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FROM FRAGMENTATION TO FUNCTION

CRITICAL CONCEPTS AND WRITINGS ON SOCIAL CAPITAL MARKETS' STRUCTURE, OPERATION, AND INNOVATION

JED EMERSON
JOSHUA SPITZER

Editing:
Alex Nicholls

Production:
Liz Nelson
Sumeeta Maheshwari

Layout:
Society Media

Skoll Centre for Social Entrepreneurship
Saïd Business School
Park End Street
Oxford OX1 1HP
United Kingdom

Tel: +44 (0)1865 288 838
Email: skollcentre@sbs.ox.ac.uk

For full details of the Skoll Centre's work, see www.sbs.ox.ac.uk/skoll

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ABOUT THE AUTHORS

Jed Emerson holds a variety of positions. He is Managing Director, Strategic Development to Sun Ranch (Cameron, MT), an eco-enterprise integrating economic performance with social/environmental investing and value creation. He is a Senior Fellow with Generation Foundation, of Generation Investment Management (London/Washington, DC), as well as a Visiting Fellow with the Skoll Center at the Saïd Business School, Oxford University. Emerson is Project Manager for Strategy and Performance with the Edna McConnell Clark Foundation (New York). He has served as the Bloomberg Senior Research Fellow in Philanthropy at Harvard Business School, a Lecturer in Business at Stanford Graduate School of Business, and a Senior Fellow with the William and Flora Hewlett Foundation. He is founding director of both REDF and the Larkin Street Youth Center. Emerson's focus of work is the concept of the Blended Value Proposition and the practice of Unified Investment for foundations and other asset owners. Please see www.blendedvalue.org for a comprehensive collection of previous articles, papers and research on these topics.

Joshua Spitzer is the executive director of Sun Ranch Institute, an organization dedicated to supporting viable local communities, land conservation, and blended value business models in the American West. He has served as an independent consultant to enterprises and individuals investing to create social, environmental, and financial value. The World Economic Forum, William and Flora Hewlett Foundation, Oxford University, and Stanford University Graduate School of Business have sponsored and published his work. He has also developed an MBA curriculum for the Center for Entrepreneurial Studies at Stanford University's Graduate School of Business. He holds an MBA from Stanford's Graduate School of Business and a BA from Cornell University.

INTRODUCTION

'Social capital markets' has become a popular phrase over recent years (Hartigan, 2006). While this paper will not definitively document the increase in its use, a simple web search of the phrase shows many and diverse discussions, initiatives, and writings addressing the topic. For the most part, these explorations appear to be coming in fits and starts that have had little traction as a common set of concepts, in part because of limited attempts to link new thought and practice with previous work on which the ongoing discussion could build. Among many, this condition has created a sense not simply of déjà vu, but of futility: if we continually begin our discussions and framing efforts anew, we overlook possible improvements and innovations that may be waiting just outside our door.

Reviewing this growing body of discussions allows us to:

- Assess what we might all agree are the fundamentals of capital market analysis.

- Outline definitively what various writers have identified as the central elements and challenges of social capital markets.

- Develop a modest overview of current initiatives seeking to advance innovations within this market in order to improve the way that capital meets opportunity.

- Offer an agenda for research and development of what might then be more accurately defined as a social capital market.

In sum, it is time we move from fragmentation to function – both in terms of how we discuss this type of investment and how we act to address it.

PURPOSE

We hope to see a future in which more funds flow to investments seeking the generation of social and/or environmental value in conjunction with some level of financial performance. As the 'capital markets' moniker would suggest, we would like to see these capital flows be performance-based (so that funds advance the work of high-performance investees, while being less accessible to lower-performing and/or riskier ventures). Furthermore, we would like to see these investments adopt structures that more completely address the diverse needs and interests of investors and investees. Our ambition is that by better organizing the ideas and initiatives of the many individuals who have worked to frame this emerging market, these goals may be advanced.

The paper's secondary goals are to help focus future research and praxis on efforts that build on the significant body of existing work without unduly re-treading well-worn analytical paths. This paper seeks to promote an elevated discussion of the social capital markets, a discourse focusing on high-leverage issues. The paper also invites experts from related academic and practical fields to engage in a conversation that has to this point largely been conducted between social sector professionals turning their attention to capital flows and finance professionals placing their expertise in the service of social purposes.

THE STRUCTURE OF THIS PAPER

This study begins by presenting fundamental concepts of markets, capital markets, and social capital markets in order to offer a baseline framework that will project and facilitate this inquiry. The introduction to that framework presents important additional detail on our methods for establishing that analytical approach to the rest of the document. Based on this framework, the paper then explores specific aspects and issues related to the social capital market discourse, including highlights of select initiatives underway in early 2007 that seek to improve the functioning of this market. The inquiry concludes by framing several research and action steps to help advance the common interests of those concerned with this work.

PUTTING THE SOCIAL BACK IN SOCIAL CAPITAL MARKETS

Many people note that the very term 'social capital' is confusing when applied in a financial markets or philanthropic context. For many, the term social capital, formulated in the fields of sociology and political science, and largely popularized by Robert D. Putnam, evokes the intangible glue that holds a society and its various communities together.[1] By using the term in relation to finance, individuals may wonder whether it addresses funds used to achieve social ends or the social networks of which societies consist.

Conceptual clarity on this point is critical. There are two forms of social capital: interactive and transactive. Interactive social capital is the type Putnam discusses. It allows individuals to come together in teams to work. It maintains our sense of being a part of a connected community. It is the popular concept that many 'hear' when the words 'social capital' are used.

Connected, yet distinct from interactive social capital, is transactive social capital, which speaks to the notion that interactive social capital allows communities and networks to 'put our money where our mouths are.' On a daily basis, we engage in financial transactions made possible by our social connections and common networks. We send money to family over the internet, we offer grants and charitable gifts to others, we invest our money with institutions we trust. Each is an example of transactive social capital.

These two forms of social capital are what together create the *Integrated Social Capital Market*. While the balance of this paper will focus on the structure and functioning of transactive capital mechanisms and social capital markets as outlined below, it is critical to recognize that the markets discussed in the following pages are a subset of this larger, Integrated social capital market of which all human exchange (whether social or financial) is a part.[2]

INTRODUCTORY NOTES ON CAPITAL MARKET DEVELOPMENT

The reader will no doubt quickly acknowledge there are no 'capital market cookbooks' to guide us in our thinking or practice. Capital markets (as opposed to the capital exchanges discussed below) do not occur because a set of actors simply decide to be rational in their allocation of capital. Global, national, and regional capital markets have all evolved through complex interplay between governmental policy, private enterprise, individual entrepreneurship, and chance. There is no silver bullet when it comes to developing effective capital markets – it is more a question of silver buckshot, wherein a complex combination of policies, practices, investment innovations, and more all come together, learn from past failures, and see future opportunities to create a capital market.[3] For this very reason, we must gather the best thinking and innovations with regard to social capital markets so that we may put our various efforts to the best possible uses, though it means there is no single 'best outcome' – indeed, many strategic efforts must proceed at once.

As we think of these concepts, it may be helpful to examine the evolution of capital investment transpiring in three different forums:

- Specific or *ad hoc* deals,
- Professionally managed funds, and
- Increasingly organized marketplaces.

Many innovative investments are first initiated on a project-by-project basis, wherein investors finance a particular project or exchange products

[1] Robert D.Putman, Bowling Alone: The Collapse and Revival of American Community, (New York: Simon & Schuster, 2000).

[2] For an expanded discussion of these concepts, please see 'The Nature of Returns: A Social Capital Markets Inquiry'(2000), at www.redf.org/download/other/emerson1.pdf

[3] We are not sure where this term originated, but the phrase 'silver buckshot' seems to have developed wide currency this past year or so. It appears in the title of a new paper by the Brookings Institute on economic development in the State of Maine (www.mdf.org/mdf/speeches/BrookingsFinal.pdf) and was used at the Aspen Ideas Festival (www.aspentimes.com/article/20060708/NEWS/107080063).

in what could be called *ad hoc* deals. While individually financed projects allow for creativity and innovation in capital structuring, the process is time consuming, often has limited liquidity, and is difficult to scale. Nevertheless, such complex deals are the first critical step toward understanding the dynamics of innovative financing strategies and the capital markets in which they operate.

After project managers and investors have participated in multiple *ad hoc* deals, through which they presumably learn transferable lessons about such financing, the managers may then develop pools of capital that aggregate investors' funds and allow the professional fund managers to invest in deals as they see fit. Such investment funds appeal to many investors, who achieve diversification across multiple deals, investment instruments, and asset classes – decreasing risk and increasing value creation. These funds also appeal to fund managers, who can pursue their investment strategy and deploy capital relatively quickly.

As fund managers and investors learn about a new type of investment, they begin to standardize investment vehicles and management structures. Standardization often brings lower costs and less waste, which in turn may result in more investors moving greater amounts of capital through more investments. Standardized investment vehicles and increased capital flows set the stage for increasingly organized marketplaces, where transactions become easier and cheaper to effect.

It is easy to consider organized marketplaces, investment funds, and individually financed projects to be natural and linear successors to one another. Nevertheless, none of those forums for capital transactions is likely to supplant the others. Instead, the three approaches necessarily evolve in a non-linear fashion and co-exist, with lessons garnered from each improving the practice of the others. By extension, we should recognize that movement toward organized social capital marketplaces will be fitful and will not necessarily evolve in a linear fashion.

Through the ensuing discussion of social capital markets, this notion of a 'deal, fund, market' evolution will help place these initiatives and concepts into context, regarding both their relationships with each other and the creation of a larger, more efficient marketplace.

ABOUT THIS PAPER

With these opening thoughts in mind, readers should be aware of several other issues:

- While this document is not a definitive survey, it does present core ideas from many of the best resources available. Nevertheless, finding new sources among disparate documents can be difficult. We have probably missed many important sources and we apologize to those whom we may have overlooked. We encourage you to forward us any papers, articles or memos you think may improve upon future versions of this document.[4]

- While there may be modest exceptions, the boundaries of the social capital market as defined in this paper encompass capital targeting organizations that pursue financial discipline and social/environmental value creation. Accordingly, the inquiry does not address the broad arena of social investing, the topic of how public capital markets value corporate social responsibility, or a host of other areas related to the broad theme of social capital markets. Rather, this discussion is primarily concerned with capital made available to nonprofit and for-profit enterprises attempting to maximize the creation of full, blended value.[5]

- This paper uses the plural – social capital markets – because there are, multiple capital markets at work supplying capital to enterprises generating extra-financial and financial value.

- The reader should also recognize that in addition to social capital markets, this document addresses 'non-profit capital markets', with the understanding that they are a part of the larger, integrated social capital market structure discussed above.

- Finally, we wish to acknowledge that in exploring the concept of social capital markets, reference is made to a number of papers we have written or co-authored. We feel we have made an honest effort to include the work of others. It is certainly not our intent to use this document to promote our own concepts over those of others. Nevertheless, we first began writing on this topic in 1996 and, over the ensuing decade, have developed a significant body of work on the subject.[6]

- We encourage any future efforts to increase the depth of this survey and to address gaps in material and analysis that readers will inevitably discover.

[4] The authors may be reached at jed.emerson@generationim.com and jspitzer@sunranchinstitute.org.

[5] For a complete discussion of the concept of blended value and how it relates to investment practices, please see www.blendedvalue.org.

[6] For those interested, most of the papers written by Jed Emerson since 1996 may be found at www.blendedvalue.org and the publications page of www.redf.org.

MAINSTREAM CAPITAL MARKETS CONCEPTS AND FRAMEWORK

This inquiry first establishes a baseline discussion of mainstream capital markets. Many authors and participants in social capital markets use the terminology of mainstream markets and aspire to their functionality and efficiency. Thus, this paper will examine mainstream capital markets with an eye toward both demonstrating their fundamental attributes and presenting them in ways that will help social capital markets develop and grow.

We will begin by giving our definitions of the key terms 'market,' 'capital market,' and 'exchange' as they are used in this paper.

MARKET

The term 'market' has a variety of meanings across many contexts, but our usage follows that of Peter

Reiss of Stanford University Graduate School of Business. Reiss defines a market as a place (either physical or virtual) "where suppliers or intermediaries offer goods to buyers at negotiable prices or according to competitive trading procedures (e.g. auctions)."[7] Reiss's colleague John McMillan explores markets in depth in his book *Reinventing the Bazaar* (2002), which discusses market transactions, which in turn illuminate the markets where they occur:

> *Participation in the [market transaction] is voluntary; both buyer and seller are able to veto any deal... They are free to make decisions – to buy, to sell, to exert effort, to invest – that reflect their own preferences. Their choices are not completely free though: they are constrained by the extent of their resources and the rules of the 'marketplace'…Bargaining power between buyer and seller is sometimes quite unequal. Being able to veto any deal does convey some bargaining power, but not necessarily much... Competition, while not a defining feature of a market, is usually present and adds to the autonomy. Competition curbs an individual participant's power and, in most markets, prevents anyone from having a decisive effect on overall outcomes... A definition of a market transaction, then, is* an exchange that is voluntary: each party can veto it, and (subject to the rules of the marketplace) each freely agrees to the terms. *A market is a forum for carrying out such exchanges.*[8]

Issues raised in McMillan's discussion of market transactions – decision-making autonomy, the limits of freedom within markets, competition, and participants' power – may prove useful in analyzing social capital markets.

