

Proposed Course Syllabus: Spring 2012

LBJ School of Public Affairs, University of Texas at Austin

Finance for Social Ventures: Financial Management and Capital Markets

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Course Description

This course is designed as an introduction to finance for students who aspire to be social entrepreneurs. Students who expect to support social ventures during their careers as donors, financial investors, or board members will also find this course useful. By the end of the semester, students will

- a) understand how to use financial tools for decision making in social ventures, and
- b) become familiar with existing and evolving capital opportunities for funding nonprofit and for-profit social ventures.

To build solvent and sustainable organizations, social entrepreneurs need to understand fundamentals concepts of financial management. In the first section of the course, students will learn topics such as cashflow valuation, valuation of financial securities, valuation of real assets, and risk/return tradeoffs in capital markets.

The capital market for social ventures has witnessed a rapid growth of new funding alternatives, often grouped under the term “Impact Investments,” that aim to improve the capacity of social ventures to scale more and with greater speed than traditional philanthropy would allow. Such investments promise financial returns to investors while achieving social and environmental impact. This section of the course will expose students to investment vehicles such as social venture capital, microfinance, microcredit, PRIs, MRIs, social mutual funds, social impact bonds, and the financing institutions/intermediaries that provide them.

The final section of the course will introduce students to business valuation methods. Students will learn how to value a social enterprise by using a combination of conventional financial valuation techniques and alternative approaches to social impact measurement. Students will complete a team project on valuation which they will present in class.

Class format

Classes will involve a combination of lectures, discussions, guest speakers, mini cases, team projects and presentations. While the course covers topics in finance, its content and format

are also designed to develop influential and ethical leaders who can think critically, communicate their vision effectively, and lead with integrity in a rapidly evolving social sector.

Class Materials

1. Textbook: Corporate Finance by Ross, Westerfield, and Jaffe, 8th edition, McGraw-Hill Irwin
2. Lecture notes
3. Packet of Readings

Student Evaluation

Students' grades will be based on the following:

Attendance and Class participation: 20%

Quizzes and Assignments: 30%

Midterm: 20%

Team project and presentation: 30%

Course Outline

*RWJ refers to the Ross, Westerfield, and Jaffe textbook

I: Financial Management

Class 1 - Introduction; Goals of a Corporation; Economic versus Accounting Value

Key Questions:

- What does it mean to maximize firm value?
- How is firm value measured in the social sector?
- How do we ascertain a firm's value from its financial statements?
- How do actual cashflows differ from accounting cashflows?

Readings:

1. Chapters 1 & 2: RWJ
2. Lohr, "A Capitalist Jolt for Charity," New York Times, February 24, 2008
3. "Nonprofit Accounting Basics," GWSCPA Educational Foundation

Assignment: Problem set

Class 2 – Valuing Cashflows

Key Questions:

- What is the time value of money?
- What is the Present Value/Future Value of a lump sum?
- What is the value of an Annuity? A Perpetuity?

Reading: Chapter 4, RWJ

Assignment: Selected RWJ End-of-Chapter Problems

Class 3 – Valuing Financial Securities

Key Questions:

- How do investors value bonds?
- How do investors determine stock price?

Reading: Chapter 5, RWJ

Assignment: Selected RWJ End-of-Chapter Problems

Class 4 – Valuing Real Assets

Key Questions:

- How do managers evaluate projects?
- How is NPV used to make investment decisions?
- At what rate are cashflows discounted?
- What are some alternatives to the NPV rule?

Reading: Chapter 6, RWJ

Assignment: Mini Case

Class 5 – Capital Markets: Risk and Return

Key Questions:

- What is diversification?
- How are risk and return related?
- What are the most commonly used models of the risk/return relationship?

