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Community Foundations and Social Enterprise

Back in 2005, *On the Brink of New Promise* looked at how community foundations could change their work to fit the shifting demands of their communities and the larger philanthropic landscape. Indeed, one of the new ways that foundations are supporting their local communities is through the support of social enterprise. In this third *Future Matters* report of 2008, we focus on how community foundations are supporting social enterprises and note that while community foundations often form initiatives around social enterprise in response to calls for action, foundations can also be the driver behind new programs in their local community, leveraging foundation resources and connections to aid community nonprofits and social entrepreneurs.

What Is a Social Enterprise?

A social enterprise is many things to many people. Some like the Social Enterprise Institute believe that social enterprises encompass any “earned-income business or strategy undertaken by a nonprofit for the purpose of generating revenue in support of the nonprofit’s social mission.” Others like the Social Enterprise Alliance believe that a social enterprise can refer to any organization or venture, whether it is nonprofit or for-profit, “that achieves their primary social or environmental mission using business methods.”

WHAT ARE FUTURE MATTERS?

On the Brink of New Promise: The Future of U.S. Community Foundations explored the changing context around community philanthropy and what it might mean for the future of community foundations. But as the context for the field continues to shift, Blueprint Research & Design, Inc. will be developing a number of *Future Matters* reports to expand on the original report and discuss ongoing and emerging issues and trends that may matter to the future of community philanthropy.

Please write us at info@communityphilanthropy.org to share examples of how your community foundation is supporting social enterprises, or to let us know what other topics you would like addressed in upcoming *Future Matters*.



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Building the community's capacity to generate their own capital and increasing the community's access to capital lies at the heart of every community foundation's mission. In the context of community philanthropy, supporting social enterprise has traditionally been about helping nonprofits adopt earned income ventures. However, as the line between nonprofits and for-profits, grants and investments, philanthropy and business has become increasingly blurred, so too have the activities of community foundations sidestepped traditional boundaries. This *Future Matters* report provides an overview of the many different ways community foundations are supporting social enterprises in their local community.

Hiring Experts

At a meeting held by the Association of Fundraising Professionals, the **Amarillo Area Foundation** heard about how the Dallas Center for Nonprofit Management partnered with Community Wealth Ventures, a consulting firm that helps nonprofits explore earned income strategies, to create the North Texas Community Wealth Collaborative. The Collaborative, an intensive 10-month business planning process, helped high-performing nonprofits develop and grow earned income ventures. For example, one of the nonprofits, the Autism Treatment Center, was able to plan and establish a diagnostic and therapy rehabilitation agency through its participation in the Collaborative.

Inspired by such efforts, Amarillo decided to work with Social Enterprise Ventures, a firm they had worked with in the past, to help launch its new "Social Enterprise" program within the foundation's Nonprofit Service Center. As part of the program, Amarillo hosted Expedition™, an intensive training program in social enterprise for five area nonprofits. The Foundation leveraged additional sponsorship funding and each of the nonprofits was able to participate in the

program for a significantly reduced price. While it's too early to tell what impact the program will have – the program was launched just this year – the Foundation expects that at the very least some of the nonprofits will discover fundamental and systemic changes in the way they manage their business and refine and enhance their current programs and services.

Involving the Business Community

If nonprofits want to be more businesslike, then it only seems natural to turn to businesspeople for advice. In the case of **Orange County Community Foundation** (OCCF), one of its donors learned about the social enterprise movement and championed the idea within the Foundation, leading to the creation of the Social Enterprise Venture Fund Grant Program. Enlisting the help of another donor at the Community Foundation, OCCF awarded three grants totaling \$25,000 to local nonprofits. While the sizes of the grants were not particularly sizeable by themselves, OCCF worked with Tech Coast Angels, a well-known network of angel investors in Southern California, and the Social Enterprise Institute to provide grantees valuable program support, coaching, and feedback.

Financing Social Enterprises

While traditional support of social enterprises has usually taken the form of grants or training opportunities, often times other financial instruments, like debt offerings or equity investments, may be more appropriate. For example, after receiving a \$400,000 Community Initiative Program (CIP) grant from the **Edmonton Community Foundation**, the Goodwill Enterprises in Edmonton needed access to an additional \$500,000 to increase capacity and maintain growth of its already successful programs. However, unable to secure additional grant capital from foundations or loans from traditional banks, Goodwill eventually could only obtain a loan from its sister Goodwill in Manasota, Florida.

Recognizing the challenge many successful social enterprises face in finding suitable financing for expanding their programs, the Edmonton Community Foundation helped create the Social Enterprise Fund to address the real gap between traditional capital financing and charitable funders. The Social Enterprise Fund, launched in February of 2008, seeks to use an \$11 million dollar endowment to provide financial and technical assistance to social enterprises and affordable housing projects in the Edmonton Area.

