EUROPEAN
VENTURE
PHILANTHROPY
ASSOCIATION

# VP IN A NUTSHELL

## Overview

# INVESTMENT PROCESS

| | Investment Strategy | Deal Screening | Due Diligence | Deal Structuring | Investment Management | Exit | Evaluation & Post-Exit Follow-up |
|---|---|---|---|---|---|---|---|
| **INVESTMENT PROCESS DESCRIPTION** | Description of the VPO/SI's social impact (and financial) objectives, and how the VPO/SI will achieve them (including the investment focus, type of SPO supported, co-investment policy, etc.) | **Deal Flow:** Preliminary screening procedure of the investment opportunities available.<br><br>**First screening:** Knock-out screening of the applicants who do not meet the standard application criteria, eliminating SPOs that will definitely not secure funding. | Detailed screening usually performed through analysis and validation of a business plan<br>↓<br>Investment proposal presented to the investment committee<br>↓<br>Final investment decision | A set of **terms and conditions** which specify how the **agreement** between the VPO/SI and the investee SPO is to be concluded. | The VPO/SI manages the investment(s) made, at the level of each investee SPO and at portfolio level. | The VPO/SI can no longer add value to the investee<br>↓<br>The relationship needs to be ended<br>↙ ↓ ↘<br>Social impact = maintained<br>Social impact = amplified<br>Potential loss of social impact = minimised | |
| **TAILORED FINANCING (TF)** | The VPO/SI assesses its **risk/return/impact profile** by defining its social impact and financial objectives and by assessing the **risk** associated with not achieving a) social impact, and b) expected financial returns.<br><br>The VPO/SI assesses its **pre-conditions** (its legal structure, investors/funders, life cycle, duration of commitment, team, the NFS it can provide). | Preliminary assessment of whether the characteristics and needs of the SPO **match** with the goals of the VPO/SI. | In-depth assessment of the financial needs of the SPO based on its **business model and stage of development.** If alignment with the VPO/SI goals, **two scenarios:**<br><br>The VPO/SI can pickamong several FIs → assess which FI is best for the deal → Investment made<br><br>Only one type of FI possible for the VPO/SI → assess if the FI is suitable → yes → Investment made; no → No investment | Structuring of the deal, deploying the chosen financial instrument(s) [grant, debt, equity and/or hybrid financial instrument(s)] | **Deployment of FI(s)** and actual delivery of the financial support to the SPO. | Any considerations about exit **depend on the FIs deployed.** | |
| **IMPACT MANAGEMENT & MEASUREMENT (IMM)** | **AT THE VPO LEVEL**<br><br>**Set objectives**<br>Define the scope of IM and the VPO/SI's overarching social objectives.<br><br>**Analyse stakeholders** –e.g. employees, board of directors, investors/donors.<br><br>**Set up monitoring and reporting system**<br><br>**Set up system to measure results**<br>Based on the VPO/SI's objectives, map results and consider portfolio-level indicators. | **AT THE SPO LEVEL**<br><br>**Set objectives** –i.e. social issue to be solved, inputs/activities, expected outcomes. | **AT THE SPO LEVEL**<br><br>**Set objectives**<br><br>**Stakeholder analysis** –i.e. direct and indirect contributors and beneficiaries.<br><br>**Set up the system to verify and value expected results** | **AT THE SPO LEVEL**<br><br>**Set up system to measure results** –i.e. outputs, outcomes, impact and indicators relating to the objectives of the SPO.<br><br>**Set up monitoring and reporting system** | **AT THE SPO LEVEL**<br><br>**Monitor and report**<br>Implement data collection, management and reporting required for the SPO<br><br>**Verify and value impact**<br>Verify and value impact for key stakeholders | **AT THE VPO LEVEL**<br><br>**Verify and value impact of the VPO on its SPOs** was NFS provided to investees/valued by the SPO?<br><br>**Monitor and report**<br>Final data collection and transformation of data into meaningful information for key stakeholder groups.<br><br>**AT THE SPO LEVEL**<br><br>**Verify and value impact**<br>Final evaluation of the impact achieved by the SPO on key stakeholders.<br><br>**Monitor and report**<br>Final data collection and transformation of data into meaningful information for key stakeholder groups. | |
| **NON-FINANCIAL SUPPORT (NFS)** | **Map VPO's assets**<br>What NFS will be offered and who will deliver it? | **Assess needs of the SPO (light assessment)**<br>What are the general needs of the SPO and are they addressed by the VPO/SI's core NFS strategy? | **Assess needs of the SPO (in-depth assessment)**<br>What organisational capacities does the SPO need over the next few years? Can the VPO/SI provide sufficient NFS? | **Co-develop the NFS plan with the SPO**<br>Baseline, goal, milestone(s), outcomes, deliverables, and details about the support the VPO will provide. | **Deliver NFS** –e.g. taking a seat on the SPO's board, offering training or access to networks, etc. | **Assess the value & impact of NFS**<br>• Measure NFS with satisfaction surveys, independent studies, perception reports.<br>• To assess the value of NFS: link the cost of NFS provided and the impact obtained. | |
| **EXIT** | **Determine key exit considerations**<br>The VPO/SI assesses how key elements of its investment strategy (context, goals of the VPO/SI, type of investee, etc.) are going to influence its future exits. | | | **Develop an exit plan**<br>Before the investment is made, the VPO/SI co-develops the exit plan with the SPO. | **Determine Exit Readiness**<br>The VPO/SI monitors the achievement of the goals of the SPO based on the exit plan and assesses when the SPO is exit ready. | **Execute the exit**<br>The VPO/SI determines whom to exit to and how to exit, and executes the exit. | **Post-investment follow-up**<br>• Evaluation – i.e. degree of achievement of the investments' goals.<br>• Follow-up activities (optional). |

