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**Growth For Good**  
**- *Draft Business Plan* -**

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## **1 Executive Summary**

Growth For Good's ("GFG") mission is to help social entrepreneurs unlock access to cheap growth capital for unrestricted use in order to bring their innovations to critical scale. GFG will more objectively and effectively allocate financial resources to entrepreneurs whose social ventures ("Social organizations") will be assessed primarily based on their social impact performance. Thus, investors of such entrepreneurs ("Mission investors") utilizing GFG's services will be rewarded and recognized in direct proportion to the social impact performance of the organizations they support. GFG's vision is to create a radical paradigm shift in the way mission-oriented organizations have historically been financed by transforming the "feel-good" philanthropy donation model into a "social return on investment" model where organizations with similar missions can be distinguished based on social impact achieved given their resources.

GFG helps social organizations raise money by enabling them to issue "patient" capital that will be purchased by mission investors. Two critical innovations include: (1) a new funding source called the "Mission Capital Market" that provides unrestricted, interest-free money to social organizations while allowing investors to earn back their principal, and (2) a new valuation mechanism called the "Impact Measurement Market" that tells mission investors how much social impact their dollars made through social organizations.

GFG will serve the huge emerging market for socially conscious investors in the U.S. who currently look for more options in allocating their wealth between the mainstream financial markets and philanthropic donations. The full strength of this

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market is estimated at \$2.14 trillion. Out of this market, GFG will initially target a small number of high net-worth individuals who as a group have dramatic impact on the aggregate of socially responsible investments and philanthropic giving.

GFG's main source of competitive advantage will come from its installed base of listed social organizations, mission investors, and Impact Measurement Market participants. Once critical numbers have been reached, the unique "social wealth" denomination that GFG pays its mission investors provides a lock-in since switching investment platforms corresponds to foregoing accumulation of such wealth. Social impact will be quantified by the product of the principal value of "B-Bonds", interest rate savings, and a social return on investment ("SROI") multiple.

GFG is expected to grow from 10 participating social organizations to 80 in the next 3 years, translating to \$1.5 million in fee-based revenue and average cumulative social impact of approximately \$72 million by 2011. Initially, GFG will rely on private funding from individuals, foundations and award prizes from various social venture competitions to build infrastructure and promote its services. The goal is to achieve 100% financial self-sustainability by 2011 primarily by charging fees to social organizations and mission investors for initial membership registrations and underwriting of each B-Bond transaction, respectively. For the first year, GFG needs to raise an estimated \$250,000 in funds to develop a beta of its web-based transaction platform, effectively market its brand and services to attract initial social organizations and mission investors, and pay for various legal and administrative costs to achieve proper 501(c)(3) registration. Including raised funds and fee income, revenue is estimated at \$328,000, \$557,000,

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and \$1,543,000 between Calendar Year 2009 and 2011, respectively. Net income for the same period is estimated at \$20,900, \$29,300, and \$159,500.

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### **3 Venture Overview**

#### **3.1 Business model and Venture description**

##### *Business model*

- **Value addition:** GFG provides a mechanism that assesses social organizations' net program impact, informs mission investors on such performance, and rewards them according to their level of contribution to each social organization.
- **Source of economic return:** Mission investors who appreciate GFG's value addition provide interest-free patient capital to help social organizations build their capacity and improve operational efficiency.
- **Allocation of economic return:** GFG transfers a part of the economic return to social organizations by providing them with growth capital at lower cost than is available in other channels. The remaining economic return will be reinvested to provide and improve the value addition.

##### *Venture description*

Initially, GFG is legally a self-regulated community development loan fund (CDLF), which re-lends the capital that has been loaned to it by private sources to address the growth capital needs of social organizations in the United States.

1. Social organizations that seek to raise capital through GFG must be pre-evaluated by GFG for sound financial management.
2. The social organizations that are considered financially healthy are listed on the Impact Measurement Market, which GFG organizes to aggregate diverse

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information about social organizations' performance in social value creation. (See *Section 5 for details*)

3. A social organization requests GFG for a loan.
4. GFG evaluates the social organizations' credit worthiness and agrees with the social organization on the maximum amount of loan.
5. The social organization's Beneficial Bonds, or "B-Bonds" (which are legally nonnegotiable promissory notes issued by GFG), with \$1,000 par value are listed for sale on the "Mission Capital Market". (See *Section 5 for details*)
6. The amount of B-Bonds purchased by mission investors, net of 10% charged as an issuance fee, will be re-lent to the social organization.
7. Every month, GFG awards mission investors the Social Benefit Coupon ("B-Coupon"), which has only a reputational value (but no monetary value) and is linked to the social value creation performance of respective organizations as valued in the Impact Measurement Market.
8. Every year, a B-Bond holder can choose whether he or she wants to extend B-Bond's maturity by one year, based on his or her satisfaction with the organization's performance.
9. A B-Bond holder may request the early redemption at par minus transaction fee of 10% before the maturity date, subject to the existence of a counterpart who would buy his secondhand B-Bonds on spot.
10. Social organizations keep the right to repay the loan before the maturity date.

As GFG builds a customer base and track record as an efficient and reliable financial intermediary for social organizations and mission investors, GFG will seek to evolve into

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an SEC-registered broker. This transformation is planned to take place in Year 4 or 5 and will allow GFG to issue SEC-regulated securities, which is expected to have the following benefits.

- Since the B-Bond will become an SEC-regulated security, it can be issued by social organizations and purchased directly by mission investors, thus freeing GFG from directly bearing the default risk of social organizations.
- B-Bonds can be traded on a secondary market, which will significantly improve liquidity of the Mission Capital Market.
- The B-Bond's maturity will be reset to the original 5-year term when traded on the secondary market. This will strengthen the B-Bond's feature as patient capital and further emulates the perpetual nature of equity.

### **3.2 Value proposition**

Overall, GFG aspires to change the fundamentals by which the social sector operates.

- **More resources** are attracted to social investment as investors have confidence that their money is spent where it can make the most impact, can get their principal back, and can accumulate “status value” as a result of their investment.
- Social organizations can raise sufficient capital at low cost to invest in **capacity improvement** so that end clients can receive better service.
- Social organizations are more incentivized to improve **effectiveness and efficiency** of their activities as they will need to compete to raise resources based on their ability to create social value.



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- Social organizations' **accountability** to the public is improved as the voices and judgments of wider stakeholders are reflected in important decisions through a prediction market mechanism.

### **3.3 *Current status***

- In January 2008, the founding team was formed by five students at the Kellogg School of Management, Northwestern University, and has since then formulated a business concept and developed an initial business plan.
- The founding team is now working on research and development to test the feasibility and refine the GFG model in cooperation with other students and faculty of the Northwestern University and external advisors.
- The project currently has no funding source and relies on voluntary contribution of the time by the founding team members and their collaborators.

## **4 Market Analysis & Strategy**

### **4.1 Market size**

GFG's financial products and services are designed to address the socially conscious investors' needs that currently largely fall into the gap between the mainstream financial market and philanthropic donation/grants (*Exhibit 4-1*). The full-potential size of this newly emerging market is estimated at \$2.14 trillion, encompassing parts of Socially Responsible Investment (SRI) and philanthropic giving markets.

- **Socially Responsible Investment market:** Out of \$2.71 trillion identified by the Social Investment Forum's 2007 Report on Socially Responsible Investing Trends, the assets in socially and environmentally screened funds and community investing are of particularly high relevance to GFG (*Exhibit 4-2*). This segment of the RSI market accounted for \$1.97 trillion in the U.S. in 2007.
- **Philanthropic giving market:** A report from the Giving USA Foundation, based at Indiana University's Center on Philanthropy, estimated that charitable donations approached \$295 billion for 2006 (*Exhibit 4-3*). Excluding giving to religious organizations and unallocated giving, the size of the market segment that is relevant to GFG was \$172 billion.

### **4.2 Target market**

- **Mission investors:** GFG will initially target high net-worth individuals as buyers of B-Bonds. This group of individuals is small in number but has an enormously disproportionate impact on both SRI and philanthropic giving. Furthermore, high net-worth individuals, as a group, have unique characteristics that fit with GFG's

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value propositions. For example, they give a disproportionately larger percentage of their donations to educational organizations, whereas the majority of donations by the general population are directed towards religious organizations (*Exhibit 4-4*). Key motivations for them are meeting critical needs, giving back to society, social reciprocity (the feeling that those who have more should help those with less), and bringing about a desired impact (*Exhibit 4-5*). High net-worth individuals say that they would give more to social organizations if they become more cost effective and if they were able to determine the impact of their gifts (*Exhibit 4-6*).

- **Social organizations:** Social enterprises, which include for-profit corporations with social missions or non-profit organizations with entrepreneurial approach to social problem solving, are expected to have greater needs and more risk tolerance to adopt an innovative financial arrangement. In terms of program area, GFG will initially target those organizations providing youth education programs because their impact metrics are relatively well defined and documented. In addition, 80 percent of wealthy donors surveyed by the Center on Philanthropy at Indiana University said they are most likely to make contributions to educational organizations in general.
- **Prediction Contract Traders:** GFG will initially target nonprofit practitioners, foundation officers, academics/researchers, industry publication editors, and interested graduate students (e.g. MBA, Public Administration, Public Policy, Education) and invite them to participate in its Impact Measurement Market.

### **4.3 Competitive Analysis**

Recently, there has been a significant increase in the level of interest across the social sector in the possibility of adopting a market mechanism for resource allocation. While the existing services provided by GFG's potential competitors have greatly contributed to facilitating social investment, most of them still have very weak functions in informing social investors of the social impact their money has made. Furthermore, there is currently no service that provides rewards to social investors based on their contribution to social impact, which is critical to create a reinforcing cycle of social investment.

