

Progress and Partnerships

2010 Annual Report, CEO Letter



One of the most gratifying parts of my job as CEO of the Bill & Melinda Gates Foundation is watching the successes we achieve year by year add up to our big 10- and 20-year goals. The ritual of putting together the annual report helps me reflect on how impact accumulates over time.

In 2005, for example, we wrote about the recent phase I trials for a **new vaccine for meningitis**, one of the most dreaded diseases in the world. In 2010, the vaccine was introduced in three countries in **Africa's Meningitis Belt**. Over the next decade, we believe this vaccine will protect tens of millions of children from meningitis epidemics.

The **Meningitis Vaccine Project** reinforced an important lesson: Our grantees and partners are at the core of everything we do. We didn't research and develop—or deliver—the new meningitis vaccine; that work was done by a vast public-private partnership, including an American governmental agency, a Dutch biotech company, and an Indian pharmaceutical manufacturer, not to mention dozens of African governments. We are effective only when we are working together with partners to achieve the objectives we share.

Strengthening Grantee Partnerships

That's why, two years ago, we asked the **Center on Effective Philanthropy (CEP)** to survey our grantees. There were some positive results, and **you can read the details [here](#)**, but the key takeaway was that we have some work to do to build more productive grantee relationships. Many grantees said we are inconsistent and unclear about our decision-making process and our programmatic strategies. They also said we should be more welcoming of their feedback.

Of course, our job is not to score well on surveys. Our job is to get results. But we know that our results depend on the quality of our partnerships, and it was clear from the survey results that we can achieve greater impact by forging stronger relationships with our most important partners—our grantees.

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I chose Greg Shaw, an experienced member of my leadership team, to spearhead the development of an improvement plan. He recruited a diverse group of employees to advise him. It was absolutely essential that this be a foundation-wide effort, and I'm pleased to say that it has been.

The team spent almost a year analyzing the survey results and getting additional input. We are currently creating a set of principles about clear communication and high-quality interactions. The goal is to be concrete about what we expect of ourselves and what our grantees can expect from us. The essence of the commitment we're making to our partners is that we will continue to seek and respond to their feedback. As this letter

goes to press we are finalizing plans and timelines, and I look forward to sharing more this fall when I host a series of conference calls with our grantee partners.

When I wrote my first CEO letter three years ago, I talked about how feedback loops in philanthropy differ from those in the private sector. The issue of feedback is still at the top of my mind.

When we devise strategies or grants, there must be a formal way to incorporate the voice of our grantees in the process. It doesn't mean we follow every piece of advice our grantees give us, but it does mean we make a systematic effort to listen, with the aim of maximizing our mutual impact. We also have to include the voice of grantees when we evaluate our individual performance, which is why we will continue to seek out grantee feedback as part of the annual performance review for foundation employees.

Some of our peer foundations, including the Packard and Wallace Foundations, have improved their scores on the CEP survey significantly. It will take time, but I believe we will make similar progress. We won't settle for less.

Refining Our Programmatic Strategies

One of the things our partners say they want most is clear communication about how we make decisions. In that spirit, I'd like to talk about how we recently refined our agricultural development strategy. You can find more information about the strategy [here](#). What I want to share is the process by which the agriculture team arrived at it. All our teams go through this process, and I think it provides some insight into how we work.

At the foundation, we have 26 strategies, each reviewed annually by Bill, Melinda, and me. These reviews give us the chance to make adjustments based on what's happening on the ground and what we've learned. Every three to five years, we look at each strategy more thoroughly. We call this a strategy refresh.

Our agricultural development team recently completed a refresh of its strategy. The goal of increasing agricultural productivity and reducing poverty among poor farming families in Sub-Saharan Africa and South Asia remains at the core of our work. Three quarters of the poorest people in the world get their food and income from farming small plots of land. Helping these families grow more food is the smartest way to fight hunger and poverty, and that's the lens through which we look at all our decisions.



Jeff Raikes talks with an entrepreneur at a coffee nursery (Mityana, Uganda, 2010).

