



I'd like to thank the Cariplo Foundation for inviting me to speak today. My organization, Rockefeller Philanthropy Advisors, has had very interesting discussions with Cariplo and other foundations in Italy over the last year. This particular talk was prompted by a brief discussion I had with Andrea Flumiani during the European Foundation Center conference in May, and I am glad that that spark – and our ongoing conversation with Patricia Frias and her colleagues - led to me being here today.

I'll cover five questions about an impact economy that will provide, I hope, a useful overview. The five sections will answer these questions: Why? What? Who? How? And a fifth, which I'll start with – when?

The answer to 'When?' is the easiest. The answer is – it's already happening, but still in a modest way. We are creating an impact economy in pockets in different places around the world, but the efforts are fragmented.

I have just come from the European Venture Philanthropy Association meeting in Madrid, where I saw a lot of expertise on blending finance and grantmaking, on foundations getting into impact investing, and the creation of hybrid organizations that both do good, and earn revenue by selling goods and services. Farther away, in my home state of California, we heard big news from Facebook entrepreneur and philanthropist Mark Zuckerberg and his wife Priscilla Chan two days ago. As you may know, he pledged to give 99% of his shares in Facebook to charitable purposes – the estimated value is US\$45 billion.

What is fascinating is that he is not launching a foundation, but what he calls an Initiative – it is actually an LLC, a limited liability corporation. This means he can give grants, make investments, or support policy reform. This is a bold move, and he is, in essence, using all the tools in the philanthropy toolbox

for the causes he cares about. Of course, we are all curious to see how he does this.

It is relevant for my talk today because developing and using new structures is an element of creating an impact economy. The existing legal structures and policies are not necessarily the rights ones for supporting social enterprises, or investing in social organizations that provide a repayment stream.

Zuckerberg and Chan will not get the tax deductions that they would from having a traditional foundation. But they will get some financial returns, and they will have a big impact.

The second question is: Why does the world need more of our capital going into social finance?



First, as we move from 2015 to 2016, we are facing a very important moment in history, after the world’s governments have committed to a new framework for sustainable development called the Sustainable Development Goals, sometimes referred to as the Global Goals. These 17 universal goals recognize the interlinkages between social, economic and environmental challenges. These goals go beyond the work of the Millennium Development Goals: they are designed to end poverty, and ensure access to health care and education for all. But they also include a goal on reducing inequality within and between countries. And a goal on tackling climate change. There are goals to protect our water and land resources. And targets on providing opportunities for decent work for all – work that is fairly paid and comes with benefits and workers’ rights.

Where do we stand today on such challenges?

- Nearly 2.2 billion people still live below the \$2-a-day poverty line.
- Inequality is increasing both within and between countries.
- Income inequality increased on average by 11% in developing countries between 1990 and 2010.
- The 85 richest people in the world own the same amount of wealth as the 3.5 billion poorest people.

As you may know, one of the most important factors that turns economic growth into poverty reduction is jobs. But today, across the world, there is a problem with unemployment and underemployment. This is a particularly serious issue with youth.

- 470 million jobs are needed globally for new entrants to the labor market between 2016 and 2030.
- Global unemployment increased from 170 million in 2007 to nearly 202 million in 2012, of which about 75 million are young women and men.
- Here in Italy, unemployment is estimated to be at least 13%, but unemployment for youth is almost

43%.

And what about the environment?

- We are all familiar with the threat and impacts of climate change.
- We are degrading our natural resources.
- We are wasting our food supply - 1.3 billion tons of food are wasted every year.
- And if, as predicted, the global population reaches 9.6 billion by 2050, the equivalent of almost three planets could be required to provide the natural resources needed to sustain current lifestyles.

All government leaders committed to achievement of the sustainable development goals to tackle these problems over the next 15 years, by 2030. And they recognized that we simply must create very different economic systems if we are to achieve these ambitious goals. Estimates are that we need at least US \$4 trillion per year to fund them. But these funds will not come from governments and philanthropy – that provides a small fraction of the investment required. Instead, we have to consider how we use the enormous wealth we hold to address these problems and create well-being and greater prosperity for all. The Financing for Development conference in Addis Ababa in July concluded with many recommendations, and some are particularly relevant for our discussion today:

How to finance? US \$4 trillion annual cost

- Use much more of world's financial capital for social purpose
- Business begin to take into account all of their stakeholders, not just their shareholders
- Alternative forms of business are needed, including for-benefit enterprises
- New forms of revenue
- Stem illicit financial flows, especially out of poor countries

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- We must use much more of the world's financial capital for social purpose
- Business must take into account all of their stakeholders, not just their shareholders
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- New forms of revenue are required
- And we must stem illicit financial flows, especially out of poor countries

These are all aspects of creating an impact economy.



