



Investing in Social Entrepreneurship and Fostering Social Innovation

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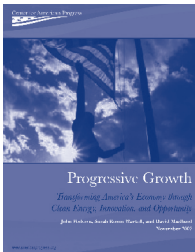
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About Progressive Growth



The Center for American Progress offers a fiscally responsible investment plan to:

- *Grow our economy* through the transformation to a low-carbon economy and leadership in innovation, technology, and science.
- *Recreate a ladder of economic mobility* so that Americans may make a better life for themselves and their families, and America may be a land with a thriving and expanding middle class prospering in the global economy.

An overview of the entire plan can be found in:

Progressive Growth

Transforming America's Economy through Clean Energy, Innovation, and Opportunity

By John Podesta, Sarah Rosen Wartell, and David Madland

Other reports detailing aspects of the challenges and recommendations in the *Progressive Growth* plan are:

Capturing the Energy Opportunity

Creating a Low-Carbon Economy

By John Podesta, Todd Stern, and Kit Batten

A National Innovation Agenda

Progressive Policies for Economic Growth and Opportunity through Science and Technology

By Tom Kalil and John Irons

Opportunity and Security for Working Americans***Creating the Conditions for Success in the Global Economy***

By Louis Soares, Andrew Jakabovics, and Tim Westrich (*forthcoming*)

Virtuous Circle***Strengthening Broad-Based Global Progress in Living Standards***

By Richard Samans and Jonathan Jacoby (*forthcoming*)

Responsible Investment***A Budget and Fiscal Policy Plan for Progressive Growth***

By David Madland and John Irons (*forthcoming*)

Other *Progressive Growth* Policy Papers

The Center for American Progress also is publishing *Progressive Growth* Policy Papers, offering new ideas and further detailing ideas included in CAP's *Progressive Growth* plan. ***New Strategies for the Education of Working Adults***, by Brian Bosworth, is part of this series. The first *Progressive Growth* Policy Paper, ***Serving America: A National Service Agenda for the Next Decade***, by Shirley Sagawa, was published in September 2007. Future Papers will include: ***Social Entrepreneurship and Impact: Creating a Climate to Foster Social Innovation***, by Michele Jolin (*forthcoming*).

Introduction

Over the past decade or more, “social entrepreneurs” have been a leading force in innovation, experimentation, and change in education, health care, poverty alleviation, and other areas of human need both in the United States and around the world. Social entrepreneurs—individuals who develop innovative, results-oriented solutions to tackle serious social problems—are focused on implementing their solutions on a large scale to change an entire system, either by scaling their organization or inspiring others to replicate the idea.¹

Social entrepreneurs, like their counterparts in the private sector, boast unique personal characteristics that they use to successfully implement their ideas: creativity, inspiration, persistence, focus, and a willingness to take risks. Ventures created by social entrepreneurs are usually organized as non-profits, although some are for-profit but with a clear and direct social mission.²

Leading social entrepreneurs, such as Wendy Kopp of Teach For America, Geoffrey Canada of Harlem Children’s Zone, President Bill Clinton of the Clinton Global Initiative, and Muhammed Yunus of the Grameen Bank, have developed innovative, results-oriented models that are driving systemic change and reorienting the way philanthropists, the private sector and, increasingly, policymakers, are considering addressing some of society’s most intractable problems. Yet despite the successes of these leading social entrepreneurs, the impact and reach of their work is still limited.

The next administration can do more to expand the impact of the most successful social entrepreneurial models and to create a pipeline of future entrepreneurial efforts in the critical non-profit sector. This paper will identify some of the key ways in which policymakers can support the growth and spread of innovative non-profit solutions, and will offer some policy guidelines and a framework that the Center for American Progress intends to explore and expand during 2008.

The Vital and Growing Non-Profit Sector

Over the past several decades, the non-profit sector in the United States has become an increasingly important and vital “third sector” of the economy, with the total number of non-profit organizations doubling in the last 25 years.³ Non-profit organizations employed roughly 9.4 million people, or approximately 7.2 percent of the U.S. economy in 2004, the last year for which complete data is available—larger than the number of people employed by the financial services sector.⁴

Non-profit organizations have stepped in to fill gaps where neither the government nor the private sector has been able or willing to provide adequate services or support, especially in areas such as education, economic development, and access to health care. In many instances, non-profit organizations have demonstrated that they can tackle social challenges in a manner that is more effective and more efficient than anything that could be done by either the government or the private sector.

