

**Judith Rodin, President Rockefeller Foundation  
Innovative Philanthropy for the 21<sup>st</sup> Century:  
Harnessing the Power of Impact Investing  
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I understand that it's something of a tradition at Generation to begin your advisory board meetings with a simple question – a question Ralph Waldo Emerson used to ask old friends when greeting them after a long while: “What has become clear to you since last we met?” Although not old friends, I look forward to becoming even better friends. And I'm grateful that you've afforded me this opportunity to explain just “what has become clear” to us at the Rockefeller Foundation: that innovation has never been more crucial.

During the last few years, my colleagues and I have asked ourselves how best to foster innovation not only in the work we support, but also in the way we work. That's why we're so excited about the innovation I've been invited to discuss today: the emerging field of impact investing. The Rockefeller Foundation, with wonderful partners like David Blood and Generation, is helping to shepherd impact investing's progression from an uncoordinated field to a mature industry – an industry that can give lift and leverage to traditional philanthropy.

Perhaps the best place to start the story is at our beginning, in 1913. This was the year in which John D. Rockefeller, Sr., established the Foundation that still bears his name and institutionalized an innovation of his own: Systemic giving that would, in his words, “push the pace of human progress.”

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. The clouds of a Great War gathered.

Looking back at those early days, what most strikes me is how Rockefeller and his advisors assessed and addressed these challenges. This was their genius. They 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. John D. and his colleagues didn't use the word innovation then; they called it “scientific philanthropy.” But innovation was their game. It was bold and daring, intrepid and risk-taking.

The first phase of Rockefeller's philanthropy achieved significant breakthroughs: a Nobel Prize-winning vaccine for yellow fever, public health's professionalization, 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 expanded the frontiers of scientific knowledge and improved the lives of millions.

Still, 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 support for entities – we call them RINGOS, Rockefeller Foundation Initiated NGOs – that promoted knowledge about birth control and techniques to improve maternal and child health. It also included mobilization of the Green Revolution that saved a billion lives in Latin America and Asia – as a consequence of which, half the world's families eat wheat, rice, and other crop varieties that Rockefeller Foundation scientists developed during the 1960s and 70s.

Today, philanthropy finds itself at a third inflection point not only because the world has changed, but also because the ways we can work have changed as a consequence. At the Rockefeller Foundation, we asked hard questions about how our legacy foundation – or any philanthropic institution – could most effectively respond. We acknowledged – with great candor – that many of our 20<sup>th</sup> century approaches might no longer work as well as they once did, or at all. As Sir David King mentioned this morning, "we must refocus away from the habits of the 20<sup>th</sup> century." We recalibrated our way of working – as we have so many times in 97 years – because globalization had transformed, and continues to transform, both the problems we face and our capacities to solve them.

We see globalization's ramifications in ways both subtle and substantial. To be sure, you can sense the transition underway on Mumbai streets, where – when visiting during the 2008 presidential primaries – I was constantly asked, "Hillary or Obama?" Or in Nairobi taxi cabs, where every driver will tell you if they're for Chelsea or Manchester United.

But globalization has also unleashed a fundamental transition in finance and governance – a transition in the ways we lead our lives. Globalization ties together the fates and fortunes of people in distant places. Almost no country, ecosystem, or economy remains untouched, as the current global financial crisis sets in sharp relief.

At the Foundation, we also see an unfolding tale of two globalizations. One generates substantial progress for many. Another leaves many more by the wayside – families and populations that fall further behind as the pace of change quickens.

So we determined that all of our work ought to contribute toward a world in which globalization's benefits are more widely shared and its burdens more easily weathered. We call this aspiration and commitment: "smart globalization." It means helping people reach the tools – the techniques and technologies – to survive, learn, adapt, and flourish. It means that we still

face dangers, but can also build new competencies and stronger resilience to absorb these risks more equitably.

There are at least three new constraints challenging these shared aspirations and commitments: increasingly complex problems, changing sources of knowledge, and finite capital with which to bring the latter to bear on the former.

Think, first, about the problems: Climate change and unplanned urbanization; inadequate health services and unremitting poverty; economic insecurity and environmental degradation. These crises are all interconnected. The most effective way to solve one is to focus on the others simultaneously. Today we must deploy integrated approaches across disciplines and sectors – along with greater capital and creativity than any one sector of society has on its own. Integration and collaboration is essential.

The second constraint is a sea-change in where knowledge resides. In the 21<sup>st</sup> century, big ideas often emerge in small corners – where parents find better ways to nourish and teach their children; where doctors find better ways to prevent disease’s spread among patients. Today 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 – sometimes percolating from the ground-up.

