Financing Future

Innovative funding models at work

Edited by Maritta Koch-Weser and Tatiana van Lier
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Financing Future Conservation?

More than 10% of the surface of earth have been gazetted for nature conservation – mainly for the preservation of unique, threatened biological diversity. While the laws are in place, funding for continuous, uninterrupted conservation remains a major challenge all of us must seek to meet.


All cases showcased here are potentially relevant for nature conservation funding. They represent a small sample of a large and growing universe of new fundraising options we urge IUCN to explore.

Editors’ Note

Every third person on earth continues to live in poverty. In emerging, fast growing economies income disparities widen. The poor continue to lack access to basic education, health, and social services even as the general economic outlook improves.

The Challenge

More local progress could be made faster, if smart ideas were recognized, picked up, and scaled up sooner. Wish-lists for social and environmental improvements need to translate into picking up on demonstrated operational opportunities for change.

Non-governmental organizations are prime movers in advancing the agenda for change - provided they find the necessary
support. They depend on citizens, the private sector, and an enabling regulatory environment to fund their projects, their core staff, and recurrent overheads costs.

For civil voluntary organizations, the quest for core funding to sustain their work is a constant challenge, occupying an inordinate amount of their time and efforts – again and again – project by project, year by year. In the fierce competition for scarce philanthropic and public resources, even the most popular and highly qualified organizations struggle to sustain funding for their good work.

**About this book**

This book wants to put into the hands of readers some good news: a small compendium demonstrating how they can help effect change. Collectively, we have some new tools. Smart fundraising and finance are evolving. As the cases assembled in this book demonstrate, greater social gains from social entrepreneurship become possible with faster recognition of financial innovations that work – in two adjacent areas:

first, in the matching of continuous funding needs with continuous, programmatic and sustainable ways of fundraising, – to sustain social, health, education or environmental programs. This is the central subject of this book.

and, second, through innovations in micro-banking, social investment, and private sector development investment. Only some of these are covered in this volume, as examples. The good news is that markets begin to invest profitably among the poorest.

In fundraising, many flowers bloom. Cases described here include charity lotteries, round up schemes, credit cards and SMS donation schemes. These models are but a few examples
from a widening range of available funding mechanisms – from the collection of left-over local currency change by the airlines or environmental organizations, to a growing number of internet-based solidarity finance schemes, or the small add-ons on hotel bills in support of global or local charities. Add rock stars and television campaigns. Social potential combines with new technological potential – modern communication, networking, accounting, and transparency tools.

Clearly there is – beyond the public sector – a huge and largely untapped potential for voluntary fundraising. The most touching demonstration ever of the basic disposition of the general public were the solidarity and outpouring of support for the 2005 Tsunami victims.

To realize the potential in modern fundraising, there is a need to coalesce stronger, systemic leadership – able to stubbornly promote the regulatory frameworks needed to scale up and replicate successful approaches. As this book demonstrates – most clearly in the case of the Dutch Charity Lotteries – we have all the reason to become more ambitious: After some 17 years of operation, these charitable lotteries have completely transformed civil society funding in the Netherlands – making available some 300 Million Euro every single year, on a competitive basis. If people and companies in the Netherlands can do this much – how much more could we achieve, for example, if the very same approach came to be adopted throughout the European Union? This is the purpose of the Association of Charity Lotteries in the European Union (ACLEU), which has been launched since a first version of this book appeared in 2007.

The examples highlighted in this book all share the characteristic that they are “painless” – mobilizing tiny contributions over a large universe of donors. Some are outright fun. It all adds up to making a tangible difference.
The purpose of this book is utterly modest and straightforward. We throw a first spotlight on a small set of examples. They are representative of a far larger universe of innovations in fundraising – either already successfully underway, or ready to be launched.

The format could not be simpler: we have asked the protagonists of the respective systems to do brief write-ups of their cases. Readers can find out more based on references, guiding them to further sources.

As editors, we hope that this will be but a beginning in bringing more smart new ideas to the fore. To accelerate change, we invite readers to contribute towards enlarging and updating our collective inventory of citizen-based “Financing Future”.

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Call to readers

Dear Readers,
Every year new, promising ideas are developed, and new initiatives are launched. We intend to publicize and publish more of them. Please let us know about models - new and promising approaches – which need to become known to a greater audience. If you believe your article should be in the next book, please don’t hesitate to contact the editors.

info@acleu.eu & info@gexsi.org
PART I: FUNDRAISING MODELS
Fundraising via Charity Lotteries
Tatiana van Lier & Laura Santacreu

On New Years’ day 2008, the inhabitants of the Dutch city Wijchen were celebrating seven of its inhabitants that had just become millionaires and over 1,500 households that had won a share in a total prize of 25.8 million Euro, the highest prize ever in the Dutch Postcode Lottery. But the citizens of this city in the south of the Netherlands are not the only winners in this lottery. Every year organisations such as Oxfam Novib, UNICEF, Amnesty International, WWF, the Clinton Foundation and many more receive large donations from the lottery. In 2007, fifty six civil society organisations received a non-earmarked contribution totalling 225 million Euro to support their work to alleviate poverty, promote human rights, to protect nature and the environment and to improve social cohesion.

The format of the charity lottery

In the Netherlands, this special kind of lottery has proven to be highly successful as a fundraising tool. The principal charity lotteries in the Netherlands are the National Postcode Lottery, the Sponsor Bingo Lottery and the BankGiro Lottery; together they form what is called the National Charity Lotteries. In 2007 the three Lotteries were able to contribute over 315 million Euro to over 130 civil society organisations.

The model is quite simple: participants buy a subscription to the lottery, and each month, the amount for a ticket is automatically paid via direct debit. The participant gets a chance to win a prize, and at the same time, 50 percent of the ticket goes directly to one of the beneficiaries of the lottery.

In different parts of the world (state) lotteries donate parts of their profits to good causes. This varies among countries from a relatively low contribution of eight percent towards sports organisations in Hungary to a larger share of 28 percent to a large group of organisations as is the case in the United Kingdom.

But how do we get from a lottery to a fundraising mechanism for good causes? What criteria must be met before we
can speak of a charity lottery? To answer this question, it is useful to recall the initial motivation of the founders of the largest charity lottery in the Netherlands, the Postcode Lottery. Their goal was not to increase the number of lotteries in the Netherlands, but rather to create an alternative source of income for a set of three challenges of global importance: the global promotion of human rights, the alleviation of poverty in the Third World, and the promotion of the protection of nature and the environment. In other words, the primary purpose of the lottery was to raise money for good causes.

Therefore, in our opinion, a primary characteristic of a charity lottery is that a substantial portion of the proceeds is directed to the beneficiaries of the lottery. The Dutch Charity Lotteries, for instance, pass on 50 percent of their income to their beneficiaries. In the Netherlands, this percentage is defined by law. However, this is not the case in every country: Swedish lottery law for instance mentions that a ‘reasonable amount’ must be directed to organisations of public benefit, whereas in other countries, for example the Czech Republic, lotteries are obliged to pay out at least 50 percent of their gross turnover as *prize money*, and only 6-20 percent of their *net* turnover goes to good causes. We believe in order to justify the name, a charity lottery should donate *all* of its profits to its beneficiaries. A true charity lottery should strive to donate at least 40 percent of the gross turnover to charitable organisations. Another 40 percent can be reserved for prize money with the remaining 20 percent used to cover operating costs.

Secondly, a charity lottery needs to be a reliable partner to its beneficiaries, and offer long term support. The Dutch Charity Lotteries do not raise funds for the undefined ‘public benefit’, but to meet concrete challenges. The solution of these problems is best served by multi-annual, institutional support, substantial both in time and in size. In order to be able to offer long-term support, there should be no political interference in the distribution of the revenues; a charity lottery should therefore be a private initiative. Why do we consider this to
be so important? Many state lotteries also donate money to good causes, either directly or indirectly through responsible ministries. Although the exact allocation methods and distribution models differ between countries, in all these cases there is some level of political involvement. Whether we are talking about the UK National Lottery financing the Millennium Dome and the Olympic Games or about the Italian Gioco Del Lotto that donates a certain sum to cultural and heritage projects through its Culture Ministry, this is always combined with some kind of political battle, and therefore carries the risk of discontinuation of donations. A charity lottery cannot be equated to the tax collector and donations should be considered additional funds and should certainly not replace governmental subsidies.

Thirdly, we believe that a charity lottery should provide non-earmarked contributions. A well-known problem for civil society organisations in their quest for financial resources is that donations from governments and increasingly also from private donors tend to be earmarked for specific purposes or projects. Finding non-restricted money is a major challenge for these organisations. The non-earmarked contribution from the charity lottery means that beneficiaries can spend the money as they see fit. They are free to use the contribution to co-fund projects funded by government support funding but more importantly, the money can be spent on projects or activities that are usually hard to find financial support for. An example of this would be funds for establishing an international network and in that way, work as a catalyst for an organisation’s work.

A partnership between the lottery and the beneficiary

Long-term, non-earmarked and substantial financial support is at the heart of a charity lottery. But this kind of support can only be given if there are significant levels of trust between the lottery and the beneficiary. The relationship between the charity lottery and the beneficiary is much more than merely
a financial one; it can best be described as a partnership. Not all organisations are eligible for funding by the lottery. In the case of the Dutch Charity Lotteries for instance, once a year, the Supervisory Board of the lotteries reviews all applications and selects the most suitable ones based on strict application criteria for applicant-beneficiaries.

Firstly, organisations must be active in one of the sectors supported by the lotteries. For the Postcode Lottery these sectors are development cooperation and human rights, nature and the environment and social cohesion. The Sponsor Bingo Lottery raises funds for health and well-being, and the Bank-Giro Lottery supports institutions and organisations working in the field of culture.

Secondly, the beneficiaries of the lotteries preferably have good standing, which is demonstrated by their previous fundraising results, membership size and their presence in public debate. The Dutch Charity Lotteries preferably support initiatives that originate in civil society rather than organisations that are the result of governmental or political impulses.

Thirdly, organisations must be working on a national level, reflecting the fact that the participants of the lottery come from all over the Netherlands. Considering the total amount of the contributions of the National Postcode Lottery, the minimum donation stands at 500,000 Euro. To prevent organisations from becoming too dependent on the lottery contribution, the lotteries apply as a guideline the rule that the contribution from the lottery cannot total more than half the organisation’s total fundraising. This implies that the applicant organisation must generate its own funds of at least one million Euro. Within the sectors that the lotteries are supporting, the applicant organisation preferably has an added value to the existing group of beneficiaries. Another condition is related to a CBF-seal. This seal is issued by the Central Bureau

\[1\] For the BankGiro Lottery and Sponsor Bingo Lottery this amount is lower, since these lotteries grant a minimum donation of 200,000 Euro.
on Fundraising (CBF), an independent foundation which has been monitoring fundraising by charities. Although having a CBF- seal is not obligatory, it inspires confidence among the public and with the lottery. Finally, the National Charity Lotteries stand for their mission to raise funds for good causes and like to see the same passion in their beneficiaries. Professionalism is a requirement to achieve the specified target.

Fedde Koster, Director Natuurmonumenten: “The cooperation between the National Postcode Lottery and Natuurmonumenten, the Society for Preservation of Nature in Holland, has been in existence since 1990. Since then Natuurmonumenten has received more than 220 million Euro for its activities in nature preservation. By using this huge amount of money we are substantially more able to implement our activities of purchasing aerals of nature, cultural heritage and the improvement of nature conservation. We succeeded in reaching our targets and we are grateful to the Postcode Lottery. Working together with them made it possible to communicate to a larger audience; our activities were broadcasted on television and reached millions of people. Charity lotteries can play an important role in fundraising for good causes.”

**DOEN Foundation**

As not all organisations and initiatives are eligible for funding by the lottery, in 1991, the Postcode lottery established DOEN Foundation with a mandate to distribute a portion of the lottery’s revenues among smaller organisations and special initiatives within the same sectors. The lottery gave DOEN Foundation the following task: work as an extension of the lottery (man and nature), complement the work of the other beneficiaries of the lottery and where possible use subsidised alternative methods for funding. This way, DOEN mirrors the fields of operation of the Postcode Lottery; those of development cooperation and human rights, the protection of nature and the environment and the field of social cohesion. Since 1998, DOEN Foundation has also received an annual contribution from the Sponsor Bingo Lottery, and since September 2004 from the BankGiro Lottery as well. This allows the foundation to finance initiatives in the area of wellbeing with funds
from the Sponsor Bingo Lottery. With the resources from the BankGiro Lottery, DOEN finances cultural initiatives. In addition to subsidies, initiatives are supported with loans, guarantees or participating interests. In 1994, DOEN Foundation teamed up with Triodos Bank to found Stichting Triodos-Doen with the aim of helping small entrepreneurs in developing countries to start up or expand their companies through loans. To offer professional assistance to enterprises that contribute to either a better environment or better social conditions, DOEN Foundation established its own venture capital company “DOEN Participaties BV” in 1996. Several small organisations that started with a subsidy of DOEN Foundation have gone on to be beneficiaries of one of the lotteries.

Commerce and philanthropy

Using lotteries to raise funds for good causes is nothing new; in the 16th century lotteries were organised to collect money to build orphanages or to raise funds for a new hospital or school. In later years, all over Europe, governments established state run- and controlled lotteries, often in state monopolies. Charity lotteries also exist in addition to state lotteries, but very often as small, local initiatives – either because the state has a monopoly on national lotteries (as for instance in the United Kingdom) or because there are limits set for the maximum prizes (for example in Austria where 15,000 Euro is the maximum prize for charity lotteries). Transparency, the size of the operation, the visibility of both, the winners and the charities, the number of charities supported by the lottery, and close cooperation with mass media is what makes the Dutch Charity Lotteries unique compared to other charity lotteries.

In its first year the Postcode Lottery had 80,000 participants, mainly due to successful cooperation with the Dutch Post and several direct marketing companies. Boudewijn Poelmann, one of the founders of the Postcode Lottery believed; "If you’re not on television, you don’t exist!".
The establishment of the Postcode Lottery coincided with the introduction of commercial television in the Netherlands, and Joop van den Ende, a key player in this upcoming business, was interested in cooperation with the lottery. Soon afterwards a new programme called "The 64,000 guilders question" was launched.

In the Postcode Lottery, your postal code is your lottery ticket number. This kind of participation means the winners share prizes among participants within one district, neighbourhood or street. The lottery shows the winners on television (the press would find out anyway), something that had never been done before. In its first TV show the winning of prizes, entertainment and presentations of the work done by the charities was combined. This transparency of lottery winners and beneficiaries, combined with strong branding, has contributed to the success of the Postcode Lottery. After just one year the number of participants rose to over 200,000 per month.

**Continuous growth for charities and winners**

The start of the National Postcode Lottery can be placed on the 20th of December, 1989. 130,000 children went door-to-door to pick up authorisation cards enabling people to buy lottery tickets and support VluchtelingWerk Nederland (an organisation that supports refugees in the Netherlands). Within its first year, the lottery raised 4.1 million Euro for three beneficiaries: VluchtenlingenWerk Nederland, the Dutch Society for the Preservation of Nature (Natuurmonumenten) and Oxfam Novib. At the beginning, not all non-profit organisations were in a hurry to join the lottery as beneficiaries; at the time, this unique combination of commerce and philanthropy was still very new and unknown. Many good causes were afraid that by joining the lottery they would risk losing other funds while others were too afraid to place their reputation at risk in case the lottery failed.
However, it became quickly evident that the growth of the proceeds was much more than expected. Within only five years time the turnover increased from seven million Euro to 177 million. That this was even more than the four founders had ever expected is illustrated by the initial agreements with the three first beneficiaries of the lottery; these agreements distributed one hundred percent of the proceeds to these three and were set for thirty years.

After the third operational year of the lottery, it became clear that the sales (and the 60 percent of the sales contributed to the good causes) had become too much to divide only amongst the first three organisations, and new groups of beneficiaries were allowed to participate. DOEN foundation was established and Doctors Without Borders, UNICEF and WWF were added to the list of beneficiaries. Today, the lottery supports fifty seven organisations on an annual basis.

