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

By Jessica Shortall
With Kim Alter
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Acknowledgements

About Virtue Ventures LLC (www.virtueventures.com).

Virtue Ventures LLC is the world's leading firm supporting social enterprise internationally. Its mission is to "further the field of social enterprise through action-research, technical consulting services and its own initiatives. Virtue Ventures' practitioner-focused and mission-centered approach stems from being a creative team rooted in the industry. Its partners and associates have extensive first-hand experience designing, launching and managing social enterprises, and have worked with literally hundreds of social enterprises, spanning social sectors and industries in more than 40 countries worldwide. Since its incorporation in 2000, Virtue Ventures has received accolades for its high-quality services and excellent products. Virtue Ventures offers unique functional experience and textured understanding of the social enterprise operating environment that is critical to rendering sound professional services customized to the needs of its clients.

Jessica Shortall, the principle author of this paper, is currently Director of Giving at TOMS Shoes for Tomorrow, the philanthropic arm of a progressive shoe company that gives shoes to children in developing countries. At the time of this paper was written, Jessica was an Associate at Virtue Ventures LLC. Jessica is co-founder of Campus Kitchens, a social enterprise that prepares and serves meals to homeless people through an innovative food recycling program. As well, she has an MBA from Said Business School University of Oxford and is a recipient of the prestigious Skoll Scholarship for Social Entrepreneurship.

Kim Alter is the Founder Partner and Managing Director of Virtue Ventures LLC. Kim is also a Visiting Fellow at the Skoll Centre of Social Entrepreneurship at Said Business School University of Oxford, where she teaches a course on social enterprise and conducts research. She is the author of several original works on social enterprise.

About The SEEP Network
The Small Enterprise Education and Promotion (SEEP) Network, the leading international network and promoter of best practices in enterprise development and financial services, is a global organization whose membership is committed to reducing poverty through the power of enterprise. SEEP's 67 members are active in over 140 countries and reach over 23 million microentrepreneurs and their families.

Since its inception in 1985, The SEEP Network has been a leader in the development of the international microfinance and enterprise development fields through its contributions to the documentation of best practice, through its capacity to convene key stakeholders, and through its well-regarded methodology for lateral learning which offers a platform for inclusive and productive dialogue. As a learning organization, SEEP employs the building blocks of systematic problem solving, experimentation, learning from past experience, learning from others, and transferring knowledge to accomplish our work and fulfill our mission.

The primary way SEEP undertakes practitioner-driven research, learning, and product development is through working groups composed of its members, shaping action research and best practice in a range of areas. From the working groups come SEEP's practitioner-oriented products, tools, and training materials. SEEP's FRAME Tool and Framework Manual[1] is one of the best examples of the quality, usefulness, longevity, and influence of our practitioner-oriented products. SEEP's lateral learning approach and working group structure are keys to translating knowledge into practice and yielding such products.

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[1] For download here http://seepnetwork.org/section/frame/

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 investing practitioners, but this list will provide working definitions for the purpose of 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."[2] Social enterprises can be stand-alone businesses, or programs within an NGO or similar organization. Some NGOs are experimenting with helping disadvantaged communities develop their own enterprise approaches, such as microenterprises, and for the purposes of this paper, these approaches are included under the "social enterprise".
- **Social investor[3]:** A funder that uses elements of mainstream investment thinking to provide capacity-building and growth capital for social enterprises. Note that social investors are not a single group: Some provide capital with expectation of high financial return, some focus on social impact but hope to make some money, and still others expecti no financial return but use investment thinking to increase the impact of their grant capital. They include foundations, banks, government, and multilateral funders, as well as:
    - Venture philanthropists: Can be investment funds, foundations, and individuals (sometimes called "angels"), who share a particular mindset about funding. They borrow thinking from the venture capital world to invest money and time in non-profits and social enterprises to build capacity, valuing social impacts over financial ones. Venture philanthropists might use a range of financing techniques, including grants, loans, and equity investments.
    - Social venture capital (VC) funds: Funds structured along traditional venture capital lines, taking high-risk equity stakes in early-stage enterprises, and providing hands-on input to increase chances of success. Focus their investments on enterprises with high social impact. Some might seek a lower return than mainstream VC funds; others might seek very high financial returns by investing in profitable social enterprises.
- **Sub-market return:** 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 be in debt or equity.
- **"Traditional" funder:** Charitable donations; foundation, multilateral agency, or government grants; and government or multilateral agency contracts that provide funding to NGOs and social enterprises. These funds can further an organization's mission and build 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, any method by which to invest. This can include debt and equity, and in the context of this paper, even grants.
- **Commercial business:** A profit-motivated business that does not incorporate significant social impact as the key component of its model. Commercial businesses can do good and have positive social impact through philanthropy, corporate social responsibility, and ethical business practice, but their primary purpose is business, not social impact.

