6. Philanthropy, market creation, and enterprise development

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INTRODUCTION

Philanthropy and the market have traditionally been regarded as two separate institutions of social action. There has always been connection and interaction: it is often wealth amassed in the market that is distributed through philanthropy. But the two structures of resource allocation, and the tools, mechanisms, organisational forms, and values associated with them, have been distinct and separate. Philanthropy is typically conceived as a gift to disadvantaged individuals or communities, normally mediated through a charity or other non-profit organisation; non-profit organisations in turn distribute goods or services to their beneficiaries without charge. Recent decades, however, have seen the emergence of hybrid arrangements whereby philanthropic gifts are channelled through market mechanisms. In particular, there has been an accelerating flow of philanthropic resources into market-based organisations such as social enterprises and community businesses, and a new focus upon philanthropy's role in creating or repairing markets in order to achieve social and economic impact. Such activities exhibit significant innovation in how philanthropic resources are imagined and used. For their advocates, these developments are transformational, opening new mechanisms and avenues for social change (Salamon 2014). For its strongest critics, the 'marketisation' of philanthropy compromises its ability to challenge an unjust market system that causes social problems; it restricts, rather than enables, profound social change (Nickel and Eikenberry 2009).

Social policy analysis of philanthropy's turn towards the market has typically focused upon interventions in the policy process and policy governance (Horvath and Powell 2016), or particular effects in specific fields, such as health and education (for instance, Ball 2012). Less scrutiny has been applied to the social policy relevance of the intentional and direct use of philanthropic resources to develop markets and market-based organisations. This chapter describes this direct market involvement and assesses its place within, and implications for, social policy. In so doing, it takes a broad view of social policy that extends beyond the policy process and government provision to wider social relations and systems by which human well-being is supported or obstructed (Dean 2019). Both the market provision of basic social goods (defined here as those goods and services that enable basic human well-being, such as health, education, housing, food, energy, and transport) and economic development more generally are significant spheres of activity in the resolution and sometimes the creation of social problems. As this chapter describes, the action of philanthropy within these spheres has significant interaction with state policy – whether the provision of social goods, the creation or shaping of markets, or local economic development.

The chapter identifies and explores two distinct modes of philanthropic action that support the development of markets, market-based organisations, and commercial behaviours. At the core of each philanthropic function is a distinct set of assumptions and behaviours around the creation of social impact through market development. The first mode of action is a market creation function, modelled on the mainstream capitalist market. Through the investment of large sums of philanthropic resources, philanthropic institutions seek to enable the creation of innovative market structures, products, and services that can resolve social problems at scale. The chapter draws out connections to emerging understandings of the state as a co-creator and co-shaper of markets, and considers the conditions under which philanthropy might take on this role. The second mode of philanthropic action is a 'community enterprise' function, whereby philanthropic resources support the commercial capacity and organisational resilience of local social enterprises and community businesses.

Across both types of philanthropic market intervention, the ultimate recipients of funding are those organisations that, while operating as trading businesses, also prioritise social impact. These organisations are described here as social enterprises. Social enterprises are succinctly defined by Gidron and Hasenfeld (2012, p. 1) as 'organizations that are driven by a social mission and apply market-based strategies to achieve a social (or environmental) purpose'. However, the precise mode of action of social enterprises, their ownership structure, and their contribution to social value are subjects of academic and ideological dispute. As the chapter describes, different philanthropic functions resonate with different models of and discourse around the social enterprise.

The chapter describes each of these philanthropic functions in turn. Each section begins with a description of the key actors, behaviours, organisational forms, and mechanisms associated with a specific function; each contains brief but detailed examples to show the operation of the philanthropic intervention in practice. Such description is followed by a critical analysis of each philanthropic function and exploration of its interaction with social policy. The chapter acknowledges multiple criticisms of philanthropy's role in creating markets and supporting commercial enterprise. But its conclusion is more positive. In certain conditions of market and government failure, philanthropic capital is an innovative institutional mechanism that pushes forward the development of markets and economies for the public good.

MARKET CREATION: REDIRECTING THE CAPITAL MARKET TOWARDS SOCIAL VALUE

Overview

Since the early 2000s, there has been increasing deployment of large-scale philanthropic resources to support the development of new markets or the repair of broken ones. Market creation or development often reaches beyond simply the development of a single product or service (although this can be the object of philanthropic resourcing) to the broader establishment of a viable market model across a genre of products and services in a given context – thus, for instance, not the establishment of a single food supplier, but the embedding of a food supply market of multiple competing providers in a given area to a given consumer group. Such investments are intended to stimulate the sustainable market provision of social goods to disadvantaged or underserved populations; there can also be a broader intention to achieve economic development with a view to improving living standards. Funding mechanisms are borrowed from the commercial financial sector, such as equity investment, loans, and loan guarantees (Salamon 2014). The behaviour of philanthropic institutions is akin to that of an investment fund or even a bank: there is a hybridity of social purpose and capital market mechanism. The related understanding of the social enterprise – the organisational recipient of philanthropic investment – is as a 'social business' (Defourny and Nyssens 2017, p. 2483): an impact-focused firm that has the potential to achieve social change at scale through market mechanisms. Typically, but not exclusively, such social businesses are shareholder-owned for-profit organisations (organisations that allow profit extraction by external owners).

