The Value Initiative

Advancing urban value chain development to help millions of people work their way out of poverty.

Introduction to Understanding and Accessing Social Investment: A Brief Guide for Social Entrepreneurs and Development Practitioners

AUTHOR

By Jessica Shortall with contributions from Sonali Chowdhary in partnership with Virtue Ventures

report

2008

seep Powering connections

BILL & MELINDA GATES foundation

Social Performance Map

Produced in the United States of America

For additional information, contact

The SEEP Network
1875 Connecticut Avenue, NW
Suite 414
Washington, DC 20009-5721
Tel.: 202-884-8581
Fax: 202-884-8479
Email: seep@seepnetwork.org
Web: www.seepnetwork.org

To access this publication online, visit www.seepnetwork.org

This publication of the Value Initiative of The SEEP Network was made possible with support from the Bill and Melinda Gates Foundation.

The contents are the responsibility of The SEEP Network and do not necessarily reflect the views of the Bill and Melinda Gates Foundation, or any of the individual organizations that participated in the discussion.

The Value Initiative

Advancing urban value chain development to help millions of people work their way out of poverty.

Introduction to Understanding and Accessing Social Investment:

A Brief Guide for Social Entrepreneurs and Development Practitioners

AUTHOR

By Jessica Shortall with contributions from Sonali Chowdhary
in partnership with Virtue Ventures

ABOUT The SEEP Network

The SEEP Network is an association of more than 70 international NGOs that support micro- and small enterprise development programs around the world. SEEP's mission is to connect microenterprise practitioners in a global learning community. SEEP brings members and other practitioners together in a peer-learning environment to produce practical, innovative solutions to key challenges in the industry. SEEP then disseminates these solutions through training, publications, professional development, and technical assistance.

ABOUT Virtue Ventures

Virtue Ventures is a small, innovative firm committed to furthering the field of social entrepreneurship through action-research, technical services and original initiatives. Virtue Ventures' mission is to help clients align social mission and program objectives to enterprise activities, build institutional capacity and leadership, develop a results-oriented and entrepreneurial culture, and improve asset management and financial viability. Virtue Ventures' team has first-hand experience designing, launching and managing social enterprises and nonprofit agencies. They have worked with hundreds of nonprofits and social enterprises, spanning sectors and industries in over 40 countries worldwide.

Acknowledgements

The SEEP Network is grateful for the leadership of Kim Alter at Virtue Ventures in bringing social enterprise thinking and practitioners to SEEP members and value-chain development. This and other papers in our series on social enterprise have spurred an important dialogue between practitioners and funders with different perspectives on how to address the common challenge of sustainable poverty eradication. In this paper, Kim Alter and Jessica Shortall, the author of this paper, generously share their insights, connections, and unique expertise in the murky world of social investment, presenting a clear and accessible entry point for practitioners unfamiliar with this landscape. The SEEP Network is pleased to be able to communicate information to a broader community that is often privy to only select, well-connected practitioners. We are also grateful to reviewers Linda Jones, independent consultant, and Sonali Chowdhary, deputy director of the Value Initiative, for enriching the presentation. In addition, The SEEP Network wishes to thank Kim Alter and Vincent Dawans from Virtue Ventures, Agnes Dasciewicz from Grassroots Business Fund, Anne Henricot from Philippson Foundation, Oliver Karius from LGT Venture Philanthropy Foundation, and Anil Kumar from New Ventures India for their contributions. We hope that this is the start of a longer dialogue and opportunity for more people in the development community to access this important source of financing and way of conducting development work.

This paper is dedicated to social entrepreneurs who have yet to discover this important title for themselves, a title that is personally empowering and that can open doors to new avenues of effective strategy and financing.

Sincerely,

Mary McVay

Director, The Value Initiative

The SEEP Network

Table of Contents

Preface

In his December 2006 Nobel Peace Prize lecture, Muhammad Yunus laid out a vision for a different kind of free market, one where individuals' financial and social objectives are integrated, where individuals do not have to pretend that their financial and moral selves are two separate entities. We quote a lengthy passage of his visionary speech here to provide inspiration and background to this social investment brief.

> By defining "entrepreneur" in a broader way we can change the character of capitalism radically, and solve many of the unresolved social and economic problems within the scope of the free market. Let us suppose an entrepreneur, instead of having a single source of motivation (such as, maximizing profit), now has two sources of motivation, which are mutually exclusive, but equally compelling — a) maximization of profit and b) doing good to people and the world.
>
> Each type of motivation will lead to a separate kind of business. Let us call the first type of business a profit-maximizing business, and the second type of business as social business.
>
> Social business will be a new kind of business introduced in the market place with the objective of making a difference in the world. Investors in the social business could get back their investment, but will not take any dividend from the company. Profit would be ploughed back into the company to expand its outreach and improve the quality of its product or service. A social business will be a non-loss, non-dividend company.
>
> Once social business is recognized in law, many existing companies will come forward to create social businesses in addition to their foundation activities. Many activists from the non-profit sector will also find this an attractive option. Unlike the non-profit sector where one needs to collect donations to keep activities going, a social business will be self-sustaining and create surplus for expansion since it is a non-loss enterprise. Social business will go into a new type of capital market of its own, to raise capital…
>
> To connect investors with social businesses, we need to create social stock market where only the shares of social businesses will be traded. An investor will come to this stock-exchange with a clear intention of finding a social business, which has a mission of his liking. Anyone who wants to make money will go to the existing stock-market.
>
> To enable a social stock-exchange to perform properly, we will need to create rating agencies, standardization of terminology, definitions, impact measurement tools, reporting formats, and new financial publications, such as, The Social Wall Street Journal. Business schools will offer courses and business management degrees on social businesses to train young managers how to manage social business enterprises in the most efficient manner, and, most of all, to inspire them to become social business entrepreneurs themselves. [1]

We hope that this information provided here, and the dialogue that it stimulates, will provide a useful if modest step on the path toward creating a market economy better aligned with our full selves, that will help "put poverty into the museums." [2]

---

1 Muhammad Yunus, 2006 Nobel Lecture. Full text available at http://nobelprize.org/nobel_prizes/peace/laureates/2006/yunus-lecture-en.html

2 Ibid.

Glossary

While not a comprehensive glossary of social investment terms, this list provides definitions for key concepts and organizations. Many of these terms do not yet enjoy consensus among social investment practitioners, but this list provides working definitions for this paper.

Social enterprise

"A business venture created to generate social value while operating with the financial discipline, innovation, and determination of a private-sector business."[3] Social enterprises can be stand-alone businesses, registered as private companies or non-government organizations (NGOs), or programs within an NGO or similar organization.

Social investor[4]

This is a funder that uses elements of mainstream investment to provide capacity building and growth capital for social enterprises. Note that social investors are not a single group: some provide capital with the expectation of financial return; some focus on social impact, but hope to make some profit; still others expect no financial return, but use investment principles to measure and increase the impact of their grant capital. Many types of institutions can engage in social investment, such as foundations, banks, government, multilateral funders, investment funds, and individuals. Two categories of social investors to note are venture philanthropies and social venture capital funds.

Venture philanthropies

Can be investment funds, foundations, or individuals (sometimes called "angels"), which share a particular mindset about funding. They borrow approaches from venture capital investors to invest money and time in NGOs and social enterprises to build capacity for "social returns." They value social impacts over financial ones. Venture philanthropies may use a range of financing techniques, including grants, loans, and equity investments.

Social venture capital funds

These socially oriented investment funds, structured along traditional venture capital (VC) lines, value financial return over social return, but focus their investments on enterprises with high social impact. Some may seek a lower return than mainstream VC funds; others may seek high financial returns by investing in profitable social enterprises. They take high-risk equity stakes in early-stage enterprises and provide hands-on input to increase chances of success.

---

3 Virtue Ventures' definition, see www.virtueventures.com

4 Note that in this document, the term "social investor" is used to describe organizations across the social investment spectrum, from highly engaged grant makers to commercial financiers seeking social impact.

Sub-market return

This is a financial return on investment that is below what is sought by commercial banks or investors. Investors expecting sub-market returns know they could make more money by investing elsewhere, but choose to invest in organizations that are providing social impacts as well as some financial returns. Sub-market returns can come from debt or equity.

