Philanthropy and Social Investing

BLUEPRINT 2010

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Lucy Bernholz

BLUEPRINT research + design for philanthropy r+d

Stanford SOCIAL INNOVATION REVIEW

Blueprint Research & Design, Inc.

Printed in the United States of America

Blueprint Research & Design, Inc.
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ISBN 978-0-615-33867-5

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WHAT IS THIS MONOGRAPH?

Philanthropy, social investing, and the social sector are rapidly changing. This monograph, *Philanthropy and Social Investing: Blueprint 2010*, provides an overview of the current landscape, points to major trends, identifies meaningful innovations, and directs your attention to corners where we can expect some important breakthroughs in the coming year.

Why is it called a blueprint?

A blueprint is a guide for things to come as well as a storage device for decisions already made. It is grounded in professional wisdom and personal interests. Good blueprints, like good buildings, fit their environment, reflect a thoughtful regard for resources, are carefully engineered and aesthetically pleasing, functional and intriguing. Blueprints guide the work of masters and are informed by those who know their crafts, they can and must be adjusted as the work proceeds, and they offer a starting point for future improvements. Good blueprints require a commitment to learn from place, to listen to those for whom they are drawn, and to use a common grammar to communicate the results of countless sketches and discarded first drafts.

Blueprints are perfect metaphors for philanthropic planning. This document will help you plan for the coming year.

Who wrote this document?

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How frequently is the Blueprint updated?
Blueprints are produced annually and published in December of each year. In-depth research on the topics covered is available by arrangement with Blueprint Research & Design, Inc.

Where can I get more information on the topics discussed?
The award-winning blog, Philanthropy2173, provides regular coverage of trends that matter to philanthropy and social investing. Free subscriptions to the blog are available by email and online at www.philanthropy2173.com.

Bulk copies of 100 or more are available by contacting Blueprint Research & Design, Inc. at 2010blueprintrd.com. Single copies can be purchased online at www.blueprintrd.com.

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SEEING THE WHOLE LANDSCAPE

> **From out here the whole problem of site selection looked somewhat different. I realized I wasn't just looking for a view, but for something more personal than that – a point of view.** *Michael Pollan*[1]

Before you build a building – be it a hut, a house, or a high rise – you need to figure out where to put it. What you build will both draw from the site you choose and also add to it. The starting point for this 2010 philanthropic blueprint is to help situate us in our landscape because the ground – the business of giving, or philanthropy – is rapidly shifting.

Imagine you had an atlas that could show you the various forms of philanthropy and social investing. In atlases of old, the first page would present the landscape as we know it – the topographic features with which we are familiar. On top of that would be a series of transparencies – one would show political boundaries, the next might show roadways and railroad tracks, and the third might zoom in to the buildings and industries of the people who live in that place. A modern analogy, of course, is to imagine you are looking at an online map of a place you know well. You can click through – from a view of the terrain to one of street maps or a hybrid of both, and even zoom in to a street-level view with photographic overlays.

Keep this analogy in mind, but imagine that the forms we are looking at are not land features but forms of funding and enterprises within the social sector. What would such an atlas or online map look like in 2010?

First page – a familiar landscape

The first page would show you well over one million nonprofit organizations, nonprofit enterprises that support communities through educational programs, health care, arts and cultural activities, environmental conservation, and human services providers. You would also see almost 100,000 grantmaking foundations, organized around a family legacy or a community, working hard to advance the causes they care about. Interspersed among these would be another 100,000 or more donor-advised funds, many of them run by the same individuals who sit on the foundation boards. Looking closer you would notice tens of millions of individual donors, each of whom makes small gifts that are hard to see from up high, but who collectively account for the vast majority of private giving. This is eye-catching, but all seems rather familiar.

Second page – hybrids

Turning the second page – a transparency – would reveal several new features that are each a hybrid of preexisting enterprises. There are groups of funders focused on using investment funds as well as grant dollars to pursue their goals ("impact investors"). There are corporate social responsibility programs, public/private partnerships and the White House's new Social Investment Fund. There is a vast expanse marked "social enterprise," which includes a jumble of nonprofits seeking earned revenues and for-profit businesses with social goals as well as a blurry area on the outskirts where you may find more rhetorical argument than innovation. Near the edges of this page are other entities, well dispersed and small, but definitely visible, called social venture capital firms, social investment banks, and a small number of social investment or social stock exchanges.

The hybrid funding forms bring together familiar business practices – such as earned revenue or returns on investments – with the mission and purposes usually associated with the social sector. The new forms of profit-making enterprise dedicated to producing social good include some called B Corporations and others marked L3C (for low-profit, limited-liability corporation). This page also contains connections between these funding and enterprise hybrids; they are labeled "Social Capital Markets conference," Investors Circle, Aspen Network of Development Entrepreneurs, and Global Impact Investing Network. There are nascent forms of social investing exchanges and new measuring systems, new journals for professionals and donors, and even new legal code.[2] Some of the forms on this page are outlined in dotted lines, as they are still in development.

Third page – connectors

Turning the next page – also a transparency – puts a web-like layer over the whole landscape and reveals a vast system of connectors linking the earlier features – almost as the interstates, railroads, local roads, and back alleys would in an atlas of old. They are avenues between and among the funders and the enterprises. The equivalents of local roads take many forms. Some are community foundations, banks, trust companies, attorneys, or accountants. Others are consulting firms, wealth managers, and multi-family offices providing philanthropic advising and management services. A few are trade and membership associations. These roads offer a genteel pace and unique scenery, but then feed into a vast network of faster-moving highways. The interstates include online sites that help donors give, the companies that provide "donate now" technologies to nonprofits, and online marketplaces that match donors to projects and organizations. There are online social networks for donors, and online communities for foundation staff and trustees. We also see what looks like a river of energy, where new technologies including mobile phones and text messaging are being used to organize, move money, make change, and move on.

