TOWARDS A NEW ERA OF SOCIAL PURPOSE FINANCE

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Johns Hopkins University

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WHAT’S HAPPENING? PHILANTHROPY’S BIG BANG

- Beyond grants
- Beyond bequests
- Beyond foundations
- Beyond cash

LEVERAGE

PHILANTHROPY’S BIG BANG

NEW FRONTIERS OF PHILANTHROPY PARADIGM

**PHILANTHROPY** =
The mobilization of private resources for social and environmental purposes

<table>
<thead>
<tr>
<th>TRADITIONAL PHILANTHROPY</th>
<th>NEW FRONTIERS OF PHILANTHROPY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundations, Individuals</td>
<td>Multiple Investment funds</td>
</tr>
<tr>
<td>Operating income</td>
<td>Investment capital</td>
</tr>
<tr>
<td>Grants</td>
<td>Diverse financial instruments/capital tranches</td>
</tr>
<tr>
<td>Nonprofits</td>
<td>Social ventures</td>
</tr>
<tr>
<td>Social return</td>
<td>Social + financial return</td>
</tr>
<tr>
<td>Limited leverage</td>
<td>Expanded leverage</td>
</tr>
<tr>
<td>Output Focus</td>
<td>Outcome focus/ metrics</td>
</tr>
</tbody>
</table>

NEW FRONTIERS OF PHILANTHROPY ECOSYSTEM

NEW SOURCES OF FUNDS

NEW ACTORS

NEW TOOLS

NEW AGENTS

BENEFICIARIES

ACTORS/TOOLS

TYPES OF ACTORS
- Capital Aggregators
- Secondary Markets
- Social Stock Exchanges
- Foundations as Philanthropic Banks
- Quasi-Public Investment Funds
- Enterprise Brokers
- Capacity Builders
- Online Portals
- Corp-Originated Charitable Funds
- Conversion Foundations
- Funding Collaboratives

TYPES OF TOOLS
- Loans / Credit Enhancements
- Bonds
- Securitization
- Equity Investments
- Social Impact Bonds
- Insurance
- Social Investing & Purchasing
- Prizes, Crowd-sourcing

CAPITAL AGGREGATORS

EXAMPLES:

- Community Development Finance Institutions (CDFIs)
- Aavishkaar International, India
- Bamboo Finance (Switzerland)
- Economic Innovation International (EII)

METRICS:

- Globally, Capital Aggregators – $300 billion US (215 billion euro)
- 1,300 CDFIs / $19.7 billion of investments
- Aavishkaar – raised $32 million to invest in Indian small and mid-sized firms in rural or semi-urban areas.
- Bamboo Finance—US$250 mn invested—health, housing, education

EXAMPLES:

- Community Reinvestment Fund (CRF)
- Habitat for Humanity
- Blue Orchard (Switzerland)
- BRAC

METRICS:

- CRF – $1 billion in loans purchased
- Habitat Flex Cap Program – leverages $1 billion
- Blue Orchard--$200 million raised to buy micro-finance loans
- BRAC securitizing $180 million in microfinance loans

SOCIAL STOCK EXCHANGES

EXAMPLES:

• Social Stock Exchange UK
• Impact Investment Exchange (IIX) Asia
• Chicago Climate Exchange (CCX)
• Bovespa (Brazil)

METRICS:

• IIX has established an arrangement with the Singapore Stock Exchange to list the bonds and stocks of social enterprises

• Eur Climate Exchange ECX – 5.3 billion tons CO2 Equivs in 2010/ US$85-90 billion ; Global carbon credit market= US 142 billion

Break down “Chinese Wall” between investment/program

Tap asset base for mission

Beyond grants—alternative tools

Beyond PRIs

EXAMPLES:
• Fondazione CRT in Italy
• F.B. Heron Foundation
• Annie E. Casey Foundation
• K.L. Felicitas Foundation

