Integrating Global Impact in Investment Strategy: Social Venture Capital

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Abstract

Impact investing can improve the reputation of working on global values by realising its goal through essential business mechanisms. Venture capital has shown the world how to give opportunities to early-stage companies through the dynamics of capital, now it is time for the world to benefit from the role of global values in the venture capital industry.

Impact investing is gaining attention in both the for-profit and non-profit industry but the biggest problem for this sector is the funding gap for early-stage social ventures. Social venture capital investments are about finding a market-based solution eligible for underdeveloped markets. Social venture capital is therefore not comparable to traditional venture capital but has some shared heritage because of its three characteristics: the pioneer gap which represents the shortage of investments in early-stage social ventures, patient capital which is the equivalent of long term capital but then explained in the social venture capital industry and social venturing as a means of cooperation between the investors and the social venture next to providing capital. Social venture capital is so far a vague understanding which simply pops up in practice and thereby falls within its framework. Social venture capital is surrounded by many different players among which a grey area is present as the distinction for-profit and non-profit is not simply made anymore; impact investing funds, foundations, high-net-worth individuals and early-stage investors are some of them.

In search of answers to how the social venture capital industry will need to move forward, much is left for the public sector to regulate the social venture capital industry and research is necessary in order to create measuring mechanisms for the financial and social impact of ventures. Furthermore there are strategies for investors which can enhance instant application in the social venture capital industry. The importance of all different investors is stressed and they should therefore cooperate. The combination of more worlds is also reflected in the social corporate governance of ventures as traditional managing efforts should be combined with multi disciplined staff also experienced in social ventures and awareness needs to be emphasised with regard to financial goals. The portfolio theory provides means to lower the risks and diversify social venture capital investments.

Although the market is still in its infancy and is a risky business, the social venture capital industry is going through large developments which cannot be denied and will continue to evolve into an important part of the investment industry.

Table of Contents

ABSTRACT ... 2

TABLE OF CONTENTS ... 3

1. INTRODUCTION ... 4

2. IMPACT INVESTING ... 6

2.1 What is impact investing? ... 6

2.2 Influential organizations, theories and models ... 9

2.3 Content of the innovation ... 11

2.4 Social venture capital in the impact investing industry ... 13

2.4.1 The pioneer gap ... 14

2.4.2 Patient capital ... 17

2.4.3 Social venturing ... 18

3. THE SOCIAL VENTURE CAPITAL ENVIRONMENT ... 21

3.1 For-profit ... 21

3.1.1 Corporations ... 22

3.1.2 Financial institutions ... 23

3.1.3 Investment funds ... 24

3.1.4 Angel investors and venture capitalists ... 26

3.2 Non-profit ... 27

3.2.1 Foundations ... 27

3.2.2 Organizations and networks ... 28

3.2.3 High net worth individuals ... 29

4. FACILITATING THE SOCIAL VENTURE CAPITAL INDUSTRY ... 31

4.1 Public policy ... 31

4.2 Measuring standards ... 34

5. THE SOCIAL VENTURE CAPITAL STRATEGY ... 36

5.1 Connecting all market players ... 36

5.2 Social corporate governance ... 38

5.3 Portfolio construction ... 40

6. CONCLUSION ... 43

BIBLIOGRAPHY ... 44

1. Introduction

The concept of impact investing is basic: generating financial returns from investments with a social and/or environmental impact. The development of a social venture capital industry represents a segment of impact investing. Combining venture capitalism with global values endeavours to unite two contrasting objectives.

The foremost extreme form of investing with impact are the efforts made by philanthropists. The social venture capital industry has acquainted itself with this form already. Having some overlap with features of traditional venture capital, the philanthropic model distinguishes itself by funding ventures which are not focused on generating returns and often circumvent in the non-profit industry. Rather than financial objectives the ethical intention is most important to philanthropic venture capitalists and success of the investment is measured by social impact.

Moving more to the business sphere, corporate social responsibility is increasingly gaining importance in the for-profit industry. While ensuring the primary financial aim, fund managers and investors in private equity and venture capital are increasingly improving the responsibility of their investment activities.

Impact investing can improve the reputation of working on global values by realising its goal through essential business mechanisms. Venture capital has shown the world how to give opportunities to early-stage companies through the dynamics of capital, now it is time for the world to benefit from the role of global values in the venture capital industry.

Venture capitalists have become indispensable in the private equity sector for its high risk investments in early-stage ventures. It is the consent of giving a chance to social ventures and accepting the risks attached to it which makes the social venture capital industry eligible to play a role in impact investing. Venture capitalists are not only able to provide finance but also human capital. The knowledge of these business minded investors can largely contribute to a solution to the lack of funding and making social ventures sustainable.

This research is relevant for the venture capitalists, fund managers and investment firms who need encouragement to engage in the impact investing market and improve their current activities, social entrepreneurs and investors looking to expand their horizons, the non-profit sector in its search to becoming less dependent on its current revenues and the for-profit sector considering a second dimension to its regular activities.

The general framework of impact investing will be explained through trends and fundamental developments which contributed to the evolution of impact investing as it is now. Impact investing is gaining attention in both the for-profit and non-profit industry but the biggest problem for this sector is the funding gap for early-stage social ventures. That is where the social venture capital industry comes in whereby its main and decisive distinctive feature from traditional venture capital is the content of the innovation: finding a market-based solution eligible for underdeveloped markets. Social venture capital is therefore not comparable to traditional venture capital but has some shared heritage because of its three characteristics: the pioneer gap which represents the shortage of investments in early-stage social ventures, patient capital which is the equivalent of long term capital but then explained in the social venture capital industry and social venturing as a means of cooperation between the investors and the social venture next to providing capital. Social venture capital is so far a vague understanding which simply pops up in practice and thereby falls within its framework. Social venture capital is surrounded by many different players among which a grey area is present as the distinction for-profit and non-profit is not simply made anymore; impact investing funds, foundations, high-net-worth individuals and early-stage investors are some of them. Important for the conception of the social venture capital industry are influential players of which the most important player is the Omidyar Network which combines for-profit and non-profit investments thereby sustaining the viability of their investments. In search of answers to how the social venture capital industry will need to move forward, much is left for the public sector to regulate the social venture capital industry and research is necessary in order to create measuring mechanisms for the financial and social impact of ventures. Eventually investors will be advised on how to create a financially and globally sustainable investment strategy so its outcomes will be experienced by all peoples.

2. Impact investing

An increasing amount of ventures combining business with global issues are recognized on the market. It forms a middle way between corporate ambitions and pure philanthropy for entrepreneurs. Investors who want to incorporate impact into their investment strategy and the growing awareness of global issues play a large role in the activities of different kinds of market players such as investment firms, corporations, foundations and organizations. Furthermore the public sector sector has taken notice of the developments.

These trends are coined in this research by the term impact investing. Impact investing incorporates social and/or environmental values with financial benefits and comes in numerous shapes.

2.1 What is impact investing?

Long before the notion of impact investing was identified, the existence of 'it' was simply there in various constructions. Already at that time the concept went further than socially responsible investments which merely avoid investments which are 'harmful' or in any other way contradict moral values. Impact investing has the goal to improve the affairs which are circumvented by socially responsible investments.

Impact investing is a reaction to the expanding number of investors desiring to create more than merely financial returns. Serendipity or not, happens that there is a large financing gap for social and environmental goals. Investments are made into companies, organizations, investment firms or other types of ventures which can be in both developed and underdeveloped markets. Practical functions of the venture may be exemplified by the distribution of products and services or other influential activities. With regard to the social goal of the venture this can differ to a great extent, sectors like healthcare, financial services, employment or education are amongst the social sector and climate change serves as a typical example of environmental issues.

The practice of impact investing is outlined by four characteristics. That is the aim of the investor to have social and/or environmental impact through investments is indispensable, generation of a financial return or at least a return of capital of the investment is expected, returns depend on the kind of investment and its risk, and the investor commits to measuring and reporting the social and environmental performance and progress of underlying investments[1].

Ultimately the choice for a certain impact investment depends on the investor preferences like in what form, assurances attached to it and return expectations. Especially the last characteristic identifies the engagement of the investor as the results of the investment are reviewed and this helps impact investing working towards its goal through openness and responsibility between the investors and the venture. It also brings the governance issues into play, making it indispensable to pay attention to setting performance targets, managing and monitoring these and reporting the results.

As many different terms can be created for having impact by doing more than merely donating money, Bill Gates created the term creative capitalism. He challenges businesses to commit 5 percent of their “innovation power” to global issues. Solving problems of underprivileged people, who are their future customers seems a healthy way of involving these groups as they are excluded now, but on their way to higher levels of life circumstances will be able to participate on the market as perhaps their future customers[2]. This is exactly what is elaborated on more and more by other entrepreneurs as well who see that less fortuned markets and its people can be seen as customers which can make choices for themselves rather than getting money from charities. It is the consensus of people willing to pay for services thereby having a choice and some sort of dignity to control their spendings.

Some might say 2014 is the year of impact investing[3] and impact investing seems to be trending into the right direction. Why is it that this concept creates much stirring in both the non-profit and for-profit sector?

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[1] GIIN website, *About Impact Investing* <www.thegiin.org/cgi-bin/iowa/resources/about/index.html> accessed 29 October 2014

[2] Professor James I. Cash, Jr. Interview with Bill Gates, co-chair Bill and Miranda Gates Foundation (Harvard Business School, 13 October 2008) <www.hbs.edu/centennial/businesssummit/business-society/a-conversation-with-bill-gates.html>

[3] Beth Sirull, *It’s the Year of Impact Investing: What Does That Mean for Foundations?* (Philanthropy News Digest, 6 February 2014) <http://pndblog.typepad.com/pndblog/2014/02/its-the-year-of-impact-investing.html> accessed 29 October 2014

Impact investors search for solutions to social issues which are unlikely to be resolved by pure philanthropic ventures. The philanthropic model is not living up to its goals because it is more focused on short term and immediate issues. Impact investments can be seen as a lasting solution to global matters since the expectation is focused on a financial return as well and by means of this the innovation will be self-sustaining. Grants of non-profits highly depend on the circumstances and wealthy individuals, which makes the purpose where the money goes to less enduring as these individuals may be less on the lookout for innovative solutions to the issue they are trying to solve but more to instant and immediate matters. Investors involved in impact investing are keeping track on where the venture is in terms of its goals to ensure financial and social returns thereby involving market dynamics. Hereby much emphasis is laid on understanding the market, identifying supplies and demands, what is necessary on the market and what people are willing to pay.

