Philanthropy and the Social Economy: BLUEPRINT 2013

The Annual Industry Forecast

by Lucy Bernholz

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STANFORD PACS
CENTER ON PHILANTHROPY AND CIVIL SOCIETY

Stanford SOCIAL INNOVATION REVIEW

Philanthropy and the Social Economy: Blueprint 2013

is an annual industry forecast about the social economy – private capital used for public good. Each year the *Blueprint* provides an overview of the current landscape, points to major trends, and directs your attention to horizons where you can expect some important breakthroughs in the coming year.

This year I'm thrilled to be partnering with **GrantCraft**, a joint project of the **Foundation Center** and the **European Foundation Centre**, to bring the *Blueprint* to a wider audience by making the electronic version available for free. GrantCraft taps the "practical wisdom" of a diverse group of funders to create tools and techniques in the form of guides, cases, blogs, translations, and more. Resources in the series are intended to spark ideas, stimulate discussion, and suggest possibilities.

Why is it called a blueprint?

A blueprint is a guide for things to come as well as a storage device for decisions already made. Good blueprints fit their environment, reflect a thoughtful regard for resources, and lead to buildings that are carefully engineered and aesthetically pleasing. Blueprints guide the work of masters and are informed by craftsmen. They can be adjusted as work proceeds, and they offer a starting point for future improvements. Good blueprints require a commitment to listen to those for whom they are drawn and to use a common grammar to communicate the results of countless sketches and discarded first drafts. Blueprints are perfect metaphors for philanthropic planning.

Who wrote this document?

I'm Lucy Bernholz, and I'm a philanthropy wonk. I've been working in, consulting to, and writing about philanthropy and the social economy since 1990. The *Huffington Post* calls me a "philanthropy game changer" and *Fast Company* magazine named my blog Philanthropy2173 "Best in Class." I'm a visiting scholar at Stanford University's Center on Philanthropy and Civil Society. I earned a B.A. from Yale University and a M.A. and Ph.D. from Stanford University. On Twitter I'm known as **@p2173,** and I post most of my articles, speeches, and presentations online at **www.lucybernholz.com**, where you can also link to my blog, Twitter feed, and books.

Where is more information available on the topics discussed?

The best way to keep up with my thinking on these issues is on my blog, **Philanthropy2173**. Subscriptions are free. The "**Recoding Good**" project at Stanford is available on the PACS website and documented on the **Stanford Social Innovation Review Blog**. Please send media inquiries, speaking requests, and other inquiries to **lucy@lucybernholz.com**.

Ordering information

The *Blueprint* is available as a free download from **www.grantcraft.org**. More information is also available at **www.lucybernholz.com**.

ISBN 978-0-9847811-3-3

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Special thanks to Anne Focke, editor; **Jeffrey Whitten**, cover design; **DillonThompson Design**; and reviewers Mari Kuraishi, Rebecca Masisak, Rob Reich, and Julie Samuels.

What Is the Social Economy?

This is the fourth annual industry forecast. This year I'm changing the name from "Philanthropy and Social Investing" to "Philanthropy and the Social Economy" to call further attention to the landscape shift I introduced in 2012. I've been moving toward this frame for some time and much of my work with Rob Reich at Stanford's Center on Philanthropy and Civil Society now focuses on this understanding of how and where private resources are used for public good. Last year's edition of the *Blueprint* introduced the phrase and its component parts.

You can download the full *Blueprint 2012* as well as the 2011 and 2010 editions on my **website.** I've included more details on the social economy in the appendix.

The social economy is one way of thinking about all the tools we use to apply our private resources for public good. Where once this was largely the domain of charitable gifts to nonprofit organizations, we now use social businesses, impact investing, campaign contributions, social welfare organizations, peer-to-peer giving, crowdfunding platforms, and informal networks to make the change we want. Impact investors look beyond nonprofits to commercial enterprise, consumers choose products with "embedded causes," and entrepreneurs consider a widening range of corporate forms when they set about building a business to do good.

Government spending and regulations play a big role in how the social economy works. In parts of Europe and elsewhere, the phrase "social economy" denotes the private and community efforts described above as well as the social program roles and spending of national and provincial governments. I'm trying to expand the frame beyond the philanthropy-nonprofit relationship and, while acknowledging the shaping role of the public sector, I want to maintain a focus on the resources controlled by individuals and private institutions. I'm trying to define and estimate the size, practices, and bounds of private and community contributions when I refer to the social economy. Once we can see the full scope of the social economy we can better understand how it intersects with government and commerce.

Pulling all of these elements – ways of giving and ways of doing – into one frame of reference is important to help us understand our choices. Figure 1 shows the emerging mix of enterprises in the social economy. These are the "doers." Each of us should consider the ways in which nonprofits, business, and public policy shape the issues we care about.

Donors also have a range of options, including philanthropy, political giving, and impact investing (figure 2). Donors who choose to stay strictly within the charitable realm should still understand how business and policy shape the issues on which they work. The same is true for social business and investors attending to philanthropy and policy makers considering the roles of both nonprofits and businesses as they do their work. Some of us may use all of these tools. But all of us will be more successful in our individual aims if we consider the dynamics of the whole economy.

All of us act as both "doers" and "donors" in this economy (and we also vote and actively participate in our government). Philanthropy and nonprofits as we've known them play important roles – not the least of which is their privileged long-term, independent position that allows them a front row seat to the changes underway. They are not, however, the unchallenged center of the economy any longer, nor should we assume that their status, impact, or privileged positions are unalterable. As government and business shift in a digital, participatory age, so shifts the social economy.

The first section of this *Blueprint 2013*, **Big Shifts that Matter**, looks at the ways in which digital information is becoming ever more important to how the social economy works. This is the first time in this monograph series that all of the big shifts are rooted in technology. I look at three implications of data – starting with new sharing practices by big foundations. Then I look at the rise of mobile payments as a means of individual giving not solely because of the value of dollars that will move through this system but because the digitizing of money is one more way in which the digital environment is undergirding the whole economy. Finally, I look at the critical responsibilities of social economy enterprises regarding transparency and privacy.

These trends are significant, but their effects will be filtered by several predictable unpredictables. I make specific observations about next year in the section, **Predictions for 2013** and then call out some ***Wildcards*** that may come into play in 2013, mitigating or accelerating the timing of the big shifts. In particular, I think 2013 will see state legislatures and courts play key roles on nonprofit disclosure, social businesses, and taxes. As I do every year I revisit last year's predictions in the section **Hindsight: Previous Forecasts** where I note what I got wrong about last year, not to keep score but to learn from the past. ***Buzzword Watch*** presents some of the year's most talked about ideas.

Finally, I present **Glimpses of the Future** in which I consider potential policy and practice implications of the changes already under way. The policy world is murky and the timing of certain decisions and their implications are hard to predict. This final section projects potential implications of behavior changes, policy debates, and shifting social assumptions. This section in particular draws on the work I've been doing at Stanford University's **Center on Philanthropy and Civil Society,** co-leading the **Project on Philanthropy, Policy, and Technology**. That work will continue in 2013 and I'm sure my thinking will continue to evolve. Please contact me at **lucy@lucybernholz.com** with questions, suggestions, or examples of how you used this *Blueprint* and any recommendations or suggestions you have.

