My Impact - Fundamentals of Modern Philanthropy

New Perspectives for Foundations
The term ‘Philanthropy’ is derived from Greek and etymologically stands for ‘human-caring’ or ‘human-loving’. Someone who engages in philanthropy - that is, someone who donates his or her time, money, and reputation to charitable causes - is hence referred to as a “philanthropist”. The most conventional modern definition of philanthropy is “private initiatives, for public, common good, focusing on quality of life”. This combines the social and scientific aspect of philanthropy, developed in the 20th century, with its original humanistic tradition.

Our world is constantly changing and, therefore, our understanding of what “philanthropic commitment” means has also changed over the course of time. In contrast to philanthropy in its original sense, today’s understanding of philanthropy is an expression of solidarity and commitment to society and must be considered in light of the global socio-economic context. In addition to the traditional ways of donating and establishing foundations, more new philanthropic policies are being introduced to the charitable sector - which actually have been shaped by business practice and market economics. New paths are being trodden and a broader, modern understanding of philanthropy has been introduced.

The way in which today’s generation of sponsors and donors have earned their recognition is reflected in a broader, 21st century concept of philanthropy. In addition to classic concepts of donating, these donors and benefactors make more use of the personal skills that they have gained through employment, and of their contacts and their expertise. Hence, many have become personally involved in the charitable organizations they support. Multiple approaches to responsible and sustainable investment are also being applied to the traditional philanthropic model.

The authors of this guide have created a comprehensive and collaborative piece of work that provides an excellent overview on philanthropy for today’s philanthropists – its origins, concepts, approaches and methods. Hence, this handbook will enable the reader to gain extensive insights into key fundamentals of modern philanthropy.

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Introduction

Philanthropists, foundations and charitable organizations have always supported projects and programmes which pursue a broad variety of promotional and reputational objectives across multiple sectors - including the environment, society, art and culture or research and education. At its heart, a foundation’s efforts are focused on promoting its own aims and objectives. However, in order to promote these aims, the foundation requires access to funds that usually stem from revenue provided by conventional capital stock markets or from the foundation's assets - traditionally, in form of a donation. A donation may take various forms, including a cash offering, dedicated services as well as new or used material goods. It also may consist of emergency relief, humanitarian aid or development aid support. The major aim of making a donation is not to receive a deed in return but to make the greatest impact.

The concept of **Philanthropy** is always in flux. Increasingly, it is shaped by business and socio-economics and driven by financial professionals that aim to make their way into the charitable sector. Hence, the concept itself is constantly evolving and expanding - but follows a simple maxim ‘donate time and money - and step in’. These days, businesses are stepping in and responsible investors, as well as venture capitalists are entering the charitable sector. As a consequence, the traditional boundaries between profit-making investments on the one hand, and the establishment of charitable funds and goals on the other, have increasingly become blurred. Three fundamental investment concepts come to mind when describing this new approach of “doing well by doing good”:

The approach towards active philanthropy, also known as **Venture Philanthropy**, considers philanthropic activities as social investments in charitable organisations and, therefore, draws on methods used in business administration to establish venture capital. Charitable organizations are provided with financial grants through long-term, specialist and first-hand support. The aim is to strengthen the foundation as it seeks to reach its goals and to supplement the classical model of donating funds with a long-term time funding horizon.

Another approach to describe investments made by foundations and other mission-based organizations to further their philanthropic goals is “Mission investing”. There are two distinct categories of mission investments: market-rate mission-related investments (MRIs) that have a positive social impact while contributing to the foundation’s long-term
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financial stability and growth; and program-related investments (PRIs) that are designed to achieve specific program objectives while earning a below-market rate return. And in line with “Mission investing”, there are two distinguished forms that have become very popular amongst global trusts and foundations:

**Impact Investing** purposefully aims to make a positive, quantifiable impact on society while generating financial revenue. As a result, the social and ecological impact is becoming a priority while making a financial profit is often deemed less important. Frequently, returns which are below market value are accepted practice for this investment method. The investments can take the form of loans, guarantees, direct investments in companies and even include shares in venture capital and private equity funds. Impact investing can also include investment interests in microfinance, fair trade, socially motivated companies or in social financial instruments that are performance-based.

**Responsible Investing** aims to maximise returns on two fronts: returns that are in line with investment market performance and returns that provide a positive, social impact. Responsible investing is usually based on investing in listed securities. By including ESG (environment, social, governance) factors, a company’s goals and those of an investment policy can be aligned, concealed reputation risks can be avoided, risk management can be improved or returns on capital employed can be increased.

The diversity and complexity associated with philanthropic activity is increasing. Hence, this handbook aims to assess both conventional and new instruments in modern philanthropy while illustrating how and where they converge. In doing so, these instruments ought not to be seen as replacing traditional means but as ways of expanding them. The historical background of individual philanthropic concepts as well as their terminology, approaches and their processes will be examined in more detail throughout this guide. In addition to relevant theory, the reader will also find real-life examples and practical steps to learn about key initiatives and further sources of information to deepen his / her understanding of modern philanthropy.

We hope that this handbook will illustrate the broad variety of impacts that charitable foundations can make - by both applying and acquiring funds. At this point, CSSP would like to thank all its sponsors, without whose support it would have been impossible to compile this handbook.
‘We believe that philanthropy will continue to grow across borders, sectors and causes helped by advisers and the availability of other resources that support successful giving strategies.’

Grant Gordon, Chairman, Philanthropy Impact

www.philanthropy-impact.org
1. Philanthropy

As humanitarianism – in the broadest sense – philanthropy has constantly evolved over the course of history. Today, philanthropy includes every form of charitable activity, from donating funds and material goods to allocating time and resources.

Expert view by Prof Dr G. von Schnurbein, Centre for Philanthropy Studies
Origin

Philanthropy has been a *conditio sine qua non* (indispensable and essential action, condition, or ingredient) of civilisation - since the term was first used in Greek mythology. The philosopher Aeschylus describes how Prometheus offers fire to mankind – civilisation, in a metaphorical sense – although his act is against the will of his gods. At the end, Prometheus has to pay a high price in return for his deed - however, it is not his act of altruism which can be seen as an act or element of modern philanthropy, but it is rather the kind of deed he performs that is still prevalent and stands for the idea of philanthropy. The fire enables the recipients to help themselves and to ultimately improve their living conditions. Providing support in a way that helps others, and in order to help themselves, remains a pillar of modern philanthropy and combines early philosophical principles with today’s socio-economic methods.

Generally, the word philanthropy is commonly used to refer to high net worth individuals, such as Bill Gates or Stephan Schmidheiny who promote the common good by generously setting up foundations and donating large sums of money. In a similar way, Warren Buffett secured his reputation in the public eye as a philanthropist by donating over 30 billion US dollars to the Bill & Melinda Gates Foundation. However, this definition of philanthropy falls far too short and excludes many deeds which one could also class as being philanthropic. Therefore, we will briefly introduce the etymological and historical development of the concept before describing its current multi-faceted nature.

The word philanthropy derives from the Greek and translates as “love for mankind” (philéô = loving, friendship, caring; anthrôpos = man, humanity). Consequently, a philanthropist is someone who, generally speaking, is active in helping others. Greek philosophers had their own views about philanthropy. Xenophon (426-355 BC) argued that only a few extraordinary people had a philanthropic personality. He viewed philanthropy not merely as generosity. Instead, he argued that it also required foresight and an ability to make decisions. Weighing up certain deeds with practical implications hence became a challenge early on. In this context, Aristotle asserted: “To give away money is an easy matter, and in any man’s power. But to decide to whom to give it, and how large and when, and for what purpose and how, is neither in every man’s power - nor an easy matter. Hence it is that such excellence is rare, praiseworthy and noble.” Seneca came to a similar
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conclusion in his work de vita beata: “You are wrong if you think that giving is easy.” Other philosophers saw philanthropy as the result of the very best education and upbringing, and added a pedagogic perspective to the concept. This view became very popular during the 18th century and was shared by the educational theorist Johann Bernhard Basedow. He stated that philanthropy was considered a virtue or act which could only be accessed by the elite. In turn, philanthropic acts were often seen as a tool used by the elite to secure a particular position in society. Charitable acts that benefited the less privileged aimed to secure their loyalty.

Moreover, philanthropy served and serves as a positive trait of character. Donating generous sums to museums or to fund academic endeavours were features which set the elite apart from other social groups. Hence, the oldest form of philanthropy is charity in combination with elements of mercy. Over time, the concept of philanthropy or charity has changed and developed in this context. Social conditions, the current canon of values or the economic situation all have been crucial factors. Up until 150 years ago, philanthropy as a concept existed primarily as a form of almsgiving – a deed which was hoped would alleviate the plight of the poor. Giving alms was an expression of Christian love and was therefore a part of a religious path to salvation.

The modern concept of philanthropy was developed during the 18th and 19th century and is associated with foundations established by American tycoons who invented the concept of the philanthropic foundation. The new elite was conscious of their duty to contribute towards the development of society to maintain a peaceful co-existence. Andrew Carnegie wrote in his manifesto The Gospel of Wealth: “The man who dies rich, dies disgraced.” This line which has often been quoted embodies a message frequently recited by sponsors and patrons. It’s about giving (something) back to society.

In Europe, there were a range of pioneers who leveraged the concept of early philanthropy, such as August Francke, Ernst Abbe, Christoph and Margarete Merian, Maurice de Hirsch and Robert Bosch. Some of their philanthropic endeavours were unfortunately destroyed or minimized during wars or the period of dictatorships. Despite similar philanthropic efforts being made on both sides of the Atlantic, their views significantly differ in regard to governance. While a tradition of the weak state was favoured in the USA – a model that primarily encouraged indirect, private action as opposed
to direct involvement – bourgeois philanthropists in Europe experienced a feudal form of governance led by the nobility and the Christian Church. European institutions became sponsors for many private initiatives in the USA and founded universities and museums. Prewitt argued that these new grant-making foundations followed three steps: an investigation into the roots of the problem, permanent employees who would implement the strategic aim of the programme and a focus on long-term goals. Today’s sponsors, both in America and Europe, often follow these steps set out by the early philanthropists in the 19th century.

