

# Venture Philanthropy takes off in Europe

BY ROB JOHN

While venture philanthropy may trace its roots back to the US, it is rapidly gaining ground throughout Europe, with new funds emerging from Ireland to Ukraine, Norway to Italy. European venture philanthropy is highly networked and collaborative, with strong links to the private equity community.

Although the term was probably first coined in 1969 by the American philanthropist John D Rockefeller III, venture philanthropy (VP) exploded in the US during the 1990s to ignite a debate on new forms of highly engaged grant making by foundations<sup>1</sup>. An influential 1997 paper by Harvard professor Christine Letts challenged foundations to employ tools from venture capital to invest in the organisational, rather than programmatic, needs of social purpose organisations. At the same time, newly wealthy dotcom entrepreneurs-turned-philanthropists became associated with a growing interest in venture philanthropy, whose intrusion into the social sector world was not always warmly embraced. Not without its sceptics, the US expansion of VP was more than once referred to as a 'Wild West' phenomenon – a chaotic field of trial and error by indivi-

duals, organisations and foundations. Nevertheless, VP has the potential to contribute to developing a more responsive and diverse capital market for the social sector. It provides a blend of performance-based development finance and professional services to social purpose organisations, helping them deliver greater social impact in the same way that venture capital helps build the commercial value of private companies.

Venture philanthropy is not a pure model but rather a diverse collection of practices. Paul Shoemaker, pioneer of American VP, identifies five core principles adopted by most venture philanthropists<sup>2</sup>:

- **Long-term funding:** Venture philanthropists view their donations as helping organisations achieve a step-change in their operations (perhaps around scaling up), and so commit to funding during this transitional period, typically 3-5 years. Importantly they view their donations as 'investments' in the organisation rather than purchasing their services.
- **Building capacity and infrastructure:** Most social organisations operate below capacity, with under-developed systems and few resources for deve-

loping people. Venture philanthropists focus on helping build stronger, more sustainable organisations.

- **Focused on outcomes:** Venture philanthropists are concerned that the organisations they support create real social impact in society. They help these organisations understand how to effectively communicate their 'theory of change', and hold them to account in delivering the highest possible social impact.
- **An engaged relationship:** Venture philanthropists generally work with a small number of organisations at any one time, preferring a deeper engagement than possible with a large portfolio of grantees. They are committed to adding as much value as possible beyond finance. It is not unusual for a VP fund to accept one or more places on the board of the organisation, as one means for adding value in governance and strategy.
- **Investing in people and leaders:** Capable leadership is essential for strong organisations going through a period of growth. Venture philanthropists provide the resources to help nurture strong executive and boards.

It must be stressed, of course, that these principles are among the characteristics of good grantmaking, practiced by foundations and other social sector funders for decades. In VP they converge to an intense relationship, with a focus on sustainable building of capacity to deliver growth in mission and impact. It is viewed as an active, hand-on investment in an organisation and its people.

After a period of volatile growth in the US during the 1990s, there emerged several excellent, sustained VP funds (e.g. New Profit Inc, Social Venture Partners, New Schools Venture Fund and VPP). European venture philanthropists still look to such US models for learning and inspiration, but there is little doubt that VP in Europe is developing its own particular features and characteristics:

<sup>1</sup> "Venture Philanthropy: The evolution of High Engagement Philanthropy in Europe", Dr Rob John, Skoll Centre Working Paper June 2006, Said Business School, University of Oxford, Oxford: UK

<sup>2</sup> "Social Venture Philanthropy at 10: Problems, Promises, Prospects", transcript of a conference given at the Bradley Center for Philanthropy and Civic Renewal, Hudson Institute, 27<sup>th</sup> November 2007, Washington DC: US

**Highly networked:** In the US new VP funds tended to spring up in isolation from one another, with little networking or collaboration. By contrast, the European Venture Philanthropy Association (EVPA) provides a peer network of 100 organisations across 18 countries. Founded in 2004, the EVPA encourages the development of VP and supports its members in their activities through training, research and publications<sup>3</sup>.