- **Philanthropic giving platforms & intermediaries:** Main players in this category in the US include GlobalGiving, socialmarkets, DonorEdge (*Exhibits 4-7*), and Acumen Fund, who are potential competitors but can also be strategic alliance partners. Their critical limitations include:
  - Mostly program/project specific funding that can't be used by social organizations as growth capital
  - High transaction cost due to weak systematic valuation standard that does not allow "apple-to-apple" comparison
  - Insufficient information on monitoring and evaluation of results
  - Lack of an adequate mechanism to retain and reinforce participants' incentives
  - Incapability to reflect views of end clients or the public in the collective decision of prioritization and resource allocation
- **Blended value investment platforms & intermediaries:** Main players in this category in the US include Kiva, MicroPlace, Calvert Foundation, Good Capital

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and Pacific Community Ventures, who are potential competitors but can also be strategic alliance partners. Their critical limitations include:

- Weak systematic valuation standard that allows investors to make a objective decision to accept a lower-than-market rate financial return in exchange for a high social return
- Insufficient information on monitoring and evaluation of social return
- Vague definition of social business
- High transaction cost due to poor liquidity

### **4.4 Market Strategy**

- **Positioning:** For socially conscious investors who are interested to maximize a social impact of their investment yet unsatisfied with giving away their money without clear accountability, GFG's Mission Capital Market provides an ideal solution that allows them to maintain control of their money, track social impact, and gain recognition for effective investment. On the other hand, for financially healthy social organizations who are ready to grow and invest in capacity building, GFG's Mission Capital Market provides an innovative means of raising growth capital that is patient and not restricted for specific projects at low cost.
- **Pricing strategy:** The interest rate for B-Bonds is set at 0% because many socially conscious investors are ready to forgo the time value of their money if they can see and enjoy its social return. Unless mission investors redeem B-Bonds before the maturity date, they are charged no fee and can get back and reuse their money if they so choose. Social organizations that raise capital

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through GFG's Mission Capital Market are charged one-time 10% fee in addition to initial due-diligence and registration fee, which is considerably cheaper than interest payment for minimum five years.

- **Advertising/Promotion:** Both Mission Capital Market and Impact Measurement Market are the services that enjoy network externalities, which means that building up installed base of listed social organizations, mission investors, and Impact Measurement Market participants exponentially enhances attractiveness of GFG's services and provides GFG with greater profitability and competitive advantage over imitators. Therefore, GFG will take a strategy to make as much upfront investment as financially possible to achieve a critical mass at the early stage. Since one critical factor that affects adoption rate is users' perception of the "status value" associated with the GFG's incentive system (i.e. B-Coupon for mission investors and Social Valuation Credit for Prediction Contract Traders), GFG will engage in an aggressive initial promotion campaign to build brand and create buzz. For example, top mission investors and prediction contract traders will be regularly given wide public recognition through publication of ranking, awards events, and media coverage (e.g. journals/magazines). GFG will also establish strategic partnerships with philanthropic luminaries and esteemed organizations and co-organize marketing events.

## **5 Product/Service**

### **5.1 Customer need**

The social sector as a whole suffers from fragmentation, inefficiency and weak accountability due to the lack of an effective system that helps resources to be channeled to uses that produce the highest value.

- **Social organizations:** Social organizations that successfully prove their business model's feasibility and start scaling their operations face the capital gap between highly constrained funding from philanthropic sources and expensive or inaccessible commercial debt and equity financing.
- **Mission investors:** Increasing numbers of mission investors are becoming interested in maximizing social impact of their dollars spent, but lack objective methods to track social impact to guide their investment decisions.
- **End clients /Public:** There are currently very limited mechanisms to ensure public accountability of social organizations, through which the voices of end clients and other stakeholders are incorporated into the collective decision of prioritization and resource allocation.

### **5.2 Major feature of service**

GFG not only facilitates social investment but also provides mission investors with feedback about the social impact their money has contributed to create and reward them according to this contribution. To do this, GFG provides two services: the Mission Capital Market and the Impact Measurement Market.

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### *Mission Capital Market*

The Mission Capital Market is a virtual marketplace that uses a debt instrument called B-Bonds (“Beneficial Bonds”) as a medium of value transaction. Its basic functions are 1) to channel social investors’ money to fill social organizations’ need of growth capital, and 2) to reward those investors who contributed to more creation of social value.

Key features of B-Bonds include the following:

- **Blended value:** B-Bonds are debt instrument but the incentive to own them is “for-benefit”, that is hybrid of for-profit and non-profit values, hence the name. B-Bonds are issued at par value (no discount) and yield no monetary interest. Compared to a regular donation, this sum of money is recyclable since the investor retains an option to get the principal back at maturity.
- **Impact-based rewards:** Every month, each B-Bond held will pay an investor a virtual coupon, called the Social Benefit Coupon or “B-Coupon”. The amount of each B-Coupon payment is variable and linked to the forecasted future performance of respective organizations as valued in the Impact Measurement Market. The B-Coupon does not have any monetary value but only has a reputational value that recognizes those who made well-informed investments in better-performing social organizations.
- **Efficient resource allocation:** GFG conducts promotions, in which top mission investors are regularly given wide public recognition (through rankings in well-read publications, awards events, media coverage etc.) in order to make mission investors associate the accumulation of B-Coupon with status value. Mission investors who are not happy with their organization’s performance will let the B-



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Bond mature on schedule and reinvest their money in B-Bonds of other organizations that they believe are worthier of their money.

- **Patient capital:** Every year, a B-Bond holder can choose whether he wants to extend B-Bond's maturity by one year, based on his satisfaction with the organization's performance. If an investor does not want to keep his money in this organization, he can choose not to extend the B-Bond maturity. With this "rolling term" feature, the actual term of the B-Bond can far exceed the original term, which emulates the perpetual nature of a donation and incentivizes social organizations to keep investors happy by performing well on their mission.
- **Callability:** Social organizations keep the right to repay the loan anytime before the maturity date. No transaction fee is charged for early repayment.
- **Liquidity:** B-Bond holders may request the early redemption at par minus transaction fee before the maturity date. Early redemption can take place only when there is a counterpart who would buy secondhand B-Bonds on spot. Mission investors who exercise early redemption option are charged 10% of par value as transaction fee.

### *Impact Measurement Market*

The Impact Measurement Market is a virtual marketplace created for the purpose of aggregating diverse information that general public and end clients as well experts have about social organizations' performance in social value creation.

1. GFG organizes the Social Organization Rating Panels on different program areas. Each Rating Panel is comprised of a small number of knowledgeable experts in respective program areas.

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2. The social impact creation performance of social organizations listed on the Impact Measurement Market are rated every year on a 1-5 star basis by a Rating Panel of respective program areas.
3. A virtual asset called a “Prediction Contract” is created as a medium of information exchange on the Impact Measurement Market.
4. The social organizations’ end clients , social impact evaluation experts, and interested individuals are invited to participate in the Impact Measurement Market. When they sign up to the Impact Measurement Market, they are provided with a certain amount of Social Valuation Credits, which is a virtual currency without monetary value used to trade Prediction Contracts.
5. Holders of a social organization’s Prediction Contracts receive payoffs in Social Valuation Credits every year when Rating Panel’s rating is announced. The amount of such payoff is quoted per Prediction Contract and is based on the star rating of respective organizations. Higher star ratings command higher payoffs.
6. Prediction Contract Traders have varying opinions on the appropriate future rating of a social organization and will engage in a transaction if for any “ask” price there is a “bid” price to match it.
7. As new information becomes available, the Impact Measurement Market price changes to reflect this information. Prediction Contract Traders who buy low and sell high are rewarded for improving the quality of market’s impact measurement, while those who buy high and sell low are penalized for degrading it.

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8. The current Prediction Contract prices in the Impact Measurement Market can then be interpreted as a consensus forecast of respective social organizations' future social impact creation performance.
9. The monthly payoff of B-coupon in the Mission Capital Market is tied to monthly average price of the respective organizations' Prediction Contract.
10. GFG conducts promotions, in which top Prediction Contract Traders are regularly given wide public recognition (through publication of ranking, awards events, media coverage etc.) in order to make Prediction Contract Traders associate the accumulation of Social Valuation Credit with status value.

### **5.3 Research and development**

- **Pilot Test I** is planned in May/June 2008. This will be empirical experiments to verify the Impact Measurement Market's ability to measure social values created by social organizations. The experiments will involve Northwestern University student volunteers who will be asked to trade Social Valuation Contracts of the organizations in one program area (e.g. youth tutoring). The design and preparation of the empirical tests is currently in progress.
- The founding team will seek legal advice to clarify legal and regulative issues concerning GFG's business model.
- Based on the analysis of Pilot Test I results, the founding team will apply for grants in July-August 2008.
- **Pilot Test II** in November/December 2008 will make required adjustments to prediction market mechanism based on feedback from the Pilot Test I and link it

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to the Mission Capital Market. A research will be conducted in advance to understand mission investors' various motivations and identify the initial target segment and program area in September/October 2008.

- **Initial launch** is planned in March/April 2009, by which time development of the beta website must be completed. One program area (e.g. education) is selected for initial launch, and Rating Panel's rating rules are to be developed in January/February 2009.

## **6 Financials**

### **6.1 Key assumptions**

#### *Revenue drivers*

GFG is intended to be initially incorporated as a nonprofit 501(c) (3) tax-exempt organization to facilitate financial sustainability in the short-term and to provide potential donors and funders with increased confidence that GFG is fully committed to support mission-oriented organizations. Assuming initial financial support will be available for the first 3 years of projections from 2008 through 2010 from a combination of fundraising from the Board of Directors, individual private “angel” donors and foundations endorsing “social finance” institutions, e.g., the Rockefeller Foundation, GFG aims to become 100% financially self-sustainable by 2011. Each social organization seeking to raise capital by listing on GFG will be charged fees for initial membership registration, pre-listing due diligence and transaction fees for issuances of B-Bonds. In addition, social investors will be charged an early redemption fee for the option of selling their B-Bonds at a pre-determined price prior to full maturity. In order to build critical installed base of listed organizations in the first 3 years, it was assumed that the initial membership registration fee would be waived or deeply discounted. With respect to B-Bond principal size, it was assumed that the initial allowable range for GFG would be between \$50,000 and \$500,000, whereas the average principal size would increase over time as listed organizations and investors become more comfortable with the usage of GFG as a safe financing intermediary.

#### *Cost drivers*

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For each social organization, the cost of providing services for GFG will consist of performing pre-listing due diligence to assure credit and program quality, as well as B-Bond transaction cost for money transfers from and to GFG. Initial SG&A expenses will consist primarily of payroll expenses for a Chief Executive Officer, a Business Analyst to perform due diligence and monitoring of listed organizations, and Client Development Manager to build new and maintain existing client relationships with prospective social investors and borrowers. In addition to executing on strategy, the CEO is expected to perform additional financial management and various administrative functions in the first 2 years of operation, until supporting senior officer positions can be added in the form of Chief Financial Officer and Chief Information Officer. All founding team members will be involved in various business development activities but are assumed for the projections to forego a salary to ease the SG&A burden on GFG. Other operating expenses will include legal advisory fees on incorporation and financial institutions-related matters, financial audit expenses, IT system expenses, annual loan loss provision, development costs for the Expert Panel, and marketing expenses for promoting GFG through the ongoing planning and organization of high-profile fundraiser events in key US cities that contain large amounts of the target population, such as Chicago, San Francisco and New York. Lastly, it was assumed that tax-exempt status could be obtained within the first year of operation. Thus, no tax expenses are projected from Year Zero going forward.