**Concept**

Our modern understanding of philanthropy is situated within the current social context and is an expression of social solidarity and civic community engagement. Today’s concept primarily comprises donations and voluntary actions but also includes acts such as establishing foundations or creating legacies. In order to distinguish philanthropy from similar terms, such as charity or public welfare, we will use the following four key elements:

**Philanthropy focuses on individuals**

Philanthropy focuses on the individual who performs a deed - whereas both, public welfare or charity, primarily focus on the beneficiary who receives a deed. In addition, many philanthropic activities are not performed by an official organization. Philanthropic acts include helping others, making donations or taking part in social actions. In a world shaped by individualism, philanthropy provides clues to why individuals commit themselves to serving the common good. Everyone possesses an autobiographic philanthropic footprint. This means that everyone has somehow and sometime come into contact with the concept of philanthropy, either by giving or by receiving an act of philanthropy.

**Philanthropy focuses on values**

Philanthropy originates from a value which, in its broadest sense, can be labelled as “love for mankind”. Each philanthropic act aims to drive change in society and to promote certain values. Philanthropic acts display an ethical behaviour directed towards others. In contrast to activities performed by the state or by capital markets, the prevail-
ing maxim that drives philanthropic acts is morality - not power (state) or profit (market).

Charity and charitable acts are often interpreted as an antonym of capital markets. Definitions such as non-profit or non-governmental organisations (NPOs/NGOs) often come with a passive connotation. In contrast, philanthropy is an affirmative concept which focuses on people or organisations that are actively driving change.

Philanthropy exists in every corner of the world and can be traced back to early civilisations (see above). Philanthropic acts and recommendations can be found in religions and archaic societies around the world. Philanthropy is free of any politic, religious or other dogmatic connotations.

The following definition echoes the broad concept of philanthropy; a concept that is also described in American literature: “Philanthropy encompasses every private and voluntary act that is for a charitable cause.”

Consequently, philanthropy has become an umbrella term for an act of selfless devotion to a good cause. Philanthropy is a moral act that places the welfare of fellow human beings right at its core. In the following sections, we aim to explain the concept of philanthropy and its focus on the individual in more detail.

Philanthropy distances itself from a state’s welfare activities. In the interest of creating a strong civil society, it is in the interest of the state to offer conditions whereby philanthropy is nurtured and encouraged. Hence, the individual (whether a natural person or legal entity) is right at the heart of philanthropy. Philanthropic acts may take place within an organizational framework such as an association or foundation. As a private act, philanthropy takes also part in the private sector. In addition, it can include profit-oriented companies. Corporate charitable activity has increased over the last few years, and has become a key driver for Corporate Social Responsibility (CSR) or Corporate Philanthropy.
Philanthropy is a voluntary act

A voluntary act means that it is neither performed under pressure nor as a normative duty. However, this also implies that the beneficiary has no right to receive a philanthropic service. The individual performing the act decides if he/she wants to be charitable or not. However, expectations or moral duties which drive philanthropic decisions do often exist. It’s up for debate if donations made during a church service or whether the Zakat – an Islamic duty asking to donate a portion of one’s wealth to the poor – are truly voluntary by nature. Even philanthropic activities performed by companies are often driven by consumers and public expectations. Hence, philanthropic acts are partly indebted to social expectations or moral obligations. When referring to acts as being voluntary, we primarily mean that no legal or economic duties are the cause of this philanthropic activity. There are also no negative, legal sanctions which ensue when expectations are not met. Therefore, philanthropy is the expression of a basic ethical and moral attitude for which we are each essentially responsible. To give voluntarily within the context of the current debate on the professionalization of civil society and philanthropy implies that there are no barriers to anyone who wishes to participate, neither financially nor in terms of suitability or capability (Wuffli/Kirchschläger 2010).

Financial incentives, such as tax deductibility of charitable donations, can influence an individual’s objective to conduct philanthropic activities. However, philanthropy does not pertain to any activities which seek to maximise monetary profits or gains. A voluntary or honorary position is recognized as an act of responsibility and honour and should not be driven by financial incentives. This does not mean, though, that volunteers should not receive an appropriate remuneration for their efforts. However, these ought not to have the same value as a salary.

For a charitable purpose

If the overall goal is to benefit the community individual benefits are becoming less relevant. Philanthropy, for all its good intentions, does not necessarily imply a personal connection with the needy person - though it can and sometimes does. Philanthropy is the more institutional, “big-picture” cousin of charity, which is the personal and direct connection to those in need.

The current concept of charity is heavily influenced by tax arrangements. This means that
philanthropic efforts are often driven by a charitable status and / or a tax exemption. To evaluate an organization's philanthropic intentions, the Tax Authority of Canton of Bern uses the following criteria to assess an organization's charitable status:

• Activities must be in the interest of the general public. An institution is acting in the interest of others when it contributes towards promoting public welfare within charitable sectors of civil society, including humanitarian aid, health, ecology, education, academia or culture.

• The range of beneficiaries who receive this service must remain as broad as possible.

• The institution may not pursue any objectives that are solely based on profit or gain. [...]

• Objectives which promote self-help goals are not permitted. The purpose of the organization must not satisfy the personal interests of individual members.

• The organization must intend to make and accept certain sacrifices. This may include financial donations or unpaid work. [...]

These criteria are used primarily to assess the charitable status of organizations and institutions. In practice, however, it is often a very complicated process to differentiate between charitable and non-charitable organizations. There is a very fine line between acting in the interest of a community and acting in one's own interest. Caring for a friend, for example, is an act that focuses entirely on that individual and, therefore, is not necessarily performed in the interest of the general public. However, if one assumes that all people need to receive care when they are ill or in distress this act benefits and is in the interest of the whole community. The same situation applies when donations are made to the poor, or even when someone represents weaker social groups as opposed to the majority.¹⁸

As a very basic concept, one can assert that philanthropic acts alleviate hardship and promote someone else's quality of life. By implication, one may even say that by being involved in philanthropic activities, people are promoting the common good. A voluntary act, or philanthropy, is therefore an indicator of social transformation that encourages people “to put their time and money where their mouth is”.¹⁹
Approaches

Philanthropic activity can take different shapes and forms. In principle, the activity can be seen as a one-way donation. An individual dedicates or shares a benefit with others without receiving an equal value in return. The individual can choose between giving financial aid, time or material goods. Hence, the individual “sender” has the choice to shape the philanthropic act, while the NPO/NGO “recipient” provides the opportunities.

An activity-orientated perspective of philanthropy

Activity-based approach (describing how or in which form the philanthropic act is performed)

- Donating finances/ funds
- Donating time
- Donating material goods

- One-off donation
- Repeated donation
- Legacy
- Setting up a foundation
- Social investment
- Informal
- Formal

Source: von Schnurbein & Bethmann (2010), p. 8
Acquiring financial means is crucial for an NPO / NGO as its activities cannot be financed exclusively through fees and charges. As a result, NPO / NGO management considers fund-raising to be highly important – and as a tool for communicating and financing the organization.\textsuperscript{10}

On the other side, donating requires dedicated planning and implementation processes. Below, we have listed different ways of donating in accordance with the level of investment and information the philanthropist requires. The amount of information required for a one-off donation is relatively small while the process of setting up a foundation requires detailed analysis and defined objectives to specify the foundation’s aims and beneficiaries.

One-off donations are one of the most common forms of philanthropic activity. Donations are given on the basis of active fund-raising schemes (e.g. direct mail) or through spontaneous acts. They are often given during festive periods, whenever unusual events occur (natural disasters) or in the form of a donation given to a homeless person on the street.\textsuperscript{21}

In contrast, continuous donations reveal long-term commitments with a specific, charitable cause. Regular donations can come in the form of a direct debit as well as in the form of an NPO / NGO membership characterised by “idealistic support”. In order to plan for the long-term, NPOs / NGOs prefer periodic and regular donations. To encourage regular contributions, NPOs / NGOs often provide concessionary prices to their own events, dedicated magazine subscriptions or similar services.

A legacy is a donation that has been left by a deceased individual in his / her will. More and more NPOs / NGOs are extending their fund-raising strategies to include this kind of “legacy marketing” - after all, approximately 900 billion CHF will be bequeathed in wills over the next few years!\textsuperscript{12}

Social investing is a specific form of donation. The benefactor invests in a particular project or individual and, hence, the benefactor plays an active role. He / she supports an organization or individuals in achieving their social goals. Primarily, the investment should not provide any kind of monetary return but should drive a positive change in society. Hence, the projects may be profitable but the social aim is always most important.

Setting up a foundation is another way to make a financial donation. Foundations are characterized by being highly independent, having a defined purpose and by the long-term nature of their investment. By setting up a foundation, the benefactor has the great-
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Donating time

Philanthropic activity is not just a question of money. This is well illustrated by the sheer amount of time dedicated to philanthropic activities. Farago estimates that voluntarily services in Switzerland amount to around 750 million hours every year.24 The significance of voluntary activities for civil society and democracy was recognized by Putnam (1993) and many others.25 Thus, voluntary activities promote the development of social capital. The level of voluntary activity is a good indicator for a stable democracy. On the one hand, a lot of voluntary activity takes place within official organizations and associations. On the other hand, many people are active at a social and private level - for example, going shopping for an elderly neighbour or looking after each other’s children.26

Private, voluntary activity was incorporated into academic analysis of civil society just a few years ago. Voluntary activity in one’s social circles has since been recognized just as important to society as official voluntary work.

Official activities include the time that one voluntarily donates within an official setting - but also includes unpaid positions within these organizations. Usually, an elected position includes certain duties which an individual is obliged to fulfil on an ongoing basis. It is important that this position remains unpaid in order to remain included in our definition of philanthropic activity (see above).27 Apart from providing specific skills, the volunteer can also exchange knowledge as a way of donating his/her time. Organizations such as innovage refer private individuals who offer and donate their expertise and skill set to civil society. Corporate volunteering programmes encourage company employees to contribute their professional qualifications and expertise to NPOs/NGOs.

