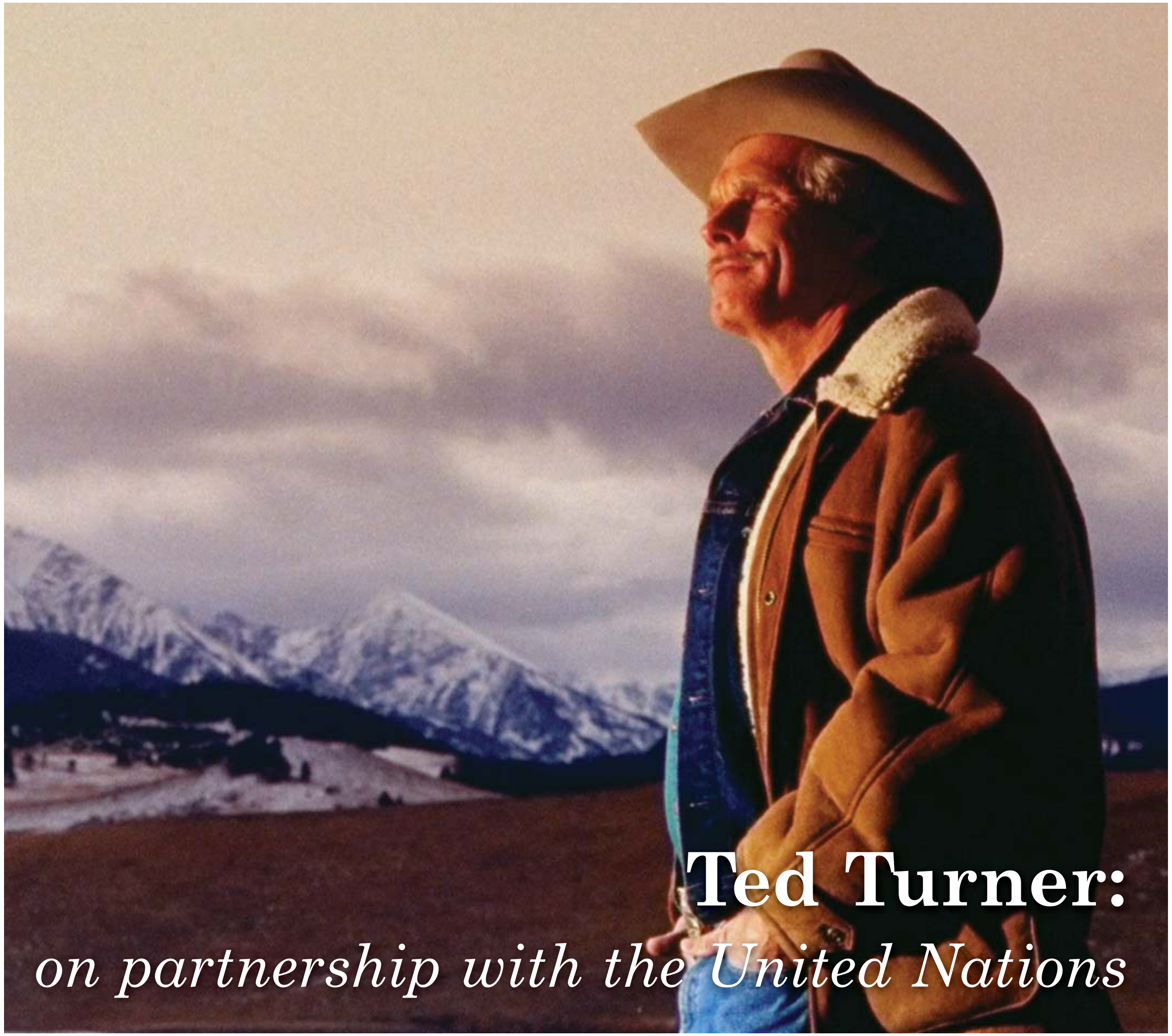
Issue 36 : March 2009

# philanthropy|uk : newsletter *inspiring giving*

A quarterly e-letter for all those interested in the development of philanthropy



## Ted Turner:
*on partnership with the United Nations*



## Also in this issue:

**Social investment:**
*a new paradigm for philanthropy?*

**Rod Schwartz:**
*the view of a social investor*

**Melissa Berman:**
*on the trust deficit*

*plus*

**Venturesome explains why charities need risk capital**

# *welcome*

Welcome to the March 2009 issue of the *Philanthropy UK Newsletter*. In December we reported on the impact of the economic crisis on philanthropy. As the recession continues to weigh on both funders and charities, we look at a new model that is becoming increasingly attractive to funders who want to have even more impact with their giving: social investment.

Social investment bridges the not-for-profit and for-profit worlds by generating both financial and 'extra-financial' returns, through social or environmental benefits. It is a nascent but rapidly growing market, and we think a promising model at a time when public trust and confidence in institutions is declining precipitously.

In addition, we are especially pleased to feature a profile of Ted Turner, who spoke to Philanthropy UK about the work of the United Nations Foundation which he founded with a $1 bn gift 10 years ago.

Wherever you are on your own philanthropic journey, we want Philanthropy UK to continue to be a useful guide and valuable source of support and encouragement for you. This Newsletter could not exist without the willingness of all our guest contributors to share their ideas and knowledge, and we are very grateful to them for their help and support.

We always welcome feedback and ideas from our readers, so if you would like to comment on this issue, or contribute an original article, please email us at editor@philanthropyuk.org.

Best wishes,

Susan

**Susan Mackenzie**

Managing Editor

UKSIF's What's new in social investment column will return in June. Please see UKSIF's special report this issue on how wealth advisors are supporting social investment.

# *in this issue*



*Cover image: Ted Turner at his Montana ranch in 1991, the year he was named TIME magazine's Person of the Year for "revolutionizing news coverage" with CNN.*
*© Ted Thai//Time Life Pictures/Getty Images*



The purpose of the Newsletter is to disseminate information about new developments in philanthropy. To submit an article for consideration, please contact the Editor at editor@philanthropyuk.org.

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**Philanthropy UK aims to inspire new giving by providing free and impartial advice to aspiring philanthropists who want to give effectively. An initiative of the Association of Charitable Foundations, we also publish *A Guide to Giving*, the essential handbook for philanthropists. www.philanthropyuk.org**

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# Social investment: a new paradigm for philanthropy?

## In recession, investors seek a different sort of return

***By Susan Mackenzie***

News headlines abound on the dire state of our high-street banks, billions of pounds of wealth has been wiped out, businesses are being pushed to the wall and consumers are being hit on multiple fronts – all amidst a calamitous drop in public trust and confidence in institutions.

*Above: Children playing at Triodos Renewables' 2007 AGM at its wind farm in Caton, Lancashire*
*Photo © Triodos Bank*

As government, economists and business debate ways to tackle the economic crisis, one promising model is already emerging: social finance. While high-street banks are being nationalised, Charity Bank, the UK's only regulated bank that is also a registered charity, is seeing increasing demand from both depositors and borrowers interested in a different model. While government anxiously urges banks to increase lending, ethical bank Triodos announced record lending levels for 2008. And while banks continue to take billions of pounds of state aid, the Co-operative Group is investing over £1 bn in a rebranding campaign underscored by growing demand for financial products with a social reference.

Charles Middleton, managing director of Triodos Bank UK, says "*In these tough times, more and more people want to work with an actively ethical and transparent bank, like Triodos. They can see the financial benefits of investing in the growing environmental and ethical sectors and at the same time want to help organisations making a positive difference*".

Social finance, or more broadly, social investment, bridges the not-for-profit and for-profit worlds by generating both financial and 'extra-financial' returns, through social or environmental benefits.

As the Nobel Prize winning economist Amartya Sen wrote eloquently in the *Financial Times* (11/3/09), we often fail to remember that Adam Smith, the founder of modern economics, did not believe the pure market mechanism to be all that is needed for a healthy market economy. Rather, Smith "*wanted institutional diversity and motivational variety, not monolithic markets and singular dominance of the profit motive*". Smith no doubt would have approved of social investing.

What is social investment? Definitions can vary widely. For example, some philanthropists view their charitable donations as 'investments' which bring social rather than financial returns. Others define social investment narrowly, such as a financial investment in a social business. For the purposes of this Newsletter, Philanthropy UK defines social investment as any type of investment that combines social and financial returns.

This encompasses a wide range of activities across the financing spectrum (see Figure 1), from lending to charities to investing equity in social businesses to socially responsible investment (SRI). There is overlap with the capacity-building approach that provides grants and management support to charities and social enterprises (but where the investor does not receive a financial return).

*"Social investment bridges the not-for-profit and for-profit worlds by generating both financial and 'extra-financial' returns, through social or environmental benefits."*

### A new market emerges

Social investment has existed in the UK in various guises for many years, though a key milestone for the sector was the establishment of the Social Investment Task Force in 2000. Supported by government and chaired by Sir Ronald Cohen, the venture capitalist, the task force's key recommendations to help "*revitalise Britain's poorest communities*" helped to accelerate the development of the sector (see Table 1). They also, says Michele Giddens of Bridges Ventures, "*helped to give a collection of entities a sense of sector, and to nudge foundations to consider alternative ways to invest their endowments*".

Government support has also been an important factor, through for example the introduction of tax relief for investments in community development finance institutions (CDFIs), which provide finance and support to businesses and individuals in disadvantaged communities; and support for the establishment of the Community Development Finance Association (CDFA), the sector's trade body (see 'The government as social investor' in this issue).

The sector is still nascent, with a range of approaches at varying stages of development. For example, the microfinance model has been proven over several decades, and now has arguably become 'mainstream', attracting investment from commercial banks as well as the general public.

Similarly, socially responsible investment (SRI), where the primary aim is a financial return, but with social criteria applied to investments, has grown substantially. Ethical Investment Research Services (EIRiS) estimates that there is now almost £9 bn invested in Britain's green and ethical funds.

### Figure1: The financing spectrum


*© Venturesome. Previously published in Financing Civil Society, Sep 2008.*

Another funding model, charity lending, is increasingly being adopted by high street banks, as organisations such as Charity Bank and Venturesome are demonstrating that charities are not inherently risky customers. In its first five years, Venturesome's default rate, on a risk capital approach, was barely five per cent. Bridges Ventures, a venture capital firm which invests in companies based in the most deprived areas of the UK and in companies in 'social impact sectors' like healthcare, education and the environment, now has had several successful exits, and its second fund, in 2007, raised £75m entirely from private sector investors. Bridges has also recently launched a fund to provide quasi-equity to social entrepreneurs.

