

**Philanthropy
and Social Investing:**

BLUEPRINT 2012

The Annual Industry Forecast
by **Lucy Bernholz**



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Stanford **SOCIAL**
INNOVATION REVIEW



STANFORD PACS
CENTER ON PHILANTHROPY AND CIVIL SOCIETY

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ISBN 978-0-9847811-0-2

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can be found at www.lucybernholz.com/wp/books/

Special thanks to Anne Focke, editor,
and Jeffrey Whitten, graphic design, logomantotherescue.com

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What Is this Monograph?

Philanthropy and Social Investing: Blueprint 2012 is an annual industry forecast about the social economy – private capital used for public good. Each year it provides an overview of the current landscape, points to major trends, and directs your attention to horizons 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 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?

I'm Lucy Bernholz and I am a philanthropy wonk. I've been working in, consulting to, and writing about philanthropy and the social economy since 1990. *The Huffington Post* calls me a "philanthropy game changer" and *Fast Company Magazine* named my blog www.philanthropy2173.com "Best in Class." I'm a visiting scholar at Stanford University's Center on Philanthropy and Civil Society and a frequent conference speaker and media source on the intersections of philanthropy, policy, and technology. On Twitter I'm known as @p2173 and I post most of my articles, speeches, and presentations online at www.lucybernholz.com. I earned a B.A. from Yale University and a M.A. and Ph.D. from Stanford University.

How frequently is the Blueprint updated?

Blueprints are produced annually and published in December of each year.

Where is more information available on the topics discussed?

The best way to keep up with my thinking on these issues is on my blog, [Philanthropy2173](http://Philanthropy2173.com). You can subscribe to it for free at www.philanthropy2173.com. Please send media inquiries, conference speaking opportunities, and other requests via email to lucy@lucybernholz.com.

Ordering information

Bulk orders for twenty or more copies can be placed using the form on www.lucybernholz.com. Smaller orders and single copies can be purchased online at www.Lulu.com.

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Introduction

There are two things we can be sure will happen in 2012. First, hundreds of millions, probably billions, of dollars will be raised by newly created, issue-specific nonprofit organizations in the United States. Second, that money will be used for political advertising in the American presidential campaign.

An opening statement about political giving might seem out of place in a monograph on philanthropy. It should make you say, “what?” The key challenge for philanthropists going forward will be to understand and adapt to the actual landscape of funding in which they now work. Today this is as much a landscape shaped by the dynamics of political giving and impact investing as it is by charitable giving. It is the gravitational pulls and pushes, the choices made between and among these resources and the enterprises that they fund that matter.

In the first section of this *Blueprint 2012*, **Big Shifts that Matter**, I highlight the broad nature of this new landscape – the new social economy – in which we now operate, and I explain why this new terminology is needed. Next I look at how the U.S. Supreme Court’s decision in *Citizens United v. Federal Election Commission* is influencing nonprofit activities, organizational structure, and revenue sources. The role of “big data” in the social economy today and our responsibilities for considering its role in the future are the final trend in this opening section. These three have something in common – each one is both enormous and emergent. In combination they require us to reconsider several of our core assumptions about what philanthropy is and does.

While the first three trends are significant, their cumulative effects won’t materialize overnight. Noting the nature of the unexpected, I first call out some likely 2012 wildcards and then I make several specific observations in the section, **Predictions for 2012**. As I do every year, I also note what I got wrong (and right) in the past, not to keep score but to keep us all honest about the unpredictable nature of predictions, **Renovations to Previous Forecasts**.

Finally, I present **Glimpses of the Future** in which I speculate about two shifts currently on the horizon for most philanthropists but that I see as harbingers of (still more) change to come.

Blueprint 2012 is written as a frame within which you can craft a plan for your own goals in the coming year. I welcome your feedback. Please contact me at 2012@lucybernholz.com with questions, suggestions, or examples of how you used it.

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Insight: Big Shifts that Matter

Changes in the world around us require us to shift our perspective from the interactions between nonprofits and donors to a much broader frame that can encompass all of the ways we now use private resources for public good. These changes are as broad as globalization and as specific as social enterprise. Some of these changes have been building gradually, such as the rise of big data. Others, such as the scope of a single United States Supreme Court decision, seemed to come on suddenly and caught many of us by surprise.

Amidst headlines of global job market rebalancing, political stasis in the face of crisis, and multi-billion dollar natural disasters, the shifts outlined below may seem rather myopic. On the contrary, I believe that the choices we make about using private resources for public good both reflect these broader challenges and are critical parts of our responses to them.

In the next year we must consider the following three shifts:

The Social Economy: An Expanded Frame

For decades we have thought of nonprofits and philanthropy as filling the space between government and commerce. The social economy expands this frame to include all of the ways we use private resources to create, fund, and distribute public goods. Shifting our frame is especially important now, as regulatory reform of corporate governance, taxes, political engagement, and digital data all lie ahead.

Life under Citizens United

2012 brings us the first presidential election since the U.S. Supreme Court changed the rules about corporations (nonprofit and commercial) and political spending (*Citizens United v. FEC*, 2010). In 2012 we will see the impact on revenue flow, on the practical behavior of nonprofit organizations, and on the public's perception of them.

Technology: Big Data for Social Good

Data are now the engines of the most successful companies, the most responsive governments, and some of the most important social breakthroughs of our time. The data themselves and the insights they can inform are key assets and concerns for the social economy.

The Social Economy: An Expanded Frame

The biggest shift of all for 2012 and beyond is expanding our frame from nonprofits and philanthropy to **the social economy**. The social economy refers to all the ways that we direct private resources to public goods. Private resources include money, time, and organizational structures controlled by individuals. Public goods are things created by society that can be used by many people without diminishing access to them by anyone else. Common examples are

The social economy refers to all the ways that we direct private resources to public goods.

lighthouses, learning, and health. We create these things (or systems to produce them) for the benefit of others. If I steer my ship

by the lighthouse I don't prevent anyone else from doing so also. Learning and wellness are things that build on themselves; they don't get used up as more people have them.

Public resources – tax dollars and government agencies – also support public goods (like lighthouses and education). And public resources support the social economy. In most places, on most issues government funding for schools or health care dwarfs the private funding for such goods. This is critical to understand. The decisions we make about our private resources are shaped – overtly or not – by public priorities and our public resources. Sometimes we are using our resources to fill gaps in public funds, sometimes to further a public agenda, and sometimes to argue against or counteract those public decisions. The social economy lives alongside government funding and is regulated by government laws.

This broad view brings to the center much of the innovation of the last two decades, including the rise in corporate social responsibility, the creation of impact investing, networks of activists that reach beyond formal institutions, and the rise of social enterprise. The narrow focus on nonprofits

and philanthropy with which we are familiar shunts these innovations to the edge and ignores the dramatic role that government plays in defining how we use private resources for public good. By shifting our frame to the social economy we can consider all of the actors and their contributions.