With this basic topography in mind you can consider the implications for your own giving or social investing. The next section in this Blueprint 2010, "Key Features on the Landscape," looks at three developments that matter because they change how money moves in the social sector. It offers an assessment of their influence and also notes risks involved each one. The next section, "2009 Revenue to the Social Sector," includes trends and predictions for revenue to the social sector in 2010 (grants, public money, and impact investments). Following this, "Innovations that Matter" highlights some developments that are likely to grow in influence through the course of 2010. Next, "2010 Wildcards" describes events and decisions that we know will come to pass in the next 12 months, although their impact is unpredictable. Finally, we offer several "Design Options" for donors and social investors to consider as you plan, implement, and assess your work over the coming year.

There is a lot of experimentation and variation in philanthropy right now. As we flip through the atlas pages of private funding for public good, we see an increasingly varied and dynamic range of features. This *Blueprint 2010* is intended to help you fit a blueprint for your own activity into this landscape.

2

KEY NEW FEATURES ON THE LANDSCAPE

Of all the details in the atlas only a few deserve concentrated attention here. Heading into 2010 there are three features in particular with which an informed philanthropist should be familiar. The key developments include impact investing, hybrid organizational structures, such as B Corporations and L3Cs, and new platforms for information. We believe these developments matter for three reasons:

- In some cases they offer effective alternatives to traditional giving.
- They may complement a particular grantmaking strategy.
- Collectively, they shift the options for each actor in an interest area, be it education, environmental conservation, or artistic creativity, within which grantmaking occurs.

Each of these three developments is described below, including examples and attendant risks.

Impact investing

Impact investing is the increasingly popular term for investments that generate social or environmental value as well as financial return.[3] This type of investing is also sometimes called "socially responsible," "social," "mission" or "program-related." Some foundations use portions of their endowments to buy equity stakes in low-income housing developments, for example. Funders who are interested in climate change might invest endowment assets in sustainable energy companies as a complement to their grant support for rainforest preservation. Over the last decade, many donors both large and small have taken part in providing loan guarantees to microfinancing institutions; Schwab Charitable Gift Fund even makes this option available to individual donor-advised fund holders. The general idea is to dedicate more resources to one's social mission than is possible just through available grant dollars, while also sticking to one's investment goals.

> **Impact investing is the increasingly popular term for investments that generate social or environmental value as well as financial return.**

While variations on these practices have been around for decades, 2009 was a boom year for attention to and investments in tools that support the industry of impact investing. First came a report that framed the concept; then a new international network of investors was launched, the Global Impact Investing Network (GIIN). Similar initiatives, such as the launch of the Aspen Network of Development Entrepreneurs (ANDE) and the second annual Social Capital Markets Conference provided further high-level awareness and deal making. Impact investors are introducing a variety of new tools, measures, and jargon into the world of nonprofits and social benefit organizations. Whether or not you choose an impact investing strategy, the ripple effects of this growing movement matter to philanthropists.

Along with the direct impact of their investments, these networks of investors are driving developments in three areas: new ways to measure the impact of social investments, a new software platform for tracking their performance, and the launch of a transnational social-investment exchange that is likely to take hold in 2010 after several years of planning and a great deal of work in 2009.

- Measures: With the support of the same funders as those behind GIIN, the Global Impact Investing Reporting Standards (GIIRS) are under development, using a shared taxonomy called IRIS (Impact Reporting and Investing Standards). These should be in public beta test stage in 2010.
- Acumen Fund, in partnership with Google, Salesforce.com, and others, launched its PULSE platform, a system for measuring progress across a funder's grant or impact investment portfolio. It also will be in beta testing during the first half of 2010.
- NeXii is an online site that will offer donors and impact investors the tools and information to donate to or invest in a wide range of socially and environmentally positive enterprises, both nonprofit and for-profit. It was created in the third quarter of 2009 from the merger of two formative precursors, MissionMarkets and the Global Social Investment Exchange. The site will allow registered investors to process, track, and facilitate grants and investments in much the same way online stock trading sites let you manage your investment portfolio. The launch is scheduled for 2010.

Risks Much of the research and network-building for impact investing was funded by grants from the Rockefeller Foundation, along with Google.org, Salesforce.com Foundation, the Annie E. Casey Foundation, and the W.K. Kellogg Foundation. The Rockefeller Foundation alone accounted for more than $5 million in grants to support the field of impact investing in 2008 and 2009. How long that level of funding can continue and whether or not these markets can sustain themselves without that funding remain to be seen.

Another challenge in the world of impact investing is the number of definitions and activities it encompasses. Active investing strategies run across a broad spectrum, from loans and program-related investments (PRIs) to equity holdings and loan guarantees. At present, there is no industry standard for measuring the size of the impact investing market. Early discussions are underway about the development of an impact investing index that would allow the market as a whole and its subsectors to be tracked over time. Look for the development of such an index or other market measures in 2010.

Hybrid organizational structures

The second key feature on the 2010 landscape comes in the form of hybrid organizational structures such as B Corporations and L3Cs. These corporate forms allow profit-making enterprises to give high priority to social and environmental goals in their official incorporation documents. They draw from analogs in the United Kingdom and the Netherlands. B Corporations (the "B" stands for benefit) have taken off since their launch in 2008. In October 2009 there were 190 registered B Corporations in 31 industries with a collective market capitalization of $1 billion.[4]

> **New hybrid corporate forms allow profit-making enterprises to give high priority to social and environmental goals in their official incorporation documents.**

Similarly, the L3C – a low-profit, limited-liability corporation – received significant legislative support in 2009. From its start in Vermont in 2008, the legal form of L3C was approved in four states (Illinois, Michigan, Utah, and Wyoming) and in two Indian nations (Crow and Oglala). Legislative proposals are moving through the process in Arkansas, Missouri, North Carolina, Oregon, and Tennessee. The L3C structure is specifically designed to support for-profit ventures that have a primary goal of performing a socially beneficial purpose. It was designed to fit with IRS regulations for PRIs by foundations.[5]

In addition to hybrid enterprises, funders are organizing in ways that reflect a new interest in joint investments. Two organizations in particular are worth mentioning, the Growth Philanthropy Network and SeaChange Capital Partners. Both of these represent opportunities for funders to join together to make pooled investments in nonprofits that have been vetted and are positioned for significant growth. Modeled somewhat on investment banks and on the early successes of the ventures such as New Profit Inc. and the Edna McConnell Clark Foundation's

Growth Capital Aggregation Pilot, these two funds are worth watching as they seek to raise tens of millions of dollars in growth capital for their specific nonprofit enterprises. Other noteworthy players in this new marketplace for growth capital include the industry leader Nonprofit Finance Fund and the Center for Applied Philanthropy. Venture capital firms with a focus on social ventures include Underdog Ventures, City Light Capital, and Good Capital.

