

The Economic Crisis, Social Investment and The Potential Role for CDFIs in the Social Economy

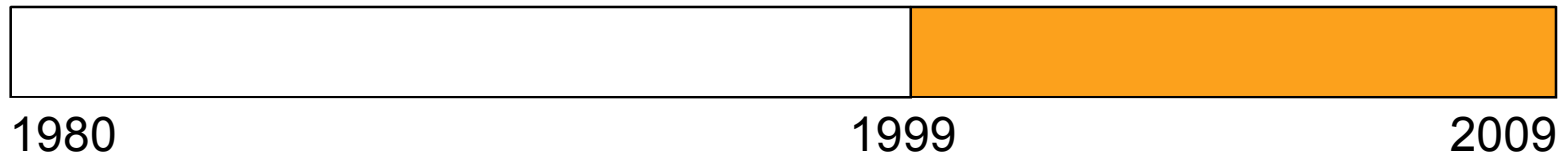
Rodney Schwartz
Chief Executive, **ClearlySo**
Newcastle, 11 June 2009

A Bit About My Background

Financial Sector and Investment



Social Investment



Social Enterprise & Investment Experience

- Founder of Catalyst Fund Management & Research, a venture capital firm focused on social businesses
- CEO of **ClearlySo** –the first marketplace for social business & enterprise, commerce & investment
- Advisor/Non-Executive Director at several firms including:
 - Ethical Property Company (NXD)
 - The Green Thing (Chair)
 - HCT Group (Advisor)
 - Justgiving.com (previous Chair)
 - Shelter (previous Chair)
- Lecture on Social Finance at Oxford's Saïd Business School
- Columns in Third Sector & Social Enterprise Magazines

Structure of Today's (Controversial?) Discussion

- Cursory analysis of the current economic and financial situation
- Recent developments and issues in social investment
- The case for the emergence of a Social Economy from the ashes of the old one
- What a Social Economy might look like?
- How CDFIs might feature in this Social Economy?
- Possible constraints

One Man's Analysis of the Current Economic and Financial Situation

- A complete meltdown of the financial system
- Crisis deferred at an estimated cost of \$3 trillion
- The full cost will be realised over the next 20 years— seems unlikely to be paid for by the banks (this can be euphemistically described as a “negative externality”)
- The choices we will need to make in the coming decades will be profound, painful and unavoidable
- The current economic slowdown is not cyclical, but represents a discontinuity—really fixing it requires systemic changes

Developments in Social Investment: The UK Picture

- The attraction, growth and utility of Socially Responsible Investment (SRI)
- Microfinance and Cleantech (and selected themes) have boomed and become part of the investment mainstream
- Impact Investment (II) has entered the lexicon, as have “ethical shares”
- Government sponsored/backed II funds and companies have reached a sort of maturity (Bridges, Unltd, NESTA, Venturesome, Futurebuilders)
- Independent firms are attempting to gain traction (WHEB Ventures, Impax, Catalyst)

Developments in Social Investment: Emerging Issues

- Sources of funding—Government, foundations, financial institutions, HNWIs or even individual investors
- Measurement of social “impact”
- Liquidity
- The supply and demand (im)balance
- “Crowdfunding”

Developments in Social Investment: Some Interesting International Cases

- Global Federation of Social Stock Exchanges
- Rockefeller's Global Impact Investment Network
- Renewal Partners' (Canada) first fund close
- Developments spreading across the globe
- Surging interest in the sector (press, business schools, graduates, conferences, the wealthy, politicians)

The Case for a “Social Economy”

- Consumer preferences have profoundly shifted, as:
 - Product and service purchasers
 - Voters
 - Employees (existing and prospective)
 - Investors
- The mainstream investment area has been...disappointing
- Successful UK social/high impact businesses emerging
 - The Body Shop
 - Justgiving.com
 - Organix
 - The Ethical Property Company
- The early phase of the impact of social networking
- Voters are incredibly angry

What a “Social Economy” Might Look Like

- Success measured in financial and social terms
- Investment takes place across a 3D horizon
- Far greater variety of financial instruments to fund more diverse organisational aspirations
- A “tilt” in the tax code to reflect externalities
- Smaller involvement on the part of Government
- Some fundamental changes in “our” democracy

How CDFIs Might Feature: The Market Position of the Sector

- Robust growth since 2001 when CDFA was formed
- Strong historical support from local, regional and central government (and banks)
- A diverse sector meeting a range of vital client needs
- Focus on addressing clients whose access to capital is limited
- Broadly spread across the UK

