

Dick Parsons and Ronald Lauder bring impact investing to sub-Saharan Africa

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The duo's unexpected new chapter: Finding opportunities that offer financial return and do good at the same time (think schools in Kenya, surgery-free circumcision, and a maker of Shea butter).

By Shawn Tully, senior editor-at-large



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FORTUNE -- Dick Parsons asserts that the field of "impact investing," putting money into ventures that promote the good of society, doesn't live up to its name. For the former CEO of Time Warner ([TWX](#)) (parent company of *Fortune*) and chairman of Citigroup ([C](#)), the folks behind that noble-sounding pursuit either simply seek big returns, generating no "impact" on jobs, health care or education. Or, they furnish aid under the guise of investing -- so they're really just giving money away. "We're creating a new definition of 'impact investing,'" asserts Parsons. "We want a return, but we won't ignore entities where the return may not be the highest. Then we put on a second filter, assessing what the entity does for the benefit of mankind in Africa."

If the investments bridge both criteria, says Parsons, "the model will get bigger and bigger and bigger."

It sounds like a lofty ambition -- maybe too lofty. But Parsons is already helping to fund an array of highly creative ventures in a part of the world that's as bereft of venture capital as its soil is parched, the villages of sub-Saharan Africa. Parson's partner is Ronald Lauder, the scion of Estée Lauder who served as a top executive at the cosmetics colossus, and pursues big media investments in Eastern Europe. "Ronald and I have been pals for 35 years," says Parsons, who served as personal attorney to his late mother, and is a director of the Estée Lauder Cos. ([EL](#))

Parsons states that the approach of the world's biggest investors leaves a huge void for impact investing, if it's done the right way. "I'm on a lot of boards of endowments and foundations, and their portfolios of those kinds of organizations always seek the highest risk-adjusted returns," he says. "They can't be bothered by other considerations." He adds that the foundations and universities basically run their investment programs the same way pension funds run theirs. "None of the many trillions in pension funds are being targeted towards things the country really needs," says Parsons. "They can't depart from that orthodoxy of only wanting return."

Parsons and Lauder are placing small bets on big ideas. Their fund, PanAfrican Investment Co., or PIC, started in the summer of 2012, and is headed by CEO Dana Reed, who honed her investing skills at Goldman Sachs and JPMorgan. Reed and her staff of seven scour their territory for deals that require no more than \$5 million investments. "The big players are doing the \$500 million deals in infrastructure and commodities," she says. "We're looking for entrepreneurs from the streets of countries such as Nigeria and Rwanda." This self-described "capitalist" keeps one eye on the projected cash flows, and the other on what she calls "moving the social needle." The goal is building businesses that create jobs, and at the same time nurturing health care, education, or tourism.

The cash is desperately needed. The African Private Equity and Venture Capital Association found that the entire continent attracted just \$3 billion in those two categories last year. And PIC's sub-Saharan territory encompasses many of the poorest, most startup-capital-needy nations, including Rwanda, Ghana, and Ivory Coast.

So far, PIC has invested in six companies, a blend of tiny local entities and larger, foreign players seeking to bring their services to Africa. It's helped fund Bridge International Academies, a firm that operates private schools for 60,000 students in Kenya and manages to make money while charging parents just \$2 a day. Daily Secret, an email newsletter, informs visitors in 20 countries about the hidden, charming, local bars, restaurants, and other sites unknown to visitors craving local color. Funding from PIC helped Daily Secret launch in Africa; Reed hopes the payback will combine a nice return with a strong boost to tourism and jobs. In education, PIC secured the rights to market e-learning site Trunity across Africa. Trunity commissions original writings on such subjects as apartheid and colonial history from African professors, and offers the material to teachers, from kindergarten to college, across the continent.

Other investments range from cell phones to circumcision. "I noticed that kids who don't have running water or electricity have cell phones," says Reed. Those gadgets are almost always "dumb" feature phones that provide only calls and texting. PIC backed a cloud-based mobile specialist named BiNu, which provides an app enabling those X2 and Android phones to access Facebook (**FB**), Google (**GOOG**), and YouTube. "It's like putting a computer in the kids' hands," says Reed. BiNu gathers revenue from conducting surveys garnered from polling its users and sells the data to companies and organizations such as the United Nations. It induces its customers to participate in the surveys by paying them in credits they can use to purchase airtime. It's already attracted more than 1 million users in African nations including Kenya, Nigeria, and Ethiopia.

An ingenious venture in agriculture is already raising women from poverty. Ghana is a big producer of Shea butter, a prized ingredient in skin creams and a galaxy of cosmetics. It's made from seeds collected

almost exclusively by poor women farmers, who live and work in cooperatives, earning around \$30 a month, below the World Health Organization's poverty level. While in the Peace Corps, Rahama Wright, an American born in Ghana, marveled that the co-ops sold the shea butter to big box retailers at extremely low prices. The female farmers played no role in processing the seeds into the butter used in pricey soaps and conditioners, let alone participated in the lucrative end-market.

Wright formed Shea Yeleen, a brand that's eliminating the giant middlemen, and helping the folks most essential to the industry, those ladies in Ghana. Shea Yeleen employs more than 800 women in co-ops who, as always, harvest seeds from shea fruit. The women then turn the seeds into unrefined shea butter. Shea Yeleen ships the shea butter to the US, and uses it as a principal ingredient in the soaps and creams. Its body care offerings, made from 100% unrefined Shea butter, is a natural for natural products purveyor Whole Foods Market (**WFM**). Shea Yeleen's line of soaps, lip balm, and body butter now sell in more than 40 Whole Foods stores -- allowing Wright to more than double the women's wages to around \$70 a month. In November, PIC provided funds that will help Wright expand the business by hiring even more women in the coops. The highly-valued added work could lift the industrious Ghanaian women into the middle class.

The most exotic venture -- "I'm almost embarrassed to talk about it," admits Parsons -- is the circumcision initiative. An Israeli inventor has developed a product that allows quick, painless circumcisions without surgery, and hence has the potential to treat tens of millions of African males. Circumcision is a crucial issue in Africa: The World Health Organization finds that the procedure lowers the spread of AIDS, an epidemic across the continent, by 60%. PIC has backed Prepex, producer of a plastic ring that cuts off the circulation in the foreskin. It's applied by a technician in a clinic, and does not require the presence of a doctor or a nurse. Five days later, the foreskin can be removed.

Prepex is based in Israel, but its market is Africa. The Rwanda government funded two years of trials, and recently placed the first order. "The product is really cheap to produce, so the margins are excellent," says Reed. A plastic ring, backed by dollops of American cash, exemplifies doing well by doing good.