

Venture Philanthropy in Practice

Challenges, Human & Financial Resources

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Venture Philanthropy

- **Venture:** “partnership, engagement”
- **Philanthropy:** “provision of finance and skills to a social purpose organisation for primarily public benefit”

Venture Philanthropy



Venture Philanthropy multiplies the impact of financial capital through advisory services and high engagement over time

Venture Philanthropy

Strategic Philanthropy, Adventurous Philanthropy, Risk Philanthropy

- “Venture Philanthropy takes some of the **principles of venture capital** and applies them to philanthropy.
- Venture Philanthropy **invests time and money** in voluntary organisations and social enterprises.
- Venture Philanthropy means funding organizations with not only financial resources, but also **management and technical support**. This support is focused on enabling nonprofits to build greater **organisational capacity** and infrastructure via long term, engaged relationships with investees.”

From: Social Venture Partners, USA

Venture Philanthropy

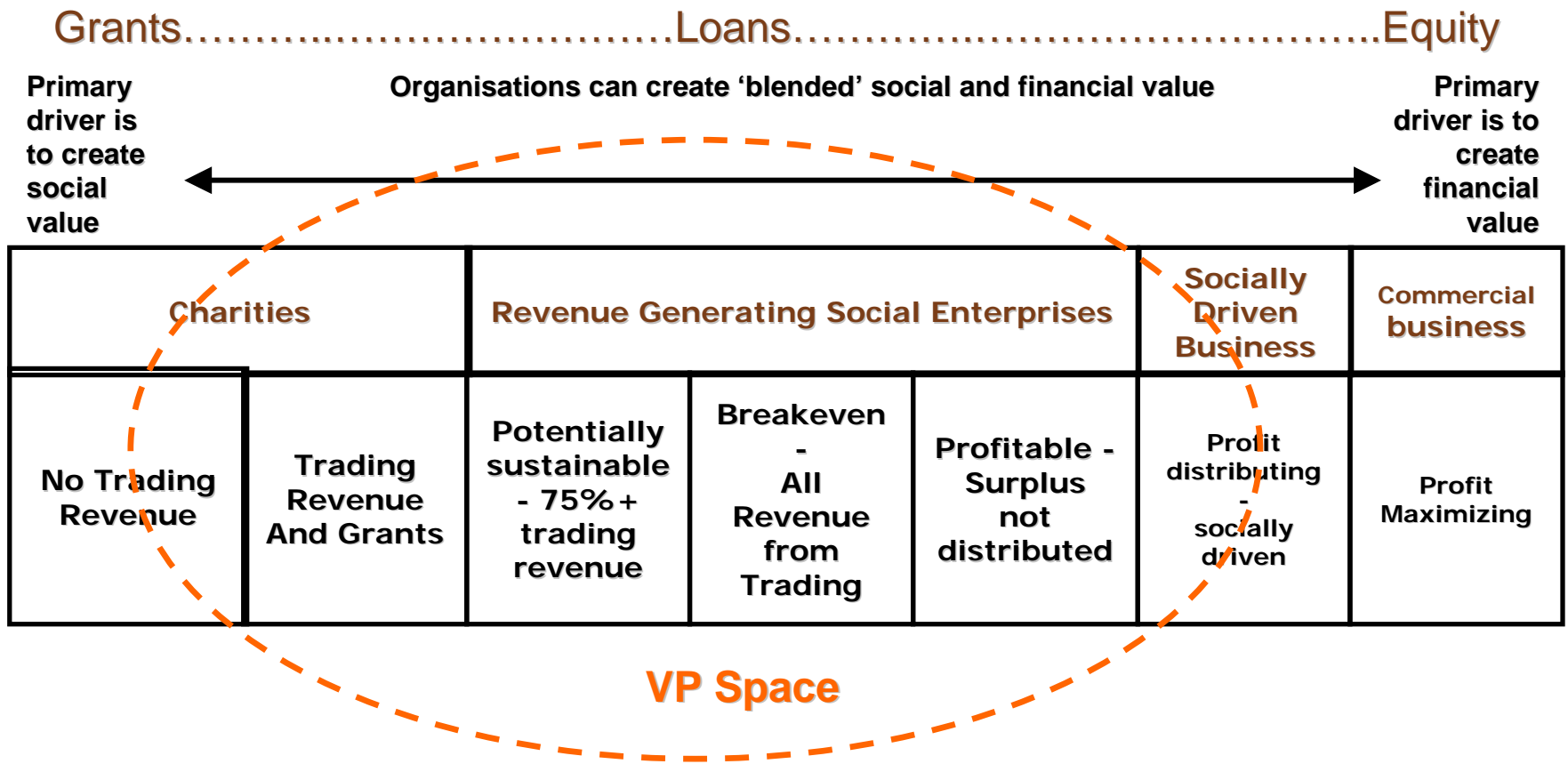
EVPA Definition

- ▶ **High engagement:** Venture philanthropists have a close hands-on relationship with the social entrepreneurs and ventures they support, driving innovative and scalable models of social change. Some may take board places on these organisations, and all are far more intimately involved at strategic and operational levels than are traditional non-profit funders.
- ▶ **Tailored financing:** As in venture capital, venture philanthropists take an investment approach to determine the most appropriate financing for each organisation. Depending on their own missions and the ventures they choose to support, venture philanthropists can operate across the spectrum of investment returns. Some offer non-returnable grants (and thus accept a purely social return), while others use loan, mezzanine or quasi-equity finance (thus blending risk-adjusted financial and social returns).
- ▶ **Multi-year support:** Venture philanthropists provide substantial and sustained financial support to a limited number of organisations. Support typically lasts at least three-to-five years, with an objective of helping the organisation to become financially self-sustaining by the end of the funding period.
- ▶ **Non-financial support:** In addition to financial support, venture philanthropists provide value-added services such as strategic planning, marketing and communications, executive coaching, human resource advice and access to other networks and potential funders
