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STRATEGIES FOR FOUNDATIONS: WHEN, WHY AND HOW TO USE VENTURE PHILANTHROPY

ASHLEY METZ CUMMINGS AND LISA HEHENBERGER

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PREFACE

Venture philanthropy (VP), including grant funding and social investment, is a tool in the global toolbox for foundations; it is not intended or expected to revolutionise philanthropy, but can serve as a worthy model for some foundations. Venture philanthropy strategies need not replace existing approaches, but rather are additional elements to add to a foundation's repertoire. Many foundations will likely be surprised by the amount of venture philanthropy 'tools' they are already storing in their toolboxes.

As the paper discusses, venture philanthropy can introduce or reaffirm important practices. The manner in which venture philanthropy considers an entire organisation with a long-term view is particularly impressive. This more holistic approach effectively builds stronger, more sustainable organisations. Adding in evaluation and performance measurement is particularly important for ensuring optimal planning, process and results. In this way, venture philanthropy does not have to be used in entirety, but as a set of examples to be drawn from and innovated upon when need arises.

Whether or not venture philanthropy strategies are considered new or old is beside the point. It is important to realise that these strategies offer up good practice. Foundations stand to benefit from being open, versatile and ready to adopt diverse elements into their ways of working in the hopes of acting more effectively in a nuanced sector, contributing to achieving their wider mission. Foundations should, therefore, seriously consider venture philanthropy strategies and incorporate them into their work. The case studies in this paper describe how some different yet very successful foundations have integrated the VP approach in their strategy. We invite all decision makers to engage in such strategic thinking.

Gerry Salole

Chief Executive,
European Foundation Centre

Serge Raicher

Chairman,
European Venture Philanthropy Association

EXECUTIVE SUMMARY

Venture philanthropy (VP), as a concept, has existed in various shapes since the birth of philanthropic giving. Foundations and individuals throughout history have used techniques now identified under this term, the definition of which continues to evolve. Venture philanthropy works to build stronger social organisations by providing them with both financial and non-financial support in order to increase their social impact. The European Venture Philanthropy Association (EVPA) uses the term venture philanthropy (VP) to describe grantmaking and social investment that involve six practices: a hands-on relationships between the social enterprise or non-profit management and the venture philanthropist; use of a range of financing mechanisms; multi-year support; non-financial support; a focus on organizational capacity-building; and performance measurement.

Venture capitalists and others from the business world have brought along skills and techniques, contributing to the development of new models and using the term 'venture philanthropy' to describe them – models used both in grant funding or in social investment. Foundations have been developing their practices and adding some of these VP techniques to their toolbox throughout the years and continue to explore new practices. At the EVPA Knowledge Centre, we believe information sharing across sectors is vital to the development of all components of the social investment landscape. The objectives of the paper are to:

- Serve as a practical guide to help foundations visualize relevant information about VP in order to make informed decisions about their future funding strategies
- Distil best practices and actionable next steps for foundations wishing to engage in VP
- Break down some of the unnecessary boundaries between the foundation sector and venture philanthropy

This publication investigates the practices foundations have been using and how those relate to venture philanthropy. We identified six strategies of foundations engaging in venture philanthropy and explain them through case studies of the following foundations based in four European countries:

1. King Baudouin Foundation (KBF) in Belgium
2. Fondazione CRT (FCRT) in Italy
3. Esmée Fairbairn Foundation (EFF) in the UK
4. d.o.b Foundation (d.o.b) in the Netherlands

In the document, we first address the context of VP at foundations and how the venture philanthropy characteristics have historically been used. Next we provide case studies of the four foundations, highlighting how each foundation has faced and overcome hurdles along the way when developing and implementing their particular VP strategies - including legal, governance, HR and operational issues. Next we illustrate when, why and how to use each of the illustrated six VP strategies for foundations.

EXECUTIVE SUMMARY

The main engagement models that we identified are as follows:

1. **Employ one or several of the six VP practices:** Many foundations already use one or several of the VP practices, often without using VP terminology. Others can try offering new grantee services by starting with one or several of these practices.
2. **Fund VP:** Foundations that value the VP model for its ability to create strong organisations, but do not wish to change their organizational structure may opt to support VP financially. EFF, FCRT and d.o.b all use or have used this strategy.
3. **Set up a fund that invests in VP:** EFF and FCRT have set up a finance fund and a philanthropic investment fund respectively, channelling funding to VP and social investment initiatives.
4. **Set up a VP Organisation (VPO):** A foundation can partition a VP organisation separately from its existing operations. KBF has recently set up a dedicated VPO.
5. **Co-investment with a VP Organisation:** Co-investment involves both the foundation and VP organisation investing together in the same project, where each uses its unique skills and tools. EFF co-invested to bring its strong social sector knowledge and skills in partnership with others with the goal of creating systemic change.
6. **Complete conversion:** The complete conversion of a foundation to a VP organisation involves the overhaul of the organization's operations, strategy and perhaps even staff. d.o.b Foundation has undergone such a change.

The table on page 9 summarises when and why to use each strategy.

STRATEGY	WHEN	WHY
Employ one or several of the six VP practices	• For foundations that have not explored "beyond the grant" • Many foundations already use a high-engagement approach for large grants or when grantees need help to become stronger	• Introduction with low-resource investment • Added value for grantees – can become more financially sustainable
Fund VP	• Easy to implement without necessating a change in organisational structure • Many foundations fund VP organisations to learn more about VP • Investing in VP can be an interesting strategy for foundations interested in supporting innovation	• Foundation name provides legitimacy to new VPO; may help VPO attract additional funding • Fuel social entrepreneurship and develop VP industry by supporting VP in new geographies • Gain privileged access to the operations of the VPO, thus facilitating knowledge transfer
Set up a fund that invests in VP (Fund of funds)	• Offers foundations a chance to try different types of financing tools, the experience of which may be later applied in other ways • A separate entity may be a means to overcome legal hurdles for foundations investing in VP	• Recycling of funds allows money to go further • Offers a chance to broaden initiatives to social investment • May help foundation develop expertise on VP that can be used in other areas of the foundation's work
Set up a VPO	• Could be an effective way to test the VP approach without affecting the rest of the foundation's work • When VP seen as "one tool in the toolbox", a separate VPO may not require a lot of resources from the rest of the foundation	• Provides a new service offering to grantees with unique needs • Complements existing grants practice; can be a completely separate programme • Can also bring added educational benefit to existing practices • Potential to attract new donors
Co-invest with a VPO	• When differenct funders provide complementary expertise and resources – foundation does not have to develop in-house VP expertise • Co-investing with a VPO allows foundation to gain exposure to VP approach • When deal flow is limited	• Distributes risk between funders • Provides opportunities for new VP funders to 'learn while doing' with existing funders • Offers all parties the opportunity to contribute their own expertise • Mitigates deal flow problem in regions with scarce opportunities
Complete conversion	• This option works well for small foundations wishing to focus their resources on supporting a few organisations • Option may be good for donor-driven foundations which have or are willing to introduce expertise from the business sector	• Some foundations believe that providing focused support to fewer organisations over a longer period can enhance the social impact of their operations • A dedicated VP approach allows foundation to develop specific VP expertise

Our cases illustrate the diversity of the foundation sector and the wealth of creativity, passion and ambition that characterize the world of philanthropy today. We find that there is a spectrum of engagement models for foundations and that even the same foundation may employ various strategies to fit their individual needs and goals. To most foundations, VP serves as a complement to existing practices and only in one case in this paper as an alternative. The publication shows how VP is becoming an integral part of the foundation toolbox.

PART 1

INTRODUCTION

Purpose of the document

Venture philanthropy (VP) as a concept has existed in various shapes since the birth of philanthropic giving. Foundations and individuals throughout history have used techniques now identified under this term, the definition of which continues to evolve. Today, the industry of giving, its terminology and practices, are undergoing profound changes. These changes are occurring as new stakeholders - such as the venture capital and private equity (VC/PE) community – enter the philanthropy field, and existing stakeholders - such as foundations and wealthy individuals - investigate new giving strategies. In recent times, as venture capitalists and others from the business world have begun to take an increased interest in philanthropy, they have brought along skills and techniques, contributing to the development of new models of giving and using the term 'venture philanthropy' to describe them – whether grant funding or funding that is recycled or returned in part to the funders. Concurrently, foundations have been adding more of what is now referred to as venture philanthropy techniques to their existing practices and continue to explore new tools to enhance their social impact. As this industry takes shape, we believe information sharing across sectors is vital to the development of all components of the social investment landscape. At the EVPA Knowledge Centre, we aim to provide practical information for those wishing to learn more about the venture philanthropy practices that may be applicable to their organisations.

This paper is the second of a three part series from the EVPA Knowledge Centre attempting to capture practical insights for those wishing to set up a venture philanthropy organisation (see Establishing a Venture Philanthropy Fund in Europe, EVPA, September 2008),[2] foundations wishing to incorporate VP practices or learn more about how other foundations are using venture philanthropy, and private equity and venture capital funds wishing to engage in philanthropy (forthcoming). This second paper attempts to categorize different strategies for foundations to incorporate venture philanthropy practices into their operations. We would like to thank d.o.b foundation, Esmée Fairbairn Foundation, Fondazione CRT and King Baudouin Foundation for participating in this study, and we are grateful to David Carrington, James Mawson and Sevdalina Rukanova for reviewing the paper and providing helpful comments.

In the process, we investigate the practices foundations have been using and how those relate to venture philanthropy. We use case studies of four foundations from four different European countries to illustrate how foundations can use VP as a tool to complement their overall strategy. These cases show that VP is used mostly as a complement to existing practices and in only one case as an alternative.

We identified six strategies that these cases illustrate: 'Employ one or several of the six practices', 'Fund VP', 'Set up a fund that invests in VP', 'Set up a VP organisation', 'Co-invest with a VP organisation', 'Complete conversion'. We will discuss their appropriate uses and limitations throughout the document.

"…THE KEY CHALLENGE IS TO MAKE SURE THAT WE'RE ALWAYS LEARNING. I THINK THAT'S CRITICAL TO SUCCESS IN LIFE AND IN EFFECTIVE PHILANTHROPY."

JEFF RAIKES, CHIEF EXECUTIVE OF THE BILL AND MELINDA GATES FOUNDATION[1]

[1] *Hartnell, C. (2010), "Interview Jeff Raikes," Alliance, 15(2), June 2010, p.34.*

[2] *A new edition of the publication Establishing a VP Fund in Europe is due to be published in October 2010. Visit www.evpa.eu.com for more information.*

PART 1: INTRODUCTION

"THE TWO COMPLEMENT EACH OTHER – A FOUNDATION CAN BENEFIT BY ADDING THE VENTURE PHILANTHROPIST'S METHODOLOGY TO ITS TOOLBOX. AT THE SAME TIME, A VENTURE PHILANTHROPIST CAN BENEFIT BY WORKING TOGETHER WITH A FOUNDATION, WHICH BRINGS A TRACK RECORD (THROUGH RESEARCH AND/OR PREVIOUS WORK), CREDIBILITY AND DIFFERENT WAYS OF WORKING."

LUC TAYART DE BORMS, MANAGING DIRECTOR OF THE KING BAUDOUIN FOUNDATION[3]

The foundations that we used as cases are as follows:

1. d.o.b Foundation (d.o.b) in the Netherlands
2. Esmée Fairbairn Foundation (EFF) in the UK
3. Fondazione CRT (FCRT) in Italy
4. King Baudouin Foundation (KBF) in Belgium

The objectives of the paper are to:

- Serve as a practical guide to help foundations visualize relevant information about VP in order to make informed decisions about their future funding strategies
- Distill best practices and actionable next steps for foundations wishing to engage in VP
- Break down some of the unnecessary boundaries between the foundation sector and venture philanthropy

To accomplish these objectives, the paper will establish the context for philanthropic giving and identify its shifting landscape and how foundations and venture philanthropy fit in. Next, the paper includes case studies of foundations in four European countries that have approached VP in different ways. Finally, we provide practical advice for foundations wishing to incorporate the techniques and practices identified in the case studies.

Venture Philanthropy in the Evolving Philanthropic Landscape

We will begin by explaining the venture philanthropy approach and further discuss the evolving philanthropic landscape.

Venture philanthropy "works to build stronger social organisations by providing them with both financial and non-financial support in order to increase their social impact".[4] The term itself is believed to have been coined by John D. Rockefeller III.[5] Modern forms of venture philanthropy began in the 1990s in the US when successful entrepreneurs and venture capitalists looked for ways to give back to society with skills from their professions by investing in nonprofits or social enterprises with the goal of making them strong organisations. VP in the US is now a well-recognised concept, and these methods have been supported by many of the larger US foundations as a way both to improve the operational effectiveness of charities and to give donors more confidence that their charitable donations are being used efficiently and transparently. The venture philanthropy movement in Europe emerged in the early 2000s as existing foundations began to alter their practices in order to better assist their investees, and as professionals from venture capital and the for-profit sector decided to become more actively engaged in philanthropy.

At EVPA, VP refers to the use of a set of six characteristics to support social purpose organisations. The current venture philanthropy definition includes the following six characteristics:

1. **High engagement** – This involves hands-on relationships between the social enterprise or nonprofit management and the venture philanthropists. Some funders may take board roles and all are intimately involved on strategic and operational levels

[3] *Tayart de Borms, L. (2005) "Venture Philanthropy and Foundations: Working together towards Meaningful Social Change", European Venture Philanthropy Association Newsletter, 5, December 2005, p. 5.*

[4] *Balbo, L, Hehenberger, L., Mortell, D. and Oostlander, P. (October 2010), "Establishing a Venture Philanthropy Organisation in Europe: A Practical Guide", European Venture Philanthropy Association, September 2010.*

[5] *John, R. (2006), "Venture Philanthropy: The Evolution of High Engagement Philanthropy in Europe", Skoll Centre for Social Entrepreneurship, Said Business School.*

2. **Tailored financing** – Depending on the type of investee and its individual needs as well as VP organisation missions and the ventures they support, venture philanthropists can operate across the spectrum of investment returns. Some offer non-returnable grants (taking a purely social return), while others use loan, mezzanine or quasi-equity finance (which provides blended risk-adjusted financial and social returns)
3. **Multi-year support** – Venture philanthropists typically support a limited number of organisations for 3-5 years, then exit when organisations supported are financially or operationally sustainable (Financial sustainability may come from the entrance of new funders)
4. **Non-financial support** – In addition to financial support, venture philanthropists provide value-added services such as strategic planning, marketing and communications, executive coaching, human resources advice and access to other networks and potential funders. This is done either through volunteers, VP staff, donors or third party consultants
5. **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 fund core operating costs to achieve greater social impact and operational efficiency.
6. **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 transparency.

Venture philanthropy provides a blend of performance-based development finance and professional services to social purpose organisations – helping them to expand their social impact. This is a high-engagement, partnership approach, analogous to the practices of venture capital in building the commercial value of young companies. Venture philanthropy can operate across a spectrum of organisational types, from charities and non-profit organisations through to socially driven business.

