KNOWLEDGE CENTRE

THE EUROPEAN VENTURE PHILANTHROPY INDUSTRY 2010/2011



EUROPEAN VENTURE PHILANTHROPY ASSOCIATION MAY 2012

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Published by the European Venture Philanthropy Association
This edition May 2012

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ISBN 9789081907019
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Typeset in Myriad
Design and typesetting: Pupil

Acknowledgements:

The Knowledge Centre would like to express its thanks to the respondents of the survey that invested time and effort into providing the data, to EVPA's Chairman Serge Raicher for advice along the way, as well as to the members of the Knowledge Centre Advisory Committee for their input and comments. Melissa Scott provided key support in collecting and analysing the data.

Knowledge Centre Advisory Committee: Prof. Ann-Kristin Achleitner, Luciano Balbo, David Carrington, Prof. Johanna Mair, Deirdre Mortell, Pieter Oostlander, Nat Sloane

THE EUROPEAN VENTURE PHILANTHROPY INDUSTRY 2010/2011

LISA HEHENBERGER | MAY 2012

The EVPA Knowledge Centre is kindly sponsored by Natixis Private Equity

EVPA is extremely grateful to Fondazione CRT, Impetus Trust, Invest for Children and Noaber Foundation for their generous support

EXECUTIVE SUMMARY

This is the first report on the European Venture Philanthropy Industry published by the European Venture Philanthropy Association. The purpose of the report is to provide key statistics on an industry that is still in the early stages of evolution. The survey that enabled EVPA's Knowledge Centre to collect the data presented will be repeated on an annual basis to provide independent industry statistics on European Venture Philanthropy. The survey itself will be refined according to the feedback received on the first survey and the objective is to create a longitudinal database with VP industry statistics that can be analysed over time. EVPA acts as the main repository of data on the VP industry in Europe. As venture philanthropy continues to grow, the industry-building role of the association becomes increasingly important, thus also calling for the development of best practice and guidelines.

Definition of Venture Philanthropy

Venture philanthropy works to build stronger investee organisations with a societal purpose (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. EVPA purposely uses the word societal because the impact may be social, environmental, medical or cultural. The venture philanthropy approach includes both the use of social investment and grants. The key characteristics of venture philanthropy include high engagement, organizational capacity-building, tailored financing, non-financial support, involvement of networks, multi-year support and performance measurement.

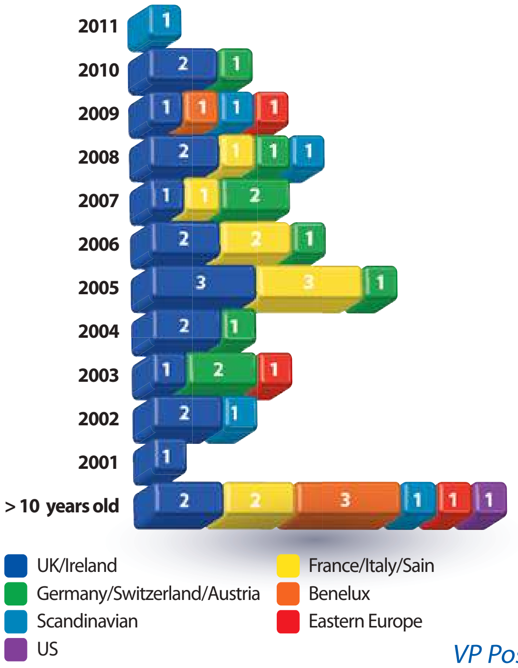
Survey Scope and Methodology

The survey aimed to capture the activity of VP organisations (VPOs) based in Europe, although their investment activity may take place in other continents. The survey was undertaken in the summer of 2011 and targeted EVPA's full members, organisations whose primary activity is venture philanthropy, and EVPA's associate members that are active in high engagement grant making and social investment as part of their philanthropy or investment activity. The survey was also sent to VP organisations that we had been in touch with, either as previous EVPA members or otherwise. Using snowball sampling, we asked all respondents to provide examples of other VP organisations outside of EVPA membership in order to capture as large a percentage as possible of the total VP population in Europe. Out of the 65 surveys sent, we got 50 responses.

EXECUTIVE SUMMARY

Year VP activity Founded

Number of Respondents l n = 50



Results of the Survey

Demographics of VPOs

Most of the respondents were based in Western Europe, with a large percentage (30%) from the United Kingdom, and only three respondents from Eastern Europe. The average age of the VPOs is seven years, with a peak in new VPOs being set up in 2005 and 2006. The organisations that were set up more than 10 years ago include grant-makers or social investors that have gradually moved to a VP model, but became aware of the concept at the beginning of the movement in Europe, starting in the 2000's.

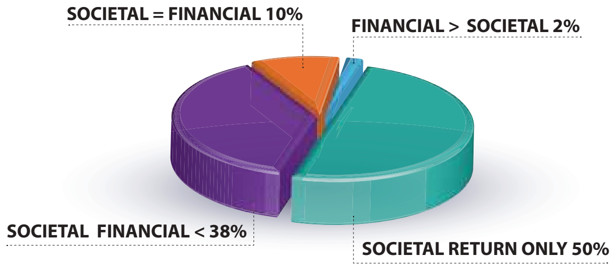
Many of the founders of VPOs come from the private sector, entrepreneurs or private equity/venture capital, whereas the managers (executive staff) have a mix of non-profit and private sector backgrounds. A majority (65%) of European VPOs are structured as foundations, trusts or charities, and some are set up as companies, funds or multiple structures, although each country has its own terms and variations of these forms. Most VPOs (54%) are non-endowed, implying that they engage in continuous fundraising activity.

VP Positioning in investment landscape

The survey confirmed that the VPOs either require a societal return only (50%) or a societal return as a primary objective above the pursuit of a financial return (38%), thus pursuing impact first strategies. A majority (68%) of the VPOs that do generate a financial return use it to reinvest in other SPOs.

Expected Type of Returns

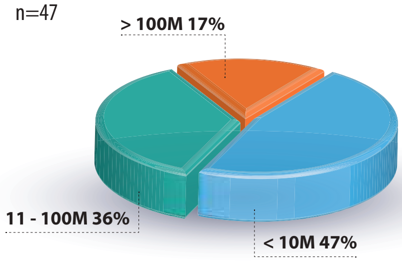
n = 50



Number of VP orgs by size category

(total funding committed) €M

n=47



Resources of European VP

The European venture philanthropy is still in its infancy, with many relatively small organisations struggling for survival. Funding is committed either in foundations or funds, and the average size of the funding is €82m. However, since only 17% of the VPOs are bigger than €100m, the median of €11m gives a better picture of the reality of most VPOs. Indeed, 47% of the VPOs are smaller than €10m. The total funding available to invest using a VP approach is €3.86billion, adding up the size of the endowments and funds of the respondents. The reality is that only a small percentage (approx. 5%) of endowments tends to be spent every year, so that the actual funding available is a much lower figure.

Median and Average Org Size:

Median size: €11M

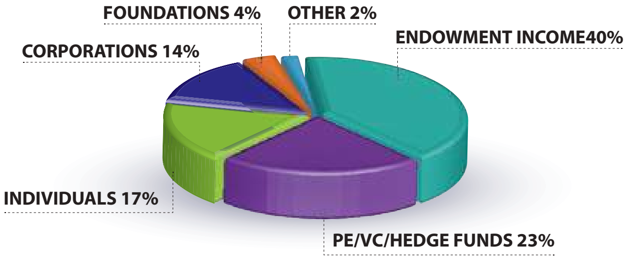
Average size: €82M

The main source of funding (40%[1]) of VP activities in money terms comes from endowment income, meaning that established foundations with an endowment finance their VP activities with the income from their own endowment. Other important funding sources include PE/VC/Hedge funds, individuals and corporations.

The survey found that 437 people are employed by the VPOs surveyed, with an average staff size of 9 people. Adding to this number is a pool of 293 volunteers and 1495 contributors of non-financial services.

Sources of Funding

n=44



VP Investment focus

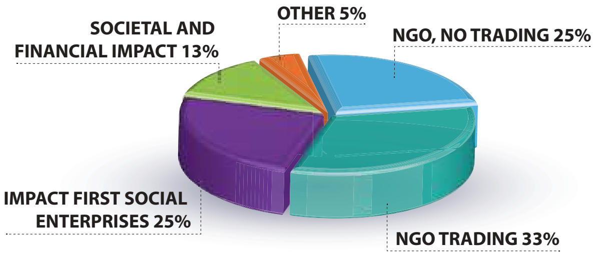
European VPOs invest across a spectrum of organizational types. Non-profit organisations, with or without trading attract a majority of the funding provided by VP organisations, representing 33% and 25% respectively of 2010 VP expenditure. Impact first social enterprises attracted 25% of the funding, and enterprises that generate financial returns first, combined with a societal return, attracted 13% of the funding.

Most VP activity focuses on organisations in the small to medium category. The survey confirms that the greatest percentage of respondents target the size categories of €250,000-1m (69% of respondents), and €1m-5m (67%). VP generally targets young investee organisations: 2-5 years being the most common age.

In terms of social sector focus, health is the number one sector, receiving 27% of total funding, followed by education, with 21% of total funding. The three organisations that had no sector focus invested 10% of the total funding in VP, and actually focused on social entrepreneurship in general, regardless of social sector.

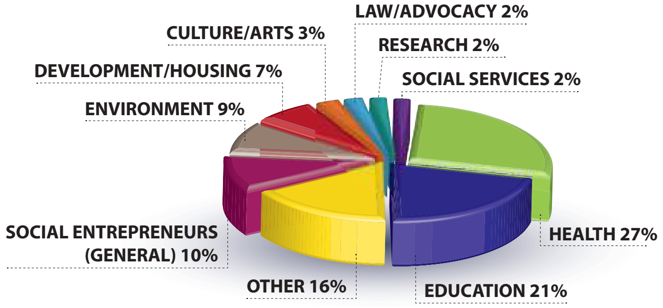
VP Spend in 2010 (€) per type of investee

n=44



VP Spend in 2010 (€) by target sector

n=35

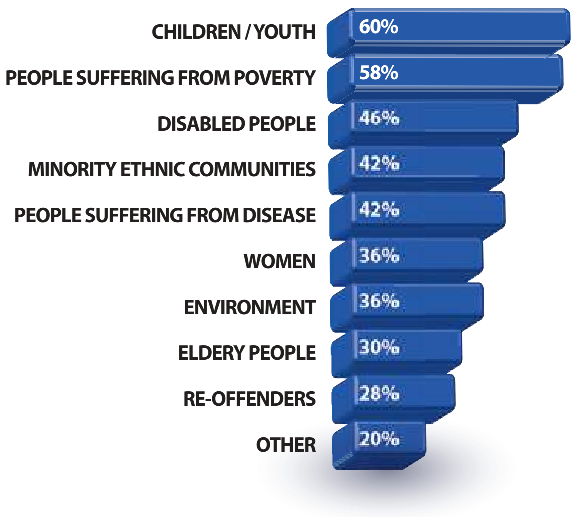


[1] *These figures are calculated by multiplying the estimate % of total funding with the total funding size as detailed above.*

EXECUTIVE SUMMARY

Ultimate target Groups (Final Beneficiaries) of Investee SPO's

Number of respondents n=50

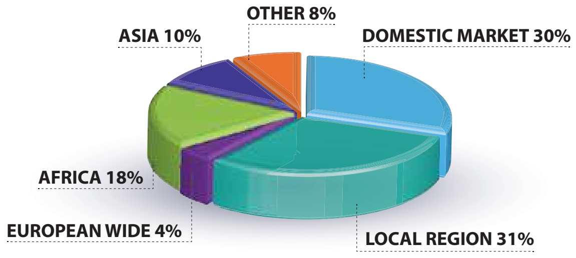


In terms of ultimate beneficiaries of the VP funding, the survey found that 60% of European VPOs target children and youth as the ultimate beneficiaries of their investees' activity, followed by people suffering from poverty (58%), disabled people (46%), minority ethnic communities (42%) and people suffering from disease (42%).

European VPOs tend to focus their activities either on their own domestic market (30% of funding) or on a particular region within their domestic market (31%), and otherwise on developing countries, with Africa (18%) and Asia (10%) being the main target regions. Latin America attracts about 2% of the funding, and European-wide funding only accounts for 4% of total funding.

Geographic Portfolio

Percent of 2010 VP Spend (€)

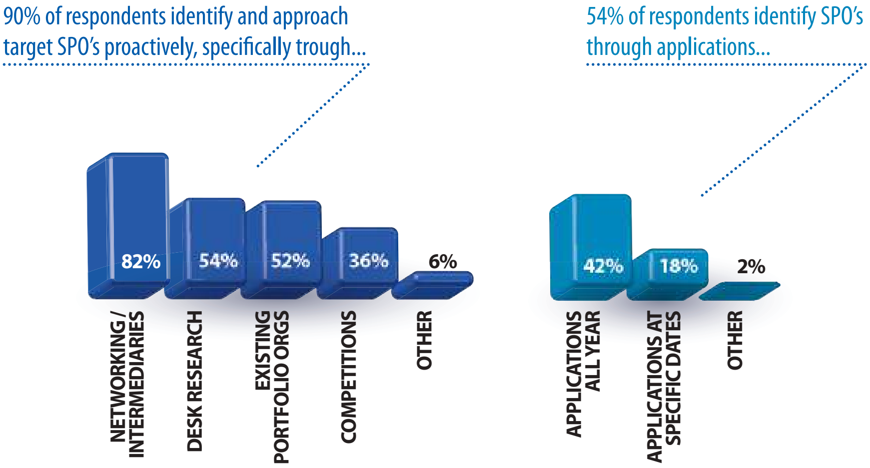


VP Investment process

Deal flow and investment appraisal. Finding the right investee SPOs is a fundamental part of a VPO's activity. 90% of VPOs directly identify and approach the SPOs to invest in, whereas 54% of the European VPOs that participated in the study accept open applications.

Investee Identification Activities

Percent of total answering "yes" n=50

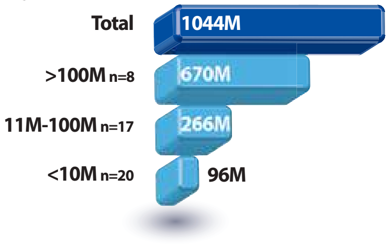


Investment. VPOs have invested over €1 billion through financial and non-financial support since they began their operations, with an average annual financial spend and non-financial spend of €4million and €1million respectively per VPO.

