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UBS Philanthropy Services
Viewpoints 2008
Building Change Communities

5 Years
UBS Philanthropy Services

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Preface

Distinguished Reader,

Since ancient times, people around the world have devoted personal wealth, time and energy to social causes. However, in terms of ambition levels and ability to make an impact, the field of global philanthropy is entering a new phase. In 2008, we want to take a closer look at the core drivers in this field of forces.

In 2006, wealthy individuals worldwide gave US$ 285 billion to philanthropic causes. A wide range of motivations drives their philanthropic actions. Often, they are private and personal: a passionate interest, a quest for a deeper purpose in life, a sense of gratitude or duty to society, empathy for the fate of others, a tradition built on family values, or a life-changing experience. Traditionally, philanthropists therefore often acted alone, and brought their considerable vision and financial resources to bear on a specific issue.

But given rising ambition levels, and as social problems as well as the ability to address them "globalize," a keen interest in partnering with others is catching on in the global philanthropic community. We are witnessing the emergence of veritable "change communities" – groups of experts and wealthy individuals who collaborate toward a common philanthropic objective, committing financial resources, personal networks, and know-how.

This phenomenon deserves a closer look. "Building change communities" will be the guiding theme of our 2008 UBS Philanthropy Services knowledge exchange platforms around the world. As we seek to assist you in being effective, we aim to shed light on when to best act on one's own and when to co-invest with peers. To do so, we need to consider three dimensions of collaboration that play a defining role in today's philanthropy.

First, more and more philanthropists are supporting social entrepreneurs, who set up micro-lending and other schemes that have helped thousands overcome poverty. Through this initiative, they debunked the belief that the poor are not creditworthy. Social entrepreneurs are leaders in different fields of social change, using innovative approaches or market mechanisms to attain their goals. In spite of numerous successes, many challenges remain ahead. Take the case of the lack of access to health insurance schemes for the poor around the world – thirty years ago the poor were considered to be non-bankable. Today they continue to be seen as "uninsurable." There is also scope for change communities to address the structural barriers to financing social entrepreneurs.

Second, more and more philanthropists want to invest their foundation endowments in ways that are directly aligned with their philanthropic mission, yet create enough financial returns to be able to fund social programs in the long run. In principle, the role of foundations as providers of society's risk capital is straightforward. But in practice, foundation investment policies tend to be risk averse and often undercut maximum possible social impact. Investor preferences and financial innovation are changing foundation asset management. There is growing interest in asset classes with various risk-return characteristics. Foundations are also realizing that too little of their endowment is invested in alignment with the social causes they pursue. The most innovative are experimenting with "mission investing": investing a part of the endowment in order to achieve both financial and social returns.

Finally, donors do not just consider pooling foundation assets and becoming closely involved with grantees on a bilateral basis, but also coordinating their actions through donor collaboratives. Traditionally, it has been rare for the ten largest funders to a specific cause to know each other and co-invest. But this is now changing. Increasingly, philanthropists adopt a problem-solving approach and ask: who needs to be in the room and with whom do we need to partner to turn the tide on a complicated social issue such as HIV/AIDS or climate change? They then reach out through personal and expert networks to assemble donor collaboratives or social investor clubs.

As we celebrate the fifth year of advisory services and philanthropy events around the world, as well as the fifth edition of the Visionaris Social Entrepreneurship Awards in Latin America, the 2008 edition of Viewpoints takes a systematic look at how philanthropists construct new philanthropic realities, building change communities where appropriate. We will inquire into some of the core drivers of effective philanthropy, as well as new developments in issue areas ranging from conflict resolution to sanitation.

Section one asks: when is a change community useful in constructing a durable philanthropic reality, and what are some of the dilemmas a philanthropist has to face? De facto, philanthropists increasingly become architects of carefully considered social change experiments. So when does it make sense to go it alone? And when should one partner, building a change community? Who do I need to include in order to turning the tide on a complex, multidimensional social issue?

Sections two and three look into the prospect of a systematic approach to philanthropy in a variety of different fields that are moving up on the agenda, namely conflict resolution, climate change, commodity businesses, human rights, access to technology, micro-insurance, and sanitation.

Section four explores some of the building blocks of institutionalizing a philanthropic legacy, for example by involving other players such as the public sector – or deliberately choosing not to go for the long run, as is outlined in the case of Atlantic Philanthropies' "limited-life philanthropy."

Section five looks ahead, examining two issues that are weighing ever larger on philanthropists' minds: how can I align financial investments and philanthropic objectives, designing viable solutions in scale, and how to make sure the resources distributed reach the right people on the ground?

Once again, we are privileged to feature contributions from a group of high-powered philanthropy writers. It is our ambition to open doors to a unique blend of philanthropic insights to our readers. We therefore hope that reading this report will be both an enjoyable experience, and useful as you continue on your personal philanthropic journey – continuously translating your personal philanthropic aspirations into effective action, both in the short and in the long run.

We thank all authors for sharing their personal experiences, views, and thoughts so generously.

Maximilian Martin
Global Head,
UBS Philanthropy Services

Andreas Ernst
Deputy Head,
UBS Philanthropy Services

Concepts and Challenges

Building Change Communities

By Maximilian Martin

"Everything has been figured out, except how to live"

Jean-Paul Sartre (1905-1980)

Introduction

People have committed personal financial resources and passions in the pursuit of the common good since time immemorial. Today, the field of philanthropy seems to be approaching a turning point in terms of ambitions and capabilities. Globally, there are now over 85,000 individuals who own more than US$ 30 million. In line with the growth of individual wealth, popular interest in philanthropy has also risen dramatically over the past two decades (cf. *figure 1*).

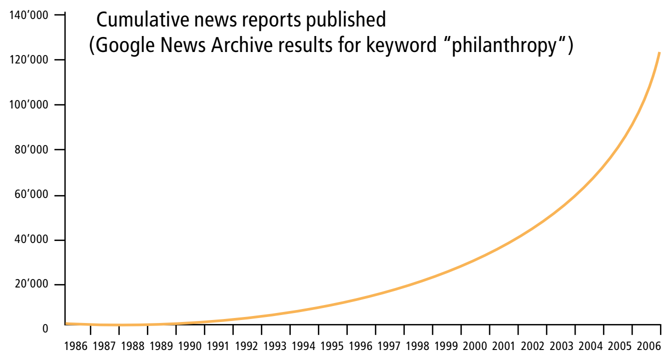


Figure 1: Rising Coverage of the Term Philanthropy in the News Media, 1986-2006 (Source: calculated with data from Google News)

As they reshape social realities, many philanthropists realize that not everything can be accomplished alone. Increasingly, philanthropists therefore start to build "change communities" – groups of experts and wealthy individuals who collaborate toward a common philanthropic objective, committing financial resources, personal networks, and know-how. Depending on cause and ambition level, coordinating one's actions through such a donor collaborative or social investor club can be either highly rewarding or a waste of time. Traditionally, it had been rare for the ten largest funders to a specific cause to know each other and co-invest. This is now changing. As they construct new social realities, philanthropists increasingly adopt a problem-solving approach and ask: who needs to be in the room and with whom do we need to partner to turn the tide on a complicated social issue such as a HIV/AIDS or climate change?

In addition to considering engaging peers in solving complex social problems by building change communities, philanthropists implicitly or explicitly position themselves vis-à-vis the following two issues:

- If and how to go beyond grant-making, and
- If and how to align financial investments with philanthropic objectives.[1]

Both subjects were discussed in previous editions of *Viewpoints.* Of course, to be truly effective, today's and tomorrow's philanthropists need to factor in an underlying transformation into their social change equations: profound organizational change affects the nonprofit sector as it globalizes. Part, but not all, of this change can be subsumed under the heading social entrepreneurship. Similar to organizations in the private and the public sector, grant-making and grant-seeking nonprofits operate today in a globalizing field of forces to which they need to respond by redesigning and restructuring their core activities and value chains. What are the implications for civil society organizations' (CSOs) ability to be effective partners in a change community on any given social or environmental issue?

A Qualitative Shift

In the late nineteenth century, the pressures stemming from the rapidly rising scale of industrial organizations led to wide-ranging changes. Industrialization created demand for investment capital on a scale that individual business owners were unable to satisfy. Economies of scale favored large organizations such as Standard Oil or J.P. Morgan. One of the results of industrialization was the shift away from the traditional manager-owner model; another was the emergence of demand for all sorts of professional services, especially accoun-

[1] More and more philanthropists want to invest their foundation endowments in ways that are directly aligned with their philanthropic mission, yet create enough financial returns to be able to fund social programs in the long run. See UBS Philanthropy Services Matrix Group paper "F4F – Finance for Foundations" (2007).

tants, managers and lawyers; a third the creation of a new model of ambitious philanthropies.[2]

An analogous qualitative shift is happening today in the field of philanthropy. Global problems to be solved through strategic philanthropy are increasingly multi-jurisdictional, and require capital and know-how on an unprecedented scale. Take, for example, the field of climate change and smart allocation of philanthropic resources, as proposed by the initiative Design to Win. An investment roadmap for philanthropists aiming to tackle climate change, Design to Win was developed in 2007 by California Environmental Associates (CEA) on behalf of six major US foundations.[3] Its recommendations focus on carbon policy and interventions in five key sectors around the world – power, industry, buildings, transportation and forestry – estimating that targeted philanthropic funding could mitigate 11 gigatons of annual CO_2 emissions. However, this would require well-targeted philanthropic funding of US$ 525-660 million per annum – as compared to current funding of US$ 176 million.

Responding to the complexity of social and environmental challenges, we thus increasingly witness the preeminence of collaborative and professional approaches to philanthropy. They complement the longstanding volunteer-philanthropist model in which a foundation is essentially run by volunteers who meet periodically at board meetings to distribute grants to nonprofit organizations.

As philanthropists become more collaborative and strategic builders of social change, it is critical to understand how the fundamental properties of the grantee organization as their main lever of intervention are changing. Since the early 1980s, globalization has reshaped business organizations and government in profound ways. Just like any other organization, today's philanthropic organizations need to come to grips with the following three trends: expansion of the general managerial project and the rise of entrepreneurship, changing control structures, and redrawing of organizational boundaries.

[2] See, Maximilian Martin, "Between Entrepreneurship and Surveillance." *Entwicklungsethnologie* 11(1): 83-110, 2002.

[3] David and Lucile Packard, William and Flora Hewlett, Doris Duke, Oak, Joyce, and the Energy Foundations. CEA, a San Francisco-based consulting firm, surveyed the scientific literature and sought the input of more than 100 of the world's leading experts on energy and climate change, prioritizing potential investments according to mitigation potential and ability to prevent 'lock-in' of greenhouse gas emissions. For the full report, see http://climate.ncat.org/docs/Design_to_Win_8_01_07.pdf.

Collaboration in the Context of an Expanding Managerial Project

For much of the twentieth century, both technical and managerial professions were able to expand their autonomy and increase their status. But since the 1980s, a managerial logic has begun to govern the prerogatives of some technical professions. Think of health management organizations (HMOs) taking over the healthcare market, displacing medical doctors' traditional fee-for-service mode of operation. A similar logic is at work in the field of philanthropy – as the very prominence of the term "social investment" highlights. While such cost-benefit logic is most easily applied to the delivery of social services, it is now increasingly used for other social causes as well.

A look back is instructive: organizational de-layering, restructuring, and reengineering have transformed business since the 1980s, producing overall flatter hierarchies with less middle management, but also greater differences in compensation levels among individuals perceived to be rainmakers and the overall workforce (hence the "war for talent" to source individuals with scarce skills). As the philanthropic space professionalizes, similar forces are at work in the social sector. Already, a growing influx of MBA trained professionals into the nonprofit sector is noticeable. There is a growing sense that to be successful philanthropic foundations need to attract a critical mass of talent. Inside an organization the emergence of professional philanthropic structures on a considerable scale results in interesting interaction patterns between traditional nonprofit staff and business professionals.

To be effective, however, the business of social change also requires real entrepreneurs. Charismatic and opportunity-oriented, they enjoy enormous credibility among the target beneficiary population in the field and can come up with out-of-the-box solutions. Civil society is becoming more entrepreneurial. Many philanthropists are intrigued about the possibilities of such "social entrepreneurship" – supporting people like Muhammad Yunus, the founder of the Grameen Bank, who debunked the myth that the poor are not creditworthy, and set up micro-lending schemes that helped many overcome poverty. Social entrepreneurs are grassroots agents who use innovative approaches or market mechanisms to foster social change. They develop ways to reduce the cost of intraocular lenses needed for cataract operations from US$ 100 to US$ 5, or schemes to make loans at affordable interest rates available to women who need to finance their inventory of produce or undertake productive investments, or develop adapted technologies for poor farmers. But many "market frontiers" remain to be cracked. For example, consider that while thirty years ago the poor were seen as non-bankable – today they are still widely perceived to be uninsurable.

What does the rise of entrepreneurship in the citizen sector mean for philanthropists with a collaborative mindset? Clearly, it is important to realize that the boundaries of the managerial project differ in civil society and in business. Unlike in business, to motivate staff in a social enterprise setup one cannot simply appeal to potential financial rewards derived from serving the poor profitably. On the contrary, the "glue" on which motivation and effective collaboration hinge consists of helping other less fortunate members of society, ideally by truly empowering them economically and socially as opposed to treating symptoms only. For philanthropists, the rise of an entrepreneurial citizen sector offers new prospects of collaboration – with often less antagonistic players than old-style social activists, as well as the option to seed fund initiatives that have a potential to unleash an autocatalytic process in which they self-scale because excluded segments of the population can often be served profitably once critical scale is reached, as in the case of microfinance. However, two points of caution are on order. First, not every innovative socially entrepreneurial initiative is ultimately successful – often one deals with serial social entrepreneurs who succeed in some, but not all cases. Second, scaling such initiatives typically takes much longer than in business – philanthropists are thus well advised to also partner with other perhaps less entrepreneurial and innovative players which can offer immediate scale, such as the public sector.

Control Structures and Change Communities

Not only has civil society become more businesslike, but it is also borrowing control structures from the private sector. The pyramidal, hierarchical logic that governed most managerial work in business prior to the 1980s has been replaced by structures mimicking autonomous professional organizations, in which professionals organize themselves as a community of equals. This process is currently under way in the nonprofit sector – hence the enormous success of fellowship schemes such as the Ashoka network.[4]

[4] See www.ashoka.org

However, the network approach – where funding either goes to umbrella organizations which then reallocate to individual members, or the umbrella organization ultimately supplies a quality seal that influences philanthropists' resource allocation decisions – creates new challenges in the field of governance and the need for more sophisticated risk management frameworks.

At the level of signaling to donors, more and more nonprofits seek to meet such needs through ISO type accreditation procedures, or NGO benchmarking standards. Such "seals" help philanthropists to navigate the staggering complexity of the nonprofit sector. For philanthropists who seek to fund or even create multi-player alliances that include civil society organizations it is important to understand which level of scrutiny such a seal really entails, and the confusing plethora of certification "standards." At one end of the continuum are standards such as ISO 9000 and the SGS NGO benchmarking standard, which establish baseline "best practices" for overall institutional management, transparency, and integrity management. Moreover, many certifications were created to address specific donor and consumer concerns. For instance, the ISO 14000 series of standards address environmental management issues in organizations – both for- and non-profit. And at the other end of the spectrum are issue-specific standards that are often established by civil society organizations themselves to increase legitimacy while optimizing workflow.

At the organizational level, many larger, internationally active, nonprofits are in the process of implementing risk management functions, policies and structures. Borrowed from business, they aim to remove significant uncertainties in terms of legal compliance, program efficacy, due diligence and long-term viability. Given the cost involved in setting up such programs, nonprofits often first identify strategic partners such as global law firms to formulate, say, a comprehensive counterterrorism compliance program pro bono or at minimal cost. They then adopt a series of codified policies designed to help ensure that international activities are in compliance with US, EU, UN, and other regulations, terrorism watch lists, and reporting requirements for cash and other monetary transactions. To implement such policies on an ongoing basis, CSOs can either build a full-scale compliance department, or hire a Chief Compliance Officer who will outsource much of the work to a reputed compliance and risk management solutions firm.

For donors establishing change communities on specific subjects it is absolutely critical to require change community members to comply with high standards of transparency and good practice. Otherwise, one failing link in a change community can put the reputation of other players and the success of the joint social change effort at risk.

Sustainable Engagement and Shifting Organizational Boundaries

Finally, donors increasingly require civil society organizations to demonstrate the impact of their work. This has led to a number of changes in the nonprofit landscape. First, there is greater focus on what an organization does best. Second, intermediary organizations specializing in establishing focus and measuring impact are emerging. Finally, collaborative CSO networks spring up, but are characterized by an underlying tension: collaboration on field programs, and competition for financial resources among their members. Endowed foundations which do not have to compete for funding are somewhat shielded from the pressure to adapt to a focus on impact as opposed to measuring activity, but may be inclined to do so if their boards aim for "best practice."

Today's philanthropists need to decide where they want to situate themselves with respect to organizational setup and boundaries: following the traditional volunteer-philanthropist model or adopting a venture philanthropy approach investing in the creation of professional institutions – through both grants and for-profit investments.

There are already interesting organizational innovations, where the "right" positioning is often derived via a multi-year trial-and-error process. For example, Pierre Omidyar, the founder of eBay, first established the Omidyar Foundation in 1998, but later felt that the scope of social interventions he could undertake with a US 501(c)(3) foundation – grants and program related investments – was too constraining given his social change objectives. Thus, the foundation was dissolved and the Omidyar Network established in 2004. As a limited liability company, the Omidyar Network has the freedom to invest and make grants to both non-profit and for-profit companies. Backed with a US$ 400 million fund to be invested by 2010, the Omidyar Network pioneers new approaches to philanthropy. Among other things, it created the US$ 100 million Omidyar-Tufts Microfinance Fund. The Fund is a separate legal entity that derives its tax-exempt status based on the control that Tufts University, the sponsoring public charity, exercises over the Fund and its board. Its objective is to "invest in emerging markets and the developing world in developing and expanding the commercially sustainable segment of the microfinance industry while achieving the highest possible long term total rate of return that is compatible with the Trust's risk tolerance and long term time horizon."[5] The Fund not only provides a source of income for Tufts University, but also provides a new university endowment investment model and gives a significant boost to microfinance as an asset class.

From a change community perspective, the picture is probably mixed. On the one hand, more experimentation allows for greater creativity, and learning by trial and error. On the other hand, to deliver results, partnerships often require long-term sustainability. This may be the case if we consider a microfinance fund to finance part of a university endowment. But with so much dynamism and the nonprofit sector undergoing an entrepreneurial revolution, an institutionally more fragile civil society organization's continued ability to deliver on a specific social issue cannot simply be taken for granted, reinforcing the observation that one needs to be careful whom to include in a change community.

Conclusion

Summing up, what are then the implications of organizational change for highly strategic philanthropic action? Whether they choose to act alone or in coordination, philanthropists need to be aware that they are often funding organizations in transition.

Taken together, the need for a higher degree of centralized control to meet compliance and management requirements and the drive toward greater entrepreneurship translate into more agile grantee organizations. But they start out from different points of departure. Many CSOs really are entrepreneurial start ups, trying to build lasting institutions. But more established organizations which are sometimes perceived as "bureaucratic" also work hard to become more entrepreneurial (see *figure 2*).

[5] M. Chu, J.C. Hazell, "The Omidyar-Tufts Microfinance Fund: Striving to Reshape the Social Enterprise Capital Markets." HBS Case 9-307-078. Boston, Mass.: Harvard Business School Publishing, 2007.

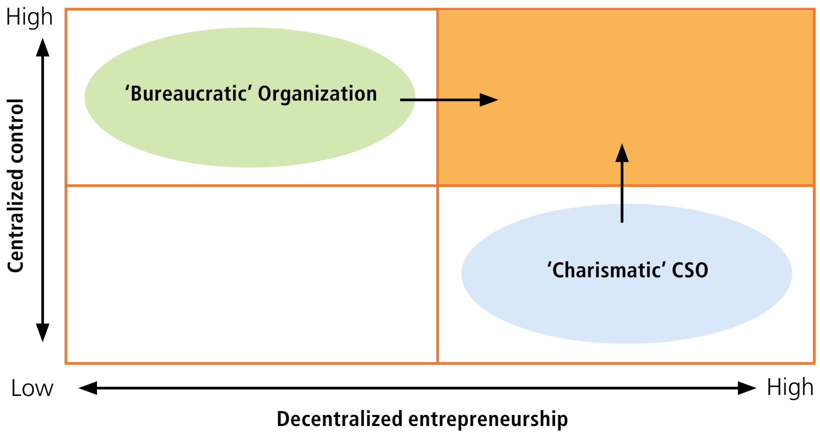


Figure 2: Entrepreneurship and Control: the Future of the Globalizing Civil Society Organization

So, what does the future hold? Given the multi-jurisdictional nature of many global problems and the globalization of the CSO landscape, philanthropists looking for impact increasingly find they must become architects of carefully considered social change experiments. On occasion, it even makes sense to adopt a highly strategic "war room" approach that precisely defines objectives, maps resources, identifies obstacles in advance, and allocates funding to a number of strategic projects. This way, finite philanthropic resources can kick off change processes that end up drawing resources from other actors such as business or the public sector into the "war on poverty" or "war on HIV/AIDS" in a defined theater of intervention.

On balance, the opportunity to achieve social change through philanthropy is immense. Of course, if philanthropists do not adapt themselves to the changing conditions of the systemic context in which they operate, the reputation and financial risks can be substantial.[6] But overall, we can be optimistic. There are a lot of very smart and highly committed people out there, both at the grassroots level and in the global philanthropic community. Change communities are being established or strengthened on many global issues, such as climate change, sanitation or conflict resolution, discussed in the articles in the next sections.

[6] It seems that the stakes are constantly rising. Consider for example, the recent controversy surrounding the Oprah Winfrey Leadership Academy for Girls in South Africa. For an overview and links, cf. http://en.wikipedia.org/wiki/Oprah_Winfrey_Leadership_Academy_for_Girls

Dilemmas of Philanthropy

by Sir Stelios Haji-Ioannou

"What one man can do himself directly is but little. If however he can stir up ten others to take up the task he has accomplished much"

Wilbur Wright (1867-1912)

Entrepreneurship has been a recurring theme of my life's work and more recently I have been able to use resources raised and lessons learned in my entrepreneurial life to engage in philanthropic activities.

I started my first venture at the age of 29 but it was the second, easyJet, which brought me instant fame. So far I have started 17 ventures, and while not all have been successful, I remain addicted to this process of creation and trying new approaches. I take huge risks on every new idea and commit the resources that I feel necessary to giving it the chance to succeed. But this entrepreneurial drive is not just about financial gain for me. Each business I create hinges on innovation and changing the way people do things and live their lives. For example, easyJet transformed the way people thought about choosing potential vacation destinations and thinking about different choices. One of the core values of the easy brand has been to impact the largest number of people, and that is what entrepreneurship is all about for me. In a way, it is also what philanthropy is all about.

As I felt that the time had come to give back to society in more direct ways I applied some of the same principles. I have wanted to use innovation and creation to repay what I feel is my debt to society, whose members bought the products and services my companies have provided in the first place and thus created the wealth. The question then became for me to figure out how to transfer my entrepreneurial drive to philanthropy and what changes I had to make to my approach.

At this point in my life, my experience with philanthropy has been long, if not extensive. I still have much more to learn than I can offer to any potential philanthropist. But through my journey I have been faced with some tough questions on what I wish to do, why, and how. If there is one thing I have learned, the practice of philanthropy involves many choices, and each with a significant personal tradeoff. If I cannot yet offer lessons on the outcome, here I can at least offer the thought process that has guided my philanthropy.

Early Days: Whose Needs?

My philanthropic journey started in 1991. That year, one of the tankers belonging to my father's shipping company was involved in an accident in Italy. There was loss of life and significant environmental damage from an oil spill into the surrounding Mediterranean. That accident and its immediate aftermath were to have a major impact on me. A year later, I set up the Cyprus Marine Environment Protection Association (CYMEPA), encouraging many other Cypriot businessmen to join and contribute.

That action revealed the first conflict I faced as a philanthropist. I wanted to think about how to respond beyond the immediate cleanup. Marine conservation was clearly a cause close to my own roots – in Greece and the sea – and the accident provided a trigger for the CYMEPA. But I was also immensely affected by the loss of life and the impact on the concerned families and communities. Or was I to look at the big picture and the long-term impact of industrial activity and respond to environmental issues that affected the next generation? In a way I struggled between taking care of the individual in the moment and the broader need to improve the future of our environment and all the individuals that would impact today and in the future. This conflict between the needs of today and tomorrow continues to be a dilemma for my ventures in philanthropy, but there are ways to resolve the apparent contradiction.

