

"Sympathetic Values" – Innovative Funding Mechanisms for Social Change

I Overview of the Event

Host	Canopus Foundation, Germany
Audience	60 participants
Location	Hotel Römerbad, Badenweiler, Germany
Duration	1.0 day, plus preceding welcome dinner
Date	October 11-12, 2007
Language	English

Theme

In recent years, the twin phenomena of social entrepreneurship and venture philanthropy have fast-tracked a more entrepreneurial approach to solving social challenges. As the real-sector operations of civil society organizations have become more efficient and effective, attention is now shifting to the financing of social change.

There is growing awareness that funding mechanisms have become the binding constraint for social innovation in scale. Today, search costs remain high for both grant makers and grant seekers. One study of the U.S. nonprofit sector puts the combined costs of grantmaking and fundraising at 22%-43%, compared to a cost of capital allocation of 2%-4% in the for-profit sector. Many nonprofit leaders spend two thirds of their time raising funds. Moreover, there are only weak signals as to who creates the greatest impact with scarce resources to guide the capital allocation process. To overcome this constraint, some players have begun to experiment with new financing mechanisms.

Value Proposition

As part of the celebration of its tenth anniversary, the Canopus Foundation offers the Symposium as a platform to critically analyze financial innovation in the citizen sector, inquire into its relevance, and ask how innovative approaches can be scaled to maximize impact and the barriers to developing customized social investment products that address the specific needs and values of social investors be lowered.

Given these objectives, the event will offer an overview of cutting-edge financial innovations in social capital markets, which fall into one of two categories:

- *For-profit investments in alternative "social" asset classes.* Provided a portion of the risk is absorbed by philanthropic capital and appropriate technical assistance is made available, a growing number of investments can be designed to have both demonstrated social impact and be inherently financially profitable. Microfinance is the classical example. But there are opportunities with other underlying assets as well, such as eye care systems, micro-irrigation equipment, rural solar electrification, and the investment in small and medium enterprise clusters in health care delivery in developing countries.
- *Holistic approaches to foundation investment policy.* In addition to alternative asset classes for for-profit investments with a high social impact and innovations in aggregating and wrapping grants, the social capital market is also impacted by changes in the conceptualization of foundation investment policies. In the traditional model, a foundation's programmatic and investment activities are pursued in isolation. Program officers seek to maximize the social impact of their programs

and investment officers seek to maximize returns so that program officers have adequate financial resources to work with. The rise of the socially responsible investment movement has called this binary approach in question: should a foundation not invest the corpus of its assets – the endowment – in ways that are aligned with its philanthropic objectives?

During the Symposium, participants will gain insights into these two topics by working through case studies in workshops and discussions in the plenary sessions.

Host

The Canopus Foundation is a registered private charitable institution under German jurisdiction. Founded in 1997, it is focused on venture philanthropy, with special emphasis on environmental protection and clean energy technologies. It promotes private social investment and social enterprise in order to fight poverty and environmental degradation and provides business development assistance for social entrepreneurs in developing countries. The Foundation is working toward the implementation of the Sustainable Development concept outlined in Agenda 21, the final document of the Earth Summit in Rio de Janeiro in 1992. As part of the celebration of its tenth anniversary in 2007, the Canopus Foundation hosts the Symposium to critically analyze the three core areas of financial innovation in the citizen sector, inquire into their relevance, ask how they can be scaled to maximize impact, and how the corresponding products can be tailor-made to suit the needs of individual social investors.

Approach

Exploring options for engagement in a disciplined fashion and working with the best partners in a given field is a necessary condition for catalyzing meaningful action. To celebrate the Canopus Foundation's decade of contributions to innovative approaches to social change, we have designed the Canopus Symposium as an explicitly experimental platform where participants can exchange their views and experiences with peers and experts and access cutting-edge solutions on financing social change.

Methodology

This is an interactive, problem-solving event. The Symposium offers the opportunity to work through concrete cases, reflect on their broader significance, and jointly devise recommendations. Relevant external specialists moderate plenary sessions and workshops. The findings of the Symposium will be published as a report.

II The Program

October 11, 2007

17:00-19:00 **Arrival of Speakers and registration**

19:00-21:00 **Welcome Dinner**

The speaker dinner provides an informal space of exchange between the speakers and other participants. This exchange enables participants to benefit from sharing their perspectives on the field of philanthropy. At each table, an informal discussion will be facilitated by a moderator.

