

MODELS OF PHILANTHROPIC ENTERPRISE

Barbara Weaver Smith*

*Barbara Weaver Smith, Ph.D., is founder and president of Smith Weaver Smith, Inc., the inventor of Accelerated Cultural Transformation-- [ACT-Five™](#), a disruptive process to manage change in corporations, nonprofits, and communities.

The Philanthropic Enterprise

The Philanthropic Enterprise seeks to improve understanding of the roles of voluntary action and philanthropy in a free society.

To this end, we engage scholars and philanthropic practitioners in exploring how voluntary action and philanthropy promote human excellence, prosperity, and social cooperation.

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Our goals include:

- advancing the state of interdisciplinary scholarship and conversation concerning philanthropic and voluntary action;
- exploring promising developments in philanthropic practice;
- articulating a compelling and cohesive rationale for philanthropic and voluntary action; and
- identifying tools and resources that can improve the effectiveness of giving.

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Models of Philanthropic Enterprise

By

Barbara Weaver Smith

“Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry.”

“What is a Social Entrepreneur?”--Ashoka website

A new generation of donors is changing the face of philanthropy. Not content to donate funds to traditional charitable organization, these *social entrepreneurs* apply an enterprise model to their philanthropy. They seem to be motivated by the same drive that made them very successful in the business world—a compulsion to excel, a belief in systems thinking and implementation, and a desire to solve big human problems, not just ameliorate them. By definition, social entrepreneurs contribute more than money. They provide hands-on leadership, coaching, and business development expertise to the enterprise. They have high expectations for accountability and the measurement of successful outcomes. They think and speak in terms of leverage, scalability, investment, and other new-economy market terms.

Social entrepreneurs are inventing some interesting combinations of voluntary organizations, blurring the lines between not-for-profit and for-profit ventures. One way to examine the landscape of social institutions is through the lens of economic activity, ranging from charity at one end of a spectrum to an unfettered free market exchange at the other. How is charity like or unlike a market?

At first glance a charitable exchange and a market exchange seem totally dissimilar. Charity is vested with historical, cultural, and theological meanings that are deeply embedded in our thinking. We learn in the New Testament “And now abideth faith, hope, charity, these three; but the greatest of these [is] charity.”¹ Biblically, charity is expressed in terms of money (alms) that one person gives voluntarily to another who is less well off. There is no expectation that the recipient will earn or repay the gift. In fact, it is clear that the recipient is incapable of repaying or earning the gift. The needy recipient lives outside the markets and does not participate in the exchange of goods and services.

“Charity” is defined as to give from the motivation of love. Charity has positive connotations of virtue and value for the giver, but it also has negative connotations of dependency or even sloth for the recipient, because the transaction is not perceived to be an exchange among equals.

At the opposite end of this economic spectrum is an unfettered free market, characterized by enterprise. In the pure sense of a free market, only those who have something to sell may buy. “Enterprise” has both positive and negative connotations of complicated, risky, and daring activity. In contrast to charity, to give—the root of enterprise comes from Old French prendre--to take²

The purpose of this paper is to explore that apparent paradox of “charitable enterprise” in the voluntary sector, looking at the contributions of both for-profit and not-for-profit organizations. What does the middle ground look like, that space on the continuum between pure charity – a gift based on altruism or enlightened self-interest,

¹ 1 Corinthians 13:13

² Merriam Webster Online. <http://www.m-w.com/home.htm> August 18, 2002.

and an unfettered free market—an exchange of goods and services based upon the laws of supply and demand? How are social entrepreneurs defining or redefining the voluntary associations and organizations that exist for the common good?

Many social entrepreneurs practice a kind of philanthropy that rejects both of the extremes. Having been successful in the free market, they want to contribute something back to the greater good. Their belief in the new-economy market and in market principles, however, often leads them to reject the bureaucratic practices of traditional philanthropic organizations. They want to bring to their philanthropy the same kind of “deal flow” that characterizes their business activity.

It would be a mistake to think that this kind of enterprising philanthropy is entirely new. As a starting point, we should look back 100 years to the founding of Goodwill Industries, which occupies a unique position on the social landscape. Goodwill Industries created what I call a “sheltered market.” It unites charity with industry, believing in the value of a market exchange and providing sheltered environments in which those in need can find a way to contribute to their own self-sufficiency. The concepts of dignity, the value of work, transformation, and scalability are founding concepts of Goodwill’s philanthropic enterprise.

Goodwill’s business plan rests on classic market assumptions of supply and demand tempered by notions of “socially conscious” marketplace behavior. In the Goodwill model, the basic assumption is that markets are good and that almost every person is capable of participating in the market’s exchange of goods and services if some allowance is made for the special needs of certain participants.

This is in stark contrast to an “almsgiving” model that assumes, for example, that a blind person is devoid of fundamental marketplace skills by virtue of her disability; therefore, she is perceived to be unable to participate in the exchange of values in an unregulated market. From that perspective, “charity” is the only alternative. The sheltered market model, in contrast, assumes that the blind person has marketable skills but may need education, training, support, or other interventions in order to bring those skills into the market exchange.

This paper, then, proceeds to investigate a variety of sheltered market approaches to philanthropy, emphasizing what appears to be new while acknowledging the entrepreneurial approaches taken by some very old charitable organizations.

