EUROPEAN VENTURE PHILANTHROPY ASSOCIATION

VP GLOSSARY

In what follows, we provide a glossary of some of the key terms used in Venture Philanthropy and related areas.

- **Attribution**

Attribution takes account of how much of the change that has been observed is the result of the organisation's activities, and how much is the result of actions taken simultaneously by others (e.g. other SPOs, government).

- **Balanced Scorecard**

The Balanced Scorecard was developed by Professor Robert Kaplan (Harvard Business School) and Dr David Norton in 1992 as a 'performance management framework that added strategic nonfinancial performance measures to traditional financial metrics to give managers and executives a more "balanced" view of organisational performance… [it] transforms an organisation's strategic planform an attractive but passive document into the "marching orders" for the organisation on a daily basis', helping people to identify what should be done and measured.

Source: www.balancedscorecard.org

New Profit Inc, based in Boston, MA, in partnership with Professor Kaplan has adapted the Scorecard for the non-profit sector adding the 'social impact' perspective.

See also: www.newprofit.com

- **Base/Bottom of Pyramid (BoP)**

An economic term referring to the largest but poorest socio-economic group, which in global terms refers to the 2.5 billion people who live on less than $2.50 (U.S.) per day. One of the earliest popular uses of the phrase "bottom of the pyramid" was by U.S. president Franklin D. Roosevelt in his 1932 radio address, The Forgotten Man, which referred to the plight of the American farmer and the importance of building economic power from the bottom up rather than the top down.

- **Base of Pyramid Entrepreneur (BoPreneur)**

This is a catchy term for a Social Entrepreneur or someone who creates a new for-profit business with the mission of addressing a social and/or environmental problem and stimulating the economy at the base of the pyramid.

- **Baseline**

The baseline is the initial collection of data that describes the state of development of the SPO when the VPO starts investing in it. The baseline serves as a basis for comparison with the subsequently acquired data on the development of the SPO.

- **Below market return**

Level of return on investment, which is lower than the average level of return offered by the financial market, for an investment with the same risk profile.

- **Beneficiaries**

The people, communities, broader society and environment that an SPO seeks to reach through its activities. Beneficiaries can be affected positively or negatively by the activities of the SPO.

- **Blended Value**

As defined by Jed Emerson, who coined the term, 'the Blended Value Proposition states that all organisations, whether for-profit or not, create value that consists of economic, social and environmental value components – all that investors (whether market-rate charitable or some mix of the two) simultaneously generate all three forms of value through providing capital to organisations. The outcome of all this activity is value creation and that value is itself non-divisible and, therefore, a blend of these elements'. Source: www.blendedvalue.org

- **Business plan**

Document that describes an organisation's goals and the operating model and financial resources, which will be used in order to reach them.

- **Capacity-building / Organisational development**

Approach aimed at strengthening organisations supported to increase their overall performance by developing skills or improving structures and processes.

- **Certified B Corporation (B Corp)**

Certified B Corporations are philosophically the same as legally designated benefit corporations but have a few important differences. The B Corp certification is not conferred by a state but by Berwyn, Pa.-based B Lab, a non-profit organisation that promotes the power of business to solve social and environmental problems. B Lab certifies companies the same way TransFair certifies Fair Trade coffee or USGBC certifies LEED buildings. Certified B Corporations earn their designation by meeting a high standard of overall social and environmental performance. As a result, Certified B Corps have access to a portfolio of services and support from B Lab that benefit corporations do not. Unannounced audits are done on about 10 percent of all certified B Corps every year. B Lab supports and encourages legislative efforts and many legally chartered Benefit Corporations have a B-Corp certification.

- **Co-investment (also known as Cofunding)**

In private equity, co-investment is the syndication of a financing round or investment by other funders alongside a private equity fund. In venture philanthropy, it involves the syndication of an investment into a social purpose organisation (SPO), by other funders (e.g. grant-makers or individuals) alongside a venture philanthropy organisation.

- **Core costs**

Recurring expenses generated by the operation of an organisation, which are not directly related to the level of activity, by opposition to project or programme costs.

