



Ethics in Business: Interview with Brian Trelstad

Brian Trelstad , Julia Taylor Kennedy

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[Brian Trelstad](#)

JULIA KENNEDY: Welcome to the Carnegie Council's Global Ethics Forum. I'm Julia Kennedy.

I'm sitting down today with Brian Trelstad. He's the chief investment officer for [Acumen Fund](#), which funnels philanthropic money to business ventures in emerging markets, in an effort to encourage entrepreneurship and combat global poverty. Acumen Fund supports business ventures on a larger scale than a microlending organization and has gained backing from the [Gates](#) and [Rockefeller](#) Foundations, among others. Brian Trelstad decides which ventures to support, weighing a business' viability with its potential to effect change in its community.

Trelstad began by telling me why so many of the businesses he ends up choosing are in health care.



[Julia Taylor Kennedy](#)

BRIAN TRELSTAD: Lack of access to health services in HIV/AIDS, TB, malaria is huge. The unaddressed market is massive. Over the last decade, development organizations have funneled billions of dollars to address these problems, some of it quite effectively, some of it not so effectively. We have been looking at opportunities to fund businesses, some of whom sell into those aid markets. We funded a malaria bednets company in Tanzania that sells now roughly 20 million nets, largely to [Global Fund](#)-funded distribution schemes at the national level.

We have also been looking at service gaps in low-income communities—primary health clinics, which will provide you with an ethical, high-quality, affordable diagnosis and then access to primary treatment drugs, whether it's an aspirin for a headache or an antimalarial if you are properly diagnosed with malaria. But the infrastructure right now for basic primary health services in many low-income communities is insufficient. There are entrepreneurial solutions to expanding those services.

JULIA KENNEDY: Tell me a little bit about Acumen Fund's mission and how you mix capitalism with a conscience.

BRIAN TRELSTAD: Our mission, really, is to encourage the world to think differently about solutions to poverty. We take a venture capital approach, using philanthropic money to invest in businesses that might have innovative solutions that otherwise would not have gotten funded. We are willing to take much greater risks over a longer time period. We have invested about \$40 million to date. That \$40 million is a rounding error on the global development-assistance budgets. The [IFC](#) [International Finance Corporation], the [World Bank](#)'s private investment arm, has an \$8 billion portfolio. But we think that with each of our 35 or 40 investments, we can demonstrate the potential for a new way of doing businesses.

The best example right now might be the bednet factory in Tanzania. We were part of the public-private partnership and the technology transfer from Sumitomo to a very small textile company in Arusha. The fact that the company, with a \$325,000 loan from Acumen Fund—since fully repaid—was able to broker this partnership and then scale up to become one of the largest private employers in Tanzania and one of

the largest makers of long-lasting bednets in the world—they are producing about 15 percent of the world's output right now—has woken people up to the potential that, "Wow, maybe we can do this in Nigeria," or, "Maybe we can make fortified foods in Kenya," or, "Maybe we could do this in Malawi."

So there are a lot of development and finance institutions now saying, "Wow, this is interesting." They don't want to necessarily replicate the A-to-Z model, but they want to understand how it might influence their investment decisions.

JULIA KENNEDY: I would imagine an important piece to that, then, is the assessment of how well your investments do, so that they can serve as a model.

BRIAN TRELSTAD: Yes. We have been engaged in a broader conversation with the development community about how you know what matters and how you prove that what you have done is what you think you have done. It's a very complicated story that I'll try to summarize.

We have built the measurement ethic into our entire investment process. Before we make an investment decision, we ask ourselves, does this investment matter? Does the product matter? Do people need it? If they have access to it, is there evidence that it will help them?

Malaria bednets are a case where it matters. There is plenty of peer-reviewed scientific evidence that says this is a significant public health benefit.

Access to solar [LED](#) [light-emitting diode] lanterns, in terms of the income effect of formal energy services on rural households—there is evidence that demonstrates that.

