



JPA
Two Temple Place
London WC2R 3BD

Tel: 0207 240 7788
Email: info@jpa-group.com
Web: www.jpa-group.com

Existing Venture Philanthropy Funds Characteristics: A Preliminary Overview

First Draft

**Prepared by JPA Europe Limited
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JPA is a trading name of JPA Europe Limited
Registered office:
Ternion Court, 264 - 268 Upper 4th Street,
Milton Keynes, Buckinghamshire MK9 1DP
Registered in England No: 04139707

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1 Executive Summary

1. In preparation for the European Venture Philanthropy Association conference on revenue generation (April 2008), JPA Europe Limited and Aperio¹ have undertaken preliminary research to explore patterns between venture philanthropy investors, funds and client organisations² across ninety-six venture philanthropy organisations located in different parts of the world.
2. This paper is a summary of the initial findings. It is important to note that this research is an exploratory study into the nature of venture philanthropy funds. It is not intended to be a comprehensive study, but rather to reveal possible future areas of research and discussion. Feedback from readers is therefore welcomed.
3. This paper has been developed through web research only and therefore findings are limited. Further in depth research is suggested to investigate the conclusions presented.
4. To date, a variety of studies have been undertaken into venture philanthropy funds to profile their activity. These have tended to focus on venture philanthropy practised by one type of organisation (e.g. foundations) or for a specific geographic region (mainly the USA).
5. This paper has reviewed ninety-six venture philanthropy organisations from around the world. Fifty-one funds originate from the USA, thirty from Europe and fifteen from elsewhere.
6. The findings indicate a stronger presence of funds in the USA compared to the rest of the world, although the number of funds in Europe has increased in recent years and the venture philanthropy movement is starting to develop elsewhere such as in Japan, China, India and Argentina.
7. VP funds tend to invest in a variety of causes. However this research suggests that, in most regions, the funds that specify a single cause invest in youth or education related service organisations. The USA has proportionately more funds that invest in other specialised causes that do not appear to have been developed elsewhere in the world, in particular the promotion and preservation of religion and investment in biotechnology research.
8. The majority of funds specify where their clients' operations should be located in order to receive funding. The research suggests that there is

¹ Aperio is the JPA North American partner

² It is important to note that there does not appear to be any direct correlation amongst these three areas, there is from the findings potential funding opportunities and markets available to existing funds.

a relationship between the geographic destination of investments and the mission in which funds are willing to invest. Funds investing in youth or science-related organisations tend to specify domestic operations whereas faith-based, technology or environment-related funds have a more international sphere of activity.

9. Foundations were found to be the main founders of VP funds. In addition, regional disparities were found as the USA's venture philanthropy movement traditionally rose out of the dot.com boom and the UK and European movement from financial institutions. In addition, it appears as though corporate venture philanthropy is on the rise. Corporate foundations may not necessarily describe themselves as venture philanthropists, but there are some that do apply venture philanthropy principles.
10. The main sources of ongoing funding were found to be foundations, corporations and individuals. Most funds use a portfolio of these sources.
11. A small number of funds, based in the USA, have a membership structure to their funds allowing members to pick and choose where their money is invested. As might be expected, corporate VP funds tend to rely on companies for their funding.
12. When looking at the mission-related destination of a fund and its ongoing source of funding, member-funded and private equity-funded organisations tend to invest in a variety of causes.
13. Further research is suggested into the following areas: the size of funds, age of funds, relationships between the geographic destination and mission related destination of funds, corporate venture philanthropy funds and external factors effecting funds.

2 Introduction and Purpose

The field of venture philanthropy (VP) is at the forefront of innovation and creativity within the third sector around the world. It has proven itself to be valuable within the markets where it has taken hold, demonstrated not least by the growth in the numbers of organisations in the USA and international expansion to Europe and beyond. The venture philanthropy landscape is thus evolving out of its incubation phase from the 1990s into a mature and increasingly accepted practice. As the number of investors, clients and funds increase, relationships between these elements develop – what are these relationships and what is their significance?

In preparation for the European Venture Philanthropy Association conference on revenue generation (April 2008), JPA Europe Limited and Aperio have undertaken preliminary research to explore patterns between venture philanthropy investors, funds and client organisations across ninety-six venture philanthropy organisations across the world.

This paper is a summary of the initial findings. It is important to note that this research is an exploratory study into the nature of venture philanthropy funds. It is not intended to be a comprehensive study, but rather to reveal possible future areas of research and discussion. Feedback from readers is therefore welcomed.

3 Overview of Venture Philanthropy

Although there was no single defining event or cause, the need for a more social entrepreneurial approach to philanthropy has increased and become more obvious, eventually being popularly termed “venture philanthropy”, or more recently, “high engagement giving”³.

In the USA, the many different parties within the charitable sector were dramatically influenced by both the influx of new capital during the IT boom of the late 1990s as well as the decrease in government and private funding in the early 2000s. The IT boom led to a number of new investors, primarily individuals and private funders, seeking to revolutionise philanthropy through relationship-based investments in charities. It soon became clear to these investors that there were a number of challenges that venture philanthropists could address that were perceived as not being well addressed by other funders, including government and trusts.

Venture philanthropy can be placed on a continuum of return expectations⁴ ranging from traditional philanthropy, where only a pure social return on investment (SROI) is expected, to venture capitalism, where only a pure financial return on investment is expected.

Venture philanthropy is continuously evolving but at the heart it consists of a core set of principles (which may vary by funder). Venture philanthropy has had many definitions since its origins, but for the purposes of this document, VP 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.*⁵

This definition incorporates many of the principles that venture philanthropy is built on. Investors who engage in venture philanthropy are driven by a desire for a social return on investment (SROI). As investors, venture philanthropists seek the most efficient use of their money in achieving a desired social goal. Like venture capitalists, VP investors seek to maximise their return by adding value beyond the monetary contribution through the contribution of expertise and strategic guidance. Like venture capitalists, management is seen as one

³ The term “venture philanthropy” was first used by venture capitalists who wanted to apply the same principles they used for investing in companies with their investments in the charitable sector. The term “high engagement giving” has recently emerged as an alternative, both to make the concept more inclusive and to broaden the movement to include a wider array of highly engaged approaches. In this paper, we have used the term “venture philanthropy”, but our definition includes the broader developments that have occurred within the movement.

⁴ The Morino Institute, *Venture Philanthropy: Landscape and Expectations, a report prepared by Community Wealth Ventures, 2000*

⁵ JPA Europe Limited and Aperio, *Good Results will be Addictive: High Engagement Giving/Venture Philanthropy: Future Trends, March 2005*

of the primary drivers of success, leading VPs to be motivated to invest in building organisational and managerial capacity. This is one of the defining features of VP, given that traditional grant makers have tended in recent years to avoid or minimise funding administration, particularly in Europe.

3.1 Principles of Venture Philanthropy

A typical venture philanthropy approach generally entails the following principles⁶:

1. Close relationship between the investor and the organisation

A hands-on approach is taken by the investor in the management, governance, and accountability of the organisation and/or its venture. This addresses the needs of investors by actively monitoring their investments' SROI, and by making a positive value-added impact through their own expertise. In addition, charities receive much-needed capacity building technical assistance through the expertise of the investors.

2. Extended relationships

Typical VP relationships last from three to five years⁷. Generally, VP relationships are intended to be longer than traditional funder-grantee relationships and efforts are made to reduce the burden of applying for funding on an annual basis. This characteristic addresses the needs of both charities and investors because it allows for a continuing relationship that can be developed based on shared ideals and goals. It changes the focus from a transaction to a partnership.