Within this vital and growing non-profit sector, social entrepreneurs are playing an increasingly important and unique role in driving innovation and change in society.⁵ Many social entrepreneurs run organizations that are highly professional, with well-grounded strategic business plans that include ambitious strategies for scale and growth based on concrete measures of impact and performance.⁶ (Short examples of three such organizations and their founders are on pages 3, 4, and 5.) In many instances, their work is helping to drive the trend toward an increasingly competitive non-profit environment and high-performing social sector.

Fostering Growth and Innovation in the Non-Profit Sector

Despite the rise and growing impact of social entrepreneurial efforts, their scope and reach in many instances continues to be limited. While the number of nonprofits has grown, only a small number have actually grown to a size or scale to be able to meet their potential for significant national or international impact. A recent analysis by the Bridgespan Group found that of the more than 200,000 nonprofits that have been created in the United States since 1970, only 144 of them have reached over \$50 million in annual revenue.⁷

Not all nonprofits can or should grow significantly: their mission may be to address a small or local problem or they have not demonstrated the kind of impact to justify replication. Yet in instances where a nonprofit is achieving concrete results and has a strategy for growth, it is important that these kinds of solutions and approaches have access to the tools and resources necessary to tackle social problems on a larger scale.

To enhance the ability of successful non-profits to spread and grow, the next administration needs to focus on developing policies and investment tools in key areas, including increasing access to capital, supporting development of human resources, and encouraging a tax and regulatory environment that rewards high-impact innovation. Below are some of the key areas where the federal government could play a proactive role in fostering and investing in social entrepreneurship and innovation in the non-profit sector.

Investing in High-Impact Non-Profit Solutions

Unlike the for-profit capital markets, there is no ready source of growth capital for high-performing nonprofits or social entrepreneurs who have demonstrated their impact. Traditional foundations and other philanthropists remain the critical source of funding for these organizations. In 2006, giving by foundations climbed past \$40 billion, breaking a record of \$36.4 billion set in 2005.⁸ Yet despite this continued generous funding, many foun-

dations have restrictions on the number of years or the types of non-profit organizations they can fund over time.

Many sources of funding, too, are simply not structured or organized in a way to provide longer-term, growth capital for entrepreneurial organizations that have demonstrated their effectiveness. To help increase the flow of growth capital in the non-profit sector, a number of new sources of social venture capital funding have been created to focus on scaling the most successful nonprofits. These social venture capital organizations, such as the New Schools Venture Fund, New Profit Inc., and the recently created SeaChange Capital Partners, generally provide multi-year funding and a range of strategic advice and other support to assist the growth and expansion of the most successful nonprofits.

These social venture funds, which are organized as non-profits focused on social return rather than monetary profit, are pioneering a new model of giving, and are trying to improve the flow of capital to high-impact social entrepreneurial organizations that have gone beyond

Wendy Kopp of Teach For America

Wendy Kopp, 40, created Teach For America in 1990 as a solution to address the academic achievement gap between children from different socio-economic backgrounds. Based in New York City, the non-profit organization recruits recent college graduates to teach for two years in low-income communities throughout the United States.

Teach For America's goal is for its "corps members" to improve the quality of learning for their students and, over the long-term, to prepare corps members to be lifelong leaders in pursuing educational equality. Since its founding, 17,000 individuals have participated in Teach For America, affecting the lives of more than 2.5 million students.⁹

In 2007, Teach For America received over 18,000 applications for 2,900 openings. It reports that these applications came from "11 percent of the senior classes at Amherst and Spelman; 10 percent of those at University of Chicago and Duke; and more than eight percent of the graduating seniors at Notre Dame, Princeton and Wellesley."