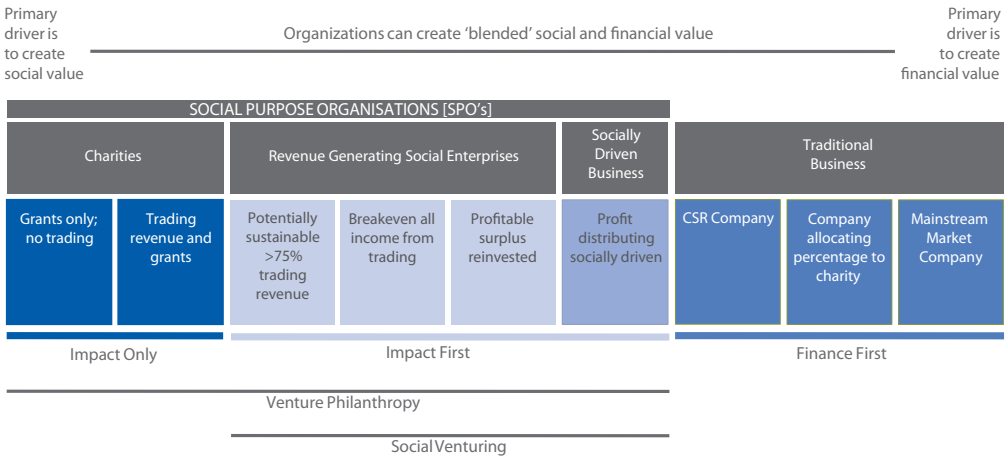
"IN BUSINESS YOU LOOK FOR THE EASY THING TO DO. IN PHILANTHROPY, YOU TAKE ON IMPORTANT PROBLEMS AND IT'S A TOUGHER GAME."

WARREN BUFFET ON MAKING A $30 BILLION GIFT TO THE BILL & MELINDA GATES FOUNDATION[6]

[6] *Buffet, W. (2006), Speech at New York Public Library, 26 June 2006.*

PART 1: INTRODUCTION

The diagram below[7] sets out the range of organisational types that may have some social mission of one form or another. Those that are typically considered for investment by VP will generally fall into the Charities, Revenue Generating Social Enterprise and Socially Driven Business categories, collectively referred to as Social Purpose Organisations (SPOs):



Venture philanthropy does not include investments in organisations that provide financial returns above social returns. When financial return is generated it is normally below market, and recycled into additional social investments or grants. Although not without its sceptics, VP has the potential to contribute to developing a more flexible and diverse social investment market. 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.

It is our belief that the social investment and philanthropic marketplaces are converging and that both foundations and VC/PE firms engaged in philanthropy will increasingly step closer to one another and engage in some of the same practices – not competing – but drawing on vital skills in each industry. The third sector and the philanthropic mechanisms used to support it aim to address failures in the market, which are not adequately addressed by firms and governments. Historically, foundations have taken a thematic approach to solving societal issues – by funding not-for-profit institutions or social enterprises, or operating their own programmes. Their missions and chosen approaches reflect the founder's (or founders') values and aspirations; their approaches evolve over time, reflecting learning and the changing context in which they operate.[8] Foundations thus have vast knowledge of the non-profit sector and they usually possess valuable expertise on specific social sectors. Furthermore: "Foundations are in a unique position because they are the only organisations that control large pools of investment capital that are dedicated to broad social purposes."[9] VC/PE firms contribute with their knowledge of business practices that may prove useful in philanthropy. For this reason, both the professional finance and professional philanthropy sectors need to collaborate and look to one another for new ideas – as this paper attempts to do. As venture philanthropy evolves and creates its own practices building on the heritage from both the for-profit

[7] *Adapted from John Kingston, Venturesome, by Pieter Oostlander, Shaerpa.*

[8] *Interview with Sevdalina Rukanova (European Foundation Centre), May 2010, Brussels*

[9] *Kramer, M.R. and Cooch, S.E. (2007), "The Power of Strategic Mission Investing", The Stanford Social Innovation Review, Fall 2007*

and nonprofit sectors, foundations continue to play an important role in shaping the VP industry. Individual foundations can use VP practices as part of their quest to better assist certain types of investees and to enhance the social impact of their operations.

Recently, we have witnessed how more foundations, venture capital organisations, wealthy individuals and conventional businesses have become interested in venture philanthropy, thereby increasing the supply of resources – financial and human capital – to philanthropy. At the same time, the demand for social investment capital increases as the distinction between the non-profit and for-profit sector is becoming blurred with more individuals inspired to become social entrepreneurs and more nonprofits looking to become financially self-sustainable. Additionally, demands for transparency and performance measurement continue to increase across all sectors. On a larger level, institutions are increasingly looking for cross-sector collaboration to solve major societal problems, which is also a potential lever for demand.

The focus of this paper is to illustrate how, when and why foundations can incorporate VP practices. There is a concurrent movement in the foundation world toward other forms of social investment, which have been given names like mission related investment and socially responsible investment. These terms refer to the investment a foundation makes with its endowment.[10] The investment capital discussed in this report normally refers to that which a foundation uses or wishes to use for programmes, or Programme Related Investments (PRI), i.e. funding nonprofits and social businesses. Our objective is to provide foundations with a roadmap to when and how they can implement a VP strategy with their programme funds, depending on their resources and particular situation.

[10] *Bolton, M. (2006), "Foundations and Social Investment in Europe", European Foundation Centre.*

PART 2

THE USE OF VP PRACTICES AT FOUNDATIONS

Foundations have long been using venture philanthropy practices without using VP terminology. Many foundations are already familiar with the practice of providing their grantees with non-financial support (Characteristic 4) and focusing on organisational capacity building (Characteristic 5). However, using tailored financing, multi-year support and performance measurement are VP practices that may be relatively new to some foundations. This section will briefly explain how foundations are currently using each venture philanthropy characteristic and the areas that foundations can learn from VP practices to supplement their approaches.

1. High Engagement

VP aims to build stronger social purpose organisations by engaging closely with them. This high engagement approach implies increased non-financial support, investing in fewer organisations over a longer time period, and engaging closely and regularly with them. Many large foundations support hundreds if not thousands of projects each year with limited staff, making high engagement difficult. In many foundations, higher engagement usually follows when a larger grant is offered, together with closer monitoring of results.

The level of engagement that a foundation has with the organisations it supports, as David Carrington[11] noted in an interview with EVPA,[12] is largely related to its history. Carrington identified a spectrum of three types of foundations. The first, institutional foundations, have a long history and their management and governance is now wholly or largely autonomous of the original donor. In these foundations, if the donor's descendents are involved, they are typically only a minority of the trustees. The Esmée Fairbairn Foundation is an example of an institutional foundation. At the other end of the spectrum are personal living donor foundations. These organisations are the legal entities set up to implement the philanthropy of an individual and/or his/her family. They depend highly on the characteristics and values of those individuals. Examples include The One Foundation, The Bill and Melinda Gates Foundation or the individual Sainsbury Family Charitable Trusts. In between these two types, there are pooled funds, such as the Impetus Trust, where all the founding trustees were donors and where external funds were also raised from other foundations, such as the Esmée Fairbairn Foundation. The Private Equity Foundation is another example where the money is pooled from many sources. Some donors are passive and others become actively involved. The Venture Partnership Foundation has developed a unique methodology where each member of the board is connected to an organisation as its primary contact.

The distinction between these models is important for understanding their choices of various tools. The living donor foundations and to a large extent the pooled funds, are characterized strongly by their living donors, who are quite often individuals with strong business backgrounds and little experience in philanthropy, whereas the institutional foundations have developed their practices over time, often in response to research and awareness of the evolving industry. The cases we will discuss in this paper are almost entirely from institutional foundations, which have undergone changes after learning about VP, rather than approaching philanthropy through the lens of past professional experience.

2. Tailored Financing

Tailored financing is not often used by foundations, which typically use grants as their primary or only funding tool. Interest among foundations in funder collaborations is

[11] *David Carrington http://davidcarrington.net/ is an independent consultant and Honorary Member of EVPA.*

[12] *Interview with David Carrington, May 2010, Brussels*

PART 2: THE USE OF VP PRACTICES AT FOUNDATIONS

growing. In some cases, funder collaborations enable foundations to provide grants while other organisations such as specialist social investment funds or banks address other aspects of an organisation or project's financing needs. David Carrington noted that very few foundations have considered using financial instruments other than grants: "Though grants can be made flexibly, there are lots of other types of funding, such as underwriting or loans that are available to a philanthropist".[13] This is a fairly new area for venture philanthropy funds as well as for foundations and the whole social investment market is likely to develop increasingly diverse financial products in the future.

Funder collaborations[14] are a form of co-investment, which we believe will play a larger role in the philanthropic landscape in the future. In particular, collaborations show promise for VP and foundation co-funding, or co-investment, where each organisation invests funds through its own instruments (i.e. a foundation will provide grant funding, a bank - debt - and a VPO - quasi-equity). In addition, future collaborations between VP organisations, foundations, corporations and public bodies show great promise for impact maximising investment.

3. Multi-year support

The length of time of financial support is closely correlated with the other characteristics of VP. As funding organisations practice high-engagement, non-financial support, capacity building and impact measurement, the average time span increases to accommodate the time needed to implement and measure these new procedures. One example of a foundation that uses multi-year support is the King Baudouin Foundation. Separate from its new VP organisation, King Baudouin Foundation is involved in several large projects, where they finance the structure, take a board seat, and spend around six years in the investment.[15]

4. Non-financial support

One of the biggest areas where foundations have been active in venture philanthropy, is in non-financial assistance, sometimes labelled "assistance beyond the grant". The trend from transactional funder relationships to partnerships can be seen across the foundation landscape and represents the closest tie with venture philanthropy. This practice has evolved from older philanthropic practices, wherein foundations didn't have the staff or skills to support high levels of engagement and viewed such involvement as intrusive.[16] This past view has changed in part, but foundations do not on average offer the same level of non-financial support as do venture philanthropy funds:

- In the United States, The Center for Effective Philanthropy reported an increase in "non grantmaking charitable activities" in a 2007 report and identified 14 areas of non-grant assistance in a survey of 148 US foundations and 21,446 of their grantee organisations.[17] Of the 44% of interviewees who provided assistance beyond the grant, most did so in only two or three ways, which were found to provide insignificant added benefit. Many of the categories they identified were used in daily grantee and programme officer communication and did not represent high engagement.[18] An average of nine types of assistance were provided to only 5% of grantees. This report concluded that foundations and their grantees valued 'beyond the grant' assistance, but needed to incorporate it in a more strategically planned way, including redefining the fundamental goals of the foundation and focusing their resources to deliver on those goals as well as measuring the outcome.[19]

[13] *Interview with David Carrington, May 2010, Brussels*

[14] *Grantcraft (2010), "Managing a Funder's Collaborative", http://www.grantcraft.org/index.cfm?fuseaction=Page.ViewPage&pageId=1490 (Accessed May 2010)*

[15] *Interview with Benoît Fontaine (Advisor at King Baudouin Foundation), June 2010, Brussels*

[16] *John, R. (2006), "Venture Philanthropy: The Evolution of High Engagement Philanthropy in Europe", Skoll Centre for Social Entrepreneurship, Saïd Business School*

[17] *The 14 types identified by the Center for Effective Philanthropy were 1. General management advice, 2. Strategic planning advice, 3. Financial planning/ accounting, 4. Development of performance measures, 5. Encouraged/ facilitated collaborations, 6. Insight and advice on field, 7. Introductions to leaders in the field, 8. Research or best practices, 9. Seminars/ forums/ convening's, 10. Board development/ governance assistance, 11. Information technology assistance, 12. Communications/ marketing/ publicity assistance, 13. Use of foundation facilities, 14. Staff/ management training*

[18] *Interview with Sevdalina Rukanova (European Foundation Centre), May 2010*

[19] *Buteau, J.E., Buchanan, P., Bolanos, C., Block, A., Chang, K. and Ross, J.A. (2008), "More than Money: Making a Difference with Assistance Beyond the Grant", The Center for Effective Philanthropy*

- In comparison, the same percentage (44%) of social purpose funds served by venture philanthropy funds surveyed in a 2007 study by the Skoll Centre[20] received nine identified non-financial services with in-house resources.[21] This survey found that social purpose organisations valued strategy consulting the most, followed by access to networks, then coaching. Of respondents, 53% said that non-financial services received from their VP "greatly add value to the financial support we receive" and 21% said it was, "helpful in addition to the financial support we receive."

While foundations have demonstrated increased interest and effort to provide non-financial support, this characteristic of the VP model has not been completely embraced in existing foundation practices. However, as the majority of VP grantees reported positively on their experience with beyond the grant support; this may be a knowledge area where VP can provide value to foundations.

5. Organisational Capacity - Building

Though historically capacity building was not given adequate attention by funders and nonprofits focused more on delivering much-needed programmes than bolstering their organisations, this situation is changing across the sector.[22] The aim of VP is to build stronger organisations. The need for capacity building is increasingly recognised across the philanthropic community and changes in the funding climate and increasing professionalization of nonprofit management are helping this trend - though there is much to be done. There is also a tendency toward providing unrestricted funding to support an organisation's 'core' capacity or operational running costs. The Baring Foundation is an example of a funder that has made unrestricted funding a priority.[23] David Carrington explained, "Some foundations separate grants for an organisation's core funding from those that are restricted to supporting specific projects or activities. They also provide unrestricted grants for organisations to use for strengthening their own capacity. If you look at what foundations are doing, while many do still define the purposes of their grants as being to fund specific projects, an increasing number are now providing unrestricted funding or the restrictions on the use of the funds will be so broad that the grantee organisations can work more flexibly and do not have to comply with every little detail of the original plan."[24] In conclusion, capacity building is an area where venture philanthropy can provide another perspective and insight into the tools and approaches used by other practitioners.

6. Performance Measurement

There is no universally accepted accounting protocol for the measurement of outcomes and impacts in the pursuit of philanthropic ends, which are notoriously difficult to estimate and measure. The field of evaluating these aspects of value is as yet undeveloped, but with the growing enthusiasm to apply "business principles" and "investment analysis" has come a variety of approaches.[25] According to the Social E-valuator, "Outcome is the result of the organisation's action for each stakeholder. Impact is the outcome minus what would have happened anyway. Attribution is the extent to which the impact is the result of the organisation's action."[26] With venture philanthropy comes an increased attention to these measurements and particularly of holding social purpose organisations responsible for measuring their progress and meeting predetermined objectives.