3. Larger investments

VP focuses on increasing the amount of the investment per organisation and offering this to a smaller number of organisations. VP is founded on the belief that building organisational capacity and removing funding constraints improves the ability of organisations to make a sustainable and scalable impact. This addresses the need of investors because it allows for more strategic philanthropy – targeted investments in activities that will provide a desired social return on the investment. For charities, larger investment allows organisations to develop the skills they need in order for their activities to make a positive impact as well as fill the funding gap in operational support.

⁶ JPA Europe Limited and Aperio, *Good Results will be Addictive: High Engagement Giving/Venture Philanthropy: Future Trends*, March 2005

⁷ Recent talk amongst representatives of VP funds indicated the time involvement may in some cases be extended to ten years.

4. Increased risk management and accountability

Investors take on some of the risk and accountability that comes with investment in an organisation. Because they are investing and partnering in an entire programme, they have the same accountability as the organisation running the programme. This principle addresses the need of investors to ensure a social return on their investment, through the ability to have active involvement with the charities and stress accountability.

5. Stringent performance measures

VP seeks higher standards of outcome evaluation, measured regularly in order to assess programme performance. Outcomes are not measured in terms of operational statistics (such as number of participants), but rather against the impact of the change (such as reduced unemployment).

The need for performance measurement and management has continually increased over the last five to ten years. Increased performance measures assure investors of an SROI and provide charities with a method to quantitatively and qualitatively demonstrate the success of their programmes.

6. Adoption of exit strategies

VP seeks to invest in organisations whilst helping them develop strategies to sustain their impact after the initial investment is complete. Exit strategies are not developed in a typical funder/grantee relationship. The increasing need for charities to diversify their funding sources and lessen their reliance on a small number of funders shows that exit strategies would improve the ability of charities to continue to be successful in their programmes upon the conclusion of specific investments. Exit strategies also provide investors with the confidence that their investments will produce sustainable programmes that can expand or grow even after their involvement has ended.

Venture philanthropy provides investors with the ability to infuse capital into charities to help them expand and sustain programmes. The philanthropic field has traditionally relied on government to replicate successful programmes. Charities often require a significant investment to achieve scale, and without this investment successful programmes are unable to grow and expand to achieve greater impact. Venture philanthropy addresses this issue by providing charities with the internal resources to drive its own growth - a constant revenue stream and capacity building technical assistance.

3.2 Profiling Venture Philanthropy Funds

To date, a variety of studies have been undertaken into venture philanthropy funds to profile their activity and develop models of funds. These have tended to focus on venture philanthropy practised by one type of organisation (e.g. foundations) or one geographic region (mainly the USA).

The Morino Institute⁸ in 2001 categorised organisations according to their position on the continuum of expected returns into the following groups:

- Traditional foundations
- Hybrid foundations (those foundations involved in traditional grant making and venture philanthropy)
- Social venture funds that solely expect SROI
- Social venture funds and organizations which expect both SROI and FROI
- Socially responsible FROI funds
- Venture capital funds and other for-profit ventures

The Vesper Society⁹, whilst acknowledging the fluidity in the concept of VP, developed four models of approaches to VP by faith-based human service foundations. Donor Managed Support foundations actively manage the donor organisations that apply VP principles and practises with non-profits. Managing Partner foundations work directly as VP organisations with non-profit organisations. Traditional Philanthropy foundations apply limited VP principles to their classic donating methods but without using VP terminology. Corporate Philanthropy refers to corporate foundations that donate in-kind or monetary grants using VP principles.

Venture Philanthropy Partners¹⁰ profile of VP organisations in the USA revealed the majority of funds focus on helping youth or education-based organisations, anticipate a length of assistance of four to seven years, and in general make grants of up to \$75,000.

Grenier, in a more recent study of European funds¹¹, identified four main founders and funders of VP organisations, namely wealthy individuals, non-profit organisations, companies and government departments or public agencies. Grenier also identified the main organisational forms of VP funds according to how they are funded (i.e. fully funded, partly funded, created by non-profit organisations, or acting as a broker or service provider for philanthropists and non-profit organisations).

⁸ The Morino Institute, *Venture Philanthropy: Landscape and Expectations*, a report prepared by Community Wealth Ventures, 2000

⁹ Vesper Society, *Venture 21: Human Services Organisations Assessing Venture Philanthropy*, 2001

¹⁰ Venture Philanthropy Partners, *Venture Philanthropy 2002, Advancing Nonprofit Performance Through High-Engagement Grantmaking*, a report prepared by Community Wealth Ventures, 2002

¹¹ P Grenier, *Venture Philanthropy in Europe: Obstacles and Opportunities*, EVPA, 2006

Looking to future trends in VP, JPA Europe Limited and Aperio¹²

- Identified corporations as a growing player in the VP arena through the adoption of VP principles, although notes that some are cautious of the longevity of corporate social responsibility (CSR) VP activity.
- Discussed the evolving trend of the development of individual charity captive VP funds.
- In addition, experts identified in the trends study suggested that success stories will lead to innovation and expansion of the European VP market (a phenomenon that now appears to be taking place).

¹² JPA Europe Limited and Aperio, *Good Results will be Addictive: High Engagement Giving/Venture Philanthropy: Future Trends*, March 2005

4 Research

4.1 Methodology

In preparation for the European Venture Philanthropy Association conference on revenue generation, JPA Europe Limited, based in the UK in conjunction with Aperio, based in North America undertook a review of venture philanthropy funds worldwide.

It is important to note that this research is an exploratory study into the nature of venture philanthropy funds. It is not intended to be a comprehensive study, but rather to reveal possible future areas of research and discussion.

The research was conducted primarily through web research using the websites of the organisations in question. Additional literature on venture philanthropy in general and the organisations was used to supplement this review for background material.

The review was undertaken in early 2008 aimed to investigate the following areas where information was available through the website:

1. Age of fund
2. Country and area of origin
3. History of fund
4. Source of funds
5. Structure of fund/management
6. Size of Fund
7. Type of assistance - Financial
8. Type of assistance - Non-Financial
9. Ratio of financial/non-financial assistance
10. Average length of assistance
11. Number of organisations/individuals assisted - current
12. Number of organisations/individuals assisted - over lifetime of fund
13. Method of generating funds
14. Destination of funds - geographic
15. Destination of funds - mission
16. Destination of funds - organisation type
17. Destination of funds - organisation age and size
18. Selection process
19. Performance measurement tools
20. Data management and collection techniques
21. Risks, issues and concerns
22. Future thoughts and trends

This paper has reviewed ninety-six venture philanthropy organisations from around the world. Fifty-one funds originate from the USA, thirty from Europe

and fifteen from elsewhere in the world. A full list of the organisations can be found in Appendix 1.

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

Figure 1 - Number of funds reviewed

It was estimated that there were forty to fifty venture philanthropy funds in the USA in 2006¹³; it is reasonable therefore to assume that this paper has examined the majority of American funds. The European Venture Philanthropy Association (EVPA) has seventeen full members and forty-two associate members (not all of which are venture philanthropy organisations). This paper has reviewed these European funds as well as others and included them where information was readily available via the internet¹⁴.

It is important to note that some of the organisations examined in this paper do not necessarily describe themselves as venture philanthropy funds, but do essentially follow the principles of venture philanthropy outlined above.