"Traditional" funder

This constitutes foundations or government and multilateral development agencies that offer charitable or capacity-building grants, or contract NGOs, consulting firms, or social enterprises to implement development work. These funds can further an organization's mission, build more capacity, or support development work with specific deliverables. They play an essential role in development and can be utilized by social enterprises as part of a diverse funding strategy.

Investment vehicle

In general, includes any method that provides funding using business investment principles rather than traditional grant or contracting mechanisms. This can be debt or equity and, in the context of this paper, even grants.

Commercial business

This is a profit-motivated business that does not incorporate significant social impact as the key component of its model. Commercial businesses can create positive development, economic and social impact through normal operations. In addition, commercial businesses can engage in philanthropy, corporate social responsibility, and ethical business practice, but their primary purpose is business, not social impact.

Goals for This Document

NGOs, non-profits, and other social purpose organizations have traditionally relied on grants, donations, and contracts to fund their work in poverty alleviation, enterprise development, market facilitation, and livelihood development. These grants or contracts typically carry no expectation of financial return. Money is spent according to an agreed-upon budget and project plan, with the expectation that organizations will produce outputs (training, association development, market linkages) that lead to development outcomes (improved productivity, reduced costs, increased sales) and ultimately positive social impact (increased income, increased education, empowerment).

Over the last 10–15 years, social enterprise has emerged as an effective practice for achieving sustainable development goals. Social enterprises may generate financial returns, help an organization become sustainable, or generate social impact that is assessed and reported as a "social return on investment." For example, an organization may count, per US$ 1 invested, the number of people who access health services, use irrigation equipment, or double their income. The application of business principles to social goals creates new operational strategies and disciplines. It also creates demand for, and opens opportunities to, new types of funding.

Microfinance institutions (MFIs) with express social goals are the most prevalent and have mobilized social enterprise. Microfinance institutions can offer financial returns and seek to address poverty. The microfinance movement has established a rich range of institutions to facilitate access to financing for MFIs and access to financial and social returns for social investors—whether institutional or individual:

- Information portals, such as the Microfinance Information eXchange (MIX)
- Rating agencies, such as MicroRate and Planet Rating; investment funds, such as Microvest and Calvert Foundation
- On-line investment portals, such as KIVA and Microplace

This paper explores the growing pool of money termed "social investment" that is tailored to social enterprises. Social investment can help organizations build capacity, test innovations, and achieve sustainability. It can be a more flexible source of financing than grants and contracts, but it can also come with some challenging performance objectives. The goal of this paper is to introduce enterprise development practitioners and social entrepreneurs to social investment as a financing tool and help them begin to navigate their way toward raising social investment funds.

Specifically, we hope to:

- Provide a working definition for "social investment" and explain how this differs from traditional funding mechanisms
- Educate development practitioners and social entrepreneurs on social investors and their criteria, and how to identify appropriate types of social investment as practitioners evolve their business and funding strategies
- Provide concrete advice on approaching social investors, a process that is significantly different from traditional proposal writing

1. Social Investment: What Does the Market Look Like?

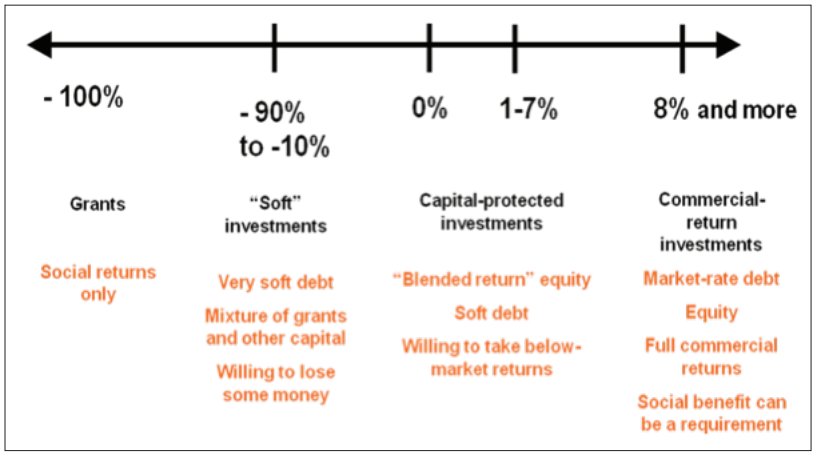
- What is social investment?
- Is there a lot of social investment capital available for social enterprise?

What Is Social Investment?

Social investment occurs when entrepreneurs and institutions or individuals with capital partner to implement a social enterprise—that is, a business created with a social purpose. As this chapter explains, "social investment" is a strategy for delivering capital for social purposes, using business-like strategies to support effective and efficient social purpose work. Social investors may require a financial return, but social investment also comes in the form of grants managed in a business-like manner. Social investment as a community of practice is growing as an alternative to mainstream investment in order to merge financial and mission goals. Some see this trend as a particular niche in investing, while others hope it may become the mainstream of our economic system.

The Spectrum of Social Investment Capital

Social investment capital can be placed in a spectrum of expected returns, from -100 percent (money is given with no financial returns expected) to commercial or market-rate returns (at least 8 percent or more for debt, and even higher for equity investments).

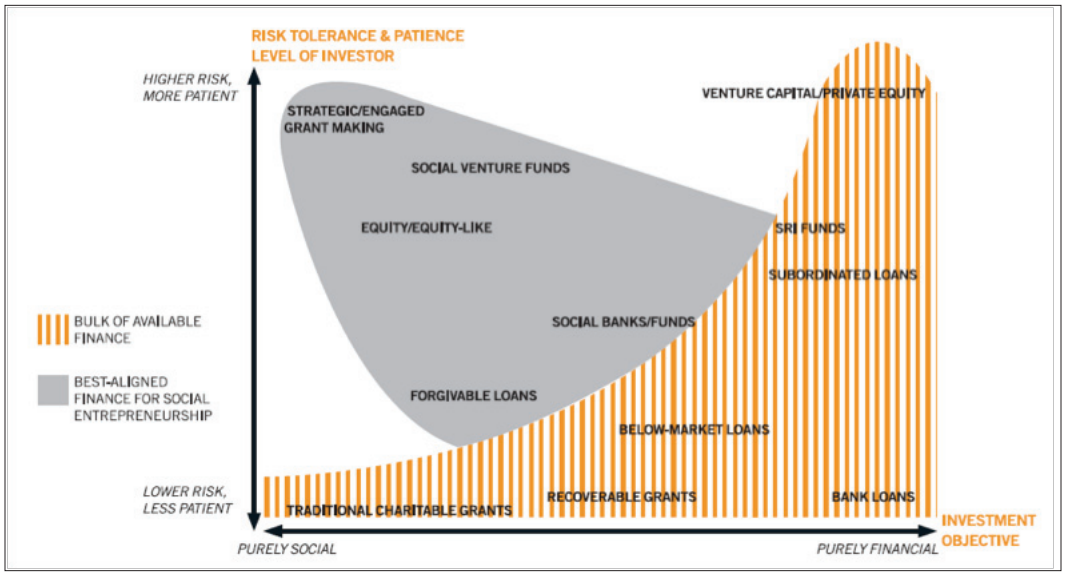


Most of the capital in this spectrum takes social impacts into consideration. The exception lies with commercial investors. Some commercial investors do seek social impact—venture capital firms with social impact goals and development banks—but most commercial investors are interested only in business performance and financial return. Some social investors across the spectrum require rigorously measured social returns on investment,[5] while others are satisfied knowing that the organization contributes to a social mission. This new field of investment in social enterprises is still evolving. Its truly defining characteristic is that, no matter what investment vehicle is used (grants, debt, or equity), the social investor uses criteria for investments that more closely mirror mainstream investment principles.

Supply and Demand of Capital for Social Enterprises

Development organizations, whether social enterprises or traditional programs, often have trouble accessing funds to fully implement their long-term visions. Grants are often inadequate to meet full program needs and contracts are usually limited in scope and timeframe. These key areas are challenging to fund:

- Capacity building, including strength of management team, and development of business and enterprise abilities and activities
- Long-term social impact strategies
- Innovative and risky business models



These areas align well with many of the goals of mainstream business investors. Growing commercial businesses also require capital that allows them to focus on building capacity before they can fully execute their business models. Early-stage commercial businesses often benefit from capital that takes a long-term view of business success, giving them time to build and prove their models and markets. Plus, they often require funders to take risks, providing capital to help them get to financial sustainability.

