Tuesday, November 14, 2006

Part II: Philanthropy's New Prototype

If Nicholas Negroponte can achieve his ambition of distributing $100 laptops to the world's disadvantaged children, he will help redefine philanthropy and see his name added to a list alongside the likes of Carnegie, Ford, and Rockefeller.

By James Surowiecki

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[Previously featured: Part I]

Enterprising Philanthropy

As the names of the Carnegie, Ford, and Rockefeller Foundations suggest, American philanthropy has always depended heavily on American businessmen. But with some exceptions--like the Carnegie libraries, or the Salvation Army, which Peter Drucker once called "the most effective organization in the United States"--the fact that foundations were mostly funded by business did not mean they were businesslike in their approach. Over the last decade or so, that has changed dramatically. Beginning sometime in the mid-1990s, two trends came together to remake philanthropy in the United States: the tremendous boom in the U.S. economy and stock market, and a growing desire on the part of wealthy businesspeople to apply their moneymaking techniques to other, less commercial endeavors. The economic boom meant a lot more money floating around: charitable donations in the United States rose 10 percent annually in the late 1990s. It also meant a lot of newly wealthy people, many of them entrepreneurs, who were interested in figuring out how to spend that money in the smartest way possible. The result has been an explosion in new forms of philanthropic investment and a concentrated effort to identify what might be thought of as the philanthropic equivalent of business opportunities: areas where neither business nor government has been meeting a need. And although the growth in charitable donations slowed with the stock-market crash and recession, it's picked up again, with donations rising about 23 percent between 2001 and 2005.

Some philanthropies are taking on immense global problems. The Gates Foundation, most obviously, has become one of the world's most forceful promoters of research on malaria, tuberculosis, and AIDS, while Bill Clinton is currently raising billions to improve AIDS treatment and research. Some are taking on smaller, local problems. The Acumen Fund, for instance, operates as a kind of philanthropic venture capital fund, working with companies in the developing world on products and services designed specifically to serve the four billion people who live on less than $4 a day; its projects include drip-irrigation kits in India and malaria nets in Africa. The Omidyar Network funds both profit-seeking and nonprofit enterprises, while Google's various philanthropic enterprises invest in everything from traditional nonprofits to projects like OLPC to for-profit ventures.

What all these organizations have in common is a much greater focus on the return they get on their investments in charities, with "return" defined more in terms of its social than its financial value. Often, they explicitly demand that grant recipients meet performance goals just as any corporate division would be expected to. The premise is that it's possible to bring greater rationality not only to the grant-making process but to the actual operations of philanthropic organizations. This new model is sometimes called "high-engagement philanthropy": just as venture capitalists often play an important role in shaping the strategies of the companies they fund, these new foundations tend to be more directly involved in their grantees' operational decisions.

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