EVPA is a membership association made up of organisations interested in or practicing venture philanthropy. Established in 2004, the association is a unique network of venture philanthropy organisations and others committed to promoting high-engagement grant making and social investment in Europe. Currently the association has 160 members from 22 countries.

EVPA's mission is to promote the expansion, effectiveness and impact of venture philanthropy and social investment in Europe.

The EVPA Knowledge Centre is the hub for European knowledge and thought leadership on venture philanthropy and social investment. Its mission is to:

1. provide EVPA members with resources and knowledge to assist them in the development of strategy and best practice
2. provide EVPA/VP field with legitimacy to:
   • Inspire professionals and attract funding
   • Enable academic research
   • Engage public information
3. Connect practitioners, academics and advisors around field know-how.

The EVPA Knowledge Centre is kindly sponsored by Natixis Private Equity. EVPA is extremely grateful to Fondazione CRT, Impetus Trust, Invest for Children, Noaber Foundation and Omidyar Network for their generous support.
Acknowledgements:

EVPA would like to express its thanks to the respondents of the survey (listed in the appendix) that invested time and effort into providing the data, as well as to the Knowledge Centre Advisory Committee members for their input and comments. The hard work of Amy Raisbeck and Elena Balestra was essential in terms of collecting and analysing the data.

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EVPA is extremely grateful to Fondazione CRT, Impetus Trust, Invest for Children, Noaber Foundation and Omidyar Network for their generous support.

European Venture Philanthropy and Social Investment 2011/2012
The EVPA survey
Executive Summary
This is the report of EVPA’s second annual survey of European Venture Philanthropy and Social Investment. The purpose of the report is to provide independent data and raise awareness about European Venture Philanthropy & Social Investing (“VP/SI”) so as to attract additional resources to the sector. EVPA acts as the main repository of data on VP/SI in Europe. The financial data provided was for the fiscal year ending in 2011, unless otherwise specified, and some questions were of a more general nature reflecting the current situation when the data was collected. When comparisons over time are made, they refer to the results of the 2011 survey, reflecting data from the 2010 fiscal year.

Definition of Venture Philanthropy

Venture philanthropy works to build stronger investee organisations with a societal purpose (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. The venture philanthropy approach includes the use of the entire spectrum of financing instruments (grants, equity, debt, etc.), and pays particular attention to the ultimate objective of achieving societal impact. The key characteristics of venture philanthropy include high engagement, organizational capacity-building, tailored financing, non-financial support, involvement of networks, multi-year support and performance measurement.

Survey Scope and Methodology

The survey aimed to capture the activity of venture philanthropy and social investment organisations (VPOs) based in Europe, according to the definition above, although their investment activity may take place in other continents. The survey was undertaken between July and September 2012 and targeted VPOs including both EVPA members and non-members. Out of the 102 surveys sent, we received 61 responses (compared to 50 responses in 2011) out of which 8 were from non-members. We do not claim to have captured the entire VP/SI industry in Europe, however we believe the sample to be highly representative.

Key Results of the Survey

Demographics of VPOs

The UK, France and Germany are the top countries in terms of VPO headquarters. As per the previous year’s survey most of the respondents were based in Western Europe, the top 3 respondent countries being the United Kingdom (18%), Germany (11%) and France (10%), and only three respondents from Eastern Europe. The average age of the VPOs is 6.5 years, a slight reduction from last year’s average of 7 years. We see a peak of VPOs being set up in 2007 and then again last year (2011) suggesting a reinvigoration of venture philanthropy in Europe.

Executives of VPOs have mixed non-profit/private sector backgrounds. In a change from last year many of the founders of VPOs come from the social mission driven sector (36% of respondents including foundations and other non-profit organisations, development organisations and social entrepreneurs), whereas the financial sector has moved to second
Executive Summary

Many VPOs have non-profit structures. In line with last year’s survey, a majority (67%) of European VPOs are structured as foundations, trusts or charities, and some are set up as companies, funds or multiple structures, although each country has its own terms and variations of these forms. This year’s survey collected specific data on investment funds considering that 41% of the sample reported to manage such funds. Most VPOs (56%) are non-endowed, implying that they engage in continuous fundraising activity.

VP/SI Positioning in Investment Landscape
Societal return is the main purpose; financial return is becoming more important. In a shift from last year’s results the VPOs requiring a societal return only decreased from 50% to 26%. Those VPOs where societal return is a priority but they accept a financial return increased from 38% to 48% and VPOs where societal and financial returns are on an equal footing increased from 10% to 25%. This showed that although societal return is the primary objective of the majority of VPOs, the relevance of some financial payback (either in capital or as an actual surplus on the investment) has become significantly more important. This is both an indication of changing strategies of existing players and due to the sample changing from year to year.

Resources of European VP/SI
Many European venture philanthropy organisations have annual budgets lower than €2.5m. The majority of organisations (61%) allocated less than €2.5m to VP/SI (as a total budget including investments and overhead expenses) in the last fiscal year, the average amount allocated was €7.4m and the median was €1.3m. Only a small percentage (8%) had a budget greater than €20m.

Individuals and PE/VC/Hedge Funds represent the main sources of VP/SI funding. This year, individual donors and investors are on a par with PE/VC/Hedge Funds to represent the main sources of funding for VP/SI activities, with 16% and 17% of the total funding respectively. In fact overall, PE/VC/Hedge Funds decreased in importance as a funding source (32% of respondents). The managers (executive staff) have more of a private sector background (37% of respondents) and social mission driven background comes second (29% of respondents).

2 This analysis refers to the responses from a large majority (98%) of the VPOs who answered the relevant survey question. Certain outlying responses were not included in the analysis to ensure the results provided an accurate representation of the industry as a whole.
source. Endowment income represents 11% of total funding but for those foundations and non-profits that established their organisations with an endowment, a very large majority (82%) finance their VP/SI activities with the income from their own endowment. Governments gained territory with 15% of funding, corporations remained stable, and interestingly, financial institutions included in “other” became a key funding source.

**Distribution of total funding made available to VPOs**

A larger pool of professionals work in VP/SI. The survey found that 753 people are employed by the VPOs surveyed, with an average staff size of 13 people. This is a significant increase in the total and average staff from the finding of 437 and 9 people in the previous survey, suggesting that the size of teams dedicated to VP/SI activities is increasing. Adding to this number is a pool of 634 volunteers and 617 contributors of non-financial services.

**VP/SI Investment focus**

Social enterprise is the key target of European VPOs. European VPOs³ continue to invest across a spectrum of organisational types. The key finding in this year’s survey is that social enterprise emerges as the main target of VP/SI investment, representing the largest increase in funding, from 25% in fiscal year 2010 to 39% in fiscal year 2011. Non-profit organisations, with or without trading, receive relatively less funding in 2011 as compared to 2010, with 19% and 26% respectively of 2011 VP/SI expenditure, compared to 33% and 25% respectively in 2010.
European VPOs take risks by investing in small organisations with little track record. Most VPOs (84%) do not have set criteria with regards to the size of the organisations (in € terms) in which they invest. For those that do, their focus is on organisations in the small to medium category (70% of respondents that have a set criteria focus on organisations between €100k and €1m in turnover). In confirmation of last year’s results, VP/SI generally targets young investee organisations: 40% invest in organisations of age 2-5 years, 31% in organisations that are less than 2 years old and 16% at the incubation stage.

In terms of social sector focus, this year economic and social development has overtaken health as the number one sector, receiving 20% of total funding, followed by education, with 15% of total funding and then health with 12% of total funding. The allocation of funding to other social sectors is provided in more detail in the main body of the report.