Limitations

This paper has been developed through web research and therefore findings are limited to the information that is made available by organisations on their websites; this may be incomplete and not necessarily the most up-to-date data, although all efforts were made to verify that the data is credible through cross-referencing of information sources.

The research was limited to English language websites. A number of organisations that do not have English language websites may have been omitted or information is not complete.

¹³ P. Grenier, *Venture Philanthropy in Europe: Obstacles and Opportunities Summary*, 2006

¹⁴ Please see Appendix 2 for a list of organisations that have not been reviewed for this paper

5 Findings and Discussion

5.1.1 Geographic Divide

The majority of venture philanthropy funds (53%) reviewed for this paper originate from, and are based in, the USA. This is not surprising given that the VP movement started in the USA five to ten years before developing elsewhere. The second largest group of funds were found in the United Kingdom.

Country of origin	Total
Argentina	1
Australia	1
Canada	5
China	1
Estonia	1
France	2
Germany	2
Hungary	1
India	2
Ireland	1
Israel	2
Italy	3
Japan	1
Latvia	1
Singapore	1
South Korea	1
Spain/UK	1
Switzerland	1
The Netherlands	2
UK	15
USA	51
Grand Total	96

Figure 2 - Breakdown of number of funds by country

As well as being home to a larger number of funds, the review of funds for this paper illustrates a more highly developed VP environment in the USA, through the greater diversity in the structuring of funds and in the destination of investments compared to those found elsewhere in the world.

5.2 Destination of funds

5.2.1 Destination of Funds - Mission

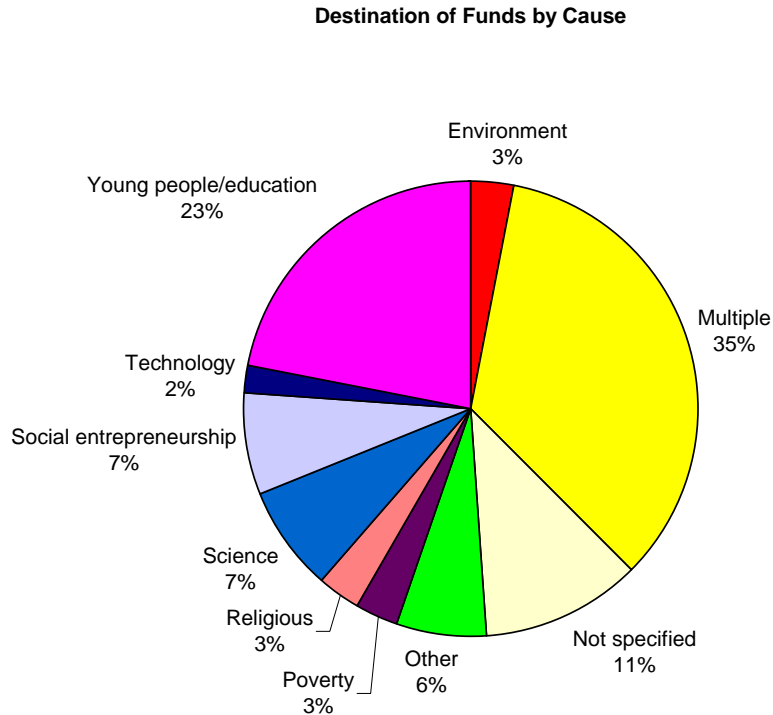


Figure 3 - Destination of funds by cause

Eighty-nine percent of the funds reviewed listed the cause(s) in which they are prepared to invest. There is a particular emphasis on investing in organisations that work with, or for, young people (23%). The majority (35%) specified multiple lines of work in which they invest comprising education, health, housing, energy, women, child development, enterprise development, microfinance and human rights.

As Figure 4 below suggests, there is not a significant correlation between the country of origin and the causes in which a fund is willing to invest. Funds that invest in youth services/education comprise a third of all funds in the USA and Europe and just under half of all funds elsewhere in the world.

Compared to Europe and elsewhere in the world, the USA does have proportionately more specialised funds that invest in single causes, which increases further when organisations focussing on young people are included. This is to be expected given that venture philanthropy is more highly developed in North America.

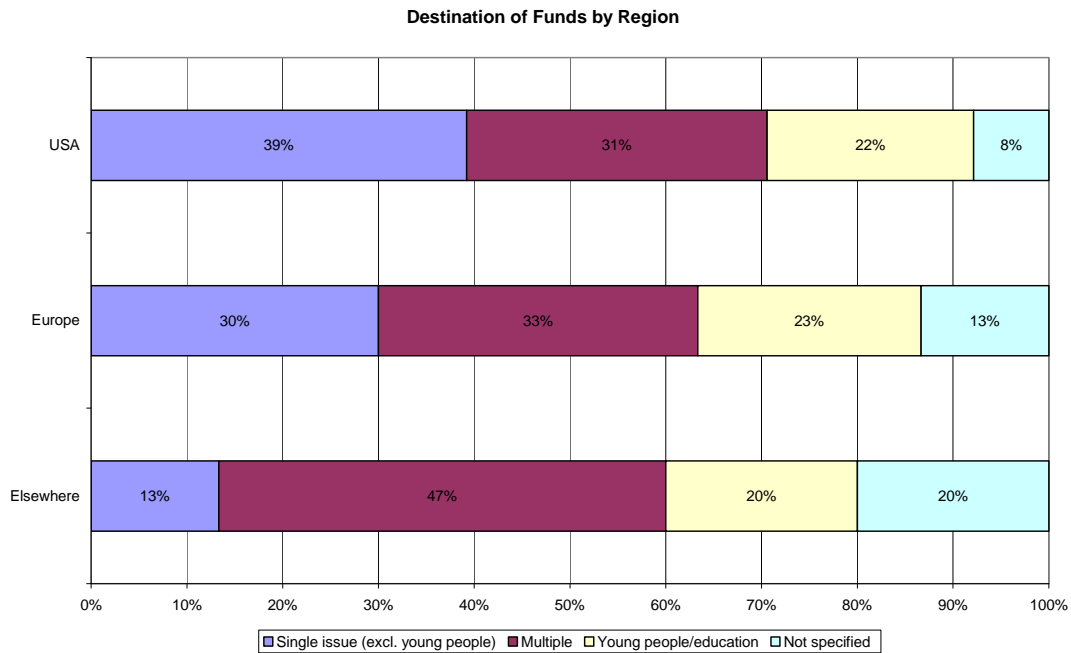


Figure 4 - Destination of funds by country of origin

5.2.1.1 Specialised funds

Aside from young people and education, 31% of VP funds focus their investment on other single issues. The area in question is often broad and gives scope for organisations to work in a variety of areas within it. The main single issue funds that appear focus on the environment, poverty, religion, science, social entrepreneurship, technology and ‘others’¹⁵. Religion and science (medical research) funds are examined more closely here.

Religion

Four faith-based venture philanthropy organisations reviewed were found in North America. The Jewish Venture Philanthropy Fund (Los Angeles and Toronto) and United Jewish Communities Venture Philanthropy invest in the promotion of Jewish values and the improvement of life for Jews and others. Similarly, Kingdom Ventures supports emerging Christian ministries around the world. Two other faith-based funds (the Vesper Society in the USA and ACT in the UK), unlike the aforementioned funds, do not consider promotion of religion to be their main area of work. They focus on achieving social change for faith or humanitarian reasons.

¹⁵ There are six funds in the ‘Other’ category, these are: development cooperation (d.o.b. Foundation), homeless (ACT), political (New Progressive Coalition), preservation and advancement of Persian culture (PARSA Community Foundation), HIV/Aids (Power of Love) and healthcare (Vesper Society).

