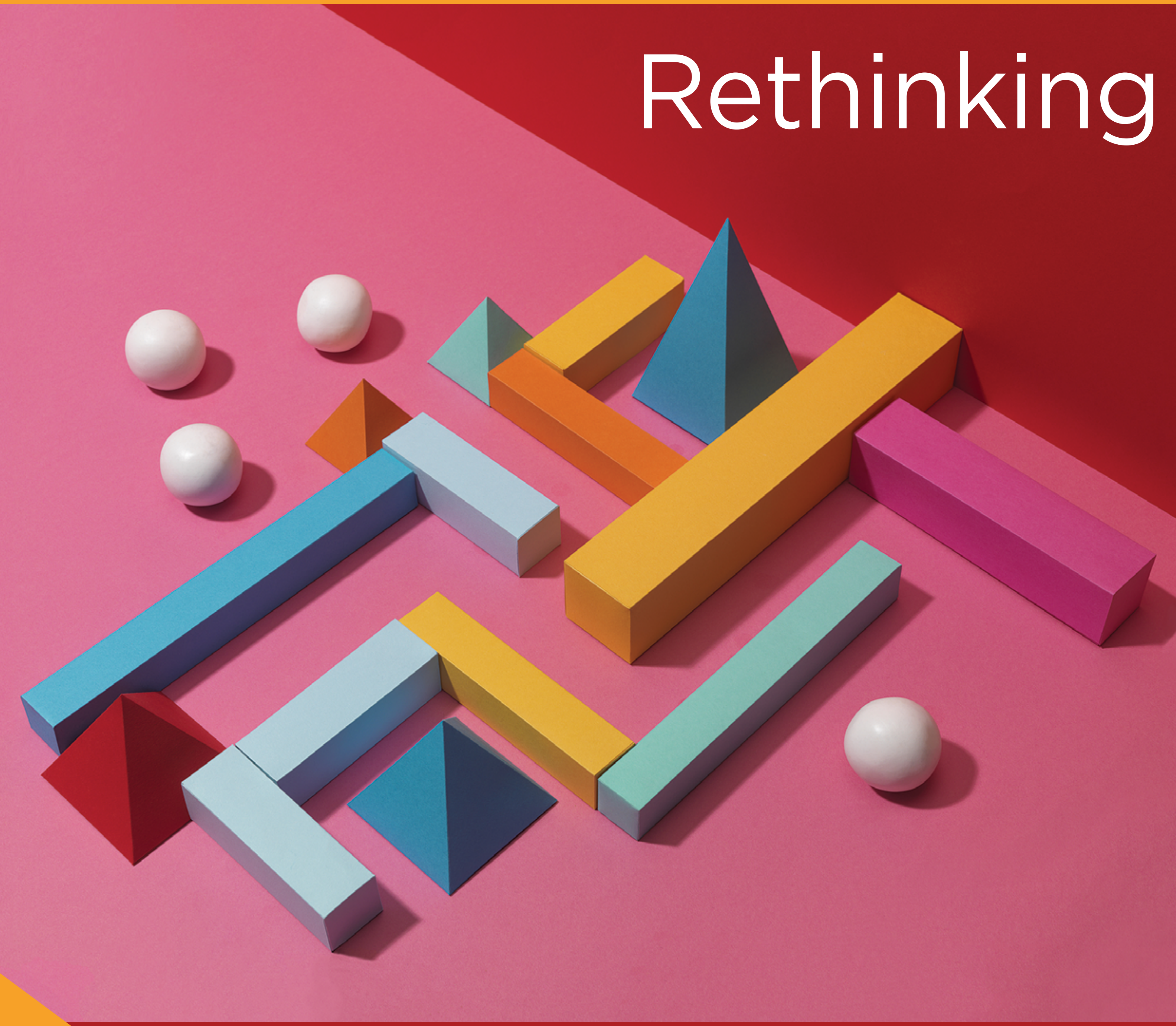
Rethinking

Philanthropy

How social finance is helping build knowledge for future leadership

By Susan Raymond, Ph.D.

