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Philanthropy and Enterprise

Harnessing the Power of Business and Social Entrepreneurship for Development

> I have never known much good done by those who affected to trade for the public good. It is an affection, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.
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> —Adam Smith,
> *An Inquiry into the Nature and Causes of the Wealth of Nations*[1]

More than two hundred years after Adam Smith penned these words, his wisdom on this matter is being challenged by social entrepreneurs and enterprising philanthropists who are deliberately using business ventures to serve the public good. George Soros candidly describes his own change of heart on this matter: "Where I have modified my stance is with regard to social entrepreneurship. I used to be negative toward it because of my innate aversion to mixing business with philanthropy. Experience has taught me that I was wrong. As a philanthropist, I saw a number of successful social enterprises, and I became engaged in some of them."[2]

The idea of using business in strategic ways to promote social improvements is not new. Many philanthropists have made grants and program-related investments to business enterprises that serve their philanthropic missions, including investments in organizations that take the legal form of a for-profit venture. Without this philanthropic support, microfinance, for instance, would not have grown nearly as

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This article was originally written for the 2007 Brookings Blum Roundtable on Poverty and published by the Brookings Institution in Global Development 2.0: Can Philanthropists, the Public and the Poor Make Poverty History? *(July 2008, Brookings Institution Press).*

quickly and would not be reaching the 100 million or so people that it is serving today.

What is new is the openness and enthusiasm with which market-oriented approaches are being embraced as an integral element in creating lasting social change. Established philanthropists are opening to this idea, and new philanthropic organizations are being designed to embrace it. With founding support from the Cisco Systems Foundation, the Rockefeller Foundation, the Kellogg Foundation, and many other foundations and individual philanthropists, the Acumen Fund was established in 2001 to invest in enterprises that deliver "affordable, critical goods and services—like health, water and housing—through innovative market-oriented approaches." The goal was to use enterprise as a tool for solving global poverty. In 2004, Pierre Omidyar, the founder of eBay, and his wife, Pam, decided to restructure their philanthropic activities, dramatically replacing the Omidyar Foundation with the Omidyar Network, a limited liability company that could make investments in for-profits as well as nonprofits.[3] In 2006, when the founders of Google, the wildly successful Internet search and media company, took steps to formalize their company's "philanthropic" arm, they announced that it would be structured as a for-profit organization, "allowing it to fund start-up companies, form partnerships with venture capitalists and even lobby Congress."[4] These are just a few of the most visible recent examples of enterprising philanthropy.

This trend is a reflection of a wider social entrepreneurship movement that emerged in the final decades of the 20th century and has been accelerating into the 21st.[5] This movement challenges old sector boundaries and encourages innovative approaches, using the tools from any sector that are most likely to be effective.[6] The argument for including enterprising business ventures as part of the tool kit can be boiled down to three premises:

- Business ventures and markets play an important role in creating lasting improvements in social conditions.
- Independent entrepreneurs are particularly well positioned to discover and craft innovative approaches for addressing social problems.
- Philanthropists have an essential role to play in stimulating, supporting, shaping, and even subsidizing socially beneficial entrepreneurial business activities.

In this essay, I first outline the logic behind each of these premises, particularly in the context of poverty reduction.[7] I then explore the new challenges facing philanthropists who use enterprise as a tool for achieving their social objectives, and I close with observations about how to move forward with this development strategy.

BUSINESS, MARKETS, AND SUSTAINABLE SOCIAL CHANGE

Social and economic progress are inextricably intertwined. Charity and aid can improve the quality of life and the life chances of the poor by subsidizing interventions to improve education, provide health care, increase access to clean water, reduce conflict, and distribute food. But none of these interventions will alleviate poverty in a sustained way without increased economic participation and empowerment for the poor.[8] Only a vibrant and open local economy will be able to sustain improvements purchased with aid and charity. Charitable relief and aid may be necessary to relieve the symptoms of severe poverty long enough to pursue more sustainable strategies. But without local economic development that engages the poor, charitable interventions cannot provide lasting solutions. They may even be harmful. Muhammad Yunus, the founder of Grameen Bank, pioneer in microfinance, and 2006 Nobel laureate, is particularly critical: "When we want to help the poor, we usually offer them charity. Most often we use charity to avoid recognizing the problem and finding a solution for it . . . . Charity is no solution to poverty. Charity only perpetuates poverty by taking the initiative away from the poor. Charity allows us to go ahead with our own lives without worrying about those of the poor. It appeases our consciences."[9]