Children and youth are main beneficiaries of VP/SI investments. In terms of ultimate beneficiaries of the VP/SI funding, the survey found that, like last year, 63% of European VPOs target children and youth as the ultimate beneficiaries of their investees’ activity. People suffering from poverty (44%) are still the second most supported group, however unemployed people (26%) became a more important group of support, probably due the current economic crisis in Europe, followed by the disabled (23%), minority ethnic communities (13%), women (13%) and immigrants, asylum seekers and/or refugees (11%).

Western Europe followed by Africa are the main target regions. European VPOs tend to focus their activities in Western Europe (61% of funding) and otherwise on developing countries, with Africa (24%) and Asia (9%) being the main target regions and South America attracting about 2% of the funding.
**VP/SI Investment process**

A *proactive search for investment opportunities*. Finding the right investee SPOs is a fundamental part of a VPO’s activity. In line with last year’s results, 89% of VPOs are proactive in their search to identify and approach the SPOs to invest in, whereas 43% of the European VPOs that participated in the study accept open applications.

**Average financial support increases by 27% in 2011 as compared to 2010.** VPOs have invested almost **€1.4 billion** through financial and non-financial support since they began their operations. In the fiscal year 2011, they provided investees with €278 million of financial support. There was a 27% increase in the average annual financial spend per VPO from €4.1million to €5.2million.

**Debt and equity are the most commonly used financing instruments.** Interestingly, there was a significant increase in the use of equity and debt instruments from 2010 to 2011. The increase in use of instruments other than grants may be a reflection of the greater relevance of some kind of financial payback, and may indicate that “tailored financing” as a key component of the VP model is being applied.
Non-financial support is a key component of the high engagement VP/SI model. High engagement is evident in statistics on the frequency of meetings with the SPOs, with almost three quarters of respondents meeting at least quarterly with their investees. The most frequently quoted non-financial services remain strategy consulting, coaching and providing access to networks.

There is increased attention to measuring social impact. The focus on social impact measurement has increased, with 90% of respondents measuring social impact on at least an annual basis during the investment period. However, the objectives of the impact measurement system are, in the majority (84%) of cases, still based on output measures such as “number of people reached”. Nevertheless we have seen an increase in the percentage of VPOs attempting to measure changes in outcome or social value / impact (which requires an assessment of attribution).

A majority of VPOs have exited some investments to date. As per last year’s results, most VPOs continue to plan their exits, either in all cases (48%) or sometimes (31%). However, in this year’s survey 61% of respondents said that they had exited investments to date versus 52% of last year’s respondents.

Conclusion

The 2012 EVPA survey shows in comparison with the first survey (2011), that the VP/SI sector in Europe is evolving rapidly. The most striking evolution is the shifting balance in return objectives. Although societal impact is the primary focus (organisations that do not have this focus are not included in the survey) the relevance of some financial payback (either in capital or as an actual surplus on the investment) has become significantly more important. We see this as a sign of the sector becoming more mature.

The survey reveals that VP/SI organisations have become more sophisticated in their use of the entire range of VP/SI ‘tools’ to generate greater societal impact. It is encouraging to see the progress made by respondents in developing practices such as impact measurement (94% measure social impact), due diligence, co-investment, capacity building, effective non-financial assistance and exits. There was a notable increase in the variety of financing instruments used by the VPO respondents with a significant increase in the use of equity and debt. These findings indicate that tailored financing is becoming a reality.

Important to note from this year’s survey is that European VPOs are increasingly focusing on social enterprise as a target investee, with less funding going to non-profit organisations, and that they take risks by investing in small organisations with little track record.

The EVPA survey highlights that the VP/SI sector involves a variety of different types of organisations, professionals and funders. The top countries in terms of housing VPOs are the UK, France and Germany, whereas the bulk of the funding goes to Western Europe and Africa. Foundations and other non-profit structures remain major players, both in terms of VPOs and in terms of funders of VP/SI. The resources of VPOs have increased, as is
evident in the total and average funding available and invested, and by the fact that there
is now a larger pool of professionals working in VP/SI. However, most European VPOs
have budgets of less than €2.5m per annum. It is clear that more funding and resources
are needed to help VPOs in their important work to build stronger social purpose organisa-
tions. EVPA is committed to continue the research and promotion of best practice in the key
components of the VP/SI model and reiterates the importance of a collaborative approach
to developing the sector.
Part 1:
Introduction
Purpose of the Report

This is the second report on European Venture Philanthropy and Social Investment published by the European Venture Philanthropy Association. The purpose of the report is to provide key statistics and raise awareness about a sector that is evolving rapidly so as to attract further resources to the sector. The positioning of VP/SI in the investment space is clearly on generating societal impact, however this year we see more respondents seeking financial returns in addition to societal returns. Foundations and other non-profit structures remain major players, both in terms of VP/SI organisations (“VPOs”) and in terms of funders of VP/SI. The survey results show the increased commitment of European venture philanthropy and social investment to supporting social enterprises and that they take risks by investing in small organisations with little track record. These findings contrast with the results of a recent survey on the impact investment market by JP Morgan/GIIN which showed that a majority (78%) of those investors focus on growth stage companies and that one of the key challenges is the lack of high quality investment opportunities. VP/SI is clearly filling a market gap by focusing on the early stage companies with financing tailored to their needs, rather than aiming to achieve market rate returns. The resources of the VPOs have increased, as is evident in the average and total funding available and invested, with cumulative total support amounting to €1.4bn, and by the fact that there is now a larger pool of professionals working in VP/SI. However, most European VPOs have budgets of less than €2.5m per annum. More funding is needed for VPOs to generate an even greater societal impact.

The report is based on a comprehensive survey conducted by EVPA’s Knowledge Centre that captured key statistics on 61 European VPOs. This is the second such survey that we have conducted and is in line with our ambition to repeat the survey annually and for the EVPA survey report to become the key point of reference on European venture philanthropy and social investment.

The report is structured as follows. It starts with a definition of VP/SI, its emergence, the role of EVPA and the methodology of the survey. It then presents the results of the survey, including the following sections:

1. Demographics of VP/SI organisations in survey
2. VP/SI positioning in investment landscape
3. Resources of European VP/SI
4. VP/SI investment focus
5. VP/SI investment process
   a. Deal flow and investment appraisal
   b. Investment
   c. High engagement and non-financial services
   d. Performance measurement
   e. Exit
6. Investment funds

Finally, the report presents the key conclusions based on the results of the survey.
What is Venture Philanthropy?

Venture philanthropy works to build stronger investee organisations with a societal purpose (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. EVPA purposely uses the word societal because the impact may be social, environmental, medical or cultural. The venture philanthropy approach includes the use of the entire spectrum of financing instruments (grants, equity, debt, etc.), but pays particular attention to the ultimate objective of achieving societal impact. The key characteristics of venture philanthropy are as follows:

- **High engagement** – Hands-on relationships between SPO management and venture philanthropists
- **Organisational capacity-building** – Building the operational capacity of portfolio organisations, by funding core operating costs rather than individual projects
- **Tailored financing** – Using a range of financing mechanisms tailored to the needs of the supported organisation
- **Non-financial support** – Providing value-added services such as strategic planning to strengthen management
- **Involvement of networks** – Enabling access to networks that provide various and often complementing skill-sets and resources to the investees
- **Multi-year support** – Supporting a limited number of organisations for 3-5 years, then exiting when organisation are financially or operationally sustainable
- **Performance measurement** – Placing emphasis on good business planning, measurable outcomes, achievement of milestones and financial accountability and transparency

The following diagram aims to clarify the role of the venture philanthropy/social investment organisation in building stronger investee organisations with a societal purpose. The venture philanthropy/social investment organisation acts as a vehicle, channelling funding to investee organisations. The non-financial support is provided by the VP/SI organisation itself, but
also by external organisations and individuals. The investee organisations in turn develop multiple projects that may be focused on particular sectors such as healthcare, education, environment, culture, medical research, etc. The ultimate beneficiaries are usually groups in society that are somehow disadvantaged, including disabled, women, children, etc. The societal impact ultimately needs to be measured by assessing how the lives of the beneficiaries are improved thanks to the actions of the investee organisations, and going one step further, assessing the contribution of the VPO to that improvement. The VPO generates social impact by building stronger investee organisations that can better help their target beneficiaries and achieve greater efficiency and scale with their operations. Investors in venture philanthropy/social investment are usually focused on the social return of their investment, rather than on the financial return.