Donating materials

A third way of donating includes donating material assets which beneficiaries or NPOs/NGOs can receive and use in connection with their activities (such as vehicles, food, infrastructure etc.) or as a contribution towards their organization’s assets (artwork, patents, property etc.). For
many foundations, a part of their capital consists of material assets such as property or art collections. In addition, companies can donate their own products for charitable purposes. Individuals can also provide material assets to charitable organizations on a permanent or temporary basis.

Philanthropy has a long tradition as an idea and a philosophical concept - and has become an integral part of our civilization. However, the concept of how philanthropy as a ‘love for mankind’ in its broadest sense should be implemented has undergone constant change over the course of history. Today, philanthropy includes every form of charitable activity, whether donating money and materials or donating time (see above).

However, the essential characteristics that distinguish philanthropic acts from other acts need to be further assessed. Firstly, a key aspect is the voluntary nature of such acts where the presence of regulative requirements or legal conditions is excluded. Secondly, there is a focus on a charitable purpose. We would like to emphasize that the purpose of promoting the common good does not necessarily mean that it always driven by altruism. Personal interests, motives and preferences can and are also entitled to influence philanthropic activities.
Charitable foundations create value(s)...

**Sourcing & raising of funds**

- ‘Profit-oriented investment approach’

**Investments based on a foundation’s existing assets; new fundraising activities**

**Application of funds**

- ‘Purpose-based application, exclusively with a charitable aim’

- Impact on society through different types of donations

- Objectives are met exclusively through application of funds
- Crises can lead to an increase in appeals
- Low returns can lead to reduced profits
- Impossible to use donations in multiple ways

Resources:
- www.acf.org.uk
- www.ceps.unibas.ch
- www.stiftungen.org
- www.swissfoundations.ch
- www.vlgs.li
‘There’s something very powerful about foundations and charities linking the initiatives and topics that they fund with the ESG engagement topics that their asset owners engage upon on their behalf.’

Abigail Herron, Head of Responsible Investment Engagement, Aviva Investors

www.avivainvestors.com

‘The ancient principle of “civic virtue“ applied to the fiduciary role. It also animates philanthropy by directing private resources to the public interest. Now’s the time to link ‘civic virtue’ to investment policy, practice, and impact.’

Dr. Marcy Murningham, Editor in Chief, Murningham Post; Scholar and Adviser on Ethics and Economis for SASB, Harvard University, GRI, ICCR, Ceres and The Boston Foundation
‘Venture philanthropy works to build stronger social purpose organisations by providing them with both financial and non-financial support in order to increase their societal impact. It’s about merging the soul of philanthropy with the spirit of venturing.’

Kurt Peleman, CEO, European Venture Philanthropy Association

www.evpa.eu.com
‘Active philanthropy’, also known as ‘venture philanthropy’ in the Anglo-Saxon world, considers philanthropic activities as social investments made in charitable organizations and therefore draws on methods used in business administration and venture capital.
Origin

Philanthropists, foundations and charitable organisations have always supported projects and programmes that pursue different promotional objectives in various sectors such as the environment, art and culture, research, education and social policy. Carefully selecting and developing selected projects and programmes lies right at the heart of their efforts. However, very often not enough effort is spent to construct an efficient, functional charitable organization that promotes its own strengths, skills, goals and needs - and thus contributes towards achieving its goals and aims efficiently and in a sustainable way. As a result, business concepts are becoming more attractive in the world of philanthropy, foundations and charitable donating. Venture philanthropy is a concept which originated in the United States and has found its way over to Europe. The first time the term venture philanthropy was aired was by John D. Rockefeller III during a meeting of the Senate in the 1960s. Its natal hour, however, is commonly thought to have been in the 1990s when an outstanding article in the Harvard Business Review by Letts, Ryan and Grossmann sparked a debate about new forms of “active philanthropy” within foundations and charitable organizations. In their article from 1997 entitled Virtuous Capital: What Foundations Can Learn from Venture Capitalists, they called for foundations and charitable organizations to make a better use of techniques and approaches attributed to venture capital to establish a sustainable organizational structure - instead of solely focusing on reaching their philanthropic goals or purposes. Porter and Kramer also pointed out that foundations “ought to adopt a more effective and strategic plan in order to have a greater impact on society”. They also elaborated on “the importance of effectively measuring performance and impact”. The new concept finally made a breakthrough during the new economy area and with the help of a new generation of ambitious “dot.-com millionaires”. They are commonly classed as the main financiers behind this new approach to philanthropy calling for more transparency in philanthropic activity and asking for impact that could be measured – as a “social return on investment”. This new approach contributed largely towards a change in direction, and donors and benefactors became “social investors”. With the burst of the “dot.com bubble” the initial philanthropy hype began to quieten down in the US and the debate about its terminology was rekindled. Finally, by the end of the 1990s, the concept began to slowly emerge in Europe. As the interest grew, a venture philanthropy organization, the European Venture Philanthropy As-
Venture Philanthropy association (EVPA), was founded in 2004 with the aim to make venture philanthropy more efficient and to increase its impact - while promoting the aim of social investing. Amongst today’s members, there are venture philanthropy funds, foundations, private equity firms and service providers who all share the same vision – to create the most efficient market and financial structures for NGOs and charitable enterprises. Traditional ways of providing finances are not replaced but expanded and supported in the best way possible. The aim is to increase the relatively low number of active venture philanthropists (low in comparison to the number of traditional donors and benefactors) and to establish a new, active concept of venture philanthropy - based on partnerships.

The approach of active philanthropy, also known as venture philanthropy (VP), high engagement philanthropy or strategic philanthropy, considers philanthropic activities as social investments in charitable organizations and therefore draws on methods used in business administration and venture capital. Hence, charitable organizations are supported through financial grants and long-term, specialist and first-hand support. Apart from providing financial means, venture philanthropists aim to donate their professional knowledge, contacts and expertise - as intellectual and social capital. This endeavour increases the efficacy and impact of their philanthropic activity. The overall aim of venture philanthropy is to enhance an organization’s objectives and to expand classic ways of donating in the long-term.

The following definitions are also relevant in this context:

Morino Institute definition (2001): “We define venture philanthropy as the process of adapting strategic investment management practices for the non-profit sector to build organizations able to generate high social rates of return on their investments. Strategic management assistance is provided to leverage and augment the financial investment made. This approach is focused on high net worth venture capital investors who aim to build great organizations instead of just providing financial capital.”

European Venture Philanthropy Association definition (2006): “Venture Philanthropy is an approach to charitable giving that applies venture capital principles, such as long-
term investment and hands-on-support, to the social economy. Venture Philanthropists work in partnerships with a wide range of organizations that have a clear social objective. These organizations may be charities, social enterprises or socially-driven commercial businesses. The precise organizational form is subject to country-specific legal and cultural norms.”

Some of the key characteristics of these approaches are:

- **Engagement**: Apart from providing financial capital, venture philanthropy investors also provide social and intellectual capital.
- **Customized financing**: Investors provide finance in different ways; from donating to providing loans, or equity capital and mezzanine capital.
- **Support over several years**: Venture philanthropists usually support a limited number of organizations over a longer period of time, usually 3-5 years.
- **Non-financial support**: In addition to financial capital, venture philanthropists support charitable organizations by providing social and intellectual capital, including voluntary, unpaid work and advice; access to professional networks and potential financial supporters; and/or supporting initiatives on the executive committee or advisory board.
- **Developing organizational abilities**: Usually, active philanthropists concentrate on building efficient, sustainable organizational structures instead of financing individual projects and programmes. Efficient and functioning organizations are usually more effective and fulfil their goals and objectives on a larger scale.
- **Measuring performance**: Active philanthropists place great value on obtaining results that can be measured and verified, on reaching particular milestones as well as having a greater amount of financial responsibility and transparency.

Consequently, when compared to traditional philanthropy, this kind of active philanthropy places more emphasis on involvement and engagement. Additionally, some other differences can be defined:

- An increase in effectiveness and impact of philanthropic acts
- Increase in transparency and efficiency in the philanthropic sector
- Efficient and functional organizational structures and skills in NPOs
- New type of ‘investors’ for the charitable sector
The different forms and styles which make up the concept of venture philanthropy are just as diverse as their origins, aims and strategic goals. Generally speaking, every venture philanthropy organization is different. However, the organizations can share certain commonalities and forms of organizational design. As a result, four main forms of organizational structures can be identified in Europe:

**Fully-financed or equipped VP organizations**
This kind of organization is fully financed by one or more affluent philanthropists or institutional donors, such as companies and governmental organizations.

**Partly-financed VP organizations**
This kind of organization is usually initiated by one or more philanthropists who finance a certain part of the overall project. Eventually, other parts of the project are acquired by other individuals and groups who donate time and money.

**Organizations which serve to acquire funds**
Individuals or non-profit organizations create their own organizations to acquire funds and means from philanthropists, institutions etc. - either to finance their own or someone else’s work. These new organizations often merge to acquire the additional means they need to promote and grow the impact of their cause.

**Organizations which act as service providers and intermediaries**
There is a whole range of specialist advice and support organizations that act as intermediaries or partners – to interact between philanthropists and non-profit organizations, or between experts and non-profit organizations.

These are the four main entities that establish and promote venture organizations:

*Affluent individuals* who, either on their own or together with others, are the main founders and financiers of the new venture philanthropy movement.
Non-profit organizations which are sometimes supported by for-profit organizations and other partners and who attempt to acquire the means they need, either on their own or together with other organizations.

Companies and corporations which shape their philanthropic activities by using approaches based on venture philanthropy.

Ministries and authorities often act as partners for non-profit representatives and organizations - instead of acting as their sole initiator.

Processes

If the process - from project acquisition stage through to effectively securing financial means - is examined more carefully in both a venture philanthropy company and a non-profit organization, the following milestones can be identified:

**Project acquisition**

In order to effectively support a charitable enterprise, this enterprise firstly needs to be identified. In terms of process, this can happen in many different ways. Charitable enterprises can either apply directly to a venture philanthropy company, they can be identified by a VP company through a dedicated search, or they can be recommended by a third party. Research points out that, statistically, the probability of gaining the support of a venture philanthropy company through making a direct application is far lower than the probability of being identified as a potential candidate by a venture philanthropy company. Consequently, it is important that charitable enterprises have a functioning, large network of individuals and institutions.

