

# POLICY DEVELOPMENT

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SOCIAL INVESTING RESEARCH INITIATIVE

*A project supported by Princeton Social Capital*

## PHASE I REPORT

### FROM CREATIVE CHAOS TO CONVERGENCE: SOCIAL INVESTING TODAY, AND THE WAY FORWARD

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## **I. Executive Summary / Introduction**

### **FROM CREATIVE CHAOS TO CONVERGENCE: SOCIAL INVESTING TODAY, AND THE WAY FORWARD**

#### **FROM CREATIVE CHAOS...**

Social investing has increased in size and sophistication over the past decade, and now represents over \$2 trillion in assets.<sup>1</sup> Most often thought of as mutual funds with social or environmental screens, social investing now refers to a very broad range of activities, bound together by little more than the concept of a “double bottom line”: financial returns and social impact.

Social venture capital, program-related investments, community investments, mission-related investing, social entrepreneurship, and shareholder advocacy are just a few the activities that are gaining ground in the non-profit, for-profit, and public sectors. Specialized approaches to social investing have had substantial impact in housing, education, health, economic development, technology, and the environment.

This evolutionary and expansionary period of social investing, marked by an incredible diversity of activities, participants, financial models, and social issues, can be justifiably referred to as a period of “Creative Chaos.”

#### **...TO CONVERGENCE**

At the same time, a unifying trend is just beginning to emerge amidst the creative chaos of social investing activities. In pursuit of a double bottom line, institutions are reaching across sectors to find the competency that is their relative weakness. A corporation will look to the non-profit sector for help in understanding its environmental impact, and improving it. A non-profit community development organization will look to the financial services industry for help in understanding small business models, as well as for financing.

As social investing expands, and institutions continue to improve their traditionally weaker competency, the distinctions between institutions in different sectors diminish. In turn, the traditional distinctions between the sectors these institutions represent also diminish. Although participants in social investing themselves may not see it, aggregating these examples helps show how social investing is leading the non-profit, for-profit, and public sectors along separate but unmistakably convergent paths.

While cross-sector experimentation is happening in many fields, its important role in the burgeoning field of social investing is a strong predictor of the gradual convergence of the non-profit, for-profit, and public sectors and the obsolescence of traditional sector distinctions.

#### **THE WAY FORWARD: ENGAGE THE NON-PROFIT SECTOR**

Our research also reveals that many non-profit leaders are still on the sidelines, participating in neither the practice nor the debate about social investing. Certainly many non-profit professionals have adapted

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<sup>1</sup> Social Investment Forum in its “2003 Report on Socially Responsible Investing Trends.”

market trends to their work with some success.<sup>2</sup> But others are either unaware of social investing, or have concerns. Among those with concerns, some feel that the latest wave of market-based non-profit concepts seems like old ideas repackaged.<sup>3</sup> Other non-profit leaders see market-based models as a real threat to meaningful social change.<sup>4</sup>

Therefore, in order for social investing to expand significantly beyond its current state, foundations and other non-profit organizations must be engaged, and encouraged to play more important roles as investors, investments, shareholder activists, and evaluators. Increasing participation of the non-profit sector in social investing will have the following results:

- New sources of social investors and investments
- New sources of first-hand social impact expertise
- Better understanding of possibilities and limitations of cross-sector collaboration
- Better understanding of high impact and low impact social investing models
- Increased legitimacy of social investing
- Better informed public policy debate<sup>5</sup>

## **METHODOLOGY**

These were the findings of Phase I of the Social Investing Research Initiative. With initial support from Princeton Social Capital, Policy Development (PD) has: identified the types of activities associated with social investing, derived some organizing themes, and suggested some these new directions for the field.

Since April, 2004, PD has conducted a survey of existing literature in the field, created an online resource guide, conducted interviews with industry leaders, convened leaders to debate the issues, and performed original analysis and interpretation.<sup>6</sup>

This report incorporates all of these Phase I project elements. We invite you to read the viewpoints of the most influential individuals in the field of social investing, and arrive at your own conclusions about the state of social investing today, and the way forward.

Phase II, which will begin in January 2005 and require 18-24 months, includes: a) a third party, independent impact assessment of social investing, b) activities related to engaging foundations and other non-profit organizations, and c) related public policy analysis. (PD is actively seeking financial support for Phase II.)

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<sup>2</sup> See "It Takes a 'Hood,'" New York Times Magazine cover story, 6/27/04, which discusses (inter alia) Geoff Canada's use of market concepts in youth development.

<sup>3</sup> See "What Does it Mean to Say Philanthropy is 'Effective?': The Emperor's New Clothes," Stanley Katz, presented at the American Philosophical Society Annual Meeting, 4/23/04.

<sup>4</sup> See work of Mark Rosenman, the Union Institute and University.

<sup>5</sup> See United States Senate Committee on Finance, Hearing on Charity Oversight and Reform, 6/22/04, and Policy Development's testimony: [www.policydevelopment.org](http://www.policydevelopment.org).

<sup>6</sup> The social investing online resource guide, as well as several other SIRI and social investing materials, can be found at [www.policydevelopment.org](http://www.policydevelopment.org).

## II. Project Background

A new social investing and philanthropy services company called Princeton Social Capital (PSC) first approached Policy Development (PD) in March of 2004. PSC was looking for a way to learn more about the field of social investing, and to advance the field in ways that were consistent with both its social mission and its business model. Specifically, becoming the initial sponsor of SIRI presented the opportunity to:

- Better understand the field
- Identify trends and opportunities that would contribute to a start-up like PSC's competitive edge
- Add rigor and legitimacy to its social impact analysis
- Help establish the company as a benefactor by making a grant to a non-profit like PD, who would, in turn, make this work available to the entire social investing community
- Motivate other for- and non-profit organizations to invest once the groundwork has been laid.

Cumulatively, these simultaneous and complementary financial and mission-driven motives for sponsoring SIRI make this project itself a wonderful example of social investing. PSC advances social investing by virtue of the SIRI process, as well as its substantive outcomes.

PSC accepted Policy Development's proposal in April, 2004, and work began immediately. PD is very grateful to PSC for its leadership in this field, and for its generous contribution.

Phase I of SIRI, which concludes in October, was designed to accomplish the initial steps of the project: identify the types of activities associated with social investing, derive some organizing themes, and suggest some new directions for the field. To do so, PD conducted a survey of existing literature in the field, created an online resource guide, conducted interviews with industry leaders, and performed original analysis and interpretation.<sup>7</sup> This document is intended as a final report on Phase I of SIRI, and includes all of these elements. PD is also planning an expert panel discussion to encourage non-profit and investment community leaders to learn about social investing, exchange perspectives, and help foster cross-sector social investing opportunities.

Phase II, which will begin in January 2005, will require 18 months. Phase II will take up some of these new directions based on the findings of Phase I, with new resources and new recognition in the field. PD is also grateful to PSC for agreeing to repeat its initial grant when additional funding from other sources has been committed. For a summary of Phase II, see "Analysis, Going Forward" below.

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<sup>7</sup> The social investing online resource guide, as well as several other SIRI and social investing materials, can be found at [www.policydevelopment.org](http://www.policydevelopment.org). These materials are also linked from the PSC web site: [www.princetonpsc.com](http://www.princetonpsc.com).

### III. Review of Literature

This review of literature introduces some of the most current and influential individuals, organizations, ideas, and documents that give meaning to the concept of social investing. These eleven documents are certainly not meant to be a complete catalog of available documents in the social investing arena.<sup>8</sup> Instead these documents have been selected because they: a) are particularly important within the social investing community, and b) collectively represent of a broad range of activities.

The following documents are annotated in this survey:

1. "2003 Report on Socially Responsible Investing Trends in the United States," Social Investment Forum, SIF Industry Research Program, 66 pages, updated December 2003.
2. "Current Practices in Program-Related Investing," Francie Brody, Kevin McQueen, Christa Velasquez and John Weiser, 2002, [www.brodyweiser.com/aboutus\\_detail.php?id=-1](http://www.brodyweiser.com/aboutus_detail.php?id=-1)
3. "Up Front: Investing In Your Mission," National Center for Family Philanthropy, 2004, [http://www.ncfp.org/FGN-Mar\\_2003/Up\\_front.htm](http://www.ncfp.org/FGN-Mar_2003/Up_front.htm)
4. "Where Money Meets Mission: Breaking Down the Firewall Between Foundation Investments and Programming," Jed Emerson, Stanford Social Innovation Review, Summer 2003. <http://www.weedenfdn.org/textonly/investmenttxt.htm>
5. "A Halo For Angel Investors," Steven D. Carden and Olive Darragh, The McKinsey Quarterly, 2004 Number 1
6. "What Does It Mean To Say that Philanthropy is 'Effective'?": The Philanthropists' New Clothes, Stanley N. Katz American Philosophical Annual Meeting Symposium: Effective Philanthropy, Philadelphia, April 23, 2004
7. "Blurred Boundaries and Muddled Motives A World of Shifting Social Responsibilities," A Report from the W.K. Kellogg Foundation, November 2003.
8. "Needed: A New Social Financial Services Industry," William Drayton, Alliance, Vol 9, No 1, March 2004
9. "The Financing of Social Enterprises: A Special Report by the Bank of England," Bank of England, Domestic Finance Division, May 2003, 74 pages, [www.bankofengland.co.uk](http://www.bankofengland.co.uk)
10. "The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation," 182 pages, The Blended Value Map Annotated Bibliography, 322 pages, Jed Emerson, [www.blendedvalue.org](http://www.blendedvalue.org), October, 2003.
11. "New Approaches To Financing Charities And Other Social Enterprises: A Snapshot," Margaret Bolton, 22 pages, Venturesome (an initiative of the Charities Aid Foundation), May 2003.

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<sup>8</sup> For a more exhaustive bibliography, see the 322 page bibliography available from [www.blendedvalue.org](http://www.blendedvalue.org), and cited below.

*Annotations*

1. Social Investment Forum, “2003 Report on Socially Responsible Investing Trends in the United States.” SIF Industry Research Program, 66 pages, updated December 2003.

The Social Investment Forum (SIF) is a large consortium of “over 500 social investment practitioners and institutions, including financial advisers, analysts, portfolio managers, banks, mutual funds, researchers, foundations, community development organizations, and public educators.” Their annual report provides some basic statistics, definitions, and lists (glossary of screens, mutual funds and institutions applying screens, sponsors of shareholder resolutions). SIF is rosy about this expanding area, although, as a trade association, it is their role to be optimistic.

This report defines Social Investing as screening, shareholder advocacy, and community investing--and claims these three areas represent \$2.16 trillion in assets. According to the report, while managed portfolios overall decreased in value by four percent, social screen portfolios increased by seven percent.