Role of EVPA in industry evolution

Established in 2004, EVPA is a non-profit membership association, whose membership includes a unique network of venture philanthropy organisations, social investors, grant-making foundations and others committed to promoting high-engagement grant making and social investment in Europe. EVPA is a made up of organisations across Europe interested in or practicing venture philanthropy.

Beyond being a mere “tool”, venture philanthropy is emerging as a new industry, with an entire support system around it, including advisory service firms and business schools with programmes specialised in venture philanthropy. As venture philanthropy continues to grow, the industry-building role of the association becomes increasingly important, thus also calling for the development of best practice, guidelines and market infrastructure. EVPA acts as the main repository of data on the VP/SI industry in Europe. This is the report of the second EVPA survey of European VP/SI that provides concrete data on VPOs in Europe. The survey that enabled EVPA’s Knowledge Centre to collect the data presented will be repeated on an annual basis to provide independent statistics on European Venture Philanthropy and Social Investment.

Starting 2011, EVPA surveys its members on an annual basis about their VP operations in order to:

• generate key statistics;
• publish report to disseminate the work of VP/SI organisations;
• better target EVPA’s services to members’ needs

Reliable data on European VP/SI Industry useful for EVPA members to:

• improve their practices through benchmarking exercises;
• attract resources including funding and professionals;
• make their voices heard in government relations

Survey scope and methodology
This survey was elaborated by EVPA’s Knowledge Centre. The questions aimed to gain an overview of the demographics of the VP/SI sector and cover the main practices of VP/SI organisations in order to gain insight into their daily activities. The questions cover the key characteristics of VP/SI as highlighted above. Many of the questions from the first survey were repeated, while others were modified based on feedback, some were eliminated and a few new questions were added. Therefore, it was possible to talk about changes from year to year in some cases, but not in others. Furthermore, when trend data is reported, it is important to note that the sample is not completely consistent from year to year as detailed below.

The survey itself was set up in the Qualtrics® tool so that the responses could be made directly online and collected by EVPA.

The survey aimed to capture the activity of VP/SI organisations (VPOs) based in Europe, although their investment activity may take place in other continents. The survey was undertaken between July and September 2012 and targeted EVPA’s full members, organisations whose primary activity is venture philanthropy and social investment, and EVPA’s associate members that are active in high engagement grant making and social investment as part of their philanthropy or investment activity. For example, some foundations included in the survey have a separate VP or social investment “fund”. In those cases, we asked the respondents to answer the questions only in terms of that VP/SI fund. The survey was also sent to non-EVPA members that fulfilled the criteria of being based in Europe conducting VP/SI activities. Using snowball sampling, we asked all respondents to provide examples of other VP/SI organisations outside of EVPA membership in order to capture as large a percentage as possible of the total VP/SI population in Europe.

The survey was first sent in July 2012 and closed in September of the same year. Follow-up phone calls and emails were conducted in order to reach the final response rate of 60%. Of the 61 completed surveys, 40 respondents also completed last year’s survey and 21 were new respondents. In the table below, the statistics of the survey are presented:

<table>
<thead>
<tr>
<th>Statistics on surveys collected</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>EVPA members surveyed</td>
<td>74</td>
<td>55</td>
</tr>
<tr>
<td>(full members and members with VP/SI activity)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EVPA members completed surveys</td>
<td>53</td>
<td>46</td>
</tr>
<tr>
<td>EVPA member response rate</td>
<td>72%</td>
<td>84%</td>
</tr>
<tr>
<td>Total surveys sent (including non-EVPA members)</td>
<td>102</td>
<td>65</td>
</tr>
<tr>
<td>Total completed surveys</td>
<td>61</td>
<td>50</td>
</tr>
<tr>
<td>Total response rate</td>
<td>60%</td>
<td>77%</td>
</tr>
</tbody>
</table>
The response rate was satisfactory for this type of study, although notably higher for EVPA members than for non-members. This year, quite a few new leads were provided through the snowball sampling methodology, which could indicate that the targeted population for the survey is growing from year to year or that we were more efficient at our data collection. We do not claim to have captured the entire VP/SI industry in Europe, however we believe the sample to be highly representative.
Part 2:
Presentation of Survey Results
The survey was completed by 61 investors and grant-makers based in Europe, using the venture philanthropy approach. Most of the financial data provided was for the fiscal year ending in 2011, unless otherwise specified.

1. Demographics of VP/SI organisations in survey

Country of origin

The UK, France and Germany are the top countries in terms of VPO headquarters. In line with the 2011 survey most of the respondents were based in Western Europe, the top 3 respondent countries being the United Kingdom (18%), Germany (11%) and France (10%), and only three respondents from Eastern Europe. However distribution of respondents from other European countries increased compared to last year. The survey aimed to capture the activity of organisations based in Europe, although their investment activity may take place in other continents. The following graph shows the distribution by country of origin, comparing 2012 and 2011 respondents.
Years of VP/Sl activity

The survey asked respondents to specify the number of years their VP/Sl activity had been operating. This question was in some cases difficult to answer considering the many ways that an organisation can start engaging in VP/Sl, using just a few of the key characteristics or applying the full model. The average age of the VPOs is 6.5 years, a slight reduction from last year’s average of 7 years. Although the VP/Sl movement is considered about a decade old in Europe, some respondents claim to have been doing VP/Sl for longer than that. We see a peak of VPOs being set up in 2007 and then again in 2011 suggesting a reinvigoration of venture philanthropy in Europe. Those respondents, whose VPOs were founded in 2011, were also from diverse regions: Benelux, Eastern Europe, France, Italy, Scandinavia and Switzerland & Austria, showing the strength of venture philanthropy activities across Europe.

Professional background

VPO founders come from the social sector. The survey investigated the professional background of the founders of VP/Sl organisations and found, in a change from last year, that in many cases, the founder comes from the social mission driven sector (36% of respondents and including foundations and other non-profit organisations, development organisations and social entrepreneurs). The financial sector (including private equity and venture capital, retail and investment banking, asset management and hedge funds) has moved to second place (32% of respondents). The private sector in general (including publicly traded companies, professional services (lawyer, consulting etc.) and entrepreneurs) was also an important source of VPO founders with 27% of respondents.

Executives of VPOs have mixed non-profit/private sector backgrounds. However, executives of VPOs have more private sector backgrounds (37% of respondents) and social mission driven background (29% of respondents) comes second, followed by the financial industry (26%). It is also worth noting that almost half of those CEO’s that have a private sector background actually came from the professional services i.e. lawyers, accountants, consultants. A mix of social sector and private sector professional backgrounds is often found in the management teams of VP/Sl organisations.6

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Organisation structure

A majority of VPOs have non-profit structures. In line with last year’s results, a majority (67%) of the European VP/Sl organisations are structured as foundations, trusts or charities, although each country has its own terms and variations of this form. Other forms are companies, funds, or multiple structures. This year’s survey collected specific data on investment funds considering that 41% of the sample reported to manage such funds regardless of legal structure.

Out of the 61 respondents, 44% had endowments that allow a fairly predictable funding budget from year to year. The rest are thus non-endowed entities that need to engage in continuous fundraising. The majority of European VP/Sl organisations (72%) tend to be stand-alone entities.
2. VP/SI positioning in investment landscape

VP/SI is one tool in the social investment and philanthropy toolkit. It has emerged in Europe during the present decade as a high engagement approach to social investment and grant making across a range of investee organisations with a societal purpose (SPOs), from charities and non-profit organisations through to socially driven businesses. The venture philanthropy approach includes the use of the entire spectrum of financing instruments (grants, equity, debt, etc.), but pays particular attention to the ultimate objective of achieving societal impact. In the spectrum below, impact only strategies expect a societal return and negative financial return. Impact first strategies aim to achieve a societal return, but may also generate a financial return.

