EUROPEAN
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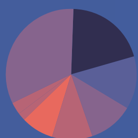
ASSOCIATION

THE EVPA SURVEY 2017/2018

INVESTING *FOR* IMPACT



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Email: info@evpa.eu.com
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Authors: Alessia Gianoncelli, Priscilla Boiardi and Gianluca Gaggiotti.
Editing support: Caroline Cornil
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INVESTING *FOR* IMPACT

Alessia Gianoncelli, Priscilla Boiardi and Gianluca Gaggiotti
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FOREWORD

Manuela Geleng
Director of the "Skills" Directorate, Directorate General for Employment, Social Affairs and Inclusion, European Commission

The European Commission and EVPA share the common objective of facilitating access to finance for organisations that generate a positive societal impact and developing social impact markets. To achieve this goal, we need to join forces and learn more about the market and about one of its most important players – investors *for* impact.

This is one of the reasons why the Directorate General for Employment, Social Affairs and Inclusion of the European Commission and EVPA have established a partnership with the aim to improve knowledge and increase the effectiveness of both parties. EVPA's role is particularly important when it comes to providing market research and data on recent developments in the field of impact investing and venture philanthropy. These data constitute much-needed evidence and contribute to shaping EU policy and initiatives.

To improve access to finance for social enterprises, the Commission makes available a comprehensive package of financial instruments and grants via the Employment and Social Innovation Programme and the European Fund for Strategic Investment (EFSI). This year, the Commission's proposal to create the InvestEU programme to support jobs, growth and innovation, placed an even stronger role on social investments.

So far practice has shown us that social finance markets are evolving rapidly and that there is an increased interest in this field from the general public, as well as from new actors such as traditional foundations and classic investors. Reliable data on these new developments and feedback from the field are crucial for ensuring that any future funding and financial instruments deployed by the European Union will be adapted to the needs of the market.

This publication takes up the challenge of shedding light on the world of impact investors, and also benefits from the analytical capacity and expertise of EVPA. At the European Commission, we hope that this will give more visibility to the sector, inform the decisions of market stakeholders and of policy makers, and eventually boost investments *for* impact.

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EXECUTIVE SUMMARY

This is the sixth report[i] on European venture philanthropy and social investment (VP/SI) published by the European Venture Philanthropy Association (EVPA). The purpose of the report is to provide **independent industry statistics**, which are crucial in a sector that is increasingly gaining importance and attention among a wide range of actors, including policy makers, traditional investors and grant-making foundations. Furthermore, since the VP/SI sector is evolving rapidly, it is crucial to gather and aggregate data that are consistent with the definition and the boundaries of the VP/SI space.

EVPA is the main repository of data on venture philanthropy and social investment in Europe. Since 2011, we collect data on a fast-evolving sector that is composed of **foundations**, **VP/SI funds** and **impact investment funds**.

What unites all the respondents of the EVPA survey is the **primary goal of achieving a social impact** (alongside, or not, a financial return), by supporting social purpose organisations (SPOs).

OVERVIEW OF THE VP/SI SECTOR

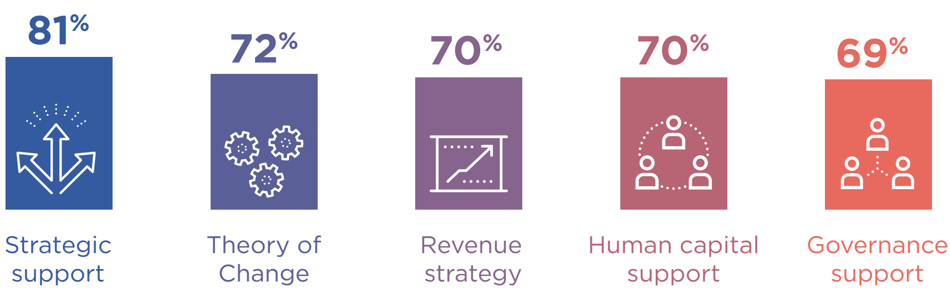
RESOURCES

The European VP/SI sector continues to grow. In fiscal year (FY) 2017, VP/SI organisations (VPO/SIs) invested €767 million to support a total of 11,951 SPOs[ii]. The average amount invested remains constant, with a value of €7.8 million per VPO/SI.

VP/SI organisations support their investees not just financially, but also with a **variety of non-financial support**, ranging from strategic support and support to develop a Theory of Change, to revenue strategy and human capital support.

Figure i: Non-financial support activities provided

n=110, multiple choice



i
Please note that the five previous industry surveys are available for download at: https://evpa.eu.com/knowledge-centre/research-and-tools

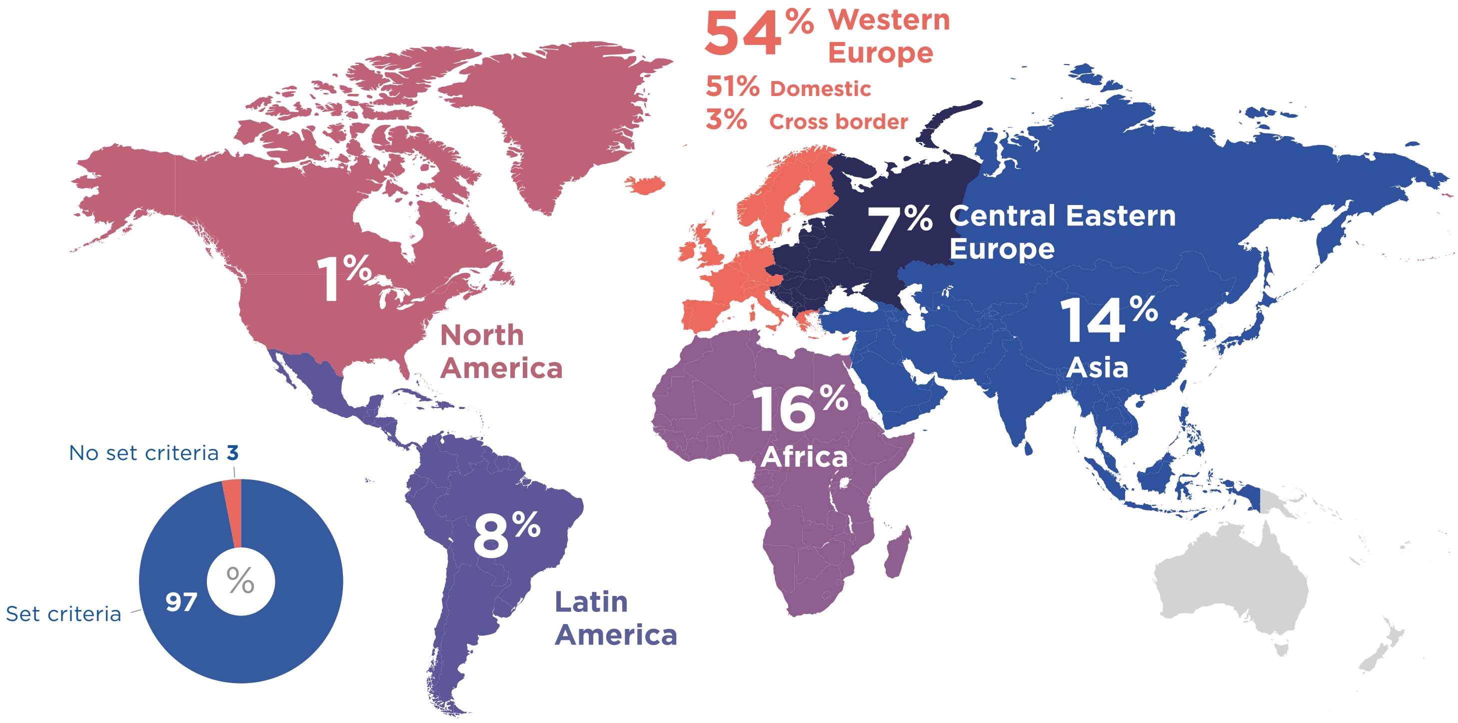
ii
This total number includes both organisations and individuals.

INVESTMENT FOCUS

Western Europe is confirmed as the main target region of VP/SI organisations, followed by Africa and Asia. The growth registered in CEE is an interesting result, which is likely to reflect the increased number of VP/SI organisations coming from this region, and investing locally.

Figure ii: Geographic focus of VPO/SIs by € spend

n total=98, n set criteria=96



VPO/SIs are increasingly becoming sector agnostic, looking for opportunities to invest in innovative ventures regardless of the sector in which these SPOs are active. As a consequence, the large majority of VPO/SIs reported to support multiple sectors and beneficiary groups.

Economic and social development and financial inclusion are the two top sectors that attracted together more than half of the total investment reported for FY 2017 (56%), followed by education. People suffering from poverty and children and youth are the most targeted category of beneficiaries, followed by people with disabilities and migrants and refugees.

Figure iii: Top three sectors – € spend

n=81

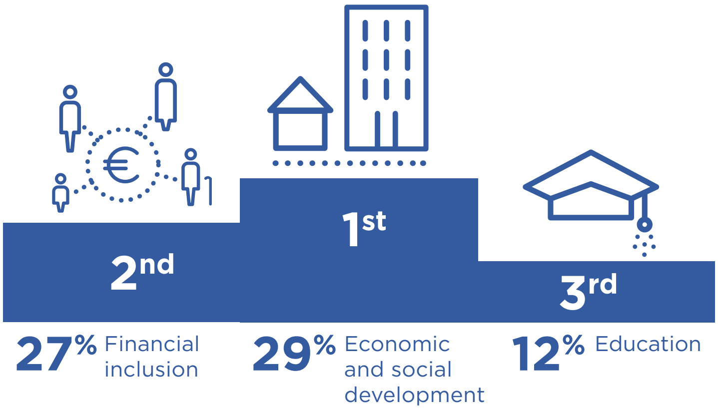
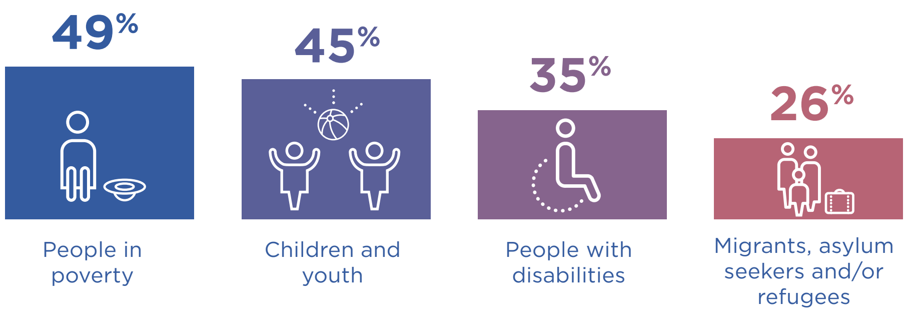


Figure iv: Top final beneficiaries of SPOs

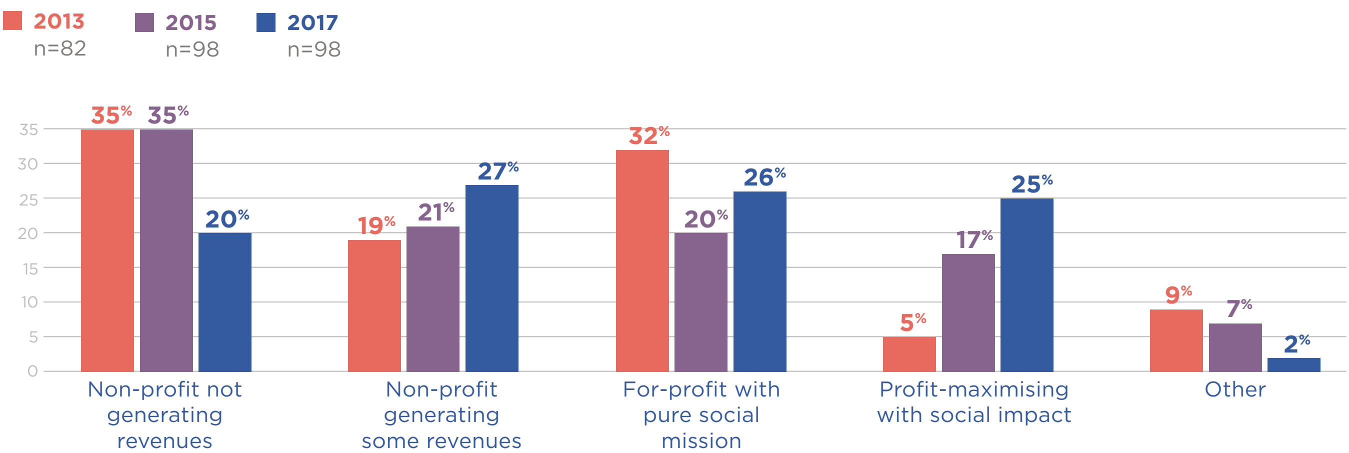
n=110, multiple choice



ORGANISATIONS SUPPORTED

European VPO/SIs are increasingly focussing on more self- and/or financially sustainable investees, e.g. allocating more resources to social enterprises.

Figure v: Type of investees by VP/SI € spend in FYs 2013, 2015, 2017



ADOPTION OF VP/SI CORE PRACTICES

VP/SI is a high engagement and long-term approach to generating social impact through three core practices: **tailored financing**, **organisational support** and **impact measurement and management**.

VPO/SIs are increasingly adopting best practices in using the VP/SI approach, as shown by the following interesting trends.

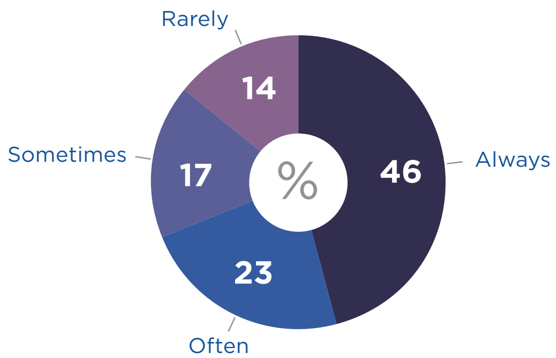
TAILORED FINANCING

Tailored financing is a reality, with all VPO/SIs adapting their financing model to the needs of the investees. Over two-thirds of the respondents adapt their financing model to meet the needs of their investees either always (46% of the cases) or often (23% of the cases).

A smaller share of VPO/SIs only adapts the financing model in some cases (17%) or rarely (14%), but for the first time, no respondent reported never adapting the financing model to the needs of the investees.

Figure vi: VPO/SIs practising tailored financing

n=95

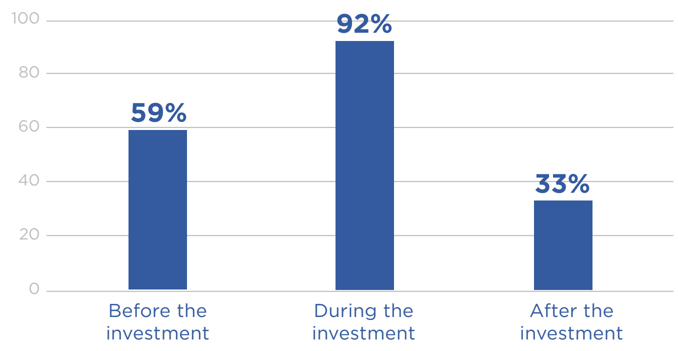


NON-FINANCIAL SUPPORT

High-engagement is a key characteristic of venture philanthropy and social investment, and one way to be highly engaged is **providing non-financial support** (NFS) alongside the financial investment.

NFS is crucial for SPOs' development, especially when it comes to early-stage ventures. Hence, almost every VPO/SI reported to support through NFS its investees during the investment phase (92%). Over half of the VP/SI organisations that responded to the survey (59%) provide non-financial support already **before the actual investment**, and a third of them (33%) continue to deliver it even after having exited the investment.

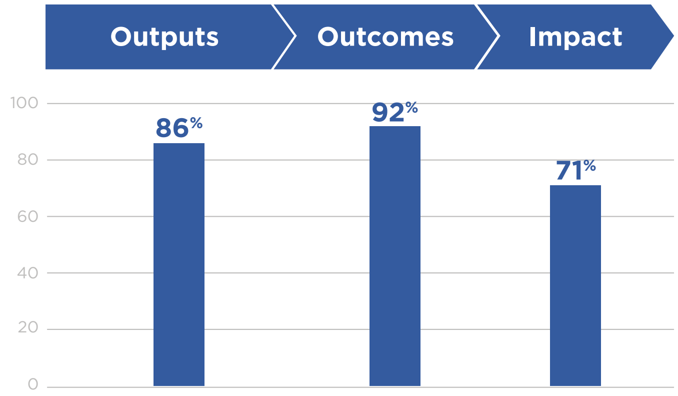
Figure vii: Stages of investments at which NFS is provided to investees
multiple choice
n=110



IMPACT MEASUREMENT AND MANAGEMENT (IMM)

Impact measurement and management is a widespread practice for VPO/SIs, with 92% of the survey sample measuring outcomes linked to their investments (a five percentage point increase compared to the past).

Figure viii: Objectives of social impact measurement by % of respondents
multiple choice
n=103



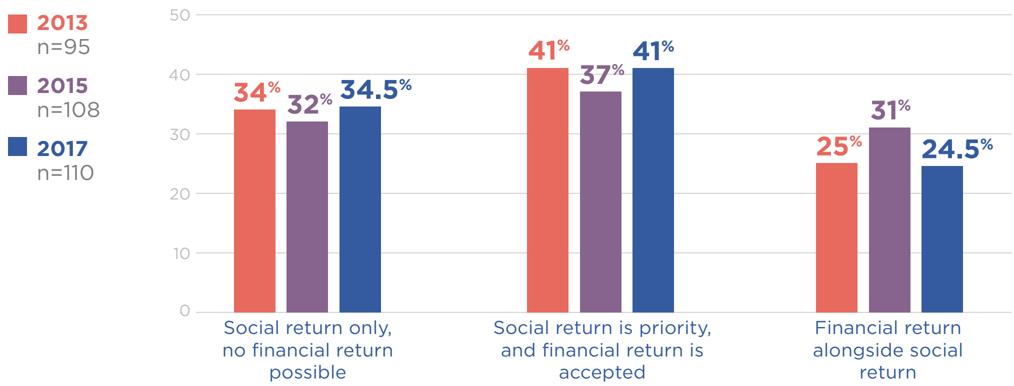
EVOLUTION OF VP/SI: KEY TRENDS

The 2018 EVPA survey uncovers new patterns and interesting trends in the European venture philanthropy and social investment sector.

1 – THE KEY FOCUS IS SOCIAL IMPACT

Seeking *only or primarily **social return*** **remains the main investment priority** for VP/SI organisations (almost 80% of the survey respondents).

Figure ix: Balance between social and financial return priorities in FYs 2013, 2015, 2017



2 – MORE FINANCIAL RESOURCES ARE AVAILABLE FROM A DIVERSE GROUP OF FUNDERS – AND MORE PROFESSIONAL HUMAN RESOURCES

VP/SI organisations' **budget sizes have been growing** in past five years (Figure x), with almost half of the capital made available for VP/SI activities coming from individual donors and income from endowment or trust (Figure xi).

Figure x: Size of VP/SI budgets in FYs 2013, 2015, 2017

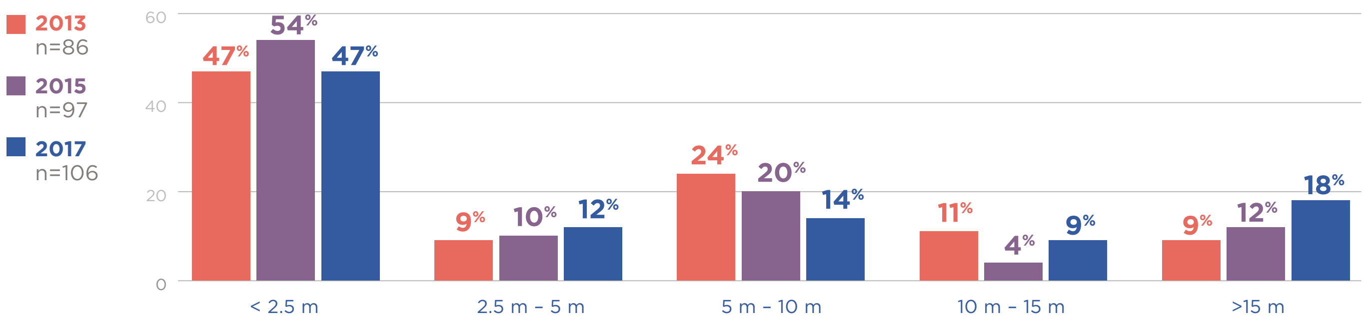
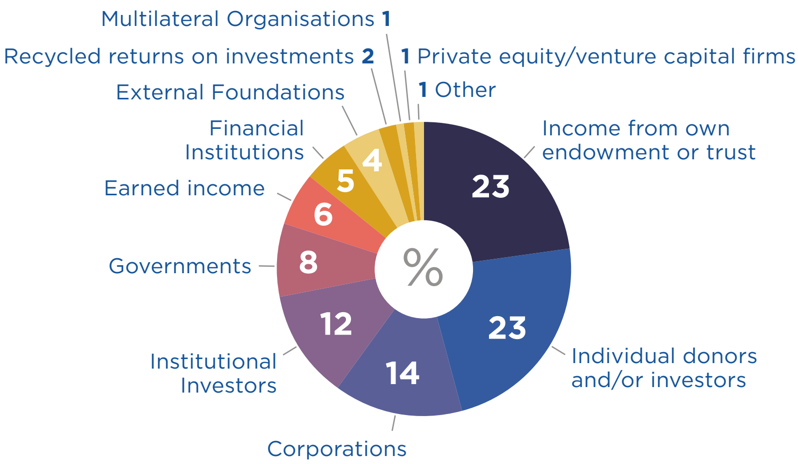


Figure xi: Distribution of total funding made available to VPO/SIs by source
n=106



The share of respondents with a total **financial investment** larger than €10 million increased by ten percentage points from FY 2015 to FY 2017, representing now almost a fourth of the sample (Figure xii).

The VP/SI market is continuing to attract traditional foundations on one side, and new forms of finance-first capital on the other side. For VP/SI organisations, traditional foundations are the preferred actor to co-invest with (60%), and finance first investors increased their relevance as co-investors (19%), a six percentage points increase compared to FY 2015 (Figure xiii).

