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VENTURE PHILANTHROPY:

THE EVOLUTION OF HIGH ENGAGEMENT PHILANTHROPY IN EUROPE

ROB JOHN | JUNE 2006

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WHO WE ARE

The Skoll Centre for Social Entrepreneurship is an international academic research and teaching centre at the Saïd Business School, at the University of Oxford. It was established in 2003 with a generous gift from Jeff Skoll, founder and Chairman of the Skoll Foundation, and founder and CEO of Participant Productions.

The Centre aims to develop insight and understanding to bring greater legitimacy to social entrepreneurship and find points of inflexion through which it can accelerate the capacity and impact of the field in furthering social justice and overcoming the worst social and economic inequalities.

WHAT IS SOCIAL ENTREPRENEURSHIP?

Social entrepreneurship encompasses a range of dynamic management strategies for pursuing optimal social and environmental impact. Social entrepreneurs are therefore organisationally promiscuous, harnessing individual and collective action through non-profits and social purpose businesses, cross-sectoral alliances, private or public sector platforms. What is distinctive about them is their perpetual pursuit of higher impact and their ability to put diverse resources together differently to realise greater social value.

ABOUT OUR SHORT PAPERS

The Skoll Centre publishes two series of papers. Its working papers are derived from its research projects and authored by in-house researchers. Their purpose is to lay out key issues in advance of detailed research, or to test and refine work in progress. By contrast, its short papers offer a wide range of authors greater flexibility to disseminate practical innovations, ideas and examples, or to contribute think pieces designed to highlight questions of policy. For further details on submissions, see www.sbs.ox.ac.uk/skoll/research

ABOUT THE AUTHOR

Rob John trained as a research chemist. After completing his doctorate at Oxford University, he held research and teaching posts in the US, Switzerland and Ethiopia. Witnessing first-hand the famine in the Horn of Africa in the 1980s, Rob switched career to the social sector, going on to manage refugee, relief and development programmes in Africa and Asia for the next fifteen years. After spending five years in development microfinance, he was asked to direct an Oxford-based venture philanthropy organisation.

Since 2004 Rob has been a freelance consultant specialising in the areas of venture philanthropy and social entrepreneurship. He is a Fellow at the Skoll Centre for Social Entrepreneurship and is currently chief advisor to the European Venture Philanthropy Association and a member of the advisory committee of UnLtd Ventures. He is a trustee of Windle Trust International, an Oxford-based educational charity working in Africa.

THE RESEARCH CONTEXT

This paper is one in a series planned to examine the emergence of venture philanthropy in Europe, and examine prospects for its future development. Issues under study include:

- The aggregated size of venture philanthropy activity across Europe
- The role for grants, loans, mezzanine and equity finance in building the capacity of social purpose organisations to yield greater social impact and scale up;
- Leveraging financial resources through co-financing and syndication;
- What does 'exit' look like in venture philanthropy?
- What non-financial services are most useful and valued by social entrepreneurs when working in partnership with venture philanthropists?
- How and when value added services are best delivered – in-house or by third party consultants?
- Power dynamics and legitimacy in the venture philanthropy – social purpose organisation relationship;
- Venture philanthropists' approaches to measuring organisational performance.

These working papers will together inform the Skoll Centre's work on social capital markets. This research is designed to critically appraise the provision of finance for social purpose activities and identify ways in which a better functioning social capital market may be encouraged, combining effective philanthropy, newer forms of social investment, and at times, the mobilisation of mainstream capital.

The project begins with a survey of the landscape, following an intense period of innovation internationally. It is then likely to look more closely at the development of new financial mechanisms and undertake a feasibility study into aspects of social equity markets. At the same time, we will conduct a comparative study of the relative merits of common legal forms in facilitating access to capital, and the pluralistic strategies social entrepreneurs employ to maximise their opportunities using legal structures.

ACKNOWLEDGEMENTS

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[1] The term 'social purpose organisation' (SPO) is used throughout to describe an organisation whose primary purpose is to create social value in society and is generally independent of government or commercial sectors. These organisation may be otherwise described as charities, social enterprises, non-profits, not-for-profits and third sector organisations. For organisations which trade and generate profits, such profits are not distributed for private benefit.

SUMMARY

Venture philanthropy provides a blend of performance-based development finance and professional services to social purpose organisations (SPOs)[1] – helping them expand their social impact. This is a high-engagement, partnership approach analogous to the practices of venture capital in building the commercial value of companies.

In its modern form, venture philanthropy developed significantly in the US in the mid 1990s, took hold in the UK from 2002 and is now expanding into continental Europe.

Although not without its sceptics, venture philanthropy has the potential to contribute to developing a more responsive and diverse capital market for the social sector. Its focus on building organisational capacity in entrepreneurial social purpose organisations, matching appropriate finance with strategic business-like advice, makes it a distinctive provider of capital.

Venture philanthropy in Europe has strong links to the private equity and venture capital community, giving it opportunities to influence the corporate social responsibility of a set of major players in Europe's financial services industry. Several new venture philanthropy funds have been established by philanthropists with successful careers in private equity.

Europe's transitional countries, in Central and Eastern Europe, the Baltic States and former Soviet Union, have under-capacitated social sectors and widespread, unmet social needs. Venture philanthropy may have a particularly valuable role to play in helping build stronger civil society institutions in these countries.

As a relatively young industry, venture philanthropy faces many challenges – communicating and marketing what it does; developing a menu of financial instruments and advisory services; measuring performance and social impact; collaborating with complementary capital providers such as foundations.

This working paper is the first in a series which explores the expansion of high engagement philanthropy in Europe.

SPONSORS

This work has been generously supported by the UK Department for Trade and Industry.

The Social Enterprise Unit at the UK's Small Business Service has driven forward the development of an enabling environment for businesses trading for a social or environmental purpose through a co-ordinated national strategy over the past three years, working both across government and in partnership with practitioners. We are pleased to sponsor this paper and the first step of the Skoll Centre's social capital markets research in order to enhance understanding of financial resources available to social enterprises and encourage innovative thinking when tackling issues concerning access to finance.

SECTION 01

INTRODUCING VENTURE PHILANTHROPY

THE TERM VENTURE PHILANTHROPY (VP) WAS PROBABLY FIRST COINED IN 1969 BY THE AMERICAN PHILANTHROPIST, JOHN D ROCKEFELLER III, IN A HEARING BEFORE THE US CONGRESSIONAL COMMITTEE LEADING TO THE TAX REFORM ACT.

US ORIGINS

The term venture philanthropy (VP) was probably first coined in 1969 by the American philanthropist, John D Rockefeller III, in a hearing before the US congressional committee leading to the Tax Reform Act. From the context it is clear Rockefeller had in mind an adventurous approach to funding unpopular social causes, rather than an association with entrepreneurial business (Council on Foundations, 2001). The term resurfaced in 1984 in the annual report of the Peninsula Community Foundation in describing a new breed of young, energetic philanthropist more engaged in the funding process than previous generations had been. Whatever its historical origins, the term exploded in the 1990s to ignite a debate on new forms of highly engaged grant making by foundations. An influential paper by Letts et al (1997) challenged foundations to employ tools from venture capital to invest in the organisational, rather than programmatic needs of social purpose organisations. Porter and Kramer (1999) challenged foundations to create greater value, not simply be a passive conduit for transferring finance from private sources to grantees.

At the same time newly wealthy dot com entrepreneurs-turned-philanthropists became associated with a growing interest in venture philanthropy, whose intrusion into the social sector world was not always warmly embraced (Council on Foundations, 2001).

For those who held too tightly the analogy between venture philanthropy and venture capital, critics were readily on hand. Bruce Sievers (2001) challenged four basic assumptions when venture capital technique was applied wholesale to philanthropy – measuring performance, going to scale, investor control and exit strategy. In the midst of such debate, a number of new funds were launched and sustained, created by business entrepreneurs keen to apply commercial skills to their grant making, eg Paul Brainerd (Aldus, Pagemaker) set up Social Venture Partners; Mario Marino (technology entrepreneur) established Venture Philanthropy Partners, and Rob Glaser (RealNetworks) pushed the boundaries of corporate philanthropy. Several established grant making foundations refocused on a venture philanthropy approach or set up venture funds within their existing programmes, eg the James Irvine Foundation and the Edna McConnell Clark Foundation.