Finance first strategies, where the financial return is maximised and the societal impact is secondary, are not included in EVPA’s definition of venture philanthropy. The relatively newer term “impact investment” tends to include both impact first and finance first strategies, although the term is used to describe a wide range of investment strategies. In what follows, we present data from the survey that highlights the positioning of European VP/SI organisations on the spectrum.

Terms used to describe VP/SI activities

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2 Adapted from John Kingston, CAF Venturesome, by Pieter Oostlander, Shaerpa and EVPA (n=50)
The plethora of terms used to describe a VPO’s activities was highlighted in our survey. An equal number of respondents describe their activities as venture philanthropy (28%) and social investment (28%), and with 24% calling them impact investing and 13% social venture capital.

**Societal return is the main purpose; financial return is becoming more important.** VP/Sl organisations are largely positioned on the left hand side of the investment spectrum, indicating that societal return is the main purpose. Interestingly, in a shift from last year’s results, the VPOs requiring a societal return only decreased from 50% to 26%. Those VPOs where societal return is a priority but they accept a financial return increased from 38% to 48%, VPOs where societal and financial returns are on an equal footing increased from 10% to 25% and one respondent (2%) places financial return above societal impact. This result showed that societal return remains the primary objective of the majority of VPOs. However, in a time of scarce resources, recycling capital is increasingly important, although this could also be an indication of changing strategies.

When asked about the financial return they expected from their venture philanthropy investments, the responses were relatively evenly distributed between those VPOs expecting a positive return (30%), those expecting capital to be repaid (34%) and those expecting a negative return (36%).
Part 2: Presentation of Survey Results

For those VPOs that expected a positive return from their investments the percentage return expected varied from 1% to 15%, but with the majority (60%) of those that expected positive returns expecting a return per annum of 5% or less.

The survey then asked the respondents whether they had realised a positive return on their investments in the last fiscal year. Of the 54 respondents to this question, 8 had realised positive returns in 2011. This relatively low number, given that 30% expect positive financial returns, may be a reflection of the more recent focus on financial returns in the VP/SI industry. Nevertheless, given the small sample size it is difficult to draw far-reaching conclusions on the general use of financial returns received by venture philanthropy organisations. The respondents reported to have reinvested the proceeds from these investments in the same fund (40%), distributed to investors (30%) or used to cover the core costs of the VPO (20%).

3. Resources of European Venture Philanthropy

Financial capital

Many European venture philanthropy organisations have annual budgets lower than €2.5m. The European venture philanthropy industry is evolving rapidly, however it is still early stage with many relatively small organisations struggling for survival. The majority of organisations (61%) allocated less than €2.5m to VP/SI (as a total budget including investments and overhead expenses) in the last fiscal year, the average amount allocated was €7.4m and the median was €1.3m. Only a small percentage (8%) had a budget greater than €20m. Importantly this year the specific question asked was the amount budgeted to a VP/SI strategy in a fiscal year rather than the size of the endowment or fund, avoiding the problem that only a small percentage of endowments tends to be spent every year.
Individuals and PE/VC/Hedge Funds represented the main sources of VP/Sl funding. This year, individual donors and investors are on a par with PE/VC/Hedge Funds to represent the main source of funding for VP/Sl activities, with 16% and 27% of the total funding respectively. In fact overall, PE/VC/Hedge funds decreased in importance as a funding source. Endowment income represents 11% of total funding, but, as one would expect, for those foundations and non-profits that established their organisations with an endowment, a very large majority (82%) finance their VP/Sl activities with the income from their own endowment. Governments gained territory with 15% of funding, corporations remained stable, and interestingly, financial institutions included in “other” became a key funding source.

When looking at the diversity of different funding sources, we see that there is variation between countries. As shown in the graph below, the UK and Ireland have the greatest diversification in funding source, with 11 different types, followed by Italy and Switzerland and Austria each with 10.

Distribution of total funding made available by source

Diversity in sources of funding by country

total number of funding sources used in each country (n=61)

* This analysis refers to the responses from a large majority (98%) of the VPOs who answered the relevant question. Certain outlying responses were not included in the analysis to ensure the results provided an accurate representation of the industry as a whole.
Part 2: Presentation of Survey Results

**Human capital**

*A larger pool of professionals work in VP/SI.* Venture philanthropy combines financing with non-financial support, implying that a key resource is human capital. The survey found that 753 people are employed by the VPOs surveyed, with an average staff size of 13 people. This is a significant increase in the total and average staff from the finding of 437 and 9 people in the previous survey, suggesting that the size of teams dedicated to VP/SI activities is increasing. Adding to this number is a pool of 634 volunteers. Venture philanthropy organisations hire consulting services and pro-bono support from various types of organisations in their networks. In total, 617 pro-bono contributors and 192 external consultants contribute non-financially to the VP/SI activities of the respondents.

**Human resources by count**

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
<th>Average No. per VPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpaid Volunteers</td>
<td>634</td>
<td>11</td>
</tr>
<tr>
<td>Pro-bono contributors</td>
<td>617</td>
<td>11</td>
</tr>
<tr>
<td>Paid external contributors</td>
<td>192</td>
<td>3</td>
</tr>
<tr>
<td>Paid employees</td>
<td>753</td>
<td>13</td>
</tr>
</tbody>
</table>

When taking into account whether the VP/SI activities are performed from a larger organisation or a standalone entity we see that pro-bono contributors and unpaid volunteers are a more important part of the workforce when VP/SI is part of a larger organisation than when it is performed from a standalone entity. This is in line with our expectations.

**Type of contributors according to type of VPO**

<table>
<thead>
<tr>
<th>Type of VPO</th>
<th>Part of a larger organisation</th>
<th>Stand-alone entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid employees</td>
<td>38</td>
<td>48</td>
</tr>
<tr>
<td>Pro-bono contributors</td>
<td>32</td>
<td>13</td>
</tr>
<tr>
<td>Unpaid volunteers</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>Paid external contributors</td>
<td>22</td>
<td></td>
</tr>
</tbody>
</table>

4. Venture philanthropy investment focus

*Sociai enterprise is the key target of European VPOs.* European VPOs continue to invest across a spectrum of organisational types. The key finding in this year’s survey is that social enterprise emerges as the main target of VP/SI investment, representing the largest increase in funding, from 25% in fiscal year 2010 to 39% in fiscal year 2011. Non-profit organisations, with or without trading, receive relatively less funding in 2011 as compared to 2010, with 19% and 26% respectively of 2011 VP/SI expenditure, compared to 33% and 25%
respectively in 2010. However profit maximising enterprises with social impact saw a drop in support from 13% to 1%, while the “other” category (which includes microfinance) saw an increase from 5% to 15% of total funding.

As expected, VP/SI organisations’ priorities of social vs. financial return are indicative of the types of organisations supported, as evidenced by the bars in the following chart. VP/SI organisations that expect a social return only invest primarily in non-profit organisations. The ones that prioritise a societal return over a financial return invest in non-profit with trading activities or in for profit enterprises with a social mission, and the organisations that put societal and financial return on equal footing, invest more in profit maximising enterprises with social impact, although for profit enterprises with a social mission are still an important part.