Evolution: How Can Philanthropy Be Fun and Engaging?

There is another more practical problem to be solved. I think that many people do not associate philanthropy with excitement and dynamism. Especially people like me whose life is fueled by the thrill of creating and growing businesses may feel that way. At easyJet, we worked hard to be different and dynamic, we wanted the experience to look and feel completely different and provide an element of fun. If you have been on an easyJet flight, you feel the difference. The crew is informal; the pilot's welcome is humorous; and the somber suits are replaced by a bright orange. You can even expect a few surprises here and there. I realized very early that as a startup enterprise I needed to be trusted by my customers, and I needed to stand out. In order to "walk the talk" I started flying economy. And, when British Airways launched Go, a rival low cost airline, I showed up with eight colleagues in bright orange suits to hand out free easyJet tickets on Go's inaugural flight. Can you think of anything more fun? So I have tried to use some of these principles in my approach to philanthropy. I believe that in both cultivating motivational energy around a cause is both very important and possible with some creativity. Occasionally, I have managed to do that – for instance turning charity auctions into celebrity competitions involving my friends and network. As I have learned a little healthy competition is always good for business – and in this case charity – and is also enjoyable. Nobody denies that business and philanthropy are very serious endeavors. What I am suggesting is that their aims can be reached in different ways.

Applying Entrepreneurship: Give to the Many?

As I think about my philanthropic contributions, however, the most significant question I ask myself is what kind of change I would like to effect in others.

Since I do not believe in handouts, the old adage about teaching a man to fish rings most true to me. I do not wish to provide sustenance, but rather the means and skills to others in need to be entrepreneurial and innovative. That narrows substantially my philanthropic options, and means that merit remains the fundamental qualifier for all my work.

This conviction let me to set up the Stelios Scholars Program, which will fund 10 scholarships a year at the London School of Economics and the Cass Business School. Meanwhile, the Disabled Entrepreneur of the Year Award will recognize outstanding disabled entrepreneurs in collaboration with the charity Leonard Cheshire.

Yet such initiatives reveal a final contradiction in philanthropy: should you make your support available to everyone, or only to the ones who benefit the most from your support and whose needs are greatest?

Stelios Scholars is based on one interpretation of this question – of extending the reward to everyone, but awarding it only to the most deserving students. While lecturing at the Columbia Business School in New York in 2004 I met

one of the students that had been funded by my father's scholarship program for Cypriot students. That meeting brought home how much of a difference my father's scholarships, and a good education, made in the recipients' life. But I could not restrict my scholarship fund only to Cypriots or Greeks. I had a significant debt to the UK, to the LSE and to the Cass Business School. Furthermore I have traveled extensively, so I cannot simply exclude a large proportion of humanity from the benefits that accrue from education. The Stelios Scholars Program therefore makes available to all students the opportunity for an exceptional education, and thus recognizes the immense power of education and merit in transforming lives.

At the other intellectual extreme I have set up the Disabled Entrepreneur of the Year Award. This award is limited to a community that benefits particularly from successful entrepreneurship. Nearly half the disabled population is self-employed, so for them entrepreneurship is more powerful as a transformative force. As an employee you are judged by your superiors. When you are your own boss, you are judged only by the market.

Conclusion

I have explored here some of the tradeoffs involved in philanthropy: whose needs are important? How can philanthropy be rewarding, fun, and inclusive? Who are you serving – the most deserving or the neediest? There is one additional question I pose here, as it is somewhat related – should you give to the many or the few? I did not dwell upon that question because for me the choice is natural – that one should try to reach as many people as possible, for example via sustainable development and the work of CYMEPA but also try to make a significant difference in an individual's life, via the scholarships and awards for instance. The easy Brand is about transforming the lives of millions, so my philanthropy too has that bias.

These questions present fundamental choices. The tradeoffs involved are difficult, the choices are not black and white, and the outcomes uncertain. Your choices may be very different from mine. But my business ventures have taught me the value of experimentation and risk. I recommend the same approach here – for you cannot hope to succeed in every choice you make. There is, nevertheless, a comforting certainty in trying to find the answer. If I learned through the process to "give something back," and to do it better than I did before, I will have succeeded in no small measure.

Philanthropy's Role in Building an Effective Citizenry

By Edward Skloot[1]

"Justice in the life and conduct of the State is possible only as first it resides in the hearts and souls of the citizens"

Plato (427 BC – 347 BC)

In the city-state of Athens in the 4th century BC, young men aged 18-20 had to pass a two-year course covering military practice and civic duties. At the end of the first year, they were given a spear and a shield and had to each take the Ephebic Oath:

> We will never bring disgrace on our City by an act of dishonesty or cowardice.
>
> We will fight for the ideals and sacred things of the City both alone and with many.
>
> We will revere and obey the City's laws, and will do our best to incite a like reverence and respect in those above us who are prone to annul them or set them at naught.
>
> We will strive increasingly to quicken the public's sense of civic duty.
>
> Thus in all these ways we will transmit this City, not only not less, but greater, better and more beautiful than it was transmitted to us.

For its time and place, the Ephebic Oath was the rough equivalent of the Pledge of Allegiance. It is an amazing statement – the way it balances individual and group action and blends pride and humility; its respect for the law and reverence for a culture that made the law possible; its regard for history; and the responsibility it imposes to convey the state in better shape than when it was found.

[1] Excerpted from *Beyond the Money: Reflections on Philanthropy, the Nonprofit Sector, and Civic Life*, New York, The Surdna Foundation, 2007.

Fiorello LaGuardia, New York City's mayor in the 1930s and '40s and a true social capitalist, knew this oath well. He spoke of it often, and publicly vowed to follow its precepts. Some say LaGuardia asked his commissioners to pledge to it too, as he handed them their responsibilities. (He probably did not.) For us who care deeply about democratic participation and civic health, the oath has much to say today.

The Bad News

Most everyone agrees we are in a civic mess in the United States. Despite a spike in voting patterns at the beginning of the century – from 54% in 2000 to 59% in 2004, the highest turnout since 1968 – the challenges seem even larger than when Robert Putnam published his sobering article "Bowling Alone," in 1995, on which his book of the same title was later based. Nearly 10 years later, he re-confirmed this view. His words seem to me plaintive and almost sorrowful.

No one disputes anymore the decline of social capital. Political participation has been in a 40-year slide. Volunteering hours are down, though the number of volunteers is up. As Michelle Nunn notes, the time spent in sustained and deep commitment fell 10%, to less than four hours per week. As well, trust in government by all Americans has fallen by 50% over the last four decades, from 73% in 1958 to 36% in 2003.

As if this were not enough, the data are most upsetting with regard to young people. To cite but two of many examples, CIRCLE (the Center for Information and Research on Civic Learning and Engagement), through its Civic Engagement Index, has pinpointed the apathy of the "Dot-Net" Generation, ages 15-25. Nearly 6 in 10 are completely disengaged from civic life. Only 24% follow government and public affairs "very often." Fewer than 4 in 10 say citizenship entails special obligations.

If adults are disengaged and apathetic, most every survey tells us that young people are largely turned off. Politics, political parties and government have little or no relevance in their lives. If they choose to participate at all, they see volunteering in nonprofit organizations as the meaningful alternative. "The Future of the First Amendment," an equally depressing new survey of more than 100,000 high school students, 8,000 teachers, and 500 administrators and principals in 544 high schools, concludes that civic basics are not being taught. It shows that nearly three-quarters of the students either do not know how they feel about the First Amendment or take it for granted. But before we hang it all up and turn off the lights, before we give up on the goals of the Ephebic Oath, we need to ask if there are any data that might give cause for optimism. I think that there are.

The Good News

The picture of civic ignorance and popular withdrawal hung over my head as I thought about what philanthropy can do to build civic engagement. In two places, I found cause for optimism about how philanthropy could make a difference. One is the practice of funding direct action to create a broader social change movement. This approach, supported by some foundations, is a feature of our grantmaking. It enlists citizens in envisioning and achieving a better society, by calling forth their energies to rearrange current systems and practices. The Surdna Foundation offers a very strong example of such efforts.

The other is what I would characterize as "pure service." To me that connotes efforts to cultivate an ethic of personal service to others, addressing private needs, where government is a major player. Here, changing or making policy is not the goal; it is meeting needs right now. The two approaches are complementary.

I reviewed more than a decade of Surdna grantmaking, which has totaled more than US$ 350 million between 1990 and 2004. What I found surprised me. The thematic coherence around civic engagement was remarkable. In rough numbers, Surdna has made more than 1,000 grants, totaling well over US$ 100 million, in support of civic engagement. A large majority of these grants have followed the charge given us by Harry Boyte and Nan Kari, in their important 1996 book, to do "public work." We have done it all over America, often with great consequence.

Here is a brief sample of six Surdna projects and what they accomplished. The point of listing them is not to illustrate the brilliance of our own grantmaking but to show the range of opportunity for a committed foundation to delve deeply into this line of work. Most of these grants, in fact, were made collaboratively with other foundations.

Start with the most basic form of wealth: land. Nationally, we have supported local land trusts that arrange for conservation easements, or the outright acquisition of property, for the public good. There are now more than 1,500 of them. About half are run by volunteers. The total acreage conserved by land trusts more than doubled between 1998 and 2003, to 9.4 million acres. That is almost double the land mass of New Jersey.

Second, in Los Angeles, the Labor / Community Strategy Center has been our partner for a decade. Through its Bus Riders Union, LCSC has fought for 12 years for a modern and efficient bus system for 400,000 low-income bus riders in the city. This system is their lifeline – for employment, education, recreation and family. Yet the Los Angeles transportation authority wanted to shrink it drastically and raise fares, which would have made regular travel both uncertain and unaffordable. LCSC took the authority to federal court. It won a landmark civil rights consent decree that compelled the MTA to improve the bus system and make it its first priority in funding. Now, under a 10-year contract, overseen by the Bus Riders Union, hundreds of millions of dollars in improvements are being pumped into low-income, mass-transit-dependent communities.

Third, in 1992, Surdna created a 7-year, comprehensive community revitalization program. It covered a large section of the South Bronx. It was run by five community development corporations (CDCs) representing thousands of neighborhood residents. We bought into their plans. Twenty-one funders, banks and the city government provided more than US$ 12 million and assisted the CDCs in raising about US$ 44 million more. Numerous health, employment and economic development programs were set up. This collaborative model has spread to other cities, such as Chicago.

Fourth, the Ella Baker Center and the Youth Justice Coalition, two organizations in California, helped build a coalition of 55 community and youth-serving nonprofits. Many of the groups in the coalition are run by young people. They have compelled the state to completely reform its horrific treatment of young people in California's juvenile justice system. Their work has forced the California Youth Authority to stop placing young people in adult facilities and to ensure that kids who are pepper-sprayed in the course of law enforcement get legally mandated medical treatment within 15 minutes. Because of their actions, youth now sit on committees that review discipline and grievance procedures. Under mounting citizen pressure, in December 2004 the governor agreed to a systematic overhaul of California's entire juvenile detention apparatus.

Fifth, in technology, one of our many projects has been to help fund the start-up YouthNoise. This website now engages more than half a million young people a month. More than half the content on the site is actually created by these young users. Large numbers use it to find volunteer work, to engage in online policy debates and to contact legislators to express their concerns.

Finally, we have been one of many supporters and advocates of the Rails-to-Trails Conservancy. RTC is the only national group devoted to preserving abandoned railroad corridors by converting unused rail lines to multi-use trails for everybody, for walking, exercising, etc. RTC has catalyzed the preservation and building of more than 1,100 rail trails covering 12,000 miles of open trail.

All these efforts have a special, similar footprint. They are issue-based, place-based and usually locally focused. Most are overtly "political" in the sense that they mobilize citizens to envision a better world, create change and, when necessary, take on government. They navigate the messy democratic process of sifting and sorting competing interests. They take action to fix local problems.

You can be sure that none of the participants thought they were building social capital, let alone rescuing democracy. But these nonprofit groups, and thousands like them, exist in countless places – rural, suburban and urban. They give a strong and clear message: A real fire is burning under the civic engagement embers many of us have written off as nearly extinguished.

Systemic Approaches to Collaboration

Creating Partnerships for Societal Change

By Scott M. Weber

"First say to yourself what you would be; and then do what you have to do"

Epictetus (55-135)

If you are reading this publication, you are already committed to being or becoming a vector of macro-level change in the world. The world needs people who think "big-picture," recognize emerging trends and believe that change is not only needed and possible, but that with enough determination and the right partnerships, they can and will make it happen.

It is easy to create surface change. Anyone can do that. But if you want to get to the root of major social problems, you have to focus on systemic change. Promoting macro-level change in societies however requires a mix of factors that run contrary to some traditional practices in philanthropy.

You cannot do it yourself. The challenge is too big for you to expect to be able to affect change alone. Partnerships with government (sometimes inter-governmental), NGOs, civil society, the business sector and other influential individuals, may be crucial. Each of these categories has a unique role to play. Understanding the parts each should play in ensuring macro-level change and harnessing their energies are among the most important elements of putting in place an effective strategy for change.

Everything will depend on the right analysis. You need strong political, social, cultural, economic, and historical analysis of a society before embarking on promoting change. Macro-level change will potentially affect millions of lives. It is all the more important to get it right. It is essential in my view that any baseline analysis of a society's strengths and weaknesses, as well as of the hopes and aspirations of ordinary people at all levels, must be carried out by an independent, broadly trusted and representative group of people from that society. All monitoring of progress and measurement of success will, in the end, depend on the pertinence of the original analysis that fed the development of

the strategy. By way of an analogy, we often see the international aid community evaluating how well their finger is plugging a hole in the dam, and assessing how well they are doing at that task. But their broader analysis failed to recognize that the dam is in fact collapsing all around them. A successful project that was not designed to deal with the real problems may come short. Again, the overall analysis of the context, the need for systemic change and then the strategy for achieving that change must be organically linked.

Crucial to promoting change is having a clear theory of change that is adapted to the society in question. You cannot work on all the complex facets of a society to promote change. Inevitably, you will have to make choices and compromises. Your theory of change will guide your energy and resources to those factors, processes and local organizations that are most likely to combine to make in-roads on the path towards change. Getting this theory or strategy of change wrong can mean a waste of time and resources and even in the worst cases do more harm than good. For example, in efforts to build peace in societies fractured by conflict, you have to take a systemic approach and look at putting in place long-term processes that engage a large number of local people to give the legitimacy and momentum to the process before seeking to influence a small elite of decision-makers (who most often are not open to broader engagement of the population). Building trust with the elite and the local people permits this to be couched not as a threat but as a healthy process that will ultimately benefit the society. Starting with the elite will not work. Just working at the very local level with the people also will not work. It is the sequence and combination of these methods that makes the change effective. In the peace field, this very generic strategy of change has to be adapted for, and by, each and every society and context in which it is applied. But whenever they appropriate the process, the results are profound.

It is amazing what you can accomplish if you do not care who gets the credit (Harry Truman). Effective vectors of change most often remain behind the scenes and focus on creating the dynamics for others (poor communities, former warring parties, etc) to take the credit for pulling themselves out of poverty or building peace. If the beneficiaries feel they own the process, they are more likely to honor their agreements and change is more likely to last. If credit for the change is given to outsiders or sponsors, the lack of ownership by local protagonists will mean that their commitment to the change will remain weak. Humility – not in one's aspirations for change but in one's behavior to bring it about – is the secret ingredient of change management.

Create or identify local change agents. The most effective way to promote change is to create a change agent in the society that can play the role of a facilitator (not owning the process, simply enabling it). The best change agents are those who have the space and trust to be creative and take risks. You simply do not achieve change without taking risks. The key is to choose the right people (often this process is rushed with disappointing long-term consequences) who are trusted by the different constituencies in the society. Once such a change agent identified, micro-managing is a recipe for disaster. Rather, take the time that is necessary to find the right people or organization and then empower them to get on with it.

Remain engaged for the long-run. Systemic change does not happen overnight and there are no quick fixes. This is where the international community most often undermines its own efforts by pulling out too early or initiating an activity with an exit-strategy already in place. Macro-level change takes time. It can take as little as 2 to 3 years as it can take 10 years to a generation, depending on how deep-rooted the problems may be. Interrupting a process of change can wash away years of progress.

Private Philanthropy Can Make the Difference

If it follows many of the principles outlined in this article, private philanthropy can make the difference by providing flexible, long-term and partnership-based support to local change agents. As the partnership will depend on a relationship of trust, private individuals must invest a sufficient amount of their time to make this meaningful. If they do, they will also benefit enormously and gain great satisfaction.

One last point on creating meaningful partnerships: It is very easy to fall into the trap of a donor-recipient relationship with potential change agents. If you rely on the right local analysis, and identify the people who have the credibility and demonstrated commitment to the issues, your role will be to enable and empower them, not to direct them. If you can achieve a true partnership with them, the mutual trust will allow space for an honest dialogue to adjust tactics throughout the process of keeping the longer-term strategy on track. Without this level of partnership, the likelihood is that the local organization will tell the donor what they want to hear to ensure the funding continues. Suspicion will set in and mistrust will lead to a breakdown of the collaboration. Trust must be at the core of the relationship and it must be nurtured over time.

Climate Change: Enlarging the Toolbox

By Maximilian Martin and Andreas Ernst

"We make our world significant by the courage of our questions and by the depth of our answers"

Carl Sagan (1934-1996)

Since the turn of the millenium there has been growing venture capital interest in the broad area of clean technology. Much of that investment – over 50% – has been directed towards the energy sector on technology for energy efficiency, renewable energy, and alternative fuels. The deployment of such innovations can directly help combat the cause of climate change – human caused greenhouse gas emissions.

From the venture philanthropist's perspective the goal of cleantech investment is to obtain financial returns and simultaneously leverage technology to address the many social impacts of climate change. The current approach to cleantech – which focuses mostly on energy – misses several opportunities for impact.

A more ambitious approach by venture philanthropists and social investors to limiting the impact of climate change will view intervention as a portfolio of three different strategies – mitigation, adaptation, and insurance. Expanding the scope of intervention in this manner allows a more comprehensive response to climate change, which will become important and financially viable as the irreversible impacts of climate change – water scarcity, migration and extreme weather events – become evident. It requires, however, that the interventions expand along two vectors:

- *Industry sector:* expanding the scope of cleantech, driving more investment into sectors that are currently underserved.
- *Climate change strategy:* moving interventions towards adaptation and insurance strategies.

Background

Scientific consensus has emerged that climate change and global warming are occurring, that they are an imminent threat to humanity, and that such changes are mostly caused by humans. As a result, a dramatic shift has occurred in public opinion, political will, and corporate interest.

Concurrently, it has become clear that there are significant business opportunities related to the development and deployment of tools to help us mitigate our collective impact on the environment. Seeing great opportunity in great need, and rising energy prices, venture capitalists have given a significant boost to the new industry of cleantech. Over the past five years, the industry has grown phenomenally. According to the Cleantech Venture Network, the industry became the third-largest venture capital investment category in North America in 2006, and accounted for 11% of all investments. Total invested capital was US$ 2.9 billion, 78% higher than the year before.[1]

The use of technology to solve environmental problems is not new and cleantech commercialization is not a US-centric phenomenon. Europe generated a majority (55%) of IPO deals in 2005 and 2006, while Asia-Pacific was the leader in R&D funding, which rose 9% in 2006 to US$ 48 billion globally.[2] What is new, however, is the extent to which large markets are transforming or are being forced to innovate across the value chain. Rapid acceleration of technology innovation promises to bring previously unseen levels of environment-friendly transformations in production and consumption patterns.

Cleantech comprises several sectors and technologies – the most common are energy, air, water, waste, and transportation. Yet, while all bring substantial improvements in productivity, profitability and resource efficiency, the energy sector has received a disproportionate amount of investment. The sector absorbed over 50% of total VC investment in North America and global IPO value of the sector reached US$ 4.1 billion, growing 156% in 2006. This reflects matching growth in the overall global clean energy market, which expanded to US$ 55 billion in 2006 and is projected to exceed US$ 226 billion by 2016.[3]

[1] "Venture Capital: How Public Policy has Stimulated Private Investment." Cleantech Venture Network, May 2007.

[2] *The Cleantech Report*. Lux Research, April 2007.

[3] "Clean Energy Trends 2007." CleanEdge, 2007.

The likely resulting innovation in cleantech energy holds out the promise of addressing to a substantial degree the immediate causes of climate change. Yet, the almost exclusive emphasis on energy comes at a cost – the neglect of other industries, such as water, that also substantially benefit humanity, and the danger of not responding to unmitigated impacts and consequences of climate change. In other words, for investors and philanthropists looking at climate change as both a financial and social opportunity, technology innovation in energy should be but one area of attention.

Opportunities for Social Impact

Fundamentally, cleantech serves as a tool for reversing or mitigating the root cause of climate change where possible and also managing some of its impacts. Yet, in the medium term, climate change is not reversible and many of its consequences too uncertain or devastating to be managed. A holistic strategy that accounts for this reality therefore requires additional interventions beyond mitigation.

Such a complete response would consist of three intervention strategies – mitigation, adaptation, and insurance (see figure 1). For each of the strategies, financing mechanisms also need to be developed and provide an additional opportunity for impact. Taken together, these three strategies comprise a portfolio where interventions leverage cleantech to mitigate climate change where possible, adapt to impacts where not, and insure against the consequences where necessary.

These opportunities are discussed in detail in the following sections.

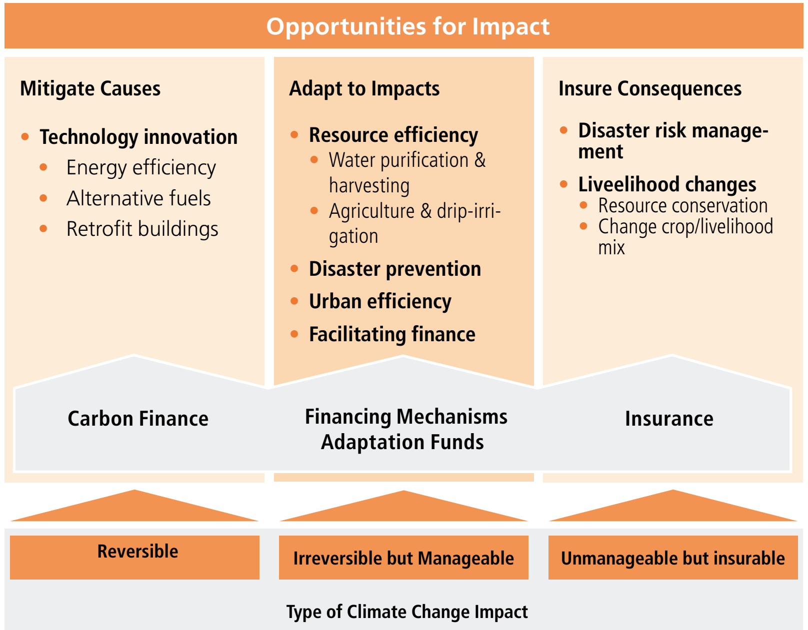


Figure 1: Opportunities for Impact

Mitigating Climate Change

Cleantech innovations in the energy sector generate substantial financial returns and also create positive environmental impact. Energy utilization accounts for a significant portion of industrial production costs. It is also responsible for the bulk of global greenhouse gas (GHG) emissions – 64.7% of all emissions result from energy generation in transportation, electricity, heating, etc. As a result, improvements in this sector offer immense opportunities for mitigating climate change, with two primary intervention options:

a. *Technology innovation:* Adoption of energy efficiency innovations results in significant cost savings through energy and resource savings, boosting corporate profitability and productivity. Realizing this, industries across the board have rushed to reevaluate internal processes and adopt new cleantech innovations.

b. *Carbon and cleantech finance:* Recently, several financing instruments have emerged to fund mitigation projects. The most prominent are the Kyoto Protocol's Clean Development Mechanism (CDM) and the Regional Greenhouse Gas Initiative. With their emergence, the financing of low-carbon projects has itself become a viable business, with intermediaries directing capital to lowest-cost projects and the most promising innovators. Examples include Climate Change Capital, as well as the World Bank's Carbon Finance Unit, which has 10 national and regional carbon funds with assets of US$ 50-200 million each.