The median VP portfolio holds 10 investee organisations, and investment duration lasts between 2-5 years on average. Grants are the primary financing instrument used by European VPO's, representing 72% of the total funding distributed to investees. Equity and quasi-equity represent 11% of the total funding. Debt instruments account for 9% of the total funding, and include Loans, Senior Loans, Subordinated Loans, and Convertible Loans.

How much have you invested in VP in total (financial & non-financial) since the beginnings of your operations (€M)[2]?

n=45

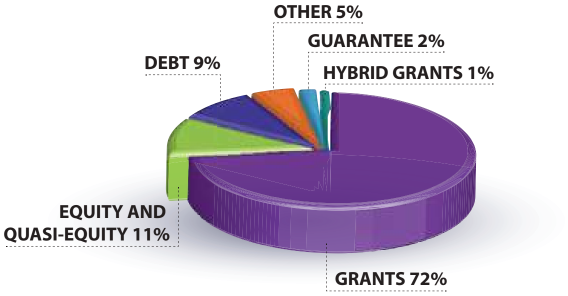


Average Total Investment €23M

Median Total Investment €7M

Financial Instrument Portfolio

Percent of 2010 VP Spend (€) n=42



[2] *Total includes respondents that did not specify their fund size.*

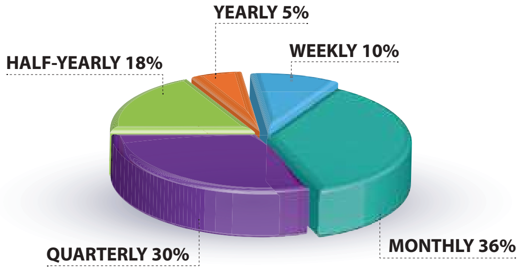
EXECUTIVE SUMMARY

High-engagement and non-financial services. High engagement is evident in statistics on frequency of meetings with the SPOs, as well as the proportion of VPOs that take board seats.

The most frequently quoted non-financial services are strategy consulting, coaching and providing access to networks, and non-financial support is by many quoted as being more important or as important as the funding.

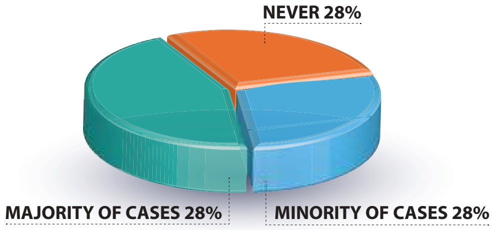
Frequency of Face-to-Face Meetings with Investees' Management Teams

Percentage of Respondents n=50



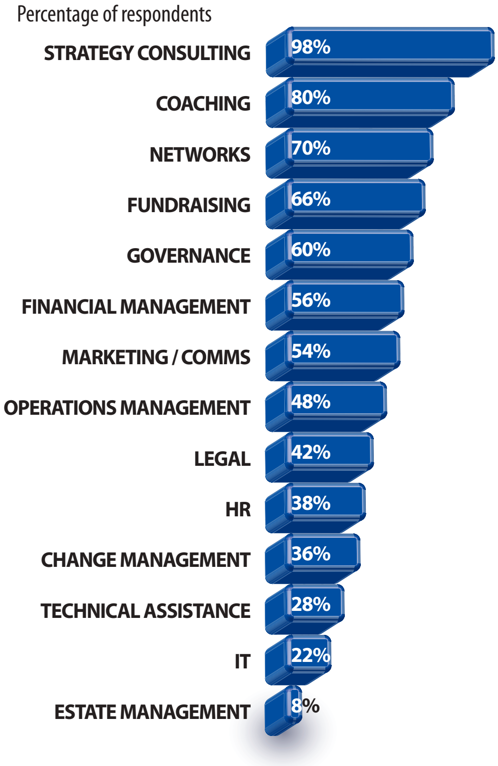
In which percent of your investees do you take a board seat?

Percentage of Respondents n=50



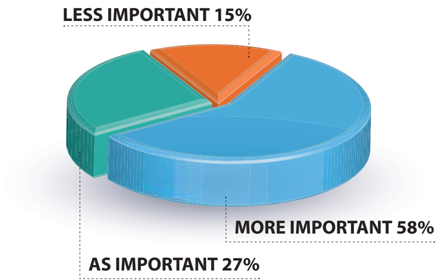
Type of Non-Financial Support

Percentage of respondents



Investees' Perception of non-financial support vs. funding[3]

Percentage of respondents

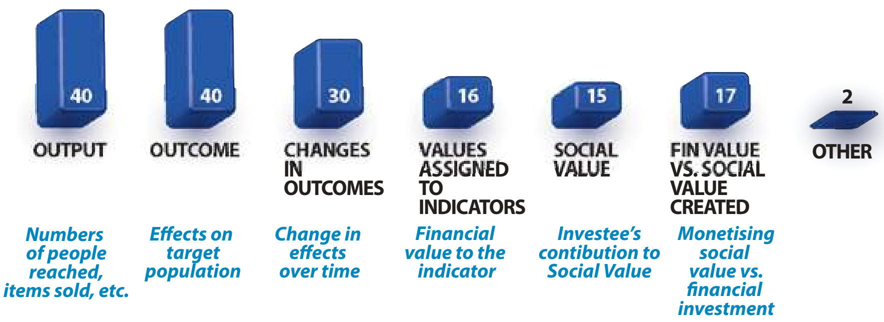


[3] *According to investor respondents*

Performance measurement. Social performance measurement is an area where European VPOs are still struggling. While many measure the social and financial performance, few have implemented impact measurement systems that are able to aggregate performance on portfolio level, and the social impact measures are still to be integrated in the VPO's strategic decision-making. The objectives of the impact measurement system are in many cases based on output measures such as "number of people reached" whereas few attempt to measure social value or impact, which requires a measurement of the change in outcome, and assessing attribution.

Objectives of social impact measurement system

n=48

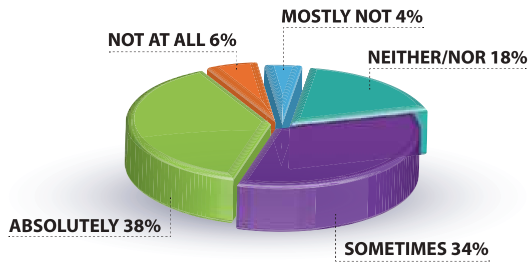


Exits. Most VPOs plan their exit strategies, either in all cases (38%) or sometimes (34%).

The types of exits depend on the financing instrument used, but in general, the most common exit is through achieving financial and organizational resilience, followed by finding follow-on funding from other social investor or passing the investment on to a public institution.

Do you have a Planned Exit Strategy for your Investments

n=50



Conclusion

The EVPA survey has attempted to highlight the key components of the venture philanthropy approach in terms of general demographics, positioning and investment process. The findings of the survey highlight that the industry involves a variety of different types of organisations, professionals and funders. Foundations have become major players, both in terms of VPOs and in terms of funders of VP. The positioning of VP in the investment space is clearly on generating societal impact, above financial return, but VPOs organisations generate such a societal impact through multiple paths. Many VPOs still focus on providing grants, albeit in a high-engagement manner. While some large foundations drive the industry through funding available and resources invested, some of the smaller funds are showing high degrees of innovation through the range of financing instruments used.

PART 1

INTRODUCTION

Purpose of the Report

This is the first report on the European Venture Philanthropy Industry published by the European Venture Philanthropy Association. The purpose of the report is to provide key statistics on an industry that is still in the early stages of evolution. The survey results show that the VP industry has already achieved some important milestones, including the cumulative investment of over € 1 billion in total support since inception. Venture philanthropy (VP) has evolved from a network of a few organisations to an industry that includes a core group of VP organisations and a range of funders and specialized consultants. The venture philanthropy industry works to support organisations with a societal purpose, of various legal forms, approaches and objectives, that all share an entrepreneurial approach. This report focuses on the core venture philanthropy organisations (VPOs) that use a VP approach to fund organisations that aim to achieve a societal impact. It is based on a comprehensive survey conducted by EVPA's Knowledge Centre that captured key statistics on 50 European VPOs. Our ambition is to repeat the survey annually and for the industry report to become the key point of reference on European VP and social investment.

The report is structured as follows. It starts with a definition of VP, its emergence, the role of EVPA and the methodology of the survey. It then presents the results of the survey, including the following sections:

1. Demographics of VP organisations in survey
2. VP positioning in investment landscape
3. Resources of European VP
4. VP investment focus
5. VP investment process
   a. Deal flow and investment appraisal
   b. Investment
   c. High engagement and non-financial services
   d. Performance measurement
   e. Exit

Finally, the report presents the key conclusions based on the results of the survey.

What is Venture Philanthropy?

Venture philanthropy works to build stronger investee organisations with a societal purpose (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. EVPA purposely uses the word societal because the impact may be social, environmental, medical or cultural. The venture philanthropy approach includes both the use of social investment and grants.

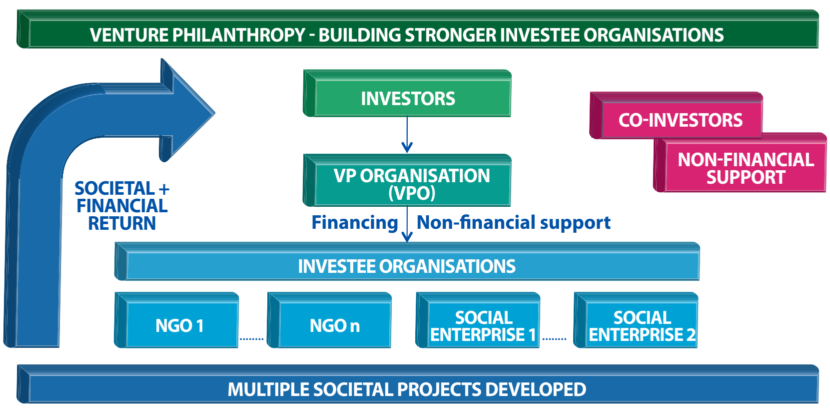
As venture philanthropy spreads globally, specific practices may be adapted to local conditions, yet it maintains a set of widely accepted, key characteristics:

- **High engagement** – Hands-on relationships between SPO management and venture philanthropists
- **Organisational capacity-building** – Building the operational capacity of portfolio organisations, by funding core operating costs rather than individual projects

PART 1: INTRODUCTION

- **Tailored financing** – Using a range of financing mechanisms tailored to the needs of the supported organisation
- **Non-financial support** – Providing value-added services such as strategic planning to strengthen management
- **Involvement of networks** – Enabling access to networks that provide various and often complementing skill-sets and resources to the investees
- **Multi-year support** – Supporting a limited number of organisations for 3-5 years, then exiting when organisation are financially or operationally sustainable
- **Performance measurement** – Placing emphasis on good business planning, measurable outcomes, achievement of milestones and financial accountability and transparency

The following diagram aims to clarify the role of the venture philanthropy organisation in building stronger investee organisations with a societal purpose. The venture philanthropy organisation acts as a vehicle, channeling funding from investors and co-investors and providing non-financial support to various investee organisations. The non-financial support is provided by the VP organisation itself, but also by external organisations and individuals. The investee organisations in turn develop multiple projects that may be focused on particular sectors such as healthcare, education, environment, culture, medical research, etc. The ultimate beneficiaries are usually groups in society that are somehow disadvantaged, including disabled, women, children, etc. The societal impact ultimately needs to be measured by assessing how the lives of the beneficiaries are improved thanks to the actions of the investee organisations, and going one step further, assessing the contribution of the VPO to that improvement. The VPO generates social impact by building stronger investee organisations that can better help their target beneficiaries and achieve greater efficiency and scale with their operations. Investors in venture philanthropy are usually focused on the social return on their investment, rather than on the financial return.



Emergence of Venture Philanthropy

Venture philanthropy is a high-engagement, partnership approach, analogous to the practices of venture capital in building the commercial value of young companies. VP in its modern form developed originally in the US in the mid-1990s, took hold in the UK from 2002[4] and has since expanded is into continental Europe . The term 'venture philanthropy' can be traced back as far as the 1960s in the US, but it was only during the 1990s that the term gained popularity and stimulated a debate on new forms of highly engaged grant making by foundations. An influential Harvard Business Review paper by Letts, Ryan and Grossman[5] challenged foundations to employ tools from venture capital to invest in the organisational, rather than the programmatic, needs of social purpose organisations. Porter and Kramer[6] subsequently challenged foundations to create greater value and to act as more than a passive conduit for transferring finance from private sources to grantees. At the same time, existing foundations were considering how to change some of their practices in order to better assist the social sector and how to align their investments with their social mission. In the UK, considerable interest in innovations in social investment, including high engagement models, began to develop in 2001. While there were several historical examples of VP-like activity, it was not until 2002 that the UK's first VPO, Impetus Trust, was launched. In continental Europe, there has been a slow, but steady arousal of interest in social investment and high-engagement models of philanthropy, but only in the last four or five years have new organisations or models emerged. The EVPA, formed in 2004, is the primary vehicle for encouraging the development of the VP model throughout Europe.

Role of EVPA in industry evolution

Established in 2004, EVPA is a unique network of venture philanthropy organisations and others committed to promoting high-engagement grant making and social investment in Europe. EVPA is a non-profit membership association made up of organisations across Europe interested in or practicing venture philanthropy. EVPA is independent from religious and political standpoints. EVPA's diverse membership includes venture philanthropy organisations, social investors, grant-making foundations, private equity and professional service firms, banks, philanthropy advisors and business schools.

EVPA is characterised by this hybrid nature of its membership. It views venture philanthropy as complementary to other forms of philanthropy and investment, filling a market gap. However, beyond being a mere "tool", venture philanthropy is emerging as a new industry, with an entire support system around it, including advisory service firms and business school with programmes specialised in venture philanthropy. As venture philanthropy continues to grow, the industry-building role of the association becomes increasingly important, thus also calling for the development of best practice and guidelines.

This is the Knowledge Centre's first European VP industry report that provides concrete data on the VP organisations in Europe. The survey that enabled EVPA's Knowledge Centre to collect the data presented will be repeated on an annual basis to provide independent industry statistics on European Venture Philanthropy. EVPA acts as the main repository of data on the VP industry in Europe.

[4] *John, R. (2006), "Venture Philanthropy: the evolution of high engagement philanthropy in Europe," Skoll Centre for Social Entrepreneurship, Said Business School, University of Oxford.*

[5] *Letts, C., Ryan, W. and Grossman, A. (1997) "Virtuous Capital: What Foundations Can Learn from Venture Capitalists", Harvard Business Review*

[6] *Porter, M.E. and Kramer, M.R. (1999) "Philanthropy's New Agenda: Creating Value", Harvard Business Review*

PART 1: INTRODUCTION

Starting 2011, EVPA surveys its members on an annual basis about their VP operations in order to:

> generate industry statistics;

> publish industry report to disseminate the work of VP organisations;

> better target EVPA's services to members' needs.