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[2] Virtue Ventures' definition; www.virtueventures.com

[3] 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.

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 (e.g. increased income, increased education, empowerment).

The growing practice of using enterprise models to achieve social impact, however, is creating demand for new types of funding. Social enterprises can benefit from funding that takes a hands-on, long-term investment approach, that introduces financial discipline into the enterprise, and that expects and measures results in new ways.

This paper explores the growing pool of money termed "social investment" that is tailored to enterprise-based approaches to social and environmental problems. Social investment can help organizations build capacity, test innovations, and achieve sustainability. The goals for this paper are to:

- provide a working definition for "social investment", and explain how this differs from traditional funding mechanisms; [4]
- educate organizations engaged in social enterprise activity and development on social investors and their criteria, as these organizations evolve their own business and funding strategies; and
- provide concrete advice on approaching social investors, a process that is significantly different from traditional grant-writing.

1. Social Investment: What does the market look like?

Supply and demand of capital for social enterprises

Social enterprises use business and market approaches to create significant, sustainable social impact. When these organizations seek to develop and scale up such programs, they can benefit from new types of funding that helps them to focus on the following key areas:

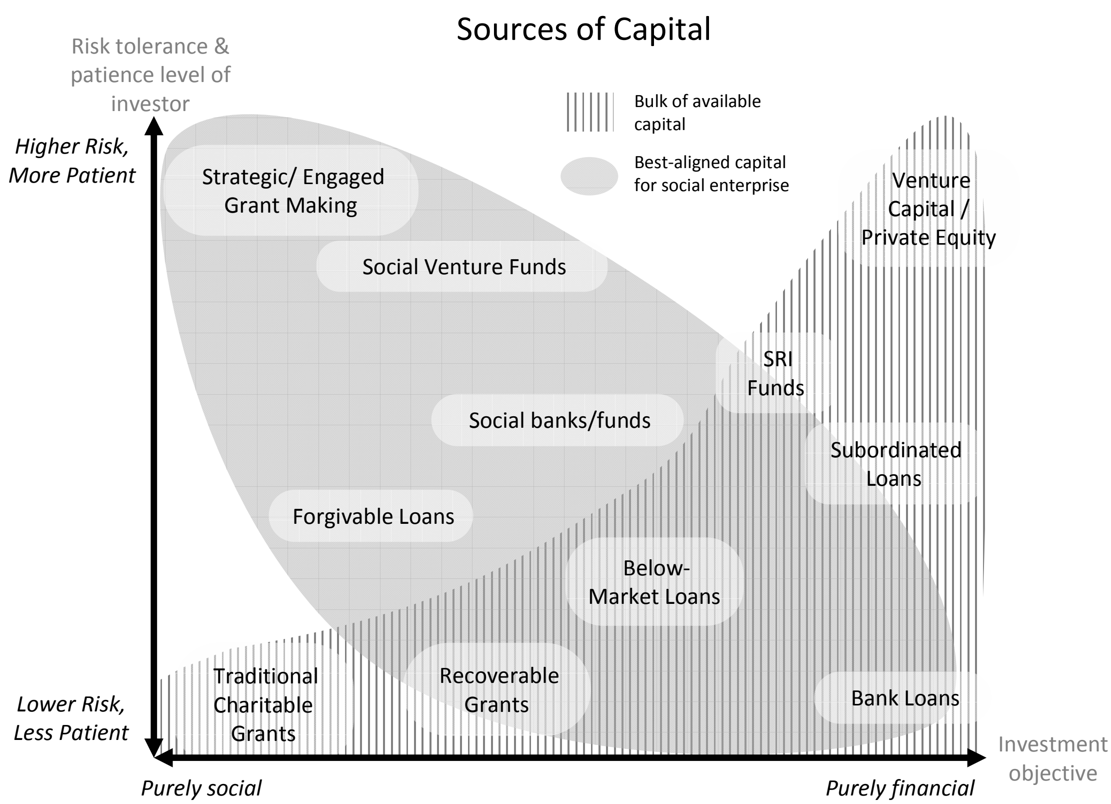
- Capacity building, including strength of management team and development of business/enterprise abilities and activities
- Long-term social impact strategies
- Sustainability of business models