**FIGURE 1:  
SUMMARY OF SOCIALLY RESPONSIBLE INVESTING IN THE U.S.**

*Socially responsible investing embraces three strategies:  
screening, shareholder advocacy, and community investing.*

	<b>1997</b> (\$billions)	<b>1999</b> (\$billions)	<b>2001</b> (\$billions)	<b>2003</b> (\$billions)
Total Screening	\$529	\$1,497	\$2,010	\$2,143
Total Shareholder Advocacy	\$736	\$922	\$897	\$448
Both Screening and Shareholder *	(\$84)	(\$265)	(\$592)	(\$441)
Community Investing	\$4	\$5	\$7.6	\$14
<b>Total</b>	<b>\$1,185</b>	<b>\$2,159</b>	<b>\$2,320</b>	<b>\$2,164</b>

\* Some social investment portfolios conduct both screening and shareholder advocacy. These assets are subtracted out of the total to avoid double counting.

source: Social Investment Forum, 2003

Interestingly, SIF applies a qualitative/quantitative dichotomy onto social investing: “Social investing requires investment managers to overlay a qualitative analysis of corporate policies, practices, and impacts onto the traditional quantitative analysis of profit potential.” This qualitative element surely captures many of the challenges of social investing, and the need to incorporate new kinds of expertise.

#### SIF on Shareholder Advocacy

SIF breaks shareholder advocacy into six pieces: “Investors often write letters to management; initiate negotiations (dialogue) with top executives; file shareholder proposals (resolutions); vote proxy ballots regarding shareowner- and executive-proposed resolutions; attend annual meetings and speak on behalf of an issue; or, as a last resort, join in class action legal suits.”

Shareholder resolution filings are further broken down into: Social Responsibility Resolutions, Corporate Governance Resolutions, Crossover Proposals (both). Governance and Crossover are highlighted as the growth areas, attributed in part to the increased involvement of mutual funds and state/municipal pensions.

Between 2001 and 2003, shareholder advocacy activity increased by 15 percent, growing from 269 resolutions tracked by this Report filed in 2001 to 310 in 2003. Likewise the average percentage of votes received on these resolutions has increased from 8.7 percent in 2001 to 11.4 percent in 2003. The amount of money controlled by investors involved in shareholder advocacy declined from \$897 billion in 2001 to \$448 billion as of June, 2003. The decline is attributed to a “lack of social resolutions filed during the two-year period by the large TIAA-CREF pension funds.” New legislation and policies are also attributed to shareholder advocacy: Sarbanes-Oxley Act of 2002, SEC proxy disclosure rules, and NYSE/NASDAQ listing requirements.

Some recent examples of shareholder success include: sexual orientation discriminations policies at Cracker Barrel, Conoco, Caterpillar, Tootsie Roll, Wal-Mart, Chevron, Lockheed, GE, Exxon and others; Staples and recycled paper; major drug retailers and mercury thermometers, Unocal and ILO conformity.

### SIF on Community Investing

SIF defines community investing as “capital from investors to communities that are underserved by traditional financial services. It provides access to credit, equity, capital, and basic banking products that these communities would otherwise not have.”

Community investing grew by 84 percent since 2001. The assets held and invested locally by US-based community development financial institutions (CDFIs) nearly doubled to a total of \$14 billion in 2003.

<b>FIGURE 13: THE FOUR TYPES OF CDFIs -- ASSETS AND GROWTH</b>		
<b>CDFI Institution</b>	<b>Current Assets</b>	<b>Growth Since 2001</b>
<b>Community Development Banks</b>	\$7.2 billion	+130%
<b>Community Development Credit Unions</b>	\$2.7 billion	+50%
<b>Community Development Loan Funds</b> <i>(includes Micro-Enterprise Development Funds)</i>	\$3.6 billion	+50%
<b>Community Development Venture Capital Funds</b>	\$0.5 billion	+58%
<b>Total Community Investment Assets</b>	<b>\$14 billion</b>	<b>+84%</b>

*Note: The data collected in this chart is an undercount of the market since not all banking, religious, and government money involved in community investing is captured (see the Methodology Section).*

source: Social Investment Forum, 2003

### Complementary/Supporting Activities:

- Low Income Housing Tax Credit (LIHTC), and its major intermediaries Enterprise Social Investment Corporation (ESIC) and Local Initiatives Support Corporation (LISC);
- Economically Targeted Investments (ETI), often subsidized
- New Markets Tax Credit, part of the Community Renewal Tax Relief Act of 2000
- Community Development Municipal Bonds (CDBM), exempt from income taxation
- Equity Equivalent Investments (EQ2), loans that function like equity and count towards CRA

- Targeted Mortgage-backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) is a pool of mortgages that act as collateral for a security.
- Community Development Corporations (CDCs), services and housing providers
- Community Investor Pools offer registered investment products, portfolio diversification, and professional management to individuals and institutions (Calvert, Praxis).
- Trade Associations of CDFIs. National Community Capital, for example, has 152 member CDFIs and provides loans, training, technical assistance, consulting, and policy work to hundreds of CDFIs (others: National Association of Community Development Credit Unions, Community Development Venture Capital Association, and the National Community Investment Fund.)

### SIF on Screening

The value of assets in socially screened mutual funds increased by 11 percent, while the number of screened funds increased to 200 funds in 2003, up from 139 in 1997. These funds had net inflows of \$1.5 billion during 2002 while, over the same time, U.S. diversified equity funds posted outflows of nearly \$10.5 billion.”

SIF lists the following as emerging screens: climate change and environmental management systems, human rights and supplier codes of conduct, and genetically modified organisms (GMOs). Corporate governance and “sustainability” may be next.

The most common mutual fund screens are: tobacco (80%), alcohol (“over half”), labor, environment, gambling, defense/weapons, equal opportunity employment, products/services, human rights, community impact.

2. Current Practices in Program-Related Investing,” Francie Brody, Kevin McQueen, Christa Velasquez and John Weiser, 2002, [www.brodyweiser.com/aboutus\\_detail.php?id=-1](http://www.brodyweiser.com/aboutus_detail.php?id=-1)

The Ford and MacArthur Foundations were PRI pioneers and are still the most active in the field. PRIs were created by Congress in the Tax Act of 1969, IRS Section 4944(c). PRIs’ primary purpose must be to further exempt objectives, and not income or appreciation, and must not be used for lobbying. They count toward the five percent charitable distribution requirement.

Although most are loans, PRIs can also be can be a social purpose deposit, loan guarantee, line of credit, asset purchase, equity investment, or recoverable grant. Typical rates are 1-4%, typical terms are a few months to 15 years. PRIs are mostly applied to real estate deals, but can and are used for many areas. Foundations typically have 1-5% of their assets in PRIs.

PRIs may have more social impact than a grant because it allows the funder to put down more for projects that have high startup costs. Large capital projects (affordable housing) is a good example.

3. "Up Front: Investing In Your Mission," National Center for Family Philanthropy, 2004,  
[http://www.ncfp.org/FGN-Mar\\_2003/Up\\_front.htm](http://www.ncfp.org/FGN-Mar_2003/Up_front.htm)

MRIs consist of two main components, each of which has two subcomponents:

Socially-responsible Investing:

- Social screening of investment portfolios
- Shareholder action

Program-related Investing:

- Community development
- Mission-related venture capital

MRIs began in the late 1970s with the movement to divest from companies doing business in South Africa. For a sample of MRI investment policies and guidelines, see:

- The Foundation Partnership  
<http://www.foundationpartnership.org/SmplPlcy.htm>
- Jessie Smith Noyes Foundation  
<http://www.noyes.org/investpol.html>
- F. B. Heron Foundation  
<http://fdncenter.org/grantmaker/fbheron/mission.html>
- Helen Bader Foundation  
[http://www.hbf.org/app\\_online/us-pri.html](http://www.hbf.org/app_online/us-pri.html)

4. "Where Money Meets Mission: Breaking Down the Firewall Between Foundation Investments and Programming ," Jed Emerson, Stanford Social Innovation Review, Summer 2003.  
<http://www.weedenfdn.org/textonly/investmenttxt.htm>

Foundations are required to give away 5%, but few exceed this minimum. Therefore, Emerson explains, without any activism on the financial assets side, 5% of their resources carry the weight for 100% of the social mission or purpose.

Emerson describes shareholder activism for foundations as "engaged capitalism." He claims that about 18 percent of foundations screen their portfolios

ProVenEx, is used as an example of a for-profit venture capital,. ProVenEx got its \$18 million portfolio funding from the Rockefeller Foundation. It invested \$3.5 million, through a subsidiary, in Biosyn, a Philadelphia-based pharmaceutical company developing microbicides and intravaginal gels that prevent the transmission of sexually transmitted diseases. This was an example of a higher risk investment than what normal VCs go for.

Emerson suggests internal organization changes to “breach the firewall” between investment and grantmaking.

“A Halo For Angel Investors,” Steven D. Carden and Olive Darragh, The McKinsey Quarterly, 2004 Number 1

This is a short study by McKinsey for Investors Circle (IC). McKinsey finds that increasing social returns (through social screened angel investments) don’t require much of a sacrifice in terms of financial returns. Investors Circle Social Investment portfolio made 8 to 14 percent—less than early stage angel investors, but comparable to capital market returns. Comparable to Domini Social Equity Fund. (“Angels generally expect returns better than capital markets offer but worse than those of venture capitalists.”)

McKinsey also hopes to have helped provide a model for comparing social investments and conventional investments by giving a lot of methodological explanation.

“What Does It Mean To Say that Philanthropy is ‘Effective’?: The Philanthropists’ New Clothes, Stanley N. Katz American Philosophical Annual Meeting Symposium: Effective Philanthropy, Philadelphia, April 23, 2004

Interested in what is meant by several new terms used in Philanthropy, and a bit skeptical, Katz focuses on strategic philanthropy, effective philanthropy, and venture philanthropy,

#### Strategic Philanthropy

In Porter and Kramer’s “Philanthropy’s New Agenda: Creating Value,” strategic philanthropy means finding a niche where other funders are not present and at the expense of other kinds of giving.

Via Porter and Kramer, Katz invokes Ford and Rockefeller’s Green Revolution as an example of this deliberate, aggressive philanthropy that might be considered strategic. But Katz wonders how an old example could depict an allegedly contemporary phenomenon. Also, the green revolution is not the progressive campaign it was considered to be at the time (author’s note).

Katz suggests that what is meant by strategic—causes not symptoms—is actually implicit in the historic notion of philanthropy (as opposed to charity). Katz cites 19<sup>th</sup> century fathers of philanthropy Andrew Carnegie and John D. Rockefeller .

#### Effective Philanthropy

Katz suggests that effective means accountable, results-oriented. The impetus to make philanthropy more accountable is motivated by a need to justify its perceived or actual place of privilege. For example, philanthropy is not held accountable by market forces like for-profit companies.

