finding philanthropy's new sweet spot:

Powerful and Innovative Ideas for Grantmakers, Investors, and Nonprofits

ROCKEFELLER Philanthropy Advisors

STANFORD SOCIAL INNOVATION *review*

CENTER FOR SOCIAL INNOVATION • GRADUATE SCHOOL OF BUSINESS

acknowledgements

Rockefeller Philanthropy Advisors (RPA) and the *Stanford Social Innovation Review* (SSIR) wish to thank everyone who helped both in putting together the May 2006 symposium and this publication. We hope that you find this book to be a useful resource and one which offers some fresh thinking on how philanthropy can best effect social change.

The symposium was developed and produced by Doug Bauer, Dana Betterton and Melinda Tuan of RPA; and Perla Ni and Eric Nee of SSIR.

This book was edited by Donzelina Barroso, a consultant to RPA, and was designed by Reid Smith at art270. Editorial support was provided by Doug Bauer, Dana Betterton, Cynthia Kerr and Gage Weekes.

We would especially like to thank the contributors to this book—Kevin, Perla, Peter, Eric, Kristen, Benson, Charly, Melinda and Melissa—both for their thoughtful remarks at the May 2006 symposium, as well as their editorial assistance as we turned their presentations into this publication.

Finally, we'd like to extend special thanks to: Regina Ridley at SSIR; Vanessa Collins at REDF; Diahan Walker-Sealy at Environmental Defense; Rosaline Juan at SSIR; Yolanda Arias at RPA; and our over 200 colleagues from philanthropy and the nonprofit sector who attended the symposium.

Edited by Donzelina A. Barroso

This book is printed on paper made from 30% post-consumer content.

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This text is adapted from the transcript of "Finding Philanthropy's New Sweet Spot: Powerful and Innovative Ideas for Grantmakers, Investors, and Nonprofits," a public symposium convened and hosted by Rockefeller Philanthropy Advisors and the *Stanford Social Innovation Review* on May 16, 2006 at the Dahesh Museum in New York City.

Perla Ni, *Publisher*, The Stanford Social Innovation Review

When Rockefeller Philanthropy Advisors asked the *Stanford Social Innovation Review* to cosponsor an event focusing on the convergence of the business and nonprofit sectors and new market-based models for social impact, we jumped at the chance. Over the past few years, the Stanford Graduate School of Business, the *Review's* publisher, has witnessed a growing trend of young business school graduates being interested in market-based mechanisms through which they may make a social impact. In fact, one in three MBAs at the Stanford Graduate School of Business now elects to obtain a certificate in public and nonprofit management. This collaboration with Rockefeller Philanthropy Advisors could not be more timely.

Kevin Broderick, *Chair*, Rockefeller Philanthropy Advisors

Both the *Stanford Social Innovation Review* and Rockefeller Philanthropy Advisors build on traditions of excellence—the *Review* on that of Stanford University, and Rockefeller Philanthropy Advisors on the Rockefeller family's longstanding commitment to effective philanthropy. While both organizations are young, they are already making an impact—the *Review* on how we think about philanthropy, and Rockefeller Philanthropy Advisors on the practice of philanthropy itself. In 2005, we facilitated over $130 million in giving, in over 30 countries worldwide. Rockefeller Philanthropy Advisors, like the *Review*, is committed to creating thoughtful, effective philanthropy. This principle also extends to our partnerships and public programs, and this event and monograph are notable examples.

Issues and Innovations for 21st-Century Philanthropy

Peter Goldmark, *Director, Climate and Air Program*, Environmental Defense

fundamentals of philanthropy

I would like to comment on what Perla Ni said about increasing numbers of business school students pursuing certificates in public and nonprofit management. In order to really understand a society, it seems to me, one needs to look at what its young people are doing. Do you want to understand, for example, why France is in trouble? Look at its young people and where they are going for their first careers and their first opportunities. I find the fact that one-third of Stanford's MBA graduates show some interest in engagement in the nonprofit sector and in social change to be a sign of hope in a country that desperately needs one. My guess is that if this trend is occurring at Stanford, the same must be taking place at Harvard, Yale, and other schools around the country.

One of my life mentors was Paul Ylvisaker. He was one of the great deans of American philanthropy in the generation before mine. He had a very simple saying regarding philanthropy. He said, "Philanthropy is society's passing gear." If one wanted to boil the field of philanthropy down to one sentence, that would be it.

One of my life mentors was Paul Ylvisaker. He was one of the great deans of American philanthropy in the generation before mine. He had a very simple saying regarding philanthropy. He said, "Philanthropy is society's passing gear." If one wanted to boil the field of philanthropy down to one sentence, that would be it. One of the things we should ask ourselves about our work is, "If we cannot succeed in each of those things to which we aspire, are we at least using our passing gear?" Philanthropy—or society's passing gear—is the vehicle or set of tools by which we get to the leading edge to try to make change occur.

Let us pause on the word *change*. In business school seminars, where students pretend to run companies together, the stock question is, "What is your product?" In philanthropy, I would argue, our product is *change*. Generally speaking, people make grants because they believe some system or activity can be improved, not because they wish to keep things as they are.

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It follows that if our product is change, it is important to have a *theory of change*. A theory of change is a set of ideas about the mechanism by which the change is going to take place. Yet many people make grants without a theory of change. In fact, we understand relatively little about change in all forms of human endeavor. At the Rockefeller Foundation we used a simple triptych of three theories of change that I will share here.

The first theory is *research*: some situations change because something new is discovered or developed. Research and discovery comprise an approach to change that can help to alter a pattern or a system of behavior that you think can be improved.

The second theory is a *paradigm shift*, which occurs when a whole pattern of activity is catalyzed to rearrange itself. I would say that the shift, for instance, from horse-drawn vehicles to automobiles, was not a discovery or a research-driven change, because, after all, there had already been vehicles around for some 30 years. It was, however, a paradigm shift in that a whole set of factors, including fuel and energy, came together in such a way that the pattern of activity related to transportation changed, thus marking the end of one era and the beginning of another.

The third theory is one that we do not pay attention to often enough in the world of philanthropy: *going to scale*. I used to tell the staff at the Rockefeller Foundation to beware of the person who says, "Give me $50,000 and I can make an orchid grow in the Sahara Desert." They probably can, and they will come back to you and say, "Now give me $100,000 and I will make two orchids grow in the Sahara Desert." In the long run, that project is not relevant in terms of changing the human condition at scale. There are a very few interesting examples of taking something that works and driving it to scale. It is a tremendously worthy, exciting, and important activity. It is not, however, glamorous. One cannot get up and say, "Look what we discovered, look at our new idea." But it is one of the most important dimensions of philanthropy.

In the private sector, you have to win more often than you lose, otherwise you do not make a profit; you probably have to win between 70 and 80 percent of the time to make the venture worthwhile. In the public sector, you have to win only 51 percent of the time. That tiny margin determines winning and losing at the ballot box in our democratic system. But in philanthropy, you have to win only one out of five times, and sometimes less.

Winning ratios are another important topic in philanthropy. I am going to argue that one has to be on the leading edge in order to make a difference—in other words, you have to be going fast to even contemplate passing the car in front of you. Let me remind you of the rule of ratios in the philanthropic versus other sectors. In the private sector, you have to win more often than you lose, otherwise you do not make a profit; you probably have to win between 70 and 80 percent of the time to make the venture worthwhile. In the public sector, you have to win only 51 percent of the time. That tiny margin determines winning and losing at the ballot box in our democratic system. But in philanthropy, you have to win only one out of five times, and sometimes less. You have only to achieve breakthrough, to create real traction, and to see things begin to change just one-fifth of the time. If you look at the grants you have been involved with and if one out of five attained the very tough goal you had set, while the others did no harm but fell short of that mark, you should be very happy. One out of five can be considered a success because the value of that one can be so great in a world where we do not understand change well, where we do not understand all the factors and forces at play, and in which we aim so high. I would suggest, in our philanthropic work, that we remember that ratio.

Your product is change, and neither you nor the grantee can foresee the road ahead. And, therefore, the navigational ability, the toughness, and the resilience of the grantee are critical.

Let me mention some other important basics of philanthropy that should not be overlooked. Nothing excuses us from the responsibility of *choosing good people and good grantees*. Most grant givers do not do enough work on who it is they select as grantees. Why is this important? Because no matter how specific the application, no matter how smart you are, you are climbing a mountain that has never been climbed. Your product is change, and neither you nor the grantee can foresee the road ahead. And, therefore, the navigational ability, the toughness, and the resilience of the grantee are critical. What you want to know is how they handle that sudden curve in the road. Also, nothing excuses us from doing *due diligence*. Who you give money to is more important in the long run than what was written on the application form.

critical issues

Jared Diamond's *Collapse: How Societies Choose to Fail or Succeed*, is a fascinating account of a number of civilizations, half of which collapsed and half of which survived great challenge. The author tries to understand why that occurred, and he finds two common traits among those that collapsed. First, they failed to anticipate adverse trends, and second, they all let their natural resource cycles get out of control. That is why I feel that part of our job as philanthropists is to search out and understand future trends in order to redirect the dangerous ones.

For the first time in human history, those future trends and how we react to them will define the fate of our children's lives and that of our civilization. This was not the case as recently as 50 years ago. Until then, the human adventure could make mistakes, lurch from one continent to another, put people in ships, work them as slaves, attack the people next door if there was not enough food, and then attack the next people next door if we simply thought our way of life should govern rather than theirs. This is no longer true. We face ultimata. That is your and my moment in history, and the actions we take in the philanthropic sector will determine, in part, whether we become a civilization that succeeds or one that fails.

My list of critical issues for our time would

include *climate change*. I believe it is one of two major challenges we face—the second being weapons of mass destruction used by either terrorists or rogue nations. Climate change is terribly frustrating to work on because it occurs slowly, but it is fundamental and it has an enormous lead time. We are probably five to ten years away from locking in an irreversible process in climate change that will lead to catastrophic results. And yet, it does not feel like this is the case as we go about our daily lives. Climate change is not always visible to the naked eye. Addressing this issue, therefore, is a supreme test of the imagination.

Let me tell you what the 2005 news report on climate change would say if I were a newscaster. 2005 was not a kind year for the climate. It was the hottest year on record, supplanting 1998. In the next five to seven years, we will have another year that will supplant 2005. There will be more intense storms and hurricanes than usual. While we cannot point to a single storm and say that it was caused by global warming, the pattern of more intense storms is, in fact, caused by global warming. Where does all the heat from global warming go? Most of it goes into the ocean, and even a one-degree increase in the ocean's temperature will produce a logarithmic increase in the intensity of storms.

The polar ice cap melted more during the summer of 2005 than it ever has before, and it did not rebound during the winter as it normally has. This is part of a vicious cycle: ice reflects sunlight and bounces it back toward the ocean; the blue-black ocean absorbs heat, raising the water's temperature and causing more ice to melt. This is considered a positive feedback, in that the components of the cycle reinforce each other.

A brief word on the Thermohaline Function. Think of the oceans' currents as blood flowing through the human body. The "heart" of this life force pulses and drives currents all over the globe. That heart, the thermohaline conveyer system, is located in the North Atlantic Ocean, between Greenland and Iceland. The heart is formed by a confluence of cold, salty water, which, heavier than warm, fresh water, plummets to the bottom and then moves south through narrow underwater valleys between subsurface mountains. The danger is that interference with this function, from fresh meltwater from Greenland's glaciers and others, could slow or stop the Gulf Stream, which consists of warm water pulled north by the deeper, southward-moving water pushed by the heart. One scientific study recently posited a 30 percent impairment of this Thermohaline Function. I do not want you to think this is going to happen imminently, but it is not a good sign for our future.