METRICS:
• Fondazione CRT: 42% of grant-making towards mission/impact investing
• F.B. Heron Foundation: 43% of assets in mission/impact investing
• Multiple tools beyond grants

ACTORS/TOOLS

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CONCEPT:
- Less than 3 percent of low-income people in world’s 100 poorest countries have insurance
- Key defining feature: RISK POOLING
- ILO Microinsurance Innovation Facility
- LeapFrog microinsurance investment fund

METRICS:
- Potential market for micro-insurance – 1.5 to 3 billion people
- UN World Food Program pays Ethiopian farmers for work on irrigation projects with drought insurance

SOCIAL IMPACT BONDS: MONETIZING GOVT SAVINGS

EXAMPLES:
• UK Social Impact Bond
• Pay for Success — MA, Minnesota, NYC

HOW DOES IT WORK? UK Social Impact Bond
• UK Gov’t offers to repay private investments in services to reduce recidivism at Peterborough prison—with dividends
• Sliding scale of dividends keyed to program success
• Metrics and control group to measure success
• Monetizes savings from program success—Gov’t pays 10 million GBP for 20 million GBP of program savings

DEMAND FACTORS:

• The New Inferno
• Tapped-out government and charity

U.S. SOCIAL FINANCE, 2007

TOTAL OPERATING REVENUE: $1.3 TRILLION

1st Generation
- Philanthropy: $135 Billion

2nd Generation
- Fees: $685 Billion
- Government: $504 Billion

Foundations: $32 Billion
NONPROFIT FISCAL GAP

→ Operating revenue

→ Investment capital
  • Hard
  • Soft
NONPROFIT CAPITAL NEEDS VS. SUCCESS SECURING CAPITAL, BY PURPOSE

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Orgs. needing capital</th>
<th>Orgs. securing needed capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>91%</td>
<td>37%</td>
</tr>
<tr>
<td>Program development</td>
<td>80%</td>
<td>25%</td>
</tr>
<tr>
<td>Buildings/ land</td>
<td>77%</td>
<td>39%</td>
</tr>
<tr>
<td>Staff development</td>
<td>67%</td>
<td>26%</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>53%</td>
<td>31%</td>
</tr>
<tr>
<td>Vehicles/ equipment</td>
<td>52%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Percent of organizations

DIFFICULTY OF ACCESSING INVESTMENT CAPITAL, BY SOURCE

<table>
<thead>
<tr>
<th>Source</th>
<th>Fairly or extremely difficult to access</th>
<th>Not known</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension funds</td>
<td>46%</td>
<td>53%</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>55%</td>
<td>39%</td>
</tr>
<tr>
<td>Credit unions/S&amp;Ls</td>
<td>55%</td>
<td>36%</td>
</tr>
<tr>
<td>Venture philanthropists</td>
<td>55%</td>
<td>32%</td>
</tr>
<tr>
<td>Government</td>
<td>58%</td>
<td>5%</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>53%</td>
<td>9%</td>
</tr>
<tr>
<td>Foundations</td>
<td>41%</td>
<td>4%</td>
</tr>
<tr>
<td>Individual donors</td>
<td>36%</td>
<td>3%</td>
</tr>
</tbody>
</table>

