



Pilot Design Study for a Next-Generation Social Capital Market in Brazil

Building the institutional infrastructure for a culture of social investment

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Foreword

"Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry." (Bill Drayton).

In 2002 I had never heard of Bill Drayton, nor of his organization, Ashoka. But when BOVESPA (Brazil's stock exchange) asked me how a stock exchange could be good for the social sector, I came up with the idea of creating the first social stock exchange of the world.

Due to many reasons, from cultural to regulatory issues, the model in Brazil would have to start on a philanthropic basis. But silently and not being aware of it, a revolution in this "fishing industry" was about to begin. I was a social entrepreneur, according to Bill Drayton and Ashoka's concepts – but I just didn't know it.

A year later, in 2003, the first SSE of the world was open and doing business. The feasibility of the creation of social stock exchanges started to be discussed in many forums worldwide, the United Nations made a case study of the Brazilian model and the World Federation of Exchanges opened space in one of their annual meetings to take a closer look of what BOVESPA was doing.

Very soon, I realised that to work on a purely philanthropic basis wouldn't be enough. A social stock exchange could do more. I then started to challenge BOVESPA to move forward and to create a mezzanine level where social enterprises could be listed paying back investors with social but also financial dividends.

Years went by, things changed at BOVESPA, especially after the merge with BM&F (the commodities exchange) and the evolution to this mezzanine level was never discussed properly until 2008, when Seungchul Seo and Thien Nguyen-Trung offered themselves to come to Brazil and to develop a study to foster this evolution.

Two students who couldn't say a word in Portuguese with a proposal to go out there to visit small social organizations from a totally different environment of what they were used to see, and to interview social entrepreneurs who couldn't say a word in English... "No way, this definitely won't work" was what crossed the minds of many people – myself included.

But talent, vision and commitment knows no boundaries – no matter if cultural or linguistics. Chul and Thien overcame all the barriers (aforementioned skepticism included) and what you have in this document is a very concrete response to the challenge of creating real social capital markets that will help social entrepreneurs to find the necessary sustainability to their social businesses. A solution that can be adopted in Brazil or anywhere in the world.

I have been following their new paths and in my point of view, Chul and Thien are becoming more than social entrepreneurs. They're becoming revolutionaries in a world that needs more than ever, people who know no boundaries and dare to dream.

It was a pleasure and an honour to work with them. I hope you enjoy this reading. I did.



Celso Grecco

President, Atitude Marketing Social

Deputy Chairperson, Social Stock Exchange Association

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Executive Summary

Thought leaders around the world have long been discussing the possibility of utilizing a “market-like” mechanism to mobilize broad financial resources and enable efficient allocation of capital in the social sector, i.e. NGOs, foundations, and social businesses. Many of these leaders believe that an alternative financing solution similar to a corporate stock market can accelerate social change on an unprecedented scale. Recently, Nobel Peace Prize winner Dr. Muhammad Yunus captured the world’s imagination when he suggested in his 2008 book *Creating a World Without Poverty* the need to create a “social stock market,” a financial platform to help social businesses to raise capital to scale their enterprises.


However, while many philanthropists, social entrepreneurs and policy makers have been getting excited about this idea’s revolutionary potential, few workable and scalable examples of such a financing solution actually exist today. Ambiguities and complexities abound when it comes to putting the concept of a social stock market into practice.

For one, we don’t have consensus on who could be listed on such a market. What would differentiate these listed organizations from other nonprofits and ordinary businesses? What criteria could be used to identify and screen eligible candidates for listing?

For another, if we agree that the most critical unmet needs in the social sector are the lack of reliable, affordable financing methods for social enterprises that operate with the legal status of nonprofit organizations, e.g. 501(c)3 in the U.S., we need to solve fundamental structural problems first. What should constitute the equivalent of a “stock”, when one is not legally allowed to take ownership of a nonprofit organization? What should constitute the equivalent of a “dividend”, when nonprofits are not allowed to distribute any surplus revenues to their investors? How can investors be motivated to invest their money when they cannot receive dividends in the ordinary sense? How does the “pricing” of such a security work, when larger part of the value those social enterprises create is social and public rather than economic and private in nature?

Furthermore, is a stock market the right solution in the first place for this need? How would this social capital market co-exist with traditional charity and philanthropic funding on the one hand, and traditional commercial capital markets on the other?

These and many other questions drove us to examine the possibilities of making the idea of a market-based social financing solution a reality. In this paper, in close collaboration with Atitude Marketing Social, a social marketing consulting firm based in São Paulo, and the Global Exchange for Social Investment (GEXSI), we conducted research to determine how to create a more efficient capital



market that can attract much larger pools of funds beyond traditional philanthropic money. Our primary method of research involved field interviews and online questionnaire surveys with managers of social enterprises, financial services professionals, academics, and potential investors in Brazil in March-May 2009. The research was made possible thanks to generous financial and/or administrative support from the BM&FBOVESPA Institute (which takes charge of CSR programs of BM&FBOVESPA) and the Carol and Larry Levy Social Entrepreneurship Lab at the Northwestern University's Kellogg School of Management.

Based on data and insights we derived from our research, we were able to test various assumptions and hypotheses that helped us design a type of social capital market system tailored to the needs of social enterprises and potential investors in the specific context of Brazil. This paper argues that bonds, instead of stocks, should be the financial instrument of choice for this social capital market. To keep this bond simple and easily comprehensible to ordinary investors without advanced financial knowledge, we propose the terms of the bond should be standardized by setting uniform annual coupon rate and maturity rules across issuing social enterprises. Although bond issuers and investors obviously have opposing preferences regarding some areas of the terms, our key findings gave us ample indications about the potential “sweet spots” that can satisfy both sides' interests. We propose two options about the bond's specific terms, one simpler and the other designed to align the incentives of social enterprises and investors with maximization of social benefit.

Recognizing that many social enterprises in Brazil are still small, financially weak, and without strong management capabilities needed to grow revenue-generating activities, we also discuss key components of infrastructure and support services that must be developed to make the proposed social capital market work properly. Among other things, a few of the urgent challenges that need to be addressed based on our research include (1) developing standardized metrics for the social benefits created by social enterprises, (2) developing a sound methodology to assess social enterprises' creditworthiness, and (3) providing capacity building support for early-stage social enterprises to attain a required level of solvency and accountability.

Despite anticipated implementation difficulties of our proposed next-generation social capital market system, we concluded that there exists a clear opportunity for Brazil to become a successful pioneer in taking this much needed financial innovation into the real world by leveraging market mechanisms, carefully matching specific investor segments with qualified social enterprises, and building trust between the two communities.

Introduction

Background


In 2003, the São Paulo Stock Exchange (BOVESPA) created the Environmental and Social Investment Exchange (BVS&A). Designed to provide a platform where donors can make informed decisions about which nonprofit organizations' social and environmental projects to fund in a transparent and reliable manner, BVS&A is essentially what is called an online donation portal.¹ In the U.S., several equivalent platforms have been created, whereas GlobalGiving is probably the most well-known among them.