The **Kalamazoo Foundation** in Michigan also provides an example of a community foundation financially supporting social enterprises through alternative forms of finance. In the case of Kalamazoo, the Foundation uses both program related investments (PRIs) and business related investments (BRIs) in the form of low-cost loans and loan guarantees to leverage economic and redevelopment activity in the greater Kalamazoo area. Examples of the Foundation's investment activity include a PRI of \$1.5 million for the creation of a nine-acre parcel of land for future development on the west side of the city's downtown, a loan of \$1 million to the Air Zoo, an entertainment based aviation museum in Kalamazoo, and a \$3 million limited partnership in a venture capital fund for the local community.

For more information on community foundations and mission investing, please see the 2007 *Future Matters* report on Reframing Endowment as a tool for Community Leadership. A new report on community foundations and mission investing will be released in early 2009. Check www.communityphilanthropy.org for both reports.

Capturing Network Effects

At a recent Community Development Forum held by the Federal Reserve Bank in San Francisco, leaders of many well respected social enterprises, like New Door Ventures and BAYCAT, implored the audience to help provide introductions to area businesses, so that they could continue to expand their operations and customer base, with the ultimate goal of serving more people through their programs. Community foundations, in this role as matchmaker, have a unique part to play. As the nexus point for donors, nonprofits,

businesses, consultants, and other stakeholders, community foundations can leverage the connections they have within their networks to increase the impact of social enterprises.

One example is the **VanCity Community Foundation** and its support of Potluck Café, a social enterprise that employs residents of Vancouver's Downtown Eastside in the restaurant and catering industry. The Foundation helped Potluck Café expand its business by connecting it with the VanCity Credit Union, which originally helped established the VanCity Community Foundation in 1989 with its initial endowment. After the initial introduction, the VanCity Credit Union decided to use Potluck Café's catering service, a significant victory at the time for the proven but still growing social enterprise.

It is important to note though that while community foundations and other interest-aligned organizations can help social enterprises procure new business by becoming their newest clients, social enterprises must expand beyond foundations and governments to truly be sustainable. Elizabeth Lougheed Green, the former executive director at Potluck Café who now manages VanCity Community Foundation's Social Enterprise Program, says that foundation and government clients represented only 10% of Potluck Café's revenue while the other 90% came from traditional businesses.

Considerations for Community Foundations

As opportunities for community foundations become more apparent and grow more sophisticated, information and implementation challenges may increase for community foundations. To date, there has not been customized education for the sector on the regulatory framework, advantages, investment options, and business model implications that apply to community foundations interested in social enterprise. We outline some of the most basic considerations for community foundations regarding social enterprise here.

Social Enterprise and Grant Program Strategy

Program officers may not readily have available the skills or knowledge base to accurately assess the potential of social enterprise projects. Evaluating social enterprise proposals requires a unique skill set including the ability to understand financial models, knowing how and when to apply creative financing instruments, and identifying blended value propositions. Community foundations looking to expand into social enterprise may need to provide their program staff additional training, hire additional staff, or consider outsourcing the due diligence of social enterprise proposals to social finance professionals.

Social Enterprise and Technical Assistance

While social enterprises often need alternative forms of financing not typically used by traditional grantmaking organizations, technical assistance for nonprofits interested in exploring social enterprise opportunities is another valuable resource alongside financial assistance. Key areas of technical assistance often include identifying assets, assessing opportunities, linking funding opportunities, developing strategic marketing and business plans, and building appropriate ventures.

Social Enterprise and Governance, Community Representation, and Outreach

Frequent staff and board changes that give community foundations broad representation and voice may also present a challenge for sustained institutional learning and continuity. Community foundation boards will also possibly have to re-tool to include expertise with social enterprise. The need to position themselves as intermediaries to capital will require different outreach methods and communications strategies to both grantees and donors.

Social Enterprise and Investment Policies

Most social investing by foundations today focuses on negative screens applied to investments made from the foundation's corpus in publicly traded companies. However, investing in social enterprise generally occurs on the program side, structured as either a grant or program-related investment. While social enterprise provides a unique investment opportunity for community foundations, investment policies will need

to be reexamined and structured before community foundations can leverage this new tool for social change.

Resources

Websites

[enterprising non-profits](#)
[REDF](#)
[Social Enterprise Alliance](#)
[Social Enterprise Institute](#)
[Zero Divide](#)

Books

Greg Dees, Jed Emerson, and Peter Economy, *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs* (New York: Wiley, 2001).

Jerr Boschee, *Social Enterprise Sourcebook* (Minneapolis: Encore! Press, 2001).

Articles

Cynthia Gair, "If the Shoe Fits: Nonprofit or For-Profit? The Choice Matters," *REDF Publications* (2005).

Kim Jonker, "In the Black with BRAC," *Stanford Social Innovation Review* (Winter 2009).

The Future of Community Philanthropy

project builds on joint work of Blueprint Research & Design, Inc. and the Monitor Institute that took place from 2004 to 2006. That effort produced the report, *On the Brink of New Promise: The Future of US Community Foundations*, the website communityphilanthropy.org and its online tools, and the first four *Future Matters* Reports. The work is funded by the C.S. Mott Foundation and the Ford Foundation. Lucy Bernholz of Blueprint Research & Design is continuing the project's work. Ms. Bernholz wrote this report. For more information about the project, visit www.communityphilanthropy.org.