“REGULARLY REVIEWING OUR STRATEGIES IS OUR BEST CHANCE TO APPLY THE LESSONS LEARNED FROM OUR PAST WORK. I LIKE TO SAY THAT EVEN IF OUR GRANTS DON'T FULLY SUCCEED, WE FAIL ONLY IF WE DON'T LEARN.”

is also our best chance to apply the lessons learned from our past work. I like to say that even if our grants don't fully succeed, we fail only if we don't learn. At the foundation, some of our best learning happens through this very comprehensive strategy process.

While communicating clearly is one important aspect of improving our relationship with grantees, we are also committed to giving our partners a chance to communicate with us. If you have input about what more we could be doing to strengthen grantee partnerships, please email us at granteesurvey@gatesfoundation.org. I will also continue seeking out input from our grantees. Last year, I started having conference calls with grantees. I'll have another series of them in the fall. Finally, I encourage you to visit our new blog, *Impatient Optimists*. I'm excited about how it will help us tell our story and hope it can create a community of people having a conversation about the issues.

In the meantime, I will continue to report back to you about how we're progressing in our work to strengthen grantee partnerships. It's one of my top priorities as CEO.

Together with our grantees and partners, we are working to solve some of the world's toughest problems. How to deliver vaccines to the most remote places in the world. How to make sure that every child in the United States has an effective teacher and that all teachers have the support they need to be as effective as possible. These are not easy tasks. But as long as we consistently build productive partnerships, there is no limit to the impact we can have together.



Jeff Raikes
CEO, Bill & Melinda Gates Foundation

The refresh gave us a great opportunity to examine our impact after five years of working in the field. It was especially inspiring to reflect on the momentum that's been building around the issue of agriculture in general, as more donors, aid agencies, and developing countries, particularly in Africa, have focused on its importance as a key lever of development.

Over the course of a year, the team sought guidance from hundreds of people: grantees, other partners, experts in the field, and small farmers themselves. We shared our thinking and asked for advice.

Ultimately, we concluded that we need to tighten our focus. We are zeroing in on the crops and livestock that are most important to the poor, and we're concentrating on the key constraints that keep productivity low. We're also deepening our engagement in regions where a majority of the world's poorest farmers live.

The strategy process is an extremely important part of the work we do. No organization wants to spend resources without a master plan, and together, the strategies make up our master plan. Regularly reviewing our strategies

Consolidated Statements of Financial Position

As of December 31, 2010 and 2009

Amounts in thousands

	(Audited) 2010	(Audited) 2009
ASSETS		
Cash	\$ 5,183	8,999
Beneficial interest in the net assets of Bill & Melinda Gates Foundation Trust	36,720,209 ⁽¹⁾	33,439,797 ⁽¹⁾
Program-related investments, net	37,828	35,929
Prepaid expenses and other assets	3,841	2,768
Property and equipment, net	663,090 ⁽²⁾	424,828 ⁽²⁾
Total Assets	\$ 37,430,151	33,912,321
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 58,003	66,157
Grants payable, net	4,553,260 ⁽³⁾	4,844,947 ⁽³⁾
Accrued and other liabilities	43,915	29,273
Total Liabilities	4,655,178	4,940,377
Net Assets		
Unrestricted	32,774,973	28,971,944
Total Liabilities and Net Assets	\$ 37,430,151	33,912,321

⁽¹⁾ The Bill & Melinda Gates Foundation has a two-entity structure. One entity, the Bill & Melinda Gates Foundation ("foundation"), distributes money to grantees. The other, the Bill & Melinda Gates Foundation Trust ("trust"), manages the endowment assets. The foundation and the trust are separate legal entities with independently audited financial statements. However, the legal documents that govern the trust obligate it to fund the foundation in whatever dollar amounts are necessary to accomplish the foundation's charitable purposes. Because the foundation has the legal right to call upon the assets of the trust, the foundation's financial statements reflect an interest in the net assets of the trust in accordance with generally accepted accounting principles (GAAP).