We can also check for regional differences by dividing our sample into the main regions. Spain and the UK and Ireland focus on non-profits with trading revenues to a larger extent than the overall sample, and less on profit maximising enterprise with social impact. Eastern Europe has an above average focus on for profit enterprises with a social mission, closely followed by France and Italy. In Germany, VPOs are equally likely to focus on for profit en-
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European VPOs take risks by investing in small organisations with little track record. Most VPOs (84%) do not have set criteria with regards to the size of the organisations (in £ terms) in which they invest. For those that do, their focus is on organisations in the small to medium category (70% of respondents that have a set criteria focus on organisations between £100k and £1m in turnover).

In confirmation of last year’s results, venture philanthropy generally targets organisations that are young, although 36% of organisations have no set criteria. Of those that do (64% of respondents), 2-5 years is the most common age of investee organisations (40% of respondents). Some VPOs target early-stage organisations with an age of 0-2 years (31%), and others take the risk of incubating start-ups (16% of respondents). Just 13% of respondents invest in more mature organisations that are more than 5 years old, indicating that, in a change from last year (39% of respondents in 2010) VPOs are less concerned about requiring some track record before they are convinced that the business model of the social purpose organisations can be scaled up to achieve greater impact.

Number of respondents supporting different types of investee per region

<table>
<thead>
<tr>
<th>Region</th>
<th>No set criteria</th>
<th>NGO, no trading</th>
<th>NGO, trading</th>
<th>Impact first social enterprise</th>
<th>Profit-maximising with social impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK &amp; Ireland</td>
<td>4</td>
<td>4</td>
<td>9</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Switzerland &amp; Austria</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Spain</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scandinavia</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>3</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Benelux</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

(n=61)
Age of investee organisations, for those VPOs that had a set criteria

Social sector focus

The social sector classification used follows the International Classification of Non-profit Organizations (ICNO)\(^\text{11}\), first introduced by Salamon and Anheier in 1992, which has since become a standard in research on the non-profit sector. The classification system is as follows:

1. Culture and Recreation (Culture, Arts, Sports, Other Recreation and Social Clubs)
2. Education (Primary, Secondary, Higher, Other)
3. Research
4. Health (Hospitals, Rehabilitation, Nursing Homes, Mental Health/Crisis Intervention)
5. Social services (Emergency, Relief, Income Support/Maintenance)
6. Environment (Organic, cleantech, animal protection)
7. Development and Housing (Economic, social, community development, fair trade, ethical clothing, employment and training)
8. Law, Advocacy and Politics (Civic/advocacy organization, law/legal services, political orgs)
9. Philanthropic intermediaries and Voluntarism promotion
10. International (Intercultural understanding/development and welfare abroad/providing relief during emergencies)
11. Religion
12. Business and Professional associations, Unions
13. Other
14. No focus

Respondents were asked to check a box whether they focused on one or more out of a list of social sectors, or to specify other if not included in the listing, or check that they had no focus. The following chart provides the percentage of respondents that invest in the listed social sectors and a comparison is provided to the 2010 results. In 2011 like in 2010, education was the number one sector in terms of counts, however whereas in 2010 development/housing and health and environment were the next most popular sectors of focus, in 2011 although the focus on economic and social development and health remained, financial inclusion and access to finance became significantly more important as a sector. In this year’s survey we also see a larger proportion of respondents (increasing from 7% in 2010 to 18% in 2011) having no social sector focus, however this may be only because in last year’s survey a category called “Social Entrepreneurs (General)” was a possible option, whereas in this year’s it was not.

We also asked respondents\textsuperscript{12} to indicate the value of the investments made in the last fiscal year dedicated to each social sector. The following chart takes the resulting percentages for 2011 and compares the results to similar\textsuperscript{13} data from 2010. In terms of funding, health is no longer the number one sector having fallen to fourth place (receiving 12\% of funding in 2011, down from 27\% in 2010). It has been overtaken by economic and social development (20\% in 2011 vs 7\% in 2010). Education is the third placed sector in 2011 (15\% of total funding), a decrease from second place and 21\% of the funding in 2010. Financial inclusion (10\%) and Housing (7\%) also emerged as important sectors in terms of funding received.
**Final beneficiaries - target groups**

*Children and youth are main beneficiaries of VP/SI investments.* The survey also asked whether VPOs targeted any particular type of final beneficiaries of the investee SPOs. These categories are non-exclusive, meaning that the same SPO may be targeting Immigrant Women, or Disabled Youth. Therefore, the survey question allowed respondents to provide multiple answers. The survey found that, like last year, 63% of European VPOs target children and youth as the ultimate beneficiaries of their investees’ activity. People suffering from poverty (44%) are still the second most supported group, however unemployed people (26%) became a more important group of support, followed by disabled (23%), minority ethnic communities (13%), women (13%) and immigrants, asylum seekers and/or refugees (11%). The chart below provides the entire data set.

### Ultimate target groups (final beneficiaries) of investee SPOs

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other beneficiaries</td>
<td>33%</td>
</tr>
<tr>
<td>No set criteria</td>
<td>16%</td>
</tr>
<tr>
<td>Sickness</td>
<td>8%</td>
</tr>
<tr>
<td>Disability</td>
<td>23%</td>
</tr>
<tr>
<td>Re-offenders</td>
<td>10%</td>
</tr>
<tr>
<td>Immigrants, asylum seekers and/or refugees</td>
<td>11%</td>
</tr>
<tr>
<td>Minority ethnic communities</td>
<td>13%</td>
</tr>
<tr>
<td>Unemployed people</td>
<td>26%</td>
</tr>
<tr>
<td>People in poverty</td>
<td>44%</td>
</tr>
<tr>
<td>Elderly people</td>
<td>11%</td>
</tr>
<tr>
<td>Women</td>
<td>13%</td>
</tr>
<tr>
<td>Youth</td>
<td>30%</td>
</tr>
<tr>
<td>Children</td>
<td>33%</td>
</tr>
</tbody>
</table>

### Geographies targeted

European VPOs tend to focus their activities either nationally i.e. in their home countries (46%) or internationally i.e. outside their home countries (44%). The remainder is divided between a regional focus (20%) or local focus (16%) within their home countries or no set criteria.
When looking at different areas of Europe we see a slight difference in the geographical focus depending on the country of origin of the VP/SI organisation. In Eastern Europe, the focus is either international, national or there is no set criteria. In comparison, in Italian VP/SI organisations the focus is on national, regional and local investments rather than international ones. This pattern is repeated but to a more nuanced degree (there is some bifurcating their investment focus between national and international organisations have a majority investment focus on international programs whereas Scandinavian and Benelux VP/SI organisations have an approximately equal focus on international and local and national programs.

Western Europe followed by Africa are the main target regions. European VPOs tend to focus their activities in Western Europe (61% of funding) and otherwise on developing countries, with Africa (24%) and Asia (9%) being the main target regions and South America attracting just 2% of the funding.
The chart below shows a more visual representation of the countries that receive most investment from European VP/SI organisations. The UK received the highest amount of investment (almost €33m), followed by France (€21m) and Germany (€17m). Given the propensity of European VP/SI organisations to invest in the country where they are domiciled and that the UK, France and Germany had the largest number of respondents for this survey, it is not surprising that these countries rank in the top 3. However also in the top 10 for receiving investments from European VP/SI organisations were India (€12m), Ghana (€7m), Kenya (€7m), Mozambique (€6m) and Zimbabwe (€6m), reinforcing the support from European VP/SI for organisations in the developing world, in particular Africa.

5. VP/SI Investment process

a. Deal flow and investment appraisal
Finding the right investee SPOs is a fundamental part of a VPO’s activity. In line with last year’s results, 89% of VPOs are proactive in their search to identify and approach the SPOs to invest in, whereas 43% of the European VPOs that participated in the study accept open applications.
If we take a closer look at the type of proactive activities carried out by VPOs, most of these contacts are made through networking and intermediaries (70%), followed by existing portfolio organisations (54%) and desk research (51%).