Compared to its counterparts in the rest of the world, which are independent websites, the BVS&A distinguishes itself by being the only donation portal officially hosted by a major public stock exchange. Because of this affiliation, and because it cleverly uses investment terminologies to help make the concept more tangible to Brazilian users unaccustomed to donating, BVS&A is often called the first real world example of “social stock exchange.”²

In December 2008, we got introduced by the Global Exchange for Social Investment (GEXSI) to Celso Grecco, founder of Atitude Marketing Social, a social marketing consulting firm that had designed BVS&A for BOVESPA, and teamed up with him to embark on a research project in Brazil. Our shared vision was ultimately to create some type of market, where “social enterprises”, nonprofit organizations with certain revenue generation capacity, could be listed and raise long-term capital (or “patient capital”) that they could use to invest in organizational capacity to scale up or more effectively serve their missions. The purpose of this project was to determine a workable design scheme for such a social capital market tailored to the Brazilian social investment context. In other words, the project was about finding out what type of financial platform would meet both the needs of social enterprises, which are not fulfilled by the philanthropic funding sources currently available, as well as the needs of Brazilian investors who seek social return without completely abandoning

¹ As its name suggests, this type of portal is usually a website where individuals can log in free of charge, select from a list of featured nonprofit organizations in a wide variety of issue areas, spanning from humanitarian service to environmental stewardship, and choose to donate money to any number of them via online payment. It is important to note that currently, these portals typically specialize not on redirecting money to nonprofit organizations they list, but more specifically to various programs that such organizations seek funding for. For instance, an organization serving the homeless may want to launch a program to build a new shelter in a particular city. The online portal would allow this organization to post description of this program, its intended benefits, and specify the total funding required. Visitors to the portal could then see real-time amount of funding that has been obtained to-date, and decide if they would like to contribute. Once the total funding amount has been reached, the program would be officially closed for funding and visitors of the website would have to select from the remaining choices.

² For example, see <http://www.newsweek.com/id/139436>



financial return. The findings and recommendations described in this paper are based on the results of a series of interviews and a set of online surveys we conducted in March-May 2009.


Problem Definition

Deprived of freedom of speech and association under military dictatorship, Brazil did not have a vibrant social sector before the adoption of a democratic constitution in 1988. In the ensuing years, some 350,000 NGOs were founded, most of which were unstable, suffering from insufficient funding. Compared to countries like the United States, Brazil does not have a comparable “culture” for donations, evidenced by the absence of comprehensive laws granting individuals, institutional, and corporate donors tax relief for philanthropic giving.

While corporate donations play a major role in financing the social sector in Brazil today, these sources of funding have a number of disadvantages. First, corporate funds are usually restricted to specific program activities and cannot be used to invest in capacity building of social enterprises, e.g. for hiring and retaining of talented staff and updating to latest IT systems. Second, corporations themselves are susceptible to sudden swings in giving levels depending on economic conditions, firm performance, management’s attitude to philanthropy, and many other volatile factors preventing social enterprises to rely on them for steady, predictable support. Thus, the donations provided by corporations in Brazil today are not always aligned with the social enterprises’ long-term missions.

Over time, in direct response to the Government’s historically poor record of providing effective social programs and infrastructure improvements, and as a reaction to the mixed impact created by the first generation of NGOs, Brazil saw a rise in individual entrepreneurs taking matters into their own hands. These social entrepreneurs, similar to their counterparts around the world, are individuals starting organizations addressing specific social or environmental causes on both a local and national level to help unprivileged population. Today, with more than 200 Fellows recognized by Ashoka, a leading organization in identifying and supporting such entrepreneurs globally, Brazil is one of the countries with the highest concentration of social entrepreneurs.

In recent years, many social entrepreneurs in Brazil are seeking to establish revenue generation activities within their organizations to secure a reliable funding source in addition to funds traditionally obtained through philanthropic donations. Unfortunately, not only do many of them have insufficient knowledge and experience in planning and running businesses, but they also generally struggle to raise capital to make sufficient investments in the development of people, supply chains, and distribution channels to allow their revenue generation activities to thrive. Key problems causing



these challenges include an inability for many of them to meet the requirements of conventional funding sources, such as commercial bank loans or the equity financing, and lack of available financial instruments that meet the unique needs of these social entrepreneurs.

Therefore, a critical task at hand, not just in Brazil but around the world, is to find new solutions to help social entrepreneurs raise capital to grow their enterprises in a predictable, low-cost, and sustainable manner. However, the fact is that while many philanthropists, social entrepreneurs and policy makers around the world have been getting very excited about this novel concept, few workable and scalable examples of social stock exchanges exist that Brazil can learn from.³ Our research with Atitude Marketing Social aims to design and develop a practical solution that could work in Brazil, and to present it as a point of inspiration and future learning for other countries.

³ In our assessment, the closest to a workable and scalable model among platforms that already exist or are currently under development include Triodos Ethex marketplace run by Triodos Bank in U.K., Mission Markets in U.S., and U.K.-based Social Stock Exchange Ltd.'s initiative supported by the Rockefeller Foundation. However, these are mostly designed to serve for-profit businesses with a social mission, which are legally allowed to issue stock and give investors a reasonable financial return. In Brazil, like many other developing countries, few social enterprises are eligible or capable to take advantage of such a financing solution, and the most critical unmet needs exist in providing a reliable, affordable financing solution for social enterprises with the legal status of a nonprofit organization.

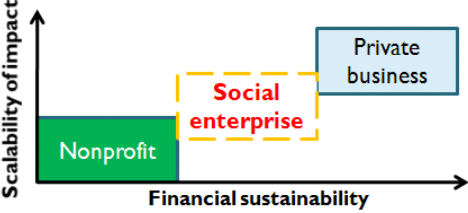
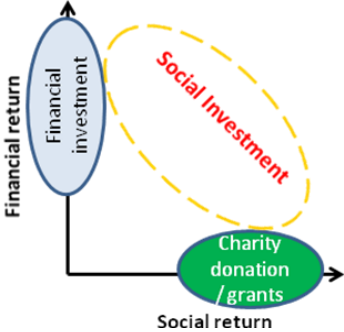
Design Approach

Fundamental Goals and Principles

While the initial explicit intention of our research project was to assist Atitude Marketing Social to devise an actual social stock market in Brazil, we quickly realized that designing the most relevant possible financing solution addressing the specific needs of the social sector in Brazil should be our focus and that such a solution may well not involve a form of equity instruments (hence not be a “stock market” in the literal sense.)

Since the process of creating this kind of novel financing solution inherently involved many moving parts and trade-offs among them, we began by agreeing with Atitude Marketing Social and its partners on a set of fundamental goals and principles that would guide us through the designing process. We arrived at two goals (**Figure 1**).