In some cases, there is more conflicting evidence. Does access to community clean-water systems lead to health gains in the short term? There's some mixed evidence.

Unless you do it the right way, it may not drive to the impact you had hoped for.

But we want, in our diligence process, to understand, does this matter? Is there evidence?

The second thing we want to do is think about measuring the operations of the business over time in a way that helps the business scale and grow. Venture capitalists, private equity professionals will think about the five to six performance measurements, the key indicators that a management team should be keeping their eye on. We want to really focus on what those are. How do you build your business in a way that it will survive and grow and thrive? We want to layer into those a few core social-impact indicators. Are you reaching the poorest of the poor? What is the customer profile? How are they using your product? We want to collect those on a monthly or quarterly basis.

We have built a tool with [Google](#) and [Salesforce](#) that allows us globally, as a portfolio team of about 20 people—most of whom are sitting in India, Pakistan, or Kenya—to share information in real time as these new performance measures come in. We also have a way of thinking about our investment relative to a charitable contribution. So if you wanted to give \$1 million to [Save the Children](#) or [CARE](#) or [Malaria No More](#)—all incredibly effective organizations—we want to understand how our investment, which is a bit longer-term, a bit higher-risk, might generate outputs that would be comparable to a fairly risk-free investment in the best alternative charitable option. It helps us think about the opportunity costs of our capital.

Finally, we are continuing to ask questions about how we can push beyond just counting products delivered or customers consulted, but rather, are they, in fact, living higher-quality, healthier lives as a result of these services? We are talking to a number of different research efforts around customer surveys that will take the questions down to the level of the individual consumer, at least on a representative sampling basis. That would give us comfort that our broader hypothesis that lots of bednets or lots of clean water or lots of community health-worker consultations translate into health gains—we actually want to see that evidence in a sampled way to reinforce those suppositions.

JULIA KENNEDY: As you are doing your due diligence, looking for businesses to partner with in

the developing world, how do you balance serving the poorest of the poor and investing your money in a place that has the kind of infrastructure, that has the kind of environment where a business can flourish and pay back that loan?

BRIAN TRELSTAD: This is the overarching meta-quest that we are on: Where do the markets work and where do they not work? There is absolutely, fundamentally a role for pure charity in communities that are in abject poverty and don't have the resources to access goods and services. There are also plenty of exciting, dynamic, high-growth urban investment opportunities that don't really need a subsidy or charity. The question is, where is the middle ground?

We will often invest in businesses that have a broader footprint, from the poor to low-income customer segments. Our investment committee, which consists of outside donors to Acumen Fund and board members, is as often tough on our team for what the potential financial return is as what the customer segment is looking like. We don't want to be too commercial, but it has to be viable.

JULIA KENNEDY: That has to be a hard line to walk.

BRIAN TRELSTAD: It's a very tough balance. There are times when we'll invest in a business leader who has great market skills, has built a successful business, and now says they want to add the poor as a customer segment. We really have to pressure-test: Do they share our values? Do we believe that they are going to go after this segment, or are they just going to retreat when they realize that it's a much more difficult, more expensive customer segment to serve?

Conversely, we have invested in people who have given their lives to serving the poor, who have grown up in the NGO community, who have products and services that are expressly designed for the poorest rural farmers in northern India. The question we ask them is, are you tough enough to build a business on this basis, and you are not just going to rely on grant making?

That middle ground is really the tension that we are trying to hold between social impact and financial viability.

JULIA KENNEDY: When you step back and look at what you're doing, why do you see capitalism as the driving force for this social mission that you have? Why do you see that as the answer rather than a more grant-making organization?

BRIAN TRELSTAD: I guess the response is that we don't necessarily see capitalism per se as the answer. We believe that there is an important principle in the market, which is that it listens to the customer and that it allows for a feedback loop which is virtuous if what you are doing makes sense. There are also cases where unregulated capitalism leads to real problems.

JULIA KENNEDY: I didn't mean to use a dirty word there.