Newer models are still being tested. Examples include Breakthrough, a partnership between CAN and Permira which provides established social enterprises with grants and management support to help them scale up and maximise their social impact; Big Issue Invest, whose forthcoming Social Enterprise Investment Fund will provide risk capital to social enterprises and businesses; Socialinvestments.com, which helps to match social businesses with investors; and Social Finance, which is developing products such as the Social Impact Bond to "*marry the needs of investors and the sector*".

The next article, 'Where to start?' highlights various organisations working in the sector, including examples of products for social investors.

Yet this is a young sector and so the range of products not surprisingly is relatively limited. For example, there are few 'equity-like' products available in a market dominated by debt financing. The development and testing of more 'quasi-equity' products – a model pioneered by Venturesome – will be important for the many

*Table 1*

## *Social Investment Task Force key recommendations (Oct 2000)*

1. **To introduce a community investment tax credit**

   The Community Investment Tax Relief (CITR) scheme was set up under the Finance Act 2002. It offers a tax incentive to investors in accredited community development finance institutions (CDFIs). However take-up has been lower than anticipated due in part to investment restrictions and marketing difficulties.

2. **To help set up community development venture capital funds**

   Bridges Ventures was founded by Apax Partners, 3i and Tom Singh of New Look in May 2002. Half of its first fund, of £40m, was supported by matched funding from government. In 2007 Bridges raised a second, £75m, fund entirely from private sector investors.

3. **To encourage bank disclosure on lending in under-invested areas**

   Arguably the least productive of the recommendations. A 2005 update report by the task force concluded that, "*The current regime of voluntary disclosure leaves an environment where banks are providing information that makes helpful comparison problematic.*"

4. **To provide greater latitude for charitable trusts and foundations to invest in community development finance**

   Significantly, the Charity Commission issued clear guidance that programme-related investment is a legitimate way of advancing a charity's objects. Still, other barriers remain; for example trusts and foundations are ineligible for CITR.

5. **To provide support for community development finance institutions**

   The Community Development Finance Association (CDFA) was launched in 2002. The trade association helps support development of CDFIs through training, networking and advocacy.

organisations for which loans simply are not appropriate. For instance, Victoria Hornby, Executive at the Sainsbury Family Charitable Trusts, highlights fair-trade organisations, which are inherently highly geared as their model is based on paying 50% up front to their producers, and where a quasi-equity product would be more suitable.

She cites the example of The Ashden Charitable Trust's investment in Tropical Wholefoods, a fair trade company. Ashden made an interest-free loan of £100,000 to Tropical Wholefoods, but in lieu of interest payments, the Trust took a 1%, stake (worth £25,000) in the company which it has given to another of its beneficiaries, the Ashden Awards for Sustainable Energy. The investment has enabled Tropical Wholefoods to grow its business substantially, while Ashden Awards will benefit from future profits or sale of the company.

A related approach, mission-connected investment (MCI), is gaining momentum among trusts and foundations on both sides of the Atlantic. Margaret Bolton, an independent consultant and author of the report *Foundations and social investment*, published by the Esmée Fairbairn Foundation, describes MCI as "*a particularly strong form of SRI*", where investment activities across asset classes are "*actively sought which help the foundation achieve its mission*".

However, MCI remains a small proportion of total assets, with many foundations arguing that they can be more effective by keeping their investments and grant-making separate, despite the potential for certain investments to run counter to the foundation's mission. But a lack of appropriate investment opportunities and structures also remains a barrier. Nigel Kershaw, CEO of Big Issue Invest, a social investor, believes that, "*We need more structures such as $L^3C$ that can attract patient risk capital to the sector*". $L^3C$ is a new form of limited liability company (LLC) in the US which has social objectives but operates according to 'for-profit metrics', and is particularly suited to different classes of investors with different levels of risk.

*Nurses at Nakuru Hospital in Kenya studying an e-learning course using PCs donated by Computer Aid, a UK charity that has received an investment from Venturesome.*
*Photo © Glenn Edwards/Computer Aid International*

*"We must get more people comfortable with the concept of doing things other than taking, or giving, grants."*

Meanwhile in the UK a new legal form, the Community Interest Company (CIC), has been introduced to enable organisations to better achieve their social missions. Another new form, the Charitable Incorporated Organisation (CIO), is currently being considered by government. Arthur Wood, VP Social Financial Services at Ashoka, which invests in social entrepreneurs, commented, "*The paradox is that in the for-profit world we are reaping the consequences of over-leverage, but in the traditional not-for-profit world we have no leverage or financial tools – we are operating in an almost pre-modern capitalist world.*"

**Market dynamics**

A fundamental challenge is the need for a shift in mind-set by both investors and charities. Malcolm Hayday, chief executive of Charity Bank, commented, "*We must get more people comfortable with the concept of doing things other than taking, or giving, grants.*" (See 'Risky business?' in this issue for examples of non-grant finance needed by charities.)

However, Nick Wilkie of the charity London Youth, argues that effective funding is "*less about mechanisms such as gearing and the space on the 'capital continuum', and more about behaviours: such as exercising reasonable levels of control and investing in leadership and logically compelling ideas, rather than focusing solely on quantitative outputs*".

Regardless of source of funding, the difficult economic environment means that "*potential fundees must demonstrate more professionalism in being 'investment ready' to access these funds*", says Jonathan Jenkins, Director of UnLtd Ventures, which provides business support to social entrepreneurs. Denise Holle, Social Investment Director at CAN, which provides grants and business support to established social enterprises, agrees: "*As most social enterprises have originated from the social or public sector, we find that core commercial skills such as finance and marketing are typically underrepresented on their management teams.*"

Social investor Rodney Schwartz, who writes this issue's 'My philanthropic journey' column, observes however, "*It takes time to grow a good social business – it is hard, time consuming, gritty and unglamorous – it is much easier, as investors, to just write the cheque.*"

Whilst Schwartz has noticed a growing number of individuals interested in investing in social businesses, other intermediaries argue that access to capital is a significant barrier for these organisations. John Kingston, Director of Venturesome, a social investment fund, explains, "*We need a greater number of angel investors – those willing to engage directly and take risks with early stage innovations, balancing those risks against social rewards and potential financial returns.*"

*FareShare, a national UK charity supporting communities to relieve food poverty, is supported by CAN's Breakthrough programme*
*Photo © FareShare*

*"It takes time to grow a good social business – it is much easier, as investors, to just write the cheque."*

Demonstrating these returns has undoubtedly been a barrier. It takes time to prove a new model, and many intermediaries are only now at a stage where they can credibly demonstrate their performance. What little impact reporting does exist is not standardized. Kingston commented, "*To help attract commercial and philanthropic money, we need to demonstrate positive examples of both social and financial returns, as well as offer more clarity about how 'social returns' are defined and measured.*"

Taking social investment 'mainstream' will also require more diversity in products and mechanisms for investors and an infrastructure to support the marketing of these products. As Hayday explains, "*For social investment to become a broader-based movement, we need products the public wants and can understand, and we need a range of mechanisms because not everything is appropriate for everyone.*" Sarah McGeehan of NESTA, which provides the sector with direct investment and infrastructure support, added, "*Existing social investment products are not available at scale.*"

Investors acknowledge that the young sector is still "*disconnected*" and could do more to collaborate more effectively. Toby Eccles, development director for Social Finance, explained, "*The pools of capital – such as grant-making, green investing and community development – available to the charity sector are disconnected. Social investment intermediaries need to link them up so that organisations can raise funds in a coherent way.*"

In addition to various informal networks, there are a few formal initiatives, such as the Skoll World Forum, which 2009 meeting is this month in Oxford, and the new Global Impact Investing Network (GIIN), founded by the Rockefeller Foundation; Social Finance is establishing the London node of GIIN. Last year Rockefeller Foundation announced that it would provide seed funding for a Social Stock Exchange. The Exchange, to be based in London but international in scope, is currently in development, and expects to launch a beta version later this year. Mark Campanale, the Exchange's co-founder, says that it aims to be an authorized and recognized investment exchange: "*The Social Stock Exchange is exactly that: an investment exchange for investors pursuing social and financial return from social purpose business, with the goal of creating long-term value in their investment. It is a financial market that enables businesses to raise capital whilst preserving their social mission.*"

There is also Schwartz's Socialinvestments.com (whose new name will be launched at the Skoll World Forum), which is the first website in the UK to enable direct investment into social businesses and social enterprises.

However the sector lacks a formal infrastructure – independent, neutral intermediaries that can act as a clearinghouse for both investors and investees – effectively a corporate finance function. Just like for-profit companies, as social enterprises grow they need different kinds of funding at different stages, but there currently is no objective signposting resource to help them determine what options and providers may be best suited to their needs.

There also is opportunity for a syndication role, taking investment opportunities to investors and intermediaries across the marketplace. Hornby elaborated: "*Organisations often need different types of funding simultaneously, and, for example, a foundation might be willing to take a grant position alongside an individual investor seeking a financial return.*" Holle added, "*Independent intermediaries can allow a fragmented group of funders to capture economies of scale on due diligence, transaction structuring and investment monitoring.*"

Regardless of the structure, there clearly is a need for independent advice. This role is being filled to some extent by financial advisors and investment managers, but there are relatively few advisors actively advising on social investment (See the UKSIF advisors' panel in this

*A corridor at The Hoxton Hotel, which has received a £1.5m investment from Bridges Ventures. Photo courtesy of The Hoxton Hotel*


issue). Geoff Burnand, chief executive of Investing for Good, explains: "*The financial services industry is still trapped in a binary view that all capital should be either invested to maximise profit, with little or no consideration for social and environmental effects, or donated. However as the delivery of financial services is going through profound change, advisors have a clear opportunity to develop new services in this area.*" Investing for Good provides specialized advice on social investment, including identifying and evaluating investment opportunities, to wealth managers and financial intermediaries.

Government also has a continuing and important role to play to helping to develop the market, especially in setting frameworks such as through tax policy, legal structures and regulation. Tax relief for social finance, akin to Gift Aid, or guarantees, could attract more private money into the sector. Wood commented, "*There is not enough money in the current 'for-profit/not-for-profit' paradigm to do everything on the domestic and international agenda (such as climate change or poverty), so we can only hope to solve these problems by applying subsidies more efficiently through the tax system to leverage additional corporate and private investment into the not-for-profit sector. We also need intermediaries that can facilitate collaboration and ensure an effective margin goes to the social sector.*"

Bernie Morgan, chief executive of the Community Development Finance Association (CDFA), also emphasizes that "*public policy changes should not mitigate against social investment; financial restructuring should work for social investors too*".