We can use social investment – combined with the effort and ingenuity of the public sector and civil society organizations – to reach these goals and provide well-being for all.

The third question is: What is an impact economy, and what are the trends we are seeing that point toward the emergence of an impact economy?

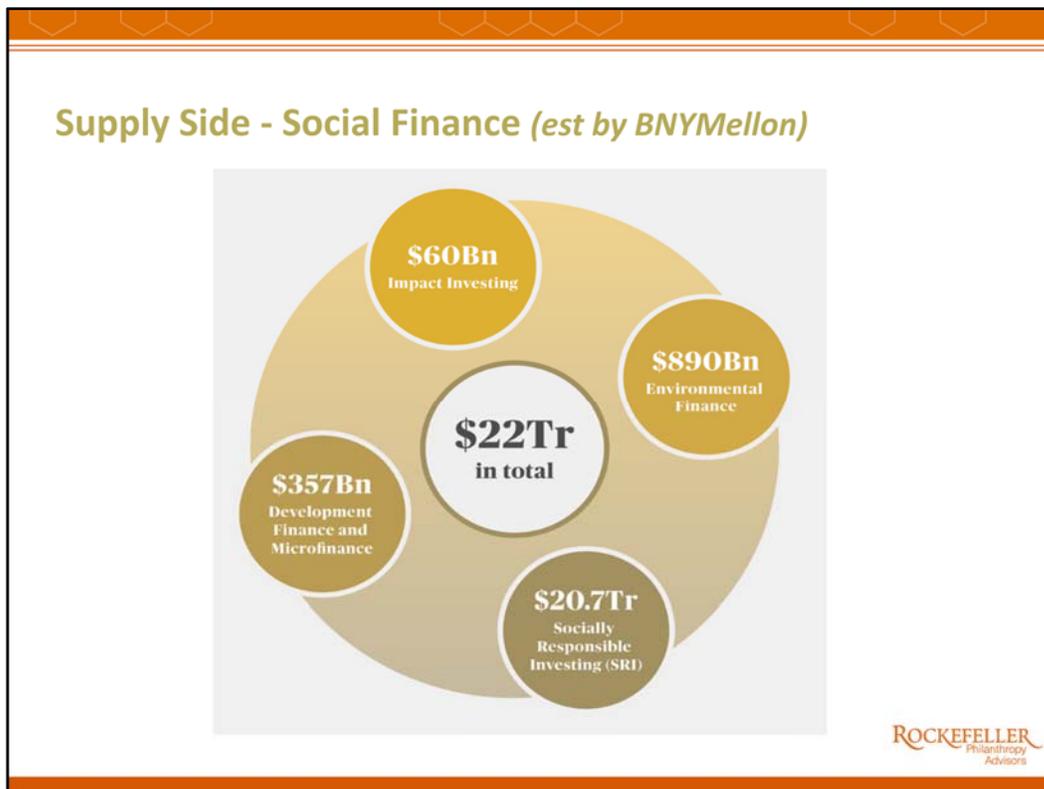
The impact economy is a broad term that in essence recognizes three things. First, we must fundamentally change our economies to ensure that economic activity puts social and environmental purpose equal to, or higher than, the pursuit of profit. One important aspect of this is ensuring that the costs of the negative impacts of business are not borne by others – either communities or the government – but taken into account within the core operations of business.

Second, creating an impact economy requires us to look at both sides of supply and demand – simultaneously increasing the supply of capital devoted to social and environmental purpose, and increasing the proportion of enterprises who are socially-oriented and demand this kind of capital. We hear again and again that impact investors, and socially responsible institutional investors, cannot find enough investment-ready enterprises.

Third, an impact economy approach includes governments and positive policy change as an important part of the solution. In other words, we have to challenge conventional assumptions about the roles of our economic and social institutions, and go beyond traditional siloed approaches to problem-solving.

The fourth question is: Who? Who are the players in an impact economy?

Moving toward an impact economy means expanding the scale and depth of impact investing, social enterprises, sustainable businesses, corporate social responsibility, microfinance, venture philanthropy, community development finance, and public-private partnerships. And this is a real trend. Moreover, the supply of investment that takes into account social and environmental purpose is growing.