### *Start-up expenditures and investments*

GFG is assumed to initially operate without the need for physical office space, where all founders and staff will communicate through meetings via online channels or publicly

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available locations. Key financial resources will be initially consumed in the development of a prototype website for marketing and concept presentation purposes, which will then result in an essentially functional beta website platform by end of 2008 through beginning of 2009. Besides investment in an appropriate user interface, another considerable investment will be made in the development of a payment system to process electronic transactions between social investors, Impact Measurement Market participants, and social organizations. Both the overall Beta website and payment system development will be outsourced to an independent consultant or “e-lancer” to ensure for an integrated, user-friendly platform design. This cost will be capitalized and is assumed to be amortized over a 3 year period. Other start-up expenses include registration for legal incorporation, legal counsel retainer fees, and intellectual property acquisition rights for the patenting of key GFG business processes, such as the Impact Measurement Market design and the B-Bond financing structure.

### **6.2 Projections: First 3 years**

#### **KEY REVENUE ASSUMPTIONS**

(All numbers in \$, unless noted otherwise)

##### **Listings and bond parameters**

	Projected Calendar Year ending December 31,			
	Pro Forma 2008	CYE 2009	CYE 2010	CYE 2011
Number of new listed organizations	-	10	20	50
Total number of listed organizations	-	10	30	80
Average number of B-bond annual issuances per org	1	1	1	1
Maximum B-Bond principal (\$)	500,000	500,000	500,000	500,000
Minimum B-Bond principal (\$)	50,000	50,000	50,000	50,000
Average B-Bond principal for new issues (\$)	-	100,000	150,000	200,000
Average B-Bond principal outstanding (\$)	-	100,000	133,000	181,000
Estimated Total B-Bond principal outstanding (\$)	-	1,000,000	3,990,000	14,480,000
B-Bond principal redeemed early (%)	0.0%	3.0%	3.0%	3.0%

##### **Fee income drivers**

Pre-listing due-diligence fee per org (\$)	5,000	5,000	5,000	5,000
Initial gross membership registration fee per org (\$)	5,000	5,000	5,000	5,000
B-Bond issuance fee (\$)	10.0%	10.0%	10.0%	10.0%
Early B-Bond redemption fee (%)	10.0%	10.0%	10.0%	10.0%

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### FINANCIAL PROJECTIONS

(All numbers in \$, unless noted otherwise)

#### *Income - Fees*

Pre-listing due-diligence fees	\$	-	\$	50,000	\$	100,000	\$	250,000
Initial membership registration fees, net of discounts		-		-		75,000		250,000
B-Bond issuance fees		-		100,000		300,000		1,000,000
Early B-Bond redemption fees		-		3,000		12,000		43,000
<b>Total Income from Fees</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>153,000</b>	<b>\$</b>	<b>487,000</b>	<b>\$</b>	<b>1,543,000</b>

#### *Income - Grants, investments & donations (GI&D)*

UT Austin 1st Place Award	\$	50,000	\$	-	\$	-	\$	-
Total foundation grants		150,000		150,000		50,000		-
Total private donations		50,000		25,000		20,000		-
Total investor capital		-		-		-		-
<b>Total Income from GI&amp;D</b>	<b>\$</b>	<b>250,000</b>	<b>\$</b>	<b>175,000</b>	<b>\$</b>	<b>70,000</b>	<b>\$</b>	<b>-</b>

#### **TOTAL REVENUE**

<b>\$</b>	<b>250,000</b>	<b>\$</b>	<b>328,000</b>	<b>\$</b>	<b>557,000</b>	<b>\$</b>	<b>1,543,000</b>
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#### Operating expense

##### *Cost of Services*

Pre-listing due diligence expense	\$	-	\$	11,000	\$	22,000	\$	55,000
B-Bond transaction expense		-		100		200		500
<b>Total Cost of Services</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>11,100</b>	<b>\$</b>	<b>22,200</b>	<b>\$</b>	<b>55,500</b>

##### *SG&A*

Payroll expense	\$	-	\$	150,000	\$	210,000	\$	460,000
Other SG&A expense		80,000		90,000		90,000		90,000
<b>Total SG&amp;A</b>	<b>\$</b>	<b>80,000</b>	<b>\$</b>	<b>240,000</b>	<b>\$</b>	<b>300,000</b>	<b>\$</b>	<b>550,000</b>

Amortization expense		48,000		48,000		48,000		-
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<b>Other Expenses</b>	<b>\$</b>	<b>54,000</b>	<b>\$</b>	<b>104,000</b>	<b>\$</b>	<b>253,500</b>	<b>\$</b>	<b>778,000</b>
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<b>Total Operating expense</b>	<b>\$</b>	<b>134,000</b>	<b>\$</b>	<b>355,100</b>	<b>\$</b>	<b>575,700</b>	<b>\$</b>	<b>1,383,500</b>
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#### **TOTAL EXPENSE**

<b>\$</b>	<b>134,000</b>	<b>\$</b>	<b>355,100</b>	<b>\$</b>	<b>575,700</b>	<b>\$</b>	<b>1,383,500</b>
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#### **NET INCOME**

<b>\$</b>	<b>116,000</b>	<b>\$</b>	<b>(27,100)</b>	<b>\$</b>	<b>(18,700)</b>	<b>\$</b>	<b>159,500</b>
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Less: Capital Expenditures	(149,000)		-		-		-
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Add: Amortization	48,000		48,000		48,000		-
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<b>UNLEVERED FREE CASH FLOW</b>	<b>\$</b>	<b>15,000</b>	<b>\$</b>	<b>20,900</b>	<b>\$</b>	<b>29,300</b>	<b>\$</b>	<b>159,500</b>
---------------------------------	-----------	---------------	-----------	---------------	-----------	---------------	-----------	----------------



## **7 Social Impact Analysis**

GFG's social impact is based on offering mission-oriented organizations access to cheap, unrestricted capital for capacity building, while avoiding donor pressure and demands on spending the majority of funds on programs. The two main elements of incremental financial value are interest expense savings, since B-Bonds, unlike all other non-philanthropic funds, bear no cash coupons, as well as the actual amount of principal that was previously unavailable to an organization without GFG. Social impact can be quantified by referencing Social Return on Investment (SROI) studies for activity areas initially supported by GFG, such as education and youth development. For instance, SROI studies conducted by the Wilder Research and the University of Minnesota found that one organization called the Mentoring Partnership has a \$2.72 SROI for every dollar spent on programs, while comprehensive Youth Intervention Programs have a \$4.89 SROI for every dollar spent. This implies that the "multiplier" of social impact per dollar spent for GFG could be in a range of 2.0x-5.0x. Thus, assuming that the average market rate for ordinary loans available to mission-oriented organizations in the U.S. is 5.00%, and using for now only two measurement areas – education and youth development – for which empirical SROI research data is publicly available, GFG's social impact can be conceptually quantified as follows:

- Financial Impact = Total B-Bond Principal Outstanding + Total Interest Rate Savings
- SROI Multiplier = 2.0x – 5.0x
- Social Impact = Financial Impact x SROI Multiplier

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Based on 3-year projections, it is estimated that GFG's average cumulative social impact by 2011 will be \$72 million (*Exhibit 7-1*).

## **8 Management and Organization**

### **8.1 Structure & Form**

GFG will be incorporated as a not-for-profit corporation and apply for 501(c)(3) tax status. As a community development loan fund (CDLF), GFG operates without the government regulation that depository institutions like banks or credit unions must comply with. It is assumed that the founding team will manage GFG in Year 0 (*Exhibit 8-1*). By Year 3, the founding team will have completely moved into an advisory position and hired professional chief executive, financial and information officers, along with operations staff of Business Analysts (BA) and Client Development Managers (CDM) (*Exhibit 8-2*).

### **8.2 Founders/Management Team**

The founding team is assumed to perform all required management functions of GFG in Year 0, with no financial compensation. Since GFG is a nonprofit organization, there is no private equity ownership in the venture. It is the founding team's goal to find a professional Chief Executive Officer to take over operations by the end of Year 1, after which the founding team will either sit on the Board of Directors or on the Advisory Board.

- Seung-chul Seo (Co-President)
  - *Responsibilities:* Business strategy development and internal management
  - *Industry Experience:* Bain & Company, International Red Cross, UNESCO

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- *Education:* M.B.A. Kellogg School of Management; M.P.P. University of Michigan School of Public Policy; B.A. Waseda University (Political Science)
- Thien Nguyen-Trung (Co-President)
  - *Responsibilities:* External client development and strategic partnerships & alliances
  - *Industry Experience:* Jacobs Consultancy, UBS Investment Bank
  - *Education:* M.B.A. Kellogg School of Management; B.S. Trinity University (Computer Science/Business Administration)
- Robert Albright (VP – Marketing)
  - *Responsibilities:* Product management, PR, communications
  - *Industry Experience:* Council for Entrepreneurial Development
  - *Education:* M.B.A. Kellogg School of Management; B.A. University of North Carolina – Chapel Hill (Journalism & Mass Communication)
- Keita Suzuki (VP – Finance)
  - *Responsibilities:* Financing deals, auditing & controlling
  - *Industry Experience:* NHK Broadcasting (Reporter)
  - *Education:* M.B.A. Kellogg School of Management; B.A. Tokyo University (Economics)
- Woojin Kim (VP – Information)
  - *Responsibilities:* Management of website platform and internal IT systems
  - *Industry Experience:* NHN, Deutsche Bank Securities, Dongbu Securities

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- *Education:* M.B.A. Kellogg School of Management; B.S. Yonsei University  
(Civil Engineering)

## **9 Performance Benchmarks**

### **9.1 Mission Capital Market**

GFG's IT system incorporates monitoring function to track trade volume and following key performance benchmarks in the Mission Capital Market.