But McMillan's discussion of markets does not necessarily explain why the term has worked its way so deeply into discourses nor why it has been offered in various forms as the solution to social and environmental crises. Tisdell (1974) notes: "Markets have been extolled by some economists as very efficient mechanisms for allocating the resources of society."[9] They combine information and opinions from many actors and indicate where resources should flow.

However, Tisdell warns: "Under certain conditions market failure occurs, market systems of resource allocation are inefficient or unavailable and non-market methods such as collective or governmental allocation of resources may be more efficient."[10] Markets can fail for many reasons that are beyond the scope of this inquiry, including the presence of monopolies or cartels and other factors that inhibit market transactions.

Tisdell presents several causes of market failure that are relevant to social capital markets:

1. Non-establishment of private (or state) property rights when these could be enforced.

> *Example: A fishery treated as a commons but harvested by commercial fishing operations will require either non-market regulation or clearer property rights if it is to remain productive for the long-term.*

2. Circumstances in which the (marginal) benefit received by a person from an economic activity cannot be made dependent on his price payment to the supplier.

> *Example: An impoverished person living with HIV/AIDS lacks funds to pay for medications that he values more than does a wealthy and healthy person.*

3. Circumstances in which a party causing damage to second parties lacks any or "adequate" payment to these parties [such damages are often called negative externalities][11]

> *Example: An industrial plant can discharge its waste into the air and water freely, harming the communities around it. Preventing such damage requires regulation, more enforceable property rights, or both.*

Market failures may be addressed through a variety of means. Government regulations can diminish monopolies or limit externalities. Regulation can also define property rights in ways that eliminate the market failures. Non-market entities can subsidize certain resources (such as essential medicines) and impose quotas on others (the number of polluting factories, for example) to manage a market failure. An externality can become internalized through careful market and non-market action (as are air-polluting emissions under pollution cap-and-trade regimes). The advent of new technologies and products (such as the micro-loan to the poor) can also eliminate some market failures

[7] Reiss's definition frames the curriculum of his Stanford Graduate School of Business course – "Trading, Markets, and Exchanges" – which explores many market-related strategies and has informed this inquiry as well.

[8] Pages 5-6; the emphasis is in the source text.

[9] Tisdell page. 277.

[10] Ibid.

[11] Ibid.

and allow markets to work where they previously had not.

Historically, foundations and nonprofits have played key roles in addressing market failures by subsidizing goods, providing services, and delivering other functions that a market cannot efficiently offer. The social capital markets discourse in general addresses how market forces may be harnessed to rectify and/or eliminate certain historical market failures.

CAPITAL MARKETS AND FINANCIAL MARKETS

In many discourses, capital markets are a subset of financial markets, with the rubric 'capital markets' applied to markets wherein longer-term debt and equity are issued and traded. In other circumstances, discussants use the term as synonymous with financial markets, referring to various markets where enterprises can raise capital and investors can trade the investment instruments that represent that capital (regardless of the instruments' maturity). It is therefore worth identifying different types of capital market and their particular characteristics.

CHARACTERIZING CAPITAL MARKETS

Fabozzi, Modigliani, and Ferri (1994) suggest various ways to characterize financial markets including:

- Nature of financial claim (e.g., equity vs. debt).[12]
- Maturity of claim (e.g., short term vs. long term).[13]
- Seasoning of issuance (e.g., primary vs. secondary).[14]
- Delivery of security (e.g., spot market vs. derivative).[15]
- Organizational structure (e.g., auction, over-the-counter, or intermediated).[16, 17]

We would further distinguish between the types of entities funded by a particular capital market. Public capital markets (trading the issues of large entities), private capital markets (funding newer ventures or those remaining closely held), and nonprofit capital markets (financing public-benefit entities,or those exchanging transactive social capital) all differ dramatically from of Fabozzi, Modigliani, and Ferri's criteria.

In the deal-fund-marketplace framework, only the public capital markets represent a marketplace, while the private and social capital markets often (though not always) address capital transactions at the deal and fund level. Our of the literature review suggests that the term 'capital markets' is used most frequently to describe public markets, less frequently to describe private capital markets, and least frequently to address the social capital markets.

THE PURPOSES OF CAPITAL MARKETS

Fabozzi, Modigliani, and Ferri (1994) identify three major functions of financial markets. These coincide with the benefits of moving from deals through funds to increasingly organized marketplaces. These concepts will be useful throughout this paper.

- Price discovery: Markets can reveal the appropriate price of a good, which indicates how funds in the greater economy should and will flow.
- Liquidity: Markets let investors sell investment instruments to other investors who value them more highly.
- Reduce transaction costs: Search and transaction costs drop as a market becomes established and efficient.[18]

Achieving each of those purposes should drive more capital to high-performance enterprises.

EXCHANGE (OR FINANCIAL EXCHANGE)

In this paper we use the term 'financial exchange' to refer to specific, organized marketplaces where securities are bought and sold. Exchanges typically have rules of negotiation, trading, settlement, and governance; they often require participants to be members of the exchange to ensure integrity of rules and structures. Exchanges may require fairly uniform securities, and they often emphasize intermediaries and oversight entities.

USAGE

Often financial exchanges are referred to as 'markets,' but we avoid this usage to reduce confusion. Usually when used in the mainstream context, exchanges are secondary marketplaces (though companies can make secondary stock offerings directly on the exchanges). This paper's usage excludes many other definitions of 'exchange.'

[12] Typically, financial claims are delineated between owners (trading in equity or stock) and creditors and borrowers (trading debt, typically in the form of bonds or notes).

[13] The maturity of a financial claim applies to debt instruments and refers to the duration of a loan.

[14] In the primary market, enterprises and investors initiate investment and create the investment instruments that represent the transaction (e.g., in the primary market, a company may issue stock to the public, creating common stock that can then be traded). The secondary market allows other buyers and sellers to trade those financial instruments that were created in the primary market.

[15] Spot or cash markets trade in goods or securities that are immediately deliverable, whereas derivative markets trade in possible future delivery of goods.

[16] Most organized markets determine rules for trading and exchange of goods. Auctions, over-the-counter, and intermediated mechanisms of exchange are all used in various capital markets

[17] Pages 7-8.

[18] Ibid Pages 6-7.

KEY CAPITAL MARKETS CONCEPTS

MAINSTREAM CAPITAL MARKETS LITERATURE

In planning this paper's analysis, we sought an established framework for generally analyzing capital markets. We examined both scholarly inquiries into capital markets and textbooks addressing the topic, but neither type offered a 'turn-key' analytical framework that was suitable for our purposes.

Scholarly articles addressing capital markets typically examine a specific aspect or issue within a particular market. Those articles' level of specificity makes them ill-suited as models for this inquiry. The textbooks, which themselves offer overviews of capital markets, gave some useful input. Nevertheless, most of those texts examine existing mainstream capital markets in considerable detail, discussing (for example) yields on commercial paper in the US. In many cases, the material applicable to the social capital markets discourse is addressed in those textbooks' first chapter.

While both types of source material establish, discuss, and deploy economic theory, those theories (the Capital Asset Pricing Model, for example) are tuned to highly evolved and well-established capital markets – they do not immediately apply to the less-established social

[19] 21.

capital markets. Undoubtedly, many of the theories discussed in the mainstream capital markets literature could be adapted to explain and analyze aspects of social capital markets, but that line of inquiry is beyond the scope of this paper.

THE RESULTING FRAMEWORK

In discussing aspects of well-established capital markets in general, we sought causal characteristics (e.g. financial intermediaries facilitate transactions), not consequential conditions (e.g. transaction costs are low, which is a result of several different causal characteristics).

The paper will cite several sources that we synthesized into the following three major characteristics. Combined, these features allow markets to be efficient, liquid, and deep – characteristics that should help direct more capital (and more appropriate forms of capital) to enterprises that can best deploy it. We believe these major characteristics are necessary (though perhaps not sufficient) to bring about the larger and more efficient flows of capital to high-performance social investees.

The characteristics that create a capital markets framework are:

1. Intermediaries and service providers facilitate transactions.

2. Investment vehicles are structured to meet the needs of investors and investees.

3. Performance data are readily available and used.

We will review each of these characteristics in turn.

INTERMEDIARIES AND SERVICE PROVIDERS FACILITATE TRANSACTIONS

Buyers and sellers, entities with capital, and those seeking it, may not be sufficient to make a market efficient. Often third parties offer services that improve the quality of transactions or change the nature of investment vehicles.

Exchange intermediaries – such as securities brokers, market-makers, exchange owners, and others – assist buyers and sellers in effecting transactions. In many marketplaces such intermediaries greatly improve market function.

Financial intermediaries are fundamental in the evolution of *ad hoc* deals into investment funds. In public and private capital markets they also serve a variety of key functions. Fabozzi, Modigliani, and Ferri (1994) explains:

Financial intermediaries obtain funds by issuing financial claims against themselves to market participants, and then investing those funds. The investments made by financial intermediaries – their assets – can be in loans and/or securities… Financial intermediaries play the basic role of transforming financial assets that are less desirable for a large part of the public into other financial assets – their own liabilities – which are more widely preferred by the public.[19]

Financial intermediaries can offer the risk management that comes from *investment diversification* and *investment syndication* while providing economies of scale in due diligence, search, and transaction costs. Syndicating investors (bringing together multiple investors to participate in a single deal) and building investment portfolios (wherein one investor or a syndicate can own a specific set of investments) are crucial ways to mitigate risk in capital markets. Investment syndicates and portfolios are complementary for investors: syndication lowers the minimum investment and costs for certain deals, which allows investors to invest in multiple deals more easily. Well-constructed portfolios allow investors to expose their capital to specific risk-return and cash-flow profiles. These features also help non-professional investors participate in the markets (as mutual funds have expanded individual investor participation in US equity markets).

Professional service providers may lower transaction costs by facilitating information flows, standardizing financial outcome measurement, providing insurance, and so forth. Accountants, auditors, and rating agencies help market participants trust each other's representations of value; transaction settlement firms manage the 'back office' aspects of trades, helping money and financial instruments move efficiently between participants; quotation services give participants up-to-date pricing information to inform their decisions. Many other service providers, including attorneys and management consultants, can help market participants improve the efficiency of their transactions.

Peter Reiss has noted that markets often exist primarily because intermediaries find it profitable to create and maintain the markets; they create value and often lower transaction costs also while capturing sufficient value.

INVESTMENT VEHICLES ARE STRUCTURED TO MEET THE NEEDS OF INVESTORS AND INVESTEES

In the earliest stages – and throughout all stages of capital markets development – some transactions and investment structures will arise from careful negotiations between investor and investee. To move a significant amount of capital at a low cost, investment structures often become relatively standardized.

Efficient capital markets typically feature a variety of investment vehicles, each of which can have a variety of structures. They include notes and bonds, convertible securities, common stock, preferred stock, rights, and warrants. Each product is financially engineered to meet the needs of the primary seller (the company) and the buyer (the underwriter or investor).

Popular investment vehicles typically compromise between offering uniformity across similar vehicles while offering the buyer and seller the specific characteristics they need to consummate the transaction. In general, when investment vehicles suit both investor and investee, investment in general is more efficient and more prevalent.

PERFORMANCE DATA ARE READILY AVAILABLE AND USED

In most (if not all) efficient capital markets, companies must adhere to specific accounting regimes and strict information-disclosure rules so that market participants can use accurate information. That information helps those markets offer price discovery, which happens when buyers and sellers interact to reveal the value of a traded good at a specific moment in time. Typically, companies that perform well and/or have the potential to perform well receive increased financing at a lower cost to the company; those that perform poorly and those that perform poorly and/or have the potential to perform poorly receive less capital or will find it more expensive to acquire. Companies that are unsustainable (i.e. bankrupt) may not be able to find capital at any cost. If performance data are not available or are disregarded systemically, financing does not necessarily follow performance, and funds are allocated inefficiently (i.e. at a low cost to underperforming entities and/or at a higher cost to high-performance entities).

UNDERSTANDING SOCIAL CAPITAL MARKETS

Social capital markets often aim to use efficient markets and market forces to address problems that were once treated as market failures. In certain areas, practitioners and investors may expect market forces to operate where market failures still exist. Thus it is critical to analyze where market systems have failed and where they have succeeded in replacing non-market action.

