

Response to Mission-Led Business Review: Call for Evidence

Instructions for responding to the call for evidence

You can fill out this PDF form to respond to the Call for Evidence. Respondents are invited to respond to all questions or only to some.

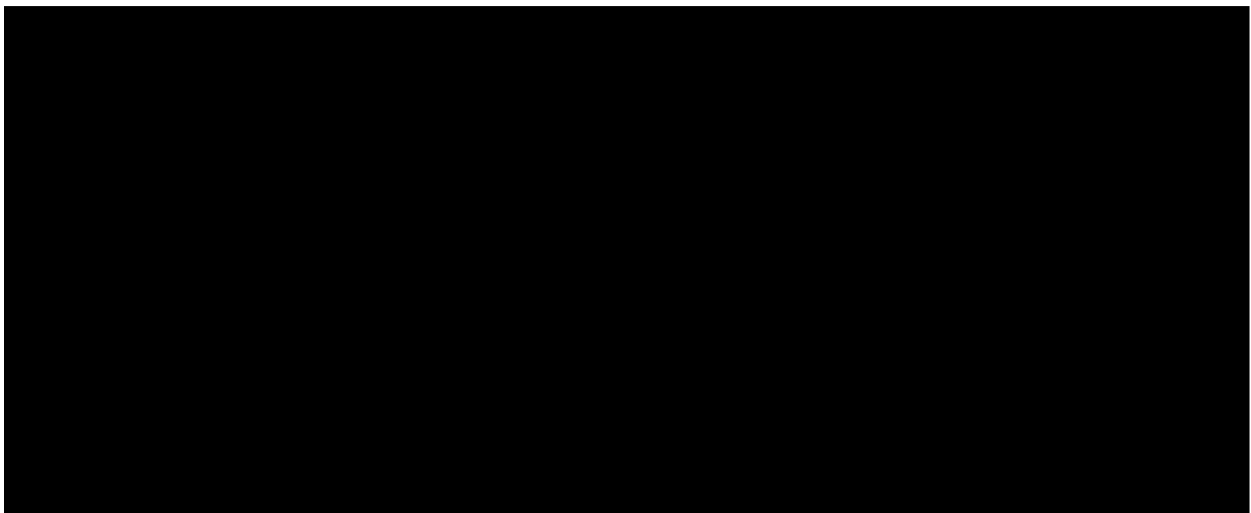
The closing date for responses is 8 July 2016. Responses received after this date may not be read. Call for Evidence responses should be returned to:

missionledbusiness@cabinetoffice.gov.uk

Or if you would prefer to send your response by post:

Mission-led Business Review Secretariat
c/o Alexandra Meagher
Cabinet Office
1 Horse Guards Road
London
SW1A 2HQ

Contact information



Part 1: Profile, drivers and potential of mission-led businesses

Question 1: What do you know about the number and profile of mission-led businesses operating in the UK? Please share evidence.

Involved in Impact Investment since 2005 - Global Head Social Financial Services Ashoka based in the US; Member of Social Agenda Council World Economic Forum; OECD Expert Advisor to G8 Impact Report. Worked in UK for three years in this sector. Dealt with numerous businesses both corporate and social businesses - closely aligned and work with Heron Foundation and 100% club (KL Felicitas) in pushing the MRI and PRI agendas. Involved with UK businesses that could be described as potential MRI. Created the Social Impact Bond to create MRI supply

Question 2: What do you know about the impact of being a mission-led business on business performance and social impact? Please share evidence.

Most of our clients - Bretton Woods, Corporates Foundations and Social Entrepreneurs are seeking MRI wide cross sectoral engagement since 2005

Was involved with both Stephen Lloyd and Marc Owens (former head of Philanthropic regulation for two years) to create legal frameworks for social good,

Can be divided into two aspects

1 - How do you encourage bilateral structures with social mission - ie B Corp (I am on the European Advisory board and assisted B Corp to first pass the first B Corp legislation in Vermont)

2 - Multistakeholder solutions (creation of hybrids allowing multiple social / economic returns inside the structure) - behind the L3C and the SELLP in the UK with Stephen Lloyd and Michael Webber - former UK charity commissioner

Question 3: In your view, what are the ways that quantitative data on mission-led businesses could be better captured over time?

- 1 - Clearer support of community feedback mechanisms
- 2 - Best practice metrics (Bilateral)
- 3 - Recognise metrics are not just bilateral, need to be bench marked relative to each other - ergo does this innovation favourably compare one region to the next; recognising that a social innovation will have multiple economic / social impact
- 4 - Big data - Increased use of data over time when marrying community feedback mechanisms to metrics with big data - should allow the process (like in supermarkets) to become predictive

Question 4: Why would a business set-up as or become a mission-led business? Please share evidence.

- 1 - Social Entrepreneur - it is in their DNA
- 2 - Corporates - understand that the growth markets of the future are in the developing markets which is where their growth will come from- 70% over the next 50 years estimated - issues of water, resiliency, instability education (ie see report we wrote with Brooking and Accenture - titled Education a strategic imperative for business)
- 3 - Declining revenue for Bretton Woods Institutions is resulting in them redefining their intermediate role towards MRI opportunities
- 4 - Investment Houses looking to diversify their product range to higher margin products uncorrelated to normal investments

Question 5: How do you see mission-led businesses developing over the next decade?
Please share evidence.

Following the money

- 1 - The move to Outcome models - making the externality a market
- 2 - Corporates in partnership with Govts to create social goods
- 3 - Corporates seeing that these tools impact their whole value chain and customer offering, product, brand, competitive positioning
- 4 - Application of a wider range of financial opportunities not just VC models
- 5 - Focus on Infrastructure - specifically leveraging South capital Opportunities - there is \$9 trillion of capital in the developing world unaligned with their own economies

Mission-led business - case studies:

If you are a mission-led business, or know of mission-led businesses that you are willing to share publicly, please complete the following table.

If you would like to share examples of more than one business please complete an additional table and submit with this questionnaire.

Name of business	
Contact details for business	
Brief description of business (please keep under 5 lines)	Redefines IP value for the benefit of poor communities - ergo looks at the 98% of intangible value and how share of value can be increased from 1-2% to 6- >35%
Why is this a mission-led business? Please include details on any corporate governance or reporting steps.	Governance, Culture and legal framework
Stage of business development (i.e. start-up, growing, mature, repurposed)	Growing
Industry sector	Intellectual Prpoerty
Geographic focus	Africa / Asia
Evidence of financial growth	Increased exports of Ethiopia by \$200m
Evidence of social impact	Tripled coffe farmers incomes
Any other details (e.g. legal form)	

Part II: Challenges faced by mission-led businesses

Question 6: What are the practical steps that a business can take to make a commitment to deliver on its intention to have a positive social impact?

Clear transparent auditable goals

Buy in of management - ie Bonus structure like Danone - specifically

Integrated into corporate strategy - current disconnect between senior management vision and management at brand level

Needs to be seen as part of core growth strategy / risk management

The 4 I's - Integration, Importance, Interdependence, Integrity

Question 7: Do you think these steps could be better communicated to entrepreneurs and businesses? If so, how?

Same as answer as 6

Question 8: The loss of focus on social and environmental aims has been identified as a potential problem for mission-led businesses (“mission drift”). When do you think this is most likely to happen? What could be done to prevent this?

It happens at times of financial strain.

Need to be clear two paradigms in play

1 - Bilateral MRI businesses

2 - Systems solutions - the move to Outcome solutions

Need to move away from scaling small enterprises to engaging this innovation into larger better capitalised players (Govt and corporates) in hybrid structures

Question 9: Have you identified barriers to new entrepreneurs or established businesses who want to easily convert their intent to make social impact into a long-term or binding commitment?

If yes, please provide details of these barriers, in particular identifying those that may be caused by regulation.

Lack of clear simple transparent regulation - see attached from the late Stephen Lloyd

<https://www.youtube.com/watch?v=jU0BUu8TevE>

Failure at middle management level in Corporates

Lack of vision and programitic constraints in UN institutions who neither have culture or expertise to solve

In most areas incentive are misaligned around programmatic delivery rather than solutions delivery

Question 10: In your view, what are the barriers to a large corporate (including a public company) to becoming a mission-led business or owning a mission-led business within its group structure?

