



Finance with a Double Bottom Line

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Course Description

This course explores a spectrum of financial tools used to create social value, as well as financial 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 market or near-market rate investments that have positive social impact. 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. It will also look at the role of various actors, such as foundations and government, in fostering such activity. In addition, the course will consider the challenges of measuring and quantifying social returns produced by double bottom line investments.

Requirements and Grading

Students will receive grades based on the following requirements:

30% class participation, including group presentations regarding plans for an NYU Stern community development venture capital (CDVC) fund.

30% performance in three case write-ups (10% each). In advance of class, students will write 2-3 page answers to questions posed for each case. When more than one case is assigned, students are responsible for preparing both cases for class discussion, but writing up only one of them.

40% a business plan for a CDVC fund associated with the NYU Stern School of Business.

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. We will discuss the spectrum of financial instruments, from grants, which have high social impact but no promise of financial returns, to market- or near-market rate investments.

- Emerson, Jed, *The Nature of Returns: A Social Capital Markets Inquiry Into Elements of Investment and The Blended Value Proposition*

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, students will analyze which types of institutions are appropriate to accomplish which social goals, under which constraints, and in which environments.

- Coastal Enterprises, Inc. Case (Yale School of Management)
- Community Development Financial Institutions Matrix
- Julia A. Parzin & Michael H. Kieschnick, *Credit Where It's Due* 10-27.
- *Credit Where Credit is Due* (National Federation of Community Development Credit Unions (Video shown in class))

Class 3 – Community Development Venture Capital: Creating a Fund

This class gives an overview of the field of Community Development Venture Capital (CDVC), focusing on fund formation. 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, productive 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 DVCRF Ventures case, students will grapple with issues of fund development and mission, how to structure a fund, and how to measure its social impact.

- DVCRF Ventures Case (CDVCA)—creating a first fund
- Acorn Community Ventures Case (CDVCA)—creating a second fund
- *Investing for Social Good: Community Development Venture Capital*, Kerwin Tesdell
- CDVCA Report on the Industry

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

This class focuses on the investment process of community development venture capital 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.

We will also begin in-class presentations of the final project.

- Hamerman, Jean, *The CDVCA Equity and Near-Equity Investment Primer: A Tool for Community Development Investors (CDVCA)*
- Broughton, Anne Claire, *SJF Ventures and its Affiliate SJF Advisory Services*
- SJF Ventures & Ryla Teleservices: 2003 (CDVCA)

Class 5 – 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.

We will continue in-class presentations of the final project.

- CDVCA Measuring Impact Toolkit
- CEI Measuring Impact in Practice

Class 6 – Program-Related Investments (PRIs), Community Reinvestment Act (CRA), and Venture Philanthropy

Two of the major sources of capital for social venture capital funds are banks motivated by the Community Reinvestment Act (CRA) and foundations making both Program-Related Investments (PRIs) and investments from their endowments. This class will familiarize students with these two groups of investors.

In addition, the class will continue its examination of investment tools that yield a blended financial and social return. In this class we 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.

- Christie I. Baxter, A Basic Guide to Program-Related Investing
<http://www.tgci.com/magazine/97fall/basic1.asp>
- Federal Financial Institutions Examinations Council Community Reinvestment Act (CRA) website
<http://www.ffiec.gov/cra/>
- Familiarize yourself with the concept of venture philanthropy by doing a web search. When reading about venture philanthropy, think critically: How does it differ from traditional grantmaking? Is it superior to traditional grantmaking in all ways, or are there potential pitfalls?