Philanthropy Impact Magazine

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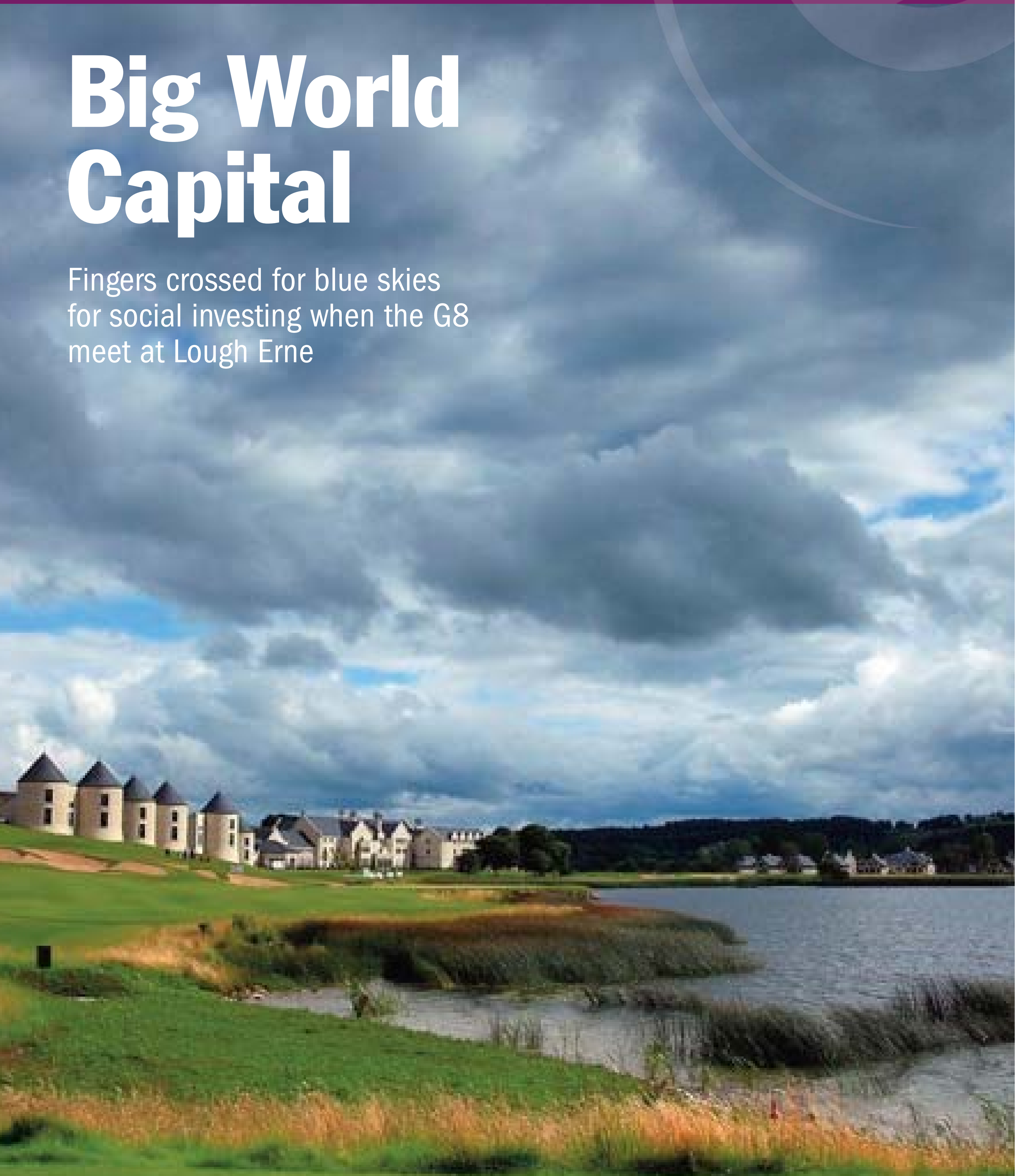
Big World Capital

Fingers crossed for blue skies for social investing when the G8 meet at Lough Erne



Sue Daniels, Executive Director and Editor in Chief

We were thrilled by the positive feedback we received to Philanthropy Impact Magazine Issue 1: Spring, thank you. We hope Issue 2: Summer 2013, continues to raise the bar on the myriad of challenges and opportunities facing philanthropy.

Our Secret Philanthropist sparked many discussions and we have printed David Gold's thoughtful letter arguing that the basic principle of philanthropy is to help improve people's lives.

In this issue our (not so) secret advisor reminds everyone in the UK, about a quirk in Gift Aid – available for this year only. Diana Leat tests her crystal ball skills by asking if foundations' attitudes and approaches have changed over the past decade and what this might mean for the future, and we look at philanthropy in Gaming! Yes, you did read that correctly.

Kurt Hoffman unpicks the current philanthropy narrative and throws down the gauntlet to philanthropists. Remember, you can comment on Kurt's article online now, and join our live conversation online on 12 June 2013 at midday UK time.

Your letters and comments inform our work so please email editor@philanthropy-impact.org

Best

Sue

Philanthropy Impact incorporates Philanthropy UK, the European Association for Philanthropy & Giving, and the Philanthropy Advisors Forum

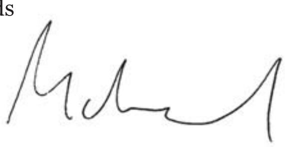
Michael Green, Guest Editor

In this edition of *Philanthropy Impact* we are putting social investment in the spotlight, because it is going to be on the agenda for the G8 summit in Northern Ireland in a couple of weeks time. This is an area where the UK is setting the pace and David Cameron is looking to get other world leaders behind the push to make social investment a major force in the world.

To complement this, one of Britain's leading pioneers in social investment, Faisel Rahman of Fair Finance, sets out his agenda for tackling financial exclusion and the Secret Philanthropist is back to sing the praise of Social Impact Bond. Not everyone is an enthusiast though. Our empiricist in residence, Caroline Fiennes, pours a little cold, hard data on the much-hyped Peterborough Prison Social Impact Bond and Kurt Hoffman sounds a cautionary note about microcredit in general, drawing out the lessons for real, world-changing philanthropy.

On the subject of data, we are also delighted that Simon Parrish of the International Aid Transparency Initiative has written a provocative piece challenging the foundation world to embrace transparency.
We would love to hear your reactions.

Regards



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The purpose of the magazine is to share information about philanthropy in a domestic and international context. We welcome articles, letters and other forms of contribution in Philanthropy Impact Magazine, and we reserve the right to amend them.

Please contact the Editor at editor@philanthropy-impact.org

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Cabinet Office

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Letters to the Editor

Dear Editors,

Have I really funded an air to ground missile?

How many times have I heard that one? The other favourite argument is: what about local corruption and the associated costs? Of course there can be a strong element of truth in both arguments. But where do they stand in relation to the basic principle of helping to improve people's lives?

Wouldn't it be a perfect world if governments spent money in a way that I approved of! Nobody understands how to spend money better than me. Should this country's government have gone to war with Iraq when so much public opinion was so against it? Couldn't we have saved a few small billions on bailing out the banks, and used the money to address some of the desperate issues facing society? It seems people happily accept some strange and often huge government spending patterns safe in the knowledge that water will run cheaply from their taps.

The other problem with this kind of argument is the idea that if we stopped funding water projects, governments in emerging economies would have to stop spending on the military and focus on development. To be honest, I don't understand why developing countries spend money on defence – although I am not sure why we do in the West either – and it's true that Costa Rica, for example, saw massive improvements in literacy and healthcare after redirecting funding from military spending. Governments of developing countries that have been blocked from Western aid such as North Korea, still spend vast amounts of money on their militaries rather than helping people; so blocking aid won't necessarily change spending habits anyway.

Yet, do I still invest in charities in the UK and overseas? Of course I do. Why? Because of the human need for relief from thirst, hunger, suffering and exclusion. If a close relative was suffering, and you could afford to do something about it, would you wait for the state to act first? Would you let them continue to suffer if the state fell short? The same principle applies when it comes to alleviating the suffering of those we don't know.

For me it's really simple. If you get an opportunity to prevent someone from suffering then do it, regardless of your opinion of what the government should or shouldn't be doing. In fact, in this case – where a mere $10,000 will alleviate the suffering of 1,000 people – it's a 'no brainer'. What an amazing privilege. For the price of a small car, these people can have better lives. And who knows – as conditions improve, as access to education increases, maybe they can help to challenge corruption and military spending, as we've seen in Costa Rica.

No, you haven't funded an air to ground missile: you've changed a thousand people's lives for the better. Well done you.

David Gold

London, 13th May 2013

Dear Editors,

I am very pleased to provide you with information about the new further education and training courses at the Centre for Social Investment (CSI), Heidelberg University. We provide tailor-made executive training for professionals in the charitable sector, as well as those working in the public sector or in private enterprises dealing with social impact.

The Executive Training "Social Investment and Impact" puts the approaches developed at CSI into practice through lectures, case studies and group discussions about social impact and impact measurement. This course provides participants with a broader understanding of the topic as well as an overview of possible instruments to measure social impact.

For more information see https://www.csi.uni-heidelberg.de/lehre/expert_angebote_e.htm

With kind regards,

Dr. Tobias Vahlpahl

Programme Director at CSI

CSI - Centre for Social Investment, Universität Heidelberg

Dear Editors,

What is holding India's millionaires and billionaires from opening their wallets to NGOs? According to a new Bain & Company survey of 180 wealthy individuals and leaders of more than 40 NGOs, two-thirds of donors claim that NGOs can improve their impact on the lives of beneficiaries and that achieving this goal would prompt 26% of donors to increase their philanthropic contributions.

Bain's survey also reveals a deep communication gap between NGOs and donors, with more than 60% of donors claiming to not receive regular communications from NGOs. Conversely, donors who do receive communications frequently, report that the majority of NGOs do not convey information regarding the impact of their efforts, and instead focus on the processes followed and activities performed.

However, requiring NGOs to rethink how they measure and communicate impact remains challenging. Though a primary wish cited by sophisticated donors, NGOs agree that measuring impact is important, 40% of those surveyed find such efforts difficult, and a similar proportion cite the cost of evaluation as a deterrent. This is particularly concerning to NGOs in harder to measure sectors, such as gender justice, drug rehabilitation and Dalit empowerment, who feel the measurement challenge most acutely.

Arpan Sheth, Bain partner and co-author of the third annual India Philanthropy report, emphasises that, in order to create and communicate better impact, NGOs and donors must first agree to measurement metrics and frequency of communications. To help accomplish this, Sheth outlines the roles and responsibilities that key stakeholders, including donors, NGOs and foundations can play to help amplify the impact of philanthropic contributions.

The report can be downloaded here: www.bain.com/publications/articles/india-philanthropy-report-2013.aspx

Dan Pinkney,

Manager, Global Public Relations, Bain & Company, Inc.

Big World Capital

Will the June G8 Summit be the moment social investing comes of age?

by **Michael Green**

G8 UK

UNITED KINGDOM 2013

You have to feel a bit sorry for the G8 group of leading industrial countries. Not so long ago their annual get-togethers, hosted in rotation by one of the member states, used to be the most important meeting on the global economic calendar.

