



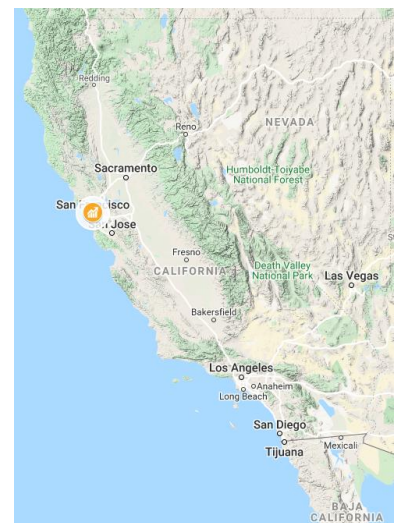
RSF Social Finance: Transforming the Way the World Works with Money

Highlights RSF Social Finance is a public benefit financial services organisation dedicated to transforming the way the world works with money. RSF offers investing, lending, and giving services to individuals and enterprises committed to improving society and the environment. The example of RSF provides valuable lessons of how to facilitate meaningful and direct relationships across sectors and among diverse stakeholders within a structure of disciplined investment practice. It is unique in that it holds quarterly pricing meetings for its borrowers and investors to discuss and influence interest and spread rates, rather than use the commonly-accepted LIBOR rates. Together the group gains insight into each other's financial needs, priorities, and plans.

Introduction

RSF Social Finance has its beginnings in 1936 as the Rudolf Steiner Foundation, Inc., established “primarily for the furtherance of the interests of the cause and teachings” of Rudolf Steiner. From 1936 to 1983, RSF engaged in fundraising and charitable giving to organisations and initiatives arising directly out of Steiner’s work and lectures. In 1983, Siegfried Finser (a trustee of the Foundation) began discussing with colleague John Alexandra ways to work with money that were more consistent with the philosophy of Rudolf Steiner.

These conversations led to the emergence of RSF’s lending program in 1984. That year, the foundation received a request for a loan to rebuild the Pine Hill Waldorf School in New Hampshire, which was destroyed by a fire the previous year. When the request was made, RSF only had USD 6,000



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cash in assets. However, they reached out to the community – who had incentive to see the school rebuilt – to fundraise and were able to make their first loan commitment of USD 500,000. This experience demonstrated the importance of community trust to RSF and its role in lending activities. Following, their success with the Waldorf school, RSF’s donor-advised fund (DAF) activities started in 1985 and have been growing since to meet the needs of investors and borrowers. In 2005, RSF was among the first to launch mission-aligned DAFs, allowing assets held in DAFs to be invested for social and environmental benefit.

RSF has also moved to work with for-profit institutions. In 2008, RSF launched the Mezzanine Fund, which was the first fund to provide mission-aligned financing (from accredited investors) for early-stage social enterprises. The following year, RSF stopped using LIBOR to set interest rates and launched RSF Prime, a community-based model for determining interest rates based on Quarterly Pricing Meetings (QPM) between investors, borrowers, and RSF. Finally, in 2010, after evidencing the lack of transparency in the dysfunctional financial sector, RSF divested from all public equities and redirected capital to investments more closely aligned with its values.

Timeline

1936	1983	1985	2005	2008	2009	2010
The Rudolf Steiner Foundation, Inc is created	S. Finser and J. Alexandra look to be more consistent with Steiner’s philosophy	RSF’s lending programme emerges. Donor advised lending activities begin	RSF launches their mission-aligned DAFs offering impact investing portfolios	RSF launches the Mezzanine Fund	The community-based model, RSF Prime, is used to determine interest rates	RSF divests from all public equities and redirects capital to investments aligned with its values

How It Works

RSF currently has seven 100%-owned affiliates: three non-profit and four for-profit. This mixture of entities allows RSF to differentiate between different uses of capital and match the motivations of donors and investors with the use of funds for investees and grantees. Two of the seven entities make up RSF’s social enterprise lending programme: RSF Social Investment Fund, Inc. (SIF) and RSF Social Enterprise, Inc (SEI). SIF originates and manages non-profit social enterprise loans and SEI originates and manages for-profit social enterprise loans.