5 One developing arena in social investing is measuring social return on investment (SROI). More information can be found from the Social Return on Investment Network at www.sroi-uk.org

However, social enterprises usually cannot access mainstream investment capital because they focus on social impact and their business approaches are a means to that end. In many cases, the focus on social impact means that the enterprise will not or cannot provide commercial levels of financial return to investors. Instead, these social enterprises need funders that are seeking lower (or no) financial return in exchange for sustainable social impact. Thus, there is a significant gap between demand for financing among social enterprises and the supply of capital.

Figure 2 represents the currently available supply of capital by social investors, from fully philanthropic to fully commercial, and the demand for capital by organizations that offer investors varying degrees of social impact and financial return. The majority of capital available globally is for businesses that can provide investors with a commercial rate of financial return. Social enterprises that are able to compete with commercial businesses and offer commercial levels of financial return are able to access that large pool of capital—investors may see the social impact as an added benefit, but will be attracted by the promise of a commercial financial return. For those social enterprises offering investors a lower-than-commercial financial return (often called "sub-market" returns), the supply of capital is still growing and evolving as traditional funders learn to take risks with their capital and new investors emerge. For social enterprises seeking grants, some grant funders are evolving their thinking about how to use grants as "investments" to support enterprise approaches to social problems.

2. Social Investors and Investment Vehicles

- What investment vehicles are social investors using?
- Do some of these social investors still make grants?
- Why do investors who seek social impact want any financial return on their investment?
- Who are these social investors?

Capital Requiring No Financial Returns

A grant is capital provided without expectation of repayment or financial return. Grants made in the "investment" style mirror the criteria and expectations taken by mainstream venture capital. While a grant of this type is still "non-returnable," the social investor considers the grant an equity investment. The social investor takes a highly engaged, long-term stake in the success of the organization, and invests in the organization's capacity and growth, rather than a specific program. Many social investors, termed "venture philanthropies," take this approach with grants. [6]

6 Note that some funds which use a venture philanthropy approach employ debt and equity along with grants.

Capital Requiring Financial Returns

Traditionally, grant makers have not required that their money be returned to them, due to the philanthropic motivation behind the grant process. However, many social investors do ask for—and expect—some financial return on their investment. Their motivations can be as varied as the organizations themselves. Some social investors believe that debt-repayment requirements introduce discipline into a social enterprise. Some believe that true equity ownership allows them to influence the success of a social enterprise. Others believe that if a social enterprise can provide financial returns, it should, so that the capital can be recycled to other social enterprises. Still others want to preserve their capital or make some money, but for personal or ethical reasons prefer their investments to be less profitable than the expected return of mainstream investments.

Sub-market (or "soft") debt

Sometimes called "program related investment" (PRI), sub-market debt does not require a commercial rate of return and can provide several concessions to a social enterprise, including:

- Patient loans – long repayment periods
- Favorable interest rates – often below market rates
- Interest holidays – debt service is delayed until growth milestones are reached

Sub-market equity

Equity is defined as ownership of shares in a company that are sold to investors in order to provide cash for a growing company. Equity defers payment to investors until the company can pay dividends or is sold. Sub-market (also called "blended return") equity is ownership of shares in a company that is not expected to provide commercial levels of financial return to social investors. These lower returns may be due to the social enterprise plowing most of its profits back into its social mission, or to the higher costs associated with working with the very poor or testing out new models in hard-to-reach communities. These social investors expect to achieve some financial return and some social impacts.

Commercial debt

Commercial debt comes in the form of loans or bonds that require full repayment plus market-rate interest. The lender determines the time frame for repayment, interest rate, and required collateral. For commercial banks, social impact is often not a factor in this kind of lending—only the social enterprise's ability to repay the debt. Some social investors might employ debt at commercial rates as a tool for social enterprises whose cash flow can sustain it.

Commercial equity

In the case of social enterprises, commercial equity applies where the social enterprise expects to be highly commercial and to return profits to its investors, while making a significant social impact through its business practices. This type of capital is profit-driven. If a social enterprise is truly commercially competitive and has potential to provide high returns to investments, it might seek equity capital from both traditional equity investors and the emerging group of equity investors who seek both high returns and social impacts.

Other forms

While not discussed extensively in this paper, some social investors are experimenting with additional investment vehicles:

- Loan guarantees: "A legally binding agreement under which the (loan) guarantor agrees to pay any or all of the

amount due on a loan…in the event of nonpayment by the borrower".[7] This type of agreement can give a social enterprise access to commercial debt that it might not otherwise have.

- Quasi-equity: Usually structured as a sub-market loan, it gives the lender the right to royalties or some of the social enterprise's revenues if it is successful. Quasi-equity behaves like equity by allowing the social investor to share the risks and rewards of the social enterprise, but it does not give the social investor any legal ownership of the social enterprise.

Sources of Social Investment

Social Investment capital comes from a variety of sources. Most types of social investors use more than one investment vehicle, reflecting the investment-minded approach that tailors financing to the needs of the organization. See Annex H in the appendix for profiles of specific social investors.

	Investment vehicle	Purpose of finance	Type of finance	Social investor types	Examples of funders/investors
No returns	Grant	Mission fulfilment, capacity building, specific projects	PRI MRI	Foundation, venture philanthropy, government	• Impetus Trust • LGT Venture Philanthropy • Skoll Foundation
Below-market returns	Sub-market debt	Economic and social development, capacity building,, growth capital, working capital	Microfinance, SME loans, patient loans	Foundation, venture philanthropy, government, social VC fund, development bank	• Grassroots Business Fund • OikoCredit • IFAD
	Sub-market ("blended return") equity	Capacity building, growth capital	Share of ownership with lower financial expectations	Foundation, venture philanthropy, social VC fund	• Gray Matters Capital • Individuals buying ethical shares
Market-rate returns	Commercial debt	Growth capital, working capital	Loans	Venture philanthropy, bank	• Commercial banks
	Commercial equity	Growth capital	Ownership	Venture philanthropy, bank, commercial venture capital, commercial "angel"	• Aavishkar • Bamboo Finance • Intellecap

3. Organizations Seeking Social Investment

- What kinds of organizations might be eligible for social investment?
- What do social investors look for?
- Is social investment funding appropriate for our organization?

In some ways, social enterprise activity mirrors the microfinance industry: it spans a wide spectrum, from commercially viable at one end (Compartamos) to grant-funded at the other (the many small, rural MFIs that depend partly or wholly on grants). Social enterprises and development organizations that are considering whether or not to pursue social investment financing should analyze where they could fit on the spectrum of financial viability and seek social

7 OECD glossary of terms, see http://stats.oecd.org/glossary/detail.asp?ID=5966

investors offering a matching type of financing. Once a practitioner knows in general what category of social investment to pursue, then other more familiar factors will come into play to find a good match: area of development (education, health, technology, or agriculture), geographic area, target population, etc. The following table suggests ideas for matching financial viability and type of social enterprise, existing social investment vehicles, and selection criteria of social investors.

Organization type	Activities	Profits	Potential investment vehicles	What social investors look for
Non-profit or NGO, with no enterprise activity	No income-generating activity; engaged in innovative and market-based social impact	No profits; income through grants only	• Investment-style grants	• Innovation • Plans for growth • Sustainable impact
Non-profit or NGO, with some enterprise activity	Range of activities, including some enterprise activity and market interventions	Profit possible at enterprise level, but usually not enough to cover NGO budget	• Investment-style grants • Sub-market debt	• As above • Clear business thinking • Good financial models for enterprise activity
Social enterprise offering below-market returns*	Operates as a business or enterprise, but primary motivation is social impact	If profits are made, they are low and/or most or all go back into the enterprise and social mission	• Investment-style grants • Sub-market debt • Commercial debt • Sub-market equity	• Proof of concept • Strong planning • Good financials • Social impact • Experienced management • Risk analysis

Organization type	Activities	Profits	Potential investment vehicles	What social investors look for
Social enterprise taking fully commercial approach**	Operates as commercial business that has significant social impact embedded in business model	Able to provide investors with commercial returns	• Grants & Sub-market debt (in early stages) • Commercial debt • Commercial equity	Proof of concept • Business thinking • Good financials • Experienced team • Social impact embedded in the business • Risk analysis

* Some social enterprises require subsidization through grants, sometimes indefinitely and sometimes for a finite period, in order to achieve breakeven. Other social enterprises operate at or near breakeven without subsidization. Still others make some profits. All of these might be able to support some form of debt. Those that make some profits might be able to take on sub-market equity.