The VPOs screened almost 5000 potential investment opportunities in 2011, regardless of method used to find them. As shown in the chart below, there is a large variation between the country that screened the most organisations, Germany with 1068 screened, and the country that screened the least organisations, Italy with 93 organisations screened. This may be a reflection of the maturity of the social entrepreneurship sector in each country.

On average, the VPOs performed due diligence on 14% of the screened organisations and selected 38% of the organizations that had gone through due diligence.

On average, a VPO will screen 89 organisations in a year, do further due diligence on 17 of them and select 6 investees.
More days spent on due diligence and more shared activities. The following pie-chart shows how many days European VP/SI organisations spend on due diligence for an average investment.

The chart shows that although many (27%) VPOs spend less than five days on due diligence, a large percentage (38%) also spends more than 20 days, an increase from 26% in 2010 suggesting VPOs are putting even more emphasis on due diligence.

Sharing due diligence activities is an increasingly important part of a VPO’s behaviour, with 72% of respondents saying that they shared due diligence either occasionally, fairly many times or very often. However one would have expected that those organisations that shared due diligence would spend less time on the due diligence but in fact this is not the case. In 2011 the average number of days for due diligence was 27 and the median number of days was 15. For VPOs that shared due diligence “very often” the average number of days of due diligence only reduced to 26, and for those organisations that never shared due diligence, the average number of day spent on due diligence was 25. So far, VPOs seem to share due diligence as an additional guarantee that the investment is solid rather than delegating this activity to another investor.
We also find that that there is a large variation in the type of due diligence activities performed. Over 82% of respondents perform at least a review of the investee documentation received online, perform a site visit to interview top management in person, speak with members of the board of directors of the potential investee and a general web search. Over almost half the respondents go a step further, speaking to previous business partners or investors, interviewing the investee’s clients or final beneficiaries, or speaking to government officials and regulators involved in the sector of interest. A much smaller proportion of respondents (<36% of respondents) involved a third party to perform legal, financial or operational due diligence activities.

**b. Investment**

*Total investment made in VP/SI*

**Average financial support increases by 27% in 2011 as compared to 2010.** VP/SI organisations have invested almost €1.4 billion in financial and non-financial support since they began their operations (the average age of VP/SI activity being 6.5 years). There was a 27% increase in the average annual financial spend per VPO from €4.1million in 2010 to €5.2million in 2011. Despite these average numbers there is still a significant concentration in the amounts available for funding SPOs, with the top five VPOs accounting for 59% of all VP/SI investment that occurred in 2011. The yearly financial spend of European VP/SI organisations, using a VP/SI approach according to EVPA’s definition, with investments ranging from grants to equity was €278 million in 2011 for the aggregate 54 respondents who answered this question, an increase of 47% as compared to the annual spend of €189m in 2010 for 44 respondents.
Non-financial support still difficult to quantify. The non-financial spend displays an opposite trend with €32 million spent in 2011 with 31 respondents as compared to €39 million spent in 2010 also by 31 respondents. The amount spent on non-financial support is merely 10% of the total spend in 2011, a decrease from the 23% reported in 2010.

The decrease may be due to adding an additional question to the survey that probed respondents about whether they measure the cost of the non-financial support they provide to investees. Only 10% of respondents always measure the cost of the non-financial support provided and 20% never do. Having said that, 25% of respondents do so in most cases and 35% sometimes do. It seems that for many the non-financial support is difficult to quantify, considering the presence of pro-bono experts and volunteers, and sometimes staff days are not counted as expenditure.
Part 2: Presentation of Survey Results

Proportion of VPOs who measure non-financial support

No. of investees
For this year’s survey we asked respondents to identify whether their investees were individuals or organisations. In 2011, 51 respondents made new investments in 234 organisations and 517 individuals. These were added to the 543 ongoing investments in organisations and 521 ongoing investments in individuals making the total number of investees held 777 organisations and 1038 individuals. Given in the previous year’s survey we did not ask to differentiate the type of investees, it is difficult to compare the 2011 results to those of 2010. For the reference of the readers, in 2010 46 respondents held 929 total investees, with 45 respondents adding 217 new investees in fiscal year 2010.

How many investees (organisations or individuals) have you supported with a VP/SI approach?

Focusing on those VPOs that invest in organisations we find that for fiscal year 2011 the median number of investee organisations in the portfolio of a VPO was 7 and the average number is 15. The median number of new investee organisations added to the portfolio in 2011 is 3 and the average is 5. These results reinforce our view that the high engagement approach of venture philanthropy is only possible with portfolios containing a relatively small number of investees.
Median and average investees (organisations) per VPO

<table>
<thead>
<tr>
<th></th>
<th>Median</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>New investees in 2011</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Total current investees (n=48)</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>

Duration of investment

*Many VPOs invest for 4-6 years.* Another of the VP/SI principles is multi-year support, claiming that the SPOs need to receive funding and management support for several years in order for a step change to happen. Reinforcing last year’s results, we again found that VP/SI organisations follow a multi-year investment approach. The majority of the funders invested for 4-6 years (43%) or for 2-4 years (29%). Some refer to long-term investment as “patient capital” and indeed we see that some VP/SI organisations stay with their investees for as long as 6-8 years (14%) and even 8-10 years (5%). A small percentage (9%) is still investing for less than 2 years.

Investment duration

*Capacity building.* One of the issues that the VP/SI approach attempts to solve is the lack of financing dedicated to the core costs of SPOs. Non-profit managers are more often able to raise money for specific projects than for the strategic development of the organization itself. Since VP/SI aims to build stronger SPOs, it is also logical that much of the funding goes to support core costs. The survey tested the extent to which this is happening by asking respondents how they allocate their funds. Comparing to 2010 results we see a large increase in the percentage of funds directed to overhead costs, increasing from 44% to 64%, and a decrease in funding going to project costs, decreasing from 35% in 2011 to 28% in 2011. This change seems to indicate that VPOs are moving towards best practice in using the VP/SI approach.
Respondents’ “portfolio” of allocation of funds in 2011 and 2010

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>(2011 n=61, 2010 n=50)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To core overhead costs in an unrestricted way but payment linked to milestones</td>
<td>30</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>To core overhead costs in an unrestricted way with predefined payments</td>
<td>13</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>To specific project costs</td>
<td>28</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>To restricted areas of expenditure</td>
<td>4</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>11</td>
<td></td>
</tr>
</tbody>
</table>

Financing tools used

**Debt and equity are the most commonly used financing instruments.** VP/SI organisations use a range of financing instruments, from grants to equity investments. In confirmation of the 2010 data, grants remain the primary financing instrument used by European VPO’s in terms of total funding, representing 65% of the funding distributed to investees, however we do see a decline from the 72% of total funding distributed through this tool in 2010. This category also includes stipends, a form of funding often used to finance individual social entrepreneurs. Equity and quasi-equity represent 15% of the total funding, an increase from the 11% in 2010. Debt instruments have doubled their proportion of total funding since 2010, accounting for 18% in the last fiscal year, and include Loans, Senior Loans, Subordinated Loans, and Convertible Loans. Other includes hybrid grants, guarantees and other financing instruments.

Financial Instrument Portfolio, % of 2011 VP/SI Spend (€)

15 Grants are cash allocations that do not produce any repayment and a negative financial return.

14 Equity involves becoming a shareholder of the investee organisation, and quasi-equity or mezzanine finance is a provision of a high-risk loan, repayment of which depends on the financial success of the investee.

Interestingly, although in € terms grants are still the primary financing instrument, there was a significant increase in the use of equity and debt instruments.
This may be due to the fact that organisations are using a selection of financing instruments in the VP/SI activities. In fact when asked the average number of instruments used, the respondents’ answers were fairly evenly split between greater than 3 instruments, two to three instruments and one instrument, suggesting that tailored-financing is becoming a reality.