- **Traffic:** # of page loads, unique visitors, first time visitors, and returning visitors of each listed organization's information page as well as the Mission Capital Market website will be tracked. The number of unique visitors will be used as the main indicator of GFG's performance in raising and retaining interest level among potential customers.
- **Conversion rate:** The rates of conversion from the above traffic indicators to actual B-Bond investment transaction will be tracked. The number of unique visitors of the Mission Capital Market website divided by the number of B-Bond purchase transactions will be used as the main indicator of GFG's effectiveness in convincing the potential customers to invest their money through GFG.
- **B-Bond purchase:** The average and distribution of dollar value of B-Bond purchase per transaction and per investor will be tracked. This will be used as the main indicator of GFG's ability to attract wide range of mission investors including not only very wealthy individuals but medium income individuals.
- **B-Bond early redemption:** The number and total value of early redemption will be tracked. The dollar value of early redemption divided by the dollar value of total outstanding B-Bonds in the market will be used as the main indicator of

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mission investors' satisfaction in GFG's service and listed social organizations' performance.

- **B-Bond issuance and fulfillment:** The number of social organizations that have issued B-Bonds, have currently outstanding B-Bonds, and that are in the pipe line will be tracked. GFG's IT system will also track the average size of B-Bond issuance per social organization and average and total fulfillment rates (the dollar value of B-Bonds purchased by mission investors divided by the dollar value of B-Bonds issued by social organizations). These metrics will help GFG understand its performance in serving social organizations' capital needs.

### **9.2 *Impact Measurement Market***

In addition to the above key benchmarks related to the Mission Capital Market, GFG will track the following metrics to monitor the performance of the Impact Measurement Market.

- **Traffic:** # of page loads, unique visitors, first time visitors, and returning visitors of each listed organization's information page as well as the Impact Measurement Market website will be tracked.
- **Prediction contract traders' participation:** GFG's IT system will also track the number of prediction contract traders who have signed up to the website and who conducted more than one transaction in the past three months, as well as the number of transactions in the Impact Measurement Market.
- **Prediction contract traders' attributes:** The information about prediction contract traders will be collected through the Impact Measurement Market

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website. Such information as prediction contract traders' occupation, affiliation with social organizations (e.g. end clients, donors, volunteers, staff/managements, others), and main sources of information about social organizations' performance will be monitored to gauge the quality of information aggregated by the Impact Measurement Market.

- **Reliability:** GFG will conduct an annual survey of mission investors, social organizations, prediction contract traders, and other relevant stakeholders such as social impact measurement experts and social finance intermediaries. A part of the survey will ask about their perception about reliability and accuracy of star rating. Their feedback will be incorporated to continue improving the rating methodology.



## **10 Risk Assessment and Contingency Plans**

GFG faces several risks that must be mitigated through proactive planning. The most substantial risks include technical operations, market adoption, B-bond default payment, and market manipulation. A detailed explanation of each risk/response follows:

- **Technical Risk:** GFG must understand the business operation risk with B-bond payment through its Web platform. During beta development, GFG will fine-tune the backend Web processes to allow for a seamless exchange between investor and social organization. To minimize technical and developmental delays, GFG will rely on referrals for reputable Web designers, e-lancers and other experts.
- **Market Adoption:** GFG must also address external challenges such as market traction from donors and social organizations. GFG will take a proactive approach to mitigating low adoption rates and ensuring rapid growth in the first three years of operation. GFG will use a multi-faceted marketing campaign that focuses on promotion, existing client referrals, retention of its initial installed base of users, and networking through advisors and other social impact experts.
- **B-Bond Default Payment:** To mitigate the risk of a social organization defaulting in its re-payment to B-Bond investors, GFG will conduct detailed due diligence before allowing a social organization to list in the Mission Capital Market. With the help of a loan review committee, all loans will undergo detailed evaluation before approval. Insurance could also safeguard against loan default.
- **Manipulation of Impact Measurement Market:** GFG must protect the integrity and accuracy of the Impact Measurement Market. GFG will first require registration criteria for prediction market participants. In addition, GFG will

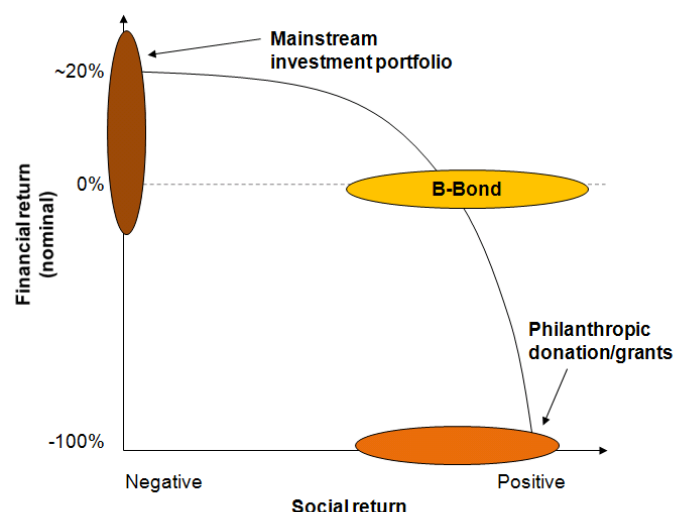
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implement a tiered approach to protect against market manipulation, by first investigating the issue, then appropriately penalize identified violators by freezing the participant's account, and finally delisting if necessary.

## 11 Appendices

### 11.1 Exhibits

Exhibit 4-1: Conceptual diagram: GFG's new market frontier



Adopted from the presentation by Antony Bugg-Levine, Rockefeller Foundation

Exhibit 4-2: Socially Responsible Investing in the US – 1995-2007

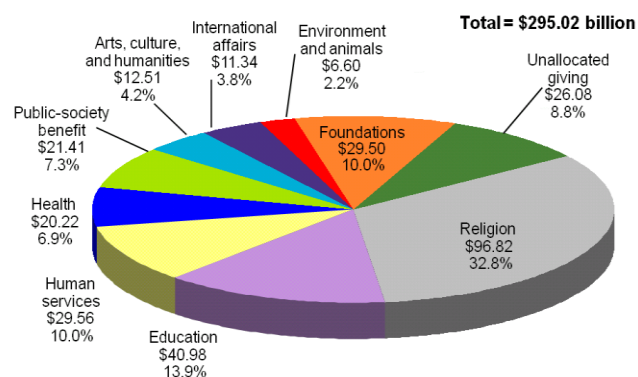
(In Billions)	1995	1997	1999	2001	2003	2005	2007
Social Screening	\$162	\$529	\$1,497	\$2,010	\$2,143	\$1,685	\$2,098
Shareholder Advocacy	\$473	\$736	\$922	\$897	\$448	\$703	\$739
Screening and Shareholder	N/A	(\$84)	(\$265)	(\$592)	(\$441)	(\$117)	(\$151)
Community Investing	\$4	\$4	\$5	\$8	\$14	\$20	\$26
<b>Total</b>	<b>\$639</b>	<b>\$1,185</b>	<b>\$2,159</b>	<b>\$2,323</b>	<b>\$2,164</b>	<b>\$2,290</b>	<b>\$2,711</b>

**SOURCE:** Social Investment Forum Foundation

**NOTES:** Social Screening includes socially and environmentally screened funds and separate account assets. Overlapping assets involved in Screening and Shareholder Advocacy are subtracted to avoid potential double-counting. Tracking Screening and Shareholder Advocacy together only began in 1997, so there is no datum for 1995. There are also potentially overlapping assets in the relatively small screened funds categories of Alternative Investments and Other Pooled Products; therefore these categories are also excluded from the SRI universe aggregated in this Report. See Chapter II for details.

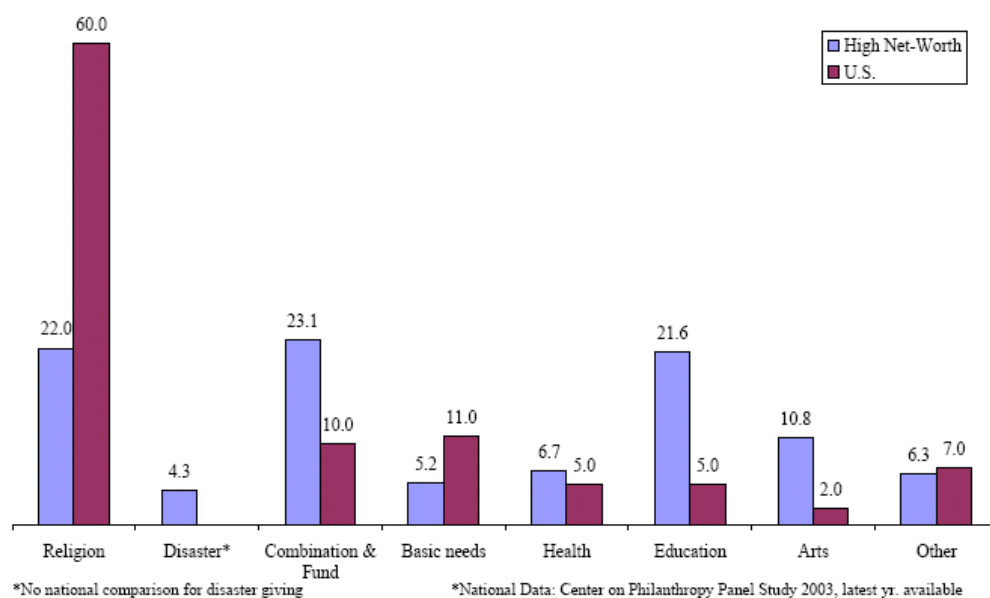
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Exhibit 4-3: Philanthropic Giving in the US by program area - 2006



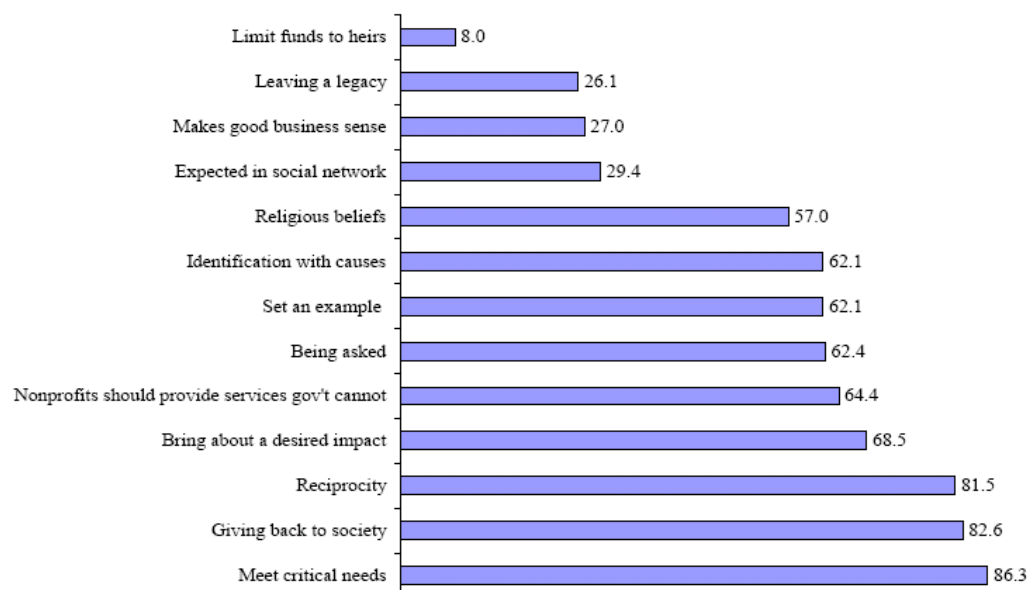
Source: Giving USA Foundation / Giving USA 2007