These areas align well with many of the goals present in the mainstream investment world. 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 can often benefit from capital that takes a long-term view of business success, to give them time to build and prove their models and markets. And they often require funders to take risks on them, providing capital to help them get to financial sustainability.

[4] There are currently limited resources and few strict definitions for social investing, as it is an evolving field. Some references and resources are listed in the Appendix

However, there is an important difference between commercial businesses and social enterprises: In the latter, the focus is on social impact, and business approaches are a means to that end. In many cases, this focus on social impact means that the enterprise will not or cannot provide commercial levels of financial returns to investors. Instead, these social enterprises need funders that are seeking lower (or no) financial returns in return for sustainable social impact.

The chart at below[5] represents the currently available supply of capital by social investors, from fully philanthropic to fully commercial, and the demand for capital by organizations that can offer investors varying degrees of social impact and financial return.



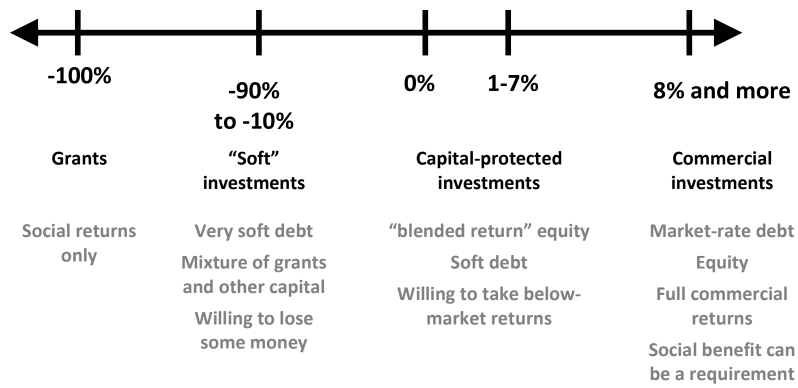
The majority of capital available, globally, is for those businesses that can provide investors with a fully commercial financial return. Social enterprises that are able to compete with commercial businesses and offer commercial levels of financial returns to investors are able to access that large pool of capital – investors might see the social impact as an added benefit, but will be attracted by the promise of a commercial financial return. For those social enterprises that fall into the category of 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.

[5] Virtue Ventures 2006

This new field of investing in social enterprises is still evolving. Its truly defining characteristic is that, no matter what investment vehicle is used (e.g. grants, debt, equity), the social investor uses criteria for its investments that more closely mirrors mainstream investment thinking.

Spectrum of social investment capital

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



Most of the capital on this spectrum takes social impacts into consideration. The exception lies with commercial investors. Some commercial investors do seek social impact – these include venture capital firms with social impact goals, and development banks – but other commercial investors are interested only in business performance and financial return. Some social investors, across the spectrum, require rigorously measured social returns on investment[6], while others are satisfied knowing that the organization is contributing to a social mission.

2. Social Investors and Investment Vehicles

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

Capital requiring no financial returns

Investment-style grants

A grant is capital that does not expect financial repayment or return. Grants made in the "investment" style mirror the criteria and expectations taken by mainstream venture capital investors. While a grant of this type would still be "non-returnable," the social investor would consider the grant an equity investment, meaning the social investor takes a highly engaged, long-term stake in the success of the organization, and investing in the organization's capacity and growth, rather than a specific program. Many social investors termed "venture philanthropists" take this approach with grants.[7]

[6] 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

[7] Note that some funds which use a Venture Philanthropy approach employ debt and equity along with grants. See Appendix for more information on Venture Philanthropy.