** Many commercial social enterprises can access grant and sub-market debt and equity in their early days, from organizations interested in building sustainable businesses with social impact. Once they achieve some momentum, these businesses usually "graduate" to commercial debt and equity.

4. Understanding Social Investment Thinking

- How do social investors differ from traditional grant makers?
- How do these investors gauge the riskiness of funding social enterprises, and what kinds of returns (social and financial) do they look for?

Risk and Return

The concept of "risk and return" is well understood in the commercial investing world:

- Investors prefer higher returns over lower returns.
- "Investment risk" is the possibility that the investment will provide lower than expected financial return.
- Risk and return move together: a less risky investment will generate lower financial returns.
- Investors are risk averse, trying to avoid unnecessary risks.
- All investments involve some level of risk—investors could lose some or all of their money.
- There is no perfect risk/return balance; investors must decide how comfortable they are with risking capital to get greater returns.

When social investors bring an investment mindset to funding social enterprises, these assumptions change in important ways, depending on the social investor's goals. Some of the social investors discussed above will vary their social impact and financial return goals on a case-by-case basis, as is true for many venture philanthropy funds and some foundations. However, the concept of "risk and return" changes significantly based on the level of financial return a social investor seeks, as seen below.

Commercial investors seeking both commercial/market returns and social impact

For these investors, none of the above rules change. Just as a venture capital fund might invest only in technology ventures, these commercially focused investors choose businesses that provide social impact. Once they are convinced a business has strong social impact, the investment criteria are the same: Is it a strong business? Is there a clearly defined opportunity? Can management seize that opportunity? Will I be able to exit and get my money out? What financial returns might I achieve?

Social investors taking sub-market (blended) return

For these investors, some of the assumptions above are significantly altered:

- People do not always prefer higher returns: The social investor is not seeking the highest possible returns and does not promise commercial rates of return to its own investors. The social investor could make more money elsewhere, but is more interested filling a gap in capital for social enterprises producing high social impacts.
- Risk and return do not always move together: The social investor decides that as long as higher social impact is achieved along with whatever financial returns are made, higher risk might be acceptable for lower financial return.

In this category, investors make their own decisions about how much financial return they require. This will be determined largely by the expectations of investors in the fund.

Social investors using grant capital with an investor's mindset (investment-style grants)

In this case, financial risk and return concepts are not a consideration—funding is focused solely on social impact. These social investors do, however, look at the organization's financials and ask many of the same questions as mainstream investors: is it a strong business, is there a clearly defined opportunity, can management seize that opportunity? These funders often look for social enterprises that still require grant capital to prove their models.

Control and Mission Drift

The control that social investors seek is an inherent part of their highly engaged approach to funding. Control by social investors can take on different characteristics than in the traditional philanthropic funding world. Social investors' control is less tied to project milestones and more to the ability of the investors to influence decision making in the social enterprise and/or the need to achieve financial returns. Many mainstream investors in early-stage businesses believe that in addition to providing money, they can influence success by having some control over decision making. From a mission perspective, social investors might also enjoy the personal involvement that some measure of control brings with it.

Control can take many forms. Common approaches to giving a social investor some influence over decision making include:

- Equity ownership—ownership of shares in the company, which carry voting rights
- Board seat—one or more seats on the organization's board of directors
- Reporting requirements
- Milestones to be achieved for further funding to be released
- Less formal advisor role

Another form of influence comes from the social investor's level of engagement with the social enterprise. Social investors use business approaches to measure and support social enterprises. These social investors have a high tolerance for adapting milestones to match changing realities. They tend not to expect a rigid output, as is sometimes the case with development grant makers and is often the case with agencies issuing development contracts. But, they do expect transparency and an engaged role to help achieve results, and this increased level of engagement can be a new experience for many social enterprises.

While there are clear benefits from having an investment-minded board, this control also poses serious risk of mission drift. As social enterprises try to move from subsidized to revenue funded operations, they may lose focus on their original social mission and goals due to changing composition of the board of investors. This is especially relevant for the enterprise that transitions from non-profit to for-profit form, or that has a clear social agenda. Therefore, re-

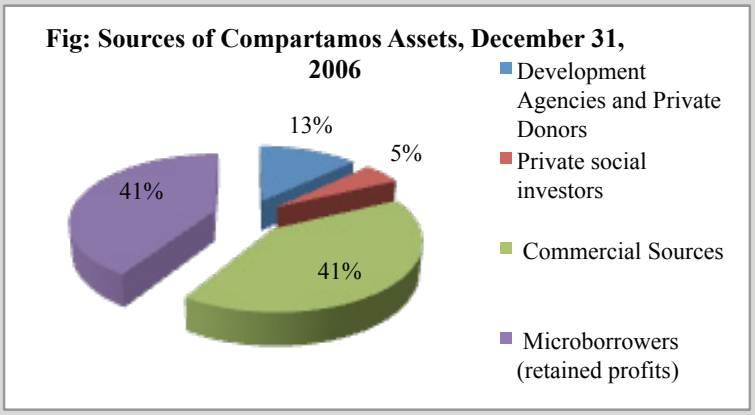
emphasizing the role of the board and governance, and consciously maintaining a balanced composition of board members are necessary to ensure compliance with social mission as well as financial mission. The 2007 public offering of Compartamos, a commercial MFI, was an industry milestone and sparked a series of debates in the development and microfinance industries on profit-making versus profiteering. What is an acceptable range of expected returns on social investment? At what point are profits made at the expense of the poor? Who should be the ultimate beneficiary of the profits that a social enterprise makes? (See box below)

Compartamos: A Case of Mission Drift or a Milestone of Success in the History of Social Enterprises?

Compartamos, a microfinance institution in Mexico, started off as an NGO with public funds from ACCION International, IFC, CGAP, and some private donations, and transformed itself into a licensed commercial bank in 2000. In 2007, Compartamos issued an initial public offering (IPO) on the stock market to raise new capital, and at the same time, some of the existing investors divested their shares. The IPO was 13 times oversubscribed and considered a huge success by any financial market standard. Pent-up demand caused the share price to surge by 22 percent on the first day of trading. The key drivers of demand were Compartamos's exceptional growth, profitability, and strong management, combined with a dearth of investment opportunities in emerging market segments in Mexico and the increasing appeal of microfinance.

Table #	A Brief History of Compartamos
1990	Established as an NGO
2000	Moved operations to regulated for-profit finance company
2002	Issued debt for the first time on the Mexican bond market
2006	Authorized by Mexican government to operate as full service bank
2007	Made its initial public offering

Source: Richard Rosenberg, 2007, "Reflections on the Compartamos Initial Public Offering: A Case Study on Microfinance Interest Rates and Profits" (Washington, DC: CGAP), http://www.cgap.org/p/site/c/template.rc/1.9.2440/.



The event sparked debates by highlighting that the company's shareholders received high rates of return on their investments, which multiplied their wealth over time. This increased wealth resulted from charging high interest rates to Compartamos clients. While Compartamos claims that the large profits fueled rapid growth, the poor were paying for the expansion to other poor clients and investors were accumulating wealth. Although this happened gradually and was not explicitly planned, was this fair to Compartamos's clients? Could Compartamos have managed this differently? How does a social enterprise control its investors and shareholders when the objective of an IPO is to raise more capital? Both Compartamos and its critics have valid points of view, but clearly many in the outside world think the organization has not been completely true to the cause of microfinance. A central debate emerging from this is whether the IPO alters the governance of Compartamos in ways that make it harder to balance social and commercial objectives—especially when the choices are about whether money goes into shareholders' pockets or clients' pockets.*

Source: Richard Rosenberg, 2007, "Reflections on the Compartamos Initial Public Offering: A Case Study on Microfinance Interest Rates and Profits" (Washington, DC: CGAP), http://www.cgap.org/p/site/c/template.rc/1.9.2440/.
*Also see the debates in the Microfinance Gateway discussion series on the same topic.