Market failures and inefficiencies must be assessed repeatedly. As the environment changes, certain market failures become mere market inefficiencies that market-based solutions may begin to mitigate. Successful market-oriented solutions need appropriate markets to supply them with capital. For example, microfinance institutions (MFIs) creating social value through small loans are developing a debt-based capital market particularly suited to their business. As they are presently constituted, private equity or venture capital markets would not effectively serve MFIs (though such financing markets would be appropriate to other types of businesses, such as those developing clean technology).

Practitioners and investors need trend analysis to understand what changes have helped transform market failures into market-based systems. Such analyses can help capital markets actors understand how to apply market-based innovations to various market failures.

As momentum behind market-oriented value creation builds, it becomes increasingly important to avoid over-extending the concepts. Wunder and Vargas (2005) offer one such example in the realm of ecosystems services. Particularly when working in the Global South, and with people who have little experience with markets functioning for their benefit (and not at their expense), market-oriented solutions can destroy more value than they create.

Diving headlong into markets is not a sufficient way to create social and environmental value efficiently. The balance of this analysis will explain in part why blind adherence to markets will not meet the world's social and environmental challenges.

CAPITAL MARKETS: MAPS AND CONCEPTUAL OUTLINES OF SOCIAL CAPITAL MARKETS

Maps, by definition, are conceptual representations of real places. They convey information about the mapped places (or entities), and they convey information about the mapmakers themselves. This section discusses efforts to examine social capital markets from a distance, essentially mapping them. Articles included in this discussion range from those that explicitly set out to map the markets comprehensively, to those drawing large-scale conclusions about the markets in general. Hacibedel et al (2006) collects a wider range of mapping efforts and should be consulted for a more comprehensive list of market maps.

Most of these works have three components:

- A descriptive element, in which they define the boundaries of a capital market and describe the entities and functions therein.
- An analytical element that draws conclusions from the descriptive section.
- Prescriptive recommendations for action as suggested by the analysis.

THE DESCRIPTIVE ELEMENT

Critical to the descriptive function is a definition of the specific market(s) that the discourse examines. Some maps confine their purview very specifically: Bernholz (2002 and 2004) examines the American non-profit capital markets; Ninacs (2002) studies Canadian non-profit capital markets; and Clark and Gaillard (2003) maps social and environmentally oriented private equity investment in the United States. Other mapping efforts remain deliberately broad: Emerson and Bonini (2003 and 2004) map elements of the capital markets in an even larger context; Young (2006) examines various trends in the UK, Europe, and elsewhere.

Trade associations and key funders in specific capital market segments have also produced focused mapping efforts. The MIX Market (www.mixmarket.org) serves as a clearing house for information on microfinance sectors and includes mapping tools and publications. The Community Development Venture Capital Alliance (CDVCA) regularly publishes reports on its industry that offer quantitative and qualitative descriptions of that segment of the social capital markets (www.cdvca.org/media/publications.php). Community Wealth Ventures (2000, 2001, and 2002) describes the changing venture philanthropy landscape.

While several of these pieces map key participants in the markets (Emerson and Bonini 2003 and 2004, and others), as of early 2007, few authors had pursued a more quantitative approach to the state of these markets. Cooch and Kramer (2007) examines mission-related and program-related investing. This inquiry focuses on investments by US foundations, and features rigorously collected data documenting the size of fund flows, investees receiving capital, investment vehicle structures, the profile of funders, expected financial returns on investment, default rates, and other quantitative measurements of that capital market. This inquiry and other ongoing initiatives (including efforts by The Foundation Center and other entities) are filling a critical hole in the discourse: they are helping participants move from anecdotal analysis toward broader, more systematic and data-driven analyses. Such quantitative mapping efforts may give investors an ever-better understanding of how investment vehicles behave, how they should be priced, and where market gaps remain.

THE ANALYTICAL ELEMENT

Most mapping efforts include a level of analysis derived from the descriptive efforts. The Blended Value Map (Emerson and Bonini 2003), for example, presents a range of cross-cutting issues, including the following: appropriate capital, performance metrics, leadership and organizational development, and governmental policy/regulations/tax codes.

Other maps reveal market imbalances: Salamon (2006), for example, examines a gap in growth capital investment for American nonprofits. Still others assess market inefficiencies (such as Bernholz 2002 and 2004). Freundlich (2007) maps social capital markets entities in various ways that demonstrate the dynamic nature and evolution of the social capital markets.

In most cases, these analyses corroborate one another. Rarely if ever do the mapping initiatives contradict one another's analyses. Instead, they may write about those issues with different emphasis, perspective, or vocabulary.

THE PRESCRIPTIVE RECOMMENDATIONS

Most mapping efforts feature recommendations for future actions. The most helpful offer concrete steps that can be undertaken by practitioners, funders, and others. Many of the sources addressed in the social capital markets exchange section of this paper also offer such detailed recommendations for action.

CONCLUSIONS ABOUT MAPPING EFFORTS

Of the three elements associated with mapping, the analytical function seems to be the strongest. Although well-founded analysis of information remains critical to careful prescriptions, it should not be an end in itself. The field needs no more reports concluding that it lacks the ideal capital structures for investors and investees alike or that actors in the silos are not communicating their innovations sufficiently with one another.

On the descriptive front, it is not clear if the field needs additional 'yellow pages' efforts like the one undertaken by the Blended Value Map. Instead, researchers would do well to invest in updating and keeping those sorts of efforts current. Xigi.net, an online collaborative commons, aims to build a live, multifunctional reference site that may serve as the next-generation blended value map, offering dynamically updated content and interactive mapping. This effort does not require the Herculean efforts of a research team to take a snapshot of the universe; instead, the field itself can update the database through online mapping tools.

Mapping and overview research initiatives should redouble their efforts to define the boundaries of their inquiries and move toward increasingly quantitative market assessments. These characteristics will allow a wide range of readers to interpret the data on their own. Finally, prescriptions should balance an awareness of mainstream financial markets with the uniqueness of the social capital markets the inquiries examine. Their prescriptions for change must be incremental and realistic so that other actors in the capital markets may undertake the recommendations in a way that actually improves the function of that market.

FINANCIAL EXCHANGE

A financial exchange, particularly a listed stock exchange where brokers trade securities, is a clearly tangible manifestation of a capital market. The low transaction costs, volume of securities exchanged, and efficiency of their operations all serve as concrete goals for many participants in social capital markets. Accordingly, various inquiries have proposed new financial exchanges for the social capital markets (see Emerson and Wachowicz (2000) or Hartzell (2006) as examples).

Some authors begin with the assertion that existing financial exchanges do not adequately serve social capital markets. Brown (2006) asserts that existing equity exchanges are poorly suited to social-purpose businesses, and proposes a new market where social capital can change hands. Other authors note that social enterprises lack forums to advertise their need for capital. Hartigan (2006) observes that GEXSI – the Global Exchange for Social Investment – was formed to certify blended value investment opportunities and market them to potential investors. Bonbright and Proctor (2006) review various giving portals that facilitate investment in nonprofits. Still other discussions identify social capital exchanges as distant goals that are not yet feasible. Emerson and Wachowicz (2000) suggests that ongoing performance measurement efforts could eventually make a nonprofit financial exchange feasible. The promise of an efficient exchange in the future may help market participants build incremental infrastructure and tools that will eventually engender those social capital exchanges.

Yago (2001) offers the following progression of steps in the development of a robust and efficient capital market:

1. A structural economic change that creates a demand for new services [or products].

2. The creation of uniform standards for a commodity or security.

3. The development of legal instruments that provide evidence of ownership.

4.The development of informal spot markets (for immediate delivery) and forward markets (non-standardized agreements for future delivery) in commodities and securities, where 'receipts' of ownership are traded.

5. The emergence of securities and commodities exchanges.

6. The creation of organized futures markets (standardized contracts for future delivery on organized exchanges) and options markets (rights but not guarantees for future delivery) in commodities and securities.

7. The proliferation of over-the-counter markets. Not every step of this progression will apply to every segment of the social capital market (forward and futures markets may not develop in the financing of certain social enterprises, for example). Nevertheless, the emergence of exchanges does not occur until the fifth stage. Before this fifth stage are key steps that many segments of the social capital markets have not yet taken.

It may be helpful here to note that robust private equity capital markets in the US, Europe, and elsewhere exist, though they lack financial exchanges. An exchange is not necessary to make a capital market functional – and many such markets are ill-suited to the creation of financial exchanges. Venture capital investments, for example, lack clear information flows, uniformity of investment vehicles, and other characteristics that would make them.

GEXSI, Kiva.org, GlobalGiving.com, and others represent important strides toward marketing social investment and lowering the costs of financing. These focused platforms are opening the 'retail' investment space (small donations and investments made by individuals or other entities). A further examination of those platforms' strategies, and results would be a useful addition to the discourse.

CONCLUSIONS ABOUT SOCIAL CAPITAL EXCHANGES

Inquiries like Brown (2006) are especially useful in illuminating the various barriers to launching a financial exchange. While they identify a long-term goal (a liquid stock-exchange-like entity), they also identify a series of preliminary steps required to implement a social financial exchange. Brown includes the following:

- Develop investment intermediaries.
- Develop new products to attract investors.
- Expand awareness of social purpose businesses.
- Build standard measures of social value.

As those necessary conditions arise, exchanges will follow naturally as market participants demand them; thus, focusing on the preliminary developments will be especially critical.

Wheeler (2006) distinguishes between the matching function of such exchanges (bringing buyers and sellers together at lower costs) and the price discovery function. He suggests disaggregating those goals and then working toward them individually. Meanwhile, discussants should move toward answering a series of questions that will help address price discovery and valuation issues. Wheeler asks the following questions, which should be a priority of the field:

- How do we develop standards of transparency and reporting for organizations that focus on social returns?
- How should we address in our analysis the clear distinctions between the different types of social enterprise?
- Who is debating what represents social value and how it can be used for investment purposes? Is this a debate that leading players from the commercial capital markets will join?
- Why, after years of talking about it, have we made so little progress in reducing transaction costs for those looking to raise capital?
- What role should competition play among providers of services on the one hand, and among investors on the other?

A financial exchange does not a market make. Rather than presenting new social financial exchanges as remedies for market failures, social capital exchanges should be considered tools to make underlying markets more efficient – once they have worked out key market forces and taken the steps suggested by Yago. While exchanges can perform many wondrous functions, they require a great deal of existing market functionality and infrastructure.

KEY SOCIAL CAPITAL MARKETS CONCEPTS

INTERMEDIARIES AND SERVICE PROVIDERS FACILITATE TRANSACTIONS

The first section of this paper described three types of market intermediaries: exchange intermediaries, financial intermediaries, and information and professional service providers.

EXCHANGE INTERMEDIARIES

The social capital markets discourse frequently addresses exchange intermediaries, from community foundations to online charitable giving portals to articles about the United Way (one of the largest charitable intermediaries in the US). Charitable advisors across the world also help philanthropic investors and potential investees come together for capital transactions, and publications like the *Chronicle of Philanthropy* report on major charitable transactions. Such intermediaries help lower search costs (the expenses for investor and investee to find one another to begin negotiations or transactions) and in many cases handle investment reporting and settlement (the back-office functions of placing an investment). Particularly in the philanthropic capital market, these intermediaries and the papers discussing them are too numerous to discuss in this forum.

INFORMATION AND PROFESSIONAL SERVICE PROVIDERS

The initial incarnation of GEXSI (as explained by Hartigan, 2006) aimed not only to lower search costs, it included a rating function. In a similar vein, many actors in the social capital markets advocate the advent of rating agencies for social capital investees. As they have in mainstream capital markets, external raters will lower the costs of due diligence and, in turn, transactions. The microfinance sector, for example, has developed many different rating intermediaries. The Rating Fund presents one overview of those intermediaries (www.ratingfund.org/rater_compare.

aspx). Emerson and Spitzer (2006) summarizes some of the concerns about microfinance ratings firms; a richer discussion of the topic can be found in the microfinance discourse.

