Inside this issue:

Shining a Light on Foundations
Co-creation and Networking your Philanthropy: the Future
Corporate Philanthropy?
The Secret and the Not so Secret Philanthropist
Universities in 2030: Their Future and Funding

Issue 5: SPRING 2014

Future of Philanthropy:
Blurred boundaries and networks drive innovation
The Revolution on the Frontiers of Philanthropy and Social Investment

by Lester M. Salamon

With the resources of both governments and traditional philanthropy barely growing or in decline, yet the problems of poverty, ill-health, and environmental degradation ballooning daily, it is increasingly clear that new models for financing and promoting social and environmental objectives are urgently needed.

Fortunately, a significant revolution appears to be underway on the frontiers of philanthropy that is providing at least a partial, though still embryonic, response to this dilemma. The heart of this revolution is a massive explosion in the tools of philanthropy and social investment, in the instruments and institutions being deployed to mobilize private resources in support of social and environmental objectives. Where earlier such support was limited to charitable grants and gifts, now a bewildering array of new instruments and institutions has surfaced—loans, loan guarantees, private equity, barter arrangements, social stock exchanges, bonds, secondary markets, investment funds, and many more. Indeed, the world of philanthropy seems to be experiencing a “Big Bang” similar to the one thought to have produced the planets and stars of our solar system.

Even a quick glance at the resulting new landscape on the frontiers of contemporary philanthropy around the world yields a rich harvest of unfamiliar names and terms: Bovespa in Brazil; Social Capital Partners in Canada; Impact Investment Exchange in Singapore; Acumen Fund, Root Capital, and New Profit in the U.S.; Bridges Ventures, Big Society Capital and NESTA in the U.K.; Blue Orchard in Switzerland; Aavishkaar International in India; Willow Tree Impact Investors in Dubai; Calvert Foundation; the Schwab Charitable Fund; the Community Reinvestment Fund; Community Development Finance Institutions; TechSoup Global; conversion foundations; and many more.

Underlying this explosion lie four powerful processes of change as contemporary philanthropy moves:

- **Beyond grants**: deploying a variety of new financial tools for promoting social purposes—loans, loan guarantees, equity-type investments, securitization, fixed-income instruments, and social impact bonds;
- **Beyond foundations**: creating a host of new actors as the institutional structures through which social purpose finance is proceeding—capital aggregators, secondary markets, social stock exchanges, social enterprise brokers, internet portals, to name just a few;
- **Beyond bequests**: forming charitable or social purpose capital pools not simply through the gifts of wealthy individuals, but also from the privatization of formerly public or quasi-public assets or the establishment of specialized social-purpose investment funds;
- **Beyond cash**: utilizing new barter arrangements and internet capabilities to facilitate the giving not just of money, but of equipment, medical supplies, and personal time and skills.

Behind these movements is a common imperative, usefully summarized in a single word: **leverage**. Leverage is the mechanism that allows limited energy to be translated into greater power. It is what allowed Archimedes to claim that, given a lever and a place to stand, he could “move the whole world.” In the philanthropic context it means finding a way to go beyond the limited flow of charitable resources generated by the earnings on foundation assets or the annual contributions of individuals to catalyze for social...
and environmental purposes some portion of the far more enormous investment assets resident in banks, pension funds, insurance companies, mutual funds, and the accounts of high net-worth individuals.

The upshot is the emergence of a “new frontier” of philanthropy and social investing that differs from twentieth century philanthropy in at least four ways. It is:

- **More diverse**, involving a wider variety of institutions, instruments, and sources of support;
- **More entrepreneurial**, moving beyond “grant-making” to capture the possibilities for greater leverage that comes from adopting an investment orientation focused on measurable returns in both financial and social terms;
- **More global**, engaging problems on an international scale; and
- **More collaborative**, interacting explicitly not only with the broader civil society sector, but also with new social ventures serving the “bottom of the pyramid,” as well as with a broad array of private financial institutions and government agencies.

