

# How banks can better help the world's poor

**Alexander Friedman**

**T**hese days, it has become something of a trend to demonise capitalists and praise philanthropists. But if we are to make true progress in tackling our most pressing social problems and live up to our moral obligation to help those in extreme poverty, these two seemingly polarised groups need to come together in fundamentally new ways.

We need to stop separating investment decisions from philanthropic giving; the building and giving away of wealth should not be seen as disparate sets of skills. The world's problems cannot be solved either by unfettered markets or by limited pools of philanthropic dollars.

Foundations, banks and governments are missing important opportunities that could dramatically increase the flow of capital to the social sector. In the last decade, new ideas have started to emerge that blend principles of giving and investing and are sometimes described as "venture philanthropy", "social impact investing" or "double bottom line" business. But, these innovations do not go far enough and the major players need to work together in a more co-ordinated fashion.

Some foundations have started down this path. The Bill and Melinda Gates Foundation recently committed about 1 per cent of its endowment, beyond its normal grant-making, to support investment instruments such as bond guarantees, securitisation of donor aid flows and equity funds in the developing world. The Rockefeller Foundation helped launch a Global Impact Investor Network to mobilise new sources of investment for socially-oriented businesses. Mean-

while, financial institutions are likewise evolving: Goldman Sachs launched its "10,000 Women" initiative to encourage women entrepreneurs around the world; JPMorgan created a social sector finance group to bring financial skills and funding to non-profit organisations; and micro-finance has become a mainstream business. On a macro level, the Obama administration recently created the Office of Social Innovation to work with the non-profit sector to tackle social problems. But all this is not enough.

At a broad level, four steps are needed. First, foundations could carefully lend against a small portion of their assets not given away each year. US foundations have about \$600bn (€440bn, £398bn) in assets and make grants of about 5 per cent annually, so \$30bn flows to the neediest. If these same foundations used 1 per cent of their balance sheet assets to support "deals" for the poor, this would direct an additional \$6bn in resources annually to their core social mission. If this capital induced the levels of funding from banks and investors that it should, it would be possible to increase the flow of philanthropic dollars to the social sector by at least \$30bn per year. This kind of leverage is achievable. A 1 per cent balance sheet initiative could double the amount of annual philanthropy.

Second, through their private client and wealth management businesses, financial institutions have a unique opportunity to work with foundations to syndicate grant-making opportunities. There is a laudable trend under way in which a whole new class of the working rich wants to be philanthropic. But, rather than set up their own foundations, they could

identify the causes that matter to them and be offered a simple way to co-invest with the best foundations, which desperately need more funding partners.

Third, banks could develop a wider range of social sector finance products – expanding on their current, limited efforts in community lending, which are largely driven by the US Community Reinvestment Act. They could work with philanthropists and investors to structure deals that serve the poor, and begin to market and place these types of investments with private and institutional clients. Banks could also use a tiny portion of their balance sheet to participate in these deals, which have produced attractive returns during this latest period of market upheaval.

Finally, governments have the ability to bring about a revolution in giving and investing to rival the advent of philanthropy. Governments could provide tax incentives for high quality social impact investments both nationally and internationally, inducing active and liquid capital markets for these types of investments similar to the markets for municipal bonds or new market tax credits in the US.

The financial crisis has profoundly affected the world's wealthiest nations, but it has been far worse for the world's poor. Banks may have played a central role in causing this suffering, but they can also help lead the way out.

Now is the time for the financial and social sectors to change philanthropy, together.

*The writer stepped down last week as chief financial officer of the Bill & Melinda Gates Foundation. He is a former investment banker at Lazard*