Figure xii: Size of VP/SI financial investment in FYs 2013, 2015, 2017

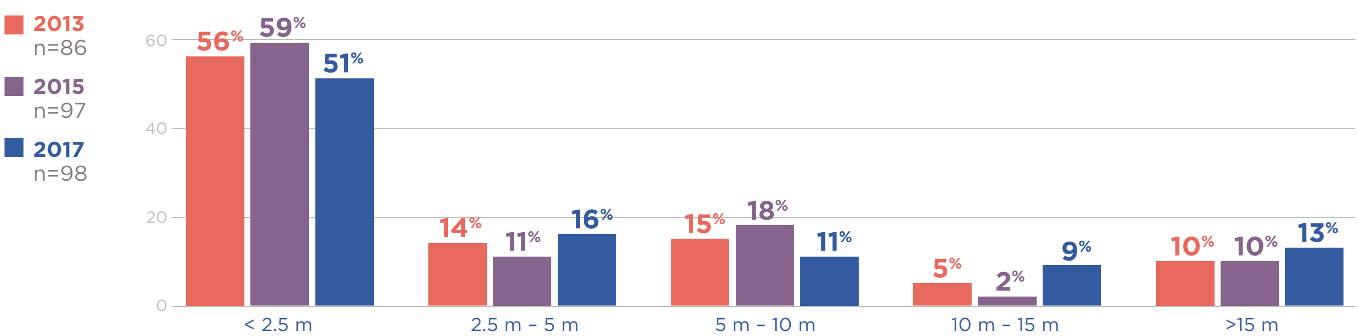
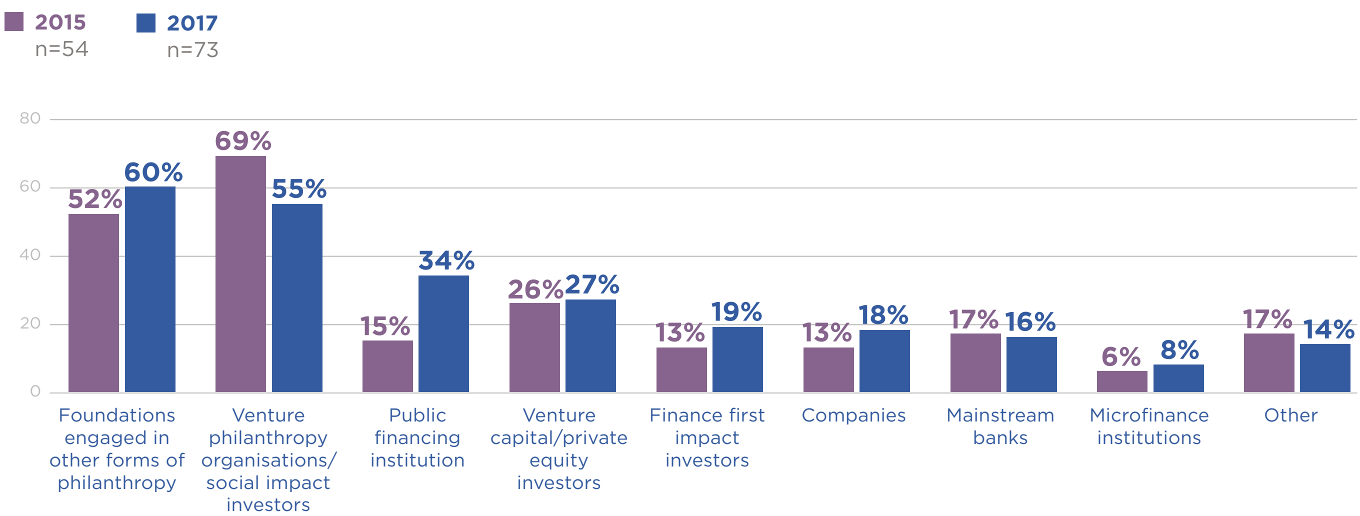


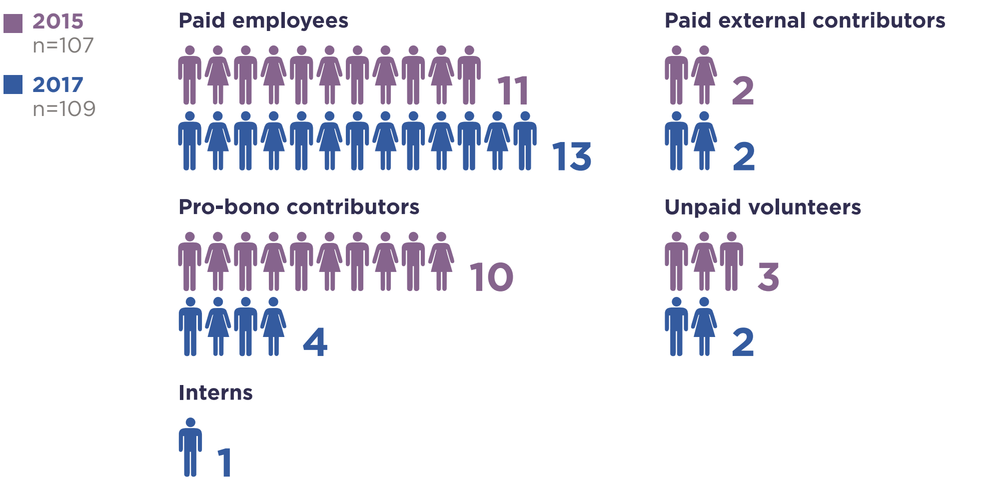
Figure xiii: Types of co-investors in FYs 2015, 2017

multiple choice



The VP/SI sector is professionalising. With respect to the past, VPO/SIs seem to rely more on paid forms of human capital (i.e. employees and external contributors), and less on pro-bono and voluntary contributions.

Figure xiv: Human resources by count (average per VPO/SI) in FYs 2015, 2017

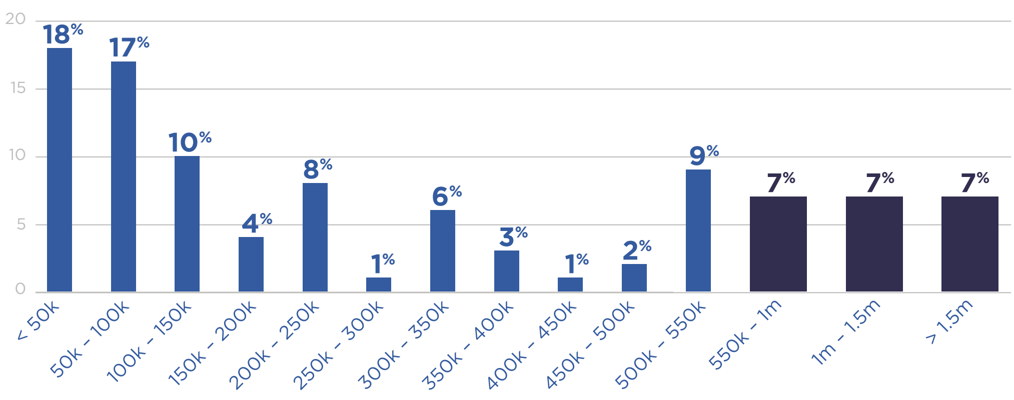


3 – VP/SI HELPS SPOs GET THROUGH THE VALLEY OF DEATH

VP/SI organisations provide financial resources to fill the SPOs' financing gap. The average investment size of half of the respondents lies in an interval that goes from less than €50,000 and €200,000, with one third of the respondents supporting SPOs with amounts that range from €200,000 to € 550,000. This finding is encouraging, as experts[iii] **acknowledge a lack of funding for SPOs needing tickets of this size range**.

Figure xv: VPO/SIs average spend per SPO

n=99



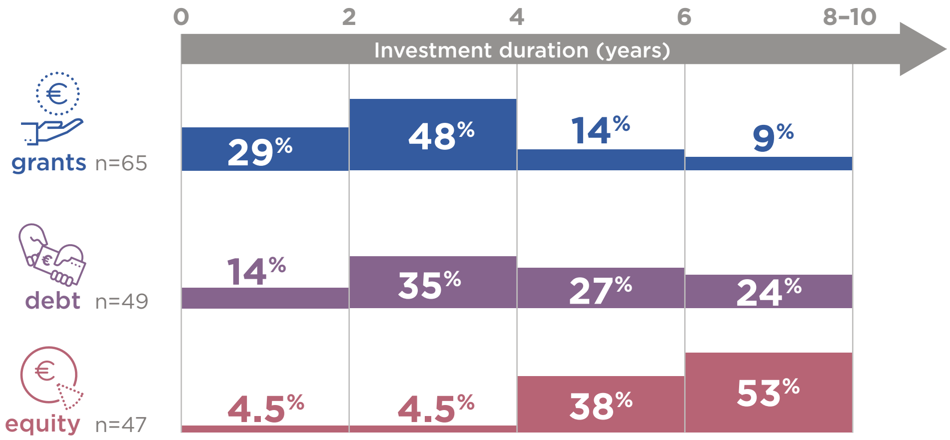
iii
See for reference: **Gianoncelli, A.** and **Boiardi, P.,** (2017), "*Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance*", EVPA (pages 56-57). **Varga, E.,** and **Hayday, M.,** (2016), *"A Recipe Book for Social Finance. A Practical Guide on Designing and Implementing Initiatives to Develop Social Finance Instruments and Markets"*, European Commission (pages 24-25). **GECES (Commission Expert Group on Social Entrepreneurship),** (2016), *"Subject Paper of GECES Working Group 1: Improving access to funding"*, European Commission (pages 19 and 46).

4 – EQUITY IS THE MOST PATIENT FORM OF CAPITAL

Equity is confirmed as the most patient form of capital within the VP/SI space, with 91% of the respondents using this financial instrument to support SPOs for more than four years.

Figure xvi: Average duration of commitment per financial instrument used

n total=108

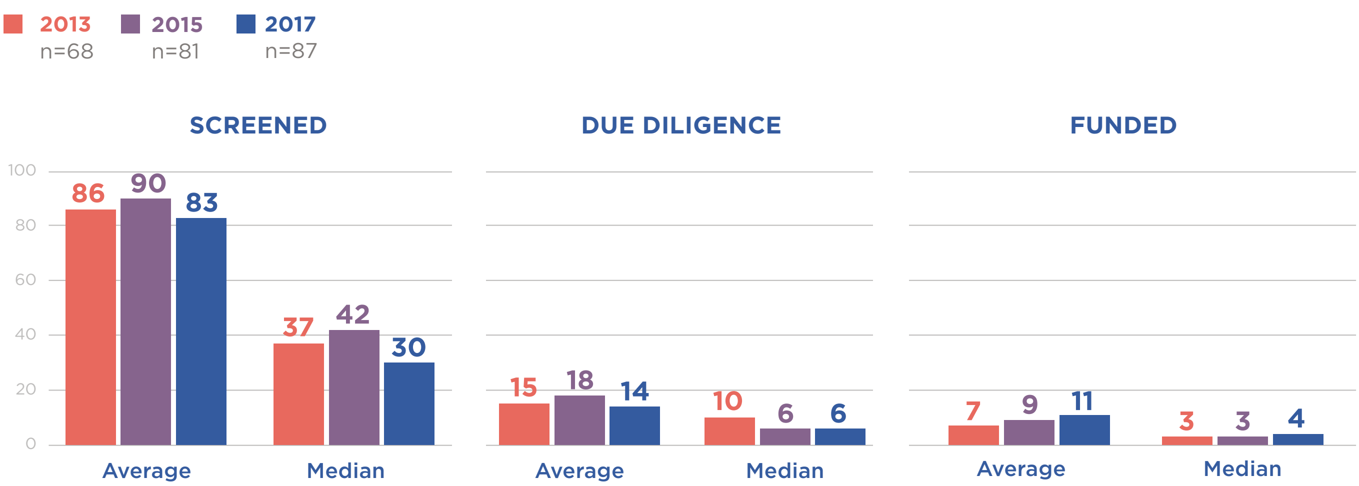


5 – PIPELINE MANAGEMENT HAS IMPROVED

The large majority of VPO/SIs support on average **between one and ten investees per year**.

VPO/SIs have **improved their pipeline management** compared to the past: they screen and conduct due-diligence on fewer investees on average, but have an increasing number of new investments.

Figure xvii: Average and median number of SPOs screened, under due diligence and funded per VP/SI organisation in FYs 2013, 2015, 2017



FINANCIAL INSTRUMENTS COMPARISON

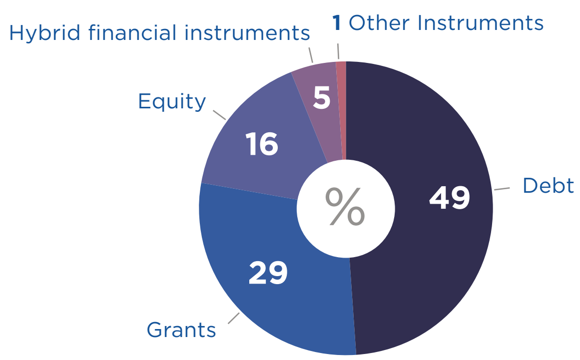
This year we introduced a new feature, which allowed us to improve our understanding of the practices and strategies of European VPO/SI organisations, looking at the **diverse financial instruments they use**. This allowed us to clearly separate and analyse **the different "investment arms" within the same VPO/SI**, and investigate the diverse findings associated to different categories of financial instruments.

DEBT IS THE MOST DEPLOYED FINANCIAL INSTRUMENT

Almost half of financial resources invested by VPO/SIs surveyed have been deployed through debt instruments.

Figure xviii: Financial instruments used by VPO/SIs by € spend

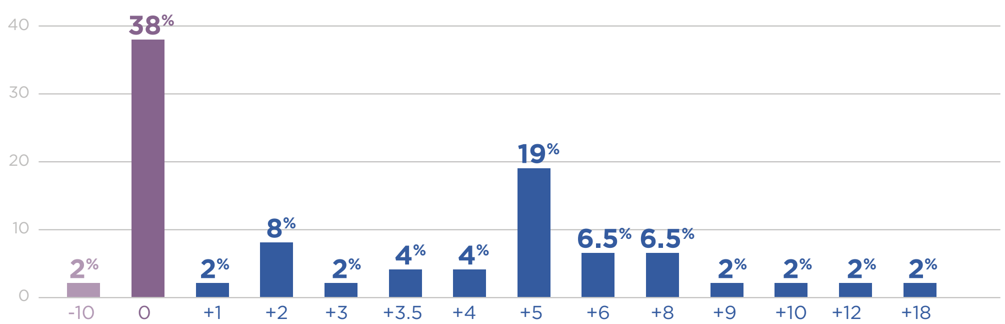
n=98



The large majority of VP/SI practitioners deploying debt have financial returns expectations ranging from 0% to 5% (in 77% of cases), with half of them just seeking a capital repayment.

Figure xix: Expected financial returns – Debt

n=48

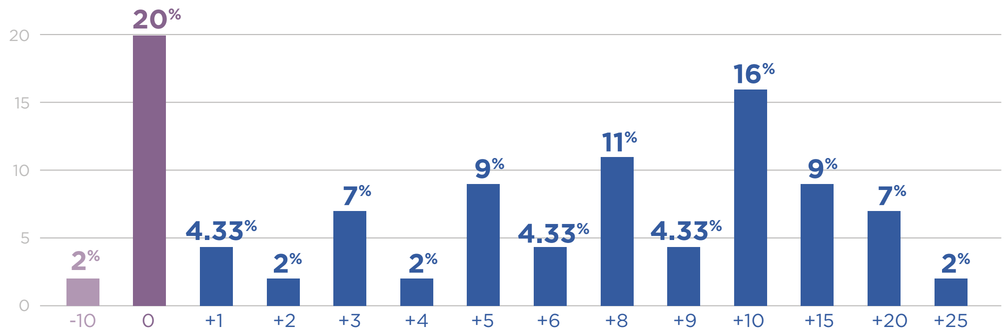


EQUITY INVESTMENTS YIELD RETURNS BELOW 10%

More than half of the organisations investing through equity target financial returns over 5%. However, **the large majority of these respondents (80%) have positive financial return expectations not exceeding 10%.**

Figure xx: Expected financial returns – Equity

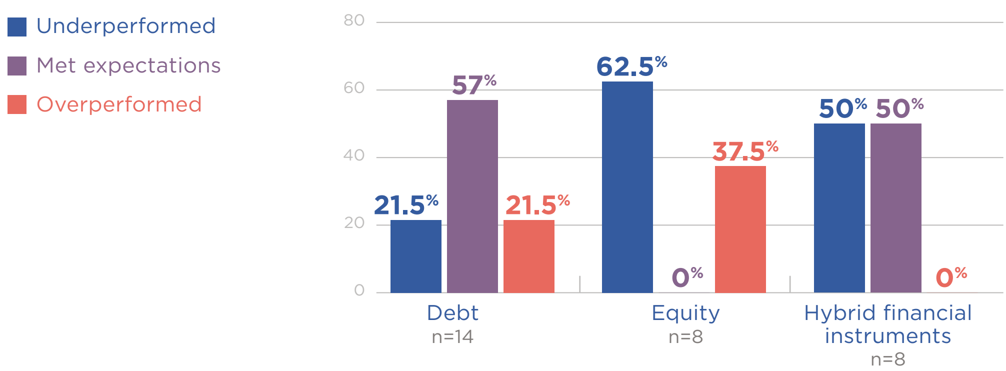
n=45



Looking at the returns realised, almost two thirds of VPO/SIs that exited an equity investment underperformed, and only one third overperformed, highlighting **the greater risk that VPO/SIs using equity are willing to take while investing**.

Figure xxi: Expected vs. realised returns per financial instrument

n total=22

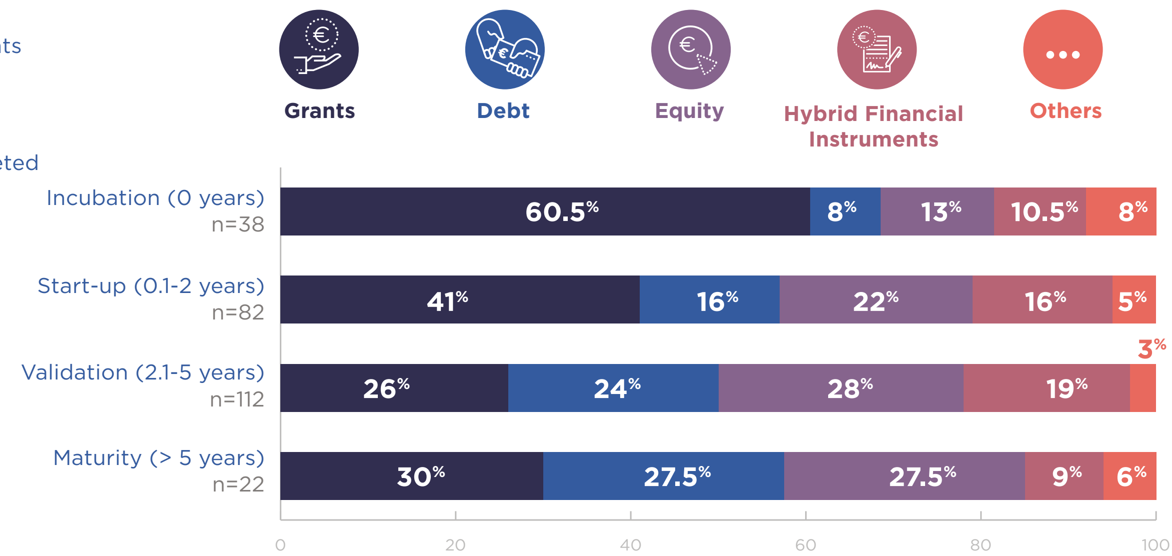


INVESTEES SUPPORTED THROUGH DIFFERENT FINANCIAL INSTRUMENTS

SPOs at incubation and start-up stage (0-2 years) are largely supported by grants (60.5% and 41% respectively), while more mature SPOs are funded through other types of financial instruments.

Figure xxii: Mix of financial instruments used by VP/SI organisations per investee's stage of development targeted

n total=108
multiple choice

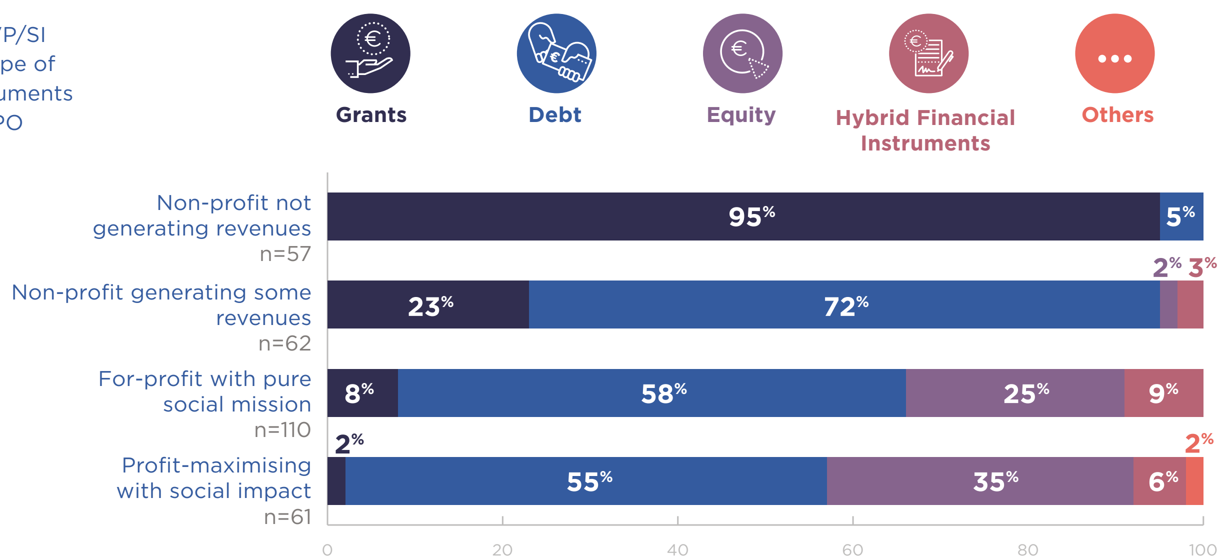


Non-profit organisations without trading revenues almost entirely depend on grants (95%), whereas *non-profits organisations generating some revenues* mainly rely on loans and other forms of debt (72%), and partially on resources coming from grant-makers (23%).

Moving towards for-profit entities, we see the decreasing presence of capital deployed in the form of grant.

Figure xxiii: VP/SI € spend by type of financial instruments per type of SPO

n total=98



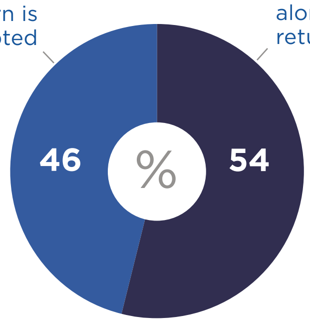
SOCIAL IMPACT FUNDS

Social investment funds represent an important actor in the VP/SI space, making up 23% of respondents in this year's survey, i.e. **25 VPO/SIs representing 37 funds** mostly based in France, followed by Benelux and Germany.

A fifth of the respondents of the survey manage at least one social investment fund either seeking a financial return alongside a social return (54%) or generating primarily social return but also accepting a financial return (46%).

Figure xxiv: Investment priorities of social investment funds

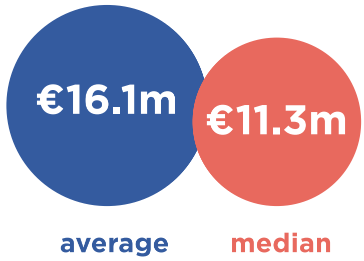
n=25
representing 37 funds



The social investment funds active in the VP/SI space increased in size, going from an average of €13.6m in FY 2015 to €16.1m in FY 2017, reflecting their capability to attract more capital.

Figure xxv: Average and median size of social investment funds

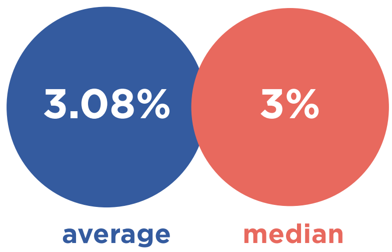
n=24
representing 36 funds



Social investment funds generally charge management fees which are slightly higher than those seen in the venture capital industry: 3.08% on average versus between 2% – 2.50%[iv].

Figure xxvi: Average and median management fees (for those funds that charge fees)

n=14
representing 19 funds



iv
"For example, venture capital funds usually charge in the region of 2% to 2.5% as early-stage investing usually requires significant resources […]." See: **Invest Europe,** (2016) *"Guide to Private Equity and Venture Capital for Pension Funds"* (page 25).

The realised gross financial returns of social investment funds are normally lower than the expected ones, registering in some cases also losses.

Figure xxvii: Expected gross financial return on social investment funds

n=23
representing 32 funds

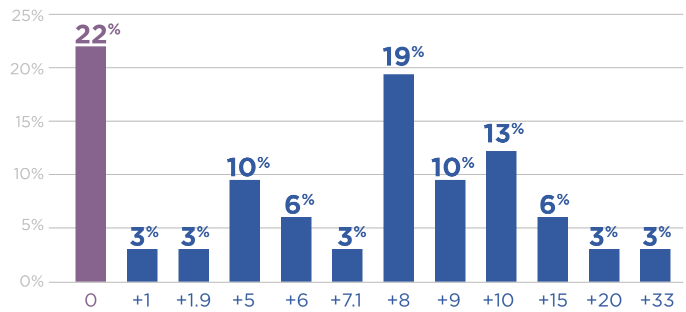
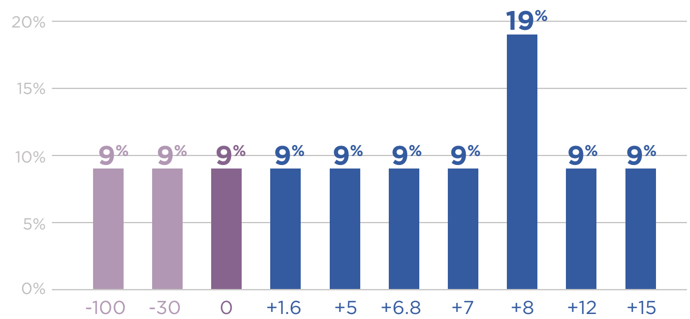


Figure xxviii: Realised gross financial return on social investment funds

n=9
representing 11 funds



STRUCTURE OF THE SURVEY REPORT

The report is structured in six sections each of them illustrating different results of the analysis of the survey data.

In the **Introduction,** we explain why we conducted this study, its relevance for venture philanthropy and social investment (VP/SI) practitioners[1] and for the VP/SI ecosystem in general. In a fast-evolving VP/SI space, providing a clear picture of how the investment activities are changing has become fundamental. In this introductory part, we also **describe our sample** looking at the countries of origin of the survey respondents, their organisational structure and the financial instruments (FIs) they use.

In **Part 1,** we then show what are the **social impact and financial return expectations** of European VPO/SIs and we look at how they **adopt and implement the VP approach** (i.e. tailored financing, non-financial support, impact measurement and management and high engagement) in order to pursue their objectives.

In **Part 2,** we focus on the **resources available** for European VPO/SIs to support societal solutions within the VP/SI space, reporting the total budgets VP/SI organisations have at their disposal, and looking at the sources of funding VPO/SIs can tap into. We then report the total amount of financial resources deployed by VP/SI practitioners within the space, focussing on the different financial instruments used and looking at the average financial support offered to each grantee/investee (i.e. the social purpose organisation – SPO).

In **Part 3,** we look at how VPO/SIs implement their **strategies** in practice, deploying their own resources to support SPOs in line with their expectations in terms of impact and financial returns.

We first present data on the **investment focus** of VPO/SIs: geographies, final beneficiaries, sectors and type of SPOs supported. We then look at their **investment process,** showing how VPO/SIs take investment decisions, whom they co-invest with, and how they exit.

