



# diving deep for higher returns

Engaging philanthropists in  
growing social enterprises



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# Introduction

This primer is for philanthropists and social investors who want to learn more about the role of philanthropic capital in strengthening and growing social enterprises. It serves as a “how-to” guide to social enterprise philanthropy by providing an overview of this sector and information about how philanthropists can most effectively work within it to achieve high social impact.<sup>1</sup>

The primer responds to the following questions:

- What are some of the unique philanthropic challenges in the social enterprise sector?
- How can philanthropists engage in social enterprise development to increase the overall impact of their giving?
- What due diligence can ensure that the type of assistance reflects the philanthropists’ interests and appetite for risk?
- What financial instruments are available to deliver capital to social enterprises?
- How can intermediaries in this sector help philanthropists leverage the highest social return?
- What examples are available of philanthropists who have used their capital and expertise to help grow social enterprises?

The primer is divided into two parts. First, the primer introduces the social enterprise sector and the overall opportunities that exist for philanthropists to dive deeper to help develop and grow social enterprises. It includes suggestions on how an interested philanthropist can become informed of concrete opportunities that coincide with their interests and appetite for risk. The second half of the primer uses five case studies to demonstrate how philanthropists and intermediaries have contributed to the growth and impact of social enterprises. The case studies include social enterprises at different stages of development located in the United Kingdom, Central Europe, and South America. Each demonstrates the use of various types of philanthropic capital, and in some cases capacity-building assistance, to help social enterprises become sustainable.

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<sup>1</sup> The Primer is a sequel to All in the Same Boat: An Introduction to Engaged Philanthropy, a NESST publication on how philanthropists can approach their grant-making using the principles of venture capital, accompanying organizations and social enterprises with their intellectual, social and financial capital for the longer-term. For more information, please visit: <http://www.nesst.org/publications/>

The primer was developed by the Charities Aid Foundation (CAF) and NESsT. Both organizations work to develop and strengthen nonprofit organizations<sup>2</sup> and social enterprises so that they are well-positioned for high social impact. Both also work closely with the philanthropic community to provide strategic support – financial and non-financial – to make this happen. Through this work, it became apparent to both organizations that philanthropists could greatly benefit from a primer to help them decide how to allocate their donations and learn about the innovative ways their capital can meet the growing needs of social enterprises.

### Charities Aid Foundation (CAF, [www.cafonline.org/](http://www.cafonline.org/))

CAF is a UK-based charity with the mission of motivating society to give ever more effectively, helping to transform lives and communities around the world. It has been connecting donors to causes that are important to them and getting money to where it is needed for more than 80 years. CAF operates globally, with affiliates in the United States, Australia, Bulgaria, Brazil, India, Russian, South East Asia, and Southern Africa.

CAF has several affiliate entities that serve the financial needs of nonprofits. One of these affiliates, CAF Venturesome, works with philanthropists who provide donations and investments to re-invest in its loan funds, and two case studies in this primer highlight its work. CAF Venturesome was set up in 2002 to provide affordable financial support to charities, social enterprises and community groups when grants may not be available and access to traditional financial institutions is difficult. It offers three to five-year interest-bearing loans between<sup>3</sup> GBP 25,000 and GBP 250,000 to help nonprofits and social enterprises meet their financial needs, whether for bridge loans, working capital, or other ends. CAF Venturesome currently manages GBP 13 million. Since its inception, it has offered GBP 30 million in loans and has supported 360 charities and social enterprises. CAF Venturesome is a leader in new social investment market developments, including payments by results.

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<sup>2</sup> The primer will refer to nonprofit organizations and charities as interchangeable terms when referring to organizations that advance a collective or public good. These organizations are also referred to as “civil society organizations” (CSOs), “non-governmental organizations (NGOs),” “voluntary organizations,” “social organizations”, etc.

<sup>3</sup> The primer will refer to both Great Britain Pounds (GBP) and United States Dollars (USD) since it refers to philanthropic capital provided in both of these currencies.

**NESsT** ([www.nesst.org](http://www.nesst.org))

NESsT is an international non-profit organization founded in 1997 with the mission to develop and invest in sustainable social enterprises that solve critical social problems in emerging market economies. It combines the tools and strategies of business leadership with the mission and values of non-profit entrepreneurship.

NESsT supports and invests in social enterprises at the earliest stage of their development, and prepares them for consolidation and scaling. It provides a multi-year package of technical, financial, and managerial assistance to develop a strong pipeline of investment-ready social enterprises that will succeed in the long-term. The process can last from four to eight years and on average includes USD 100,000- USD 350,000 in financial and capacity support. Three of the social enterprise case studies in this primer are in the NESsT portfolio.

NESsT has invested over USD 8 million in 130 social enterprises, directly improving the lives of 280,000 marginalized persons, and has trained over 4,000 organizations and entrepreneurs in social enterprise development.

As a thought leader, NESsT has been at the forefront of social enterprise development, conducting extensive research and disseminating many publications on best practices and promoting policies that further increase its impact. The organization has organized numerous forums on this topic, and is the founder of Social Enterprise Day, an annual event that focuses on fostering an enabling environment for the sector.

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# Part I.

## Opportunities for Growing Social Enterprises through Philanthropy

### What is social enterprise and why is it important?

Social enterprises are for-profit or nonprofit organizations that have been created to solve a critical social problem in a financially sustainable way. Social enterprises differ from traditional nonprofit organizations because they strive to develop products and services that generate income while also benefiting low-income communities. Social enterprises reinvest their revenues back into the business in order to grow and increase their impact. Generally, social enterprises have a strong focus on measuring results and identifying avenues to increase self-sufficiency, without losing sight of their missions. Social enterprises differ from most for-profit enterprises by their commitment to creating positive change for low-income individuals and communities.

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The social enterprise sector is comprised of these enterprises and the organizations, social investors, and donors that support them. Social enterprise has become increasingly attractive to government as a way to provide employment and income to disenfranchised and excluded communities. Its entrepreneurial and market-based approach appeals to the private sector as well. And its focus on sustainability and potential to scale is slowly being recognized by foundations.

The sector is generally more mature (stronger enabling environment, more and stronger support organizations, stronger social enterprises) in developed countries, and the level of maturity in emerging economics varies tremendously. The information in this primer is intended to apply to philanthropy and social enterprises in developed and developing countries around the world; however, the applicability of the recommendations and case studies will vary depending on the policies and environment of each country.

### What do we mean by philanthropic capital?

Philanthropic capital uses funding from philanthropic sources to assist social enterprises increase their impact and revenue to support marginalized or vulnerable communities.

Philanthropic capital fills a void. It provides social enterprises with needed capital that goes beyond traditional charity (usually only grants), but that

commercial capital institutions do not provide. It addresses the riskier side of supporting social enterprises, and in some cases can reduce the overall costs of capital.

Philanthropic capital tends to be more patient and uses a range of financial tools that include grants to cover costs until break-even; grant-loan combinations; loans with no or very low interest rates and longer repayment periods; as well as quasi equity<sup>4</sup> schemes that reduce or cap the expected level of financial return and often do not include an ownership stake.

Philanthropic capital is often accompanied by an engaged long-term capacity building approach. This is particularly true in the earlier stages of social enterprise development, when leadership, management, governance and overall systems need to be developed. This capacity support also mitigates risks of the capital provided.

## What are the challenges and opportunities for philanthropists interested in operating in this field?

The explosive growth of social investing and impact investing during the past decade<sup>5</sup> has created huge expectations for financial and social returns, varying standards for investing (geography, size of firm, level of social benefit, level of perceived risk, etc.), and comparatively little measurement and information on results.

Recent research conducted by the Rockefeller Foundation, Monitor Group, Omidyar Network, and others<sup>6</sup> shows that it is very challenging to find a pipeline of social enterprises ready to offer a financial return. As a result, it has become increasingly important to focus on developing early stage social enterprises, providing them the needed capacity and financial support to grow their social impact, and when suitable, to become investment-ready.

Table 1 shows where philanthropic capital falls within the spectrum of financing needed by social enterprises. It is in this middle ground between

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4 Quasi or soft equity is a special form of financing for social enterprises that fills the gap between a grant, or loan and equity. It “has equity-like qualities without conferring ownership rights to the investor”. Forms of quasi-equity include underwriting, royalty share finance, repayment of loans based on results and repayable or recoverable grants. It should be noted that some current definitions of quasi-equity also include subordinated, unsecured debt.

5 Social investing or/and impact investing consist of investments in companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.