GOODWILL INDUSTRIES

Goodwill Industries is 100 years old. Founded in 1902 in Boston by a Methodist minister, it has become a \$1.8 billion nonprofit organization. Founder Edgar Helms created a combined industrial program and social service enterprise. His founding model is still employed today: Helms collected used goods and clothing from those who had them, then trained and hired the poor and immigrants to repair the items, which were then resold or given to those who had worked to repair them. Goodwill’s mission statement essentially describes a sheltered market:

Goodwill Industries will enhance the quality and dignity of life for individuals, families, and communities on a global basis, through the power of work, by eliminating barriers to opportunity for people with special needs, and by facilitating empowerment, self-help, and service through dedicated, autonomous local organizations.³

³ “The Mission Statement,” Goodwill Industries Website. <http://www.goodwill.org>. August 24, 2002

Although Goodwill Industries' is organized traditionally as a 501(c)(3) charitable corporation, it has been entrepreneurial in many ways. It has adopted a global vision, and its current strategic plan focuses on scalability. By 2020, Goodwill Industries intends to serve 20 million individuals and their families. Goodwill is working to achieve

a world where people are able to be productive workers regardless of disability or previous work history. Everyone will have the resources to learn work skills according to one's aptitudes and the needs of employers. These resources will include those that are central to the job itself, as well as those that support employment."⁴

Goodwill Industries is a worthwhile benchmark for social entrepreneurship. The first set of examples below illustrates other versions of the Goodwill "sheltered market" approach. In each of these cases, a 501(c)(3) charity has focused on enabling the program recipient to function in a self-help capacity. These cases combine somewhat nontraditional approaches that make use of traditional charitable organizational models.

HOME FIELDS

Home Fields is a residential and agricultural program, operated in Millersville, Pennsylvania, as part of Goodwill Industries. The mission of the residential program is "to create a financially secure, long-term home in a safe, family-like setting where there is respect for the individual in a holistic sense and fun and creativity are revered as basic human needs." The agricultural mission is "to provide agricultural facilities for individuals who prosper with supported employment; to nurture integration through community interaction; and to cultivate a spirit of volunteerism within our community."⁵

⁴ Ibid.

⁵ Homefields Website, <http://www.homefield.org/goodwill.htm>. August 22, 2002.

Two homes, an 1800s stone farm house and a modern ranch-style home on an 8-acre property, serve as homes for six adult men and women participating in the residential program. From these homes, the men and women travel to daily vocational programs and then return.

The agricultural program is carried out through community support. It provides employment opportunities to adults who wish to work in an alternative context, linking the trainee farmer to the community in a real-world business relationship. In addition, the program supplies the community with organically grown food options.

The program began in 1991 when adults in Lancaster County, Pennsylvania, came together to discuss the plight of mentally disadvantaged adults in their area. The group determined to build an environment that was flexible and allowed for individual growth and development. This kind of spontaneous, grassroots voluntary action—coupled with a clear-headed business plan—exemplifies one type of enterprise philanthropy. The sheltered market serves both the individuals who are employed and the community at large.

DRESS FOR SUCCESS

Dress for Success is a not-for-profit organization that helps low-income women make “tailored transitions” into the workforce. Each Dress for Success client receives one suit when she has a job interview and a second suit when she gets the job. The Dress for Success program then provides a Professional Women’s Network for ongoing support to help the client build a successful career.⁶

⁶ Dress for Success Website. <http://www.dressforsuccess.org>. August 22, 2002.

Referrals for Dress for Success participants come from agencies such as homeless shelters, domestic violence shelters, immigration services, and job training programs. Begun in 1996, Dress for Success can now be found in seventy-four cities including six locations outside the United States.

This case is significant for two reasons. First, it illustrates a sheltered market. The program recipients, or clients, cannot participate in the workforce without suitable clothing. The client “earns” the clothing first by scheduling a job interview and then by gaining a job. The “shelter”—suitable workplace clothing—is both immediate, short term, and practical. Longer term, the client—no longer requiring the same degree of shelter—participates in an ongoing professional support group in the role of a professional.

Providing clothing is not a novel idea for a nonprofit organization. Many churches, neighborhood associations, and women’s groups manage some kind of nonprofit clothing exchange. What distinguishes Dress for Success is its determination and demonstrated ability to take its concept to scale. Founder Nancy Lublin established the first location in New York City and soon thereafter established Dress For Success Worldwide, bringing a franchise or affiliate concept to the intended global enterprise. In fewer than five years she had established more than fifty affiliates. Dress for Success has recruited an impressive array of directors, advisory board members, sponsors, and strategic partners, most of whom represent entrepreneurial businesses with a focus on marketing to women. The focus on “branding” helps to mark this nonprofit as a new philanthropy enterprise.

HABITAT FOR HUMANITY

One of the best-known organizations that deliver a direct impact on getting people into more productive lives is Habitat for Humanity.⁷ Since 1976, Habitat has built more than 125,000 houses in more than 80 countries, including some 45,000 houses across the United States.

Habitat provides a sheltered market for home ownership. Rather than giving or lending homes, Habitat sells homes to low-income families. Three factors make Habitat houses affordable to low-income people worldwide:

1. Houses are sold at no profit, with no interest charged on the mortgage.
2. Homeowners and volunteers build the houses under trained supervision.
3. Individuals, corporations, faith groups and others provide financial support.