According to BNYMellon, in a report released for the Addis Ababa Financing for Development Conference in July, the global market today is already about US \$22 trillion. They divide this into four categories:

- About US\$20 trillion is invested in Socially Responsible Investing – SRI funds. These screen out harmful practices, but often have a low level of intentionality and direction.
- About \$890 billion is in environmental finance, including green bonds. Bill Gates' announcement at the Paris climate talks that he and many other investors are pledging large sums to research on clean energy is a new contribution to this.
- About \$357 billion goes toward development finance and microfinance.
- And the smallest, but very intentional share going mostly toward social businesses, about \$60 billion, is through impact investing.

On the demand side, studies from the US and elsewhere show an appetite for businesses that go to a double or triple bottom line amongst consumers, managers and employees.

Demand side, poised for growth – example of the US

90%+ of polled consumers	...are conscious consumers
88% of MBA students	...would take a pay cut to work for an employer with aligned values / social or environmental purpose
81% of employees	... desire employment with more purpose

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In a poll done in 2013, over 90% of consumers globally would switch brands if a different brand of similar price and quality supported a good cause, and 87% consider corporate responsibility when considering what to buy or where to shop. 88% of MBA students would take a 15% pay cut to work for an organization whose values are like their own, and 83% would take a pay cut to have a job that seeks to make a social or environmental difference in the world. And over 80% of employees consider corporate social responsibility when deciding where to work, and 68% do not think businesses do enough to instill a sense of meaningful purpose in their work environment.

How is this being discussed in the media? I have been working with colleagues from the Fourth Sector Network, and a group of experts who are working to create a Fourth Sector Institute, and they commissioned a firm to identify the range of terms used by people in describing this part of the economy.



Some adjectives apply to the economy; some to the type of organization; some to the type of investment; and some to the type of consumer behavior. One can see the most commonly used words for what we call an 'impact economy':

- Civic
- Community
- Ethical
- Green
- Impact
- Inclusive
- Positive
- Social, and
- Sustainable

This is a powerful trend.

World Business Council for Sustainable Development



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And it goes beyond the pioneers who worked on reforming business through Corporate Social Responsibility – like the World Business Council on Sustainable Development. They are part of moving toward an impact economy, but there is now much, much more on offer.

Some in this movement focus on changing the very nature of our economies.

The B Team

We need leadership across multiple disciplines to develop new structures that support for-benefit entrepreneurs and investors who are leveraging business to tackle social and environmental problems.

Sir Richard Branson



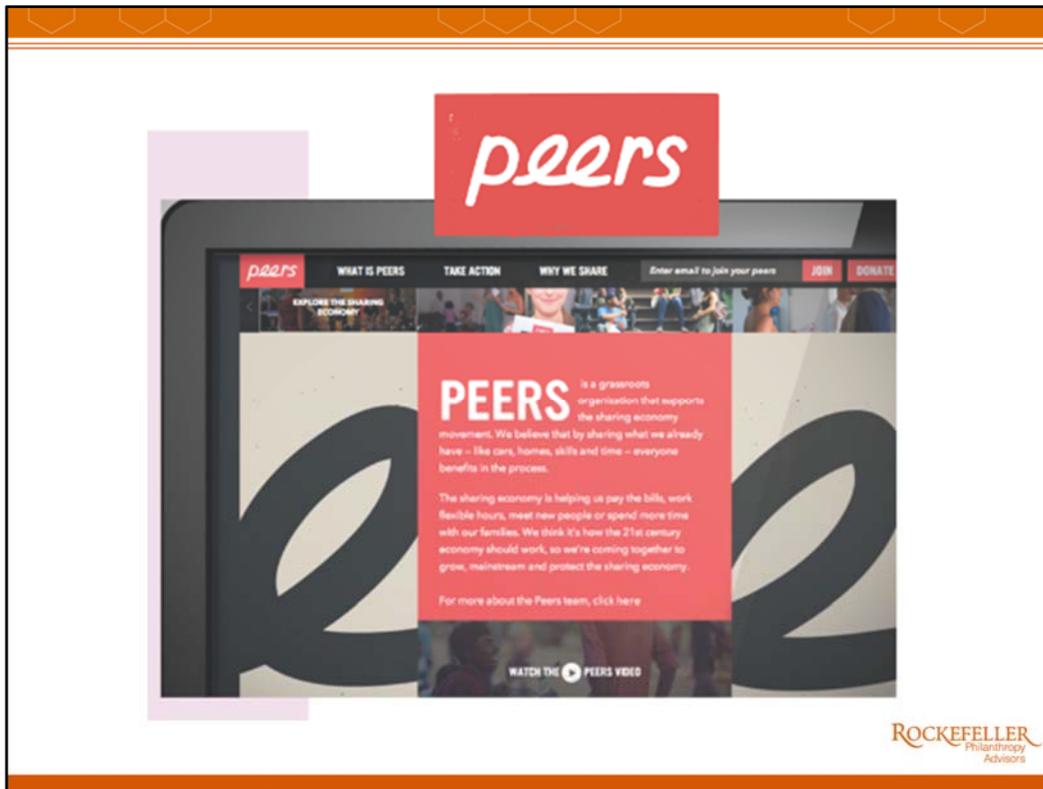
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There is the B Team, for which I serve as an Advisor. It was founded by business leaders like Richard Branson and Jochen Zeitz, and a team of leaders who believe business must move to a Plan B for business – one which puts people and planet alongside profit. They are growing a group of leaders and leader circles to fundamentally change the core of business operations in ways that tackle climate change, unemployment and other issues.



