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BEYOND THE CHEQUE

HOW VENTURE PHILANTHROPISTS ADD VALUE

ROB JOHN | OCTOBER 2007

CONTENTS

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The European Venture Philanthropy Association is a Pan-European charity focussed on promoting venture philanthropy throughout Europe. In its first 30 months of operation, it has attracted 60 members from 17 European countries. Membership includes VP and Social Enterprise funds, major foundations, private equity groups, universities, and high net worth individuals. In addition to promoting VP, the EVPA also works with its members in a number of ways to assist them in being more effective in their philanthropic work. Details on the EVPA can be found at www.evpa.eu.com

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THE RESEARCH CONTEXT

This paper is the second in a series planned to examine the emergence of venture philanthropy (VP) 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 the first landscaping survey, 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 capital 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.

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. He is a trustee of Windle Trust International, an Oxford-based educational charity working in Africa.

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This study was conducted in collaboration with the EVPA Advisory Services Working Group and the author is grateful for the support of its members. The EVPA generously provided financial support for this study.

The initial finding from this study were presented at the Finance for Change meeting at the Skoll World Forum in Oxford, March 2007. Feedback from participants is gratefully acknowledged.

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SUMMARY

The venture philanthropy (VP) model provides a blend of performance-based development finance and professional services to social purpose organisations (SPOs) – 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.

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.

The first working paper in this series explored the origins of VP and its development and expansion in Europe. Interest in VP models has grown rapidly in Europe since 2002, initially in the UK and Ireland, but today VP funds can be found across continental Europe including the Baltic States and central & eastern Europe. In Europe VP has strong links to the private equity and venture capital industry, due in part to the European Venture Philanthropy Association, a VP peer network founded by philanthropists from the private equity community. VP in Europe is generally well networked and markets itself as complementary to the more traditional philanthropic models of foundations and governmental funders.

This working paper examines the so-called 'value add' of VP – the advisory services provided to SPOs together with financial support. By surveying European VP organisations we explore what these advisory services are and how they are delivered, and the level of engagement with the organisation being supported. We have asked social entrepreneurs receiving VP support what they value most about value-added services and how they view a level of engagement not usually associated with social sector funders.

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THE FIRST WORKING PAPER – VENTURE PHILANTHROPY: THE EVOLUTION OF HIGH ENGAGEMENT PHILANTHROPY IN EUROPE

The first paper (John, 2006) charted the historical origins of venture philanthropy-like models in the US, their critical popularity during the dotcom era of the 1990s and development within Europe from 2002 onwards. The paper's working definition of 'philanthropy' was *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 word 'venture' in this 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.

A fuller definition, as used by the European Venture Philanthropy Association (EVPA), the only network of VP organisations in Europe, is used in this paper to define whether an organisation can be classified as VP (see panel).

The first paper argued that the evolving European model was well networked, closely linked to the private equity industry and relatively 'adventurous' in terms on financial instruments deployed. Its links to the private equity community give opportunity to influence the social responsibility strategies of major players in Europe's financial services industry, particularly at a time when it is subject to intense, global, public scrutiny (Rossa, 2007).

Since the publication of the last working paper there has been a steady growth of interest in VP. EVPA has nearly doubled to more than 65 members from 15 countries, although many of these are not full VP operating funds but 'associate' members whose interest is 'promoting' VP across Europe. These include a number of private equity firms, who may be starting to view VP as their philanthropic 'instrument of choice'. The Private Equity Foundation, an English charitable grant-making trust, was founded in 2006 by a stellar list of Europe's top private equity firms. While strictly speaking not itself a VP fund, the foundation is making co-investment grants with a UK-based VP fund, in addition to directly funding children's charities. Public scrutiny[1] of the private equity practices and tax breaks is likely to pressurise general partners to rethink the industry's corporate responsibilities and philanthropy.

[1] The UK Parliament's Treasury Select Committee held hearings on the private equity industry in June and July 2007 amid considerable media attention focused on high profile private equity purchases.

EVPA DEFINITION OF VENTURE PHILANTHROPY (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.

- **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 recognise 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.

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INTRODUCING NON-FINANCIAL SERVICES IN VENTURE PHILANTHROPY

Venture philanthropy models are characterised by:

- A package of non-financial support in addition to finance
- A relatively high level of engagement with the Social Purpose Organisation (SPO)

This high engagement or 'hands-on' approach is manifested as both the length of relationship (over several years) and its intensity (the frequency and level of contact). Venture philanthropists see themselves more as investors in an organisation, not simply 'purchasers' of the organisation's mission activities on behalf of beneficiaries – as 'builders' rather than 'buyers', as so persuasively argued by Overholser (2004) in his work on non-profit capital structure and management of growth. As investors, VPs are more focused on the SPO as an organisation than its particular *projects*. Their concern is for the long term creation of social value, of greater mission impact and sustainability, by working intensively with SPO's during periods of rapid change. The kind of finance deployed (usually core funding for growth and development) and choice of non-financial support are focused on this longer term vision of a stronger, more robust, competitive and self-standing organisation. This investor mentality also encourages the higher level of engagement; a desire to work alongside the SPO's senior executives and board, helping develop strategy, financial management, branding and marketing, systems and operations, as well as coaching through periods of substantial organisational change. Being hands-on can mean regular, monthly contact with an SPO's chief executive, attending board meetings or having sight of board papers.

More traditionally minded SPO donors (eg grant-making trusts and statutory funders) would view high levels of engagement as intrusive and fraught with potential conflicts of interest (Unwin, 2005), or would not have a high enough staff/grantee ratio, or skills to manage such a level of involvement. It would not be unusual for a grant officer in a grant-making foundation to be responsible for the management of scores, if not hundreds, of individual grantee relationships. As the relationship moves from transaction to partnership, this model requires skills in portfolio management not usually associated with social sector funders, but has many striking similarities to commercial venture capital practice (John, 2006). For a well-documented Harvard Business School case study of how the Edna McConnell Clark Foundation, a traditional grant-making foundation, transitioned into a more engaged, strategic 'investor' see Grossman (2006). Although the foundation made this transition, it has not described itself as a venture philanthropy fund, but its focus and portfolio approach clearly place it in that space.

In describing venture capital Jenkinson (2007) notes: *"in a typical early-stage company, the venture capitalist is working closely with the entrepreneur, providing not just finance but also mentoring, access to networks, business disciplines, support services and so on. Capital will typically be allocated in tranches and only released if certain milestones or targets are met… The venture capitalists typically sit on the boards of directors and, although not often in overall control, would have considerable influence over the company, its strategy and the entrepreneurs."* This description of venture capital is not far removed from how many venture philanthropists would describe the way they work. The use of a venture capital analogy is traced to a controversial Harvard Business Review (Letts, 1997), and most modern commentators would not press the analogy too far. Emerson (2007) gives an excellent overview of gaps in the social capital market and where new players such as venture philanthropists seek to bring solutions.

PURPOSE OF THIS WORKING PAPER & METHODOLOGY

When a VP fund decides to invest in an organisation

PROFILE

CAN – BREAKTHROUGH, UK

Breakthrough is a joint venture between CAN (formerly known as Community Action Network) and Permira, launched in 2005. CAN is a well-established support network of UK-based social entrepreneurs set up in 1988 to help social entrepreneurs grow their organisations and achieve sustained social change. Permira is one of the largest private equity buyout funds in Europe, having emerged in 2001 from Schroders Ventures Europe, one of a family of private equity funds associated with Schroders plc. The last fund raised by Permira, in 2006, was €11 billion. Permira Funds currently invests in around 30 companies with a combined turnover of over €35 billion and employing 185,000 people.

Under Adele Blakebrough's leadership CAN has diversified and grown into CAN Mezzanines (shared office space for charities and social enterprises); Online Network (a learning network for 850 social entrepreneurs); and CAN Social Investments (deploying corporate funds and know-how into high-potential social enterprises), out of which the partnership with Permira developed.

CAN is a practitioner network rooted in the rapidly growing social enterprise sector, and was well placed to understand the constraints faced by social entrepreneurs in taking their organisations to scale and national impact. Several of Permira's general partners, extraordinarily successful private equity professionals, had interest in and experience of the charitable sector, international development and social enterprise, and wanted to implement their company's social responsibility in a strategic, engaged and meaningful way.

The Breakthrough partnership was set up to provide financial capital and advisory services for selected social enterprises achieve a major step change in their operations. Permira capitalised the initiative with an initial €1 million injection of non-returnable grant for a two-year pilot programme. Breakthrough's selection criteria are:

- A sustainable and profitable social enterprise that can deliver social impact in Europe
- A minimum turnover of €700,000 and three year trading history
- An innovative model of social change
- Ambitions for growth and a credible business plan for expansion
- A strong leadership team
- An appetite for the hands-on depth of involvement offered by Breakthrough

Breakthrough has five social enterprises in its portfolio at the time of writing. Green-Works recycles office furniture and provides jobs and training for disadvantaged people; Law for All delivers high-quality social welfare legal advice; Training for Life is a training and employment scheme for vulnerable people; TimeBank is an innovative charity providing volunteering opportunities for over 250,000 volunteers; FareShare addresses food poverty in communities in partnership with major supermarket chains and food retailers. These enterprises have annual turnovers between €2 million and €5 million, and employ between 12 and 135 staff.

The Breakthrough Advisory Panel, responsible for investment decisions, performance and resources includes CAN's CEO and Permira's managing partner as well as senior representatives from other firms, including strategy consulting, accounting and brand management.

CAN is a support network with a longstanding track record in providing consulting support to social entrepreneurs engaged in initiating and growing social enterprises, through social franchising models (eg the Beanstalk project and CAN Pilot). Breakthrough, as a unit within CAN, can access the in-house consulting resources built up over time. Breakthrough and CAN staff provide the portfolio of social enterprises with advice on strategy, marketing, financial management and recruitment, in addition to opening CAN's own networks to further the growth and development of each enterprise. Breakthrough has a number of strategic partnerships with external firms who provide free consulting time in strategy consulting and financial management; paid consultants can be deployed when necessary. At present Breakthrough estimates that the value of its consulting is at least 20% of the grants made but wishes to increase this proportion.

