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## **Venture Philanthropy Funds**

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## Significance to Fundraisers

Venture philanthropy (VP) has proven itself to be valuable within the markets where it has taken hold, demonstrated not least by the growth in the USA and internationally.

JPA has undertaken preliminary research<sup>1</sup> to explore patterns amongst VP investors, funds and client organisations across ninety-six VP organisations around the world.

What is the significance of this for fundraisers?

- **Demonstrates new opportunities to leverage existing or new relationships into more involvement adding value financially and in expertise, the commitment multi year; contributing to the long term sustainability of the charity.**
- **Emphasises the need for different language, deal flow as opposed to case for support; the need for organisational readiness for partnering and having performance measurement and effective data management systems as key ingredients of an organisation's culture.**
- **Means being entrepreneurial creating opportunities for meaningful involvement by 'investors' including establishing an internal captive fund that reinforces a marketplace within an organisation.**
- **Suggests modification of existing approaches to major donors and corporate sponsors.**
- **Provides an opportunity to achieve funding for infrastructure support to enable an organisation to grow and innovate.**

VP, for this paper, is defined as:

*Capital and human resources invested in charities by various types of investors in search of a social return on their investment. VP involves a high engagement over many years with fixed milestones and tangible returns and exit achieved by developing alternative, sustainable income.*<sup>2</sup>

This entails a close and extended relationship between the investor and the organisation (typical VP relationships last from three to five years<sup>3</sup>); larger investments, emphasis on growth; and stringent performance measures.

## Findings

The majority of VP funds originate from and are based in the USA. This is not surprising given that the VP movement started in the USA several years before developing elsewhere. The second largest group of funds are in the United Kingdom.

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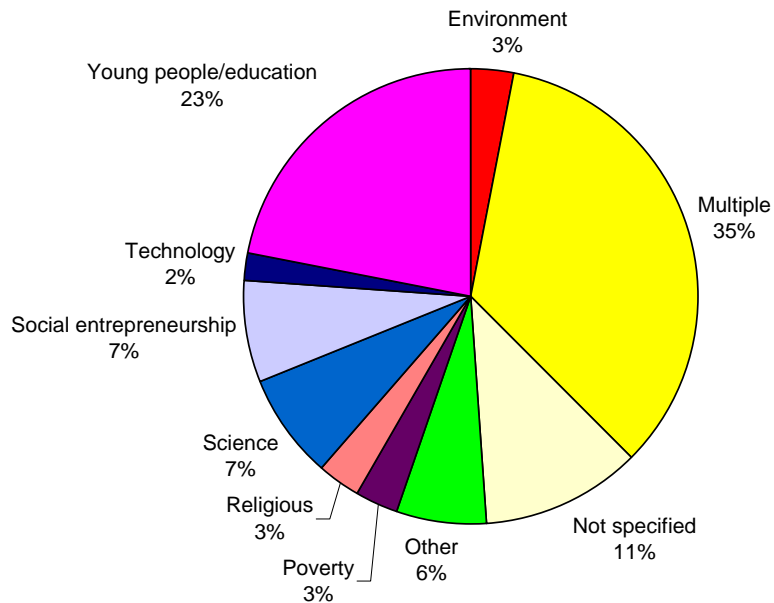
<sup>1</sup>Our exploratory study into the nature of VP funds was conducted primarily through web research using the websites of the organisations in question; findings are limited to the information made available on their websites. Some of the organisations examined in this paper do not necessarily describe themselves as VP funds, but they essentially follow the principles of VP.

<sup>2</sup> JPA *Good Results will be Addictive: High Engagement Giving/VP: Future Trends*

<sup>3</sup> Some representatives of VP funds indicated time involvement may in some cases be extended to ten years.

	Number of organisations	%
Europe	30	31%
USA	51	53%
Elsewhere	15	16%
<b>Total</b>	<b>96</b>	<b>100%</b>