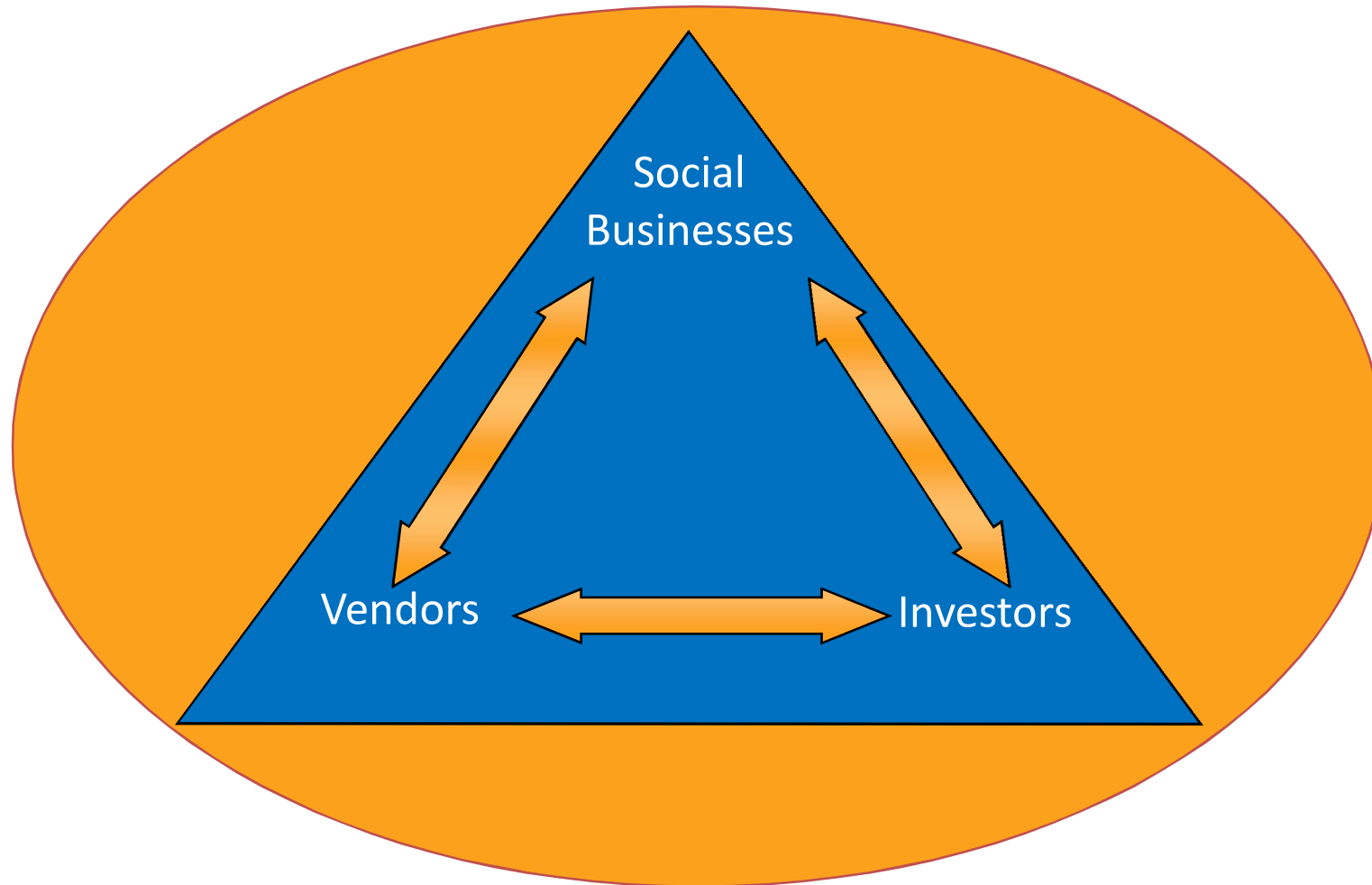
How CDFIs Might Feature: Some Strategic Issues for the Sector

- Varied treatment by Government, creating an uneven and confusing playing field
- Funding uncertainty stemming from the current fiscal predicament
- Potential for “political” risk
- Scale challenges
- Despite progress, a limited public profile
- Primarily anecdotal proof of effectiveness

How CDFIs Might Feature: Suggestions from an Outsider

- Consider mergers to achieve scale
- Reduce your dependence on Government (and banks, which is sort of the same thing 😊)
- Embarrass Government for backing big firms over smaller companies, and favouring businesses over people
- Focus on tapping into local funding sources—explore crowdfunding, for example
- Leverage your community orientation at a time when this has become fashionable (due to de-globalization)
- Increase your profile, by leveraging modern media platforms—its called **social** networking for a reason

ClearlySo has built a marketplace,
which is designed to assist firms like yours...



...and we invite you to join it!

Thank You

rod@clearlyso.com