Breakthrough is working to provide Permira's senior staff with opportunities to become actively involved with the social enterprises it supports, not only during due diligence and selection, but throughout the lifetime of the engagement. This partnership between CAN and Permira is an important development for venture philanthropy. It signals that private equity firms (not just individuals from that industry) view VP as a relevant model for corporate philanthropy, providing access to grant capital and the skills set found within private equity.

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it would normally offers a package of finance together with non-financial, advisory services. Our interest in this supply side (VP funds) is to understand what these services are, when and how they are delivered, and whether their effectiveness is measured. On the demand side (SPOs) we want to understand what advisory services are most and least valued by social entrepreneurs during their partnership with a VP fund. Some venture philanthropists take formal places on the boards of organisations they invest in, and while this is a standard practice in venture capital, it raises issues of power, legitimacy and influence in SPOs, which are likely to have public-benefit, not private ownership structures. In this paper we would like to know how widespread this practice is in venture philanthropy and its impact on social entrepreneurs and their organisations, and mark this up as an area for future study.

Despite a growing interest in venture philanthropy and associated philanthropy models, there is little published study on the advisory services offered by VP funds. Two illuminating studies (Herrold, 2006; Letts, 2003) examine the VP-SPO relationship from the grantee's perspective, although these works are limited in scope to a relatively small sample of US-based organisations. In 2001 The Morino Institute, together with Venture Philanthropy Partners (Venture Philanthropy Partners, 2002) initiated an annual survey of venture philanthropy funds in the US (plus a handful outside the US). The survey was published for two years only, but was a valuable reference on the state of the developing VP movement in the US. Its surveys explored value-added services e.g. monetised value and delivery mechanisms for 42 VP organisations.

This paper is the first study of European VP funds to explore in depth the non-financial offerings made by VPs and the degree of engagement in providing these capacity building services, and provides a foundation for more rigorous academic research on the supply and demand balance as well as governance issues which arise out of high-engagement approaches.

In order to provide data, two on-line surveys were conducted between November 2006 – February 2007:

- A survey of 34 VP funds (32 based in Europe; 1 in the US and 1 in Australia).
- A survey of 20 social entrepreneurs who receive VP support.

In some cases, follow-up telephone or face to face interviews were made.

Both surveys were confidential, and the resulting data pooled and made non-attributable. The surveyed VP funds are listed in **Table 1**, but the identity of the SPOs is not disclosed. The SPOs spanned five European and two non-European countries.

VENTURE PHILANTHROPY FUNDS SURVEYED

Through the online survey of VP funds we gathered information about:

- Organisation (including social sectors supported and numbers of staff).
- Financial support (including kinds of financial instruments, annual direct expenditure and preferred organisational stage of organisations being supported).
- Non-financial services (including kinds of services and delivery mechanism).
- Level of engagement (including length of funding commitment, the taking of formal board places and closeness of relationship).
- Effectiveness and impact (measuring the effectiveness of non-financial services).

While a survey of just 34 organisations does not seem a large sample, it does in fact represent the majority of known VP funds in Europe. The first working paper, based on a previous survey by the EVPA (Grenier, 2006), identified a total of 36 active VP type funds across all of Europe, using a very broad definition of VP. In our study, 32 of the surveyed VP organisations provide a blend of finance and non-financial services; whereas two (Toolbox, Pilotlight) currently provide no direct financial support, but may facilitate funding from third parties.

SOCIAL ENTREPRENEURS SURVEYED

Through the online survey we asked social entrepreneurs about:

- Organisation (including type of enterprise, stage of development, operational sectors and staff)
- Financial and non-financial support received (including types of financial instrument, kinds of non-financial services and degree to which they were found valuable)
- Level of engagement (including taking board places and other levels of engagement)
- Effectiveness and impact (measuring the effectiveness of non-financial services received and overall sense of benefits from the high level of funder engagement)

PROFILE

THE GOOD DEED FOUNDATION, ESTONIA

Heategu (The Good Deed Foundation, GDF) was established in Estonia in 2003 to help build the capacity of the non-profit sector in Estonia by mobilising resources from the private sector and applying a venture philanthropy model.

The Republic of Estonia restored its independence in August 1991 and became an EU member state in 2004. Culturally and geographically it faces both the Nordic countries and northern Europe. Its small population (1.4 million) is 64% Estonian and 30% of Russian origin. Estonia's population is highly urbanised, with one-third living in the capital, Tallinn. Rural life remains harsh, with high unemployment and social problems including drug and alcohol abuse. The social sector is rapidly developing after many decades of tight state control.

The vision of a young Estonian social entrepreneur, Artur Taevere, GDF was initially based on a Social Venture Partner model[1]. This original concept developed over time to include a more centralised VP approach in addition to the giving circles. GDF has three SPOs in its current portfolio, and is developing relationships with several others. Youth to School is a start up charitable organisation inspired by the model of Teach First[2] in which GDF has been instrumental in its conception and launch. Re-use (commodity recycling) and Health Estonia Foundation are both social enterprises. GDF wishes to support SPOs that can demonstrate 'entrepreneurialism' in bringing innovative solutions to social problems and are start-ups or small organisations undergoing rapid growth. GDF has grown to a staff of seven, including two portfolio managers, and deploys mostly grants as financial support (although it has recently explored acting as a guarantor in underwriting a bank loan for Re-use).

GDF's initial strategy was to develop a retained pool of associates, known as 'partners', along the lines of SVP. Formed into teams, these individuals would commit both financial and skills support to charitable organisations within GDF's portfolio. Over time GDF has added to this group a number of volunteers who commit skills but not money. Significantly, GDF has developed strategic partnerships with a number of corporate businesses – Hansabank, KPMG, Hill & Knowlton and Fontes PMP. Hansabank (the largest financial institution in the Baltic States), and Fontes PMP (a major regional human resource and organisational development firm) have provided financial support as well as consulting time to GDF and its portfolio organisations. Hansabank has provided a wide range of business skills through its staff engagement with GDF, while the other partners have been more focused in supplying staff skills within their core competencies (Hill & Knowlton: marketing and communications; KPMG: business planning; Fontes: human resources management).

In addition to developing a capacity to deliver value-added services through associates and strategic partnerships, GDF has also strengthened its in-house capability by hiring portfolio managers. The foundation faces real challenges in managing a large and diverse group of volunteer resources – matching skills and providing assignments aligned to individuals' interests, for volunteers who are rich in skills but time-poor.

The launch of Youth to School illustrates the strong commercial competencies brought in through strategic partnerships, and not normally available to small non-profit organisations. In its pre-launch stage Youth to School needed to develop a professional framework for identifying skills and selection processes for potential teachers; it also needed to market its message to potential recruits. The human resources advice from Fontes and marketing/communications skills from Hill & Knowlton were essential for Youth to School to launch its first programme in a highly challenging market. Seventy-six applications were received for just 10 places, in an employment environment where new graduates are virtually guaranteed private sector jobs.

GDF took board places on each of the three organisations in its portfolio, which it viewed as a natural progression in its relationships with these organisations. This board presence gives GDF a far more accurate picture of organisational health and allows it to influence long-term strategy.

Although both GDF and its portfolio organisations measure performance against key performance indicators, the foundation recognises the need to develop metrics which specifically measure the quality and delivery of the non-financial services it offers to its portfolio of young, dynamic non-profits.

[1] The Social Venture Partner model was pioneered in the US as a means of meeting the capacity-building needs of non-profit organisations through small donor circles where individuals would commit funding and time. See www.svpi.org

[2] Teach First is a UK-based educational programme based upon the successful US programme 'Teach for America'). It selects, trains and supports high-calibre recent graduates to teach in 'challenging' state schools. See www.teachfirst.org.uk

www.heategu.ee

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TABLE 4: VENTURE PHILANTHROPY ORGANISATIONS SURVEYED

VP NAME	COUNTRY	NOTE	WEBSITE REFERENCE
Social Ventures Australia	Australia	A relatively 'pure' VP model set up by an individual with private equity background. Very unusual example of an outside both US and Europe case.	www.socialventures.com.au
Toolbox	Belgium	Provides capacity building support to SPOs in Belgium using a core staff team and a group of retained volunteers from professional and business backgrounds.	www.toolboxh2o.org
Media Development Loan Fund	Czech Republic	The fund specialises in funding independent media companies (radio, TV, print) in transitional democracies in Eastern Europe and other parts of the world. Its operations centre is located in Czech Republic and is a registered non-profit organisation in the US.	www.mdlf.org
Good Deed Foundation	Estonia	Set up by an Estonian social entrepreneur, initially to provide volunteering opportunities for business leaders with SPOs. Is developing a competition for social entrepreneurs and a fund for helping scale-up entrepreneurial SPOs.	www.heategu.ee
Fondation Demeter	France	Set up in 1994 by individuals with backgrounds in consulting and private equity. The relationship with SPO begins with advisory assistance and progresses to financial support after 6-12 months, with the lifespan of the relationships typically 5-7 years.	
Bonventure Management GmbH	Germany	Invests in both charitable organisations and social enterprises in German-speaking countries, using a wide range of financial instruments.	www.bonventure.de
Canopus Foundation	Germany	Founded by a German business entrepreneur, the foundation provides funding and hands-on support to social enterprises.	www.canopusfund.org
NESsT Europa	Hungary	The European branch of NESsT International, with strong focus on social enterprise development in emerging democracies. Supports social enterprises in Croatia, Czech Republic, Hungary, Romania and Slovakia.	www.nesst.org
Clann Credo Social Investment Fund	Irish Republic	A social investment fund working with community-based enterprises, using loans or equity.	www.clanncredo.ie
The One Foundation	Irish Republic	A 'spend-down' foundation jointly founded by a business entrepreneur and social sector leader. Almost exclusively focused on children and youth programmes in Ireland.	www.onefoundation.ie
Fondazione Dynamo	Italy	Founded by a business entrepreneur.	www.fondazionedynamo.org
Fondazione Oltre	Italy	Founded by one of the leading private equity figures in Italy, Oltre focuses on 'social fragility' eg at-risk youth, immigration and social housing.	www.oltreventure.com
Noaber Group	Netherlands	Includes George Avenue (a private equity fund for 'social venturing') and the Noaber Foundation.	www.noaber.com
SOVEC	Netherlands	An investment fund focused on small and medium enterprises in Africa. A minority equity investor.	www.sovec.nl
Ashoka	Pan-European	A global support organisation for social entrepreneurs.	www.ashoka.org
Invest for Children	Spain	Linked to the investment firm, Investindustrial, the fund supports organisations focused on disability.	www.investforchildren.org
Najeti SL	Spain	Najeti is a privately owned investment company that has set up a foundation working with disabled people on VP principles.	www.najeti.com