These are days of innovation in social problem solving. A playing field that used to be dominated by traditional public charities funded by selfless gifts of largess working quietly and without public demands on generations-long problems has changed. The rules are different. Solutions are required. The players are also different. There seem to be as many bankers as social workers on the playing field. The ball itself seems to be oddly shaped—covered in some combination of gifts, earned revenue and market finance.

And, where there is innovation tied to new sources of money, there is the natural tendency to want to lace up the cleats and get a hand on the ball. But before you do, it is best to understand the field and the rules.

Understanding the Definition

Terms such as "social finance," "venture philanthropy," "social investment," "impact investing" and the like are rife in the nonprofit (and quasi-nonprofit) world. In *The New York Times* between 1990 and 1995, there was only one article on impact investing, social enterprise or venture philanthropy. Twenty years later, from January 2010 to January 2015, there were 140 such articles—or more than one every other week.

Yet, the terms have many meanings and connotations, so the first task is to understand what they mean. (See the sidebar on page 16, which provides a brief glossary of some of the key terms and funding strategies.) Volumes have been written on the topic of social finance, but there is considerable variation and constant change and innovation in how the pieces are put together.

In general, however, innovations in the social finance space build out complexity in two directions: a difference in the kind of resources that are flowing and a difference in the institutions involved.

1. Resources: The resources that flow can be cash from disposable income or grant allocations as we normally think of them. One-third of the "venture philanthropy" of the Omidyar Network flows in the form of grants. But they also can be grants or loans or guarantees from an institution's corpus. Or they can be actual investments used so that a foundation's giving and its investment or corpus are consistent with its mission, in which case the resources may not flow to a nonprofit at all but rather into mission-consistent private enterprise or mission-consistent social enterprise.

In this sense, social finance is actually very exciting because it is additive. Some of these resources would not flow as traditional grant making, and so the opportunity to move other kinds of resources to social problem solving means that these resources are totally new to the sector. Absent these new innovations, the resources would not flow at all. So, social finance is actually making the resource pool for social problem solving bigger than philanthropy otherwise could.

The problem, of course, is that there is no reliable information on exactly what and how big this new resource pool is. We simply do not know, although it is clearly not loose change out of the sock drawer. The 2010 report *Impact Investments: An Emerging Asset Class,* sponsored by the Rockefeller Foundation and the Global Impact

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Investing Network and conducted by J.P. Morgan, estimated that impact investing had the potential to be $400 billion to $1 trillion. However, there are no reliable data on the current level. Program-related investing data out of the most recent report are from 2009 (*Leveraging the Power of Foundations: An Analysis of Program-Related Investing*, Indiana University, 2013). The list goes on, but it is clear that the boundaries between institutions are gradually eroding.

2. Institutions: Traditional approaches to funding social problem solving involved a cash (or in-kind) flow from donating institutions or individuals to nonprofits. Those "institutions" were foundations. And those "nonprofits"

Brief Guide to Social Finance Terms

Mission-related investing: Investments from the capital corpus of a foundation or other nonprofit (e.g., a university or health system) that promote the organization's mission and also produce market-competitive financial returns.

Program-related investing (PRI): Use of the program-dedicated funds of a foundation for loans, loan guarantees, equity investments or other recoverable financial commitments to nonprofits that are consistent with program mission and objectives.

Impact investing: Commercial-grade investments that meet investor financial demands as well as social and/or environmental objectives. The term covers many types of financial relationships, but all have financial and social performance as their requirement.

Social impact bond: Drives funding to demonstrated success, but only after that success has been proven. Bonds are mostly used to align government funds with measured program successes, but engaging in the programs themselves requires external up-front capital (often venture philanthropy) to be repaid with final success fees because government payments will not flow until success measures are met.

Revolving fund: A mission-driven investment fund in which repayments to the fund do not flow back to philanthropists who have provided the capital. The fund is usually capitalized by gifts and flows money out as PRIs, but the return on those investments stays in the fund for further investment in the mission area.