**Assessing/ selecting a project**

For a VP company, project assessments can reduce an asymmetric flow of information and allow risk and impact to be assessed early on. For a charitable enterprise project assessments are the best form of an effective presentation. Based on venture capital selection processes, project assessments can be divided into three main phases: Pre-assessment, main assessment and the negotiation phase. Pre-assessment, also called screening,
allows the programmes or projects to be assessed as quickly as possible to avoid the need for a main assessment - that can be costly and unnecessary. However, if the VP company requires a main assessment, also called a due diligence assessment then the charitable enterprises are assessed in much greater detail - on the substance of their work and the capability of their management. This can be done by evaluating their business plans and / or by a personal interview. Depending on the financial instrument that the VP company has chosen the negotiation phase deals with negotiating financial or subsidy agreements.

The selection criteria used in assessing a project can be divided into two main groups. On the one hand, there are selection criteria that are company-specific and, on the other hand, there are general selection criteria. Company-specific selection criteria can include a region or sector, or even the stage of development - and can help to assess and evaluate the company and its projects or programmes in the quickest possible way. Generic factors on the other hand are used at a later stage to evaluate the quality of the concept and the company – generally considered as important factors for quality and success. It is important to note that the selection criteria that a VP company places on a charitable enterprise also influence their internal relations with the VP company. The criteria are clearly formulated aims which aim to guide the VP company led by a manager. Clearly defined criteria and guidelines can help facilitate the relationship between the manager and the charitable enterprise. These criteria and guidelines can help employees form decisions and make the entire decision process more objective. This selection process, in turn, can make it easier to justify the rejection of a project.

By determining the selection criteria, intermediaries also get a better understanding of the charitable enterprise and of the projects or programmes that are actually being sought. This allows intermediaries to pre-select and recommend suitable companies and projects or programmes and even replaces the pre-assessment stage - to a certain degree.

Depending on the VP company’s expectations in regard to financial returns, the financial instruments they select can also vary. VP companies have access to a multitude of different financial means, including donations, credits, equity capital and mezza-
nine capital. Selecting different kinds of financial instruments consequently has a major influence on the relationship between both parties. A beneficiary, in receipt of a donation, only needs to meet certain reporting criteria. However, a beneficiary, in receipt of equity capital or credit, needs to fulfil much stricter obligations.\textsuperscript{51}

**Evaluation**

As previously explained, one of the core elements of venture philanthropy is to have a widespread impact on society. However, measuring this effect made upon society is very difficult and requires dedicated tools and skills. The required tools need to make the impact as visible and comprehensible as possible – for all stakeholders. Social return on investment and balanced scorecards are some of the most popular measurement tools in this area.\textsuperscript{52}

**Critical evaluation**

Using approaches commonly applied in business for the charitable sector is often controversial. Critics argue that measuring impact in an objective way in a sector that is perceived as very subjective is simply not possible - and that measuring the relationship between cause and effect is also impossible.\textsuperscript{53} In addition, critics are sceptical about achieving results that can be measured and verified in this sector. They feel that risky and/or innovative and uncertain projects can become victims of a system which puts everyone under pressure in order to succeed. They also argue that the unique nature of the charitable sector will be lost to a certain degree and is conflicting with a strong focus on business activities and processes.\textsuperscript{54} As a consequence, the charitable sector is focusing increasingly on projects that can create a positive value and that are easy to identify and to measure\textsuperscript{55} - instead of financing projects that are not seen as a mainstream financial activity.\textsuperscript{56}
Charitable foundations create value(s)...

Sourcing & raising of funds

'Profit-oriented investment approach'

Application of funds

'Purpose-based application, exclusively with a charitable aim'

Impact on society through venture philanthropy

Investments based on a foundation's existing assets; new fundraising activities

Objectives are usually met through application of funds

High degree of involvement

Performance and impact are measured

Customized financing

Development of organizational structures

www.evpa.eu.com

www.philanthropy-impact.org
'Impact should be at the heart of what Impact Investing is about, it says it in the name. To understand what impact means it is vital to engage in impact analysis.'

Ruth Whateley, Manager Social Impact Analysts Association

www.siaassociation.org
3. Impact Investing

This investment approach describes investments that strive towards making a positive impact on society and can be measured - while delivering a financial return.
Impact Investing

Origin

In a world where state-run support programmes and private donations cannot solve our world’s social and ecological problems, impact investing offers a new approach that makes a demonstrable contribution towards minimizing these social and ecological problems. The efforts focus particularly on improving living conditions for the poor - who are right at the bottom of the economic pyramid, as well as on improving our environmental predicament in a profound and sustainable way.

Questions about generating return on capital and therefore about the effectiveness of capital are being asked more and more frequently. In addition to conventional investment criteria such as security, liquidity and financial returns, extra financial factors - that can have a positive effect on society - are also considered as important for this type of investment. Traditionally, a line has been drawn between profit-making investments on the one hand, and conventional donations on the other. However, this line is increasingly becoming blurred. The origin of impact investing is linked with idea of sustainable investing. We will give the idea more consideration within the following chapter on Responsible Investing.

Concept

Impact investing relates to investments that go far beyond the limits of traditional investment concepts. These investments strive to make a measurable, positive impact and to deliver a sustainable return over the long-term. Making a positive impact is hence of primary importance - while making a financial profit is often deemed as secondary. The minimum financial return needs just to be high enough to preserve its financial capital. This form of investment also knowingly accepts returns which are below the market value / return in order to drive social change.

The following definitions are found in industry and academia:

Definition by Monitor Institute, 2009: “Impact investments generate both social and ecological benefits as well as financial gains.”

Definition by J.P. Morgan / Global Impact Investing Network (GIIN), 2010: “Impact investments are investments which, apart from providing financial returns, aim to make a positive impact on society.”
Impact Investing

Definition by Schneeweiss/Weber, 2012: “Investing with the specific aim of making a positive impact on society (= social returns) as well as making financial returns.”

Definition by the Instituto de Estudios Superiores de la Empresa (IESE), 2012: “Impact investing means every profit-oriented investment that intentionally generates measurable benefits for society.”

Impact investing strives to identify market-based solutions to overcome challenges that can have an impact on society and the environment. Impact investing and responsible investing can be summarized as mission investing – when considered within the context of foundations. Mission investing generally incorporates efforts made by foundations to invest their funds with a real purpose.

Approaches towards impact investing can vary. Today’s impact investors are confronted with a broad range of sectors, regions and objectives – in emerging and developed markets. There are many different goals and activities that drive impact investing and investors, including:

- Affordable housing
- Financing socially-motivated enterprises
- Financing renewable energy
- Funding sustainable waste management
- Funding sustainable agriculture and forestry
- Funding access to drinking water
- Developing infrastructure
- Microfinance
- Improving education for disadvantaged children
- Improving healthcare
- Improving food and nutrition practices

Financial instruments used by impact investors include credits and guarantees, direct investments in projects or companies as well as venture capital and private equity investment techniques – which in turn can provide capital. Apart from profit-orientated
concepts, there are also investment concepts that aim to achieve social results (e.g. social impact bonds).
In the following, we evaluate selected approaches to impact investing:

**Faire Trade**

The poorest people on the planet often live in rural areas and earn their living as smallholders. Agriculture and smallholdings play a central role in developing and emerging countries. At the same time, smallholders are surrounded by a multitude of challenges: very limited access to finances, a lack of bargaining power, barriers to trade and issues around food safety - just to name a few. Fair Trade attempts to meet these challenges by introducing minimum price guarantees for goods and a fair trade premium. The fair trade premium is a kind of financial contribution towards social development projects and smallholders are able to decide how the money they have earned can be is used. The concept works well: Fair Trade products such as coffee from Peruvian cooperatives or bananas from Costa Rica have seen an increasing demand and popularity.  

**Health**

The International Finance Corporation (IFC) estimates that in sub-Saharan Africa alone 25 to 30 billion dollars of private aid is needed to fund basic medical care between 2010 and 2020. Governments in African countries, in Asia or Latin America are currently not in the position to meet the increasing need for health care and, therefore, require external help to cover their funding gaps. As a result, an increasing number of global investors are jumping in and are investing in innovative companies and projects that provide efficient solutions for improving healthcare.

**Microfinance**

A large amount of the world’s population receives very little income or possesses very little wealth. Hence, traditional banks often do not regard these people as customer material. Without access to finances, these people would hardly ever be able to free themselves from poverty. They are often skilled workers with good ideas but they lack money and knowledge to start an enterprise. Microfinance attempts to make up for these shortfalls by providing these individuals with micro loans / microcredit. These loans enable poor and active entrepreneurs
to develop their economic potential and to improve their chances of helping themselves.\textsuperscript{66}

According to scientific research, the rainforest will disappear in some countries in two to three decades if deforestation continues at the same pace. Governments and international organizations are introducing programmes to stop the destruction of our forests. They have developed international treaties, action plans and guidelines for sustainable forestry. This is a model for sustainable development which is based on the notion that both aims, economic growth and nature conservation, are compatible.\textsuperscript{67}

More and more charitable enterprises are taking action when numerous social problems cannot be solved by the public sector. Charitable enterprises attempt to meet these issues by using defined business processes. These charitable enterprises range from educational institutions to charitable aid foundations with a broad range of objectives and goals. The aim is to transform these organizations into “businesses” and to make them less and less dependent on donations. Social business investments or social venture funds try to support this transition and try to cover financial shortfalls. In contrast to a concept that invests risk capital (venture capital, see above), the goal is not to achieve the highest possible financial return, but instead to advance social change.

