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Preface

Distinguished Reader,

The global associational revolution powers on – citizens everywhere fund or set up organizations to address pressing local and global challenges. But in addition to “more of the same,” there are also indications that we may be on the verge of a qualitative shift of philanthropy’s role in contributing to the public good. Patterns of giving, sophistication of social investment mechanics, and recognition of change agents outside immediate constituencies all reached new watermarks last year. The largest ever pledge to a charitable foundation was made, in the order of US$ 44.5 billion. For the first time, the concept of collateralized debt obligations was applied to provide access to fresh capital on quasi-commercial terms to a portfolio of social enterprises working in the field of eye care. Rather than a political leader, the founding figure of microfinance in Bangladesh received the Nobel Peace Prize in 2006. And a feature film documentary on climate change was awarded an Oscar.

The hope, of course, is that global philanthropy is about to reach an inflection point with the potential for dramatically greater positive social impact – which is much needed given the massive global challenges humanity faces.

As we get ready for the UBS Philanthropy Forum 2007 and our other philanthropy events around the world, this edition of Viewpoints brings the dynamic nature of philanthropy to the forefront.

The first section focuses on the central topic of the UBS philanthropy events this year: the inflection point. Well-timed and skillfully designed philanthropic interventions can tip issues, fund new initiatives with an astounding potential for self-sustained scaling, and pilot innovations the public sector can replicate. Intervening at the inflection point is increasingly recognized as key in creating effective philanthropy.

Firmly convinced that macrobehavior and outcomes are best understood with minute attention to detail, micromotives, and local outcomes, we then invite you to think about inflection points in terms of emerging issues, new intervention models, and the philanthropist’s personal growth process.

In a fragmented and changing philanthropy landscape, philanthropists often pursue their work without having had the opportunity to compare notes. Yet, given their shared passion for a specific cause, they would benefit from shared access to knowledge and personal exchange in a safe-space environment. Section two introduces our new platform for such joint problem-solving, which will be offered for the first time at this year’s Forum, the “matrix group.” At the upcoming Forum, the matrix groups will explore the latest trends in three thematic areas: climate change, commodities and philanthropy, and finance for foundations.

New opportunities to make a difference are not just a function of the emergence or ripening of specific issues. Section three takes a look at some of the new intervention models that are moving up in the philanthropic agenda around the world, such as social entrepreneurship, venture philanthropy, and hybrid value added chains.

Section four shifts the focus from external environment to personal process. Philanthropists’ needs and giving preferences change over time. This renders “timing the self” as important as timing issues and grantees. Philanthropic interventions that are designed to be commensurate with and properly anticipate built-in inflection points in the personal growth process tend to be more effective at sustaining long-term donor satisfaction and commitment.

Section five looks ahead. What are some of the new trends to be aware of, and how may the arena for philanthropic action look like thirty years from now?

We hope that you will enjoy this report, and that it will be able to assist you in attaining greater clarity on how to translate your personal philanthropic aspirations into effective action – in the near and in the long term. We thank the authors for sharing their experiences, views, and thoughts so generously.

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Philanthropy at the Inflection Point

Intervening at the Inflection Point, by Maximilian Martin
Getting Change for Your Dollars, by Jacqueline Novogratz
Incubating Social Change, by Michael Chu
Intervening at the Inflection Point

By Maximilian Martin

“An inflection point occurs where the old strategic picture dissolves and gives way to the new” – Andy Grove

Introduction: Why Focus on the Inflection Point?
Philanthropy harbors an interesting paradox. From a structural point of view, philanthropic foundations can be designed to operate in the very long run, in principle in perpetuity. For example, the largest charitable grant-giver to London-only causes, the Bridge House Trust, dates back to 1097 (it was renamed The City Bridge Trust in 2007).

Since culture and society transcend the biological life span, they can “carry” the philanthropic foundation and the ethos its founder wished to express in perpetuity. This notion of “historical time” is an important driver of philanthropic action. But how can one make a difference over long periods in a changing world? Truly relevant philanthropy is associated with interventions at inflection points: tipping issues, funding major new research that fundamentally alters the intervention options, and thereby catalyzing systemic change with implications well into the future.

In the past, catalyzing major change was often an unexpected by-product of supporting good people, rather than a pre-planned outcome. Take the case of one of the tutors of Cosimo II de Medici. Almost 400 years ago, the telescope was invented in the Netherlands. Based on sketches, the empirical-minded tutor by the name of Galilei (1564-1642) had built his own telescope, and used it to observe Jupiter. On January 7, 1610, he made an interesting observation: Jupiter had four satellites. Observing them over several days, it became clear that they were in orbit around Jupiter.

This contradicted the geocentric model of the universe, which argued that the Earth is at the center of the universe, and all other objects go around it. Instead, it supported heliocentric theory, positing the Sun at the center of the universe. Later observations of Venus lent further support to the heliocentric model. While no news to some Indian, Greek, and Arab scientists of previous centuries, realizing that the Sun rather than the Earth was at the center of the solar system proved to be a major inflection point in the history of Western science. And unlike in previous centuries, the invention of the telescope was able to lend sound empirical support to the argument advanced earlier by Copernicus. Thus, Galileo Galilei became known as one of the catalysts of an inflection point in European history.

But his career also exemplified why the relationship between philanthropists and grantees can be so symbiotic: because of philanthropists’ ability to take the long view, to bet on new people and new ideas, and their ability to endow them with the resources and legitimacy needed to conduct groundbreaking work. Supported by the Medici family, Galileo was appointed as university professor and exempted from teaching so he could fully focus on research. He became the mathematician and philosopher in residence of Cosimo II de Medici.

When Galileo’s findings were disseminated through Europe, the Medici offered a steady job and access to a valuable network. Naming the four moons of Jupiter after the four Medici brothers helped to associate the family with what were at the time controversial scientific findings, thus providing a hedge against some of his opponents.

Philanthropic action remains long-term and dynamic, but it has become more strategic and forward-looking since the time of the Medici. So, how can one raise a philanthropist’s ability to hit inflection points?

Our advisory work suggests that it is best to look at three types of inflection points simultaneously. Together, they play an important role in defining the constraint-opportunity set of philanthropy (see figure 1):

- **Timing the Issue.** Some issues are ripe, others are not. To be solved, an issue needs to be sufficiently ripe in terms of public attention and availability of solutions – such as global warming currently – or a long-run commitment to ripening it needs to be made. Sometimes, philanthropic action can help to greatly increase the sense of urgency – think about the catalytic effect of the feature film documentary *An Inconvenient Truth*.

- **Timing the Grantee.** From a social impact perspective, maximizing the catalytic effect of the grantee is critical as well. This requires awareness of inflection points when making resource allocation decisions regarding specific organizations – is the grantee organization currently in a steady-state,
or is it about to experience a step change such as rapid growth, merger or refocusing the mission?

- Moreover, philanthropists’ needs and giving preferences change as the personal lifecycle progresses. Thus, **timing the self** is important as well. Philanthropic interventions that are designed to be commensurate with and properly anticipate built-in inflection points in the personal growth process tend to be more effective at sustaining long-term donor satisfaction and commitment. In a nutshell, young philanthropists can afford to experiment – looking into issues that may become ripe at some point, and gathering personal experience in both organizations that are in a steady state as well as those undergoing a step change. For philanthropists in mid-adulthood who want to make a difference, it is often best to focus on step-change organizations that work on an issue that is ripe – here they can leverage their personal skills, networks, and engagement. Philanthropists in late adulthood often prefer to back grantee organizations in a steady state – they have less time to reverse course, if an initiative turns out not to be on track.

Let us work through the three types of inflection points one by one.

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**Figure 1: Inflection-Point Philanthropy**

Source: UBS Philanthropy Services

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**Timing the Issue**

Issues ripen over time. At some point, they become ready for intervention, but often only after long delays. In which stage to intervene then becomes a function of a philanthropist’s ability to identify emerging issues, risk appetite, and patience to wait for results to materialize.

Consider the following two “issue cycles”: a completed issue cycle, the case of the battered child syndrome (BCS), as described by organizational theorist Karl Weick, and an issue cycle in motion, global warming.

BCS refers to a pattern of injuries to the head, arms, legs or ribs of a child, which cannot be explained in terms of the medical history offered by the parents. This is because the child’s injuries result from assaults by the parents, who then either do not report them to a doctor, or seek to present them as an accident.

At the initial stage, some events simply seem to be so implausible that individuals hesitate to report or theorize them. In the case of BCS, the injuries can often only be detected in X-rays. For centuries, BCS was therefore largely invisible to the medical community. In 1946, a pediatric radiologist, John Cafrey, was the first to describe the syndrome. Looking at six cases where medical histories did not match physical injuries, he speculated about possible causes – such as intentional ill-treatment by parents. A few additional scholarly papers on the subject followed in the 1950s.

But even if a phenomenon is fairly well described, it may fail to draw attention initially. Published in a radiology journal, it took over a decade for the BCS argument to gain any traction in the pediatric community. In 1961, a panel on BCS was finally held at the American Academy of Pediatrics, based on strong empirical evidence from a national survey that identified 749 cases. This moved the needle, triggering a public policy response. By the mid-sixties, laws had been passed in all U.S. states, requiring that suspected BCS cases be reported. As reporting improved, the number of cases skyrocketed. Estimates put the number of cases in the U.S. at 7,000 in 1967, 60,000 in 1972, and 500,000 in 1976. BCS was first theorized in 1946. Over a period of thirty years its prohibition had become firmly anchored in law. Another thirty years later, the concept of child rights has widened and become an established focus of many civil society organizations, some of which are members of the NGO coalition on child rights. An important issue went from not ripe to ripe. In a process of mutual causation, the combination of scientific research, citizen action, and public policy engendered the emergence of a dedicated institutional landscape.
Public action lags consensus in the scientific community, creating several opportunities for philanthropic action to serve as a catalyst. In principle, a philanthropist can place his or her bets at one or several stages in the “issue cycle”:

- In the early stage, by funding research that will lead to the discovery of new phenomena or solutions to a given social challenge.
- In the mid stage, where the focus is on disseminating findings, conducting advocacy to grab stakeholders’ attention, and rolling out solutions.
- Or in the mature stage, when an issue is fairly well established, a set of solutions and policies in place, and the focus shifts toward improving the efficiency and effectiveness of the solutions at hand, and making sure that there is no systematic exclusion of potential beneficiaries.
- Note also that provided an issue unfolds successfully, a point may be reached where the philanthropist’s support is no longer needed – typically because public sector funding and/or commercial capital become available. At this point, philanthropists are well advised to bring to bear their resources on other issues or sup-topics.

The issue of BCS is mature – it is a recognized phenomenon, and responses are in place. But how can philanthropists identify inflection points with respect to ongoing issues? Let us look at the issue of climate change.

The scientific foundations of the phenomenon date back almost 200 years. The French scientist Jean Baptiste Fourier was the first to describe the greenhouse effect in 1822 (“l’effet de serre”). In 1894, the Swedish chemist and posthumous Nobel Prize recipient Svante Arrhenius published the first calculations that substantiated global warming resulting from human emissions of CO2. But the issue did not get much traction. In fact, when Guy Stewart Callendar argued in 1938 that CO2 greenhouse global warming was underway (the “Callendar Effect”), he thought that global warming would be beneficial – since it would delay the return of the ice age. Since then, the consensus has shifted significantly.

To get a sense of its recent evolution, take the number of academic papers that refer to “global warming” and “climate change.” Figure 2 plots the results of a Google Scholar search for citations. The number of papers published from 1986 follows an S-shaped curve. Over time, the topic matured as a subject of scientific research. In terms of academic attention and some consensus, the inflection point came at the beginning of this decade.

The issue of BCS is mature – it is a recognized phenomenon, and responses are in place. But how can philanthropists identify inflection points with respect to ongoing issues? Let us look at the issue of climate change.

So where do philanthropists fit in? Philanthropic action has played an important role in accelerating the ripening of the issue of climate change at different junctures in the issue cycle. Two contributors to this report, Alois Flatz and Uday Khemka, share their insights further ahead.

Depending on the philanthropist’s preferences, it makes sense to intervene at different stages.

- In the early stage, funding the translation of scientific research into policy relevant networks and outputs is useful in moving the issue to an inflection point. For example, the Rockefeller Brothers Fund organized a dedicated conference on global climate change in 1994, which convened scientists and NGO representatives. The scientists and specialists had been working on the issue of global warming for many years. Bringing them together played an important role in moving policy level discussion and research forward. The Fund has continued to finance related initiatives since.
- As an issue matures, funding initiatives that accelerate the diffusion of awareness become attractive. The inflection point shifts from building consensus and action orientation in the scientific community to creating global awareness. Consider the impact of funding by entrepreneur and philanthropist Jeff Skoll to transform former U.S. Vice President Al Gore’s lectures.
on climate change into a scaleable medium, the documentary An Inconvenient Truth.

• Looking ahead and funding a search for solutions can also help to galvanize convergent action. This is what UK entrepreneur Richard Branson did by offering US$ 25 million to anyone who invents a system that removes greenhouse gases from the atmosphere.

• Finally, bringing commercial capital markets to bear on the development of solutions can be an inflection-point intervention as well. As happens in many issue cycles, financial investment lags scientific consensus, but slightly leads awareness by the public at large. For example, European and US venture capital investment in cleantech has more than doubled recently from US$ 1.7 billion (2004) to US$ 3.6 billion (2006), outpacing general VC growth: from 1999-2001 cleantech captured about 1-3% of overall venture capital in North America. Between 2002-2005, that share had already grown to 5-8%. Today, cleantech receives the third largest share of VC funding and has overtaken telecommunications and drugs. Increasingly, philanthropists give and invest: over the next decade, Richard Branson has pledged to invest all profits from his travel-related companies into cleantech – an estimated US$ 3 billion.

Of course, all issues do not ripen at the same speed. And the intervention of a single philanthropist to contribute to their ripening is just one of several variables to be considered. The important point is to act in line with one’s risk preference and ambitions, and to reduce risk by appropriately diversifying one’s portfolio of initiatives, and carefully examining potential grantees or investment opportunities. Some philanthropists intervene at one specific stage of an issue. Others stay with the issue and vary their interventions to create the greatest impact. Done well, timing the issue can greatly add to the catalytic effect of effective philanthropy.

Timing the Grantee
Timing the issue is a necessary but not sufficient condition to maximize the social impact of philanthropic resources. A related question is: who are the grantees that can create the greatest positive impact at a given point in time? This is not automatically the organization that pioneers a concept or intervention. It can also be a follower – as issues mature, organizations tend to emerge that adapt the pioneer’s intervention model.

From the philanthropist’s perspective, it is important to be aware of the inflection points or “step changes” that lie ahead on the grantees’ path:

• Is the original mission largely accomplished so that the organization will either be wound down, merged, or its mission changed?

• Is the organization large and established and likely to seek to open up additional program areas?

• Or is one dealing with a start-up that has identified a viable niche and seeks to rollout its services?

The challenges differ, but money and influence need to be deployed wisely in all cases: is the organization truly relevant? Can the grantee absorb the funds allocated? Do I need to finance capacity-building? And what is likely to happen when the donor exits?


Elements of human rights stretch back millennia, possibly as far as the reign of the Persian Emperor Cyrus the Great in the sixth century before Christ. A turning-point civil society organization is the British Anti-Slavery Society, the world’s oldest surviving international human rights organization. It stretches back to 1787, when the first abolitionist society was formed. In the nineteenth century, the organization was instrumental in “dissolving the established strategic picture”: it played a lead role in the movement to abolish the slave trade in Britain and slavery throughout the British colonies (accomplished in 1807 and 1833, respectively).