WISE	Switzerland	WISE brokers funding between wealthy philanthropists and social entrepreneurs, and provides assistance with due diligence, project design and monitoring.	www.wise.net
A Glimmer of Hope UK	UK	The UK office of a US-based grant-making foundation.	www.aglimmerofhope.org
Adventure Capital Fund	UK	Founded on UK government capital, the fund provides patient capital and business support to community-based social enterprises.	www.adventurecapitalfund.org.uk
Alfanar	UK	Formerly the Arab Learning Initiative, established by a former investment banker to promote entrepreneurial projects in Arab countries.	www.alfanar.org.uk
Andrews Charitable Trust	UK	Formerly known as WIN, this is one of the oldest grant-makers with a VP model, tracing its roots back to the work of its founder in the 1950s with the post-war development of Oxfam and other leading development agencies.	www.andrewscharitabletrust.org.uk/index.htm
Breakthrough	UK	A collaboration between CAN (a social entrepreneur support network) and Permira, the European private equity fund.	www.can-online.org.uk
Bridges Community Ventures	UK	A for-profit venture capital fund that invests in 'under-invested' locations in the UK, defined by socio-economic indicators. It seeks financial returns for its investors and measurable social impact through sustainable employment.	www.bridgesventures.com
Children's Investment Fund Foundation	UK	The foundation is linked to a hedge fund, TCI. A structural arrangement provides a flow of funding from the hedge fund's profits (management fees and assets) into the foundation. A strategic funder, the foundation is increasingly hands-on.	www.ciff.org
Futurebuilders England	UK	A government-backed fund offering support and investment to third sector organisations to deliver public services.	www.futurebuilders-england.org.uk
Impetus Trust	UK	A relatively 'pure' VP model with its origins in founders from venture capital and consulting.	www.impetus.org.uk
Network for Social Change	UK	A private, philanthropy network of around 100 individuals, registered as a grant making charitable trust.	www.thenetworkforsocialchange.org.uk
Pilotlight	UK	Provides non-financial advice to promising small charities from a pool of senior, skilled business professionals.	www.pilotlight.org.uk
Sutton Trust	UK	Founded by a business entrepreneur, the trust has a strong focus on access to education.	www.suttontrust.com
The Rayne Foundation	UK	A relatively traditional grant-maker developing high-engagement strands to its work.	www.raynefoundation.org.uk
UnLtd	UK	UnLtd, the Foundation for Social Entrepreneurs, supports all stages of social entrepreneurship through small awards to sustained consultancy advice for a portfolio of SPOs (UnLtd Ventures).	www.unltd.org.uk
Venturesome	UK	Part of Charities Aid Foundation (CAF), provides risk funding and financial advice to small and medium-sized charities. Using techniques such as underwriting, unsecured loans and equity-like instruments it aims to 'recycle' its funds four to five times.	www.venturesome.org.uk
New Profit Inc	USA	Founded by a social entrepreneur in partnership with a global strategy consulting company. Relatively 'pure' VP model using the Balanced Scorecard® method for performance measurement.	www.newprofit.com

6

KEY FINDINGS

"Their help can sometimes be felt as the hot breath of a financier"

A social entrepreneur supported by a VP fund

6.1 VENTURE PHILANTHROPY FUNDS: ORGANISATION, FINANCE AND INVESTMENT PREFERENCES

Venture philanthropy funds are a relatively new phenomenon. It is accepted, however, that several 'traditional' funders (in particular, private grant-making foundations) have demonstrated VP-like attributes for decades. Removing from our sample long-established organisations whose interest in VP has only developed in recent years and those whose practice of VP is very marginal to their core activities, 94% of the VP funds surveyed have existed for 10 years or less: 68% were established within the last five years. The 2002 survey of US-based VP organisations (Venture Philanthropy Partners, 2002) revealed that 63% of the 42 profiled were less than three years old.

A notable outlier is Andrews Charitable Trust in the UK (formerly WIN), which traces its engaged grant-making activity back more than 40 years, to its founder's early involvement with Oxfam, Action Aid, Help the Aged and a string of other start-ups.

The funds are relatively small, as measured by annual expenditure, with 80.6% spending €5 million or less. A quarter (25.8%) have very modest annual expenditures – in the band €500,000 – €100,000 – not surprising for what is still a young movement (**Figure 1**).

The kind of financial instrument deployed by VP funds is illustrated in **Figure 2**, which shows that the vast majority (79.4%) use non-returnable grants, but a surprising number are willing and able to deploy debt or equity instruments depending on the nature and capital structure of the enterprise being supported. Loans (at or below market rates) are used by 64.7% of respondents. Equity and equity-like instruments, such as mezzanine funding, are used by 70.6% of funds, supporting the proposition that European VP practice is relatively 'adventurous' in moving beyond grant-making (John, 2006). This illustrates the way in which venture philanthropy is relatively blind to the boundaries between grant-making and social investment, as noted in our first working paper. While social investment is in its infancy is many European countries (other than in the UK), the VP funders using debt and equity instruments were located in central/eastern Europe, Germany, Italy, Netherlands, France, Ireland and the UK.

The Morino Institute surveys from 2002 (Venture Philanthropy Partners, 2002) assume that most, if not all, of its surveyed VP funds use grants rather than loans or other forms of finance.

Unsurprisingly, VP funds offer support across a range of popular social sectors (**Figure 3**), although it is interesting that nearly 53% claim to fund 'social entrepreneurship', which is not a sector as such, but indicates the kind of individual VP funds look to back. Social entrepreneurs are defined by the Skoll Centre as "society's change agents; pioneers of innovations that benefit society".

Analogous to their venture capital

Figure 1: Total annual expenditure in supporting non-profits with a venture philanthropy fund

Percentage respondents

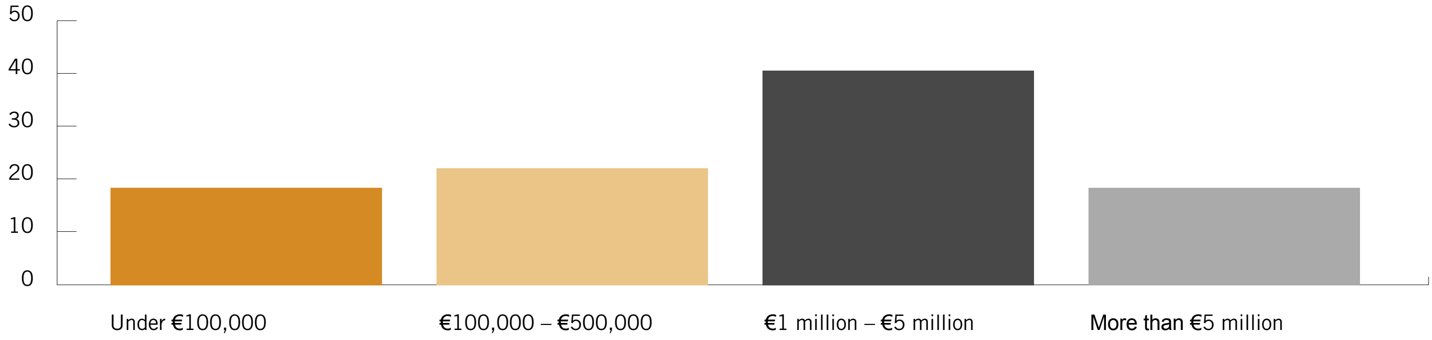
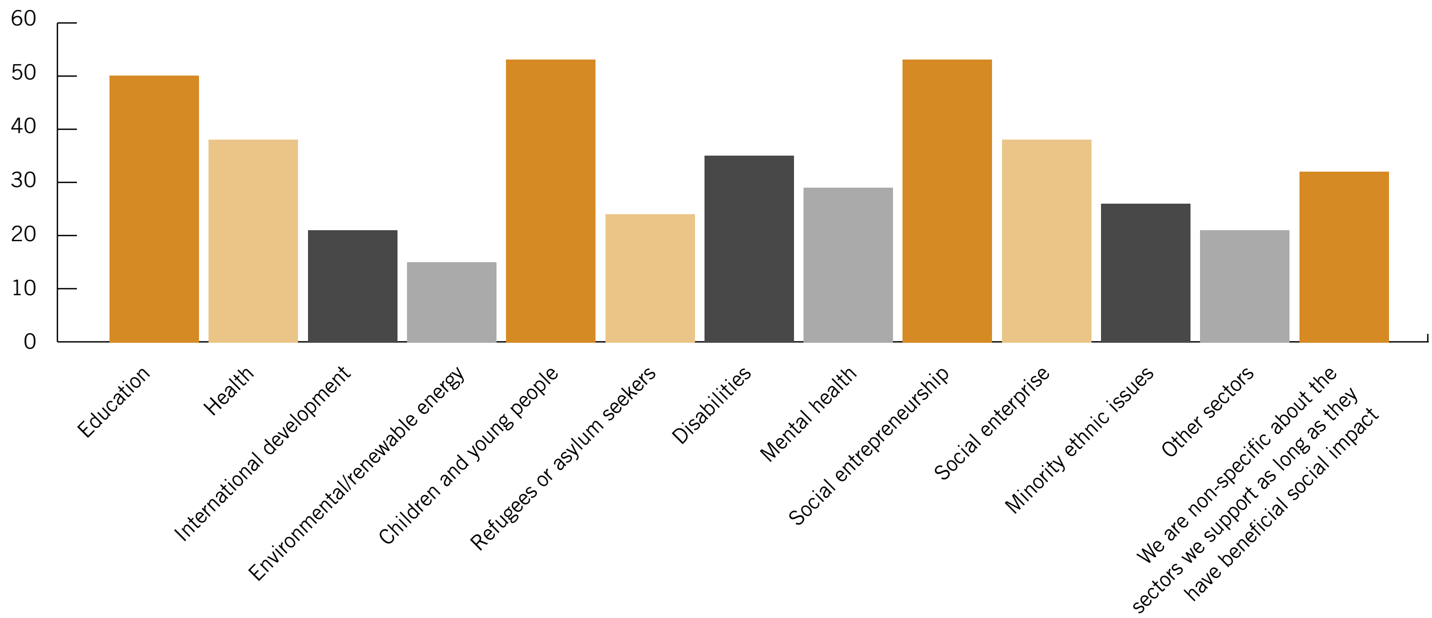


