Social Impact Exchange Inaugural Conference on Scaling Social Impact

Keynote Speech

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Thank you, Suzanne, and congratulations to Alex Rossides for bringing us together in this great event. I can't think of a better place to talk about scaling innovation.
And by that I mean not only this *conference*…I mean, quite literally, this *neighborhood* in Lower Manhattan. Let me explain.

Forty years ago, Battery Park City and the land on which this beautiful building now stands did not exist. Manhattan ended at the West Side Highway where dilapidated piers jutted into the Hudson having been abandoned years before in favor of modern ports elsewhere in New York Harbor.

In the late sixties, enterprising city planers plotted the future of Lower Manhattan which was an area badly in need of renewal at the time. Battery Park City was created by landfill, mostly from the excavation of the World Trade Center site…the centerpiece of that renewal effort. So this is a particularly appropriate setting in which to talk about scaling innovation.

Battery Park City...literally the ground beneath our feet is a wonderful metaphor for the challenges and possibilities of taking innovation to scale in ways that are creative and most importantly…enduring.

That is the challenge confronting 21st century philanthropy…exactly what the Social Impact Exchange and this inaugural conference on scaling was designed to address.

This first-of-a-kind forum for action-oriented collaboration is particularly timely…and this multisectoral participation in it particularly needed…because philanthropy finds itself in a period of profound transition– the consequence of sweeping social, political, and economic transformations.

These changes are equal in significance to those that occurred a decade into the last century when Andrew Carnegie and John D. Rockefeller, Sr. first married America's singular legacy of charity, with the business insights and outlook of its Gilded Age.
Looking back at our foundation's inception, what most strikes me is how Rockefeller and his advisors assessed and addressed the most pressing challenges of their time.
A century ago, the problems were immense and solutions hard to come by. Diseases like yellow fever, hookworm, and malaria ran rampant. The basics of public health were, as yet, still unknown.

Rockefeller and his advisors saw conditions that needed to change. They did their homework. They invested in cutting-edge research. They called on experts and put many on payroll. When a young Albert Einstein sent a request for $500 to Rockefeller's top lieutenant, Rockefeller instructed his deputy, "Let's give him $1,000. He may be onto something." Our predecessors experimented. They adapted. They changed course when necessary. And this first phase of Rockefeller's philanthropy achieved significant breakthroughs:

- a Nobel Prize-winning vaccine for yellow fever,

- the professionalization of public health, and
- the spread of western medicine in Africa, Asia, and around the world.

It was ambitious work with global reach. In fact, until the Second World War, the Rockefeller Foundation gave more foreign aid than the United States government. It literally expanded the frontiers of scientific knowledge and improved the lives of millions.

Then the war came. When it ended, the world's cultural and economic landscape was forever altered, setting conditions for new models and modern forms of aid and development. Indeed, philanthropic expansion during this period strengthened the development of foundations; but it also strengthened the foundations of development.

In this *second* phase of philanthropic innovation,our Rockefeller Foundation predecessors helped establish the non-governmental organization sector as the "missing middle" between giving and direct impact. This included NGOs — that promoted knowledge and transformational public-private partnerships across multiple fields, especially in the area of health, agriculture and the social sciences. It also included mobilization of the Green Revolution that saved a billion lives in Latin America and Asia.

Today, philanthropy finds itself at a *third* inflection point, not only because the world has changed, but also because the ways in which we can work have changed as well. We now have the opportunity to deploy new tools, techniques, and technologies to address pressing global challenges. These allow for more direct connection to beneficiaries, to sources of local knowledge, and to more immediate feedback. That means there is a sea change in where knowledge resides.

In the 21st century, big ideas often emerge in small corners where parents find better ways to nourish and teach their children or where doctors find better ways to prevent disease's spread among patients. The laboratory is everywhere and everywhere is the laboratory. We've learned that limited resources are most effectively utilized in finding and funding innovation where it occurs in local contexts, and these are often just waiting to be scaled for truly explosive impact.

There is also greater opportunity to mobilize around integrated solutions involving multiple sectors, and public/private partnerships have become a frequent philanthropic tool. We're seeing the growth of viral philanthropy – like kiva.org and Global Giving, for example.

In this new moment in the history of philanthropy, there are four significant trends important for all of us at this conference to consider. First, evidence is growing that the amount of money spent does not always equate with problems successfully solved.

Second, and related, it is crucial to be focused on more than grant-making to maximize potential for impact. Third, great new ideas are often percolating from the ground-up, in addition to traditional sources of expertise. And fourth, more types of philanthropy are being tested, which make this a very fertile period for philanthropic innovation.