Direct government funding has also been warmly welcomed, and funds such as Futurebuilders and the Adventure Capital Fund have been important in helping to make loan finance a more familiar funding option to charity trustees. Though a number of the funders we spoke to also expressed concern about the risk, if not managed carefully, of government funding 'skewing' the marketplace or crowding out private funders. David Carrington, an independent consultant and chair of the Philanthropy UK Editorial Board, observed, "*Short-term political priorities are not always conducive to the objectives of long-term funding programmes.*" Kingston added, "*Government funding should not discourage private investors – we need a diversity of funding in this space.*"

**A capital opportunity**

Social investment today is not dissimilar to venture capital 30 years ago, and many investors argue that government can play a similar catalyzing role, alongside private investors. Giddens concludes, "*London is one of the leading financial centres in the world, and should be so for social finance as well. Social investment is a great lever for government and a great asset for the country.*"

Whilst social investment is not immune to the impact of the economic crisis, the current environment could prove to be a huge opportunity for the emerging sector. There is a growing realisation that there is a more efficient way to fund charities, whose under-capitalization has become woefully apparent under the weight of the recession. Shrunken portfolios are motivating more philanthropists to seek ways to achieve more impact from their giving, while an influx of bright people seeking new roles is helping to expand talent and capacity in the sector.

The sector is also benefiting from low interest rates, which are making social finance more competitive with commercial products at a time when more people are re-evaluating their relationship with their bank, as well as the returns they are getting from their investments.

# Where to start?: a quick guide for social investors

*By Susan Mackenzie*

The number and diversity of investment opportunities for UK social investors continue to improve. These range from ethical banks to a risk capital fund for charities to a community development venture capital fund. Meanwhile, organisations such as Ashoka and CAN Invest support social entrepreneurs (although investors in these organisations do not receive a financial return).

Below we highlight a range of social investment intermediaries, along with examples of products and services they offer social investors.

For more information on these organisations, visit The Philanthropy Directory (Philanthropy UK), Social Investment Hub (Social Finance) or Socialinvestments.com.

## Ethical banks

### Charity Bank

www.charitybank.org

Ethical bank accepts deposits from individuals and companies and uses the money to provide loans to charities and other social profit organisations.

*Founder Reserve*

Donations help to unlock sustainable finance for the voluntary sector. This money becomes an investment in the capital of the bank, leveraging a much larger pool of funds that helps it to provide long-term support.

*Preference and ordinary shares*

Equity capital that enables the bank to raise deposits for on-lending and to leverage in other forms of finance for borrowers.

*Subordinated loan notes*

10-year loans that act as equity for first five years enabling the bank to raise more deposits for on-lending.

*The Charity ISA*

A 'fair rate of return' 30-day notice ISA where all of the money is used for charity and a 1.25% 5th-year bonus goes to charity of investor's choice .

### Co-operative Financial Services

www.cfs.co.uk

Ethical bank providing loan and equity finance to charities and social enterprises. Part of the Co-operative Group, CFS is the name for the group of businesses that includes The Co-operative Insurance, The Co-operative Investments, and The Co-operative Bank including smile.

### Triodos Bank

www.triodos.co.uk

Ethical bank that only lends money to and invests in organisations pursuing positive social, environmental and cultural goals.

*Triodos Opportunities Fund*

A social enterprise equity fund which invests in commercially sustainable social enterprises and provides expertise to help them grow. The Fund brings together social investors who are looking for meaningful ways to put their money to work with promising social enterprises.

*Triodos EIS Green Fund*

The Fund will target EIS (Enterprise Investment Scheme) qualifying companies with growth potential in a variety of areas, including renewable energy generation and technology, energy efficiency, sustainable living and low carbon products, and waste recycling and reduction.

## Social investment funds

### Big Issue Invest

www.biginvest.co.uk

Finance provider to organizations utilising business solutions to create social or environmental benefit.

*Social Enterprise Investment Fund (launching soon)*

To provide growth capital to social enterprises through equity, quasi-equity and debt; investments are expected to range from £100,000 to £500,000. Targeted internal rate of return to investors of 3-5%. Will be a closed-ended limited partnership with a structure allowing for individual and institutional investments as well as charitable donations.

*Loan Fund*

Provides financing to social enterprises and trading arms of charities. Loan size averages £180,000 with a range of £50,000 to £200,000, and includes asset-backed loans, cash flow-backed loans and quasi-equity. Fund has dispersed £5.5m over three years with no defaults.

### Bridges Ventures

**www.bridgesventures.com**

UK's first community development venture capital company, established to invest in businesses in the most deprived parts of England.

*Social Entrepreneurs Fund*

An initiative addressing the funding gap faced by fast-growing social enterprises looking to scale, the Fund will invest up to £1m in each social enterprise. Investment will be through equity-like capital providing social enterprises with the risk capital funding they need to grow. The funding will be repayable with an appropriate return, and the fund will re-invest all repayments and returns into further social enterprises.

*Bridges CDV Funds I & II*

Primary focus is companies based in the most deprived areas of the UK and companies in 'social impact sectors' like healthcare, education and the environment.

### Venturesome

**www.venturesome.org**

Provides unsecured loans, underwriting and other financing to charities and social enterprises.

*Venturesome Fund*

Unlike one-off donations, an investment in Venturesome aims to be recycled four or five times. Venturesome also can help investors access harder-to-reach charities. As the organisation assumes a higher financial risk than might a conventional bank lender, it can fund organisations that would have no other way to access capital.

## Social entrepreneurship funds *(social return only)*

### Ashoka

**www.ashoka.org**

Invests in individual social entrepreneurs through financial and professional support.

*Ashoka Support Network (ASN)*

ASN is an international group of Ashoka supporters - chiefly business entrepreneurs, venture capitalists, investment bankers and successful business people who support social entrepreneurs. ASN offers various types of engagement opportunities for ASN members, including offering one-on-one business support, visiting projects when travelling abroad, and internships organised for ASN members' children with Fellows' organisations.

### CAN Invest

**www.can-online.org.uk**

Helps social businesses scale up by mobilizing funding and business skills to develop core functions.

*Breakthrough programme*

Leverages in capital, business skills, and experience to support a select group of established social enterprises to scale up. It matches the best business skills from the private sector with the passion of social entrepreneurs to develop sustainable, efficient organisations that tackle social and environmental problems.

## Other social investment organisations

### Community Development Finance Association (CDFA)

**www.cdfa.org.uk**

Membership association for community development finance institutions. Investor resources include a Community Investment Tax Relief guide, and a searchable directory of members.

### Investing for Good

**www.investingforgood.co.uk**

Provides specialized advice on social investment to wealth managers and financial intermediaries.

*Advisory services*

Currently tracks around $2.2 bn in social investment opportunities around the world, including both pooled funds and direct investments, across a range of asset classes. Constructs investment portfolios bespoke to each investor, using a proprietary methodology that measures and rates the investments for their blended return.

Individual investors can access Investing for Good's services through their wealth manager or financial intermediary.

### Social Finance

**www.socialfinance.org.uk**

Launched as the first social investment bank, to develop bespoke financing for social impact and to bring new capital into the sector.

*Social Impact Bond*

New financial instrument aiming to be piloted in 2009, in the areas of reducing reoffending and/or 16-18 year old NEET (not in education, employment or training) rates, in partnership with the Young Foundation and Frontier Economics.

### Socialinvestments.com

*New name to be launched March 2009

Website supporting social businesses through access to capital, services, people and information.
Website offers information and advice to social investors, and enables direct investment into social businesses and social enterprises.

*"Capital can be needed to bridge the gaps between grants, weather stormy times when income dips or invest in development."*

## Risky business?

***By Emilie Goodall, Venturesome***

A donation is a financial risk. How do you know that you are trading your money for social impact? Will donated funds be used effectively, and efficiently?

To mitigate against this risk, donors may take the view that they can track where and how their money has been used by restricting funding to particular projects; others may only give to those charities or causes they feel they know well.

But there is another way: invest with the expectation that funds will be repaid. The very concept may seem bizarre to many donors – how could this be possible, without diluting social impact?

To answer this question, first we have to answer why charities might need such funding. Charities are not-for-profit businesses. In many ways, charities face the same financial needs as businesses and require not only income (in the form of grants, donations or trading), but also capital. Capital can be needed to bridge the gaps between grants, weather stormy times when income dips or invest in development.

Historically, capital need has not been well articulated. It has certainly been poorly served. Typically, charities have low reserve bases, finding it difficult to generate surpluses. They have often struggled to access capital from banks and may shy away from asking donors to step in to cover these needs – they don't want to alienate donors by asking them to invest in areas that, at first glance, appear removed from the cause (however false that perception may be).

Yet capital is vital. We have witnessed in recent months businesses with solid income streams folding for want of access to capital. Capital can, of course, be provided in the form of grants. Grant funding is the lifeblood of the sector and will continue to be so. But grants and donations are in short supply, an issue which will worsen for some during the recession. Furthermore, grants might not always be the most appropriate use of funds.

Social investment complements grant and trading income. Take the following examples:

Underwriting enables organisations to proceed with plans before 100% of funding is raised. Charities can then take advantage of a better property price, cheaper building contracts, or a great new hire. Underwriting can galvanise fundraising – once a project is underway, charities may find it easier to raise the remainder. But if funds aren't raised in time to meet costs, then the social investor is there to bridge the gap.

Bridging finance tides charities over where income is delayed or uncertain. Rather than stopping or scaling back, negatively impacting social impact, charities can use bridging finance to continue activities, at minimal cost.

Where future income streams are more uncertain, but where the risk is worth taking for the potential social impact, equity-like investment may be needed. 'Quasi-equity' is a hybrid between debt finance (which may be too onerous) and equity (not possible as charities can rarely offer share capital), and is typically used when a charity has a product or service it can sell. The investor can be repaid from future revenues through a royalty payment, but stands to gain nothing if the organisation does not achieve expected revenues.

These types of investment work alongside grants and other support to improve efficiency and effectiveness. Venturesome has invested in some 200 charities, ensuring the survival of some and enabling the growth of others, while recycling 95% of the capital committed to date. We've advised hundreds more on the right type of funding for their particular financial need. Awareness is growing among charities of this type of financial support, and among donors – rather than placing funds on deposit and realising minimal financial returns, why not make your money work to realise social impact?