Figure 2: The kinds of financial instrument deployed by venture philanthropy funds

Figure 3: Sectors supported by venture philanthropy funds

Percentage respondents



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"Perhaps the biggest problem now is working with so many external consultants and making sure they give me what I need and not simply what they are good at giving. Managing multiple consultants simultaneously is a challenge: this is a situation where I am learning that less may be better. Fewer consultants with longer engagement might be better."

A social entrepreneur supported by a VP fund

counterparts, VP funds prefer to support small organisations undergoing rapid growth (supported by 91% of respondents) and early stage start-up (63.6%). Five funds (15.2%) also support the merger of social purpose organisations (Figure 4). While still largely the domain of larger non-profits, there is increasing merger activity in small and medium organisations (Charity Commission, 2003), for which VP organisations could provide finance and expertise.

6.2 VENTURE PHILANTHROPY FUNDS: NON-FINANCIAL SERVICES

The litmus test for VP funds, as what primarily distinguishes them from most traditional and less engaged funders, such as grant-making foundations, statutory bodies and corporate donors, is their desire and ability to deliver non-financial services in addition to finance. This is argued to be the key added value of the high-engagement model. The survey asked VP funds which non-financial services they offered, and the channels through which these were delivered (see Table 2 and Figures 5 and 6).

Most VP funds a offer wide range of services through a variety of delivery channels. Strategy consulting, financial management/accounting, and fundraising strategy are popular offerings, all key capacity building needs of small but growing organisations. Facilitating access to a VP fund's networks rates as the fourth most popular service offering – introductions to, for example, other potential funders, collaborating non-profits and peer communities.

The second most popular service, offered by 85% of VP funds is 'strengthening board governance', with 93% of funds delivering this in-house. This is worthy of note, and strengthens the view that VP funders seek a 'whole organisation' perspective rather than focusing on discrete programme delivery aspects of the non-profits they support. Since many venture philanthropists may have more experience of for-profit boards, it is a challenge for researchers to further examine the effectiveness of this example of non-financial support.

The survey reveals that VP funds all actively deliver aspects of their support through their own staff or board members, but given the diversity

TABLE 2: VP FUND SURVEY OF NON-FINANCIAL SERVICES AND DELIVERY MECHANISMS

NON-FINANCIAL SERVICE	NOTE
Strategy consulting	Including business planning
Marketing & communications	
Information technology	
Fundraising strategy	
Financial management & accounting	
Legal advice	
Human resource management	Including recruitment of staff or trustees; training; appraisal; mentoring
Governance	Strengthening board governance
Management of change	
Special advice	Eg mergers or franchising
Access to networks	Including execution of fundraising strategy (eg foundations, businesses, private equity community or philanthropists)
Estate management	Advice or assistance with building or office relocation
Other services	Unspecified

DELIVERY MECHANISM	
In-house	Through the VP fund's own staff or trustees
Partnerships	Pro-bono partnerships with professional service firms, eg strategy consultants, legal practices
Associates	Retained, unpaid volunteer advisors
Consultants	External, paid consultants

Figure 4: Stage of a non-profit organisation's life cycle supported (multiple answers possible)
Percentage respondents

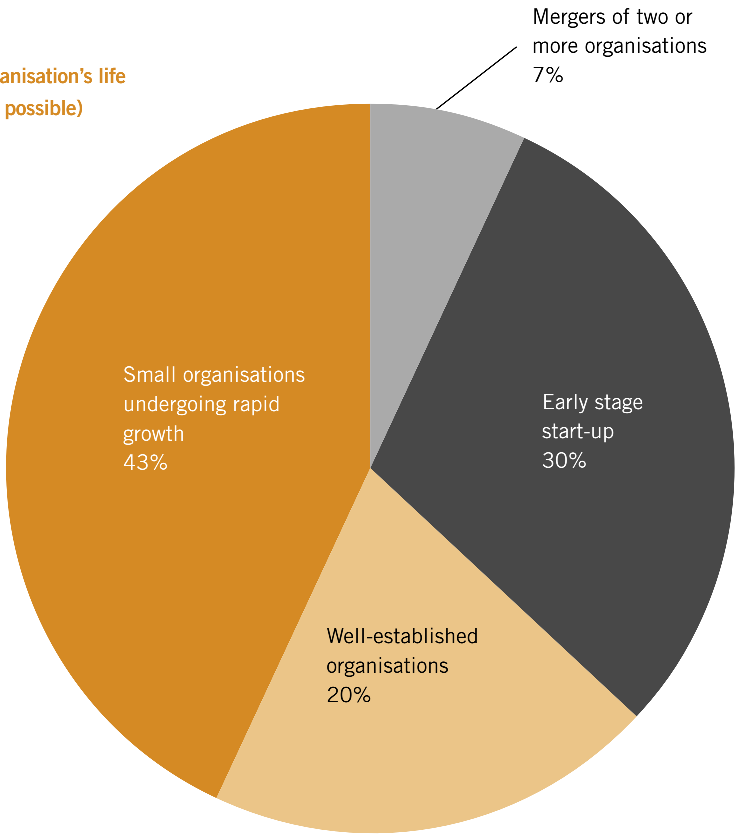


Figure 5: Non-financial services offered by venture philanthropy funds
Percentage venture philanthropy funds offering a service

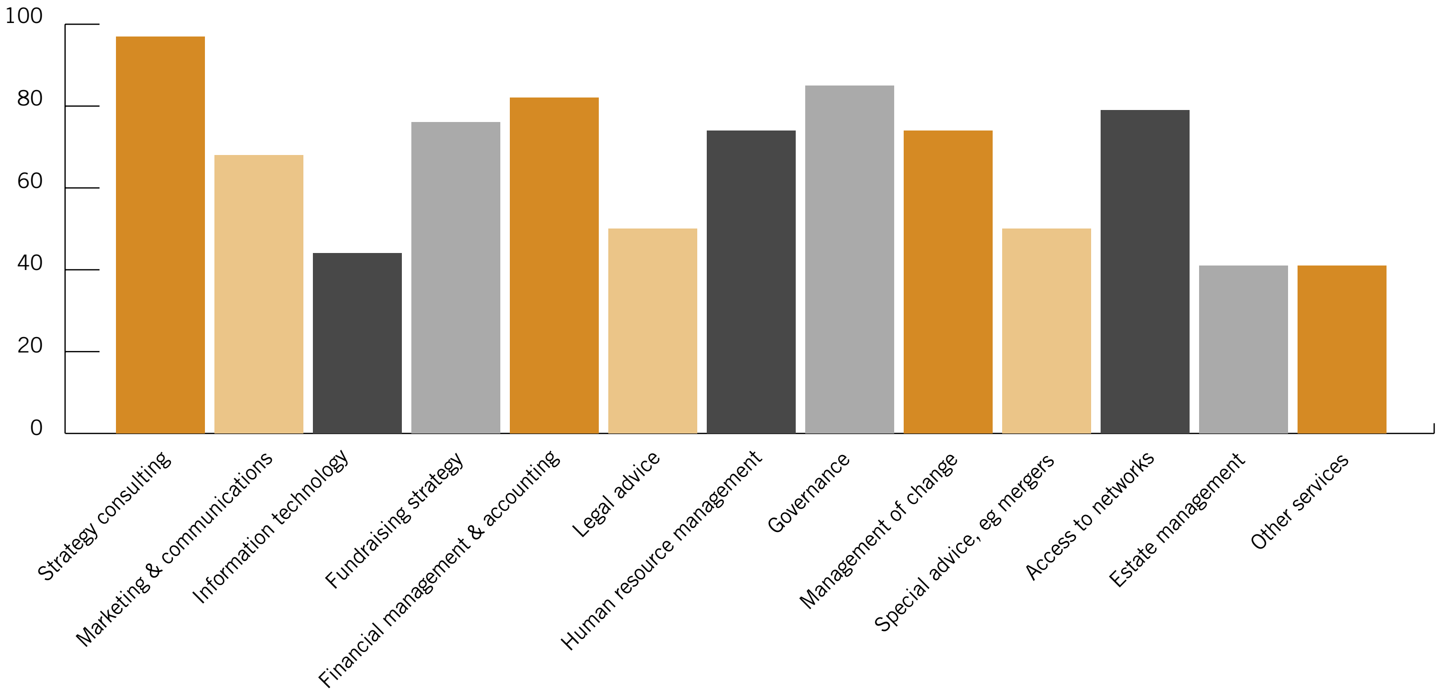
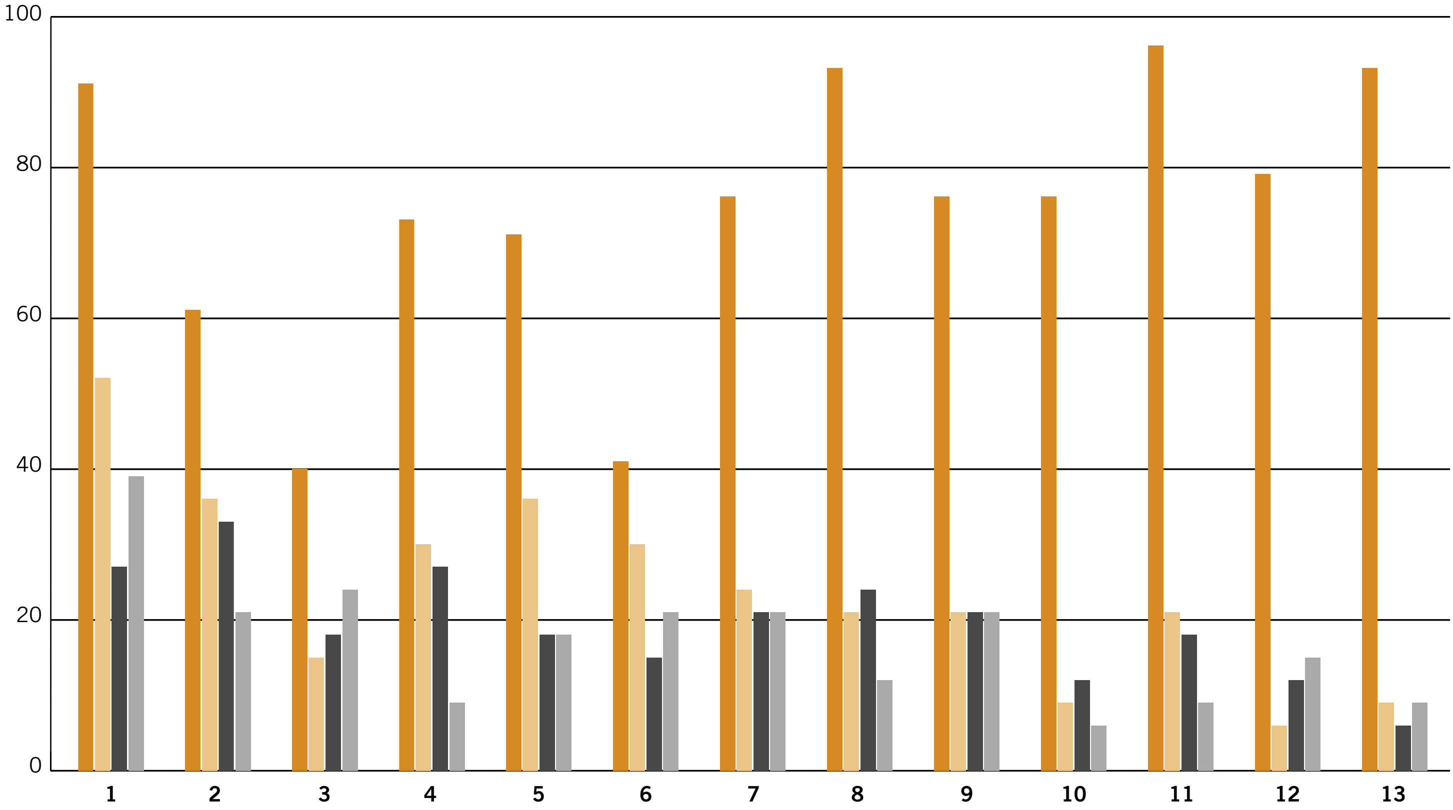