Total sales have increased from seven million Euro in 1990 to 450 million Euro in 2007 and the group of beneficiaries has been expanded. In addition, the sales of the BankGiro Lottery and the Sponsor Bingo Lottery have increased since the take over by Novamedia b.v. With a current 33.3 percent of the income of the Postcode Lottery that goes into the prize pot, the lottery has created many winners and even many millionaires.

**More than just fundraising**

Since Novamedia n.v., the founder of the Postcode Lottery, took over the Sponsor Bingo Lottery and the BankGiro Lottery, a broad range of organisations from the non-profit sector – in total more than 130 organisations – receive an annual or one-off contribution to support their work. Of course the key element of the charity lotteries is the impact of the work of organisations supported by the lottery. For organisations such as Amnesty International, a beneficiary since 1996, the annual contribution from the lottery is crucial. In order to work independently and impartially, Amnesty does not accept contribu-
tions from government sources and political parties. Therefore the organisation depends largely on donations from its members, and the yearly donation from the Postcode Lottery of four million Euro makes up a substantial part of the budget of the Dutch office of Amnesty International. With the support of the lottery another beneficiary, Save the Children, launched a project in Afghanistan in which 14,000 working street children were prepared for entering mainstream education or vocational training. Beneficiaries of the BankGiro Lottery have also used the lottery funds to acquire new artwork; in 2004 the Rijksmuseum in Amsterdam bought a painting of Jan Steen, and in 2005 the Mauritshuis in The Hague used the contribution from the BankGiro Lottery to buy a painting of Ruysdael and several works of the Flemish painter Rubens. Hermitage Amsterdam was also established using a major contribution from the BankGiro Lottery.

This institutional support is clearly of enormous importance to lottery beneficiaries. In addition, the Postcode Lottery and its operational procedure soon appeared to have another positive effect on the good causes. For the first time, good causes were able to show their work during prime time television shows in the form of short documentaries, and also in print advertising, interviews and on websites. Lottery ambassador Gaston Starreveld visited the island Borneo to see how WWF is protecting the forests and the orang-utan there. Ruud Gullit (also an ambassador of the lottery) visited refugee camps in Chad, where Stichting Vluchteling (Refugee Foundation) operates. Each ambassador took along a celebrity guest, and all these trips were filmed and broadcasted as a documentary. In this way, the beneficiaries help shape the profile of the lotteries. For the beneficiaries in turn, this exposure has had a very positive effect on their brand awareness, increased the number of donors, and it has even helped them finding other financial resources. The partnership between the lottery and the beneficiary goes beyond fundraising: there is clearly a multiplier effect.
Another way the charity lotteries play a role as a catalyst is by supporting special projects and initiatives. Once a year, an exception is made to the rule of non-earmarked contributions, and the proceeds of an extra lottery drawing go to one-off project contributions for special initiatives or projects. In 2005 for instance, a sum of 16.2 million Euro (one Euro per Dutch inhabitant) was earmarked for the climate campaign HIER (Here), where 38 lottery beneficiaries cooperate in order to raise awareness on climate change. In 2006, the lottery awarded 4.1 million Euro to the project "Save in South Sudan" by its beneficiaries UNHCR, the Refugee Foundation, Cordaid/People in Need and Free Voice. The project aims to dispose mines and provide public information on the risks of mines; to improve water and sanitary provisions; to improve primary health care; to provide direct emergency aid and to disseminate public information to refugees and displaced persons via radio broadcasting.

Other one-off subsidies are used as start-up subsidies for special initiatives. In 2006 for instance, the Postcode Lottery decided to support the Clinton Climate Initiative (CCI) with one million Euro. The Clinton Climate Initiative has formed a partnership with the Large Cities Climate Leadership Group, an alliance of over 30 of the world’s largest, most significant cities, collaborating with the Clinton Foundation in order to sharply reduce their CO2 emissions. Bill Clinton himself travelled to the Netherlands in December 2006 to attend the WorldMeeting, organised by the Postcode Lottery, where he spoke about climate change and global warming.

During the event President Clinton said the following about the first time he had heard about the Postcode Lottery:

“I thought it was important, because it combines two of the most important phenomenon since the end of the Cold War, that are reshaping global society. One is the rise of the non-governmental organization. When I became president in January 1993, there were none in Russia. Today there are 63,000. (...) You see this all around the world. The second is the
rise of the Internet and the empowerment it has brought to individuals. What the Postcode Lottery has done is to marry those two things. Not so much the Internet, but the idea of empowering people of ordinary means to have an extraordinary impact by pooling their resources."

By organising this meeting, the National Postcode Lottery aims to give an important boost to the subject of climate change. This WorldMeeting began in 1999 and exemplifies the tradition of the National Postcode Lottery. Former lecturers have been Francis Fukuyama (collaboration between governments and individuals), Irene Kahn (human rights) and Ruud Lubbers (civil rights and political issues).

Private initiative in a government controlled-environment

As with lotteries everywhere in Europe, the charity lotteries in the Netherlands work under strict government control. Based on the Dutch Gambling Law, the Ministry of Justice can grant a temporary license to organise a lottery, with the purpose to serve the public interest. Dutch law requires 50 percent of the proceeds of such a lottery go to public benefit organisations. These lotteries operate alongside the State Lottery, which generates funds exclusively for the treasury, and the Lotto/Toto, which has a monopoly position on organising the lotto game, the instant lottery (scratch cards) and sports betting.

The licenses of the Dutch Charity Lotteries are issued for a period of five years and define the framework of the operation of the lottery: the number of drawings allowed per year, the reporting methods, the sector for which the lottery raises funds and all other conditions for the lottery operation. The Dutch Gambling Board (College van toezicht op de kansspelen) supervises the operation of the lottery, and advises the Ministry of Justice regarding the renewal of the license.
Realising a dream

In conversations with people we always hear, "I understand this is possible in the Netherlands, but it will never work in our country!". Of course setting up a charity lottery is not easy, for starters, you need to possess an entrepreneurial spirit. The Postcode Lottery was founded by four entrepreneurs who made their dream to invent a ‘money machine for good causes’ come true. Simon Jelsma (founder and vice chairman of Novib), Boudewijn Poelmann (public relations and marketing department of Novib) and Herman de Jong (publisher) had met at the Dutch NGO Oxfam Novib. In 1983, Boudewijn Poelmann started Novamedia, an independent marketing agency specialised in non-profit organisations. During their first assignment, the establishment of a Dutch branch of Inter Press Service (IPS), an international press bureau mainly focused on Third World news, they soon found out that fundraising was a sad begging tour from one donor to another, from one disappointment to the next. As a result of their efforts they received an occasional too-little-too-late financial contribution. This frustration led to the notion that they needed to find a way to generate a continuous flow of financial resources for charities that benefit people and nature. Together with Frank Leeman, a man experienced in marketing, they started to brainstorm on how to find a way that charities could work on realising their dreams and not having to worry about continuous fundraising. A lottery in which people can participate using their own postal code as their ticket number was the result.

Now, almost 20 years later, 2.4 million households (one in every three in the Netherlands) enter the National Postcode Lottery with a total of 4.5 million lottery tickets. Fifty percent of the total income of the lottery goes to (inter)national good causes that support people and nature including the WWF, UNICEF, Oxfam, Amnesty International and the Clinton Foundation. The National Postcode Lottery has become the biggest charity lottery in the Netherlands, with a market share of al-
most 40 percent of the total lottery market. On an annual basis it supports 57 charity foundations with donations exceeding 225 million Euro in 2007.

**International expansion**

The success of the Postcode Lottery does not stop at the border of the Netherlands. In 2005, Novamedia launched the Swedish version: the Svenska PostkodLotteriet, and a pilot version in the North East of England: the UK Postcode Lottery. As of 2008, the UK Postcode Lottery changed it’s name into the People’s Postcode Lottery and was expanded to Scotland as well. The Svenska PostkodLotteriet started in September 2005 and has since become very popular with the Swedes. The lottery reached break-even within only two years of operation. By the end of December 2007, some 600,000 households were already taking part in the Svenska PostkodLotteriet. The lottery donated 19,9 million Euro in 2007 to nine beneficiaries such as the Swedish Childhood Cancer Foundation, the Swedish Sea Rescue Society and WWF Sweden.

The People’s Postcode Lottery started in Scotland, after a pilot in the North East of England. The lottery supports three Scottish charities: CHILDREN 1st, Maggie’s Centres and the Scottish Wildlife Trust. In the first half year of operation the lottery was able to donate almost 400.000 Euro to these charities. In the North East of England the People’s Postcode Lottery supports 8 regional charities, such as the Percy Hedley Foundation, Help the Aged and the Northumberland Wildlife Trust. These charities received almost 2 million Euro in the past couple of years.

The Swedish, English and Scottish Postcode Lotteries and the three Dutch Charity Lotteries joined forces in the beginning of 2008 by establishing the Association of Charity Lotteries in the European Union (ACLEU). ACLEU aims to represent the interest of charity lotteries and their beneficiaries, at the European level as well as in the Member States of the EU, as
the members believe that non governmental organisations in every Member State of the European Union should be enabled to use (national) charity lotteries as a fundraising tool. On the basis of rough estimates, it appears that charitable organisations could raise 10 billion Euro each year, if the charity lottery model would be implemented by all EU Member States!

Corporate information

The National Postcode Lottery was founded by Novamedia B.V. in 1989. Novamedia owns the intellectual property rights of the Postcode Lottery and in 1998 and 2002 they acquired the Sponsor Bingo Lottery and the BankGiro Lottery respectively. Novamedia develops and operates charity lotteries around the world and on the internet. In 2005, Novamedia has launched Svenska PostkodLotteriet in Sweden, and the People’s Postcode Lottery in England, which operates in the regions North East and Yorkshire. In 2008, the People’s Postcode Lottery started in Scotland as well. The principal charity lotteries in the Netherlands, the National Postcode Lottery, the Sponsor Bingo Lottery and the BankGiro Lottery are together incorporated in a public limited liability company structure (Nationale Goede Doelen Loterijen nv). Stichting Aandelen Nationale Goede Doelen Loterijen (Dutch Charity Lotteries Share Foundation) may only make changes to the ownership of the shares with permission of the Minister of Justice. The three lotteries are licensed by the Ministry of Justice. Fifty percent of every ticket that is sold in these lotteries is contributed to their beneficiaries. Every year the three Dutch Charity Lotteries collectively donate more than 300 million Euro to over 135 beneficiaries. To date, the three Dutch Charity Lotteries have contributed almost 3 billion Euro to charities.

For more information, please contact:

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GEXSI “ROUND IT UP”
A Micro-Donations Philanthropy Initiative
Maritta Koch-Weser with Christine Purdy


Big change can come from your small change

This is our message to Companies and Customers around the world

All around the world people already practice rounding up one way or another – while getting out of a taxi or leaving a restaurant. Imagine you would do likewise – making it your small, social solidarity routine to round up “social” bills – just by the few cents – on supermarket, department store, utility or telephone bills. Add to this rounding-down – for instance on payroll statements.

Painless “micro-donations” generated by rounding bills can result in significant flows of money, provided a sufficiently large group of mindful customers volunteer to participate. The accumulation of millions of micro-donations stands to make a big difference in giving hope and overcoming poverty, locally and around the world.

Because large sums of money are involved, transparency in handling Rounditup funds is key. People want to know where their money goes, and what it achieves. To assure this, a Rounditup Quality Seal has been developed by the Global Exchange for Social Investment – GEXSI.

The cause

We all depend on charities for much of our social and environmental work, caring for the very young, the old, or the handicapped, or for protecting and conserving nature. Much of our development aid, poverty alleviation, and disaster assistance is carried out at the grassroots by dedicated charities. This so-called Third Sector of civil society social entrepreneurship organizations is respected for its pivotal role and contributions. And yet, most charities have no endowment of their
own, nor reliable access to adequate, sustained funding. For them, the quest for core funding to sustain their programs is a constant challenge, consuming an inordinate percentage of their time and effort. In the fierce competition for scarce philanthropic and public resources, this remains a struggle for even the most popular and highly qualified organizations. Under the GEXSI Social Bill, which is being readied in the United Kingdom and other European countries under the heading of the Round it Up scheme, unrestricted funds will be raised for the long-term development of effective, front-line charitable institutions. Rounditup funds can provide civil society organizations with longer term, programmatic support for sustaining core activities, special projects, staff and overhead costs, and for scaling up their good work. In the previous edition of this book GEXSI described the Social Bill. In this edition, GEXSI endeavours to provide a more detailed approach as to how it can actually be put in to practice by describing its UK-based Round it Up scheme.

**Global Exchange for Social Investment (GEXSI)**

GEXSI ([www.gexsi.org](http://www.gexsi.org)) is a UK registered charity with a mission of bringing together charitable donors, social entrepreneurs and social investors to fund sustainable development in low-income areas around the world. Its long-term vision is to move fledgling entrepreneurs from aid to market. GEXSI promotes, as one of its concepts, carefully monitored “rounding up” schemes, creating significant numbers of micro-donations for the charitable sector. This international undertaking is called the GEXSI Social Bill and its initial UK-based format, the Round it Up Scheme.

With modern software to handle accounts, and the Internet to handle information, a world of opportunity in fundraising has opened up. Round It Up is a transparent routine for collecting micro-donations and for channelling them in equally transparent ways to those who need them.
Round it Up Features

• The *Round it Up* scheme features the routine, voluntary rounding up of bills to the next full unit (e.g. £, $ or €). For example, a customer would pay £24 instead of £23.64, with a micro-donation of 36p going automatically to a designated UK registered charity.

• Such rounding can be made of purchases, of salaries or bonuses, or pricing mechanisms within a business.

• Rounding of bills is particularly easy to introduce in the context of routine billing (e.g. utility, telephone or credit card payments), where customers can voluntarily enlist their disposition to always “round up”.

• The principle of rounding bills can also be adopted at retail level (supermarkets, department stores, hotels, ticket offices, etc.)

• A variant of “rounding” is the voluntary “rounding down” of payrolls; a company’s employees can agree to receive their payments rounded down to the next full unit (e.g. £, $ or €1051.69 would become £, $ or €1051.00).

• These micro-donations, “painless giving” across a large universe of contributing companies and customers, can generate significant sums of money. If, for example, 50% of British Telecom landline customers decided to participate, the resulting micro-donations would add up to some £90 million per year.

• The *Round it Up* scheme can lock in customer commitments, thereby creating predictable flows of funds. As increasing numbers of customers choose to participate, the scheme can grow into a vehicle that raises significant
funds for the charitable sector on a continuous basis.

- The over-arching, long-term objective of GEXSI with its Social Bill and the *Round it Up* scheme is that individuals come to choose the routine of micro-donations to their chosen charities as a standard option *across their entire universe of bills*.

**The GEXSI Quality Seal**

General Considerations

Transparency, accountability, and avoidance of fraud are indispensable elements of any *Round it Up* scheme.

A global GEXSI *Round it Up Quality Seal* (trademark pending) has been designed to identify a system of transparent, effective and efficient use of funds raised, and Internet-based feedback to customers.

The Quality Seal envisages a management system whereby objectives are set out clearly by the receiving organisations, and progress is regularly reported against those objectives. The Quality Seal methodology was developed initially in cooperation with Keystone Accountability ([www.keystoneaccountability.org](http://www.keystoneaccountability.org)), itself a charity devoted to measuring social impact. The work of each charity benefiting from *Round it Up* is supported by income from a variety of funders and sources resourcing a range of programme areas.

The great benefit of the unrestricted *Round it Up* funding is that it enables the charities to cover core costs and salaries of staff whose full salaries and costs are not included within programme funding sources.
Any quality assurance mechanism associated with *Round it Up* therefore needs to spotlight the quality of the totality of the work, the individual elements of which will be subject to reporting requirements of the other funders. Different funders have different requirements and preferences.

The quality assurance mechanism therefore needs to consolidate all reporting and do so within a very simple and transparent framework with minimal additional effort.