There is a growing movement to foster a circular economy – championed very much by the Ellen MacArthur Foundation in the UK. The idea of a circular economy is one that, by design and intention, is restorative to our environment. It is one in which material flows are of two types, biological nutrients, designed to reenter the [biosphere](#) safely, and technical nutrients, which are designed to circulate at high quality without entering the biosphere. The circular economy idea draws from a number of more specific approaches including cradle to cradle, biomimicry, industrial ecology, and the ‘blue or green economy’.

There are others who refer to Conscious Capitalism, or Regenerative Capitalism, and other concepts recognizing that the regenerative process that defines thriving, living systems, enabling sustainability over the long run, must define the economic system itself.



And we have seen the emergence of what is called a sharing economy - a socio-economic ecosystem built around the sharing of human and physical resources. It includes the shared creation, production, distribution, trade and consumption of goods and services by different people and organisations. This has built on the cooperative movement, and is enabled to expand through technology. It includes collective purchasing, shared ownership, shared car and bicycle programs, Air BnB – anything where people are consuming less and sharing more. To facilitate a sharing economy, platforms like Peers have emerged.

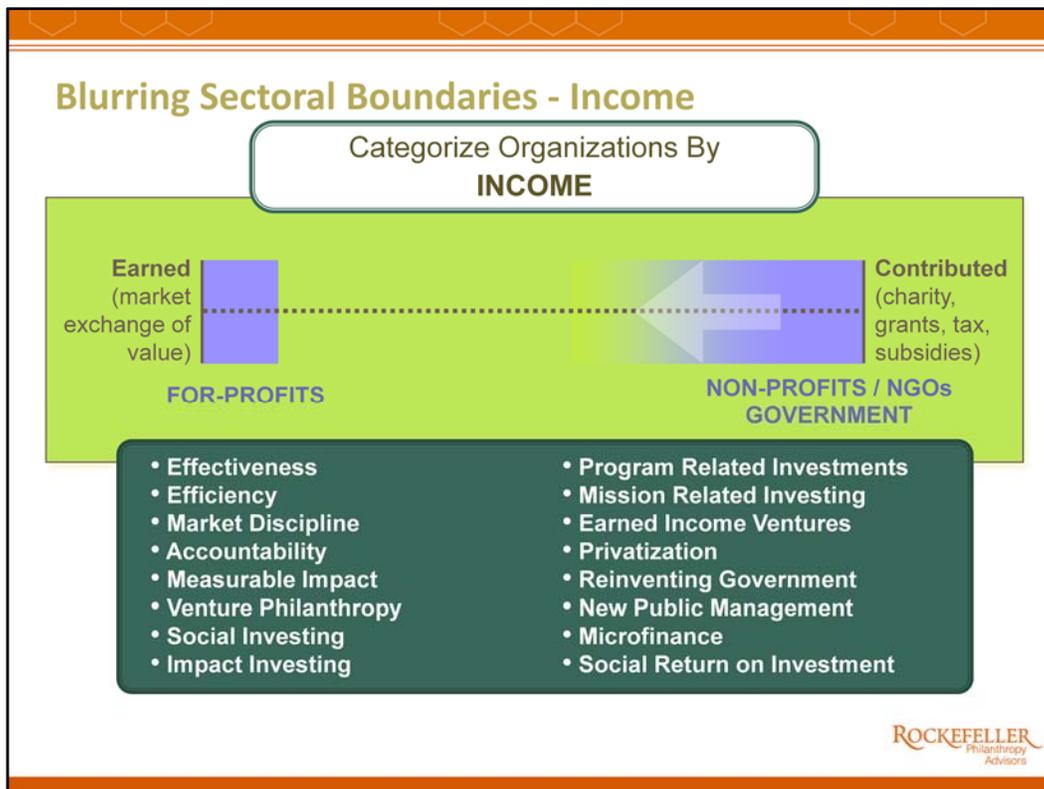
In all of these examples, what is apparent is that the traditional boundaries separating the nonprofit, business, and government sectors have become increasingly blurred. Many for-profit companies have broadened their purpose to include social and environmental aims, while a growing number of nonprofits and governmental organizations have adopted market-based approaches to advance their goals. This set of hybrid organizations is sometimes called the Fourth Sector.



