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FEATURE **SOCIAL INVESTMENT**

The old templates are being cast aside as recession grips the third sector. **Robert Stokes** reports on the new face of corporate giving, social enterprise.

THE FUTURE OF VENTURE PHILANTHROPY

A shift from traditional charity models towards social enterprises is set to gather pace as a new era of scarcity places more onus on quantifying the value of social benefits derived from philanthropic investments.

Experts say business-like organisations delivering social benefits are about to raise their appeal to funders through a widespread rollout of Social Return on Investment (SROI), a quantitative reporting method now being championed by UK authorities who have funded the setting up of a high-powered research centre to boost the sector.

Any boost to social enterprise will likely pull through the European development of venture philanthropy (VP) in its many guises. Private equity (PE) and venture capital (VC) companies and individuals already play a prominent role in venture philanthropy and will be natural targets for greater demand for money, time and skills.

Shake-up

Recession is driving change. The public has cut giving and lower asset values have devalued legacies. The outlook is particularly menacing to traditional, paternalistic charities that depend mostly on donations, legacies and bequests, with maybe a little trading to help.

The merger of Age Concern with Help the Aged, two large and complementary UK voluntary organisations, is one sign of the shake-out to come. The logic of such marriages was clear even before economies slumped – now it has become inescapable.

Recent years have seen heightened support for social entrepreneurs, sometimes supported by hands-on venture philanthropists seeking long-term relationships and significantly higher social impacts until a flow of alternative sustainable funds allows them to exit.

The 2006 award of the Nobel Peace Prize to Mohammad Yunus, the pioneer of microfinance in Asia, thrust the movement into global limelight. Social entrepreneurs have become a fixture at the World Economic Forum of the great and good and were much in evidence at its annual event in Davos at the end of January.

Yet even some of its star turns are struggling now. There was shock just before Christmas at the voluntary liquidation of The Environment Trust, a well established London-based social enterprise providing environmentally friendly and affordable homes. It was hit by a slump in house sales and an ill-fated move in biofuels, leading to it being unable to get credit.

"As a business movement, we are not insulated from the recession," concedes Antonia Swinson, CEO of the Scottish Social Enterprise Coalition (SSEC), a collective lobbying and campaigns voice for the sector in Scotland. Underlining the point, a speaker on insolvency was due to address SSEC's business forum in Edinburgh in January.

Social returns

Despite such news, the social enterprise believes its marketability to philanthropists will benefit from the UK government's recent appointment of the University of Birmingham to lead a new Third Sector Research Centre dedicated to analysing the impact of the sector's activities.

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Working in partnership with the University of Southampton, the TSRC aims to bring about a step change in the quality and quantity of hard evidence available to support the work of third sector organisations.

It is to receive £10.25m to develop a world class research capacity for charities, social enterprises and small community organisations, and its tasks include strengthening the evidence base on the entire sector, such as applying the most sophisticated Social Return on Investment (SROI) models available.

SROI is a sophisticated analytical methodology that appeals to venture philanthropists because it quantifies how much social enterprises are saving the public purse or business and the value of what they are doing for their client groups.

The notion is not unfamiliar to the United Kingdom. Some voluntary organisations and social enterprises have already piloted it. The New Economics Foundation, an influential think-tank, has developed and promoted its version of the methodology.

The sector also hopes that its services will become more highly valued as a result. "SROI methodology transforms social enterprise's sense of its own worth and allows us to be robust about putting a price on our heads, " says Antonia Swinson at SSEC.

Making the model work

Others remain optimistic for social enterprise. Impetus Trust, the VP fund launched in 2003 and supported by some PE firms, has seen income at its 11 portfolio charities grow by 29% a year on average while those helped by them leapt 53% annually. Impetus has generated an additional £5 of funding for every £1 it invests.

Its stated goal remains to raise £30m by 2012, targeting £10m each in cash, co-investment and pro-bono expertise. Despite the economic background, the proven successes of its portfolio have chairman Stephen Dawson feeling bullish about scaling up.

"It's certainly our ambition to do that based on the fact that we think we can now demonstrate that the model is working," said Dawson, best known as one of the UK's first VCs. "The first two organisations have achieved their objectives. We really can demonstrate transformational change. So we think that we are right to be ambitious, to help more disadvantaged people."