In the nonprofit capital markets, organizations like GuideStar in the US make financial and other information available to the public, but Silvergleid (2003) reports on studies indicating that donations do not necessarily correspond to organizations' financial circumstances. (Instead, donations do correlate with nonprofits' expenditures on advertisement). Silvergleid continues: "In response to concerns about nonprofit accountability and the scarcity of information (among other factors), a handful of organizations has emerged to help donors navigate the charitable universe."[20] Such 'watchdog' organizations monitor charities' practices and finances to offer a concise, relatively objective assessment of the organizations' health. Based on several regression models, Silvergleid indicates that watchdog agencies appear not to have significant effects on charitable contributions. He concludes, "it appears that any concerns about the power of watchdog agencies to shape contribution patterns are unwarranted. The findings also suggest that the much-vaunted 'efficient social capital market' appears to be at least several years off."[21]

ORGANIZATIONS EXAMINED BY SILVERGLEID

- BBB Wise Giving Alliance
- American Institute of Philanthropy
- Charity Navigator
- Ministry Watch
- Maryland Association of Nonprofits' Standards for Excellence
- Charities Review Council of Minnesota
- The Philanthropy Group
- GuideStar
- SmartMoney Magazine
- Forbes Magazine
- Worth Magazine

The Economist (2006) reported on several professional service firms, including New Philanthropy Capital (a London firm offering the equivalent of sell-side equity analysis for donors to nonprofits), Geneva Global (a similar service provider examining international giving opportunities), Bridgespan (a nonprofit strategy consultancy serving other nonprofits), and McKinsey and Company's nonprofit consulting practice. The article notes that the professional employees in firms like the New Philanthropy Capital and Bridgespan may expect to earn considerably less money than they could by performing similar work for mainstream capital markets entities. It stands to reason, then, that many professional service providers can expect to meet labor shortages and difficulty in recruiting the best talent to provide professional services for some aspects of the social capital markets. (Nevertheless, the realm of the social capital markets is so large and the intermediaries so various that it is difficult to make assertions about the economics of such businesses.)

FINANCIAL INTERMEDIARIES: SYNDICATION

In the social capital markets discourse, financial intermediaries command significant attention. Such intermediaries operate between investors and the ultimate investments they make, and those intermediaries change investment vehicles in ways that better suit investors, investees, or both. The need for syndication services has been articulated by multiple actors in the social capital markets, particularly by Ashoka (Wood, 2006). Our conversations with other leading entities in the social capital markets suggest that several are considering how to craft an investment or merchant bank for social enterprises, nonprofits, and other investable entities in the social capital markets.

In certain segments of the social capital markets, new investment banking intermediaries have arisen. Additionally, the UK's Commission on Unclaimed Assets (2006) has proposed in general terms the formation of such a bank using unclaimed financial assets as capital to fund the nonprofit 'third sector' in the UK. See Emerson and Spitzer (2006), for more information on

[20] Page 11.

[21] Ibid, page 24.

[22] For more information on ecosystem services and natural capital see Daily and Ellison, 2002 as well as many sources available through the Katoomba Group's Ecosystem Marketplace, www.ecosystemmarketplace.com.

[23] Note that REDF's work has been published in the name of REDF, the Roberts Enterprise Development Fund, and the Roberts Foundation.

[24] Note that this source includes some entities that currently are not typically considered venture philanthropy.

Developing World Markets, Inc. and other entities that are structuring and placing investments in microfinance institutions for other examples of this development.

Indeed, some of the most successful intermediation in the social capital markets has transpired in the microfinance and community economic development realms. While some of these intermediaries are new entities formed to serve portions of the social capital markets, others are mainstream intermediaries extending their services. Deutsche Bank and Citibank's involvement in major microfinance capital transactions (Emerson and Spitzer, 2006), and mainstream commercial banks' long-running involvement in community economic development, both complement dedicated social capital intermediaries. Strandberg (June 2005) examines financial institutions' corporate social responsibility best practices and in a separate publication (May 2005) projects the future of such initiatives; both papers document mainstream financial institutions' movement into the social capital markets.

It is worth noting that these intermediaries are most developed in social capital market segments that closely resemble aspects of the mainstream capital markets – where mainstream banking practices can be adjusted and applied to investments that create extra-financial value as well as financial value.

FINANCIAL INTERMEDIARIES: INVESTMENT PLACEMENT AND DIVERSIFICATION

Some social capital markets actors have hoped private banking would provide more funding to the social capital markets. High net-worth and ultra-high net-worth individuals are often considered less risk-averse than large institutional, investors and, some private banking professionals' clients are demanding social capital investments.

The discourse around private banking often includes socially responsible investment (an area outside the scope of this inquiry) as well as social capital markets investment. Hagard and Knoepfel (2007) surveys private banking professionals and summarizes the state of such intermediaries. Their report segments potential private banking clients, offers high-level views of trends in private banking, and suggests why high net-worth individuals demand more social capital investments than institutional investors do.

Diversifying intermediaries, which take pooled investment funds and make direct investments in multiple social capital markets entities, have arisen around microfinance and community economic development, while also moving capital into investments that differ significantly from mainstream financial investments. Wetland mitigation banks, sustainable development real estate funds, and carbon finance intermediaries are giving investors the opportunity to move from financing individual deals to funds in the realm of environmental sustainability. (Spitzer, Emerson, and Harold 2007. The natural capital and ecosystem services discourse discuss each of these intermediary types has been at greater length.[22]

Throughout the social capital markets discussion, venture philanthropy or high-engagement philanthropy has garnered significant attention for bringing intermediation typical of mainstream private equity markets into segments of the social capital markets. Letts, Ryan, and Grossman (1997), REDF[23] (1999, Volume 2, Chapter 1, along with a number of related papers published from 1996 onward), and Community Wealth Ventures (2000[24], 2001, 2002, 2004) document the rise of venture philanthropy in the US. The venture or high-engagement philanthropy rubric applies to several different models for philanthropic intermediation: Arrillaga and Hoyt (2004) and Vurro (2006) offer frameworks for classifying venture philanthropy models and identifying key similarities across the models. As practices related to venture philanthropy gained popularity, so did counter-arguments such as those raised by Sievers (1997) and others.

Case studies of various venture philanthropy funds abound (and may be found in most of the sources cited above), from which a more robust venture/high-engagement philanthropy typology could be developed. Nevertheless, the discourse lacks a systematic analysis of how venture philanthropy has performed as an overall investment style or investment class. REDF (1999) has published accounts of its failures, which remains an unusual practice in the field. Tranquada and Pepin (2005) project the future benefits of venture philanthropy practice, though few sources have taken a data-driven look at historical blended value returns on such investments.

At this point in the evolution of venture/high-engagement philanthropy – now that its premises, principles, and promises have been well-articulated – a more systematic assessments of its impact seems to be in order. Like so many other areas of the social capital markets, analysis of venture philanthropy needs to move beyond the case study and anecdote toward more rigorous assessments of results and outcomes.

While the mainstream venture capital and private equity markets do not offer the pricing and reporting transparency of an organized financial exchange, in the US several sources report on fund flows through the financial intermediaries. Thompson VentureXpert (Thompson Financial's information clearing house for the private capital market) collects information from various venture capital partnerships before making the aggregated and organized information available to subscribers, who can learn about and analyze firms' fundraising and investing. Timothy Freundlich (of Calvert Social Investment Foundation, Good Capital, and Xigi) suggests that Xigi could become the VentureXpert for blended value investing.

CONCLUSIONS ABOUT INTERMEDIARIES

While many intermediaries in the social capital markets resemble those in the mainstream capital markets, often the economics of social capital markets intermediaries differ from their mainstream counterparts. Typically, social capital markets deals are smaller, and overhead costs are markedly higher as a percentage of financial returns.

Accordingly, the market forces that gave rise to many mainstream intermediaries will not (yet) naturally drive the creation of such social capital markets intermediaries. Participants can identify the social efficiency of new intermediaries, but as long as the economics do not support their creation, the intermediating function will be in undersupply. At least to break the existing market failure, a non-market subsidy or similar measure may be necessary to support certain intermediary functions.

INVESTMENT VEHICLES ARE STRUCTURED TO MEET THE NEEDS OF INVESTORS AND INVESTEES

CHARACTERIZING INVESTMENT VEHICLES

The social capital markets discourse presents several basic ways of mapping different investment structures and vehicles. Emerson (2000 and 2003) characterizes the 'traditional' conception or map of investment vehicles that exists on a continuum from "Pure Financial Market and -100% Social Return" to "Pure Social Market and -100% Financial Returns" That traditional conception suggests that social and financial returns must in some way be exchanged for one another (a prospect Emerson's work rejects).

Other maps plot different vehicles on a single axis related to the investments' deg.ree of risk-adjusted rate of return, including the F.B. Heron Foundation (2004) continuum of below-market-rate investments and market-rate investments, all of which include an unspecified extra-financial value component (see Exhibit 1 page 21). Bridges Community Ventures (quoted in Emerson, Freundlich, and Fruchterman, 2006) maps different vehicles on a continuum of high-to-low financial risk, adding a variety of other characteristics of those investment vehicles (see Exhibit 2 page 21).

Other authors map investment vehicles on multiple dimensions. Bolton (2003) plots investment vehicles along two axes: commercial to charitable and high involvement to low involvement (see Exhibit 3 page 22). While the high-to-low involvement axis represents a true continuum, the other axis again implies that investment vehicles must sacrifice commercial for charitable returns. Emerson (2000) maps investment across two axes, Commercial Enterprise-to-Social Enterprise, and the stages of enterprise development (see Exhibit 4 page 22). That conception integrates the capital markets reality that enterprises need different types of capital at different stages of their development.

Notably, these maps do little to characterize extra-financial returns generated by the different investment instruments. Nevertheless, the schemes do address investment dimensions that are characteristic of mainstream financial investments (including expected financial return, duration, and depth of engagement, etc.).

The frameworks above suggest that investment vehicle structuring does not necessarily explicitly address extra-financial value generation. Nevertheless, actors in the social capital markets are systematically seeking ways to relate financial and extra-financial returns in investment decisions. Aquillian Investments has articulated sophisticated approaches to balancing multiple dimensions of returns within a portfolio. The firm's concepts (presented in Dunn, 2006) may be useful in articulating specific investment vehicles' financial and extra-financial returns.

EXHIBIT 1: THE FB HERON FOUNDATION CONTINUUM

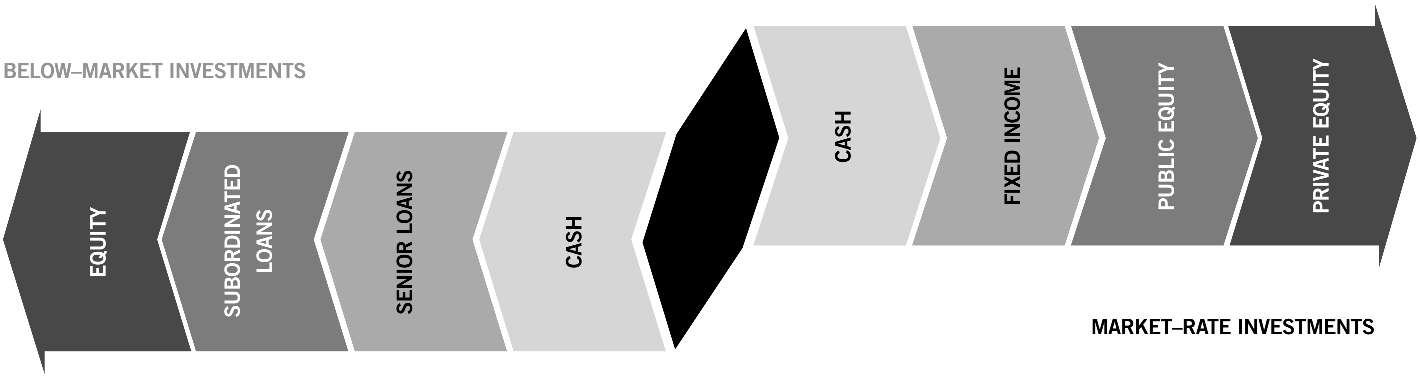


EXHIBIT 2: BRIDGES COMMUNITY VENTURES INVESTMENT CHART

HIGH RISK ← → LOW RISK

	GRANTS	PATIENT CAPITAL	PURE EQUITY	EQUITY–LIKE	LOANS
EXPECTED LOSS %	100%	20-50%	10-20%	10-20%	1-8%
RETURN ON INVESTMENT	0	-50%-c. 10%	NO LIMIT	VARIABLE UP TO 30%	FIXED 5-18%
TERM OF INVESTMENT	OFTEN SHORT PERIODS	REPAYMENT HOLIDAYS	UNDEFINED (DEPENDS ON SUCCESS)	5-7 YRS (THROUGH BOARD)	FIXED TERM
INVOLVEMENT IN BUSINESS	LOW (EXCEPT VENTURE PHILANTHROPY)	SOME (THROUGH PARTNERS)	HIGH (DEPENDS ON SUCCESS)	HIGH (DEPENDS ON SUCCESS)	LOW
EXIT OF INVESTMENT	N/A	REPAYMENT	IPO, SALE, BUYOUT	ROYALTY, REPAYMENT OR APO	REPAYMENT
LIQUIDATION RIGHTS	NONE	NONE/ SUBORDINATE	RESIDUAL	SUBORDINATE	FIRST PRIORITY
VOTING RIGHTS	NO	NO	THROUGH OWNERSHIP	STRUCTURED IN LOAN AGREEMENT	NO