One need not fully embrace Yunus's assessment of charity to recognize the importance of increased economic participation by the poor. Other interventions, such as improvements in schools or creation of health clinics, can increase the capacity of the poor for economic engagement; but alone, they cannot guarantee that engagement. Increased economic opportunities do not automatically follow from educational or health care interventions. Educated and healthy people who do not have access to affordable capital, appropriate technology, open markets, suitable jobs, and specific business know-how will have a hard time putting their improved capacity to use in a productive way.

Martin Fisher, a social entrepreneur whose organization KickStart sells irrigation pumps in Kenya and Tanzania, frames the argument:

> Within less than a generation, poor families in Africa have been thrown from essentially a subsistence lifestyle into a primarily cash-based economy. Ability to earn income is suddenly a paramount skill. Yet approaches to development continue to be based on the assumption that the primary need of people in poor places is something other than a way to make money—better healthcare, education, water, housing, and so forth. This is misguided. . . . The way to address the challenge of persistent poverty is to create sustainable income-earning opportunities for millions of people. Income is development.[10]

Income is essential, but Fisher's logic should also be extended to other forms of life-improving economic participation as well. Increases in income alone are not enough to improve the quality of life for the world's poor. As people increase their earnings, they need access to markets with suitable and affordable goods on which to spend their income and through which to improve the quality of their lives.[11] They need access to savings institutions in order to build financial reserves as a cushion against tough times and as a source of capital to invest in education, housing, or business opportunities. The poor also need access to credit that will allow them to leverage their own resources to improve their quality of life and productive capacity. Anyone who is serious about finding lasting solutions to poverty

Social Enterprises Addressing the Four Economic Roles

Poor as Producers: KickStart provides technologies that help generate income for the poor. Its main product is a relatively low-cost portable human-powered irrigation pump that it markets to farmers in Kenya and Tanzania. This technology significantly increases crop yields and income for poor farmers. In a recent article, co-founder Martin Fisher states that over 59,000 pumps have been sold, leading to the creation of over 40,000 new businesses, 22,000 new wage jobs, and $40 million in new profits and wages. KickStart continues to innovate by developing new productivity tools, including smaller, lower cost pumps to increase the market.[i]

Poor as Consumers: Scojo Foundation serves poor consumers by making reading glasses available and affordable. It does this through low-cost production, a distinctive micro-franchise distribution system, and partnerships with some major NGOs. The Scojo Foundation achieves low cost of production (about $1 per pair of glasses delivered in country) in part by leveraging its partnership with the for-profit Scojo Vision, LLC. By distributing through a creative franchise system, Scojo not only reaches remote areas at low cost but helps provide a source of income for the vision entrepreneurs who hold the franchises as well. Scojo has sold more than 50,000 pairs of glasses in Guatemala, El Salvador, and India, and has the goal of selling one million pairs by 2110.[ii]

Poor as Savers: Opportunity International, a pioneer in micro-finance, operates through a network of 42 organizations in 28 developing countries. In 2000, it began operating formal financial institutions that are able to provide a wide range of financial services, including savings accounts. Administering savings

needs to consider supporting economic participation through four key roles:

- *producer:* income-generating and productivity-enhancing opportunities;
- *consumer:* affordable goods that improve the quality of life;
- *saver:* secure and accessible methods to accumulate financial assets; and
- *borrower:* capital and credit on reasonable terms.