Back in 2005, when Tony Blair hosted the leaders of the US, Japan, Germany, France, Italy, Canada and Russia at Gleneagles in Scotland, they all got their chequebooks out and pledged billions of dollars of extra aid to Africa. How the world has changed in eight years. Since the global financial crisis of 2008 the centre of economic decision-making has shifted decisively away from the old powers of the G8 to the wider G20 grouping that includes China, India and other rising powers. Worse, the G8 countries are all in the fiscal mire, so no chequebooks will be waved on 17-18 June at Lough Erne in Northern Ireland when the UK plays host again. Prime Minister David Cameron, however, is still hopeful (well, he has to be, doesn't he?) that under his chairmanship the G8 can agree on some new ideas to revive the global economy. And what better than a new idea where Britain leads the world: social investment.

Opinion is still divided on whether social investment, also known as impact investment, is the great hope or the great hype. The idea is an appealing one in these financially straitened times: rather than spending scarce government cash or the limited pool of charity money on solving social problems, make your money go further by investing in solutions to social problems that generate financial as well as social returns. It is an idea that has been steadily catching on. Microcredit, for example, has spread widely as a tool to help the poorest of the poor in developing countries (though not without problems or controversies as Kurt Hoffman discusses on page 19). The hope is that social investment can grow similar market-based solutions in education, healthcare, water supply and so on. In developed countries, much of the buzz is about the potential of social enterprises, such as the Big Issue and microcredit provider Fair Finance (see page 9), as a tool of social and economic regeneration. Indeed, earlier this year the European Parliament approved legislation to support social investment, by allowing fund managers to operate across the EU without seeking regulatory approval in each member state.

Opinion is still divided on whether social investment is the great hope or the great hype.

"Most of the developed economies face a similar challenge – finding better solutions to stubborn social problems when there are few public resources around", explains Nick Hurd, the Minister for Civil Society who is tasked with nurturing the new market for social investment. His hope is that this will provide a new, additional form of funding for the nonprofit sector. *"Social investment is the third pillar of funding for the sector"*, he explains, *"alongside philanthropy and government financing."*

Hurd also wants to put the 'made in Britain' tag on social investment. *"The Prime Minister"*, he says *"is quite proud that Britain is clearly recognised as the world leader in driving the growth of this market"*. Big Society Capital, for example, which was launched last year with £600 million capital from unclaimed bank deposits, is probably the world's largest publicly-backed social investment fund. Other countries are also fascinated by the potential of the Social Impact Bond (SIB) tool that the UK has pioneered, first to tackle recidivism and which is now being applied to other domestic social problems and, maybe, to fighting poverty overseas (although not everyone is convinced, see Caroline Fiennes' commentary on SIBs on page 5).

So what can the G8 summit do for social and impact investment? Sir Ronald Cohen, who has led the social investment movement in the UK for more than a decade, first as chair of the Social Investment Task Force created by then Chancellor of the Exchequer Gordon Brown and now as chair of Big Society Capital, is putting together the agenda for the meeting. Do not expect big announcements, he cautions, this is about modest progress to build interest in this new market. *"Given the disparate understanding of impact investment across the G8"*, he explains, *"if we could emerge with a degree of understanding of the field and what government policy could achieve, that would be an objective met."* To that end, Sir Ronald is convening 150 leaders in social finance from across the G8 countries in a 'fringe' event to showcase best practice and share ideas. His dream is that social investment will provide the impetus so that *"social technologies could spread around the world like information technology and biotech have already."* The Lough Erne Summit is just a step on that journey but, he believes, an important one to put social investment on the global map.

"Most developed countries face a similar challenge - finding better solutions to stubborn social problems when there are few resources around". Nick Hurd

For both Hurd and Cohen the G8 governments' focus on social investment is important for visibility but the real action will have to come from private actors, particularly from the philanthropic sector. *"The tools of philanthropy need updating"*, says Cohen. He believes that the philanthropic sector will have to take more of the strain in solving social problems (*"governments are out of cash and out of breath"*) and can only rise to the challenge by embracing social investment. *"Radical change"*, he says, *"needs a new form of financing."*

Philanthropic foundations are top of Cohen's hit list for those who could and should be doing more to drive the social investment market. *"Adopt social investment, make allocations from your balance sheets"*, he urges. As Cohen points out, if just 5% of foundation endowment assets were dedicated to social investment that would match the amount given in grants each year. Such dreams have been dreamt before but foundation capital has not, so far, followed the dream. What prospect is there that social investment will become a mainstream activity for foundations? Cohen's hope is that the visibility and credibility afforded by the G8 will be a nudge.

Another optimistic sign is that foundations do seem to be starting to think about their endowments not just as a cash generator but as a tool of influence. *"Historically, most foundations have ignored the opportunities for influence and impact afforded by their shareholder rights"* explains Catherine Howarth, CEO of Share Action, a charity promoting shareholder activism to force big business to live up to their environmental responsibilities and social obligations. *"But this is changing with a growing number [of foundations] now seeking to intelligently connect the objectives of their giving programmes with targeted dialogue with companies in their portfolios."* If, as Howarth suggests, foundations are seeing investments as an integral part of a joined-up strategy for doing good, then the social investment market will surely benefit too.

"Radical change needs a new form of financing".
Sir Ronald Cohen

An even bigger prize than the billions sitting in foundation endowments is the trillions sloshing around the for-profit capital markets. A tiny fraction of this money steered towards social investment would be a huge boost to the market. Social investment innovator Karl Richter, who will be part of the G8 fringe events, is optimistic that mainstream finance will soon be paying heed. *"We need to prove that there is a link between investment strategies that seek social impact and more resilient long-term economic value"*, he says. To that end, Richter is working on a new data platform, EngagedX, to track the financial returns of social investment funds as a first step in tempting the big beasts of the City to treat social investment as a serious business that it is worth investing in.

Nick Hurd shares this optimism that social investment will become a mainstream financial service, not just for sophisticated City types but for ordinary consumers too. *"In a few years I will be offered this, as a retail investor"*, he predicts. In the meantime, eyes will be on the G8 summit and, most importantly, the leaders' report at the end of the meeting. Just a few sentences about social investment in that report, known in the trade as 'the communiqué', could be the signal needed for this market to take off.

***Michael Green** is an economist and writer. He co-authored 'Philanthrocapitalism', 'The Road From Ruin' and 'In Gold We Trust?'. Michael has worked in aid and development for nearly twenty years. He was a senior official in the British Government where he worked on international finance, managed UK aid to Russia and Ukraine, and served three Secretaries of State as head of the communications department at the Department for International Development. He is @shepleygreen on Twitter*

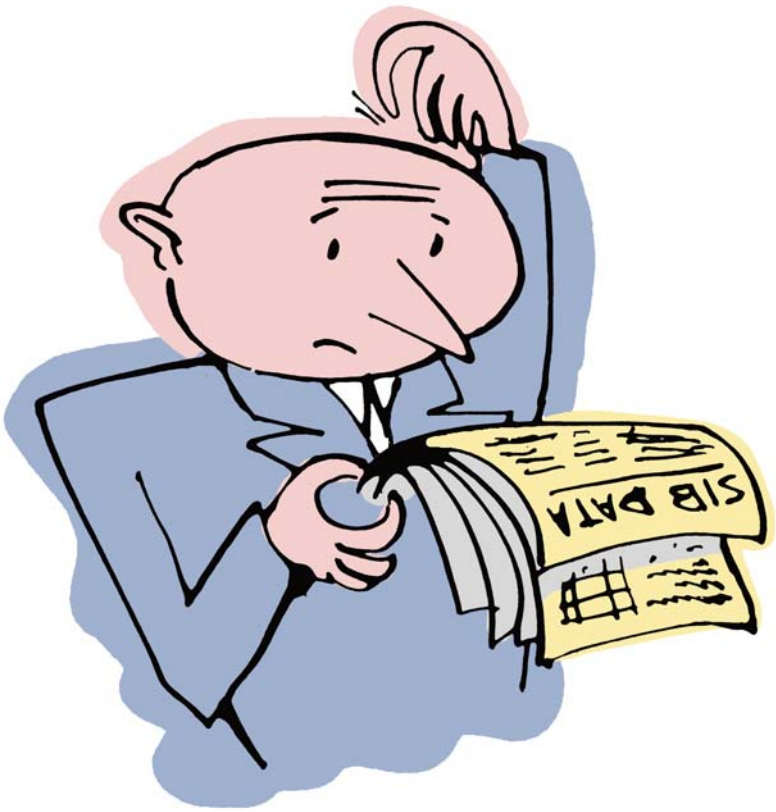
Empiricists Corner:

What the First Social Impact Bond Won't Tell Us

by **Caroline Fiennes**

This article first published in the Stanford Social Innovation Review.

Social impact bonds (SIBs) are a high-profile innovation in funding public services. The pilot SIB in Peterborough, UK, which aims to reduce recidivism, has been widely watched and — despite not yet producing results — already widely emulated.



Given the international interest in SIBs and similar payment by results (pay-for-success) schemes, it is important to determine whether the Peterborough SIB works. The Ministry of Justice describes the programme's evaluation method as *"the Rolls Royce of evaluation."* However, Professor Sheila Bird of Cambridge University and the UK Medical Research Council says: *"[It] might well be a brilliant success; it might achieve little. But we aren't going to know either way."*

This article examines three aspects of determining whether the SIB works.

The first is straightforward: whether the investors should be repaid. Determining this will be easy, because it depends solely on the re-offending rate and the contractual terms – both of which will be clear.

Second, whether the intervention itself works to reduce re-offending – a central question. Determining this will be more difficult, because this first SIB is using a variety of interventions – only some of which have been evaluated rigorously and the combination has never been evaluated.

The issue is attribution: figuring out whether the re-offending rate amongst the Peterborough prisoners has anything to do with the charities' work which the bond funds. Both sides agree that the way to see what the charities have achieved is to compare:

1. The one-year re-offending rates of men with whom the charities work.
2. The one-year re-offending rates of a group of similar men with whom the charities haven't worked. This "control group" screens out effects of, say, changes in society, the law, or sentencing procedures.

It is essential that the "treatment group" and control group be effectively identical beforehand; if they are, the sole difference between them is the programme, which alone must account for differences in re-offending rates between the groups. Bird would have liked the treatment group and control group to have been selected at random to ensure that the groups were effectively identical. But this is not what is happening.

Peterborough prison was not chosen at random.

Social Finance says it was impossible: within the prison, the programme is advertised and open to anybody whose sentence is a year or less. Prisoners are used to – and exasperated by – being apparently arbitrarily excluded from things, and neither Social Finance, the nonprofit company that invented social impact bonds and is running the Peterborough pilot, nor the prison governor wanted this programme to generate ill-will in that way. Social Finance says that its *"investors wouldn't tolerate excluding some people."* Sheila's view is that random selection inside prisons (as outside them) is not only possible, but also pretty common.