DEFINITIONS

There is no single accepted definition of venture philanthropy. Several terms are used interchangeably, including strategic philanthropy, high-engagement philanthropy, effective philanthropy or philanthropic investment. For the purpose of this paper, venture philanthropy is defined primarily by the relatively high level of engagement of the funder in the organisation being supported, over an extended time period, injecting skills or services in addition to finance. For this reason, some VP funds prefer to describe their approach as one of engaged philanthropy.

In a thoughtful critique, Katz (2004) explores the emergence of adjectives to describe new expressions of philanthropy – effective, strategic and venture. The term 'effective' philanthropy challenges foundations to be more accountable to their stakeholders and to demonstrate the long-term impact of their grantmaking. 'Strategic' philanthropy is a term sometimes used to describe when grantmaking by a commercial company or corporation is strongly aligned to its core business operations. Confusingly the term has also been used to stir up debate on the role foundations have in addressing the underlying causes of social dysfunction rather than ameliorating their symptoms. Whatever venture philanthropy is, it should be both strategic and effective.

It would be quite inaccurate to portray traditional grantmaking foundations as completely unengaged from the organisations they fund. Many foundations, over decades have pursued close working relationships with their grantees, being far more than a simply conduits of cash. Most grantmakers, however, have neither the inclination nor skills to manage a relatively small portfolio of highly engaged relationships. As Carrington (2003) observes, there are many excellent examples over decades of traditional grantmakers developing long-term, engaged relationships with a small number of organisations, delivering value far beyond cheque-writing. In order to make deep impact in specific sectors, the Joseph Rowntree Charitable Trust and Barrow Cadbury Trust have provided funding and close involvement to develop capacity in the social justice and community development sectors, respectively. More than twenty years ago the Allied Dunbar Charitable Trust made large-scale, focused and hands-on social investments with a small numbers of charities.

Kramer (2002) summarises the dialogue between traditional and new philanthropists aptly when he states, "[T]he three main elements of venture philanthropy – building operating capacity, close engagement between donors and recipients, and clear performance expectations – are not new at all. Many would argue that those have been the trademarks of effective philanthropists for decades, and that they were well on the rise long before venture philanthropy gained public attention. … Perhaps venture philanthropy is more of an evolution than the revolution it first seemed to be. Already, it is beginning to blend in, taking its place as one style of grantmaking among many. … In short, venture philanthropy's greatest lasting effect may be to reinforce a few basic principles of effective philanthropy that were already emerging. And, like many of the dot coms that made venture capitalists so successful for a while, what seemed so new about venture philanthropy may have been the sizzle, not the content."

Skloot (2000) views this dialogue, even when strained, as an overall force for good: "If all these [VP] initiatives are the opening wedge of serious, deep commitment to a new kind of activist philanthropy, then I think we are on the right path and should be truly excited. For all the hype and arrogance, there is much good coming on-line. This is the promise of 'venture philanthropy'… If I ran a non-profit, and I did for nine years, I'd jump at the chance to be a partner. To be someone's social investment." Letts et al (2003) have further developed the concept of engagement from the perspective of the organisations receiving VP investment.

In many countries, the word philanthropy itself is viewed with suspicion or distaste, conjuring up images of a patronising attitude and largesse. Here we divest the term of such misleading connotations and define philanthropy as 'provision of finance to an organisation for predominantly social benefit'. This does not preclude any number of financial instruments such as grants, returnable grants, loans or equity, where the primary purpose is creating social value not personal gain. In cases where the philanthropic capital is preserved or a financial return is made, these are secondary consequences. The primary test is motivation for giving (or lending) which is congruent with the Greek or Latin origins of the word philanthropy (love of mankind). The word venture in our context refers to the partnership or joint venture nature of high engagement between funder and social purpose organisation, implying an approach which adds value to funding.

This definition is somewhat unorthodox, partly because those who finance social purpose organisations while seeking to preserve their capital or make a financial return usually refer to their practice as social investment. Again the litmus test for venture philanthropy is the extent of engagement, not the financing instrument deployed. Most social investors will not be engaged in strategy and management with those they fund, nor adding direct value beyond finance. Other social investors will, however, be engaged with individual investments by providing the skills and services associated with venture philanthropy. Venture philanthropy is not yet a recognised industry or discipline, as are for example, venture capital or socially responsible investment. The ambiguities of terminology will remain with us for the short-term at least.

Two published definitions (see panels) illustrate how communicating the concepts of venture philanthropy has developed over the last five years. Morino's (2001) definition looks very much like that of the venture capitalist turning his attention to the social sector. While Morino himself is a thoughtful and reflective philanthropist, his description of VP is characterised by a blunt adaptation of venture capital techniques to social purpose organisations. In contrast, the recent definition adopted by the European Venture Philanthropy Association (EVPA) (2006) emphasises long-term, tailored finance coupled to non-financial services focused on building organisational capacity. The EVPA recognises that any definition is not static but will evolve as practice changes.

MORINO INSTITUTE DEFINITION OF VP (2001)

We define venture philanthropy as the process of adapting strategic investment management practices to the non-profit sector to build organizations able to generate high social rates of return on their investments. Strategic management assistance is provided to leverage and augment the financial investment made. This approach is modelled after the high end of venture capital investors – the relatively few who work to build great organizations instead of just providing capital.

"PERHAPS VENTURE PHILANTHROPY IS MORE OF AN EVOLUTION THAN THE REVOLUTION IT FIRST SEEMED TO BE… IT'S GREATEST LASTING EFFECT MAY BE TO REINFORCE A FEW BASIC PRINCIPLES OF EFFECTIVE PHILANTHROPY THAT WERE ALREADY EMERGING."

KRAMER 2002

EUROPEAN VENTURE PHILANTHROPY ASSOCIATION DEFINITION OF VP (2006)

Venture philanthropy is an approach to charitable giving that applies venture capital principles, such as long-term investment and hands-on support, to the social economy. Venture philanthropists work in partnership with a wide range of organisations that have a clear social objective. These organisations may be charities, social enterprises or socially driven commercial businesses, with the precise organisational form subject to country-specific legal and cultural norms.

As venture philanthropy spreads globally, specific practices may be adapted to local conditions, yet it maintains a set of widely accepted, key characteristics. These are:

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.

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.

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).

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.

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.

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.

THE THREE PILLARS OF VENTURE PHILANTHROPY

Davis and Etchart (2005) at NESsT describe the three pillars of a high engagement, philanthropic strategy, providing a framework that serves as a useful guide to venture philanthropy practice (see Fig 1 below). These pillars or primary characteristics of venture philanthropy are necessary components to any fully fledged VP approach.

"IF I RAN A NON-PROFIT, AND I DID FOR NINE YEARS, I'D JUMP AT THE CHANCE TO BE A PARTNER. TO BE SOMEONE'S SOCIAL INVESTMENT."

SKLOOT 2000

Fig 1: The primary characteristics or three pillars of venture philanthropy

Primary characteristic or pillar	Core attributes	Range
1 Financial capital	Finance representing a relatively high proportion of the organisation's turnover for a multi-year period. Focused on 'core' expenses related to growth – capacity building.	■ Pure non-returnable grants. ■ Grants with some element of 'surplus sharing' (an agreement to share with the VP funder a portion of revenue if income targets are exceeded) ■ Loans (at or below rates of interest charged by commercial lenders such as banks) ■ Equity or equity-like instruments (possibly structured as loans with provision to share in the upside growth in value of the organisation).
2 Intellectual capital	Provision of non-financial support during the lifetime of the investment.	■ Consulting advice for business planning, strategy, marketing, fundraising, communications. ■ May be weighted to pre-investment stage of relationship. ■ Delivered through VP staff, trustees, associates, strategic partners or externally through third party providers. ■ May be periodic and 'at a distance' or on a daily, operational level. ■ May or may not involve the VP taking a formal or observer place on the organisation's board, but in either case having influence at board level.
3 Social capital	Leveraging additional financial or advisory support from the VP's networks and peers.	■ May be formal co-financing arrangements or informal funding, pro bono technical support or access to problem solving resources.