The organization itself experienced several inflection points: when it was created, slavery was standard practice in the formal sector throughout a significant part of the world economy. The challenge was to lobby for legislation that abolished slavery – and its enforcement. After the gradual abolishment of slavery during the nineteenth century, the focus of work on human rights shifted toward compliance.

Today, human rights are largely codified. In the modern sense, they follow mainly two traditions: first, the Anglo-Saxon tradition of negative rights that a government or private entity may not remove – such as the right to life and security of person, or equality before the law and due process under the rule of law. Second, the tradition of positive human rights following the continental European legal tradition, stipulating that the government must provide certain goods such as education or health care. For some, the codification frontier has shifted to what is sometimes referred to as “third-generation human rights”
such as the right to peace or a clean environment. These third-generation rights do not currently enjoy legal or political recognition.

By the 1890s, the Anti-Slavery Society’s original mandate had been largely fulfilled. The organization was at a turning point. It expanded to include an additional target: campaigning against the ill treatment of indigenous peoples. Thus, in 1909, it merged with the British Aborigines’ Protection Society. As the Anti-Slavery and Aborigines’ Protection Society, the organization played an important role in campaigning for and drafting the 1926 Convention on the Abolition of Slavery. In the 1950s, another turning point was reached – the focus shifted to practices analogous to slavery. Thus, the Society campaigned for the 1956 Supplementary Convention on the Abolition of Slavery, the Slave Trade and Institutions and Practices Similar to Slavery. In 1975, it worked for the creation of a group of experts within the United Nations dedicated to the elimination of slavery, now called the UN Working Group on Contemporary Forms of Slavery. In the 1980s, the Society revisited its focus and intervention model again. In 1990, it changed its name to Anti-Slavery International, defining the following areas of work: forced and bonded labor, child labor, human trafficking, and traditional or “chattel” slavery.

In addition to established grantee organizations which adjust their focus to remain relevant, the maturation of an issue such as human rights also sets the stage for the emergence of new players. The very codification of human rights that was embedded in the United Nation’s Universal Declaration of Human Rights in 1948 provided the basis for the creation of what is probably the best-known international human rights organization today – Amnesty International. Founded in 1961 by an English lawyer, Peter Benenson, it was originally conceived as an appeal to free the “forgotten prisoners” which were imprisoned by governments in violation of articles 18 and 19 of the Universal Declaration of Human Rights. However, Amnesty International rapidly became a permanent global organization.

Analogous to Anti-Slavery International’s adjustment to ensure the relevance of its work, Amnesty International adopted a new, six-year strategy in 2003. Under the leadership of CEO Irene Khan, Amnesty International has sought to move beyond issue areas that are directly anchored in the Universal Declaration of Human Rights of 1948.

Recently, the success of “adversarial” human rights organizations has also created a new niche for entities that assist governments in implementing the human rights legislation they passed. Founded in 2001, Geneva-based International Bridges for Justice (IBJ) specifically seeks to work with governments to enhance their criminal defender and legal aid efforts. Through providing training partnerships, legal and administrative structural support, and material assistance, IBJ aims to protect citizen rights and accelerate the implementation of existing criminal laws.

Increasingly, effective philanthropy requires taking a position both on the likely development of the issue the grantee is active in, and the relative promise of its business model, as well as attention to the quality of the grantee organization in terms of management and procedural safeguards. Philanthropists cannot escape the fundamental tradeoff between a well-developed administrative structure – referred to as “bureaucracy” by some – and a more agile, less institutionalized entrepreneurial structure. Inevitably, the former offers more procedural safeguards, the latter more intuition and flexibility.

While the tradeoff is real, three factors are key to navigate inflection points within organizations:

- Be aware that the target is moving: the relative ability of an organization to contribute to the issue will change as the issue matures and emerges as a field.
- A startup has different needs and capabilities than an established charity. Pay attention if the organization has what it takes to deliver – within the parameters of the organization’s lifecycle – and support it to master the step changes on its path.
- Finally, there will be surprises. Consider hedging by adopting a conscious portfolio approach – balanced or growth, depending on the philanthropic preferences.

**Timing the Self**

Effective philanthropy is most easily attained through a dynamic approach that seeks to anticipate and act on inflection points regarding the issue in question, and the grantee organization funded to address this issue. Issues ripen over time. Grantee organizations follow transition paths with step changes on their way. Timing issue and grantee can be hard, but rewarding if one succeeds.

A third important inflection point to hit is the self. What distinguishes philanthropists from other human beings is their ability to create institutional landscapes that render their giving and social change ambitions durable in time and detached from their biological life spans – they are hyperagents.

But philanthropists’ needs and giving preferences change as their personal lifecycle progresses – applying Daniel Levinson’s framework is instructive in this respect (see figure 3).
When individuals start careers and families, they transition from pre-adulthood to early adulthood. In the late twenties or early thirties, people typically undergo a self-evaluation, and then "settle down." At about age forty, another transition occurs: one realizes that some ambitions are unlikely to be met. As middle adulthood sets in, the task is now to come to terms with this fact. This requires working through one's particular individuality and leveraging the talents and resources at hand. Finally, as people transition to late adulthood, they frequently reflect upon joys, successes, and failures. Those who manage to look back in peace then go on to enjoy the remainder of their lives.

Thoughtful philanthropy seeks to propose spaces in which a philanthropic identity can develop in ways that are aligned with the personal growth process:

- For young adults, the challenge is mainly to get involved early on in ways that allow learning the ropes of giving – gathering actual experience with grant making and project selection, and building existential philanthropic experience through internships or field visits. Often this is best done through a sub-fund rather than the main foundation programs. For example, the Surdna Foundation – established in 1917 to pursue a range of philanthropic purposes by John Emory Andrus, a businessman with a special talent in finding and purchasing undervalued assets – created the Andrus Family Fund in 2000. Its stated objective is to provide fifth-generation family members aged twenty-five to forty-five with an opportunity to learn about and participate in organized philanthropy. The Fund operates under the tax-exempt status of the Surdna Foundation, but defines and manages its own grantmaking program and process. During early adulthood, providing a space for experimentation is typically more important than looking for inflection points regarding issues and grantees.

- A bit later in life, the challenge is different. Exiting a first career in business, say by cashing out through an IPO, is an existential experience. In this context, philanthropy can serve as a new source of meaning and almost a second career. Take for example Sir Tom Hunter, a UK entrepreneur who built a sport retail chain in the UK over a fourteen-year period, starting from nothing to employing 7,500 people across over 250 stores: "When I cashed out first time round I started to get begging letters. I responded. The checks went out, and the emptiness grew. Was I making any difference? Was the money wasted? Had I been conned? I was 37 and needed a challenge. I needed to make more money, but I wanted a purpose for that creation of wealth. I found it in philanthropy."

Note that the ambition level at the middle stage is different. Experimenting is not enough. To serve as a sustainable source of meaning, philanthropy also needs to achieve results on the ground. This means that looking for inflection points regarding issues and grantees moves up on the philanthropist’s agenda of priorities. Perhaps this is why many philanthropists at this stage look for issues that are ripe, but grantees organizations that they can help in making a step change.

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1 http://business.timesonline.co.uk/tol/business/economics/article708294.ece
Finally, when the focus shifts towards transcendence, the urgency to identify inflection points increases further – if one is serious about leaving a legacy. The philanthropist has less time to take corrective action and reverse course, should the foundation not be on track. Rather than experimentation or providing a source of existential meaning for one's current life, the emphasis is on relevance well into the future. This requires picking issues and grantees well, and possibly leaving a structure behind that can express values and hold together the family. Many choose issues that are ripe, and grantee organizations that are stable. But a bit of luck is needed as well: had Gaius Maecenas, philanthropist and trusted advisor to Emperor Augustus, backed less gifted writers than Vergil, Horace, and Propertius, we might not remember him today.

Conclusion
Ensuring the continued relevance of philanthropic vehicles over multiple generations is no small feat in a changing world. It involves solving the paradox identified at the start – of balancing the desire for perpetuity, with the ability to act over the near-term. Being able to identify inflection points when issues, grantee organizations, and the philanthropists themselves mature is essential to achieving that balance. Adopting an approach that encourages successive family members to act on personal inflection points tends to be a good way to unlock the critical mass of passion needed to make a difference.

Paired with a commitment to intervening at inflection points in the external environment, when a limited intervention greatly accelerates the maturing of issues and grantee organizations, such philanthropy can be instrumental in tipping issues and piloting innovation. What if Jeff Skoll had not funded An Inconvenient Truth? Or if a philanthropist had helped John Caffrey to disseminate his findings on BCS more quickly? The issues of global warming and BCS are likely to have advanced at different speeds.

Of course, one must ultimately come to terms with the uncertainty of acting over such long time horizons, and understand that actions produce both intended and unintended consequences. The names of Jupiter’s satellites that stuck were not the ones given by Galilei, but the ones given by Simon Marius, a German astronomer who discovered the moons independently in 1610, naming them Io, Europa, Ganymede and Callisto. Accused of plagiarism by Galilei, he did however suggest that they be renamed “Galilean satellites.” But does this invalidate the Medici’s decision to support Galilei? Certainly not if one looks at the impact of his work.
Getting Change for Your Dollars

By Jacqueline Novogratz

“Yesterday is gone. Tomorrow has not yet come. We have only today. Let us begin” – Mother Teresa (1910-1997)

Introduction

While the development community has long been focused on providing the poor with greater incomes and opportunities to enhance their livelihoods through jobs and affordable credit, the poor also need access to affordable goods and services like clean water, healthcare, housing, and energy. Those in the lower two-thirds of the income pyramid have traditionally been “invisible” – ignored by the private marketplace and addressed by top-down government programs of questionable effectiveness.

Creating real and lasting access for the poor will require a range of investment and charitable approaches. But because philanthropic capital is the most flexible and can be the most risk-seeking, a new class of social investors is experimenting with innovative ways to bring goods and services to the poor. Acumen Fund’s investment in effective anti-malaria products demonstrates that small doses of philanthropic capital can transform small companies, generate social impact at scale, and show innovative approaches to seemingly intractable problems.

Making a Net Impact

Nearly one million people in Africa die each year from malaria, with children and pregnant women at greatest risk. While bednets are one of the most effective means for preventing the transmission of malaria, traditional nets typically have a lifespan of about six months. The cost of re-treating a bednet with insecticide every few months (necessary to maintain effectiveness) is expensive and requires costly social marketing programs to be done effectively.

In 2003, Acumen Fund, a non-profit global venture fund, financed the transfer of technology for a new longer lasting bednet impregnated with insecticide to the first factory of its kind in Africa. Acumen Fund provided a small loan and intensive management assistance to A to Z Textiles, a Tanzanian company, while also coordinating a complex public-private partnership among Sumitomo, ExxonMobil, WHO, UNICEF, and A to Z. Following Acumen Fund’s investment, A to Z committed significant additional resources to expanding their production and entered a joint venture with Sumitomo Chemical to take their production capacity to seven million nets per year.

Since starting this venture, A to Z has produced 7 million nets. Employment at the factory has jumped from 1,000 to 5,000, making it the third largest company in the country. Ninety-five percent of these new employees are women, creating a social and economic benefit to their extended families and the region. The company is now exploring possibilities to bring low-cost housing to employees so that women working at the plant can cover the costs of their homes, water and health with one payment and, for the first time in their lives, actually begin saving money – the first step to sustained wealth creation. Along with its partners, Acumen Fund succeeded in bringing high quality manufacturing of a critical product to Africa with this investment.

Getting Better at Getting Goods to the Poor

The existence of the product, however, does not mean that those who need it will necessarily get it. Although the bulk of A to Z’s production of nets is currently being bought and distributed by UNICEF, A to Z wanted to explore other channels for distribution of the net, particularly given the significant increase in its manufacturing capacity.

Again, philanthropic capital can allow for experimentation. Acumen Fund invested for a second time in A to Z to test the sale of long-lasting bednets at a subsidized price (US$ 3 vs. the current market price of US$ 6) directly to poor urban and rural consumers around Arusha. Using a variety of channels, including door to door saleswomen, sales in village markets, sales through the workplace, and sales through churches and health clinics, A to Z sold 66,000 over the past year to individuals at US$ 3 per net. To run this program, A to Z spent roughly US$ 70,000 in 2006, which translates to just over a dollar per net in direct distribution and overhead costs. Compared with other public distribution efforts, which can spend up to US$ 6 distributing each net, this distribution experiment shows real promise for how private markets (with targeted subsidies) can complement free net distribution program.
Conclusion
The A to Z story illustrates a few important lessons. First, there are market segments willing to pay for bednets at a subsidy. The question is how big a subsidy: Acumen Fund is working with Pascaline Dupas at Dartmouth and the Exxon Mobil Foundation to study the price point (or subsidy) that would generate the most sales. Second, through these subsidies, it is possible to build indigenous distribution systems that may be used for other critical goods and services. Third, not all channels make sense, at least in the short-term, but some show real promise for extending opportunity to people beyond those targeted by international agencies. Finally, using private channels for distribution – even accounting for the subsidy per net – allows significantly lower distribution costs than those of the international agencies. This means that many more people can be reached for the same amount of money.

This goes to show that a relatively small injection of philanthropic capital can result not only in significant lives changed but in the development of sustainable distribution models. From a public policy perspective, it makes sense to see how many nets can be moved through private distribution channels and to understand which segments of the population cannot afford to pay at all, such as orphans or the extremely destitute. Not only will private distribution stimulate economic opportunity and jobs, it will also create a sustainable supply of a critical good in the markets that will be there when the public and philanthropic funding for net distribution campaigns ends.

Incubating Social Change

By Michael Chu

“Our lives begin to end the day we become silent about things that matter” – Martin Luther King (1929-1968)

At the heart of any social enterprise capable of capturing our imagination and our personal commitment is a mission so important, that failing to achieve it leaves us somehow incomplete as human beings. Yet, to reach it we must overcome tremendous obstacles.

For some of us, the mission is to save the environment from physical destruction, for others to ensure the civil rights of citizenship. In my case, given my dedication to microfinance, it is to respond to material poverty that constrains the right to choose and limits the human potential of the majority of our planet’s inhabitants. Yet, we all share a common fate – we are all Davids facing our own Goliaths. The question we face is simple – how can we create leverage to achieve ambitious goals with resources that will always be in short supply?

Social entrepreneurship faces the additional challenge of intractable objectives in scope or in time. Every year, we measure our performance and if we achieve the extraordinary instead of the satisfactory, we are happy, especially if we have done better than others in the same sector.

Yet when the goal cannot be measured in net income and financial returns, but according to the benchmark of a social mission, we are condemned to measure our achievements in terms of what still remains to be accomplished, not what has already been done. No matter how many square kilometers of nature have been protected, the yardstick is what still remains under threat; no matter how many political prisoners have been freed, what counts is how many are still behind bars. When what is at stake is not a dollar more or less but human beings and any delay is
measured in lost human potential, logic implies there can be no other state but one of continued emergency. As a result, while understanding how to be successful is important in business it is vital in social enterprises.