The third constraint is a scarcity of capital with which to apply new kinds of knowledge to these ever more obstinate challenges. Given that many of you are investors, I hope you’ll join me in doing a little back-of-the-envelope math or “maths” as our British friends say.

On the liabilities side of our global social balance sheet are trillions of dollars in capital needs: Between \$4 and \$10 trillion to provide decent housing and basic sanitation to the world’s billion slum dwellers. Another \$1 trillion-plus to capitalize a green revolution for smallholder farmers in sub-Saharan Africa. Hundreds of billions of dollars to provide basic health services in countries that currently spend only tens of dollars per capita on health services per year. Billions more for the hundreds of million children who can’t walk through schoolhouse doors – let alone read modern textbooks or learn from qualified teachers. Billions more to help communities in developing countries to prepare for and recover from the climate crisis’ imminent and worsening effects. And while shifting from a carbon-based- to renewable-energy economy will generate substantial gains over time, the short term costs of transition are considerable.

What assets do we have to cover these trillions of dollars of social liabilities? We know that today, more than ever, governments aren’t exactly flush with cash. Total development aid hovers around \$140 billion a year.

We know that while market-based solutions can lift national economies at a macro-level, the benefits of globalization and growth don’t always trickle down to those in greatest poverty and peril. So, at the micro-level, more intentional interventions are essential – enabling practices and policies; new technologies, services, and products –that tilt opportunity to those in need.

Philanthropic giving alone is also not up to the task. Take the United States – a country with a singular tradition of private charity – as an example: In 2008, total philanthropic giving exceeded \$300 billion. Yet most of this money is given by individuals for charity- and community-based projects in the United States. Private foundation giving constituted about \$45 billion of that \$300 billion total – only 15 cents of every dollar. And some of that, quite frankly, could have been spent more effectively.

So, the world has trillions of dollars in liabilities and only billions of dollars in assets from government, foundations, and other sources of private giving. To be sure, if the goal is to build one school in an Indian slum, or to spread sustainable farming practices in one African village, or to provide affordable housing in one Southeast Asian community, or to build one hydropower generator to provide renewable energy to one Latin American region, then we can support our way to success through traditional philanthropic grants or development aid.

But if our vision is of a world in which all children can attend school, all farmers can feed their families while stewarding their land, all families can live in decent housing, and all people can access renewable energy supplies, then philanthropy and development simply can't pay for it.

So, you might think we have reason to be pessimistic – especially since our challenges are too complex to be solved with old approaches, since knowledge is located 'out there,' not only 'in here,' and since philanthropic capital and development aid are too limited to finance systemic change.

But fret not. This is also a moment ripe with possibility. And we see at least two reasons why. One: While we cannot rely exclusively on in-house knowledge and creativity, we've learned that techniques like crowd-sourcing, design for social impact, and user-driven innovation can tap new sources of knowledge, engage thinkers and doers from around the world in solving problems together, and then spread new ideas and best-practices from one village to five, then 500, then around the world.

Two: While there is not enough money in foundation and government coffers to meet the defining tests of our time, there is enough money. It's just locked up in private investments.

Although philanthropists can only muster billions of dollars against the trillions of dollars of social needs, private investors like you in this room manage more than \$100 trillion in for-profit capital markets. So we need no longer ask ourselves, "why isn't there enough money to so solve social problems?" Instead, we ask: "How can we tap into these enormous private capital flows to create both financial profit and social return?"

Enter the new field of impact investing, one in which you already participate through your social, mission-driven, and program-related investing in Generation. Think about it this way: We can plot the investment economy on an x—y axis. x represents social or environmental impact; y represents financial return.

In the top-left quadrant, we place traditional investments. These are selected for – hopefully – high financial-return, but without specific criteria for social or environmental outcomes. This is financial-only investing.

In the bottom-right quadrant, we place philanthropy, conventional grant-making, and charity. These investments are selected for high social or environmental impact, with no expectation for financial gain.

In the top-right quadrant, however, we can place a continuum of new investment activities. These range from financial-first investments, which seek to optimize financial return, but require some social and environmental impact, to impact-first investments, which seek to optimize social or environmental return, but still expect some financial return.

There's a lot of ground in between -- a new frontier for experimentation. Many top-right-quadrant impact-investments are layered. They combine capital from impact-first and financial-first investors in different tiers. 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. But the heavy lifting of building an impact investing industry is well-worth the effort. The possibility of matching new capital to a vital mission is well-worth the cost.

