WORLD ECONOMIC FORUM

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Private Investment for Social Goals: Building the Blended Value Capital Market

World Economic Forum
Global Foundation Leaders Advisory Group

in partnership with

IFC INTERNATIONAL FINANCE CORPORATION WORLD BANK GROUP

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Executive Summary

In September 2004, the World Economic Forum, the Rockefeller Foundation and the International Finance Corporation hosted a workshop for institutional and retail investors, venture capitalists, banks, fund managers, asset managers, institutional philanthropists, development finance agencies and social entrepreneurs. The workshop's purpose was to discuss the emerging blended value investing market, to identify opportunities and barriers to market growth, and to determine steps to expand and improve blended value investing.

Private investing for social goals, or **blended value investing**, represents the inclusion of social and/or environmental factors into investment decisions.

Investments that promote energy efficiency, provide credit to rural farmers or test drugs that would mainly benefit the poor exemplify blended value: investments seeking both social and financial return.

Financial returns in blended value investments may be at risk-adjusted market rates or below market rates. These types of investments inhabit a space between philanthropy, where no financial return is expected, and pure financial investments, where social considerations are not a factor and financial profit is maximized. This spectrum can be illustrated by the chart below.

	Traditional Philanthropy	**Below Market Financial Return with High Social Return**	**Full Market Financial Return with Some Social Return**	**Traditional Financial Investment**
Investment Objective	Maximizes social return. No financial return	Social mission with financial return expectations. Promotes specific social and/or environmental agenda	Market rate financial return with some broad social return. Reflects investor's moral and ethical beliefs	Purely profit-driven
Capital Types	Donations and grants	Below market capital, or mix of donations and market rate capital	Market rate capital	Market rate capital

Adapted from: "The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation" by Jed Emerson

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Many organizations that create social value rely upon donations and grants in order to fulfil their missions. When appropriate and if properly structured, however, private investment for social returns has the potential to have an equal or greater social impact, and can do more to establish the sustainability of an organization, than pure grant-making. Unlike grants, capital invested for financial return – even at below market rates – can be re-used, multiplying its effectiveness. When investments are structured with market rate returns (sometimes initially requiring smart subsidies or risk sharing), they can attract capital from a far larger pool and are more likely to be replicated by other enterprises.

Microfinance is perhaps the best known global example of private investing for social returns. The provision of small loans and other banking services to under-served poor communities has enabled millions of individuals around the world to start businesses, buy homes and open savings accounts. Many early stage microfinance organizations operate as not-for-profits, relying on donations and below market rate investments to finance their services. Some have become financially sustainable. This has attracted the interest of commercial bankers and investment funds around the world, some of which have begun investing in microfinance for profit.

Blended value investing is currently carried out by a variety of institutions:

- Corporations often engage in blended value investing with the intention of developing new products and services, establishing new markets, testing new business models, enhancing brand equity and/or managing risk.
- Institutional philanthropies are attracted to blended value investing because it has the potential to leverage capital, expertise and infrastructure from the private sector and it allows them to recycle capital while creating self-sustaining social enterprises.
- Individual philanthropists share some of the same motives as their institutional counterparts. They, too, want to re-use capital and maximize social impact.
- Public entities such as development banks participate in blended value investing to enhance public goods and income-generating activities.
- Private banks and investment companies may pursue blended value investments in order to fulfil their missions, provide new products or services to clients, or diversify their portfolios.

Investments can take the form of debt or equity and can be accompanied by active roles in running a company (e.g. venture capital investments). There are a growing number of blended value investment opportunities, ranging from fixed-income instruments to venture capital, that provide market rate and below market rates of return. At the workshop, participants identified some of the issues that should be addressed when investing for social returns, including:

- The structure of blended value investments must match the circumstances.
- Before making a blended value investment, it is important to understand why traditional market forces have not spurred investment. Reasons may include a lack of understanding of a new sector by conventional lenders, inadequate capacity of potential investees or a lack of specific skills in a workforce. Blended value investors need to have the right definition of the problem.
- Non-traditional investments, such as risk-sharing or smart subsidies (e.g. for training), may be required to attract capital and prove the viability of an investment opportunity. Over time, these investments may become commercially viable.
- The determination of the optimal scale for generating financial and social returns should be a priority at the outset of any venture. This will minimize later tensions between investors and social entrepreneurs who may have different notions of the venture's appropriate size and the time frame for returns.

Workshop participants identified the following barriers that are limiting the expansion of blended value investing, all of which can be overcome as the field develops:

- Many blended value investment opportunities currently "fall between the cracks" because traditional financial investors are used to considering only commercially

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viable opportunities, philanthropies largely provide grants, and public agencies expect to work through government entities. As a result, a new market needs to be created that brings together the relevant private, public and citizens' groups to consider both financial and social benefits.

- A new set of measurement and evaluation tools is required to track and quantify the social value of projects as well as their financial value. This is necessary to justify the use of subsidies from public and philanthropic sources for private sector activities.

- The capital instruments available often do not match the needs of the investees.

- While social initiatives are often designed to maximize value in the long term, they generally do not match the short-term investment perspectives and well-marked exit opportunities desired by investors. This mismatch might be resolved with the development of appropriate investment products and an improved market infrastructure for blended value investments.

- Some in the field contend that the only common metric is financial and that therefore the only way to resolve this dilemma is to "monetize" the value of the social aspects of the firm. Monetizing social value is often difficult.

Blended value investing presents a tremendous opportunity to generate social value. By pursuing financial returns in addition to social returns, a much larger pool of investment capital becomes available, greater efficiencies can be achieved and projects are more likely to continue without relying on subsidies. The Geneva Workshop on *Private Investment for Social Goals* benefited from the guidance and participation of leaders of important philanthropic foundations from around the world who are members of the Forum's Global Foundation Leaders Advisory Group. By drawing on people from a number of different sectors, the workshop began a concerted dialogue to reduce barriers, share best practices and identify opportunities for increasing the extent and impact of blended value investing.