Lack of clarity as to how this fits in shareholder value

No penalty for free riding externalities

No incentives to address them - interesting caveat - stranded assets debate which changed incentives for investment and disinvestment

No current opportunities to invest in joint stakeholder solutions

Most players are still focused on silver bullets along the social value chain noted below - predictably they fail to scale

Aggregation of ideas; Collaboration tools; Metrics; Community feedback / Audit tools; Finance both strategic (Outcome models) and tactical (Tools applicable to an issue)

Question 11: Do you think mission-led businesses have or should have a different culture/values system to traditional (i.e. non mission-led) business? If yes, please provide best practice examples of this.

The assumption in part is wrong here

In an ideal world the not for profit world develops the techniques - the for profit world the values.

Better Solution is aligning incentives so Mission becomes both socially and economically aligned

In part this is about recognising that stakeholders have different economic social drivers - the question is not forcing square holes in round pegs - which will always sub-optimize - but recognise you can create structures where different players take different social economic return - in a regulatory framework that hard wires ethics and social mission

Question 12: What challenges do mission-led businesses face when engaging with potential customers, employees and investors about their social impact?

Again need to ensure incentives are aligned.

Corporates are just beginning to learn that these tools are changing the dynamics with all these stakeholders

Question 13: What do you think is the role of certifications systems (e.g. B Corps) or of frameworks (e.g. Blueprint for Better Business) in helping mission-led businesses engage with external stakeholders?

Again need to consider three aspects certification / metrics

1 - Metrics / certification for best practice

2 - Metrics / certification for best practice in a bilateral framework - ie CIC, B Corp

3 - Metrics for multistakeholder management Partnership frameworks - L3C / SELLP / Hybrid structures

Question 14: What are best practice examples of social impact measurement and how are they being applied by mission-led businesses?

At the bilateral level the Aga Khan foundation has done this for thirty years to create a 70,000 organisation with Revenues in excess of \$3bn.

Equally in the developing world lessons could be learned from BRAC and Grameen

At the systemic level measurement needs to recognise - an innovation is not just a bilateral impact but will impact a range of social issues - also need to be comparative - best example Social Progress Imperative (Michael Green)

Community feedback mechanisms are key to address gap between money and market

Question 15: Have you identified specific barriers to the growth of mission-led businesses? If yes, please provide details of these barriers, in particular identifying those that may be caused by regulation.

Conservativeness of Trustees

Unwillingness of Foundations to engage - in my view they should be forced to have 20% in MRI by 2020

Lack of clarity and simplicity - attempts to reinvent the wheel as opposed to integrating into current structures

Middle management in Corporates do not see benefits

Reward for addressing externalities, encourage mechanisms that leverage an price externalities - ie Stranded assets

Question 16: What do existing mission-led businesses need in terms of support and what do you think could be done to incentivise the creation of more mission-led businesses over the next decade? Who is best placed to do this?

Reform EIS - but make Social Investment much more desirable - ie Real Estate allowed

Govt /.Treasury should learn from CRA audit done by CBO in the US - and see what the model would look like if applied across the economy

Allow MRI like PRI - define terms and incentives

Thank you for your response.



Cabinet Office

Mission-led Business Review Mailbox <missionledbusiness@cabinetoffice.gov.uk>

RE: Share your views on mission-led business

12 July 2016 at 10:23

Felipe - I have managed to submit now via some other software - thanks for your help - and sorry to mess you around - but I am up a Fjord on holiday with limited IT Support...

FYI I was asked by KPMG to make a presentation to the NY Medicaid project - re-engineering a \$65bn program - it relates in part in my comments in Mission Lead Business review.

In that from a governmental perspective there are three opportunities / challenges

1- Aligning a greater percentage of Foundation core funds with Mission Related Investment

2 - Tackling the tax incentives which create fragmentation into ones that create collaboration and scale - so that as Govt outsources social functionality - it does not do so into a fragmented market lacking in scale

3 - Question then becomes is this: i) a - bilateral process or; ii) - as a complex social issue requiring multiple players (for profit and not for profit plus Govt) who require different and indeed differing economic / social outcomes. The attached presentation to KPMG gives some flesh as to how that can be done - by simply replicating a "normal capital market" - ergo unleashing much more MRI - by creating classes of equity that reflect the multiplicity of required social / economic drivers.

This then gets you out of many of the implicit problems with MRI - if you view it simply through the traditional for profit / not for profit lens.

Best Arthur

I

Thanks for your help

Sent: Tuesday, July 12, 2016 10:57 AM

To: Arthur Wood

Subject: Re: Share your views on mission-led business

Dear Arthur,

We are sorry that the format is causing you some trouble.

If you cannot work on the format we set up, please feel free to use a word document, hopefully following the same organisation (questions) we laid out on the PDF.

Should you have any questions or require any additional information please do not hesitate to contact us.

Kind regards,

Felipe

wrote:

Good morning - I have now done this document three times - on each occasion it will not let me email via your link, and does not save and when I tried reloading again it again wiped the document.

I will have to do again - have you another format in which I can send. I am on holiday up a fjord so do not have access

to a printer

Best Arthur



Sent: Saturday, July 9, 2016 11:12 AM

To: Arthur Wood

Subject: Re: Share your views on mission-led business

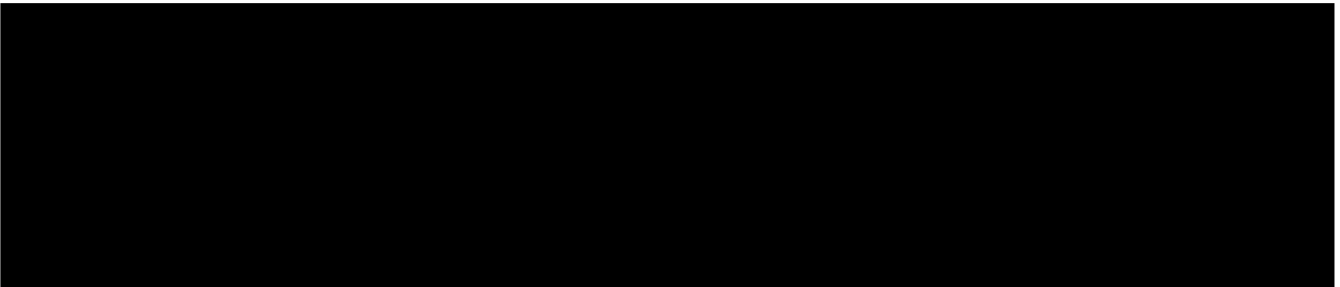
Dear Arthur,

We acknowledge receipt of your email, for which we thank you.

Your active participation in the Call for Evidence will be key to the success of the Cabinet Office's Mission-led Business Review.

We note that the document attached to your email is blank. Perhaps you could re-send us the document that you prepared with the answers?

Kind regards,



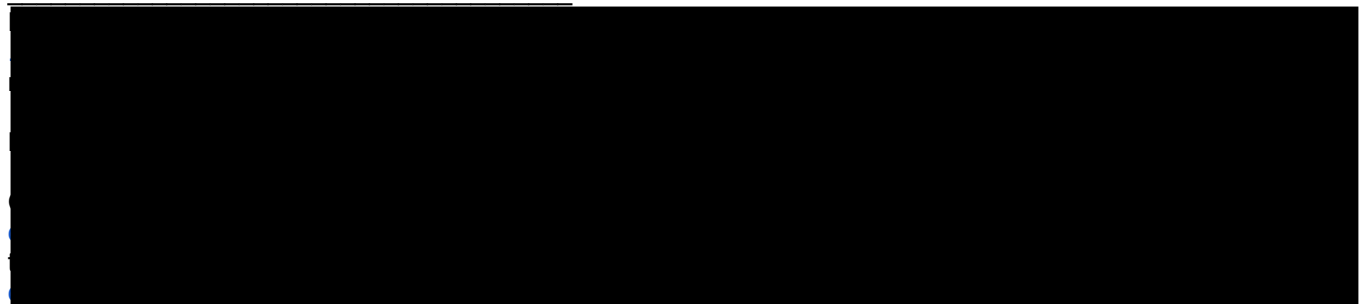
Alexandra - As requested please find attached some feedback on the MRI review.