Figure 6: Kinds of non-financial services provided by VP funds and delivery mechanism
Percentage respondents



	1 Strategy consulting	2 Marketing & communications	3 Information technology	4 Fundraising strategy	5 Financial management & accounting	6 Legal advice	7 Human resource management
In-house	91%	61%	40%	73%	71%	41%	76%
Partnerships	52%	36%	15%	30%	36%	30%	24%
Associates	27%	33%	18%	27%	18%	15%	21%
Consultants	39%	21%	24%	9%	18%	21%	21%

	8 Governance	9 Management of change	10 Special advice, eg mergers	11 Access to networks	12 Estate management	13 Other services
In-house	93%	76%	76%	96%	79%	93%
Partnerships	21%	21%	9%	21%	6%	9%
Associates	24%	21%	12%	18%	12%	6%
Consultants	12%	21%	6%	9%	15%	9%

PROFILE

CANOPUS FOUNDATION

The Canopus Foundation was founded in 1997 by entrepreneur Peter Heller, to provide business development assistance for social entrepreneurs in developing countries working in the field of clean energy technologies. It is structured as a family foundation and, under German law, must operate in perpetuity. The foundation's asset investment strategy is aligned with its grant-making, as the asset corpus is also used to invest in environmental and social projects.

Canopus describes itself as a venture philanthropy (VP) organisation which does not expect a return on financial investment. The Canopus VP model involves high-engagement philanthropy and a focused approach, investing in organisations that operate only the field of clean energy technologies. As a family foundation, it distributes funds from the family to non-profit organizations within its focused niche.

Currently, all of the non-profit organisations supported by Canopus are international projects outside of Germany. The entrepreneurs are all based outside of Europe, in Bangladesh, India, Tanzania, Brazil and Senegal. Potential deals are identified through the Canopus network. Canopus relies on third party organisations to help it identify potential investments – Ashoka Deutschland, Acumen and the Schwab Foundation have been key sources of deal flow. Its current portfolio includes small organisations undergoing rapid growth. Canopus does not have a highly formalised selection process, but uses what Heller describes as an "intuitive process". A project manager with expertise in the area of technology and/or region will conduct a field trip and produce a written report. Afterwards, members of the board and key people within Canopus will meet to discuss the project and reach a consensus.

Canopus provides non-financial services in addition to its grant giving, being committed to an active partnership with their investments.

In-house project managers, several of whom are unpaid volunteers, do site visits, field trips, and provide due diligence reports. In addition to its in-house resources, Canopus has built a network of on-site individuals in cities and local governments who are willing and in position to act as consultants in South America and Asia.

Specific services are also provided through strategic partners, eg Jones Day and Ernst & Young. Pro bono services have included business plan evaluation, accounting and writing year-end balance sheets for the portfolio organisations. After Canopus launched a subsidiary to finance clean energy in developing countries, a staff member at Jones Day in Frankfurt provided pro bono services to the subsidiary for four years. Jones Day has also provided pro bono services directly to social entrepreneurs, such as one in Brazil who needed legal guidance to move his project forward to the next stage. Usually, these are one-off services, but in principle this could continue if both sides are happy with the arrangement.

Fundraising support is also provided to the entrepreneurs in as much they can use Canopus as a reference during their fundraising, including active lobbying by Canopus staff when an entrepreneur is presenting a business plan to a potential investor.

Advice on the management of change is also provided. In several cases entrepreneurs have had to radically innovate their businesses in order to survive, as illustrated by the case of SELCO. Based in Bangalore, SELCO is a provider of solar home systems and installation services. After SELCO had already installed 10,000 systems and was operating at a profit, an election took place in India where one of the campaign strategies was to give away solar panels free as an election present. Overnight, SELCO's market virtually collapsed, which required the entrepreneur and Canopus to work together to rethink their business strategy. SELCO moved to another region, pursued new business sectors and looked into other possible businesses, such as micro-hydro systems. Six months after the government initiative, which provided only the panels but no service, more than 90% of the panels stopped working and this politically-motivated initiative collapsed. At this point, SELCO benefited, with its good reputation and position to provide services to the people whose panels had stopped working. Tactical advice from Canopus helped SELCO seize a market opportunity.

Global market analysis has proved to be an invaluable service to several of the Canopus entrepreneurs. Heller's view is that Canopus is a useful partner in helping the entrepreneur understand clean energy markets, supply and demand, and get margins at the lowest price. In-depth market analysis has been conducted in Germany, which takes time, is labour intensive for the foundation and requires financial resources, but has also proved to be invaluable. In Brazil, one of the programme managers at Canopus screened the market for solar systems and produced a market report, identifying suppliers and the economic environment. Through this work, Canopus discovered that a Brazilian entrepreneur was paying more than the market price, and helped to put him in a better position to negotiate the cost for supply, which was then reduced by 30%. This advice to the entrepreneur was more valuable than the grant from Canopus, recognising that it is difficult for a social entrepreneur to have sufficient overview of the international market.

Price inflation is a problem in the developing world, where entrepreneurs might be paying 100% more than a fair price to a foreign supplier. International companies are still trying to sell at a high margin, although there are some suppliers that do have a philanthropic edge and may be willing to offer a reduced price. For example, BP Solar was willing to donate solar panels that were one to two years old to projects with high social impact. Canopus has played a role in facilitating such transactions.

Canopus staff are in regular contact with their portfolio entrepreneurs by email and phone. Although the contact is regular, it is not formal and Canopus does not expect written reports from its entrepreneurs. Its view is that the entrepreneurs already have enough to focus on in their day-to-day work and do not have the time to write such reports, so it is best to eliminate bureaucracy and keep each other informed. The partnership between Canopus and an entrepreneur is formalised with a Memorandum of Understanding, but the working partnership is informal.

To date, Canopus has had an exit route for only one of its portfolio organisations. In 2002 Grameen CyberNet was developing internet kiosk solar projects. It provided hardware and solar equipment on a feasible tactical basis and ran as a pilot project for 1.5 years. Grameen CyberNet was then approached by BP Solar, which liked the idea and wanted to develop it for further replication. After the pilot concluded, Canopus transitioned out of providing financial and non-financial support and Grameen CyberNet was free to move into a partnership with BP Solar. According to Heller, this was an ideal way to move forward: Canopus served as a partner for the first move into the market with the new technology and could then take a step back for the transition into the corporate world. In this scenario, there were no expectations for financial returns from BP to Canopus.

The strengths of Canopus are its efficiency and focused expertise on the energy sector. Heller highlighted that an important difference between Canopus and other foundations is the emphasis placed on understanding of both the specific market and the wider economic environment, to provide its entrepreneurs with key operational intelligence. Canopus is extremely focused in its niche and does not look at opportunities outside its area of focus. As a small, private foundation, Canopus chooses to remain active in its sector and be in a position to make informed decisions very quickly.