Katz applauds those concerned with effectiveness for not taking it too far. Measuring outcomes is hard, and there is a risk of forcing the process beyond what it can meaningfully capture, thus missing important phenomena. Katz explains the difficulty of attributing results, or a lack of results, to a particular project or activity: “All the time and money in the foundation world may be unable to deal with the problem of causality.”

## Venture Philanthropy

Katz names three characteristics of venture philanthropy (VP) that distinguish it from conventional philanthropy: 1) more emphasis on capacity-building and organizational sustainability; 2) funder is engaged with grantee (e.g., provides technical assistance in addition to just cutting the check); and 3) results expectations which resemble the rigor applied to conventional VC recipients.<sup>9</sup>

Katz makes a claim for funders to resist pressure to specialize, and effectively outsource traditional grantees who have broader goals—like academia (being replaced by think tanks, according to Katz). Katz sees the federal government possibly replacing foundations as academic funders, and doesn't like the idea. Katz believes the uniquely American public-private approach is interesting and worth preserving.

At the same time, Katz also cautions against the marketization of philanthropy. One example: minimizing risk—a bedrock principle of traditional investing—can mean avoiding some of the most important and underserved issues when it comes to giving.

“Blurred Boundaries and Muddled Motives A World of Shifting Social Responsibilities,” A Report from the W.K. Kellogg Foundation, November 2003.

This Kellogg report is also based on a review of literature and thirty interviews from 2001 and 2002. Kellogg partnered with the Aspen Institute, Sound Point Ventures, and Clohesy Consulting.

In the forward, Tom Reis, Kellogg's Program Director, asks two questions:

- “What kinds of organizational structures produce the greatest social value?”
- “What policy and regulatory changes are needed to nourish this movement and help lead it in the right direction?”

The first question captures the focus of PD's Social Investing Research Initiative. That is, we see lots cross-sectoral experiments, we want to know which are having the biggest social impact, regardless of legal (non-profit or for-profit status).

The second question is also one we have asked ourselves as part of this research initiative. Specifically, all these experiments are being discussed in terms of intellectual coherence or practical community impact, but the policy and regulatory context in which these initiatives operate remains underserved.

In short, policy must catch up to practice in this area. Ideally, policy should not only permit, but also promote, best practices. Unfortunately, in many cases, policy is doing neither. Too often, complementarity among for- and non-profits threatens exempt status or approaches conflict of interest. There will always be a need to guard against abuse, but more nuanced, modern policy which is more rationally related to important trends can help make sure we remain vigilant without stifling innovation. PD's recent testimony submitted to the June 22, 2004 Congressional Hearing on Charity Oversight and Reform reflects precisely these concerns. The testimony is included in the report as Appendix A.

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<sup>9</sup> I thought greater risk, a characteristic Katz does not mention, was an identity element of VP (author's note).

The report goes on to implore the non-profit community to take action:

“Any substantial increase in earned income by nonprofits, or the interlocking of corporate and board structures of for-profits and nonprofits, will stimulate legislative scrutiny. Should the philanthropic community invest in the thinking needed to ‘get ahead’ of this issue? Future legislation driven by the first scandal resulting from a for-profit/nonprofit hybrid could chill or possibly destroy this emerging marketplace of innovation.”

According to the report, “philanthropists and venture capitalists are “trading spaces” and trying out each other’s wares.” This is similar to what is happening under one roof at PSC. PSC is also making partnerships to ensure this kind of unity is motivated by the goal of sector-blind social impact.

The report cites two examples:

- Program Venture Experiment (ProVenEx) is described as “a mission-related investment program of The Rockefeller Foundation that seeks to catalyze private investment in areas that will benefit poor and excluded people.”
- The Jessie Smith Noyes Foundation is described as “using mission-related investment strategies since the early 1990s. One of its better-known success stories is Stonyfield Farms, a yogurt company that utilizes sustainable agricultural and environmental practices...which are a part of the Foundation’s program criteria.”

Discussing PRIs, the report cites Ford and MacArthur as leaders in PRIs, but acknowledging that PRI deals are prohibitively complex and time-consuming, and asks funder could “create collaborative PRI funds in which a skilled intermediary cuts through “red tape” and makes risk-appropriate deals on a fast track.”

Anticipating the charge that “cross-sector innovation” really amounts to a diversion of precious philanthropic resources away from charities and charitable activities, the report calls out four for-profit ventures whose social impact, it believes, is equivalent to non-profit counterparts:

- Baltimore Venture Capital Fund
- The Abell Foundation Venture Fund
- Community Development Venture Capital Alliance
- Morino Institute

Reinforcing Katz’ claim about the need for more social science research, the report also claims that “if it is a good thing for private sector industry to engage in social good, then business and management education will need to include more social science, social change history, public policy, and ethics in the areas of both business and service.”

The report asks: “Are sectors [e.g., for-profit, non-profit, public, etc.] a useful mental model for the future? If not, what replaces them?” No answer is given.

The reports concluding recommendations are as follows:

- Invest in practical human-resources evaluation to understand the qualities and skills required for leading and managing hybrid organizations — especially large and growing ventures.
- Invest in leadership and management development for new models of nonprofits.
- Support the development of social-change measurement tools and innovations. Efficiency without social change and individual transformation diminishes the role of a social sector or social sector function.
- Educate nonprofit leaders (boards and staffs) about the options for capitalizing social change work, and improve their ability to capitalize and sustain their organizations.
- Invest in policy dialogues and prepare multisector leaders to debate and advocate for legislation on nonprofit/social sector capitalization, sustainability, structure, tax status, and accountability, as changes are coming in all these areas.

“Needed: a new social financial services industry,” William Drayton, Alliance, Vol 9, No 1, March 2004

For Drayton (CEO and founder of Ashoka), social entrepreneurship represents an evolution in the non-profit sector. The emergence of social entrepreneurship means that the non-profit sector is now as “entrepreneurial and competitive as business.” He goes on to predict that “The world will be defined by the unstoppable dynamic of more and more citizen groups competing to solve social problems at whatever level is needed....”

Drayton claims that there has been so much successful social entrepreneurship that productivity is just catching up. The rapid expansion of the non-profit sector in the US and internationally is used as evidence of this. (Drayton calls the non-profit sector the “citizen sector,” ostensibly to allow for-profits to be considered among the groups who make social change.)

Drayton refers to organizational and structural challenges as another consequence of this rapidly expanding sector. If these “challenges” are understood as a need to understand the sector better, and thus understand the appropriate structure and role for organizations within this sector, then Drayton is also articulating a fundamental objective of PD’s Social Investing Research Initiative.

Continuing the financial services analogy, Drayton laments that there are so few actors in the non-profit sector (e.g., according to him, funders basically include governments and foundations). Drayton would like to see non-profit counterparts for angel investors, venture capitalists, investment bankers, commercial bankers, leasing firms, advisors, brokers, and other specialists.

For Drayton, the on-the-ground innovators are there (he funds many of them), but the supportive financial sector is missing.

Drayton’s complaint list for traditional (existing) funders: risk averse, don’t give enough multi-year funding, do not appreciate innovation, cross-sectoral work, or the need for organizational capacity-building.

There is a fundamental overlap between Drayton’s thesis and PSC’s value proposition: It’s not just cash that non-profits need. They need the kind of sophistication and dynamism associated with today’s financial services sector.

“The Financing of Social Enterprises: A Special Report by the Bank of England,” Bank of England, Domestic Finance Division, May 2003, 74 pages, [www.bankofengland.co.uk](http://www.bankofengland.co.uk)

This careful report covers the state of social enterprise, exploring many of the challenges on both the demand and supply sides of social enterprise financing. Most interesting among the reasons given for the “uncleared market” among social enterprises and financial institutions is culture. The report considers the cultural aversion to borrowing presented by non-profits.

First, non-profits, will rationally choose grants over borrowing when both are equally available. Second, there is a sense among many non-profits that they are tantamount to a public institution, and as such should not have to compete and perform in the way that for-profit ventures do. Funding should come automatically and with very few conditions. Third, there is a special sense of risk aversion. As compared to for-profits, the purposes of non-profits are often considered to be more essential, or the consequences are seen to be more severe if the services discontinue. Therefore non-profits see incurring debt as an unacceptable—even unethical—risk:

It requires a fundamental change in mindset among the management and board of the organisation itself to consider borrowing money, as opposed to receiving funding that is not repayable (but which may be subject to other constraints). Many social enterprises told us that their trustees were reluctant to consider borrowing as long as ‘risk-free’ money was available in the form of grants. If the advantages of grants are thought to outweigh the constraints that accompany them (outlined in Section 2 above), managers of social enterprises will naturally tend to choose grants, and demand for loan finance will remain relatively weak.

The Bank of England seems to use the terms “Programme Related Investments” and “Social Investments” interchangeably, and defines them thus:

- The money or other resources provided will advance charitable objectives and, more specifically, will be made to those organisations whose objectives concur with those of the charity.
- Any private benefit derived from the investment will be purely incidental. If it does arise it is a necessary but incidental consequence of a decision by the charity trustees to further their charitable purpose.
- Any private benefit is not excessive and will be heavily outweighed by public benefit.
- Trustees need to monitor the use of their investment to ensure it continues to be used as a good means to further the objectives of the charity.

“The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation,” 182 pages, The Blended Value Map Annotated Bibliography, 322 pages, Jed Emerson, [www.blendedvalue.org](http://www.blendedvalue.org), October, 2003.

This extremely comprehensive project is based on primary and secondary research, and explores the following “five silos of related activity:”

1. Corporate Social Responsibility
2. Social Enterprise

3. Social Investing
4. Strategic/Effective Philanthropy
5. Sustainable Development”

Emerson also offers some definitions and contrasts “socially responsible investing” and “social investing.”

Mission Related Investing (MRI):

“MRI is the process of using investments to further fulfillment of an institution’s organizational mission. There are a number of forms of MRI, including shareholder activism, the use of social screens, private capital (typically venture capital) investing in “social” ventures, program related investments and/or the use of screened mutual funds. Regardless of the form taken, the goal is to align corpus investments with the goals of the investing institution.”

Social Investing (SI):

“SI is that investing which seeks to produce both financial and social/environmental value and returns. We have used this term broadly to encompass investing in organizations and businesses that create social and financial value. Also referred to as ethical investing and socially responsible investing, this is the practice of aligning investment policies with institutional mission. SI may include making program related investments and refraining from investing in corporations with products or policies inconsistent with an investor’s values. In this mapping document, we have chosen to use the term “social investing” broadly, and to then break it into two sub-segments of socially responsible investing and community investing. Others may favor a different approach to defining the field.”