- ▶ **Organisational capacity-building:** Venture philanthropists focus on building the operational capacity and long-term viability of the organisations in their portfolios, rather than funding individual projects or programmes. They recognize the importance of funding core operating costs to help these organisations achieve greater social impact and operational efficiency.
- ▶ **Performance measurement:** Venture philanthropy investment is performance-based, placing emphasis on good business planning, measurable outcomes, achievement of milestones, and high levels of financial accountability and management competence.

From: EVPA quoted in Venture Philanthropy, Rob John, Skoll Working Paper 2006

Social Purpose Organisations

Wide Spectrum: Non-profits, charities, social enterprises, socially motivated businesses, triple bottom line, 'beyond-profits'....



Origins

- **Historical examples over decades**
 - philanthropists, foundations
- **US interest in 1990s**
 - **Hype followed by a shakeout** — SVP, New Profit, New Schools Venture Fund, Robin Hood, Acumen Fund, REDF, EM Clark Foundation, Venture Philanthropy Partners....
- **Europe 2000 onwards**
- **Global interest from 2007**

Venture Philanthropy a niche within Foundation spending

Private Grant making and Operational Foundations	Total Annual Expenditure €000,000	Estimated Annual Expenditure on Venture Philanthropy €000,000
US Foundations	23,000	41.5
UK Foundations	3,300	75
European Foundations	51,000	?

Sources: Venture Philanthropy 2002, Venture Philanthropy Partners & Community Wealth Ventures Inc; Association of Charitable Foundations;
Foundation Facts & Figures Across the EU, European Foundation Centre; UK estimates are based on unpublished research
In *Structuring European Private Equity*, Euromoney Books 2006, Chapter 14

Five principles of venture philanthropy

- Long term funding
- Build capacity & infrastructure
- Focus on outcomes
- Investing in people and leaders
- An engaged relationship

(Acknowledgement to Paul Shoemaker, SVP Seattle)

Long term funding

- Across philanthropy only 5% grants are more than one year
- Many grants 'purchase a service' rather than 'invest' in organisations
- Difficult for social organisations to find the capital for growth, expansion and development
- ✓ VP provides a package of performance-related investment-minded funding