**Defining the Benchmark: Hallmarks of Successful Social Enterprise**

Successful social entrepreneurs are those who contribute significantly to the resolution of an issue that haunts us. In identifying them, personal satisfaction or spiritual happiness are only consequences of the work, and should not be mistaken for the end purpose. Indeed, experience shows that when a social enterprise takes off our personal feelings are a poor guide to the actual progress we have made in the fight against our Goliath. Being sensitive to numerous issues is a good proof of our compassion, but the cruel truth from the field is that few things are in fact working as they should. I would like to suggest that to resolve social challenges substantially we must satisfy four key criteria.

The first is the ability to impact a significant share of our target population. In my case, the war on poverty, the challenge amounts to the three billion human beings who live and survive on less than two dollars a day. If we managed to invent a magical potion that could immediately eliminate poverty, but only succeeded in providing it to a hundred thousand people, we would have won only a small skirmish. The first requirement to lodge our stone between Goliath's eyes is to be able to impact the issue at hand on a large scale, and not simply scrape against it. In tackling poverty, for instance, we must be able to get to hundreds of millions of people.

The second criterion is to be able to commit long enough to ensure the sustainability of the solution. The problems we face – such as poverty, public health, nature conservation and climate change – are unlikely to be eliminated in a single generation, even with the best intervention models. So, social entrepreneurs should know plan, and act for the long haul.

The third criterion is to deploy effective interventions. Social entrepreneurs should adopt the Hippocratic Oath of doctors – to do no harm, to create no unhealthy dependencies, to avoid humiliating those helped, fostering bad practices, or generating false hopes. And thereafter ensure that what we do, far from being a cosmetic palliative, truly helps.

The fourth criterion is to make these interventions efficient. As even Bill and Melinda Gates have realized, our resources are always in short supply. To use them wisely is not only desirable, but incumbent upon us as guardians of an expectation of public good.

**Defining the Process: The Theory of Change**

Social enterprises must, then, have four essential characteristics of scale, sustainability, effectiveness, and efficiency, if they are to be successful in their goal. The sad reality, however, is that no entity can achieve all this alone. Every actor of the social entrepreneurship ecosystem can provide one of the key components of the solution, but none can deliver them all. Social enterprises must therefore analyze the roles of their stakeholders, and what they can contribute towards these four criteria.

Philanthropy is one such stakeholder. Most, if not all of the achievements of social entrepreneurship would not exist today without it. When philanthropy reaches its full potential, it sheds light on those powerful ideas which can change the world, and enables them to develop their own momentum.

Development agencies such as the Inter-American Development Bank, the World Bank, and the United Nations Development Program, can in turn fulfill their mission potential by acting as wealthy and enlightened relatives, helping these transformative ideas reach adolescence.

Yet neither philanthropy nor the development agencies are structurally designed to guarantee either scale or sustainability. In order for them to really flourish, ideas must ultimately be like adults, able to stand on their own feet. It is for this reason that development agencies and philanthropy have sought for so long to establish partnerships with governments. The state can provide such initiatives with massive scale and sustainability.

So went the theory of change, either explicitly or implicitly: ideas blossom, they are developed with philanthropic help, tested with the support of development agencies, and the more successful intervention models are then taken over by the public sector for massive replication.

Social entrepreneurship, however, presents a difficult dilemma for the public sector. It can provide scale and sustainability, but in this case sustained effectiveness and efficiency are just as important. Experience shows that the public sector, for various reasons, cannot satisfy these additional criteria.
Meeting the Benchmark: The Overlap of Private and Social Enterprise

If the role of philanthropy is to reveal ideas, if development agencies manage pilot trials, and if the public sector is faced with structural constraints that reduce efficiency, how can we comply with all four criteria?

Private enterprise is the only actor I know capable of delivering consistently the four attributes of scale, sustainability, effectiveness and efficiency. This is not the achievement of a particular company, but of the sector as a whole. Companies are born, prosper and die, but the system survives.

On a recent trip, I started my flight by turning on my computer made by Lenovo in China; a year ago it would have been an IBM from the United States, and tomorrow God knows who will have produced my computer and where. But I have the absolute certainty that I will not be short of a computer and furthermore that tomorrow’s model will be better and cheaper than the one I have today. This is the most powerful quality of the market. How, and when, can that power be tapped by social entrepreneurs?

Microfinance offers a case in point. Modern microfinance was basically born at the same time in Latin America and Asia in the early 1970s. Yet, the concept could never have blossomed without private philanthropy and public support at a time when the idea of providing financial services to the poor seemed completely preposterous. Empowered by venture philanthropy, ACCION since its inception in 1973 tried to build an alliance with the entrepreneurs of Latin America. Essentially, the ACCION network in Latin America was born out of the union between a social enterprise and leaders of the private sector. Across countries, from Mexico to Bolivia and Argentina, local entrepreneurs attended the birth of modern microfinance – not only as fund providers, but as direct managers. After philanthropy allowed for all possible mistakes effective methodologies were developed and their serious trial and testing was made possible by development agencies such as IADB and USAID. This led to the birth of banks that are now fully integrated into the banking systems of their countries and demonstrate that servicing the poor is more profitable and less risky than servicing the rich in Latin America. To achieve this reality, which is driving the truly massive delivery of microfinance services to low-income communities, cross-sector collaboration was essential, allowing each contributor to do what he knows best.

But the creation of social value by the private sector is neither automatic nor guaranteed. Although financial returns are essential to generate market capital flows, it is competition that ensures that the creation of economic value continues to be shared over the long term with families of lower-income groups.

The Value of Partnerships

So what is the fundamental learning to be drawn from microfinance for social entrepreneurship?

The power of microfinance stems from the fact that something that generates great social value – the access to financial services – could be turned into a commercial undertaking in order to achieve scale, sustainability, effectiveness, and efficiency. This approach is valid, if not for all, then at least for most social enterprises, and adhering to it can yield powerful results.

If the private sector can deliver all four criteria, what is the role of the public sector? First, it is to define the rules of the game so that market entry is accelerated and not substituted, ensuring a free and dynamic competition of social enterprise. This requires that social entrepreneurs establish a dialog with the public sector to help it act in this fashion, against its natural tendencies. The second role of the state is to be the funding agent of last resort for those issues of significant social impact that cannot be resolved with market mechanics, at least until the social entrepreneur’s creativity goes to work.

The four criteria identified previously are not met easily. The private sector offers all, but for models to reach a stage of market viability also requires hard work. And finally, the continued ability of a model to do good rests on spurring competition, even in the field of social enterprise. To achieve all this, the hope to change the world rests not in any one stakeholder. It rests in the collaboration between philanthropy, development agencies, the public sector, and private social enterprise, to create market mechanisms that ensure the scale, sustainability, effectiveness, and efficiency of initiatives of high social value.
Timing the Issue
The UBS Philanthropy Forum 2007

A Matrix Approach to Enabling Effective Philanthropy, by Maximilian Martin and Andreas Ernst
Cleantech: Hype or Opportunity?, by Alois Flatz
The ICCAS Approach, by Uday Khemka
A Matrix Approach to Enabling Effective Philanthropy
By Maximilian Martin and Andreas Ernst

“I know Kung Fu.”
“Show me.” – Neo and Morpheus in the movie The Matrix

Introduction: Choosing an Issue
Action research and evidence from our advisory work confirm that philanthropists care about meaning and impact. This is excellent. But aspirations alone are seldom enough to achieve measurable results. Being successful in philanthropy requires identifying an issue to support and then developing a strategy to support it.

At this year’s Forum we are introducing the concept of “philanthropy matrix groups” to help our clients work through this two-pronged challenge. The matrix groups will bring together three select groups of innovative philanthropists – the people who should meet and engage in rigorous joint problem-solving, but may not yet have had a chance to do so.

Let us start by looking at the “rows” of this matrix – the choice of issue.

Effective philanthropy requires choosing issues and interventions that are at inflection points. But making that choice is not an accident – or at least should not be. Rather, intelligent choice of issues to address requires considering two factors – issue relevance and inherent solvability. Philanthropists need to understand where an issue lies on this two-dimensional grid to establish both what is important, and what is realistically possible before embarking on an intervention strategy.

It is best to illustrate this issue-action framework through some examples. Mapping issues as a function of their ripeness and ease of being addressed, we have decided to prioritize the following three issues this year (see figure 1):

- **C4CC – Cleantech for climate change**: how can philanthropists add the most value in preserving a complex global public good?
- **C4C – Commodities for change**: how can owners of companies in extractive industries best contribute to positive social change through philanthropic action?
- **F4F – Finance for foundations**: how can foundation assets be invested to unlock greater financial performance, and greater alignment of investment policy and philanthropic mission?

![Figure 1: The Issue-Action Framework](source: UBS Philanthropy Services)

Strategy Matters: The Pillars of the Philanthropy Matrix
Gaining clarity about issues and action options is critical. But so is building trust and identifying ways to move forward. This is best achieved through a process that fosters joint learning and sharing in a safe-space environment. To build that trust, and manage the amount of information, all preparatory matrix group conversations will be conducted in strict confidence. Global philanthropists with significant expertise with respect to the issues in question will facilitate the matrix groups. They will take the groups through a structured process that applies the three pillars which sustain inflection-point philanthropy to the issue in question:
• **Programmatic work.** Given an issue such as climate change, commodities, or foundation finance, how can I identify initiatives that are close to an inflection point? What are the leading indicators to be watched? Which types of interventions move a program on to a track for impact? When should I exit?

• **Governance of philanthropic vehicles.** Genius and leadership are important drivers of social change, but they reside in persons whose lifespan is finite. This is why many philanthropists seek to build institutions. How can I properly institutionalize my efforts to be best prepared to benefit from inflection points? What should I keep in mind when building a professional foundation board and secretariat? When is a core group of professional staff needed? What are the options for involving family members? And what does permanence in the very long run mean?

• **Financial investment of philanthropic resources.** How can philanthropists ensure that the financial assets of their philanthropic vehicles are properly invested for performance and inflection? Which role does the investment policy play? What about alternative asset classes and for-profit investments that support the philanthropic mission? What about the role of professional intermediaries such as investment advisers?

<table>
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<tr>
<th>Issue</th>
<th>Programming for Impact</th>
<th>Deriving Governance</th>
<th>Investing for Performance</th>
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<td>Cleantech4Climate-Change</td>
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<tr>
<td>Commodities-4Change</td>
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<td>Finance4-Foundations</td>
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Figure 2: The 2007 Philanthropy Matrix  
*Source: UBS Philanthropy Services*

C4CC – Cleantech for Climate Change  
The matrix group “Cleantech4ClimateChange” seeks to address a topic that occupies a corner position in the issue-action space: the issue is ripe, but taking effective action is hard. Strong scientific evidence suggests that there is a causal relation between human activity and a global change in climate conditions. Attempts to face this challenge are being made on various levels, which open a whole kaleidoscope of intervention possibilities to philanthropists.

• **Clean technology.** Accelerating return on technology presents opportunities to make significant progress in the global effort for climate control. What are the latest developments in energy creation and energy efficiency technologies? How can nanotechnology, hydrogen fuel cells, solar energy, and bio-fuels help in mitigating climate change? What are the success factors of efficient distribution and which obstacles and market failures are currently most pressing?

• **Cleantech investment opportunities.** According to research from Dow Jones VentureOne and Ernst & Young, global venture capital investment in cleantech companies stood at US$ 1.28 billion in 2006, compared to US$ 664.1 million in 2005. What does this rapid inflow of capital mean for innovation opportunities in cleantech applications? Which technologies are facing a bubble? Which are largely overlooked and undervalued, thus offering opportunities? To which extent can this increasing flow of funds be absorbed? Beyond pure cleantech, which other industries (e.g. insurance) will be affected by increasing numbers of global natural disasters?

C4C – Commodities for Change  
The matrix group “Commodities4Change” seeks to address a topic that occupies an intermediate position in the issue-action space: the issue is somewhat, though not yet fully, ripe, and there are ways to address it, but these are not easy. Companies involved in extractive industries are currently facing new challenges and opportunities with regards to their philanthropic activities:

• Since the Industrial Revolution, several companies in the commodities sector have exercised an active philanthropic engagement in the sites where they operate, providing not only employment, but also housing, medical care, child care, elementary and secondary schooling, etc. to the local population. An example of this variant of corporate philanthropy is the so-called company town model, by which the firm is practically taking on part of the work of the state at the local level. Do company town models constitute an effective way of philanthropic contribution? What are the limita-
tions and risks of this model? How will recent developments of the CSR movement affect the way in which the company town model is implemented?

- With the advent of globalization, some industries in the commodities sector began to face strict scrutiny from civil society organizations regarding the social and environmental consequences of their production activities. Conscious of the risks from association in the consumer mind with irresponsible production, and aware of their incapacity to tackle these issues independently, these industries have concluded multi-stakeholder agreements with NGOs, retailers, investors, and technical experts in order to define the most pressing environmental, human rights, and social issues associated with their production activities; provide recommendations for retailers and others seeking to produce or invest responsibly; and set up comprehensive regulatory schemes. Some examples of these initiatives are the Forest Stewardship Council and the Framework for Responsible Mining. Do these agreements constitute effective mechanisms to deal with the above mentioned issues? To what extent is it really important to ensure multi-stakeholder cooperation?

F4F – Finance for Foundations
The matrix group “Finance4Foundations” will address a topic that occupies an inverse corner position to climate change in the issue-action space: the issue is emerging only now, but taking effective action is relatively straightforward. So what are we talking about? The globalization of philanthropy and financial innovation are significantly altering the constraint-opportunity set for foundation asset management.

- Foundations with large endowments are exposed to increasing public scrutiny of their investment policies and their degree of alignment with the foundation’s philanthropic mission. An independent approach to a foundation’s programmatic work and its investments can create reputation risks, as recent coverage in global media has highlighted. How can large foundations then manage increasing media scrutiny of investments? Do mission-related investments (MRI) represent an opportunity to reconcile investment and programmatic objectives?

- Foundations with small endowments face a different challenge. To be able to maximize the resources available for their programmatic work without compromising a foundation’s ability to pursue its work in perpetuity, foundation endowments need to generate significant financial returns.

Large endowments can achieve this by allocating a percentage of the endowment in alternative asset classes such as private equity or hedge funds. However, smaller foundations are often not able to access top-decile private equity or hedge funds because they lack critical size. How can smaller foundations overcome the obstacles?

Conclusion
The UBS Philanthropy Forum is an experimental, content-driven platform. Having looked at how to exercise leadership through philanthropy in 2005 and how to create leverage in 2006, this year the Forum will look for inflection points in philanthropy – to quote Andy Grove, the founder of Intel, the moment when “the old strategic picture dissolves and gives way to the new.”

This requires a dynamic perspective and a bit of experimentation. We are convinced that there is value in enabling significant and innovative donors to establish personal relationships based on face-to-face interaction in a safe-space environment of peers. And since they face shared strategic issues and options, there is value in jointly working through emerging challenges in a rigorous way. Climate change, commodities, and foundation finance are at different stages in the issue cycle. They also differ in terms of availability of viable solutions. To get one’s hands around these challenges and enable effective philanthropy, we propose an exercise in matrix algebra this year. No worries, no unreasonable demands will be made to calculate scalar products. The brainwork required will be both challenging and fun.
Philanthropists seek to exercise leadership on issues they are passionate about. Fighting against global warming or environmental degradation has become a main objective for many. Some philanthropists actively promote change by advocating a better framework or by creating awareness. Others focus on accelerating technology to promote progress in the global effort to protect the environment – clean technology.