Figure 1: Fundamental goals and principles

<p style="text-align: center;"><u>Goal 1</u></p> <p style="text-align: center;">Foster the development of economically viable social enterprises</p>	<p style="text-align: center;"><u>Goal 2</u></p> <p style="text-align: center;">Change a habit of charity into a culture of social investment</p>
<p><u>Key Principles</u></p> <ul style="list-style-type: none"> • Open the market to social enterprises with diverse social and environmental missions • Make the pie of funds available to the social sector bigger by complementing (not replacing) BVS&A • Stimulate “coopetition” among social enterprises <ul style="list-style-type: none"> ◦ Measurement and benchmarking of social impact ◦ Network of mutual learning and information exchange 	<p><u>Key Principles</u></p> <ul style="list-style-type: none"> • Make the market more accessible to broad range of investors <ul style="list-style-type: none"> ◦ Individual as well as corporate investors ◦ Overseas as well as domestic investors • Provide investors with “hybrid return”, a combination of social return with adequate economic incentives, to bring in those who are not interested in or can’t afford donations <ul style="list-style-type: none"> ◦ Repayment of principal and/or ◦ Payment of dividends or interest 

First, the financing solution was to broadly contribute to the development of economically viable social enterprises in Brazil. Second, more ambitiously, the financing solution should change Brazilians' habit of funding social enterprises through charity into a culture of social investment. Each goal subsequently was to be achieved by adhering to a series of principles agreed upon from the beginning.

Design Variables

After goals and principles had been delineated, the next step was to organize the overall picture of the project by identifying and prioritizing key design variables (**Figure 2**). These variables were a function of three broad questions:

- **Target Market:** *Whom* should the new financing solution target?
- **Product:** *What* can best fulfill the needs of the target market?
- **Infrastructure & Supporting Services:** *How* can we make the product actually work?

Social enterprises in Brazil vary widely in terms of issue areas, geographic location, size, legal status, stage of development, degree of financial sustainability, etc. Likewise, there are different types of investors with various motivations, levels of disposable resources, risk appetite, investment time horizon, etc. Since these different groups of social enterprises and investors might have dissimilar needs and the new financing solution could not realistically satisfy everyone, segmentation and targeting of social enterprises and investors was a critical step in designing the new financing solution.

Basic potential parameters for segmentation of *social enterprises* included:

- Issue areas
- Geographic areas
- Legal status
- Financial strength
- Stage of development

Basic potential parameters for segmentation of *investors* included:

- Primary motivation
- Type (corporate vs individual)
- Origin (international vs domestic)

After deciding whose needs the new financing solution should primarily attempt to fulfill, the specifications of the financial instrument and market platform must be optimized so that it would confer the most benefit to that target market in Brazil.

Key design variables for a *financial instrument* included:

- Type of instrument (equity / debt / mezzanine)
- Financial and/or non-financial return properties
- Risk allocation
- Term or maturity
- Level of control given to investor
- Administrative / transaction costs

Key design variables for a *market mechanism* included:

- Channel and protocol by which transactions are conducted
- Level of liquidity to be provided

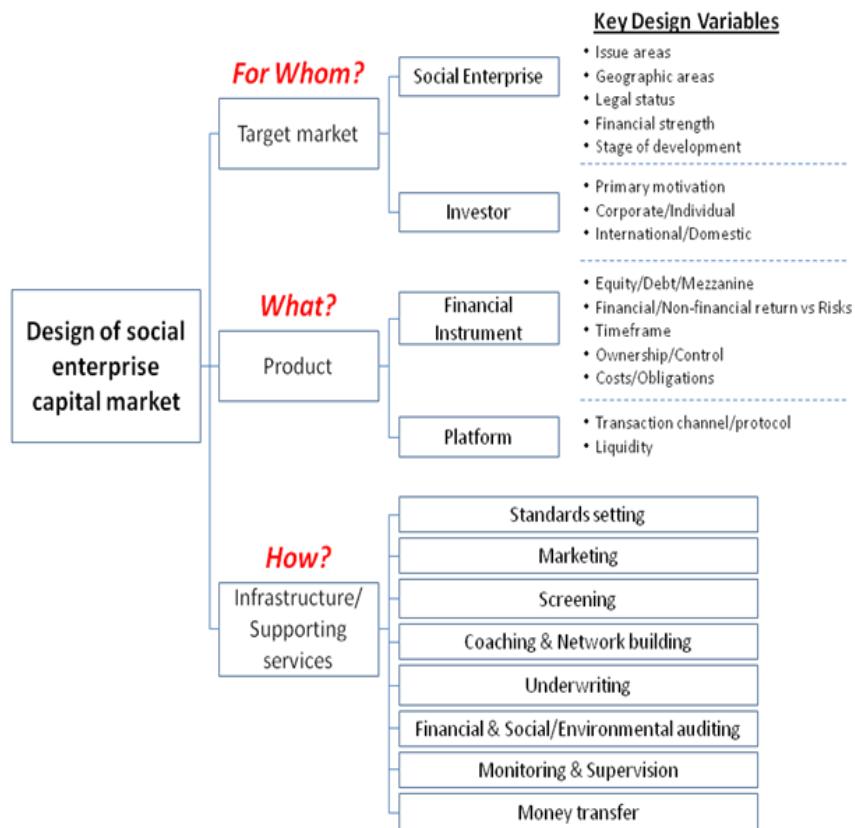
The theoretical last step in the solution design process is to define the needs to provide adequate infrastructure and supporting services that would enable issuers and investors to seamlessly interact. Although this third stage is not this paper's focus and the detailed design of such infrastructure and supporting services will be left for the further researches and discussions, we must be aware of the critical importance of a comprehensive eco-system of services in order to create and sustain trust in the integrity of the new platform.

Key components of the *required infrastructure and supporting services* included:

- Standards setting (reporting, definition of common vocabulary and terms, social benefit metrics, etc.)
- Marketing (awareness creation and education of issuers, investors, and general public in Brazil)
- Screening of issuer organizations for integrity
- Coaching & network building (business planning, development and other consultancy services to issuers)
- Underwriting (taking underwriting risks and building market demand for financial products)
- Auditing (periodic and certified financial, social, and environmental review of issuer records)
- Monitoring and supervision (continuous revisiting of issuer organizations' performance and detection and correction of wrongdoing)

- Money transfer system

Figure 2: Key design variables that constitute the basis of the recommended financing solution options




Needs and Constraints

To optimize the identified key design variables, a better understanding of the needs of social enterprises and investors, as well as the legal, cultural, and socio-economical environment that surrounds them was imperative. To this end, we utilized both online surveys and field interviews as our main data collection methods.

Social Enterprise Surveys

We developed two types of survey questionnaires for social enterprises. The first included detailed questions about the organizations' funding situation and needs. This enabled us to perform a self-explicated conjoint analysis regarding their preferences for each key variable. Given a relatively small sample size (16 respondents, of which only 8 provided complete answers) and difficulty that many organizations expressed in understanding the finance-specific questions in the first questionnaire, we



designed a second questionnaire with simplified questions. This allowed us to marginally increase the sample size to 22. Our sample mostly included nonprofit organizations run by social entrepreneurs, who either already had or were considering developing revenue-generating activities with the aim to produce financial surplus that could be used to cover total expenses.

