Philanthropy and Social Investing

BLUEPRINT 2011

An annual industry forecast

By Lucy Bernholz

Philanthropy and Social Investing

BLUEPRINT 2011

Lucy Bernholz

BLUEPRINT research + design for philanthropy

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CENTER on PHILANTHROPY and CIVIL SOCIETY

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WHAT IS THIS MONOGRAPH?

Philanthropy and Social Investing: Blueprint 2011 is an annual industry forecast about the capital markets for social good. Each year it provides an overview of the current landscape, points to major trends, and directs your attention to corners where you 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. Good blueprints, like good buildings, fit their environment, reflect a thoughtful regard for resources, and are carefully engineered and aesthetically pleasing. Blueprints guide the work of masters and are informed by craftsmen. Blueprints can be adjusted as work proceeds and they offer a starting point for future improvements. Good blueprints require a commitment to listen to those for whom they are drawn, and the use of 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?
Lucy Bernholz, Ph.D. has been named a "Game Changer" in philanthropy by *The Huffington Post. Fast Company* Magazine named her blog www.philanthropy2173.com "best in class." She is the HAND Foundation Fellow at the New America Foundation, a visiting scholar at Stanford University's Center on

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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, covers all the trends that matter. Free subscriptions to the blog are available online at www.philanthropy2173.com.

Where can I get more copies?
Bulk copies of 100 or more are available by contacting Blueprint Research + Design, Inc. at 2011@blueprintrd.com. Single copies can be purchased online at www.blueprintrd.com.

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INTRODUCTION

2010 was a roller coaster year for philanthropy and social investing. Lingering effects of the recession kept donations low. At the same time, many of the world's richest individuals publicly pledged to donate half of all their wealth to philanthropy. While donations lagged, social capital markets emerged from infancy into childhood and much-anticipated public investments in social good seemed to teeter on the edge of irrelevance. Positive and negative, growth and retraction – these are the best descriptors of the year gone by. So what lies ahead?

I anticipate that 2011 will be marked by several important developments. First, giving will finally return to positive territory, although the increase will be tiny. Second, social investing will continue to move into the mainstream, including the launch of a much-anticipated social investment exchange. Third, by the end of 2011 we will look back on the last decade as the equivalent of the "dot com" boom when it comes to online giving markets – the year ahead will bring consolidation and sharpening to this saturated space.

First, let me define the terms I use in this monograph. As is always the case in new fields, the lingo and jargon is still emerging. There are multiple terms for some things, and some terminology has multiple meanings. Basically, I divide the universe of actors into two clusters – those who do the work (doers) and those who fund the work (donors). Within each of these categories there are nonprofits and for-profits.

For the purposes of this *Blueprint* series, I use the terms and definitions outlined in the table below.

	Doers (enterprises that produce social good)	**Donors** (funders of those enterprises)
Nonprofit	Nonprofit organizations	Philanthropy
Social for-profit	Social businesses	Social investors

Many other terms are used. Giving, charity, and grantmaking are all terms associated with nonprofit organizations and philanthropy. Impact investor is a common term for social investor. Social businesses are often called social enterprises, although here we choose to use "social enterprise" to refer to enterprises in both for-profit and nonprofit sectors.

While most philanthropy funds nonprofits, philanthropic foundations are increasingly willing to fund or invest in for-profit businesses. While most social investing funds go to social businesses, investments can be made in nonprofit organizations. Funds can flow across the nonprofit/for-profit divide. Nonprofit and for-profit enterprises can, and often do, work together. There are many nonprofit/for-profit joint ventures where the two enterprises are dedicated to the same mission. For simplicity's sake I will stick to the terms identified above.

I think of the entire collection of doers and donors as the social landscape or the social system and provide an image and narrative description of it on pages 34 - 37. Philanthropy and social investing exist in an evolving topography of established institutions and new enterprises. This landscape changes each year through the progression (sometimes continuous, other times punctuated and episodic) of innovations in financial tools, the continued spread of technology, demographic shifts, public sector funding priorities, and changes in the regulations that guide philanthropy and social investing. Rarely does the landscape experience rapid or tectonic shifts. Change in *this* industry, while driven by familiar forces, is slower than in other industries because of the personal nature of philanthropy and the fragmented state of social investing.

In the first section of this *Blueprint 2011,* "Changes that Matter," I highlight the Supreme Court decision in *Citizens United v. Federal Election Committee* that will have significant implications for nonprofit activities, organizational structure, and revenue sources. I also look at the set of choices that all donors, big and small, are now navigating. The mainstreaming of mobile giving, while not as grand a change as the preceding two, shows us that technology continues to offer new tools. Following this section, I note my predictions from 2010 that did not bear fruit.

In the second section, "Forecasting 2011," I make three forecasts about this social landscape. For 2011, I expect a very slight increase in giving, the first uptick since 2008. I also predict that social investing will expand and become ever more mainstream. Finally, I look at consolidation of online giving markets particularly and examine the implications of consolidation for doers and donors.

The next section, "2010 Revenue and 2011 Projections," synthesizes data from several sources about philanthropic giving, social investing, and public sector (U.S. only) funding for the social landscape.

Finally, I present a "Glimpse of the Future" and highlight the kinds of choices all of us will face in the coming year(s).

Blueprint 2011 is written to help you craft a plan for your own social investing and philanthropic goals for the year ahead. I welcome your feedback. Please contact us at 2011@blueprintrd.com with questions, suggestions, or examples of how you used this document.

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CHANGES THAT MATTER

Three important changes will affect donors in 2011.

- Policy: The most important policy change for the social sector in 2011 will be the effects of the Supreme Court's decision in *Citizens United vs. the FEC.* This decision removed prior restrictions on independent spending by corporations and unions on election campaigns. One immediate result of the January decision was to unleash a flood of money to advertising in support of or opposition to ballot measures or candidates. At the same time, because most of this money was channeled through certain types of nonprofits, the decision also has a huge potential impact on these organizations as a class and on public perception of them.
- Donor behavior: A second significant factor for donors and nonprofits in 2011 is the breadth of choices for giving, social investing, and shopping for good that are now available to anyone looking to support social good. Whereas social goods have long been the province of nonprofits and philanthropy, for-profit social businesses and positive-return social investing has expanded to a point where every one of us

now must choose, actively or passively, about how to support the issues or causes we care about. Funders of all kinds, and those who serve them, now have a much bigger canvas of options on which to make a mark.