Clean technology encompasses innovative products or services that simultaneously reduce financial and environmental costs whilst driving better performance. These technologies offer dramatic improvements in resource efficiency and productivity, are cheaper to manufacture and operate, and are more energy efficient, whilst being ecologically sustainable, or at least less harmful. Clean technology offers some great investment opportunities and considerable amounts of money have already been invested in the area. According to Dow Jones VentureOne, global venture capital investment in clean technology companies reached US$ 1.28 billion in 2006, compared to US$ 664.1 million in 2005. CalPers, one of the largest pension funds globally, recently allocated US$ 400 million to clean technology venture capital investment over the next few years.

Whilst the clean technology market provides exciting investment opportunities, it is important to be aware of the pitfalls or risks involved. These include technology, market, and commodity risks.

Investing in clean technology is different from traditional technology investing. It bears much resemblance to industrial engineering, which means that the development and commercialization of technologies frequently takes more time than in other venture capital areas, such as IT. This often means high capital expenditure, and several funding rounds, which can reduce returns. Early stage investors could, as a result, find it difficult to increase valuation between rounds, especially before commercialization is underway.

Large dependence on legal frameworks and incentive schemes can also present market and economic risks. Market barriers have blocked a number of clean technologies from developing their anticipated growth potential. An example is the fuel cell driven car, announced by Daimler and Ford in 1998 to be launched in 2002, which five years later still has not been implemented. Many clean technologies also require behavioral changes. Problems have arisen where perceptions, supported by savvy marketers, are twisted without a full understanding of the technology. The adoption of the Toyota Prius car is one such example, becoming more of a fashion statement than an environmental one.

Commodity risks characterized by high volatility may have a severe effect on renewable energy projects. A heavy dependence on feedstock can erode margins, particularly in the case of biomass projects where input prices rally as they have done in the past three years i.e. corn, wood chips or used vegetable oil. As a result many projects do not create the steady cash-flow streams and returns usually expected from asset based projects.

Institutional and focused investing in clean technology is about managing risks and shaping a suitable investment strategy. A prudent investment strategy should include a number of factors:

- Diversification to include non-energy areas
- Focusing on technology companies
- Concentrating on expansion stage and growth companies
- Leveraging the opportunities in Europe

Diversification starts with a broad definition of clean technology and adding sectors such as water and efficient use of materials to renewable energy technologies. Experience has shown that water and renewable energy investments are not correlated.

By focusing on technology companies, rather than projects, dependencies on the commodities market can be substantially minimized. Investments in technology companies need lower capital expenditure and can achieve higher multiples. The current stage of many technologies makes it possible to profit from the economics they can achieve through scaling up.
Concentrating on expansion stage and growth capital is also vital. Risk is reduced by investing in companies which own market-proven technologies. The requirement of a minimum level of revenues when assessing a company is advisable to help determine the market acceptance of the product. A focus on valuation is another important consideration – avoiding high valuations for unproven technologies is important.

Clean technology is one of the few areas where European markets have an edge. Early framework setting in German speaking countries, Benelux, Spain, the UK, and Nordic countries have created significant demand for clean technologies. Europe now has the lead in most solar, wind and biomass technologies and many non-European companies are targeting Europe as a market to sell into; others are looking to Europe as a potential funding source, particularly with London’s AIM and the Frankfurt Stock Exchange hosting a large number of public market exits in the clean technology space.

The drivers for clean technology have never been more compelling: increasing oil prices, increasing energy demand, growth in emerging market economies, increasing environmental awareness, the Kyoto protocol, and energy security all feature strongly in the clean technology story and the significant investment opportunities emerging from this space. Moreover, these opportunities offer attractive financial returns whilst having a positive impact on the surrounding environment. Clean technology should therefore appeal to financial investors and to investors pursuing mission related investment strategies (MRIs).

Until less than ten years ago, one of the greatest challenges was to increase acceptance of Sustainable Investing. This was achieved to a large extent in 1999 when we created the Dow Jones Sustainability Indexes, the world’s first and most recognized financial sustainability index.

Today, the challenges are different. Only with new forms of energy and intelligent technologies will we be able to prevent large ecological changes from leading to social disasters. This constitutes a large investment opportunity, but also a great challenge. Our role here is to provide dedicated cleantech expertise that helps grab the investment opportunity and at the same time addresses the current environmental challenges.

The ICCAS Approach

By Uday Khemka

“Every man takes the limits of his own field of vision for the limits of the world” – Arthur Schopenhauer (1788-1860)

In October 2006, a unique group of people concerned about the threat climate change poses to humankind decided to convene at the Iceland Climate Change Action Summit (ICCAS) to see how they could make a difference. Made up of the Environment Taskforce of the Forum of Young Global Leaders (YGLs), international philanthropists, and climate change experts the group met in Reykjavik at the invitation of the President of Iceland, Olafur Ragnar Grimsson to come up with a concrete action plan to utilize their resources and skills to combat climate change.

Over the course of three days the communities worked together to discover how they could leverage their respective experience and networks to ensure that not only specific initiatives were moved forward but to explore for the first time how these three groups could work together and amplify each others successes.

A number of key themes were discussed throughout the course of the summit including:

• Promoting the theme of “Beyond Short Termism” in business, finance and politics;
• Publicizing the many business and profit opportunities that arise in the context of lowering carbon emissions and the low carbon economy;
• Creating awareness among political and business decision makers around the world on the issue of global warming; and
• Conceiving country specific mitigation strategies and approaches.
What became increasingly clear over the duration of the event was that the need for collaboration and information sharing was acute if climate change was to be successfully addressed. A number of the philanthropists, for instance, were interested in learning more about how they could get involved in the climate change arena, but felt that the issue was so diverse that they were not sure where to start. As a result one of the major initiatives to come out of the ICCAS event was the Climate Change Philanthropy Action Network – a new gathering of philanthropists who are determined to work together to ensure that their investments and grants make the most impact possible on global warming through knowledge sharing and coordinated giving.

At the end of the three days, the ICCAS participants left Iceland having developed a new network of high-level contacts, a clear sense of how they could participate in the fight against global warming, and a set of concrete projects which were working to influence business and decision makers to take the threat of climate change seriously and come up with innovative solutions to address it.

Timing the Grantee: New Models – Where do We Stand?

The Value Proposition of Venture Philanthropy, by Maximilian Martin
Social Entrepreneurship in Germany, by Ann-Kristin Achleitner
What Is Cooler than a Solar Chiller?, by Peter Heller
Culture and the Arts: A Long-Run Perspective, by Dario Disegni
The Prospects of Hybrid Value Added Chains, by Olivier Kayser
The Value Proposition of Venture Philanthropy

By Maximilian Martin

“Surplus wealth is a sacred trust which its possessor is bound to administer in his lifetime for the good of the community” – Andrew Carnegie (1835-1919)

Introduction

Analogous to social entrepreneurship, venture philanthropy – often also referred to as “high-engagement philanthropy” – has been the new show in town in philanthropy since the mid-nineties.\(^1\) Five trends are fuelling its rise to prominence: the general growth of more entrepreneurial approaches to social change; the increasing professionalization of civil society; increasing levels of wealth; the changing demographic composition of donors; and their greater desire for involvement in philanthropic ventures. Notwithstanding, the visibility of the venture philanthropy landscape continues to greatly exceed the actual volumes of philanthropic resources deployed.

More and more philanthropists are intrigued by venture philanthropy’s focus on identifying inflection points and assisting grantee organizations in mastering step changes, creating quality opportunities for involvement and demonstrable impact. But when does it make sense to get involved in venture philanthropy? And for whom?

To grasp the fundamental value proposition of venture philanthropy, this article looks at the example of Europe, where most venture philanthropy organizations (VPs) are currently small and experiment with many intervention models.

The European Venture Philanthropy Landscape

The good news for prospective venture philanthropists is straightforward: a lot remains to be done. In many European countries, there are only a few venture philanthropy organizations at most. They are small compared to the more traditional charitable foundations. A 2006 overview paper by Skoll Fellow Rob John lists 36 venture philanthropy organizations in Europe. The European Venture Philanthropy Association (EVPA), currently Europe’s sole network of VP organizations was created in 2004. It had 39 members in December 2006. The general mindset is decidedly experimental. Analogous to social entrepreneurship, practitioners and academics put forth a host of competing definitions of what venture philanthropy is or should be, and how it relates to venture capital. For economy of argument, we will sidestep this debate and focus on actual practice. A survey of 35 VPs provides the following picture:\(^2\)

- **Focus on startup philanthropy and step changes.** VPs focus overwhelmingly on supporting early or expansion-stage civil society organizations. In the sample, 86% of the respondent organizations focus on growth, 63% on early stage, 46% on established organizations, and 14% on mergers (multiple priorities possible).
- **Micro-size.** Most VP organizations are very small. 54% have 1-5 staff members.
- **Some involvement in governance.** VPs take a less interventionist approach to involvement than venture capitalists, but they tend to be more involved than “traditional” foundations. In the sample, 15% of respondents report a board seat as a requirement for funding, whereas 24% state they never get involved at the board level. 61% reserve the right to take board places depending on the individual investment case.
- **Still mainly traditional financing instruments.** Grantmaking remains the preferred means of financing target organizations, but there are some interesting innovations. 83% of the respondents make grants, 63% make

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loans, 43% take equity, and 26% engage in mezzanine financing. Given the strong interest in financial innovation, new tools are likely to become significant in the medium term.

- **Involvement beyond financial instruments.** Value-added, non-financial services are considered key to the VP social change value proposition. Many funds position themselves as contributing services related to strategy, governance, financial management, fundraising, and access to networks. Such services are delivered either through in-house capabilities or by third parties that may or may not be in a strategic relationship with the VP.

**The DNA: From Venture Capitalist to Venture Philanthropist**

In addition to understanding the landscape, prospective philanthropists also need to assess the cultural fit of an intervention model with their own background and values. What are the organizing principles of VP practice? Understanding the “DNA” of venture philanthropy requires grasping its relationship with venture capital. Venture capital provides the underlying source of wealth and professional socialization of most venture philanthropists.

Venture capitalists are in the business of identifying promising startups and investing in them. They typically take a systemic perspective: combining multiple companies into a portfolio is critical to reduce individual investment risk. Venture capitalists then take the portfolio companies through a clearly defined growth process with the objective of cashing out within a certain period of time, usually between four and seven years after the initial investment, depending on the type of venture. Essentially, this means anticipating inflection points that drive economic value. As the portfolio companies grow, need for financing the expansion arises, and venture capitalists draw in new investors.

Venture capital is an interesting source of returns on investment. But venture capital is also regarded as a disproportionate source of innovation in business relative to the volumes invested. Examining the relationship between venture capital activity and rates of patenting in a sample of 530 venture-backed firms in the U.S., Kortum and Lerner find that while the ratio of venture capital to R&D has averaged less than 3% from 1965-1992, venture capital accounted for 15% of industrial innovations in the sample. This twin observation of venture capital’s disproportionately high contribution to innovation and its low contribution level to overall R&D expenditure is consistent with the underlying logic that a closer look at the venture capital mechanism reveals. The question is, how can venture philanthropy play an analogous role in civil society?

Since venture philanthropists typically have a background in venture capital, their philanthropic activities build on key concepts and experiences from their profession, seeking to adapt them to the realities of civil society. To some extent, this is an exercise in translation. In the language of VPs, “donor” becomes “social investor,” “grantee” becomes “investee,” and “nonprofit leader” becomes “social entrepreneur.” Fortunately, venture philanthropy goes beyond an exercise in semantics. Concepts such as the generative grammar (Noam Chomsky) or the habitus (Pierre Bourdieu) help to understand the main patterns in venture philanthropists’ practice: based on their experience, mental models predispose venture philanthropists to structure reality in a certain way, and to prefer specific arenas and approaches in their philanthropic interventions. Four defining experiences in the world of venture capital drive venture philanthropists’ practice.

- **A keen sense of timing.** Venture capitalists use systems of discrete funds to implement their investments. The typical fund life span is in the order of 6-7 years, and funds are organized into general and limited partners. General partners contribute expertise and limited partners the money. The general partner makes all investment decisions and is compensated by the limited partners for managing the fund, typically at a base fee of 2% of the fund volume, plus 20% of the performance (“carried interest”). The investments of the limited partners are subject to lock-up periods, but they get 80% of the fund’s performance. As general partners, venture capitalists need to develop a keen sense of timing as one of their core competences. They are used to looking for investments that are likely to be able to pay off within the fund’s life span. In most cases, this means that they need to identify investments that are likely to pay off within a range of 2-4 years. As a result, they will look for investments that do not require very long lead times in terms of research, and they must not be confused with “business angels” who fund the earliest stage of an innovation.

- **Cyclicality as a fact of life.** Venture capital is a cyclical business. Since the ultimate objective of venture capital is cashing out a multiple of the initial amount invested, the absorption capacity of the IPO market is critical. Funds come and go with the business cycle. This leads to cyclical funding patterns. Analogously, the first wave of venture philanthropy followed the dot.com boom in the nineties, and venture philanthropy then became much less visible again when tech stocks took a nosedive. Recently, venture philanthropy has made a comeback on the back of rising securities markets.

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• **Schematicized “inflection-point” investment process.** Venture capitalists need to have a keen sense of inflection points that drive value. They take portfolio companies through a three-stage sequential investment process. **Series A** investments back a team with an idea to develop a prototype. **Series B** investments help bring this working prototype to market and build the initial pipeline of orders. Once a product shelf is in place, **series C** investments grow the pipeline of orders and the client base. To avoid liability and conflict of interest, venture capitalists are unlikely to invest in different funds that have overlapping portfolio companies.

• **Focus on measurable innovation.** Venture capitalists create economic value by mainly investing in, developing, and selling companies that have a technology component. However, given the funds’ short life spans, they are more likely to recognize and fund innovations that represent improvements within an established frame of reference, rather than fundamental breakthrough innovations. Empirical evidence supports this – of the 1,303 high-tech IPOs from 1993-2002 on NASDAQ and NYSE, only 25 were classified as “highly innovative.”

### The VP-investee Relationship

When a venture capitalist migrates to the field of venture philanthropy, he or she builds institutions that embody some of the core organizing principles of the venture capital industry. Prospective venture philanthropists need to ask whether these fundamental engagement principles are aligned with how they want to operate. The following five action principles drive VP strategy and funding decisions:

• **Exit and self-sufficiency.** Profitable exit is critical in venture capital. A core stated principle of venture philanthropy is the desire to be able to exit funding at some point because investees have achieved financial self-sufficiency. This sounds quite logical – philanthropic resources are scarce, so there is no point in locking them up longer than necessary. In practice though, this approach has implications for the set of organizations that are likely to be funded. In cases where social entrepreneurs or NGOs seek to provide public goods, there may be no earned-income models available to cover all costs. Similarly, venture philanthropists are more likely to fund social service organizations or local businesses in underprivileged communities than advocacy organizations with no underlying earned-income business.

• **Theory of success.** Venture philanthropists seek to define what constitutes success in terms of social impact and then try to establish metrics and milestones to measure the achievement. They will then seek to reward success, as well as requiring accountability for failure to meet objectives. This approach favors measurable innovation that can be reached within a medium-term timeframe, rather than long-term funding of fundamental research. Moreover, for many VPs success is correlated with scale. This tends to favor interventions that are scaleable. This approach reaches its limits where a cause requires long-term involvement, e.g. in the case of disaster preparedness initiatives, and where success is contingent on factors outside the control of the organization.

