

Small Foundations & Socially Responsible Investment in Microfinance

Research Compiled from a Student Project
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Social Enterprise Associates

2008

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Introduction

Who are you? What brought you here today?

Social Enterprise Associates

A network of professionals making communities better by applying business skills & sustainable practices.

www.socialenterprise.net



Data from Student Project

4 students from Univ. of Pennsylvania in the class, “Microfinance ASP Management 891” created this project

- Ana Maria Moreno
- Supriya Uchil
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“Small Foundations” Defined

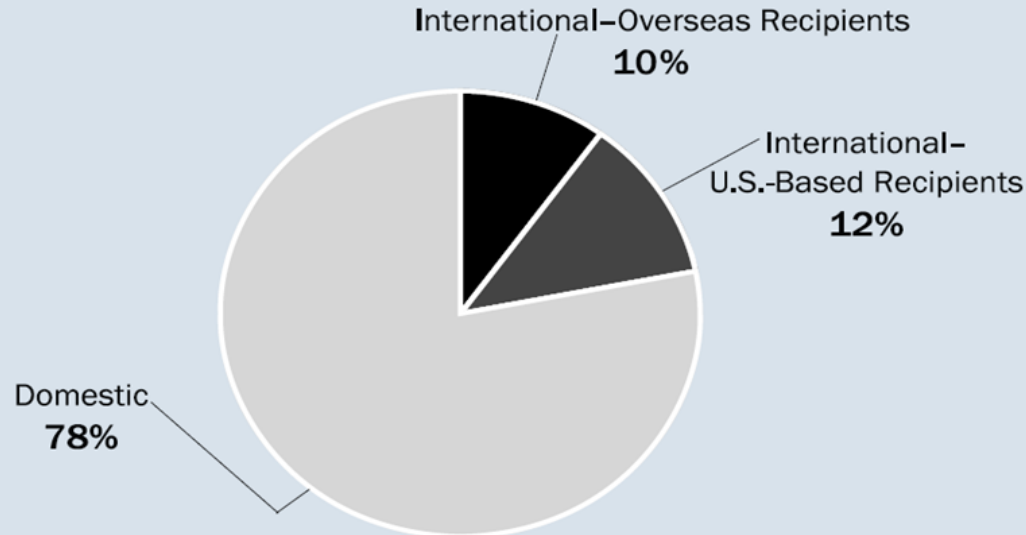
- According to the Association of Small Foundations (ASF), small foundations...
 - Run entirely by volunteer boards / operated by few staff (usually max two people)
 - Average asset size of \$18.5MM; median asset size \$8MM
 - Distinguished by staff size, not assets
- 60,000 small foundations in US
- Account for half of country's foundation grant dollars
- Give direct gifts to at least two entities

Why Social Enterprise Associates is involved

- Reduce information asymmetry between small foundations and microfinance institutions
- Project clarifies steps and process model small foundations can use to effectively contribute to microfinance
- Microfinance specifically has advanced marketplace platforms for funds
- Presentation tracks a Working Paper on the same topic, available online

How are philanthropic funds currently allocated?

International giving accounted for a record 22 percent of foundation grant dollars in 2006



