale, achieving measurable social impact and becoming financially viable. By implication, this means investing considerable subsidy – including both grant finance and technical expertise – to prove the concept and that the market exists before the venture is then able to access second stage finance from the emerging class of impact investors.

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Building Sectoral Pioneers

Supporting the building of a sustainable enterprise...

We believe there is a need to deploy resources to build a sustainable enterprise rather than simply provide grants to subsidise the short-term provision of products or services. Building sustainable enterprises means investing in core capacity and systems as a pre-requisite for scale. It also requires additional input over and above grant finance in the form of business advice, market access and appropriate governance support. This means that large amounts of up-front subsidy as well as dedicated staff resources must be committed before verifiable developmental benefits start to materialise in the longer term.

...takes time, patience and considerable investment...

Building sustainable enterprises that can effectively address global development challenges takes time, patience and considerable investment. We have invested between US\$10 million and US\$15 million of grant support over five to seven years to help our strategic partners achieve scale and sustainability. Testing new partners to provide new services in new markets will always be difficult and a high risk approach. It requires our staff to understand fully, not only our partners' business models, but also the risks they face. Only then can we have the capacity to respond to changing circumstances and business challenges.

...and more than money

SF has invested considerable time in providing a range of expertise, business advice and skills-based support to our partners. We believe that this "more than money" approach forms a critical part of our differentiated business model and serves to significantly reduce the risk of working in a start-up environment. We have also sought to apply the



A Bus Rapid Transit system in Mexico City established by EMBARQ.

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same approach to harnessing our "independent yet linked" relationship with Shell. Our shared branding has been of tremendous value to our partners in leveraging support from others and opening doors. But we have also drawn on other Shell support including *pro bono* provision of skills, tools, market knowledge and networks. While this form of leverage has been far lower than originally expected – less than 17% of the projects that we funded over the past decade have drawn on such support – we hope to further exploit this opportunity in the future to support our partners.

From Subsidy to Earned Income



A strong market-based and value-chain approach underpins all the ventures we have supported that have gone to scale.

Local trader sells Envirofit cookstoves in India.

Adopting a market-based approach...

A strong market-based and value-chain approach underpins all the ventures we have supported that have gone to scale. This has reinforced our belief that only by offering good quality products or services to the poor that they value and can afford, can the financial viability that is essential for lasting and scaleable solutions be achieved. While our strategic partners comprise both not-for-profits and for-profits, they all share a common mindset around cost-efficiency, customer service and revenue generation.

...and targeting financial viability is paramount

We have found that a disciplined focus on financial returns and earned income is critical to ensure sustainability and an end to depending on subsidies. This shared commitment to financial viability has enabled our strategic partners to leverage investment from other parties. Over the past decade we have helped partners leverage over US\$1.2 billion of funding – with the majority of this for sustainable mobility initiatives (EMBARQ) or SME funds in Africa (managed by GroFin). In the latter case, this leverage has allowed us to exit as a subsidy provider entirely.

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Scale Is Not Enough

We now realise that achieving scale alone is not enough. No matter how successful our partners are at pioneering new business based solutions to development challenges, they alone will never fully address the un-served needs of the millions of poor people around the world. There is a need for wider system change. We have made some tentative steps in this direction, but recognise that more effort will be required by us and others to promote replication and overcome market barriers.

In summary, we believe that foundations have a hugely important role to play in supporting efforts to resolve global development challenges. We equally believe the current debate around the importance of “impact investing” will help mobilise capital from other sources towards these shared goals. But a very significant gap still remains between those organisations that give project-based subsidy to not-for-profit entities and those social investors that seek returns that are both developmental and financial. It is in this space that we see a vital role for angel philanthropy that is based on:

- Catalysing new enterprise-based solutions with new partners
- Deploying significant subsidy and “more than money” to achieve scale
- Adopting market-based approaches that aim for financial viability

We accept that angel philanthropy requires focus, patience and flexibility. We also acknowledge that it represents a high risk approach given the time needed to achieve developmental returns. But we believe that more angel philanthropists are needed to catalyse and support the growing number of social entrepreneurs until they are ready to source second stage finance from others. Opportunities exist for syndication between angel philanthropists and such impact investors.

When we undertook this exercise of documenting our experience we were unable to answer the simple



Workers in South Africa packing wild flowers for export thanks to ethical intermediary The Better Flower Company.

question “is our performance over the past decade good, average or poor in comparison to others?” We have found no widely accepted performance benchmarks for foundations or for programmes with common objectives. Equally we have found very few evaluations by other foundations that report both their successes and failures. While tackling global development challenges is hugely rewarding, we equally know it is not easy and our collective chances of success will increase if we share learning. We stand ready to work with others interested in developing, testing and deploying such comparative performance metrics.

We have learned a lot over the past decade that has helped us chart our journey for the next one:

- We will retain our enterprise-based approach and our focus on building strategic partnerships
- We will endeavour to do more to incubate, scale-up and spin-off strategic partnerships by enhancing our networks, facilitating dialogue between our partners and allocating time and effort to critical self-analysis
- We will seek to leverage greater value-adding support from Shell to achieve our mission

And we will continue to share our success and failure along the way.

Strategic partners



Sustainable solutions to urban mobility problems in developing mega-cities

Shell Foundation and the World Resources Institute co-created EMBARQ in 2002, a global network of transport experts that creates government-business-civil society partnerships to find sustainable solutions to urban mobility problems in over populated developing world cities. EMBARQ identifies, evaluates and implements comprehensive solutions to local transport problems within a three to five year time horizon. These include Bus Rapid Transit systems, bus retrofits, cycling and pedestrian infrastructure, improved public spaces and transport safety measures. EMBARQ now operates in 22 cities with a focus on Latin America and South-East Asia.

www.embarq.org



Reducing Indoor Air Pollution (IAP) through the sale of improved cookstoves

Shell Foundation co-founded Envirofit in 2007 as a global strategic partner to design, produce and distribute clean cookstoves, universally acknowledged as the most viable way to reduce IAP at scale. Envirofit produces durable clean cookstoves that currently retail for between US\$15-US\$30 in India. Compared to traditional cooking fires, these reduce emissions, improve fuel efficiency, and reduce cooking time significantly. With sales of over 150,000 stoves, Envirofit is now the market leader across India.

www.envirofit.org



Sustainable job creation through supporting SME sector development in Africa

Shell Foundation co-founded GroFin in 2004 as a specialist finance company providing both business development assistance and risk capital to viable small and medium enterprises (SMEs) in Africa. GroFin provides pre-investment business development assistance and mezzanine finance of between US\$100,000 to US\$1million through loans and cash flow based performance incentives irrespective of availability of collateral. GroFin currently has a total of US\$245 million under management in SME funds and 100 staff working across Africa.

www.GroFin.com



Pro-poor ethical trade: unlocking markets for developing country producers

Shell Foundation created the ethical agent, The Better Trading Company (TBTC) in 2007 to bridge the gap between international retailers and small agricultural producers in developing countries. In 2008, TBTC established The Better Flower Company (TBFC) focusing on high value-added niche products in the cut flowers sector. Ethical agents link producers to retailers by providing market intelligence and training while helping retailers access new products and improve supply chain management. Clients include UK retailer Waitrose, Woolworths South Africa and The Body Shop.

www.thebettertradingcompany.com
www.thebetterflowercompany.com