*Emilie Goodall joined Venturesome as an Investment Manager in 2007, having previously worked as a Research Analyst at the charity New Philanthropy Capital (NPC). She holds an MA in French and Philosophy from Oxford University. www.venturesome.org.*

*Kevin Brennan MP, Minister for the Third Sector: "I believe this could be a defining time for social enterprise and social investment."*

# The government as social investor

***By Roxanne Clark and Ben Eyre***

In its report, *Social Investment Pilots: Action Research Final Report*, published in November last year, the Office of the Third Sector (OTS) looked to catalyse wider development in social investment.

This can be seen as a culmination of many years' growth in successive UK governments' promotion of social investment.

Social investment is a term of multiple interpretations and Philanthropy UK defines it as any type of investment that combines social and financial returns. One of the earliest initiatives of this type was the **Local Investment Fund (LIF)** in 1995, a £3m public-private partnership, to provide loans to social enterprises that had no access to mainstream finance.

LIF focused on the funding gap in deprived communities in England and was led by the then Department for Environment, Transport and the Regions (DETR) and NatWest Bank. LIF received further funding from a variety of government and private sources. It was re-named **The Social Enterprise Loan Fund (TSELF)** in July 2008. It has made 150 loans, totalling over £7m, and has created or maintained 2016 jobs and 3984 training places.

The current government continued this trend by injecting credit into deprived communities, particularly through the third sector, using social investment initiatives such as the following.

The **Phoenix Fund**, launched in 1999 to facilitate access to finance and business support in disadvantaged communities, utilised a £150m fund to provide capital, revenue and loan financing for community development finance institutions (CDFIs) across England. Before it closed in 2006 it also funded the establishment of the Community Development Finance Association (CDFA), on the recommendation of the Social Investment Task Force (SITF).

The SITF, examined in more detail within Table 1 of 'In recession, investors seek a different sort of return', is an important element of the government's interest in social investment.

Other SITF recommendations were also supported by government. **Community investment tax relief (CITR)**, introduced in 2001, offers individuals and businesses tax relief of 5% of the amount invested in accredited CDFIs. Another recommendation was the establishment of a community development venture capital fund, and Bridges Ventures, was launched in 2002 with £20m of private sector investment matched by £20m from the Department of Trade and Industry.

The government set up the **Adventure Capital Fund** in 2002 to test venture capital-style funding for community enterprises in England. The £12.5m fund supplies a combination of loans and grants known as 'patient capital'. The initial investment ceiling of £400,000 for individual transactions has risen to £750,000, with loans available over 10 years, at competitive rates, with initial payment holidays of up to five years.

On the recommendation of HM Treasury's Cross Cutting Review (2000), which examined the role of the voluntary sector in public service delivery, Futurebuilders England was set up in 2003. Established with a £150m fund to help third sector organisations deliver public services, it primarily provided them with loan financing. The second phase of the fund, which in 2008 grew to £215m, is being run by the Adventure Capital Fund, and is open to all third sector organisations delivering public services. This month the Department of Health awarded the administration of its £100m Social Enterprise Investment Fund to a Futurebuilders-led consortium.

Unlike its English counterpart, the £18m Futurebuilders Scotland fund specifically made grants to social enterprises delivering public services, in Scotland. The fund closed in March 2007.

The government's *Social Investment Pilots: Action Research Final* report includes two projects, led by Charity Bank and Investing for Good, and by Equity Plus, through which the government examined the development of social investment. Kevin Brennan MP, Minister for the Third Sector, said, "*I believe this could be a defining time for social enterprise and social investment.*"

# Risk and return: the advisors' view of social investment

***By Adam Ognall, UKSIF***

As more individuals begin to embrace social investment as part of their philanthropy, they increasingly are turning to their professional advisors for advice and guidance. Here, in a panel moderated by UKSIF's Adam Ognall, five investment managers and advisors reflect on their clients' growing interest in social investment and how they see the market developing.

*Editor's note: This panel discussion is a special report from UKSIF, the sustainable investment and finance association, whose 'What's new in social investment?' column will return in June.*





*The panel*

**Geoff Burnand** is co-founder of Investing for Good, the first social business regulated by the FSA as investment managers. Its clients are private banks, family offices and high-end advisors.

**Basil Demeroutis** is a Partner at Capricorn Investment Group, an independent investment management firm serving foundations, endowments, institutions and high-net-worth individuals.

**Dr Robin Keyte** is a director of Towers of Taunton, Chartered Financial Planners. Robin also sits on the board of UKSIF and is Chair of the Ethical Investment Association.

**Mark Mansley** is an Investment Director at Rathbone Greenbank Investments, an investment management firm that only manages ethical and responsible investments. It works with private individuals, trusts, charities, pension funds and their advisers.

**Alexia Zavos** is on the Socially Responsible Investment Team at Cazenove Captial Management, an independent asset management business serving private clients, charities and institutions.

**How would you define 'social investment'?**

**GB:** Broadly, it is an investment in an organisation or fund whose primary mission is to deliver positive social or environmental impact, and whose method for achieving such impact is through profitable trading. Profitability should not conflict with impact: what is good for business can be equally good for communities and natural environments. Many social businesses have achieved consistent growth, generating 2%-8% annual returns, so providing good financial return as well as not being correlated to traditional markets.

**RK:** It is *not* a retail investment. It is off-piste, niche and particular to the project concerned. Social investments can provide a market rate of return in terms of income and/or capital growth, and if carefully designed can also provide tax reliefs (e.g., EIS, CITR). Alternatively a social investment can provide a lesser return on the explicit understanding that the social dividend has substantial benefit for the investor. In these cases I think the 'investment' nature is critical: it encourages the investor to remain engaged with their investment, something often lacking with charitable donations.

*"The 'investment' nature is critical: it encourages the investor to remain engaged with their investment, something often lacking with charitable donations."*

**BD:** For me, the old way of thinking about CSR is no longer relevant; categorising companies by what they don't do offers limited value. It also goes beyond the mantra 'doing good to do well'. As investors, we aim to identify those businesses that can deliver consistently superior investment performance in a manner consistent with 'principled investment management'. This has broad application across all investment types.

**What is interest among your clients in social investment, and how do you see this developing in the next few years?**

**MM:** Demand is reasonably good, although investors are still gathering themselves after the turmoil of 2008. An unparalleled set of factors is encouraging social investment over the next few years: low interest rates combined with high levels of market volatility and growing suspicion of mainstream offerings in the wake of recent scandals. Social investment remains broadly focused, which is one of its strengths. Renewable energy and energy efficiency is likely to remain a key theme, and investors remain keen to support developing countries, through microfinance and other pro-development opportunities. We expect to see resurgent interest in UK investments too, for example in areas such as social housing and community organisations, which may struggle to get mainstream finance.

**RK:** Generally my clients want to receive a reasonable rate of return and cannot afford to forego interest. Recent social investments have related to housing – affordable housing in rural communities and sustainable property development – and community-owned electricity generation schemes such as wind farms and hydro electricity. We are starting to see local groups enquiring about supporting the local economy, and the possibility of business succession strategies so locally owned shops do not just close when the owners retire.

**GB:** Interest in social investing is growing as the current turmoil in financial services is encouraging people to rethink traditional views on capital and risk, look more deeply at their impact, and take new actions from a new point of view, mixing risk, return and impact together. I anticipate greater expertise in social investing emerging from intermediaries servicing top end private clients, and a growth in mission-aligned investing by charities and foundations.

**AZ:** To date client interest has been fairly limited, largely because there is a limited number of investible social businesses around – we need more people like Anita Roddick in this world! The interest is broad as motives for seeking social return are varied. Although it is fair to say that investors tend to be more certain about what they do not want to invest in rather then what they do!

**What type of advice and support do clients typically seek?**

**AZ**: Once the social motive has been agreed, the main question is whether the clients' capital (at the very least) will be preserved. Other questions that both the clients and we as advisors need to clarify include management experience and past performance, liquidity and size, investment structure and reporting mechanisms on the social impact as well as the commercial and financial progress of the investment.

*"The social investment model is fundamentally resilient."*

*Adam Ognall*

**MM:** It is up to us to point out to clients some of the key issues, such as that the investments are illiquid and should generally be considered high risk. Finding and selecting the right investments remains our biggest challenge at the moment – deal flow is reasonable but identifying the right opportunities to back is key. The impact of the recession is a big concern. We feel that the social investment model is fundamentally resilient and many organisations are reasonably well placed – many have strong customer and staff loyalty, strong reputations and access to supportive networks. However, the full impact of the recession has yet to be felt on many organisations. A lot of it will come down to good financial management.

**BD:** We're aiming to address some pretty complex issues. Take water. For a client to make an informed investment decision around this theme, they need to think about policy issues, regulation, supply and production technology, demographics and local social issues, all perhaps in an unfamiliar far-off region. This is in addition to the normal due diligence they expect. To best address the questions of measurement and impact, I think we need to spend more time defining what outcomes are most valuable at the outset.

**GB:** A common concern is the definition of the universe. We work with private banks and others who can only access this market for clients who have been screened for their suitability. Other usual questions are about the ways traditional portfolio management skills can be applied to package deal flow, construct bespoke advisory and discretionary portfolios, and how to measure and report on impact. Another consideration is a fund for retail investors.

**What sources of help and advice would you recommend for social investors?**

**RK:** I would suggest contacting a member of the Ethical Investment Association (EIA). They receive regular training on social investment opportunities and will be able to help investors identify the key social/ethical areas of interest, assess whether investors are better off integrating social investment into a stockbroker portfolio approach or making ad hoc social investments as and when opportunities arise.

**AZ:** At present the information available is limited for both investors and advisors. Some information is available via Investing for Good and on Socialinvestments.com, and Triodos Bank brings a number of opportunities to the market such as the soon-to-be launched Triodos Microfinance Fund.

**BD:** I think one of the best resources for investors is easy: each other. With so much interest there's an incredible amount of knowledge that's widely distributed. Whether it's a co-investment in a specific opportunity, general background or fact-checking something you've heard, chances are that the investor community is your number one resource. Networks like UKSIF and UN PRI are great ways to connect. What's clear is that a lot of money will be made investing around these themes, but fortunes will be lost, too, so go it alone at your peril.