"We think we can now demonstrate that the model is working"

The two organisations in question are the London-based St Giles Trust and Speaking UP, of Cambridge. St Giles has reduced the recidivism rate of former prisoners. Speaking Up empowers people with learning difficulties, disabilities and mental health problems to speak up for themselves. It joined Impetus' portfolio in 2004 and recently exited after being transformed from a small, mostly grant funded, low-profile organisation to a national voice on disability and a sustainable enterprise which helped 500 people in 2004 but more than 3,000 in 2008.

The role of private equity

PE and VC involvement with venture philanthropy was analysed in a confidential 2008 study which reported on 96 VP organisations whose history, policies and activities were on the worldwide web.

John Pepin at consultants JPA Europe found that among these organisations – 51 from the USA, 30 from Europe and 15 from elsewhere – fully 17% had PE or VC origins. Europe accounted for the lion's share of these, 30%, while only 8% were from the USA and 20% from the rest of the world, possibly reflecting the fact that the VP phenomenon is ten years further down the line in America.

Private equity firms per se appeared to be the source of funds for 6% of the companies surveyed, with the remainder of the sector's involvement falling under various headings such as foundations, individuals and 'not specified'.

As JPA itself points out, the findings are preliminary. More research is indicated, but there is clear evidence of the enthusiasm with which some European PE and VC players are starting to view the field.

They are particularly attracted to a model which chimes neatly with the way they conduct their own businesses.

Just as with regular portfolio companies, a social entrepreneur's ambition, vision, energy, resilience and trustworthiness are key factors in determining whether an applicant will secure VP funding.

Transparency of reporting is critical, and measurement of social impact is also becoming a key competitiveness issue for social enterprises in the fundraising marketplace. Hence the enthusiasm for SROI.

Cutting back

Rich individuals from sectors that have prospered, such as PE and VC, may have to become even more prolific sponsors in the short-term: past precedent does not augur well for sustained corporate giving in a recession.

Major US companies cut corporate giving by 12.1% in the 2001 economic downturn, according to the LBG Research Institute, the USA's only non-profit organisation devoted solely to research into community investment.

The majority of more than 70 major American businesses surveyed recently by LBG said they would maintain or increase giving this year, but adding the overall picture suggested a decrease of between 3% and 5%..

While hard times bring out the best in some people, they also become choosier about what they give to. The LBG survey found that cuts in corporate giving may fall disproportionately on arts and culture organisations, with more than 80% of respondents intending to focus on more strategic giving.

For example, nearly a quarter of companies backing basic needs charities such as help for the homeless intend to give more, and a similar percentage of those supporting environmental causes also plan to raise their support.

Rising homelessness is inevitable and will have a larger emotional impact than ever before, according to Mel Young, the social entrepreneur behind the Homeless World Cup and who launched the Big Issue magazines sold by homeless vendors worldwide. Young is well-connected and widely listened to by philanthropists.

Homelessness used to be largely a scourge of the poor, the addicted, the abused, and people with mental health difficulties. But with millions of white-collar jobs at risk worldwide, house prices crashing, marriages under strain, and cheap credit still hard to get, the middle classes are more at risk of experiencing life on the street.

Money flows

What do the rich give to? A study by the University of Kent for Coutts & Co, the UK private banking arm of Royal Bank of Scotland, found that

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the country's 'million pound donors' prefer to back higher education, health, and international aid or development causes.

The report stressed how important such donors are to the Third Sector, calculating that fewer than 200 donations comprised nearly 5% of general charities' estimated £31bn revenue in 2006/07. That was without taking into account probable additional donations of less than £1m by the same people.

Celebrity donors who inspire others include film star Sir Sean Connery, author JK Rowling and rock idol Sir Elton John. Prominent business role models, either through their own foundations and trusts or through other routes, include Microsoft founder Bill Gates and his wife Melinda, George Soros, Gordon Roddick of Bodyshop fame, Sir Ian Wood of Wood Group oil services, and Sigrid Rausing of the family that made its fortune from the Tetra-Pak packaging system.

The One Foundation, the Irish fund co-founded in 2004 by Dec Ryan, son of Ryanair founder Tony Ryan, aims to have invested an estimated €100m+ over its 10-year funding horizon which expires in December 2013.

Sir Tom Hunter, the retail and property tycoon, wants to give away £1bn in his lifetime, though recent newspaper comment on the way his wealth has been impacted by falling valuations highlighted recession's squeeze on the rich.

While money is in scarcer supply for companies, sending staff on secondment to a Third Sector organisation – social enterprise or charity – may well become an even more popular way of occupying valued employees in a downturn.