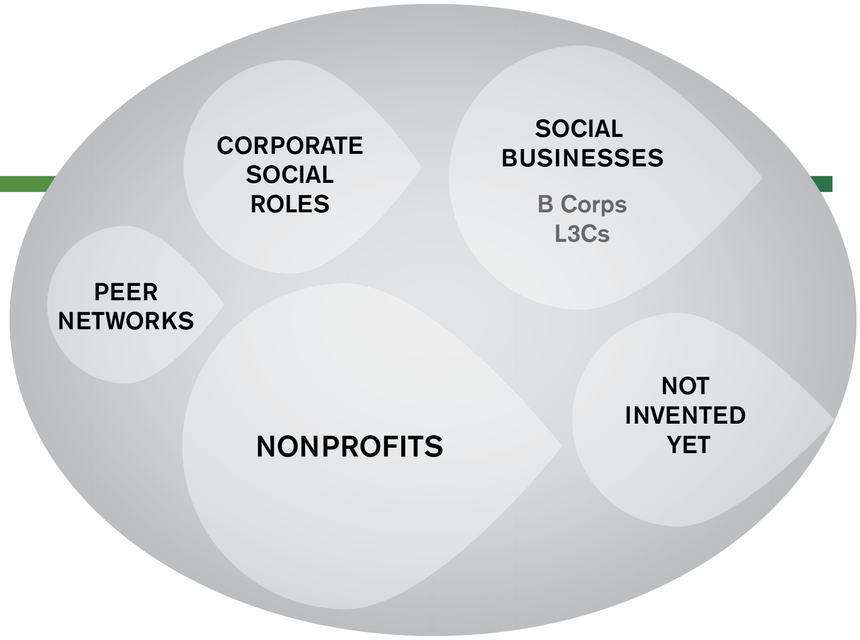

Figure 1: Enterprises in the social economy

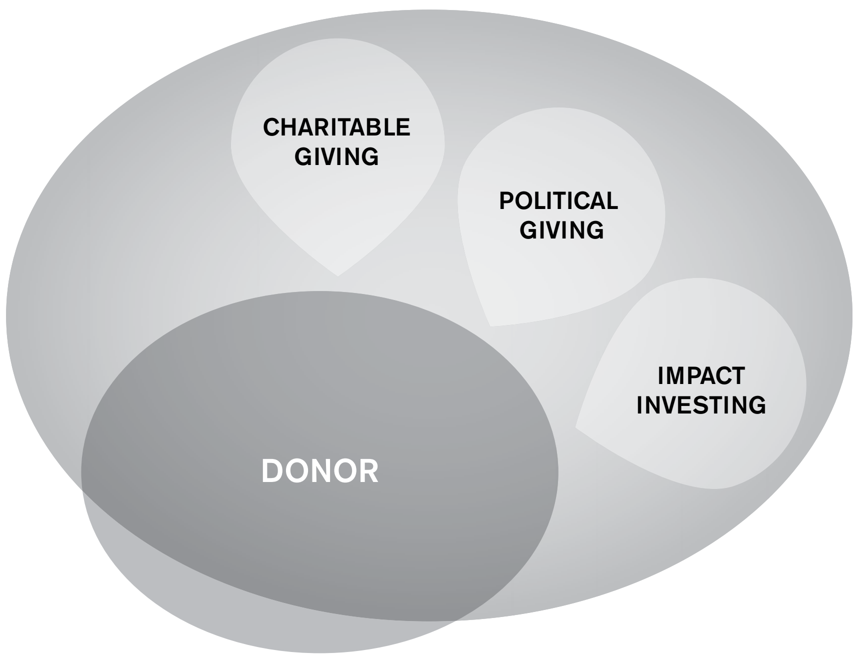

Figure 2: Donor choices in the social economy

Insight: Big Shifts that Matter

For the first time in four years all of the shifts in this section are data-related. There are two reasons for this. First, technology adoption is now widespread enough that we are beginning to see broad changes in how donors and activists do their work. A "digital infrastructure" is emerging for the social economy and individual actors are contributing to it, using it, and changing their work because of it. Second, policy changes (which are usually in this section) are either imminent – in which case I've included them in the **Predictions for 2013** section – or embryonic – in which case timing them is a fool's errand and I instead discuss their root sources and potential implications in **Glimpses of the Future**.

Bill Gates once said, "The impacts of fundamental technological change tend to be overestimated in two years and underestimated in ten."[1] What follows are technology and data changes that have been brewing long enough to finally really matter.

FOUNDATIONS GO BIG ON DATA

We are standing at a new "starting line" for data in 2013. Real progress has been made in building tools. Foundations and nonprofits are beginning to change behaviors around sharing information. The early adopters are moving forward and new on-ramps are being built for others to join them. We have passed the point of just making data accessible. The new starting line is about putting the data we have to use, looking for relationships between nonprofit/philanthropic data and larger data sets from the public and private sectors, and experimenting with new practices that start from the premise that we now have access to enough useful data that we can move on to explore what to do with it.

Foundations, donors, and nonprofits are soon to be drinking from the "data firehose." This past year has often been called the year of "Big Data." If making it into *Doonesbury* marks a cultural shift, then Big Data, Nate Silver, and predictive analytics crossed that threshold just before Thanksgiving 2012.[2] One result of so much information is data overload, and the most successful organizations will be those that figure out how to manage this and thrive within its contexts. Second, some organizations will deal with overload by hiring data analysts to manage data flows, analytics, and learning. And third, an increasing amount of this data will be made public and transparent for the rest of the sector and any curious others. Data are a resource like money. They are critical to success, unevenly distributed, and fundamental to the pursuit of privately resourced, public benefit activities. They are tools for reinforcing or redistributing power.

The most common question foundations are asked is, "What do you fund?" Urged on by the "stick" of federal regulation, foundations began sharing their grants data as a result of the 1969 tax act. Subsequent decades, known by the public at large as an "information age," have gone essentially unnoticed by most foundations at least in terms of sharing their information quickly, readily, and in a form that would allow easy comparison. The advent of websites and the PDF in the late 1990s stirred some to action, although by 2009 only 26 percent of foundations had hung out their nameplate on the Internet.[3] GuideStar, which began digitizing 990 data in the late 1990s, was the next step forward for foundation data, making it possible for anyone with an Internet connection to find copies of an organization's tax return. For more than a decade, the searchable databases of the Foundation Center and GuideStar have been the bleeding edge of foundation transparency.

Given how relatively impervious foundations have been to cultural and commercial shifts in information transparency, the events of 2012 are notable. More than a dozen meaningful efforts at sharing philanthropic data took flight, slow news compared to other sectors but meaningful for philanthropy. Here are the big developments:

- **Public.Resource.Org made 990 forms available for bulk download as PDFs.** These 990 forms are "raw data material" for GuideStar and the Foundation Center. But these organizations have to do a good deal of data cleanup and management to make the information useful. As the raw data become freely available and computer-usable, the landscape for innovation will open up and the business models of existing organizations will need to change.
- **GuideStar and the Nonprofit Finance Fund launched the Financial Scan tool.** This is a great example of useful data analysis for the field. It combines the professional wisdom of NFF staff with the readily available organizational data available on GuideStar. It should become a critical part of due diligence practices.
- **The Foundation Center and multiple foundations announced the Reporting Commitment to open, shareable, commonly-coded grants.** This commitment by 15 of the nation's largest foundations marks a breakthrough in gathering grants data in a shared and rapidly available form and will (I hope) encourage many more grantmaking foundations to follow this lead.

Everybody with a phone and an app from Square will have the capacity to receive grant-level sums of money, track it against specific line items, and make expense reports.

- **The China Foundation Center expanded** and rapidly implementated new reporting requirements for foundations and non-governmental organizations in the world's most populous country. The CFC grew more quickly than anyone imagined while also establishing a new standard for institutional transparency.[4]
- **The Markets for Good initiative launched.** This partnership puts forth a framework for sharing information from and about nonprofits and foundations.
- **Progress was made toward a single identifying number for all nonprofit organizations.** A subgroup of organizations in the Markets for Good initiative have been working to create a "unique ID" for every nonprofit organization – think of it as the enterprise equivalent of the ISBN for books or VIN for cars. This BRIDGE initiative may not be sexy, but it provides a level of data consistency that can vastly improve the 170-plus online giving marketplaces.
- **The Urban Institute created the PerformWell platform.** This is an exciting effort, led by nonprofits, to identify and share the common metrics they use to improve their performance. Alongside the Charting Impact effort from GuideStar and Independent Sector, we now have two industry-wide tools for comparing information across nonprofits.
- **DataKind brought data visualization and SocialCoding4Good brought software skills**

to community efforts. These are two examples of "data skills" being used for good. These two efforts bring gold-standard data visualization and coding skills to community organizations.

- **The Hewlett Foundation created and gave away its Periscope Tool.** The Foundation launched a new way of presenting its grants information and made the underlying code for the system available for free to other grantmakers. This demonstrates a willingness both to share information and to encourage sharing that is new and notable among foundations.

Linked, comparable, accessible data is the new starting line. The race is now on to see who will create what public-facing tools for making sense of this information.

- **The Foundation Center relaunched IssueLab, using Creative Commons licensing, to share all of its meta-data.** This is a big step forward for indexing, sharing, and building a repository of research funded and conducted by foundations and nonprofits.
- **TechSoupGlobal will launch NGOSource in February 2013.** This is a database of more than 500,000 organizations around the globe, each of which is the equivalent of an American 501(c)(3). NGOSource can power a new level of international giving and partnership development.
- **LinkedIn announced BoardConnect to help nonprofits find board members.** The online network, which holds untold quantities of data on individual professional relationships, rolled out new guidance for nonprofits to find the professional support they most need.
- **New partnerships and alliances among major data providers were built.** In the last half of 2012 most of the major organizations behind the efforts above announced alliances or working agreements. The Foundation Center, GuideStar, MicroEdge, TechSoupGlobal, the World Bank Institute – all are working together in a variety of ways to link and connect their data behind the scenes so that donors and doers can make better sense of the opportunities in front of them.
- **The United Nations and the World Bank continue to open up development data.** Data about billions of dollars in aid as well as a treasure trove of visualizations can be found at **open.undp.org**, **data.worldbank.org**, and **unglobalpulse.org**.

Many of these represent years of quiet work behind the scenes. They build on earlier efforts such as the Gates Foundation's support for the Data and Global Poverty "desks" at the *Guardian* UK, the Knight Foundation's continuous experimentation with public information sharing, Humanity United's *Annual Performance Report,* and the Charles Stewart Mott Foundation's subscribable grants feed. The significance of each of these developments is enhanced by the confluence of all of them.

