

IMPORTANT TO KNOW

Introduction to social finance

- **Social Finance:** <http://www.investopedia.com/terms/f/finance.asp#ixzz4oOKPQ2WY>

Social finance typically refers to investments made in social enterprises including charitable organizations and some cooperatives. Rather than an outright donation, these investments take the form of **equity** or **debt financing**, in which the investor **seeks** both a financial reward as well as a social gain.

Modern forms of social finance can also include some **segments** of **microfinance**, *specifically* **loans** to small business owners and entrepreneurs in less developed countries to enable their enterprises to grow. **Lenders** *expect to earn a return* on their loans, in addition to helping improve the individuals' standard of living and to benefiting the local society and economy.

Social impact bonds (also known as **Pay for Success Bonds** or **social benefit bonds**) are a specific type of instrument that acts as a contract with the public sector or local government. Repayment and return on investment are **contingent** upon the achievement of certain social outcomes and achievements

- **Social finance:** https://en.wikipedia.org/wiki/Social_finance

It is an approach to managing money which delivers a social dividend and an economic return.

Social finance is *often* used to describe the lending and investment into companies who consider themselves social enterprises, charities, co-operatives, and other impact-focused organisations. The term can include community investing, microfinance, social impact bonds, investing into sustainable businesses, and social enterprise lending. Outcome-based philanthropic grantmaking and program-related investments, *sometimes* referred to as venture philanthropy, also fall under the umbrella of social finance.

These approaches to investment and funding share the twin focus of stimulating positive social and environmental returns for investors and the larger world. Some social investors *try to* effect environmental return.

Financing Challenges and Solutions for Social Enterprises

Traditional **Fundraising** examples

1. Donations from friends and family
2. Street level and online collection campaigns and **donation** drives
3. Grants from Foundations and Funding Intermediaries
4. International Development Funds – Governmental (eg USAID) / Trans-Governmental (eg WorldBank)
5. **Corporate Social Responsibility (CSR)**

Challenges

1. Traditional funding has **decreased** with the recession
2. Number of social entities struggling for the same funds is increasing
3. Most funders haven't really got an idea what they're doing

Alternatively, there are other financing options for social entrepreneurs, as well challenges.

1. **Revenue Streams**
2. Sponsorship from large corporate or multinational entities
3. Crowd-funding
4. Social **Loans**
5. Social Investment
6. Hybrid Value **Chains** (Inclusive Business Models)
7. Self Financing Business Models (Social Enterprise)

Revenue Streams

The simple reality is that social change can *rarely* be funded by revenue **generating** activities alone. It takes between 8 and 15 years to *really* transform the lives and environments of people and communities and that kind of intensive support and interaction can *rarely* be funded by peripheral revenue streams. If a social organisation in the transformation space *is able to* cover 15 or 20% of its operating cost through its own revenue streams, it's *usually* doing pretty well.

Challenges

Efforts on revenue streams can *often* **drain** the time and energy of the leaders of the organisation away from the social mission, or worse still result in significant mission **drift**. The best way to take on revenue streams is to ensure that they have their own dedicated people.

Sponsorship from large corporate or multinational entities

Companies are increasing their connections with social change. They can provide a range of value from expertise to connections but *often* need **exclusivity** and/or **adherence** to their own set of conditions. The sponsor is *usually* looking for three things:

Reach - who are the audiences that will know about or benefit from the project

Scale - how big is it in terms of geography and replicability

Impact - what will it achieve for all the different stakeholders

Challenge

There's only a certain number of corporates large enough and interested enough to run social sponsorship programmes. *It is often that* social organisations, large and small, are all competing for funding from the same players. The small ones can't *really* **compete** with the bigger organisations, and the bigger organisations need more funding, so nobody wins except the funder, whose primary goal is brand promotion and audience **recognition**.

Crowd-funding

Crowd-funding is simply a word for getting lots of people to put in a small amount of money to your **venture**, *typically* online. In reality donation **drives** are an example of crowd-funding, but these *typically* only apply to projects and organisations *formally* registered as Charities. Today there are a number of ways to crowd-fund your projects if you are not a charity. Some of them require a return on investment, while others don't. Here's some sites you can use:

- <http://www.giveforward.com/>
- <https://www.profounder.com/>
- <http://www.kapipal.com/>
- <http://www.createafund.com/>
- <http://www.thepoint.com/>
- <http://www.crowdrise.com/>
- <http://www.socialvibe.com/>

Social Loans

These may seem like an oxymoron, but they do exist, at least in the western space. Organisations like the Adventure Capital Fund provide development loans to non-profits and social enterprises which then have to be paid back the same as any other loan. These come with a bit more **flexibility** than a standard bank loan and *usually* involve useful **coaching** and business development support to help ensure ability to pay back.

Challenge

Investment entities do not **assess** the social impact the same as financial return. Inability to pay back the loan will not be overlooked regardless of how much benefit is being provided to the community. Be careful!

Social Investment

Social Investment is *really* only an option for social businesses and not a **viable** funding strategy for general development work. Investors aren't interested in non-profit or human transformation programmes.

Challenge

For many investors this is just another opportunity to make money, gain competitive advantage in an increasing socially aware market, and look good at the same time.

Hybrid Value Chains (Inclusive Business Models)

The hybrid value chain model is relevant only to the limited spaces where social enterprises are working with local producers or communities, and can connect these with commercial organisations looking to reduce production costs or to scale their markets; thus creating partnerships that should result in financial and social benefit for all parties.

Challenge

The winner here is *usually* the corporation. They receive brand recognition and *often* a *massively* subsidised entry into new markets, while social and community players are *usually* entering new operational spaces without the expertise. The result is *usually* a massive **underestimation** and under-costing of commercial **deliverables** by the social players, putting them at much higher risk than the commercial partner.

Social Enterprise and Self Financing Business Models

Self-financing business models are the obvious answer for complete independence, but it isn't *really* that simple for many social organisations. Many of the founders don't have deep business skills or experience because their expertise is focused on human challenges. More *importantly* they don't have the free time or resource available to identify and set these models up.

Challenge

At some point the commercial entity's priority may **shift** from social benefit to financial survival and/or growth.

Examples of challenges and solutions of local social businesses: local case studies

Sources:

<http://www.investopedia.com/terms/f/finance.asp#ixzz4oOKPQ2WY>

https://en.wikipedia.org/wiki/Social_finance

<http://www.socialeffect.org/2011/10/financing-challenges-and-solutions-for.html>