When analysing the funding instruments used by organizational size, it is interesting to note that the predominant grant users are organisations who dedicate between €15M and €20M to venture philanthropy. For other organisations, both larger (equal to or greater than €20M) and smaller (less than €15M), equity and debt instruments are used to a much greater extent. More research is required to understand this result.
Co-investment is a key component of European VPOs’ investment strategy; 61% of respondents have co-invested in the past and 21% say they are interested to do so, even if they have no done so yet. Unfortunately only 11 VPOs answered the question asked regarding the type of organisations that they like to co-invest with, hence it is not possible to draw far-reaching conclusions from this data nor make a meaningful comparison to 2010 data. However for information purposes we can say that other VPOs and foundations make up 55% of co-investors, which is in line with the findings from 2010.

**Co-investment in 2011**

- Yes, we have co-invested in the past: 61%
- We are interested, but we are yet to co-invest: 21%
- No, we do not co-invest in general: 18%

(c) High-engagement and non-financial services

*High engagement is enabled by frequent meetings with management.* The relatively low number of investees enables a high-touch approach. 70% of respondents meet with their investees at least once a quarter, in some cases even weekly (7%) or monthly (35%). Similar to the approach in venture capital, some venture philanthropists often take board seats in their investees to affect the strategic direction from within. However we have seen a small reduction in the percentage of VPOs that take board seats compared to last year’s survey. This year the percentage of VPOs who always or in a majority of cases take a board seat has decreased from 44% to 38%. A quarter of respondents never take a board seat, and 36% take board seats in a minority of cases.

**Frequency of face-to-face meetings with investees’ management teams**

- Weekly: 7%
- Half-Yearly: 27%
- Quarterly: 28%
- Monthly: 35%
- Yearly: 0%
% of investees where the VPO takes a board seat

Non-financial support is a key component of the high engagement VP/SI model. The VPO provides its investees with a range of tailored non-financial services, the survey categories were based on the research by Rob John on the value add of venture philanthropists. The services provided by most VPOs include strategy consulting (92%), coaching (74%), access to networks (70%), governance (62%), and fundraising (57%). The chart below lists the percentages of VPOs surveyed that provide the range of non-financial services. When comparing 2010 and 2011 results, we see a slight increase in the attention paid to governance and technical assistance in specialist areas. In-kind contribution was added as an additional category. Many of the other categories suffered a slight loss.

Non-financial support by % of respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coaching, mentoring of the CEO or the management team</td>
<td>74</td>
<td>80</td>
</tr>
<tr>
<td>Access to networks</td>
<td>70</td>
<td>70</td>
</tr>
<tr>
<td>Governance</td>
<td>62</td>
<td>60</td>
</tr>
<tr>
<td>Fundraising or revenue strategy</td>
<td>57</td>
<td>66</td>
</tr>
<tr>
<td>Financial management</td>
<td>56</td>
<td>58</td>
</tr>
<tr>
<td>Marketing and communication</td>
<td>44</td>
<td>54</td>
</tr>
<tr>
<td>Operational management</td>
<td>38</td>
<td>48</td>
</tr>
<tr>
<td>Change management</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Technical assistance in specialist areas</td>
<td>33</td>
<td>28</td>
</tr>
<tr>
<td>Legal advice</td>
<td>42</td>
<td>31</td>
</tr>
<tr>
<td>HR management</td>
<td>25</td>
<td>38</td>
</tr>
<tr>
<td>In-Kind contributions</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td>16</td>
<td>22</td>
</tr>
<tr>
<td>Estate management</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>10</td>
</tr>
</tbody>
</table>

Notes: (n=34; European VPOs surveyed = 32; American = 1; Australian = 1)
Part 2: Presentation of Survey Results

Given the importance assigned to access to networks, and the fact that EVPA added access to networks as a key characteristic of the VP/Sl model in 2011, we asked respondents for more details on the type of networking support provided. Social purpose organisations in general were the most common type of networking support provided (81%), followed closely by organisations in the same sector (77%) and service providers (77%). Financial institutions were also an important connection provided by VPOs, with access provided in 63% of cases.

If we look at the average number of days of non-financial support provided and by whom, we see that internal staff, trustees or donors commit the greatest number of days on average (69.6 days, although the median is 30 days), followed by pro-bono experts (36.6 days), paid consultants (17.6 days) and a very low number of days from volunteers (3.5 days).
In this survey, we did not have direct access to the investee organisations, but we asked the VPOs whether they measure the perceived value to their investees of the non-financial services provided. Only 20% of VPOs measure this important data. Out of those 12 VPOs, 50% reported that their investees perceive the non-financial services to be as valuable as financial support and 33% thought that non-financial support was more important than financial support. A best practice recommendation for VPOs would be to try to assess the value of the non-financial support more thoroughly using independent studies.

**d. Performance measurement**

*There is increased attention to measuring social impact.* An integral part of the VP/SI approach is measuring and managing societal impact. The focus on social impact measurement has increased, with 90% of respondents measuring social impact on at least an annual basis during the investment period.

However, societal impact measurement still occurs less frequently that financial performance measurement. The largest percentage of VPOs measure financial performance on a quarterly basis (31%), whereas more VPOs are likely to measure societal impact once per year during the investment period (33% vs 29% for quarterly impact measurement). Further research is needed to understand why some VPOs only measure impact on an annual basis while others measure it on a quarterly basis. It may be linked to the resources available to the VPO as well as the complexity of the social issue that the social purpose organisation is trying to improve.
EVPA, in its most recent guide to impact measurement\(^9\), defines a 5-step process of impact measurement: step 1: setting objectives; step 2: analysing stakeholders; step 3: measuring results – output, outcome, impact and indicators; step 4: verifying and valuing impact; and step 5: monitoring and reporting. Different tools and methodologies are suitable for different parts of the process, depending on the requirements and resources of the individual VPO. The remaining survey questions on performance measurement focused on the social impact measurement activity of the European VPOs.

The objectives of the impact measurement system are, in the majority (84%) of cases, still based on output measures such as “number of people reached”. Nevertheless we have seen an increase in the percentage of VPOs attempting to measure changes in outcome or social value / impact (which requires an assessment of attribution).

The increased focus on impact measurement was also underlined by the number of respondents who were able to quantify the estimated amount spent on measuring societal impact in the last fiscal year. In a significant increase from last year, 47 respondents were able to answer this question, up from 14 in 2010. In 2011, the average annual budget for measuring societal impact was just over €63,000 (compared to €18,000 in 2010), with a median spend of €15,000.

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In line with last year’s results, a majority of VPOs (73%) indicated that they were not using a standardized tool to measure social impact, and among those that did use such a tool, the most frequently mentioned were Social Evaluator and SROI, although a quarter of people did answer that they were using IRIS indicators or theory of change. Interestingly, when asked whether they used one of the steps of the 5-step process developed in EVPA’s practical guide to impact measurement, between 70% and 90% of respondents used each of the steps. This suggests that EVPA’s guide is well grounded in the reality of impact measurement for VPOs and that although some standardisation in process is feasible, the mix of actual tools to be used still depends on the needs and preferences of a particular VPO.

The difficulty of how to assess the social impact at portfolio level still remains. It is already difficult to track social impact of individual investees, but to add up different impacts from various social sectors is a real challenge. Many of the more established VPOs are developing innovative ways of measuring portfolio impact moving beyond mere aggregation of outputs. There is some change compared to last year’s results in this respect. In 2011, 37% of VPOs surveyed are currently “aggregating” social performance on portfolio level, compared to 27% of the VPOs in 2010.
Part 2: Presentation of Survey Results

Aggregation of social performance at a portfolio level in 2011 and 2010

2011
2010

numbers in %
(2011 n=52, 2010 n=48)

<table>
<thead>
<tr>
<th>Year</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>37</td>
<td>27</td>
</tr>
<tr>
<td>2010</td>
<td>63</td>
<td>73</td>
</tr>
</tbody>
</table>

On the consequences of the impact measurement system, the survey found that the social performance of the investee almost always conditions the unlocking of new funds for a large proportion (47%) of the VPOs, but 53% never or only sometimes take the social performance into account before releasing new funds.

