



A SUSTAINABILITY CASE STUDY

By Henry Oguine, Business School Lausanne

Supervisor: Professor (Dr) Thomas Dyllick

University of St. Gallen, Switzerland

ACKNOWLEDGMENT

The author would like to acknowledge the support and collaboration of Mr. Michel Vandevair (Meso Impact Finance's Co-Managing Director). Michel not only provided access to materials and information about his company but was on hand to organise meetings and answer questions even at very short notice periods. His passion for the field of sustainable finance and Impact Investment in particular is exemplary and very commendable. The author also appreciates the efforts of Lisa Oldridge, a DBA cohort from Business School Lausanne who helped in proofreading and editing the document.

1. Introduction

This case study seeks to broaden the research stream and bring more insight into the field of sustainable finance, and its sub-sector of Impact Investment. At the heart of sustainable finance is the role the financial sector can play in making the world a more equitable and inclusive place using market and economic tools. Impact Investment, a targeted form of sustainable finance, entails intentionally investing in companies, funds, and businesses that address social, economic, and environmental issues facing humanity, in addition to providing a return to the investor.

The goal of this paper is to identify the core characteristics, achievements, values, and issues faced by a company that has engaged in impact investment, and share them with those organisations and individuals aspiring to learn about or engage in this field. Learning from, and replicating the successes of the company, can help bring the still young field of impact investment into the mainstream, thereby increasing its adoption as a tool to enable more economic participation. The question of how impact investment can be used as a tool to enable more and wider economic participation is the focal research topic of the author. Also, this paper contributes to the efforts of the faculty and research cohorts of Business School Lausanne in the field of sustainability.

The subject company of this case study, Meso Impact Finance (MIF) has been carefully screened and analysed so that its story can provide a learning experience not only for the academic community but also to the investment and (socio-economic /development) practitioners. As this case study is a part of a doctoral program, readers should be aware that it has been designed to comply with criteria prescribed by the Business School Lausanne in terms of structure and argument presentation.

This case study starts by reviewing the evolution and development of sustainable finance and its relationship with the subject company's business model. The next section introduces the subject company, its structure, history, development and evolution over time, and ends with a review of the social and financial values created by the company's investments. In the section that follows, the results of a sustainability-related survey conducted among the employees and stakeholders of the company are presented, with implications and conclusions. The goal of this survey, among other things, is to understand whether the company and its stakeholders are well aligned in sustainability-related strategies. The subsequent section of the case study attempts to situate the company in the Business Sustainability Typology (BST) grid proposed by Dyllick & Muff (2016). Finally, the document ends by reflecting on the lessons learned from the journey of the subject company, their relevance to practicing and aspiring impact investors, and how these lessons can lead to the mainstreaming of impact investment, thus enabling more economic participation among those individuals or communities not traditionally served by conventional providers of capital.

2. Evolution of Sustainable Finance

Before telling the story of Meso Impact Finance, this paper will explore the evolution of the field of sustainable finance to help readers understand its important contribution to the wider sector of sustainable development, and how and where the subject company fits into the sustainable finance ecosystem.

The roots of sustainable finance - Socially Responsible Investment

In its early years, sustainable finance began primarily as “activist investing” in the form of Socially Responsible Investment. This style of investment discouraged investment in (and encouraged divestment of) companies whose activities or products produced negative externalities, such as activities deemed to harm the environment.

Despite the efforts of activist investors and the inroads made by Socially Responsible Investing, progress has been slow: the environment continues to be depleted, poverty still abounds and global inequality continues to increase. In response to activist investors, some companies engaged in “greenwashing”, by way of adopting some energy saving measures, making donations to their local communities and NGOs, and other forms of Corporate Social Responsibility (CSR), not because of a genuine interest in protecting the environment or making the society more equitable, but rather to obtain the “license to operate” and maintain their market share. Despite some success on CSR measures, these companies continued their core business of producing products and engaging in business activities that were socially and environmentally harmful.

Given that Socially Responsible Investing was not producing the desired results, the sustainable financial industry had to find other ways of achieving its goal of financial inclusiveness, environmental safety, and poverty and inequality reduction. This, it can be argued, led to the concept and practice of Impact Investment, which is generally defined as intentionally investing capital in companies, funds and other financial vehicles that actively seek to address social, economic, and environmental issues.

The rise of the Microfinance sector

The oldest and arguably most popular tool of Impact Investment is microfinance, a sector pioneered by Mohamed Yunus in the 1970s. According to the World Bank (2007), about 4 billion people or 62% of the world’s population has an income of below \$3 260 per annum. This group of people is generally referred to as those at the bottom of the socioeconomic pyramid (BoP). Microfinance provides micro-credits, micro-savings, micro-loans and micro-insurance services to this group, and it is argued that access to formal financial services via the tools of microfinance can help free them from poverty and spark economic empowerment, growth and poverty reduction. The acceptance and success of microfinance led to Mohamed Yunus being awarded the Noble Prize in 2006.

This award and the promise that microfinance can be used as a tool for poverty reduction and economic empowerment led to the proliferation of microfinance banks and other microfinance intermediation vehicles. The argument that providing collateral-free loans and financial services to those who would otherwise would not have access to them would liberate those trapped in poverty drove the growth of microfinance to almost every country in the world. The acceptance of microfinance as a financially viable way of poverty reduction led to the entrance and the flow of funds from big financial institutions like Deutsche Bank and Citibank into the sector. That the poor and those without collateral and verifiable means of repayments had not historically been clients of big financial institutions and microfinance was heralded as a way of making these banks serve the poor.

Counterargument: Microfinance's leverage and impact is limited

Proponents of microfinance such as microfinance institutions (MFIs), microfinance banks, and microfinance intermediaries argued (and continue to argue) that microloans given to micro-entrepreneurs to start their own businesses will not only help them escape poverty, but encourage similar-minded individuals to start their own businesses, thus triggering a chain reaction that will eventually lead to wider economic development. They also argue that the availability of funds in the form of microcredits can lead to increased consumption and help drive local economies. However, there have been convincing counterarguments that microfinance has fallen short of expectations as a driving force for economic development and poverty reduction.

One such argument against microfinance as a tool for poverty alleviation is that it lacks leverage, with the size of the loans (micro-loans/credits) being too small to help start any business that can be effectively scaled up. Also, there have been arguments against the “consumption” effect of microloans as it seems to encourage over-consumption by those who lack the financial education to manage money properly. The case of over-indebtedness that led to the Indian microfinance crisis in 2010 is often cited as an example of the negative consumption effect of microfinance.

Some opponents of microfinance have said that microfinance has not delivered on its promises and that the success of some microfinance clients might have been caused by factors other than the microloans (Rosenberg, 2010; Morduch, 1998). Others have gone as far as saying that the success stories are mere hypes and not based on scientific and empirical verifications. They argue that if economic development and poverty alleviation were achieved by microfinance, based on the amount of capital so far deployed, they were achieved at very high financial costs.

To scientifically verify the higher consumption, access to education and other claims of microfinance clients, Morduch (1998) surveyed nearly 1800 households in Bangladesh that included those served by microfinance programs of Grameen Bank, the Bangladesh Rural Advancement Committee (BRAC), and the Bangladesh Rural Development Board (BRDB), together with a control group of households in areas not served by any microfinance programs. He found that households that were eligible to borrow and have access to microfinance programs did not have notably higher consumption levels than control households, and that for the most part, their children were no more likely to be in school. Relative to control groups, however, households eligible for microfinance loans had substantially (and significantly) lower variation in consumption and labour supply across seasons. Morduch concluded that the most important potential impact of the microfinance program was a

reduction in vulnerability among eligible households and not reduction of poverty. A reasonable conclusion that can be drawn from Murdoch's works is that microfinance products were used for income and consumption smoothing.

The idea that microcredits are mainly used by borrowers for income and consumption smoothing was strengthened by Rosenberg (2010). Commenting on the findings from the book, *Portfolios of the Poor: How the World's Poor Live on \$2 a Day* (Collins, Morduch, Rutherford, and Ruthven 2009); Rosenberg stated that *"whether or not financial (microfinance) services lift people out of poverty, they are vital tools in helping them cope with poverty. The poor use credit and savings not only to smooth consumption, but also to deal with emergencies like health problems and to accumulate the larger sums they need to seize opportunities (occasionally including business opportunities) and pay for big-ticket expenses like education, weddings, or funerals"*.

Further analysis in the *Portfolio of the Poor*, shows that *"for the diary households (households kept a diary of their finances in the book), flows into and out of financial instruments (mainly loans and savings) ranged from 75 to 500 percent of annual income. The poorer the household, the higher the percentage tended to be. This is based on the premise that the closer a household is to the edge of subsistence, the more it will have to scramble to keep basic consumption stable and to accumulate larger amounts when it needs them. Over the year, average diary household used 8 to 10 different types of financial instruments, and most types were used multiple times"*. He concluded by stating that *"the notion that microcredit brings loans to people who previously had no access to them is widespread, but mistaken, as is the notion that the strong majority of microloans are used for business purposes"*.

There have been other studies that have tried to verify the impact of microfinance loans on clients using randomised control trials. Dupas & Robinson (2009) found that there was a short-term welfare improvement in micro-savings (and not microcredit) clients. Karlan & Zinman (2008) found income improvements from small, high-interest consumer loans, but such loans are not usually thought of as microfinance (Rosenberg, 2010).

According to Macaskill (2015) *"one of the most damning examples of low-quality evidence concerns microcredit (that is, lending small amounts of money to the very poor, a form of microfinance). Intuitively, microcredit seems like it would be very cost-effective, and there were many anecdotes of people who'd receive microloans and used them to start businesses that, in turn, helped them escape poverty. But when high-quality studies were conducted, microcredit programs were shown to have little or no effect on income, consumption, health, or education. Rather than starting new companies, micro-loans are typically used to pay for extra consumption like food and health care, and the rate of interest in them is often very high. There's even concern that they can cause harm by providing a tempting short-term income boost at the expense of longer-term financial security: people take out a loan in order to pay for food or health care costs of family members, but then enter debt that they are unable to repay. The latest evidence suggests that, overall and on average, micro-lending does have small positive improvement on people's lives, but not the panacea that the anecdotes portray"*.

Based on the available information, it seems that there is no empirical evidence to conclude that microloans and microcredits have been used by its recipients mainly to start small businesses. Also, when they are used to start business, these microbusinesses are too small to be formalised and scaled up to generate the kind of economic development and empowerment promised by

proponents of microfinance. It can then be argued that to date, the impact of microfinance is at best mediocre when compared to the financial resources so far allocated to it. According to Rosenberg (2010) “if the only value proposition in microfinance were the claim that it raises poor people’s income and consumption by funding their microenterprises, then perhaps it would be best for donors, governments, and social investors to declare a moratorium on microfinance support until there is better evidence to think that the claim is true”.

With little empirical proof of the economic development effects of microfinance, it seems that impact investors needed to think of another mechanism through which to deliver the kind of impact that is needed to make the world a more inclusive and financially sustainable place.

SMEs - The “Missing Middle”

With the promotion of microfinance by NGOs, government and microfinance investment vehicles, big banks that traditionally financed large businesses started allocating some part of their financing portfolios to microfinance. The entrance of big banks into the microfinance field led to a “binary” financing regime in that loans are either provided to large businesses or microbusinesses, thus leaving Small and Medium Enterprises (SMEs) with little or no financing. This binary financing has created what is commonly called “The Missing Middle”.