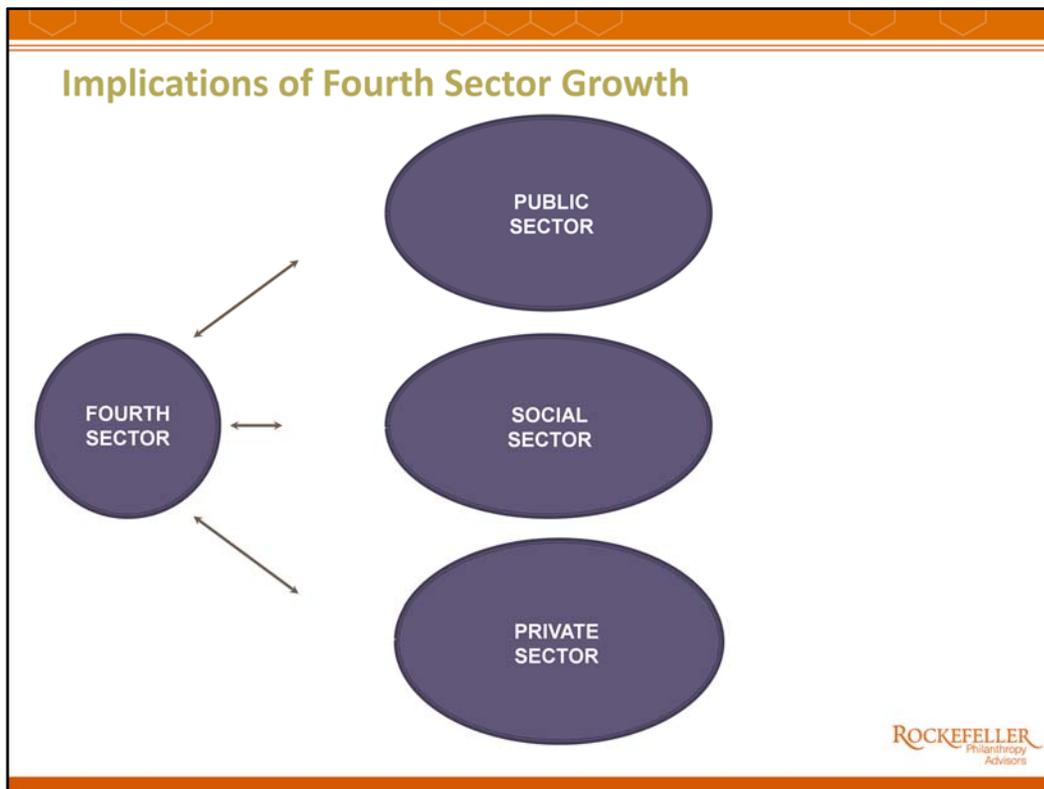
A Fourth Sector Network was created several years ago to nurture this trend toward new organizational forms. A growing number of socially motivated entrepreneurs have been creating new kinds of organizations that combine a social mission with a business engine. Unlike typical for-profits, these “for-benefit” enterprises have social or environmental outcomes as their *ultimate* bottom line; and unlike typical non-profits, they derive their income mostly from the sale of goods and services rather than from grants and donations. They defy classification as pure business or non-profit; rather, they are a blend of the two.



This slide indicates how the boundaries of ‘purpose’ between for-profit and non-profits are blurring. Traditionally, for-profits were designed to maximize benefits for owners, and non-profits to maximize social benefit. But more and more businesses are adopting – or even being created around – social purpose. All the terms on the bottom – carbon offsets, sustainability reporting, and so on – are growing rapidly amongst the business sector.



At the same time, the boundaries are blurring by income. Traditionally it was business that earned revenue through market exchange of value, while social organizations and governments earned their income through charity, grants, tax, and other contributed sources. But now we see many social-purpose organizations earning a part of their revenue through market-based approaches – the sales of goods and/or services. They may be supported directly by consumers, get government contracts, or get investment through venture philanthropy and impact investing, for example.