Socially Responsible Investing (SRI):

“Several interviewees commented that SRI represents more of a strategy for investing, while Community Investing may be a function of geographic focus. We would suggest that a better approach to categorizing the two types of investing may be to segment social investing into SRI and Social Venture Capital Investing, but will leave that discussion to those who carry this mapping effort forward, and who are able to convene a set of actors who may hash out the best framing of the Social Investing arena.”

In the spirit of “Framing” this arena, a British company called Venturesome (see p. 19 below) offers one way. PD may, in the course of this project, offer other ways.

The following to charts below show Emerson’s suggestions for the genealogy of social investing and offers some resources and organizations where additional analysis can be found. Several of these references appear in this survey of literature.

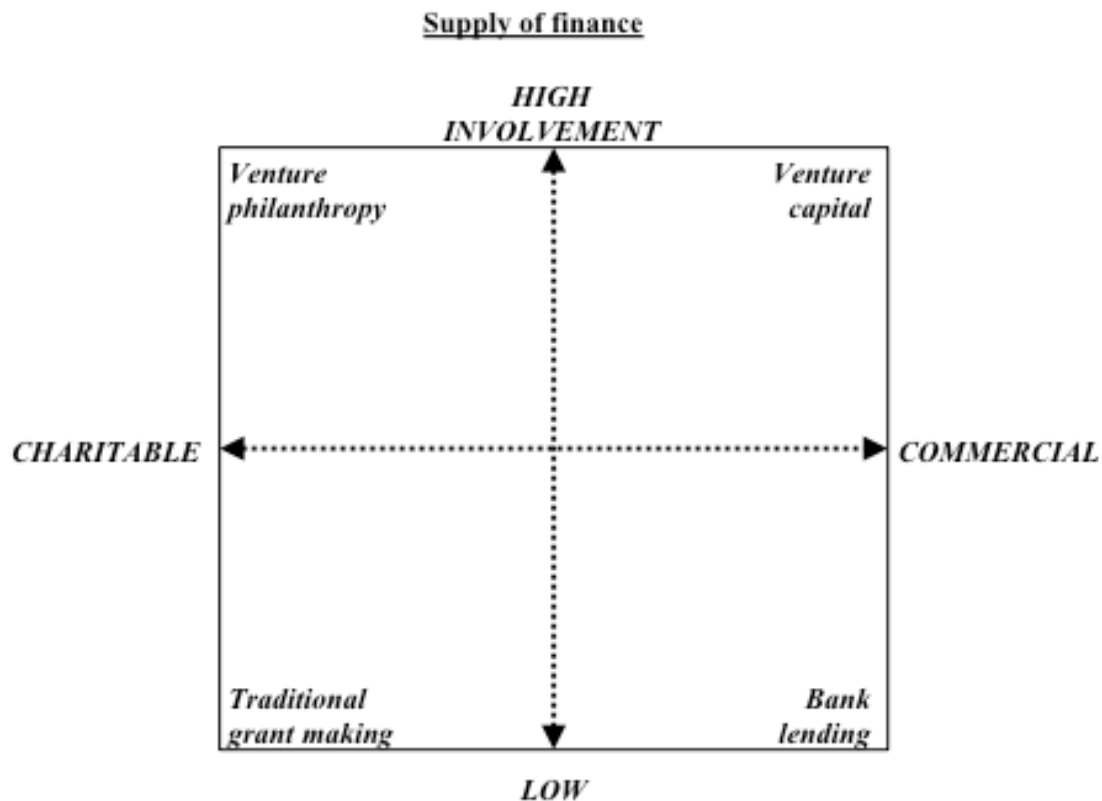




New approaches to financing charities and other social enterprises: A snapshot,” Margaret Bolton, 22 pages, Venturesome (an initiative of the Charities Aid Foundation), May 2003.

Bolton invokes, as many other British writers on this subject do, the concept of “patient capital.” This concept seems to refer to investments with longer than usual allowances for repayment or results of some kind. This need for “extra patience” is often pointed to as a distinguishing characteristic of social enterprises and non-profits exploring new kinds of non-grant financing. Thus providing long repayment arrangements could yield a substantial increase in non-profit sector participation.

The most important contribution of this article is a proposal for a conceptual framework for understanding many kinds of social investing. Bolton suggests that most examples of social investing can be placed on a two-axis chart specifying the degree of involvement and the proportion of social and financial returns. Venture capital, venture philanthropy, grantmaking, and bank lending are used as extreme examples of each possible combination. It should be possible to locate all examples of social investing on this chart.



source: Margaret Bolton, 2003

Whether or not this model is the right one, it is important as an attempt to understand and rationalize the burgeoning field. PD’s Social Investing Research Project similarly endeavors to understand many examples of social investing within a coherent framework.

#### IV. Conversations with Industry Leaders

The following passages capture the perspectives of several leaders in the social investing and non-profit sectors. Many of the ideas that emerge from these informal conversations go beyond the available published material and provide a window into the future of social investing.

Each individual was asked about how their work connects to social investing, their perspectives on the current state of industry, and its potential going forward.<sup>10</sup> All the interviewed leaders acknowledged that social investing and other market-based approaches to social issues are increasingly prominent, but the assessments of this phenomenon varied widely. The exercise of posing some of the same questions and issues to each of these leaders is in part preparation for some face-to-face expert discussions planned for later on in the project. When these and other experts convene, the notion of social investing will serve as common ground to exchange diverse perspectives and learn.

##### 1) **Terri Ludwig**, President, Merrill Lynch Community Development Company

Terri Ludwig is the President of the Merrill Lynch Community Development Company (CDC), overseeing the commitment of over \$700 million in investments and loans to community development projects. Prior to Merrill Lynch, Terri was the President and CEO of ACCION New York, launched by ACCION International, one the world's leading microlending institutions.

Pointing to several recent projects, Terri makes it clear that while Merrill Lynch CDC's investments provide competitive returns for Merrill Lynch, they also have a very real impact on the communities it invests in. By virtue of being a bank, Terri readily acknowledges, Merrill Lynch is obligated by the Community Reinvestment Act to "reinvest" a portion of its revenues into the communities where its banks are located. But in the case of Merrill Lynch, this obligation is met and exceeded by the work of the Merrill Lynch CDC.

One dramatic example of innovation and collaboration that Terri shared with me is the launch of the first captive insurance company owned and operated for non-profit affordable housing organizations. Working with a non-profit client, MLCDC financed the creation and capitalization of this captive insurance company. This groundbreaking business venture will offer improved insurance coverage for the non-profit partners (Shareholders) and significantly reduce insurance expenses. Terri explained how her team was able to leverage Merrill Lynch CDC's total commitment of \$7.5 million in financing thru other equity investments from the sponsor, 15 non-profit partners which are members of the sponsor's US network of organizations and a substantial federal appropriation as well.

The result was the first insurance company of its kind, owned and operated by non-profit housing organizations who themselves are holders of the policies. While Merrill Lynch CDC expects to recoup its loan (with interest), the reduced cost of insurance is a boost to non-profit housing agencies. And as a result, these organizations will be able to reinvest any savings and dividends into resident services, property improvements and the acquisition and development of more affordable homes. The industry is stronger, Merrill Lynch CDC cultivates new business for itself, and low- and middle-income families are more able to access decent housing.

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<sup>10</sup> As it is elsewhere in this project, social investing is defined liberally as any activity which purports to have both financial and social returns.

When the conversation turned to the Social Investing Research Initiative, Terri was immediately interested. Her rationale had two parts.

First, Terri prides herself on spreading the risks, burdens, and rewards among as many stakeholders as possible. Any attractive deal, she explains, will have several participants playing complementary roles. Therefore, the prospect of engaging new institutions like foundations and other non-profits, and finding new roles for them, was very exciting. Terri believes in her work. And so for her, any opportunity to direct new capital to these kinds of deals is worth pursuing.

Second, Terri was interested in the research project because it presented an opportunity to learn. Terri was aware that, while market approaches to social issues were becoming more popular (e.g., low income housing tax credit, charter schools, non-profit to for-profit hospital migration), there is still a lot of reluctance. Terri wanted to better understand the origins of that reluctance. For her, our initiative presented an opportunity to learn more about the apprehension surrounding market-based approaches to social issues, and to be challenged by some of the larger issues that surround cross-sector work in a way that her day-to-day activities rarely permit.

## 2) **Stanley N. Katz**, Professor, Princeton University

Stanley N. Katz is a professor at Princeton University's Woodrow Wilson School of Public and International Affairs, and President Emeritus of the American Council of Learned Societies, the leading organization in humanistic scholarship and education in the United States. Stan has several areas of expertise, including the philanthropy, non-governmental organizations (NGOs), arts and culture policy.

Stan is interested in innovative approaches to philanthropy and civil society. When we spoke, Stan shared his basically optimistic premise: New approaches to philanthropy which increase the participation of the investment community could have an impact of historic proportions on philanthropy and the social issues it is concerned with.

But Stan is also cautious. His caution stems from a deep understanding of the history of modern philanthropy, as well as his own personal experience of the evolution of philanthropy over many decades. Drawing on a few yet unpublished papers he recently prepared for conferences on philanthropy, Stan used the notion of "venture philanthropy" to make his point. In his view, the ideas intended by this notion and its correlates "effective philanthropy" and "strategic philanthropy," are irreproachable. Accountability, long term planning, sustainability, high engagement, and outcomes have all been critical elements of philanthropy since the beginning. In fact, Stan explains, John D. Rockefeller and Andrew Carnegie, the fathers of modern philanthropy, used these concepts in pursuit of grand social change long before the terms were coined.

Stan was emphatic that the cross-fertilization of philanthropy with other disciplines (like venture capital), is a healthy exercise which will lead to new opportunities, but that genuine innovation requires a more sophisticated understanding of the meaningful, and often uncannily similar, achievements of the philanthropic community over the years.

- 3) **Jed Emerson**, Senior Fellow, William and Flora Hewlett Foundation/David and Lucile Packard Foundation; Lecturer, Stanford University Graduate School of Business<sup>11</sup>

Jed Emerson is one of the most prolific intellectual leaders in the field of social investing. His contributions include several concepts which have subsequently become common currency in the field: “Double Bottom Line Investing,” “Blended Value,” “Unified Investment Strategy,” and others. But when speaking with Jed, he makes it very clear that he is eager to advance beyond the concept-building stage, and begin to help more organizations actually implement these institutional changes. Thus, Jed framed his latest piece, “The Investor’s Toolkit: Generating Multiple Returns Through A Unified Investment Strategy,” as a guide for investment managers and CFOs—rather than for researchers and policy wonks—to begin the planning process.<sup>12</sup>

Using the “Investor’s Toolkit” as a guide, I asked Jed to indulge me for a moment by reiterating the conceptual foundations on which it is based. Jed explained that all of the ideas and recommendation contained in the Toolkit were based on what is called the Unified Investment Strategy, where the entire operations and objectives of an organization are considered. Jed uses the private, non-profit foundation as an example. The example of a foundation particularly apt because they are typically driven by a strong sense of mission. But when the entire organization is taken into consideration, and not simply its grantmaking activities, striking inconsistencies emerge.

