Social Capital Conference (SoCap09)
Fort Mason – San Francisco
September 1 - 3, 2009

Panel Topic: Beyond Micro Financing

Moderator: April Rinne – Water.org

Panel Participants:

Steve Hardgrave – Grey Matters Capital
Gil Crawford – Microvest
Gary White – Water.org
Patricia Safo – JCS (Ghana)

Purpose:

The panel discussion focused on the innovations needed to grow beyond traditional micro finance lending models. Education, health care, and water are sectors which have a great demand for capital investment yet how the different types of investors operate within these sectors has become problematic.

Design/methodology/approach

Using bottom of the pyramid examples of micro investing in education and water projects, the opportunity for new diversity in financing options and ecosystem infrastructure was the driving force of the panel discussion. Examples of each organizations successes and challenges carried the main topic throughout.

Findings –

Steve Hardgrave (Grey Matters Capital) -- When financing is understood contextually then social impact takes on a deep social return on investment. As a micro investment funder of private education in poverty stricken communities, a vertical approach was used to measure basic financial success (tuition receipts, number of students and teacher retention costs) in addition to the social impacts of what an education (although relative to the area in which it is being received) can have in terms of deep social returns within the community. The challenge is not in the "running" of the enterprise but in developing the infrastructure in which the enterprise can thrive and thereby grow to the next level. Philanthropic investment is often used to establish the enterprise with the idea that other types of investors will participate in the growth stage where some level of ROI can be realized. Communication between the two entities (philanthropic and capital investors) has been problematic in regards to where one investment structure ends and another one begins; hence; the growth of these philanthropically supported entities has become stunted due to the lack of a common language and understanding around what funds are needed at a particular time in the "innovation to the growth" stages and beyond.

Patricia Safo (Ghana) – The traditional micro financing investment structure of lending to one community member at a time in the spirit of incremental growth within a community was termed ineffective in terms of having the greatest social impact for poverty stricken communities in Ghana. Instead, the concept of building a larger financial structure (beyond the micro finance model) to engage government policy, regulators, and a comprehensive investment strategy that funds all vertical sectors in the community's ecosystem was proposed as having the potential for a more successful social impact. The example of a tomato farm was used where all levels of funding were needed in the support structure of the farm (i.e. seeds, transportation, manufacturing equipment and restaurateurs). Hence, the picture of successful micro financing needs to widen its scope and begin to include the entire system which will in turn allow the enterprise to be sustainable for the long term.

Gary White (Water.org) – Leveraging projects such as water and sanitation systems in under developed communities requires a blended investment strategy. Traditional investment exit strategies need to be revised to include social impact measurements of success along with modest financial ROI. Philanthropy and financial subsidies coupled with a capital investor help to build the human infrastructure to move a bottom of the pyramid enterprise into a viable financial model that is sustainable and attractive to mainstream investors.

Gil Crawford (Microvest) – The main challenge of moving micro financing beyond its current platform is finding sufficient capital to invest in “early innovators”. Inherent in innovation lies the experimentation of the innovation – through experimentation it is commonly found that the innovation is not necessarily scalable for growth. The micro finance and other non-profit venture capital investors have not designed the investment model to account for the failures in the early innovation stage of an idea. This is unlike the for profit sector, where potential for enterprise failure is taken into account from the start and is offset by mitigating risk factors through strategically involving expertise in the initial growth plan.

Practical implications –

Micro Finance is in a stage of maturity in its current form. It will need to evolve in order for it to meet the larger needs of impoverish communities as well as for its long term sustainability as an investment sector.

From a micro economic level, micro finance’s social impact can be measured through the freedoms that those individuals that have received financing and have experienced success through personal entrepreneurship within their community. One can argue that without strategically moving micro finance into the next level of maturity (from individual to community based) the sector runs the risk of a macro level effect of creating too much debt within the communities. This debt potentially creates limited exit strategies for the investor hence putting the long-term social impact at risk.

Originality/value

The panel indentified a need to push the envelop of micro financing to address larger more impact full uses of capital resources and to move toward engaging the mainstream investor into the micro finance model. Sectors in great need of capital such as education, health care and water/sanitation stand to benefit greatly if the micro finance model itself can be brought to scale.

Key Words
Water, water credit, micro finance, philanthropy, economic infrastructure

Paper type: Panel Discussion Review

Julie Nunn (2009)
Green MBA Program
Dominican University
San Rafael, California
julienunn@greenmba.com
www.greenmba.com