6 See Resource Section for references.

pure charity and pure impact investing where philanthropic capital can have its greatest value. It is here where it can contribute to start, incubate, consolidate, and grow social enterprises. The amount of support often needed at this early stage ranges from USD 50,000-300,000.

Even if the intention is not to become investment ready, philanthropic capital is needed for growth and impact. As with other types of businesses, social enterprises must fulfill short and long-term capital and business development requirements in order to expand, but they are often shut out from debt and multi-year donations needed for growth.

Despite these challenges, many social enterprises and the organizations that support them are playing a vital role to change conditions for marginalized communities. They are often the stepping stone for residents in these communities to access employment, education, health, and the basic services needed to improve the quality of their lives.

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**Table 1. The Middle of the Social Enterprise Sector**

Field	Philanthropy	Social/Impact Investing		
<b>Type of Donors or Investors</b>	Philanthropists	Social Investors/Venture Philanthropists	Early Stage Impact Investors (fund structures)	Impact Investors (fund structures)
<b>Social Enterprise Stage</b>	Charities/nonprofits	Nonprofits with earned income activities, early stage social enterprises, first stage scaling social enterprises.	Investment-ready social enterprises.	More mature social enterprises with capacity for exits.
<b>Type of Financial Support</b>	Donation but often with program focus as opposed to social enterprise.	Philanthropic capital/patient capital -Includes grants, grant-loans, soft loans, quasi equity.	Debt and/or equity Usually convertible loans.	Debt and/or equity
<b>Levels</b>	10K- 400K usually 1-3 years duration	50k-300K	300k-500K	500k+
<b>Capacity Support</b>	Often focused on providing training.	Often includes ongoing capacity support-building skills, structures, and systems.	Includes management assistance.	Includes management assistance.
<b>Expected Returns</b>	Social return	Social return first and more flexible expectation of financial return. Doesn't need to happen in case of grants.	Social return or financial return first. Both are expected.	Social return or financial return first. More expectation of financial.



## What to Ask and Where to Get Additional Information

The growth of the social and impact investing field, combined with limited standardization of terms and measurement of results, can make it difficult for an interested philanthropist to obtain the right information necessary for informed decisions. A huge range of options and opportunities exist, and the information below is intended to assist a philanthropist become an informed investor in the social enterprise sector.

### Questions for Yourself

Philanthropists interested in using philanthropic capital should consider a number of questions prior to committing funds. First off, are you primarily interested in financial returns or social impact? This will help you to decide how to approach the use of your philanthropy.

To which economic sectors or causes would you like to direct your resources, and in which locations (local, national, or international)? Within an industry, do you want to focus on early-stage enterprises or more established firms, and what results would you like to see – job creation, training, environmental protection, youth services, sustainable income for low income producers, etc.?

Do you have the interest and time to be an “engaged philanthropist,” combining your philanthropic capital with capacity building, mentoring, or management assistance to help social enterprises meet their goals?

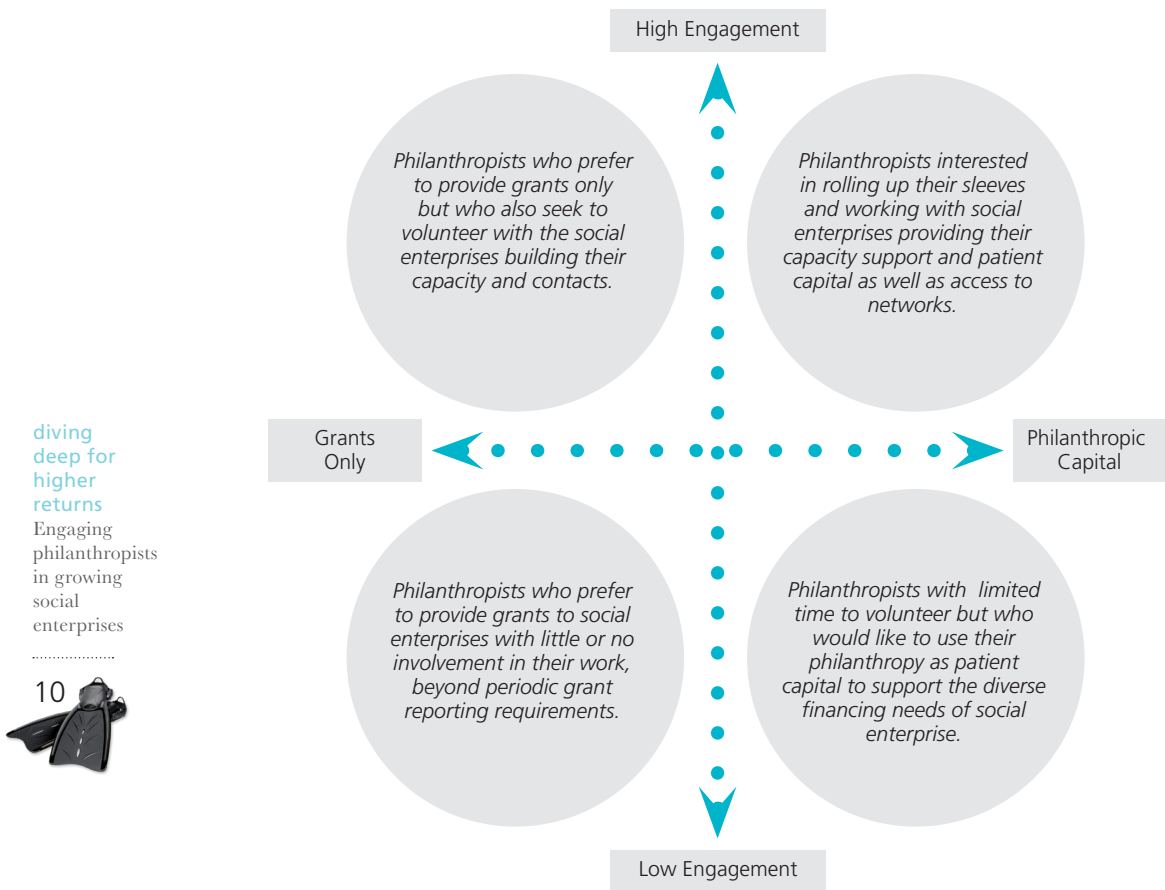
What are the parameters for your potential philanthropic capital: how much money, for how long a period, and in what form (donation, loan, equity, or a combination, etc.). Do you want a financial return, or just the principal without interest, or will you consider a donation? How much risk are you interested in accepting? For philanthropists with an appetite for some risk and an interest in early-stage businesses, there is an enormous need for financial and capacity-building support in social enterprises.

Your answers to these questions will shape the structure of your support to fit your interests and situation. Many philanthropists work closely with social enterprise intermediaries which can greatly facilitate the process of finding the most appropriate investment opportunity. Intermediaries are usually nonprofit organizations with professional staff in the countries where they operate. They often provide capacity-building support, conduct due diligence on investment requirements, and provide financial assistance to facilitate the sustainability of the enterprises.

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Diagram 1. The Varying Levels of Philanthropic Engagement



## Questions to Ask Social Enterprise Intermediaries

Although social enterprise intermediaries can facilitate the process, it is still advisable for philanthropists to ask critical questions to ensure, as best as possible, that your time and resources will be wisely invested. You should know what types of financial support and services the intermediary provides, and for what stage enterprises, and that it is effective (or provides compelling information that it will be effective).

How does the organization measure its performance and / or the performance of the social enterprises it supports? Measuring social impact is challenging, but some standards have been developed. Please see the Resource Section for information about two organizations that have developed reporting standards: the Social Reporting Standard, and the Impact Reporting & Investment Standards (IRIS).

## Types of Organizations Supporting Social Enterprises

The social enterprise field is large and active with many types of investment funds; for-profit and nonprofit intermediaries and philanthropy advisors; national and international associations; and foundations that assist the growth of social enterprises to solve social problems. A brief description of these categories follows, and the Resource Section of the primer contains specific information about organizations within each category.

### Incubators and Accelerators

Social enterprise incubators and accelerators are intermediaries that help social entrepreneurs to develop their enterprises. These intermediaries provide professional assistance in all aspects of business development, mentoring, connections to other business services, and sometimes financing. They can be shared physical space that the enterprises occupy, or they can be “virtual” programs with services provided individually or at a common location. The programs can last from several months to several years, although accelerator programs are normally shorter and more intensive than incubator programs.