- Technology: Finally, technology continues to disrupt philanthropy. As it has in so many other areas of life, the mobile phone revolution has now fully entered philanthropy and is beginning to show signs of transforming not just when and how we give but how we organize ourselves for action.

Policy: Known and unknown consequences of *Citizens United*

Much has been written about the political and financial impact of *Citizens United* on election campaigns.[1] Immediately following the elections on November 2, 2010, estimates of independent expenditures totaled at least $450 million, more than twice as much as was spent in 2006, the last midterm election.[2] This includes at least $126 million from nonprofit organizations that do not have to disclose their donors.[3]

The potential impact of the decision on nonprofits as a class of organization and on the public perception of them has been less talked about. First, the change in rules about funding political activity has changed the financial incentives for some tax-exempt organizations and has encouraged them to increase their direct engagement in politics.[4] Most of the funds unleashed by the Supreme Court's decision were channeled through nonprofits organized under specific provisions of the tax code designated as 501(c)(4) or 501(c)(6). While these are separate from the 501(c)(3) designation given to most charitable nonprofits, this legal distinction means little to the general public. The confusion about the role of these organizations in the political process is important for charitable nonprofits to the extent that the public conflates political activity (which they may or may not approve of) with charitable activities. According to *The Washington Post*, 80 percent of all Americans (regardless of political party affiliation) opposed the decision by the Court.[5]

Financial analysts often note that "the market hates ambiguity," and more than in the past charitable donors and nonprofits face an uncertain future about the lines between charitable and political activity. This may lead some to take great risks, but most others will opt for a safer, more conservative approach. The laws that guide a charitable organization's involvement in issue advocacy have long been somewhat vague. The aftershocks of *Citizens United* will include the start of a period of testing, trial by error, and new case law to determine what rules now apply to 501(c)(3) nonprofit organizations. This may please some and anger others, but there will be period of confusion for everyone.

> **The *Citizens United* case opened up more than just a flood of new money to some organizations, it unleashed a new era of nonprofit law.**

Second, while *Citizens United* clearly removed limits on political expenditures it also raised the need for a new look at disclosure requirements for donors. Donors to political parties and political action committees must be disclosed by name within a reasonable amount of time. Legislative efforts to pass stricter disclosure requirements on nonprofits that make independent expenditures failed in the Senate in 2010.

Some legal scholars believe that increasing the disclosure requirements on all donations will result in the Court eventually removing all restrictions on political spending. Others raise the problem of relying on "analog" disclosure requirements in a "digital" age and suggest that donor disclosure needs to be more frequent and timely where political contributions are concerned. Finally, if new donor disclosure rules triggered by political giving were applied to all charitable giving, the shift would likely have a dampening effect on long-held traditions of anonymous philanthropy.

It is unlikely that the courts will resolve any of these questions in 2011. However, it is nearly certain that many new law suits and regulatory rulings will be sought beginning this year. The *Citizens United* case opened up more than just a flood of new money to some organizations, it unleashed a new era of nonprofit law. The effects on the social sector, its activities, and donor disclosure will begin to be sorted out in 2011.

Donors may find themselves being asked to support an organization that does not do direct political work but that has an affiliate organization that does. Clarity of purpose and intention for the funds will be key. As of 2010, tax deductibility and anonymity are still options for non-political contributions. Both funders and organizations will want to avoid confusion by clearly distinguishing between the funds raised and the types of activities they supported.

> **To the extent that individuals add some of their investment resources to their charitable portfolios, the funds available for financing social good will increase.**

Donor behavior: Painting on a larger canvas

Donors are increasingly aware that, in addition to charitable options, they also have social investing alternatives that can be used to accomplish their social goals. Where once they might have focused on grant making to nonprofits, donors to almost any issue area – from the arts to the environment, health, education, and so on – can now reasonably ask if there are social businesses that they should also be considering.

This introduces several opportunities. Donors have more choices, though they may not yet have all the tools they would like to have to inform those choices. To the extent that individuals add some of their investment resources to their charitable portfolios, the funds available for financing social good will increase. For nonprofits, this raises the potential for seeking both grant dollars and program- or mission-related investments from individual donors or foundations. For social businesses, the news about social investing is almost all good. A 2010 study measured the potential market for social investing at more than $120 billion – a significant amount of revenue that appears to be poised to make a difference.

At the same time, the expansion of choices makes choosing more difficult. We lack useful metrics that allow a donor to compare two nonprofits, let alone a nonprofit and a social business operating on the same issue. We lack layered data that show which organizations work where, with whom, with what financing, and with what results so that funders can assess their full market of options.

2011 will be filled with opportunity and, perhaps, some confusion as philanthropic and social investing opportunities present themselves together. Opportunities for donors and social investors to work together and learn from each other are likely to become more common and more popular.

Technology: Change goes mobile

Mobile giving went mainstream following the Haiti earthquake in January 2010. Within weeks the Red Cross had raised $35 million in text donations, and other organizations had raised millions more. As it inevitably does, technology continued to add to the panoply of ways we can donate money.

For several reasons, the real value of the text giving, however, may not be the money it raises. First of all, individual donations on a mobile phone are very small and only truly horrible events are likely to draw the kind of mass attention of the January earthquake. Second, the costs of running a mobile giving campaign are prohibitive for many organizations. Third, the current structure whereby mobile gifts travel through the phone company to a third-party aggregator and then to the nonprofit is slow (it can take more than ninety days for an organization to receive your donation). Finally, there are legitimate concerns about donor data in this process. Nonprofits are held at arm's length by the intermediary aggregators and the telecomm companies. This limits the nonprofits' ability to establish an ongoing relationship with mobile donors. At the same time, donors fear that they will open themselves up to unlimited phone solicitations.