All of these four sectors will continue to exist. But this fourth sector of social business and revenue-earning social organizations is expanding – and philanthropy is crucial in nurturing its growth. This can bring many benefits for all sectors. For example:

For the public sector:

- It can create quality jobs and increase economic growth
- There are cost savings from reduced social and environmental problems

For the social sector, there will be:

- New contracting and partnership opportunities with mission-aligned for-benefit companies
- And more self-sustaining, scalable solutions

And for the private sector:

- There is the possibility to incorporate for-benefits companies in supply chains
- And develop for-benefit divisions, subsidiaries, and product/service lines that appeal to consumers and the public, particularly youth

Many more such enterprises would exist, except that few entrepreneurs have been able to choose for-benefit as a legally recognized organizational structure. Most countries' legal and economic systems allow only for-profit or non-profit activity; entrepreneurs must fit their vision into one or the other of these structures.

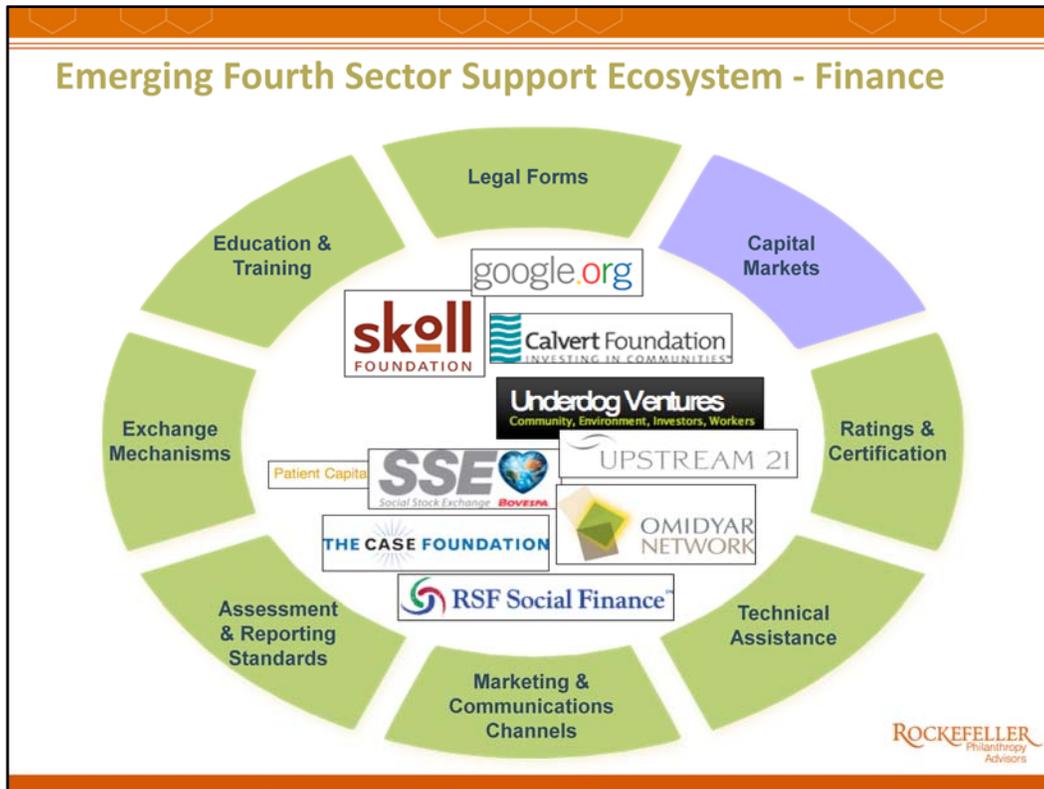
The Fourth Sector Network has determined at least 8 areas where a supportive ecosystem is needed, and is emerging. Here are some examples:



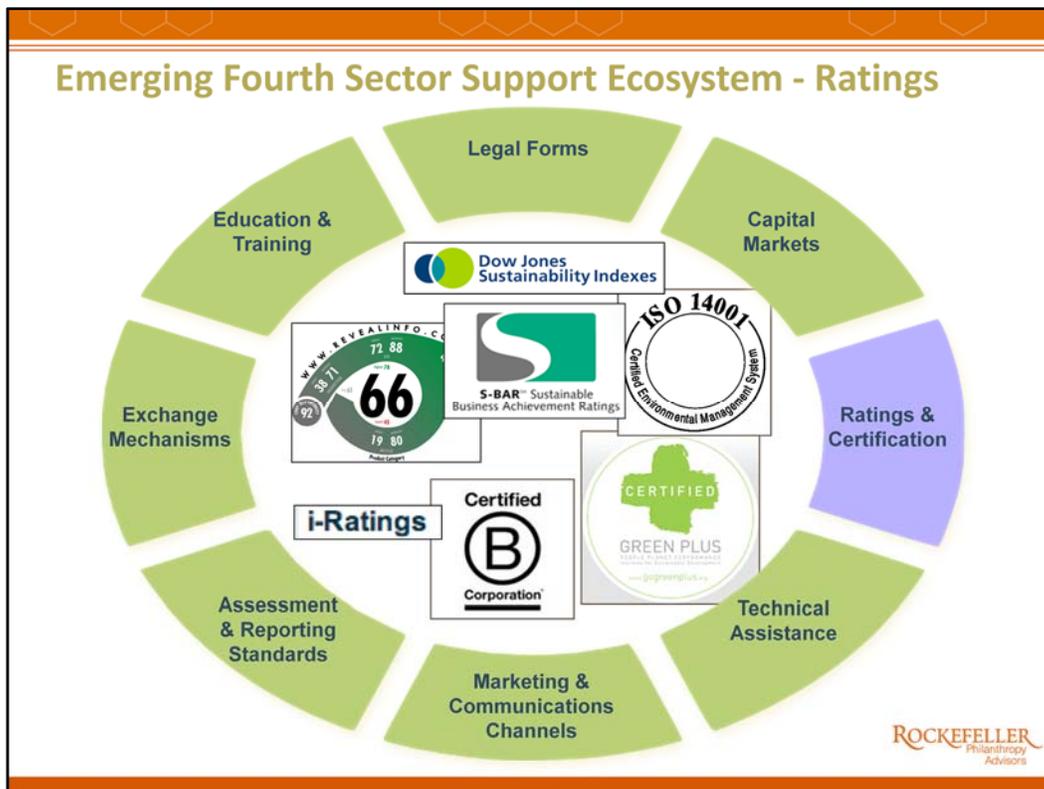
Around the outside of this circle are 8 elements of a supportive ecosystem:

- Legal forms
- Capital markets
- Ratings and certification
- Technical assistance
- Marketing and communications channels
- Assessment and reporting standards
- Exchange mechanisms
- Education and training

In terms of **legal forms** – this is specific to countries. Yet new forms are emerging in many places, including B Corps, which started in the US and are now found in more than 30 countries (we will hear from one, *Nativa*, today). Here in Italy an example of a relevant legal form is *Imprese Sociali*. This expansion is very encouraging.



We also need more **sources of finance** for these types of organizations. The sources are growing, and include foundations like Skoll Foundation and Omidyar Network in the US; investors like Big Society Capital in the UK; and social banks (like *Banca Prossima* here in Italy) and development finance banks.



And crucially, for accountability's sake, we need **ratings systems** so that we can trust that there is actual **social impact** behind the organizations we are supporting. There are many types of ratings emerging, not least B Corp certification, ISO ratings, and SASB (the Sustainability Accounting Standards Board).

There is more and more movement taking place in all of these dimensions. According to estimates of the Fourth Sector Network, in the US these hybrid organizations – social businesses and non-profits earning a part of their revenue – already account for 5-15% of U.S. GDP and 10-20% of U.S. jobs. Sustainable enterprises and mission-driven businesses already constitute 1-5% of GDP. Employee-owned businesses already have more than 10 million members and \$930 billion in revenue. There are 22,000 co-operatives making up 2.2% of GDP. Non-profit enterprises make up 5% of U.S. GDP and employment, and Community Development Corporations create 70,000 jobs annually. These span the sectors including health care, transit, education, banking, food systems, and utilities.

An early example of a for-benefit enterprise in the US was Newman's Own food company, founded by actor Paul Newman, which from the outset pledged 100% of its after-tax profits to a charitable foundation. After 30 years it is thriving, found in most food shops in the US. The largest B Corp in the world was announced a few months ago – Natura, a company in Brazil founded by Brazilian businessman and philanthropist, and B Team member, Guilherme Leal. Here are three newer examples to illustrate the range of for-benefit enterprises.

Riversimple

- UK-based privately held, early stage transport service company
- Purpose: To systematically reduce the negative environmental impacts of automotive transport

Strategy:

- Sell Service, not product
- Local Manufacturing
- Open Source Design
- Stakeholder Partnership



- Urban two-seater vehicle.
- Hydrogen fuel cell powered.
- Body made from ultra-light carbon
- 10 to 20 times lower carbon footprint than any other combustion engine or hybrid on the market.

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River Simple is a UK-based privately held, early stage transport service company. It was founded by former race car builder and great-grandson of Ferdinand Porsche. Its purpose is to systematically reduce the negative environmental impacts of automotive transport. For example, it leases cars rather than selling them. It has local manufacturing – allowing for localized jobs and design variations. It uses Open Source Design to accelerate technological innovation; they compete on brand, service and environmental efficiencies. And they use a Stakeholder Partnership – an ownership and governance structure that attracts and retains key stakeholders in a long-term partnership. This for-benefit company balances investment, risks, and rewards; and ties control to non-monetary as well as monetary benefits.