EXHIBIT 3: BOLTON'S TWO-AXIS INVESTMENT VEHICLE MAP

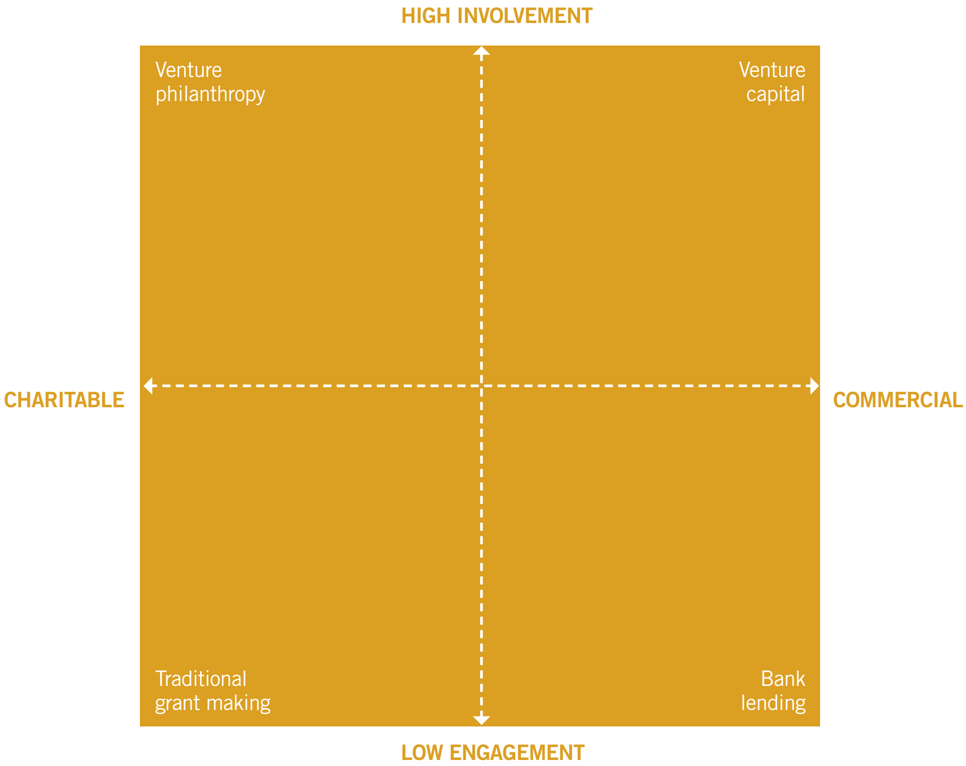
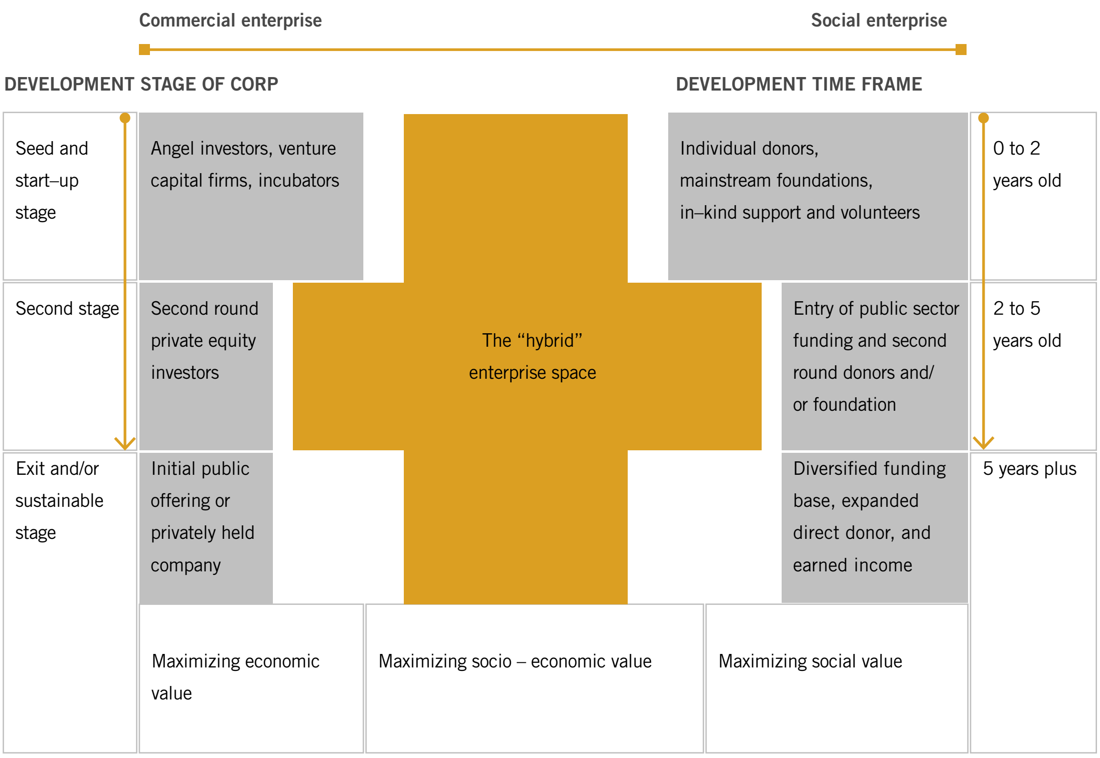


EXHIBIT 4: EMERSON CAPITAL FRAMEWORK, ADAPTED FROM J. GREGORY DEES

AN ENTERPRISE DEVELOPMENT FRAMEWORK*



* This diagram builds on the work of J. Gregory Dees as presented in "The Social Enterprise Spectrum: Philanthropy to Commerce," Harvard University, 1996

NONPROFIT CAPITAL: GRANTS AND PROGRAM-RELATED INVESTMENTS

The literature discussing grantmaking and structuring is extensive, and a thorough review of it remains beyond the scope of this inquiry. Readers interested in discussions of grants as vehicles for nonprofit capital may wish to review Kibbe, Setterber, and Wilbur (1999).

Beyond grantmaking, program-related investments (PRIs) have received significant attention. Though PRIs are typically structured as below-market rate loans, they can be structured a variety of ways. Spitzer and Arrillaga (2006) offers an overview of those structures, a discussion of the purposes and uses of those investment vehicles, and an assessment of barriers to wider adoption. The source also includes a list of other resources for further reading. The PRI-Makers Network offers additional resources on structuring and managing effective PRIs.[25] Bolton, Kingston, and Ludlow (2007) offer a UK perspective on structuring new investments in nonprofits, and the lessons learned by social investor Venturesome apply to investors across the nonprofit capital market.

STRUCTURING INVESTMENTS IN MICROFINANCE AND COMMUNITY ECONOMIC DEVELOPMENT

Thanks in part to the maturity and sophistication of intermediaries, microfinance and community economic development institutions have drawn on increasingly sophisticated investment structures in recent years. (Meehan 2005, Emerson and Spitzer 2006, address innovations in microfinance; Andrews, 2001, Leibsohn 2001, Leinberger 2001, Emerson and Spitzer 2006, and Spitzer and Arrillaga, 2006 discuss innovations in financing community economic development.) Using practices established in mainstream structured finance – including securitization, tranching, credit enhancements, and other techniques – intermediaries have created a variety of investment instruments that appeal to a range of investors (suiting their risk/return appetites, offering particular mixes of anticipated financial/extra-financial returns, and generating a specific cash flows).[26]

Such innovations not only increase the capital available to enterprises, they can also help investees adjust their businesses and capital structures in order to improve their own performance. Gruis and Neiboer (2006) document beneficial changes in practice as Dutch low-income housing providers moved from public sector funding toward the mainstream capital markets.

Similarly, in the microfinance sector, some MFIs have reorganized from nonprofit entities to become for-profit businesses in order to access new sources of capital. Revised operating practices and reporting necessarily follow such a conversion. While these techniques first gained notoriety in Latin American MFIs and American community development, the practice has expanded to the housing and microfinance sectors worldwide (Emerson and Spitzer, 2006). Furthermore, environmental finance is also deploying sophisticated financial engineering (Spitzer, Emerson, and Harold, 2007).

Such innovation has managed the cash flows of social capital investments. Nevertheless, as extra-financial outcome measurements and financial engineering develop further, one can imagine investment vehicles structured to give investors extra-financial returns as precisely predicted and reliably realized as are their financial returns – while providing the investees with capital in the forms they need.

FORCES DRIVING INVESTMENT VEHICLE INNOVATION

Several sources assert that many entities in the social capital markets lack financial sophistication, particularly in the nonprofit sector (Spitzer and Arrillaga, 2006), in microfinance (Tulchin and Bhaskar, 2004), and across the social capital markets (Wheeler, 2006). Nevertheless, many sources demonstrate how investees can manage their own capital structures strategically. Miller (2001 and 2002) identifies ways organizations can structure capital to drive their strategies. Clearly, that level of financial sophistication prefigures carefully developed investment structures that truly advance nonprofits' goals. As investees become more sophisticated about their own capital structures, they will increasingly drive innovation in investment structuring.

Likewise, intermediaries and investors can bring more nuance and clarity to the task. Alter (2006) examines socially entrepreneurial business models in ways that may help in structuring capital to suit specific investees. Social capital investors must also identify their own goals and expectations. As many sources note, they need

[25] http://primakers.net/home

[26] Securitization refers to the practice of pooling a variety of financial obligations and repackaging them to create new securities that allow new parties to invest in the underlying financial instruments. Tranching typically corresponds to a type of securitization that creates more than one new security with different risk-reward characteristics, each backed by the cash flows and assets of the securitized financial instruments. Credit enhancements include a variety of ways to share risk – typically they lower the cost of borrowing for an entity by transferring some of the default risk to another entity.

to approach investment and capital structuring with creativity and a sense of what returns on investment are realistic. Emerson, Freundlich, and Berenbach (2004), Ethical Investment Research Services Foundation (2005), and Kramer and Cooch (2006) all indicate how investors can advance financial and extra-financial goals by building portfolios of different types of social capital markets investments and by pursuing different investment strategies.

A number of sources examine foundations as the key investors in the social capital markets, and several find the typical foundation model inadequate in driving capital structuring innovation. Bernholz (2004) examines the traditional foundation model and explains why its insulation from many market forces inhibits innovation. Bernholz notes that donor-advised funds and other investment intermediary models, which are by nature more responsive to market forces, may engender further capital markets innovations. Anheier and Leat (2006) further examine foundations' potential to create value, and they suggest a variety of ways that foundations should act to maximize the potential to create value.

GAPS IN AVAILABLE INVESTMENT VEHICLES

The maps and discussions of investment vehicles do not necessarily indicate the volume of capital moving through them – or the volume that could potentially move through them. Many authors have identified gaps in the transactive social capital available to investees. Marino (2006) notes the lack of appropriately structured, risk-tolerant financing to fund early-stage social entrepreneurs and suggests that venture philanthropists might fill that gap with risk-tolerant seed capital. Emerson, Freundlich, and Fruchterman (2006) identify a lack of risk-tolerant expansion capital for social enterprises (both for-profit and nonprofit). Overholser (2006) identifies a lack of capital structured with long-term horizons for enterprises to reach sustainability. Overholser suggests that 'patient capital' investors willing to defer financial returns and measurable results may help nascent investments mature at appropriate rates. Salamon (2006) identifies a similar gap in investment capital for American nonprofits, examining which fields of activity had the most significant gaps.

FUTURE INNOVATION IN INVESTMENT VEHICLES

A few sources suggest radical new investment vehicles and structures. Emerson and Wachowicz (2000) present "the REDF Nonprofit Equity Framework" to derive an equity-like valuation for enterprises creating uncaptured socio-economic value. Emerson and Beceren (2001) combine structured finance tools to develop a new investment vehicle called the "social value note." Emerson, Freundlich, and Fruchterman (2006) present several different potential investment structures that would help address the lack of expansion capital for social enterprises. Natural capital and ecosystem services have generated relatively new investment structures as actors in these markets develop compensatory mitigation regimens in real estate (see Emerson, Harold, and Spitzer 2007) and air pollution. As actors learn how to value certain ecosystem services, new transactions and investment structures will necessarily follow.

CONCLUSIONS ON INVESTMENT VEHICLES

The social capital markets have not lacked for financial engineering innovation. Entrepreneurs, managers, and investors across the markets continue to develop new investment structures to solve their needs. Nevertheless, the literature continues to document shortages of capital in various segments of the markets, which suggests that those innovations are not being widely adopted. Financial engineering alone cannot fill gaps in the capital markets. Emerson, Freundlich, and Fruchterman (2006) assert that investors and social enterprises both need to revise their expectations of the investment relationship:

> *We need a new 'contract,' a new valuation scheme and new perspectives on the relationship between investor and enterprise. Simply said, we have often poorly articulated expectations and value flows currently in place between the parties… Both parties have to figure out the central expectations around the often-challenging intersection of risk, return, and social value creation. Which metrics matter to whom, how are they Integrated into the management, why is the business and social impact creation best intertwined?*

Emerson (2001) specifically addresses the relationship between foundations and nonprofits, suggesting that both need to reassess their roles in investment relationships and focus on productive engagement with one another. He asserts that grantmakers should focus "less upon units of outcome than a pursuit of the process of value creation made possible through the application of your resources – financial and otherwise – in support of the work of grantees."[27] That suggestion can apply to many investors in the social capital markets. When investors, investees, and intermediaries clarify their goals and roles in relation to one another, then the appropriate investment vehicles will arise with relative ease.