Adapting to Climate Change

While the causes of climate change can be mitigated, some of its impacts are unavoidable – at least in the short term. Existing CO_2 levels will persist for at least a century, with average global temperatures predicted to rise by up to 2°C regardless of steps taken to reduce GHG emissions. The fourth Intergovernmental Panel on Climate Change (IPCC) report concludes climate change will lead to "alterations in the frequency and intensity of extreme weather events," with attendant threats to agriculture and resource usage from natural disasters.[4]

Current investments in cleantech energy do not address this aspect of climate change as an irreversible phenomenon. Other sectors of the industry – agriculture, water, and air – therefore offer substantial investment opportunities. For instance, with freshwater supplies dwindling, the Cleantech Venture Network predicts the technology sector of desalination will reach US$ 75 billion in 2012, compared to US$ 4-5 billion in 2000.[5]

Interventions in this category are designed to help populations adapt to those impacts that are irreversible but can be managed. Such interventions can target resource efficiency, disaster prevention, urban improvements or adaptation.

[4] *Climate Change 2007: Impacts, Adaptation and Vulnerability.* Intergovernmental Panel on Climate Change, April 2007.

[5] *Cleantech Venture Capital Report 2006.* Cleantech Venture Network, 2006.

Resource efficiency: The management of water, air and other resources will become essential as the long-term impacts of warming become evident. Examples of possible innovations include better water purification and desalination and agricultural technology such as micro/drip-irrigation, which allow production processes to reduce water/resource usage.

Disaster prevention: Climate change is expected to increase both the frequency and intensity of extreme weather events and disrupt existing weather and rain patterns. Therefore, technologies for disaster management and weather prediction offer substantial opportunities for social impact. These include innovations in flood control and improvements to construction technology for dams, levies, etc.

Urban improvements: One related consequence of global warming is the acceleration of urbanization. This trend will accelerate as agricultural patterns face disruption and millions in the developing world – particularly Africa – move away from increasingly arid areas. Cleantech innovations that facilitate this process will aim to make urban life less unpleasant and more environmentally sustainable, for instance through more efficient mass transportation and waste management systems.

Adaptation funding: Adaptation to climate change requires two different types of financing:

- Commercial financing, for cleantech developments, such as more efficient water purification systems.

- A mix of commercial and grant/subsidized capital to fund measures that help populations prepare for climate change but are not always profitable, for instance the development of water reservoirs and the installation of disaster notification systems, flood barriers and weather-proof housing. Such funding has thus far derived from government and development sources such as the Global Environment Facility.

The need for financing adaptation measures is particularly high in comparison to the funds currently available in the public and private sectors. The World Bank estimates adaptation costs for the developing world to be between US$ 9-41

billion annually.[6] Yet, developed countries have committed only US$ 48 million to UN adaptation efforts for least-developed countries, while establishing large domestic adaptation programs.[7] The private sector remains exposed as well – by some estimates the average UK pension fund has nearly three-quarters of its assets invested in equities exposed to varying degrees to climate impacts.

Despite such gaps in funding and exposure to climate change, the energy sector is the predominant target of cleantech finance. Israel is the only significant investor in the water segment, but the segments of air, water, and waste remain relatively starved of capital. This lack of financing directed at adaptation (either through cleantech or other measures) is due to two structural barriers. Interventions can therefore be targeted at removing the following barriers to adaptation finance:

- *Limited understanding of climate change:* Public opinion has largely accepted that climate change is occurring. However, climate change is not yet considered irreversible and its long-term implications have not been accepted. The result is a focus on mitigation efforts through development and deployment of clean energy technology. Initiatives that facilitate financing of adaptation and insurance programs will help corporate and policy decision-makers expand their understanding of climate change and establish the need to prepare for it. In some cases such financing may not be profitable, but as the urgency of the need to act is established, so will opportunities to fund adaptation measures.

- *Barriers to venture capital:* Barriers such as lack of innovation in utility companies, public ownership, regulations and missing competitive pressures have held back the development of vibrant VC industries in the water, air and other sectors. This situation is similar to the energy industry a few years ago in Europe. Facilitating more investment in these segments requires the removal of these barriers and working on the perception of risk, opening up additional opportunities.

[6] "Clean Energy and Development: Towards an Investment Framework." The World Bank, April 2006.

[7] See Oxfam briefing paper: http://www.oxfam.org/en/policy/briefingpapers/bp104_climate_change_0705

Insuring against Climate Change

Some climate change impacts are unmanageable at reasonable cost – the cost of adapting to change is either extremely high or the likelihood of climate change induced events very low. In such cases, a variety of interventions can, nevertheless, help prepare populations for eventual impacts or insure them against its consequences. In most cases, such action is not directly related to cleantech but is still important for the social investor because inaction threatens undermining the benefits accruing from cleantech innovation:

a. *Disaster risk management:* Where disasters cannot be avoided, contingency plans need to be created, early warning systems developed and deployed, and incentives provided for re-settlement of populations to areas of low risk (assisted relocation).

b. *Livelihood changes:* Adapting agricultural and industrial practices to become more resource efficient has limitations. In some cases such measures will be insufficient in the face of disrupted rainfall or receding glaciers. As a result, measures will be required to change crop/livelihood mix and consumption patterns of populations affected.

c. *Insurance against consequences:* Finally, in some cases neither migration nor changes to consumption patterns will be possible. In these cases, insurance against the consequences of uncontrolled climate change provide the most effective intervention. Such insurance can be offered across a variety of areas, with significant financial and social return.

Conclusion

As the previous sections show, many effective interventions exist against climate change. The cleantech industry understands some of the implications of climate change, and also that those implications provide significant opportunity for financial gain.

Yet, thus far interventions on the cleantech-climate change matrix offer only a partial solution. The industry – indeed the entire debate on climate change – remains focused on mitigation strategies. This horizon focuses on the visible opportunities, presented by our understanding of both what is technologically possible and what we see as the reversibility of climate change.

The preceding discussion shows that interventions can be oriented to three climate change response strategies: mitigation, adaptation, and insurance. For the social investor, these strategies must be complemented with involvement in specific industry sectors: cleantech in energy, other sectors, or additional instruments beyond cleantech (see figure 2).

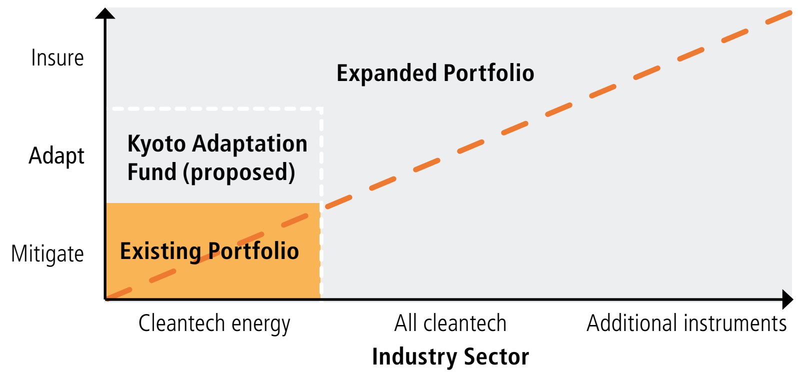


Figure 2: An Expanded Response Portfolio to Climate Change

Not all opportunities in this climate change strategy-cleantech sector matrix are equally profitable. The time horizon of returns – both financial and social – will also vary and may often be very long. As a result, financing interventions beyond mitigation is not easy. Yet, the Kyoto Protocol's Adaptation Fund, and examples of weather insurance show that finance can indeed flow to adaptation and insurance, leverage cleantech, and create opportunities for financial return. Developing such a mix of interventions is both a need and an opportunity.

For the philanthropist and the investor, the exact mix of which strategies to adopt and which sectors to invest in will differ depending on returns and impact desired. Making that choice is beyond the scope of this article. However, it is clear that an effective agenda for climate change response must factor in both the business opportunity of cleantech and the socio-economic challenges presented by climate change. Giving that little can be accomplished in the area of climate change, the issue is particularly well-suited for ambitious change communities seeking to make a difference.

Toward a Social Agenda for Commodity Businesses

By Maximilian Martin

"When we delay the harvest, the fruit rots. When we delay resolving problems, they continue to grow"

Paulo Coelho

Introduction

Providing basic and high-value commodities, the extractive industry fulfills a fundamental economic need. Operating in a wide variety of geographical and climatic conditions and socio-economic environments, extractive companies are often the primary economic growth engine in their communities. Further, in regions characterized by an under-provision of public goods and services such as education, health and high culture, companies often operate in a "company town" model, providing such services on a significant scale. They also often face vast uncertainty in the political environments in which they operate. If one adds to this the uncertainty in the regulatory environments such industries face as well as their potentially significant environmental impact, and intense scrutiny from corporate social responsibility (CSR) stakeholders comes as no surprise.

How should extractive companies in the 21st century position themselves vis-à-vis these challenges as they enter multi-production site strategies and operate across jurisdictions in an environment of rising CSR expectations? When is it best to go alone, and when should one build a change community, seeking to establish industry standards or engage the public sector? This article provides a conceptual framework for a social agenda for commodity businesses, mapping the different action options.

Overview of the Industry

Datamonitor segments the mining and metals industry into five main sectors: aluminum; iron and steel; gold; precious metals and minerals; and the diversified metals of copper, lead, nickel, tin and zinc. Of these, iron and steel form the largest component, accounting for half of industry output by volume.

The mining and metals industry is an important part of the global economy and was valued at over US$1 trillion in 2004. It is particularly significant in 56 "mining countries" where it accounts for more than 6% of export revenues. Fifty-one of these are developing and transition countries, in which 1.5 billion people live on less than US$ 2 per day.[1]

While the industry is extremely fragmented at a global level, companies often dominate the economies of the communities in which they operate. The top five steel producers control just 21% of the world's output, yet "steel towns" from the Ukraine to Liberia and the Eastern United States all vividly demonstrate how much individual manufacturing centers can influence local economic life.[2]

From both a demand and supply perspective much of the future growth prospects for the industry lie in the developing world. The Asia-Pacific region drives demand for base metals as well as many other commodities. China's imports of iron ore, for example, increased from 5% of world total in 1990 to 46% in 2006, and are expected to reach 54% by 2010. The International Energy Outlook 2006 estimates China and India will account for 43% of growth in oil consumption up to the year 2030.[3]

On the supply side too, new discoveries are principally located in Africa and Latin America. In 2001, the Metals Economics Group estimated that 29% of exploration budgets were directed to Latin America, 14% to Africa, and 7% to Pacific Southeast Asia.[4]

A final trend, most visible in the oil and gas industry, is an increase in industry costs related to site acquisition and development. This contrasts with a historical reduction in real weighted industry costs. This is in part because extraction centers are increasingly located in remote regions and stakeholders are stepping up demands for better standards of operation.

[1] "Treasure or Trouble? Mining in Developing Countries," World Bank/IFC, 2002.

[2] *Global Metals & Mining Industry Profile*, Datamonitor, May 2005; "Forging Ahead: M&A Activity in the Global Metals Industry," PricewaterhouseCoopers, 2005.

[3] *International Energy Outlook 2006*, Energy Information Administration, June 2006.

[4] *Mining Journal*, November 2001, p. 353.

The importance of developing countries to the industry's future, and the relative poverty of such operating regions present a uniquely ripe context for action.

Points of Engagement: Opportunities for Social Development

Opportunities for social development can be grouped into three broad, mutually reinforcing categories (see figure 1): maximizing the societal value of resources, minimizing environmental degradation, and leveraging commodity production for development.

The following explores specific interventions that are fundamentally tied to the sector's value chain activities and operating context.

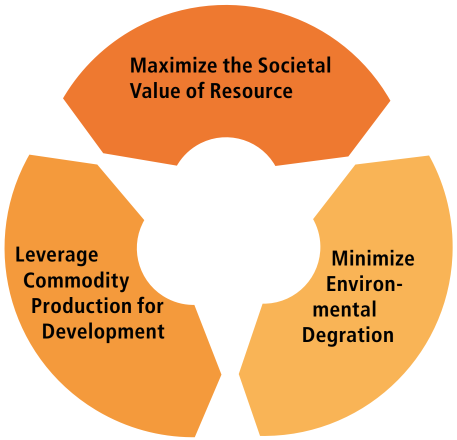


Figure 1: Social Development Opportunities in Extractive Industries

Maximizing the Societal Value of Resources

Metals and minerals have a high intrinsic value for society and fulfill a diverse set of needs. It is perhaps easy to lose sight of the fact that, without them, much of modern life – including many "sustainable" and life-saving technologies – would be impossible. Moreover, the growth in demand for commodities such as coal, steel and base metals from emerging countries, particularly China and India, underlines how essential they are to these countries' continued economic growth.

In this view, the industry generates desirable goods that enable innovation and positive value chain impacts associated with industrialization.

Such innovation can have powerful knock-on effects in both environmental and economic terms. For instance, recycling minerals can both improve resource economics and minimize environmental degradation. Similarly, increased energy efficiency in a steel plant, for example through Coke Dry Quenching, will reduce energy use and carbon emissions, help a company qualify for CDM credits under the Kyoto Protocol, and lower costs.

In this context, initiatives can maximize a resource's value to society by ensuring that they are used efficiently and for the longest time possible. This can be achieved through:

- *Raising production efficiency,* or reducing losses due to processing, production, storage and transportation, and hence increasing the amount of the commodity available for use. Most companies pursue such optimization constantly to lower costs. However, fewer set themselves rigorous targets or create incentives to achieve them.

- *Recycling* or re-using a commodity, or products made from it, is viable when such recycling is either more economical compared to consuming the raw material or is encouraged or required by policy incentives. For the US steel industry, for example, using steel scrap has been cheaper than mining virgin ore. As a result, steel recycling rates reached 75.7% in 2005, making steel the world's most recycled material. In the case of the Green Lead initiative, the risks of lead contamination has prompted companies such as Anglo-American and BHP Billiton to work together with the United Nations and international governments to recycle lead acid batteries.

- *Developing substitutes* or alternatives to the commodity is an even more dramatic way of extending the usefulness of remaining resources. Industrial diamonds, for example, were developed in the 1960s and applied to abrasives and cutting tools. They created an entirely new source of business for the diamond industry.

Leveraging Commodity Production for Development

Another view of extractive resources is that of a national or community asset. In this view, commodity industries exploit a "public good" that can be an important driver of development, wealth creation, and poverty alleviation. This view has gained particular currency recently and the industry is, therefore, under increased pressure to "share" profits, as illustrated by the recent nationalization of oil companies in Venezuela.

This can be seen as an imposition, or more positively, as a timely opportunity for development. In recent years commodity prices have recovered from the dramatic lows witnessed during the 1980s and 1990s and are expected to remain high. Further, the commodities industry is expanding overwhelmingly into developing countries – both for production and consumption. The commodity sector therefore has a unique opportunity to catalyze economies and strengthen communities in these countries.

The industry has had a long history of community engagement, offering services typically expected of the public sector. These efforts can be enhanced through carefully designed interventions in three areas:

a. Promoting local economic development:

- Developing economic clusters: The presence of large industries can provide strong positive gains and incentives for economic growth and wealth retention within communities. Such economic growth through the development of industrial clusters occurs naturally where the extractive industry forms part of a domestic supply chain, as with the US steel and automotive industries. However, in most developing countries, the metals and mining industry is mostly export oriented. In such cases, some of the steps outlined below require conscious adoption with a development mindset:

  - Sourcing from local suppliers, creating other industrial units and competence in the process.
  - Encouraging suppliers, manufacturers and processors to earn more by producing higher-value products.
  - Integrating steps "downstream" in the value chain and benefiting from improved access to markets (knowledge about key customer requirements, focusing on higher quality, overcoming trade barriers).

- Managing economic cycles: The flip side of economic dependence on a single company, as is often the case in commodity-rich communities, is the extreme vulnerability of those communities to market fluctuations in commodity prices. Such vulnerability is magnified by the fact that commodity industries are highly cyclical, with significant price drops and structural corrections occurring over time. Companies can reduce a community's dependence on a commodity and insulate it from market changes by:

  - Cushioning the effects of price volatility through finance mechanisms (hedging, wage insurance, micro-insurance).
  - Supporting entrepreneurship and the growth of other, sometimes related industries, to diversify income-generating opportunities.
  - Facilitating transitions between cycles through outplacement and skill-enhancement programs.

b. Strengthening local communities goes beyond economic development to address the basic conditions for development, for example by:

- Preventing or mitigating disruption to traditional customs and beliefs through community participation and consultation. This can also include mitigating the impact of a large influx of migrant workers on the local social fabric.
- Ensuring safe and responsible employment practices, avoiding child/forced labor, and providing health schemes for employees and dependents. BHP Billiton and Caterpillar, for example, are working together to develop safe machinery for use in mines. Adoption of the safest technologies can become the subject of a clear social responsibility target for a company and set benchmarks for other companies. Along these lines, De Beers and Debswana (a Botswana government company) provide free voluntary HIV counseling and testing to all employees and pay for anti-retroviral treatment for HIV positive staff and families.
- Preventing resource conflicts, such as through the Kimberley process that has supported the certification of all diamonds as "conflict-free."

c. Supporting good governance is also an important facet of development, which can be tackled particularly well in coalitions, by promoting transparency, increasing accountability and reducing corruption. The Extractive Industries Transparency Initiative (EITI), for instance, supports good governance by making company payments and government revenues from resources and mining transparent and subject to verification. These measures are particularly important in resource-rich countries to improve the distribution of wealth generated by exploitation of a natural resource, avoid the "resource curse," and improve the business environment for commodity and other businesses. EITI is a multilateral initiative established by several development agencies – World Bank, IMF, and UK's Department for International Development (DfID). A multi-donor trust fund finances the activities of about 20 implementing countries.

Minimizing Environmental Impact

Finally, the industry is also associated with a substantial environmental "footprint" where it operates. Under this agenda, the industry combats environmental degradation, disruption of ecosystems, or depletion of essential input resources such as water. Dramatic examples include long-term damage caused by commodities including the shrinking of the Aral Sea due to over-irrigation for cotton production, or oil spills such as the Exxon Valdez disaster of 1989. The industry's shift to the developing world has expanded this footprint. It has also increased the industry's exposure to criticism, forcing it to react, for instance by increasing sustainability reporting or setting standards for transparency, governance, and environmental management.

The direct relationship between commodity production and the environment means that some negative impacts are unavoidable. Nevertheless, numerous opportunities exist to minimize environmental impacts and find an appropriate balance with the economic benefits that the industry can deliver. Such environmental engineering includes:

a. **Minimizing ecological damage**: action that minimizes ecological damage can occur in several ways.
   - Adopting lower impact business practices. An example includes the Carbon Capture Project that brings together a number of energy companies to figure out how to capture and store CO_2 on a large scale.
   - Repairing damage done (e.g. clean-up operations for oil spills), and working to restore ecosystems after operations have ceased, as in the case of the Lafarge-WWF partnership.
   - Compensating for activities by supporting conservation action elsewhere, e.g. by buying carbon offsets or supporting biodiversity preservation in the vicinity of plants.

To further this process, the International Council on Mining and Metals and the International Union for the Conservation of Nature (IUCN) have developed a practical reference source for mining companies on the biodiversity implications of their mining operations.

b. **Maximizing resource efficiency**:
   - On the input side, a number of resources are typically employed in commodity industries, such as water or energy. Better use of such input resources is possible through improved resource management, application of more efficient technologies, improved governance and regulation, and development of alternatives.
   - On the output side, manufacturing processes produce waste materials that can be polluting or even hazardous. Such output waste can be recycled, or alternative applications developed for its use. For instance, iron or blast furnace slag, formed as a byproduct of steel production, finds application in construction and agriculture. US steelmakers encouraged such use through the EPA's Sector Strategies Program, which led to the consumption of19 million tons of domestic slag in 2003 alone.

Deriving a Framework for Action

The preceding sections present a wide variety of issues that a company in the metals and mining industry can address (see figure 2). As the examples show, social initiatives can help accelerate progress along all these issues.

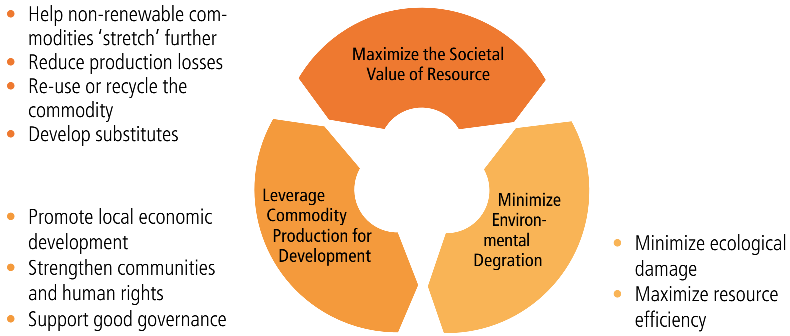


Figure 2: Overview of Action Options

In order to capitalize on these opportunities and establish a social development agenda, a company or philanthropist is faced with a series of choices that define its strategy for impact. By putting these opportunities and options for impact together, a basic framework for action can be developed.

This framework is illustrated below (see figure 3). The following sub-sections explain the various choices relating to an implementation strategy. Together, this framework can help understand the current "state of play" of social interventions linked to a company, geographical area or industry sector. It can also serve to structure discussions on the direction an individual company or change community wishes to explore.

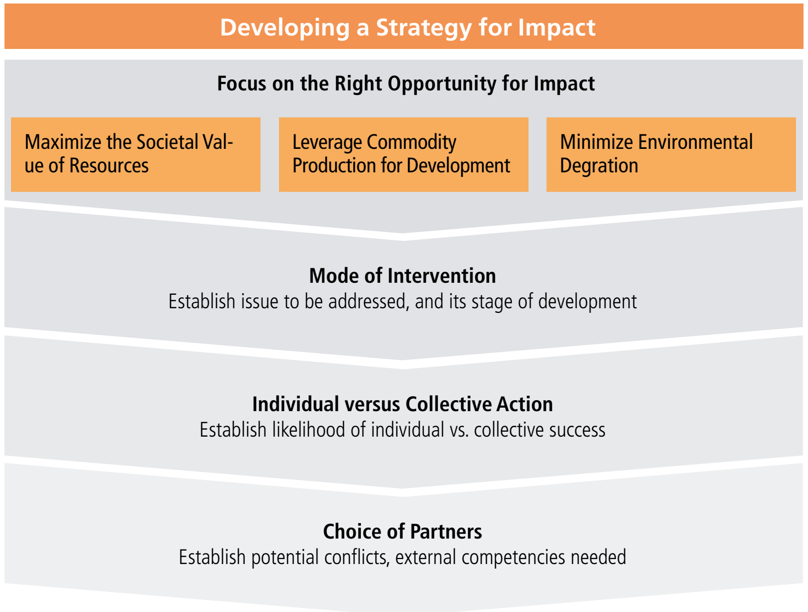


Figure 3: A Framework for Action

Mode of intervention

When developing a social initiative, how can a decision-maker best act? This choice is a fundamental part of designing a social development agenda that depends on the lifecycle of the issue and existing knowledge about it, as well as the degree of maturity of existing solutions.

This choice is also essentially a tradeoff between research, advocacy, and action. At an early stage, the state of the problem may warrant researching the issue to understand the opportunity for impact and uncover possible interventions. Later, it may be appropriate to mobilize attention to the problem through advocacy and pilot programs that change processes, integrate new technologies, or create new services. In the final stage of an issue cycle, action may be about bringing initiatives to scale and collective action to roll out technologies, develop and disseminate guidelines, set standards and lobby for their adoption into regulations.

Individual versus collective action

A related choice facing the decision-maker is whether to act individually through their companies, or support collective industry or sector initiatives building change communities. This choice, too, depends on the characteristics of the issue to be addressed.

Individual action is particularly appropriate when the initiative also represents an opportunity to strengthen a company's operations or the specific context that influences its productivity and growth potential. Such initiatives would typically target production processes, development of alternative business models (e.g. substitutes), and use input resources and local community development where the company is the dominant local enterprise. In such cases, initiatives either provide the company with a competitive advantage, or ensure its mid- or long-term performance by ensuring access to raw materials and human capital.

Collective action is suited when the solution to an issue will benefit an entire industry, and conversely, when individual action is unlikely to impact the issue or may actually reduce a company's competitive advantage – for instance by raising input costs. Such initiatives include ICMM and EITI that cover critical areas like re-use or recycling of commodities, supporting good governance, and developing new standards to mitigate environmental impacts. In extreme cases, such as the Green Lead Initiative, action can even encompass multiple sectors and industries, in order to control entire value chains.

Choice of partners

Individual action does not preclude partnership with either government or NGOs, as demonstrated by BP's participation in My Future's in Falkirk and the

Lafarge partnership with WWF. In each case, the partner brings competencies and social credibility to the pursuit of joint objectives. While skills and credibility may be important to individual partnership, the choice of partners for collective action will focus more on gaining sufficient resources and leverage to influence progress on the issue.