Philanthropic actors engaged in such capital deployment are diverse. Major philanthropic foundations, such as the Bill & Melinda Gates Foundation and the Shell Foundation, are involved in the provision of investment capital through grants and loans. So too are smaller foundations that perceive the importance of investing their endowment assets for social purposes. The London-based Treebeard Trust (2024), for instance, places 30 per cent of its endowment in 'financial investments [that] work in support of our mission', using equity, debt, and property asset classes for investments into non-profit and for-profit enterprises. In such cases, there is a twofold philanthropic process: the endowment is part-invested to achieve social impact; and any financial return from such investment is used to make philanthropic grants in a conventional manner.

But the move to philanthropic involvement in market creation and support for for-profit social enterprises is most strikingly captured by the emergence of large-scale philanthropic investment firms. These firms mimic the structure, behaviours, and market analysis of commercial investment funds but undertake investments intended to create social impact; any profit is recycled into further investments. Among the most notable firms are the Omidyar Network and Acumen. The Omidyar Network invests in a portfolio of both non-profit and for-profit social enterprises; between 2004 and 2017, it invested $739 million in for-profit social enterprises (Omidyar Network n.d.). Acumen is a philanthropic capital aggregator: rather than possessing its own endowment, it accumulates philanthropic donations from foundations, corporations, governments, and high net worth individuals, thus enabling philanthropic resources to be pooled for investment at scale. In the 20 years following its foundation in 2001, it invested $115 million into 123 businesses (Curran and Waldron 2022). Philanthropic capital is used in multiple fields and contexts, including markets in the global South for social goods (such as energy, healthcare, education, microinsurance, and agriculture), news media in India, and social housing in the US (Bannick et al. 2017; Catalytic Capital Consortium 2019; Curran and Waldron 2022)

The involvement of philanthropy in market-building activities is based on a foundational belief in the potential of markets to contribute to the resolution of social problems (Novogratz 2012; Bannick et al. 2017). Markets and business are perceived to be able to flourish in conditions previously considered hostile, and such markets are predicted to be materially beneficial to disadvantaged or underserved populations by offering the possibility of poverty alleviation through economic development and the sustainable and scalable provision of social goods (Novogratz 2012; Bannick et al. 2017; Curran and Waldron 2022). There is strong focus on the entrepreneurial capacity of markets to create innovative solutions to social problems (Novogratz 2012; Bannick et al. 2017). Here there is an explicit connection to the social entrepreneurship movement. Social entrepreneurship typically integrates economic and social value creation within market-based social enterprises (Mair and Martí 2006); there is emphasis on innovation and large-scale social change (Martin and Osberg 2007; Dees 2012). The potential of the market and social entrepreneurship to create innovation and sustainable solutions at scale is contrasted with the ineffectiveness and lack of accountability of top-down development programmes administered by states and charity (Defourny et al. 2016; Curran and Waldron 2022). Philanthropic investment in markets can, furthermore, be seen as a subset of the impact investing movement, whereby investors target social impact as well as financial return (Brest and Born 2013). But there is an essential difference between for-profit and philanthropic impact investors: while the former extract profit for private gain and may expect normal market rates of return (GIIN 2020), the latter make no such extraction and recycle profit into new socially focused investments. The absence of a private profit motive, in principle, offers much more flexibility in investment strategies for social impact, as well as enabling the reuse of resources for public benefit.

Despite this focus on market-based solutions, the role of philanthropic capital is situated within a concurrent recognition of market failures. Potentially viable and socially valuable markets can be slow to develop, especially when serving disadvantaged communities (Bannick et al. 2017). The risks, simply, are too high for mainstream market entrepreneurs and investors. Further, social innovation is an example of a positive externality problem: the benefits of innovations may extend beyond the firm that produces them and the customers that purchase them to society more widely. Yet a mainstream market actor, motivated only by private profit, will not take into account any social return for which they are not rewarded, and the opportunity for social change is therefore overlooked.

The willingness to take on additional market risks to pursue social impact, and in particular the capacity to develop market-based social innovation that might otherwise not be provided, is described as a fundamental function of the social entrepreneur (Santos 2012). But it is also the singular function of 'entrepreneurial philanthropy' (Roberts 2021, p. 218). Philanthropic capital's advantage is that it does not need to insist upon risk-adjusted market rates of return – the level of return required by mainstream investors in a given time period for a given level of risk. Because broader social impact is central to their motivation and investment thesis, philanthropic institutions can undertake investments that bear more risk and carry reduced return or no return at all. They can therefore invest in suboptimal conditions which the mainstream capital market would avoid, but where there may be prosocial reasons for engagement.