In most developing countries, there are serious barriers to economic participation by the poor. Markets developing on their own typically have been slow in providing avenues for constructive engagement with the poor. Profit-seeking investors and business executives are drawn to opportunities that they believe will generate higher returns at lower risk than most ventures constructively engaging the poor. This may reflect biases and false assumptions about businesses that aim to improve life for the poor. It may also reflect the reality that many of these enterprises require patient capital with low return expectations, at least in their early stages. The Grameen Bank benefited from a great deal of this kind of capital for well over a decade before it became self-funding. Fisher acknowledges that KickStart's pump accounts can be difficult in countries with high degrees of illiteracy and low levels of official identity documentation. To address this problem, Opportunity has begun using biometric fingerprint readers and "smart cards" to replace signatures. This paperless process has made banking more widely available to the poor. According to information provided by the organization, Opportunity banks opened nearly 250,000 accounts in 2006, worth nearly $160 million.[iii]

Poor as Borrowers: The pioneers of microcredit are relatively well known. However, the process of innovation continues today with new entrants. Consider Kiva, an organization that uses the Internet to connect entrepreneurs in developing countries with individuals who have money to lend. Kiva works with local microfinance partners to screen the entrepreneurs and up load information about them, their businesses, and their financial needs. Individual lenders choose to lend a portion or all of the amount requested, as little as $25. The local microfinance partner tracks the performance of the business and collects the repayments. Performance of the partners is tracked online. When the loan is repaid, the Kiva lender has a choice to re-lend the money or withdraw it. In just over two years, Kiva has reportedly brokered over $6 million in loans to some 9,000 entrepreneurs from some 50,000 lenders.[iv]

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i. Martin Fisher, "Income Is Development: Kick Start's Pumps Help Kenyan Farmers Transition to a Cash Economy," *Innovations,* (vol. 1, no. 1, Winter 2006): 17.
ii. See www.scojofoundation.org, and Nico Clemminck and Sachin Kadakia, "What Works: Scojo India Foundation", World Resources Institute, June 2007.
iii. See www.opportunity.org. For a brief description of other innovations at Opportunity International, see the "Innovation Backgrounder" at http://www.opportunity.org/site/pp.asp?c=7oIDLROyGqF&b=2072963, October 2007.
iv. See www.kiva.org, October 2007.

business may take many years to reach profitability. Whatever the reason, most investors focused on profit are likely to direct their capital elsewhere. In certain cases, profit-oriented investors see opportunities in businesses that benefit the poor, as they did with Celtel, the highly successful African telecommunications company. However, philanthropists who wish to reduce poverty in a timely fashion cannot afford to wait for mainstream markets to support enterprises that engage the poor in these four constructive ways.

ENTREPRENEURSHIP, INNOVATION, AND DISCOVERY

In theory, existing large corporations could take on the job of supporting economic engagement by the poor. Why support relatively new, small entrepreneurial efforts? Economies tend to work best when they empower independent entrepreneurs to engage in innovation alongside larger organizations. Entrepreneurs engage in a process of innovation, experimentation, and adaptation that is much harder to execute in the more constrained, centralized, bureaucratized, and politicized environments often found in larger organizations. According to economist William Baumol and his colleagues, "Radical breakthroughs tend to be disproportionately developed and brought to market by a single individual or new firm."[12] If there is an arena in which societies need breakthrough innovations, it is in poverty reduction.

The social sector needs the same kind of independent innovators to develop effective, high-potential solutions to social problems. To quote Soros again: "Philanthropy, social work, and all forms of official intervention are mired in bureaucracy. Yet there are imaginative, creative people who really care about social conditions. I have come around to thinking that entrepreneurial creativity could achieve what bureaucratic processes cannot."[13]

Entrepreneurs have the flexibility to take risks, learn, and adapt as they go. Many will fail, and many others will significantly modify their original ideas as they learn what works and what does not. They serve as a learning laboratory for society. This is particularly valuable because there is no way to know in advance what will work as a tool for solving a persistent social problem, such as poverty. Entrepreneurs act as "searchers," to use developmental economist William Easterly's term: "A Searcher admits he doesn't know the answers in advance; he believes that poverty is a complicated tangle of political, social, historical, institutional, and technological factors. A Searcher hopes to find answers to individual problems only by trial and error experimentation."[14] This is much harder to do from within a bureaucratic environment, which tends to favor those Easterly calls "Planners."