• **Financial engineering.** While many venture philanthropists do in fact make grants rather than for-profit investments, there is great interest in going beyond grantmaking and developing innovative financing mechanisms for non-profits. Moreover, venture philanthropists are aware of changing risk-reward profiles at the different stages of a venture. This makes for for-profit social entrepreneurs with strong underlying sustainable businesses that create social impact a promising target of venture philanthropy, which can provide a combination of capital injection, strategy advisory, and financial engineering.

• **Involvement.** Just as venture capitalists often seek board seats to make sure their portfolio companies stay on track, venture philanthropists often seek a formal form of involvement with the organizations they fund. This tends to be a mixed bag. Often, adding value to the operations of civil society organizations requires sector-specific skills that venture philanthropists do not have. On balance however, many civil society organizations have margin to further professionalize their management. Organizations that welcome explicit board roles that render donor influence visible are naturally compatible with VP governance preferences.

• **Core funding.** Venture philanthropists express greater willingness to fund core operations, rather than just specific programs. This helps to build institutional capacity and is perhaps the most significant departure from established funding approaches where foundations put up money for programs without footing the bill for the accompanying institution-building of the investee. Organizations with a strong underlying intervention model looking for core funding will be a natural match for VPs.

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Conclusion

For prospective philanthropists, it is worth noting that venture philanthropy is unlikely to displace more established patterns of philanthropic giving. However, the approach has comparative advantage with respect to a specific set of social challenges. When considering whether to set up a VP organization, or targeting one as a potential source of co-funding, philanthropists are well advised to critically assess whether the value proposition of venture philanthropy – its core components or “DNA” – is compatible with their work and ambitions:

- Preference for funding social service organizations with measurable and scaleable outputs
- Ability and ambition to build organizational effectiveness
- Predisposition to lend credibility to an investee, similar to lead venture capitalists who lend credibility to a startup

These are exciting times for innovative civil society organizations and venture philanthropists alike. There is a lot of room for further growth: in Europe, venture philanthropy is a more recent development than in the U.S. The European venture philanthropy scene is currently in a take-off phase. Institutionalization is just beginning, as the activities of the EVPA indicate.

Given the cultural heterogeneity of Europe, the success of the emerging venture philanthropy movement will be contingent to some degree on its ability to recognize and work productively with the cultural, legal, and economic specificities that characterize different European countries. The “swarm of locusts” debate in 2005 in Germany indicates that skeptics remain regarding the ability of venture capital and private equity to contribute to healthy economic growth. Similarly, venture philanthropy is not without critics.

In coming years, it will be interesting to note to what extent the growth pattern of the venture philanthropy “industry” will follow the business cycle. But the overall outlook is good – new engagement opportunities are coming on stream, both in terms of innovative VP programs, and nontraditional approaches to financing social change work. It is an exciting time to become a venture philanthropist.

Social Entrepreneurship in Germany

By Ann-Kristin Achleitner

“Knowing is not enough; we must apply. Willing is not enough; we must do” – Johann Wolfgang von Goethe (1749-1832)

The Nobel Prize awarded to Muhammad Yunus and the generous donations, especially those by Bill and Melinda Gates and Warren Buffet, as well as the reporting triggered thereby gave rise to the impression last year that social entrepreneurship and venture philanthropy have become significant phenomena. As important as they may be, developments in this direction are still in their infancy – especially in Germany. A lot must still happen for them to become effective.

It is an important development that in 2003 Ashoka began to look for social entrepreneurs in Germany and last year honored six fellows. This proved that this kind of personality may also exist in Western Europe and that such individuals can work on social problems here using the same approach. In the same year, the first German social venture capital fund, BonVenture, was started – it has since established a portfolio. And the Schwab Foundation for Social Entrepreneurship, too, has been honoring Germans for the past two years.

To be sure, the concept of a social entrepreneur is still hard to explain in German. Because of Germans’ critical attitude toward entrepreneurship, the social sector has an especially difficult time to be associated with it. In addition, an unambiguous categorization is not so easily possible.

If the concept of a social entrepreneur still needs to be explained, the concepts “social venture capital” and “venture philanthropy” are even more confusing. Even experts associate with both expressions, profit-oriented venture capital investments as well as an exit after a given time. It is difficult to explain that the majority of investments are not profit-oriented and that exits must
also be considered differently. It would be helpful, therefore, to limit the use of social venture capital to profit oriented venture capital investments in which social aspects influence the investment decision. Venture philanthropy has a broader, more comprehensive meaning and is therefore not limited to profit oriented investments; in part the expression is also used in the context of pure gift giving. High engagement philanthropy may better describe the goal than venture philanthropy – namely the intensive, long-term, also non-financial support that is, of course, also to be found in venture capital financing. If the present terminologies are maintained, it will demand much effort to clearly define the concepts and to disseminate them in a catchy way.

Existing approaches in Germany do not only require better understanding, but must also expand substantially. Those social entrepreneurs that are successful will need growth capital that will be beyond the scope of the single German fund, and the latter, too, will need market partners for syndication as well as for possible exits. The development of an ecosystem of a social capital market is, therefore, indispensable.

There can only be financing for social entrepreneurs if additional funds develop, i.e. more investments flow into the social sector, and if traditional capital market instruments are successfully utilized. In order for more funds to develop, understanding of this new asset class and its integration in asset allocation must develop beyond what has been said above. Toward this end it is necessary to devise the reporting on social entrepreneurs in such a way that efficient performance control becomes possible – but with an adjusted performance measure. Here everyone is challenged to agree on uniform standards as soon as possible in order not to further burden the already inefficient capital allocation mechanism with unnecessary data collections. Also necessary is the development of reporting structures that are equally useful for the management of the social enterprise and the reporting to the investors.

At the same time, the evaluation mechanisms known from classical investments, i.e. rating as well as research, must be transferred to this sector. Toward this end new approaches must be developed, which presents a challenge for the sciences and the consulting sector. At the same time, however, the creation of new intermediaries is necessary. Who is to do a possible rating? In which way may research reports be realized? New Philanthropy Capital is one example of the driving force of such intermediaries even in the social sector, without which there cannot be a market.

Finally, classical investment banks are also challenged to transfer their knowledge about the functioning of capital markets. As transactions in the area of micro-loans show, this need not be commercially uninteresting. By acting in this field, banks are creating new instruments on which asset management can build. Only by making available asset titles in which investors can actually invest, will there be an investment surge in this sector beyond individual big fund investors. For this to succeed, it will be necessary to acquire a better understanding of the different motivations of various social investors: the concepts of risk and return will look different in this asset class, should it become one.
What Is Cooler than a Solar Chiller?

By Peter Heller

“Opportunity is missed by most people because it is dressed in overalls and looks like work” – Thomas Alva Edison (1847-1931)

Last summer I had a pleasant dinner with colleagues from the Emirates, watching the sunset over the Greco-Roman ruins of Jerash in Jordan. We discussed the “dark matter” behind the breathtaking urban development in parts of the United Arab Emirates, notably Dubai and Abu Dhabi, propelling its citizens and residents into a dreamlike 21st century environment unparalleled in the region’s history.

I learned that in summertime, at 40–50° C, more than 50% of the electric peak load in the Emirates’ grid is absorbed by the myriads of small air conditioners which you find in a hole in the wall of (almost) each office and each apartment: a nightmare for the grid managers of the utilities, as vast capacities of fossil fuel power generation have to be run in “stand by” mode. “Smart energy planners do not like that as much as climate activists do,” we concluded in a final toast.

Indeed, solutions are emerging now. The technology of solar thermal collectors, either in the flat or the vacuum-tube version, is well advanced to reliably deliver heat at 80–110° C to power a new generation of smaller “inverted” heat pumps which transform the heat (or thermal energy) into cold and serve as a refrigeration machine – a “chiller.”

How does it work? A chemical heat pump is based on the principle that water molecules bind more efficiently to certain hygroscopic salts than to other water molecules. As a consequence, when using two separate bowls in a confined space – one containing water (evaporator), and the other containing hygroscopic salt (reactor) – water will evaporate to the salt that absorbs the water. When the confined space is in a state of vacuum the water transport will be so high that the water will start boiling in order to produce vapor at the same speed as it is absorbed by the salt. Such evaporation requires energy. If the energy is not supplied from outside the system it will be taken from the water itself, which as a consequence gets colder. In essence the evaporation process transports thermal energy (heat) from the water to the salt. The temperature difference increases until a maximum difference, at which the salt is no longer able to absorb more water.

The basic physics of this “sorption technology” have been known for a hundred years, and although this has never been rocket science it was a significant achievement to discover high efficient sorption materials to get the “container-sized” devices down to the volume of a dish-washer. These chillers provide cooling power in a range of 5 to 10 kW – and do not have a (real) AC power cord, they only need a few watts for the electronic controller. It is quite amazing that just a handful of research and development companies in Europe and Japan have taken on the challenge to commercialize this clean, sturdy, decentralized technology and bring the smart chillers to the market. Prospective areas of application go well beyond the solar world; the “powerless” air conditioners can be driven by any external source of residual heat from small cogeneration units, fuel cells, or micro turbines. The smallest systems would even fit into automotive applications.

For the environment the impact is substantial: for more than 25 years we have witnessed a steady increase in the number of air conditioners in family homes in southern regions fuelled by the increased standard of living and increasingly hot summers. On the micro level, installation of an electrical air conditioner for a single family substantially increases the energy consumption; this, on the macro level, renders climate protection and the Kyoto commitments entirely unattainable.

After 6 – 10 years of research on different technical tracks – absorption, adsorption, energy storage options, etc. – the first pilot projects are underway to test the potential of solar cooling and to understand the long-term dynamics of the chillers and the entire integrated systems. The more successful research and development companies are now being courted by the big players in the air conditioning market and some forward-thinking utility companies. One of these developers, ClimateWell from Sweden, recently received the “Technology Pioneer Award 2007” of the World Economic Forum. If it works well, and we shall know before the end of this decade, solar cooling is poised to become one of the most prominent disruptive technologies in the sunny regions of the world, among them the Middle East and the Mediterranean. 45° C outside, 18° C inside, fully sun-powered – what is cooler than a solar chiller?
Culture and the Arts: A Long-Run Perspective

By Dario Disegni

“What is fair in men passes away, but not so in art”
− Leonardo da Vinci (1452-1519)

In the tradition of the grantmaking activity of banking foundations in Italy, the preservation of heritage has always been regarded as a priority. Banking foundations inherited in the 1990s a relevant role in the field of culture and the arts and a lot of experience. At that time, the new perspective for foundations funding projects was completely different from the idea of sponsorship which inspired the philanthropic activity of saving banks. Foundations needed new ways, concepts and ideas to identify rules and strategies that defined their institutional role.

In the preservation of heritage, one of the most relevant differences between the sponsorship-oriented philanthropic activity of savings banks and the new perspective taken by foundations is time. The idea of time has completely changed: small grants with an immediate result can fit the need of a sponsor, but there is more that can be achieved by changing the timing perspective.

Today we are fully aware that we can see the relevant impact of funding cultural policies only if a long-term perspective is considered. If we consider the complexity of culture, it is almost impossible to perceive positive results without building a well defined strategy in a long-term framework. One of the contexts in which the matter of timing seems to be definitely essential is the idea of the Cultural District, as a main area defining an artistic and historical path which, if well managed and promoted, could improve the cultural supply of the area and consequently become a vehicle for economic development. In a more and more global society, based on the spread of information and on the rules of free market, cultural policies are vehicles for change within the society, the territory, and the ways of life. At the same time, helping to build a process of cultural identity can enhance the opportunities of areas where shared cultural values become an opportunity for social change. Also in the contemporary urban context, where the complexity and the quickness of change is unprecedented, culture becomes an element of strong social cohesion and in the same way the “economy of knowledge” is a key tool to face the decline of an industry and to generate new forms of development. The promotion of cultural heritage can be an important source of economic development: to achieve that, it is necessary to take a pattern of productive economy where culture makes up the added value for competitive advantages.

Obviously, to make that process possible it is necessary to think in a long-term perspective given the complexity of the activities to be run in the programs and the number of different actors involved in the process. Culture today is deeply present inside the processes of creation of economic value, especially in the local development policies, where it has become the focus of new strategies aimed to improve the quality of life, as in the case of the Cultural Districts. The attention paid by local authorities with regard to the creation of new museums, the interest in the performing arts, the "public art" or the processes of revitalization of the cities, is today a widespread practice. In the areas where culture has become the focus of strategic planning, it has played the role of catalyst for the improvement of economic activities related to the local development and for the enhancement of all parts of civil society to cooperate. In modern Cultural Districts public authorities, non-profit organizations, the private sector, and citizens can work together to reach common goals and values contributing in a decisive way to the development of social cohesion.

Furthermore, there are some critical issues connected with the role of culture in the economic process where it is clear that only long-term investments can lead to significant results. For that reason, endowed grantmaking foundations have to consider that only long-term investments fit the need of the Cultural Districts policies and have to be aware of the importance of their role, since they can guarantee a long term intervention and stability.

The experience of Compagnia di San Paolo in recent years can show the will of granting programs conceived for the purpose of creating and enhancing Cultural Districts. The organization had a relevant role in the work done to organize the Winter Olympic Games in 2006 in Turin. In that case, from 1998 to 2006 several local institutions worked together on the proj-
The effort of the organization has been relevant, constant and shared in partnership with public authorities and other non-profit institutions; 2006 has represented a great opportunity to verify the sustainability and potentiality of Cultural District policies run in the Olympic valleys and in the city of Turin. The next step will be to enhance the visibility reached thanks to the event and to sustain the progress and the new cultural and economic role of the area.

The Prospects of Hybrid Value Added Chains

By Olivier Kayser

“A business that makes nothing but money is a poor business” – Henry Ford (1863-1947)

Rodrigo Alvarez owns 3 hectares of lemon trees in Guerrero, Mexico, barely enough to keep his family alive. Erratic rain patterns in Guerrero cause low yields and irregular crop quality. Local "coyotes" buy his lemons at a low price and make a hefty margin when selling them in nearby Acapulco.

Investing the 75,000 Pesos (US$ 6,800) that would be the market price for an effective irrigation system would allow Rodrigo to triple his revenues, pay back the investment in 18 months, send his children to school and change his family’s prospects for ever.

So, why does Rodrigo not manage to make such a profitable investment? Contrary to what we may think, money is actually available in the form of agricultural subsidies from the Mexican Government. So what is the reason? In the language of economists, what is the reason for this market failure?

The reasons are multiple and create a systemic obstacle that Rodrigo is unable to overcome:

1. Though the subsidies are available at the central level, there is no financial distribution system in place to reach small farmers such as Rodrigo.

2. The actual prices charged for such an irrigation system to a small farmer by traditional (and sometimes corrupt) intermediaries is triple the market price, thus making the investment unattractive.
3. Due to basic infrastructure requirements (i.e. water supply) an effective irrigation system requires a minimum size of 50 hectares, thus requiring the coordination and agreement of many small farmers.

4. The increased output created by the irrigation system will require Rodrigo to access new markets beyond the local area.

Like Rodrigo, tens of thousands of small Mexican farmers do not have access to such worthwhile investments that could help them start climbing the economic and social ladder. In addition to keeping thousands of families in poverty, this situation has major negative environmental (waste of water) and economic (dependence on imports of agricultural products) impacts.

