EUROPEAN VENTURE PHILANTHROPY ASSOCIATION

CONFERENCE REPORT

AND INTERVIEWS WITH KEYNOTE SPEAKERS

6TH ANNUAL CONFERENCE

A NEW ERA FOR VENTURE PHILANTHROPY

WHERE GRANT-MAKING AND SOCIAL INVESTMENT CONVERGE

LUXEMBOURG, 16/17 NOVEMBER 2010

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LETTER FROM THE CHAIRMAN

We've just concluded what I feel is our most successful conference to date. The content was both rich and topical and, from the remarks I heard and the conversations I took part in, there was a good balance of networking time and sessions. I'd like to thank all of those who made this conference possible, from the government of Luxembourg who kindly allowed us to use the Kirchberg conference centre, to the partners of European Impact Financing Luxembourg for their generous support, and the members of the EVPA team whose hard work made the event flow smoothly.

I'd like to offer one or two thoughts to take away from the conference. We have seen the growth of interest in both venture philanthropy and social investment over the last few years. Growth is healthy of course, but it can lead to hype. The conference has reminded us of the widening spectrum of financing for social organisations. It's important to understand where we are on the scale and to manage the expectations of all stakeholders so that we do not 'oversell' VP or social investment. We also need to keep in mind the tensions between social and financial returns and to manage the trade-offs involved. In addition, I'd like to draw attention to the role of remuneration in governing how we behave. If we offer a bonus system based on financial returns, then people will look for those returns. If we want to encourage the maximization of social returns, then perhaps we ought to look at a system of remuneration based on social measures.

Finally, the transfer of the EVPA from the UK and its formal setting up as a Belgian organisation has involved a lot of work, but is now complete. My thanks, on behalf of the Directors, to all those involved. I'm encouraged by the fact that according to our most recent members' survey, 58 per cent of members said they had changed at least one aspect of their practice as a result of their membership of EVPA. Looking forward, as the Managing Director of EVPA, Beate Trück, remarks in an interview on page 36, we will be developing our member services this year through site visits, country groups, members' workshops, publications and a new website. I want to encourage all of you to engage with these developments and to continue to help consolidate EVPA as the leading forum for venture philanthropy practitioners and researchers in Europe and a significant player in the field of impact finance and philanthropy worldwide.

Serge Raicher, EVPA Chairman

A WELCOME FROM EUROPEAN IMPACT FINANCING

Philippe Depoorter of the **Banque de Luxembourg** speaking on behalf of European Impact Financing Luxembourg group, which supported the EVPA conference, welcomed delegates on the first evening of the conference at a reception in the MUDAM, Luxembourg's Museum of Modern Art.

'Your presence here today encourages us to pursue our efforts to put the advantages of Luxembourg to work for your projects and to boost the development of European philanthropy in the broadest sense of the term. Luxembourg's ability to play a mediating role and be a meeting place for Europe has enabled our country to be associated with some of the European Union's milestones in the past few decades – and indeed, sometimes, be a precursor.

It is against this backdrop that our European Impact Financing Luxembourg initiative has great hopes of making a significant contribution to the promising impact financing sector. As grant-making and social investment converge, we have decided to focus our efforts on investment vehicles that offer a double bottom line – those that combine financial return with social/environmental return. Luxembourg is the world's leading centre for investment funds, a meeting point for private equity expertise, and an engaged player in development aid matters. It seems therefore that our country is well positioned to achieve what it has already succeeded in microfinance, namely the hosting of 45 per cent of the world's microfinance funds.

In this context, bringing the EVPA congress to Luxembourg seemed to be a dream opportunity to launch our initiatives in this area. The consortium had recently commissioned a study on impact investing in Europe and, as a result of this, had drawn a series of proposals in three areas that could make Luxembourg the hub of European impact financing initiatives: First, knowledge – the consortium has proposed to the Government of Luxembourg to develop research with universities and think-tanks. Luxembourg could also become the home of the first impact financing database in Europe, which would help to understand the sector better. Second, framework – more tax treaties should be signed, cost-efficient structures for small investment vehicles be facilitated, and tax incentives offered. Finally, setting up tools which might perhaps extend to the creation of an institution to handle the issue of seed money.

The Banque de Luxembourg helped bring about in 2008 changes to promote private philanthropy in Luxembourg, namely the setting up of a national umbrella foundation, the

Fondation de Luxembourg; the creation of a more attractive tax framework, and a new foundations law.

Together with our partners ADA, a microfinance NGO, lawyers Arendt & Medernach, Ernst & Young and the European Investment Fund, we are determined to help the government and our country create a real policy for philanthropy and social finance development, and the infrastructure that such ambition requires.'

The foregoing is an edited version of the speech made by Monsieur Depoorter, speaking on behalf of all the consortium members.

European Impact Financing Luxembourg is an initiative launched by ADA-Microfinance, Arendt & Medernach Expertise, Banque de Luxembourg, Ernst&Young and the European Investment Fund. The choice of Luxembourg was quite natural. With its international position, its know-how in fund investment, its commitment in the field of microfinance, and more generally in the field of social finance, Luxembourg is now well positioned to become a key player in the area of impact financing. European Impact Financing Luxembourg's goal is to contribute to the development of the impact financing sector, facilitate initiatives in this area within Luxembourg and to promote the capacity of Luxembourg's financial centre to support and coordinate the practice of impact finance. The group has commissioned the AlphaMundi Group to conduct an international Impact Finance Survey to identify the opportunities and constraints within this nascent sector's growth. Sixty impact finance institutions agreed to take part in the survey, which will shed more light on the current status and development trends in impact financing. The conclusions and impact of this survey will be presented at the 'Turning impact finance into an industry: overcoming bottlenecks' workshop. In the future European Impact Financing Luxembourg plans to welcome stakeholders and parties interested in promoting impact financing to Luxembourg. More information can be found at www.impactfinancing.lu

European Impact Financing
LUXEMBOURG

An initiative of
Ada
Arendt & Medernach
Banque de Luxembourg
Ernst & Young
European Investment Fund

CONFERENCE DAY 1

EVPA MEMBERS' WORKSHOP

Inside the Investor/Investee relationship

Chris Carnie Managing Director of **Factary**, the moderator of this session, set out several questions for the speakers to consider: how can VP funds find investees? Does due diligence deliver? What kind of support should VP funds be providing? From the investee perspective, how does VP compare with other forms of support?

Three cases of a successfully formed and sustained relationship between a funder and an investee were then presented. First was **Patrice Schneider** Director of Development of the **Media Development Loan Fund** (MDLF) and **Irina Samokhina** CEO of **Krestyanin**, a publishing house in Russia. MDLF had invested in them when Russian banks wouldn't thus being critical to guaranteeing the independence of Krestyanin's output. Both agreed that the two main elements in forging a successful relationship had been trust and understanding.

Olivier de Guerre Chairman and CEO of **PhiTrust** and **Cécile Galoselva** CEO of **Ethical Property Europe** also stressed the importance of trust as well as defining clear strategy and the informal, but regular contact between the partners. On the question of reporting and taking a seat on the board, they agreed that it is more important to be pragmatic.

Jan Tallis Chief Executive of **School-Home Support** had found the support of the **Private Equity Foundation**, which was presented by their CEO, **Harvey Koh** 'challenging but bracing'. Funders always wanted to pay for the 'front' work, but weren't so keen on financial management and human resources. Consequently many organisations were weak in these areas. Private Equity Foundation (PEF) had invested in the organisation's infrastructure and its funding had helped build the back office. With PEF's support, School-Home Support had doubled the number of children it worked with.

A message which emerged clearly from this session was that it was not so much the formal terms of the relationship that mattered but rather that it should be underpinned by trust. Additionally, venture philanthropy fills an important gap by supporting the core costs of social purpose organisations while many other funders prefer to focus on specific projects.

NON-MEMBERS' WORKSHOP

Venture philanthropy unwrapped. All the questions you ever wanted to ask about venture philanthropy.