Major corporations, government agencies, and large nongovernmental organizations have a role to play in addressing social issues, including poverty, but they are not a substitute for social entrepreneurs. Social entrepreneurs often serve as the catalysts for engaging larger firms. They do this by finding opportunities that would escape the notice of larger firms, demonstrating the profitability of a new product market, and/or providing a valuable complementary service, perhaps as part of what Bill Drayton, founder of Ashoka and pioneer in social entrepreneurship, calls a "hybrid value chain."[15] Major banks are getting involved in microcredit only now that the market is established, and they are typically engaging only at a secondary market level, leaving the loan origination and collection process to a local social enterprise. It is not clear how much large corporations, particularly publicly held companies, would do in the absence of social entrepreneurs. Similarly, social entrepreneurs serve as partners, sometimes as contractors, in helping government agencies and larger nongovernmental organizations serve their development agendas. Leading aid organizations have learned the benefit of tapping into the creativity and flexibility of the entrepreneurs who are closely embedded in the communities the aid is designed to serve.

PHILANTHROPIC VALUE ADDED

Philanthropists can add value by accelerating market development in ways that improve the lot of the poor, and by directing their capital and resources to the ventures most likely to engage the poor in constructive ways. It is only natural for the profit seekers (both entrepreneurs and capital providers) who are driving market expansion in developing countries to start with what they see to be the low-hanging fruit, offering the highest return relative to the risk involved. Many business enterprises that engage the poor in constructive ways are, rightly or wrongly, seen as costly, risky, and likely to grow slowly. Profitability, if it comes at all, may be a long way out. Philanthropists and social entrepreneurs are in a position to pursue business opportunities that do not appear to have a high profit potential but that constructively engage the poor, because profits are not their primary consideration and measure of success. They can take the risks, subsidize higher cost structures, and be more patient than profit-seeking investors and entrepreneurs. It is useful to think of this kind of philanthropic support as falling into three categories, though the boundaries can be blurry.

The first category of philanthropic support is for launching and growing enterprises designed primarily to achieve social impact.[16] Social enterprises have, by definition, a social purpose, and they often need patient, low-return, or no-return capital to pursue that purpose. As Soros notes, "In social entrepreneurship, profit is not a motive, it is a means to an end."[17] Social entrepreneurs are valuable because they have an inherent incentive to find opportunities where others are not even looking and to develop innovative approaches that make the opportunities into viable enterprises, when possible. If Yunus were simply looking for the best profit opportunities in Bangladesh, he would not have focused on microcredit and would not have crafted Grameen's innovative peer-lending model. Because he was determined to reduce poverty in his country, he discovered an opportunity and engaged in a process of innovation that would otherwise have been neglected. Philanthropic capital was crucial during the early development and expansion of the bank. This is true for most business ventures started by social entrepreneurs. Philanthropists are a good source of support for these ventures because they are focused more on social return than financial return. The Ford Foundation's early support for Grameen is a good example. Even with ongoing subsidies, a social enterprise might represent the most cost-effective use of philanthropic funds to reduce poverty and do it in a way that builds capability.

The second category of philanthropic support is for facilitating the movement of social enterprises into mainstream capital markets. Some social enterprises may always need philanthropic subsidy; others may have the potential to become "self-sustaining" or generate modest profits, but below what profit-oriented investors would require. However, many have the goal of becoming commercially viable, able to provide market-rate returns and, thus, to tap into mainstream capital markets. Some social entrepreneurs see this as the only way to achieve sufficient scale, given the limits on philanthropic capital. Philanthropists can make enterprise investments to demonstrate the commercial viability of businesses that serve the poor. This is the logic behind the Omidyar-Tufts Microfinance Fund. The fund was created with a $100 million endowment gift from Pierre and Pam Omidyar to Tufts University to invest in microfinance, "demonstrating its potential commercial viability to a wider institutional investor audience."[18] These kinds of philanthropic investments are not about providing subsidies, accepting low returns, or taking the long view, in exchange for a "social return." They are about generating market-rate returns in a timely fashion so as to attract mainstream capital providers.

The third category of philanthropic support is for fostering the development of socially beneficial forms of private enterprise. A business enterprise does not have to be a social-purpose enterprise to improve social conditions. As Adam Smith pointed out, businesses frequently serve the public good without having the specific intention to do so. Philanthropists may wish to support selected private enterprises when these happen to serve the poor or result in other social improvements. By making these investments, philanthropists can help accelerate market development and influence the direction of that development in ways that increase constructive participation by the poor.

