PHILANTHROPY - FROM GIVING TO FINANCING REMARKS FOR THE INDONESIA PHILANTHROPY FORUM

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Philanthropy is a very dynamic field right now, in Asia and around the world, and it is an exciting time to be trying new approaches. The work of Rockefeller Philanthropy Advisors with foundations in the US, Europe, Asia, South America and Africa shows the real value in connecting across countries. Every country context for philanthropy is different due to both culture and traditions, and to different policies and laws, so we must understand the local context, but also take advantage of learning across borders.

At Rockefeller Philanthropy Advisors, we have seen four key trends growing in the last decade: first, deep involvement by philanthropists themselves – an interest in hands-on philanthropy; second, an interest in solutions-based approaches, which means looking at systemic change, making big bets, and leveraging one's own funds with others, including through the Sustainable Development Goals (Agenda 2030) framework; third, a focus on assessing impact, and trying all kinds of methods to do that; and fourth, looking for new and innovative ways to fund. This last trend includes impact investing, using online networks, and crucially, changing one's timeline to do 'giving while living' – not leaving your wealth for others to give away, but giving while living. The theme of today's lunch discussion, from giving to financing, reflects aspects of all of these trends.

But equally important, our world is changing too. It is a time of huge urgency. Some of the world's problems are getting harder to solve – examples include climate change and environmental degradation; income inequality in a period of great wealth creation; and creating enough jobs for everyone in a time of growing automation and technology advances.

The Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a very helpful frame for us in philanthropy. Philanthropists often ask: against what do I measure impact? How do I know if what I am supporting is strategic? The SDGs are a roadmap for us, in every single country across the world. Whether one cares about health, education, or protecting our environment, many of the world's best minds created a strong set of interlinked goals and targets for us to use as a reference point. If we set our sights on achieving these as soon as possible, and no later than 2030, we will leave our children and grandchildren a bright future.

The SDGs tell us where to go. But crucially, they do not tell us how to get there. We must figure that out for ourselves. As the President of the Hilton Foundation said at our SDG Philanthropy Platform meeting two weeks ago in New York, our role as philanthropists is threefold: to learn about the SDGs; to determine which piece or slice of it relates to our foundation's priorities; and to decide how we will make a difference in achieving deep, lasting change in the areas we prioritize.

From Giving to Financing

Why might we focus on financing change rather than giving away money? This actually represents a significant trend in philanthropy. All of us give away money every year, through charity. To help people in need after a hurricane. To help a school buy extra supplies. To help a hospital treat more patients. But that kind of giving alone will not help the world reach the SDGs.

Financing in philanthropy relates to the growth of venture philanthropy, a term that is increasingly popular but reportedly coined about 50 years ago by John D. Rockefeller III, who called it "the imaginative pursuit of less conventional charitable purpose". Common dimensions of venture philanthropy are: high engagement with grantees; provision of non-financial as well as financial support (for example, convening meetings with other funders); an entrepreneurial start-up approach by the funder; a blending or even blurring of the lines between grant contributions and investments for financial return; working at a systems level to influence a combination of practices, policy, markets and public opinion; and focusing on a positive enabling environment to achieve success.

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This has relevance to the SDGs. The UN and others estimate the cost of achieving the SDGs globally to be more than US$3.5 trillion per year. Governments alone cannot afford that; and the difference can't be made up through charity. It requires using that amount of capital to finance engines of positive systemic change: change in how markets and business operate, how governments operate, and how civil society operates. The UN Financing for Development process recommended a number of ways to obtain this financing, including:

- Increasing the share of the world's financial capital that is social finance
- Ensuring businesses take into account all of their stakeholders, not just their shareholders
- Expanding alternative forms of business including for-benefit companies
- Finding new forms of revenue for the SDGs, including philanthropy
- Stemming illicit financial flows

It will require that many more of those with wealth become impact investors – that is, investors who believe that a social or economic return is equally, or more important, than a financial return. And it will mean engaging institutional investors like pension funds and sovereign wealth funds to care about the SDGs. Investors are going to have to invest in companies that solve social and environmental problems, not companies that trigger problems. And in turn these social enterprises and socially-minded companies will be more appealing to consumers and job-seekers, especially younger ones, and will get favored treatment from government because they are on the SDG path with others.

The amount of finance in impact investing funds right now is estimated to be $60-$100 billion per year and growing. While smaller in scale than other areas of social finance like SRI funds, it is more intentional in achieving impact, directed at enterprises that are often closer to community needs, and is an investment approach that must grow far faster to achieve the SDGs.