Financial return on capital depends on the measurable effect the investment can have on society but is not paid by the one who benefits from the investment. A good example of a social impact bond (SIB) is financing short-term prisoners. Short-term prisoners occur costs. Prisoners are released without support and often face difficulties when looking for a permanent residence or for employment. The majority of prisoners reoffend within a year of being released – not enough money and time is being invested to fund preventative measures. At this point, the SIB scheme is applied - which finances preventative measures in order to significantly reduce the reoffending rate among these former short-term prisoners. The financial return for a SIB depends on the effect and impact of the applied measures - and is derived from savings made on the government’s budget. The state eventually pays towards the
SIB scheme - based on the successful savings - or on a premium that is dependent on the social impact.68

In practice, the division between impact investing and so-called thematic investments (a form of responsible investing) is not always perfectly maintained. We will elaborate more on impact themes within the chapter on Responsible Investing / Positive Screening / Thematic Investments.

Processes

In general, impact investing focuses on financing projects or companies that are not listed on the stock market. In contrast to investing in listed securities, impact investments are faced with the challenges associated with counterparty risk, solvency and valuations. Selecting projects or companies requires a careful, in-depth assessment process which can be used to evaluate both the financial and social or ecological potential of the company / project (see also venture philanthropy / processes).

Impact investments comprise a broad range of impact topics – from microfinance to introducing prisoners back into society (see above) – and each impact topic has its own rules. The assessment process of a microfinance institution that invests in commercial loans to support poor entrepreneurs (see above) differs entirely from an investment assessment for sustainable forestry (see above) or fair trade investment funds (see above).

Measuring an impact made on society is not easy. It is in fact very complex and, as a result, still lacks standardized methods that can be used universally across all sectors. The aim is to assign a numerical value to the social and ecological benefits of an investment in order to measure, compare and evaluate the results. The theory of social return on investment (SROI) can be applied here.69

To measure how much CO2 is saved during a pre-specified period can be identified as an ecological return. In some areas it is now also possible to determine how living conditions have improved through micro loans and this can be accounted for as a social return. The problem to measure a social impact and return, however, lies primarily in the fact that the individual issues are very multi-faceted and very different. Therefore, it is difficult to attribute the social and ecological impact of a specific act to a specific product or to an investment. The impact is a result of multi-faceted interconnections which require knowledge of the entire system in order for them to be measured accurately.70
There have been initiatives that have tried to establish standards which can measure impact in order to balance out the complex relationship between feasibility, credibility, costs and comparability. The Global Impact Investing Network (GIIN), founded in 2007 by J. P. Morgan, the Rockefeller Foundation and the United States Agency for International Development (USAID), have developed new, standardized methods. Using Impact Reporting and Investment Standards (IRIS) they attempt to establish more transparency, credibility and consistency in order to help companies and investors to define the social and ecological impact of their investments and to establish a standardized format to report their results.

Despite the positive ecological and / or social contributions that impact investments can offer, risk management remains a challenge. There are already well-known risks associated with the private equity sector, such as liquidity risk, high start-up costs, a high risk of losing employees, high assessment costs and risks associated with emerging markets - and there are also considerable challenges attached to measure the qualitative social and ecological impact of investments.

However, these days, impact investors can get support from specialized databases or organizations that provide advice on different types of investments, specific impact topics and on the level of impact associated with them, as well as on the risk characteristics. We have provided a few impact investing contacts in the chapter on Initiatives and Resources.
Charitable foundations create value(s)...
'Both, ESG and mission investing aim to generate and preserve wealth for this and the next generation - and are vital to support the betterment of society.'

Martina Macpherson, Founder and Managing Partner, Sustainable Investment Partners

www.si-partners.co.uk

‘Sustainable Investing is long-term investing that is intergenerationally efficient and fair.’

Roger Urwin, Global Head of Investment Content at Tower Watson, CFA Board Member and MSCI Advisory Director
‘Responsible Investors are increasingly able to express their values and direct their financial resources towards sustainable purposes.’

Martin Clarke, Chair, UKSIF

www.uksisf.org

‘Access to information is the first step in making a decision.’

Christoph Dreher, Managing Partner, CSSP AG

www.cssp-ag.com  www.yoursri.com
Responsible investing describes investments that aim to achieve a positive market based financial return and, in the same time, can have a positive impact on society.
Origin

The first time the idea or term “sustainability” appeared in written form was in 1713 by the Saxon head officer for mining, Hans Carl von Carlowitz in his work about forestry, *Sylvicultura Oeconomica*. In his book, he described the principle of sustainable forestry, taking into consideration the ever decreasing amount of woodland available. His principle stated that only so much wood ought to be felled as could naturally be replaced.

In more recent times the word “sustainability” has taken on an important meaning for sectors far beyond forestry – and attracted the attention of a wider public in 1972 when *Limits to Growth* was commissioned by Club of Rome. This book introduced “sustainability”, as a core principle, to politicians and economists. In the same year, the United Nations conference on the human environment was called to meet in Stockholm in order to stress the urgency of certain environmental issues and to draw attention to the lack of international cooperation on sustainability issues.

However, the real breakthrough came with a report by the Commission on Environment and Development published in 1987 called *Our Common Future* (also called the *Brundtland Report*) which created a wave of interest in sustainability. The commission, which was made up of politicians and scientists, defined a sustainable development framework which would meet the needs of the current and next generation. Since then, the term has formally been accepted in political and economic circles as well as in civil society. Today, the broader acceptance of sustainability issues has become apparent through the increase in corporate environment and social management programmes.

Over the last 30 years, there have been a variety of international declarations and programmes which aim to raise awareness for sustainable causes in and around capital markets: The “Agenda 21” declaration (Climate Framework Convention of the United Nations) was signed by 178 states at the UN conference for environment and development in Rio de Janeiro in 1992. The aim was to define a solid programme of sustainable actions based on the *Brundtland Report*. Over the years, environmental, social and governance factors (ESG) have become more widely acknowledged by a variety of stakeholders in the investment value chain.

The United Nations’ Principles for Responsible Investments (UNPRI) came into effect on 27th April 2006. The Principles 1-6 mandate the integration of ESG factors into investment processes and demand more transparency in relation to ESG reporting/standards. Since
2006, the number of PRI signatories has significantly grown from initially 72 to over 1,000 in 2012. This result outlines the global acknowledgement of ESG factors – and the interest in an integrated ESG investment approach.

However, investments guided by principles (initially ethical and religious principles) are nothing new. They have a long tradition which dates back to the 19th century. Even during the time of the industrial revolution, Quakers and Methodists avoided investing in companies which contradicted with their own religious principles.77

Sustainable investments got onto the public radar in 1928 when the “Pioneer Fund” was set up - the first investment fund guided by principles. The “Pioneer Fund” was the first ever ethical investment fund that categorically excluded producers of tobacco, alcohol or weapons – so-called “sin stocks”78. However, the interest in ethical or eco-ethical investments really just began at the end of the 1960s – as part of an activist movement against the Vietnam War (in the US) and then later against apartheid (in South Africa).79 It all started with the small shareholders who, by selling shares and conducting protests, forced the stock price of the napalm incendiary bomb producer Dow Chemicals to collapse. From one moment to the other, sustainability literally soar to fame - although the idea itself had been nothing new.

Today, the characteristics of responsible investing are multi-faceted. Consequently, different investment styles and products - such as ethical funds, water bonds, “green” shares, ecological property funds and environmental engineering funds, to name but a few - have come under the umbrella of sustainable investments. Today, sustainable investments are available across asset classes – including equity, fixed income, property or private equity.80 Moreover, thematic (see above), impact issues such as biodiversity, renewable energy or water, are also blurring the line between sustainable / responsible investing and impact investing.

 Responsible investing aims to make a double return: returns that are in line with the market value, and deliver a positive, social impact.81 Usually, responsible investing means investing in listed securities. Thus, the investment makes an “indirect” positive impact on society. Apart from revenue, tradability and security, additional environmental, social and
governance (ESG) criteria are used in this context to select the listed securities.

**Magic square of responsible investing**

Source: based on Schäfer & Engelhardt (2007)

The following definitions are of interest:

- European Sustainable Investment Forum (Eurosif), 2010: “SRI, a generic term covering ethical investments, responsible investments, sustainable investments, and any other investment process that combines investors' financial objectives with their concerns about environmental, social and governance (ESG) issues.”
- Forum for Sustainable Investments (FNG), 2011: “Sustainable investment is the general term for sustainable, responsible, ethical, social, ecological investment and all other investment processes which include ESG (environment, social, governance) criteria in their financial analysis.”

Responsible investing and impact investing can be subsumed into the collective term “mission investing” - when considered within the context of foundations. The term “mission investing” generally incorporates a foundation's effort to bring its asset management in line with its employment of funds - to invest with real purpose.
From the very first approaches through to the present day, responsible investing has developed and expanded significantly. Today, investors are provided with a choice of different sustainable investment approaches which, depending on personal interest and preference, can be used either individually or in combination with others.

**SRI investment approaches**

Using negative criteria is generally known as a process of elimination. By applying exclusion criteria, companies which earn their money through controversial products or which display controversial business activities are excluded from being considered for investment. Apart from the classic “sin stocks” – weapons, armaments, pornography, gambling, tobacco and strong alcohol – the investor concentrates more on the company's business behaviour. Thus, shares belonging to companies which infringe internationally recognised employment laws in their supply chain are ostracised. ESG controversies at company level can include child labour, bribery or corruption.

Frequently used exclusion criteria include:
- Nuclear energy
- Controversial ecological methods
- Child labour
- Infringement of human rights
- Tobacco and alcohol industry
- Weapons

Other examples of exclusion criteria are available at www.yourSRI.com.

Generally, “positive” criteria describe an approach whereby companies - that are leaders in sustainable management within their sector - are selected for a portfolio. ESG criteria are used and integrated into conventional assessment methods in order to evaluate these companies. Current positive criteria can concern the working environment, working conditions, environment management as well as corporate governance. Companies are then either compared to other similar companies within the same sector (“best-in-class”) or to companies across other sectors (“best-of-class”).
For a “best-in-class” approach, the portfolio manager screens and selects companies that are “leaders in sustainability” - within their sector - and that deliver the best ESG performance. In this way, no sectors or goods and services are prematurely excluded from the investment world. Instead, they are compared with other companies which fall within a particular “peer group” - by using specific ESG ratings which are based on “extra-financial” or “extra-economical” or “non-financial factors”. The “best-of-class” approach even goes one step further and compares individual sectors with each other. This means that companies with a sector - which is marked lower in comparison to another sector - are excluded from possible investment.