From these analytic foundations flow a range of behaviours and mechanisms that change the dynamics of the capital investment market for social enterprises. The function of philanthropy is typically captured in the phrase 'catalytic capital' – a financial investment that kick-starts the development of a socially beneficial market or market organisation when that development would not otherwise occur (see, for instance, Tideline 2019). The metaphor of a 'catalyst' captures a core characteristic. The philanthropic investment is facilitative, rather than a substantive or permanent source of capital; in different ways, it can act as a lever to bring in larger sums of mainstream capital. A connected but different phenomenon is represented in the term 'patient capital', describing the willingness of philanthropic institutions to wait longer for financial return. Such patient capital, it is suggested, protects social enterprises from the demands of the mainstream investment cycle and allows social innovations time to embed (Novogratz 2009).

Philanthropic support for market development can take different roles – from investment into single organisations to complex structured financial instruments. Diverse types of investment tools are used – grants, loans, and equity investments, and also emerging new instruments, such as grants that can be converted to an equity shareholding if an organisation is commercially successful (Patton Power 2021). Two examples follow that illustrate the catalytic role of philanthropic capital in supporting social enterprises and market creation. They are chosen for their ability to illustrate contrasting investment mechanisms. In both cases, the philanthropic intent is to create new markets that have a social impact.

The first example exhibits direct philanthropic investments into a single for-profit social enterprise. M-KOPA is a for-profit organisation that has sought to bring clean and affordable electricity to off-grid households and businesses in Kenya and elsewhere in sub-Saharan Africa; its mechanism is a combination of patented solar-powered technology and an existing mobile phone money transfer system. The business model is firmly commercial: customers pay a deposit and make small weekly payments for the solar-powered generator over a year on a hire-purchase arrangement. The extent of risk relative to predicted financial return would be unfavourable for investment by mainstream investors: risks include the new product's reliability, the likelihood that disadvantaged consumers make repayments, the dependability of the supply chain, and the wider political environment. Initial investors into M-KOPA were thus a mix of philanthropic and state actors prepared to accept higher risk in return for the possibility of social impact. Initial seed funding was from the Shell Foundation and a private family office; Acumen was an early equity investor (in other words, shareholder). Ongoing support for research and development was funded by philanthropic grants from the Shell Foundation, in partnership with the UK government (Shell Foundation 2017). The profile of investors has changed over time towards more mainstream actors: Standard Bank, Africa's largest bank, is now a major provider of debt, and the Japanese conglomerate Sumitomo Corporation has a sizeable shareholding. M-KOPA's trajectory is an example of philanthropic capital's catalytic function: such investment has enabled M-KOPA to generate information and a track record that not only establishes the resilience of its own business model but also more broadly signals the viability of a market in solar-powered off-grid energy among disadvantaged communities. Acumen suggests that, through its investment in M-KOPA and similar companies, it has supported a move away from an ineffective and polluting market in kerosene to a 'robust rural marketplace of high-quality solar-powered products' (Curran and Waldron 2022, p. 20). This generation of information about the market viability of a product or population, and the signalling of such viability to capital markets, is identified as a central objective of philanthropic capital (Richter 2014; Costa and Ehrbeck 2015).

Philanthropic capital can be part of more complex financial structures. The second example relates to the social problem of 'food deserts' in the US – geographic areas where access to affordable, nutritious food is limited by scarcity of supermarkets or cheap grocery stores, with harmful consequences for economic development and for communities' health and well-being (Karpyn et al. 2019). The task is the repair or reconstitution of ailing or disappearing markets; the market failure – the insufficient supply of basic goods to economically disadvantaged populations – is one of inequity. Again, for mainstream investors, the risk/return calculation is unfavourable, thus resulting in market undersupply. The intervention is a financing system called California Freshworks – a network of community funders that provide loans of $50,000 to $3 million to 'healthy food enterprises' across the food supply chain that are unable to access finance from traditional capital providers (California Freshworks 2022).

The role of philanthropy lies in a tiered financing structure that creates the capital fund from which California Freshworks makes its loans. Mainstream banks and an insurance company provided $100 million to this fund in senior debt (debt that is paid back first in the event of default). But this investment was possible only because philanthropic institutions effectively de-risked this commercial loan fund. Two philanthropic foundations (The California Endowment and the JPMorgan Chase Foundation), together with a government fund, put forward grants of $7.5 million in 'first-loss capital' – that is, capital that bears initial losses in the event of loan defaults. Philanthropic institutions (The Calvert Foundation, NCB Capital Impact, and The California Endowment) provided a further $25 million in subordinated debt – loans that will only be recovered after holders of senior debt have been paid back in full (GIIN 2013). The process of 'leverage' is clearly visible within this structured capital system. By de-risking the financial transactions for commercial lenders, state and philanthropic resources incentivise much larger sums of mainstream investment to move into a previously non-investable market. Such structured capital arrangements – commonly called 'blended finance' – are increasingly prominent as preferred mechanisms to mobilise private capital for social projects (OECD 2018).