[20] *John, R. (2007), "Beyond the Cheque: How Venture Philanthropists Add Value", Skoll Centre for Social Entrepreneurship, Said Business School*

[21] *The non-financial services identified by the Skoll Centre were 1. Strategy consulting, 2. Marketing & communications, 3. Information technology, 4. Fundraising strategy, 5. Financial management & accounting, 6. Legal advice, 7. Human resource management, 8. Governance, 9. Management of change, 10. Special advice, eg mergers, 11. Access to network, 12. Estate management, and 13. Other services*

[22] *McKinsey and Company (2001), "Effective Capacity Building in Nonprofit Organizations", prepared for Venture Philanthropy Partners, 2001*

[23] *Interview with David Carrington, May 2010, Brussels*

[24] *Ibid*

[25] *Tuan, M. (2008), "Measuring and/or Estimating Social Value Creation: Insights into Eight Integrated Cost Approaches", prepared for Bill & Melinda Gates Foundation*

[26] *Social e-valuator (2010), http://www.socialevaluator.eu/Default.aspx (Accessed June 2010)*

PART 2: THE USE OF VP PRACTICES AT FOUNDATIONS

"VENTURE PHILANTHROPISTS HAVE CERTAINLY GIVEN THE SOMEWHAT SLEEPY FOUNDATION SECTOR A WAKE-UP CALL IN THE AREA OF ACCOUNTABILITY AND EVALUATION. CRITICS OF FOUNDATIONS CLAIM THE PERCEIVED PUBLIC BENEFIT THEY ARE TRYING TO ACHIEVE IS RARELY – IF EVER – MEASURED, EVALUATED OR DEMOCRATICALLY CONTROLLED. VENTURE PHILANTHROPISTS CAN HELP FOUNDATIONS BECOME MORE EFFECTIVE AND EFFICIENT. IN THIS WAY, THEY CAN CREATE VALUE TOGETHER BY HARNESSING THE BEST OF BOTH WORLDS IN A WIN-WIN PARTNERSHIP."

LUC TAYART DE BORMS, KING BAUDOUIN FOUNDATION

Foundations are increasingly interested in performance measurement as well, but quantifying the effectiveness of projects is notably difficult. Though foundations are increasingly using "beyond the grant" techniques, they are generally uncertain how these techniques achieve their objectives.[27] Carrington noted, "For a long time foundations recorded very little data about the impact or value of the work they funded. After some rather clumsy beginnings, the venture philanthropy drive has given heart and encouragement to those foundations, which have been trying to become more outcome and impact focused. It's been important for them not to be too simplistic, however, about grants 'causing' a particular impact – the funds are just one among many variables that make something happen."[28] With invigorated interest from the VP world, practices and new tools are emerging to measure effectiveness as foundations are paying closer attention to performance measurement. Carrington continued, "Within government, within corporates, within existing foundations, and within new philanthropists you've got parallel - and slightly phrased differently- but nonetheless parallel greater and greater enthusiasm about outcomes and impact." Gerry Salole of the European Foundation Centre (EFC) has commented that venture philanthropy is bringing important instruments to the foundation sector, including better ways of measuring social performance.[29] A criticism of VP has been that there is too much emphasis on measuring outcomes, but our examples will show how that doesn't have to be the case.

To varying degrees, the characteristics of venture philanthropy have been used by foundations, particularly the provision of non-financial support and capacity building to grantees. It is less common for foundations to offer tailored financing, multi-year support and performance measurement. In this way, the VP practices foundations have used do not always encompass the entire venture philanthropy approach. However, foundations may have no need for a full venture philanthropy approach. In the following four case studies, we will look at some of the interesting ways foundations are using venture philanthropy to help reach their goals. These strategies and their components can be tailored to the needs of foundations operating in their own unique sector and geographic contexts.

[27] *Buteau, J.E. et al. (2008), "More than Money: Making a Difference with Assistance Beyond the Grant", The Center for Effective Philanthropy*

[28] *Interview with David Carrington, May 2010, Brussels*

[29] *Salole, G. (2010), Presentation at workshop: "The strange case of Fondazione CRT", EFC Foundation week, June 2010*

PART 3

CASE STUDIES

KING BAUDOUIN FOUNDATION[30]

Set up a VP organisation: Starting a VP organisation (VPO) at an existing foundation involves partitioning the VPO separately from the existing grant-giving operation. Of particular interest in this case is how the foundation came to identify the value of opening its own VPO and how this separate entity impacts the existing grant-giving foundation. Our case study chronicles the King Baudouin Foundation, which has set up a dedicated entity and had to overcome internal cultural issues to do so. Before setting up their VPO, KBF explored the value of VP at an institutional foundation and how to set up this project to fit their goals using the VP practices they found valuable and tailoring the approach to fit their own needs, beliefs and characteristics. KBF have also historically used VP practices in their grant giving work, and their foray into venture philanthropy helps to highlight the differences between using some VP practices and establishing a dedicated VP organisation.

ORGANISATION

Started in 1976, the King Baudouin Foundation is a major foundation in Belgium. With an annual budget of €30 million, €20 million of which is for projects, it supports over 1,400 projects per year across a variety of fields including social justice, migration, health, development, the promotion of philanthropy, democracy and leadership.[31] KBF believes that to have change in a society, it is necessary to support a wide range of projects. Project funding typically amounts to between €5,000 and €10,000.[32]

Three years ago, in 2007, the King Baudouin Foundation decided to create a venture philanthropy organisation.

MAKING THE DECISION

Introduction to VP

The idea of starting a fund inside the King Baudouin Foundation was first presented by Luc Tayart de Borms, the Managing Director. Luc paid close attention to new developments in his field and was always abreast of trends, constantly looking for new ideas to bring to KBF. He had been a member of EVPA several years before the idea of starting a fund became a reality. Through EVPA, Luc had met Doug Miller, co-founder and first Chairman of EVPA and Serge Raicher, its current Chairman. Luc had sent employees to EVPA workshops to gain insight on the VP model and also exchanged ideas with other foundations before making the decision to try it at KBF.

Bringing the idea to life

Eventually, Luc introduced the idea of starting a VP organisation at the King Baudouin Foundation. At first, the staff rejected the idea because it came suddenly while the foundation was in the midst of implementing its three-year strategy. The idea was brought up again a year later during the foundation's strategic review, a process they undergo every three years. During the review process, the foundation conducts interviews and researches trends and new developments in the philanthropic industry. In this context, the fund was discussed again. Serge Raicher was invited to present VP to the foundation and a debate ensued with members of the foundation's more strictly social side. Eventually, the decision was made: they were not entirely convinced, but they thought it was a good idea to try.

[30] *Unless otherwise stated, the data and quotes for this case study come from an interview with Benoît Fontaine (Advisor at King Baudouin Foundation), June 2010, Brussels*

[31] *King Baudouin Foundation (2010), http://www.kbs-frb.be/actiondomains.aspx?LangType=1033 (Accessed June 2010)*

[32] *Fontaine, B. (2010), European Venture Philanthropy Newsletter, March 2010*

PART 3: CASE STUDIES

Concerns about Starting a VP organisation[33, 34]

- **Dislike of the context:** Pretension from the for-profit sector to teach the non-profit sector 'how to do things correctly' was felt, particularly when foundations had used venture philanthropy practices before. This perception provided an emotional barrier to discussing the idea.
- **Distrust of the concept:** There was anxiety that the values of the non-profit sector and the time required to bring about social change, which is longer than the timeframe that typically governs the corporate sector, might be ignored. There was a related fear that a venture philanthropy approach might result in oversimplification and the application of ready-made recipes.
- **Distrust of focus on impact measurement:** There was a fear of reaching hasty conclusions about impact on the basis of figures, as not all consequences are easily measurable.
- **Belief that VP is just marketing:** There was a feeling that "Venture philanthropy" was a marketing term, a trend, and nothing more than business terminology on normal practices, and hence a dedicated VP organisation was duplicitous.
- **Cost:** There was a concern that the new VPO would be too labour intensive and thus expensive. Many VP organisations have an average of 2-3 organizations per person, whereas many grant-giving foundations have 10 projects per staff member.
- **Concern for sustainability at exit:** There was concern that by providing extensive management help, foundation staff or paid consultants would serve as interim management and become indispensible to the organization rather than strengthening it to work independently.

The foundation believed in the necessity of well managed organisations for greater impact, which had prompted them to boost capacity building for financial management, IT and leadership skills, long before they discussed the idea of starting a venture philanthropy fund. However, though they had been using venture philanthropy practices before, they decided to set aside a specific portion of their funding for a dedicated fund in order to try the entire VP approach. Staff agreed that projects would be more efficient if organisations themselves were more efficient, so focusing intently on building stronger social organisations was appealing. They also felt that the timeline was too short at times, and having 2-3 year involvement was intriguing. However, many reservations were voiced, the resolutions of which will be explained later (See box).

Benoit noted that, "the criticisms aired were 'points that needed to be borne in mind' rather than insoluble problems. In a sense, this was part of the process of maturation. The idea needed time to take root and grow in people's minds. We didn't present venture philanthropy as the answer, which would make redundant and supersede the other approaches we adopted, but as another instrument for making our work effective."

After some discussion the Foundation's Board of Governors approved the idea and a fund of €1 million was set aside for the VP organisation to be used over a three-year period. The fund itself would be a line item on the budget and not a separate legal entity. Its funding came from the national lottery and the income of the endowment.

IMPLEMENTATION

Establishing the VPO

The new VP organisation operates with the existing foundation staff. Benoit Fontaine now spends a maximum of 25% of his time on the VP organisation. To help him in his work on the VPO, he has an assistant and two consultants, but they all have other projects and the VPO is a minor part of their workload. The consultants are used for 30-40 days per year. KBF has calculated that if Benoit spends more time on the VPO, it will get too expensive and will need to be reconsidered.

The VPO is to pursue two main objectives. First, investment and advice for capacity-building (improving the strategy, communications, human resources management, financial management, use of IT, etc.) and second, to attract new investors (from individuals to companies).

The VPO is to support 10-12 organisations with €80,000 per organisation. This amount is divided in half, with €40,000 funding consultancy assistance and the remainder dedicated to fund a variety of costs depending on the strategic objectives. Investments will be made over 2-3 years, of which the money could be in the form of a loan or a grant. Prior to the VP organisation, KBF had only given grants, so enabling new forms of financing was a point of attraction to starting the VPO. However, the financing model of KBF's VPO does not contemplate any financial return.

Operations began officially in March of 2009. The VPO decided to start a pilot phase between March and October during which they would look for investees in their own network. To get in touch with the organisations, KBF emailed 60 organisations and got 35 application forms back. During this pilot phase, they refined communications, the selection process and the final offering to investees. The second phase, which started in November 2009, opened the application process to the public.

Evaluating Potential Investees

KBF is interested in backing some of the riskier organisations that have a higher potential impact and require a non-risk averse investor. Sometimes they take projects with a high potential social return and a high risk. They mitigate this risk by proposing new people to join the board, making sure the organisation is strong and giving it ideas pre-investment to become investment ready.

The application forms for the VP organisation focus on the empowerment of the entire organisation, not on specific projects as would be the case in the applications for regular grants. Organisations are selected by a 7-person Steering Committee comprised of volunteer members across varied sectors including corporations, associations, headhunting, private equity and banking. KBF has 1,500 volunteers who create a large network of expertise, forming independent steering committees for each individual fund, and helping the foundation in various aspects. The VP organisation's Steering Committee also oversees the VPO and reviews the individual organisations.

Measuring Performance

When KBF has selected an organisation to support, they first take two months to identify two or three indicators with the organisation staff. Developing the indicators in partnership with the organisation is key to increasing the buy-in of management and the likelihood of turning the indicators into management tools. The indicators are used to set a clear goal and a deadline. To establish these 3 goals, they have several meetings and discussions, and then the three objectives are put in the contract with KBF.

KBF tried SROI (Social Return on Investment) but had trouble applying it across diverse projects. Benoit added, "SROI worked well for a company like TechSoup where the result can be more easily monetized, but we tried it with a health organisation – difficult."

KBF finds ways to exert pressure on the investees of the VP organisation, more so than they do with their regular grants. On one occasion they told an investee, "in two months, we're all coming here for a meeting" and held a Steering Committee meeting at the organisation's office. Naturally, the investee wanted to put its best foot forward for its funders.

Hiring consultants allows them to find specific experts depending on the organisation. KBF opted to pay its consultants market rates rather than look for pro bono volunteers primarily because of the time commitment it would take to market, search for and vet potential consultants or partner consultancies. In the future, they might consider a pro bono strategy and continue to welcome interested pro bono consultants.

If an organisation already knows a consultant that they would like to use, they can send in the bio and references for KBF's approval. Otherwise, KBF helps the organisation find the right consultant; sometimes a challenging task. The KBF name and network are useful in identifying and attracting the right person. SPO management digests the suggestions and implements the work. KBF believes very strongly in enabling management and is careful not to become indispensible to them. The consultants help the organisations and the management is in charge of doing the work. In this way, the manpower needed from KBF is not exaggerated, and these are seen as catalysts rather than interim managers. The overall aim is to help the organisations supported implement a change process, become more financially sustainable and increase social impact.

"OVER THE LONG TERM, THE FUNDER BRINGS MUCH-NEEDED PRIVATE SECTOR SKILLS TO THE COOPERATION: MANAGEMENT SKILLS, BUSINESS TRAINING, FINANCIAL AND ACCOUNTING SYSTEMS, MARKETING STRATEGY, TECHNOLOGY – WHATEVER THE ORGANISATION NEEDS TO GROW AND TO DEVELOP. THE FLIP SIDE TO THIS IS THAT THE FUNDER PROVIDES THE CASH, BUT THEN TURNS INTO A WELL-INTENTIONED MEDDLER WHO THREATENS THE ORGANISATION'S CULTURE. THE NON-PROFIT BECOMES DEPENDENT ON THE FUNDER WHO EVENTUALLY BACKS OUT AND LEAVES THE ORGANISATION HIGH AND DRY."

LUC TAYART DE BORMS[35]

Footnotes for page 24

[33] Interview with Benoît Fontaine (Advisor at King Baudouin Foundation), June 2010, Brussels

[34] European Foundation Centre, Email Survey to Foundation Week Delegates

Footnote for page 25

[35] European Venture Philanthropy Association, Newsletter, 5, December 2005

PART 3: CASE STUDIES

Statistics of VP organisation at KBF

- Employs 25% of a KBF programme manager and 2 consultants working 30-40 days/year
- To support 10-12 organisations
- Financing consists of €80,000 per organization of which €40,000 funds consultancy assistance and €40,000 is provided for core costs
- Financing can be a loan or a grant
- Support provided over 2-3 years
- Overseen by Investment Committee consisting of 7 volunteers from varied sectors

Criteria for Organization Selection

The VP organisation is open to NPOs and social enterprises:

- From all social sectors
- Operating in Belgium
- Undergoing a change process,
- With strong potential
- With strong, honest leadership
- That are "investment ready" (sometimes KBF provides assistance)

The process for choosing an organization:

- Review applications on paper, make initial selection
- Visit selected organizations with at least one member of the committee. Make shortlist
- Interview shortlisted organizations at the foundation with someone from the board and the management team (to ensure high-level support)
- Make final selection from shortlist

OUTCOME

External

Every four months, Benoit Fontaine gets a one-page document with the three goals and the percentage completion of the goals. It doesn't take a lot of time for the organisation to do this report and it gives him a clear picture of how they're doing. Though a bit subjective, it gives a clear description of whether the objectives have been met and if not, roughly how they are progressing without occupying a lot of the organisation's time. Although it is too early to point to concrete results, KBF believes that the first signs are positive. Starting in 2011, a VPO Impact Report will be created to communicate the effectiveness of the Fund to the outside world. Though the VPO is currently funded by KBF, it is looking to external donors in the future.