If randomising prisoners was not possible, the next best option would have been randomising prisons: in other words, several randomly selected prisons would get the programme while others would not, and the re-offending rates of their populations would be compared. Social Finance says that this was not possible either, because the Ministry of Justice would never have allowed a pilot in several prisons at once.

Interestingly, Peterborough prison was not chosen at random, but rather because the prison governor was willing to engage. As Bird remarks, that may indicate an unusual trait in the governor, which itself may influence the results. It is not impossible that a prison governor willing to take on this innovative project is unusually progressive in other respects too: perhaps Peterborough prison offers other unique programmes that could skew the results.

To construct a control group, the bond evaluation uses Propensity Score Matching (PSM), a system often used when samples cannot be randomised. With PSM, you start by figuring out what indicators have historically correlated with eligibility for the treatment (propensity to be eligible). In this case, prisoners at institutions other than Peterborough who have the same "propensity scores" as the treatment group serve as a control group. Social Finance is doing an unusually elaborate PSM by having about ten "control" prisoners for each "treatment" prisoner.

Even the Ministry of Justice explicitly acknowledges that the control group may be pointless.

Nonetheless, there are major objections to PSM as a way of attributing any effects observed. One is that PSM can only ever look at indicators that are observable, such as age, background, and criminal history. Yet it is often unobservable factors – such as attitude or resilience – that drive behaviour.

Another problem is that the only data available for the PSM are what's stored in the Police National Computer, which is surprisingly basic. For instance, it cannot distinguish whether somebody has mental health problems or a history of heroin use, which obviously would influence their behaviour and the care they need.

Astonishingly, even the Ministry of Justice explicitly acknowledges that the control group may be pointless (see page 7 of this Ministry of Justice document about the evaluation: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/162352/peterborough-social-impact-bond-assessment.pdf.pdf).

The third respect is whether the bond structure itself works. Social Finance says that the mere existence of this first bond proves that it is possible. It has defined performance criteria against which a public body agreed to repay, and found private donors willing to provide funding based on those criteria.

But when we eventually see the re-offending rates of the treatment and control groups, we will not know whether to attribute any differences to:

- Social Finance's particular mix of interventions
- The money. The SIB brings in about £1,667 pounds per prisoner. Bird thinks any prison governor could use that amount to dramatically reduce re-offending. It is possible that the prison governors could out-perform Social Finance's programme.
- The new financing mechanism itself. We will not know whether it produces better outcomes than if that money had been put into that intervention through, say, a grant programme.

The core problem might be that Social Finance is delivering on a contract: it is not doing social science research, to which distinguishing between possible causes is central. So does the difficulty of seeing the effect of the financing mechanism itself matter? Well, not for Social Finance or its donors in this first instance. Their proximate issue is delivering the contractual obligations such that they get paid. But surely it would have been helpful to Social Finance's future work to see the effect of the SIB mechanism itself.

It certainly matters to the Ministry of Justice, which 1) may end up paying for a service that didn't achieve anything beyond what that particular prison governor would have achieved without that money, and 2) will not therefore know what service they should roll out to other prisons if the Peterborough service does apparently succeed.

It matters even more to UK taxpayers who are funding all of this—as well as hoping not to be burgled or mugged. Yet they are unlikely to object because the intricacies of randomisation and PSM for determining attribution are a shade too complex.

The core problem might be that Social Finance is delivering on a contract: it is not doing social science research.

"All these problems could have been averted," says Bird. She says, for example, that this first SIB could have been tested against a known intervention with a conventional funding mechanism.

And yet, we should not let the best be the enemy of the good. Clearly, we are likely to get better public services when the interests of the provider and purchaser are better aligned, and SIBs are a step in the right direction. Despite the Peterborough SIB's curious design choices, it has taught us many things– and will teach us many more.

http://www.ssireview.org/blog/entry/what_the_first_social_impact_bond_wont_tell_us

Caroline Fiennes *advises donors, funders and charities, on the basis of extensive experience in the voluntary sector. It Ain't What You Give, It's The Way That You Give It published in 2012 shows any donor how to be effective, and has been very well-received.*

Caroline is Director of Giving Evidence.

Last chance to take advantage of a quirk in Gift Aid

by **Morgan Kainth**

In the UK higher rate taxpayers are able to claim back the difference between their highest rate of tax and the UK basic tax rate (20%) on their gross Gift Aid donation. This financial year the highest rate of tax has decreased from 50% to 45%, which means that on a donation of £100,000 the net cost to the donor will increase from £62,500 to £68,750. But, for some highest rate taxpayers, it is not too late to make a claim at the 50% rate.

Whilst many people find the Gift Aid system over-complicated, highest rate taxpayers may well have cause to celebrate one of the quirks of the system: Gift Aid can be backdated to be claimed against the last year's income, and thus rebates given according to the previous year's tax rate thresholds ... provided that the donor's tax return has not yet been filed.

This opportunity is unique to this tax year, as the higher rate of tax has changed, so there is an incentive to backdate gifts while donors have this window of opportunity.

Gifts of shares and how to handle them

Share giving is also a highly tax effective way of giving to your chosen charities – donating shares outright enables **income tax relief at the highest rate while ensuring no capital gains tax liability**.

Only 6% of global wealth is cash, and the beginning of this year was full of reports that the level of donations is decreasing year on year. With many charities struggling, and disposable income levels decreasing, there is a great opportunity in making gifts from assets. Not only does it have less of a direct effect on the donors' pockets, but it also provides the charity with a flow of funds outside the donor's direct disposable income.

Gifts of shares come with no Capital Gains Tax or Income Tax liability, so are a really tax efficient means of making a donation. There is a second option for donors – that they can sell the shares on at cost price to the charity, and then gift the profits if the shares' market value is higher than the cost at which they are sold to the charity. Unfortunately, this incentive is not well known among the donor community, and charities are often not well equipped to handle a gift of shares.

When a donor makes a gift of shares, there has to be an on-going communication between the donor and the end Charity. This is where intermediary charitable organisations such as Prism the Gift Fund, Charities Aid Foundation and KKL really come into their own. They are usually familiar with gifts of shares, can administer the transaction, and liaise with the end charity. Once they have facilitated the sale of the shares, the money can be passed on in the much more manageable form of cash to the end charity.

So, key messages for the next few months for major donors in the UK

- Highest rate tax paying donors currently have an incentive to claim back Gift Aid on donations as if income tax was still at 50% – a 30% gross rebate on a Gift Aid donation.
- Share giving is highly underutilised, but has the potential to unlock a great new flow of funds into the charitable sector. For this, communication is key. Businesses, charities, and individual donors need to build an awareness of what it means to gift shares and how best to go about it.

Morgan Kainth
Prism the Gift Fund

Why charities should join the war on waste

In the face of recent cutbacks I have often heard it said that philanthropy will have to work harder to fill the gaps. This implies that it might actually be possible for philanthropy to fill that gap. It is a dangerous route to go down. The gap isn't going to be filled by passing the hat around the usual suspects.

In the UK, the state spends about £400 billion a year on welfare, education and health. Charities involved in these areas attract about £8billion a year in voluntary donations, reduced to £6 billion a year after fundraising costs. It follows that a 1% cut in state spending requires a 66% increase in giving. Since all charities are already doing everything possible simply to maintain the current level of giving, this seems unlikely. We need to be realistic. The charity sector isn't going to raise any more money, the state sector isn't going to find any more money to spend either in the form of grants or tax incentives for giving.

The most valuable role of the philanthropic pound is the independence it gives to organisations which enables them to speak out and influence the way issues are dealt with. Since it is not possible for charities to simply fill the funding gap, it would be far better to close the gap by helping the state find ways to achieve the same results on the reduced budget. Put another way; helping the state sector achieve 1% better efficiency is the equivalent of increasing giving by 66%.

Helping the state sector achieve 1% better efficiency is the equivalent of increasing giving by 66%.

Charities have the sector expertise to give a legitimate and valuable input into the debate and in most sectors the interface between state and voluntary sector exists, but if the government is serious about Big Society it should see the role of the voluntary sector as more than merely filling in the gaps, pound for pound, and instead embrace the contribution that the combined experience of the sector can make in improving the efficiency of state spending through innovation and fighting waste. In turn the voluntary sector needs to embrace the notion that its interaction with state should be about more than just financial support for its own programmes.

Charity programme staff work at the coal face, often side by side with the state sector, particularly those charities with large state funded programmes. They are in the best position to see and shed light on the inefficiencies. Rather than sit back in silent bemusement watching government departments squander sums of money representing several years expenditure for their own charity, they should see that they have a responsibility to speak out to improve their sector on both sides of the fence. Some people can be remarkably territorial in their concerns, the rest of us would just like to see the issues addressed effectively and it really doesn't matter who takes the credit.

There are formal and informal channels of influence, from policy committees involving both state and voluntary sector through to the informal and indirect influence of the press. Charities should always have a role in yapping at the heels of the state to drive change for good; it is quite right that this should incorporate the war on waste. The Peterborough Social Impact Bond, launched by Social Finance in 2010, is probably one of the best examples of how this could work. It looked at the issue of reoffending as a whole and offers the Ministry of Justice a more effective way to spend the existing budget.

I like to know that my donation has been well spent but I am equally keen that my taxes are well spent too.

As a donor I prefer the idea of my money being used to influence the efficiency of the whole budget, state and voluntary, rather than just topping it up. It is rather depressing to make a donation to a cause, only to hear of examples of waste in the very same sector that completely dwarf the efforts of the charity. I like to know that my donation has been well spent but I am equally keen that my taxes are well spent too.

Perhaps the government should embrace the idea that, wherever charities identify public sector waste which can be addressed, half of the money saved should be given to the charity as an incentive. If the government agreed to that, I would be delighted to fund a unit within a charity responsible for prospecting for public sector waste. In the meantime I hope we will see an increasing range of Social Impact Bonds offering more efficient solutions to social problems.

In the meantime, it is hard to imagine that charities could ever increase annual voluntary fundraising by 66% but it is not hard to imagine that the state sector wastes 2% of its budget.

The Secret Philanthropist is a successful British entrepreneur.

What can philanthropists do about financial exclusion?

by **Faisel Rahman**

It is almost impossible to avoid the daily barrage of texts, high street signs, bus or TV adverts offering quick and easy access to finance.

Getting credit is certainly easy these days – a 'no pay till pay day' loan can be for up to £1000 and arranged in minutes – but at a cost: interest rates can be as high as 4,500%. These lenders are not men with baseball bats and Rottweilers; they are often large companies like Wonga or The Money Shop with respectable investors (including charitable foundations) that are providing a service that many choose for convenience and access because they have no other choice. Expensive credit is just the tip of the financial exclusion iceberg.

The last five years have seen the tightening of lending by banks that has resulted in the boom in alternative lenders. The Office of Fair Trading estimates the market to be worth billions of pounds. The most financially excluded are the 2 million people who do not have a bank account but many more are being drawn to borrow from payday lenders because they cannot get credit from their own bank. In many ways people are mostly *under*banked rather than simply unbanked. As a result, the potential alternative lending market in the UK is 7 million people.

