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Link

There's an article today on MarketWatch "Can social investing replace government?" by Thomas Kostigen (http://www.marketwatch.com/story/can-social-investing-replace-government-2011-09-30?dist=beforebell)

There are a few buzzword sentences that caught my eye:

"It puts social responsibility on the shoulders of the local community…"

"Kindling idle money toward activism is a fine idea and should be embraced here, too."

"In May, Massachusetts became the first state in the nation to formally explore implementing social impact bonds to funds housing, elderly care, and juvenile detention programs, among other social initiatives. Social Finance's $100 million announcement would roll out investment programs throughout the country."

And also piqued my curiosity regarding this:

"Here's how it works: social impact bonds raise private capital to fund nonprofit prevention programs aimed at achieving improved social outcomes that generate government savings. If an independent evaluator determines that the pre-defined outcomes have been achieved, the government repays investors their principal and a rate of return that account for a share of the savings. If the pre-defined outcomes have not been met, the government owes nothing."

Wanting to learn more, I googled "social finance", coming up with:

http://www.socialfinanceus.org/

and interestingly enough, also a link to the Rudolf Steiner Foundation social finance website: http://rsfsocialfinance.org/

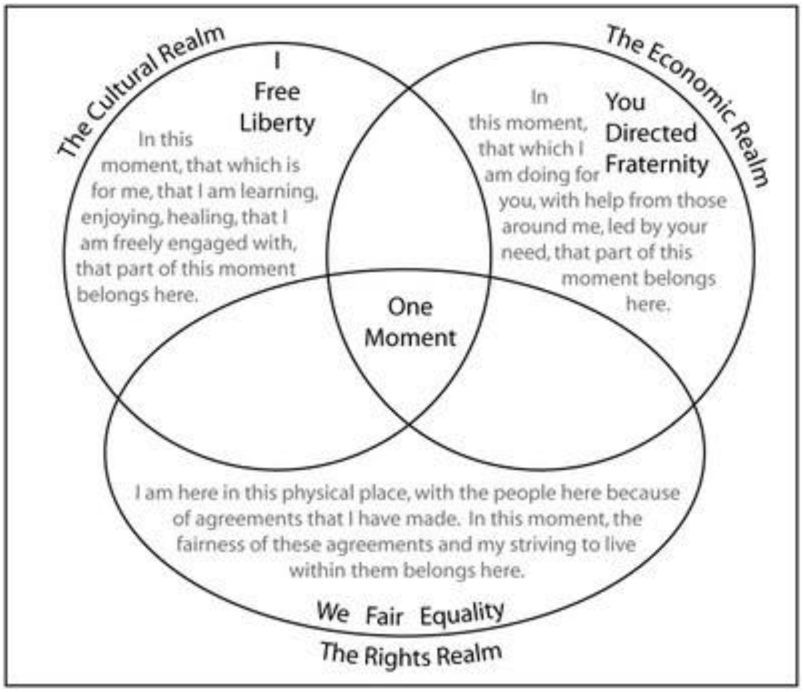
It strikes me that here is an opportunity to compare/contrast the two models. From the About page of Social Finance US (quoted in full):

“Social Finance is a Boston-based nonprofit dedicated to mobilizing capital to drive social change. We exist to address a specific set of problems: social service agencies throughout the U.S. are overburdened and underfunded, and effective nonprofit organizations struggle to raise the funds needed to deliver on their mission. Governments and philanthropists, as providers of social program funding, strive to document accountability and results, but aren’t always successful. We work to solve these problems by structuring and managing innovative investment instruments that address the needs of governments, nonprofit service organizations, and socially motivated investors and philanthropists. The Social Impact Bond (SIB), pioneered by our UK-based sister firm, Social Finance, Ltd., is at the heart of our work. We seek to assist three main groups:

- *We help effective nonprofit organizations receive sustainable, multi-year funding, so they can focus on what they do best: providing services to citizens.*
- *We work with government agencies to help them sponsor innovative and preventative programs without the fear that taxpayer dollars will be wasted on ineffective programs. And by focusing on preventative programs, we help governments mitigate spending on crisis intervention over the long term.*
- *We raise funds from investors and foundations seeking both social and financial returns. If the funded programs achieve a measureable impact, our government partners repay the investors who provided up-front capital and assumed the investment risk. If measured outcomes do not improve, the government pays nothing and the investors’ capital effectively becomes a donation.*

For philanthropists and mission-driven investors, SIBs are a financial innovation that allows them to potentially recycle the capital they deploy against their mission. But SIBs also have the potential to attract institutional investors to impact investing, and dramatically grow the available funding for social programs. This will benefit all of our partners as well as our ultimate beneficiary: society and citizens.”