Adapted from Davis and Etchart (2005)

A core VP model blends all three of these capital contributions. Some practitioners on the periphery of venture philanthropy may offer only two of these core elements eg UnLtd Ventures (UK) uses its social networks to provide external problem-solving and fundraising opportunities, in addition to staff consulting time. In doing so it helps a social purpose organisation become 'investment ready' for a third party funder. But most other venture philanthropists see themselves as providers of financial capital with additional, value-adding services.

In addition to these three core components, VP organisations exhibit a number of secondary characteristics that will vary considerably from one practitioner to the next. Venture philanthropy funds will focus on different kinds of social purpose organisation, at different stages of their lifecycle; they will measure performance differently and employ different strategies for adding non-financial support.

Fig 2: The secondary characteristics of venture philanthropy

Secondary characteristic	
1 Type of organisation supported (elaborated in Fig 3)	■ Most VP activity funds non-profit-distributing charitable organisations; social enterprises and socially-directed for profit businesses are also supported. ■ Most VP activity is with relatively small turnover organisations – annual income between £250k to £5m. ■ Likely to be an organisation led by highly capable, entrepreneurial individual. Some VPs wish to primarily back social entrepreneurs.
2 Organisational Stage	■ Venture philanthropists generally want to direct their resources to young, small-to-medium sized organisations with growth potential, at an inflection point such as scale up, merger or turnaround.
3 Performance measurement	■ Still at an early stage of development for most VP funds. Several have developed relatively sophisticated performance metrics such as Balanced Scorecard™. VP funds describe their continuation of funding as performance-based, with the release of funds dependent on reaching pre-agreed milestones.
4 Peer support and learning	■ VP funds work with a small portfolio of organisations, and several recognise the opportunities for mutual learning by bringing the portfolio together periodically. Such forums also provide a channel for delivering technical assistance to all portfolio organisations at once.
5 Length of engagement/ exit strategy	■ Preference is for intense but time-bound arrangements, and not open ended long-term funding.

GRANT MAKING OR VENTURE CAPITAL?

Since its origins, venture philanthropy has been compared to venture capital, a fact that is likely to have contributed to its criticism by traditional foundations and philanthropists (Sievers, 2001). But, venture capital is an analogy not a model, and like any analogy it is not helpful if stretched too far, even though several VP funds have been created by individuals from, or related to, the private equity/venture capital community. EVPA, for example, was established in 2004 by private equity professionals, whose attraction to VP was influenced by their business experience.

One of the great misunderstandings of VP is that its funding always seeks a financial return on capital. In fact the vast bulk of VP activity from the US is based on non-returnable grants (Venture Philanthropy Partners, 2002), even where ambiguous language such as 'philanthropic investment' is used. Mainstream VP operations in the US such as New Profit Inc, Venture Philanthropy Partners, Social Venture Partners and New Schools Fund, all deploy grants as financial tools of choice. Figure 3 illustrates the range.

Fig 3: Venture philanthropy can operate across a spectrum of organisational types, from charities to socially driven business

Primary driver is to create social value ← Organisations can create 'blended' social and financial value → Primary driver is to create financial value

Charities		**Revenue generating social enterprises**			**Socially driven business**	**Traditional business**
No trading revenue	Trading revenue and grants	Potentially sustainable – 75%+ trading revenues	Breakeven – all revenue from trading	Profitable surplus not distributed	Profit distributing socially driven	Profit maximising

Adapted from Bridges Community Ventures

SECTION 02

THE EUROPEAN DIMENSION

WHETHER IN THE US OR EUROPE, IT IS POSSIBLE TO UNCOVER HISTORICAL EXAMPLES OF VP-LIKE ACTIVITY WHEN GRANT MAKERS OR INDIVIDUALS HAVE FUNDED SOCIAL PURPOSE ORGANISATIONS AND SOUGHT TO ADD VALUE BEYOND FINANCE.

[2] World in Need was set up in 1969 by Cecil Jackson Cole, a businessman who was instrumental in developing Oxfam, and launching Action Aid and Help the Aged International. He created World in Need to continue his mission of backing outstanding social entrepreneurs. The author was World in Need's Director from 2000 to 2004. It has since been renamed The Andrews Charitable Trust.

Whether in the US or Europe, it is possible to uncover historical examples of VP-like activity when grant makers or individuals have funded social purpose organisations and sought to add value beyond finance. Individuals such as Alec Reed (founder of Reed Employment) or Lord Joffe (founder of Allied Dunbar and former Chair of Oxfam) have developed a form of personal philanthropy akin to the way a business angel works – financing start ups or early stage ventures while adding considerable personal experience and networks. While these outlying examples are interesting and informative, this paper is more concerned with development of venture philanthropy in Europe from 2000 onwards and its self-conscious scope for contributing to the growth of the social capital market in which it sits. A mapping exercise recently published by the EVPA (Grenier, 2006) uncovers very little VP activity prior to 1995.

THE UNITED KINGDOM

Interest in venture philanthropy in the UK was aroused through articles by Drucker (2000), founder of Oxford Philanthropic, in February 2000, who together with the School for Social Entrepreneurs and McKinsey and Company hosted two informal seminars. From 2001 onwards, a small, relatively unknown grant making trust called World in Need began to publicise its own experiences in venture philanthropy which had spanned several decades[2]. There was a growing buzz of interest in grant making circles of what was perceived to be a controversial American movement in philanthropy. At the leading national conference for grant making trusts in 2003 Carrington (2003) presented the first balanced view of venture philanthropy to an audience of several hundred traditional grant makers. Significantly, for UK grant making trusts, the next conference, two years later, saw plenary and seminar sessions focused on venture philanthropy. Perhaps most significant was a plenary presentation by one of England's oldest, and most established grant making trusts, the Bridge House Trust, promoting venture philanthropy and calling on others to reflect on their own grant making practices. In foundation circles at least, VP was becoming a mainstream topic for debate.

Between 2001 and 2006 there was considerable interest in innovations in social investment, including high engagement models. New Philanthropy Capital (NPC) emerged as a research, advisory and brokerage intermediary, driven by the frustration felt by individuals from the investment banking industry in making philanthropic decisions. NPC's founders realised that in the social sector there was seldom a direct link between performance (in terms of sustained social impact) and funding. NPC argued that poverty of information about performance, or even agreement on what was meant by social impact meant that the best projects or organisations could not guarantee attracting funds for their growth and development. The Charities Aid Foundation kick-started Venturesome, a risk fund for the charity sector conceived by an international development professional with a venture capital background. Business entrepreneur investors started to build their personal philanthropy along VP lines, two notable examples being Sir Tom Hunter (the Hunter Foundation) and Sir Peter Lampl (the Sutton Trust).

The first UK fund to deliberately describe itself as a venture philanthropy organisation was launched in 2002 by individuals from venture capital and consulting backgrounds. Impetus Trust was inspired by US models which strongly resonated with the professional, investment experiences of its founders. It is a relatively pure, capacity building model based on grant funding of registered charities with growth potential (see Case Study 1). One recent venture philanthropy fund start up, Breakthrough, is a partnership between a major European private equity firm and a social entrepreneur support organisation, focused on scaling up sustainable social enterprises, and could potentially provide a model for the private equity community's industry position on corporate citizenship.