The social cost of financial exclusion is staggering for people living in poverty. A lack of a bank account means living in a cash economy with no discounted utility bills, which compounds low-income families' poverty. Short term borrowing for an emergency at sky-high interest rates stretches household budgets further and is often the only solution since, without savings or insurance, people have no protection or buffer from a crisis. Debt is the consequence, leading to mental health problems, family breakdown and homelessness. The reality of financial exclusion for people in the UK is a life more unstable, expensive and stressful.

The people my organisation helps with debt problems are not buying Nike trainers.

Dealing with the challenge of financial exclusion is complex and not as straightforward as the myths would have it. The first myth is that debt is simply the product of ignorant profligacy. The people my organisation helps with debt problems are not buying Nike trainers and luxuries; more likely they need finance for a cooker, a school uniform, or a funeral. People go to high-cost lenders because they have no choice: they are meeting an essential need and no one else will lend them the money. The second myth is that the problem can be solved by simply banning high cost lending or capping lending rates. Shutting down the alternative lending market will simply drive people into the hands of the men with Rottweilers.

By understanding the complexity of financial exclusion, philanthropists can use their money, networks and experience to have a massive impact on a growing social problem. There are solutions to this problem but most need serious investment, support in innovation and assistance in scaling.

Any intervention needs to look at the following areas:

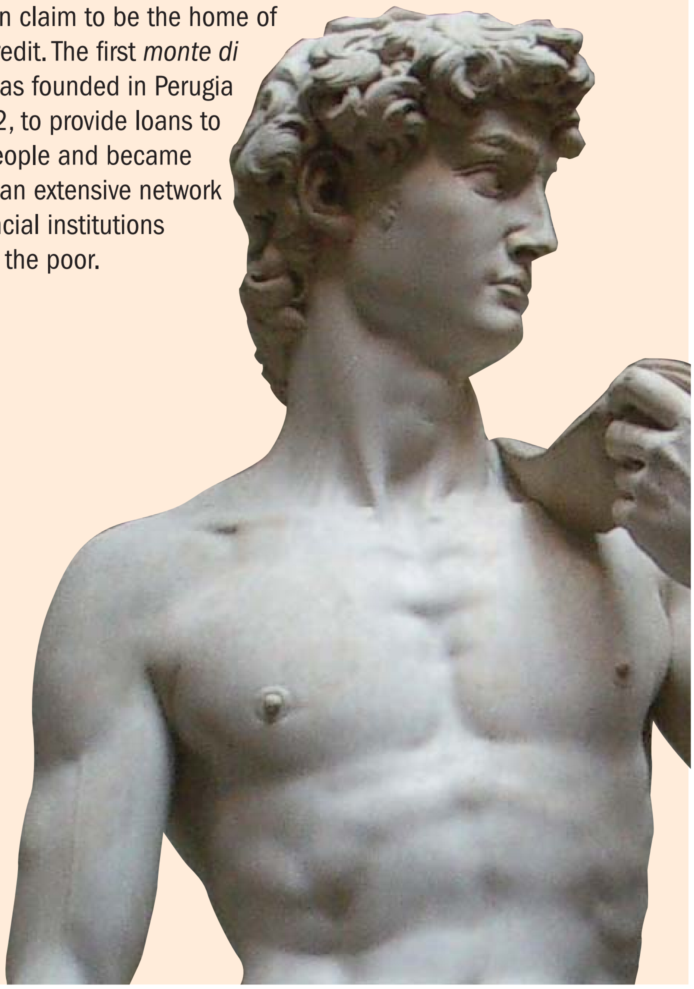
- Supporting financial literacy, to help young people understand the complexity of the financial world they are entering and the impact of their actions if they fail to engage properly: missing a mobile phone payment may damage your credit file for six years and leave you locked out of borrowing from a mainstream bank. This kind of early life intervention can potentially have massive positive impact in the future but is being funded in a piecemeal and unsustainable way.
- By helping people who have got into difficulty. No amount of education will change their immediate situation. Often a situation of stress, anxiety or panic takes over. It is no surprise that many people who are over-indebted have mental health issues, and that many with mental health issues have debt problems. Helping people rehabilitate back into mainstream banking will need more than advice; it will need personal counselling that will take time and energy. With cuts in legal aid and advice funding, the challenge is to think of innovative and better ways to offer the personalised service needed to make change.
- Developing alternative forms of financial services, not just in credit but also in savings and insurance. A growing movement of social business, microfinance organisations and community finance bodies have started to offer opportunities for social investment and smarter giving in this space. Social investors have helped my organisation, Fair Finance, take over 10,000 people out of the hands of moneylenders and loan sharks and given them a path previously denied to them back to the financial mainstream. Yet hundreds of thousands of people remain in difficulty and millions are at risk because of financial exclusion. This market is still young and underdeveloped, lacking investment in innovation and in scaling. The potential for philanthropists to use their money to become the lynchpin to unlock greater social investment from a growing body of intermediaries and mainstream providers is huge.

***Faisel Rahman** is the Managing Director of Fair Finance*

Ten Things You (Probably) Didn't Know About Philanthropy in Italy

by **Lorenzo Piovanello**, Fondazione Lang Italia

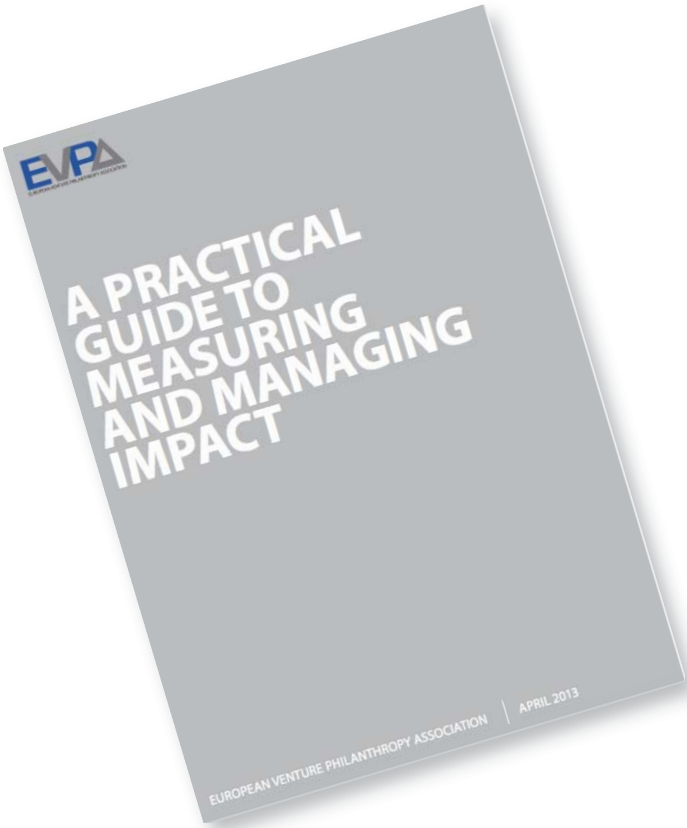
1. There are 5,000 charitable foundations in Italy, 12% of which are family foundations.
2. Italy has almost 260,000 registered nonprofits that serve 26 million people.
3. The largest grantmaker in Italy is *Fondazione Cariplo* which made grants worth €163 million in 2011.
4. *Fondazione Cariplo* is one of a group of "Bank-Origin Foundations" that represent only 2% of all foundations but control assets worth €43 billion.
5. Bank-Origin Foundations are community foundations, created in the early 1990s from the privatization of Italy's public saving banks.
6. One of the most important family foundations is *Agnelli Foundation*. The Agnelli family is the major shareholder of Fiat Chrysler Corporation.
7. From 2014 the tax deduction for charitable donations will rise from 19% to 26%.
8. At the end of 2012 the Minister of Development introduced Italy's first law concerning "Social Enterprises" and "Social-Innovation Start Ups".
9. Cooperatives are the main legal form of social enterprise in Italy, generating revenue of about €6 billion per year.
10. Italy can claim to be the home of microcredit. The first *monte di pieta* was founded in Perugia in 1462, to provide loans to poor people and became part of an extensive network of financial institutions serving the poor.



Measuring impact in the real world

by **Claudia Leißner**

The European Venture Philanthropy Association (EVPA) has recently published A Practical Guide to Measuring and Managing Impact (the "Guide"), a hands-on manual providing guidance to social investors who want to measure their own impact as well as that of the organisations they support. Claudia Leißner, Project Manager of Auridis, a German venture philanthropy organisation investing in early childhood development, and a member of the Impact Measurement expert group which provided input for the Guide, explains how they measure and manage impact and how the Guide helps them to do that.



As a venture philanthropy foundation supporting organisations focusing on early-childhood development, at Auridis we are aware of the difficulty in measuring any immediate impact, as the effect of our investments can only be seen some time later.

Indeed, when we started out we just talked with potential investees about their impact and basically took their assessment at face value without really using the full potential of that information. Yet, over time, we have become much more focused on ensuring that impact is at the heart of our investment management process, a point that is emphasised and practical suggestions provided on how to do so in the Practical Guide to Measuring and Managing Impact published by EVPA.

The Guide provides an easy to understand and implement process for measuring impact, focused on 5 steps (step 1 - setting objectives, step 2 – analysing stakeholders, step 3 – measuring results, step 4 – verifying & valuing impact, step 5 – monitoring & reporting) that reflect what social investors and the organisations they support can and should be doing in practice.

The 5-step process of impact measurement

For Auridis, impact assessment starts with the investee: we are trying to understand what they are doing, what are their goals and how are they planning to achieve them? In the early stages of an investment, as part of the due diligence process, a large number of our questions are focused on impact. As we work with organisations in the business development phase, we expand on what is included in the Social Reporting Standard (a standard form for reporting on social activities, which Auridis and other organisations in Germany have developed) to ensure the organisations are thinking about impact as well as the stakeholders who effect or are affected by their activities as they build and develop their business models; a process that is effectively encompassed in step 1 – setting objectives and step 2 – analysing stakeholders. The Guide encourages social investors to manage impact by integrating impact measurement into the investment management process.

Investee organisations can "close the loop" and learn from the information they have collected so as to increase impact.

This means that when we get to step 3 – measuring results, the selected indicators are based on a shared "impact logic" that assesses what has been done so far to solve the problem and how the organisation is adding value. We try not to specify in too much detail what indicators an organisation should use as we are convinced that the organisations know this better than we do. We track output indicators for each individual investee, such as how many children, families or kindergartens have been reached, and the number of federal states the organisation has been scaled up to. This investee-focused approach to impact measurement, however, means that we cannot meaningfully aggregate the results to measure the impact of the overall portfolio level, since that would be a bit like comparing apples with pears.

Impact measurement cuts both ways.

We also pay a large amount of attention to the information management systems in place (as emphasised in step 5 – monitoring & reporting of the Guide), providing support where necessary, so that relevant data can be collected, analysed and used for organisational learning purposes. That way, investee organisations can "close the loop" and learn from the information they have collected so as to increase impact.