### Social Enterprise Funds

Another type of intermediary is the social enterprise fund that tailors financial tools specifically for individual social enterprises, using grants, loans, or soft equity. Intermediaries and funds provide an essential link between the ground-level social enterprise and the community of capital providers.

### Philanthropy Advisors

Philanthropic advisory services are often part of banking, investment, and wealth management companies. They are generally stronger in legal, financial, and tax aspects of charitable giving, such as establishing donor-advised funds or family foundations, than in advising on social enterprises and social investment organizations (particularly at the international level).

### Associations and Networks

There are a number of associations and networks of intermediaries, social entrepreneurs, researchers, and social investors. In addition to a wealth of information on their websites, some offer conferences and webinars for participants to share information about the industry.

### Foundations Focused on Social Enterprise

During the past two decades, many foundations established by successful entrepreneurs have focused their resources on supporting entrepreneurship and social enterprise development across the globe. Additionally, long-standing foundations have created programs specifically to develop the social enterprise field to solve problems such as poverty, unemployment, lack of appropriate technology, and environmental degradation.

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## CAF Venturesome

**CAF Venturesome** manages four funds. Philanthropists donate to the funds and CAF Venturesome then allocates funding to non-profits and social enterprises. In most cases the social investment is recycled back to the funds, but in some cases, the investor receives a financial return. The funds are:

- The **Community Land Trust Fund** provides needed funding to Community Land Trusts that offer affordable housing in areas often underserved by other low cost housing providers. The financial capital is for both pre-development and construction phases, filling gaps not covered by commercial development financing.
- The **Innovation Fund** is set up to test new and innovative financial mechanisms, such as loans and quasi equity that are paid back by a fixed percentage of future revenues. Another mechanism is a social impact bond that provides upfront capital and is tied to expected results of a specific social initiative.
- The **Development Fund** supports charities and social enterprises that are in a critical development stage and might need rescuing, help transitioning to new a business model, or help adjusting to a period of high growth.
- The **Social Impact Fund** provides low risk capital, such as bridge loans for organizations that are waiting on funding from a donor and need to start activities, or working capital that will be paid back over a longer period of time.

Loans provided by CAF Venturesome range from low risk to high risk. Bridge and working capital loans are lower risk, and are never more than five years (usually less). However, higher risk loans are used for consolidating nonprofits or social enterprises that need to streamline processes, and for growing those that are ready for rapid expansion.

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## NESsT

**NESsT** created a unique methodology to support the development of high-impact social enterprises, from idea through scaling.

**Planning and incubation.** NESsT works with organizations and entrepreneurs to assess the feasibility of their social enterprise ideas. NESsT also provides tailored capacity support during launch and incubation. This support is combined with impact measuring to position social enterprises for long-term sustainability.

**Scaling.** NESsT consolidates social enterprise operations, preparing them for expansion and/or replication, with the goal of increasing social impact and developing policies that ensure systemic change.

**NESsT provides a diverse package of multi-year capital to invest in social enterprises at every stage of their development.**

**Venture Grants.** NESsT provides funding for organizations and entrepreneurs to complete a rigorous process to test the viability of their business idea; to implement their business plans for social enterprise; and to develop core systems to improve effectiveness and impact.

**Loans + Equity.** NESsT invests in social enterprises to help consolidate their operations, develop an appropriate strategy for significant growth, and to secure new capital infrastructure for expansion and/or replication of their operations. The organization will launch an investment facility in 2014 which will recycle the capital of philanthropists and social investors.

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## Part II.

# Different Uses of Philanthropic Capital

Philanthropic support is extremely important at each stage of social enterprise development. It helps social enterprises pay for startup or social costs until they break even. It is equally important to help consolidate operations, making sure that social enterprises have the support needed to streamline and improve systems, or to build them as they prepare for growth and scaling. Philanthropic capital can also recycle soft loans for working capital, bridge funding, or infrastructure. And it can even be used for scaling alongside other instruments. It can be critical for establishing and supporting intermediaries until they become sustainable. And it is key for developing a strong enabling environment.

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This part of the primer summarizes the different ways that philanthropic capital can be used to effectively start and grow high impact social enterprises. These uses are also reflected in case studies which are examples from the NESsT and CAF Venturesome portfolios. Each case demonstrates how philanthropic capital, via an intermediary, has provided crucial assistance to social enterprises. These social enterprises were at different stages of development and faced different challenges, and often received grants or loans tailored to their situations. They demonstrate how some very pioneering philanthropists have invested in the enterprises or the intermediaries to create positive social impact.

## Uses of Philanthropic Capital to Develop Social Enterprises

*Start-up and proof of concept.* The most innovative solutions to social problems start as ideas nurtured and developed over time. Philanthropic capital at the idea and proof of concept stage is critical and often difficult to obtain. Very few investors want to take that kind of risk, and yet this is where the most innovative social enterprise ideas emerge. It is a time – and resource – intensive process, but also a period in the lifecycle of a social enterprise which can determine its ultimate success. Grants are often preferable to loans, particularly since there is little cash flow. Grants can be structured to look like equity, and managed through engaged capacity support. The participation of an incubator or other type of intermediary can mitigate risks and ensure the right levels of support during this stage.

## The timing and nature of grants

It's important to consider the timing and nature of grants. Grants at the earlier stages are often better, for many of the reasons already stated. Grants should be tied to specific milestones, but with some flexibility to allow for unexpected market events.

Providing a grant when a social enterprise already has cash flow and could obtain a loan would not be prudent. Softer loan terms could be provided instead of displacing philanthropic funding that could be used for other purposes. Soft loans with longer repayment periods and lower or no interest rates can go a long way toward helping social enterprises cover day-to-day operations. The use of recoverable grants – grants that are paid back once certain milestones are met – or quasi-equity can help to ensure that social enterprises maintain a focus on social goals.

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## Startup and Incubation: Ingenimed and The Lemelson Foundation

Prolific US inventor, Jerome Lemelson, and his wife Dorothy, founded The Lemelson Foundation in the early 1990's with the belief that invention and invention-based enterprises have the power to improve people's lives. In developing countries, the Foundation leverages invention's ability to address problems in the poorest communities by supporting inventors and entrepreneurs whose businesses create products that address basic human needs.

**Early stage support provided by NESsT Peru with funds provided by The Lemelson Foundation and other philanthropists.**

### Capacity:

Grant for startup and incubation: **USD 48,000**

### Financial:

Grant for startup, prototype and social costs: **USD 8,000**

Loan for working capital: **USD 15,000**

Projected Equity for scaling: **USD 70,000**

**Total: USD 141,000**

NESsT leads a partnership implementing this work in Peru that has developed several high impact social enterprises, including Ingenimed. The story of Ingenimed, Peru's first nationally-certified bio-medical company, shows the impact that a small but strategic foundation can have in addressing basic health needs in the Andean regions of South America.

### **Ingenimed (<http://www.ingenimed.net/>)**

Neonatal jaundice is highly prevalent in the rural regions of Peru. It occurs in newborn babies when there are high levels of bilirubin in the blood that can become toxic and lead to other complications if left untreated or poorly treated. Because imported phototherapy equipment is expensive, many clinics in Peru opt for improvised, ineffective treatment. However, in a rural clinic in southern Peru, a newborn treated with locally designed and manufactured Neoled phototherapy will be home safely within 24 hours. In the coming years, this portable Neoled technology will be sold throughout southern Peru by Ingenimed, an invention-based social enterprise created in Cusco by a group of engineering students.



How did this innovative and cost-effective technology come to be? A young team of engineering students was selected to participate in The Lemelson Foundation/NESsT early stage incubation process to develop the idea. The students had no business or manufacturing experience, let alone financial resources, but did have a very good solution. NESsT supported the team from its initial idea for phototherapy, to a prototype, to market testing, to product improvement, to a business plan, to business creation, to incubation, and now, after three years, to a scaling process for *Neoled*.

During the three-year incubation process, Ingenimed participated in NESsT – led business planning workshops for inventor-entrepreneurs. The team received mentoring support as well as a wide range of expert advice and training in science and technology, manufacturing, legal procedures, human resources, governance, and leadership development – all of which have been essential to their social enterprise development process. After bio-medical certification was enacted, Ingenimed became certified to manufacture the technology.

Ingenimed received a venture planning grant that enabled the team to conduct market research and develop a prototype. At incubation it received both startup grant funding as well as soft loans. The grant support allowed the enterprise to equip the workshop and cover some operational costs. The soft loans for working capital were provided by Popular Safi, the entity that managed a loan fund established by NESsT with The Lemelson Foundation grant support. These loans positioned Ingenimed to become eligible for subsequent investments and commercial lending; without this support and without a credit history, it would have been perceived as too risky. The loan fund was created to meet the financial needs of social enterprises at this stage-ready to scale, yet still too risky for commercial banks.