More important than the money raised are the connections that can be forged between nonprofits and supporters who engage with them by email or Twitter. Following the earthquake, many people made a quick small gift and then continued to follow and "evangelize" about the organization they supported for weeks afterwards. The mobile phone is increasingly valuable as a tool for individuals to actively share information about the things they care about. Mobile supporters texted and tweeted and posted updates on their Facebook page about the organizations they supported – becoming large and dispersed marketing networks for their favored organizations.

Text giving is not likely to take off exponentially in the near term, and its actual impact on nonprofits will not be proven for some time. It is still too expensive for many small organizations. Complicated relationships between telecommunication companies, fundraising intermediaries, and nonprofits make it hard to justify the costs of mobile campaigns over online "donate now" buttons. Larger organizations are the most likely to make these investments.

That said, 2010 was still a breakthrough year for the mobile phone and nonprofits. The proliferation of commercial applications built for phones, including location-specific information and discounts, will bleed into the social sector in 2011. I expect that new phone-based payment systems – including PayPal and credit card/debit cards linked to phones – will be tested in both commercial and nonprofit venues. Younger activists and donors are increasingly using their phones as payment systems, event-organizing tools, and their primary link to online information. I expect that we will see several new ways to use phones to donate in 2011. We will also see new mobile games that galvanize people to do good together and new outreach efforts built around mobile social networking tools. One of the largest efforts of this kind is underway right now, as HandsOnNetwork is using phones, Twitter, email, and instant messaging in the world's largest game of TAG! (information is at www.gethandson.com). The goal of the game is to motivate 500,000 people to participate in two million projects that address social needs in their communities.

RENOVATIONS TO 2010 BLUEPRINT

Each year in this Blueprint I look back at the previous year's predictions, highlight what I got wrong, and try to understand why.

In Blueprint 2010 I predicted that at least one social investment exchange would launch. This did not happen, though several initiatives in England, Asia, and South Africa continue their development efforts. One exchange, Mission Markets, an online marketplace for private social investment, did make it into a public phase of beta testing in 2010. But the other exchanges on our radar screen are still not publicly active.

I also anticipated that the number of nonprofit organizations would decrease, largely as a result of the financial crisis. We do not have accurate numbers of nonprofits from 2009 so there is no way to check whether or not this happened. However, contrary to my call, nonprofits in the aggregate were one of the few sectors that added jobs during the last two years. According to the Johns Hopkins University, nonprofit employment grew by about 2.5 percent per year between 2007 and 2009, the worst part of the recent recession. In the same twenty-one states studied, employment in commercial sectors fell by an average of 3.3 percent. [6]

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FORECASTING 2011

Heading into 2011, I see four long-term trends shaping the landscape.

- Giving, which has been basically at a standstill since 2008, will rise, albeit slowly and not by much, in 2011.
- New tools to track giving will gain prominence. These will allow more frequent monitoring of giving trends. The measures and indices might one day be close enough to real-time to actually inform donors as they are making gifts.
- Social investing will move into a second stage of development where innovations once limited to the wealthiest become available to a broader slice of the market.
- Consolidation: Many of the 200+ web companies that provide online transactional support to nonprofits and philanthropic donors will merge or go out of business in 2011.

2011 giving: A slow return to positive growth

It has been a long, hot summer for giving. Aggregate giving totals have been effectively at a standstill since 2008. Giving estimates showed a decline from 2008 to 2009 and I anticipate the final numbers for 2010 (which are not yet available) will show another year-over-year drop.

The primary factors behind these drops include the protracted effects of the 2008 recession on employment rates, net worth, and investment income. Recessionary trends in the first two – high unemployment and declines in real estate value – have their greatest impact on individual donors. Declines in the last one, investment income, drag down institutional giving rates.

I think giving will return to positive growth in 2011. This is not as optimistic a forecast it sounds, because of the low 2009-2010 threshold. Basically, it will be easy to jump over such a low bar. If the 2010 base is as low as anticipated, it will not take a lot of growth to show positive numbers.

Still, there are only a few signs of growth on the horizon. Most important among them is the steadily positive performance of the Standard & Poor's 500 index in 2010. If this index finishes this year (2010) in positive territory, I anticipate a rise in overall foundation and individual giving in 2011. Another factor is the lingering uncertainty about estate taxes heading into the final months of 2010. This uncertainty influenced a fair amount of estate planning and some of the funds held in those plans will "hit the street" in 2011. The high profile "Giving Pledge" is not likely to have much effect on giving totals in 2011.

Despite a gradual turn toward a growth in giving overall, two giving areas, education and religion, show signs of long-term slow downs. Historically, religion has received the bulk of individual gifts while education has ranked first in institutional giving. A study of religious affiliation and giving by baby boomers compared to the World War II generation found drops of more than 10 percent across denominations and over time.

Giving to education dropped 3.6 percent in 2009 and more than 12 percent (inflation adjusted) from 2007 to 2009. Higher education, which is often the recipient of the largest gifts, continued to dominate this top tier. Only four gifts of $100 million had been recorded by the end of the third quarter of 2010 and two of them went to universities (Henry Kravis's gift to Columbia Business School and Marc and Lynne Benioff's gift to UCSF for a new children's hospital). One went to K-12 education (Mark Zuckerberg's gift to Startup: Education). The fourth $100 million gift, from George Soros, went to the global human rights organization, Human Rights Watch.

These mega-gifts have been declining in both size and number. *The Chronicle of Philanthropy* reported a total of seven gifts of $100 million or more in 2009 and fifteen back in 2008. The top ten largest gifts in each of the last three years were worth more than $2.7 billion in 2009, $8 billion in 2008, and $4 billion in 2007.