In **Part 4,** we show the results of a complementary analysis conducted on **social investment funds,** an important category of social investors active in the VP/SI space.

1 Throughout this report we indistinctly use both the terms “VPO/SIs” and “VP/SI organisations” to refer to venture philanthropy organisations and social investors, otherwise called VP/SI practitioners. A definition of VPO/SI is included in the EVPA VP/SI Glossary, available here: https://evpa.eu.com/about-us/what-is-venture-philanthropy

The analysis in each graph refers to the responses from the VPO/SIs that answered the relevant question. In some specific cases, certain **outliers were not included** in the analysis to ensure that the results provide an accurate representation of the sector as a whole. The financial data provided refer to fiscal year (FY) 2017[2], unless otherwise specified.

This year, we introduced a novelty that allowed us to split some questions and collect data relative to **different financial instruments** used by VPO/SIs. The questions for which we used this new way of collecting and aggregating data are those on: the duration of commitment, the type of SPOs supported, the SPOs' stage of development, and both the expected and realised financial returns. Therefore, it is normal that, for these questions, **the total sample size exceeds 110 respondents,** since we take into consideration all the "investment arms" of the VPO/SIs included in the survey sample, which are 204 in total.

It is important to note that throughout the report, we sometimes refer to analysis made on a ***subsample*.** With the term "subsample", we refer to a group of organisations that replied to the EVPA survey both in 2016 and in 2018, unless otherwise specified.

2
For sake of simplicity, we always refer to FY 2017, even though three respondents reported data relative to their activities in FY 2016.

INTRODUCTION AND CHARACTERISTICS OF THE SURVEY SAMPLE

Oomph!Wellness © Nesta Investment Management

INTRODUCTION AND CHARACTERISTICS OF THE SURVEY SAMPLE

WHY IT IS ESSENTIAL TO COLLECT DATA IN A CHANGING LANDSCAPE

This is the sixth report[3] on European Venture Philanthropy and Social Investment (VP/SI) published by the European Venture Philanthropy Association (EVPA). The purpose of the report is to provide independent industry statistics, which are crucial in a sector that is increasingly gaining importance and attention among a wide range of actors, including policy makers, traditional investors and grant-making foundations. Furthermore, since the VP/SI sector is evolving rapidly, it is essential to gather and aggregate data that are consistent with the definition and the boundaries of the VP/SI space.

According to EVPA report *"Impact Strategies – How Investors Drive Social Impact"*, the VP/SI space is attracting new actors coming from the two "extremes" of the investment landscape. On one side, **traditional philanthropic institutions,** such as foundations, "start adopting a more engaged approach to grant-making (applying venture philanthropy for example), while diversifying their activities and financial instruments to achieve social impact in different ways, for example by exploring new paths to move into social investment (and thus also using equity)". From the other side of the investment spectrum, "**classic investors** start to show interest in achieving more societal impact[4] alongside their financial return. Institutional investors, such as pension funds or insurance companies, and traditional PE/VC funds[5], are more and more interested in converting parts of their portfolios to more sustainable investments, adopting ESG criteria as the standard"[6].

In such context, the boundaries of the VP/SI space become increasingly blurry. With new actors coming in, with completely different risk-return-impact expectations, it is important to keep a focus on the "core" of the VP/SI sector, to avoid comparing organisations and investments that might look similar, but are in fact very different.

At this specific stage of development of the sector, it is extremely important that EVPA continues to act as the main repository of data on the VP/SI industry in Europe. The EVPA survey represents a unique opportunity to collect data and gather information about the investments made and the practices adopted by the main European actors of the VP/SI space. The analyses presented throughout this report help existing investors and newcomers gain a broad understanding of the core activities and practices of venture philanthropy and social investment.

3
Please note that the five previous industry surveys are available for download at: https://evpa.eu.com/knowledge-centre/research-and-tools

4
EVPA purposely uses the term "societal" because the impact may be social, environmental, medical or cultural. However, throughout this report we refer to "social impact" to indicate the same concept.

5
See as examples : the RISE fund (http://therisefund.com/), launched by TPG during spring as part of their asset management offering.

6
Gianoncelli, A. and **Boiardi, P.,** (2018), *"Impact Strategies – How Investors Drive Social Impact"*, EVPA.

Furthermore, being the only organisation that collects data on investors *for* impact in Europe, EVPA is the only association that can identify the key trends happening in the VP/SI space, helping policy-makers develop better regulation and funding instruments to help the sector grow.

THE SURVEY RESPONDENTS

The report is based on a comprehensive survey conducted by EVPA Knowledge Centre that captures key statistics on **110 European social investors and grant-makers using the venture philanthropy approach.**

We describe the survey sample by looking at where the respondents of this EVPA-survey are based, what organisational structure they have and the financial instruments they use.

COUNTRY OF ORIGIN

The United Kingdom (20%), **Germany** (12%), **France** and **The Netherlands** (11%) **are the top countries in terms of headquarters** of the respondents to this year's survey.

In line with the previous study[7], most of the organisations are based in Western Europe. This year's survey widened its geographical focus further, in line with the attempt to make the sample more representative, moving from 21 countries represented to 25. The expansion affected the whole of Europe, with countries represented for the first time in Central Eastern Europe (Russia and Slovenia), Southern Europe (Portugal), and covering all the Scandinavian Countries for the first time. The survey aims at capturing the activities of organisations headquartered – or with an operational branch – in Europe, although their investment activities may take place in other continents. The cloud below shows the distribution by country of origin of the respondents to the survey.

Figure 1: Respondents by country

n=110

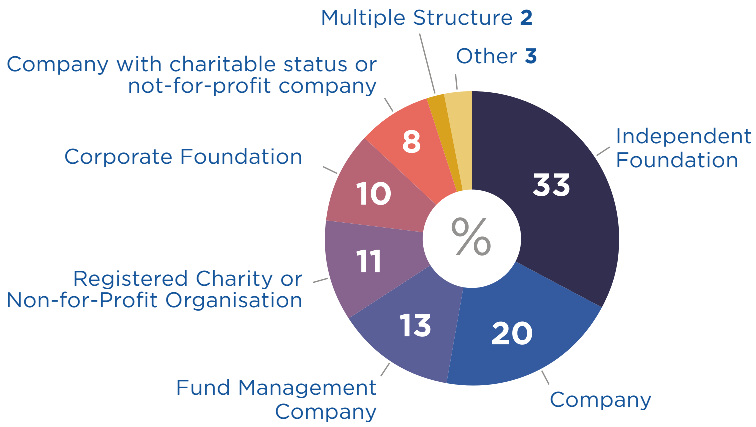
7 **Boiardi, P.,** and **Gianoncelli, A.,** (2016) *"The State of Venture Philanthropy and Social Investment (VP/SI) in Europe: The EVPA Survey 2015/2016"*, EVPA.

ORGANISATIONAL STRUCTURE

In line with the results of the previous survey, **non-profit structures still dominate the organisational setup,** representing the majority of the respondents to the EVPA survey (62%). Non-profit structures include foundations (either independent, 33%, or linked to a corporation, 10%), charities (11%) or companies with a charitable status (8%), although each country has its own terms and variations of these forms. Other organisational structures are companies (20%), or fund management companies (13%), which increased of six percentage points compared to the previous survey[8].

Figure 2: VPO/SIs' organisational structure

n=110



FINANCIAL INSTRUMENTS USED

VPO/SIs support their investees through four categories of financial instruments: (i) grants, (ii) debt instruments, (iii) equity and (iv) hybrid financial instruments (such as recoverable grants)[9].

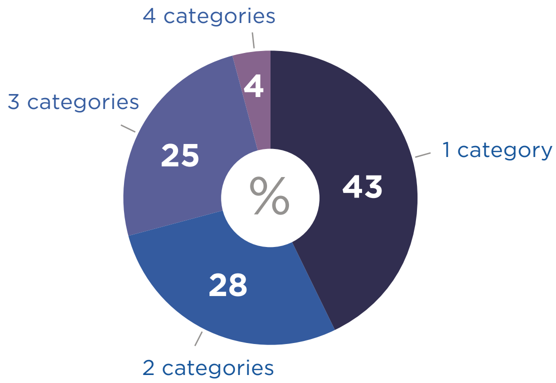
Looking at the financial instruments (FIs) used by the VPO/SIs, 57% of the respondents employ more than one category of FIs, while the remaining 43% stick to one category.

The fact that more than half of the respondents use at least two categories of FIs indicates that **VPO/SIs have the possibility to use a wide range of financial instruments to support their investees more effectively.**

8
As in the previous versions of the survey, we dedicate a specific section to social investment funds, which represent an important actor in the VP/SI space. See Part 4 at page 71.

9
Balbo, L., Boiardi, P., Hehenberger, L., Mortell, D., & Oostlander, P., and **Vittone, E.,** (2018), *"A Practical Guide to Venture Philanthropy and Social Impact Investment"*, EVPA. (Pages 43-45).

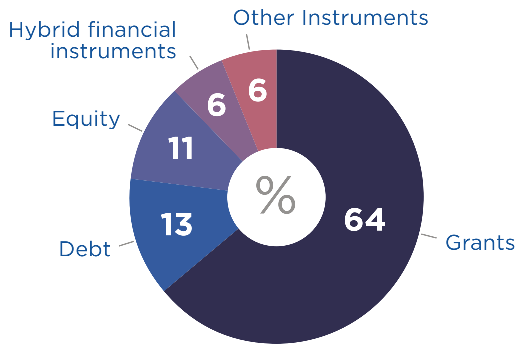
Figure 3: Categories of financial instruments used by VPO/SIs
n=108



Among the organisations that rely on a *single category of financial instruments* (47 organisations in total), almost two-thirds are **grant**-makers (64%), followed by VP/SI organisations providing **debt** (13%) and **equity** (11%) and by VPO/SIs using **hybrid instruments** (6%).

This figure shows the constant – and always relevant – presence of pure grant-making organisations within the VP/SI space. Moreover, it must be noted that sometimes grant-making organisations, such as foundations, might not be allowed to deploy other types of financial instruments, due to regulatory constraints in different EU countries.

Figure 4: Financial instruments used by VPO/SIs with one category of FIs
n=47

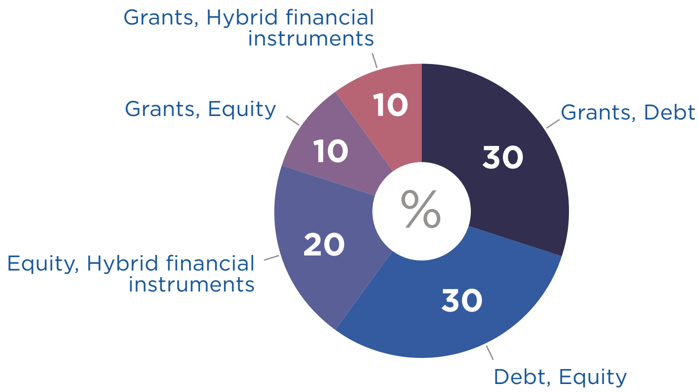


Looking at the 30 organisations that use *two categories of financial instruments*, we see that half of them combine their grant offer with other types of financial instruments. Specifically, 30% combines **grants with debt**, 10% combines **grants with equity** and 10% combines **grants with hybrid financial instruments**.

The other half of the sample is composed of organisations using a **mix of equity investments**, with either **debt** (30%) or **hybrid instruments** (20%).

Figure 5: Financial instruments used by VPO/SIs with two categories of FIs

n=30



PART 1. HOW DO EUROPEAN VP/SI ORGANISATIONS ACHIEVE IMPACT?

IntoUniversity/Impetus-PEF © Liam Arthur

PART 1. HOW DO EUROPEAN VP/SI ORGANISATIONS ACHIEVE IMPACT?

Venture philanthropy and social investment emerged in Europe 15 years ago to support financially and non-financially social purpose organisations (SPOs) that **address particular pressing societal challenges.**

How can VP/SI organisations make sure that they **use the right approach** to achieve the impact they seek?

- VPO/SIs have to **articulate an impact strategy**: (i) determining their expectations in terms of impact and financial returns, and (ii) reflecting on their impact risk and financial appetite.
- VPO/SIs have to provide support to SPOs **by adopting the key core practices of VP.**

THE VENTURE PHILANTHROPY (VP) APPROACH[10]

VP is a **high engagement** and **long-term** approach, which pays particular attention to the **ultimate objective of achieving a societal impact**[11]**.**

VP/SI organisations adopt the VP approach to support social purpose organisations through three core practices: **tailored financing, non-financial support** (or organisational support) and **impact measurement and management.**

Figure 6: The venture philanthropy approach
(Source: EVPA)

10
For more information: http://evpa.eu.com/about-us/what-is-venture-philanthropy

11
EVPA purposely uses the term "societal" because the impact may be social, environmental, medical or cultural. However, throughout this report we refer to "social impact" to indicate the same concept.

1.a VP/SI ORGANISATIONS' POSITIONING IN THE ECOSYSTEM

KEY FINDINGS

- **Seeking *only or primarily social return*** remains the main investment priority for VP/SI organisations (almost 80% of the survey respondents).
- The large majority of VP/SI practitioners deploying **debt** have financial returns **expectations ranging from 0% to 5%** (in 77% of cases), with half of them just seeking a capital repayment.
- **Equity** is confirmed as **the most patient form of capital** within the VP/SI space, with 91% of the respondents using this financial instrument to support SPOs for more than four years.
- More than half of the organisations investing through **equity** target returns over 5%. However, the large majority of those respondents (80%) have positive **financial returns** expectations **not exceeding 10%.**

INVESTMENT PRIORITIES

The **ultimate objective of achieving social impact** is central to the activities of VP/SI organisations. However, VP/SI practitioners also take into consideration aspects related to financial return, giving it more (or less) relevance, depending on their impact strategy.

In order to understand what the overall expectations of the survey respondents are, we identify **three main priorities' groups:**

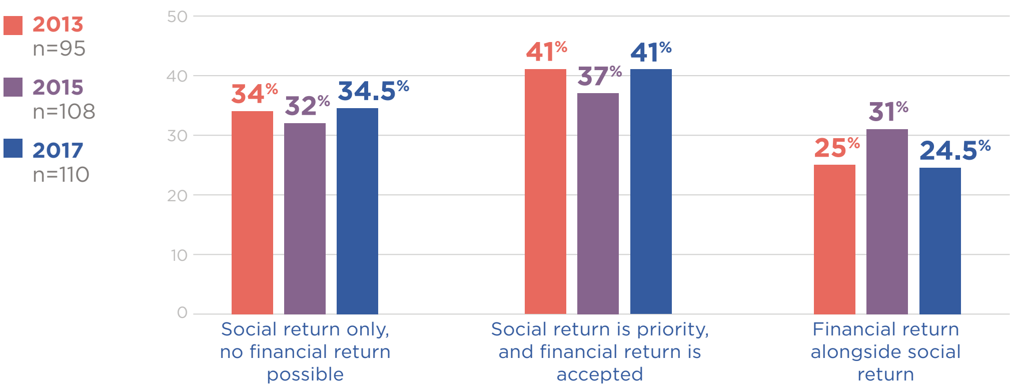
- organisations that *seek only a social return* (group 1),
- organisations that *seek a social return and accept a financial return* (group 2), and
- organisations that *seek a financial return alongside a social return* (group 3).

Seeking *only or primarily social return* remains the main priority for the respondents of the EVPA survey. Three quarters of the respondents prioritise social return over financial return (i.e. groups 1 and 2), which represents an increase compared to the previous survey.

VPO/SIs that have *social return as priority but also accept a financial return* (group 2) still represent the largest category (41% in FY 2017, plus four percentage points from FY 2015).

Looking at group 1, VPO/SIs requiring *only a social return* have become more numerous, from 32% in FY 2015 to 34.5% in FY 2017, whereas the share of VPO/SIs that *seek a financial return alongside a social return* (group 3) decreased by 6.5 percentage points, from 31% in FY 2015 to 24.5% in FY 2017.

Figure 7: Balance between social and financial return priorities in FYs 2013, 2015, 2017[12]

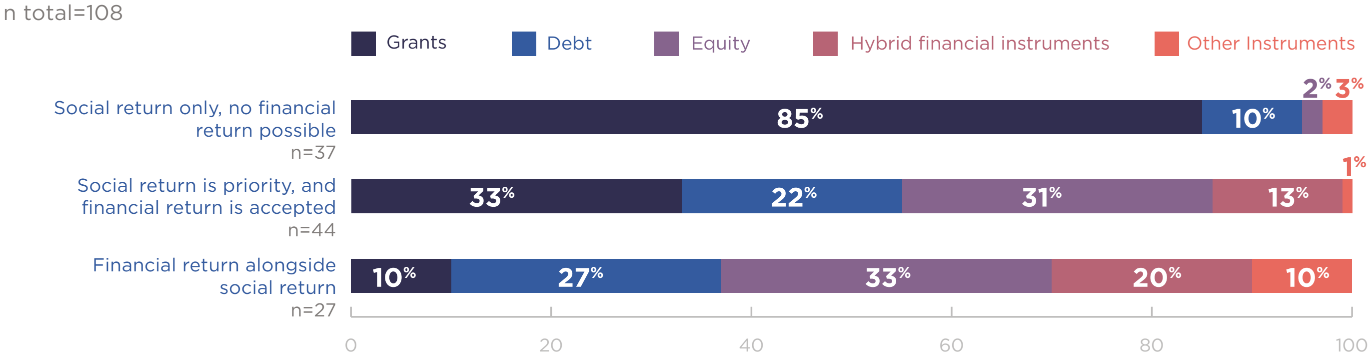


To better understand the strategies of VPO/SIs linked to the different priorities, we looked into the mix of financial instruments used on average by each of the three groups of organisations. It is important to clarify that to calculate these averages we did not look at the amounts but at the share of total financial investment deployed through each financial instrument. Our aim was to capture the average mix of FIs used by VPO/SIs for each priority reported, not taking into account the size of their financial investment.

The results are in line with our expectations. For organisations *seeking only a social return* (group 1), the main financial instrument used is grant (85%), while organisations that *accept a financial return* show a more balanced use of various financial instruments. For this category of practitioners (group 2), grants still represent a third of their financial offer, with equity (31%) and debt (22%) covering the remaining part. It can be observed that for organisations that *seek a financial return alongside a social return* (group 3), grants play a marginal role (10%), while equity is the main financial instrument used (33%), followed by debt (27%) and hybrid instruments (20%).

Apart from the expected findings described above, it is interesting to note that **even organisations that *seek a financial return alongside the social return*** (group 3) **use grants,** showing that this form of capital is still very important in the social innovation space. Indeed, grants are often used to cover the costs of non-financial support or to provide the very first tranche of capital for early stage ventures.

Figure 8: Average mix of financial instruments used by VP/SI organisations per investment priority[13]
n total=108



12
In the original questionnaire two additional options were included to further investigate the possible strategies of VPO/SIs. However, all the responses from FY 2017 have been aligned with the previous surveys so that the data could be compared across the years.

13
In previous editions of EVPA Industry Survey we did not differentiate between the financial instruments used, therefore the results of this year are not comparable with the ones of the past editions.

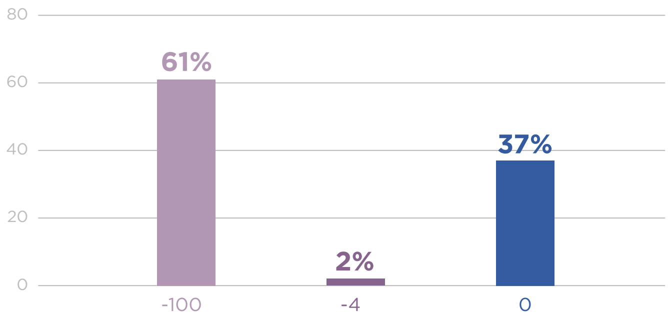
EXPECTED FINANCIAL RETURNS

Depending on their investment priorities and the financial instruments used, VP/SI organisations expect different financial returns from their investments. This year, for the first time[14], we can report on the **diverse financial returns expected depending on the financial instruments used** giving a more accurate picture of the VP/SI sector.

From the returns distribution, as expected, the majority of grant-makers target a negative financial return of -100% (61%), while over a third of them (37%) aim at recovering the capital invested, thus achieving 0% return.

Figure 9: Expected financial returns – Grants

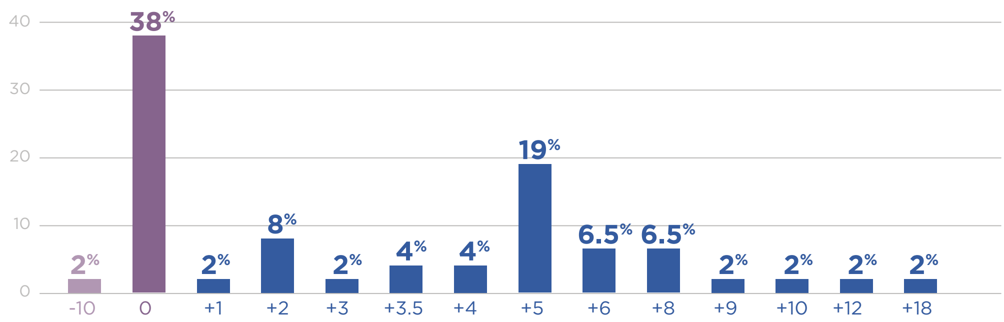
n=64



It is interesting to note that 77% of the financial returns linked to debt instruments lie within the range 0% and +5%, with half of them being 0%. The percentage of VPO/SIs that target a negative return from an investment through a loan represents only 2% of the sample.

Figure 10: Expected financial returns – Debt

n=48



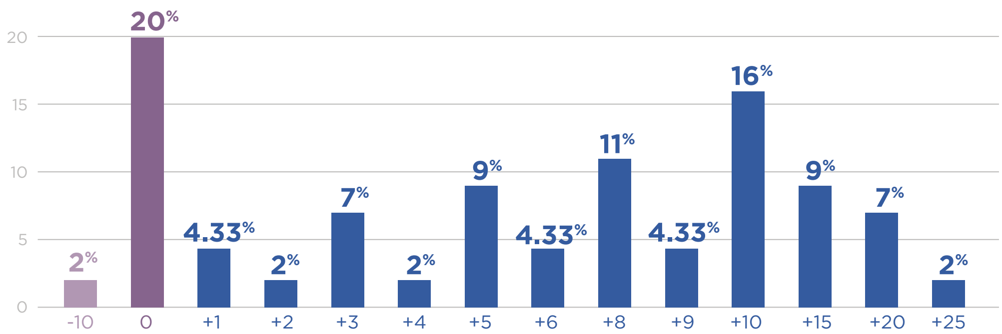
14
Since this year we asked the question about financial returns expected per each financial instrument used, we acquired precision in the analysis of the sample, but we lost the ability to compare the data with the results from the past years.

More than half of the organisations investing through equity target returns over 5%. However, the large majority of those respondents (80%) have positive financial return expectations not exceeding 10%.

While grant and debt users target on average a 3% financial return (median 3%), equity investments target on average a 7% return (median 6%)[15].

Figure 11: Expected financial returns – Equity

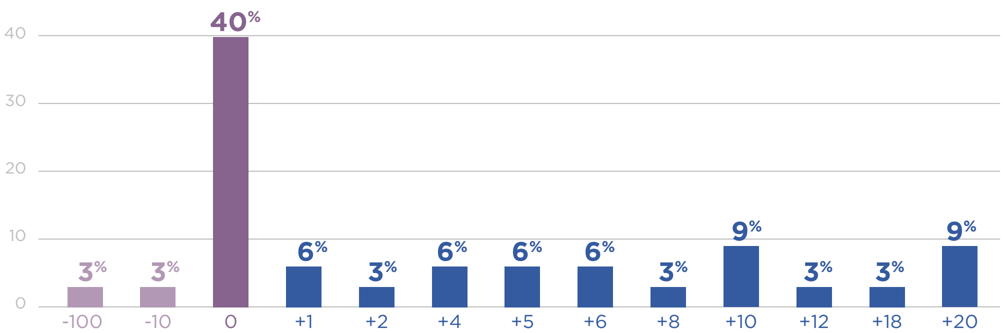
n=45



Two fifth of the VPO/SIs that employ hybrid financial instruments are using them to recover the capital invested (e.g. deploying recoverable grants)[16], while the rest of the returns reported are comparable to the ones of loans and equity.

Figure 12: Expected financial returns – Hybrid financial instruments

n=33



15
As per debt instruments, the percentage of negative returns targeted through equity is negligible (i.e. 2%).

16
A definition of recoverable grant is included in the EVPA VP/SI Glossary, available here: https://evpa.eu.com/about-us/what-is-venture-philanthropy

1.b THE CORE PRACTICES ADOPTED BY VP/SI ORGANISATIONS

KEY FINDINGS

- More than two-thirds of the respondents adapt their financing model to the needs of their investees either **always** (46%) or **often** (23%).
- Over half of the VP/SI organisations that responded to the survey (59%) provide non-financial support (NFS) already **before** the actual investment, and a third of them (33%) continue to deliver it even **after** having exited the investment.
- **Only 3%** of the 2017 respondents report that their investees consider the **financial support more valuable than the NFS**, whereas in 2016, 22% of the respondents indicated investees valued more the financial over the non-financial support.
- Impact measurement and management is a widespread practice for VPO/SIs, with **92% of the sample measuring outcomes** linked to their investments (a five percentage point increase compared to the past).

