

Finance with a Double Bottom Line

Professor: Kerwin Tesdell
President
Community Development Venture Capital Alliance
330 7th Avenue, 19th floor
New York, NY 10001
(212) 594-6747 x18
ktesdell@cdvca.org

Course Description

This course explores a spectrum of financial tools used to create social value. Traditional financial instruments are ultimately judged by their bottom line: the financial returns they produce. This course examines financial instruments designed to produce not only financial returns, but also social returns; these instruments are commonly known as “double bottom line” investments. Such financial instruments exist on a spectrum from grants—where no financial return is contemplated—to socially screened investment portfolios, which many claim produce financial returns that are equal or superior to market returns. In between are program-related investments, community development venture capital investments, and socially motivated loans. Special purpose financial institutions called community development financial institutions have emerged that use a range of investments to achieve social goals; the course will examine the structures and social missions of these institutions. Finally the course will consider the challenges of quantifying social returns produced by double bottom line investments.

Practitioners on the cutting edge of their fields will be guest speakers, bringing a real-world aspect to the course. At the end of the course, students will chose a topic of particular interest to them to explore further in a paper.

Requirements and Grading

Students will receive grades based on the following requirements:

35% class participation,

15% performance in three case write-ups (5% each). In advance of class, students will write two-page answers to questions posed by each case.

50% 15-20-page individual papers on topics of each students’ choosing, approved by the professor. Students will be required to perform significant analytical analysis of a particular topic covered by the course or comparing one or more of the tools introduced in the course. Significant research will be required, which may include original research

using unpublished materials and/or interviews of practitioners, because many of the topics covered by the course are not well studied.

Professor's Background

Professor Tesdell has spent most of his career pioneering the use of various financial tools that create social value. He is a national and international speaker and writer on the use such tools. Professor Tesdell is currently president of the Community Development Venture Capital Alliance, an association of venture capital funds that make equity investments in businesses to create jobs, wealth and entrepreneurial capacity in economically distressed areas both domestically and internationally. He is also vice-chair of the Community Development Financial Institutions Coalition, a coalition of venture capital funds, commercial banks, loan funds, microenterprise funds, and credit unions that use a variety of financial tools to create social value. Prior to joining CDVCA he was a program officer at the Ford Foundation, where he led the foundation's business development and job creation efforts, using program-related investments (PRIs), grants, and recoverable grants. The Ford Foundation pioneered the use of PRIs and currently operates the leading program in the nation.

Professor Tesdell is a lawyer and has taught community development law at NYU's School of Law for eight years. He is on the board of the finance lab of the New School's Milano Graduate School. He holds an MBA from NYU's Stern School of Business, a JD from NYU's School of Law, and an AB from Harvard College, where he majored in economics.

Course Outline

Class 1 – Introduction to Financing Social Value

This class will introduce students to the concept of the double bottom line, blending financial and social returns. Students will discuss the spectrum of financial instruments, from grants, which have high social impact but no promise of financial returns, to socially screened mutual fund portfolios, which have relatively low social impact per dollar, but may produce market rates of return.

Possible Readings:

The Blended Value Proposition, Jed Emerson

Class 2 – Community Development Financial Institutions

This class provides an overview of the field of development finance, introducing students to a range of special purpose financial institutions that use a variety of financing techniques to promote community development and create other social good. These include community development venture capital funds, community development banks, microenterprise funds, community development loan funds, and community development

credit unions. The class will focus on the various characteristics of these community development financial institutions (CDFIs). Through use of the Coastal Enterprises Case (Yale School of Management), students will analyze which types of institutions are appropriate to accomplish which social goals, under which constraints, and in which environments.

Possible Readings:

Julia A. Parzin & Michael H. Kieschnick, *Credit Where It's Due* (1992)
Coastal Enterprises Case (Yale School of Management)

Possible guest speaker:

Clara Miller, President, Nonprofit Finance Fund

Class 3 – Community Development Venture Capital: Creating and Structuring a Fund

This class gives an overview of the field of Community Development Venture Capital (CDVC). CDVC funds invest equity capital in businesses located in lower income urban and rural area in the United States and other parts of the world to create good jobs, wealth, and entrepreneurial capacity that benefit low-income people and their communities. Students will learn how these funds are structured and how they have social impact. Through the Northeast Ventures case, students will grapple with issues of fund development and mission, how to structure a fund, and how to measure its social impact.

Possible Readings:

Kerwin Tesdell, *Venture Capital for Communities*
Brian Schmitt, *Spreading Equity: CDVCA Statistical Report on the Industry*
Northeast Ventures Case (Harvard Business School)

Possible guest speaker,

Brian Schmitt, PhD, Research Director, CDVCA

Class 4 – Community Development Venture Capital – Making and Exiting Investments

This class focuses on the investment process of CDVC Funds. It explores various equity and near-equity financial instruments used in making venture capital investments. It looks at issues of achieving social returns through investment in a company and balancing those returns with a need to produce financial returns for investors. Students will grapple with the financial and social issues in engineering an exit form a community development venture capital investment through the Boston Community Ventures Fund Case (CDVCA).

Possible readings:

Equity and Near-Equity Primer, Jean Hammerman et al.

Boston Community Venture Fund and City Fresh Foods: Engineering an Exit (CDVCA)
(written by Ann Leamon, former head of the Harvard Business School case writing office)

Class 5 – Grantmaking, Venture Philanthropy, and Program-related Investments

This class will turn to financial tools that either do not contemplate any financial return (grants) or for which financial return is secondary to social return (program-related investments). Students will explore the practice of good grantmaking and the emerging field of venture philanthropy. They will also consider the use of program-related investments, which private foundations use to further their program interests.

Possible Readings:

Philanthropy Measures Up (World Economic Forum)
Christie I. Baxter, Program-Related Investing

Possible Guest Speakers:

Frank DeGiovanni, Director, Economic Development, Ford Foundation
Luther Ragin, Vice President, Social Investing, FB Heron Foundation

Class 6 – Socially Screened Investing

On the other side of the social-financial return spectrum are socially screened investments. In contrast to the “affirmative” investments described above, in which investments are made to affirmatively create social value, socially screened investment portfolios screen out things that are considered negative for society, such as companies that pollute, have negative labor practices, or produce socially harmful products, such as tobacco or alcohol. These include socially screened mutual funds, such as the Calvert family of funds, and the Domini Social Index Fund. Students will consider such questions as whether such funds can achieve full market returns and whether, in efficient public markets, they can actually achieve social good.

Possible Readings:

Amy Domini, Socially Responsible Investing: Making a Difference and Making Money

Possible speakers:

David Berge, President, Underdog Ventures, and Chairman Emeritus of the Board of the Social Investment Forum

Class 7 – Measuring Social Impact

Financial returns are relatively easily quantifiable and easily comparable across different investments and investment classes. The science of measuring social returns is much less well developed, and a methodology for comparing such returns across different investment types is in its infancy. And yet social investors are increasingly demanding quantifiable evidence of the social returns on their investments. This class will examine

the emerging field of measuring social return on investment. This is relevant across the full range of financial instruments discussed in the course.

Possible Readings:

SROI Methodology Paper (Roberts Development Fund)

Possible Guest Speakers:

Betsy Biemann, Associate Director, Rockefeller Foundation