Probably worthy of note is the assumption that MRI is for profit businesses. A somewhat traditional bilateral view

There is however no reason that you cannot create hybrids where you have different players taking different and indeed different economic social return - so allowing effective cross subsidisation between economic and social mission (as social issues are usually systems issues) - and clearly structured in a way that can be dovetailed to MRI

The difference therefore between a bilateral for profit / not for profit model as implied in your questionnaire - but a systems approach that allows multiple stakeholders either as investors or investees to each take differing social / economic returns - where the focus is on tangible auditable outcomes that trigger multiple metrics payouts and incentivises collaboration and scale - but where the social mission is hard wired by a regulatory framework - avoiding many of the implicit criticisms of MRI in your questionnaire.

Best Arthur



Mission-led businesses are profit-driven businesses that make a powerful commitment to social impact. These businesses attract entrepreneurs and investors who want to [hrcod20a02cda&id=9efb1787ac&e=fac140cd27>](https://mail.google.com/mail/b/393/u/0/?ui=2&ik=6d566b2e8a&view=pt&search=inbox&th=155de6ac19a19859&siml=155de6ac19a19859). The review will look to identify ways to double the social and economic impact of mission-led businesses over the next

Best regards

Alex

Alexandra Meagher
Mission-led Business Review Secretariat

Social Investment and Finance Team
Office of Civil Society and Innovation | Cabinet Office

Suggested tweets

Mission-led businesses are profit-driven & commit to social impact. Share your views! @CabinetOfficeUK
#profitandpurpose bit.ly/1WXIyda<<http://bit.ly/1WXIyda>><<http://bit.ly/1WXIyda>>

Are you building something meaningful through your business? Share your views with @CabinetOfficeUK
#profitandpurpose bit.ly/1WXIyda<<http://bit.ly/1WXIyda>><<http://bit.ly/1WXIyda>>

Call for evidence and views: Help @CabinetOfficeUK understand mission-led businesses bit.ly/1WXIyda<<http://bit.ly/1WXIyda>><<http://bit.ly/1WXIyda>> #profitandpurpose

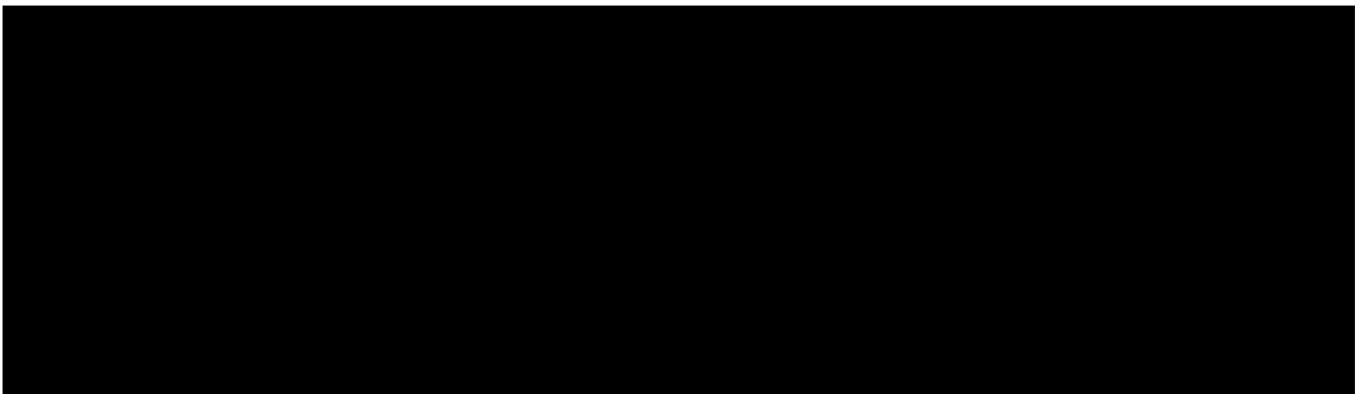
Do you run or advise a mission-led business? Share your views on this sector with @CabinetOfficeUK
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Interested in business and social impact? Share your views on mission-led businesses with @CabinetOfficeUK
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1 message

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Best Arthur

Dear all

Cabinet Office has today opened a Call for Evidence<<http://www.us10.list-manage.com/track/click?u=>

Mission-led businesses are profit-driven businesses that make a powerful commitment to social impact. These businesses attract entrepreneurs and investors who want to hrcod20a02cda&id=9efb1787ac&e=fac140cd27>. The review will look to identify ways to double the social and economic impact of mission-led businesses over the next Best regards