The session, moderated by **Javier Echarri**, Secretary-General of **EVCA**, was opened to all who wanted to explore the meaning of venture philanthropy. Experienced VP pioneers **Deirdre Mortell**, Co-Founder and CEO of **One Foundation, Wolfgang Hafenmayer**, Managing Partner of **LGT Venture Philanthropy** and **Pieter Oostlander**, Director of **Noaber Foundation** as well as **Lisa Hehenberger**, **EVPA** Research Director explained how to practise VP in Europe.

Lisa Hehenberger outlined the association's view of venture philanthropy: a method of building social organisations through long-term financial and non-financial support tailored to suit the needs of the organisation in question. Since its founding in 2004, EVPA has tried to build a collaborative, rather than confrontational relationship between its practitioners and other forms of philanthropy.

Deirdre Mortell illustrated the relationship between VP investors and investees through the example of one of its portfolio organisations, Educate Together (ET). The foundation appointed one of their Board Members to the Board of Directors of the charity. This action provided the charity with access to high net worth individuals and brought senior manager-level expertise to the team.

For **LGT Venture Philanthropy**, the key is to focus on organisations (not projects) that are young and rapidly growing. Wolfgang Hafenmayer defined venture philanthropy's mission as providing support to organisations in an entrepreneurial way.

Pieter Oostlander presented the **Noaber Foundation**, which was endowed 10 years ago. The foundation focuses on innovations and start-ups. Their methodology is to grow promising organisations, and once the organisations have reached a certain size they let someone else come in to scale the business.

The session gave rise to a lively debate on topics such as the definition of social impact, the effect of having a limited life like One Foundation, and how to exit a VP investment.

OPENING KEYNOTE SPEECHES

The keynote session was inaugurated by **Percy Barnevik**, Chairman of **Hand in Hand**. He had become convinced of the virtue of helping to build up small and medium-sized enterprises through his experience in business in India, he said. As a result, he had attempted to scale up this approach throughout the developing world, retiring from business and founding Hand in Hand which, in ten years, had helped create 565,000 enterprises, with a thousand new ones being created per working day.

Employment and wealth creation provided a more sustainable way out of poverty than grant-making. However, to reach the bottom billion (those earning less than $1 a day), he estimated that 250 million jobs were needed and that these could only come from the creation of SMEs - not from the public sector which was increasingly obliged to retrench, nor the private sector, where increasing automation meant fewer jobs.

Hand in Hand's work involved making loans of between $100 and $300 to microenterprises and up to $10,000 to bigger companies. He cited the example of a woman in India who had begun a small enterprise making jute bags with two employees. The enterprise had grown to employ 100 people. Income had risen in the community, there was now the demand and capacity to support schools and people could afford to send their children there rather than sending them to work. Hand in Hand is spreading through India, into Sri Lanka and Afghanistan where, with World Bank support, it is helping to train trainers and is reaching out into South and East Africa, Brazil and Central America.

The second keynote speaker **Jacqueline Novogratz**, Founder and CEO of **Acumen Fund** talked of her organisation providing 'patient capital for an impatient world'. She told the now-famous and striking story of the blue sweater she had owned as a girl, had given away when she outgrew it and had come across again years later being worn by an African child when she was working in Rwanda. For her, the story was a powerful illustration of the interconnection of lives.

Her experience working first in banking and then establishing the first microfinance bank in Rwanda had taught her that people needed money, but they needed choice, too, and patient capital was a way of steering a middle course between charity and the market. Acumen Fund raises philanthropic money and invests it in sustainable businesses tackling poverty. The investment of this patient capital, she said, provided leverage to bring in other investors. 'For every $1 we invest,' she said, 'an additional $4 comes in.'

Both speakers stressed the need to build networks of trust. And both admitted to mistakes. An early Hand in Hand project had supplied goats to smallholders in India to provide a sustainable source of nutrition, but many of the goats disappeared. They were either sold or eaten. The Acumen Fund had invested in an affordable hearing aid said Jacqueline Novogratz. The technology was good, but people didn't want them because they could function perfectly well without them. 'People don't buy technology,' she concluded, 'they buy things that change their lives.'

On one of the big questions exercising the VP field at the moment - how to scale up successful initiatives - Percy Barnevik reported that by means of franchising Hand in Hand was now opening 100 IT centres a month whereas before it was 100 a year. Jacqueline pointed out that the social enterprise sector was more complex than the business sector. One had to be careful about licensing as failures would both let people down and damage the brand of social entrepreneur. The crucial thing was to find a licensee who had the drive and talent of the initial entrepreneur.

Both keynote speakers stressed how important it is to empower people to develop entrepreneurial solutions to fight poverty. Many top down approaches only act to perpetuate a vicious circle of life-long dependence. Through social investment and "patient capital", each dollar worth of investment goes a long way.

CONFERNCE DAY 2

WORKSHOP 1

New hybrid models: how does venture philanthropy make trade-offs between risk return and social value?

In this workshop the panellists **Stefan Krook**, Chairman and CEO of **GoodCause, Jean-Marc Borello**, Founder of **Groupe SOS** and **Stephen Dawson**, Co-Founder and Chairman of **Jacana Ventures** explained the mission of their organisations and how, in different ways, they were each structured around and geared towards a social mission. The session was moderated by **Olivier de Guerre,** Chairman and CEO of **PhiTrust**.

Stefan Krook talked of two hybrid models GoodCause had set up - a company providing electricity at fair prices and a Fidelity type fund which aimed to provide high returns at a low fee. Stefan pointed out that the difficulty in running these hybrid models was that, even if one's organisation did make money, it was not evident that it was creating a social return. In fact, by having a dual mission, there was a high possibility that the organisation would not be able to generate money simply because the bar was set higher for it, and it would be asked to 'prove' itself as a socially-focused business before others would sign up for it.

Jean-Marc Borello explained how Groupe SOS comprised more than 2000 employees working across 100 organisations, all with different structures and models, to deliver medical and social aid to residents in France. Jean-Marc commented that it was getting easier to get NGOs to develop market practices because recruiting talent that was interested in social matters had become less challenging – especially as business schools were starting to bring social entrepreneurship topics into mainstream education.

Stephen Dawson from Jacana Ventures explained that his first reaction to the idea of social investing was that he didn't feel that his venture capital skills were particularly relevant for the industry. To him, the venture capital firm he headed, ECI Partners, was high on financial returns, but low on social returns. Impetus Trust, which he founded in 2003, was the reverse. Looking at poverty in sub-Saharan Africa, he saw that the root causes of a lack of investment were similar to that in the UK some 30 years ago - lack of management experience, of funding, of role models and of an entrepreneurial culture. He believed that the venture capital model could help by building up African venture capital managers, so that they could in turn invest in good SMEs and provide both employment and socio-economic returns to the country.

This workshop debated the difficulty of optimising both financial and social returns in the same business model. Stephen Dawson's trajectory shows that it may be advisable to focus on either finance first or impact first depending on the specific objective of the venture.

WORKSHOP 2

Turning impact finance into an industry: overcoming bottlenecks

In this workshop **David Carrington**, **Conference Chairman**, discussed the challenges that remained in order for impact finance to grow with a panel consisting of **Pieter Oostlander**, Managing Director of the **Noaber Foundation**, **Alain Kinsch**, Country Managing Partner at **Ernst & Young**, Luxembourg, **Jean-Philippe de Schrevel**, Founder of **BlueOrchard Investments**, **Bamboo Finance** and **Oasis Fund**, **Lenka Setkova**, Trustee of **FairPensions UK**, **Tim Radjy**, Chief Executive Officer and member of Board of Directors of **AlphaMundi Group** as well as **Damian Von Stauffenberg**, Founder of **MicroRate**. While the exploration of impact financing among institutions, foundations and individuals is spreading, there are still a number obstacles.

The workshop recognised the importance of private sector capital mobilization towards impact finance solutions to allow for the exponential growth of the industry. For example, 75% of economic dealings of the AlphaMundi Group with emerging markets in 2008 came from the private sector. A recent study conducted by AlphaMundi, however, highlighted the infancy of the impact finance industry at the moment. Currently, debt returns stand at around 5% while private equity returns in this sector are around 10%.

