SAMPLE SYLLABUS - SUBJECT TO REVISION

Social Venture Capital: Double Bottom Line Finance

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Course Description

This course explores a spectrum of financial tools that create social, 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 and other loans and investments where social return is a significant motivating factor. Special purpose financial institutions called community development financial institutions have emerged that use a range of financial instruments to achieve social as well as financial 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:

One-third—class participation, including group presentations of the final project.

One-third—performance in three case write-ups (11% 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. *Case write-ups must be submitted by email before the class discussion.*

One-third—a 15-20-page proposal (including attachments) written in groups of 3-4 students to a double bottom line investor for an investment. This might be an investment of capital into a community development financial institution or an investment into a particular business or project. The investment proposal is essentially a business plan, but with emphasis on answering questions relevant to a particular investor. The proposal should address the following:

- What social problem does the investment address and why is it important?
- What is the fund, business or organization requesting the investment, and why is it well suited to use the investment? (You may choose a real or fictitious entity.)
- What are the terms and structure of the investment requested?
- What are the sources (including funds from other sources as necessary) and uses of funds?
- What financial and social returns will the investment produce and how will they be measured?
- What are the risks that the expected outcomes (financial and social) will not occur and how will these risks be mitigated?

The term "investment" is used above to include both investments and loans. You should develop basic financial projections for the entity in which the investment will be made and show when and how the investment will be repaid and with what financial return. Please indicate the type of entity that you are requesting the investment from (e.g., foundation, bank, CDFI, other) and make your pitch in such a way that it will appeal to such an investor.

The request should be in approximately the following form:

I. Executive Summary
II. Background
   a. Social problem
   b. How this problem will be addressed by the activity
   c. Investee organization and its capacity
III. Proposal
   a. What will be done
   b. How funds will be used and timeline
   c. Terms of investment requested
   d. Expected financial and social outcomes, and how they will be measured
   e. How risks will be mitigated
IV. Financial Projections

Course Outline

Class 1 (April 6) — Double Bottom Line Finance and Blended Value Returns

This class will introduce 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. As you prepare the assigned reading, please think about the questions in the provided question sheet. In particular, consider a blended value investment with which you are familiar (or make one up) and be prepared to discuss question #8 on the sheet.

- Emerson, Jed, *The Nature of Returns: A Social Capital Markets Inquiry Into Elements of Investment and The Blended Value Proposition*
- (Optional) Emerson, Jed, *The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social, and Environmental Value Creation*

Class 2 (April 13) – 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* (Video shown in class)

Assignment: Write 2-3 pages answering the questions posed regarding the Coastal Enterprises case and submit by email before this class.

Class 3 (April 20) – 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 create social impact. Through the DVCRF Ventures and Acorn Community Ventures cases, 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

Assignment:* *Write 2-3 pages answering the questions posed regarding either the DVCRF or the Acorn case and submit by email before class. If your last name begins with A-M, prepare DVCRF. If your last name begins with N-Z, prepare the Acorn case.)

Class 4 (April 27) – 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.

- 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)

Assignment:* *Write 2-3 pages answering the questions posed regarding the SJF and Ryla case and submit by email before class.

Class 5 (May 4) – 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 increasing 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

Assignment:* *Begin in-class presentations of final project.

Class 6 (May 11) – 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?

Assignment: Continue in-class presentations of final project.

Assignment: Final written assignments are due May 18th.