The sum of the accomplishments over these last few years represents real progress toward a "data backbone" for nonprofits and philanthropy. Linked, comparable, accessible data is the new starting line. The race is now on to see who will create what public-facing tools for making sense of this information. How will individual donors, foundations, and public agencies put together the data on nonprofits with census data, weather data, trend data, and financing data to show new types of relationships? New data-driven insights will become a first step, an input, into the practical work of decision-making. This will stand in contrast to data's past role when they've been expensive outputs of proprietary consulting contracts.

Why does this starting line matter? Now that these tools have broken philanthropy's "behavior barrier" for sharing raw data or making it useful to the public, we enter the second phase of a data age — using it ourselves. This phase will be marked by finding new ways to compare, analyze, and present the data; asking new questions with it; and using the information to inform our work.

We can now begin to use aggregated foundation grants data in ways that simply weren't possible before. We will see new patterns and be able to ask new questions. We will also realize the limitations of these data sets (grants are simply a source of revenue to organizations) and seek new complementary and deeper data about the ways we finance, distribute, and organize for social good. Perhaps we'll see the creation of "public goods app stores" or the sharing of software code for social service or arts organizations in much the same way we see cities sharing the apps and tools they build. Over the last year cities around the country realized they could all benefit from sharing software code to power their 311 systems and help citizens connect to government services. CodeForAmerica and other organizations are leading efforts to build and share tools that make governments more responsive and efficient. The next step in using social economy data is for community organizations and funders to join in this ethos of using, sharing, comparing, and contrasting data and tools.

We may also begin to see greater awareness and even signaling of interests between individual small donors and big foundations. Individual donors have access to more than 170 online giving platforms. The digital tools they use for giving are light years ahead of most foundation check-cutting processes in terms of real-time information, targeted feedback loops, and the ability to galvanize additional support by reaching out to social networks. As data streams about small, rapid community-led actions become visible, larger funders and organizations will be able to see trends in neighborhood concerns, invest in grassroots tool libraries, match money raised through local initiatives to fix parks, and even make just-in-time grants of money or people to help with these efforts.

When it comes to data about enterprises, the "new starting point" of foundation grants and nonprofit 990 data will reveal an important truth very quickly. In isolation, these data are of limited use. They may reveal trends in funding interests, geographic density, and patterns of shared strategy. But they say little about either an individual enterprise's operational strengths or the financial/operational health of a group of organizations. These data tell us almost nothing about an organization's strategies or the results it is achieving, nor do they shed light on the status of the larger issue be it health access, student reading scores, or the number of hungry elders in a community. Foundations and nonprofits still lag behind governments and business in making good use of data. The accomplishments of 2012 move us closer to the time when we will use both social economy and public sector data to inform our work. That's the starting line toward real progress.

MOBILE GIVING AND NETWORKED ACTION

Who ever thought they needed a camera in their phone? Who would have thought that teenage girls would abandon talking on the phone for silently typing with their thumbs or that we'd rely on invisible signals from other drivers' mobile phones to provide us with real-time traffic guidance? In just a few years we've not only blended previously distinct technologies into a single device that we carry in our pocket, we've altered our ways of communicating, commuting, and community-building as a result of the omnipresence of those devices.

The next function to move into our phones will be paying for things. Already common outside the United States, mobile payments – in which your phone also serves as your wallet – will be everywhere by the end of 2013. We will see our behavior change as information and money live side by side as digital 1s and 0s on our phones. What will happen? We'll make smaller, more frequent donations, sparked by social network requests, by tapping a bank account or credit card number with a single swipe. Freelance fundraising for our own favorite causes or organizations will be easier. Crowd-sourced and -funded groups will clean beaches, feed the homeless, help the elderly, respond to disasters, all while not relying on or turning to an organization for help.

We'll see more "freelance do-gooders." Everybody with a phone and an app from Square will have the capacity to receive grant-level sums of money, track it against specific line items, and make expense reports to supporters through secure websites. From that standpoint, mobile-payment-equipped individuals will have better quality, easier to use, and more accurate financial reporting capacity than most small nonprofit organizations. We can only hope that the best of the changes in practice developed for mobile payments – real-time reports, secure online systems, pre-coded revenues and expenses – will leak into nonprofit and philanthropic practice, easing the heavy burden of most organizational reporting.

The reality of mobile payments handled through a smart phone is that an individual donor has all the pieces of big philanthropy – information and money – in one device. The technology has leapfrogged the big institutions in favor of networked individuals.[5] Networks of individuals using their connections can be credited with raising the funds to purchase Nikola Tesla's laboratory and open a museum to honor the "father of the electric age." They also helped save Bletchley Park, home to the United Kingdom's code cracking sleuths during World War II and funded the writing of a book about the effort.[6] Now that people have all the tools of institutions, we will change how we do things. We will change what we do with and without institutions, and we will change how our institutions (funders, nonprofits, and others) work.

This is not all positive. Ever-smaller donations to organizations can require ever-greater organizational investments in technology to manage. There are privacy and security issues associated with mobile payments and digital data (these are discussed in the next section). Networked individuals are good at starting things, but the jury is still out on how effective they are at maintaining services over time. And while there are more Internet connected devices on the planet than there are people, not everyone has a smart phone. Issues of access, equity, and skill divides still matter, they've just switched from wired desktops to mobile phones. Time and technological advances have shifted these justice issues to a different venue, but have made them no less important or easier to address.

PRIVACY, TRANSPARENCY, AND OWNERSHIP IN THE SOCIAL ECONOMY

The tension between privacy and transparency is definitional for those who use private resources for public good. Organizations working for the public benefit have a particular responsibility to be inclusive in the data they collect, use, and advocate with while also respecting the privacy and ownership of that data by the people from whom it comes.

Think of it this way – today's nonprofit organizations are defined by how they use their financial resources and who benefits from those resources. The non-distribution requirement and the limits on personal benefits are mechanisms by which these organizations ensure that the public, not individuals within the organization, benefit from the financial assets owned by the enterprise.

This same logic should carry forward into data assets. Nonprofits in the future will be defined by how they use their data for public good while protecting the personal privacy rights of all who contribute that data. This definition will come first from good practice. It may follow thereafter in the form of legal requirements. We will all be well served if nonprofits take a leadership role in defining and demonstrating the practices they want to see encoded in future regulations.

In her bestselling book, *The Immortal Life of Henrietta Lacks*, science writer Rebecca Skloot argues that personal ownership of our bodily tissue will be the next great frontier of research and philanthropy. Human tissue is a new raw material for biological and genomic innovation and a source of data for research, patient care, predictive health, and biological manufacturing. This casts our blood and skin cells in a whole new light. Most of us would agree that we own our bodies – they may be the most extreme example of a private resource. But the value of our tissue as data – at no real physical cost to us other than a cheek swab – also makes our tissue a valuable public resource. In the aggregate, our individual tissue gains new value. It is only in the aggregate that these tissue data can help us find new cures, discover new uses of existing drugs, or uncover new relationships between symptoms and disease.

Consider this: we can now contribute small cell samples that may hold the key to transplantation breakthroughs. The 2012 Nobel Prize went to an economist who worked on ways to most efficiently manage transactions such as matching organ donors to recipients. Tissue donation is often a personal decision made in the close context of family need. With our advances in data storage and mathematical modeling we have now created global matching schemes that allow people to act on behalf of their loved ones and save the lives of strangers at the same time. This is the new frontier for public and private choices.

The scientific progress that makes human tissue a new data source also embodies (literally) the increasing tensions between transparency and privacy. But it is not only our physical tissue or our DNA code that we may contribute as data. With the rise of social media, GPS systems, and cell phones we leave a trail of data behind us with every click, call, and commute.

The loud and inescapable cell phone call of another diner and the ever-shifting privacy policies on social networking sites have raised our collective awareness of what we share consciously and unconsciously.

Sometimes our data fears are triggered by lost laptops or break-ins of company or government databases. We are learning more and more about who owns the data we store on company servers or the photos hosted on social networks. The 2012 presidential election revealed growing sophistication in the use of proprietary algorithms to mine public records, advances fueled by the pursuit of political donors and the ever-elusive "undecided voter." We stand by, somewhat agog, each time a lapse in security reveals just how accurate a picture of us has been created by proprietary algorithms sucking disparate public data on mortgages, car registrations, and school enrollment into ever more sophisticated marketing resources.

This broad context is important for enterprises in the social economy to understand. Public opinion about privacy and transparency is fluid, not fixed. Nonprofits continue to earn higher trust ratings than business or government, and how they use personal information is going to influence that standing. While greater transparency and open sharing of information gets lots of attention and

Nonprofits in the future will be defined by how they use their data for public good while protecting the personal privacy rights of all who contribute that data.

will fuel all kinds of insights, the respect for individual ownership and personal control of the information they provide may well become a defining element of social economy enterprises. This is a great opportunity for the social sector – a chance to set a standard for collecting, using, storing, and sharing individual data in ways that keep the individual in control while also allowing for innovation and new insights.