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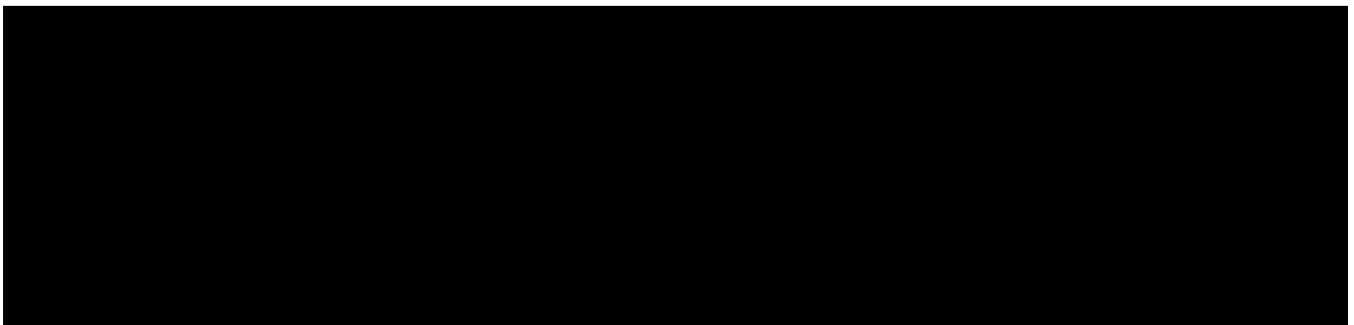
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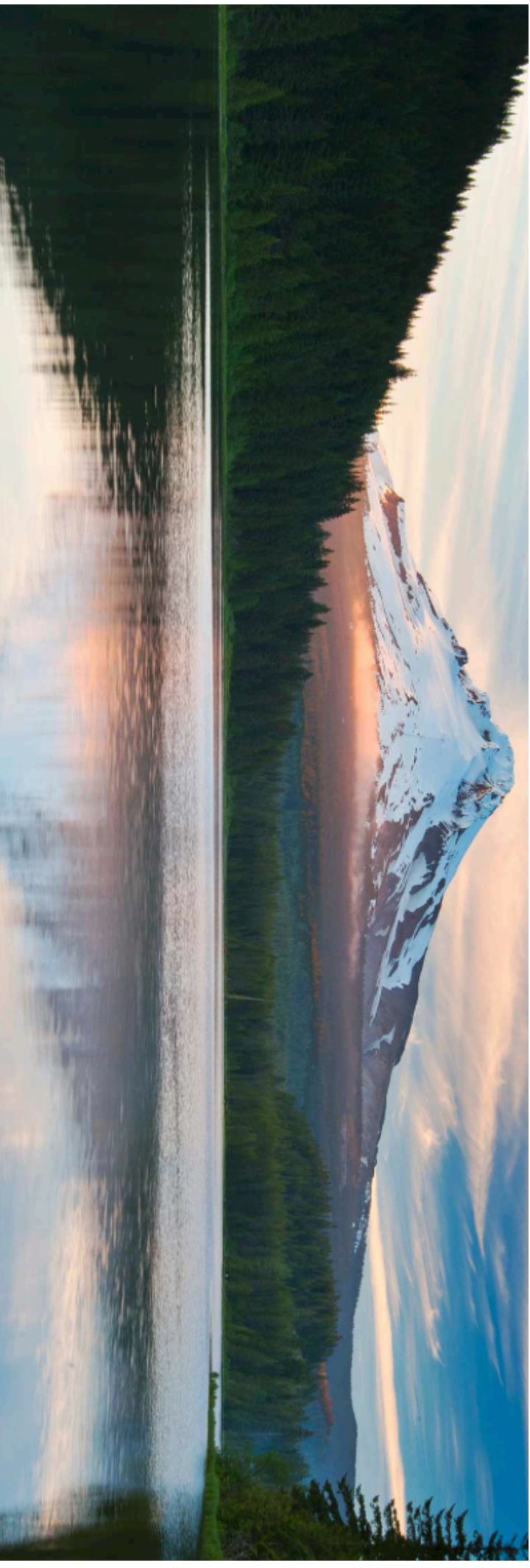
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Response Arthur Wood - CO _ Mission-Led_Business_Review_-_Questionnaire.pdf
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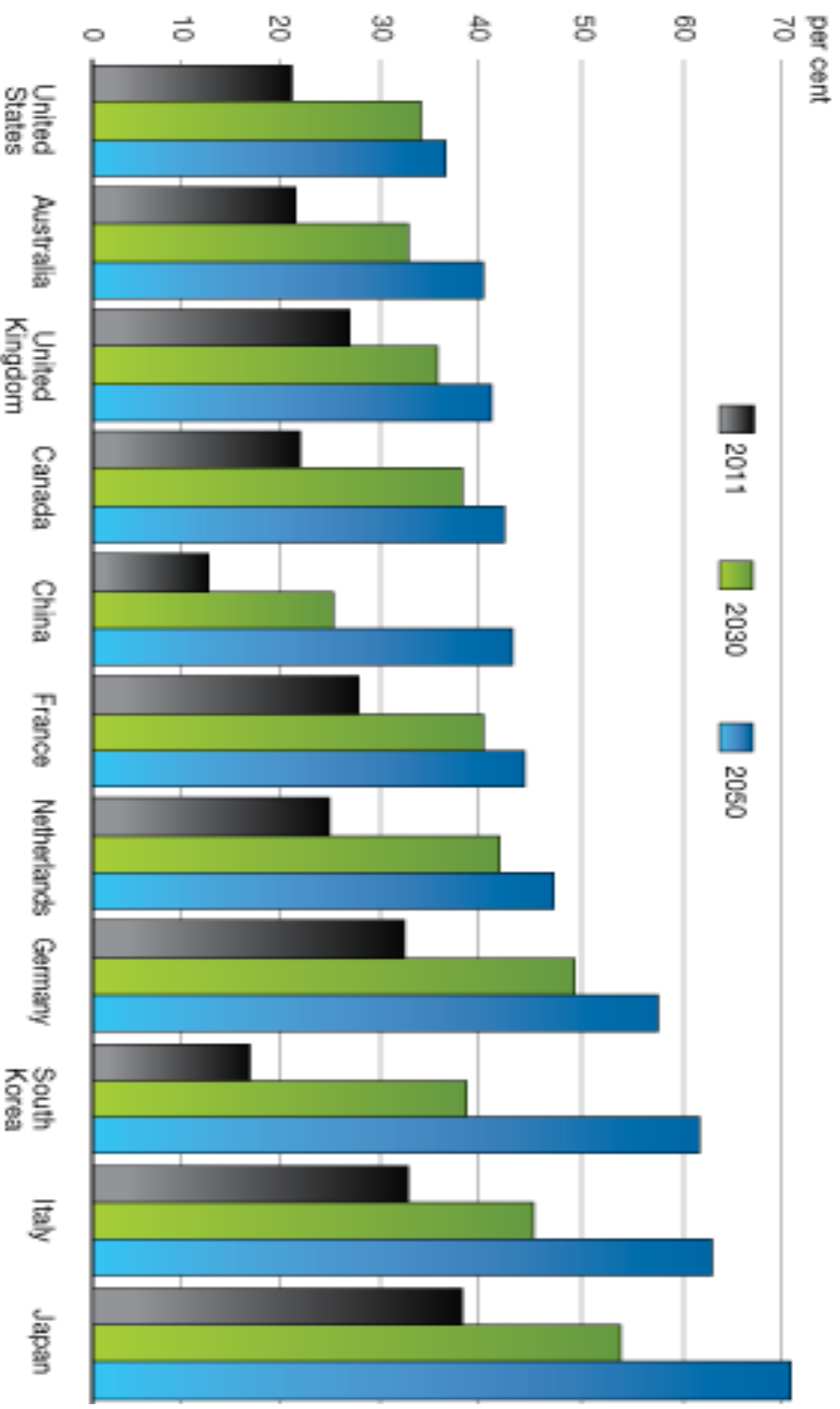
"Nearly every problem has been solved by someone, somewhere. The challenge of the 21st century is to find out what works and scale it up." – Bill Clinton

Securities offered through [Growth Capital Services](#), member [FINRA](#), [SIPC](#). 582 Market Street, Suite 300, San Francisco, CA 94104

THE KEY MESSAGES

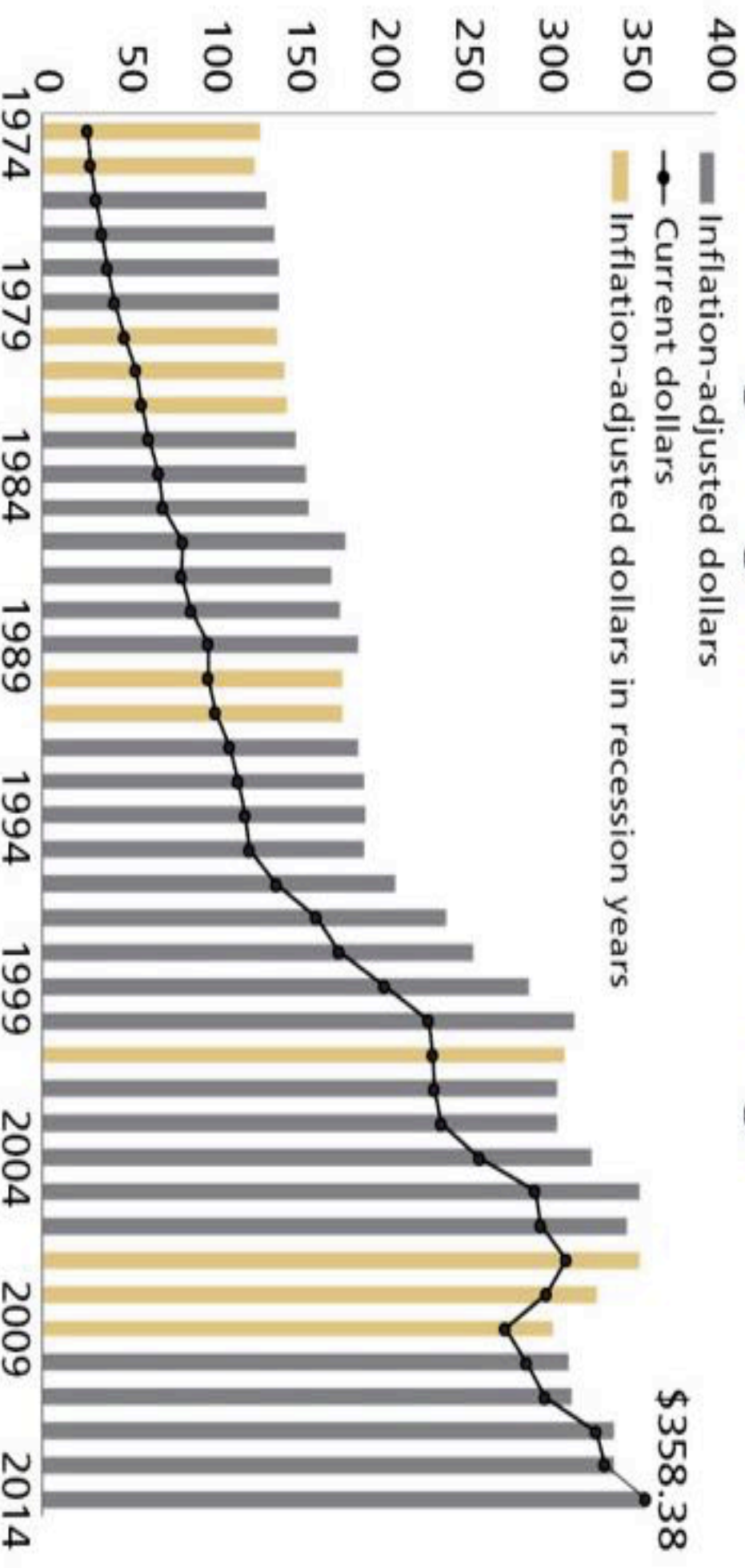
- THE SCALE OF THE PROBLEMS WE FACE AND THE INADEQUACY OF THE CURRENT SOCIAL CAPITAL MARKET
- IMPACT INVESTING IS SIMPLY THE INJECTION OF EXISTING CAPITAL MARKET TOOLS TO CHANGE INCENTIVE STRUCTURE
- SOME OF THESE TOOLS ALLOW A TRANSITION FROM TRADITIONAL BILATERAL MODELS – **INPUT** (THE UN 0.7%) AND **OUTPUT** MODELS
>>> TO TRUE MULTILATERAL COLLABORATIVE SOLUTIONS = **OUTCOME MODELS**
- THREE KEY MARKET DRIVERS – 1 - PRIVATISATION OF SOCIAL GOODS BY GOVERNMENT: 2 – REDEFINITION OF INTERMEDIARY ROLES; 3 - CORPORATES MOVING BEYOND CSR
- MEETING CIVIL SOCIETY INNOVATION (SOCIAL ENTREPRENEURSHIP / IMPACT INVESTING) AND THE GROWTH MARKETS OF THE DEVELOPING WORLD
- SAME DRIVERS AS ANY OTHER MARKET – THE MOVE TO INNOVATION, COLLABORATION AND ECONOMIES OF SCALE (ICE)