The direct involvement of the investors with a social goal makes the investment more personal whether you want to embrace nature, refugees or are moved by the effect of the financial crisis on individuals closer to home, anything works. It encourages people to address an issue by investing or creating a venture which is at their heart. Impact investing nevertheless has a reputation problem with investors doubting the ability of the investment to have more beneficial dimensions. These are the typical investors who make money through their traditional business and afterwards grant their earnings. In spite of the fading perception that impact investing is solely for previous philanthropists, businessmen are getting involved as the industry is evolving and portfolios are getting more mixed. Portfolio companies who actively manage ESG issues are perceived to be more attractive to investors whereby second dimension investments do not necessarily translate into an unnecessary increase in operating costs or a distraction from the running of the core business[4].
The desire to “do good while doing well” is difficult as social impact is difficult to measure and the concept of investing with a second dimension gives a nice touch to your reputation. Investments should actually make a difference and investors have to measure and keep on monitoring both the

[4] The British Private Equity and Venture Capital Association, *Evolving Views of Sustainability in Private Equity and Venture Capital* (2011) BVCA Research Report, <www.bvca.co.uk/Portals/0/library/Files/News/2011/2011_0026_evolving_views_sustainability_nov.pdf> accessed 29 October 2014

financial and social viability[5] so the social focus of a venture will not immediately be seen as a deduction of the returns.
There is a need for more firms and organizations deploying capital since investors are looking for ventures with positive results[6] next to always welcome co-investors, intermediaries, organizations and public initiatives. Impact investing still needs to go through a lot of developments even though the speed of its evolution is increasing.

2.2 Influential organizations, theories and models

The concept of impact investing did not come into being after the creation of certain guidelines nor did the government instigate the first developments. Multiple branches together form the impact investing industry, consisting of various players.

Different trends underly the theory of impact investing as well of which the Bottom of the Pyramid one of the most practical examples. The Bottom of the Pyramid represents the 4 million people who live under 2 USD per day. The BoP has been a large inspiration to many impact investing initiatives and even though there are many other groups desiring aid, the BoP is a remarkable example of which goals an impact investor can have. Furthermore many other categories in the impact investing industry can be identified such as climate change and improving basic circumstances for people in need.

Two models of successful evolution of impact investing are microfinance and community development finance next to venture capital and together these three subsets of impact investing strongly influenced the understanding of building a successful marketplace while contributing to global values[7].

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[5] Paul Brest and Kelly Born, *When Can Impact Investing Create Real Impact?* (Stanford Social Innovation Review, fall 2013) <www.ssireview.org/up_for_debate/article/impact_investing> accessed 29 October 2014

[6] Yasemin Saltuk, *Spotlight on the Market* (2014) Global Social Finance <www.thegiin.org/binary-data/2014MarketSpotlight.PDF>

[7] Jessica Freireich and Katherin Fulton, *Investing for Social & Environmental Impact* (2009) Monitor Institute <http://monitorinstitute.com/downloads/what-we-think/impact-investing/Impact_Investing.pdf> accessed 29 October 2014 p. 27

Microfinance provides financial services such as loans to entrepreneurs and small businesses which do not have access to other financing methods. The amount of financing is small but enough to give low-income people or groups the ability to become independent.
Community development financial institutions focus on underserved communities within the nation by providing small loans to low-wealth people. They can come in the business form of a loan fund, bank, credit union or venture capital fund. This form of impact investing mainly exists in the US next to some initiatives by the UK like its trade association, the Community Development Finance Association. There is also a network for community development venture capital investing, providing a platform in the Community Development Venture Capital Alliance.

Involving the public sector next to ventures and investors brought the notion of social bonds. This new approach to the provision of public services is a perfect example of collaboration between the government and the impact investing industry. A person who is at the heart of venture capital, Ronald Cohen has contributed to impact investing by applying a distinct business model to funds. The social bond manages access to capital markets for the non-profit industry. He advocates for investment mechanisms that can deliver a financial return of about 7 percent, a high social return and limited downside risk[8]. This instrument has been put into practice by the risk assessment of the likelihood that the social impact goal will be achieved. Even if it might not generate financial returns, the investor might get a financial benefit out of it. The public sector is involved in this model as the government body saves money from the social impact and therefore delivers return to the investors[9].

Impact investing is booming as is also recognizable by the many organizations emerging and through contribution by even large companies to sharing information and creating an infrastructure[10]. The Global Impact Investing Network releases reports and conducts surveys like

[8] Sir Ronald Cohen and William A. Sahlman, *Social Impact Investing Will Be the New Venture Capital* (Harvard Business Review, 17 January 2013) <http://blogs.hbr.org/2013/01/social-impact-investing-will-b/> accessed 29 October 2014

[9] Nigel Roberts, *Sir Ronald Cohen: Venture Capitalist to Social Capitalist* (Knowledge, 7 May 2013) <http://knowledge.insead.edu/csr/social-entrepreneurship/sir-ronald-cohen-venture-capitalist-to-social-capitalist-2468> accessed 29 October 2014

[10] Amit Bouri, *5 Key Trends in Impact Investing*, (Forbes, 5 February 2013) <www.forbes.com/sites/groupthink/2013/05/02/5-key-trends-in-impact-investing/> accessed 29 October 2014

‘Perspectives on Progress’ which was coauthored with J.P. Morgan[11]. Then there is the Social Impact Investment Taskforce which is established by the G8 in june 2013 at the G8 Social Impact Investment Forum. It aims on creating an effective global social impact investment market and to monitor initiatives introduced at the G8 Forum. Networks like The Aspen Network of Development Entrepreneurs and European Venture Philanthropy Network represent the attention paid to impact investing at regional and global levels through networking and conferences. Investors Circle is the first network focusing on impact investing and angels are also involved in this industry. For foundations there is the Mission Investors Exchange to engage in and the emergence of social investment banks and development finance institutions like Big Society Capital and DFID Impact Fund which invest only in social finance intermediaries. The online network could not stay behind either and one example of crowdfunding and other online platforms is the creation of ImpactBase which is a online directory on social ventures.

2.3 Content of the innovation

Difficulties arise when products and services need to serve global issues and different opinions on the financial viability are present. Some may say there is literally a “fortune waiting at the bottom of the pyramid” according to business strategist C.K. Prahalad who has written a book on this. Nevertheless some say that a business will hardly become viable merely by launching products on the the bottom of the pyramid: impact of the innovation is argued to correlate with growth, unless the innovation serves underserved populations only (like low-income people globally, minority populations and nonprofits) which makes it harder for the venture to grow[12]. Market-based solutions tackling social issues could be argued to be in an experimental phase as there is so far no strict set of proven strategies whereby social ventures will be able to find a solution and after that be able to scale the business up to adequately address the problem[13].

Much emphasis is laid on the uniqueness of the innovation which will be the reason for investors to select or not select it as a part of their deal. High risks bring along largest chance of high social

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[11] Yasemin Saltuk, *Spotlight on the Market* (2014) Global Social Finance <www.thegiin.org/binary-data/2014MarketSpotlight.PDF>

[12] Catherine H. Clark and Matthew H. Allen, *Accelerating Impact Enterprises*, (May 2013) SJF Institute and Duke University <https://dl.dropboxusercontent.com/u/7845889/AcceleratingImpactEnterprises_.pdf> p. 29

[13] Kyle Johnson and Holden Lee, *Impact Investing: A Framework for Decision Making* (2013) Cambridge Associates LLC <www.thegiin.org/binary-data/RESOURCE/download_file/000/000/577-1.pdf> p. 6

impact because this innovation may change a lot. Before investors will enter there must be something to work with though. The reason why this social venture will be able to succeed is because it will show new and innovative ways to solve social or environmental problems[14]. These so-called disruptive innovations contribute to society by for example replacing traditional mechanisms with new ones and thereby being able to be launched also on other markets.
As earlier mentioned a social venture deals with more than just launching a business, it is a business which will need to succeed where there are not al means to it developed yet. "Community capacity building" is a representing term for this and the idea is to engage customers to use the innovation[15]. In order for the innovation to have a sustaining result the product or service should be practicable. It must be able to keep fulfilling its function in society without requiring additional financing.

The discussion on whether it is possible to create financial benefits in this target group or that it should be combined with developed markets remains present. Nevertheless there are some striking examples whereby the goal of the innovation was to launch it on underdeveloped markets only like Bridge International Academies did in Kenya and with success.
Bridge International Academies is a venture the Omidyar Network has invested in. It is considered to be one of these market innovators which brought an initiative to provide high education to children in Kenya for a low-cost. Through the operation of a franchise-like network a high number of students and teachers could be involved and it currently is the world's largest private provider of nursery and primary education for families of the BoP[16]. As the service they delivered was easy to recreate, being called an 'academy-in-a-box', all of the academies are the same to ensure the overall quality of the schools and by the application of technologies in order to make the system efficient and low-cost. They keep their costs for education($6,50 per month) down by only having one non-teaching staff at the academies which exercises multiple functions into custom developed software[17]. Furthermore the standardization of the model is reflected by the payments which are all

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[14] Dr. Inga Michler, *The Reality of Impact Investing: Stories from the Field* (2014) Active Philanthropy <http://evpa.eu.com/wp-content/uploads/2014/06/The_Reality_of_Impact_Investing_-_Stories_from_the_Field_1_.pdf> p. 107

[15] Dr. Inga Michler, *The Reality of Impact Investing: Stories from the Field* (2014) Active Philanthropy <http://evpa.eu.com/wp-content/uploads/2014/06/The_Reality_of_Impact_Investing_-_Stories_from_the_Field_1_.pdf> p. 107

[16] Shannon May, *Democratizing Education* (The Guardian, 11 November 2013) <www.theguardian.com/media-network/omidyar-network-partner-zone/democratising-education-shannon-may-bridge> accessed 16 september 2014

[17] Shannon May, *Democratizing Education* (The Guardian, 11 November 2013) <www.theguardian.com/media-network/omidyar-network-partner-zone/democratising-education-shannon-may-bridge> accessed 16 september 2014

done via an Android app on mobile phones. Bridge International Academies attracted at first only philanthropic investors, but later also for-profit investors and venture capitalists. The CEO of Omidyar said the ability of Bridge to “innovate, replicate, scale” convinced Omidyar to start investing. By the time of 2016, Bridge strives to reach half a million students and becoming profitable[18].