Conclusion

As the previous sections show, the metals and mining industry fills a fundamental need – of providing basic and high-value commodities, and enriching its communities. Developing an action agenda for the industry is therefore a matter of navigating through the framework for action and developing a sound strategy.

That, however, is not simple. The industry is an extreme example of the challenges corporations face in dealing with the issue of corporate social responsibility. Given the typically asymmetric impact on the communities in which extractive industries operate, the quality and social impact of community engagement is often seen as a litmus test for a company's commitment to corporate social responsibility in this sector.

Most companies have responded to such pressure by expanding support to local communities, concluding multi-stakeholder agreements, developing voluntary standards and advocating regulation to minimize business uncertainty. However, such responses are complicated by multiple actors, diverse expectations and incentives, and a dynamic policy environment. Additionally, forming corporate-nonprofit partnerships is not easy and can often fail due to varying expectations or conflicts of interest.[5]

In remote regions characterized by an under-provision of public goods and services, the expectations are often high. In response many community engagement initiatives have gone beyond ensuring safe and responsible employment practices and basic economic development, addressing issues such as disruption to traditional customs, the impact of an influx of migrant workers, or preventing resource conflicts. Where should one draw the line and how can commodity businesses best engage local communities? In the case of multiple

[5] Dennis Rondinelli and Ted London." How Corporations and Environmental Groups Cooperate: Assessing Cross-sector Alliances and Collaborations," *Academy of Management Executive,* 17(1), 2003.

"company towns," how can one strike the right balance between decentralized decision making by local managers, and adherence to corporate standards and protocols to manage the quality of social initiatives, and alignment with overall corporate strategy? How do home country social investment strategies differ from community engagement abroad?

Such considerations require company-specific responses that are beyond the scope of this article. Instead, it presents the main options available and choices to be made. To design and implement a social agenda for commodity business, an intelligent approach to collaboration is often critical.

Building a Change Community for Justice

By Karen Tse

"Do what is right, though the world may perish"

Immanuel Kant (1724 -1804)

An emaciated 12-year-old boy sat terrified, curled in the corner of a Cambodian jail cell. Detained some days earlier under suspicion of bicycle theft, he had been tortured by police seeking a confession to the crime. At the time I saw him, he was languishing indefinitely in prison; no trial date had been set and he had little access to legal counsel. He looked hopeless. That was in 1995, and it served as my introduction to the cruelties that could manifest from the world's improvised justice systems.

Even more tragic is that this 12-year old is only one of millions of ordinary people that have met the same fate. While the majority of media attention is focused on a handful of political prisoners, the majority of those who are wrongfully detained are everyday citizens. In fact, people are tortured everyday in more than 100 countries around the world, even though over 90 of them have signed international conventions and enacted domestic laws to safeguard legal rights. The problem is that these laws exist on paper but are not upheld in practice.

In the past, there was little that outsiders could do other than to document these abuses, write letters or hope that media attention might shame countries into improving the situation. Times have changed. For the first time in history, a more collaborative effort is possible. Working side by side with governments, we can publicize and support the criminal justice infrastructure these nations have begun to create and seek to strengthen. We can broadcast governments' pro-active stance against torture to its local police stations and prisons. We can advertise citizens' rights to legal counsel on the walls of interrogation rooms. We can train and empower a generation of legal aid lawyers who understand these laws and are willing to stand by them.

This strategy is not only possible; it is in practice. In 2001, I founded International Bridges to Justice (IBJ) to partner with governments to examine shortcomings in their justice systems and identify solutions.

The model is driven primarily by a community of courageous and extraordinary defense lawyers, who work to enforce the legal rights of their fellow citizens. These legal aid lawyers tackle the underlying problem in countries with embryonic judicial systems – that torture is simply an inexpensive form of criminal investigation. They know that the earlier a detainee receives legal help, the less likely the accused will be mistreated by the police and the more likely a fair trial will take place.

Seen from this perspective, torture and due process become less of political problem than an economic problem. The more resources we put towards developing and supporting trained defense attorneys in these countries, the more we can guarantee the proper functioning of their criminal justice systems.

In our six years of work, we have already had a revolutionary effect on justice systems throughout Asia. For example, in China, IBJ spearheaded a government-endorsed rights campaign that mobilized a quarter of a million people, extending deep into the western provinces. IBJ staff and local volunteers organized roundtables in 30 provinces, where judges, prosecutors and legal aid lawyers met – often for the first time outside the setting of a courtroom. They spoke openly about areas where the judiciary needed reform. In the powerful sessions that followed, they created bridges of understanding that have enabled China to curb torture dramatically.

Buoyed by the success of IBJ's China programming and the appeal of the model to donors worldwide, IBJ is expanding both the depth and the scope of its efforts. The organization is "going deep" into communities in the Middle East, Africa and Latin America. We are also building communities of defenders in places where IBJ is already working. Acknowledging that these defenders withstand isolation, threats, and physical abuse, we are creating venues – virtual and physical – where legal aid lawyers can exchange information, learn, and gain strength in the face of intimidation in their home countries. Ultimately these communities will grow into robust networks that are much more powerful than any of the resource-constrained legal aid lawyers working in isolation.

These efforts to "go deep" are being orchestrated in concert with a new infrastructure that supports a global community of legal aid advocates. The best example of this is IBJ's Fellows Program. IBJ is selecting 108 grassroots defense lawyers and legal-aid professionals from around the world who are leaders in their local communities. As fellows, they will be given the global support, resources and materials to do their pioneering work. They can join forces and tap into an enthusiastic global community of legal practice, which helps them innovate across borders. Together these courageous defenders can help shift consciousness and change judicial practices throughout the world.

As part of this global infrastructure, IBJ is also providing a complete "toolkit" for defenders to do needs assessments in their countries, access materials and case books, and collaborate through new internet technologies. This will be complemented by an annual award for the most promising new defender program, with the prize money earmarked to support the initiative of the winner. This strategy will enable IBJ to extend its reach and resources to those well beyond the bounds of its current programming, while spawning innovation through the cross-fertilization of criminal justice ideas. Importantly, these public resources and events will also increase visibility for the worldwide criminal justice movement.

The most striking aspect of this programming is the staggering affordability with which these lacking, but critical services can be provided. For instance, in Cambodia, US$ 200,000 would enable IBJ to create infrastructure and mobilize the legal resources that would put an end to state-sponsored torture. To put that in context, these services could be provided 280 times over before the bill would total the current budget of the Khmer Rouge war crimes tribunal. In short, building up criminal defense infrastructure is the most cost-effective way to uphold the rule of law and protect basic human rights.

One of the most enduring aspects of IBJ's efforts is that ensuring basic legal rights in criminal defense also has substantial spill-over effects to other areas of judicial reform. These areas can vary from the human rights of political prisoners to upholding contracts to intellectual property. Developing a robust legal infrastructure not only alleviates unthinkable human suffering, but brings integrity to a nation's judicial system. This, in turn, promotes social stability and creates the groundwork for lasting economic growth.

Legal rights do not advance by laws, but by people. There are many heroes in the huge shift towards legal rights that is sweeping the world. Many go unheralded, with courage that is difficult to contemplate. One hero I do know of, however, is a remarkable young boy named Vishna. He was born in prison in Cambodia and was beloved by both guards and inmates. Everyday he would visit each of the 156 cells and, being so small, he was able to squeeze himself

through the bars to extend his tiny hand to touch a prisoner. For many, it was the sole source of solace in their terrible existence.

When my own certainties occasionally waver, I think of Vishna. I realize that this heroic spirit and journey to reach behind the bars of injustice is open to all of us. Please join us. Together we can implement the hope of basic legal rights, even to Vishna's fellow prisoner – that 12-year-old boy that launched me down this path many years ago.

Let us stop torture in the 21st century.

Tackling Key Issues

Peace-enabling Philanthropy

By Kate McGuinness and Johannes Zundel

"A task becomes a duty from the moment you suspect it to be an essential part of that integrity which alone entitles a man or a woman to assume responsibility"

Dag Hammarskjöld (1905 - 1961)

Philanthropists are changemakers. And much more. As we say in the business of conflict transformation, an overwhelming majority may also be called "agents of peaceful change." They affect change by how and what they do, often engaging in change-related activities that address the root causes of violence throughout the world. So, many philanthropists are peacemakers, too.

Other change-makers are also hard at work around the globe. Images of violent political conflict – in the Middle East, Africa, the Americas, Asia and Eurasia, and even in Europe – have become a familiar if disturbing feature of everyday life. The most dramatic of these images, from September 11th, is forever emblazoned in the memories of people on a world-wide scale. In these varied contexts, violence is frequently seen as the best, if not the only way to secure much-needed change. Against this deadly backdrop, the practice of conflict transformation is about opening up alternative possibilities for peaceful processes of change.

As we know at the Berghof Foundation for Conflict Studies, the deep-rooted causes creating the conditions for violent conflict are numerous and complex. Along with problems of socio-political marginalization and exclusion, economic inequality is chief among these. Philanthropists are busy building peace in their own important ways when they work to reduce poverty and famine, to ensure access to scarce, but essential resources like clean water, to implement micro-finance schemes and job development, to alleviate human rights violations, to promote minority interests and cross-cultural exchange, to support education and the opportunities for betterment this creates, to address environmental issues, to improve healthcare and individual well-being and so on.

But the rise of violent conflict and political instability in our world threatens the capacity of these philanthropic efforts to succeed in making change where it is most needed. This is where our family foundation, along with others like us, step in to help. For more than 35 years, we have devoted our philanthropic resources to changing the realities of political violence by fostering a tradition of excellence in the field of conflict transformation.

Our primary aim is to nurture an inquisitive capacity to investigate, explore and, above all, engage constructively with the problem of violent ethnopolitical conflict. Our perspective is, moreover, thoroughly pragmatic. We emphasize the value of empirically-based research focused on the everyday experiences of violent conflict. We support rigorous analytic approaches designed to produce practical, effective and sustainable methods for peaceful intervention and change. We encourage creative and imaginative, but always realistic responses to transforming political violence.

In fact, the practice of conflict transformation is all about change. Of course, our particular challenge is that violent conflicts are perhaps the worst situations for creating change. Nonetheless, change does happen. Violence ends. Political solutions are agreed. Governments are formed. Communities are restored to peaceful relations. Past wounds are healed. Reconciliation becomes real. As developments in South Africa, Northern Ireland and former Yugoslavia, among others, clearly demonstrate, even the most prolonged and difficult violent conflicts can be peacefully resolved.

Crucially, we believe that if these changes can be more fully understood, then it also becomes more possible to nurture and enable them elsewhere. There is, then, an inherent optimism at work in the field of conflict transformation. The philanthropic activity of the Berghof Foundation for Conflict Studies is no exception.

This optimism is reflected, for example, in the long-term support we give our two flagship projects in Berlin, Germany: the Berghof Research Center (BRC) for Constructive Conflict Management and the Berghof Foundation for Peace Support (BFPS). Together, both organizations represent a rare combination of expertise and experience built up over more than 15 years.

Where BFPS offers practical experience in the field, most notably from its projects in Sri Lanka, Georgia/Abkhazia and elsewhere, BRC supports and develops this work from a research-oriented perspective. The distinct but complementary nature of this relationship produces a dynamic synergy that enables new opportunities for better understanding and more effectively transforming violent conflict. At the foundation, we are privileged to rely on such a unique set of institutional relations to guide and inform our funding agenda.

Because our philanthropic interests are dedicated to supporting both scholars and practitioners, we understand change making work from many different perspectives. These cut across a spectrum of relevant themes, ranging from individual and local levels right through to the international. Most basically, for instance, conflict transformation is about intervening at appropriate inflection points to facilitate change: issues of timing, personnel and resources.

Such crucial moments prompt questions like… Whether formal or informal, when can dialogue or negotiation processes begin? What issues are ripe for discussion, and which must be temporarily set aside? Who are the community leaders and opinion formers to bring to the table to make such decisions? What other players are involved – at local, national, regional and international levels – and how can we cooperate for greater chances of success? Because peacemaking requires many hands, what diverse strengths do each of these players offer and how can they be best used? What resources are available both on the ground and elsewhere to effectively implement the multitude of activities necessary for supporting peaceful change?

Perhaps most importantly, the work of conflict transformation is also about creating those very inflection points in the first place – enabling myriad capacities for peacemaking to succeed and take root. Moreover, this is always an on-going process. This is essential. For us, this is where the issue of change becomes far more complex and challenging. But it also becomes far, far more interesting.

Again, we ask: How do armed combatants make the difficult transition from violence to politics? What incentives, supports and resources do they need to do so? What needs to change before the obstacles to peace might be overcome? How can the conditions for ceasefires be created and negotiated? On what terms and with whom? How can popular opinion and action for peace

be mobilized? Where should these efforts be focused? Once violence is over, what broader, on-going changes are needed to sustain and deepen peaceful social relations? What conditions enable processes of reconciliation and how might these be created to the benefit of individuals, communities and nations alike?

One concrete example of intervening to create opportunities for change is our work in Sri Lanka. Since 2001, we have supported a comprehensive project to promote dialogue and facilitate capacity building both among and between key stakeholders in this on-going violent conflict. Our overall objective is to implement a range of processes designed to formulate creative, but pragmatic options for peace based on power-sharing between the ethnic majority and minority communities. To achieve this goal, we have initiated and cultivated various channels of communication between all of the conflict parties, supported the establishment of peace think tanks and helped create a sound knowledge base about the issues that Sri Lankans themselves have identified as the most crucial.

Seeking to produce peaceful change, these transformative activities also take place in an environment of constant change. This simultaneously creates both opportunities and setbacks. Where the Sri Lankan government peace process is currently in crisis, for instance, this nonetheless opens up more space for civilian interventions, such as ours. Reflecting on the limitations and restrictions of official peace processes has also further inspired us to develop a brand new, cutting-edge project: establishing a highly qualified and experienced cadre of international Civilian Peace Envoys. In contrast to official Special Envoys for Peace, who only operate at government levels, Civilian Peace Envoys can work in multiple ways to bridge the often wide gap between government and civil society. Moreover, they are free to engage with all key stakeholders in a conflict – government representatives, officially proscribed groups, civil society leaders and grassroots campaigners, thus better ensuring that that peace takes hold at all levels of society.

For change-makers, this is rich food for thought indeed. However, efforts to peacefully transform violent conflict only acquire real meaning when they are effective on the ground. Based on a long-term, hands-on involvement in peacebuilding, one practitioner explains the lessons learned in the field this way.[1] These guidelines will also be generally familiar to other philanthropists working to effect change.

- Put people first! Time and again, it has been demonstrated that local ownership is necessary for peace processes to succeed.
- Adhere to international human rights standards and humanitarian principles, which are based on a deep reverence for life and respect for differences.
- Establish meaningful partnerships and collaborate across multiple sectors of civil society.
- Develop inclusive processes by promoting the habits of dialogue, consultative approaches and overcoming exclusionary practices in political, economic, social and cultural spheres.
- Ensure sustainability. Build peace constituencies, support peace educators and advocates and win the hearts, minds and hands of a newer, younger generation.

In sum, the practice of conflict transformation requires flexibility, sensitivity, imagination and, above all, pragmatism. The primary goal is to change what can be changed. It is likewise to accept that what cannot be changed in the present can, over time, be tackled anew. Building peace further demands the active participation of interveners both from within and outside a conflict setting – practitioners and scholars alike.

As with the successive generations who have managed and directed our family foundation, we also understand that support for peacebuilding work must span generations. There is no quick fix, no certain formula for success, when it comes to making peace. But people can and do learn. Through this, they change. And learn to make more change.

Conflict and change are inevitable facts of human experience. However overwhelming its past and present realities, at the Berghof Foundation for Conflict Studies we strongly believe that it is possible – indeed, more necessary now than ever – to create effective and lasting alternatives to violent political conflict. It is for this reason that we use our philanthropic resources to support applied research and reflective practice in the field of conflict transformation.

[1] See Ed Garcia, "Addressing Social Change in Situations of Violent Conflict: A Practitioner's Perspective," in *Social Change and Conflict Transformation*. Berghof Handbook Dialogue Series, No. 5, 2006: pp. 42-3. www.berghof-handbook.net/std_page.php?LANG=e&id=134&parent=5

If we cannot put into action peaceful and just methods for transforming violent conflicts, our collective survival remains at risk. For us, nonviolent means of doing so offer the safest, most realistic and economically viable way forward for the future of humanity.

Bridging the Information Divide through Technology and Dialogue

by Daniel Annerose and Elizabeth Huttinger

"If Columbus had an advisory committee he would probably still be at the dock"

Arthur Goldberg (1908-1990)

Until very recently and despite our best intentions, the concepts and practice of sustainability, monitoring, and real-time diagnostics and correction have been elusive to the process of responsible economic development. But times are changing, and the advent of mobile Internet access makes it possible today to deploy participatory systems in development and resource management, and benefit from their many advantages. At last philanthropy's new multi-user paradigm is being put into practice at a scale that reveals lasting positive benefits.

Looking back at the brief history of the Information Age, it can be postulated that the "digital divide" was merely a stage created by the limits of first generation data processing systems. First generation information management was never designed to, or able to, respond to the real needs of individuals. These data management systems were created for political and economic decision-makers. They could not deliver specific content customized for millions of small users, nor were they designed to furnish information in a simple, intuitive format for the uninitiated.

Thus the poor were excluded from the information loop and had no corresponding resource that could offer them political, social or economic equity. This knowledge and access gap was coined the "digital divide." Because of its potential for negative exploitation, and its exclusion of a broad swath of society from the opportunities that access to the web affords, this asymmetry was quickly and universally perceived to be an almost insurmountable barrier for the global poor.

But today's new generation of information processing systems are versatile, expandable, fast, and able to aggregate and manipulate data from multiple intake points, and to express data in formats that are adaptable to the needs of the individual. The elaboration of these data processing systems with mobile telecommunications has, in fact, created a mighty convergence of powers that is enabling participation through dialogue. The rural poor, who were entirely outside mainstream communications and trading networks, are becoming active players in their own economic and agricultural chains. They now have the opportunity to be empowered to make informed choices, and the overwhelming evidence shows the potential for very significant resource management gains –and income gains – as a result.

As African social enterpreneurs providing value added services for the mobile telephone and internet, we at Manobi exploit Information Communication Technology know-how and expertise for the economic and social development of the extreme poor. We develop our projects with an open-minded approach to understand the needs of the poorest, and they work with us to create transformational changes that can break the poverty trap with new and immediate opportunities. Two recent examples illustrate how the cellular phone can reverse the economic dependency of the poorest.

Allowing Efficiencies in Agriculture

In 2001 T2M went online as a simple marketing system for small farmers in Senegal that enables them to trade online. The service costs about US$ 5 per month, and we demonstrated a positive impact on farmers of US$ 1,500 per year per hectare. T2M also analyzes the income benefits for the smallest farms if they convert to more profitable and ecologically preferable polyculture. But the buy-in of small farmers was painfully slow – in two years we were only able to recruit 3,000 customers. At the beginning of 2005, we decided to launch a free version of T2M on a text messaging platform, postulating that as their incomes improve, farmers would turn into fee-paid users of value-added e-services defined by the farmers themselves. That decision was the tipping point. We now work with producers who can describe their business needs with real precision, and they think e-tools give them the confidence to really negotiate with wholesalers and suppliers, and manage their cash flow more professionally.

The most dramatic changes happen in the poorest settings. For example, small producers of gum have a dedicated e-network that we developed for them, where they can trade directly with exporters via mobile Internet. Producers enter raw data that we convert so that it is displayed to exporters in the form of a rural road navigation system that shows where gum is available, when, and by class of quality and processing. This system radically changes the marketing process: (1) Exporters can make huge logistical time and cost efficiencies, mostly through more efficient gasoline use. (2) Terms of trade are fixed at the point of purchase. (3) Producers have effectively eliminated the agency of a middleman and they have doubled their revenue.

Another innovating aspect of this e-tool is that data can also be integrated in real time to a completely participatory diagnostic system that international development agencies can use to adjust interventions while they unfold. Thus we are introducing real time monitoring & evaluation (M&E) that is useful during the intervention, rather than "discovered" after the project has closed. One last point to make: this is a fee-paid mobile Internet service for exporters, which is offered free to poor producers. It is a grower-to-export efficiency tool for Africa, and it is sustainable through the profit incentive for the poorest. We are currently scaling up this model amongst 8,000 small horticulturists in central Senegal, and with 1,000 small mango producers in Mali who all want to better address regional markets to make more money and step out of poverty unassisted. We are also applying similar mobile internet services in water quality, community development and health so as to offer a holistic approach to poverty mitigation.

Electronic Birth Registration

In 2004 Harry Belafonte came to Dakar as an Ambassador of UNICEF to present the statistics and consequences of the fact that every year in the world, more than 40 million children are born "without papers" and are thus denied access to citizen benefits from birth, a condition that feeds the exploitation of child labour, child armies, prostitution, and migrant work forces. This was such a shocking truth that we elected to suspend operations for one week to brainstorm a solution.

One week later we presented to UNICEF the functional prototype of an open-source operating platform that would empower traditional midwives to make the announcement via mobile telephone form-fill. Though our prototype was enthusiastically received, three years later there has been no progress towards implementing this tool.

So we went looking for the tipping point, an orthogonal matrix where the birth announcement system could be introduced for free directly to the end users. We had just finished successfully testing a system for rural land management with local governments in Senegal, so we took birth registration to each community going online for the land registry and created a memorandum of understanding with the national local goverment *bureaux* to extend electronic announcement and registration to births as well as landholdings. To jumpstart the program, we offer each village going online, to train, equip, and network one midwife as an advocate and focal point for birth announcement.

As of January 2008, 40 villages will be equipped, and our mandate is to connect the 13,000 villages of Senegal to this platform by the end of 24 months, thanks to modest external investment that has just begun to flow. Here, investor financing is matched by local revenue generated from rural land registry.

Conclusion

Manobi has proven that the very poorest can avail themselves of electronic small business tools and community services using a semiotic interface to jump the literacy barrier. The digital divide can be bridged today. We have also learnt that change is not forthcoming unless the beneficiaries seize the tools themselves and start using them, an ultimately empowering action made possible by the convergence of mobile accessibility, content for the World Wide Web, and favorable actions taken by the GSM world to lower the cost of handsets. The extreme poor are ready to use electronic tools to make their labor and communities hugely more efficient.

Our experiences strongly suggest that development programs today can be designed according to priorities and at rates and rhythms that are more sensitive to the needs of the poorest, than they are to the timetable of the funders. Equally, we can postulate that with a modest jump start, mechanisms of endogenous financing can be created to support these populations in a sustainable way, either as financial partners with donors, or as a sustainable follow-on for development investment.

Health Insurance at €2 per Year for the World's Poor?

by David M. Dror

"That which makes the splendor of the present and the glory of the future remains for ever unforgotten"

Thucydides (460 BC – 395 BC)

Introduction
Twenty years ago, most bankers and investors were certain that the world's poor were unbankable: they had too little money, transaction costs were too high, and there was no market for most financial products. Prof. Muhammad Yunus debunked this myth; microfinance is on everyone's lips and many new players invent new roles for intermediaries to link big capital to micro-credit and micro-savings. In what feels like a case of *déjà vu* most insurers and investors today maintain that the poor are uninsurable and the arguments echo those of the past: premiums are too low, transaction costs are too high, and the poor are unable to understand insurance.

Is this fact or fable? A discerning look at the reality of the poor in India points that, on this issue as well, prejudice and preconceptions prevail over evidence and opportunities. Micro-insurance is set to be the next frontier of innovation in financial services for today's underserved majority.[1,2]

The analysis presented below is based on data obtained through a large comparative household survey conducted in 2005[3] in seven locations among rural poor and slum-dwellers in four states in India. The total size of the sample was 4,931 households (representing 24,042 persons).

[1] Jonathan Morduch, "Microinsurance: The Next Revolution?," in Abhijit Vinayak Banerjee, Dilip Mookherjee, and Roland Bénabou. *Understanding Poverty*. New York: Oxford University Press, 2006. Oxford Scholarship Online. 6 October 2007 <http://dx.doi.org/10.1093/0195305191.001.0001>

[2] http://microfinancegateway.org/resource_centers/insurance/documents/?view_all=1 contains many sources on microinsurance in different countries.

[3] EU/ECCP funding is gratefully acknowledged for the project "Strengthening micro health insurance units for the poor in India" (www.microhealthinsurance-india.org). The household survey was conducted as part of that project.