RSF achieves impact in part by funding social enterprises that face challenges in raising capital from conventional funders. These include social enterprises that choose to remain rooted in a particular community and offer an inspiration for others rather than pursuing scale in their own operations, or those which need a much longer time to build a sustainable supply chain, or which face various forms of unconscious bias, related to gender or race, for example. These are highly innovative enterprises that challenge the status quo but are often dismissed as “unbankable”.

RSF’s lending structure is centred on building community and generating a viable alternative to the complexity and opacity in the current banking system by providing direct, long-term loans based on personal relationships. RSF’s loan instrument may be the only one in the world that allows investors and borrowers to influence interest rates based on input from quarterly face-to-face pricing meetings (QPMs).

Enabling Participation

RSF has a clearly defined set of values that emphasize trust and listening to understand investor and investee needs. Participation is carried out mostly through two mechanisms: community pricing meetings and shared gifting circles, which are both characterised by joint deliberation and decision-making. There is a sense that all affected voices are heard and that there is space for informed decision-making.

RSF's first QPM was held in September 2009. QPMs give borrowers and investors an opportunity to discuss and influence interest rates and spread rates by sharing their motivations, needs, and priorities. Beyond bringing borrowers and investors together, QPMs give borrowers the opportunity to consider the value of their loan in a different way. It is not just a question of getting the best rate, but also about identifying the best long-term partner that can help take them where they want to go, as well as the value of the community that RSF attracts.

According to those involved in QPMs:

RSF's purpose to transform the way the world works with money is exemplified in the engaged process we call pricing meetings. We cannot imagine a more direct, transparent, and personal way to work with interest rates. Though the system may not be perfect for everyone. – John Bloom, Senior Director of Organizational Culture (Clark and Soriano, 2014)

When we had the last pricing meeting, I was taken by how much we were aligned. Rationally I know we're aligned. But when you sit in a room and really hear everyone's story, it takes everyone out of a box and brings everyone in the full human view of who they are. But we have a range we can work with. And when I'm really connected to someone or something, then I want to give more to it. I want to give more to this kind of process because it's something I believe in. – Chris Mann, Guayaki Sustainable Forest Products (Clark and Soriano, 2014)

In the case of shared gifting, RSF gives distribution and allocation authority to the recipients of gift money. By shifting the control of grant funds from donors to organisations, trust, accountability, reciprocity and relationships are created in a way that moves beyond traditional philanthropic models. There are no directed outcomes or objectives for how the recipients use the money; instead, the group uses its collaborative knowledge to determine the best use of the funds. Ultimately, the community decides how community wealth is distributed. RSF's model also allows recipients to create mutually beneficial collaborations which are rare in standard competitive models. Grantees have responded optimistically:

'When you take an egalitarian approach to the sharing of resources, seemingly insurmountable problems become doable. – Curtis Flemming of the Fresh Life Foundation (Hye, 2017).

It builds a culture of cooperation and spreading wealth rather than competition and a lack of transparency in philanthropy. – Haleh Zandi, Executive Director of Planting Justice (Hye, 2017)

Outcomes

Through formally embedding stakeholder alignment within deal structures, and combining different forms of investor capital, RSF's lending program is magnifying the impacts of its borrowers by helping them collaborate with mission-aligned financial stakeholders.

Since 1984, RSF has given out more than \$285 million in loans and more than \$100 million in grants. RSF's loans through the SIF and SEI have maintained a 100% repayment rate of principal plus interest, which has allowed RSF to fund their operating costs on the difference between the interest rate the investee pays and the interest rate the investor receives. This also means that there is a low but consistent return for investors.

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Authors Mariah Cannon, Jodie Thorpe and Erika Lopez-Franco

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Institute of Development Studies, Brighton BN1 9RE UK
T +44 (0) 1273 606261 **E** ids@ids.ac.uk **W** www.ids.ac.uk
W www.eldis.org/collection/participation-economic-advancement
T twitter.com/IDS_UK **F** facebook.com/idsuk