While running their investment activities, VP/SI organisations adopt the key core practices of VP (i.e. **tailored financing, non-financial support,** and **impact measurement and management**) to support social purpose organisations, in a **highly-engaged** and **long-term approach**.

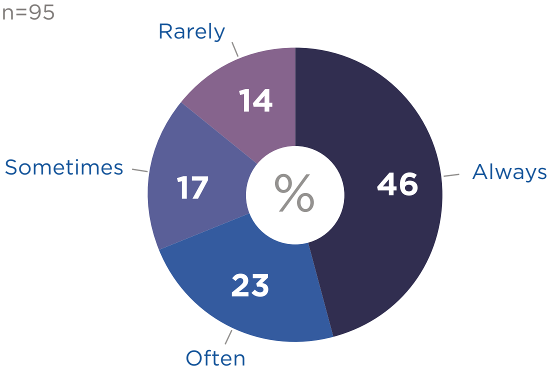
TAILORED FINANCING

Tailored financing is the process through which a venture philanthropy organisation or social investor finds the most suitable financial instrument to support a social purpose organisation, choosing from the range of financial instruments available (e.g. grant, debt, equity or hybrid financial instruments)[17].

The practice of tailored financing[18] **is growing,** with almost half of VPO/SIs (46%) **always** adapting their financing model to meet the needs of the investees, an increase of 14 percentage points since FY 2015. Almost a quarter of the respondents reported to **often** adapt their financing model to the needs of the SPOs (23%), while a smaller share does adapt it **in some cases** (17%) or **rarely** (14%).

Figure 13: VPO/SIs practising tailored financing[19]

n=95



17
A definition of tailored financing is included in the EVPA VP/SI Glossary, available here: https://evpa.eu.com/about-us/what-is-venture-philanthropy

18
Gianoncelli, A. and **Boiardi, P.,** (2017), *"Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance"*, EVPA.

19
In order to better reflect the share of VPO/SIs that are actually practising tailored financing, we removed from the sample the organisations that use only one category of financial instruments and reported "never" as answer to this question.

NON-FINANCIAL SUPPORT

Non-financial support (NFS) is defined as the support services VPO/SIs offer to investees – the social purpose organisations (SPOs) – to increase their *social impact*, *organisational resilience* and *financial sustainability*, i.e. the three core areas of development of the SPO[20].

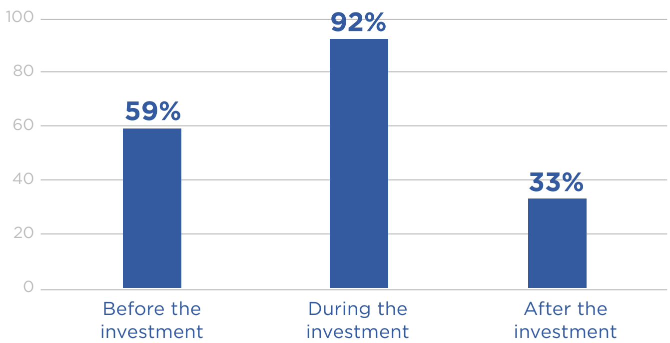
High-engagement is a key characteristic of venture philanthropy and social investment, and one way to be highly engaged is **providing non-financial support** alongside the financial investment.

NFS is crucial for SPOs' development, especially when it comes to early-stage ventures. This explains why almost every VPO/SI (92%) reported supporting its investees during the investment phase.

Over half of the VP/SI organisations that responded to the survey (59%) provide non-financial support ***before*** the actual investment, and a third of them (33%) continue to deliver it ***after*** having exited the investment. One fourth of the respondents provide non-financial support **during all the investment phases.** These results prove, once more, that venture philanthropy is a highly-engaged approach.

Figure 14: Stages of investments at which NFS is provided to investees

multiple choice
n=110



VPO/SIs were asked which types of non-financial support they provide to their investees, based on the categories presented in the EVPA report *"A Practical Guide to Adding Value through Non-Financial Support"*[21]. All the options listed in the questionnaire – with the only exception of "technical assistance in specialist areas" – were chosen by at least 59% of the respondents (multiple choices were possible).

Strategic support[22] remains the most provided service by VPO/SIs (81% of the respondents), followed by support for developing the **Theory of Change**[23] (72%), which registered a five percentage point increase compared to FY 2015. Support to develop a ToC thus became the second service provided to SPOs, demonstrating the growing importance of impact measurement and management in the VP/SI sector. About 70% of the respondents indicated offering non-financial support to develop a **revenue strategy**[24] and to provide **human capital support**, which, alongside support to strengthen **governance** (69%) and **financial management** (68%), constitute the top six services provided by VPO/SIs as part of their non-financial offer.

20
A definition of non-financial support is included in the EVPA VP/SI Glossary, available here: https://evpa.eu.com/about-us/what-is-venture-philanthropy

21
Boiardi, P., and **Hehenberger, L.,** (2015), *"A Practical Guide to Adding Value through Non-Financial Support"*, EVPA.

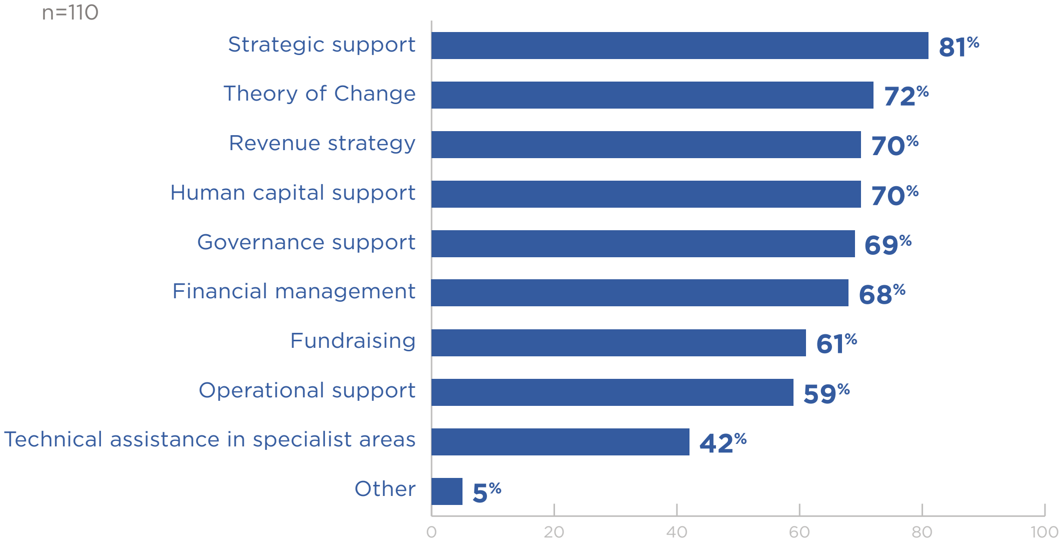
22
Strategic Support: strategy consulting, general management advice, strategic planning, support to develop new products and services, support to develop new business systems or procedures.

23
A definition of Theory of Change is included in the EVPA VP/SI Glossary, available here: https://evpa.eu.com/about-us/what-is-venture-philanthropy

24
Revenue Strategy: business planning and/or business model development.

Figure 15: Non-financial support activities provided

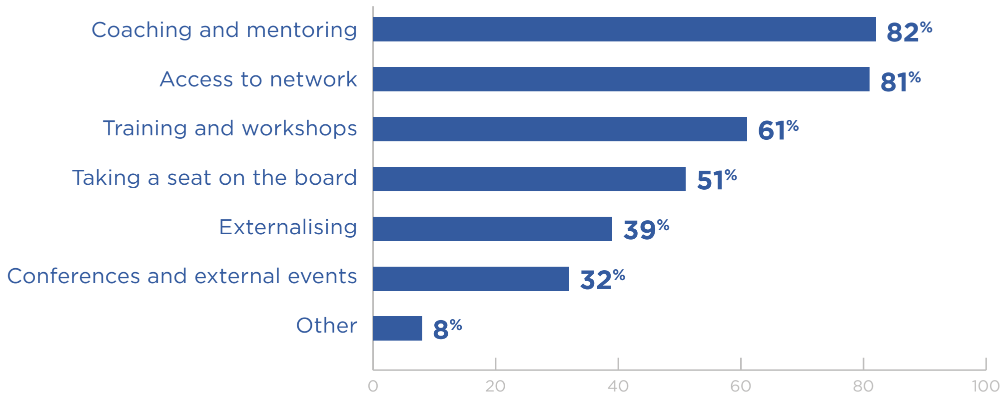
multiple choice
n=110



Respondents were then asked *how* they deliver non-financial support. A large majority of them indicated that they provided NFS by delivering **one-on-one coaching and mentoring** (82%), as well as **giving SPOs access to networks** (81%). The share of VPO/SIs providing training and workshops (61%) experienced an increase of nine percentage points from FY 2015, whereas the percentage of organisations taking a seat on the SPO's board remained constant (51% compared to 53% in FY 2015).

Figure 16: Ways in which non-financial support is delivered

multiple choice
n=110



Given the relevance of providing access to networks, respondents were asked to give more details on the type of networking support provided. The results show a clear rise of **peer-networking,** with 81% of VPO/SIs offering opportunities for SPOs to interact with each other (compared to 66% in FY 2015).

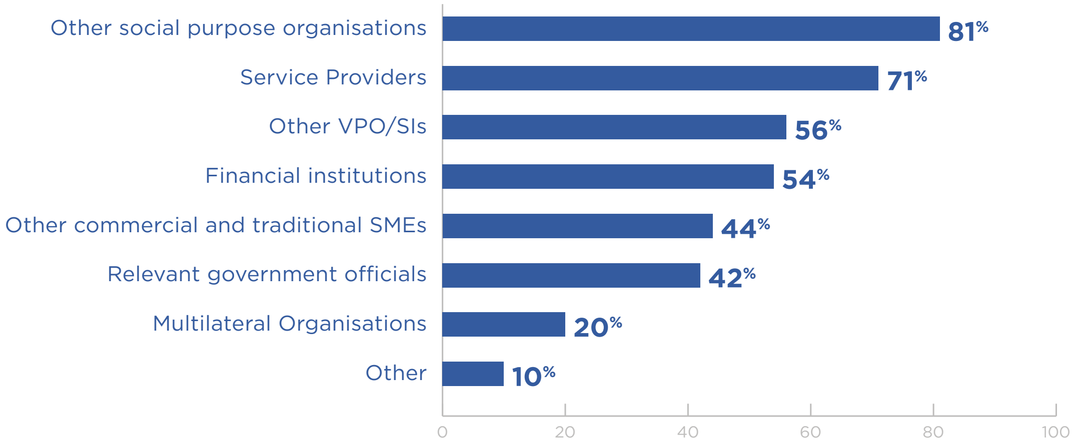
This is a positive trend since, as suggested in the EVPA *"Practical Guide to Non-Financial Support"*[25], **networking with peers is an important learning opportunity for SPOs** and can help the VPO/SI cut the costs of mentoring. One way of offering peer-learning opportunities to SPOs is to organise events or workshops where investees/grantees get to know each other, exchange ways of running activities, and discuss common challenges.

The second type of networking support provided is facilitating **access to service providers** (71%). Providing support in networking with other VPO/SIs (56%) and with financial institutions (54%) are the other two options chosen by more than half of the VPO/SIs surveyed.

Figure 17: Type of networking support provided

multiple choice

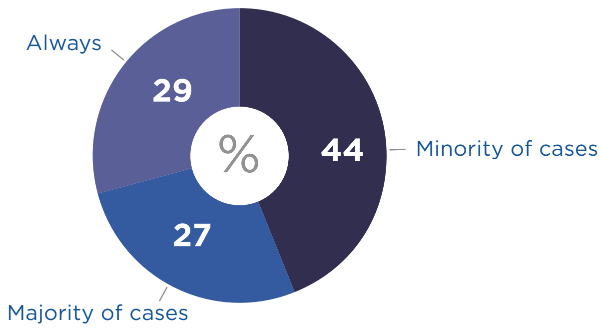
n=89



As **taking a seat on the SPO's board** is a common practice adopted by half of the sample, respondents were asked how often they do so. A total of 29% of the VPO/SIs surveyed *always* take a seat on the board of their investees, an increase of four percentage points compared to FY 2015. Another 27% of the sample takes a seat on the SPO's board in the *majority of cases*. However, 44% of respondents take a board seat only in a *minority of cases*, possibly due to the fact that they take only a minority share in the SPO they support, or because the SPO supported cannot accommodate for that.

Figure 18: Frequency of VPO/SI taking a seat in investee's board

n=55

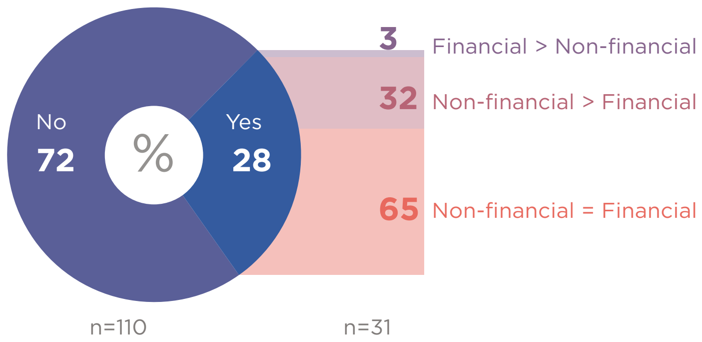


25
Boiardi, P., and **Hehenberger, L.,** (2015), *"A Practical Guide to Adding Value through Non-Financial Support"*, EVPA.

As in previous years, in this survey we did not have direct access to the investee organisations, but we asked VPO/SIs whether they measure their investees' perceived value of the non-financial services provided.

A total of 31 of the VPO/SIs surveyed (representing 28% of the sample) measure the perceived value of the NFS they deliver to the SPOs (an increase of two percentage points compared to FY 2015). Interestingly, **only 3% of the 2018 respondents reported that their investees consider the financial support more valuable than the non-financial support.** This result is very different from the one of 2016, when 22% of the respondents indicated investees valued more the financial over the non-financial support. The majority of VPO/SIs (65%) that measure how their investees perceive the value of the NFS reported SPOs valuing financial and non-financial support equally. The remaining 32% of the sample said their investees perceived the NFS received as more valuable than the financial support.

Figure 19: VPO/SIs measuring the perceived value of non-financial support and – if they do so – value of non-financial vs. financial support



In the EVPA *"Practical Guide to Non-Financial Support"*[26], one of the recommendations for VPO/SIs is to **assess the value of the non-financial support more thoroughly through independent evaluations.** This practice still needs to be adopted by the large majority of the VP/SI organisations that responded to the survey: only 29% of the 31 organisations that measure the perceived value of NFS do so through an independent third-party evaluator. Even if this share increased by three percentage points compared to FY 2015 (26%), it would not be enough to show a trend towards the outsourcing of evaluations. This result is most probably driven by the fact that VPO/SIs still find it too costly to hire an external evaluator.

The aggregate amount reported by the 73 VPO/SIs that indicated a cost for NFS is €44 million, whereas the average amount per VPO/SI is €600,000.

26
Idem.

IMPACT MEASUREMENT AND MANAGEMENT

Impact Measurement
Measuring and monitoring the amount of change created by an organisation's activities[27].

Impact Management
The use of the information collected through impact measurement to make informed decisions to increase positive outcomes and reduce negative ones.

The third core practice of venture philanthropy is **impact measurement and management (IMM), which is becoming a widespread practice for VPO/SIs.** In its *"Guide to Impact Measurement"*[28], EVPA defines a five-step process of impact measurement and management, as outlined in the figure below. Different tools and methodologies are suitable for different parts of the process, depending on the requirements and resources of the individual VPO/SI.

Figure 20: EVPA five steps of social impact management
(Source: EVPA)

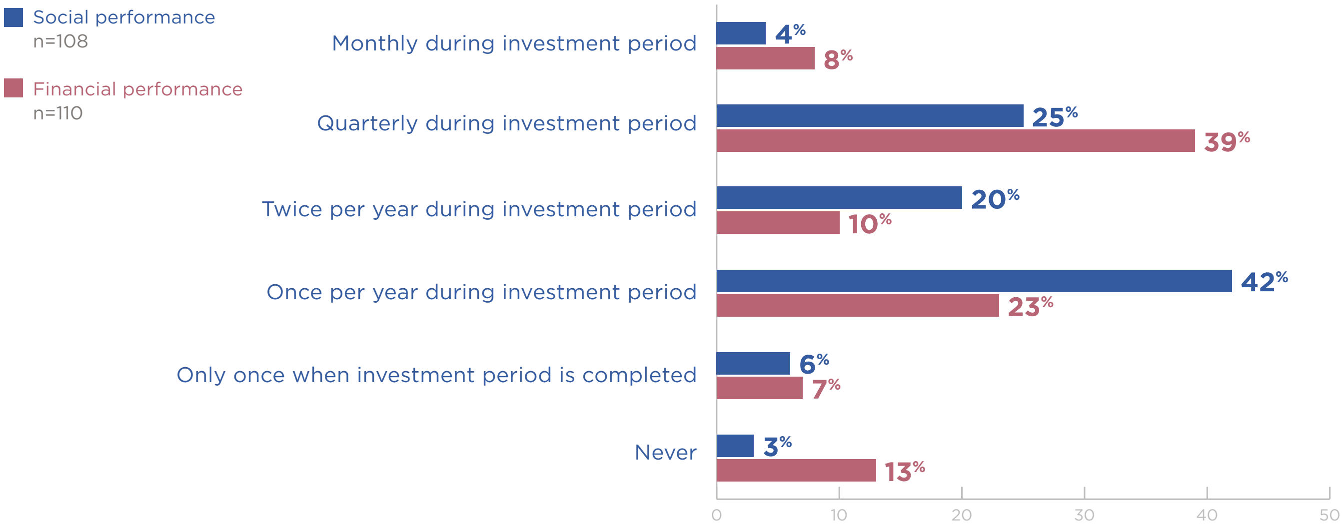
In line with what was observed in the previous survey, **97% of respondents measure social impact,** whereas a lower percentage (87%) measure the financial performance of the SPOs.

However, VPO/SIs measure financial performance more frequently than impact. **Financial performance** was mostly (39% of the sample) measured on a **quarterly basis**, while **impact** was mainly (42% of the respondents) measured **once per year** during investment period.

27
A definition of impact measurement and management is included in the EVPA VP/SI Glossary, available here: https://evpa.eu.com/about-us/what-is-venture-philanthropy

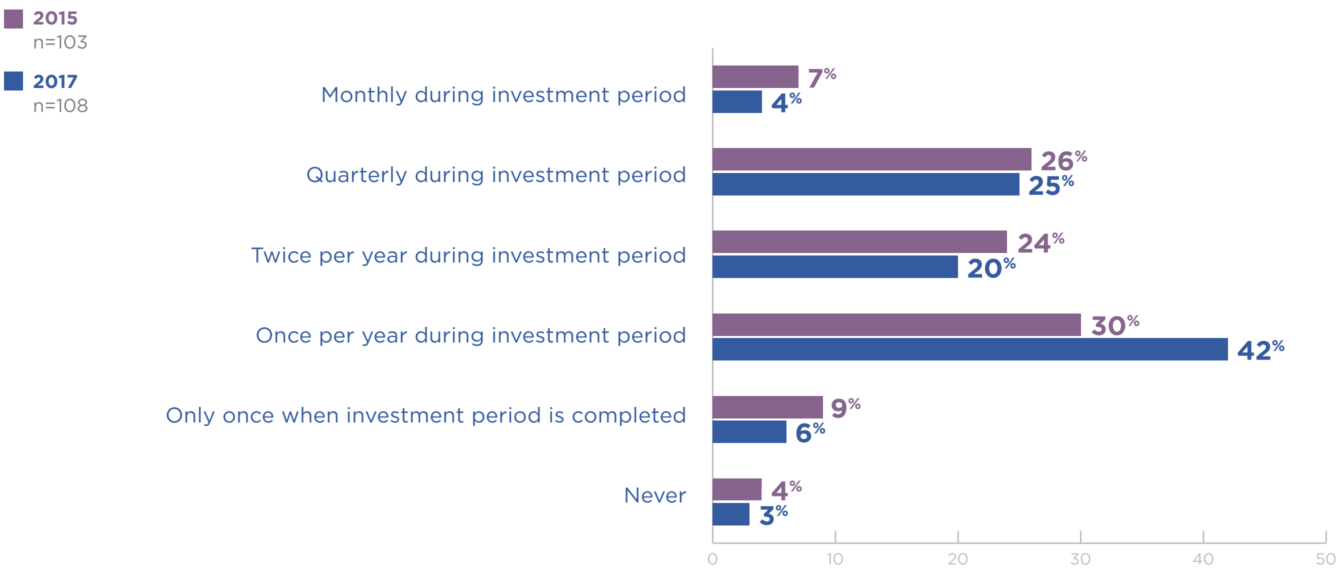
28
Hehenberger, L., Harling, A., and **Scholten, P.,** (2015), *"A Practical Guide to Measuring and Managing Impact – Second Edition"*, EVPA.

Figure 21: Frequency of social impact vs. financial performance measurement



Comparing the social impact measurement frequencies with the previous survey, there is a trend toward measuring social impact **once per year.** The share of all the other frequencies has decreased, resulting in a rise of twelve percentage points of yearly measurement compared to FY 2015. This finding could reflect an **improved IMM system** for VP/SI practitioners. For example, they might have changed how they ask their investees for impact evidence, e.g. refraining from micro-managing investees with frequent reporting, or burdening them with too many requests related to social performance. However, further research is needed to understand the reasons behind this result.

Figure 22: VPO/SIs frequency of impact measurement in FYs 2015, 2017



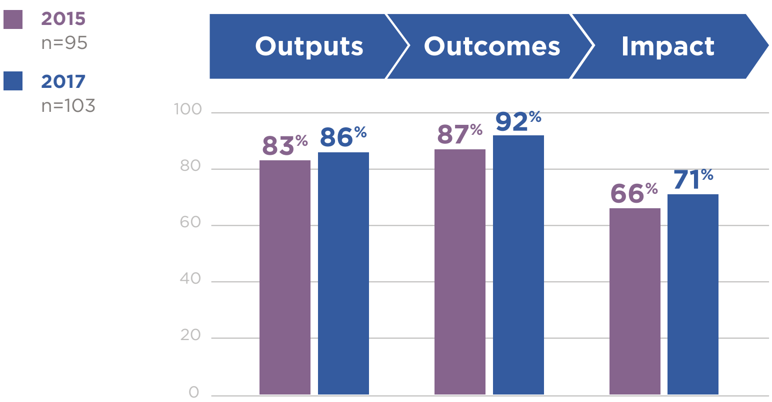
By investigating more in detail the social impact measurement systems of VPO/SIs, some interesting trends can be observed. In general, VPO/SIs seem to have **improved their impact measurement systems**, since the share of organisations that report measuring outputs, outcomes and impact increased compared to FY 2015. The share of VPO/SIs **measuring outcomes** reached a **record high 92%**, a five percentage point increase compared to FY 2015.

Yet when discussing with VP/SI practitioners, the EVPA team notices that they often only measure outputs and outcomes, and not the impact *per se*. The result shown by the survey data probably comes from a **lack of in-depth understanding** around the *real* meaning of **measuring impact** in academic terms. However, as recommended by EVPA in the report *"A Practical Guide to Measure and Manage Impact"*[29] and as shown in the *"EVPA Impact Measurement in Practice – In-depth Case Studies"*[30], it is enough to **focus on measuring outcomes**.

Through its **Training Academy**[31] EVPA helps VP/SI practitioners – presenting practical cases from EVPA members – to **set up an impact measurement and management system**, contributing to a better understanding and adoption in the sector of this core practice of venture philanthropy.

Figure 23: Objectives of social impact measurement by % of respondents in FYs 2015, 2017

multiple choice



To understand more in detail the impact measurement and management practices adopted by VPO/SIs, we investigated whether they employed a **person responsible for impact measurement**, and 87% of the respondents replied positively, a five percentage point decrease compared to FY 2015. One explanation for this decrease could be that the measurement and management of impact is demanded from the investment managers as part of their work with the investees. Demanding impact measurement and managment from investment managers could be due to a lack of resources or, more positively, because investment managers have become more skilled at measuring and managing impact. However, additional analyses are needed to better understand the causes of this result.