Within the social economy there are two overlapping clusters – those who do the work (doers) and those who fund the work (donors). Many people fit into both categories – they work or volunteer for social purpose organizations and they fund others. Many “donors” are very active “doers” and vice versa. There are nonprofit and for-profit “doers” and “donors” – enterprises and resources. There are also formal networks of organizations that connect both enterprises and resource providers.

Informal networks of people who get together to make something happen are increasingly viable options for doers and donors. These groups operate without boards or hired staff and they often fund their efforts from within their group. The very nature of these networks makes them hard to

Within the social economy there are two overlapping clusters – those who do the work (doers) and those who fund the work (donors).

count. These groups use mobile phones and social network technologies as “infrastructure” for their work. Examples include community-based artist

networks such as SOUP in Detroit and FEAST in Brooklyn or CrisisCommons, an international list of 2,000 volunteers who create software for disaster response efforts. Current events, from the political unrest in North Africa to the Occupy movement, have made political versions of these networks very visible.

Components of the Social Economy

The social economy expands our frame of reference about the private resources that we use to create, fund, and distribute public goods. We are used to thinking about this all as the “nonprofit sector” – by which we have generally meant 501(c)(3) public charity organizations and the philanthropic contributions we make to them. Nonprofits/philanthropy make up one galaxy in the social economy universe. Political giving is another galaxy. Impact investing is yet a third. These galaxies are similar, but not entirely parallel. For example, each galaxy includes organizations and funders (doers and donors). There are dynamics and “gravitational forces” within each galaxy as well as between galaxies within the universe. There is definitely a bit of chaos involved.

Imagine the various components of doers and donors clustered into three galaxies:

- **Nonprofits/Philanthropy:**

Doers: 501(c)(3) organizations.

Donors: Charitable giving, and other revenue sources that fund these organizations (government, fees, investment income).

- **Impact Investing:**

Doers: Social businesses, community development finance institutions.

Donors: Debt and equity impact investing funds, program related investments, emergent mutual funds for impact investing.

- **Political Giving:**

Doers: Campaigns, political parties, political action committees (PACs), and nonprofit 501(c)(4) and 501(c)(6) organizations.

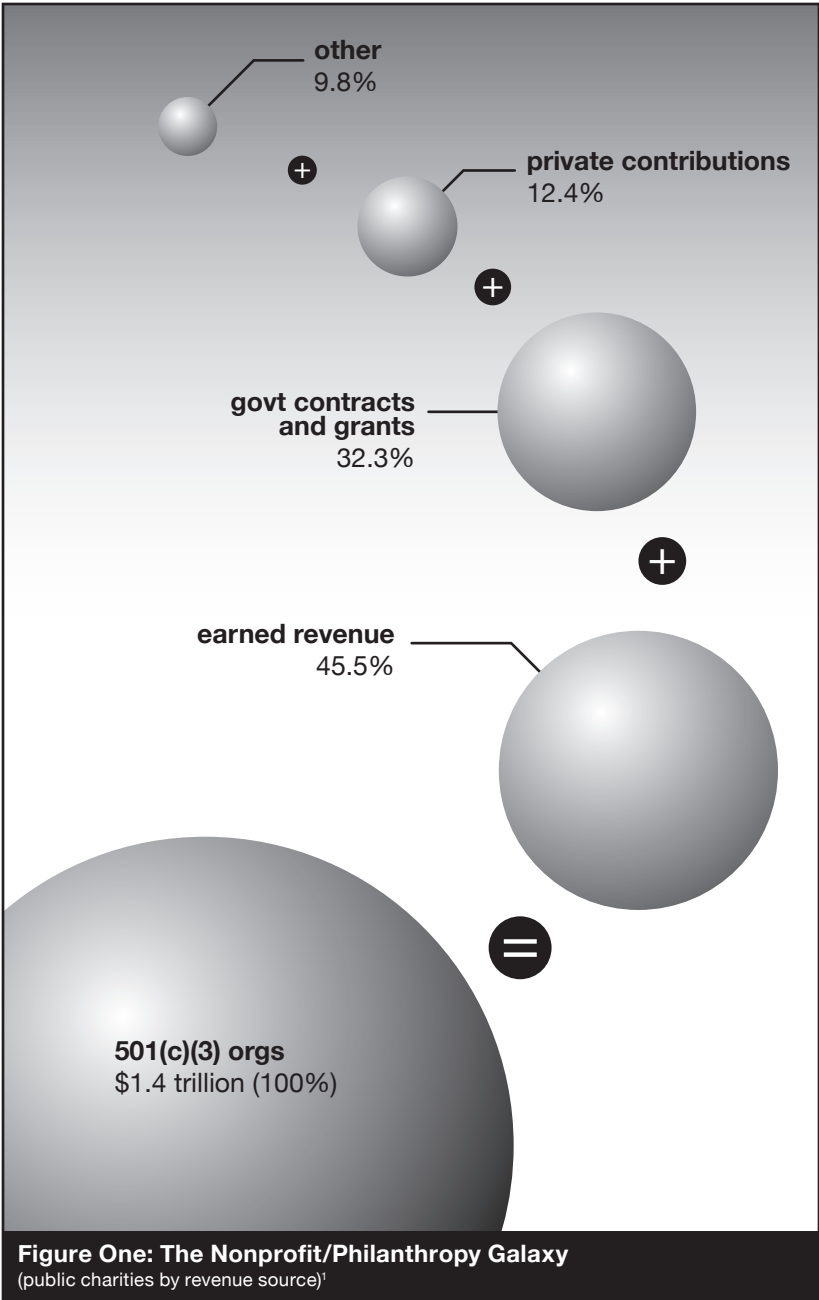
Donors: Donations from individuals and corporations.

Zooming across the galaxies are individuals and our networks. We make choices about using resources from one or more of these galaxies to achieve our particular goals. Our networks connect us within and across these galaxies. There is more detail on the size and scope of these components in the Appendix.

The Nonprofit/Philanthropy Galaxy

Let's look first at the most familiar galaxy – that of nonprofits/philanthropy. Figure One shows us a planet of nonprofits and several moons of revenue including government funding, fees for service, and private donations. Our private contributions are important, but on average they provide only about 12 percent of the total revenue for all public charities. Most of us are familiar with these aggregate ratios and know that they differ for each organization. We are also familiar with the dynamics these different revenue sources can create, some nonprofits seek a lot of private donations, others rely more on fees for service, and others are heavily supported by government grants and contracts.

We know from experience as donors and doers that our decisions about funding or volunteering at one organization over another are determined by several factors, including the other funding streams, our own strategic goals, and our own personal resonance with the issue or organization. We also know the importance of informal networks in connecting us to certain issues or organizations. Many of us actively organize and promote our giving and volunteering through our networks, both online and offline.