Teach For America continues to study and evaluate the short and long-term impact of its work. For instance, a 2004 study by Mathematica Policy Research, Inc. found that students taught by Teach For America corps members make more progress in both reading and math than would typically be expected in a year.

the initial start-up phase and need more sustained and reliable funding. These organizations, like their private sector counterparts, are rigorous in their evaluation and screening of investments, and insist on performance benchmarks and metrics to evaluate progress and impact.

These are important efforts designed to fill a critical gap, but unfortunately they are still relatively small in size compared to the needs of the non-profit sector—and, thus, their reach is necessarily limited. The federal government needs to step into this breach, not replacing but supplementing current funding streams to provide the growth capital needed by high-impact nonprofits ready for expansion.

Supporting Startups and New Innovation

It is similarly difficult to secure funding for start-up non-profit ventures or for new untested programs by existing nonprofits. Traditional funders are justifiably reluctant to use limited philanthropic dollars to fund experiments or efforts that do not have a proven track record. This reluctance

to fund these start-ups or experiments has the effect of limiting innovation and experimentation when it comes to creative new efforts in the social sector.

There are organizations, such as Ashoka and Echoing Green, that fund entrepreneurial start-ups in the non-profit sector. They identify newer, less-tested non-profit organizations with significant potential and help jump start their growth and success by providing them with early-stage funding and support. Given these organizations' limited size, however, it is not possible for them to support and foster the kind of innovation and experimentation on the broad scale needed in the social sector. In this instance, the federal government could play a critical role in providing certain targeted funding to encourage experimentation and support the creation of innovative start-ups to address certain social needs.

Supporting Efforts to Develop Human Capital

The growth of social entrepreneurial models is often constrained by limited human

Geoffrey Canada of Harlem Children's Zone

Geoffrey Canada, 55, is President and CEO of the Harlem Children's Zone, a non-profit organization that has created a comprehensive, fully-integrated set of services for children and families living within a defined geographical area of Harlem on Manhattan's Upper West Side. These services, all designed to strengthen the broader community, include traditional schooling through charter schools, preschools, after-school education, job and skills training, parenting classes, fitness and nutrition counseling, family support programs, health services, and others.

Harlem Children's Zone reports that its 15 centers serve more than 13,000 children and adults, including over 10,000 at-risk children, including children who are more likely to abuse drugs

and alcohol, engage in criminal activity, are sexually promiscuous, or attempt suicide. The HCZ's comprehensive program is demonstrating an impact on its target populations. For instance, one study showed that of a group of 4-year-olds who started in the HCZ program, more than half were "delayed" or "very delayed" in terms of school readiness. After participating in the HCZ program for a year, only 26 percent were delayed.¹⁰

Canada intends to scale this successful model of preventative, interwoven services and is exploring the option of opening similar programs in other cities. Some of the elements of his model have inspired and informed Harlem Children's Zone-like efforts in California, Missouri, and elsewhere.

capital. High-growth organizations report that the challenge of finding qualified staff at every level, especially middle managers, has slowed their ability to expand, even when financial capital is available.

Efforts to recruit and prepare for-profit business managers to work in the non-profit sector show some promise and offer the added benefit of bringing new skills and perspectives to the sector. For entry-level human capital, national service programs such as AmeriCorps have offered many social entrepreneurs a steady source of motivated entrants. The federal government could provide greater support to help develop human resources for the growth and success of these nonprofits.

Creating a Tax and Regulatory Environment to Encourage Innovation and Impact

Non-profit growth and innovation also may be limited by a legal, regulatory environment or tax code that is not fo-

cused on these policy goals. For instance, recently a number of private sector investors have chosen to create for-profit entities to achieve a social mission. Pierre Omidyar, founder of Ebay Inc., created a private equity fund to expand the use of microloans and encourage the development of a commercial equity market to serve global microfinance institutions. Google Inc. founders Larry Page and Sergey Brin created Google.org as the philanthropic arm of Google, which is an umbrella that includes the work of the Google Foundation, as well as partnerships and contributions to for-profit and non-profit entities.

