

The CoAd approach to financing social enterprise

Lutfey Siddiqi (YGL 2012)- writing in a personal capacity

Spending time at a World Economic Forum event - with members of its communities of shapers, leaders and social entrepreneurs - always forces me to think about the effectiveness of "doing good" from first principles.

Typically, I bump into two groups of people:

- domain-experts (doctors, engineers etc.) who deliver their expertise directly to disadvantaged societies on the ground; and
- those that have switched career mid-stream to offer their organisational expertise in the furtherance of a cause.

Both groups are inspiring not least because they approach their calling full-time and at the expense of alternative careers in mainstream arenas.

Then there are those like me. Not quite ready to give it all up, yet keen to give back in any way that we can.

Paying a small percentage of one's regular income into some charity by giro ticks the basic box but it is impersonal and often doesn't provide a sense of contribution. Selfishly for the donor, there needs to be effort, sacrifice of personal time in order to provide the psychic rewards of giving.

This is the reason that people brave a challenge, conquer a fear or run a marathon to raise funds. This is also the reason that people volunteer time, on weekends for example, in the direct delivery of some charitable service.

There is yet another alternative - what I call **the "Comparative Advantage approach"** (CoAd for short) to doing good.

It didn't take long for me to realise that any habitat that I build with my own hands would likely not be fit for humanity. Similar to other professions, *delivery* of social outcomes is a specialised job that takes specialist skills. For me to step into that role for a few hours on a weekend and expect to make meaningful impact is nothing short of delusional.

For anyone else in similar shoes to mine, I'd recommend a two-step approach:

- first, do something that productively employs your core skills (outside of the day-job and outside normal working hours) at a fully-professional level of competence. For this, you should expect to get paid a full commercial wage; and
- then, hand over the money to *those who specialise* in the disbursement of charitable services.

Teach at a night-college, vocational training institute, write a book, give a concert, provide accounting services on weekends - whatever gives you the highest earning power

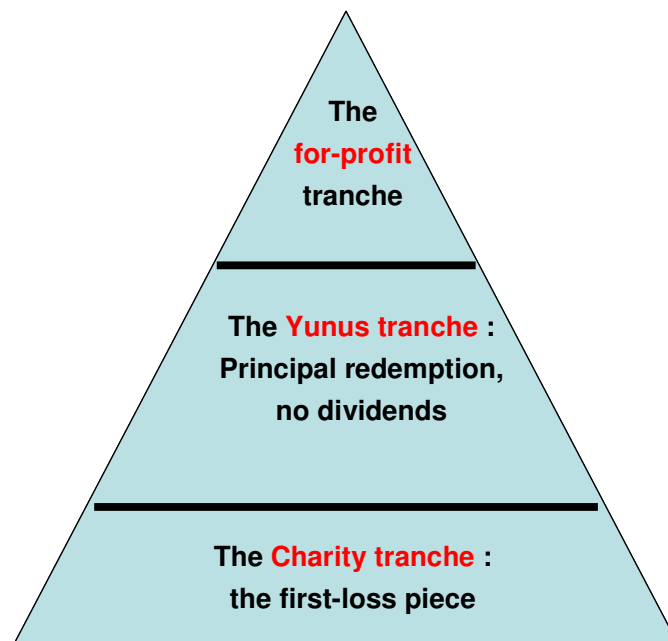
for a finite number of hours. The result of your money and your personal time will now stretch that much farther.

For over six years now, I have followed this approach to generate a chunk of funds for education-related charities in Bangladesh. On most occasions, the amount is topped up with company contributions. The bottomline is, each hour of my volunteer work reaches significantly more end-users than would've been the case if I had spent that hour teaching rural children myself. This is just another manifestation of Ricardo's theory of international trade.

Now, in my quest for maximising the impact and sustainability of charitable giving, I am attracted to the concept of **social enterprise** as it applies to the base of the pyramid.

- At its widest definition, a social enterprise generates an identifiable social benefit together with a stream of income that makes it self-sustaining income beyond an incubation period. As long as the social benefit is measurable, the company can operate like any other for-profit organisation.
- Nobel Laureate Professor Yunus defines it more narrowly as a business that should return the investor's capital - but no more. Once the original capital is redeemed, there is no further claim on dividends.
- Then there are those like my father who believe that an enterprise approach can crowd out funds from the abject poor for whom, outright philanthropy is the only realistic option.

I believe that there need not be a conflict between the three alternatives. It should be possible for a social enterprise to access funds in *any or all of the three tranches*:



If, for example, the enterprise is seeking to raise \$100k, it is possible for \$50k to come in the form of 'pure charity', \$30k from investors with *the Yunus motivation* and the remaining \$20k from mainstream investors seeking to earn regular dividends.

Now, the CoAd approach **should apply to companies as much as it applies to individuals.**

Specifically, investment banks specialise in a process of origination, underwriting and distribution to connect sources of funds with uses of funds. While this is a tried-and-tested model in the field of mainstream finance, instances of such a process applied to social enterprise are few and far between.

One reason is that many social enterprises are simply not ready with their financials and business plans to the extent that is required for an investor roadshow. However, with various consultancy services now available to assist, this is probably not the dominant constraint.

In order for this approach to achieve lift-off, we need investment banks to encourage deployment of their origination & distribution machinery for social enterprises as part of their employee-volunteering programme. In addition, banks need to commit a certain amount of capital for the purpose of underwriting a finite number of these transactions.

It is a fact that most internationally-active banks are proponents of social enterprise and provide investment opportunities for private clients as part of their overall offering. However, it is also a fact that the sum total of funds allocated to social enterprise – especially to specific enterprises active in the developing world – is disappointingly low.

I believe that a commitment to allocate capital (a fixed amount per year - no matter how small) to the underwriting of these projects would send a strong signal both externally and internally to staff who would appreciate the importance of this field, in spite of its limited profit opportunity.

It should be possible to obtain this commitment at Davos, simultaneously from the banks that are partners to the World Economic Forum. In addition, they should be invited to sign a charter reaffirming their support for staff participation in this venture. It should also be possible to construct annual "league tables" of social financing in the same way that league tables of traditional issuances are published and fought over by investment banks.

I believe that the monetary cost to banks would be minimal.

On the other hand, the bandwagon effect of launching this as a top-down, coordinated yet competitive campaign amongst banks may well prove to be the thrust that enables a much-needed step change in the financing of social enterprise.

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