CAPITAL CONSTRAINED
## NONPROFIT & FOR-PROFIT ROLES IN SELECTED FIELDS, 1982-1997

<table>
<thead>
<tr>
<th>EMPLOYMENT</th>
<th>% Nonprofit</th>
<th>1982&lt;sup&gt;a&lt;/sup&gt;</th>
<th>1997&lt;sup&gt;b&lt;/sup&gt;</th>
<th>% Change in relative nonprofit share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child day care</td>
<td></td>
<td>52</td>
<td>38</td>
<td>-27%</td>
</tr>
<tr>
<td>Job training</td>
<td></td>
<td>93</td>
<td>89</td>
<td>-4%</td>
</tr>
<tr>
<td>Individual &amp; family services</td>
<td></td>
<td>94</td>
<td>91</td>
<td>-3%</td>
</tr>
<tr>
<td>Home health</td>
<td></td>
<td>60</td>
<td>28</td>
<td>-53%</td>
</tr>
<tr>
<td>Kidney dialysis centers</td>
<td></td>
<td>22</td>
<td>15</td>
<td>-32%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FACILITIES/ENROLLMENT</th>
<th>% Nonprofit</th>
<th>1982&lt;sup&gt;a&lt;/sup&gt;</th>
<th>1997&lt;sup&gt;b&lt;/sup&gt;</th>
<th>% Change in relative nonprofit share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dialysis centers</td>
<td></td>
<td>58&lt;sup&gt;a&lt;/sup&gt;</td>
<td>32</td>
<td>-45%</td>
</tr>
<tr>
<td>Rehabilitation hospitals</td>
<td></td>
<td>70&lt;sup&gt;a&lt;/sup&gt;</td>
<td>36</td>
<td>-50%</td>
</tr>
<tr>
<td>Home health agencies</td>
<td></td>
<td>64&lt;sup&gt;a&lt;/sup&gt;</td>
<td>33</td>
<td>-48%</td>
</tr>
<tr>
<td>Health maintenance organizations</td>
<td></td>
<td>65&lt;sup&gt;a&lt;/sup&gt;</td>
<td>26</td>
<td>-60%</td>
</tr>
<tr>
<td>Psychiatric hospitals</td>
<td></td>
<td>19&lt;sup&gt;a&lt;/sup&gt;</td>
<td>16</td>
<td>-16%</td>
</tr>
<tr>
<td>Hospices</td>
<td></td>
<td>89&lt;sup&gt;c&lt;/sup&gt;</td>
<td>76</td>
<td>-15%</td>
</tr>
<tr>
<td>Mental health clinics</td>
<td></td>
<td>64&lt;sup&gt;b&lt;/sup&gt;</td>
<td>57</td>
<td>-11%</td>
</tr>
<tr>
<td>Higher education enrollments</td>
<td></td>
<td>96&lt;sup&gt;d&lt;/sup&gt;</td>
<td>89</td>
<td>-7%</td>
</tr>
</tbody>
</table>

### Change in Nonprofits’ Share of Employment, Selected Fields, 1997-2007

<table>
<thead>
<tr>
<th>Field</th>
<th>Change in Nonprofit Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual &amp; family services</td>
<td>-23</td>
</tr>
<tr>
<td>Community care facilities for the elderly</td>
<td>-20</td>
</tr>
<tr>
<td>Home health care facilities</td>
<td>-19</td>
</tr>
<tr>
<td>Specialty hospitals (other than psychiatric)</td>
<td>-13</td>
</tr>
<tr>
<td>Outpatient facilities</td>
<td>-8</td>
</tr>
<tr>
<td>Nursing care facilities</td>
<td>-3</td>
</tr>
<tr>
<td>Other residential care facilities</td>
<td>-3</td>
</tr>
<tr>
<td>Child day care</td>
<td>-2</td>
</tr>
</tbody>
</table>

DEMAND FACTORS:
- The New Inferno
- Tapped-out Government and Charity
- Rise of Social Entrepreneurs

SUPPLY FACTORS:
- Early Responders
- New Concepts: Fortune at the Bottom of the Pyramid
- New Players/ New Mindsets: Philanthrocapitalists
- Financial crisis and tepid capital markets
- Infrastructure
- Technology

NEW PARTNERS
NEW FINANCIAL MECHANISMS
NEW SKILL REQUIREMENTS
NEW AUTHORITIES?

LEVERAGE FOR GOOD:
An Introduction to the New Frontiers of Philanthropy and Social Investing
Lester M. Salamon
Oxford University Press | March 2014

NEW FRONTIERS OF PHILANTHROPY:
A Guide to the New Actors and Tools that are Reshaping Global Philanthropy and Social Investing
Lester M. Salamon, Editor
Oxford University Press | June 2014