In order to encourage growth in the industry, the workshop participants suggested a number of measures: first, more tax incentives and, more specifically, a supportive public policy framework is needed. Secondly, the impact finance investor community needs to engage in peer coaching and co-investing. Furthermore, the industry requires access to standardised information. Possibilities include listing opportunities online, creating performance standards, etc. Jean-Philippe de Schrevel suggested an equivalent of the CGAP organisation for the microfinance industry, which could set and promote standard, and encourage standardisation and spreading of information.

The session wrapped up with a few key lessons impact finance could learn from the microfinance industry. Commercial funding could be unleashed to have tremendous impact and increase the volume of funds going into impact finance. However, already existing commercial flows may not necessarily be governed by the need for funding but rather by "hype". This could create the negative consequence of distorting pricing, i.e. producing yields which are too low given the high volume of money that has flown into the industry.

WORKSHOP 3

New frontiers of VP: academic, political and arts entrepreneurship

This workshop, moderated by **Stephan Gutzeit**, Executive Director of **Stiftung Charité,** investigated how the conventional venture philanthropy approach can be adapted and used by political, knowledge and arts entrepreneurs. **Philip Blond,** Director of **ResPublica**, **Dario Peirone**, Chief Executive Officer of **JStone** and **Tim Joss**, Director of **Rayne Foundation** shared their personal experiences with the audience.

Phillip Blond pointed out that more philanthropic money should go into supporting policy think thanks since often it was policy developer that was instrumental in effecting long-term change. Think-tanks like Demos and IPPR had proved hugely influential in the past in this respect in the UK.

Dario Peirone explained that there were strategic VC and financial VC and that the distinction was knowledge. JStone wanted to renew the entrepreneurial culture in North Italy and had decided on a systemic approach, creating a means to support new entrepreneurs and provide more opportunities for SME start-ups in the form, for example, of seminars and international networks. He also stressed the importance of the non-financial contribution of strategic venture capital and likened it to what VP does. They were fostering, and should foster, the possibility of growth in every field.

Talking about the arts sector, Tim Joss attributed social investors' lack of interest to their unfair association of the sector with the leisure industry. Also there were three problems. VP emphasised performance measurement and the arts were weak in this area; secondly, they were seen as 'self-referential'; finally, the arts and civil society were seen as poles apart. However, some arts organisations were already working with educational institutions on assessing their impact. He cautioned that performance measures needed to be appropriate and he believed that VP funds could help here.

The examples discussed in this workshop showed that arts, culture and advocacy have suffered from the difficulty of showing immediate impact, whereas healthcare and entrepreneurship have been considered the turf of pure for-profit approaches. Venture philanthropy is a methodology that is attracting attention from an increasingly wider number of social sectors that were perhaps not the obvious targets from the very start.

WORKSHOP 4

From Niche to Mass Market: bringing social entrepreneurship to scale

The session was based on the question of when and why an organisation should consider scaling-up and the issues they might encounter in the process.

Johanna Mair, Professor of Strategic Management at **IESE** moderated this session in which **Chris West**, Director of **The Shell Foundation**, **Angela Lawaldt**, Investment Manager of **BonVenture** and **Thilo Bode**, Founder and Executive Director of **Foodwatch** spoke about their experiences with scaling up.

Chris West recounted that it had taken the Shell Foundation 5 years to refine their strategy regarding scaling. Focusing now on fewer and larger undertakings allowed them to scale them up to other geographies and markets once the concept has proven sustainable. One very important lesson learned by Shell thus far was the difficulty to fit scaling strategies into already existing concepts at a later stage. Being involved in the development of the idea and in the forward planning, with scale already in mind, is therefore important in order to be successful.

Angela Lawaldt spoke of the experiences that BonVenture had with their equity and loans projects. They currently invest in 14 projects mostly focusing on early or late growth phase. A lesson learned is that the major impediments to scaling up are the lack of standardized policies, procedures and structures rather than a lack of skills or time. Rather, what is missing are standardised policies, procedures and structures.

Thilo Bode described the challenges Foodwatch have when trying to expand and the strategies they use. They aim to change public policy regarding the labelling of products rather than just use direct education of consumers. Thus, by moving to European countries with the highest number of European parliamentarians could have the highest impact across Europe.

Questions that arose included whether a physical presence in new markets is necessary or whether virtual marketing suffices. Thilo Bode argued that the second approach could work if they were to partner with local consumer rights organisations in the target countries.

Once there is a critical mass in the country it might be worth rethinking to create a physical presence.

The session further identified the trade-off between scaling and control of the organisation as one of the main challenges. Despite all the benefits, organisations should keep in mind that size can have an effect on flexibility and the speed of future directional change.

WORKSHOP 5

Meaningful impact assessment: How to go about it?

In this workshop **Karen Hadem**, Philanthropy Expert from **McKinsey & Company**, **Emilie Goodall**, Senior Investment Manager of **CAF Venturesome** and **Jeroo Billiomoria**, Executive Director of **Aflatoun** introduced their respective impact measurement frameworks and discussed how these can help in improving the organisation's work.

As Karen Hadem noted, it is important to clarify the purpose of impact assessment: Is it to communicate the progress made, to compare between potential investments or to learn what works and what does not? Karen explained the McKinsey framework which includes the Foundation Strategy Lifecycle, which helps clients to better define their strategy, program design and program execution. Karen emphasized that it is necessary to tailor the assessment to the type and phase of intervention of the organisation. From experience, Karen also pointed out that impact measurement is most meaningful when acknowledging failure and when that experience is used to refine existing strategies.

Emilie Goodall offered another perspective on impact assessment. In addition to having clarity on the intended outcomes, how these can be measured and the time frame needed, Venturesome tries to understand how their capital can help to build up the talent pool and help investees better use their existing human resources.

Jeroo Billiomoria emphasized the importance of data as a means to influence both investors and policy makers. When Jeroo founded Aflatoun in 2005, there were many nay-sayers who were convinced that children could not learn how to manage finances. However, data from 500, 000 children has shown otherwise and such data was needed to affect a paradigm shift. Jeroo also pointed out that founders should identify the key performance indicators (KPIs) their venture will be measured by and coherently argue for these KPIs to be their reporting output. This way, entrepreneurs do not have to fill out different reporting requirements from their several funders, which is time-consuming.

It was recognised that whilst there are many impact measurement tools, there is no one commonly accepted as yet. It is important that investees choose a tool that is aligned to their mission and use it well to effectively communicate the impact of their work to funders.

ROUND TABLE 1

Venture Philanthropy strategies at foundations – when, why, how?

The roundtable set out to explore why some foundations have adopted a venture philanthropy approach and the variety of models that is available for their use. **Angelo Miglietta**, Secretary General of **Fondazione CRT**, **Benoît Fontaine**, Program Advisor at the **King Baudouin Foundation** and **Evert Ludding**, Interim Director of the **d.o.b Foundation** talked of their experiences.

The way the three had adopted VP was very different. Evert Ludding described how the d.o.b Foundation asked itself how it could add value to the over a hundred projects it worked with and had decided to make VP its central strategy. They now work with a more limited portfolio of investment-ready projects and engage more closely with them. Evert said that VP provided a wider spectrum of instruments, allowing foundations to choose the right tool for the right job and extending their reach. However, if d.o.b. Foundation see a project which isn't investment-ready in their terms, they might make a grant instead.

Fondazione CRT by contrast, had set up a separate VP fund because Italian law required it to do so. Angelo Miglietta, however, noted that VP wasn't always right for every project or intervention. He felt that it wasn't good at reaching the poorest of the poor but was well attuned to what he called the 'pink area' where neither public nor private finance would reach.