*Adam Ognall is UKSIF Deputy Chief Executive. He can be contacted at adam.ognall@uksif.org.*

# My philanthropic journey

## Catalyst for change: *the view of a social investor*

***By Rodney Schwartz, Socialinvestments.com***

I began writing this piece by reading previous 'journeys', and became intimidated by the list: Dame Vivien Duffield, Sir Trevor Chinn and Tony Blair! This is a credit to the persuasive powers of the Philanthropy UK team, but made me very hesitant to use my 'moment in the limelight' in what may seem a challenge to the philanthropic model, but I was asked to give an honest account of my journey, so I shall.

It begins innocently enough. Like Sir Trevor Chinn, my introduction to charity has Jewish roots. I learned the importance of charitable giving (tzedaka) in Jewish religious school. This background and Maimonides' philosophy around giving were explained elegantly by Sir Trevor, so I shall not elaborate.

Despite such hopeful beginnings I drifted to Wall Street. I felt guilty about it of course, so I supported charities financially. In time, this proved insufficient and I became a trustee of the House Foundation for the Arts, which backed the performance artist Meredith Monk. This not only assuaged my guilt but also gave me an introduction into the rewards (and frustrations) of charities.

Moving to London with my family in 1987, I was still spending most of my time working, but donated to a range of charities. In 1997, I ended my career in global finance as the chasm between what I did every day and the things I told my four children were important was just too wide. I thus began a frustrating journey to figure out what I was actually meant to do in life. The journey continues, but I now have some ideas.

My path encompassed politics (with the Lib Dems) and the charity world (as Chair of Shelter). Neither 'offered the answer' – with both I encountered bureaucracy, mission drift and a frequent disconnect between stated intentions and actions. I doubt that these large organisations are unique.

I began to learn about social business, where entrepreneurs turn their talents to doing 'good'. Working with these odd characters, I found a refreshing attitude, integrity and an ability to innovate and move swiftly, as only small organisations can. Along the way I became Chairman of Justgiving.com, a marvellous social business, which has grown explosively. It is 'social' because through it 6.5m people have donated over £370m to UK charities since 2003!

*"Increasingly investors are taking 'extra-financial' returns into account, which social enterprises offer in abundance."*

Along the way I became involved in many other social businesses and enterprises, including Belu Water, the carbon neutral bottled water company; the interestingly named Ethical Property Company, which rents commercial office space to social change organisations; The HCT Group, which is involved in community transport; and the Green Thing, of which I am proud to be Chairman. This firm uses the tools of marketing, media and the internet to creatively engage people to help solve climate change. These enterprises offered me a route to 'doing good' that seemed less wasteful and could be especially effective.

Partly this is because social businesses may raise capital – an option not generally available to charities. Increasingly investors are taking 'extra-financial' returns into account, which social enterprises offer in abundance. This pool of capital is small but growing, and is related to the socially responsible investment (SRI) fund movement. Inspired by these trends, my company, Catalyst began to fund-raise for social enterprises. More recently, we have launched a £30m venture capital fund (with £5m of initial backing from Barclays) to invest in UK-based profitable, growth-oriented social businesses. Our aim is to create commercially viable social businesses that can tap into the enormous pool of mainstream capital.

We felt that even more was needed, especially for the thousands of social enterprises not ready for external capital. In that spirit we spun out socialinvestments.com, a website which provides information about 150 social enterprises (hundreds more coming!), enables direct investment in these and provides a 'gateway' for the neophyte 'social investor'.

In addition to these activities, I have mounted a crusade to 'talk the sector into existence'. This has involved lecturing, writing articles (such as this one), holding an annual conference and keeping a blog (the Social Business Blog). All of this feels a bit like three jobs, but essential when one is trying to forge a career out of a mixed bag of activities in a new area. This career is not for the fainthearted, but it is stimulating, rewarding and fun.

This is all not to say that politics and charity do not have their place. I merely expect that, over the next twenty years, social entrepreneurship will play an essential role in providing social, ethical and environmental goods that neither government nor the charitable sector will be able to afford.

- Green Thing: www.dothegreenthing.com
- Catalyst: www.catfund.com
- Social Business Blog: www.socialinvestments.com/sbblog

*Rodney Schwartz is the founder of Catalyst Fund Management & Research and is CEO of Socialinvestments.com. He also serves as Chairman of The Green Thing, Director of the Ethical Property Company and AXA Investment Managers, and is a guest lecturer at the Saïd Business School (Oxford).*

# *Letter from America*

## The trust deficit

***By Melissa A. Berman, Rockefeller Philanthropy Advisors***

The key components of the current crisis – worthless assets, the credit freeze, the fear of counterparty risk, the Madoff fraud, the collapse of seemingly stable companies and even entire industries – have multiple causes. But among their terrifying consequences is a loss of trust. Banks don't trust consumer or corporate borrowers, or other banks. Consumers don't trust banks either. Individual investors mistrust advisors and fund managers. Few trust the controls of the government bailouts or the capacity of governments to manage financial institutions, whether in the US or in the UK.

*Melissa Berman*

The trust deficit is crippling for the philanthropic and charitable sector too. Both grant-making and grant-seeking institutions will need to be far more rigorous about potential conflicts of interest. Gone are the days when one could 'trust' that an individual has the institution's best interests at heart regardless of the potential for personal benefit. Non-profits now have far more cause to worry that a donor's pledge has no meaning. Donors now have to worry that non-profits have not invested their money with proper safeguards. These concerns existed before, of course, but they have never been so pervasive – and corrosive. As we know from our personal lives, once trust weakens, the slightest tremors cause sharper collapse, and the rebuilding process can seem endless.

*"Closing the trust deficit will take a deep acknowledgement that the donor/grantee relationship is actually a partnership with mutual dependency."*

Closing the trust deficit will take more than a resurgence of asset values. It will take increased openness and transparency by both donors and grantees about resources, commitment and risk factors. It will require funders to examine how they really can use their resources, including their capital, to strengthen the sector that creates social change. It will require non-profits to ask themselves if they really should combine forces with similar or complementary organisations to better achieve their missions. It will require funders to ask whether pooling their resources will create significant efficiencies for grant-seekers. Closing the trust deficit will take a deep acknowledgement that the donor/grantee relationship is actually a partnership with mutual dependency.

For this reason alone, the concepts of social investment are especially pertinent now. Whether used metaphorically (to describe a style of grant-making) or literally (to mean a loan or equity stake in an enterprise with a social purpose), the diverse approaches under the social investment umbrella can help build trust between the funder and recipient.

Social investment style grant-making – also variously referred to as 'venture philanthropy' or 'high engagement philanthropy' or 'impact philanthropy' – is ideally based on an open dialogue between funder and grantee about the whole of a non-profit's goals, operations and capacity. Too much traditional grant-making is a painful dance in which the funder requests a proposal, and the non-profit tries to guess what the funder wants, but tries to provide as little internal information as possible, after which the funder creates conditions about what will be paid for and what must be reported and how. In investment-style grant-making (at its best), the funder seeks to understand with the nonprofit's leadership what will make the non-profit successful and sustainable. Resources and reporting are then based on that plan. If it's done right, this is a professional, respectful relationship.

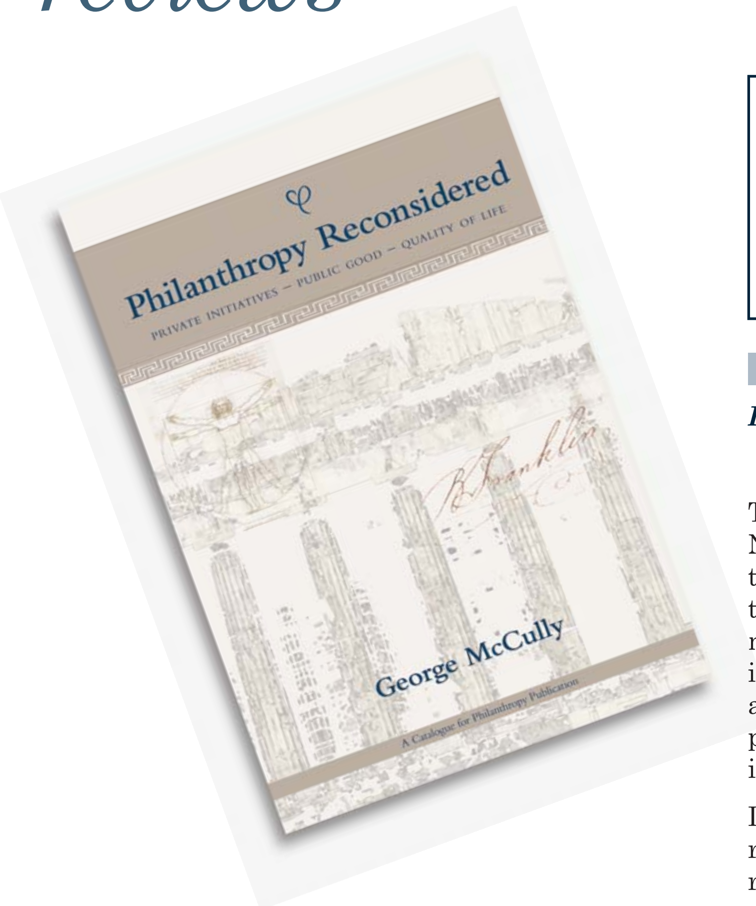
Actual mission-related investing (known in the UK as mission-connected investment), in which the provider of funds expects a return of principal plus some earnings, is an even more powerful way to close the trust deficit. In this case, the non-profit and its funder are quite literally aligned: if the non-profit fails, then the funder faces a financial shortfall. Looked at more positively, both will benefit if all goes well. Despite this dismal economic climate, techniques and options in mission-related investing continue to expand and evolve. Ironically, with returns in safe investments so low, a loan to a community housing or microfinance or rural health care clinic at a low rate of return can actually seem quite reasonable to even the flintiest investment committee.

Social and mission-related investing offers the great potential of deploying much more capital into the social sector. Even more pertinent now, these techniques build the kind of partnerships between funders and recipients that we need for the current crisis, as well as to lay the groundwork for real change in the coming years.

*Melissa A. Berman is President & CEO of Rockefeller Philanthropy Advisors. www.rockpa.org*

# Publication reviews and notices

## *reviews*




**Philanthropy Reconsidered: Private initiatives – public good – quality of life**

George McCully

Bloomington, Indiana: Authorhouse, August 2008. 130pp. Paperback. ISBN 978-1-4389-0561-7. www.authorhouse.com. £24.49

***Reviewed by Beth Breeze, Publications Editor***

There is a certain type of book on philanthropy, written by North American authors, that ought to carry a sticker on the cover for UK readers 'Warning: the assumptions in this book could seriously damage your health'. As the majority of serious books on philanthropy are published in the US, this column has dealt with this issue before and will no doubt face it again. Yet the assumption that philanthropy was, if not invented, then at least perfected in the US, still takes me by surprise.