The last issue I will describe in this forecast is global warming. What was most critical in 2005 was what we learned about the Greenland ice sheet. Scientists discovered that the Greenland ice sheet is moving into the sea much faster than was anticipated, which indicates that it may be reacting to warming temperatures more quickly than was originally thought. The water from the melted ice burrows through to the bottom through tunnels called moulins. When the flow of water reaches the bottom, it lubricates the ice, making it slippery, and causing movement. There are now places in Greenland where the ice sheet is moving seven or eight kilometers per year. In glacial terms, that is very fast.

I mention climate change because it is the topic on which I work, but also because it is an example of a global issue. It is also emblematic of the type of challenge we now face—that of a systemic disturbance partially caused by our behavior. There will be other examples down the road. Dealing with the consequences of our patterns and discoveries is going to be a full-time endeavor from here on. I also mention climate change because I believe it is a subject that even a small foundation or small philanthropy can find useful ways to address.

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Other topics on my list of critical issues include oceans, linkages and understanding between the Muslim world and the west, and opportunity for development in the world's poorest countries. In the United States, my number one critical issue would be public education. We are still struggling to find the right ways to turn that system around, despite much work thus far.

tools for innovative philanthropy

Traditionally, philanthropy has used the tool of the grant and fellowship. These are good tools, but I think, increasingly, the power of markets dictates that we must add additional tools to our list. For the past

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couple of decades, we have also used a tool called the *PRI*, or *program related investment*. It is a very powerful and useful tool. But looking forward, there are other ways that philanthropies can move markets. Part of our job will involve harnessing or influencing these markets, as well as continuing the traditional ways of giving money directly to nonprofits, or to universities, if your theory of change is research and discovery.

Let me suggest some ideas for new tools in philanthropy. The first would be to *set aside a fixed percentage of an organization's capital endowment*—10 percent for this illustration—for investment in businesses working toward that donor's field of interest. This is most applicable in the environmental and sustainable development areas, because we are essentially in the middle of changing our economic model from one of reliance on vast free natural resources, to one that internalizes the cost of those resources. The idea is to set aside a fixed percentage to invest in sustainable development projects, related businesses or, more generally, in private sector enterprises and initiatives with which the donor shares common goals and interests.

You can invite fund managers and investment banks to bid on this investment strategy if you wish. Why not generate a little competition? Just as with asset classes, you are going to need a manager or an intermediary—you do not have to do this on your own. Many people do try to do it themselves and feel it is too complicated, or get burned in the process. You should seek out a professional asset manager who will

manage investments aimed at a specific programmatic subject. These opportunities now exist in the world of venture capital.

The world of clean energy for the poor, for example, is an area where this idea already exists. There are 1.6 billion poor people in the world living without electricity. They are going to get it one way or another—is it going to be clean or is it going to be dirty? The process of developing market-based energy companies that will serve their needs is something that will change markets, and change the patterns of generation and distribution of electricity around the world. We in philanthropy can influence the markets by finding viable innovations, and we can do this with information, or through legal action.

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A second idea is to *build a consortium* with others of like mind. I believe the key here is to have a very tightly-focused objective. For example, it will not work to say, "We are going to have a consortium on human rights." That topic is too broad and you will spend your time discussing definitions of human rights. Let me share an example of a focused objective from the sustainable development field: the objective would be to get five start-up companies in the field of carbon capture and sequestration up and running. Those five will be firms that develop and sell the technology of how to capture CO_2 from a coal plant and sequester it safely underground—something which is very near the commercial availability that we are going to have to develop. If you wish to work on a difficult topic, such as weapons of mass destruction, your tightly-defined objective could be to get human rights organizations to include spreading weapons of mass destruction in their definition of a human rights violation.

When you have such an objective, you can put together a small consortium and use either your operating capital, or you can pool your 10 percents that have been put aside for this purpose. This can be a very powerful recipe. It may take time to build, but once developed, these consortia are very effective. The consortia also generate more publicity, more visibility, and more scale than groups who work individually. In order for the consortia to work, you must pick your partners wisely. Each member must be committed to the established goals.

A third idea is to develop *company challenges*. A company challenge is a partnership with a private sector company in which the philanthropic entity finances a particular activity for the company. For example, Environmental Defense, where I work, approached Federal Express and suggested to them that we help them convert their fleet of trucks to hybrid vehicles. If you look around, you will see some trucks with a new blue and green logo. These new trucks emit fewer conventional pollutants and are more gas efficient. Within a few years, Federal Express will be spending less money on the new fleet than on the current one.

As funders, we did have one condition for the project—that every employee in the company be told about it. Any such endeavor has to be something that

the whole staff can watch and can take pride in when it is accomplished. What is really happening through this process is ally-building, the institutionalization of change, and making sure all the stakeholders in the company see you. The staff of such a company is a very valuable, highly-leveraged group.

The fourth idea is the use of *human capital*—via the traditional fellowships—to influence markets. To my knowledge, this is something that has not yet been attempted, but that I would like to see happen. I suggest you pick five of Wall Street's top performers—the real Titans of the field. You could then see if any of them would like to take time off to think about what really matters in the world. There are dozens of qualified individuals out there, and your organization or foundation could subsidize a sabbatical for them. The beauty of this idea is that even a relatively modest foundation can afford to provide a six-month sabbatical for an influential person. Those six months will be structured with a course of study in some of the earth's major problems. The individual will have a chance to read and to talk with leading experts in the field. All that is required of the candidates is that they be serious students, so that when they return to Wall Street, they take the knowledge and consciousness of the problems with them.

Let me tell you why, despite the problems I have talked about and despite our particular moment in history, I am an optimist and not a pessimist. The difference, as one old wag said, between the optimist and the pessimist is that the optimist thinks we live in

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the best of all possible worlds, while the pessimist is worried that the optimist is right. I live in hope because as a matter of mental health and as a psychological stance, it is far preferable to living in cynicism. In order to survive in philanthropy you have to be slightly schizophrenic. I say this because with the rational mind we have to be realistic, to see the tough problems and the destructive forces. But we have to believe, simultaneously, that we can make a difference. Those two perspectives jar in our minds and hearts, but we cannot let go of either side. That is the tension involved in being a philanthropist.

Let me illustrate my hope by referring to two events that occurred in 1989. If I had come to you in 1988 and said that one year later the Berlin Wall would fall, that the former Soviet satellites would work their way to freedom, that not one shot would be fired, and that one year later Apartheid would crumble, again, with no bloodshed, would you have believed me?

I would like to end with one of my favorite poems by the Chinese poet Lu Xun:

Hope is like a path in the countryside.
At first, there was no path.
Then, as people all the time were coming and
walking in the same way, a path appears.

Q&A

Q: Your speech to the Council on Foundations in 1997, the year you left the Rockefeller Foundation and philanthropy, stands as the benchmark for speeches on the field of philanthropy. My question involves another one of your legacies—the question of a theory of change. I am not sure you realize the legacy you have left to philanthropy. Almost every organized philanthropy is now obsessed with the question of a theory of change. But instead of a set of ideas, it has become a tool, a mechanism. People have taken the concept and made it more about diagrams and drawing arrows from one box to another. I wonder whether you have any sense of how we might return to your original ideas about the theory of change? My second question has to do with the global issues you discussed. How do we get philanthropies to operate in a global society? Many of us still think and fund locally, whereas the pressing issues you developed are international.

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PG: Regarding a return to the basics of theories of change, I am tempted to give a very simple answer. You may find it too simple. My feeling is that a theory of change is not much good unless a grantee owns it. Therefore, I would make sure there is extended conversation with grantees. In some cases, the exercise of asking intelligent questions and accepting whatever theory of change is offered can be enlightening. I guess I am saying that the mechanisms by which this theory is enacted be spelled out in an ongoing dialogue with grantees.

With regard to your second question, I believe that a group of four or five intelligent people, made up of staff from various organizations, could take on the assignment of contemplating a simple set of questions and suggestions. These could be tested on foundations that fund only local initiatives. The important issue here is not to get those groups involved with weapons of mass destruction, for instance, but to help them think through the international dimension of their own work. Everything *is* connected, and the exercise I am describing, and which I have not yet fully thought through, could be a way to see how interconnected we truly are. I think it could be very powerful for a group working in Cleveland, for example, to understand how their work connects to the way a poor family elsewhere in the world receives their electricity.

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Q: It seems to me that the single most difficult challenge we all have is getting information out to the public. We can have wonderful ideas about change, and we each have our own mission. But for those topics that are not glossy, how do we get information out there, when often we cannot interest the media in our work?

PG: There is no easy response to that. The problem you describe is not unique. The information world is enormously congested. My caution is to be careful of the conventional wisdom of five or ten years ago, that you must change your message and think of ideas that will put you on the map. It is too crowded out there. But here is an idea: figure out how to involve a small number of young people in your cause. Young people travel with higher fidelity and higher velocity than the rest of us.

Q: I am very struck by your idea of taking something that we think works in the nonprofit sector and driving it to scale. Do you see a relationship between that comment and a recent statistic that three out of four chief executive officers in the nonprofit sector are burning out and leaving the field? One of the things that they talk about is just how hard it is to sell an idea, and to raise money to advance an idea or project they know works, but is no longer the new kid on the block.

PG: I think you have made a very perceptive comment. The nonprofit sector is one of the most challenging sectors on this planet. For example, we have talked for years but have still not put together a sector-wide pension and health plan. Is it doable? Yes. Do we have burn out? Yes. My quick observation is that some people do not stay long enough and some stay too long—just like the private sector.

Q: I would like to challenge your comment, which I might call a cop-out, that there is not much we can do about communications in this world of information overload. I think the challenge for those of us within the philanthropic sector is to be ahead of the curve in communications strategy, just as you have challenged us to be on the programmatic side. Adaptability is just as critical in communications initiatives as it is programmatically. Might I suggest, for example, that you reenter your conversations with Federal Express, and ask them to include a message on the back of their trucks explaining the new initiative to the public. They could place a sticker on each truck that reads, "This is a hybrid vehicle saving fuel and making the environment healthier."

PG: Ladies and gentleman, this is dialog at work. These comments are more useful and more insightful than anything I said. Thank you.

Powerful New Ideas and Possibilities

Kristen Burns, *President*, REDF

Benson P. Lee, *President and CEO*, Technology Management, Inc.; *Director*, The Cleveland Foundation

Charly Kleissner, Ph.D., *Co-Founder*, KL Felicitas Foundation

Eric Nee, *Managing Editor*, the *Stanford Social Innovation Review*

E*ric Nee:* There are three concepts that Peter Goldmark discussed that I find particularly relevant to our panel. The first is the notion of change, and the idea that the product of philanthropy is change. The second is that we only need to succeed one out of five times in philanthropy—in other words, that we should take risks. The third is the number of tools that philanthropy can use to impact and move markets, which is precisely what each of our panelists have been involved with. Peter also talked about the need to be concrete. In this panel, we will examine closely three examples of social enterprises that are using markets to impact change. These organizations are quite different from one another, but all share that social enterprise approach.

coupling a for-profit business model with innovation in youth development

Kristen Burns: I would like to start by introducing you to Ted. Ted was 22 years old and living in a homeless hotel in San Francisco when we met him. He attended high school through 10th grade and then completed his graduate equivalency diploma. He had virtually no family support or involvement at this stage in his life, zero income in the six months before we met him, prior convictions for nonviolent crimes, and was recovering from a methamphetamine addiction. He also had numerous mental health diagnoses and was on four different medications as treatment. Clearly, the odds were stacked against him. Sadly, he is not unique, nor are the challenges he faced. In the San Francisco Bay Area alone, more than 200,000 people are homeless every year. Many are youth or young adults like Ted. The good news is that today there are many individuals and organizations interested in helping Ted and others like him to find stability and hope in their lives.