Another form of “positive screening” is the “thematic approach”. This involves a comparison across multiple industries and is carried out to identify companies and sectors that are providing solutions to the pressing ecological and social issues of our time - such as climate change and water constraints.

A few thematic / impact topics are described in the following:

As the nuclear catastrophe in Japan demonstrated so dreadfully, failing to create a sustainable relationship between mankind and the environment can cause enormous, if not irreparable, damage in the long-term. In spite of these types of danger approximately 80% of the world’s energy is generated using fossil fuels. However, there is a promising growth market for alternative energy sources which should last for some years to come - such as wind, solar energy, small hydropower plants, wave energy and geothermal energy. The investment market is already applying itself to renewable energy sources and is developing innovative financial products in this area. Investment vehicles primarily concentrate on forward-looking, innovative companies that are engaging with energy resources and that are taking the ecological and social aspects of sustainability into account. In particular, companies engaged in renewable energy such as wind, water, biofuels, solar and geothermal energy are considered - and investment is made across the entire value chain in the energy market. This
includes advice, financing, suppliers, energy production and trade as well as also leading customers and users who help promote a breakthrough in renewable energy sources.59

**Sustainable Farming**

Farming is one of the greatest causes of damage to the environment. 90% of the world’s deforestation is caused by farming - whether to create pasture or arable land. Farming uses more chemicals than any other sector, is the greatest producers of greenhouse gases, uses 70% of our drinking water (most of it very inefficiently) and leads to erosion, salination or overuse of land - whereby a large proportion of arable land is lost and bodies of water become over-fertilised. The staggering increase in productivity and yield made possible by modern farming methods has left behind an ecological footprint which is in no way sustainable. For a long time, organic farming was considered to be the only alternative to conventional farming. Yet, after 50 years, these highly environmentally friendly methods still only make up less than 1% of the world’s cultivated land. However, organizations such as the Rainforest Alliance or WWF are introducing new standards for sustainability. The concept of the “round table” is at the heart of these efforts, where verifiable sustainability standards are negotiated with all the most important players.90

**Water**

It is evident that water is a basic requirement of life and, therefore, plays a highly important role in human health but also in agriculture, the economy and for global development. While water covers the majority of the earth’s surface (approx. 70%) only approximately 4% of it is fresh water. In turn, about half of this drinking water is preserved as ice. Whether it be for drinking, washing, flushing the toilet, farming, for use in industry or providing enough water for the world – the need for water is clearly a key issue for our and the next generation. The need for water is increasing at a steep rate - which can be illustrated using the following examples: a single orange requires about 50 litres of water to ripen. A kilogram of flowers requires 1,000 litres, a kilogram of meat requires 5,000 litres and a microchip factory uses 400,000 litres every hour. Over many years, numerous studies have been showing that the need for water increases twice as much as the population does every year and that water could become a coveted raw material somewhat like crude oil. We currently still have enough drinking water and the only problem is distributing it
across certain regions, however, the situation will become far more difficult in the future.
The need for drinking water may even exceed supply by around the year 2025. On the one hand, investments in the production process are possible - such as investing in water treatment or processing plants. On the other hand, investments can be made in the distribution process - such as in companies that are working on using water more efficiently in agriculture and in industry or that are trying to optimize the water purification process. This way, the entire value chain in the water market becomes more important: new technologies and services for pipe and filter replacement, a more efficient use of water in production processes and water-saving devices.\textsuperscript{91}

Shareholders can actively make use of their rights by entering into dialogue with companies (engagement), by exercising their right to vote or by introducing sustainability issues at general meetings (voting and shareholder advocacy). In contrast to the other two passive approaches, this approach does not result in limiting the scope for investment. Shareholder rights can also be exercised by small institutional investors by joining an “engagement pool” which combines its members’ votes to act in accordance with agreed guidelines, or which enters into dialogue with companies. Larger investors are able to exercise their voting rights directly on a particular issue.\textsuperscript{92}

In practice, individual sustainable investment strategies are frequently combined with one another. As well as looking at traditional measures such as risk, and return, deciding which additional (extra-financial) factors to consider, or which combination of them is most appropriate, depends primarily on each manager’s or investor’s understanding of sustainability - and on their goals and ideals. Furthermore, these factors can be applied across asset classes, beyond just listed equities (see above).\textsuperscript{93} Once the investment decision has been made, the investor can engage with the company as a shareholder to help direct his / her approach on ESG matters (active ownership and engagement).
Responsible investing involves screening companies using environmental social and governance (ESG) ratings. In general “rating” a company involves assessing or evaluating it in a comparative way against standardized benchmarks. In the case of ESG ratings, the criteria concentrate on assessing the environmental impact of the manner in which a company conducts its business, its attention to social considerations and the robustness of its governance framework – and that of its supply chain. Such ESG company ratings are usually provided by specialized rating agencies. In essence, there are three separate groups operating on the market using ESG ratings: ESG specialized independent rating agencies, technical analysts in credit institutes and those who manage securities indices.

The concept of an ESG rating has parallels to the traditional credit rating - which was developed to evaluate financial credibility. Credit ratings predicts a quantifiable probability of whether the credit obligations will be met or not. ESG ratings involve subjective judgements as to the environmental, social and governance policies and practices of companies in relation to the benchmarks of a particular rating agency. An example of such a (global
norms-based) benchmark is the “Human Rights Principles for Companies” developed by Amnesty International. While ESG ratings may be based on somewhat more subjective criteria, they never the less act as a guide to the possibility of an asymmetric risk - such as an environmental disaster - which could pose an existential treat to the company which causes it. They can play a crucial role in evaluating risk in companies and, as a consequence, they provide a basis from which capital markets participants can decide whether or not to invest capital. In contrast to a credit rating - where a general consensus and a universal standard controls the methods and criteria used - the analytical methods and criteria used by individual ESG rating providers can vary. The main reason for this is that ESG ratings have a strong focus on personal motives and that each provider has a different understanding of sustainability issues and indicators. Another important point of difference between these two rating methods is in the way in which they are initiated. Credit rating means that the company that wishes to be assessed explicitly requests an agency to do so and pays a fee, while ESG ratings are currently predominantly practised as a form of “unsolicited rating”. No explicit contractual relationship is entered into from which a “conflict of interest” can arise. Rating agencies can earn income primarily as a consequence of ESG ratings being directly fed into databases - at regular intervals. They can be accessed through closed internal or external user networks in return for payment offered by interested parties. Customers of ESG rating agencies are chiefly (institutional) investors, asset managers and investment companies - but the circle of interest continues to expand.
The ESG rating assessment for companies is founded on two essential pillars: Firstly, ESG analysts use information made available by companies. Environmental and sustainability reports play a central role here. In addition, companies also provide internal documents such as environment, anti-corruption or anti-discrimination guidelines by cooperating closely with ESG analysts. These documents also influence ESG ratings. Thus, constructive yet critical dialogue with companies is an essential sign of quality – to ensure that the sustainability rating conducted is comprehensive. It is the investor who commissions an ESG rating, it is not the companies which are being assessed – this makes sustainability ratings fundamentally different to conventional financial ratings and there is no danger of the rating results being unduly influenced by companies, despite there being such close communication.

Secondly, external sources of information are also used, e.g. analyses and studies carried
out by trade unions, human rights and environmental organizations. On the one hand, this information helps to check the plausibility of data supplied by companies. On the other hand, it increases the amount of data available on subjects which companies themselves hardly ever report – offences against employment and human rights, for instance. These sources also have to satisfy strict quality requirements when considering the credibility of sources or documentation containing accusations against companies. Different sustainability criteria / ESG criteria are evaluated and aggregated into an overall grade on the basis of the information provided by the company and these external institutions.

ESG rating agencies normally use the following sources of information:
- Public information provided by the company in annual reports and sustainability reports
- Direct contact with companies via interviews and questionnaires
- Public information concerning the company from external sources: reports and statistics from public organizations such as ministries, NGOs and international organisations
- Press reports: using databases subject to charge in order to collect information, e.g. Thomson Reuters

Traditional financial analysis - which concentrates on accounting - just focuses on the tip of the “investment iceberg” and is unable to keep up with an ever-changing market environment influenced by competition and the pursuit of profitable investments. Responsible investing combines traditional financial analysis with analysing hidden risks and value drivers (ESG criteria) - to identify a long-term winner (company). By introducing these ESG criteria concealed risks posed to reputation can be avoided, risk management can be improved and returns on capital can be increased.

Thus, negative screening allows “clean” investment capital to be developed - which is free from negative ESG factors. However, it is also important to keep in mind that several exclusion criteria applied at the same time can inevitably result in limiting the potential scope of an investment. In contrast, positive screening means that companies have to primarily engage on environmental, social and governance issues, in order to gain recognition on the investment market and to position themselves against their competitors.
Consequently, this approach promotes sustainable business operations in a natural way without actively influencing corporate policy. However, critics argue that sectors whose activities are not considered to be sustainable – such as the crude oil and gas industry – will still show up amongst those sectors considered for investment. Thematic investments allow the investor to focus on specific areas of impact or trends in innovation.

Sustainable investors are convinced that these additional ESG criteria can help them to understand the complex web of chance and risk wrapped around investments in a more comprehensive way. Numerous empirical studies support this assessment: The consultancy firm Mercer analysed results from performance studies by using meta-studies conducted in 2007 and 2009. A large proportion of the studies came to the conclusion that taking sustainability criteria into account when selecting issuers and returns has a positive effect. Another example was provided by the Harvard Business School in a study conducted in 2011. The returns for those investing in US companies that willingly followed social and eco-political guidelines were superior to so-called “low sustainability” companies. Deutsche Bank’s study, published in summer 2012, analysed approximately 100 studies and confirmed this result empirically.