BRIAN TRELSTAD: I'm a capitalist and believe in capitalism. But I also believe that it's really, to me, about the micro-markets, where you have these feedback mechanisms, you have transparency, you have the opportunity of choice at the individual level. I think there is a limit to viewing everybody as a "consumer," and not as a citizen.

I think where we are fiercely critical of grants-based approaches is the design of services that either ignore the customer or the end recipient or that are taken up in Geneva or Washington or New York, in sort of one-size-fits-all solutions—the bednets should be blue because blue is the color of the UN, so let's make the bednets blue. I don't know if that's how they made bednets blue. But why not have pink bednets or green bednets or white bednets? The only way you are going to know that is if you start asking the customer. Even purely grants-based approaches that are serious about understanding the needs, wants, dreams, desires of the end user, from our perspective, are better than grants-based programs that are decided top-down.

We think that the market builds in a bit of a discipline around asking those questions, taking them seriously, and then the feedback is there. If the pink bednets outsell the blue bednets, then, gosh, maybe

people like the pink bednets. And there are ways, even without there being a market-based approach—and we think that the free distribution of bednets is a public health good and has been a huge boon for prevention of malaria in sub-Saharan Africa. But the mentality of asking and understanding what people want, how they use them, is something we need to continue to drive for in all solutions, whether they are market-based or charity-based.

JULIA KENNEDY: That's a really interesting answer.

BRIAN TRELSTAD: As a follow-on to that—I don't sleep under a bednet in the United States. I have window screens. When I travel, I sleep under a bednet. It's not a particularly comfortable thing. Your leg touches the net. You're not sure you're protected. You still hear the mosquitoes. If you are living in informal construction and you don't have lights, the question is—the sun goes down, you have to sit under the bednet to get protected, you might still get bitten by the bug after sunset, and you are trying to read by a lantern, et cetera. So the bednet is kind of a necessary evil. It's a very effective public health tool, but it's not a consumer product. People don't want to sleep under a bednet. They may value it. It may have status elements. It may make them feel good about being able to protect their families against the scourge of malaria. But people don't like bednets.

Based on that insight, we have been working with an entrepreneur who has an antimalaria wallpaper, which takes the same properties of the pesticide built into the fabric of a bednet that has long-lasting dimensions—three to five to six years of protection—but allows you to cover the walls of a room in a modular way so that over time, as you cover all of your walls, you essentially have either a room-size bednet that you don't have to sleep under or step under or permanent indoor residual spraying. People can come around and spray your hut every six months or, if you have this wallpaper, that achieves the same efficacy for three, four, five years. We are doing tests right now.

But the insight which excites us about this is the behavior patterns of the people who are living in the hut. It's a home-improvement product. People would love to see patterns or colors on their walls instead of drab, informal, construction-material bricks, wood, tin. To think about a product that is not only superior in terms of how it delivers the malaria protection, but also how it lightens up somebody's life, to us, was the big breakthrough.

Now, it may be that this malaria wallpaper, if it ever makes it to market, is still bought by the same people who buy all of the bednets—[UNICEF](#), the [World Health Organization](#), Global Fund programs, et cetera. They may still be given away for free to the "end consumer." That's fine with us, as long as that insight means that people are better protected and enjoying a higher quality of life because the product was designed with their needs in mind.

JULIA KENNEDY: How do you select companies to invest in? I'm sure you get many that are worthy. How do you whittle it down, once they meet your base criteria?

BRIAN TRELSTAD: In India, in 2008, we probably looked at 100 investment opportunities, spent serious time with about 25 of them, and funded—call it five. I think the number may be six or seven, but call it five. So about 5 percent of the investments that we look at we will ultimately fund.

A lot of it is our experience as to what we think works. The diligence process can take three months, where we'll go and visit the company. We'll see the management team. We'll understand the customer. Are multinationals going to come in and take over this market? Is it a totally unaddressed space for now? They made 20,000 of these; can they really make two million of them?