Risks Both B Corporations and L3Cs are new corporate forms and there are still tax issues to be worked through with the Internal Revenue Service and state attorneys general. Foundations and individuals should seek legal counsel before investing in these enterprises.

Standard measures for the emerging industry of investing for social and environmental impact do not exist, although there is much experimentation and innovation underway. Funders and investors should review the many frameworks that are being developed to measure impact, find the ones that best align with their objectives, and actively engage with the enterprises themselves and developers of the standards before making investments. The biggest challenge in 2010 may be sorting among the myriad options.

New platforms for information

The third major development on the landscape is the rapid evolution of information sources for donors and investors. Whereas expertise was once the province of professionals, a growing number of online, accessible databases now provide a range of information for donors and investors. The trend is very similar to the early days of online stock trading and the new sources of information come with all the same opportunities and cautions. Publicly reviewed, vetted information on nonprofit financial accountability is the most prevalent type of data. Well-known sources include the Better Business Bureau, the Urban Institute, and GuideStar. A second tier of information on nonprofits includes ratings. Popular online sites that rate nonprofits include Charity Navigator and GreatNonprofits, which operates in partnership with GuideStar.

Information on social entrepreneurs and social enterprises is also moving online in a publicly accessible way. Several of the most well-known funders of social enterprises have combined their databases into a single, searchable source. This information is available through the Social Entrepreneur API. Other one-stop shops for information on causes, petitions, giving opportunities, and volunteer opportunities include SocialActions and AllforGood. The vetting methodologies of each site and each data source vary significantly.

There are few publicly accessible data sources on impact investing opportunities. This is likely to change in 2010. Currently, there is a searchable database of approved B Corporations, a list of L3Cs, and a searchable deal database available from Good Capital at www.xigi.net.

Finally, there are dozens of marketplaces for online giving – websites that facilitate a quick and easy online donation. Familiar names in this arena include GlobalGiving, Kiva, MyC4, DonorsChoose, and Network for Good. Behind each of these sites is a vetted database of nonprofits, projects, and social enterprises.

Professional program expertise is no longer the exclusive purview of foundation professionals, but is now available from an entire industry of independent analysts.

The importance of these information platforms is their collective provision of massive quantities of data on the non-profit sector and giving opportunities. As "raw data" sources move online, we are beginning to see efforts to search across the different databases, set standards for the data, and allow comparative analysis. This work is in its very early stages. We expect a lot of experimentation and buzz in 2010.

Risks Each of these sites provides information on the methodology it uses to collect and analyze the data provided. Donors or their professional staff should review the information carefully. There is no industry standard for what kinds of information should be gathered, how it should be presented, and how donors should assess the data on one site against information available on another.

These sites provide information on individual enterprises – be they nonprofits or social enterprises or projects. Rarely do these data sources provide an overview of the issues or causes that the organizations in their databases are working on. We will see a good deal of experimentation among online sources to provide this kind of information and research in 2010. These developments are covered in the section "Innovations that Matter."

3

2009 REVENUE TO THE SOCIAL SECTOR AND 2010 PREDICTIONS

Heading into 2010 the question on everyone's mind is how revenue for the social sector will compare to previous years. Revenue for the social sector comes from three primary sources: the public sector in the form of government contracts and grants; philanthropy, including foundation, corporate, bequests, and individual giving; and impact investing. We break down our predictions along these three lines, focusing on the largest factors within each source.

In each of these sectors, there is often a 6–18 month lag time between action and reports on actual revenue. Actual data on philanthropic giving in 2009 will not be available until July 2010. Those numbers will be revised again at the end of 2010 and in the middle of 2011.

Public money

Nonprofits in 2009 were devastated by cuts in state budgets. One of the biggest forces to watch in 2010 will be funding to nonprofits from the American Recovery and Reinvestment Act (ARRA) of 2009. This Act, commonly known as the Stimulus Package, authorized new dollars, entitlements, and tax cuts totaling more than $700 billion. The actual new funds available through contracts, grants, and loans will total $275 billion over the next year.[6] These funds are available to businesses, public agencies, and nonprofit organizations. The eligibility rules vary significantly for different sectors and tracking the funds available specifically to nonprofit enterprises is difficult. However, depending on your specific areas of giving, the following sampling of ARRA funding streams may be relevant:

- ***Arts:*** The National Endowment for the Arts reported 630 grants to arts nonprofits for a total of almost $30 million. ARRA funds for the arts are fully spent.
- ***Community Development:*** The Department of Housing and Urban Development's Neighborhood Stabilization Project made $16.7 million in grants to five nonprofit organizations to purchase, rehabilitate, and resell foreclosed properties.
- ***Education:*** The Department of Education will provide $4.35 billion in Race to the Top Funds.
- ***Environment:*** The Department of Energy has $22 million for community based renewable energy projects. The Department will invest more than $1.2 billion in geothermal, solar, and alternative biofuel development projects.
- ***Health:*** The Department of Health and Human Services will provide more than $2.8 billion to expand and improve community and county health clinics. It has already spent $46 million from its Strengthening Communities Fund, which was set up by ARRA to help poor people during the recession.
- ***Historic Preservation:*** The Department of the Interior made more than $14 million in grants to 20 historically black colleges and universities to preserve their facilities.

Some of the stimulus funds have already been spent (21 percent of the total, as of November 2, 2009), but the majority available for nonprofits will be allocated in 2010. A June 2009 report from GuideStar showed that one-third of nonprofits surveyed had reported increases in their budgets, a surprising finding that many explained via stimulus money. Obviously, these funds will not be available to all kinds of nonprofits equally. A key analysis for 2010 will be to track the uses and impact of funds actually granted, contracted, or loaned to nonprofit organizations.