Last summer I spoke at a conference after an erudite and respected American academic presented historical research which 'revealed' that European nations also enjoyed high levels of voluntary activity in the same era that Alexander de Tocqueville famously celebrated the distinctive contribution of voluntary organisations to American democracy. It took a half-hour paper, and presumably many hours of research to prove what anyone on this side of the Atlantic could have told her for free! It took all my powers of restraint to resist beginning my talk, "*And now, I'd like to present proof that the Pope is indeed a Catholic*".

This is by way of protracted introduction to the key flaw of McCully's otherwise quite innocent and occasionally illuminating book. If you do not accept that American philanthropy is "*the strongest in the world*" or that it has developed "*its fullest and deepest historical expression*" on that continent, then prepare for regular moments of book rage as such sentiments pop up with regularity across the 100 or so pages.

For readers unperturbed by, or able to overlook, this unfortunate patriotic tic, the book has a number of arguments that are worth exploring. The author's first career as a scholar focused on the era from the Renaissance to the Enlightenment is put to good use in his examination of the roots of 'classical philanthropy'. McCully points out it was historically typical for philanthropy to enhance the quality of life of both benefactors and beneficiaries. This not only casts fresh light on contemporary debates about the 'dangers' of donor benefit, but also offers a far richer conceptualization than what he terms, "*anemic modern interpretations of philanthropy as 'rich helping poor', or 'caring', or simply 'giving'*".

This point is advanced in the second substantive section of the book when McCully introduces a cast of key late eighteenth century 'philanthropic characters', to advance his thesis that the American Revolution was "*conceived, planned, organized, funded and implemented*" as a philanthropic project. This claim is over-stated and under-substantiated: the fact that the first President, George Washington, signed his letters 'Philanthropically yours', is as likely to indicate his devotion to the institutions of philanthropy as any other letter writer means to advertise his or her personal sincerity.

Despite these unnecessary distractions, which should have been lost in the editing process, there is nothing wrong with the thrust of McCully's overall project: to reconnect modern philanthropy to its classical roots. In fact, the whole book was worth reading for the re-telling of a story that is nearly three centuries old, yet still serves as a good explanation for the role of philanthropy in many donors' lives today. In 1710, Cotton Mather conjured up the image of having two oars in the water, with one oar representing a person's vocation or 'day job' and the other oar representing their efforts to do good work in the world. As McCully concludes, "*either oar alone will have us rowing in circles, whereas if we row through life with both oars we shall get to Heaven*".

The second half of the book examines the 'new paradigm' of philanthropy, driven by information technology, globalization and changing demographics of wealth. Yet despite the 'newness' of these external factors, and despite McCully's insistence that they add up to create a 'paradigm shift', it is difficult to avoid the power of Mather's simile resounding through these later pages.

Contemporary donors are still trying to work out how to combine mundane economic success with their aspirations to change the world, and still often choose philanthropy as the way to keep their personal boat afloat. McCully describes new and emerging donors as those who "*turned restlessly to philanthropy as a next step in their careers, to gain a larger sense of the meanings of their hyper-productive lives*". In other words, the Masters of the Universe are searching for the other oar. Continuity, not change, is the most convincing theme of this small but ambitious book. If only it hadn't ended with one more flourish: "*Americans are known to be the most generous people on earth*". Warning! UK reader alert!

**Money Well Spent: A Strategic Guide to Smart Philanthropy**

Paul Brest and Hal Harvey

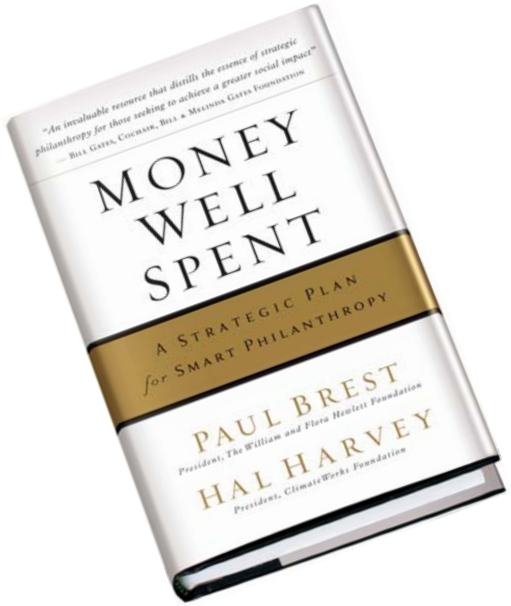
New York: Bloomberg Press, Jan 2008 (UK edition). 288pp. Hardback. ISBN 978-1576603123. www.ordering1.us/bloombergbooks/product.php?pid=329. £13.99

***By Padraic Brick, New Philanthropy Capital***

*Money Well Spent* is a handbook on strategic philanthropy, aimed at practitioners eager to create impact, rather than those interested in academic debates about the history, philosophy or practice of philanthropy. Its aim is to improve the giving of those who are already strategically oriented and to whet the appetite of others. The authors write from a US perspective but the lessons they distil are valuable to UK philanthropists and foundation staff who are interested in giving thoughtfully.

The book both describes and makes the case for strategic philanthropy. Much is written about the complexities of evaluation and the dynamics of foundation-grantee relationships, but in some respects it is more challenging to condense this knowledge into a briefing for those who want to know how best to do it in practice. The authors rise to this challenge, producing a book that is accessible to those new to the field whilst calling the attention of more experienced readers away from academic debates to essential questions about practice.

Strategic philanthropy, defined as philanthropy that is based on smart decisions aimed at creating impact, is the focus of the book, although the authors acknowledge that




much philanthropy does not fall into this category. To be strategic a donor needs goals rather than mission statements, quantified where possible, to guide staff and applicants. When planning how to create impact, foundations should start by questioning their view of the problem and understanding its causes. For example, the authors suggest that philanthropists concerned with high levels of teenage pregnancy should question why teenage girls and boys are having sex and whether or not the pregnancies are intended. If they are not, do young people lack knowledge of contraception? Or is it that they cannot access it?

Similarly, foundations are encouraged to look for alternative solutions based on sound evidence as stock approaches do not always hold the solutions: 'to someone with a hammer, every problem looks like a nail'. Smart philanthropists should test the logic that underpins their plan to achieve impact and track the progress of grants in order to make corrections based on what they learn.

Whilst reluctant to be prescriptive, the authors are clear that there are better and worse ways to do things. For example, foundations should avoid encouraging applicants to invest time and energy into a proposal only to turn them down for reasons that could have been known at the outset. Backing up their argument that foundations should disseminate their experiences of failure as well as their successes, the failures cited in the book are instructive and particularly motivating, such as a support programme for young people at risk which, when evaluated, was shown to increase offending, alcoholism and employment problems.

Brest and Harvey argue that quantitative measures can be useful to illustrate potential returns from philanthropy, to help foundations allocate funding between programmes and to think more clearly about the impact of their work. The authors argue for a 'return on investment' mindset, but acknowledge that some types of impact – such as campaigning for rights or trying to change social attitudes – do not lend themselves easily to quantification. It would be a shame if overzealous application of such evaluation tools resulted in philanthropists focussing solely on impacts that are easy to measure or in making fruitless attempts to quantify the unquantifiable.

For UK readers, the book challenges the typical grant-making practice of short-term project funding, and encourages a presumption in favour of general operating support provided over a long period. Foundations with broad interests but few staff should acknowledge their lack of specialised expertise by making unrestricted grants and trusting their grantees' strategies. The authors also ask readers to be disciplined in the face of key strategic challenges that foundations face by focusing (because it is better to do fewer things well rather than many things badly) and persevering (because a field rarely changes as a result of a handful of three-year grants).

*Money Well Spent* also looks at specific tools that philanthropists can deploy to achieve their goals: mission-related investing; research and development; supporting social enterprises; influencing government, individuals and business; and building fields and movements. It also explores the choice of vehicle for conducting philanthropy and the trade-offs involved in 'spending down' versus maintaining an endowment in perpetuity. A central message is that *"those who seek change should bear the burden of proof"* rather than act on faith alone. Smart philanthropists' actions should be led by evidence, not just hope. Beneficiaries need philanthropists who can create impact and make a difference to their lives, rather than just act out good intentions. Brest and Harvey's book is a worthwhile read for philanthropists wishing to do just that.

*Padraic Brick is a senior consultant at New Philanthropy Capital, www.philanthropycapital.org.*

*Padraic Brick.*
*Photo © Laura Kidd*

# Influential reading: *Stephen Bubb*

In each newsletter, Philanthropy UK invites an influential person from the philanthropy sector to tell us what books have most inspired and shaped their approach to philanthropy.

Our 'influential reader' in this edition is Stephen Bubb, Chief Executive of the Association of Chief Executives of Voluntary Organisations. He can be contacted at stephen.bubb@acevo.org.uk.

## *Stephen says:*

I have chosen three books that mean a lot to me. They are rather eclectic or even esoteric choices but I hope they make a wider point about my approach to philanthropy.

My first choice is T.S. Elliot's **The Four Quartets**, published in 1944, and arguably some of the finest poetry in the English language. It contains some of the most musical and unforgettable passages in 20th century poetry. Its four parts present a meditation on the spiritual, philosophical and personal themes that preoccupied the author. There are four particular lines taken from the end of *Little Gidding* that have stayed with me:

*"We shall not cease from exploration*
*And the end of all our exploring*
*Will be to arrive where we started*
*And know the place for the first time"*

For me those lines sum up the constant need for learning, development and being open, rather than taking things for granted. Philanthropy, in part, is a desire to explore and to help others explore, learn and develop. The wellspring of philanthropy is not accepting the world as

*Stephen Bubb*

*"Philanthropy, in part, is a desire to explore and to help others explore, learn and develop."*

it is, but wanting to contribute, in our own way, to developing a better world. Exploration is the antithesis of the status quo. Those who give do so because they reject the status quo and want change.