As Jed explains, “Often the mission of the foundation is driven by the 3-5% of its assets it allocates to grantmaking, while the remaining 95-97% is invested without any consideration to its mission.” In these cases, without applying the same kind of conscientious decision-making that goes into grantmaking, foundations risk offsetting its societal contribution. Seen as a half-full glass, integrating program-related considerations into a foundation’s investment strategy has the potential to be a substantial windfall for the foundation’s mission advancement.

Coming around to his determination to engage organizations on a practical level, Jed shows how a more holistic approach to doing business (i.e., understanding the implications of mission in all the activities of an organization), can serve as a guide. A foundation, according to Jed, can understand all of its activities according to a continuum of “investment instruments,” ranging from market-level to zero financial returns. The instruments include: negatively and positively screened investments, social venture capital, community investments, community development venture capital, non-profit lending, and grantmaking.

The way Jed recasts the business of a foundations, social impact is increased, operations are rationalized, and not a penny of financial returns are sacrificed. But while several foundations, like the Jessie Smith Noyes Foundation and the Nathan Cummings Foundation are breaking new ground by following strategies like Jed’s, many are not. I asked Jed what the sticking points were.

Jed explained that increasing the participation of foundations in social investing rarely involves confronting an opposition *per se*, but rather providing some education and practical training. Within foundations, the blockages are often cultural. The orthodoxies of foundations’ back and front offices often preclude the notion of cross-fertilization. Jed was enthusiastic about the Social Investing Research Initiative because he sees it as an opportunity to engage foundations and other non-profit organizations, on their terms, and to begin creating organizational sea changes across the sector.

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<sup>11</sup> Jed’s work can be found at [www.blendedvalue.org](http://www.blendedvalue.org)

<sup>12</sup> Summer, 2004, [www.blendedvalue.org](http://www.blendedvalue.org).

4) **Curt Bassett**, President, Princeton Social Capital

Curt Bassett is the President of Princeton Social Capital (PSC), a unique strategic philanthropy and foundation management firm providing philanthropists with cross-sector expertise in program and policy development, social finance and social venture capital, nonprofit law and charitable tax, and leveraged grantmaking and foundation management.

Curt is an attorney and investment advisor with more than 20 years of experience in philanthropic and wealth consulting to foundations and families of substance. He is formerly Director of Foundations and Strategic Philanthropy at Merrill Lynch where he oversaw financial, creative grantmaking, and governance consulting services to philanthropists and foundations nationally. At Merrill Lynch he also served as a Director of the Family Office Group where he was both a philanthropic and financial advisor to some of America's wealthiest families, and as a Senior Vice President of Merrill Lynch Trust, the largest fiduciary of charitable trusts, training trust officers and financial advisors and designing for clients philanthropic financial/estate plans.

As the head of PSC, Curt is the architect of many new approaches to social investing for its clients. And as the inaugural supporter of PD's Social Investment Research Initiative, PSC shows that it is also committed to advancing the entire field of social investing.

When asked what unique contribution his company is making to the field of social investing, Curt points to PSC's current efforts in organizing leaders in a variety of charitable fields (education, healthcare, arts & culture, the environment, technology, youth development, and economic development) to come together to establish the first "national" community foundation called The National Giving Funds (NGF). He envisions that NGF services would be offered to donors directly, but also through Wall Street firms and other financial institutions as a private label donor advised fund to their clients.

He envisions the initial stage of the fund being a donor advised fund similar to that now offered by many private banks to their clients (where the private banks provide their own investment management), but which would additionally offer research capabilities to clients (provided by PSC) and supporting organization capability. Within the next year, however, he also sees the funds offering donors the ability to obtain research about their causes from the leaders of each charitable industry (the national industry organizations and the major private foundations).

The first industry whose research he hopes to tap to help guide the giving of the NGF donors is the field of arts & culture. To this end, he hopes to offer NGF donors the ability to obtain unique access to the grantmaking expertise of the state and local arts councils, as well as the ability to partner with the country's largest private foundations in strategic arts-related initiatives created for the fund. In this latter case, the large private foundations (the managing partners) would manage the initiatives and the collaborating donors (the partners) would remain involved in the initiative by receiving progress reports, learning about the initiative from the managing partner's program officers, meeting the grantees and participating in site visits, and meeting other partners in the collaboration.

Additionally, the NGF would offer donors who are interested in collecting art the opportunity to create their own virtual art museums where they can receive tax deductions for contributions of their art to the museum, retain personal use of their art (to the extent that they retain the right to do so), manage the art under the professional care of NGF arts managers (arts storage, insurance, exhibition on virtual web museums, exhibition in art shows, rental to corporate venues, etc), and eventually dispose of the art either

through liquidation (using the proceeds to either make charitable gifts or acquire more art) or through donation to one or more museums.

Finally and most important to the field of social investing, NGF will offer program related investments (PRIs) to the donors of the fund. Donors can invest in these, or not, at their discretion. These PRIs will take the form of loan collaboratives to nonprofits in the field, and equity investments in social funds and individual for-profits with a double bottom line.

“NGF is a unique way to pool the resources of institutional and individual investors looking for various degrees of both financial returns and social impact,” Curt explains. “Because Wall Street is used to offering its clients donor advised funds, we believe it will be easier, both from a cultural and a compliance standpoint, for them to engage social investing through program related investments offered through this type of fund as compared to social investment funds offered directly to their clients.”

#### **5) Mark Rosenman, Professor, Union Institute & University**

Mark was on his cell phone when I finally got a hold of him to ask if he would be involved in the Social Investing Research Initiative, and to help me engage the non-profit sector in a dialogue about social investing and other market-based approaches to social issues. Mark responded to my invitation with silence. At first I thought the connection was lost, but it wasn't. He just didn't know what to say. But after considering the invitation, he cautioned me: “You know, I am kind of ‘Bah, humbug’ on the these issues. Are you sure you want me?”

I assured him that I knew very well that he was a cynic, and combined with his thoughtfulness and commitment to the issues we were grappling with, that was exactly why I called him. It took a little convincing that we were in fact going to consider market-based approaches (like social investing) from all sides, but Mark eventually agreed to participate.

Early in our first substantial conversation about social investing, Mark made it clear that he strongly believes that the non-profit sector has, within its own ranks, superior ideas about how to cure social ills and strengthen the organizations trying to address them. The increasing flow of advice and analysis from for-profit, and for-profit-inspired, management consulting firms tend to miss the mark, according to Mark. Firms like McKinsey (specifically their “Nonprofit Practice”) tend to use technocratic approaches to many of the challenges of non-profit organizations that may be inherently social and political dilemmas. These dilemmas are complex, and beyond the reach of the simplified heuristics adapted from business logic.

Mark gave two examples. Advocacy organizations, whose goals are often long term and the benefits of their work diffuse, do not lend themselves to short term, measurable outcomes sought by many consultants. Even when legislation passes reflecting an advocacy organization's agenda, establishing causality is almost always impossible. In other types of non-profit organizations, market-inspired advisors will recommend refocusing on the "Core Business." In doing so, “groups may sacrifice secondary initiatives or subtle program characteristics that greatly amplify the impact of their operation and which are essential to their true mission.”

How does all this apply to social investing? Mark is interested to learn more, but he is concerned about the give-and-take of a new, closer relationship between business and the non-profit sector that an expanded role for social investing would imply. On the one hand, Mark would welcome the opportunity to build additional social considerations into investment decisions that have traditionally been based

purely on financial returns. On the other hand, Mark is not enthusiastic about blending the best practices of the non-profit sector with those of the investment community. Mark explains that he has not yet seen a market-based analysis of the social services sector capable of capturing the sector's true complexity, and that the burdens which may accompany a social investment's need to show the appropriate "return on investment" could jeopardize the possibility of meaningful social change. But Mark challenges us to assemble thoughtful and caring professionals, from the investment and non-profit communities, to address the concerns openly and develop some appropriate responses.

5) **Stephen B. Heintz**, President, Rockefeller Brothers Fund

Stephen Heintz is President of the Rockefeller Brothers Fund (RBF). Stephen's role as a funder is still relatively new. Prior to RBF, Stephen worked for non-profit (grant-recipient) organizations like the EastWest Institute and Demos (which he started), and public agencies like the State of Connecticut, working on domestic and international issues.

Stephen is one of the most thoughtful people I know. And so it was no surprise that the notion of social investing—and in particular, the notion of convening skeptics and enthusiasts to raise the level of debate about social investing—excited him.

For starters, Stephen was aware that some foundations were exploring new ways to use their endowment to further their mission, but acknowledged that RBF could be doing more. Stephen explained that, to date, the only real obstacle has been that, within the division of labor that exists within any multi-million dollar organization, maximizing financial return and growth has traditionally been the singular priority for the endowment.

According to Stephen, this priority seemed more appropriate than ever during the post-9/11 stock market slump, when RBF's portfolio suffered correspondingly. But he also suspected that the exclusive focus on the financial returns of foundations' endowments has something to do with the training, culture, and expectations of finance departments and board finance committees. Stephen assured me that foundation CFOs and other finance staff do their jobs superbly, but in most cases, no one has ever asked them to incorporate any other considerations.

And if they were to be asked to incorporate some aspects of the programmatic goals, Stephen guessed that a certain degree of culture shock would be the likely initial result. Stephen pointed out that non-profit CFOs inevitably have a history positions where programmatic considerations were also not formally built into investment management, and Board finance committees—especially in New York—are commonly made up of leaders from the investment and finance community where other considerations are, again, typically absent.

That said, Stephen was decidedly optimistic about the possibilities for foundations to do more with their endowments, and to carefully integrate programmatic goals into financial planning, thus advancing the RBF mission in new ways, while helping to harmonize the work of the entire staff and board.

Stephen was interested but less sure about how investment concepts could be usefully incorporated into existing programmatic work. Stephen believes strongly in the distinct and special role that philanthropy and the non-profit sector plays, filling in the gaps between government and the market. Over the course of the Social Investing Research Initiative, Stephen is interested in hearing more about how social investing can be used to accomplish programmatic goals without neglecting the kinds of deep and meaningful long-

term social and environmental impact that often eludes short-term performance metrics associated with many market-based approaches.

6) **Katrin Verclas**, Co-Director, Aspiration

As Co-Director of Aspiration, Katrin promotes and supports effective software development and IT products for the non-profit sector. Katrin identifies non-profit IT opportunities that the market has not acknowledged, and provides the catalytic force to create new and sustainable tools.