**The Quality Seal:**

- Provides donors with a basis for making informed giving decisions;

- Advances high standards of conduct among the organisations that solicit contributions within the *Round it Up* scheme framework;

- Provides the public with an easily recognisable symbol verifying that the billing companies and recipient organisations adhere to strong and comprehensive standards; and

- Provides the billing company with a reliable accounting and reporting mechanism.
Quality assurance of GEXSI Round It Up Scheme

It is proposed that the quality assurance ('seal') provided within the Round it up needs to provide the following elements:

- a brief statement of a theory of change (up to 500 words), outlining distinctives and unique selling points a description of the modalities and activities the charities undertakes (up to 500 words)

- a description of the modalities and activities the charities undertakes (up to 500 words)

- a description of the charity in terms of staff (field and office-based) numbers, volunteers and 'associates' (this last term is useful when it comes to describing the delivery of capacity building inputs), office location(s). This would only vary as circumstances change

- regular reports on specific programme activities and outcomes with some sort of analysis of qualitative social impact. This aspect will take time to build up.

- a brief section for stories of personal change/impact.

- an indication (traffic light system or similar) of the extent to which objectives set out in programme plans have been fulfilled within the time set out. We need to agree the parameters for each level of fulfilment, for example, if objectives are fulfilled to within 20% of target, a green light is indicated. If between 80% and 40%, an amber light and less than 40%, a red light. A space for explanatory statement should be provided.

- Our plans for the coming year (making reference to any longer term strategic goals etc)
• A statement indicating that all returns and requirements of the charity commission and (if appropriate) Companies House have been fulfilled. A link to the latest annual report of the organisation.

• Acceptance of random spot-checks by GEXSI representatives.

• Recipients of Round It Up funding should undertake to review the information on a six monthly basis and update the performance data on an annual basis.

(Prepared in collaboration with the Tutu Foundation UK, bearing in mind the principles of Ubuntu, July 2008)

Recipient organisations agree to self-report on the internet. This is where they inform donors what their money achieves.

This same information will be verified in unannounced spot checks over the lifetime of the funding under the GEXSI Round it Up Quality Seal.

The billing companies will provide a web-link to the participating charities, each of which will report on their overall progress resulting from the funds donated.

GEXSI will provide an annual report on money raised, its distribution and the charitable achievements.

Benefits to the Billing Company

The Round it Up scheme is about moral leadership and the willingness to facilitate voluntary contributions from customers. As a special expression of CSR, it means recognizing the broader civic role business can and needs to play in the form of collaborative philanthropy.
Benefits to the company include recognition for:

**Corporate citizenship:** The participating billing company can expect to receive, indeed deserve, credit for empowering an innovative new channel for charitable giving;

**Philanthropy leadership:** The *Round it Up* scheme provides the billing company with a leadership role in transforming charitable giving in their service areas;

**Enduring impact—low transaction cost:** The *Round it Up* scheme provides a reliable, constant source of funding to the charitable sector over a specified period of time with small set-up costs;

**Shared pride:** The billing company can feed back pride to their customers, assuring them of the great difference they are making as they pay their bills;

**Increased customer and employee loyalty:** Customers and staff alike can identify with the selected charities; and

**Understanding of new markets:** The billing company can develop new market insights from the charities as they work together.

**Benefits to Customers**

**No Pain – High Impact:** A participating customer/donor’s regular contribution will average a maximum of 50p/cents over time and cannot be more than 99p/cents per bill or payroll contribution in any given month.

The majority of donors will consider these pennies or cents to be an extremely low-cost, painless way to support worthy causes. Customers will be delighted to see “how big small
can become” as the pence accumulate to make a meaningful difference.

**Convenience:** The *Round it Up* Scheme functions mostly through enrolment programs: the round-up/round-down amount is automatically shown as a separate item on the donor’s billing documentation.

To billing companies, there may even be an operating benefit in that there is a comfortable simplicity in bills or payments expressed in even amounts.

**Elements of a Starter Kit**

1. **Information Technology – Billing Companies**

Billing company software will need to include a Round it Up option.

It is anticipated that the billing company will prefer to adapt systems in-house for data protection and reputation reasons.

However models are available from where such systems have been developed elsewhere, in the UK especially through organisations such as Pennies from Heaven (www.penniesfromheaven.co.uk) or the Charities Trust (www.charitiestrust.org).

2. **Selection & Designation of first Recipients**

Criteria and operating mechanisms for the selection and need to be established, and a small first group of initial beneficiaries need to be designated before any donation schemes begin.

It is recommended to start with a small “founders” group of charitable organizations, which can grow further as the fundraising scheme grows. For example, the Dutch Postcode
Lottery started out benefitting only 3 organizations. Once its revenues grew, more than 54 additional beneficiaries were included over time.

**Example: The Round It Up Charities – United Kingdom (UK)**

GEXSI recognises that some of the poorest communities in the world are in Africa and has therefore chosen to work with UK registered charities that undertake community development in and with African countries. In the pilot stage, five charities have been selected as founding members. These charities all work for social benefit in and with African countries, they are all registered with the UK Charity Commission and they are all of small to medium size, such that anticipated financial flows from the *Round it Up* scheme would make a truly significant difference to their levels of operation and the people they serve:

Africa Now ([www.africanow.org](http://www.africanow.org));
The Dabw Foundation ([www.dabw.org](http://www.dabw.org));
MaAfrica Tikkun ([www.mAAFrikatikkun.org.uk](http://www.mAAFrikatikkun.org.uk));
PumpAid ([www.pumpaid.org](http://www.pumpaid.org)); and
Tutu Foundation UK ([www.tutufoundationuk.org](http://www.tutufoundationuk.org))

3. **Tax: Country specific charity legislation and tax schemes must be taken into account**

For example in the United Kingdom, the aim is to channel donations completely to the nominated charities, taking advantage of “Gift Aid” to cover GEXSI’s contractual obligations. Any additional Gift Aid Funds (commensurate to the level of Round It Up donations) will be used to finance small projects on an annual application basis to GEXSI.
4. Banking

Once the billing company has expressed its interest in the scheme, a transparent banking system needs to be put in place in each country case, to ensure rapid collection and redistribution of funds to the designated charities.

5. Legal

Regarding use of the name, copyright and contract issues, and the quality seal, legal documentation will include contracts between GEXSI and collaborating agencies and intellectual property protection.

6. Governance and Management

Governance of the Scheme remains with the Trustees of GEXSI, the UK registered charity. However a separate GEXSI Foundation and Board is being developed to provide impartial judgments on the Foundation applications.

Pilot Phase

In any start-up, key features of a pilot scheme are:

• The billing company will adapt its IT systems to allow rounding of payments, with the resulting funds going equally to the five designated charities;

• Funds generated are unrestricted and intended to help the recipient charities develop long-term (five-year) planning capacity;

• The charities receiving funds from the scheme are validated by GEXSI;
• Donors will receive regular online reports and feedback from the recipient charities, describing how the donations have made a positive difference. GEXSI will undertake spot checks to validate reporting;

• All of the contributions will go to the nominated charities, with Gift Aid being used to cover GEXSI’s costs and to establish a the GEXSI Foundation, a philanthropic arm of GEXSI for additional project funding;

• The GEXSI/billing company relationship will be used as a model to encourage other billing companies to develop their own relationship with GEXSI and the charitable sector.

**Roles and Responsibilities:**

**GEXSI**
Initiates the concept
Prepares the proposal
Gathers the pilot partnerships
Manages the legal relationships
Creates the roll-out plan
Provides the Quality Seal
Leads on branding, including Round it Up logo and intellectual property, trade-mark, etc.)
Monitors the charity performance reporting
Prepares and distributes Annual Report

**THE COMPANY**
Creates the IT platform
Markets the scheme in-house
Develops publicity material for wider dissemination
Ensures transparency of accounting
Develops working relationship with tax office to gather Gift Aid
CHARITIES
Ensure clear online reporting mechanisms
Participate in management Board of the Foundation
Lend name to marketing materials
Promote the scheme
Ensure financial transparency

Do it your way

Round It Up is more than a readily designed system. It is a vision – which takes its inspiration from a growing number of real-life, working models. It can be implemented by a vast spectrum of companies, employees and customers - commercial and philanthropic organizations around the world.

Microdonations could annually add up to billions around the world.

Under the Round it Up scheme GEXSI offers an exemplary transparency and operating system which can enable the participation of growing numbers of companies and citizens, generating continuous flows of funds to deserving charitable organisations.
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Round-up Foundation South Africa
Jeanne Rose

"I think of Round Up™ as the 'butterfly effect' of goodwill...the simplest actions can have far-reaching consequences..."

I am the founder of Round Up™ Foundation, (originally named “The Archimedes Foundation” in 2003). The initiative emerged from a personal dream to enable a sustainable and “real” difference and to create a solution that could provide ongoing funding to charity organisations in my community. But, how does one individual "make a difference in a world that has so many problems and so many needs?" – "For me the only answer lay in working together towards harnessing positive contributions (financial and developmental) from many like-minded individuals. By working together, we can all win and contribute to creating a better world for our children."

In early 2003, we were concerned with so many aspects – the lack of sustainability in the non-profit sector; the never ending requests for donations from many diverse charities and fundraising organisations; the fact that many of these requests included incentives and presents if donations were given; the fact that so few of the small organisations had access to ongoing funding that they could rely on. I realised that there had to be a simpler method of collecting funds more efficiently, effectively and on an ongoing basis, without incurring huge ongoing costs.

My colleagues and I reasoned that there had to be a way to provide causes and projects with an ongoing annuity income. After exploring a number of ideas, the concept of round up™ and the electronic collection tin (e-tin™ technology) emerged. My guiding principle is that electronic small change collection and distribution should be simple, cost-effective, easy-to-use and be available to all South Africans and eventually enabled on a global scale.
Today our vision is to build Round Up™ into an efficient large-scale fund-raising mechanism, designed to reach each and every South African. Round Up™ provides donors with a means to contribute anything from 1-cent to 99-cents a month. Alone, this small change would be ineffective. When added to the cents from thousands of other people, this small change is able to aid many needy South Africans.

**How it works**

Round up™/ e-tin™ technology provides a voluntary system of giving where every cent counts, where an ‘electronic collection tin’ is used to collect small change by:

- Rounding up consumers’ regular monthly bills – water, power, phone etc – to the nearest Rand, on an ongoing basis and subject to consumer agreement.

- Rounding up bills at till point to nearest x cents.

- Adding fixed amounts or percentages to bills or till point collections.

“Round Up Foundation embodies the unique South African spirit of Community, of joining forces in sharing goodwill and promoting upliftment... see the change and experience the power when even the smallest contribution makes a difference!”

Via Round up™/ e-tin™, small change is “gathered” by retailers and billing organisations electronically, and transmitted to Round Up Foundation’s e-tin™ system. This electronic small change collection mechanism provides a simple, cost-effective and convenient method to give and collect donations. The e-tin™ system features correct structures of transparency, auditing, accountability, and feedback, to collect, allocate, agglomerate and distribute funds to nominated non-profit-organisations.
Round Up™ and e-tin™ links consumers with accountable organisations who may be smaller and not high-profile ‘charity brands’, yet who contribute enormous value at grassroots levels.

Round Up Foundation is committed to provide South Africa’s non profit sector with a “new” sustainable source of funding, and, beyond that, to promote capacity building and organizational strengthening of our key contributors within communities, to ensure sustainability and self-reliance of projects, and to unleash untapped potential. We believe that every South African citizen should be entitled to participate and to see the results of their contribution.

(Note: It is important to give a consumer, wherever he/she has a monthly bill, the choice, via a website, to select a beneficiary organisation of his/her choice from a pre-accredited list. It is acknowledged that many existing organisations have accredited “charity lists” and this is a source of ongoing collaboration to ensure that work is not duplicated.)

Social Impact: Round Up Foundation (previously known as The Archimedes Foundation), a non-profit, public benefit organisation with tax exempt status, was founded in 2003 to address the ongoing regular funding shortfalls experienced by the non-profit sector in SA.

Scenario 1: Imagine if 17 million consumers were given one single opportunity per month to make a micro donation of 49 cents? This would effectively raise 100 million Rand per year.

Scenario 2: If one retailer (by rounding to the nearest 5 cents) collects 50,000 Rand per annum (see proof of concept), 2,000 retailers will be able to collect another 100 million Rand. This figure can increase tenfold if rounding happens to the nearest Rand.
Imagine the scale that can be achieved if every billing organisation and every retailer implemented a voluntary Round Up in their business?

Eventually Round Up Foundation will be distributing an annuity income on a monthly or quarterly basis to hundreds of South African NGOs and community organisations, including those which are responding on the ground at grassroots level to poverty alleviation and community development in South Africa.

It is our aim to roll the concept out internationally, and to drive First World consumers to elect that their contributions be directed to Third World countries to help address the issues of poverty and health as identified in the Millennium Development Goals. Our tools and systems will also enable other Third World countries to tap into their middle class, and collect their small change.

**Proof of Concept**

The organisation started collecting funds in June 2005 with the launch of the pilot program in the Kit Kat Cash and Carry Store in Pretoria. The objectives of this proof-of-concept site were to demonstrate customer willingness to donate a few cents at till-point, and to test their confidence in the electronic round-up method of small change collection. Kit Kat Store is located in a low-income area of Tshwane. With permission from the store’s customers, transaction totals are rounded to the nearest 5 cents, and the difference is donated to pre-selected non-profit organisations within their community. During the first 21 months, Kit Kat’s tills collected over 100,000 Rand in ‘small change’ (i.e. 2 million customers agreed to Round Up). Customer contributions are matched by Kit Kat to double their contribution to community organisations. Using in-store pictograms and notice boards, information on the mechanism of this electronic small change collection concept was conveyed
to staff and customers. Diagrams also illustrated how donations are received and distributed to their beneficiaries. Round Up Foundation’s Kit Kat pilot project has been successful and sustained. On average, each customer who said “yes” to having their bill rounded-up to the nearest 5 cents contributed only 2 cents per transaction; this truly is small change collection. Added together, each small change contribution, donated by Kit Kat’s 2 million customers over this period, totals 100,000 Rand – a substantial contribution to Kit Kat’s designated beneficiaries.

**Innovation, quality and excellence:** Round Up Foundation has received recognition in South Africa as:

- A finalist in the T-Systems age of Innovation and Sustainability Awards 2005 – Award for Excellence in Innovation and Social Sustainability
- Winner Emerging Technology Top 100 – Awarded Most Noteworthy Achiever 2005
- Placed in Technology Top 100 – 2005
- Qualifier and finalist in Emerging Technology Top 100 – 2006
- Finalist in Proudly South African Homegrown Awards – 2006 Category: Innovator of the Year

**Key Factors that exemplify competitiveness:**

- Solution that is simple, cost effective and easy to use. By using electronic fund collection and highly automated processing systems, we can provide consumers, Customer Facing Organisations and other stakeholders with efficient, high volume and low cost administration of small change
collection, aggregation, and distribution, and automated feedback to stakeholders.

- A business model that ensures best returns for beneficiary organisations; A minimum of 90% of funds collected are distributed to the non-profit sector on a regular basis.

- Transparency and adherence to international standards and best business practice; Round Up Foundation will be audited on at least a 6 monthly basis and publish financial results on a website for public viewing. Our legal advisors and auditors provide valuable input into our processes and standards. Auditors: KPMG, Legal Advisors: Bowman Gilfillan

At the end of April 2007, Round Up Foundation in South Africa celebrates the two millionth customer saying ‘yes’ to Round Up, concurrent with their nomination as a finalist in the Proudly South African Homegrown Awards, as INNOVATOR OF THE YEAR. Our vision is to inculcate electronic small change giving across 90% of South African

Issues and challenges around practical implementation of "Round Up collections"

- **Ongoing accountability at all levels.** Small collection from the global middle class population could yield huge sums of money by rounding bills to the nearest Euro, Dollar, Rand etc. However, assurances and standards must be maintained to ensure that fraud and misappropriation are minimised. **Accountable standards and accessible, relevant feedback that satisfy all stakeholders are very necessary to ensure success.**

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2 Round Up Foundation is a strategic collaborative partner, providing “on the ground” input and experience towards GEXSI’s work on a ‘Global Quality Seal’ as the essential underpinning for establishing electronic small change collection as a lasting worldwide practice. www.gexsi.org/social_bill.htm
• **Consumer education**: Nine official languages and various cultural differences make SA a unique environment within which to communicate clearly. The Archimedes Foundation has re-branded to the name “Round Up Foundation” to clearly represent the concept without additional confusion. Additionally pictograms, noticeboards and diagrams are used to educate and clearly communicate the workings as well as achievements of Round Up.