It is important to note, however, that revenue relief from these new federal funds may not offset the impact of state budget cuts.

Philanthropy

Based on data from the Foundation Center and GuideStar the prospects for a strong giving year in 2009 are thin, and the predictions for 2010 are even worse. The Foundation Center projects foundation giving to drop between 10 and 13 percent from 2008 to 2009, and again from 2009 to 2010.[7] Early predictions about individual giving for 2009 range from flat to declines of 3–4 percent.[8]

Giving in the U.S. also declined from 2007 to 2008.[9] 2008 giving totaled $307.65 billion with individuals accounting for $229.8 billion of that (75 percent). Foundations gave $45.6 billion (14 percent). The remainder came from bequests ($22.66 billion, 7 percent) and corporate giving ($14.5 billion, 4 percent).

If foundation giving drops approximately 10 percent in 2009, that would mean almost $4.5 billion less for a total of only $41 billion in 2009 against the $45.6 billion in 2008. Another 10 percent drop in 2010 would mean the loss of an additional $4.1 billion for a total of $37 billion.

If individual giving drops at 10 percent each year, that would mean a loss of $23 billion in 2009 for a total of $206 billion. For 2010 the loss would be nearly $20 billion for a total of $186 billion. As of November 2009, online giving by individuals was keeping pace with 2008 in terms of numbers of transactions, though the average gift size was smaller than one year ago. Trends in online giving point to December as the key month for giving, accounting for more than 20 percent of yearly transactions and 48 percent of all funds raised online. [10]

As bad as these scenarios are, they do not account for two variables that could make the overall picture even worse. First, foundation giving is usually calculated on running averages over a 60-month time period. Their 2009 budgets were set on asset averages that included parts of the boom years of 2006 and 2007. To prevent catastrophe among their grantees in 2009, some foundations kept their payout rates high. It is unlikely they will continue that practice in 2010 as the impact on their endowment corpus will be too great. Thus, even as the need continues, foundations are likely to keep payouts to a minimum. As most set their budgets for 2010 in Q3 of 2009, the rise in the markets in late 2009 will also not be a factor. Most significantly, foundations will be calculating their budgets for 2010 on bases that include the 24 percent average investment losses suffered in 2008 and early 2009.

If foundation giving drops another 10 percent in 2010 it would mean the loss of an additional $4.1 billion for an annual total of $37 billion.

Second, donor-advised funds, a very popular giving vehicle, have been spending their funds at a greater rate than they have been replenished. For example, a study of community foundations in the U.S. found that the majority of their grant dollars came from donor-advised funds.[11] When the economy soured in the third quarter of 2008, many donors gave generously from these funds, which had already been set aside for charitable purposes. However, they have not been replenishing the resources in those funds. In October 2009, for example, Fidelity Investments, the largest charitable gift fund in the country, reported a 27 percent drop in gifts into the fund compared to the same period last year. When donors with donor-advised funds do their end-of-year giving in 2009 they are likely to find barer cupboards than they did earlier.

Risks We do not know how much smaller the nonprofit sector will be by the end of 2010. Early predictions of mass mergers and acquisitions had not played out by the end of 2009, but it may well take longer than 12 months for these closures to register. The IRS has been reporting that applications for 501 (c)(3) status continue apace. One unintended short-term consequence of nonprofit closures may be even greater declines in giving. In the near term, donors will simply lose one giving option. We do not know whether they will adjust their giving practices to find an alternative worthy recipient or will simply hold on to the funds they would otherwise have donated.

In addition, 2009 brought to light the full weight of investment scandals and governance oversights. While the beginning of the year was marked by revelations of huge losses in the philanthropic and nonprofit sectors due to the Madoff Ponzi scheme, the last few months of the year were even more depressing, as signs began to appear that the wrongdoing may have extended into the philanthropic sector itself and lawsuits were being filed against some of the same funders who had reported huge losses. Estimates of the assets lost to Madoff just from the Jewish philanthropic community topped $2 billion. The damage done to the nonprofit sector's reputation and to donors' trust levels may prove to be even greater. 2010 also may be the first time in which annual giving totals need to factor in funds "clawed back" from charities as part of the recovery effort associated with the Madoff scheme.

2010 may be the first time in which annual giving totals need to factor in funds "clawed back" from charities because of the recovery effort associated with the Madoff scheme.

Finally, it should be noted that a new IRS reporting form is now in use by nonprofits. The IRS will require shifting to this new, more informative report over time (larger organizations begin sooner, smaller ones have more time to prepare). This new data source is a key improvement for the sector. As with any increase in transparency, however, we should expect that the increased information will reveal more problematic management and governance practices than we otherwise would have seen. This may cause a variety of ripples through the nonprofit sector, from new regulation to enhanced oversight and calls for additional measures to improve transparency and provide evidence of impact.

Impact investing dollars

The one growth area in the landscape in 2010 is likely to be impact investing. Late in 2009 the Gates Foundation announced a $400 million pool of funds for low-interest loans and Goldman Sachs donated $300 million for community development and small business loans. Both gifts are significant moves in this area. At this point the most we can say about the level of impact investments as a whole is that in 2009 it ranges from a low represented by the $4-5 billion spent in mission-and program-related investments to a high of $2.71 trillion managed in socially-responsible asset funds. This range is too wide to be useful. A 2009 survey of foundations that use some of their endowed assets for mission-related investing found a predicted increase from 4.7 percent of assets invested in mission-related activities to 6.9 percent by year end. This trend is encouraging, though the survey sample size was quite small.[12]

Until we have better baseline data on the various subsectors in impact investing and in the market for these investments as a whole we are flying blind in terms of measuring its growth. One important achievement in 2010 would be the development of an impact investing index, even in an alpha, or early-testing, form.

4

INNOVATIONS THAT MATTER

There are three innovations that warrant continued attention in 2010. These include the next stage in the development of information platforms for donors, peer networks, and emergent social investment exchanges.