This year Ingenimed will receive additional philanthropic capital to equip a new production facility, and the support will likely be raised by philanthropists interested to see the enterprise commercialize its technology for the first time.

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## The Lemelson Foundation (<http://www.lemelson.org/>)

Why is The Lemelson Foundation interested and willing to support the incubation process of invention-based enterprises such as Ingenimed? The simple answer is that its 20-year history has shown the Foundation that inventions like those by Ingenimed can have a potentially profound impact, but they require the kind of nurturing and support provided by the NESsT partnership to turn their ideas into products. The Foundation believes that scaling inventions that address needs of the poor – and building the invention and entrepreneurship ecosystem in developing countries – can take 10, 20, or even 30 years of development and sustained efforts.

The Lemelson Foundation believes it can tackle the early-stage social enterprise challenges more effectively, since large foundations and investors often cannot adapt the size of their investment to the needs of the early stage enterprise. The USD 71,000 investment provided to Ingenimed to date is much lower than the USD 500,000 minimum investment level for many impact investors.

The Foundation views mixed financial instruments as vital for early stage support to allow greater flexibility in the use of working capital. In the case of Ingenimed, the combination of grants, loans and equity, each for specific purposes and managed according to a well-thought process and with mentorship, has allowed it to grow. The Lemelson Foundation sees an evolution taking place in the sector, and it knows that a point of inflection, where a large number of donors and social investors use tailored financial instruments, has not yet been reached. The Foundation hopes that its tolerance for risk and willingness to explore new types of financial instruments will help illuminate the path forward for the sector.

## Uses of Philanthropic Capital to Develop Social Enterprises

*Covering social costs until breaking even.* Social enterprises incur social costs that regular businesses do not. Employment of people with disabilities or at risk youth requires additional training and supervision. Selling products made by small producers and artisans that are located in remote areas or do not have ready access to supplies, incurs additional costs. Philanthropic capital is essential to help offset these social costs until the social enterprise breaks even and begins to generate a profit that can pay for them.

*Helping to prepare social enterprises for commercial financing vehicles.* Social enterprises have great difficulties accessing commercial loans. Lenders can be reluctant to provide loans to nonprofits, and require collateral or guarantees that are difficult to obtain, and / or charge very high interest rates. Philanthropic capital can be recycled in the form of loans, allowing social enterprises to gain confidence and experience with credit, and develop a credit history which prepares them for the commercial market.

*Making other financing instruments more effective.* Social enterprises often have varying needs for capital. By providing mixed financial instruments, each designed to meet a different need, the capital itself becomes more effect. A social enterprise often requires grants for startup or social costs, loans for working capital or infrastructure, and equity for larger investments in order to scale. Philanthropic capital can temper the amount and/or costs of the loan or equity capital and provide social enterprises with more flexibility to address the social goals of the enterprise.

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## Timely Lending for Working Capital:

### MidiMusic and Jamie Justham

Access to capital, and the timing and terms of that access, can make or break any business or social enterprise regardless of its accomplishments or potential. Entrepreneur and philanthropist Jamie Justham saw that social enterprises needed loans for expansion, and through the CAF Venturesome Social Impact Fund, he is helping to meet this need.

#### Philanthropic Capital

**Financial:**  
Loan for working capital:  
**GBP 36,000**

**Total: GBP 36,000**

### MidiMusic (<http://themidimusiccompany.co.uk/>)

MidiMusic provides an excellent example of a small social enterprise that requires the type of loans offered by the Social Impact Fund. The fund is designed to help nonprofits and social enterprises that need working capital or a bridge loan to carry them through a short-term cash flow crunch. These cash flow problems are often created by delays in receiving promised revenue, sudden, unexpected changes in revenue or expenses, or by grants that are provided on an expense reimbursement basis and require significant upfront outlays of cash.

MidiMusic provides space and services to help children, adolescents, and young adults become inspired by music and the creative industries. It works with children and adolescents in struggling parts of London, offering music classes, after-school clubs, and counseling. Its target groups include the unemployed, children with learning disabilities or mental health issues, and foster children. The services are free or at an affordable cost, due in part to MidiMusic's partnerships with local governments that provide funding for the services via direct grants or fee-for-service arrangements. More than 50 percent of MidiMusic's revenue comes from local government funding.

In 2012, when some governments had to cut back services, MidiMusic was able to diversify funding and continue programs, but faced challenges in maintaining adequate cash reserves. It approached CAF Venturesome for assistance. After assessing the organization's finances, assets, and strong social impact, Venturesome determined that MidiMusic would be able to diversify and expand its fundraising and eventually repay the loan. The organization also owned a surplus asset

(with a higher value than the loan) that it was selling which could act as collateral.

Through the Social Impact Fund, the social enterprise borrowed GBP 36,000 for a three-year working capital loan. Interest rates are slightly higher than what a commercial bank would charge a business. MidiMusic has been growing and diversifying its fundraising base, and it is on target with its fundraising goals and loan payments. The loan has allowed MidiMusic to more comfortably pay staff and other expenses while diversifying its revenue model, and to continue services that benefit thousands of children annually.

### Jamie Justham

Four years ago Jamie Justham had money to donate and time to volunteer after selling most of a software company he had founded 20 years prior. He decided to set up a CAF Trust Fund, where he could benefit from the UK Gift Aid tax relief<sup>7</sup> while exploring how to best give back according to his interests and experiences. As he learned about philanthropy and social enterprises, he noted how difficult it was for nonprofits to obtain almost any type of financing – banks really were not interested, and yet the charities needed working capital. These insights and interests led him to place one-third of his CAF Trust money in the Social Impact Fund. The fund is earmarked for short-term loans (maximum six years). The repayments can be recycled into additional loans, but at the end of a designated period Jamie will be able to get back his principal as long as there continues to be zero defaults.

For Jamie Justham and Venturesome, this is a low-risk, high-impact, smart investment. The fund conducts due diligence on each social investment, a time-consuming task for an individual philanthropist. Jamie has completely delegated to the CAF management team the decisions about use of the funds, and he appreciates the frequent reporting on his fund's placement and its financial and social impact. Twenty-five years ago, he started with nothing and developed a successful business, and he knows all the things a small business must do to build capacity, deliver services, and obtain financing. This business model is just as relative to charities and nonprofits. This drew him to the CAF Social Impact Fund. *"It appeals to regular Joes who have no experience and limited resources, but do have some time and money to consider giving in an efficient way."*

<sup>7</sup> UK Gift Aid increases the value of donations to charities by allowing them to reclaim the basic rate tax on gifts. For donors in higher tax brackets, the donor may claim back the difference between the higher tax rate and the basic rate on the value of the donation. For more information see <http://www.hmrc.gov.uk/individuals/giving/gift-aid.htm>.

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## Uses of Philanthropic Capital to Develop Social Enterprises

*Consolidation and preparing for growth.* Social enterprises that have proof of concept and are preparing for growth are often hindered by a lack of capacity to manage that growth. Often social enterprises leaders have not invested in developing their middle managers, who will play a fundamental role in taking the enterprise to the next level, and allow the CEO to focus on more strategic issues needed at scaling. An injection of philanthropic capital can help the social enterprise develop the important areas of leadership and management, governance structures, and the systems and processes needed for high growth.

*Consolidation and producing higher impact.* Another form of consolidation can happen when established social enterprises are not operating as efficiently as they should. They must streamline systems, maximize resources, and produce higher impact. Philanthropic capital in these cases can help the social enterprise transition to more effective internal and external processes, and prepare themselves for even higher social returns.

*Training of beneficiaries.* In addition to covering the ongoing social costs of the enterprise itself, sometimes it is necessary to assist beneficiaries meet the employment or production demands of the social enterprise. In the case of marginalized communities, this could include training small producers to enable their products to meet certain standards, or helping them develop more entrepreneurial skills. For at risk youth preparing for the job market, the training might include leadership development.

*Build trust between social enterprises and donors.* Philanthropic capital can be a way for a philanthropist to get to know the social enterprise, its leadership team, and its ability to meet market demand and have impact. Once this relationship and a track record are established, it is easier for the philanthropist to consider loans and even quasi equity or equity.