Antonia Swinson at SSEC says: "There's a huge market. For example, I was recently asked to find a non-executive director to go the Hebrides for a couple of days a month to advise on a £100m worth of projects. I've been fending off approaches from senior partners in large professional services companies and very senior business people in their late 40s/early 50s who are used to dealing with large contracts. And this is for unpaid work. What we really need in Scotland is some sort of head-hunter capacity for social enterprise."

Moving with the times

Whatever recession brings, the die appears to be cast in favour of social enterprise, which leaves traditional charities pondering their futures.

Antonia Swinson at SSEC reports that "quite a large number" of chief executives of large charities have asked her how they can make the culture shift from organisations that do a bit of trading to become social enterprise engines for social change.

"Social enterprise is the future of charities and also for some areas of businesses going back to a real mutual model," she maintains.

If the suppliers of services are reforming themselves, so is the funding landscape.

UK government enthusiasm for social enterprise has seen it approve new structures such as Community Interest Companies (CICs) that can issue shares and are officially regulated. They have become popular with local health trusts and hospitals.

Scotland's nationalist government recently committed £43m over three years to building the social economy. It also signed a concordat with local authorities, agreeing targets for councils to achieve in this respect.

One result is that private companies pitching for big ticket public sector work are now asking how they can include social enterprises in bid consortia so that tenders have built-in appeal for councils looking to meet concordat targets. With private equity heavily involved in infrastructure companies, its portfolio companies will inevitably need to come to terms with such developments.

In the USA, venture philanthropists that emerged from the dotcom boom of the late 90s were sometimes criticized as being too aggressive and prescriptive in their zeal to see commercial business and financial techniques introduced to traditional charities.

Stepping up to the challenge

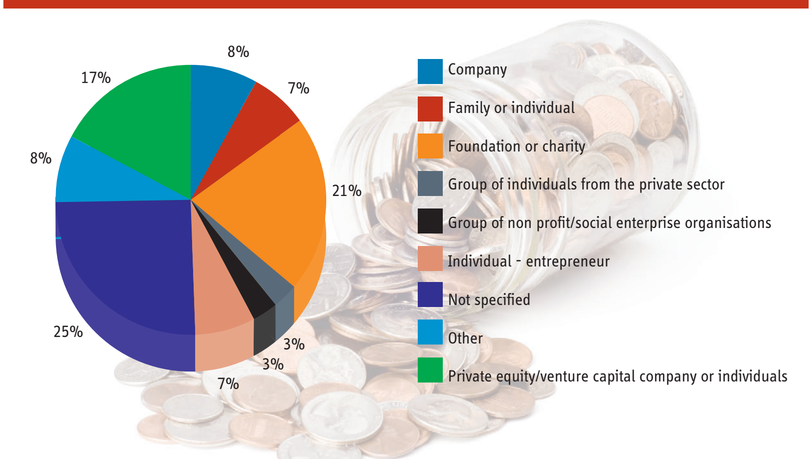
This and other chapters in the history of venture philanthropy are well chronicled and analysed in 'The Role of Private Equity in Social and Sustainable Development', a 2008 report by London-based consultants Arbor Square Associates and The Young Foundation, a centre for social innovation.

Mindful of this, organisations such as the European Venture Philanthropy Association (EVPA) have striven to provide an inclusive platform and network for all manner of voluntary and governmental organisations, social enterprises and benefactors.

This has avoided some conflicts that a more purist and dogmatic VP approach might have engendered. The EVPA has achieved this in little more than five years and has attracted members at double the rate it expected at launch. It now has more than 100, and its fourth annual conference in Frankfurt last September was attended by more than 330 delegates, from 26 countries.

It has left Europe handily placed to step up to the plate as, forty years after John D Rockefeller III dreamed up the phrase 'venture philanthropy', the movement prepares for the biggest challenge that philanthropists have faced in decades. ■

FOUNDERS OF VENTURE PHILANTHROPY FUNDS - WORLDWIDE



Source: JPA Europe/Aperio
From a preliminary study of 96 VP funds worldwide

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SALUTING THE TRAILBLAZERS

Celebrating the generous firms and individuals from the private equity industry

While famous showbiz and industry figures make headlines for philanthropic giving, private equity and venture capital figures tend to avoid the limelight. Pour encourager les autres, we here spotlight a selection of European individuals and firms making recent waves in venture philanthropy. They include people for whom the movement has formed a second career. The UK's Impetus Trust is a significant absentee here as it is covered in our main feature on venture philanthropy and featured prominently in a recent *EVCJ* article on giving.