Information landscape

The development of new platforms for information was discussed earlier as one of the three key features to watch in the landscape of philanthropy and social investing in 2010. Unlike the raw data sources provided by GuideStar and others, online analysis for and about philanthropy and social investing are just now evolving. Effective, market-dominant methodologies have not yet emerged. McKinsey and Company prepared a review of these sites in 2009 that is available from the Foundation Center.[13]

As baseline data sources become established, we can begin to see the next cycle of innovation, although we cannot yet pick winners. These new innovations take two general directions. One revolves around data visualization, that is, graphs and pictures of data that analyze an issue in a contextualized way. The other consists of new sources of research and analysis that are specific to philanthropic and social sectors.

Both of these directions are part of a new model that moves beyond basic data to analysis. Think of it this way: GuideStar and similar sites are the donors' equivalent of the EDGAR website for investors – they provide a one-stop shop for required documentation. The new sites aim to go beyond data and offer donors research and analysis specific to the social sector, in a broadly consumable manner, such as an investor might get from a private research house.

Four independent brokers of research and analysis for donors provide examples. First, the University of Pennsylvania's Center on High Impact Philanthropy offers analysis of broad issue areas and is developing a metric for philanthropy called "cost of benefit." This independent research center is funded by Wharton alumni and makes its research available on the Internet. A very different example is FasterCures, an initiative of the Center for Accelerating Medical Solutions. FasterCures is rolling out a philanthropy advisory service that delivers top-quality research about effective giving to individual donors interested in disease research. Its goal is to align philanthropic dollars behind "best in class" options. A third example, New Philanthropy Capital from the United Kingdom, is now several years into offering sector-wide analyses of certain issues, such as homelessness and foster care, that are geared specifically toward donors. Finally, Philanthropedia, a newcomer launched late in 2009, is an online source of recommendations for giving that offers donors recommendations from foundation professionals and other experts. It also provides information about its own preferred "mutual fund-like" portfolios of fundable organizations around specific social causes.

While the examples noted above are independent brokers, some foundations are also beginning to move their analysis online. Grantmakers for Film and Electronic Media offers an online database of fundable media projects. The PRI Makers Network has a database of program-related investment opportunities for its members. A collaborative project of several funders and TechSoup Global has just launched an online searchable Repository of Exempt Equivalent Organizations to assist U.S. donors in finding tax-compliant opportunities overseas. Foundations and nonprofits alike can share their own research on several sites: IssueLab, an online catalog of research; IdeaEncore, a repository of tools and templates; and the Foundation Center's PubHub, which catalogs issue-specific reports and studies commissioned by foundations. Finally, large foundations are also making their staff expertise available. The Gates Foundation has a partnership with J.P. Morgan Private Bank to share information between foundation professionals and donors. The Pew Charitable Trusts, which funds deep research into preschool education, ocean conservation, global attitudes, and journalism, among other issues, also makes the Trusts' program staff available to share their expertise with donors with aligned interests.

National networked databases of comparable information on projects and organizations may soon exist as community foundations across the country launch online knowledge centers independently or in partnership with DonorEdge, Blackbaud, Razoo, or other vendors. If some of the focus on government data access and openness bleeds over into the philanthropic sector, it may even be successful in opening up the IRS database of exempt organizations. Nascent efforts such as NonprofitMapping.org represent the potential power of crowd-sourced volunteer efforts to open up existing systems. There are enough examples for us to predict a time when publicly accessible, comparable, searchable data on fundable enterprises, programs, and people is readily (and cheaply) available.

> **National networked databases of comparable information may soon exist as community foundations across the country launch online knowledge centers.**

Of course, online social networks are one of the fastest growing sources of information for some demographic groups. Nonprofits and social enterprises are growing increasingly savvy about sharing information online through Facebook, LinkedIn, and Twitter. Users of these networks are monitoring their information sharing with increasingly sophisticated tools and are learning to unleash the power of their existing supporters to build awareness and commitment to their causes. Peer-to-peer information sharing through these sources is on the rise.

Risks Online data sources should make it very easy to understand their methods for collecting, analyzing, and presenting data. Whenever this information is not available or is unclear it is a cause for concern.

Effectively, data for most of these sites comes from the Internal Revenue Service and state tax boards. Although nonprofits are required to file tax forms each year, in reality there is an extended grace period for these filings. In addition, data on nonprofit finances is self-reported to the IRS. Both of these factors mean that the lag time for data is much longer than for corporate enterprises and much longer than investors will be used to. The most reliable source of aggregated data about giving comes from GivingUSA and the Foundation Center. These sources break out giving by donor type (individual, foundation, etc.) and are based on surveys of nonprofits and sampling of foundations and are often adjusted over time as more data become available.

Funding networks

Technology-based networks are unleashing the power of human networks and these networks are, in turn, changing organizations. Internet analysts such as Clay Shirky, author of *Here Comes Everybody*, has literally written the book on these changes and their implications for how work gets done.

One of the most robust forms of information exchange in philanthropy is the peer network. These include giving circles in which individual donors band together to learn about and address a common cause. Some of these giving circles are open only to individuals, others welcome individuals acting on behalf of their family foundation or in regard to a donor-advised fund. Social Venture Partners (SVP), an active giving circle, currently has chapters in 20 U.S. cities, in Canada, and in Japan, and involves some 2,000 people. The Philanthropy Workshop (TPW) and The Philanthropy Workshop West (TPW West) both provide structured peer networks focused on learning. The Young Presidents' Organization (YPO) allows business peers to learn with and from each other and has dedicated tracks focused on social enterprise and philanthropy. In 2009, philanthropy by women was one of the few areas that showed robust growth, and this was in part a result of the "Women Moving Millions" campaign led by the Women's Funding Network, an international alliance of more than 145 organizations.

