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How can finance build community?
Dear Friends,

Recently, I met with an organic food entrepreneur at a large trade show in Anaheim, California. This entrepreneur, who is seeking a loan from RSF to expand her business, had just been interviewed by a journalist.

She introduced me to the journalist, and could have talked about what we do at RSF—as lender to many of the leading organic food companies: Numi Tea, Happy Family, Mary’s Gone Crackers, Late July, Revolution Foods, Guayaki, etc.

Instead, she talked about how we do it—our unique approach to working with money.

“It’s not just about getting more funding to great entrepreneurs like me who are changing the world,” she said, “RSF is actively creating a whole community, connecting entrepreneurs with each other, investors with each other, entrepreneurs with investors—making the process much more direct. It is so old-school, I love it!”

This was music to my ears.

So I will kick-off our Social Finance issue by making very clear what differentiates RSF from a commercial bank or any other financial intermediary. It boils down to this:

We have found that if participants in a financial transaction can be more visible to each other—if they can understand each other’s needs and intentions, and sustain a personal connection whenever possible—then risk decreases and fulfillment increases. We believe this is nothing less than an antidote for the adverse impacts of modern finance.

But let’s step back and acknowledge the systemic problem first, because it is huge. For most of us, we simply don’t know where our money is going anymore; we are almost completely disconnected from the real consequences of our economic and investment activity.

As a result, we are experiencing a multi-layered spiritual crisis. Not only are natural resource depletion and climate change creating anxiety, not only is severe income inequality creating conflict, but we must now also come to grips with the fact that until many of us make significant changes in what we buy, where we bank, how we invest…we are all contributing to these problems.

A FEW THINGS TO CONSIDER

Regarding banks, our policies are enabling a small number of multinational corporations to control an entire sector of the economy. This runs against all the ecological principles we know: that any living system gains strength and resilience to the extent it is diversified and de-centralized. It also runs completely counter to the American spirit of entrepreneurship. The recent bank bailout amounts to privatizing profits and socializing losses for big corporations.

“…until many of us make significant changes in what we buy, where we bank, how we invest…we are all contributing to these problems.”

And each quarter brings increased levels of volatility in financial markets. We continue to see problems with high frequency trading and liquidity shortfalls that lead to dips in the market that then send investors fleeing due to a lack of understanding and fear.

One could argue that an individual investor with a long-term buy-and-hold approach does not need to be as concerned about these short-term issues, or that increased regulation will mitigate the problems. I would posit that we can’t count on the regulators. The financial services industry spent $2.3 billion on federal lobbyists between 1990 and 2010, more than the healthcare, energy, defense, agriculture, and transportation industries combined.
A NEW NORMAL

At RSF, we believe we have entered a ‘new normal’ economic period that may last for a long time. For individuals and families this means more saving, less debt and less purchasing of non-essentials. For investors this means lowered expectations of financial returns.

We believe this long-term trend is good. We believe it is healthy to have less consumer debt and spending on non-essentials. We also believe it is rational for investors to expect lower returns. We believe the 60-year period following World War II will be viewed as a historical anomaly, in terms of artificially high investor returns.

Within the next ten years, we believe that new measures of well-being and quality of life will begin to be implemented in major countries like the U.K., and will rival GDP as the predominant metric of economic health. In addition, we have already begun to see that the B Corporation and other hybrid corporate forms are going mainstream; social and environmental impact assessment are becoming standard practice for leading companies; and these companies are starting to receive increased investment.

Finally, we believe our centralized global economy dominated by large transnational corporations will begin to be supplanted by a network of diversified regional economies, where small- and medium-sized, triple-bottom-line businesses produce the most jobs and hold the trust of their communities.

In order for this transition to happen in a timeframe that meets the urgency of our current situation, we need to provide the right kinds of support to those who are on the leading edge of this shift: promising social enterprises and the networks facilitating their development (BALLE, B Lab, etc.) need sufficient funding; and individual investors and donors who are challenging conventional investment practice and philanthropy need opportunities for experimentation and learning, including strong networks like Slow Money and Tonic.

The articles in this issue offer some insight into how we at RSF are helping to make this happen.

INTEGRATED CAPITAL AND REGIONAL FOOD SYSTEMS

A powerful role for RSF is emerging: to use our unique ‘integrated capital’ approach to create diversified regional food systems based on organic & biodynamic agricultural practices.

At our 25th anniversary celebration in September 2009, we convened a group of social finance leaders who said, “If we get food right, everything else will follow.” Our clients are increasingly asking for us to do more in this area. And we have a long track record and deep networks in sustainable food and agriculture, in addition to the foundational basis in Rudolf Steiner’s work with biodynamics and associative economics.

In many ways, food is the root system within a healthy regional economy, and the local food movement has gained incredible momentum over the past few years.
There are a multitude of projects that need investments, loans, and grants within the food sphere: growers, processors, distributors, retailers, and value-added product companies. We can also define agriculture to include any product that is grown, harvested, and processed directly from the earth: fish, textiles, forests, water & land itself, etc.