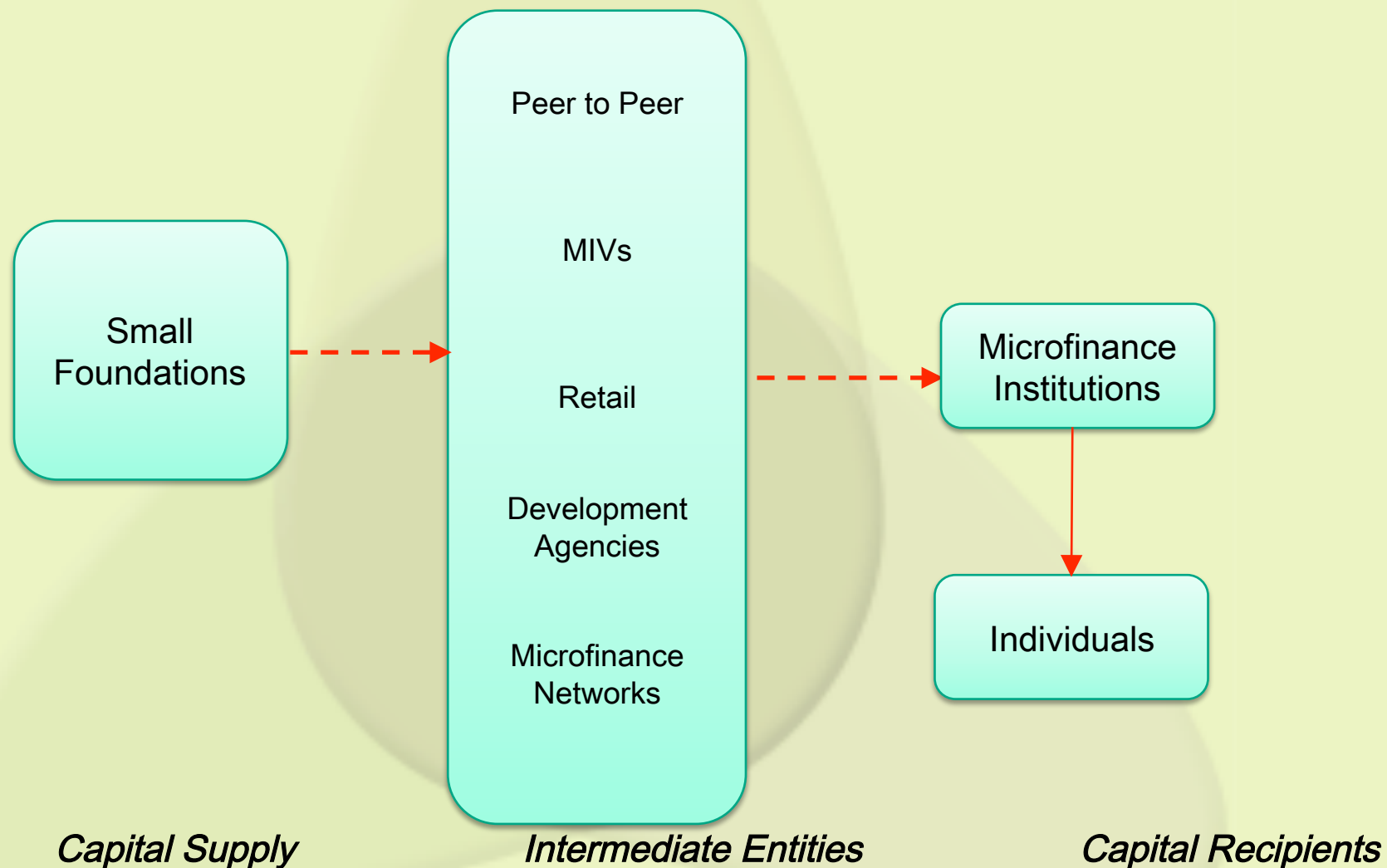
Percent of Grant Dollars

Source: The Foundation Center, *Foundation Giving Trends*, 2008. Based on a sample of 1,263 larger foundations.

Variables Small Foundations Consider

Financial rate of return	<ul style="list-style-type: none">• <i>No-return, Below Market, At Market</i>
Social goals	<ul style="list-style-type: none">• <i>Education, Women's Empowerment, Healthcare, Environment</i>
Level of Involvement	<ul style="list-style-type: none">• <i>Due diligence</i>
Geography	<ul style="list-style-type: none">• <i>Impact focus</i>
Investment into non-profit or for-profit organization	<ul style="list-style-type: none">• <i>Investment mission, tax deduction</i>

Microfinance Investment Marketplace



Microfinance Intermediaries

Peer to Peer: *Offer direct contact but requires high due diligence*

- Provide a direct portal, connecting lenders and borrowers
- Differing levels of financial returns (*Kiva.org* - no return *Prosper.com* - return)
- Process may be time consuming, labor intensive; loan size small

Microfinance Investment Vehicles (MIV): *Offers financial returns*

- Risk-assessed products allow investors to reach a broader scope
- Mobilize capital to select MFIs based on level of return, cause and geography
- Distinguishable based on financial return, particularly three categories:
 - Commercial funds, *MicroVest*
 - Quasi-Commercial funds, *ResponsAbility Microfinance Leaders Fund*
 - Microfinance Development Funds, *Oikocredit*

Large Foundations: *Offer focus on microfinance; high operational costs*

- *The Palli Karma-Sahayak Foundation* (PKSF) focuses on microfinance related causes such as empowerment of women resulting in better lives for families

Microfinance Intermediaries

Retail: *Provide more flexibility in loan size and returns*

- MicroPlace.com- Direct support to MFI's, spread default risk and handle larger loans and target specific MFI requirements