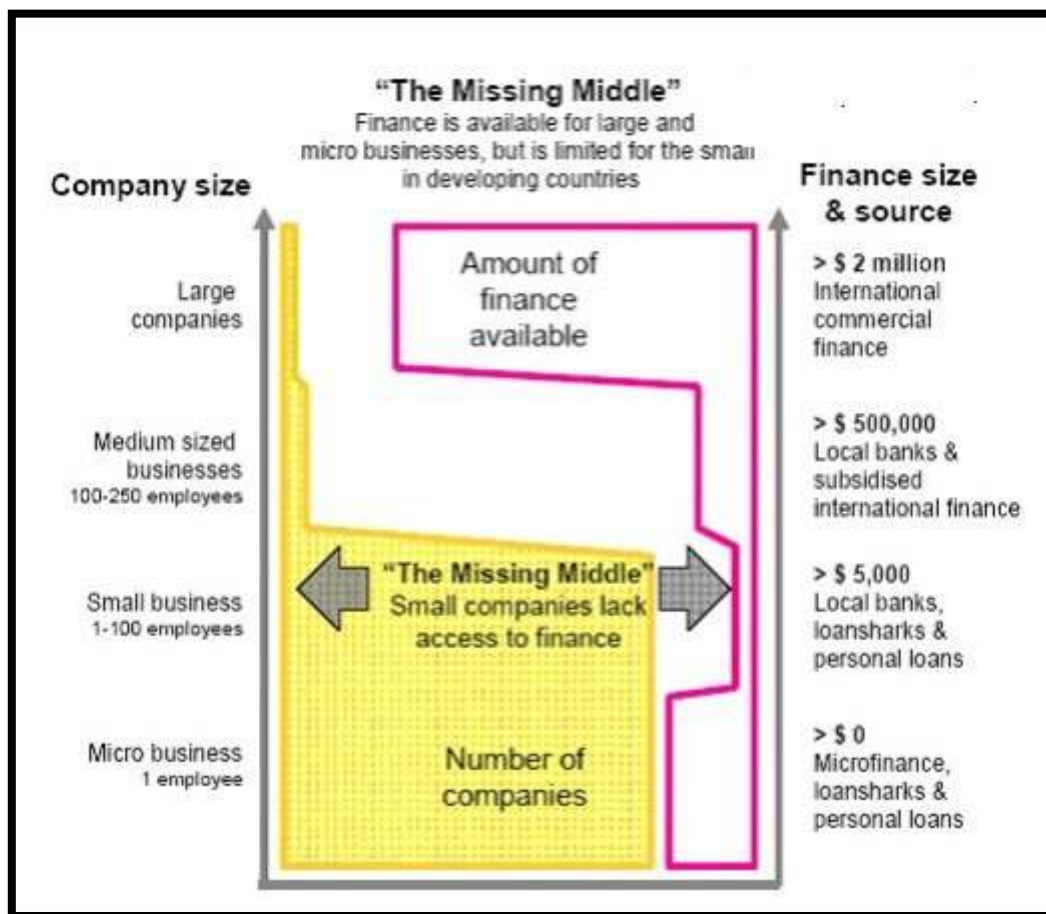


Figure 1. Meso-finance-Filling the Financial Service Gap for Small Businesses in Developing Countries (Sanders & Wagener, 2006).

Financing Small and Medium Enterprises (SMEs) is called Meso Financing. According to Sutton & Jenkins (2007) “meso finance or small and medium enterprise finance are loans and investments larger than micro loans, but smaller than would be profitable for large commercial financial institutions to make”. Advocates of SME financing (mainly SME Impact Investors and the like) argue that based on the economic path taken by developed nations and the economic needs of the developing nations, Meso Finance represents a more impactful alternative to microfinance for economic development. They further argue that for a reduction in inequality, poverty, and environmental degradation to be achieved, impact investors should redirect funds into SMEs because of the important roles they play in overall economic development. Based on the economic path taken by developed nations, redirecting funds from micro to meso financing represents a more targeted and realistic way of achieving economic development in developing and underdeveloped nations.

The potential economic reach and leverage of financing SMEs

According to Gustin (2007) developing countries have a large number of microenterprises and some large firms, but far fewer small and medium enterprises. In high-income countries, small and medium enterprises (SMEs) are responsible for over 50% of GDP and over 60% of employment, but in low income countries they are less than half of that: 30% of employment and 17% of GDP. Also, Pierre (2013) stated that in industrialised countries, small and medium enterprises are responsible for over 75% of the workforce and 95% of companies, while in emerging markets, SMEs are practically non-existent.

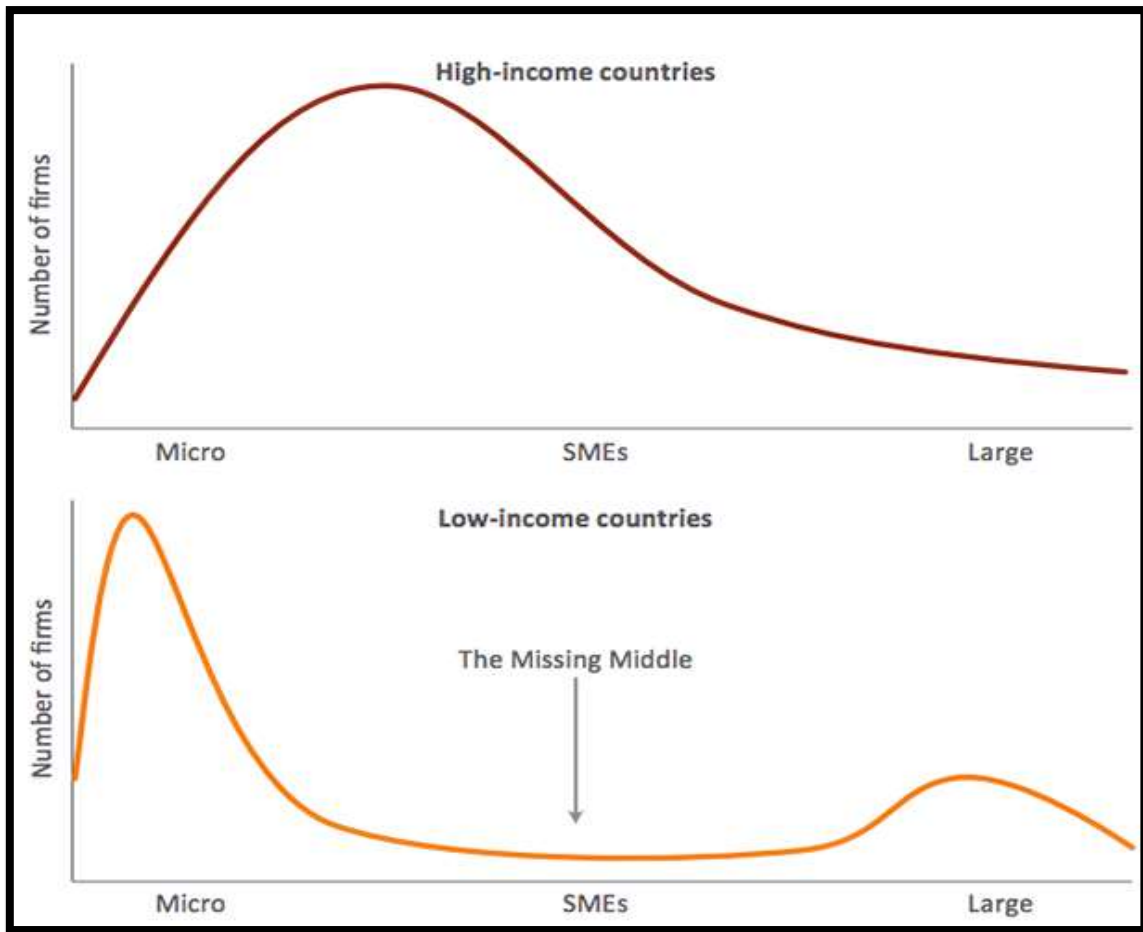


Figure 2: The missing middle in low-income economies (Dominicé & Minici, 2013).

According to the proponents of SME financing, to fill this missing middle and create the real impact sought by impact investors will require them moving from funding microfinance to funding meso finance.

The most important case made by proponents to convince impact investors (banks, MFIs, high net worth individuals, etc.) to channel funds into SME/meso financing is the overall economic developmental effect of SMEs. According to these proponents, while microfinance may be a good starting point, it does not go far or deep enough to create the type of economic development needed to lift the poor in the developing world out of poverty. While microloans may help smooth consumption and while micro entrepreneurs may employ one or two-family members, they argue that what is needed in developing countries is building an economic value chain (supply chain) and this can only be done by building the SME sector. It is this desire to “find and fund” the missing middle and trigger its potential for inclusive economic growth, that motivated the founders of Meso Impact Finance Luxembourg.

3. Meso Impact Finance, Luxembourg

This section of the case study will introduce Meso Impact Finance, provide an overview of how and why the Company began, and describe its business model. The information for this section was obtained from a series of interviews and discussions between the author and the managing partner of the Company, archival documents and materials provided by company representatives, and information from the Company's website: <http://www.mesoimpactfinance.com/>.

Meso Impact Finance is an unregulated financial company domiciled in Luxembourg. Incorporated in 2012, it is a cooperative society operating as a limited liability company. The company was formed with the sole purpose of financing small and medium enterprises (SME) that address social, economic or environmental issues in the emerging countries of the world. The Company is employee-owned, with core business operations managed by its founders and shareholders. The company operates from Luxembourg with its business activities/investments mainly in the Philippines with plans to expand to Peru. It has 16 owner/employees who undertakes the core business activities of the company such as investment and risk management, investment advisory, and impact investment capacity building consultancy services. Non-core activities are outsourced to external service providers, accounting services for instance is provided by Grant Thornton, a Luxembourg-based accounting firm. The company also has external investment advisors and subadvisors in the countries that it operates. Besides investment advisory, they also help the company with local due diligence and local stakeholder engagement.

The current team has significant and diverse experience. Michel Vandevour and Xavier Heude, two of the co-founders and majority shareholders with together 34% of the shares are Co-Managing Directors and Investment Managers of the Company. Michel and Xavier have extensive experience (more than 45 years combined) in SME-corporate banking, microfinance, investment funds, development aid projects, and project management in the banking sector.

A pool of Filipino-Vietnamese (five individuals located in Luxembourg, Switzerland, Belgium, and Manila) are led by Dennis Yaun, a Filipino and the third co-founder, who owns 14% of Meso Impact Finance. Dennis has more than 25-years' experience in the development/NGO sector in Asia and Latin America, and specialises in technical assistance (further details about the experience and background of the three co-founders appear below in the overview of the Company's history).

Jean-Pierre Verlaine owns 11.2% of Meso Impact Finance shares. He has over 20 years' experience in the fund and corporate services industry in Luxembourg, Germany, Italy, and UK with a strong track record in alternative investment. Mr. Verlaine is the founder and partner of Engelwood Luxembourg, an independent financial, fund and corporate services provider. He is also a Certified Independent Director as demanded by the Luxembourg institute of Directors (ILA) regulations.

LK How Cheong John owns 5.6% of Meso Impact Finance. John was a partner with KPMG Luxembourg for more than 20 years, including eight as a managing partner. Since 2012, he has been an independent non-executive director of entities operating in the financial sector under the umbrella of MDO Management Company (www.mdo-services.com). With a specialisation in investment funds, John is also a member of Luxembourg Institute of Directors. Robert Sojic, an actuary, owns 5.6% of the company. Robert has over 25 years' experience in the insurance sector with several qualifications in the field of quantitative techniques. He specialises in the development of mathematical and quantitative tools for SME businesses.

Marc Elshout, a custody network manager at KBC Securities, Brussels, owns 5.6% of Meso Impact Finance shares. Within KBC Securities, Marc has held positions in front office and operational risk management in Brussels, Luxembourg and London. Michel Ronker, a Luxembourg entrepreneur, and a pool of minority shareholders own 11.2% and 12.6% of the company respectively. Together, these employee-owners work for Meso Impact Finance in various capacities ranging from risk management, investment advisory, board membership etc. with non-core activities like accounting and operations outsourced to external service providers. As the company is still very early in its operations, Michel Vandevor and Xavier Heude run the daily business of the company while others work in committees that meet as and when required.

Meso Impact Finance also employs investment advisors and sub-advisors in the countries it operates. George Petty, the founder of Venture South International (VSI), is one of the external investment advisors. George has over 20 years of experience working in Asia and Latin America, overseeing portfolios, local companies and operations. Joshua Miguel Jongewaard (Bogota, Colombia) and Jose Rico Coligado (Philippines) are also external sub-advisors to Meso Impact Finance. Joshua has over 17 years' experience in investment management across North America, Latin America, Asia, and Europe. Previous experience includes investment and risk positions at Symbiotics Group, MicroVest Capital Management, and CarVal Investors LLC. Jose is the President of Negosyong Pinoy Finance Corporation (NPFC) Philippines and has managed over a \$30 million investment portfolio for Packaging Credit in Foreign Currency -PCFC- (PCFC is a borrowing facility provided by a financial institution to help an exporter finance the costs of buying or making a set of products, and then packing and transporting them before shipment) as a deputy regional manager for OikoCredit.