Nevertheless should also be thought of some products and services which could be suited for developed worlds as well. An example is the natural sweeting extract Stevia which is a plant growing in Paraguay and is perfectly suitable for developed markets. Commercial enterprises such as Coca Cola and Pepsi have recently launched products containing Stevia and demand for the Stevia plant is still growing. This is a great opportunity for Paraguay and small producers to make profits and generate a sustainable income by collaborating with the Dutch cooperation ICCO which participates as a shareholder and provides assistance to the quality of the products and sustainability of the venture. The results so far are that revenues are high although there will always be an element of risk[19].

2.4 Social venture capital in the impact investing industry

Earlier on in the previous century the appearance of alleged social-economic institutions in the evolved venture capital industry were recognized and at that time it already seemed promising[20]. This is not strange as the venture capital and private equity industry has existed for quite some time, since about 1946 when the first venture capital firm was founded in the US.

Within the impact investing industry, venture capital is a subset. Venture capital is addressed in two ways, because of the financing aspect in early-stage ventures and the provision of human capital. Venture capital is represented by the high risks taken by investing in early-stage ventures. This mindset is essential in social venture capital as social innovations should be able to become a

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[18] Leigh Buchanan, *The Mission: Teach 10 Million Kids and End Poverty* (Inc., 23 April 2014) <www.inc.com/audacious-companies/leigh-buchanan/bridge-international-academies.html#ixzz3DTr6jfsH> accessed 16 September 2014

[19] ICCO website, *Het zoete goud uit Paraguay* <www.icco.nl/Projecten/Project/Article/het-zoete-goud-uit-paraguay#.VGHWK_TF84M> accessed 17 October 2014

[20] Steven J. Waddell, *Emerging social-economic institutions in the venture capital industry* (1995) American Journal of Economics and Sociology Vol. 54, No. 3 <http://networkingaction.net/wp-content/uploads/AMJofES-Emerging-social-economic.pdf> p. 1

market-based solution. There is a large funding gap for early-stage social ventures and these ventures should be monitored in order to become sustainable and participate in the market. The funding of early stage social ventures is one of the most relevant problems to be solved in order to increase the development of the impact investing industry.

There are three ways in which the social venture capital industry forms a subset of impact investing whereby it poses importance to the following characteristics: the early-stage financing of social ventures thereby working towards filling the pioneer gap, the term patient capital which refers to the interplay between returns and the time horizons for this and lastly, the element of social venturing which means the active involvement of investors next to providing capital.

2.4.1 The pioneer gap

Bringing a social innovation to the market is different from innovations serving traditionally developed markets. Next to its both social and financial goals, markets which might not be familiar with innovations will be involved. Diverging infrastructures and cultures imply additional challenges. Moving away from the traditional phases in venture capital financing, the Monitor Institute has identified four stages of development which a social innovator and his venture goes through: blueprint, validate, prepare and scale[21].

The blueprint stage is the journey towards the creation of a business plan which does not only involve an idea but also what it does and how to put it into practice. It has a promising outcome based on the try outs which will be a ‘proof of concept’. In venture capital this is called the seed stage where seed investors will come in, the development of the product or service and the creation of the business plan will need the largest amount of financing in this stage. None of the activities have started so there is no income at all. Therefore this is the most difficult stage to attract financing.

It is important for ventures to get to the next two stages where it is necessary to validate whether the business model is practicable. The market is important here as it will be tested and the desire of the customers and viability of paying for the product and of course the financials of the social venture.

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[21] Harvey Koh, Ashish Karamchandani and Robert Katz, *From Blueprint to Scale* (2012) Monitor Group, <www.mim.monitor.com/downloads/Blueprint_To_Scale/From%20Blueprint%20to%20Scale%20-%20Case%20for%20Philanthropy%20in%20Impact%20Investing_Full%20report.pdf> p. 11-12

In this stage often what has been created in the blueprint stage will be adjusted and the product or service, technology and business model might change. It is especially important for social ventures to research the viability of the product or service on the market. More than one rounds of market trials will be necessary especially because we are dealing with different infrastructure levels like the BoP which has different habits and there might not be a real market or at least a different one from what we are used to. This is the early stage. Next to the seed stage this is the second most difficult stage to find investors.

Further on preparing the market and the firm itself for the product is up. What was researched in the validate stage needs to be practiced here as the market needs to be prepared to receive the product as it will need to market the product and educate customers. Next to that, on the supply side, everyone contributing to bringing the product to its destination will need skills and expertise, like the suppliers and even building roads to get the product actually there if the places are far away and difficult to reach. The firm will change as well as it will grow and expertise and personnel on certain areas might come out handy.

Lastly there are the activities which need to be scaled. After already having prepared the market and the firm itself, there is the desire to grow in order to increase impact. The venture will expand, get more investors and implementation in more areas. The venture will need to keep on innovating as competition will also come into play.

The biggest funding gap is for early-stage innovators. Few impact investors seem to be willing to assist this private sector innovating venture as most investors are less reluctant to investing in a later stage while the early-stages are crucial for bringing a solution to a global issue to the market. The gap in impact investing in early-stage social ventures is also to be called the pioneer gap[22]. The earlier the stage the more difficult it is for a venture to obtain financing. Especially in the seeding stage it is difficult to obtain financing due to the high risks and mostly grants form the majority of financing in this stage.

[22] Harvey Koh, Ashish Karamchandani and Robert Katz, *From Blueprint to Scale* (2012) Monitor Group, <www.mim.monitor.com/downloads/Blueprint_To_Scale/From%20Blueprint%20to%20Scale%20-%20Case%20for%20Philanthropy%20in%20Impact%20Investing_Full%20report.pdf> p.12

Grants have nevertheless showed to be very important in the early-stage for developing innovative ideas to test the model and develop a proof of concept[23]. However grants should never be used for directly subsidizing the end price of the product or service because that will undermine the long-term viability of the business[24].

Fact is that there is a mass of capital to be unlocked in the private sector. Simultaneously most impact investments are made of equity capital or leveraged debts a well-known financing method to private investors. The amount of financing in an early-stage venture is not high although the average investment size varies widely between $50.000 and 2 million per deal[25]. Most amounts though are between $100.00 and $500.000 which is several times larger than provided at the later stages, but also much lower than what most investors usually finance[26]. The ON usually invests between 1-2 million dollars in early-stage ventures which is large in underdeveloped markets[27].

These early stages which are argued to be so difficult to finance are the stages where traditional venture capital comes in. Innovative ventures have been successful and reached later stages thanks to the twofold dimension of venture capital which aspires to serve as an inspiration to the impact investing industry.

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[23] Loic Comolli and Nicole Etchart, *Attracting the Right Financing for First Stage Scaling*, (Stanford Social Innovation Review, 20 February 2014) <www.ssireview.org/blog/entry/attracting_the_right_financing_for_first_stage_scaling> accessed 15 September 2014

[24] Sacha Dichter, Robert Katz, Harvey Koh and Ashish Karamchandani, *Closing the Pioneer Gap* (Stanford Social Innovation Review, Winter 2013) <www.ssireview.org/articles/entry/closing_the_pioneer_gap> accessed 15 September 2014

[25] Brian Trelstad, *Patient Capital in an Impatient World* (Kaufman Fellows, 2010) <www.kauffmanfellows.org/journal_posts/patient-capital-in-an-impatient-world/> accessed 3 November 2014

[26] Loic Comolli and Nicole Etchart, *Attracting the Right Financing for First Stage Scaling*, (Stanford Social Innovation Review, 20 February 2014) <www.ssireview.org/blog/entry/attracting_the_right_financing_for_first_stage_scaling> accessed 15 September 2014

[27] Matt Bannick and Paula Goldman, *Gaps in the Impact Investing Capital Curve* (Stanford Social Innovation Review, 27 September 2012) <www.ssireview.org/blog/entry/gaps_in_the_impact_investing_capital_curve>

2.4.2 Patient capital

It might take years before the business becomes profitable and sustainable which is exactly why investing in social enterprises is also called ‘patient capital’[28]. The long time frame forms a large component in the problem of financing a venture in its early stages. The investor should not insist on quick returns after having invested in the business but postponement of the profit should be the mindset. It is important for the social venture to show viability of the investment to make it worthy the wait which is typically five to seven years[29].

Raising capital in an early stage means for a social venture that below market rate returns are the start and by means of which later on a large amount of people are impacted and involved in the process by creating jobs and products or services. This process takes time and patience from the participants. Nevertheless the incentives of the investor are highly the drivers towards where the venture will be going, if investors are thinking of financial returns to be as important as social ones, the incubation time might be shorter.

Traditional players in the investment sphere and the non-profit sphere are usually not the right target groups for this time lapse. Charity and aid are not going to solve global issues and neither will the markets alone[30] forms the philosophy of founder and chief executive officer of Acumen Fund which is a nonprofit venture capital fund that invests in enterprises serving poor people in developing countries. This fund forms a perfect example of using patient capital as it makes debt or equity investments for up to 15 years.