In San Francisco, we have nonprofit organizations and foundations which for many years have been in the business of achieving social change, and now we also have investors and social entrepreneurs interested in applying a social mission to the business ideas and approaches that are at the core of their work. Their financial goals are, of course, still present, but they are paired with and complemented by the desire to make a social difference. The challenge that accompanies that good news is how to put all of these puzzle pieces together in order to make the most of each kind of resource while accommodating what makes each one different. This is the concept of the philanthropic sweet spot.

In the for-profit capital market, there is a wide array of well understood resources and investment strategies available. Whether it be seed funding, mezzanine funding, turn arounds, or public capital markets, people know what interests different investors and where to go, depending on their needs. The question to ask here is whether the same could be true for philanthropic investors? For each philanthropic investor there is a different set of goals, and a different set of capabilities. Some choose to invest in seed capital for social entrepreneurs with nothing more than a good idea. Others invest in well-established organizations with a long history and proven track record.

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In the philanthropic sector you also have other spectrums by which organizations must define themselves. How do they balance financial versus social goals? Are they expecting to make grants to nonprofits? Or do they desire an equity model? Or something in between? Are they interested in early stage ventures, and providing planning support as things get going? Or do they wish to provide capital when things are a little more established? Finally, what do they bring to the table? Are they experts in the social mission, experts in the business side of things, or are they really bringing together both sides of that equation?

The challenge for the philanthropic community is to identify, articulate and develop each of our own philanthropic sweet spots so that we can be clear in our communications to grantees and investees about what we bring to the table. Clear communication will allow for a better knowledge of where to go for support and resources. In the end, we will have a broader and more well understood spectrum of resources available to social ventures.

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I would like to describe the creation of Evergreen Lodge. Evergreen Lodge is a hotel just outside of Yosemite National Park. It is a family-oriented resort with 70 cabins, recreational programs, and a youth development program for 15–20 youth per year that includes employment at the Lodge. The youth development program includes the social supports necessary for ensuring the success of its residents. What is interesting about it, for the purposes of this conversation, is the way that a number of philanthropic investors, each with their own sweet spot and limitations, came together in a complementary way to create what is now a very successful social venture model.

REDF, where I serve as president, is a venture philanthropy organization in the San Francisco Bay Area founded in 1997 that focuses on targeting poverty. REDF supports nonprofits running social enterprises that employ people with barriers to employment. These include people who have been homeless, people who are in recovery, people who have come out of the criminal justice system, people with mental health issues, and sometimes all of the above. We have worked with 35 different enterprises

since our founding. Currently, we have five nonprofits with about a dozen businesses in our portfolio. Cumulatively, we have worked with enterprises that have employed more than 3,000 people.

Through our social measurement practices, we know that there are meaningful changes happening in the lives of those people who have secured employment through our grantees. Their income typically triples in the two years following their hire. They reduce their reliance on public support and emergency social services, and generally become much more stable in their housing and their lives in general.

REDF provides a variety of types of support to its grantees, including general operating support and financial resources in other creative ways as needs arise. In the case of Evergreen Lodge, REDF provided collateral for a line of credit and capacity-building support to Juma Ventures. In addition to funding, we provide capacity building assistance to strengthen the nonprofit and the enterprise that it runs by developing the leadership team. Capacity building enables the grantee to create financial systems that are robust and sound, and helps them think about how to measure their outcomes, their theory of change, and how that theory is working as time passes.

In 1998, REDF created a partnership with the Phalarope Foundation, a San Francisco Bay Area family foundation, to add the Farber Internship and Fellows Program to the array of resources already available to our grantees. These internships and fellowships are designed for MBA students and alumni to bring their business backgrounds to the social enterprises in our portfolio. Farber Internships are typically held by students between their first and second year of business school, and last a summer. Farber Fellowships last for one year, and are typically held by people who have been out of business school for a few years and have more professional experience under their belt. To date, REDF and the Phalarope Foundation have placed over 75 interns and fellows in the REDF portfolio. Many have gone on to develop their own ventures in the social enterprise arena afterward.

In the case of Evergreen Lodge, REDF and the Phalarope Foundation supported Juma Ventures, a nonprofit based in San Francisco that works with at-risk youth. Juma Ventures has operated a number of businesses, including three Ben & Jerry's scoop shops and concession operations at three major Bay Area sports stadiums. These enterprises employ at-risk youth from San Francisco. In tandem with the job, Juma Ventures also provides youth social services and social supports to make sure that they have the best chance for success. These support systems include case management, access to financial literacy courses, and access to other resources outside of Juma Ventures as needed.

Evergreen Lodge is really the story of two Farber Fellows—Lee and Brian—who started working at Juma Ventures in 2000. Each of them had extensive for-profit experience, including entrepreneurial activity in the restaurant and hotel business. They were

interested in carving out some time and space to brainstorm the next idea for a double bottom line venture that would serve at-risk youth. REDF and Phalarope thought it was a great opportunity to create protected time through the Farber fellowship program, inside the structure of Juma Ventures, which had great expertise in youth development. This allowed our two fellows to dream up the next big idea in working with at-risk youth in a social enterprise setting.

Some of the lessons that both REDF and Juma learned through our experiences with other social enterprises appear to have been invaluable for shaping our fellows' ideas. For instance, REDF and Juma Ventures had learned that in order to create an enterprise that could financially sustain a social program like the youth development program, the plan needed to include a business with sufficient margin and sufficient potential for scale to bear those additional costs.

Lee and Brian's idea was to structure Evergreen Lodge as a for-profit organization. In 2001, they purchased the historic lodge, built in 1921, just outside of Yosemite National Park in California. Extensive renovations were needed. They expanded and modernized the lodge in 2003, and reopened in 2004. The youth development program revolves around jobs, social support, and access to recreational opportunities that urban youth from San Francisco do not have readily at their fingertips. As the youth live on the property, the experience of living in a healthy community is also an important component of the program. Evergreen Lodge accepts youth along a range of "at-riskness," or social need. Ted, who we saw earlier, was at the riskier end of the spectrum.

What is especially interesting about this story is the financing structure that was put in place for the Lodge. Our fellows needed some ten million dollars to finance the purchase and expansion of the facility. They obtained two-thirds of that through debt—through a commercial loan that was backed by a United States Department of Agriculture (USDA) loan guarantee program targeting rural development. The remaining one-third came from equity investors.

Lee and Brian targeted investors they thought would appreciate both the financial potential and the social mission of this venture. With REDF's help they approached REDF's original funder, George Roberts, a partner at KKR, one of the world's largest and most successful private equity firms. He became their first investor through the Roberts Foundation. He structured his support as a PRI—a program related investment—from his foundation, and put in $150,000 for seed capital, followed by $350,000 for the expansion.

George Roberts' funding was valuable, but equally valuable was his lead role. Roberts' participation inspired other investors to come to the table. For instance, Pacific Community Ventures came in with $750,000 for the mezzanine stage. They are now Evergreen's largest investor. A number of individuals came to the table as well, investing anywhere from $10,000 and up. These investors were interested in finding a way to blend their financial and social goals. The equity investors receive a preferred return of nine percent as well as a share of the cash flows on the business. Sixty-five percent of the cash flows go back to the equity holders. Lee and Brian intend to eventually refinance the debt that they obtained, increase it based on the cash flows of the business as it continues to grow, and return the capital to their equity investors while still allowing those investors to retain ownership and access to 65 percent of the cash flows.

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The investors are making a one-time investment in exchange for an annuity return on the financial side, in addition to the annuity social return of investing in a venture that includes a significant youth development component. That is the unique twist that has allowed a number of different kinds of people with different goals to see a common ground in this investment model.

Evergreen Lodge is located in a beautiful setting. It has been quite successful financially and was recently recognized in *Frommer's Travel Guides* as a "Frommer's Favorite." Lee and Brian have had over 90 percent occupancy throughout their peak season, and revenues of about $4 million. To give you a sense of the growth they have experienced, in the year prior to their purchase of this property, revenues were only $500,000. Evergreen is on track to provide a 15 percent return to their investors. They are making their first payout of deferred dividends of $300,000 to investors this year. On the social side, of course, they have developed the youth program that has supported about 50 youth since its inception.

Some have wondered how we have made sure the social mission will remain central to Evergreen Lodge's philosophy as time passes. The governance structure is set up such that one board seat is allocated to Juma Ventures, the nonprofit that incubated this idea. Evergreen Lodge has also brought on other board members who have a vested interest in the social mission. The youth development program cannot be terminated without the approval of that youth development board position held by Juma Ventures. So that virtually assures the social mission will remain a key part of the model.

Just as different types of investments work for different type of investors, this model works for some youth, but not for others. Evergreen Lodge serves a spectrum of youth along a range of risk. But even Lee and Brian acknowledge that not all of Juma Venture's youth, or even all needy youth in the Bay Area, are ready for this kind of experience. So Evergreen Lodge does not replace the need for nonprofit organizations that will no doubt always need some grant funding. Yet, it does create an exciting and collaborative model for serving certain youth. This model has worked extremely well for Ted, the young man I mentioned earlier.

Once the youth complete the program, they successfully transition back into the community through employment in situations that allow them to

become more financially self-sufficient and stable. Ultimately this means that investors who came to the table for financial returns are feeling good about the way things have progressed, both socially and financially.

Ted spent a full year at Evergreen, and still keeps in touch with the staff. Within a year of leaving the Lodge, he had quit smoking, stopped drinking, joined a health club, and began taking care of himself. He got married and started working at the Excalibur Hotel and Casino in Las Vegas as a chef. In that position, he was cooking crème brûlée tableside, something I am sure he never imagined he could do when we met him. At the Excalibur he was making $15.35 per hour plus benefits as a member of the culinary union. Very recently, we received an update from Ted's wife that they have moved to Lincoln City, Oregon, where he accepted a position with another casino as the assistant to the head chef. The head chef later resigned, so Ted was under consideration for that position. He has come a long way and his story is an example of the power that this model has to change lives.

What does this mean for us? Different philanthropic investors have different sweet spots. All of those entities at the table with REDF and Juma Ventures had very different goals and structures. REDF, for instance, was not in a position to be an equity investor in the Lodge, but was able to support Juma Ventures along the way, and to make it a strong and healthy place for this new idea to take root and

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grow. REDF was also a partner with the Phalarope Foundation to create the Farber Fellowships that gave Lee and Brian the space to develop this idea.

There were also equity investors who came in with their own financial and social goals. All of it really gelled in this one model, around the common goal of creating a social enterprise that had both a financial and a social component. When each philanthropic investor is able to specify goals and expectations, it creates a richer array of resources for those in the social venture field to access. Even more powerful is when those who fall at different places along that spectrum come together and collaborate in a creative way around a common goal. That is the real power of this model, since none of us can be all things to all social ventures. Lee and Brian are in the process of looking for their second property, so they are eager to talk with anybody who might be one of these next investors.