As a liaison between commercial players and non-profit and civil society organizations, Katrin was very interested in talking more about social investing as a way to deliver the leading edge of software and development practices to non-profit sub-sectors such as human rights, community development, and democracy-building. As in the case of the pharmaceuticals industry and epidemics in the developing world, Katrin pointed out, there is often insufficient market demand or financial investments to motivate the development of products for those who could make the most use of them.

7) **Terry Mollner**, Founder and Trustee, The Calvert Group; Founder and Executive Director, The Trusteeship Institute

Unlike the rest of us who have the privilege of working from an existing set of interesting social investing models, Terry Mollner started from scratch. And today, although he has carved out a modest ongoing role for himself, the entire multi trillion dollar social investing sector may owe its existence to Terry.

While Terry is no longer screening companies for social and environmental performance, he has not been idle. Terry has moved on to what he refers to as “the next step.” The next tract of uncharted territory beyond socially and environmentally responsibility, Terry calls called “spiritually responsible investing.” Terry speaks to the boards, CEOs, and senior executives of large corporations on this subject, and I asked him to share his perspective with me.

Before I begin recounting my conversation with Terry, I should acknowledge that while there is no corporate equivalent to “Separation of church and state” (except perhaps the equal opportunity employer laws), the term “spiritual” often implies organized religion which, in the context of large, mainstream corporations, makes some people uneasy. However, in the case of Terry’s explanation of spiritually responsible investing, there seemed to be no association with any particular faith, and no hint of proselytizing. In this case, “spiritual” seems to refer to the most unembodied and generally accepted values—like compassion, peace of mind, and beauty—which most people can relate to.

As Terry explains it, spiritually responsible investing is distinct from socially responsible investing, because in the latter case, social priorities complement profit maximization to create a more robust notion of shareholder *value*. In the case of spiritually responsible investing, social priorities come first. Terry explains how social values become intimately personal, breaking down the convention of detached professionalism, making work meaningful and satisfying. For Terry, a company’s values should never come to be seen as a nebulous set of additional performance requirements. Instead they should be seen as the primary purpose of business, while financial returns become more of a procedural question. While boosting spiritual satisfaction, financial returns do not suffer from being demoted. In fact, Terry claims, a company arranged thus. Is best able to maximize profit as well as spiritual satisfaction.

In our thrillingly wide-ranging conversation, Terry spoke of stages of maturity of an individual as an allegory of the corporate sector. One evolves (hopefully) from basic selfishness (“Give me that!”), to

strategic selfishness (“Could I please have that?”), to an eventual “elder” level of maturity (“Would *you* like to have this?”). It is in this elder state, where an individual understands that compassion is rewarding, where Terry feels an individual will have the most spiritual, but also material, satisfaction.

In the context of a company, the first level of corporate maturity would be the company that does not even claim to prioritize anything but maximizing shareholder value. And in this pure Adam Smith example, “value” is meant only to connote financial returns (rather than positive social change, for example).

The next level of corporate maturity would be a company with a nominal social or environmental message, but where the message is not borne out at all in practice. This message would have been contrived by a strategic marketing department, having grasped that to *seem* to care is good for business.

Terry describes the next level of corporate maturity in terms of a company one might think of as an exemplar of the socially or environmentally responsible company--where people genuinely care, the mission reflects this, and efforts are made to measure performance relative to this mission. But at best, these social or environmental goals are on par with financial returns, and usually they run a close second. The values are earnest, but in the end, not essential.

Terry’s final stage of maturity for a corporation, the elder stage, is recognized by social and environmental goals which are primary, and from which all other objectives--like profit--stem. Terry’s message is that only by seeing the interconnectedness and unity of profit, social responsibility, environmental awareness, and personal satisfaction, will each of these priorities be maximized. It is this sense of unity which, as I understand it, constitutes Terry’s very powerful notion of spiritually responsible investing.

Even though they are compelling, because Terry’s ideas are on the margins of the social investing debate, I might not have included them here. But Terry’s first round of ideas, having to do with social screen mutual funds, were also on the margins, and look what happened. If we aspire to be trend setters, or at least detect trends early on, we’ve got to take some risks on some strange and new things.

#### 8) **Dean Cycon**, President and Founder, Dean’s Beans

Dean Cycon runs the largest 100% fair trade, 100% organic coffee company in the country. Dean’s Beans, which is a roaster, wholesaler, and online retailer, boasts annual sales of \$1.8 million and growing. Dean combines a deep commitment to social justice with the rigor and intensity one might expect from someone with two law degrees (Yale and New York Law School).

Dean and I had intended to talk exclusively about his innovative plans for going public, but we touched on his equally pioneering involvement in the Fair Trade movement first. Dean is helping to strengthen the criteria and methodology for the emerging Fair Trade certification standards. Similar to the early days of the organic movement, Dean pointed out, fair trade is now a popular term with varying definitions. In order to help consumers and investors to make better decisions, some of the very same groups who helped develop organic standards are now working on fair trade standardization.

The difference is, that with fair trade, the criteria revolve around economic relations between buyers and sellers, rather than content requirements. Equitable compensation, quality of life, and transparency, for example, are critical guiding principles. As Dean explains it, the appropriate ways to measure are being worked out now. Dean’s contribution here is to clarify the terms of trade in this new sector, providing the kind of infrastructure necessary to reassure more consumers and larger investors.

Dean is also interested in developing a new approach to going public. Having witnessed the first generation of socially responsible companies like Ben & Jerry's progress, Dean hopes to build on this legacy and take the model one step further. In particular, Dean is concerned about what he sees as a kind of dilution of mission that accompanied the sale of Ben & Jerry's to Unilever. In many ways, Unilever has upheld the socially conscious reputation of the company, but most would agree that something is different. Dean explains that while Ben & Jerry's makes donations and purchases some organic ingredients, ideas about responsible practices no longer permeate the entire company and all its day-to-day operations as they once did.

Dean is now planning his own company's IPO. Business is good and getting better, and Dean is also sensing that a more participatory approach to running the company would be an even fuller embodiment of the company's values. But Dean asked himself, "How can I preclude the possibility that shareholders will dilute our founding principles—by means of a takeover or otherwise?"

Dean's plan to go public while preserving the company's values has two parts. First, these values will be built into the articles of incorporation and bylaws, and given a level of prominence equal to that of financial returns. Second, Dean is considering using a trust to represent these values (in addition to financial returns). Transferring voting rights to the trust would be a condition of stock purchases. The trust would retain majority, or at least largest block, voting status in perpetuity. The public offering is still perhaps three years off, which leaves plenty of time for the entire social investing community to refine this new model.

Dean is eager to participate in the Social Investing Research Initiative in order to gather more perspectives and input for his plans, and to find the right combination of good business sense and sound and ethical practices. If the explosion of the organic sector is any indication, Dean has a lot of exciting things to look forward to. Hopefully we can all learn from his work.

## VI. Analysis

### A. Beneath the Jargon

One recurring temptation was to devote the resources of this project to straightening out the thoroughly tangled semantics of this complicated field called social investing. Socially responsible investing (SRI), social returns on investment (SROI), corporate social responsibility (CSR), and a myriad of similar-sounding terms are everywhere. Either these terms are being used in place of one another in many cases, or there are an incredible number of subtle—but genuine—distinctions. I’m afraid both are true. That is, the field of social investing is burdened with both necessary and unnecessary complexity.

Glossaries of this field are not uncommon (see “The Blended Value Map” annotated above). Instead of creating another, we went directly to the ideas beneath the terminology (or jargon). And here, among the guiding concepts of social investing, there is much more coherence and consensus. Semantic dilemmas may not be altogether avoidable, but will simply address them as they arise without dwelling on them.

### B. Combining Social and Financial Returns

Aside from semantics, what is social investing? There is enough of a consensus in the existing literature to defend a usage of social investing that simply encompasses all investments that are motivated by the prospect of some combination of social and financial returns<sup>13</sup>. This definition relegates many of the other similar-sounding activities to the status of subgroups within social investing. There are enough different kinds of social investing that some, like Jed Emerson in his “Where Money Meets Mission” annotated above, would like to see foundations unify all their grantmaking and investing activities with a singular commitment to social investing.

The combination of social and financial returns becomes the tell tale sign of social investing. These variables, since they are common to all examples of social investing, become a good starting point for thinking about how to organize the field. In principle, every example of social investing could be located along two scales. If this were possible, each social investment could have a social and financial score, and each could be weighted according to the investor’s priorities, and the one with the highest combined score would win out. But measuring social returns is considered to be one of the most important challenges for social investing.

Some feel social and financial returns are inversely proportionate. It is a common assumption, for example, that investors make a financial sacrifice when they allow social and environmental considerations to inform their investment decisions. Several studies however, like the McKinsey study cited above, helps show that there is in fact no trade off in many cases. There are certainly many examples of imbalance (i.e., all profit, no genuine social impact; or all social impact with very little revenue). But if we define social investing according to these skewed examples, there will be no conceptual room for social investing with a strong double bottom line.

A London-based social entrepreneurship firm, Venturesome, has developed a model (cited in “review of Literature” section above) for understanding many kinds of social investing. The model uses two variables. The first considers whether the investment is “charitable” or “commercial.” This trade-off

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<sup>13</sup> In some cases, neither financial nor social returns will materialize, but it is the intent that counts here.

dynamic reinforces the notion that financial and social returns are inversely proportionate. The second variable is degree of engagement from between investor and client.

Some also argue that even if, to date, social investing lowers the return on a conventional investment portfolio, things could change. As social investing advances, investors will become more skilled, sophisticated intermediaries will emerge, and a financial sacrifice will no longer be necessary. Bill Drayton, the indefatigable founder of Ashoka, argues in the Alliance article reviewed below that the non-profit sector is simply lacking a financial services sector comparable to that which has come to be expected in the corporate sector. When the vacuum is filled, the competitiveness gap will close.

#### C. Governance: the Crossover Issue

Good governance is a special issue because it plays a role in both social and financial investment decision-making. Good corporate governance has long been an important factor in judging the sustainability and profitability of a private company. But especially in a post-Enron, post-Tyco world, it has become clear how poor corporate governance can also have a significant social impact on the labor force and consumers. Thus corporate governance, as it is discussed in the 2003 trend analysis report from the Social Investment Forum (cited in “review of Literature” section above), is one of the newest social screens for investment funds.

#### D. Creative Chaos

Most often thought of as mutual funds with social or environmental screens, this survey shows that social investing now refers to a very broad range of activities, representing over \$2 trillion in assets, and bound together by little more than the concept of a “double bottom line” (i.e., financial returns and social impact).<sup>14</sup>

Social venture capital, program-related investments, community investments, mission-related investing, social entrepreneurship, and shareholder advocacy are just a few the activities that are gaining ground in the non-profit, for-profit, and public sectors. Specialized approaches to social investing have had substantial impact in housing, education, health, economic development, technology, and the environment.

