



CREATING A VENTURE PHILANTHROPY OPERATION THE IMPETUS EXPERIENCE

The following paper describes Stephen Dawson's experience in establishing the first UK venture philanthropy fund, Impetus Trust and will perhaps be of interest to those who are considering a similar project themselves.

Personal motivation

After over 25 years in the venture capital (VC) industry, the last 18 at ECI, I was contemplating retirement but keen to continue working in some area where my skills and experience would be useful. The VC industry has been a great place to work; enjoyable, satisfying, working with some excellent people – and with the chance to make substantial capital if you are successful (and lucky).

Despite the efforts and generosity of individuals, the UK VC industry has not yet made a significant collective impact on the charity sector. This is in contrast to most other branches of the financial sector and the growing corporate social responsibility movement among major companies. So, partly because of this and partly because I felt my skills and experience could bring something new, I decided to look for opportunities in the charity world.

The need

Two sets of inputs led me to define the requirement for what I now understand is a venture philanthropy (VP) approach.

➤ **The donor viewpoint.** At this stage I had given relatively modest amounts to charity, generally through two routes: donating to the big brand name charities, often triggered by a specific crisis or issue; and responding to friends and colleagues who asked for sponsorship running a marathon etc. Neither of these experiences was particularly satisfying: I had no idea how well the money was being spent; I was not adding any value to the money; and these were generally large organisations where I felt my money would not make any difference anyway.

So the donor need I identified was: how do I find charities to support and a way of supporting them where my money will make the biggest difference?

➤ **The charity viewpoint.** I started surfing the web, reading articles and talking to people in the charity world and discovered that charities, particularly smaller ones where I instinctively felt I could help most, faced a number of major challenges:

- Lack of long-term committed funding, particularly necessary if you wish to invest in a major development;

- Difficulty raising money for their infrastructure: most people (like me at that stage) say “I want to fund the front line programmes not your overheads” – but of course you need the infrastructure first before you can expend the individual programmes;
- Absence of support for the chief executive: there is no equivalent of the hands-on VC investor; boards tend to meet infrequently and often see their role in terms of governance or fundraising or big picture strategy, rather than supporting management.

So the charity needs were: supply of long-term funding; finance to build the capacity and infrastructure of the organisation; and the provision of hands-on support. This combination appeared particularly important when charities were about to embark on a major change – most obviously rapid growth, but also potentially in turnaround situations or where charities are looking at mergers.

The solution

Having defined the need I did some more research and talked to some more people and discovered VP, which was a close match for what I was seeking. Even better, there were strong links with the VC industry and recognition that VC skills and experience could play a valuable role. VP was already well established in the US and there was plenty of material on websites to show that it seemed to work and to point out some of the pitfalls. There was a good deal of talk about VP in the UK but not much happening and nothing that followed the model I had in mind.

At about this point Doug Miller set up the first meeting of what was to become the European Venture Philanthropy Association (EVPA). We all had similar backgrounds, had come to similar conclusions about what was needed and had discovered a similar lack of VP in our respective countries. This was useful reinforcement that I was on the right lines.

I therefore decided to set up Impetus Trust (Impetus).

What is Impetus?

Impetus is believed to be the UK’s first general VP charitable fund. The key features will be recognisable from the above introduction. Impetus offers donors the means to make the biggest difference with their money by enabling charities to achieve a *step change* in their performance. Impetus helps to fill an important gap in funding by focussing entirely on long term, hands on financing of charities’ infrastructure across a wide range of charity sectors. The need for a step change will arise in three main situations: rapid growth, turnaround and merger. As well as the impetus to charities, it is intended to provide an impetus to new donors and to new people joining the sector from the business world.

Impetus plans to donate to a wide range of charity sectors but will concentrate on people rather than animals or arts and heritage and will not support research, advocacy or religious charities. One of the problems in the charity world is that certain sectors appeal strongly to people’s emotions (e.g. animal welfare) whereas others, that may be

tackling more fundamental social problems, really struggle to attract attention. Impetus will seek out these areas which are unfashionable or where the need for its management resources is greatest. Impetus will focus initially on medium size charities with income between £250,000 and £10 million and will normally donate £25-200,000 a year over a three to five year period. Medium size charities represent 10% of charities by number and 55% by value.