New tools to track giving

One other factor, rather technical in nature, influences these predictions. In 2010 several new tracking tools focused on giving were launched for the first time. One of these is the Blackbaud Index of Charitable Giving, which reports monthly averages and annual comparative data on funds raised by more than 1,400 organizations with a collective $2 billion in revenue. Two-thirds of the way through 2010 the Index showed increases in monthly averages for five of the eight months reported.

Besides Blackbaud's index, other new measures include reports, though less frequent than from Blackbaud, from Convio, Inc., Target Analytics (a Blackbaud subsidiary), the Association of Fundraising Professionals, and the World Giving Index. The increase in online giving is partly responsible for these new indices – online giving and receiving is much easier to track because the information is already digitized. I think the launch of these new tracking tools also points to the maturation of the giving sector. They mark the beginning of a new era in which many purveyors of data will jockey for attention with established sources such Giving USA and The Foundation Center.

Real-time tracking of giving is not imminent. However, it is possible to imagine a time in the not-too-distant future when donors and enterprises will have access to trend data that are frequent enough and accurate enough that they can be used for planning purposes.

Social investing enters the mainstream

There are three signs that social investing is making a transition from a "startup" to a "growth" phase, even though we still do not have solid baseline measures. Social investing includes all "active" types of socially responsible investing, including foundation program-related investing (PRIs). While we have no agreed-upon count of all of social investing, assets being used this way are many hundreds of million dollars more than the $5 billion in foundation PRIs. At the same time, they are certainly nowhere near the outer limit of the market's potential, which would be the $7 trillion held in socially responsible investment assets worldwide.

Signs of growth include an expansion in the number of social businesses, the establishment of several large funds, and the continuing interest in the sector's efforts to define itself.

On the first point, I look to the growth of B Corporations (the "B" stands for benefit). These have taken off since their launch in 2008. In October 2010 there were more than 300 registered B Corporations in fifty-four industries with a collective market capitalization of $2 billion.[7] The "for benefit corporation" structure also gained legal recognition in Maryland and Vermont in 2010.

Signs of growth in social investing include an expansion in the number of social businesses, the establishment of several large funds, and the continuing interest in the sector's efforts to define itself.

In terms of large funds, we head into 2011 with three large social investment funds up and running. These three funds – Ignia, Blue Orchard, and Leapfrog Investments – each have at least $100 million to invest in social businesses. As important as these large funds are, they also send critical signals to mid-market investors and fund developers. 2011 will be the year for pooled funds and financial vehicles aimed at social investors in the $25,000 - $100,000 range, not just those with more than $1 million to invest. The past year also saw a major IPO in microfinance when the Indian company SKS went public on India's stock exchange. One immediate result of this IPO was a new $145 million social investment fund, as the venture capitalist Vinod Khosla pledged his profits from the SKS deal to such a fund.

One effort to define the sector, the third annual Social Capital Markets Conference 2010 (SoCAP10), drew three times as many participants as the first conference. The conference is currently planning to expand to Washington, D.C. and Europe. In addition, the thirty-two members of the Global Impact Investing Network launched a set of common standards for measuring and reporting social good. This highly visible adoption of the Impact Reporting and Investment Standards (IRIS 2.0) signals a certain level of industry cohesion.

Beyond these specific indications that social investing is developing as a sector, foundations have continued to show interest in using endowed assets for program-related investments, one type of social investing. The *More for Mission* campaign, which aims to increase mission investing by $10 billion in five years, doubled from thirty-nine foundation members at its launch in October 2009 to seventy-eight in October 2010. Conference sessions on social businesses and entire social investing tracks became common at mainstream philanthropy conferences. All of these point to an expanding sector with increasing influence.

Pioneers in the field of social investing continue to innovate. Legacy Venture, based in Palo Alto, California, is a fund that provides donors with access to top tier venture and private equity placements as a means of increasing their philanthropic resources. Eleven years after pioneering an aggregated investment approach to growing philanthropic assets, Legacy Venture expanded its services to donors by hiring a Chief Philanthropy Officer in 2010. Legacy's model of aggregating funds for investment, while allowing donors independence and flexibility in their giving, is likely to prove increasingly popular.

As important as the maturation of social investing is the impact that these practices are having on traditional philanthropy. One example involving large foundations is the Growth Philanthropy Network's Social Impact Exchange, a coordinated effort to build a national marketplace of growth capital for nonprofits. The Nonprofit Finance Fund, a thirty-year old financial institution for community organizations, continues to push new funding ideas, especially with its thought-leading work on philanthropic equity. A third example, the Social Impact Bond, is a new tool pioneered by the UK government that is a potential source of new capital for nonprofits.

> **Small individual donors are beginning to demonstrate that they care more about making a difference than they do about organizational form, tax exemptions, or granting versus investing.**

Finally, and potentially the most important for the long term, small individual donors are beginning to demonstrate that they care more about what happens with their funds than they do about the form in which those funds are used. In other words, they care more about making a difference than they do about organizational form, tax exemptions, or granting versus investing. One example is The Awesome Foundation, a six-city network of "giving circle"-type funders (ten participants give $100 each) that focuses on making monthly $1,000 awards. It is agnostic regarding nonprofit or commercial status of the funded project. Similarly, Kickstarter, a fundraising platform that experienced explosive growth in 2010, readily mixes nonprofit and commercial opportunities on the site.

Consolidation of online giving markets

At last count there were more than two hundred nonprofit online giving sites around the globe. Most of these are quite small and focused on a specific geography (HelpArgentina) or a select population (J Gooders for Jewish causes). These nonprofit giving markets have effectively experienced their "dot com" boom. We will now experience a corresponding bust. The capital to support two hundred giving markets is simply not available. Some of the existing giving markets will shut down and others will merge.

The technological capacity for and cultural expectation of "free and open data" increases the public expectation about accessibility while dampening the willingness to pay for it.

In addition to capital constraints, an interesting upstart on the scene, Kickstarter, poses new challenges to the existing marketplaces. Kickstarter relies on individuals to post their own projects, lead their own fundraising efforts, and spread the word about the project and the site to their friends. Projects may be nonprofit or for-profit, and all the burdens of that reporting fall to the person listing the project. Kickstarter at once avoids all the compliance and sourcing costs that the other sites must bear. It is built with the native zeitgeist of a social network and its growth has been phenomenal - $20 million in funds from more than 250,000 individuals in less than one year.