Consider just a few snapshots. In New York City's poorest borough, the Bronx, low-income families are moving into quality, affordable housing. These refurbished homes were not provided by charity or the city; 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 of 15 percent for its investors. This is a financial-first impact investment that makes an important social impact.

Or consider around Virunga National Park in the Eastern Congo, where 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, which lends to farmers' cooperatives and agribusinesses that promote sustainable agriculture and stewardship. Investors in Root Capital, including companies like Starbucks, earn a small financial return to provide investment capital to Root Capital for this high-social-impact lending.

Or in Honduras, where a village draws power from a renewable hydro-electric plant after an entrepreneur secured an equity investment and working-capital loan from E&Co., a non-profit investment fund. E&Co. was spun-off from the Rockefeller Foundation 15 years ago. Today 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. Each holds enormous potential to reconfigure the social balance sheet – rendering our social liabilities and financial assets a little more equal. Each is the product of supply-side energy and effort. But, what we recognized is

that, until the last few years, each was also an example of more or less isolated innovation. Each was a precursor to, but not yet part of, a well-known, well-regulated, and self-sustaining industry.

We believed that investors, organizations, and beneficiaries could access new resources and achieve better results if the Rockefeller Foundation helped develop three elements within the evolving impact investing marketplace.

First, we help create and support platforms that enable leading impact investors to collaborate and support solutions to common challenges. For instance, the Global Impact Investing Network, or GIIN, serves as a forum for identifying and addressing an array of systemic barriers that hinder the industry's efficiency and effectiveness. Generation – along with institutional investors like TIAA-CREFF and banks like JPMorgan and Triodos – are founding members. We're grateful for your partnership.

Second, we help develop the basic infrastructure necessary for investors to generate the greatest possible social and environmental impact. For example, we support -- with partners -- a new global reporting standard, known as IRIS, for measuring and communicating social impact. We support a new company, called GIIRS, which will provide objective and credible third-party ratings of the social and environmental impact of investments, making social due-diligence easier. And we support Asia's first social stock exchange in Singapore, a liquid, transparent, and regulated market.

Third, we fund intermediaries that can put impact investing capital to work. The Rockefeller Foundation itself is experimenting with impact investments in Root Capital, Acumen Fund, the Indian firm Aavishkaar, and others that pioneer new approaches to impact-first fund management. We also work with boutique investment banks and established global firms to align new partnerships that can transform the economics of this still too-fragmented and sub-scale industry.

In addition to these three intermediations – new networks, infrastructure, and pilots – we work with partners to conduct research and advocacy. In tandem with Generation, we funded a new report, *Investing for Impact: Case Studies Across Asset Classes*, which Bridges Ventures and the Parthenon Group released just two weeks ago. It provides fresh evidence of the diversity of impact investment opportunities now available across all asset classes – and of the range of investors that the industry now counts among its ranks.

Imagine the possibilities if all of this takes hold. Imagine children learning science and math, literature and history, in schools that otherwise would not exist. Imagine smallholder farmers sowing more resilient seeds, more sustainably fertilizing and irrigating their land, moving their harvests to market and earning fair prices for their produce, all financed by new impact-first instruments. Imagine slum-dwellers moving into new homes, built by developers with layered financing, and paid for with impact-first mortgage products. Imagine outposts and villages, towns and cities the world over, connecting to a smart grid – made possible with private resources – and powering their lives with renewable energy. Imagine what can happen if you get in-touch, involved, and invested.

Simply by virtue of working with Generation, you're already part of this gathering movement. If you want to remain a passive investor, you've picked a great team to do invest on your behalf.

But the impact investing industry also offers more than just opportunities for different blends of social and financial investment and return. It also offers leadership opportunities for those among you eager to roll up your sleeves. For those of you looking to establish successful asset management businesses, impact investing will attract new customers and clients. TIAA-CREFF, for instance, determined that impact investing could differentiate their brand and subsequently made \$600 million in commitments to market-rate impact investments. For those of you looking to put your personal or clients' assets to work for purpose and profit, impact investing provides another arrow for your quiver. For those of you looking to attract and retain talent: The next generation of employees and corporate leaders yearns for opportunities to do good and do well in the workplace. Impact investing represents one way to feed that hunger.

There is no question: We meet in an era of profound transition for our world and our work – amidst a whirlwind of change the likes of which philanthropy has seen only twice before. During the beginning of the 20<sup>th</sup> century, John D. Rockefeller, Sr., first imagined that foundations could be catalysts of innovation. After the Second World War, his successors saw and seized new opportunities to build institutions that made the call for development the cause of their founding. Today, 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. I believe that with ideas like impact investing – that with partnerships like this one – we're up to the task. Thank you.

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