Medical Research

Science-related venture philanthropy has increased in recent years in the USA, especially in the field of biotechnology. As a number of funds of this sort have developed, they have started to attract increased attention from the science and venture philanthropy communities¹⁶. Funds in this domain include the Cystic Fibrosis Foundation, Multiple Myeloma Research Foundation, Muscular Dystrophy Association, Juvenile Diabetes Research Foundation, Michael J Fox Foundation and the Alzheimer's Drug Discovery Foundation.

These funds invest in for-profit biotechnology firms in order to underwrite the risk associated with researching and developing new treatments for small or complex diseases. The gap between initial academic research and releasing a drug to market is often very wide for drugs associated with these diseases.

Traditional trusts and foundations usually fund the initial stage of academic research, however the financial risk is still seen as too high for venture capital firms and pharmaceutical companies to continue their development after this initial stage. VP funding fills this critical drug development gap to invest in infrastructure and animal trials and to give advice on how to best develop organisations to allow the treatment the best chance of coming to market.

The prevalence of medical research venture philanthropy funds within the USA compared to elsewhere in the world may be in part due to the public sector's response to a reduction in the role of the National Institutes of Health (the USA government medical research agency)¹⁷. In Europe, in a bid to strengthen its research base and galvanise the relevant stakeholder groups, developments such as the Innovative Medicines Initiative have forged greater public-private relationships in the drug discovery market. In the UK, the government has introduced R&D tax credits and has increased spending on university science spending¹⁸. This suggests that the USA may be leading the way in specialised biomedical VP funds as a result of the country's government policies.

Outside the USA

Single issue funds in countries outside of the USA are starting to be developed, however the numbers are still low in comparison. In Germany, Canopus is dedicated to developing clean air technologies; ACT in the UK focuses on helping the homeless; the Oltre Foundation in Italy and the Diageo and Shell Foundations in the UK concentrate on poverty relief and, although a wide ranging category that can ultimately encompass a number of causes, social entrepreneurship is the focus of the Good Deed Foundation in Estonia and NESsT in Hungary.

¹⁶ Thompson CenterWatch, *Venture Philanthropy on the Rise*, The CenterWatch Monthly, August 2007

¹⁷ Thompson CenterWatch, *Venture Philanthropy on the Rise*, The CenterWatch Monthly, August 2007

¹⁸ Malcolm Wicks MP, Minister of State for Energy, *Drug Discovery and Development: the Role of the UK and Europe as a centre for R&D and Innovation*, speech given at Drug Discovery Technology Europe 2007 - London, 13 March 2007

5.2.2 Destination of Funds – Geographic

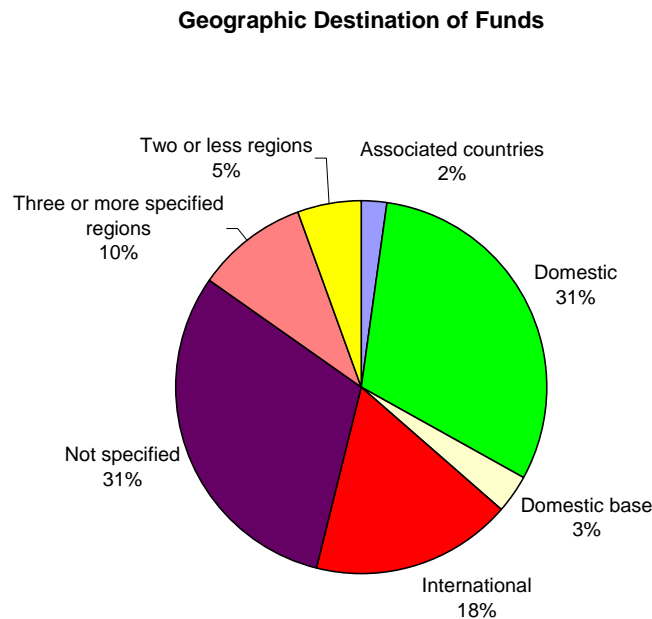


Figure 5 - Geographic destination of funds

The majority of funds (69%) that were reviewed specified where the client organisation has to be working or located for it to qualify for investment. For 31% of the funds, investees must be operating domestically i.e. within the country where the fund is based. A small percentage (2%) requires that clients operate in associated countries (for example, Alfanar only invests in Arab countries and BonVenture Management only invests in German-speaking countries). 3% stipulate that their clients should be based domestically but do not say where its operations should take place. Several funds detail more than one region where their clients should be working (5% specify one or two regions and 10% specify three or more) and 18% work internationally.

Analysing the geographic destination of funds and the destination of funds by mission reveals interesting findings, as illustrated in the graph below.

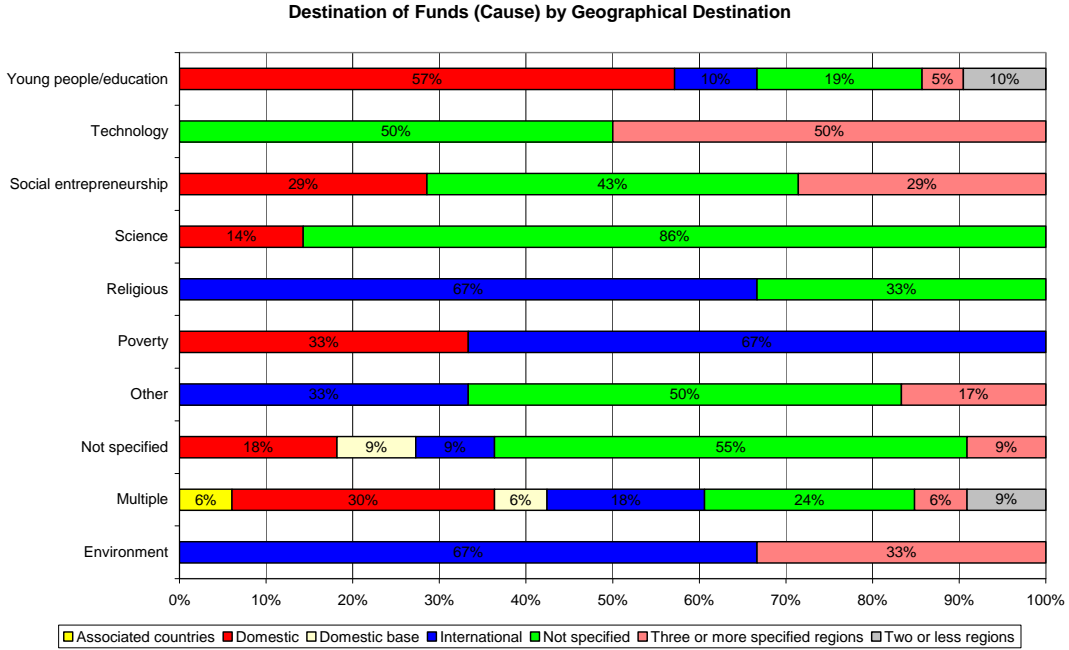


Figure 6 - Destination of funds (cause) by geographical destination

Over half (57%) of the funds that invest in young people/education require their clients to operate domestically. Two-thirds of the faith-based funds, funds aimed at tackling poverty and those working for the environment operate internationally.

It would seem therefore that there are some correlations between the type of cause in which a fund will invest and the geographic area of the world in which it specifies its investees’ operations to be located. This might be expected, for example for those investing in environmental organisations, as this is considered a global issue that cannot be solved in one country alone.