Willingness-to-pay
The evidence, derived through the "bidding game" method, shows that most respondents were willing to pay more than 1% of their income for health insurance. As can be seen in the *figure 1*, 50% of the sampled population stated a willingness-to-pay level (WTP) of 1.35% of annual household income for health insurance; and 75% of the sampled population agreed to pay about 1% of annual household income.[4] In nominal terms, taking into account household income, this meant that people were willing to pay about Rs. 560 per household per year (about € 11.20), which (considering household size) translates in this population to about € 2.40 per person per year (value at mid-2005). This amount may seem low in rich countries, but is much higher than what was widely thought possible in India. Also, a McKinsey study on India's consumer market[5] forecasts that overall economic growth will continue to benefit India's poorest, that the deprived segment will drop from 54% of the population in 2005 to 22% in 2025, aggregate consumption will quadruple over the next 20 years, and spending on healthcare is estimated to register the third largest increase until 2025. By then it is expected to reach about 14% of total spending (from about 4% today). So it is most likely that today's level of willingness-to-pay will rise sharply in the foreseeable future both due to increases in income and due to growing spending on healthcare.

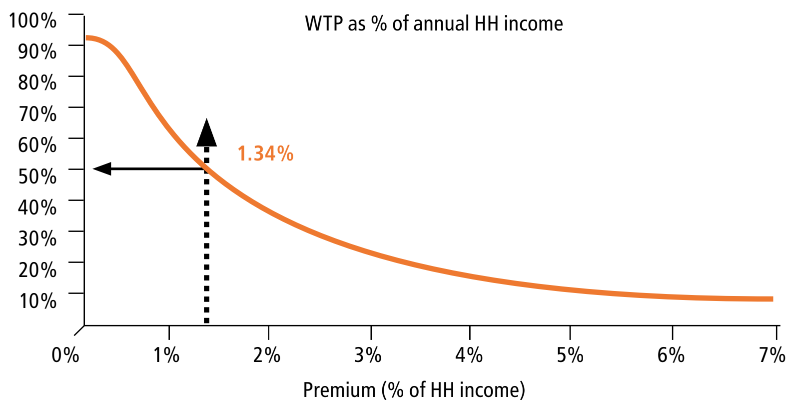


Figure 3: Willingness to Pay

[4] David Dror, Rafael Radermacher, Ruth Koren, "Willingness to pay for health insurance among rural and poor persons: Field evidence from seven micro health insurance units in India," *Health Policy*, (2007) 82(1):12-27.

[5] McKinsey Global Institute: "The Bird of Gold: The Rise of India's Consumer Market," McKinsey & Company, May 2007.

Is It Possible to Offer a Meaningful Health Insurance Package at about €2 per Year?

We examined this with a decision tool (called CHAT: *"Choosing Healthplans All Together")* designed to enable groups to select benefits within a severely limited budget corresponding to the willingness-to-pay[6,7]. This simulation tool was based on realistic actuarial estimates of the cost of benefits. All the combinations shown in the Table could be covered within the budgetary limitation. Participants chose first the benefits that cost most; these included: Outpatient (OP); Inpatient (IP); Tests and imaging (T); and drugs (D). The table below lists the frequency of choices made:

	Choice	No. of groups	% of individuals
1	OP(b)+IP(b)+T(b)+D(b)	6	26.80%
2	IP(b)+T(b)+D(b)	8	31.80%
3	OP(b)+T(b)+D(b)	3	13.90%
4	OP(b)+IP(b)+D(b)	3	11.90%
5	OP(b)+IP(b)+T(b)	1	4.00%
6	IP(m)+D(b)	1	4.30%
7	T(m)+D(b)	1	4.00%
8	IP(h)+T(h)	1	3.30%

Legend: (b) = basic coverage level; (m) = medium coverage level; (h) = high coverage level

Table 1: The CHAT Decision Tool
Source: David Dror

[6] David Dror, Ruth Koren, Alexander Ost, Erika Binnendijk, Sukumar Vellakkal, Marion Danis, "Health insurance benefit packages prioritized by low-income clients in India: Three criteria to estimate effectiveness of choice," *Social Science & Medicine*, February 2007 64(4): 884–896.

[7] Marion Danis, Erika Binnendijk, Alexander Ost, Sukumar Vellakkal, Ruth Koren, David Dror, "Eliciting the Health Insurance Benefit Choices of Low-income Populations in India with the CHAT Exercise," *Economic and Political Weekly* (Mumbai) 42(32):3331-3339 August 11-17, 2007.

The frequency of the choice stated by the participants reflects a clear preference for a broad benefit package even at basic level of coverage. The benefit type that was selected most frequently was drugs, followed by tests and hospitalizations, and consultations came next. The choices made by participants were judicious in so far as the packages they chose would have given them the best value for money (as estimated from data derived from the household survey on the actual cost of healthcare). And the exercise demonstrated that the poor (even illiterate, innumerate and without experience with insurance) understand well the link between the premium they would pay and the benefits they could expect to receive, and are quite adapt in making complex rationing decisions with proper facilitation.

However, at present, no insurer in India is offering such holistic benefit packages at affordable price to the poor segments of the population. The prevailing notion among insurers is that the poor need and wish only catastrophic protection (hospitalizations and surgery only). Also, these packages include a low cap that is put in place in order to reduce the premiums. However, a low cap means that even insured persons could be impoverished because they still carry the bigger risks in case of catastrophic expenses. Moreover, people are aware that high healthcare costs are not always related to inpatient care. The mismatch between on the one hand the insurance people said they wanted at the price they are willing to pay, and on the other hand the packages they can actually buy could explain the low uptake of health insurance by the poor. And this creates a vicious cycle of mismatch between supply of and demand for health insurance.

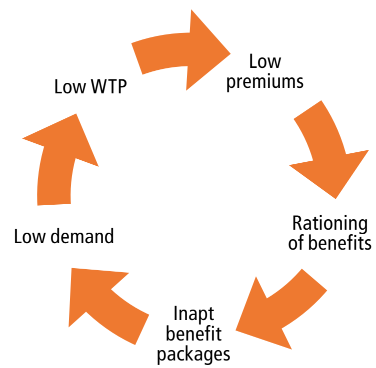


Figure 2: The Supply/Demand Mismatch
Source: David Dror

Breaking the Supply/Demand Mismatch

One way to break the vicious cycle is to take measures to reduce premiums. A commonly expressed concern in the insurance industry is that when affiliation is voluntary (there is no legal obligation to be insured) insurers will be exposed to "adverse selection" meaning that people who expect to claim would be more likely to affiliate, and healthy people would not join. Affiliation of many "bad risks" leads to higher costs, and to higher premiums. So, *one way of breaking the vicious cycle would be through en-bloc group affiliation:* it can reduce adverse selection, and thus reduce the premium. Group affiliation depends to some extent on the cohesiveness of groups, the intensity of their networking, shared values and support for actions within the group ("social capital").[8] Also, when agents sell insurance to individuals one-by-one, agent-commissions are highest and cause higher premiums. But if the entire group joins en-bloc, the commission can be reduced or eliminated altogether. The same is true for other administrative functions, e.g. collection of premiums and even claims processing, which can be done by mobilizing the existing ground structure of rural societies (e.g. self-help-groups, etc). Today, there is a growing phenomenon of "micro-insurance units" that engage precisely in this role at grassroots level. Yet, their success in carrying out the various functions of insurance depends on the provision of adequate training. Therefore, the Micro Insurance Academy (www.mia.org.in) was recently established in New Delhi by the Social-Re project together with SUB, an Indian Charitable Trust. The Academy is dedicated to delivering insurance domain-knowledge to groups engaged in micro health insurance.

A second way to break the vicious cycle is to increase the attractiveness of the product and with it increase the demand for health insurance. We already mentioned that target groups can be usefully involved in design of benefit packages through the use of CHAT. This can succeed only when the metrics used to construct the CHAT simulation exercise reflect the local conditions and local costs,[9] which are well known to the group. In addition, more accurate metrics could lead to lower premiums as the safety margin the insurer must maintain could be reduced. Local metrics are necessary because the within-country differences across locations in developing countries can be huge: for

[8] David Dror, Christian Jacquier, "Micro-insurance: Extending Health Insurance to the Excluded," *International Social Security Review* (Geneva), ISSA, 1999, 52 (1):71-97.

[9] David Dror, "Why 'one-size-fits-all' health insurance products are unsuitable for low-income persons in the informal economy in India," *Asian Economic Review*, 49(1):47-56, (Hyderabad) April 2007.

example, our household survey data revealed that the incidence of illness episodes in different locations can differ from the simple to the triple, and the average cost of an illness episode can also change from the simple to the triple. Such huge differences within one and the same country are probably due to rapid changes in lifestyle, life expectancy and disease profiles that occur unevenly across the country. Hence, national data, that are commonly used by insurers as the source for their actuarial estimates are insufficiently accurate to adequately customize insurance products for the poor.

A third way to break the vicious cycle is to reduce the cost of the risk itself. The cost of risk can differ not only due to the events that are covered, but also by relation to the reserves that must be maintained to cover worst-case scenarios. The amount of reserves increases sharply as the size of the insured group drops.[10] And if micro insurance units that target relatively small groups at a single location (e.g. village) should be the carriers of risk, this could increase reserves and thus the premium. The way to keep premiums low and still maintain adequate reserves is to cede extreme risks to reinsurance[11,12].

It is sometimes said that (health) insurance for the poor would only be possible when much of the premium is subsidized. Under our plan of intervention, the most effective use of subsidy would be in paying the reinsurance premium. This is so because when reinsured, the microinsurance unit can cover more risks with the same cost of premium, and thus offer a more attractive product. Subsidizing the reinsurance thus adds flexibility in the choice members have, at any level of the premium they are willing and able to pay. Also, subsidy of the reinsurance eliminates the need to police gaming of demand-side or supply-side subsidies.

[10] David Dror, John Armstrong, "Do Micro Health Insurance Units Need Capital or Reinsurance? A Simulated Exercise to Examine Different Alternatives," *The Geneva Papers on Risk and Insurance* (2006) 31, 739–761. October 2006.

[11] David Dror, "Reinsurance of Health Insurance for the Informal Sector," Bulletin of the World Health Organisation, (Geneva), 2001, WHO, 79 (7): 672-678.

[12] David Dror, Alexander Preker (editors): *Social Reinsurance: A New Approach to Sustainable Community Health Financing*, (Washington), World Bank & ILO, 2002, xvii+518 pp.

Conclusion

We can state without doubt that there is solvent demand for health insurance among the poor in developing countries, as illustrated by our research in India.[13] However, tapping this huge market is contingent on product development that starts from a deep understanding of the clients' needs and wants. The insurance products must be adapted to the heterogeneity of the consumer base. Community-based endeavors can be a powerful resource for process innovation and for gaining acceptance by the target population, because nobody is closer-to-client than the communities themselves, and no other body is as effective in implementing the local ethos that makes the local economy run. The communities are also best placed to mediate an optimal balance between needs, costs, resources and supply, all of which are context-specific, and are ready recipients of targeted training. Minor adaptations of products developed originally for richer clients in Europe or the US (as is often done in developing countries) are unlikely to find many willing takers in slums and villages, where reality is completely different. Becoming familiar with the needs and priorities of the poor requires considerable innovation in processes; the logistics for data mining, access to clients, selling and servicing of the health insurance must be adapted to the context-specific social dynamics and local infrastructure. However, outlier costs can be devastatingly high, and makes it necessary to link local communities with a financial mechanism of reinsurance, thereby enabling micro heath insurance units to benefit from economies of scale.

[13] David Dror, "Health insurance for the Poor: Myths and Realities," *Economic and Political Weekly* (Mumbai), 41 (43-44):4541-4544, 6 November 2006.

How to Bring Toilets to the 2.6 Billion Toiletless People

By Jack Sim

"The day everyone of us gets a toilet to use, I shall know that our country has reached the pinnacle of progress"

Jawaharlal Nehru (1889-1964)

Fact 1

2.6 billion people or 42% of the world's population still have no access to proper sanitation.

Fact 2

Despite setting the Millennium Development Goal in 2002 to half this number by 2015, the number remained the same in 2007.

Fact 3

Most funding that went to water & sanitation was allocated to water. Sanitation remains neglected.

Fact 4

5,000 children die everyday from diarrhea alone. 3.5 billion people have intestinal worms. On any day, half of the world's hospital beds are occupied by patients suffering from water-borne diseases. Untreated feces are a killer. Proper sanitation is the cheapest preventive medicine.

What can we do to address effectively these issues?

I suggest we take a market-based approach to be effective. Instead of seeing 2.6 billion poor and helpless people, we can see 2.6 billion potential customers demanding a toilet with sewage treatment. History has shown us that an efficient market economy has the power to serve itself and is the best sustainable solution. Although there is ample money in the world, donors' funds are not available in sufficient amounts to alone solve this problem. Funding individual development projects in isolation cannot solve the whole problem. We need a systemic approach to create a vibrant marketplace. In short, there is a fortune at the bottom of the wealth pyramid. If instead of funding individual projects, we fund the building of market-infrastructure we can generate competition and innovation to serve this sector, and the poor can learn to become business people as they know the needs of their own people best.

Sanitation is still a dysfunctional market. Many people who need sanitation have been in the habit of open defecation for generations. They see nothing wrong with that. Their priority for a TV is often higher than for a toilet. In the Philippines, a large section of low-income population have no toilets, but spend US$ 6 a month sending SMS from their mobile phones.

The poor, like the rich, are motivated more by their emotional needs rather than rational needs. Case studies have shown that their fears of being looked down upon, the avoidance of embarrassment, the need for privacy and dignity have higher priorities than their perceived needs for health and productivity. To be successful, we must position the toilet as a status symbol and an object of desire, just like a designer handbag!

In Orissa, India the villages that have toilets put up posters on their wall saying: "We will not marry our daughters to villages without toilets." In Guanxi, China, peers encouragement has resulted in 1.5 million villagers building home toilets where they had none before. They did not want to lose out to the Joneses despite their low income.

Cost has often been cited as a barrier. Nobel laureate Mohammad Yunus has shown us that microcredit can do wonders. If the poor can get access to financing, they can pay by installments. As everyone knows each other in a village, credit-rating is much easier than in cities, and their common recorded loan default rate is very low at 2%.

Other innovative models of funding are also available. In India, Sulabh International's pay-for-use public toilets sustain itself by cross-subsidizing profitable city center toilets against loss-making slum toilets.

Ashoka Social Financial Services is currently working with the World Toilet Organization and other Ashoka Fellows to create innovative financing solutions within a comprehensive framework in order to generate a paradigm shift as follows:

- Map the network of existing resources / best practices
- Drive demand for sustainable sanitation
- Teach the poor to become sanitation businessmen
- Fund and build market infrastructure for sanitation
- Scale up winning models through innovative financing.
- Fund a support center: bridge to funding
- Simplify technologies into expert-system software that is picture-based so that the unschooled can learn to be sanitation engineers, too.

2.6 billion customers allow us to exploit grand economies of scale on supply side and push down the cost of financing, promotion, production, distribution, capacity building, and market expansion into other sectors.

As a person who grew up from poverty in the 1960s to become an affluent citizen of Singapore, I have seen how good governance can transform a poor country into an economic powerhouse. Parallel to the success of Singapore, is its progress in its sanitation infrastructure. I have visited many villages and slums in India, China, Africa, Russia and other countries. The people I met gave me confidence that they can be helped to help themselves. I am often impressed by the spirit of enterprise of the poor. I know that the story of Singapore's success in its sanitation transformation can be made a franchisable idea to be cloned all over the world.

Institutionalizing Giving

Giving while Living: The Implications of Limited-life Philanthropy

By John R. Healy

"You only have to do a very few things right in your life so long as you do not do too many things wrong"

Warren Buffet

I have just completed a 17-year spell as a professional in the field of philanthropy. I have been a senior executive, and for the last five and a half years, the Chief Executive of The Atlantic Philanthropies and have recently retired from that position.

Atlantic was established by an unusual man called Chuck Feeney. He was one of the founders of a business called Duty Free Shoppers which at its height was the world's largest retailer of tax-free and luxury goods. By some estimates Chuck Feeney earned dividends from Duty Free Shoppers of around US$ 3 billion over a thirty-year period.

Chuck Feeney comes from a humble, Irish-American background. He saw military service in the 1950s and then became the first member of his family to go to college. He created The Atlantic Philanthropies in the early 1980s. There is nothing startling about that. But what was startling was that he gave virtually all of his fortune to Atlantic when he set it up. Although reckoned by many to have been a billionaire, in fact his net worth has probably never exceeded US$ 5 million after he transferred his assets to his foundation.

In the early days all grants made by Atlantic were anonymous. When we approached a potential grantee we could not say who we were; we could not say who we represented; we could not say how big we were; we could not say who else we had given money to.

Even though Atlantic abandoned its policy of anonymity in 2001 the organization has never been able to shed its aura of mystery. Perhaps because of that it is not generally known that Atlantic has, to date, awarded grants worth US$ 4.2 billion.

Chuck Feeney does not believe in perpetual foundations. When I took over Atlantic in 2001 I was faced by a dilemma. I knew of Feeney's views on perpetuity. And Atlantic was awarding grants at a rate which, if continued, would not enable the organization to survive in the long term. But no decision to limit the organization's life had been made. I myself was convinced that spending down the assets in a short period of time would give Atlantic an opportunity to have major impact. And I felt that the staff would soon realize that the organization's future was uncertain and that this would lead to a situation that would be very difficult to manage. So I recommended to Chuck Feeney and the Board that we should make a clear decision to spend down our assets.

Atlantic's Board decided to adopt the recommended policy and we started to plan our demise. It is hard to be precise about the timetable. Disposing of US$ 4 billion thoughtfully cannot be done overnight. It is difficult to forecast market conditions and the returns that will be earned. There is also no certainty about how easy it will be to find good opportunities for philanthropic investment. But the current plan is to cease active grant-making by 2016 and to go out of business before 2020.

Risk

Of course, this decision is not without risk. Atlantic is betting its endowment and that is a massive risk. Our bet was that we could have more impact – or our grantees could have more impact, because that is really the important thing – if we invested very heavily in them over a short period of time as opposed to providing them with a lesser volume of funds over longer periods of time. In the future, the typical grants will therefore be rather larger than those made by the average foundation.

If Atlantic leaves anything behind it, it will leave organizations that have done things because of some support the Foundation has been able to offer them. The real heroes of this story, if there are any, are the non-profit organizations who do the work, not the funders.

Reflections

Stepping down from the CEO role has given me the opportunity to reflect on my 17 years experience in philanthropy. I want to share three reflections with you.

First, what is philanthropy for anyway?

Virtually all of the best philanthropy that I have been involved in, or have observed, is about creating change. It is about righting wrongs. It is about giving opportunities to those who do not have them. It is about changing the world to make it a better place.

My second reflection is that philanthropy is not the big deal we sometimes think it is. Undoubtedly, wonderful things are achieved through philanthropy but this should not mask the reality – in almost every field in which philanthropy operates philanthropic resources are dwarfed by public monies. What are the implications of this for philanthropists who want to have lasting impact? I believe the major implication is that philanthropists need to cut deals with governments in pursuit of their philanthropic objectives.

In my view public funders offer philanthropists the most exciting opportunities for leverage which are currently available. Increasing the quantum of public money being invested in an issue, and making sure that the public money is being invested wisely, is a sure way for philanthropists to have long-term impact.

I want to risk offending my fellow professionals with my third reflection. It is that to be successful philanthropy needs to be run in a businesslike way. Of course, I accept that philanthropy and business are very different. But the cult of gifted amateurism which is sometimes found in our field is not a recipe for successful philanthropy.

My dealing with philanthropists convinces me that, while they look to achieve fulfillment and enjoyment through their philanthropy, more than anything, they want to achieve impact. They want to make a difference.

High impact philanthropy, just like successful business, needs:

- Tightly formulated goals
- Carefully thought through strategies
- High quality execution
- Maximum value squeezed from financial resources
- Accountability and measurement
- Focus
- Outstanding people

I believe that the besetting sin of philanthropy is its tendency to do too many things with too little money. But if you spread your money thinly success is unlikely. The philanthropists and foundations which have impressed me over the years have been those who go deep rather than broad; who are prepared to place big bets on solvable problems; and who are prepared to stick with issues until they can get traction.

In my experience, effective foundations are differentiated from less than effective foundations by the quality of their people. Chuck Feeney understood this when he created an institution to pursue his philanthropic goals and gave the people who run that institution considerable leeway. For a philanthropist, the decision to create a grantmaking organization must be a key inflection point.

There is a darker side to philanthropy and we need to recognize this.

The relationship between a fundgiver and a fundseeker is a power relationship. We have the money. They want it. That gives us – the funders – power over our grantees. It is a power that we need to exercise with humility and restraint. We should be firm with grantees in respect of the achievement of agreed outcomes. But we should always be respectful of the independence of grantees, and we should always be supportive of grantees. After all, it is the grantees who do the hard work…

All of us in the field of philanthropy would do well to heed the words of the great Brazilian educator Paulo Freire. In his celebrated book *The Pedagogy of the Oppressed* he drew a distinction between true generosity and false charity. "True generosity" he said "consists precisely in fighting to destroy the causes which nourish false charity. False charity constrains the fearful and subdued… to extend their trembling hands. True generosity lies in striving so these hands… need be extended less and less in supplication, so that more and more they become the human hands which work and, working, transform the world."

Foundations Engaging the Public Sector

By Maximilian Martin and Greg Hills

"There is no nonsense so errant that it cannot be made the creed of the vast majority by adequate governmental action"

Bertrand Russell (1872-1970)

Introduction

Philanthropists enjoy more personal degrees of freedom than leverage over social systems. Public resources vastly exceed philanthropic resources. In 2005, total non-governmental giving in the United States stood at US$ 295 billion (including corporate, individual, foundation, and bequest giving). That year, it took the US government 40 days on average to spend the equivalent amount. Moreover, governments set regulatory conditions for social change work at the grassroots level.

Given this dynamic, it is not surprising that engaging the public sector is one of the more powerful roles that foundations can play in improving society. Working productively with government has the potential to create massive scale and impact. By nature of the scale and authority of government institutions, changes in the formulation or execution of public policy can contribute to widespread social benefit and systemic change. Many feel that foundations are well-positioned to influence these changes in public policy and can benefit from understanding the range of options and key considerations for engaging the public sector.

However, a sense of realism is required. Sergio Amoroso, the founder and Chairman of Orsa Group, one of Brazil's leading integrated producers of pulp and paper for packaging, is commonly considered to be a pioneer in Brazil's young but growing corporate responsibility movement. He sees the interaction with government as central. "We see ourselves as working for the government, with the government, negotiating with the government and sometimes questioning government." However, his main concern is the continuity of public sector efforts: "The biggest problem with government is continuity, when there is a change in government there is a natural tendency to want to not continue what was being done."

While influencing the public policy agenda is a powerful lever in principle, it is not a trivial undertaking. Historically the majority of private and corporate foundations have deliberately tried to avoid intensive advocacy work. Foundations have preferred funding program areas and nonprofit organizations engaging in less politically controversial activities. Additionally, many foundations have avoided advocacy for fear of their work being construed as lobbying. Many jurisdictions allow for public policy work by foundations to a significant extent. Engaging the public sector is increasingly considered to be one of several viable tools for social change – assuming local legislation allows it.

Three Ways to Engage the Public Sector

Three ways of engaging the public sector are particularly promising for interested foundations. As indicated in the framework below, a foundation's approach will be shaped by its goals, roles and activities.

Framework: Foundation Approaches to Engaging Government

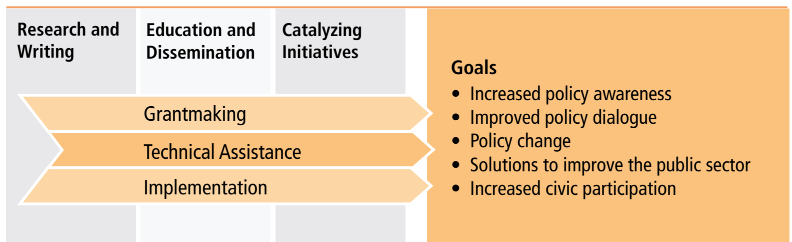


Figure 1: Three Ways to Engage the Public Sector

- *Specify goals.* Determining a public policy intervention requires first identifying the foundation's goals. What specific outcome does the foundation seek and anticipate from its engagement with government? Does it seek to increase awareness of a particular policy or public sector performance issue, facilitate improved dialogue, affect a change in policy, and/or help create solutions to improve the public sector or increase civic participation through grassroots mobilization or interest groups? In principle, the relative independence of private foundations provides flexibility to either advance an innovative idea or to argue for a specific policy position. Each intervention can be approached from a collaborative or a more controversial position. Without identifying a specific and realistic goal, however, the effectiveness of any public policy intervention is bound to be difficult to measure and manage.