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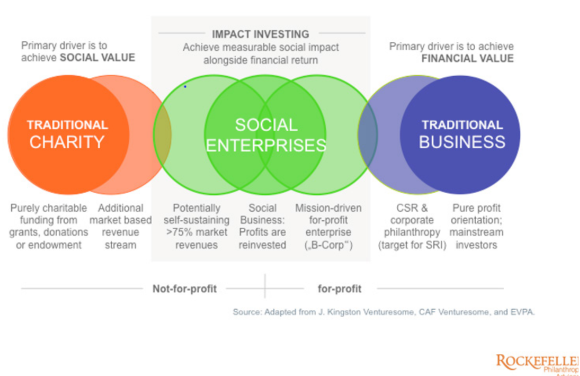
Supply Side - Social Finance *(est by BNYMellon 2015)*

A Spectrum of Social Impact

As the diagram below shows, impact investing in social enterprises sits between purely charitable funding and traditional business for pure profit. It can go toward organizations that are potentially self-sustaining because they get most of their revenues from market returns; social businesses where profits are reinvested; and mission-driven for-profit enterprises, like B Corps.

Impact Investing Spectrum



These organizations are sometimes referred to as being in the 'fourth sector' – that is, a hybrid area that is not purely in any of the first three sectors of government, business or non-profit. It is in this hybrid fourth sector area where philanthropic financing can play a significant role. One obvious need is increasing capital. But there is a whole set of social and policy innovations that we as philanthropists can support, illustrated in the circle below. The diagram below describes what is taking place in just one category – legal forms. Philanthropists and impact investors are working with governments across the world to experiment with new forms, like benefit corporations (US) and imprese sociali (Italy).

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The SDG framework is a promising way to help move this process forward. The Global Impact Investing Network (GIIN) delved into this nexus in a recent report entitled Achieving the Sustainable Development Goals: The Role of Impact Investing. They encourage all investors to contribute directly to the SDGs. They note that the SDGs offer a simple and attractive entry point for investors not yet engaged in impact investing to begin to build an impact investing portfolio. This is also a way for governments to think about collaborating with other sectors to create new legal forms to absorb financing from the philanthropy and impact investing sector.

Another dimension of growing this sector is expanding the range of capital markets and ratings systems, with examples below.

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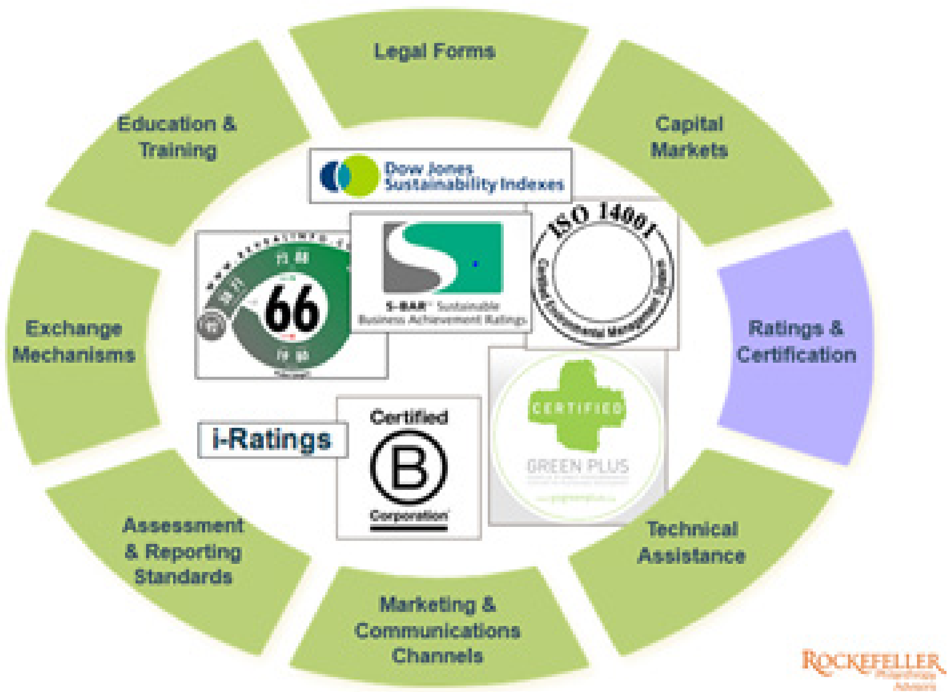

Understanding sector priorities is important too. A 2015 survey conducted by J.P. Morgan and the GIIN found the following:

- 27% of investments are allocated to housing
- 16 % of investments are allocated to Microfinance
- 11% of investments are allocated to Financial Services
- 10% of investments are allocated to Energy
- 5% of investments are allocated to Healthcare
- 5% of investments are allocated to Food & Agriculture

Sectors favored to grow by surveyed investors were Energy, Food & Agriculture, Healthcare, and Education. On the other hand, Microfinance is likely to decline because people are diversifying away from it. Most of this investment is in the form of private debt and equity (73% of total assets under management (AUM), and debt accounted for 40% of AUM, whereas private equity accounted for 33% of AUM).