⁽²⁾ Property and equipment for the foundation include land and construction in progress related to the foundation's new campus headquarters that is being constructed on a 12-acre site in downtown Seattle. IRIS Holdings, LLC (IRIS) is the legal entity that owns the land and future headquarters. Since the foundation is the sole owner of IRIS, the financial statements of the two entities are presented here on a consolidated basis.

⁽³⁾ Grants payable reflects the total amount of grants approved for payment in future periods (\$4.7 billion in 2010 and \$5.1 billion in 2009), discounted to the present value as of December 31, 2010 and 2009, as required by GAAP.

General Note: More information about the financial positions of the trust and the foundation are available in their respective audited financial statements provided on the foundation's web site.

Consolidated Statements of Activities

For the Years Ended December 31, 2010 and 2009
Amounts in thousands

	(Audited) 2010	(Audited) 2009
CHANGE IN NET ASSETS		
Revenues and Gains		
Contributions and other income	\$ 2,353	1,972
Investment income	928	669
Total Revenues and Gains	3,281	2,641
Expenses		
Grants	2,180,636 ⁽²⁾	2,630,833 ⁽²⁾
Direct charitable expenses	100,051 ⁽³⁾	90,431 ⁽³⁾
Program and administrative expenses	361,868	351,979
Federal excise and other taxes	21	60
Total Expenses	2,642,394	3,073,303
Changes in net assets before beneficial interest	(2,639,113)	(3,070,662)
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust:		
Contributions from the Bill & Melinda Gates Foundation Trust	3,161,730 ⁽¹⁾	3,626,100 ⁽¹⁾
Increase (decrease) in net assets due to beneficial interest in the Bill & Melinda Gates Foundation Trust	3,280,412 ⁽⁴⁾	3,865,311 ⁽⁴⁾
Change in net assets	3,803,029	4,420,749
Unrestricted net assets, beginning of year	28,971,944	24,551,195
Unrestricted Net Assets, End of Year	\$ 32,774,973	28,971,944

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⁽²⁾ Grant expense includes cash payments made during 2010, as well as an adjustment to record expenses related to grants approved for payment in future years. The future grants payable portion is then discounted to the present value as of December 31, 2010, as required by GAAP. Presented in the accompanying grants paid summary is grant expense on a cash basis, consistent with the reporting basis required in the annual 990-PF tax return.

⁽³⁾ Direct charitable expense include payments made to third parties for charitable purposes. Examples of direct charitable expenses include payment for consulting services provided for grantees' benefit and travel costs to bring grantees and other participants together. Direct charitable expenses, working in tandem with grants, are an effective means of achieving charitable goals and are disclosed separately in the audited financial statements to distinguish these from operational costs of running the foundation.

⁽⁴⁾ The legal documents that govern the trust obligate it to fund the foundation in whatever dollar amounts are necessary to accomplish the foundation's charitable purposes. Because the foundation has the legal right to call upon the assets of the trust, the foundation's financial statements reflect an interest in the net assets of the trust in accordance with GAAP.

General Note: More information about the financial positions of the trust and the foundation are available in their respective audited financial statements provided on the foundation's web site.