Impact measurement also cuts both ways. We believe it is important to understand how an investee perceives the support we provide, so we can amend and adjust it as relevant. To do this we ask the investees to assess our support through a survey run by an external consultant. Questions include how much investees value financial and non-financial support, how they experience the business development phase, and what fears they have of Auridis leaving them. We try to keep the questionnaire lean though, keeping it to a half-hour interview and conducting it every other year. This is in line with step 4 – verifying & valuing impact, which reinforces the concept that this step should be carried out at the level of the social investor's impact on the organisation they support as well as cross checking the impact of the supported organisation.

The EVPA Guide distils and structures a multitude of experiences, tools and methodologies into a "hands-on" and "how-to" manual. Participating in this project has helped Auridis improve our own impact measurement systems. We will also be using the Guide to teach our portfolio organisations to understand better how to measure impact and incorporate it into business processes.

www.evpa.eu.com

***Claudia Leißner** is Project Manager of Auridis, a German venture philanthropy organisation investing in early childhood development, and a member of the Impact Measurement expert group which provided input for the Guide.*

Ten Things You (Probably) Didn't Know About Philanthropy in France

by **Gaspard Verdier** and **Jean-Marie Destrée**

1. As at 31st December 2011 there were approximately 2,733 foundations in France. The number of foundations increased by 60% (72% by value of assets) between 2001 and 2010.

2. Total assets of French foundations stood at €14.3 billion in 2009.

3. *"Le bruit ne fait pas de bien, et le bien ne fait pas de bruit."** Saint François de Sales quote was, until recently, a widespread answer to questions regarding philanthropic engagements. Discretion, not to say secrecy, was a core feature in the culture of giving in France.
**"Noise is of no good and good makes no noise."*

4. There are eight different foundation statutes in France, which hamper the creation of foundations. The French Centre (CFF) has developed a table making it easier to choose the most appropriate model. See www.centre-francais-fondations.org

5. Creating a fully-fledged foundation (*Fondation Reconnue d'Utilité Publique*) takes approximately two years, requires minimum of €1 million, and an opinion from the Council of State as well as the signature of the Prime Minister. Once the foundation is approved, the state appoints civil servants to the Board, or a Government Commissioner in a supervisory role.

6. There are about 40 umbrella foundations in France which make it possible for smaller foundations to overcome the administrative burden and complexity and thus benefit from a philanthropic infrastructure. The most prestigious is the Institut de France, but Fondation de France and Fondation Caritas are growing their portfolios of what are commonly referred to as "sheltered" foundations.

7. Over the past 10 years, giving in France has benefitted from new tax incentives making the country one of the most favourable tax environments for philanthropy in the world. Individuals can now deduct 66% of their giving from their income tax (up to 20% of taxable income) and corporations 60% of their corporate income tax (up to 0.5% of turnover). Individuals liable to the 'ISF', the French wealth tax, are entitled to 75% off this tax (within €50,000).

8. Investments in social enterprises by individuals also benefit from tax incentives applied to SMEs and certain social sector structures.

9. In 2011, 5.4 million households declared €2.1 billion in giving to the tax authorities (compared to €1bn in 2001). The same year, fundraising by charities in France from individual donors is estimated to have reached €3.8 billion. In spite of year-on-year growth in volumes, donor numbers have stagnated and there is concern about the negative impact of potential changes to the tax environment.

10. As early as 1443, Nicolas Rolin chancellor of the Duke of Burgundy, founded the Hôtel-Dieu in Beaune, a hospital dedicated to the poor. From their inception, the Hospices de Beaune (now also famous for their Burgundy wine auctions!) showed surprisingly modern features of well-designed (and endowed) family philanthropy, including a particular care for the dignity of beneficiaries.

Looking forwards, looking backwards

Stability and change in the world of UK foundations.

by **Diana Leat**

It is a decade since the Centre for Civil Society at The London School of Economics coordinated a 21 country study of Visions and Roles of Foundations in Europe. Looking back at the findings, it is fascinating to reflect on what has, and has not, changed – but there is a health warning here: my reflections on today are based on personal observations, and apply only to the UK.

The original study was designed to discover how foundations in different states saw their roles; their visions of their ideal roles and constraining factors; how others saw foundations' actual and ideal roles and visions; and, what foundations saw as the key challenges and policy issues ahead, including relationships with other foundations in Europe.

In 2003 UK foundations generally found it difficult to articulate any distinctive role, but, as in other countries, 'innovation' was a frequently used term. Furthermore, the majority saw their roles as complementing those of others, including government. Most foundations rejected the role of substituting for state services, but most also commented that this was difficult in practice. The issue of substitution and relationships with statutory funding was for many foundations (and in many states across Europe) the most difficult issue at the time.

The study also found that the majority of foundations did not see themselves as having much, if any, influence on social policy change. In part, this was attributed to politicians' lack of understanding and knowledge of foundations.

The visions of foundations broadly subscribed to a liberal model in which they saw themselves as being independent of government and market, and providing alternatives to the mainstream. However, few foundations claimed to be 'a visible force'. In 2002-03 foundations were concerned that they were being moved from a broadly liberal model towards, at best, a corporatist model or, at worst, a state-controlled model in which they are 'encouraged' to support government's agenda.

So what were the emerging issues in 2002-3?

- Monitoring, evaluation and accountability. While foundations did not believe that they should be more accountable to government, several suggested that they should be more accountable to beneficiaries.
- Managing with declining income. For some foundations in 2002-3 the combination of issues to do with substitution and 'doing more with less' was leading to the consideration of new, more policy-oriented approaches, building on the foundation's existing knowledge base. So perhaps here we have the seeds of the move towards policy influence noted below.
- Limited public and political understanding of foundations. Foundations were almost unanimous in believing that there was widespread public and political lack of understanding of foundations.
- European and cross-border issues. Where there were easy mechanisms for involvement and/or where there were tangible benefits, British foundations seemed to become involved in wider European fora and issues, and whilst corporates could operate freely, foundations faced a wide array of challenges.
- Demonstrating effectiveness, relating to government, legal and tax frameworks, and responding to new needs in the light of reduced public spending were also highlighted as potential issues.

Where we are today?

What, if anything has changed in a decade? Have UK

foundations found it any easier to articulate a distinctive role, and how much emphasis on 'innovation' do they place in these troubled times? Does innovation become a game of pass the parcel if no one is prepared to pick up the tab for those many projects that can never be self-sustaining? Are foundations really any different? Do they really care about non-profit performance or impact? Do UK foundations still see their role as complementing that of government? And would some see a place for collaborating with, and/or critiquing government? Perhaps the one point on which we can be relatively certain is that foundations today would agree that issues of substitution and relationships with statutory funding remain pressing and difficult.

The old confusion of 'policy' and 'politics' seems to be fading away.

Foundations' approaches to policy involvement seem to me to be one of the areas of greatest change. My impression today is that many of the larger – and some not so large – foundations are thinking hard about if and how they can influence policy. The old confusion of 'policy' and 'politics' seems to be fading away.

Foundations' fear that they were being moved from a liberal to a state controlled model is, I suggest, a fear that has not receded and may well have increased today. Some foundations fear that, rather than being seen as an 'alternative' to government, they are increasingly being looked upon as government's back pocket, or at least 'little helper'.

Foundations' views on accountability have probably changed rather little, although interest in performance measurement (primarily of grantees) has no doubt increased. But, as Timothy Odgen suggests concerning individual donors, this may have little practical relevance in decision making. What 'performance measurement' actually means to foundations, how they go about it, and what role it plays in initial and subsequent decision making are all open questions. Perhaps, as in the case of this government's economic policy, evidence that x isn't working is taken as a reason to do more of the same? Another equally important question, of course, is whether more 'performance measurement' is desirable? For example, might it simply encourage foundations to follow conventional, safe paths rather than the truly, madly, difficult ones from which most innovations emerge? But that takes us back to the deeper question of the role of foundations – is their primary role to provide services, and/or to do something different, such as to be in Paul Ylvisaker's words 'society's passing gear'.

Foundations' beliefs a decade ago that they had little public and political profile might have changed somewhat; today there is certainly greater public and political awareness of foundations, but whether that is combined with real understanding of their roles and work is another matter. The recent debates over pay out and administrative costs demonstrate a lack of understanding of the cycles and costs of good grantmaking.

UK foundations' involvement in European Foundation Centre remains strikingly low.

In 2002-3 there were signs of greater interest in European involvement; however, I fear I this may have been misleading. UK foundations' involvement in European Foundation Centre remains strikingly low and may even be decreasing. It is hard to think of very many of today's major issues from the environment to education, health and crime that do not have a European, if not global, dimension. None of these issues can be seriously addressed without Europe wide co-operation – and who knows, maybe talking to colleagues in other countries might even give us some new ideas and insights?

Foundations' perceptions of future policy issues were remarkably prescient. So ten years on, what might UK foundations add to this list? Managing reputation would be one. Foundations now have a higher profile but, arguably, that has attracted some unwelcome, and sometimes misguided, attention from both government and the media. Two other issues might be added: investment policies (including mission related investing) and spend out. While these two issues may still not be mainstream debates, they are certainly more widely discussed than they were a decade ago.

Where next?

Crystal balls are notoriously unreliable. We seem to find it comforting to believe that the future will be some version of 'more of the same'; in fact, the major events of the last decade have been less about continuity and more about discontinuity or 'shocks'. So I am a very reluctant crystal ball gazer – but if pushed what might I predict?

Perhaps in another ten years foundations will have to work harder to defend their legitimacy.

I have already mentioned the issue of reputation; will this issue ripple out into more fundamental questioning of the roles of foundations in elected democracies? Perhaps in another ten years foundations will have to work harder to defend their legitimacy. Are foundations ready to provide robust and cogent explanations of their peculiar roles and legal and tax privileges?

Equally fundamental may be the growing erosion of government, voluntary sector and business boundaries. Will we even talk about 'sectors' in another decade? And whether we do or not, how will foundations negotiate the fuzzy boundaries between private and public ownership and responsibilities?

***Diana Leat** is an independent philanthropy consultant, a Visiting Professor at CASS Business School London and an Adjunct Professor at QUT, Brisbane.*

Secret Squirrel's tips for success.

Following years at the sharp end of development, our Secret Squirrel offers seven tips for success. Miss one at your peril!

1. **Research, research, research.** You cannot know enough about the people who currently support your organisation and potential supporters. It is so much easier with the Internet, databases and data mining tools but don't forget to keep up with the news, particularly the Financial Times (and country equivalents).
2. **Knowledge.** There are two broad elements to this:
   a) Knowing your organisation inside out. In particular, understanding where your organisation sits within the sector that it operates; and,
   b) Making sure your technical knowledge is up-to-date (for example in the UK this would include the relevant tax reliefs and how they work and the challenges for cross-border giving, for example).
3. **Recognise that everyone engaged in and with your organisation is an ambassador for your organisation.** These people can and should play an active role in helping to identify, develop and sustain relationships. Every touch point matters: from the cleaner to the Chairman, therefore, they need to be informed and engaged. So start sharing information and striving for excellence at all times.
4. **Stories are powerful.** Take the time to identify and refine your stories and then share them with passion. Also, remember that engaging experiences matter. Let the organisation and its activities/beneficiaries 'sell themselves'.
5. **Relationships are key to success.**
   a) Listen, observe and learn: we have two ears, two eyes and one mouth for a reason so use them wisely.
   b) Bespoke matters: one size does not fit all. Take what you have learnt and tailor your responses. However, be careful not to turn your organisation inside out: sometimes saying "no, thank you" is right.
   c) Proactively care for/look after all relationships. Treat your supporters and potential supporters with respect, kindness and sincerity.
6. **Don't forget to ask but be prepared.** You won't get anything if you don't ask. Just make sure you ask at the right time, in the right place and for the right thing (ideas, advice, money or time – be specific).
7. **Enjoy the experience.** The people you meet tend to be generous, focussed and good company. However, you might not be successful all the time so always leave a good impression because the world is a very, very small place indeed.