In countries without an infrastructure to support entrepreneurship, markets are likely to favor those who have power, connections, and resources. As a result, many talented potential entrepreneurs will lack access to the kind of capital and expertise they need to launch and grow their businesses. Even in the United States, many entrepreneurial businesses have limited access to capital markets. They have to "bootstrap" their ventures, drawing down personal savings, borrowing from family and friends, using personal credit cards, and taking home equity loans.[19] In developing countries, many business entrepreneurs simply do not have access to this kind of bootstrap capital. Philanthropists can fill this capital gap by selectively investing in profit-seeking businesses that have a significant potential to increase the economic participation of the poor. These could include businesses owned by members of groups normally excluded from mainstream economic activity (for example, women, or religious, racial, tribal, and ethnic minorities); businesses that locate in economically distressed areas and provide skill-building employment to people in those areas; and businesses that provide needed products and services, such as cell phones,[20] to the poor at affordable prices.

Philanthropists can also support this kind of business development indirectly, helping to foster a more open entrepreneurial economy in economically distressed areas. This could include, for instance, interventions that lower barriers to business formation; improve the legal protections of property rights and enforcement of contracts; and increase access to capital, entrepreneurial education, and technical assistance.[21]

Some would take this point further, arguing that philanthropists should not limit their involvement to ventures that "need" philanthropic funding and cannot raise capital in private markets. Through strategically selected investments in private businesses that have major implications for the poor, philanthropists may enhance the social impact of those businesses. Their involvement may also give enterprises additional credibility as the enterprises negotiate with governments or interest groups. Developing markets may benefit if there is a philanthropic voice among the investors backing major new private enterprises. Companies may benefit from having a mix of investors. For example, Nicholas Sullivan argues that Celtel, the highly successful African telecommunications company, benefited by taking funds from development finance organizations as well as mainstream venture capitalists.[22]

NEW CHALLENGES OF ENTERPRISING PHILANTHROPY

When business and philanthropy are treated as separate realms, practitioners have a relatively clear understanding of how to make decisions. The traditional logic of business investing focuses on financial return and risk. The traditional logic of making grants focuses on achieving an intended social impact. Some observers object to this bifurcation, arguing for a common logic of "blended value" creation.[23] Whether or not the world is ready to embrace a common logic of value creation, philanthropists who support enterprises are faced with making decisions about their investments that blend social and economic considerations. This poses four distinctive challenges.

The first challenge is defining and measuring success. Ultimate success may be measured in sustainable social impact, in this case permanent poverty reduction. Measuring this kind of impact is often difficult to do in a rigorous, reliable, timely, and cost-effective way. Enterprise investments pose an additional complication: To what extent should the financial performance of the enterprise be included in the assessment? Even when profit is simply a means to an end, financial performance is an indicator of the ability of an enterprise to survive and grow in the future, with minimal (or perhaps no) further philanthropic subsidy. This surely has value beyond the direct social impact achieved by the organization during the investment period. When a grant is made to a charity, it is often more of an expenditure than an investment, in the sense that the grant covers a portion of operating costs for the organization to do its work during a given period of time. In the next period, the organization needs a new grant. Donors are essentially paying for service delivery. In the case of enterprise, philanthropic support can help move the organization away from future dependence on any philanthropic subsidies. Philanthropic support that moves an enterprise closer to profitability, even when it takes the form of a grant, should be viewed as an "investment" in that it will yield more social benefits in the future. How should this ability to create a future impact with less (or no) philanthropic support be factored into the "social return" of an enterprise investment? Failing to place a value on the improved capacity and financial condition of the venture underestimates the social impact of an enterprise investment.