Homeowner families are chosen according to their need, their ability to repay the mortgage, and their willingness to work in partnership with Habitat. Habitat for Humanity has demonstrated the ability to take its programs to scale and to recruit and manage large numbers of volunteers throughout the world. It is also a good example of accountability, for it produces the tangible, measurable outcome of a home that has been delivered to a particular program recipient.

BOTHAR

A unique organization in Ireland, Bothar, fights poverty around the world through the use of farm animals.⁸ Impoverished families are given the practical gift of a farm animal, together with the training, support, and veterinary back-up necessary to care for

⁷ Habitat for Humanity Website. <http://www.habitat.org>. August 22, 2002.

⁸ Bothar Website. <http://www.bothar.org>. August 22, 2002.

it. Families have the capability of becoming self-sufficient for their food needs. Some even have surplus produce that they are then able to sell, helping them provide health care, education, and clothing for their families. They will also pass on the offspring of their animals to other poor families, creating a cycle of abundance to replace a cycle of poverty.

Animals are selected according to the geographical location of the recipients. The small amount of land and the few resources available to families in China make them a logical recipient of rabbits. New Zealand White rabbits will have up to six litters per year, with each litter consisting of about eight babies. Rabbits eat leftover vegetables and produce fertilizer.

In Uganda, Tanzania, Ghana, Cameroon, and Zambia, bees are an appropriate choice. Families are taught to care for the bees, which require almost no space and are inexpensive to maintain. The stingless bees produce honey and wax, both of which are in high demand at market.

In West Africa, families receive a flock of layer hens, along with training and assistance required to establish their farm as an egg-producing location. Hens can lay up to 200 eggs per year. Families can sell extra eggs. Also in West Africa, pigs have improved the lot of poor families. Pigs need little land and can consume leftover vegetables and garden waste. In return, they produce manure that acts as a valuable fertilizer. An average sow can provide a family with 16-20 piglets a year which fatten quickly and are ready for market in a few short months.

In East Africa, Poland, and Lebanon, dairy goats are the animals most suited. Families can sell milk that can then be used to make butter or cheese. Manure collected

is a rich fertilizer. Dairy goats are easy to manage and will have kids each year, often twins.

In Tibet, Bothar equips families with a yak, a multi-purpose animal that can provide milk and butter for consumption and sale, wool for clothing, and can also be used as a beast of burden. A yak will give birth on average twice within three years.

Dairy cows are sent to Cameroon, Rwanda, Uganda, Lebanon, Malawi, Albania, and Kosovo. They provide milk that is made into butter and cheese.

This international conglomerate of livestock exchanges began as a local initiative in the city of Limerick in 1989. The intent was to send cows to Africa in 1991 as a way to recognize a historical moment in Limerick's history. As people learned of the project, its concept proved so compelling that it continued to grow.

Many characteristics of Bothar represent a sheltered-market approach to venture philanthropy. First, the program gives recipients a means both to generate current income and to enlarge the circle of income-producers in their own communities. It has the potential, therefore, to sow the seeds of large-scale improvement in the quality of life of its clients. Second, the program is tailored to the particular needs and opportunities of people in various regions of the world. Clearly the international programs were developed in close association with representatives of the intended recipients, such that an appropriate gift could be discerned for each locale.

SECOND BYTE FOUNDATION

While donating his time as a substitute teacher, Gene Valentine discovered that many students did not have access to computers in their homes or neighborhoods.

Knowledgeable about computers, Valentine was certain these students would be at a

decided disadvantage both in school and in the work arena. So he established Second Byte Foundation in 1995 and incorporated it as a not-for-profit in 1996, headquartered in Westlake Village, California.

The mission of Second Byte is to place new computer systems into the homes of children from low-income families. In this way, Second Byte believes it can shift the emphasis for at-risk children from educational failure, school dropout, and delinquent activities to academic achievement and productive behavior.

Students who wish to take advantage of the Second Byte program must sign a contract with Second Byte and get the approval of a qualified teacher or organization. Students in the 6th through 9th grades are assessed according to their vocational goals and interests, potential, U.S. citizenship, at-risk status, proof of poverty level, lack of involvement with gangs or drugs, parental support, and long-term residency.⁹

Participating schools or teachers must have 6th-9th grade students, must demonstrate involvement of the principal, must host a presentation by Second Byte and a parent/child class within one month, must have a technology program and teacher in place, and must be willing to report violations. Requirements for an organization are similar with the added provision that they are not-for-profit, have a computer lab and a technology program, and must submit a written recommendation of each student.

Students who are given computers sign a fairly stringent contract. They agree to do their best to be honest, friendly, helpful, caring, considerate, courageous and strong. In addition, they must maintain satisfactory grades and a 95%+ attendance rate. They must be enrolled in a computer class at school or outside, must complete an essay that explains their usage of the computer, and must complete their homework and turn it in on

⁹ Second Byte Foundation Website. <http://www.2ndbyte.org>. August 23, 2002.

time. They are subject to monthly evaluations and a Second Byte computer skills project at year's end. They will be immediately terminated from the program if they engage in any delinquent activity. Students are also required to volunteer two hours each month to a school or community center.¹⁰ When they receive their computers and when they complete their first year, they must send two thank you notes; one goes to Second Byte and one to their sponsor.

