

Social Capital Conference (SoCap09)
Fort Mason – San Francisco
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Panel Topic: Plenary Session: Showcasing the Social Capital Spectrum

Purpose:

What does the social capital market look like? It's bigger, broader and more connected than most people realize. The panelists represented the full range of the spectrum, from venture philanthropy funds to a traditional investment fund that donates part of its profits.

Design/methodology/approach: Reports and expert opinions from panelists.

Moderator: Matthew Bishop, The Economist

Panelists:

Kim Smith, NewSchools represented the venture philanthropy funds that turns donations into loans and equity investments in sustainable businesses with a social mission.

William Foote, Root Capital, a nonprofit social investment fund that provides capital to small and growing businesses in rural areas of developing countries.

Wim van der Beek, Aavishkar Goodwell, a social venture fund that puts mission first when it takes equity in microfinance institutions in India, Ghana and Nigeria.

Alvaro Rodriguez-Arregui Ignia, a fund in Mexico that promises a high social impact without sacrificing high financial return.

Jed Emerson, Uhuru, a traditional investment fund which donates a significant portion of its profits.

Findings

This was a wide-ranging discussion with a lively, engaged panel. The primary themes centered around the roll of philanthropy and non-profits, the need for additional metrics to evaluate what is working, the opportunity presented by the recent financial collapse, and the role of social capital markets.

The panelists largely viewed social capital markets as addressing social challenges. As Foote said, "Creating and developing competitive businesses is one of the fundamental responses to entrenched poverty." He explained that for his organization, Root Capital, it's not just about the capital but access to knowledge and technology. He got into financial literacy training so that people with little education can compete in the global marketplace – a basic MBA for the global marketplace. He is a founding member of ANDE and is working with local banks to identify market opportunities in countries such as Nicaragua.

van der Beek and Rodriguez-Arregui both shared similar models that focus on serving the needs of the poor. Rodriguez-Arregui spoke to the need for social capital to demonstrate profitability; his organization has a completely for-profit approach. He stated that capital will flow in when this has been shown to be a profitable market and wants to open the floodgates for capital into this area because by investing in the poor is the best way to tackle poverty. van der Beek observed that the only way to tap into capital markets is to provide a market rate of return with adjustment for risk. A blended model is still necessary, particularly to tap into grant money.

Emerson acknowledged that his business is structured as a wealth management fund that manages hedge funds – it's a hedge fund of hedge funds – and that structures, instruments, metrics doesn't allow them to operate the way they want to. The key question was, how can you capture and reflect fuller performers of value and performance?

The panelists expressed concern that there may have been a missed opportunity during the recent financial crisis: “We did a Maslow’s hierarchy – let’s first make sure that we still have a country and a global economy.” (Smith) Rodriguez-Arregui stated the issue simply – “Don’t let a good crisis go to waste. We are fighting a huge paradigm.” – and pointed out the need to have the broader public recognize that purpose-driven companies have been resilient during the financial crisis. Both Rodriguez-Arregui and Emerson stated that they have observed that traditional investors are wary of hearing about sustainability or social mission and that they need to focus on making the business case.

Another issue that was raised was that capital markets are very clearly defined (seed capital, venture capital, public markets, etc.) so that it’s clear when to move people on to a different type of financing, but social capital markets lack that structure. A related issue was that social capital markets operate in the middle of two existing capital markets (capital vs. philanthropy), but in the middle, there’s missing information and that space needs to be structured.

Smith captured some of the challenges facing social capital markets, particularly in constructing models and quantifying results. First, acknowledging that people do not operate in rational-based ways in markets. We can quantify risk and incorporate true costs, but the emotional factors that people use when making decisions will be difficult, if not impossible, to quantify. Secondly, we need to figure out new tools. As she observed, “Everyone’s making everything up. No one has the teacher’s manual.”

Practical implications

The panelists demonstrated the range of social capital markets, from venture philanthropy to hedge funds. Most acknowledged that they use blended funding (grants, loans, and equity) in supporting new enterprises. The role of the financial crisis was of particular concern because it provided an opportunity to rethink some traditional capital market assumptions, but the panelists were concerned that an opportunity had been missed.

There was consensus on the need to bring purpose-driven investment to mainstream markets, while at the same time recognizing that some traditional investors are not yet ready to hear about sustainability and social markets.

Originality/value

The panelists were thoughtful and passionate, and many have extensive experience in social capital markets. Their free-ranging discussion highlighted the challenges that the social capital market will face in the future, particularly as it stands at the intersection of philanthropy and traditional capital in the aftermath of financial collapse.

Key Words

Social capital markets, blended funding, purpose-driven investments

Paper type: Review of Conference Panel

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