Reliable data on VP Industry useful for EVPA members to (...):

> generate industry statistics;

> publish industry report to disseminate the work of VP organisations;

> better target EVPA's services to members' needs.

Survey scope and methodology

This survey was elaborated by EVPA's Knowledge Centre. The questions aimed to gain an overview of the demographics of the VP industry and cover the main practices of VP organisations in order to gain insight into their daily activities. The questions cover the key characteristics of VP as highlighted above. Some of the questions were developed from scratch whereas others build on previous surveys (specified in the Results section) that have been conducted on VP or related topics.

We first pilot tested the questions with a smaller group of five VP organisations and incorporated their feedback into the final version. The survey document (in Word Forms) was subsequently emailed to the 65 selected VP organisations that were targeted for the survey and the data collection took place from May until August 2011. The targets were EVPA's full members, organisations whose primary activity is venture philanthropy, and EVPA's associate members that are active in high engagement grant making and social investment as part of their philanthropy or investment activity. However, the survey questions were directed specifically to the VP part of those organisations' overall activity. For example, some foundations included in the survey have a separate VP or social investment "fund". In those cases, we asked the respondents to answer the questions only in terms of that VP fund. The survey was also sent to VP organisations that we had been in touch with either as previous EVPA members or otherwise. Using snowball sampling, we asked all respondents to provide examples of other VP organisations outside of EVPA membership in order to capture as large a percentage as possible of the total VP population in Europe. In total, 15 out of the 65 surveys sent targeted non-EVPA members.

We estimated that the survey would take around 1 hour for the respondents to complete, although in reality, the time needed was sometimes longer. The survey included an Overview section with 20 questions, an Investment Criteria section with 14 questions, an Investment Process section with 35 questions, and a VP Industry reach section with 2 questions, adding up to a total of 71 questions.

The survey was first sent in May 2011 and closed in the summer of 2011. Follow-up phone calls and emails were conducted in order to reach the final response rate of 77%. In the table below, the statistics of the survey are presented:

STATISTICS ON SURVEYS COLLECTED (2011)	
EVPA members surveyed (full members and members with VP activity)	55
EVPA members completed surveys	46
EVPA member response rate	84%
Total surveys sent (including EVPA non-members)	65
Total completed surveys	50
Total response rate	77%

The response rate was satisfactory for this type of study, although notably higher for EVPA members than for non-members. Very few new leads were provided through the snowball sampling methodology, indicating that we were able to reach a large percentage of the VP population through the survey. VP being a growing industry, we predict that the targeted population for the survey should grow from year to year.

PART 2

PRESENTATION OF SURVEY RESULTS

"The survey was completed by 50 investors and grant-makers using the venture philanthropy approach in Europe. Most of the financial data provided was for the fiscal year ending in 2010, unless otherwise specified."

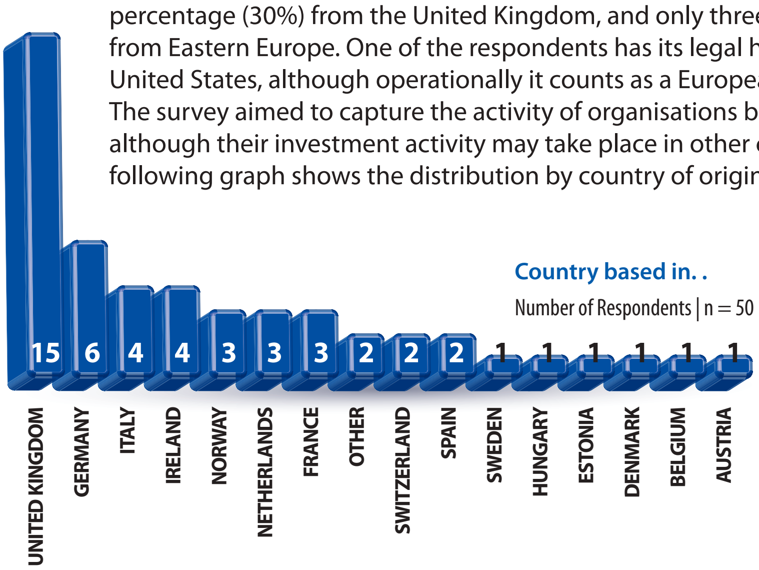
1. DEMOGRAPHICS OF VP ORGANISATIONS IN SURVEY

Country of origin

Most of the respondents were based in Western Europe, with a large percentage (30%) from the United Kingdom, and only three respondents from Eastern Europe. One of the respondents has its legal headquarters in the United States, although operationally it counts as a European organisation. The survey aimed to capture the activity of organisations based in Europe, although their investment activity may take place in other continents. The following graph shows the distribution by country of origin.

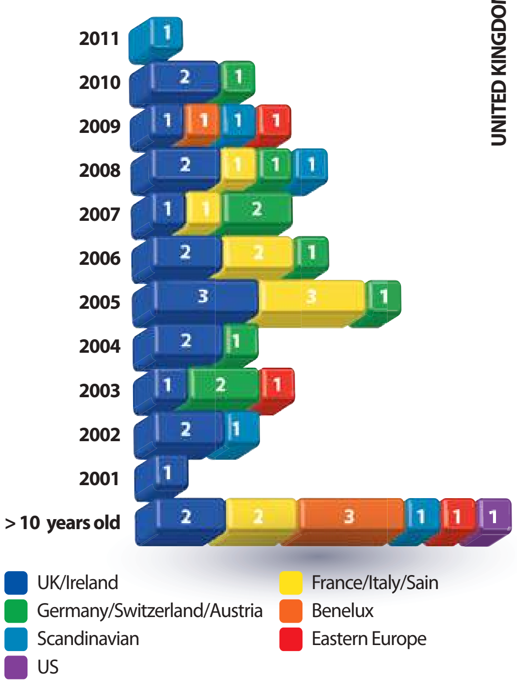
Country based in. .

Number of Respondents | n = 50



Year VP activity Founded

Number of Respondents I n = 50



Year VP activity was initiated

The survey asked when the VP activity of each respondent was founded. This question was in some cases difficult to answer considering the many ways that an organisation can start engaging in VP, using just a few of the key characteristics or applying the full model. The organisations that were set up more than 10 years ago may be examples of grant-makers or social investors that have gradually moved to a VP model, but probably were not aware of the concept per se until the beginning of the movement in Europe, starting in the 2000's. The average age of the VP activity is seven years. The graph on the left gives evidence of a peak in new VP organisations being set up in 2005 and 2006, with fewer new organisations in recent years, but this may also be a reflection that the newer organisations are not yet known to EVPA. The graph shows that Scandinavia has been a late mover in terms of VP activity, and that the UK and the Germanic countries have founded a steady number of new VP organisations throughout the time period.

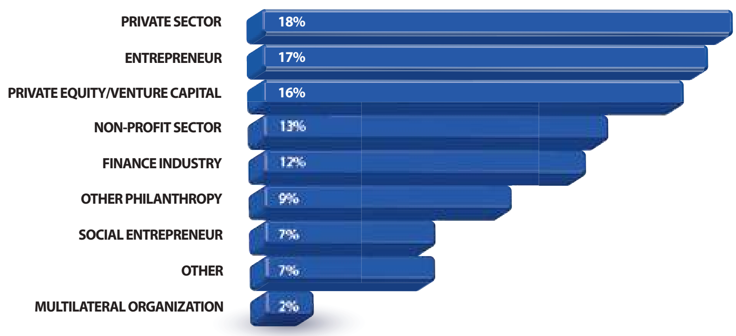
Professional background

Venture philanthropy in Europe has strong links to the private equity and venture capital community[6], both through the founders of EVPA and because many of the first VP organisations were founded by professionals from that community. More recently, venture philanthropy organisations have been founded by established grant making foundations, financial institutions, and corporate foundations[7]. The survey investigated the professional background of the founders of VP organisations and found that in many cases, the founder comes from the private sector (18% of respondents), is a business entrepreneur (17%) or comes from the private equity/venture capital (16%), or finance (12%) industry. A lower percentage of founders comes from the non-profit sector (13%) and other forms of philanthropy (9%).

Interestingly, the same question applied to the CEO or managers of VP tells a different story. A non-profit background (23% of respondents) dominates over a private sector background (22% of respondents), followed by other (11%), PE/VC (11%), and finance (8%). A mix of social sector and private sector professional backgrounds is often found in the management teams of VP organisations[8].

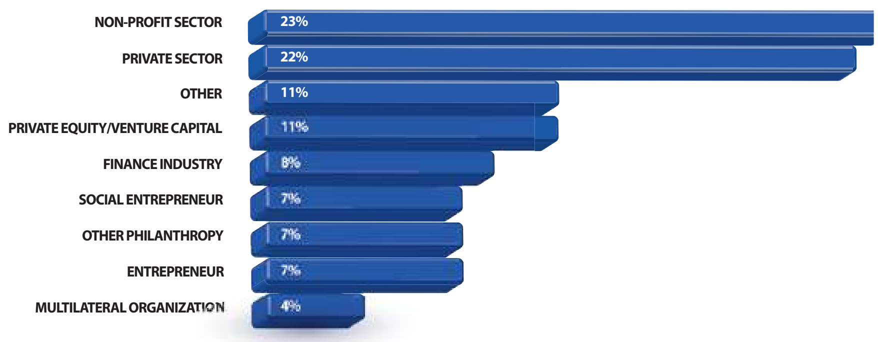
Founder - professional background

n = 50



CEO - professional background

n = 49



[6] *John, R. (2006), "Venture Philanthropy: the evolution of high engagement philanthropy in Europe", Skoll Centre for Social Entrepreneurship, Said Business School, University of Oxford.*

[7] *Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper.*

[8] *Ibid*

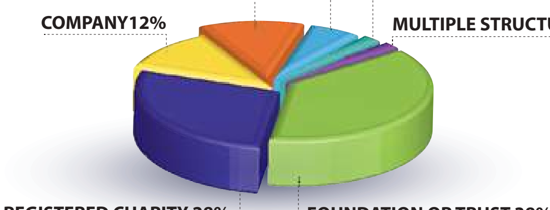
PART 2: PRESENTATION OF SURVEY RESULTS

Organisation structure

A majority (66%) of the European VP organisations are structured as foundations, trusts or charities, although each country has its own terms and variations of this form. Other forms are companies, funds, or multiple structures. In many European countries the legal structure could limit the financing instruments that may be used[9]. In some cases, a charitable status may restrict a VP organisation from using financing tools other than grants. Organisations such as Noaber Foundation and Bonventure have set up multiple structures including both funds and foundations to be able to use the whole range of financing instruments. Out of the 50 respondents, 44% had endowments that allow a fairly predictable funding budget from year to year. The rest are thus non-endowed entities that need to engage in continuous fundraising.

Organisation Structure

n=50



Endowment Structure

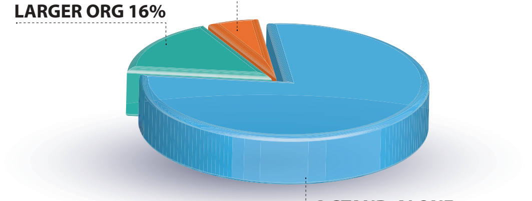
n=50

Endowed	22 respondents | 44%
Non-endowed	28 respondents | 56%

European VP organisations tend to be stand-alone entities (78%) and follow an evergreen structure (76%). Only 12 organisations are limited in life or spending down, meaning that their activities will cease after a certain number of years, the average being seven years.

Organisation Type

Number of Respondents | n = 50



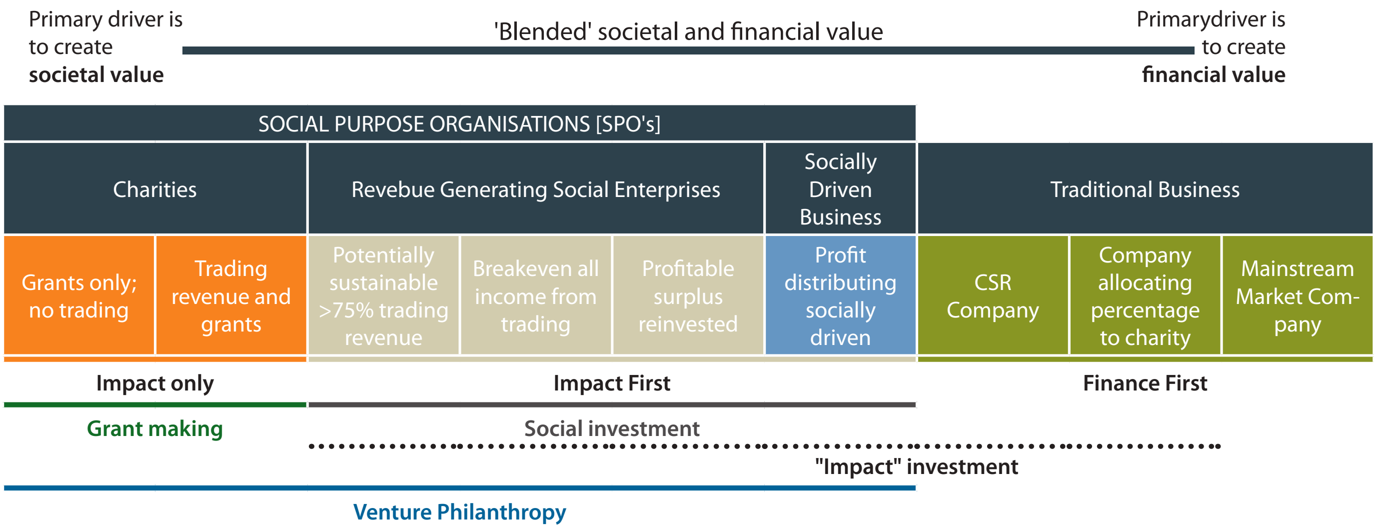
Fund Types

Number of Respondents | n = 50

Limited in Life / Spending Down	12 respondents | 24%
Evergreen	38 respondents | 76%

2. VP POSITIONING IN INVESTMENT LANDSCAPE

VP is one tool in the social investment and philanthropy toolkit. It has emerged in Europe during the present decade as a high engagement approach to social investment and grant making across a range of investee organisations with a societal purpose (SPOs), from charities and non-profit organisations through to socially driven businesses. **Social investment** refers to funding that may generate a financial return, but where the societal impact comes first; so-called **Impact First** strategies. **Grant funding** on the other hand is the provision of non-repayable donations to the SPO supported; an Impact Only strategy. The following spectrum aims to clarify the differences and overlaps of this terminology.[10]



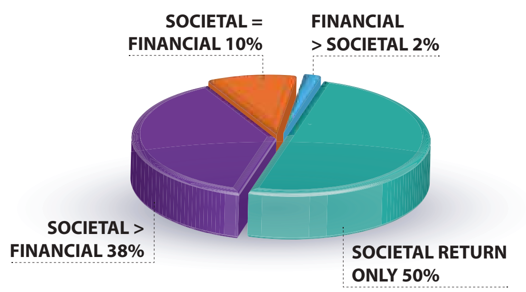
Finance first strategies, where the financial return is maximised and the societal impact is secondary, are not included in EVPA's definition of venture philanthropy. The relatively newer term "impact investment" includes both impact first and finance first strategies. In what follows, we present data from the survey that highlights the positioning of European VP organisations on the spectrum.