Jumo, a new social networking site focused on social causes, launched just in time for the 2010 giving season. Its credentials include the involvement of Chris Hughes, an early Facebook employee and leader of President Obama's social network strategy during the 2008 Presidential campaign. Causes, a company that facilitates giving on Facebook, raised more than $8 million in venture capital in 2010. Facebook's own in-network currency ("Credits")– which let users pay for things, including gifts, on the site – also grew significantly during the year.

There are two important consequences of the consolidation that I predict. First, there will simply be fewer places for nonprofits to be found online. This will benefit some groups while others are likely to lose out. Fewer platforms may mean less opportunity to feature small organizations, unless they are self-screened and self-promoted as is the case with the projects on Kickstarter (and likely on Jumo). Small organizations and their supporters will have to take on the costs of getting "listed" and of doing all the promotion themselves. At the same time, sites like Kickstarter, Jumo and Facebook may make it easier than ever for small organizations to reach large numbers of site users.

Second, the shrinking of the online giving markets will likely be mirrored in a consolidation of online data sources. There are now two large-scale online data sources, The Foundation Center and GuideStar. Charity Navigator is an additional widely recognized source, although it is significantly smaller than the other two. These data providers already face significant challenges to their business models. Acquiring, cleaning, storing, and presenting data require significant costs with no proven sustainable revenue models that do not include large philanthropic subsidies. At the same time, the technological capacity for and cultural expectation of "free and open data" increases the public expectation about accessibility while dampening the willingness to pay for it. There is always the chance that the public agencies responsible for the data will open it up for free and that crowds will make sense of it in ways existing organizations cannot. More likely is that search companies will partner with public agencies to launch new types of access to this information, just as Google has already done with data from The World Bank.

The boom time for these online sources is behind us. We will see a shake out in the number of data purveyors along with the consolidation in online giving markets. This may well be more efficient. While we might not reach the point of having a single dominant online market, we will see fewer overall. Those that remain may be able to offer services such as integration with online banking, web-based money management tools, and social networks. Donors who use these platforms will have fewer choices of service providers and fewer sources of independent information. Ironically, they also may have access to ever more raw data.

The intersection of giving and social investing

I see giving and social investing as two distinct forms of capital for social good. Each is in a different stage of the industry lifecycle.

Giving – donations from individuals and institutions – is a mature system, with established tracking mechanisms, annual counts, and online tools. The last two years have been stagnant in terms of new capital in this sector. Nonprofit online giving platforms – sites that allow donors to pick and choose and then to donate or loan funds – have proliferated over the last decade, while social investors have yet to launch a publicly accessible, functional investing exchange.

At the same time, social for-profit businesses and investors are getting their measurement systems down. Just as cell phones leapfrogged over land-lines in some parts of the world, social investing is jumping past some of the sector challenges that have long dominated the non-profit/philanthropic sector. Specifically, in just three years social investors have developed, piloted, and built distribution mechanisms for a common set of reporting standards to track the effectiveness and social outcomes of their investments. Meanwhile, nonprofits and foundations are decades into arguments about outcome measurements with little to show for it on a sector-wide scale.

While these two capital systems are distinct, they often intersect. These intersections can occur at the organizational level, where a single non-profit is using both kinds of capital. The intersections also matter to donors, who are increasingly focused on making the greatest difference with their funds and are interested in using a blended approach of investing and giving to accomplish their goals. We also see an increasing number of individuals and organizations actively taking on the role of both "doers" and "donors," in both the nonprofit giving and for-profit social investing worlds. For example, both B Lab, which created the B Corporation, and the hosts of the SoCAP conferences are nonprofits focused on increasing social investing. 2011 will be defined by the growth of social investing, a small rebound in giving, and the continued negotiation of the intersections between the two.

2011 WILDCARDS

In addition to innovations that matter and trends worth watching, there are several 2011 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:

- The status of the estate tax is still uncertain heading into the lame duck session of Congress at the end of 2010. If nothing is done, the tax reverts to its pre-2001 levels.

- The Obama administration launched the Office of Social Innovation and Civic Participation in 2009. This office influenced over $200 million of giving in 2010 but its funding for 2011 is uncertain.

- Congressional policy watchers anticipate that tax reform will be a key interest of the Senate Finance Committee in 2011. This could include close consideration of tax exemption and deductions.

- The economic picture heading into 2011 is not at all certain. Foreclosures, unemployment, and tight credit continue to plague communities across the country. State and municipal budgets are stretched beyond capacity, and public funding for human services and education are particularly shaky.

- Even as social businesses establish themselves as legitimate sources of good, some areas where business has established a beachhead in providing "traditionally nonprofit goods" are under intense scrutiny. In particular, for-profit colleges have garnered a great deal of negative media attention, regulatory questioning, and legislative inquiry. The failure of private enterprise to provide satisfactory social goods in higher education may well cast doubt (or increase the concerns of the already skeptical) about the true potential of social businesses.

- Experiments in social finance are worth watching, particularly the Nonprofit Finance Fund's work on philanthropic equity in nonprofit organizations and a social impact bond that is being tested in the United Kingdom. These and other new initiatives may herald a new era of financial innovation and greater organizational sustainability for nonprofits.

- Embedded giving (also known as cause marketing), in which a consumer adds a nickel or a dollar for charity at the checkout counter, will permeate retail sales by 2011. There are two conflicting forces that will shape how this grows: on the one hand many customers are tired of being asked for donations at the register. On the other hand they state preferences for products made by companies "that do good."