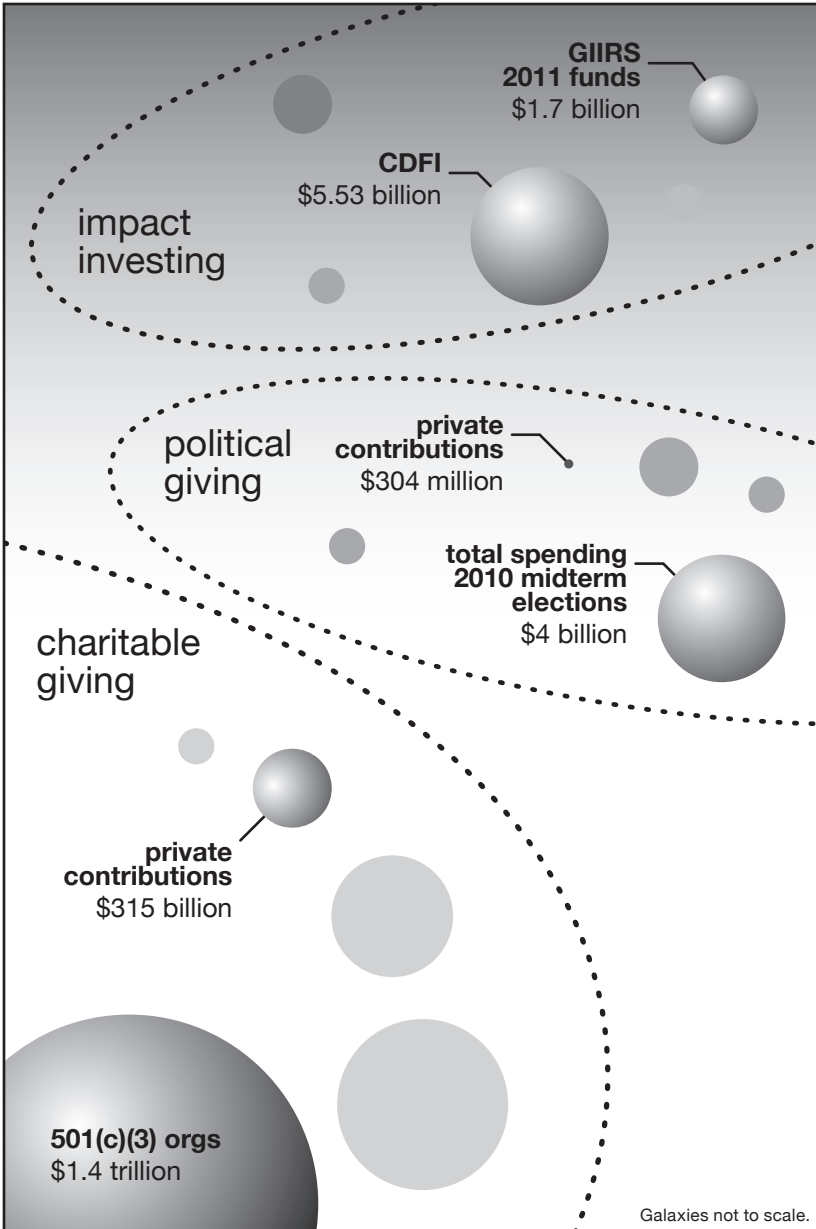


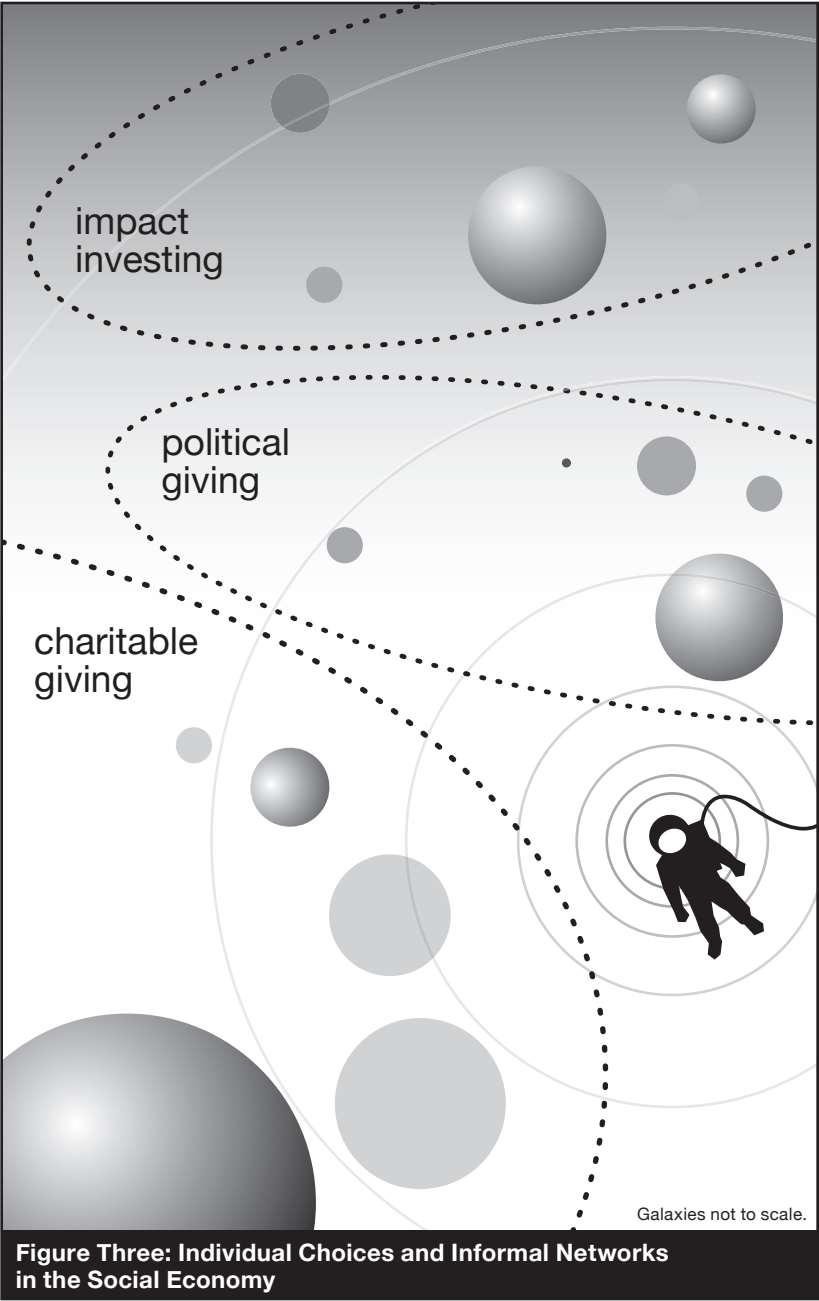
Figure Two: Galaxies in the Social Economy
 (highlighting private contributions)²

Galaxies in the Social Economy

Now we can zoom out from the familiar galaxy of nonprofits/philanthropy to the broader universe. Figure Two shows us three galaxies in this universe – philanthropy, impact investing, and political giving. Each large bubble represents the *approximate* size of a galaxy, as measured by revenue. The small orbiting “moons” represent the share of that galaxy’s revenue that comes from private contributions. In the charitable giving galaxy, the “planet” is 501(c)(3) orgs and the highlighted “moon” is private contributions.