2010 Grants Paid Summary by Strategy

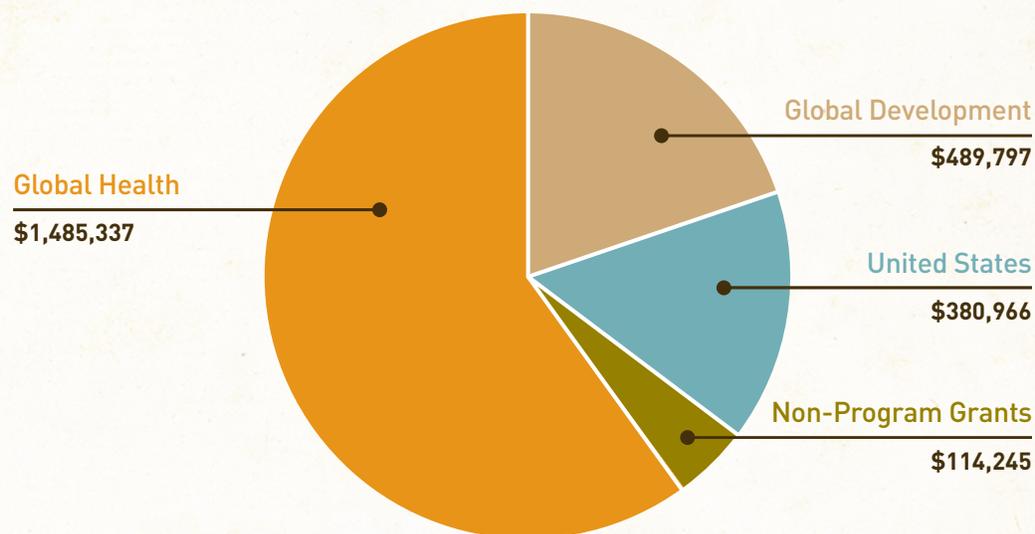
For the Year Ended December 31, 2010
Amounts in thousands

GLOBAL DEVELOPMENT		489,797
Agricultural Development		242,076
Financial Services for the Poor		80,937
Special Initiatives		64,268
Water, Sanitation, & Hygiene		44,062
Policy & Advocacy		35,856 *
Global Libraries		22,598
GLOBAL HEALTH		1,485,337
Infectious Diseases		521,821
Malaria	158,032	
Tuberculosis	118,160	
Pneumonia	83,157	
Enteric and Diarrheal Diseases	82,972	
Neglected and Other Infectious Diseases	79,500	
Delivery		393,110
Polio	278,457	
Vaccines	114,653	
HIV/AIDS		212,025
Family Health		168,951
Maternal, Newborn, & Child Health	118,100	
Family Planning	32,775	
Nutrition	18,076	
Policy & Advocacy		105,052 *
Discovery Cross-cutting		56,642
Special Initiatives		27,736
UNITED STATES PROGRAM		380,966
U.S. Education		310,650
College Ready	236,892	
Postsecondary Success	60,062	
U.S. Special Initiatives	13,696	
Pacific Northwest Community		40,753
Policy & Advocacy		15,233 *
Libraries		14,330
NON-PROGRAM GRANTS		114,245
Family Interest Grants		97,774
Charitable Sector Support		12,352
Employee Matching Gifts & Sponsorships		4,119
Total		2,470,345

* Amount does not include advocacy and policy spending embedded in program grants.

2010 Grants Paid Summary

For the Year Ended December 31, 2010
Amounts in thousands



For the Years Ended December 31, 2010 and 2009
Amounts in thousands

	2010	2009
PROGRAM AREAS		
Global Development	489,797	677,170
Global Health	1,485,337	1,826,446
United States	380,966	488,827
NON-PROGRAM AREAS		
Family Interest Grants	97,774	42,379
Charitable Sector Support	12,352	7,134
Employee Matching Gifts & Sponsorships	4,119	3,238
Total	2,470,345	3,045,194

THIS YEAR'S ANNUAL REPORT INCLUDES ADDITIONAL HIGHLIGHTS FROM 2010 AND VIDEO INTERVIEWS WITH FOUNDATION LEADERS. TO VIEW THESE, VISIT THE 2010 ANNUAL REPORT WEBSITE:

WWW.GATESFOUNDATION.ORG/ANNUALREPORT/2010.

Guided by the belief that every life has equal value, the Bill & Melinda Gates Foundation works to help all people lead healthy, productive lives. In developing countries, it focuses on improving people's health and giving them the chance to lift themselves out of hunger and extreme poverty. In the United States, it seeks to ensure that all people—especially those with the fewest resources—have access to the opportunities they need to succeed in school and life. Based in Seattle, Washington, the foundation is led by CEO Jeff Raikes and Co-chair William H. Gates Sr., under the direction of Bill and Melinda Gates and Warren Buffett.

For additional information on the Bill & Melinda Gates Foundation, please visit our website:
www.gatesfoundation.org.

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