5. Recommendations for Social Enterprises

- How can a social enterprise match its financing needs with what is available?
- How can limited time be best used to target social investors that are a good match?
- What is the best way to get in contact with social investors?
- How is the process different from grant applications and contract bids social enterprises are used to?

Where to Start

Moving into a new sphere of funding can be a daunting task. It is important to remember that this new area is not necessarily right for every organization. "Traditional" forms of grant making and contracting remain an important part of the funding landscape—and one of the largest sources of capital for social enterprises and other social purpose organizations.

The most logical place to start is initiating a discussion about whether social investment is right for the organization among the social enterprise management team and advisors.[8] A few basic questions to ask include:

1. Is the organization constrained by current funding sources? Is lack or type of funding constraining the ability to implement a long-term vision?
2. Is grant funding currently not meeting the enterprise's needs, in terms of size, level of engagement, or business thinking?[9]
3. Does the enterprise have a clear strategy for where it wants to be and how it will get there? Does this strategy require significant growth?
4. Is the enterprise able to present a compelling, business-focused plan to potential investors that reflects business strategy and thinking?
5. Is the organization looking for strategic advice in the form of a more highly engaged—and sometimes more challenging—relationship with funders?
6. Is the organization planning to grow into a phase where it will offer a financial return?

8 More detailed recommendations are in Annex A in the appendix.

9 Many organizations are well suited to traditional grant funding and can be enticed by newer forms of funding where it is not necessary.

Finding Social Investors

Gaining entrance into professional networks of social investors is critical to accessing social investors. Without direct personal contacts, there are three paths:

1. Business plan competitions – these may not offer larger sums of funding, but often do offer coaching, business planning funds, and links to investors.
2. Conferences – where social investors gather to hear pitches from social entrepreneurs and learn about trends in social investment and social enterprise.
3. Facilitators and support organizations – offer a range of networking, learning, and linkages opportunities.
4. "Coaches" – technical advisors and consultants who offer customized guidance and funder linkage services.

Annex A provides a specific list of resources in these categories.

Business Planning

Business plans for social investors differ significantly from grant proposals.[10] While grant proposal are almost entirely fundraising documents, business plans should be internal management tools first and fundraising tools second. They should allow managers to plan strategy, assess risk, understand markets, and assess potential financial outcomes. The approach taken by social investors mirrors the primary purpose of business plans—they should be able to change over time. These funders take a more open-ended, less time-limited approach to funding. Their analyses are market driven and focused on results, and funders expect social enterprises to prove that they have a viable opportunity and the capacity to seize that opportunity. Equally important, social investors emphasize the quality of business plans because these documents can shed light on the quality of the entrepreneurs and their ability to apply business thinking to social problems.

In writing a business plan, remember language matters. Social investors coming from a finance background (as is the case with investors seeking financial returns and many venture philanthropies) are likely to be unfamiliar and uncomfortable with traditional development language. Their comfort zone is in the realm of business thinking, including strategy, market analysis, execution, risk, and return. On the other hand, social investors on the grant and high social impact side are likely to be comfortable with traditional development and social impact terminology. Language that communicates business thinking, financial accuracy, and organizational strategy remains important, but long-term impact, empowerment, and shifts in value chains and systems are also among key messages social enterprises need to communicate.

There are many resources for basic business planning on the internet, as well as specific advice in Annexes A and B in the Appendix on what social investors look for in a business plan. While there are very few books specifically devoted to business planning for social enterprise, one excellent resource is *Generating and Sustaining Nonprofit Earned Income.*[11]

Researching Potential Social Investors

Research helps the enterprise decide whether it is a good fit for a social investor, but also whether the investor is a good fit for it. Does the investor's style of support and engagement suit the enterprise? Are the values and goals of the enterprise and investor aligned?

---

10 See Annex G in the Appendix for detailed advice on business plan contents.

11 S.M. Oster, C.W. Massarsky, and S.L. Beinhacker (eds.), 2004, Generating and Sustaining Nonprofit Earned Income: A Guide to Successful Enterprise Strategies (Jossey-Bass), http://virtueventures.com/resources/gsnpei.

It is very important that social enterprises understand the level of financial return required by each social investor. The level of financial return a funder requires is non-negotiable. Do not waste the funders' time by targeting those that require a higher return than the enterprise can give. No amount of social impact will change a social investor's basic criteria. This is a simple and obvious rule, but one that many social enterprises think is flexible.

Research should also focus on the areas of social impact that are important to the social investor. Note that these can sometimes be negotiable. Because funders are always looking for good "deal flow," they will sometimes experiment outside their core social impact areas. Social enterprises should also investigate the level of engagement and control a social investor expects.

One of the first steps in the research process, however, is identifying potential social investors. This can be difficult: there is no single resource or clearinghouse yet for information on social investors because this is a relatively new and evolving field. The appendix in this paper includes some resources for researching social investors. Additional strategies include:

- Identifying social enterprises that do similar work, or work in similar locations, and investigating their funding sources
- Speaking to current funders and asking for advice and contacts
- Finding one or two social investors willing to take an informal phone call, not about investing, but about helping find potential social investors
- Contracting with an intermediary to identify funders

As the organization begins to develop a list of potential investors, create a simple spreadsheet that can help track investors' criteria and focus, contact with investors, and whether or not each social investor might be a good fit.[12]

Contacting Social Investors

Many commercial investors depend heavily on personal connections and recommendations—the same holds true for social investors. Social enterprises should leverage every available connection to obtain introductions to targeted funders. This includes board members, existing funders, supporters, and personal connections. Fee-based intermediaries or coaches may also provide a direct connection to investors. A personal introduction is always desirable.

If personal introductions are not feasible, social enterprises should send an executive summary[13] with a concise cover letter, wait a few weeks, and follow up once or twice. Be prepared to have a few versions of this executive summary available:

1. Grant financing: Focus more on social impact, potential to scale and grow, and ability to execute on the operational plan.
2. Sub-market debt and equity: Prove the social impact, but focus very heavily on the business model and the ability to execute it.
3. Commercial debt and equity: Prove the opportunity and business model, and demonstrate business thinking. Show that risks and scenarios have been thought through, and that the business execution is serious. Mention social impact as a natural outcome of success.

---

12 See Annex C in the Appendix for details.

13 See Annex D in the Appendix for an example.

Due Diligence and Negotiations

Due diligence—the process an investor uses to investigate a potential investment opportunity—is often very different from the grant application process. It is often a resource-intensive process in which the social investor delves into every aspect of the social enterprise's operations, finances, and strategies. Social enterprises should prepare to devote management time to the process. Social enterprises must commit to transparency and openness throughout the due-diligence process. Withholding information suggests to funders that they cannot build a trusting relationship with the social enterprise. Disclosing problems and challenges, on the other hand, builds trust and helps develop a shared strategy. Due diligence is also a useful tool for providing the social enterprise with advice on the business plan, strategy, and financial forecasts. During this process, social enterprises should be open to discussions about valuation (for equity investment) and interest rates (for debt), and be prepared to both negotiate and compromise.

Rejections

Rejections are as inevitable with social investors as they are with traditional grant makers. In the case of a rejection, social enterprises should ask for feedback via email, phone, or face-to-face meetings. Ask the social investor about improving the business plan and how to better target funders in the future. Many will be happy to help, because improving the way social enterprises seek capital is in their best interest. When receiving feedback, even if it is critical, do not be defensive. Social investors talk to each other, and social enterprises cannot afford a reputation of not listening to advice. At the same time, ask for referrals; the social investor might know individuals or funds well suited to the social enterprise.