This evolutionary and expansionary period of social investing, marked by an incredible diversity of activities, participants, financial models, and social issues, can be justifiably referred to as a period of “Creative Chaos.”

#### E. Sector Convergence

A modern power play among governments, the private sector, and the nonprofit sector may finally be playing itself out. Having lived through the excesses of big government or the unfettered market, or a civil society vacuum, many are beginning to understand that each sector has an essential role to play. But this tripartite concept of a public-private-nonprofit sector is only the very first step.

Implementing this cross-sector vision of society is another story. Each sector has its orthodoxies about how things are done, which are then reinforced with prejudices towards other sectors.

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<sup>14</sup> Social Investment Forum in its “2003 Report on Socially Responsible Investing Trends.”

At the same time, a unifying trend may be emerging amidst the creative chaos of social investing activities. In pursuit of a double bottom line, institutions are reaching across sectors to find the competency that is their relative weakness. A corporation will look to the non-profit sector for help in understanding its environmental impact, and improving it. A non-profit community development organization will look to the financial services industry for help in understanding small business models, as well as for financing. In fact, social investing is a great example of a cross-sector society precisely because it is springing up everywhere. Traditional investors, philanthropists, and others are combining financial returns and social impact in innovative ways (see “Resources” section below).

As social investing expands, and institutions continue to improve their traditionally weaker competency, the distinctions between institutions in different sectors diminish. In turn, the traditional distinctions between the sectors these institutions represent also diminish. Although participants in social investing themselves may not see it, aggregating these examples helps show how social investing is leading the non-profit, for-profit, and public sectors along separate but unmistakably convergent paths.

#### F. Cautious Non-profit Sector

The Bank of England’s assessment of social investing (cited in “review of Literature” section above) explores the non-profit sector’s prejudices against market mechanisms. If reluctance in the non-profit sector can be overcome with increased awareness and compelling case studies, non-profits’ participation in social investment, and the performance of non-profit social investments, could increase.

On the other hand, some concerns about the limits of market mechanisms and market culture in the non-profit sector may also be well-founded. Some fear that an expectation of short term measurable results means that organizations are avoiding the tough cases. These tough cases, like the chronically homeless for example—are the neediest but perhaps also the least likely to be served in a market culture. Systemic change and advocacy are also the kinds of activities where short-term results are often hard to show and therefore less likely to be described in terms of social returns. These arguments are championed by Independent Sector fellow Mark Rosenman<sup>15</sup>.

But Rosenman is not alone in his caution against an overemphasis on market mechanisms in the interest of social impact. Deriving the special role of civil society and philanthropy, Rockefeller Brothers Fund President, Stephen Heintz., explains that “...neither big government nor big capital is able to meet the full array of societal needs.”<sup>16</sup>

Another believer in the durability of traditional approaches to philanthropy, Stanley Katz, recently demystified several contemporary trends in philanthropy in his recent presentation to the American Philosophical Society (cited in “review of Literature” section above).

Therefore, in order for social investing to expand significantly beyond its current state, the perceived legitimacy of the field needs to be increased. Increased legitimacy could be achieved with a credible third party analysis of the industry’s positive social benefits and financial returns. If respected representatives of the non-profit sector (practitioners, social policy experts, and the philanthropic community) performed this assessment, the positive effects on social investing would be significant.

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<sup>15</sup> “McKinsey Study Shows Stunning Lapse in Logic,” Chronicle of Philanthropy, May 29, 2003, Mark Rosenman; “Why Social Services Groups Must Mobilize,” Chronicle of Philanthropy, October 16, 2003, Mark Rosenman.

<sup>16</sup> “The Future of Philanthropy,” Stephen B. Heintz, Santa Barbara Foundation 75<sup>th</sup> Anniversary Symposium, October 14, 2003.

## VII. Conclusions

After six months of research, Phase I of the Social Investing Research Initiative is complete. Since April 2004, Policy Development (PD) has: conducted a survey of existing literature in the field, created an online resource guide, conducted interviews with industry leaders, convened leaders to debate the issues, and performed original analysis and interpretation.<sup>17</sup>

### A. Findings

As a result of this research and analysis, the following findings emerged:

#### *Social Investing Basics*

- Social investing has enjoyed a major expansion over the past decade, and best estimates put the field at over \$2 trillion in assets.
- Social investing refers to an extremely diverse set of activities bound together by little more than the concept of a “double bottom line” (i.e., financial returns and social impact).<sup>18</sup>
- The most common forms of social investing include: negative social and environmental screens for investment funds (near market rates), community and program-related investments (government subsidized), shareholder advocacy (market rates), and social entrepreneurship (sustainability for grantee, but no financial returns for funder).
- Specialized approaches to social investing have had substantial impact in housing, education, health, economic development, technology, and the environment.
- The non-profit, for-profit, and public sectors are all experimenting with social investing.

#### *Organizing Themes*

- Social investing is still in an early, but extremely active, stage of development that can be considered a period of “Creative Chaos.”
- Amidst the Creative Chaos, there are early signs that continued cross-sector experimentation may eventually render traditional sector distinctions obsolete, representing the possibility of a period of “Convergence” for social investing.
- In spite of the Creative Chaos and Convergence trends, many foundations and other non-profit organizations remain uninformed, or even skeptical of the market-based approach to social issues that social investing represents.

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<sup>17</sup> The social investing online resource guide, as well as several other SIRC and social investing materials, can be found at [www.policydevelopment.org](http://www.policydevelopment.org).

<sup>18</sup> Social Investment Forum in its “2003 Report on Socially Responsible Investing Trends.”

## B. Recommendations

Based on these findings, PD offers the following recommendations for the overall advancement of the field of social investing:

- The trend of cross-sector Convergence in social investing should be encouraged and assisted in order to allow financial returns and social impact to exceed their current limits.
- The non-profit sector should be more meaningfully engaged in the debate and practice of social investing in order to:
  - Provide new sources of social investors and investments
  - Provide sources of first-hand social impact expertise
  - Better understand the possibilities and limitations of cross-sector collaboration
  - Better understand high impact and low impact social investing models
  - Increase the legitimacy of social investing
  - Better inform the public policy debate<sup>19</sup>
- The non-profit sector public policy debate should consider reforms that:
  - Encourage innovation and cross-sector collaboration
  - Reflect the sophisticated modern reality of non-profits and other entities committed to positive social impact

## C. Next Steps

In Phase II of SIRI, will respond to the Phase I findings and recommendations contained in this report. Specifically, PD will undertake: a) a third party, independent impact assessment of social investing, b) activities related to engaging foundations and other non-profit organizations, and c) related public policy analysis.

Over the course of the next 18-24 months, PD will bring experienced and caring experts from the private, non-profit, and public sectors together in a variety of formats to share their perspectives. As a result of our Phase II activities, we hope to have advanced social investing and all stakeholders in many of the tangible and sustainable ways highlighted in the Phase I recommendations above.

Policy Development has already augmented its network of non-profit clients and experts with a high-profile advisory board tailored to the Phase II objectives. Those who have already agreed to serve include: Stan Katz (Professor, Princeton University; President Emeritus, American Council of Learned Societies), Terry Mollner (Founder and Trustee, The Calvert Group; Executive Director, Trusteeship Institute), Terri

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<sup>19</sup> See United States Senate Committee on Finance, Hearing on Charity Oversight and Reform, 6/22/04, and Policy Development's testimony: [www.policydevelopment.org](http://www.policydevelopment.org).

Ludwig (President, Merrill Lynch Community Development Co.), and Mark Rosenman (Professor, Union Institute & University).

PD is actively seeking financial support for Phase II. Princeton Social Capital has generously agreed to repeat its grant when its challenge requirements are met with sufficient commitments from additional sources.

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## VIII. Resources

Having made the claim that the obsolescence of sector distinctions is the future of social investing (see “Sector Convergence” section above), it may not seem appropriate to organize the most important social investing analysis, case studies, and programs thus. But for now, the distinctions are still relevant. And to the extent the distinctions seem to be breaking down (e.g., it might seem possible to shift one citation from one sector to another), we can see social investing convergence happening right before our eyes. You may also notice that the Public Sector column of the table is much shorter than the private and non-profit sector columns. That’s no coincidence either. This simplistic analysis suggests that the public sector is the laggard, presenting the most orthodoxies and sector prejudices.

The Social Investing Resource Guide was designed for the Web, and we encourage you to visit [www.policydevelopment.org/resources.htm](http://www.policydevelopment.org/resources.htm) and try it out there. (The print version below is included here for your convenience, although the functionality and elegance are lost.) We hope you will find the guide useful and stimulating. This guide is not intended to be exhaustive—surely there are many more resources than any one guide could usefully capture. The citations below are merely a collection of resources we think are helpful and representative. We would like to solicit your help in expanding this list of high quality resources as the PSC Social Investing Research Initiative progresses. Please send us your suggestions, and let us know what you think! (Send comments to: [info@policydevelopment.org](mailto:info@policydevelopment.org))