The King Baudouin Foundation, finally, set up a VP operation as a project within the foundation while maintaining the general strategy of offering a large number of grants to individual projects. Benoît Fontaine explained that the reason behind this move was the possibility a VP fund offered to use a variety of instruments allowing the foundation to reach more organisations with the same amount of money. He emphasised that non-financial support was more important than financial investment in their VP work. What it also did, suggested Benoît Fontaine, was to reduce the distance between the donor and the recipient. It also formed a bridge to the world of commercial finance, allowing them to offer new types of investment to social projects. A project that had successfully borne and paid off a loan and had a tested business plan was generally a more attractive proposition to a bank than one that had only been a grant recipient

A number of other important points emerged from the following discussion, such as the importance of developing a good relationship between foundation and investee. It was agreed that a seat on the board wasn't always an absolute necessity. If the organisation could reason against it in an intelligent, well-reasoned way, the funder should decline. The three foundations present agreed that VP is a useful tool in any foundation's toolbox.

ROUND TABLE 2

The right tool for the right job? Equity tools for social change.

In this roundtable discussion **Antony Ross**, Executive Director of **Bridges Ventures** and **Pieter Oostlander**, Director of the **Noaber Foundation** dealt with the question whether equity or quasi-equity was the right tool for investing in social enterprises. While Antony Ross took the position of favouring it, Pieter Oostlander in order to stimulate discussion took the opposing position which in no way represents the views of the Noaber Foundation.

Antony argued that, if using equity investments, a fund manager will ultimately be able to recycle the money into funding other social enterprises because the investment will have been repaid. Pieter's opposing argument was that, when bringing in bigger investors with larger sums of money, their funding will most likely come along with financing "strings' attached. They might require a financial return that is too difficult for the social venture to meet, and potentially result in mission drift. There may be a misalignment of interests between the investors and the investees.

Pieter argued that there are issues that need to be faced before equity can be used as a tool for investing in social enterprises. Investors first and foremost should be concerned with impact, and they should be prepared to lose their money.

The majority of the participants of the roundtable believed there was a viable case for mixing social and financial returns.

Antony described a quasi-equity investment Bridges had made to a community bus service company, a social business, based in London. The company only focuses on government contracts. It had extremely high leverage because they could not access the equity market as a charity. Bridges Ventures created an innovative structure with the company where they linked return of their investment to the growth of the business. The income Bridges Ventures receives from their investment is a percentage of the growth the business makes over the next five years. Antony was confident that the company would reach their growth targets, and Bridges Ventures would see a return.

Antony ended the roundtable by explaining that another benefit of being able to make investments that return 10 – 12% is that it enables them to attract more investors and provide funding for even more social enterprises.

ROUND TABLE 3

Which way out? Charting a course to a successful exit

How can and should a successful exit from an investee organisation be planned and what challenges exist? In this roundtable **Charles Abani**, Chief International Adviser of **Absolute Return for Kids (ARK)** and **Pierre Valentin**, Chief International Adviser of **Crédit Cooperatif** discussed this question and spoke of their experiences.

Charles Abani gave examples of exits by ARK including a HIV/AIDS project in Africa. The exit strategy in this case involved the takeover by a local organisation. In another example – childcare programme in Bulgaria and Romania – the organisation was adopted by the respective governments.

Both Charles and Pierre stressed that an exit from a social investment project should be successful on both social and financial fronts. Given the complexity of different stakeholders involved, the exit should be planned from the beginning. Ideally it also should be phased, which mitigates the risk to the project. Exit strategies should not only help to free resources, but should also enable the project to become self-sustaining.

Speaking about experience of an investee coming back asking for help/funding a few years after exit, one participant raised several interesting questions: how do you ensure that an exit is successful in the long run? How do you exit when things do not go the expected way – for example, if the project is not successful either financially or socially? 'Mission drift' or changing partners, which can add new dimensions to an already complex phenomenon, were identified as further challenges.

The roundtable introduced a number of ways exit can happen: natural, mainstream (through governmental funding) and fixed line (for example, after 10 years). Also, the formation of a social stock exchange could bring some benefits as it would bring in retail investor and added liquidity.

Overall, the majority of participants agreed that there is a lack of information on exits and it was proposed that participants should share this knowledge by way of case studies or an online platform through the EVPA. Such dissemination would not only help others, but also enable the understanding of best practice for exits in the evolving social investment sphere.

ROUND TABLE 4

Brick by brick: capacity building for strong organisations

The two speakers at the roundtable discussion **Mick May,** Founder and Chief Executive from **Blue Sky** and **Christian Meyn**, Managing Director of **Auridis** explained what capacity building is and what forms it can take. The question of whether capacity building or financing was more important was asked as well as how the split is perceived by different types of institutions.

Roundtable participants argued that in their opinions capacity building is much more than training and workshops. It encompasses improving specific processes and procedures within an organisation including information systems, process work flows and policy and procedure documentation. Importantly, capacity building is becoming increasingly essential when an institution wants to scale or develop into a mature and stable enterprise. It should focus on empowerment and self-confidence of individuals and organisations to enable self sufficiency. Change management is a crucial element and preparing for exit should be a prioritized component.

An interesting point was raised concerning the effectiveness of Pro Bono consulting and even 'Low-Bono' consulting. Is it better let the NGO hire a professional NGO consultant with industry experience or use a free Pro Bono consultant? When a brief is being written for a consultant it is crucial that the investee plays an important role in its creation and hence becomes a stakeholder in the success of the consultancy project. Furthermore, a NGO should have options to refuse an offer if they have doubts about the final outcome - even if this may be hard.

The most crucial elements in the effectiveness of capacity building were determined to be the initial assessment of the needs of the organisation and the logical and methodical analysis and creation of a plan of action to tackle, in a pragmatic way, the gaps and disconnects discovered.

ROUND TABLE 5

From momentum to monumental: How should the social investment market evolve?

The key theme of the session revolved around challenges facing impact investing and what can be done to mitigate that. **Karen Wilson**, founder of the **Global Venture Partners** and **Mark Campanale**, Founder Director of **The Social Stock Exchange** introduced presentations from the Global Impacting Investing Network (GIIN) and BNP Bank which examined how GIIN is helping increase the effectiveness of impact investing by providing an excellent platform and the challenges faced by impact investing including regulation. French law prevents BNP from selling a social investing product proactively - the client has to ask for such a product and only then can the bank provide the details. Similar examples were cited in the case of investments by charities and trustees who are prohibited from using 'impact investments' in several countries.

The participants indicated lack of investment products, effective management and intermediaries as a potential reason why this sector has not yet picked up.

The session ended with a discussion how to move the impact investment industry from the momentum to the monumental phase. Ideas which emerged included: clear dissemination of information on impact investing, setting up of intermediaries, amending regulatory frameworks and designing new investment products.

ROUND TABLE 6

What can EVPA do for me? Meet the Managing Director

This roundtable described the work of European Venture Philanthropy Association and its various services to its members.

Beate Trück, EVPA's managing director, gave a short introduction to the history of the Association, which started with the five co-founders - Michiel de Haan, Doug Miller, Serge Raicher, Stephen Dawson and Luciano Balbo - all coming from the private equity industry, agreeing that sometimes more than just giving money is needed in order to achieve effective change. They decided to set up the European Venture Philanthropy Association in order to bring together like-minded people. EVPA promotes venture philanthropy in Europe and supports its members carrying out their VP activities.

In a recent impact survey 58% of EVPA members declared they changed one or more of their practices during the time of their membership with EVPA. Changes mainly addressed Investment Strategy and Impact Evaluation. Most changes in strategy were undertaken by venture philanthropy organisations and foundations. Also EVPA publications and workshops were reported useful for informing changes in strategy.

Finally, looking ahead, the roundtable gave an outline on the forthcoming year. Highlights include the re-launch of the EVPA website which allows members to connect more easily through the Social Impact network and access to key information through the resource library of the Knowledge Centre section, site visits in Scotland (Inspiring Scotland) and Germany (BonVenture) as well as the Industry Database accumulating and disseminating data on VP industry.