I can see a sort of threefolding model, which if you're unfamiliar with the concept, this diagram from Sebastian Parson's blog entry I found to be an excellent summary:



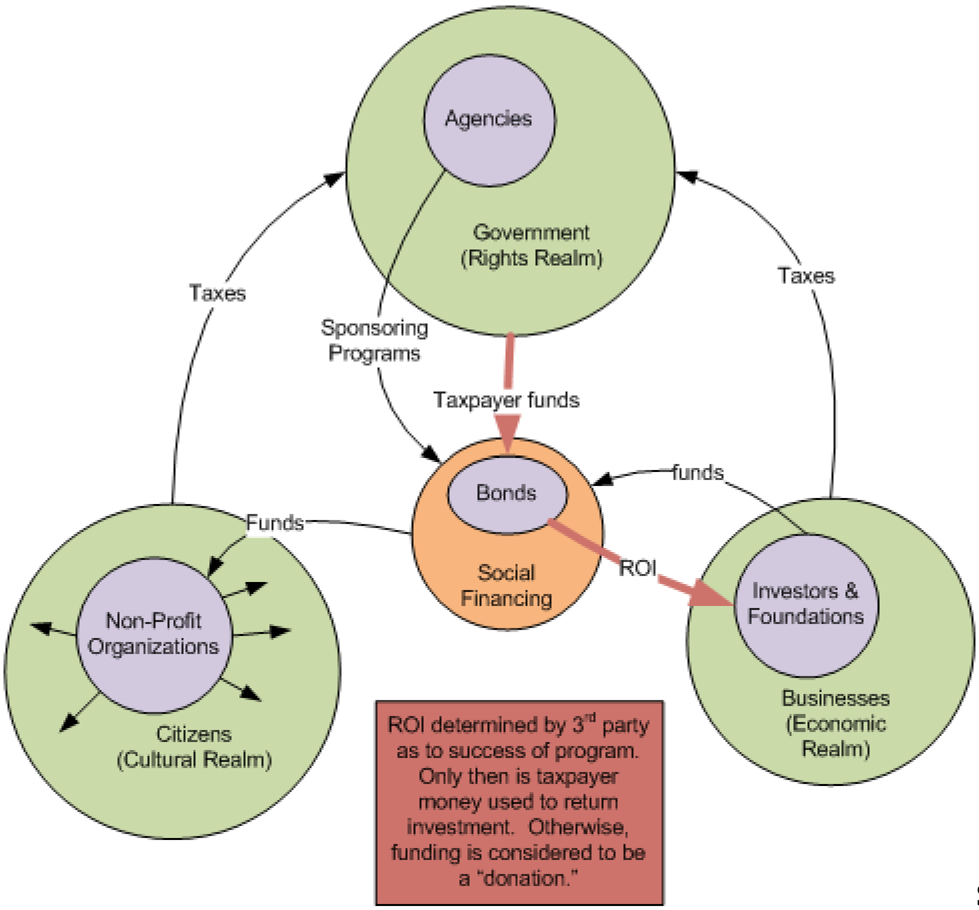
Sebastian Parson's Three-Fold Diagram

For the sake of argument, I'm going to sort out the three entities of Social Finance in this way:

- Nonprofit organizations go into the Cultural Realm. This is debatable but it makes a certain sense to me that, in the cultural realm, groups of individuals can form loose organizations whose intent is to participate together in a "cultural" activity. A nonprofit organization is a necessary cultural entity (in my opinion) as an interface to the economic (for-profit businesses) and rights (government) realms.
- Government agencies are of put into the rights realm, again this isn't ideal. However, in this Social Finance model, the government is participating in the economic realm via taxpayer money and also has its fingers in the cultural realm in deciding what programs to sponsor.
- I put "investors and foundations" into the economic realm. Again, this is debatable, but my reasoning is that

investors and foundations participate mostly in the economic realm and are separated usually from the direct, local, community needs.

The following diagram illustrates my understanding of the Social Finance model:



Social Financing US

Now, mind you, this is not intended to be representative of a threefold social model, but rather of "forcing" certain entities into the model, based on "how things are" with our current system, mainly that government is directly involved in the creation, funding, and management of social programs. We still have the complexity that the return on investment (ROI) comes from the government via taxes collected on citizens and businesses. We have this complexity because the Social Financing model is attempting to work within the existing framework of sponsoring and funding programs through taxpayer dollars. The motivations are as follows:

- Both businesses and people want to ensure that their taxes is well spent;
- Foundations and investors are interested on a return on their investments, which usually prevents completely altruistic funding as these are usually not investments that have an ROI that can be measured monetarily–hence the phrase "seeking *both* social and financial returns";
- To attract investors, a "bond" is set up in which taxpayer money is returned, with ROI, to the investor;
- A third party determines the success of the program, and if deemed to have failed, the taxpayer's money is not "wasted" and the investor's money is considered a donation (presumably a tax write-off.)
- The investor, not the taxpayer, assumes the risk.