During the course of the meal **Welcome Remarks**

Speaker:

Peter Heller, Founder and Executive Director, Canopus Foundation

October 12, 2007

- 08:00-10:00** **Breakfast and Registration**
- 10:00-10:10** **Welcome and Overview of the Day**
Welcome message: innovation in the social capital market – what do we want to achieve today?
- Speaker:*
Peter Heller, Founder and Executive Director, Canopus Foundation
- 10:10-10:40** **The History of Sympathetic Values: On "Montes Pietatis", Moral Sentiments and Creative Destruction**
Where do we come from, what are the underlying ethical and economic concepts of social investment and social entrepreneurship?
- Speaker:*
Peter Heller, Founder and Executive Director, Canopus Foundation
- 10:40-11:10** **Keynote: The Other 95%**
In the US, five percent of foundation assets have to be paid out every year. This payout drives one hundred percent of the mission. However, every investment decision affecting the other 95% of foundation assets has the potential to achieve greater social impact in two ways. First, foundations can achieve higher financial returns to fund more grants, program expenditures, or administrative overhead. This is possible through new alternative asset classes such as hedge funds, private equity, or commodities that offer higher returns and low correlation with equity returns. But investments also have a social and environmental impact and can further an institution's mission, detract from it, or be neutral. To leverage total foundation assets, a foundation could in principle also engage in "mission investing" – investing a part of its endowment assets in ways that further the foundation's mission, without necessarily sacrificing risk-adjusted returns.
- Speaker:*
Daniel Schwartz, Member of the Board, Arcus Foundation, USA
- 11:10-11:30** **Coffee Break**
- 11:30-12:00** **Keynote: Venture Philanthropy – From Operations to Finance**
Transferring what works from business and venture capital to the field of social change, venture philanthropy and social entrepreneurship have spearheaded powerful new intervention models for social change. After this focus on operations and strategy, finance is next for a review. Among venture philanthropists in Europe, grantmaking remains the preferred means of financing target organizations, but there are some interesting innovations. According to a recent study, 83% of venture philanthropists make grants, 63% make loans, 43% take equity, and 26% engage in mezzanine financing. What are the prospects and vectors of financial innovation in the social capital market?
- Speaker:*
Maximilian Martin, Global Head, UBS Philanthropy Services
- 12:00-13:30** **Lunch**
- 13:30-14:00** **Concert: A Musical Intermezzo – The Amaryllis Quartet**

Ludwig van Beethoven, Streichquartett op. 18,1

Afternoon

Four Workshops

The workshops discuss examples of innovative solutions to challenges in two core areas of the social capital market.

- For-profit investments in alternative asset classes
- Holistic approaches to foundation investment policy

The workshops are designed to enable participants to reflect jointly and derive solutions.

14:00-15:15 Workshop A1

Alternative Asset Classes (I)

Case study: David Green and the Eye Fund

In the 1980s, David Green, who later became an Ashoka Fellow, successfully raised large volumes of in-kind donations of intraocular lenses (IOLs) from U.S. manufacturers needed to perform cataract operations at the Aravind Eye Hospital in India. When the donations dried up, David Green established a non-profit organization, Aurolab, as the manufacturing division of Aravind Eye Hospital. In a remarkable exercise in technology transfer, Aurolab managed to manufacture high-quality IOLs at affordable prices – about US\$ 5 a pair. Since 1992, Aurolab has supplied over 5 million lenses to its customers in India and over 120 other countries worldwide. Once the Aravind Eye Care system ran smoothly, David therefore began to consult to other eye care systems around the world to enable them to become self-sustaining. Since 2000, this has allowed approximately 250 eye care programs globally to become profitable while offering quality services to the wealthy and the poor alike via price discrimination schemes. Properly run and scaled, such programs generate sufficient cash flow to support debt financing at manageable levels of risk. This means that in principle, they should be able to access capital markets on commercial or quasi commercial terms, provided the proper financial product is designed to do so. To this effect, David Green recently set up an Eye Fund that provides loans to eye care systems. Commercial investors will receive a rate of return above the risk-free market rate (as e.g. offered by a treasury bill). U.S. foundations making program-related investments (PRI) will receive lower returns commensurate with PRI instruments.

Moderator:

Arthur Wood, Director, Social Financial Services, Ashoka, USA

Panel:

David Green, Founder and Executive Director, Project Impact, USA

Asad Mahmood, Managing Director, Global Social Investment Funds, Deutsche Bank, USA

Challenger:

Damian von Stauffenberg, Founder and CEO, MicroRate, USA

14:00-15:15 Workshop A2

Alternative Asset Classes (II)

Case study: SEKEM Fund

SEKEM was established in 1977 by Dr. Ibrahim Abouleish on an area of 70 hectares of desert sand in Northern Egypt, where he started the biodynamic cultivation of the land. In 1983 SEKEM launched its first product line of herbal remedies on the local pharmaceutical market under the brand name SEKEM HERBS and foodstuff was introduced to the local market under the brand name ISIS. Other ventures in the field of natural pharmaceutical products, organically grown fruits and textiles followed in the next years. Concurrent

with its economic development SEKEM has started its own educational programmes and cultural initiatives. In 2003 Dr. Abouleish received the RIGHT LIVELIHOOD AWARD for his outstanding achievements to promote the social and cultural development of Egypt. In 2006, the German GLS Bank and the Dutch TRIODOS Bank launched a structured finance initiative to provide equity for the further expansion of SEKEM. For this purpose GLS designed a tailor-made investment fund which is considered as a pioneer product in the German social investment market.