Reading: Chapter 9, RWJ

Assignment: Selected RWJ End-of-Chapter Problems

Class 6

Part I: Midterm

Part II: Guest presenter

II: Innovations in Social Capital Markets

Class 7 – Social Capital Markets and Social Value Creation

Key Questions:

- What is risk capital?
- What impedes a social venture's ability to expand?
- What forms of capital exist for for-profit and non-profit social ventures?

Readings:

1. Kaplan, Robert, and Allen Grossman *"The Emerging Capital Market for Nonprofits,"* Harvard Business Review, October 2010
2. Emerson, Jed, et al., *"Nothing Ventured, Nothing Gained: Addressing the Critical Gaps in Risk-Taking Capital for Social Enterprise,"* Working Paper, Skoll Center for Social Entrepreneurship, Oxford Said School of Business

Assignment: TBD

Class 8 – Impact Investing

Key Questions:

- What are the various forms of impact investments?
- What do impact investors expect in terms of financial returns?
- How do they manage risk?
- What is the evidence to date?

Reading:

1. O'Donohoe, Nick, et al., *"Impact Investing: An Emerging Asset Class,"* JP Morgan Report, November 29, 2010

Class 9 – Venture Philanthropy

Key Questions:

- What is venture philanthropy?
- What are PRIs (program-related investments)?
- How do funders evaluate PRIs?
- Should foundations consider MRIs (mission-related investments) for their investment portfolios?

Readings:

1. *"Program-related Investing: Skills and Strategies for New PRI Funders,"* Grantcraft
2. *"Assessing and Managing PRI Risk: Nothing Ventured, Nothing Gained,"* Grantcraft
3. Tasch, Edward, and Brian Dunn *"Mission-related Investing: Strategies for Philanthropic Institutions,"* Investors' Circle Report, May 2001

Assignment: Ethics Case

Class 10 – Social Venture Capital

Key Questions:

- What is venture capital?

- What is the venture capital process?
- How do social venture capital firms adapt the traditional structure to fund social ventures?
- What are common components of an equity term sheet for a social venture?

Readings:

1. Lerner and Hardyman, *"A Note on Private Equity Securities,"* Harvard Business School, 2001
2. Lecture Notes: *Components of an Equity Term Sheet*

Assignment: TBD

Class 11 – Microfinance, Microcredit

Key Questions:

- What is microfinance?
- How is it different from microcredit?
- What types of institutions deliver microfinance?
- When is microfinance not appropriate?
- Is the microfinance industry sustainable?

Readings:

1. *"ICICI Bank: Financial Services for the Poor,"* Case Study, C.K. Prahalad in *"The Fortune at the Bottom of the Pyramid,"* Wharton School Publishing, November 2010
2. *"Small Loans and Big Ambitions,"* Economist, March 15, 2007
3. *"Rich IPO Brings Controversy to SKS Microfinance,"* Stephanie Strom and Vikas Bajaj
4. *"Luster Dims for a Public Microlender,"* Vikas Bajaj, New York Times, May 10, 2011

Assignment: TBD

III: Valuation of Social Ventures

Class 12 - Valuation and the Social Enterprise

Key Questions:

- How do we measure the financial value of an enterprise?
- How do we account for future expected cashflows in an uncertain world?
- How does capital structure (ratio of debt to equity) affect firm value?

Readings:

1. Chapter 7, RWJ
2. Chapter 15, RWJ
3. Lecture Note: *Business Valuation*

Assignment: TBD

Class 13 – Valuation and the Social Enterprise (continued)

Key Questions:

- How do you measure the social value of an enterprise?
- What are some of the SROI (Social Return on Investment) approaches?
- What are their limitations?
- What are some alternatives?

Readings:

1. Tuan, Melinda, *“Measuring And/Or Estimating Social Value Creation: Insights Into Eight Integrated Cost Approaches,”* Bill and Melinda Gates Foundation Impact Planning and Improvement Report, December 2008
2. *“Approaches to Assessing Social Impact,”* Venturesome

Class 14

Valuation Projects Due
Team presentations