5.3 Founders and Sources of Funds

5.3.1 Founders of Venture Philanthropy Funds

Founders of Venture Philanthropy Funds - Worldwide

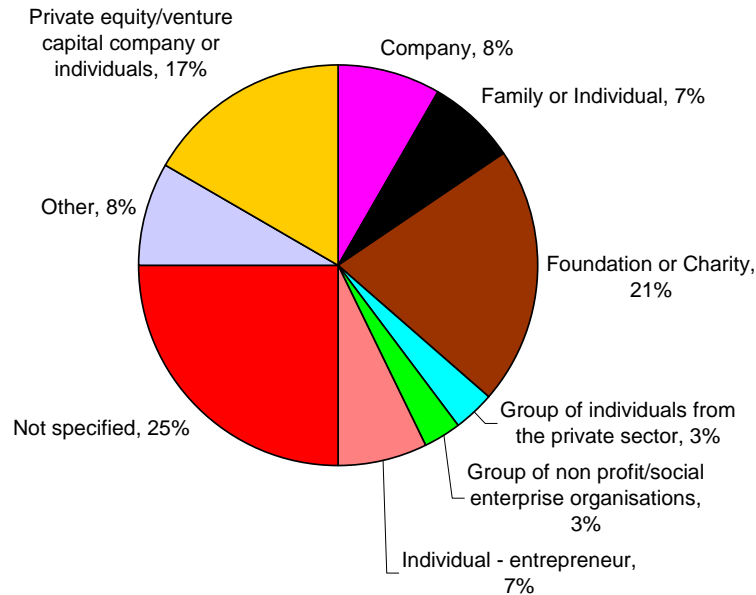


Figure 7 - Founders of venture philanthropy funds

The majority (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 (17%) and then companies (8%).

5.3.1.1 Foundations and Charities

Twenty venture philanthropy funds were founded by foundations or charities; these include Venturesome (Charities Aid Foundation) in the UK, 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.

Foundations that have set up venture philanthropy funds have generally done so as branches of the foundation's main grant-making body, either as additional funds have become available or for the purpose of investing in specific issues.

The Inspiring Scotland venture philanthropy fund, for example, has been developed by the Lloyds TSB Foundation for Scotland. Aiming to invest £10 million a year along certain themes, the fund's initial focus is on 14 – 19 year olds that are not in education, employment or training; whereas the Foundation has a much wider remit of helping disadvantaged and disabled people.

Separate venture philanthropy funds also give foundations the opportunity to work with charities over a much longer timescale, invest more money, and be more intensely involved in building capacity and scaling up operations for a smaller number of organisations.

5.3.1.2 Regional Differences and Founders

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 funds¹⁹ that have been set up by individual business entrepreneurs (from a non private equity background) 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 for example, Fondation Demeter was founded by a group of friends working in finance, consulting, industry and media. In India, two investment bankers along with eight to ten other professionals established the Smile Foundation. This collaborative approach to founding VP funds is also mirrored in the collaborative nature to provide ongoing funding to some VP organisations, explored further below.

5.3.1.3 Corporate Venture Philanthropy

A more recent trend (since the late 1990s), has been the growth of philanthropy funds founded by companies. Although some do not technically describe themselves as VP funds, they do follow VP principles as described earlier in this paper.

The emergence of these funds is tied closely to the increasing attention placed on companies' interaction with the wider community and their corporate social responsibility (CSR) policies. From the funds examined, 8% have been founded by companies either directly or through a corporate foundation. The companies that have undertaken venture philanthropy techniques are all market leaders in their own fields and countries, with high profile names and well developed CSR policies, such as Shell, Diageo,

¹⁹ Benetech, Better World Together Foundation, BlueRidge Foundation, Social Capital Partners, Social Venture Partners Calgary and TOPP.

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

Currently, these companies are based in the USA or UK; however Lenovo's fund (2007) is based in China, suggesting a widening of the CSR-VP model across the world.

5.3.2 Sources of funds

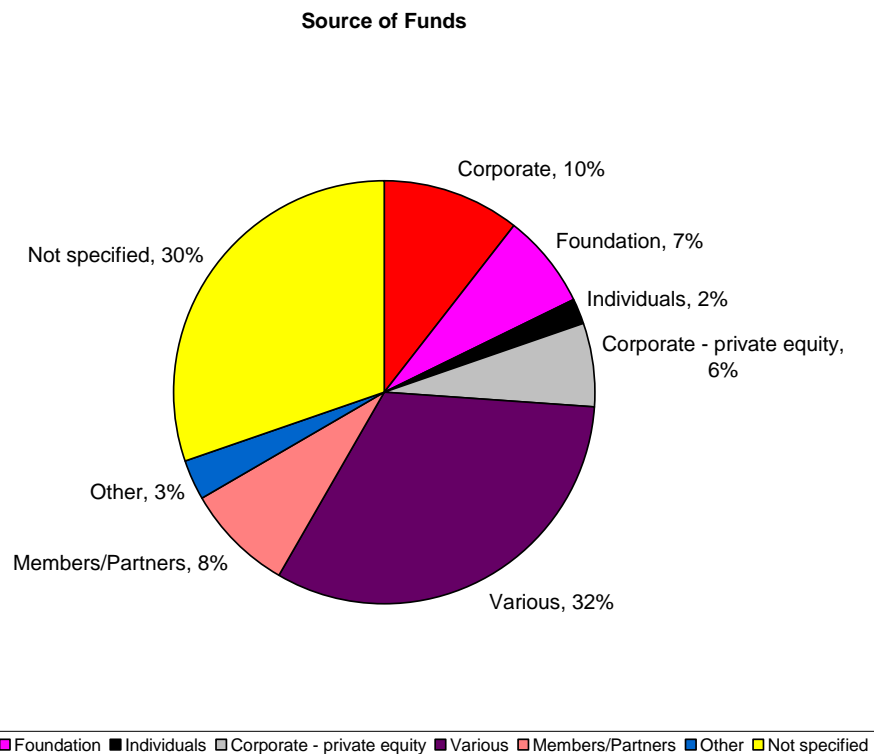


Figure 8 – Ongoing source of funds

From the research undertaken, the main funders, as might be expected, are similar to the founders as outlined in the previous section, namely, foundations or non-profit organisations, individuals and companies (private equity and others). The majority of funds (32%) use a portfolio of these sources to support their investments.

As with founders, there are regional biases towards certain types of funders. The research suggests that foundations and non-profit organisations are used as the main source of funds for a number of VP funds outside of Europe. For example, Social Impact International, operating in India, is a special project of Rockefeller Philanthropy Advisors Inc., a non-profit organisation. Similarly, funds that invest in drug discovery in the USA are founded within medical research foundations, ring fencing funds for particular projects. However, foundations generally have a number of revenue sources including

individuals, companies and invested income, so these funds could ultimately be described as being indirectly funded by a variety of sources.

Another trend that has been seen primarily outside Europe is the emergence of funds financed by collaborating groups of individuals or partners. Funds - such as the Argentine Venture Philanthropy 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.

Contributors pay an annual membership fee and often they can pick and choose the organisation or cause in which they wish to invest, following advice from the fund. In addition, members may be called upon to donate their time and expertise to the organisations in which they are investing. Of the funds reviewed, Pilotlight was the only organisation within Europe that followed a similar structure, however Pilotlight does not provide financial assistance to organisations, only the expertise and time of its members.