AGEING POPULATION – UNFUNDED UNACCOUNTED LIABILITIES + MIGRATION = DECLINING AID BUDGETS....

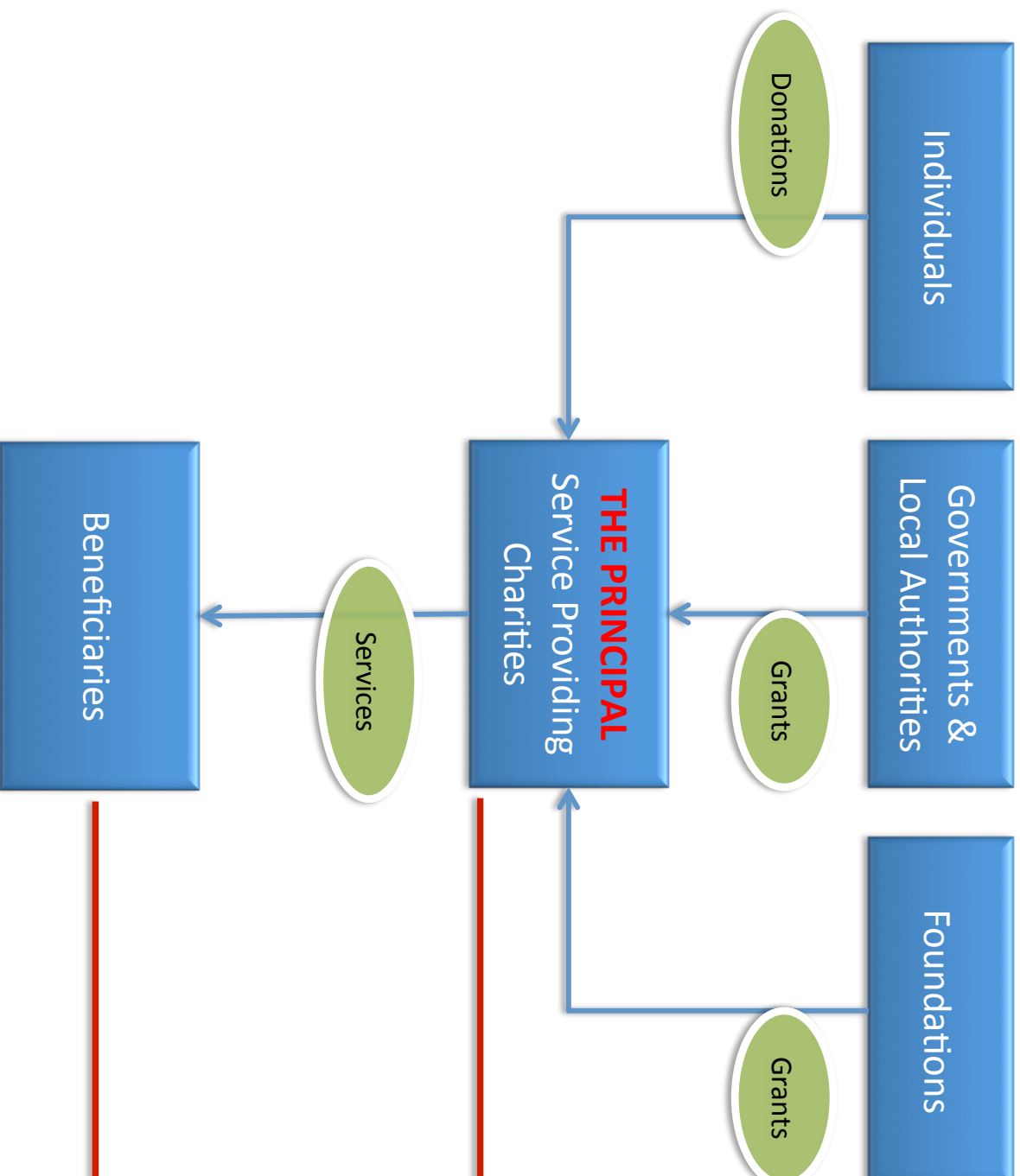


Despite Headlines - i - Flat in real terms; ii – Social orgs grow 40% in ten years; iii- Fragmented and only 5% to Intl Projects ; iv – Under this paradigm \$41 trillion of US inheritance = Only \$50bn pa of new money...

Charitable giving hits a record high



INVESTMENT MODEL TODAY: Foundation Model is broken



FINANCIAL SECTOR - \$1 TRILLION
GLOBAL AUMs estimated with only 2% Mission Related Investment & only 2% of that in social equity (0.04%)

OF THIS ONLY AN AVG 5% PA GRANT ALLOCATION – BALANCE SHEET UNALIGNED AND UNLEVERAGED

- Bankers managing core funds of foundations take 1% -2% fees of \$1 trillion (\$10-20 bn) equivalent to 20% - 40% of all grants per annum

PLUS HIGH FRICTIONAL COSTS

- Cost of allocation: 15%-43%
- Structural Inefficiency and corruption: 5% -80%

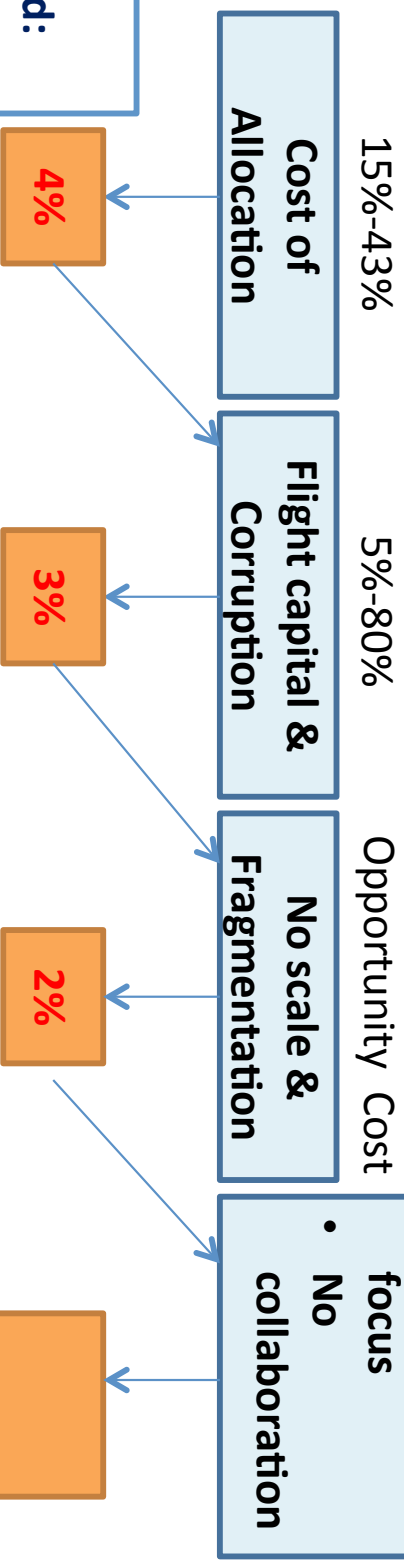
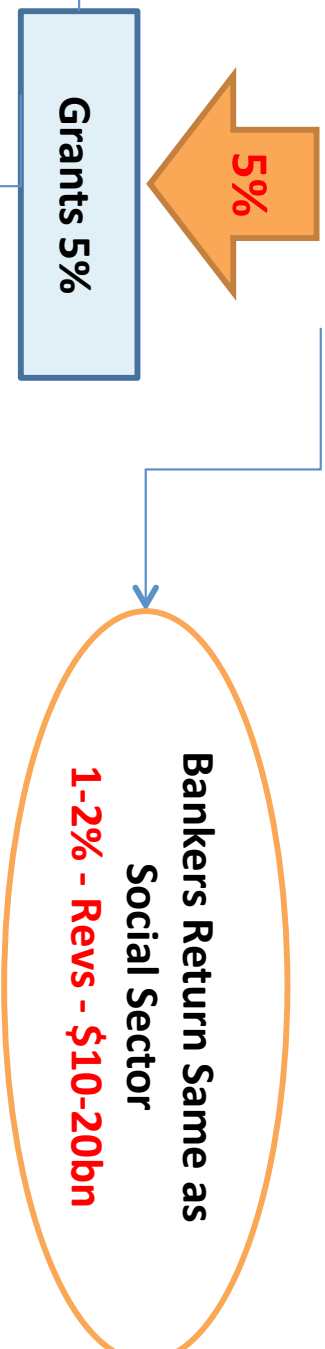
SERVICE PROVIDING CHARITY SECTOR