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Q&A

Q: You described that there is one board seat for Juma Ventures. Could you describe the board a bit more? How large it is, and who holds the other seats?

Melinda Tuan: As the co-founder of REDF, I have been involved in Evergreen Lodge from the very early stages. There are six board members, one of which is Juma Ventures, whose veto power ensures the social mission's permanence. I represent George Roberts as the PRI investor on the board. There are four other board members, one of which is Pacific Community Ventures, one of the largest equity holders. The remaining three members have expertise in real estate, lodging, resort running, and the restaurant business.

Q: Is the funding for the youth development program embodied within the financial model of the for-profit?

KB: Yes, it is all one entity and is part of the same financial picture.

Q: How are you measuring and tracking the success of the 50 youth who have gone through the program?

KB: Lee and Brian have a deep interest in measurement. They have looked at ways to be more systematic, but right now, the total number of people is too small to be able to draw sound statistical conclusions. At this point they have opted for staying in touch on a more casual and anecdotal basis. As the pool of youth involved grows, they are committed to looking at ways to measure outcomes.

Q: Did I hear you say that the government played an important role early on in the guaranteeing of the loan? If so, what were the tools that you used to encourage government to understand the opportunity for change?

KB: The government had an existing loan guarantee program for rural development through the United States Department of Agriculture (USDA). Lee and Brian were able to access that loan as owners of a small business located in a rural community. It was a stroke of luck that this fortuitous opportunity existed. I do not think that they had to do a lot of convincing of the USDA. But, that said, the government is not typically considered a partner in ventures such as this.

fuel cells, a for-profit business solution solving public problems: unlikely partners?

Benson Lee: This has been a 40-year journey that started in the 1960s, when I was an undergraduate at Cornell University, surrounded by what was then called, "The Social Responsibility Ethos." After almost a decade in the corporate world of product development with IBM and then Westinghouse, I left to become an entrepreneur. Since then, I have started or run several technology companies culminating in 1990, when I started Technology Management, Inc. (TMI). In the 16 years since, I have been totally committed to the commercialization of our solid oxide fuel cell system.

I have also learned much about the grantmaker side of philanthropy, serving on both the investment and distribution committees of The Cleveland Foundation. I also understand the challenges of grantseeking through years of service on numerous nonprofit boards, large and small, including Cornell University.

Today, my goal is to share a vision using my own company—Technology Management, Inc. (TMI) —as an example describing how a business can provide "private solutions to public problems," and do so while maximizing shareholder value, the basic mission of a for-profit business.

From the foundation side, you could look at this vision as an illustration of how foundations and socially engaged non-governmental organizations can actually leverage the mission of a for-profit business to further their own missions of serving society.

Central to our vision is a technology—in this case, fuel cells—a device which converts ordinary fuels into electricity. The clean, unwavering, on-site power from this remarkable technology could address a number of the world's most basic problems. For the next few minutes, I would like you to forget about fuel cells as you have read about them in the common press for use in automobiles or for laptops. Instead, visualize them as about the size of an orange crate or a third the size of a typical home water heater, which sits on a concrete pad next to your home, farm or village hut. Our current one-kilowatt system, which is running in Cleveland as we speak, is about this size and weighs between 50 and 60 pounds. One kilowatt is enough to power your home, or an entire Third World village in Bangladesh. One kilowatt is also enough to purify water, or pump water from wells or rivers for cooking, irrigation, or for sanitation. World Health

Our current one-kilowatt system, which is running in Cleveland as we speak, weighs between 50 and 60 pounds. One kilowatt is enough to power your home, or an entire Third World village in Bangladesh.

Organization data indicate that annually, diarrhea from unsafe water and poor sanitation causes nearly two million deaths, mostly among children under the age of five. While there is nothing that the world of medicine can do to solve this problem, you should note that engineers and technologists, working with the world of philanthropy, can and are solving the problems of water quality which cause these needless deaths.

As a technologist, I can see how electricity from fuel cells can "enable" solutions to poor health and other root causes of poverty. As a grantmaker, I can imagine ways to convene partnerships which integrate the programmatic resources of foundations, non-governmental organizations, and even governments, to focus on electric infrastructure.

As a technologist, I can see how electricity from fuel cells can "enable" solutions to poor health and other root causes of poverty.

As a grantmaker, I can imagine ways to convene partnerships which integrate the programmatic resources of foundations, non-governmental organizations, and even governments, to focus on electric infrastructure. This would not only support day-to-day missions, but could catalyze long term, sustained economic development.

Finally, as a businessman, I can see how potentially a large number of systems shipped to developing countries could build my company. We could actually do better for our shareholders by doing good, with no compromise to our mission of maximizing shareholder value!

For those not familiar with fuel cells, think of a clean, quiet chemical process which converts fuel into electricity with heat as a byproduct. Compare this to traditional coal or gas-fired power plants which use a combustion process that pollutes. Fuel cell systems are at least twice

as efficient as conventional systems, and they do not pollute.

NASA, the National Aeronautics and Space Administration, first used fuel cells in space in the 1960s. Since then, our industry has labored hard to engineer complete systems that are both efficient and affordable, without compromising NASA standards of dependability.

One mobile application, for example, could be parachuting our systems in to support disaster relief teams, after an earthquake or a storm such as Katrina.

Today, there are some 2,000 documented fuel cell demonstrations around the world.

TMI can claim several of those demonstrations. We are among a handful of companies in the world who have demonstrated multiple systems running in parallel. This allows them to be used as "energy building blocks," for stationary and mobile applications. One mobile application, for example, could be parachuting our systems in to support disaster relief teams, after an earthquake or a storm such as Katrina.

Our technology originated in the research labs of Standard Oil of Ohio. We acquired the technology program and the technologists who invented it in 1990. Now, with several hundred man-years invested, we have become the David among several Goliaths in this worldwide industry.

It has been a long 16-year journey to engineer a single fuel cell into a complete system. Today, as we round the final turn, we are about three-to-five years from shipping product. We will use this time to make sure our systems are bulletproof, like a medical device, by subjecting them to brutal field testing.

Building on Peter Goldmark's remarks, this situation, we believe, presents a *one-time opportunity* in fast-developing countries like China and India to introduce clean, distributed generation as an on-site alternative to the grid; bypass the path to dependency on foreign oil; head-off consumption of fossil fuels by expanding the use of renewable biomass as an alternative energy source; and using all of the above together, position the Third World to lead the way in greenhouse gas reduction.

Simultaneously, we are working with manufacturing partners to prepare for low-cost volume production.

During this time, we will be trying to shrink the size of our systems and put out more power than one kilowatt in a smaller and lighter package. Right now, our field test system weighs about 50-60 pounds. It operates on ordinary fuels, including natural gas, propane, and kerosene, as well as renewable fuels like ethanol, and even vegetable oil. For countries like India and China, we have shown our systems can operate on digester biogas. This comes from rotting organic matter, such as animal, human, or food waste.

Finally, our systems are extremely easy to use. In the Third World and First World as well, experience has shown that the best modern technology will fail if the complexity of use or maintenance is beyond the technical skills of the end user or local workforce. So we designed our systems to be maintained by one person without the need for special tools or equipment. When more power is needed, simply add more systems. When service is needed, just swap out the system.

Our target price for a one kilowatt system is less than $500, but getting to that point requires large volumes and capital. The fastest way to get the volume we need is from markets where our corporate partners are already established. Today, those markets are only in the First World.

A core advantage of fuel cells is their independence from the utility grid. This means we can generate electricity on-site, as long as we have fuel. It also means our best potential markets are in areas remote from the grid.

Nowhere is this more true than in the Third World, where isolated rural communities have not been electrified because of low population density, difficult terrain, and/or high rates of poverty. It is actually fortuitous for us that the economics of large-scale power generation cannot be easily financially justified.

Building on Peter Goldmark's remarks, this situation, we believe, presents a *one-time opportunity* in fast-developing countries like China and India to introduce clean, distributed generation as an on-site alternative to the grid; bypass the path to dependency on foreign oil; head-off consumption of fossil fuels by expanding the use of renewable biomass as an alternative energy source; and using all of the above together, position the Third World to lead the way in greenhouse gas reduction.

We all know that village-based self-help groups, and non-governmental organizations, who are already known and trusted by funders, can be key partners. For us, the formation of these partnerships is critical because it ensures that control of fuel cells will be placed into the hands of end users who have the incentives to take care of it. Partnerships can also minimize problems with bureaucracy and corruption, common in many Third World economies.

Using electric infrastructure as an "organizing principle," technologists, entrepreneurs, and foundations, working together, could create a transformative opportunity in the Third World.

In India, Southeast Asia, China, South America, and Africa, there are nearly four billion people whose lives could immediately be transformed by an infrastructure of electric power. TMI is on a commercial-ization trajectory to provide the technology.

Let's imagine one possible scenario: suppose a loan is arranged to a self-help group to place a fuel cell system in a rural village in India in order to provide power for water purifiers and pumps. A grant would cover education on clean water and health, which in turn would enlist mothers who desperately want to protect their children from water-caused diseases and death. Waste heat from the fuel cells could provide heat for cooking, reducing respiratory diseases now caused by excessive smoke inhalation from wood fires. Fuel cells would also power refrigeration for vaccines and drugs, and support many health initiatives. They could provide lighting and round-the-clock power for health clinics, schools, and telecommunications. They could also recharge batteries.

Businesses could be created to deliver clean water to others, or pump water for irrigation of farmland. Accumulated experience would be passed on by lore, thereby expanding local knowledge. Over time, a social and economic infrastructure of healthcare, education, and financial services could take hold. As the cycle continues, a portion of the operating income could be used to repay the loan, and allow the funder to replicate the approach in still another village.

In India, Southeast Asia, China, South America, and Africa, there are nearly four billion people whose lives could immediately be transformed by an infrastructure of electric power. TMI is on a commercialization trajectory to provide the technology. However, at least two critical challenges remain: the first is the financing needed to take the technology to scale for Third World applications; and the second is the on-the-ground partnerships needed to create incentives to apply, manage and indeed govern, the technology wisely.

In First World markets, we have relatively clear financing and marketing paths. We start by targeting early adopters, who are more interested in unique performance features than low price. We form strategic partnerships with corporations which have established pathways and brand recognition in markets we want to enter.

Money talks, and like many fuel cell companies, we have attracted our share of interest from market-based capital sources. Here are three markets, all in the First World, these market-based sources want my company to target. Please notice that the Third World is not on the list: natural gas pipelines and telecom towers all need dedicated power, particularly in rural areas, but stringing power lines for small amounts of power is cost prohibitive. Batteries, often used in these cases, have unpredictable lives, and photovoltaics that charge them shut down when the sun is not shining. This is a natural fit for fuel cells, which operate continuously. We would partner in this case with a pipeline or a network service.

Military applications, many mobile, require the use of JP-8 kerosene, the standard fuel used by military organizations throughout the world. Because our system has proven to be uniquely capable of handling the high-sulfur content in JP-8, we have received multiple contracts from the US Department of Defense and hold patents which have attracted defense contractors. To reach this market, we would partner with one of them.

One of the most rapidly emerging niches is for auxiliary power units, known as APUs, for trucks. An APU would run lights, heating, air conditioning, and microwaves when the truck is parked, ending the need for inefficient idling of main engines, which burn diesel fuel and belch pollution. We have already partnered with two of the world's largest organizations serving the truck industry. Remy International, in Indiana, supplies heavy-duty electrical systems, and Ricardo Engineering, in Michigan, is known throughout the truck industry for leadership in systems engineering and integration.