THEMATIC ZONES

A new feature of this year's EVPA conference was the introduction of thematic zones. These were informal meeting places outside the main sessions where people could discuss topics nominated in advance by conference delegates who offered to host the 'zone'. Sessions ran either side of the lunch break on the second day of the conference on six topics: children and education, health and disability, alternative energy and cleantech, international development, social inclusion and arts and culture.

Amanda Davies, EVPA conference manager, said that EVPA hoped that the zones would provide a 'brush with reality' as participants were able to see or hear and discuss the nuts and bolts of a problem or initiative and that this would give fresh stimulus to the often more rarefied discussions in the formal sessions. Certainly, Michael Alberg-Seberich of the Forum for Active Philanthropy, Germany, got a lot out of the 'in-depth personal conversations', which the thematic zones provided, particularly, for him the theme of education and its relationship to venture philanthropy. 'We had good examples from Norway, the UK, Ireland and Germany.'

The content and format of each was set entirely by the participants and their openness was a welcome change from the more formal conference sessions. Some went for roundtable discussions in which all participated, others broke up into small groups of two or three, some featured a case study or video presentations and, in at least one, a new investor-investee relationship was in the process of formation.

CLOSING KEYNOTE SPEECH

In his closing keynote speech, **Sir Ronald Cohen**, Chairman of **Bridges Ventures** and the **Portland Trust,** shared his experience in the very early days of the venture capital industry and his involvement in the UK's social investment taskforce which was set up to address one question in particular: how to deal with the widening gap between the rich and the poor?

He offered the assembled delegates a key lesson: to allow business entrepreneurship to flourish, you needed a system to support it. It was impossible to deal with the scale of social issues if there wasn't also a system to support social entrepreneurship. This system should comprise five elements, which - like parts of a machine - needed to be assembled to do their job: first, fiscal incentives for investment in social areas. Second, matching finance from government. Matching funding was necessary, he said, in order to leverage other investment because often such investments appear risky. The third element should be an overhaul of philanthropic regulation which in many countries was outdated and ambiguous. Many charitable trustees, he said, would be prepared to engage in social investment if the way was cleared for them to do so. Fourth, banks should be prepared to invest in poor areas. In the US, for instance, the Community Reinvestment Act obliges them to do so. Finally, a national body was needed both to provide training and to represent the sector to the government.

If these five elements were the engine, he said, the fuel was the capital market. In order to overcome the challenge that social returns do not attract capital, Bridges Ventures had been involved in devising the Social Impact Bond in the UK. This was currently being tested in a project to reduce the rate of re-offenders in Peterborough prison. The bond's sponsors had attracted government support on the condition that if the project failed to achieve the set target, the investors would forfeit their money. This model means, firstly, that organisations could access the capital markets in their own right if successful and, moreover, that social enterprises were connected to the capital markets through a social measure.

Another important step, he said, was the creation of a social investment bank of the kind proposed in the UK under the head of the 'Big Society Bank.' Such a bank would fund initiatives that would otherwise not get the funding because they could not yet prove their success and it could cushion the risk run by investors by taking the first loss.

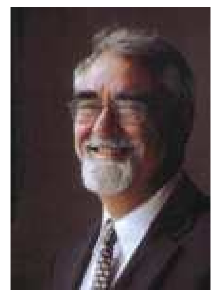
The supply of money would create its own demand for social enterprises, he underlined. Thus, if measures such as the setting up of a Social Investment Bank and the launching of Social Impact Bonds were adopted and if the steps he had outlined in his five recommendations were taken, he forecast that we would see a 'new wave of social entrepreneurship which will resemble the wave of business entrepreneurship we've known over the last few decades'.

INTERVIEWS

Read exclusive interviews with our keynote speakers Percy Barnevik, CEO of Hand in Hand, Jacqueline Novogratz, Founder and CEO of Acumen Fund and Sir Ronald Cohen, Chairman of Bridges Ventures and the Portland Trust as well as Beate Trück, the Managing Director of EVPA.

EVPA would like to thank Caroline Hartnell, editor of Alliance magazine, who carried out the interviews with Percy Barnevik and Sir Ronald Cohen for allowing us to include versions of them in this account of the conference.

PERCY BARNEVIK



How are you getting on with your plans to scale Hand in Hand in India?

Under Dr Kalpana Sankar's successful leadership they are keeping up a high growth rate. We now have 560,000 enterprises, and we're increasing the number by 1,000 per working day. And we have some 620,000 women trained into entrepreneurship. So we are well on the way to our ten-year target of 10 million jobs, which would help some 45 million people out of extreme poverty. So that's our icebreaker – everything follows from that.

As for our other divisions, we have 80 schools and 900 tuition centres. 62,000 working children have been brought to school, and we are aiming to reach 300,000 such children. Then we have the hygiene and health programme, where we reach out through awareness campaigns to about 1 million people. We have medical camps moving around areas that haven't seen a doctor before, offering nutrition and anaemia programmes and that kind of thing. We have some 2,400 IT centres as part of our citizen centres. Through them we reach out to some 7 million villagers, and we have almost 200,000 trained in IT now, so that's well under way. Then we have the environmental programme, which involves a water programme – building dams and providing clean water – plus waste collecting, sorting and recycling. So I would say overall everything is coming along very nicely, and if anything above the targets that people said were far too high at the beginning.

We also have a huge programme in Afghanistan, a very difficult country, where we support a government programme for 2 million jobs. We're expanding in Southern Africa and starting up in Kenya, Brazil and Sri Lanka, and now we plan to go to Central America too.

What do you see as the reason for this phenomenal success?

We have in India an extraordinarily strong team, led by Kalpana Sankar, which has done an incredible job. I don't think anyone in the world can demonstrate job creation at such a low cost; it's down to $30 per job compared to a global average of $150-$200. So we have 4,000 employees, 3,000 full-time and 1,000 part-time, and 41,000 volunteers.

In the beginning, I believe you were the sole donor. Have other donors now come in to support your work?

Yes, very much so. We have companies and individual donors, but interestingly we are also beginning to attract the big multilateral institutions like the World Bank and government donors like NORAD in Norway, SIDA in Sweden, and FMO in Holland. So that's expanded our reach beyond our traditional donors, though donors from the business sector are still the bulk of those who come to us. You can imagine that people love our track record.

What would you say to someone who was starting something similar and asked you why Hand in Hand had worked?

First you have to have a strong passionate team in India and then in other places too.

There must be a reason why you can get such good teams together?

We have a good reputation now and we try to apply business thinking – efficiency, productivity measurement, and so on. We have hundreds of measurements of performance, and everyone has monthly targets. On the basis of these we reward the good performers and weed out those who are not performing. Running an efficient organization like that, we can show that it's low-cost. So it's a matter of having ambitious targets, measuring productivity continuously, keeping overheads low, and above all having good people leading the organization. It's like when I was running big companies: there is no secret other than execution, highly efficient execution.

And that's what's enabling you to keep scaling?
Yes, absolutely.

So when investors come to you, are they basically investing in your teams?

Yes. The biggest part of our expenditure is training – literacy, vocational training, organizational and financial training, and not the least, entrepreneurial training, all delivered by our staff. You can see this reflected in our lending operation. We're not simply *shelling out loans to people, we're training them and coaching them in entrepreneurship. That's why we have 99 per cent repayment of our loans. That's why 75 per cent of borrowers in some well-penetrated areas take out additional loans for expansion.*

And is this training free?

Yes, almost. That's the charity element in it. We can't take fees from the all the programmes we run to cover costs. We go to the poorest of the poor, and they don't have much money to pay. Then we have the lending to entrepreneurs after we've trained them, and that is more commercially based.

How does it work?

First, they have to show that they can save money over a period of five months, even if it's only a very small amount. When they pass the test, we organize the funding. The funding comes from bank branches or from our trust. We have also set up a limited bank in India, NBFC, which can't take deposits but can borrow them from other banks. There's no lack of capital you see, that's not a problem. There are other microfinance banks, thousands of them.

So to you the bit that was really missing was the training, the skills?