Destination of Funds by Cause

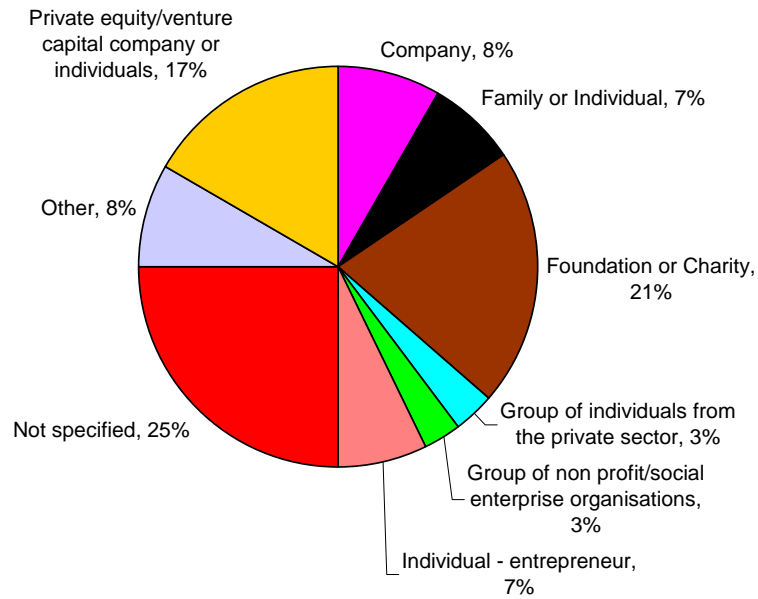


There is a particular emphasis on investing in organisations that work with young people. 35% specified multiple lines of investment comprising education, health, housing, energy, women, child development, enterprise development, microfinance and human rights.

The USA has proportionately more specialised funds that invest in single causes, focus on the environment, poverty, religion, science, social entrepreneurship, and technology.

Single issue funds outside of the USA are starting to be developed. Canopus (Germany) is dedicated to developing clean air technologies; ACT (UK) helps the homeless; the Oltre Foundation (Italy) and Diageo and Shell Foundation (UK) concentrate on poverty relief, and the Good Deed Foundation (Estonia) and NESsT (Hungary) on social entrepreneurship.

**Founders of Venture Philanthropy Funds - Worldwide**



21% of funds that noted how the fund was established were founded by a foundation or charitable organisation, followed by private equity companies or individuals from a private equity background and companies.

Twenty VP funds were founded by foundations or charities e.g. Venturesome (CAF), Lloyds TSB Foundation Inspiring Scotland, EMCF Youth Development Fund (Edna McDonnell Clark Foundation), PARSA Community Foundation, Youth Ventures (Ashoka), the Deshpande Foundation and most of the medical research VP funds in the USA.

17% of VP funds originate from a private equity background worldwide, however 30% of these are based in Europe, 20% elsewhere in the world and just 8% in the USA.

In North America, there are six funds<sup>4</sup> that have been set up by individual business entrepreneurs who have applied their enterprising skills to the third sector.

Outside of the USA, groups of professionals have joined together to set up VP funds. In France the Fondation Demeter was founded by a group of friends working in finance, consulting, industry and media. In India, two investment bankers along with other professionals established the Smile Foundation.

The emergence corporate VP is tied to the increasing attention placed on companies' interaction with the wider community and their CSR policies. The companies that have undertaken VP techniques are market leaders, with high profile names and well developed CSR policies, such as Shell, Diageo, Salesforce, Hewlett Packard and

<sup>4</sup> Benetech, Better World Together Foundation, BlueRidge Foundation, Social Capital Partners, Social Venture Partners Calgary and TOPP.

Lenovo. This suggests that as well as leading the way in their core fields and CSR, these companies' philanthropy mechanisms are following suit.

Another trend seen primarily outside Europe is the emergence of funds financed by collaborating groups of individuals or partners. Funds - such as the Argentine VP Fund, Project Redwood in the USA, BC Technology Social Venture Partners in Canada and the Israel Venture Network - act as platforms for groups of individuals (and organisations) who collectively have a greater impact than if they were to act alone.

There are examples to suggest that more hybrid corporate VP funds are developing. For example as well as the automatic donations of 0.5% - 1% of funds made by the hedgefund TCI to the Children's Investment Fund Foundation, the founder has made sizeable contributions and TCI also manages the foundation's investment<sup>5</sup>.

## Trends

In 2005 we outlined a number of trends in VP:

- **Increased Capital** - There will be increased and new financial capital and expertise.
- **Leverage Outside of Movement** - VP will be felt throughout the third sector.
- **Evolution of The Model** - VP will continue to evolve and improve.
- **New Capital Structures** – New fund models will emerge, including recipient driven captive funds and diverse blended fund portfolios.
- **Changes in Charitable Organisation Behaviour** - Charitable organisations will adapt their behaviour in response to VP. Charities will proactively encourage VP and create venture philanthropists.
- **Impact on Larger Charitable Organisations** - The impact of the movement will be felt in larger charitable organisations. VP will enable access to high net worth funders who otherwise might not be drawn to larger charities.

Our current research suggests there is evidence to support a number of these trends.

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<sup>5</sup> FT.com, *TCI chief donates £230m to his charity*, 2/07/2007