My second choice is **The Book of Common Prayer**, which was compiled by Archbishop Cranmer in 1662. Despite the many attempts to suppress its use, most Anglican churches will still have one service using this version because the magic and majesty of Cranmer's English is timeless and has yet to be bettered by modern scribes. For example, what can be both more chilling and exciting than the words of the General Confession:

"*We have erred and strayed from thy ways like lost sheep. We have followed too much the devices and desires of our own hearts.*"

In the Communion service Cranmer provides a series of sentences to be used at the time of the collection where, as he writes, "*the Church Wardens shall receive the alms for the poor and other devotions of the people*".

One of these is particularly pertinent for philanthropists, *especially at this current time: "Charge them who are rich in this world that they be ready to give, and glad to distribute.*"

Finally, on a lighter note, I have always thoroughly enjoyed **Brideshead Revisited** by Evelyn Waugh.

That is perhaps a curious choice in the context of philanthropy as it deals with the lives of gilded youth at Oxford and beyond, and may be the opposite of philanthropic as its celebrates self-indulgence and the aristocracy. But I like it so much because it reminds me of the three years I spent in Oxford at Christ Church, the college that featured so prominently in Brideshead and with characters clearly based on exotic Christ Church undergraduates from the time Evelyn Waugh spent at Hertford.

It is at University that one develops the interests and inspiration for future life and where I became clear that my career path was not destined in the private sector but in sectors where I could make a difference and a contribution. They also formed my individualistic approach to leadership, which has helped me to build ACEVO into the national force it is today.

We should remember that these major Oxford colleges are the results of generous philanthropic donations. Much of the continued work of the university only takes place through the gifts of prominent benefactors, the latest of which at Oxford includes the Saïd Business School and Michael Moritz's recent £25m donation to my alma mater. Philanthropy has always been allied to the pursuit of learning and the advancement of art, learning and science, which brings me back to those marvellous lines of TS Elliot about exploration.

# *notices*

## The Influential Fundraiser: Using the psychology of persuasion to achieve outstanding results

*Pernard Ross and Clare Segal*

Written by leading UK major donor fundraisers, this book draws on the latest psychological and neurological research to explore how asking for money can be better tailored to the individual needs of donors. The authors suggest that traditional fundraising approaches are less relevant to the new breed of younger, wealthy donors, whose motivations differ from those that were commonplace just five years ago. The authors present an ethical model for influencing donors which draws on knowledge and learning from sources as varied as the personal development literature, anthropological studies and even the field of hypnotism. The techniques are said to help fundraisers to "*share complex ideas simply, connect quickly to nervous donors, and build deeper relationships with supporters*". The scale of this book's ambition, and its endorsement by a wide range of international experts, make it an important read for the wider philanthropic sector – donors, foundation staff, researchers and others – who need to keep abreast of new techniques that appear in our field.

San Francisco: John Wiley & Sons, 2009. 295pp.
Hardback. ISBN 978-0-7879-9404-4.
www.josseybass.com £23.99

## Creative Capitalism

*Michael Kinsley (ed)*

In January 2008, at the World Economic Forum in Davos, Bill Gates delivered a speech in which he argued that many of the world's problems are too big for philanthropy – even on the scale of his own Gates Foundation. Gates proposed that the free-market capitalist system itself would have to solve them through 'creative capitalism'. This book engages with, debates and criticizes Gates' idea. It is written by more than 40 contributors including 3 Nobel laureates, 2 former US cabinet secretaries and leading economists, businesspeople and development workers. Many of the contributions were originally posted on a blog over the summer of 2008: http://creative capitalismblog.com That blog is still live and provides a fascinating overview of this important debate, which essentially asks whether the role of business should be confined to maximising profit for shareholders, or whether business people can, and should, play a larger role in global affairs. The current financial crisis may appear to have overtaken this debate, as business is now focused on surviving, rather than saving the world, but the issues raised in this book have an enduring relevance and are worth taking the time to comprehend.

New York: Simon & Schuster, November 2008. 336 pp.
Hardback. ISBN 978-1847374103.
www.simonandschuster.co.uk £16.99

## The Nonprofit Marketplace: Bridging the Information Gap in Philanthropy

*The William and Flora Hewlett Foundation and McKinsey & Company*

This short publication aims to help create a stronger non-profit marketplace by answering two related questions: how can donors be helped to make smart philanthropic decisions? and how can we ensure that the strongest, most effective non-profits get the resources they need? The authors note that giving decisions are often led by the heart rather than the head because, unlike other higher-performing markets such as stock exchanges, commodity markets or eBay, the non-profit sector lacks a robust flow of timely, accurate information. The authors suggest that better data on performance and impact, greater donor demand for such information and strengthened intermediaries could all improve the efficient allocation of philanthropic funds. In addition to making this argument, the paper provides a useful overview of the types of information that are currently available and outlines strategies that can be implemented by donors and charities, such as a 'non-profit logic model' to differentiate between inputs, activities, outputs, intermediate outcomes and ultimate outcomes. Whilst the paper is, perhaps inevitably, based exclusively on US data and interviews, the website that hosts the free download has a discussion accessible to international contributors and encourages surfers to view materials produced by the UK's New Philanthropy Capital.

2008. 59pp. Freely available to download from www.givingmarketplaces.org

## The Woman who Saved the Children: A Biography of Eglantyne Jebb

*Clare Mulley*

This biography of Eglantyne Jebb (1876-1928), co-founder of Save the Children, is published to coincide with the 90th anniversary of the charity Save the Children in 2009 and the 20th anniversary of the UN Convention on the Rights of the Child. Students of philanthropy will be interested to learn that Jebb pioneered many of today's most successful fundraising techniques, including press advertising, child sponsorship, and asking employees to donate a day's wage. Her biographer describes her as at once a romantic and realist, whose short life (she died aged just 52) was full of humour and tragedy, passion and pain. She moved from illicit romance in Cambridge to espionage in Serbia, from private spiritualism in Shropshire to public arrest in Trafalgar Square, rubbing elbows with such notables as George Bernard Shaw, John Maynard Keynes, and Pope Benedict XV. Mulley notes that, while children's universal human rights are yet to be realised, Eglantyne's achievement of putting them on the world agenda is a powerful testament to her rare combination of personal courage, eccentric charisma, and humane vision.

Oxford: Oneworld Publications, April 2009. 392pp. Hardback. ISBN 978-1-85168-657-5. www.oneworld-publications.com £18.99

## Viewpoints 2009: Balancing Creativity and Control

*Maximilan Martin and Andreas Ernst, UBS Philanthropy Services*

Now in their sixth year of providing philanthropy advisory services, UBS's annual report on the philanthropic field has become required reading for anyone attempting to keep up with the plethora of ideas, 'best practice' and debates that dominate our sector. The editors, Maximilian Martin and Andreas Ernst note in their introduction that "*Significant adjustments are ahead for philanthropy in 2009*" but they strike a less pessimistic note than many, predicting that drops in giving are not likely to be "*sudden, nor large, nor permanent*". The contributors, described accurately by the editors as "*a remarkable group of writers*", include distinguished academics, business leaders, philanthropists and charity leaders. The 16 short chapters are grouped into four themes: How to balance the demands of being creative whilst retaining control?; How can creative solutions tackle seemingly intractable problems, such as adequate access to sanitation?; How can effective philanthropy contribute to environmental sustainability? and How can philanthropy 'step up the game' in the current economic climate? The hour spent reading this short, stimulating report will be well spent.

Zurich: UBS Philanthropy Services, Jan 2009. 129pp. Free to download from http://www.ubs.com/1/g/ubs_ch/wealth_management_switzerland/exclusive_services/philanthropy_services/downloads.html

## Mary Elizabeth Garrett: Society and Philanthropy in the Gilded Age

*Kathleen Waters Sander*

Mary Elizabeth Garrett lived from 1854-1915 and was one of the most influential philanthropists of America's 'gilded age', though until now her story has received little attention. Barred by social convention from using her evident abilities in the business sector where her father was a railroad mogul, Garrett instead used her energies and fortune – worth nearly $100m in today's money – to advance women's education and suffrage in America. Her biggest donation of $354,000 to endow the Johns Hopkins School of Medicine in 1893, came with a crucial condition – that female students be admitted on the same terms as men, thereby revolutionizing women's place in both higher education and the medical profession. The use of her wealth to build an institution capable of effecting wider social change shows that today's 'new philanthropists' are not the first to realize the power of money to shape society for the better.

Baltimore: Johns Hopkins University Press, 2008. 322pp. Hardback. ISBN 978-0-8018-8870-0. www.press.jhu.edu £23.50

## Granting Success: Lessons from funders and charities

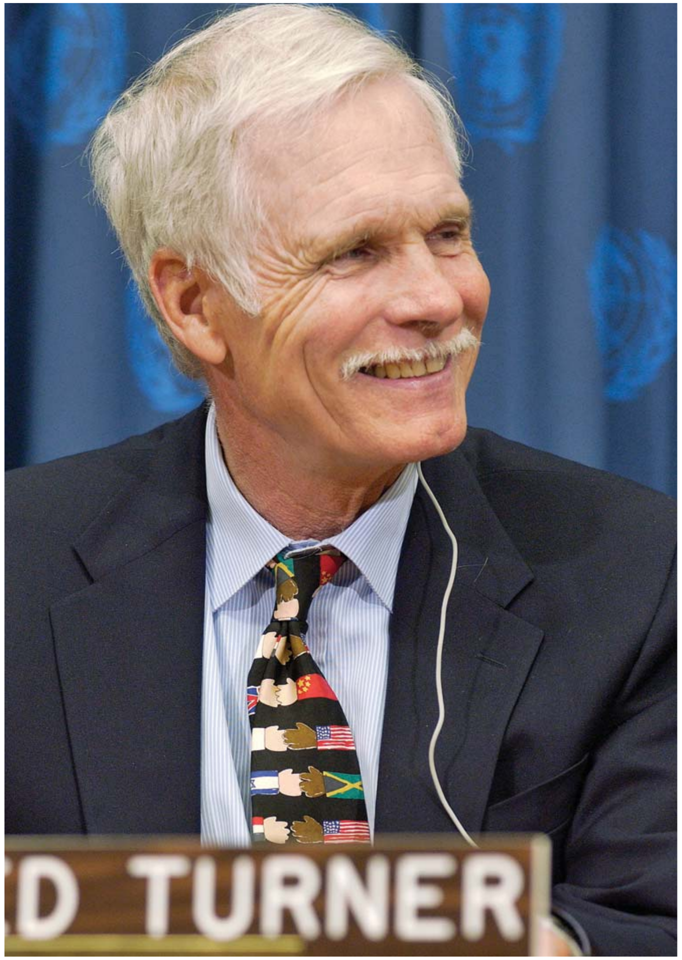
*Padraic Bric, Angela Kail, Justine Jarvinen & Tim Fiennes*

NPC's latest research report provides guidance on how to structure grants so that they have the most impact. Based on interviews, NPC's own experiences and a literature review, it explores best practice and the impact of funding decisions on charities. It also identifies barriers to giving the most effective grants and explains how to overcome them. Two key findings are reported. Firstly, that grants should be matched to the funding needs they address and secondly, that the way grants are structured can have a significant effect on charities. Well structured grants give charities the ability to attract the best staff, opportunities to plan and innovate, and flexibility, whilst poorly structured grants can create risk and instability. However, foundations often struggle to give large or long-term grants because of concerns about dependency, a lack of capacity to sufficiently assess and monitor charities or because they wish to spread their funding across a number of different areas. A notable recommendation is that unrestricted funding should be the default option for funders, despite the challenges such funding presents to grant-makers in terms of assessing potential recipients and monitoring impacts. While restricted funding is appropriate in some circumstances, charities find unrestricted funding more appealing as a vote of confidence and more valuable in terms of the flexibility it allows.