• **Legislation.** SA’s new Consumer Credit Act provides that negative option marketing, where the consumer has to opt out of a product or service otherwise it is supplied by default, is illegal. Round up™ will always be strictly opt in.

• **Dealing with the Customer facing organisation’s internal IT structures and systems. Challenges include:**

  **Costs.** IT departments must schedule and justify expenditure for the implementation of small change collection requirements (usually initiated by the Marketing/CSI departments). Innovative ways and solutions to implement must be explored to ensure optimal functionality for lowest development and implementation costs.

  **Resistance to Change.** IT departments historically resist change - our expert team proactively provide workable solutions to eliminate resistance and over-complication of what is required to implement.

  **Adapting current/legacy systems.** Implementation strategies must be aligned to CFO infrastructure, new implementations, and existing system issues in order to target optimal IT resources to benefit small change collection within the organisation and develop feasible rollout.
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Visa GreenCard with ClimaCount: 
The Sustainable Credit Card
Gijs Bertels

In this day and age in this consumption-driven economy, there are two seemingly irreconcilable needs. One is that we live in a market-driven global economy, 24/7, where everything is available, anytime, anywhere. We’ve learned to purchase what we want, when we want it, and products are replaced when others become more attractive. The credit card is the ultimate consumption instrument that we carry with us all over the world and that we use for our universal purchasing needs. With your passport and your credit card in hand, you’re all set and good to go! Satisfaction upon demand, swipe the card and you’ve got it. Time goes by and we slowly but surely become aware that there are more costs related to the products we buy than the obvious ones. It is the cost of the planet we’re living on, the environment we’re living in, and the availability of those for future generations. Environmental organisations have – for decades – been making tireless efforts to open the eyes of society to the impact of human behaviour on the environment. Challenge however is to create market-driven solutions for environmental challenges.

Visa GreenCard with the unique ClimaCount programme is such a solution. We launched the sustainable Visa GreenCard credit card in September 2004. The offering is fairly simple: it’s a Visa credit card, which is the most widely accepted credit card in the world. For everything you purchase, we calculate the carbon footprint related to that purchase, inform you on your monthly GreenCard statement and offset your personal carbon footprint without additional costs.

The calculation is based on governmental and other scientific reports on the greenhouse gas emissions related to the entire lifecycle of all the products and services you can purchase.
The calculation model is validated and approved by TNO, the Dutch Applied Science Institute. Additionally, PricewaterhouseCoopers has audited the program from the start and approves the outcome annually, concluding that we have fulfilled our commitment to the cardholders to 100% offset the carbon footprint of all their Visa GreenCard purchases.

The program of this card is named ClimaCount and has been endorsed and supported by various environmental organisations in the Netherlands such as Natuurmonumenten and WWF. Internationally ClimaCount has been endorsed by Conservation international. Currently we are working on the international roll out of the ClimaCount concept. With partnerships signed in the US with a major issuer of consumer cards and in Europe with Visa Europe for corporate cards the international footprint of ClimaCount grows rapidly, supporting us in the impression that this is a very powerful concept.

At the same time the concept is being improved on a continuous basis. The calculation model has been refined so we are able to calculate carbon footprints even more accurate. To give cardholders insight in their personal footprint we developed a tool on www.climacount.com where cardholders can see how their footprint relates to others. LifeStyler is another tool that gives (potential) cardholders insight in how their daily life impacts their carbon emissions. Additionally we improved the quality of compensation opportunities. Cardholders now have the option to indicate their preference of carbon offset projects. They can choose from forestry, renewable energy, energy efficiency and carbon capture. To educate people we have developed CarbonClass, to help people understand the difficult topic of Co2 emissions and offsets. These additional services are to inform people to empower them to work on reduction where possible. And where reduction is not possible, use a ClimaCount card to be sure that your purchase is being compensated.
RePay International will license this sustainable credit card program to strategic banking partners internationally, under ClimaCount brand. Together we work with these banking partners to empower cardholders globally to contribute to the fight against global warming with this universally-accepted payment instrument. Additionally RePay has partnerships with non banking partners. Example of a strategic non banking partner in the Netherlands is Univé, a large insurance company that links Visa Greencard to their healthcare and car insurance plans to strengthen their sustainable and green focus.

Banks and other parties that are interested in developing this market-driven solution can simply contact us, and we will then enable them to issue their own ClimaCount-powered credit card. We have a reliable Climate Compensation Program, a plug and play IT solution to easily, quickly and safely implement the Carbon Calculation Software, and a proven business case to explain how banks can increase their sales, profits and CSR profile while helping us make the better, bigger, faster contribution to stop global warming. People, Planet, Profit... deliver this combination and you add value, so profit will follow as a reward for doing the right thing.

Imagine if we do this right, there will be climate neutral credit cards all over the world and millions of purchases per day made climate neutral, all the time, everywhere. The solutions are nearer than we think! If making the world a better place is profitable, maybe others will follow...

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Donors Message Service
Pavlína Kalousová

Creative, long-term fundraising instrument stimulating individual giving through SMS giving

Reasons for the creation of the Donors Message Service® project

The financial resources accessible to non-profit organisations in the Czech Republic as well as in other Central and Eastern European countries, are, at present, diminishing considerably. Funding from abroad has become especially rare. For this reason, it was necessary to find and mobilise new local resources – specifically corporate and individual donors – and also to look for new creative approaches to address them. Behind all of our thinking there was the goal to address the fact that people do not give since they were never asked (or at least felt that way). We also wanted make giving simple. Most giving did not take place as there was a long period between people being “exposed” to the charity appeal, and the moment they went to open their online banking – or worse, before they went to the bank to transfer the donation. And of course there is one more aspect that we had to take into account; transparency and feedback – because people must know where their money goes to and what was it really spent for.

From available analyses and experience it emerged that SMS contributions possess great potential for non-governmental organisations. Mobile phone penetration in the Czech Republic is really high (almost 100%), and mobile phones/SIM cards and SMS (text messaging) have previously been used for many other activities like voting, consumer contests or small payments.

Another motivation for implementing the DMS system was the mutual need of all parties (mobile phone operators, non-
governmental and non-profit organisations, and the public) to establish a standardised and transparent system which would feature clear rules and which would work for all NGOs under non-commercial conditions. Thus far, all projects for SMS giving were always set up ad hoc separately by various operators, a provider, and a corresponding NGO, which succeeded in gaining access to the SMS-acquired funds. The difficulty level of this system entirely ruled out the practice of attaining resources through SMS for more than five or six projects per year. Many NGOs then struggled to gain access and get financial resources via SMS on the basis of commercial services with commercial prices. At the same time a public debate on the efficiency and transparency of SMS charity erupted and expectations from the public (consumers) and content providers and operators diverged.

These varying factors were all considered before launching the new service combining telecommunications and giving. We wanted a service that would enable people to give when they are asked, only to “certified” NGOs, and let people know exactly how much they are paying and for what. We also felt the need to open SMS giving to an unlimited number of NGOs that are able to design good and effective communication campaigns. That is all included in the DMS – standard service branded as Donors Message Service®.

What is the Donors Message Service®? The Donors Message Service is a registered trademark for the SMS donation fundraising mechanism operating on a non-commercial basis. In the Czech Republic DMS is operated in a partnership of the Czech Donors Forum and all telecommunication operators (Telefónica O2 Czech Republic, T-Mobile Czech Republic, and Vodafone Czech Republic) and the DMS Service company. DMS is a unique model addressing all aspects of SMS charity giving, aiming to offer foundations and other non-prof-
it organisations the opportunity to obtain contributions from individuals via mobile phones and fixed lines in the form of SMS messages. DMS includes not only disaster responses and major public campaigns but also “regular” SMS collections for smaller charities and foundations. It is modelled to support all ranges of charity appeals since it can be used for a big range of projects (from community-based to national).

**How does DMS work?**

The general principle of DMS is a service that is incorporated among “standard” services offered by the operators to their clients. It operates under one single number for all operators - for example DMS Czech uses 87 777. There is a flat price for each DMS – for example 30 CZK in DMS Czech (approx. 1 EUR) and there is one system for text messaging – “DMS CHANCE”. The business model is based on the principle of “covering costs” (for the mobile operator, DMS Service /know-how and content provider, Czech Donors Forum) and it is clearly stated how much goes to the NGO. DMS guarantee that at least 90% of the total costs from each DMS go to the charity. The remaining 10% is used to cover all various costs, including taxes for all partners involved in the DMS project – mobile operators, DMS Service (including content and technical operation) and the Czech Donors Forum. DMS also provides the central information service for the public which includes the hotline and the web portal with the list of NGOs using the service. Importantly updated information about the amount of funds raised for each NGO and what these funds were spent for can also be found there.

Before using the DMS, each NGO goes through a screening process demonstrating to every donor that it is trustworthy to receive donations using SMS. The system of text messaging using DMS and the keyword identifying the NGO gives donors security about all aspects of the SMS donation. Each NGO then
uses the DMS trademark and logo of the DMS client in all communication and marketing efforts. Czech Donors Forum informs the public which NGOs have introduced the DMS, and updates the information on the central web page.

**Why is DMS a unique system?**

Donors Message Service is a unique model addressing all aspects of SMS charity giving. The aim of the DMS project is to offer foundations and other non-profit organisations the opportunity to obtain contributions from individuals via mobile phones and fixed lines in the form of SMS messages. Donors Message Service is a complex standard system, easily accessible by any foundation, and NGOs are screened and authorised to join the system. It runs on a regular (i.e. year-long) basis, and eliminates all the “usual” risks such as public criticism towards mobile operators about what amount is retained by operators from the SMS charity, why SMS donations are open only to a limited number of “privileged” NGOs, what the control mechanisms for NGOs fundraising through SMS are, and other questions. From the operators’ point of view, the Donors Message Service is easy to operate by using existing networks to add extra value.

DMS Service was launched on 1st April 2004, and since has had over 190 charities projects participate. Altogether over 7.4 million DMS have been sent (there are 10.4 million inhabitants in the Czech Republic). The total amount represents over 8.2 million Euro raised through the DMS. People can support many types of NGOs who address a wide range of issues, such as the handicapped, homeless, environmental protection, activities for refugees, monument protection, disaster relief, etc. The fact that DMS became so popular encouraged the amendment to the VAT Law, and since January 2006 there is no VAT charge on donations through the DMS in the Czech Republic. Why is DMS so successful? Simply because in our
marketing and communication we focused on overcoming common obstacles, made giving easy and transparent, and by also motivating NGOs to start communicating with their potential donors. The main launching campaign by the Czech Donors Forum featured PR (newspaper, magazines and TV interviews and articles) and basic communication channels (web marketing and prints). Mobile operators used their standard marketing tools especially during the pilot year (web pages, client magazines and leaflets, city lights, prints). All authorised NGOs that use the DMS in their campaigns also communicated the main messages about DMS.

From the evaluation that CDF did with a public poll, we learned that the majority of people using DMS had never given to charity before!

**What we have achieved in the Czech Republic so far?**

The DMS service was launched in the Czech Republic on 1\textsuperscript{st} April 2004, with a pilot test period of one year. This proved very successful. We tested campaigns of 37 charity projects representing a wide range of scale and focus. During the testing year almost 940,000 DMS were sent, which represents almost 1 million EUR out of which at least 90% went to NGOs. After initial testing year, we opened the DMS service to an unlimited number of NGOs. So far over 132 foundations and NGOs used the DMS service.

Altogether over 5.7 million DMS have been sent, which equals half of the population of the Czech Republic (over 10 million inhabitants). The total amount fundraised through the DMS is more than 6.1 million EUR.
Examples of NGOs and foundations using the DMS in the Czech Republic:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Purpose</th>
<th>No.of DMS (2004 - 2007)</th>
<th>Funds raised from DMS*</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADRA Foundation</td>
<td>Tsunami</td>
<td>1 659 747</td>
<td>1 792 527€</td>
</tr>
<tr>
<td>Kapka Nadeje Foundation</td>
<td>Hospital equipment</td>
<td>1 007 457</td>
<td>1 088 054€</td>
</tr>
<tr>
<td>NROS</td>
<td>Children in need</td>
<td>1 132 346</td>
<td>1 222 934€</td>
</tr>
<tr>
<td>Advent Concerts</td>
<td>Social and Health</td>
<td>587 069</td>
<td>634 035€</td>
</tr>
<tr>
<td>Czech Radio Foundation</td>
<td>Visually impaired</td>
<td>393 317</td>
<td>424 782€</td>
</tr>
<tr>
<td>Paraple</td>
<td>Handicapped</td>
<td>349 291</td>
<td>377 234€</td>
</tr>
</tbody>
</table>

* 1 Euro = 25 CZK

Conditions for NGOs within DMS

All NGOs which gain access to DMS need to meet identical criteria. The DMS project is based on transparency, and thus every NGO is required to publicise in advance for which purposes the acquired financial resources will be used, and after evaluating the collection or project, to again make public any and all information about its actual use.

Every non-profit organisation seeking to integrate its agenda into the DMS project must register and provide documents certifying its legitimacy. These include an annual report, financial report, certification of operation for at least two years, and confirmation of desire to conduct a public collection via telephone line. It must then propose the purpose for which the acquired resources will be used – such as specific projects, equipment, or core costs of the organisations used for the public benefit. The screening process of the NGO (pre-screening before registration, supervision during implementation, control of money expenditure) is provided by the Czech Donors Forum that then makes recommendations to the DMS Board. The DMS Board coordinates and supervises the DMS project and has seven members representing mobile operators,
Czech Donors Forum, the DMS Service company and NGOs using the DMS (DMS clients).

Every non-profit organisation which wants to take part in the DMS project must adhere to the conditions outlined by the contract, and publicise information about the use of collected resources.

**DMS is a system that has brought many benefits for NGOs:**

- Obtaining resources via SMS is available for any NGO
- Single number and easy rule for passwords (increases knowledge about the mechanism, proficiency)
- Simple orientation for a person who wants to donate
- NGO does not have to work out the technical setup or legal safeguarding of the DMS project (everything is established in a standardised form)
- NGOs will acquire communicational support from the DMS project
- Support for an informed public and transparency as well as success of projects by NGOs
- Centralised information about the DMS project with the promotion of (other) individual projects

One of the biggest challenges that we have confronted so far is the capacity and skills of NGOs in maintaining effective communication and marketing. DMS is a fundraising tool that must be supported by targeted communication with potential donors. For this reason Czech Donors Forum established consultation services and a set of workshops focused on coaching NGOs on
communication, campaigns and marketing – for which specialists from agencies and companies are used. We have also begun collecting best practices examples in NGO campaigns.

**VAT on SMS charity**

As giving through the DMS system became very popular among the Czech public and NGOs, the media in the Czech Republic started to challenge the VAT charge (19%) on every SMS donation. Although Czech legislation in general does not apply VAT to any other types of donations, DMS was treated as a regular telecommunications service, and mobile operators were obliged to charge VAT, particularly in the case of pre-paid customers (those not having a contract with operators). Existing legal conditions did not allow operators to distinguish between donations and telecommunication services since the VAT was paid for by pre-paid customers at the moment when the customer purchased the “whole” value for services (the majority of donations come from pre-paid customers). This is still the situation in most European countries.

Since January 2006 there has been no VAT on SMS donations in the Czech Republic. This general change in VAT legislation was initiated and developed through cooperation among the Czech Donors Forum, mobile phone operators, and the Czech Ministry of Finance. The change primarily relates to the unique SMS giving project – the Donors Message Service (DMS) organized by the Czech Donors Forum. The Czech Government has also approved refunds of VAT on selected collections from 2005 through special subsidies since the VAT change was not in force at that time.