In recent months, RSF has supported efforts to bring healthy food to underserved populations using the following different types of capital:

1. **Seed Fund**: Grant to an organization called Community CROPS in Lincoln, Nebraska that provides farming instruction and English language training for new immigrants.

2. **Shared Gifting Fund**: Grant to Movement Generation’s justice and ecology project that offers permaculture courses tailored to meet the needs of local grassroots organizations in communities of color.

3. **Donor Advised Funds**: $3M fund recently established to support regional food processing and distribution. One of the first grants will support the Great Lakes Food Hub Network, which works with African American farmers and local food hubs.

4. **PRI Fund**: Low interest loan to Hana Health in Maui, Hawaii. Hana is a community made up of mostly low income native Hawaiians. Hana Health operates a six-acre diversified organic farm, profitable farm stand, and health clinic with a mission to encourage preventive healthcare through nutritious food.

5. **Social Investment Fund**: Loan to Guayaki Yerba Mate, which imports organic, sustainably grown yerba mate from South America. The company’s mission is to restore 200,000 acres of South American Atlantic rainforest and create 1,000 living wage jobs by 2020.

6. **Mezzanine Fund**: Loan to Dancing Deer Baking Company, which provides jobs to low income residents in Boston, MA. The company seeks to sell their organic cookies and brownies in mainstream grocery stores at an affordable price point.

7. **Liquidity Portfolio**: Certificate of Deposit with Southern Bancorp, which operates community banks and development organizations that work together to promote comprehensive development in the Delta region of Arkansas and Mississippi. They support farmers and value-added food products; 75% of its loans are for $25,000 or less.
   [https://banksouthern.com/our-companies/sbcp/](https://banksouthern.com/our-companies/sbcp/)

8. **Impact Portfolio**: Equity investment in Elevar, a unique microfinance fund working in India, South America, and Africa that keeps a much higher percentage of investment returns circulating in the local economy through technical assistance and other related services; many of those served are agricultural enterprises.

9. **Transformation Portfolio**: Loan to Corbin Hill Farm, which has grown its CSA from serving 200 families to over 1100 families since we made the low-interest loan. This CSA has taken on the challenge of exclusively serving low-income families in Harlem and the South Bronx.

Using this integrated capital approach (coordinated investments, loans, and gifts to address a particular problem), coupled with targeted sponsorships of the networks and conferences that support social enterprises, we have become an important contributor to a rapidly-transforming food system. Stay tuned for more innovative ways that we are going deeper with this strategy. In the spirit of co-creation, please let us know if you are interested in working more closely with us in this area.

Thank you & all the best,

Don Shaffer, President & CEO
How We Talk About Social Finance

By Mark Finser, RSF Chair of the Board and John Bloom, Senior Director, Organizational Culture

In 2004, we began to refer to our work at RSF as social finance. John Bloom and Mark Finser discuss that shift and our ongoing role in this developing field.

**John:** One of the comments that has been made about social finance even as a concept is that you can’t possibly have finance that isn’t social by definition. For finance to happen it takes relationships and transactions of all sorts. So, what do we really mean by social finance?

**Mark:** I think it’s being conscious of the way money works to connect people. It’s not just allowing the chips to fall the way they can, but to really consciously be mindful of the consequences of one’s financing, what the ripple effect is, and what kind of social impact that could have. I’m not stuck on the term, because I think at the end of the day if we are successful it will just be good finance.

**John:** You mean that it will become the norm?

**Mark:** Exactly. And people will know that a triple or quadruple bottom line makes good business sense—plus it really will benefit the planet and the people, and the culture in which it’s embedded.

**John:** When we talk about social finance, does that have something to do with a set of values or intentions that one is investing with it? Is it more of an outcomes process?

**Mark:** And, where do we push the envelope, where do we encourage a new world that we want to imagine, while recognizing that it’s always moving? In terms of outcomes, it’s a moving target. But we must realize that our financing is collusion if we’re just continuing with what’s currently the case, just allowing the status quo.

I would never want to come across as if we know it all. I think for us, we’re always questioning and practicing. And we’ve always invited all sectors, our borrowers, our grantees, our donors, and our investors to join us and to participate in that process.

**John:** I’m going to change the topic, if that’s okay. In a perfect world, do you think private wealth would be privately owned, or should there be something else in place that is more public in nature, more of a common good focused group that looks at wealth in a different way?

**Mark:** There’s a statement I read of Steiner’s where he asks about: What would it be like if human beings, when they’re born, have a right to a certain plot of land that was really theirs to cultivate, to have a shelter on, and where one could work in community in that regard? When I look at capital—or at least surplus capital—I also see it in relationship to our commons, to the land and to the air, and to the water that we all have in common.

I’m really struck by this whole concept of trusteeship, which Terry Mollner talked about, and how we really are trustees, whether it’s the land or capital that we receive.

**John:** I think that draws a very important distinction between ownership as almost a spiritual deed versus ownership as a right.

**Mark:** Yes, there is responsibility in every experience of ownership, and also transaction. Carlo Petrini, for instance, calls consumers co-producers. I really like that because you’re part of helping that production to happen by being engaged. We at RSF like to talk about this whole idea of associating with a wider constituency and basically creating a different kind of economics and a different kind of social finance that’s based on associative principles, where all stakeholders are engaged. This then will create a stronger company, it will create a stronger community, and it will create a better possibility for return of the investment.