New Philanthropy Capital, London, Jan 2009. 48pp. Free to download at http://www.philanthropycapital.org/research/research_reports/other/Granting_success_2.aspx

# Personal stories in philanthropy






## Ted Turner: *noble knight*

***By Susan Mackenzie***

Global poverty. Climate change. Child mortality. Malaria. The United Nations Foundation is tackling some of the world's greatest challenges. Its founder, the media mogul Ted Turner, compares the work of the Foundation to the noble knight in Lord Alfred Tennyson's 'Idylls of the King':

*"...every morning brought a noble chance, And every chance brought out a noble knight."*

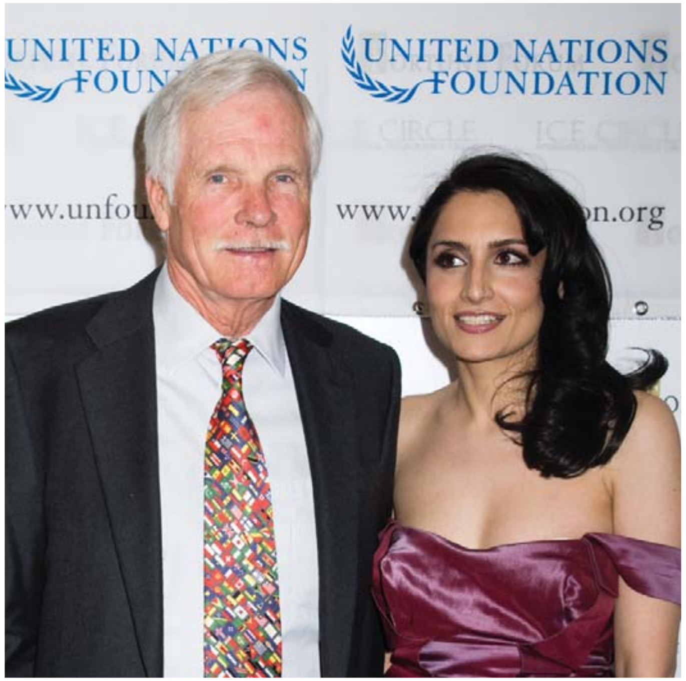
Writing a $1 bn cheque to set up the Foundation in 1998 "*was the best decision I ever made*," Turner told Philanthropy UK. The CNN founder, who was worth about $3 bn at the time of the gift, originally intended to give the money to the United Nations, to 'compensate' for the United States then being about $1 bn in arrears in its dues. However at the time the UN could not accept donations from private individuals or companies, only nation states.

Instead, Turner set up a foundation to fund causes in parallel with UN priorities. "*The UN is vital to the future of humanity*," says Turner. "*We would not have made it through the Cold War without it. We need an international body where countries can work out differences and collaborate to find global solutions to global problems.*"

Turner originally envisioned the foundation as a project that would sunset after 10 years. He explained, "*This was a new model so we did not know what to expect. We were like Columbus – we started without knowing where we were going; we just knew we were going on a voyage.*"

The Foundation had an auspicious start: Kofi Annan, then UN Secretary General, gave the Foundation approval to use the United Nations name. "*They trusted us, and I think, over the last 10 years, we have succeeded*

## *"Tackling climate change will require a huge co-ordinated global effort."*




*Ted Turner with Renu Mehta at the 3rd Fortune Forum Summit this month. Photo courtesy of Fortune Forum*

*in earning that trust*," Turner reflected. Indeed, not only was the Foundation pivotal in leveraging an additional $1 bn in donations for UN priority causes, but also it established an effective partnership model working with the UN as well as a range of charities, campaigns and government programmes on a global basis. In response the UN established an Office for Partnerships to engage directly, for the first time, with NGOs and private sector organisations.

Over the last ten years, the Foundation has established an effective platform linking charities, foundations, businesses and private individuals to the work of the UN, and has played an especially crucial role for smaller charities and businesses which typically do not have the resources to work directly with large multi-national institutions. For example, the Foundation has harnessed business expertise, such as marketing and supply chain management, to strengthen health systems and improve humanitarian relief operations. In its first 10 years, the Foundation developed a health data systems programme for the World Health Organisation (WHO) and expanded it to 25 countries. It also created an emergency response ICT (information and communications technology) training system, doubling the number of certified emergency ICT leaders throughout the UN system.

The Foundation has also partnered with foundations and business to mobilize capital, such as through pioneering a new financial mechanism known as polio 'buy downs' that has leveraged and accelerated purchases of polio vaccine. The Foundation has now helped to deliver 10 bn doses of polio vaccine to 2 bn children.

Ten years on, the Foundation has been so successful that the UN has urged Turner to continue his support, and to establish the Foundation as a permanent institution, operating side-by-side the UN.

Invigorated by its achievements, the UN Foundation is raising its ambitions, including stepping up its work on tackling climate change, which, says Turner, "*will require a huge co-ordinated global effort*". He continued, "*The Foundation's future is tied to the future of humanity; I hope that we both do well and prosper*."

The Foundation also is seeking to make itself more sustainable, by establishing an endowment and expanding its strategic partnerships, such as with the London-based Fortune Forum, a network of wealthy and influential individuals investing their time and money to address the world's most serious social and environmental issues. Turner was honoured at this year's Fortune Forum Summit held in March. "*We simply need more Ted Turners*," said Renu Mehta, the Forum's founder.

The seeds of Turner's philanthropy were sown long ago.

# *"Philanthropy is a wonderful adventure."*

His father, a businessman "*of modest means*" was a strong believer in supporting his community, and set up scholarships, anonymously, to help underprivileged kids to go to university. Then years later, when Turner was just starting out in business, he shared a table at a fundraising dinner with another businessman who told Turner of the joy he experienced as a youth in being involved in the family foundation set up by his father.

Turner recalls, "*His experience resonated with me, and I decided then that if I were ever to become rich I would endow a family foundation and involve my children. And it has been a wonderful experience. It brought the family together; we learnt compromise and about philanthropy, and had a lot of fun doing it*."

In addition to his family foundation, Turner's philanthropy includes the Captain Planet Foundation, which helps children to make a positive impact on their own lives and the health of their communities; the Turner Endangered Species Fund, which works to conserve biodiversity by emphasizing restoration efforts of endangered or imperiled species on the Turner properties (Turner is the largest private landowner in the US); and the Nuclear Threat Initiative, a foundation he co-chairs with former Senator Sam Nunn, which works to "*close the growing and increasingly dangerous gap between the threat from nuclear, chemical and biological weapons and the global response*".

"*Philanthropy is the best thing I ever did*," Turner says, and encourages aspiring philanthropists to get engaged: *"As seen in the current recession, you never know how long you will have your wealth, so give it away while you can. Think big or think small, but think, and then take that first step – it is a wonderful adventure*."

- Captain Planet Foundation: http://captainplanetfoundation.org
- Nuclear Threat Initiative: www.nti.org
- Turner Endangered Species Fund: www.tesf.org
- Turner Foundation: www.turnerfoundation.org
- United Nations Foundation: www.unfoundation.org

# The last page

## *Quarterly news highlights*

***Have you missed these top stories?***
***All articles are available to read in the News and Events section of our website www.philanthropyuk.org***

05/03/09 **Vaccine investment promises healthy returns**

A new Vaccine Investment ISA aims to raise £50m to help vaccinate children in poor countries and offer UK investors a strong financial return. Every £1,000 invested will help immunise 130 children against five life threatening diseases. The ISA will be available through HSBC.

19/02/09 **Drug giant pledge to global health**

GlaxoSmithKline (GSK) has proposed the idea of a Least Developed Country (LDC) patent pool for medicines for tropical diseases, one of four commitments the company has made to improving public health.

13/02/09 **Top social businesses ranked in new index**

An index of the top 100 social businesses that will focus on how effectively they measure social impact and how quickly they grow has been launched. Each month the top five social businesses from a specific sector will be published. In March 2010 the index of the 100 fastest growing organisations will be announced.

05/02/09 **Global 100 most sustainable corporations**

The Global 100 Most Sustainable Corporations in the World list was announced at the World Economic Forum in Davos, Switzerland. Companies on the list, including airline Air France-KLM, mining company BHP Billiton and search engine giant Google, were evaluated according to how effectively they manage their environmental, social and governance sustainability practices.

30/01/09 **Tax relief ruling on international giving**

The European Court of Justice (ECJ) has ruled in favour of tax relief on cross-border donations. This means that UK donors should be able to benefit from tax relief on donations to charities in any EU country, as long as that organisation would be eligible for UK charitable status.

22/01/09 **Luxembourg fosters a culture of giving**

The Foundation de Luxembourg has been launched, less than one year on from Prime Minister Jean-Claude Juncker's declaration that it was time for the country to develop a philanthropy policy.

21/01/09 **Taxpayers missing out on tax relief**

Higher-rate tax payers have missed out on £200m in tax relief on charitable donations, says the Charities Aid Foundation. Half of higher-rate taxpayers are unaware that they can reclaim 20% personal tax relief on their charitable donations in their self assessment tax return.

08/01/09 **Independent list of top philanthropists**

The Independent newspaper has published 'The Giving List', of the top 30 UK philanthropists in 2008. Topping the list are Sir Tom Hunter and Christopher Hohn. The List also includes celebrities such as Sir Elton John, JK Rowling and Ole Gunnar Solskjaer.

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