We succeeded in bringing about the change by attracting the interest of the public and developing a solid partnership with the mobile operators, but also by gaining understanding from the government. However, the strongest argument was that SMS donations through the DMS system are transparent, with all parties operating on non-commercial rates.
This method eliminates all the usual risks connected with standard SMS giving (such as percentage fees charged by operators and the risk of misuse of funds). This can serve as a good example, since without being able to prove to the government, media and the wider public that the DMS system is trustworthy, we would have never achieved such a systemic change with a broad consensus.

**International dimension**

The Donors Message Service has twice been nominated for the GSM Association Award for the use of mobile phones for communities due to its position as the only existing sustainable and standard mechanism for SMS charity. This also helped to raise the interest of other countries to also implement the DMS nationally. On an international level “DMS International” is a project of DMS in partnership with the Czech Donors Forum, local umbrella partners, and mobile phone operators in respective countries. The DMS project has been extremely successful in the Czech Republic, and the same system was launched in Slovakia and Bulgaria.

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PART II: MICROBANKING, SOCIAL INVESTMENT, AND PRIVATE SECTOR DEVELOPMENT
Kiva: person-to-person microfinance
Matt Flannery

In the outskirts of Kampala, Uganda, on a rocky hill donated by a tribal king in Banda-Kireka zone, 3,000 war-affected families live in an Internally Displaced People’s camp known as the Acholi Quarter. In 2006, loans from Kiva lenders enabled 35 residents in the Acholi Quarter to invest in improvements to their community.

Julius Ocola’s water tap has brought cheap water for household consumption closer to hundreds of families that used to pay a premium for it to be carried up the hill. Doreen Acen’s barber shop provides a place to revive the community’s self-esteem, while Richard Ochii’s video hall offers low cost entertainment just a few doors down. Grace Ayaa’s peanut butter factory now employs 3 workers, and Monica Achaa’s husband-maimed by LRA (Lord’s Resistance Army) rebels and left disabled before the family fled to Kampala—now has an honorable occupation running the small grocery that her loan has helped to set up in their home. Seven displaced families now live in better housing built with Kiva loans, and women whose only source of income used to be digging in the local stone quarry are now able to employ others on small income generating projects that require less strenuous work.

Kiva connected with these people through Life in Africa (LiA), a Ugandan grassroots member-owned social enterprise that operates community Webbed Empowerment Centers in Kampala and Gulu. LiA members also participate in global arts projects, interactive technical assistance (and occasional funding) through the online community at Omidyar.net, export craft sales through a network of California-based home party resellers, and contract production for InvisibleChildren.org.

In this rich mix of global opportunities for families accustomed to living in conditions of extreme devastation and poverty, Kiva plays an important role in helping members leverage their modest new LiA incomes and begin planning for their families’ future. After just one year, the impact of Kiva at work to uplift the poorest of the poor is undeniably visible in this impoverished community.

For residents of Kampala’s Acholi Quarter the impact lies not just in facilitating entrepreneurship, but in restoring dignity and a sense of normal life to families who have lost everything to the unspeakable horrors of Northern Uganda’s rebel war.
Each story is unique, but patterns emerge – patterns that get us closer to understanding what it means to be in poverty and the difficult process of trying to escape. These stories are at the heart of Kiva’s goal and strategy: the human connections that are build between lenders and borrowers have brought new lenders to the microfinance movement, and foster in them a new awareness and connection to the people who briefly use their money. By telling stories, Kiva allows microfinance institutions (MFIs) that lack access to capital markets to efficiently raise money and serve more clients.

The beginning

Matt Flannery and his wife Jessica started Kiva in 2005. Kiva, a non-profit organisation headquartered in San Francisco, is an online lending platform that allows individuals in the developed world to loan to small business people in the developing world.

Kiva (‘unity’ or ‘agreement’ in Swahili) was born of the following beliefs:

- People are by nature generous, and will help others if given the opportunity to do so in a transparent, accountable way.

- The poor are highly motivated and can be very successful when given an opportunity.

- By connecting people we can create relationships which exceed beyond financial transactions, and build a global community expressing support and encouragement of one another.

Kiva operates in the microfinance space and works with a growing network of microfinance institutions (MFIs) in more than thirty countries. Kiva’s MFI partners post the profiles
of their loan applicants to the website. Internet users in the United States, Canada, Europe, and beyond make small loans via PayPal to these businesses. The businesses pay the lenders back over a period of about a year. Since starting, Kiva lenders have funded almost $40 million in loans this way.

**How Kiva works**

Anyone with an e-mail address, credit card and $25 can lend money to an entrepreneur in a developing country. The loan cycle is visualised as follows:

1. Lenders browse profiles of entrepreneurs in need at www.kiva.org, and choose someone to lend to. When they lend, using PayPal or their credit cards, Kiva collects the funds and then passes them along to one of its microfinance partners worldwide. The lenders lend the money without any interest rate. More than 300,000 people were registered as Kiva lenders at time of writing and more than 50,000 loans were funded.

2. Kiva’s microfinance partners distribute the loan funds to the selected entrepreneur. It takes about 1.5 days for the average entrepreneur to receive funding for a project through the website. Often, Kiva’s partners also provide training and other assistance to maximize the entrepreneur’s chances of success. At time of writing, Kiva worked with 89 partners in 42 countries.
3. Over time, the entrepreneur repays their loan, usually in 6-12 months. Repayment and other updates are posted on Kiva and emailed to lenders who wish to receive them. The repayment rate of all loans is around 98%.

4. When lenders get their money back, they can re-lend to someone else in need, donate their funds to Kiva (to cover operational expenses), or withdraw their funds. Eight out of ten lenders choose to pour their loan funds into a new business after they are repaid by a borrower.

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**Kiva’s product philosophy**

**People are central.** The first thing you notice are faces. Money and organisations are secondary, people are primary.

**Lending is connecting.** At Kiva.org, lending money is all about information exchange. In a sense, money is a type of information. Lending to someone else creates an ongoing communication between two individuals that is more binding than a donation.

**Things are always changing.** Every time you load the Kiva website, it should be different. Every minute, loans are being purchased and repaid, and stories are being told about the borrowers. This can lead to a dynamic where philanthropy can actually become addictive.

**Emphasize Progress over Poverty.** Business is a universal language that can appeal to people of almost every background. This can lead to partnerships rather than benefactor relationships. Kiva appeals to people’s interests, not their compassion.

**Create a Data-Rich Experience.** Whenever it is possible to collect data from the field, Kiva collects it. Over time, Kiva will display as much information about its partners, lenders, and
borrowers as possible and let the users decide where money flows.

Factors of success

Kiva is staffed and governed by experienced consumer internet and microfinance leaders. In addition, a number of major internet partners are supporting Kiva, including:

- **Microsoft**: financed 5 months of research and development.

- **PayPal**: provides Kiva with free payment processing - Kiva’s largest variable cost - thus enabling 100% of the loaned funds to reach entrepreneurs in developing countries. Kiva uses PayPal’s innovative payment solutions to securely and seamlessly distribute funds around the globe.

- **YouTube**: donated 120 million free banner placements to Kiva. The banners increase Kiva’s exposure to web users and gives those searching through videos on YouTube the opportunity to link directly to the Kiva website.

- **Google**: Kiva is a Google Grants recipient, receiving free advertising through Google Adwords. This partnership allows Kiva to attract new lenders by promoting the website at the moment an internet user is looking for more information on poverty alleviation, and is invaluable to Kiva’s continuing success.

Kiva has also received wide acclaim from the blogosphere (more than 4,000 blogs) and mainstream media (BBC, CNN, FT, Wall Street Journal, Forbes etc.). The appearance of Kiva together with Bill Clinton on the Oprah Winfrey Show in September 2007 led to a ten times growth overnight.
Risks or chances?

All experienced practitioners are aware of the side of microfinance that does not show up in the brochure. Although microfinance can be an amazing tool to fight poverty, it can also be quite harmful when placed in the wrong hands. Predatory lending, fraud, and mismanagement are commonly cited in cases of MFIs that get it wrong. Unfortunately, when an MFI gets it wrong, the clients suffer. As Kiva grows, so does the likelihood that it will come into close contact with MFIs that do not truly serve the poor in their region. Kiva is certain that they will confront fraud. But this does not mean that the effort is not worth it. Instead, it means that Kiva needs to approach this model with an ever growing sense of responsibility. In the first year after launch, the central problem was to attract users to the platform. Now, Kiva needs to give these users the ability to make increasingly educated decisions about where to place funds. Achieving this will require extensive offline monitoring. Now that Kiva has more resources, they are implementing an international auditing and visitation program. This will help Kiva communicate to its users the financial health of the partners, the truthfulness of the information posted on the site, and the extent to which Kiva is fulfilling its mission of alleviating poverty.

Transparency in this next period will be the best weapon against the challenges of growth. This model thrives on information, not marketing. The entrepreneurs represented on the website are not promotional material—they are real people in the course of attracting and paying back loans. Kiva hopes to build a system that surfaces and displays problem cases in a transparent way. Thus, when there is a problem with a borrower or an MFI, the Kiva website will simply reflect this fact. Things will not always be pretty. Certainly, default and delinquency rates will fluctuate significantly in the next few years. Crises in a particular region—political, economic, or natural
disaster—will cause temporary drops in repayment rates that will eventually stabilize. However, Kiva firmly believes that repayment rates will stabilize at well over 90 percent. Kiva is different from the typical international development organisation in that the platform will deliberately show the negative as well as the positive stories. Thus, in cases where things go bad, the lenders will know. That’s what makes this experiment all the more worthwhile.

**Looking ahead**

Currently, Kiva lenders can only receive 0% interest on their loan. Kiva would like to realize its original vision of having interest rates on the website. Today Kiva lenders choose among businesses based on pictures, stories, and MFI repayment history. In the future, MFIs will be able to differentiate themselves through another characteristic: interest rates. From conversations with many partners, Kiva knows that several of them would be willing to return a percentage of the interest rate that borrowers pay to Internet lenders. Doing so might allow certain partners to differentiate themselves by attributes other than pictures and stories. For instance, interest rate returns to lenders might help facilitate the funding of loans to businesses that tug less at people’s heart strings, such as the Nicaraguan taxi man. Another way to define this difference is “emotional” returns versus financial returns.

In addition, interest rates change the relationship between lenders and borrowers from benefactor-to-dependent to business-to-business. We often divide our financial world into two categories: charity and business. Most of us in developed countries grew up thinking about the poor in the developing world as potential targets for charity. Interest rates, which turn a charitable relationship into a business relationship, empower the poor by making them business partners.
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Listing press freedom on the stock exchange:  
VONCERT responsAbility Media Development  
Peter Whitehead & Patrice Schneider

Media Development Loan Fund


In reporting on the launch, the Financial Times noted that “it comes at a time when innovative financing techniques are increasingly being enlisted to address social and humanitarian issues.”

What is MDLF?

Media Development Loan Fund is a mission-driven investment fund for independent news outlets in countries with a history of media oppression. It provides low-cost capital, solutions and know-how to help journalists in challenging environments build sustainable businesses around professional, responsible, quality journalism.

Working in Africa, Asia, Latin America, the Balkans and the CIS, MDLF helps essential independent news providers to expand their audience, improve their news products and become financially self-sustainable. It provides leading journalists with the support they need to create lasting institutions for change.

MDLF maintains a segregated, revolving pool of funds for its loans and investments. Loan repayments are recycled through
the pool to provide financing for other news businesses.

MDLF brings 12 years of experience in providing affordable capital, management capacity building and technology assistance to developing independent news businesses. From 1996 to 31 March 2008, MDLF has:

- financed 164 projects for 64 independent media companies in 22 countries
- provided almost $68 million in low-cost financing
- written off as losses only 2.4% of the total loaned and invested
- collected about $7.4 million in interest and dividends

MDLF ended March 2008 with a $30.5 million portfolio of outstanding loans and investments.

**Why invest in press freedom?**

Independent news organisations are not just commercial enterprises. They are social institutions, committed to truthful and ethical journalism, and their development is a prerequisite for any functioning democracy:

- They provide essential information that citizens need to participate in the democratic process and for market economies to function.

- They challenge those in power, opening the government and the economic affairs of a nation to public scrutiny and debate.
They promote transparency and disclose corruption, playing an essential role in economic development and in extending the benefits of development to those in poverty.

The crucial element for investors is the relationship between economic growth and information. A World Bank study, for instance, points out how important reliable, current and independent information is for making good economic decisions. It also establishes that there is a significant positive correlation between high media transparency and good governance.3

Why Voncerts?

With limited grant funds available for media development – despite its importance in combating corruption, promoting democracy and creating essential conditions for economic development – MDLF realised the importance of accessing social investment capital to fund its continued growth.

MDLF's first venture into accessing private capital was Free Press Investment Notes® (FPIN) in the US. Launched in late 2005, FPIN enable residents in 25 states and the District of Columbia to invest in MDLF's revolving loan pool, earning an agreed rate of interest (up to 3%) for an agreed term (1 to 10 years). Lower interest rates, or indeed all interest, can be waived by investors seeking primarily social returns.

Although the launch of FPIN met MDLF's objective of offering an investment product through which social investors could support its work, it was geographically restricted to US residents, and even then only to limited localities as each state has its own – often onerous – regulatory and filing requirements.

It was clear that registering similar products internationally on a country-by-country basis would be impossible. Nor would it be possible to launch a European-wide product, as each European jurisdiction has its own requirements.

The search for a solution led MDLF to responsAbility, a Zurich-based social investment services provider specialising in developing countries. The objective of launching a truly international investment product led to meetings with Swiss private bank Vontobel Group and the decision to design a structured product, blending a standard investment with regular returns and a "social element" bearing lower interest.

**How Voncerts work**

The central element of the investment is a loan at 1% interest per year to MDLF. Vontobel integrated this loan into a structured interest-rate product, enabling investors to invest in MDLF via a conventional type of investment with moderate risk.

Voncerts combine the low-interest loan to MDLF (20% of the investment amount) with an investment in the Vontobel Swap Note Open End on the five-year Return Swap Index, a structured interest rate product that replicates a bond investment at a constant interest rate with a five-year term to maturity (80% of the investment amount), i.e. the return on 80% of the total investment is interest-rate dependent and fluctuates, reflecting the market return of a 5-year Swiss franc bond.

The result for the investor is a simple bond-like product that includes a substantial social component. Thanks to pioneering cooperation with the Swiss Agency for Development and Cooperation, Vontobel guarantees product tradability at all times and capital protection on expiration. Anyone who is not a resident of the USA, United Kingdom or Cayman Islands may
invest a minimum of CHF100 (about €61) by simply giving the following details to their bank:

- Symbol: VZMDL
- Securities Number: 2543130
- ISIN: CH0025431302
- Exchange: SWX

As mentioned above, US residents may invest in MDLF’s Free Press Investment Notes.

**The partners**

**Vontobel Group**

Founded in 1924, the *Vontobel Group* is an internationally-oriented Swiss private bank and is headquartered in Zurich. Vontobel specialises in asset management for sophisticated private and institutional clients, as well as partners. It serves its clients via three business units: Private Banking, Investment Banking and Asset Management & Investment Funds. Vontobel Group is a leading player in derivative and structured products in Switzerland and has a proven history in packaging clients needs in investable securities.

As at 31 December 2005, the Group reported CHF 57.6 billion of client assets and managed CHF 31.3 billion of custody assets. It employs 917 staff worldwide. Vontobel’s registered shares (VONN) are listed in Switzerland on the SWX Swiss Exchange. The Vontobel family and the Vontobel Foundation hold the majority of shares and votes in the company.

**responsAbility**

*responsAbility* is a Zurich-based social investment services provider specialising in developing countries. The outcome of a private initiative begun in 2003, responsAbility is backed by its founding institutions and/or shareholders, including
representatives of the Swiss financial market (Baumann & Cie., Credit Suisse, the Raiffeisen Group, Swiss Re and the Vontobel Group) in addition to Andromeda Fund and George Avenue, social venture capital funds. The Swiss Agency for Development and Cooperation and the Swiss State Secretariat for Economic Affairs support responsAbility in addressing issues relating to development policy.