Second Byte exemplifies an entrepreneurial approach to philanthropy in that it creates and enforces stringent behavioral requirements for its program recipients. Rather than creating computer labs to which students must come, Second Byte extends the gift and the trust of providing a personal computer for one's home. In exchange, the organization works to create enduring habits of responsibility that its founders believe are important to lifelong success. Second Byte is also interesting in that it transitioned from a foundation to an operating entity, managing its own programs rather than giving funds to existing charities.

From these examples of nonprofit operating organizations that create a sheltered market focused on the needs of individual recipients, I want to turn to a different approach to entrepreneurial philanthropy—the foundation undertaking a new kind of grantmaking. Traditionally, charitable foundations have solicited and/or received requests for funding in their programmatic areas of interest, have received these requests according to stated criteria, and have given funds for the stated purposes to the organizations that request them. For many years, foundation staff refrained from interfering in the operations of the organizations that they funded. Today, however, some interesting foundations are challenging that model.

¹⁰ Ibid.

THE MORINO INSTITUTE

The Morino Institute, located in Washington, D.C., promotes as it practices new modes of philanthropy. Founded by Mario Morino, who made his personal fortune in the computer software industry, the Morino Institute exemplifies many characteristics of the new venture philanthropist: (1) It is focused on ensuring basic human needs and rights (such as education, health, and housing); (2) It is intent upon creating transformational change; (3) It is committed to providing leadership as well as money. The Morino Institute reports “. . .there is a convergence of broader forces at work that have set the stage for a fundamentally different approach to philanthropy, one that learns from the past while drawing upon the best practices of today and the New Economy: venture philanthropy.”¹¹

Building upon its new venture business model, the Morino Institute has convened a group called Venture Philanthropy Partners, whose purpose is to aggregate funds for investment in venture philanthropy opportunities. Like their peers in the commercial capital venture arena, the Venture Philanthropy Partners couple their financial investment with the provision of other essential services, emphasizing leadership and organizational capacity. The Morino Institute engages in studies of the projects that are funded and is a source of contemporary information about new emphases in philanthropy.

The Morino Institute publishes an annual guide to venture philanthropy in the United States. Its 2002 report features 42 “high engagement grantmakers,” organizations that the Institute considers to be “venturesome” in their philanthropy. Together, these 42

¹¹ “Venture Philanthropy.” Morino Institute Website. <http://www.morino.org>. August 30, 2002.

represent a mere 0.2% of all foundation grantmaking in the United States.¹² One featured group is Social Venture Partners.

Social Venture Partners

Begun by former Aldus Corporation President Paul Brainerd in Seattle in 1997, Social Venture Partners now has affiliated groups in Calgary, Arizona, Dallas, San Francisco, Austin, Portland, and Denver. The vision of Paul Brainerd and five other technology industry leaders was to create an organization based on the venture capital model where the Partners actively nurture their investments with both resources and guidance.

In each geographic area, the Social Venture Partners are required to contribute a certain amount to the organization per year, typically in the range of \$5,000-\$6,000 per year. The Partners then work together to support innovative and collaborative strategies to resolve social challenges.

Grants are solicited through a typical RFP from not-for-profit organizations within the base area. In addition to money, grantees also receive financial, human resources, and management consulting services, as well as strategic planning and marketing assistance. Some Partners are hands-on, contributing such service as setting up a website. Partners are not required to contribute time and expertise in all cases, but

¹² “Venture Philanthropy 2002: Advancing Nonprofit Performance Through High-Engagement Grantmaking.” Morino Institute website.

most do. In Seattle, Social Venture Partners has granted over \$5.3 million since it was launched in 1997.¹³

These new foundations, very much donor-driven, invest “charity” with a marketplace language, marketplace activity, and marketplace values. Not everyone agrees that these values belong in the philanthropic arena. But as Les Lenkowsky has recently commented:

A donor’s own idea about what is good for society, no matter how self-interested, may turn out to be a uniquely valuable one. A benefactor’s pursuit of respectability or financial gain may nonetheless produce great rewards for others.

In these ways, and more often than many of its defenders care to admit, philanthropy has a lot in common with a market economy. Sometimes, its real contributions come about from harnessing private gain to public good, rather than appealing to altruistic motives.¹⁴

The next examples illustrate the approach of investing in the social entrepreneurs themselves at the grassroots level. Whereas the Morino Institute and Social Venture Partners invest primarily in existing nonprofit organizations, for which they provide additional managerial support and counsel, Ashoka actively seeks to support new philanthropy entrepreneurs who are finding novel ways to address intractable problems.

¹³ “About SVP,” Social Venture Partners. <http://www.svpseattle.org>. August 22, 2002. Also reviewed with the following websites: <http://www.svpaz.org>. <http://www.svpcalgary.org>. <http://www.dsvp.org>. <http://www.svpbay.org>. <http://www.asvp.org>. <http://www.svpportland.org>. <http://www.svpdenver.org>.

¹⁴ Lenkowsky, Leslie. “Two Cheers for Philanthropy,” The Philanthropy Roundtable. March/April 2002. <http://www.philanthropyroundtable.org/magazines/2000-09/lenkowsky.html> August 24, 2002.