Exhibit 4-4: Estimated Distributions of Household Giving by Type of Recipient – High Net-Worth and U.S. Household Comparison



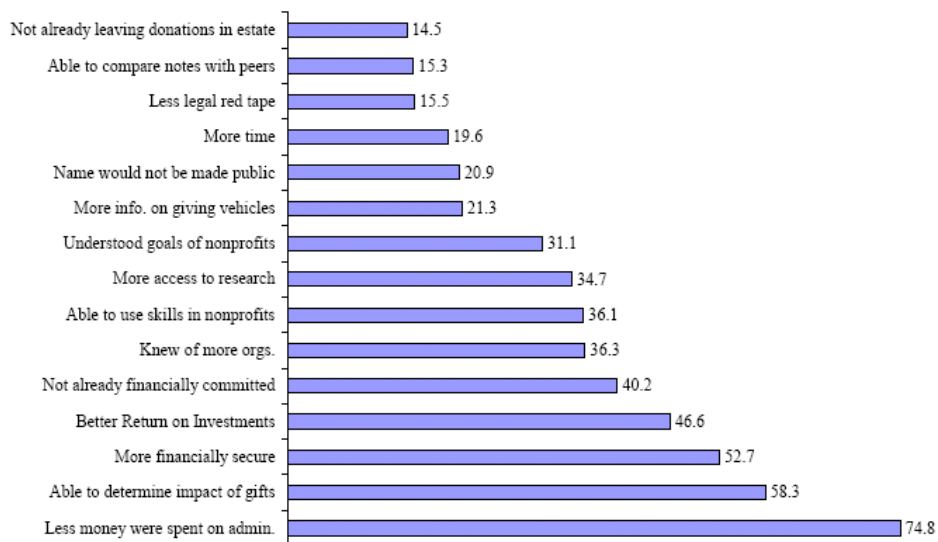
Source: Bank of America Study of High Net-Worth Philanthropy Initial Report (October 2006)

Exhibit 4-5: Important Motivations for Charitable Giving by High Net-Worth Households



Source: Bank of America Study of High Net-Worth Philanthropy Initial Report (October 2006)

Exhibit 4-6: Percentage of High Net-Worth Households Reporting They Would Give More to Charity If the Following Occurred



Source: Bank of America Study of High Net-Worth Philanthropy Initial Report (October 2006)

Exhibit 4-7: Online platforms for philanthropic giving

	DonorEdge	GlobalGiving	socialmarkets
URL	<a href="https://www.donoredege.org/">https://www.donoredege.org/</a>	<a href="http://www.globalgiving.com/">http://www.globalgiving.com/</a>	<a href="http://www.socialmarkets.org/">http://www.socialmarkets.org/</a>
Date analyzed	2/23/2008	2/23/2008	2/23/2008
Analyst initials	SCS	SCS	SCS
<b>Overview</b>			
Date launched	2003	2/14/2002	Nov-07
Founder	Greater Kansas City Community Foundation	Mari Kuraishi and Dennis Whittle, former World Bank executives	Allan Benamer and Jeff Tuller
Revenue model	Contributions	Contributions, Transaction fees (10% of donation)	Contributions, Optional 10% commission on donation
Description			
<b>Platform Characteristics</b>			
Types of listings	NGOs	Projects	Projects
# of listings	600+	350	9
Access fee required from users?	No	No	No
Screening criteria for users	None	No	No
What content gets updated	NGO profile	Projects, funds, reports	Projects, funds, reports
Frequency of updates	Annual (To receive a check mark reviewed status profile, nonprofits are required to complete a comprehensive	3-4 months	
Impact measurement	Anecdotal	Systematic	Systematic
Systematic methodology	N/A	Primary Evaluations: Most in-depth level of review and analysis, conducted on selected projects, which are visited in-country by teams of evaluators carrying out detailed social and financial audits. Secondary Evaluations: Process through which GlobalGiving periodically selects a random sample of projects for additional evaluation, including checking references and collecting additional data. Self-Reporting: Periodic surveys by GlobalGiving of Project Leaders, who are asked to provide information on their activities, accomplishments, and results.	SROI To calculate social return on investment (SROI), socialmarkets uses baseline data, outcomes indicators, the percentage change in outcomes above the baseline after receiving services, and our confidence in the quality of the outcome information we received. Socialmarkets sums up the SROI's for all of donations (donor's "portfolio" of listings) in his/her socialmarkets account, and calls that amount "SROI". Socialmarkets is also introducing a way for members of socialmarkets to change the SROI to incorporate everyone's guess as to what the SROI for a listing was.
Other evaluation	A member of the Community Foundation's nonprofit outreach team reviews and meets each nonprofit organization to help them prepare a complete and compelling DonorEdge® profile.	GlobalGiving relies on a network of "Project Sponsors" — highly-respected, well-known organizations like Ashoka, IDEX, and the Acumen Fund — to help identify, vet, and post projects. In order to identify these individuals, these organizations have done a great deal of due diligence already, including detailed analyses of people and projects, financial audits, and data collection from local, national, and international experts verifying that the individual/organization can be trusted to deliver on promises.	There will be an audit trail in the beta release of socialmarkets. This means that there will be documentation stating that the non-profit certifies that the outcomes really are what they report. In the current alpha release, the audit functions are handled manually by socialmarkets. SocialMarkets staff personally contact these non-profit organizations all the time, and monitor the auditing process.
<b>Impact measurement categories</b>			
• Environment/earth	Depends	Depends	Depends
• Social/health	Depends	Depends	Depends
• Economic/wealth	Depends	Depends	Depends
• Equity/equality	Depends	Depends	Depends
• Trust/transparency	Partially	Partially	Depends
• Other	Depends	Depends	Depends
Output/outcome differentiation?	No	No	No
Tools offered to the user	DonorEdge profile	Update through email/RSS; Widgetbox widget to spread the word on user's profile, blog, or website	Email alert on report updates; Leaderboard (Donors are rated by their overall social return on investment for all the donations they have made through socialmarkets)
<b>User Characteristics</b>			
Type of buyers	Individuals	Individuals	Individuals
Traffic level	3047 in 2007		
Growth rate in traffic level	77% from 2004 to 07		
Number of annual transactions	3047 in 2007		3,473
Total value invested so far (\$million)	90.54 in 2004-07	Over \$8 million in donations since 2001	
Total value of annual transactions	\$28.8M in 2007	USD 1.4 million in 2006	
Size of average transaction		\$17,324	\$403
Typical transaction size range	\$0-\$1.68M		\$50-\$800

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Exhibit 7-1: Social Impact Projections

**SOCIAL IMPACT PROJECTIONS**

(All numbers in \$, unless noted otherwise)

	Projected Calendar Year ending December 31,			
	Pro Forma	CYE	CYE	CYE
	2008	2009	2010	2011
Total Principal Outstanding	\$ -	\$ 1,000,000	\$ 3,990,000	\$ 14,480,000
Total Interest Expense Savings	-	50,000	199,500	724,000
<b>Total Aggregate Financial Impact</b>	<b>\$ -</b>	<b>\$ 1,050,000</b>	<b>\$ 4,189,500</b>	<b>\$ 15,204,000</b>
Social Impact - Lower Bound SROI Multiple	2.0x	2.0x	2.0x	2.0x
Social Impact - Upper Bound SROI Multiple	5.0x	5.0x	5.0x	5.0x
Social Impact - Lower Bound	\$ -	\$ 2,100,000	\$ 8,379,000	\$ 30,408,000
Social Impact - Upper Bound	-	5,250,000	20,948,000	76,020,000
Average Annual Social Impact	-	3,675,000	14,664,000	53,214,000
<b>Average Cumulative Social Impact</b>	<b>\$ -</b>	<b>\$ 3,675,000</b>	<b>\$ 18,339,000</b>	<b>\$ 71,553,000</b>

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Exhibit 8-1: Growth For Good Organizational Structure – Year 0

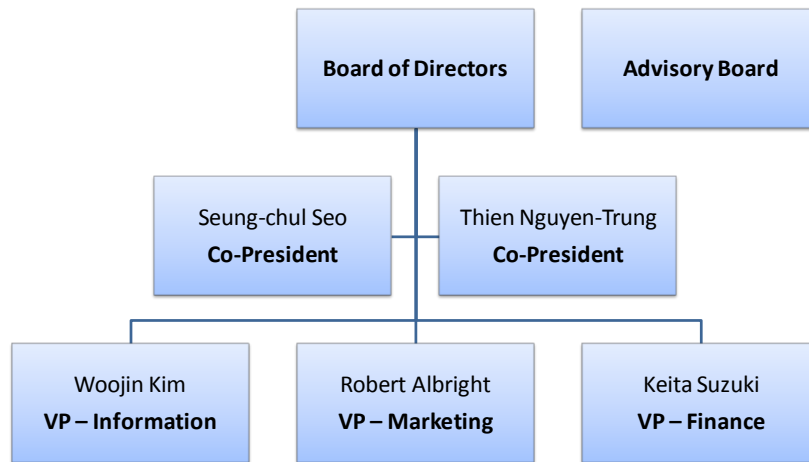
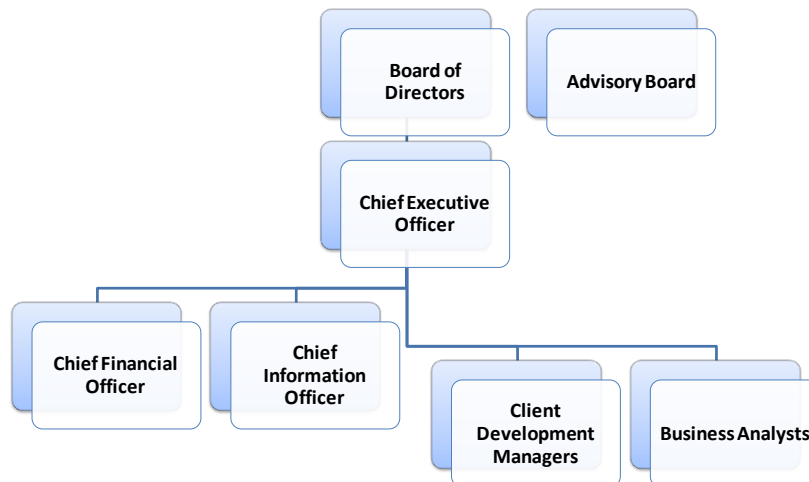