This event is one exciting example, providing a platform and forum for a new type of action-oriented collaboration. Together, these trends suggest that this is a moment perhaps ripe with pitfalls…but also with great possibility for innovation. And now there is a growing literature that innovation is not only an exercise in creativity, but also a discipline with an established methodology.

And today, social problem solvers are working to systematically adapt these innovation processes and apply them to address economic, health, and environmental challenges. At Rockefeller, we've learned that innovation techniques like crowd-sourcing, design thinking and user-driven innovation can tap new sources of knowledge…engage thinkers and doers from around the world in solving problems together…and then *scale* new ideas and best-practices from one village to five… then 500… then around the world.

As an example, we partnered with InnoCentive, a spin-off of the Eli Lilly Company, to test the feasibility of crowd-sourcing searches for solutions to science-based social and environmental problems. This was a great resource for pharmaceutical R&D.

Many discoveries emerged at very low cost. Through their online network of 300,000 engineers, scientists, and entrepreneurs– dubbed "the world's first open innovation marketplace"– we offered prize money in exchange for successful solutions to problems that confounded experts working in only one place. New tools like a solar-powered, mosquito-repellent, anti-malarial device emerged as a result. We learned, as one of our partners put it, "if you want an answer, ask everyone."

We also partnered with Ashoka's Changemakers to scale and expand another type of open innovation platform. Changemakers posts social challenges online and invites competing applicants to submit potential solutions. In their model, proposed solutions are published transparently and remain unlocked for revision.

This new concept, called "collaborative competition," facilitates two areas of learning– and we think holds great potential to network groups of grantees. First, it identifies clusters of ideas and blank spots. Problem solvers can see where their counterparts are focusing and where there may be space to propose alternatives.

Second, it promotes collaborative revision and iteration. The sooner applicants submit their proposals, the earlier they can see others' work, and the further they can sharpen their own thinking. For example, the Global Water Challenge, a coalition of 22 leading organizations, sought a new approach to help low-income communities in emerging nations access sanitation and drinking water at low cost.

Competing applicants from 54 countries put forward more than 240 ideas. Since every suggestion was visible to every entrant, competitors collaborated spontaneously. The final winner included online contributions from countries as diverse as India, Malawi, Kenya, South Africa, and the United States.

With only $1 million from a private donor, the solution was tested in the field and taken to scale. Hundreds of people, who had never met each other pooled expertise to solve a common problem.

All these new models encourage unprecedented cooperation among diverse applicants to generate unparalleled creativity, innovative solutions, and new techniques and resources to achieve scale.

Of course, many solutions don't need to be invented at all…they need only to be found, and then scaled.

The Rockefeller Foundation recently funded an initiative, partnering with Secretary of State Hillary Clinton, called the Secretary's Innovation Award for Women's and Girls' Empowerment. A panel of jurors will review submissions and award two half-million dollar prizes annually to applicants to scale their pioneering approaches to the political, economic, and social empowerment of women and girls around the globe.

Many of us are now focused on looking for user-driven innovation to scale.
We've learned that when people impacted by innovations are involved in their creation, then those innovations will often better address their needs and be more widely adopted. To assess this concept, we partnered with a group called Positive Deviance. They identify behaviors that enable outliers or "positive deviants" to succeed and then encourage others within the community to adopt these same behaviors.

For example, Positive Deviance cast its eyes on malnutrition in Southeast Asia. Researchers visited a low-income Vietnamese village and immediately noticed that children in a scattering of families were in exceptionally good health. Upon closer examination, they discovered that, in these households, providers did not wash away shrimp and crabs found in rice paddies. Instead, they cooked them along with their rice–adding protein to a carbohydrate-based diet. With a scaling grant from us, this technique was then taught in villages across the country. It was a small, user-generated innovation…and a modest grant…that had a big impact on regional malnutrition.

These are just a few examples of how, in our decentralized, information age, we can scale innovative solutions in ways never before imagined.

But we must pursue other process innovations, as well…other innovative ways to increase scale by growing our resource base. After all, there is simply not enough money in foundation or even government coffers to scale every innovative solution. But there *is* a great deal of money locked up in private investments.

Although philanthropists can only muster *billions* of dollars against the *trillions* of dollars of social needs, private investors manage more than $100 trillion in for-profit capital markets.

So we should be asking ourselves, “How can we tap into the segment of these enormous private capital flows that looks for ways to create both financial profit and social return?” Enter, a process innovation that holds the promise of scaling solutions in an unprecedented way …the field of impact investing.