A vision was born - how the Company was founded

Meso Impact Finance came into being as a result of 12-years of discussions, professional association, and a shared passion for social development between Xavier Heude, Michel Vandevor, and Dennis Yaun.

Over the course of his 18-year career in corporate banking and operational efficiency, Xavier Heude developed a proprietary project appraisal methodology, including a scoring and monitoring tool, that aims at selecting business activities (start-up or going-concern) that generate a social/environmental impact in addition to an investment return.

In parallel to his professional career in banking, Xavier has been actively engaged in NGO activities. He has managed several projects in education and in microfinance (mainly in Vietnam) and has held mandates in key NGOs in Luxembourg. His activities within the NGO sector brought him in contact with several like-minded individuals that eventually led to the formation of Meso Impact Finance. Between 2003 and 2005, Mr. Heude undertook a master's degree in Ecological Economics and Sustainable Development Policy; the topic of his research paper was "Towards a definition of a

responsible investment". This study and research period inspired him to take the next steps in the corporate social responsibility (CSR) field. In 2007, he launched various CSR initiatives within the bank he worked for, the most prominent of them being the successful set-up and monitoring of the first Employee Volunteering Programme (EVP) ever launched in Luxembourg. The EVP involved about 2% of the total bank's staff bringing their professional skills together to transform a microfinance programme into a microfinance institution.

Dennis Yaun, a development management practitioner specialising in project management, microfinance and cooperative development, has more than 25 years of experience in the development/NGO sector. Of Philippine origin, Dennis has built an extensive network within the Vietnamese and Filipino communities in Luxembourg and around. He is highly respected for his efforts to get remittance as a tool for social development in the Philippines through his position in the Overseas Filipino Workers (OFWs) in Europe. (OFWs is a network of professionals of Philippines origin that live and work in Europe). Most importantly Mr. Yaun has an extensive network and knowledge of the socially and environmentally responsible enterprises in the Philippines as well as in the neighbouring Asian countries. Dennis met Xavier Heude during their time in Luxembourg NGO activities; his connections and reputation for integrity within the Philippine and Asian community within and around Luxembourg played a significant role in the set-up and initial investments of Meso Impact Finance.

Rounding out the co-founding team, Michel Vandevoir has spent over 20 years in the financial sector, with a focus on financial accounting, and in particular, the set-up of investment operations. He also brought extensive experience in the areas of custody and investment fund set-up and management. As a Luxembourg-based correspondent of the French NGO Entrepreneurs du Monde, an organization that specialises in social microfinance, Michel provided technical assistance to a microfinance project in Vietnam including training, internal controls and governance. Michel and Xavier Heude met in 2009 when Michel, then a team leader in a banking institution, joined the microfinance EVP organised by Xavier as one of the leaders. Michel took over the management of the EVP in 2011. With a strong technical background in financial services and accounting, Michel played a key role in transforming the EVP concept into a business model resulting in the launch of an investment fund dedicated to SME-oriented financial intermediaries.

The relationship between Xavier and Michel and the wish to support SME socio-economic development in emerging countries led them to decide to incorporate a company to take the idea to market. They transformed their idea into a concrete business plan and, helped by a contribution of a pool of four overseas Filipino shareholders lead by Dennis Yaun, Meso Impact Finance was incorporated in the fall of 2012 with Xavier Heude and Michel Vandevoir as co-managing directors, and Dennis Yaun as a co-founder and member of the investment committee.

Vision and Mission.

Not surprisingly for an investment company with such noble goals, Meso Impact Finance is very clear about its vision, mission and objectives. These are clearly articulated on the Company's website and in its documentation. Perhaps more tellingly, these principles clearly guide business and behaviour

of Meso's employees and key stakeholders, as was evident throughout the author's interactions with the Company.

Vision: Meso Impact's vision is "to contribute to positive economic and human development by investing directly or indirectly into SMEs in emerging economies". According to Meso Impact Finance ... [there is]no future on this planet if we don't take care of natural resources and social cohesion between people..." In particular they want to *inspire and support the development of a sustainable economic model by helping channel financial flows to business activities that really build a social and environmental strategy*". To achieve this, the Company hopes to continually assess and monitor the social performance and the environmental impact of its investee companies and to provide appropriate support to the entrepreneurs who have consciously put that concern at the very centre of their business model.

Mission: The mission of the company is "to provide credit products which empower SMEs (including cooperatives) from the "missing middle" to grow up and reinforce their social and environmental footprints in the local economy".

Business Model

As is evident in their choice of company name, Meso's founders made a conscious decision to operate in the field of SME or Meso financing, as they believed this sector was where loans and credit could generate the most socio-economic leverage. As described earlier in this case study, SME loans or Meso debts are loans bigger than microloans offered by microfinance institutions and smaller than loans that commercial banks may consider profitable to engage in.

Within the SME financing space, Meso Impact Finance acts as an investment vehicle, raising funds from investors and providing these funds to financial institutions (mainly in the emerging countries) who in turn lend to small and medium enterprises that address a given social, economic or environmental issue. The figure below illustrates the SME investment space and where Meso Impact Finance fits within the value chain.

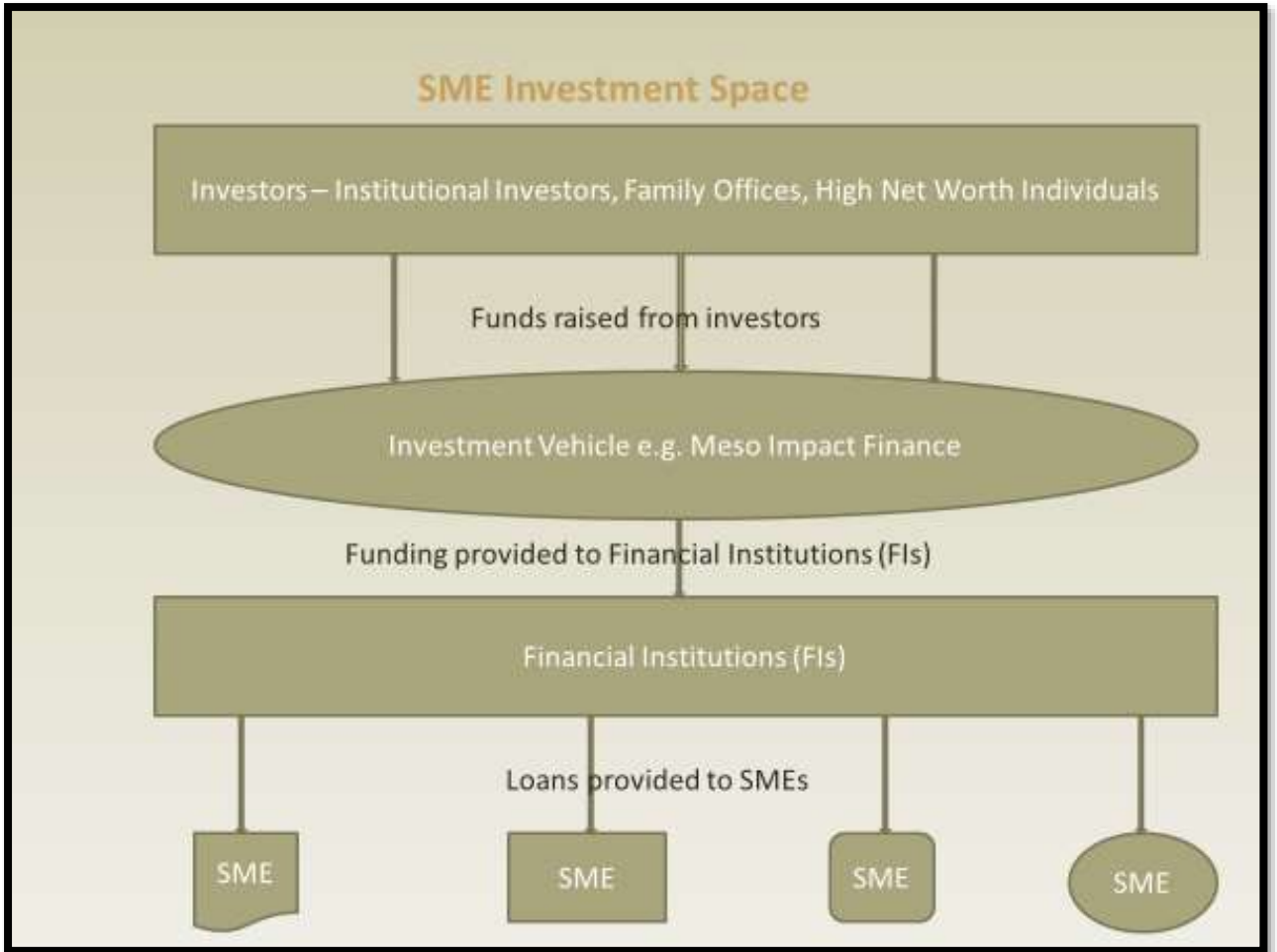


Figure 3: The SME investment space

The Company's target investors are organisations, individuals and foundations that believe that the financial market can play a role in bridging the SME financing gap in emerging countries and above all, that private capital can be used to address social and economic issues. They typically include the following:

- **Family offices and asset management boutiques** that seek to diversify their products and/or asset allocation towards alternative sound and meaningful investments.
- **Foundations and religious congregations.** These investors intend to use their endowments and grants to break down barriers and address basic social and environmental challenges. They tend to focus on the concrete outcomes of impact investments, including their financial returns. They also aim at supporting an ecosystem and investments that will catalyse additional capital to create long-term change.
- **Institutional investors that want to gain access to alternative investments via a third-party provider.** With slow economic growth and structural volatility, alternative investments are taking on new prominence within institutional plans. However, the deployment of alternative strategies increases the complexity of asset management and can be beyond the capability of some institutional investors, who may choose to outsource to a third-party, such as Meso Impact Finance, who provides in-house investment selection and due diligence capabilities.

The funds raised by Meso Impact Finance provide funding to financial institutions in developing countries that provide loans to small and medium enterprises addressing social, economic and environmental needs. These enterprises have historically lacked access to finance, or have been subject to usurious interest rates. The investment principles of Meso Impact Finance are based on points 2 and 3 of the International Finance Corporation's (IFC, a member of the World Bank Group) recommendations on how finance can lead to job creation and poverty alleviation. They are as follows:

1. Finance helps start new businesses
2. Finance helps businesses make larger investments
3. Finance provides businesses with liquidity, and
4. Finance supports indirect job creation through supply and distribution chains.

With these guiding principles, Meso targets and provides funding to financial institutions that provide loans to SMEs in developing countries. As a condition, the SMEs to be funded by an investee company of Meso Impact Finance must engage in sustainability-related business activities. More specifically, the funded SMEs must be involved in one of the following business activities, which are clearly stated in Meso Impact Finance's deal assessment and due diligence tools and questionnaires.:

- Businesses taking care of human health:
 - Farms using local resources and promoting local products, organic food etc.
 - Sustainable forestry and water supply
 - Eco-tourism
 - Community-based renewable energy
- Businesses taking care of everybody's condition of living:
 - Low-cost and eco-friendly housing and office construction
 - Housing furniture and garment manufacturing using local resources and environment-friendly processes
 - Set-up of smart mobility solutions (such as transport sharing systems at a community level)
 - Services to the elderly or disabled people
- Businesses taking care of access to education, culture and intellectual development:
 - Schools and training centre building programmes that support human values and a sustainable approach of life
 - "Second chance" vocational schools.

These sustainability-related social preconditions are not only important and required before an investee can receive funding but constantly monitored post-investment by investee reporting and site visits; measured and reported by the company using its integrated sustainability management tool DOMOS. Besides funding, the Company also provides technical and consultancy services to its investee financial institutions. Technical assistance is provided mainly in the areas of risk management (set-up of risk management, monitoring and reporting procedures) and in the setting up of social and environmental indicators. Consultancy services are provided in CSR (Corporate Social Responsibility) projects; research and surveys (market analysis, social/environmental KPIs etc.); professional and vocational training in sustainable and responsible investment (SRI).

Having reviewed the history and business model of Meso Impact Finance, the next section will look at the evolution of the company from inception to date and its planned future development.

4. Development over Time

As will be explained later in this case study, Meso Impact Finance was “born” a Business Sustainability (BST) 3.0 company (as defined in Dyllick/Muff’s BST Typology framework) and as such, did not undergo a sustainability *transformation* by way of change of business plan or strategy to address sustainability-related issues. However, like any other business, it went through its own stages of evolution from a mere idea into a functioning business.