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When we transitioned from the fast-paced, high impact, status quo challenging culture of Silicon Valley in 2000 to the world of philanthropy, we were perplexed by what seemed to be a world in inertia. The very capital that should be taking the highest risk—grant capital—was being deployed in ways that were inefficient, risk adverse, lacked accountability and did not produce measurable long-term sustainable change.

That same year we challenged our investment advisor to show us investments that would make the world a better place. Much to our surprise, we ran into the same inertia. The resistance to change, in two entrenched industries that manage a lot of the world’s financial resources, really got our attention. How could we integrate our values with the lessons learned from Silicon Valley, and the lever of our limited assets to create the systemic change we passionately cared about?

We found the answer when we looked to our values:

- We value an ecosystem approach
- We seek out innovative, highly leveragable and scalable models
- We promote holistic sustainable solutions that address social, economic, environmental, community, and spiritual needs
- We reward and promote entrepreneurial thinking that includes: challenging the status quo; demanding accountability and metrics; and is hands-on, trail blazing and risk smart
- We harness the power of AND, and reject the false dichotomy of OR

So what does this mean on a practical level? From the beginning we saw our role as connectors and co-creators of critical missing links in the emerging global social enterprise movement. Our early thesis was based on work in Sri Lanka and India, as well as an analysis of the work of organizations like Skoll, Ashoka, and the Global Social Benefit Incubator. If investing for social and environmental impact were to scale, then:

- A new kind of capacity building is needed to re-wire investors, intermediaries, philanthropists and entrepreneurs
- A new way to find, vet, and nurture impact investments globally leveraging the internet has to be created
- Financing impact has to be better aligned with impact’s unique requirements, impact objectives, a wider range of return expectations, cultural norms and regulatory constraints

In answer to our thesis, we have co-created organizations to fill gaps and share lessons learned with whoever will listen. We are excited to be able to share our reflections with RSF Social Finance’s community through this newsletter.

**NURTURE AS NUTRIENT**

We created Social-Impact International in 2004 to answer the need for regional training of social entrepreneurs. Today, versions of this program are running in India, Southeast Asia, and Austria (for Eastern Europe).

One of the programs that emerged from the prototype we started in India, Dasra Social-Impact, trains approximately 40 for and not-for-profit entrepreneurs per year. At least 50% of the graduates have a measurably larger positive impact, and at least 30% of the graduates are able to raise capital within 6 months of finishing the program.

What makes this program work? The answer is a combination of global and local best practices in a collaborative setting, the power of peer-to-peer learning, content uniquely developed for small and growing businesses, in-country mentoring, and demystification of access to capital. This program also capacity builds investors and intermediaries, providing a trusted platform from which they can meet entrepreneurs and move capital to address “bottom of the pyramid” challenges in India.
This program is unlocking the puzzle of how to get social enterprise from seed and early start-up, to late start-up and early growth stage. And bringing the power of peer-to-peer network investing back into helping to develop the next generation of enterprises is proving to be of significant value.

Take the example of Neelam Chhiber, CEO of Industree, Cohort 1 of Social Impact International. Her vision was to find a way of linking disadvantaged rural producers with design inputs, quality control, small business ownership, inventory management and a marketing channel, and connect them to mainstream and for-profit distribution channels. Her vision went further. She wanted to enable producers to own part of the equity in the for-profit distribution channel. Today, Industree is a chain of six stores throughout India. They work with over 3,000 rural producers creating the best of natural organic food and hand-crafted products for the Indian and global market. Earlier this year, the company reached cash flow positive.

“Social-Impact helped me to think seriously and methodically about scaling up and enabled me with the tools to do so. In addition it helped me to connect with a whole lot of peers and others working in parallel in the sector which helps synergize our eventual social impact,” says Neelam Chhiber, CEO of Industree.

However, even with the early success of Social-Impact International, seed stage enterprises need more investors who are willing to engage in ways appropriate for these types of businesses. It was this observation that led us to our next venture.

GLOBAL AND LOCAL
We had just spent a week mentoring inspiring social entrepreneurs whose innovative for-profit business models were changing the way Indians think about poverty alleviation. How could we connect the many philanthropists and impact investors we had met over the years with these and other innovative global enterprises in need of capital and nurture? This question led to the creation of Tonic LLC.

Since its inception in Fall of 2010 with seed funding from RSF Social Finance and LegacyWorks, Tonic has syndicated 17 investments, 5 of which were cross-continental. We have members in Canada, the U.S., Hong Kong, and Europe, and affiliate networks in India, Brazil, and Mexico. We vetted over 300 global investments just last year. Tonic is a member organization providing an administrative backbone to help global impact investors increase their access to deal flow, syndication partners, and best practices.

However, keeping up with our global members can be challenging. The diversity of our investors makes it tough to keep both ends of the experience range interested and served. The clash of mainstream legal teams making disproportionate demands on small and growing enterprises with more socially constructed term sheets can make syndication difficult. And, governance structures that motivate founders and members are challenging, particularly as we expand across regions and globally.