Remy and Ricardo illustrate what we would call a "First World partnership." They bring specialized industry knowledge and market delivery capabilities. They have on-the-ground knowledge that our engineers need to tailor our fuel cell systems to the precise needs of their end users.

In Third World markets, however, we do not have these partner choices. There are no information directories to help us, and no templates. While there are many successful Third World programs, they are scattered and diverse. Most still plan using a "process of discovery," which some would call a theory of change. Other than foundation and government funding for programs, there is little support for ventures that seek to *create* new markets and new

business opportunities. We must remember that traditional financing sources, including the earliest of venture capitalists are still market-based and tend to *follow*, not create, business opportunity. As I indicated earlier, there are many, but they are on the sidelines watching for the right business opportunity.

If the long-term goal is economic development, then new kinds of partnerships must be created among nongovernmental organizations, foundations, governments, and businesses. It is essential to involve local stakeholders to ensure the development of incentives which are compatible with local cultures and dynamics. This last part is often forgotten.

For foundations, the PRI or program-related investment offers a unique opportunity for converging the for-profit business mission with the social mission of alleviating Third World problems. It would function as a form of bridge financing, during the "market creation and definition" stage. When commercializing cutting edge technology, this stage is called "missionary marketing"—the creation of market demands into which we can then sell. It would help carry the business financially to the point where traditional capital markets could make an investment. The Foundation Strategy Group has described this opportunity in the following way: "If foundations are willing to take on the risk and complexity of pioneering financial solutions to these market gaps, they can achieve program objectives, while still creating investments that can earn market-comparable returns."

Fuel cell technology is an ideal candidate for testing this model. Market-based capital, as I mentioned, is available and starting to support fuel cell commercialization into First World markets. If you look on the World Wide Web, you will see that last year two fuel cell companies (at the same product development stage as we are) received, respectively, $100 million and $225 million. Used strategically, PRIs could ensure the introduction of fuel cells into Third World markets on the same time schedule as First World markets. This would avoid putting poverty-ridden people of the world on hold for the years needed for measurable markets to emerge.

Finally, everyone would win. My own company's mission would be greatly enhanced by the economics of increased production volume. Foundations would win by accelerating sustainable social change, which is at the heart of their missions. And, structured properly, PRIs could, over time, realize very significant financial returns.

In summary, anyone who has looked seriously at the Third World has seen the complexity of its problems, and has been frustrated by the fragmentation and inadequate scale of our solutions. An electric infrastructure based on fuel cells offers a sustainable, systemic approach, which will not only leverage nonprofit and philanthropic resources, but also multiply the positive results. I leave you with a single thought: that so much is possible when the right forces are in alignment. At that time, what has been impossible can become natural and inevitable.

hybrid strategies for social enterprises

Charly Kleissner: I became a social entrepreneur some five years ago, and as part of that journey, I began working on a number of interesting hybrid business models that I will describe here. First I will share my observations about when they make sense and then I will focus on investment strategies for these hybrid business models. I will use a case study that I have been intimately involved with in Sri Lanka that ties together creative financing and its renewable energy goals. I will conclude with my observations about best management practices for these hybrid business models, as well as pitfalls that are important to identify as we embark on these types of ventures.

Social enterprises can take on a variety of legal forms and what truly defines them is not their business model but their social mission. When I have the opportunity to talk to young people, I find they often confuse the issues. They think that in order to do good, they have to create a nonprofit enterprise. Likewise, professors are telling them that in order to make a profit, they had better form a for-profit company. Just the reverse is true.

For those of us interested in making an impact in social enterprises, it is important to first concentrate on the mission of the project, and then leverage whatever legal infrastructure maximizes the social impact of that mission.

For those of us interested in making an impact in social enterprises, it is important to first concentrate on the mission of the project, and then leverage whatever legal infrastructure maximizes the social impact of that mission. The codependency of the for- and nonprofit side really plays itself out in a number of areas. For instance, a nonprofit entity could decide to donate equity, and become an equity partner of the for-profit entity, thereby enabling it to take advantage of profit-sharing agreements. With the right certified public accountant, there is no issue whatsoever with this structure. Brand can be an important consideration, and depending on what side of the fence you have a more recognizable brand, then you can leverage that information to make your decisions about structure. Intellectual property and research and development projects could be defined on either side of that fence. The governance model is another important consideration to ensure that we do not allow the mission of the endeavor to drift. The usual way of structuring the Board of Directors of both enterprises would be to have an overlap of directors.

Why would one consider a hybrid business model? Let me suggest four main reasons, in no particular order. First, to attract different types of capital and investors in order to implement your mission. Second, to go after market segments that would not be able to pay Cost of Goods. (If you are working with the poorest of the poor, some type of subsidy will be required to achieve your social mission, and that subsidy can be raised in three ways: through local government subsidies; by creating a for-profit entity that charges a portion of the population a fee so that profits can be leveraged to subsidize free service for the poor; or by creating a nonprofit entity able to receive the grants and social loans needed to bootstrap the market and work collaboratively with the for-profit entity.) Third, if basic research needs to be carried out and the research community is not ready to step up to the plate, and the for-profit sector cannot afford to subsidize it, then again a combination of the nonprofit/for-profit model makes a lot of sense. Fourth, to prepare immature markets that would not develop on their own for purely philanthropic or profit-based reasons alone. Why would anybody not leverage the two entities that are legally available to us in order to accomplish our social missions?

I would like to turn now to the enterprise in which I have been intimately involved, which delivers electrification to rural Sri Lanka using biomass. Right now, it costs about $10,000 to purchase the biomass gasifier that generates about five kilowatts, which translates into 100 watts for 50 households. Sri Lanka has a population of 20 million inhabitants, 45 percent of which live on less than $2 per day. About one-third of Sri Lankans, or seven million people, do not have access to electricity. The dependency on fossil fuel is tremendous. Even so, Sri Lanka has been making strides towards renewable energy with micro hydro plants. We want to work with the local government on that as well as on solar power, but in many areas of the island there is not enough rain for hydro plants, and for the poorest of the poor of the rural communities solar technology is still cost-prohibitive.

About one-third of Sri Lankans, or seven million people, do not have access to electricity. The dependency on fossil fuel is tremendous.

Our biomass source in Sri Lanka is the Gliricidia tree. These trees grow like weeds and we are able to sustainably harvest them. We attract grant money for this effort because the project is carbon-negative, i.e., more carbon is consumed than produced. And the Gliricidia trees do not replace cash crops, as is occurring elsewhere.

Part of making this project a success is working with village societies. If village societies do not take ownership of the implementation of these systems, then the venture will not work. The villagers are responsible for digging the mini-grid to connect the power plants to the houses, for donating the land to build the generator house, and for providing labor. The technology is very simple and can be maintained by the local population. The collection of the woodchips is also very simple. Each household needs to donate about 70 kilograms per month to keep the system operational. Each household then gets up to 100 watts of electricity, which they use for TV, radio, and lighting. We also power street lights and microenterprises such as water-pumping operations. You may ask what this has to do with hybrid business models. I have been fortunate to support the social entrepreneur and to develop the business model myself through our family foundation.

Our family foundation provides seed funding for social entrepreneurs worldwide. Our exit strategy is (a) to put together the deal for the next round—that is, the start-up round, which requires securing investors or (b) to discontinue with our funding. In this particular case we were fortunate to be able to help with the creation of a hybrid social enterprise focused on developing and deploying sustainable community-based rural electrifications systems. The way we have structured the enterprise is by putting the biomass project management—including project planning, training, and maintenance—into the for-profit side, in a company called Flowing Currents Ltd. The "softer" activities—that is, developing training and reforestation programs, and—equally important—providing partial subsidies for tariffs (until we reach a point where all villagers can afford the tariffs), are handled through the nonprofit

company Aspira. The nonprofit owns about 70 percent of the for-profit company. The bylaws of Flowing Currents Ltd. also specify that a target contribution of at least 10%, but not more than 25% of net margin may be re-invested in community societies, NGO's, and/or Aspira in years when such funds are available. The Board has discretion to determine the allocation of said funds to charitable entities aligned with the mission of Flowing Currents Ltd.

I would like to examine briefly why a purely for-profit or nonprofit model would not have worked in this particular instance. If your social mission is to help electrify hundreds of villages, comprised of hundreds of thousands of households, then a pure grant model just does not scale up (please note that the fully-loaded electrification cost per household is around $400). A pure for-profit model would also not be feasible because the amount that needs to be invested in village education and reforestation programs is not viable from a for-profit standpoint. The only means of accomplishing our goals here was through a hybrid model.

Let me talk a little bit about the investment strategies for hybrid businesses. All businesses go through life cycles: seed, start-up, early expansion, and late expansion. Different investors have different risk-reward profiles, and different expectations with respect to exit strategies. Investors that are available at one stage of the life cycle are not available in other stages. So, for the seed phase—and I'm talking about the developing world here—there is no venture capital market, and there are limited equity markets. The only way for entrepreneurs to get started in these areas is to raise money from social investors and foundations that provide social loans and grants.

It is extremely difficult for social entrepreneurs to move from the seed phase to the start-up phase. Most social entrepreneurs fall into the abyss not knowing where to go for money, precisely because there is no equity market and because the businesses are too immature and do not have sufficient cash flow to tap into the local commercial debt market. This makes scaling up very difficult. During the start-up phase most social entrepreneurs still need access to social loans in order to scale. And it often makes sense to create a hybrid business structure in order to tap into different money streams and to lower the risk for the for-profit as well as the non-profit business. Here I will not elaborate more on the later stages of business, i.e., early and late expansion.

But I do want to mention a few words about the different types of investors supporting social enterprises. If you are managing the nonprofit entity of the social enterprise, then you need to raise money from people who normally give to the nonprofit side—that is, grants from social investors and foundations. Similarly, if you are managing the for-profit side, then you can go to banks for commercial loans and equity, as well as social investors and foundations. There are also the enlightened investors who understand that investing in both sides is more powerful than just relying on one side to do well. Foundations and social venture funds that provide social loans have an opportunity to strengthen both sides of the equation.

I would like to tell you how we put together the deal to scale up this particular venture. Once we figured out what we wanted to accomplish, it was very easy to get money. The reason for this is that our blended value proposition was very compelling to all potential investors. The corollary to this, however, is true as well: if you cannot articulate a compelling value proposition for each different type of investor, there is no chance that you are going to get money. The environmental value that we provide with this venture is undisputed, including avoiding more green house gas emissions, being carbon negative, re-forestation, fertilizer cost savings, etc. The social value that we provide, however, needs to be proven, and we are putting metrics in place in order to prove the benefit of our model, e.g., increased employment and earnings potential, financially empowering villagers and village societies thereby raising the standard of living, increasing skills and education, enabling micro-enterprises, etc. From the financial point of view, appropriate expectations have been established for each side of the table. We ultimately raised one third of the needed capital to electrify 20 villages from grants, one third from a social loan provider, and the last third from a commercial bank in Sri Lanka.

Why would commercial loan providers actually work with us? In this particular venture, the commercial loan provider in Sri Lanka was very interested in getting a foothold in the rural financial sector. We are also partnering on the ground with micro financing institutions to get the basic level of savings up and running so that we can get the tariffs repaid.

Let me conclude with best management practices as well as pitfalls for these hybrid businesses.