6. Conclusion

There is no single model for social enterprise, or for whether or how social enterprises should seek social investment. Similarly, there is no single model for a social investor, or for how social enterprises can best find an appropriate social investment match. Many social enterprises pursue a mix of capital sources. They have to balance the messages they give funders and investors, as well as how they adhere to implicit and explicit expectations of taking different forms of capital. Each social enterprise has to determine its own funding strategy and be opportunistic.

Social Investment in the "Real World"

In the real world, social entrepreneurs always look for ways to maximize available resources, which may involve a complex mix of grants, earned revenue, soft loans, commercial loans, and equity. In the private financial market, start-up entrepreneurs leverage their own investment, real property assets, and equity gained from earned revenue to raise additional equity and debt capital for expansion. With social enterprises, it is less clear how grants and "sweat equity" can be leveraged to raise additional expansion capital. Many organizations start with grants and earned revenue and move in different directions, depending on program successes and missions, for example:

1. Development programs starting under a non-profit umbrella through grants or other soft terms may over time implement successful, revenue-generating initiatives. They sometimes transform these initiatives into more profitable institutional forms suitable for attracting investments, such as venture philanthropy grants, loans, social investment

funding, or a combination. Such organizations often retain some component of the non-profit form in order to continue research and development for new programs and products, and thus may opt to continue taking advantage of grants and soft money. For example, K-REP Group Ltd., which originally brought "Grameen bank"-style lending to Kenya, is home to K-REP Bank, K-REP Advisory Service (a consulting company), and K-REP Development Agency (a research and development organization).

2. Fair trade organizations that operate as traders between cooperative or community-based producer groups and global fair trade retailers, or global fair trade retailers and community-based producer groups themselves, often operate on a combination of grants and earned revenue, but can attract social investment as they become more profitable.
3. Development organizations that wish to remain fundamentally non-profit can position and package themselves as a socially important venture with social returns on investment. They may start with traditional grants and later—once they have a track record—target venture philanthropies or social investors that are willing to compromise market returns for social returns.
4. Commercial enterprises may not have a clearly articulated social mission, but their work may address an obvious market gap, have a social output (as against purpose), and have clear market potential. They may be businesses operating in a value chain, such as an eco-tourism company, or perhaps be mission-driven development consulting firms. They may start with no external funding or only commercial sources of funding, and later raise social investment funding due to their track record of financial returns and social outcomes.
5. Business may start as a commercial venture, but realize that they can be, or are, a social enterprise and thus take advantage of some social investment funds
6. Social entrepreneurs may identify a key market gap that brings social returns, using either past experience or market research, and then develop a business plan or start up. Often these entrepreneurs enter business-planning competitions after receiving a graduate degree in business or engineering, and seek funding opportunities to implement their business plan.

These are all very rational trajectories that illustrate the complex ways different types of social entrepreneurs realize social investment possibilities.

However, due to scarcity of resources and general mismatches in supply and demand, finance arrangements in any given social enterprise will depend on the availability of resources and the entrepreneur's ability to penetrate the social investment market. Many social enterprises are pushed into less than ideal financing arrangements, taking on more risk or accepting more control than desired from equity investors or lenders. On the one hand, these arrangements can lead to mission drift; on the other, they may be the only option and buy time for the social enterprise to mature, allowing it to attract more flexible funding later. In contrast, financially viable social enterprises may be ready for external loans or equity investment, but prefer available grant funding or development contracts that fit with their mission. In the real world, ideal needs and opportunities for funding do not always align, and practitioners often create innovative solutions to take advantage of resources and networks.

"Graduating" from Grants?

Some literature on social investing implies that all social change organizations should try to move away from traditional forms of funding toward more commercial forms of investment. Reality is much more complex. As mentioned above, some social enterprises start up as commercially focused businesses and use commercial capital throughout their existence, and some begin with grant funding and slowly move toward more commercial forms of finance. A social enterprise's funding strategy might change over time, involving a mix of capital that enhances the organization's

work, allows it to invest in research and development continuously, and provides each investor or funder with the desired type and level of returns (financial and/or social).

However, the progression toward financial self-sustainability, profitability, and commercial capital is not inevitable and is not necessarily the best route for every social enterprise. For some organizations, focusing on income generation and profitability can pose a danger by taking the focus off the social mission and overstretching limited resources. A combination of grants, donations, and commercial capital can and does work for many organizations.

The Challenge of Matching Social Investors and Social Entrepreneurs – the Role of Intermediaries

For social entrepreneurs, the core challenge is finding and navigating the secretive and exclusive world of social investors. For social investors, the challenge is finding social entrepreneurs and business deals who are "ready for prime time"—investment ready, trustworthy, and able to communicate easily with social investors. The few and well-connected break through most frequently, while large numbers of social entrepreneurs make a difference in their communities and are capable of more, but need capacity building and connections. What is the block in the system? How can the demand for capital and the demand for good investments be unleashed? Who is doing what to facilitate the market?

On the plus side, there is a proliferation of Northern-based organizations facilitating access to investors. Some are intermediaries; they manage and invest capital on behalf of individual investors. Others facilitate information sharing and linkages by hosting websites, business plan competitions, and conferences, or offering training and technical assistance. The gap, it seems, is in intermediaries and facilitators closer to entrepreneurs—geographically, culturally, linguistically and in terms of their social networks.

"Local" intermediaries and facilitators play an important role in connecting social enterprises to investors. They can help enterprises become investment ready, assist them in contacting appropriate funders, help them develop and present information, and manage the relationship between enterprises and investors. "Local" intermediaries and facilitators can also play an important role for investors by reducing their expenditures on identifying promising social enterprises and investigating them. A network of local intermediaries within a sector can help disseminate and promote social impact indicators and reporting standards, further improving the efficiency of the investment process. Intermediaries and facilitators are emerging in developing countries. India in particular has a dynamic industry including numerous business plan competitions. The challenge is stimulating and supporting intermediaries and facilitators in other countries, and forming a global network.

Further Research

The biggest obstacle to understanding the world of social investing is lack of transparency and lack of documented practice. Because this is an emerging field, many investors do not yet have a large body of investments to report on and draw trends from. At the same time, some deals are intentionally kept private between investor and investee, so the details and outcomes are not available to the general public. Improved communication among social enterprises, among social investors, and between social enterprises and investors would greatly enhance their knowledge of each other, and the best ways of finding and providing finance. Future research and dialogue for learning around social investment might include these questions:

- How should grant and investment needs be separated and presented to different types of funders in order to strengthen the case of a social enterprise and allow it to take advantage of available resources—without diluting its core mission of profitability and innovation?

- How is a social enterprise started from scratch? What leverage points do CEOs have—for example, combinations of sweat equity, own capital, experience, collateral, goodwill, etc.—for bringing initial loans or equity into new social enterprises?
- What are the various institutional structures for bringing in equity while continuing to use grants for innovations and research? How can one successfully maintain a combination of non-profit and profit components or different institutional forms within group companies and holding companies, etc.?
- How can one convert or leverage grants to non-profit components of an organization into equity for new social enterprises?
- Risk of "mission drift" and bringing in commercial investors may affect the aims and profitability of social enterprises. What are the lessons from advanced industries, such as microfinance?
- Should, or are, social investors organizing themselves into development "sectors" that parallel traditional development sectors, e.g., health, education, women's empowerment, enterprise development, etc? This would certainly help social entrepreneurs who tend to place themselves first in a mission category and second in an investment category. Would this help investors and entrepreneurs find better matches?
- What is the market for intermediaries, information exchanges, and rating agencies? Which exist and how do they perform for all parties? Where are the gaps and how might these be filled to advance the industry and further facilitate social investment?
- What roles are appropriate for development organizations in improving the system for social investment?
- Do all social enterprises need to incorporate environmental concerns in to their missions or only when it's a priority of investors?
- What role do governments play in creating an enabling environment for social investors? How can social enterprises engage with government to facilitate greater social investment?
- How can social enterprises leverage the impact investing movement?

Finally, the annexes in the appendix of this paper list resources, including conferences, websites, readings, and document templates. In many cases, the best way to start is by joining or creating communities (online or in person) where other members may be looking for similar funding, have had similar or helpful experiences, or are asking similar questions.