The survey confirmed that the VP organisations are largely positioned on the left hand side of the spectrum, either expecting a societal return only (50%) or pursuing a societal return as a primary objective above the pursuit of a financial return (38%), an impact first strategy. Only a smaller percentage (10%) places societal and financial returns on equal footing, and one respondent (2%) places financial return above societal impact. Return expectations for the ones that require a financial return are placed in the range of 1-25%.

A majority (68%) of the VP organisations that do generate financial returns use those returns to reinvest in social purpose organisations. A smaller percentage (32%) use those returns to fund the core costs and management fees of the VP organisation itself, or distribute the returns to investors. Only a small percentage (12%) pay carried interest. Considering that the majority of the VP organisations are non-endowed, it is not surprising that many use returns to reinvest in SPOs and in their own core costs, thus lowering the burden on fundraising. In a way, VP organisations are thereby applying VP to themselves, aiming to become less dependent on external funding sources.

Expected Type of Returns

n=50



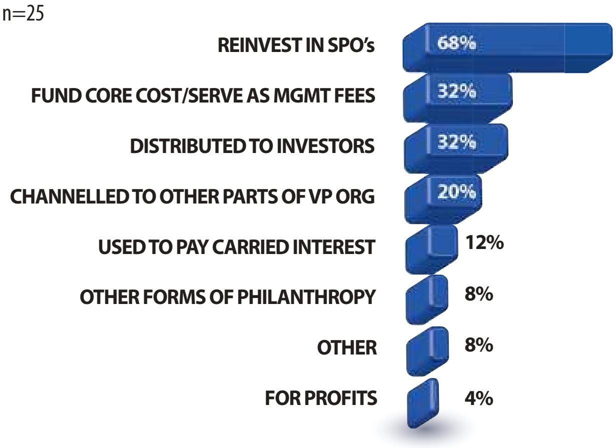
[9] *Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper*

[10] *Adapted from John Kingston, CAF Venturesome, by Pieter Oostlander, Shaerpa and EVPA*

PART 2: PRESENTATION OF SURVEY RESULTS

How do you use financial returns?
Percentages of respondents

n=25

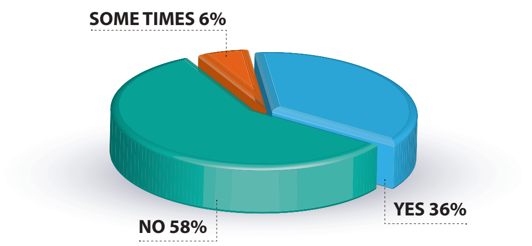


A majority (58%) of the VP organisations that participated in the survey did not charge a management fee, and the 18 organisations that replied that they did charge management fees used a wide range of percentage fees, as shown in the graph below. Based on anecdotal evidence from interviews and workshops (please see box below) , we had expected the management fees of VP to be higher than in venture capital, i.e. higher than 2-3%. In fact, only 27% of respondents are charging more than 3% in management fees. A reason may be that different VP organisations understand the term management fee differently, calling for a clarification in next year's survey.

> "The fact is that you are working differently [in venture philanthropy rather than VC]. Fees applied in VC funds cannot be applied in social investments. A typical management fee is 2-3% for VC, which is not sufficient for VP. You have to invest a lot of time and sometimes hire external experts even before you make the investment. You have to put in much more effort for less money, and a lower capital contribution."
>
> *Matthijs Blokhuis, Director, Noaber Foundation*[11]

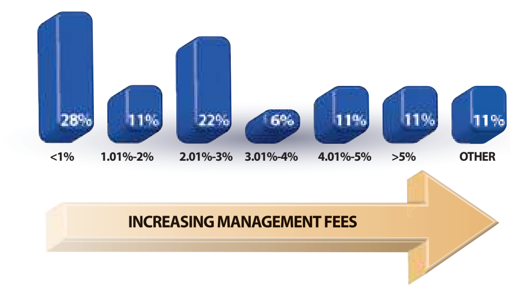
Do you Charge Management Fees?

n=50



Management Fees

(among those that charge) n=18



3. RESOURCES OF EUROPEAN VENTURE PHILANTHROPY

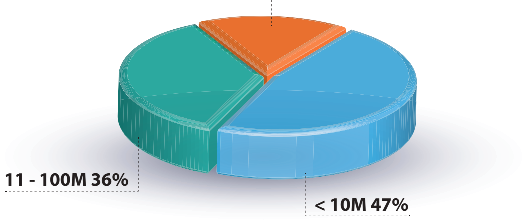
Financial capital

The European venture philanthropy industry is still in its infancy, with many relatively small organisations struggling for survival. Funding is committed either in foundations or funds, and the average size of the funding is €82m. However, since only 17% of the VPOs are bigger than €100m, the median of €11m gives a better picture of the reality of most VPOs. Indeed, 47% of the VPOs are smaller than €10m.

"The European venture philanthropy is still in its infancy, with many relatively small organisations struggling for survival."

Number of VP orgs by size category

(total funding committed) n=50



Median and Average Org Size :

Median size **€11 M**

Average size **€82 M**

The same data can be analysed according to organisational structure. The VPOs in the study are set up as endowed or non-endowed foundations or as funds (as well as mixtures of foundations and funds). We find that the majority of the capital available in European VP is managed by endowed foundations, with lower amounts in non-endowed foundations and funds. The average endowment size of €189m is distorted by a few very large foundations, and the median of €31m is more representative of the reality of most VP-oriented endowed foundations. Non-endowed foundations and funds have a similar profile in terms of funding available, with an average size of €12m and a median of €9m. The total funding available to invest using a VP approach is €3.86billion, adding up the size of the endowments and funds of the respondents. The reality is that only a small percentage (approx. 5%) of endowments tends to be spent every year, so that the actual funding available is a much lower figure.

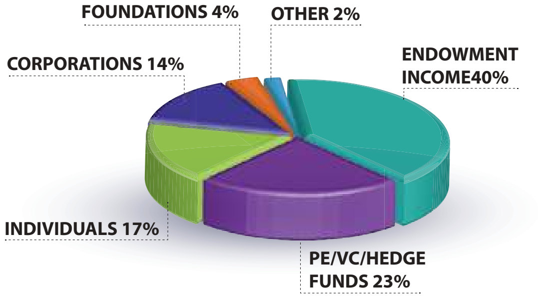
AMONG ENDOWED FOUNDATIONS... N=18		AMONG NON-ENDOWED FOUNDATIONS... N=18		AMONG THE 36% OF RESPONDENTS WITH FUNDS... N=17	
€ 3.4B	AGGREGATE ENDOWMENTS	€ 217M	AGGREGATE CAPITAL RAISED	€ 238M	AGGREGATE CAPITAL
€ 31M	MEDIAN ENDOWMENTS	€ 9M	MEDIAN CAPITAL RAISED	€ 9M	MEDIAN FUND SIZE
€ 189M	AVERAGE ENDOWMENTS	€ 12M	AVERAGE CAPITAL RAISED	€ 12M	AVERAGE FUND SIZE

[11] *Blokhuis, Matthijs, Investment Manager, Noaber Ventures. (February 4, 2011), EVPA Interview.*

PART 2: PRESENTATION OF SURVEY RESULTS

Sources of Funding

n=44

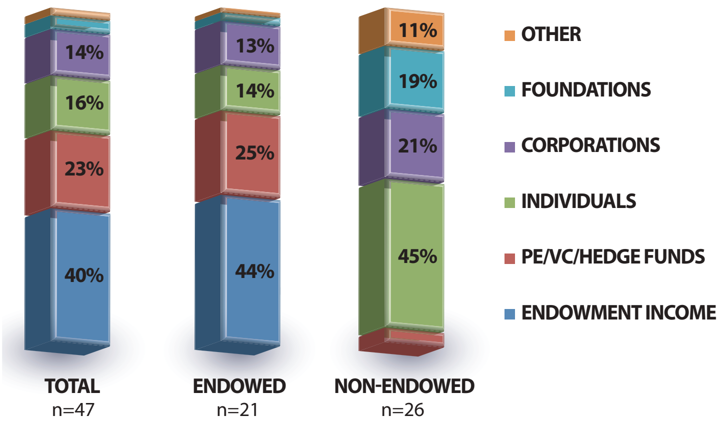


The main source of funding (40%[12]) of VP activities in money terms comes from endowment income, meaning that established foundations with an endowment finance their VP activities with the income from their own endowment. Other important funding sources include PE/VC/Hedge funds, individuals and corporations as shown in the graph to the left.

When splitting the data into endowed versus non-endowed organisations, we gain a better understanding of the sources of funding for non-endowed organisations. The main source of funding for non-endowed organisations comes from individuals (45%), including high net worth individuals, founders and families and friends, followed by corporations (21%), other foundations (19%) and other (11%), including institutional investors, governments and earned income. The sources of funding of endowed organisations largely reflect the overall sample, as a consequence of endowed organisations representing a large portion of the total funding available.

Sources of Funding - Total, Endowed, Non-Endowed

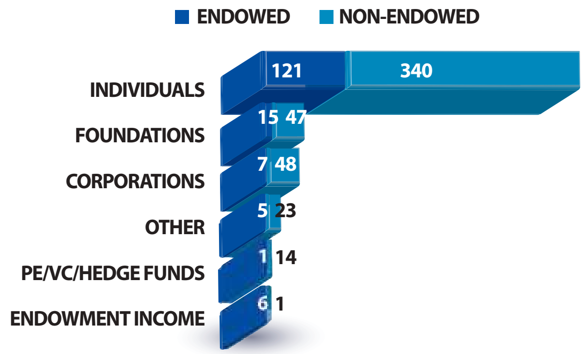
n=47



The survey respondents also provided information about the absolute numbers of organisations and or individuals that provide their funding. We found that 461 individuals act as funders of European VPO's, followed by 62 foundations and 55 corporations. The following graph shows the split between endowed and non-endowed VPOs.

Aggregate Contributions - Individuals / Organizations Providing Sources of Funds

Number of respondents| n = 44



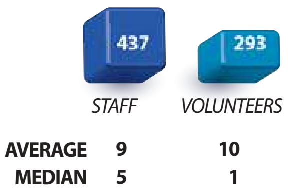
Human capital

Venture philanthropy combines financing with non-financial support, implying that a key resource is human capital, as shown in the following graph.

"Venture philanthropy combines financing with non-financial support, implying that a key resource is human capital."

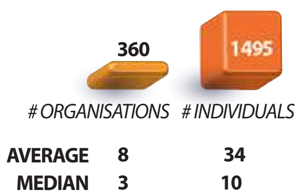
How many peolpe are working for the VP organisation?

Aggregate across VP orgs n=48



How many people are working for the VP organisation?

Aggregate across VP orgs n46 n44



The survey found that 437 people are employed by the 48 European VP organisations that responded to this question, with an average staff size of 9 people. Adding to this number is a pool of 293 volunteers. Venture philanthropy organisations hire consulting services and pro-bono support from various types of organisations in their networks. In total, 1495 individuals from 360 external organisations contribute non-financially to the VP activities of the respondents, representing an average of 34 individuals and 8 organisations per VPO. Considering that these statistics may be partly distorted by a few outliers, the median of 10 individuals and 3 organisations contributing non-financial support may provide a more accurate description of the typical European VPO.

4. VENTURE PHILANTHROPY INVESTMENT FOCUS

Venture philanthropy can operate across a spectrum of organisational types, from charities and non-profit organisations through to socially driven enterprises. The survey shows that a majority of European VPOs invest in non-profit organisations, either with some trading activity (86% of respondents) or without trading (68%). This investment focus is followed closely by investments in social enterprises with an impact first profile (66% of respondents), meaning that they have a primary social mission, and any surplus profits are reinvested. Profit-maximising enterprises with social impact and microfinance institutions receive less VP investment, with 36% and 23% of respondents respectively indicating that they support that type of organisation.

Percentage of Respondents Supporting Different Investees

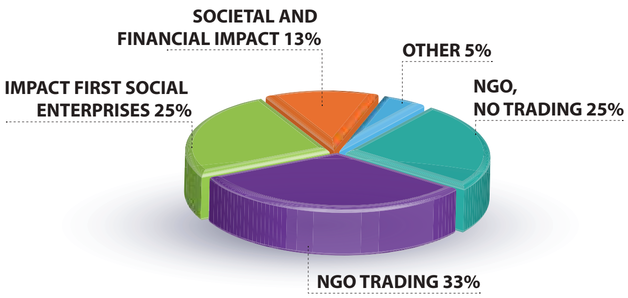
Number of total answering "yes" | n=44

[12] These figures are calculated by multiplying the estimate % of total funding with the total funding size as detailed above.

PART 2: PRESENTATION OF SURVEY RESULTS

VP Spend in 2010 (€) per type of investee

n=44



When analysing the approximate percentage of current portfolio in terms of total funding represented by this type of organisation, we used the percentages given by the respondents and multiplied by the financial support provided in the last available fiscal year, 2010 by each VPO. The financial expenditure in the last year is a proxy for the funding provided to the current portfolio organisations of a VPO. As the pie-chart on the left shows the VP spend in 2010 per type of investee, indicating that non-profit organisations, with or without trading attract a majority of the funding provided by VP organisations, representing 33% and 25% respectively of 2010 VP expenditure. Impact first social enterprises attracted 25% of the funding, and enterprises that generate financial returns first, combined with a societal return, attracted 13% of the funding. Microfinance is included in other, which as a category receives 5% of the funding. The reason why microfinance achieved a higher percentage in the previous analysis was because the counts were non-exclusive, meaning that microfinance could be structured as a for-profit, social enterprise or non-profit, thus generating double-counting when asking respondents to check a box, but when asked to estimate a percentage, the double-counting disappeared. Also, it may be the case that many VPOs (13%) support microfinance institutions, but that the funding provided is quite small.