How to address this market failure? How to overcome the set of systemic obstacles listed above, not only in the case of lemon producers in Guerrero but for all small farmers in Mexico and in developing countries?

We at Ashoka believe that at least part of the answer lies in creating "Hybrid Value Chains," a new approach that combines the capabilities of the business and citizen sectors.

To test this concept, Ashoka has been working over the last three years on a pilot project with Amanco – a corporation manufacturing irrigation systems in Latin America – and with Ashoka Fellows leading citizen sector organizations (CSOs) active in rural Mexico.

- Amanco designs, manufactures and installs the irrigation systems
- The CSOs act as distributors, marketing and selling the systems to small farmers whom they are already serving as part of their social work. In addition to this classical distributor role, the CSOs provide a range of complementary services (e.g. facilitating access to credits, subsidies, markets, and technical services) that enable the irrigation equipment market.
- Ashoka assists as a coach and consultant to both parties in the process and designs critical structural solutions: developing a financing system with the leading Mexican micro-credit institution (led by another Ashoka Fellow) and securing a marketing arrangement with Wal-Mart (in the case of Guerrero).

The pilot project is starting to bear fruits: this Hybrid Value Chain has generated US$ 550,000 in sales, reaching close to 100 small farmers. Through this work, we have learned that Hybrid Value Chains are viable, economically sustainable models. The prices are set at a level that enables Amanco to make a fair profit, justifying their early investments. In fact, a successful roll out would generate US$ 30 to 45 million in annual sales of irrigation equipment for Amanco, benefiting over 12,000 additional farmers every year.

In addition, the CSOs derive a sustainable source of financing in a way that enhances their social mission and reduces their dependence on grant money from foundations.

As we are planning to scale up the pilot program in Mexico, we realize that one of the key challenges will be the extreme fragmentation and often weak organizational readiness of CSOs in rural Mexico. The second major challenge is the cultural differences that years of ignorance and mistrust have created between “businesses” and “citizen sector organizations.” The vision, commitment and deep capabilities of Amanco will be key to reaching the scale required.

Ashoka is pursuing similar pilot projects in different countries (Brazil, India) and industries (housing, health insurance) with the objective to demonstrate the feasibility of Hybrid Value Chains and convince other companies to follow suit and to develop a knowledge base to help them.

Encouraged by C.K. Prahalad to explore the market opportunities at the bottom of the pyramid, corporations worldwide are attending seminars, engaging consultants and launching pilot programs. A recent and highly publicized example is the joint venture Danone and Muhammad Yunus’ Grameen Bank have formed to produce and sell low cost yoghurts in Bangladesh.

We believe that the most enlightened companies will follow Danone’s example and recognize that they are entering a market that they have historically ignored and where their usual business practices are excessively costly and ineffective. Seeking to cooperate with citizen sector organizations in building Hybrid Value Chains though inevitably challenging over the short term is probably the soundest route to success in these previously untapped markets.

With today’s corporations under pressure to find new sources of growth and to demonstrate their corporate social responsibility, the emergence and spread of Hybrid Value Chains may well be the long awaited inflection point in international economic development and great news for Rodrigo!
Timing the Self

The Emerging Vocation of Philanthropy, by Paul Schervish and John Havens
An Entrepreneur’s Appeal, by Jim Fruchterman
The Emerging Vocation of Philanthropy

By Paul Schervish and John Havens

"If you have much, give of your wealth; if you have little, give of your heart" – Arab proverb

There is evidence that a philanthropic identity for a wealth holder is the development of a self-conception and a way of life that focus on allocating wealth for the care of others instead of on the accumulation of wealth.

Most wealth holders who are young in chronological age or in business tend currently to be more infused with a business than a philanthropic world-view. Older donors who have been active in business and philanthropy for years are already substantially engaged in well-conceived and well executed philanthropic projects to which they have contributed large sums of their wealth. These donors who have come from an entrepreneurial background have turned the corner on a philanthropic identity. They have either brought their philanthropic activity to the forefront of their self-conception or have made it equal to their business role. For young wealth holders, however, there is still an explicit anticipation of an even greater contribution of time and money in the future. Although many of them are already highly dedicated to philanthropy and can be said to have adopted a philanthropic identity, they join their peers who are not yet so philanthropically involved in anticipating that they expand their philanthropic involvement when they have either more financial resources or time to offer.

There are several factors that young entrepreneurs cite as limiting a more extensive and intensive involvement at this stage of their commercial careers. Among these factors, they point out, are that they have not yet attained their desired level of business success or wealth, hold much of their wealth in their business assets, and need to devote the bulk of their time and consciousness to their commercial enterprises. Moreover, they state that they are still learning about the world of philanthropy and about their place in it. They are seeking answers to questions about what their priorities might be, what is currently being done by others and how well, and how much money and time they will have to devote now and in the future. They are not anxious about dealing with these questions and do not consider them to be a burden. They already have some provisional answers from what they are already doing by way of philanthropy and from what they already recognize as causes and people they identify with. Moreover, they appreciate the opportunities to learn more about the world of philanthropy from their peers, spouses, and, when so involved, from working in and around a social-venture partnership.

Although growing into a philanthropic identity will occur at various lengths of time in the future, there is no hesitancy on the part of most young entrepreneurs that philanthropy will become an ever more central way of life. Many appreciate how much wealth they will control, expect to pass on only a relatively small amount of their wealth, and are actually anticipating the day when they can unleash their energy and financial resources to attend to the commonwealth. It is not a matter of whether they will assume a more comprehensive philanthropic identity, or whether it will be substantial. The question is timing. And even then, some are now extremely involved, financially and programmatically, many are highly dedicated, and most are associated directly with philanthropy amidst their family and business obligations. Philanthropy is a calling they already feel; it is a vocation they are likely to follow now and more vibrantly as time goes by.

An Entrepreneur’s Appeal

By Jim Fruchterman

“My theme for philanthropy is the same approach I used with technology: to find a need and fill it” – An Wang (1920-1990)

Most entrepreneurs are motivated by far more important drivers than personal wealth creation. We are builders, creators of valuable products and free market competitors. We are good at solving problems. Personal financial independence is an important goal, but after you have achieved this for your family, what is next? This is the inflection point facing many hard driving entrepreneurs, and it is presenting itself much earlier in life for our generation than past generations.

For many of my peers in Silicon Valley and in the tech business, the next step is to create new businesses and leap back into the fray. They respond to this critical question by returning to the challenge they have already proved adept at meeting: creating a new business enterprise. The other main option is to leave business and engage in government service, political office or the social sector. I want to focus on the social sector, because I strongly believe it is the best option for most entrepreneurs to utilize their proven skills while benefiting the broader society.

Our technology community has become rich by selling its products around the world. We have a highly efficient system for creating products that solve problems and deliver value far beyond the confines of the city, state, province or country in which we happen to be based. We have only scratched the surface, however, of what we could be doing to help solve the pressing social problems that confront us.

Rather than focusing exclusively on the top ten percent of humanity who are the target market for most of our products, we could be bringing these same skills, connections, technology, experience and resources to everyone in the world. Many of these opportunities are not as lucrative as the ones that businesspeople and technologists have focused on over the last decades, but they still demand our attention. The same skills and sophistication we use to build great companies can and must be applied to the world’s biggest problems.

We are building on great role models, whether they be Carnegie or Dunant, Hewlett and Packard, or Gates and Buffett. We now realize that taking social action is in our direct interest, the interest of the business sector, and most importantly, the interest of our children. Our business experience helps us understand that human beings respond to incentives. There are many opportunities to utilize more entrepreneurial approaches to maximize the social returns of investing in social enterprises.

The barriers are lower than you think. The idea that Bill Gates could set out to ensure the vaccination of every kid on the planet is completely feasible. What is your issue? Stopping domestic violence? Curing a specific disease? Increasing literacy for women? Using the same techniques we apply as business entrepreneurs, any one of us could tackle the problems of the world as social entrepreneurs. There are thousands of individuals, couples, and families with the resources and the skills to make a major impact on a specific social issue in our region or around the globe.

Not all of us need to succeed to make this dream possible. The tech community is famous for spawning many contenders in each new technology area and only a few survive. Imagine a world where five different people take five different approaches to solving a crucial problem. Even if only two approaches succeed, the world wins.

Use the same approach you would if you were trying to start a company. Understand the issue and understand the people affected by the issue. Your potential customers may be most in need of certain products or services and be the least able to afford it. We know that poor people can be quite sophisticated and hard working. Muhammad Yunus, who won the 2006 Nobel Peace Prize as the founder of the Grameen Bank micro loan program, made the point that poor people are poor because of lack of access to the tools they need to be successful such as accessible credit – which his bank was able to provide. We need to apply similar approaches when we develop and market solutions to people affected by social problems.

There are no defective customers in business. There are customers we can serve profitably, and there are customers that we cannot serve profitably.
There are no defective people or communities when we move to social service. These communities are simply responding to the incentives in their environment. Cultural, financial, educational, regulatory, health or entrepreneurial incentives can be positive or negative in their influence on behavior. If we want to make a major impact, we need to understand the incentives of the people we want to help and assist them to respond to opportunities. If rapacious money lenders keep poor women on the edge of survival, we can respond by making microcredit available that helps those women to move from severe poverty to building assets for their families. If cultural barriers are keeping women from becoming literate, we can support advocates that are shifting societal norms and convincing people that literacy for women is in the interest of society. If young men are restless and unemployed, we can help them find positive outlets for their desire to matter. Social change is more challenging and complex than building a single business enterprise; let us approach this goal with the same discernment and drive we would apply to a new venture.

The opportunity to make an impact is immense. The competition is frequently non-existent. There is so much to do. Let us get to work! The world wants to know that entrepreneurs and businesspeople really care about them beyond extracting money. I know that we care. Let us show them.

Family Philanthropy and The Family Office: Building a Structure for the Future

By Kim Samuel-Johnson

“Unless a life is activated by sustained purpose it can become a depressingly haphazard affair”
– Richard Guggenheimer (1906-1977)

My family business, which in 2006 celebrated its 150th anniversary, has over the past year undertaken the process of creating a Family Office through which the governance of our foundation - The Samuel Family Foundation - is beginning to flow. This move toward a more formalized structure was made in order to achieve a sustainable balance between governance of our core business interests, diversification and growth in existing and new business and investment areas and the continuation of family unity and legacy for generations to come.

This model also allows for greater clarity and transparency between the roles and responsibilities of the Board (made-up of inside and outside directors), the owners (family members who sit on the Board), family members, some of whom hold executive and other positions within the company, senior management and outside stakeholders.

By creating a family office integrated to the overall business yet with a distinct independent structure of its own, this model can be adapted successfully to the family foundation, reinforcing the impact of our philanthropy, the structure of formal partnerships and the measurement of results.

I am very proud to be part of the history of our family business and philanthropy which are an integral part of who we are as a family and as a company. This shared history gives us a connection to past generations, ties to the present generation and a bridge to the next generation.
The challenge, as I see it, is how to take family values forward, while at the same time, not allowing family philanthropy to fall victim to what is commonly referred to in business as "founder syndrome," where the way decisions are made and the programs themselves are embedded in the past and thus do not adequately reflect the passions and interests of the current generation.

We need to take responsibility for where our money, our time and our energy are going, and with whom we are working, not simply to whom we are giving. When it comes to the time, mind, energy engagement proposition, the Foundation operates on a partnership-building strategy, not traditional grant-making, with organizations that are carrying out wonderful, success-based initiatives in the areas where we are committed to the process of change.

Family philanthropy, if left unattended, can easily become a conduit of family dynamics without absorbing some basic business dynamics in the process – which for me is essential if we, as philanthropists, are going to be successful, and at the same time are to ensure that the organizations and undertakings we support are going to be successful too.

In the history of our family firm, there seems to have always been a strong tradition of succession planning. This issue of family succession and planning has been particularly felt when it comes to family philanthropy and the family foundation.

And it is here where we must also re-address leadership and succession within the family, as it relates to our family foundation and our role as individual philanthropists, and come up with a way of bringing the best of the family dynamics to the table, and leaving the negative family dynamics off the table.

I believe that if we do not re-focus this way, and continue to build the philanthropic arm of our family as a successful governance entity, not just a programmatic entity, we will have increasing difficulty in answering the following three fundamental questions: "Why are we in the philanthropy business?" "What is the purpose of having a family foundation?" and "What does the future hold?"

I firmly advocate a governance-based leadership and succession plan for the family foundation. Philanthropy is a business, albeit one which runs along a heart and mind continuum. Accordingly, this business, its mission, its programs and its outcomes, must be managed and evaluated accordingly, not only by ourselves but by our partners, including social entrepreneurs in whom we invest and NGOs with whom we implement partnerships.

I maintain the same care and attention should be given to the family leadership and succession plan as it relates to philanthropy, as to Board renewal, Management renewal, and every operating entity of the business.

At the same time, the unique potential of philanthropy and social responsibility to act as family glue is enormous. And done right, with a governance structure such as the family office model, which has at its heart family legacy and values and at the same time respects the needs of the family business to be sustainable and to grow, this work can bring a lot of joy and fulfillment to the family and the family members, just as much, I think, as the business that bears its name.
Philanthropy in 2037: Where Are We Headed

What Is Ahead, by Ray Kurzweil
New Directions in Evaluation, by Mark Kramer
Aggregating Demand – Targeting Impact, by Maximilian Martin
What Is Ahead

By Ray Kurzweil

“The past is but the beginning of a beginning, and all that is or has been is but the twilight of the dawn” – H.G. Wells (1866-1946)

Over the last twenty years, I have come to appreciate an important meta-idea: that the power of ideas to transform the world is accelerating. Although people readily agree with this observation when it is simply stated, relatively few observers truly appreciate its profound implications. Within the next several decades, we will have the opportunity to apply ideas to conquer age-old problems – and introduce a few new problems along the way.

During the 1990s, I gathered empirical data on the apparent acceleration of all information-related technologies and sought to refine the mathematical models underlying these observations. I developed a theory I call the law of accelerating returns on technology, which explains why technology and evolutionary processes in general progress in an exponential fashion.

Consider the transcription of the human genome. In 1990, biochemists had just finished a one year process of transcribing a mere one ten-thousandth of the genome. It was expected that the process would take at least a century, yet 15 years later the whole genome was transcribed. This phenomenon parallels Moore’s law which states that the computational capabilities of our computers double every year in price-performance and capacity.

The Singularity is Near

I believe that we are on track to have US$ 1,000 computers that have at least the hardware ability (computational speed and memory) to simulate all several hundred regions of the human brain by 2020. The software of human intelligence will take about a decade longer. By 2050, US$ 1,000 of computation will exceed the capability of biological human intelligence. I see this epoch as an increasingly intimate collaboration between our biological heritage and a future that transcends biology.

The Singularity, then, marks a future period during which the pace of technological change will be so rapid, its impact so deep, that human life will be irreversibly transformed. Understanding the Singularity will alter our perspective on the significance of our past and the ramifications for our future. To truly understand it inherently changes one’s view of life in general and one’s own particular life.

Learning from the Past: Moving the Possibility Frontier

The law of accelerating returns on technology has already transformed the lives of millions and gives us hope for the future.

Substantial portions of our species have experienced alleviation of the poverty, disease, hard labor, and misfortune that have characterized much of human history. Many of us now have the opportunity to gain satisfaction and meaning from our work, rather than merely toiling to survive. We have ever more powerful tools to express ourselves. With the Web now reaching deeply into less developed regions of the world, we will see major strides in the availability of high-quality education and medical knowledge. We can share culture, art, and humankind’s exponentially expanding knowledge base worldwide.