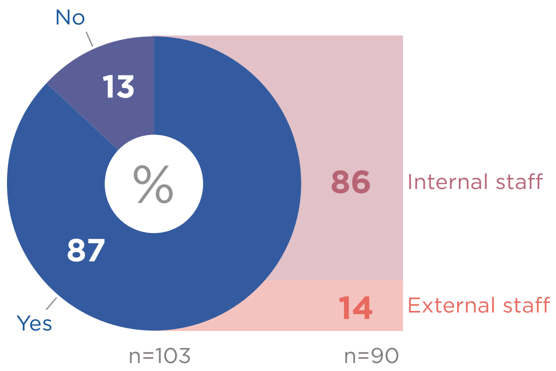
29
Idem

30
Boiardi, P., Hehenberger, L., and **Gianoncelli, A.,** (2016), *"Impact Measurement in Practice. In-depth Case Studies"*, EVPA.

31
More information on **all the courses developed by the EVPA Training Academy** available here: https://evpa.eu.com/knowledge-centre/training-academy

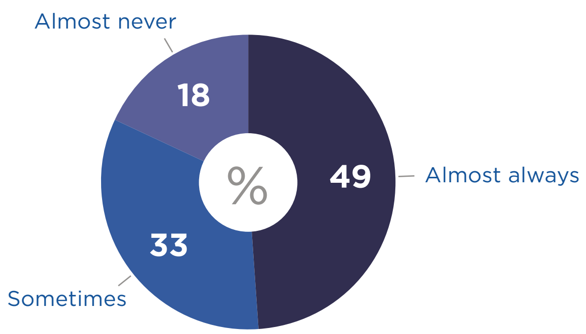
Out of those organisations that have a person responsible for IMM, a **large majority** indicated having an **internal staff member** taking care of it (86%), whereas 14% outsourced the function to external staff.

Figure 24: VPO/SIs having a person responsible for IMM



The survey shows that the investee's social performance assessment is **almost always a condition to unlock new funds** for 49% of the respondents, a one percentage point increase compared to FY 2015. However, the share of VPO/SIs that link the unlocking of new funds to the performance of the SPO at least sometimes decreased by six percentage points, reaching 33% of the total. The consequence is that the percentage of respondents that almost never link social impact performances and funding increased from 13% in FY 2015 to 18% in FY 2017[32]. This result could reflect a trend towards **providing SPOs with unrestricted funding** (i.e. funding not linked to any specific project or deliverable), which is one of the best practices of the VP approach. However, further analyses are needed to understand in-depth this result.

Figure 25: Frequency of SPOs' social performance assessment being a condition to unlock new funds
n=103



32
This trend is also confirmed by the subsample of organisations that replied to the EVPA Survey both in 2016 and in 2018.

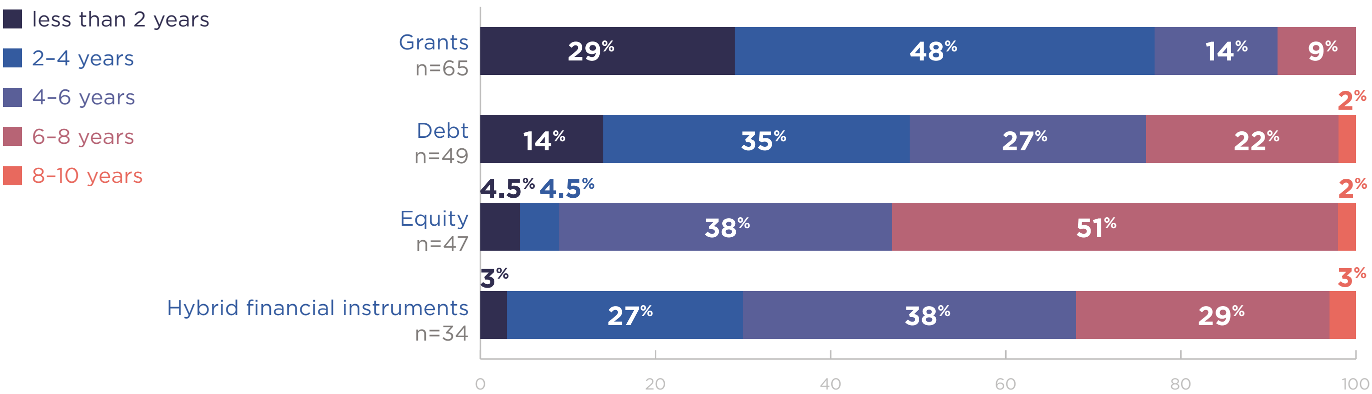
HIGH ENGAGEMENT

The **duration of commitment varies across the financial instruments** used, i.e. from financial resources deployed through grants (lower duration) to resources deployed through debt and equity (more "patient" capital).

Grant-makers have on average a shorter duration of commitment. About 77% of grant-investments have an average duration below four years, while more than half of debt providers have an average commitment of more than four years (51%). Equity investments are the most patient form of capital in the VP/SI space. About 53% of the organisations commit their equity financial support for at least six years, reaching 91% when considering an average commitment of at least four years. Hybrid instruments have an average duration of four to ten years in 70% of the cases.

Figure 26: Average duration of commitment per financial instrument used

n total=108



PART 2. WHAT ARE THE RESOURCES AVAILABLE TO EUROPEAN VP/SI ORGANISATIONS TO IMPLEMENT THEIR IMPACT STRATEGY?

Callander Youth Project Trust © Malcolm Cochrane Photography

PART 2.
WHAT ARE THE RESOURCES AVAILABLE TO EUROPEAN VP/SI ORGANISATIONS TO IMPLEMENT THEIR IMPACT STRATEGY?

KEY FINDINGS

- VP/SI organisations' **budget sizes have been growing** in past five years, with almost **half of the capital** made available for VP/SI activities coming from **individual donors** and **income from endowment or trust.**
- The share of respondents with a total financial investment **larger than €10 million** increased by ten percentage points from FY 2015 to FY 2017, representing now almost **a fourth of the sample.**
- The top five VPO/SIs account for 41% of all VP/SI investment that occurred in FY 2017 (- 17 percentage points compared to FY 2015), showing a **decrease in the degree of concentration of financial resources**.
- Almost half of financial resources invested by the VPO/SIs surveyed have been deployed through **debt instruments.**
- VP/SI organisations **help SPOs get through the Valley of Death**: the average investment size of half of the respondents lies in an interval that goes from less than €50,000 and €200,000, with one third of the respondents supporting SPOs with amounts that range from €200,000 to €550,000.
- Compared to the past, VPO/SIs seem to **rely more on paid forms of human capital** (i.e. employees and external contributors), and less on pro bono and voluntary contributions.

As seen in Part 1, VP/SI organisations should first articulate an impact strategy starting by defining their priorities in terms of impact and financial return expected and risk appetite. Then, VPO/SIs should pursue their impact strategy adopting the three core practices of VP (i.e. tailored financing, non-financial support and impact measurement and management).

To succeed in the implementation of their impact strategy, VP/SI organisations need **financial and human resources.**

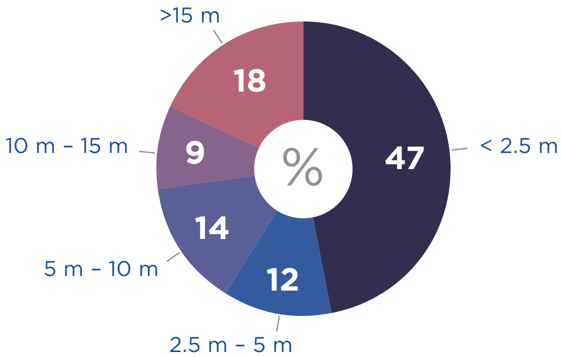
2.a VP/SI ORGANISATIONS' BUDGETS

TOTAL BUDGETS[33]

The majority of European VP/SI organisations are increasing their budget size. In the last fiscal year, the average amount allocated to VP/SI activities was €10.7 million (a 9% increase compared to the previous survey) with a median of €3 million (a 50% increase compared to FY 2015). The sharp increase in the median between FY 2015 and FY 2017 could be explained in multiple ways. As the VP/SI industry is growing and becoming more appealing for diverse types of capital providers, several VPO/SIs have **attracted more resources and grown their budget** size. Indeed, the maturity reached by the VP/SI sector influences also the growth of some types of SPOs, even in terms of ticket sizes needed. This trend makes VPO/SIs able to increase the budget they allocate to SPOs. At the same time, foundations – a type of actor that usually has considerable budgets available – are allocating more resources to their VP/SI activities.

Figure 27: Size of VP/SI organisations' budgets

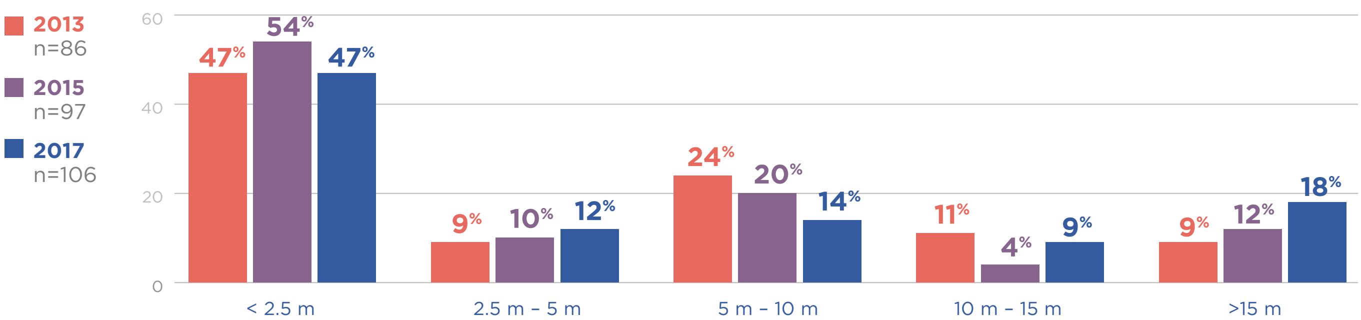
n=106



A comparison of the VP/SI budgets' allocation reported in the past three surveys shows that the share of organisations that allocate less than €2.5 million to VP/SI activities decreased, returning at the same percentage registered in FY 2013 (47%). At the same time, the share of organisations allocating more than €10 million (either with budgets in the range of €10–15m than with budgets bigger than €15m) has increased by eleven percentage points, now representing more than one fourth of our respondents.

33
With "budget" we refer to the maximum total amount allocated to VP/SI activities, including structural or overhead costs, financial and non-financial investments.

Figure 28: Size of VP/SI organisations' budgets in FYs 2013, 2015, 2017



The trends presented above are consistent within the subsample of organisations that responded to the EVPA Industry Survey 2016 and 2018, which are 57. Furthermore, looking at the budget sizes of the 35 organisations that responded to the last three EVPA surveys (i.e. in 2014, 2016 and 2018), their aggregated budgets have more than doubled in these past five years, moving from an average of €4.4 million per organisation in FY 2013, to €6.2 million in FY 2015 and reaching €10.8 million in FY 2017. These results highlight the **increase of the budgets that VPO/SIs active in the sector decide to allocate to VP/SI activities.**

SOURCES OF FUNDING

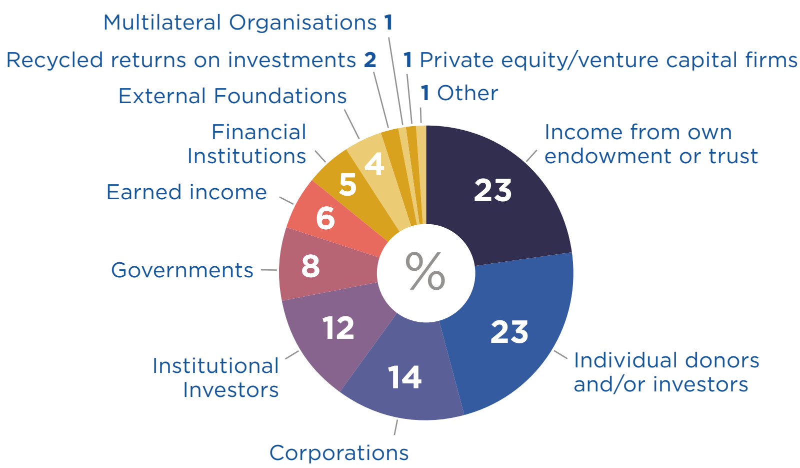
Individual donors and/or investors, and income from the endowment or trust are the main sources of VP/SI funding, representing together almost half of the total resources made available to VPO/SIs. Compared to FY 2015, the share of funding coming from an endowment or trust remained constant (23%), whereas the share of funding provided by individual donors and/or investors increased by five percentage points (reaching 23% of the total)[34]. **Corporates** are the third most important source of funding for VPO/SIs, representing 14% of the total amount[35].

Another interesting trend, which has been confirmed by the subsample[36] analysis, is the increase in the share of funding made available by **institutional investors** (12%, an increase of eight percentage points compared to FY 2015), which now represent the fourth source of funding for VPO/SIs. The increased importance of institutional and individual investors is coupled with the decrease in importance of another source of funding: the government.

Compared to the past, VP/SI funding sources are more homogeneously distributed among VPO/SIs: seven categories represented at least 5% of the total funding in FY 2017, while there were only four in FY 2015.

Figure 29: Distribution of total funding made available to VPO/SIs by source

n=106



34
Both trends have been observed in the analysis of the subsample of respondents to the two latest EVPA surveys.

35
Since we have not seen this growth within the subsample, corporates-related organisations have increased their presence within our sample of respondents, and probably within VP/SI space.

36
We refer to the subsample of respondents to the EVPA Survey in 2016 and 2018.

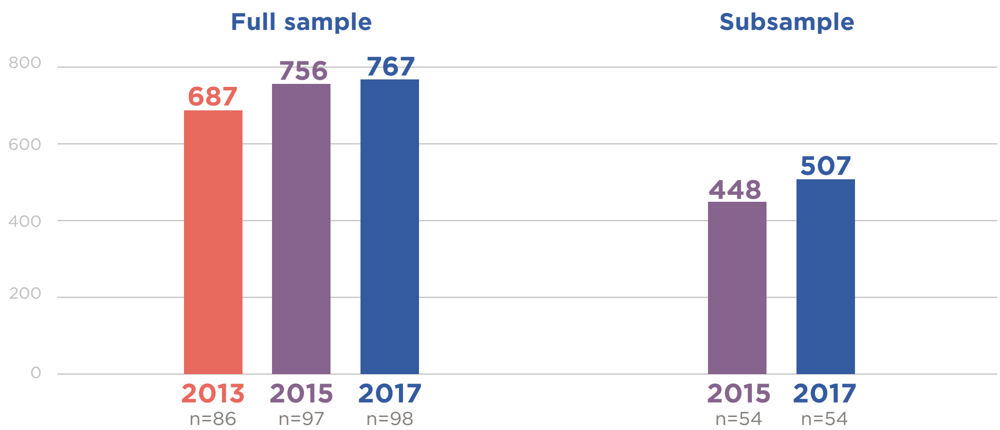
2.b VP/SI ORGANISATIONS' TOTAL INVESTMENT

In FY 2017, VP/SI organisations invested **€767 million** to support a total of **11,951 SPOs[37].**

FINANCIAL INVESTMENT

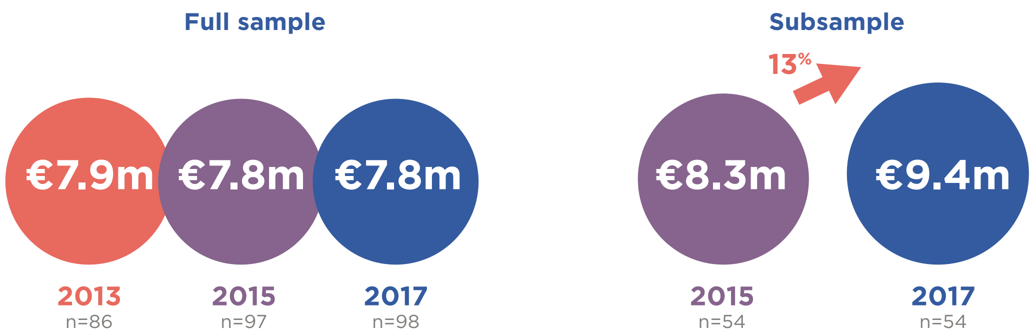
About €767 million have been invested in FY 2017 by the 98 respondents that answered this question, a small 1% increase compared to the total annual spend of €756 million indicated by 97 respondents in FY 2015. This increase goes up to 13% when looking at the organisations that responded to the survey both in 2016 and 2018 (i.e. subsample n=54).

Figure 30: Aggregate annual spend (millions of €) on VP/SI in FYs 2013, 2015, 2017



In line with the findings of the previous survey, there is a constant growth trend in the **average financial support per VPO/SI,** which was €7.8 million in FY 2017 (same as in FY 2015).

Figure 31: Average financial support provided by VPO/SIs to investees in FYs 2013, 2015, 2017

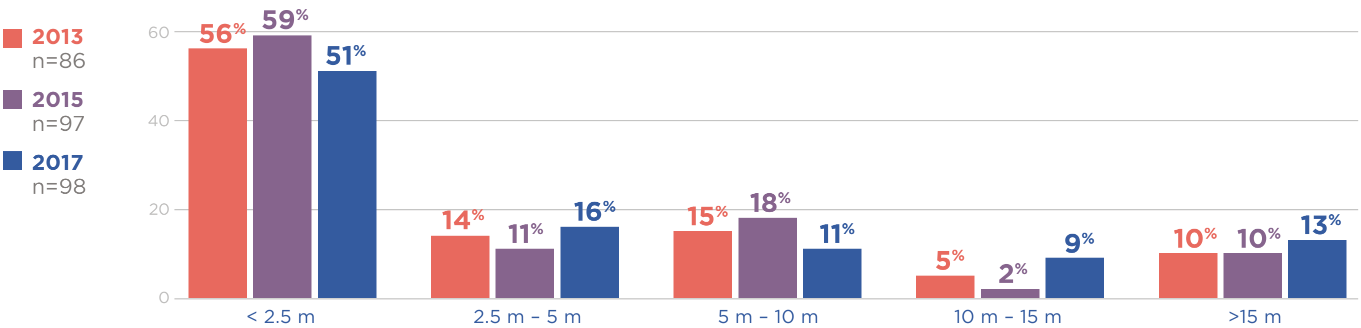


37
This total number includes both organisations and individuals.

In FY 2017, results show for the first time a **decrease in the degree of concentration of financial resources.** In fact, the top five VPO/SIs account for 41% of all VP/SI investment that occurred in FY 2017, which represents a decrease of 17 percentage points compared to FY 2015, when the top five represented 58% of all the investments made. This shows that more players are entering the VP/SI market, which is a very positive sign for the sector.

Looking at the different ranges of amounts invested, the share of VPO/SIs that deployed more than €10 million increased from 12% in FY 2015 (i.e. 2% + 10%) to 22% in FY 2017 (i.e. 9% + 13%). Furthermore, the percentage of organisations with an investment size around the average (i.e. €5-10 million) registered a decrease of seven percentage points (i.e. from 18% in FY 2015 to 11% in FY 2017).

Figure 32: Size of VP/SI financial investment in FYs 2013, 2015, 2017



Since both trends described above have been observed in the subsample[38] as well, we looked in depth at the respondents that invested between €5 and 10 million in 2016 and moved to a different category in 2018.

Data show that two thirds of VPO/SIs that moved from the mid-size category (i.e. €5–10 m) to a smaller one in FY 2017 had a financial investment slightly bigger than €5m. Since the same reasoning does not apply to the organisations that increased their financial investment, we can infer that **increases of investment are usually higher in absolute values than reductions.**

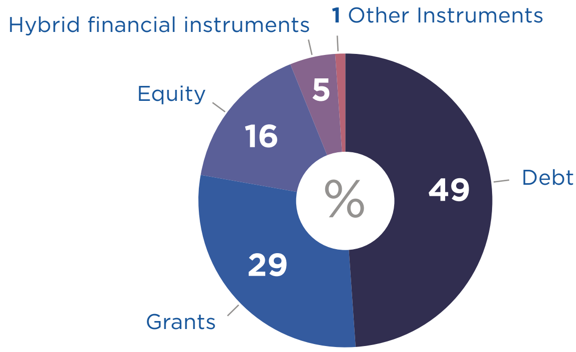
38
We refer to the subsample of respondents to the EVPA Survey in 2016 and 2018.

FINANCIAL INSTRUMENTS

Almost half of the financial support provided by European VPO/SIs is deployed through debt instruments (49%) followed by grants (29%), equity (16%), and hybrid instruments (5%).

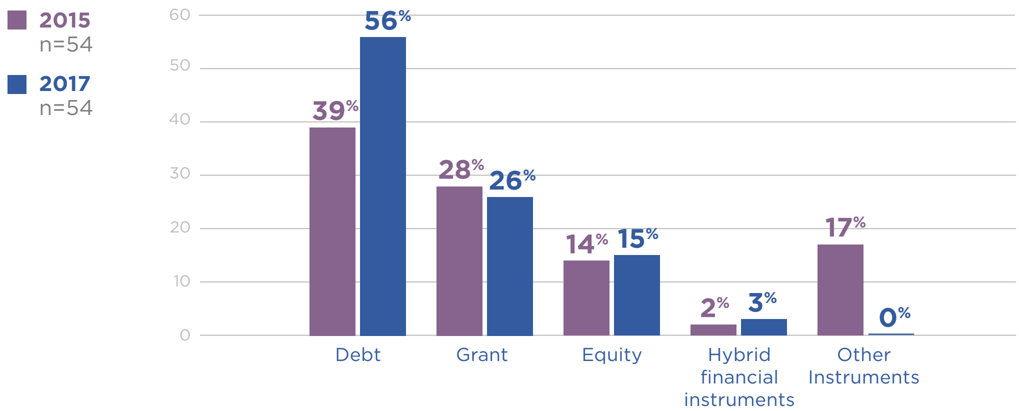
Figure 33: Financial instruments used by VPO/SIs by € spend

n=98



Looking at the previous survey, the share of total resources deployed through grants sharply decreased, from 43%[39] in FY 2015 to 29% in FY 2017, while the ones deployed through debt surged from 32% in FY 2015 to 49% in FY 2017. However, the decrease in the amount invested through grants is barely observed in the subsample[40], probably reflecting a change in the characteristics of the survey sample. Additionally, the surge of the investment through debt is also observed in the subsample (plus 17 percentage points compared to FY 2015), while no resources were allocated through any type of FI classified as "other instruments". This finding suggests that VPO/SIs improved their knowledge of FIs, always classifying their investments using a specific categorisation.

Figure 34: Financial instruments used by VPO/SIs by € spend – Subsample of respondents to EVPA Industry Survey in 2016 and in 2018



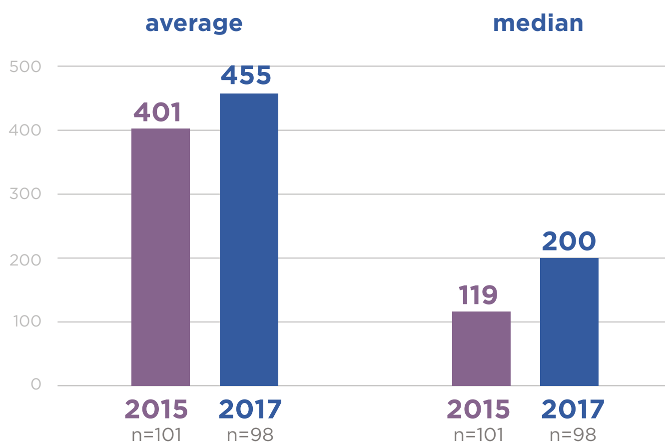
39
This percentage does not coincide with the one reported in the previous edition of the survey since the numbers have been slightly revised after the publication of the report.

40
We refer to the subsample of respondents to the EVPA Survey in 2016 and 2018.

AVERAGE INVESTMENT PER SPO

Another relevant variable to describe European VP/SI organisations is the **average size of their financial investment per SPO** supported. The average[41] increased in the past two years, going from €401,000 in FY 2015 to €455,000 in FY 2017. The median value for the average investment per SPO almost doubled, from €119,000 in FY 2015 to €200,000 in FY 2017, showing that VPO/SIs that provided small amounts slightly increased their average financial support per SPO.

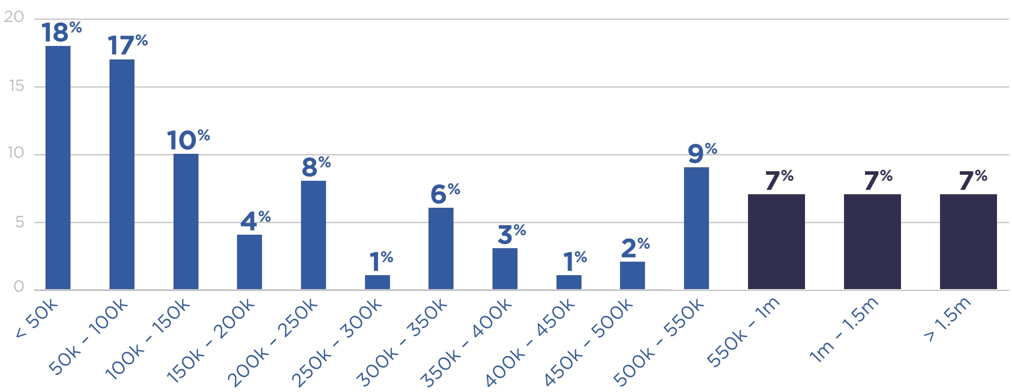
Figure 35: Average and median spend by VPO/SIs per SPO (thousands of €) in FYs 2015, 2017 [42]



VP/SI organisations provide financial resources to fill the SPO's financing gap by helping them get through the Valley of Death. The average investment size of half of the respondents lies in an interval that goes from less than €50,000 and €200,000, with one third of the respondents supporting SPOs with amounts that range from €200,000 to €550,000. This finding is encouraging, as experts **ackowledge a lack of funding for SPOs needing tickets of this size range[43].**

Figure 36: VPO/SIs average spend per SPO

n=98



41
The average, as shown in the graph, represents the mean of all the average amounts invested per SPO, as indicated by the respondents.