As the sector tries to catch up on data, transparency, and innovation we need to differentiate data about people from data about enterprises. The former will require the creation of some standard practices, built from within community organizations, about how people's information will be used. Initiatives such as the Mozilla Privacy Icons and efforts at setting shared standards for using private data in public research are great starts.[7] The work of the Electronic Frontier Foundation, disease research foundations working with patient registries, and the best practices from domestic violence/child abuse organizations also provide useful frameworks. A leading set of organizations is working on these issues: the Electronic Frontier Foundation, Public Knowledge, The Berkman Center, Internet Archive, Digital Public Library of America, Tactical Tech Collective, and the New America Foundation.

The Ford Foundation began highlighting some of these issues in 2012 in its Wired For Change conference, materials from which can be found online.[8] There is expertise to be had, partners to work with, and much work to be done.

It behooves organizations that seek to use private resources for public good to get these issues of "private" and "public" right. This is not entirely new territory for philanthropy. The issues of donor control and intent are central to the operating structures of private and public foundations and the non-distribution requirements on nonprofit revenue offer a frame for thinking about how we use data assets. Data is a very different asset than money, but the principles of private intent and public benefit still apply as a starting place.

Because of the ways data can be used over and over again (unlike money) and because the use of data creates more data, we may need to tweak our practices around financial donations to account for data. We may need systems for managing data privacy, ownership, and transparency that gives the data providers a range of options. The global success of the Creative Commons movement shows that people shift along a spectrum of sharing their data and their ideas. We give away a lot, when we are given the choice. Our individual willingness to give our data, to encourage its use for public good, and to allow our community organizations to use it and make sense of it is going to rely on our trust in how these decisions are made and in the enterprises that make them.

I believe that how enterprises navigate the tensions of private data and public good will become a differentiating factor for organizations in the social economy – not all will make the same choices. These practices and choices about data may eventually serve to distinguish and define organizations within the social economy the way financial profit motive does now.

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Buzzword Watch

The full list of buzzwords from 2012 is online. Here's a subset, as well as some buzzwords that will catch your ear in the year ahead.

X

X gets my vote for the buzzword suffix of the year. Add an X to your name and you instantly imply "cool," "open," "technologically-with-it," and "cutting edge." Top examples of the use of X are the X Prize, TEDx, and EdX.

Hackathon

What happens when you put software coders in a room with a common set of tools and a problem to solve and feed them pizza for two or three days? You get a hackathon – a quasi party/work event that has been common practice among the coding crowd for years. Over the last four years these events have expanded to include public officials, nonprofit executives, and community members eager to build low-cost technology solutions to shared problems. With the rise of readily available nonprofit and philanthropic data, expect to see more and more such events (also known as Code Jams).

Fiscal cliff

In the summer of 2012 the U.S. House and Senate reached a compromise on the national debt only by pushing off the toughest decisions and creating a self-imposed confluence of spending cuts and tax increases for January 1, 2013. The "fiscal cliff" is the fear-evoking nickname for what the U.S. economy is expected to face if these changes go into effect as scheduled.

MOOCs

A MOOC is a Massive, Open, Online Course, or the somewhat bovine sounding name for a (usually free) class, offered over the Internet. Classes developed and delivered by university professors are lighting up the airwaves, allowing people anywhere to take classes once open only to enrolled students. MOOCs have universities and colleges in a fever of disruption. As the business models shake out and the questions of public purpose get real, MOOCs will force open an important discussion for all nonprofits about "how, for whom, and who pays?"

Makers

The Do-It-Yourself movement used to be the purview of woodshops and quilting bees. Cheap electronics and rapid advances in technology, including the advent of commercially viable 3D printers (which allow you to make objects the way large companies once made prototypes) is changing manufacturing, robotics, and design. Just as mobile phones and broadband access have changed how we organize service enterprises, these new technologies and the "makers" who use them may redefine every other enterprise as well.

Foresight: Predictions for 2013

The trends discussed in the Insight section are powerful and long-term. What can we count on happening in the next 12 months?

- **Congress will change the rules on tax deductions**. Congressional hearings on charitable tax deductions will occur in the first half of 2013. They will set lower limits for charitable deductions for the wealthiest donors.

- **The federal estate tax will go back into effect in January 2013, as it was originally scheduled to do in 2010.**

- **The Affordable Care Act will reveal new opportunities for communities.** States and counties will spend much of 2013 designing and implementing the new systems of health care delivery and insurance made possible by the Affordable Care Act. The year provides a good planning opportunity for all social service funders, organizations, and entrepreneurs to plan for the major shift in the social safety net that will become real in 2014.

- **State courts will take center stage on issues of nonprofit donor disclosure.** There will be state level legal action about donor disclosure and the political activities of 501(c)(4) social welfare nonprofits (continuing from the 2012 election cycle). This will happen largely out of the public eye and will attract limited media attention, although it will set the stage for campaign finance activities in 2014 and 2016.

- **Crowdfunding will go mainstream.** People will use crowdfunding sites, like Kickstarter, Indiegogo, Crowdrise, and others more than ever, and we'll use them for an ever-wider range of funding activities. Friends asking friends for support is the oldest (and most reliable) fundraising mechanism we know.[9] The Giving Pledge shows that it works even at the highest levels. Technologies that connect us all with our closest friends and them to their next circle of friends make raising small bits of money online ever easier. Hurricane Sandy demonstrated the power of this yet again, as neighbors applied crowdfunding and "crowdfinding" tools in unprecedented numbers – examples include the widespread use of **Recovers.org** and Amazon wishlists to provide supplies to hard hit neighborhoods.

  The passage of the JOBS Act in 2012 expands these possibilities, as the Act's regulations go into effect making crowdfunding legal for equity investments in small businesses. This law allows coffee shops, florists, bookstore owners, and other entrepreneurs to raise startup capital using crowdfunding sites. These are equity investments that require less onerous and expensive registration information than previously required. The expansion of these ideas into the for-profit sector stems from their success as tools for raising funds for nonprofits and independent creative projects.

  Beyond the funds raised, crowdfunding has ramifications that lead to further predictions. First, entrepreneurs (social and otherwise) will be expected to use it as proof-of-concept funding. Second, managing a crowdfunding effort will become a litmus test for networking, planning, sales, and implementation skills. Investors and employers will expect job candidates to be able to demonstrate these skills. Similarly, program officers and philanthropic donors will get in the habit of factoring these potential financial resources into their reviews of proposal budgets. This set of skills, as part of a greater understanding of social finance innovation in general, will be increasingly important.

- **Civic crowdfunding will grow and may exacerbate inequality.** Crowdfunding is not only expanding from independent and nonprofit projects to commercial businesses, there is also a rise in crowdfunding of civic projects, from parks and playgrounds to streetlights. Examples of these sites include Citizinvestor and Neighbor.ly, which allow neighbors to promote and choose civic projects to fund.[10] While there is great excitement about these methods as a way for taxpayers to have choice and a say over the infrastructure in their city, we need to heed the potential of these sites to further divide our communities into "haves" and "have nots."[11] Just as public school fundraising can lead to tremendous discrepancy within and across districts, the abilities of some neighborhoods to pay for services that others must forego is worrisome.

The balance between innovation and fair access, private services and public responsibility is at the heart of making civic crowdfunding work.

In 2012, several companies launched services aimed at disrupting taxi services in big cities. Uber, SideCar, and Lyft each offer phone apps that allow riders to bypass cab dispatchers and arrange their own rides. Municipalities from New York to San Francisco are now seeking to ensure the safety of riders and drivers. The transportation situation shows how quickly technology is moving us into new gray areas between established domains of public oversight (taxis) and peer-based services such as carpools. Tech-facilitated alternatives are exciting and inspire us to re-imagine the overall system of city transportation, including bikes, buses, cabs, and ride-sharing. They also need to be managed in ways that ensure both safety and equitable access. The balance between innovation and fair access, private services and public responsibility is at the heart of making civic crowdfunding work.

- **Technology-enabled civic engagement will grow.** The efforts of organizations like CodeForAmerica, which brings technologists into municipal governments to help them work better and faster, is a promising approach for using technology within government. They aim for nothing less than making public service sexy again. Several cities, including Philadelphia and Boston, have taken the "tech for civic good" credo to new levels, creating mayoral offices such as the Office of New Urban Mechanics to unleash technological efficiencies on citizen-identified priorities. These offices have positively changed the ways cities interact with their citizens, the tools they use to fix potholes and manage public transit, and the way residents perceive their local governments. Formal efforts such as the ones named above build on several years of active tech volunteering for cities – a trend we will continue to see as software coders, hackers, and city governments continue to collaborate to build useful tools from massive city data sets.
- **Six new Social Impact Bonds will be issued in the United States.** Massachusetts got out of the gate first and New York City was right behind in putting together these public-private, pay-for-performance financing measures. Although the evidence is still out on whether or not the bonds work, the infrastructure and interest is in place to increase the number of bonds issued by the end of 2013. You can learn more about social impact bonds at SocialFinanceUS.[12]
- **"Dead" 501(c)(4) organizations will litter the nonprofit landscape.** In the course of the 2012 Presidential election a number of social welfare organizations opened for business, collected and paid funds for electioneering purposes, and closed down. These organizations proved to be like fruit flies, living their entire lifecycles in mere moments between reporting requirements. For many of these organizations the only long-term trace they leave behind will be dollars raised and spent.

