Social Venture Capital
Spring, 2017 (B40.3148.030.SP17)

Professor	Kerwin Tesdell
Office:	Community Development Venture Capital Alliance 475 Riverside Drive, Suite 1264 New York, NY 10115
Phone:	(212) 594-6747 x4515 (office)
e-mail:	ktesdell@cdvca.org
Office Hours:	Before or after class or by appointment

Course Description

This course explores a range of financial tools that create social, as well as financial, value. Traditional financial instruments are ultimately judged by their bottom line: the financial return 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" or "impact" investments. Such financial instruments exist on a spectrum from grants—where no financial return is expected—to market or near-market rate investments that also produce positive social impact. In between are program-related investments and other loans and investments where social return is a significant motivating factor, and financial returns may not be at true risk adjusted market levels. Special purpose financial institutions such as 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

One-third—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 (including attachments) investment proposal to a particular double bottom line investor written in groups of 4-5 students. This might be an investment of capital into a double bottom line financial institution or a direct 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:

- Identify the fund, business or organization requesting the investment (the "Investee"). You may choose a real or fictitious entity.
- What social problem(s) does the investment seek to address and why is it important?
- What are the terms and structure of the loan or investment requested? In particular, what is the legal relationship of the requested investment to current or future funds in the organization's financial structure?
- 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?
- Why is this particular organization well suited to use the investment to produce the required financial and social returns?
- 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 identify the type of entity that you are requesting the investment from (e.g., foundation, bank, CDFI, government, individual, other). Keep in mind the investment criteria, financial and social, of this type of investor and make your pitch appeal to these criteria.

The request should be in approximately the following form:

I. Executive Summary
II. Background
   a. The importance of the social problem to be addressed
   b. How this problem will be addressed by the activity funded by the investment
   c. The investee organization and its capacity to produce required social and financial returns
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 3) — The Double Bottom Line Investment

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. Students will discuss examples of double bottom line investments from their own experience. They will begin to develop a core skill that will be taught throughout the class: formulating and making a pitch for a double bottom line investment to an investor.

- Before class, read and consider questions provided in the Assignments section of NYU Classes.
- Emerson, Jed, *The Nature of Returns: A Social Capital Markets Inquiry Into Elements of Investment and The Blended Value Proposition*
- O'Donohoe, Nick; Leijonhufvd, Christina; and Saltuck, Yasemin, *Impact Investments* (skim for major ideas)
- (Optional) Emerson, Jed, *The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social, and Environmental Value Creation*
-

Class 2 (April 10) – 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 different types of institutions and discuss which are appropriate to accomplish different social goals, under which constraints, and in which environments.

- Coastal Enterprises, Inc. Case
- 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 <u>before class</u>.

Class 3 (April 17) – 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 areas 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 (go to: http://www.frbsf.org/publications/community/investments/0311/article1f.html)

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

<u>Class 4 (April 24) – Community Development Venture Capital – Making and Exiting Investments</u>

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.

- Broughton, Anne Claire, *SJF Ventures and its Affiliate SJF Advisory Services*
- SJF Ventures & Ryla Teleservices (CDVCA)
- Optional for background: *The CDVCA Equity and Near-Equity Investment Primer: A Tool for Community Development Investors (CDVCA) (Please respect the copyright and do not distribute.)*

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

By this class, you should have formed your group for the final project and indicated whether your group will make its in-class presentation in Class 5 or Class 6.

Class 5 (May 1) – Measuring Social Impact

Financial returns are relatively easily quantifiable and easily comparable across different investments and investment classes. The methodology for measuring social returns is much less well developed, and the 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 social impact measurement, which is relevant across the full range of financial instruments discussed in the course.

- CDVCA Measuring Impact Toolkit (Please respect the copyright and to not distribute.)
- CEI Measuring Impact in Practice

Assignment: Begin in-class presentations of final project.

Class 6 (May 8) – 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 project written assignments are due May 15th.