The federal government needs to explore whether outdated tax and other rules may be limiting more of these and other kinds of hybrid for-profit investments with a social purpose. There also is more that the federal government can do to encourage charitable donations, possibly through revisions to the tax code, such as a charitable tax credit to increase access to resources for nonprofits.

Muhammad Yunus of Grameen Bank

Muhammad Yunus, founder of the Grameen Bank and the winner of the 2006 Nobel Peace Prize, pioneered the field of "microcredit." In the late 1970s, Yunus recognized that the poorest people in his country of Bangladesh were unable to qualify for loans in the formal banking system and therefore had limited options for securing any credit except at the most exorbitant interest rates. Yunus created a system for providing small loans to villagers, mostly women, who use the loans to develop means to generate their own income, such as raising animals, producing textiles, or sewing garments.

The Grameen Bank charges a low interest rate that is then funneled back into the system to provide capital to others. Yunus has

proven that "the poor are bankable," with loan repayment rates over 98 percent, according to Grameen.¹¹

To ensure repayment, Grameen uses a system of "solidarity groups," in which individual villagers apply together for loans and members act as co-guarantors of repayment and support one another's income generation efforts. The total amount of loan disbursed by Grameen Bank, since inception, is \$6.55 billion to more than 7.34 million people, 97 percent of them women.¹²

The success of the Grameen model has others replicating micro-credit efforts in countries around the world, all over Africa, Asia, Latin America, and in the United States.¹³

Federal Policy Tools to Foster a Climate of Social Innovation and Impact

The federal government can do more to create a policy infrastructure that will support the growth and spread of high-impact models of social entrepreneurship and to help stimulate greater innovation overall in the non-profit sector. To do this, the Center for American Progress proposes that the next president create a “White House Office of Social Innovation and Impact.”

This new office in the White House would be responsible for coordinating and overseeing the president’s efforts to highlight and invest in the most effective and creative efforts by social entrepreneurs and others in the non-profit sector. Specifically, the White House Office of Social Innovation and Impact will be responsible for working with federal agencies to both identify funds that can be more effectively used to invest in non-profit programs that have demonstrated concrete results and to identify specific barriers to social innovation, including with federal regulations and the tax code. Among other things, the White House Office would be responsible for:

- Designing tools to *direct federal funds to nonprofits that have demonstrated results* by:
 - Creating a “Grow What Works Fund,” which will invest in the growth and spread of social entrepreneurial models that have demonstrated concrete results, especially in the areas of education, health care, poverty alleviation, and housing.
 - Creating a “Social Innovation Fund” to seed innovations and fund high-potential experimental efforts by social entrepreneurs and others in the non-profit sector.
- Serving as a *catalyst for cross-sector partnerships* between the non-profit sector, corporations, and the government by:
 - Creating a multimillion dollar prize that would reward and fund the implementation of the most creative and sustainable solutions to a particular, defined social challenge.
 - Exploring ways to better enlist the private sector in supporting social innovation and high-impact nonprofits, including with human resource development and other areas critical to nonprofit growth and success.

- *Exploring possible revisions to the tax code* by:
 - Removing barriers to social innovation created by the current corporate structure and tax treatment of 501(c)(3) organizations provisions.
 - Exploring possible revisions to the tax code to increase charitable giving that will help successful nonprofits to grow and scale
- Coordinating with the Corporation for National and Community Service

to find ways that national service can leverage the work of social entrepreneurs and build the capacity of the nonprofit sector.

Over the next several months, CAP will be developing more detailed recommendations on each of these proposed roles for the White House Office of Social Innovation and Impact. In particular, we will identify possible sources of funds for these investments, the best structure for the White House Office, and its relationship to the federal agencies.