The UK government had, since 1997, openly supported social entrepreneurship and social enterprise. There were major reviews by the UK Treasury's Social Investment Task Force (2000) and the Bank of England (2003) on social enterprise and the wider social investment market, and a plethora of innovative funding initiatives. Bridges Community Ventures was set up in 2002 as a joint venture between private equity firms and government, as a £40m community development venture capital fund investing in commercial businesses in low income communities. Adventure Capital Fund (ACF) was launched with UK Home Office funding to provide financing and business advice for community-based social enterprises. In the drive to involve the social sector in public service delivery, the government capitalised Futurebuilders England, a £125m fund to build the capacity of social purpose organisations to bid for public service contracts. Futurebuilders Scotland operates investment, seed corn and learning funds and a support programme which helps social enterprises access new skills and markets. These initiatives, while on the edge of classical venture philanthropy, illustrate government's desire to embrace performance based funding for entrepreneurial social purpose organisations, coupled to building their business skills.

CONTINENTAL EUROPE

Outside the UK, in continental Europe, there is a slow but steady growth in interest in social investment and high-engagement models of philanthropy, but only in the last two or three years have new organisations or models emerged. Two European networks, in particular, are spearheading this interest – The European Venture Philanthropy Association (EVPA) and the European Foundation Centre's Social Investment Group.

The EVPA was founded in 2003 by five executives from the European private equity/venture capital industry. Influenced by US VP practice, with them decades of experience in venture capital and philanthropy they originally conceived an informal association to stimulate discussion, capture good practice, and encourage new philanthropic funds based on the high engagement model. Appetite for networking and interest in VP was so great that EVPA recruited thirty members in its first twelve months, was formally endorsed by the European Private Equity and Venture Capital

[3] Personal communication to the author.

Association (EVCA) and sponsored by 3i, Barclays Capital and KPMG. Among its current members are three large and respected European grant making foundations, signalling a willingness on their part to engage with emerging VP practitioners. Involvement of EVCA and high profile venture capital firms is interesting for an industry that generally has a low corporate responsibility profile. Although too early to tell, it may be that VP offers a channel for corporate philanthropy aligned to the core business practices of venture capitalists. One private equity firm recently decided to assign one per cent of its partners' carried interest to its own charitable foundation, which supports youth projects[3], a policy which may encourage other firms to develop more strategic approaches to corporate citizenship.

The European Foundation Centre (EFC) is a membership association of two hundred independent European foundations, including endowed, fundraising and operational foundations. An EFC working group, the Social Investment Group, has been influential in promoting innovative funding models including VP. Over the last two years seminars and workshops on VP have been held at mainstream EFC events, providing an opportunity for venture philanthropists to engage with more traditional grant makers.

EVPA's mapping exercise (Grenier 2006) uncovered just twenty organisations, in ten countries, which fitted the broadest definition of VP, providing funding and a high level of engagement. A further eight organisations were identified as active within the space, but not directly providing both finance and advice (the full listing is appended). These latter organisations are not recognised in this paper as fully fledged VP operations, but from part of EVPA's wider community of organisations involved in or supporting venture philanthropy. This is fast developing field, with new players emerging constantly. The table has been updated to include recent additions. The report highlights the very different historical, social and cultural traditions of social sectors in European countries, their relationships to government, the role of foundations, business and personal philanthropy.

Figure 4 below gives countries in Europe known to have venture philanthropy funds formed or imminent interest in forming them. A number of transitional economies in Central and Eastern Europe or the former Soviet Union are subject to VP investments by external funds. Media Development Loan Fund and NESsT are active in these countries but most of their funds are raised and managed externally.

Venture philanthropy appears to be an attractive development for the social sectors in transitional European countries. Social purpose organisations are developing rapidly under new found democratic freedom and economic reform. Taxation innovations such as the 'percentage laws' at work in Hungary, Poland, Slovakia, Romania and Lithuania, are encouraging popular philanthropy. Introduced first in Hungary in 1996, the 'one per cent law' enables payers of personal income tax to designate one per cent of their previous year's paid income tax to an eligible social purpose organisation. In Lithuania the figure is two per cent of personal income tax, while in Slovakia an arrangement also exists for allocation of two per cent of corporation tax.

Multinational companies must develop corporate strategies for social responsibility in emerging economies. Venture philanthropy fund NESsT is collaborating with CE Capital to survey the CSR activities of more than two hundred companies operating in Central and Eastern Europe. The rise of social entrepreneurship and the drive to find enterprising solutions for deep rooted social problems is encouraging innovation in Europe's transitional countries. NESsT has been active funding and building organisational capacity of social enterprises in Hungary, Czech Republic and Slovakia. EVPA has recently piloted a Seed Fund for new VP operations in Estonia. The emergence of newly wealthy philanthropists in Russia is creating interest in venture philanthropy models[4].

Fig 4: Venture philanthropy activity in European regions

European region	Known VP funds and activity	VP investment activity but no known funds in country
Western Europe	France, Belgium, Netherlands, UK, Germany, Ireland	
Scandinavia and the Baltic States	Estonia, Latvia	
Southern Europe	Spain, Italy	
Central and Eastern Europe	Hungary, Czech Republic	Serbia, Montenegro, Bosnia, Croatia, Slovakia
Russia and former Soviet Union	(Strong interest in Russia)	Ukraine

Section one of this paper explored the reception of venture philanthropy into the US philanthropic marketplace in the 1990s, characterised in the main by scepticism or downright hostility among foundation leaders. This was due, in part, to the poor marketing and positioning of VP by early practitioners, many of whom were entrepreneurs with little historical connection to the foundation community. Arguably this damaged the VP 'brand' in the US and beyond, despite several VP funds quietly building up their portfolios and beginning to demonstrate success as a niche provider of philanthropic capital. The US expansion of VP was more than once referred to as a 'Wild West' phenomenon, a chaotic field of trial and error by individuals, organisations and foundations. Interestingly, given the rich and reflective philanthropy landscape in the US, no strong voice emerged as an apologist for VP. Individual VP organisations (eg New Profit Inc, Morino Institute, Center for Venture Philanthropy, Venture Philanthropy Partners and Social Venture Partners) advocated good practice and debated with sceptics. Several intermediary philanthropy organisations and publications (eg Grantmakers for Effective Organizations, The Philanthropic Initiative) became key repositories for information

[4] Personal communication to the author.

and documents on VP. But no single organisation or association became the voice of venture philanthropy during the last ten years of rapid expansion in the US.

By contrast, interest within Europe from 2003 onwards has been stimulated largely through one organisation – the EVPA. EVPA's strategy has been to consciously avoid the mistakes of VP marketing in the US, by positioning VP as highly complementary to foundation grantmaking, drawing influential European foundations into its membership, presenting regularly at European foundations events and showcasing examples of foundation involvement in VP. Interestingly, and again a departure from the US trajectory, EVPA has built a solid relationship with the private equity and venture capital community, manifested by endorsement by the EVCA and sponsorship by leading private equity firms.

Despite the early success EVPA has in building bridges between VP operations and foundations and the private equity community, the difficulties in promoting what is perceived as an 'Anglo-Saxon' model should not be underestimated. Anglo-Saxon, in this context, is a European suspicion of entrepreneurial individualism and supremacy of the capital markets. In a landmark work on European foundations Tayart de Borms [2005], while applauding the energy and innovation found in US philanthropy, emphasises how the strengths of European philanthropy lie in a European social model "based on social cohesion: full employment, open democracy and transparency in governance are givens."

While Europe might be viewed as cautious to embrace what is perceived as a US model, there are early signs that European practitioners are not simply adapting but innovating beyond classical US venture philanthropy. An example of this lies in the range of financial instruments used by European VP operations. While almost all US venture philanthropy is grant based, several European VP funds are open to experimenting with a wider spectrum of funding types. Noaber Group (Netherlands) and BonVenture (Germany) have developed corporate structures which allow grant funding to charitable organisations and debt or equity finance for social enterprises or socially-motivated for-profit businesses. In the UK, Venturesome concentrates on underwriting and unsecured lending products; on occasion, a stake in the performance of the organisation may be part of the investment (referred to as being 'equity-like'). The ability to recycle funds several times, by using loans rather than grants, is an attractive prospect for Venturesome's investors. Impetus Trust (UK), although for the most part a grant based VP fund, is experimenting with 'surplus sharing' mechanisms and a strategic alliance with a grantmaking foundation (see case study).