Impact investments range *from* financial-first investments, which seek to optimize financial return, but require some social and environmental impact as well…*to* impact-first investments, which seek to optimize social or environmental impact, but expect some financial return.

And there’s a lot of ground in between–a new frontier for experimentation. Many impact-investments are layered. They combine capital from impact-first and financial-first investors. There are clearly challenges in this approach, to be sure. Impact investments are often complex to negotiate. They sometimes entail tradeoffs – whether in terms of higher risk or lower return.

As you know so well, there are few free lunches – not in this business, not in any business. But from our perspective the heavy lifting of building an impact investing industry is well worth the effort. And many in this room are leaders in this field. Consider just a few snapshots of this work:

Just miles from here in the Bronx, low-income families are moving into quality, affordable housing units that were not provided by charity…they were capitalized by the for-profit, JP Morgan Urban Renaissance Property Fund. This $165 million tranche targets America’s poorest urban communities– and it earns market-rate returns on an average of 15 percent for its investors. This is a financial-first investment that makes a tremendous impact.

Around Virunga National Park in the Eastern Congo, farmers are earning a living by harvesting and selling vanilla and coffee to Gourmet Gardens, a Ugandan exporter. Gourmet Gardens secured a working capital loan for these purchases from Root Capital…a non–profit, which lends to farmers’ cooperatives and agribusinesses that promote sustainable agriculture and stewardship.

Investors – including companies like Starbucks– earn a small financial return to provide investment capital to Root Capital for this lending. By taking on loans from impact investors to leverage the grant money they raise, Root Capital has been able to grow to the point where they now lend more than $50 million annually– enabling them to improve the incomes of more than 150,000 producers and their families.

In Honduras, a village draws power from a renewable hydro-electrical plant, after an entrepreneur secured an equity investment and working-capital loan from E & Co, another type of investment fund. It both raises investments itself and partners with Goldman Sachs to sell carbon credits for small-scale renewable energy projects in developing countries around the world. This is a layered approach– deriving risk capital from investors with social impact objectives, and then additional financing, on a more secure tier, from investors with financial-first objectives.

These are just three illustrations among a broad array of innovations in the emerging sector of impact investing, which could release the capital necessary for social entrepreneurs to take innovations to scale. But working with the Monitor Institute, we identified three missing elements necessary to make this sector really take off.

First, there must be ways for the pioneers in this industry to work together, so that they can rely on well-developed platforms that enable leading impact investors to collaborate and share infrastructure resources that they would therefore not need to invest in alone. We have been active in helping to develop these platforms, such as the Global Impact Investing Network, or GIIN, which serves as a forum for identifying and then solving systemic barriers that hinder the industry's efficiency and effectiveness.

Second, investors are eager for the basic tools necessary to measure and then generate the greatest possible social impact. Therefore, Rockefeller worked with partners on a new global reporting standard, known as IRIS, for measuring and communicating social impact.

And we are also supporting a new company called GIIRS ("gears"), with Deloitte and USAID, to provide objective and credible third-party ratings of the social and environmental impact of investments, making social due-diligence easier. With better tools to measure social impact, investors will have the metrics they need to gauge where their capital will get more "bang" for the "buck."

And third, there needs to be better mechanisms to connect impact investors to the "demand side"– the businesses and entrepreneurs who can put this capital to work to create both solutions and profits.

With Program Related Investments, we are helping to back fund managers from India to Mexico (and in the US) who are creating a new class of investment fund aimed at generating profit *and* social impact.

We are also excited about a new investment model being piloted by our grantee Social Finance in the United Kingdom. Their "social impact bond" raises capital from private investors for non-profits whose work prevents social problems. The first social impact bond will fund non-profits working with ex-offenders to keep them out of the prison system.

When this work succeeds, the government will share the savings with the social impact bond's investors who will receive a fair return for taking the risk of funding the prevention program. They believe this concept has great potential to bring impact investment to organizations with solutions to a range of problems, from rising levels of diabetes, to school drop out rates, to inadequate elderly care. It is indicative of the proliferation of innovation we are witnessing as the impact investing industry emerges.

So, in conclusion (two words that always make listeners grateful) - this really is a moment of profound transition, for our work and the tools we use to achieve transformational social change must evolve again. We must support a new century of innovation to match a new century of challenges. This Social Impact Exchange and conference break new ground with its opportunities and focus on collective action and new ways to take great ideas to scale. Let's show that we're up to the challenge.