As this example shows, the role of philanthropy in market creation is not limited to developing economies. Investment in the global South dominates the portfolios of investors such as Acumen and the Omidyar Network; this is unsurprising, given that market failures in the provision of social goods are pervasive in developing economies. But there are market failures too in developed countries: Acumen founded Acumen America in 2016 to tackle poverty. Beyond specific geographies, catalytic capital and blended finance are also utilised globally in market creation around climate interventions.

Philanthropy, Market Creation, and Social Policy

To assess the interaction of philanthropy's market creation function with social policy, it is helpful to consider for a moment the recent analytic rediscovery of government's central role in the creation of markets, innovation, and public value, whether as an 'entrepreneurial state' in developed countries (Mazzucato 2018) or as a 'developmental state' in emerging economies (Stiglitz 2016, p. 23). The state in this analysis is seen not simply as a reactive responder to market failures through post facto regulation, although this remains a core role; it also takes an active and productive role in enabling and co-shaping markets that create public value and respond to social challenges (Mazzucato and Ryan-Collins 2022). This analysis is consistent with the diagnosis of a positive externalities problem: the state proactively and collaboratively intervenes to co-shape innovative and publicly valuable markets that would not otherwise be created. Among several mechanisms by which the state plays out this market-shaping role, there is emphasis on catalytic capital investment. Such state investment can fix financing gaps in socially important sectors such as technology, education, social housing, or renewable energy (Stiglitz 2016; Mazzucato and Semieniuk 2018). Mazzucato and Ryan-Collins (2022, pp. 353–354) identify the specific role of the state in providing 'patient, long-term finance (being "investor of first resort") [...] in areas of high risk/uncertainty, with the risk-averse private sector entering only later'.

These descriptions of the state's role in market creation resonate with accounts of the contribution of philanthropic capital described earlier – the terminology of catalysts and patient capital is sometimes identical. There appears to be a common function shared by non-commercial purpose-driven capital, whether originating from the state or philanthropy. Yet the ability of philanthropy to undertake this role is often overlooked in social policy analysis. Mazzucato and Ryan-Collins (2022), as an example, assert that only the state has the power to shape and direct markets towards public benefit. But a significant analytic and empirical question is why in some contexts we observe entrepreneurial philanthropy rather than the entrepreneurial state. A probable answer is government failure. There are situations when the development or entrepreneurial state is not adequately present, depriving core markets of catalytic or patient capital. Such government absence may result from a lack of capacity or resources to support either market creation or to offer adequate government services, especially but not exclusively in emerging economies. Governments too can be risk-averse because of electoral pressures, and therefore reluctant to invest in risk-heavy markets and innovation (Roberts 2021). Finally, Then and Schmidt (2020) associate the size of the social impact investment market (of which philanthropic investment is a part) with welfare regime types. Within liberal welfare regimes and emerging economies, both characterised by limited social welfare policies, the scale of social impact investment is predicted to be larger to meet the needs of underserved communities. Ideological choices about the size of the welfare state thus imply a greater or lesser requirement for entrepreneurial philanthropy.

In sum, philanthropy has a specific role as a distinct hybrid form of investment capital that can push forward public purpose within markets under certain conditions of government failure. In this sense, it is a useful addition to the institutional repertoire. But there are, of course, significant criticisms of philanthropy's encouragement of markets. The focus here is not an exhaustive critique of market provision of social goods, but a specific set of debates that arise directly from philanthropy's provision of capital for market creation and its resourcing of for-profit social enterprises. A first problematic area revolves around power. Philanthropic institutions, through their investment strategies, are able to decide which markets and which for-profit social enterprises are socially desirable – potentially risking 'philanthropic particularism', whereby philanthropists focus on issues or subgroups with which they have particular affinity or interest (Salamon 1987, p. 111) When the state acts as a market co-creator to achieve 'wider public outcomes that are broadly recognised as desirable' (Mazzucato and Ryan-Collins 2022, p. 354), it has, at least in principle, legitimacy in defining the 'desirable' public purpose (assuming the state itself is legitimate). Philanthropy lacks this legitimacy to make a political determination of what is a good market; more general criticisms of philanthropy, such as the excessive influence of the wealthy elite over decisions about the public good, remain pertinent (for instance, Horvath and Powell 2016; Reich 2018). The practice of market investment can heighten this sense of top-down private power. The Mulago Foundation invests in for-profit and non-profit organisations that can create social impact at scale. It describes its approach to its investment pipeline:

> We don't take proposals. Proposals are a hassle for all concerned and rarely give us the information we need. We source through our own network and ask our own questions. (Mulago Foundation 2023)

Such an approach is not uncommon and is a practical and efficient way to reduce transaction costs. The Mulago Foundation, it should be acknowledged, is committed to providing funding without conditions, thus supporting the autonomy of funded organisations. However, the highest level of decision-making around what sectors, markets, and organisations to fund is driven by the philanthropic institution.