Endnotes

- 1 Roger L. Martin and Sally Osberg, "Social Entrepreneurship: The Case for Definition," *Stanford Social Innovation Review* 5 (2) (2007): 28–39.
- 2 As Duke Business School Professor Gregory Dees has noted, "We are going to continue to encounter some disagreement about [who is or isn't a social entrepreneur] There is no uniform and unanimous definition, but keep in mind that even the term 'entrepreneur' has no one definition that's accepted by all the people who study it. And, it has been around for hundreds of years..." in "The Past, Present and Future of Social Entrepreneurship: A Conversation with Greg Dees," Duke Fuqua School of Business, Center for Advancement of Social Entrepreneurship, February 15-17, 2006.
- 3 The Internal Revenue Code defines over 27 categories of organizations exempt from federal income taxes, including private country clubs, labor unions, business associations, fraternal organizations, universities, and many others. About 1.5 million of these organizations make up the "independent sector." The "independent sector" encompasses the charitable, social welfare, and faith-based portions of the non-profit sector. Throughout this section, when we refer to "nonprofits" we are referring to these "independent sector" groups. Lester Salamon and S. Wojciech Sokolowski, "Employment in America's Charities: A Profile" (Baltimore: The Johns Hopkins Center for Civil Society Studies, December 2006) p. 3, available at <http://www.jhu.edu/~ccss/research/pdf/Employment%20in%20Americas%20Charities.pdf> (last accessed Jan. 4, 2007).
- 4 Salamon and Sokolowski, "Employment in the America's Charities: A Profile," p. 3; Bureau of Labor Statistics, "Employment, Hours, and Earnings from the Current Employment Statistics survey (National): Financial Activities" (U.S. Department of Labor), available at http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?&series_id=CEU5500000001.
- 5 Bornstein notes that while social entrepreneurs "have always existed, for a variety of reasons their presence is on the rise today. The designation 'social entrepreneur' has gained popularity in recent years. America's leading universities offer courses in social entrepreneurship.. Journalists, philanthropists and development workers frequently invoke the term." In David Bornstein, *How to Change the World: Social Entrepreneurs and the Power of New Ideas* (Oxford University Press, 2004).
- 6 Duke Business School Professor Greg Dees notes that "when you hear the term 'social entrepreneur,' part of what it conveys is the blending of sectors—a mixture of social purpose we typically associate with non-profits and the kind of entrepreneurial orientation we associate with business, particularly with the most creative and dynamic aspects of business."
- 7 William Foster and Gail Fine, "How Nonprofits Get Really Big," *Stanford Social Innovation Review* 5 (2) (2007).
- 8 Stephanie Strom, "Foundations' Giving Is Said to Have Set Record in '06," *The New York Times*, Apr. 3, 2007.
- 9 Teach for America "Studies on corps member impact: What the research says," (2007), available at http://www.teachforamerica.org/mission/our_impact/studies_corps_impact.htm.
- 10 Tough, Paul, "The Harlem Project," *The New York Times*, Jul. 20, 2004.
- 11 Grameen Bank, "Perspectives from two Continents," available at <http://www.grameen-info.org/dialogue/dialogue33/elr.html> (last accessed Dec. 13, 2007).
- 12 Ibid.
- 13 ICMR Case Studies and Management Resources, available at <http://www.icmrindia.org/free%20resources/casestudies/Bangladesh%20Grameen%20Bank10.htm>.

About the Author

Michele Jolin is a Senior Advisor at the Center for American Progress. Among other things, Jolin is organizing a series of roundtables to better connect policymakers to the ideas being developed by social entrepreneurs working in education, workforce development, poverty alleviation, health care, and other areas of social need. Jolin was the Deputy Chair of the Global Education track for the 2007 Clinton Global Initiative.

Prior to joining American Progress, Jolin was a Vice President at Ashoka, an international non-profit that invests in social entrepreneurs in 43 countries around the world. While at Ashoka, she focused on management and strategic planning, as well as launching and running several of Ashoka's global programs supporting the work of social entrepreneurs.

Prior to Ashoka, Jolin served for four years at the White House as the Chief of Staff for President Clinton's Council of Economic Advisers. Prior to that, she worked for Sen. Barbara Boxer (D-CA) on the Senate Banking, Housing, and Urban Affairs Committee. Jolin also worked as an Associate at the Washington, D.C. law firm Patton Boggs, where she practiced international trade law. Jolin has a B.A. from the University of Wisconsin, an M.Sc. from the London School of Economics, and a J.D. from the University of Virginia.

Center for American Progress



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The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is “of the people, by the people, and for the people.”

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