- **Corporate Social Responsibility (CSR)**

CSR is a form of corporate self-regulation that is integrated into the business model and takes into account not only shareholders but also stakeholders such as employees and customers. CSR efforts often include the entire value chain, including suppliers, buyers and the communities in which the company operates, when addressing issues of social and environmental impact. The term “corporate social responsibility” came into common use in the late 1960s and early 1970s after many multinational corporations formed the term to describe any group that is impacted by a company’s activities. Annual CSR reports are now published, using a framework such as GRI to increase awareness and transparency around CSR and sustainability progress.

- **Deal flow**

Deal flow refers to the number and/or rate of new proposals presented to the investor. This term is used with respect to venture capital/private equity funds, venture philanthropy funds, and has also been borrowed and used by philanthropists in reference to ‘deals’ or potential projects to be awarded grants.

- **Debt financing (also see Loan)**

Debt financing is borrowed money used to finance a business, either traditional or social enterprise. Usually, debt is divided into two categories: short-term debt for funding day-to-day operations, and long-term debt to finance the assets of the business. The repayment of short-term loans usually takes place in less than one year. Long-term debt is repaid over a longer period.

- **Double Bottom Line**

A business term used in socially responsible enterprise and investment to refer to both the conventional bottom line, a measure of fiscal performance, and the second bottom line, a measure of positive social impact.

- **Due diligence**

Due Diligence is the process where an organisation or company’s strengths and weaknesses are assessed in detail by a potential investor with a view to investment.

- **Environmental Social and Corporate Governance (ESG)**

ESG is a general catchall phrase that encompasses the major areas of concern for a business that strives to operate in a sustainable and ethical manner. In addition to financial factors, each of these areas is taken into consideration for anyone considering investment in a company.

- **Equity financing (see also Quasiequity)**

Funding provided by an investor to an organisation that confers ownership rights on the investor. These rights allow the investor to share in the profits of the organisation, usually in the form of dividends. Equity investors are diverse, including the organisation’s founders, friends, family, institutions and angel investors. Venture philanthropy funds may provide a source of equity financing for social enterprises. Newer, and still experimental, means of ownership (e.g. a Community Interest Company in the UK) allow equity purchase but place a cap on the financial return.

- **Exit**

The end of the relationship between the venture philanthropy investor and social purpose organisation (SPO). The nature of the exit will normally be agreed before the investment is completed. In the case of a charity, the venture philanthropy funder will ideally be replaced by a mix of other funders (see financial sustainability). The time scale for the exit can be agreed upon at the outset. In the case of a social enterprise, exit may require the repayment of a loan, for example, and the timing will depend on the commercial success of the enterprise.

An exit strategy is the action plan to determine when the VPO can no longer add value to the investee, and to end the relationship in such a way that the social impact is either maintained or amplified, or that the potential loss of social impact is minimised

- **Financial sustainability**

Financial sustainability for a social enterprise is the degree to which it collects sufficient revenues from the sale of its services to cover the full costs of its activities. For charities, it involves achieving adequate and reliable financial resources, normally through a mix of income types.

- **Foundation**

Public-benefit foundations are asset based and purpose-driven. They have no members or shareholders and are separately constituted non-profit bodies. Foundations focus on areas ranging from the environment, social services, health and education, to science, research, arts and culture. They each have an established and reliable income source, which allows them to plan and carry out work over a longer term than many other institutions such as governments and companies. In the context of VP, foundations are non-profit organisations that support charitable activities either through grant making or by operating programmes.

Source: www.efc.be

- **Fund**

A fund is a vehicle created to enable pooled investment by a number of investors and which is usually managed by a dedicated organisation.

- **Grant-financing**

Non-returnable money, property, services or anything else of value that is transferred to an organisation without conferring any form of ownership rights on the donor. Note that some VPOs and grant-makers do use “returnable grants” from time to time. This may involve the return of all or part of a grant, contingent upon an agreed event. For example, a grant might be given to enable fund-raising but if the fund-raising is successful or exceeds agreed levels, a portion of the grant may be returned.

- **Grant-maker**

Grant-makers include institutions, public charities, private foundations, and giving circles, which award monetary aid or subsidies to organisations or individuals. Generally known as foundations in Continental Europe, grant makers also include certain types of trusts in the United Kingdom.