# GLOSSARY

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**Accelerator:** a programme through which an organisation supports investment-ready social enterprises by providing them with business development support, mentoring, infrastructure, and access to relevant networks in order to help them grow.

**Baseline:** the initial collection of data that describes the state of development of the SPO when the VPO/SI starts investing in it. The baseline serves as a basis for comparison with the subsequently acquired data on the development of the SPO.

**Due diligence:** the process where an organisation or company's strengths and weaknesses are assessed in detail by a potential investor with a view to investment.

**Exit strategy:** action plan to determine when a VPO/SI can no longer add value to the investee (SPO), and to end the relationship while maintaining / amplifying the social impact, or minimising the potential loss of social impact.

**Financial Instruments (FIs):** contracts involving monetary transfers through which, in the VP/SI space, a VPO/SI financially supports a SPO – e.g. grant, debt, equity, and hybrid financial instruments.

**Hybrid Financial Instruments (HFIs):** monetary contracts that combine features of the traditional FIs (grants, debt/loan and equity instruments) in order to achieve the best possible alignment of risk and impact/financial return for particular investments.

**Impact Measurement and Management (IMM):** measuring and managing the process of creating social impact in order to maximise and optimise it.

**Incubator:** a programme through which an organisation supports very early-stage social enterprises by providing them with business development support, mentoring, infrastructure, and access to relevant networks in order to make them investment-ready.

**Monetisation:** process of giving monetary value to a service obtained free of cost.

**Non-financial support (NFS):** the support services VPO/SIs offer to investees (SPOs) to increase their social impact, organisational resilience and financial sustainability –i.e. the three core areas of development of the SPO.

**Organisational resilience:** assessment of the degree of maturity of a SPO, in terms of the degree of development of the management team and organisation (governance, fundraising capacity, etc.).

**Organisational Support:** support provided by the VPO/SI to the SPO to strengthen the SPO's organisational resilience and financial sustainability by developing skills or improving structures and processes.

**Portfolio:** collection of projects or organisations that have received sponsorship from the investor.

**Social impact:** the attribution of an organisation's activities to broader and longer-term outcomes.

**Social investment (SI) (aka Social Finance):** provision and use of capital to generate social as well as financial returns. The social investment approach has many overlaps with the key characteristics of VP, however social investment means investment mainly to generate social impact, but with the expectation of some financial return (or preservation of capital).

**Social Purpose Organisation (SPO):** an organisation that operates with the primary aim of achieving measurable social or environmental impact. SPOs include charities, non-profit organisations and social enterprises.

**Tailored Financing (TF):** process through which a VPO/SI finds the most suitable financial instrument(s) to support a SPO, choosing from the range of financial instruments available (grant, debt, equity, and hybrid financial instruments). The choice of the financial instrument(s) will depend on the risk/return/impact profile of the VPO/SI and on the needs and characteristics of the SPO.

**Theory of Change (ToC):** it defines all building blocks required to bring about a given long-term goal. This set of connected building blocks is depicted on a map known as a pathway of change or change framework, which is a graphic representation of the change process.

**Venture philanthropy (VP):** VP is a high-engagement and long-term approach to generating social impact through three practices: Tailored Financing, Organisational support, and Impact Measurement & Management.

**Venture Philanthropy Organisation/Social Investor (VPO/SI):** organisation pursuing a venture philanthropy/social investment approach.

## FOR MORE INFORMATION

For a complete glossary, visit: evpa.eu.com/about-us/what-is-venture-philanthropy

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The EVPA Knowledge Centre is kindly supported by

Fondazione CRT

With the financial support of the European Commission

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