Capital requiring financial returns

Traditionally, grant makers have not required that any of their grant 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 for doing so 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 will allow 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 make some money, but for personal or ethical reasons are happy for their investments to be less profitable than they could expect from 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 – 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, which 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 are not expected to provide commercial levels of financial returns to social investors. These lower returns might be due to the social enterprise putting 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 will expect to achieve some financial returns and some social impacts.

Commercial debt
Commercial debt comes in the form of loans or bonds which require full repayment plus market-rate interest. The lender determines timeframe for repayment, interest rate, and collateral required. 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 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 find equity capital in 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. These include:

- **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".[8] This type of agreement can give a social enterprise access to commercial debt that it might otherwise not have.
- **Quasi-equity:** Usually structured as a sub-market loan that 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.

[8] OECD glossary of terms, at http://stats.oecd.org/glossary/detail.asp?ID=5966

Sources of social investment

The capital discussed in this paper comes from a variety of sources. Most types of social investors use more than one investment vehicle, reflecting the investment-minded approach which tailors financing to the needs of the organization.

	Investment vehicle	Purpose of Finance	Type of Finance	Social investor types	Examples of funders/investors
No returns	Grant	Fulfilling mission Capacity building Specific projects	PRI MRI	Foundation Venture philanthropist Government	• Impetus Trust • LGT Venture Philanthropy • Skoll Foundation
Below-market returns	Sub-market Debt	Economic & social development Capacity building Growth capital Working capital	Microfinance SME loans Patient loans	Foundation Venture philanthropist Government Social VC fund Development bank	• Grassroots Business Fund • OikoCredit • IFAD
	Sub-market (also called "blended return") Equity	Capacity building Growth capital	Share of ownership with lower financial expectations	Foundation Venture philanthropist Social VC fund	• Gray Matters Capital • Individuals buying ethical shares
Market-rate returns	Commercial Debt	Growth Capital Working Capital	Loans	Venture philanthropist Bank	• Commercial Banks
	Commercial Equity	Growth Capital	Ownership	Venture philanthropist Bank Commercial VC Commercial "angel"	• Aavishkar • Bamboo Finance • Intellecap

3. Organizations seeking social investment

- What kinds of organizations might be eligible to target social investors?
- What would social investors look for?
- Is this funding appropriate for our organization?

In some ways, social enterprise activity mirrors the microfinance industry: it spans a wide spectrum, from commercial at one end (in microfinance, similar to the approach of large, commercial MFIs like Compartamos), to grassroots and often grant-funded at the other (as with many small, rural MFIs that depend partly or wholly on grants).

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[9]	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
Social enterprise taking fully commercial approach[10]	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

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?

[9] 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.

[10] 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.

Risk & return

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

- People prefer higher returns over lower returns
- "Investment risk" is the possibility that the investment will provide different returns (higher or 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; each investor must decide how comfortable s/he is 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 can be 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 to invest in 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 / get my money out? What financial returns might I achieve?

Social investors taking "blended" or sub-market return

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

- <u>People do not always prefer higher returns</u>: The social investor is not seeking highest possible returns, and it does not promise commercial returns to its own investors. The social investor could make more money elsewhere, but it is more interested filling a gap in capital for social enterprises producing high social impacts.
- <u>Risk and return do not always move together</u>: 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 of social investor, each investor makes its own decisions about how much financial return it requires. This will be determined largely by the expectations of those who have invested 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

Control by social investors can take on different characteristics than those in the traditional philanthropic funding world. Social investors' control is less tied to project milestones and more related to the ability of the investor to influence decision-making in the social enterprise.

The control that social investors seek is an inherent part of their highly engaged approach to funding. 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 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.

5. Recommendations for social enterprises[11]

- How can we match our financing needs with what's available?
- How can we use our limited time wisely to target social investors that are right for us?
- What's the best way to get in contact with social investors?
- How is the process different from the grant applications and contract bids we are used to?

Where to start

Moving into a new sphere of funding can be a daunting task. It's important to remember that this new area is not necessarily right for every organization, and that "traditional" forms of grantmaking and contracting remain a very 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 to have a discussion amongst your team and advisors about whether social investment is right for your organization. There are some basic first questions to ask:

1. Is your organization constrained by current funding sources? Is your funding constraining your ability to implement a long-term vision?