The challenge remains for venture philanthropy to find its niche in the diversity of the European social capital market, but the bridges already built to foundations and private equity community and the desire to share good practice and innovate are all encouraging signs that the field is determined to build on US experience and develop appropriate European models.

SECTION 03

CRITICAL ISSUES FOR THE DEVELOPMENT OF VENTURE PHILANTHROPY IN EUROPE

IN WHATEVER WAY VENTURE PHILANTHROPY MAY DEVELOP IN EUROPE, IT MUST TAKE ON A DISTINCTIVELY EUROPEAN IDENTITY, RATHER THAN BE SEEN AS AN UNWELCOME ANGLO-SAXON IMPORT.

In whatever way venture philanthropy may develop in Europe, it must take on a distinctively European identity, rather than be seen as an unwelcome Anglo-Saxon import. Europe, in any dimension, including the social sector, is not a uniform entity. EVPA's mapping exercise underscores the complexity of tradition and practice in the European social economy. To prove its worth in a diverse social economy, VP must demonstrate its relevance to helping strengthen the social sector across Europe, both in 'Old Europe' and the fast developing civil societies in the Baltic States, Central and Eastern Europe and the former Soviet Union.

There are multiple potential trajectories for VP in Europe over the next five to ten years. It could become simply a faddish American import, unable to adapt to a European context, to be practiced as only a niche provider.

Alternatively, VP can demonstrate its value in helping develop a more effective social capital market by:

- Providing appropriate, performance-based finance coupled to strategic and operational advice for entrepreneurial social purpose organisations;
- Leveraging co-finance from foundations and public funders;
- Drawing in new resources and methods from the private equity/venture capital community into a fruitful engagement with the social sector.

In order to make a valuable and valued contribution to the growth and development of the European social sector, VP practitioners must address, and sometimes work collectively, across a number of critical issues.

LANGUAGE

If VP is viewed as a bridge between the social and venture capital sectors, it is hampered by a lack of clear and consistent language. Words and phrases such a 'non-profit', 'investment', 'exit', 'return on investment', 'social enterprise', 'risk' often have multiple interpretations or shades of meaning. Language should not be underestimated as a barrier to transferring skills or experience across sectors. This is made even more complex when describing practice in numerous European languages, cultures and traditions.

RESPONSIVENESS

To be part of a marketplace for finance, VP must respond and adapt to what that market is demanding. The funding needs of social purpose organisations are similarly evolving – they are seeking investment in their core capacity, and they want a menu of finance options and models of donor engagement.

FINANCE

Venture philanthropy need not be constrained to grant making. In responding to a market driven by evolving demand, VP practitioners should offer a range of financial instruments appropriate to the investee's organisational type and maturity. There will be country-specific regulatory environments which act as barriers to employing non-grant finance. For example, in the UK a VP fund may use loans or equity-like instruments, whereas in France, foundations would find it difficult to even lend to a social purpose organisation, as any form of finance other than grants is discouraged officially, but practised quietly. In providing mezzanine funding in the UK, Venturesome also helps social sector managers assess and drive down risks associated with taking on non-grant based financing. Social purpose organisations are generally not financially literate enough to see the opportunities, and weigh the risks, in mixed capital funding.

Venture philanthropists, or at least those coming out of the commercial investment world, argue that VP has the potential to engage new donors, both individuals and companies, and thus attract additional resources into the entrepreneurial citizen sector. There is certainly evidence that several new VP operations in Europe were launched or grown with private capital from business entrepreneurs or private equity executives eg Impetus Trust (UK), Sutton Trust (UK), Demeter Foundation (France), Noaber Group (Netherlands), Fondazione Oltre (Italy), Arab Learning Initiative (UK), Invest for Children (Spain) and Fondazione Oliver Twist (Italy).

NON-FINANCIAL, VALUE-ADDED SERVICES

These are at the heart of the high engagement model that distinguishes venture philanthropists from other funders. Traditional foundations, for example, would view high levels of engagement as intrusive, or would not have the staff numbers or skills to manage such a level of engagement. The relationship moves from transaction to partnership. This new model of funding relationship requires skills in portfolio management not usually associated with social sector funders.

In recent work Letts and Ryan (2003) observe that the governing boards of social purpose organisations are often weak through being disengaged and ineffective. There is a danger that venture philanthropists fill the vacuum left by poor governance, but that is no long-term solution for the sector. They suggest that VP has a valuable role by engaging with executives and boards at a strategic level. Indeed it is the author's experience that board level access and involvement are essential ingredients of good VP practice. This may not mean taking a formal place on the organisation's board, but will demand a high level of engagement with the board members in vision and strategy.

Most VP targets organisations at organisational inflection points, for example rapid growth, or reorientation of mission, where advice on management of change can be particularly valuable.

Several VP funds develop a programme of advisory services based on an organisational audit during their due diligence evaluation eg Impetus Trust (UK) deploys a variation of the McKinsey Non-profit Capacity Building Grid in determining key organisational areas to be strengthened.

PERFORMANCE MEASUREMENT AND SOCIAL IMPACT

Venture philanthropy claims to be performance-based funding that helps build an organisation's capacity to deliver greater social impact more effectively. But measuring organisational performance and social impact are notoriously difficult. Traditional grant makers do not usually measure organisational performance at all, and if they do it is reactive and retrospective rather than 'in real time'. Venture philanthropists need performance metrics which track how a portfolio organisation is developing against pre-agreed targets. These metrics should track external social outputs (social benefits being delivered by the organisation) and internal capacity (from governance to operations). For these reasons, several venture philanthropy funds have adopted variants of the Balanced Scorecard™ performance measurement tool (Niven, 2003). A key strength of the Scorecard lies in its measuring an organisation's performance across a balanced range of perspectives – mission outputs, client satisfaction, internal processes, employee learning and growth, and finance. New Profit Inc, the Boston-based VP fund, assists each of its portfolio organisations to design their own Scorecards, and uses the tool to measure its own performance as a funder. In the UK the card has been adapted and developed by Impetus Trust and Adventure Capital Fund.

Implementing Balanced Scorecard in its fullest form is sophisticated and resource-hungry. A challenge for the growing VP industry is to develop or adapt performance tools which are cost effective and relatively consistent across VP practitioners.

A premise of VP is that some organisations are better than others at creating social value, and that the best should attract funding (Lumley, Langerman and Brookes, 2005). But measuring organisational performance is not the same as assessing the depth and quality of social impact an organisation delivers over time. The whole field of SPO performance measurement, social impact assessment and accountability is complex and contested. Globally, there are several initiatives attempting to bring clarity eg the Social Enterprise Partnership's Quality and Impact Project (New Economics Foundation, 2005) or the Keystone initiative (Keystone, 2006). One working group set up in 2006 by EVPA will survey the landscape of social accounting methods, and recommend those most appropriate for use by venture philanthropy investments (Scholten, 2006).

ENTREPRENEURSHIP AND VENTURE PHILANTHROPY

Venture Philanthropists recognise that not all social purpose organisations or their leaders are appropriate candidates for a venture philanthropy approach, preferring to

"WHILE EUROPE MIGHT BE VIEWED AS CAUTIOUS TO EMBRACE WHAT IS PERCEIVED AS A US MODEL, THERE ARE EARLY SIGNS THAT EUROPEAN PRACTITIONERS ARE NOT SIMPLY ADAPTING BUT INNOVATING BEYOND CLASSICAL US VENTURE PHILANTHROPY. AN EXAMPLE OF THIS LIES IN THE RANGE OF FINANCIAL INSTRUMENTS USED BY EUROPEAN VP OPERATIONS."