- *Define roles.* The most common role of foundations in the public policy arena is to provide grants to existing (nonprofit) organizations to carry out specific programs. There are various instruments to accomplish this role. The foundation can release an open request for proposals (RFP) seeking interested institutions or select specific groups that would best achieve the foundation's goals. Providing grants to nonprofits also typically provides an arms length separation for the foundation. This shields it to some extent from direct association with potentially controversial advocacy activities. Foundations can also serve in a technical assistance role providing advisory services to support other organizations that are implementing public policy programs. Finally, foundations can choose to implement programs themselves by using their own staff time and internal resources to operate program activities. Choosing the role of the foundation will depend on a number of factors including overall staff capacity, staff expertise and the foundation's appetite for directly engaging in potentially controversial public policy issues and working with government agencies.

- *Select the set of activities.* Regardless of whether a foundation chooses to provide funding, offer technical assistance or implement programs, the repertoire of activities for engaging the public sector are the same. These activities can be grouped into three primary categories: research and writing; education and dissemination; and catalyzing initiatives. First, research and writing activities include doing policy research and analysis, broadly examining social issues or performing evaluations. This form of intervention is typically "passive." It implies limited direct engagement with government officials. Specific examples in this category include nonpartisan analysis of ballot measures, research intended to inform election debates, assessments of government transparency and performance, and publications on public policy. The nature and tone of this intervention can range from an innocuous issue-oriented white paper to a much more controversial government "watchdog" report intended to apply real pressure on government through openness and accountability. Such approaches are noisy but can be quite effective, and supporting them can thus be controversial. For example, Aduseps (Associação de Defesa dos Usuários de Seguros, Planos e Sistemas de Saúde), one of the 2006 Visionaris Social Entrepreneurship Award candidates in Brazil, is an NGO that advocates for the rights of Brazilian citizens in the field of health service plan delivery as derivable from the duties of Brazilian states according to article 196 in the Brazilian Federal Constitution. Through legal action, administrative cases, training and media, Aduseps has influenced local public policy in the state of Pernambuco and impacted about 700,000 users of supplemental health.

Second, education and dissemination activities imply a more proactive engagement in public policy by seeking to provide information and influence people's thinking. These activities include publishing of white papers, articles and newsletters; using mass media to communicate directly to citizens; speaking at conferences; and communicating directly with legislators or policy administrators. Often the objective is to increase the understanding among the key stakeholders of specific ideas, findings or points-of-view. Specific examples include educating the voting public on specific campaign finance reform measures, providing general support to think tank or lobbying organizations, educating journalists about specific issues, structuring mass media campaigns and testifying before legislative bodies. Likewise, a foundation (or its grantee) can choose a neutral stance that simply seeks to raise stakeholder awareness on a particular issue or a more controversial posture that explicitly argues a point-of-view in direct opposition to conventional wisdom.

Finally, catalyzing initiatives moves beyond the creation and dissemination of knowledge to a more proactive and complex engagement in addressing a public policy issue. These activities can include efforts to mobilize individuals toward common action, forming and/or sustaining coalitions of organizations (nonprofits and/or corporations), creating new nonprofit entities, supporting the establishment of decentralized networks or initiating policy-relevant litigation. Specific examples include funding local community meetings, introducing city officials and grant makers to each other, creating a (nonprofit) advocacy group, creating an entity to help fill an under-resourced gap in government services or funding a nonprofit to pursue legal action for public benefit. For example, in the US, grants for litigation are not considered lobbying because they will not affect the passage or defeat of existing litigation. Another approach would also include the piloting of new public service models, which would then be brought to scale in collaboration with government entities. These activities can also range from the consensus-driven, multi-stakeholder collaboration that ensures agreement at every step in the process to the more aggressive approaches such as mobilizing activists to challenge the status quo or suing the government to affect change.

A successful strategy for engaging the public sector is contingent on the issue to be addressed. But it is likely to include several of the above activities working in an integrated approach. For example, significant synergies can be achieved by sequencing research and writing initiatives followed by education and dissemination efforts. Additionally, collaboration of individuals and/or organizations typically results after an effective education process that translates knowledge into action.

Developing a Public Sector Facing Program

Structuring a philanthropic program to engage the public sector requires addressing several key considerations.

- *Know your framework and determine the mix of intervention levels.* How and at which government level should you work to address a specific public policy issue? At the national, state or municipal level? Often, a combination of all three will work best. Take the case of Brazil. "To find solutions," Sergio Amoroso of Orsa Group argues, "the municipal government is more efficient. They are close to the action. The federal level is contrast is further removed but it is at that level that policy is made and influenced. In reality you have to work with all three levels – municipal, state and federal. In partnering, we have learned that it is very important to understand what each sector wants. The political sector wants visibility so we must leave that for them. Visibility is their currency." Also, often multi-sector collaborations are needed to move issues forward.

- *Managing risk.* In scoping the program, a foundation must understand the inherent risks associated with an advocacy-oriented program. The risks can be substantial. They include the potential of advocacy efforts to generate significant controversy and/or opposition; the propensity for being time-consuming, long-term initiatives; the likelihood of garnering publicity, both favorable and unfavorable; and the challenge of overcoming fatalism or apathy around specific policy inertia. Risks can be mitigated by focusing on issues that are ripe in the public mind seeking to intervening at an "inflection point." Having information regarding the problem and piloted and proven solutions to those problems can also help provide higher legitimacy for action. Finally, working one willing government agency "against" another may also prove to be an astute way of gaining leverage towards the pursued objective.

- *Build the right skill set.* The skills, assets and values of the foundation should align with the desired public policy interventions. Engaging with government actors and interest groups to influence the policy debate requires foundation staff who understand the dynamics and nuances of policy formulation and execution. Dimensions to consider are a foundation's knowledge of policy issues and process, staff resources available to dedicate and the political weight or authority of the foundation on specific issues.

- *Understand the legal frame.* The foundation also needs to understand the specific legal restrictions placed on funders and grantees around advocacy and public policy programs. The legal parameters differ by country and by type of funder or nonprofit, so these need to be identified on a case-by-case basis.

- *Be serious about evaluation.* Finally, despite the inherent challenge of evaluating advocacy work, foundations will need to structure an approach to evaluating its public policy programs. Identifying an evaluation framework is important for sharpening the focus of the program officers and grantees, for engaging the board in advocacy strategy and for creating accountability and responsibility for the foundation's work.

Conclusion

Structuring a philanthropic program to engage the public sector requires addressing several key questions, as well as a sense of realism. On its own, it is unlikely that even a large foundation will be able to significantly influence a longstanding public policy approach to an issue that is resourced and pursued by a dedicated component of the government bureaucracy.

However, intelligent research, education and initiative work pursued in partnership with the government or alliances with other stakeholders can lead to a productive engagement of the public sector. In South America, national as well as international foundations are active in such public policy setting work. For example, the William and Flora Hewlett Foundation has engaged in helping strengthen environmental policy in Brazil through a series of activities. They include commissioning papers and reports to develop public policy strategies, as well as hosting conferences and meetings to convene international and domestic stakeholders, including government officials. In addition, Hewlett funded the costs of several diesel-electric hybrid buses in São Paulo to support a comparison study of their benefits over traditional diesel buses. Focus areas of the foundation's efforts include air quality, fuel efficiency strategies and public transportation systems.

One particular model currently attracts increasing attention: the "convenor philanthropy" approach to shaping public policy. Essentially, convenor philanthropy refers to providing a neutral platform to catalyze discussion, fact-driven debate and consensus building around polarizing public issues by providing a safe space that enables all stakeholders to discuss without any one of them dominating the agenda. A European leader in convenor philanthropy is the King Baudouin Foundation in Belgium. In response to Belgium's sequence of food crises in the 1990s that scared consumers, called in question the modus operandi of the food industry and farmers, and left public authorities at a loss, the King Baudouin Foundation acted as a neutral platform for the non-profit "Animal Production in the 21st Century" association. The association had been created by companies involved in all aspects of animal production who wanted to open a dialogue with all relevant stakeholders and interest groups, such as the government, animal welfare organizations, consumer groups, and the retail sector. The Foundation successfully brought missing stakeholders to the table and brokered an open and creative dialogue where participants were able to develop visions of the future designed to enable stakeholders to develop policy, be innovative and discover new ways of creating value. This led to the launch of the "Animal Production and Consumption in the 21st Century Project" to identify society's needs in the area and the basic requirements for animal production and consumption.

The main conclusion for foundations seeking to engage the public sector is threefold. First, foundations are well advised to analyze risks and rewards very closely. Second, they benefit from developing strategies that minimize the disruptive impact of stop-and-go patterns in public policy making. Finally, it helps to be aware of the potential impact of the workings of neopatrimonial social relations that govern piblic entities in many countries. In many institutions that foundations engaging the public sector will have to work with, personal relations take precedence over institutionalized work, resource and information flows.

The Sense and Nonsense of Awards

By Maximilian Martin

"I don't deserve this award, but I have arthritis and I don't deserve that either"

Jack Benny (1894-1974)

Introduction

Awards are an expression of the fundamental human desire to share, celebrate and recognize. But what is the real impact an award has upon the recipient and upon the organization that grants it? And is the proliferation of awards which we are witnessing these days a healthy phenomenon?

Two years ago, at one of the UBS Philanthropy Forum workshops, we decided to seek to answer these questions by taking a closer look at the mechanics and impact of awards. We discussed awards as diverse as the Amazon.com Nonprofit Innovation Award, the Hunger Project's Africa Prize for Leadership, the Prince de Asturias Award and the Right Livelihood Awards together with organizations that grant the awards and recipients.

As can be concluded after the workshop, awards can essentially do three things:

- focus public attention on an individual and the organization he or she leads,
- provide important economic resources to an individual or organization in pursuit of a mission to the extent that the award is not purely nominal; and,
- manage a community of stakeholders or funders of an organization. For example, many foundations organize gala dinners for fundraising purposes, where the most generous funders of the organization are recognized.

Ideally, awards thus provide relevant symbolic and economic capital to an individual or organization. In the field of philanthropy, awards can play a major role in accelerating the diffusion of social innovations. They can be used strategically as a social change tool. To maximize the impact of an award, achieving clarity about two elements seems indispensable:

- How can an award literally "shift out" the organization's possibility frontier, enabling it to do more by crowding in additional resources or doing better with the current level of resources?
- What are the rules of thumb of setting award criteria and conditions, given the objectives?

Shifting Out the Social Change Possibility Frontier

In addressing a social challenge, one often faces a massive mismatch between the enormity of the social need in question and the resources available to address this need. This raises a question: how can an organization create leverage to attain greater impact? Conceptually, the answer is straightforward. There are only two ways to create leverage (see figure 1):

- The organization can crowd in additional resources – either by growing its budget or by partnering with other organizations, which then dedicate some of their economic resources to the pursuit of the joint cause. Strategic partnerships, replication of the intervention model, and effective fundraising all put more resources to work, shifting out the possibility frontier.

- The organization can become more productive with its resources at hand. This often involves the use of new technology in tackling a social issue, or developing some radically different form of organization. For example, consider the implications of the cost reduction of intraocular lenses needed for operations to address cataract disease, which is the primary cause of blindness in the developing world. When social entrepreneur David Green created Aurolab in 1992, a non-profit pharma company that sells intraocular lenses for US$ 4 in developing countries (compared to the customary price of US$ 125 in industrialized countries), he developed a business model based on low prices and high volumes rather than high prices and low volumes. This represented a dramatic shift in the possibility frontier.

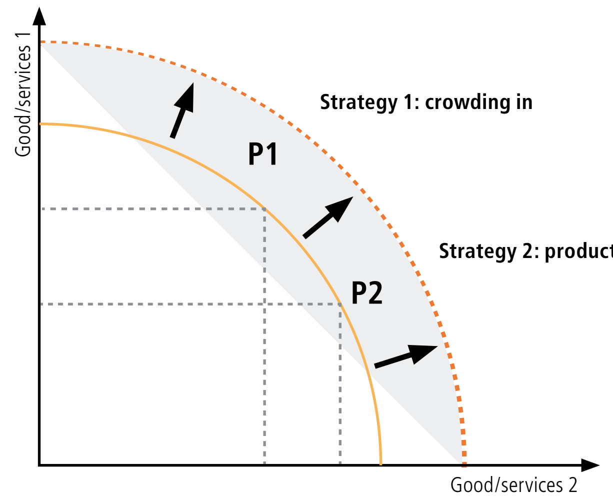


Figure 1: Shifting Out the Social Change Possibility Frontier

Enabling Growth through Awards

Let us take a look an organization that has won numerous awards. In Brazil, the coverage of the public healthcare system as well as households' health and sanitation conditions vary significantly across regions and socioeconomic strata. Outstanding hospitals and services are available, but not accessible to everyone. De facto, over 50% of the users of public healthcare can access emergency care and basic immunization only. This poses numerous challenges.

Associação Saúde Criança Renascer of Rio de Janeiro, winner of the UBS Visionaris Social Entrepreneurship Award 2006 in Brazil, works on a very specific public health intervention. Founded in 1991 by social entrepreneur Vera Cordeiro, the organization provides post-hospitalization assistance to the families of poor children after being discharged from hospital. Why this focus? By means of a family action plan, the goal is twofold: first, to improve the family's housing and sanitary conditions as well as nutrition, and second, to change the status of recovering children in the family from an economic burden to a family member who commands valuable access to economic resources. Changed status and the improvement in framework conditions result in a dramatic reduction in the incidence of repeat illness of the children in the target population. As a result of Renascer's efforts, pediatric readmissions have dropped by 60% at the Hospital da Lagoa in Rio de Janeiro where Renascer is based.

Renascer's intervention model is considered to be highly effective. The challenge consists of scaling the intervention model to eventually cover most of Brazil's over 2,000 public hospitals. The organization has won 18 awards since its creation. Many of them made an important contribution to Renascer's growth path at the time. How can an organization such as Renascer shift out the possibility frontier, and how can an award help?

- *Crowding in.* An award can help mobilize additional resources. Renascer's core operation connected to the Hospital da Lagoa remains relatively small, assisting 250 families and 850 children and adolescents. Winning Brazil's prestigious "Prêmio Bem Eficiente" several times helped the organization to raise additional funds for operations. The prize scrutinizes the solidity of the institution in question in great depth. In 2006, Renascer won the Skoll Awards for Social Entrepreneurship with an explicit mandate and resources to further replicate its intervention model.

- *Productivity.* An award can also help tu build reputation that allows drawing in productivity enhancing resources. Renascer's service process remains relatively labor intensive. There is no magic IT or other technology-based solution to dramatically expand the number of beneficiaries without sacrificing the quality of the service. Renascer has managed to keep costs down by building an extensive network of volunteers. The Rio operation alone mobilizes over 160 volunteers, over four times the 37 full-time staff. This approach has the added benefit of building bridges between the excluded and mainstream sections of the Brazilian population. Renascer worked hard to perfect and institutionalize its intervention model to enable replication. Over 5,000 pro bono consulting hours from a leading strategy consulting firm have helped to crystallize a model and replication strategy that positions Renascer as the center of excellence in a whole network of operations with a similar DNA, the Rede Saúde-Criança. The network comprises an additional 16 hospitals in Brazil, having served over 20,000 people so far. Being a recipient of a prestigious award helps mobilizing volunteers and pro bono consulting services.

Renascer remains an interesting case: Different types of awards enabled the organization to undertake growth, institution-building and replication initiatives at various points during its development, greatly accelerating the overall diffusion of the social innovation in question.

Conclusion: Rules of Thumb

From the perspective of the award designer, it is desirable to identify the most deserving recipient, given the criteria. This means that some individuals and organizations may win multiple awards.

Which rules of thumb should we consider in developing an award that seeks to recognize the work of an organization that is on a sustainable growth path, where the award can help to shift out its possibility frontier? Philanthropists are well advised to heed to the following seven considerations:

- *Gain clarity.* Be clear about the objectives of the award, your risk appetite and your contribution. Do you want to recognize early stage or established organizations? How do you want to recognize the awardee – financially, symbolically, and/or through technical assistance?

- *Create choice and quality.* Design a nomination process that brings a sufficiently large pool of candidates into the selection process to allow for real choice. The selection criteria must identify and render operational reasonable proxies to ensure that the financial and symbolic capital conferred upon the recipient will be able to keep or put the recipient organization on a sustainable growth path. A good selection process will also deploy indicators that assess both downside and upside. What can go wrong with the recipient organization? What is the likely upside associated with the recognition of the organization through the award?

- *Make sure that the award is uniquely positioned.* An effective award does not simply replicate or imitate other awards. Unique positioning has to do both with identifying a niche that has not yet been taken, as well as ensuring that the award can occupy the chosen niche on a sustainable basis, given the unique bundle of financial and non-financial resources at hand.

- *Do not undermine the recipient's business model.* Sometimes, this can be counterintuitive – for example, many argue that awards should be unrestricted. When Donors' Choose won the Amazon.com Nonprofit Innovation Award, it could not direct the funds so that donors decide where the money goes – but this is the underlying model of the organization: donors choose which education projects to support.

- *Ensure the integrity of the process.* To build credibility and to ensure procedural justice, clear rules of selection of candidates, committee members, and decision-making are needed, to be adhered to at all times.

- *Balance perfection and expediency.* Ensure effective selection criteria that consistently accomplish weeding out organizations whose intervention model, institutional and financial viability do not make them eligible for the award, given the objectives and criteria specified. But also make sure the selection criteria are reasonable in terms of the transaction costs they impose on applicants and screeners.

- *Be patient, learn and do follow-up.* A good award is like an asymptotic function. Methodology, committee and cast of candidates will mature over time. It is important to track how the prospects of the recipients evolve. As the award gains stature and the parties involved learn and perfect processes, reality approximates the ambition level ever more closely. In 1901, the Nobel Prize was a surprising award. In aiming to support people working for the greatest benefit to humanity, it went against contemporary thinking about egalitarianism.

We entertained these and other considerations when we joined forces in 2004 with Ashoka, the premier identifier and nurturer of social entrepreneurs to create the Visionaris Social Entrepreneurship Award. We designed the award with three points of leverage in mind:

- *Build core skills.* Measuring impact and communicating one's results properly is critical for the ability of a social enterprise to grow with quality. We therefore designed a social investor relation's workshop for all finalists, where we look at issues of impact measurement, financial management, and investor relations.

- *Share best practice.* Philanthropists who seek to reward excellence benefit from a comparative view of best practices and access to cutting edge approaches in the field. Through the selection process and workshops with leading experts and practitioners, we seek to expose leading and emerging philanthropists to the latest trends in philanthropy and excellence in social entrepreneurship.

- *Celebrate hard work.* Addressing deep-seated social challenges requires commitment and dedication, every day. Success therefore needs to be celebrated properly once in a while. The Visionaris award ceremony has been explicitly designed to recognize the achievements of some of the leading social entrepreneurs in the region.

Visionaris embodies the ambition to help to bridge the "last mile" between a philanthropic aspiration and effective action on the ground by bringing together two groups of people who might otherwise never meet – philanthropists and social entrepreneurs – and engage them in a productive process. It has been an exciting and rewarding journey for all parties involved in the quest for more effective philanthropy, and we look forward to what lies ahead, celebrating the fifth anniversary of Visionaris in 2008.

Exciting Prospects

Unfreezing the Foundation Asset Landscape to Create a Liquid Social Capital Market

By Maximilian Martin and Arthur Wood

"It is not because things are difficult that we do not dare; it is because we do not dare that things are difficult"

Seneca (54 BC - 39 AD)

Introduction

How can foundation assets be invested for greater social impact without sacrificing financial return objectives – for example, by investing in social enterprises? And why is this relevant? In organizing the socioeconomic activity outside the public sector two options are generally available. At one end of the spectrum, businesses usually incorporate as privately held, profit-maximizing entities. At the other end, organizations that have a charitable purpose incorporate as non-profit entities. By giving up the profit motive and adopting a social purpose these non-profits are endowed with special privileges such as exemption from taxation in many jurisdictions. This fundamental differentiation has remained in place for several decades, during which the social sector has grown immensely in scale and ambition. Today it functions not only in niche areas, but with support from private philanthropists and individuals is pushing the barriers of social service provision. Social enterprise has emerged as the new frontier and typically relies on market mechanisms to work toward goals that are not purely or even primarily financial.

The Challenge

Social enterprises face multiple challenges in becoming main stream but access to capital is currently the binding constraint. This was the conclusion of a meeting at the Aspen Institute in September 2006 that examined social enterprises' difficulty under present laws to attract investment capital, whether from bank loans, venture capital, or in some other form.[1]

[1] Thomas Billitteri, "Mixing Mission and Business: Does Social Enterprise Need a New Legal Approach?" The Aspen Institute, January 2007.

Two primary sources of capital are conceivable: commercial and philanthropic. However, commercial capital often avoids social enterprises, partly because of lower target returns and the greater difficulty of conceptualizing business models that generate both social and financial returns in the language of the capital markets.

Thus, charitable foundations emerge as a potentially major source of capital. Foundation endowments have grown substantially in past decades. The Foundation Center estimates that in the United States alone, the combined assets of grant-making foundations grew from US$ 30 billion in 1975 to US$ 227 billion in 1995 and about US$ 510 billion in 2004 (in 1975 dollars)[2] – a compound annual growth rate of nearly 10%.

Currently, charitable foundations seeking to invest in social enterprises with such "hybrid" returns face a specific set of challenges, which are largely regulatory. For example, under US tax laws non-profit foundations can make "program related investments" (PRI) into such profitable organizations that further the charitable cause of the foundation. PRI investments are beneficial to a foundation as they count as part of the required 5% payout and are not booked as part of the endowment. This means they do not count towards calculation of the next year's 5% payout requirement and any capital gain is not included in the excise tax. So PRI investments, unlike regular endowment investments, are a kind of "off the books" investment – to be dealt with only when they earn income or are sold. Even then, rules are simple – any income or gains must be given away or reinvested in another PRI within the same year in addition to the 5% already allocated for that year.

Despite these many benefits, PRIs have not been widely adopted in the US, partially because the perceived transaction costs are too high.

The Solution: Developing PRI-friendly Legal Vehicles

How can the transaction costs of investing foundation assets in social enterprise be reduced? Several initiatives are under way to address this challenge. Here are two examples from the US and the United Kingdom.

[2] http://foundationcenter.org/findfunders/statistics/pdf/02_found_growth/06_04.pdf

- *The Low-Profit Limited Liability Company (L3C):* [3] Recent moves, initiated in North Carolina, USA by the Mannweiler Foundation, and supported by Ashoka, GAVI, and others, aim to create an institutional context for PRIs – the low-profit limited liability company (L3C). The L3C would be a specific type of LLC, a privately held corporation owned by members with limited liability, that would operate a profit-making business, but one with a charitable goal. The requirements for an L3C would match exactly the conditions placed on PRIs in IRS tax law. However, as a company, the L3C would also be able to access capital markets.

- *Community Interest Companies (CIC):*[4] In 2006, the UK established a new limited company type called the Community Interest Company. CICs have special features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage. Through certain qualification tests (community interest test) and an "asset lock," regulations ensure that the CIC is established for community purposes and the assets and profits are deployed accordingly. However, a CIC can have both non-profit and for-profit member ownership, allowing it to work across the spectrum.

Conclusion

The initiatives under way take into consideration that there are organizations that create both a strong social benefit and an economic return. However, in so doing, these initiatives also provide the additional benefit of creating opportunities to unfreeze the foundation asset landscape. One of the likely byproducts of the L3C in particular would be to significantly expand PRIs into a viable social capital market for two reasons:

- *Layered investing:* As an LLC an L3C can distinguish between its members. This allows different entities to buy memberships with different levels of return and risk. For instance, philanthropists could buy the highest-risk membership of an L3C from the grant component of their portfolios, while a small foundation may buy the lowest-risk membership of the same vehicle from its bond component. This layering would allow a variety of investors to participate in L3Cs, depending on their risk preference, expanding capital available.

[3] "The L3C: The For-profit with a Nonprofit Soul," Mannweiler Foundation Inc., 2007.

[4] http://www.cicregulator.gov.uk/index.shtml

- *Transparency and tradability:* Initiatives such as the CIC increase the transparency of social enterprises by requiring annual reporting, a major precondition for the development of a viable secondary market for such investments. Once tradable, such securities would make the social capital market more liquid, again encouraging greater participation. This would apply even for foundations that do not have matching mission investments, since they could provide backing to investments of smaller foundations.