Sustainable / responsible investing, therefore, has the potential to attract a large part of a foundation’s traditional investment capital – and meets the financial and the values dimensions of investing.

Today, there are a wide range of different responsible investment options available – which can be confusing. yourSRI.com is the world’s leading databases for impact and responsible investing and can help investors navigate the range of sustainable investment products on offer. As a dedicated data provider for responsible investing, yourSRI.com provides access to a broad range of specialized services like ESG company ratings, carbon data e-monitoring as well as detailed ESG fund and portfolio screening tools. Moreover, yourSRI.com offers access to academic networks and studies respectively reports in the responsible investing sector.
Charitable foundations create valu(e)s...

Sourcing & raising of funds

‘Profit-oriented investment approach’

Impact on society made through responsible investing

Investments based on a foundation’s existing assets; new fundraising activities

Application of funds

‘Purpose-based application, exclusively with a charitable aim’

Objectives are met through acquisition of funds

Integrated SRI approach using exiting/new assets (indirect impact)

Returns in line with market value

Funds are used for multiple purposes (multiplication)

Contributions towards avoiding risk; positive returns on investment

www.eurosif.org
www.uksif.org
www.unpri.org
www.yourSRI.com
‘Post financial crisis, societies perceive investments to impact their well-being. Overconfident investors may deny this, smart investors, however, will measure and manage these perceptions to enhance valuations.’

Dr. Andreas Hoepner,
Associate Professor of Finance, ICMA Centre, Henley Business School;
Senior Academic Fellow, United Nations backed Principles for Responsible Investment

www.icmacentre.ac.uk
The following list is not complete but aims to provide an overview of current initiatives and information portals that focus on forms of modern philanthropy.

- Associations
- Information portals
- Tuition and advanced training institutes
- Research and consultancy firms
Active Philanthropy
Active philanthropy is a charitable organization under German law offering donors a platform to exchange their ideas and experiences. It informs and cross-links families and individuals who want to make sure to invest their resources strategically and sustainably for the benefit of society.
www.activephilanthropy.org

Association of Charitable Foundations (ACF)
The Association of Charitable Foundations (ACF) is the UK wide support organisation for grant-making trusts and foundations of all types.
www.acf.org.uk

Bundesverband Deutscher Stiftungen [Federal Association of German Foundations]
The Federal Association unites a variety of German foundations, undertakes political lobbying and provides its members with a broad range of services.
www.stiftungen.org

CFA Society of the UK (CFA UK)
The CFA Society of the UK (CFA UK) serves society's best interests through the provision of education and training, the promotion of high professional and ethical standards and by informing policy-makers and the public about the investment profession.
https://secure.cfauk.org/

Carbon Disclosure Project (CDP)
The Carbon Disclosure Project was created in 2000 - as an association of institutional investors - and has a total capital of over 64 billion dollars. Once a year, the CDP collects data and information on CO2 emissions, climate risk and reduction targets on a voluntary basis by using standardized questionnaires.
www.carbondisclosureproject.net
The Center for High Impact Philanthropy
Established in the spring of 2006 by the dean of the University of Pennsylvania’s School of Social Policy & Practice and a group of anonymous alumni of the Wharton School of Business, the Center for High Impact Philanthropy is a nonprofit and university-based center focused on improving the social impact of philanthropic activities.
www.impact.upenn.edu

Centre for Philanthropy Studies
The Centre for Philanthropy Studies (CEPS) at University of Basel is an interdisciplinary research and advanced training centre for Swiss foundations. CEPS was founded in 2008 by an initiative of SwissFoundations, an association of Swiss foundations. It is an academic think tank and provides a multi-dimensional view on philanthropy covering all forms of private and charitable actions. CEPS aims to promote scientific research and a better understanding of philanthropy. Moreover, CEPS provides foundations and other non-profit organizations with advanced training programmes and consultancy services.
www.ceps.unibas.ch

Coalition for Environmentally Responsible Economies (Ceres)
The Coalition for Environmentally Responsible Economies (Ceres) was founded in 1989 by environmental activists, investors and companies. It developed its own principles, called the Ceres Principles, to promote sustainable practices for the entire economy.
www.ceres.org

CGAP
CGAP is an independent political and research centre that aims to provide access to financing for the poor. CGAP is associated with the World Bank and provides information on the market, promotes new financial standards, develops innovative solutions and offers advisory services to governments, financial service providers, donors and investors.
www.cgap.org

CSSP – Center for Social and Sustainable Products
The CSSP is an independent consultancy and research firm which specializes in issues concerning strategy and sustainability in the area of impact and responsible investing.
The CSSP cooperates with a global network of partners and contacts, drives and leverages a broad range of sustainability projects. It aims to promote a public and private understanding of philanthropy and sustainable investments, while contributing to improve market transparency. The CSSP provides advisory services and advanced training programmes in this field.

www.cssp-ag.com

**European Foundation Centre**

EFC, founded in 1989, is an international union of foundations and socially-active companies that aim to establish a legal and financial framework for foundations. Moreover, EFC is committed to improve the infrastructure within this sector and attempts to encourage a closer cooperation between all stakeholders.

www.efc.be

**European Sustainable Investment Forum (Eurosif)**

Founded in 2001, Eurosif, is a pan-European network and think-tank whose mission is to develop Sustainability through European Financial Markets.

www.eurosif.org

**European Venture Philanthropy Association (EVPA)**

Founded in 2004, EVPA aims to promote the development of venture philanthropy and, to make it more efficient, while leveraging social investments in Europe.

www.evpa.eu.com

**Family Business Network**

The Family Business Network is a not-for-profit international network that is run by family businesses, for family businesses, with the aim of strengthening success over generations.

www.fbn-i.org

**Global Impact Investing Network (GIIN)**

The Global Impact Investing Network was founded in 2007 and is a not-for-profit organiza-
Initiatives & Resources

Initiatives dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made into companies, organizations, and funds with the intention to generate a measurable social and environmental impact alongside a financial return. In 2009, GIIN launched a new standardized reporting framework called Impact Reporting and Investment Standards (IRIS).

www.thegiin.org

Global Reporting Initiative (GRI)
The Global Reporting Initiative (GRI) was established in 1997 and is a leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.

www.globalreporting.org

Investment Management Association (IMA)
The Investment Management Association (IMA) represents the UK investment management industry.

www.investmentfunds.org.uk

Investor's Council
The GIIN Investors' Council is a leadership group of active large-scale impact investors. Comprised of asset owners and asset managers with diverse interests across sectors and geographies, the Investors' Council provides a forum for experienced impact investors to strengthen the practice of impact investing and accelerate learning about new areas in the field.

www.thegiin.org/cgi-bin/iowa/council/index.html

Philanthropy Impact
Philanthropy impact - making sense of and inspiring philanthropy across borders, sectors and causes. Launched in December 2012, the organization incorporates the European Association for Philanthropy and Giving (EAPG), Philanthropy UK, and the Philanthropy Advisors Forum (PAF). It combines 27 years of sector knowledge and experience, creating a rich resource that helps make sense of and inspire philanthropy.

www.philanthropy-impact.org
**PHINEO**

PHINEO is an independent, charitable institution that focuses on conducting analyses and offers advice to promote effective community engagement and activity. PHINEO was founded in 2010 and is a charitable public company limited by shares.

www.phineo.org

**profonds**

profonds protects the interests of charitable foundations and associations as well as other charitable organizations that assess civil, regulatory and tax law issues.

www.profonds.org

**ShareAction**

ShareAction (formerly FairPensions) is a charity that promotes Responsible Investment by pension funds and fund managers. Bringing together leading charities, trade unions, faith groups and individual investors, the aim is to catalyse a shift at each level of the investment chain, so that Responsible Investment becomes the norm.

www.shareaction.org

**Social Impact Analysts Association (SIAA)**

SIAA is an international professional body of social impact practitioners and professionals who create and share knowledge about social impact analysis. SIAA’s members are passionately committed to developing more effective social purpose organisations and increasing positive social impact through their work.

www.siaassociation.org

**Sustainable Investment Forums (SIF)**

SIF, or a Sustainable Investment Forum, is an association that works to promote Sustainable and Responsible Investments (SRI) in a specific area of the world. There are numerous national and regional investment forums around the world. A few are listed below:

Asia (www.asria.org)

Australasia (www.eia.org.au)

Australia (www.responsibleinvestment.org)
Belgium (www.belsif.be)  
Brazil (www.ces.fgvsp.br)  
Canada (www.socialinvestment.ca)  
France (www.frenchsif.org)  
Germany (www.forum-ng.de)  
Italy (www.finanzasostenibile.it)  
The Netherlands (www.vbdo.nl)  
Spain (www.spainsif.es)  
Latin America (www.lasff.org)  
Korea (www.kosif.org)  
New Zealand (www.csri.org.nz)  
South Africa (www.aiccafrica.org)  
Sweden (www.swesif.org)  
USA (www.ussif.org)

Social Venture Partners (SVP)
SVP is a network of committed philanthropists who aim to make a positive contribution towards cities and communities by using innovative, sustainable solutions and to address complex, social problems. Their members follow a variety of philanthropic principles and invest time, knowledge and money into innovative strategies.  
www.svpi.org

Sustainable Investment Partners
Sustainable Investment Partners (SI Partners) are an independent agency based in the UK that specializes in consulting, intermediary business development and strategic marketing within the area of sustainable investments and corporate social responsibility. SI Partners are CSSP's official UK partner and agent - and work with a broad network of alliances to build a new approach towards sustainable capital markets, tomorrow's companies and transformational change for global asset managers, owners, corporates and intermediaries.
www.sipartners.com
SwissFoundations
Founded in 2001, SwissFoundations is an umbrella organization for charitable foundations in Switzerland and provides them with a strong and independent voice. The initial objective for establishing SwissFoundations was a common desire to improve the image of associations in Switzerland and to establish a network for charitable development.
www.swissfoundations.ch

UK Sustainable Investment and Finance Association (UKSIF)
The UK Sustainable Investment and Finance Association (UKSIF) is the membership association for sustainable and responsible financial services. They promote responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment.
www.uksif.org