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## Consolidation and Preparing to Scale: Actis Acts and Incores

In April 2011, Tanya Andrade recounted to the Actis Brazil investment staff the challenges she had overcome and the ones that lay ahead for her social enterprise INCORES, which was established in 2010 and provides employment training in at-risk communities. The Actis staff provided sound advice on how this entrepreneur could grow her enterprise without lowering quality or social impact. This meeting was the start of a successful partnership and provides a great example of engaged corporate philanthropy.

### Philanthropic Capital

#### Capacity:

Grant for startup and pre scaling:  
**USD 27,000**

#### Financial:

Grant for startup: **USD 15,600**  
Grant for pre-scaling consolidation:  
**USD 35,000**

(Projected bridge loan for delayed  
client payments: **USD 25,000**)

**Total: USD 77,600**

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**INCORES** (<http://www.incores.org.br/>)

In the city of Salvador, Bahia, 20-year old Alessandra is on her way to her full-time position at the local Ford company plant. INCORES has assisted Alessandra become a confident young woman and outstanding employee. She says, *“When I joined INCORES, I was at the base. I sought to develop myself. . . Because of INCORES, the learning and employment opportunities they gave me – opportunities that I couldn’t have ever dreamt would be possible, I want more for my life. Now that I have my certificate, I want to reach the next stage of my education. And then, when I reach the top of this ladder, I will build another one to get even higher.”*

INCORES was created in 2010 after its predecessor organization exited Brazil upon termination of its US Agency for International Development grant. The organization had trained Brazilian youth for eight years, and Tanya Andrade was determined not to let that accomplishment disappear. She worked with her small team day and night on a volunteer basis to establish the organization, fundraise, and complete a business plan for a social enterprise. The enterprise

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takes advantage of a requirement in Brazil for private companies (with eight or more employees) to have 5-15 percent of their workforce in apprenticeships trained and placed by a certified training agency. The companies must pay for the training and mentoring of these apprentices.

INCORES became a certified agency, and it has placed over 300 disadvantaged youth with local companies and is 96% self-sufficient. The two-year training program offers 1,840 hours of hands-on training and 460 hours of classroom learning. In a country with huge unemployment challenges for youth in poor communities, INCORES literally has life changing impact on the youth, their families, and even other young people who see them as role models. The program's social impact has tremendous implications for overcoming poverty in Brazil.

INCORES' success created strong demand for its services from companies, and also a new challenge almost as daunting as its initial formation. How does it expand to a larger scale, with new systems, staff capacities, and facilities, and without lowering quality or losing money? NESsT is guiding INCORES to make the right strategic and planning decisions. Actis staff volunteer with INCORES to provide mentoring support in key business management areas.

In addition, INCORES received a USD 35,000 consolidation grant from NESsT that will help it develop the right organizational structure, human resources and governance capacity to respond to growth. The consolidation grant enables INCORES to hire external experts who can help INCORES quickly develop the structure and system it needs, while growing and training the appropriate staff and developing a strong board and governance.

Once this in place, INCORES will continue its scaling process and assist even more at-risk youth. Although grant funding might be necessary to pay for certain scaling costs, the enterprise will also be able to borrow money, particularly bridge loans to help float delayed payments from clients. Referring to the support from NESsT and Actis Acts, Ms. Andrade said, *“The methodology is incredibly thorough. It addresses all the key concepts, steps and procedures for building a business with high potential for success.”*



## Actis Acts (<http://www.act.is/content/Home>)

Actis is a private equity company that entered Brazil in 2010. Actis Acts is the company's philanthropic division which focuses on social entrepreneurship, education and leadership. Actis Acts makes philanthropic contributions, and encourages its local teams to make direct contributions through mentoring, volunteering and a grant-giving program. It believes that the company's greatest value is the knowledge and skills of its people. The value of this support has been very evident in Brazil where Actis employees support the NESsT Portfolio. The team has read, evaluated, and provided feedback on numerous feasibility studies and business plans. They have participated in the Selection Committee to invite social enterprises to the NESsT Portfolio. They have led management workshops on governance, finance and accounting, and have held one-on-one mentoring sessions.

Actis provides philanthropic capital to help early stage social enterprises get off the ground and prepare for growth – these grants, such as the one INCORES received, are critical for scaling. By working through intermediaries like NESsT, Actis reaches social enterprises that have already been vetted and have strong business plans. Actis is breaking new ground, since this type of engaged philanthropy and volunteering is not a common practice among private equity firms. However, the company views it as a fundamental part of their business. Tanya Lobel, the Actis Acts Director, shares her thoughts on how other companies can contribute: *“Look at your organization and best determine what you can offer. Don't get swept away by a quick social return on investment. Patience is important. Be experimental and take risks.”*

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## Uses of Philanthropic Capital for Developing Social Enterprises

*Spinning off scalable models.* Philanthropic capital can also be used to assist social enterprises spin off from existing organizations and start with a more entrepreneurial base. The use of equity with softer forms of capital and a more involved governance model can help a visionary leader have the structure and resources needed to meet ambitious goals. Strategic and ongoing capacity support is especially important to ensure the growth of the enterprise while remaining true to its social mission.

*Using grants to scale alongside other investment vehicles.* Grants, alongside equity, quasi equity and loans are sometimes needed at the scaling stage to decrease the overall social costs of the enterprise. Although it is important for the scaling to sustain itself in the long-run, and the use of grants should not be permanent, they may be necessary at the beginning until the social program has reached economies of scale. This is especially important for nonprofit social enterprises that cannot take equity investments.

*Need for scaling capacity support.* The use of philanthropic capital for capacity support becomes even more important given the need for specialized expertise, alliance building, and marketing. This type of support can be quite costly, and underwriting these costs with grants or in-kind expert services can help a social enterprise access the required expertise to reach scaling goals.

*Training social enterprises about impact investing* A recoverable grant can prepare social enterprises for impact investors who will require a more attractive financial return. This is provided to early stage social enterprises that initially do not have the cash flow to begin paying back a loan. Once the enterprise reaches a certain maturation stage, it can pay back the grant, sometimes with a low interest rate. If the social enterprise does not grow or succeed, the grant is written off without repayment.

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## Spin off for Higher Impact: Fruit of Care and Thierry Baudon

At the 2011 Central and Eastern Europe (CEE) Private Equity annual event in London, **Thierry Baudon**, a successful private equity investor, was presented the “Golden Egg” Award, given to a philanthropist who has been an outstanding supporter of social enterprise. Thierry conducts his philanthropy similar to the way he conducts his business activities--highly engaged, determining if the target enterprise’s leadership team has the vision and capacity “to go for the full marathon as opposed to the 100 yards,” and if the product has sustainable demand.

### Philanthropic Capital

#### Capacity:

Grant for startup and incubation:  
**USD 28,000**

#### Financial:

Grant for startup and social costs:  
**USD 87,000**

Loan for working capital:  
**USD 55,000**

Equity for startup:  
**USD 5,000**

**Total: USD 164,000**

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### Fruit of Care (<http://www.fruitofcare.hu/fooldal/>)

The aroma of herbs and spices penetrates the soap-making workshop. Judit, the manager who guides the employees, says, “*I can absolutely see a positive change in our employees since they started working in the soap workshop for Fruit of Care. They thrive when they can count on a steady, day by day activity, because this makes them feel secure. As a plus, working with their hands on a regular basis for rolling soap has also improved their motor skills.*”

Fruit of Care is a Hungarian social enterprise that sells attractive home decor and gift products made by people with disabilities. It trains suppliers and their beneficiaries to make its line of products, including soaps, candles, toys and preserves. Fruit of Care’s key clients are companies and their employees, and middle and upper-income women. Fruit of Care provides permanent employment to 180 people who would otherwise have great difficulty in entering the labor force.

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In 2010, the enterprise spun out of its parent organization which no longer wished to manage the business. Given its proven two-year track record, visionary leader, and strong business plan, the four founders – NESsT, the leader who became the CEO, and the two colleague organizations – decided to create Fruit of Care, a limited liability company, and each took an equity stake. This legal form in Hungary allows for equity investments in an entity with a social mission, whereas with social enterprises in other countries an equity investment would most likely not have been an option.

The decision to develop this company and to provide equity from the start was based on several factors: the growth and replication potential; the opportunity for an exit once Fruit of Care became an internationally successful brand; and the desirability of the products and the value proposition of the business. The business plan showed that Fruit of Care could increase its sales nearly fivefold and provide employment for 800 beneficiaries in four years. Fruit of Care would distribute through wholesalers and sell in chain stores, and both the number of products and suppliers would increase.