Reflecting the trend of funds being established by private equity individuals or companies, European funds are the only ones to be financed primarily by private equity companies or funds. This kind of funding can take a variety of forms. For instance a private equity firm may manage the philanthropic fund or the firm may donate a certain percentage of its earnings to the fund on an ongoing basis.

An example of the former is The Hunter Foundation which retains its funds within West Coast Capital, a private equity business, and draws down on them when required.

An example of the latter type of fund is Invest for Children, a foundation of InvestIndustrial, a Southern European private equity group. Similar to the CSR-venture philanthropy founders model, InvestIndustrial supports its foundation by supporting its employees in planning and implementing charitable projects and by donating 1% of its capital gains on the sponsor's commitment to funds, 1% of its capital gains on the team's commitment to funds, 1% of its team's carried interest earned on funds, 1% of the profits of its management company and 1% of the founder partners' salaries²⁰.

There are examples to suggest that in practise, 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 investment²¹.

²⁰ Invest for Children, Presentation to the European Venture Philanthropy Association

²¹ FT.com, *TCI chief donates £230m to his charity*, 2/07/2007

5.3.3 Founders and Ongoing Source of Funding

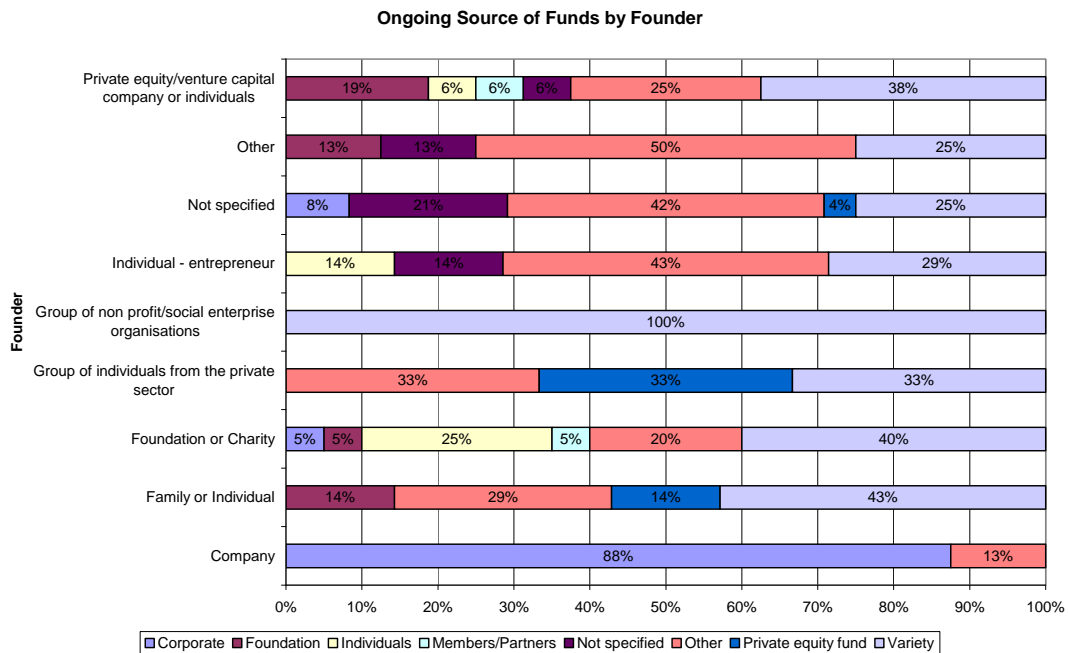


Figure 9 - Ongoing source of funds by founder

Figure 9 illustrates the principal ongoing source of funding when classifying VP funds by their founder. The research suggests that (where funding sources have been stated) the majority of VP funds founded by companies receive ongoing funding from companies. This is in line with the examples given above where companies have developed VP funds as part of their CSR policies and donate a certain percentage of their profits on a continuous basis to the company foundation.

Three funds were founded by a group of non-profit organisations (Social Ventures Australia, UnLtd Ventures²² and United Jewish Communities), all of which do not receive funding from a sole source. Otherwise, it would seem that there is little correlation between the founder of a VP fund and its ongoing source of funding.

²² UnLtd Ventures is the in-house consultancy service of UnLtd. It provides business support and tools similar to other VP funds reviewed here; however it does not provide capital to client organisations). UnLtd is funded by a Millennium Commission endowment of £100 million, UnLtd Ventures however cannot be funded by UnLtd's endowment unless supporting UnLtd's grantees and therefore it also receives funds from foundations and trusts.

5.3.4 Destination of Funds by Source

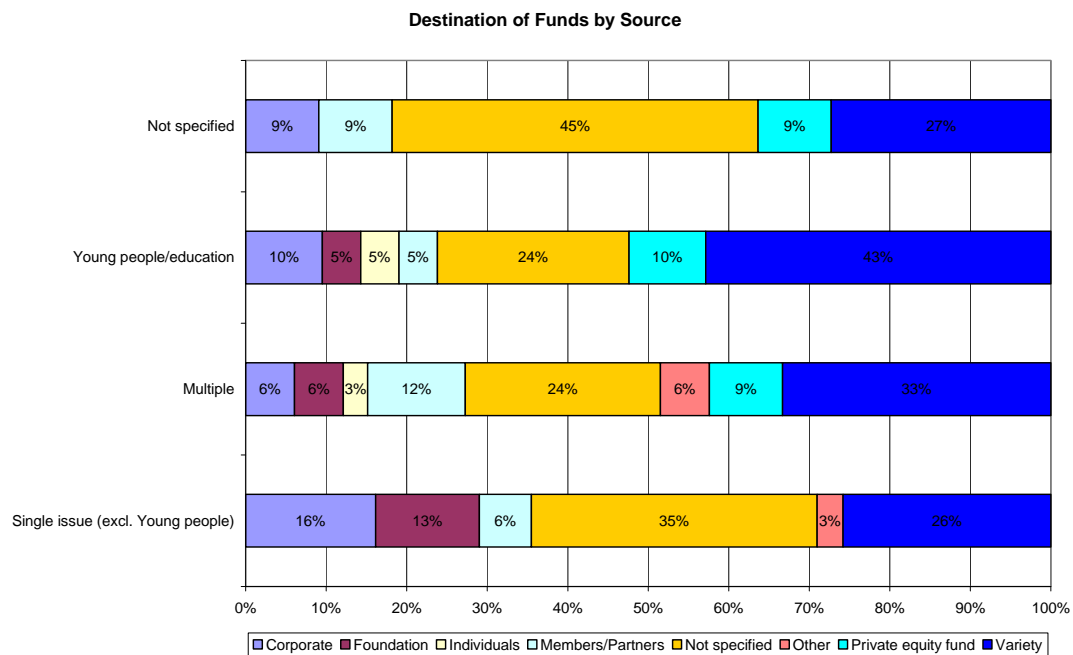


Figure 10 - Mission related destination of funds by ongoing source of funding

Figure 10 illustrates that there appears to be no clearly prominent relationships between the mission-related destination of a VP fund and its ongoing source of funding.

For funds supporting organisations helping young people, the majority use a variety of sources of funds, as is the case for organisations that help multiple causes and those that have another single focus other than young people.

There are a slightly higher number of organisations that focus on single issues that have companies or foundations as their main source of money. VP funds using members or partners as financiers tend to invest in a number of causes, as would be expected of organisations who often allow members to choose the organisation(s) with whom they wish to work.

The research suggests that private equity-funded VP funds do not tend to focus on single issues other than young people. This supports the findings above that suggest that single issue funds are more prevalent in the USA where private equity funding is less common.