The second challenge is setting the terms of engagement. Philanthropists who want to support enterprises also face a more complex array of options for structuring the "deal." An enterprise may have the potential to repay the philanthropist for the financial support, now or later. Financial support can take the form of grants, recoverable grants, loans at various rates and on various terms, loan guarantees, and, in the case of for-profit enterprises, equity. In addition to the form and terms of initial financial support, the deal between a philanthropist and an enterprise can include conditions for follow-on funding, provisions for nonfinancial support (management assistance) or involvement (board membership), and exit strategies. These deals can be as simple as a basic charitable grant or as complex as a private convertible debt transaction. In determining the terms of engagement, philanthropists investing in enterprises will have to grapple with how their support can create the most beneficial impact relative to the resources expended. Does the enterprise need a subsidy? If so, what is the best form (grant, low-interest loan, and so on)? How long should one be willing to subsidize this particular social enterprise? Fisher acknowledged that it is likely to take a long time before KickStart is able to achieve sustained profitability, but in the meantime, it is generating tremendous income gains for Kenyan and Tanzanian farmers, far in excess of the subsidy required.[24] Could some enterprises, because of their social impact, justify indefinite financial support? How can you provide such support while still providing appropriate incentives and pressure for better financial results? What conditions, positive or negative, should trigger an "exit" by the philanthropist? How will a positive exit be achieved? Most of these organizations are not likely to go public or be acquired. In summary, how can the whole deal be structured to provide incentives and rewards for an optimal mix of social and financial performance?

It is important to note one significant implication of the possible range of deal structures with regard to determining a "social return on investment." The "investment" element must be calculated to reflect the net financial resources used to achieve the impact. Obviously, a $1 million grant has to be treated quite differently from a $1 million loan, even at zero percent interest and even if the probability of repayment is only 50 percent *ex ante*. The grant is gone. With the loan, the philanthropist is likely to get back some and perhaps all the capital to use in the future. One way to think about this is to focus on the net costs of the investment (including transaction costs, monitoring costs, costs of in-kind assistance, and the like) relative to the social return generated.

The third challenge is aligning incentives to assure the creation of intended social impact. When philanthropists invest in enterprises, they need to be confident that the incentives inherent in the enterprise are aligned with their intended social impact, or that safeguards are in place should financial rewards ever threaten to pull the organization away from the desired social impact. For most enterprises, managers will face decisions in which they have to make trade-offs between financial returns and social impact. Defining the optimal balance is not easy, because financial success may allow an organization to have greater social impact in the long term. How can a philanthropist develop confidence that a given enterprise is likely to produce the intended social impact? The best assurance is provided when market forces are perfectly aligned with the intended social impact. This is often not the case.

When the natural alignment is not obvious, it is wise for an investing philanthropist to look at other factors that could affect social performance. The deal's structure can certainly make a difference, as mentioned above. However, other mechanisms can also play an important role. For instance, the legal form of an enterprise can have a powerful effect. Options vary widely, with different variations falling into the broad categories of nonprofit, for-profit, cooperative,[25] or some combination. In the United Kingdom, social entrepreneurs can now choose a new legal form, the "community interest company," that allows limited financial returns to equity investors. Legal forms affect governance, possible sources of financing, and financial rewards to those in control of the organization. Perhaps more important than the legal form is who controls the organization, by law and in practice, and what their values and interests are. In the case of for-profit social ventures, it is helpful for control to be kept in the hands of those who care about the social impact or who have a vested interest in achieving it but also understand the role of financial success as a means to that end.[26] Finally, the culture, processes, and staffing strategies of an organization can work to align effort with the intended social impact.

The fourth challenge is scaling the organization and the impact. How can philanthropists be sure that their enterprise investments will lead to significant, widespread impact? One potential drawback of an entrepreneurial approach to social problems is the existence of many small, fragmented efforts with little learning and sharing between them. The innovations embedded in the successful social enterprises may not reach the vast majority of locations and individuals that could benefit from them. This might be fine if all solutions were truly local, but past experience teaches us that many socially beneficial innovations can and should spread to new locations. Consider microfinance, which has reached more than 100 million families in a variety of developing and developed countries. If entrepreneurial business ventures are to put a serious dent in poverty, they need pathways to spread what works to new markets where it is also likely to work.