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[28] Unite for Sight, *Patient' Capital in Social Entrepreneurship* (Unite for Sight, 2013) <www.uniteforsight.org/social-entrepreneurship-course/> accessed 15 September 2014

[29] Harvey Koh, Ashish Karamchandani and Robert Katz, *From Blueprint to Scale* (2012) Monitor Group, <www.mim.monitor.com/downloads/Blueprint_To_Scale/From%20Blueprint%20to%20Scale%20-%20Case%20for%20Philanthropy%20in%20Impact%20Investing_Full%20report.pdf> p. 15

[30] TED, Presentation by Jacqueline Novogratz on Patient Capitalism (TEDGlobal, June 2007) <www.ted.com/talks/jacqueline_novogratz_on_patient_capitalism?language=en#t-345826>

Due to the measurability the rates of return are too vague to tell which is why a discussion on catalytic capital is in place. There are always more investors in place for a social venture but someone has to make the first move especially with regard to early-stage ventures. The question is whether this is a patient investor or merely an investor which triggers the future flow of capital to a desired venture, asset class, sector, or geography[31]. Acumen Fund has expressed to be an investor like this, standing up like a connector to other investors and providing guidance. The notion of catalytic capital in this sense has a negative implication as it is merely a grant but it nevertheless benefits the funds more than imagined at first. It proves instrumental in the growth of impact investing by means of its risk reduction and there are investments consisting of private debt and equity which achieved market rate returns while having a catalytic purpose[32]. Nevertheless the concept seems contradicting as catalytic capital is highly necessary especially in early stages to help develop a track record which is of importance to attracting other sources of finance. Non-profits often take this burden on themselves in order to attract traditional capital like the non-profit ACCION, like investing in the early stages.

The element of risk is what determines how successful the investment may become and this is hard to strategize your way around. Catalytic capital in itself has proved to be essential to the development of social ventures and is not necessarily philanthropic.

2.4.3 Social venturing

Creative minds are not always aware of things like customer needs and what running a business actually means. Next to the fact that ventures in their early stages need financing they also need guidance in order to bring the innovation to the fullest and to make the social venture independent from external sources of financing. Entrepreneurship is a driving force behind the development of countries and people[33]. Social ventures have proven to demand for practical experience by sharing

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[31] Cathy Clark, Jed Emerson, Ben Thornley, *Impact Investing 2.0* (November 2013) Pacific Community Ventures <www.pacificcommunityventures.org/impinv2/wp-content/uploads/2013/11/2013FullReport_sngpg.v8.pdf> p. 19

[32] Cathy Clark, Jed Emerson, Ben Thornley, *Impact Investing 2.0* (November 2013) Pacific Community Ventures <www.pacificcommunityventures.org/impinv2/wp-content/uploads/2013/11/2013FullReport_sngpg.v8.pdf> p. 19

[33] ICCO website, *Het zoete goud uit Paraguay* <www.icco.nl/Projecten/Project/Article/het-zoete-goud-uit-paraguay#.VGHWK_TF84M> accessed 17 October 2014

with other entrepreneurs and also with regard to connecting social ventures with investors[34]. Social venture capital is thereby resembled by traditional venture capital as in that the investors want to be involved in the company, being part of management while keeping in mind social issues and creating a return. This way the twofold dimension of venture capital investments can be retained, namely providing capital and guidance. As with traditional venture capital it is obvious that this is not merely contributing an amount of financing: the costs of human capital might exceed what is financially committed especially regarded the small deal sizes in social ventures[35].
It has always been difficult to persuade investors to contribute to early-stage ventures although venture capital has changed this view on risky investments and created an innovative view literally and figurally on investing. Even though many impact investors care about social impact, financial returns on investment play a large role in most investors' decision making[36]. Traditional venture capitalists agree with social venture capitalists on the essential ingredients for successful impact: great leaders, ambitious and scalable business plans and ideas[37]. Furthermore some key elements of venture philanthropy can serve in the social venture capital industry as well as these philanthropists advocate high-engagement, term-sheets and intensive management assistance.

There is a large diversity in investments and the monitoring whereby different incentives may play a role, as some investors focus on scaling-up, other investors are primarily interested in financial returns[38]. Investors can be active and passive however the most socially-oriented funds have active

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[34] Catherine H. Clark and Matthew H. Allen, *Accelerating Impact Enterprises*, (May 2013) SJF Institute and Duke University <https://dl.dropboxusercontent.com/u/7845889/AcceleratingImpactEnterprises_.pdf> p. 41

[35] Matt Bannick and Paula Goldman, *Gaps in the Impact Investing Capital Curve* (Stanford Social Innovation Review, 27 September 2012) <www.ssireview.org/blog/entry/gaps_in_the_impact_investing_capital_curve> accessed 13 November 2014

[36] Sacha Dichter, Robert Katz, Harvey Koh and Ashish Karamchandani, *Closing the Pioneer Gap* (Stanford Social Innovation Review, Winter 2013) <www.ssireview.org/articles/entry/closing_the_pioneer_gap> accessed 15 September 2014

[37] Bruce Upbin, *Impact Capital Is The New Asset Class* (Forbes, 9 August 2012) <www.forbes.com/sites/bruceupbin/2012/09/18/impact-capital-is-the-new-asset-class/> accessed 15 August 2014

[38] Brian Trelstad, *Patient Capital in an Impatient World* (Kaufman Fellows, 2010) <www.kauffmanfellows.org/journal_posts/patient-capital-in-an-impatient-world/> accessed 3 November 2014

global teams which help the business with technical assistance whereby on the other hand more commercial funds are passive investors which are not into providing management assistance[39].

Combining impact with business performance is difficult especially for early-stage social ventures and therefore these ventures must create transparency through the right business plan. Investors should participate in the daily business of the social venture, thereby selecting eligible staff and seeing opportunities with both social and financial aspects. An even more desired element of social venturing are fund managers or investors who are present in the area where the innovation is being monitored. This will ensure even more control and honest measuring how the investment is doing on the market. A multi-disciplinary team is also wishful, putting innovators, engineers, product developers and so on in a team is important for launching and improving business[40]. People with experience in private equity and entrepreneurship are always desired. Regardless whether it are in-house staff or external venturers, bringing commercial managers with the right values in might be challenging.

The Omidyar Network is an example of combining for-profit staff and venture capitalists with non-profit staff in the beginning and from 2007 the ON was structured more as a venture capital firm by hiring a managing partner with business experience and all of the staff has become for-profit. Much attention is paid to governance as the ON takes seat in formal board memberships and has advisory roles in a large part of its portfolio companies. If it does not have any of these roles, they keep track of quarterly reports and thereby monitor the venture from distance.

The importance of cooperation should not be underestimated. Investors from developed worlds have the knowledge on how to make a venture or project successful and are therefore promising limited partners but answers to questions of poverty and injustice should not always be provided with the same answers. Taking the knowledge of corporate business to social goals is a challenge whereby the role of multiple parties is essential.

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[39] Brian Trelstad, *Patient Capital in an Impatient World* (Kaufman Fellows, 2010) <www.kauffmanfellows.org/journal_posts/patient-capital-in-an-impatient-world/> accessed 3 November 2014

[40] Loic Comolli and Nicole Etchart, *Implications of First-Stage Scaling on Operations* (Stanford Social Innovation Review, 19 February 2014) <www.ssireview.org/blog/entry/implications_of_first_stage_scaling_on_operations> accessed 15 September 2014

3. The social venture capital environment

There was no theory of social venture capital created on beforehand, instead it came into existence when unusual business models were created by building funds, networks and hybrid business forms who were on the lookout for global issues and financial returns. These experiments are not without fail successful but sure furthered the interests and legal innovations in the social venture capital industry will be shown.

Even though high risk investments may bring the highest impact, not every type of investor is eligible to take this risk nor are the combination of social and financial goals appropriate for this type. Nevertheless there are important players in this field who are willing to contribute although they all have different motives and different kinds of contributions through their experiences. It remains a tense perception to be looking for the investors investing in early-stage ventures with social goals through a venture capital strategy. Therefore the source of capital tells a lot about where the venture will be going and what the incentives and goals are of its investors.

The social venture capital environment consists of non-profit, for-profit and investors who are somewhere in the middle. The line is difficult to draw as some characteristics which fall under the earlier mentioned non-profit and for-profit distinction are making a slow move towards the impact investment environment thereby entering in a grey area. Even within the diverging sectors, most firms will be coined within a certain species such as an impact investment firm or foundation for example. Even where a distinction needs to be made, the Omidyar network perfectly resembles the impossibility to choose a side. The grey yet important area in social venture capital the Omidyar network represents will be analyzed as well. After this chapter will be showed that despite the attempt to categorize, impact investing is not eligible for this division as the different sectors are becoming intertwined with one another.

3.1 For-profit

The for-profit industry is characterized by corporations and financial institutions. With their primary aim to generate returns and successful outcomes of investments and their products to their customers they have great experience in business dynamics. Despite their reputation as focusing on only one aim, also this sector is showing great developments toward social venture capital.

3.1.1 Corporations

Traditional corporations would be great to help early-stage companies in their growth as the phase of development is difficult. Corporations are increasingly engaging in venture finance, they can help to overcome the lack of skills and expertise and the partnering corporation can be a client and open the path for connecting more social ventures to corporations[41]. The role which experienced corporations can play is significant through corporate venture capital whereby corporate funds are invested in external start-up ventures and assistance is provided. Another form of this is corporate venturing whereby is invested in a start-up which is owned by the corporation even though it may have an entirely different goal than the initial corporation. Traditionally the main objective of these two forms are searching for financial returns both long- and short-term. Also impact investments are increasingly being incorporated in corporate venture capital although its involvement is mainly in deals with an innovation imperative instead of an impact imperative[42].

A great advantage for the start-ups in which is invested are the resources of the corporation. A partnership with a corporation brings benefits[43] like using knowledge, executives and other resources like factories and a brand. GE Ventures is an example of a corporate venture capital fund of a multinational corporation whereby investment capital is combined with the expertise of General Electric. Its investments, infrastructure and network influence both underdeveloped and developed markets all over the world.