Exhibit 8-2: Growth For Good Organizational Structure – Year 3





## 11.2 Concept introduction slides

### Problem definition

<b>Social organizations</b>	<ul style="list-style-type: none"> <li>Social organizations that successfully prove their business model's feasibility and start scaling their operations face with the <b>capital gap between highly constrained funding from philanthropic sources and commercial debt and equity financing</b></li> </ul>
<b>Social investors</b>	<ul style="list-style-type: none"> <li>Increasing number of social investors are becoming interested in maximizing social impact of their dollars spent, but there is <b>no established objective way to measure social impact</b> that can guide their investment decisions</li> </ul>
<b>Beneficiaries /Public</b>	<ul style="list-style-type: none"> <li>There are very limited mechanisms to ensure <b>public accountability</b> of social organizations, through which the voices of beneficiaries and other stakeholders are incorporated into the collective decision of prioritization and resource allocation</li> </ul>



The social sector suffers from fragmentation, inefficiency and weak accountability due to lack of an effective social capital marketplace, which helps resources to be channeled to uses that produce the highest value

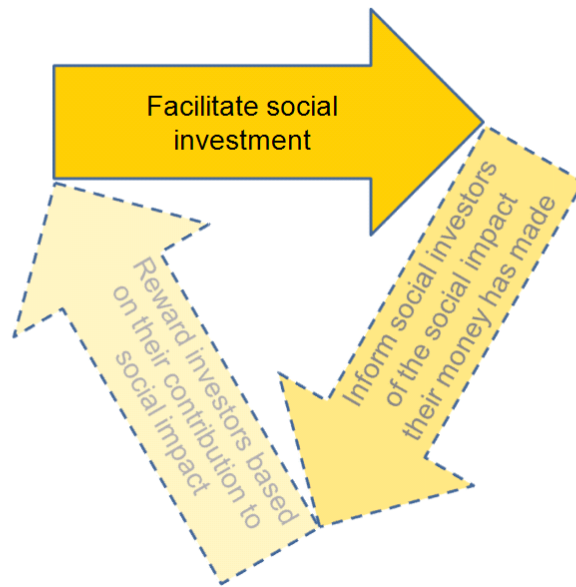
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### Competitive analysis

	Philanthropic donation platforms & intermediaries	Blended value investment platforms & intermediaries
<b>Examples</b>		
<b>Existing gaps &amp; limitations</b>	<ul style="list-style-type: none"> <li>Mostly program/project specific funding that can't be used by social organizations as <b>growth capital</b></li> <li>High transaction cost due to <b>weak systematic valuation standard</b> that allows "apple-to-apple" comparison</li> <li>Insufficient information on <b>monitoring and evaluation of results</b></li> <li>Lack of an adequate mechanism to retain and reinforce <b>participants' incentives</b></li> <li>Incapable of reflecting <b>views of beneficiaries/the public</b> in collective decision of prioritization and resource allocation</li> </ul>	<ul style="list-style-type: none"> <li><b>Weak systematic valuation standard</b> that allows investors to make a objective decision to accept a lower-than-market rate financial return in exchange for a high social return</li> <li><b>Insufficient information on monitoring and evaluation of social return</b></li> <li><b>Vague definition</b> of social business</li> <li>High transaction cost due to <b>poor liquidity</b></li> <li>A separate platform may banish viable social businesses to the financial "wilderness"</li> <li>The restrictions against speculation and the possibilities of <b>gaining control</b> are not conducive to vibrant financial market</li> </ul>

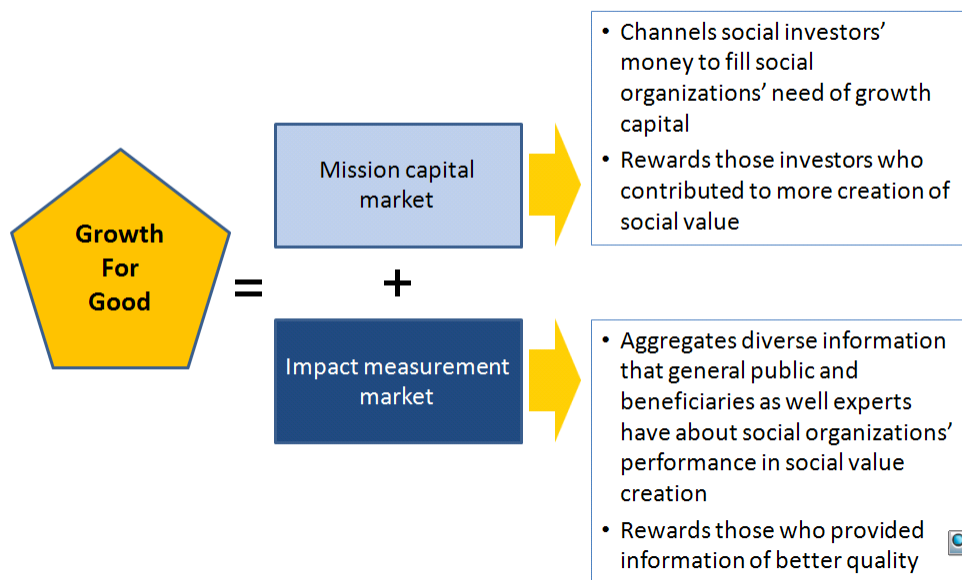
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## Incomplete cycle



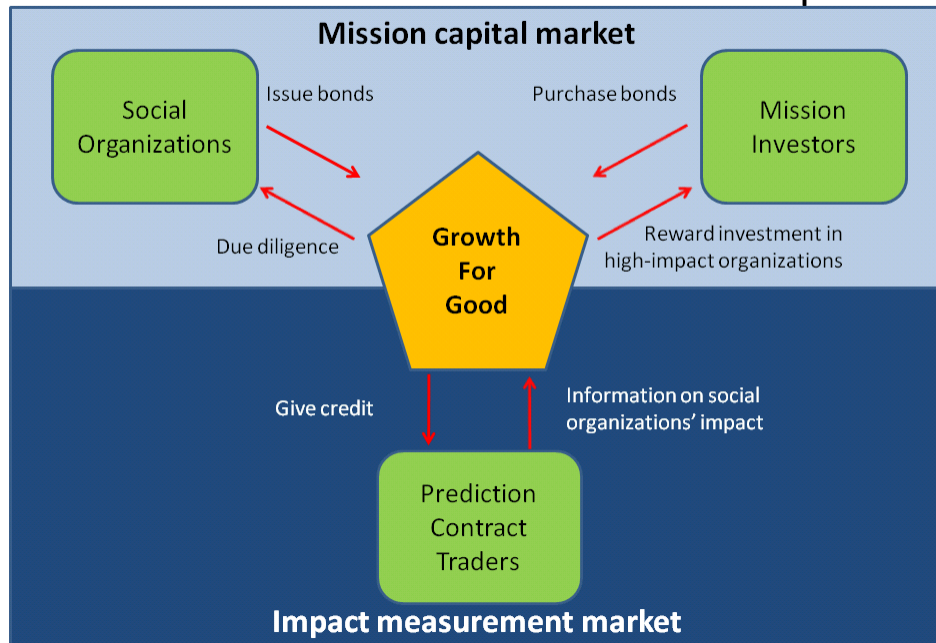
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## Growth For Good: Two key components



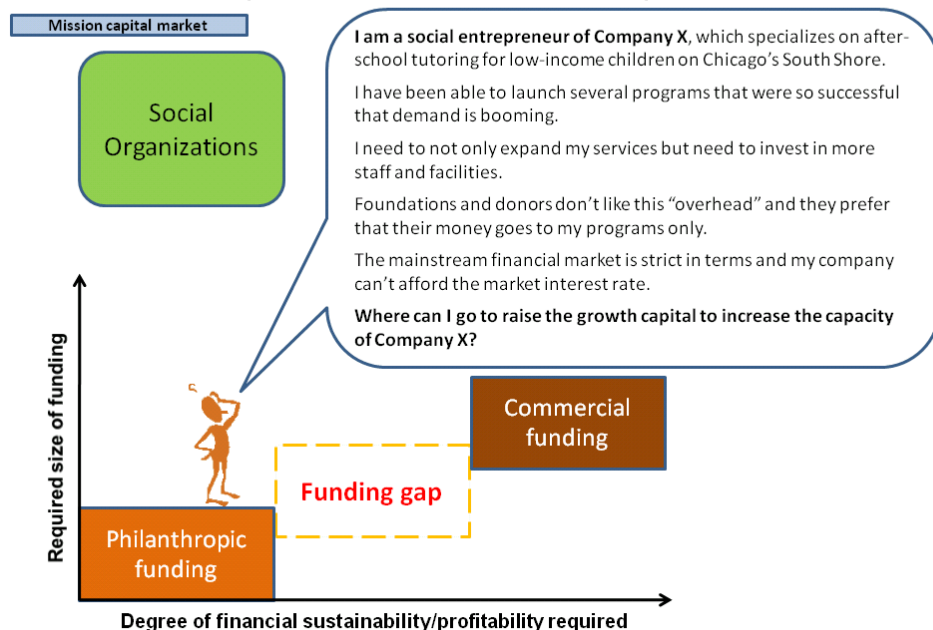
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## Growth For Good: Basic concept