**Collaborative:** The early development of VP in the US suffered from positioning itself to be in competition with 'traditional' forms of grantmaking. This stance, coupled to the mistake of over promising and under delivering, won few friends in the foundation community. EVPA's conscious strategy has been to avoid repeating the mistakes of VP marketing in the US, by positioning VP as highly complementary to foundation grantmaking, drawing influential European foundations into its membership, presenting regularly at European foundations events and showcasing examples of foundation involvement in VP.

**Linked to the Private Equity Community:** Several American VP funds trace their origins to individuals with commercial investment experience, including private equity. In Europe this linkage to private equity is stronger and is rapidly developing at three levels: individual philanthropists, their firms and the industry as a whole. EVPA's five founders are all leaders in European private equity and venture capital, as well as philanthropists. Early on in the creation of EVPA they secured the endorsement and support of the European Private Equity and Venture capital Association (EVCA), using its annual conference as a platform to raise the profile of philanthropy, and reaching several thousand financial services professionals. **Adventurous:** Most US venture philanthropy was conceived as, and has remained a form of high engagement grantmaking – providing finance in the form of grants to charitable ventures. While most

European VP funds also use non-returnable grants, a 2007 survey<sup>4</sup> revealed that 60% also used loans at market or below markets rates, with 70% deploying some form of equity or equity-like finance. No doubt the recent emergence of social enterprises, with an appetite for commercial type funding has found a good match with business-orientated venture philanthropists, prepared to be more 'adventurous' in their funding instruments.

Venture philanthropy funds are springing up across Europe from very diverse origins:

**Grantmaking Foundations:** *Inspiring Scotland* was set up as a VP fund in 2008 with help and encouragement from Scotland's largest grantmaker, Lloyds TSB Foundation for Scotland. Several of the foundation's staff have transferred across to the venture, although it will eventually operate as an independent organisation. *VSBfonds* is a large and established Dutch domestic grantmaker linked to Fortis Bank. It became EVPA's 100th member with the ambition of developing a strong venture philanthropy model to complement its general grantmaking. In Latvia, Lithuania and Ukraine grantmaking foundations active since the fall of the Soviet Union, in supporting a stronger civil society are now developing VP models as a second stage to their activities.

**The Private Equity Industry:** Luciano Balbo is a pioneer of private equity in Italy who established Oltre Ventures as the country's first 'social venture capital fund' with investments in micro-credit, health and renewable energy. In UK, one of Europe's leading private equity firms teamed up with CAN (a support network for social enterprises) to create Breakthrough – focused on scalable social enterprises. Permira's chairman, Damon Buffini, says "what CAN does – scaling up enterprises – that's what we do here at Permira. The issues we try to address with CAN are similar to our day-to-day business."<sup>5</sup> It seems that private equity professionals, wanting to find ways of sup-

porting the social sector, have found in VP a model familiar to their own commercial investing practices.

**Social Entrepreneurs** more than most, understand the shortcomings of the social finance market in providing the kind of capital needed to grow strong organisations. Estonia's *Good Deed Foundation* was launched by a social entrepreneur who developed strong partnerships with business individuals and corporate partners. *Canopus Foundation* in Germany and *Noaber Group* in the Netherlands are VP funds set up by business entrepreneurs who understand what it takes to grow enterprises.

**Government:** In England and Scotland government is putting its financial weight behind VP initiatives. England's *Futurebuilders* and *Adventure Capital Fund* are government-funded but independently managed VP funds focused on social and community enterprises. The Scottish government has been a key funder for *Inspiring Scotland*.

As interest in venture philanthropy spreads right across Europe, from Ireland to Ukraine and Italy to Norway, it is being viewed as an important actor on the social finance landscape. This month Europe's practitioners meet in Frankfurt for the annual conference of the EVPA<sup>6</sup>. The event will also attract those from the business and grantmaking communities curious about this new development in philanthropy.

<sup>5</sup> Interviewed by the author and quoted in 'Give and Let Give', Policy Exchange, (2007), London

<sup>6</sup> See [www.evpaconferences.eu](http://www.evpaconferences.eu) for programme and registration details

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<sup>3</sup> See [www.evpa.eu.com](http://www.evpa.eu.com)

<sup>4</sup> *Beyond The Cheque; how venture philanthropists add value*, Dr Rob John, Skoll Centre Working Paper October 2007, Saïd Business School, University of Oxford, Oxford: UK