However, where there is discomfort there is opportunity! The mentoring and learning between mainstream and impact investors is resulting in investors investing outside their perceived comfort zone. Tonic Institute, Tonic’s not-for-profit partner, is exploring deeper partnerships with like-minded think tanks.

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DR. CHARLY KLEISSNER AND LISA KLEISSNER
cofounded the KL Felicitas Foundation in 2000. The Foundation is dedicated to supporting programs that enable social entrepreneurs and enterprises worldwide to develop and grow sustainably, with an emphasis on rural communities and families; and advocate the Foundation’s Impact Investing Strategy. The Kleissners also cofounded Tonic and Social-Impact International.

Dr. Kleissner serves on the Advisory Board of Acumen Capital Markets I, Global Social Benefit Incubator, Hub Company, Ennovent, and MicroVest; and on the Board of ImpactAssets, Dasra, and Healthpoint Services. Dr. Kleissner earned his M.S. and Ph.D. in Computer Science from the University of Technology, Vienna and has over twenty years of experience as a senior technology executive in Silicon Valley.

Lisa Kleissner is co-Chair of The Philanthropy Workshop West, a transformative donor education program, and part of the executive committee of CPOA, a rural community volunteer group in Big Sur, California. Lisa also works closely with Dasra Social Impact in India nurturing social entrepreneurs of non-profits and for-profits.

Lisa and Charly recently teamed up with Rockefeller Philanthropy Advisors and others to produce a monograph, “Solutions for Impact Investors: From Strategy to Implementation”. The Kleissners are investors of the RSF Social Investment Fund.

Taryn: How did each of you get into philanthropy and impact investing?

Mark: I wanted to be a teacher coming out of undergrad, and I didn’t want to go into the family business. I’m part of a fifth-generation lumber family from the Pacific Northwest.

Instead of being a teacher, I wound up working in a housing project in San Francisco and had a life-altering experience there. Prior to that, I had no idea people were living in such situations and it felt like the government, their landlord, didn’t either. It was a setting of total disassociation. There were people who were living in really bad circumstances, just living day-to-day experiences that were very negative, while at the same time they had very positive and strong basic neighborhood interfamilly connections.

So I wound up with the community development bug after that and I decided I wanted to figure out a way to get people, myself included, investing in a way that would make them less disconnected with their money, and investing in these neighborhoods so that there would be an economic infrastructure that met the people in a better way.

I wanted to find a way to deploy assets into neighborhoods where they’d actually be building something and having a positive impact on people, rather than impersonally placing dollars into a very large general capital markets system.

Kristin: I’m now president of our family foundation. We had a family business that was stocks commodities futures trading in Chicago, and we sold it. For the first time in our lives we had lots of money, and I have just been taking this journey figuring out what to do with it.

The mission of the foundation is social justice—education, environment, gender equity and culture in the arts. I’m looking for good grantmaking opportunities and different ways to go about deploying capital, going to conferences and learning about philanthropy. At one of the conferences I went to they had a session on two percent — they were pushing for foundations to be two percent invested towards their mission.

I was completely inspired and also outraged that it would only be two percent. I think foundations by definition should have their assets aligned with their mission.

Since then I have worked to get our foundation completely mission-impact invested, and this has been fabulous. Now I’m working on my own personal assets and just trying to layer capital in ways using philanthropy, investment dollars and then also in the political space, making political donations; I’m trying to affect the system in all ways that I can.

Mark: Well, Kristen, I think it’s really neat that you’re bringing in political advocacy dollars also. For me, I’m so intimidated by that world, that I kind of stay away from it. But it’s an important part of the way stuff changes.

Kristin: Mark, I think it is intimidating, and you don’t necessarily get a direct result. I don’t want to live in a world where money affects politics. But I feel like for the work I want to do I can’t ignore that system, as much as I dislike it.

Mark: I feel the same way about the investment side and the idea that markets expect capital and capital has to be ready to go. I definitely feel that way about making direct investments in businesses. For me, the orientation is as much philosophical or mission-related as it is financial, and I feel like it’s people like me who should be taking those risks. I shouldn’t be sitting on the sidelines waiting for the Ford Foundation to come in and do it, because I’ve got access to capital
and a much skinnier decision-making model which is basically what’s between my ears and what happens at the kitchen table with me and my wife.

I don’t like to call it an obligation, but if you sit back and look at the world from a place of privilege, you have to acknowledge that if we don’t start taking actions then who’s going to? We can’t wait around for other folks.

Taryn: So when working with different types of capital, how do you know which lever to pull? Whether it’s a grant, or an investment, or time, how do you decide what is the best transaction to catalyze the change you’re hoping for?

Kristin: I think that’s a fascinating question, and I think that for me the answer is several years out. Right now I’m doing basically what feels good and what feels smart. I’m trying to expose myself to as much as I can. And since I’m new to this space with much less attachment to the money—it’s brand new, I didn’t need it and I don’t really know that it’s a good thing to have it—it feels right when I’m employing it out in the world. So I think I’m just going to keep employing it, and then also remember the stories and do careful accounting on metrics such as: what do you feel like you got on a social and environmental impact level for those dollars invested, whether it was a donation or an actual investment?