- **Guarantee**

A guarantee is a promise by one party (the guarantor) to assume the debt obligation of a borrower if that borrower defaults. A guarantee can be limited or unlimited, making the guarantor liable for only a portion or all of the debt. In the VP context, guarantees are one of the financial instruments available for VPOs to support SPOs. The VPO in this case does not need to supply cash up front, but it opens up access to bank funding by taking on some or all of the risk that the lender would otherwise incur.

Source: https://en.wikipedia.org/wiki/Loan_guarantee

- **High-engagement funding**

High-engagement funding, as defined in a seminal article by Letts and Ryan, 'is first and foremost a performance centred strategy where alignment, reliable money and strategic coaching are used together to convert a grant financing relationship into an accountability relationship that uses power to improve performance. High engagement funders believe that improving the performance of non-profit organisations is the best means of achieving their social goals'. High engagement funding has many of the features of venture philanthropy.

Source: Letts, C. W. & Ryan, W.P. (2003) "Filling the performance gap. High-Engagement Philanthropy. What Grantees Say About Power, Performance, and Money", Stanford Social Innovation Review.

- **High-engagement partnership**

Creating hands-on relationships between the supported organisation's management and the VPO. This practice foresees VP taking board seats in the organisations they invest in or give a grant to and/or to frequently meet with investees' management.

- **Impact investing**

Impact investing is a form of investment that aims at generating social impact as well as financial return.

- **Impact Measurement**

Measuring and managing the process of creating social impact in order to maximise and optimise it.

- **In-house Resources**

Resources provided within the venture philanthropy organisation itself, through its staff members or volunteers, as opposed to people within the greater network of the venture philanthropists, service providers, or portfolio organisations.

- **Investee**

The social purpose organisation that is the target of VPO activity and the recipient of financial and non-financial support.

- **Investment**

An investment is the use of money with the expectation of making favourable future returns. Returns could be financial, social, and/or environmental (See entry: Triple-bottom-line)

- **Investment phase**

The investment phase is the period between the investment of monies into the project, organisation, or social entrepreneur, and the exit.

- **Investment proposal**

The investment proposal is the document prepared by the VPO to present a potential investment (including nature, goals and funding) to the investment committee.

- **Key performance indicators (KPIs)**

Key Performance Indicators (KPIs) are a business metric used to evaluate the extent to which the organisation has achieved a goal and factors that are crucial to the success of an organisation. KPIs differ per organisation, business KPIs may be net revenue or a customer loyalty metric, while government might consider unemployment rates.

- **Loan (see also Debt)**

A loan is a sum of money lent at interest, where financial return is sought. (It is common for venture philanthropy organisations (VPOs) to provide loans at reduced interest rates or have other 'softer' features, i.e. on repayment terms.)

- **Long-term investment**

A long-term investment is made over a period of five years or more.

- **Low-profit Limited Liability Company (L3C)**

L3C is a legal structure for businesses in the United States that bridges the gap between nonprofit and for-profit investing. L3Cs use their for-profit efficiencies along with fewer regulations from the IRS to achieve socially beneficial goals. L3Cs are taxed and operate with a stated goal of achieving social improvement, with profit as a secondary goal.

- **Mezzanine financing**

Mezzanine financing is a hybrid of debt and equity financing, usually used to fund the expansion stage or an organisation. Although it is similar to debt capital, it is normally treated like equity on the organisation's balance sheet. Mezzanine finance involves the provision of a high-risk loan, repayment of which depends on the financial success of the SPO. This instrument bridges the gap between debt and equity/grant though some form of revenue participation. Examples include a loan that is only repayable through royalties based on the future sales of a product or service; or a royalty-sharing agreement that can be activated once an agreed profitability threshold has been reached. These instruments can offer an appropriate balance of risk and return.

- **Non-financial support**

The support services VPOs offer to investees (SPOs) to increase their societal impact, organisational resilience and financial sustainability, i.e. the three core areas of development of the SPO.