Development to date

After considerable planning and some false starts, I decided to establish Impetus around mid 2002 and set about registering as a charity. Around that time I also met a small group of like-minded people (mainly with venture capital and other business backgrounds) who were prepared to act as the initial donors and trustees, alongside myself (see the Impetus Team below). We held our first Trustee Board meeting in October 2002 and the charity was formally registered around that time.

The main immediate priority was fundraising. We had an excellent base from the trustees and decided to target two sources: grant making trusts/foundations and individuals from the VC industry. Trusts and foundations were important for several reasons: they were potentially a great source of knowledge and introductions (particularly to suitable charities); they might be interested in coinvesting with us; and they were in principle prepared to fund our infrastructure, making an easier initial selling proposition for individual donors. We were successful in raising approximately £0.3m (enough to cover our infrastructure for the first couple of years) from this source. We were also successful with individual investors and have now raised a total of approximately £1.8m from senior executives in four venture capital firms (Alchemy, Apax, ECI and Phoenix) as well as the original trustee group.

We had made considerable progress towards this level, and achieved our minimum funding target, by March 2003 and therefore decided we could justify recruiting a full-time, paid chief executive (all the above had been accomplished by unpaid trustees with minimal external cost). Judith Brodie joined us as chief executive at the end of July 2003; she has experience at senior management level in both charities and local government. Since joining she has led the development of our internal processes as well as managing all the tasks required to make the organisation fully operational (finding premises, finalising the website, setting up IT systems etc).

We have also reviewed about 125 charities of which we have met about 20%. We have a two stage investment committee process and the first two charities have passed the first stage, with a number of others following behind. The first investment is expected to be completed in the next few months.

Future plans

The Phase 1 objective is to prove that the Impetus approach works in practice, by building a successful track record with about 10 charities. This should be demonstrable within 2-3 years, at which point substantially larger funds will be raised, requiring a much higher profile and fundraising effort. To complete Phase 1 requires approximately £2m more to be raised and a further fundraising round is planned when the first investments are completed.

Critical issues for others considering establishing a VP operation

- Do you have a strong enough network to raise sufficient start-up funding (for both your overhead costs and for a charity “fund”) , bearing in mind that this will largely be an “act of faith” before you have a track record? Are there grantmaking trusts or foundations which would support you?
- What is the need in your country? How is this affected by Government provision of services? What is the structure of the charity sector in your country?
- Can you attract a high calibre team for your Board and management, ideally combining business and voluntary sector experience?
- How will you add value to your investees – can you find volunteers (through companies or as individuals) to help?
- What legal structure works best, ideally providing tax relief for your donors and limited liability for your Board?
- What types of charities would be the focus of your efforts? (E.g. size, sector, stage of development, local, national or international).

Stephen Dawson
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ANNEXE – THE IMPETUS TEAM

Stephen Dawson: Chair and initiator of Impetus. One of the first venture capitalists in the UK; last 18 years at ECI, latterly as managing director.

Nat Sloane: Trustee and vice chair. Entrepreneur, venture capitalist and management consultant.

Judith Brodie: Chief Executive. Career in senior management in local government and charity sectors, mainly in health and social care.

Chris Mathias: Trustee. Entrepreneur with a successful history of both turnarounds and start ups.

Julia Middleton: Trustee. Founder and chief executive of Common Purpose, a UK charity devoted to training and developing engaged citizens and social entrepreneurs.

Doug Miller: Trustee. Entrepreneur with a business career over 30 years in both US and UK, most recently assisting venture capitalists with fundraising.

Michael Webber: Trustee. Former charity commissioner. Former chairman and chief executive of substantial quoted household appliance business.

David Carrington: Adviser. 25 years’ senior management experience in charities including 13 as chief executive of grantmaking organisations.

If you want to know more about venture philanthropy, please contact Stephen Dawson at stephen@impetus.org.uk or Doug Miller at info@evpa.eu.com