The investment process

Vontobel

- Structures the product
- Fixes the conditions of the structured interest-rate product quarterly
- Provides real-time valuation and publishes the price
- Provides a secondary market

responsAbility

- Performs a detailed analysis of the investment quality of MDLF
- Monitors MDLF’s portfolio quality on an ongoing basis
- Drafts regular investor reports on financial and social developments

Swiss Agency for Development and Cooperation

- Assesses the developmental relevance of the topic
- Cooperates with Bank Vontobel to guarantee tradability during the term to maturity

Mobilising capital

Listing a financial product that mobilises private investment to support a free press is something of a revolutionary step – not
just for media development but for all social causes. Voncert is a product that enables the leverage of social investment capital on an international scale with only one listing process. Although a financial partner is needed to handle the complex technical aspects of this kind of deal, banks are beginning to show a much greater willingness to work with the non-profit world. Financial institutions are under increasing pressure from their customers – private as well as institutional – to provide competitive and original investment products with social components, whether it be for solar panels, clean drinking water or press freedom. Such an environment surely bodes well for innovative non-profits seeking to diversify their income sources.

MDLF believes the potential for listed products to leverage funds for social causes is immense and is assessing the possibilities of launching a similar product on other stock exchanges, such as London and New York. If the current trend towards ethical investing continues, the future challenge for non-profits may not be motivating investors, rather it may be to provide secure, easy-to-access products that are open and comprehensible to all investors. By this measure, in many countries non-profit organisations are already trailing behind public demand.

A secondary challenge might be how to achieve the right balance of financial and social returns on investment: the demands of social investors range from moderate financial returns with minimal social impact to a complete waiving of interest in favour of high impact. Listing a variety of investment products for different social causes may provide a solution to both challenges. If so, Voncerts could provide a blueprint for engaging private finance internationally in social projects around the world.
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Sustainable travel... WHY NOT?!
Raoul Kiksen

Every trip, whether it’s far away or only a short trip – has its damage to the environment. Greenbookings is the first (online) travel agency where these costs are automatically compensated, without any additional costs for the consumer!

How it all started

As I told a good friend of mine recently, I have a belief that you owe it to yourself to give every good idea that pops into your head an honest, realistic chance. Most of the time the only obstacle is yourself. Even when your direct environment (family and friends) question your attempt to bring your new idea to realization, there will always be people who do believe in your idea. These people are your first customers! This is how Greenbookings made its way out of my turquoise notepad.

I first came into contact with the concept of sustainability while working on a university project. The assignment was to develop an idea for a hotel, to implement within an existing hotel group. Here we go again, I thought to myself, this will probably turn out to be a sauna or a fitness centre in the hotel basement or another wellness idea with zero risk attached. These ideas are the most obvious step in a very conservative industry which seems to be allergic to innovations and in which the emphasis lays upon economic growth and immediate measurable results. With this climate in place, socially responsible entrepreneurship wasn’t very popular. Reason moreover, I thought, to approach this assignment from a different perspective.

When I think back of the report I handed in at the time, I’m still quite baffled. It was on the same level as green energy, biological food, the energy-saving light bulb and FSC paper. The teaching staff at the hotel school couldn’t comprehend its potential, they were unanimous; this isn’t suitable for a hotel.
They graded the report quite poorly, while not that much later the hotel group in question declared it to be the best. So the school’s grading was ridiculed by the very industry they were preparing you for!

**Compensation of emissions**

Greenbookings, the first online sustainable travel agency, has been operating for nearly a year now and it’s doing well.

The Greenbookings philosophy is clear and simple: you can book all kinds of travel products to travel all over the world, from plane tickets to overnight stay in one of the many hotels that we offer. With every purchase made, we calculate the climate footprint caused by that purchase and offset your carbon footprint for you, without any extra charge. This calculation is based upon governmental and other scientific reports on greenhouse gas emissions that are related to the total lifespan of all the products and services you can purchase from Greenbookings. The greenhouse gas emissions (including carbon, but also methane and other gases) are represented by CO2-equivalents so that one “currency” is used to express the impact of the purchased travel products on global warming. This calculation model was developed by CE, a Dutch engineering company and has been validated and approved by TNO, the Dutch applied science institute.

The carbon credits, which we purchase and utilize to offset the carbon footprint of all travel products booked at Greenbookings, are certified by many widely recognized relevant organisations.

The credits are cleared at Triodos’ Climate Clearing House, a sustainable bank. Finally, PriceWaterhouseCoopers has audited the program from the start and will keep on auditing the programme. We believe that they will come to the conclusion that we will fulfil the commitment we made to the clients of Greenbookings and offset the carbon footprint of all their travel products for no less than 100%.
Awareness raising

Trying to get consumers to catch the sustainability-bug is something Greenbookings strives to do everyday, except we call it something else; awareness. Greenbookings wants to create awareness. Showing consumers that it is possible to purchase a ‘green’ product for the same price and same quality and service you would receive from a ‘grey’ product. The general association with ‘green’ holidays are cycling and hiking trips, but Greenbookings didn’t want to go down this path. We feel there are no future prospects in that area. People are not yet willing to compromise on mobility. Your average sun worshipper won’t turn around and book a hiking trip. But after a certain amount of bookings we could go to them and say: "Look, that hotel you go to year in, year out is so damaging to the environment. Wouldn’t you like to try out this hotel for the same price, which is less damaging to the environment?" This is what Greenbookings is all about; making the complete travel product sustainable. People are slowly moving in the direction of sustainability; they’re catching the bug.

Nonetheless we still receive a reasonable amount of resistance on our product, as travelling is, in principle, not very sustainable. But we do offer the best alternative available and will continue doing this in the future. We ARE the best in the market, internationally! And we held belief in our product, even when our product gets criticised. We get condemned by companies in the travel industry, who don’t lift a finger because they feel that CO2 compensation is not the way to go. So what is? Doing nothing?

Why pay more for good behaviour?

It may seem strange that Greenbookings offers sustainable holidays for the same price as other (online) travel agencies. These holidays include the same accommodations and flights as the competition offers a lot of the time so a natural conse-
quence of this is that consumers start to wonder if what we offer is the real deal. All we can do is shrug and say yes. It’s not the first time that we’ve had to answer this question and certainly won’t be the last as people are so used to the sustainable alternative being more expensive. With most sustainable travel agencies the consumer pays extra to compensate his/her CO2 emissions. This is exactly what Greenbookings is trying to prevent. We want to offer the consumer a sustainable alternative, but when the price is much higher it stops being an alternative. This is why the compensation of CO2 emissions is paid for out of our own pocket.

Don’t think of us as a modern day Robin Hood with this statement. We aim to make profit, and we work with tour operators like any other travel agency. We receive a sales provision from them for every holiday sold. We compensate the emissions caused by the complete booking, so not just the flight but also the overnight stay and possible car rental and travel insurance. This is done from the sales provision, hence we hand over some of our margin but we still make a profit.

We also receive a lot of positive feedback on Greenbookings, from (multi)nationals, individual clients and a few companies within the travel industry. The enthusiasm that we notice from different companies is quite remarkable. These companies realize that it’s important to contribute to a sustainable society and are eagerly looking for like-minded companies, companies that are also participating in sustainable enterprising. It’s a very important and positive development as these companies are savvy enough to know that it’s not business as usual. They recognize that we are moving towards a society that wants to consume and produce in a sustainable way. When the time comes that more companies will start recognizing this fact, it will become very important from a competitive point of view to become more sustainable. Consumers paying for a sustainable alternative should be a thing of the past. Products and suppliers of all kinds of services have the responsibility to deal with people, nature and the environment in a conscious man-
ner. It’s the consumer’s choice to make use of a sustainable product.

The classic market rules apply; when there is more demand for sustainable products the thereby belonging price reduction will occur. Consumers are still suspicious when they see that a sustainable product has the same price as a non-sustainable product. A lot of the time it is thought that you have to lose out on quality, service or choice. Far from it! Greenbookings even goes further than that. We want to reward our loyal customers for their sustainable choice, by giving them a standard minimum of 5% discount, which could lead up to 50% on all travel products. A standard discount on all travel products! I have been asked on many occasions how this is possible. The margins within the travel industry are so small and on top of this we give a discount?!? Trust me, it is possible. We have designed Greenbookings in such a way that is financially viable. By introducing our loyalty card, the Greenbookings Card, we have built up a reasonable amount of loyal customers, who we keep up to date on Greenbookings’ activities on a regular basis. Meanwhile, this has passed the 70,000 mark which is a solid, wholesome and profitable amount for Dutch standards. This amount should be tripled by 2009. Together with these people and our partners we are attributing to a sustainable travel industry.

**International expansion and business travel**

Last month we launched our international website which will give even more consumers the possibility to book a sustainable travel product. It is already possible on the website to pay in different currencies. The website is already available in English and Dutch, but soon large parts of the website will be available in many other languages. Sustainability is for everyone, so this is why we want to reach as many people as we can.
Furthermore, Greenbookings will always try and be a front-runner on the newest IT developments. In the near future an application will be presented in which the consumer can choose their own CO2-compensation project and monitor their own carbon footprint. The emissions caused by all of the travel products offered by us will be shown real time on the member’s personalised website. Other applications that will be launched in 2009 will all include a tool that will enable members to reduce their carbon offset besides only compensating it. If it’s up to Greenbookings, this shift from compensating to reducing will only get bigger.

In the 4th quarter of 2008, Greenbookings will also introduce her business travel platform. This will be done in cooperation with BCD Travel, market leader in The Netherlands and Germany and the world’s third largest business travel agency. This gives Greenbookings the opportunity to offer a high service, high quality business travel product for a very low price. This platform will directly be launched internationally which will make Greenbookings active in 96 countries, with offices in almost all of these countries. Also this platform will be innovated by Greenbookings by not just compensating but by compensating and reducing. Greenbookings will receive this opportunity by putting the focus on technology.

Cooperation with other companies

We are proud of the fact that we have signed several deals with various companies that have an impressive record. Amongst these companies is the Dutch Postcode Lottery (the largest charitable lottery of The Netherlands, also active in the United Kingdom and Sweden) and Achmea (The Netherlands’ biggest health insurance company, part of Eureka and active internationally). These companies have aligned themselves with the Greenbookings philosophy and want to make the travel industry more sustainable, together with Greenbookings.
Every year Achmea signs up tens of thousand of clients to our customer loyalty programme. Especially for these members we have developed a website whereby, in addition to having the option of booking one of our many travel products, you can read more about the insurance products of Achmea and its vision on sustainability.

With the Dutch Postcode Lottery multiple campaigns have been set up; from the stocking up of holidays, creating member discounts to multiple bargain offers for all sort of destinations. The Dutch Postcode Lottery was one of the first companies that had faith in Greenbookings and gave us the possibilities to further develop and introduce Greenbookings to the right market segment.

**Cooperation with the NGO Sector**

The interesting thing about Greenbookings is that it is very appealing for (green) NGO’s to form a partnership as it offers a lot of leads on multiple areas. For example, a partnership with a NGO can involve a tailor made website on which our travel selection can be displayed. The relevant NGO can recommend our travel products and even offer it to their loyal clients. By doing this the NGO will fulfil several goals; the loyalty of their clients is increased, the NGO’s local projects can be emphasized upon, the NGO can educate its clients about travelling, make recommendations and underline its philosophy on the area of sustainability in the travel industry. This way more consumers will be exposed to sustainable travel and the NGO, together with its members and Greenbookings, are sending out a clear message towards the travel industry.

By doing this the travel industry will be introduced to a more sustainable way of travelling, other travel providers will have to face facts. Products and providers will be excluded and distribution channels will be closed off. A more than suitable reason for travel providers to apply their philosophy on sustainability to their products and to put more time and effort
into making the lifespan of their products more sustainable.

Furthermore there’s an appealing profit model through which projects can be supported. Besides the possible discount for the members of the NGO, the NGO receives a percentage of every purchased travel product. Of course there are other models possible, such as financing CO2 projects by offering the travel selection of Greenbookings to the members of the NGO. Of all the bookings made, Greenbookings invests the required amount in the preferred projects of the NGO, to compensate said bookings. This way, an extra income is generated by the members of the NGO and Greenbookings. The member will pick a sustainable trip of a NGO that has the most appeal to them personally. By doing it this way everybody will make a contribution, without any extra costs, in the fight against global warming.

By collaborating with multiple NGO’s worldwide, Greenbookings will be able to realize a totally climate neutral travel industry even faster! NGO’s that are interested in the many possibilities that Greenbookings offers such as creating member discounts, fund-raising and supplying business travel products can contact us at any time. We have developed plug and play software and have the creativity to start up the collaboration as soon and as effective as possible.

So imagine that we set up a partnership and together we are getting millions of people to travel climate neutral on a daily basis and by accomplishing this we are giving off a clear signal to the travel industry there is a sustainable alternative, while still making travel what it should be; fun!

We should strive to make a sustainable product whereby the fun factor is very high. We have to prove that this is possible! We have to try and get every tourist in the world infected with the sustainability-bug and make them think differently for travelling sustainable, more “Why not?” instead of “Why?”
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Introduction

In developing financing solutions for Social Entrepreneurs, account must be taken of the local environment of Social Entrepreneurship in general. In Germany this environment has some special characteristics. One of these is the perception of people, that the government and the church are responsible for social welfare, while private individuals are not. The reasons are a well developed governmental social system, which has a longer tradition in Germany than elsewhere, and that the churches are in fact financed by the church tax. Important is also the generally bad image – compared to other countries – of entrepreneurs.

In recent years it has become apparent, however, that despite these rather retarding factors, there is also social entrepreneurship in Germany, and that the topic is increasingly attracting public attention. This change was triggered by the simultaneous start of Ashoka, the first and worldwide largest organisation promoting social entrepreneurship, and BonVenture, the first and so far only German social venture capital fund in 2003. Both organisations seek out and support social entrepreneurs in Germany and have been able to identify several impressive examples of social entrepreneurship.

This contribution will highlight some selected aspects of social entrepreneurship financing that are presented in the just published book Finanzierung von Sozialunternehmern, Konzepte zur finanziellen Unterstützung von Social Entrepreneurs, edited by Ann-Kristin Achleitner, Erwin Stahl and Reinhard Pöllath.
Development of existing financing instruments

Although social entrepreneurship attracted public attention in Germany later than in Anglo-Saxon countries, there already exist specific financing instruments. In part these instruments were adopted from other countries.

In the non-profit sector, where most of the activities of social entrepreneurs are taking place, there are two fundamental forms of external financing: loans and grants. Social entrepreneurs may get loan financing without any problems if they are considered creditworthy by the banks on pure business criteria. If their creditworthiness is not good enough, the number of potential lenders will be small. Social entrepreneurs may receive grants from private individuals either directly or indirectly via foundations. To date, the earmarking of grants is the only common supplemental agreement that is widely used. There are various additional ways of making supplemental contractual agreements and thereby developing new forms of financing. For example, a grant and a loan may be combined in a financing contract. These forms of financing have not been used in Germany to date, but BonVenture is willing to offer such financing under certain conditions. Recoverable grants and convertible grants are examples. Tax treatment of such forms of financing must be decided in each individual case.

In the case of recoverable grants, an uncollateralized loan with a fixed maturity is initially made available. If the financed organisation is not successful and fails to meet expected targets, the loan is transformed into a grant. In the opposite case, i.e. if the organisation is successful, the loan is repaid, as agreed, with or without interest. The advantage of recoverable grants for the financed organisation is that it usually does not have to service the loan initially and only must repay it in the case of success. The risk for the social entrepreneur is thus markedly lower than it would be with a traditional loan. There is the incentive problem, however, as the social entrepreneur is not punished financially in case of failure.
Furthermore, in case of success, the social entrepreneur may face the conflict between the agreed repayment and the continued use of the funds in order to achieve his target.

The convertible grant is structurally similar to the recoverable grant with one fundamental difference: the loan must only be repaid if the financed organisation is not successful or at least does not meet certain intermediate targets or did not use the funds according to the contract. For the social entrepreneur a convertible grant bears a markedly higher risk than a recoverable grant as the repayment is demanded in the very case of failure. The advantage of this instrument is its incentive structure: the social entrepreneur is rewarded for his success by a waiver of the repayment obligation.