We simply don’t have good measures for some components so the second and third “galaxies” are representative and not exact depictions of the size and scale of each set of relationships. The nonprofit/philanthropic galaxy is by far the largest component of this universe – it is the most familiar, the best studied, and the most accurately measured. The planet marked political giving is the total spent on the 2010 midterm elections nationally and the moon is independent contributions. Impact investing is the most difficult of all to measure. For illustrative purposes the impact investing planet uses 2009 revenue of U.S. Community Development Finance institutions as the planet. Assets of the forty impact investments funds rated by the Global Impact Investing Reporting System (GIIRS) as of November 2011 are used to represent the moon of private investments.

The impact of each component is not merely a function of its size. For example, the progress that impact investors are making in measuring social returns exerts pressure on philanthropists and nonprofits to do the same. Similarly, recent rulings from the Supreme Court are changing the ways we fund political candidates and shifting the influence and relationships between different types of nonprofit and political organizations.



Individual Choices and Informal Networks

Two additional elements of the universe are shown in Figure Three – the role of the individual decision maker and the role of networks. Donors today are choosing between and among philanthropy, impact investing, and political giving to pursue their goals. An individual may make a donation, organize support for a candidate, and research a possible impact investment all on the same day with overlapping groups of colleagues. Sometimes the lines between the galaxies are clear, other times they are blurry. The different dynamics and relationships within and between the galaxies play the role of gravity and dark energy in our universe metaphor – they shape and influence how the overall universe functions even though they are hard to see and harder to measure.

Understanding the social economy means seeing all three galaxies – charitable giving, political support, and impact investing – and considering the dynamics between them. Doers and donors make choices between and among these ways of using their resources. In some cases, these choices will involve direct substitutions – a donor will fund a candidate rather than make a charitable donation.

Networks of like-minded doers and donors connect the separate components. People may get together on one weekend to raise funds for a ballot initiative and the next weekend to support a nonprofit. Friends use their Facebook pages and Twitter accounts to rally supporters to both causes and candidates. Informal networks that come together, go away, and then recombine for another purpose, are the least visible elements of the social economy.

Fitting the Pieces Together

Nonprofit and for-profit enterprises can, and often do, work together. Funds flow across the nonprofit/for-profit divide. Informal networks may or may not be affiliated with an existing institution. There are many nonprofit/for-profit joint ventures where the two enterprises are dedicated to the same mission. Charitable nonprofits are likely to spin off political arms to adapt to the new election involvement rules from *Citizens United*.

Together these segments constitute **the social economy**. It is not enough to focus only on philanthropy and nonprofits; rather we need to understand the changing dynamics of the whole economy over time. How do the three components of the social economy change in size relative to each other? How do private contributions within each component change?

The social economy is not a semantic trick or a buzzword – it is a more accurate and inclusive term for the mix of revenues, structures, and physical and virtual networks that we use to apply private resources to public good. This expanded

Nonprofit and for-profit enterprises can, and often do, work together. Funds flow across the nonprofit/for-profit divide.

frame is especially critical when the most likely growth areas are social investing and political contributions to political nonprofits.

There are important implications of putting these pieces together and considering the dynamics of the whole. Different types of financial support – social investing, charitable giving, and political contributions – operate under different rules and are overseen by different regulatory bodies. Networks – both the technological ones and the human ones – operate across national boundaries and in emerging legal domains.

We are used to working within established parameters of nonprofit and philanthropic norms and laws. In the social economy we must now consider the role of corporation codes, telecommunications policy, digital ownership rights, and securities regulators. The key to our future is accepting that our old assumptions about “which sector does what” may no longer hold. The intersections – nonprofits and social businesses, social investors and philanthropists, online and offline creators and distributors – hold the hope for solving our social challenges.

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It is also important to look at this economy from the perspective of an individual trying to make choices within it. Doers and donors have often looked at charitable giving as their best option for using private resources to create public goods. More and more of us are becoming aware of the potential of social business, impact investing, and political action as additional paths for our resources.

Life under *Citizens United*

In *Blueprint 2011* I called out the *Citizens United v FEC* decision of the U.S. Supreme Court (January 2010) as a defining change for the sector. There are several reasons for this, including its expansion of the political speech rights of corporations and the way this change affects private contributions to political campaigns. From my perspective, however, the significance of the *Citizens United* case comes in its impact on the enterprise and revenue landscape within the social economy.

2012 brings us the first presidential election since the U.S. Supreme Court changed the rules about corporations (non-profit and commercial) and political spending. In November

More political nonprofits will be created each and every year to raise money for or against certain candidates or issues. These organizations will raise ever more money.

2010 in the first national elections after the decision was made, more than \$186 million in new money flowed to campaigns and elections.³ In 2012 I expect this to be far greater.

I also anticipate seeing changes beyond money in both the practical behaviors of nonprofits and the public perception of them.

More political nonprofits will be created each and every year to raise money for or against certain candidates or issues. These organizations will raise ever more money.

Public charities will feel the effects of increased political spending on the issue areas in which they work, even though they may not see a bump in funding for their own advocacy efforts. For example, political candidates campaigning against public budget deficits may have more influence on local health services than the best run nonprofit care providers. Charitable nonprofits may continue to focus on advocacy and education efforts, although the efforts have been modest.

Funding for the advocacy work of these nonprofits typically has also been small. In 2008, of the 403,690 grants in the Foundation Center database only 126 were clearly coded as advocacy.⁴ We may see these organizations starting or affiliating with 501(c)(4) nonprofits that can get directly involved in campaigning and electioneering on their issues. It remains to be seen what will happen to traditional advocacy funding and how donors will calibrate their political spending with their charitable giving.

In the meantime, nonprofits are spending time and money learning new rules, building new accounting systems so they can conduct political activities in compliance with the law, and talking with donors and supporters about these changes. At a time when funds for direct service are diminishing, the appeal of donors bearing campaign-related dollars will only increase. It's easy to imagine the short-term result of this – more political noise, some chaos, some predictable mistakes, and some flagrant violations and abuses. For many of us the year ahead is going to feel like *“Money, money everywhere but not a drop to drink.”*

We don't know, and probably won't for some time, whether contributors will draw against their charitable budgets for these advocacy and political donations.