Table One: Networks of donors and foundation professionals (illustrative)

Table One provides a snapshot of the types of networks that exist. There are more than 20 regional associations of grantmakers across the United States that provide programs and joint giving opportunities to foundations and corporate grantmakers. There are another 70 or so

Type of Network	Example	For Whom
Peer learning	TPW and TPW West, Aspen Philanthropy Group, Global Philanthropy Forum	Donors and family foundation board members
Co-investing and collaborative giving	Investors' Circle, Global Impact Investing Network	Social investors
Professional, issue-based	Environmental Grantmakers Association, Grantmakers in the Arts	Foundation staff, by program area. A few include individual donors.
Identity specific	Hispanics in Philanthropy, Women's Funding Network, Jewish Funders Network	Individual donors and family foundations

Adapted from philanthropy2173 and http://www.ssireview.org/opinion/entry/flying_over_philanthropy/

affinity groups, such as Grantmakers in Education, the Consultative Group on Biodiversity, and Asian American/Pacific Islanders in Philanthropy.

There are associations and networks for foundations with only a few staff members (Association of Small Foundations), for donors or foundations interested in mission-related investing (PRI Makers Network, More for Mission), and for others interested in global philanthropy (Global Philanthropy Forum, Synergos). There are also several networks focused on social investors, including the Global Impact Investing Network, the Aspen Network of Development Entrepreneurs, attendees of the Social Capital Markets Conferences, and the Investors' Circle.

Each of these groups operates differently, but in general they are open to foundation trustees and staff, individual donors above certain financial thresholds, and corporate social-responsibility managers and foundation officers. They offer research, networking, and varying levels of insight into joint transactions and deals.

More to the point, however, is the rise of these networks in general. Peer networks of donors, of program officers, of nonprofit CEOs, and of board members are all 1) easier to organize now because of technology, 2) useful to members because as part of a network they can more easily share data and insights, and 3) changing how we think about expertise. Professionals who run foundations and nonprofits are used to having access to their peers in other organizations, and the tools to do so (conferences, listservs, affinity groups, funding collaboratives) have long been part of the infrastructure of their workplaces.

What is new is the development of a similar infrastructure for the volunteers who fill the philanthropy and social investing sector, especially donors, board members, and activists. Technologies that connect people – by interest area and with robust access to shared data sources – are readily available. Just as environmental program officers in large foundations have a peer group of environmental program officers at other foundations, environmentally-focused donors are now connecting directly with their peers online. This is also true for regionally-focused donors, individuals who share a diaspora experience, and those committed to global giving. The Acumen Fund shows how a data-driven portfolio approach can be used to attract donors to new forms of investing. The Global Impact Investing Network, Investors Council, SeaChange Capital Partners, and Growth Philanthropy Network, are all examples of networks for donors and social investors.

These networks matter for philanthropy in ways we are only just beginning to see. They are fundamentally shifting how philanthropic communities organize and what value they bring when they come together. An understanding of the value of community foundations, for example, has shifted in recent years. After national donor-advised funds eroded the foundations' advantage as a transaction processor, the value of community foundations was found in the knowledge that their boards and staff bring to community philanthropy. Now, new online data sources and networks are pushing these foundations to build business models around that knowledge.

Even more important, a lot of the expertise that matters can now be found in independent networks of donors and partners. The connections that these networks and their expertise and donors have with any specific foundation may be transitory. They are definitely not monogamous. Donors have lots of interests, lots of giving vehicles, and lots of advisory sources. Donor networks are fluid, multi-networked, and informed by cheap or free data. The value that foundations or advisers offer will come from strengthening or informing these networks, not from forcing donors into their established structures or business models.

These peer networks represent two things, one we can point to for sure and one we can speculate about. First, they show just how the market is rebundling both financial products and knowledge products in philanthropy – the donors are doing it themselves. As peers find peers, and peer networks find data, the role of the professional changes. Staffing a single foundation may cease to make sense. Professional advisers will need new skills.

Second, these peer-supported, data-informed, passion-activated, and technology-enabled networks may just represent a whole new structural form in philanthropy. In 1913 John D. Rockefeller established the first American foundation. He needed an institution that could provide financial and knowledge services for his philanthropy for the long term. Today's re-bundling of data by peers hints at new needs. Network weaving and just-in-time data matter more than they did in 1913, and the structures that support today's foundations will need to be as flexible, scalable, and portable as the networks they will serve. On the cusp of the first American foundation's centennial, we may be looking at the dawn of a new complementary form.

Given the multiple sources of information both online and off, the big opportunity for donors in 2010 and beyond is to be effective in organizing and synthesizing the available information. I anticipate a good deal of experimentation around new ways of finding, cataloging, displaying, using, and sharing data going forward, especially in pursuit of cost-effective ways to manage the flood of available data. Some funders may begin to look for algorithmic support (recommendation software) in addition to paid professional staff. We will see more experimentation with crowd-sourced recommendations. The future of Growth Philanthropy Network or SeaChange will indicate an appetite for co-funding and leveraging strategies. We will also see tools that leverage existing due diligence become available for widespread use. How successful these early attempts are will be an indication of interest in using various platforms to find independently evaluated, evidence-based strategies and investment opportunities.

> **Peer-supported, data-informed, passion-activated, and technology-enabled networks may just represent a new structural form for philanthropy.**

The relationship between the information landscape and these networks is key. Philanthropy is too much about personal passion to ever become an entirely rational, data-driven enterprise. For example, Social Venture Partners in Seattle is experimenting with an analysis of its partners' use of social networks to enhance its work in early childhood education. SVP gives us one example of the many social relationships that are forming around data collections – whether the relationships are among peers of donors or doers working to solve a local problem or are within giving circles working with qualitative information. These experiential aspects of giving collectively and from a data-informed perspective will continue to take on new forms.

The combination of online information sources and offline networks represents a reshaping of the landscape of expertise. The skills of professional program staff are no longer found only among foundation professionals, but are also found within an entire industry of independent analysts. A few efforts have begun to organize these independent analysts. In the U.S. there is a National Network of Consultants to Grantmakers, an Alliance for Effective Social Investing, and a certification process for philanthropy planners. New Philanthropic Capital, a U.K.-based research firm, organized the first-ever global gathering for nonprofit analysts in 2009. These are early efforts to set standards of practice, credibility, and ethics for philanthropy advisors and professionals. Although this service industry is rapidly expanding, for the most part, the vetting process and standardized qualifications lag behind.