Investor Survey

The questionnaire developed for the investor survey corresponded to the first questionnaire for social enterprises, and featured detailed questions about the existing or potential social investors' interests and needs. Again, this was intended to allow us conduct a self-explicated conjoint analysis regarding investors' preferences for each key variable. Although the original intention was to collect relevant information about both individual and corporate investors, all but 2 of 59 respondents (of which 28 provided complete answers) happened to be Brazilian individuals. In general, we observed that most of the respondents were young (two-thirds were aged 25-34), employed, middle-class business professionals.

Field Interviews

In late March 2009, we spent two weeks conducting field interviews in Brazil. Overall, we recorded findings from conversations with 4 social enterprises, and 10 professionals and experts in relevant areas including commercial and investment banking, brokerage, micro-finance, academia, sustainability think tanks, and social entrepreneurship.

Key Findings

The following is a summary of insights and inferences we made based on the results of the surveys we conducted with potential investors and social enterprises, as well as our in-depth interviews with individuals from various stakeholder groups. We note that although definitive conclusions were difficult to make due to the small sample size of survey respondents and interviewees, we were able to piece together fairly coherent understanding about our potential target market's preferences and attitudes toward the proposed financial solution options.

Target Market

Preferences and Attitudes of Social Enterprises


Legal status

The new social capital market mechanism in Brazil must be designed such that social enterprises with nonprofit legal status can take advantage of it.

Virtually all social enterprises in Brazil currently operate with the legal status of nonprofit organization (including Civil Society Organizations for the Public Interest, or OSCIPs in Portuguese acronym), which does not allow them to distribute any surplus revenues or dividends to any of its members, participants, advisors, directors, employees, or donors/investors.⁴ Two thirds of the social enterprises that responded to our survey expressed their interest in establishing a separate for-profit entity, if it would allow access to larger, more flexible funding opportunities. However, at the time of this paper, we found only few social enterprises in Brazil that had a sufficiently robust business models, resources, and capabilities to become sustainably profitable for the long term. For example, an interviewee at a social enterprise that provided renewable energy to rural communities mentioned that the nonprofit status gave his organization benefits of goodwill from the general public and Brazil's incumbent utility giants. Most importantly, the entrepreneur strongly suspected that the latter might take on more hostile attitudes toward his organization if it operated on a for-profit basis, which might translate into strong competitive responses designed to put his firm out of business.

Also, two thirds of the social enterprises that responded to our survey expressed an interest in the potential creation of a new legal structure that would allow social businesses to keep their missions, while also enabling them to issue equity to raise capital. Based on this interest, it might be worthwhile for Atitude Marketing Social and its partners to explore possibilities to advocate for such an

⁴ U.S. International Grantmaking Project, <http://www.usig.org/countryinfo/brazil.asp>.



innovative legal structure in Brazil. This structure could borrow from existing models recently introduced in the U.K., i.e. so-called “community interest companies” (CICs), as well as the U.S., i.e. “low-profit limited liability companies” (L3Cs). Realistically, however, given that many other factors are currently not in place for such innovation in Brazil, we do not believe that Atitude Marketing Social and its partners would be successful in such advocacy in the short term and the new financing solution’s design should not be dependent on the creation of such a new legal structure.

Existing financing solutions


There is a large gap between the growth capital needs of social enterprises and the existing financing solutions such as philanthropic donations/grants and bank loans.

Looking at the surveyed social enterprises’ total budget, corporate contributions on average accounted for over half of total income. Government grants accounted for nearly one quarter of income. Nevertheless, top managers of social enterprises invariably shared their frustrations about the highly precarious and restrictive nature of such traditional, philanthropic funding sources. Over 80% of surveyed respondents said they always had difficulty in finding sufficient funds. Two thirds said that most of donations/grants received were one-off, non-recurring funding commitments, restricted purely to program activities, instead of being available for capacity building.

Besides the problem of being mostly restricted funds, traditional philanthropic money had a high “cost of capital” for social enterprises. Although philanthropic funds bore no interest or dividend payment obligations, social enterprises had to regularly dedicate significant management time and resources required to seek opportunities, fill out a lot of paper work, and meet all kinds of non-standardized compliance requirements in order to receive donor money. The social enterprises that responded to our survey on average spent 11% of their expenses on fundraising. Concretely, top managers of those social enterprises spent up to 75% of their time with fundraising, which significantly reduced their ability to devote to higher value-added tasks such as strategy formulation, hiring and development of talent, and building relationships with governments, media, and other important partners supporting the social enterprise’s mission.⁵

Because much of donor funding came with tight restrictions for funds to be used only on programs instead of business expenses, i.e. overhead expenses, managers of the social organizations we visited found themselves performing many other tasks with insufficient staff numbers. Thus, it came to no surprise that all our respondents strongly agreed that they wanted to invest more in building and

⁵ For example, one manager of an organization educating farmers on sustainable agricultural practices commented on the burdensome need to constantly develop programs years ahead of launching them in order to attract donor funding. On the other hand, he reported never being able to raise money solely dedicated to capacity building to hire staff to support him.



developing their organization's capacity in order to serve more beneficiaries and improve their overall service.

Besides philanthropic money, over 80% of surveyed social enterprises mentioned that they had never borrowed money from banks. Two thirds said that even if a bank was willing to lend money to them, they could not realistically borrow anything because interest rates in Brazil were too high for them to service even minimal amounts of debt.

Revenue-generating activities

Many social enterprises in Brazil are eager to start or expand revenue generating activities but currently lack planning and managerial capacity to build a financially sustainable business.

Two thirds of the social enterprises that responded to our survey had some kind of revenue generating activities. The income from revenue generating activities accounted on average for 40% of those social enterprises' total income. All respondents said they were seriously interested to start or expand revenue generating activities, and that they currently saw viable opportunities to do so. To that end, survey respondents expressed a high level of confidence in their organizations' capabilities in business planning and financial management. However, after careful observation on our field visits with several managers of the surveyed companies, we observed that as a matter of fact, such confidence in business and financial planning skills seemed mostly overstated. In most cases, we believed that many social enterprises required significant improvement in general management skills in order to satisfy the basic investment criteria of the oftentimes more sophisticated, non-philanthropic funders.

Preferences and Attitudes of Investors

Issue area

Investors value the ability to choose the issue area of the social enterprise that receives their money. In fact, the issue area was the third most important factor (after financial return and investee reporting requirements) for investors in choosing where to allocate their social investment money.

While the surveyed investor respondents expressed interest in a variety of issue areas, the three most popular issue areas among those listed on the questionnaire were 1) Early childhood education, 2) Education for reading and writing competence, and 3) Sustainable urban environment.

Geography

It will not be necessary for the new social capital market to focus on social enterprises in specific geographic areas.