Judging from 2012, however, some of these organizations may also leave a trail of lawsuits and last-minute donor revelations. The weekend before the November 6th election saw two different state courts order two different social welfare organizations to reveal their donors.[13] It will take some time to see how this behavior affects other nonprofit organizations, donors, political fundraising, and assumptions of anonymity. While much of the attention around Citizens United and 501(c)(4)s focused on the presidential election, these groups and their funding are significant forces on state and municipal elections as well as on propositions and referenda. Judging from the 2012 election it may well be a series of state-level inquiries, commissions, and courts that set the stage for how 501(c)(4)s will be involved in campaigns over time.

- **Charitable organizations will fail in greater numbers, and we might even have accurate data on this (two predictions in one)**. The financial pressures of the last four years will take their toll on nonprofits, and many will close their doors or merge with others. In its 2012 annual survey of nonprofits the Nonprofit Finance Fund found that 90 percent of organizations providing "lifeline" services were facing increased demand, as they had also reported in each of the previous two years.[14] More than half of the organizations surveyed had fewer than three months of cash on hand, complicating their ability to deal with slow government payments (a reality for most) or to do any long-term planning.

  In its data on 2009 and 2010, the Urban Institute reports an increase of 130,000 in the overall number of nonprofits, but also notes that the number of reporting 501(c)(3) public charities decreased by more than 27,000.[15] As commercial options grow, nonprofits are also losing their share of private employment in social assistance, education, and health.[16]

  Data on nonprofits has always been hard to collect, years out of date, and difficult to use for sector-wide analyses. With 501(c)(4) and (c)(6) nonprofit organizations playing increasing roles in political campaigns, the need to get data on the basic parameters of the sector became of keen interest to investigative journalists and the general public. The need for data also showed just how hard it was to get, as some nonprofits file tax forms and others don't. Some report annually to the IRS, others report some information on a monthly basis to the Federal Election Commission, and some organizations will go out of business before they file anything.[17] The opening of 990 data (see page 5) may reach the point in the next 12 months where we can publicly and accurately count and compare numbers of tax-exempt organizations on an annual basis.

- **Political advocacy about nonprofits will get more visible and more fragmented.** Since 1980 the nonprofit sector's most significant professional and advocacy organization has been Independent Sector, founded by John Gardner. It is a membership organization that often works with the National Council of Nonprofits, state organizations, the Council on Foundations, and other research and advocacy organizations.

2013 Wildcards

In addition to the big shifts that matter and my 2013 predictions, there are several "predictable unpredictables." These include:

- Impact investing will experience its first major public scandal.
- Congress will pass a version of the DISCLOSE Act.[18] Efforts at amending the U.S. Constitution to counterbalance the Supreme Court's decision in Citizens United will continue to attract attention.
- The movement to curtail political spending by 501(c)(4) and (c)(6) organizations will gain momentum.
- Social businesses and Benefit corporations will fight and win tax incentives and credits at the municipal and state level, even as Congress debates the tax deductibility of charitable giving.[19]
- Food and water insecurity will cause major civil unrest around the world, shifting the focus on natural disasters to their secondary manmade implications.

In 2012, its position as lead voice on Capitol Hill was challenged, other organizations insisted they would play a greater role in advocacy, and new efforts were started. One of these, CForward, works to elect local and state officials with nonprofit sector expertise, and in 2012 it saw six of the eight candidates it endorsed win election.[20]

DC-based advocacy organizations will be busy on Capitol Hill fighting against changes to charitable tax deductions, but the real action for nonprofits will be at the state level around budget issues, donor disclosure, the intersections of nonprofits and campaign finance, and continued efforts to charter new kinds of social corporations.

- **Asian philanthropists will grow in prominence and visibility in 2013.** Wealthy Asians will continue to fill the global ranks of emerging philanthropists. They will do so in their own ways, mostly staying outside the bounds of the Giving Pledge and other western efforts.

Hindsight: Previous Forecasts

Few issues dominated the 2012 news cycle like money in politics. That's one call I made correctly at the end of 2011. If anything, I underestimated how big an issue the rise of unlimited spending on elections and political campaigns would become. When all was said and done, more than $6 billion was spent on the election cycle, $2.6 billion of that on the presidential race (actually a decrease from the $2.8 billion spent in 2008.)[21]

At least $351 million flowed through 501(c)(4) and (c)(6) nonprofits. Another $203 million in "dark money" came out of these organizations, although from whom they raised it originally is still unclear.[22] All told, the Center for Responsive Politics estimated that outside organizations spent $970 million on the 2012 election, not far from my intentionally provocative prediction of $1 billion.[23]

Much of this money raised the attention of watchdog organizations and the media. Frontline, the PBS investigative reporting program, reported that the IRS had open investigations of 70 501(c)(4)s as of September 2012. The program also noted that in between the annual tax filings required of them, these organizations "often stopped operating or created new groups under new names."[24]

I certainly did not anticipate the level of investment individuals would make in sponsoring state level ballot initiatives. In October *The Chicago Tribune* reported that three California residents (two of whom are related to each other) contributed almost $100 million on three ballot initiatives.[25] Immediately after the election **Maplight.org**, a nonprofit that tracks political spending, noted that two of these three ballot initiatives (Propositions 32 and 38) that failed had received $36 and $44 million respectively from their two individual supporters. Proposition 39, which passed, received $29 million from its single biggest donor – making the three individuals' total contributions $109 million with one victory at the polls.[26]

As important, and unseen by me until early in 2012, is the spillover effect that demands for the disclosure of political donors is having on the age-old commitment to anonymous charitable giving. Demands for transparency are running headlong into traditions of charitable anonymity, particularly in 501 (c)(4) organizations. Late in 2012 New York State passed emergency rules requiring these organizations to identify donors.[27]

Demands for transparency are running headlong into traditions of charitable anonymity.

On other topics, I was not quite so prescient or accurate. I did not expect that the China Foundation Center would register over 2,000 foundations in just two years, nor that it would launch a transparency index.

I was wrong on the scale of the biggest disaster of the year. The Japanese government estimates the 2011 tsunami as a $309 billion disaster, making it the most expensive in history. It will take months for dollar estimates from the October hurricane that swept across the eastern United States to come in, but the numbers right now are well below a trillion dollars.

On the other hand, I was right about donor disaster fatigue. The Indiana University Center on Philanthropy tracked year-to-date totals of giving for the 2004 Indian Ocean tsunami, Hurricane Katrina (2005), Haiti earthquake (2010), and Hurricane Sandy (2012). Three weeks after each event, the total in philanthropic donations was: $1.3 billion, $610 million, $752 million, and $219 million, respectively.[28]

As far as the Giving Pledge goes, at the time of last year's publication the Pledge had 69 signers with $150 billion in philanthropic assets. As of this year, there are 92 pledgers representing more than $215 billion in philanthropic gifts. George Lucas of *Star Wars* fame made headlines when he sold Lucas Films to Disney for $4 billion and pledged to donate the entire amount to education.[29] The Foundation Center launched an "**Eye on the Giving Pledge**" in 2012, deeming the billions in giving by these individuals worthy of tracking.[30]

Way back in 2010 I expected an index of social enterprises to be launched. I was off by two years – the Social Impact Index (SI 100) launched in November of 2012. It's not really an index, more like a list of vetted nonprofits, but it got the branding right!

While the 2012 *Blueprint* pointed to the sharing economy as a trend to watch, I did not anticipate its continued rate of expansion. Car sharing and its like are hailed as signature behaviors of what is being called "the cheapest generation."[31] In 2011 more than $257 million in venture capital went into sharing businesses. Estimates of these investments in 2012 were more cautious, noting that a single investment in a single company accounted for half of that 2011 total.[32] At the same time, new venture funds are being created and the mainstream media, including *Forbes* and the *Wall Street Journal*, ran several articles on the sharing economy as the next big thing. Calls to prevent regulation of the sharing economy also grew, a sure sign that it's gaining ground (and therefore regulation is being sought).[33]

Feel free to comment on **www.philanthropy2173.com** or email me with your thoughts on how well I did.