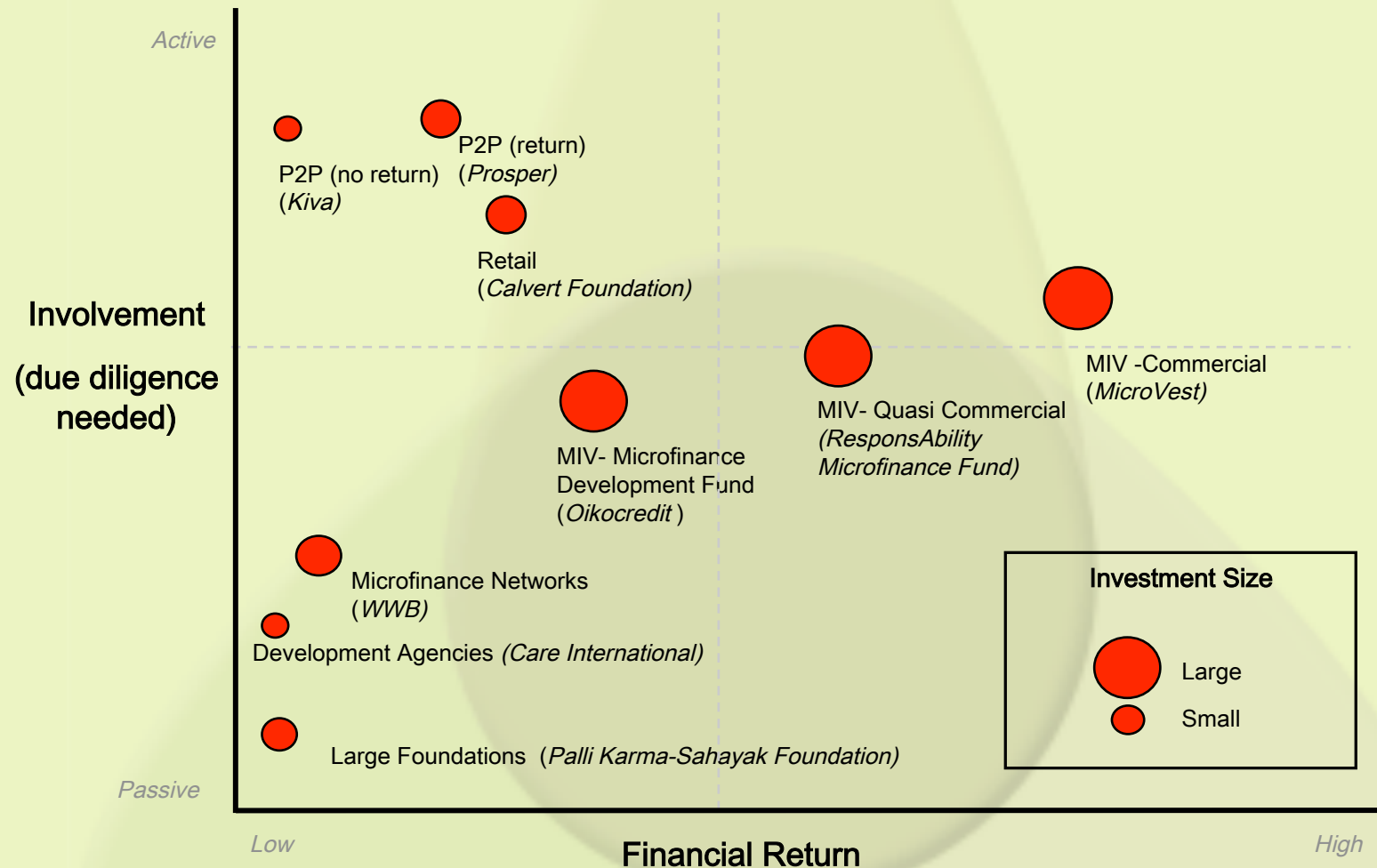
Development Agencies: *Can focus on social missions at a global level*

- i.e. CARE International, humanitarian organization fighting global poverty, partner with organizations to provide financial services to the poor
- Contributions are often grants
- Harder to measure progress of donation or investment in one sector since international agencies fund multiple initiatives