There are some downsides to the involvement of corporations in impact investing. Because the investments corporations make are significantly large, warning for losing control over the entrepreneurs own business are in place as the funds of the corporations often demand a seat on the

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[41] Maximilian Martin, *Making Impact Investible* (2013) Impact Economy <www.impacteconomy.com/download/Impact%20Economy%20-%202013%20-%20Making%20Impact%20Investible.pdf> p. 27

[42] Amanda Feldman, Charmain Love and Sasha Afanasieva, *Investigating in Breakthrough Corporate Venture Capital* (2014) Volans Ventures Ltd. <http://volans.com/wp-content/uploads/2014/05/BreakthroughCVC.pdf> p. 52

[43] Maximilian Martin, *Status of the Social Impact Investing Market: A Primer* (2013) Impact Economy <www.gov.uk/government/uploads/system/uploads/attachment_data/file/212511/Status_of_the_Social_Impact_Investing_Market_-_A_Primer.pdf> p. 9

board of directors[44]. Generally most corporations who want to contribute start after the early stages when risks are lower[45]. This group has seen too little measurable benefits as was also to be seen at the entrance of corporations in the microfinance industry which also happened later on. Many of these corporations may be still hesitant to taking the step while this group deploys a large amount of capital and the possibility to obtain a good reputation while creating a long term profit. Corporations increasingly contribute to the 'doing good' formation in multiple other ways as well by donating funds, products or services to social causes[46]. Furthermore an often recognized construction by corporations is the setting up of foundations, like Google Grants, which offers grants to nonprofits and social ventures[47].

3.1.2 Financial institutions

This group consists of financial service providers with a possible focus on global issues. Among these the most important possible players are banks, pension funds and development financial institutions. With their typical for-profit rationale they are more and more required to invest in different areas like social investment funds. The Deutsche Bank is an example and has created the Eye Fund to provide eye care services in underdeveloped markets where involved commercial investors and foundations receive different rates of return[48]. Morgan Stanley allows impact investing into their portfolio's as well as they review investments for their financial and social results. Financial institutions like banks are eligible to offer products primarily with financial goals but the dynamics with social goals and the inexperience in that segment should be kept in mind.

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[44] Seb Murray, *MBAs Drive Social Impact in Corporate Venture Capital Funds* (BusinessBecause, 28 October 2014) <www.businessbecause.com/news/mba-entrepreneurs/2878/mba-graduates-pioneer-corporate-venture-capital-to-make-social-impact> accessed 11 November 2014

[45] Matt Bannick and Paula Goldman, *Gaps in the Impact Investing Capital Curve* (Stanford Social Innovation Review, 27 September 2012) <www.ssireview.org/blog/entry/gaps_in_the_impact_investing_capital_curve> accessed 13 November 2014

[46] Diana Ransom, *Starting Up: Funding Your Social Venture* (The Wall Street Journal, 12 September 2008) <http://online.wsj.com/articles/SB122124827514029295> accessed 16 September 2014

[47] Diana Ransom, *Starting Up: Funding Your Social Venture* (The Wall Street Journal, 12 September 2008) <http://online.wsj.com/articles/SB122124827514029295> accessed 16 September 2014

[48] Deutsche Bank Corporate Social Responsibility, *The New Initiatives Fund* (2010) Deutsche Bank < https://.db.com/medien/en/downloads/NIF_Brochure.pdf>

Despite promising expectations of pension funds to be invested in impact investments within a few years[49], for institutional investors like pension funds a tension between the promises to their investors and dealing with pressure to ensuring returns is too large often to take the step[50]. Due to these implications, social goals may be overlooked by financial institutions.

Furthermore there is an increasing activity of development banks and other development finance institutions. These institutions are credit providers to less fortuned people and usually deploy large budgets as they are often supported by the public sector. The unfortunate thing for development institutions are that these organizations pay importance to the volume of capital deployed and it is therefore small early-stage social ventures which are overseen by means of which lower risk ventures are recognized because the returns must be justified continuously[51]. These development institutions are not the ultimate credit and assistance providers to early-stage social ventures, but do possess the knowledge of combining social with financial factors.

3.1.3 Investment funds

More positive implications can be given for the funds which have a large ability to strive for investments with both social and financial goals. Investments funds' goals traditionally are not oriented towards global issues but the increase of impact investing conceives the double bottom line investment opportunity. Impact investment funds have the ability to be essential intermediaries as a lot of capital can be drawn to these businesses. They are experienced in assessing risks, governance matters and necessitate transparency. The reason why investment funds are more promising than corporations and financial institutions is because investment funds especially with regard to venture capital have experience monitoring the venture through their human capital while being a possible source of cash.

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49 Social Finance, *Microfinance, Impact Investing, and Pension Fund Investment Policy Survey* (2012) Social Finance <www.socialfinance.org.uk/wp-content/uploads/2014/05/Pension_fund_survey_october_2012.pdf>

50 Maximilian Martin, *Status of the Social Impact Investing Market: A Primer* (2013) Impact Economy <www.gov.uk/government/uploads/system/uploads/attachment_data/file/212511/Status_of_the_Social_Impact_Investing_Market_-_A_Primer.pdf> p. 9

51 Matt Bannick and Paula Goldman, *Gaps in the Impact Investing Capital Curve* (Stanford Social Innovation Review, 27 September 2012) <www.ssireview.org/blog/entry/gaps_in_the_impact_investing_capital_curve> accessed 13 November 2014

Gray Ghost Ventures is an impact investing firm focusing on technology initiatives with social impact. It currently manages three venture capital funds for investing in early-stage ventures which use the new application of proven technologies. It elaborates strongly on improving lives of people who have usually been left out of the innovative market. Its president and CEO was a former executive at T-Mobile and his experience in scaling a business, creating a company and managing a team turned to be a great contribution to the fund[52].

The notion of social venture capital is here represented not necessarily as a motivation of traditional venture capital funds to search for an extra dimension to their investment, but as an alone standing possibility to unlock capital in new markets by identifying market imperfections which create new opportunities which by an extra are solving global issues[53].

One of Gray Ghost Ventures' investments is in the for-profit social venture d.light which designs solar light and power products for the developing world. D.light strives for global impact by providing its customers access to reliable electricity, it replaced the kerosene lamps which are dangerous[54]. This a perfect example of a product which will heighten the circumstances of life in BoP communities for reasonable prices and being sustainable in product and business.
Impact investment funds seem to be great representers of the combining cooperation with a social venture and thereby creating sustainable returns. There are still too little of these players in the early stages which highly depends on what the impact investment funds objectives and promises to investors are. Although investment funds should be at the heart of assessing risks, early-stage ventures in the impact investment industry do not always have a eligible risk-profile to become part of the portfolio which funds are willing to offer to their investors.

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[52] Esha Chhabra, *Q&A With Arun Gore of Gray Ghost Ventures: Social Impact Needs Scale* (Forbes, 6 March 2013) <www.forbes.com/sites/ashoka/2013/06/03/qa-with-arun-gore-of-gray-ghost-ventures-social-impact-needs-scale/> accessed 12 September 2014

[53]Brian Trelstad, *Patient Capital in an Impatient World* (Kaufman Fellows, 2010) <www.kauffmanfellows.org/journal_posts/patient-capital-in-an-impatient-world/> accessed 3 November 2014

[54] D.light website, *Social Impact* <www.dlightdesign.com/who-we-are/> accessed 5 November 2014

3.1.4 Angel investors and venture capitalists

Venture capitalists are known for their high capital supplies in the early and seed stage and confer themselves upon the duty to let ventures live up to their performances of financial and social goals[55]. With their silicon valley standards they have obtained experience with assessing deals, networking and assisting the social venture. Through its active role and close monitoring this group of investors has techniques for the alignment of interests. They are willing to wait as venture capital usually is a long-term investment although social venture capital will be even more patient. Different from what traditional venture capitalists and angel investors are used to, an even lesser guaranteed market-rate corresponds to investing in social ventures is the standard. Especially angel investors are a large contributor to injecting capital in the earliest stages of a social venture[56], thereby playing a more desired role than venture capitalists. This specialized group of investors is promising for the future of impact investing and thereby differentiates itself from traditional investors. Nevertheless the exact alignment of interests of this group of investors is to be left open as it is not clear what their exact expectations may be. Flexibility is a desired characteristic as market-rate returns should not form the standard expectation.

A network for angel investors and venture capitalists for direct impact investments is The Investors' Circle[57]. It started as one of the first early-stage impact investing networks bringing together investors but also organizations such as many foundations ultimately bringing forward new initiatives and it has instigated the creation of various impact investment funds focusing on early-stage ventures[58]. The network does not only allocate capital to early-stage social ventures but also highly contributes to research, programs and events.

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[55] Cathy Clark, Jed Emerson, Ben Thornley, *Impact Investing 2.0* (November 2013) Pacific Community Ventures <www.pacificcommunityventures.org/impinv2/wp-content/uploads/2013/11/2013FullReport_sngpg.v8.pdf> p. 11

[56] Jessica Cordingly, Grace Howells and Stephen Miller, *The Reality of Early-Stage Social Ventures* (May 2014) Big Venture Challenge <https://unltd.org.uk/wp-content/uploads/2014/05/UnLtd_Research_Publication_Number_8.pdf> p. 20

[57] Investors' Circle website <www.investorscircle.net/mission-and-history> accessed 5 November 2014

[58] Elizabeth Bailey, Meg Wirth and David Zapol, *Venture Capital and Global Health* (2005) Commons Capital <www.commonscapital.com/downloads/Venture_Capital_and_Global_Health.pdf> p. 18

3.2 Non-profit

The non-profit industry seems to be at the heart of the social impact dimension of impact investing. Even though most of the non-profit players like foundations and organizations are not about generating returns but use their expertise to fulfil social goals, their mindset should not be a reflection of how to achieve social impact in the social venture capital industry. Nevertheless the sustainability aspect is increasingly gaining attention in the non-profit industry and has shown to play a large part in the development of the impact investing industry as it is now especially in the early stages.

3.2.1 Foundations

Foundations provide grants which is simply a donation of capital. It is characterized by that its goal is social impact and there is no expectation of a financial return. The difference in mindset with regard to impact investing is crucial: not only due to their legal structure, as financial returns cannot be delivered to external contributors, but also the projects they choose to invest in are often of a different character[59]. Their weakness is to some the strength as they seek to maximize social returns but the actual sustainability of this social return is not necessarily present.