We find that organisations' priorities of social vs. financial return are indicative of the types of organisations supported, as evidenced by the shading in the following table. Most VP organisations that expect a social return only invest in non-profit organisations. The ones that prioritise a societal return over a financial return invest in non-profit with trading activities or in impact first social enterprises, and the organisations that put societal and financial return on equal footing, tend to invest in finance first enterprises with social impact more than in nonprofits and social enterprises. It is also interesting to note the correlation between a focus on financial return and investment in microfinance. A recent report by JP Morgan and GIIN on impact investing[13], shows that microfinance is the key target sector for impact investors, capturing 37% of the funding. European VPOs have a societal impact first return approach in contrast with impact investors that work with either impact first or finance first strategies.

Priority of Social vs. Financial Return (Q2.1)

Pct of Orgs

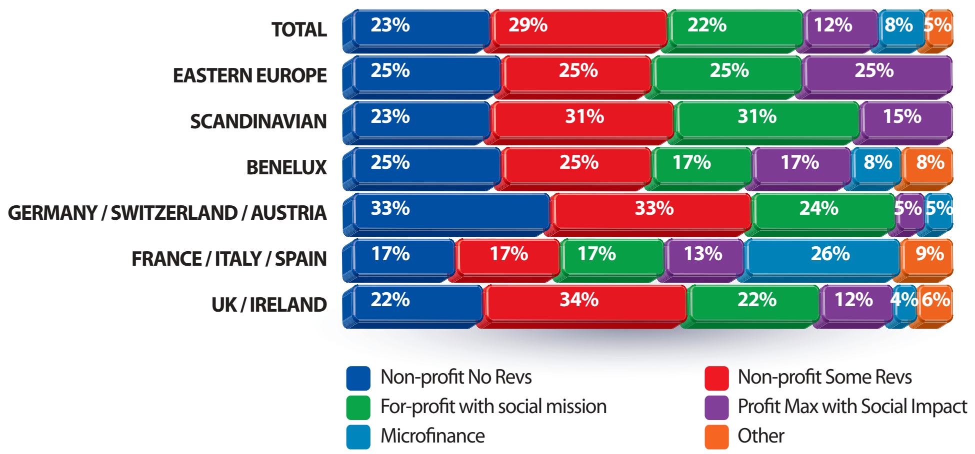
Types of Organisations Supported

	Social return only	Societal return > Financial return	Societal return = financial return
NGO, no trading	72%	47%	60%
NGO, trading	84%	74%	60%
Impact first social enterprise	48%	68%	60%
Social and financial impact	20%	32%	80%
Microfinance	12%	26%	40%
Other	4%	16%	20%

Another way of presenting the data is to count the total replies by the 44 respondents and calculate the percentages of counts per total counts. For the total sample, it shows that non-profits without and with trading account for 23% and 29% of total responses, and that social impact first enterprises and profit-maximising enterprises with social impact account for 22% and 12% respectively of total counts. To check for regional differences, we divided our sample into main regions, although in some cases this was difficult due to small sample size. The UK and Ireland focus on non-profits with trading revenues to a larger extent than the overall sample, and less on microfinance. Eastern Europe and Benelux have an above average focus on for-profit enterprises whereas the Germany/Austria/Switzerland cluster shows an opposite pattern with a strong focus on non-profit organisations. France, Italy and Spain focus more on microfinance than the average for the entire sample. These regional statistics will be more robust as the sample size increases over the years.

Number of Respondents Supporting Different Investees out of total Count

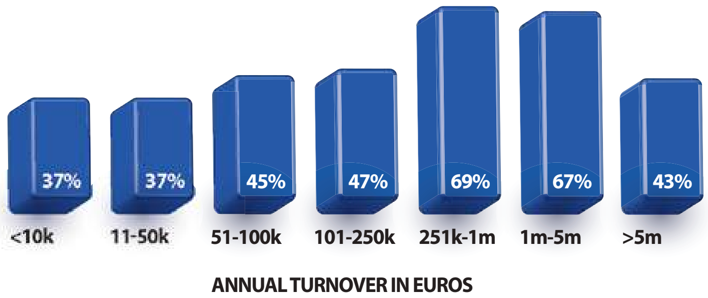
Percent of total answering "yes" | n = 44, counts= 129



Most VP activity focuses on organisations in the small to medium category. The survey confirms that the greatest percentage of respondents target the size categories of €250,000-1m (69% of respondents), and €1m-5m (67%). The distribution is shown in the chart below.

Size of SPOs

Percentage of respondents supporting each size | n = 49

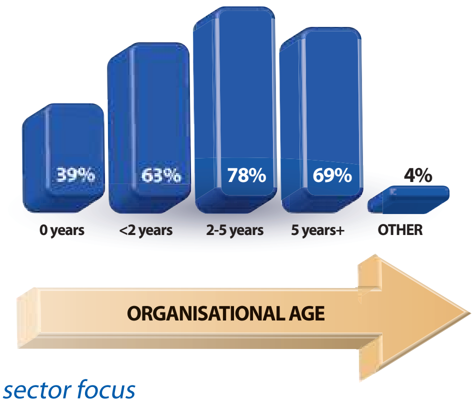


[13] *Saltuk, Y., Bouri, A., & Leung, G. (2011), "Insight into the Impact Investment Market, An in-depth analysis of investors perspectives and over 2,200 transactions", J.P. Morgan, GIIN.*

Venture philanthropy generally targets organisations that are young; 2-5 years being the most common age of investee organisations (78% of respondents). Some VPOs target early-stage organisations with an age of 0-2 years (63%), and others take the risk of incubating start-ups (39% of respondents). A fairly large (69%) percentage of respondents invest in more mature organisations that are more than 5 years old, indicating that many VPOs require some track record before they are convinced that the business model of the social purpose organisations can be scaled up to achieve greater impact. Venture philanthropists often want to direct their resources to organisations with growth potential or that are at an inflection point such as scale up, merger or turnaround, where an influx of funding and the added value of the non-financial support are essential.

Age of Investee Organisations

Percent of VPOs supporting age category | n = 49



Social sector focus

The social sector classification used follows the International Classification of Nonprofit Organizations (ICNO)[14], first introduced by Salomon and Anheier in 1992, which has since become a standard in research on the non-profit sector. The classification system is as follows:

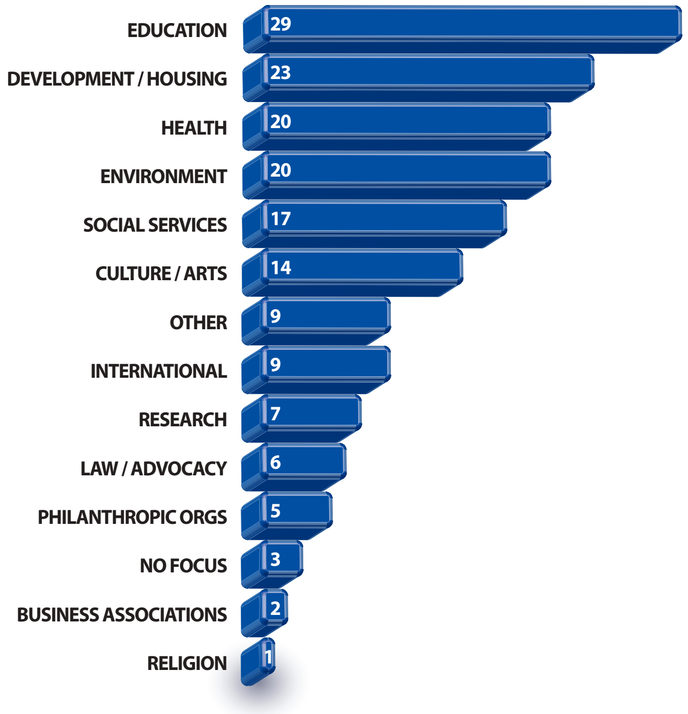
THE INTERNATIONAL CLASSIFICATION OF NONPROFIT ORGANIZATIONS
1. Culture and Recreation (Culture, Arts, Sports, Other Recreation and Social Clubs)
2. Education (Primary, Secondary, Higher, Other)
3. Research
4. Health (Hospitals, Rehabilitation, Nursing Homes, Mental Health/Crisis Intervention)
5. Social services (Emergency, Relief, Income Support/Maintenance)
6. Environment (organic, cleantech, animal protection)
7. Development and Housing (Economic, social, community development, fair trade, ethical clothing, employment and training)
8. Law, Advocacy and Politics (Civic/advocacy organization, law/legal services, political orgs)
9. Philanthropic intermediaries and Voluntarism promotion
10. International (intercultural understanding/development and welfare abroad/providing relief during emergencies)
11. Religion
12. Business and Professional associations, Unions
13. Other
14. No focus

Respondents were asked to check a box whether they focused on one or more out of 12 social sectors, or to specify other if not included in the listing, or check that they had no focus. The following chart provides the counts of how many respondents invest in the listed social sectors. Education was the number one sector in terms of counts, followed by development/housing and health and environment. Very few (3 respondents) had no social sector focus. Indeed, other studies[15] have commented on the increased sector focus of European VPOs, indicating that it is helpful to focus on specific sector to better leverage the VPO's resources, bring more added value to the investees and better measure the impact of the investments.

"Education was the number one sector in terms of counts, followed by development/ housing and health and environment."

Investment Sectors

Number of respondents| n = 41



We also asked respondents to indicate the percentage of their current portfolio dedicated to each social sector, in terms of total funding. The following chart takes those percentages and multiplies them with total funding provided to investees using a VP approach by each organisation in 2010. In terms of funding, health is the number one sector, receiving 27% of total funding, followed by education, with 21% of total funding. The three organisations that had no sector focus invested 10% of the total funding in VP, and actually focused on social entrepreneurship in general, regardless of social sector. Environment (9%) and Development/Housing (7%) were also important sectors in terms of funding received.

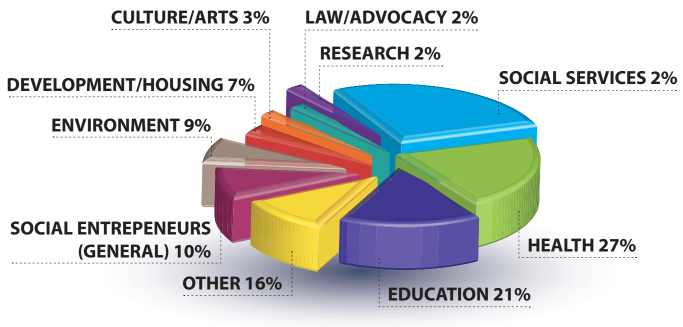
[14] Salamon, L. M., and Anheier, H. K. (1992). In search of the nonprofit sector. II: The problem of classification. Voluntas, 3(3), 267-309.

[15] Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper.

"60% of European VPOs target children and youth as the ultimate beneficiaries of their investees' activity, followed by people suffering from poverty (58%), disabled (46%), immigrants (42%) and people suffering from disease (42%)."

VP Spend in 2010 (€) by target sector

n = 35



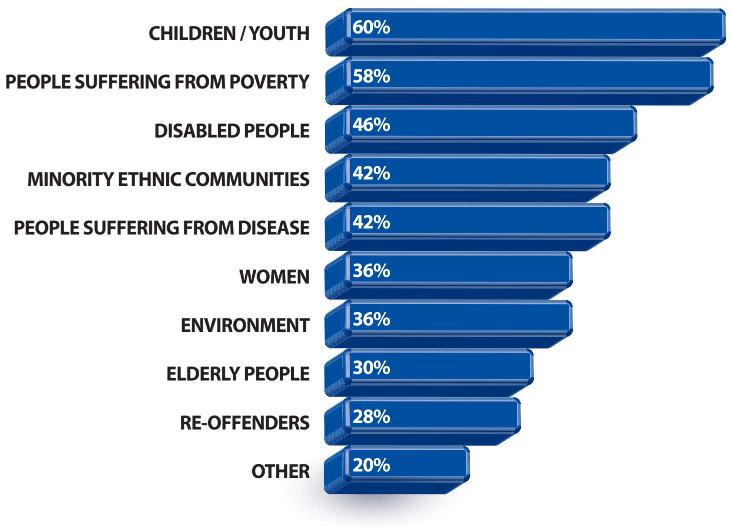
Final beneficiaries - target groups

Venture philanthropy aims to achieve societal impact with its activities. Beyond the social sectors targeted, the survey asked about the final beneficiaries of the investee SPOs. These categories are non-exclusive, meaning that the same SPO may be targeting Immigrant Women, or Disabled Youth. Therefore, the survey question allowed respondents to provide multiple answers. The survey found that 60% of European VPOs target children and youth as the ultimate beneficiaries of their investees' activity, followed by people suffering from poverty (58%), disabled people (46%), minority ethnic communities (42%) and people suffering from disease (42%).

The chart below provides the entire data set.

Ultimate target Groups (Final Beneficiaries) of Investee SPOs

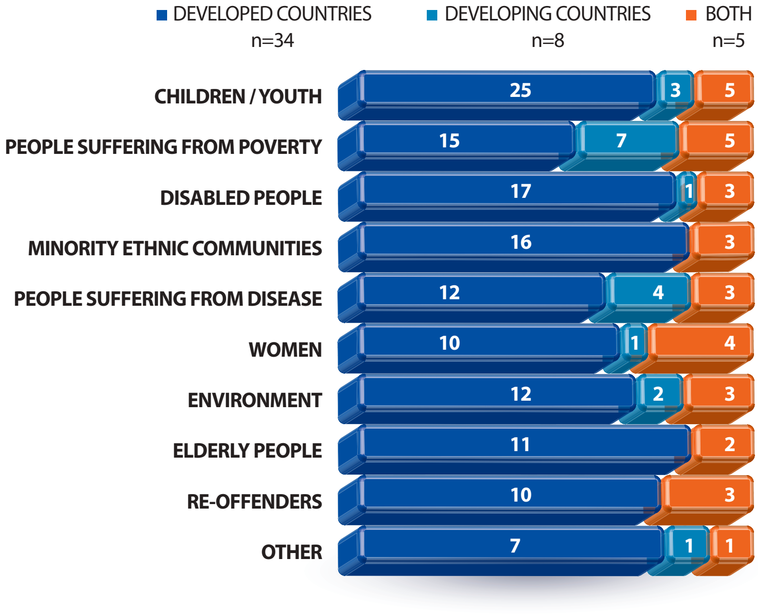
Number of respondents | n = 50



The data on beneficiaries can be divided into VPOs that focus on developed or developing countries, which for European VPOs implies Europe or Africa/Asia/Latin America. The chart below shows that all target groups are present in Europe, but that for developing countries there is a relatively strong focus on People Suffering from Poverty and Disease.