Microfinance Networks: *Can prioritize social goals /impact group of MFIs*

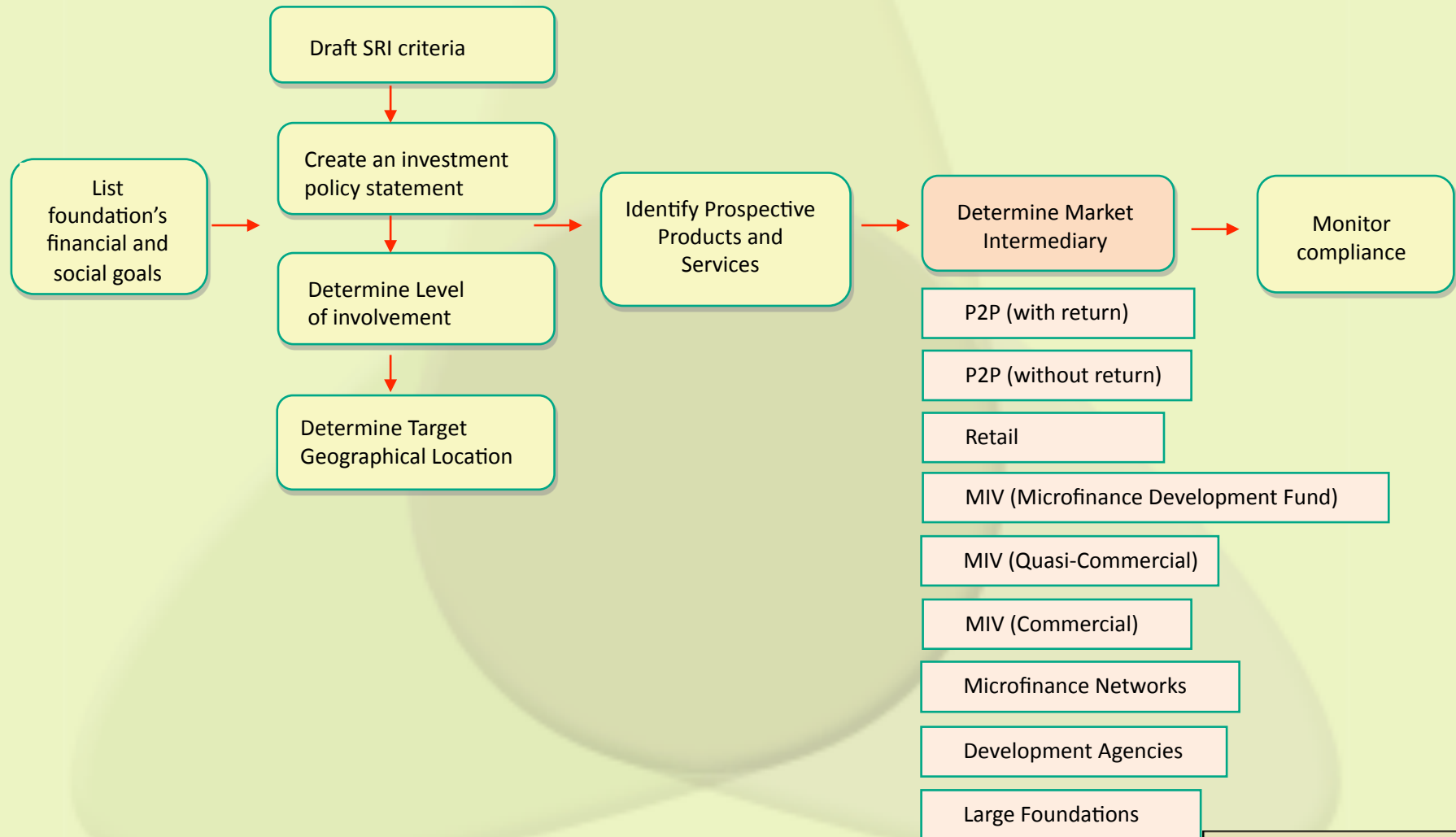
- Women's World Banking (WWB) an example (not-for-profit). Others include ACCION International, FINCA International, Banking with the Poor and Grameen Foundation

Microfinance Intermediaries–Map



Comparative overview of involvement level, financial return investment size each intermediary requires