5.4 Additional Findings

5.4.1 Investing in Individuals

Most VP funds specify what type of organisation they are willing to invest in. However, nine funds reviewed for this paper explicitly noted individual social

entrepreneurs as targets for their funding²³. Instead of investing in organisations, these funds look for individuals with ideas for social change initiatives, strong leadership qualities and entrepreneurial skills. They provide training and mentoring as well as financial assistance to quickly develop the individual and their idea. The Equal Footing Foundation in the USA is a variation of this type of investment that uses venture philanthropy principles to invest in university students with academic potential in the field of technology by providing financial assistance as well as mentoring and access to networks.

5.4.2 Performance Measurement

Although monitoring an investee's performance is key to venture philanthropy to ensure organisational improvements are being made and that there is a social return on investment, very few funds outside of North America detailed the methods used to do this. Examples of the types of performance measurement techniques used include: follow up teams that evaluate investments and monitor goals, using a balanced scorecard, measuring financial indicators (such as growth in revenue) and outputs (e.g. number of clients served), and using the fund or project's Board to monitor performance.

Organisations such as REDF²⁴, New Philanthropy Capital and the New Economics Foundation are leading the way in researching and developing methods and toolkits to measure outcomes and the social impact of non-profit organisations. As mentioned above, some VP funds have developed in house evaluation techniques. Others are collaborating with external partners, such as Inspiring Scotland with Evaluation Support Scotland.

A key issue in performance measurement is the lack of good data management systems that would underpin performance measurement and performance management. Some funds, such as REDF, have started to address this problem. REDF found that non-profit organisations do not typically invest in building organisational capacity to collect comprehensive social outcome information. In response to this, REDF set up the Ongoing System of Social Impacts or OASIS system. The process of OASIS development involves in-depth organisational planning around client-centred information to involve all levels of staff. This system produces a tracking system with funder reporting requirements in mind, delivering information that can be compared across programs to reduce the 'silo' effect of data collection in charities.

²³ Canopus, Schwab Foundation, BonVenture Management, Social Impact International, UnLtd, Draper Richards Foundation, Endeavour, Full Circle Fund and New Ventures

²⁴ Formerly known as The Roberts Enterprise Development Fund

6 Summary

This paper is a preliminary look into the relationships between venture philanthropy investors, funds and investees around the world.

The findings indicate a stronger presence of funds in the USA compared to the rest of the world, although the number of funds in Europe has increased in recent years and the venture philanthropy movement is starting to develop elsewhere such as in Japan, China, India and Argentina.

VP funds tend to invest in multiple causes. However this research suggests that, in most regions, the funds that specify a single cause invest in youth or education related service organisations. The USA has proportionately more funds that invest in other specialised causes which do not appear to have been developed elsewhere in the world, in particular the promotion and preservation of religion and investment in biotechnology research.

The majority of funds specify where their clients' operations should be located in order to receive funding. The research suggests that there is a relationship between the geographic destination of investments and the mission in which funds are willing to invest. Funds investing in youth or science-related organisations tend to specify domestic operations whereas faith-based, technology or environment-related funds have a more international sphere of activity.

Foundations were found to be the main founders of VP funds. In addition, regional disparities were found as the USA's venture philanthropy movement traditionally rose out of the dot.com boom and the UK and European movement from financial institutions. In addition, it appears as though corporate venture philanthropy is on the rise. Corporate foundations may not necessarily describe themselves as venture philanthropists, but there are some that do apply venture philanthropy principles.

The main sources of ongoing funding were found to be foundations, corporations and individuals. Most funds use a portfolio of these sources.

A small number of funds, based in the USA, have a membership structure to their funds allowing members to pick and choose where their money is invested. As might be expected, corporate VP funds tend to rely on companies for their funding.

When looking at the mission-related destination of a fund and its ongoing source of funding, member-funded and private equity-funded organisations tend to invest in a variety of causes.

6.1 Trends

The growth of the venture philanthropy movement has placed it at the forefront of traditional philanthropy, witnessed by its development in recent years in Europe and elsewhere around the world.

In 2005, JPA Europe Limited and Aperio²⁵ proposed a number of trends that would be seen in the movement in the coming years. The research in this paper suggests there is evidence to support a number of these trends; however some are not yet apparent.

For example, traditional grant makers have been seen to adapt the principles of the movement as witnessed by the establishment of VP funds by foundations. In addition, the emergence of venture philanthropy in biotechnology is a clear indication of how VP investment acts as a positive signal to other investors and grant makers to leverage resources into drug research.

The VP model has no doubt evolved, as there is a clear distinction between the VP movement's characteristics in the USA and elsewhere in the world. Social return on investment evaluation techniques for example appear to be more developed in North America, however this would require further research to ascertain to what extent this is true.

6.2 Next Steps – Further Research

There were a number of areas where there was not enough information available for this paper to draw conclusions, however the findings suggest that further in depth research may bring to light trends or relationships.

Size of fund

Does the size of the fund have any bearings on the financial assistance given to an investee? Are there any correlations between the size of the fund and its source of ongoing funding or its founders?

Age of fund

Are there any correlations between the age of the fund and its performance? It has become apparent from this research that funds that have recently been established, for example Inspiring Scotland, have used older funds' experiences to set up their own. Correspondingly, older funds (for example those based in the USA) are sharing the lessons they have learnt with the wider venture philanthropy community.

²⁵ JPA Europe Limited and Aperio, *Good Results will be Addictive: High Engagement Giving/Venture Philanthropy: Future Trends*, March 2005

Geographic destination and mission-related destination of funds

The research suggests that there is some relationship between the mission in which a fund is willing to invest and the geographic location requirement for investee's activities. It would be useful to look further into this to find out the reasons behind such correlations.

Corporate venture philanthropy

It was found that there are a number of corporate foundations that are using venture philanthropy principles in their grant-making. This research has found eight such organisations based in the UK, Canada, USA and China. The growing focus of companies on their CSR policies would suggest that more companies around the world are likely to move towards investing in this manner. It would be useful therefore to investigate this further to ascertain whether corporate venture philanthropy is likely to be sustainable or whether it is a passing trend as has been suggested in the past²⁶.

External Factors

Factors external to venture philanthropy funds also impact on the structure, income and activity of a fund as well as the movement in certain countries. This has been touched upon in this research when considering the existence of medical research venture philanthropy funds in the USA. This could be researched further to identify the economic, political and media circumstances that engender the establishment, growth and development of venture philanthropy in a country.

²⁶ JPA Europe Limited and Aperio, *Good Results will be Addictive: High Engagement Giving/Venture Philanthropy: Future Trends*, March 2005

7 Appendix 1

Below is the list of funds reviewed for this paper. It should be noted that not all of these funds describe themselves as venture philanthropy organisations, however they do apply venture philanthropy principles to their investing financial and other resources as discussed earlier.