The company’s development can be divided into the following 3 stages:

Phase I (2012 – 2014): Incorporation, Tool Building, and Deal Sourcing

Having developed an actionable business plan based upon the Employee Volunteer Programme operated by Xavier Heude’s company, in the fall of 2012, the founders of the company proceeded to formally incorporate and register Meso Impact Finance. With the Company registered, the founders engaged in building the necessary tools required for due diligence and investment assessments. These includes due diligence model tailored to the analysis of SMEs and financial intermediaries; credit risk management; and environmental and social management systems.

These tools were back-tested on projects in various business areas: agribusiness in the Philippines and in Africa; financial services in the Philippines; and web-based products and services in Europe. Although the Company made no investment during this period, according to the company’s co-managing director Michel Vandevor, the tools provided the Company with the right framework to raise the relevant questions needed for the research and the investment assessment process.

Phase II (2014 – 2015): Initial Investment

With the necessary social and financial tools in place to assess SMEs and intermediaries for investment, the Company was ready to make its initial investment, raising money mainly from the founders, its shareholders and members of the various professional networks to which they belonged. After carefully screening candidate financial intermediaries using its network of financial professionals and NGOs, Meso Impact Finance chose to invest in a Philippine-based intermediary called Negosyong Pinoy Finance Corporation (NPFC), an opportunity that had surfaced thanks to the relationship between the Meso’s founders and the European-based Filipino Overseas Workers.

According to the information from the website of its parent company Venture South International: *“NPFC intends to fill the gap between microfinance and commercial banking, i.e., the financing of a massive population of entrepreneurs who are too big for being catered by the microfinance institutions, but too small (and not well structured) for being eligible to conventional loan from banks...<http://www.venturesouth.net>. Furthermore, “as an ethical lender, [NPFC] shall strongly commit to become an active instrument of promoting and protecting the environment. As such, it shall incorporate in its modus operandi policies that will promote and protect the environment”.*

NPFC’s desired development impacts include the following:

- Employment creation/generation

- Conversion of informal enterprises into formal and registered ones (contribution to local economic development through payment of taxes)
- Promotion and growth of responsible Filipino SMEs
- Empowerment of women and out-of-school youths
- Equal opportunities to physically challenged individuals and minorities.

With the above guiding principles, the social and business strategies of the two companies were clearly well aligned. Meso Impact Finance made an initial loan of EUR 328 000.00 in 2014 and a second tranche of EUR 492 000.00 in 2015 to NPFC. As of December 31st, 2015, the Company's total holdings of EUR 820 000.00 equalled 51.06% of the total subscribed capital of NPFC.

The investment into NPFC was in the form of quasi-equity preferred shares which have no voting rights (except in cases provided for by the corporation code of the Philippines), but take precedence in the payment of dividends over the common shares. According to the Share Subscription Agreement signed between NPFC and Meso Impact Finance, the preferred shares earn a cumulative dividend at the rate of 10% gross per annum, resulting in 8.5% net (after deduction of withholding taxes).

Phase III (2016 – 2017): Change of Company Structure – From Meso Impact Finance to Backbone

Although it successfully raised two tranches of funds, Meso Impact finance found it difficult to raise additional funds. According to Michel Vandevor, the Company's co-managing director, it became clear that the current business plan was not scalable and they may not survive as a company if they depended on only shareholders and close networks for fundraising. It also became clear that the business structure was insufficiently robust for attracting sophisticated investors and institutional clients who required more formal business structures. Faced with this situation, the Company concluded that its strategy needed rethinking and its operations a total restructuring to be able to attract more investments, survive as a company and above all, achieve its goals of investing in SMEs that address social, environmental and economic issues.

With its survival at stake, the Company conducted a SWOT analysis of its corporate structure, its business environment, and the whole impact investment field. After analysing the outcome of the SWOT analysis, the Company came to the following conclusions:

To attract more investments, especially institutional and sophisticated investors, the founders concluded that a new vehicle was needed to structure investment instruments that would attract more investors and investments and above all, meet the need for formal structure required by these investors. Initially they wanted to operate as a cooperative organisation but realized they could not raise enough funds, and so chose to move to a private equity model, whereby funds have to be raised from external sources and investors and not solely from owners/shareholders.

They decided that this new structure would be based upon an evolving "backbone" philosophy of the role of SMEs, which they articulated as: *"it has been recognised everywhere that SMEs are the backbone of the economy while at the same time, they are underserved by the financial institutions. Overlooking the SMEs or ranging them in a higher risk segment than the large companies denotes a biased view of their economic role. They are the largest reservoir of jobs throughout the world"*.

Convinced that the creation of wealth at a large scale goes through SMEs and not through blue chip companies, Michel Vandevor and Xavier Heude, with the help of other private shareholders, co-founded “Backbone Luxembourg” as an advisory company to provide expertise to impact investment vehicles targeting SME segments with a double-bottom-line approach (to achieve both social and financial returns). With the foundation of Backbone Luxembourg, a new corporate structure emerged:

- Meso Impact Investment becomes the investment holding company; Backbone South SME the securitisation company, and Backbone Luxembourg the advisory company. These companies, however, maintained the legacies of Meso Impact Finance, including its logo
- To increase scale and reach in order to be able to profitably invest funds raised by the new investment vehicles, the founders realized the Company needed to widen its investment horizon beyond the Philippines. This led to the Company establishing a new relationship with an intermediary, Venture South, in Peru, and it is currently exploring the possibility of engaging further counterparties in a third country. The role of these local intermediaries will not only involve deal sourcing, due diligence and credit analysis, but will above all include local stakeholder engagement. Thus, the local intermediaries will be involved in the overall lending value chain.
- Another measure taken by the company was to update and reinforce its social performance indicators to align with the best practices as required by the Impact Reporting and Investment Standards (IRIS) to include the following:
 - **Production & business development:** a minimum of 25% of borrowings will be invested in new equipment and distribution services; a minimum of 50% of the fund’s borrowings will be for financing purchase orders
 - **Inclusive economic development:** new jobs created will increase by 25% after 5 years; number of small/low income local suppliers will increase by 25% after 5 years; suppliers will be treated responsibly by 100% of investee SMEs after 5 years; verifiable number of low-income local consumers reached with the basic products/services by investee SMEs
 - **Management & human development:** commitment to well-defined corporate social goals to be ensured by 100% of investee SMEs after 5 years; employees to be treated responsibly by 100% of investee SMEs after 5 years; social and financial performance will be balanced 100% by investee SMEs after 5 years.

The recommendations were implemented resulting in a company with a new operating model as indicated in the figure below:

Our Operating Model: Local partners are involved in Lending Value Chain

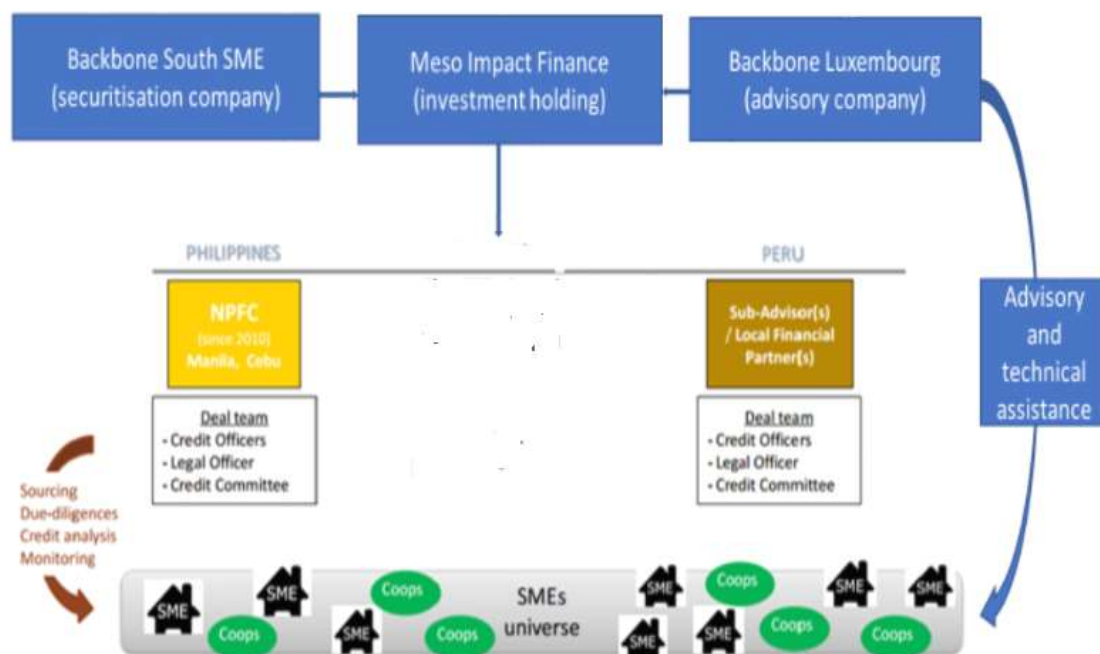


Figure 4: New operating model of Meso Impact Finance and the Backbone Groupe (Meso Impact Finance, 2016)

The newly restructured company also set an ambitious fund-raising target relative to the size and resources of the entity. The target was to raise up to \$10M by October 2017 and to be able to lend SMEs meaningful and impactful loans in the range of \$60 000 - \$150 000.

To realise these fundraising objectives and targets, the Company structured and issued impact investment-themed financial instruments called “Participation Notes”. Investors agree to buy these participatory notes and the remuneration they receive depends on the income of the securitization company. The expected annual return of these notes ranges between 6% and 7% in annually distributed interest. Given their risk and return profiles, these instruments were private placements of debts meant for institutional and sophisticated investors with a good knowledge of such instruments. The July 2016 note was successfully closed (fully subscribed) with the targeted amount of \$1.8 million raised by the Company. Also, according to Michel, by the end of October 2016, the company was close to successfully closing on the \$2.0 million November note. He went further to say that with the restructuring of its business plan, Meso Impact Finance would have raised and lent more money in 2016 than it had before 2016 since inception.

Meanwhile, the existing and new intermediaries had successfully screened and conducted due diligence on investable deals to absorb this newly raised capital. The screened investments included

ten SMEs in the Philippines, some of which had already received funding from Meso Impact Finance, and another ten in Peru that were screened and are currently going through the last stages of due diligence.

Phase IV (2017 – 2019): Replication and Geographical Expansion

Buoyed by the success of its fundraising and with the firm belief that it will successfully meet its fundraising targets for year-end 2017, the Company has rolled out a new fundraising and business plan for 2017-2019. It hopes to transform into a fully regulated company by 2019, thereby being able to attract institutional investments and be able to distribute its investment instruments through the European Undertakings for Collective Investment in Transferable Securities (UCITS) Passporting Directives. Under its 2017-2019 plan, Meso Impact Finance hopes to raise \$40 million and be able to offer loans in the range of \$150 000 to \$ 300 000 to SMEs. It also aims to expand its operations to a third country (depending on the availability partners and investable deals) and will explore the possibility of direct investment into SMEs.

The journey and development of Meso Impact Finance over time - the transformation of an idea into an actionable business, the rethinking and restructuring of the business plan and model to achieve scale, the plans to expand its product and services offerings and to offer bigger loans to SMEs to achieve more impact – demonstrates how a company adapted and changed its business model in order to promote impact investment as a tool for more economic participation and to deal with the challenges it faced along the way. Other companies and impact investors can learn from Meso Impact Finance’s experience, and adopt similar business strategies and models in their pursuit of promoting inclusive economic participation and growth needed to solve many of the sustainability issues facing humanity.

Having followed Meso Impact Finance’s evolution from an idea, through its incorporation as a company, to it raising and lending funds to SME and finally to its reengineering to include other sister companies, the next section will look at the social and economic performance of the capital the Company has so far deployed.

5. Investment Performance

As an impact investor, the performance of Meso Impact Finance should be assessed from both social and economic dimensions. Also, and more importantly, the concept of “Total Returns” in impact investment requires the summation of the positive financial and social/environmental returns of an investment (an investment can generate either positive or negative social/environmental returns). This measurement is often referred to as “*the two sides of the coin of impact investment*”.