Venture philanthropy: Grant-based philanthropy that ties funding to clear and purposeful impacts on problems, usually directly involving the funder in decisions. The grants are usually for new or innovative ideas with transformative potential.

ESG screening: A method for guiding socially responsible investing that establishes a set of positive "screens" for environmental, social and governmental behaviors and investment effects, channeling investors to those with the most positive impacts.

Social venture funds: Similar to private venture capital funds, these sources flow capital to businesses that have a social mission embedded in their business model ("social enterprises"). The enterprises may be for-profit or nonprofit in their registration and organization. The fund is usually professionally managed by an investment firm.

Angel investing: In the social sector, these are social venture flows that emerge from individual philanthropists or networks of philanthropists.

were public charities. Now, we have a redefinition on all sides.

"Donor" institutions are, indeed, still foundations. However, they are joined by corporate marketing departments, corporate human resources departments, donor-advised funds inside private banks and investment funds, entirely new impact-investing funds created with market-grade capital that places financial, social and environmental return on par with each other. Furthermore, in the case of mission-related investing, the institutions involved may, or may not, have any participation by anything approaching a "nonprofit" in any meaningful way, except that the product or service involved addresses a market opportunity whose dimensions have a larger social good (e.g., the production of a more efficient solar-powered cooker).

Many, perhaps most, of these new institutions are not places where traditional fundraising has relationships, and hence the new institutional members of social finance are largely unknown to and opaque for CFRE-type fundraising. We shall return more forcefully to this point later.

"Nonprofits" are also changing. Traditional public charities now often have social enterprises embedded within them that are, in effect, providing a product or service to a commercial market. This is true even in the most traditional charities. For example, more than 20 Catholic charities around the country have created social enterprises as part of their structures in order to provide goods or services that are embedded in their social mission (*Innovation and Catholic Service to Community* by Susan Raymond, Changing Our World, 2013). The use of social finance to support a mission, even in very traditional nonprofits, is not a phenomenon found only in the United States. Clann Credo in Ireland (**www.clanncredo.ie**) is a social investment fund set up by the Presentation Sisters in 1996 to provide loans for organizations focused on training programs for drug addiction and job creation. Since its creation, it has received capital from a variety of Catholic religious communities and has invested in more than 150 nonprofit projects.

3. Hybridization. Furthermore, all of this change and innovation provides fertile ground for the emergence of hybrids. What is happening in disease research is a perfect example, and it is likely to be replicated in other areas of research in progress that will require major capital infusions but where success will create market opportunity. Two examples will suffice to make the point.

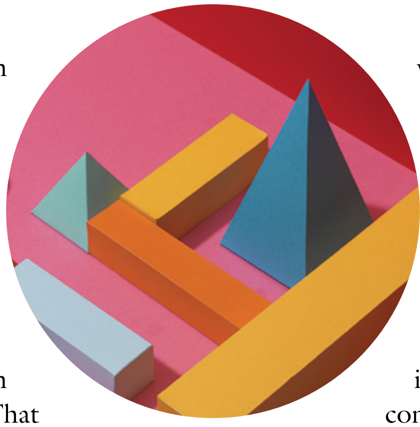
The Research Acceleration and Innovation Network (TRAIN) was established by *FasterCures* (**www.fastercures.org**), itself created by venture capital investor Michael Milken, to disrupt the conventional nonprofit and biomedical research process to push for transformational discovery in shorter periods of time. TRAIN comprises more than 50 nonprofit foundations that fund research. They are results-oriented and singularly focused on getting quickly from the research bench to the patient's bedside. The organizations are disease foundations, but they work in deep partnership with biotechnology and pharmaceutical companies and often share, at least in part, the rights to the intellectual property and consequent licensing fees that come with discovery. They take in pure philanthropy but also venture funding with repayment terms based upon research success. By 2012, *FasterCures* found that the TRAIN network had funded half a billion dollars in research grants in a single year, with a potential value of $2.2 billion (*Honest Brokers for Cures: How Venture Philanthropy Groups Are Changing Biomedical Research, FasterCures,* 2012). They themselves had evolved from nonprofits to venture philanthropists.