The two initiatives discussed above address the immediate lack of regulation and definition for social enterprises as for-profit charitable entities. However, they are important for a more fundamental reason. By institutionalizing the concept of a "for-profit social enterprise," they recognize that organizations can reconcile the twin goals of social impact and financial return. The acceptance that this is possible expands the possibility frontier for funding social enterprise, both from commercial and philanthropic sources. Just envision a campaign where one year of annual payouts or 5% of the overall US foundation assets would be invested in social enterprise – and over US$ 30 billion in additional funding for social enterprise would come on stream![5]

[5] Europe has a sizeable foundation sector as well. The largest 50 European foundations have cumulative assets of US$ 147 billion – roughly comparable to the assets of the top 50 American foundations, with assets of 133 billion. *European Foundations: Report on Top 50,* Watson Wyatt. February 2007.

Investing in the Emerging Social Enterprise Landscape

By Maximilian Martin[1]

"Not everything that is faced can be changed. But nothing can be changed until it is faced"

James Baldwin (1924-1987)

Introduction

Enthusiasm about a new golden era of philanthropy is widespread and contagious for many reasons. On the supply side of philanthropic capital, they include trends in growth and holding patterns of wealth, the demographic composition of the group of wealth holders, as well as highly visible commitments from new philanthropists which "up the ante" in the global philanthropic community (think about Warren Buffet's pledge to the Gates Foundation). More and more philanthropists interpret the wise allocation of resources as one of the social responsibilities of wealth, and ask how they can maximize the catalytic effect of their philanthropy to turn the tide on some longstanding social issues. Many view social enterprise as an exciting new conduit for social change.

However, as they seek to translate their aspirations into action, they face both structural and "toolbox" constraints that limit the impact of their engagements.[2]

First, the search costs for social investors and investees are extremely high. The problem is structural. Civil society organizations can be chosen from a large and growing menu, and the sector suffers from a lack of transparency regarding performance. Thus, one study of the US nonprofit sector puts the combined costs of grantmaking and fundraising as high as 22%-43%, compared to 2%-4% in the for-profit sector, suggesting a generally inefficient capital allocation process in the social sector.[3]

[1] Article excerpted from *Giving*, Vol. 1, pp. 217-224.

[2] Philanthropists also face many idiosyncratic factors derived from family dynamics or personal giving preferences, which we will not address here for economy of argument.

[3] William Meehan, Derek Kilmer, and Maisie O'Flanagan, "Investing in Society." *Stanford Social Innovation Review,* Spring 2004, p. 35.

Second, many social investors tend to work with a simple toolbox. They hold a binary view: as donors, they are happy to make grants, which provide an allocation that has a minus 100% return, or zero financial return.[4] By contrast, as investors they prioritize financially profitable investments.

From a rational choice perspective, this preference is counterintuitive. In terms of market efficiency the optimal intervention in social and economic terms is a function of the problem the social investor seeks to address, and is likely to fall somewhere between these opposites. Of course, some social investments may never provide a direct positive economic return, though they may contribute to economic progress indirectly, e.g. through democratic development and the upholding of human rights.

Impact-minded philanthropists seek to address both constraints – high search costs and insufficiently sophisticated funding instruments. This article focuses on the latter, the"toolbox constraint," and ways to ensure the optimal allocation of philanthropic capital. Unlike the first, it can be addressed by individual philanthropists or groups of social investors utilizing skills already available in the capital markets. In the past few years, both institutional and private investors have become familiar with a range of financial products with differing economic returns (and even with guaranteed returns). In the institutional space, investment instruments such as collateralized debt obligations (CDOs) and hedge funds have seen phenomenal growth. In the private client sphere this development has been mirrored in structured and capital protection products. These concepts can be applied to social and economic return as well. Done properly, philanthropic capital can help to improve the risk profile of social investments, thus offering the possibility of drawing additional fresh capital on commercial terms into the business of social change.

However, identifying the appropriate instruments requires understanding underlying sustainability in the emerging social investment landscape.

[4] Arthur Wood and Maximilian Martin. "Market-based Solutions for Financing Philanthropy," *Viewpoints 2006*, UBS Philanthropy Services, 2006.

Mapping Sustainability

"Social enterprise" serves as an umbrella term. When asking how to best finance a social venture, one first needs to gain clarity about the inherent sustainability of the underlying model. To this effect, a philanthropist can divide potential social investment targets into four sub-categories (see figure 1):

- *Small and medium enterprises with a demonstrated social impact.* These are typically real-sector for-profit companies that create both social and economic benefits[5] – e.g. by offering jobs in particularly depressed areas, or producing goods and services that carry positive externalities so that they need not be imported in sectors such as healthcare.

- *Social entrepreneurs who provide private goods.* These are typically mission-driven real-sector for-profit or not-for-profit organizations that create both social and economic benefits.

- *Social entrepreneurs who provide public goods.* These are typically mission-driven real-sector not-for-profit organizations that mainly create social benefits.

- *Microfinance institutions.* Microfinance institutions work in the financial sector and create both economic and social benefits. Ranging from very small non profit associations to large commercial banks, they share a mission to serve the poor by extending very small loans and other products to either the unemployed, poor entrepreneurs or to others living in poverty that are not bankable. Such organizations can be incorporated under a variety of different legal statuses, including as foundations, cooperatives, credit unions, non-bank financial institutions or fully fledged banks.

[5] The "real sector" refers to economic activity in the primary (agriculture), secondary (industry) and tertiary (services) sectors, except financial services.

Category	Example	Sector	Type of benefit	Investment solution	Opportunity
Small-Medium Enterprise	Prime Cure	Real	Economic + Social	Equity or loan deals	Theme fund
Private good SEs	Aravind	Real	Economic + Social	Loan deals + Technical Assistance	Loan funds (e.g. irrigation, housing)
Public good SEs	International Bridges to Justice	Real	Social	Grant + Technical Asstistance	Donor collaboratives
Microfinance Instutitions	Acción	Financial	Economic + Social	Equity or loan deals	Second tier funds

Figure 1: Disaggregating Social Enterprise Investment Opportunities

Figure 1 suggests that grants are the most effective form of financing for social entrepreneurs who conduct activities that cannot reasonably be expected to ever become financially self-sustainable, because they provide social benefits rather than economic benefits. Applying economic theory, we can refer to them as *public-good social entrepreneurs.*

By contrast, some small and medium enterprises, microfinance institutions and social entrepreneurs provide "private goods." They create a substantive economic benefit for their constituents. These organizations should be able to monetize a part of the benefits created to cover costs. This is the idea behind microfinance – and indeed, some microfinance institutions have returns on equity equivalent to or higher than some of the most successful large banks. Experience shows that a mix of capacity-building grants and for-profit investments is the most effective way to support *private-good social entrepreneurs.*

Public-Good Social Entrepreneurs

Small and medium enterprises and microfinance institutions are familiar concepts. But what is the difference between social entrepreneurs providing public and private goods? Let us look at two examples.

Partnering with local organizations around the world, Witness, a US 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 and 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, if it comes from a philanthropist, or a public contract. In areas such as human rights, even organizations that assist governments in implementing the human rights legislation they passed are likely to need some subsidies. For example, Geneva-based International Bridges to Justice (IBJ) works 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. This provides some earned-income streams, but full self-sustainability from core activities is difficult to envision.

Private-Good Social Entrepreneurs

The picture differs completely in the case of small and medium enterprises, private-good social entrepreneurs, and microfinance institutions. These are potentially profitable organizations that choose to operate in a social enterprise mode. Take the story of providing low-cost cataract eye operations.

In the 1980s, David Green, who later became an Ashoka Fellow, successfully raised large volumes of in-kind donations of intraocular lenses (IOLs) from US manufacturers to perform cataract operations at the Aravind Eye Hospital in India. 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 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$ 4 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 subsidizes those who are not able to cover the full cost of the operation.

Human rights and health are both of fundamental importance for 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 over 120 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.[6] In this mechanism, commercial investors receive a rate of return above the risk-free market rate, and US foundations that make program-related investments (PRI) receive lower returns commensurate with PRI instruments. This brings fresh, non-grant capital to the table.

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

[6] Ashoka has played a key role in supporting David Green in this endeavor, seeking to create intermediaries that see a value in collaboration across civil society organizations to overcome the traditional fragmentation in the sector.

conceivable.[7] In practice, the single most important constraint to draw additional financial resources into financing private good social entrepreneurs is 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.

Given that such funding mechanisms are new in the field of social entrepreneurship, a look at financial innovation in the field of microfinance can provide a sense of their likely future relevance. In the context of a sizeable and growing microfinance market, the sophistication of funding mechanisms has progressed substantively in the past ten years. The 2005 Micro-Credit Survey acknowledges over 3,164 microfinance institutions reporting over 92 million micro-enterprise clients worldwide, of which over 70% are among the poorest.[8] Its 2000 survey reported market data at one third of its current size. Many specialized fund management boutiques and fund advisers have emerged, offering various tailored products for specific groups of investors. Some global banks have also started their own funds, either internalizing the specialized management function or externalizing it. Innovative transactions include taking first-loss positions in collateralized debt obligations and securitizations or guaranteeing bonds and local debt loans.

Conclusion

Transferring the microfinance experience to social enterprise in general, it is likely that financial innovation in the social enterprise space will create exciting new opportunities to leverage philanthropists' scarce resources. By funding first-loss tranches or issuing guarantees, they can serve as a catalyst to bringing additional commercial capital to the table. The mechanics differ depending on asset class.

- For small and medium enterprises in specific world regions and sectors such as healthcare or construction that have a demonstrated social impact, themed equity and loan funds can be promising.

[7] Maximilian Martin, "Aggregating Demand, Targeting Impact," *Viewpoints 2007,* UBS Philanthropy Services, 2007.

[8] Sam Daley-Harris, "State of the Microcredit Summit Campaign Report 2005," Microcredit Summit Campaign, 2005.

- To supply private-good social entrepreneurs with capital, philanthropists can use a mix of loan and technical assistance funds.
- Public-good social entrepreneurs require grant and technical assistance funds.
- In the field of microfinance the great challenge is to seed fund the next generation of early-stage microfinance institutions, taking them to profitability. This might require some additional risk appetite, given the fact that current mainstream inflows into microfinance tend to be mainly allocated to top-tier microfinance institutions, while second-tier institutions often face growth constraints due to lack of risk capital.

However, realism is required. Many challenges remain concerning 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.

The experience of microfinance shows that to operate at a reasonable scale and risk characteristics, most for-profit social 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. In the field of microfinance, international financial institutions such as the International Finance Corporation (IFC) as well as private philanthropists had to provide such philanthropic capital for years, before a market for microfinance capital on commercial terms could emerge.

As we look ahead, we also need to keep in mind that designing more effective financing mechanisms for social enterprise is not just a technocratic exercise. Philanthropy has an experiential dimension. 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." Any scaleable solution to efficiently fund social enterprise is therefore likely to provide an effective combination of what one can refer to as "the relational element in philanthropy" with sophisticated financial engineering.

Avoiding Bad Bets, Removing Bad Apples

By Peter Schuck and Richard Zeckhauser[1]

> *"One of the great mistakes is to judge policies and programs by their intentions rather than their results"*
>
> Milton Friedman (1912-2006)

The public domain boasts many sound social programs. Some of these programs seek to allocate resources to individuals who are members of a legally defined target group. But many social programs are not nearly as well targeted as they could be, and a few are so poorly targeted as to call their social value into serious question. Public policy should improve the targeting of social programs so they can accomplish more of their goals while using the same resources to assist the same needy populations.

We are particularly concerned with the programs that seek to improve the conditions and opportunities of unfortunate, disadvantaged, usually low-income individuals, people whom we call bad draws. We think of these bad draws as parties to a kind of social contract for insurance against certain random misfortune. That is why the government pays for medical care for the sick, unemployment benefits for those who lose their jobs, and food stamps for those who would otherwise be hungry or malnourished.

The category of bad draws, of course, is extremely broad, providing little guidance to policymakers who must allocate social welfare resources among the many bad draws who have plausible claims on society's solicitude. We seek to provide better guidance by focusing on two particular groups of bad draws who divert resources from the other bad draws for whom they were primarily intended. We call these two groups bad bets and bad apples. All of the individuals in these two groups are bad draws, but they are not well-targeted beneficiaries, either because they derive little benefit from a program (bad bets) or because their very participation imposes significant costs on other participants (bad apples).

[1] Excerpted from *Targeting in Social Programs: Avoiding Bad Bets, Removing Bad Apples.* Washington, DC, The Brookings Institution Press, 2006. Reprinted with permission of the Brookings Institution Press.

Bad bets are people who are unlikely to derive much benefit from a programmatic intervention on their behalf relative to either the resources that they would consume or the benefits that better bets would derive from the same resources. The classic example of a bad bet who would gain too little benefit compared with what another beneficiary would gain is a person in precarious health competing with a far healthier person for a cadaver kidney. The current priority system for kidneys in the United States, holding constant quality-of-match, allocates them first to the individuals who have been waiting the longest, and who are often the sickest. As a result, it often targets kidneys to those who will receive the least benefit from them (in quality-adjusted life years).

The more common kind of bad bet, however, is an individual who will derive too little benefit relative to the material resources he or she consumes. An elderly person in poor condition is a low-value candidate for an expensive heart valve transplant, even though heart valves, while costly, are readily available. A college student who is likely to drop out is a bad bet for heavily subsidized higher education. One who has already dropped out of high school is an even worse bet, yet remarkably, this bet is one that public colleges are increasingly making.[2]

Bad bets, then, are a concern for policymakers because bad bets consume program resources that could be better directed to other bad draws. Although even poor targeting will generate at least some benefits and may also increase political support for a program (indeed, that is the purpose of much poor targeting), the overall costs of poor targeting are often higher than what society wishes or needs to bear.

Some program beneficiaries are bad bets because of a widely accepted distributional norm, such as progressivity, under which society thinks that other members of the target group would derive more benefit from the same resources. Tax expenditure policies and other programs targeted at the wealthy – frequently in disguised fashion – often include beneficiaries who will produce little or no policy bang for the buck. Farm subsidies provide an important example. Despite the populist rhetoric that surrounds them, they primarily benefit giant agribusi-

[2] Public and private colleges increasingly admit high school dropouts; see Karen W. Arenson, "Can't Complete High School? Go Right to College," *New York Times*, May 30, 2006, p. A1.

nesses, not family farms.[3] Similarly, the tax deduction of mortgage interest for second homes, including very expensive ones, disproportionately benefits the wealthy, who would probably buy their homes in any event.[4]

Bad apples are very different: they may or may not be bad bets except insofar as their past misconduct predicts future recidivism. Most bad apples are chronic, serious disrupters of the programs in which they participate, and they do more than simply waste scarce program resources. Their immoral, irresponsible, or illegal conduct also reduces the degree to which good apple participants benefit from a program. In addition, some bad apples harm good apples more indirectly by causing taxpayers to stigmatize the entire group and thus the program more generally in ways that erode its public support. Bad apples who engage in fraud and abuse in social programs also generate stigma and create other serious programmatic and political problems.

The factors that lead an individual to become a bad apple are often complex and sometimes even beyond his or her control. Thus, the very idea of labeling an individual, particularly a schoolchild or other young person, as a bad apple will strike many readers as harsh, even repellent. Their unease may be heightened by the fact that for purposes of our analysis, we treat these causes as irrelevant to the classification – so long as program administrators (for example, school or public housing officials) cannot rectify those causes through the kinds of conventional, short-term interventions that are ordinarily at their disposal. Some people argue that – regardless of the accuracy of the classification and the fairness of the procedures – labeling individuals as bad apples (not to mention removing them from social programs) amounts to "blaming the victim." This argument misses the main point, which is to accord the highest social priority to improving outcomes for good apples, while also attempting to address directly the problems of bad apples.

[3] In fiscal year 2005, a decade after Congress enacted a law phasing out the subsidies over seven years, the government paid a record US$ 23 billion to farmers. According to one analysis, 72% of this sum went to 10% of the recipients, who are typically much wealthier than the average taxpayer. Little of the money went to poor farmers. Scott Kilman and Roger Thurow, "In Fight against Farm Subsidies, Even Farmers Are Joining Foes," *Wall Street Journal*, March 14, 2006, p. A1.

[4] See Edward L. Glaeser and Jesse M. Shapiro,"The Benefits of the Home Mortgage Interest Deduction," Discussion Paper 1979, Cambridge, Harvard Institute of Economic Research, October 2002), post.economics.harvard.edu/hier/2002papers/HIER1979.pdf). To be sure, the deductibility of mortgage interest is presently incorporated into the price of housing and in that sense is not a continuing subsidy. However, removing deductibility would impose a windfall loss for home owners.

This priority may require separating the bad apples from the good ones until they have reformed and will no longer harm others in the program – perhaps after rehabilitation of some kind. Like us, many voters refer to such disrupters colloquially as bad apples while supporting programs designed to separate and rehabilitate them and, it is hoped, return them to the mainstream. This is not inconsistent. Indeed, using the term bad apples in this same firmly judgmental but optimistically redemptive spirit is probably a key to finding effective ways to remedy their difficult problems.

Some people who consume significant program resources do not fit easily into either the bad bet or bad apple category, yet they also pose daunting, important challenges for policymakers. We briefly discuss three of these special categories here – self-spoilers, group stigmatizers, and resource drains. We then discuss the potential overlap between bad bets and bad apples.

Self-spoilers

Certain beneficiaries of social programs may have ended up in the same penurious, unhealthy, disabled, or other exigent circumstances as others who receive program benefits, yet we may want to treat them differently because they have brought their harm upon themselves. To put the point another way, they have created their own bad draws. By exacerbating their own problems, either in the short or long term, they may defeat the purposes of the social programs designed to benefit them.[5] For example, self-spoilers may decide not to work or to care for themselves although they are capable of work or self-care. They may chronically misbehave in school or drop out at an early age, thus severely limiting their future job opportunities. They may engage in irresponsible sexual conduct that produces children whom they do not want or whom they will leave with others to raise (possibly state or state-funded private agencies).

[5] Bad apples are also bad bets when their participation in a public program will have few social benefits, particularly if the program was intended to avoid their kind of misconduct. An example would be students who wrongfully get food stamps but who would eat well without them.

Social welfare programs intended to help the poor sometimes perversely harm them by encouraging self-spoiling conduct – a form of moral hazard. When this happens, the self-destructive behavior may become contagious, as it becomes more acceptable and then spreads into more widespread use. "Defining deviancy down" (as the late Daniel Patrick Moynihan famously termed it) debases public values by normalizing previously condemned conduct.[6] This normalization encourages others to engage in similar conduct to society's detriment. The sharp increase in out-of-wedlock births from the 1960s to the 1990s is a particularly tragic example of this phenomenon. (This can also occur at the higher-income end of the social ladder, as seen in the increased doping among successful professional athletes and the contagious use of illegal tax shelters and shady accounting practices by the wealthy.) By the same token, appropriate reforms can engender a virtuous cycle. By lifting the aspirations of their neighbors (broadly defined), self-improvers may have helped to foster the post-welfare reform decline in illegitimacy rates and chronic unemployment among the poor.

Society may wish to treat self-spoilers less generously than it treats other bad draws whose disadvantage is not self-inflicted, for several reasons. First, self-spoilers are likely to be bad bets. We expect that self-spoilers will derive less benefit from resources than will other people with similar needs, because the self-spoilers have caused their own problems and may do so again. Second, we may believe that those who cause their own disadvantage are less deserving of social resources –whether the resource be tragically scarce or fiscally scarce. Someone with lung cancer who took up smoking in the last twenty years, long after its causal relationship with lung cancer was firmly established, has less of a moral claim on society's solicitude, and hence on the resources required for an expensive treatment, than does an individual like Dana Reeves, whose lung cancer was not self-inflicted through smoking. Third, we may worry about the perverse incentives that giving resources to self-spoilers creates. Even if they would benefit enough from the program to be worthwhile from a cost-effectiveness perspective, this might attract other people to the self-destructive behavior. If so, self-spoilers would be like bad apples in that they harm otherwise good apples. Indeed, if incentive effects were sufficiently strong, then providing benefits to self-spoilers might even generate negative quality-adjusted life years on balance. (Quality-adjusted life years, often abbreviated QALYs, is our outcome measure for medical interventions.)

[6] Daniel Patrick Moynihan, "Defining Deviancy Down," *American Scholar* (Winter 1993): 17–30.

Self-spoilers, of course, may demand equal treatment with "pure" bad draws on the grounds that they drew a bad hand in being born with a propensity to self-spoiling. More "traditional" bad apples, we have seen, can also claim this excuse. However, these bad apples harm others whereas self-spoilers largely harm themselves. For this reason we treat self-spoilers as a distinct category of bad bets, while recognizing that they share some features with bad apples.

Group Stigmatizers

Bad apples often harm a social program by bringing its other beneficiaries into disrepute. The spread of this stigma tends to confirm advocates' worst fears about the program's political vulnerability. The adage that a relatively few bad apples can spoil the barrel, blighting the lives and opportunities of the vastly larger number of good apples who cannot easily be distinguished from them, is clearly true. And observers tend to homogenize probabilities, failing to distinguish whether 1% or 10% of a pool consists of bad apples.[7]

It is easy to see why observers fall into this error. Few people accurately assess the probabilities of complex phenomena, relying instead on cognitive shortcuts. For example, a phenomenon seems much more prevalent if one can bring a particular instance to mind –what psychologists call the "availability heuristic."[8] When politicians or other opinion leaders denounce the misconduct of someone like Willy Horton or a "welfare queen," we tend to imagine that this misconduct is more common than it actually is. The public image of the events at Abu Ghraib did not depend much on whether prisoners were abused by three soldiers or thirty, or whether there were thirty or three hundred soldiers guarding them. The vivid photographs were enough to arouse widespread disgust and to create a perception that abuse was common. Journalists seldom report when ex-convicts learn their lesson and return to a normal life. An ex-convict committing new crimes, however, is more likely to make the news.

[7] See the discussion of the probability weighting functions in Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decision under Risk," *Econometrica* 47, no 2 (1979): 280–94. It shows that individuals tend to respond little to differences in low but positive probabilities.

[8] Daniel Kahneman, Paul Slovic, and Amos Tversky, eds. *Judgment under Uncertainty: Heuristics and Biases*, Cambridge University Press, 1982.

Unwed teenage mothers present a particularly poignant example of stigmatic harm. Sometimes little more than children themselves, they often possess only the vaguest idea of what it means to be an adult, much less a parent, and to exercise mature moral agency. But their irresponsible conduct – and especially that of the usually much older men who fathered and then abandoned their children – must be firmly condemned because of the immense harm that it will likely cause to themselves, their children, other teens who follow their example, and society more generally. Such condemnation is bound to stigmatize them, and if the stigma has the effect of reducing the number of other teenagers who have children out of wedlock, then the stigma will be socially salutary on balance, even if it seems unfair in particular cases. But voters may think of these teenage unwed parents, rightly or wrongly, as iconic representatives of a much broader group of recipients, who upon greater reflection could be regarded as more deserving – for example, women who waited to have a child until they had the appropriate resources and maturity but who then lost a job or a husband. If voters frequently ascribe the first group's irresponsibility to the second, more-deserving group, then the stigma of the first may attach to the second, with the political result being that the benefits of the latter group may be cut.[9] This unfavorable effect, which we call a negative reputational externality, indirectly harms good apple recipients.

When policymakers decide how to allocate resources, of course, they must consider a variety of factors, including reputational externalities that cut in different directions: the potential to deter similar bad choices by other teenagers, the effects that withholding resources would have on the teenage parent's innocent children and on the teenager's own opportunities in the future, any unfairness in treating them categorically rather than as individuals, and so

[9] See Martin Gilens, *Why Americans Hate Welfare: Race, Media and the Politics of Antipoverty Policy,* University of Chicago Press, 1999. As the Gilens study shows, public perceptions about bad apples are sometimes wrong – they can be wrong in many different ways – and when they are, officials have an obligation to explain why this is so. Joe Soss and Sanford F. Schram, in "A Public Transformed? Welfare Reform as Policy Feeback?" *American Political Science Review* (forthcoming), argue that the symbolism associated with policies, not their actual structure or performance, is what predominantly affects mass opinion. Thus the mass media, elite opinion, and social conversation play an important role in shaping public attitudes. To the extent that this is true, explicit discussion of target efficiency, by itself, would help reshape public attitudes. Although Soss and Schram present quotes from leading experts Hugh Heclo, Christopher Jencks, Lawrence Mead, and Mickey Kaus indicating that welfare reform changed public attitudes towards greater acceptance of welfare, they put more credence in survey evidence, which they cite, that is contrary to these experts' views.

forth. Needless to say, these policy judgments are very difficult and must rest in part on fine legal and moral distinctions that political rhetoric tends to distort and obscure.