For organisations supported by KBF's venture philanthropy fund, KBF found three primary benefits so far: money, legitimacy and the KBF network. Many of the organisations the KBF fund aims to work with will be undergoing organisational change processes. Change processes such as regional expansion or implementation of a new accounting system may not have universal approval from the organisation's management and board. Therefore, the presence of KBF will legitimize the process internally. Additionally, the KBF funding brings access to the KBF network. Organisations may not be able to find the resources they need on their own, or be successful in soliciting important partners, but the KBF network and name can help open those doors. Additionally, KBF noted that this approach forces organisations to identify specific goals and a timeline, which they might not otherwise be encouraged to do. KBF puts more pressure on its fund investees than on other grantees. These benefits combined with the financial resources create added value for grantees of the VP organisation.

Internal

The King Baudouin Foundation has overcome internal cultural conflicts to establish a VPO in addition to its grant-giving practices. The new project does not replace existing methods, but simply adds a new approach. The VPO's goals of providing investment and capacity building and attracting new donors can only truly be measured after it has operated for the full investment cycle of its first investees. Starting the VPO has had little effect on foundation culture so far, but these are still early days. Though the idea was not welcomed immediately, it was eventually considered with open minds. Before the VP organisation, they had only given grants. Now they are doing loans as well, which is a new experiment they are eager to try.

CONCLUSION

In general, VP is now viewed with positive eyes and it is an integrated part of the foundation. By setting up the VPO, KBF has managed to make VP more explicit and understandable to its staff and supporters. The objective is to help build stronger social sector organisations. In the long run, KBF believes that their approach will facilitate further exchange of knowledge across sectors leading to enhanced social impact of their work.

Concerns and Resolutions about Starting a VP Organisation

- **Dislike of the context:**
  - VP organisation using in-house staff from non-profit sector shows that it is not about for-profit trying to teach non-profit. The Steering Committee is made up of people from a variety of backgrounds
- **Distrust of the concept:**
  - KBF decided to apply the approach in a specific way – helping organisations make strategic shifts in their operations. These goals can be accomplished in 2-3 years, a timeline longer than the involvement in most grants.
- **Distrust of focus on impact measurement:**
  - KBF designed its own simple evaluation procedure in collaboration with organisations it supported. The evaluation procedure required minimal reporting time from the organisations, yet provided KBF with a clear view of the organisations' progress.
- **Belief that VP is just marketing:**
  - KBF identified that even for grants that were provided along with some characteristics of VP, involvement was not the same as the full VP approach. Additionally, the term 'Venture Philanthropy' and the marketing aspect was considered a positive way to potentially attract new types of donors.
- **Cost:**
  - They use a maximum of 25% of a project manager's time and an assistant and have hired no additional staff. Consultants are hired on a project basis for their specific expertise.
- **Concern for sustainability:**
  - KBF's use of consultants and catalytic VP from the foundation will enable organisations to effect change themselves with the help of KBF.

The Fund has currently invested in three organisations and will soon be funding five more. In one year, they aim to be investing in 12. Thus far it is still experimental. KBF took the VP approach, which was foreign to its foundation staff and management, and tailored it to fit its own beliefs, characteristics and goals. The foundation found value in the VP approach as a means to provide a different type of service to organisations and to potentially attract new donors. For foundations curious about venture philanthropy, KBF is a good example of how to use venture philanthropy in a way that suits a foundation without compromises. Given the vast diversity across the foundation landscape, their establishment of a unique VP organisation may be an interesting example to foundations interested in extending their services without disrupting existing operations.

Example of 3 impact assessment indicators:

- Have 2 years to get EFQM label and prepare for the succession of the Director
- In 6 months, will implement a new accounting system
- Have 2 years to optimize relationship with stakeholders

KBF's RECOMMENDATIONS FOR FOUNDATIONS

- **On Resources:** By delegating the VP organisation management to only 25% of one foundation project manager's time, KBF kept staff costs low and limited the potential for staff to become indispensible to the organization. KBF also advocated the use of external consultants who will have specific expertise suitable to certain projects rather than hiring or training consultants.
- **On the Approach:** This approach brought increased pressure on the grantees, which was viewed as a positive effect. "Some pressure for impact is good for the right organizations," according to Benoit.
- **On Measurement:** Apply the right tools to the right places, and develop the measuring criteria together with the organization supported.
- **On Humility:** Benoit noted, "Social change is difficult and takes a long time; much more than some think. As a non-profit, you don't have a lot of money or staff, you have to report to 5-6 sources of financing. People from the profit sector don't always realize that.."

PART 3: CASE STUDIES

Benoit cited networking with other VP organisations, attending EVPA site visits, workshops and networking events as useful knowledge building. As Benoit mentioned, "The most important thing now is to create true added value for the supported organisations. The process is launched, but we don't know yet whether it will achieve the impact we hope… and in the end only clear results will suffice to convince the biggest sceptics! Let's talk about impact in a few months!"

FONDAZIONE CRT[36]

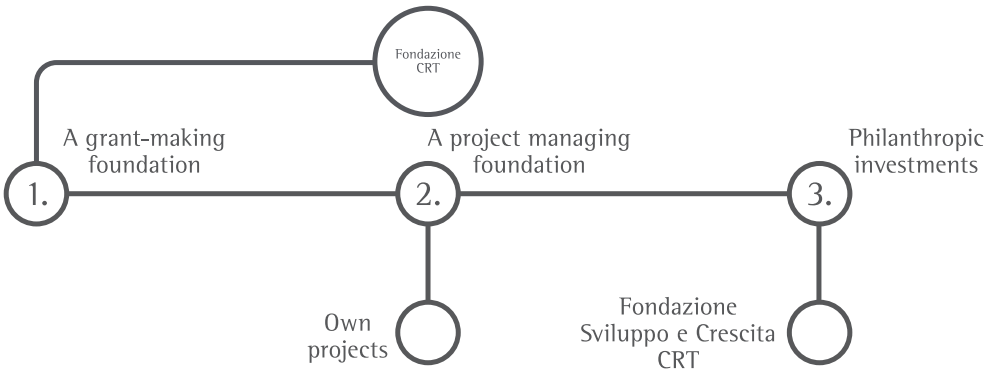
Set up a fund that invests in VP: Our case study covers Fondazione CRT, which has set up a philanthropic investment fund for channelling funding to VP and social investment initiatives. Its unique new foundation structure allows it to invest in social purpose organisations at below-market return.

ORGANISATION

Fondazione CRT (FCRT) originated from Cassa di Risparmio di Torino in 1991 following the saving bank's privatization in Italy. Many banking foundations in Italy were formed at the same time – 1991 – and have similar characteristics. They are the most important player in Italian philanthropy: 88 banking foundations had a total endowment of €49 billion in 2008, and spent €1.68 billion on grants in the same year.[37] Following the Italian law governing banking foundations, FCRT invests almost entirely in neighboring Piedmont and the Aosta Valley. It works on a broad range of social initiatives for local development including preserving cultural heritage and supporting scientific research. In the last five years, the Fondazione has awarded €130m per year on average, €163m in 2009, to around 2000 investees each year. Among other reasons, FCRT's interest in venture philanthropy sets it apart from its peers.

MAKING THE DECISION

FCRT started as a grant-making foundation and transitioned to a project managing foundation managing its own projects before moving to a VP approach for 25% of its activity.



First contact with VP

Originally from the finance world, Professor Angelo Miglietta, Secretary General of FCRT was immediately drawn to the VP approach because of similar terminology and market-based investment approaches.

> "The word 'venture', it was like music to my ears, not because I think venture capitalism is the perfect way to solve the problems of the world, but because I think that if well applied and well managed, a venture approach could be one of the most effective ways to use money."

[36] *Unless otherwise stated, the data and quotes for this case study come from an interview with Professor Angelo Miglietta (Secretary General of Fondazione CRT), June 2010, Brussels*

[37] *Professor Comba (Chairman of Fondazione CRT), European Foundation Centre, European Foundation Week, June 2010*

PART 3: CASE STUDIES

"I THINK IN ITALY, WE NEED A NEW LAW TO HELP VP. A LAW ASKING THAT A PART OF GRANTS GO TO VP, TO INVESTMENTS, INSTEAD OF GOING TO GRANTS."

PROFESSOR ANGELO MIGLIETTA, SECRETARY GENERAL OF FONDAZIONE CRT

He saw a lack of sustainability in other philanthropy approaches, where the organisations supported by short-term grants never got out of the fundraising trap.

> "One of the first problems I had to tackle when I entered [the foundation] was the feeling that the Piedmont system was absorbing a lot of money thinking that the most important thing was only to find money, not to build a project. The idea of sustainability was completely out of the experience, I realized."

In particular, Angelo was interested in supporting market-oriented social ventures and using a variety of financing tools in the social sector.

> "At the same time, I realized that we had to change the model because I do believe that investments can help much more than grants. This macroeconomic idea – the idea to multiply the effect of the tools of the political economy – it's a Keynesian idea. The investments multiply much more the public spending. That was the idea basically. Together with my staff, we "found out" that VP, as it looked to our eyes, could definitely represent a different and more effective way to invest in initiatives with social purpose".

The foundation worked with Luciano Balbo, founder of Oltre Venture Capital Sociale (Oltre), the first VP organisation in Italy, first as an investor and then as a co-investor. There are 88 banking foundations in Italy and FCRT was the only one that invested in Luciano's fund. The first investment made in Oltre was made using the endowment of the foundation. FCRT has since been a partner and co-investor of Oltre in social housing. The relationship with Luciano has been an important source of inspiration throughout the process of moving in a VP direction. Throughout the process of investment in and co-investment with a VP organisation, FCRT learned about the VP model. Luciano also introduced FCRT to EVPA and Angelo and Stefania Coni (Special projects and international projects coordinator) have attended several workshops since then, exchanging knowledge with foundations and VP organisations across Europe.

Implementing VP in accordance with Italian legal requirements

Following the initial contact with VP, Angelo became increasingly convinced that, in order to support territorial development even more effectively, Fondazione CRT should create a separete entity which did not need to conform to the strict legal requirements imposed on Italian banking foundations. Indeed, unlike banking foundations, such an entity would be allowed to carry out riskier social investments with below-market returns. The separate entity dedicated to philanthropic investment created by FCRT was called Fondazione Sviluppo e Crescita (Development and Growth Foundation) CRT (FSC).

Angelo's team set up FSC in 2007 as a separate non-profit organisation under the same governing structure as Fondazione CRT. The surplus income from the endowment investment was used to set up FSC. Hence, the "normal" activity of the foundation did not suffer from the creation of the fund, which made it easier for the board to accept. Strategically, this new fund was established at an opportune time. "I was lucky in the timing of investments. It was the opposite of many other foundations. We didn't lose our money". During the previous two years, Angelo had achieved unprecedented high returns in managing the foundation's endowment, and this both allowed him good standing with the board and necessitated the creation of a new way to give the money away so as not to distort the grants market with unsustainable funds. Due to the glut of money at this time, it was deemed safer for the local economy to funnel this money into a VP organisation rather than flood the community.

Convincing the Board

The foundation still maintains the previous grants and FSC, the VP organisation, uses extra returns, so it does not detract from the rest of the grants budget. Thanks to that and also to FCRT's exceptional results in managing its endowment, convincing the board of the VP organisation was not an arduous process.

> "I was surprised how quickly they accepted and they became well committed to the idea of venture philanthropy. The opportunity of the direct involvement of the board with VP made them considering VP activity highly."

The members of the board come from public and private entities, the academic world, as well as the Union of Chambers of Commerce and the Episcopal Conference, all representatives of the Piedmont and the Aosta Valley area. They are a diverse mixture of people, but it works. In the early stages of setup it was not easy to reach a consensus. Angelo explained: "When we started with the idea of the new foundation, it was stressful for the foundation. It was a new model."

> "The turnaround, it was when I involved the board into the management of these new activities, of venture philanthropy, that was the key. So the first lesson is - involve all the members of the board in that activity, even if you force a bit. The members of the board should be on the management, so they can understand."

By managing the business first hand, board members, who primarily came from other backgrounds and not finance, grew to appreciate FSC and the fiercest critic became a strong supporter. Angelo said, "The members of the board need to understand the projects first hand." The top down approach, eventual unanimous board support and a young and flexible staff all made establishing the new foundation a relatively smooth process.

Concerns about using a VP approach

Legal hurdles: Grant money of the foundation could not be used for investment purposes and the endowment could not be used for such "risky" investments

Distrust of concept: Especially board members from a non-financial background were critical of VP

IMPLEMENTATION

FSC is not the type of VP organisation that invests directly in nonprofit organisations or social enterprises. It could almost be seen as a philanthropic "fund of funds" in the sense that it invests in funds that in turn engage in "philanthropic investment". For FCRT, "philanthropic investment" implies a type of investment with a primary social goal, but that also generates returns that are below market, i.e. that would not be acceptable under competitive market conditions. Itself a foundation, but isolated from the FCRT endowment, FSC can invest in below market return projects, allowing it to focus on social goals. This way, the main endowment of FCRT remains untouched by the philanthropic investment fund. Extraordinary returns on the main FCRT endowment the last four years went to fund FSC. Share purchases and investments are covered by ad hoc reserve provisions and it invests only money that would otherwise go to grants. When set up in 2007, a grant of 60 million was designated to the creation of FSC. Today, the amount at disposition for the initiatives of the FSC is of €220 million that will grow to €240 million by the end of 2010. It has invested €47 million and targeted another €110 million. FSC has the aim to "provide a wide range of financial operations in support of mission related activities… with the ultimate goal of re-acquiring the capital invested and re-using it for the purposes of the Foundation's mission."[38] The idea is to engage in co-investment with private investors who can get some return, thus attracting new capital to social projects, to "make money work harder", and to create an environment that incentivizes entrepreneurial action to solve social issues.

Facts about Fondazione Sviluppo e Crescita (FSC), FCRT's philanthropic investment fund

- **Created in 2007 as an operational tool**
- **To date, €220 million to invest**
- **Currently invests in 6 projects**
- **Resources would have otherwise been allotted to grants**
- **Ultimate goal of re-acquiring and re-investing funds**

[38] *Fondazione CRT (2010), "Bilancio Sociale 2010", http://www.fondazionecrt.it/BilancioSociale2010/*

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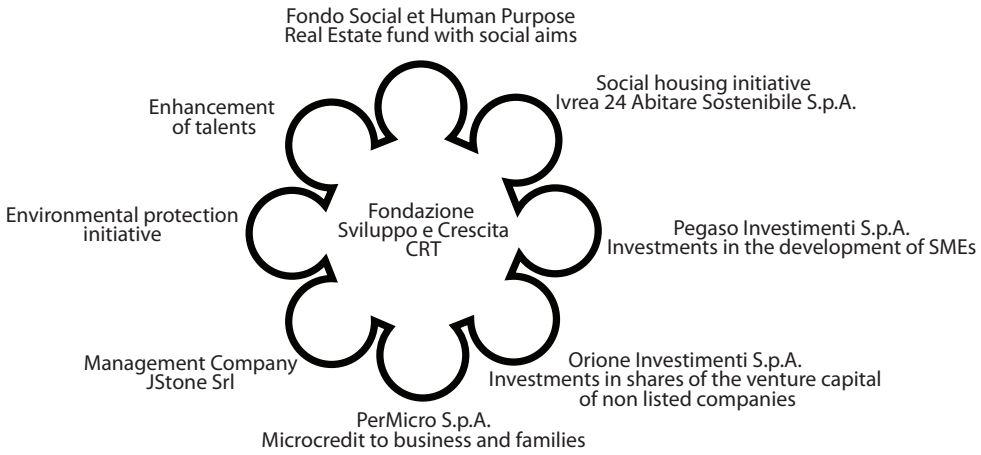
Within FSC, to date there are six main initiatives, characterized by their different financing tools and aims. The structure emerged organically as new needs were identified and tools were assigned to those needs. Several reasons lie behind the choice of using targeted financial tools, among these there is the aim is to firmly prevent the perception that venture philanthropy initiatives are characterised by less stringent standards - in terms of method, form and content - than those usually applied to other investment choices.