	VP Fund Name	Start Year of Fund	Website	Country of Origin
1	d.o.b foundation	1997	www.dobfoundation.com	The Netherlands
2	Canopus	1997	www.canopusfund.org	Germany
3	Small World Group	2005	www.smallworldgroup.com	Singapore
4	ACT	1965	http://www.andrewscharitabletrust.org.uk	UK
5	Social Ventures Australia	2002	www.socialventures.com.au	Australia
6	Lenovo/Non profit incubator	2007	http://www.npi.org.cn/english/sortshow1.asp?id=1	China
7	Fondation Demeter	1994	contact@fondationdemeter.com	France
8	Foundation PhiTrust	2004	www.phitrust.com	France
9	Schwab Foundation	1998	www.schwabfound.org	Switzerland
10	BonVenture Management GmbH	2003	www.bonventure.de	Germany
11	Social Impact International	2004	www.social-impact.org	India
12	The One Foundation	2004	www.onefoundation.ie	Ireland
13	Israel Venture Network		http://www.israelventurenetwork.org	Israel
14	Oltre Venture	2002	www.oltreventure.com	Italy
15	George Avenue	2000	www.noaber.com	The Netherlands
16	Alfanar	2004	alfanar.org.uk	UK
17	The Hunter Foundation	1998	www.thehunterfoundation.co.uk	UK
18	CAN - Breakthrough Fund	2005	http://www.can-online.org.uk/	UK
19	Impetus Trust	2003	www.impetus.org.uk	UK
20	HelpArgentina - Argentine Venture Philanthropy Fund		http://www.insightargentina.org/avpf.htm	Argentina
21	Tmura - The Israeli Public Service Venture Fund	2002	http://www.tmura.org	Israel
22	Fondazione Dynamo	2003	http://www.fondazionedynamo.org/en/index.asp	Italy
23	Tokyo Social Ventures	2003		Japan
24	Partners in Ideas Fund		http://www.idejupartneri.lv/	Latvia
25	Venturesome	2002	www.cafonline.org/venturesome	UK
26	Pilotlight	1996	www.pilotlight.org.uk	UK
27	Diageo Foundation		www.diageo.com	UK
28	Shell Foundation	2000		UK
29	Good Deed Foundation	2003	www.heategu.ee/eng	Estonia
30	UnLtd	2000	www.unltd.org	UK
31	Smile Foundation	2002	http://www.smilefoundationindia.org	India
32	Fondazione Oliver Twist Onlus	2005	www.fondazioneoliver Twist.org	Italy
33	Inspiring Scotland	2008	www.inspiringscotland.org.uk	UK
34	Kids&Future	2001	http://www.kidsfuture.or.kr/	South Korea
35	Invest for Children	1999	www.investforchildren.org	Spain/UK
36	CIFF (Children's Investment Fund Foundation)	2002	www.ciff.org	UK
37	The Sutton Trust	1997	www.suttontrust.com	UK
38	Private Equity Foundation	2006	www.privateequityfoundation.org	UK
39	ARK		www.arkonline.org	UK
40	NESsT Europa (Nesst Venture Fund)	2001	www.nesst.com	Hungary
41	Salesforce.com Foundation		www.salesforcefoundation.org	USA
42	Draper Richards Foundation	2002	www.draper-richards.org	USA
43	Alzheimer's Drug Discovery Foundation	2004	http://69.89.224.222/about/about.html	USA

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	VP Fund Name	Start Year of Fund	Website	Country of Origin
44	Equal Footing Foundation (NVTG)	1997	http://www.efooting.org/bannister.shtml	USA
45	Deshpande Foundation Venture Philanthropy	1996	www.deshpandefoundation.org	USA
46	Acumen Fund	2001	www.acumenfund.org	USA
47	BC Social Enterprise Fund	2005	bctsvp.com/BCSEF	Canada
48	BC Technology Social Venture Partners	2001	www.bctsvp.com	Canada
49	Benetech		www.benetech.org	USA
50	BetterWorld Together Foundation		www.betterworldtogether.org	USA
51	Biobasix Solutions Inc.		www.biobasix.com	Canada
52	Blue Ridge Foundation New York	1993	www.brfn.org	USA
53	Calvert Fdn	1995	www.calvertfoundation.org	USA
	Calvert Social Investment Fund (Balanced); Calvert Social Investment Fund (Equity); Calvert World Values International Equity Fund.		www.calvert.com	USA
54	Chicago Public Education Fund		www.cpef.org	USA
56	E+Co	1998	www.eandco.net	USA
57	Echoing Green	1987	www.echoinggreen.org	USA
58	EMCF Youth Development Fund	2000	emcf.org	USA
59	Endeavor	1997	www.endeavor.org	USA
60	Entrepreneurs Foundation (various locations)	1998	www.efbayarea.org (San Francisco example)	USA
61	Full Circle Fund		www.fullcirclefund.org	USA
62	Goldman Sachs Foundation	1999	www2.goldmansachs.com	USA
63	Google.org, Google Foundation	2004	www.google.org	USA
64	HP Digital Village	2000		USA
65	Institute for a Competitive Inner City	1994	www.icic.org	USA
66	Investors' Circle	1992	www.investorscircle.net	USA
67	Jewish Venture Philanthropy Fund (Los Angeles)	2002	www.jewishla.org/vpf-la/news.asp	USA
68	Kingdom Ventures		www.kingdomventures.org	USA
69	Kirlin Foundation		www.efundllc.com	USA
70	Legacy Venture/Legacy Works	1999	www.legacyventure.com	USA
71	Multiple Myeloma Research Foundation	1998	www.multiplemyeloma.org	USA
72	New Progressive Coalition LLC		http://www.newprogressivecoalition.com	USA
73	New Ventures	1999	www.new-ventures.org	USA
74	NewProfit		www.newprofit.com	USA
75	NewSchools Venture Fund	1998	www.newschools.org	USA
76	NYC Venture Philanthropy Fund		www.nycvpf.org	USA
77	PARSA Community Foundation		www.parsacf.org	USA
78	Philanthropic Ventures Foundation	1991	www.venturesfoundation.org	USA
79	Power of Love	2002	www.poweroflove.org	USA
80	Project Redwood		www.projectredwood.org	USA
81	REDF	1997	www.redf.org	USA
82	Robin Hood Foundation	1988	www.robinhood.org	USA
83	Silicon Valley Community Foundation	2006	www.siliconvalleycf.org	USA
84	Silicon Valley Social Venture Fund (SV2)	1998	www.sv2.org	USA
85	Social Capital Partners	2001	www.socialcapitalpartners.ca	Canada
86	Social Venture Partners Calgary	2000	www.svpcalgary.org ; www.svpi.org	Canada
87	Swan Ventures	2000	www.swanventures.com	USA
88	TOPP (The Open Planning Process)	1999	www.toppopenplans.org	USA
89	Venture Philanthropy Partners	2000	www.venturephilanthropypartners.org	USA
90	Vesper Society	1965	www.vesper.org	USA
91	Youth Ventures	1996	www.genv.net	USA
92	United Jewish Communities	2007	www.uic.org	USA
93	Cystic Fibrosis Foundation		http://www.cff.org/	USA
94	Juevenile Diabetes Research Foundation		http://www.jdrf.org.uk/	USA
95	Michael J Fox Foundation		http://www.michaeljfox.org/	USA
96	Muscular Dystrophy Association		http://www.mda.org/	USA

8 Appendix 2

The following organisations were identified as active in the field of venture philanthropy, but were not investigated in this paper; however they should be considered in future research:

1. LGT Venture Philanthropy
2. CIDEM - Centre for Innovation and Business Development
3. Launchpad at the Young Foundation
4. OFI
5. Prospectus
6. CDFSN
7. Wellington Partners
8. Zakat Community Venture Fund
9. Instituto Razão Social
10. Najeti
11. Millennium Institute
12. Maytree Foundation
13. Benefic Group
14. Bill & Melinda Gates Foundation
15. Brainerd Foundation
16. Omidyar Network
17. Kiva
18. Sequoia Capital
19. Imagine Canada