ASHOKA

The name “Ashoka” comes from a 3rd century B.C. emperor of India of the same name who renounced violence and dedicated his life to promotion of social welfare, economic development, and tolerance of all religions. Ashoka was founded in the spirit of Emperor Ashoka’s “extraordinary creativity, global-mindedness, and tolerance.”¹⁵

Jeroo Billimoria, manager of a 24-hour tele-helpline (Childline) for children in distress in India; Rodrigo Baggio, creator of a network of more than 200 self-managed computer schools in the urban slums of Brazil; and Veronica Khosa, originator of the concept of home health care in South Africa—all have been Ashoka Fellows.¹⁶ Selected following a rigorous process, the above three people have demonstrated the qualities demanded by Ashoka: (1) a big new idea, (2) creativity, (3) entrepreneurial quality, (4) social impact of the idea, and (5) ethical fiber.

A privately-funded organization, Ashoka searches the world for “extraordinary individuals with unprecedented ideas for change in their communities.”¹⁷ Identifying and investing in these individuals, called Ashoka Fellows, fulfills founder Bill Drayton’s dream of providing the greatest impact for addressing social problems on a global basis.

In some ways, Ashoka’s operation is similar to the traditional not-for-profit, grant-making organization. What is quite different is that Ashoka, like other organizations engaged in social entrepreneurship, places different demands on its

¹⁵ “Origin of the Name,” Ashoka Website. <http://www.ashoka.org>. August 21, 2002.

¹⁶ Karunakaran, Naren. “Venture Capital for Social Ventures.” September 26, 2001. <http://www1.iinvestor.com/scripts>. August 21, 2002.

¹⁷ “Ashoka’s Mission,” Ashoka Website.

grantees right from the beginning of the relationship. It selects its grantees (Fellows) after carefully screening them for the worth of their idea, its potential impact on the community, and the individual's own moral and ethical fiber. One can only fantasize about the furor that would be evidenced by academicians or other prospective grantees if such criteria were to become the norm in the grant-making world.

Ashoka spends more than \$7 million a year in financing Fellows around the world. Since 1982, Ashoka has elected over 1,200 Fellows in 43 countries around the world in the broad areas of learning/education, environment, health, human rights, civic participation, and economic development. Approximately 150 Fellow are elected each year. Ashoka's main headquarters are located in Arlington, Virginia, with offices in Bangladesh, India, Indonesia, Nepal, Thailand, Uganda, Nigeria, South Africa, Senegal, Czech Republic, Hungary, Poland, Turkey, Peru, Brazil, Mexico, Argentina, and Great Britain.¹⁸

Once selected, the Fellow then receives what is often called a "transformational" grant, one that will allow the Fellow to make tremendous progress toward making the idea a reality. Whether that progress is acceptable to Ashoka is measured not in monetary terms but in terms of the impact that organization is making on society.

Ashoka receives its funds from individuals and corporations, and increasingly, both groups are finding that the traditional methods of giving are not producing the results that had been desired and expected. Traditional charity, says Satish Jha, director, Digital Partners, India, "only creates parasites."¹⁹

¹⁸ "Get Involved, and Ashoka's Mission," Ashoka Website

¹⁹ Karunakaran, Naren

For example, Cummins India, a company specializing in diesel, gas, and dual fuel engines, recently did an audit to determine if its giving, defined as producing a check and walking away, was making any real difference. The astonishing answer came back, “Not really.” Cummins India now supports Ashoka. As its chairman, Ravi Venkatesan, said, “We are moving away from charity to real partnerships.”²⁰

Money is not the only benefit that a Fellow receives from his or her association with Ashoka. Since the funds of Ashoka are managed by “techies and Ivy-League grads with global exposure, social entrepreneurs have easy access to world-class expertise and networks.”²¹ The network of past Fellows alone can be used to great advantage for political clout or economic advice.

For all the people mentioned above, the most important individuals in the entire Ashoka process are the Indian children rescued from abuse by Jeroo Billimoria’s Childline program, the Brazilian students who received job opportunities because of their computing skills, thanks to Rodrigo Baggio’s project, and the elderly South Africans who received health care in the safety and privacy of their own homes.

Ashoka represents a different kind of sheltered market. In its case, the “shelter” is the capital investment that Ashoka makes in the lead entrepreneur, enabling that leader to invent and carry out his or her solution, coupled with management and business development assistance that is also subsidized by Ashoka.

²⁰ Ibid.

²¹ Ibid.

THE ROBIN HOOD FOUNDATION

In June 2000, the Robin Hood Foundation held a benefit at the Javits Center in New York City, raising more than \$8 million, a city record for a single charity event at that time. The Master of Ceremonies that night was Robin Williams. Robin Hood Foundation board members in attendance included Diane Sawyer, Harvey Weinstein, Universal Music chairman Doug Morris, AOL guru Bob Pittman, and Marian Wright Edelman, president of The Children's Defense Fund. Performing was The Who with Pete Townshend and the other surviving members.

Known as New York City's most innovative backer of not-for-profit organizations, the Robin Hood Foundation began in 1988 as "something of a lark." Three rich young Wall Street traders, Paul Tudor Jones, Glenn Dubin, and Peter Borish, decided to use a stock-picker's mentality in backing poverty programs. They were extremely interested in providing seed money to someone with a good idea. "We wanted to make sure we didn't just do the safe grants; we wanted to try to find the Microsofts of the philanthropy world," said Jones.²²

Originally the three men planned just to give away their own money but were overwhelmed with the need demonstrated in the first year's grant requests. Quickly they decided to use their connections to attract other donors. They have been remarkably successful. "What we do now is all about leverage," says founder Borish.²³

²² Gordon, Meryl. "The Green Team," New York Metro. June 12, 2000.
<http://www.newyorkmetro.com/nymetro/news/culture/features/3374/>. August 23, 2002

²³ Ibid.