[11] More detailed recommendations are in the Appendix.

2. Is the grant funding you currently receive not meeting your needs, in terms of size, level of engagement, or business thinking?[12]
3. Do you have a clear strategy for where you want to be and how you are going to get there, and does this strategy require significant growth?
4. Are you able to present a compelling, business-focused plan to potential investors – one that reflects business strategy and thinking?
5. Is your organization looking for strategic advice in the form of a more highly engaged – and sometimes more challenging – relationship with funders?
6. Is your organization planning to grow into a phase where you have a financial return to offer?

Business planning[13]

Business plans for social investors differ significantly from grant proposals. 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 understand potential financial outcomes. The approach taken by social investors mirrors the primary purpose of business plans – and 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 expect social enterprises to prove that they have a viable opportunity and the capacity to seize that opportunity. Equally importantly, social investors put emphasis on 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 that language matters. Social investors coming from a finance background (as is the case with investors seeking financial returns, and many venture philanthropists), 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 will still remain important, but long-term impact, empowerment, and shifts in value chains and systems will also be among the key messages social enterprises need to communicate.

There are many resources for basic business planning on the web, as well as specific advice in the Appendix of this paper 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.*[14]

Researching potential social investors

Research should help you decide whether you are a good fit for a social investor, but also whether they are a good fit for you – do you like their style of support and engagement? Are your values and goals aligned?

[12] Many organizations are very well suited to traditional grant funding, and can be enticed by newer forms of funding where it's not necessary.
[13] See Appendix for detailed advice on business plan contents.
[14] http://virtueventures.com/resources/gsnpei

It is very important that social enterprises **understand the level of financial return required** by each social investor. Once you know what level of financial return a funder requires, consider this a non-negotiable. Don't waste your time (or theirs) by targeting funders that require a higher return than you 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 of 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 in the first place. This can be difficult: there is not yet a single resource or clearinghouse for information on social investors, as this is a relatively new and evolving field. The Appendix of this paper includes some resources for researching social investors. Additional strategies include:

- Identify social enterprises doing similar work, or working in similar locations to yours, and investigate their funding sources
- Speak to your current funders and ask for advice and contacts
- Find one or two social investors willing to have an informal phone call – not about investing, but about helping you find potential social investors

As your organization begins to develop a list of potential investors, it is advisable to create a simple spreadsheet that can help you track investors' criteria and focus, your contact with investors, and whether or not each social investor might be a good fit (see Appendix for details).

Contacting social investors

Many investors in the commercial investment world depend heavily on personal connections and recommendations. The same holds true for social ivnestors. Social enterprises should leverage every available connection to get introductions to targeted funders. This includes board members, existing funders, supporters, personal connections. A personal introduction is always desirable.

If personal introductions are not feasible, social enterprises should send an executive summary (see Appendix) 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 your ability to execute on the operational plan.
2. **Sub-market debt and equity:** Prove the social impact, but focus very heavily on your business model and your ability to execute on it.
3. **Commercial debt and equity:** Prove the opportunity, business model, and business thinking. Show that you have thought through risks and scenarios, and that you are serious about the business execution. Mention social impact as a natural outcome of success.

Due diligence and negotiations

Due diligence – the process an investor uses to investigate a potential investment opportunity – can be very different from the grant 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 be prepared to devote management time to the process. It is also extremely important that social enterprises commit to **being transparent and open throughout the due diligence process**. Withholding information will suggest to funders that they cannot build a trusting relationship with the social enterprise. Disclosing problems and challenges, on the other hand, can build trust and help develop a shared strategy. Due diligence can also be a useful tool to provide 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), being prepared to both negotiate and compromise.

Rejections

Rejections are inevitable from social investors, as they are with traditional grantmakers. In the case of a rejection, social enterprises should **ask for feedback** via email, phone, or face-to-face meeting. Tell the social investor you are interested in improving your business plan, and in better targeting funders in the future. Many will be happy to help, as improving the way social enterprises seek capital is in their best interest. When feedback is given, even if it's critical, do not be defensive. Social investors talk to each other, and no social enterprise can afford the reputation of not listening to advice. At the same time, **ask for referrals**; the social investor might know individuals or funds well suited to your social enterprise.