Build capacity & infrastructure

- Social organisations often operate under-capacity
- May have chronically under-developed systems
- Few resources for development of people
- May be under-skilled in business skills like strategic planning, market analysis, finance, communications
- Not all social organisations have the desire or potential for rapid growth and development
- ✓ VP focuses on building stronger, more sustainable organisations to increase social impact

Focus on outcomes



- Easier to measure inputs, outputs and activities
- Short term perspective
- Overall 'theory of change' – "how does what we do contribute to a stronger civil society"
- ✓ VP helps organisations understand their social impact and 'tell their stories' in a compelling way based on evidence

Investing in people & leaders



- Capable leadership critical for strong organisations
- Leaders often unsupported
- ✓ VP's help develop a strong executive and board – committing resources to mentoring, team development and governance

An engaged relationship

- A 'transaction' relationship → to a true partnership
- Annual reporting cycles → real time involvement
- Large portfolios – low engagement → small portfolios – high engagement
- Cheque only → 'beyond the cheque'
- ✓ VP is close working relationship, on an equal footing, trying to add value to funding by bringing business-like skills to social organisations

A diverse market for social finance

- Many of these characteristics are already the tools of good grant-making or social investment
- VP complements other forms of financing social organisations, and works best in partnership with them
- A healthy market needs diversity of capital providers to meet the needs of organisations at all stages of development

Venture Capital/Philanthropy

an analogy

Venture Capital/Private Equity	Venture Philanthropy
Start-ups, buy-outs, turnarounds	Growth, start-ups
Prolonged due diligence	Prolonged due diligence/matching
Portfolio-based	Portfolio-based
Capital (equity) plus involvement with strategic control	Core funding plus involvement with strategic influence
Increased value & profitability	Increases social value & sustainability
Exit in mind; secondary markets	Exit less clear; no secondary market
Financial ROI	Social ROI or blended value
People/teams	People/teams

Five opportunities

- Add value to funding
- Building stronger organisations
- Celebrating entrepreneurship
- A more diverse and responsive social finance market
- Engaging entrepreneurs and businesses in philanthropy
 - Releasing business skills into social sector in a managed way

Who's ready for venture philanthropy?

- Organisations (charities or social enterprises) at inflection points
 - ▣ Start up
 - ▣ Rapid growth
 - ▣ Merger
 - ▣ Revenue generating initiatives
 - ▣ Turnarounds
 - ▣ Sector neutral?
- Desire for engagement
- Strong team
- Entrepreneurial

In Summary – Challenges for Foundations

- Organizational Capacity
 - ▣ Strategy development and consultation
 - ▣ Communications assistance
 - ▣ Board development
 - ▣ Evaluation assistance
 - ▣ Capital
 - ▣ Oversight

- Suitable Partnership
 - ▣ Relationship Building
 - ▣ Narrow Focus

In Summary – Human Resources



- Human Resources
 - Social Entrepreneurs
 - Portfolio Managers
- Invest in people
- Strong emphasis on leadership capability
- Identifying social entrepreneurs

In Summary – Finance

- Most Venture Philanthropy is about grant-making **BUT** with a package of advisory services

- Business financing
 - ▣ Loans
 - ▣ Equity
 - ▣ Quasi-equity

Additional Resources:

EUROPE

- European Foundation Centre
- European Venture Philanthropy Association

ITALY

- ACRI – Associazione delle Fondazioni delle Casse Di Risparmio Italiane
- Centro Documentazione Fondazioni
- Oltre Venture Capital Sociale

UNITED STATES

- Edna McConnell Clark Foundation
- Silicon Valley Community Foundation – *Center for Venture Philanthropy*
- Venture Philanthropy Partners

The Takeaway

- VP serves as a complement to more-established philanthropic models

HOWEVER

- VP is relatively new, and thus, largely unproven
- VP requires more analysis and due diligence in selecting and understanding the nonprofits
- VP requires that foundations scan the environment to find those investments with the greatest potential for highest social returns