Target Groups (Final Beneficiaries) of Investees by Target Region-Developed or Developing Countries

Number of respondents| n = 47



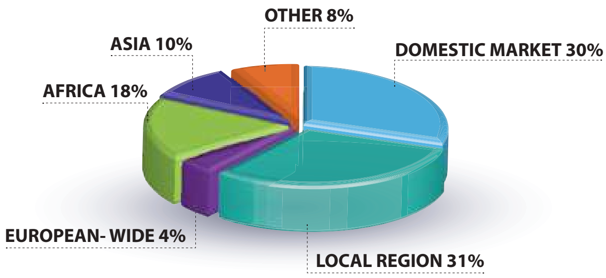
"VPOs tend to focus their activities either on their own domestic market (30% of funding) or on a particular region within their domestic market (31%)."

Geographies targeted

European VPOs tend to focus their activities either on their own domestic market (30% of funding) or on a particular region within their domestic market (31%), and otherwise on developing countries, with Africa (18%) and Asia (10%) being the main target regions. Latin America attracts about 2% of the funding, and European-wide funding only accounts for 4% of total funding.

Geographic Portfolio

Percent of 2010 VP Spend (€) |n=42



PART 2: PRESENTATION OF SURVEY RESULTS

"Finding the right investee SPOs is a fundamental part of a VPO's activity. In our sample, 90% of VPOs directly identify and approach the SPOs to invest in."

The hands-on approach of venture philanthropy may explain the dominance of local funding strategies, implying that in order to provide the non-financial support, it is certainly more convenient to have the investees close by. European VPOs investing in developing countries have to establish a local presence either by opening offices abroad or by creating extensive networks in the target countries. For example, dob Foundation does not have an office in Africa, where they invest, but partner with investor groups that have a presence on the ground[16]. LGT VP on the other hand has a team of 15 local investment managers and philanthropy advisors in Latin America, Africa, Europe, India, Southeast Asia and China[17]. Within Africa, the most commonly mentioned countries are Uganda, Kenya, Senegal, Cameroon, Tanzania, South Africa, Mozambique and Rwanda. In Asia, the number one country is India, and other countries include the Philippines, China, Vietnam and Pakistan. In Latin America, there are most VPOs present in Colombia, Peru, Brazil, Chile, Argentina, Ecuador and Nicaragua.

5. VP INVESTMENT PROCESS

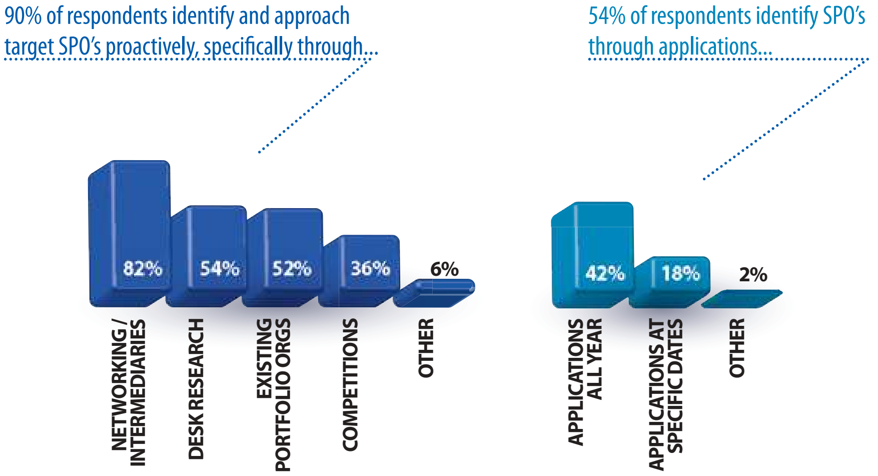
A. DEAL FLOW AND INVESTMENT APPRAISAL

Finding the right investee SPOs is a fundamental part of a VPO's activity. In our sample, 90% of VPOs directly identify and approach the SPOs to invest in. Most of these contacts are made through networking and intermediaries (82%), followed by desk research (54%), existing investee organisations (52%) and competitions (36%).

On the other hand, 54% of the European VPOs that participated in the study accept open applications, either all year (42% of total respondents) or at specific dates (18%), a so-called "gated" process. Accepting applications may impose administrative burdens, but may be a good option when the VPO does not yet have a well-developed network in the sector. A gated process can be cost effective but requires a well-established communication strategy and marketing channels, a well-known brand name, and a fairly mature SPO market.[18]

Investee Identification Activities

Percent of total answering "yes" | n=50



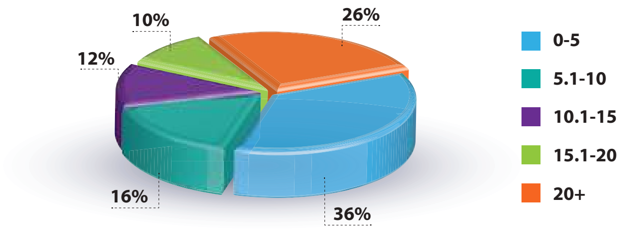
The survey further inquired about the number of applications received and screened by the VP respondents. The results (shown in the table below) demonstrate that European VP organisations on average have received 352 applications for funding, accounting for a total of over 14000 applications.

	Average per VPO respondent	Median for VPO respondents
Applications received	352	100
Organisations screened	293	51

Out of the 352 applications received, 293 are chosen for an initial screening, and 38% of the screened organisations are chosen for a more in-depth screening, or due diligence. The following pie-chart shows how many days European VP organisations spend on due diligence for an average investment.

Days Spent in Due Diligence

n = 50



The chart shows that although many (36%) VPOs spend less than five days on due diligence, a large percentage (26%) also spends more than 20 days. The explanation may be due to differences in practice, but also because of different interpretations of the meaning of due diligence. The fairly large percentage of screened organisations that were chosen for due diligence indicates that some VPOs probably interpret the term due diligence as a light rather than detailed screening process.

B. INVESTMENT

Total investment made in VP

VP organisations have invested over €1 billion in financial and non-financial support since they began their operations - a figure that must be considered a milestone in the development of a young industry. The average age for the respondents VP activity is seven years, so the total investment must be divided across that time period. The average investment is €23million and the median is €7m, reflecting the fact that many small VPOs make up the VP industry and differ vastly in terms of funding capacity from some of the foundations with large endowments. The eight organisations with funding committed of more than €100m contribute 64% of the total VP investment.

"VP organisations have invested over €1 billion in financial and non-financial support since they began their operations - a figure that must be considered a milestone in the development of a young industry."

[16] *Metz Cummings, A. and Hehenberger, L. (2010) "Strategies for Foundations: When, why and how to use Venture Philanthropy", EVPA Knowledge Centre Research Paper.*

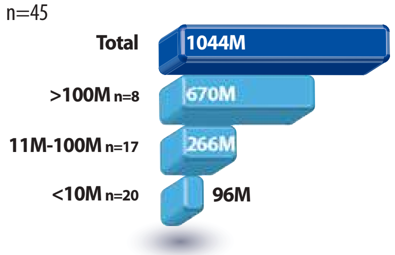
[17] *http://www.lgtvp.com/lgt/files/4c/4ce20f4f-9e1c-464f-82de-8cfd7814f4e9.pdf*

[18] *Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper.*

PART 2: PRESENTATION OF SURVEY RESULTS

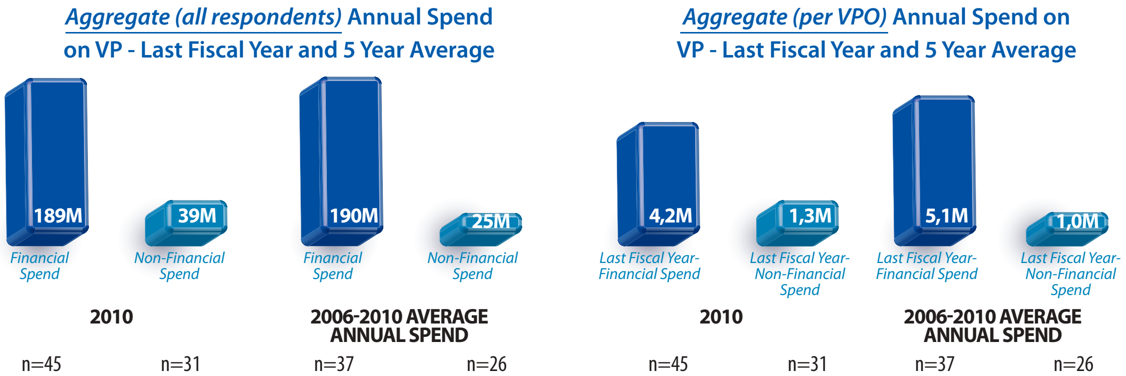
"The portfolios of European venture philanthropy organisations currently hold 929 investees, of which 217 were added in 2010. The median number of investees in the portfolio of a VPO is 10 and the average is 20."

How much have you invested in VP in total (financial & non-financial) since the beginnings of your operations (€M)?[19]



Average Total Investment € 23M
Median Total Investment € 7M

The yearly financial spend of European VP organisations, using a VP approach according to EVPA's definition, with investments ranging from grants to equity was €189 million in 2010 for the aggregate 45 respondents who answered this question, as compared to a five-year average annual spend of €190 million from 2006-2010 for 37 respondents. These figures indicate the VP organisations spent less on financially supporting SPOs in 2010 than on average in the past five years. The non-financial spend displays an opposite trend with €39 million spent in 2010 by 31 respondents as compared to €25 million on average over the past five years. The proportion of financial spend of the total spend has decreased in 2010 as compared to the 5-year average both at aggregate and individual level, as seen in the table below. The relatively low percentage of non-financial spend as a proportion of total spend, 23% in 2010 for the average VPO, may reflect that the non-financial support is more difficult to quantify, considering the presence of pro-bono experts and volunteers, and sometimes staff days are not counted as expenditure.



	Aggregate for all VPOs		Average per VPO	
	2010	Average 2006-2010	2010	Average 2006-2010
2010 Financial spend/ Total spend	83%	88%	77%	84%
2010 Non-financial spend/ Total spend	17%	12%	23%	16%

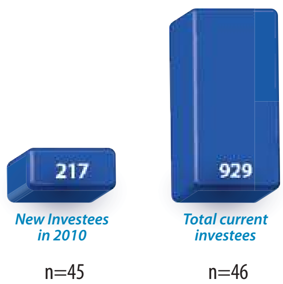
No. of investees

The portfolios of European venture philanthropy organisations currently hold 929 investees, of which 217 were added in 2010. The median number of investees in the portfolio of a VPO is 10 and the average is 20. The high engagement approach of venture philanthropy is only possible with portfolios containing a relatively small number of investees.

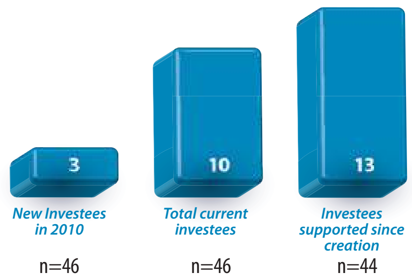
Duration of investment

Another of the VP principles is multi-year support, claiming that the SPOs need to receive funding and management support for several years in order for a step change to happen. We found that VP organisations follow a multi-year investment approach, with a majority of the funders investing from 2-3 years (26%) or 4-5 years (28%). Some refer to long term investment as "patient capital" and indeed we see that some VP organisations stay with their investees for as long as 6-7 years (20%) and even 8-10 years (10%). A small percentage (12%) is still investing from year to year.

How Many Investees Have You Supported with a VP Approach?



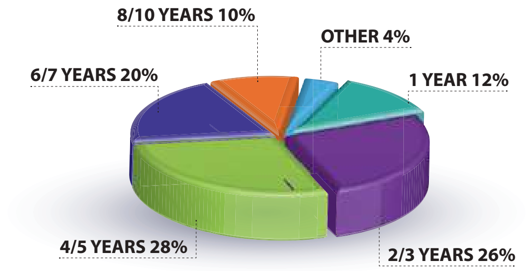
Median Investees per VPO



When asked whether the duration of the investment had changed since they started their VP operations, the respondents either replied that it had remained constant (60%) or that it had increased (38%), indicating that there is a trend towards more patient capital.

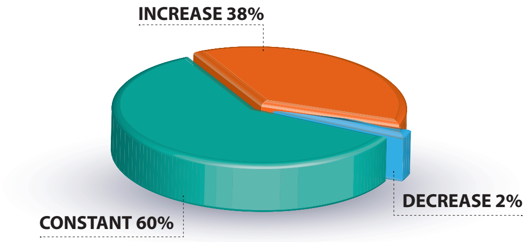
Investment duration

n = 50



Changes to investment duration

n = 50

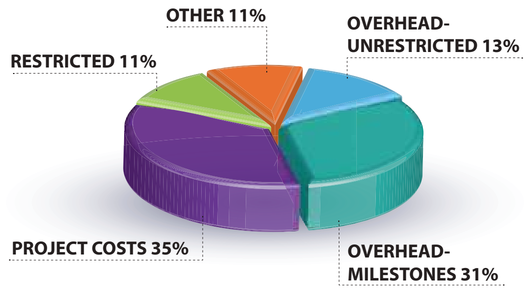


Funding capacity-building

One of the issues that the VP approach attempts to solve is the lack of financing dedicated to the core costs of SPO's. Nonprofit managers are more often able to raise money for specific projects than for the strategic development of the organization itself. Since VP aims to build stronger SPOs, it is also logical that much of the funding goes to support core costs. The survey tested the extent to which this is happening by asking respondents how they allocate their funds. Although a large percentage (44%) of the funds is directed to overhead costs, a surprisingly large percentage (35%) still funds project costs. Further research is needed to unveil the reasons behind this surprising result.