The initiatives all involve investments rather than grants. In its diverse portfolio are six special purpose vehicles such as investment funds and dedicated firms, which focus mainly on property investment, social housing and innovation in local development, using tools typical of the financial market such as real estate funds, bond underwritings, share-holding in specific companies and other financing mechanisms. External companies manage the dedicated firms and FSC maintains a strong network of local partners through these six initiatives:[39]

1. **Social & Human Purpose Fund:** FSC has invested in a real estate fund with social aims managed by Ream SGR Spa, a company specialized in the management of real estate funds. Its shares have been allocated to several foundations for a total of €80 million.
2. **Ivrea 24 Abitare Sostenible S.p.A.:** FSC together with Oltre and the D.O.C. social cooperative set up this temporary social housing initiative whose main activity is the renovation of a building and turning it into a residence for the socially weak. The aim is to enhance social justice and cohesion through a VP investment approach. FSC has committed €14 million.
3. **Pegaso Investimenti S.p.A.:** FSC, together with Fondazione CRT, UniCredit Corporate Banking and other private subjects, has invested in this investment vehicle that finances small and mid-sized businesses in the regions of Piedmont and Aosta Valley. As of today, FSC has invested €1.9 m.

[39] *Fondazione CRT, (2010), "Fondazione CRT Institutional brochure"*

4. **Orione investimenti S.p.A.:** FSC has invested €30 million in this fund that is primarily oriented towards investments in acquiring representative shares of the risk capital of unlisted companies.
5. **PerMicro S.p.A.:** FSC invested in this microcredit provider, set up by Oltre in 2007. It makes loans to businesses and households with little access to traditional credit lines and helps new entrepreneurs write business plans and supports them during start-up.
6. **JStone Srl Management Company:** FSC created this company to establish a network of international partnerships that will provide a privileged access to the global market for local small and mid-sized companies with a high know-how component. It works with innovation and international technology transfer and currently has 10 hi-tech companies in its portfolio.

To serve their investment portfolio are the foundation's VP staff and the board members who sit on the management committees of each investment vehicle. The staff of the foundation are young and accepted the idea to innovate and be a part of the project. The staff learned largely by doing and were also sent to trainings and workshops, some held by EVPA. Angelo explained: "I didn't need to ask for new people. I only introduced two new people. They have PhDs in Economics and Law. They are still independent scholars, and at the same time they apply what they study to the Foundation." FSC has three dedicated staff including one former PhD student and two from the finance department. They are the only people dedicated to VP and they collaborate with their colleagues at the foundation. The staff of FSC and the rest of the foundation are not separated. Angelo elaborated,

> "It is very important that they are mixed in my opinion because I do believe in the integration and so I must believe that working together, people with a traditional approach and people with VP is the right way to work in the direction of VP. Moreover, the staff of the foundation play a crucial role in directing local authorities and organisations applying for funding to the VP strategies and tools."

OUTCOME

Performance is not yet clear on all initiatives, but the foundation has instigated major change in the Piedmont area. It was difficult to get the community ready for a VP approach. Angelo noted, "The cost of failing in the non-profit world is worse than in the for-profit world because of social stress", so it is even more important to screen organisations and strongly back those with strong potential.

FCRT also notes that "Venture philanthropy, which provides both funds and skills and knowledge to the recipient organisation, is actually able to impact on the capacity building of the institution that offers it". The main activity of FCRT is still providing grants to smaller projects and only about 25% of its operations use a VP approach. The same staff works on both types of philanthropy and therefore, the knowledge transfer and sharing between the two approaches is fluid. Using a VP approach through FSC has changed the way the entire foundation operates. Stefania reported that she has seen, "people switching from being admin staff to being project managers".[40] They are now more focused on entrepreneurship and sustainability and more and more often the business plan from grantees, in addition to the standard application form for the grant, is required. This requirement ensures that the organisation has thought through their work in an

[40] *Coni, S. (2010), European Venture Philanthropy Association workshop, Venice, March 2010*

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"WE CAN INTRODUCE A LITTLE REVOLUTION TO PRIVATIZE WAYS OF WORKING, SPENDING LITTLE MONEY, AND FOCUSING ON QUALITY RATHER THAN QUANTITY." [42]

Concerns and Resolutions to using a VP approach

Legal hurdles: A separate foundation was set up using "extra" income from main foundation, not affecting grant market or endowment

Distrust of concept: Board members were involved in management of investment companies to buy in to the concept

FCRT'S RECOMMENDATIONS FOR FOUNDATIONS

- Engage with established VP players and EVPA in order to learn about concept and how to adapt to your organizational needs
- Create opportunities of knowledge transfer between VP staff and regular foundation staff
- Partner with experts on specific finance mechanisms

entrepreneurial way. As Stefania explained, "One of our biggest challenges is still to help organisations we work with think of us as a project manager - not an ATM machine!"[41]

In one case, the results were quite clear. For the GTT, the Authority of Transportation in Torino, FCRT underwrote a low-return bond. GTT was to use this to renovate their fleet of buses to convert them from oil burning engines to natural gas engines. The new engines save money and create less pollution. Because of the accessibility of the complete funds, GTT could renovate a quarter of the fleet immediately, instead of waiting 5-6 years to renovate slowly year by year as grant funding allowed. FSC invested €10 million Euros in the project.

The FSC will look to measure impact more closely in the future. Angelo added, "We are thinking a lot on measuring impact, but aren't sure where to start."

CONCLUSION

Building on the VP concept, Fondazione CRT has started a "philanthropic fund of funds" that is having profound impact on not only the Piedmont region but also on the foundation itself. The breadth of instruments makes this fund one of the groundbreakers in the industry and an important innovator to watch as the industry progresses. Angelo and the Fondazione staff believe strongly in the power of financial instruments in philanthropy and hope to inspire others with their practices. Even for foundations uninterested in starting a dedicated fund, it can be useful to think about new ways of financing not only to recycle their money, but to tailor their support to fit their investees' specific needs. The "philanthropic fund of funds" can also be used to encourage public funding to be used more effectively.

Fondazione CRT was able to create FSC largely due to the experience they gained by investing in Oltre Venture as well as the in-depth financial knowledge of Angelo and his finance staff. Foundations considering sophisticated investment tools may need to bring in outside expertise or advisory services. To advise a foundation interested in VP, Angelo suggested involving the board and integrating its members in the management of these activities if possible.

[41] *Coni, S. (2010), European Venture Philanthropy Association workshop, Venice, March 2010*

[42] *Miglietta, A. (2009), European Venture Philanthropy Association workshop, Venice, March 2009*

ESMÉE FAIRBAIRN FOUNDATION[43]

Co-investing with a VP organisation: Co-investment involves both the foundation and VP organisation investing together in the same project, where each uses its unique skills and tools. We will discuss The Esmée Fairbairn Foundation, chronicling their experience of investing in many innovative social finance organisations and discuss how collaboration with VP organisations to achieve systemic change may help shape the future of VP. The foundation supports early innovation in the social sector, enabling specialization of tasks and funder collaboration through a unique sector-specific investor coalition.

ORGANISATION

The Esmée Fairbairn Foundation was established in 1961 by Ian Fairbairn, and endowed with his holdings of M&G, a pioneer of the unit trust industry in the UK. Mr. Fairbairn established the foundation both for the promotion of economic and financial issues through education and as a memorial to his wife Esmée, who had been instrumental in creating the Women's Royal Voluntary Service and the Citizens Advice Bureaux. The foundation sold its holding in M&G to Prudential in 1999 and as a result, its endowment and ability to provide grants grew significantly. Suddenly with twice as much wealth, the foundation worked hard to become increasingly professionalized, increasing staffing, becoming firmer, more systematic, and focusing on specific areas. Today, the Esmée Fairbairn Foundation is one of the largest independent grant-making organisations in the UK with an endowment of over £800m and an annual spending of around £25m.

The Esmée Fairbairn Foundation (EFF) aims to improve the quality of life throughout the UK.[44] It focuses on the key areas of the UK's cultural life, education and learning, the natural environment and enabling disadvantaged people to participate more fully in society. The foundation funds social enterprises and nonprofit programmes and has a Grants Plus programme and social investment fund ("the Finance Fund"). EFF has earned a reputation as a professional and progressive foundation with a tendency to take risks and back unpopular causes, which has allowed them to found some of the most interesting and innovative new initiatives in the philanthropic sector.[45]

MAKING THE DECISION

Like many foundations, Esmée Fairbairn's practices evolved over time as more and more resources were available to the charitable sector and as the industry progressed. The so-called VP practices championed by the VP movement were a natural development - "there was no Eureka moment", as Dawn Austwick, Chief Executive of EFF, explained. VP was an extension of the way the foundation worked in some ways and also opened up new opportunities. Constantly tracking new activity in the philanthropic world, EFF became a member of EVPA in 2004 to learn more about VP and to discuss common interests with VP organisations. EFF's primary involvement with venture philanthropy has been as an early investor in VP organisations and more recently, a co-investor in the sector-specific Reducing Reoffending Initiative. In general, around 20-25% of the foundation's work is what one would call "engaged", covering quite a broad range of practices.

One area of the foundation's programmes that incorporates VP practices is "Grants plus". The Grants plus programme refers to additional services provided to investees to add value to the grant funding provided. Grants could be for projects or core funding. In Grants Plus, grants managers identify the assistance an organisation needs, such as governance, marketing or evaluation and finds ways to meet the need with extra funding

"VP IS ONE TOOL OF MANY, AND USEFUL AT A PARTICULAR STAGE IN THE EVOLUTION OF THE ORGANIZATION."

DAWN AUSTWICK, CHIEF EXECUTIVE OF ESMÉE FAIRBAIRN FOUNDATION[46]

[43] *Unless otherwise stated, the data and quotes for this case study come from a phone interview with Dawn Austwick (Chief Executive of Esmée Fairbairn Foundation) and Nicola Pollock (Director of Grant-making at Esmée Fairbairn Foundation), June 2010*

[44] *Esmée Fairbairn Foundation, http://www.Esméefairbairn.org.uk/ (Accessed June 2010)*

[45] *Austwick, D. (2008), "Markets - Foundations as a Source of Funding", European Venture Philanthropy Association workshop, Paris, April 2008*

[46] *Austwick, D. (2010), EVPA Workshop, Venice, March 2010*

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for the service or a consultant. Assistance is provided on a case-by-case basis and is tailored to the needs of the organisation. EFF staff help by connecting projects with the appropriate provider of their solution and funding it. There is a separate budget at EFF for Grants Plus which has remained at the same level for the past few years. The Grants plus programme existed before EVPA was founded and evolved naturally because it was deemed necessary to better assist grantees.

IMPLEMENTATION

Founding and Supporting Venture Philanthropy

Though EFF had already included aspects of venture philanthropy prior to the VP movement, the most significant way the foundation has interacted with the VP world is through direct investment in VP organisations and intermediaries. The Esmée Fairbairn Foundation in part helped to establish venture philanthropy in Europe. With the flexibility to grant funds to innovative and risky projects, EFF was able to provide start-up funding to Impetus Trust, one of the VP pioneers in the UK. EFF also provided early stage funding to Pilotlight and New Philanthropy Capital and has supported major names in the social investment and venture philanthropy world including Triodos Bank, Bridges Community Ventures, Venturesome, Inspiring Scotland, UnLtd and Big Issue Invest.

In the case of Inspiring Scotland, which aims to use a VP approach to solve difficult social problems, notably youth at risk, EFF invested in a funding consortium initiated by Lloyds TSB Foundation for Scotland.[47] EFF was drawn to the methodology and thought the funding model was innovative. Furthermore, due to EFF's lack of in-depth knowledge of Scotland, Dawn and her Board decided that investing in Inspiring Scotland would enable them to reach organisations that otherwise wouldn't be reached. EFF also had great confidence in Andrew Muirhead, the founder of Inspiring Scotland. These advantages outweighed some of the concerns about the lack of a challenging topic, about lack of decision-power as to which organisations to invest in, and about the fear of increasing the dependence of the civil society by flooding it with new money.

EFF occupies an important space in the social investment world. As a well-endowed foundation open to risky and innovative projects, they are able to invest in organisations that others can't. Unproven social businesses, nonprofits and initiatives need funders to accept risk and grants serve a vital purpose. The emerging social investment industry needs to be nurtured and encouraged and grant funding and advice from an experienced foundation have proven invaluable for many new initiatives. One of their interests is increasing the resources available to the charitable sector. A draw to fund Impetus is that they were looking to attract new donors to the sector. EFF could set up a VP organisation, but they have chosen to invest in VP organisations instead, allowing specialization in the industry. "We don't have an interest in doing it ourselves because we can work with others if we want to," explained Nicola Pollock, head of grant making at EFF. EFF sees VP as a valuable tool for enabling scaling and organisational change in proven business models and finds their niche in supporting innovative projects and providing grant funding to other projects or organisations that fall within their key areas.

Setting up the Finance Fund

Following ad-hoc investments in VP, EFF established a dedicated Finance Fund of £21 million, funded from the foundation's endowment. The fund makes loans and equity investments. Any financial returns are recycled into additional social investments. Several of the investees are in fact social investment funds.

Facts about Finance Fund

- £21m of recyclable money
- Total commitment of £4.2m at the end of 2009
- Investments greater than £1 million are reviewed by Finance Fund Panel
- Finance Fund staff drawn from existing foundation staff, with financial and third sector background
- Works in close collaboration with other funders and grantees when possible

[47] *Esmée Fairbairn Foundation (2009), "Annual Report and Accounts 2009"*

The fund grew out of their experience of working with Charity Bank, a bank that invests for a social return[48] and Venturesome, a social investment fund[49] on loans. There were some initial concerns that the social investment model would not work and that VP was "over-egged". The fund aims to make investments that create returns. Thus far, the fund has invested primarily in intermediaries such as UnLtd, which received £250,000 and others such as Community Land Trusts, Ecological Building Society, Triodos Bank, Bridges Community Ventures, New Economics Foundation, Venturesome, Woodland Trust and Big Issue Invest.[50] EFF aims to, "learn through the practical application of funds, where possible working alongside the small but growing group of specialists pioneering this work."[51] The finance fund itself does not have an independent legal structure from the foundation.

Co-Investing for systemic change

In addition to providing start-up and early stage funding to various innovative social investment organisations, EFF has also recently entered into a partnership with Impetus Trust (a VPO) and support from Indigo Trust, Henry Smith Charity, and J Paul Getty Jnr Charitable Trust[52] for the Reducing Reoffending Initiative.