Social Performance

Meso Impact Finance’s position in the SME lending value chain is such that is not in direct contact with the final recipients of the loans, hence the best way to assess the social and financial values created by its investments is to look at the social performance of the clients of its investees. As of

the time of writing this case, the recipients of funds so far deployed by Meso Impact Finance that are currently generating returns are through the Philippines-based company Negosyong Pinoy Finance Corporation (NPFC). According to NPFC, *“NPFC doesn’t just want to differentiate its financing services to that of traditional lenders; it commits itself in promoting impact lending. NPFC looks for concrete, positive, social and developmental impact being offered to the growing of businesses that it lends to...NPFC as an ethical lender shall strongly commit to become an active instrument of promoting and protecting the environment, as such, it shall incorporate in its modus operandi policies that will promote and protect the environment”*.

As stated earlier in this case study, Meso Impact Finance has so far raised and lent EUR 820 000 (about \$900 000.00) to NPFC for onward lending to SMEs that must fulfil some pre-set social and environmental conditions. These metrics include industry best standards according to Impact Reporting and Investment Standards (IRIS) [https://irisorg.thegiin./](https://irisorg.thegiin/); the International Finance Corporation - IFC (member of the World Bank Group) exclusion list <http://www.ifc.org/> and performance standards www.ifc.org/performancestandards; as well as applicable local laws, environment, health, safety and social issues. The IFC performance standards are directed towards clients/investors, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement. Below are the IFC performance standards:

- Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- Performance Standard 2: Labour and Working Conditions
- Performance Standard 3: Resource Efficiency and Pollution Prevention
- Performance Standard 4: Community Health, Safety, and Security
- Performance Standard 5: Land Acquisition and Involuntary Resettlement
- Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
- Performance Standard 7: Indigenous Peoples
- Performance Standard 8: Cultural Heritage.

Additional social criteria are also imposed by Meso Impact Finance. These include the number of local suppliers used; new jobs created; products and services accessible to low-income populations; percentage of women employed; and social inclusion through access to employment. According to the management of Meso Impact Finance, these additional social performance indicators were not only imposed as a differentiating strategy but most importantly, they are based on the company’s conviction that for SMEs to trigger any meaningful and impactful economic development, these conditions must be at least a starting point.

Updating its social performance indicators to include industry best practices and imposing additional company-specific requirements not only served as a differentiating strategy for Meso Impact Finance but also helped them convince new or sceptical investors that their funds will be placed where their desired social and economic goals are best met. According to the company, clearly stating and explaining these performance indicators was mainly responsible for the positive investors’ response to the participatory notes issued by the company. Adherence and compliance to these social performance indicators are not only required during due diligence and initial investments but are continuously monitored post-investment through investee reporting and by site

visits either by Meso Impact Investment employees or its partners in the country of investment. These social performance indicators are measured and periodically reported to investors and stakeholders using the company's proprietary and integrated sustainability management and reporting tool DOMOS. The company's sustainability management system, social performance indicator measurement, and reporting is envisioned to evolve over time to include deal/investor/investee-specific requirements. Having had a look at the sustainability criteria required from an SME to be eligible for investments from Meso Impact Finance, we will take a look at some of the clients of the Company's investee, NPFC.

Llaga International Sales and Service Corporation: Business – Stickers, Signage, Fabrication and Construction works. Llaga evolved from a simple sticker and signage business to manufacturing and contract works. The company secured a revolving credit line of \$ 96 000 from NPFC to finance purchase orders. The purchase orders include installation of boom gates and backdoor fence, repair of administration building restrooms, fabrication and installation of steel barricades and sound proofing of a mall's generator room. Llaga has created or maintained 20 new jobs, its workforce is made up of more than 50% vulnerable employees (e.g., illiterate, polio victims, ex-convicts and former drug users); and has 100% local suppliers.

Mondo Ventures Inc.: Business – Trading on imported stickers. Mondo ventures secured a loan of \$148 000 from NPFC for use as working capital to increase its buffer stock and to purchase new stickers to build up stocks in its new branch. Since 2012, the company has recorded steady growth with the opening of 2 new branches and expects further expansion in 2016 with the opening of 3 new branches in Luzon, the Visayas, and the Mindanao areas of Northern, Central, and Southern Philippines respectively. The company has created or maintained between 15 and 20 jobs of which 33% are held by women; 7 of its employees are from low income communities; 3 are disabled; 4 are illiterate; 3 have been long-time unemployed; 10 are single mothers.

Alforque Woodcraft Industries: Business – Cutting of limestone into stone tiles. The company is owned by the Alforque family. Mr. Marciano Alforque Jr. is the operations manager while his wife works as the finance manager. Marciano was not able to complete schooling because he had to work in an early age, and this experience has informed his company's social impact goals. He worked in different companies, locally and abroad to sustain the needs of his family. The company started its operation in 1998 from Lapu-Lapu City, Cebu Philippines. It was first engaged in carving and carpentry work with one employee, but as woodworks slowed down, it ventured into stone works. The company secured a revolving loan of \$60 000 from NPFC as working capital to fulfil purchase orders received. Specifically, the loan is used to purchase raw materials (limestones) and payment of wages. The company has about 72 employees and have created between 5 and 10 jobs yearly since its inception. 50% (36) of its employees are only elementary school graduates.

33 Points 3 Exports Inc. – Cebu Philippines: Business – Fashion accessories, housewares and gift items. The company manufactures fashion accessories, housewares and gift items from indigenous materials (shells, coconuts, woods, etc.) and exports them to buyers in Japan, Europe and USA. NPFC makes loans of between \$ 100 000 - \$ 200 000 to the company. Although 33 Point 3 Exports Inc. can access loans from banks, according to the owners, it prefers to work with NPFC due to its rapid response time and excellent client service. The company employs 125 people and another 300 families of weavers depend on its supply chain for sustenance. These weavers live in remote villages

and islands where there are little or no jobs and would not have any means of livelihood but for the business from 33 Points 3 Exports Inc. The company was awarded the “Socially Responsible Entrepreneur 2009” by its regional Chamber of Commerce.

South Pearl Properties: Business – Low Cost Housing Development. A client of NPFC, South Pearl is a low-cost housing developer that started business in 1987 with initial capital of \$ 100 000. Initially, it generated sufficient income from its real estate operations, but in 1998, the company began to build up sufficient land inventory to sustain its development. The company is valued at \$ 1 750 000 as at year end 2015 and owns 56 hectares of land in Sta. Rosa Conception Tarlac (South Manila) of which 25 hectares have been developed. The company design and builds different models of low cost housing and low-cost home financing packages for low income families.

Gloria de MATA Enterprises – Morong, Rizal (province near Manila): Business – Garment Production. Gloria De Mata took over the garment business in 2003 from her sister who migrated to USA. An important consideration for Gloria in rebuilding the business was to continue to provide employment for her neighbours, whose income depended on the business remaining open and viable. Her care for the neighbours also included taking on part time apprentices and to enable children of her seamstresses to continue with their schooling. This was all momentarily paused when in 2011 a fire burnt down her stall in Baclaran. All her stocks and important documents were burnt. It looked like the end of the business, but her concerns for the future of her workers made her decide to borrow money from her sister abroad. Through her perseverance, she was able to secure bulk orders from the provinces and this created the need for working with a financial institution that could support her. With the help of the \$ 3 400 loan from NPFC, she was able to increase the number of orders she could manage, this resulted in 5 additional full-time jobs.

Financial Performance

Since most of the funds raised by Meso Impact Finance have not yet been fully deployed and the investments made by the Company into NPFC are still in its early stages, it is early to assess the financial performance of the Company. However, according to the Share Subscription Agreement signed between NPFC and Meso Impact Finance, the preferred shares acquired by the Company in 2014 and 2015 earn a cumulative dividend at the rate of 10% gross per annum with a net dividend of 8.5% after taxation. So far, there has been no record of default in paying this annual dividend.

The proceeds from the profit participation notes issued by the Company (though not yet fully deployed), target a yearly dividend payment of between 6% and 7%. The returns on the initial loan and the targeted returns on the profit participation note, while seemingly modest, still represent healthy returns in an era of low interest rates. Moreover, the fact that investors can earn such returns while contributing to economic development and poverty alleviation shows that people can do well while doing good.

As a business, the income of Meso Impact Finance derives from the asset management and administration fees charged on assets under its management (AuM). As is typical within the financial services industry, the company’s asset management fees range from between 1.5% to 2% and administration fees are in the region of .5% per annum of AuM. The profitability and survival of Meso Impact Finance depends on the Company increasing its asset base. This it can do by convincing

investors that impact investment represents a socially and financial profitable way of investing and that the Company is the right vehicle to achieve this.

With the structuring and marketing of its participatory note, Meso Impact Finance is on the way to achieving scale; increasing its assets under management; increasing its fee base; and becoming profitable. This should not only help the Company increase its reach and impact but also contribute in making the world an economically more participatory and inclusive place.

After providing background on the methodology and aims of a sustainability-related survey administered as part of this case study, known as the SCALA™ survey, the following section will provide a summary and interpretation of response of the participants around the six SCALA indices, the open-ended questions, and questions added by BSL and the student. This section will end with a conclusion and possible recommendation to Meso Impact Finance based on the findings of the survey.

6. Employee Survey

As part of the case study, a sustainability-related survey was conducted with the employees and stakeholders of Meso Impact Finance, using the Sustainability Culture and Leadership Assessment (SCALA) methodology. The purpose of SCALA™ is to provide companies with information about their organization's current capacity for executing sustainability strategies. The assessment is based on benchmark data regarding the cultural characteristics that distinguish companies that have demonstrated leadership in sustainability.

The results of the assessment can be used to:

- *assess levels of change readiness to support sustainability*
- *measure levels of agreement and variation in perceptions across stakeholder groups*
- *identify areas of particular strength that can be leveraged to meet sustainability goals*
- *detect areas of possible concern that could be addressed to support sustainability goals* “(SCALA; the Sustainability Culture and Leadership Assessment Pilot, 2016)”.

The survey was conducted between the 29th of October and the 28th of November, 2016. The survey was open to all the employees of the company and some employees of its outsourced service providers. In all 16-people participated, 14 of the participants were from Meso Impact Finance while 2 were from its external service providers; of the 16 participants, 11 fully completed the survey while 1 completed a portion of the survey. This represented a response rate of between 69% and 75%. While this number of participants may appear small in normal circumstances, it is high in the private equity industry where companies tend to engage in the “active” side of the business and outsource non-core activities. Most importantly, it should be noted that the Company is relatively young with less than 5 years in operation.

The survey is comprised of 48 questions, 41 of which are standard SCALA questions; an additional 7 questions were added by Business School Lausanne (BSL) and the student to provide information on the perceptions of Meso Impact Finance employees and its stakeholders on factors that might

influence the following research question: “How can Impact Investment be used as a tool to enable more economic participation?”.

The survey was aimed at gaining insight into the Company’s perception of the research question; the alignment between the company and its stakeholders in sustainability-related goals; and its ability to execute sustainability-related strategies. A breakdown of the participants, their location and seniority are as follows:

- **Rank** – 3 C-level executives from Meso Impact Finance, 2 C-level executives from outsourced service providers, 2 senior management staffs, 1 mid-level management staff, 1 first line manager, 3 non-managerial staffs
- **Location** – 1 located in Asia Pacific region, 10 in Europe, one of the survey participant indicated his location as “global”.
- **Sex** – All of the participants are male
- **Age Range** – 3 of the participants are between 31 and 40 years old, 6 of them are between 45 and 50 years old while 3 of them are between 51 and 60 years old.

SCALA is organised around six dimensions:

1. Organisational leadership
2. Organisational systems
3. Organisational climate
4. Change readiness
5. Internal stakeholders
6. External stakeholders

Each item in the index is analysed. In general, items with large percentages in either the “disagree” categories, or the “neither agree nor disagree” category may indicate some vulnerability. It should be pointed out that since participation included 2 outsourced service providers, and since the company is still relatively young in its business operations, it is difficult to draw any definitive conclusions about the company’s sustainability culture based on the survey results. The results can, however, point to emerging trends within the organization that either need to be validated and strengthened or attended to as the company evolves. In addition to the administering of the SCALA survey, the author of the case study conducted interviews with representatives of the Company, and is thus somewhat equipped to infer and corroborate survey results with observations.