Appendix

Annex A. Finding Social Investors

Gaining entrance into professional networks of social investors is critical to accessing social investors. Without direct personal contacts, there are three paths in:

1. Business plan competitions – these may not offer larger amounts of funding, but often offer coaching, business planning funds, and links to investors
2. Conferences – where social investors gather to hear pitches from social entrepreneurs and learn about trends in social investment and social enterprise
3. Facilitators and support organizations – offer a range of networking, learning and linkages opportunities
4. "Coaches" – technical advisors and consultants who offer customized guidance and funder linkage services

1. Business Plan Competitions

1. BiD Network (www.bidnetwork.org) is an annual business plan competition for social enterprises that offers mentoring and networks.
2. Ashoka's Citizen-Based Initiative (CBI, www.citizenbase.org) runs competitions to identify and invest in innovative, local ideas.
3. Ashoka's Changemakers (www.changemakers.net/en-us/competitions) hosts collaborative competitions.
4. Global Social Benefit Incubator (www.socialedge.org/features/gsbi) mentors and assists social entrepreneurs to develop business plans.
5. Development Marketplace Global Competition (www.applytodm.org/main.html) is a competitive grant program, administered by the World Bank, to fund innovative, early-stage projects.

2. Conferences and Networking Opportunities

There are still relatively few conferences focused specifically on social enterprise and social investing. Many countries will have domestic conferences, so your organization should research this area. Some larger conferences include:

1. Global
   - Global Social Investment Exchange (www.gsix.org) is an annual conference for "impact investors."
   - Skoll World Forum on Social Entrepreneurship (www.skollfoundation.org) is a gathering of social entrepreneurs in Oxford, UK. Some social investors attend.
   - Social Capital Markets (http://socialcapitalmarkets.net) is an annual US-based conference focused on social investing.
2. North America: Social Finance Forum (http://social-finance.ca/blog/tag/sff08/) is a Canada-based conference.
3. UK: i-genius (http://www.i-genius.org) hosted its first social enterprise conference in Thailand in 2008.

4. India

- Sankalp Awards (www.sankalpforum.com) is India's largest social enterprise and investment forum.
- Develop Your India (http://developyourindia.blogspot.com) is a blog that follows social enterprise and investment trends in India

3. Facilitators and Support Organizations

1. Social Edge (www.socialedge.org) is an online community of social entrepreneurs. You can join or follow discussions, post questions, and learn what others in the field are doing.
2. SEEP Network (www.seepnetwork.org) brings micro-enterprise practitioners together in a global learning network; and Enterprise Development Exchange (edexchange.seepnetwork.org) links communities of practice to advance sustainable poverty eradication.
3. Social Returns, Inc. (www.socialreturns.org) is a non-profit organization supporting social enterprises globally.
4. Social Enterprise Alliance, US (www.se-alliance.org)
5. Social Enterprise Coalition, UK (www.socialenterprise.org.uk)

4. Social Enterprise Coaches

The following organizations offer coaching to social entrepreneurs to help them develop effective social enterprise strategies, write business plans, and raise social investment capital. Their listing here should not be seen as an endorsement, and readers should conduct their own due diligence before working with these potential partners:

Virtue Ventures, www.virtueventures.com

Drew Tulchin, www.socialenterprise.net

Annex B: Profiles of Specific Social Investors

1. XIGI (www.xigi.net): Xigi is a social network, tool provider, and online platform for tracking the nature and amount of investment activity into social purpose organizations. Xigi's goal is to guide, educate, and connect this "growing wave of new money" with emergent entrepreneurs.
2. EVPA (www.evpa.eu.com): The European Venture Philanthropy Association is a membership association for venture philanthropies in Europe. EVPA has a directory of members.
3. Good Capital (www.goodcap.net), a social venture capital firm in the US, produces a monthly e-newsletter about social investing.
4. Origo (www.origoinc.com), a US-based consultancy, has a monthly e-newsletter that sometimes includes information about social investing.
5. Socialinvestments.com (www.socialinvestments.com) provides a UK-focused directory of social enterprises, and services for UK social enterprises looking for capital.
6. Changemakers (www.changemakers.net) provides a number of resources on social entrepreneurship.
7. The Social Capital Index (http://socialcapitalindex.net) is developing lists of social investment funds.
8. The Global Impact Investing Network (www.globalimpactinvestingnetwork.org), a non-profit organization of investors, works to increase the effectiveness of impact investing. GIIN has a member directory and is part of www.iris-standards.org, a reporting and standards setting initiative.

Annex C. Find a Match with Potential Social Investors

Your organization may want to begin to research social investors and investigate their potential "fit" with your mission, goals, and ability to provide financial returns. In doing this, you should keep track of all social investors you encounter, even those whose criteria do not match

Social investor	Organization type	Location	Geographic focus	Industries of focus	Social impact focus	Financial return expected	Deal size (range)	Finance vehicles	Worth investigating? (Yes/No)
XYZ Foundation	Private Foundation	London, UK	East Africa	Agriculture, handicrafts	Livelihoods	None	$100,000–$500,000	Grants	
ABC Fund	Venture Capital fund	Mumbai, India	India	Micro-enterprise development	Livelihoods, women	Fully commercial	$500,000–$2.5 million	Equity	
John Smith	Individual venture philanthropy	Geneva, Switzerland	Global	Social enterprise in general		Sub-market	$20,000–$100,000	Sub-market equity and debt	

your social enterprise. These social investors might not be a good fit today, but they might work for your organization in the future or they might be able to provide advice and introductions to other investors. Consider developing a spreadsheet like the example below:

You can also make a template to develop detailed profiles on social investors, like the one above.

Annex D. Example of One-Page "Teaser" Document for Social Investors

UBUNTU Social Enterprise Executive Summary

Background: UBUNTU was set up in Namibia in 2000 as a social enterprise to market organic honey and provide training and employment opportunities for women and adolescent girls in beekeeping and honey production. UBUNTU markets honey domestically and across Africa, with steady year-on-year growth in sales.

UBUNTU has worked with more than 1,500 women since its inception, improving their income and family livelihoods through fair wages and raising education levels through training. UBUNTU also has an environmental impact: its work ensures the preservation of a bio-diverse region of 7,000 hectares.

Growth: UBUNTU is launching a micro-franchising program that will allow workers to "graduate" from their employment with UBUNTU and set up their own operations to sell honey under the UBUNTU brand. UBUNTU has partnerships with local microfinance institutions to provide seed capital for micro-franchising entrepreneurs and has developed a training program to equip franchise owners with the necessary skills to run a microenterprise.

Over the next five years, x number of women will set up UBUNTU micro-franchises, creating greater reach of UBUNTU's products into rural and urban areas, and empowering women to be microentrepreneurs.

Social benefits: Direct benefits for UBUNTU micro-franchise entrepreneurs are as follows:

- Increases income up to x percent
- Allows women to build credit history
- Provides training in business management
- Empowers women to be business owners

Business Model: UBUNTU has two main streams of income, wholesale and retail sales of UBUNTU honey and franchise fees from microentrepreneurs. UBUNTU also uses grant money to support its training programs.

Financial Requirement: UBUNTU is seeking US$ 500,000 in funding by the end of 2009. This funding will be broken down as follows:

1. Grants: $100,000 to support business mentoring and training programs for new micro-entrepreneurs
2. Sub-market debt: $400,000 to invest in working capital and managerial capacity-building

UBUNTU's financial forecasts show breakeven by year 3, at which point they can start to repay principle and interest on debt.