There is, on the other hand, a counterargument around power in favour of philanthropic support for the for-profit social enterprise. For advocates of market delivery, consumerism gives agency to individuals, enabling them to make their own choices about social goods (Novogratz 2012; Dees 2012). A contrast is presented between paternalistic donors and NGOs, on the one side, and the market, on the other. For Acumen,

> Treating poor people as customers means respecting their preferences and delivering goods and services that they (and not donors, development experts, or […] investors) actually value. (Curran and Waldron 2022, p. 21)

There is thus a paradox around power. While the power to determine the overall construction of markets for public benefit remains with the philanthropic funder, consumer mechanisms may create individual agency for disadvantaged actors as they transact within these constructed markets.

A second set of challenges coalesces around the interaction of social purpose and market profit, and specifically the tension between private value extraction and social value creation within a for-profit social enterprise. This tension is explicitly highlighted when philanthropic investors seek to sell their shareholding – the moment of 'exit'. An ideal trajectory is towards more mainstream capital investors in order to acquire long-term investment and establish the market sustainability of the social enterprise. But such exits can prove difficult. In particular, it may be challenging to safeguard the social mission of the organisation within a transition to profit-focused investors (Metz and Hehenberger 2011): is profit extraction aligned with social value creation, or is there a hazard of rent-seeking (increased profit extraction without any added social value) as mainstream investors gain control? Acumen stresses the importance of 'attracting capital that is aligned to the objective and realities of the business' (Curran and Waldron 2022, p. 21). There may, further, simply be a scarcity of follow-on investors in certain fields (Clowes et al. 2019), perhaps because social enterprises cannot always show a plausible business model to mainstream investors: positive externalities cannot always be internalised into a profitable business. Acumen itself recognises that, in providing services to disadvantaged populations, costs are higher and margins thinner; the necessary scale and volume to mitigate low margins is hard to achieve (Curran and Waldron 2022).

A third challenge is the inability to reach the most disadvantaged, and consequent inequitable access to social goods and services. Commercial business models supported by philanthropic capital often demand payments by the user. Access to a product, and the ability to act as an empowered consumer, are contingent on having sufficient material resources for payment. M-KOPA is an instructive example. The firm uses AI technology to identify and exclude potential customers who may be higher credit risks. Access is denied to those who cannot afford the deposit. If a weekly repayment is missed, the product can be deactivated remotely. The consequence is 'fractioned access' (Natile 2020, p. 89) – many disadvantaged individuals can access the product and its benefits, but the poorest or those in more unstable situations cannot. Acumen has noted particular challenges in making markets accessible to the poorest, and is experimenting with alternative models – for instance, offering grant funding to run alongside a commercial business to enable access for all (Curran and Waldron 2022).

A final set of challenges focuses on more general normative objections to the role of capitalist markets and for-profit companies in the production of social goods. The objections are multiple: emphasis on market development neglects the structural changes required in developed and emerging economies to tackle injustice (Adesina 2011; Ganz et al. 2018; Natile 2020); focus on market sustainability distorts how organisations are resourced and how social problems are therefore approached (Defourny et al. 2016); the development of markets in social goods, resourced by philanthropy, may crowd out government provision in the future – as Adesina (2011, p. 456) describes it, market-based ideas 'seiz[e] […] control of the policy terrain', thus constraining the possibilities for policy. These criticisms have some purchase. But the relationship between market development and government provision is not so exclusive and dichotomous as such critiques imply. Whether a market is inappropriate for the allocation of social goods depends, for instance, on the specific market considered. In some cases, the development of innovative markets in social goods is valuable for innovation and development, as we have noted in the arguments of Stiglitz (2016) and Mazzucato (2018); more controversial are commercial markets constructed to provide public goods such as fee-paying schools. Further, philanthropic funders and investors are increasingly aware of the limitations of markets in providing essential goods to the disadvantaged, and are seeking to partner with government rather than push government away – for instance, by involving the government in third-party payment schemes so that the poorest citizens can access services (Curran and Waldron 2022).

STRENGTHENING COMMUNITY ENTERPRISE

Overview

The second model of philanthropic intervention focuses on the sustainability of local social enterprises and community businesses. The purpose of philanthropic intervention is not to create a new market that can solve a social problem through innovative products and services. Instead, it is an attempt to strengthen the market engagement of organisations and, in so doing, enhance communities' agency and autonomy. The immediate objective is to enhance the economic and organisational resilience of small-scale social enterprises by improving or consolidating their commercial behaviours and market income. The phenomenon is especially common in the UK and US, from which the examples below are largely drawn.