So we go through the entire business model. For those 25 or so where we do diligence but we may not ultimately invest, the time the team spends helping ask these questions, we think, is a contribution to those businesses. We help prepare them for investors, whether we are the ones to invest or not.

If we were to look at two pretty close investments where one may have higher social impact and a lower financial return and the other may have a lower potential social impact and a higher financial return, I would like to think that we would choose the first investment, where the social impact is demonstrably

higher and the financial return might be slightly lower. But it's really hard to make that—there are not enough pure tradeoffs like that.

We are now at a point, with 35 or 40 investments, that it often comes to portfolio diversification. If we have three housing investments in Pakistan and none in East Africa, well, then let's do a housing investment in East Africa. So there is a portfolio diversification that comes into play in our new investment decisions, which may outweigh even the better or higher social impact, even higher financial return, if it's something we have already seen before. We already have three eye hospitals; why do we want to do a fourth? We might pass on something for those reasons.

So it's somewhat irrational. I think venture capital investing, if you study it, even in the United States, is a lot more about the art than the science. It's about intuition. It's about connecting with the management team. It's about feeling like Acumen Fund can add value to this business, and not just, does this business, on paper, look more financially attractive?

JULIA KENNEDY: On the other side, what do your donors look like?

BRIAN TRELSTAD: The donor community has been one of the biggest assets for Acumen Fund. We have about 220 individual and institutional supporters. Many of the individuals give us significant multiyear contributions. In addition to their capital, which is essential for our ability to make these investments, they give generously of their time, connections, ideas, insights. The source of the individual donors to date has largely been the United States. We have a large cluster of donors in New York, in the financial services industry; in the Bay Area, in technology and venture capital. There are a couple of other regions—Seattle, Chicago, Boston—where there are clusters of people who support us. We have made some significant inroads among the Indian and Pakistani diaspora communities in the United States.

We are increasingly seeing real resonance of our work overseas. I just got back from a fundraising trip in Norway and Sweden. We have a significant partner with a private equity firm in Dubai. I also met with people in Egypt who are interested in what we're doing.

I think it's people who are excited about using the tools of a venture approach to bet on entrepreneurs with the discipline of a private business, but with the aim of solving enduring problems of poverty. That really resonates. People who want to be more engaged with philanthropy, who want to advise a small company as it's going to scale—the work is really challenging, but it's also very rewarding. I think we have done a pretty good job of engaging the donors who want to be engaged in the work, taking them to see the businesses, how they are operating, what the challenges are, and picking up the phone and calling one of our donors and saying, "Hey, company X needs a designer. Do you know anyone who fits this job description?"

Our ability to reach out to some of the leaders of finance, venture, technology, Corporate America, businesses in Europe, I think, adds a significant value to our portfolio companies as well.

About half of our money is from individuals, half is from institutions. For some of the institutions, we are, to some extent, their R&D or their eyes and ears. They are either wanting to learn about how to do impact investing and social investing, and we are happy to take them along for the ride, or they don't think that they can make grants, as well as make investments, but they think that they might learn from these investments in ways that will inform their grant making. So we are very engaged with the program officers at our counterpart institutions on the lessons that we are learning.

JULIA KENNEDY: How has the financial crisis affected you here at Acumen?

BRIAN TRELSTAD: It has certainly made us nervous about the ability of our companies to serve their customers. The ripple effects of the economic downturn are, in fact, hitting our customer segments, with employment growth either slowing or reversing in many of the countries we operate in and with unclear outlook for the economy, particularly in Pakistan and Kenya. India continues to grow, although a little bit more slowly. It's having an effect on the people that we are ultimately trying to serve, which means that the businesses that we invest in are ultimately tougher. They need more capital. That capital may not be

as forthcoming. If a business in India was scaling up and it needed debt, it may not be able to get debt in the next six to nine to 12 months.

So there is a real challenge with the core business proposition in some of the businesses. Some of them are doing quite well, but for some of them it's going to be a tough six to 18 months, as with any business.