6. Conclusion

There is no single model for social enterprises' business models, profit motivations, appetites for risk, or desire for engagement from investors and funders. Similarly, there is not a single model for whether or how social enterprises should seek social investment. Many social enterprises pursue a mix of capital, and have to balance the messages they give to funders and investors, as well as how they adhere to the implicit and explicit expectations of taking different forms of capital. Each social enterprise has to determine its own funding strategy.

"Graduating" from grants?

Some of the literature on social investing implies that all social change organizations should try to move away from traditional forms of funding and toward more commercial forms of investment. The reality is much more complex. Some social enterprises might start up as commercially focused businesses and use commercial capital throughout their existence. Some will indeed 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 and provides each investor or funder with the type and level of returns (financial and/or social) it seeks.

However, the progression toward financial self-sustainability, profitability, and commercial capital is not an inevitable one, and 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. And grants and donations can and do work for many organizations.

Social investment in the "real world"

The real world of social investing is not as cleanly organized as some of the charts in this paper might suggest. Some investors use a range of vehicles, from grants to commercial equity, to achieve their social impact goals. In many cases, practitioners use a range of funding, and find through experience that some work well together and some present conflicts and challenges.

The biggest obstacle to understanding the world of social investing is a lack of transparency and best practice to learn from. 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 of the deals are not available to the general public. Improved communication amongst social enterprises, amongst social investors, and between social enterprises and investors would greatly enhance practitioners' knowledge and advance the field.

Next steps and further research

A basic understanding of social investment, such as that presented in this paper, can be a useful tool in beginning to explore this world. A logical next step would be to communicate with experts and practitioners on both sides of the investment picture:

- Other social entrepreneurs who are experimenting with social investment are invaluable resources
- A social enterprise's board of directors can play a role in assessing whether the organization is ready or even appropriate for social investment, and can provide guidance and introductions
- Social investors themselves are often willing to give advice and input, and many will be responsive to a phone call or email, with an explanation that the goal is not to ask for money, but to learn about social investment criteria and methods

Finally, the Appendix of this paper lists a number of resources, including conferences, websites, readings, and templates. In many cases the best way to start is to begin by joining or creating communities (online or in person) where other members are likely to have similar experiences and questions.

Appendices

A. 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 these
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 amongst your team and advisors what terms, rates, and other dynamics are important to you. 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 Appendix 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. Don’t confuse profit margin with ROI
6. Have your books audited by a credible firm

Materials to develop

1. Business plan: Maximum 20-page Word document.
2. Executive summary / prospectus / “1-pager”: Multiple names are used to describe this document, which is used as a “teaser” for potential investors. This document 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 lengthy paragraphs to a minimum.
3. Powerpoint slide deck: 10-15 slides maximum. This document should be high on visuals and bullet points, low on text, and provide the main points of your business plan in compelling slides. You should be able to talk to – but not read from – this presentation in a pitch to funders, or email it to funders for their review.

B. 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 over 1,500 women since inception, improving income and family livelihoods through fair wages, and education levels through training. UBUNTU also has an environmental impact; its work ensures the preservation of a biodiverse region of 7,000 hectares.

Growth: UBUNTU is launching a micro-franchising program which 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 micro enterprise.

Over the next five years, XX women will set up UBUNTU micro-franchises, creating further reach of UBUNTU’s products into rural and urban areas, and empowering women to be micro-entrepreneurs.

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

- Increases income up to X%
- 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 micro-entrepreneurs. UBUNTU also uses grant money to support its training programs.

Financial Requirement: UBUNTU is seeking USD $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

$,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**

UBUNTU’s financial forecasts show breakeven by Year 3, after which principle and interest on debt can begin to be repaid.