Based on an interview carried out by Kimberly Ochs for this research project

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Grünwälder Straße 10 - 14
79098 Freiburg
Germany

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"Our clients see us as a trusted partner and we actively cultivate an open two-way relationship (rather than a merely mechanical banking relationship)."
A venture philanthropy funder

of skills required and the relatively small staff numbers found in VP funds, it is not surprising that other channels for delivery are sought. Partnerships with professional service firms that offer free services to the VP fund's investees are an attractive, long-term solution. The Canopus Foundation (Germany) receives *pro bono* support from Jones Day and Ernst & Young in areas such as legal advice, business planning and accounting, both in its own operations and for the non-profits in the Canopus portfolio (see profile of Canopus Foundation, page 19). Impetus Trust (UK) uses a number of corporate partners, across a range of disciplines, to provide support direct to Impetus and to its portfolio charities. Partners include OC&C Strategy Consultants, Accenture and Directorbank. Directorbank is Europe's leading provider of directors for commercial private equity deals and uses its database of professionals to identify those with a philanthropic interest to provide skills for Impetus and its portfolio.

VP funds viewed, in ranking order, strategy and business planning, revenue generation and financial management as the three most important they provided. VP funds were asked to monetise the value of services they provided, however delivered, as a percentage of the direct financial support they provided. Half estimated the value of services as between 5% and 30%, while 14% of respondents valued their services between 81% and 100% of their financial inputs (**Figure 7**). The US study in 2002 (Venture Philanthropy Partners, 2002) revealed that 46% felt their non-monetary support was of greater value than the finance provided, while 28% felt it was equal to their grant value.

The UK-based VP fund, Impetus Trust, has published its first annual *Impact Report* (Impetus Trust, 2007), which lists the impact of its investment on each of its portfolio organisations. One metric listed for each organisation is the monetised value of professional services provided over the duration of support. Such reporting, across the industry, would greatly help market VP to potential investors and strategic partners, as it demonstrates the leverage possible in the VP model.

Six VP funds also cited the use of informal networks as a means of delivering services. An example of this was holding regular round table events at which a VP fund's portfolio organisations would present their work to a carefully selected audience, followed by table networking to problem solve or offer other tangible support. Other funds drew upon the skills of their financial investors, which also helped engage and motivate the individuals.

At least two VP funds use peer learning events, where social entrepreneurs from within the VP's portfolio learn from each other. This doesn't seem to be widely employed as a means of learning and peer support but it is the author's experience that such an approach is highly valued by social entrepreneurs who have in common a particular VP fund. The Blue Ridge Foundation's venture philanthropy fund in New York is relatively uncommon in placing specific emphasis on building knowledge sharing and partnership within its portfolio of supported non-profits.

6.3 VENTURE PHILANTHROPY FUNDS: LEVEL OF ENGAGEMENT

By its very nature, venture philanthropy requires a degree of partnership and involvement between funder and investee not normally found in social sector funding arrangements. This intimacy is revealed in the typical length of partnership, frequency of contact with management and, rather more controversially, the of taking board places.

Of VP funds surveyed, 65% typically support their portfolio organisations for two or three years, while 35% remain engaged for more than four years. It was also found that 70% of funds are in regular contact with senior managers of their portfolio organisations three or four times a month. When a traditional grant-maker funds a social purpose organisation it would highly unusual for the funder to take places on the organisation's board. In venture capital, by contrast, this would be normative, indicating ownership through equity and influence at strategic level. **Figure 8** indicates that 76% of VP funds may take a formal position on the board of an investee organisation. For 15% it was their policy always to take a board place, while 24% would never do so. In contrast, only 27% of VP organisations in the US (Venture Philanthropy Partners, 2002) would take a board place (17% routinely doing so and 10% on a case-by-case basis). Even when a VP fund did not take a board place, 56% would normally attend board meetings as observers or have sight of board papers. This rather more aggressive involvement by Europeans is perhaps surprising, but is understandable when considering that the VP organisations in this study are supporting organisations across the SPO spectrum (including social enterprises and businesses with social objectives, where the

Figure 7: The monetised value of non-financial services provided by venture philanthropy funds
Percentage respondents

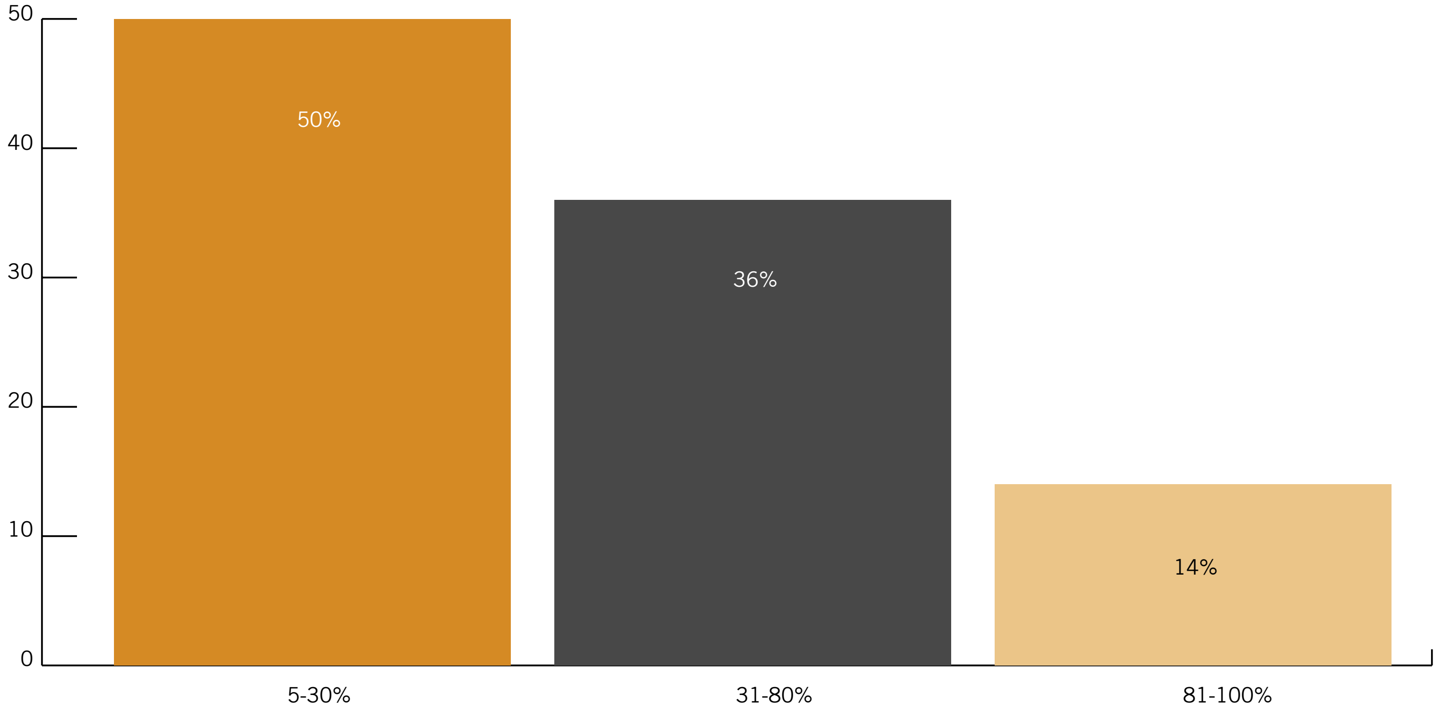


Figure 8: Venture philanthropy funds taking formal places on a non-profit board of directors
Percentage respondents