Prediction	Right	Wrong	Notes
Charitable service demand increase	✓		
Philanthropic giving barely budges from 2011	✓		
State budget cuts affect nonprofits	✓		
EU tensions shift foreign aid to philanthropists			No data
Political wrangling over role of government	✓		
First $1 trillion natural disaster		✓	
Natural disaster philanthropy "fatigue"	✓		
Social businesses and investing grow	✓		
Mobile payments will grow		✓	Calling it again for 2013
Giving Pledge as benchmark	✓		
Social media matters more for foundations	✓		Growth in **Foundation Transparency 2.0**
More state/city fees on nonprofits	✓		
City voluntary fee structures			No data
Veterans return, need jobs and services	✓		

Glimpses of the Future

REALIGNING POLICY WITH PRACTICE IN THE SOCIAL ECONOMY

The social economy frame is intended to help us see the full range of business ventures, charitable efforts, philanthropy, and investment capital geared toward producing positive social results. The slow spread of alternative corporate forms (B corporations and L3Cs), the rise of businesses pursuing social missions, and the increased use of philanthropic endowments for pro-social investments all add up to a fundamentally different set of systems for using private resources for public good. This is not the future; it is today. What was once on the edge is now mainstream.

I believe the next phase for the social economy needs to be driven by a new discussion about the unique role of organizations like those we know as nonprofits and foundations. For what purpose are these kinds of organizations most valuable? For what purposes can social purpose profit-generating enterprises be best used? Which purposes of our civil society – associational, expressive, and truly separate from both markets and the government – are best served by which components of the social economy?

The organizations and financing systems within the social economy are not created equal. Nor should they be. They should be complementary. For that to be possible our thinking needs to be deeper than just about the revenue models of the different enterprises. We need to think about accountability, governance mechanisms, the use of free labor (volunteers), the role of incentives and oversight, and information ownership. The creation of new corporate forms for producing social goods is a step forward from the perspective of drawing in more money and enterprises to the sector. However, bigger and more is not automatically better or even good enough. We still need to think about what purposes we want served and what the right mix is of institutional and financial systems to accomplish those goals.

Early in 2013 politicians will resume negotiations about the tax code and discussions about limiting charitable tax deductions. I believe the sector will need to make new arguments to preserve those privileges. The arguments should not just be standard issue self-preservation.

The discussions about the tax code and charitable tax deductions should be our opportunity as a body politic and a civil society to re-align the regulatory domains of social good with the actual practice. Three independent studies done in 2010 and 2011 found changes in the tax rules would have minimal effects on giving. Simultaneously, entrepreneurs are rushing to create social purpose businesses. How do we want these two options to co-exist? Who does what best? What are the common goods – the civil society purposes – for which tax incentives and protection from markets is critical? Most of the discussion and hearings, however, will not involve everyday people. As do most discussions in Washington, DC, they will engage the professionals and the vested interests. For this reason and because there is no coalition representing an alternative point of view, I fear that the political battle will be fought narrowly over maintaining the tax deductibility of charitable gifts. There will not (yet) be serious discussion about the most effective ways to provide incentives for private involvement on behalf of public benefit, no discussion of data as a public good, and the opportunity for the discussion of more substantial regulatory change will be missed.

The discussions about the tax code and charitable tax deductions gives us the opportunity to re-align the regulatory domains of social good with the actual practice.

Beyond the hallways of the Capitol, many more questions beg answers. Will we see scrutiny of the governance requirements that separate nonprofits and social businesses? Is the non-distribution rule regarding revenue in excess of costs still appropriate in an age of social business? Are there other rules that would better protect the public purpose of social organizations while easing some of their financial woes? Alternatively, is there a public purpose limit, tax, or distribution requirement that should be levied on social businesses to prevent the all-too-familiar pursuit of profit from winning out over mission?

These are big questions. We need big answers. Politics as usual isn't going to get us there.

In his 2012 book, *Future Perfect*, Steven Berlin Johnson describes the development of what he calls "peer progressives" – new networks of "doers" and "donors" using the non-hierarchical, distributed authority, open source model of the Internet and using it for political action and community change.[34] These kinds of organizations and networks, along with sharing economy enterprises, will continue to grow. They bring with them great potential for addressing shared social challenges. They also further disrupt the staid set of policy choices that have guided how priorities have been set among organizations that fund and deliver public goods with private resources.

We're reaching a point where impact investing and philanthropy are increasingly intertwined. A 2012 report from the Acumen Fund and Monitor Institute, "From Blueprint to Scale," suggests the phrase "enterprise philanthropy" to explain the way charitable giving often lays the groundwork for building new markets.[35] Whatever you call it, more and more donors and institutional funders are looking at how they can best use a dollar – whether as a donation or an investment – based on the outcomes they hope to achieve. Right now, those deliberations are also shaped by the rules for those two kinds of financial uses. We will find that those rules don't always best serve the larger purpose.

Finally, data as a philanthropic resource is beginning to gain traction in practice. We have not addressed data in philanthropic policy other than as part of annual reporting requirements. Drawing from open government movements, scientific research, and the open publishing world, it would be wise for philanthropy and nonprofits to take up the policy issues of data use, ownership, and privacy themselves, rather than wait for a regime to be imposed.

NEW ASSUMPTIONS, NEW INSTITUTIONS

The financial challenges of the past four years and the recent attention to the skyrocketing costs of college, along with the passage of the Affordable Care Act, give us an opportunity to reflect on our society as a whole. Twenty-year olds today often carry mountains of college debt, have no expectation of a "job for life," have significant doubts about home ownership, and don't expect to receive public retirement benefits. They only know a world defined by instant digital access, mobile phones, and global awareness. They are redefining workplaces, careers, innovation, privacy, and the civic sphere. MTV, a company with a pervasive need to understand the interests and talents of young people, has re-dubbed the group known as the millenials as "generation innovation."[36] This is a generation that has the inclination, the tools, and the need to co-create the next set of community organizations, philanthropies, and social movements.

The assumptions of this generation – about their future and the future of their families, communities and the planet – are not the same as those that guided Baby Boomers and previous generations. They see their future in ways that differ significantly from the world views of those who created most of the institutions in our society today. The way existing organizations market their products and services – whether we're talking about a college education, a financial services firm, a health care provider, a job recruiter, or a philanthropic institution needs to change. This generation will question the value and cost of college, spend trillions of dollars via mobile payments, monitor the changing coastlines of their parents' favorite cities, and figure out ways for societies to ensure health coverage for the elderly and the young. They won't mourn the passing of the postal service and may not ever hear a telephone busy signal. They will bring the same values that led to universal mail and phone service to developing the rules, regulations, and market conditions for internet-based voice communications and text messaging.

This mismatch between what younger generations expect and what our existing institutions are selling is both a point of discomfort and an opportunity. If it is true that these four pillars of financial and career planning – college, jobs, homes, and retirement – do not hold up the dreams of the young, we should expect that the young will create new institutions rather than abandon their dreams. They will define new pillars of a thriving community. Social enterprise and social businesses are likely just the front edge of this wave of institutional invention. There will be alternatives, replacing the systems and institutions that were once in place. Existing institutions and practices won't disappear, but those that thrive will adopt the emerging practices that progress makes possible.

GLIMPSES OF NEW GOVERNANCE

Questions about privacy and transparency lead us quickly to consider our models of accountability and governance. In February of 2012 the Susan G. Komen Foundation, acting fully within its rights and obligations as a board and management team, changed its policy for funding Planned Parenthood. Hundreds of thousands of previously loyal Komen supporters voiced their dismay, pulled their funding, dropped their volunteer support, and called on the organization to change its course and its leadership. Within a week the board and management did as their public demanded, yet almost a year later the organization is still struggling to regain trust, support, and its brand.

Is the non-distribution rule regarding revenue in excess of costs still appropriate in an age of social business? Are there other rules that would better protect the public purpose of social organizations?

Time will tell whether the new expectations of transparency can be handled with new communications strategies or whether they are harbingers of new models of governance. It is possible that our expectations for greater transparency are driving some of the renewed interest in governance models such as co-ops, in which every member

Given the mismatch between what younger generations expect and what our existing institutions are selling, we should expect that the young will create new institutions rather than abandon their dreams. They will define new pillars of a thriving community.

is also a decision maker. We may see membership organizations begin to experiment with more inclusive decision-making strategies. We'll also likely see more "horizontal" decision making networks, which eschew the top down, board of directors approach and stick to smaller groups that can be managed locally and connected globally. Techies are particularly good at this way of working, as demonstrated yet again in the distributed responses to Hurricane Sandy.

These events will come to be seen as the first shot across the bow of individuals and communities holding their organizations to account in ways that require new governance mechanisms. Civic crowdfunding, flash mob philanthropy and organizing, and the culture of co-creation and hacking will place new demands and offer new solutions for how our shared social enterprises account for themselves and their work.

Appendix

Detail on the Social Economy

Reprinted from Blueprint 2012: Philanthropy and Social Investing)

The social economy refers to the all the ways that we direct private resources to public goods. Private resources include money, time, and organizational structures controlled by individuals. Public goods are things created by society that can be used by many people without diminishing access to them by anyone else.