Moderator:

Felicitas von Peter, President and CEO, Forum for Active Philanthropy, Germany

Panel:

Thomas Jorberg, CEO, GLS Bank, Germany

Christina Boecker, Export and Communications Manager, SEKEM Group, Egypt/Germany

Challenger:

Erwin Stahl, Managing Director, BonVenture Management GmbH, Germany

15:15-15:45

Tea and Coffee Break

15:45-17:00
Workshop B1

Alternative Asset Classes (III)

Case study: Media Development Loan Fund

Information plays a critical role in building social capital, enabling civic participation in the democratic process and the functioning of a market economy. The Media Development Loan Fund ("MDLF"), a U.S. registered not-for-profit foundation with a Prague-based operational centre, therefore views independent media companies in transition economies as social enterprises. MDLF uses loans, lease finance (purchase of equipment to be leased back to the client organizations) and equity to provide capital to its client organizations, which strictly are for-profit, commercial media enterprises. In 2006 MDLF, the Swiss private bank Vontobel and responsibility teamed up to launch a bond-like structured product that includes a social change element. Designed as a structured interest rate product, it replicates a bond investment at a constant interest rate with a five-year term to maturity (80% of the amount is invested in the Vontobel Swap Note Open End on the five-year Return Swap Index) with a loan to MDLF at an interest rate of 1% per year (20%). The involvement of the Swiss Agency for Development and Cooperation (SDC) guarantees secondary product tradability at all times, and Vontobel offers capital protection upon expiration.

Moderator:

Volker Then, Managing Director, Founder and Executive Director, Center for Social Investment, University of Heidelberg, Germany

Panel:

Regula Ritter, Senior Research Analyst, responsibility Social Investment Services, Switzerland

Sasa Vucinic, Managing Director and Co-Founder, Media Development Loan Fund, USA

Challenger:

Andreas Ernst, Deputy Head, UBS Philanthropy Services

15:45-17:00
Workshop B2

Holistic Approaches to Foundation Investment Policy

Case study: F.B. Heron

The F.B. Heron Foundation was created in 1992 as a private, grantmaking institution dedicated to supporting organizations with a track record of building

wealth within low-income communities. To this effect, it provides grants to and investments in organizations that promote wealth creation strategies for low-income families in urban and rural communities in the U.S. such as advancing home ownership, supporting enterprise development and providing quality child care. In the past years, the Foundation has emerged as one of the leaders of the mission-related investment movement in the U.S. It currently uses 24% of the Foundation's assets to support its mission (28% including grants). F.B. Heron's total investment return ranks in the second quartile of the Russell/Mellon Foundation Universe for 2005. Approximately 73% of the Foundation's mission-related investments are market-rate.

Moderator:

Maximilian Martin, Global Head, UBS Philanthropy Services

Panel:

David Carrington, Former CEO, Baring Foundation, UK

Mary Jo Mullan, Vice President, Programs, F.B. Heron Foundation, USA

Challenger:

Daniel Schwartz, Member of the Board, Arcus Foundation, USA

17:00-18:00

Plenary Session: Integrating Recommendations

The plenary will present the suggestions brainstormed by workshop participants, followed by a Q&A session.

Moderator:

Andreas Heinecke, Founder, Dialog im Dunkeln, Germany

Rapporteurs:

David Carrington, Former CEO, Baring Foundation, UK

Daniel Schwartz, Member of the Board, Arcus Foundation, USA

Damian von Stauffenberg, Founder and CEO, MicroRate, USA

Challenger:

David Green, Founder and Executive Director, Project Impact, USA

18:00-18:30

Concluding Remarks and Closing Keynote

Speakers:

Peter Heller, Founder and Executive Director, Canopus Foundation

Arthur Wood, Director, Social Financial Services, Ashoka, USA

18:30-20:30

Closing Cocktail

- End of formal program -

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October 13, 2007

07:30-09:30 **Breakfast**

09:30-12:00 **Sympathetic Values: Where Next?**

The Canopus Symposium is designed as an interactive, outcome-oriented discussion platform. The sessions on the preceding day will have explored the core building blocks of an innovative approach to social investment products. On Saturday morning, we will provide an opportunity to work further on the cases presented on the previous day. Participants can join ad-hoc discussion groups on the cases to explore challenges, opportunities and emerging engagement opportunities.

12:00-13:30 **Lunch**

- End of the event -