Recoverable grants and convertible grants are relatively complex financing designs that can only be used efficiently for bigger financing volumes. Many entrepreneurial activities, also in the social area, need very little capital initially. The problem is that the acquisition of smaller sums is not necessarily easier than that of larger sums, as the cost to the lender is hardly lower for small sums than for larger ones. In the international arena, specific micro-credit programmes have therefore been successful that try to close this financing gap. In Germany there have only been individual offers in this area. The KfW Bank Group has developed products like “Mikrodarlehen” (micro credits) and “Startgeld” (starter funds) that are granted by the commercial banks. For various reasons these products are not in high demand. Individual communities have developed their own support loans in order to finance specific target groups, and the German Microfinance Institute together with the GLS Bank is presently developing microfinance organisations that are to offer fast access to small volume loans. These microfinance institutes typically grant multi-step loans. Here the credit volume is increased from a few thousand euros to a maximum of 10,000 euros in steps to a maximum of 20,000 euros. As a rule, small private guarantees are demanded as
"alternative collateral". In addition to the financing, the micro-finance institutes also offer continued advising which must be paid for separately, however. Interest rates are at least 10%, as these programmes are not subsidised.

In contrast to traditional business finance, in the non-profit sector organisations are financed as well as individuals. This is possible if the investor is not aiming for financial but exclusively for social returns. Ashoka, for example, uses stipends in order to support social entrepreneurs – not only in Germany. These stipends are granted for a certain period of time, usually for three years. The advantage of stipend financing is that it may be granted very early, even before the organisation is established. If the stipend is to enable the social entrepreneur to establish the organisation and grow with it, the leverage effect of the start-up financing by way of the stipend or the social return on investment is extremely high. The disadvantage is that there are no return flows. If the recipient of the capital establishes an organisation that later develops into a profit oriented enterprise, it is impossible for the grantor of the stipend to benefit from this value growth. As a rule, no financial return on investment can therefore be achieved by stipend financing.

Specialised Intermediaries

Social entrepreneurship not only needs specialised financing instruments but also specific financing approaches and thus financial intermediaries. An example of such a new financing approach in Germany is BonVenture, the first German social venture capital fund. It comprises two companies that do the financing. There is, for one, the BonVenture GmbH & Co. KG. Its investments in social or ecological projects and businesses are profit oriented; the average gross target rate of return is in the upper single digits. After cost deduction, the rate of return is to just safeguard the real preservation of assets. The difference between the expected gross rate of return and
the market rate of return is the opportunity cost of the social rate of return (compared to common equity funds) that the fund aims for. If the investments yield profits (after all costs), the investors are expected to donate these to the BonVenture non-profit GmbH. The BonVenture non-profit GmbH finances organisations by grants, it is therefore not profit oriented and is eligible for tax relief because of its non-profit status. This corporate structure allows BonVenture to cover the entire range of financing instruments and to finance everything from profit oriented organisations to organisations without income. The financing approach of BonVenture is closer to a venture capital fund than to a classical foundation. Whereas foundations tend to invest in many organisations and choose to use only small funds, BonVenture aims at carefully analysing the recipient organisations and to finance only few of them but with larger sums. In addition, non-financial support is also to be given. The goal is to invest in two to three organisations per annum via the BonVenture GmbH & Co. KG and two to three organisations via the BonVenture non-profit GmbH.

As exemplified by the Eberhard von Kuenheim Foundation, there are also foundations that finance organisations and projects not by spreading the funds across the board – a frequent point of criticism of foundation financing – but in a very focused way and also grant substantial non-financial support. The foundation’s involvement in the reopening of Theresienthal, the cut-glass manufacturer, is a project example. Theresienthal went bankrupt in 2001, but despite its closure, former employees continued to go to the plant to do maintenance work, shovel snow off the roofs or do similar work. This engagement of former employees was one of the prerequisites for the involvement of the Eberhard von Kuenheim Foundation. In August 2003 it started to prepare for the reopening of the cut-glass manufacturer. Since it lacks know-how in many management areas, it looked for pro-bono partners who with their expertise were able to actively support the revival of
the firm. In the end, the entire project team consisted of 60 partners from business, public administration, universities and foundations. In many areas new approaches had to be found; for example, the non-profit foundation Theresienthal, which owns the operative GmbH, supports “business culture”, a new element in the scope of non-profit organisations. The financing of the cut-glass manufacturer is fed by various capital sources: employees, subsidies from the European Social Fund, moneys from non-profit organisations, equity and low-interest loans from companies, payments in kind in the form of non-financial support by the partners, etc. These initial investments in the non-profit area are to help the cut-glass manufacturer to return to the free market. The distinct objective is for the company to stand on its own feet again. In the case of Theresienthal, the Eberhard von Kuenheim Foundation did not finance one single social entrepreneur but, as the Foundation itself has declared, brought together a number of entrepreneurial personalities for the purpose of achieving the goal.

Besides financial intermediaries, additional intermediaries in the social-entrepreneur sector are developing in Germany. Among others, a demand is created by entrepreneurs achieving substantial wealth when they are still relatively young and using their wealth correspondingly early for charitable purposes and for establishing foundations. In the past, such people used to be advised mainly by lawyers, tax consultants and accountants in establishing a foundation. The strategic and organisational approach, however, was developed internally by the foundations. This is changing. Independent foundation consultants, who also help in developing the strategy and organisational build-up, are becoming active. In Germany, too, this is accompanied by a paradigm change: Grants are less considered under tax aspects and as gifts, but rather as investments.
Outlook

In Germany, social entrepreneurship is a rather recent phenomenon. Despite a positive development in recent years, the future significance of this approach to social problems cannot yet be assessed given the German culture. The capital available to social entrepreneurs is likely to continue to grow, as wealthy persons increasingly invest under social considerations. There is a question, however, as to the way in which this market will develop. This will fundamentally depend on whether the capital owners will in fact accept the paradigm change of considering a grant an investment. This will also determine whether in future mainly more classical foundations will be established or additional active financial intermediaries will arise in Germany besides BonVenture and Ashoka.

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Global Social Investment Funds
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Reality of Social Investments: There Ought to be More Direct and Proactive Investments with Deeper Social Impact

One can argue that most investments have social value in terms of expansion of the economy and creation of jobs. So, what do we mean by social investments or socially responsible investments? The act of investment by definition is to forego immediate benefits for a longer term return that one hopes would exceed the current expected value. When we add the word social, clearly there is an expectation of increased value for the welfare of society that goes beyond the benefit of growing the economy and creation of jobs. Social investing intrinsically raises the bar and adds the dimension of social responsibility. From a maximization of profits alone to maximization of value to society and profits.

The most active part of social investing is the application of social and environmental guidelines or “screens” to the investment process by social mutual funds. These screens are mostly negative screens which exclude companies engaged in the manufacturing of weapons, abusive labor practices or in “sin” businesses, such as: alcohol, tobacco, etc. Social investment funds also deploy positive screens and seek out investments in companies with good employee relations, strong records of community involvement and exemplary environmental impact policies. By the end of 2005, more than $2.29 trillion was invested in the United States in a socially responsible manner, according to the Social Investment Forum, accounting for $24.4 trillion under professional management. Over the past decade, the growth rate in socially for almost 10% of the

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4 The views expressed in this article are of the writer and do not necessarily reflect the views of the writer’s employer.
responsible assets averaged 26% per annum.

While impressive, in many ways it is a mirage, a vast majority of this money is invested in traditional assets on the US stock and debt market. A critical study of the industry by Paul Hawken of Natural Capital Institute, found that there is no material difference between social investment fund portfolios and regular mutual funds. Paul notes that social investment funds invest in McDonalds based on its environment policies but chose to ignore the fact that McDonalds spends billion of dollars advertising to our children to consume unhealthy food. There is increasing criticism of the social investment fund industry that it has no defined set of standards as to who can claim to be a socially responsible investment fund and that these funds maybe no more than a marketing segmentation strategy with very little accountability or transparency in terms of social impact. By its very nature screening is indirect and focuses on limiting harm rather proactively seeking to use capital to change the circumstances of the people that are most in need. One can argue that proactive and direct investments are exactly what should be the focus of any social investment as defined earlier.

Socially responsible investment industry also includes shareholder advocacy work, which through letter writing, meetings, shareholder resolutions, proxy voting, and dialogue with management pressures corporations to improve their social and environmental performance and corporate behavior. While this is of some value, the problem is that most of the so called socially responsive funds are not engaged in shareholder advocacy work. The news, however, is not all bad. The smallest segment of the social investment industry is community investment or what I call Proactive Social Investments (PSI). This is the most exciting, impact full and innovative part of the industry. It is also the fastest growing, with assets in Community Investing rising 40%, from $14 Billion in 2003 to $19.6 Billion in 2005 (Social Investment Forum data).
The core concept of PSI is to use the financial know how to bring capital to communities that do not have access to traditional capital, due to various reasons including: preconceived perceptions about the distressed communities and poor people, limited capacity and scale, lack of liquidity and in some cases constrained profitability due to the limited resources of the poor. I would argue that the main hurdle is our perceptual limitation of the distressed communities and its people rather than the capacity, scale, liquidity or profitability. For one can increase capacity through investment, which leads to scale and volume necessitating secondary markets and liquidity, and even with small margins, profits are very attractive due to the size of these underserved markets.

Yes, these markets are not developed but the potential of these markets is real and being tapped. The concept of “Bottom of the Pyramid” and Microfinance are leading the way in targeting the largest sector of the population and now are seeing the poor as a potential business opportunity and the un-banked as bankable. These movements are real glimpses of the future. As social investors, I would argue that it is here where our focus should mostly be while we continue screening stocks and doing shareholder advocacy work. Water takes the path of least resistance – so one can understand why the roots of social investments are in disinvestment in South Africa and screening of the most liquid financial instruments in the world. PSI’s are far more complex and require multiple layers of financing and partnerships between the development agencies, foundations and private sector, which is not an easy task to accomplish. A good knowledge of finance structuring is a basic need for engagement and development of PSI structures, which are proactively and directly trying to do good rather than just indirectly limiting harm through screening. Not that screening does not have value, but I am making the case that PSI should be the heart and goal of social investors in the long run.
Anything that has a potential revenue stream can be financed. We can, I am not saying that it is easy — but we can, finance the creation of schools, universities, vocational training facilities, health care facilities, hospitals, financing for farmers, alternate energy development, etc. Before social investment can take place, it needs to be financed and thus, financial institutions have a special role to play in the development of PSI. As PSI are in their rudimentary stage of growth, development agencies and foundations have to be catalytic in assuming the early risks and mitigating some of the economic and mostly the perceptual risk by help creating layers of subordinated capital or taking less in returns to make the transaction profitable for the private investors.

Under American charity law, foundations can make investments that get a charitable treatment and are eligible to be counted toward the minimum annual disbursed grants of 5% of its endowment that has to be made. This window has existed since 1969 when the Ford Foundation was a pioneer in developing such instruments called the Program Related Investment. However, even after a quarter of a century these instruments account for a negligible amount of the annual grant giving. My friends at leading foundations tell me that it takes a lot more time to do these investments and to monitor them rather than to just dole out money. Partly the issue is that there are a limited number of people with financing and structuring experience working at foundations which are more so a bastion of social scientists.

Development agencies face similar challenges. It is much easier to assume the proxy role of commercial investors rather than being catalytic in bringing the private sector to the table. Especially when most businesses see social investments as the role of development agencies. Corporations have also been historically reluctant to partner with development agencies which at times are known for their bureaucracy and inefficiencies.
Neither development agencies, foundations nor the private sector are the sole problem. What is needed is some out-of-the-box thinking to create partnership and collaborative structures to tackle some of the larger social issues faced. The scale of global poverty and other social issues is such that it can not be handled by one entity or the other. It is going to take all the tools in our tool box rather than a bandage approach. Governments also have an essential role to play in making sure that fiduciary concerns and the related regulations are balanced with social needs. It may be prudent to deny microfinance institutions from taking deposits because of fiduciary concerns, but let us keep it in perspective with the issues faced as more than 75% of the developing countries populations have no access to financial services.

The good news is that there is an increasing call for private public partnership; foundations are being pressured to make use of the Program Related Investment and use their endowments to allocate money for PSI. The corporate social responsibility window can also serve to attract private sector involvement in the development field. It is up to us to take advantage of these opportunities and accelerate these trends.

We at Deutsche Bank want to be an investment banker for social capital. We embrace social investing as a specialized investment banking business with the dual objective of social return and profitability while putting a clear emphasis on the social return aspects. Our mission is to be a catalytic leader in providing socially responsible lending, investing, and philanthropic resources while acting as an agent for development and growth in distressed communities globally. We want to combine our social/financial expertise with our core investment banking skills, structuring capabilities, and business resources to create financial instruments that benefit social enterprise, and in the process transfer financial know-how among both clients and investors.
We believe that any social venture with a cash flow can be financed by bringing differently motivated monies to a common platform. The social venture industry is no different than any other nascent industry marked by low volume of transaction, lack of cash flow and liquidity, no track record of investment risk, and perceptions out of line with real risk issues. The social venture industry also has to contend with unique perceptual issues that doing good can only be achieved through charity and not as a business, and certainly not a for-profit business. We have also failed to recognize the full potential of the poor as fellow human beings that are quite capable of engaging in small business activity. As a matter of fact, the majority of the employment in the developing world is in the informal sector of small enterprises.

The challenge for Deutsche Bank was to create structures in which investors with fiduciary responsibilities could invest in a prudent fashion and proactively deliver capital that directly benefited the poor. The solution was to create structures that had credit enhancements and some pricing subsidy that would mitigate the issues of the lack of track record, risk perception, and sufficient return for commercial investors. The increasing interest of institutional investors in corporate social responsibility presented a window through which this illiquid non-rated instrument could be introduced to them. The general idea was to present an opportunity for corporations to fulfill their corporate social responsibility through a well protected, return based investment, rather than giving grants with limited accountability. These funds are not directly tied to the business interests of any particular company, but work to improve the infrastructural environment by addressing the global issue of poverty.

These ideas are best exemplified in two recent innovative funds that Deutsche Bank has structured. One transaction was in the area of microfinance and the second was in the healthcare sector.
In November 2005 Deutsche Bank closed a unique collaborative $81 million fund called the Global Commercial Microfinance Consortium (“Consortium”). The Consortium is a collaboration of some of the leading institutional investors in the world, including Storebrand, Merrill Lynch, MunichRe, Statestreet Bank, Standard Life, Cooperative Bank, and AXA. The investment of these premier companies in the Consortium could not have been realized without the development agencies of the UK and France taking a subordinated first loss position and mitigating some of the perceived risks of investing in the poor.

The governance of the Consortium is through the Board and all partners are invited to the board. As a true partnership, the Consortium is structured to give equal voice to all partners. The Board has the ultimate power to terminate the originator of the idea, Deutsche Bank, as the general manager.

The approach of the Consortium is to make systemic change and create indigenously based systems for financial support for the working poor by providing risk reducing financing to local financial institutions. The idea is to encourage relationships between banks, which are fundamental sources of local capital and microfinance Institutions, which are specialized providers of financial services to the poor. The Consortium has a $17.25 million equity base and $63.35 million in 5 year floating rate debt.
In terms of structure, the Consortium is a hybrid of a private equity fund and unsecured bullet revolver. The debt piece, which is directed to institutional investors, is credit enhanced through a 40% subordination. Half of this credit enhancement is the $17.25 million equity base in which DFID (U.K. development agency) participates and the other half is through a first loss $20 million guarantee from USAID (U.S. development agency) The Consortium also has an embedded cap whereby debt holders can only lose 75% of their invested capital. One can question as to the need of all this protection to bring in the private sector. The 30 year U.S. mortgage market is a good example of why. These days the 30 year mortgage market is one of the most liquid markets, but it was only about 50 years ago that banks considered it too risky to make a 30 year loan. It was the full guarantee provided by the U.S. government that propelled this market and created its large capacity, scale, liquidity where within an instant we get several quotes from banks fighting to lend for 30 years. Think how the credit
enhancement eroded the perceptual risk. Is that not what we need to propel PSI? Out of the 13 institutional investors in the Consortium, ten of these investors had never invested in microfinance; let alone putting it on their balance sheet. Some of these investors are now actively making secondary and tertiary investments in microfinance.