The rich-poor divide, of course, remains a critical issue, and at each point in time there is more that can and should be done. It is tragic, for example, that the developed nations were not more proactive in sharing AIDS drugs with poor countries in Africa and elsewhere, with millions of lives lost as a result. But the exponential improvement in the price-performance of information technologies is rapidly mitigating this divide. Drugs are essentially an information technology and we see the doubling of price-performance each year as we do with other forms of information technology such as computers, communications, and DNA base-pair sequencing. AIDS drugs started out not working very well and costing tens of thousands of dollars per patient per year. Today these drugs work reasonably well and are approaching one hundred dollars per patient per year in poor countries such as those in Africa.

Some worry that new technologies as they are developed may become the exclusive domain of the rich, but that is not what humanity has experienced. Even where certain groups wish to restrict technology to a few, the ongoing exponential growth of price-performance quickly makes these technologies so inexpensive as to become almost free.

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1 Excerpted from The Singularity is Near. Penguin Group, 2005.
Technology empowers both our creative and destructive natures. The difference is in how we use it. Our best strategy is to encourage the constructive uses of new technologies while we invest in defensive technologies to protect against abuse. An example of this would be to invest in emerging technologies that combat biological viruses to defend against abuse of biotechnology.

A common view is that science has consistently been correcting our overly inflated view of our own significance. Stephen Jay Gould said, “The most important scientific revolutions all include, as their only common feature, the de-thronement of human arrogance from one pedestal after another of previous convictions about our centrality in the cosmos.”

But it turns out that we are central, after all. Our ability to create models – virtual realities – in our brains, combined with our modest-looking thumbs, has been sufficient to usher in another form of evolution: technology. That development enabled the persistence of the accelerating pace that started with biological evolution. It will continue until the entire universe is at our fingertips.

Peering Into the Future: The Promise of Nanotechnology
One particular technology that holds great promise for humanity is nanotechnology – the capability of creating macro-size objects at the molecular level. Nanotechnology will bring an ability to morph the physical world to our needs and desires. Lingering problems from our waning industrial age will be overcome. We will be able to reverse remaining environmental destruction. Nanoengineered fuel cells and solar cells will provide clean energy. Nanobots in our physical bodies will destroy pathogens, remove debris such as misformed proteins and protofibrils, repair DNA, and reverse aging. We will be able to redesign all of the systems in our bodies and brains to be far more capable and durable.

How will this affect the world’s social challenges? Current discussions regarding climate change do not include the word nanotechnology, yet this emerging technology will eliminate our need for fossil fuels within 20 years. Nanotechnology will dramatically change our ability to capture and use solar energy with nanosolar panels. We only have to capture three parts in ten thousand of the sunlight that falls on the Earth to meet 10% of our projected energy needs for the year 2025, which will be feasible with nanoengineered solar panels and fuel cells.

Another application is nanofiltration membranes for water purification which provide dramatically improved removal of fine-particle contaminants, compared to conventional methods of using sedimentation basins and wastewater clarifiers. Nanoparticles with designed catalysis are capable of absorbing and removing impurities. By using magnetic separation, these materials can be reused, which prevents them from becoming contaminants themselves. As one of many examples, consider nanoscale aluminosilicate molecular sieves called zeolites, which are being developed for controlled oxidation of hydrocarbons. This method requires less energy and reduces the volume of inefficient photo-reactions and waste products.

Conclusion
Technology has always been a mixed blessing, bringing us benefits such as longer and healthier life spans, freedom from physical and mental drudgery and many novel creative possibilities on the one hand, while introducing new dangers. Nanotechnology is no different. It will introduce new toxins into the environment, just as discarded electronic products today introduce chemicals such as gallium arsenide into the ecosystem. As with all new technologies, the overriding concern is our lack of knowledge about a wide range of unexplored interactions.
Philanthropy is not an academic exercise. Its purpose is to achieve social impact. Evaluation, therefore, serves philanthropy best when it leads to actions that increase impact.

Unfortunately, this rarely happens. With support from the William & Flora Hewlett Foundation, we recently undertook a study to understand why that is so, and to identify more pragmatic ways of using evaluation to increase the effectiveness of both foundations and their grantees. After nearly 100 interviews with foundation leaders, we found that foundations of all different sizes are taking a new and different approach in their use of evaluation.

What unites these new approaches is the simplicity, clarity of purpose, and forward-looking nature of the evaluation. Each example reflects a pragmatic effort to gather knowledge in order to shape future behavior. None look backward only to report on the results of completed grants.

Thinking about evaluation as a forward-looking enterprise involves a fundamental paradigm shift – not only about evaluation, but about the way that foundations achieve their impact. Since the early 1900s, foundations have often sought to achieve impact by discovering new solutions to social problems, testing them on a small scale, then leaving it to government or other funders to roll out. This theory of change depends on rigorous retrospective evaluation studies to demonstrate the efficacy of a completed intervention in order to convince others to replicate it.

Today, however, foundations are adopting many new and different levers for change. They work with social entrepreneurs to solve full-scale problems directly, build grantee capacity, harness new financial tools and social investments, create public-private partnerships, engage coalitions of funders, use advocacy to shape public opinion, exercise adaptive leadership, and continually test new philanthropic innovations. These far more dynamic ways of working depend on a continuous flow of forward-looking information to provide timely insights about the progress being made and the issues being addressed so that both grantors and grantees can make ongoing improvements in their work.

Foundations have even begun to rethink their missions, supplementing their broad and inspirational aspirations with more precise and achievable goals that are much easier to measure. Tracking progress toward ambitious but realistic goals, such as “building 1,500 low-cost housing units” or “increasing local high school graduation rates by 25%,” turns out to be far easier than measuring the impact of grants that are intended to “improve quality of life” or “fully develop student potential.”

The field of philanthropy is in a fundamental transition, therefore, from a traditional approach to evaluation, borrowed from academia and government, that relies on rigorous studies of past grants to a more performance-centered approach that provides foundations and their grantees with current information to answer three questions:

- How can we better plan our work?
- How can we improve implementation?
- How can we track progress toward our goals?

These questions are not entirely separable, but form a single integrated progression of continually improving performance and increasing impact. This shift also carries implications for a foundation’s organizational structure. Program staff can no longer move on to the next grant docket, leaving the analysis of past grant making results to external evaluators. These newer evaluative practices require the time and attention of program staff to gather, interpret, and translate the raw information into actionable insights that can guide the work of grantees and refine program strategies. Foundations that adopt these processes often find that they need to readjust workloads, either by increasing staff, reducing the number of grants, or engaging consultants to work in close collaboration with staff and grantees.

In addition, our research disclosed five broader principles that seem to underlie effective evaluation practices across all of these different applications.
Aggregating Demand – Targeting Impact

By Maximilian Martin

“Anyone who has never made a mistake has never tried anything new” – Albert Einstein (1879-1955)

Introduction
While there is growing enthusiasm about a new golden era of philanthropy, philanthropists in fact often struggle with translating a philanthropic aspiration into effective support of a specific set of organizations or causes. The menu of civil society organizations to choose from is large and growing. The sector suffers from a lack of transparency regarding performance. Platforms such as Guidestar (www.guidestar.org) provide comprehensive information about organizations with charitable status. But it is much harder to devise one-stop information mechanisms in countries with decentralized tax administration systems. In a market with insufficiently strong signals as to who creates the greatest impact with scarce resources, search costs remain high for both grant makers and grant seekers.

One study of the U.S. nonprofit sector puts the combined costs of grantmaking and fundraising at 22%-43%, compared to 2%-4% in the for-profit sector. From a rational choice perspective the capital allocation process in civil society can therefore be regarded as inefficient, compared to that in the world of business.

For impact-minded philanthropists, there are two ways of dealing with this inefficiency:

• They can seek to channel their giving through pathways that operate with lower transaction costs. This is mainly an exercise in the aggregation of supply of and demand for funds.

No single approach to evaluation is the optimum methodology for all circumstances. Instead, foundations must understand the full range of choices available, the different purposes they serve, and the circumstances in which they are relevant, in order to choose the approach that best captures the information needed.

• Create the expectations and processes to translate information into action.
• Foundations must develop the internal processes to convert raw data into insights, and insights into an actionable agenda.
• Directly engage the key decision-makers
  • The more engaged people are in the evaluation effort, the more likely they are to act on the results.
• Let grantees take the lead
  • Although grantees usually defer to funders in setting performance metrics, the most accurate, consistent and efficient performance metrics we found were frequently developed by grantees.
• Choose the fewest and simplest measures
  • A small number of key measures on the most basic indicators of success generally provides the most workable solution.
• Use targeted and compelling methods of communication
  • In this information-saturated age, the way in which evaluation results are communicated is as important as their methodology and findings.

• They can try to channel their giving to initiatives at the front end with a high delta in terms of social impact, thus compensating for inefficiencies in the capital allocation process. This is mainly an exercise in identifying initiatives with disruptive, high-impact patterns (this is what drives transaction costs, so one needs to work hard not to fall in the trap of the zero-sum game).

In this context, more and more philanthropists view social entrepreneurs as an exciting new conduit for social change. The best among them seem to hold out the promise of innovative, entrepreneurial ways to turn the tide on some longstanding social issues.

As ambitious “investors” in entrepreneurial individuals and their business models for social change, more and more philanthropists target high impact. To be effective, it helps to understand the underlying sustainability of the ventures, their aggregation into investment pools, and timing of investments.

Underlying Sustainability
When asking how to finance a social venture, one first needs to gain clarity about the inherent sustainability of the underlying model.

• Grants are the most effective form of financing social entrepreneurs who conduct activities that cannot reasonably be expected to ever become financially self-sustainable. Applying economic theory, we can refer to them as public-good social entrepreneurs.

• By contrast, some social entrepreneurs provide “private goods” that create a substantive economic benefit to their constituents. The social entrepreneur should be able to monetize a part of the benefits created to cover costs. This is the idea behind microfinance. Experience shows that a mix of capacity-building grants and for-profit investments is the most effective way to support private-good social entrepreneurs.

But do not all social entrepreneurs work for the public good? What is the difference? Let us look at two examples.

Partnering with local organizations around the world Witness, a U.S. nonprofit organization, works to get video cameras and cell phones into the hands of human rights activists. Recorded images serve to focus public attention on human rights abuses. Witness thus enables human rights defenders to make human rights violations visible. This transforms personal stories of abuse into systematic tools of justice. In short, Witness is in the business of providing a public good. Every citizen benefits substantially if a government uses its monopoly of legitimate use of violence to uphold human rights. However, it is difficult to see how an advocacy-enabling civil society organization could monetize the benefits it creates. This means that earned income derived from core activities is unlikely to assure self-sustainability. Organizations such as Witness may be run more or less efficiently, or they may own businesses that provide an income stream — but for their core activities, they will always depend on a subsidy which is likely to take the form of a grant, whether it comes from a philanthropist, or a public contract.

The picture differs completely in the case of private-good social entrepreneurs. These are essentially small or medium enterprises that choose to operate as a social enterprise. Take the story of providing low-cost cataract eye operations.

In the 1980s, David Green, who later became an Ashoka Fellow, successfully raised, from U.S. manufacturers, large volumes of in-kind donations of intraocular lenses (IOLs) needed to perform cataract operations at the Aravind Eye Hospital in India (cf. www.aravind.org, www.aurolab.com). This provided a core input necessary to scale the number of eye operations. The second driver was a redesign of the surgery process along the lines of scientific management, creating a low-cost eye operation chain with standardized, quality outcomes. People who need a cataract operation and are able to pay for it, will do so. Providing cataract surgery is more like a business than like a public good. Rather than grants, it needs investment.

When Aravind’s in-kind donation stream of IOLs dried up in the late 1980s due to a change in industry dynamics, the high cost of IOLs in the open market — in excess of US$ 125 — became a constraint. In response, David Green established a non-profit organization, Aurolab, as the manufacturing division of Aravind Eye Hospital. In a remarkable exercise in technology transfer, Aurolab managed to manufacture high-quality IOLs at affordable prices — about US$ 5 a pair. Since 1992, Aurolab has supplied over 5 million lenses to its customers in India and over 120 other countries worldwide. Given its low cost base and secure access to core components, the Aravind cataract operation business is in principle very profitable. Today, Aravind treats about two thirds of its patients for free. The remainder effectively subsidize those who are not able to cover the full cost of the operation.

Human rights and health are both of fundamental importance to society. But the financing challenge of the cataract business differs structurally from that of human rights advocacy. Globally 37 million people are blind and approximately 150 million people have serious visual impairment. There is demand
for numerous Aravind-like inherently sustainable eye care systems. Once the Aravind Eye Care system ran smoothly, David therefore began to consult to other eye care systems around the world to enable them to become self-sustaining. Since 2000, this has allowed approximately 250 eye care programs globally to become profitable while offering quality services to the wealthy and the poor alike via price discrimination schemes. Properly run and scaled, such programs generate sufficient cash flow to support debt financing at manageable levels of risk. In principle, they should be able to access capital markets on commercial or quasi commercial terms. To this effect, David Green recently set up an Eye Fund that provides loans to eye care systems. In this mechanism, commercial investors receive a rate of return above the risk-free market rate, and U.S. foundations that make program-related investments (PRI) receive lower returns commensurate with PRI instruments. This brings fresh, non-grant capital to the table.

Timing and Aggregation
Conceptual clarity about the type of financing is critical to choose the right instruments: is the philanthropist dealing with a public or a private good social entrepreneur? But supporting social entrepreneurs also raises a set of questions centering on timing, willingness to take risk and optimal aggregation.

Properly selected, early-stage social ventures offer higher expected social returns (the risk of failure is also higher). Imagine a philanthropist adding leverage to his or her philanthropic project portfolio by supporting a project with less than US$ 40,000 that results in a successful organization with a budget of US$ 2.4 million only ten years later, operating in 11 countries, and having touched the lives of over 600,000 young people? This is the “dream social investment” many philanthropists supporting social entrepreneurs look for, and also the real case of Rodrigo Baggio’s work on bridging the digital divide in Brazil and beyond (cf. wwwcdi.org.br).

In the early nineties, Baggio was a businessman and information technology teacher in Rio de Janeiro’s private schools. In 1993, Baggio started to experiment with the use of computers as a tool for economic and social inclusion. He conducted two highly successful pilot programs in favelas in Rio de Janeiro in 1995. In 1996, Baggio was elected to the Ashoka Fellowship. This allowed him to dedicate himself full-time to build an organization called “Committee for Democracy in Information Technology” (CDI). In absolute terms, the three-year fellowship stipend was small. US$ 37,400 provided the basis on which Rodrigo was able to build CDI within only ten years into an organization that creates a massive social impact. By 2005, CDI was operating a social franchise network of 965 computer schools in 11 countries. The organization had an annual budget of US$ 2.4 million, and had trained over 600,000 youth in ICT skills since its inception. In terms of impact, a third-party study found that 87% percent of program participants considered CDI to have had a positive impact on their lives. 90% of the students intended to do more courses, and 79% expected to find a job after graduation. CDI managed to unlock funding from numerous organizations including IBM, Microsoft, and Globo.

Of course, not everyone who wants to support social entrepreneurs is ready to fund an untested organization. But how could a philanthropist source quality opportunities? This is where intermediaries come in. Two types of intermediaries add value in the process.