Geographic expansion typically requires new talent and capital. Both can be problematic. Social enterprises often require hybrid skills that blend business, political, and social savvy. It is essential to expand and develop suitable talent pipelines. Philanthropists who invest in social enterprise have a vested interest in supporting the development of those pipelines. Capital is a problem because investing in the original innovation seems to provide more visceral satisfaction than investing in the expansion, even though greater social returns may come from supporting the expansion. Many social entrepreneurs and philanthropists are attracted by the business enterprise model because they believe that it will reduce the need for outside capital to scale and that commercial success will significantly increase chances of raising capital for scale. For instance, One Roof, Inc, a for-profit social venture that provides essential services to the poor through a network of stores in Mexico and India, grew out of the nonprofit World Corps, whose leading staff members "determined that private capital, rather than philanthropic dollars, was the best means by which to 'scale up.'"[27]

This logic is appealing, but the evidence is far from compelling. Will mainstream capital flow to successful social ventures? Will theses ventures become sufficiently profitable to finance their own expansion? Microfinance spread for more than two decades with significant support from philanthropists, governments, and aid agencies before some of the leading microfinance institutions achieved the ability to fund their own growth. Nearly three decades after the introduction of this innovation, mainstream profit-oriented investment capital is finally starting to flow into the field—but still tentatively. Beyond microfinance, there are not many recent success stories of social enterprises that have scaled up to affect millions of lives. Philanthropic support is likely to be needed for considerable time in the expansion of social enterprises. It would be helpful to fund experiments with new, more cost-effective expansion strategies and structures, such as creative franchise systems; the licensing of programs or technologies; and alliances with corporations, governments, and other social sector organizations. It would also be helpful to support the creation of new funding platforms that are designed to support scaling activities.

GETTING THE MOST OUT OF THESE EXPERIMENTS

The success of microfinance demonstrates that philanthropic support for social and business enterprise activities can play a crucial role in combating poverty, but the potential practitioners of this art do not know much about how to engage in this kind of investing effectively. They do not know its strengths and limits. Standards of practice do not exist. Performance benchmarks and evaluation criteria for social enterprise are often lacking. Those who would engage in this strategy for accelerating development need a better understanding of the conditions under which business ventures can achieve a significant, positive, lasting social impact. Philanthropists and social investors need a better understanding of how they can best contribute to creating that impact. All the parties involved need a better understanding of the institutional structures and supports that would allow social enterprises to thrive. With a deeper understanding, enterprising philanthropy could become a powerful new strategic lever for positive social change, one that blends social objectives with business methods.

What will it take to achieve this deeper understanding? It will require a systematic effort to mine the growing base of experience with this strategy. Current activities create a cluster of experiments testing different ways to bring markets to bear on serious social problems. Some of these experiments will be successful; a significant number will fail or fall far short of expectations. To enssure that these experiments are not in vain, independent researchers need to examine them and, through critical analysis, draw out the lessons. As philosopher Karl Popper put it, "We make progress if, and only if, we are prepared to learn from our mistakes: to recognize our errors and to utilize them critically instead of persevering in them dogmatically"[28]—or, I might add, instead of hiding them from view, as is common in the world of philanthropy. Harvesting these lessons requires rigorous research, supported not just financially but also with the active cooperation of philanthropists and social entrepreneurs. Only is this way will the failures become truly "constructive." The result will be the development of knowledge that should make all the interested parties smarter at supporting healthy, sustainable development.

Philanthropists who venture into this arena are pioneers. They have the opportunity to play a key role in shaping the institutions and standards that will guide development strategies in the future, provided they are prepared to participate in an open and mutual learning process.