We don't know, and probably won't for some time, whether contributors will draw against their charitable budgets for these advocacy and political donations. We don't know how individual donors will react to increased political activity by their favorite charities. We do know that the nuanced differences in legal status, corporate code, deductions, exemptions, and gift taxes are a mystery to many. We will see hundreds of millions of dollars with specific political intentions flow through nonprofit organizations in 2012. We can only guess at their cumulative effect.

Technology: Big Data for Social Good

Data are the currency of our day. The most highly valued companies of our time are finding new ways to value data as an asset on their balance sheets. Amazon is more than a bookstore – it mines its ever expanding database of our past choices to guide our future purchases. Google lives on data, and Facebook and other social media companies have no inventory except the data that their users generate every day.

Anyone who has ever shared a photo taken with their cell phone has changed the data archive of major (and minor) news events. Anyone who has ever sent a donation by text message has changed the data landscape of giving. Everyone

What we talk about when we talk about data is also different....

In reality, anything that can be digitized can become data.

who signs the typical release form when they visit their doctor may contribute to the tissue database from which a cancer cure is found. Balancing an individual's right to privacy

and the right to one's private data with the potential public benefit that massive datasets can produce requires us to expand our "real world" definition of the public sphere and public goods to include the world of online databases, cloud computing, and "virtual" communities.

The value of huge datasets applies in the social economy as well. Medical breakthroughs are accelerated by data that are shared across research institutions. Data from emergency rooms and police stations help homeless shelters better serve their clients. Foster care programs can help children stay in school during family transitions, and foundations are starting to share grant information so they can better align their strategies. Every day we face more information than before. This has led to the rise of data storage, data mining, and data analysis as key industries and skill sets.

What we talk about when we talk about data is also different. We're used to associating the term data with numerical information and big spreadsheets. In reality, anything that can be digitized can become data. This includes items that start out digitally – photos, videos, cell phone calls, text messages, Facebook posts, and blog comments. It also includes things we convert to digital form – books, old newspapers, films, music, and the contents of our file cabinets. Once this material is digitized and we can click on it, “like” it on Facebook, or share it via Twitter with friends we create another layer of data. Every time we interact with each other digitally we leave a trail of information behind us that reveals where we were, whom we connected with, how often we looked at something, and what we did with the information we used.

When we talk about data we also have to talk about stories. Data and stories are interconnected. Doers and donors have many new tools at their disposal – infographics, video clips, interactive charts – by which to use data to tell their stories. As multimedia audiences become ever more sophisticated “readers” of this kind of information, the bar will inevitably be raised for how we convey the real meaning of the work done in the social economy.

In 2010, more data traveled across the Internet than during all the preceding years combined.⁵

We are only at the beginning of learning how to use data well for social purposes. Following are some examples of ways data are being used by the social economy.

For organizing. Some organizations, such as DoSomething, a teen-focused volunteer network, rely on text messages to mobilize the tens of thousands of participants to make events happen. More importantly, the organization has staff people who can make sense of the secondary data that is

generated from these organizing efforts – particularly information about which teens are most influential on their peers. Using the best analytic tools from marketing firms and deploying it to improve the outcome and effectiveness of teen mobilization efforts is the future of this organization.

As avenues for news. Another example of how immersed in data we've become is the way we interact with the news. As newspapers such as *The Wall Street Journal* and *The New York Times* increasingly blend their paper and website coverage, the interactivity and visual nature of the web is shaping reporting. We regularly read stories, click through to compelling maps and charts, and then watch a slideshow of photographs that extend the reporting. Behind the scenes in all of this are the emerging professions of data visualizations and data scientists that make those trend maps and interactive charts so interesting.

To improve nonprofit work. A treasure trove of mostly untapped data lies within our existing nonprofit organizations and social enterprises. Most organizations are only beginning to understand what data they have and how to use this information to improve their work. We are seeing a boom in new efforts to match data scientists with social causes. Organizations such as Code for America and Civic Commons are at the forefront of this movement. Data Without Borders, launched in 2011, matches professional data scientists with nonprofits to help them “show what they know.” In the tradition of the Peace Corps and Teach For America, the next frontier of innovation for doing good in the world is unleashing data expertise for the good of communities.

Some large foundations recognize the importance of data as a resource for social good. The Bill and Melinda Gates Foundation supports efforts to improve data visualization and communication through major newspapers such as *The Guardian* UK. The Knight Foundation funds experiments

that focus on data visualization and communication as part of its Knight News Challenge.

In measurement and evaluation. Data also play an important part in measurement and evaluation. Impact investors are beginning to use shared standards on a wide scale.⁶ These standards are only made possible by the ability to collect, store, share, and analyze large quantities of data from sites across the globe. Shared data systems and ratings are a defining, and accelerating, feature of impact investing.

For philanthropic reporting. Finally, big data has come to define the reporting on philanthropy. Where once there were two annual industry reports on giving, we now have several competing quarterly measures and predictors of giving rates by individuals and foundations. The last year even saw a mild hullabaloo about the validity of data reporting by Giving USA, one of the stalwarts of this field. As noted in the *Blueprint 2011*, the rise of online giving allows for greater and faster data collection.

More than just an instrument of change, some data are also public goods.

Competing companies such as Blackbaud and Convio are frequent sources of data on giving trends. The Foundation Center is making steady progress in collecting data electronically so its trend studies, giving surveys, and GIS-mapping tools can be based on current year information.

There is another level at which data matter in the social economy. More than just an instrument of change, some data are also public goods. Consider all of the data collected over the years by government agencies – anonymous, massive datasets on our collective health, wealth, education, demographic makeup, and so on. Public access to these public datasets is driving major policy changes and major public technology investments. But what about the public value of a

privately held dataset? If online searches can be aggregated and analyzed in such a way as to predict a pandemic or provide ground level reporting on a terrorist attack is the data a public resource or a private company asset?

Many people who use social networks or otherwise post information online have asked questions such as: who owns the information, what can they do with it, and how do I keep something private? We confront these questions frequently with companies like Facebook or LinkedIn and they also pertain to the data held by the Department of Motor Vehicles, tax authorities, and public health departments. One

Balancing personal privacy with the public good to be generated from aggregated information will be a defining legal and social question of the next decades.

place where these questions are already coming to the fore is in medical research. It is clear that large datasets of information about individuals are very helpful to research-

ers, holding the key, for example, to medical breakthroughs. But the information within those datasets connects back to real people. Balancing personal privacy with the public good that can be generated from aggregated information will be a defining legal and social question in the next decades.

The current legal structures that define charitable activities or that privilege certain public goods with tax exemptions say nothing about data. They say nothing about any public good created digitally – such as open source software used for emergency response. They also say nothing about access to these resources. Is access to the digital world a right for all citizens or a privilege for those who can pay? There are many organizations of all kinds – political, commercial, and charitable – working on these issues. However, enterprises in the social sector have yet to recognize the stake they have in these questions and in the rules that will define how data assets are valued as public goods. And the stake is huge.