In terms of stages of the business, overall, nearly 91% of total impact investment AUM has been allocated to companies in the Growth or Mature stage, and only 3% to seed-startup companies.

- 52% of impact investment AUM allocated to mature, private companies
- 28% of the AUM allocated to growth stage companies
- 11% of the AUM allocated to mature, publicly-traded companies
- 6% allocated to venture stage companies
- 3% allocated to seed-startup companies

This is problematic in that so many of the enterprises that need support don't meet the maturation and size expectations of investors, which is discussed further below. It will be interesting to track this in Indonesia as the sector develops, and map that to the SDGs.

Challenges

Many challenges are mentioned by investors and social enterprises. The most significant one globally is the lack of appropriate capital across the risk/return spectrum. There is a need for more investors who are willing to take higher risk with lower return, and be more patient with their capital. A second challenge is the shortage of high quality investment opportunity deal flow, with track records. Even where these exist, there are still too few channels or networks for investors to leverage for deal flow and pipeline. It's still a new market where investors tend to rely on word of mouth and informal networks. This may certainly serve as a barrier to entry for newer investors as well as those looking for funds.

A third challenge is some lack of realism on the part of impact investors. For example, there is so much said about how market-based approaches can reach the very poor. But many solutions that meet the fundamental needs of the poor cannot give an investor her money back: building livelihoods for subsistence farmers, basic health care, and basic education solutions. Investors are keenly interested because this sounds so wonderful. But we have to remember how important the role of government, and traditional grantmaking, are to addressing the needs of society. Microfinance took over $100 million in subsidies before it became a profitable business. Market failures in reaching the poor generally take subsidy to address, not least for R&D and building the market. And we must also be aware that impact investing in Indonesia, as anywhere, can drive organizations off mission. Grantees and investees want to broaden the size and number of their impact investments – but we must be aware of the burdens, as well as the support, that this brings.

Irrespective of these caveats, the SDGs will enable our philanthropy sector to become more systematic in addressing these challenges and seizing opportunities alongside other sectors – government, business, non-profits, and hybrid organizations – to create social progress and prosperity for all.

Next steps

For Indonesia and elsewhere, these can be examined against key categories of barriers and opportunities: policy change, access to capital, education and awareness, technical assistance, and intellectual infrastructure – across sectors and geographies.

A vehicle to work on this collectively in Indonesia could be the SDG Philanthropy Platform, which together with our partners Filantropi Indonesia could create a sub-group of members here in Indonesia that goes deeper into these issues. Using our joint convening power and working with others committed to enhancing this sector, we could focus on a few sectors of greatest interest – perhaps environment, livelihoods, and health or education – identifying problems and solutions together. In addition, the Platform's new partnership with social enterprise Sphaera Solutions could provide an online community through which we create a network of learners.

Second, those working in Indonesia could more actively connect with relevant regional and global processes. An obvious choice is the Asian Venture Philanthropy Network and the European Venture Philanthropy Network. There is a network launched by the Rockefeller Foundation over the last year focused on finding better ways to measure the impact of impact investment. The group welcomes additional case studies, and perhaps we could bring some of this network's analysis to Indonesia, and bring Indonesians to our global roundtables. Another opportunity is the work Rockefeller Philanthropy Advisors is doing with the Skoll Foundation on getting the funding community to take stock of how, when, and why lasting, scaled change is happening (or not) from our grants and investments: Why and how have some investees and grantees been able to grow at significant scale, and therefore be better positioned to achieve the system-level shifts that both the funders and they had anticipated? What internal and external factors have mattered most?

A third area that seems very important to work on in Indonesia is collaborating with the government on the legal forms for social business, again learning about the forms that exist in other high-income countries and emerging markets and assessing them for what fits best in Indonesia.

And finally, perhaps Indonesian philanthropy can think about supporting more education and training in this field. There is a growing number of Social Entrepreneurship centers around the world, including the Skoll Center at Oxford University, the Tamer Center at Columbia University, and the Bertha Centre at the University of Capetown. Indonesia will need to have business students who understand the social aspects of achieving social progress, and non-profit leaders in Indonesia will need to have better skills in market-based approaches. Connecting nascent programs and practitioners here with the global network of centers would provide deep learning opportunities.

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In sum, there is not one next step or best idea in expanding from giving to financing, but rather many opportunities to strengthen the ecosystem, so that philanthropy in Indonesia can expand its repertoire and tool set, and make deep and sustained positive impacts on Indonesia's future.

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