Christopher Cooper-Hohn: Established and manages TCI, the Children's Investment Fund, a London-based asset manager passing part of profits to The Children's Investment Fund Foundation. CIFF backs ambitious projects to improve children's lives, largely in India and Sub Saharan Africa. In 2008, it promised £4.8m over three years for teaching in an e-ducationally disadvantaged region of India.

It also pledged US$3m over 36 months towards work in Africa by former US president Bill Clinton's worldwide initiative for children affected by HIV/AIDS, and their families. www: cif.org

Permira: Global private equity house. Co-founder and partner with CAN (Community Action Network) in Breakthrough, a pionering programme of strategic support and growth capital for established social enterprises with potential to scale-up transformationally. Permira staked Breakthrough Social Investment Fund I in 2005 and also injects advanced business skills.

A further £1.35m Permira from autumn 2007 on will carry Breakthrough Fund II into late 2010, while private equity and fund management business SVG Capital is also contributing £40,000 per annum for five years from mid-2008. In Germany, Permira funds have invested in a similar programme, ORK (Off Road Kids). www: can-online.org.uk

Rory Brooks: Co-founder of MML Capital Partners, the London-based mezzanine and private equity firm. He and his wife's foundation is the main benefactor of the Brooks World Poverty Institute at the University of Manchester, his alma mater. The BWPI is a multidisciplinary centre of global excellence researching poverty, poverty reduction and inequality worldwide.

Brooks' foundation had already pumped in £1.5m when he announced last September that another £1.4m would go to the institute over three years for work including ground-breaking partnerships with those working with the poor to transfer BWPI's expertise across the world. www: bwpi.manchester.ac.uk

Michiel de Haan: Founder of Netherlands-based venture capital outfit Aescap Venture Management, which specialises in private medical companies. He has a particular leaning towards supporting social enterprises in Africa. Beneficiaries of his time and money include airborne medical services. He is also an adviser to Sovec, an investment fund set up by Dutch entrepreneurs to invest in small and medium sized companies in Africa. Haan also founded the Transatlantic VC firm Atlas Venture, which he managed until 2000. www: sovec.nl

Investindustrial: The private equity arm of BI-Invest, the holding company of Italy's Bonomi family, created Invest for Children (i4c) as its vehicle for corporate giving. i4c currently invests in Spain and Italy to improve the lives of disabled and Down's syndrome youngsters. It helped Spain to send 86 athletes to the Special Olympics in China.

Investindustrial aims to donate 1% of what it makes from: capital gains on the sponsor's commitment to funds; the team's commitment to funds; carried interest; the management company profits; and founder partners' salaries. www: investforchildren.org

Serge Raicher: Brussels-based partner at Pantheon Ventures, the global private equity primary and secondary fund-of-funds manager owned by Russell Investments. Current chairman of the European Venture Philanthropy Association and former general secretary of the European Private Equity & Venture Capital Association. Raicher is also a Member of Toolbox asbl, a philanthropy group in Belgium. www: evpa.eu.com

Pascal Vinamic: A partner with Bain & Co in London and Paris until 1992 before founding Ceres Finance to sell financial services and turnaround consultancy to private equity investors.

In 1995, he co-founded Fondation Demeter, a French venture philanthropy fund that has invested in and advised more than 40 organisations involved in humanitarian, social and cultural work around the world. It is now focusing more on at-risk youngsters and specialises in providing micro-credit finance.

Luciano Balbo: Founder of B&S Private Equity retired from this leading Italian house in 2002 to create what has now become Oltre Venture, the first VP fund in his native country. It supports social enterprises in Milan and northern Italy with a focus on social issues such as immigration, at-risk youngsters, family crisis intervention and housing.

Recent flagship projects supported by Oltre include a social housing project in Turin and a quality dental care clinic with controlled prices in Bergamo.

Mentioned in dispatches: Roger Brooke, founder of Candover and IP Group, Adrian Beecroft, co-founder of Apax Partners, and Stelio Stefanou, founder of Accord recently donated to The Royal Society's new fund to support early-stage technology companies. As EVCJ reported recently, the Enterprise Fund is roughly a quarter of the way towards its target or £20m which will be allocated according to a VP model that will see returns reinvested.

Other companies with an existing or potential interest in venture philanthropy include 3i, Coller, Barclays Private Equity, MVision, and Belgian owned Halder, a leading mid-market private equity player in Germany, Netherlands and Belgium. ■