Readers should be aware that the participation of external service providers, who have not as much access to information as employees of Meso Impact Finance in the survey may be responsible for differences in opinion/response. Outsourced service providers may not be aware of software implementation projects within the company and projects like new product development that requires confidentiality may not be open to service providers as they may also be providing services to competitors. Hence, external service providers may respond differently to questions on topics such as these. Though not direct employees of the company, these external providers were included in the survey to get their perspective on the ability of Meso Impact Finance to execute sustainability-related strategies and also to see if their strategies are aligned with that of the company as they are a part of the company’s impact investment and sustainability value chain.

Organisational Leadership. Respondents score the company highly on organizational leadership, especially on issues relating to sustainability strategies. This may be due to the fact that the

company was born from a values system that prioritized sustainability-related issues, one which could be considered a category “Dyllick/Muff BST 3.0 company” (as will be discussed in the next section, a BST 3.0 company is defined by Dyllick/Muff (2016) as “truly sustainable company”).

All respondents agreed (45% strongly so) when asked if the leaders of the company have a clear vision of sustainability.

The company was also highly rated by the survey respondents when:

- asked if the leaders of the company take long-term views when making decisions (50% of the survey participants strongly agreed, 40% Meso Impact Finance employees also strongly agreed), and
- asked if the company has a clear business case for pursuing the goals of sustainability (42% of the survey participants strongly agreed. 40% of Meso Impact Finance employees strongly agreed while 60% agreed).

These responses are encouraging for a company as young as Meso Impact Finance. The nature of Meso Impact Finance’s business (financing SMEs) is one that involves long-term investment as companies must be funded, provided technical assistance and helped with capacity building in order that they survive, grow and scale. This requires a long-term perspective. Moreover, as sustainability-related investment was the company’s starting point, there had to be a clear business case for it to ensure the viability of the investee companies, and the attractiveness of the investment to investors, over the long term.

Though there is a high convergence of opinion between employees of Meso Impact Finance and its outsourced service providers on the subject of organisational leadership, a closer look at the result shows that these external participants seem more optimistic of the organisational leadership qualities of the company. For example, the percentage of response in the “strongly agreed” category significantly reduced when the response of only Meso Impact Finance employees is taken into consideration. This maybe that these external respondents may not have much insight into the company or that the employees of Meso Impact Finance have a more realistic view and understanding about the company’s leadership capacity.

In summary, respondents rated the leaders of the company highly in their leadership, knowledge and personal commitment to issues pertaining to sustainability. As stated earlier, this is not surprising, and likely due to the nature of the foundation of the company (BST 3.0). The founders and leaders of such companies most often start out with a strong knowledge about sustainability-related issues. They tend to be inspired towards and personally committed to the sustainability-related issues that their company sets out to address.

Organisational systems. There was a wide variation in opinions among respondents around the topic of organizational systems. While all respondents agreed (64% agreed and 36% strongly agreed) that the company has sustainability embedded in its operating procedures and policies, the same cannot be said of other questions relating to this topic. For instance:

- 45% of respondents agreed that the company has an enterprise-wide sustainability management system while 55% disagreed or neither agreed or disagreed

- 9% of respondents strongly agreed that the company integrated sustainability-related goals in its performance management system while 45% agreed and 36% neither agreed or disagreed and another 9% disagreed.

There was even a wider variation of opinions by respondents on whether compensation in the organization is linked to sustainability goals. Here, 9% strongly agreed, 27% agreed, 45% neither agreed or disagreed, 9% disagreed and another 9% strongly disagreed. This variation in opinion is very consistent even when the response of only employees of Meso Impact Finance is considered. For instance, when asked if the company has an enterprise-wide management system for sustainability, 33% of the respondents agreed while 67% disagreed. This trend was further confirmed in the question on whether the company has integrated sustainability-related goals into the performance management system, here 44% of the company's employees agreed, another 44% disagreed while 11% disagreed.

There seem to be a high degree of information asymmetry even among the employees of Meso Impact Finance on the topic of organisational systems. A post-SCALA meeting with the management of the company confirmed a recent deployment of an integrated sustainability management system DOMOS by Meso Impact Finance. It seems that this management system wasn't in place during the survey or that those responsible for its procurement did not inform other employees and stakeholders of its imminent implementation. Also, as it may be the case with young and growing companies, different people can be responsible for different things making information flow difficult. Finally, the fact that the company is very early into its business operations may be responsible for the lack of the required infrastructures and operational tools as they are capital intensive and hardly the priority of a young company focused on financial survival.

In summary, while there was a wide variation of opinion among respondents on the topic of organizational systems, they have some sustainability-related organizational systems in place; the variability in responses does indicate a lack of alignment and information asymmetry concerning this topic. There is surely an information and communication gap between the employees of Meso Impact Finance and between employees and stakeholders. Though still a young company, the information asymmetry between employees needs to be addressed urgently so that it will not pose more serious problems as the company matures.

Organisational climate. Based on the results of the survey, there seems to be a high convergence of opinion that Meso Impact Finance enjoys a good organizational climate. All of the responses to the question about trust were positive. In fact, more than half strongly agreed that trust is high in this company. More than 91% of the respondents agreed that a commitment to sustainability is essential for the company's success while only a few responded less positively to this question.

When asked if continual learning is a core focus of the company, more than half of the respondents either strongly agreed or agreed while less than one-third responded less positively, with about 9% of the respondents disagreeing that continual learning is a core focus of the organization. The pattern of response was similar when asked if employees of the company are encouraged to learn about sustainability from external sources. Here, more than half of the respondents either strongly agreed or agreed and about one-third neither agreed nor disagreed. Once again 9% of the respondents disagreed. It should be noted that this 9% really includes only one respondent due to the small numbers of participants.

The high level of trust within Meso Impact Finance may be due to the fact that the company is young with few employees. Also, the field of impact investment and sustainable finance tends to involve and attract people who are convinced that market-based approach can be used to address sustainability-related issues. Therefore, they likely have high value congruence.

A notable observation here is that less positive responses were obtained when the data from only the employees of Meso Impact Finance was analysed. When asked if people in the organisation are encouraged to learn more about sustainability from external sources, 33% neither agreed nor disagreed while 11% agreed. The same response pattern was observed when asked if continual learning is a core focus of the company. The significant number of respondents that were neutral or disagreed on the issues of continual learning and external learning should be explored further by the management of the company so as to understand and possibly address the drivers of such perceptions among its employees.

Change readiness. Unsurprisingly, there is a variation of opinion among respondents on the issue of change readiness. This may be related to the relatively young age of the company. Roughly a third of the respondents indicated that the company rewards innovation while the other 70% were neutral. At 78%, the percentage of those who were neutral for this question was higher for Meso Impact Investment employees. This relatively high percentage of neutral responses may signal that the company should explore these perceptions. When asked if the company has a strong record of implementing large-scale changes successfully, only 18% agreed. The remaining respondents were either neutral or disagreed.

On the other hand, when asked if the company has a strong track record of implementing incremental small and continuous changes successfully, more than half of the respondents agreed. Most of the others were neutral with only one respondent disagreeing. Over half of the respondents agreed that people in the company challenges the status quo while the others were neutral. The significant number of those that either disagreed or were neutral to this question highlights either an issue of communication and/or information asymmetry and should be explored further by the company with a goal of finding a lasting solution.

As indicated earlier, the results of the response on the topic of change readiness may be due to the age of the company. Young companies tend to implement operational changes incrementally as they mature, leaving little room for wholesale innovation and changes. The positive and encouraging conclusion that can be drawn here is that there is a high agreement among respondents that the company has a strong track record of implementing incremental small and continuous changes. Should this trend continue, the company might be in a position to implement the large-scale and innovative changes it will need to become a major player in its field.

Nonetheless, the high variability in opinions among respondents may also indicate a weak change-readiness. The management of the company might pay more attention to the change-related issues in order to understand the reason for this high variability in response.

Internal Stakeholders. There was strong consensus (90%) on the company's ability to engage its internal stakeholders on sustainability-related efforts. A smaller majority (72%) of the respondents believe that the company has a clear strategy for engaging them in their efforts. However, a few did not choose the positive responses to this question. Almost all respondents understand how their

work connects with the sustainability goals and a strong majority believe that the company values their contribution.

While there is a slight variation in opinion on the topic of internal stakeholders, a clear majority of the respondents believe that Meso Impact Finance is engaging internal stakeholders on sustainability-related goals and strategies.

External stakeholders. Though there was a bit of variation of opinion among respondents regarding Meso Impact Finance's approach to external stakeholders, overall most seem to view at least some of these items positively. For example, most respondents (91%) agree that the company sends a consistent message concerning its sustainability goals.

Likewise, a majority agrees that the company engages stakeholders in its sustainability-related efforts (63%) while the remainder were either neutral or disagreed with this statement.

This finding indicates that though Meso Impact Finance communicates outward well, it could improve in engaging with external stakeholders in sustainability-related goals and strategies.

BSL and company-specific questions. When asked what led Meso Impact Finance to start addressing sustainability issues, the top two options chosen were "desire to create long-term value for stakeholders (64% by all respondents and 67% by employees of Meso)" and "to address societal needs (64% and 67% by all respondents and employees of Meso respectively)". Slightly less than half of the respondents chose "organizational purpose." Other less frequent choices included "desire for innovation and growth", "reputation building", and the "awareness of the company's responsibility to the environment".

There was more agreement among respondents on what the company is currently trying to achieve by addressing sustainability issues. A great majority believes that it is either to create economic, social and environmental value or to make a positive contribution to solving critical societal challenges. However, some of the respondents either didn't know or stated that it was to create economic value for the company and its shareholders.

The findings seem to indicate that a significant number of respondents have no clear understanding of what led the company to start addressing sustainability issues and what the company is trying to achieve by doing so. This is the same when the response of only employees of Meso Impact Finance is taken into consideration. Information asymmetry between managers and employees may be responsible for this or maybe, some of the employees of the company have no clear understanding of the company's sustainability strategy. Whatever the cause may be, this indicates both an information and/or knowledge gap and it is recommended that Meso Impact Finance sharpen its messages and communicate its sustainability goals and strategies more clearly to its employees and stakeholders.

On how they would compare Meso Impact Finance to other companies in general with regards to sustainability leadership, the answers were fairly evenly split between better or somewhat better. Only one respondent rated the company as much better and one person said that the company was somewhat worse. Most respondents viewed the leaders of Meso Impact Finance more favourably than other leaders within their region with the employees of the company giving a more positive response. This may be due to the fact that within the region where the respondents are based, very

few companies have engaged in or are actively engaged in addressing sustainability-related issues or made it a major (or sole) part of their business strategy.

The question of the company's current approach to sustainability was also raised in the survey and almost half of the respondents said that the company's approach is proactive, a third said it is active, 9% said the company's approach is reactive and the rest provided no answers.

Seventy percent of the respondents said that the company is very engaged or engaged while a third said that the company is neither engaged or disengaged when asked to describe Meso Impact Finance's level of engagement with sustainability.

While the majority of the respondents agrees that Meso Impact Finance is very engaged or engaged with sustainability and that its approach to sustainability is proactive, a significant number of respondents have differing opinions. 37% responded that the company is neither engaged nor disengaged, when only the response of Meso Impact Investment employees is considered. This number is very high and the company should explore the reason for this difference in opinion and possibly device means to address them.

Overall while most of the respondents have a clear understanding of the company's sustainability strategies and goals, a significant percentage of the respondents seems not to understand. This same pattern of perception goes for the questions on sustainability leadership and approach to sustainability.

The gap in understanding may be real or perceived, or may be due to the information asymmetry between the company's top management having access to more information, hence more knowledge, than those in lower position. However, the company should use this as an opportunity to send direct and targeted messages about their approach to its various stakeholders.

Finally, with only 44% saying that the company is somewhat better and 11% saying that it is somewhat worse on the issue of sustainability leadership, respondents did not rate Meso Impact Finance significantly higher than others on the issue of leadership. Perhaps, again, as the company is quite young and early on its operations, this should be seen as an opportunity to learn and strengthen as it grows and matures. With the right measures in place, lessons learned will help the company attain significant sustainability leadership with time.

Open-ended questions. Responses to open-ended questions show that a great majority of the respondents believe that the company's interest and that of its stakeholders are well aligned within sustainability-related strategies. It also shows that they believe that Impact Investment represents a realistic tool for addressing sustainability-related issues like poverty, inequality and financial exclusion. Above all, the respondents believe that private capital can play a significant role towards making the world a more inclusive and sustainable place.