The Giving Game

by **Michael Green**

Fun and philanthropy often go hand in hand. From glittering charity balls to philanthropic television extravaganzas like Comic Relief to the fundraising general knowledge quiz in a draughty church hall that I attended recently, entertainment is a widely-used tool to lever open purses and wallets. So it is no surprise that charities are hoping to tap into the booming computer games market as a way to connect with givers. Will they succeed?

Computer gaming may bring to mind pimply teenagers and middle-aged men in elasticated-waisted trousers who should know better but, even if we do not admit it, millions of us are doing it. The gaming industry claims one in three Britons as customers and even Prime Minister David Cameron has admitted to whiling away his downtime with those pesky, addictive Angry Birds.

One of the boldest attempts to lever gaming for good is Jaro.com, a new online game backed by a group of big charities including the British Red Cross as well as the Institute of Fundraising, that grabbed headlines when it launched in April under the banner *"Take part in the $1 Billion Game for Good"*. Jaro is a pretty simple idea – it is based on the old-tech pencil and paper game of Battleships. Every player pays $10 to play in a massive global knockout tournament where, if enough people sign up, the winner gets to scoop a substantial prize pot. The giving twist is that part of each entry fee goes to the winner and part to charity, the proportion to be decided by game's players. At time of writing, players seem to be pretty generous, having voted for 60% of the winnings to go to charity. For Jaro to achieve its goal of raising $1 billion for charity, it is going to have to sell more than 130 million $10 tickets. That's a lot.

The gaming industry claims one in three Britons as customers.

The Jaro model is, of course, familiar. It is a lottery. If it can reach the necessary critical mass then it could raise a lot of money. But that is a big if. So far, Jaro has sold fewer than 2,000 tickets.

Elizabeth Sarquis, a US entrepreneur and founder of the Global Gaming Initiative, is taking a different approach to using gaming for good. Next month she is launching Sidekick Cycle, the first of what she hopes will be a suite of smartphone games that are both fun and get people to give to good causes. The principle is to connect the game and the cause, to give the player an experience that is both fun and philanthropically rewarding. Hence the first cycling-based game will raise money to give bikes to developing countries.

The principle is to connect the game and the cause.

Yet there is an element of lottery here too. Will the game break through in a congested market and get enough players to raise substantial sums? Sarquis hopes so, having recruited a team of top game designers to the cause. At 99 cents to buy, 50% of which goes to charity, the game will need to be a bestseller to raise big money.

A more intriguing approach that gets round the problem of betting on whether a particular game is going to capture the imagination of the world's gamers is being pioneered by British gaming company the Playmob. CEO Jude Ower is a serious gamer. Very serious. As a teenager, she explains, she even used to get her Mum to pretend that she had been grounded for bad behaviour so that she could spend more time at home playing computer games in the evenings and at weekends.

Imbued with gaming culture, Ower sees the opportunity not in trying to design games that give, but to make it easier for games that are already successful to make giving part of their offer to players. The Playmob platform builds a technical bridge between gaming companies and charities. Game developers see the opportunity in enhancing their games in this way, Ower believes, but they can be put off by the regulatory obstacles to creating a cause marketing scheme. This is where the Playmob comes in, as the intermediary between gaming companies and charities. *"We're taking a 6 month process and turning it into a one month process,"* Ower explains.

The Playmob launched at the end of 2012 and has already signed up one of the world's most famous games 'The Sims', letting players buy a Panda for their virtual world that makes a $1.75 donation to WWF. So far, $44,000 has been raised. On its own this is not world-changing but there are effectively no limits on how many games can use this platform to get players giving. The market for virtual goods (like the WWF panda) is currently $15 billion and set to grow to $100 billion by 2020. Playmob hopes that diverting just a tiny fraction of that spend to philanthropy will mean a big impact.

Why foundations should sign up to the International Aid Transparency Initiative (IATI)

by **Simon Parrish**

In the late 1990s, the Ugandan Government initiated a newspaper information campaign to boost the ability of schools and parents to monitor the government's handling of a large school grant programme funded by a group of donors.

This significantly contributed to a rise in the amount of money reaching schools from 20% in 1995 to more than 80% in 2001, and in turn researchers found that this transparency rivalled the effects of some of the very best health interventions. As a result of putting information into people's hands, 40-50% more children received dietary supplements and vaccines, health services were used more, and 33% fewer children died under the age of five, amounting to 550 lives saved in a small area of Uganda encompassing 55,000 households.

The rise in philanthropic funding has led to increased interest in where and how foundations are investing their resources, with a general perception that they are not as open and accountable as they could be about how they spend their money.

In the US, foundations gave 21% of their total disbursements to international purposes in 2010[1], while in the UK, the estimated annual value of spending by foundations on international development was £292 million in 2009/2010[2]. That is nearly double the amount of giving recorded in 2004/5[3] which placed the figure at £150 million per year.

Foundations are in danger of underselling their collective efforts.

At the same time, a report on private foundations by the UK's International Development Committee last year noted, *"The precise volume, distribution and targeting of foundation spending are currently unclear. Compared to official donors, foundation reporting is weak."*

For donor governments and publicly-funded NGOs, one of the main drivers for increased transparency is the role it can play in maintaining public support for their activities but private foundations do not rely on public funds and are accountable primarily to their Board of Trustees. So what are the incentives for increased transparency in the case of foundations? And why does it even matter if they are transparent?

First, from the perspective of the individual foundation, it is important to know what all of the other development actors in a particular country or sector are doing in order to decide where and how to target their own interventions in order to avoid duplication and achieve maximum bang for their bucks.

Second, by failing to publish details of their overall contribution to the development sector, foundations are in danger of underselling their collective efforts. The US Foundation Center says for *"a true picture of funding to emerge and for philanthropy's contribution to making a better world be known, data about foundation funding must be part of this larger narrative"*. This means charting who is giving, where they are giving, and who is receiving this assistance over time.

Third, there is a clear demand from stakeholders in developing countries for more and better information about the activities of all development actors, including NGOs and private foundations – this emerged as a key priority from a UNDP-led consultation of 77 developing country governments undertaken in 2009. They need to be able to have a complete picture of all of the external resources available for poverty reduction, to plan and manage resources effectively, and ensure coordination with domestic efforts.

For all of these reasons, increased transparency represents a sound investment for philanthropic foundations – and there are encouraging signs that this is increasingly recognised by foundations themselves. The Bill and Melinda Gates Foundation began to publish data on its health grants to the OECD Development Assistance Committee in 2010, while the William and Flora Hewlett Foundation became a founder member of the International Aid Transparency Initiative (IATI) in 2008.

Launched in September 2008 at the High Level Forum on Aid Effectiveness in Accra, IATI aims to increase the transparency of aid in order to improve its effectiveness in tackling poverty. IATI now has 37 signatories and 132 organisations publishing their aid information to IATI's internationally agreed, open standard. These organisations include everything from bilateral donors and multilateral institutions, to global funds and NGOs. The publication of information in IATI's common, open format means that aid information from many different sources is easy to find, use, combine and compare.

The Hewlett Foundation became the first foundation to publish its data to IATI in 2011, and it is anticipated more foundations will follow its lead as awareness builds around IATI in the foundations environment and as they increasingly recognise the value of such approaches. The London-based Indigo Trust says, *"as a charitable foundation working to promote transparency and accountability, we really felt we should live up to our ideals and publish to IATI ourselves. It's still early days, so it may be too soon to assess the full impact of IATI but one thing is certain: it has put aid transparency firmly on the map and the policy agenda."*

The mechanisms for doing this are getting easier. The US Foundation Center is able to map the data that US foundations collect internally and share publicly to IATI fields. This means that any of the foundations that electronically report grants data to the Center directly can opt-in to their IATI reporting programme. Increased participation in the programme will be a significant step forward, enabling data from US foundations to be compared with information from other sources, and helping to create a more complete picture.

Increased transparency represents a sound investment for philanthropic foundations.

Meanwhile, IATI is keen to encourage more foundations to engage with IATI on an individual basis – they can do this in a variety of ways: by joining IATI and undertaking to publish their own data to the IATI standard; by engaging in IATI's Technical Advisory Group and helping to further develop and improve the IATI standard in ways that meet the needs of foundation members; and by supporting and funding organisations that advocate greater transparency and improved access to information.

For further information about IATI, email media@aidtransparency.net, visit www.aidtransparency.net or follow #IATI on Twitter

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2. Pharoah, C. And L. Bryant (2012) 'Global Grant-making: A Review of UK Foundations' Funding for International Development', Nuffield Foundation, UK, available at http://www.nuffieldfoundation.org/sites/default/files/files/NUF1272_Global_grantmaking_FINAL_18_01_12.pdf

3. Fiennes, C. and de las Casas, L. (2007) 'Going global: a review of international development funding by UK trusts and foundations', New Philanthropy Capital, UK, available at http://www.thinknpc.org/publications/going-global/

***Simon Parrish** is Programme Leader at aidinfo*

Overheard On Twitter:
5 trending stories last month on #philanthropy

The 'hashtag' is a way to give your tweet a theme, so we looked through some of the most 'retweeted' articles on #philanthropy to give you a flavour of what has got people buzzing over the last month (in no particular order):

1. The President of the Rita Allen Foundation reminds us that innovation means sometimes funding the unknown: http://www.forbes.com/sites/ashoka/2013/03/28/the-secret-to-more-effective-philanthropy-funding-the-unknown/

2. A radical thought from the National Committee for Responsive Philanthropy: why foundations should be funding fundraising: http://blog.ncrp.org/2013/03/can-grantmakers-help-nonprofits-stop.html

3. Young donors are changing cultural philanthropy on America's west coast: http://www.fastcodesign.com/1672352/how-startup-culture-is-transforming-philanthropy

4. Philanthropy and Global Development: when world's collide. Reflections from Jeff Falkenstein of the Foundation Center on spending time with the Organisation for Economic Co-operation and Development: http://pndblog.typepad.com/pndblog/2013/04/philanthropy-and-global-development-when-worlds-collide.html

5. Cathy Pharoah raises the big questions philanthropy must answer: http://www.guardian.co.uk/voluntary-sector-network/2013/may/03/big-social-questions-philanthropy