And that’s where this conversation gets so interesting. How do we know when we’re effective?

Mark: Just looking at what I’ve done, it’s been so much based on intuition and also heavily influenced by people. For example, I feel a lot more comfortable when I’m betting on talent, whether that’s with a tax-exempt gift, an investment, or a contribution to a party or a campaign.

I have a good friend who is looking at starting a social justice advocacy organization here in New York. I’m rooting for her, and I’m stepping up and saying I want to participate. But at the same time, I find it a very complicated world and one where I feel like I’m in danger of being walked on, or making mistakes, or having ignorance lead me somewhere where I wouldn’t want to go.

But all that said, I think I’m relying on gut and I’m betting on people.

Taryn: I guess you could say in some ways that you’ve both bet on RSF. Why did you pick us as a partner to help create this change, and how have we or have not helped do that?

Mark: I think what I get from RSF is the sense that there is a pretty strong commitment to a campaign of building out infrastructure and motivating dollars to go into values-oriented investing that is impressive to me. There is obviously an organizational investment in this effort. So that is what gave me the confidence to commit more dollars to RSF. I felt like it was fine if there were going to be some mistakes, or some dead-end paths, that we might wind up going down. And, I would say being involved in the Impact Portfolio has been a learning
Consider the following statistics: in 2010 the Girl Scouts of America generated $760 million in cookie sales. That same year Wal-Mart topped the list of philanthropic companies by donating $288 million to charities. As impressive as these results are, non-profits with earned income streams and for-profits with a charitable bent aren’t enough to solve the world’s most pressing social and environmental problems. At RSF, we see that social enterprise, organizations that are created to use the power of business to directly improve society and our environment, have the potential of scale and replicability to address these equally large challenges. The only persistent obstacle to their expansion is a lack of capital.

Social enterprises struggle to attract capital because their structure and business models do not meet the expectations of traditional investors, lenders, and donors. Conventional startups attract investment by focusing on growing markets and creating barriers to entry. Prospective borrowers obtain debt financing by demonstrating outsized margins and growing shareholder equity while most non-profits garner philanthropic support by exhibiting stability and effectively delivering on mission.

Contrast these characteristics with social enterprises and the financing challenge becomes apparent. Within RSF’s Social Investment Fund there are good examples of borrowers maximizing social value which oftentimes conflicts with a conventional financing profile. Consider Common Market Philadelphia (CMP), a non-profit that aggregates and delivers local produce from over forty small-scale farmers to some of the biggest institutional buyers in the city, including the University of Pennsylvania and the Philadelphia public school system. Rather than creating barriers to entry, co-founders Haile Johnston and Tatiana Garcia-Grandos’ strategy calls for sharing their model with others who seek to create healthy, regional food systems.

This commitment to wide social impact above profitability is a defining feature of social enterprises and one which makes it especially difficult to attract conventional investment. Layer in Common Market’s aggressive growth strategy—in 2008, its first year, CMP had sales of $105,000; in 2011 it was $1.05M; in 2012 it is forecasted to be $1.9M—and you can see why notoriously risk-adverse foundations might shy away from Common Market’s model as well. This is where social finance plays its defining role—supporting those game-changing social innovations that don’t meet the standard expectations of conventional finance. We take the two-dimensional risk/reward continuum and add a third axis for impact.

Guayakí Mate is harvested by hand, by workers who are paid a living wage.
Photo courtesy of Guayakí.
RSF borrower RecycleForce is a classic example of a social enterprise locked out of traditional financing. The Indiana-based organization recycles electronic waste while exclusively employing ex-felons in a six month program immediately following their release from prison. With a steady job and intensive support, graduates of RecycleForce become reintegrated into society and the program achieves a 25% recidivism rate, half the 57% county average. A human resources strategy based on hiring some of society’s most dangerous and least qualified individuals, training them for six months, then sending them on to permanent employment elsewhere is a questionable way to make a profit, and a brilliant way to make permanent, transformative change. RecycleForce’s growth and that of its imitators (Isidore Electronics Recycling, for example) hinges upon social finance – investors and lenders who value maximum social impact and sustainability more than they value a high return. Our loan to RecycleForce financed a major piece of recycling equipment, affectionately referred to as The Beast. The Beast dismantles trash in a way that allows RecycleForce to increase efficiency and more effectively collect precious metals such as silver, palladium, copper, and aluminum. RecycleForce projects that this investment will permit them to hire an additional 80 employees over the next two years.