> **Philanthropy is too much about personal passion to ever become an entirely rational, data-driven enterprise.**

Social investment exchanges

The final innovation that matters is the rise of social investment exchanges. These are similar to online stock trading exchanges, and they offer an individual the option to make grants to nonprofits or to make equity investments in social/environmental commercial enterprises. They differ from the existing online giving markets in the level of information they provide, the due diligence and listing requirements they apply to investment opportunities, and their inclusion of both investment and grantmaking opportunities. The exchanges are also geared toward large transactions from qualified investors, while the giving markets are open to anyone with a generous spirit and a credit card.

Online giving marketplaces are important predecessors to these exchanges. Enterprises such as the South African Social Investment Exchange (SASIX) and GiveIndia modified the model to include the kinds of additional research and deal-making services that exchanges rely on in the financial sector. The success of social investment exchanges will depend, in part, on the success of intermediary services, such as listing services, investment-deal packaging, and the availability of funder syndicates. In many ways social investment exchanges represent an obvious evolutionary next step as independent information platforms and peer networks become predominant. Peer groups want to coordinate and collaborate on social investment deals, whether the specific mechanism be joint nonprofit funding or an impact investment. The exchanges are intended to provide the regulated, visible place for those deals to happen.

Early efforts to build these exchanges are emerging in several countries around the globe. They include plans for a Social Stock Exchange based in London, a Social Stock Exchange Asia based in Singapore, and NeXii, a U.S.-based, internationally-focused exchange that will provide users the full spectrum of opportunities from grants to equity placements. ClearlySo is a London-based start up similar to NeXii in its full-spectrum offerings.

2010 will be a critical year for these exchanges. In the next 12 months critical investor networks will either coalesce or not, and several of these networks will move from idea-stage to deal-flow. In turn, these developments will drive the use of the multiple metrics systems discussed in the first section of this monograph (IRIS and GIIRS).

2010 WILDCARDS

In addition to innovations that matter and trends worth watching, there are several 2010 decisions and issues we can see on the horizon but whose outcome and impact on philanthropy and social investing are anything but predictable. These include:

- Legislation regarding the repeal of the estate tax is due by the end of 2009. Predictions are that the current estate tax rates will be extended at least through 2010. Other key policy issues being debated include proposals regarding IRA charitable rollovers and changes to charitable tax deductibility rates. At the state level, stay tuned for greater public access to nonprofit data.

- Congressional review and oversight of the banking and financial services industry may lead to new services and products for philanthropists. There are also key provisions in the health care reform debates that may influence tax deductions.

- The Federal Trade Commission has extended regulations about promotions in print and broadcast advertising to new media such as Twitter and Facebook. It is unclear if or how this will affect nonprofit and charitable solicitations that use these tools.

- The Obama administration launched the Office of Social Innovation and Civic Participation in 2009. This office has a small budget but a large bully pulpit, and its actions may well influence both rhetoric and reality in 2010.

- The recession of 2008-09 led to widespread predictions of nonprofit failures or mergers. While these did not materialize in 2009, more than half of nonprofits surveyed did reduce staffing during the year. Consolidation may well come to pass in 2010 as giving remains low and demands, especially on human service providers, remain high.

- The Pew Charitable Trusts' Subsidyscope project, which looks at government subsidies to major industries such as transportation, is expected to turn its focus to nonprofits in 2010. These new insights may well ignite new policy proposals about accountability, oversight, payout rates, and tax exemptions.

In addition, major events are on the horizon that will shape the landscape within certain areas of giving. In these fields, we want to keep an eye on:

- Environment: The shape and scope of a Copenhagen Declaration on climate change.

- Health: The status of health care reform in the United States.

- Education: The implementation of a $100 million school-reform initiative by the Ford Foundation as well as the U. S. Department of Education's Race to the Top funding.

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DESIGN OPTIONS: CONSIDERING THE ALTERNATIVES

Philanthropy is not a static thing – it is more dynamic, robust, and diverse than it has ever been. It is global and institutional, local and individual. Both modern commercial interests and ageless religious tenets shape philanthropy. It is personal, passionate, and, sometimes, rational. There are organized influences and individualistic drivers. There are common metrics and areas of profound disagreement and there are active leaders in the field as well as actors who have no interest in being part of a larger field but are focused like lasers on their own work. Foundations are related to each other through legal and regulatory guidelines, but not really much more than that. Some work together, some are actively trying to influence others and share information, and some are not. As we have just seen, donors and nonprofits are only two of the features on a broader landscape of funding for public good.

In addition to changes in where and how money flows, the sources of change on the ground are multiplying. Where does change come from? Potentially anywhere and everywhere. Change can come from individuals, non-governmental organizations, communities, businesses, worship groups. Think of the roles played by restaurants, food policy groups, individual farmers, co-ops, nonprofit associations, and consumers in the organic food movement. Or the ways that consumer product companies, government agencies, local ad campaigns, professional associations, and scientists pursued efforts to fluoridate water – advancing health across the U.S. Or the roles played by philanthropic foundations and public agencies in building public health departments or emergency response (911) systems across the country. This diversity drives, and is driven by, changes in the philanthropic capital markets, development of real social capital markets, and the government. Change is hard, can come from anywhere, and often needs help from lots of different factions.

There are several assumptions about how private funding for public good has traditionally happened that will come up for question in 2010. There is no way to know for sure which of the innovations on the landscape will succeed, and traditional grantmaking may well work for some donors. However, given the likelihood that the nonprofit sector itself will contract, that social enterprise will continue to grow, that new information sources will come online more rapidly than we can track them, and that financial resources will continue to be constrained, wise donors and social investors will be asking themselves these questions in the coming 12 months:

- How likely is it that we alone can pick "potential winners?" Sure, limited resources require choices. But as foundations focus on picking the best organizations to accomplish their goals, they are operating on an assumption that organizations – even great ones – can succeed in isolation. When success is predicated on solving, or even alleviating, complex social challenges, this type of "great organization" success seems unlikely.