- No economies of scale
- High Fragmentation
- Nil / Limited collaboration

BENEFICIARIES RECEIVE ON \$1 TRILLION CIRCA 1-3% PA

FOUNDATION MODEL – MONEY FLOW

Only 0.04% of total core funds



- OR
- Top down Government Aid:
- Limited Growth from \$150bn today
 - Fragmented –eg . WASH [UN 30x3] x [GOVTS 30x3]

WHERE IS THE MONEY ?

THE PROFITABLE “NEW” BLENDED IMPACT INVESTING v.2 OPPORTUNITIES FOR GOVT & CORPORATE AND SOCIAL SECTORS

LOWER RISK?
GRANT & AID

FOR PROFIT

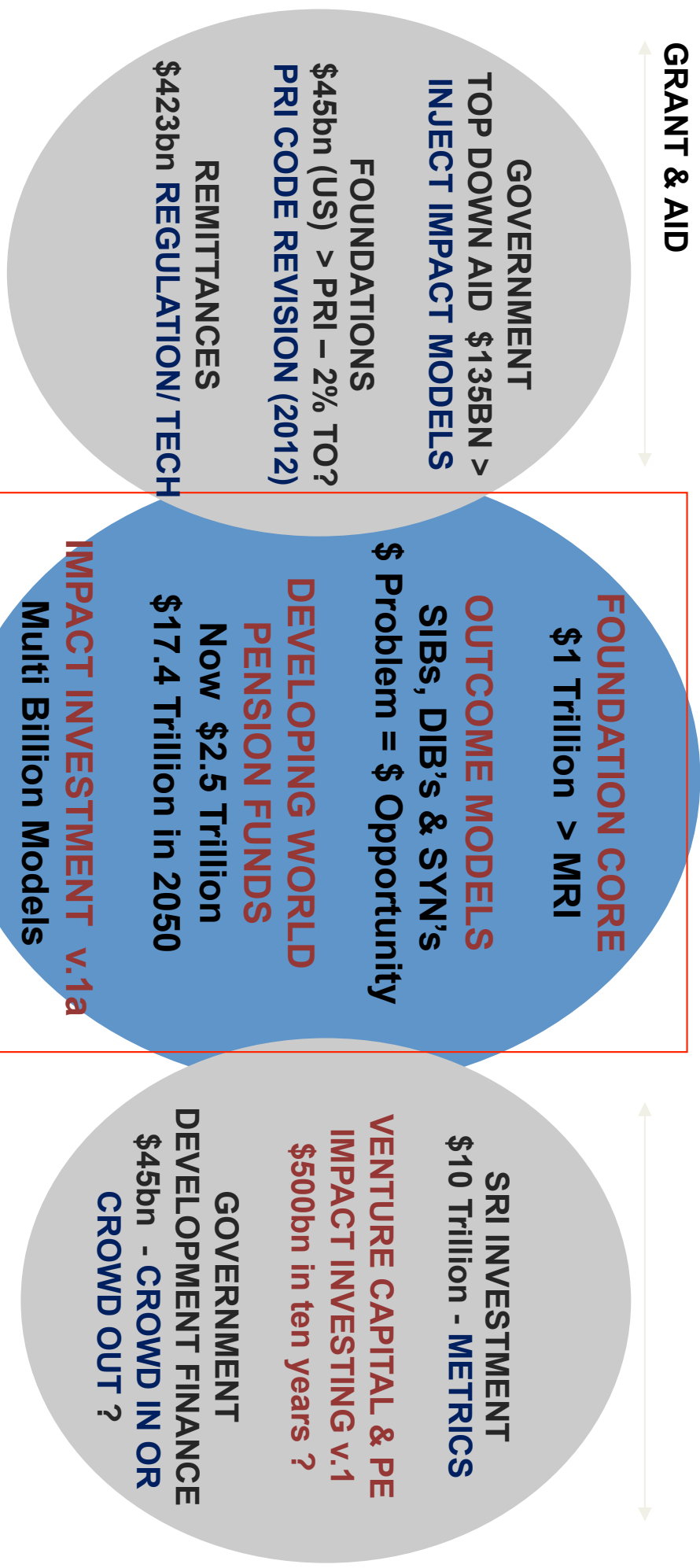
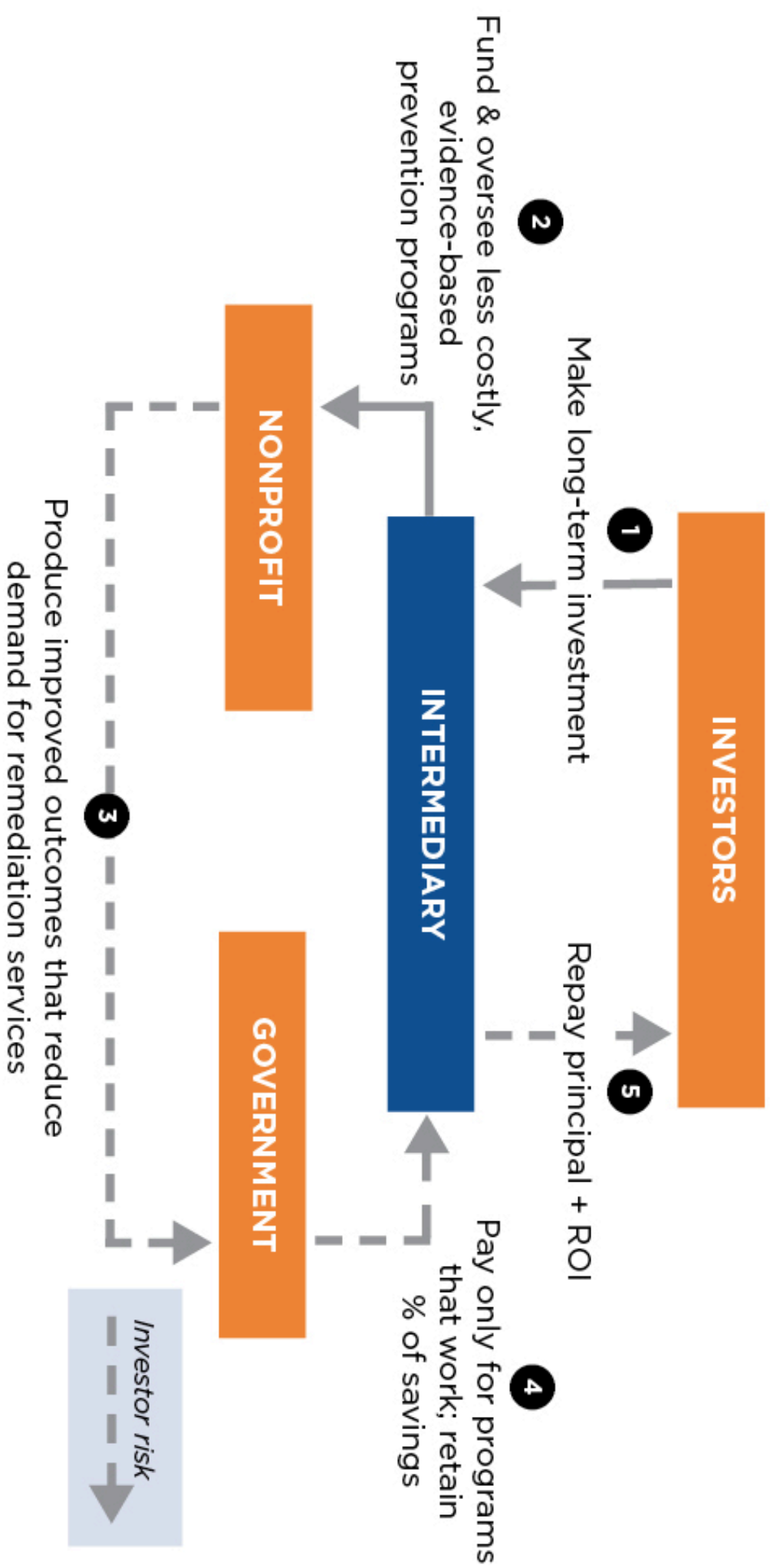


