THE REVOLUTION IN SOCIAL PURPOSE FINANCE

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Johns Hopkins University
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PHILANTHROPY’S BIG BANG

Beyond grants
Beyond bequests
Beyond foundations
Beyond cash

LEVERAGE

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

“Combining frontline knowledge, academic rigor, and Salamonic wisdom, Lester Salamon’s *New Frontiers of Philanthropy* is the definitive chronicle of the innovations that are infusing new life into the well-intentioned but often-staid world of philanthropy.”

~ Mario Marino, Venture Philanthropy Partners

New models for financing and promoting social and environmental objectives are urgently needed. This book provides a roadmap to the significant revolution underway on the frontiers of philanthropy and social investing that is responding to this dilemma.

IS YOUR FOUNDATION READY FOR THE NEW FRONTIERS OF PHILANTHROPY?

“American philanthropy is in the midst of one of its most turbulent and interesting transformations in nearly a century....That reality makes Lester Salamon’s Leverage for Good and New Frontiers of Philanthropy indispensable reference points for new and experienced practitioners alike.”

~ Rip Rapson, Kresge Foundation

An accessible overview of the new actors and tools reshaping philanthropy and social investment with recommendations for overcoming the challenges they still face.

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

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)
• 972 CDFIs / $29.4 billion of assets as of Jan 2012
• 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

SECONDARY MARKETS

EXAMPLES:

• Community Reinvestment Fund (CRF)

• Habitat for Humanity

• Blue Orchard (Switzerland)

• BRAC

METRICS:

• CRF – $1.2 billion in community devel. loans purchased

• Habitat Flex Cap Program – $107 mn raised--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

FOUNDATIONS AS PHILANTHROPIC BANKS

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

CONVERSION FOUNDATIONS

EXAMPLES:

• 88 Italian foundations of banking origin
• Volkswagen Foundation
• NZ Community Trusts
• King Baudouin Foundation

METRICS:

• Cariplo -- $9.5 billion
• Volkswagen Foundation -- $3.2 billion
• 200 US conversation foundations

## Philanthropication Thru Privatization (PtP)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>FOUNDATIONS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NUMBER</strong></td>
<td><strong>%</strong></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>33</td>
<td>6.1%</td>
</tr>
<tr>
<td>Belgium</td>
<td>1</td>
<td>0.2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>3</td>
<td>0.6%</td>
</tr>
<tr>
<td>Canada</td>
<td>1</td>
<td>0.2%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>73</td>
<td>13.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>29</td>
<td>5.4%</td>
</tr>
<tr>
<td>Hungary</td>
<td>1</td>
<td>0.2%</td>
</tr>
<tr>
<td>Italy</td>
<td>103</td>
<td>19.1%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1</td>
<td>0.2%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>36</td>
<td>6.7%</td>
</tr>
<tr>
<td>Norway</td>
<td>4</td>
<td>0.7%</td>
</tr>
<tr>
<td>Poland</td>
<td>4</td>
<td>0.7%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2</td>
<td>0.4%</td>
</tr>
<tr>
<td>Sweden</td>
<td>35</td>
<td>6.5%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>9</td>
<td>1.7%</td>
</tr>
<tr>
<td>United States</td>
<td>199</td>
<td>36.9%</td>
</tr>
<tr>
<td>Other*</td>
<td>5</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

**Total cases:** 539  
**Total assets:** US$135bn / €102bn

*Assets not available for some foundations*

**Includes Bolivia, Chile, Morocco, Peru, and Uruguay*

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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 – Lester Brown
- Tapped-out government and charity

NONPROFIT OPERATING REVENUE

U.S. SOCIAL FINANCE, 2007

TOTAL OPERATING REVENUE: $1.3 TRILLION

2nd Generation
- Fees: $681 Billion
- Government: $504 Billion

1st Generation
- Philanthropy: $135 Billion
- Foundations: $32 Billion

TOTAL OPERATING REVENUE:
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- Foundations: $32 Billion
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- Fees: $681 Billion