"VENTURE PHILANTHROPY'S REAL SUCCESS WILL LIE IN ITS ABILITY TO INFLUENCE THE GRANT-MAKING PRACTICES OF TRADITIONAL CAPITAL PROVIDERS AND BRING IN NEW FUNDERS AND SKILLS FOR GROWING ENTREPRENEURIAL SOCIAL PURPOSE ORGANIZATIONS."

focus their search to 'social entrepreneurs' or 'entrepreneurial social purpose organisations'. For example, Bonventure (Germany), The Charities Foundation (Estonia), UnLtd Ventures (UK) and Venturesome (UK) are VP organisations using the language of social entrepreneurship. Social entrepreneurs, like their commercial sector counterparts, are viewed as pragmatic innovator/completers, seeking market opportunities to address social needs through scalable, and potentially viable organisational models. Sir Ronald Cohen's analogy of entrepreneurship and private equity being as intimately entwined as the two stands of DNA (Cohen 2004), may well apply to social entrepreneurship and venture philanthropy – two social sector capital market actors, representing capital supply and demand, equally in need of each other, to express sustainable, social benefit.

SOCIAL PURPOSE ORGANISATION GROWTH MODELS

Much VP activity focuses on scaling up the social impact of a social purpose organisation. There is a growing body of literature on scale up strategies in social innovation, for e.g Dees et al (2002). In the UK, 'social franchising' has caught the attention of social entrepreneurs wishing to replicate their innovations nationally (Elliot and Jarvis 2006). Others, including Kramer (2005) sound a cautionary note, however, suggesting that analogies with venture capital should not be stretched too far. There are many pathways to growing social impact, which do not necessarily involve scaling up individual organisations.

NICHE PLAYER OR LEVER FOR CHANGE?

Venture philanthropy is unlikely to ever become a significant part of the wider non-profit capital market, when measured simply by volume of total annual expenditure. In 2002 total funding provided by US private foundations was US$23bn, of which only US$41.5m (0.2 per cent) could be described as venture philanthropy (Venture Philanthropy Partners, 2002). Annual spending by European foundations is ?51bn (US$66bn) but there are presently no accurate estimates of what proportion of this expenditure could legitimately be allocated to venture philanthropy (European Foundation Centre, 2005).

One proxy indicator of venture philanthropy's success will be the growth of aggregated volume of funds under management, and importantly, the proportion brought into the sector by new players (in particular, business entrepreneurs and venture capital firms).

Venture philanthropy's real success will lie in its ability to influence the grant-making practices of traditional capital providers and bring in new funders and skills for growing entrepreneurial social purpose organisations. The Edna McConnell Clark Foundation is a US example of a traditional grant maker which reoriented its operations along venture philanthropy principles, while eschewing the term itself. Other grantmakers have helped fund the start up of venture philanthropy operations, or become co-funding partners of portfolio organisations supported by venture philanthropists.

In Europe, venture philanthropists view the venture capital/private equity community as a key constituency for launching new VP funds or growing existing ones (eg the formal endorsement of EVPA by the European Private Equity and Venture Capital Association). One recent, mainstream financial publication on structuring European private equity has a chapter on venture philanthropy (John, 2006). These are promising indicators of impact.

SECTION 04

CASE STUDIES

EVPA's recent mapping exercise revealed 28 organisations practicing venture philanthropy in Europe, although the author admits that the number may be greater, especially as not all countries in Europe could be surveyed in depth. Much depends, of course, where one draws the line in defining what venture philanthropy is. As seen earlier, EVPA's definition is deliberately broad – to encourage a wide spectrum of new activity in a growing sector. This section gives three brief case studies which illustrate the diversity venture philanthropy practice is likely to take in Europe as this space for social investment grows and develops.

Impetus Trust is the first general purpose venture philanthropy fund in the UK. It is a classic portfolio approach focusing on growth potential in charities using grant based, core funding and specialist advisory services. It has its roots in the venture capital community, from where it raises much of its investment capital.

Like Impetus Trust, Bonventure was inspired by US based venture philanthropy models, and whose founders have a strong background in commercial investment. Given the relatively conservative nature of the German citizen sector, Bonventure represents a significant innovation in terms of fund structure and its focus on social enterprise and mission-driven profit-distributing businesses.

The Media Development Loan Fund is notable for a number of reasons. First, it has existed for more than ten years, a mature organisation by VP standards. Second, its mission is to encourage independent media in countries in transition, a non-traditional cause. And third, because it invests in commercial independent media operations, it can utilise equity and debt as its primary financial instruments.

SECTION 04 | CASE STUDIES

CASE STUDY 1

IMPETUS TRUST, UK

GRANT-BASED VENTURE PHILANTHROPY

Impetus Trust was set up in 2002, describing itself explicitly as a general purpose venture philanthropy organisation. Its founders, a venture capitalist and an entrepreneur, wanted to bring their business skills into the social sector by working with small to medium size charities in the UK ready for a step change in their lifecycle, described as likely to be ‘growth, turnaround or merger’. For charities with a proven appetite for high-engagement funding, Impetus offers a package of long-term core funding over three to five years, hands-on management support through regular senior staff meetings with Impetus executives and targeted capacity building against a plan for strengthening key aspects of the charity, and delivered by volunteer associates. Impetus raised an initial fund of £2m, a large proportion of which was seed capital from its founding board and grant making foundations. A second funding round aims to raise a further £3m.

During its launch phase Impetus screened more than four hundred potential investments before making its first commitment. It expects to build up to a portfolio of twelve charities by mid 2007, by adding up to four each year. Impetus targets registered charities in the a size range £400k to £10m which have been operational for at least three years, and working to provide sustainable improvements to the lives of ‘disadvantaged people’.

Like a venture capital investment decision, Impetus are seeking out potentially ‘best in class’ organisations which can deliver innovative and sustainable responses to social problems, led by highly capable management teams (without explicitly using the term ‘social entrepreneur’). Impetus Trust’s current portfolio of five charities is diverse by sector: adults with learning difficulties; homelessness; eating disorders; conflict resolution and ethnic minority sexual health. The charities have annual turnovers in the range £350k to £1.8m and Impetus’ grants range £175 to £400k over the lifetime of each investment. Impetus is experimenting with a ‘surplus share scheme’ whereby the portfolio charity will return to Impetus a portion of its grant when the charity generates a surplus, most usually from earned revenue or property. In this way Impetus can recycle some of its investment capital.

Impetus’ more recent investment, in NAZ Project London, is notable for being the first in a co-investment partnership with the Charities Aid Foundation’s (CAF) grant making programme. CAF will contribute a further £100k and free consultancy time to NAZ. This partnership with a grant maker signals an important trend in European venture philanthropy. Venture philanthropy funds are relatively small and to be effective must leverage additional, external funding. Among the strategies being explored by VP funds are offers of co-financing on a project by project basis. In this example with CAF, the grant maker brings consulting resource in addition to funding.

In determining what capacity building interventions are required for the particular charity in its portfolio, Impetus has adapted the McKinsey Capacity Assessment Grid, originally developed by McKinsey and Company for Venture Philanthropy Partners in the US (Guthrie and Preston, 2005).

Impetus is recruiting a pool of associates drawn from business and social sectors to provide the value-added services to each charity as determined through the capacity assessment. The associates are both individuals and corporate partners prepared to donate consulting time to the Impetus portfolio.

The Impetus approach is what might be termed classical grant-based venture philanthropy, and breaks new ground in the UK. Just as US based VP groups provided role models for the UK, so these innovations in the UK will be closely watched by continental Europeans interested in developing high engagement models. Impetus builds on its founders' connection with the private equity community and aspires to encourage the industry to develop its social responsibility through the medium of venture philanthropy.