United Nations Environment Programme (UNEP)
UNEP, established in 1972, is the voice for the environment within the United Nations system. UNEP acts as a catalyst, advocate, educator and facilitator to promote the wise use and sustainable development of the global environment.
www.unep.org

United Nations Environment Programme’s Finance Initiative (UNEP FI)
Established in 1991, UNEP FI is a global partnership between UNEP and the financial sector. Over 200 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance.
www.unepfi.org

United Nations Global Compact (UNGC)
Launched in 2000, the UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Endorsed by chief executives, the Global Compact is a practical framework for the devel-
Initiatives & Resources

opment, implementation, and disclosure of sustainability policies and practices, offering participants a wide spectrum of work streams, management tools and resources – all designed to help advance sustainable business models and markets.

www.unglobalcompact.org

UN Principles for Responsible Investing (UNPRI)

Established in 2006, the United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system. The PRI Initiative has quickly become the leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues, and to incorporate these factors into their investment decision making and ownership practices.

www.unpri.org

Vereinigung Liechtensteinischer Gemeinnütziger Stiftungen (VLGS) [Association of Charitable Foundations in Liechtenstein]

The association represents the interests of charitable foundations in Liechtenstein. VLGS a partner for political bodies and governmental organizations, and aims to promote Liechtenstein’s charitable foundations – in- and outside of the Principality.

www.vlgs.li

yourSRI.com

yourSRI is the leading database for responsible and impact investments and offers SRI-related company and product information as well as access to external services. yourSRI is as a “one stop-solution” and dedicated data provider for responsible investing.

www.yourSRI.com
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78 Fieseler, 2007, S. 43.
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Appendix

Glossary

Active Ownership
Includes active decision-making by shareholders in possession of shares (different to purchase and sale). It also includes active engagement and making use of shareholder rights such as exercising the right to vote.

Exclusion criteria
Individual or multiple criteria which prevent investments being made in certain companies and sectors which do not comply with a sustainable investment policy. Also called negative criteria.

Balanced scorecard
This is a performance management tool that assesses a company’s activities from multiple perspectives (incl. finances, customers, process and potential).

Best-in-class
An investment strategy where those companies are selected that live up to the highest ecological, social and ethical standards within their sector.

Capacity building
Developing skills and capabilities within an organization to leverage performance and increase efficiency in the long-term.

Engagement
A long-term dialogue between investors and companies. The aim is to involve a company’s management board to integrate social, ethical and ecological criteria into their decision-making processes. This also includes exercising voting rights at general meetings, getting involved in joint-initiatives, as well as establishing a dialogue with companies and policy-makers.

ESG
Environmental, social and corporate governance (ESG) refers to the three main areas of concern that have developed as central factors in measuring the sustainability and ethical impact of an investment in a company or business. Within these areas are a broad set of concerns increasingly included in the non-financial factors that figure in the valuation of equity, real-estate, corporations and fixed-income investments.

Impact investments
Impact investing is one form of socially responsible investing and serves as a guide for various investment strategies. Impact investing tends to have roots in either social issues or environmental issues, and has been contrasted with microfinance. Impact investors actively seek to place capital in businesses, non-profits, and funds that can harness the positive power of enterprise. Impact investing occurs across asset classes; for example, private equity/venture capital, debt, and fixed income.

Integration
Explicitly integrating social, ethical and ecological considerations as well as corporate governance factors in traditional financial analysis.

Microfinance
Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients are: relationship-based banking for individual entrepreneurs and small businesses; and group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients.

Mission investing
Mission investments cover two distinct categories of investments: market-rate mission-related investments (MBIs) that have a positive social impact while contributing to a foundation’s long-term financial stability and growth; and program-related investments (PRIs) that are designed to achieve specific program objectives while earning a below-market rate return.

Negative investment criteria/negative screening
An investment strategy that excludes sectors, companies or countries which do not meet certain social, ecological and ethical criteria (e.g. weapons, pornography, tobacco, animal testing, infringement of human rights etc.).

Norm-based exclusion
A process that excludes companies and countries which violate against international norms and conventions including those defined by international organizations such as OECD, ILO, the UN, UNICEF and others.

Positive investment criteria/positive screening
A process for selecting companies and countries which meet specific ESG (see above) requirements expressed in an investment policy.
Philanthropy
Philanthropy etymologically means “love of mankind / humanity”. The most conventional modern definition is “private initiatives, for public good, focusing on quality of life”. This combines the social scientific aspect developed in the 20th century with the original humanistic tradition, and serves to contrast philanthropy with business (private initiatives for private good, focusing on material prosperity) and government (public initiatives for public good, focusing on law and order). Instances of philanthropy commonly overlap with instances of charity, though not all charity is philanthropy, or vice versa. The difference commonly cited is that charity relieves the pains of social problems, whereas philanthropy attempts to solve those problems at their root causes.

Responsible investments
See sustainable investments.

Socially Responsible Investment (SRI)
See sustainable investments.

Shareholder voting / rights
Exercising the right to vote is a shareholder right and can be exercised at general meetings and used to influence or support company policy. Shareholders do not necessarily need to be physically present at the site of the company’s annual meeting in order to exercise their right to vote. It is common for shareholders to voice their vote by proxy by mailing in their response. Unlike the single vote right that individuals commonly possess in democratic governments, the number of votes that a shareholder has corresponds to the numbers of shares that he owns.

Social Impact Bonds (SIB)
A Social Impact Bond, also known as a Pay for Success Bond or a Social Benefit Bond, is a contract with the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings. The first Social Impact Bond was launched by Social Finance UK in September 2010. This form of financing allows the government to partner with innovative and effective service providers and, if necessary, private foundations or other investors willing to cover the upfront costs and assume performance risk to expand promising programs, while assuring that taxpayers will not pay for the programs unless they demonstrate success in achieving the desired outcomes. The expected public sector savings are used as a basis for raising investment for prevention and early intervention services that improve social outcomes. Social Impact Bonds are a type of bond, but not the most common type. While they operate over a fixed period of time, they do not offer a fixed rate of return. Repayment to investors is contingent upon specified social outcomes being achieved and therefore in terms of investment risk Social Impact Bonds are more similar to that of a structured product or an equity investment.

Social Return on Investment (SROI)
Social return on investment (SROI) is a principles-based method for measuring extra-financial value relative to resources invested. It can be used by any entity to evaluate impact on stakeholders, identify ways to improve performance, and enhance the performance of investments. A network was formed in 2006 to facilitate the continued evolution of the method. Over 570 practitioners globally are members of the SROI Network. The SROI method as it has been standardized by the SROI Network provides a consistent quantitative approach to understanding and managing the impacts of a project, business, organisation, fund or policy. It accounts for stakeholders’ views of impact, and puts financial ‘proxy’ values on all those impacts identified by stakeholders which do not typically have market values. The aim is to include the values of people that are often excluded from markets in the same terms as used in markets that is money, in order to give people a voice in resource allocation decisions. Some SROI users employ a version of the method that does not require that all impacts be assigned a financial proxy. Instead the “numerator” includes monetized, quantitative but not monetized, qualitative, and narrative types of information about value.

Social entrepreneurship
Social entrepreneurship is the process of pursuing innovative solutions to social problems. More specifically, social entrepreneurs adopt a mission to create and sustain social value. They pursue opportunities to serve this mission, while continuously adapting and learning. They draw upon appropriate thinking in both the business and non-profit worlds and operate in all kinds of organizations. Business entrepreneurs typically measure performance in profit and return, but social entrepreneurs also take into account a positive return to society. Social entrepreneurship typically furthers broad social, cultural, and environmental goals and is commonly associated with the voluntary and not-for-profit sectors.

Sustainable investments
Sustainable investing, sometimes referred to as socially responsible (SRI), socially conscious, “green” or ethical investing, is an investment strategy which seeks to consider both financial return and social good. In general, sustainable investors encourage corporate practices that promote environmental stewardship, consumer protection, human rights, and diversity. Some avoid businesses involved in alcohol, tobacco, gambling, pornography, weapons, and/or the military. The areas of concern recognized by the industry can be summarized as environment, social justice, and corporate governance—as in environmental social governance (ESG) issues. The term “socially responsible investing” sometimes narrowly refers to practices that seek to avoid harm by screening companies included in an investment portfolio. However, the term is also used more broadly to include more proactive practices such as impact investing, shareholder advocacy and community investing.

Thematic funds
Thematic funds can relate to a particular sector themes such as water, energy etc., or to a specific macro-economic topic such as sustainable development or a low-carbon economy. To be considered a sustainable investment, thematic funds need to include sustainable objectives and criteria.
Venture capital
Venture capital (VC) is financial capital provided to early-stage, high-potential, high risk, growth start-up companies. Venture capital is a subset of private equity. Therefore, all venture capital is private equity, but not all private equity is venture capital. In addition to angel investing and other seed funding options, venture capital is attractive for new companies with limited operating history that are too small to raise capital in the public markets and have not reached the point where they are able to secure a bank loan or complete a debt offering. In exchange for the high risk that venture capitalists assume by investing in smaller and less mature companies, venture capitalists usually get significant control over company decisions, in addition to a significant portion of the company's ownership (and consequently value).

Venture philanthropy
Venture philanthropy takes concepts and techniques from venture capital finance (see above) and business management and applies them to achieving philanthropic goals. There are three models for engaging in venture philanthropy: The first is traditional foundations practicing high-engagement grant-making. The second is organizations which are funded by individuals, but all engagement is done by professional staff. The third is the partnership model, in which partner investors both donate the financial capital and engage with the grantees. Most of these are pass-through funds, i.e. they do not have an endowment, but rather grant all the money they are given annually.

Value-based exclusion
This relates to investment strategies which contain more than two ethical or value-based exclusion criteria, including child labour, alcohol, tobacco, pornography, animal testing, armament etc.
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New Perspectives for Foundations

Philanthropic activity is increasing but remains diverse and complex. This handbook aims to present both conventional and 'new' forms of philanthropy while illustrating how and where they converge. Ultimately, we hope that this handbook can outline how and which impact charitable foundations can make by getting involved in financial activity.

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