The initiative aims to bring a wide variety of experience together to tackle the many aspects involved in reducing reoffending in the UK, which currently costs the government over £18bn annually.[54] This new approach, set over a ten year time horizon, aims to create systemic change, tackling the context of the social problem, not only curing its symptoms. As of now, the funders meet once per month; when the investments are launched by the end of 2010 they will meet quarterly. Impetus Trust acts as the lead investor, utilizing its strengths to conduct due diligence on investees and provide supportive development assistance to them. EFF brings knowledge of the criminal justice sector and the organisations that work within it. In the area of offending in the UK, EFF has significant sector knowledge. Through its seven-year 'Rethinking Crime and Punishment' programme, it has invested over £4 million on more than sixty research projects, working with partner organisations. Their own manifesto on the subject makes proposals about how the Government's allocation of £2.3 billion earmarked for prisons might be spent on alternatives to prison.[55] Additional funders bring credibility and different views and methods to tackle the problem, apart from financial resources. In its annual report, the foundation noted, "this is the first time that Impetus has selected a topic area for funding rather than backing single organisations. The fund brings together a number of funders in a steering group to oversee decision-making on applications, alongside the Impetus model of providing intensive support to grantees during the development stages." [56]

Various parts of the reoffending problem were broken down and organisations with the potential to prevent the problem identified. The VP approach can help these organisations strengthen or scale, and the coalition itself works together to explore bigger issues such as how the criminal justice system needs to change for lasting change to occur. "It feels like quite new territory," said Nicola, "This is a good opportunity to contribute in different ways to address the context of the system rather than focus only on individual organisations. Enabling change in policy and practice is an ambitious target."

Staff issues

At Esmée Fairbairn, there is a Finance Fund (one employee) and a Grants team (nine grants managers), reflecting the need for a different approach, though they sit together and communicate often. The Finance team has a "money back" frame of mind, setting a

Facts about Reducing Reoffending Initiative[52]

- Esmée Fairbairn provides sector expertise and funding
- Combined, the investors bring a total of £1.75 million
- Impetus Trust conducts due diligence of organizations
- Will invest in 3-6 organisations
- Investment per organisation will be £200,000-350,000

[48] *Charity Bank (2010), http://www.charitybank.org/about (Accessed June 2010)*

[49] *Charities Aid Foundation (2010), http://www.cafonline.org/default.aspx?page=6903, (Accessed June 2010)*

[50] *Esmée Fairbairn Foundation (2009), "Annual Report and Accounts 2009", p.36*

[51] *Esmée Fairbairn Foundation (2009), "Annual Report and Accounts 2009", p.28*

[52] *Impetus Trust (2010), http://www.impetus.org.uk/what's-special-about-impetus/we-focus-on-poverty/impetus-for-reducing-reoffending-initiative (Accessed June 2010)*

[53] *Ibid*

[54] *Ibid*

[55] *Ibid*

[56] *Ibid*

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"WE LIVE OR DIE BY BEING INDEPENDENT AND OPEN. IF WE BECOME TOO PRESCRIPTIVE, WE LOSE THAT."

DAWN AUSTWICK[57]

Benefits of implementing a specialization of skills strategy

- Goals achieved by collaborating, complementing skills with those of VP organisations
- No internal VP resources needed
- Able to maintain strong focus on funding startup innovative solutions

KEY LEARNINGS FOR FOUNDATIONS FROM EFF CASE:

- Foundations can contribute with sector-specific knowledge to partnerships with VP organisations.
- Foundations have the resources and reputation to fund risky and innovative projects.
- Instead of developing internal VP resources, a foundation can engage in VP by funding VP initiatives, co-investing with VP organisations and contributing to enhancing awareness of VP in general.

tougher financial bar, and therefore invests in less risky endeavours. The Grants team is involved in funding innovative ideas that sometimes carry lots of risks and do so without expecting any financial returns. For investing in VP organisations and participating in the collaboration, EFF uses its grants team and executives. For all ares of funding analytical and organisational skills are common.

OUTCOME

Esmée Fairbairn works with organisations on evaluation. "The measurement is always about helping the organisation make a bigger impact, to measure its own impact and to improve upon it, not for any of our needs." Investing in VP has not influenced the grants side of the foundation, but has sharpened their perception of evaluation and monitoring.

As a result of starting the Reducing Reoffending Initiative, Esmée Fairbairn and its partners have the potential to have a much greater impact by pooling their funds and experience.

CONCLUSION

Esmée Fairbairn Foundation has been investing in VP organisations since 2003 with its start-up funding of Impetus Trust. Since then, the VP industry has grown immensely as has their investments in it. The outcome of the Reducing Reoffending Initiative is yet to be determined, but boasts promising partnerships and collaboration.

EFF plays a valuable role in funding VP organisations and supporting innovative projects. It has been a key funder of the VP movement in the UK since 2003, deeming it best to allow the dedicated VP organisations to specialize. They have set up the Finance Fund that focuses on social investment.

As is the case for many foundations, EFF sees VP as one of many tools that is useful in particular circumstances. Dawn argues that the managerial roots of VP make it unsuitable for early stage, idiosyncratic organisations, which is where the real risk is: "Organisations that don't fit into neat boxes are usually not the target of VP". Many times, the targets of VP are organisations that can be replicated and scaled up and that want to grow.

It's too early for EFF to decide whether VP funding will increase or decrease, but potential for impact is what will determine their decisions.

Unlike other foundations that have invested in VP organisations to learn more about the practices in order to set up their own fund, EFF invested first as an innovative new social project with the potential to attract new donors and secondly as a partner in the Reducing Reoffending Initiative. EFF has contributed to the diversification of the philanthropic sector by supporting the VP model. By co-investing with a VP organisation, EFF brings deep knowledge of the social issue and the organisations working in it, thus complementing the different capabilities brought by the VP organisation, with the goal of systemic change. EFF supports common-interest funder collaboration across its work and views working together, learning from others, and sharing insights as a common thread across its many initiatives. By specializing and cooperating, these organisations and their other co-investors not only bring large amounts of investment and experience to the table, but potentially create the critical mass necessary to influence policymakers in order to change the context in which the social issue exists.

[57] *Pati, A. (2006), "Newsmaker: Dawn Austwick, director, Esmée Fairbairn Foundation", Third Sector, 15 March 2006*

d.o.b FOUNDATION[58]

Complete conversion: The complete conversion of a foundation to a VP approach involves the complete overhaul of the organisation's operations, strategy and perhaps even staff. To learn more about this model of VP for foundations, we studied the d.o.b Foundation, a family foundation whose board apart from the chairman consists of family members, which underwent such a change. This study discusses the characteristics and goals of d.o.b and how the foundation enabled this change.

ORGANISATION

d.o.b foundation is a family foundation started by the family of a wealthy entrepreneur who owned a chain of drugstores. The family continues to govern the board today. When the founding father passed away, a foundation was created in 1997 and the son-in-law, Theo Tobé was appointed Managing Director of the Foundation. It was an endowed foundation and invested a percentage in charitable projects each year. Initially, it made donations to children homes in Brazil. In 2005 the foundation was involved in approx. 120 projects in 26 countries.[59] Volunteers and staff visited the projects once or twice a year. These projects, although sometimes linked to business and actually having social effects, had no reliable financial sustainability. The foundation gradually grew frustrated with this approach and did not feel that grants provided entrepreneurs and management with the right motivation to grow and scale their businesses. Grantees repeatedly called needing more funding - as Theo explains, "every time you leave a project, they call to say that they are out of money!" Therefore, the foundation began to investigate other ways to serve their social interests.

In searching for a different way to give, the organisation went through two operational transformations since its inception in 1997, each transformation attempting to introduce market practices into its philanthropy to ensure sustainability. In 2002, the foundation started a new approach they called "business and care" which started businesses (e.g. drugstores and a bakery) that were required to use a portion of their profits for specified social projects. The approach was more complicated than giving out grants and d.o.b foundation faced a steep learning curve. This new approach was not very effective as cultural and language differences between the social initiatives and the profitable businesses complicated the relationship. In 2005, the foundation decided to shift again to a solely venture philanthropy approach, and the process is still ongoing.

MAKING THE DECISION

Prior to the decision to switch to venture philanthropy, Theo had been reading about trends and current practices in the world of philanthropy and the Board had decided to change strategy and turn the organisation around. At this time Bill Easterly's and C.K. Prahalad's work regarding business for development and conducting business at the base of the pyramid were emerging and the general thinking among business people toward development started to shift. The d.o.b Board contemplated the idea of investing in businesses.

The focus would be on investing in organisations with money as well as providing non-financial support. The foundation also held the belief that investment in developing countries could be more effective. As Theo explained, "30-40 years of development work in Africa did not work out very well". d.o.b set up an incubator, and Tera Terpstra, who had a background in the private sector, was appointed to lead it. Theo continued leading the main foundation. When Tera joined the foundation she interviewed the board members

[58] Unless otherwise stated, the data and quotes for this case study come from a phone interview with Evert Ludding (Interim Director of d.o.b), June 2010, a phone interview with Theo Tobé (Board member of d.o.b), June 2010, as well as an interview with Tera Terpstra (former Managing Director of d.o.b) and Frits Van der Have (former Advisor to d.o.b), June 2010, Brussels

[59] d.o.b foundation (2010), www.dobfoundation.nl (Accessed June 2010)

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Facts about d.o.b as a VP focused Foundation

- Provides financial support in tailor-made combinations of loans, share capital or grants
- Provides non-financial support including co-design of initiatives, management consulting, technical expertise and matchmaking
- Invests in Africa and the Netherlands
- Invests in 12-15 organizations total, trimmed from 120 projects
- Co-invests wherever possible
- Continues to support riskier, early-stage projects, not necessarily proven models
- Team includes professionals with VC and private sector experience

and organized, together with the Chairman Jean Pierre Sweerts, some sessions to deepen and explore the underlying desired outcomes for the foundation. It was agreed that the focus should be on producing social impact and that it made sense to integrate the two activities of d.o.b. The Board agreed that the way they had been working was not ideal and they were all open to new ideas and actively looking for practices to improve. The family-run foundation was very flexible and able to get on board with the idea of venture philanthropy.

IMPLEMENTATION

The new approach

d.o.b decided to cut the number of investments drastically in order to focus fully on each organisation's core capabilities and sustainability, a pre-requisite for a high engagement approach. The foundation decided to invest in 12-15 organisations, some of which they were already funding, and only in the Netherlands and in Africa. This strategic move led to changes in other areas. The longer time commitment with each of the projects allowed for greater financial and non-financial support.

d.o.b acknowledged the professionalism of the work of Acumen Fund, one of the pioneer VP organisations in the US, and was open to learn from an experienced organisation. After a due diligence, d.o.b decided to invest in Acumen Fund in September 2007. Acumen was looking forward to joining efforts with their first strategic European partner and the initial intention was to do two co-investments together. This collaboration allowed d.o.b to gain access to a lot of relevant material from Acumen and benefit from Acumen's "acumen". Since Acumen actively advocates transparency, d.o.b could take advantage of the lessons learned and "avoid reinventing the wheel". Indeed, d.o.b has been modelled after Acumen in certain ways, although there are crucial differences. Acumen itself has to fundraise, whereas d.o.b has an endowment. This allows d.o.b to concentrate solely on its investments rather than requiring it to maintain a public presence in order to attract funding. d.o.b also chooses to fund start up or riskier projects, whereas Acumen funds largely projects that have achieved proof-of-concept. d.o.b has the freedom pursue a "riskier" strategy in part because its operations are not related to external pressures of success.

Though d.o.b had altered its operations before, this new change brought a fundamental shift in their way of working. With a smaller amount of projects, there is now much more discussion and debate about the projects within the team. Before funding Bridge International Academies, for example, the team debated whether or not there was a role for private schools and if they should play a part in setting them up, when many view education as the role of the State. Because of each project's larger scale, this new investment approach challenged their thinking.

The d.o.b team has a strict set of investment criteria, much like a VC firm, and requires entrepreneurs to put together a business plan. They also created criteria to limit their projects (see below) and only invest in social enterprises that have the potential to become financially sustainable.

In determining the right amount of money and financial instruments to award an organisation, d.o.b uses tailor-made financing depending on factors such as the lifecycle stage of the investee and its legal structure. Any financial return will be recycled into new investments. For example, a start-up organisation may be provided a grant (with a

right of first refusal or conversion rights attached) because it does not have the cash flow to pay back a loan, whereas a more established organisation can be supported with a wider range of instruments. Furthermore, it is possible to invest in the equity of a social enterprise, but not in a non-profit organisation because it does not have shareholders' equity. d.o.b highlights the value of making investment decisions in multi-disciplinary teams that bring their different views and insights. Although decision making becomes more complex and time-consuming, the quality of the final decision is worth the extra effort.

Since their first investments, the criteria have evolved. In the beginning, Theo felt, they were too eager to think about "Breakthroughs". They were always on the lookout for truly innovative business ideas. As a small foundation with complete board support, they have the freedom and flexibility to invest in risky innovations, unlike other organisations that often look for later-stage "proof of concept" projects. For d.o.b, this increasingly became an issue of deal flow. They realized that it was complementary to look at regular businesses with social aspects as well. Foundation staff also noticed that when a funder is investing in a promising organisation, the organisation will attract other funders, even when those projects don't necessarily need the funding. It is not easy to find the best projects and infrastructure in legal, accounting and other entrepreneurial areas in Africa are underdeveloped. As a consequence, funders tend to like co-investing when they hear another funder has identified a good investee. d.o.b mentioned the need to link to other investors to both provide legitimacy and more expertise, as well as to avoid dependency from investees. Co-investment can facilitate deal flow, but also create a tough environment for unknown and unfunded organisations.

The foundation has continued to fund some grant projects and has been flexible with its criteria in the early days so as not to shut down projects immediately. Though they still support some projects with grants, they continue to apply their new philosophy with increased engagement.

During the switch to VP, the foundation also rebranded itself from "de oude beuk", the name of a tree in the Netherlands, to its initials "d.o.b", which they felt was more international and easily pronounceable and recognizable. They changed their website and logo as well.

Staff

Once the decision to switch to a VP model was made, d.o.b made Tera the Managing Director of the entire foundation, valuing her business background, and Theo became a member of the Board. The foundation looked for a new staff member with a venture capital background and hired Frits van der Have as a part-time mentor. Frits explained that his main role was, "asking questions and never being satisfied with the answers! If we really want to understand a project, we have to ask all those questions." Frits noted that the areas of VC life that were most important for VP were systematic processes. Consequently, the new fund required entrepreneurs to put together a business plan to help entrepreneurs structure their thinking.