It's also having an impact, I think, on the perception of aid versus domestic investment. I don't study the aid flows closely enough to see if Denmark has cut its budget by 20 percent next year. But we did hear in Sweden, as an example, real pressure from the Swedish government to scale back the Swedish Development Agency's budget for 2010. If that translates globally, you might see funding for malaria, funding for HIV/AIDS, funding for nutrition diminish.

JULIA KENNEDY: Especially if you're hearing it from Sweden. That's pretty significant.

BRIAN TRELSTAD: Yes, one of the more progressive countries.

Philanthropically, we are bracing for people to scale back. Foundations whose endowments are down 30 percent will be giving less money out to new commitments. I think existing commitments will be met, but new commitments are obviously not going to be as easy to secure.

Then individuals, many of whom are down 50 percent, are reeling and trying to figure out what this means. If you were once worth \$1 billion and now you're worth \$500 million, you are still extraordinarily fortunate and wealthy, but we understand, certainly, that that may have forced a shifting of your priorities.

With the exception of one corporation, which went bankrupt, our commitments have remained firm. People may be asking to do a three-year gift over five years. We are not really pushing until things sort themselves out.

But we are anxious about where the fundraising environment is going to be for ourselves and for our peers in this space, but confident that our global strategy and some of the fundraising we are doing in other parts of the world can counterbalance some of the potential impact here.

JULIA KENNEDY: Given that situation, what are your plans for the future—expansion, shifting of priorities? What do you hope to achieve over the next five to ten years here at Acumen?

BRIAN TRELSTAD: We have been on a path to get a portfolio of about \$100 million of investments that we think are the most influential, the highest-performing, the most innovative, the most instructive portfolio of its kind. We are still on that path over the next two to three years. We are obviously going to wait to see how the financial crisis plays out, for us in particular. But we are continuing on that journey. We believe that now is the time to really double down on the portfolio, because it is the bedrock of our strategy.

But there is no real change in strategy for us based on the financial crisis. If the bottom falls out, we'll obviously come up with Plan B. It's incumbent upon us to have a contingency plan. But right now we're continuing to find good investments, support our entrepreneurs and the businesses that we have already invested in, and hope to share more broadly the message that there are innovative ways of solving problems that have vexed us for decades.

JULIA KENNEDY: Where do you get gratification from this job?

BRIAN TRELSTAD: I get personal gratification from seeing the results of our tough love with our entrepreneurs. Many of the social entrepreneurs that we invest in could have gone in a pure for-profit direction. They could have been quite comfortable living in India, which is experiencing high growth, or very well connected and networked within Kenya and could be doing something other than building a chain of toilets in the slums. They are often part of these global networks that give them access to grants and other opportunities. We are pretty generous, but we also hold our investees very accountable for

what they said they were going to do. If they need to strengthen their finance systems, we will pound the table and say, "Look, you need to do this." Oftentimes, we are a pretty stern voice of, "Now it's time for you to grow up."

At times, we get a lot of pushback: "Acumen Fund is bringing down the hammer for no reason." But when companies start to see that their performance is enabled by that kind of tough love and they are able to achieve greater reach, scale, customer service from some of the things that we insist on in the early days—better governance, improved and more transparent information systems, the highest ethics on finance controls internally—and that translates into the kinds of services that we invested in the business to do—to deliver a dignified place to go to the bathroom in the slums if you don't have access to a toilet or to deliver clean water to villages in remote India or to deliver a bednet—that's quite gratifying, to see that companies literally grow up.

It's equally gratifying for me to work with the portfolio team, watching them deliver that tough love to the entrepreneurs and to provide support and the generosity, but also to hold true to why we made the investment and keep the fiduciary interest of Acumen Fund at heart. To see the portfolio team growing and the entrepreneurs growing in a way that ultimately allows the businesses to serve the end customer is what is most exciting for me.

JULIA KENNEDY: Great. Brian Trelstad, thanks so much for sitting down with me and sharing your insights.

BRIAN TRELSTAD: Thank you for taking the time.

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