This broad view brings to the center much of the innovation of the last two decades, including the rise in corporate social responsibility, the creation of impact investing, networks of activists that reach beyond formal institutions, and the rise of social enterprise.

Within the social economy there are two overlapping clusters – those who do the work (doers) and those who fund the work (donors). Many people fit into both categories – they work or volunteer for social purpose organizations and they fund others. Many "donors" are very active "doers" and vice versa. There are nonprofit and for-profit "doers" and "donors" – enterprises and resources. There are also formal networks of organizations that connect both enterprises and resource providers.

Informal networks of people who get together to make something happen are increasingly viable options for doers and donors. These groups operate without boards or hired staff and they often fund their efforts from within their group. The very nature of these networks makes them hard to count. These groups use mobile phones and social network technologies as "infrastructure" for their work. Examples include community-based artist networks such as SOUP in Detroit and FEAST in Brooklyn or CrisisCommons, an international list of 2,000 volunteers who create software for disaster response efforts. Current events, from the political unrest in North Africa to the Occupy movement, have made political versions of these networks very visible.

COMPONENTS OF THE SOCIAL ECONOMY

The social economy expands our frame of reference about the private resources that we use to create, fund, and distribute public goods. We are used to thinking about this all as the "nonprofit sector" – by which we have generally meant 501(c)(3) public charity organizations and the philanthropic contributions we make to them. Nonprofits/philanthropy make up one galaxy in the social economy universe. Political giving is another galaxy. Impact investing is yet a third. These galaxies are similar, but not parallel. For example, each galaxy includes organizations and funders (doers and donors). There are dynamics and "gravitational forces" within each galaxy as well as between galaxies within the universe. There is definitely a bit of chaos involved.

Imagine the various components of doers and donors clustered into three galaxies:

- **Philanthropy/Nonprofits**
  Doers: 501(c)(3) organizations.
  Donors: Charitable giving and other revenue sources that fund these organizations (government, fees, investment income).

- **Impact Investing**
  Doers: Social businesses, community development finance institutions.
  Donors: Debt and equity impact investing funds, program related investments, emergent mutual funds for impact investing.

- **Political Giving**
  Doers: Campaigns, political parties, political action committees (PACs), and nonprofit 501(c)(4) and 501(c)(6) organizations.
  Donors: Individual and corporate donors.

Nonprofits include enterprises that perform social welfare functions such as helping elders, catalyzing creativity, and cleaning up the environment.

There are almost one million public charities – 501(c)(3) organizations – with annual revenues of more than $1.4 trillion. The nonprofit sector as a whole also includes another 500,000 political, civic, and trade associations.[37] Different classes of nonprofits operate under different tax guidelines, have different rules about their political activity, and must disclose different kinds of information about their donors. The 2010 *Citizens United* decision is changing the annual revenue flows to these organizations although there are many questions about how much of this money is really new (as compared to redirected from other places).[38]

Philanthropy includes charitable giving by individuals and organizations. Giving USA reported 2010 U.S. giving at $290 billion, with the bulk of it (more than $211 billion) coming from individuals. Giving in 2011 was reported at $298 billion. In recent years a new forecasting group, Atlas of Giving, came on the scene to offer an alternative forecast and reported much higher numbers ($322 billion in 2010 and $346 billion in 2011). Because Atlas of Giving doesn't reveal either its data sources or its algorithm these calculations can not be checked or verified.

More and more giving is done online, either directly to organizations through their websites or through any one of hundreds of online giving portals. In 2010 online giving accounted for eight percent of all giving (about $22 billion).[39] Mobile giving (text donations) is included in these estimates.

Social businesses are commercial enterprises with a social purpose. These include well-known brands as Stonyfield Farms Yogurt, Method Cleaning Products, and Patagonia clothing. These companies work in ways that are helpful to the environment, promote good governance practices, and give back to their communities. Some of them are incorporated as social businesses through the benefit corporation structure or as a low-profit, limited liability company (L3C), though most are not. There are more than 650 registered B Corporations in 18 countries with collective revenue of more than $4 billion.[40] This is an increase of more than 200 companies and a doubling in revenue since 2011.

Social investing includes several tools by which you can manage your investments to match your values. A subclass of social investing, which is becoming an asset class unto itself, is called "impact investing." This involves actively financing companies that produce social and financial returns. Foundations participate as impact investors through mission- or program-related investments. Individuals participate in impact investing as direct investors and through pooled funds. While market measures are still developing, 42 impact investing funds managing $1.9 billion are currently registered. There are 205 impact investment funds listed on ImpactBase, a new database for investors.[41] Growth projections for impact investing are as high as a trillion dollars by 2020.[42]

Political giving through nonprofits is growing, as are the number of organizations. These are mostly 501(c)(4) and 501(c)(6) nonprofits that are directly involved in elections and campaigns. The donations and organizations operate under different disclosure and tax rules than 501(c)(3) charities.

Informal networks of individuals who share a cause are increasingly visible parts of the social economy. CrisisCommons is a global, 2,000-person network of volunteers that uses open-source software to create real-time maps and alert systems for disaster response. These networks have no legally recognized governance structure, may be entirely self-funded, and can't easily receive deductible donations. They are readily accessible to anyone with a cell phone.

Figure 3 shows us three galaxies in this universe – nonprofit/philanthropy, impact investing, and political giving. Each large bubble represents the *approximate* size of a galaxy, as measured by revenue. The small orbiting "moons" represent the share of that galaxy's revenue that comes from private contributions. The "planet" marked "501(c)(3) orgs" represents 501(c)(3) nonprofits and the "moon" is private contributions.

We simply don't have good measures for some components, so the second and third "galaxies" in the chart are representative and not exact depictions of the size and scale of each set of relationships.

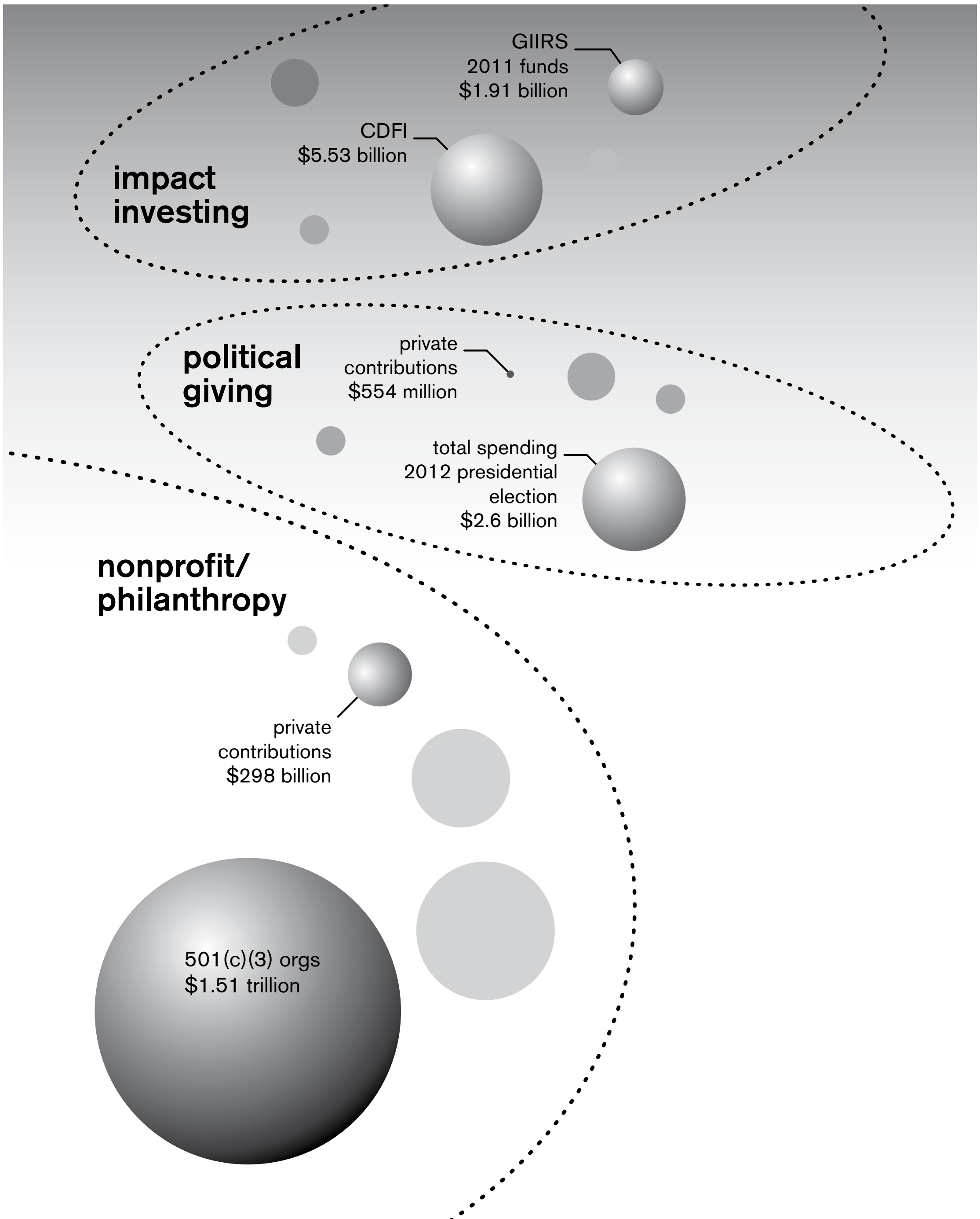

Figure 3: Galaxies in the Social Economy (highlighting private contributions)[43]

Galaxies are not to scale.