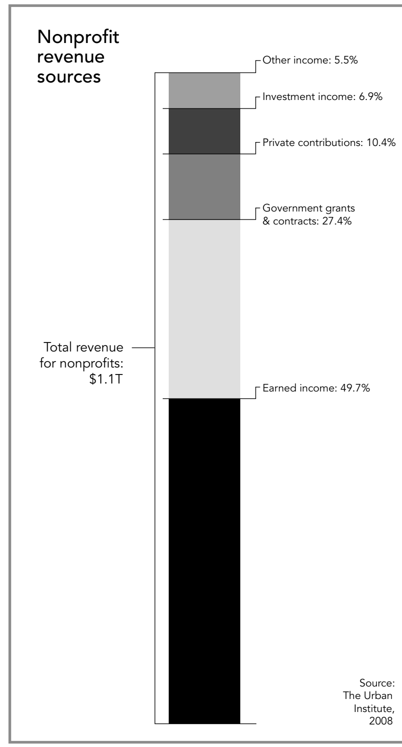
4

2010 REVENUE TO THE SOCIAL SECTOR AND 2011 PREDICTIONS

Heading into 2011 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 foundations, corporations, bequests, and individual giving; and social investing. Essentially, 2010 giving and public funding will both be down considerably from 2008 levels. There is likely to be growth in social investment funds, though these dollars are still comparatively small.

I break down my predictions along these three lines, focusing on the largest factors within each source. In each of the three sectors, there is often a six to eighteen month lag time between action and reports on actual revenue. Actual data on philanthropic giving in 2010 will not be available until June, 2011. Those numbers will be revised again at the end of 2011 and in the middle of 2012.

Before diving into the numbers more deeply, it is useful to have a sense of the funding sources for American nonprofits. The Urban Institute has identified the average breakdown of revenue by source as earned income (49.7 percent), government grants and contracts (27.4 percent), private contributions (10.4 percent), investment income (6.9 percent) and other (5.5 percent).[8]



We focus the following discussion on giving, public funds, and social investing. Given the data we have as this Blueprint goes to press, I predict the following for 2011:

- Giving will be flat or down in 2010 from 2009, but slightly up in 2011.
- Public funds for nonprofits at both federal and state levels will be down in 2011; many of the public sources of funds for nonprofits in 2009 were one-time shots and state budgets have been decimated.
- Social investing dollars are likely to grow in 2011, but the overall amount will remain small.

Public money

State budget cuts devastated nonprofits in 2010. Across the country, forty-six states struggled to fill a cumulative $195 billion budget shortfall when planning for fiscal year 2011.[9] On average, their 2010 budgets were 3 percent smaller than in 2009, when the budgets were 8.4 percent smaller than 2008.[10] Forty-five of the forty-six states filled their budget gap by cutting services to state residents.

According to the Congressional Research Service, government payments (contracts and grants, federal and state) constitute 29 percent of nonprofit budgets. The funding cuts either come directly out of payments to the nonprofit sector or wind up placing additional burdens on the nonprofit sector when public agencies can no longer meet community needs.

Last year we noted the importance of funding from the American Recovery and Reinvestment Act (ARRA) of 2009. This Act, commonly known as the "Stimulus Package," authorized new dollars through contracts, grants, and loans. According to ProPublica, an independent news organization, as of November 2, 2010, 91 percent of these funds ($464 billion of $511 billion) had been spent or were in the process of being spent by the designated public agencies.[11]

How much of the ARRA money goes to nonprofits is unclear. One way to estimate this is to extrapolate from data on grants and contracts to nonprofits from general federal spending. According to the Pew Charitable Trusts' SubsidyScope project, in 2008, 8 percent of federal government grants went to nonprofits and 3 percent of federal government contracts went to nonprofits.[12] The remainder goes to commercial companies and to state and local government agencies.

Using those same ratios against the ARRA funds, I estimate a total of $56 billion was available for nonprofit contracts and grants. Of this, $51 billion has been spent or is in process. These are very rough numbers. While impressive in scope, the $51 billion is less than one-third of the decrease in state budgets. It is also a small part of the nonprofit sector's collective $1.1 trillion in annual revenue.[13]

Media attention on public funding centered on the Social Innovation Fund (SIF) and the U.S. Department of Education's I3 funding. In July 2010, the Corporation for National and Community Service awarded $50 million in federal SIF funds to eleven organizations around the country. These eleven organizations, a mix of nonprofits and foundations, will match that $50 million with an additional $150 million in philanthropic and corporate support for innovative, scalable organizations working with young people, building healthy communities, and creating economic opportunity. At least two of the selected organizations, New

Profit Inc. and the Edna McConnell Clark Foundation, had met their matches and were seeking applications for re-grants by October 2010.

In addition, the U.S. Department of Education made forty-nine grants totaling $650 million in federal funds that was matched by $500 million in private donations. The federal I3 funds were part of the $10 billion allocated by ARRA for school reform. These funds went to nonprofits, public agencies, and school districts. There is no guarantee that the Social Innovation Fund will be refunded in 2011, nor is it likely that the Department of Education will have another I3 competition.

Funds from the ARRA stimulus, the Social Innovation Fund, and the Department of Education were most likely one-time events. States are likely to continue cutting budgets in 2011.

Philanthropy

What will the final numbers for 2010 show? Heading into the final month of 2010, most recent surveys find the majority of donors are expecting to maintain their level of donations from 2009 or decrease their giving. One survey found that twice as many Americans are planning not to give to charity this year because of the economy.[14]

My review of the many existing indices and donor surveys (all of which use different, non-comparable methods) points to a constant or slightly smaller level of giving in 2010 than in 2009. The year has been filled with events that might influence the final numbers, ranging from the remarkable outpouring of support after the Haiti earthquake in January to the lingering impact of the high unemployment rate. While positive returns on the S&P 500 may boost some giving, we also need to consider the effect of the oil spill on Gulf Coast communities and the increase in corporate and individual spending on the 2010 midterm elections.