CASE STUDY 2

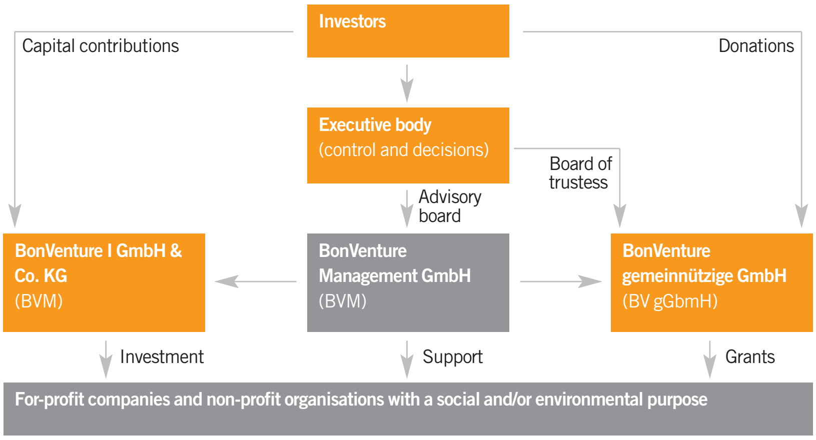
BONVENTURE, GERMANY

A SOCIAL VENTURE CAPITAL FUND

BonVenture is a pioneering social investment fund active in the German speaking countries of Germany, Austria and Switzerland, originating form a Munich-based private family office investment fund, BTV Holding, in collaboration with two other German private family offices. The family office founders, all active venture capital/private equity investors were inspired by social investment in the US to found BonVenture in 2003 with a dual fund structure (see Figure 5). The dual structure is necessary to make either commercial investments in mission-driven for-profit companies and social enterprises, or philanthropic grants to charitable, non-profit organisations. The commercial fund, BonVenture I, is incorporated as a venture capital fund and a member of the German private equity and venture capital association BVK. The philanthropic fund, BonVenture gGmbH, has a legal constitution similar to that of a grant making foundation. Both are managed by BonVenture Management GmbH (BVM). BonVenture I, while being a commercial investment fund, seeks only to preserve capital, ensuring that all financial returns are reinvested or converted to gift capital for use by BonVenture gGmbH.

BonVenture is distinctive for being an innovation in a country still characterised by traditional practice in business and philanthropy, notwithstanding foundations linked to well established commercial companies such as Robert Bosch and Bertelsmann, which have long traditions of philanthropic innovation. The commercial fund has been initially capitalised at €5m and aims to grow to €10m by attracting external social investors. The smaller grant fund spends up to €60k each year. The target for BonVenture I investments are start-up, early or expansion businesses that provide solutions to social and environmental problems. Such enterprises need to be driven by an identifiable social entrepreneur, have a credible plan for financial viability, a strong management team and be scaling up for significant reach and social impact. The fund currently has four investments in its portfolio, a total commitment of €600k. The investment process – deal flow, due diligence and support – mirrors that of a venture capital firm. Investments come mostly through networks and referrals. BonVenture will normally secure a place on the investee's board, or if not will have access to the board and its papers. Its approach to supporting its portfolio organisations is similarly akin to venture capital models: critical assistance with business planning, networking and executive coaching. It applies a light touch, but still more value added than a traditional grant funder.

Fig 5: The structure of BonVenture



BonVenture's investments are social businesses which are trading commercially but with strong social objectives such as JobTV 24, Germany's first 24hr TV channel providing advice on jobs and careers for self-employed people, or DialogMuseum, a sensory experience helping people understand the world from a blind person's perspective. JobTV 24 has an equity based investment, although BonVenture owns only a small percentage of the company.

CASE STUDY 3

MEDIA DEVELOPMENT LOAN FUND, CZECH REPUBLIC

SOCIAL PURPOSE BUSINESS/LOAN AND EQUITY FUNDING

The Media Development Loan Fund or MDLF is a US registered not-for-profit foundation with a Prague-based operational centre. This organisation is a significant and unusual example of venture philanthropy because its client organisations are for-profit, commercial media enterprises, and it consequently uses loans, lease finance (purchase of equipment to be leased back to organisations it supports) and equity as instruments of choice. It is also an unusual example of a venture philanthropy fund focused on countries in economic and democratic transition.

MDLF was founded in 1995 by the social entrepreneur Sasa Vucinic, a print and broadcast journalist from the former Yugoslavia. Its mission is to assist independent news outlets in emerging democracies to develop into sustainable media companies. The bulk of its operations are in former Yugoslavia, former Soviet Union and Easter Europe. It is slowly expanding into Africa, Asia and Latin America, focusing on countries whose human development is seriously hampered by restrictions on press freedom, including lack of access to development capital. While they may not describe themselves as such, MDLF views independent media companies as social enterprises that provide the general public with a socially valuable service through a commercial vehicle. Information is critical for civic participation in the democratic process, for exposing corruption, debating issues of importance to countries in transition and the functioning of a market economy.

MDLF is legally constituted as a US-registered not-for-profit with Inland Revenue 501(c) 3 status. In order to make investments in commercial organisations it has to use the funding vehicles known as programme related investments (PRIs), forms of social investment likely to yield social benefit and a sub market financial return (Peacock, Hickey, Voller, Sayer and Wilkie, 2003). In the ten years since its inception MDLF has financed eighty projects, for 47 media companies in seventeen countries, through US$47.5m in low cost loans and other PRIs. It has written off two per cent of the total loans invested and collected US$3.5m in interest and dividends. Its loan portfolio outstanding at June 2005 was US$28.5m. The PRI investments are primarily dedicated to helping news outlets build or upgrade infrastructure with the goal of expanding audiences, bolstering revenues and increasing effectiveness. This financing typically provides for printing presses, transmitters, antennae, production equipment or computer systems. MDLF is prepared to provide working capital where there is a strong business case for significant audience or advertising revenue. PRIs have ranged from US$5k up to US$3m, and are typically between US$300k to US$800k with five to seven year terms and repayment holidays up to twelve months. While MDLF's early loans carried interest rates of two to three per cent, most MDLF loans and leases now carry interest rates of five to 6.5 per cent, and range as high as eight per cent for loans to more established clients that can afford it. All MDLF loans and leases are denominated in US dollars. Generally, MDLF makes equity investments only in companies to which it has previously provided loan or lease financing, meaning that it is well acquainted with the client's management and the company's financial performance. As a high engagement funder, MDLF provides its portfolio of investments with professional support and technology solutions, through one-on-one advice from MDLF staff and consultants. To further strengthen these value-added services MDLF operates two specialist media centres. 2MC is its media management centre, which provides specialist training tailored to the needs of media managers in emerging markets. A Prague-based Centre for Advanced Media (CAMP) was opened in 1998 to adapt new technologies and software solutions for the specific needs of MDLF's clients under the Campware brand. One such innovation is the Digital Kiosk, which allows media companies to collect subscriptions electronically in countries lacking full and secure e-commerce facilities.

MDLF raised its fund initially through grants from foundations (eg Calvert Social Investment Foundation, OXFAM/NOVIB Netherlands, Open Society Institute), but has now reached a point in its maturity and track record where it can attract social investment from institutional and individual investors. In late 2005 MDLF, in collaboration with Calvert Social Investment Center, launched a Free Press Investment Note (FPIN) to raise funds from institutional and social investors. These Investment Notes can be issued on a one to ten year term, with interest rates up to three per cent, for a stake as low as US$1k, and are essentially fixed term deposits with fixed interest rates. Although not federally secured, they are backed by MDLF's asset base and loan loss provisioning.

In 2006 MDLF teamed up with Swiss private bank Vontobel and social investment specialists, responsAbility, to launch an investment bond listed on the Swiss stock exchange. The bond is expected to raise twenty million Swiss Francs, offering investors a return slightly below other listed bonds, but with an additional social return delivered through MDLF's media partners. Secondary trading is underwritten by the bank and the Swiss Agency for Development and Cooperation.

