The Role of Grant-making Foundations in the Age of “New Frontier of Philanthropy”

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“New Frontier of Philanthropy”

The mobilization of private resources towards social and environmental objectives.

**Traditional Philanthropy**

- **Funder**: Foundations, Philanthropists
- **Method**: Grant-making, Donation
- **Target**: Nonprofit Organization

**New Frontier of Philanthropy**

- **Funder**: Impact Investors, Bankers, Corporations, CDFIs
- **Method**: Impact investing, Microfinance, Community development finance, Corporate social engagement
- **Target**: Social entrepreneurs, Microfinance institutions, Community Development Corporations
Challenges for grant-making foundations

How can grant-making foundations overcome these challenges and adapt themselves to the era of “New Frontier of Philanthropy”?

Challenges:
- Limited Target
  - Basically nonprofit organization
- Limited Methods
  - Basically grant-making
- Limited Resource
  - Relatively small assets
- Limited Approach
  - Basically Model building and Capacity Building
Possible solutions

Develop existing tools to respond new actors, methods and needs of “New Frontier of Philanthropy”

- Support social enterprises through venture philanthropy
- Establish a new ecosystem that enables social impact investment to become sustainable
- Engage various sectors and utilize mixed-funding through catalytic philanthropy
- Get involved in social investment through PRI, MRI and SRI

4 MODELS

- Venture Philanthropy
- Catalytic Philanthropy
- Eco-system Designer
- Investor
MODEL 1: “VENTURE PHILANTHROPY”
“Venture Philanthropy” is a model that try to support social enterprises by providing them with both financial and non-financial support to increase their social impact.

**Traditional Philanthropy**
- Target: NPOs
- Short-term Grant-making
- Best Practice
- Model Building

**Venture Philanthropy**
- Social Enterprises
- Long-term Grant-making
- Non-financial Support
- Social Investment
- Capacity Building
- Scale-up
## Examples of Venture Philanthropy

<table>
<thead>
<tr>
<th>Foundation</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mulago Foundation</td>
<td>- Private Foundation&lt;br&gt;- NPOs&lt;br&gt;- Unrestricted Grants + Capacity Building Supports</td>
</tr>
<tr>
<td>REDF</td>
<td>- Public Charity&lt;br&gt;- Social Enterprises (NPOs only)&lt;br&gt;- Unrestricted Grants + Restricted Grants + Capacity Building Supports</td>
</tr>
<tr>
<td>Skoll Foundation</td>
<td>- Private Foundation&lt;br&gt;- Social Enterprises (NPOs + For-profit organizations)&lt;br&gt;- Unrestricted Grants + PRIs (loan, equity investments and guarantees) + MRIs</td>
</tr>
<tr>
<td>Omidyar Network</td>
<td>- Private Foundation + Investment Firm (LLC)&lt;br&gt;- Social Enterprises (NPOs + For-profit organizations)&lt;br&gt;- Grants + PRIs + Venture Capital, Debt + Capacity Building Supports</td>
</tr>
</tbody>
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For the development of “Venture Philanthropy” model

Venture Philanthropy has now been accepted as one of grant-making model. However, it needs professional skills and commitment. Standardization is key for its further development.

**Networking**
- Social Venture Partners (SVP)
- Social Venture Network (SVN)

**Standardize Tools**
- Due Diligence
- Measurement (SROI)

**Develop infrastructures**
- Venture Philanthropy Partners
- New Legal Status (B-Corp, LC3)

**More Venture Philanthropy**
MODEL 2:
“CATALYTIC PHILANTHROPY”
“Catalytic Philanthropy” is a model that try to catalyze collaboration among various sectors, and promote mixed-funding for social impact.

**Target**

**Support Schemes**

**Basic Concept**

**Traditional Philanthropy**

- NPOs
- Short-term Grant-making
  - Stand alone support
- Best Practice
  - Model Building

**Catalytic Philanthropy**

- NPOs, Social Enterprises, Community Development Corporations
- Long-term Grant-making
  - Collaborative support
  - Mixed Funding
- Social Impact through collaboration
## Examples of Catalytic Philanthropy

### National Community Development Initiative (NCDI)
- Coalition of private foundations and financial corporations established in 1991
- Foundations made grants for general operation, projects or capacity building
- Financial Institutions made loans for development activities
- Two intermediaries: Local Initiative Support Corporation (LISC) and Enterprise Foundation

### Living Cities
- Coalition of private foundations and financial corporations on the basis of NCDI
- Foundations made grants and PRIs in alignment with loans. They also established Catalyst Fund
- Financial Institutions made loans for development activities
- No intermediaries, but coalition’s own secretariat with Catalyst Fund

### Cleveland University Circle Community Wealth Building Initiative
- Coalition of City of Cleveland, State of Ohio, the University Hospital, National Development Council, and so on, coordinated by Cleveland Foundation
- Funded partly by Living Cities, and partly by coalition members
- Managed Greater University Circle leadership committee.
- Current Projects: the Evergreen Cooperative Initiatives, the Health Tech Corridor initiative, and Greater Circle Living Initiative.
Evolution of grant-making