The conception of social enterprises that receive such resourcing is very different – in both form and scale – from the idea of the for-profit social business discussed earlier. Instead, again making use of the typology of Defourny and Nyssens (2017), we can identify two different but sometimes overlapping social enterprise models. First, there is the 'entrepreneurial non-profit' (Defourny and Nyssens 2017, p. 2480) – non-profit organisations that engage in trading activity to supplement conventional income from donations or government grants, and by doing so strengthen their financial sustainability. Examples include organisations that charge fees for mission-related services (such as a community café) and those that run mission-unrelated commercial ventures (such as a charity shop). A core example is work integration social enterprises (WISEs) – businesses that employ individuals excluded from the labour market, either supporting them to return to mainstream employment or employing them on a permanent basis. Second, there is also resonance with the 'social cooperative model' (Defourny and Nyssens 2017, p. 2481) – mutual interest organisations, often with multiple controlling stakeholders, that work towards a shared community interest. This idea of mutuality is sometimes represented by philanthropic funders in the term 'community business' – 'businesses led by local people that bring benefits to a local area' (Hitchin 2018, p. 4). Central here is a tangible sense of ownership by the local community, which may include cooperative organisational forms.

Philanthropic funding in this area has multiple technical objectives. Most obviously, there are attempts to improve the entrepreneurial capacity of organisations and individuals. Enterprise grants assist non-profit organisations to diversify their funding base by implementing commercial business models and by developing commercial skills such as financial management and marketing; while many non-profit organisations cannot be fully sustainable in commercial markets, nonetheless shifting the balance of funding towards a higher share of commercial revenue is seen to support organisational sustainability (Access 2015; Enterprise Grants Taskforce 2023; Rank Foundation 2024). Sometimes grants are aimed directly at social enterprises that already operate significant commercial models – the Work Integration Social Enterprise Grant, offered by a partnership of Australian foundations, provided substantial catalytic capital to established and emerging social enterprises to strengthen their business models (Lord Mayor's Charitable Foundation 2023). Other funding mechanisms support social enterprises to overcome operational barriers. Power to Change provides affordable loans to community organisations so that they can reduce energy costs on community buildings (Power to Change 2024); REDF (2024) provided a bridging loan to a non-profit social enterprise as it awaited reimbursement of a government grant. There is acknowledgement too that the commercial activities of many social enterprises may not be sustainable in the market owing to a range of costs that mainstream firms do not face. An important philanthropic function is therefore the provision of ongoing subsidy. Breadwinners, for instance, is a London-based work integration social enterprise that supports refugees and young people seeking asylum into employment. Its business activity is retail and wholesale distribution of artisan bread which, although self-sustaining as a trading activity, is not sufficient to cover the organisation's costs as it supports the refugees. In 2023, just over 30 per cent of its revenue was grant funding from multiple philanthropic institutions (Breadwinners Foundation 2023).

Philanthropic actors in this area are varied. Some are established mainstream foundations that seek to support community empowerment (for instance, the Barrow Cadbury Trust; Guy's and St Thomas' Charity). Others have a particular market specialism, such as the REDF foundation in the US that specifically funds non-profit and for-profit work integration social enterprises. In the UK, some significant actors are quasi-autonomous government-linked funding organisations set up directly to support entrepreneurial social ventures: the UK government was among the founders of the Access Foundation, a leading exponent of enterprise grants; Power to Change, a significant funder in this field, was set up with a £150 million endowment from the state national lottery fund.

A detailed example gives a flavour of the latest developments and assumptions in community enterprise, specifically in the field of enterprise grants. 'Match trading', designed by the UK non-profit organisation School of Social Entrepreneurs, is a new enterprise grant mechanism that aims to develop the commercial capacity of social enterprises and community businesses in the UK (School for Social Entrepreneurs n.d.). Organisations funded through the mechanism have a primary social objective; typical functions are community hubs, cafés and shops, labour market integration, and health or education services. Grants are funded through philanthropy from established foundations, from the Access Foundation (the fund part-initiated by the government, as described above), and also from a corporation, the Lloyds Banking Group. The objective is for social enterprises to 'generate a greater proportion of their income from their own trading activities, enabling them to become more self-reliant and operate with the flexibility and confidence that comes with a reduced dependence on grant funding' (Power to Change et al. 2020, p. 13). The goal, then, of this philanthropic funding is to reduce social enterprises' future dependency on philanthropic funding. The development of earned income strategies is predicted to foster a sense of agency and empowerment within social enterprises and their local communities (Balding 2024).