Respondents' "Portfolio" of allocation of Funds

n = 43



[19] *Total includes respondents that did not specify their fund size.*

PART 2: PRESENTATION OF SURVEY RESULTS

Financing tools used

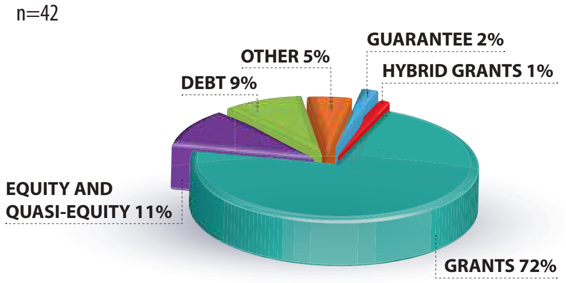
Another characteristic of VP is tailored financing; adapting the funding to the needs of the investee organisation. VP organisations use a range of financing instruments, from grants to equity investments. Grants are the primary financing instrument used by European VPO's, representing 72% of the total funding distributed to investees. These are cash allocations that do not produce any repayment and no financial return. This category also includes stipends, a form of funding often used to finance individual social entrepreneurs. Equity and quasi-equity represent 11% of the total funding, equity involving becoming a shareholder of the investee organisations, and quasi-equity or mezzanine finance; a provision of a high-risk loan, repayment of which depends on the financial success of the investee. Debt instruments account for 9% of the total funding, and include Loans, Senior Loans, Subordinated Loans, and Convertible Loans. Hybrid grants (1%) include Convertible Grants, Recoverable Grants, and Grants with Surplus Sharing.

When analysing the funding instruments used by organizational size, it is interesting to note that the largest orgs primarily use grants, whereas organisations that are smaller than €10 million use equity and debt instruments to a greater extent.

Financial Instrument Portfolio

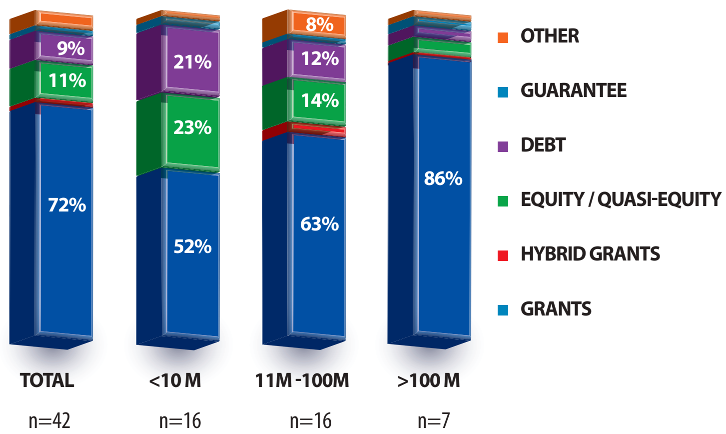
Percent of 2010 VP Spend (€)

n=42



Financial Instruments Portfolio By Org Size

n=42

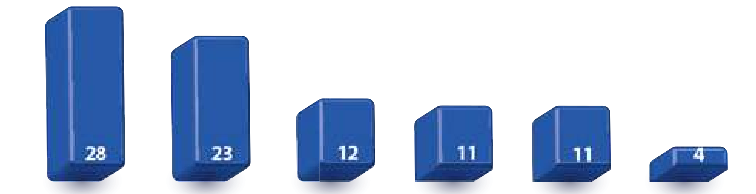


Co-investment is a key component of European VPOs' investment strategy; 82% of respondents claim that they co-invest. The most common co-investment partners are foundations (30% of respondents reported that they co-invest with foundations), followed by other VPOs (25%), and VC/PE firms (13%).

"Three quarters of respondents meet with their investees at least once a quarter, in some cases even weekly (10%) or monthly (36%)."

If you co-invest, with which types of orgs do you co-invest?

Number of respondents | n=41

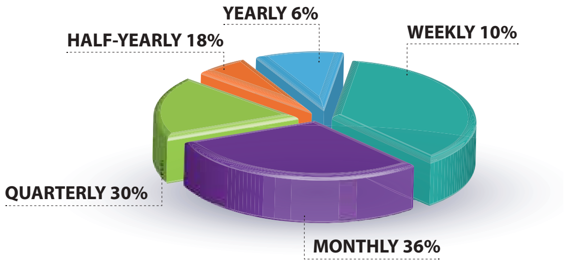


C. HIGH-ENGAGEMENT AND NON-FINANCIAL SERVICES

The hands-on relationships between the VPO and the management team of the investee SPO is evident in various statistics from the survey. The relatively low number of investees enables a high-touch approach. Three quarters of respondents meet with their investees at least once a quarter, in some cases even weekly (10%) or monthly (36%). Similar to the approach in venture capital, venture philanthropists often take board seats in their investees; 44% in a majority of cases and 28% in a minority of cases.

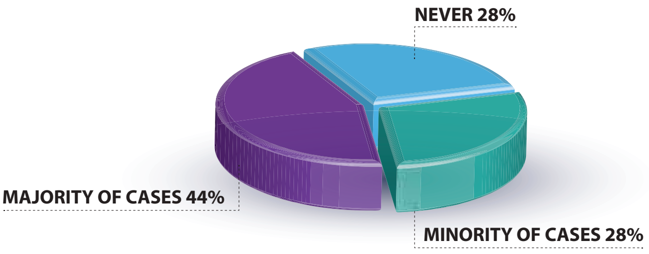
Frequency of Face-to-Face Meetings with Investees Management Teams

Percentage of Respondents | n = 50



In which percent of your investees do you take a board seat?

Percentage of Respondents | n = 50



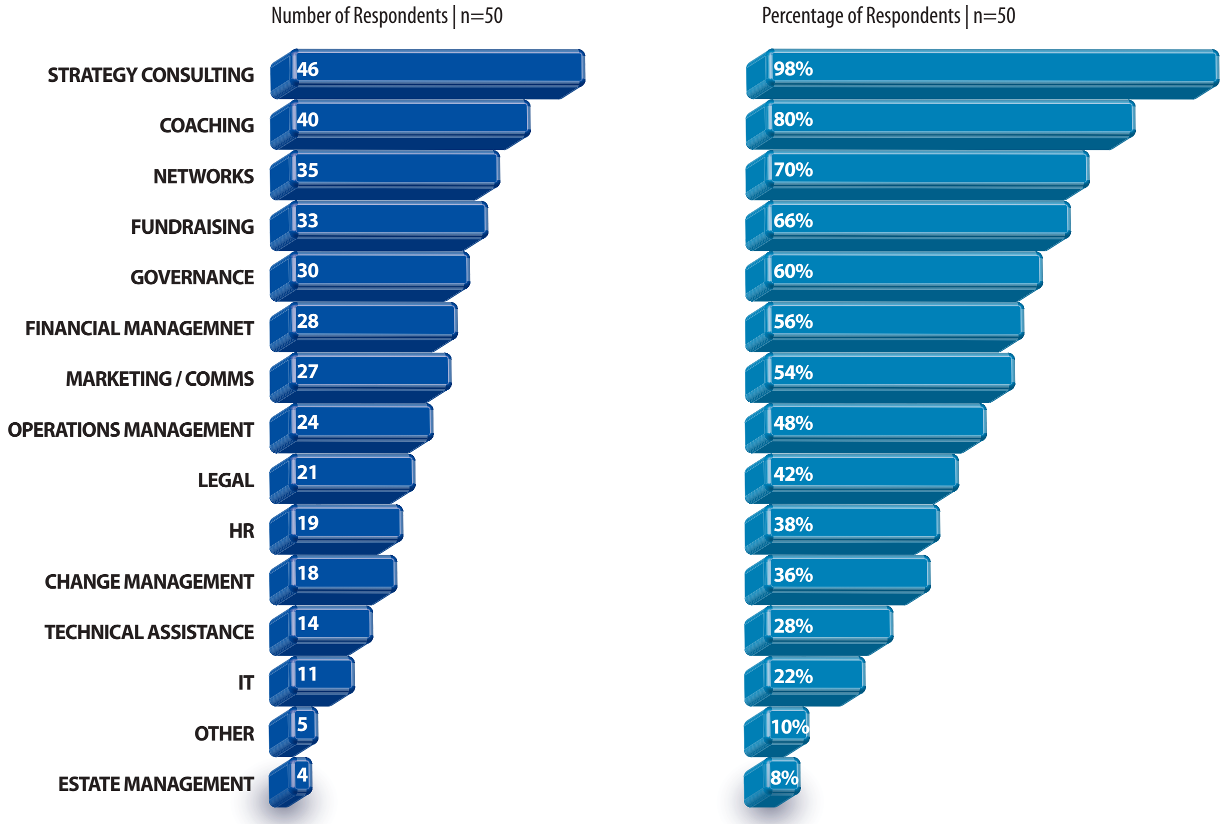
The VPO provides its investees with a range of tailored non-financial services. The survey asked European VPOs to indicate the types of non-financial services provided, from a list based on the research by Rob John on the value add of venture philanthropists[20]. The services provided by most VPOs include strategy consulting (98%), coaching (80%), access to networks (80%) and fundraising (66%). The chart on the following page lists all non-financial services provided and the number and percentages of VPOs surveyed that provide those services. The above-mentioned research by Rob John provides us with the

[20] *John, R. (2007), "Beyond the Cheque: how venture philanthropists add value,", Skoll Centre for Social Entrepreneurship, Said Business School, University of Oxford,. (n = 34; European VPOs surveyed = 32; American = 1; Australian = 1)*

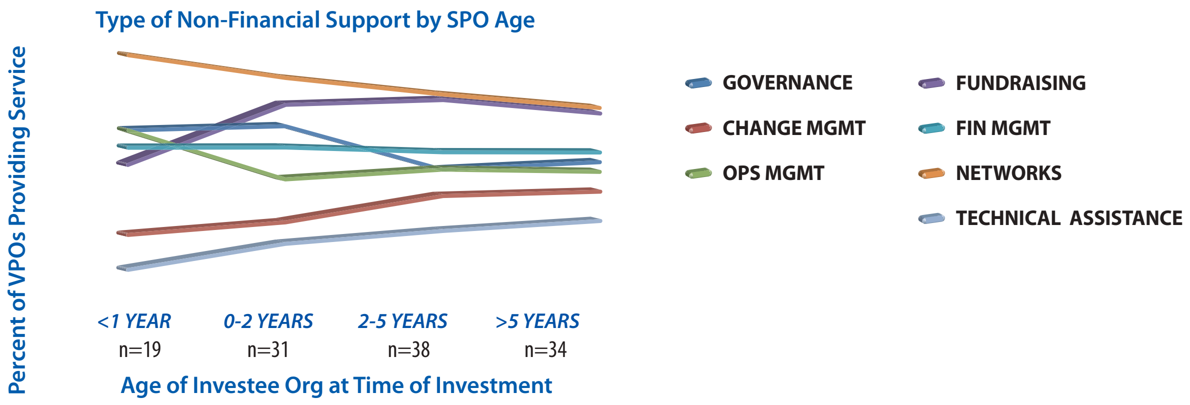
PART 2: PRESENTATION OF SURVEY RESULTS

means of comparison between 2007 and 2010. In 2007, the most popular non-financial services provided were strategy consulting, governance, financial management and fundraising, with access to networks as number five. Indeed, the same types of services remain important today, with slight variations, and a notable increase of importance of coaching and access to networks.

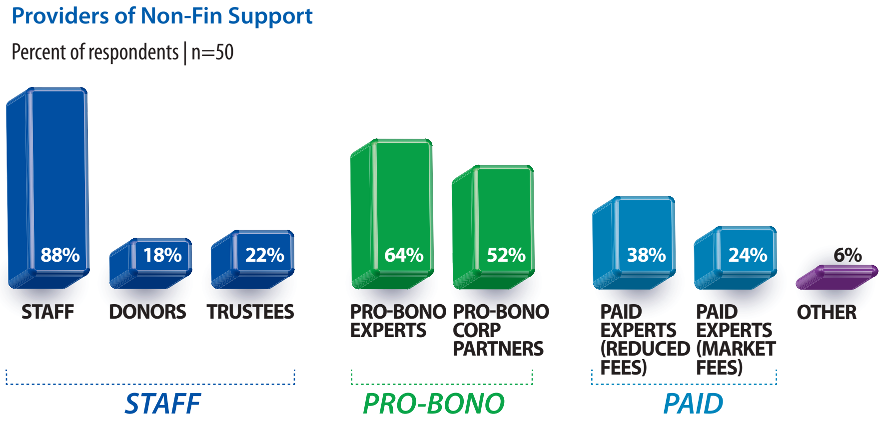
Type of Non-Financial Support



Some of the non-financial services are more important depending on the maturity of the investee SPO. We analysed whether VPOs that focus on investees at particular development stages tended to provide different services. We found that access to networks, governance, financial and operations management were particularly important for start-ups and young organisations. Fundraising and change management on the other hand, were more common services to provide to more mature investee organisations.



The non-financial services are usually provided by the VPO's own staff (88%) and in some cases by the donors (18%) and trustees (22%). Many VPOs also count on pro-bono experts (64%) or pro-bono corporate partners (52%). When paid experts are used, the VPOs often hire them at a reduced fee (38%), and in some cases at market fees (24%).



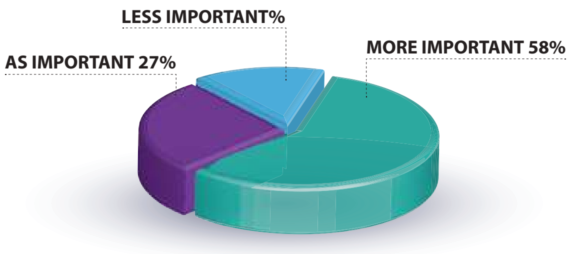
In terms of how many days of non-financial services are provided to each investee, the following table provides the average and median days per investee per year. It shows that internal staff within the VPO spend an average of 25 days a year per investee, and that the total days of non-financial services per investee is 59.

Number of days non-fin services provided		
	Average	Median
Internal staff	25	24
Volunteers	10	6
Pro-bono experts	15	8
Paid consultants	9	5
Total	**59**	**43**

PART 2: PRESENTATION OF SURVEY RESULTS

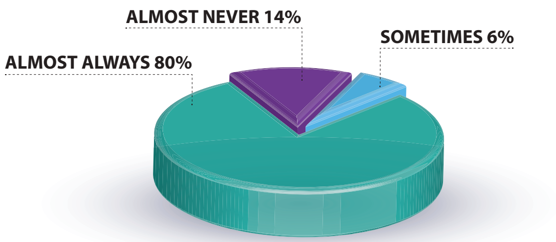
Investees' Perception of non-financial support vs. funding[21]

Percentage of Respondents | n=26



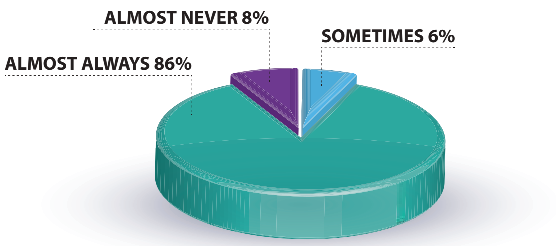
Do you Evaluate the *Financial* Performance of Investees?

n=50



Do you Evaluate the *Social* Performance of Investees?

n=50



In this survey, we did not have direct access to the investee organisations, but we asked the VPOs whether they asked their investees about the perceived value of their non-financial services. Out of the survey respondents, 52% reported that they ask their investees about the value of the non-financial services, and those VPOs reported that 58% of their investees perceive the non-financial services to be more valuable than financial support. More research is needed to further assess the value of the non-financial services, notably by directly surveying the investee organisations, but these preliminary results are encouraging.