The first grants were relatively small, in the \$25,000 range. “A couple of guys in Bed-Stuy trying to start a local ambulance company. A traveling van to bring medical services to poor neighborhoods. An activist who wanted to renovate an East Harlem building to house the homeless.”²⁴ Now the Foundation thinks and funds on a much larger scale. Billionaire George Soros gave the Robin Hood Foundation \$4.5 million in 1997.²⁵

Over the past thirteen years, the Foundation has distributed nearly \$97.6 million into more than 100 not-for-profit organizations. The Foundation’s mission is clearly stated: “Robin Hood has a single objective: end poverty in New York City. We have a unique but straightforward approach. Invest in good organizations. Give them top notch management support. Hold them accountable. Learn from their results. Duplicate their success. It’s basic. It’s businesslike. And it works.”²⁶

From the beginning, the Robin Hood Foundation has been different from other foundations of its time. The three founders were not satisfied with the governmental provision that foundations must give away just 5% of assets per year. They insisted that Robin Hood give out 40-50%. Unlike other boards, the Robin Hood board underwrites all the foundations’ operating costs, making certain that every penny received goes to help relieve the poverty of New York City.²⁷ In 1999, that amount was \$7.6 million. That included staff salaries, rent, research, and the annual benefit.

²⁴ Ibid.

²⁵ Ibid.

²⁶ “We’re Not Your Typical Foundation,” The Robin Hood Foundation Website. <http://www.robinhood.org>. August 23, 2002.

²⁷ The Robin Hood Foundation. Testimony of David Saltzman, Executive Director, Before the Subcommittee on Oversight of the Committee on Ways and Means of the United States House of Representatives. Hearing on the Response by Charitable Organizations to the Recent Terrorist Attacks. November 8, 2001.

The name was proposed by Peter Borish, who got the idea from his wife, as a counter against the greed-is-good philosophy of the movie Wall Street. “Every kid loves Robin Hood,” says Borish. “If you live in New York City, you can’t ignore the extreme differences between the rich and the poor.”²⁸ As middle age hits the founders of Robin Hood, they find that they are becoming more stringent in their demands for their grantees. 85% of the programs that were funded in 1990 were dropped by 2000 because of organizations where money was mismanaged, activists burned out, or results were disappointing. “We funded God knows how many organizations and clearly some of our past funding has not been successful,” says Paul Tudor Jones, wincing as he recalls “the worst failure: financing a Harlem man running a drug hot line who turned out to have his own substance-abuse problems.”²⁹

Successes, however, include a Harlem soup kitchen, a Sunset Park job-training program, a Bronx counseling effort to prevent child abuse, programs to aid ex-cons, preschool programs for homeless children, a nursery for HIV-infected toddlers, and Harlem Middle School, a private academy for low-income children.

THE ROBERTS ENTERPRISE DEVELOPMENT FUND

The Roberts Enterprise Development Fund (REDF), headquartered in San Francisco, has emerged as a leader in entrepreneurial philanthropy. What distinguishes REDF is its willingness to use public, private, and nonprofit funds and organizations to achieve its purposes, and its development of unique measures to capture the social value

²⁸ Gordon, Meryl.

²⁹ Ibid.

of its investments. Since 1997, REDF has invested over \$7 million in twenty different organizations.

One of REDF's investments, Asian Neighborhood Design (AND) in San Francisco, creates jobs and training opportunities for homeless people through its construction and woodworking businesses. Its profits then subsidize social services. AND was struggling to survive until in 1997 REDF proposed to donate the capital needed for business expansion (\$1.2 million) with the proviso that return on investment would be measured in ways that showed AND's impact on the San Francisco area. For example: "How much money was REDF saving the government in social services by providing jobs and training for the homeless? By helping homeless drug addicts move off the street, what impact did the Fund have on the cost of policing in west Oakland?"³⁰ Since beginning the relationship with REDF in 1997, AND has seen revenues jump to \$5 million, jobs grow from 12 to 60, and work experiences grow to over 100 trainees per year.

To the end of measuring social outcome, REDF has developed OASIS, an information management system calculating social return on investment. OASIS can best be exemplified by specific example.

Rubicon Bakery and Rubicon Landscape Services in Richmond, California, are funded with support from REDF. Each business targets individuals who have disabilities, are homeless, or are otherwise economically disadvantaged. The Bakery includes a baking workshop, job search center, and counseling offices. Clients develop necessary baking and life skills. The Landscape Service includes training ranging from tree pruning

³⁰ Carlson, Neil F. "But Is It Smart Money? Nonprofits Question the Value of Venture Philanthropy," National Committee for Responsive Philanthropy. Spring 2000. <http://www.ncrp.org/articles/rp/00spring/smartmoney.html>. August 22, 2002

and herbicide application to environmental restoration. As with the Bakery, employees are giving unique training and development of life skills.