Another RSF borrower, Guayakí, is a California-based beverage company founded with the mission of preserving South America’s rainforests. Through its sale of yerba mate (a caffeinated drink brewed like tea) in the U.S., Guayakí is providing a sustainable livelihood to hundreds of Brazilians, Paraguayans, and Argentines who would otherwise face intense economic pressure to destroy their rainforest lands to raise cattle or grow soy. Like all true social enterprises, Guayakí’s growth directly increases its impact. Rainforest preservation is no longer tied exclusively to the generosity of donors or the policies of government. This powerful and systemic shift, however, comes at a cost that challenges the notion that businesses must be profit-maximizing entities. Guayakí’s decisions about what it pays for yerba mate, who it buys from, and how far in advance it commits to contracts are informed first and foremost by its social mission. Decisions that cause logistical puzzles, cash flow strains and gross margin challenges are outweighed by the tangible benefits Guayakí is delivering to the rainforest and its inhabitants. Businesses that willingly sign-up for the dual challenges of deep social change and financial sustainability deserve similarly aligned capital. RSF’s line of credit to Guayakí relieves some of the financial strain faced by a company trying to compete against cola companies AND make the world a better place.

Common Market Philadelphia, RecycleForce, and Guayakí are each tackling issues of daunting scale. Until there’s a Common Market equivalent in every major American city we will not have achieved a healthy food system. RecycleForce has served 400 ex-felons, but every year 650,000 more Americans are released from prison and an estimated 2/3 will likely be rearrested. And Guayakí’s sales have led to the preservation of 31,008 acres of rainforest, yet 35 million more are lost every year to timber harvesting, cattle ranching, and monocrop farming. The growing and maturing field of social enterprise requires an equally robust field of social finance if it is to reach its full potential.

RSF is a social enterprise – transforming the way the world works with money though its lending, investing and giving programs. Our model works because we have attracted a community of investors, donor advisors, borrowers, and employees who recognize that a balance sheet, a return on investment, and a pay stub neither capture nor represent the full measure of value. As a staff we do not work so much for what we earn, but rather for what we yearn for in the world. The real value is found in moving money for basic public benefit.

At RSF we ask the question, “Can money heal?” We answer in the affirmative because we recognize that great solutions to big problems often require a dose of patient capital to reach fruition. In the U.S., financial markets have had a growing influence on society – employing a greater share of us than ever before, providing more liquidity than ever before, and creating and destroying more wealth than ever before. It is this very dominance of finance which makes me hopeful for the future of social finance. Rudolf Steiner wrote that “for a healthy national economy, it is important not merely that credit should further the spirit of enterprise as such, but that the right methods and institutions should exist to enable the spirit of enterprise to work in a socially useful way.” RSF is one such institution. ọ
At RSF, we believe that money can cultivate relationships between human beings. Through these relationships we have the power to generate deep beneficial impacts in our lives and for the planet. More clearly than ever, the recent financial crisis has brought to light that our financial system has grown immensely complex, opaque, impersonal, and indirect. Financial relationships have all but been replaced by abstract value, automated transactions, and complicated processes. As a result negative impacts—ever increasing economic inequality, exploitative depletion of the environment and our natural resources—have flourished.

This condition is precisely what we at RSF Social Finance are striving to change. We are actively working to cultivate an antidote to the ills of the current system. In our view, finance can generate positive social and environmental impact when financial transactions are direct, transparent, and personal, based on long-term relationships. When personal relationships inform a transaction, the needs of all stakeholders become relevant, valid, and considered. When consequences of transactions are taken into account, the resulting outcomes are intentional. This is the heart of RSF Social Finance.

With this unique approach, there are many roles to play, and countless needs to fill. As a small public benefit organization, RSF can only do so much. It is through interdependence and connection with others that such substantial objectives can be achieved. By understanding our organizational strengths and limitations, and with a broader strategic view of the field, we have come to support some of the leading pioneers in the field of social finance—organizations changing the face of banking, business, and economic life. In our support of these organizations, we are working to build a healthy ecosystem of social finance partners.

RSF Social Finance is not a bank, though that avenue was considered. In 1986, RSF leadership conducted a study for the possibility of becoming a credit union. Ultimately the decision was made to not proceed but the conversation resurfaced some years later in 2004 when Peter Blom, CEO of the leading European sustainable bank Triodos approached then RSF CEO, Mark Finser with a proposition to create a joint bank in the U.S. RSF and Triodos would be primary owners. As discussions progressed, RSF connected with another group led by Peter Liu working on a plan for an environmental bank in the Bay Area. At that point, RSF leadership recognized that although banking was a critically important aspect of the social finance movement, it wasn’t necessarily core to RSF’s operating activities. Instead, in close partnership with RSF and Triodos, and with significant financial support (RSF being an initial investor with a 5% ownership stake), Peter Liu founded New Resource Bank (NRB) in 2006. RSF has continued to have an influential role in the development of the bank. In 2009, as NRB encountered financial challenges, Mark Finser was appointed Chairman of the Board and Vince Siciliano joined as CEO of the bank. Together, they were able to get the organization back on track. As part of this work, the bank adopted “promoting sustainable living” as its official mission, along with the goal of developing a loan portfolio 100% invested in sustainable businesses.

Today New Resource Bank is a leader in sustainable banking, bringing critical resources to socially and environmentally responsible businesses and investing their customers’ deposits in projects that support their

In March 2010, Maryland became the first state to pass benefit corporation legislation.

Photo courtesy of B Lab.
values. Naturally, the RSF and NRB partnership has only grown since. Over the past six years RSF and NRB have partnered on five loans to provide $24 million to social enterprises ($6M and $18M respectively).