Give Something Back OFFICE SUPPLIES

Largest independent office supply company in California
17,000 customers, 80 employees



Buy things you need
 help those in need

- Donates more than 50% of profits to community organizations - selected by employees and customers
- Donated \$5 million since 1991
- Employees averaged 138 hours of volunteering in 2009
- 40% of employees are individuals with barriers to employment
- All employees reimbursed for continuing education
- 6,000+ recycled and green options in almost every product category

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California's largest independent office supply company is called Give Something Back. It donates more than 50% of its profits to community organizations, and has donated more than US\$5 million since 1991 to organizations selected by employees and customers. It offers more than 6000 recycled and green products. Its 80 employees averaged 138 hours of volunteering in 2009. 40% of its employees are individuals with barriers to employment.

New Social Enterprise: For-Benefit Medicines

- Australia's first 'for-benefit' pharmaceutical company
- Will channel 100 % of profits into patient support and medical research on breast cancer
- Launched in November



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And just last month in Australia, the first 'for-benefit' medicine company was launched. For-Benefit Medicines prioritizes patients over profits, and will channel 100 per cent of its profits into patient support & medical research.

In conclusion, I hope that you are inspired, and excited, by these ideas and these organizations. I was in Brazil last month, and China in September, and these trends and types of organizations are expanding there and around the world. What can the foundation community, businesses, and the public do to support these changes and help scale an impact economy?

First, there are many barriers still faced by social enterprises and social organizations who want to earn part of their revenue.

What we heard: barriers/needs for SEs



Policy

Set of common recommendations;
Better policy environment; Changes in policy to facilitate structures;
Conservatism of public sector officials



Access to Capital

Getting on the investor agenda/map; Awareness for investors; Financing once you land on a framework; Engaging corporates who finance most new enterprises;
Conservatism of investors



Education/ Awareness

Failure map; Education for accountants, lawyers, investors, policy-makers;
University programs/college curriculums on entrepreneurship (especially for diverse colleges)



Technical Assistance

Incubation institutions, support;
Training for the actual DOING of the work ("what to do on Monday morning");
"Space to fail"



Intellectual Infrastructure

Legal framing and business models;
Trade Association;
Frameworks for models you can use;
Information gap

11.9.15 FSI Call 21

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In research to prepare for launching a Fourth Sector Institute, we identified the needs of social enterprises – key players in any impact economy. They fall into five categories:

- A need for more supportive policies for social enterprises, including new legal forms
- Access to capital
- More education and awareness in those groups that will enable new forms of enterprise, including lawyers, accountants, policy-makers, and the universities who are training young leaders
- More technical assistance, including incubators, networks and on-line advice, and
- Intellectual infrastructure

Big player gaps



Major policy drivers

Focused on legal structures for for-benefits



Awareness + education

For public as well as attorneys, policy makers, and investors



Convening & Leadership focused on systemic shift

Major players and central voices dedicated to reforming the current system



Public sector renewal

Re-engaging government officials to insert innovation



Diversity & inclusiveness

Voices and seat at the table for underrepresented communities (POC, LGBTQ, etc.)

11.9.15 FSI Call 5

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There are also gaps amongst the ‘big players’, including decision-makers, that we think need to be addressed across the world in order to achieve a true impact economy.

- We need policy changes that enable B Corps and other for-benefit enterprises to flourish.
- We need to expand awareness and education about the impact economy and what can help it grow.
- We need to focus more on systemic shifts, not one-off actions, working with leaders across sectors.
- We need to ensure our public sector leaders are enabled to be a part of this kind of innovation, and not threatened by it.
- And we need to ensure diversity and inclusion – this can’t be of benefit only to wealthy investors and well-to-do entrepreneurs. It must mean something to the unemployed, the working poor, to migrants trying to find their place in a new country, and all those groups often left out of such movements.

These are daunting challenges, but the trends are unstoppable because of the evident benefits. Those in the foundation community can play a role. Some of this can be supported through grants – and this kind of support is less likely to come from public fundraising, because it is systems change, not provision of direct benefits to individuals. The need for social finance is great – and foundations can use charitable distributions or endowments to finance such work. There are layered financing mechanisms, where foundations provide first-loss risk capital to complement institutional or traditional investors. And more support is needed for the ecosystems that nurture social enterprises and impact investments – organizations like the Global Impact Investing Network and the Fourth Sector Network and Institute.

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I am glad to have had this opportunity to share these ideas with you today, and look forward to learning from the others speakers and hearing your questions and comments.

Thank you.