### THE SOCIAL INVESTING RESOURCE GUIDE

Public Sector	Private Sector	Non-Profit Sector
Low Income Housing Tax Credit [ <a href="http://www.hud.gov/offices/fheo/lihtcmou.cfm">www.hud.gov/offices/fheo/lihtcmou.cfm</a> ]	Social Investment Forum: 2003 Trends [ <a href="http://www.socialinvest.org">www.socialinvest.org</a> ]	Non-Profit Revenue and Program-Related Investments [ <a href="http://www.brodyweiser.com/aboutus_detail.php?id=-1">www.brodyweiser.com/aboutus_detail.php?id=-1</a> ]
USDA Rural Utility Service [ <a href="http://www.usda.gov/rus/telecom/">www.usda.gov/rus/telecom/</a> ]	McKinsey on Social Angel Investors [ <a href="http://www.mckinseyquarterly.com/article_abstract.asp?ar=1385&amp;L2=10&amp;L3=53">http://www.mckinseyquarterly.com/article_abstract.asp?ar=1385&amp;L2=10&amp;L3=53</a> ]	Financial Returns in Philanthropy [ <a href="http://www.ncfp.org/FGN-Mar_2003/Up_front.htm">www.ncfp.org/FGN-Mar_2003/Up_front.htm</a> ]
Sarbanes-Oxley for Nonprofits [ <a href="http://www.npcchn.org/info/gti10.htm">http://www.npcchn.org/info/gti10.htm</a> ]	Lending to Non-Profits [ <a href="http://www.bankofengland.co.uk">www.bankofengland.co.uk</a> ]	Foundation Investment-Grant Consolidation [ <a href="http://www.weedenfdn.org/textonly/investmentxt.htm">www.weedenfdn.org/textonly/investmentxt.htm</a> ]
Community Reinvestment Act Performance <a href="http://www.federalreserve.gov/DCCA/CRA/default.htm">http://www.federalreserve.gov/DCCA/CRA/default.htm</a>	Deutsche Bank Community Development Group <a href="http://www.cib.db.com/community/htm/community_development.html">http://www.cib.db.com/community/htm/community_development.html</a> <a href="http://www.microfinancegateway.org/content/article/detail/13653">http://www.microfinancegateway.org/content/article/detail/13653</a>	Historical Perspective on Philanthropy Trends [see attached “KatzTalk” doc]
Regulating community development equity and debt investments <a href="http://www.federalreserve.gov/CommunityAffairs/cdi/regover.htm">http://www.federalreserve.gov/CommunityAffairs/cdi/regover.htm</a>	Princeton Social Capital [ <a href="http://www.pacpub.com/site/news.cfm?newsid=11090805&amp;BRD=1091&amp;PAG=461&amp;dept_id=426876&amp;rfi=6">http://www.pacpub.com/site/news.cfm?newsid=11090805&amp;BRD=1091&amp;PAG=461&amp;dept_id=426876&amp;rfi=6</a> ]	Cross-sector Management and Policy Questions [ <a href="http://www.wkkf.org/Programming/ResourceOverview.aspx?CID=2&amp;ID=3774">www.wkkf.org/Programming/ResourceOverview.aspx?CID=2&amp;ID=3774</a> ]
Community development Fiscal Impact Tool <a href="http://www.federalreserve.gov/forms/fiscalimpactrequest.cfm">http://www.federalreserve.gov/forms/fiscalimpactrequest.cfm</a>	Lessons from Private Sector to teach the Non-profit Sector [ <a href="http://hbswk.hbs.edu/item.jhtml?id=3934&amp;t=nonprofit&amp;iss=y">http://hbswk.hbs.edu/item.jhtml?id=3934&amp;t=nonprofit&amp;iss=y</a> ]	A Social Financial Services Industry [ <a href="http://www.allavida.org/alliance/mar04c.html">www.allavida.org/alliance/mar04c.html</a> ]

US Dept. of Treasury CDFI Fund <a href="http://www.cdfifund.gov/">http://www.cdfifund.gov/</a>	Non-Profit Sector Needs a Financial Services Industry [ <a href="http://www.allavida.org/alliance/mar04c.html">http://www.allavida.org/alliance/mar04c.html</a> ]	Catalog of Social Investing Activities [ <a href="http://www.blendedvalue.org">www.blendedvalue.org</a> ]
US Dept. of Treasury New Markets Tax Credit <a href="http://www.communitycapital.org/financing/nmtc.html">http://www.communitycapital.org/financing/nmtc.html</a>	McKinsey: Corporate to Non-Profit Skills Transfer <a href="http://mckinsey.com/practices/nonprofit/index.asp">http://mckinsey.com/practices/nonprofit/index.asp</a>	Blended Value Policy Issues <a href="http://skoll.socialedge.org/?14@182.QVLHaHYxbgw.1369@.3c3f2aa9">http://skoll.socialedge.org/?14@182.QVLHaHYxbgw.1369@.3c3f2aa9</a>
Intergovernmental Organizations' Corporate Codes of Conduct <a href="http://www.corporate-accountability.org/inst/intgov.htm">http://www.corporate-accountability.org/inst/intgov.htm</a>	Bridgespan: "Bridging the For-Profit and Nonprofit Sectors" <a href="http://bridgespangroup.org/BSGweb/relationship.asp">http://bridgespangroup.org/BSGweb/relationship.asp</a>	Foundation Report on Blurred Boundaries [ <a href="http://www.wkkf.org/Programming/NewsItem.aspx?CID=2&amp;ID=422">http://www.wkkf.org/Programming/NewsItem.aspx?CID=2&amp;ID=422</a> ]
OECD Guidelines for Multinational Enterprises <a href="http://www.oecd.org/department/0,2688,en_2649_34889_1_1_1_1_1,00.html">http://www.oecd.org/department/0,2688,en_2649_34889_1_1_1_1_1,00.html</a>	Social Responsibility in Business - Issue Briefs <a href="http://www.bsr.org/CSRResource/s/IssueBriefsList.cfm?area=all">http://www.bsr.org/CSRResource/s/IssueBriefsList.cfm?area=all</a>	Program-Related Investment Defined [ <a href="http://fdncenter.org/learn/faqs/html/pri.html">http://fdncenter.org/learn/faqs/html/pri.html</a> ]
	Private Investment in Community Development <a href="http://www.communitycapital.org/policy/index.html">http://www.communitycapital.org/policy/index.html</a>	Understanding CDFIs <a href="http://www.cdfi.org/whatare.asp">http://www.cdfi.org/whatare.asp</a>
	Social Venture Capital - CCVI <a href="http://www.ceicommunityventures.com/about/index.html">http://www.ceicommunityventures.com/about/index.html</a>	CDFI Policy Topics <a href="http://www.cdfi.org/policypr.asp">http://www.cdfi.org/policypr.asp</a>
	Social Venture Capital - Calvert <a href="http://www.calvert.com/sri_654.html">http://www.calvert.com/sri_654.html</a>	Jargon Busting! <a href="http://www.emcf.org/pub/jargon/index.htm">http://www.emcf.org/pub/jargon/index.htm</a>
	Bringing Biotech to the Developing World <a href="http://www.bvgh.org/default.asp">http://www.bvgh.org/default.asp</a>	Social Enterprise: Earned Income for Non-Profits <a href="http://www.se-alliance.org/">http://www.se-alliance.org/</a>
	Social Marketing: Adapting Social Issues to Corporate Marketing <a href="http://www.bitc.org.uk/programmes/programme_directory/cause_related_marketing/index.html">http://www.bitc.org.uk/programmes/programme_directory/cause_related_marketing/index.html</a>	Social Marketing: Adapting Private Sector Expertise to Social Issues <a href="http://www.hc-sc.gc.ca/english/socialmarketing/social_marketing/whatis.html">http://www.hc-sc.gc.ca/english/socialmarketing/social_marketing/whatis.html</a>
	Limitations of Private Sector Analogies <a href="http://www.worldchanging.com/archives/000721.html">http://www.worldchanging.com/archives/000721.html</a>	One Analytic Model [ <a href="http://www.cafonline.org/venturesome/vs_publications.cfm">www.cafonline.org/venturesome/vs_publications.cfm</a> ]
	Corporate-Non-profit Partnership Case Studies <a href="http://www.independentsector.org/mission_market/index.html">http://www.independentsector.org/mission_market/index.html</a>	Social Investing Convergence Theory <a href="http://www.transaction.net/money/cc/cc01.html">http://www.transaction.net/money/cc/cc01.html</a>
	Corporate Social Responsibility Publications <a href="http://www.corporate-accountability.org/res/docs.htm">http://www.corporate-accountability.org/res/docs.htm</a>	Social (and Environmental) Metrics <a href="http://www.rprogress.org/projects/indicators/">http://www.rprogress.org/projects/indicators/</a>
	Open Source Technology for Social Purpose <a href="http://www.redhat.com/opensourcenow/">http://www.redhat.com/opensourcenow/</a>	Venture Philanthropy: Using Business Principles to Guide Philanthropy: New Profit, Inc. <a href="http://www.newprofit.org">http://www.newprofit.org</a> Venture Philanthropy Partners <a href="http://www.venturephilanthropypartners.org">http://www.venturephilanthropypartners.org</a>
		Social Return on Investment (SROI)

		<a href="http://www.redf.org/about_sroi.htm">http://www.redf.org/about_sroi.htm</a>
		Social Entrepreneurship <a href="http://www.ashoka.org">http://www.ashoka.org</a>
		Foundation Investing <a href="http://www.ncfp.org/FGN-Mar_2003/Up_front.htm">http://www.ncfp.org/FGN-Mar_2003/Up_front.htm</a>

**IX. Appendix**BEYOND VIGILANCE: STRENGTHENING CHARITY OVERSIGHT AND REFORM  
June 22, 2004

*The following testimony was presented by Policy Development Executive Director Aron Goldman, by mail, for the United States Senate Committee on Finance hearing, "Charity Oversight and Reform: Keeping Bad Things from Happening to Good Charities" on June 22, 2004.*

Senator Grassley, Senator Baucus, distinguished Members of the United States Senate Committee on Finance, thank you for giving representatives of non-profit organizations and concerned citizens across the country an opportunity to share our perspectives on charity oversight and reform.

Much of the testimony presented today is concerned with closing the loopholes in the current system. All of us in the non-profit sector have a new sense of urgency to make changes in light of recent examples of fraud, embezzlement, and gross mismanagement in both the for- and non-profit sectors.

While the economic and social impact of the Enron and Tyco scandals was huge, their correlates in the non-profit sector stand out because these organizations enjoy special tax status and many are entrusted with donations earmarked for critical humanitarian purposes. The misuse of funds at a non-profit organization is therefore equivalent to a diversion of tax dollars from their intended purpose, and a threat to social welfare. The closing of regulatory loopholes is clearly essential.

But that's not new. There will always be attempts to subvert the spirit or letter of the law, and thus an ongoing need for vigilant oversight. While most funders are quite good at parsing out the legitimate and most effective non-profit organizations, and new ways to monitor and evaluate funders are emerging, government oversight will always be important.

The new challenge for all of us concerned about the fate of the social sector, and the impact of the work we do, is to reform the system in such a way that, while abuses are reduced, the highest quality organizations are able to thrive. Federal and state regulatory regimes should not only prevent abuses, but they should also foster an environment where great ideas can come to fruition.

Unfortunately, this is not our reality today. While interesting and effective cross-disciplinary and cross-sectoral initiatives are proving themselves in the domestic and international arenas, the federal tax code is a burden rather than a catalyst. The most glaring example is the vast amount of untapped private sector capital that could be used--in the form of grants and investments--for social purposes. But the natural affinities among for-profit and non-profit entities go unrealized for fear that novel collaborations will be viewed as conflicts of interest, self-dealing, or abrogations of their commitment to social purposes. Again, conflicts of interest and self-dealing are real problems in the industry, but a more sophisticated understanding of the state of the industry could lead to win-win reforms: fewer loopholes and fewer burdens for innovators.

I urge the Committee to continue to look for ways to thwart abuses, while understanding that this task is an ongoing one (and that media coverage of individual instances of abuses should be put in perspective). Simply being more vigilant is not the answer. Instead, regulators must revisit their long-held notions of what constitutes a social purpose organization and develop new rules which reflect the sophistication of the non-profit sector in its current, evolved state.