The Foundation Center and GuideStar projected up to a 10 percent drop in foundation giving in 2009 compared to 2008 and another 10 percent decrease in 2010 compared to 2009.[15] The different studies of individual giving for 2010 range from flat to declines of about 3 or 4 percent over 2009.[16]

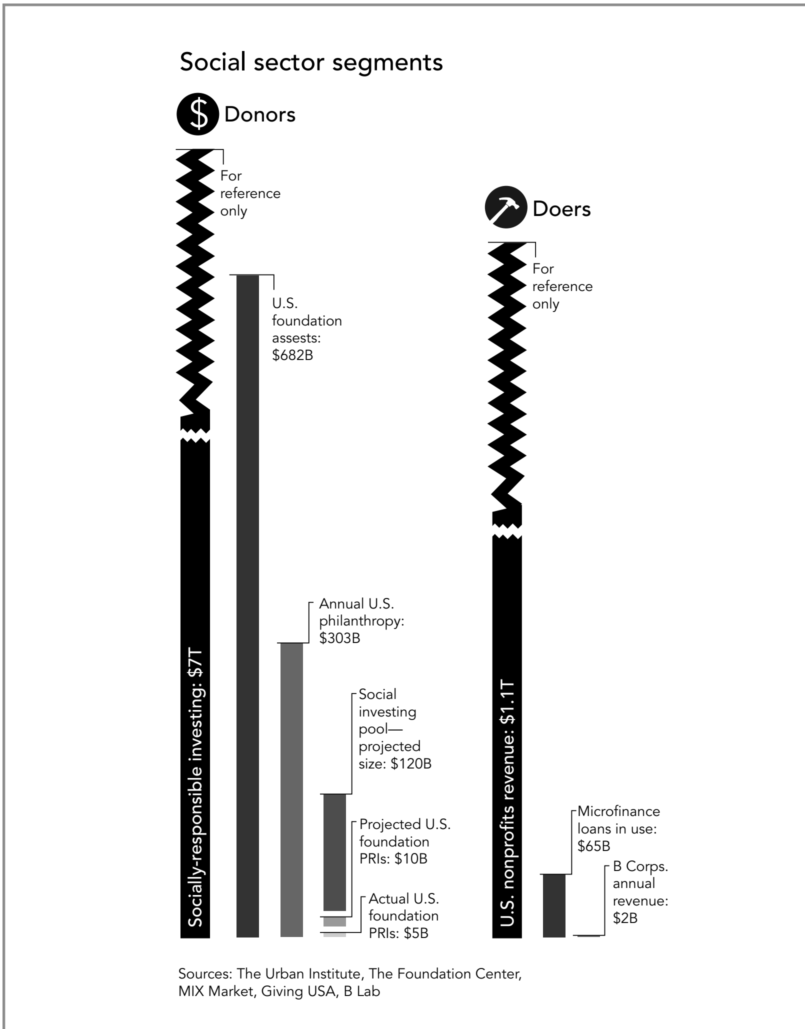
With all this in mind, I predict a continued downturn in overall philanthropic giving in 2010 or at best a rate that stays flat with 2009's level. 2011 will be the earliest possible return to positive territory.

Social investing dollars

Social investing is the likeliest area of growth in 2011. A 2010 study, *Money For Good*, surveyed wealthy individuals and found that 50 percent were interested in social investing, even if they had not done it before.[17] The same research found that all possible social investors, even the wealthiest, are most interested in small investment opportunities, specifically those in the $25,000 - $50,000 range. The research projected that the collective interest of all possible social investors could be worth up to $120 billion.

These insights are key to the next stage of development for social investing – focusing on products that attract smaller investors. Most of the innovation to date in social investing has targeted the very wealthiest segments of the population and accredited investors (such as institutions and those with a very high threshold of liquid assets). This next phase will be marked by more "retail" investment opportunities that appeal to smaller foundations, individuals, and, eventually, everyday investors.

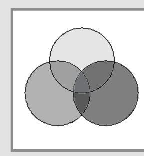
In 2011 I also hope we will finally obtain credible baseline data on the various subsectors in social investing. We had expected to see such an index develop in 2010. That did not happen, but the maturation of the Global Impact Investing Network, the World Economic Forum's effort to develop a social enterprise index, and a new bi-monthly SoCAP report on deals in the social capital markets should push this along.



When we look at the size of the different segments of the social sector, broken down between donors and doers, we see a mature industry of nonprofits and philanthropy. The world of social investing and social enterprise is much smaller and its growth rates are much more significant. Better measures of each of the different components will help us track the evolution of the system overall.

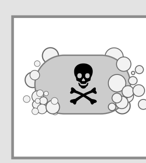
BUZZWORD WATCH

Philanthropy is filled with jargon. Annual lists of buzzwords are compiled on www.philanthropy2173.com. Here are some phrases you are likely to hear in 2011:



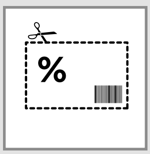
Sector Agnostic: Funders who make both social investments and grants and who work with both commercial and nonprofit partners describe themselves as "sector agnostic." They are interested in solutions, not the tax status of their organizational partners.

Markets for Good: This catchphrase ties together social investing and philanthropy. The markets cover the spectrum of funding from grants to nonprofits (described as a 100 percent loss of the funder's money with high social return) to loans (return of the funds) to investments that produce positive financial and social returns.



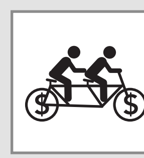
Charity Washing: As more and more corporations turn to cause-related marketing there is a sense that some bad business practices are being glossed over by well-publicized marketing relationships between the company and a charity. Rather than alter its business practices, a company that simply adds a nonprofit cause to its marketing efforts is said to be "charity washing."

Charity Coupons: Discount coupons offered through social shopping sites such as Groupon provide buyers with discounted



membership rates from local nonprofits. These promotions are especially popular with museums and organizations looking to attract new audiences.

Sharing Economy: Along with the rise in eco-shopping and "conscientious consumerism," businesses that let people share cars, bikes, tools, clothing, and office space are booming. The "sharing economy" describes the entirety of these "car-share" types of businesses. These businesses are popular because they help customers both save money and see their savings as good for society.