In addition to the equity, grants were necessary from NESsT and other donors to build the basic business infrastructure and the team, as well as to cover the social costs associated with employing people with disabilities. The business plan projects that it will take Fruit of Care four years to break-even. The enterprise has also received low interest annual working capital loans to help build its holiday inventory. This philanthropic financing has been accompanied with a strong focus on building the capacity of the team to manage and grow the business. The CEO has been able to dedicate more time to growing the business, finding new clients and overseeing the marketing strategy, while leaving the production and operations tasks to the team.

### **Thierry Baudon and Mid Europa Partners**

Thierry Baudon has been concerned about social issues facing the region since the fall of the Berlin Wall. As Managing Partner of Mid Europa Partners, he felt the firm's employees should offer their skills and try to assist groups facing great difficulties. To do this, Mid-Europa Partners chose to work with NESsT. According to Thierry, the organization shows a great deal of discipline in its work, and through its Private Equity Shares Program, was teamed with other

private equity firms interested in bringing their business acumen and philanthropic support to solving issues in the region. NESsT has the governance and logic of a private equity fund-potential candidates must submit a business plan and complete a screening process before receiving philanthropic capital to implement their business plans and become self-reliant.

In his view, Fruit of Care responded to the key drivers of enterprise success – a motivated leader; a good product; and potential market size. The combination of grants with loans and some equity was reasonable, particularly since the company was spun out and needed start up investment to build the team and business. However, Fruit of Care still has many challenges to confront. For Thierry, *“hardnosed private equity guys are necessary to help them through this challenging growth phase”*. And with this focus and collaboration, the main positive returns will come - many people with disabilities will have dignified employment.

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## Uses of Philanthropic Capital to Develop Social Enterprise Support Organizations

*Underwriting operational and technical assistance costs of intermediaries.*

Intermediaries including incubators, accelerators, and social enterprise funds, play a critical role in growing social enterprises and reducing the transactional costs and risks that are incurred by philanthropists when they directly support social enterprises. Although intermediaries should aim for financial sustainability, they also need philanthropic support (particularly during the initial stages) to help underwrite their own social costs of training and managing social enterprises.

*Underwriting the development of sustainability strategies.* Intermediaries must invest time and money to develop business models that strengthen their missions and value proposition. Philanthropic funding can help intermediaries fine-tune their own business plans, and develop self-financing and long term sustainability plans.

*Underwriting donor and investment transaction costs.* Intermediaries often incur transaction costs of writing proposals, reporting, and complying with costly legal, regulatory and financial requirements. These costs are difficult to pass onto social enterprises themselves, given that they too have their own transaction as well as social costs to bear. Philanthropy can help intermediaries offset some of these costs, reducing their financial burden and perhaps enabling them to assist other organizations better understand these obligations.

*Training intermediaries in scaling and investment.* Although intermediaries have strong enterprise acumen and skills, they do not always have experience scaling social enterprises or preparing them for investment. Philanthropic capital can train portfolio managers in these skills, facilitating their access to best practices or opportunities to shadow and learn directly from the investment community.

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## Astute Analysis and Strategic Financing: Motivation and Doug Miller

The pioneering venture philanthropist Doug Miller has a 10-year relationship with Venturesome, and was an early investor because he liked their willingness to take higher risk and use some financing structures borrowed from private equity investments. He was particularly drawn to Venturesome's entrepreneurial approach and the innovative way that his philanthropic capital would increase its impact. The story of Motivation demonstrates these attributes and impressive social returns.

### Philanthropic Capital

#### Financial:

Loan for scaling:

**GBP 125,000**

Quasi equity- loan tied to revenues:

**GBP 75,000**

**Total: GBP 200,000**

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**Motivation** (<http://www.motivation.org.uk/>)

Motivation is a UK-headquartered, global social enterprise that provides training and mobility products for the physically disabled in the developing world. It was founded in 1991 after students David Constantine and Simon Gue designed an award-winning wheelchair for developing countries. This affordable wheelchair worked well on rough paths and was sturdily constructed with easily accessible materials. Today, Motivation manufactures a range of quality, affordable mobility products designed specifically for developing countries.

Providing mobility is one of Motivation's four areas of work. It also focuses on survival, empowerment, and inclusion of individuals with physical disabilities. Motivation trains the parents of children with cerebral palsy to prevent children from dying of malnutrition, pressure sores, and respiratory problems. Its peer group training empowers disabled people to learn wheelchair skills, prevent health problems, and discuss their rights. Its products and training programs have reached over 135,000 people in 90 countries around the world.



Motivation knew that wheelchair manufacturing had great impact—each product changed lives, opened opportunities for training, and provided income for the organization. However, it did not have the reserves and could not obtain large enough grants to scale its impact. Traditional banks would not finance this project.

In 2009 Motivation approached Venturesome with an ambitious plan to increase production six fold in five years. After discussions with the Motivation leadership team and extensive review of its finances and business plan, Venturesome determined that it could loan GBP 200,000. However, Venturesome also determined that Motivation would need to strengthen its financial capacity and systems, and conditioned the loan on hiring a new Finance Manager. The loan was divided into two different types of instruments. It provided a GBP 125,000 five-year loan with interest-only payments for the first three years. Short-term loans are standard instruments for Venturesome, with an interest rate between five and eight percent.

The second part of the funding, GBP 75,000, was secured by a right to five percent of Motivation’s production revenue for seven years. Venturesome had confidence in the leadership team and the high social returns of the product. It targeted about a 10 percent internal rate of return (reflecting the higher risk), and the total repayment was capped at GBP 130,000. For Motivation, repayment would come from future revenue.

## Doug Miller

Venturesome’s analysis, innovative loan structure and repayment plan, and its willingness to take a calculated risk to achieve financial return and great social impact, is just the kind of social enterprise deal-making that long-time venture philanthropist Doug Miller enjoys. Doug comes from the private equity industry (founder and chief executive of International Private Equity Limited), and looks at philanthropic investment opportunities with the same rigor as private equity opportunities.

He believes that it is necessary to take risks in order to create the innovations and changes required for great social impact. He likes to see his investment money recycled, and to check on results a couple times a year to know whether or not the organizations (whether a direct investment or through an intermediary) are delivering the



expected results. For venture philanthropists contributing less than USD 5,000 per deal, he recommends using an intermediary or fund that has a well-defined process and strong team.

Motivation is on track to meet its production goals, current on its loan repayments, and may fulfill its revenue-sharing obligations one year earlier than projected. It demonstrates that innovative, patient capital – even with “market” rates of return – can help scale social enterprises and create significant improvements in the lives of excluded persons.

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## Uses of Philanthropic Capital for Research and Field-Building

*Legal Research.* The need to understand the legal and regulatory framework--particularly the opportunities and barriers for social enterprise development--is critical at all stages. It is especially important to build a supportive enabling environment that provides incentives for social enterprises to scale. Philanthropic capital for the development, dissemination, and implementation of this research can have great impact.

*Metrics.* Although some metrics have been established for social enterprise and for impact investing, they are not commonplace and require further development and promotion. GIIN and IRIS<sup>8</sup> were developed with philanthropic support and are being actively promoted by field-building organizations such as ANDE (see resource section). However few intermediaries and social enterprises have the capacity to use them and most philanthropists have yet to adopt them. Grant support toward these efforts will allow the sector to professionalize and leverage additional capital.

*Documenting and sharing best practices in social enterprise development and scaling.* The field of social enterprise is fairly nascent, particularly in emerging market countries, and research on best practices is scarce. As a result, there is a lot of “re-inventing the wheel.” Systemizing and disseminating best practices will help quicken the pace of the field and ensure replication of successful practices, and reduce costly mistakes.

*Knowledge Management.* A barrier to sharing best practices is the lack of sound knowledge management systems that can capture and share lessons learned, innovative findings, new models and the rich experience among the thousands of social enterprises. Supporting these systems and ensuring that social enterprises and intermediaries have the resources to manage them will again go a long way toward creating high social impact.

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8 The Global Impact Investing Network (GIIN) is a not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing. The Impact Reporting and Investment Standards (IRIS) is a major project of the GIIN's infrastructure development initiative. IRIS is a set of metrics that can be used to measure and describe an organization's social, environmental and financial performance. For additional information, see <http://www.thegiin.org/> <http://iris.thegiin.org/>.