D. PERFORMANCE MEASUREMENT

An integral part of the VP approach is the measurement of performance; placing emphasis on good business planning, measurable outcomes, achievement of milestones and financial accountability and transparency.

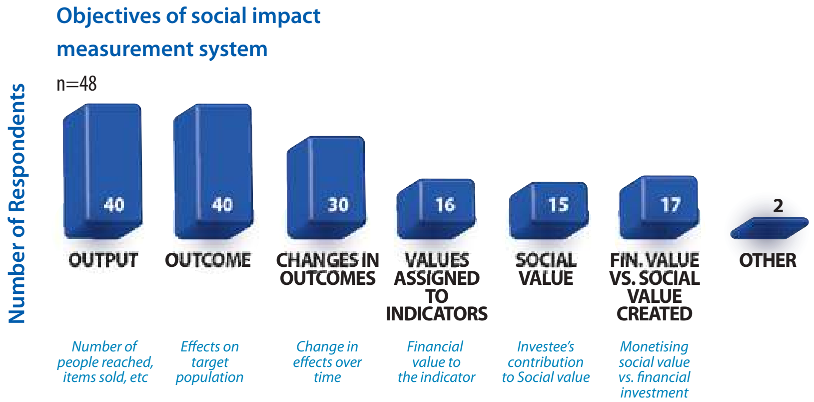
Most VPOs surveyed measure both the financial and the social performance of their investees. A majority (92%) of European VPOs measure the social performance of their investments. The social performance emerges as even more important than the financial performance.

Social impact measurement broadly consists of three main components: process, metrics and reporting standards. *Process* is the "how to" of impact measurement and is often what is most needed by social investors to get started[22]. The process includes the steps of the impact measurement system including how to set objectives, who are the stakeholders, which indicators to use to measure the impact, how value is generated to stakeholders and how to monitor and report. Different tools and methodologies may be suitable for different parts of the process, depending on the requirements and resources of the individual VPO. *Metrics* refer to the impact indicators that can be standardised across social sectors and on broad levels, leaving room for some local adaptation at project-level. Several databases (e.g. IRIS) exist that have collected key performance indicators commonly used. *Reporting* standards are already being developed by social investors in cooperation with investees in many parts of Europe (e.g. Social Reporting Standard in Germany). The remaining survey questions on performance measurement focused on the social impact measurement activity of the European VPOs.

Process.

The objectives of the impact measurement system lean towards simple output measures such as "number of people reached" whereas few attempt to measure social value or impact, which requires a measurement of the change in outcome, and assessing attribution. Each respondent measured three different degrees of social impact, on average.

Annual budget spend on impact measurement



Few respondents were able to specify the annual budget destined to impact measurement, with an average of approximately €18,000 and 62 days.

	Average	Median	Count
Budget (€)	18,119	10,000	14
Budget (days)	62	24	25

A majority of VPOs (57%) indicated that they were not using a standardized tool to measure social impact, and among those that did use such a tool, the most frequently mentioned were SROI and the Social Balanced Scorecard. The lack of standardised tools is an indication of the high degree of fragmentation in the use of impact measurement systems in the industry today, with many VPOs having developed their own tailor-made system. The answers to the question of which tool they use include a mix of tools and methodologies (e.g. SROI, Balanced Scorecard), types of indicators (IRIS, KPIs, etc.) and reporting standards, further indicating the need for clarity and guidance.

One difficulty with social impact measurement is how to aggregate impact on portfolio level. It is already difficult to track social impact of individual investees, but to add up different impacts from various social sectors is a real challenge. Only 27% of the VPOs surveyed are currently aggregating social performance on portfolio level.

Aggregate social performance on portfolio level	Count	Pct
Yes	13	27%
No	35	73%
Total	**48**	

Reporting.

A majority (72%) of European VPOs require their investees to report social performance at least every six months. The German respondents in the social entrepreneurship field all mentioned that they are using the Social Reporting Standard which has been developed in collaboration between social investors and their investees. Other similar standards are being developed across Europe.

"A majority (72%) of European VPOs require their investees to report social performance at least every six months."

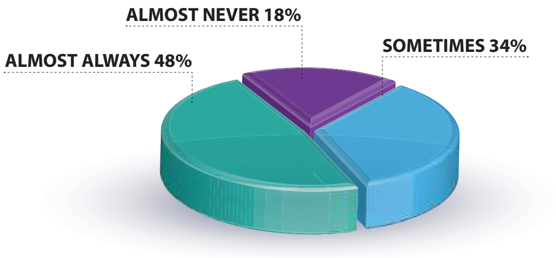
[21] According to investor respondents
[22] EVPA has launched its impact measurement initiative to better define the process of impact measurement.

PART 2: PRESENTATION OF SURVEY RESULTS

Frequency of social performance reporting	Count	Pct
Monthly to bi-monthly	15	30%
Quarterly to six-monthly	21	42%
Six-monthly to annually	12	24%
Only once investment period is completed	0	0%
Other	2	4%
TOTAL	**50**	

Does social performance condition the unlocking of new funds?

Percentage of Respondents | n=50



Consequences.

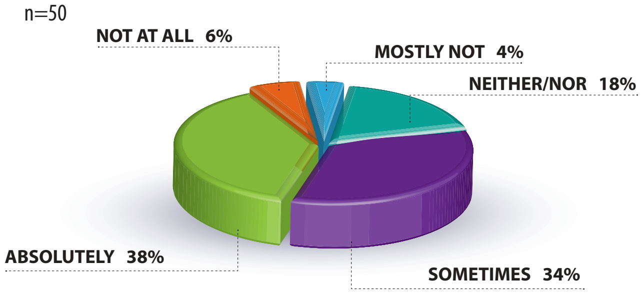
On the consequences of the impact measurement system, the survey found that the social performance of the investee almost always conditions the unlocking of new funds for 48% of the VPOs, but 52% never or only sometimes take the social performance into account before releasing new funds.

So far, compensation structures are not including the social performance aspect to a great degree. Only 13% of the VPOs include social performance in the compensation schemes for their own staff.

VP staff compensation:	Count	Pct
Tied to financial performance of investment	0	0%
Tied to social performance of investment	0	0%
Unrelated to any type of performance	20	42%
Tied to combination of fin. and social performance	6	13%
Other	22	46%
TOTAL	**48**	

Do you have a *planned exit strategy* for your investment?

n=50



E. EXITS

In VP, exit refers to the end of the relationship between the venture philanthropy investor and the investee organisation. In the case of a grant-funded investment, the exit is a discontinuation of a grant, whereas for social investment the exit may involve repayment of a loan, or divestment of an equity stake. In any case, an exit requires careful planning and support, notably by building both the organizational and financial resilience/sustainability of the investee organisation. Other KC publications[23] include greater detail on how to conduct exits in VP and social investment.

Most VPOs plan their exit strategies, either in all cases (38%) or sometimes (34%). A majority of respondents (62%) already start planning the exit before the investment is made, and some (26%) plan the exit depending on the progress of the organisation.

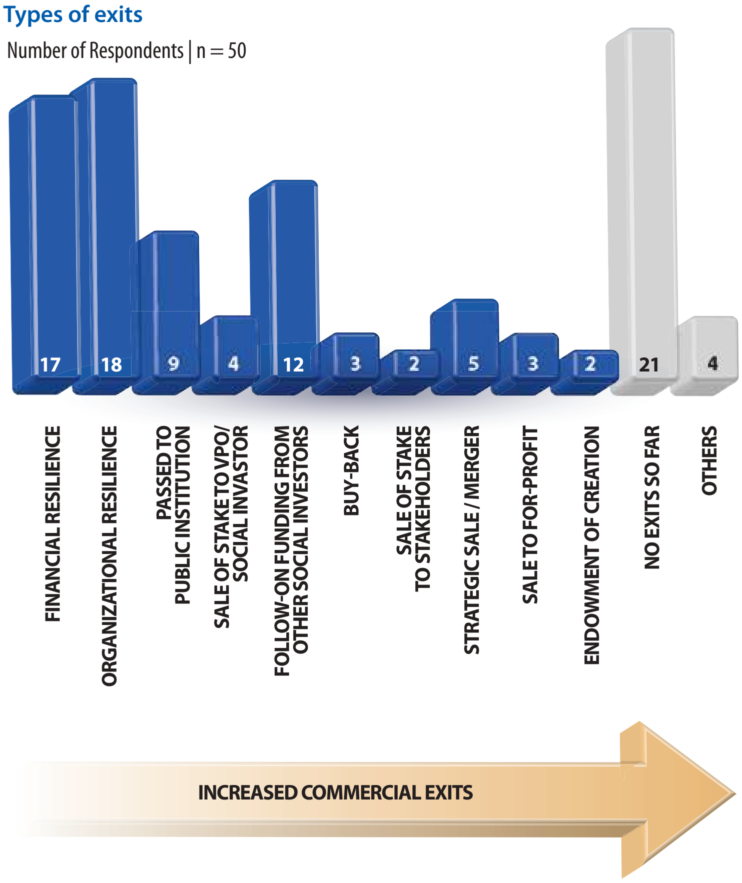
When is the exit strategy planned?	Count	Pct
Before the investment is made	31	62%
At a determined moment during investment period	1	2%
Depends on the progress of the organisation	13	26%
We do not plan exits	2	4%
Other	3	6%
TOTAL	**50**	

The types of exits will depend on the financing instrument used, but in general, the most common exit is through achieving financial and organizational resilience, followed by finding follow-on funding from other social investor or passing the investment on to a public institution. No Initial Public Offerings (IPOs) are reported by European VPOs.

Exits occur either after a predefined time (35% of VPOs), when the VPO can no longer add value (27%), or when the investment objective has been achieved in different ways.

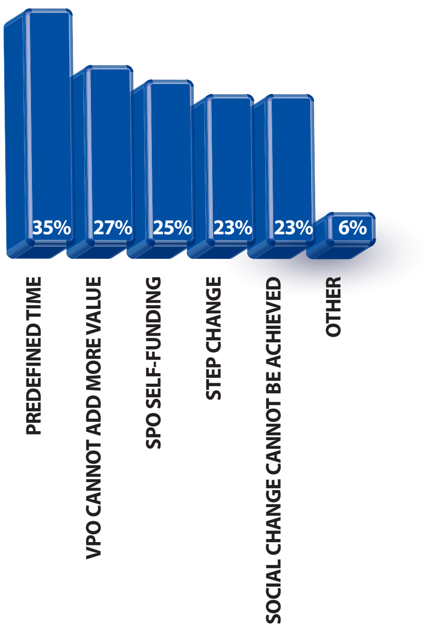
Types of exits

Number of Respondents | n = 50



Exit depends on

Number of Respondents | n = 48



[23] *Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), "Establishing a Venture Philanthropy Organisation in Europe", EVPA Knowledge Centre Research Paper.*

PART 3:

CONCLUSION

This survey has attempted to highlight the key components of the venture philanthropy approach in terms of general demographics, positioning and investment process. The findings of the survey highlight that the industry involves a variety of different types of organisations, professionals and funders. Foundations have become major players, both in terms of VPOs and in terms of funders of VP. The positioning of VP in the investment space is clearly focused on generating societal impact, above financial return, but VPOs organisations generate such a societal impact through multiple paths. Many VPOs still focus on providing grants, albeit in a high-engagement manner. While some large foundations drive the industry through funding available and resources invested, some of the smaller funds are showing high degrees of innovation through the range of financing instruments used.

The typical organisation supported by VP is an NGO with trading activities, with an annual turnover between €250,000-1 million, and that is between 2-5 years old. However, the survey shows great variation around this prototypical organisation. The most popular social sectors are health and education, and the top beneficiaries are children/youth, people suffering from poverty, and the disabled. European VPOs tend to focus their activities in their home countries or in developing countries, mainly in Africa and Asia.

The survey also highlights some of the key components of the VP investment process. In terms of deal identification and due diligence, VPOs tend to favour a proactive deal identification process over applications, and due diligence is conducted either using few days or more than 20 days. VPOs have invested over €1 billion through financial and non-financial support since they began their operations, with an average annual financial spend and non-financial spend of €4million and €1million respectively per VPO. The median VP portfolio holds 10 investee organisations. Investment duration lasts between 2-5 years on average, and the main financing instrument remains the grant.

High engagement is evident in statistics on frequency of meetings with the SPOs, as well as the proportion of VPOs that take board seats. The most frequently quoted non-financial services are strategy consulting, coaching and providing access to networks, and non-financial support is by many quoted as being more important or as important as the funding. Social performance measurement is an area where European VPOs are still struggling. While many measure the social and financial performance, few have implemented impact measurement systems that are able to aggregate performance on portfolio level, and the social impact measures are still to be integrated in the VPO's strategic decision-making. There is no common understanding of the definition of exits, although many VPOs report to be planning the exit strategy of their investments.

From this survey emerges the need to further define and develop best practice in the VP industry. Important future EVPA initiatives in this direction include issuing guidelines on impact measurement and reporting, as well as setting up a training programme for the VP industry.

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EVPA is a membership association made up of organisations interested in or practicing venture philanthropy. Established in 2004, the association is a unique network of venture philanthropy organisations and others committed to promoting high-engagement grant making and social investment in Europe. Currently the association has 140+ members from 19 countries.

EVPA's mission is to promote the expansion, effectiveness and impact of venture philanthropy and social investment in Europe.

The EVPA Knowledge Centre is the hub for European knowledge and thought leadership on venture philanthropy and social investment. Its mission is to:

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:
- Inspire professionals and attract funding
- Enable academic research
- Engage public information

3. Connect practitioners, academics and advisors around field know-how.

The EVPA Knowledge Centre is kindly sponsored by Natixis Private Equity

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EVPA is extremely grateful to Fondazione CRT, Impetus Trust, Invest for Children and Noaber Foundation for their generous support

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ISBN 9789081907019

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