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How Revolutions In Finance And Education Are Transforming Virginia's Purpose Economy

Yesterday morning, the father of European venture capital, [Sir Ronald Cohen](#), asked a room of nearly a hundred economists, policymakers, and financiers at a Brookings Institute [event](#), who among them thought an extra \$1 billion in aid would solve Africa's education challenges. Not a single person raised their hand. The United Nations Sustainable Development [Goals](#) (SDGs), are estimated to require a global investment of \$3-4 trillion per year. Currently, total aid equates to about \$150-200B a year, a fraction of what is required to meet the UN's goals of solving large-scale human and planetary challenges. Sir Ronald indicated, "It's plainly obvious we need to attract capital to meet these goals." True, but how?



Stakeholders from finance, government, and the social sectors convened at the Brookings Institute in Washington, D.C. on February 29th to explore the opportunities and limits of impact bonds.

He then asked the same audience if they thought a \$1 billion fund, professionally managed with metrics focused on outcomes of dropout rates, early learning and attainment rates, and fueled by investment between the private sector, governments, and foundations could have a catalytic effect on meeting a similar goal. Every hand went up. Sir Ronald's solution, at least in part, is the scaling of social impact bonds (also known as pay for success contracts)—what he calls “the equivalent of venture capital for social impact.” The Impact bond market has been growing rapidly since its inception in 2010—there are now over 56 globally and around 90 in various stages of development. So far, they have delivered between 3-15% returns for investors. [Dr. Emily Gustafsson-Wright](#), a Brookings Fellow and lead author of their most recent [report](#), estimates the market for impact bonds will triple by 2020. Finance has indeed evolved from measuring financial return in the 19th century, to measuring risk and return in the 20th century, to now measuring risk, return, and impact.

Two days earlier, in a New Orleans hotel over a thousand miles away, [Michael Sorrell](#), President of Paul Quinn College, addressed 700 academic thought leaders like a general rousing his troops before a massive campaign, “*everything* we do is about improving the lives of others.” Sorrell was a closing keynote at the Ashoka U [Exchange](#), an annual gathering of academia focused on transforming higher education as a vehicle for changemaking, which I attended with colleagues from Babson College and the University of Virginia. Sorrell's words echoed the aspirations of many in academia who see their calling as the training and empowerment of a generation of social entrepreneurs and intrapreneurs.

The worlds of finance and higher education may seem like unlikely bedfellows, yet both industries are going through a quiet revolution. Their convergence could become the most powerful ecosystem for building economic and social value to date. It is only fitting then, that the the frontier of this convergence has a long and storied history filled with revolutionary leadership and enterprising founders—my home state of Virginia.

The Commonwealth for the Common Good

Virginia's economy does not suffer from the detached fantasies of Silicon Valley that create over-valued apps for finding a masseuse or a private chef. Nor does Virginia suffer from the ethics deficiency or shareholder cow-towing of Wall Street. Instead, Virginia's economy is built on a commitment to match real need with real opportunity. It is a collaborative ecosystem driving social innovation forward on three fronts: advancing social entrepreneurship and impact investing, advancing social impact bonds, and advancing social innovation education. These are the cornerstones not of a tech or shareholder economy, but a *purpose* economy.

1. Advancing Social Entrepreneurship & Impact Investing

Building an ecosystem for a purpose economy requires a deep commitment to cross-sector collaboration and leadership. Governor Terry McAuliffe has established a number of advisory

positions, task forces and councils to assess how the state and its policymakers can support social entrepreneurship and impact investing. Governor McAuliffe is in fact, one of the few governors in the nation with a Special Representative for Social Entrepreneurship and Impact Investing (Larry Wilder), who established a Task Force on Social Entrepreneurship and Impact Investing. Virginia [Trade Secretary Maurice Jones](#) who leads the Task Force, launched a [Council on Youth Entrepreneurship](#) and has been touring university programs and incubators for social entrepreneurship across the Commonwealth, listening to entrepreneurs, investors and educators for ideas for how the state can advance social entrepreneurship. As part of the ecosystem, Virginia recently secured a grant from the Department of Housing and Urban Development (HUD), to launch the [Coastal Resilience Laboratory and Accelerator](#), which will provide technology and organizational support for purpose-driven entrepreneurs addressing coastal resiliency.