Training, coaching, entrepreneurship. Because a lot of people who get micro-loans consume them. When I went to South Africa for the first time to review a poor country area which had been covered by microfinance for 15 years, I asked, 'where are the jobs, where are the enterprises?' They told me the loans went on jewellery, travel, food, clothes. You need to build the skills and the habits of enterprise. It's all about jobs.

JACQUELINE NOVOGRATZ

What draws you to this conference?

There is a growing interest in Europe around social impact investing and extending the idea of philanthropy into focusing on building more sustainable organisations that will be more effective than we've seen historically. In some ways, Europe is at a tipping point. There is a greater comfort on the investing side with lower returns for impact and now we're seeing on the philanthropy side more Europeans really focussing on their philanthropy and wanting to see greater change coming from it. Acumen's work in patient capital really starts with the philanthropy rather than just giving your money away and being comfortable with a 100 per cent loss. Giving your money to Acumen and seeing it invested so that you have a permanent source of capital being built that, in turn, creates companies delivering safe drinking water, or long-lasting malaria bednets or maternal healthcare to millions of people, is a more impactful and satisfying way to see your philanthropic money spent. I think that's why there's a growing interest in this approach in Europe and I think there's real potential for leadership in Europe.

Could you describe briefly what the Acumen Fund does?

We raise philanthropic money from individuals, foundations, corporations – we have over 250 supporters from 21 countries who have given us anything from $10,000 to $1m a year - which we then turn around and invest as long-term equity – five, seven, ten up to 15 years – or debt (forty per cent of our investments are debt) – in entrepreneurs in India, Pakistan, Kenya, Tanzania and Uganda who are specifically looking at the poor as customers and building solutions from their perspective, delivering affordable basic goods and services – water, energy, housing, healthcare, agricultural inputs – in ways that the poor can afford and value. The idea is that, over time, we become a laboratory for better ways of delivering these kinds of service, whether through the private sector or government, often a combination of both.

To date, Acumen has made over $50 million in investments. Those investments have brought 200 million additional dollars into the companies we have supported, which in turn have created 35,000 jobs. This has affected the lives of some 40 million people. We have six companies who are each reaching over a million and in some ways transforming a number of industries that either didn't exist or were so full of inefficiencies that they were really sub-standard in terms of reaching the poor. We use the term 'patient capital' because we are very specifically focussed on goods and services the poor need. It is long-term capital although it is philanthropic, and we make investments and provide a lot of management support as well.

Do you see any differences between the US and European approaches?

I don't. I think it's much more reflective of the global world in which we live and that there are leaders in both continents and the work of people like Sir Ronald Cohen of Bridges Ventures has been groundbreaking on a global basis. Some of our supporters – Niklas Zennström who founded Skype, for example - are entrepreneurs in their own right interested in taking their entrepreneurial approaches and seeing them play out to the bottom of the pyramid. So in some ways it coalesces with our world view that the privileged are becoming more like each other around the world and looking for solutions that transcend class. You're finding innovation happening everywhere in a global society.

What, from your experience, made you think this was the best approach?

I started in banking and saw that financial markets were not reaching the poor and those that they did have access were often the harshest of capitalist markets - if you live in a slum you'll pay 50 to 60 times for clean water what your middle class counterparts will pay. Living in Rwanda in the 80s, I saw how often top-down approaches didn't just have no impact, but had a negative impact, creating dependency not dignity and, for us, dignity really matters more than anything else. So I wondered, why are we comfortable with a 100 per cent loss of our money as long as it makes us feel good that at least something is being done, on one hand, or investing it on the chance of making 10, 15 or 20 per cent though we might lose it all, on the other? There's no space which allows you to use investment approaches and greater accountability and which shifts the power away from the donor to one which says we're on the same page, trying to fix a problem. It seemed to me that we needed a third 'bucket' for the way we think about our philanthropy where we might get even 80 per cent of it back and it's able to be recycled and it's actually creating sustainable enterprises that are growing. As a philanthropist, that's a more exciting proposition than programmes that rely on grant funding in perpetuity.

Many European VP funds – though by no means all - work close to home because it suits their engaged approach better. Does Acumen work exclusively abroad?

I never give a speech in the US any more without some asking 'where's Acumen in America?' In the US, you've now got 43,000,000 people on food stamps. It's the first time the US has seen such a level of joblessness with no real clear sense of where those jobs are coming from in the future and a growing political divide we've not seen, certainly in my generation. So when I talk about the jobs that we've helped create through our investments, there's a real interest in bringing it to the US so we're open to exploring whether we do that. I think it would be a slightly different model but what interests me about it is that it might help us as a world think more creatively about what poverty is. There's a tendency to think about poverty in terms of income alone, but there's also another conversation about where you fit within society, whether you have choice inside that society, that needs to be taken into *consideration. At the end of the day, you really want to focus on dignity and not income alone.*

People are increasingly talking about collaboration and partnership? Is that a trend you see developing over the next few years?

I would use a different word – convergence. I see all of the sectors realising that we need new solutions. The non-profit sector is increasingly saying there's got to be a better way to build more accountable systems that ultimately are more effective. The corporate sector, in part driven by the young people it's hiring, is saying 'we're going to lose market share if we don't think in wider terms about sustainability and act as responsible citizens', and government is under increasing stress to show more results with less money. So you're seeing the kinds of conversations I could only dream about five years ago. It's no longer inconceivable for me to sit at a table with a CEO from a major global corporation, someone from government, someone from the military and someone from the social sector who are all looking for some way to be more effective in the way they work with the bottom of the pyramid in developing markets. I think it opens the way for much more fertile opportunities, not for collaboration as collaboration alone, but where it's clear who gets what out of doing things. When you look at what we did with malaria bednets in Tanzania, back in 2002, it's a collaboration between Sumitomo, a chemical company which developed the technology to impregnate a polyethylene-based fibre with a long-lasting anti-malarial, UNICEF which wanted to get these nets to the poor, recognising that 92 per cent of malaria is in Africa but there had been no production on that continent, Exxon which had a resin which was needed for the netting to hold the chemical, Acumen Fund which could provide the initial financing and take the experimental risk and the entrepreneur, A to Z Textile Mills, the company which was willing to take the risk as long as somebody could cushion the financial risk. So you had these strange bedfellows that eight years later are part of this partnership supporting an entrepreneurial venture that has created 7,000 jobs and makes 30 million nets a year in Arusha, Tanzania. It's also changing views about what Africa is capable of and that African entrepreneurs are willing and able to solve problems.

I'm going to talk today about husk power in India which didn't start off as a collaboration, but as an entrepreneur wanting to solve the problem of lack of electricity in rural Bihar where you have 22,000 villages that have essentially been declared economically unreachable by government. Acumen provided the patient capital, Shell Foundation provided probably a million dollars in grant financing and technical support, MRNE which is the part of the Indian government focussed on natural energy, provided a subsidy so that we could have a business model that worked and a product that was affordable. But it wouldn't have worked without all those different kinds of interventions.

So you're making this enterprise visible to traditional sources of finance?

Right. It's early but at the end of this year you'll have 160,000 people who have light and aren't dependent on expensive, dirty, polluting kerosene, so the whole country's watching. It will take probably another 4 years to break even and have a fully viable company, but as things go, that's not a very long time, so we're going to have a model here for how you can go to the most difficult to reach areas where there's biomass feasibility depending on what crop they grow. That's why I started Acumen. You start with nothing, then you create a model, the model grows and you see the tipping point once it hits 3–400,000 customers and you can no longer write it off as 'such a cute project'. You have numbers and there's scale. You see capital markets looking at it and wondering if there is long-term profitability and government saying 'is this a way I can reach the masses?'

The thrill for me today is that I'm no longer using all my energy to get people to see a future that might or might not happen. I've surprised even myself about how we can do this. But we need to move to a place where we're really serious about systemic change. Critics of social impact investing have always asked (1) when will it scale (2) when will you ever exit and (3) will investors get so focussed on financial returns that social impact goes by the wayside? One and two, I no longer worry about, three I think is a real challenge where the leaders of the field need to keep focussed on developing a better set of measures for social impact than we have at the moment. That's my current obsession.