Such investment structures will become more uniform and refined through processes described in Spitzer, Emerson, and Harold (2007). Social capital markets participants can speed the advent of appropriate investment structures and relationships through transparency – indeed, they risk not just inefficiency but market failure without it. Emerson and Spitzer (2006) reports:

Open communication about investment methodologies, pricing, failures and equity-holders' profits will be essential to pricing these blended value investments correctly. Keeping the data private introduces the chance that other funds will erroneously price risk. When substantial capital enters (or fails to enter) a market based on mispriced risk, that market is prone to dramatic failure. Markets cannot accurately price the risk associated with their securities unless they openly explore failures as well as successes…The emerging blended value capital markets simply cannot afford for participants to be secretive about their data, ashamed of their failures, or fragmented in their terminology.[28]

PERFORMANCE DATA ARE READILY AVAILABLE AND USED

The first section of this paper asserted the importance of performance data to the efficient allocation of capital. Investors seek performance measurements to understand the value their capital can and does create. Furthermore, such data are critical for enterprise managers: Effective measurements of what constitutes financial and extra-financial return can help them understand which endeavors represent the best use of their own capital and energy.

The social capital markets literature is rife with laments that those markets are not sufficiently performance-based, and that funds do not flow more readily to high-performance investments than middling or poorly performing enterprises. Such capital allocations are inefficient in generating extra-financial value and they do not provide price signalling to other actors in the capital markets. While much of this hand-wringing comes from investors, enterprise managers have powerful reasons to be concerned as well. Effective managers want to be rewarded for success with the promise of less expensive and more abundant capital, and they should also want performance measurements to help them become more efficient.

THE EFFECTS OF PERFORMANCE DATA

Gruis and Neiboer (2006) report on operational improvements in social service providers that move toward a market-responsive, performance-based financing regime. In the literature, such examples tends to be the exception rather than the rule, though similar success stories can be found in discussions of microfinance and community economic development (Emerson and Spitzer, 2006).

The absence of good performance data is well-documented. Community Wealth Ventures (2000) links the lack of performance-based funding to a shortage of high-performance leadership among social enterprises and nonprofits. Ryan (2001) observes a variety of problematic knock-on effects from poor capital-market function, including high transaction costs and unnecessary duplication of efforts. In discussing the shortage of expansion capital for nonprofits and social enterprises, Bradach (2003) notes that without performance-based financing, many enterprises are relegated to an inefficient scale that does not create value efficiently. Community Wealth Ventures (2004) recognizes success often creates demand for an organization's products or services without a commensurate response from investors. With more demand and fewer resources, such organizations' performance may deteriorate quickly.

WHY IS THERE A LACK OF PERFORMANCE DATA?

Emerson (1996) – along with other publications before and after – observed that the nonprofit capital markets lack good measures or 'return' and 'profit' to assess the extra-financial value they create. The deficiency affects many enterprises, no matter whether they are organized as nonprofits or

[27] Page 69.

[27] This article is available online at www.foundationnews.org/CME/article.cfm?ID=204

[28] Page 69.

as for-profit businesses. Nevertheless, many actors in the social capital markets have attempted to define such extra-financial analogs for profits and returns on investment.

Several authors suggest that foundations choosing traditional organizational and operational forms are not likely to develop those outcome measurements (Anheier and Leat, 2006 and Bernholz, 2004). Nevertheless, new philanthropic models (venture or high-engagement philanthropy particularly) have created much of what constitutes the new generation of outcome measurement regimes. Examples include REDF's Social Return on Investment (www.redf.org) and Acumen Fund's impact measurement system (www.acumenfund.org).

Many social capital markets investors will push for financial performance measures. Pressures to adopt socially responsible investment practices will likely drive extra-financial performance measurement as well. Kramer and Cooch (2006) offer a functional overview and comparison of several investors' approaches to measuring the extra-financial value created by their investments.

Even after years of effort to develop extra-financial performance measurement regimes, it remains unclear that their presence would change the flows of capital through the markets. Silvergleid (2003) indicates that similar tools have not affected charitable giving in a statistically significant way. Furthermore, in the microfinance and community economic development sectors, it is not clear that financing is especially tied to extra-financial outcomes (though fund flows likely have correlations to enterprises' financial outcomes). As the social capital markets become more robust and financially sophisticated, actors must be careful not to make financing decisions based only on financial performance criteria. Thus, it becomes especially important to develop extra-financial performance measurements. While financial and extra-financial performance are closely related in many investments, they must not be conflated sloppily; instead, various dimensions of performance should be separated for initial analysis and then blended thoughtfully to reflect the total return of the capital and venture investment.

The appendix to this paper presents a wide range of performance-measurement regimes that have been developed over the past twenty years. While not necessarily comprehensive, the guide should offer readers insight into the variety and breadth of those different metrics efforts.

CONCLUSIONS

THE DEFINITIONS AND BOUNDARIES OF THE SOCIAL CAPITAL MARKET MAY BE TOO UNCLEAR

The sources cited in this inquiry use the phrase ‘social capital market’ to mean many different things. In some cases, it refers to the markets supplying only nonprofit organizations. Other writers use the term in reference to specific financial exchanges. In our zeal to draw lessons from various areas of practice and to recognize the common challenges of deploying capital to create blended value, we have built a discourse that covers an incredibly diverse set of actors. The social capital markets encompass myriad programmatic areas (from community economic development to environmental improvement to healthcare and beyond), span international borders, embrace various organizational forms (from nonprofit to for-profit and collaborations between them), and include enterprises of every size at every lifecycle stage. Yet these diverse actors and entities often face the same challenges–especially in the abstract. However, while lessons may be transferred between all of them, drawing sharp conclusions about the social capital markets as a whole remains difficult due to the diversity of entities, transactions, and individuals they encompass.

ASPECTS OF THE SOCIAL CAPITAL MARKETS RESEMBLE CONSUMER MARKETS

In the United States in 2005, over three-quarters of the $260 billion contributed to charity came from individual donors (Giving USA Foundation, 2006). Those contributions amount to a substantial portion of the social capital markets, no matter where one draws boundaries around that greater market. Silvergleid (2003) cites sources indicating that individual giving tends to have a stronger correlation to organizations’ marketing and PR efforts than to their performance. Those fact suggests that parts of the social capital markets resemble consumer markets more than capital markets, with cash flows tied to consumer perception and marketing communication. Meehan, Kilmer, and O’Flanagan (2004) note:

> *Investment decisions are often based on things like institutional loyalty or belief in a cause, rather than financial and organizational performance and potential social impact. The result is that investors give no matter whether nonprofits produce social value.*[29]

This investment process resembles a consumer’s decision to purchase an article of fashionable clothing – buying an image and

[29] Page 39.

perception of quality with little regard for more objective measures of real quality. Conversely, capital markets transactions tend to be based on performance, regardless of the other attributes of the investment. Thus, asking some segments of the social capital markets to behave like institutionally driven financial capital markets approaches the absurd (though it may still be an appropriate long-term goal).

Meehan, Kilmer, and O'Flanagan (2004) report that a great majority of consumers would like recipients of their donations to disclose more information about their performance. Thus, introducing concepts from consumer markets to help actors understand social capital investments does not necessarily mean disregarding the goals of the social capital markets discourse. Appealing to consumer-investor/donors may influence the types of metrics these markets advance. Communicating quality and performance to individuals will likely differ from communicating similar concepts to sophisticated investment institutions.

Even sophisticated financial investors served by private banking professionals make social capital investment decisions for complex reasons that go beyond strictly rational value maximizing. According to Hagard and Knoepfel (2007), private banking clients can be "trend-driven [and have an] appetite for eye-catching products," which helps explain their demand for social capital investments.[30] Their report concludes that private banks must work to catch the eyes of their clients: "Institutions cannot expect a well-conceived [blended value investment] fund to become a bestseller on meritocratic grounds alone: new products must be accompanied by a marketing strategy, sales incentives, etc." Further, this report on private banking explains other investor motivations that are not consistent with a demand for efficient markets (including being less fee-sensitive than institutional investors). Perhaps as such investment vehicles become more common, these conditions will change.

Martin (2006) notes that financial or market-based innovation alone will not necessarily serve philanthropists:

> *In short, when philanthropists look for ways to move beyond grantmaking, they do not only want to draw on the tools of investment banking to access a greater toolbox of financial instruments. They are not merely impact-wanting beings. Their psyche is considerably richer. Human beings act toward things on the basis of the meanings that the things have for them. Such meaning arises out of social interaction. As people encounter things, they make and handle meanings through an interpretive process. Philanthropists who are well-disposed to supporting social entrepreneurs typically look for meaning as well as impact, and seek to express themselves as creative beings and search for meaning… But the truth is that many philanthropic support decisions will continue to be co-determined by philanthropists' deeply personal views, preferences and experiences. It is this interplay between the symbolic and the rational dimensions of human action that makes philanthropy both exciting and challenging.*[31]

Few of the sources reviewed for this study account for the complexity of philanthropists' and social investors' motivations, goals, and behavior.

Often philanthropists' goals are not economic or market-based; instead, philanthropic actions are frequently based on ethical and emotional – not necessarily logical – forces. In many cases, philanthropists do not demonstrate a preference for efficient transactions that have low costs. Instead, they often want to see and touch their investments, 'leave their mark' on the world, create new programs, and so forth. Those of us who wish to see the social capital markets act more like the mainstream capital markets must remember that many other actors in the space have different goals. They do not want to act like a market and do not want a cold, logical approach to creating social good.

THERE ARE WEAK LINKS IN SOCIAL CAPITAL MARKETS DISCOURSE

The articles and books comprising the literature review for this paper vary dramatically. Alex Nicholls observes that the discourse consists of three different types of inquiry:

- Academic discourse that directs economic analysis and theory toward understanding the current state and potential of the social capital markets.
- Detailed, data-laden presentations of current efforts undertaken within the social capital markets.
- The discourse of praxis, which links which appeals primarily to practitioners

[30] Hagard and Knoepfel page 13.

The discourse of praxis is very strong in the social capital markets conversation. Publications such as *Alliance* and the *Stanford Social Innovation Review* are advancing the quality and distribution of this type of discourse. A survey of works cited in this inquiry reveals an abundance of this type of material. The quality of praxis writings depends heavily on the quality of the academic discourses and availability of data-laden presentation of practices in the social capital markets.

Returning to the works cited in this document, a limited number undertake detailed, data-oriented discussions of practice. In the 1990s and 2000s, REDF dedicated resources to publishing detailed accounts of investors' and investees' practices and results. Cooch and Kramer (2007) provide another example of this sort of data-driven study. Clearly, substantial resources are required to produce such works, and many investors and investees may hesitate to undertake.

Only a handful of sources in the social capital markets discourse have been peer-reviewed and published academically. Indeed, relatively few – even those predating the World Wide Web – have been issued through publishing houses or through established periodicals. Instead, many have been sponsored, produced, and distributed by foundations and other institutions.

Accordingly, the discourse largely lacks the quality control of peer review.[31] Institutions with great stakes in the studies' outcomes have sponsored the production and distribution of much of this discourse (including this paper); thus, many papers' conclusions cannot be considered objective. With documents arising from all quarters – their audiences, quality, and style varying considerably – no genuine clearing house for the information exists. With no LexisNexis or Amazon.com to aggregate this information in one virtual place, the market of information and ideas remains inefficient. Indeed, this inquiry likely omits key sources because search costs for such information remain high.

Consequently, authors can and do duplicate each other's efforts. That inefficiency makes it difficult to identify, disseminate, and improve upon truly revolutionary ideas, and it slows the transfer of best practices. This discourse closely resembles the markets it discusses.

RECOMMENDATIONS

Based on the authors' survey of writings in this area, there are a number of advances that would help improve the flow of funds to organizations creating both financial and extra-financial value:

- Segment the new social capital markets.
- Expand the discourse to include consumer market research and behavioral finance.
- Engage ew actors in the discourse.
- Build a clearing house for the discourse.
- Focus on metrics.
- Refine our understanding of social capital – both types.

SEGMENT THE SOCIAL CAPITAL MARKETS

The social capital markets, particularly under the rather wide-ranging treatment in this paper are very wide and – at least in some places – not very deep at all. The authors of this paper and other writers assert that many of the same issues cut across all of the markets; actors from every facet of the social capital markets stand to learn lessons from others elsewhere in the markets.