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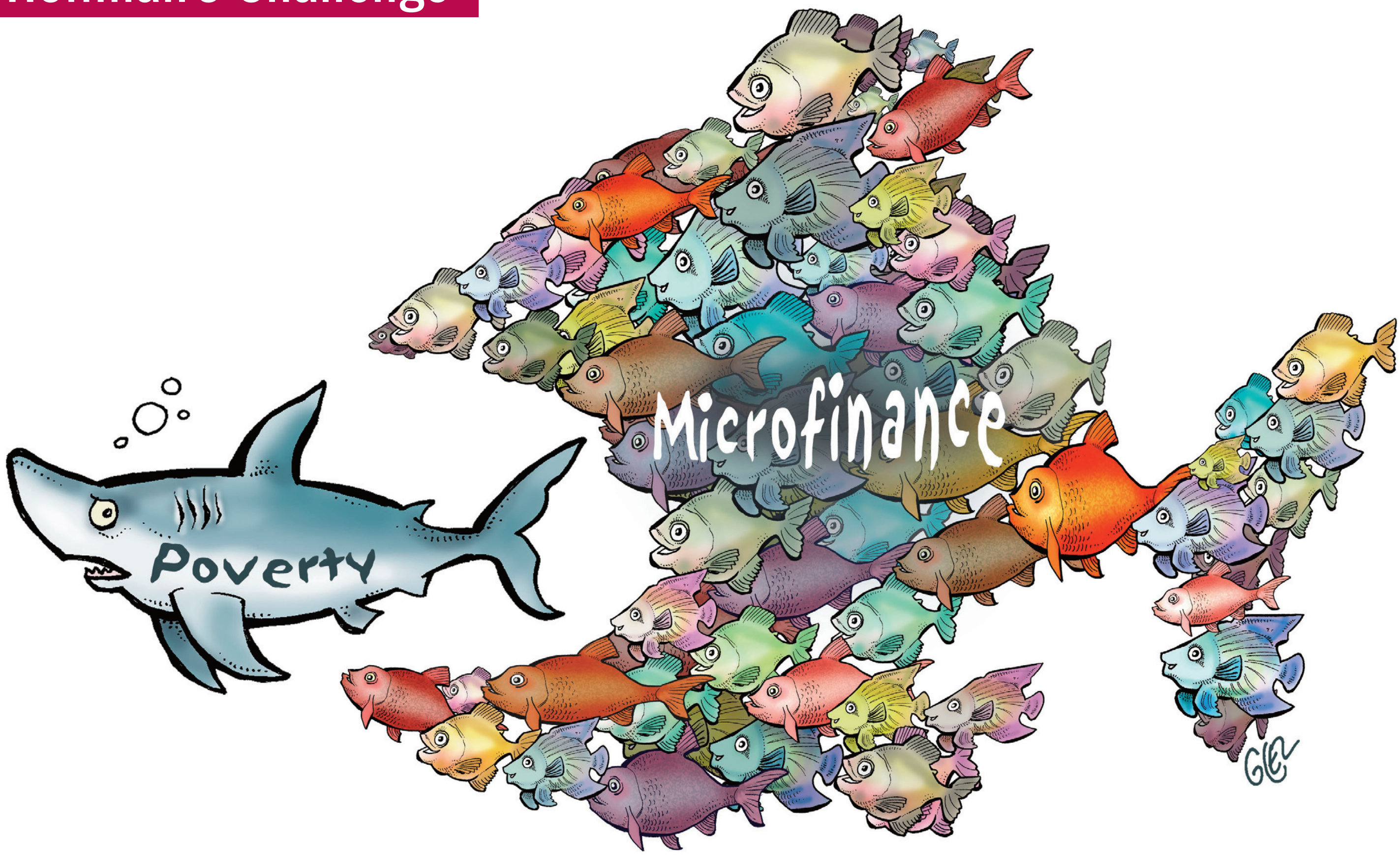


"Giving can save the World" – or not?

by **Kurt Hoffman**

Since the late 1990s, there's been a growing sense that we are in the midst of a "new" era of muscular, proactive and aspirational philanthropy that could yield benefits for society of a type and scale not known for a century. The most compelling statement of this case was made in late 2008 by Matthew Bishop and Michael Green, in an influential book called "Philanthrocapitalism"[1].

The argument is that the philanthropy-fueled engine of large scale social change, embodied by the aspirations of the Gates Foundation and Google.org, exhibits features that set it apart from the philanthropy practised post World War II. Most important is the common desire of this "new" cadre of philanthropists to secure visible, measurable results from their "giving", a goal they frequently choose to pursue via bespoke funding vehicles or social change entities under their control[2].

In parallel, their entrepreneurial (rather than their entitled) background leads them to bring business perspective to bear on the challenge of delivering social good, and a particular interest in the potential of social enterprise and social finance to do this much better than grant funded charities. Finally, most new philanthropists almost instinctively lean towards proactively tackling the really BIG problems faced by society; an inclination they believe they share with the great Victorian philanthropists.[3]

This view constitutes a "grand narrative" that now frames most thinking about and the doing of philanthropy globally and certainly in the UK and US.[4] The "Giving Can Save the World" narrative has positioned philanthropists in the minds of many in the role of white knights coming to the aid of a world beset on all sides by problems it doesn't know how to fix.

Why narratives matter in general but especially in philanthropy.

Narratives (externally generated, normative descriptions of current reality and routes to change that reality which "fit" with the observer's view of the world) influence how many of us allocate our time and disposable income and orient our careers and private lives.[5] But narratives have always played a key role in the way philanthropists allocate their charitable spending. In this guise they perform many of the same signalling and allocative functions as those carried out by organised capital markets.[6] I flagged this important role for individual issue-narratives in my first essay. I'm making the "Giving Can Save the World" grand narrative the focal point of this essay because of its exceptionally pervasive influence, manifest through a variety of "knock-on" effects.

For example, much social change funding is already being made available via social finance and impact investment, perhaps $7-$9bn in the US and UK alone in 2011. More importantly, a significant share of the $40-44 trillion allegedly heading toward the US charity sector over the next few decades will be informed by the proactive, outcome oriented principles of the new philanthropists. Likewise, the "Giving" narrative inspired notions of "risk and return" and "impact assessment" now influence the behaviour of many sector players including government. Moreover, a willing influx of large numbers of talented people have been galvanized, many consciously seeking to work within civil society as their first primary career choice.[7] And most importantly, the "Giving" narrative has led to significant growth in public expectation (albeit not universally shared) that major philanthropists have a legitimate and indeed critical role to play in helping society deal with its problems.

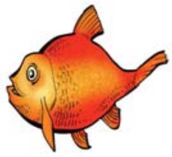
The scale of the cumulative impact of all these knock-on effects means that it really matters to society (and its most vulnerable) whether or not the architects and proponents of the "Giving" narrative can actually deliver what they promise. As a consequence, there is an overarching societal imperative in place that somebody representing society's interests conduct "reality checks" on how the "Giving" narrative is playing out in practice in order to determine what more we need to do going forward to help maximize its future social contribution.

The "giving" narrative has led to a significant growth in public expectation

Such iteration between research, analysis and remedial action is common in other sectors, of course, when fundamentals are being transformed. Historically, for example, UK and US car manufacturers used insights from government and industry funded research to understand and then take advantage of the Japanese "Just-in-Time" assembly and "Total Quality" manufacturing and productivity revolution.[8]

The "Giving" narrative is based on an inference that a similar paradigmatic transformation is happening in the way philanthropy works to generate social value. But we cannot answer the "what's happening" and "how do we capture the greatest benefits" questions because our philanthropists, charities, sector advisers and the government have not put in place the knowledge generation and analytical infrastructure necessary to do so. Consequently, in the remainder of this essay, I will dwell primarily on the experience of microcredit to selectively flag key areas where new philanthropists' practice has diverged from the grand narrative expectation in ways that raise some important issues for the sector leadership to consider going forward.

The cautionary tale of microfinance.



There are numerous studies documenting how social change narratives have influenced large scale interventions by institutional philanthropies (aka established foundations) and led to both success and failure, sometimes on a grand scale.[9] There are far fewer of these with reference to the philanthrocapitalists and hardly any that step back and take a sectoral perspective. However, there is one particularly compelling sector-level story of narrative success and failure involving new philanthropists worthwhile highlighting because it has immediate relevance to the current mania in the sector for social enterprise, impact investment and social finance. This story is about the fall from grace of *microcredit*.

The persuasive core of the microcredit "narrative", which attracted many hundreds of millions of dollars of funding from new philanthropists over the last fifteen years, including a single $100 million throw of the dice by Pierre Omidyar, tell us that small amounts of debt funding would help very poor people, especially women, start up businesses whose success would lift them (and their families) permanently out of poverty. Unfortunately the link between this narrative and reality has now been pretty comprehensively disproved.[10] Microcredit does yield some important economic and non-economic benefits, such as sustaining consumption levels of poor families and sometimes empowering women beneficiaries. Yet, as the rather blunt quote below indicates, the direct extension of microcredit to the poor (about 120 million families have now received microloans) has not translated into the escape from poverty that its grand narrative implied.

"Microcredit and other ways to help tiny businesses still have an important role to play in the lives of the poor, because these tiny businesses remain the only way many poor can manage to survive. But we are kidding ourselves if we think that they can pave the way for a mass exit from poverty".
A.Banerjee and E.Duflo (2012), Poor Economics [11]

The microcredit story is a hugely cautionary tale with much to absorb, reflect and act on.

Support for microcredit has been one of the biggest single issue bets made by the global community of new philanthropists so far. It has proved to be a massive misjudgment. The full story has many elements: the obviously persuasive power of the original narrative and its unintended consequences; the reasons why it did not work as promised and why the pro-microcredit community failed to spot this; and, why new philanthropists and others have continued since 2008 to provide significant funding despite the disappointing reality.[12] For those who have signed up to the grand "Giving" narrative and are supportive of the thrust of social finance (this author included), the microcredit story is a hugely cautionary tale with much to absorb, reflect and act on.

Pulling the "Giving" narrative and reality further together.

I want to finish by looking at the nature of the overlap and/or gap between the aspirations and expectations of the grand "Giving" narrative and the performance of new philanthropists in practice.[13] They all reveal different ways that the prisoner's dilemma, in which the new philanthropists are ensnared, leads them to take well-intentioned actions that are socially sub-optimal.

New philanthropists can collectively move large amounts of money to tackle big problems.

The microcredit story powerfully demonstrates that it is, in fact, possible for the community of new philanthropists to collectively bring a significant amount of resources to bear on tackling a single big issue. This is an important dimension of the "Giving" narrative.

But are they getting and listening to good advice or not?

The new philanthropists' support for microcredit gives rise to questions about how they decide where to allocate their resources. There has long been evidence and expertise, which, if tapped properly, would have sent a clear, objective signal to the new philanthropists to stop supporting microcredit and concentrate their efforts elsewhere. So either the new philanthropists chose to ignore this counter advice, preferring instead to "follow their hearts", or they did not "hear" the counter advice in the first place (either because they did not source a sufficiently broad range of perspectives before making their mind up[14], or because the professional advice they were receiving was conflicted, or wasn't sufficiently challenging or broadly enough considered.

A critical focus for early debate, independent research and remedial action by key stakeholders in the sector should be about how (not why) new philanthropists decide what to do with their resources and the influence, quality and objectivity (from society's perspective) of the professional advice and training they are offered and seek out.