Each business participated in an assessment with REDF in 2001. The assessment involved employee participation in a series of face-to-face interviews at time of hire and then at 6 months follow-up intervals for up to two years after hire. Topics covered included housing, employment, barriers to employment, public assistance, and service utilization. The OASIS report that was generated showed demographics of the work force, the employment risk profile of each employee (mental health, living situations, history of criminal behavior), longevity of employees with Rubicon, place of employment at follow-up, hourly wages at Rubicon and other places, wage increases, monthly income from work and public benefits at follow-up, and job satisfaction at follow-up.

One of the most striking aspects of the OASIS report was that a large percentage of employees (82%+) were still working at follow-up, either at Rubicon or some other bakery or landscape service. The income from work, especially in the Landscape Services, increased dramatically over the assessment period, while income from public benefits decreased. At 17-28 months after hire, work accounts for a reported 99% of their overall monthly income.³¹ The economic effect upon the San Francisco area can readily be seen from these figures. The social value for those individuals who now have work and a home cannot be calculated.

³¹) “What a Difference a Job Makes...The Long-Term Impact of Rubicon Bakery Employment.” Vol. 1, No. 1., January 2002 and “What a Difference a Job Makes...The Long-Term Impact of Rubicon Landscape Services Employment.” Vol. 1, No. 1, January 2002.
<http://www.rubiconpgms.org/pages/newsandupdates.html>. August 22, 2002.

The Roberts Enterprise Development Fund employs unusual, entrepreneurial combinations of public, private, and nonprofit funds to fulfill its mission. The final three examples, however, are for-profit enterprises organized for the purpose of fulfilling charitable needs.

GRAMEEN PHONE

A reporter explained that she wanted to call her daughter in Madras, South India, from a telephone in her hotel in Dhaka, the capital of Bangladesh. She was not able to do so. “Sorry,” she was told. “International lines are down.” A few hours later, she was able to place the call, thanks to Hasina, the village “telephone lady” in a small village 35 miles from Dhaka. The mobile phone connection was half the rate. Hasina is one of more than 3,000 women in rural Bangladesh who make over \$700 a year by selling telephone service in her village.³²

This is made possible by the vision of Muhammad Yunus, to help poverty-stricken people through the use of microcredit. In 1974, following the famine, Yunus questioned people in rural villages. He found that villagers could start a small enterprise for a very small amount of money. Of the 42 villagers interested in starting an enterprise, the total amount needed was \$27. Yunus distributed this amount from his pocket and set villagers up on an installment plan for repayment. All the money was repaid.

In 1976, Yunus established the Grameen Bank. Other banks considered the poor to be “unbankable” because they could produce no collateral, but Grameen Bank requires no collateral and targets women who make up 95% of Grameen’s 2.4 million borrowers. Until the 1998 floods, repayment was 98%. Since the floods, it has fallen to 90%.³³ It should be noted that under the Grameen disaster rules, individuals are not required to pay their installments during times of national disaster. Yet 90% pay.

³² Bhagat, Rasheeda. “Micro-steps to mega-changes,” *On-The new world of communication*. January 2001. http://www.on.magazine.se/pdf/1_2001/Portrait.On_1_2001.pdf. August 21, 2002.

³³ *Ibid.*

Yunus believes that technology is an important element in addressing poverty, and he was quick to take advantage of an opportunity to enter the telephone market. He formed Grameen Telecommunications, a not-for-profit organization to provide phone services in rural areas and Grameen Phone Ltd., a for-profit organization. Today Grameen Phone, a joint venture company with four international partners, has 62% of the market share in Bangladesh and operates with a subscriber base of over 200,000.³⁴

Grameen Telecommunications has the goal of helping Grameen Bank's members shift from relatively low-yield traditional ventures, like animal husbandry, into the technology sector by creating micro-enterprises that can both generate individual income and provide whole villages with connectivity.³⁵ Local women purchase the phone with money borrowed from Grameen Bank and sell phone services to customers by the call. The model concentrates demand and creates relatively high cash flow, even in poor villages, enabling operators to make regular loan payments and still turn a profit.

Before Grameen Phone was established, access to telephones was limited to cities. With no means for transportation, communication in rural villages was extremely limited. As a result, costs of goods were exceedingly high, health care was minimal, and there was no personal communication between villages. Now approximately 5,000 villages have phone service.

The key to the success of Grameen Phone has been its emphasis on working with individual women within a village. Grameen Phone's Village Program provides credit to

³⁴ Camp, Jean and Brian L. Anderson. "Grameen Phone: Empowering the Poor through Connectivity: By any measure, Grameen Bank is a success story. What worked?" Information. http://www.cisp.org/imp/december_99/12_99camp.htm. August 21, 2002.

³⁵ "Case 2: Rural Connectivity: Grameen Village Pay Phones," Creating a Development Dynamic: Final Report of the Digital Opportunity Initiative. 2001. Markle Foundation, United Nations Development Programme. <http://www.opt-init.org/framework/pages/appendix2Case2.html>. August 21, 2002.

purchase a phone. Usually the initial loan is about \$500 and is made to a poor woman in a village. This covers the cost of the phone, and the “telephone lady” can immediately begin to sell communication services to her fellow villagers. This concept is economically viable. Each village operator makes about \$2 a day or about \$700 a year, which is more than twice the Bangladesh annual per-capita income.