Geographic area was not high in the importance as a factor to take into consideration when investors decided where to allocate their social investment money. Most survey respondents were uninterested to invest in social enterprises that operated nationwide without specific geographic focus, but their specific areas of interest varied widely from the most needy urban community (the most popular option) and the investor's own local community (second most popular option) to the North Region (third) and the Northeast Region (fourth).

Motivation

The new social capital market mechanism in Brazil will not be able to cater to investors who are primarily motivated by financial return.

Historically Brazil had achieved financial stability and investment rate status in return for featuring some of the highest interest rates on earth.⁶ Therefore, we concluded that it would be currently not feasible for the new financing solution to attempt to attract investors primarily motivated by financial returns because they were unlikely to place their money in anything other than low-risk, high-return government bonds and bank deposits.⁷

Investor type

While current users of BVS&A are predominantly corporate donors, the new social capital market mechanism in Brazil should be designed to serve individual as well as corporate investors.

According to Group of Institutes, Foundations and Enterprises (GIFE), an umbrella organization of charitable foundations and corporate grantmakers in Brazil, total institutional philanthropic giving to the social sector currently amounts to R\$5 billion. For corporate investors, in this frame of reference, we learned that incentives were particularly weak to try an unproven financial instrument with a proposed "hybrid return" featuring both social and financial benefits. For one, companies and corporate foundations generally saw investment as an activity to maximize risk-adjusted return in economic terms, and thus were not interested in investing in a financial product that offered economic returns below market rates. Although there was a recent trend in corporate philanthropy in Brazil towards more strategic and impact-oriented giving, the primary motivation still was to demonstrate the company's generosity as a means to enhance its public image and brand value. Thus, many firms seemed concerned that combining philanthropic giving with any economic return would presumably

⁶ The reference interest rate in Brazil was 12.75% at the end of January 2009. (<http://uk.reuters.com/article/marketsNewsUS/idUKGLOBAL20090225>)

⁷ As a matter of fact, the rate of return on government bonds currently exceeds the average return of the stock market.

send mixed signals between “good intentions” and “profiteering” to the firms’ consumers and the general public.⁸

In terms of individuals surveyed, over half agreed to the statement “I will contribute more money for social/environmental causes if I can at least get back full principal repaid even if it doesn't earn any interest/dividend.” Hence, at least from this anecdotal observation, while both corporate and individual donors in Brazil currently saw donation and investment as two discrete activities that served completely separate purposes, individual donors were arguably more accommodating toward the value proposition of the “hybrid return” model of social investment.

Product

Features of a Desirable Financial Instrument

Type of instrument

A debt instrument is more suitable than an equity instrument as a financing solution that fulfills the needs of both social enterprises and investors in Brazil.

Since social enterprises incorporated as nonprofits could not legally distribute any surplus revenues or dividends to investors, even if they were able to issue an equivalent of stock, it would not be very different from donations – in that both are permanent capital with neither repayment requirement of the principal amount nor dividend payment.

We examined the possibility of converting social enterprises from nonprofit to for-profit status if they seriously desired issuing stocks. Unfortunately, at present the number of social enterprises which were developed enough to convert to for-profit legal status or establish a separate for-profit entity – and thus able to raise equity capital – was extremely small in Brazil.

Although the initial term of a “social stock exchange” implied the need for some type of equity instrument to be the medium of exchange, we realized that right conditions do not exist at present in Brazil for the emergence of a social capital market based on such an instrument.

For all these reasons, we concluded that the financial instrument of choice for the proposed social capital market ought to be a type of debt instrument, which was simpler and accessible for any social enterprises regardless of legal status.

⁸ See also http://www.economist.com/finance/displaystory.cfm?story_id=12932242.

Expected rate of financial return

The annual interest rate of the debt instrument for social enterprises should be set at either 0% or very low nominal rate.

Our surveys of social enterprises suggested that managers of social enterprises were most comfortable with the idea of borrowing money with an interest rate between 0% and 5%. They said that they would never be able to use a debt instrument with an interest rate over 10%. Understandably, individual investors we surveyed, given all options, did not favor a financial instrument that paid no interest or dividends. However, more than half of surveyed investors agreed that they would contribute more money for social/environmental causes if they could “at least get back full principal repaid even if it doesn’t earn any interest/dividend.” This suggested, interestingly, that there existed a significant number of potential investors who were willing to allocate part of their investable assets to debt instruments with no interest or nominal interest of 0%-5%.

Non-financial return

Investors should be offered non-financial return, either in clearly demonstrable social benefit or reputational value associated with it, to compensate for below-market interest rates.

Over 90% of surveyed individual investors said they would contribute more money for social/environmental causes if they could tell precisely which of the available organizations were creating the greatest measurable social benefit. Second, 85% of surveyed individuals said they would allocate more money to organizations that created greater social benefit compared to a peer group. Lastly, over half of surveyed individuals said they would contribute more money for social causes if they could receive some sort of public recognition according to the total social benefit their money had helped create.

Maturity term

The term of the debt instrument agreeable both to investors and managers of social enterprises is 3 to 5 years, or extendable duration of 3 years or longer depending on social enterprise’s performance in creating social benefit.

While managers of social enterprises said they did not prefer issuing a debt instrument with a fixed term shorter than 1 year, investors did not want to buy a debt instrument with a fixed term of more than 10 years. There appeared to be a sweet spot between 3 to 5 years, which both sides could be content with.

However, the most popular choice for both investors and managers of social enterprises was an innovative feature we referred to as an “extendable term” of more than 3 years. In this option, we proposed a debt instrument with maturity variable depending on how much “social benefit” the issuing organization had created at the end of the third year (This will be explained in more detail in Recommendation section of this paper).⁹

Direct choice of investment recipient

Though investors preferred to be able to pick social enterprise and restrict fund use to specific programs, managers of social enterprises did not find such restricted funds attractive.

Both investors and managers of social enterprises were comfortable with the idea that the new social capital market mechanism in Brazil would allow investors to choose which social enterprise to place money with. Investors said they were not interested in social investment funds with which fund managers select investee organizations.

Voting rights

As debt investors, investors of the new social capital market mechanism in Brazil do not need to be offered voting rights to influence management of the social enterprises.

Investors would presumably have no expectation to control the direction of the social enterprise, but instead were assumed to simply let the managers of such organizations steward their capital contingent upon good performance in delivering on their social or environmental missions.

Transaction fee

It is feasible for the organizer of the new social capital market mechanism in Brazil to charge reasonable fee of transaction from investors and social enterprises to make the operation of the social capital market economically sustainable.¹⁰

The fee system that was most favored by investors was 5% of investment amount in the initial year and 3% every following year. Also, managers of social enterprises were not opposed to being charged an administrative fee of 5%-10% of total funds, provided it was a fixed fee.

⁹ This feature is similar to a rolling term of the Equity Equivalent Investment (EQ2) in the U.S. See <http://www.frbsf.org/publications/community/investments/cra02-2/equity.pdf>

¹⁰ BVS&A is totally dependent on BM&FBOVESPA’s CSR budget because it does not charge its users any fee. On contrast, GlobalGiving currently charges 10% of funds contributed by donors as administrative fee.