Key Team Members:

- Jane Doe, chief executive officer, founded UBUNTU after 10 years of experience in the honey industry

Social investor / organization name			
Sub-fund (if applicable)		Industries, areas of focus	
Geographic focus		Organization type	
General description			
CAPITAL & INVESTMENT			
Investment vehicles		ROI expectations	
Deal Size		Target period to exit	
Target investees		Open to co-investing?	
Deals per year		Board seat expected?	
Additional support			
Investment notes			
Selection Criteria			
Funding process			
Similar investees			
STRATEGY			
Suggested approach			
Issues likely to arise			
CONTACT INFORMATION			
Address		Country	
Phone		Web	
Name		email	
Name 2		email 2	
Introductory contact		Contact level	
Supporting materials			

$,000	2008 actual (pre-franchising)	2009	2010	2011	2012
PROFIT & LOSS					
Sales	83	125	160	181	204
Sales Growth %		*51%*	*28%*	*13%*	*13%*
Cost of Sales	46	65	83	87	90
Overheads	72	85	86	86	90
EBIT	(35)	(25)	(9)	8	24

- Henry Jones, chief financial officer, is a financial expert with more than 20 years experience in consumer foods businesses
- Deepa Patel, operations director, previously implemented a $40-million project at CIDA and will be directly managing the franchising program
- Ntongi Smith, marketing director, has an MBA in marketing from XYZ school plus 12 years of industry experience

Contact Details: XXX

Annex E. Reading and Tools on Social Investing

1. Reading

a. "Nothing Ventured, Nothing Gained" from the Skoll Centre for Social Entrepreneurship, explores the "capital gap" for social enterprise (http://tinyurl.com/bxhdjw).

b. "Equity like Capital for Social Investors" from Bridges Ventures in the UK (http://tinyurl.com/acyxjz)

c. "Venture Philanthropy in Europe" from the European Venture Capital Association (http://tinyurl.com/b9gos4)

d. REDF is a leader in venture philanthropy and has many publications at www.redf.org.

2. Tools

a. Venture Source (www.venturesource.org) is a practitioner-driven library of social entrepreneurship resources.

b. Business Plan Pro—Social Enterprise Edition (www.se-alliance.org/resources_bpp_se.cfm) is a business planning tool developed for non-profits planning earned income ventures.

c. Community Wealth (www.community-wealth.org/strategies/tools/social.html) has a number of planning guides and tools for social enterprises.

d. Professional networking outlets, such as Twitter and LinkedIn, can also help you connect with like-minded organizations and social investors.

Annex F. Investors and Contributors Interviewed

1. LGT Venture Philanthropy Foundation (Oliver Karius)—a venture philanthropy fund offering grants, sub-market and commercial debt, and equity deals, with no specific ROI goals for the fund as a whole
2. Philippson Foundation (Anne Henricot)—a foundation focused on strengthening social enterprises, but does not invest directly
3. New Ventures India (Anil Kumar)—an industrial association investing in sustainable, profit-making environmental/social ventures in India
4. Grassroots Business Fund (Agnes Dasciewicz)
5. Virtue Ventures (Kim Alter and Vincent Dawans)
6. Additional anonymous sources from the social investment community

Annex G: Writing a Business Plan

Tips on Writing a Business Plan

1. Clearly define your business case by working backwards:
   a. Where do you want to be in 3–5 years?
   b. How will you get there?
   c. What are the key resources, people, and actions needed to get there?
2. Do not confuse your business case with social impact information. How you run your enterprise and the social impact it has should be presented separately.
3. Clearly define social impact and give qualitative and quantitative examples:
   a. Keep it simple.
   b. Be clear about inputs, outputs, and outcomes.
   c. Discuss "social returns" only if you can provide quantitative proof; otherwise, use "social impacts"
4. Provide biographies of management team. These should highlight the experience and education that make these individuals ideally suited to carry out the business plan.
5. Have clear market data to show growth potential and demand of your product/service.
6. Include a section identifying key risks facing the business and how you intend to address them.
7. Include your wish list for non-financial support, such as connections or help with the business model
8. Explain how you envision exit for funders – through repayment of loans, sale of the business, or, for grant funders, achieving financial sustainability as an organization.
9. Discuss what terms, rates, and other dynamics are important to you with your team and advisors. Even if these do not appear in the business plan, these will inform your planning.
10. Write your executive summary last. It should capture the key elements of business case, social impact, team, financials, and capital needed – preferably one page, but no more than two.

11. Use the executive summary to prepare a one-page document, tailored to the type of funder you are targeting, explaining the business opportunity and business case, social impacts, financial needs, and (in general terms) financial returns (if any) funders can expect (see next Annex D for an example).

Tips on Building Financial Forecasts

1. Use Microsoft Excel.
2. Show projections for balance sheet, income statement, and cash flow for at least five years.
3. Have three scenarios—base, optimistic, and pessimistic—with very clear assumptions for each case, so funders know you understand the risks and do not have unrealistic expectations.
4. Outline your historical funding—who, how much, and what for.
5. Do not confuse profit margin with return on investment.
6. Have your books audited by a credible firm.

Materials to Develop

1. Business plan: maximum 20-page Word document.
2. An executive summary/prospectus "one-pager": This document has multiple names, which is used as a "teaser" for potential investors. It should be 1–2 pages maximum and hit the major points of the business plan: opportunity, plan, business case/model, social impact, team, financial snapshot, and financing needs. Keep paragraphs short and concise.
3. PowerPoint presentation with maximum 10–15 slides: This document should feature good visuals and bullet points, have minimal text, and present the main points of your business plan in compelling slides. You should be able to talk from—but not read it—this presentation in a pitch to funders or email it to funders for their review.

Annex H. Funder Profiles

About Kipper Blakeley

Kipper Blakeley has been involved with philanthropy both as a donor and as an implementing partner of programs for the past 17 years. His field experience includes work in Latin America and Asia. Most recently, he served as an International Advisor for the Population and Community Development Association (PDA), run by one of the most well known "social entrepreneurs", Mechai Viravaidya. In this capacity, Kipper worked on a senior management team tasked with development, implementation and follow-up of myriad programs, including micro-credit and HIV-prevention initiatives, as well as the post-Tsunami socio-economic rehabilitation of nearly 100 villages. Following the sale of the family business, Kipper has been involved with setting up the family foundation while working simultaneously as a consultant to Blatter+Frick.

About Blatter+Frick, Social Investors Services (www.socialinvestors.com)

Blatter+Frick is a boutique philanthropy advisory and facilitation firm based in Switzerland, which works with affluent individuals and families worldwide, enabling them to turn their philanthropic ambitions into actions by applying the same rigor and principals that guide them in their business investments. Their expertise is in the facilitation and design of innovative, collaborative approaches. For international clientele they currently oversee a portfolio of initiatives around the globe.

They assist social investors in making a difference by enabling social investors to take an informed investment decision based on sound research and experience. Through an extensive global network of partners on the ground, they help select the best-suited projects in order to achieve the investor's objectives and then accompany them from strategy development to successful completion of the investments. Throughout the process, they help ensure transparency by performing due diligence on investments, monitoring the investments on site and giving advice without conflict of interest.

About Oliver Karius

Oliver is a partner at LGT Venture Philanthropy responsible for the Africa region, sustainable investment as well as clean tech/climate change and research into market based solutions. Oliver has over 12 years experience in sustainable/socially responsible investment, venture philanthropy and corporate sustainability strategy consulting in both developed and developing countries. He is the co-founder of the WEF aligned African Social Entrepreurship Network (ASEN), DeRisk, VantagePoint Global, and worked previously for SAM Sustainable Asset Management, the Dow Jones Sustainability Index (DJSI), F&C Investment Management (formerly ISIS) and MunichRe. Oliver holds an MSc in Global Environmental Change and Policy, Imperial College, UK and MSc (Dipl. Biol.) from Ludwig Maximilians University, Germany.

LGT Venture Philanthropy (LGT VP) (www.lgt.com)

LGT Venture Philanthropy Foundation's mission is to improve the sustainable quality of life of less advantaged people in the developing world by selecting and supporting both non-profit and for-profit organizations active in the areas of alleviating human suffering, education and creation of sustainable livelihoods in Africa, China, India, Latin America and South East Asia.

LGT VP applies a venture philanthropy approach, an innovative approach to philanthropic giving based on venture capital principles. These include the provision of targeted and long-term support to organizations in the forms of financial capital, intellectual capital, as well as access to relevant contacts and networks. Depending on the business model of the supported organization, LGT Venture Philanthropy provides grants, loans or equity; any generated profit is channeled back into the fund and will be used for additional investments.

To ensure that the funds entrusted are allocated effectively and generate maximal positive impact, each engagement is subject to detailed due diligence and evaluation, as well as an ongoing mentoring, measurement and reporting process. LGT VP was founded in 2007 by the initiative and funds of the Princely Family of Liechtenstein, to become the preferred partner for philanthropic engagement for LGT clients, LGT employees and the Princely Family.