42
Some organisations could not report the average amount invested per SPO since this amount depends on too many factors and they could not provide us with a unique average number. Please note that these VPO/SIs were not included in the analysis for this specific question.

43
See for reference: **Gianoncelli, A.** and **Boiardi, P.,** (2017), "*Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance*", EVPA (pages 56-57). **Varga, E.,** and **Hayday, M.,** (2016), *"A Recipe Book for Social Finance. A Practical Guide on Designing and Implementing Initiatives to Develop Social Finance Instruments and Markets"*, European Commission (pages 24–25). **GECES (Commission Expert Group on Social Entrepreneurship),** (2016), *"Subject Paper of GECES Working Group 1: Improving access to funding"*, European Commission (pages 19 and 46).

2.c VP/SI ORGANISATIONS' HUMAN RESOURCES

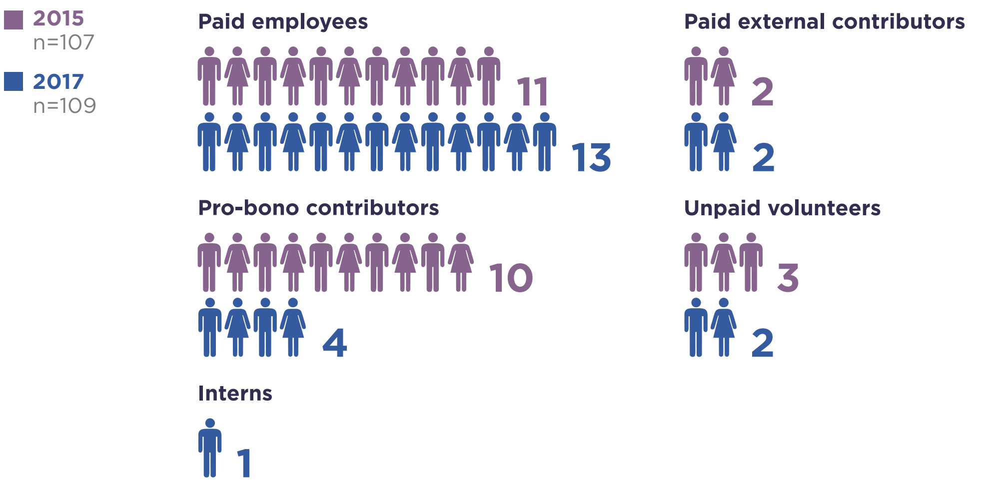
A large pool of professionals works in VP/SI. Human capital has always played a primary role in venture philanthropy. However, comparing the results with the previous survey, there is a decrease of full time resources (FTEs) per VPO/SI (from 26 FTEs in FY 2015 to 22 in FY 2017), in line with the decreasing trend reported in the past.

A relative **stabilisation of the sector with regards to the employment of human resources** can be observed, as this year saw a minor decrease of 15%[44] in the average number of FTEs per VPO/SI, while in 2016 the decrease was of 40%[45].

Looking at the diverse human resources available, it is interesting to note the rise in the average number of paid employees, which increased from 11 FTEs per VPO/SI in FY 2015 to 13 FTEs in FY 2017. Moreover, the average amount of paid external contributors remained stable, with 2 FTEs per VPO/SI.

The average number of pro-bono contributors registered a substantial fall, decreasing from an average of ten full time resources in FY 2015 to four in FY 2017. Lastly, the average number of unpaid volunteers per VPO/SI slightly decreased, from 3 FTEs to 2 FTEs.

Figure 37: Human resources by count (average per VPO/SI) in FYs 2015, 2017



These findings combined suggest that VP/SI organisations revised the way in which they count on human capital, relying more on paid human resources (i.e. both internal employees and external consultants) than on pro-bono contributors. These results are observed also in the subsample[46], and confirm a trend already identified in 2016: the increasing professionalisation of the VP/SI sector, which relies more on expertise and competences that come at a cost and less on voluntarily and pro-bono contributions.

44
Decreasing from 26 FTEs in FY 2015 to 22 FTEs in FY 2017 on average per VPO/SI.

45
Decreasing from 43 FTEs in FY 2013 to 26 FTEs in FY 2015 on average per VPO/SI.

46
In the subsample of respondents to the EVPA Survey in 2016 and 2018, the average number of pro-bono contributors decreased further, going from 15 FTEs in FY 2015 to 3 in FY 2017.

In this edition of the survey we started collecting information about interns, and we discovered that VPO/SIs only have one full time intern on average, thus showing a **commitment to offer not just internship opportunities but entry-level positions to individuals from next generations,** who are showing an increasing interest in the VP/SI space.

PART 3. HOW DO EUROPEAN VP/SI ORGANISATIONS IMPLEMENT THEIR IMPACT STRATEGY?

Fondazione CRT © Ph. Bruno Gallizzi

PART 3.
HOW DO EUROPEAN VP/SI ORGANISATIONS IMPLEMENT THEIR IMPACT STRATEGY?

VP/SI organisations set out their impact strategies **by articulating a clear investment strategy,** which is then implemented through the investment process. While defining their own investment strategy, VPO/SIs take a series of decisions to clearly determine their **investment focus.** These decisions include geographies and final beneficiaries targeted, sectors of interest and characteristics of the investees to support.

Once the focus is defined, VPO/SIs should manage their investments at each phase of the **investment process.** Before the investment, VPO/SIs should manage their pipeline of investment opportunities, searching for new SPOs, screening out some of them and conducting due-diligence on the most promising ones. In the pre-investment phase, VPO/SIs normally assess the opportunity to engage with some co-investors. VPO/SIs should also evaluate all the exit possibilities and start planning their exit in advance[47], in order to minimise the potential loss of social impact at the end of the relationship with the investee.

3.a VP/SI ORGANISATIONS' INVESTMENT FOCUS

KEY FINDINGS

- **Western Europe** is confirmed as the main target region of VP/SI organisations, followed by **Africa** and **Asia.** The **growth** registered in **Central Eastern Europe** (CEE) is an interesting result, which is likely to reflect the increased number of organisations coming from this region and investing locally.
- **Economic and social development** and **financial inclusion** are the two top sectors that attracted together more than half of the total investment reported for FY 2017 (56%). **People suffering from poverty** and **children and youth** are the most targeted category of beneficiaries.
- **VPO/SIs are increasingly becoming sector agnostic**, looking for opportunities to invest in innovative ventures regardless of the sector in which these SPOs are active. As a consequence, the large majority of VPO/SIs reported to support **multiple sectors and beneficiaries groups**.
- European VPO/SIs are increasingly focussing more on **self- and/or financially sustainable investees,** e.g. allocating more resources to social enterprises.
- SPOs at **incubation and start-up stage** (0-2 years) are largely supported by **grants** (60.5% and 41% respectively), while more mature SPOs are funded through other financial instruments.

47
As explained in EVPA report: **Boiardi, P.** and **Hehenberger, L.** (2014). *"A Practical Guide to Planning and Executing an Impactful Exit"*. EVPA

GEOGRAPHIES TARGETED

The survey asked organisations to divide the amount invested among seven macro-regions of the world: Western Europe, Central Eastern Europe, Africa, Asia, Australia and Oceania, North America and Latin America.

The first interesting result is the small percentage of resources allocated *without* any specific geographic criteria, which represented only 3% of the total amount invested in FY 2017. This result shows VPO/SIs prefer to focus on specific markets, instead of multiple markets, pointing to a geographical specialisation.

Western Europe remains the main target region of VP/SI organisations, receiving 54% of the total resources invested, although registering a decrease of 13 percentage points with respect to FY 2015. Cross-border investment within Western Europe remains constant, still representing 3% of the total investment made by VPO/SIs. The *relative* decrease of the amount invested in Western Europe[48] led to an increase of funding going to other regions of the world. Asia registered the largest increase: from 6% in FY 2015 to 14% in FY 2017, becoming the third targeted region. Africa remained the second target region, receiving 16% of the funding (plus two percentage points compared to FY 2015).

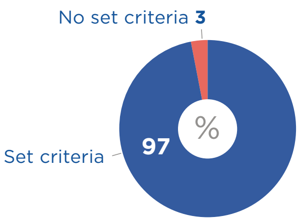
Another area that registered an increase in the allocation of resources compared to the past is Central Eastern Europe, which reached 7% of the total capital disbursed in FY 2017 (plus five percentage points compared to FY 2015). The rise in the investment directed to CEE[49] is an interesting result, reflecting an increase in the total number of respondents coming from the CEE region and investing locally, as explained in the Introduction. This result shows that the **VP/SI market is growing in Central Eastern Europe.**

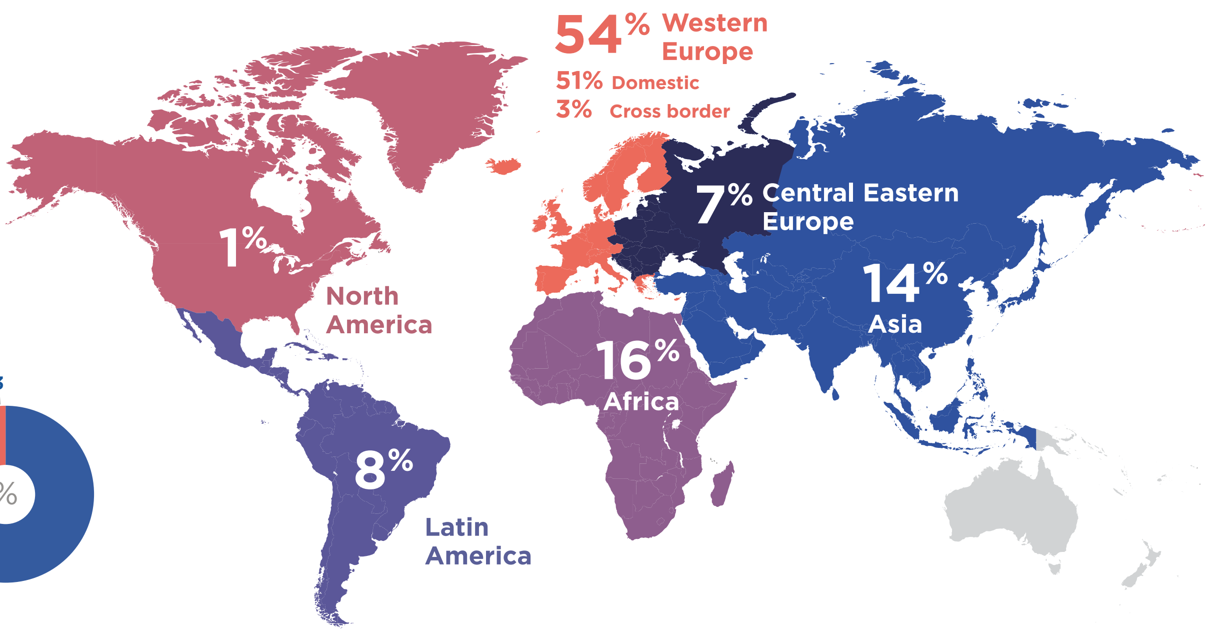
48
In absolute terms, the amount of investment deployed in Western Europe registered a 12% increase, i.e. from €360 million in FY 2015 to €403 million in FY 2017.

49
This trend is not confirmed by the subsample of the organisations that replied to both surveys in 2016 and in 2018.

Figure 38: Geographic focus of VPO/SIs by € spend

n total=98
n set criteria=96





SOCIAL SECTOR FOCUS

Respondents were asked in which social sector(s) they invested in FY 2017, based on a social sector classification that follows the International Classification of Non-profit Organisations (ICNPO)[50], first introduced by Salamon and Anheier in 1992, and then revised by United Nations in 2006. The classification system has become a standard in research on the non-profit sector, and it is as follows:

The International Classification of Non-profit Organisations
1. Culture and recreation
2. Education and research
3. Health
4. Social services
5. Environment
6. Development and housing
7. Law, advocacy and politics
8. Philanthropic intermediaries and voluntarism promotion
9. International
10. Religion
11. Business and professional associations, unions
12. Not elsewhere classified

The VPO/SIs surveyed had to distribute the investments they made in FY 2017 across one or more social sectors out of the list above, or to specify other social sectors if not included in the list. Respondents could also report not having any sector focus and, this year, about 17% of the resources were allocated without following any specific social sector criteria, a two percentage point decrease with respect to FY 2015.

Looking at the allocation of financial resources across different sectors, the two top ones, i.e. **economic and social development and financial inclusion**, have **registered a significant increase** – for the second time in a row – representing 29% and 27% of the total capital invested in FY 2017 respectively. Together these two sectors attracted more than half of the total investment reported for FY 2017 by the respondents of the survey (56%). Almost all other target sectors registered a decrease with respect to FY 2015[51]. Education (12%) still represents the third recipient sector, followed by health, environment, social services and culture and recreation (all attracting 6% of the total capital deployed in FY 2017).

Another interesting trend observed is the increase of the average number of sectors targeted per VPO/SIs, which turned from 2.64 in FY 2015 to 3.43 in FY 2017. This result shows that VPO/SIs are increasingly becoming sector agnostic, looking for opportunities to invest in innovative ventures regardless of the sector in which these SPOs are active[52].

50
United Nations, (2003), *"Handbook of National Accounting: Handbook on Non-Profit Institutions in the System of National Accounts"* (A1 – page 93-97 – revised 2006)

51
With the only exceptions of: social services (four percentage point increase compared to FY 2015); research (two percentage point increase); philanthropic intermediaries and voluntarism promotion (one percentage point increase). Apart from the decrease of culture and recreation, all the trends mentioned above have been observed in the subsample of respondents to the EVPA Survey 2016 and 2018.

52
Gianoncelli, A. and **Boiardi, P.,** (2018), *"Impact Strategies – How Investors Drive Social Impact"*, EVPA.

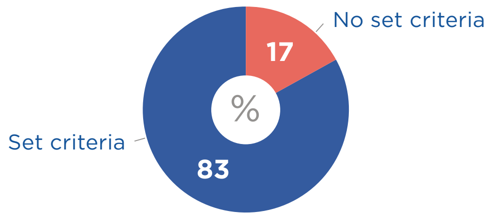
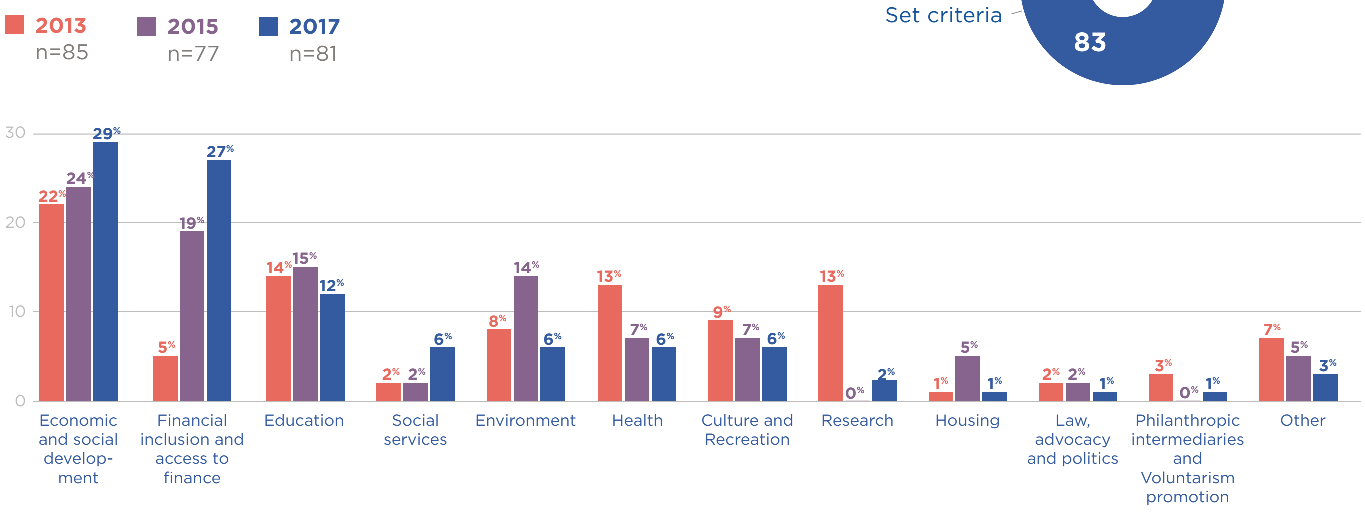


Figure 39: Target sectors of VPO/SIs by € spend in FYs 2013, 2015, 2017 [53]



FINAL BENEFICIARIES TARGETED

The survey also investigated whether VPO/SIs target any particular type of final beneficiary of their investees. Since the same VPO/SI may invest in SPOs with different final beneficiaries, and since a single SPO may target more than one of the listed categories, the respondents could provide multiple answers.

Since not all VPO/SIs target one specific group of beneficiaries, the questionnaire included a "no set criteria" option, which was selected by almost a third of the survey sample. Additionally, all the categories of beneficiaries registered an increase in percentages, showing that VPO/SIs focus on a wide range of beneficiaries and do not base investment decisions on the final group targeted by the SPOs supported.

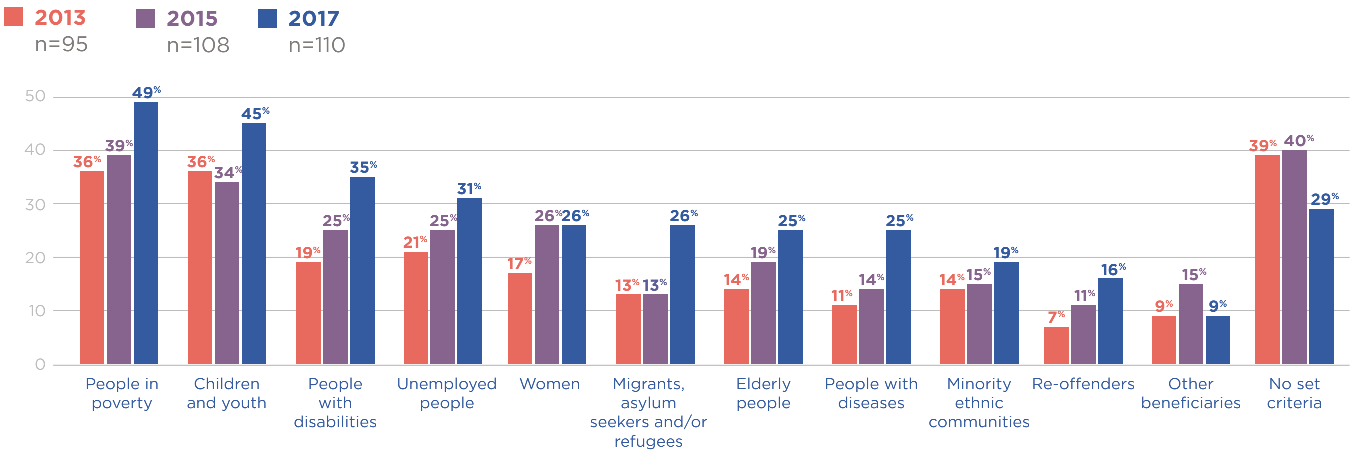
People suffering from poverty represents the most reported category of final beneficiaries (49%), followed by **children and youth** (45%). People with disabilities (35%) became the third most targeted group, followed by unemployed people (31%), women and migrants (26% each), and elderly and sick people (25% each).

The categories of beneficiaries that registered the highest growth compared to FY 2015 are migrants (a 13 percentage point increase) and people with diseases (a ten percentage point increase).

53
Compared to ICNPO, we split education and research (category 2) and development and housing (category 6) to have a more detailed picture. On top of that, we included an additional category: financial inclusion. The final list of sectors is consistent with the past editions of the survey.

Figure 40: Final beneficiaries of SPOs in FYs 2013, 2015, 2017

multiple choice



TYPE OF INVESTEES

European VPO/SIs resources are well distributed across the spectrum of SPOs' organisational types. In FY 2017, a comparable share of the total amount invested went to three types of organisations: *non-profit organisations generating some revenues* (27%), *for-profit entities with a pure social mission* (26%), and *profit-maximising with social impact organisations* (25%).

The resources attracted by these three categories increased compared to FY 2015. The share of resources allocated to organisations under the categories *non-profit organisations generating some revenues* and *for-profit entities with a pure social mission* increased of six percentage points each, whereas the resources directed to *profit-maximising with social impact organisations* increased of eight percentage points[54].

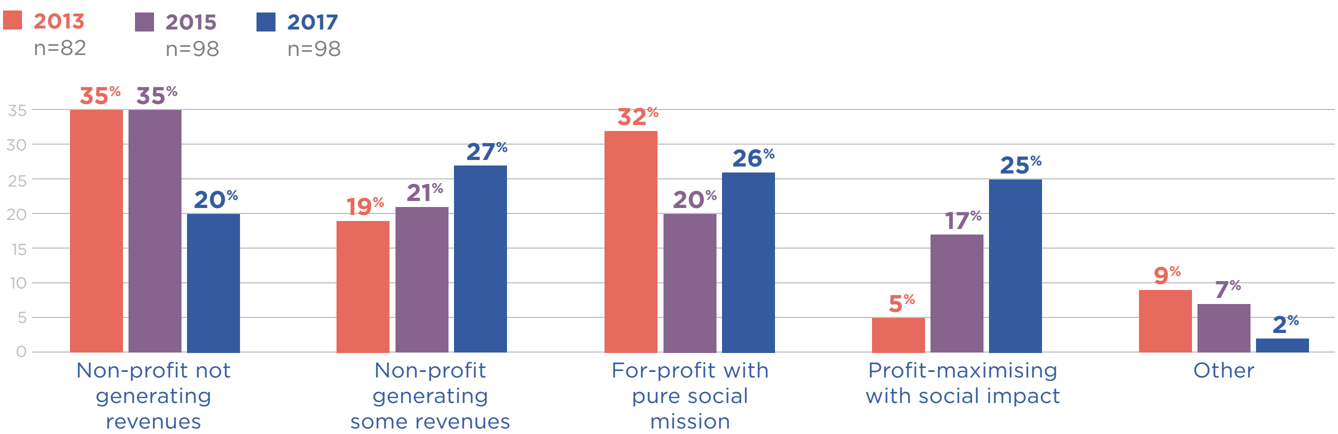
The increase of funding directed to all the categories of SPOs mentioned above led to a sharp decrease in the funding allocated to *non-profit organisations without trading revenues*. Twenty percent of the total capital allocated in FY 2017 went to this type of SPO (-15 percentage points compared to FY 2015[55]), making it become the least attractive category in terms of financial resources received, from being the top one in the two previous surveys.

This trend shows that **European VPO/SIs partially shifted their investment focus towards more self- and/or financially sustainable investees,** focussing especially on for-profit entities with a pure social mission, e.g. social enterprises.

54
While the increase in the share of *profit-maximising with social impact organisations* and *non-profit organisations generating some revenues* have not been observed in the subsample of respondents to the last two surveys, the amount of resources attracted by *for-profit entities with a pure social mission* doubled within the subsample.

55
This decrease has been observed also in the subsample of respondents to the EVPA Survey in 2016 and 2018.

Figure 41: Type of investees by VP/SI € spend in FYs 2013, 2015, 2017



Looking at the relation between financial instruments used by VP/SI organisations and the type of investees supported provides a more accurate picture of the space. Combing these two elements of the investment strategy (i.e. FIs and type of SPO) shows evidence of how tailor financing is applied by VPO/SIs using a wide range of FIs to better match the needs of their investees.

The findings of this analysis are in line with the insights of the EVPA report *"Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance"*[56].