A few of the businesses that I had tried to get off the ground failed with respect to making the biggest impact that they could, because their leaders were not ready to manage on that level and their ego got in their way. It does not work if the head of either the for-profit or the nonprofit insists on running both shows. There has to be an equal partnership of leaders. The panel already discussed the importance of good governance. We also talked about the value of clear propositions for different types of investors. If you present a strategic plan that focuses on the social mission to a for-profit minded investor, you will confuse him, and vice versa. Therefore, I usually prepare three plans—one for the for-profit investor, one for the nonprofit investor, and one for the enlightened investor, who appreciates a combination of both. Hopefully, in the future, we will all fall under the third category.

In summary I believe that legal structures need to serve the mission, not the other way around. It seems absurd—especially after you have done a few—to let the mission be constrained by the deficiencies of one specific legal structure. It seems obvious that a mission based enterprise should choose the legal structure best suited to accomplish its mission. A lot of times a hybrid structure will be best, because a non-hybrid business structure has too many restrictions.

Q&A

Q: How do you attract investors to work in a high-risk, conflict-ridden zone such as Sri Lanka? What are some of the on-the-ground realities that need to be assessed?

CK: This is an issue, but it is one that can be overcome. I would say that our effort in Sri Lanka has the potential of contributing to the peace in the region because if we are able to make a major impact on the quality of people's lives, then we could reduce causes for strife. We have attracted grant money mostly from the green community right now, and one foundation in particular that has as one of its core goals the alleviation of global warming, regardless of location. Having a local investor, side-by-side with us, was also one of the major turning points to getting to that level.

I would say that our effort in Sri Lanka has the potential of contributing to the peace in the region

Q: It is one thing when you start with investors on the philanthropic side who are social venture capitalists and approach philanthropy from an innovative investing perspective, but it is quite another for those of us who work with more traditional foundations or corporations, which are much more risk-averse. What would be some of the effective arguments to try to bring the rest of philanthropy along with the social venture capitalists?

CK: I think that is a very good question, and it is the question that we need to address as a community. My only answer is that we need to set examples where the metrics are clear, and where we can say, "Here is an example of how we accomplished our goals and what the impact was." By setting an example, and giving real data, I wish to become a pioneer in the sector so that we all have more ammunition to convince the philanthropic community to move forward in more innovative ways.

KB: I think that convincing a traditional philanthropist to be more innovative is important and valuable work, but remember that the concept of a sweet spot means that not everybody needs to be at the very risky side of that spectrum. There may be ways for a more traditional foundation to dip a toe in the water.

CK: I would like to ask Benson Lee, who sits on the investment committee of The Cleveland Foundation, a $1.6 billion foundation. You have obviously had to grapple with these issues from the other side. What would you do if somebody like yourself came before the committee to ask for money?

BL: Let me draw a distinction between private foundations and public foundations. We are a public foundation. It is not our money. When you go to Charly Kleissner, it is his money. If I were looking for funds, I would find the person or group that believes passionately in the mission of my enterprise, and then go right to the Charly Kleissners of the world who could whisper in the ears of the people who manage his money.

As a public foundation, The Cleveland Foundation tends to be more conservative. Also, its giving is almost entirely regional. I do not mind saying that it is very frustrating at times to be a private entrepreneur sitting on a public foundation board. It has taught me a lot. I might also comment that because of the way we operate, the investment committee tends to

vet everything. We bring in outside experts, so that even if the members of the investment committee were totally in accord with what we wanted to do, we would second- and sometimes even third-guess ourselves. We know what we don't know. The problem will be finding those people who understand and know how to evaluate what I referred to in my talk as the *creation* of business opportunity. The investment world is primarily smart people trained to *follow* business opportunity.

Most of the money that we deal with is dollars that follow business opportunity. What Charly is talking about, and what REDF helped to create, was the initial opportunity. It is very difficult to find people that know how to vet and evaluate that type of initiative.

Q: As we move forward and as we see things like climate change, will we see more issues of resource competition and conflict? And is there a sweet spot in there that you see growing in areas where we do experience conflict?

CK: I have decided that all the efforts that I want to be involved in over the next ten to fifteen years have to include environmental value as a component. So I think that the purely profit-driven efforts are, ultimately, as bad for the long term sustainability of our planet, as are the extreme environmentalist efforts, which want to partition the planet into sections, some of which will be off-limit to humans. We need to work together, to develop sustainable models where value exists from all perspectives. Conservationists need to learn how to work with enlightened developers. And again, we need to set examples of how to engage in those projects to end the finger-pointing that I see around me. We also need to set personal examples so that our work includes courageous efforts that we believe in, as opposed to taking the easy route and maintaining the status quo.

Q: In your trying to marry the best of the for- and the nonprofit world, have you experienced how to bring the financial system and the commercial banks in? My own organization has experimented with and succeeded in making it easier for the commercial banks to support ventures by providing them first-loss guarantees or a variation thereof. In that way they may more easily consider a project they would otherwise not touch.

BL: We are in an unusual situation. There is no market for fuel cells anywhere in the world if you eliminate early adoptives. And therefore, if you are a banker asking me, "What is the schedule by which I can repay your debt?" I could make up numbers, but I do not think your analysts would accept them, compared to other uses of your capital. So you would have to pick a banker who intentionally wanted to invest in what is called "a disruptive technology."

CK: But they are usually not commercial banks.

BL: No, they are called "venture capitalists."

CK: Even venture capitalists get white knuckles when they cannot see a clear exit strategy. The venture capital

source of capital is from financial investors who want to see a final liquidation event—they have to go from cash to equity back to cash. That last step determines the success of their career.

KB: Let me share our experience with Evergreen Lodge. Before the idea for the Lodge was incubated, REDF had provided collateral for a line of credit for Juma Ventures to expand their scoop-shop businesses in San Francisco. As a foundation, we were able to put up that collateral until their businesses grew and became stable enough that they could take over. With regard to Evergreen Lodge, the United States Department of Agriculture loan-inheritance program was also instrumental in getting a commercial loan.

BL: If you go to a foundation and ask for something from the investment committee side, do not ever think that we do not expect to be repaid. We are willing to take risk in terms of how long it will take, which means that we may end up getting a submarket rate, but we never consider converting the loan into a grant and forgiving the debt.

Q: There is an opportunity here for people and entities to be investors, advisory board members, or part of the governance board, or all of the above. How do you navigate that terrain?

CK: It is very important to start out with a governance model that leverages both sides to the extent that you have overlap, and that then provides the right level of capacity and resource planning for each side. You can then complement that with advisors that you assemble from the very beginning.

Q: I think that one of the very exciting things about this model, especially in developing countries, is that there is a huge commercial opportunity. That is not always the case in a developed economy like that of the United States. Here we are more likely to be doing things for which there is no real commercial return and that is why the nonprofit sector is handling those projects. It seems to me that what you are doing is pioneering a wonderful kind of scaling of a business opportunity with a social mission attached to it. But it is important to have an actual commercially scalable business opportunity to have that model work.

BL: I would like to amplify your use of the word scaling, and also amplify the way that all of us have used it. Do not think about magnitude; think of sustainability beyond the presence of any specific governing board, or beyond the passion of an individual entrepreneur. That is integrated in the mission. And that is sustainable with a small "s" over time. I think that right now, we are all enamored with creating new templates, new models, and exploring and having a great time. Having spent years where I thought I was immortal in running my company, I did not pay a lot of attention to management succession. And now, as I look back, I realize that succession applies to nonprofits and hybrid models as well. So, I would offer that as a piece that we have not

even touched on here. If your entity is non-sustainable with a small "s", then all you have is a big project.

Q: I work at The Foundation Center. Foundation giving doubled and foundation assets doubled in four years from '95 to '99. We felt that the power of PRIs would be unleashed during that period of huge asset growth, but it did not happen. We only track about 300 foundations making PRIs. This represents a tiny percentage of the 70,000 grant-making foundations in the United States. I know there is a new PRI network, and we expect that maybe this is a period of growth. But I want to say that I think there has been a reluctance to be lenders.

CK: A pet peeve of mine is that there are $500 billion parked in foundations right now. If only we could access even one percent of that amount, how many funds would that create that would be available for social investing? Funds which could then bridge the gaps we have all identified throughout areas of the world where there is no money available to create the businesses that will be able to mature into accessing loans from the commercial sector.

BL: I did a lot of reading on PRIs in preparing my talk. One element that I felt could make a difference was to have a few homeruns so that people could realize that while it will not happen every time, there is an opportunity for huge upside potential. But the IRS requirements are very clear—the purpose cannot be to have that financial homerun. If that happens, it is okay—

If there were a way to put together a portfolio of some of the more sophisticated examples, we could eventually create a body of knowledge from which others could learn. Being an engineer, I know how difficult it is to project when you have one or two data points. It would be nice to have 50.

"It has been really challenging to find investors who are willing to think about their philanthropy and their business at the same time."

it is still considered a PRI. I listened with great excitement to what Kristen and Charly presented and I know we have something we think is exciting. If there were a way to put together a portfolio of some of the more sophisticated examples, we could eventually create a body of knowledge from which others could learn. Being an engineer, I know how difficult it is to project when you have one or two data points. It would be nice to have 50.

KB: Last week, I had a conversation with Lee Zimmerman, one of the entrepreneurs responsible for Evergreen Lodge. We talked about what worked well with the financing structure that he and his partners developed and what had not worked so well. Lee said, "It has been really challenging to find investors who are willing to think about their philanthropy and their business at the same time." Lee and Brian developed a group of investors who were willing to do that in order to come together in support of the Lodge. But those investors are too few and far between. I would encourage all of you, as you go back to your offices and to your clients, to really think about how can you bring those two elements of your work together, because that intersection is where the real power lies.

Presentations made by Kristen Burns, Benson Lee and Charly Kleissner at the symposium on May 16, 2006 are available on the Rockefeller Philanthropy Advisors website at:
www.rockpa.org/ideas_and_perspectives/speeches-opinion-pieces.

Finding Philanthropy's New Sweet Spot: An All-Asset Approach to Investing for Social Change

Melinda T. Tuan, *Senior Fellow*, Rockefeller Philanthropy Advisors

Should a private foundation be more than a private investment company that uses some of its excess cash flow for charitable purposes?
—The F.B. Heron Foundation

historically, philanthropy's sweet spot has involved seeding new social ventures through grantmaking and handing over successful ones to the government to scale for broader impact. While government can still play a role in having an effective social impact, many people agree its role today is greatly reduced in terms of supporting nonprofits and collaborating with philanthropy to bring social innovations to scale. In this rapidly changing world with decreasing financial resources and ever increasing social needs, what is philanthropy's new sweet spot?

It is helpful to begin by defining "sweet spot," a term that is most often related to sports and bridge-building. In baseball, for example, finding the sweet spot involves hitting the ball with the part of the bat that will propel it to the best place in order to score as many runs as possible. Whether in golf, tennis, or

How can philanthropy use the most effective resources to achieve the greatest social impact?

baseball, finding the sweet spot is all about connecting with the ball in order to *achieve the greatest impact*. In the field of bridge-building, there are many different materials and designs from which to choose. Finding the sweet spot involves *using the most effective resources to accomplish the task* of getting goods and people from one place to another. These two examples of sports and bridge-building serve as apt analogies for finding philanthropy's sweet spot. How can philanthropy use the most effective resources to achieve the greatest social impact?

In 2005, over 68,000 foundations in the U.S. gave away more than $33 billion in grant dollars to address issues of social change. The number of foundations and the amount of grantmaking continues to grow. The philanthropic sector is increasingly focused on how to be more effective in bringing about social change, yet not many foundations are using all the tools and resources at their disposal to have the most effective impact. As Peter Goldmark stated, "Traditionally, philanthropy has used the tool of the grant and fellowship. These are good tools, but I think, increasingly, the power of markets dictates that we must add additional tools to our list."