Through this financial support of social enterprise, we interact with leaders seeking the resources, guidance, and structures to build strong businesses. B Lab is an organization that expertly fills this need as a holder of industry standards and advocate for a new corporate form. B Lab is a non-profit organization dedicated to using the power of business to solve social and environmental problems. B Lab drives systemic change through three interrelated initiatives: actively building a community of Certified B Corporations; accelerating the growth of the impact investing asset class through use of B Lab’s Global Impact Investment Rating System (GIIRS) for institutional investors; and, promoting aligned public policies, including benefit corporation legislation which is working within the legal system to create a new corporate form. As testament to their success and the timeliness of the idea, benefit corporation legislation has been passed in seven states and is pending in an additional seven more.

Our relationship with B Lab runs deep. B Lab is a borrower of the RSF Social Investment Fund and a major grantee, receiving over $350,000 in grants since 2005. RSF CEO, Don Shaffer is a member of the B Lab board and Standards Advisory Council, and RSF Capital Management (the subsidiary which facilitates all of our lending to for-profit entities) is a GIIRS Pioneer Fund. Additionally all RSF borrowers are required to participate in the B Lab survey as a part of RSF’s social impact assessment. The structure, rigor, and constantly challenging standards of the B Corporation certification process is one way for the market to assure new people, place, and environmental standards are being met.

Ultimately, B Lab’s work supports the development of businesses that are aligned with RSF’s values. They are building the market of social enterprises seeking the mission-aligned financing we provide.

The Business Alliance for Local Living Economies (BALLE) is building this same market at a local level. BALLE is North America’s fastest growing network of socially responsible businesses, comprised of over 80 community networks in 30 U.S. states and Canadian provinces, and representing over 22,000 independent business members. BALLE believes that local, independent businesses are among our most potent change agents, uniquely prepared to take on the challenges of the twenty-first century with agility, sense of place, and the network-based approach others lack.

BALLE’s work speaks directly to our commitment to support the growth of place-based economies. As a result, through the Donor Advised Fund program, RSF has provided over $400,000 in grants to BALLE and is an on-going sponsor of their annual business conference where hundreds of community leaders, entrepreneurs, independent business owners, and investors meet to share cutting-edge solutions for building healthy local economies. This type of economy is made possible by personal financial transactions inspired by a sense of shared responsibility when participants spend time face to face on a regular basis in an effort to care for each other and the places where they live. We view this power of place as essential to a thriving economy. The Business Alliance for Local Living Economies is at the center of fostering this activity.

RSF founder, Siegfried Finser once said, “A thing about working with money is that you actually don’t ever accomplish anything. Everybody else does the accomplishing. All we do is provide the means and assistance. We provide the movement in the realm of money so those things can happen.” The organizations mentioned here are just a sample of the network of social finance partners we have been honored to support. But support is exactly what we provide, means and assistance. As an organization, we receive equal if not more benefit than we provide. These relationships are in fact incredibly reciprocal. The field continues to grow as the cumulative result of mutual support, individual strength, and a shared commitment to a healthy economy that benefits all.
John: Speaking of return on investment, I’d love to focus more time on the qualities of that money or capital. Let’s talk about the different kinds of capital, such as loan money, investment dollars, gifts, and so on, that circulate in the realm of social finance.

Mark: There are many kinds of capital and financing stages, from friends and family, angel investment, early-stage investment and expansion-stage capital that go into a company. That’s all on the ownership, or co-ownership side of the enterprise. And then you have the debt side, subordinated debt and secure debt. That also comes from surplus capital.

From a social finance standpoint, the way the money moves and the way the enterprise develops is not just through a one-time transaction; it’s actually through what is built up over time and how that organization or how that enterprise integrates itself within its larger community.

John: And to take a step back, what is capital?

Mark: For me a simplistic way of looking at it, it’s money that’s accumulated through the creation or the creativity of human capacity. So it’s different than money that’s being circulated on a day-to-day basis in the sense of what we use to buy and sell things.

John: As you survey the field, do you see associative economic principles just naturally emerging out of people’s good common sense—whether that’s community or just a desire for connection?

Mark: Yes. I think that’s what this whole local movement is about as well. This is just a starting point. With transportation costs and so on, it will make a lot more sense to do things locally and regionally. But at the end of the day, the planet is getting so much smaller, and it will feel like we’re literally touching somebody across the planet as well. I think our consciousness will get to a point where we actually can feel that what we do right here, what we pour down our drains, or the detergent that we use is affecting somebody on the other side of the planet.

John: That’s a development of a certain imagination about the consequences of our acts. That would be a huge shift in our economic life.

Mark: It would. That’s why Rudolf Steiner touched on the fact that when you talk about finance and you get more into the economic area of the world, that’s where you actually want to build brotherly and sisterly connection, brotherly and sisterly love—because you have the possibility to really meet human needs, and be aware of the consequences of the needs you may be violating or supporting.