2012 Wildcards

In addition to the big shifts that matter and my 2012 predictions, I can see several developments on the horizon whose outcome and impact on philanthropy and social investing are anything but predictable. These include:

- The Estate Tax extension will end at the end of 2012.
- Congress will rewrite laws on charitable tax deductions.
- The nonprofit sector will lose jobs rather than add them, adding to the unemployment woes in the U.S.
- Tax incentives for social businesses will be implemented on a broad scale.
- Nonprofits and low income Americans will lose access to subsidized postal service.
- The number of states that recognize B Corporations or their equivalent will double.
- The Social Innovation Fund (SIF) will be cut out of the federal budget.
- The federal government's role in disaster relief will be dramatically reduced even as the frequency and intensity of natural disasters increases.
- Alternative currencies, in which a community creates a type of credit to promote local spending (such as BerkShares in the Berkshire region of Massachusetts) or an online currency designed to keep users within a particular network (such as Facebook Credits) will gain traction in philanthropy.

3

Foresight: Predictions for 2012

The big shifts described above have been building for some time. Their full effects won't be felt immediately. They raise two structural questions, answers to which will affect all philanthropists over the next decade:

- Are social investing and political nonprofit funding attracting new financial resources or are donors re-allocating charitable dollars?
- How will the next generation of communications technologies and data tools – such as artificial intelligence and big data analytics – change giving?

In 2012 we can expect to experience a few direct manifestations of the larger shifts. There are also several additional external forces to consider as you plan for the year ahead.

- The demand for services from charitable nonprofits – from afterschool programs to human services and health and environmental groups – will increase as the economy

continues to suffer. Long-term employment forecasts in the United States predict a very slow recovery; some say it will take until 2020 to reach full employment.⁷

- Philanthropic giving that supports charitable nonprofits will barely budge from that of 2011.
- Government budgets will continue to be slashed as deficits drive politics.⁸
- Economic trouble in the European Union will significantly limit international aid, shifting attention to philanthropists.
- People in countries all over the globe will reshape their governments, businesses, and civil society. In the year gone by, as one European country bailed out another and the United States played “chicken” with its own debt obligations, the role of governments and of the social economy didn’t just come into question, it came under fire. These debates about the role of government and corporations shape and are shaped by assumptions regarding the social economy. We’ll see more political wrangling about these issues in 2012.
- Somewhere in the world will experience the first “trillion dollar” natural disaster.
- We will begin to experience “natural disaster” philanthropy fatigue. Every new disaster will induce lower and lower levels of spontaneous giving.
- Social businesses and social and impact investing will increase in amount and familiarity.
- Internet and mobile phone based organizations, payment systems, and electronic systems of alerts, organizing, and activism will take a new position in our lives. As payment systems are integrated into cell phones we’ll experience “flash mob philanthropy.”

- The Giving Pledge will prove to be a useful benchmark, particularly in helping to document the rise of visible, western-style philanthropy in China and other Asian countries. As of October 2011, sixty-nine billionaires had signed on, representing \$150 billion in philanthropy.⁹
- Social media use by foundations and nonprofits will continue to grow, and the skills to use these tools and assess their use will matter more for grantmakers.
- Nonprofits will be subject to more state and municipal fees.
- Communities will organize their own voluntary fee structures to keep parks open or provide afterschool activities once funded by local authorities.
- Tens of thousands of veterans will return to our communities needing jobs, education and training opportunities, and health care.



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 2012:

Social Impact Bond

In this new financing scheme, foundations or social investors pay the first money for new prevention programs and partner with local governments to monitor their progress toward pre-determined benchmarks. If the programs are successful, the early funders get paid back with dollars saved and the government carries on the programs. The first experiment involves a prison reform project in England. The state of Massachusetts is moving fastest toward similar experiments in the U.S. The bonds were first introduced in Britain and are gaining attention quickly at both the state and national level in the United States.

Charitable tax reform

The National Commission on Fiscal Responsibility and Reform report moved discussions about charitable tax reform from the realm of the impossible to that of the probable in December 2010. Since then, legislative battles over everything from the debt ceiling to job creation have included some rhetoric about changing the tax code regarding either deductions or exemptions or both. While still a buzzword at this point, stopping reforms to these provisions will dominate advocacy efforts from nonprofits.

Buzzword Watch

Shapeshifting

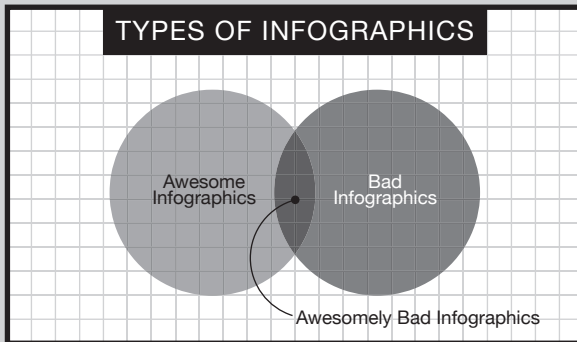
Shapeshifting is what happens when an organization changes corporate form – usually shifting from nonprofit to for-profit. In the 1990s dozens of health care organizations and hospitals made this shift, spinning off philanthropic foundations with billions in assets. Since 2000 we've seen this in other sectors, including student loan providers. The sale of nonprofit Jumo to for-profit GOOD raised the issue again in the summer of 2011. Two other notable instances of shapeshifting that received less attention were the nonprofit to for-profit conversion of the website verification firm TRUSTe and the online community site CouchSurfing. These last two shifts were accompanied by significant venture capital investment. Shapeshifting raises valuable questions about the range of organizations that can produce social good, their relative effectiveness, and the role of both private and philanthropic capital in catalyzing these enterprises.

Disruption

Disruption is the new black. Clayton Christensen began the authorial trend with his management classics on disruptive innovation. He's gone on to "disrupt" health and class. I contributed to the meme with *Disrupting Philanthropy: Technology and the Future of the Social Sector*. Others have written on disrupting homelessness, social media, marketing, and manufacturing. Disruption may soon replace innovation as the most overused and under-defined term in the social economy.

Infographics

The age of big data that we're living in has set loose the age of infographics. Infographics include cool interactive maps, Venn diagrams of apparently unrelated events, and trend lines everywhere. Infographics are the ultimate "pictures that say 1000 words." Like so many buzzy things, infographics are running on their own adoption cycle, from the rare and cool to overhyped and overused. Next in line should be "good, useful and common."