Foundations are a large player in the non-profit sector and impact investing has provided inspiration to the ability to move away from pure venture philanthropy and grant-making. Sustainable investment mechanisms such as program-related and mission-related investments resemble this movement which can be compared to loans with little or no interest. Still the mechanism is underused[60] nor was it used for high-risk investments in equity. The majority is for debt instruments but this does not bring high expectations[61] as the most risky deals are not closed which are necessary to bring new social innovations to the market.

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[59] Matt Bannick and Paula Goldman, *Gaps in the Impact Investing Capital Curve* (Stanford Social Innovation Review, 27 September 2012) <www.ssireview.org/blog/entry/gaps_in_the_impact_investing_capital_curve> accessed 13 November 2014

[60] Catherine H. Clark and Matthew H. Allen, *Accelerating Impact Enterprises*, (May 2013) SJF Institute and Duke University <https://dl.dropboxusercontent.com/u/7845889/AcceleratingImpactEnterprises_.pdf> p. 6

[61] Elizabeth Bailey, Meg Wirth and David Zapol, *Venture Capital and Global Health* (2005) Commons Capital <www.commonscapital.com/downloads/Venture_Capital_and_Global_Health.pdf> p. 18

Foundations have also been inspired by the venture capital industry of which venture philanthropists are representing this movement. These philanthropists use the tools of venture capital to make grants in social ventures. An example of this is the Draper Richards Foundation which focuses on the seed stage and provides intensive cooperation to the financed projects.

A foundation itself can create a venture capital fund inside a foundation as well. The Knight Foundation created the Knight Enterprise Fund which invests in early-stage for-profit social ventures. This fund mitigates risk by using a track record of other committed investors to inform its investment decisions[62]. In spite of this participation in impact investing, many early-stage social ventures do not have a track record of other committed investors to rely on.

Foundations have their heart at the right place but lack business expertise to successfully sustain their investments. Grants of foundations are playing a large role in the financing of social ventures,. After the often first placement of capital in a venture, opportunities are created for participation from other investors.

3.2.2 Organizations and networks

Another emerging group in the non-profit industry focusing on early-stage ventures are fellowships and organizations. Most of these fellowships are non-profit but do play a large role in creating partnerships with other investors and assisting entrepreneurs. The earlier mentioned Acumen fund has set an example in the non-profit industry by creating a non-profit venture capital fund which invests in social ventures in Africa and Asia, thereby creating jobs and serving populations with a huge amount of customers. They are non-profit in the sense that they are not focusing on making profits, nevertheless it is not about merely grants, but incentivizing entrepreneurs to make their business sustainable by providing guidance. Their investments (of which some of them have been fully repaid), have also attracted funding from other sources, serving as some kind of a credibility stamp. Acumen has proved to be a connector with possible other investors which also makes them a fellowship. Their portfolio companies have attracted additional follow-on capital of about $200 million[63].

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[62] Ben Wirz and Juan Martinez, *Building Venture Capital from Within* (Stanford Social Innovation Review, 20 March 2013) <www.ssireview.org/blog/entry/building_venture_capital_from_within> accessed 5 November 2014

[63] Jacqueline Novogratz, *Making a Case for Patient Capital* (Bloomberg Businessweek, 20 October 2011) <www.businessweek.com/magazine/making-a-case-for-patient-capital-10202011.html> accessed 3 November 2014

These initiatives are starting to show some grey areas where non-profits are asking for return of the investments and when traditional financing is combined with grants. These networks and organizations may form a large inspiration for the social venture capital industry, fostering innovation, collaboration and also experience with early-stage ventures.

3.2.3 High net worth individuals

High net worth individuals and family offices are usually entrepreneurs who want to do good with their money. These professional investors are not wary of high risks, are pro-innovation and often have personal motives to invest in certain ventures. They often have business experience and large financial flexibility to create business opportunities in early-stage ventures.

These investors with their high social motives can contribute either through making a direct investment into a social enterprise, engaging with an intermediary as a limited partner or bringing new initiatives to the market.

The Omidyar Network is an example of an initiative by a high net worth individual. It calls itself a philanthropic investment firm with as mission statement creating opportunity for people to improve the quality of their lives. Its view is broader than a regular impact investment firm because it regards as total social impact the direct impact of a firm plus sector level impact of the firm64. They invest in deals which do not necessarily bring back financial returns but which are of high importance to the development of the sector. The dynamics of the market are essential to sustainable solutions which society can benefit from. Within this portfolio there is a large emphasis on early-stage ventures because the Omidyar Network was one of the parties to report that this emerging market needs to suppress the largest gap. Although Omidyar Network does not call its construction social venture capital it does place a large emphasis on premature ventures by offering financial support and human capabilities, in other words the contribution financial and managerial support which are typically venture capital characteristics.

This venture has earned attention in all respects as it is a striking example of a flexible business form within the social venture capital industry. Struggling with risk-adjusted rates of return

64 Matt Bannick and Paula Goldman, *Embracing the Full Investment Continuum* (Stanford Social Innovation Review, 26 September 2012) <www.ssireview.org/blog/entry/embracing_the_full_investment_continuum accessed 19 August 2014

represented the setting up of the business structure as a non-profit family foundation. At first it solely relied on grants but after that it changed its business structure by only striving for for-profit investments while demanding risk-adjusted rates of return. This turned out not to be effective and moved attention away from social quality of the investments. As both sectors are believed to have a role by the Omidyar Network, investments are made in both the non-profit and for-profit industry. Investments are simply made in organizations which have potential regardless of their structure.

The structure of the Omidyar Network is formed by a 501(c)(3) for its non-profit deals and a Limited Liability Company for its for-profit investments which consist of debt and equity capital. It is the ultimate combination of a foundation using grants while using risk-adjusted investments as a company.

4. Facilitating the social venture capital industry

In a way the development of the impact investing industry and social venture capital as its outlet can be compared to the emergence of the microfinance industry. Social entrepreneurs have come up with business forms which are far from traditional and their efforts to combine two opposing goals create puzzling investing opportunities.“The question that entrepreneurs, impact investors, and everyone who believes that business can play a role in alleviating poverty must answer is this: What will it take to replicate the successes of microfinance in other critical areas such as drinking water, power, sanitation, agriculture, health care, housing, and education?”[65]

The first part of answering this question relies on the creation of the industry. A huge barrier for the impact investing industry is the fact that social ventures are having difficulties coming off the ground. Nevertheless where these problems come from is debatable as some are saying that there is too much capital chasing too few quality investment opportunities and others stressing too much demand and not enough supply of capital[66]. Both of these sides will be addressed in searching for more investment opportunities and capital. The first part in addressing the problem are the market imperfections which will be to a certain extent ascribed to the public policy and measuring standards.

4.1 Public policy

Governments typically can participate in the social venture capital industry in two ways, by directly investing or by incentivizing participation of other parties through initiatives. Policy and regulation are the most important initiatives which the government should undertake and develop. Governments spend large budgets on tackling global issues through grants just like foundations although the investments made are often not sustainable enough for a social venture to manage on its own. The government can co-invest in opportunities directly of funding intermediaries, thereby

[65] Sacha Dichter, Robert Katz, Harvey Koh and Ashish Karamchandani, *Closing the Pioneer Gap* (Stanford Social Innovation Review, Winter 2013) <www.ssireview.org/articles/entry/closing_the_pioneer_gap> accessed 15 September 2014

[66] Bridges IMPACT+, *A De-risking Toolkit for Impact Investment* (January 2014) Bridges Ventures <www.socialfinanceus.org/sites/socialfinanceus.org/files/Shifting%20the%20Lens,%20A%20De-risking%20Toolkit%20for%20Impact%20Investment.pdf> p. 4

sharing the risks with the investors[67] and attracting more capital from the private sector. There is so much more the government can do next to merely granting capital directly into a social venture or co-investing and that is why the government is addressed in the supply and demand problem of impact investing in early-stage ventures. Other means of the government to participate in impact investing is through public-private partnerships. These partnerships may play a large role in founding new impact investing funds or development finance institutions but also contributing to the efforts of research institutions. Proper governance and board structures have always been important whereby the government should design and implement policies and regulations. As the government promoted venture capital through programs it can as well do this with the impact investing industry. In Europe the spotlight is being turned on social investments by for example Regulation 346/2013 on European Social Entrepreneurship Funds.

Furthermore a focus for unlocking more capital in the impact investing industry by the government evolves around providing a framework for early-stage social ventures. Incentivizing impact investments especially in these ventures can largely depend on a flexible legal framework where social venture capital can flourish.
For a social venture it is difficult to obtain funding when its only goal is impact. These ventures heavily rely on grants from donors and do not need to give anything in exchange for financing. As these ventures are not created for generating financial returns the venture belongs to the non-profit sector. There are non-profit ventures with a 501(c)(3) tax-exempt status which invest in for-profit ventures as well but due to its legal form the generated financial return goes back into the non-profit venture[68]. Without the ability to issue stock or give returns to the investors the access to capital for social ventures is a hurdle.

In order to attract investors financial returns should be able to be paid out. Therefore the legal form of the venture which deploys capital should be derived from the for-profit sector. This legal form should give the social venture great flexibility and the possibility to adopt venture capital principles like the flexible equity financing while having a second incentive namely global impact. The

[67] Maximilian Martin, *Making Impact Investible* (2013) Impact Economy <www.impacteconomy.com/download/Impact%20Economy%20-%202013%20-%20Making%20Impact%20Investible.pdf> p. 17

[68] Elizabeth Bailey, Meg Wirth and David Zapol, *Venture Capital and Global Health* (2005) Commons Capital <www.commonscapital.com/downloads/Venture_Capital_and_Global_Health.pdf> p. 17

standard for-profit forms are not well enough designed to combine the two goals[69]. A form which is able to live up to social mission and protect this from the investors and therefore a form which is somewhere in the middle should be created. The US has participated in some ways towards creating business forms for social ventures. It recently created the low-profit limited liability company also called the L3C and other forms like the Benefit Corporation and the Flexible Purpose Corporation. Nevertheless a problem that remains is that for-profits cannot receive funds from government and private organizations just as that tax-exempt donations are not possible which is a problem the Omidyar Network experienced.
A subject which heavily relates with the legal form is taxes. A difference between for-profit and non-profit is tax liability. The government should make it easier for investors to contribute through taxes and easier for social venture to acquire investments. The legal form should therefore be easy and flexible like the business forms used in the US but also provide for a difference in the taxes.