## Pioneer Philanthropists and Developing the Social Impact Field

While the case studies highlight philanthropists' support of intermediaries working with social enterprises, philanthropists have also made significant commitments to the organizational networks, research, and policy support necessary for the sector to grow. Many of the foundations listed in the Resource Section have made these contributions. Two examples include:

### **The Avina Foundation**

(<http://www.avina.net/eng/>) partnered with the Harvard Business School to create the Social Enterprise Knowledge Network (SEKN). This initiative helped Avina research inclusive businesses and build knowledge. Additionally, along with the Rockefeller Foundation and Omidyar Network, Avina launched the Impact Economy Innovation Fund.

### **Halloran Philanthropies**

(<http://www.halloranphilanthropies.org/>) has supported initiatives such as B Corp and Social Capital Market (SOCAP) events to help establish key infrastructure for the overall development of impact enterprise.

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# Diving Deep for Higher Returns: Preparing for Successful Philanthropic Investment in Social Enterprises

Like underwater diving, becoming a philanthropist to help develop and grow social enterprises requires careful preparation, the right tools, self-awareness, and teamwork.

We hope that this primer has given you an overview of the many ways that you can engage with your philanthropic capital as well as your time and expertise. There are numerous resources and organizations to help you get started and to identify ways to meet your interests, expectation of financial returns, and risk level. Working through intermediaries can be a useful option for leveraging your resources and ensuring that they are channeled in the most effective way.

By diving deep into this sector, and using your philanthropic capital to help social enterprises start, incubate, operate, grow, and even scale, you will be joining a group of pioneering philanthropists who see the potential that these businesses have to solve our most pressing problems and create lasting impact.

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## Resources and Organizations for Developing and Growing Social Impact<sup>9</sup>

### General Resources

“Coordinating Impact Capital: A New Approach to Investing in Small and Growing Businesses,” Kohler et al., Santa Clara University, July 2011

<http://www.scu.edu/socialbenefit/resources/upload/Coordinating-Impact-Capital.pdf>

“From Blueprint to Scale: The Case for Philanthropy in Impact Investing,” Koh et al., Monitor Group, April 2012

[http://www.mim.monitor.com/downloads/Blueprint\\_To\\_Scale/From%20Blueprint%20to%20Scale%20%20Case%20for%20Philanthropy%20in%20Impact%20Investing\\_Full%20report.pdf](http://www.mim.monitor.com/downloads/Blueprint_To_Scale/From%20Blueprint%20to%20Scale%20%20Case%20for%20Philanthropy%20in%20Impact%20Investing_Full%20report.pdf)

“What is a Social Firm?” Social Firms UK

<http://www.socialfirmsuk.co.uk/about-social-firms/what-social-firm>

Social Investment Manual: An Introduction for Social Entrepreneurs

<http://www.schwabfound.org/pdf/schwabfound/SocialInvestmentManual.pdf>

<sup>9</sup> This list is not exhaustive nor does it represent an endorsement of these organizations or publications.

*Stanford Social Innovation Review*

Stanford Social Innovation Review (SSIR) is an award-winning magazine and website that covers cross-sector solutions to global problems.

<http://www.ssireview.org/>

Priming the Pump: the Case for Sector Based Approach to Impact Investing

[http://www.omidyar.com/sites/default/files/Priming%20the%20Pump\\_Omidyar%20Network\\_Sept\\_2012.pdf](http://www.omidyar.com/sites/default/files/Priming%20the%20Pump_Omidyar%20Network_Sept_2012.pdf)

## Social Impact Measurement

The goal of social impact measurement is to improve the transparency of operations, provide accountability for how funds are used, and allow for the comparison of the costs and the social impact results across projects and organizations.

Two social impact standards are the Social Reporting Standard developed in Germany (SRS, [www.social-reporting-standard.de](http://www.social-reporting-standard.de)) and the Impact Reporting & Investment Standards developed in the United States (IRIS, <http://iris.thegiin.org/homepage>). Additionally, intermediary organizations like NESsT have developed their own standards (<http://www.nesst.org/portfolio/performance/>).

### CAF Publications

*The future stars of philanthropy*

<https://www.cafonline.org/publications/2012-publications/next-generation-report.aspx>

*The first CAF Social Impact Fund full year report*

<https://www.cafonline.org/publications/2012-publications/caf-social-impact-fund-report.aspx>

### NESsT Publications

<http://www.nesst.org/publications/>

*All in the Same Boat: An Introduction to Engaged Philanthropy*

*Social Enterprise in Emerging Markets: No Free Ride.*

(Forthcoming in December 2013)

## Social Enterprise Intermediaries

### Agora Partnerships

The mission of Agora Partnerships is to scale the growth of early-stage companies throughout Latin America that are helping to solve critical problems in their community.

[www.agorapartnerships.org](http://www.agorapartnerships.org)

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## Artemesia

Founded in 2004 by Potencia Ventures, Artemesia provides incubator and accelerator services for social entrepreneurs in Brazil looking to streamline their business approach and become investable.

<http://www.artemesia.org.br/eng/artemesia.php>

## The Hub

The HUB is a distributed global network of independent local spaces that share the same brand and core identity. Its EU Cluster coordinates multi-HUB initiatives within Europe seeking to participate in the shaping of the EU social innovation agenda.

<http://www.the-hub.net/>

## Njambre

Njambre is an impact enterprise incubator in Argentina with programs to help a company achieve its social and/or environmental impact potential and provide a physical working environment for innovative organizations and/or impact enterprises.

<http://www.njambre.org/> (in Spanish)

## Nesta

Nesta is an independent charity in the UK with a mission to help people and organizations bring great ideas to life. It provides investments, grants, research funds, and networking events to support social ventures and social venture intermediaries in areas such as public services, economic growth, innovation and creativity.

<http://www.nesta.org.uk/home1>

## Village Capital

Village Capital provides opportunity to entrepreneurs building solutions for a better world. It has operated peer-driven educational programs with over 250 ventures from more than 30 countries, with top enterprises receiving the chance for investment to enable their businesses to grow.

<http://www.vilcap.com/>

## Associations and Networks

### Aspen Network of Development Entrepreneurs (ANDE)

**ANDE** is a global network of organizations that invest money and expertise to advance entrepreneurship in emerging markets. It is housed within the Aspen Institute and works to dramatically increase the amount and effectiveness of capital and technical/business assistance for entrepreneurs in developing countries.

<http://www.aspeninstitute.org/policy-work/aspen-network-development-entrepreneurs>

### **Asian Venture Philanthropy Network (AVPN)**

AVPN is a non-profit organization based in Singapore that is building a high impact venture philanthropy community across the Asia Pacific region.

<http://www.avpn.asia/>

### **European Venture Philanthropy Association (EVPA)**

EVPA is a membership association composed of organizations interested in or practicing venture philanthropy and social investment across Europe.

<http://evpa.eu.com/>

### **Impact Investing Policy Collaborative (IIPC)**

The Impact Investing Policy Collaborative (IIPC) strives to grow impact investing markets by building a global network for policy research and innovation to better identify and support policies that lead to more robust and effective capital markets with intentional social and environmental benefits.

<http://iipcollaborative.org/>

### **Social Venture Network**

Social Venture Network builds valuable peer-to-peer relationships among high-impact, innovative business leaders; brings entrepreneurial thinking to everything it does; and fosters active collaborations among members to create new ideas, partnerships and solutions.

<http://svn.org/>

### **Social Venture Partners (SVP)**

Every SVP is a network of engaged philanthropists who believe that they can have a positive impact on their communities and who use innovative strategies to address complex social issues.

<http://www.svpi.org/>

## **Foundations Focused on Social Enterprise Development**

### **Avina Foundation**

Avina is a Latin American foundation working towards the sustainable development of the continent, encouraging the forging of alliances between social and business leaders.

<http://www.avina.net/esp>

### **The F. B. Heron Foundation**

The F.B. Heron Foundation seeks financial capital investment and co-investment opportunities in enterprises that will increase and maintain reliable employment; advance systemic innovations that will help individuals and communities succeed; and result in net positive contributions to society's shared capital.

<http://www.fbheron.org/>

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## Halloran Philanthropies

The mission of Halloran Philanthropies is to inspire, catalyze and accelerate sustainable social interventions that raise the level of human well-being, while respecting the cultural diversity and ecological integrity of present and future generations.

<http://halloranphilanthropies.org>

## The Kauffman Foundation

The mission of the Kauffman Foundation is to help individuals attain economic independence by advancing educational achievement and entrepreneurial success, consistent with the aspirations of its founder, Ewing Marion Kauffman.