The nonprofit/philanthropic galaxy is by far the largest component of this universe – it is the most familiar, the best studied, and the most accurately measured. The galaxy marked political giving is the total spent on the 2012 presidential election nationally and the moon is independent contributions. Impact investing is the most difficult of all to measure.

For illustrative purposes the impact investing planet uses 2009 revenue of U.S. Community Development Finance institutions as the planet. Assets of the 42 GIIRS-rated impact investments with $1.91 billion in targeted as of August 2012 are used to represent the moon of private investments.[44]

The impact of each component is not merely a function of its size. For example, the progress that impact investors are making in measuring social returns exerts pressure on philanthropists and nonprofits to do the same. Similarly, recent rulings from the Supreme Court are changing the ways we fund political candidates and shifting the influence and relationships between different types of nonprofit and political organizations.

Two additional elements are at work in the universe – the role of the individual decision maker and the role of networks. Donors today are choosing between and among philanthropy, impact investing, and political giving to pursue their goals. An individual may make a donation, organize support for a candidate, and research a possible impact investment all on the same day with overlapping groups of colleagues. Sometimes, the lines between the galaxies are clear, other times they are blurry. The different dynamics and relationships within and between the galaxies play the role of gravity and dark energy in our universe metaphor – they shape and influence how the overall universe functions even though they are hard to see and harder to measure.

Understanding the social economy means seeing all three financing systems – charitable giving, political support, and impact investing – and considering the dynamics between them. Doers and donors make choices between and among these ways of using their resources. In some cases, these choices will involve direct substitutions – a donor will fund a candidate rather than make a charitable donation. Networks of like-minded doers and donors connect the separate components. People may get together on one weekend to raise funds for a ballot initiative and the next weekend to support a nonprofit. Friends use their Facebook pages and Twitter accounts to rally supporters to both causes and candidates. Informal networks that come together, go away, and then recombine for another purpose, are the least visible elements of the social economy.

Endnotes

1 Bill Gates quoted in Mark Fidelman, "The Promise and Perplexity of the New Social Construct," Forbes Online, November 10, 2012. Accessed online. **http://www.forbes.com/sites/markfidelman/2012/11/10/the-promise-and-the-perplexity-of-the-new-social-construct/**

2 Specifically, the November 20, 2012 issue of Doonesbury included Nate Silver references, a fact that was picked up on by major media commentators. **http://jimromenesko.com/2012/11/20/a-big-day-for-nate-silver-hes-in-doonesbury/**

3 **http://foundationcenter.org/findfunders/statistics/pdf/12_fs_fr/2009/reporting/raa_09.pdf**

4 You can see the Transparency Index at **http://en.fti.org.cn**/

5 Lee Rainie and Barry Wellman, Networked: The New Social Operating System, (Cambridge, MA: MIT Press, 2012).

6 **http://www.unbound.co.uk/books/saving-bletchley-park**

7 **https://wiki.mozilla.org/Privacy_Icons**

8 The Ford Foundation Wired For Change conference materials can be found here **http://www.fordfoundation.org/issues/freedom-of-expression/advancing-media-rights-and-access/news?id=677** Information on its grantmaking in this area, which provides an introduction to key players in the field, is online here **http://www.fordfoundation.org/issues/freedom-of-expression/advancing-media-rights-and-access/grant-making**

9 See a McKinsey-led discussion on crowd funding **http://voices.mckinseyonsociety.com/the-crowdfunding-landscape/**

10 **http://citizinvestor.com/**, **http://neighbor.ly**

11 **http://www.ethanzuckerman.com/blog/2012/08/10/how-do-we-make-civic-crowdfunding-awesome/**

12 **http://www.socialfinanceus.org**/

13 Following a claim from the California Fair Political Practices Commission, the California Supreme Court required donor disclosure from an Arizona group (Americans for Responsible Leadership) that made a last-days $11 million contribution focused on two California initiatives. **http://sanfrancisco.cbslocal.com/2012/11/05/arizona-donation-to-oppose-california-prop-30-called-money-laundering/**. Another organization, the American Tradition Partnership, was ordered to reveal its donors by a District Court Judge in Montana (and an investigation by ProPublica and PBS Frontline). **http://www.propublica.org/article/dark-money-groups-donors-revealed**

14 Nonprofit Finance Fund, "2012 State of the Sector Survey" results. Accessible online at **http://survey.nonprofitfinancefund.org**.

15 The Urban Institute, The Nonprofit Sector in Brief, 2011, **http://www.urban.org/publications/412434.html**, and The Nonprofit Sector in Brief, 2012, **http://www.urban.org/publications/412674.html**. My analysis uses data from Table 1 in both briefs, comparing reporting public charities in 2009 with those in 2010.

16 Lester Salamon, "What Do Nonprofits Stand For?" Baltimore, MD: Johns Hopkins University, 2012. Accessed online **ccss.jhu.edu/what-do-nonprofits-stand-for**

17 ProPublica, a nonprofit hub of investigative reporting, covered the role of nonprofit money in the presidential campaign quite closely and produced this online database of 107 organizations and their filing information. **http://projects.propublica.org/dark-money/**

18 This was a 2010 bill introduced in the House of Representatives focused on disclosing political con-

tributions. DISCLOSE is an acronym for Democracy Is Strengthened by Casting Light on Spending in Elections.

19 Benefit corporations are a type of corporation, chartered at the State level, that protect social and environmental goals in their chartering documents. Some of them are registered B Corporations.

20 For endorsements and results see **http://www.cforward.org/candidates**

21 Data from **OpenSecrets.org** and the Center for Responsive Politics. Accessed on November 8, 2012. **http://www.opensecrets.org/news/2012/10/2012-election-spending-will-reach-6.html**

22 **http://www.opensecrets.org/news/2012/10/2012-election-spending-will-reach-6.html**

23 **http://www.opensecrets.org/news/2012/10/2012-election-spending-will-reach-6.html**

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37 The Urban Institute, National Center for Charitable Statistics, 2011. Online at **http://nccs.urban.org/statistics/quickfacts.cfm**

38 Campaign Finance Institute, **http://cfinst.org/Press/PReleases/10-10-18/Election-Related_Spending_by_Political_Committees_and_Non-Profits_Up_40_in_2010.aspx**

39 Blackbaud, Inc., 2010 Online Giving Report. **https://www.blackbaud.com/files/resources/downloads/WhitePaper_2010OnlineGivingReport.pdf**

40 **www.bcorporation.net**

41 **http://www.impactbase.org/**

42 JP Morgan, Impact Investments: An Emerging Asset Class, November 2010 **http://www.rockefeller-foundation.org/news/publications/impact-investments-emerging-asset**

43 We don't have good measures for some of the elements of the social economy. This chart is most useful for its rough representation of the ratios of private resources within each component of the social economy. The nonprofit data comes from The Urban Institute. Political giving is represented by total spending on the 2012 elections and independent expenditures in that cycle; the data come from the Center for Responsive Politics. Impact investing is the most difficult category as there are no annual figures available. To represent an investable sector, I've used the 2009 total revenue of Community Development Finance institutions. I've counted (as private investments) the $1.91 billion in assets of the 42 GIIRS rated Funds as of August 2012. I use these numbers because they are vetted and publicly available. I welcome comments and contributions for better data sources.

44 **http://giirs.org/for-investors/fund-directory** Accessed November 6, 2012.

Notes

ABOUT THE FOUNDATION CENTER

Established in 1956, the Foundation Center is the leading source of information about philanthropy worldwide. Through data, analysis, and training, it connects people who want to change the world to the resources they need to succeed. The Center maintains the most comprehensive database on U.S. and, increasingly, global funders and their grants – a robust, accessible knowledge bank for the sector. It also operates research, education, and training programs designed to advance knowledge of philanthropy at every level.

ABOUT THE EUROPEAN FOUNDATION CENTRE

The European Foundation Centre, founded in 1989, is an international membership association representing public-benefit foundations and corporate funders active in philanthropy in Europe, and beyond. The Centre develops and pursues activities in line with its four key objectives: creating an enabling legal and fiscal environment; documenting the foundation landscape; building the capacity of foundation professionals; and promoting collaboration, both among foundations and between foundations and other actors.

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