Market Mechanism

Primary market

Atitude Marketing Social should move along with creating a primary market, and further investigate the feasibility of a secondary market that can provide higher liquidity for investors.


For any investors, liquidity is normally one of the most important issues along with return and risk in evaluating different investment options. Most of our survey respondents wanted a secondary market to be set up, which would allow them to resell the debt instrument they held to other investors to free up cash in the investment. However, we found that it was likely that setting up a secondary market was much more complicated than creating a primary market in terms of regulations. A critical mass of buyers and sellers would be also required for a secondary market to function properly. Therefore, we believed that there was a need for further research about the feasibility and design of such a secondary market. In the meantime, it was more feasible to establish an exclusively primary market before contemplating the addition of a secondary market.

Channels

Brokers or other intermediaries may be needed initially to manage transactions.

Given the relatively low financial sophistication of social enterprises, and considering that most investors in Brazil had still not embraced online platforms, a more familiar mode of transacting would be necessary to encourage wider participation in the social capital market. Currently, the primary mode of making financial investments occurred through dealing with brokers who conducted market transactions on behalf of their clients in return for a commission.

For the new social capital market, we envisioned that a small set of brokers could be initially educated and trained to utilize a simple web-based platform on which the social capital market could be housed. Advantage of using brokers included investors' familiarity with this channel and brokers' ability to identify potentially interested clients in their existing networks. On the other hand, our interviews confirmed that irrespective of the final product they were selling, the vast majority of brokers cared little about the "socially responsible nature" of the product, but instead were mainly attracted by the opportunity to maximize economic gains from commissions. One immediate problem was that even if brokers only received the same flat commissions in transactions with the social capital market as they would with stock and bond market transactions, they were likely to be insufficiently motivated to properly educate their clients on choosing social investments. Thus, we learned that in order to utilize



brokers in the social capital market, we would not only have to pay for their cost of educating clients, but also offer them larger trading commissions for our new product.

Ultimately, the best scenario for success would be that as demand for social investments grew, brokers would be more willing to inform their clientele about available products, while operators of the social capital market would gain power to reduce the premium on transaction commissions. As the overall market size of investors in Brazil reached critical mass, we would ideally see a migration to online trading platforms, thus allowing individuals to directly make transactions on the social capital market.

Infrastructure & Supporting Services

Standardized metrics

There is a need for standard reporting and auditing practice based on common metrics of social benefit as well as methods of valuating social enterprises' creditworthiness.

A critical component to making a social capital market attractive to investors is the existence of a clear, unambiguous and transparent set of metrics based on which the performance of listed social enterprises can be assessed and compared. Reporting from social enterprises was the second most important factor (only after financial return) for surveyed investors in choosing where to allocate their social investment money. Investors preferred seeing detailed financial audits and performance reports with objective, comparable data about the benefits created by social enterprises they invested in.

Social enterprise credit worthiness

Ensuring creditworthiness and integrity of the social enterprises that have access to the new financing solution is a crucial precondition to make a thriving capital market. The risk must be tightly managed with the initial listed companies to avoid loss of investor confidence due to weak performance (both on the social and financial dimensions) or even corruption and other internal scandals.

A sound methodology must be applied to assess social enterprises' creditworthiness. Banks, microfinance institutions (MFIs), commercial loan lenders and credit rating companies may be able to offer best practices which Attitude Marketing Social and its partners could learn from and adopt a relevant system for its initial design. No matter what system is chosen, information about the assessment of social enterprises' credit risk must be made easily available to the investors. In addition to social enterprise's creditworthiness, personality and accountability of management, quality of governance, and integrity and transparency of financial management systems must be essential parts

of evaluation criteria in the screening process. Additionally, we found it important that the perspective of the “beneficiaries” or users of a social enterprise’s products or services would be incorporated in the screening process through stakeholder interviews. Lastly, there is a need for establishing an efficient mechanism to provide adequate ongoing monitoring and supervision that can ensure integrity and accountability without incurring excessive costs and administrative burden on social enterprises, as well as Atitude Marketing Social and its partners.

Capacity building support

Provision of the new financing solution must go hand in hand with capacity building support for social enterprises.

Through our interviews, we recognized that it required a certain degree of financial sustainability and solvency on the part of social enterprises to be able to utilize a debt instrument financed by investors with a “hybrid value” motivation. Though many social enterprises in Brazil that we spoke with were eager to start or expand revenue generating activities, most of them lacked the skills and experience to run a sustainable business with a required level of solvency and accountability. Thus, we found that the number of social enterprises that could take advantage of the new social capital market mechanism in Brazil at present is very small. By implication, the impact of the new financing solution in the short term was going to be rather small unless Atitude Marketing Social and its partners expend considerable efforts to provide social enterprises at an early stage of their evolution with training in necessary skills such as business planning and financial management.

Partnerships

The process of sourcing, training, and vetting viable social enterprises can be outsourced to a number of different companies specialized in helping nonprofit and social businesses develop business plans for growth.

One of our interviewee was the field representative of NESsT in Brazil.¹¹ This international nonprofit organization employed a comprehensive methodology of eliciting “request for proposals (RFPs)” from nonprofits seeking to write business plans to develop revenue-generating activities. NESsT had a proprietary 12 month process of selecting and nurturing companies that at the end received both funding support and professional consulting services to build out their business plans. Thus, we believed that partnering with organizations such as NESsT with deep business planning experience could help speed up the identification and selection process of social enterprises for the organizer of the new social capital market mechanism.

¹¹ <http://www.nesst.org/>

Marketing

A critical step to success for the new social capital market mechanism in Brazil is about marketing the right value proposition to the right audience in the right manner.

The key marketing objectives for the short-term should be on awareness creation, and education of issuers, investors, and general public in Brazil about the new social investment platform proposed by one of the country's most credible financial institutions.

After placing the highest quality social enterprises on the social capital market, a key success factor for the market organizer is to achieve a critical mass of market participants that sets off network externalities in improved liquidity, with a wealth of informed investors and viable issuers. The organizer of the new social capital market mechanism will need to invest in creating broad awareness among Brazil's investment community about the benefits and promise of this new platform. Previously, the BVS&A suffered from negligible marketing investment, such that most Brazilians today still do not know that it exists or what it does. The new social capital market can only be successful if brokers and other partners help promote it as a viable, trustworthy vehicle for social investment.

The chief responsibility of the social capital market's management will be to ensure that sufficient numbers of investors not only participate, but also do so for the right reasons and right expectations. The greatest challenge initially will be to clearly articulate the benefits of the social capital market to investors with an adequate frame of reference. As the new social capital market mechanism's goal is not to drain funds from existing charitable pools but to attract some of the "sleeping" money currently parked in bank deposits or kept "under the carpet", the positioning of the new financing solution in the marketing message should not be "a new vehicle for charitable giving that can be recycled (or even yield modest financial return)" but "a new way to park/invest money that can produce great social value without losing the money (or even yield modest financial return.)" On the other hand, social enterprises, which are facing a decreasing supply of funds from all of their existing sources, are more likely to immediately see the benefit of applying for listing and maintaining compliance with the social capital market.