First, intermediary organizations such as Ashoka select and seed fund social entrepreneurs. Selecting a quality social entrepreneur requires investing resources to understand the business model, the size and dynamics of the underlying market, the positioning of the social entrepreneur in this market, and the strength of the management team. All of this is costly. Performing the assessment process – often referred to as due diligence – at scale helps keep costs within reason. To some extent, such intermediary networks can be compared to fund-of-funds in the private equity field, with a large portfolio of social entrepreneurs rather than portfolio companies. By aggregating the supply of public and private good social entrepreneurs, they drive down search costs and reduce risk of failure for the individual philanthropist.

Second, intermediaries in the financial sector can help to aggregate both demand and ensure cost effective allocation of capital. Similar to civil society, the philanthropy sector is largely atomized. Often, not even the ten leading donors to a specific cause are likely to know each other. By contrast, wealth managers such as UBS are well placed to convene their clients in a confidential safe space where they can compare notes on their giving, share insights, and find common ground for co-investment. By marketing specific social investment opportunities to their clients, wealth managers could aggregate demand and thereby help to create larger size investment pools.

Private-good social entrepreneurs are particularly promising. Here, applying the tools of investment banking can reduce the transaction costs of capital allocation through the creation of funds with various tranches of target returns and risk exposure and collateralized debt obligations. In principle, a wide range of investment instruments above or below risk-adjusted market returns is conceivable (cf. figure 1).
Currently, the single most important constraint to draw additional financial resources into financing private good social entrepreneurs is precisely the challenge of identifying, characterizing and qualifying pools of possible investments and then aggregating them into sufficiently large capital pools to meet the minimal size requirements for the financial services industry. Mainstreaming supply aggregation requires designing mechanisms to uncover quasi-vetted deal flow of investment opportunities in private-good social entrepreneurs.

However, realism is also required. To operate at a reasonable scale and risk characteristics, most such for-profit investment opportunities require philanthropic capital somewhere in the background, be it in the form of technical assistance and capacity-building grants, or of first-loss commitments or loan guarantees that transform junk paper into investment grade. For example, the Eye Fund mentioned earlier operates in a dual structure: a loan fund accompanied by a capacity-building Grant Fund for eye care loan recipients.

Involvement vs. Aggregation
As a way to maximize social impact, the social venture capital approach is very attractive for philanthropists. Social entrepreneurs offer the opportunity to support early or expansion stage ventures with higher expected social returns, thereby adding leverage to the philanthropic project portfolio.

But while the design of transaction-cost minimizing transmission mechanisms for philanthropic capital is an important challenge, it would be a mistake to view effective philanthropy exclusively from a technocratic perspective. As David Rockefeller pointed out in an interview in the Chronicle of Philanthropy in 2006, "the impulse to participate in philanthropy comes from the heart, not just from the mind. It will be much less well done if it is just an intellectual conviction."

There is a relational element to philanthropy. When philanthropists look for ways to move beyond grantmaking, they do not just want to draw on the tools of investment banking to access a greater toolbox of financial instruments. They are not merely impact-wanting beings. Their psyche is considerably richer. Human beings act toward things on the basis of the meanings that the things have for them. Such meaning arises out of social interaction. As people encounter things, they make and handle meanings through an interpretive process. Philanthropists who are well-disposed to supporting social entrepreneurs typically look for meaning as well as impact, and seek to express themselves as creative beings and search for meaning.

This "symbolic" dimension of philanthropy enriches individual experience, but poses challenges to the aggregation of supply and demand. Supporting social entrepreneurs offers several dimensions of involvement that are personally enriching.

- Focusing on social entrepreneurs means focusing on entrepreneurially-minded individuals who act as change leaders. This offers the opportunity for entrepreneurially-minded people to connect at a personal level.
- Typically, the organizations of early-stage social entrepreneurs are small and leader-centric rather than institutionalized. This means that donors can leave a real imprint on the organization as they help it to scale by contributing money, insights, business expertise and access to key people.
- Supporting social entrepreneurs offers the opportunity to visit field projects. Many donors report that it is precisely the project visits that provide a quasi-existential experience that can significantly strengthen their philanthropic commitment.
Conclusion
There is considerable scope to render resource allocation to social entrepreneurs more effective by means of demand and supply aggregation and financial engineering.

As far as establishment of pathways that operate with lower transaction costs are concerned, the general outlook is positive. Philanthropists have begun to move away from the somewhat schizophrenic view that they sometimes hold: as donors, they are often happy to make grants, which provide an allocation that has a minus 100% return, or zero financial return. As investors, they prioritize how to make financially profitable investments.

In terms of market efficiency the range of "best practice" in social and economic terms would be between these two points. "Public good" type social investments are likely to never provide a direct positive return in economic terms, though they may contribute to economic progress overall, such as the upholding of human rights. Wealth managers and investment bankers are well placed to engineer a sophisticated set of solutions to improve the efficiency of capital allocation to social entrepreneurs. Utilizing financial engineering skills readily available, mechanisms can be created that provide a positive economic return for an investment where the underlying investment loses money.

For "private good" type social entrepreneurs, the outlook is even brighter. Institutional and retail investment clients are now routinely offered a range of financial products with differing economic returns, sometimes even with guaranteed returns. In the institutional space CDOs (Collateralized Debt Obligations) and hedge funds have seen amazing growth. The private client sphere has seen a corresponding rise of structured and guaranteed products. In principle, it is straightforward to transfer these concepts to the social entrepreneurship space, unlocking both social and economic return.

There is progress on identifying high-impact social initiatives as well. Reputed intermediary organizations such as Ashoka or the Skoll Foundation that focus on promising social entrepreneurs are expanding their operations, and new organizations are joining the space.

As we look ahead, we need to keep in mind that demand aggregation is not just a technocratic exercise. Philanthropy has an experiential dimension. There is progress to report on catering to philanthropists’ whole range of needs as well, thus enabling them to crystallize their ideas and translate them into effective giving. Through knowledge exchange platforms on philanthropy such as the UBS Philanthropy Forum, wealth managers are uniquely well placed to offer their clients the safe-space environment needed to both surface the "soft" elements of philanthropy and strategically explore the tradeoffs associated with actual resource allocation decisions.

Notwithstanding, many challenges remain concerning demand and supply aggregation, and the design of specialized financial products to finance public and private good social entrepreneurs. They include cost-effective due diligence processes, the identification of a critical mass of reliable deal flow, as well as technical challenges regarding product design.

However, the interplay of capacity-building educational activities in the field of philanthropy, where demand and supply aggregating schemes are discussed and arouse a great deal of interest, and financial innovations that apply the logic of collateralized debt obligations familiar from microfinance to other classes of underlying assets is unleashing an interesting dynamic. It builds both demand for and supply of innovation in the field of financing high-impact social change initiatives, many of which are driven by social entrepreneurs.

Looking ahead, we can be reasonably confident that rather than being the exception, aggregating demand and targeting impact will eventually become the gold standard of philanthropy.
Contributor Biographies
Ann-Kristin Achleitner holds the KfW-Endowed Chair in Entrepreneurial Finance, and is the Scientific Director of the Center for Entrepreneurial and Financial Studies at the Technische Universität München, one of the three German elite universities. Previously, from 1994 to 2000, she was Professor of Banking and Finance at the European Business School, and worked as a consultant for McKinsey & Company. Achleitner earned her PhD from the University of St. Gallen in Switzerland. Her research focuses on venture capital and private equity, social entrepreneurship, and financing of small- and medium-sized companies.

Michael Chu was appointed a Senior Lecturer at the Harvard Business School in July 2003. He continues to serve as Senior Partner and a Founding Partner of Pegasus Capital, a firm dedicated to deploying equity capital in Latin America. Before Pegasus, Chu was President and CEO of ACCION International, a leading non-profit corporation dedicated to microfinance. Chu has participated in the founding of several microcredit institutions and regulated banks throughout Latin America, including BancoSol, which under his chairmanship has been the most profitable bank in Bolivia. From 1989 to 1993, Chu was an executive and limited partner in the New York office of Kohlberg Kravis Roberts & Co. He joined the firm from PACE Industries, where he served as Senior Vice President & CFO. Previously, he held senior management positions in U.S. corporations and was with the Boston Consulting Group. Chu currently serves on the boards of Sealed Air Corporation, ACCION International, BoardSource and is a Trustee of Dartmouth College. Chu graduated with a BA (Honors) from Dartmouth College and received an MBA with highest distinction (Baker Scholar) from Harvard Business School.

Dario Disegni is Head of Cultural Affairs and Institutional Relations at the Compagnia di San Paolo, and Secretary General of Fondazione per l’Arte della Compagnia di San Paolo. He graduated with honors in International Law at the University of Turin in 1972. He represents the Compagnia di San Paolo in the governing council of the European Foundation Center in Brussels, and is member of the board of directors of the Madariaga European Foundation and Senator of the European Cultural Parliament. He is Vice-Chairman of the Emilio Mangini Foundation in Milan, member of the executive committee of the Association Torino Città Capitale Europea in Turin, and member of the advisory boards of the Associazion Civita in Rome and the Cultural Observatory of Piedmont in Turin. He is also member of the boards of directors of the Museo Nazionale del Risorgimento, the Conservation and Restoration Center “La Venaria Reale,” and the Vittorio Bersezio Foundation, all based in Turin.

Andreas Ernst is Deputy Head of Philanthropy Services at UBS AG, a dedicated advisory unit that helps clients to conceive, set up and monitor effective philanthropic vehicles. Previously a Project Manager at the International Trade Centre UNCTAD/WTO, and a Research Assistant at the University of Geneva’s Social Entrepreneurship course, his core regional expertise centers on Asia and South-East Europe. He is particularly interested in issues regarding methodology – especially project evaluation, design, and management. In his previous career, he gathered first-hand experience of the transformative power of disruptive technologies through his involvement in the successful launch of a startup in the media industry. He holds a Master’s degree in Business Administration from the University of Hamburg.
Fruchterman believes that technology is the ultimate leveler, allowing disadvantaged people to achieve more equality in society.

John J. Havens is Senior Research Associate and Associate Director of the Center on Wealth and Philanthropy at Boston College. He received his training in Mathematics, Economics, and Physics at Yale University and his graduate training in economics at the Massachusetts Institute of Technology. He began his research career as an engineer and mathematician in 1957. From September 1992 however, Havens has participated in the study of philanthropy. Past research with Paul Schervish includes: Wealth with Responsibility Study/2000; Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy; and 2001 High-Tech Donors Study. Current research includes “Dilemmas and Decisions Surrounding the Accumulation and Distribution of Financial Resources,” funded by the T. B. Murphy Foundation Charitable Trust; “The Emerging Material and Spiritual Determinants of Charitable Giving by Wealth Holders,” funded by the Lilly Endowment Inc.; and an expanded and refined estimation of wealth transfer over the next half century. Havens has been recognized for the third consecutive year by the Nonprofit Times as a member of the Power and Influence Top 50 list.

Peter Heller is the Executive Director of the Canopus Foundation, a private charitable foundation that promotes private social investment and social enterprise in order to fight poverty and environmental degradation, and provides business development assistance for social entrepreneurs. Heller is also Executive Director and sole shareholder of PerEnergy, an investment management company dedicated to financing renewable energies and energy efficiency. He is Co-Founder of Solarstrom – Europe’s first list-
Uday Khemka is Vice-Chairman of the SUN Group, and is Managing Trustee of his family’s charitable trusts, the Nand & Jeet Khemka Foundation and the Nabha Foundation. He is on the advisory and governing boards of business schools in Europe and in Asia, and on the investment committees and boards of trustees of investment funds in the US, Europe, and Asia. After working as a banker at Credit Suisse First Boston and Morgan Stanley, he returned to his family’s business where he has helped build and lead the Group’s Asset Management, Private Equity and Venture Capital business in India, Russia, Europe and the US. He has also led SUN’s entry into the Indian real estate and information technology sectors. In addition, he is deeply involved in the Group’s brewing, natural resource and energy sector activities. The Nand & Jeet Khemka Foundation was a sponsor for the first Iceland Climate Change Action Summit, which brought together over 70 key players from the Young Global Leader, Climate Change Expert, and philanthropic communities and aims to become the pre-eminent global summit on climate change action.

Mark R. Kramer is a Founder and Managing Director of FSG Social Impact Advisors (FSG), a consulting firm with offices in Boston, San Francisco and Geneva. FSG consults corporations and foundations on developing strategies and measuring impact for corporate social responsibility and philanthropic initiatives. He is also a Founder of the Center for Effective Philanthropy, a non-profit research organization in Cambridge, Mass., and a Senior Fellow at Harvard’s Kennedy School of Government. Mark Kramer has published extensively on the development of effective practices in CSR and philanthropy, and he is a co-author, with Professor Michael E. Porter, of two influential Harvard Business Review articles entitled “Philanthropy’s New Agenda: Creating Value” (1999) and “The Competitive Advantage of Corporate Philanthropy” (2002). Previously, he spent 12 years as a venture capital investor. He received a BA from Brandeis University, an MBA from The Wharton School, and a JD from the University of Pennsylvania Law School.

Ray Kurzweil is an inventor, author, futurist, and pioneer in the fields of voice recognition, character recognition, and digital music synthesis. He was the principal developer of the first CCD flat bed scanner, the first omni-font optical character recognition machine, the first print-to-speech reading machine for the blind, the first text-to-speech synthesizer, the first music synthesizer capable of recreating the grand piano and other orchestral instruments, and the first commercially marketed large-vocabulary...
Maximilian Martin is Global Head of Philanthropy Services at UBS AG, a dedicated advisory unit that helps clients to conceive, set up and monitor effective philanthropic vehicles. He is also a Senior Fellow at the Center for Public Leadership at the University of St. Gallen and serves as a Visiting Professor at the University of Geneva, where he teaches philanthropy and social entrepreneurship in the MBA program. Previous engagements include Head of Research at the Schwab Foundation for Social Entrepreneurship, Senior Consultant with McKinsey & Company, instructor at Harvard’s Economics Department, and Fellow at the Center for Public Leadership at the John F. Kennedy School of Government. Dr. Martin’s research interests and publications focus on the relationship between globalization, social entrepreneurship and philanthropy, and emerging cross-sector value creation opportunities in this space that involve civil society, private individuals and business. In his dissertation research, he developed a new approach to political economy that takes into account the interplay of symbolic and material factors such as changing economic models and price fluctuations in commodities, and their implications for economic policy. In 2003, he developed the first university course on social entrepreneurship in Europe for the University of Geneva and the Schwab Foundation for Social Entrepreneurship. In 2003-2004, he conceptualized and then set up the UBS Philanthropy Services model. Dr. Martin holds a Master in Anthropology from Indiana University, a Master in Public Adminis-
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Other comments:  

Paul G. Schervish is Professor of Sociology and Director of the Center on Wealth and Philanthropy at Boston College, and National Research Fellow at the Indiana University Center on Philanthropy. He is senior advisor to the John Templeton Foundation and to the Wealth & Giving Forum. He has served as Distinguished Visiting Professor of Philanthropy at the Indiana University Center on Philanthropy and as Fulbright Professor of Philanthropy at University College, Cork, Ireland, and has been named five times to the NonProfit Times "Power and Influence Top 50." Schervish serves as a consultant to financial and development professionals and to wealth holders on the patterns and motivations of charitable giving, on the moral biography of financial life, and discernment as a spiritual process of conscientious decision-making around wealth and philanthropy.