In another example, the Global Health Investment Fund (**http://ghif.com**) is focused on product development projects that can improve global health. The Bill & Melinda Gates Foundation and the Swedish government development agency SIDA provide partial downside risk protection, LHGP Asset Management manages the fund and the capital comes from a combination of institutional investors (such as AXA and J.P. Morgan), strategic investors (pharmaceutical companies), governments (SIDA, Grand Challenges Canada) and foundations. Together, this coalition of funders and fund managers has raised more than $100 million for the fund to support research and development projects.

Clearly, this not your grandfather's dollar in the fireman's boot at the stoplight on the corner of Main and Elm.

Understanding the Rules

One of the most important differences in social finance compared with traditional philanthropy is that the relationship between the provider of funds and the user of funds is one of clear and explicit mutuality. That mutuality can be an exchange of expectations, but it can

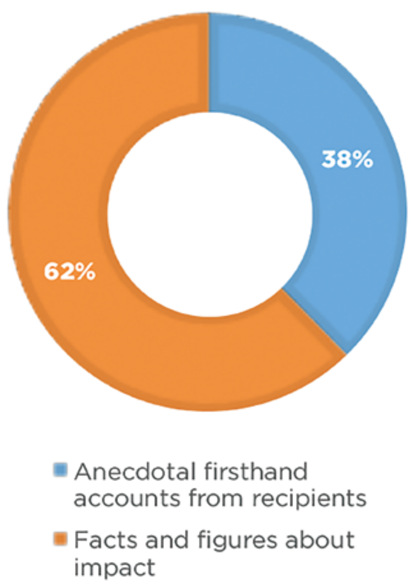


also be contractual. It is an exchange with clear terms. No one is giving anything to anyone.

The expectations are for results. The results are usually very clearly spelled out; they are quantitative, not qualitative. Indeed, with strategies like social bonds, the results actually need to precede the resource transfer. Social finance is investment, and, as with all investments, it expects a return. That return may not be financial—it may not mean a flow of funds back to the investor—but it will mean a documented result that was a condition of the transfer itself. In *Giving Through the Generations*, a Changing Our World study of global high-net-worth individuals conducted with Campden Research and BNP Paribas, survey responders made it clear that results were expected and that the nature of the measurement was similar to that expected from their own businesses. (See Figures 1 and 2.) Stories are important, but funders expect to see more. They expect to see measures of success.

Often, the expectation is also for engagement. Funders who provide social capital often look at these resources as a fundamental extension of their own expertise. They are interested in opportunities that use what is between their ears as well as what is between the sides of their wallets. They expect to be engaged in decision making and to be regularly and personally apprised of the progress of their investments. In the case of the TRAIN foundations noted above, the foundations themselves embedded in their own organizations the deep scientific expertise needed to work closely with research grantees in setting research priorities. It is common for venture philanthropists to expect regular and detailed reporting not only on their philanthropic investment but also on overall organizational progress toward the goal.

Figure 1. What kind of feedback do you want?



Results and expectations mean that funding is often incremental. There are mile markers of progress, and passing those mile markers on time and on budget is a prerequisite for continued funding. The "rules" assume mission and passion. They are designed to bring money on-stream in line with accomplishments.