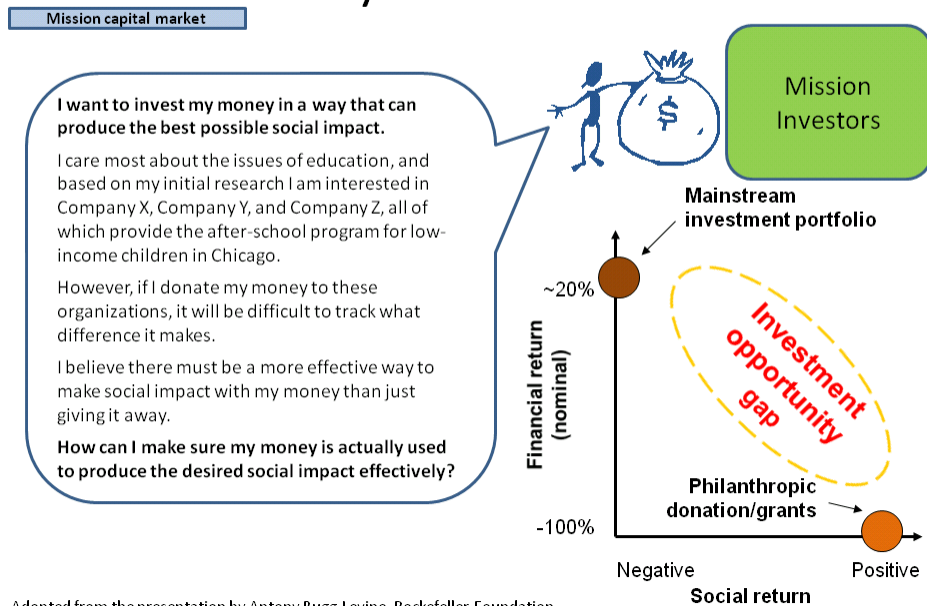
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## Social organizations need growth capital



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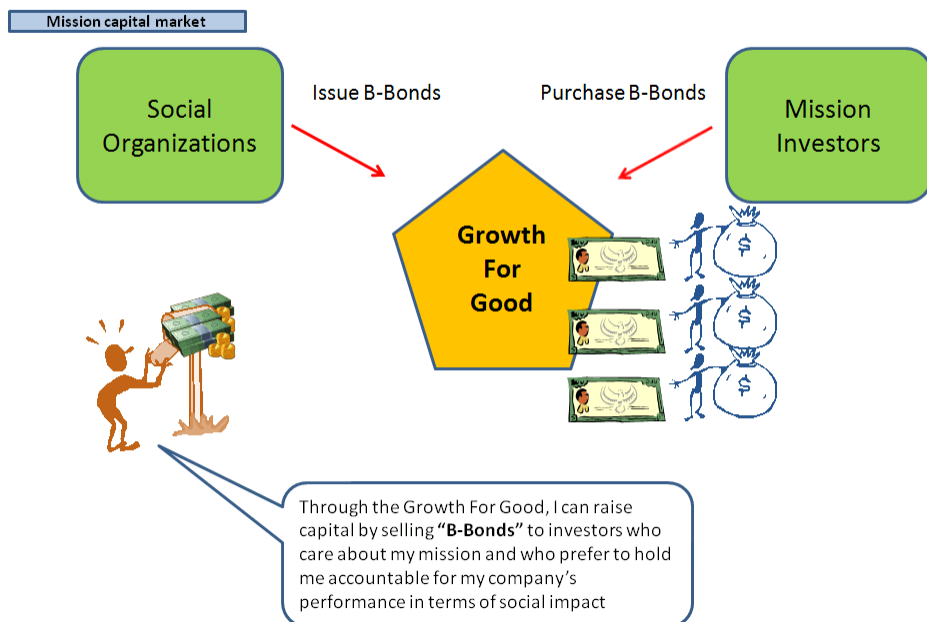
## Mission investors want to make sure their money is used for the best effect



Adopted from the presentation by Antony Bugg-Levine, Rockefeller Foundation

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## Mission capital market fills the gaps



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# What is B-Bond?

Mission capital market



B-Bond = Beneficial Bond

Blended value	Impact-based rewards	Patient capital
<ul style="list-style-type: none"> <li>B-Bond is a debt instrument but the incentive to own it is “for-benefit”, that is hybrid of for-profit and non-profit values, hence the name</li> <li>B-Bond is issued at par value (no discount) and yields no monetary interest</li> <li>Compared to a regular donation, this sum of money is <b>recyclable</b> since the investor retains an option to get the principal back at maturity</li> </ul>	<ul style="list-style-type: none"> <li>Every month, the B-Bond will pay an investor a virtual coupon, which the GFG calls the Social Benefit Coupon or “B-Coupon” (unit= B)</li> <li>Amount of each B-Coupon payment is variable and linked to the forecasted future performance of respective organizations*</li> <li>B-Coupon does not have any monetary value but only has a reputational value that <b>recognizes those who made intelligent investment in better-performing social organizations</b></li> </ul>	<ul style="list-style-type: none"> <li>Every year, a B-Bond holder can choose whether he wants to extend B-Bond’s maturity by one year, based on his satisfaction with the organization’s performance</li> <li>If an investor does not want to keep his money in this organization, he can choose not to extend the B-Bond maturity</li> <li>With this “rolling term” feature, the actual term of the B-Bond can far exceed the original term, which emulates the perpetual nature of a donation and <b>incentivizes social organizations to keep investors happy by performing well</b></li> </ul>

\* Measured by monthly average price of the organization’s prediction contract in the impact measurement market

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## B-Bond investment: An example

Mission capital market

### B-Bond Structure

Par Value: \$1,000

Original Term: 5 years

Interest Rate: 0.00%

Coupon: Variable (Linked to organization’s performance)

Special Provision: Annual maturity extension option



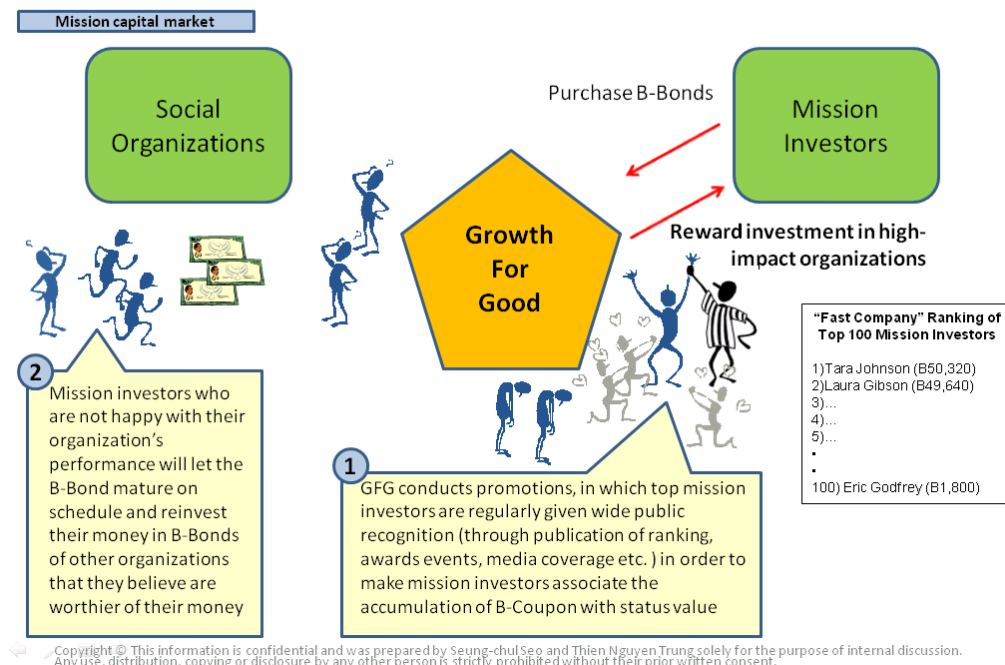
**Example: Investor purchases \$10,000 in B-Bonds in Jan 2008. Original principal maturity date is Jan 2013.**

Timing	Satisfaction with company’s performance	Extend maturity?	Principal due date	Total B-Coupon payment* in the year	Principal Due
2008 EOY	Negative	No	Jan 2013	B55.68	\$0.00
2009 EOY	Positive	Yes	Jan 2014	B60.25	\$0.00
2010 EOY	Positive	Yes	Jan 2015	B65.34	\$0.00
2011 EOY	Negative	No	Jan 2015	B64.00	\$0.00
2012 EOY	Negative	No	Jan 2015	B63.57	\$0.00
2013 EOY	Negative	No	Jan 2015	B57.32	\$0.00
2014 EOY	Positive	Yes	Jan 2016	B58.69	\$0.00
2015 EOY	Negative	No	Jan 2016	B60.24	\$0.00
Jan 2016	--	--	Jan 2016	--	\$10,000.00

\* Linked to the forecasted future performance of respective organizations, which is measured by monthly average price of the organization’s prediction contract in the impact measurement market

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# Why should anyone care about B-Coupon?