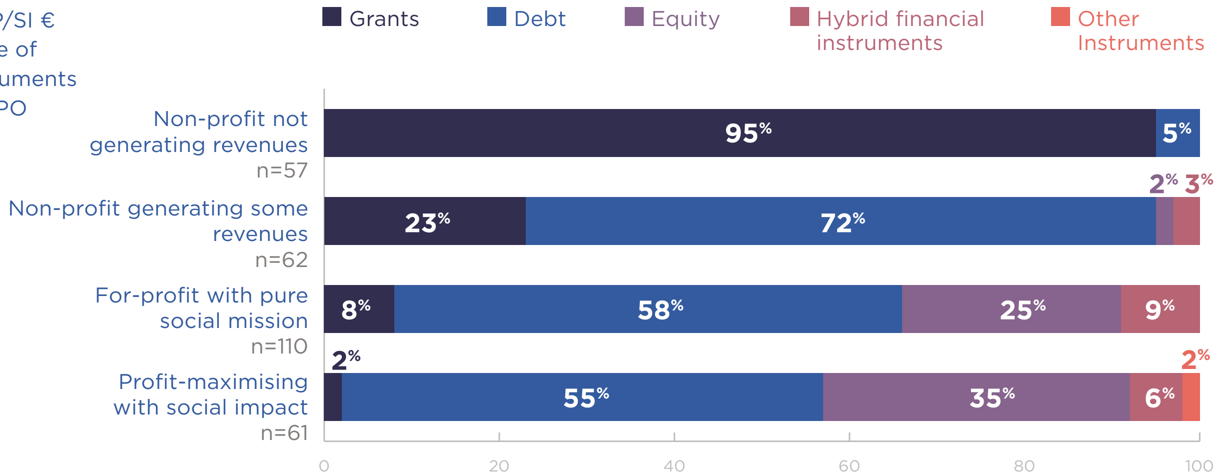
Non-profit organisations without trading revenues almost entirely depend on grants (95%), whereas *non-profits organisations generating some revenues* mainly rely on loans and other forms of debt (72%), and partially on resources coming from grant-makers (23%).

Moving towards for-profit entities, there is a decrease in the proportion of capital deployed in the form of grant. *For-profit entities with a pure social mission* and *profit-maximising with social impact organisations* are mainly financed by debt instruments (respectively 58% and 55%), attracting also other forms of capital such as equity (respectively 25% and 35%) and hybrid instruments (respectively 9% and 6%).

56
Gianoncelli, A. and **Boiardi, P.,** (2017), *"Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance"*, EVPA.

Figure 42: VP/SI € spend by type of financial instruments per type of SPO

n total=98



INVESTEES' MATURITY AT TIME OF INVESTMENT

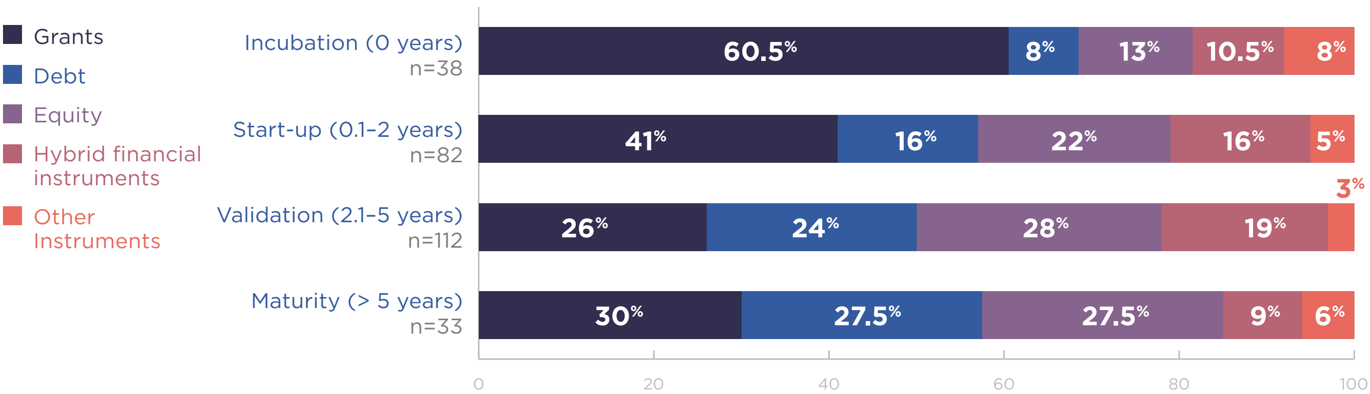
The survey asked VPO/SIs to indicate which stage of the development of SPOs they support with each of the FIs they deploy, including the possibility of not having a specific target in terms of SPOs' maturity[57]. Organisations at incubation stage (0 years) and in start-up phase (0.1-2 years) are largely supported by grants (60.5% and 41% respectively), while more mature SPOs are funded through other financial instruments.

The relative importance of debt and equity instruments increases with the maturity of the SPO. This rise reflects the tendency of VPO/SIs using these instruments to target primarily organisations with a proven track record and/or already self-/financially sustainable, in other words, organisations that generate financial returns to meet investors' expectations. Grants are also used to finance mature SPOs, probably supporting them in their scaling phase. In particular, when SPOs scale, they need seed capital (which can come in the form of grants) to enter new markets, or to deepen their impact.

Looking at the stages of development without considering their breakdown into different financial instruments, we see that SPOs at validation phase are the most targeted category of investees by VPO/SIs (n=112 out of 151 "investment arms" with set criteria), and they equally attract the different types of FIs.

Figure 43: Mix of financial instruments used by VP/SI organisations per investee's stage of development targeted

n total=108, multiple choice



57
For each investee's stage of development, we looked at the mix of "investment arms" that reported to seek new investees at that specific maturity stage. Note that this question was multiple choice, thus a single "investment arm" could have reported more than one stage of development.

3.b VP/SI ORGANISATIONS' INVESTMENT PROCESS

KEY FINDINGS

- The majority of VPO/SIs support on average between **one and ten investees per year.**
- **VPO/SIs have improved their pipeline management** compared to the past: they screen and conduct due-diligence on fewer investees on average, but have an increasing number of new investments.
- For VP/SI organisations, traditional foundations are the preferred actor to co-invest with (60%), and finance-first investors increased their relevance as co-investors (19%, + six percentage point compared to the past). **The VP/SI market continues to attract traditional foundations** on the one hand, and **new forms of finance-first capital** on the other.
- **SPOs supported through grants were the most exited** (62%), also because grants are the FIs with the shortest average duration. Only 2% of the investments exited were supported through equity, confirmed as the most patient form of capital.
- Almost two thirds of VPO/SIs that exited an equity investment underperformed, and only one third overperformed, highlighting the **greater risk that VPO/SIs using equity are willing to take** while investing.

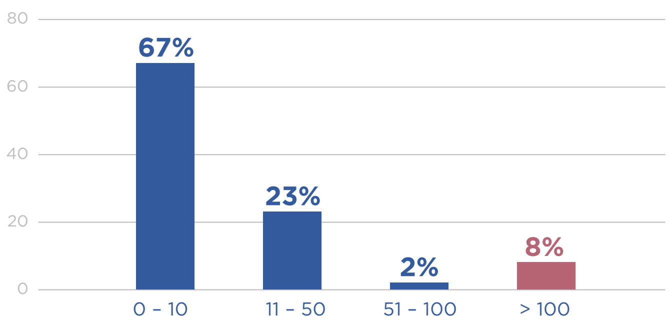
NUMBER OF INVESTEES

Two thirds of VPO/SIs support on average between one and ten investees per year (67%), whereas 23% of them support between eleven and fifty SPOs each year.

A small percentage is then represented by organisations which annually support more than 100 SPOs on average (8% of the survey sample). Including these respondents, for FY 2017 there was a **total of 11,951[58] SPOs supported,** considering both new investees and ongoing investments. Since VPO/SIs supporting more than 100 new investees per year can be considered as outliers, we decided to exclude them from the following analyses.

Figure 44: VPO/SIs portfolio of new investees

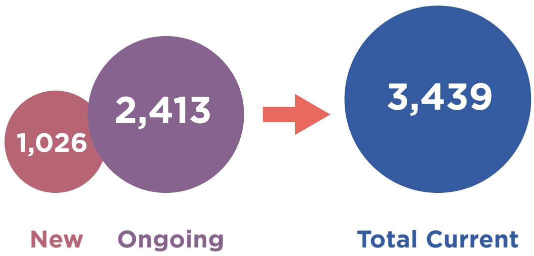
n=103



58
This total number includes both organisations and individuals.

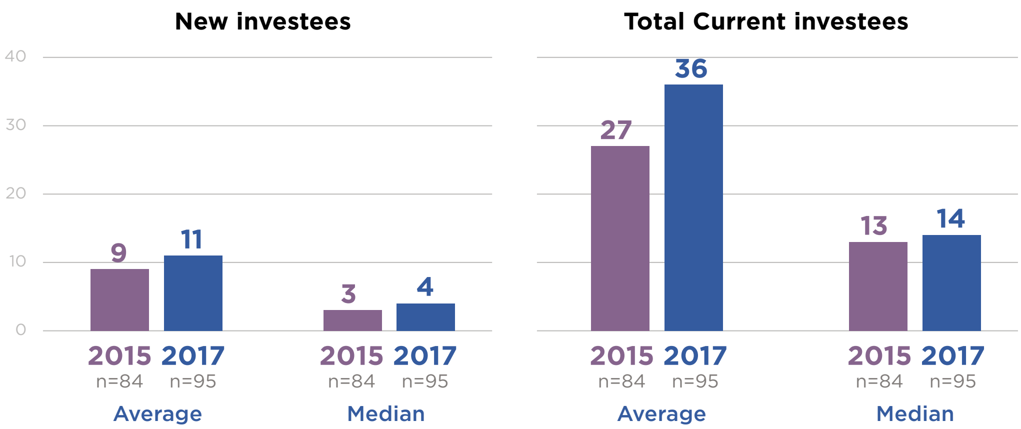
Focussing on the remaining 95 organisations, it can be seen that they financed 1,026 new SPOs, which were added to the 2,413 SPOs already in their portfolios (i.e. ongoing investments), summing up to a **total of 3,439 SPOs** supported in FY 2017.

Figure 45: Number of investees supported by VPO/SIs (new + ongoing)
n=95



In fiscal year 2017, the average number of new investees added to VPO/SIs' portfolios was eleven and the median was four. The average number of total investees in portfolio[59] per VPO/SI was 36 (an average increase of nine investees per VPO/SI compared to FY 2015), and the median number was 14 (plus one investee compared to FY 2015). These results are similar to the ones observed in the previous survey and could derive from the economies of scale that can be generated by large foundations and big social investment funds (see Part 4 for more details). However, further research is needed to better understand this trend.

Figure 46: Average and median number of investees per VPO/SI in FYs 2015, 2017[60]



59
The total number of investees in portfolio has been calculated by adding the new investees to the ongoing investments.

60
The values relative to FY 2015 might not coincide with the one reported in the previous survey report since the data have been slightly revised to align it with the methods used in 2018, i.e. excluding organisations which reported more than 100 new investees in the last fiscal year.

INVESTMENT DECISION

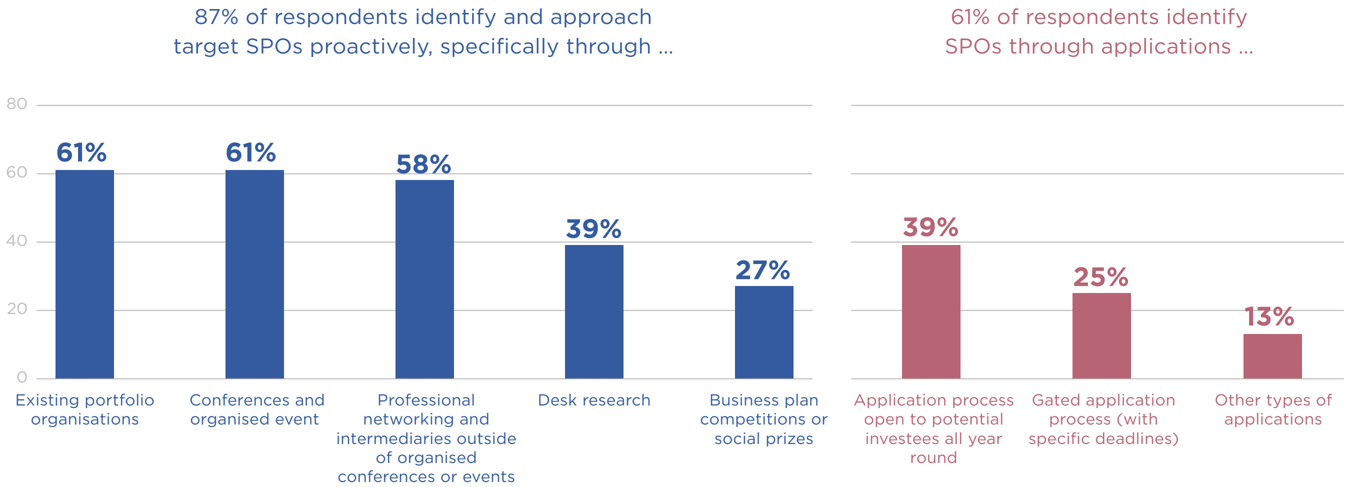
Analysing how **VPO/SIs searched for new investees,** the vast majority (87%) proactively looked for new investment opportunities, while 61% of respondents did it by launching calls for applications.

While proactively looking for new investment opportunities, VPO/SIs made contact with potential SPOs either through conferences and events (61%), or through professional networking and intermediaries (58%). Also getting in touch with potential investees through existing portfolio organisations (61%) represents an important channel used by the survey respondents.

Looking at application processes, 39% of the sample accepted open applications, while 25% reported using more sophisticated procedures that involved deadlines.

Figure 47: Investees identification activities

n=109, multiple choice



VPO/SIs that ended up supporting a **total of new 947 SPOs** in FY 2017[61] screened **7,202** potential investment opportunities. The average number of investments screened per VPO/SI in FY 2017 is 83, while the median is 30 (a decrease of seven and twelve investees respectively compared to FY 2015).

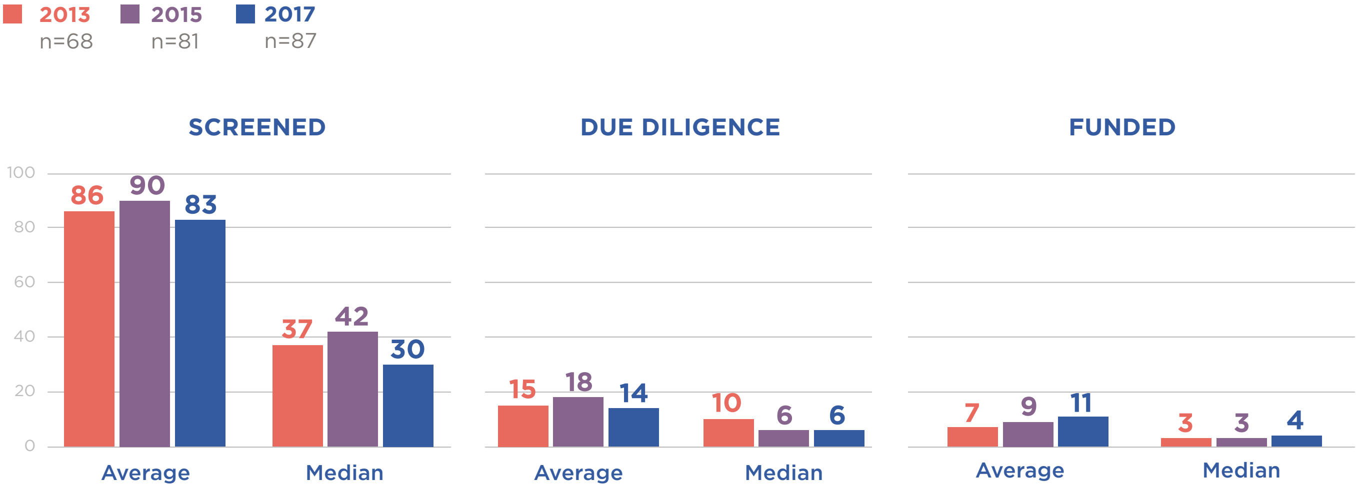
VP/SI organisations performed due diligence on 17% of the screened investment opportunities, which represents a three percentage point decrease compared to FY 2015 (20%). However, looking at the number of funded investees, the opposite trend can be observed: the share of organisations that were funded after passing due diligence was 79% in FY 2017, while in FY 2015 it was 50%[62].

These three results combined show that **VPO/SIs have improved their pipeline management**: screening and conducting due diligence on fewer investees on average but increasing the number of new investments.

61
This number does not coincide with the amount of new investments reported in the previous section (i.e. 1,026, n=95) since it refers only to respondents that reported data about screening and due diligence phase (n=87).

62
Interestingly, the average number of SPOs funded after going through the due diligence process has been constantly increasing by 2 units in each edition of the survey from FY 2013 to FY 2017.

Figure 48: Average and median number of SPOs screened, under due diligence and funded per VP/SI organisation in FYs 2013, 2015, 2017 [63]

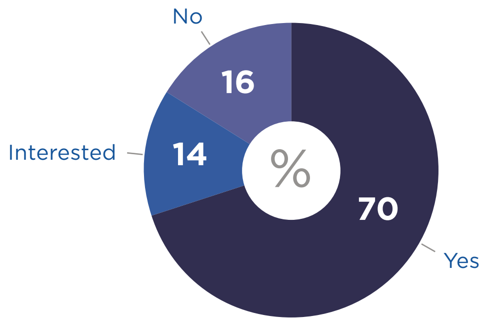


CO-INVESTMENT

Co-investment[64] is a key component of European VPO/SIs' investment strategy. About 70% of respondents had co-invested in the past and 14% said they were interested to do so, even if they had not co-invested yet. Only 16% of the respondents expressed no interest in co-investing.

Figure 49: Co-investment strategy of VPO/SIs

n=110



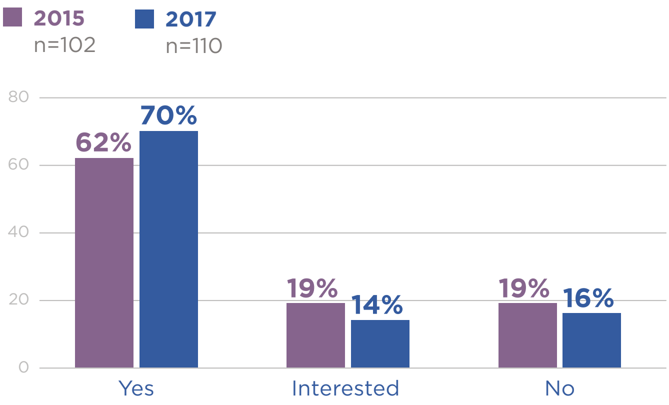
Comparing fiscal years 2015 and 2017, a rise of eight percentage points can be seen in the share of VPO/SIs that have already co-invested, whereas the percentage of VPO/SIs that do not co-invest and are not interested in doing so decreased by three percentage points. This result shows the importance of co-investment for VPO/SIs. Since this trend has also been observed in the subsample[65], it is clear that **VPO/SI that in the past expressed interest in co-investment ended up engaging in it.**

63
The numbers reported in this graph relative to FY 2013 and FY 2015 might not coincide with the ones reported in the previous survey reports since the data have been slightly revised to adjust for inconsistent trend reported in previous years.

64
A definition of co-investment is included in the EVPA VP/SI Glossary, available here: https://evpa.eu.com/about-us/what-is-venture-philanthropy

65
We refer to the subsample of respondents to the EVPA Survey in 2016 and 2018.

Figure 50: Co-investment strategy of VPO/SIs in FYs 2015, 2017



Considering the respondents that already co-invested (70% of the total sample), more than three quarters of them (77%) did it in the last fiscal year. Two thirds of them co-invested in more than half of their new investments, and 18 VPO/SIs had co-investors in all their new investments in FY 2017.

Regarding the types of co-investors, for the VPO/SIs that responded to the survey, **traditional foundations are the preferred actor to co-invest with** (60%). Another interesting co-investment trend[66] is the increased presence of finance-first impact investors (19%, a six percentage point increase compared to FY 2015). As described in the introduction, the ecosystem is changing and actors coming from the two extreme sides of the VP/SI spectrum (i.e. traditional grant-makers and finance-first investors) are becoming increasingly interested in VP/SI. Thus, the co-investment between VP/SI organisations and these two types of capital providers reflects the above-mentioned evolution of the VP/SI market.

Other venture philanthropy organisations and social investors are the second category of chosen co-investors, registering nonetheless a decrease compared to the past (from 69% in FY 2015 to 55% in FY 2017). Since this trend has not been observed in the subsample analysis[67], instead of being a sign of a decreased collaboration among VP/SI organisations, it may just reflect the specific characteristics of this year's sample. Public financing institutions as co-investors registered a surge of 19 percentage points with respect to FY 2015 (reaching an unprecedented 34%). This finding shows the **relevance of public-private collaboration within the VP/SI space,** as presented in the EVPA report *"Cross-Sector Collaboration for Better Social Outcomes"* written in collaboration with MAZE[68].

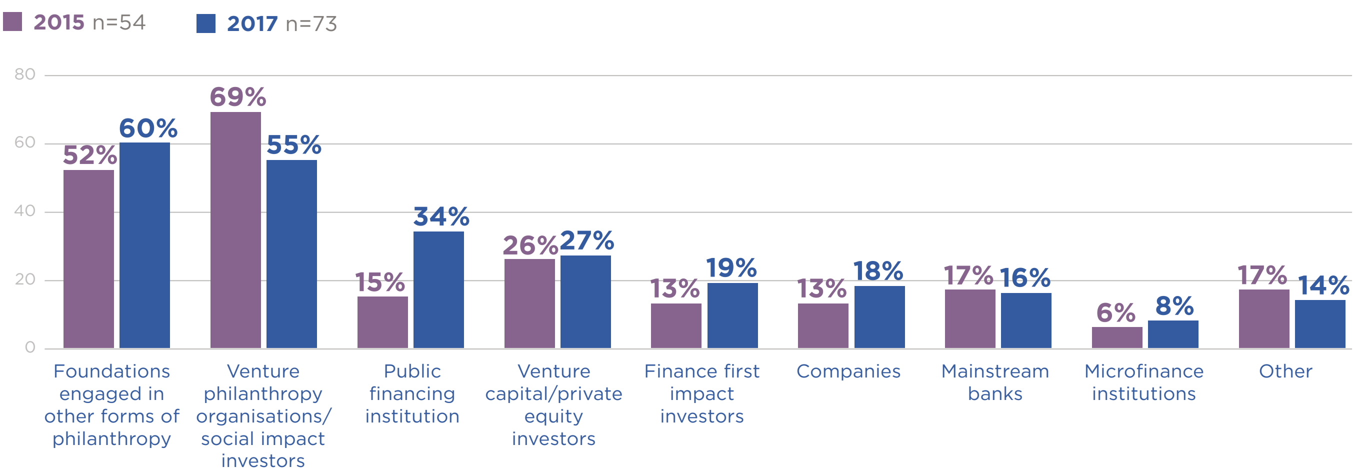
66
These trends have been also confirmed by the subsample of organisations that responded to the survey both in 2016 and 2018.

67
We refer to the subsample of respondents to the EVPA Survey in 2016 and 2018.

68
Barth B., Cruz Ferreira J., and **Miguel A.** (2018) *"Cross-sector Collaboration for Better Social Outcomes",* EVPA and MAZE.

Figure 51: Types of co-investors in FYs 2015, 2017

multuple choice



EXITS

In VP/SI, an **exit strategy** is the action plan to determine when the VPO/SI can no longer add value to the investee, and to end the relationship in such a way that the social impact is either maintained or amplified, or that the potential loss of social impact is minimised[69]. The "exit" is the end of the relationship between the VPO/SI and an investee organisation either after a pre-defined time, when the VPO/SI can no longer add value or when the investment objectives have been achieved.

This year, in line with the increased experience cumulated by European VPO/SIs, it has been registered the highest share of respondents that experienced at least one exit during their VP/SI activities since the first launch of the EVPA survey in 2010 (74%). This result confirms that VP/SI organisations have started to build a consistent track record.

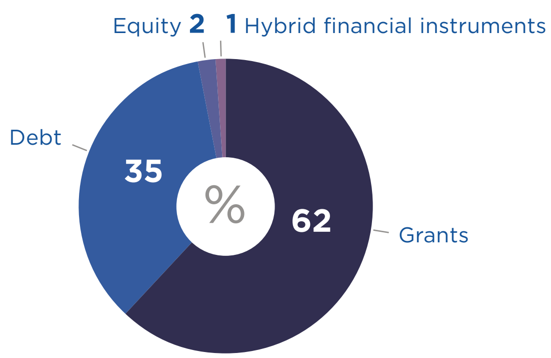
Out of the organisations with at least one investment exited, 60% did so in FY 2017, reporting a total of **990 exited investments.**

In FY 2017, the majority of investments exited were supported through grants (62%), followed by debt (35%). Investments deployed through equity and hybrid instruments represented together only 3% of the total investments exited.

These results partially reflect the different duration related to each category of financial instruments, as reported in Part 1b. Since grants are the FIs with the shortest average duration, it is not surprising to see a greater number of exits with this instrument, whereas equity is confirmed as the most patient form of capital.

Figure 52: Exited investments by type of financial instruments

n=46
representing 990 exits

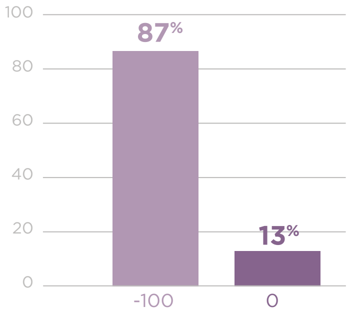


69
Boiardi, P. and **Hehenberger, L.** (2014). *"A Practical Guide to Planning and Executing an Impactful Exit"*, EVPA.

REALISED FINANCIAL RETURNS

Figure 53: Realised financial returns – Grants

n=23



The survey then asked the respondents what **average return they realised** if they exited one or more investments in FY 2017.

