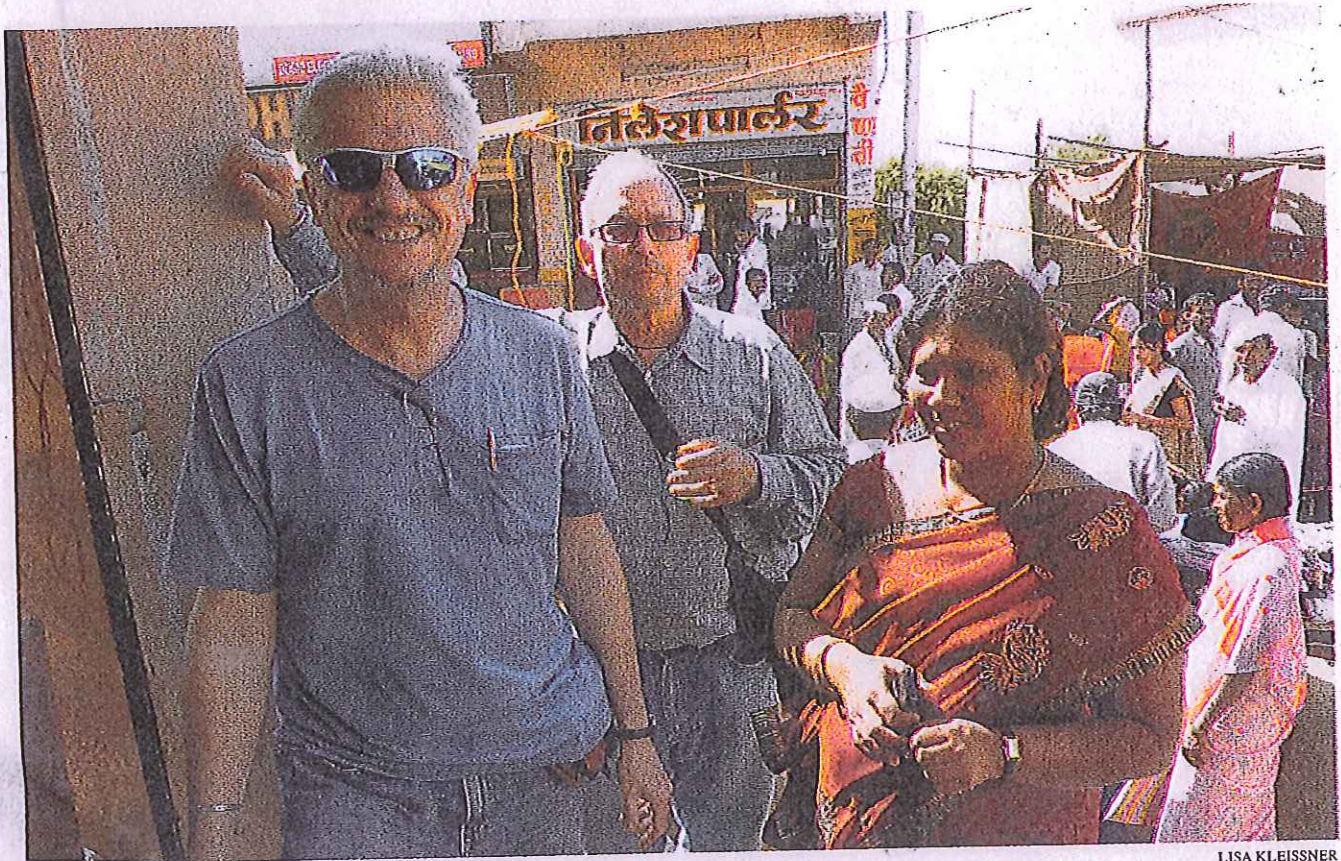


# THE CHRONICLE OF PHILANTHRO

The Newspaper of the Nonprofit World



LISA KLEISSNER

**Charly Kleissner (left), here visiting with a leader of the Indian microfinance group Mann Deshi, is among a growing number of people who look for investment opportunities that do social good.**



# THE CHRONICLE OF PHILANTHROPY

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### **A New Breed of Philanthropists Looks to Use Business and Investing to Solve Social Ills**

*By Nicole Wallace*

Not long after selling his wealth-management company, Ron Cordes started giving to organizations that make small loans to poor entrepreneurs in developing countries so they can start businesses. He traveled to Uganda and Central America to see his donations in action, meeting with borrowers and visiting the organizations that oversaw the loans. Over time, says Mr. Cordes, he started to realize that what he was seeing was an emerging business market.