TOTAL OPERATING REVENUE: $1.3 TRILLION
## Nonprofit & For-Profit Roles in Selected Fields, 1982-1997

<table>
<thead>
<tr>
<th></th>
<th>% Nonprofit 1982</th>
<th>% Nonprofit 1997</th>
<th>% Change in relative nonprofit share</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EMPLOYMENT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child day care</td>
<td>52</td>
<td>38</td>
<td>-27%</td>
</tr>
<tr>
<td>Job training</td>
<td>93</td>
<td>89</td>
<td>-4%</td>
</tr>
<tr>
<td>Individual &amp; family services</td>
<td>94</td>
<td>91</td>
<td>-3%</td>
</tr>
<tr>
<td>Home health</td>
<td>60</td>
<td>28</td>
<td>-53%</td>
</tr>
<tr>
<td>Kidney dialysis centers</td>
<td>22</td>
<td>15</td>
<td>-32%</td>
</tr>
<tr>
<td><strong>FACILITIES/ENROLLMENT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dialysis centers</td>
<td>58&lt;sup&gt;a&lt;/sup&gt;</td>
<td>32</td>
<td>-45%</td>
</tr>
<tr>
<td>Rehabilitation hospitals</td>
<td>70</td>
<td>36</td>
<td>-50%</td>
</tr>
<tr>
<td>Home health agencies</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>65&lt;sup&gt;a&lt;/sup&gt;</td>
<td>26</td>
<td>-60%</td>
</tr>
<tr>
<td>Psychiatric hospitals</td>
<td>19&lt;sup&gt;a&lt;/sup&gt;</td>
<td>16</td>
<td>-16%</td>
</tr>
<tr>
<td>Hospices</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>64&lt;sup&gt;b&lt;/sup&gt;</td>
<td>57</td>
<td>-11%</td>
</tr>
<tr>
<td>Higher education enrollments</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>

NONPROFIT FISCAL GAP

→ Operating revenue

→ Investment capital
  • Hard
  • Soft

## 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
ENTERPRISE BROKERS

EXAMPLES:

• Imprint Capital
• GPS Capital Partners
• Cambridge Associates
• Mercer Investment Consulting

METRICS:

• Imprint—managing Kellogg $100 million impact portfolio
• Cambridge Assocs: 17-person MRI unit in 5 offices worldwide
• Mercer Investment: 16-person ESG investment unit globally + research on responsible investing options

ONLINE PORTALS AND BARTER ARRANGEMENTS

EXAMPLES:
• Money: Network for Good; Kiva; Donors Choose
• Services: Volunteer Match; Care2.com; Idealist
• Products: TechSoup Global; Feeding America; Good 360

METRICS:
• Network for Good: over $500 million raised in its first decade,
• Kiva: 2005-11, $250 million in loans from 630,000 lenders to over 635,000 entrepreneurs globally
• TechSoup Global: $6.6 million worth of tech equipment to over 133,000 N/P organizations in 36 countries

DEMAND FACTORS:

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• Tapped-out government and charity
• Rise of social entrepreneurs

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• The New Inferno – Lester Brown
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• 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

No good deed goes unpunished

The social-impact measurement conundrum

Still a boutique business

The pesky issue of deal flow

Getting beyond comforting assumptions

NEW PARTNERS

NEW FINANCIAL MECHANISMS

NEW SKILL REQUIREMENTS

NEW AUTHORITIES?

NEXT STEPS

- VISUALIZE
- PUBLICIZE
- INCENTIVIZE
- CAPACITIZE
- ACTUALIZE

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></td>
<td>80%</td>
</tr>
<tr>
<td>Buildings/ land</td>
<td>77%</td>
<td>39%</td>
</tr>
<tr>
<td>Staff development</td>
<td></td>
<td>67%</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>53%</td>
<td>31%</td>
</tr>
<tr>
<td>Vehicles/ equipment</td>
<td></td>
<td>52%</td>
</tr>
</tbody>
</table>

Percent of organizations

IS YOUR FOUNDATION READY FOR THE NEW FRONTIERS OF PHILANTHROPY?

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amazon.com

oup.com