Nevertheless, to move into the next level of analysis – beyond the first chapter of capital markets textbooks, the social capital markets must be segmented better or divided into more discrete capital markets. That segmentation will likely bring increased clarity to the practices and tools of social investment. It will probably mean decreased usage of the term 'social capital markets,' which already appears to be used too loosely. Ultimately, the discourse may need to get much more specific and narrow – just like the mainstream capital markets discourse is – in order to make more meaningful assessments of the greater social capital markets.

EXPAND THE DISCOURSE TO INCLUDE CONSUMER MARKET RESEARCH AND BEHAVIORAL FINANCE

Traditional economic inquiry and capital market analysis may only take us so far in understanding why the social capital markets do not function as well as they might. The inquiry thus far suggests that social capital markets participants have complex motivations and decision-making processes that may not fit well in traditional capital markets analysis (which presumes that

[31] Pages 6-7.

[32] The authors humbly recognize that this inquiry itself may well not have survived a traditional peer-review process!

investors will make decisions according to basic economic assumptions). Thus, it would be appropriate to bring consumer markets analysis and behavioral economics analyses to bear on the social capital markets.

Kiva is an excellent example of an institution that has successfully funded microfinance from both a consumer and capital markets perspective (www.kiva.org). Kiva gives investors key extra-financial performance information on their investments. The organization's success has been remarkable: Kiva has had to continuously expand its MFI network to deploy ever-increasing capital supplied by individual social investors. The private company TerraPass (www.terrapass.com) has experienced similar success in opening the greenhouse gas markets to consumers. Both enterprises (and many others like them) are helping individuals become social capital investors. As those enterprises reach larger and larger scales, their models may become increasingly relevant to the segments of the social capital markets funded by institutional investors.

The discourse might also examine how innovation in the consumer markets emerges. The next advances in the social capital markets may not arise from innovation in capital structuring and trading in the established, liquid capital markets; instead, they may arise from consumer-facing e-commerce innovations, merchandising, and product management. While those changes may not directly address inefficiencies and market failures, they may increase capital flows, which will eventually lead market players to address inefficiencies.

Operations finance and behavioral economics may help us understand the behavior of social capital markets. Behavioral economics combines "psychology and economics [and] investigates what happens in markets in which some of the agents display human limitations and complications" (Mullainathan and Thaler, 2001). Where the infrastructure and tools of liquid markets are lacking, and where the goals of the market are more complicated than simple profit-maximizing, "human limitations and complications" may hold great sway.

Anheier and Leat (2006), Meehan et al (2004), Silvergleid (2003), and others address how donors do not direct their philanthropic capital in ways characteristic of efficient capital markets. Emerson and Spitzer (2006) suggest the potential dangers that arise from poor decision-making when blended value investors conflate financial investment and philanthropy without due care and consideration. Behavioral finance may offer tools to manage these issues instead of leaving us to wring our hands over them.

ENGAGE NEW ACTORS IN THE DISCOURSE

As mentioned previously, the discussion and evaluation of social capital markets models, investment structures, and value-creation strategies requires the study of more objective third parties. The ranks of PhDs listed in this paper's bibliography remain thin. The authors (neither of whom has a PhD) assert that actors outside academia can indeed make valuable contributions; nevertheless, the discourse needs further input from trained academics who can generate further quantitative and empirical information.

BUILD A CLEARING HOUSE FOR THE DISCOURSE

In the absence of a LexisNexis or an Amazon.com for this discourse, it is time to build one. Such an online marketplace of ideas could facilitate publishing, distributing, cross-referencing, and controlling quality" for full parallel construction. Inspiring technology and tools abound, including music download services, peer-to-peer networks, purchase recommendation engines, and other e-commerce models.

FOCUS ON METRICS

Without extra-financial performance measurement, social capital markets cannot be truly performance-based. Developing new metrics – measuring things that people once thought were uncountable – is a manageable challenge in which logic and science can solve problems. In turn, those metrics will allow market forces to begin working in places where they had previously failed. Those forces can then guide the shape of investment vehicles, the rise of intermediaries, and the nature of social capital exchanges (just as market forces have done in the mainstream markets).

Focusing on metrics forces actors to think critically about value and to interrogate the relationships between investor and investee. Shaping those metrics will help investors understand what kinds of investments they truly seek. Metrics will also push investees to demand suitable behavior from their investors. Creating effective metrics that truly represent value and remain useful to all parties will require multiple conversations between intermediaries, investors, investees, and interested third parties. Focusing on metrics creates interactive social capital and ensures that the transactive capital will remain true to its interactive roots.

REFINE OUR UNDERSTANDING OF SOCIAL CAPITAL – BOTH TYPES

Most contributions to the social capital markets discourse (and, hence, much of this paper) focuson financial engineering, market analysis, and economic principles – that is, the discussion has focused on transactive capital, which may be exchanged, priced, and managed by markets. Nevertheless, transactive capital represents people's interactive social capital, the relationships and values that underlie our transactions (Emerson 2000 and 2003). In segments of the market where financial engineering and development of transactive capital are relatively advanced, a focus on interactive capital will help define investor-investee relationships and appropriate performance metrics. Without the focus on both types of capital, financial innovation may blindly drive activity toward mainstream financial capital models, creating a functional market that does not generate extra-financial value efficiently. Interactive capital, the kind that gets developed in *ad hoc* deals negotiated face-to-face, must be developed before and while the markets create more sophisticated financial products, launch high-leverage intermediaries, or otherwise ape the deliberately impersonal mainstream capital markets.

It is not apparent that social capital investors want the sterile, impersonal efficiency of the mainstream capital markets. In many cases, foundations and philanthropists invest in new and unique projects requiring significant managerial overhead, or investments that touch a particular aspect of the world near to their hearts, or a project promising to bear their name and legacy. In other words, they invest like people with emotions, ethics, pride, and ambition – not like purely logical and mathematically sound computers. Here again the example of Kiva.org may be especially relevant: it allows individuals to invest with relatively low transaction costs while keeping them personally engaged in the investments they make. It uses technology to link individuals' transactive social capital to their interactive social capital.

While these conclusions and recommendations will not solve the challenge of connecting capital with investment opportunities, by building upon the many writings and ideas presently being advanced across this broad field of work we may each be more successful in pursuing the individual goals we seek to attain.

PROFILES

KIVA

Kiva is the first microlending website designed to provide individuals with the ability to connect with and make personal loans to small businesses in developing countries. Founded in 2004 by Matthew and Jessica Flannery, Kiva's goal is to reduce poverty in developing countries by giving entrepreneurs the ability to build their businesses through flexible loans with 6-to 12-month terms. Kiva allows individuals to act as 'micro-venture capitalists' by loaning directly to entrepreneurs with feasible business plans. Kiva is headquartered in Palo Alto, California.

For more information about Kiva, please visit www.kiva.org.

Source: Kiva.org.

THE ETHICAL PROPERTY COMPANY PLC

The Ethical Property Company PLC, with headquarters in Oxford, UK, is another striking intermediary bringing a blended-value focus to transactive and interactive social capital. Ethical Property owns commercial real estate and lets space to social-change organizations in facilities across the UK. Ethical Property's tenants cross sector boundaries and include enterprises from a great range of programmatic focus areas. Each of the company's centers is has a focus, allowing tenants to interact and build relevant social capital, while the centralized ownership helps Ethical Property manage its environmental impact. The company has offered shares to the public, which is financing its expansion across the UK. In its annual reports, Ethical Property presents detailed financial information as well as extensive assessment of its social and environmental performance. The Ethical Property Company uses sound financial management to create value efficiently, while it has a business model and offers a service that fundamentally aims to create blended value.

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Stanton, G, Emerson, J, with Weiss, M, Going Mainstream: NPOs Accessing the Capital Markets: Exploring the Use of Traditional Financing Methods, Processes and Debt Instruments for Expanding the Capital Structure of Nonprofit Community and Economic Development Organizations, www.redf.org/download/other/cmap_going.doc.

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Strandberg, C, preparer, (2004), The Future of Canada's Capital Market for Social and Environmental Innovation; Social Capital Market Roundtable: A Report of the Session, Vancouver, BC, Canada: Tides Foundation Canada and Social Capital Partners.

Strandberg, C, (2005), The Future of Sustainable Finance: Thought Leaders Study, Burnaby, BC, Canada: Strandberg Consulting, May 2005.

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www.socialenterprise.net/resources.html.

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Wheeler, D, (2006), Towards a Social Stock Exchange – Barking up the Wrong Tree?, Alliance Magazine, Focus on Grants and Beyond: Growing Social Capital Markets, Vol 11, No 3, September 2006.

Wood, A, and Martin, M, (2006), Market-Based Solutions for Financing Philanthropy, UBS Financial Services.

Wunder, S, and Vargas, MT, (2005), Beyond 'Markets': Why Terminology Matters, The Katoomba Group's Ecosystems Marketplace, Updated 03/22/05.
http://ecosystemmarketplace.com/pages/article.opinion.php?component_id=1252&component_version_id=6544&language_id=12.

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www.xigi.net.

Yago, G, (2001), Financing Global Environmental Futures: Using Financial Markets and Instruments to Advance Environmental Goals, Milken Institute Policy Brief, No 24, 20 March, 2001.
www.milkeninstitute.org/publications/publications.taf?function=detail&ID=19&ca=PBriefs.

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APPENDIX

METRICS ANNOTATED BIBLIOGRAPHY

OVERVIEWS OF VARIOUS METHODOLOGIES

The Center for Effective Philanthropy, Toward a Common Language: Listening to Foundation CEOs and Other Experts Talk about Performance Measurement in Philanthropy. February 2002, www.effectivephilanthropy.org (20 June 2004).

- Explains the need for improved foundation performance benchmarking
- May be helpful in defining parameters of foundation performance regime
- Presents the general state of the art without offering details or how-to information

Clark, C, et al Double Bottom Line Project Report: Assessing Social Impact in Double Bottom Line Ventures: Methods Catalogue, January 2004, www.riseproject.org/DBL_Methods_Catalog.pdf. (20 June 2004).

- Functional and informative comparative overview of several state-of-the-art measurement efforts
- Useful across sectors, though it applies directly to social enterprises and the organizations funding and supporting them
- Very concise (two page discussion of each measurement technique can be cursory and oversimplified)

Dugger, C, World Bank Challenged: Are Poor Really Helped?, New York Times, 28 July 2004.

■ Movement within and outside the organization to increase the statistically valid outcome measurements

■ Discusses dangers and controversies associated with evaluation: very similar to those in other sectors

Emerson, J and Bonini, S, The Blended Value Map, October 2003, www.blendedvalue.org 5 August 2004.

■ The "Measurement and Performance Metrics" chapter (pages 77-92) offers substantial context for the state of performance measurement in the blended value universe

■ That section, plus the map's annotated bibliography (also available at www.blendedvalue.org) provided many of the references in this bibliography

■ The measurement chapter provides an introduction to the topic and can provide some direction for further inquiry

Morley, E, Vinson, E and Hatry, HP. Outcome Measurement in Nonprofit Organizations: Current Practices and Recommendations, The Independent Sector and the Urban Institute, 2001.
www.independentsector.org
20 June 2004).

■ Introduction to a longer report available for purchase via website

■ The audience seems to be nonprofit executives with limited experience in statistics and evaluation

Olsen, S and Nicholls, J, A Framework for Approaches to SROI, Prepublication draft dated March 2005, Presented at the Haas Social Metrics Conference.

■ Examines different measurement regimes across a spectrum of activities developed in the document's SROI Framework

■ Establishes 10 key principles for an SROI regime

■ Useful for organizations that are establishing an SROI system – demonstrates the framework with examples of existing SROI systems

■ Includes a timeline of SROI analysis and additional resources

The Rockefeller Foundation and the Goldman Sachs Foundation, Social Impact Assessment: A Discussion among Grantmakers, March 2003. www.riseproject.org/Social%20Impact%20Assessment.pdf
20 June 2004.

■ Intro includes a "state of the field"

■ Case studies of REDF (OASIS), New Profit, Inc, Edna McConnell Clark Foundation, & Coastal Enterprises (each rather basic but useful general guidance)

■ Useful overview of the challenges facing the field

Rockoff, M, Measuring the Performance of Nonprofit Social Services Organizations: Start by Cataloging Terms, Clark, Rockoff and Associates, January 2001.

■ Sponsored by the Urban Institute

■ Concludes that many performance measurement schemes are specific to the organization that created them and address an organizational level (not programmatic level)

■ Advocates creating a comprehensive dictionary for measurement terms

■ Offers a survey and short case studies of measurement approaches and concepts

Sawhill, J and Williamson, D, Measure What Matters in Nonprofits, McKinsey Quarterly, 2001, No 2.

- Uses basic examples to illustrate key principles and approaches to measurement
- Stresses appropriate scale and scope of nonprofits' measurement schemes

The United Way of America, Outcome Measurement Resource Network: Resource Library. http://national.unitedway.org/outcomes/library/pgmomres.cfm. (20 June 2004).