As a donor "I would say, 'These are initiatives that really have an ability to move the dial and change the way that big problems are solved,' " says Mr. Cordes. "Putting on my second hat as an investor, I saw them as very legitimate investment opportunities."

That revelation changed the way Mr. Cordes and his wife, Marty, approach their philanthropy. While they still make traditional grants, roughly one quarter of their family foundation's assets are now invested in funds that advance social missions such as microfinance, fair trade, and education in Africa, which they measure just like any other investment in the foundation's portfolio.

Now Mr. Cordes has become a leader in the effort to promote investments designed to provide social benefits along with a financial return.

Donors have long urged nonprofit organizations to be more businesslike, but in recent years, a growing number of donors, like Mr. Cordes, have turned to for-profit businesses and investments as new tools for social change. Many of the philanthropists are entrepreneurs themselves; observers say they welcome the chance to put their business acumen to work for a social mission in a setting they understand.

#### **'Smarter Givers'**

Just a few years ago, donors who wanted to use business and investments to make a difference felt like they were on their own, but with the groundswell of interest in social enterprise, that is quickly changing. Investment advisers, who used to steer donors away from mission investments, are now scrambling to identify deals, and new networks are springing up to help donors interested

in social enterprise connect with one another.

For the most part, donors who have embraced business as a tool for social change look at it as a way to augment, rather than replace, their charitable giving, but they say it changes the way they look at their traditional gifts.

"We're smarter givers today," Mr. Cordes says, referring to himself and his wife. "Some in the nonprofit world would probably say that we're more challenging givers, because we're asking lots of questions about the sustainability of their organization and about their business model."

The number of donors who are investing in social enterprise is still relatively small, says Mark Kramer, managing director of FSG Social Impact Consultants, in Boston. But when donors look at doing good through an entrepreneurial lens, they focus a lot more on what organizations achieve.

"It poses a challenge to the larger nonprofit world because it creates a greater emphasis on results," Mr. Kramer says. "People are now looking for performance data about social impact that can parallel the performance data on the investment-return side, and that's a higher bar than most nonprofits are used to."

But even some supporters question the limits of business and investments as a force for change.

Stuart Davidson, a managing partner at Labrador Ventures, a venture-capital firm in Palo Alto, Calif., is a longtime supporter of the Acumen Fund, a nonprofit group that invests in businesses in developing countries that provide water, health care, housing, and other services to the poor. He also created a fellowship program that places recent MBA graduates in businesses run by San Francisco-area charities.

Entrepreneurial donors sometimes look at problems with "an exclusively private-sector perspective," which isn't a comprehensive view of the world, says Mr. Davidson. He says it's important for proponents of social enterprise to understand the different roles of business, nonprofits, and the government and to think about how they can collaborate.

"It's very important to do your homework and to not lose sight of the fact that there have been a lot of smart people working in what are often more complex situations than one typically finds in a business setting," he says. "To ignore that is to invite failure."

'The Sky's the Limit'

The idea of combining business and philanthropy was so unorthodox as recently as 2004 that when Pierre Omidyar, founder



of eBay, and his wife, Pam, folded their foundation into a new entity that operates both a philanthropic arm and a limited-liability company, they drew national attention. Since that time, the Omidyar Network has awarded \$217-million in grants and made \$166-million in for-profit investments.

“If you’re trying to make the world a better place, doing so by only focusing on tools in the nonprofit sector is like operating with one hand tied behind your back,” says Mr. Omidyar. The business world, he says, has shown that it has the ability to help large enterprises grow quickly and sustainably. To tackle big social problems, size is critical.

As an example, Mr. Omidyar points to the \$1.8-million investment the network made in Bridge International Academies, a company that operates a chain of low-cost primary schools in the slums of Kenya. With fees of less than \$4 a month, the private schools offer parents an affordable alternative to the country’s troubled public schools, he says.