The stigma factor complicates the definition, analysis, and classification of bad apples. Stigma is a social construct; indeed, it may sometimes apply to individuals whose behavior is more morally praiseworthy, yet is also more legally culpable, than that of the teenage unwed parent. A particularly compelling example is the estimated 11 million undocumented immigrants in the United States. They are not immoral in any obvious sense. Indeed, many Americans admire those who work hard, albeit illegally, to support their families under the most difficult conditions. Like many other Americans, we imagine that we would behave the same were we in their straitened positions, and we recognize them as members of our communities for most purposes. Even so, they bear some similarities to bad apples. They knowingly violate the law, take resources away from citizens and legal immigrants, and often stigmatize those immigrants who hold legal status but who are erroneously lumped together with them by the public and sometimes law enforcement officers.[10] Their queue-jumping is unfair and harmful to good apple immigrants who wait for their green cards patiently and often at considerable personal cost, and it makes playing by the rules of the immigration system seem like a sucker's game. This in turn encourages many of those waiting in the queue to abandon it and instead try to enter illegally. In this way, the problem escalates.

We have no simple and satisfying answers to the very important question of how policymakers should deal with low-income unwed parents, illegal immigrants, and other groups whose behavior society wants – but has failed – to deter. Precisely because of the moral ambiguities surrounding these groups – concerns about the innocent children of these parents, and about the lack of legal status for these immigrants – the social costs of excluding them from social programs or legal status may be much higher than it is in the case of bad

[10] The extent to which illegal immigrants consume resources intended for others is a much-debated question among labor economists and immigration experts. Undocumented aliens consume many social resources, such as public schools, publicly subsidized health care, and law enforcement. On the other hand, they are taxpayers, productive workers, and often urban entrepreneurs. There is considerable disagreement over the magnitudes of these costs and benefits and even about their relevance to the proper enforcement of our immigration laws. For a discussion of studies and competing explanations of immigration, see Peter H. Schuck, *Citizens, Strangers, and In-Betweens: Essays on Immigration and Citizenship,* Boulder, Westview, 1998, pp. 337–41.

apples proper. Our purpose here is not to solve such policy problems but rather to help clarify how policymakers should analyze them with respect to how these groups affect good apples.

Resource Drains

Some individuals use program resources to an extent that is vastly disproportionate to the resources used by other recipients and perhaps also to their moral claims on the resources consumed. Examples include the frequently readmitted hospital patients, often serial substance abusers, who account for a remarkably high share of total hospital costs; patients who are on life support in a vegetative state for long periods of time; recidivist criminals; and the chronically unemployed.[11] Although some resource drains are bad apples (for example, criminals) or bad bets (for example, vegetative patients), many resource drains are good apples. Indeed, some individuals who were resource drains in the past may even be good bets looking forward – a chronic drug abuser who is likely to abandon his habit because of an innovative rehabilitation program – though their extremely high costs and propensity to recidivism make this less likely. Despite the importance of resource drains to program budgets, we shall discuss such individuals only if they are also bad bets or bad apples. That is because individuals who are resource drains do not neatly fall into the bad bet or bad apple categories that are our chief interest, and because those who are good apples and good bets are not the subject of our analysis.

[11] On hospital costs, see Christopher J. Zook and Francis D. Moore, "High-Cost Users of Medical Care," *New England Journal of Medicine* 302 (1980): 996–1002. The authors found that hospital costs were concentrated on a few patients; on average, these high-cost patients (13%) consumed as many resources as did the low-cost patients (87%). For a recent account, see Malcolm Gladwell, "Million-Dollar Murray," *New Yorker,* February 13 and 20, 2006, pp. 96–103. In the article he describes resource drains who fall into a number of these categories simultaneously and impose extremely high costs on the social services system, such as a substance abuser whose costs totaled US$ 65,000 in only three months, 2,500 hardcore homeless individuals who were sheltered at a cost of US$ 62 million a year, and 15 chronically homeless inebriates who were treated in hospital emergency rooms 417 times over eighteen months, running up medical bills averaging US$ 100,000 during this period. On long-term welfare recipients, see, for example, Mary Jo Bane and David R. Ellwood, *Welfare Realities: From Rhetoric to Reform* (Harvard University Press, 1994); for government data on welfare dependency, see US Department of Health and Human Services, *Indicators of Welfare Dependence: Annual Report to Congress 2004,* especially section II, indicators 7–9 (aspe.hhs.gov/hsp/indicators04/index.htm).

Potential Overlap of Bad Bet and Bad Apple Categories in Individuals

Some individuals are unambiguously good bets and good apples. An example is the highly motivated, promising student awarded a need-based scholarship to college. But when it comes to bad bets and bad apples, there are almost always degrees of badness. Thus, the individual who will benefit only slightly from an expensive operation or the student who only disrupts occasionally might be thought of as semibad. In addition, many individuals will fall to some extent in both categories – for example, a substance abuser who has induced others to join him in dropping out of job training programs or a disruptive public housing tenant who has been using the apartment for drug transactions more than for shelter.

Analytically, the bad bet and bad apple categories are completely distinct. In reality, however, we expect that on average bad apples will be worse bets than other recipients – that is, bad apples will benefit less from the social programs that they spoil. Disrupting a program or engaging in activities that divert others – exemplars of bad apple behavior – are the types of actions that not only limit the bad apple's benefits but also reduce the benefits of others. Policymakers wishing to compute accurately the net benefits that good apples gain from their participation in a program must subtract these benefit reductions.

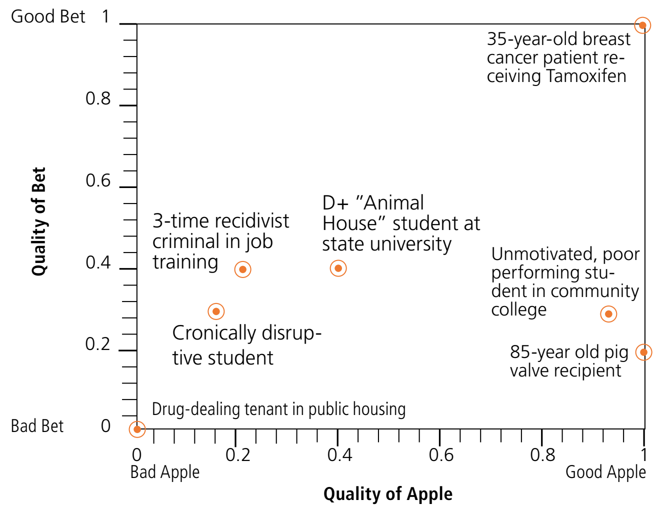


Figure 1: Rating of Potential Recipient as Bets and Apples
Source: Schuck and Zeckhauser

Figure 1 illustrates the possible combinations of status as a bad bet and bad apple. It shows where different individuals might fall on a scale from 0 to 1 in both the bad bet and bad apple categories, where a high score is good.

We stress two propositions, implicit in the graph. Good and bad bets and good and bad apples are not discrete categories but fall along continua – even though we shall sometimes refer to them in discrete terms for simplicity's sake. Both categories count when determining which individuals merit assistance. Thus, someone who is a slightly bad bet but a very good apple should get services ahead of someone who is more of a bad bet but also a fairly bad apple. This graph moves us to the next critical question. Given that we know how individuals are classified, should they receive services?

Bad bets and bad apples present two different answers. Bad apples are denied services primarily because they drain benefits from others. The wealth of a society or the size of its budget for social programs will generally not affect the judgment about whether a disruptive student's behavior is harmful enough to justify placement in another school. This decision will turn largely on the harm that he inflicts on the other students. Bad bets are different in this respect; society will want to prioritize them, and its wealth and budget for social programs will determine the cutoff point for deciding when a particular bet is to be deemed bad. Society will start by giving resources to those who will benefit most and will continue to do so until the budget that taxpayers provide is exhausted. In other words, societies with larger program budgets will proceed further down the priority list.

The type of analysis that would be required to systematically improve target efficiency is shown in figure 1, which locates different combinations of individuals and programs (treatments) on the good bet-bad bet and good apple-bad apple continua. Tamoxifen treatment for a 35-year-old breast cancer patient represents an excellent outcome on both dimensions. The 85-year-old recipient of a pig valve for the heart is an excellent apple but poor bet. The three-time recidivist criminal in a job training program is a bad apple but a so-so bet. This graph is meant to illustrate our thinking and be a visual metaphor. One could debate at length the appropriate location for each of these cases, but prioritization requires such ratings (or their equivalent). Note that we have arbitrarily scaled each of the axes from 0 to 1, where 0 is bad and 1 is good. There need be no cardinal meaning to these numbers so long as higher is better and the decision-maker understands the rating scale.

The Challenge of Employing the Definitions

Any particular definition of bad bets or bad apples will be highly contestable, as well it should be. Society must necessarily make highly controversial moral judgments. In addition, it can distinguish bad bets from good ones only by analyzing social costs and benefits. This in turn requires empirical determinations that for familiar reasons may be elusive and will surely be politicized, as in the case of organ allocation.

Even if we could define the bad and good apple categories uncontroversially, the task of screening and categorizing particular individuals – something every social program must ultimately do – will remain contentious, raising difficult issues of procedural fairness and even constitutional rights. For example, the principles of due process and equal protection under the Constitution significantly constrain the power of officials to withdraw public benefits from statutorily eligible recipients or from beneficiaries who must be included on equal protection grounds.[12] Within these legal constraints, policymakers must decide which kinds of institutions and competencies – professional, bureaucratic, judicial, religious, or other – are best suited to make the factual and normative determinations on which such assignments ultimately depend.

[12] See, generally, Jerry L. Mashaw, *Due Process in the Administrative State*, Yale University Press, 1985.

Contributor Biographies

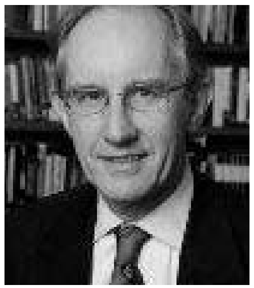
Daniel Annerose is the founder and CEO of Manobi, an African Mobile Data Services Operator which provides innovative value-added services to small businesses as well as large companies to uplift their respective economic and social development. He is involved in rural and local development as a member of the Senegalese Academy of Sciences and Technology. He is experienced in both (i) information and communication technology (ICT) and (ii) research and agricultural as well as agro-industrial development of developing countries. Dr. Annerose was a plant scientist for 18 years, specializing in improvement of agricultural production in arid and semi-arid areas and in the development of crop and plant mathematical models. During these years, he mainly worked in development aid as a researcher and agricultural developer in African, European and South American countries. He was also an IT engineer at Germinal Informatique, a French IT company specialized in management of large database systems for banks and insurance companies.

David M. Dror is the Chairman of the Micro Insurance Academy (MIA), a Delhi-based charitable trust dedicated to training, evidence-based studies and advisory services for microinsurance units serving the poor. MIA offers innovative, context-specific solutions to customizing insurance coverage among the uninsured poor to the risks and conditions the schemes face, at affordable premiums, through a process that the poor trust. MIA delivers its training through a network of affiliated training institutes. He is also honorary professor at Erasmus University Rotterdam (Netherlands), has authored more than 60 publications, edited the book *Social Reinsurance: A New Approach to Sustainable Community Health Financing* (with A. Preker; published by World Bank and ILO), and has extensive field experience in working with grassroots groups in low-income countries. Dr Dror holds a DBA (Magna cum Laude) and a PhD (Summa cum Laude).

Andreas Ernst is Deputy Head of Philanthropy Services at UBS AG, a dedicated advisory unit that helps clients 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, Germany.

Stelios Haji-Ioannou founded easyJet at the age of 28. As a serial entrepreneur, Mr. Haji-Ioannou has established more than 17 ventures, the first of which was Stelmar Shipping at the age of 25. In November 2006 Mr. Haji-Ioannou received a knighthood from Queen Elizabeth II for services to entrepreneurship. Nowadays, acting through his private investment vehicle, the easyGroup, which owns the easy brand and licenses it to the various easy branded ventures, including the airline, Mr. Haji-Ioannou sees himself more as the manager of the brand and less as the manager of one of the companies. He continues to extend the brand by creating new easy branded ventures in the areas of travel, leisure, telecoms and personal finance. He was educated in Athens to high school level and in 1984 continued his education at the London School of Economics. He also graduated from the City University Business

School with an MSC in Shipping Trade and Economics. Mr. Haji-Ioannou has also been awarded a total of three honorary doctorates from Liverpool John Moores University, Cass Business School City University and the Cranfield University. He is interested in education 13 for underprivileged students and sustainable development. In 1992 he founded CYMEPA, the Cyprus Marine Environment Protection Association. This is a non-profit organization making association of ship owners and Cyprus-based business people who believe in sustainable development. In 2005 Mr. Haji-Ioannou made a pledge to both his alma mater, the London School of Economics and the City of London Cass Business School, worth £3 million for the funding of 100 scholarships over 10 years in each establishment. The students will be known as the Stelios Scholars. In 2006 he established the Disabled Entrepreneur of the Year Award with the disability charity Leonard Cheshire, with £50,000 going to the winner. Also in 2006 he sold his private art collection, which once filled the walls of the now sold Stelmar Shipping, for a total of £730,000, the proceeds of which went to a Greek children's charity.



John R. Healy served as the Chief Executive Officer and President of The Atlantic Philanthropies from September 2001 to April 2007. He is now Adjunct Professor at the Centre for Non-Profit Management at Trinity College, Dublin. For 11 years Mr. Healy was the Managing Director of Tara Consultants, Ltd. (now The Atlantic Philanthropies-Ireland) and Senior Vice President, International Programs at Atlantic. While based in Dublin, Ireland, he established Atlantic's programs in Ireland, Northern Ireland, Central Europe and South Africa, which together grew to account for about half of Atlantic's annual grant investments. From 1986-1990, Mr. Healy was founding Chief Executive of The Irish American Partnership, an organization which seeks support from Americans of Irish ancestry for educational, reconciliation, and economic development projects in Ireland. As Assistant Chief Executive of the Irish Trade Board from 1982-1986, Mr. Healy was involved in the Irish government's international trade promotion program. In 1983/84 he chaired the Irish government's Consultative Committee on the Fishing Industry. Mr. Healy is a founder of the Irish Landmark Trust and served on its board from 1992 to 2001. He is a graduate of Trinity College Dublin and holds a BA in History and Political Science.

Greg Hills, Director FSG Social Impact Advisors, has over 12 years of experience advising corporations, foundations, governments and non-profit organizations on strategy, program design and operational improvement. At FSG, Greg has led and managed a broad range of social sector strategy projects advising on philanthropy strategy, program design and social investment in complex client situations. Prior to joining FSG, Greg worked as a manager with Archstone Consulting and as a senior consultant with Deloitte Consulting advising corporations on business strategy and profit improvement initiatives in the retail, consumer products manufacturing and financial services sectors. His nonprofit experience includes serving as Manager of Program Operations for the US-Asia Environmental Partnership, a US$ 20 million US Agency for International Development public-private partnership program promoting the cooperation of NGOs, business and government in support of environmental improvement and sustainable development throughout the Asia-Pacific region. Greg also worked at the Washington, DC law firm Arnold & Porter as a legal assistant. Greg holds an MBA from the Tuck School of Business at Dartmouth College and a BA in Government, cum laude, from Hamilton College.

Elizabeth Huttinger received her BA in Modern European History from Scripps College, California and completed postgraduate studies at the Institut des Sciences Politiques, University of Paris, with a CEP, then earned her MA from Georgetown University, Washington, DC. Mrs. Huttinger is also certified in Early Childhood Education. She was Vice President, Ogilvy & Mather Advertising before transitioning to the non-profit sector in 1991 to co-found Lifeline Humanitarian Organization (London, Washington DC), an NGO dedicated to providing support in healthcare and education during the transition of Eastern Europe. She began working on the UN Millennium Goals in Health in 2001, and worked for five years in HIV/AIDS/Tuberculosis developing health programs in post-war and resource-poor settings in Bosnia, Serbia, Montenegro, Ethiopia, Romania, Albania, and the West Bank. She co-founded Manobi Development foundation with Daniel Annerose in 2006 to grow health and human development projects in Egypt and Africa.

Maximilian Martin is Global Head of Philanthropy Services at UBS AG, a dedicated advisory unit that helps clients conceive, set up and monitor effective philanthropic vehicles. He also serves as a Visiting Professor at the University of Geneva, where he teaches philanthropy and social entrepreneurship in the MBA program, and lectures at the University of St.Gallen. Previous engagements include serving as 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 and the UBS Philanthropy Forum. Dr. Martin holds a Master in Anthropology from Indiana University, a Master in Public Administration from Harvard University, and a PhD in Economic Anthropology from the University of Hamburg, Germany.

Kate McGuinness works as a consultant for the Berghof Foundation for Conflict Studies. She has more than 20 years of experience in the field of fundraising and philanthropy, across a broad spectrum of issues and contexts, with a strong emphasis on peace and conflict related projects. She has also lectured and taught courses in Peace Studies, with a specific interest in the concepts of power and difference, and the work of two French philosophers, Michel Foucault and Jacques Derrida. Kate holds a doctorate in Peace Studies from the Department of Peace Studies at Bradford University, in West Yorkshire, England, the largest such program in the world. She also holds an MA from The Richardson Institute for Peace Studies at Lancaster University, also in England, and a BA in Peace Studies from Barnard College, Columbia University in New York City. She was also a visiting researcher for the Program on Nonviolent Sanctions and Cultural Survival at Harvard University's Center for International Affairs.

Peter Schuck is the Simeon E. Baldwin Professor of Law at Yale Law School. His major fields of teaching and research are tort law; immigration, citizenship, and refugee law; groups, diversity, and law; and administrative law. Among his many books are *Diversity in America: Keeping Government at a Safe Distance,* and *Meditations of a Militant Moderate: Cool Views on Hot Topics.* Prior to joining Yale, he was Principal Deputy Secretary for Planning and Evaluation in the US Department of Health, Education, and Welfare. Professor Schuck holds a BA from Cornell, a JD from Harvard Law School, an LLM in International Law from NYU, and an MA in Government from Harvard.

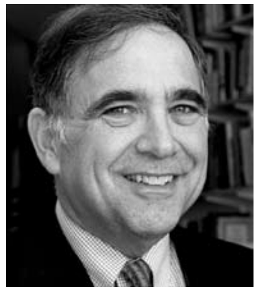
Jack Sim founded the Restroom Association in Singapore in 1998, and in 2001 he set up the World Toilet Organization as a global platform to advocate for clean urban toilets and sustainable sanitation for everyone. Mr. Sim invested in various businesses and became financially independent at the age of 40. After retiring from business operations, Mr. Sim has devoted himself to the mission of "Toilets for Everyone." His creative approaches in breaking the toilet taboo, media communications, capacity building in the sector through World Toilet College, bringing together the sanitation fraternity in the annual series of World Toilet Summits and influencing public sanitation policies has won him the Schwab Foundation's Outstanding Social Entrepreneur of the Year Award in 2006 and Singapore Environment Ministry's Green Plan Award 2012 in 2004. On a shoe-string budget, he uses a leveraging model by working with key partners to create mutually motivating programs for sanitation. Mr. Sim received a US$ 600,000 grant in 2006 to build public toilets in the tsunami stricken province of Aceh, Indonesia. Mr. Sim is also a key member of the Sustainable Sanitation Alliance which comprises all major sanitation organizations.

Edward Skloot served as the President of the Surdna Foundation, a family foundation headquartered in New York City until May 2007. He was the first CEO of the foundation and held this position since 1989. Surdna's assets are approximately US$ 950 million and the grant-making will exceed US$ 35 million this year. Before joining Surdna, Mr. Skloot was President (and founder) of New Ventures, a non-profit consulting firm that assisted other NGOs to earn income as a complement to fund-raising. Started at 1980, this was one of the first ventures to promote "social entrepreneurship." Mr. Skloot wrote the early literature and helped create the field of social enterprise. Earlier, he served as a senior official in the governments of New York City and New York State and also served in the for-profit world as a management consultant. Currently, Mr. Skloot serves on the Board of Directors of Independent Sector (the sector's "trade association") and is a member of its Panel on the Non-profit Sector. Also, he serves as a board member of Venture Philanthropy Partners, a group of venture capitalists helping youth-serving organizations in the Washington, DC region, and of the advisory board of The Bridgespan Group, a non-profit consulting firm affiliated with Bain and Co. Surdna has just published a compilation of Mr. Skloot's recent speeches in a book called *Beyond the Money.*

Karen Tse is the CEO of International Bridges to Justice, a global legal rights organization she founded in 2000. In addition to being an International Human Rights lawyer, Ms. Tse is an ordained Unitarian Universalist minister. Previously, she served as a public defender in San Francisco and as a United Nations Judicial Mentor. Ms. Tse is pioneering rule of law initiatives and building global communities of conscience. She has negotiated and implemented groundbreaking judicial reforms and has trained hundreds of judges, prosecutors, policemen and lawyers throughout Asia and is now starting in Africa and Latin America. She also launched a government-sanctioned legal-rights campaign in all 31 mainland Chinese provinces. Ms. Tse is a graduate of UCLA Law School and Harvard Divinity School. She has been recognized as a leading social entrepreneur by the Skoll Foundation, Ashoka and the Echoing Green Foundation, and was recently named one of America's Best Leaders by *US News & World Report.*

Scott M. Weber is the Director-General of Interpeace, one of the largest peacebuilding organizations in the world and a strategic partner of the United Nations. Chaired by Martti Ahtisaari and headquartered in Geneva, Switzerland, with Regional offices in Nairobi and Guatemala, Interpeace has over 300 colleagues in Somalia, Rwanda, Burundi, Guinea-Bissau, Liberia, Guatemala, Cyprus, Israel and Palestine, Aceh (Indonesia) and Timor Leste, as well as in a regional program on Youth Gangs in Central America and a thematic program on Constitution-making in post-conflict contexts and on strengthening the role of women in peacebuilding. Interpeace's work was personally highlighted by Bill Clinton at the 2006 and 2007 Clinton Global Initiative meetings as an innovative and important approach to conflict prevention. Scott began his career in the United Nations, first in humanitarian and then in political affairs. He holds a Bachelor's degree in International Relations, Economics and Russian from Georgetown University. He is a member of the Young Presidents' Organization (YPO). Scott is French and American and lives in France with his wife Catherine and two children, Clara and Thomas.

Arthur Wood is responsible for the Business Entry initiative as part of the Social Financial Services program at Ashoka. Its objective is to engage global financial services firms to enter the business of social investing and ultimately change the way investors view and approach social investing, as well as increasing the flow and efficiency of financing to the social sector. Prior to joining Ashoka, Mr. Wood worked for over 20 years in the finance sector having held a number of senior positions in product development, change management, sales, and strategic marketing with companies such as Merrill Lynch and Coutts Private Bank. His experience in both private client and institutional markets has touched on most financial products from art, real estate to hedge funds as well as more commoditized investment products.



Richard Zeckhauser is Frank P. Ramsey Professor of Political Economy, Kennedy School, Harvard University. He pioneered the field of policy analysis, and is a leading expert on economic behavior under uncertainty. He is an elected fellow of the Econometric Society, the Institute of Medicine (National Academy of Sciences), and the American Academy of Arts and Sciences. Professor Zeckhauser pursues a mix of conceptual and applied research. He is the author or co-author of 230 articles and 10 books including *Targeting in Social Programs: Avoiding Bad Bets and Removing Bad Apples* (2006) and *The Patron's Payoff: Economic Frameworks for Conspicuous Commissions in Renaissance Italy* (forthcoming). Professor Zeckhauser's current research projects analyze environmental disasters, deception and reputations, trust in Islamic and Western nations, and investing in highly uncertain worlds. He is the Senior Advisor at Equity Resource Investments.

Johannes Zundel is the CEO of the Berghof Foundation for Conflict Studies. He is a permanent member of the Board of Trustees, a position he inherited from his father, who established the foundation nearly 35 years ago. In his function as the Zundel family representative, he plays a guiding role in relation to the foundation's strategic development. This includes ensuring that foundation grant-making policy is based on an agenda relevant to the cutting edge issues in the field of conflict transformation and preserving its founding values. As CEO, he is also responsible for managing the foundation's endowment and defining its investment strategy. He holds a BA in Philosophy, Politics and Economics from the University of York in the UK, as well as an MA in International Business from the University of Vienna.

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UBS AG
Paradeplatz 6, P.O. Box
CH-8098 Zurich (Switzerland)

Phone +41-44-234 91 31
Fax +41-44-234 58 38

Dr. Maximilian Martin
Global Head, Philanthropy Services
maximilian.martin@ubs.com
www.ubs.com/philanthropy-services