The match trading mechanism is a form of performance-based grant-giving. Its innovation lies in the type of performance that is rewarded: the amount of the grant is contingent not on the achievement of social impact, but upon increases in organisations' short-term trading income. For every extra £1 that an organisation generates through trading during the grant period, it receives a matching grant of £1 (up to £10,000); trading income in this context includes government contracts. Leaders of social enterprises concurrently undertake training to develop business skills. Thus, the grant, as well as being materially valuable, is designed as an incentive to put into practice the learnings from the training. Social value is assumed to accrue from the improved organisational sustainability of social enterprises (Power to Change et al. 2020). The grant structure, in sum, deliberately pushes social purpose organisations towards a hybrid model that emphasises the adoption of commercial targets, behaviours, and mindset. Evaluations suggest a considerable increase in commercial activity associated with the match trading mechanism; there is evidence that incentivised grants have a greater positive impact on commercial activities than unrestricted grants of the same value (Power to Change et al. 2020).

The commercial development of social enterprises described so far has largely been a series of small-scale interventions within developed economies. But philanthropic enterprise development can be conducted at scale in developing economies. As an example, the IKEA Foundation, working in partnership with the UNHCR, has provided grant funding of $37.5 million to support the development of livelihoods for individuals living at the Dollo Ado refugee camps in Ethiopia (Betts et al. 2020; IKEA Foundation 2021). The project sought to establish sustainable cooperative enterprises across agriculture, livestock, energy, and environmental fields; organisational development was supported by education and training for individuals (Betts et al. 2020). Incomes for cooperative members have risen, and there is evidence too of improvement in the relationship between refugees and people from local host communities, some of whom were also members of the cooperatives. However, the economic sustainability of the model remains uncertain (Betts et al. 2020).

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The focus of philanthropic market intervention in these cases is the social economy of mainly small organisations owned by or embedded in the community. The policy context is some absence of the state and the market. This absence is extreme in the conditions of the refugee camp – an emergency human settlement that has become permanent, but without the presence of a formal market system and without a state infrastructure to support commerce. Within this market and state void, the philanthropic foundation, in the example described, has taken on a central role as funder and facilitator of economic and community development. In particular, it remedies the absence of political determination to move beyond remedial aid for those who are stateless. While the context of the social economy in developed countries is very different, the absence of market and state remains central. Social enterprises in receipt of philanthropic support typically work with disadvantaged communities in contexts of economic decline and market withdrawal, the marginalisation of groups and individuals from the economy, or failures of state economic development policies. They provide commercial services that the mainstream market no longer sells, or social services beyond those provided by the state.

The gap left by market and state, and therefore the concentration of non-profit enterprises of this kind, is a predicted characteristic of liberal welfare states with limited welfare provision (Salamon and Anheier 1998).

The function of philanthropy in providing support for community enterprise can, in the first instance, be seen as a technical response to specific failures in the funding of non-profit organisations and community businesses that stretch across the non-profit, government, and market sectors. The first weakness is the long-recognised problem of 'non-profit insufficiency' – non-profit organisations, reliant on voluntary gifts, cannot access reliable revenue flows to guarantee sustainability (Salamon 1987, p. 111). This funding challenge is likely to have worsened over recent decades given growing demand for provision where the state has withdrawn from service delivery and also given also increased competition for philanthropic grants. In this condition of increased demand and insufficient resources, diversification into commercial revenue streams is an understandable strategy. A second related weakness lies around government support for the provision of social services. Formal funding partnerships with the state can be a solution to non-profit insufficiency (Salamon 1987), but depend on government policy and are vulnerable to government retrenchment and fiscal constraints. The extent of state subsidy for work integration social enterprises, for instance, varies across countries (Cooney et al. 2023): where government funds are absent, ongoing philanthropic subsidy is required so that such enterprises remain sustainable. A final weakness lies in the financial structures around the social economy. There is an absence of mainstream financial products – and, in particular, loan finance – that can support the specific needs of social enterprises and community businesses as they improve or grow their services. Mainstream finance providers may be deterred by the level of risk in providing products to socially focused organisations. The provision of loans with a philanthropic discount (either in the risk accepted or the interest rate charged) offers a remedy to this gap in financial products.

There is, however, also a normative proposition underpinning such philanthropic action that extends beyond simply repairing funding insufficiencies. A recurring narrative used by philanthropic institutions and by the organisations that distribute their funding is the development of 'self-reliance' by organisations and by individuals. Commercial activities and behaviours, it is proposed, can enable a sense of autonomy and agency that contributes to social impact or social change. This proposition applies at the level of the organisation and at the level of the individual actor. At the organisational level, commercial activity is described as 'earned income', setting up an obvious contrast with philanthropic income as 'unearned'. These terms carry implications about the deservingness or not of the income stream. More importantly, there is some idea that, through earned income, the organisation – and hence the individuals working for it and the community within which it is embedded – has control and is not passively dependent upon external funding from either the state or, importantly, from elite philanthropy itself. At the individual level, participation in the commercial market is presented as empowering. The IKEA Foundation (2021) describes its work to improve livelihoods in refugee camps as 'concentrated less on refugees' vulnerabilities and more on their capabilities'.