Key Team Members:

- Jane Doe, Chief Executive Officer, founded UBUNTU after ten years of experience in the honey industry
- Henry Jones, CFO, is a financial expert with over 20 years experience in consumer foods businesses
- Deepa Patel, Operations Director, previously implemented a $40 million project at CIDA; will be directly managing the franchising program
- Ntongi Smith, Marketing Director, MBA in marketing from XYZ school, and 12 years of industry experience

Contact Details:

XXX

C. Finding potential social investors

Your organization might now 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 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 even more investors. Consider developing a spreadsheet that looks like the example below:

Social investor	Organiz-ation type	Location	Geo-graphic focus	Industries of focus	Social impact focus	Financial return expect-ations	Deal size (range)	Financ-ing vehic-les used	Worth investi-gating? (Yes/No)
XYZ Found-ation	Private Foundation	London, UK	East Africa	Agriculture Handicrafts	Liveli-hoods	None	$100,000 - $500,000	Grants	
ABC Fund	Venture Capital fund	Mumbai	India	Micro-enterprise development	Liveli-hoods Women	Fully comer-cial	$500,000 - $2.5 million	Equity	
John Smith	Individual venture philanthro-pist	Geneva, Switz	Global	Social enterprise in general		Sub-market	$20,000 - $100,000	Sub-market equity and debt	

You can also make a template to develop detailed profiles on social investors. An example is below:

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			

D. Interviewees and contributors

1. **LGT Venture Philanthropy Foundation** (Oliver Karius) – a Venture Philanthropy fund doing 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 (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

E. Information and networking resources

Note that information is still difficult to obtain, as the field of social investors evolves and grows. However there are some resources available that can help your organization begin to learn more about social investing

1. **Information about social Investors**
    a. 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.
    b. EVPA (www.evpa.eu.com): the European Venture Philanthropy Association is a membership association for venture philanthropists in Europe. EVPA has a directory of members.
    c. Good Capital, a social venture capital firm in the US, does a monthly e-newsletter about social investing (www.goodcap.net).
    d. Origo, a US-based consultancy, does a monthly e-newsletter that sometimes includes information about social investing (www.origoinc.com)
    e. Socialinvestments.com (www.socialinvestments.com) provides a UK-focused directory of social enterprises, and services for UK social enterprises looking for capital.
    f. Changemakers (www.changemakers.net), providing a number of resources on social entrepreneurship.
    g. The Social Capital Index (http://socialcapitalindex.net) is developing lists of social investment funds.

2. **Readings on social investing**
    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 thought leader in venture philanthropy, and has many publications at www.redf.org.

3. **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 such as Twitter and LinkedIn can also help you connect with likeminded organizations and social investors.

4. Business plan competitions

a. BiD Network (www.bidnetwork.org): an annual business plan competition for social enterprises that offers mentoring and networks
b. Ashoka's Citizen-Based Initiative (CBI) competitions (www.citizenbase.org): Runs competitions to identify and invest in innovative, local ideas.
c. Ashoka's Changemakers (www.changemakers.net/en-us/competitions): Hosts collaborative competitions.
d. Global Social Benefit Incubator (www.socialedge.org/features/gsbi): Mentors and assists social entrepreneurs to develop business plans.
e. Development Marketplace Global Competition (www.applytodm.org/main.html): A competitive grant program administered by the World Bank, funding innovative, early-stage projects.

5. 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:

a. Global
   i. Global Social Investment Exchange (www.gsix.org): An annual conference for "impact investors"
   ii. Skoll World Forum on Social Entrepreneurship (www.skollfoundation.org): a gathering of social entrepreneurs in Oxford, UK. Some social investors attend.
   iii. Social Capital Markets (http://socialcapitalmarkets.net), an annual US-based conference focused on social investing
b. North America
   i. Social Finance Forum (http://socialfinance.ca/blog/tag/sff08/), a Canada-based conference.
c. i-genius (http://i-genuis.org) hosted its first social enterprise conference in Thailand in 2008.
d. India
   i. Sankalp Awards (www.sankalpforum.com) is India's largest social enterprise and investment forum.
   ii. Develop Your India (http://developyourindia.blogspot.com) is a blog that follows social enterprise and investment trends in India

6. Facilitators and support organizations

a. Social Edge, an online community of social entrepreneurs. You can join or follow discussions, post questions, and learn what others in the field are doing. (www.socialedge.org)
b. SEEP Network, a membership organization of international development agencies that connects microenterprise practitioners in a global learning community. (www.seepnetwork.org)

c. Social Returns, Inc. (www.socialreturns.org): A non-profit organization supporting social enterprises globally.
d. Social Enterprise Alliance, US (www.se-alliance.org)
e. Social Enterprise Coalition, UK (www.socialenterprise.org.uk)