<http://www.kauffman.org/>

## The Lemelson Foundation

The Lemelson Foundation uses the power of invention to improve lives by inspiring and enabling the next generation of inventors and invention based enterprises to promote economic growth in the US and social and economic progress for the poor in developing countries.

<http://www.lemelson.org/>

## LGT Venture Philanthropy

LGT Venture Philanthropy strives to increase the sustainable quality of life of less-advantaged people by inspiring clients for active philanthropy, providing individualized philanthropic advice, and investment implementation.

<http://www.lgtvp.com/>

## Omidyar Network

Omidyar Network is a philanthropic investment firm that provides financial and human capital to its for-profit and non-profit investees.

<http://www.omidyar.com>

## Skoll Foundation

The Skoll Foundation's mission is to drive large scale change by investing in, connecting and celebrating social entrepreneurs and the innovators who help them solve the world's most pressing problems.

<http://www.skollfoundation.org/>



## Social Enterprise Investment Funds

### Acumen Fund

The Acumen Fund mission is to create a world beyond poverty by investing in social enterprises, emerging leaders, and breakthrough ideas. It uses philanthropic capital to make disciplined investments that yield both financial and social returns.

<http://www.acumenfund.org/ten/>

### Big Society Capital

Big Society Capital is an independent financial institution established to invest in social investment finance intermediaries (SIFIs)<sup>10</sup> that provide appropriate and affordable finance and support to social sector organizations in the UK.

<http://www.bigsocietycapital.com/>

### ImpactAssets

ImpactAssets creates opportunities for investors and philanthropists to make the world a better place by managing their portfolios with equal regard for problem solving and profit.

<http://www.impactassets.org/>

### Nonprofit Finance Fund

A community development financial institution (CDFI) that provides a continuum of financing, consulting, and advocacy services to nonprofits and funders nationwide designed to help organizations stay in balance and adapt to changing financial circumstances.

<http://nonprofitfinancefund.org/>

### Potencia Ventures

Potencia Ventures collaborates with others to fill in the gaps in the entrepreneurial ecosystem. It offers both intellectual and financial capital, providing strategy, global contacts and knowledge as well as grants, loans and equity investments.

<http://www.potenciaventures.net/>

### Root Capital

Root Capital is a non-profit social investment fund that expands rural prosperity in Africa and Latin America. It does this by lending capital, delivering financial training, and strengthening market connections for small and growing agricultural businesses.

<http://www.rootcapital.org/>

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<sup>10</sup> A Social Investment Finance Intermediary (SIFI) is an organization that connects social impact investors with social enterprises. Venturesome is classified as a SIFI.



## **RSF Social Finance**

RSF Social Finance is a social investment fund inspired by the ideals of Rudolf Steiner. Since 1984 it has focused on developing innovative social finance vehicles that serve unmet needs for investors, donors, and social enterprises. It has made over \$275 million in loans and \$100 million in grants.

<http://rsfsocialfinance.org/>

## **Toniic**

Toniic is an international impact investor network. It promotes a sustainable global economy by investing in entrepreneurs, enterprises, and funds seeking to change the world for the better.

<http://toniic.com/>

## **Philanthropic Services**

### **Strategic Philanthropy, Ltd.**

Strategic Philanthropy provides customized giving strategies for donors, based on their unique interests, passions and concerns.

<http://www.stratphilanthropy.com/>

### **CAFAmerica**

CAFAmerica advises individuals, foundations, corporations, financial advisors, and foreign charitable organizations on effective international philanthropy.

<http://www.cafamerica.org/dnn/>

### **Focused Philanthropy**

Focused Philanthropy is a bespoke advisory service, offering major donors exclusive and sophisticated opportunities for their charitable giving.

<http://www.focusedphilanthropy.co.uk/>

### **Philanthropy Advisory Group**

Philanthropy Advisory Group offers customized philanthropic services for private and family foundations, donor advised fund holders, and individual funders.

<http://philanthropygroup.com/>

### **Social Finance-UK**

Social Finance provides a range of financial advisory services to help build the social investment market.

<http://www.socialfinance.org.uk/home>

### **Social Investors Partners**

Social Investors Partners has an extensive range of independent, long-term engagement advisory services that lead donors from identifying their interests in a social or environmental issue to selecting partners and projects.

<http://www.socialinvestors.com/index.html>



## About NESST

Founded in 1997, NESST develops and invests in social enterprises that solve critical social problems in emerging market countries. The organization supports pioneering early-stage enterprises, which pilot new business models and approaches to tackle social issues. Because of their innovative models, NESST Enterprises create new markets that can be replicated and catalyze changes in behavior or within the broader system.

NESST uses a long-term portfolio approach to develop social enterprises. We provide business planning support in order to identify and select the best ideas. We launch the most promising enterprises and we incubate them with capacity support and tailored financing. We then scale those enterprises with patient investments to multiply their impact.

NESST has invested USD\$8 million in capacity and financial support to launch over 130 high-impact social enterprises. NESST Enterprises have directly improved the quality of life of 280,000 marginalized people.

As a thought leader, NESST has been at the forefront of social enterprise development, conducting extensive research and disseminating many publications on best practices. We have organized numerous forums on this topic, and are the founder of Social Enterprise Day, an annual event that focuses on fostering an enabling environment for the sector. We leverage our thought leadership to promote policies that further increase the impact of social enterprise.

The organization has six country offices, representative offices in San Francisco and London, and works throughout Central Europe and Latin America. The majority of staff are emerging market professionals and we count on the support of over 300 volunteer business advisors to mentor our enterprise portfolio. NESST's consulting services have taken our work to 48 countries for over 100 clients to advance social enterprise around the world.

## About CAF

Charities Aid Foundation is a UK-based charity with the mission of motivating society to give ever more effectively, helping to transform lives and communities around the world. It has been connecting donors to causes that are important to them and getting money to where it is needed for more than 80 years. CAF operates globally, with affiliates in the United States, Australia, Bulgaria, Brazil, India, Russian, South East Asia, and Southern Africa.

CAF has several affiliate entities that serve the financial needs of nonprofits. One of these affiliates, CAF Venturesome, works with philanthropists who provide donations and investments to re-invest in its loan funds, and two case studies in this primer highlight its work. CAF Venturesome was set up in 2002 to provide affordable financial support to charities, social enterprises and community groups when grants may not be available and access to traditional financial institutions is difficult. It offers three to five-year interest-bearing loans between<sup>3</sup> GBP 25,000 and GBP 250,000 to help nonprofits and social enterprises meet their financial needs, whether for bridge loans, working capital, or other ends. CAF Venturesome currently manages GBP 13 million. Since its inception, it has offered GBP 30 million in loans and has supported 360 charities and social enterprises. CAF Venturesome is a leader in new social investment market developments, including payments by results.

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*What is social enterprise and philanthropic capital? How does it differ from traditional charities and donations?*

*Why should philanthropists engage in social enterprise development? What are the opportunities to grow social enterprises and their impact?*

*How can philanthropists learn more about the sector? How can they conduct due diligence on social enterprises and intermediaries?*

*What groups or individuals are successfully growing social enterprises?*

NESST and the Charities Aid Foundation, two organizations with extensive experience and leadership in the field, have produced a guide for **philanthropists** and **social investors** interested in learning more about how philanthropic capital –funding from philanthropic sources used in an entrepreneurial and sustainable manner– strengthens and expands social enterprises.

The primer introduces the social enterprise sector and shows how an interested philanthropist can find opportunities matching their interests. It discusses the opportunities that currently exist to help social enterprises grow – the void that is not being filled by either pure charity or pure commercial investment. The primer also identifies how philanthropists can work through intermediary organizations to best support social enterprises.

The second half of the primer presents five case studies from the United Kingdom, Central Europe, and South America to show how philanthropists and intermediaries have helped social enterprises increase their impact and revenue. Each case demonstrates the use of various types of philanthropic capital (grants, loans and equity), and in some cases capacity-building assistance, to help these social enterprises become sustainable.

The primer also contains an extensive resource list for users to further educate themselves about the social enterprise and philanthropic capital sector. The primer is one of the first concise guides specifically designed to assist philanthropists and social investors to navigate and engage in this growing sector and contribute to its impact.

For more information, please contact: [nesst@nesst.org](mailto:nesst@nesst.org)

[www.nesst.org](http://www.nesst.org)

The logo for NESST, featuring the letters 'NESST' in a large, white, sans-serif font. The letters are set against a background of a nest of brown twigs and several light-colored, speckled eggs.