Philanthropic Equity.

Let us consider a model for philanthropic, development finance. An interesting model for development philanthropy is one which provides equity capital to target low income groups to finance and encourage enterprise .

Principals from a target group are invited to submit business plans for approval. Approvals will be based not purely on charitable criteria but on commercial and developmental criteria as well. The aim of these projects is to allow poor communities to develop self sustaining, commercially viable enterprise to provide growth and employment. Hence, funding costs will be aligned with commercial rates; aligned but not identical as barriers to entry may need to be mitigated in the initial stages. Commercial viability is an important criteria as such businesses need to be able to survive and grow once the sponsor capital has been repaid and the sponsor has withdrawn from the operation of the business. The businesses will focus on providing employment to the communities in which these businesses are established. Employees will be awarded equity as part of their compensation to promote an owner operator culture.

Sponsors will actively help principals in the management of the business providing training in best practices in operations and financial management while also providing corporate governance at board level and mediating between employees, minorities and management.

Capital is provided initially as equity. As profits are generated, a proportion is used to pay down sponsor equity and the remainder is used to create new equity capital, this new equity accruing to the local community owner operators. Once all sponsor equity is repaid and a target multiple or IRR is achieved, the sponsor exits the business almost entirely, relinquishing operating control entirely to the principals while maintaining board representation only insofar as to maintain standards of corporate governance.

In summary:

1. Funded business plans are expected to be viable going concerns at the minimum.

2. Capital is provided on a semi commercial basis. Cost of capital will be benchmarked appropriately so as to avoid funding non commercially viable businesses.

3. Principals earn in their equity. All staff also earn in their equity.

4. The philanthropic sponsor eventually exits but maintains a corporate governance role by way of board membership.

5. Sponsors impart international best practice in operations and finance as much as start up capital.

6. A terminal date is set for the withdrawal of sponsor equity, and thus a target date for commercial viability is built in to each project. The initial funding needs should never become perpetual.

7. The deal resembles equity that converts to debt. Capital is provided in the form of equity. After a period of stabilization, the equity is converted to debt. Excess returns are capitalized and shares are awarded to all staff at all levels.