As Yunus explains, “This woman—who never even saw electricity, let alone a telephone, in her life—now is in command of a telephone, which is powered by solar power. Even the richest person in the village does not have a telephone, but she has one. Imagine what this does to her self-esteem.”³⁶ Some evidence suggests that this system of having the extremely-important phone service in the home of a woman has done a great deal to enhance the situation of women generally in the country.

During the 1998 floods, the phone service in the villages proved an invaluable aid. Yunus reports that women who were selling phone services earned twice as much as usual during that time due to the high volume of calls.³⁷

How soon Grameen Phone can meet its goal of having a phone in each of Bangladesh’s 65,000 villages remains to be seen. Grameen Bank is facing unprecedented competition and there have been reports that the enterprises are struggling. Nevertheless, the story remains a powerful example of how a philanthropic initiative may require a for-profit corporate presence to implement.

Grameen Phone is an example of a sheltered market built on a for-profit basis. The “shelter” provided in this case is a loan to a woman who has no collateral. The

³⁶ Bhagat, Rasheeda.

³⁷ Yunus, Muhammad. “Grameen Dialogue. Letter to the Editor,” *The Financial Times*, London, January 1999. <http://www.grameen-info.org/dialogue/dialogue37/focus.html>. August 21, 2002.

microeconomics of the business case make this a winning proposition for the investor and the recipient of the aid.

PURA VIDA COFFEE

First thing each morning, countless people around the world drink their morning coffee. For those drinking Pura Vida coffee, they are also assisting children in the poor and struggling neighborhoods of San Jose, Costa Rica, and across the United States. The founders of Pura Vida Coffee describe their mission as radical—“to combine the efforts of business and ministry to help the lives of at-risk children. 100% of our net profits benefit at-risk children in coffee-growing regions of the world.”³⁸

The company was founded in 1997 by John Sage and Chris Dearnley, two 1987 Harvard Business School graduates, one of whom had begun a career in the ministry and the other at Microsoft and then a high-tech start-up. Their goal was to find a way for business and ministry to work together. Pura Vida is a for-profit limited liability company, selling its coffee products on line and through church congregations. It operates out of Seattle, across the street from Starbucks’ headquarters, and is managed by Sage. Pura Vida is linked to a not-for-profit organization, Pura Vida Partners. The business is conducted by Pura Vida and all profits are donated to the not-for-profit. This arrangement has cut down on all the paperwork necessary for a pure 501(c)(3).

All of the company post-tax net income goes to Pura Vida Partners, a not-for-profit organization that operates a soup kitchen in San Jose, Costa Rica, serving more than 100 meals a day, plus four computer centers. Dearnley is responsible for Pura Vida Partners and for the social mission of the company.

³⁸ “Mission Statement,” Pura Vida Coffee Website. <http://www.puravidacoffee.com>. August 21, 2002

For Kimber, a 12-year-old Costa Rican girl whose parents are divorced, the Pura Vida Partners Interactive Center led her to abandon her plans for running away.³⁹ She is now learning about the world through map and geography software. The centers serve as an alternative “hang out” place for teenagers and younger children.

Pura Vida employs a free market for-profit strategy in order to generate the revenue to support its not-for-profit mission. It creates, therefore, a complex sheltered market.

DARE MIGHTY THINGS

Dare Mighty Things (DMT) is a for-profit company whose mission is to “assist clients in the creation and launch of new social ventures that result in programmatic breakthrough in scale and effectiveness.” DMT is headquartered in Portsmouth, New Hampshire with a second office in Washington, D.C. DMT reports that over 90% of the initiatives it designed are fully funded as startups, with long-term funding secured. DMT describes itself as a social venture incubator. Its services include strategic and business planning, program research and design, prototype development and testing, and technical assistance and training to support rapid implementation.

Some programs DMT has supported include the following:⁴⁰

- Angel Tree, a national ministry program to the children of prisoners.
- Team Works, a school-based team-mentoring program serving thousands of youth in middle schools throughout Los Angeles.

³⁹ Rossi, Holly Lebowitz. “Cuppa Joe, with a Twist,” Sojo Net Sojourners. May-June 2002. <http://www.sojo.net/magazine/index.cfm/action/sojourners/issue/soj0205/article/020520.html> August 22, 2002.

⁴⁰ “Projects,” Dare Mighty Things Website. <http://www.daremightythings.com>. August 22, 2002.

- Victory Generation, an after-school program run by fifty-nine urban churches that are members of the Black Ministerial Alliance in Boston.
- Prime Time, a faith-based, after-school program.
- World Chair Limited, an international manufacturing company in Kenya, Africa that produces affordable wheelchairs for disabled children worldwide.

DMT is an example that appears to be at the free market end of the economic spectrum with which we began. Operating as a for-profit business without a not-for-profit partner, its business is to affect the capability of social entrepreneurs to fulfill their missions and visions.

As this paper has attempted to illustrate, properly understood a nonprofit organization and a for-profit commercial organization may be identical in all respects save the ultimate distribution of corporate earnings – whether to private investors or to the “public” as stakeholders. These are complementary organizational structures common to the voluntary sector; as such, they are more alike to each other, and more unlike public tax-supported organizations, than is commonly understood. How these organizations continue to evolve, and the various ways in which they experiment with sheltered markets, should be a topic of ongoing study and reflection. It seems likely that some of these social entrepreneurs will, indeed, revolutionize “the fishing industry.”