We often talk about this more from the standpoint of the production of goods and services to meet human needs. But I think the human aspect is very, very important because I think it’s actually the one that can be the most transformative. And maybe not just for human beings, it’s everything. It’s the animal kingdom, it’s the plant kingdom—it’s all spheres of life.

John: From your perspective, what is RSF’s role in this transformation?

Mark: I think RSF’s role is to constantly deepen and to ask the hard questions. It is also essential for us to use the money that’s been entrusted to us—whether, through the Donor Advised Funds or through opening up a Social Investment Fund account—by using each moment when we receive that money and when we make our loans, as an opportunity for furthering this kind of connection and the building of this kind of community.

I think it’s true that you actually advance, the individual advances, and the community advances, through the capacity to experience what it’s like to be in somebody else’s shoes.
This collaboration has opened new channels bringing deeper intelligence to impact investing. Crowdfunding and crowdsourcing are linking regional entrepreneurs with local and global collaborators, thus supercharging enterprise creation. And, the radical transparency of how impact investors do their work is causing heartburn and joy—we will see if the pain is worth the gain.

A key takeaway from the last year and a half of Toniic is that an internet platform alone will not work without the high touch regional community building necessary to grow trust among investors. At the end of day, trust is a significant factor in successful global syndications.

A BRAVE NEW WORLD

Our work with Toniic and Social-Impact International has unveiled opportunities in the marriage of philanthropy and the capital markets. This can lead to strange bedfellows like:

- Blended Capital structures - using a blend of grants, soft loans, quasi-equity and/or equity - to address funding gaps unique to social enterprise
- Partnerships between global grant makers like the Developing World Market Place and much smaller private seed-stage impact investors
- “Baton passes” between seed-stage investors and value-aligned growth investors to create a market for impact investments to move into mainstream

As a philosopher and scientist, Rudolf Steiner was also not shy about challenging the status quo. He was one of the first to articulate the positive role that capital and consciousness can play in enabling a more just society and sustainable planet. The way we express our values through our lives on this planet and through the creation of catalytic organizations like Toniic and Social-Impact builds on the inspiring foundation that Rudolf Steiner created over a century ago.

Now is the time through radical transparency and collaboration to aggregate capital and know-how from around the world to solve regional and global systemic challenges. What will be your contribution to this “brave new world”? 🌍

experience. Some of the lessons have been lessons that are not in any handbook—we had to learn them for ourselves.

Kristin: I think it is knowing you all. RSF has been on my radar for a number of years, and yet I just didn’t really understand what it was you did, and that it was going to be a service to me. As soon as I connected those dots, it was a no-brainer on many levels. But it was kind of perfect, because I already had the relationships so the due diligence was easier.

Taryn: From your perspective, what would success look like?

Mark: I would like to see more and larger-scale models of cooperative ownership, or of grassroots-level ownership and community independence. I think it’s fair to say there’s a long history in America of cooperative ownership, and I think it’s got a lot of good qualities. And I feel like there’s room for more there.

We’re more connected today and it’s easier to communicate across groups of people and to give them faster and more granular information. That is a really exciting stepping stone to more grassroots empowerment and ownership.

I just think that’s going to create much healthier communities, or at least make it more difficult for whole neighborhoods or whole populations to be left by the wayside.

Kristin: I would agree with Mark. I’m looking for a power shift, and I feel like by placing money at RSF, I can enable communities, individuals and community systems that haven’t previously had the power for whatever reason. This feels like part of a bigger shift. When you ask what it looks like, I don’t know that we really even know. I think we’ll know what it feels like when we’re there, but we’ll definitely be seeing communities of color and communities that have traditionally been underserved rising. Once that potential starts to be reached, we’re going to have all sorts of solutions at our hands that we haven’t had before. 🌍
Join Us at These Events

For the latest on RSF’s participation in conferences and events, check out our “Where We’ll Be” page at rsfsocialfinance.org/about/where-well-be

Dollars to Deeds
4/11/12
Indianapolis, IN

SVN Annual Member Gathering
4/19-4/22/12
Stevenson, WA

Investors’ Circle Spring Venture Fair
4/22-4/24/12
San Francisco, CA

GIIN Investors’ Council Meeting
4/23-4/24/12
New York, NY

Benefit Corporations – West Coast Forum
4/27/12
San Francisco, CA

PRI Makers + More for Mission
5/8-5/10/12
Seattle, WA

Social Venture Institute (SVI)
Vancouver
5/9-5/11/12
Vancouver, British Columbia

10th Annual BALLE Conference
5/15-5/18/12
Grand Rapids, MI

Strategies for a New Economy
6/8-6/10/12
Annandale-on-Hudson, NY

Social Change Institute
6/6-6/10/12
Cortes Island, BC

Sustainable Food & Agriculture Funders Forum
6/19-6/21-12
Santa Barbara, CA

www.safsf.org

WHAT’S AHEAD
The 2011 Annual Report will be published in June 2012. The next RSF Quarterly theme is Ecological Stewardship and it will published in July 2012. We like hearing from you! Send any comments on this issue or ideas for the next to jillian.mccoy@rsfsocialfinance.org, call 415.561.6156 or

RSF Social Finance is pleased to count New Leaf Paper among its borrowers.