Recommendations

Given our key findings, we have formulated a set of recommendations for the new social capital market mechanism in Brazil, including thoughts on a potential target market of investors and investees, options for specific products available for the two groups to transact on, and an overview of the basic infrastructure and supporting services building blocks needed to make this financial ecosystem function adequately.

Target Market

Figure 3 summarizes our recommendations regarding what segments of social enterprises and social investors should be the target of the new social capital market in Brazil.

Figure 3: Recommendations for primary target segments of social enterprises and social


Social enterprise					Social investor		
Issue areas	Geography	Legal status	Financial strength	Stage of development	Primary motivation	Type	Geography
Diverse	Diverse throughout Brazil	Nonprofit	Weak to medium	Early to mid-stage	Hybrid returns (financial + social)	Focus on individual investors	Initial focus on domestics investors

Social enterprise

The new social capital market mechanism in Brazil must be designed keeping in mind social enterprises with the following characteristics:

Diverse issue areas

The organizer of the new social capital market mechanism should choose social enterprises from a broad range of issue areas so that the social capital market can attract more investors with diverse social interests. To accumulate experience and focus limited marketing resources, the organizer of the new social capital market mechanism may initially choose to only list organizations within one specific area, e.g. environmental sustainability. However, no matter what issue areas will initially be included we suggest that the “architecture” of the financial system must be flexible and scalable enough to allow future inclusion of social enterprises focusing on other issue areas. In other words, the design of metrics, the marketing message about the new social capital market mechanism’s mission,



and other elements should not be applicable only to specific issue area at the outset so that a broader range of investors and social enterprises may be served in the future.

Diverse geographic area focuses

The organizer of the new social capital market mechanism should choose social enterprises from broad range of geographic areas so that the social capital market can attract more social investors with diverse interests.

Nonprofit legal status

The new social capital market mechanism in Brazil must be so designed that social enterprises with nonprofit legal status can take advantage of it.

Weak to medium financial strength

Considering that many social enterprises in Brazil currently have relatively weak financial capacity, the new social capital market mechanism in Brazil should be able to not only help social enterprises that have strong revenue generation capacity but also provide adequate training for organizations that currently have very limited financial sustainability. Besides financial strength, we believe that of equal if not more importance are management capabilities. Leadership integrity, serious interest to start or expand revenue generating activities, and willingness to learn and adopt new methods to improve organizational effectiveness are, in our opinion, critical screening criteria.

Early to mid-stage of development

The new social capital market mechanism in Brazil should be designed to benefit social enterprises in early to middle stage of development. That is, it should benefit those organizations in need for growth capital to scale up or to more effectively serve their social or environmental missions.

Social investor

The new social capital market mechanism in Brazil should primarily target social investors with the following characteristics:

Hybrid value motivation

The organizer of the new social capital market mechanism should target those individuals who seek to create social benefit through an investment vehicle, and not just charity. This type of investor needs to

have a genuine interest in creating social benefit without completely sacrificing a financial return, which he or she could consider reinvesting in social enterprises.¹²

Individual investors

Although the new social capital market mechanism in Brazil should be designed to fulfill the needs of both individual and corporate investors, considerable efforts must be expended to create broad awareness among individual investors. Based on our surveys, we have found that individuals' attitudes are arguably more favorable toward the value proposition of the "hybrid return" model of social investment.

Domestic investors

Although the new social capital market mechanism in Brazil should ideally be able to cater to both domestic and overseas investors, the initial focus should be on domestic investors. Most practically, limited resources and a desire to minimize complexity are major reasons to keep the transaction space on a domestic basis, since international investments would require additional efforts spent on managing foreign exchange risk, international money transmission protocols, and cross-border taxation aspects.

Product

Based on our findings and analysis, we recommend that the organizer of the new social capital market mechanism create a social capital market utilizing a special type of bond designed to be issued by social enterprises.¹³ Like holders of ordinary bonds, investors in this "social enterprise bond" do not have voting rights on how the organization is run, while bearing all risk inherent in ordinary bond investment such as credit, inflation, and (in case of foreign investors) currency exchange risk.

¹² Social investors with hybrid value motivation are not a visible segment of investors since the financial products that can fulfill their latent demand are not currently available in the market. However, an analysis of a survey conducted by Seo et al. in May 2008 with the sample size of 648 American adults found that those who thought hypothetical social investment products' hybrid value proposition was appealing to them were more likely to be current investors of socially responsible investment (SRI) products than higher-than-average donors.

¹³ In some ways the social capital market we propose in this paper resembles MicroPlace (<https://www.microplace.com/>), a for-profit social enterprise owned by eBay in the U.S. Whereas MicroPlace runs an online platform that connects individual investors and microfinance institutions issuing bonds, the proposed social capital market will connect social investors and nonprofit social enterprises issuing bonds.

We also considered the desirability of subordinated bond, a type of mezzanine financing instrument which ranks after normal debts but senior to common shares in the event of default or liquidation. However, since most social enterprises in Brazil do not currently have access to normal debt, we concluded that creation of subordinated debt will not have much merit and only deter investors by making them more anxious about default risk.

To keep this bond simple and easily comprehensible to ordinary investors without advanced financial knowledge, we believe the terms of the bond should be standardized by setting uniform annual coupon rate and maturity rules across issuing social enterprises.

Financial instrument features

Figure 4 illustrates two options we propose regarding the design of this social enterprise bond. Option 1 is a simpler product and easier to implement. Option 2 is designed to give stronger incentives to investors.

Generally, we prefer Option 2 as we believe this will be more effective in achieving the new social capital market mechanism’s goal of engendering a culture of social investment. We believe that Option 2 can do this by (1) aligning the incentives of social enterprises and investors with maximization of social benefit, and (2) enhancing social enterprises’ accountability to those investors in return for being able to borrow capital. There are three main differences between Option 1 and Option 2, each not necessarily dependent on another. Thus, the organizer of the new social capital market mechanism can choose to mix and match options as needed.

Figure 4: Two basic options for design of the social enterprise bond

	Type of instrument	Financial return for investor	Non-financial return for investor	Maturity	Voting right given to investor	Costs for social enterprise	Costs for investor
Option 1	Bond (debt security)	No annual coupon	Measurable social benefit associated with investment in specific social enterprise	Principal repaid in 5 years	None	5% of face value at the time of bond issuance as transaction fee to the organizer	5% of face value at the time of purchase as transaction fee to the organizer
Option 2	Bond (debt security)	Annual coupon rate of 3%	Reputational “points” according to measurable, comparable social benefit created by investee social enterprise	Extendable maturity of 3 years or longer depending on social enterprise’s performance in creating social benefit	None	5% of face value as annual interest payment (3% goes to investor and 2% goes to the organizer)	5% of face value at the time of purchase as transaction fee to the organizer

Financial return and costs

In Option 1, investors are offered no interest or coupon, which makes the product more affordable to social enterprises, simpler to administer and arguably easier to differentiate from existing financial solutions. To cover administrative costs, the organizer of the new social capital market mechanism charges a fee equivalent to 5% of a bond's face value from both social enterprises and investors at the time of transaction. In Option 2, social enterprises pay 5% of face value as annual interest, 3% of which goes to investors as annual coupon payment and the rest to the organizer of the new social capital market mechanism as transaction fee. The organizer of the new social capital market mechanism also charges 5% of bond's face value as transaction fee from social investors at the time of bond purchase.