The second demonstrative transaction of our vision is the Eye Fund 1 which will provide loans and guarantees to deliver affordable, sustainable and accessible eye care for the world’s poor. The $20 million Eye Fund 1 is a cross-sector partnership with the International Agency for the Prevention of Blindness (IAPB) and Ashoka and is expected to close by the end of this year.

The affordable eye care industry has proven itself to be sustainable and self financing. There are numerous examples throughout the world of hospitals that cross subsidize the delivery of eye care to the poor by also providing quality services to the middle and upper classes who can afford to pay for such services. This sector sits at the helm of high potential growth but is limited by resources. The sector is financed by about 15 foundations from the developed world. Clearly the resources from these well meaning foundations are not adequate to scale-up the industry to meet the demands of the roughly 2 million people that go blind each year. The real tragedy is that 75% of these cases of blindness are treatable or preventable. Without proper intervention, the number of blind people will increase to 75 million by the year 2020.

The objective of the Eye Fund 1 (please note the number 1 because we have the intention to do several of these funds, i.e. - Eye Fund 2, 3, etc.) is to introduce the idea of leverage and to expand the types of investors to this industry. The challenge again was that cash flow is extremely tight and eye care hospitals that were accustomed to grant funding were reluctant
to pay a market interest rate. The intermediate solution was to include an element of subsidy that would lower the effective cost of the Eye Care hospital, while providing a level of return such that investors viewed it as rooted as a social investment, and not a charitable act.

**Eye Fund 1: Structural Overview**

The fund was structured to have two tranches, a senior debt tranche and an equity tranche. The debt paid a return of 50 basis points above the risk free rate (US Treasury) and the equity is targeted to be sourced through PRI money from foundations at 1-2%. The incentive for foundations would be that their resources are leveraged to create a new segment of investors to this sector. This demonstrates the advantages of cross-sectoral and collaborative efforts which certainly will play a very important role in the future of philanthropy and social investments.

Although several European countries have legislated requirement for the encouragement of socially responsible investing by institutional investors, the common investor attitude is that we are very socially concerned, but we will not sacrifice our
returns. These investors are looking at social investments by the same measures they are using to judge very developed commercial markets. They want these assets to be rated, they want them to be liquid with daily price quotes. You can not have it all, especially when we are trying to develop the emerging PSI market. Even with high levels of risk protection, like that of the Consortium, it is very difficult to engage institutional investors. The issue is not only developing PSI structures and opportunities, but also changing the attitude of the institutional investors. Assessment measures used should not only be prudent, but also take into account the special nature and inherent challenges of PSI. The idea is to begin by investing a very small portion of their managed assets, say 1% to 2% (which will amount to billions of dollars), in PSI and help develop the market so greater allocations can be given to this asset class over time with the growth of the industry.

I remember the story that this very nice former President of Oikocredit, a social investment company established by a group of churches in Holland, told me recently. He said when Oikocredit was established; he went to the Treasurer of his church to ask for a small investment and indicated that initially Oikocredit would only be able to pay a 2% return. The Treasurer of his church refused to invest saying that his hurdle rate was 5% return. The President of Oikocredit tried to convince the Treasurer that if he invested 5% of the assets of the Church at 2%, the overall return on his portfolio (assume a 5% return on the rest of the portfolio) will be 4.85% – a decline of only 0.15%. If he invested 2%, the decline would be mere 0.06%. The President was not able to convince this good, moral, church going Treasurer to invest. The good Treasurer cited the investment policy, difficulty in changing the status quo and his fiduciary duty as a reason for his rejection with much guilt and frequent statements as to how much he personally liked the idea.
I have certainly heard all these and similar arguments during fundraising for double bottom line social funds. So, I will conclude that our task remains challenging. However, I would also argue that we are at the very early stages of development of the social investment industry and much is to come. Remember that the aerospace industry, the pinnacle of human achievement and innovation, was started less than 100 years ago with tripods made out of cooper plumbing tubes used in the bathrooms and rockets that looked like firecrackers. The telephone industry within the relatively short time frame of about 120 years is having a profound effect on the developing countries with the growth of the cell phone business. For those of you, who are as old as I, remember how fascinating it was when Star Trek’s Captain Kirk flipped those enchanting communication devices and connected across vast distances via this small isolated little gadget. This enchanting device is now in the hands of every high school kid and more importantly they are in hands of poor people in developing countries. Technology is changing the world right before our very eyes. The world is dynamic, the potential of PSI is tremendous and the need is ever so great. It is up to us to take up the challenges through action or to continue the endless cycle of conferences and discussions at the fanciest hotels on how to help the poor. You have a role to play! Imagine what social investment industry could be like in a 100 years.

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Developing World Markets
Roger Frank, Peter Johnson & Brad Swanson

Developing World Markets (DWM) is a fund manager and investment bank that uses the international capital markets to alleviate poverty in the developing world. DWM uses its extensive emerging markets experience to link socially motivated organizations and activities in the developing world to innovative, market-based solutions in the developed world.

DWM has a long-standing interest in promoting the advancement of microfinance as a means of alleviating poverty among women and their families in the developing countries. The DWM team has deep experiences in investment banking and emerging markets investing, as well as a passionate interest shared with their clients and their investors in the social goals served by their transactions.

DWM is at the forefront of a global effort to create investable solutions to meet social and economic needs of the developing world. DWM has structured over $250 million of transactions which have both provided investors with risk-adjusted, market rate returns and, at the same time, have channeled that capital towards microfinance and poverty alleviation. In addition, DWM manages approximately $350 million of microfinance assets, including the world’s largest, institutionally-focused microfinance fund.

Industry Background and Overview

In the past three years, international capital markets have awoken to the attractiveness of investing in microfinance. Several billion dollars has been raised in collateralized debt obligations, private placements, public offerings and direct securitizations of microloans. In addition, private sector debt and equity microfinance funds have been created – for inves-
tors who prefer to give discretion to professional managers – and are now thought to control more than $2 billion.

While traditional microfinance funders – non-profit organizations, governmental development agencies and individuals – are behind much of this surge of investment, the big change since 2004 is the introduction of private sector institutional investors seeking full market returns. In that year DWM structured and placed with investors the first international capital markets issue in microfinance, a collateralized debt obligation (CDO) for $40 million (expanded the next year to make $87 million). This landmark transaction opened the capital markets to private sector investors, albeit those who also supported the social goals of the transaction. Through a series of subsequent capital markets transactions these mainstream private sector investors, most located in Western Europe and the USA, are today a major and still growing force in the provision of capital to the microfinance field.

The Need for Capital Markets Funding in Microfinance

When properly conducted, microfinance is a profitable, low risk and expanding financial activity. For example, the 26 widely dispersed microfinance institutions (MFIs) in Microfinance Securities XXEB, a $60 million collateralized debt obligation sponsored by Developing World Markets in 2006, have an average return on equity of more than 20%, a portfolio at risk (payment delays beyond 30 days) of only 2.5%, and are growing their loan portfolios by more than 30% per annum.

Already, the number of borrowers served by MFIs is estimated at 100 million and the total market size is estimated at $25 – 30 billion. Yet the potential demand is 15 times the current market – estimated at 1.5 billion, or half the 3 billion global working poor. Thus microfinance represents a total commercial market of more than $250 billion. (Market size data comes
Currently more than ¾ of the $25 billion funding is raised from domestic markets. However, this number is skewed by the amount – almost $6 billion – coming from deposits in the few countries where MFIs are allowed to take deposits. Most of the estimated 10,000 existing MFIs are not deposit-taking institutions, and are unlikely to become so, given the cost and complexity of complying with regulations typically applied to institutions taking deposits from the public. Future funding for MFIs is thus unlikely to be sourced mainly from deposits.

Domestic emerging country commercial banks, which should be major funding sources for MFIs, are typically averse to lending to them. Moreover, capital markets in most developing countries are thin and the major institutional players are averse to or legally constrained from significant investment in microfinance. For these reasons, it is unlikely that domestic sources in emerging countries will generate more than a fraction of the more than $200 billion that will need to be raised to satisfy potential demand.

Moreover, while non-commercial investors account for 80% of the funding now coming from international sources, this is a legacy of the origin of microfinance in charitable and officially sponsored development activity. As MFIs’ appetite for capital grows exponentially, it is unlikely that government agencies and non-profit organizations will increase their flow of funding proportionately: first, they will be faced with competing demands for assistance; and, second, they will begin to question whether their mission is best served by funding financial enterprises that are profitable and are increasingly transforming into privately owned companies able to attract commercial investment.
The only available source of funding for commercial lending of this magnitude is the international capital markets. Already, microfinance investment vehicles, which typically include private sector institutional investors, are growing their investment portfolios at 233% per year, more than twice the rate of growth of microfinance investment from official development agencies (according to a survey by a consortium of development agencies called Consultative Group to Assist the Poor – CGAP). For the international capital markets, funding a $200 billion industry is routine.

Introducing Commercial Investors to the Microfinance (CDO)

Despite the relative paucity of data and diversification, DWM took primary responsibility for structuring the first international capital markets transaction for microfinance. They did this by encouraging investors to compare BOMSI to mainstream commercial investments. DWM held the view that to attract sufficient investor interest, BOMSI had to reach beyond the circle of funders primarily motivated by social, not financial, returns.

To distinguish BOMSI as a commercial investment – different from investment funds, donations to NGOs or other means then available to support microfinance – DWM highlighted the following:

- **Low default rate in MFI loan portfolios.** All participating MFIs reported default rates below 1%. Although reporting systems were not consistent or their results independently verified, the professionalism and the track record of the MFIs themselves added credibility to their findings.

- **Favorable risk-return ratios.** The tiered capital structure enabled BOMSI to offer high returns to the higher-risk
tranche investors, while providing the lower-risk investors with a substantial degree of collateralization, enabling them to feel satisfied with a low credit spread over the benchmark Treasury bond because their notes had the highest priority of repayment. Investors were not asked to discount their return expectations in view of the presumed social value of microfinance. With a variety of securities offering different risk and return parameters, DWM was able to segment the international investor base and thus appeal to a wide spectrum of potential investors.

- **Familiar investment instruments.** BOMSI debt investors purchased bonds drafted in language, and carrying features, common to commercial bonds. They benefited from the appointment of a trustee to safeguard their interests, as is the case in most bond issues. While the bonds are not listed, and there have been no secondary trades to date, each series has a unique CUSIP number which facilitates recordkeeping, valuation and permitted transfers. These features helped to ensure that investors had a high comfort level with the form of the investment and could focus clearly on the underlying risk and return.

In one important respect BOMSI was differently structured from other commercial transactions: OPIC, the United States government development agency, purchased the most senior tranche of securities. Note that OPIC’s ownership of the senior tranche conveyed no protection to more junior investors – by virtue of the cash waterfall, they were exposed to risk in the MFI loan portfolio ahead of OPIC. However, the participation by a large and well-respected development agency – often referred to as “the halo effect” – encouraged investors who otherwise might have been unwilling to consider the transaction.
Microfinance Securities XXEB, the Industry Matures

A little over a year later, in June 2006, DWM closed its third CDO transaction, Microfinance Securities XXEB (MFS), for which it was sole sponsor. This $60 million securitization of loans to 26 MFIs had more commercially, versus socially-motivated oriented investors. Moreover, for the first time commercial investors (besides the sponsor) purchased equity. By this time, not only had market familiarity with microfinance grown, but DWM had also obtained an investment grade rating – A – on the MFS senior notes from MicroRate, a specialized microfinance rating agency. This heightened commercial investors’ comfort with the senior tranche.

In addition, DWM had sponsored a study indicating that microfinance is less correlated to economic downturn than other emerging markets assets, making portfolios including microfinance, in theory, less volatile and therefore more attractive to more mainstream, commercially-motivated investors.

Correlation Analysis

A case can be made that microfinance is largely uncorrelated to other emerging market assets and so would reduce portfolio volatility, or beta. In a study sponsored by DWM and carried out by New York University graduate student Nicolas Krauss under the direction of NYU Stern School of Business Professor Ingo Walter, the operating performance under different economic scenarios of 283 MFIs in 65 developing countries was compared to that of 112 commercial banks from 33 developing countries. The findings were that MFI financial results are less sensitive to economic downturn than that of emerging market commercial banks. While the authors concede that the study is based on somewhat inconsistent and incomplete data, it nevertheless serves as a useful indicator and will likely lead to further useful investigation of the characteristics of microfinance

Summary & Conclusion

As microfinance has only recently been introduced to the capital markets and has already met with a welcome reception, it is expected that investor exposure and the number of investors will increase. In this process financial products for microfinance will become more numerous, more standardized, and more fitted to capital markets norms. At the same time, secondary markets will come into existence, and ratings agencies and researchers (both commercial and academic) will focus more attention on the sector. Specialized hedging tools will ease foreign exchange risk for investors and microfinance institutions alike. These developments should abet liquidity and help to give investors comfort that microfinance is suitable for regular allocations of portfolio investment. In effect, investor demand for assets itself will become an important and self-fulfilling driver of progress in microfinance. Developing World Markets looks forward to continuing to be a driver and innovator of these trends.

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About the editors

Maritta Koch-Weser is the chief executive officer of the **Global Exchange for Social Investment (GEXSI)**. GEXSI links charitable donors, entrepreneurs and investors in funding exceptional economic, ecological and social projects for sustainable development in low income regions around the world.

GEXSI’s key objective is to move social entrepreneurs “from Aid to Market” - from charity dependency to the development of viable businesses, which can support good causes. Social entrepreneurs provide access to basic goods and services such as water, electricity, communication or healthcare in poor regions around the world. They improve the lives of millions of economically deprived people by creating employment and income earning opportunities.

Initially, social enterprises often depend on grants. To move towards self-reliance, many need start-up support - access to expertise, markets and finance. GEXSI works on mobilising capital and expertise needed by social entrepreneurs to move from aid to market.

GEXSI is a UK charity, headquartered in London, with an adjunct office in Berlin. It counts on a small, high-calibre staff, senior advisors with strong international development expertise, volunteers, and partner organizations around the world.

[www.gexsi.org](http://www.gexsi.org)

Tatiana van Lier is the executive director of the **Association of Charity Lotteries in the European Union (ACLEU)**. ACLEU is an international non profit organisation, established in 2007 to promote the charity lottery model.
ACLEU is an alliance of charity lotteries in the European Union. It seeks to promote and represent members’ interests in all matters relating to fundraising through charity lotteries. ACLEU members have fundraising through charity lotteries as their primary aim. All of them contribute a large portion (up to 50 %) of their sales to a wide range of NGOs, including Amnesty International, WWF, Save the Children and Unicef.

The members of ACLEU believe charities in every EU Member State should be enabled to use a charity lottery as a fundraising tool. Charity lotteries have proven successful in the Netherlands, Sweden and the United Kingdom. These lotteries have joined forces in ACLEU to promote the model throughout Europe by making politicians, policymakers and charities aware of the existence of this model. In this way, more charitable organisations will be able to benefit from revenues from national charity lottery revenues.

www.acleu.eu
Every third person on earth continues to live in poverty. In emerging, fast growing economies income disparities widen. The poor continue to lack access to basic education, health, and social services even as the general economic outlook improves.

More than 10% of the surface of the earth have been gazetted for nature conservation - mainly for the preservation of unique, threatened biological diversity. While the laws are in place, funding for continuous, uninterrupted conservation remains a major challenge all of us must seek to meet.

This book wants to put into the hands of readers some good news: a small compendium demonstrating how they can help effect change. Collectively, we have some new tools. Smart fundraising and finance are evolving. As the cases assembled in this book demonstrate, greater social gains from social entrepreneurship become possible with faster recognition of financial innovations that work - in two adjacent areas:

First, in the matching of continuous funding needs with continuous, programmatic and sustainable ways of fundraising, - to sustain social, health, education or environmental programs. This is the central subject of this book.

And, second, through innovations in micro-banking, social investment, and private sector development investment. These are also, albeit to a smaller extent, covered in this volume. We are clearly at the threshold of the vast potential the regular market holds for investing to end poverty.