



## **Social Investing: Markets & Missions**

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**Social Venture Capital/Social Enterprise Conference  
March 18, 2010 - Miami, Florida**

Thank you for inviting to join this important meeting. I think we all agree that from these discussions a great amount good will unfold in the months and years ahead.

My assignment today is to persuade this audience to employ the tools of the marketplace in the service of economic and social justice. This is the easiest possible task because the case is a no-brainer.

To make the argument for social investing, I will not appeal to your morals – although if morality does not call us to action -- nothing can.

Nor is it necessary for me to press you to follow your conscience – although if conscience does not move us -- nothing will.

Instead, the argument appeals to your self-interest and your informed understanding about markets and business. It hinges on your “inner business competitor” – the egocentric part of all of us that derives exhilarating personal pleasure from winning.

Let's be frank: Social investors are smarter. We are better-looking. We get the best tables in restaurants. And – most of all -- we have better posture. As the American President Abraham Lincoln famously remarked: "A man never stands so tall as when he leans over to help a child."

It is now within your economic power to rollback the scourge of poverty.

- At the turn of the last century, the Industrial Revolution was the single biggest anti-poverty program in the history of Humankind.

- In the next century, a potent combination of *public* policy, *public* health departments and *public* funding of scientific research extended life expectancy for the average American by 30 years.
- More recently, 300 million people have been lifted out of rural poverty by Chinese capitalism.

Now it is our turn. With private capital we can change the poverty paradigm. With the power of the purse, we can empower the poor to provide for themselves.

Thanks to the miracle of microfinance, we now have irrefutable evidence that it is possible to marry profit margins to social missions.

Microfinance is an engine of economic survival – a lifeline for the poor. Beta-tested in the low plains of Bangladesh and in the high Andes of Bolivia, microfinance achieves what economic development experts call “sustainability” and what business people call “profitability”.

But microfinance *alone* is not a poverty panacea. None of us in this room would tolerate living in a town with poor healthcare, bad schools, no electricity, filthy water, but with a great bank.

We need more social investments. We need more social investors.

The bottom of the economic pyramid is a massive business opportunity and a cauldron of human misery.

- 3 billion people worldwide live on just \$2.50 a day -- or roughly \$900 a year.
- \$265 billion of unmet demand for microloans awaits your investment.

As agents of the marketplace, we are called upon to merge our pragmatic knowledge about market realities with our noblest aspirations for economic justice. In the words of the poet Jonathan Swift: “A wise man should have money in his head -- not in his heart.”

Whether financing a well-established social venture in Miami or a start-up in Manaus, we have to be high-minded without being soft-headed.

As business people, we understand the critical differences between textbook market conditions -- and the myriad of market imperfections which plague the poor:

- In functioning markets, capital flows to its highest and best use. Risk and reward is measured to the single basis point.

But where the poor live, capital is rare and expensive. Indeed, microfinance was invented because mainstream banks -- historically and enthusiastically -- had ignored the poor.

- In functioning markets, prices are set between willing buyers and willing sellers. Competition brings down prices -- improves products -- extends markets.

But where the poor live, scarcity and monopoly live side-by-side. The poor are captive consumers subject to predatory pricing.

- In functioning markets, minimal consumer protections and financial transparency are enforced by governmental policy and a court of law.

But where the poor live, property rights depend upon social norms and, often, brute force. The poor are powerless.

- In functioning markets, a distinction is made between public and private goods -- between street cleaners and vacuum cleaners.

But where the poor live, private investment is often the *only* investment. The market -- quite literally -- becomes the sole provider of the common good.

- In functioning markets, survival of the economic fittest is a necessary consequence of progress. Some businesses succeed -- some fail.

But where the poor live, the *only* ethical economic policy is creative opportunity -- not creative destruction.

As we ate our lunch today, 1 in 7 people worldwide lacked “food security.” They are routinely hungry -- without the minimal daily calories needed to survive. In plain language, they are slowly starving to death -- a global concentration camp of hunger.

By way of illustration: Imagine if 1 out of 7 people at this conference were dressed in rags. Would we look the other way while we continued our important discussions? Would the conference proceedings note that approximately 1 in 7 participants lacked “clothes security”?

No economic theory and no marketplace, whether functioning or failing, can change the reality that we each --- alone and uniquely -- are blessed and burdened with a moral compass.

Free markets mean each of us has the freedom to make choices:

- We have the freedom to balance -- as we deem best -- the interests of investors, customers, employees and the larger societal good.

- We have the freedom to use the market to advance our own interests -- to define those interests narrowly or broadly.
- We have the freedom to embrace our compassion and to serve our community.

We all know the heartbreaking facts:

- We know that for the poor -- life is “fragile, cheap, dangerous and unpredictable” (as noted in Last Orders at Harrods).
- We know markets do not price-value the cry of a hungry child. What is efficient is not always fair.
- We know the face of poverty is a woman consigned to chattel status in the marketplace of life.
- We know that if you keep your food in a refrigerator and your clothes in a closet, you are richer than 75% of the world’s people.

Our heads know that reversing 10,000 years of free market bad behavior – from slavery to debt bondage, from company towns to global cartels, from discriminatory banking to predatory pricing – is not within our short-term grasp. But in our entrepreneurial hearts, we know we have to try.

Our shared entrepreneurial secret is that solving big challenges is heady stuff. It invigorates us as executives, as investors and as community leaders, and it completes us as individuals. In the words of the American teacher Horace Mann: “Be ashamed to die until you have won some victory for humanity.”

Results, not ideology, are what count. A drowning person doesn’t care or ask how the life preserver was financed, doesn’t care or ask if a taxpayer or a shareholder has paid the lifeguard’s salary. Good intentions and high theory are not the work of social entrepreneurship.

As we cannot bomb our way to peace and prosperity, we cannot finance our way to economic justice. In the end, the poor must have the power to speak up, speak out and speak for themselves.

If you think you have what it takes, the world needs social investors with their heads and their hearts fully engaged. Serving the bottom of the economic pyramid is not *just* a market opportunity. It is also an existential statement about our values – your values -- our global citizenship.

In the words of a Columbia University chaplain Davis: “Be a maker of peace, a steward of mercy, a voice of reason. Be the hands and feet of justice.”

Thank you.