Non financial return

In Option 1, investors periodically receive information about social/environmental impact as well as financial performance of social enterprises based on a clear, verifiable set of metrics. In Option 2, investors are awarded with non-monetary "mileage points," which are linked to investee social enterprise's social/environmental performance in the past year. These points would not be transferrable or convertible to monetary value, but instead would give the holder reputational value in the form of unambiguous, transparent and comparable "bragging rights" as a smart social investor who makes a tangible difference.¹⁴ Top performers in accumulating these points will be publicly announced and celebrated in high-profile events and media coverage.

Maturity

In Option 1, the maturity of the bond is fixed at 5 years. In Option 2, the bond has an "extendable term" of more than 3 years, depending on investee social enterprise's social/environmental performance. This is to give the issuing social enterprise a chance to decide, at the end of the stated maturity, whether to extend the due date of the principal, subject to meeting a particular "test" agreed with investors. The test would be whether or not the issuing social enterprise had met criteria or metrics of "social performance" pre-defined at the time of bond issuance.¹⁵ Such a financial product

¹⁴ While there obviously remain technical issues that must be cleared (especially regarding comparable metrics of social benefits) to realize this idea, we believe such a system can create a strong incentive for investors to think about their investment in terms of maximization of social benefit, instead of as a way to put their money in what they simply "feel good" about.

¹⁵ For example, assume that a social enterprise dedicated to reducing homelessness agreed to use as one particular metric of success the number of homeless shelters built per year. What if this organization were allowed to sell a bond, where the principal would be due in 3 years, unless it had met a threshold of having built X shelters by the end of the third year? If it turned out that it indeed had built X, or even X + 1 shelters, it would get an option to "extend" the due date of paying the principal by 1 year. At the end of that year, it would again have an option to extend for another year if it had met a previously agreed, specific threshold.

would combine the simplicity of a bond and a patient (or potentially permanent) quality of equity-like capital.¹⁶ As social investors would presumably have invested in the social enterprise as a vote of confidence that it would meet its particular purported mission of delivering social benefit, exercise of such an extension option signifies that their money was well spent to create intended social benefit through the investee social enterprise. On the other hand, if social enterprise they lent to did not deliver on its promise to the investor, such an investor would have the opportunity to receive his money back and redeploy in other social enterprises. Such an instrument will be a powerful tool to transform the way social enterprises would be held accountable for delivering on their mission on a clearly definable metric.

Market mechanism

Transaction channel

The organizer of the new social capital market mechanism should launch the initial social enterprise capital market by utilizing brokers' client networks and paying them commissions. After creating sufficient traction, the organizer of the new social capital market mechanism should encourage a migration of investors to online trading platforms to reduce dependency on brokers' service and minimize transaction costs.

Secondary market

The organizer of the new social capital market mechanism should move ahead with creating a primary market, and conduct more research to investigate the feasibility of a secondary market that would provide higher liquidity for investors.

Infrastructure & Supporting Services

To achieve the new social capital market mechanism's goals of fostering the development of economically viable social enterprises and of changing a habit of charity into a culture of social investment, Attitude Marketing Social and its partners need to realize that it alone will likely be unable to provide for all fundamental infrastructure and support services. Instead, we recommend that the organizer of the new social capital market mechanism nurtures networks of various partners in

¹⁶ For social enterprises, the advantage of such an instrument would be that based on maintaining good performance to a previously agreed standard, it could treat such a debt similarly as an equity capital. For detailed discussion of the social enterprises' unmet needs of equity-like capital and why provision of it is critical for the development of the sector, see <http://www.benetech.org/about/downloads/NothingVenturedFINAL.pdf>.

nonprofit, business, public and academic institutions in Brazil and abroad to develop an ecosystem of social investment.

Figure 5 summarizes our analysis of key components of such an ecosystem and provides a recommended strategy to establish them.

Figure 5: Building blocks of ecosystem and provision strategy

Criteria	Standards setting	Marketing	Screening	Coaching	Underwriting	Auditing	Monitoring and supervision	Money transfer
Relative costs of outsourcing vs insourcing	<i>Low</i>	<i>Medium</i>	<i>Low</i>	<i>Low</i>	<i>Medium</i>	<i>Low</i>	<i>Medium</i>	<i>Low</i>
Complexity	<i>High</i>	<i>Low</i>	<i>Medium</i>	<i>High</i>	<i>Medium</i>	<i>High</i>	<i>Medium</i>	<i>Medium</i>
Internal competency	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Medium</i>	<i>Medium</i>	<i>Medium</i>
Immediacy	Urgent	Medium-long term	Urgent	Urgent	Medium-long term	Short term	Short term	Medium-long term
Outsource vs Insource	Outsource	Insource	Outsource	Outsource	Insource	Outsource	Outsource	Insource

Essentially, we recommend that the organizer of the new social capital market mechanism focus on providing a transactional platform for underwriting and money transferring, as well as leverage its credibility and contacts with institutional networks of investors and brokers to lead the marketing of the financial platform. All other functions, particularly those related to identifying, selecting, evaluating, and monitoring of social enterprises can and should be outsourced to outside partner organizations (such as NESsT mentioned above), which have greater expertise and specialized resources to perform these tasks efficiently and objectively.



Next Steps

With a view to launch the social capital market, the organizer of the new social capital market mechanism should follow this report by:

- Soliciting feedback from various groups of stakeholders
- Establishing a coordination team or steering committee leading the creation of the social capital market
- Fine-tuning value propositions and marketing strategy
- Identifying external players who will collaborate with the organizer of the new social capital market mechanism in designing and providing the infrastructure and support services
- Preparing for a preliminary launch with partners
- Identifying, screening, and selecting social enterprises, while marketing to investors
- Implementing a preliminary launch
- Full launch
- Fact finding about requirements and demands for secondary market

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Seungchul Seo began his professional career in the international nonprofit sector, working for UNESCO in Korea and International Federation of Red Cross and Red Crescent Societies in Fiji and Myanmar, before joining Bain and Company as a business consultant in Tokyo and Chicago. Passionate about promoting strategic, results-oriented approach and harnessing business management techniques to produce social benefits, he has recently worked in various capacities for the Bridgespan Group, Center for What Works, Urwego Opportunity Bank of Rwanda, and African Agricultural Capital in Uganda.

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