Philanthropy's assets fall into two broad categories: financial assets such as grants, debt and equity; and non-financial assets such as human capital, knowledge and influence. There are many opportunities to effectively deploy specific tools to assist nonprofits in making the most significant impact. Finding philanthropy's new sweet spot means

implementing an all-asset approach to investing for social change across the sector, with each philanthropic organization determining how and when to deploy its individual assets in coordination with others to achieve the greatest social impact.

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financial assets: grants and investment dollars

Grants

Grants are the primary tool most people think of as the financial assets foundations use to assist nonprofits in accomplishing their mission. Grants will always be an important and necessary tool to use in philanthropy. There are, however, many ways to use grants more effectively by providing:

- Large, long-term, unrestricted grants which are the gold standard for nonprofits but unfortunately are not prevalent in the field of philanthropy;
- General operating support grants which are essential for building strong nonprofit infrastructure and programs;
- Capacity-building grants targeted at specific activities to improve the infrastructure of an organization;
- Program grants that include costs for the overhead associated with the project, including proportional administrative and fundraising costs (this is sadly not typical of most grants);
- Fellowships to support individuals within organizations to pursue social innovations outside of the usual programming;

Grants that are structured in the right way at the right time in the life cycle of a nonprofit can have a tremendous impact on a nonprofit's effectiveness and impact.

- Collaborative grants where different foundations work together to fund a specific organization or initiative, reducing transaction costs for the nonprofit and increasing overall impact;
- Recoverable grants that provide equity-like infusions of capital when needed; and
- Grants used as lines of credit or collateral for loans to help strengthen the financial credibility of nonprofits with financial institutions.

Grants that are structured in the right way at the right time in the life cycle of a nonprofit can have a tremendous impact on a nonprofit's effectiveness and impact.

Grant dollars overall, however, represent only a small portion of the total financial assets foundations have at their disposal. In 2005, all 68,000 U.S. foundations combined gave out $33.6 billion in grants compared to their underlying assets of $510.5 billion. These foundation assets were largely invested to maximize financial return for the foundation's endowment, not to create social return. At a top level, this translates into approximately 93% of foundation's financial assets not being deployed to effect social change.

Investment Dollars: Debt and Equity

Most foundations overlook or purposely decline the opportunity to deploy their significant investment dollars to effect social change. The opportunity cost of this practice is great, but an even

greater cost to society occurs when a foundation implements an investment strategy with its financial assets which runs counter to its grantmaking strategy (e.g. investing in a company that practices unsustainable logging while funding environmental organizations that work against the efforts of such companies).

Program-related investments (PRIs) provide foundations the opportunity to make equity and/or debt investments in for-profit companies that further a particular mission. PRIs count toward a foundation's 5 percent payout requirement so the foundation is not penalized for making social investments that might earn lower rates of return. By using PRIs, foundations can multiply their impact on issues of social change and in some cases PRIs can be even more effective than grants.

As of 2006, the F.B. Heron Foundation uses 24 percent of its foundation assets for what it calls mission-related investing practices across a range of asset classes including deposits, fixed income securities, senior and subordinated loans, preferred and common stock, and private equity. Approximately 73 percent of the foundation's mission-related investments are market rate with the remainder being below-market rate (PRIs). F.B. Heron's commitment to using an increasing percentage of its financial assets—grants and investment dollars—for social change puts it in the top tier of foundations that are pursuing mission-related investing strategies.

If more foundations followed F.B. Heron's lead and invested just a quarter of their assets in mission-related organizations, more than $125 billion (almost quadruple the dollars given in grants) would be unleashed for explicitly positive social purposes.

If more foundations followed F.B. Heron's lead and invested just a quarter of their assets in mission-related organizations, more than $125 billion (almost quadruple the dollars given in grants) would be unleashed for explicitly positive social purposes. The recent emergence of The PRI Makers Network[1], the only national organization focused on building a more efficient and effective strategy of philanthropic investment, is promising. However, with members from little more than 100 foundations across the country, it points to just how far the field has to go in adopting social investment practices.

Kristen Burns gave a great example of how funders can use the spectrum of financial assets to invest in social change. REDF, The Phalarope Foundation, and The Roberts Foundation leveraged their financial assets and collaborated to maximize social impact for at-risk youth and young adults needing supported employment in the San Francisco Bay Area. Each funder utilized different financial tools (grants for capacity building, lines of credit, fellowships and equity/debt) at various stages to build the financial and organizational capacity of the nonprofit Juma Ventures, provide the opportunity for Lee Zimmerman and Brian Anderluh—socially-minded entrepreneurs—to incubate a for-profit business, and raise the funds need to acquire and transform Evergreen Lodge into a social mission business.

Benson Lee challenged us to think about using PRIs as a way of creating markets. In his example, foundations could invest equity capital in a company that is developing fuel cell technology to produce electricity for the developing world. Providing low-cost electricity in rural locations in the world translates into clean water and refrigeration for vaccines—solutions to poor health and other root causes of poverty. Charly Kleissner talked about how foundations can invest in hybrid approaches to generating social returns in rural Sri Lanka through biomass electrification—using existing legal structures to start-up nonprofit and for-profit organizations to create sustainable social change. By investing financial assets in nonprofit and for-profit alternative energy companies, foundations could make a tremendous impact on alleviating poverty in the third world and also earn a financial return on their investment.

These are all powerful examples of how to use foundations' financial assets, including the wide spectrum of tools available, to invest for social change. But there are non-financial assets that foundations can and should use as well.

non-financial assets: people, knowledge, influence

In addition to the over $510 billion in investment assets foundations hold, foundations also employ over 18,000 highly skilled individuals and have access to trustees and others who are well-connected to other resources. Unfortunately, these non-financial assets are largely not being strategically employed to complement the efforts of the organizations the

Human capital, knowledge and influence assets within foundations represent opportunities for foundations to provide targeted and high impact support and resources to nonprofits.

foundation's dollars support. Human capital, knowledge and influence assets within foundations represent opportunities for foundations to provide targeted and high impact support and resources to nonprofits.

Human Capital

Staff and trustees of foundations and the networks of people connected to these individuals can be more effectively deployed to build the capacity of nonprofit organizations for greater success. Individuals can provide technical assistance and capacity building in many forms, including board development, fundraising, strategic planning, business development, information technology, and human resource management, among many other areas.

There are highly engaged funders and giving circles around the country that are investing individuals' talents and expertise in nonprofit organizations in addition to providing financial support. Social Venture Partners (SVP)[2] is a great example of how to use human capital to invest in social change. SVP brings together professionals to jointly invest their time, skills and resources in nonprofit organizations in their community. Partners get involved in hands-on ways in activities ranging from setting up a website to providing management support in the areas of finance, strategic planning, fund development, legal, marketing and other areas. Although Partners are not required to contribute of their time and expertise in addition to their

grantmaking, over two-thirds do. There are now over 20 SVP organizations across North America, with many more in development. Imagine what would happen if staff and trustees in two-thirds of foundations across the country began appropriately applying their time and expertise in the nonprofits they fund.

Knowledge

Knowledge is another asset that foundations underutilize for social impact. Using knowledge as an asset for social change does not mean publishing annual reports and developing a foundation website. An asset-approach to knowledge involves high-impact publishing and dissemination: writing up lessons-learned so other funders and grantees don't reinvent the wheel, and sharing failures with the field. Knowledge as an asset involves capturing, creating, and disseminating information that can help inform practice in meaningful ways.

Knowledge as an asset involves capturing, creating, and disseminating information that can help inform practice in meaningful ways.

From 2001 to 2004, the Charles and Helen Schwab Foundation provided grants for understanding, preventing and ending homelessness. While their funding efforts were focused on the San Francisco Bay Area, their knowledge strategy was national in scope. The Foundation had the resources and the commitment to track news coverage of and legislation pertaining to homelessness—knowledge that was valuable and very difficult for most nonprofits to access. In addition to providing a regular news bulletin summary to any nonprofit that signed up for the service, the foundation's program director for homelessness also wrote-up commentaries on what the implications of a particular legislation or trend meant for nonprofits serving the homeless. In real time, using resources it needed to inform its own grantmaking strategy, the foundation made useful knowledge available to more nonprofits than it would ever be able to provide for financially.

Influence

Foundations have the power to impact social change through the influence they hold by virtue of their funds and their position in society. They have the power through their networks to convene, convince, foster collaboration, and change policy—in the nonprofit sector, for-profit sector, and government. Some examples of this include:

- Convening people across sectors to address a specific issue—foundations often have the unique influence to bring together nonprofit, corporate, and governmental leaders and create a neutral environment for dialogue;
- Convincing other foundations to invest in high impact grantees and make the task of fundraising a little bit easier for nonprofits;
- Building coalitions of like-minded funders to collaboratively address a very tightly-focused objective; and
- Using the power of foundation proxy voting to change corporate policy on specific social issues the foundation supports.

Early on, the Tow Foundation recognized the power it had to influence funders and policymakers regarding the juvenile justice system in Connecticut. Tow Foundation staff work closely with their grantees to promote and train them in the use of advocacy and lobbying within legal limits. The foundation convenes meetings for its grantees with other funders and policymakers, shares resource information and provides seed support for new initiatives with good prospects for impacting public systems. The influence the Tow Foundation is able to bring to the issue of juvenile justice serves to enhance and inform their grantmaking for greater social impact.

Rockefeller Philanthropy Advisors has been very involved in helping foundations use the influence associated with their financial investments in for-profit companies through proxy voting. In the publication, *Unlocking the Power of the Proxy*, foundations can reference how to use the proxy vote to be consistent with and further their social mission.[3]

Our gathering today represents a convening of a cross-section of philanthropy, nonprofits, business, and government. It is a perfect example of how foundations can bring people together to learn from each other and influence how we together can change the world for good.

conclusion

Clearly individual foundations cannot employ every financial and non-financial asset all the time to achieve social impact. Foundations should, however, thoughtfully utilize as many of their assets and tools as possible: grants, debt, equity, people, knowledge, and influence to achieve their social mission. The challenge of finding philanthropy's new sweet spot involves each funder considering the spectrum of assets and tools at its disposal and identifying where and when it can best use those assets and tools to invest in social change, whether through nonprofit or for-profit vehicles. I believe that we have an opportunity and an imperative to think more creatively and sustainably about how we're using all of the assets that we have as foundations—to invest them for the greatest social impact.

"If [foundations/ donors] were to exploit only a fraction of the strategies available to them, their individual and collective impact on American life would be vastly and beneficially expanded."

The late Paul Ylvisaker, author of *Small Can Be Effective*, summarized this opportunity for an all-asset approach to philanthropy well, "If [foundations/ donors] were to exploit only a fraction of the strategies available to them, their individual and collective impact on American life would be vastly and beneficially expanded." By unleashing the power of foundations' financial and non-financial assets, philanthropy will have found its new sweet spot for investing for high-impact, lasting social change.

