

# **Creating Social Capital Markets for Fourth Sector Organizations: Opportunities and Challenges**

**June 14, 2007 Forum at Google, NYC**

**Sponsored by:**

**The Aspen Institute's Nonprofit Sector and Philanthropy Program and  
the Fourth Sector Network, in collaboration with the Calvert Social Investment Foundation  
and The Case Foundation**

## **Meeting Summary**

On June 14, 2007, the Aspen Institute and the Fourth Sector Network, in partnership with the Calvert Social Investment Foundation and The Case Foundation, brought together 30 capital market innovators to discuss new developments in social capital markets. Underlying the June roundtable was the long-term interest of the meeting sponsors in easing the access of social-purpose organizations to existing sources of funding, growing new types of capital, and organizing a high-performing landscape of actors who can work together seamlessly to deliver more funding at a faster pace to enterprises working for the common good.

### **Background**

Peter Reiling and Alan Abramson of the Aspen Institute ([www.aspeninstitute.org](http://www.aspeninstitute.org)) welcomed participants at the June meeting. Their colleague, Rachel Mosher-Williams, then described Aspen's ongoing work in the area of social enterprise. The Aspen Institute's Nonprofit Sector and Philanthropy Program ([www.aspeninstitute.org/nspp](http://www.aspeninstitute.org/nspp)) is commissioning research and hosting roundtables to promote understanding and advance the development of the broad social entrepreneurship field.

A particular area of interest is the set of emerging organizational models that blend traditional business strategy, accountability to multiple stakeholders, environmental friendliness, and innovative systems change. Whether the issue is jobs, health care, education, or reducing global warming, these hybrids of values-driven business and market-driven charity are shaping a new field – some call it a “Fourth Sector” – that holds significant promise for solving major social problems.

Recently, the Institute has explored the question of whether there should be a new legal form in the U.S. for these Fourth Sector ventures. (A summary of Aspen's September 2006 roundtable on “Mixing Mission and Business: Does Social Enterprise Need a New Legal Approach?” is available at: [http://www.nonprofitresearch.org/usr\\_doc/New\\_Legal\\_Forms\\_Report\\_FINAL.pdf](http://www.nonprofitresearch.org/usr_doc/New_Legal_Forms_Report_FINAL.pdf))

The Aspen Institute is also engaged in work that seeks to increase social entrepreneurs' access to capital. Many social entrepreneurs still depend heavily on traditional governmental and philanthropic sources of funding. An important question is whether there are new funding sources or financing mechanisms they can tap. The Aspen Institute is in the process of commissioning a white paper that will synthesize existing information on the most promising avenues for better capitalization of social entrepreneurs, reaching broadly across several fields such as community development finance, banking, small business, and investment. The June 14 roundtable was part of Aspen's work on increasing access to capital.

## **Presentations**

Following Mosher-Williams, Heerad Sabeti of transForms, FB, and the Fourth Sector Network (<http://www.fourthsector.net/>) gave a presentation on the emerging Fourth Sector. According to Sabeti, a Fourth Sector, made up of organizations which combine a social mission with the practices associated with earned income, is developing as a result of growing pressure on business to deliver more social benefits, while government and nonprofit organizations are increasingly expected to be more business-like in their approach by adopting earned income strategies and applying the processes associated with market discipline. Also called “for-benefit” organizations, the pioneering hybrid organizations that are beginning to appear on the Fourth Sector landscape:

- have both a mission-related and a “beyond mission” social purpose;
- rely on the processes associated with market discipline, with a primary emphasis on earned income strategies;
- are committed to distributed – or broadly shared – governance and ownership;
- share proceeds with key stakeholders;
- compensate employees in a manner that rewards entrepreneurial engagement without undermining stakeholder equity or the enterprise’s social mission, and accounts for social and environmental (as well as financial) performance; and
- are transparent in reporting to stakeholders about their social and environmental performance.

Sabeti emphasized the need to accelerate the development of Fourth Sector organizations, and suggested this could be accomplished through the rapid rollout of a supportive ecosystem – or infrastructure – for the field. Some key elements of this ecosystem include:

- favorable capital markets;
- supportive legal and regulatory constructs;
- compelling, credible assessment tools, accompanied by protocols to ensure accountability;
- knowledge creation and transmission; and
- common language and terminology.

Tim Freundlich of the Calvert Foundation for Social Investment (<http://www.calvertfoundation.org/>) followed with a PowerPoint presentation on “Reframing Some of What We Know About the Social Capital Markets.” Freundlich highlighted the continuum of different types of capital available for social investing, from market-rate capital (e.g., socially-screened funds, like Calvert and Domini) through near-market rate capital (e.g., social and community development venture capital, like Pacific Community Ventures and Investors Circle) to capital that does not yield a return (e.g., strategic philanthropy, like REDF and Social Venture Partners). He also described a maturing of the social investing field, with greater understanding of a richer spectrum of social value creation. Freundlich would like foundations and other social investors to put more – or even all – of their assets “on the table,” citing favorably the F.B. Heron Foundation’s practice of mission-related investing. Finally, he echoed Sabeti’s call for the establishment of a supportive ecosystem for social-purpose organizations.

## **Group discussion**

Following the presentations, the Social Capital Markets forum continued with a lively discussion among meeting participants. To advance the field of social investing, forum attendees cited the need for:

- clearer definitions and typologies of different types of social-purpose organizations and different types of financing: “Being sloppy [with definitions] screws us;”
- better metrics to capture the broad range of social and environmental impacts of organizational activity;
- a sense of urgency in our efforts to expand social investing: “The fate of our species on this planet may be at stake;”
- better risk assessment information for social investors, as Morningstar or Moody’s provides for business investors;
- greater experimentation with new types of design for social-purpose organizations, as the B Lab ([http://www.bcorporation.net/about/behind\\_b\\_lab.php](http://www.bcorporation.net/about/behind_b_lab.php)) and Corporation 20/20 (<http://www.corporation2020.org/>) are facilitating;
- a 3-4 day forum that promotes meaningful sharing and results in “product development” and not just the formation of another “working group;”
- a “how-to” guide for mission-related investing;
- more financial intermediation in the social investing arena generally, as already occurs in the community development field; and
- a Fourth Sector summit.

Mosher-Williams concluded the June 14 forum with an announcement of the Aspen Institute’s interest in working in partnership with the Fourth Sector Network to convene a new “Fourth Sector Strategy Group.” The strategy group will be a leadership forum for discussing the broad values fueling the social enterprise field; identifying the critical strategic issues needing attention from entrepreneurs, investors and other funders, policymakers, and scholars; making recommendations for facilitating action on these strategic needs; and helping to develop a more explicit sector identity. The strategy group will include a diverse but consistent group of 15-20 social entrepreneurs, business leaders interested in social change, government and nonprofit leaders, and funders who are committed to working together to address shared concerns and promote a shared vision.

For additional information about the June 14, 2007 forum (including copies of the meeting presentations) and the Aspen Institute’s work on social enterprise, please contact Rachel Mosher-Williams, project director in the Aspen Institute’s Nonprofit Sector and Philanthropy Program, at [rwilliams@aspeninstitute.org](mailto:rwilliams@aspeninstitute.org) or 202-736-2501.