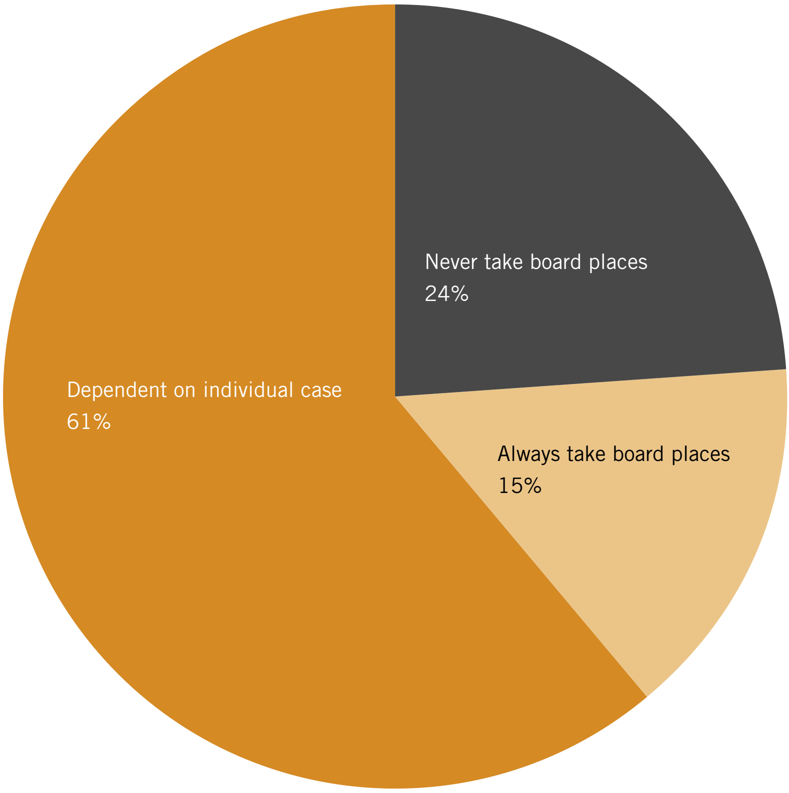


Figure 9a: Non-financial services received by SPOs

Percentage of SPOs receiving a non-financial service

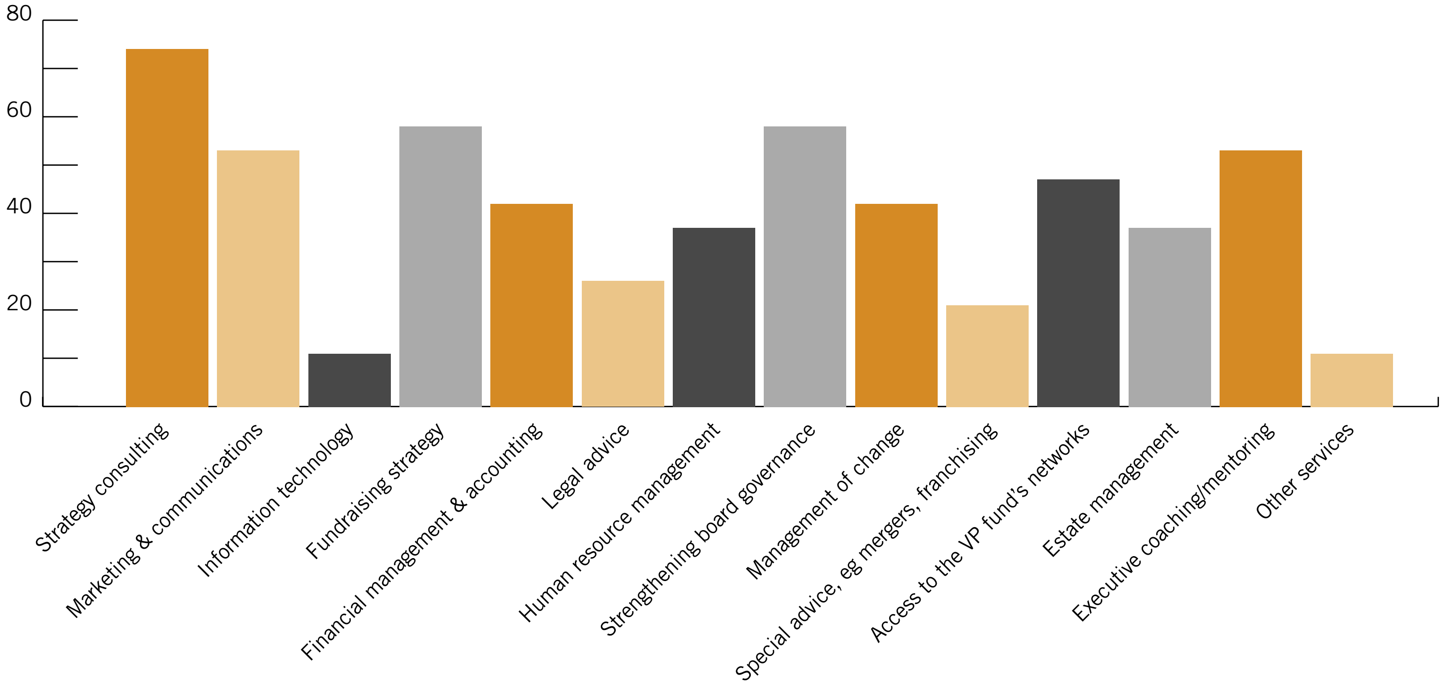
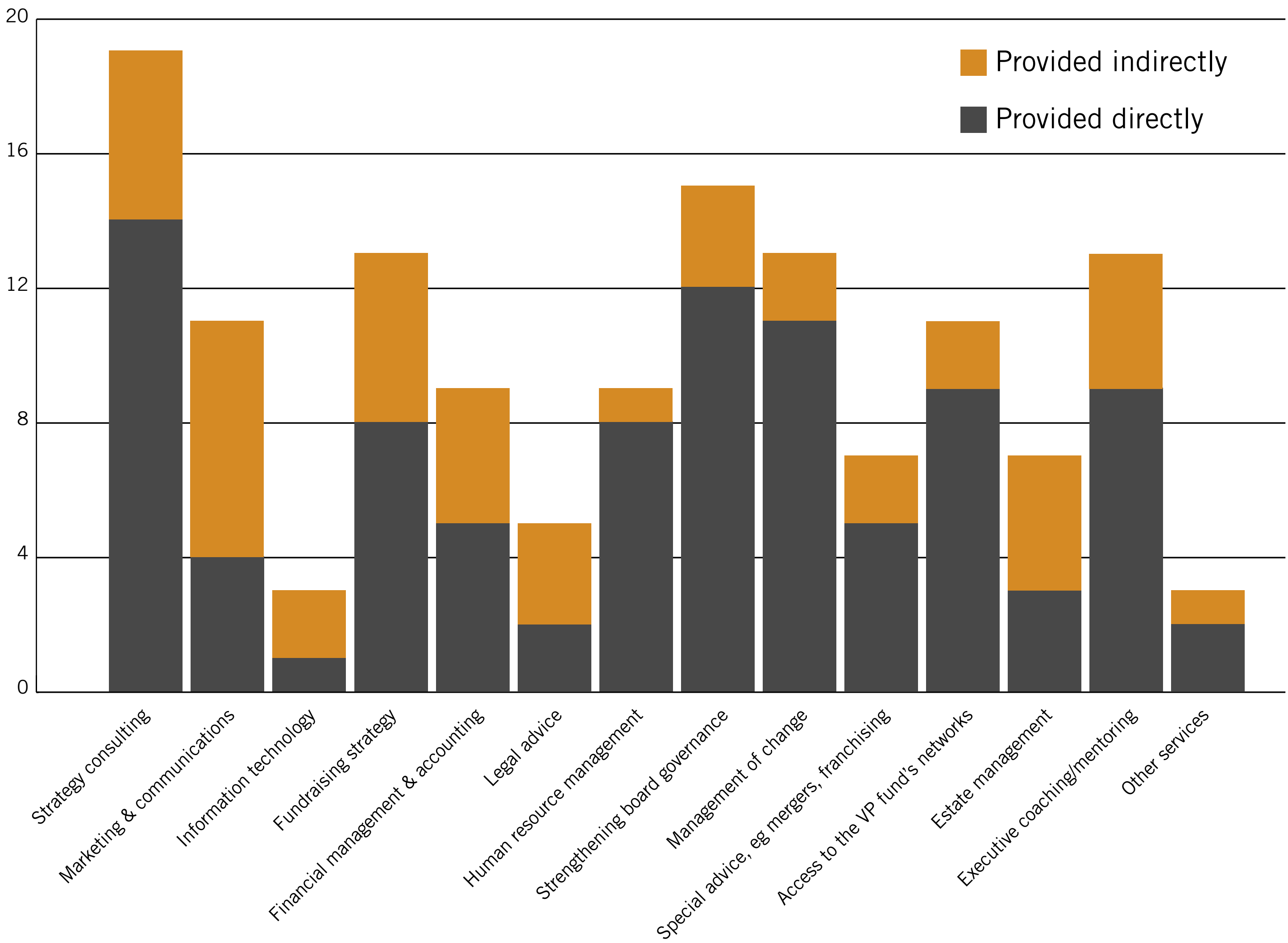


Figure 9b: Delivery channel for non-financial services received by SPOs

Number of respondents receiving a service



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business model is more open to such involvement). The American organisations reflect more traditional arrangements between grant-makers and non-profit organisations.

6.4 SOCIAL PURPOSE ORGANISATIONS: ORGANISATIONAL DATA

The 20 social entrepreneur leaders surveyed described their social purpose organisations as either a charity (or charitable company) (7 respondents), a non-profit (4), a social enterprise (6), or a for-profit business with social or environmental objectives (2). None were described as mergers. Their organisational stage of development was overwhelmingly “a small organisation undergoing rapid growth” (14 respondents); 4 were “early stage start-ups” and 2 “well-established organisations”.

6.5 SOCIAL PURPOSE ORGANISATIONS: NON-FINANCIAL SUPPORT

Figures 9a and 9b illustrates the kind of non-financial service received by social entrepreneurs, indicating whether the service is delivered directly by the VP fund (staff, associates or strategic partners) or indirectly through paid consultants. Services most often provided are strategy consulting (74%), strengthening of board governance (58%) and fundraising strategy (58%), each delivered predominantly by the VP’s own staff, associates and partners. Advice given in areas of information technology, marketing/communications, and legal and estate management were all provided more through external consultants than in-house by the VP fund directly.

Social entrepreneurs were asked to rank the three most valued services they received. Figure 10 weights each service by number of respondents and their ranking, showing that strategy consulting was by far the most valued service, followed by access to networks, then coaching. When asked what services their VP partner was unable to provide, the majority felt that all services requested could be provided. One social entrepreneur felt that accessing her VP’s networks was barely exploiting the potential of bringing business skills into her organisation; this was not so much a criticism of the VP as a recognition that skilled people from business were an asset to promoting her mission. When asked if they could reject or modify the services offered by their VP partners, 87.5% of social entrepreneurs felt their relationship was open enough to do so, although two social entrepreneurs felt it too difficult to turn down or openly discuss unwanted services.

6.6 SOCIAL PURPOSE ORGANISATIONS: LEVEL OF ENGAGEMENT

It was found that 47% of social entrepreneurs were in monthly contact with their VP project managers, while for 35% contact was more frequent – ranging from several times a month to several times a week. Most organisations (60%) invited the VP fund to take one or more formal places on the board. Even for those VP funds which did not join the board, 41.2% were permitted to attend board meetings as observers or have sight of board papers.

Despite results of the survey being anonymous, only half the social entrepreneurs wished to comment on the value they saw in their VP partner attending board meetings, either formally or as observers. Of the nine responses, seven felt the practice generally added value to the relationship and supported their mission. For one respondent, the relationship with the funder had broken down completely and dramatically, and it was felt that much of the trouble arose because the VP exerted undue influence on his board of trustees.

6.7 EFFECTIVENESS AND IMPACT

With the one exception of the case where the relationship between social entrepreneur and VP funder had irreconcilably broken down, all the social entrepreneurs surveyed felt that the relationship with their VP partner was “positive”, and had added value beyond funding, a gratifying result, given that this is the compelling argument for the VP model.