5

GLIMPSES OF THE FUTURE

There is one key difference, and one key choice, that every philanthropist and social investor will make – sometimes deliberately, sometimes by force of habit – from 2011 onward. The choice comes down to supporting market-based social good providers or donating to nonprofits. You might choose both but you will always face this choice. Some funders will face it head on – even embrace it.

Funders who have always worked in one or the other sector (investing in commercial enterprise or giving to nonprofits) may well continue to act as they always have. There is nothing to force a funder to look at new options. But in not examining new options they are also making a choice. And in doing so they are missing opportunities that now exist in every social sector. The spread of market-based solutions has reached the point that there are strategic choices to be made on every social issue – health care, education, religion, the environment, the arts and culture, and human services. In every arena, good research will uncover private firms with social purposes and nonprofit organizations addressing the issue. Each issue area is essentially a hybrid nonprofit/for-profit marketplace of choices.

Donors may choose not to make investments in financially sustainable enterprises, but they must at least be aware that they are making this choice. The same applies to social investors who are seeking either a flat or positive financial return and who also have philanthropic options.

In 2011 we anticipate that the tax exemptions and incentives that support the nonprofit sector will stay largely as they are now, though pressures on federal and state budgets always make these exemptions vulnerable. However, as noted in the discussion of B Corporations in the forecasting section of this *Blueprint*, tax credits and incentives – especially at the municipal and state level – for social businesses are on the horizon.

The burgeoning world of metrics and independent data analysis on social enterprises, both social businesses and nonprofits, does not yet reflect the hybrid nature of these marketplaces. While metrics for comparing social investments and nonprofits are rapidly improving, we are still far away from measures that can be compared across organizational form. It will be some time before funders can compare metrics or data on social businesses and nonprofits and make their choices based on evidence of impact.

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 2011 is not even yet visible on the horizon.

As we review our landscape of private funding for public good, we see a slowly shifting topography. And it is easy to lose sight of opportunities or find the choices overwhelming. Giving and social investing are wonderful things. Figuring out how to do them well can be frustrating, slow, inefficient, and lonely.

Blueprint 2011 is intended to help you situate yourself in the landscape, as "doers" and "donors," inform your choices, and increase your impact.

THE LANDSCAPE IN 2011

The base layer of the philanthropic landscape still shows almost 2 million nonprofit organizations. Despite the financial woes of the last two years the creation of new organizations (at close to 50,000 per year) continues to outpace the closure of nonprofits. America is still home to 90,000 grantmaking foundations, 100,000 donor-advised funds, and hundreds of giving circles. Most giving still comes from millions of individual donors, each of whom makes many small gifts.

The group of funders focused on using investment funds to pursue social goals ("social investors") continues to grow and innovate. Financial vehicles once available only to the wealthiest investors are being re-packaged for smaller investors. The vast expanse of the landscape marked "social enterprise" is still a jumble of nonprofits and for-profit businesses with social goals. But it now includes a distinct subgroup of more than 300 B Corporations with combined revenue of more than $2 billion. Investors for these companies, social venture capital firms, and social investment banks are now led by three funds of more than $100 million each, as well as a global network of individual and institutional investors working to build this market. Estimates of demand for these opportunities peg the market at $120 billion.

The connections between the established nonprofit form and philanthropic capital providers and the newer social businesses and social investment funds consist primarily of two distinct "infostructures." Numerous efforts are underway to connect the two communities but they each still rely on their own networks of conferences, blogs, online communities, and printed journals.


Businesses
Funders
Social for-profit
1
The Social Landscape
emerging intersections
2
Nonprofit
Organizations
Philanthropy

① Social for profit

Businesses

- B Corporations
- Social Enterprises
- For benefit corporations
- L3Cs

Funders

- Social investors
- Endowment PRIs
- Social stock exchanges (to come)

② Nonprofit

Organizations

- Nonprofits
- Nonprofit social entreprises

Philanthropy

- Individual donors
- Foundations
- Donor advised funds
- Giving circles

NOTES

[1] The Wikipedia article on *Citizens United* includes a long list of legal analysis and political punditry on the case and its impact. It is a good starting point for finding differing interpretations:
http://en.wikipedia.org/wiki/Citizens_United_v._Federal_Election_Commission

[2] Data from The Sunlight Foundation, http://reporting.sunlightfoundation.com/independent-expenditures/ The Wall Street Journal estimated the amount at $200 million.

[3] See the Sunlight Foundation blog http://blog.sunlightfoundation.com/ of November 4, 2010.

[4] Heather Horn, "The Impact of Unlimited Corporate Campaign Spending," *The National Journal*, October 21, 2010. Online at http://nationaljournal.com/

[5] Dan Eggen, "Poll: Large Majority opposes Supreme Court's decision on campaign financing," *The Washington Post*, February 17, 2010.

[6] Lester Salamon, Johns Hopkins Center for Civil Studies,
http://www.ccss.jhu.edu/pdfs/Media/2010.9Media.NP_employment.pdf

[7] http://bcorporation.net/

[8] http://www.cbpp.org/cms/?fa=view&id=711

[9] Ibid.

[10] http://projects.propublica.org/tables/stimulus-spending-progress

[11] These percentages come from The Pew Charitable Trusts SubsidyScope database and methodology. http://subsidyscope.org/nonprofits/direct-expenditures/

[12] *The Nonprofit Sector in Brief 2008*, Washington DC: The Urban Institute, 2008, page 2

[13] The Harris Poll of 2,620 adults surveyed nationally online between September 14 and 20, 2010. Online at http://www.harrisinteractive.com/NewsRoom/

[14] "Foundations' Year End Outlook for Giving and the Sector," New York: Foundation Center online at http://foundationcenter.org/gainknowledge/research/advisories.html
"GuideStar Survey: Hard Times for Charitable Organizations," released May 2009.

[15] John J. Havens and Paul G. Schervisch, "Giving in Today's Economy: What Can We Expect?" Trusts & Estates, January 2009, pp 42-45.'

[16] Hope Consulting, *Money for Good,* October 2010 Final Report. http://www.hopeconsulting.us/money-for-good/