It is obvious that there currently is a lack of framework in the social venture capital industry. Policy makers should harmonize the field while keeping an eye on the trends, defining roles of different players in the industry and increasing transparency[70]. The government is mainly addressed in policy making as it can supply, direct, leverage and regulate demand[71] but the market has already brought itself this far, the government should focus on removing legal barriers for any venture that obtains capital for social causes, be it a social venture itself or an intermediary like a social venture capital fund. A main priority for governments should be to first create a national framework by looking at the existing mechanisms in order to understand the market, learning from impact investments happening on the field.

Still it is not all about the legal form as the government should primarily provide for the ultimate hybrid business form, it is understandable that the government might not know how to leverage the market with the right tools. The government has been standing on the sideline while the impact

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[69] Dana Brakman Reiser and S. A. Dean, *Hunting Stag with FLY Paper: A Hybrid Financial Instrument for Social Enterprise* (april 2013) Brooklyn Law School < http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2243833> p. 16

[70] Maximilian Martin, *Making Impact Investible* (2013) Impact Economy <www.impacteconomy.com/download/Impact%20Economy%20-%202013%20-%20Making%20Impact%20Investible.pdf> p. 30

[71] Maximilian Martin, *Making Impact Investible* (2013) Impact Economy <www.impacteconomy.com/download/Impact%20Economy%20-%202013%20-%20Making%20Impact%20Investible.pdf> p. 18

investing industry has been through years of evolution. Therefore research institutions like foundations and networks play a large role in conducting the necessities for the impact investing market thereby influencing the governments policy initiatives. It might just be that the government has found itself a valuable investment.

4.2 Measuring standards

A heavy burden on investors wanting to participate in impact investing are the standards for measuring performance. While there are some proven successful ventures and projects, the industry is still not developed enough to show a confident track record. That impact investing is still in its experimental phase is to be seen again as there is no hard evidence to show both the social and financial returns of impact investing. The Global Impact Investing Network is working on standardizing the field but more needs to be done. The large shortage of investor capital in social ventures can be for a part attributed to its conflicts with economic incentives. Adding on top of that, early-stage social ventures come with high risks. We need reliable data in order to measure where impact investing is in its process. The impact investing industry and the early-stage subset needs data for especially traditional investors for disclosure and transparency. Then investments will come.

The current best established mechanisms are the Impact Reporting & Investment Standards(IRIS) and the Global Impact Investment Rating System (GIIRS). The GIIRS measures the outcomes of both individual companies and investment funds. Furthermore standards from other industries can offer inspiration like ESG Standards, UN Global Compact, UN PRI and the Global Reporting Initiative(GRI) but none of these efforts seem to suffice as there still needs to be more work done to standardize the impact investing field[72].

With regard to social impact, it is more difficult to measure its outcomes than financial returns. This is exactly the distinctive feature from all other mainstream investments which is why its impact should be disclosed as it will justify incentives or not. Without measuring standards it is very

[72] Maximilian Martin, *Making Impact Investible* (2013) Impact Economy <www.impacteconomy.com/download/Impact%20Economy%20-%202013%20-%20Making%20Impact%20Investible.pdf> p. 33

difficult to say whether it is possible to strive for two goals. Of course there are some data, but many ventures turned out not to be very reluctant towards disclosing their outcomes[73].

It is argued that impact measurement might not be as necessary as is the common perception due to the time and costs for the ventures applying rating regimes[74]. Although it does take its toll it is nevertheless essential to the development of the impact investing industry and the investments in early-stage ventures.

Furthermore the discussion has been raised on what level impact should be measured. As the industry is still in its infancy and developing, social impact should not only be measured on firm level, but also on sector level according to the Omidyar Network[75]. Bringing impact investing and thereby is also meant social venture capital to more successes, the contribution of research and investments in organizations are of upmost importance. By means of this some might say that launching more early-stage ventures will be impossible without investments that might not pay off in financial terms at all. The discussion on catalytic capital proves to be present in every facet of the social venture capital industry.

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[73] Cathy Clark, Jed Emerson, Ben Thornley, *Impact Investing 2.0* (November 2013) Pacific Community Ventures <www.pacificcommunityventures.org/impinv2/wp-content/uploads/2013/11/2013FullReport_sngpg.v8.pdf> p. 12

[74] Kyle Johnson and Holden Lee, *Impact Investing: A Framework for Decision Making* (2013) Cambridge Associates LLC <www.thegiin.org/binary-data/RESOURCE/download_file/000/000/577-1.pdf> p. 15

[75] Matt Bannick and Paula Goldman, *Embracing the Full Investment Continuum* (Stanford Social Innovation Review, 26 September 2012) <www.ssireview.org/blog/entry/embracing_the_full_investment_continuum accessed 22 October 2014

5. The social venture capital strategy

The majority of the impact investments concern early stage investments. Unlocking social venture capital in this stage has proven to be difficult as most impact investors enter in later stages. Leaving the market imperfections like measuring standards and policy initiatives aside, many investors are not convinced to start engaging now in spite of successful examples. Demonstrating a track record of returns is one way to resolve the supply-demand problem, the other way is to adjust the risks of the investments. Therefore the access to risk capital needs to be improved as a goal to broaden the array of different investors of which some would be too reluctant to engage in social venture capital at first, thereby bringing the social venture capital industry to the next level.

5.1 Connecting all market players

So far the industry has proven that different kinds of capital typically fit different kinds of stages of the social venture. Business angels have proven to be very prepared in early and growth stages of a venture[76]. The CEO of Gray Ghost Ventures noted that traditional mainstream sources of investment and finance should contribute to the efforts of social investment funds[77]. The importance of grants should therefore not be underestimated as it is present in the earliest stages where many other investors remain absent. Foundations and development institutions have showed a large contribution to early stage social ventures and have catalysed the engagement of other investors[78]. Creating the market infrastructure will be highly dependent on these market innovators who have a high social motivation to take risks and less motivation to earn financial returns[79]. Market builders by means of this have showed to participate in later stages of the cycle of social ventures.

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[76] Maximilian Martin, *Making Impact Investible* (2013) Impact Economy <www.impacteconomy.com/download/Impact%20Economy%20-%202013%20-%20Making%20Impact%20Investible.pdf> p. 31

[77] Esha Chhabra, *Q&A With Arun Gore of Gray Ghost Ventures: Social Impact Needs Scale* (Forbes, 6 March 2013) <www.forbes.com/sites/ashoka/2013/06/03/qa-with-arun-gore-of-gray-ghost-ventures-social-impact-needs-scale/> accessed 12 September 2014

[78] World Economic Forum Investors Industries, *From Ideas to Practice, Pilots to Strategy Practical Solutions and Actionable Insights on How to Do Impact Investing* (December 2013) World Economic Forum <www3.weforum.org/docs/WEF_ImpactInvesting_Report_FromIdeastoPractice_II.pdf> p. 14

[79] Matt Bannick and Paula Goldman, *Embracing the Full Investment Continuum* (Stanford Social Innovation Review, 26 September 2012) <www.ssireview.org/blog/entry/embracing_the_full_investment_continuum accessed 13 November 2014

Layered funding is a mechanism for inclusion of different types of investors[80]. Impact-first investors or market innovators which inject capital in high-risk, early-stage situations can thereby provide security for other investors. These investors have often proven to be the first in this process, thereby creating more likelihood of attracting capital later on. By catalysing the investment thereby will lay the road for returns-first investors to engage. After the high-risk investment a more secure investment will follow which otherwise would not have been there. In a way the participation of catalysing capital could also be seen as a credibility of the investment as earlier mentioned, thereby creating more reluctancy to invest among different types of investors. WaterHealth International is one of those companies having investors ranging from Acumen fund in the start to strategic investors and a traditional venture firm later on. Also corporate venture capital funds turned out to be willing to cooperate with impact investors and in some cases the integration has already taken place[81]. Partnerships may be of great importance in linking different investors to social ventures and also multinationals are up for it[82].

The importance of catalysing capital cannot be denied but it is not sufficient on its own. There is a necessity to find the right balance between grants and investments and create an investment opportunity where philanthropic and venture capital can be combined even in the early stages of a social venture. Thereby the first principle of social venture capital investments should be taken seriously: different types of investors engaging in a social venture is most likely to elevate the social venture to financial and global impact.

[80] Harvey Koh, Ashish Karamchandani and Robert Katz, *From Blueprint to Scale* (2012) Monitor Group, <www.mim.monitor.com/downloads/Blueprint_To_Scale/From%20Blueprint%20to%20Scale%20-%20Case%20for%20Philanthropy%20in%20Impact%20Investing_Full%20report.pdf> p. 48

[81] Amanda Feldman, Charmain Love and Sasha Afanasieva, *Investigating in Breakthrough Corporate Venture Capital* (2014) Volans Ventures Ltd. <http://volans.com/wp-content/uploads/2014/05/BreakthroughCVC.pdf> p. 51

[82] Nicolas Chevrollier, *Can multinational corporations innovate in BoP markets?* (BoP Innovation Center, 22 May 2014) <http://www.bopinc.org/blog/can-multinational-corporations-innovate-in-bop-markets/> accessed 13 November 2014

5.2 Social corporate governance

The ability for impact investments to start engaging earlier in the cycle of social ventures should become more about aligning interests of the investors and active participation of the social venturers. Expectations of the investors may greatly differ in terms of mission and rates of return. One minimum standard for engaging in impact investing does need to be clear: the investor must have some social incentive and a long-term view is indispensable especially since the market itself is in an early stage. Furthermore the investor must take an active role in assisting and managing the investment in order to let the social venture achieve financial outcomes and social impact.