The private sector has responded, launching the [Virginia Community Capital Impact Investing Forum](#) and incorporating a wave of benefit corporations, with 19 BCorps currently registered, including founding BCorp, [Impact Makers](#), a Richmond-based management and IT consultancy that contributes its profits to local impact partners. A major standard bearer of the diversity of this growing community of purpose-driven entrepreneurs, investors, and policymakers is the [Tom Tom Festival](#), an annual week long festival of music, arts, and innovation in the city of Charlottesville that culminates with its Founders Summit, where the nation's innovators share their founding stories and the insights that brought them success. Students too, are mobilizing, launching a volunteer based co-learning space filled with both hustle and hammocks, called [HackCville](#).

Paul Beyer, Director of Tom Tom, spoke to me about the emergence of global innovations and enterprises outside of major metropolitan areas, "the global lines of communication can't take the place of local conversations. If you have a globally relevant entrepreneur or innovator, my feeling is their stake in the local community is equally important. This is where experimentation, cross-pollination, and true innovation occur. Every town needs an event to rally around, where the thought leaders can come out and co-mingle."

But the proof, as they say, is in the CAGR, or the compound annual growth rate of the number of companies receiving venture capital. According to the [National Venture Capital Association](#), based on its CAGR score of 55.2%, Charlottesville is the fastest growth rate in the country of any venture capital ecosystem. Charlottesville also "experienced the greatest growth rate measured by venture investment dollars (a 156.5% increase since 2010)." Compound that with the fact that the Washington Metro area, which includes Arlington, Virginia and Alexandria, Virginia, ranked 7th nationally as a top VC area with over \$900 million invested. Impressed yet?

2. Advancing Social Impact Bonds

As I mentioned earlier, the market for impact bonds is expected to triple by 2020. Virginia is quickly rising to meet this market, along with other states like [South Carolina](#), Massachusetts, Utah, Connecticut, and New York. The social sector and investor communities too are mobilizing, founding the [Virginia Pay for Success Council](#) which was recently awarded a [grant](#) for a feasibility study for a pay for success/impact bond in maternal home visits. “The Commonwealth of Virginia, with leadership from the Virginia Pay for Success Council and Department of Health, will focus on using PFS to improve pre-term and low birth weight rates through early childhood home visiting programs for at-risk mothers.” A coalition of non-profits and government entities are seeking to advance another impact bond through a grant opportunity by HUD on supportive housing. That decision is pending but it could be another big step in impact bonds for the state of Virginia.

3. Advancing Social Innovation Education

There are at least three major programs stocking the social innovation pipeline in Virginia. The first is [SE@UVA](#), a cross-grounds program at the University of Virginia that offers a Minor in Social Entrepreneurship (one of only 20 in the world), and offers double the average number of social entrepreneurship classes of other social entrepreneurship programs in the country. Dr. Christine Mahoney, the program’s Director, recently showcased SE@UVA’s groundbreaking partnership model at the Ashoka U Exchange. SE@UVA provides students the chance to collaborate with practitioners on solving real world problems through coursework as well as its Research Hub for Collaborative Innovation, which runs four integrated labs working at the local, state, national, & international levels.

[Old Dominion](#) is also offering undergraduates the chance to take their social entrepreneurship coursework into the field with the support of the ENACTUS student group to “learn directly from social entrepreneurs while touching the lives of the poor, the sick and the disadvantaged.” VCU has also launched the [VCUarts Center for the Creative Economy](#), which provides courses for VCU arts students to learn the foundations of entrepreneurship, intrapreneurship, and innovation, and a student seed accelerator and incubator called the CoLab.

Virginia is for lovers, but it’s also for founders, innovators, and champions of the purpose economy. As Virginia pushes forward with its impact bond feasibility study, investors will need to step up. As social entrepreneurs work to scale their ventures, they too will need support, both in capital and from policymakers. I would love to see Virginia respond with a social innovation seed fund to kick start social enterprises and to extend innovations currently being developed in Charlottesville, Richmond, and NOVA across the Commonwealth. As the wheels of quiet revolution turn in both finance and higher ed, keep your eye and your investments focused on Virginia and the purpose economy. Appalachia is calling.

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