FIGURE 1 **SOCIAL IMPACT BOND MECHANICS**



SIB - The Move to Outcomes

THREE CRITICAL + GOOD THINGS:

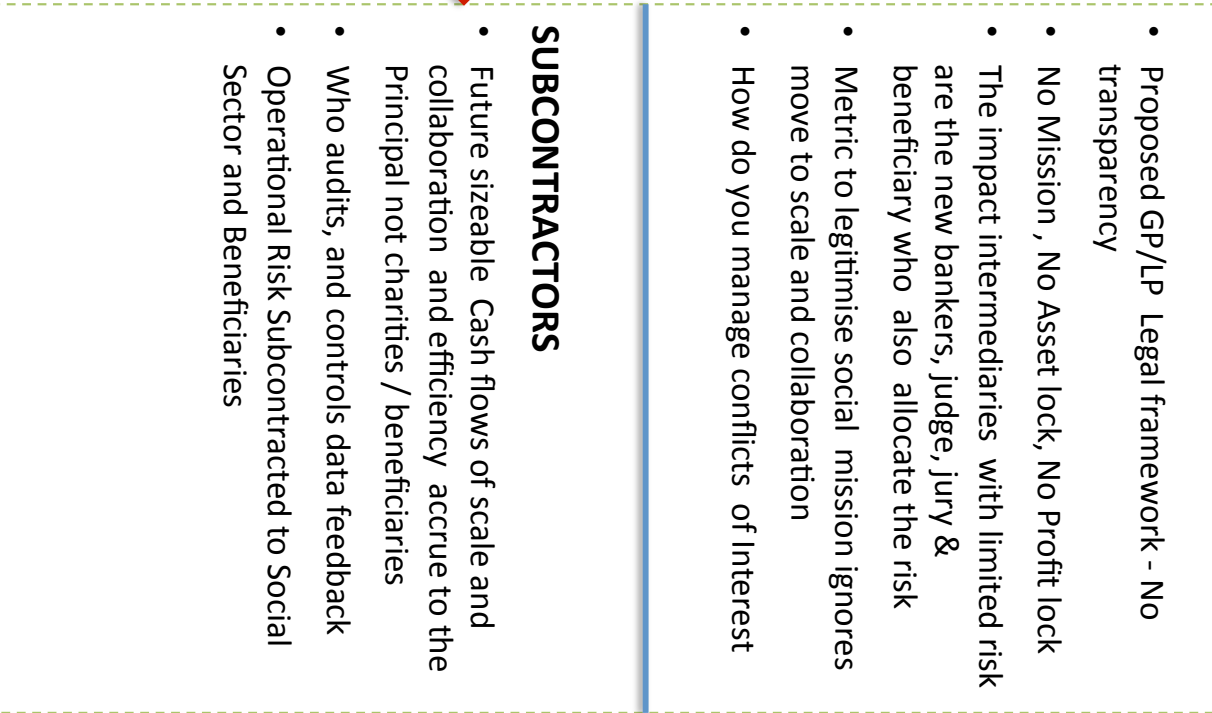
- 1 - No fundamental contradiction between Economic and Social return
- 2 - The quicker the social impact the higher the economic return
- 3 - Change the incentives to collaboration and scale

>> INCENTIVISES - INNOVATION, COLLABORATION AND ECONOMIES OF SCALE (ICE) = HIGHER IRR

>> MONNETIZES - MAKING A MARKET OF THE EXTERNALITIES (WASH \$623BN)

BASED ON THE ACHIEVEMENT OF TANGIBLE AUDITABLE OUTCOMES

– But *why* have they failed to Scale ?



**THE PRINCIPAL IS NOW THE FOR
PROFIT VC IMPACT INTERMEDIARY**

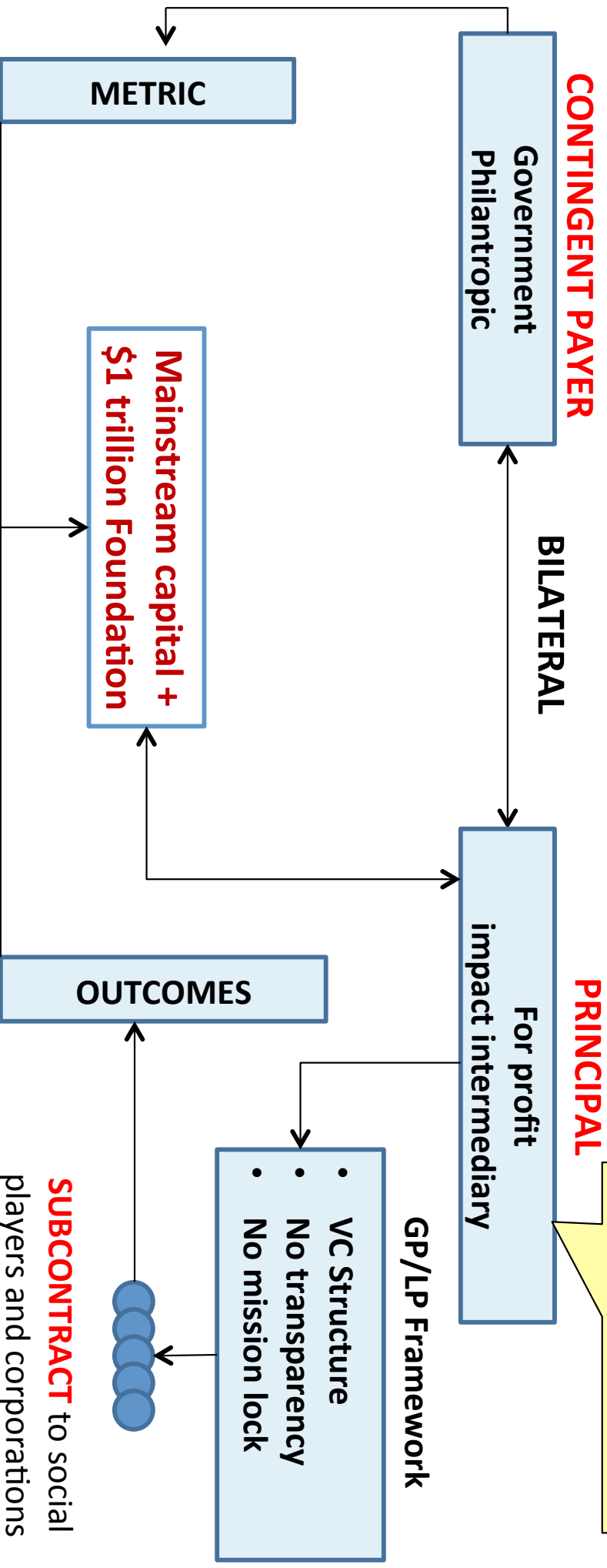
- Proposed GP/LP Legal framework - No transparency
- No Mission , No Asset lock, No Profit lock
- The impact intermediaries with limited risk are the new bankers, judge, jury & beneficiary who also allocate the risk
- Metric to legitimise social mission ignores move to scale and collaboration
- How do you manage conflicts of interest