Regardless whether the investor is an impact-first or a returns-first investor, expectations need to be divided between social and financial objectives and clearly communicated. Cautiousness with defining too much on the expectations of financial returns and size of the investments is necessary[83]. The investor should be able to define social expectations though in order to make the investor think of the investment instead of merely being part of the doing-good formation. Having thought of what the venture stands for, is likely to bring up more understanding from the point of the investor. The social objective is a decisive element upon the dedication of the investor towards the investment and the patience of its capital. Frustrations of the investor will be to a lesser extent when the investor knows what the social venture is working towards, regardless whether the venture is finding a cure against cancer or innovating farming techniques for underdeveloped markets.

With regard to the financial expectations, the risks in early stages are mostly too high to adequately formulate market-rate expectations for a fund manager, investor or anyone being opportunistic. This will disrupt the social venture capital industry as the interests are not adequately aligned as they should be.

There are many other decisions which the impact investor will face and sometimes even when those financial benefits are laying right in front of you, there will be a second dimension like the choice

[83] Kyle Johnson and Holden Lee, *Impact Investing: A Framework for Decision Making* (2013) Cambridge Associates LLC <www.thegiin.org/binary-data/RESOURCE/download_file/000/000/577-1.pdf> p. 10

between a higher rate of return and a sustainable practice affecting 1000 households, or a below-market rate return expectation whereby the practices will affect 10.000 households. What the better investment is, depends on many factors of which many remain unpredictable so far.

Another characteristic of venture capital which should be at the heart of social venture capital is the earlier mentioned provision of human capital. Think of this: while you are contributing in social venture capital, as an investor you are already de-risking by venturing the social enterprise. Assistance of the social venture can come in many forms as with traditional venture capital but its main goal is to address the performance of the venture. Intermediaries like fund managers do need training or experience with regard to social ventures as improving the corporate governance is not a one-size-fits-all practice. Experienced investors have many experience, technology and facilities to offer to early stage social ventures. Collaboration of different sectors are not only valuable for financing the venture but serve as a multi-dimensional venturing of the venture through the many experiences of different sectors.

As impact investments have a double bottom line, this should also be kept in mind with regard to the persons selecting and monitoring the investment. The social dimension is often a characteristic they do not have experience with on top of the fact that the venture is in an early stage, necessitates an added level of diligence[84]. The responsible team should therefore consist of multi-disciplined staff in order to be able to assist the venture through corporate and social values. The team is typically divided in two, consisting of those in charge of overseeing the investment mostly in financial aspects and those focusing on the social efforts of the venture[85]. Thinking outside traditional investment models and understanding dynamics of different kinds of ventures is essential[86] for both parts of the team in order to provide valuable human capital. The Omidyar Network effectively kept this in mind while selecting and assisting ventures for investments.

There is a need for strong investment managers with impact investment experts to collaborate, they can either bring each other in or start a joint venture. Diversity brings confidence for investors.

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[84] Idem, p. 6

[85] Idem, p. 9

[86] World Economic Forum Investors Industries, *From Ideas to Practice, Pilots to Strategy Practical Solutions and Actionable Insights on How to Do Impact Investing* (December 2013) World Economic Forum <www3.weforum.org/docs/WEF_ImpactInvesting_Report_FromIdeastoPractice_II.pdf> p. 34

The fiduciary obligation requires the investment decisions to serve the interests of the investors[87] which places fund managers under large pressure. In order for a fund to live up to its expectations these need to be carefully aligned so social values will not suffer. The existing institutional investment culture obstructs the integration of social values in the investment strategy but nevertheless does not mean that it is impossible[88]. In order for it to work the current culture does need to be taken into account in order to draw experience from investment practices while adding new ones like the social dimension. By setting clear goals this way lessons can be learned from the used strategies and investments and where the venture is in terms of its goals. For the investment institution and its possible fund manager it is of upmost importance to develop a clear and coherent set of vision, mission, principles and rationale for its approach[89]. While dealing with different kinds of investors who are expecting different returns it must be stressed that social venture capital investment is therefore not comparable with a traditional venture capital investment.

5.3 Portfolio construction

The interplay between social and financial objectives remains difficult which makes that traditional investors have not been able to replace their traditional venture capital investments by social venture capital investments. This is unlike regular impact investments which did prove to be able to outperform traditional investments[90]. Nevertheless an investment theory relevant to a wide range of investments has proven to be kept in mind for all types of investors in order to successfully to combine the different dimensions of the investments. Every type of investor is addressed in this section as well as every organization, whether it surrounds itself in the non-profit or for-profit industry or somewhere in between, and whether the investment is directly into the social venture or through a fund or even more indirect through a fund-of-funds, every player deals with selecting opportunities.

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[87] Idem, p. 15

[88] Idem, p. 17

[89] Idem, p. 9

[90] Sonen Capital, *Evolution of an Impact Portfolio: From Implementation to Results* (October 2013) Sonen Capital <www.sonencapital.com/evolution-of-impact.php> p. 11

The portfolio theory as it is called represents the different dimensions which are relevant to the investments outcome. The portfolio theory, usually consisting of risk and return, necessitates a third category namely impact as regards social venture capital investments[91]. These three elements have already been made clear of being the three parameters by which impact investments are selected, thereby leaving social venture capital investments in the pioneer gap with its high risks. As these early stage ventures represent the highest risks, it does not contradict that lowering risks for these type investments are eligible to contribute to the social venture capital industry. Traditionally risks are decreased through the composition of the investment portfolio and risky investments in social ventures can be made more attractive through creative deal structuring.

Investments can be bundled in a portfolio in order to spread the risk whereby investments with varying characteristics can produce different social and financial outcomes. By combining high risks with low risks and many other ways to spread the investment portfolio like by sector, geography, liquid vs. illiquid or debt vs equity[92].
Capital was unlocked within the short term as diversified portfolio's of impact investments made funds achieve market-rate returns[93]. This should serve as inspiration for social venture capital investments as creative deal structuring might bring these investments together with more knowledge and experience to the same outcome. Risk can be mitigated through combining different kinds of assets or through a range of investments which are of the same asset class but spread chances over diverse sectors and geographies[94]. Bridges Ventures for example has chosen to focus on only one geographic area but diversifies its portfolios among different sectors. Other ways to create variety in an investment portfolio is through combining high risks with low risks(early-stage

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[91] Yasemin Saltuk, A Portfolio Approach to Impact Investment (1 October 2012) J.P. Morgan < www.jpmorganchase.com/corporate/socialfinance/document/121001_A_Portfolio_Approach_to_Impact_Investment.pdf> p. 8

[92] Bridges IMPACT+, *A De-risking Toolkit for Impact Investment* (January 2014) Bridges Ventures <www.socialfinanceus.org/sites/socialfinanceus.org/files/Shifting%20the%20Lens,%20A%20De-risking%20Toolkit%20for%20Impact%20Investment.pdf> p. 12

[93] Kyle Johnson and Holden Lee, *Impact Investing: A Framework for Decision Making* (2013) Cambridge Associates LLC <www.thegiin.org/binary-data/RESOURCE/download_file/000/000/577-1.pdf> p. 14

[94] Bridges IMPACT+, *A De-risking Toolkit for Impact Investment* (January 2014) Bridges Ventures <www.socialfinanceus.org/sites/socialfinanceus.org/files/Shifting%20the%20Lens,%20A%20De-risking%20Toolkit%20for%20Impact%20Investment.pdf> p. 19

and later-stage impact investments) or even combining traditional investments or grants with social venture capital investments.

A carve-out is a possibility to dedicate a part of the portfolio to early-stage impact investments and the other part to the lower-risk segment of impact investing, namely the later stages which have proved a positive track record or even investments outside of the impact investing industry like Morgan Stanley did in order to offer a variety in its products[95]. In this way a part of the non-impact portfolio which has risk-adjusted returns is dedicated to impact investments in early stages[96].

These diverse options which are often used in traditional investment industries can be experimented with in early-stage impact investments and works towards incentivizing more investors and organizations to participate.

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[95] Ben Thornley, *The Impact Investing Grounds* (June 2012) <www.huffingtonpost.com/ben-thornley/the-impact-investing-grounds_b_1968667.html> accessed 8 December 2014

[96] World Economic Forum Investors Industries, *From Ideas to Practice, Pilots to Strategy Practical Solutions and Actionable Insights on How to Do Impact Investing* (December 2013) World Economic Forum <www3.weforum.org/docs/WEF_ImpactInvesting_Report_FromIdeastoPractice_II.pdf> p. 33

6. Conclusion

Striving for sustainability in a social venture is the best way for the venture to become successful in terms of both social and financial results. The possibility that innovations of ventures may actually valuably contribute to the market dynamics of also underdeveloped markets will be a great step towards encouraging entrepreneurship and ambitions all over the world. In the future social venture capital will be moving towards attracting even more traditional investors but as the industry is currently, we are not there yet.

Research to measuring standards and incentivizing governmental initiatives are essential to the development of the social venture capital industry, nevertheless the investors do not have time to wait for these initiatives. Mechanisms which can be directly applied are essential for the industry and the combination of different market players is the key to this. Although the success of catalization capital cannot be denied, layered funding will be the mechanism to achieve the twofold benefits of social venture capital as it involves all types of investors. The different sectors from which the investors originate serve as a flexible source of both financing and venturing of the social venture. Social corporate governance plays a large role as there is much leeway for different investment objectives and interests which need to be aligned and invested in through human capital as well. The mindset that traditional venture capital is not replaceable for social venture capital is therefore necessary in order to prevent disadvantageous circumstances from coming to the social venture capital industry. Furthermore an issue with which every investor will deal is selection of investments and constructing the portfolio of investments. The portfolio theory offers inspiration as diversification is possible in many ways in order to decrease the risks of social venture capital investments.

Although the market is still in its infancy and is a risky business, the social venture capital industry is going through large developments which cannot be denied and will continue to evolve into an important part of the investment industry.

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