Does social performance condition the unlocking of new funds

Almost Never 28 0%
Almost Always 47%
Sometimes 25

(n=57)

Last year we found that compensation structures did not include the social performance aspect to a great degree. This year we have similar results, with only 12% of the VPOs including social performance in the compensation schemes for their own staff (i.e. as tied to the social performance of the investment or a combination of the financial and social performance of an investment). A majority of VPOs (65%) set staff compensation tied to individual targets – that may include social performance.

<table>
<thead>
<tr>
<th>VP/SI staff compensation:</th>
<th>Count</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tied to financial performance of investment</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td>Tied to social performance of investment</td>
<td>3</td>
<td>6%</td>
</tr>
<tr>
<td>Tied to combination of financial and social performance</td>
<td>3</td>
<td>6%</td>
</tr>
<tr>
<td>Tied to individual targets set by management</td>
<td>34</td>
<td>65%</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>21%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>52</td>
<td>100%</td>
</tr>
</tbody>
</table>
e. Exits

In VP/SI, the “exit strategy” is the action plan for how to end the relationship in a way that does not impact the investee negatively. The “exit” is the end of the relationship between the VPO and an investee organisation either after a pre-defined time when the VPO can no longer add value or when the investment objectives have been achieved. In the case of a grant-funded investment, the exit is a discontinuation of a grant, whereas for social investment the exit may involve repayment of a loan, or divestment of an equity stake. In any case, an exit requires careful planning and support, notably by building both the organizational resilience/sustainability of the investee organisation. Other KC publications include greater detail on how to conduct exits in VP and social investment.

As compared to 2010 data, more VPOs plan their exit strategies, either in all cases (48%), often (31%) or sometimes (11%). A majority of respondents (52%) already start planning the exit before the investment is made, and some (35%) plan the exit depending on the progress of the organisation.

We also asked whether the VPO respondents had achieved any exits so far. In fact a majority of VPOs (61%) have already been through an exit process, compared to only 52% in the last survey.
The 34 VPOs that provided a number for historical exits reported to have exited from 587 organisations and 347 individuals in total. 78 of those exits took place in 2011.

6. Investment funds
Investment funds are becoming an increasingly important part of the venture philanthropy landscape, with 41% of respondents in this year’s survey reporting to manage an investment fund. The 2012 EVPA survey included some specific questions for those organisations managing investment funds so as to better understand the dynamics of this sub-group.

The largest number of investment funds is found in the UK & Ireland and France, with Switzerland & Austria and Germany in equal third place.
When asked about the selected structure for the investment fund, it was clear from the responses that there is no preference for not-for-profit or for profit structures. A slight majority, 51% of respondents, preferred for-profit structures, with not-for-profit structures used by 44% of respondents and multiple structures by the remaining 5%.

Our research into the size of these investment funds yielded an average size of €15.8M and median of €6.5M, suggesting that although there are a few larger funds, the majority are much smaller.

Management fees are a specific topic for investment funds and there is some debate as to whether VP/SI investment fund management fees are or should be higher or lower (in percentage terms) than the equivalent funds in the venture capital or private equity industry, given VP/SI investment funds are generally of a smaller size and the investees require significant attention from VP/SI fund managers. Of the 19 organisations that provided evidence on their management fees, we see a wide range of fee levels. However, in general these management fees are not significantly higher than those seen in the venture capital or private equity world. The average management fee charged was 3.4%, while the median was 2.25%.
Interestingly, when asked about their expected returns, VPOs who manage investment funds are more likely to expect a financial return from their venture philanthropy investments than those managing their venture philanthropy activities from other structures. More research is required to understand exactly why this is the case, for example whether it is because investment funds focus on different sectors or whether this has to be the approach for those funds that need to attract external capital.

This section has only focused on the general characteristics and financial returns (expected and realised) of investment funds but it could be interesting in next year’s survey to ask about the social impact expected and realised as well. More research is certainly needed to understand the different dynamics for funds versus other types of VPOs.
Part 3: Conclusion
The 2012 EVPA survey shows in comparison with the first survey (2011), that the VP/SI sector in Europe is evolving rapidly. The most striking evolution is the shifting balance in return objectives. Although societal impact is the primary focus (organisations that do not have this focus are not included in the survey) the relevance of some financial payback (either in capital or as an actual surplus on the investment) has become significantly more important. We see this as a sign of the sector becoming more mature.

The survey reveals that VP/SI organisations have become more sophisticated in their use of the entire range of VP/SI ‘tools’ to generate greater societal impact. It is encouraging to see the progress made by respondents in developing practices such as impact measurement (94% measure social impact), due diligence, co-investment, capacity building, effective non-financial assistance and exits. There was a notable increase in the variety of financing instruments used by the VPO respondents with a significant increase in the use of equity and debt. These findings indicate that tailored financing is becoming a reality.

Important to note from this year’s survey is that European VPOs are increasingly focusing on social enterprise as a target investee, with less funding going to non-profit organisations, and that they take risks by investing in small organisations with little track record.

The EVPA survey highlights that the VP/SI sector involves a variety of different types of organisations, professionals and funders. The top countries in terms of housing VPOs are the UK, France and Germany, whereas the bulk of the funding goes to Western Europe and especially South-Eastern Africa. Foundations and other non-profit structures remain major players, both in terms of VPOs and in terms of funders of VP/SI. The resources of European VP/SI have increased, as is evident in the total and average funding available and invested, and by the fact that there is now a larger pool of professionals working in VP/SI. However, most European VPOs have budgets of less than £2.5m per annum. It is clear that more funding and resources are needed to help VPOs in their important work to build stronger social purpose organisations. EVPA is committed to continue the research and promotion of best practice in the key components of the VP/SI model and reiterates the importance of a collaborative approach to developing the sector.
Part 4:
Appendix
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### List of Respondents to the Survey

<table>
<thead>
<tr>
<th>Organization</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute Return for Kids</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Alter Equity</td>
<td>France</td>
</tr>
<tr>
<td>“Anonymous”</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Anton Jurgens Fonds</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Artha Initiative</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Ashoka</td>
<td>Germany</td>
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<td>Auridis</td>
<td>Germany</td>
</tr>
<tr>
<td>Bamboo finance</td>
<td>Switzerland</td>
</tr>
<tr>
<td>BBVA</td>
<td>Spain</td>
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<tr>
<td>BMW Stiftung</td>
<td>Germany</td>
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<tr>
<td>Bon Venture Management GmbH</td>
<td>Germany</td>
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<tr>
<td>Bridges Ventures</td>
<td>United Kingdom</td>
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<tr>
<td>CAN - Breakthrough</td>
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<tr>
<td>Catalunya Caixa</td>
<td>Spain</td>
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<tr>
<td>Citizen Capital</td>
<td>France</td>
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<td>Creas</td>
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<td>Grameen Credit Agricole</td>
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<td>Credit Cooperatif</td>
<td>France</td>
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<td>Cultiva</td>
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<td>Demeter Foundation</td>
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<td>GAWA Capital Partners</td>
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<td>(formerly Ambers &amp; Co Capital)</td>
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EVPA’s mission is to promote the expansion, effectiveness and impact of venture philanthropy and social investment in Europe.

The EVPA Knowledge Centre is the hub for European knowledge and thought leadership on venture philanthropy and social investment. Its mission is to:

1. provide EVPA members with resources and knowledge to assist them in the development of strategy and best practice

2. provide EVPA/VP field with legitimacy to:
   • Inspire professionals and attract funding
   • Enable academic research
   • Engage public information

3. Connect practitioners, academics and advisors around field know-how.

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