Bridge International Academies operates as a franchise system and has 22 schools in its system so far, a number it expects to reach 100 by this time next year. The company plans to move into other sub-Saharan African countries and open 3,000 schools by 2018.

“When a nonprofit says, ‘Hey, we’re going to have 3,000 schools in seven years,’ it’s a lot harder to believe them, because they don’t have a sustainable economic model,” says Mr. Omidyar. “But when you see an organization go and they’re running 20 schools, and they’re making money on those schools, you think, ‘Wow, the sky’s the limit.’”

#### **Rigorous About Returns**

In 2009, the Rockefeller Foundation helped start the Global Impact Investing Network—or GIIN—to connect large, institutional investors that are interested in funds that combine financial return with social and environmental benefits.

Charly and Lisa Kleissner’s playful response: Toniic, a network for people who invest in fledgling mission-driven businesses and funds.

Members commit to making at least two investments annually, at least \$25,000 each, and agree to share the due diligence they do to check out deals. So far, the network has 23 members, and chapters hold monthly meetings in San Francisco and in Amsterdam.

Since 2000, the Kleissners have moved more than 70 percent of their foundation’s assets into social investments.

Ms. Kleissner says that Toniic members analyze the potential financial returns of investments they consider just as carefully as

they look at the potential social or environment benefits.

“The conversation cannot just be starry-eyed and focused on the social outcomes,” she says. “Otherwise it’s not going to be sustainable.”

#### Grant or Donation?

One member of Toniic, the Peery Foundation, in Palo Alto, Calif., makes grants to help develop a corps of people who are developing innovative ways to tackle tough problems. Such social entrepreneurs have a strong focus on measuring results and expanding their efforts to reach a large number of people. In some cases, but not all, their programs are designed to generate the revenue they need to be sustainable.

To test the waters in for-profit social enterprise, the Peery Foundation recently made a \$50,000 program-related investment to be paid over three years in E Health Point, a company whose chain of health clinics in rural India provide clean water, medical care, and pharmacies.

Dave Peery, who oversees his family’s philanthropy—the family’s wealth comes from commercial real estate—says that he looks at business as a tool for social change with “curious and cautious interest.”

But at the same time, he worries that donors aren’t always doing a good job determining when to make a grant and when to make a for-profit investment. He says that venture-minded donors have approached one of the foundation’s grantees and said, Well, you asked for a donation, but couldn’t we just make an investment?

“Organizations are feeling pressure to take on capital they’re not ready for,” says Mr. Peery. “Then, on the other hand, there are some groups that are probably ready to bring on that capital, but they’ll take the free money for as long as they can.”

#### Just Another Tool

Bonny Meyer says the qualities that she and her family look for in the charities they support are much the same as those of the social enterprises in which they invest. She and her late husband, Justin, founded a winery that is the source of the family’s wealth.

Through their family office, the Meyers have made grants to organizations like KickStart International, a charity that sells low-cost water pumps that help farmers in sub-Saharan Africa increase their yield. Roughly two-thirds of the family’s assets are invested in businesses or funds that have social or environmental benefits, such as a company that makes solar-powered chargers for hand-held electronics.

Above all else, charity officials need to be able to demonstrate the



results of their organizations' work when they're interacting with entrepreneurial donors, says Ms. Meyer.

"Really get clear about what you're trying to do, and then have some kind of way to find out if you're accomplishing it," she says.

As more young philanthropists start to think about making a difference, Mr. Omidyar predicts that it will become more and more common to think about for-profit social enterprise as just another tool for change.

"It may be as fundamental as this question of where do you start when you think about engaging in the world," he says. "Do you start with your strategy—what is it that you're trying to accomplish—first and then look at the tools? Or do you start with the tools you happen to have in your backpack, and then think about how to deploy them?"

### Entrepreneurial Donors: Tips on Keeping Them Happy

- Be clear about what the organization is trying to achieve.
- Measure the results of the group's work.
- Have a plan for expanding.
- Don't add a business venture just to impress donors. Stay true to the mission.

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