What's your main message for the conference?

I want to end with this idea that we're helping to build mechanisms that are really important, that are lifting up what some of the critical issues of our time are. But underneath it all, what we need is a new level of moral leadership that is unafraid to think about bringing seemingly incompatible partners to the table and that understands the tensions we face in that we have growing inequity within countries and across countries, and we could do a much better job of making change. But we need more moral imagination and we need more moral leadership in what we're doing.

What's your view of the EVPA and the position it occupies?

I think that they are positioning themselves to have a really big role as a convenor of players in Europe who are interested in social ventures and it's interesting looking at the list of people who are coming, how many people are coming from different places around the world. What thrills me most is to see these kinds of association that are developing, and that are raising awareness of what's coming up and building a sense of community, because it's from those associations and those communities that we're going to start seeing more of a demand for standards and metrics so that we can begin to have more of a common language. Gatherings like this are really important for people starting to become part of a community or an association where they feel not only a sense of belonging, but a sense of *accountability - what are they going to bring to this conversation? I think there's a lot of fertile ground for conversation and longer term partnerships and commitment that come out of it. The people who come are identifying themselves as part of a sector and if you imagine that this could be a humanitarian movement that begins to insist on a different way of getting serious about solving the problems of poverty, these are some of the forums that make that possible.*

SIR RONALD COHEN

Could you start by talking about the social investment bank and your view of social finance and the role it should play in society?

My involvement started with the Social Investment Task Force in 2000, the impetus for which was a concern on the part of the UK government that while standards of living were rising in society as a whole, the gap between rich and poor was increasing. I was asked to approach the whole issue from the perspective of a private equity investor and we defined five specific recommendations which are necessary to create a system to support business-like approaches to the scale and sustainability of social organizations that are trying to deal with massive social issues.

The sixth recommendation was that a few years down the line we should create a social investment bank to fund the social sector. When you look at the majority of the 160,000 organizations in the sector, they can't look beyond one year because that's their fundraising timeframe, which means they are completely unable to build sustainable organizations. I'll go on to talk more about that later. In the meantime, in 2007, four or five of us came up with the idea of the social impact bond, which is proof that if you get people who are highly versed in finance as well as the voluntary sector you can come up with innovative social instruments – or financial instruments which have a social purpose.

Could you describe the Social Impact Bond and how it operates?

We approached the UK Ministry of Justice with a pilot project to reduce reoffending rates. We'll raise £5 million from foundations, the charitable trusts of successful venture capitalists, hedge fund managers and entrepreneurs, and we'll use it to fund organizations like the St Giles Trust which are working with released prisoners to integrate them back into society. If we reduce the rate of reoffending by less than 10 per cent, we lose the capital of the bond, but if we achieve a greater than 10 per cent reduction over a seven-year period then the government will pay us a rate of interest, a yield on the bond in financial terms, which will vary between 7.5 per cent and 13.5 per cent. We will compare the fall in reoffending with a control group across the country. The reason that this could be revolutionary is that for the first time you've got a financial instrument which is remunerated according to a social outcome.

And has the bond been taken up?

The bond is oversubscribed and we're now thinking of additional bonds for other prisons in the UK. We're also looking at areas within education and health where the metrics are sufficiently clear that government or a substantial foundation would be prepared to sign up for payment in case of outcome. In the case of the government, in paying this yield the government would be paying out about a third of the savings made on the prison system.

And in the case of foundations?

Funding comes out of their assets. If the bond fails to pay, then it turns into a philanthropic contribution.

What role would the social investment bank play in financing the social sector?

As I said, the taskforce advocated this a number of years ago. The new UK government has now come up with a big society agenda, part of which is a big society bank – which is their name for a social investment bank – whose role is to help the social sector achieve sustainability. If it has £250 million pounds of capital, we think it can attract another £750 million. You can see how a social investment bank could subscribe to social impact bond issues, and the rest would get sold to institutions such as foundations and pension funds. Even private individuals might like to own a bond that may turn into a philanthropic donation but which helps to create a different system under which organizations that are driven by a social mission can access the capital markets.

So you see the social investment bank investing in bonds?

I think part of the money would be allocated to developing social venture funds such as Bridges Ventures, which have now proved their worth. We ought to have half a dozen organizations like Bridges operating in Britain, investing only in the poorest 25 per cent of the country. Second, we would like to be able to support the efforts of organizations like Charity Bank, for instance, which is there to lend to charities, which is something the banking system has not done. The bank will help the sector to develop institutions which are going to be the pistons which power the social engine. If there are gaps which existing organizations are not able to fill, the bank needs the ability to act directly and to use its own skills to help start organizations in those sectors.

One of the things that has clearly been identified at this conference is the gap between seed funding for the social sector and the mainstream capital markets. Does the social investment bank cover those organisations that are beyond start-up but not yet able to access the capital market?

Yes, I see it covering the whole of the social investment spectrum, which goes from traditional philanthropy all the way through to full-profit, mission-driven activity, such as Bridges Ventures. I'll give you an example. If somebody came into my office with a new model for dealing with homelessness and said, 'I am going to refurbish buildings, and I am going to use them as hostels for people who are homeless. Once I've integrated them back into the workforce, they will start paying rent and move into the second half of the building, if you like, and in that way I will be able to fund a certain amount of the cost which was initially used in purchasing the building.' That sort of model needs equity to get started, and you would hope that the big society bank would be able to steer such an organization to intermediaries in the field. And if no intermediary is prepared to fund it, it ought to be able to fund it itself.

And presumably some of these organisations would be able to raise funds in the mainstream market?

Exactly. That is one thing that Social Impact Bonds would enable them to do.

What do you feel about the social stock exchange that's being developed?

I think it's a very important part of the architecture, but it's just a question of whether there's a critical mass of potential users now. It would be important to be able to access sources of finance that are wider spread and on the whole cheaper than those that exist in private markets.

Where do you see venture philanthropy fitting into all this?

For me, venture philanthropy is bringing a powerful business approach to the deployment of philanthropic funds. And in that sense it improves the impact that philanthropy achieves. You can see a continuum: an organization initially receives money from a passive philanthropic source because its model is promising; it goes to a venture philanthropy firm and brings in management expertise as well as capital. The investment by venture philanthropy enables it to scale up and to access the capital markets through social impact bonds.

So venture philanthropy is the next stage up.

It's the next stage after passive philanthropy. You have a continuum all the way through to funds like Bridges, where the locomotive is the financial return and the carriages are the social returns.

There seems to be a tendency to define venture philanthropy increasingly widely. And yet as you've been saying, and as some of the people I was talking to yesterday said, it is very much a particular stage in the funding spectrum. What's your view?

I think it's typical of a field that is moving from the conceptual to the actual. It doesn't much matter what people call things, it's what they do. So for me the term philanthropy today can cover the whole field of social investment, as I believe it does in Holland. Venture philanthropy describes an activity which brings business approaches to achieve scale and sustainability to philanthropic service providers – which I find a useful definition.

There used to be a very strong analogy made between venture capital and venture philanthropy. How useful is that?

I think actually it's more the mindset and the approach than the activity that is being referred to when one says the two are similar. You could argue that what Bridges does, which is to buy shares in companies located in poor areas, is actually the pure venture capital model applied in a mission-driven way because it focuses on poorer areas or the environment. So the inspiration came from the venture capital industry, which said that just giving money to organizations that are trying to grow, whether business or social *organizations, is less effective than providing them with a combination of money and managerial talent. So I am not just being philanthropic in the sense of giving money away, I am investing time and effort in making sure that organizations like Bridges and Social Finance and the Portland Trust actually develop scale and sustainability and social impact. In that sense the inspiration of venture philanthropy is indeed very deeply rooted in the hands-on approach of venture capitalists.*

The financial crisis doesn't seem to have given the boost to social investment that was initially expected. Do you think it's been a boat missed?