Over the years the foundation staff has gone through large changes. It was an organic process that took five years. d.o.b had previously relied on a large network of volunteer workers, but eliminated this with the new model as they felt it was important to ensure all workers were full-time engaged. Next, the programme staff gradually left and were

d.o.b foundation's new criteria:

For social investments in Africa:

- Impact on 500,000 people
- Scalable/ replicable business model
- Innovative
- Financially viable
- Capable entrepreneur/ management team
- Measurement of financial, social (+ environmental) performance
- Multi-stakeholder approach

Projects in the Netherlands should focus on underprivileged groups and instead of these first three criteria there has to be a radical shift in thinking and acting (breakthrough initiatives)

PART 3: CASE STUDIES

replaced by people who had more experience and feeling with ventures. The shift in selection criteria demanded a different approach has not always been easy for the existing staff to adapt to. In many cases, it was also a question of principles. Previous employees disagreed with the market approach on a fundamental level, as Tera explained, "one colleague felt it was wrong to make money at the expense of poor people". One colleague argued that it was fundamentally impossible to blend principles of economics and solidarity. The investment staff now consists of six people who handle all projects, with legal, financial and investment experience.

"If you pay peanuts, you get monkeys", Tera added. d.o.b believe strongly in fostering a professional staff and give fair working conditions that are competitive to the private sector.

It was difficult, the d.o.b team said, to build a complimentary team with the correct skills. They were not equipped from the start and had to really strengthen their investment capacity.

d.o.b foundation has decided not to open an office in Africa, but partner with investor groups that have a presence on the ground, such as the Acumen Fund. They learned quite a lot from investing with other organisations like LGT VP and Acumen, particularly about deal flow, monitoring and administrating. They later noted that learning the processes was quite a new learning curve and working closely with another organisation helped immensely in this area.

Due to the breadth of industries and types of projects needed in the developing world, d.o.b decided not to specialize in any one industry, but to remain geography focused. To complement their knowledge, they look for experts in specific sectors for the organisations they invest in. They viewed depending on other organisations for co-financing as vital to their own success as a small foundation and to the investees' diversification of funding. The networks in a country are more important than the sector itself. In Eastern Africa, there is a huge lack of infrastructure for entrepreneurship, so sometimes these initiatives need to be unconventional and partnerships with funders, governments and companies arise to help meet the diverse investee needs.

After five years Tera Terpstra decided to leave d.o.b foundation to continue her career in impact investing as an entrepreneur. Frits Van der Have has also left after having strengthened d.o.b by transferring PE/ VC expertise to d.o.b during three years.

OUTCOME

External

d.o.b has been an integral part of developing a tool that measures social performance called the Social E-valuator.[60] It is a joint venture between d.o.b foundation, Noaber Foundation and Scholten & Franssen, respectively a VP organisation and social consulting firm in the Netherlands. The tool uses the Social Return on Investment (SROI) methodology and makes SROI calculations easier for organisations. The joint venture works to commercialize the tool and is one of many efforts that aims to create standardization by building a critical mass of SROI users. As social impact measurement takes resources and time away from investee organisations, Social E-Valuator aims to improve the process. d.o.b uses the tool to evaluate the social impact of its investments. "In principle, there are no areas that the tool doesn't cover," said Evert Ludding, Interim

[60] *www.socialevaluator.eu*

Managing Director. One of the advantages of using the Social e-Valuator is that it aims to deliver a comparable - albeit subjective - ratio across portfolio organisations from various social sectors. Investees are asked to deliver once a year. With the tool, organisations choose three indicators to monitor for positive results. One of the best consequences of using the tool so far is added learning on investment evaluation. Investors consider many factors before even making an investment. Knowing how they will try to measure the outcomes can help in identifying what to look for. Attempting to visualise the outcomes can help investors and entrepreneurs in identifying good projects.

d.o.b plans to exit their investments after a 5-7 year investment period. They have not completed any yet, but are preparing to do so soon so the total impact of the investments is yet to be shown. The criteria for exit include the payment of the initial loan, takeover of d.o.b shares and a flourishing company. They plan to retain board seats in some instances.

Internal

Of the six VP characteristics, d.o.b thinks it could do more on non-financial support. Since d.o.b does not have a sector focus but rather a geographic focus, it is difficult to accumulate specific knowledge within the foundation to assist organisations in a wide variety of sectors. Bringing in a network of specific expertise and experience and co-investors is a method used to overcome this potential problem. So far, d.o.b has co-invested with Acumen Fund, as mentioned, but also with other EVPA members, including Noaber Foundation and LGT Venture Philanthropy.

The change in style of working has been a learning process. "Money can turn a relationship unequal. How can you build a true partnership?" Tera asks. The answer to this question was developed by d.o.b through a mutual due diligence. The idea is that the investee also needs to choose the funder in order to have a successful long term relationship. Instead of the VP organisation only performing due diligence of the investee (i.e. performing thorough checks of the investee before investing), the investee gets to check out the VP organisation as well. This creates more of a mutual and horizontal relationship. The idea behind this concept is known in VC – the relationship between an investee and a VC fund is often likened to a marriage. The amount of close contact requires cooperation and the philosophies should be similar. Listening to the entrepreneur and co-creating new processes is particularly important given the complex nature of conducting business in emerging markets and the local realities the VP may not completely understand. d.o.b noted that a main challenge to using the VP tool was overcoming the perception felt by investees. They had some suspicion and had to get used to the new processes, so due diligence of d.o.b was particularly important for them to understand what d.o.b wanted to do.

There have been examples where the VP approach took the social enterprise by surprise. "You literally turned our organisation inside out", said an investee after a project with d.o.b Foundation. d.o.b noted that it has learned to listen more to the entrepreneur and to co-create partnership rather than a top-down relationship. The hands-on approach requires the processes to become locally embedded, so that financial sustainability when d.o.b leaves is possible. Partnerships are a common approach for d.o.b both in terms of close relationship with investees, but also in terms of preferring a co-investment approach to working solo. d.o.b Foundation also works with local collaborators including governments and local investors.

Characteristics of d.o.b and its VP conversion

Ownership: Family owned, tightly knit foundation was flexible, open to new ideas and able to make swift decisions

Resources: Foundation replaced few existing staff

Size: Foundation was small and wanted to focus on using its assets on a few involved projects rather than many small projects

Endowment: Foundation is flexible and is under no media, marketing or donor pressure

Focus: Foundation had ties in two geographies and used those to narrow its investment criteria

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d.o.b's Recommendations for Foundations

- Build a portfolio around things that you are good at
- Focus on either a geographic area or a theme
- Co-invest to learn from others and to overcome deal flow problem
- Find a social entrepreneur who invests personally in his/her own business and is highly responsible for it
- Try to co-create, avoiding paternalistic approach, helping entrepreneur become self-sufficient
- Make use of two-way due diligence - mutual understanding between investor and investee before investment is made
- Be flexible with the VP tools
- Think about the consequences of your investment on the local eco-system
- Be prepared to deal with staff issues
- Be transparent and exchange your processes with other foundations to enhance best practice

Interestingly, d.o.b commented that, "the more we moved into VP, the more questions were being asked". People from a business background recognized the language, but we should realize that impact investing in emerging countries cannot be compared with investments in Europe. Active philanthropy requires taking on huge responsibility!

CONCLUSION

Though the organisational transformation is complete, there are no clear results from the VP organisation as of yet. As per the characteristics of VP, the projects are long and there have not been any exits yet. Currently the management is undergoing another transition as the team that lead the transformation, Tera Terpstra and Frits Van der Have, have left the organisation. This is now a time of reflection for d.o.b as the board can assess the changes and further refine their strategy. They continue to look for a director with a VC background, and it is clear the VP model will prevail. As Evert comments: "This makes sense and is worth the struggle!"

One barrier noted was that some organisations give grant funding to projects that could become financially sustainable with other forms of financing. In some cases, donations actually hinder the process because an organisation will take the free money over the investment. In cases where free money isn't needed, it's unfortunate that the money can't be invested in other projects that truly need grants to get started.

In advising other foundations about VP, d.o.b suggests building a portfolio around the specific expertise of each foundation. Risk profiles and themes are very broad, so it can be necessary to focus on either a geographic area or a theme. A network approach helps to overcome the lack of specific expertise or local presence. Over time, d.o.b has learned to structure deals better, and to focus. d.o.b realized that they had underestimated the importance of real governance issues, and EVPA was helpful in terms of providing a forum to discuss these issues with peers. d.o.b also suggests finding a social entrepreneur who invests personally in his/her own business and is highly responsible for it. Evert also stressed the value of strong due diligence: "If you really want this to have impact, the business model and market must be sound. You need to find out where you can help." d.o.b advices foundations to be flexible with the VP tools - it may not be necessary to use all of them at once and they can be bent to fit the specific circumstances of the foundation.

Evert also noted the importance of seeing the whole picture before choosing investments. You have to be careful that, "Helping Village A doesn't ruin the market for Village B." Be careful to co-create and avoid paternalistic actions. Always find a co-investor to help you and to share in your development of solutions to tough problems.

When musing about the future, d.o.b hope for a social stock exchange. They also hope that other VP organisations and foundations will be open about their work and share processes, and failures as well as successes. "Processes are harder to learn and I would like to see more organsiations really start talking about them," Evert mentioned.

PART 4:

SIX VP STRATEGIES FOR FOUNDATIONS: HOW, WHEN & WHY

Our case studies demonstrate a spectrum of engagement models for foundations. The King Baudouin Foundation, Fondazione CRT, d.o.b Foundation and The Esmée Fairbairn Foundation each tailored and employed strategies to fit their individual needs and goals. To these foundations, VP serves as a complement to existing practices and only in one case as an alternative.

From these case studies, we have identified six main engagement models and evaluated how, when and why to employ each strategy. As the foundation sector varies greatly across geographies and investment focus, foundations may wish to choose the elements from different models that apply to them. This section aims to aid foundations in considering different models.

Strategy 1: Employ one or several of the six VP practices

Many foundations recognize the struggle of nonprofit organisations to become stronger and more financially sustainable, and are reconsidering their focus on financing projects rather than core costs. Foundations are also providing non-financial support to some of their grantees in line with the VP approach. By adopting one or more of the VP practices, foundations can explore VP without high resource investment. This may be a good first step for foundations that have not yet explored "beyond the grant" services and are looking for guidance in how to do so.

Strategy 2: Fund VP

Foundations that value the VP model for its ability to create strong organisations, but do not wish to change their organisational structure, or do not see a strategic fit with VP, may opt to support VP financially. EFF, FCRT and d.o.b all use or have used this strategy. Specifically, foundations have used flexible, risk-tolerant grant money to help new VP organisations get started. Taking a board seat at the VP organisation can further facilitate knowledge transfer between the entities. This can also aid foundations interested in exploring the idea of starting their own VP organisations.

Additionally, even those foundations uninterested in adopting VP practices internally may find value in helping establish other VP organisations. Risk-tolerant grant money has played a key role in establishing VP organisations in Europe and is necessary for further innovation in the social capital sector. This is particularly important in new geographies where VP is unknown, but where the approach can help establish stronger social sector organisations. Lending a foundation name through funding provides legitimacy to the new VP organisation and may help attract additional funding.

Strategy 3: Set up a fund that invests in VP

Separate funds may allow foundations to invest in different types of organisations in new ways, thereby bringing in new financing techniques and offering the possibility of recycling money. Such a fund may be relatively "hands off", and used only to make investments in intermediaries, like patient capital lenders or social housing initiatives and others, not to provide additional support. EFF and FCRT have set up a finance fund and a philanthropic investment fund respectively, channelling funding to VP and social investment initiatives. By investing in new types of organisations, these funds allow the foundations to recycle some of the investments for use in other social initiatives. These new investment methods can bring valuable new tools to the foundation, which may eventually be applied in other ways.

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The fund may be a separate legal structure if necessary, a means to overcome legal hurdles for foundations investing in VP. For example, FCRT took part of the extra income from its endowment and set up a new foundation with different legal restrictions than the normal foundation.

Strategy 4: Set up a VP organisation

A foundation can partition a dedicated VP organisation[61] separately from its existing operations in order to test the VP approach without affecting the rest of the foundation's work. KBF has recently set up a dedicated VP organisation with a small number of dedicated staff, hiring external consultants on an ad-hoc basis. This strategy can be a means to test the VP approach without perturbing the rest of the foundation's activities, especially if there are some sceptics of the VP approach in-house. Foundations may take part of extra income from the endowment and set up a new foundation with different legal restrictions from the original foundation, or a new legal form may not be necessary. The new fund will complement existing practices allowing foundations to offer grantees additional services. The new fund may also attract new donors interested in the VP approach.

Strategy 5: Co-investment with a VP organisation

Co-investment involves both the foundation and VP organisation investing together in the same project, where each uses its unique skills and tools. EFF co-invested to bring its strong social sector knowledge and skills in partnership with others with the goal of creating systemic change. Co-investment allows a foundation to gain exposure to the VP approach if interested in learning more, or to complement the VP expertise with its own unique expertise and resources. Co-investment allows all funders to share risk and mitigates deal flow problems in regions with scarce opportunities.

Strategy 6: Complete conversion

The complete conversion of a foundation to a VP organisation involves the overhaul of the organisation's operations, strategy and perhaps even staff. For small foundations like d.o.b, which have limited resources but are also agile in their ability to easily change strategies, focusing on a few organisations via a VP approach may be a good choice. Donor-driven organisations that are willing or interested in introducing expertise from the business sector may also find the VP approach particularly interesting. Depending on the types of organisations invested in through this approach, some returns may be recycled into the organisation for other funding. A foundation's endowment will allow it to focus solely on funding projects and not on marketing and fundraising, which is an expenditure some VP organisations have. The ongoing source of capital can also allow foundations-turned-VP organisations to invest in risky, as yet unproven concepts, whereas some VP organisations may look only to scale proven concepts, as such a strategy may facilitate future fundraising.

Once a pure grant funding strategy is abandoned, foundations must consider how to treat possible financial returns of their investments. The foundations in our case studies all used the financial returns generated to recycle into future social investments - "making money work harder". These six strategies demonstrate some of the ways foundations are using venture philanthropy and provide examples of how VP practices can help foundations address their goals.