SUBCONTRACTORS

- Future sizeable Cash flows of scale and collaboration and efficiency accrue to the Principal not charities / beneficiaries
- Who audits, and controls data feedback
- Operational Risk Subcontracted to Social Sector and Beneficiaries

TRUST AND WHO GETS THE RISK AND RETURN ? – MONEY FLOW

**The New Bankers
Judge, Jury and
Beneficiary who also
allocate Risk**



FOR PROFIT VC GETS MARGIN OF

- Financial innovation
- Asset Management
- Scale
- Collaboration
- Social Entrepreneurship

- ## FOR PROFIT VC GETS MARGIN OF
- Financial innovation
 - Asset Management
 - Scale
 - Collaboration
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IMPACT INVESTING

**Outcome Models – An Integrated
Model that moves from Product
Silos to Collaborative Platforms**

A REPLICABLE OUTCOME PLATFORM WORK FOR SANITATION

Innovation

Collaboration

Economies of Scale

SAME PROCESS FOR ALL SOCIAL ISSUES LEVERAGE OFF WHAT HAS BEEN BUILT !

- AGGREGATION OF IDEAS >> SPHAERA (ROCKFELLER – RESILIENCE)
- COLLABORATION TOOLS >> SCANDANVIAN PUBLIC ENTITY
- MISSION LOCK - MUTUAL OWNED BY THE SECTOR AND FINANCIAL STRUCTURE >> THE SYN - (EQUITY PRI – FOUR REGULATORS – CHARITY AND BANKING)
- METRIC MANAGEMENT SO CLEAR HOW IT IMPACTS ALL THE SOCIAL ISSUES AND INTEGRATES INTO SDGs >> SOCIAL PROGRESS INDEX – WEF BORN – EU JUST USED

- AUDIT COMMUNITY FEEDBACK TOOLS >> THE TRIP ADVISOR FOR DEVELOPMENT – GLOBAL FUND

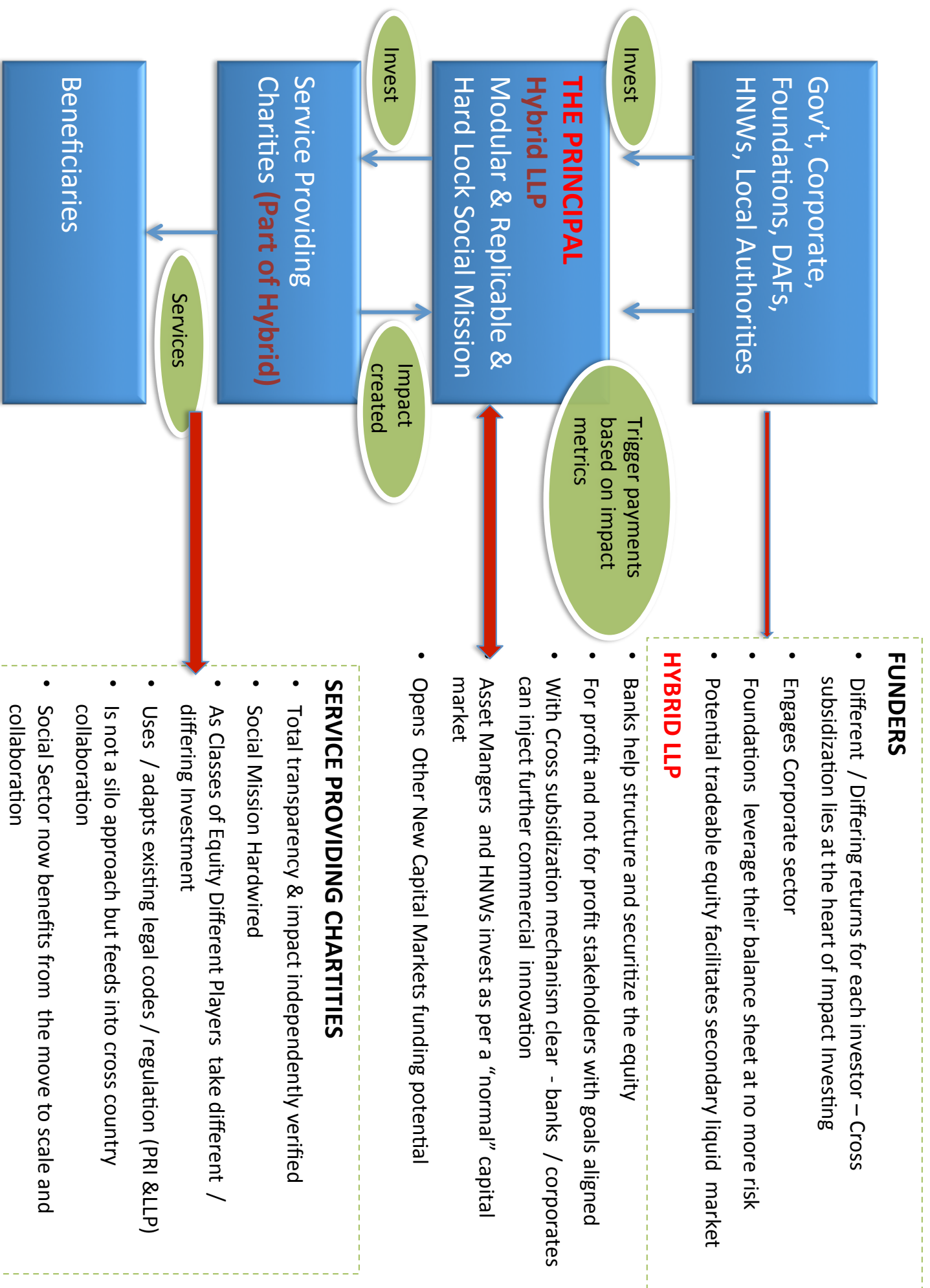
- FINANCIAL PLATFORM THAT LEVERAGES PRIVATE CAPITAL >> Rianta / IADB

- TECHNOLOGY THAT MEASURES AND ALLOCATES VALUE CREATED INSIDE

~~DISCRETE PARTNERSHIPS (AND TO OTHER ISSUES) >> BLOCKCHAIN~~
TOTAL IMPACT

ADVISORS

THE FINANCIAL TOOL - FINANCIAL EQUITY = SOCIAL MISSION = SOCIAL EQUITY



SYN MODEL WHERE SOCIAL EQUITY = FINANCIAL EQUITY – INVESTMENT PROCESS (BLUE)
SAME AS “NORMAL” CAPITAL MARKET - EQUITY STRUCTURE & SOCIAL MISSION HARD
WIRED IN PRODUCT (YELLOW / WHITE). STANDARD INSTITUTIONAL ROLES (RED)

CONTINGENT PAYERS

- Government
- Corporate
- Foundations
- HNW/DAFs

MULTILATERAL

PRINCIPAL

Hybrid LLP with social mission
with Differing returns for:

- Civil society
- Corporates
- Local govts.
- Other Stakeholders

BANKS

STRUCTURER

= Innovation
+ Competition
+ Replicable
+ Modular

CREATES EQUITY

ie Securitize

Standard Equity

ASSET MANAGERS / PRIVATE BANKS MRI

STANDARD LEGAL STRUCTURE

(LLP + PRI + Structured Product)

- **OUTCOMES** different over economic / social cycle
- **TRANSPARENT** Creates Inter, Intra and cross border collaboration
- **REGULATORY** - Social mission hard wired in Product
- **TAX** Transparent – Look thru

CLASSES OF EQUITY ALLOWING

- SECONDARY LIQUIDITY
- INVESTOR DEFERRING RISK / RETURNS
- STAKEHOLDERS DIFFERENT METRICS + INCENTIVES

Standard Investment
\$ 1 trillion – MRIs +

Main stream investors