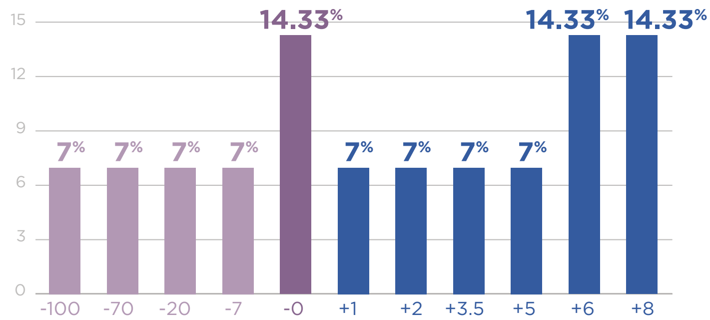
For the 40 respondents to this question[70], the returns realised were analysed for each financial instrument deployed.

A small share of VPO/SIs (13%) managed to recover their initial capital deployed through **grants,** while the remaining 87% realised a negative return of -100%, as expected.

About 30% of the respondents that exited **debt** investments realised a loss (between -100% and -7%), while 14.33% recovered the initial capital. Therefore, the remaining 57.67% of the sample managed to realise a positive financial return on investment (between +1% and +8%).

Figure 54: Realised financial returns – Debt

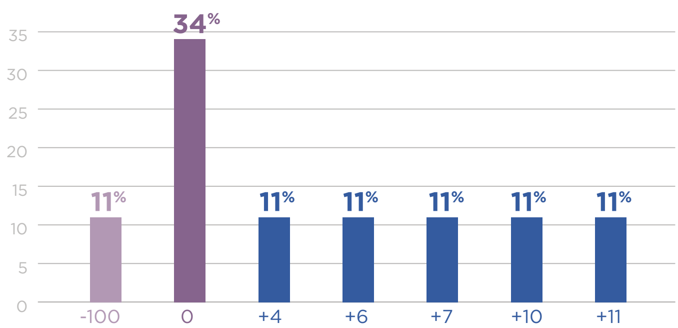
n=14



Exited **equity** investments registered a lower share of negative realised returns compared to debt investments (11%). However, the organisations that reported a negative return, lost their capital in full (-100%). A third of equity investments exited recovered the capital, and more than half (55%) reported positive realised returns that varies from 4% to 11%.

Figure 55: Realised financial returns – Equity

n=9

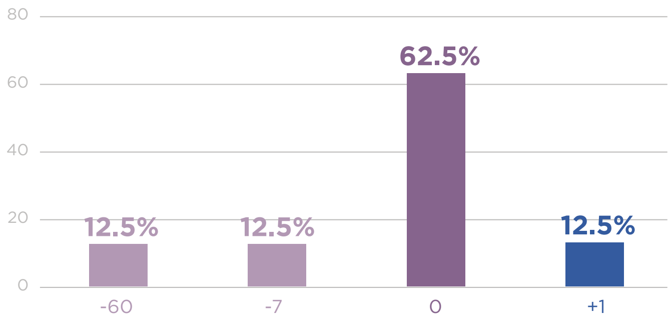


70
Number of respondents that reported information on realised return of investments deployed either through grant, debt, equity or hybrid instruments.

Exits relative to **hybrid financial investments** show a low level of variation, with a quarter of VPO/SI realising a negative return, almost two thirds (62.5%) earning back the capital and the remaining 12.5% gaining a small but positive return of 1%.

Figure 56: Realised financial returns – Hybrid financial instruments

n=8



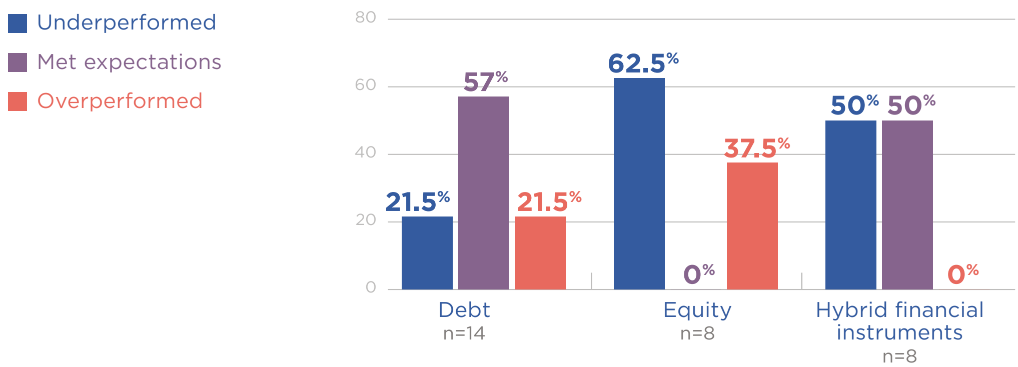
It is interesting to **compare the realised financial returns with the expected returns** presented in Part 1a[71].

Exited **debt** investments show a regular distribution: more than half of VPO/SIs (57%) *met their expectations* in terms of financial returns when using debt instruments, while the remaining 43% was equally split between *underperforming* and *overperforming* organisations. Exited **equity** investments show a different figure, with almost two thirds of *underperforming* and only one third of *overperforming* investments, highlighting the greater risk that VPO/SIs using equity are willing to take when investing.

VPO/SIs deploying **hybrid instruments** either realised a financial return lower than the one targeted (50%), or met their initial expectations (50%).

Figure 57: Expected vs. realised returns per financial instrument

n total=22



71
For this analysis, VPO/SIs that exited grant investments were removed since, as shown in Part 1a, the majority of them did not target any financial return (i.e, -100%). The results were then diveded into three categories: underperformed, met expectations and overperformed.

PART 4. SOCIAL INVESTMENT FUNDS

Kiusamisvaba Kool © Iris Kivisalu

PART 4.
SOCIAL INVESTMENT FUNDS

KEY FINDINGS

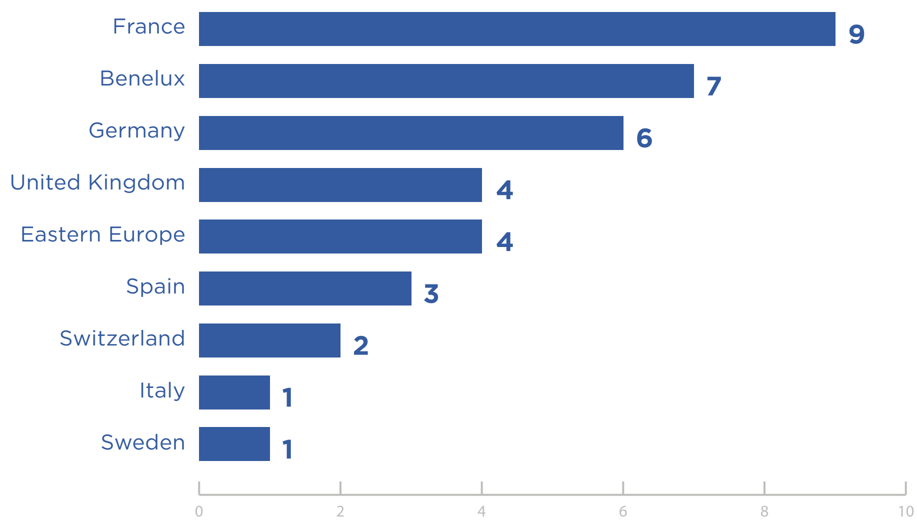
- **A fifth of the respondents manage at least one social investment fund** either *seeking a financial return alongside a social return* (54%) or generating *primarily social return but also accepting a financial return* (46%).
- The **social investment funds** active in the VP/SI space **are increasing in size,** reflecting their capability to attract more capital.
- Social investment funds generally charge **management fees** which are **slightly higher than those seen in the venture capital industry**: 3.08% on average versus between 2% – 2.50%[72].
- The **realised gross returns** of social investment funds **are normally lower than the expected ones,** registering in some cases also losses.

Social investment funds represent an important actor in the VP/SI space, making up 23% of respondents in the present survey, i.e. **25 VPO/SIs representing 37 funds.** As in the previous survey, some specific questions have been included for the organisations that reported managing at least one social investment fund[73].

The largest number of social investment funds is based in France, followed by Benelux and Germany.

Figure 58: Location of social investment funds

n=25
representing 37 funds



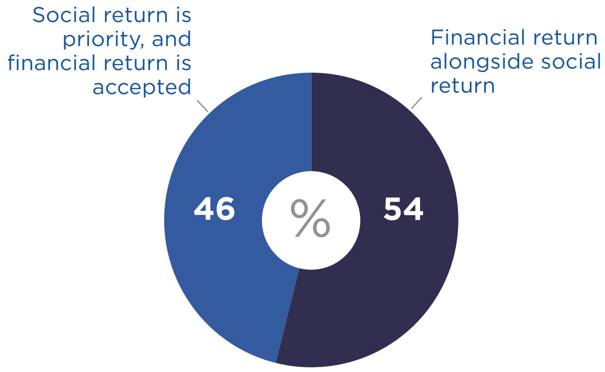
72
"For example, venture capital funds usually charge in the region of 2% to 2.5% as early-stage investing usually requires significant resources […]." See: **Invest Europe,** (2016) *"Guide to Private Equity and Venture Capital for Pension Funds"* (page 25).

73
We removed – as no representative for this specific analysis – those funds that were reported (i) as not accepting any financial return (i.e. group 1 as described in Part 1, page 31) and (ii) as targeting a negative financial return.

When asked about **investment priorities,** the respondents indicated that 54% of the funds they manage *seek a financial return alongside a social return*, while 46% of the total funds managed have *social return as a priority but also accept a financial return*.

Figure 59: Investment priorities of social investment funds

n=25
representing 37 funds

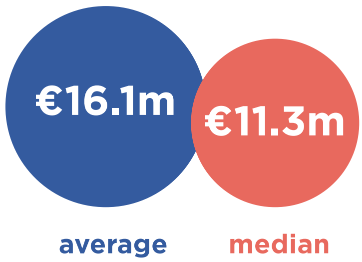


Our research into the size of these social investment funds yielded an **average size** of €16.1 million for FY 2017, which represent an increase of 18% compared to the average size reported in FY 2015 (€13.6m). The median in FY 2017 was €11.3 million, a 13% increase compared to FY 2015 (€10m).

This result suggests that the social investment funds active in the VP/SI space are increasing their size, reflecting their capability to attract more capital.

Figure 60: Average and median size of social investment funds

n=24
representing 36 funds



When it comes to social investment funds' **management fees,** there is some debate around whether they are/should be higher or lower (in percentage terms) than the equivalent funds in the venture capital or private equity industry. Some of the parameters to take into account in the discussion are, for example, that social investment funds are generally of a smaller size and the investees require significant attention from SI fund managers.

In FY 2017, VPO/SIs generally charged fees that were slightly higher than those seen in the venture capital industry[74]. Looking at the average and the median management fees charged in FY 2017 and FY 2015, they remained almost unvaried, being respectively 3.08%, and 3.00% (versus 3.05% and 3% respectively in the previous survey).

74
See for reference **Invest Europe,** (2016) *"Guide to Private Equity and Venture Capital for Pension Funds"* (page 25): "*For example, venture capital funds usually charge in the region of 2% to 2.5% as early-stage investing usually requires significant resources [...].*"

Figure 61: Average and median management fees (for those funds that charge fees)

n=14
representing 19 funds

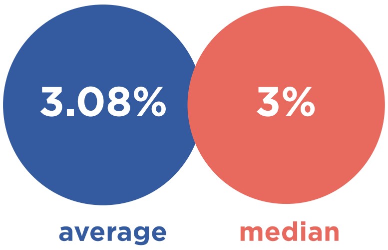


Figure 62: Expected gross financial return on social investment funds

n=23
representing 32 funds

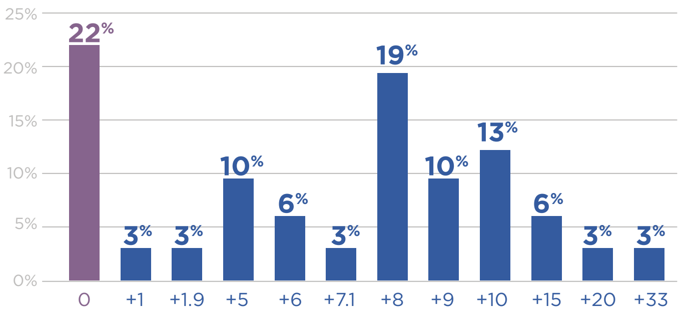
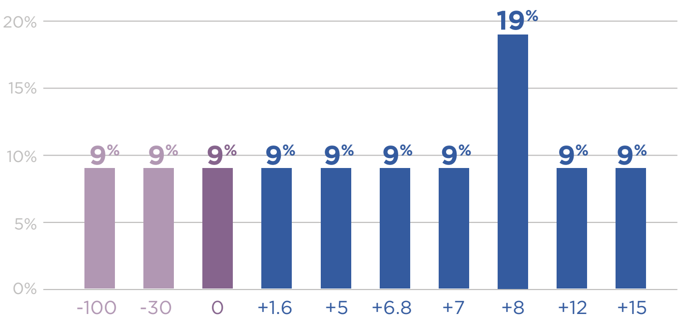


Figure 63: Realised gross financial return on social investment funds

n=9
representing 11 funds



75
By "expected gross annual return" we refer to what the fund aims to recover as an additional surplus to the amount invested. The target gross annual return should not take into account the expected costs of managing the investments.

When asked about the **expected gross return** on the social investment funds[75], VPO/SIs reported that they expected a positive financial return from 78% of their social investment funds. The range of positive returns varies, from a minimum of 1% to a maximum of 33%. A total of seven funds are expected to generate only capital repayment (22% of the sample, with a decrease of two percentage points compared to FY 2015).

The survey respondents could also indicate the **realised gross annual return** of the social investment funds they manage. Of the eleven funds represented by nine respondents to this question, 9% received full capital repayment, while 73% generated a positive financial return between 1.6% and 15%, registering a 19 percentage point increase compared to FY 2015, which is a positive result.

However, two organisations reported a loss on their social investment fund: one VPO/SI registering a loss of a third of the full amount invested (-30%), the other one indicating the loss of the entire capital (-100%).

Giving the small sample of those organisations reporting a realised return in FY 2017, far-reaching conclusions about these results cannot be drawn. However, these findings are in line with the trends observed within EVPA community.

CONCLUSION

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CONCLUSION

The 2018 EVPA Survey confirms many of the findings of the 2016 Survey and highlights some interesting new trends in the VP/SI sector in Europe. Additionally, for the first time, the survey presents more in-depth analyses of **how VP/SI practitioners use different financial instruments** (FIs) to better match the needs of support social purpose organisations. The aim of this new way of exploring data (i.e. by tailoring the questions to the different FIs deployed) helps us **unveil the diverse strategies that co-exist in the social impact ecosystem**.

Collecting data is extremely important to **identify the investment gaps** and to **stress the improvements needed** to tackle social issues in a more effective way. EVPA plays an important role in **identifying the challenges VP/SI practitioners face to** and in **supporting them becoming more effective**.

Thanks to its data collection activity started in 2010, over the last eight years EVPA has built **a panel database that includes a total of 198 VP/SI organisations**. This data place us in a unique position to conduct a wide range of analyses to **understand how the VP/SI sector evolved in the last decade**. We believe that our role in describing the practices adopted by VP/SI practitioners and the activities implemented in the VP/SI space is **even more essential nowadays**, in a changing landscape, with **new actors joining the space** and **social impact finance becoming mainstream**.

EVPA is committed to continue the research and promotion of best practice in the key components of the VP/SI model and reiterates the **importance of a collaborative approach** to developing the sector.

We would be delighted to hear from readers as to their views on what is driving the trends identified in this survey. Any comments or suggestions can be sent to knowledge.centre@evpa.eu.com.

ANNEXES

ANNEX 1 – SURVEY METHODOLOGY

The survey aims to capture the activity of **VP/SI organisations based in Europe,** although **their investment activity may take place in other continents.**

The survey targets **EVPA full members,** organisations whose primary activity is venture philanthropy/social investment, and **EVPA 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 **non-EVPA members** that fulfilled the criteria of being based in Europe and conducting VP/SI activities with one of the following investment priorities: targeting a *social return only*, prioritising a *social return but accepting a financial return* or *seeking financial return alongside the social one*.

The survey was elaborated by **EVPA Knowledge Centre.** The questions aim to gain an overview of the demographics of the VP/SI sector and cover the main practices of VP/SI organisations in order to gain insights into their daily activities. The questions cover the key characteristics of VP/SI.

Since the survey was first launched in 2011, **the questionnaire has evolved,** in line with the evolution of the industry. Many of the questions from the first survey were repeated, while others were modified based on feedback, some were eliminated and new questions were added. Therefore, it was possible to talk about changes from year to year in some cases, but not in others. However, when trends are reported, we always refer to the analysis conducted looking at the subsample, meaning comparing responses from those respondents who filled the survey both this year and in 2016.

In the present survey we introduced an important new feature, which allowed us to improve our understanding of the practices and strategies of European VP/SI organisations, looking at the **various financial instruments** they use. We split some questions per financial instruments used where we thought the answers may vary across different categories of financial instruments used. In particular, these questions are those on: the duration of commitment, the type of SPOs supported, the SPOs' stage of development, and both the expected and realised financial returns. This feature, for the first time, allowed us to clearly separate and analyse **the different "investment arms" within the same VPO/SI,** and investigate the different findings associated to different categories of financial instruments. This is why, for some analysis, **the total sample size exceeds 110 respondents,** since we take into consideration all the "investment arms" of the VPO/SIs included in the survey sample, which are 204 in total.

ANNEX 2 – RESPONDENTS STATISTICS

The survey was first sent in February 2018 and closed in July of the same year. Follow-up phone calls and emails were conducted between March and July in order to reach the final response rate of 60%. Of the 110 completed surveys, 63 respondents also completed the previous edition of the survey in 2016, twelve already completed it at least once in the past before 2016 and 35 were new respondents. A total of 20 respondents completed all the six surveys (in 2011, 2012, 2013, 2014, 2016 and 2018).

In the table below, the statistics of the last three surveys are presented:

Statistics on surveys collected	2018	2016	2014
EVPA members surveyed (full members and members with VP/SI activity)	154	119	89
EVPA members completed surveys	92	75	72
EVPA member response rate	60%	63%	81%
Total surveys sent (including non-EVPA members)	200	168	140
Total completed surveys	110	108	95
Total response rate	55%	64%	68%

There was a 19% increase in the total number of VPO/SIs reached out, which shows a better mapping of the VP/SI sector compared to the previous edition of the survey in 2016.

Also, the number of total respondents has slightly increased by 2%, however with a response rate slightly lower than the one in 2016.

We do not claim to have captured the entire VP/SI sector in Europe, but we believe the sample to be highly representative.

EVPA would like to express **its gratitude to the 110 organisations** that responded to the survey, investing time and effort in providing the data.

The survey itself was set up in the **Qualtrics® tool** so that the responses could be recorded directly online and collected by EVPA.

ANNEX 3 – LIST OF RESPONDENTS

4WINGS Foundation	*Belgium*
Adessium Foundation	*Netherlands*
AgDevCo	*United Kingdom*
AguiaLabs	*France*
AlphaOmega Foundation	*France*
Alter Equity	*France*
ANANDA VENTURES – Social Venture Fund	*Germany*
Argidius Foundation	*Switzerland*
Artha Initiative (associated with Rianta Philanthropy Ltd)	*Switzerland*
Ashoka Germany	*Germany*
Auridis gGmbH	*Germany*
Big Society Capital	*United Kingdom*
BMW Stiftung Herbert Quandt	*Germany*
BonVenture Management GmbH	*Germany*
Bridges Fund Management	*United Kingdom*
British Asian Trust	*United Kingdom*
C4D Partners	*Netherlands*
CAF Venturesome	*United Kingdom*
Calouste Gulbenkian Foundation	*Portugal*
Canopus Foundation	*Germany*
Centrica Innovations	*United Kingdom*
Cera	*Belgium*
Christian Aid	*United Kingdom*
Cordaid Investments Management B.V.	*Netherlands*
Creas	*Spain*
CRT Foundation	*Italy*
Delta Foundation	*Serbia*
Demeter Foundation	*France*
DOEN Participaties	*Netherlands*
Egmont Foundation	*Denmark*
Engie Rassembleurs d'Energies	*France*
Epiqus	*Finland*
Erste Group Bank AG	*Austria*
ERSTE Stiftung	*Austria*
Esmée Fairbairn Foundation	*United Kingdom*
Essl Foundation MGE gemeinnützige Privatstiftung	*Austria*
Ferd Social Entrepreneurs	*Norway*
Financing Agency for Social Entrepreneurship – FASE	*Germany*
Fondation de Luxembourg	*Luxembourg*
Fondation Fournier Majoie pour l'Innovation	*Belgium*
Fondazione Giovanni ed Annamaria Cottino	*Italy*
Fondazione Paideia	*Italy*
France Active	*France*
Fund 05 – Foundation for Social Investment	*Slovenia*
Genio	*Ireland*
GoldenDeer	*Germany*
Good Deed Foundation	*Estonia*
Grameen Crédit Agricole Microfinance Foundation	*Luxembourg*
Hivos Impact Investments	*Netherlands*
IKARE Ltd.	*United Kingdom*
Ikea Foundation	*Netherlands*
Impact Finance	*Switzerland*
Impetus – The Private Equity Foundation	*United Kingdom*
ING Netherlands Foundation	*Netherlands*
Inspiring Scotland	*United Kingdom*
Inuit Foundation	*Spain*
Investir & +	*France*
Investisseurs & Partenaires (I&P)	*France*
Jacobs Foundation	*Switzerland*
Jazi Foundation	*Netherlands*
Joseph Rowntree Foundation	*United Kingdom*
Kampani	*Belgium*
Karuna Foundation	*Netherlands*
King Baudouin Foundation	*Belgium*
Leksell Social Ventures	*Sweden*
LGT Venture Philanthropy Foundation	*Switzerland*
LITA.co Belgium	*Belgium*
Lloyds Bank Foundation for England & Wales	*United Kingdom*
L'Oreal Foundation	*France*
Media Development Investment Fund (MDIF)	*Czech Republic*
NESsT	*Hungary*
Nesta Investment Management (NIM)	*United Kingdom*
Noaber Foundation	*Netherlands*
Oltre Venture	*Italy*
Open Society Foundation	*United Kingdom*
Partnership for Change	*Norway*
Phineo AG	*Germany*
PhiTrust	*France*
Planetic Group	*France*
Polish youth and children foundation	*Poland*
Renault Mobiliz Invest	*France*
Robert Bosch Stiftung GmbH	*Germany*
Rybakov Foundation	*Russia*
School for Social Entrepreneurs	*United Kingdom*

SEFEA IMPACT	*Italy*
Ship2B Foundation	*Spain*
SI2 Fund	*Belgium*
Social Business Trust	*United Kingdom*
Social Entrepreneurs Ireland	*Ireland*
Social Innovation Fund Ireland	*Ireland*
Social Innovation Support Center SOL'	*Russia*
Splitska Banka	*Croatia*
Start Foundation	*Netherlands*
Stichting De Verre Bergen	*Netherlands*
Sumerian Foundation	*United Kingdom*
Swiss Re Foundation	*Switzerland*
Symbiotics SA	*Switzerland*
TD Veen	*Norway*
The ella fund	*Switzerland*
The Rank Foundation	*United Kingdom*
The Social Investment Business	*United Kingdom*
TISE SA	*Poland*
Trafigura Foundation	*Switzerland*
UnLtd	*United Kingdom*
Valores Foundation	*Poland*
Vitol Foundation	*United Kingdom*
Vivatus Social Investments	*Germany*
Welthungerhilfe	*Germany*
Workshop for Civic Initiatives Foundation	*Bulgaria*
Yunus Social Business	*Germany*

ANNEX 4 – SOURCES

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EUROPEAN
VENTURE
PHILANTHROPY
ASSOCIATION

Rue Royale 94
1000 Brussels, Belgium

Tel: +32 (0) 2 513 21 31
Email: info@evpa.eu.com

THE EUROPEAN VENTURE PHILANTHROPY ASSOCIATION (EVPA)

Established in 2004, EVPA works to enable venture philanthropists and social investors to maximise societal impact through increased resources, collaboration and expertise.

EVPA's membership covers the full range of venture philanthropy and social investment activities and includes venture philanthropy funds, social investors, grant-making foundations, impact investing funds, private equity firms and professional service firms, philanthropy advisors, banks and business schools. EVPA members work together across sectors in order to promote and shape the future of venture philanthropy and social investment in Europe and beyond.

EVPA is committed to support its members in their work by providing networking opportunities and facilitating learning. Furthermore, we aim to strengthen our role as a thought leader in order to build a deeper understanding of the sector, promote the appropriate use of venture philanthropy and social investment and inspire guidelines and regulations.

http://www.evpa.eu.com

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