There was also a high agreement among respondents that the company is addressing a wide range of social and environmental issues like access to finance, poverty, job creation, energy sustainability and waste management very well. However, a majority of the respondents mentioned that there are areas the company is either not addressing or not addressing well. These areas of improvement included issues like the empowerment of women, social injustice, credit consciousness, technical

assistance as part of financing, water scarcity and management, environment-related technology, and others.

The issue areas that Meso Impact Finance is either not addressing, or is not addressing well should be viewed as potential business opportunities. As the company is still young, it can devise strategies to seek market opportunity in these areas while doing it in ways that are socially and economically sustainable.

With almost all the participants mentioning different persons, it appears that either there is no one person responsible for sustainability-related issues within Meso Impact Finance or at least the respondents have no consensus as to who that person might be. This is not surprising given the age of the company and the aforementioned value congruence – in other words, many people are committed to the cause and might all be contributing to this work. However, this positional ambiguity should be addressed by the company's management.

Conclusion. The SCALA™ was conducted with employees of the company and some employees of its outsourced service providers from around the world. Results reveal that the respondents believe that the company has a good understanding of sustainability-related strategies and goals and have broadly incorporated them in its business strategy. It also revealed that the company takes a long-term view when making decisions; that the leaders in the company have a clear business case for pursuing the goals of sustainability; and that they are personally committed to them.

However, there are areas where the data suggest that there might be gaps. Whereas most of the respondents believe that the company has embedded sustainability into its operating procedures and policies, less than half of them believe that the company has an enterprise-wide management system for sustainability. Further there seems to be no one directly responsible for sustainability efforts, judging by responses to this open-ended question.

While most of the respondents believe that the level of trust is high within the company, only a few believe that sustainability is integrated into performance evaluation or linked with rewards and compensation. The need for these linkages to be made more strongly stands out from the qualitative, open-ended data.

Though over 91% of the respondents believe that a commitment to sustainability is essential for the company's long-term success, a substantial number of them did not believe that continuous learning is a core focus of the organization. In an evolving field like impact investment, continuous learning and idea sharing is essential, especially for a young company like Meso Impact Finance.

While most people rate the company as being much better or better than other companies in the industry, a significant percentage of the respondents seems not to understand why the company started addressing sustainability issues or what it is trying to achieve by addressing it.

The company should take steps to clearly and effectively communicate these strategic sustainability goals to its employees and stakeholders. This represents a great opportunity to strengthen the company as it grows its business.

While about 70% of the respondents believe that the company is very engaged or engaged in sustainability and do believe that impact investment represents a realistic way of addressing social,

economic; and environmental issues in the developing world and that the interest of the company and its stakeholders are aligned with regards to sustainability goals, over 30% of the respondents either thinks that the company is trying to create economic values for itself and its shareholders or does not know what the company is trying to achieve by addressing sustainability issues. There is an opportunity for the management of the company to send a clear and consistent message to its employees and stakeholders about its strategic interest in pursuing sustainability-related goals.

Only about half of the respondents believe that most people in the company see sustainability as important to the company's long-term success. And slightly more than half believe the company initiated sustainability efforts primarily for reputation-building. On the other hand, about half believe that the company is trying to create economic, social and environmental value through its sustainability efforts. This presents an opportunity for leaders to inspire people with a clear vision and business case concerning why and how the company will create this value. Finally, readers should note that during a post-SCALA meeting with the management of Meso Impact Finance, the company confirmed that they have implemented a sustainability-related information management system. With this system, they are able to provide social and financial performance of their investments to investors and other stakeholders. Most importantly, thanks to SCALA findings, the company is in the process of appointing an executive-level employee who will be responsible for sustainability – a Chief Sustainability Officer.

This paper has so far discussed Meso Impact Finance's history, its business model, its evolution as a company, and by using the employee survey, it has assessed the company's ability to execute sustainability-related strategies and its alignment with its stakeholders in sustainability-related goals. The next section of this paper will assess the company's positioning in the Business Sustainability Typology Matrix proposed by Dyllick & Muff (2016). We will first briefly introduce the Dyllick & Muff Business Sustainability Typology (BST), and then position Meso Impact Finance in the Dyllick & Muff Business Typology grid.

7. The Dyllick & Muff Business Sustainability Typology

In their 2016 paper Dyllick & Muff produced a typology for business sustainability. In this typology Dyllick and Muff provide an answer to **what it means for an organisation to be “truly sustainable”**. The framework differentiates between four levels of business sustainability: “*the current paradigm of Business-as-usual, Business Sustainability 1.0, and 2.0 and a truly sustainable business, Business Sustainability 3.0.*” The authors use the criteria of **Concerns** (what social, economic, and environmental issues are addressed?), **Organisational Perspective** (the approach taken by the organisation – how?), and **Values Created** (the output/result produced by the company). Below is a summary of the various Business Sustainability types according to Dyllick & Muff (2016).

Business-as-Usual: The Current Economic Paradigm

The current economic paradigm – business-as-usual- is based purely on the economic view of a firm and its business operations. Here, business activities are pursued and resources exploited solely to produce economic values/profits to the firm. This approach to business results in costs (mainly harmful) that are neither understood, declared nor measured which are above all externalised. Most importantly, this business approach is “inside-out” and company-centric, with the sole beneficiaries of all economic values created being shareholders, and to some extent, the company’s management and customers.

Business Sustainability 1.0: Refined Shareholder Value Management

BST 1.0 represents a first step in introducing sustainability into business activities by companies. In refined shareholder value management, extra-market challenges that represent sustainability risks as well as business opportunities are picked up by companies and integrated into existing business processes with neither a change in business strategy or outlook. Most of these sustainability concerns are either raised by NGOs, media or legislation/government. BST 1.0 represents a “Refined Shareholder Value Management” as the approach is either to comply with new or existing rules and regulations or to “obtain a licence to operate” by address sustainability-related issues. There is really no change of business strategy, operations or outlook to incorporate sustainability-strategies. Though sustainability concerns are considered in decision making, like in the current economic paradigm (business-as-usual), business objectives in BST 1.0 companies remain clearly focused on creating shareholder values.

According to Dyllick & Muff, when applied to the banking industry, “BST 1.0 means introducing new compliance rules in the areas of corruption, money laundering, dealing with politically exposed persons or regimes, ethical codes, and management compensation. New or integrated banking processes may be introduced for climate management, sustainable purchasing, green IT, building infrastructure, and diversity in employment, among others. In the area of products and services, sustainability concerns may be integrated into project finance, asset and credit management, into increasing fee transparency or by introducing new products in areas like microfinance or student loans”.

While these measures are good starting points, they do not represent changing business strategies or outlook to address sustainability-related issues. Introducing sustainability into business is mainly aimed at generating positive side-effects, reputation and risk management, attracting new human talents, gaining market shares, or/and responding to new customer demands or segments. Business success is still evaluated purely from an economic view and still oriented to shareholder value.

Business Sustainability 2.0: Managing for the Triple Bottom Line

BST 2.0 represents a further step in introducing sustainability into business. With BST 2.0 companies incorporating sustainability into business go beyond responding to social, environmental, and economic concerns raised by either NGOs, media or government. Here sustainability issues are integrated into programs and projects and are well documented, measured and reported. Also, stakeholder value creation is broadened to include the triple bottom line of “People, Planet, and Profit”. According to Dyllick & Muff, “Business Sustainability 2.0 means broadening the stakeholder perspective and pursuing a triple bottom line approach. Value creation goes beyond shareholder value and includes social and environmental values. Companies create value not just as a side-effect of their business activities, but as the result of deliberately defined goals and programs addressed at specific sustainability issues or stakeholders. These values are not only addressed through particular programs, but they are also measured and reported”.

Applied to banking, BST 2.0 means sustainability values being created not as positive side-effects of business practices but as result of deliberate programs and processes in the areas of governance, processes, and products/services. Here, banks not only address issues like financial corruption, money laundering, and tax evasion but engage the relevant stakeholders with a view of making significant contributions in these areas. Performance indicators are defined, managed, measured, and reported. According to Dyllick & Muff, “programs and activities with regard to banking processes are pursued not only with the goal of making measurable contributions, for example, to reduce the CO₂-footprint or to improve diversity across all levels of employees...Banking products and services are created and offered around specific objectives in areas such as financing sustainable construction, healthy living, regional and urban development...Also, responsible investment products are not only developed but also actively marketed and promoted by trained customer service representatives to achieve defined market objectives”. The above statement arguably shows that there is a broader stakeholder engagement in the value creation process of BST 2.0 companies with objectives set, managed, measured and reported.

While BST 2.0’s shift is a quantum leap in the value created from the refined shareholder value management (BST 1.0) to creating social, economic, and environmental values, it is not yet a “truly sustainable” business according to Dyllick & Muff. “The underlying objective of BST 2.0 firms is to invent, produce, and report on measurable results within well-defined sustainability development areas while doing this in an economically sound and profitable manner. The value proposition of business is broadened to include the three dimensions of the “triple bottom line” (people, planet, profit). However, the perspective applied is still inside-out” (Dyllick & Muff, 2016, p.164-165).

Business Sustainability 3.0: Truly Sustainable Business

A truly sustainable business takes a different and holistic approach to addressing sustainability issues. Its “outside-in” approach means that it first looks at sustainability issues and problems facing the society and devices business strategies to address them in ways that make economic sense. According to Dyllick & Muff, “A Business Sustainability 3.0 firm looks first at the external environment within which it operates and then asks itself what it can do to help overcome critical challenges that demand the resources and competencies it has at its disposal” (Dyllick & Muff, 2016, p.166). It reflects on questions such as “How can a business use its resources, competencies and experiences in such way as to make them useful for addressing some of the big economic, social or environmental challenges that society is confronted with, e.g. climate, migration, corruption, water, poverty, pandemics, youth unemployment, sovereign debt overload, or financial sustainability?... As a result, a BST 3.0 firm translates sustainability challenges into business opportunities, making business sense of societal and environmental issues” (Dyllick & Muff, 2016, p.165-166).

Applying BST 3.0 to banks means a shift from “mainstream financing” to addressing sustainability-related challenges facing a world with an ever-increasing population. A shift from funding unsustainable investments to coming up with business strategies aimed at securing water, food, housing, energy need; addressing wealth and income inequality etc. is what will be needed. Based on the “outside-in” approach, banks will have to look at these sustainability issues and decide which, based on the resources available to them, they are best suited to address. Also, becoming truly sustainable will entail banks addressing the systemic risks created by their collective behaviour for societal groups like students and homeowners, and whole countries as exemplified by the 2008-2009 global financial crisis.

The key characteristics of the Dyllick & Muff BST Typology are summarised in the figure below.

BUSINESS SUSTAINABILITY TYPOLOGY (BST)	Concerns (What?)	Values created (What for?)	Organizational perspective (How?)
Business-as-usual	Economic concerns	Shareholder value	Inside-out
Business Sustainability 1.0	Three-dimensional concerns	Refined shareholder value	Inside-out
Business Sustainability 2.0	Three-dimensional concerns	Triple bottom line	Inside-out
Business Sustainability 3.0	Three-dimensional concerns	Creating value for the common good	Outside-in
The key shifts involved:	1st shift: broadening the business concern	2nd shift: expanding the value created	3rd shift: changing the perspective

Figure 5: Typology of Business Sustainability and their key characteristics (Source: Dyllick & Muff 2016).

Having briefly introduced the Dyllick & Muff Business Sustainability Typology, we will now try to assess Meso Impact Finance on the business sustainability criteria as proposed by Dyllick & Muff.

As stated earlier in this case study, Meso Impact Finance was born a Business Sustainability (BST) 3.0 company. According to Dyllick & Muff (2016) *“BST 3.0 firms see themselves as responsive citizens of society. Truly sustainable business shifts its perspective from seeking to minimize its negative impacts to understanding how it can create a significant positive impact in critical and relevant areas for society and the planet...The organisation starts out by reviewing pressing sustainability challenges that society faces, and then engages in developing new strategies and business models that overcome these”*.