From *The Guardian*, Datablog

Collective Impact

The idea of government, nonprofits, the public, and commercial businesses working together is not new, but it is one of those ideas that is much easier said than done. FSG Social Impact Advisors coined the term "collective impact" to help these efforts along. The term, defined as "broad cross sector coordination" in a 2011 *Stanford Social Innovation Review* article has helped raise the idea to prominence. Important elements in this coordination are sharing data and then recognizing that this is just the beginning of the work.

4

Hindsight: Renovations to Previous Forecasts

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

Three of my four 2011 predictions came true – giving returned to positive territory and impact investing went mainstream (and got its first online exchanges). In addition, the congressional attention to tax deductions and tax exemptions became a dominant issue for nonprofit advocates.

I was wrong about the consolidation that I thought would mark the world of online giving markets. Guidestar took over both Philanthropedia and Social Actions, and Jumo sold itself to GOOD, but every week continued to bring a press release of a new online giving market somewhere for some niche market. While there was some consolidation among high profile players, new sites were born faster than old ones merged.

My first annual industry forecast in 2010 included some predictions that took longer than expected but did come to pass. Here are a few of them:

- Social investment exchanges finally launched in 2011. In addition to MissionMarkets, the Stock Exchange of Mauritius and NeXii launched an impact investing exchange, the iX.¹⁰
- The number of nonprofit organizations dropped by more than 275,000, mostly as a result of a change in IRS certification rules. How many nonprofits went out of business or merged with others because of financial conditions (which I had predicted) can't be ascertained.
- Public budget shortfalls, at the state and municipal levels, continue to wreak havoc on nonprofit finance. We've also seen a predicted uptick in state and local fees and taxes on nonprofits as government agencies seek revenue solutions.
- Two years ago “sector agnostic” was a buzzword. Now, the phenomenon of expecting that social goods can be produced by any possible combination of business, public agencies, or private nonprofits is at the root of the new term, social economy.

5

Glimpses of the Future

The social economy provides a frame for seeing new interactions between familiar actors – business and nonprofits, investors and donors. But the horizon shows yet more change coming into the picture. Most important among these are players in the sharing economy and the open government movement.

The Sharing Economy

The sharing economy is the world of car sharing and co-working spaces, fruit exchanges and tool swaps. The core ideas of this economy are old – they include mutual aid, co-operatives, and bartering. These are old ideas being brought back to life at digital speed and global reach. The assumptions embedded in these choices are important. Oftentimes reputation and trust are the currency at use, not money. While the Internet and mobile phones are often part of these new sharing systems, the effect on users is typically to connect them to nearby people more than faraway goods.

Key resources for those interested in these practices are *shareable.net*, an online magazine of the sharing economy; Rachel Botsman's *What's Mine Is Yours*, a book on "collaborative consumption;" and Lisa Gansky's book, *The Mesh*, and its companion website, *meshing.it*, which provide hundreds of examples of digitally-enhanced sharing systems.

The sharing economy provides an alternative to consumer spending. Many of the sharing websites overtly ask, "Why own what you can share?" This question is meaningful to consumer goods companies, many of which are jumping in with both feet to learn how to work in this new way. For example, Ford and Toyota actively partner with Zipcar and other car sharing programs to learn about the kind of consumer who prefers to be part of a sharing community rather than an individual owner.

Shifts in consumer behavior will surely matter for philanthropy. At the smallest level, greater communications between neighbors influence how community organizing happens or how people are able to respond in a disaster. As efforts to share community goods succeed we see the grass-roots development of tool libraries, produce swaps, and mutual aid societies.

These connections set the stage for precisely the kinds of informal networks of doers who may

The sharing economy provides an alternative to consumer spending. Many of the sharing websites overtly ask, "Why own what you can share?"

take on more civic-minded projects over time. If this achieves any scale it could both affect the needs for nonprofit services in those communities as well as shift what the neighbors want from their elected officials. Currently, most of these practices fall outside the sanctioned definition of philanthropy. There are efforts to revisit those definitions and to re-examine corporate and charities law to facilitate the growth of sharing communities. The sharing economy reveals a

return to behaviors such as bartering and to legal forms like co-operatives. The B Corporation movement and impact investing are live examples of how these kinds of behavioral and legal shifts can extend their influence even beyond their immediate circles.

Open Government

At the same time that the sharing economy has become so visible, government transparency is seeking its place in the sun. Long the purview of data experts and technologists, the move to share government data – on pollution, health, school locations, transportation systems, food safety, and so on – has moved beyond the niche interests of geeks and onto the front pages of community news sites. In many cities and towns there are active cohorts of volunteers working with government agencies to “free the data.” These folks spend their time volunteering at government agencies, from emer-

The civic pride of these volunteers and their “can do” attitudes result in informal networks using their private time and expertise to improve the public functions of local government.

gency services to the motor vehicles department, to find ways that the data the agencies have can be put to good use. Their efforts have improved how cities fix pot holes, route new

bike lanes, reduce graffiti, and fight crime. The civic pride of these volunteers and their “can do” attitudes result in informal networks using their private time and expertise to improve the public functions of local government.

Nonprofits are coming somewhat late to the game of open government. While it’s true that many nonprofits have played a watchdog role on government for years and nonprofits are important users of the Freedom of Information Act (FOIA), the open government movement is as much a partnership as it is adversarial. In one of the odd ironies of the Internet age, freedom of information rights have even been seen as a barrier to agencies putting data online –

why should a city invest in technology and data standards when the public can just file a FOIA request and get the information that way? The costs of making data public can be substantial. There are legitimate questions about where to draw the limits on disclosure and transparency. What we are experiencing is both a reconsideration of public assets and public decision-making as well as a new movement of private action.

In many cases, the currencies being exchanged are time and data, not money.

Civic-minded tech volunteers and municipal professionals are beginning to seek community partners. Volunteers for government agencies work with nonprofits to recruit other residents and their insights. People are seeking expertise from all sectors to solve shared problems. In many cases, the currencies being exchanged are time and data, not money. This requires re-setting roles and expectations.

Moving into the Future

Wayne Gretzky famously said, “Good hockey players play where the puck is. Great hockey players play where the puck is going to be.” We can all be better philanthropists and social investors by preparing to use our current and future resources. Understanding the expanding universe of options within which philanthropy and nonprofits operate is key to being an effective supporter of the causes you care about.

The social economy is a new frame, but it is not static. The sharing economy and the open government movement are already visible new behaviors on the horizon. These will have ripple effects on the social economy. Online sharing platforms take age-old mutual assistance models and expand them into new definitions of community. Volunteering to solve public problems through public agencies changes how we think about using private resources.