RESOURCES

RESOURCES

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www.adventurecapitalfund.org.uk

Andrews Charitable Trust
(formerly World in Need)
www.andrewscharitabletrust.org.uk

BonVenture
www.bonventure.de

Bridges Community Ventures
www.bridgesventures.com

Campware
www.campware.org

Council on Foundations
www.cof.org

Digital Kiosk
http://kiosk.mdlf.org

European Foundation Centre
www.efc.be

European Venture Philanthropy Association (EVPA)
www.evpa.eu.com

Futurebuilders England
www.futurebuilders-england.org.uk

Futurebuilders Scotland
www.communitiesscotland.gov.uk

Impetus Trust
www.impetus.org.uk

Media Development Loan Fund
www.mdlf.org

Morino Institute
www.morino.org

New Economics Foundation
www.neweconomics.org

NESsT
www.nesst.org

One Percent Laws
www.onepercent.hu

Peninsula Community Foundation
www.pcf.org

UnLtd
www.unltd.org.uk

APPENDIX

APPENDIX

VENTURE PHILANTHROPY ORGANISATIONS IN EUROPE

A. ORGANISATIONS PROVIDING FUNDING AND SUPPORT

Fund	Country	Activities and forms of engagement Provides money	 Provides expertise
A Glimmer of Hope	UK office (of US based foundation).	Yes. Grants.	Yes
ACT	UK	Yes	Yes
Adventure Capital Fund	UK	Yes. Grants, loans.	Yes
Arab Learning Initiative	UK	Yes	Yes
ARK	UK	Yes. Grants.	Yes
BonVenture	Germany	Yes. Grants, equity, mezzanine financing, loans etc in tranches of €100k-€500k over 3-7 years.	Yes
Breakthrough	UK	Yes. Grants .	Yes
Bridges Community Ventures	UK	Yes. Equity.	Yes
Canopus Foundation	Germany	Yes	Yes
Children's Investment Fund Foundation	UK	Yes	Yes
Demeter	France	Yes. Grants and loans, over 5 to 7 years.	Yes
Fondation PhiTrust	France	Yes, over 3-5 years.	Yes
Fondazione Dynamo	Italy	Yes, in some cases.	Yes
Fondazione Oliver Twist	Italy	Yes	Yes
Fondazione Oltre	Italy	Yes. Grants, €15k-€60k over 2-3 years.	Yes
Futurebuilders England	England	Yes. Grant and loans.	Yes

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This began as a list of venture philanthropy organisations with which EVPA is familiar, as of November 2005. Consistent with EVPA's broad definition of venture philanthropy, together with its aim to encourage new entrants to the field, some of those listed below are philanthropic organisations while others offer support, advisory and brokerage services. This is not a comprehensive list, and at this early stage in the development of venture philanthropy in Europe there are doubtless other organisations operating with some or all of the principles of venture philanthropy.

Focus of support Field	International/domestic	**Website**	**Comments**
UK – social welfare.	Domestic (US foundation works in US and Ethiopia).	www.aglimmerofhope.org	Part of a US based initiative showing some characteristics of VP.
Poverty and others who are marginalised.	Domestic / international	www.andrewscharitabletrust.org.uk	Established in 1965 by a business entrepreneur and linked to a UK firm of estate agents.
Community based social enterprises.	England	www.adventurecapitalfund.org.uk	Independently managed government funding.
Youth	Egypt, Middle East.	www.arablearninginitiative.org	
Children/youth. Also research.	Domestic / international	www.arkonline.org	Founders have hedge fund industry background.
Social, environmental.	Domestic	www.bonventure.de	Goal is capital preservation in real terms for the fund and foundation.
Social enterprises.	UK initially; Europe.	Not available	Hosted by the Community Action Network; www.can-online.org.uk.
Businesses in under-invested locations.	England	www.bridgesventures.com	For profit, mission-driven venture capital firm.
Energy, environment, social entrepreneurs.	International, some domestic.	www.canopusfund.org	
HIV/AIDS, rural health.	Africa		Linked to European hedge fund.
Includes micro-finance.	International		
Social, cultural and environmental.	International	www.phitrust.com	Linked with PhiTrust Finance, which focuses on socially responsible investment.
Social entrepreneurship.	Domestic / international	www.fondazionedynamo.org	
Unknown	Unknown	www.fondazioneolivertwist.org	Fund in start up 2005
Youth, minority ethnic communities.	Domestic	www.fondazioneoltre.org	
SPOs delivering public services.	England	www.futurebuilders-england.org.uk	Independently managed government funding.

APPENDIX

A. ORGANISATIONS PROVIDING FUNDING AND SUPPORT

Fund	Country	Activities and forms of engagement Provides money	 Provides expertise
Futurebuilders Scotland	Scotland	Yes. Grant and loans.	Yes
Impetus	UK	Yes. Grants, £100k-£500k over 3-5 years.	Yes
Invest for Children	Spain	Yes	Yes
Media Development Loan Fund	Czech Rep.	Yes. Loans and other PRIs, repayment terms over 4-7 years.	Yes
NESsT	Hungary	Yes. Grants, over 1-3 years.	Yes
Noaber	Netherlands	Yes	Yes
Partnership Foundation	Netherlands	Yes	Yes
SHINE	UK	Yes	Yes
Social Venture Capital	Netherlands	Yes	Yes
TCF (The Charity Foundation)	Estonia	Yes	Yes
The Funding Network	UK	Yes. Grants.	No
The One Foundation	Ireland	Yes	Yes
The Sutton Trust	UK	Yes	No
Venturesome	UK	Yes. Financing in the form of loans, equity investment etc, £20k-£150k.	Some advisory, especially before investment made.
Vodafone UK Foundation	UK	Yes. Grants.	Technical and management support from company staff.

Focus of support Field	International/domestic	Website	Comments
SPOs delivering public services.	Scotland	www.communitiesscotland.gov.uk	Independently managed government funding.
Education, disability, health, services for minority ethnic groups.	Domestic	www.impetus.org.uk	
Childhood disabilities.	Spain	www.investforchildren.org	Link to private equity fund.
Independent media.	International	www.mdlf.cz	
Social enterprise.	Central and Eastern Europe.	www.nesst.org	Also operates in Latin America.
Digital technology, health.	International	www.noaber.com	
Street children.	International	www.partnershipfoundation.nl	Sole focus on street children in India.
Education	Domestic	www.shinetrust.org.uk	
Poverty reduction.	International (Ghana, Morocco, South Africa).	www.sovec.nl	Venture capital fund and charitable foundation operate in parallel.
Social entrepreneurship.	Domestic	www.heategu.ee	
Human rights, environment, health, education, conflict resolution.	International, some domestic.	www.fundingnetwork.org.uk	Brings together new philanthropists. Some characteristics of VP.
Youth, mental health, early stage social entrepreneurs, Vietnam.	Domestic / international	www.onefoundation.ie	Aims to spend down over ten years. Strategic partnership with New Profit Inc, USA.
Education	Domestic	www.suttontrust.com	Some characteristics of VP.
General charitable purposes.	Domestic	www.venturesome.org	Aims to recycle funds invested.
General charitable purposes.	UK	www.vodafoneukfoundation.org	Unusual example of corporate venture philanthropy.

APPENDIX

B. ORGANISATIONS NOT PROVIDING FUNDING

Fund	Country	Activities and forms of engagement Provides money	 Provides expertise
New Philanthropy Capital	UK	No	Advice / support to donors.
Pilotlight	UK	No	Yes
The Blue Link	Netherlands	No	Yes
WISE Partnership	Switzerland	No	Yes
Toolbox	Belgium	No	Yes
UnLtd Ventures	UK	No. Planning a fund in the future. Currently brokers third party funders.	Yes

Focus of support Field	International/domestic	**Website**	**Comments**
Research and advisory services.	Domestic / international	www.philanthropycapital.org	Advisory service for VP funds.
Matches corporate volunteers with charities.	Domestic	www.pilotlight.org.uk	Some characteristics of VP.
International development programmes including health, education, social enterprise.	Least developed countries.	www.thebluelink.org	Brokers relationships between Dutch companies and development projects in least developed countries.
International development programmes including health, education, advocacy.	Primarily Brazil, Vietnam, Mexico, Peru and India	www.wise.net	Brokers Philanthropist/non-profit relationships.
Any	Domestic	www.toolboxh2o.org	Membership based association.
Social entrepreneurs.	Domestic	www.unltd.org.uk	Part of UnLtd: the UK foundation for social entrepreneurs.

APPENDIX

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VENTURE PHILANTHROPY:

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