This statement captures the formation and evolution of Meso Impact Finance. The founders of the company identified a lack of access to finance by SMEs in developing countries as sustainability issue and believe that providing access to these SMEs will help them scale and generate the much-needed economic development and participation in these countries. Also, they believed that the skills and experience gained within the Employee Volunteer Programme can be deployed to help address this lack of access. With these convictions, they transformed the employee volunteer scheme to a business whose sole aim and strategy is to provide financing to SMEs. This formation of Meso Impact Finance to solely address a sustainability issue demonstrates an “outside-in” perspective, thus qualifying it as a BST 3.0 company from its inception as a company.

Meso Impact Finance, with sustainability embedded in its business strategy and operations, has managed to cross the financial hurdles and survivorship challenges many start-up companies face, especially business pursuing both social and financial ends. This said, though born a BST 3.0 company, responses to some of the questions in the employee survey show that the company still has a lot to do to fully realise its potential as a truly sustainable company, as defined by Dyllick & Muff.

8. Looking into the Future

Having gone through the turbulence and overcome the initial huddles that start-up companies usually face and have financially survived, Meso Impact Finance has embarked on a wide range of business reforms in order to transform and secure its future and realise its ambition of using market tools to address financial access to SMEs in the emerging world.

As stated earlier in this paper, the founders of Meso Impact Finance, having realised that raising funds only from friends, family and their network was not sufficient for them either to survive as a company or to generate the impact they intended, decided to change the company's corporate structure. This led to the formation of a securitisation company, Backbone South SME, an advisory company, Backbone Luxembourg, with Meso Impact Finance becoming the investment holding arm of the new structure. This new structure is still in its very early stages of creation.

The securitisation arm of the company, Backbone South SME, will be involved in fundraising by way of creating and selling securities (CDOs) to sophisticated/informed investors like high net-worth individuals, family offices, and other institutional investors. This, the Company hopes, will generate the size of funds it needs to scale its business and provide the loans that can trigger the most economic impact.

Backbone Luxembourg, the advisory arm of the new corporate structure, will be providing technical assistance, capacity building, and impact investment consulting services to investee companies and other impact investors. According to Michel Vandevor, Meso Impact Investment's co-managing director, *"providing technical assistance and capacity building to SMEs is equally important as providing funding to them"*. According to him, SMEs need business planning, accounting and reporting infrastructure, risk management capabilities, and to adopt best practices as much as they need financing, hence the need for a company like Backbone Luxembourg.

As stated earlier in this paper, Meso Impact Finance has set a fund-raising target of \$40 million for the years 2017-2019, based on the belief that it can replicate the success it enjoyed with its initial fund raising. It is embarking on broadening its reach, with an important geographical expansion beyond the Philippines by engaging intermediaries in Peru and possibly a third country. These intermediaries will be involved in deal sourcing, deal screening, local stakeholder engagement, and other due diligence activities to make sure that funds raised by Meso Impact Finance are lent to SMEs that can generate meaningful economic impact.

Finally, the company hopes to transform to a fully regulated company before 2019, which will enable it to raise funds from institutional investors like pension funds, insurance companies, national and supra-national institutions, and governments. Becoming fully regulated will also permit the company to distribute its investment funds through the European Undertakings for Collective Investment in Transferable Securities (UCITS) Passporting Directives, thereby facilitating the distribution of its investment instruments in different countries covered by the UCITS Directive, which is necessary for Meso Impact Finance to ultimately achieve the scale and reach it seeks to be able to sustainably finance promising SMEs in the emerging world.

9. Conclusion and Reflection

The purpose of this case is to study a company that has engaged in the mission of financing small and medium enterprises (SMEs) in the developing world based on the belief that this will facilitate greater economic participation and economic development in these countries. It serves also to understand the motivation to engage in such a business strategy, the challenges the company encountered and the lessons learned. Understanding and sharing Meso Impact Finance's experience will not only contribute to a broader knowledge of business sustainability, but also promote an understanding of the role(s) private capital/investment, when properly structured, can play in addressing sustainability-related issues facing humanity. Though a young company, thanks to its vision, leadership, and well-articulated business strategy, Meso Impact Finance seems to be on its way to make a meaningful contribution to sustainable development.

Insights

This case study, which tells the story of Meso Impact Finance yields some interesting insights.

The most prominent insight is the nature of the evolution of Meso Impact Finance from an "idea" into a business and its implication for the Impact Investment movement. The company started as an Employee Volunteer scheme in a Luxembourg-based financial institution. Believing that the skills and experience within the program could be leveraged, the founders of the company transformed and registered it as a business. Their ability to transform this idea into a business; organise the resources needed; get others (shareholders) to buy into it; convince investors who are either sceptical or unaware of impact investment as a socially and economically viable way of investing and above all; demonstrate the promised impact to investors, are important learnings for practicing and aspiring impact investors. Adapting and adopting Meso Impact Finance's experience might help mainstream impact investment and fulfil its aspiration as a tool to enable more and wider economic participation.

Another lesson worth learning from the journey of Meso Impact Finance is to understand the different "types" of Impact Investors and the implications for fund raising. Fund raising can be an issue in the financial sector especially in a new and evolving field like Impact Investing and social finance. In an interview with Michel Vandevor, the Co-Managing Director of the Company, he stated that the concept of "Impact First, and Finance First" is true and companies should be aware of this when approaching investors during fund raising. According to him, investors such as foundations, family offices and high-net worth individuals are mostly motivated by the social impact of their investments and companies should make extra efforts in demonstrating and convincing them of the social impact their investment will yield. On the other hand, investors like young entrepreneurs, while interested in the social impacts of an investment, are mostly concerned about the financial returns their investment will yield and so, while they must be convinced of the social returns, above all, they are interested in the financial returns of their investment. Correctly identifying and convincing the right type of investor may help impact investors raise the much-needed funds needed to trigger more economic participation in the developing world.

Convincing investors that Impact Investment is a socially and economically viable way of investing is another lesson worth learning from the story of Meso Impact Finance. Impact Investment has

sometimes been mistaken for charity and this has hindered fund raising. Speaking on this topic, Mr. Vandevour said that companies should clearly demonstrate both the social and economic returns of an investment to investors. According to him, Meso Impact Finance was able to show investors that investing, say, \$1000 in the Philippines or Peru would impact more people, create more jobs, and provide more financial returns as against investing the same amount in a place such as Luxembourg or Belgium. Demonstrating to investors that they can do well while doing good helps attract more funds, scale impact and reach, and mainstream impact investment. The story of Meso Impact Finance shows that with the right experience and strategy, Impact Investment works and can be used as a tool for more economic participation especially in the developing world.

In general terms, another insight from this case study is the evolving nature of the ways and tools being used to address economic development in emerging countries. Traditionally, this has been done through supranational institutions like the World Bank, the United Nation Development institutions and other national and international development agencies. Also, these agencies have mainly used aid funds and other soft loans as tools to put these countries on the path of economic development. Despite the enormous amounts of money and effort spent over the years, these countries still lag in economic development, poverty still persists and financial inequality seems to be widening. There seems to be a consensus that these agencies cannot do it alone, and that there is a need for private capital and investors, using market tools and logic, to participate in addressing the issues of economic development and poverty alleviation in these countries. Hence the need for private impact investors like Meso Impact Finance.

Finally, the challenges encountered by Meso Impact Finance and the ways they surmounted them can be instructive to other start-up companies in the field of impact investment. The company initially started by raising funds from founders, families and their networks and lending to SMEs, but later found out that this was not a sufficient source of funds to sustain the company, nor to create the scale and impact hoped for. This led to reorganising the corporate structure and strategy in order to create financial instruments to attract larger investments. So far, this strategy appears to have worked, and the company learned that when the traditional approach of depending on networks or relatives did not generate enough funds and scale, significant innovation was needed.

Questions for the Future

The founders of Meso Impact Finance transformed an employee volunteer scheme into a viable social impact investment business with a strategy of addressing sustainability-related issues in the emerging world. They have also changed their fund-raising strategy and targets to attract investments which they believe will help them achieve scale, reach and impact. Finally, they are in the process of significantly changing their operations to include a holding and advisory company and to achieve full UCITS regulation. Only time will tell if these objectives will be fully achieved and the company's ambition of being a major player in the impact investment field is realised. Conducting a follow-up case study in about 2 or 3 years with the company will help ascertain this.

Bibliography

- Abor, J., & Quartey, P. (2010). Issues in SME Development in Ghana and South Africa. *International Research Journal of Finance and Economics* ISSN 1450-2887 Issue 39 (2010). © EuroJournals Publishing, Inc. 2010.
- Beck, T. H. L. (2007). Financing constraints of SMEs in developing countries: Evidence, determinants and solutions. In *Financing innovation-oriented businesses to promote entrepreneurship*. Tilburg University, School of Economics and Management.
- Dominicé, R., & Minici, J. (2013). *Small Enterprise Impact Investing* (A. Doran, Ed.). Exploring the "Missing Middle" beyond Microfinance. Symbiotics 2013. ISBN: 978-2-8399-1219-8.
- Dyllick, T., & Muff, K. (2016). Clarifying the Meaning of Sustainable Business: Introducing a Typology from Business-as-Usual to True Business Sustainability. *Organization & Environment*. Vol 29, Issue 2, pp. 156 – 174.
- Dupas, P., & Robinson, J. (January 2009). Savings Constraints and Microenterprise Development: Evidence from a Field Experiment in Kenya," *American Economic Journal: Applied Economics*, American Economic Association, vol. 5(1).
- Gustin, D. (2015, September 08). Harvard's Effort to Help Small Business in Emerging Markets. Retrieved August 05, 2017, from <http://spendmatters.com/tfmatters/harvards-effort-to-help-small-business-in-emerging-markets/>
- Hinton, P. (2010, May 14). *Developing SMEs: A case study in transformational investment*. Summit Development Group (SDG) 2010.
- Iordache, M. C., PhD. (2014). *The Role of SME In The Context of a Country's Economy Development. Communication, Context, Interdisciplinary. Economy and Management*. University of Râmnicu-Vâlcea
- Karlan, D., & Zinman, J. (July 2008). *Expanding Microenterprise Credit Access: Using Randomized Supply Decisions to Estimate the Impacts in Manila*. Economic Growth Centre Yale University. Centre Discussion Paper NO. 976.
- MacAskill, W. (2015). *Doing good better: Effective altruism and a radical new way make a difference* (P139, 148). London: Guardian Books.
- Milder, B. (2008, December). Closing the gap: Reaching the missing middle and rural poor through value chain finance. *Enterprise Development and Microfinance*. ISSN: 1755-1986
- Miller, T. (2007, October). *From Poverty to Prosperity: Understanding the Impact of Investing in Small and Medium Enterprises*. Data Survey and Case Study Analysis of SEAF Investments.
- Miller, T. (2014). *Banks and The Missing Middle*. Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) Group, 7th Regional Survey 2014.
- Morduch, J. (1998). Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh. Retrieved May 27, 2016, from http://www.nyu.edu/projects/morduch/documents/microfinance/Does_Microfinance_Really_Help.pdf
- Pierre, C. (2013, December 27). Kiva's Comment Policy. Retrieved June 04, 2016, from <http://blog.kiva.org/kivablog/2013/12/27/bridging-the-missing-middle-the-impact-of-larger-loans-on-kiva>
- Prahalad, C. K. (2005). *The fortune at the Bottom of the Pyramid*. Upper Saddle River, NJ: Wharton School Publishing. P.5.
- Sanders, T., & Wegener, C. (September, 2006.). *Meso-Finance: Filling the financial service gap for small businesses in developing countries* (Netherlands, National Committee for International Cooperation and Sustainable Development (NCDO)).
- Sutton, C. N., & Jenkins, B. (2007). *The Role of the Financial Services Sector in Expanding Economic Opportunity*. Economic Opportunity Series, John F. Kennedy School of Government, Harvard University.
- The Missing Middle. (2015, December 14). Retrieved June 04, 2016, from https://www.hks.harvard.edu/centers/cid/programs/entrepreneurial-finance-lab-research-initiative/the-missing-middle#heading_03

Rosenberg, R. (2010). Does Microcredit Really Help Poor People? Consultative Group to Assist the Poor (CGAP) - Focus Note, 59.

Yago, G. (2007, June 11-12) Milken Institute. Financing the Missing Middle: Transatlantic Innovations in Affordable Capital. Affordable Capital Conference.

Zarya, V. (2016, June 07). The Percentage of Female CEOs in the Fortune 500 Drops to 4%. Retrieved March 18, 2017, from <http://fortune.com/2016/06/06/women-ceos-fortune-500-2016/>