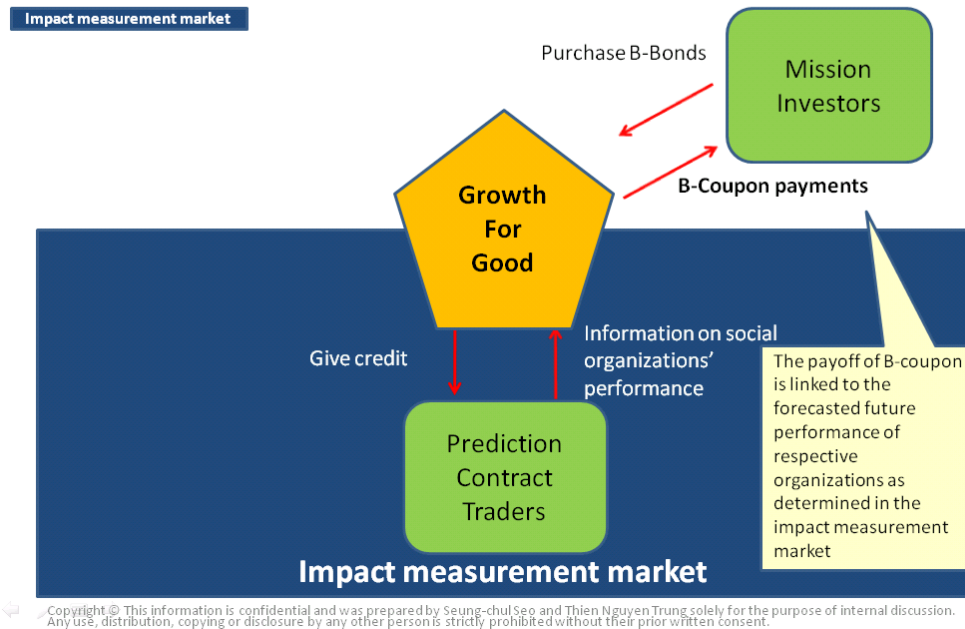


## Callability and liquidity of B-Bond

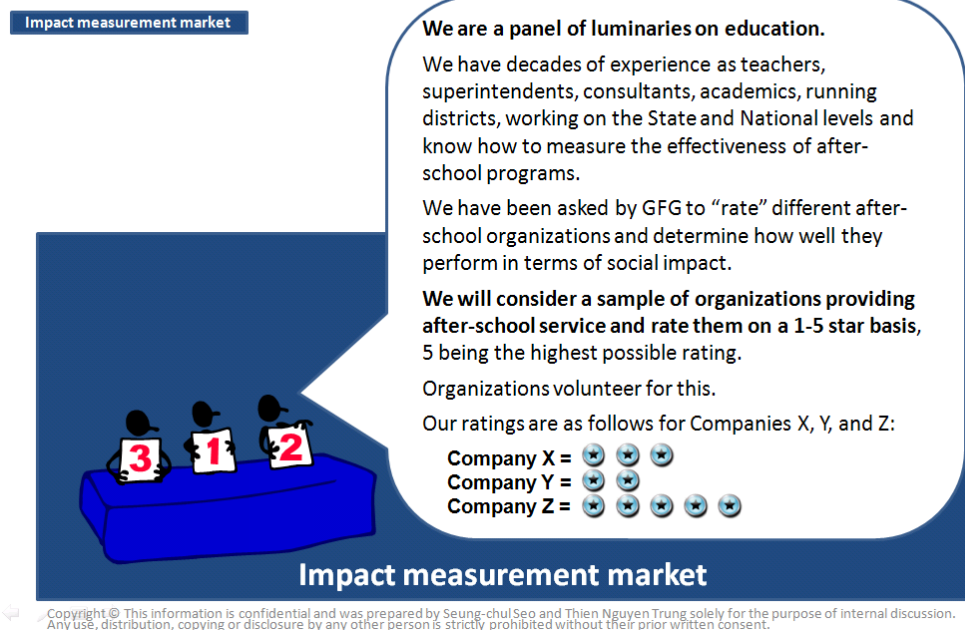
Mission capital market	
	Callability
<b>Phase 1</b> (CDLF, Non-security)	<ul style="list-style-type: none"> <li>B-Bonds give the issuing social organizations the right to repay the bond anytime before the maturity date</li> <li>No transaction fee is charged for early repayment</li> <li>Repaid amount will be transferred to bad loan allowance and not be returned to mission investors until the maturity date</li> </ul>
<b>Phase 2</b> (SEC-registered broker, SEC-regulated security)	<ul style="list-style-type: none"> <li>Social organizations can buy back the B-Bonds from mission investors on secondary market at any time</li> </ul>
	Liquidity
	<ul style="list-style-type: none"> <li>B-Bond holders may request the early redemption at par minus transaction fee before the maturity date</li> <li>Early redemption can take place only when there is a counterpart who would buy secondhand B-Bonds on spot</li> <li>Mission investors who exercise early redemption option are charged 10% of par value as transaction fee</li> <li>Mission investors who purchase secondhand B-Bonds on spot are charged no extra fee</li> <li>Mission investors trade secondhand B-Bonds on secondary market at any time</li> <li>The maturity of a B-Bond will be reset to the original 5-year term when traded on secondary market</li> </ul>

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## GFG ties B-Coupon to social organizations' performance



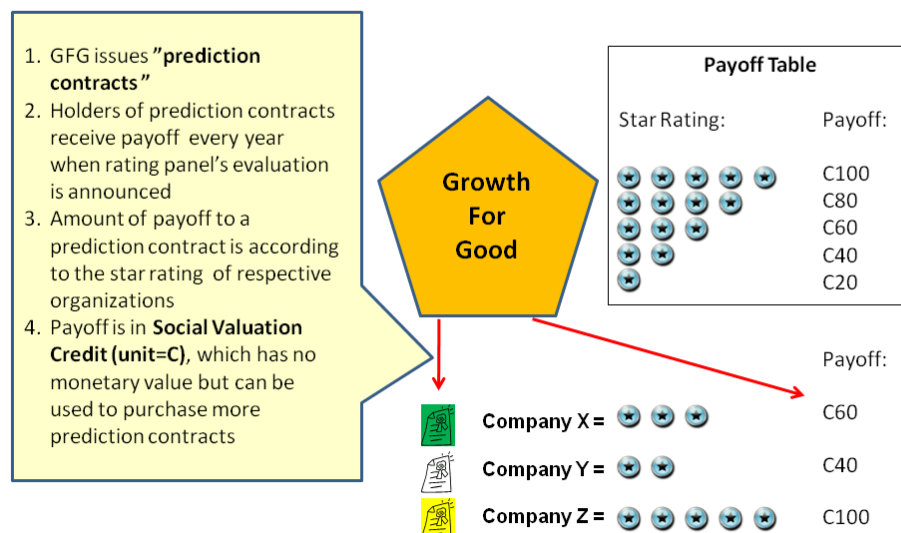
## GFG organizes luminary panel that rates social organizations' performance





## What is prediction contract?

Impact measurement market



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## Prediction contract traders try to predict rating

Impact measurement market

I am interested in issues of education and have some information about organizations providing after-school service.

When I signed up to GFG's impact measurement market, I got a certain amount of Social Valuation Credit that has no monetary value.

Based on my information, I believe Company X will get the highest rate of 5 stars in rating panel's evaluation this year.

Last year the company was rated 3 stars and its prediction contract is currently traded at C65 per contract.

I should buy Company X's prediction contract because I believe it will give me the payoff of C100 per contract in the end of year!

I am holding Company X's prediction contracts.

Based on my information, I believe Company X's rate this year will be 2 stars.

Because I believe the payoff in the end of year will be lower than the current market price, I want to sell Company X's prediction contracts!



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## Price formulation & information quality

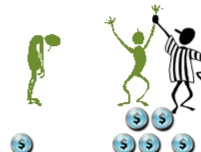
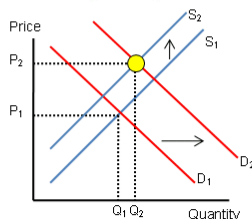
Impact measurement market

Prediction contract traders have varying opinions on the true valuation of a company and will engage in a transaction if for any "ask" price there is a "bid" price to match it

At the end of each trading day, the market settles at an "equilibrium price" between supply and demand for each company's prediction contract value

As new information becomes available, the impact measurement market price changes to reflect this information

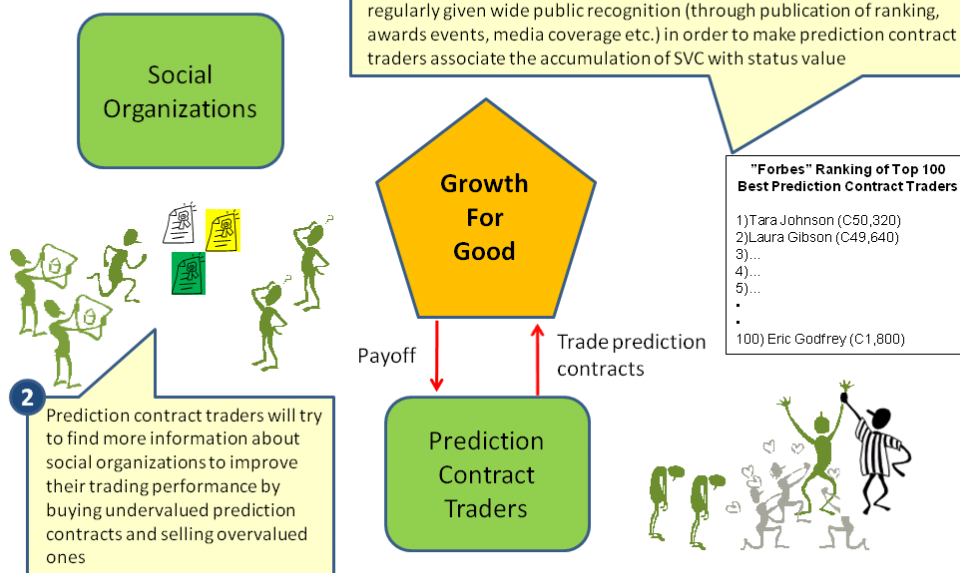
Traders who buy low and sell high are rewarded for improving the quality of market's impact measurement, while those who buy high and sell low are penalized for degrading it



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## Incentivizing accumulation of SVC

Impact measurement market



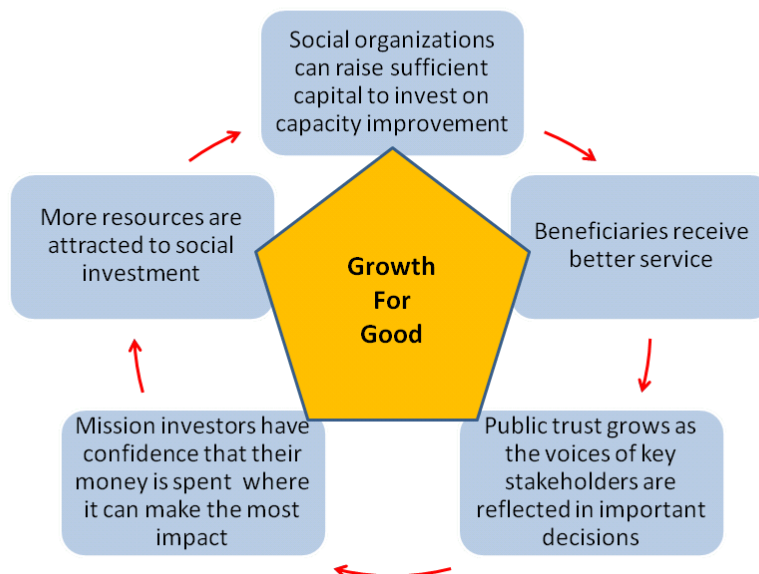
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## Application of prediction market

Impact measurement market	
	
Pros	Cons
<ul style="list-style-type: none"><li>• Responsive to new information</li><li>• Capable of forward-looking valuation</li><li>• Can incentivize information collection</li><li>• Architectural flexibility<ul style="list-style-type: none"><li>– Upward compatibility to diverse new metrics/techniques</li><li>– Capability to process mixture of subjective/objective judgments and quantitative/qualitative data</li><li>– Potential for public participation and enhanced accountability</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Accuracy and relevance is only as good as the metrics used for prediction and verification</li><li>• Costs to organize<ul style="list-style-type: none"><li>– Need of liquidity</li><li>– IT resources, etc.</li></ul></li></ul>

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## Theory of change



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