Philanthropy 2.0

Take hard-nosed business skills, mix with a genuine desire to do good and throw in a need for financial innovation – welcome to the world of philanthrocapitalism (although they're still deciding upon the name), reports **James Geary**

ONE THING EVERYONE in the field of philanthrocapitalism agrees on is that no one quite knows what to call it. Strategic philanthropy, venture philanthropy, social venture capital, social investing, and slow money – these are just some of the variations on the theme of philanthrocapitalism, an investment method designed to deliver social as well as financial returns.

Traditionally, people who wanted to earn money made investments; people who wanted to do good made donations. Now, a new generation of high net worth individuals – Warren Buffett, Bill Gates, Jeff Skoll, and Oprah Winfrey among them – has decided not to wait until they are retired (or dead) to start investing in good causes. Recognising that conventional charity is not the only way, or even the best way, to achieve social goals, they are pioneering an approach that mixes the common good with purposeful profit.

These new philanthrocapitalists are 'taking a market-based approach', says Sally Osberg, president and CEO of the Skoll Foundation which invests in social entrepreneurs, 'and they are looking for feedback loops to determine that social value is being created'.

The recession offers both challenges and opportunities. The market meltdown shattered established investing orthodoxies, opening the way for alternatives like philanthrocapitalism. But it also made capital, for any kind of investment, much less social ones, scarce. Yet the problems philanthrocapitalism is intended to address – poverty, disease, and climate change – remain enormous.

The bad news is 'there's not »

Picture: World Economic Forum

Bill Gates boosts his impact by taking a market-based approach to philanthropy and he wasn't shy in sharing his advice at the WEF in Davos, Switzerland, 2008

> Business plans need to connect with investors' purse strings before they start tugging at their heartstrings

enough charitable capital in the world to solve social and environmental problems at scale', according to Antony Bugg-Levine. As managing director of the Rockefeller Foundation, one of the world's foremost philanthropic organisations, he should know. The good news is there is enough capital in general to do it.

'We do have enough money to solve the world's problems,' says Bugg-Levine. 'However, to actually deliver on social and environmental solutions at scale we have to enable philanthropic and venture capital to work together. Neither the market nor philanthropy can do it alone.'

And that's where philanthrocapitalism comes in. Bugg-Levine cites the partnership between the non-profit Alliance for a Green Revolution in Africa (AGRA) and Standard Bank. AGRA works with poor farmers to boost income and productivity while safeguarding the environment. Standard Bank is the continent's largest financial institution and this partnership, says Bugg-Levine, is an example of the shape of deals to come. AGRA and its partners have put up a (US) $10m loan guarantee fund against which Standard Bank will make ten times that amount, $100m, in lending available to smallholder farmers in Ghana, Mozambique, Tanzania and Uganda.

THE MISSING MIDDLE

Agricultural enterprises like these comprise what is known as the missing middle – businesses that are too big for conventional microcredit schemes but too small (and too risky) for traditional commercial financing. The loans will help small farmers boost productivity, which in Africa has been stuck at a quarter of the global average for the past three decades. Just as importantly the loans will help generate the kind of jobs and economic growth that offer the fastest route out of poverty and into self-sufficiency.

Productivity and profit are crucial to what Bugg-Levine describes as impact investing, deals that provide commercial capital to help people help themselves. How to measure the social impact of investments is perhaps the sector's biggest challenge. Philanthrocapitalists agree that the sector won't mature until there are common standards against which investors can benchmark performance. Just as the carbon offsetting market has coalesced around the value of a displaced ton of carbon, the philanthrocapital market must coalesce around its own definitions of value – in terms of jobs created, taxpayer money saved, lives changed.

'Measurement is essential,' says Daniel Brewer, director of Resonance and Equity Plus, two philanthrocapitalism consultancies.

He says entrepreneurs and investors alike need to 'drill down into the quality and quantity of their social impact, put values alongside that, then do their storytelling around those numbers'. In other words, business plans need to connect with investors' purse strings before they start tugging at their heartstrings.

THE WINNING FORMULA

$63m philanthropic equity and debt capital + Root Capital, an outstanding social enterprise = 1m families with better lives = A new type of finance for the developing world

New Philanthropy Capital (NPC), a charity that provides donors with information on charity performance, is one organisation trying to devise those shared values. NPC has floated the idea of an association to rate the performance of non-profits, a kind of Moody's for the social sector (but without financial ties to the organisations it evaluates). The Rockefeller Foundation is also exploring ways to provide investors with objective assessments of social and environmental impact.

'Giving has always been seen as a disinvestment, a giving away,' says Martin Brookes, NPC's chief executive.

'Now giving is being seen as an investment, and people expect to know the return, the mentality has to shift to the idea of communicating what is achieved with the money.'

Root Capital has successfully attached financial metrics to its social impact. By offering short-term working capital loans as well as longer-term investments, the social enterprise has helped create several hundred sustainable businesses in Africa and Latin America, positively affecting the lives of hundreds of thousands of people. Its loan repayment rate is 99 per cent; its repayment rate to investors is 100 per cent.

A $63M CAMPAIGN

Despite the recession, Root Capital recently launched a campaign intended to raise $63m in philanthropic equity and debt capital over five years. The funds would allow Root Capital to lend $121m a year, triple its current annual figure.

That money would benefit some 350 farmers, artisan co-operatives, and other grassroots businesses representing roughly one million households. It would also make Root Capital's lending programme fully self sufficient.

> Now giving is being seen as an investment, and people expect to know the return

'The biggest risk of the recession,' says the Skoll Foundation's Osberg, 'lies in becoming more risk averse' – and Root Capital is a case in point. Given the state of the economy, investment funds are operating with constrained resources. That forces investors to be more selective in choosing which projects to support, but it can also insulate them from real innovation, from the breakthrough ideas and equilibrium-busting entrepreneurs that can really make a difference.

'We want to preserve some headroom so we can respond when a great opportunity emerges,' Osberg says.

Evidently, the new Root Capital fund was such an opportunity, since the Skoll Foundation is one of its early investors.

Root Capital demonstrates the power of combining hard statistics with inspirational stories of change.

Ralph Catto, CEO of social housing specialist Scout Solutions, says: 'People don't go to work to drive earnings per share.'

'Profit drivers aren't motivators, but social drivers are strong motivators. If you can put social drivers next to financial goals, you can be as commercial as you would otherwise be but for social benefit.'

And that is precisely what the current crop of philanthrocapitalists is trying to achieve. More and more investors are beginning to see their wealth as a way to tackle the planet's most persistent social and environmental ills while at the same time turning a profit with a purpose. Entrepreneurs are coming up with the business models that can deliver social and financial returns. The next step is for the sector as a whole to devise the metrics that will transform what is now a social investment oasis into a fully-fledged ecosystem.

Though philanthrocapitalism may go by many different names, everyone knows it when they see it. Wherever 'an intractable problem becomes a solvable problem,' as Osberg puts it, philanthrocapitalism is at work.

FIND OUT MORE

rockfound.org
agra-alliance.org
philanthropycapital.org
rootcapital.org
scoutsolutions.co.uk