- Online bibliography, divided into two categories: Concepts, Theories, Issues, and Case Studies; and Strategies, Tools, and Methods
- Many resources are general, and many look like specific discussions of established evaluation frameworks
- Appears to be aimed at one-off program evaluation design, rather than toward ongoing performance measurement

Walker Information, Inc, Measuring the Business Value of Corporate Philanthropy: Research Report Executive Summary. October 2000. www.measuringphilanthropy.com/docs/summary.pdf. 20 June 2004.

- Executive summary of a longer study
- Coarse measurement of the benefits of corporate philanthropy; looks at stakeholder attitudes

World Economic Forum Global Leaders Tomorrow Benchmarking Philanthropy Report. January 2003, Philanthropy Measures Up. www.hidaryfoundation.org/downloads/report.pdf. 20 June 2004

- Reviews and explores methodologies that are explained and presented in other primary sources in this bibliography (e.g. REDF SROI)
- Useful as a "lay of the land" document before pursuing the detailed sources
- The tables in the report are useful for comparing measurement regimens

Kramer, M, Measuring Innovation: Evaluation in the Field of Social Entrepreneurship, Foundation Strategy Group and the Skoll Foundation, April 2005.

- Focused on social entrepreneurship and foundations that fund them
- Examines types of measurement scheme (e.g. "measuring progress against self-determined goals" and "estimating economic benefits and financial leverage") and other parameters of measurement schemes (e.g. "conducting evaluation before the grant" and "tracking stages of organizational development and growth")
- Examines several case studies and elucidates advantages and disadvantages associated with each scheme
- Concludes that measurement schemes must translate into management direction
- Includes some evaluation materials and a good bibliography

Kramer, M and Cooch, S. Investing for Impact: Managing and Measuring Proactive Social Investments, Foundation Strategy Group for the Shell Foundation, January 2006.

■ Primarily addresses financial investments intended to generate value in other dimensions as well (which it terms "Proactive Social Investments")

■ Discusses portfolio construction and management for multiple dimensions of return – begins with foundations, and funds' motivations for engaging in such investments

■ Ties portfolio management to performance measurement

■ Provides several case studies about portfolios, vehicles, and performance metrics

■ Offers clear and useful framework for considering many different impact-measurement regimes

CASE STUDIES AND EXAMPLES

Bonbright, D. The Keystone Method, Keystone Accountability, London: Undated.

■ Document outlines the evaluation process that Keystone distributes to other clients

■ A process for establishing outcome measurement systems and then applying them

■ Attentive to the "ecosystem" in which organizations exist

■ Helps refine an organization's theory of change

Bonini, S with Meehan III, WF, Acumen Fund, Stanford Graduate School of Business case study. Stanford University: Stanford, CA, 2002.

■ A relatively small portion of the case study is devoted to outcome measurement strategies and tools

■ The exhibits of the scorecards are useful

■ Demonstrates the connection/alignment between mission/business strategy and measurement system

Carlson, NF, Making Evaluation Work: Youth Development Fund Learning Series #2, The Edna McConnell Clark Foundation. www.emcf.org/pdf/ls2_makingevalwork.pdf 20 June 2004.

■ Fairly general notes on how EMCF's new theory of change (fewer, focused grants to more sophisticated grantees) drove EMCF to use measurement/evaluation

■ Appendices are useful for evaluating potential grantees (a due diligence template/rubric), and as a rubric for levels of organizational effectiveness

The Center for Effective Philanthropy, Indicators of Effectiveness: Understanding and Improving Foundation Performance, August 2002. www.effectivephilanthropy.com/images/pdfs/indicatorsofeffectiveness.pdf 20 June 2004.

■ Explores the dimensions of performance that foundation might begin to measure

■ Will be useful in preparing foundation impact measurement

■ First experiment in benchmarking; projects the study into the future and discusses limitations

Chou, A, et al Gordon and Betty Moore Foundation Greater Accountability for Outcomes in the Nonprofit Sector, Stanford Graduate School of Business case study, version A, Stanford University: Stanford, CA, 2003.

■ Only a portion of the case study is about performance measurement

■ General info on approaching a complex, ambiguous measurement task

■ Basic (fill-in-the-blanks) "outcomes/indicators" chart for pulling apart a complex proposed impact

Daub, M, Women's Initiative Measures Up: A Report on the Post-Training Outcomes for Microenterprise Training Participants from 1999-2002, San Francisco: Women's Initiative for Self-Employment, April 2004.

■ A comprehensive outcome evaluation and discussion of one program's outcomes

■ Addresses many different outcome indicators

The Roberts Enterprise Development Fund, SROI Methodology, 2001. www.redf.org 20 June 2004

■ Remains state of the art for tracking socio-economic value created (though REDF does not use it now)

■ Complicated; uses DCF and other basic corporate finance tools to advance the concept of 'investment philanthropy' in favor of 'transactional philanthropy'

■ Introduction, conclusion, self-evaluation, etc make it more than just a methodology paper

Gair, C, A Report from the Good Ship SROI, The Roberts Enterprise Development Fund: San Francisco, 2002. www.redf.org/download/sroi/goodshipsroi.doc 30 July 2004).p

■ A review and re-presentation of SROI

■ The first 9.5 pages review and copy sections from the SROI methodology publication (this is a good introduction for someone who does not want to read the whole SROI methodology paper)

■ Offers detailed critique of the SROI framework and asks questions about how to overcome those problems

REDF, An Information OASIS, San Francisco, The Roberts Enterprise Development Fund: 2002. www.redf.org/download/other/oasis.pdf 30 July 2004.

■ Explains the process and product of REDF's social management information system

■ Developed out of the work to create REDF's SROI

■ Multidimensional performance feedback across an organization (a wider, less reductive approach to performance measurement than the SROI methodology)

■ Outlines the problems with existing performance measurement schemes and presents the stages of developing a system similar to OASIS

■ Presents lessons learned and templates/ guidance for other organizations to pursue similar systems

Hunter, DEK, and Williams Kaye, J, Mainstreaming Evaluation: Evaluation as a Core Element of Institution Building at the Edna McConnell Clark Foundation, The Edna McConnell Clark Foundation. December 2001. www.emcf.org/pdf/eval_mainstreamingevaluation.pdf 20 June 2004

■ 'Mainstreaming' = making it central and fundamental to the business of the foundation

Kaplan, RS, Strategic Performance and Management in Nonprofit Organizations, Nonprofit Management & Leadership, Spring 2001, pp371-386.

■ Kaplan is the founder of the Balanced Scorecard founder

■ Provides basic info on adapting the Balanced Scorecard to an NPO

■ Includes short case studies

National Committee for International Cooperation and Sustainable Development of the Netherlands, Measuring the Contribution of Civil Society and the Private Sector to Achieving the Millennium Development Goals, www.businessdevelopment.nl November 2005.

■ An assessment of one corporation and one NGO's contributions to meeting each of the UN's Millennium Development Goals

■ Presented as example methodologies that could be adapted to other enterprises

■ Measures input and effort without assessing impact

■ Indicates that data produced are useful for comparing enterprises within their own sector and offers recommendations for future refinement of the methods

■ Similar to CSR or SRI scoring systems, but is based on specific goals

Sawhill, JC, and Williamson, D, Mission Impossible? Measuring Success in Nonprofit Organizations, Nonprofit Management & Leadership, Spring 2001, pp353-370.

■ Discusses the Nature Conservancy's adoption of a measurement framework (similar to a balanced scorecard)

■ Presents the Nature Conservancy's "Mission-Activities-Capacity" framework

■ Offers four sensible conclusions about evaluation systems; clear and concise

Seedco, Performance Measurement and Management, www.seedco.org 20 June 2004.

■ Seedco = Structured Employment Economic Development Corporation, "a national [US] community development operating intermediary"; offers social entrepreneurship support (publications etc.); not nationwide

■ Site outlines a "technical assistance process" (a four-session consulting arrangement) that helps social sector organizations determine, measure, and understand outcomes

■ The consultants develop a logic model and then plans program evaluation strategies

Goldberg, N, Measuring the Impact of Microfinance: Taking Stock of What We Know, Washington, DC: Grameen Foundation USA, 2005.

■ Surveys a variety of impact assessments of microfinance

■ Critiques and interprets various studies of impact

■ Discusses various studies' findings about several different dimensions of value created.

GUIDES AND WORKBOOKS

Aspen Institute Workforce Strategies Initiative, Business Value Assessment for Workforce Development Organizations: Handbook, Documenting Demand Side Outcomes Project, October 2005.

- Assesses the value that workforce development organizations add to their for-profit partners
- Segmented by business sector

B2PCommerce Corporation, Impact Manager. www.impactmgr.org/index.cfm
30 July 2004.

- Customized database software for tracking nonprofits' performance; marketed to community foundations
- Promotes the software's benefits to funders, nonprofits, and government
- Apparently a relatively scalable "social MIS" and social reporting tool (in some ways similar to REDF's OASIS)

The Center for What Works, Benchmarking Primer – 7 Steps, www.whatworks.org
20 June 2004.

- Appears to be aimed at smaller organizations that are considering benchmarking/measurement for the first time
- Spends some time selling the ideas of performance measurement and benchmarking
- CfWW publishes newsletters and other such moves toward greater sharing of best practices

Innovation Network, Innonet.org, Technology Tools, www.innonet.org/tools
20 January 2004.

- Organization has developed "Workstation 2.0" – an online tool/program that helps nonprofit organizations develop certain capacity-building tools; available for free; three basic modules:
  - Organizational Assessment Tool
  - Logic Model Builder
  - Evaluation Plan Builder
- Organization also offers interactive educational tools, consulting services, and other evaluation-oriented services

Earl, Sarah, et al, Outcome Mapping: Building Learning and Reflection into Development Programs, Ottawa, Canada: International Development Research Centre. www.idrc.ca/index_en.html
2 August 2004.

- Intended audience is in the international development sphere
- Outlines a forthcoming paper (and possibly a consulting product to follow)
- Acknowledges the difficulty of determining cause-effect relationships in measuring impact
- Advances a system of output/outcome measurement that assesses changes in client and partner behaviors and attitudes that can be traced more directly to a program's operation
- Suggests that organizations work as partners and devise their performance measurement strategies together in a way that breaks down the outcomes/impact into smaller pieces that can be connected to the work of each partner organization
- Defines outcomes as: "changes in relationships, activities, actions, or behavior of boundary partners that can be logically linked to a program's activities although they are not necessarily directly caused by it."

Kellogg Foundation, WK, Evaluation Handbook, January 1998. www.wkkf.org/Pubs/Tools/Evaluation/Pub770.pdf
20 June 2004.

- Clearly focused on program evaluation undertaken by a Kellogg-funded organization
- A good primer for an organization pursuing its own independent or first evaluation
- Worthwhile discussion of theories of measurement/evaluation
- Some good methodological guidance for pursuing own evaluation
- Some burdensome detail
- Most discussion of evaluation does not directly drive towards simpler or scalable 'metrics'

Kellogg Foundation, WK, Logic Model Development Guide, December 2001.
www.wkkf.org/pubs/tools/evaluation/pub3669.pdf
20 June 2004.

- Published after the WKKF Evaluation Handbook
- Begins and operates at the most basic level, assuming that the reader has no previous knowledge of logic models or theories of change
- Helpful division of logic models into categories for different purposes
- Includes basic exercises to teach readers to develop logic models
- A significant portion of the paper explains how to convert a logic model into an evaluation tool
- Includes forms and templates for organizations to build their own models

Olsen, S and Nicholls, J, A Framework for Approaches to SROI, Prepublication draft dated March 2005, Presented at the Haas Social Metrics Conference.

- Examines different measurement reg.imes across a spectrum of activities developed in the document's SROI framework
- Establishes 10 key principles for an SROI regimes
- Useful for organizations that are establishing an SROI system – demonstrates the framework with examples of existing SROI systems
- Includes a timeline of SROI analysis and additional resources

Urban Institute, Key Steps in Outcome Management, May 2003,
www.urban.org/publications/310776.html
20 June 2004.

- Moderately detailed, process-oriented guide to setting up an evaluation system based on a simplified logic model
- Aimed at smaller or less sophisticated nonprofits

CDVCA Measuring Impacts Toolkit, The Community Development Venture Capital Alliance Return on Investment Project, New York: CDVCA, 2005.

- Presents methodology and examples of measuring and interpreting various outcome data generated by CDVC investments
- Offers suggestions for standardizing measurement data across different investments (so better comparisons might be made)

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SAID BUSINESS SCHOOL

Skoll Centre for Social Entrepreneurship
Saïd Business School
University of Oxford
Park End Street
Oxford OX1 1HP
United Kingdom

Tel: +44 (0)1865 288 838
skollcentre@sbs.ox.ac.uk

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