  If we think about organizations in systems, then maybe there are two reasons to spread your bets – first you cover more bases and second you inherently invest in the ecosystem of organizations that might be necessary to the success of any particular one. One possible alternative approach would be to use some funds for deliberately smaller grants to lots of organizations doing work on related issues so that the funds support both the organizations and the ecosystem they collectively represent. Parallels for this approach exist in a kind of ecosystem of change created by certain online programs for awarding prizes in philanthropy. See the Buckminster Fuller Institute's IdeaIndex and Ashoka's Changemakers for examples.

- How can we reduce the costs of duplicated due diligence? At any given time there are probably dozens of foundation program officers doing similar due diligence on the same organizations. This costs a lot of money, and the results of each officer's work is limited in its impact. The program officer's work will likely only influence the funds of the foundation for whom the officer works. Every dollar spent on this due diligence is a dollar taken out of the investment/grant budget.

> **As foundations focus on picking the best organizations to accomplish their goals, is it wise to operate on an assumption that organizations – even great ones – can succeed in isolation?**

  There are alternatives. For instance, challenges could be made where the program officers' products (docket write ups, recommendations, budget analyses) would be in direct, blind competition, with the funds following the one selected as best by a group of funders. Over time, this could improve the quality of due diligence and limit the impact of redundancy on nonprofits. Another alternative, already in widespread practice, involves community funds that, with their own due diligence, are trying both to influence "other people's money" and to provide "outsourced program officers" like those at Investing for Good. This is exciting experimentation around the edges of proprietary due diligence.

- How can funders get better insights on the social and nonprofit market in a timely way? Can we learn anything by looking for trends or connections between the way individual donors use the information, metrics, and feedback loops of a GlobalGiving or Kiva and the way foundation decision makers seek information, metrics, and feedback?

Is it possible to connect the expertise of professionals with the wisdom and ground-level insights of local funders and individual donors?

- Why create a foundation in the first place? If an individual cares about a social issue, is an endowed pile of money a useful tool for the job? What about creating media platforms, loan funds for advocacy campaigns, or innovation hubs within public agencies? Might one of these or some other structure work better than a foundation? After 100 years do we still need organizations modeled after the nation's first foundation or could it be that independent networks of analysts who seek deliberately cross-sector solutions be the model enterprise for funding social goods in the 21st century?

Sometimes, our assumptions become so familiar we become blind to them. Funders that are facing generational turnover often run into these assumptions and need help to navigate the choices. This only becomes more important as the choices proliferate; an endowed grantmaking foundation is only one option on the landscape. Recognizing the changing landscape – and all of its dependent parts – may make it easier to navigate, because it puts the choices at some objective distance rather than keeping them "within the family." It also makes apparent how much is up for consideration – from questions of perpetuity to investment policies, roles for professional staff to developing loan portfolios. These are all legitimate strategic considerations.

BUZZWORD WATCH

Philanthropy is filled with jargon. Annual lists of buzzwords are compiled on www.philanthropy2173.com. Here are some buzz phrases you might hear in 2010:

Philanthrocapitalism: Approaches to solving social problems that rely on partnerships between business, nonprofits, and government. The phrase was coined by Mathew Bishop of *The Economist* in his 2008 book of the same name.

Sidecar funds: As in investing, sidecar funds are those pools of charitable assets managed by one large donor for others in pursuit of increased impact. The most well known example is Warren Buffett's large gift of stock to the Bill and Melinda Gates Foundation.

Embedded giving: The consumer-oriented approach of incorporating a gift-giving opportunity into another financial transaction, such as when a grocery store cashier asks you to add a dollar to your bill for a good cause. Also known as "cause marketing," it is ubiquitous during the holiday season.

Mobile giving: The use of text messaging to make a donation. Builds on the widespread access to cell phones and increasing comfort with using them to conduct all kinds of financial transactions.

6

A RAPIDLY EVOLVING LANDSCAPE

Most of us can still clearly remember the dot com boom. For several years in the late 1990s the news was awash of new startups, crazy ideas, and a flurry of new business models (or lack thereof) as innovators and investors rushed to make sense of the power of the Internet. 2010 will feel like that when it comes to online information services and investment exchanges.

As in the 1990s, there are countervailing forces now that we need to consider as we look ahead. First and foremost, participation in the social economy is voluntary for donors. They can opt out at any point. They are not subject to the same systemic market or political forces that drive change across other sectors. Second, while data and information can be platforms for change, not all funders will climb aboard; data do not always inform or drive passion. We cannot presume that the current attention on evidence, outcomes, metrics, and impact are universal or will persist, or that a belief in their value will ever migrate into areas of social good where intuition, direct experience, fun, or passion are shaping forces.

The forces that change philanthropy are easy to see. We can extrapolate from other industries and other experiences. But philanthropy is not like every other industry and it is highly unlikely that it will change in a linear fashion. It is possible that the most important force in shaping philanthropy beyond 2010 is not even yet visible on the horizon.

2010 will be a year of experimentation in philanthropy and social investing. Very important baseline infrastructure and investments – in networks, online information sources, and exchanges – have been made. They will be tested in 2010, particularly as funding resources remain tight. Of course, we will also see new ideas creep in from the edges. Ideas that we cannot even imagine now may well be the talk of the town by January 2011.

2010 will be a year of experimentation in philanthropy and social investing. Important innovations in networks, online information sources, and exchanges will be tested and new ideas will creep in from the edges.

As we review our atlas of private funding for public good, we see an increasingly varied and dynamic topography. And it is easy to lose sight of opportunities or find the choices overwhelming. Giving is a wonderful thing. Figuring out how to do it well can be frustrating, slow, inefficient, and lonely.

Blueprint 2010 is intended to help you situate yourself in the landscape, inform your choices, and increase your impact.

NOTES

[1] Michael Pollan, *A Place of My Own: The Education of an Amateur Builder,* Delta, 1998.

[2] Previous section adapted from Philanthropy2173 and
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[10] Data from Network for Good, accessed at http://www.nonprofitmarketingblog.com/comments/online_giving_a_lively_spot_in_the_lackluster_economy/
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More for Mission is a network of 58 foundations with a combined $30 billion in assets. http://www.moreformission.org/

[13] Learn more at McKinsey's Social Sector Office website
http://www.mckinsey.com/clientservice/Social_Sector/home.aspx