Active engagement for social impact

VENTURE PHILANTHROPY

After many years of trying to maximise IRRs, Stephen Dawson and a group of like-minded philanthropists are now focusing on maximising the social return on the time and money that donors invest. By Diane Mulcahy.

When Stephen Dawson retired after nearly 20 years in private equity at ECI in the UK, he wanted to leverage his successful career into a retirement of doing good. It is a challenge many private equity investors face – how to transition from being an effective investor to an impactful donor. As he began exploring philanthropic possibilities, Dawson quickly became aware that most charitable contributions were passive, and that his ability to do good as a donor would be limited by effectively he could monitor how and, more importantly, how well his capital was being spent.

Rather than accept the status quo, Dawson found a compelling solution in venture philanthropy (VP). Based on the best principles and practices of venture capital, VP is charitable giving that is active and engaged. It incorporates a defined selection process for funding charities, disciplined monitoring of the use of funds, and accountability for achieving defined outcomes and measurable goals. Like venture capitalists, VPs become involved with the charities in which they 'invest', contributing expertise in developing the management team, building organisational capacity and scale, and creating a longer-term financing strategy. VP gives donors a sense of control, impact and accountability that is missing from traditional 'checkbook philanthropy'.

Dawson: turning donations into smart money

Dawson formed a VP fund called Impetus Trust and raised £2 million primarily from other private equity colleagues who were also attracted to VP's potential. The real value of Impetus to donors is that it turns their contributions into 'smart money'. The Impetus team and their volunteer group of associates contribute significant time and expertise to the charities that receive its capital. Impetus uses a similar due diligence assessment process as VCs to select which charities to fund, focusing on the people and management team that run the charity, rather than on the merits of particular individual projects. After a charity has been selected to receive funds, the Impetus team maintains a close working relationship with the charity's management team, and Impetus associates help them with issues of business planning and longer-term capacity building.

In 2005 alone, Impetus estimates that it contributed more than £400,000 of time and expertise to their portfolio of five charities. Notes Dawson: "We are serving a useful intermediary function that adds a huge amount of value." The most compelling evidence that the VP model is appealing to donors is the success Impetus is having raising its second fund. The goal is to raise £3 million and the group has already obtained over one third from a mix of private equity investors, trusts and foundations.

WIDESPREAD APPEAL

Traditional donors, such as trusts and foundations, are also attracted to the VP approach. Sevdalina Rukanova of the European Foundation Centre (EFC) in Brussels, which serves about 200 foundation and corporate funding members, believes that "VP is a different donor and a different business model. It brings together a living donor, a hands-on, business-like

approach, and a strong interest in institution-building that is different from traditional foundations". For the EFC, whose core mission is to support the growth of philanthropy in Europe, a key benefit of VP is that "it brings new actors to the field of philanthropy and is more appealing to young and often active entrepreneurs than an endowment". By attracting new wealth, VP increases the size of the European donor pool for all charities.

Rien van Gendt, the executive director of the Van Leer Group Foundation in the Netherlands, concurs. He notes that in Europe, there is a new cohort of philanthropists emerging who are starting their own foundations in order to actively pursue their charitable goals. This new class of philanthropists is perfectly suited to the more hands-on and engaged approach of VP. "VP is an innovation that could push the traditional world of philanthropy in a new direction. Many VPs are living donors with entrepreneurial backgrounds who want to be engaged and make a difference. They like to combine money with expertise."

While VP is clearly attractive to donors, charities that receive venture philanthropy are perhaps the biggest beneficiaries. They receive not only capital and funding commitments, but also the time, expertise and assistance from donors that the VP model offers them. At Impetus, for example, charities report receiving value at even the very earliest stage – during the assessment and selection process. Results from an independent evaluation of Impetus conducted during 2005 found that Impetus's due diligence evaluation "is clearly valued and well respected by those who have been through it. They all learnt a great deal and thought that the process in itself had added value to their organisation. 80 percent of respondents felt that the application process had been of benefit to their organisation. This is a remarkable achievement, given the fact that less than 10 percent of all applicants had been invested in".

After the charity receives funds, VPs continue to maintain a very close relationship with their portfolio charities, meeting with them at least monthly, and often more frequently. The VP model also includes a strong focus on measurable outcomes, so the funding process involves creating and setting performance milestones for the charity, and developing an ongoing review process to evaluate progress.

FUNDING PEOPLE

The European Venture Capital Association (EVCA) has become a strong and active promoter of venture philanthropy. Javier Ecchari, the Secretary General of the EVCA, says that the EVCA supports the VP model of "funding people, not projects", a philosophy that also drives the success of the VC industry. The EVCA is also a strong believer in the VP practice of contributing management expertise and resources, not just money, to charities. Ecchari notes that the VP model of applying venture capital principles and management rigor to the non-profit sector has enormous potential to improve the performance of charities over the long term. By focusing on management, VP's ultimate value is to increase the scalability of non-profits, giving them the management capabilities and organisational capacity to do more. After all, Ecchari asks, isn't it better for a charity to have the management skills and capacity to implement more projects – for example, to implement three irrigation systems instead of one? Ultimately, if VP can add the same level of value to the non-profit sector as VC has added to the private sector, everyone will benefit.

The nexus of venture philanthropy in Europe lies at the European Venture Philanthropy Association (EVPA). The EVPA was founded in 2004 by five PE professionals and with sponsorship from 3i, Barclays Private Equity and KPMG. It can help donors identify VP funds, or provide information and introductions to help new VP funds get started. The EVPA also seeks private equity professionals to volunteer their time and expertise to VP funds and charities. For VCs who have done well, and are now seeking to do good, the EVPA is the perfect place to start. Learn more at www.evpa.eu.com. ■

Mark your calendars – 15 September 2006

Over 135 delegates from 14 countries attended the EVPA's first Annual Meeting in London in June 2005. The second Annual Meeting has been scheduled to take place in Paris on 15 September at the French Senate. This meeting is being held in partnership with AFIC, Centre for French Foundations and ESSEC. The conference will be an excellent opportunity to hear from venture funds and charities that received venture philanthropy, to network with others interested in VP, and to learn more about how you can participate. Please contact the EVPA at www.evpa.eu.com for further conference details.

RESOURCES

EVPA www.evap.eu.com
EVCA www.evca.com
Impetus Trust www.impetus.org.uk
EFC www.efc.be
Van Leer Group Foundation www.vanleergroupfoundation.nl