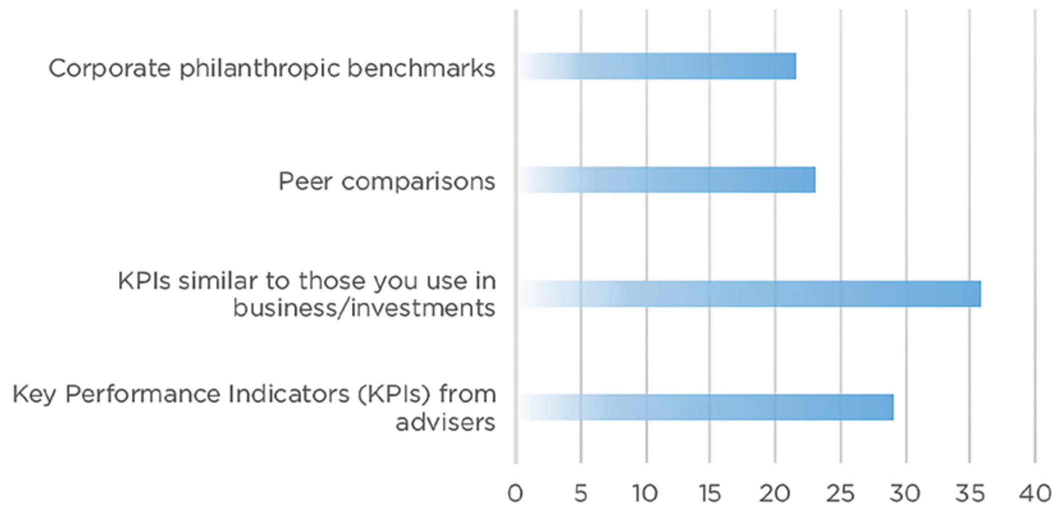
Understanding Yourself

Significant portions of the resources flowing under one or more of the social finance rubrics would not have flowed at all absent innovations in social problem-solving relationships. These are net additive resources available, often at a significant scale, to address social problems. However, because they are newly flowing does not mean they will, or even should, flow to you. They are resources that come with great institutional and management challenges. If you are not prepared and organized to build a relationship with these resources, the result will lie somewhere between dissatisfaction and disaster. You can divert your attention, antagonize your supporters, disappoint the expectations of your leaders, chase programs to satisfy money rather than to execute mission and generally waste both time and credibility.

On the other hand, social finance can, in fact, bring both resources and results to problem solving. How can you know whether these resources are right for you? There are six critical prerequisites to examine.

First, the resources must **enable the mission**. Complex finance has no value in and of itself. Complex finance is destructive if it diverts from the mission. It is appropriate only if it enables the mission. It is a very, very bad idea to chase the money, to undertake something simply because the money will flow if you do. The first threshold is the mission. Will this finance enable the mission—its scale, its reach, its sustainability, its evolution? Social finance is not capital to fund a revenue stream apart from the mission. This is not about the university gift shop. Social finance is

Figure 2. What type of benchmarks do you use for feedback? (% Response)



capital to enable problem solving that is at the heart of an organization's mission. This is capital for the university R&D laboratory that produces a disease breakthrough. Social finance is a tool, but it must be applied to the right type of problem.

Second, the resources will require **skills and expertise**, especially in finance and marketing. You must have that expertise or have access to it. Do not underestimate the complexity of the funding process or the constant need to measure and report. Social finance resources are not gifts. They are investments, and they require expertise.

Third, the resources will require a **long-term view**. Social finance is no solution for a financial crisis, and it will not flow to financial instability. Social finance is not impressed with weakness. It requires an organization with demonstrated budgetary stability such that overall operations are secure, and the new financing will power new or scaled solutions over time without destabilizing the existing resource base. Social finance forms do not look to solve past funding shortfalls. They look to power future successes.

Fourth, resources require a **business plan**. This is one of the hardest tests for many nonprofits. A business plan is not a strategic plan that sets out the vision and approach to a mission. A business plan details the "how" of what you want to do. In great detail, how will the strategy be executed via programs, management and finance? And how will that business plan markedly affect the problem? How will the business plan empower the strategy that will solve the problem? More specifically, what is the role of the desired social finance method in funding the business that solves the problem, and how does the social finance method relate to other revenue and funding flows?