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1. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan (University of Chicago Press, 1976; orig. pub. 1776), 478.
2. George Soros, *Open Society: Reforming Global Capitalism* (New York: PublicAffairs, 2000), 162.
3. Private foundations can and do invest in for-profits that serve their missions, but there are restrictions on this kind of activity to prevent self-dealing. A for-profit "philanthropy" avoids that issue.
4. Katie Hafner, "Philanthropy Google's Way: Not the Usual," *New York Times*, September 14, 2006.
5. See J. Gregory Dees and Beth Battle Anderson, "Framing a Theory of Social Entrepreneurship: Building on Two Schools of Practice and Thought," in Research on Social Entrepreneurship: Understanding and Contributing to an Emerging Field, ARNOVA Occasional Paper Series, vol. 1, no. 3, ed. Rachel Mosher-Williams (Indianapolis: Association for Research on Nonprofit Organizations and Voluntary Action, 2006); and J. Gregory Dees, "Taking Social Entrepreneurship Seriously," *Society* 44, no. 3 (March–April 2007): 24–31.
6. It is important to note that social entrepreneurship is not simply about enterprise creation. It is also about finding innovative solutions to social problems. Enterprise is only one tool social entrepreneurs might use. For a general introduction to the concept, see David Bornstein, *How to Change the World: Social Entrepreneurs and the Power of New Ideas* (Oxford University Press, 2004).
7. Social enterprise is not simply about poverty reduction. Enterprise can be used to address any area of potential social improvement, including health care, education, the environment, and the arts.
8. See Nicholas Stern, Jean-Jacques Dethier, and F. Halsey Rogers, *Growth and Empowerment: Making Development Happen* (MIT Press, 2005), esp. 225–42.
9. Muhammad Yunus, *Banker to the Poor: Micro-Lending and the Battle against World Poverty* (New York: PublicAffairs, 1999), 237.
10. Martin Fisher, "Income Is Development: KickStart's Pumps Help Kenyan Farmers Transition to a Cash Economy," *Innovations* 1, no. 1 (Winter 2006): 9.
11. This is where efforts to create products for the "base of the pyramid," the world's poorest, can play an important role. See C. K. Prahalad's *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* (Upper Saddle River, N.J.: Wharton School Publishing, 2005); and Stuart Hart, *Capitalism at the Crossroads: The Unlimited Business Opportunities in Solving the World's Problems* (Upper Saddle River, N.J.: Wharton School Publishing, 2005).
12. William J. Baumol, Robert E. Litan, and Carl J. Schramm, *Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity* (Yale University Press, 2007), 86; emphasis in the original.
13. Soros, *Open Society*, 162.
14. William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (New York: Penguin Press, 2006), 6.
15. See http://ashoka.org/hvc for a brief explanation. The concept is also discussed by Jane Nelson and Beth Jenkins, "Investing in Social Innovation: Harnessing the Potential of Partnership between Corporations and Social Entrepreneurs", Corporate Social Responsibility Initiative Working Paper 20 (John F. Kennedy School of Government, Harvard University, 2006).

16. Note that not all examples of social entrepreneurship take the form of business enterprises. Also note that the enterprises that philanthropists support are not all social enterprises.
17. Soros, *Open Society*, 162.
18. See the press release at www.tufts.edu/microfinancefund/?pid=8 (October 2007).
19. See Amar V. Bhide, "Bootstrap Finance: The Art of Start Ups," *Harvard Business Review*, November 1992, 109–117; and Amar V. Bhide, *The Origin and Evolution of New Businesses* (Oxford University Press, 2000).
20. See Nicholas P. Sullivan, *Can You Hear Me Now: How Microloans and Cell Phones Are Connecting the World's Poor to the Global Economy* (New York: John Wiley & Sons, 2007).
21. This list draws on the discussion by Baumol, Litan, and Schramm, *Good Capitalism, Bad Capitalism*, 153–63.
22. Sullivan, *Can You Hear Me Now*, 116.
23 Jed Emerson is the primary developer of the blended value concept; see www.blendedvalue.org for background material. Specifically see the World Economic Forum Report, "Blended Value Investing: Capital Opportunities for Social and Environmental Impact", at www.blendedvalue.org/media/pdf-blendedvalue.pdf (October 2007).
24. Fisher, "Income Is Development," esp. 26–30.
25. In this category, I am including a variety of member-serving structures such as mutuals, credit unions, and collaboratives, as well as cooperatives.
26. For more on this topic, see J. Gregory Dees and Beth Battle Anderson, "For-Profit Social Ventures," in *Social Entrepreneurship*, ed. Marilyn Kourilsky and William Walstad (Dublin: Senate Hall Academic Publishing, 2004), a special issue of the *International Journal of Entrepreneurship Education*, vol. 2.
27. See history page at www.oneroof.com.
28. Karl Popper, *The Poverty of Historicism* (London: Routledge & Kegan Paul, 2002; orig. pub. 1957), 80; emphasis in the original.
29. For a discussion of constructive failure in philanthropy, see Peter Frumkin, "Failure in Philanthropy: Toward a New Appreciation," *Philanthropy Roundtable*, July–August 1998, 7–10.