The majority of VP funds (85%) claim to measure the effectiveness of impact and delivery of the services they offer, although there is little evidence from the survey of how rigorous and systematic such measurement metrics are. One fund reported an intention to hire-in staff dedicated to measuring its own effectiveness, another was embarking on an independent social audit. One VP in the survey mentioned using an annual satisfaction survey to measure how well its investees thought the fund added value.

When asked about the overall impact of non-financial services, 26% of social entrepreneurs felt that financial support had been more valuable than the additional support they received. Over a half (53%) felt that non-financial services greatly added value to funding support (Figure 11).

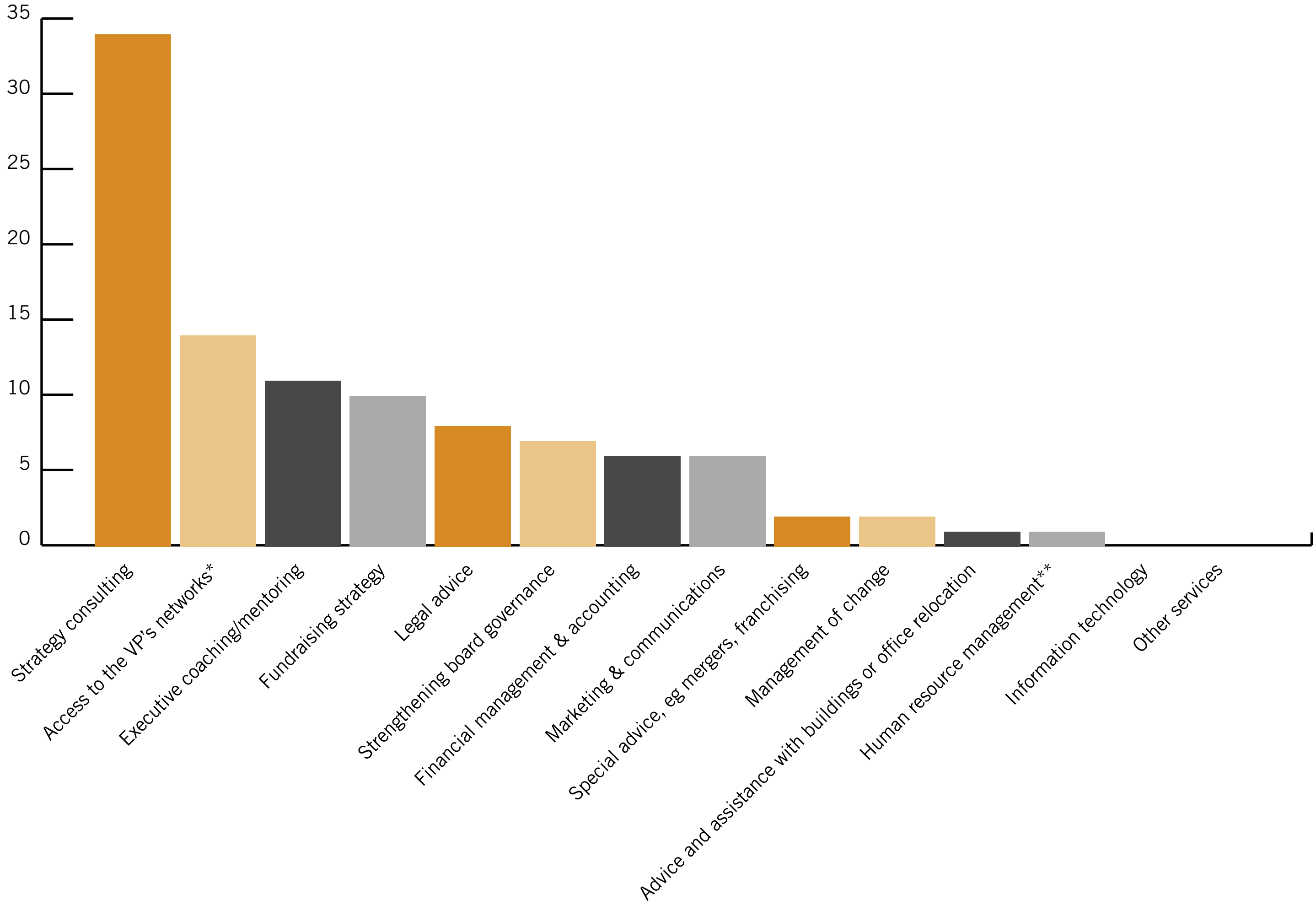
“It enables the VP to see how governance is performing and for our board to interface with the VP. It strengthens the relationship”
A social entrepreneur on the VP fund attending board meetings as an observer

“I am STRONGLY against any VP requirement of a board place or access to all board documents! This is too much like venture capitalism and is not about investment: it comes close to ownership which I believe undermines the autonomy of a charity”
A social entrepreneur supported by a VP fund

“We received a good deal of instruction on how our board should behave. We received instructions on how we should recruit a fundraiser, and finally, shortly before the partner withdrew, they demanded a restructure of the organisation, without a formal review, without any expertise in the work we were doing, or any apparent understanding of how the organisation was run.”
A social entrepreneur on the withdrawal of a VP partner

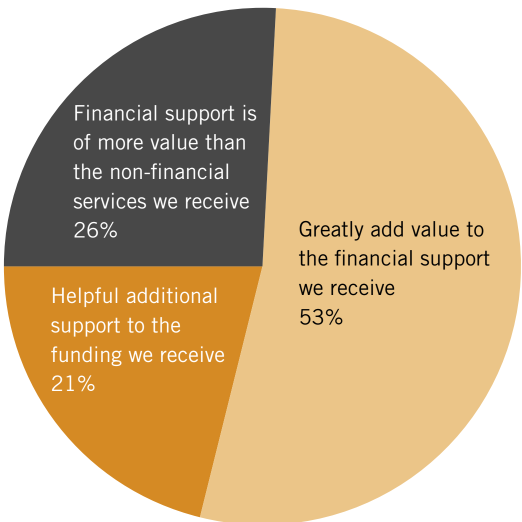
“Much of our ‘due diligence’ is relationship-building. Critical to success is a trusting relationship.”
A venture philanthropy funder

Figure 10: Value placed on non-financial services by social entrepreneurs
Value (notional values)



* Including execution of fundraising strategy, (e.g. foundations, businesses, private equity community, philanthropists)
** Including recruitment of staff or trustees, training appraisal and mentoring

Figure 11: Social entrepreneurs' view of the overall impact of non-financial services received from their VP partners
Percentage respondents



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CONCLUSIONS & FUTURE RESEARCH

The analysis of surveys and case work suggests that venture philanthropy funds in Europe are providing a wide range of non-financial, advisory services that are generally valued by the social entrepreneurs whose organisations these funds invest in. It is too early to tell whether supply and demand of services are well balanced in a market which is supply-driven. There are very few active VP funds in Europe, and in many countries just a single known fund exists. It is highly likely that demand for VP by social entrepreneurs and others wishing to bring their organisations through a period of rapid growth or development is greater than supply. VP funds work with only a handful of SPOs at any one time, often committed to individual organisations for several years, further constricting the supply of VP capital and services.

Venture philanthropy is a relatively new practice and most funds would claim to be still experimenting with their support packages and are still building the capacity to deliver high-quality consulting services. VP funds are small organisations (half having five or fewer staff) and to provide adequate consulting capacity need partnerships with firms or individuals who can deliver high-quality services. Models are beginning to emerge for such capacity development. Companies with the right skills to offer (eg strategy consulting, marketing, ICT, human resource management) are beginning to view VP funds as a natural partnership for their own social responsibility agenda. Private equity firms and associated professional service companies (eg interim management, accounting, law) are showing interest in VP as a vehicle for their own philanthropy, which can potentially bring significant new human resources into the social sector. The challenge is to adapt these business-orientated skills for the needs of social purpose organisations, ensuring relevancy as well as high quality.

There is little evidence that VP funds rigorously measure the quality, impact and delivery of services they provide. Several VP funds considered that successful performance by the organisations they support was sufficient evidence that their non-financial services were effective, which hardly provides an effective feedback mechanism for improvement. Even an annual, independent survey of a VP's investees would provide funders with valuable information on the suitability and quality of its non-financial offerings.

When a VP fund takes a place on the non-profit's board, that clearly provides a strategically placed channel for delivering value-added services to the organisation, but it also raises serious questions around conflict of interest or undue influence. The majority of VP funds (76%) would seek a place on the board, dependent on the particular investment. At least one VP fund that never sits on the SPO's board is reconsidering this policy in the light of five years' experience. Social entrepreneurs are rightly cautious of this practice – a few are vehemently opposed, while others have been won over by a positive experience. Of course, to have influence at board level does not mean having to formally join the board – some VPs prefer to take an observer role or just have sight of board papers, others work informally through relationship building with board members. The VP focus on helping build more robust and sustainable organisations (rather than projects) does require engagement at multiple levels – operations, senior management and governance. Whether VPs, which are likely to have more experience of for-profit governance structures, can adapt to the culture of non-profit governance and add significant value is uncertain. This study shows that a high proportion of social entrepreneurs embrace involvement at board level and have had positive experiences, although several are reluctant to comment. It is a controversial dimension to high-engagement practice, and warrants further detailed case study and development of industry guidelines which encourage good practice.

"We are still developing our VP model and have not yet formalised how we would deliver non-monetary services. I feel strongly that we need to have a much more structured approach to what service we provide, how we provide it, how we assess it and how we get feedback from the organisation. "

A venture philanthropy funder

8

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www.brfny.org

d.o.b foundation
www.dobfoundation.nl

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

Forum for Active Philanthropy
www.activephilanthropy.org

JPA Consulting
www.jpa-group.com

NewSchools Venture Fund
www.newschools.org

On Philanthropy
www.onphilanthropy.com

Origo Cross-Sector News
www.origoinc.com

Philanthropy UK
www.philanthropyuk.org

Private Equity Foundation (PEF)
www.privateequityfoundation.org

REDF
www.redf.org

The Robin Hood Foundation
www.robinhood.org

Social Venture Partners International
www.svpinternational.org

Tactical Philanthropy
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