Fifth, the process of acquiring and satisfying social finance investors requires a focus on **data and analysis**. Social finance in its cultivation, acquisition and stewardships is deeply, even overwhelmingly, data-informed. It may not be totally "data-driven," in that the mission relative to social problems remains at the heart of its purpose. Nevertheless, evidence and analysis are the building blocks that must be used upon that mission platform.

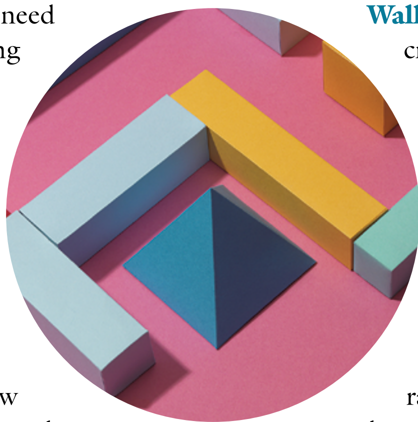
Sixth, resources want to see the right people at the table in the **right relationships**. Social finance will not flow to an organization that sees itself as the one and only relevant actor. Problems that attract social finance are significant and complex. Addressing such problems requires many skills and many institutions—government, for-profit, commercial, nonprofit and professional. The seats on the money side of the table want to see the seats on the implementation side of the table filled by people and institutions that have the power to get the job done. Successful nonprofits that attract innovative finance are ones that show the wisdom, willingness and ability to bring to the "deal" everyone who will make a material contribution to the solution.

You can expect increasingly intense competition for innovative resources, just as there is for conventional philanthropic resources.

The Fundraising Professional's Problem

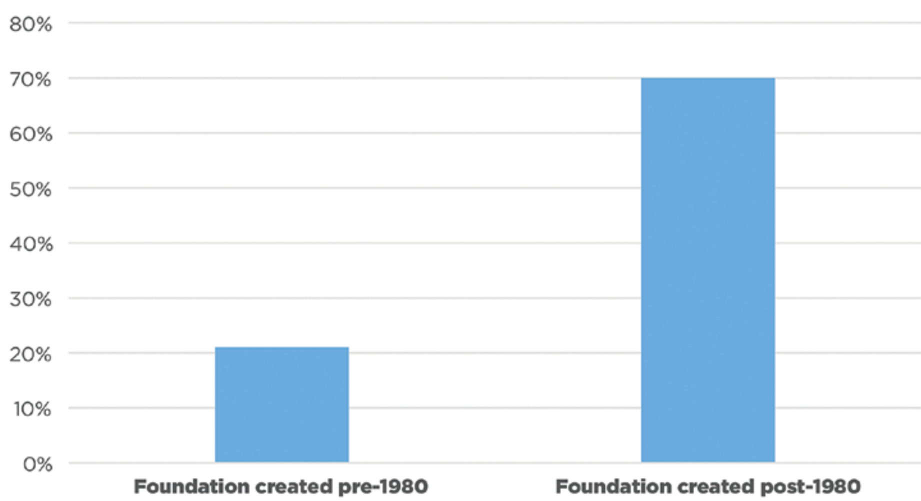
For the fundraiser, the proliferation of funding mechanisms on today's social finance scene represents a challenge on four fronts.

Tear down the walls. Fundraisers need to think about funding in different ways. They need to have a set of criteria for determining when conventional philanthropy is the correct type of money to fund a program and when entirely new sources of funding could be tapped in entirely new ways. That means both understanding the concepts of social finance and deeply understanding the internal programs of the nonprofit organization. Fundraisers need to become steeped in programs, understanding how they may fit into social finance categories and how they may be pivoted or adjusted to meet social finance opportunities. Fundraisers cannot simply be the recipients of program requests. They must be program partners to understand how new funding may align with program content. These are challenges in many organizations, where fundraisers are seen as passive recipients of program budget demands. You will need to tear down walls. Fundraising will need to bring into its midst highly qualified, technical expertise in relevant program areas so that a realistic assessment of the appropriateness of, or lack of, innovative social finance can be determined.