[61] *Detailed information and guidance for establishing a VP organisation can be found in the EVPA publication "Establishing a VP Fund in Europe".*

When & Why to Use Each Strategy

STRATEGY	WHEN	WHY	EXAMPLE
Employ one or several of the six VP practices	• For foundations that have not explored "beyond the grant" • Many foundations already use a high-engagement approach for large grants or when grantees need help to become stronger	• Introduction with low-resource investment • Added value for grantees – can become more financially sustainable	• The Esmée Fairbairn Foundation provides non-financial support to its grantees in the Grants Plus programme • KBF uses multi-year financing and measures perfomance on some of their larger grants
Fund VP	• Easy to implement without necessating a change in organisational structure • Many foundations fund VP organisations to learn more about VP • Investing in VP can be an interesting strategy for foundations interested in supporting innovation	• Foundation name provides legitimacy to new VPO; may help VPO attract additional funding • Fuel social entrepreneurship and develop VP industry by supporting VP in new geographies • Gain privileged access to the operations of the VPO, thus facilitating knowledge transfer	• Esmée Fairbairn has provided early stage capital to many innovative social financing companies • FCRT invested in Oltre Venture to support and learn more about VP • d.o.b invested in Acumen Fund to develop expertise
Set up a fund that invests in VP (Fund of funds)	• Offers foundations a chance to try different types of financing tools, the experience of which may be later applied in other ways • A separate entity may be a means to overcome legal hurdles for foundations investing in VP	• Recycling of funds allows money to go further • Offers a chance to broaden initiatives to social investment • May help foundation develop expertise on VP that can be used in other areas of the foundation's work	• Esmée Fairbairn and FCRT have set up a finance fund and a philanthropic investment fund respectively, channeling funding to VP and social investment initiatives.
Set up a VPO	• Could be an effective way to test the VP approach without affecting the rest of the foundation's work • When VP seen as "one tool in the toolbox", a separate VPO may not require a lot of resources from the rest of the foundation	• Provides a new service offering to grantees with unique needs • Complements existing grants practice; can be a completely separate programme • Can also bring added educational benefit to existing practices • Potential to attract new donors	• KBF has recently set up a dedicated VPO using a relatively small budget and 25% of a programme director complemented by external consultants
Co-invest with a VPO	• When differenct funders provide complementary expertise and resources – foundation does not have to develop in-house VP expertise • Co-investing with a VPO allows foundation to gain exposure to VP approach • When deal flow is limited	• Distributes risk between funders • Provides opportunities for new VP funders to 'learn while doing' with existing funders • Offers all parties the opportunity to contribute their own expertise • Mitigatesdeal flow problem in regions with scarce opportunities	• Esmée Fairbairn co-invested with VPO Impetus Trust and other foundations to bring its strong social sector knowledge of re-offending in the UK in partnership with other funders with varying expertise. • d.o.b co-invests with Acumen Fund, LGT VP and other VPOs active in the same region
Complete conversion	• This option works well for small foundations wishing to focus their resources on supporting a few organisations • Option may be good for donor-driven foundations which have or are willing to introduce expertise from the business sector	• Some foundations believe that providing focused support to fewer organisations over a longer period can enhance the social impact of their operations • A dedicated VP approach allows foundation to develop specific VP expertise	• d.o.b Foundation is an example of a foundation which has made a complete conversion to VP

Foundations vary greatly across national boundaries and in their own interest, structures and ownerships. These case studies are intended to help foundations consider their many options for new philanthropy techniques, specifically when, why and how to use VP. Below we list some general considerations, then discuss the implications for investees of the different VP strategies.

PART 5:

CONCLUSION

General Considerations

Overcoming Legal Hurdles

Given the diversity across the European philanthropic sector, foundations experience various legal hurdles, which they need to overcome in order to implement new strategies. In Italy, due to its foundation charter, FCRT was unable to invest its endowment in projects that would yield below-market returns. Likewise, it was not able to use its grants budget for investing. To overcome this hurdle, FCRT established a separate foundation, FSC, which does not have the same restrictions. This new foundation has the same governance as its parent foundation, but was established for investment in social purpose funds and projects with a below market return. The FSC invests with the excess returns from FCRT's endowment, the ordinary income of which is used for its grants budget. In this way, the FSC does not risk endowment money, but provides an alternative investment to grants for this extra and unexpected sum of cash. The fund is meant to recycle its funds over time by receiving eventual returns from its investments, but in the meantime it is fed funds from extraordinary returns of FCRT's endowment, which might otherwise distort the grants market. However, grantees are not cut off from funding, as these funds are the result of exceptional and unexpected returns.

Other foundations like King Baudouin Foundation and Esmée Fairbairn Foundation established a VP organisation and a Finance fund, respectively, without establishing legal entities for them. In both cases, the foundations are legally allowed to use some of their grants budget for investing.

Achieving Acceptance in the Board Room

Achieving acceptance of new initiatives can take some convincing, depending largely on the ownership of a foundation and its goals. In our cases, acceptance was predictably easiest in organisations with a history of innovation and a strong focus on new initiatives. All of the foundations we studied have institutional structures, where there is no living donor, and if relatives of the original donor were alive, directors and management from outside of the family supported them. Typically, the idea had originated with contact from other institutions or individuals involved in VP, or EVPA, and had been championed by one or two individuals - executives or directors of the foundations.

The timing of introducing new ideas was especially important. Presenting the idea worked best during scheduled review processes where foundation executives, board and staff expected to discuss new strategies, rather than interruptions in their scheduled work and execution of previously agreed upon strategies.

Though sometimes sceptical about the idea, acceptance was achieved through involving all board members in the initiative – sometimes by providing them with governance positions in the organisations supported. This firsthand look allowed directors to fully comprehend and buy in to the initiative. In other instances, the other directors or executives took readily to the new idea, though staff voiced concerns. In all scenarios, it was important for foundations to tailor new concepts to fit their own unique characteristics and to quell fears with open discussion. Foundations made new practices their own, discarding components that didn't fit with their vision and inventing new methods to fit their own needs.

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HR Management

Staff: Changes in staff are nearly wholly avoidable depending on the strategy of choice. In all cases, varying levels of financial and private sector expertise were required and either recruited internally, adopted from pro-bono advisors or hired directly. In some cases, staff from the endowment investment team could be shifted to fund management. Financial expertise was not always garnered from employees with mainstream financial backgrounds. Talent from a bank with a social mission, such as Charity Bank, would have a financial background with a strong social understanding. Staff changes needn't change the culture at the foundation, particularly in the instance of establishing an independent Investment Committee. This allowed business as usual while gathering new skills to augment the foundation's knowledge base. Consultants were sometimes hired to assist foundation staff on particular tasks in addition to others hired for grantees, allowing for the maintenance of the current culture and lower costs. In the case of extensive organisational changes, particularly with the complete conversion scenario, new staff with private sector or financial experience was hired, and some existing staff felt uncomfortable with the new approach and decided to quit. In those cases, staff with finance and business background and additional experience in the social sector was preferred.

In some cases, the adoption of the new strategy created a cultural shift inside the foundation, and the addition of staff from strictly financial backgrounds alienated current staff. This was found to be an ideological dispute rather than a personal one. In this case, current staff was not pleased with the new model of giving because of its economic focus. Foundations considering a significant strategic shift are advised to consider this potential trade-off and its cultural and HR management implications.

Consultants: Consultants were hired to provide specific assistance to investees, and occasionally foundation staff. Many foundations favour paid consultants for their ease of management given time and resource constraints. Pro bono consultants can be highly valuable, but require building relationships with consulting firms and recruiting a wide variety of experts. Consultants served a valuable purpose, bringing individual skills that could be handpicked to serve specific organisations rather than applying generalist solutions to specific causes. Foundations often asked their organisations to first recommend an expert they were familiar with or had worked with in the past before helping find an appropriate consultant using their own network. Some organisations value the opportunity to work with someone they know and trust, while others require someone with expertise in an area they are completely unfamiliar with and value the foundation's ability to find the right person for the job.

Acquiring New Skills & Knowledge

In all cases, foundations found it valuable to send staff to workshops, site visits, conferences and other events where they could learn from VP experts as well as network with likeminded organisations exploring similar strategies. EVPA offers many events and opportunities for discussion and collaboration with peers, including new web-based tools. Foundations found investing in VP organisations, and co-investing to be the keystone in their educational process, drawing much information about day-to-day processes from "learning while doing".

Developing VP Processes

Foundations noted that processes were the hardest to learn because they are least studied by researchers and least shared by VP experts. In this case, foundations starting VP organisations or making a complete conversion found it invaluable to hire or seek the expertise of professionals from the venture capital industry. These individuals, whether in house or as pro-bono advisors, brought with them the processes of evaluating business plans or projects, conducting due diligence on organisations and managing deal flow. Foundations expressed an open invitation to the broader social investment world to discuss and share best practices in this area.

Measuring Performance

Increased sophistication in social performance measurement has been a trend in the philanthropic sector. More and more methodologies are developed and discussed with the aim of reaching better ways to report on philanthropic impact. For foundations, methods of performance measurement vary with the strategy of involvement in VP and personality and goals of the foundation. One foundation favored SROI and even co-invested in a social enterprise to market the Social Evaluator tool. Social Return on Investment aims to capture the social, environmental and cultural values that have been created for different stakeholders.[62] Foundations have found SROI to work exceptionally well in some circumstances and not as well in others. Many foundations maintain a focus on measuring comparative impact, helping organisations track and improve their own impact for themselves rather than for reporting purposes. Some foundations also create their own performance measurement techniques. Simple tools such as measuring the completion of agreed upon objectives sufficed to provide a dashboard view of performance. In designing a performance measurement tool, foundations should consider what the information will be used for and what the best way to relay the information is without putting undue burden on the reporting organisation.

Performance measurement is growing increasingly important as foundations seek to attract new donors to fund their VP activities. Many foundations have started writing impact reports detailing their investments and describing their initiatives transparently.

Though the approach can be applied across a wide spectrum of organizations, VP is generally well suited for organisations that:

- are scalable and have a high growth ambition;
- have proven concepts;
- with an easily identifiable revenue-generating product or service; and
- are looking to make a major change.

Implications for Investees

The objective of VP is to build stronger social purpose organisations. However, many times, foundations find that investees may resist the change from a short-term grant funding to a VP approach. It may take time for the investee to get used to the new approach, but eventually, the lower dependence on constant fundraising and the possibility of financial sustainability may act as incentives for the investee to accept the increased "burden" of VP funding. We have summarised some of the implications for investees of the six VP strategies identified.

1. Employ one or several of the six VP practices

For investees of foundations employing one or several of the VP practices, the investee/funder relationship will change, to the extent of the foundation's involvement in VP. Investees would expect increased engagement from the funder in their operations and additional attention to their non-financial needs. For investees used to a 'hands-off' relationship, this will be a change, but additional services and engagement are offered to help the investees do their own work more effectively and can provide management with

[62] *Social e-valuator (2010), http://www.socialevaluator.eu/Default.aspx (Accessed June 2010)*

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the assistance they need to create a stronger organisation. For many investees used to project-based funding, the additional services of the VP approach are very welcome. In a 2007 study by the Skoll Centre, 53 per cent of respondents said that non-financial services received from their VP 'greatly add value to the financial support we receive' and 21 per cent said it was, 'helpful in addition to the financial support we receive.[63]

2. Fund VP

In some cases, after investing in a VP organisation, foundations bring back practices they've seen in VP to their regular grantees. In two of the cases covered, d.o.b and FCRT, the foundations began to look at business plans from prospective grantees, even those not receiving VP funding, but regular, relatively 'hands-off' grants. This requirement may come as a surprise to social purpose organisations not used to fulfilling this request, however they often find that they benefit from the exercise. In both the conventional for profit and the social sector, business plans are often most useful for the thinking process they force their writers to undergo. Though many of the 'plan' aspects will face unforeseen hurdles, thorough investigation and analysis throughout the plan shows that the entrepreneur or organisation management understands the context in which they operate, the potential for social impact and risks that will require mitigation. For organisations not used to this process, many VP organisations and foundations offer pre-investment help in business planning and other services.

3. Set up a fund that invests in VP

This strategy used by some foundations involves investment in profitable social purpose organisations (SPOs), which will create a small return and enable the foundation to recycle the money into other social initiatives. Though this approach only works for organisations that are able to create a return, it brings to light the idea of financial sustainability in a social purpose organisation. In other VP strategies as well, VP organisations and foundations find it easier to exit an investment if the organisation will be sustainable on its own, though in some cases the exit involves the entrance of new grant funders. For social purpose organisations that are not financially sustainable, but believe they could create small revenues from certain parts of their organisation, investment from the 'hands-on' VP model can help them make this change.

4. Set up a VP organisation

An organisation used to receiving grant funding may be interested in applying to be an investee of a VP organisation, whether at a foundation or otherwise. Some VP organisations provide grants, and others provide a combination of different financing tools including loans. Depending on an organisation's needs and characteristics, it may benefit a lot from VP assistance.

Though the approach can be applied across a wide spectrum of organisations, VP is generally well suited for organisations that:

1. are scalable and have a high growth ambition
2. have proven concepts
3. with an easily identifiable revenue-generating product or service
4. are looking to make a major change

[63] *John, R. (2007), "Beyond the Cheque: How Venture Philanthropists Add Value", Skoll Centre for Social Entrepreneurship, Said Business School*

One organisation that set up a VPO, King Baudouin Foundation, reported that one major difference between the VPO and its regular engaged grant giving was the higher pressure they placed on the grantee for results and the closer attention to measuring effectiveness. The foundation was careful not to place undue reporting burden on its grantees, but stressed the importance of setting and achieving objectives.

5. Co-investment with a VP organisation

For an investee, co-investment may at first sound like more funders to report to, but increasingly, funder coalitions are organised with one lead investor organisation that controls the interaction with the investee. There is hope that in the future, co-investment will create a critical mass of financial and administrative muscle necessary to create systemic change – to change the laws that overlook a social need or to address the contextual issues underlying the social problems SPOs aim to solve. For SPOs that exist to alleviate social problems, participating in a sector-wide coalition or attracting funding from multiple sources can be a way to reach their goals.

6. Complete conversion

When looking for a VP investor, whether at a foundation or a separate fund, investees are advised to look for a management personality and style fit with their funder. The case study on d.o.b Foundation, which converted completely to a VP organisation, discusses the importance of mutual due diligence. In venture capital and in venture philanthropy, 'due diligence' refers to the rigorous information gathering process the investor does on the investee prior to investment. d.o.b Foundation in particular champions the importance of the investee reviewing the funder for fit as well. Though a funder comes with money, with the venture philanthropy approach, the funder and investee will form a partnership, working more closely together and therefore need to find a cultural fit and mutual understanding in order to have a productive and enjoyable experience.

PART 5: CONCLUSION

A New Era of Venture Philanthropy: Where Grant Making and Social Investing Converge

Our cases illustrate the diversity of the foundation sector and the wealth of creativity, passion and ambition that characterize the world of philanthropy today. This publication shows how VP is becoming an integral part of the expanding foundation toolbox.

Ultimately, the different VP techniques used by these foundations - and other techniques such as mission related investment - are tools to effect social change. The techniques and strategies chronicled here can be adapted to fit local needs, and ultimately, in collaboration with others, to achieve systemic change. As the social investment market continues to evolve, we encourage readers to evaluate their own strategies, try new tools and ideas, and to think deeply about what strategic route fits with their unique resources and capabilities. In addition to supporting and implementing VP tools, foundations will continue to play a critical role in financially backing and supporting the further development of innovative social financing tools and continuing to enhance the legitimacy of VP in new geographies.

In this new era of venture philanthropy, EVPA encourages all forms of philanthropic collaboration that aim to contribute to solving the social problems of our time. We believe that established foundations and venture philanthropists can learn from each other and we are working hard to facilitate such learning experiences. Complementary collaboration, knowledge sharing and innovation will drive the social investment market to greater capabilities - and in creating critical mass, have the potential to change the context in which social problems occur.

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EVPA is a fast-growing membership association supporting and promoting venture philanthropy across Europe. EVPA supports its members by providing a forum for mutual learning, data and research on venture philanthropy, and training programmes on topics relevant to all stages and activities of a venture fund.

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1. Provide EVPA members with resources and knowledge to assist them in the development of strategy and best practice .
2. Provide EVPA / VP field with legitimacy to:
   - Attract professionals/ funding;
   - Inspire academic research;
   - Engage in public relations.
3. Connect practitioners, academics and advisors around field know-how.

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