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1 *For more information, see www.primakers.net.*

2 *For more information, visit Social Venture Partners International's website at: www.svpintl.org*

3 Unlocking the Power of the Proxy: How Active Foundation Proxy Voting Can Protect Endowments and Boost Philanthropic Mission *along with other resources on engaging in proxy voting can be found on the Rockefeller Philanthropy Advisors website at www.rockpa.org*

Closing

Melissa A. Berman, *President & CEO,* Rockefeller Philanthropy Advisors

When I think of a sweet spot, I inevitably think about tennis. For most tennis players, the greatest innovation of the past decades is that on new tennis racquets the sweet spot has gotten bigger. I believe this is the opportunity that we have before us in our efforts to make change happen—the growth of the sweet spot for success.

That sweet spot is growing through the confluence of three powerful forces. First is the growing commitment to impact that many philanthropists and social investors have made. Second is the growing expectation of accountability, an expectation that applies to those who have capital as well as to those who will be using it. Third is the expansion of resources available for philanthropy and social investing—from intergenerational transfers, from new wealth creation, and from new approaches to the use of assets for social progress.

In our work with funders, we're starting to see remarkably encouraging dynamics emerging among private, family, corporate and institutional funders alike. First among these is a sharpened focus on a very simple principle: fund the solution, not the problem. Donors and social investors are making decisions based on clear understanding not just of how terrible a need might be, but of how credible the approach to creating change is. It's a commitment to a roadmap to results.

Along with that focus on solutions, not surprisingly, comes a greater willingness to make big commitments and take big risks. More individuals, organizations and companies want to rally all their resources to the solutions they believe in.

The opportunity is stunning: solutions-based approaches; a wide range of financial resources; and a growing base of giving as well as investing.

That's creating a real sweet spot of hope, and that's what motivates the work we do at Rockefeller Philanthropy Advisors.

Biographies

MELISSA A. BERMAN is president and CEO of Rockefeller Philanthropy Advisors. Melissa Berman has led Rockefeller Philanthropy Advisors since January of 2001. Previously, she served as Senior Vice President, Research and Program Development at The Conference Board, a nonprofit, independent business research organization. She oversaw all research and publications on management practices, including global corporate citizenship and governance. Ms. Berman is a director of City Harvest, The Foundation Center, and Rockefeller Philanthropy Advisors. She is a member of the national advisory panel for New Ventures in Philanthropy. She serves as a Judge for the Ron Brown Award for Corporate Citizenship, a presidential award. Ms. Berman holds a B.A. from Harvard University and a Ph.D. from Stanford University.

KEVIN P. A. BRODERICK is the Chair of Rockefeller Philanthropy Advisors and a Principal with the private equity firm, Meriwether Capital LLC. He currently serves on the Boards of Rockefeller Financial Services and Rockefeller & Co.. In addition, he is a Board member of Segrest Farms, Inc. and Wood Pro, Inc. Moreover, he is a member of the Board of Visitors of the School of Foreign Service, Georgetown University and the Advisory Board of Seizert Capital Partners, Inc. A longtime resident of the Detroit, Michigan, area, he is President of the Grosse Pointe Farms (MI) Foundation.

KRISTEN BURNS served as the President of REDF until August 2006. As President, Ms. Burns set REDF's strategy, oversaw its operations, and provided assistance and coaching to REDF portfolio members. Under her leadership, REDF maintained its rigorous measurement practices and demonstrated the effectiveness of social enterprise in creating lasting positive change in the lives of low-income and formerly homeless individuals. Prior to joining REDF, Ms. Burns was an Associate with Mercer Management Consulting in San Francisco. She also served as Program Manager for a private family foundation in Washington, DC. She holds an A.B. in History with a Certificate in American Studies from Princeton University, and an MBA and Certificate in Nonprofit Management from the Stanford Graduate School of Business. Since speaking at this symposium, Kristen has stepped down from her role at REDF and now resides in Pittsburgh, Pennsylvania, with her husband and daughter.

PETER GOLDMARK currently directs the Climate and Air program for Environmental Defense. Prior to joining Environmental Defense, he was Chairman and CEO of the *International Herald Tribune*. Peter has had exceptional careers in both the public and private sectors. His public service was highlighted by his tenure as Budget Director for the State of New York during the 1970s city- and state-wide fiscal crisis where he was an architect of its rescue; and as Executive Director of the Port Authority of New York and New Jersey.

He served as president of the Rockefeller Foundation from 1988 to 1997, encouraging its involvement in environmental issues, particularly as they related to energy.

Mr. Goldmark was also a trustee of the Rockefeller Brothers Fund (1982-1988), member of Board Overseers and Chair of Harvard University's Finance Committee (1984-1990), director of Knight Ridder Inc. (1991-1998), director of the Dreyfus Third Century Mutual Fund (1992-1998), member of the National Commission on Civic Renewal (1997-1998) and trustee of the Financial Accounting Foundation. In addition, he serves as a board member of Lend Lease Corporation (1999-present), trustee of the Whitehead Institute for Biomedical Research (2000-present) and member of the Council on Foreign Affairs.

Mr. Goldmark is a recipient of the Wilson Wyatt National Award for Urban Revitalization and a member of the Legion of Honor, France. He has taught courses at the JFK School of Government, Harvard; Yale College; The New School; Brandeis University; and returns to Woodrow Wilson School, Princeton University as Visiting Professor of Public and International Affairs in Spring 2007.

He holds a B.A. from Harvard University.

CHARLY KLEISSNER, PH.D., is a philanthropic entrepreneur utilizing his high technology background in his venture philanthropy. He is co-founder of the KL Felicitas Foundation and the Social-Impact initiative, helping social entrepreneurs worldwide to accelerate and increase their social impact. Dr. Kleissner serves on the Advisory Board of multiple not-for-profit companies like the Acumen Fund, Global Social Benefit Incubator, Alliance for a New Humanity, and The Global Philanthropy Forum. Dr. Kleissner has over twenty years of experience as a senior technology executive in Silicon Valley. He held executive and senior engineering management positions at Ariba Inc., RightPoint, NeXT Software Inc., Digital Equipment Corp. and Hewlett-Packard Company. Dr. Kleissner serves on the Advisory Board of multiple for-profit start-up companies like Papilia and Rearden Commerce Inc. Dr. Kleissner is now focusing on breaking down the barrier between the for-profit sector and the not-for-profit sector by creating social enterprises as hybrid business structures, insisting that both vehicles can be effective for achieving social change.

Dr. Kleissner earned his M.S. and Ph.D. in Computer Science, specializing in distributed databases, from the University of Technology, Vienna. He has authored two software patents and published numerous articles. In 2004, Dr. Kleissner received the 'Distinguished Alumnus' award from the University of Technology, Vienna.

BENSON LEE is the founder and CEO of Technology Management, Inc. (TMI) a Cleveland firm dedicated to the product development and commercialization of modular solid oxide fuel cell (SOFC) systems for distributed and mobile power generation applications. Unique features of the system are its compatibility with multiple fuels and ability to be shipped by overnight common carrier. Previously, Mr. Lee was the founding CEO of Biolectron, which commercialized a device which healed broken bones using electricity, and CEO of Datalogics, which he acquired and grew into one of Ohio's largest regional remote computing service firms. Early in his career he worked in product management with IBM and later with Westinghouse, specializing in the use of technology to improve healthcare delivery. He is an engineering graduate of Cornell University and has completed all coursework for his MBA and Ph.D. in Management and Finance at NYU. He is a Director of The Cleveland Foundation, the world's first community foundation, with an endowment of $1.6B, and a member of its Investment and Distribution committees. He is a trustee emeritus of Cornell University. Locally, he has served as a board member or advisor to numerous non-profit organizations, primarily in the education and social services sector.

ERIC NEE is the managing editor of the *Stanford Social Innovation Review* (SSIR), a quarterly magazine published by Stanford University's Graduate School of Business. He is a 22-year veteran writer and observer of Silicon Valley's technology industry. Before joining SSIR, Mr. Nee was a senior writer for *Fortune* magazine in the Palo Alto, California, bureau. Mr. Nee also helped Time Inc. launch *Business 2.0*, where he was executive editor. Before joining *Fortune*, Mr. Nee launched *Forbes* magazine's Silicon Valley bureau, where he was bureau manager. Mr. Nee earned a B.A. in American Studies from the University of California at Santa Cruz, and a M.S. degree from the Medill

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PERLA NI is currently the CEO of GreatNonprofits, a new nonprofit organization that seeks to take advantage of the grassroots democratization of the web to aggregate and share information about nonprofits. Perla previously co-founded Grassroots.com, a leading online advocacy provider. For the past four-and-a-half years Perla was the founder and publisher of the *Stanford Social Innovation Review*, the premiere magazine on nonprofit management and corporate social responsibility. She is a frequent blogger on the Stanford Social Innovation Review website and a speaker on nonprofit issues. Perla holds a B.A. from the University of California, Berkeley and a J.D. from Harvard Law School.

MELINDA TUAN is a Senior Fellow with Rockefeller Philanthropy Advisors. Ms. Tuan is recognized nationally for her work in high engagement philanthropy, social enterprise, foundation effectiveness, and evaluation. Ms. Tuan has published articles, book chapters, and business school cases, and lectured at several of the leading business schools in the country.

Ms. Tuan co-founded REDF (formerly The Roberts Enterprise Development Fund), a social venture capital fund which works with a portfolio of nonprofit organizations employing formerly homeless and low-income individuals in market-based business ventures. Prior to REDF, Ms. Tuan was a manager at a national healthcare nonprofit and a management consultant specializing in growth strategies for Fortune 500 companies. She co-founded Boston Cares, a nonprofit volunteer service organization, and was involved in the start-up of two social-mission driven companies in the San Francisco Bay Area, including Dayspring Technologies and Evergreen Lodge. Ms. Tuan holds an MBA from the Stanford Graduate School of Business and graduated from Harvard University with an A.B. in Social Studies focusing on Urban Poverty and Homelessness. She serves on the Board of Managers for Evergreen Lodge, a social-purpose destination resort in Yosemite, and the Advisory Council for REDF. She resides with her husband and three children in Narberth, PA.

About the Editor

DONZELINA A. BARROSO has been a philanthropic consultant at Rockefeller Philanthropy Advisors since 1999. She advises the JB Fernandes Memorial Trust I on grantmaking in Portugal and Madeira. She also works on educational funding strategies for disadvantaged Portuguese communities in North America. Donzelina was previously affiliated with the Camões Center for the Study of the Portuguese-Speaking World, at Columbia University. In 1998, her interview with Nobel prize winning Portuguese author, José Saramago, was published in *The Paris Review*. She received a B.A. from Barnard College in Medieval and Renaissance Studies.

About Rockefeller Philanthropy Advisors

Rockefeller Philanthropy Advisors is a 501(c)(3) nonprofit organization that helps donors to create thoughtful, effective philanthropy throughout the world. Headquartered in New York City, it traces its antecedents to John D. Rockefeller, Sr., who in 1891 began to professionally manage his philanthropy "as if it were a business." Rockefeller Philanthropy Advisors provides research and counsel on charitable giving, develops philanthropic programs, and offers complete program, administrative and management services for foundations and trusts. Rockefeller Philanthropy Advisors currently advises on and manages more than $130 million in annual giving in more than 30 countries.

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About *Stanford Social Innovation Review*

The *Stanford Social Innovation Review* is a quarterly paid-subscription magazine for thought leaders at nonprofits, foundations, and socially responsible businesses, published by the Center for Social Innovation at the Stanford Graduate School of Business. The *Review*, launched in 2003, is part of the Center's effort to create a vibrant community of people who are actively engaged in building a more just, prosperous, and sustainable world. The Center also aims to dissolve boundaries and promote the exchange of ideas and values across sectors, across disciplines, and between theory and practice.

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