Because governments are very constrained from a budgetary point of view, they are much more amenable to discussing these issues. This had led foundations to begin to adopt a much wider definition of their charitable purpose than they previously had, so you find Esmée Fairbairn in the UK, for instance, making an allocation to social investment. But we need a watershed. We need a guideline from the Charity Commission that says it is reasonable, even advisable, for a trustee of a foundation to approve investments that have a social object, such as those that go through social impact bonds or venture philanthropy. In Britain alone there are more than £60 billion of assets in foundations. One per cent would be £600 million, a massive boost for social investment.

If you could give one message to people at this conference about what to do in order to make social finance a success, what would it be?

I think it's to create a system in each country, such as that described in the first Social Investment Task Force report – with tax incentives for investment in poorer areas; matching finance from government to encourage the formation of social venture funds; charity regulation of the kind that we were talking about; banks obliged to disclose what they're doing in poor areas; and a sector organization to train people and represent views to government (in the UK, we have the Community Development Finance Association). And when all that's in place you need to create a social investment bank – which will now be called the big society bank.

Unless you create a system like that, it'll be very tough to do for social entrepreneurs what the private equity industry has been able to do for business entrepreneurs. It's notable how much this conference focuses on help to developing countries, but the issues raised within our own society are just as great. The fact that our system takes care of its economic and financial consequences but not its social consequences means that there is a massive need for a powerful social sector to operate alongside the government. Unless we can create that, maintaining social cohesion and the sense of equity in our society is going to be extremely difficult.

BEATE TRÜCK

Can you explain how you came up with the conference theme?

There's been a lot of excitement about venture philanthropy in the past few years, including the development of social investment – which we see as funding that may generate a financial return, but where social impact comes first. The conference marks a transition from developing the idea of VP to further developing the industry and seeing how the VP approach fits in the overall search for impact. We also have a growing membership in the social investment niche and it follows on naturally from last year's topic which was about the rise of social enterprise in Europe.

How about the idea of convergence?

I think the line between grant-making and investing is less clear than it used to be and we see both as part of a spectrum of approaches that VP funds can use. One of our members, Impetus Trust, which started off with a grant-making approach, is now beginning to make investments and lots of hybrid models are emerging. We also sense a trend that foundations are moving towards venture philanthropy, although they might not use the term.

I know that EVPA conferences have tended to get bigger each year and to draw in people from a wider geographical range. Is that the case this year?

It is. This year the conference has attracted more people than ever before. It's more than fully booked at 400 delegates, which is where we had to draw the line. Delegates are coming from 25 countries, including Africa and Asia. We've also got a spread of types of organisation – there are people from private equity, from non-profit organisations, academia, private banks, advisory services. I'm surprised because people find it more difficult in the current circumstances to afford conferences. But I think there's a big demand for content on social investment at the moment. Also, I feel we have the right topic and an impressive array of speakers. We feel that the EVPA annual conference is established as the key event of the year in European venture philanthropy.

The financial crisis has made the last couple of years difficult for everyone. How has it affected trends in EVPA's membership?

We have lost some members over the last few years, and these have tended to be from Eastern Europe, often because the crisis caused the whole organisation to go under or because it has postponed the launch of its VP activities in favour of concentrating on its core business. But we've still had a significant net gain of 21 new members over the last two years. Currently, membership stands at 128 from 20 countries, 17 per cent more than two years ago. In another way, the crisis has contributed to the development of the social *investment movement. When resources are scarce, it becomes especially important to use them efficiently which is what the VP approach advocates.*

What is different about this year's conference?

It is much more focussed on the future and on facilitating the development of the social investment industry. Now that VP is a more developed concept, we are moving beyond sharing success stories and getting more into the details of how it works operationally and how it can apply to different social and environmental issues. Also new this year are the networking zones where people can discuss specific sector issues and network better.

What do you hope or expect from the conference?

We hope all participants come away having learned a lot and having been pushed to think about the future – hopefully, reenergised for their work. Although numbers are greater than ever, I hope that it will still retain a sense of intimacy. We want people to make connections - the conference is an incredible networking opportunity, so we hope that many new relationships will be formed and that VP will be used in many new social, economic and geographic areas in the future!

What will be the thrust of EVPA's work over the next 12 months?

The Knowledge Centre has now fully ramped up and published some interesting papers. The three most recent are on VP strategies for foundations, investing in social enterprises and the revised edition of the very popular paper on establishing a VP fund. We're also conducting a survey to create a venture philanthropy database, which is very exciting because it will enable us to track the development of the industry and serve as a very useful research tool for our research members, too.

We've also decided to set up a task force on guidelines to help define and develop the industry further and a social investment interest group which will develop services specifically for our members working in that area. And, as usual, we'll be organising a number of events in 2010 – two site visits, workshops and country group meetings. And finally we are implementing a revised social media strategy.

What does that consist of?

It'll include a completely new and much more interactive website and a social impact network which will act as an online forum to promote networking and learning in specific areas or topics.

How do you read the trends in European philanthropy and how do you think VP can position itself in respect of them?

VP is an approach that applies, or can apply, to many aspects of European philanthropy. First, collaboration across traditional business, for example, is an important trend – maybe not a new one – that we can help facilitate. When foundations, VP funds and governments can work together, more capital, more resources and more ideas can be applied to a social problem. Second, foundations are becoming increasingly interested in instruments in addition to grants – loans, quasi-equity investment – and in investing in different types of organisations with a social purpose. Our paper on VP strategies for foundations informs this growing trend. Third, there is growing attention from governments about social entrepreneurship and investing in the social sector. As new legal forms are established, we can help our members – and the industry as a whole - navigate these and establish guidelines for investing in them. Finally, many high-net-worth individuals are starting to look at different ways of using their philanthropic money to better effect and venture philanthropy can play a big role there. As I've already mentioned, social investment is a growth area, not only for new and established investors, but also for the number of organisations being created in the area. We see venture philanthropy as having a big part to play in helping to develop both the investee and investor sides.

REMARKS FROM THE CONFERENCE PARTICIPANTS

" ***Thank you for an excellent conference, probably the best organized I have been to. The mix of workshops, roundtables, debates was perfect. Participants, guest speakers and moderators were right on top of things.***

" ***I'm here to get a better grip on venture philanthropy and to see if we can integrate it into our fundraising system. [...] I now have a good idea about what it means, what it can offer and what it can do.***

" ***The real challenge for me is that normally there are two or three sessions I want to go to and choosing one has been a difficulty.***

" ***The topics this year have been really powerful, really relevant to a lot of the issues we're facing as an organisation.***

" ***I think it is great venue for people to meet. It's a very good mix of participants and I really enjoyed the opportunity to talk to lots of different types of people.***

" ***Sir Ronald Cohen was exceptional, his contribution caused the conference to close on a high.***

" ***Great opening speakers; very inspiring.***

6th Annual EVPA Conference in numbers:

- 67,4% of delegated thought the overall organisation of the conference was excellent.
- 82,4% of delegates said they are going to attend next year's conference.
- The majority of delegates found the keynote speeches excellent and inspirational (62%)

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Save the date for the next EVPA Annual Conference

16-17 November 2011, Torino (Italy)

With kind support of:

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EVPA is a membership association made up of organisations interested in or practising venture philanthropy across Europe. Established in 2004, the association is a unique network of venture philanthropy organisations and others committed to promoting high-engagement philanthropy in Europe. EVPA's diverse membership includes venture philanthropy funds, grant-making foundations, private equity firms, and professional service firms, philanthropy advisors and business schools. Currently the association has around 128 members from 20 countries.

EVPA has two main aims: to support its members in carrying out their venture philanthropy activities, and to promote venture philanthropy throughout Europe.
To achieve this mission, EVPA provides a forum within which European based venture philanthropists can network, exchange ideas and debate best practice. EVPA also informs potential donors and others of the role and benefits of venture philanthropy and facilitates its development, with the aim of increasing knowledge and acceptance of the benefits of venture philanthropy in the charitable sector. The EVPA Knowledge Centre produces research and proffers collective industry data and curated resources to develop in-depth knowledge of best practices and a vision into the future of social investment.