There is an underlying premise that the direct "program-investor" relationship is not possible, which I have two ideas of why this may be:

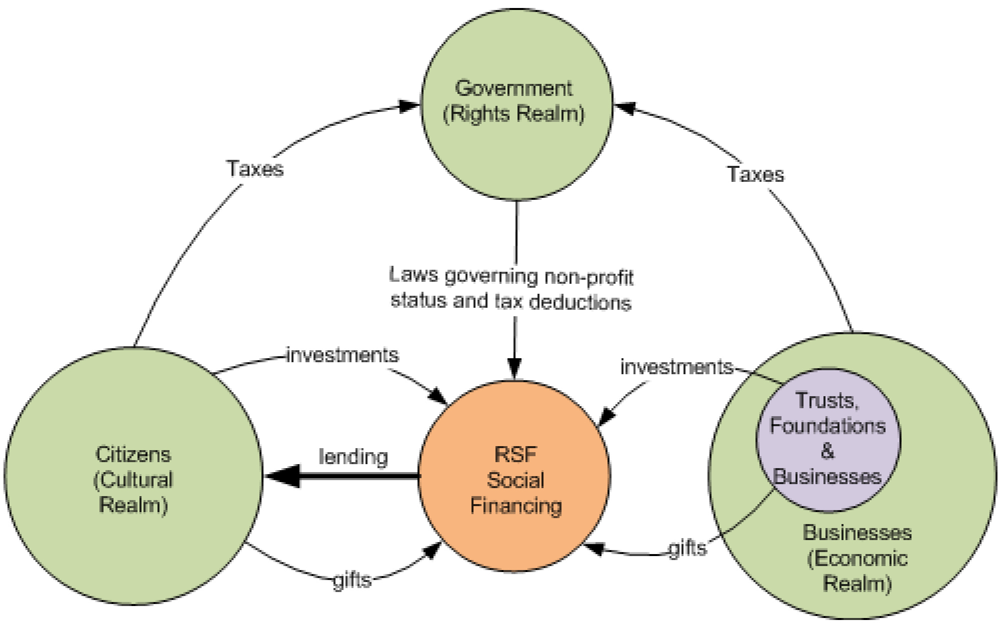
First, the investor of, say, a social project will not see an ROI on their investment because the result probably doesn't have a monetary value that can be linked to the initial investment in some clearly defined way. For example, funding trainers in Non-Violent Communication to provide workshops might be considered a worthwhile social project but has no measurable monetary return.

Second, large scale projects (let's say a "village" providing training, child care, health care, small business opportunities, etc.) is not something a low income area can fund directly nor can it return the investment, with interest, on such a project—how would you go about "taxing" the "income" generated, and over what time frame?

Government in this case, and in its present form, provides a valuable service of collecting taxes from a far wider pool of people which can then be distributed to specific areas of need.

The RSF Social Financing Model

This model works with individuals all the way up to foundations and corporations to provide investment services and gifting opportunities, the funds for which are then lent to non-profit and for-profit organizations that meet specific criteria. Investments are intended to return rates similar to CD's or money market accounts and gifting is tax deductable via laws governing contributions to non-profit organizations. One of the unique things about the gifting model is that you can control the dispensation of your own giving to other non-profits via the RSFSF. The resulting model (assuming I have conveyed this accurately!) is significantly different, notably the activity that occurs in the cultural realm:



Noteworthy are:

- Investment and gifts can come from both private and public sectors, individuals all the way up to corporations
- Both investments and gifting models are supported
- Government is involved solely for the laws determining and regulating of non-profit status and tax deductible contributions
- Funding of initiatives supported by the RSF are through loans (I'm not clear as to whether the RSFSF does gifting itself)

This model (and for this reason I placed the RSFSF outside of the cultural realm) is also intended to be an intermediary between the economic and cultural realms. Unlike the SFUS described earlier, there is no government involvement in the flow of funds. Similar to the SFUS, the RSFSF has the ability to pool funds, enabling it to fund large scale projects. Unlike the SFUS, this pool does not come from taxpayer money (which has more of an anonymous quality to it) but rather the investments of citizens, communities, trusts, foundations, businesses, etc. Like the SFUS, I see the RSFSF attempting to work within the confines of the existing economic architecture.

Conclusions

There aren't any particular conclusions to draw here in this cursory overview of these two models. Both are attempts to meet the needs of both investors and social renewal projects, and within the framework of the current economic system, personally I think both models express some creative thinking, which we need more of, if I were to make any conclusion at all.

From the perspective of Steiner's Threefold Social Renewal, the RSF model is closer to that vision, but in my mind, that doesn't, in itself, make it a superior model–though that would be my personal bias.

I am curious though, what do readers think?