Traditional Philanthropy
- Grant-making
- Nonprofit
- Model building through project support

Venture Philanthropy
- Grant-making
- Capacity Building
- Impact Investing
- Nonprofit
- Social Enterprise
- Scale-up through capacity building

Catalytic Philanthropy
- Grant-making
- Capacity building
- Impact Investing
- Mixed Funding
- Nonprofit
- Social Enterprise
- CDCs, Financial Intermediaries
- Social impact through cross sector collaboration
MODEL 3:
“ECOSYSTEM DESIGNER”
“Eco-system Designer” Model

Rockefeller Foundation launched a new initiative “Harness the Power of Impact Investing” in 2007 to develop impact investing industry. This is an effort to design “eco-system”.

**New Market**
- Singapore Impact Investment Exchange Asia
- Kenya Social Investment Exchange

**New Funding Scheme**
- Impact Assets (donor advised fund + Impact investing)
- Nonprofit Finance Fund’s Sustainable Enhancement Grant (SEGUE)

**Pioneering Model**
- Support the establishment of Acumen Fund (2001)

**Policy Research**
- Harvard Impact Investing Policy Collaborative
- J. P. Morgan’s research,
- Monitor Institute

**Standardized Index**
- GIIRS (Global Impact Investing Rating Systems)
- IRIS (Impact Reporting and Investment Standards)

**Networking / Intermediaries**
- GIIN (Global Impact Investing Network)
- SOCAP (Social Capital Markets Conference)
“Logic model” of Rockefeller’s approach

Stimulating private investment

Lower transaction costs through:
- Standardized Index (IRIS, GIIRS)
- Information (GIIN Database)
- Social Stock Exchange Market

Lower participation risks through:
- Consensus building (Policy research, advocacy)
- Model building (Acumen Fund)

Institutionalization through:
- Intermediary organization (GIIN)
- Network (PRI Makers Network)
- Conference (SOCAP)

Stimulating government commitment

Establishing infrastructure

Social Impact Investment as Industry

Sustainable & Scalable
MODEL 4: “INVESTOR”
"Investor" model

Strategically using foundations’ assets as investment tools for furthering their missions and social goods.

<table>
<thead>
<tr>
<th>Program Related Investment (PRI)</th>
<th>Mission Related Investment (MRI)</th>
<th>Socially Responsible Investment (SRI)</th>
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</thead>
<tbody>
<tr>
<td>• Alignment with mission</td>
<td>• Furthering a foundation’s mission</td>
<td></td>
</tr>
<tr>
<td>• Below Commercial rates</td>
<td>• Recovering the principal invested or earning financial returns (Market rates / Below market-rates)</td>
<td></td>
</tr>
<tr>
<td>• No politics</td>
<td>• No authorization is needed from IRS</td>
<td></td>
</tr>
<tr>
<td>• Authorization by IRS is needed + Counted within 5% payouts</td>
<td>• Furthering social goods</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Getting financial return (Market rates / Below market-rates)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Pro-active model can include impact investing, shareholder advocacy and community investing</td>
<td></td>
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For the future development of “Investors” model

Still MRI is small ($889.2 million). If US foundations utilize 1% of their assets ($590.2 billion) to social impact investment, the size of the industry ($4.37 billion) will be more than doubled.

Reduce risks and transition costs
- Reliable Index (SROI, GIIRS, IRIS)
- Social Stock Exchange Market

Develop incentive policy
- IRS guideline for PRI
- Ease Fiduciary rules

Develop infrastructures
- Intermediary Organizations
- Impact Investing Networks

More Social Impact Investments
CONCLUSION
The new landscape of social financing

Foundations
Government
Investors
Individuals

Social Finance Market
Social Stock Exchange Market
Impact Investment Intermediaries
Social Impact Bond

Bond, Stock / Equity, Loan, Credit

Innovation
Impact

Social Enterprises
Scale-up
Independence

Government Support
Social Services Market
Traditional Philanthropy
Paradigm shift in the relationship

**Traditional/Venture Philanthropy**
- Bilateral relationship
- Patronage/Partnership relationship
- Supply-based approach

**Catalytic Philanthropy**
- Multilateral relationship through coalition
- Collaborative relationship
- Collaborative, but still supply-based approach

**New Frontier of Philanthropy**
- Multilateral relationship through market
- Independent investor/entrepreneur relationship
- Demand-based approach
Unique roles of grant-making foundations in the age of “New Frontier of Philanthropy”

- Social Enterprises
- Cross-sector collaboration
- Impact Investors
- Social Impact Investment Industry

- Venture Philanthropy
- Catalytic Philanthropy
- PRI, MRI, SRI, ESG Investing
- Eco-system Designing

Grant-making Foundations

- Professional Staff
- Investment tools
- Network

- Policy, Innovation, Coordination
- Risk Taking, Infrastructure, Redirection
- Capacity Building, Agenda Setting

- Government Failure
- Market Failure
- NPO Failure
Thank you!

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