Size matters.

The Giving narrative commits new philanthropists to tackling and solving big social issues. The simple reality is that this involves a significant amount of resources (finance, staff, skill, the bandwidth of the new philanthropists' themselves), time and the collective effort of numerous expert partners. What we have observed, and the data on average grant size reveals that most individual philanthropists have relatively modest annual budgets to work with (compared to the mega players like Bill Gates and the Walton family) and they typically allocate most of this spend to a portfolio of their personally selected concerns. This means that the hugely valuable pool of social risk capital controlled by new philanthropists and allocated, understandably, to the low risk, follow-your-heart projects they can afford, is not being deployed effectively to tackle society's biggest problems.

It is possible to be more strategic with small amounts of resources.

It is possible to be more strategic with small amounts of resources, by pursuing a systemic or supply chain development strategy or seeking to intervene in the policy process to cause change at a systems level and affect very large numbers. But these comprise a tiny minority of the sorts of projects that new philanthropists are most keen to support if left to their own devices.

Equally, it is the in-principle ability of social finance to unlock larger capital flows for doing good that makes social finance such a welcome innovation. Yet it is still the case that the dominant tendency to date of those providing social finance – even via pooling mechanisms – has been to channel it through to cherry picked individual initiatives and social enterprises. Unless the criteria for allocating social finance expands to allow the systematic development of the whole supply chain and the facilitation of important infrastructural elements, once again the potential of the "Giving narrative" to make a difference at scale could remain unfulfilled.

No one is in charge.

The new philanthropists prefer to work in relative and confidential isolation. There are some good privacy and expectation management reasons for this. But there are all manner of opportunity costs as well, the most significant of which are to do with the consequent very limited support new philanthropists feel obliged or inspired to give to the collective strengthening of their ability as an "asset class" to generate maximum social good. The result is very limited support by the UK philanthropic community in general for:

- sector-wide, comparative and benchmarking, performance-related data collection, analysis and communication and the related maintenance of an organised lobbying/policy engagement capacity;
- peer to peer learning forums that are also open to external challenge and expert engagement;
- professional training that imparts the sort of genuinely substantive competence simply not accessible via

short courses focused on "strategic philanthropy";

- rigorous certification for the advisory community;
- pooled funding platforms of a scale and risk orientation capable of genuine leverage of other sources of capital, backing initiatives that catalyse systemic change and perhaps offering an alternative route to doing good to small scale, go-it-alone philanthropists now supporting well intended projects of little strategic value.

Most important, new philanthropists' typical inward orientation inhibits the emergence of a commonly endorsed leadership group; one that would be capable of helping the sector pursue an agreed agenda to get the basic performance enhancing infrastructure in place and bring the collective weight, vision and resources of the sector to fulfil the driving aspiration of the "Giving" narrative to tackle and solve the big social issues that confront us now and in future.

The new philanthropists prefer to work in relative and confidential isolation.

How can we create an incentive structure and/or perhaps design a portfolio of sector-specific infrastructure facilities and funding/issue platforms that allow new philanthropists to "follow their heart" and generate badly needed Schumpeterian-style innovations and at the same time allow us to achieve critical mass necessary to deliver maximum societal benefit? This is a topic I would like to explore online (in my live webchat on 12th June noon-2pm) and offline with Philanthropy Impact readers and will be discussing in detail in my next essay.

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1. See analyses by Paul Brest, ex-US President Bill Clinton, Prof.Michael Porter and Charles Handy, and Professor Robert Reich's article in March 2013 special issue of *The Boston Review* dedicated to philanthropy.

2. This characteristic was termed "Hyperagency" for the way in which new philanthropists are inclined towards forming new institutions to achieve their goals on a large scale. See Paul G. Schervish, Mary A. O'Herlihy and John J. Havens (2001). A*gent Animated Wealth and Philanthropy: The Dynamics of Accumulation and Allocation Among High-Tech Donors* Social Welfare Research Institute, Boston.

3. See M.Maclean et al (2012), "World-making' and major philanthropy" in *Philanthropy and a better society*. ESRC Research Centre for Charitable Giving and Philanthropy, Cass Business School, 2012.

4. The persuasive influence of the grand "Giving" narrative is being felt in many countries outside North America and the UK. See articles in Alliance Magazine; Virginia Seghiers La Nouvell Philanthropie; Bulletin No 15, 20 July 2011 of the Asociacion Espanola de Fundraising that focused on *" La Nueva Filantropia"*; B.Ibrahim and D Sherif (eds) (2008) *From Charity to Social Change: Trends in Arab Philanthropy* (American University Press); and Bain & Co (2012), *India Philanthropy Report 2012*, Bain & Co.

5. Narratives have a big impact for example on decisions in commercial markets – not always positively. For example, narrative-based beliefs that hedge fund managers can always secure investment returns that defy normal economic cycles, however, a recent study on the hedge fund sector's performance since 1990 revealed that investors would have been better off putting their money into US Treasury bills...and that roughly 98% of all hedge fund returns have been eaten by fees. (see Jonathan Ford (2012), *"The masters of the universe are playing a loser's game"* Financial Times 25 August).

6. This quote from David Roodman describes well how narratives work their magic on potential investors in microfinance. *"I offer stories to demonstrate the power of and limitations of knowledge and narrative ....It is easy to imagine that if you encountered either (story) alone, you would accept the implied lesson of microcredit as saviour or snare....A stack of statistical studies would not leave as strong an imprint".* See the David Roodman (2012), *Due Diligence: An Impertinent Enquiry into MicroFinance*, Brookings Institution, Washington DC.

7. This can only be a positive trend from society's perspective. But the prisoner's dilemma the charity sector operates within imposes severe performance constraints on enthusiastic professional staff – low pay, limited incentives, uncertain survival prospects, etc, etc – and means this valuable social resource is being vastly underutilized.

8. K.Hoffman and R.Kaplinsky (1988) *Driving force: the global restructuring of technology, labour, and investment in the automobile and components industries* (Westview Press, London); meanwhile (re)designers of the mature country financial systems have benefitted enormously from rigorous, data based comparative time series analyses of the causes, consequences and character of past financial crises by Carmen Reinhart and Kenneth Rogoff, "This Time Its Different: Eight Centuries of Financial Folly" (Princeton University Press 2009) – though more recently there is debate over whether these authors have gone too far in claiming a causative link between debt reduction and austerity.

9. For example, the Carnegie United Kingdom Trust's Third Age Programme was strongly informed by a narrative that promoted active inclusion of the older population in the productive economy and led to landmark age-discrimination legislation in the 1990s. On the spectacular failure side of the ledger, the US philanthropist Walter Annenberg and other public and private donors infused by a particular narrative about how to improve schools performance, wasted $1 billion+ and 10 years on failed efforts to transform urban school districts in the US.

10. For an early, devastating literature review and critique of microfinance see Aneel Karnani (2007) *"Microfinance Misses Its Mark"*, SSIR, Summer 2007; for the latest journalistic critique see Floyd Whaley (2012) *"Hard questions for microfinance"* in Devex Business and Development Blog, 10 October and for the final empirical nail in the coffin see Roodman (2012).

11. For a more nuanced interpretation of the same evidence that nevertheless does not succeed in refuting the core conclusions of *"Poor Economics"* see also *"Grameen Bank and the Public Good"* by David Bornstein New York Times March 24, 2011 and Bauhet et al 2011 , Access to Finance Forum Reports by CGAP and Its Partners No. 2, December 2011.

12. The total global investment in microfinance reached $24 billion by December 2010, according the Consultative Group to Assist the Poor (CGAP), a research center dedicated to advancing financial access for the world's poor. In recent years, during the height of criticism about microfinance, the growth rates of global investment in microfinance dropped from an estimated 30% in 2008 to an estimated 13% in 2010.

13. Explicitly excluded from consideration here are corporate pathbreakers in CSR and the coterie of mostly US based, mega and proactive family/institutional philanthropies like the Gates and Walton family foundations flagged by Bishop and Green as leading lights of "Giving" phenomenon back in 2008. This still leaves approximately 90% of all foundations in our sights.

14. See the insightful observation by Roodman (2012) that he was able to reach a full appreciation of the complexities of the microfinance story only after consulting very widely.

Philanthropy Impact, launched in December 2012, incorporates the European Association for Philanthropy and Giving (EAPG), Philanthropy UK, and the Philanthropy Advisors Forum (PAF). It combines 27 years of sector knowledge and experience, creating a rich resource that helps make sense of and inspire philanthropy throughout the UK and beyond. We do this by:

- creating a knowledge hub for philanthropy;
- producing thought leadership events throughout the UK and across Europe;
- providing regular news and information on philanthropy via our e-digest and our magazine; and,
- advocating for regulations and policies that encourage philanthropy.

Members support our work through subscriptions and generous in-kind contributions. Our work is also funded through event fees and programme sponsorship as well as financial assistance from the Office of Civil Society within the UK Government Cabinet Office.

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10 Commandments of Smart Philanthropy

Source: Andres Spokoiny, President and CEO of the Jewish Funders Network
www.thejewishweek.com/editorial-opinion/opinion/ten-commandments-smart-philanthropy

Underperforming philanthropy is a waste of money.

1. Be Strategic: a smart philanthropic strategy starts by defining the societal value that it seeks to enhance.
2. Think Long.
3. Self-sufficiency is a myth: smart funders work toward long-term sustainability.
4. Fund at the right level.
5. Fund (good) overhead and capacity building.
6. Measure the right things: long-term impact is critical.
7. Balance restricted and unrestricted gifts.
8. Be part of the community.
9. Don’t go it alone: smart funders are networked and work in partnership. Share information and collaborate with others.
10. Have a balanced portfolio. The same level of care that goes into creating an investment portfolio should go into devising a good philanthropic portfolio.

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Age UK
Alzheimer's Disease International
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Ben Uri Gallery: The London Jewish Museum of Art
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BirdLife International
Breakthrough Breast Cancer
Bulldog Trust
CAFOD
Cancer Prevention Research Trust
Cancer Research UK
Cass Business School
Cheadle Hulme School
Children in Crisis
Christian Aid
City & Guilds of London Art School
Comic Relief UK
Education Endownment Foundation
Family Estate Services
Fight for Sight
Fondazione Lang Italia
Glyndebourne Arts Trust Ltd.
Great Ormond Street Hospital Children's Charity
Hope Philanthropic
Institute of Cancer Research
Jack and Ada Beattie Foundation
Kew Foundation
London Business School
London Community Foundation
London School of Economics
London South Bank University
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Mencap
Moorfields Eye Hospital
Multiple Sclerosis Society
Museum of London
The National Gallery
National Trust
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NSPCC
Orbis
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Prostate Cancer UK
Riders for Health
Royal Academy of Arts
Sanne Philanthropic Foundation
Save the Children
SCOPE
Scott Trust Foundation/Guardian Foundation
Self Unlimited
Sightsavers
STARS Foundation
State Street Global Advisors
STEP
Stewardship
Story Museum
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Wolfson College
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WWF-UK
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