This emphasis on both organisational and individual self-reliance resonates with contemporary policy positions. Successive governments in the UK, for instance, pushed non-profit organisations and social enterprises towards commercial activities and self-sufficiency, and away from grant dependency (HM Treasury 1999; Cabinet Office 2006, 2010); there has been an emphasis on new forms of social financing (Cabinet Office 2011). Emphasis on individuals' self-reliance, and especially their entry into employment through work integration social enterprises, is consistent with contemporary active labour market policies that seek to encourage, enable, or push those who are unemployed into work (Cooney et al. 2023).

Contrasting analytical interpretations are possible of philanthropy's role in community enterprise development. On the one hand, it can be construed as consistent with a neoliberal approach to welfare provision and the individualisation of responsibility for social disadvantage. Emphasis within philanthropic funding approaches upon individual and community self-reliance is criticised for its neglect of structural causes of social injustice and the need for systemic social change (Kohl-Arenas 2015; see also Chapter 8 in this *Handbook*). Commercialisation of community non-profit organisations is also identified as harmful to mission and culture. Commercial activities are, from this perspective, not simply an extra revenue source, but a powerful driver of behaviour and meaning. They may distract from or obstruct organisations' social purpose – for instance, if fees create a barrier to access or if concentration on commercial activities takes attention away from the social mission (Weisbrod 1998; Ebrahim et al. 2014). There are concerns that consumer relations and behaviours drive out the relationships of community and citizenship characteristic of the non-profit organisation and distort understandings of how social change can be achieved (Eikenberry and Kluver 2004; Eikenberry 2009; Ganz et al. 2018).

A more optimistic perspective interprets the philanthropic development of community enterprise as genuinely transferring agency and capability to local organisations and communities. Market involvement in this sense is part of the social and solidarity economy – an area of economic activity that focuses on meeting social needs before profit maximisation, is characterised by mutuality, and, in stronger forms, exhibits explicit community ownership of economic organisations (Amin 2009; Westlund 2003). Such different forms of economic institutions, in which there is some hybrid mix of community purpose and commercial enterprise, have the potential to enable individual and community capability. Whether philanthropic support of community enterprises follows the positive or negative interpretation is an unanswered empirical question, and one that is likely to depend on context, field, form of organisation, and philanthropic approach.

CONCLUSION

Philanthropy tends to be associated with specific and tangible social policy fields: health, education, relief of poverty, housing, and increasingly environmental protection. It is not often associated with economic development, market creation, or enterprise support. Philanthropy's support for profit-extracting firms, or its use of tools and mechanisms drawn from the financial sector, can indeed feel normatively uncomfortable – these are hybrid behaviours and interactions that combine characteristics previously considered alien.

This chapter has described two modes of market intervention funded and often driven by philanthropic institutions. The modes are contrasting in their focus and scope. The function of market creation focuses on large sums of capital investment and requires interaction with mainstream financial investors; the central conception of the social enterprise is a for-profit shareholder-owned firm; the central objective is the production or reinstatement of a social good. The second function of community enterprise development, by contrast, focuses on non-profit organisations and community businesses; objectives are local and focus on organisational sustainability. Generally, the capital investment is small, although sometimes large capital sums may be invested in specific locations.

In both cases, as the chapter has acknowledged, there is significant criticism of philanthropy's role in developing markets and commercial enterprise. Many criticisms are founded upon a fundamental objection to the market as a form of resource allocation for social good. But a more positive interpretation is possible if analysis starts from a different foundation – that markets, if correctly shaped, can contribute to public value, and that such shaping is a public good function. In order to support development in emerging economies, Stiglitz (2016, p. 10) makes a call for alternative institutional forms that extend beyond a simple 'market/state dichotomy'; he has in mind the role of Grameen Bank, a hybrid non-profit and consumer cooperative whose unusual institutional form and behaviour is perceived to be central to the successful provision of microcredit to disadvantaged women in Bangladesh (Haldar and Stiglitz 2013). In the two modes of philanthropic market intervention described in this chapter, philanthropic capital is precisely such a creative and hybrid institutional mechanism that can push forward public purpose in conditions where markets and governments are failing – whether by pushing capital markets towards prosocial investments that can potentially enable social innovation and impact, by leveraging mainstream private resources for public projects, or by supporting the development of local social economies.

Finally, philanthropic interventions in markets are a new set of phenomena, and there are opportunities for creative innovation that can shape these mechanisms more strongly towards the common good. Both capital investment and enterprise development could, for instance, be targeted more consistency at cooperative and mutual forms of ownership that embody community ownership and a redistribution of economic resources and power. A hybrid interaction of capital markets and the social solidarity economy, enabled by philanthropic capital, has exciting potential.

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