Process Flow for MFI Investments



Examples Using Process Flow

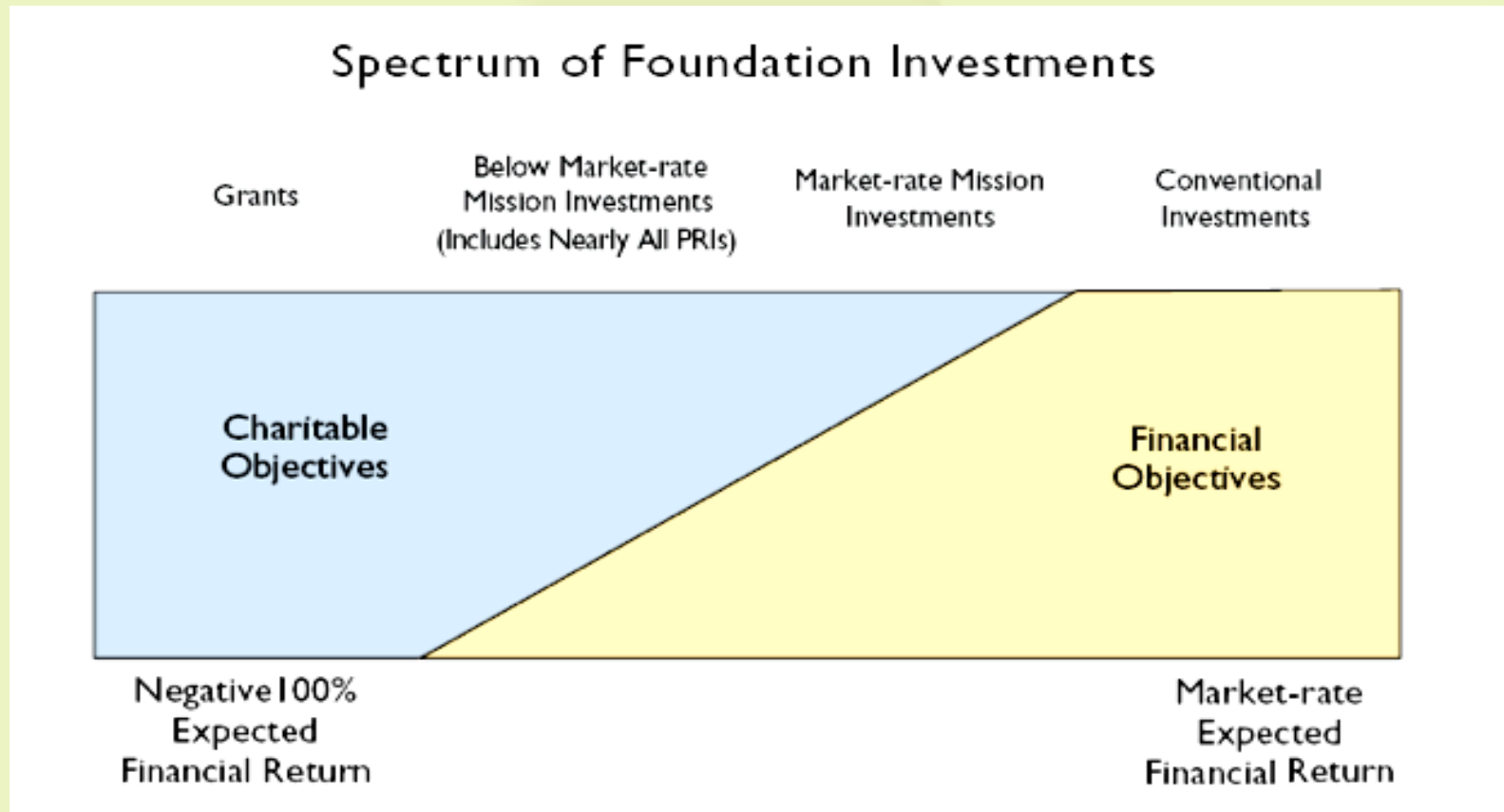
Lawrence Foundation private family foundation making grants to support environmental, education, health, human services and other causes

- *Determine investment goals*
 - Focus on social returns over financial returns
 - No geographic specification
 - 501(c)(3) organizations
 - Prefer low-level of involvement
 - Medium-size donations (\$10,000-\$100,000)
- *Determine products or services*
 - General giving grants but potentially open to loan investments
- *Determine intermediary*
 - P2P (without return)
 - International Agencies
 - Large Foundations

Small Foundation Example Participating in Microfinance

- Private foundation, established in 1994 Decatur, Georgia
- Works to better serve Arab microentrepreneurs supporting regional infrastructure development and individual Arab (MFIs)
- Provides support to Arab region
 - Microfinance prevalent in seven of 22 Arab nations – Morocco, Tunisia, Egypt, Yemen, Jordan, Lebanon and Palestine
- Developed partnerships with MFIs in each country and investing in infrastructure and enabling microfinance efforts in 15 countries

Going Forward....



Trends in foundation investments gradually including charitable objectives and financial objectives

Thanks!

Q & A

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