I see many intriguing tactical opportunities. Perhaps foundations will begin to open up their data to government partners or civic hackers? Maybe we'll see broader use of "co-program officers?" It's possible that more foundations will open up their archives and partner with organizations under the terms of open or creative commons licenses. There are also larger possibilities. Can the ripple effects of carsharing influence public transit planning? Can shared commercial kitchens serve as small business incubators? Can the data generated by these sharing communities be used to influence ballot initiatives or candidates? Or as indicators of community health? Might we see new incentives for such old-time forms as co-operative businesses and mutual aid societies? Over the next decade we will surely see doers and donors grab on to these movements, become part of them, and capture some of their potential for solving shared problems.

The most important thing in planning your philanthropy and social investing for the year ahead is to consider all of your options. How are the issues you care about being shaped by nonprofits, social businesses, and political campaigns? Are you adjusting your financial support to take advantage of all the opportunities? Given the landscape, are your expectations for your giving in line with what is possible for nonprofits to accomplish? Being strategic about philanthropy means understanding the ecosystem of private resources that create public goods. This is where the frame of the social economy is helpful. It shows you all of the component pieces, reflects on the dynamics between them, and even points out new developments still on the horizon.

Appendix: Details of the Social Economy

Nonprofits include enterprises that perform social welfare functions such as helping elders, catalyzing creativity, and cleaning up the environment. There are almost one million public charities – 501(c)(3) organizations – with annual revenues of more than \$1.4 trillion. The nonprofit sector as a whole also includes another 500,000 political, civic, and trade associations.¹¹ Different classes of nonprofits operate under different tax guidelines, have different rules about their political activity, and must disclose different kinds of information about their donors. The 2010 *Citizens United* decision is changing the annual revenue flows to these organizations although there are many questions about how much of this money is really new (as compared to redirected from other places).¹²

Philanthropy includes charitable giving by individuals and organizations. Annual giving in the U.S. is more than \$300 billion, with the bulk of it (more than \$211 billion) coming from individuals. More and more of this giving is done online, either directly to organizations through their websites or through any one of hundreds of online giving portals. In 2010 online giving accounted for 8 percent of all fundraising.¹³ Mobile giving (text donations) is in the philanthropy category.

Social businesses are commercial enterprises with a social purpose. These include well-known brands such as Stonyfield Farms Yogurt, Method Cleaning Products, and Patagonia clothing. These companies work in ways that are helpful to the environment, promote good governance practices, and give back to their communities. Some of them are incorporated as social businesses through the B corporation structure (B Corps) or as a low-profit, limited liability company (L3C)

though most are not. There are more than 450 B Corporations in the U.S. with collective revenue of more than \$2 billion.¹⁴

Social investing includes several tools by which you can manage your investments to match your values. A subclass of social investing, which is becoming an asset class unto itself, is called “*impact investing*.” This involves actively financing companies that produce social financial returns. Foundations participate as impact investors through mission- or program-related investments. Individuals participate in impact investing as direct investors and through pooled funds. While market measures are still developing, forty impact investing funds managing \$1.7 billion are currently participating in an industry-wide beta test of metrics. There are 106 impact investment funds listed on ImpactBase, a new database for investors.¹⁵ Growth projections for impact investing are as high as a trillion dollars by 2020.¹⁶

Political giving through nonprofits is growing, as are the number of organizations, mostly 501(c)(4) and 501(c)(6) nonprofits that are directly involved in elections and campaigns. The donations and organizations operate under different disclosure and tax rules than 501(c)(3) charities.

Informal networks of individuals who share a cause are increasingly visible parts of the social economy. CrisisCommons is a global, 2,000 person network of volunteers that uses open-source software to create real-time maps and alert systems for disaster response. CarrotMob organizes shoppers to help small businesses install agreed-upon energy saving appliances.¹⁷ These networks have no legally recognized governance structure, may be entirely self-funded, and can't easily receive deductible donations. They are readily accessible to anyone with a cell phone.

Endnotes

- ¹ Revenue data from The Urban Institute, *Handbook on the Nonprofit Sector*, 2010. Ratio of funding sources calculated using 2008 data.
- ² We don't have good measures for some of the elements of the social economy. This chart is most useful for its rough representation of the ratios of private resources within each component of the social economy. The nonprofit data is the same as that used in Figure One and comes from The Urban Institute. Political giving is represented by total spending on the 2010 midterm campaign and independent expenditures in those campaigns. The data come from the Center for Responsive Politics, Campaign Finance Institute, and OpenSecrets.org. Impact investing is the most difficult category as there are no annual figures available. As a representation, I've used the 2009 total revenue of Community Development Finance institutions. I've also counted (as private investments) the \$1.7 billion in assets of the forty Impact Investing Funds using the initial GIIRS rating system as of November 2011. These are admittedly representative, rough, and incomplete numbers, selected because they are vetted and publicly available. I welcome comments and contributions for better data sources.
- ³ The Sunlight Foundation, which tracks political spending, estimated that 40 percent (\$186 million) of the \$450 million in outside money spent on 2010 elections was made possible by *Citizens United*.
- ⁴ The Foundation Center database.
- ⁵ Kirk Skaugen, Intel Vice President, speaking at the Web 2.0 conference in San Francisco in October 2011, reported by James Temple, "Web 2.0 Summit: Data Explosion Creates Revolution," the *San Francisco Chronicle*, October 19, 2011. <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2011/10/19/BU5K1LJ4R3.DTL>
- ⁶ Global Impact Investing Reporting Standards (GIIRS)
- ⁷ McKinsey Global Institute, *An Economy That Works: Job Creation and America's Future*, April 2011.

- ⁸ A 2011 survey found that 90 percent of foundation CEOs could identify nonprofits severely affected by government budget cuts. Forty percent had changed their grantmaking as a result of public budget changes. See the Foundation Center, “Foundation Leaders Address the State Budget Crises,” <http://foundationcenter.org/gainknowledge/>
- ⁹ *The Wall Street Journal*, <http://online.wsj.com/article/SB10001424052970204644504576653510801826824.html#ixzz1c6NNin9T>
- ¹⁰ Social Enterprise, <http://www.socialenterpriselive.com/section/news/money/20110529/world%E2%80%99s-first-impact-investing-exchange-board-launches-socap-europe>
- ¹¹ The Urban Institute, National Center for Charitable Statistics, 2011. Online at <http://nccs.urban.org/statistics/quickfacts.cfm>
- ¹² Campaign Finance Institute, http://cfinst.org/Press/PReleases/10-10-18/Election-Related_Spending_by_Political_Committees_and_Non-Profits_Up_40_in_2010.aspx
- ¹³ Blackbaud, Inc., *2010 Online Giving Report*. <http://www.blackbaud.com/bb/online/fundraising.aspx>
- ¹⁴ B Lab, www.bcorporation.net
- ¹⁵ PRI Makers, <http://primakers.net/news>
- ¹⁶ JP Morgan, *Impact Investments: An Emerging Asset Class*, November 2010, <http://www.jpmorgan.com/pages/jpmorgan/investbk/research/impactinvestments>
- ¹⁷ www.carrotmob.org