Walk in new networks. You can expect increasingly intense competition for innovative resources, just as there is for conventional philanthropic resources. This will be especially true as a new generation of younger philanthropists takes the reins. As Figure 3 demonstrates, foundations founded more recently are more likely to be interested in investing in innovative ways than foundations founded decades ago. Fundraising will need to broaden its networks beyond the passionate and charitable-minded into the world of finance, where being committed to doing good is accompanied by a more steely-eyed, skeptical, numbers-driven set of expectations. These new networks will need to be built not simply on the traditional case for support that describes the problem and the nonprofit's commitment to it. The new case for sup-

Figure 3. Family Foundation Interest in Mission-Related Investing



port will be one of financial management and financial return, one that binds finance with Shakespeare's "hoops of steel" to specific and measurable problem solving.

Acquire technical skills. The greatest danger in social finance is that the nonprofit world will not be able to capitalize on the new sources of support due to a lack of skills. Philanthropists and social investors who are moving new kinds of resources and capital into nonprofit social problem solving do not need to do so. There are other ways to use their money, from commercial investment to personal lifestyle and consumption. There is no law or regulation forcing them to innovate. They can always buy a new Bentley. So, if the nonprofit sector does not acquire the skills to understand and partner with their ideas, the money could simply go away. And that could mean hundreds of millions of dollars of possible problem solving lost. Fundraising must develop the skills to form those partnerships. This is an absolute priority in the fundraising profession. New approaches to social finance are certainly not right for all nonprofits or applicable to all problems. They do not supplant traditional fundraising. However, they *can* be right for certain organizations and certain problems, and you must develop the technical skills to build robust and lasting partnerships with these philanthropists and their social finance institutions.

Expand association reach. By definition, innovation is a process, not an objective. In order to continually build those skills, associations and institutions upon which nonprofits and fundraising rely for thought leadership and professional development must expand their reach. They must include skill building in these new areas as a fundamental part of what they do. Annual conferences need to have social finance skill-building tracks. Organizations that are not nonprofits need to be invited to speak. Experts from social investment funds, ESG (environmental, social and governance) fund managers, foundations with strong PRI (program-related investment) portfolios, social enterprises and venture philanthropists all need to be major speakers and trainers at fundraising conferences. This is not to say that traditional skills should be abandoned. But the insularity of fundraising from institutions that are the hubs of new ways of flowing money to social causes, whether or not they are nonprofit, needs to end. The funding world has changed. Professional development needs to change with it. The alternative is to risk increasing marginality and the danger of failing to attract the next generation of innovative, creative leaders to this sector.

Do not lose sight of the mission. Of course, the added challenge—if an additional one is needed—is to maintain identity. A successful nonprofit is mission-driven, even as it seeks to bring the full but appropriate reservoir of possible finance to its work. The point is not to be J.P. Morgan, but to learn from J.P. Morgan, to take innovation and use it or adapt it constantly to serve the mission. It is a mistake to try to be what you are not. The bigger mistake is to not try to be fully and constantly all that you have the ability to be.

Looking Ahead

The future of fundraising needs to rise to these challenges. We are at the end of definitions in the nonprofit and philanthropic sector. Traditional ways of conceiving of institutions, resources and structures will be partnered with entirely new approaches. We cannot see the contours of the future clearly, but they certainly will not look like the past.

Leadership in the future will go to those who constantly adapt, who reach widely into every possible dimension of entrepreneurship, finance and enterprise to look for robust and sustained ways to deepen and broaden social problem solving, whether those individuals are in nonprofit organizations or private commerce. These boundaries are blurring. Fundraising needs to understand and embrace this future and navigate toward it in ways that are clear-eyed and appropriate, adapting what fits and rejecting what does not. However, that decision must be made out of knowledge and constant awareness of change. This means that fundraising must build awareness and skills, because only from that capacity will the decision about how to use innovation be wise.

Wisdom in the midst of rapid change requires knowledge and experience. It is time to build both.

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