The result is a new paradigm emerging on the frontiers of philanthropy and social investing. Where traditional philanthropy relied chiefly on individuals, foundations, and corporate philanthropy programs, the new frontiers of philanthropy engage commercial banks, pension funds, insurance companies, investment advisors, specialized investment funds, and a special breed of foundations that function as philanthropic banks. Where traditional philanthropy concentrated mostly on operating income, the new frontiers concentrate far more heavily on investment capital, which funds long-term development and organizational growth. Where traditional philanthropy channels its assistance almost exclusively to nonprofit organizations, the new frontiers support as well a wide assortment of social enterprises, cooperatives, and other hybrid organizations. Where traditional philanthropy brings a charity perspective to its work, focusing exclusively, or at least chiefly, on social return, actors on the new frontiers of philanthropy bring an investment orientation, focusing on social and financial return and seeking to build self-sustaining systems that bring permanent solutions. Where traditional philanthropy mobilizes a relatively small share of its own resources, the new frontiers of philanthropy...
leverage the deeper reservoirs of resources resident in the private capital markets. And where traditional philanthropy has historically tended to be satisfied with output measures, the new frontiers put greater emphasis on reliable outcome metrics.

**With the resources of both governments and traditional philanthropy barely growing or in decline, yet the problems of poverty, ill-health, and environmental degradation ballooning daily, it is increasingly clear that new models for financing and promoting social and environmental objectives are urgently needed.**

The upshot is an emerging, new, social-purpose finance ecosystem to channel funds from banks, pension funds, insurance companies, foundations, high net-worth individuals, and others through a variety of social-impact investment organizations, support institutions, and new types of grantmakers, to an increasingly diverse set of nonprofits, social ventures, social cooperatives, and related organizations to achieve poverty alleviation, environmental improvement, enhanced health, and strengthened civil society sectors.

Microfinance, perhaps the earliest manifestation of this phenomenon of mobilizing private investment capital for social purposes, is now a mature $65 billion industry with its own trade association, research arm, network of “retail” outlets, secondary markets, and access to global capital markets through rated bond issues. And it is just getting started.

But microfinance is just one component of the burgeoning financial ecosystem emerging on the new frontiers of philanthropy. Indeed, estimates reported in the book from which the present article is drawn put the number of social- and environmental-oriented investment funds north of 3,000, with at least $300 billion in assets.

**The upshot is an emerging, new, social-purpose finance ecosystem**

For these investment funds to do their work, of course, they must find not only investors, but also investees—promising enterprises, whether for-profit or nonprofit, serving social and environmental purposes in a way that yields revenue as well as social good. And finding them they are. Indeed, a commercial revolution appears to be under way around the world at what C.K. Prahalad termed the “fortune at the bottom of the pyramid,” the base of the world’s income scale where the vast majority of the world’s population lives. Inventive entrepreneurs are finding ways to transform this population into avid consumers of solar panels, cell phones, eye-glasses, reusable sanitary napkins, and dozens of other basic commodities.

**Finding a way to go beyond the limited flow of charitable resources generated by the earnings on foundation assets or the annual contributions of individuals to catalyze for social and environmental purposes some portion of the far more enormous investment assets resident in banks, pension funds, insurance companies, mutual funds, and the accounts of high net-worth individuals.**

While the changes under way are inspiring and by no means trivial, however, they remain embryonic. For the new frontiers of philanthropy to achieve the impact of which they are capable, they must make the jump to broader strata of participants and observers. And this will require an energetic effort to visualize, publicize, legitimize, incentivize, capacitize, and actualize these developments.

The book from which this article is excerpted has been prepared with precisely these goals in mind. It offers the first comprehensive roadmap to the full range of developments taking place on the frontiers of philanthropy and social investment, the factors giving rise to them, the challenges and problems they still face, and the steps needed to promote their further development. No one operating in the field of philanthropy today can afford to overlook the new playing field, and the new opportunities, these developments are creating.

**The result is a new paradigm emerging on the frontiers of philanthropy and social investing. Where traditional philanthropy relied chiefly on individuals, foundations, and corporate philanthropy programs, the new frontiers of philanthropy engage commercial banks, pension funds, insurance companies, investment advisors, specialized investment funds, and a special breed of foundations that function as philanthropic banks.**