- **Organisational development**

Benefit support services that VPOs offer to investees (SPOs) to strengthen the SPO's organisational resilience and financial sustainability by developing skills or improving structures and processes.

- **Organisational resilience**

The assessment of the degree of maturity of an SPO, in terms of the degree of development of the management team and organisation (governance, fund raising capacity etc.).

- **Outcomes**

The changes, benefits, learnings, or other effects (both long and short term) that result from the organisation's activities.

- **Outputs**

The tangible products and services that result from the organisation's activities.

- **Portfolio**

A portfolio is a collection of projects and/or organisations that have received sponsorship from the investor. A distinction is often made between 'active' and 'past' portfolio, distinguish between the organisations with which the investor is actively involved. Usually, however, all portfolio organisations are included in the greater network of the investor.

- **Portfolio manager (see also Investment manager)**

A portfolio manager is given the responsibility of tracking the performance of and maintaining communications with the various organisations and/or projects within the investor's portfolio.

- **Pre-investment stage**

The pre-investment stage is the process during which the investor examines the operations and leadership of the project or organisation with a view towards making an investment. This might include a detailed review of the financials, operations, or reference checks for organisational leaders. The term due diligence is also used, which has a legal definition as a measure of prudence. In other words, the investor is assessing if it is likely to get what it thinks it is paying for.

- **Private equity**

Ownership in a firm which is not publicly traded and which usually involves a hands-on approach and a long-term commitment for the investors.

- **Pro-bono contribution**

Professional work undertaken voluntarily and without payment. Unlike traditional/unskilled volunteerism, it is service that uses the specific skills of professionals to provide services to those who are unable to afford them.

- **Quasi-equity**

See: Mezzanine financing

- **Return on Investment (ROI) [see also Social Return on Investment (SROI)]**

The Return on Investment (ROI) is the profit or loss resulting from an investment. This is usually expressed as an annual percentage return.

- **Scaling up**

Processes of developing and growing the activities of an SPO to expand its social reach and increase its social impact.

- **Seed financing**

Seed financing is money used for the initial investment in a start-up company, project, proof-of-concept, or initial product development.

- **Short-term Investment**

A short-term investment is made over a one-year period or less, or an investment that matures in one year or less.

- **Social (and ecological) sector**

Social (and ecological) sector is an alternative term used in reference to the non-profit sector, non-governmental sector, voluntary sector, independent sector, or third sector.

- **Social capital market or social investment market**

Financial market dedicated to social investment which aims at systematizing and facilitating social capital allocation.

- **Social enterprise**

Social enterprise is an organisation that focuses on achieving social impact, applying market-based solutions to address public sector and market failure in innovative ways. Social enterprise can take on a variety of legal forms. (Source: Maretich, M., and Bolton, M., (2010), "Social enterprise: From definitions to developments in practice", EVPA.)

- **Social entrepreneur**

Social entrepreneur is defined by the Schwab Foundation as "a leader or pragmatic visionary who:
• Achieves large scale, systemic and sustainable social change through a new invention, a different approach, a more rigorous application of known technologies or strategies, or a combination of these.
• Focuses primarily on the social and/or ecological value creation and tries to optimize the financial value creation.
• Innovates by finding a new product, a new service, or a new approach to a social problem.
• Continuously refines and adapts approach in response to feedback."

Source: http://www.schwabfound.org/content/what-social-entrepreneur

- **Social finance (or investment)**

Social finance 'may be understood as a broad area wherein various forms of capital are structured in ways that consider and value both financial performance and social value creation'.

Source: Emerson, K. Freundlich, T. and Fruchterman, J. (2007), "Nothing Ventured, Nothing Gained: addressing the critical gaps in risk taking capital for social enterprise" Skoll Centre for Social Entrepreneurship, Said Business School, University of Oxford.

- **Social impact**

The attribution of an organisation's activities to broader and longer-term outcomes. To accurately (in academic terms) calculate social impact you need to adjust outcomes for: (i) what would have happened anyway ('deadweight'); (ii) the action of others ('attribution'); (iii) how far the outcome of the initial intervention is likely to be reduced over time ('drop off'); (iv) the extent to which the original situation was displaced elsewhere or outcomes displaced other potential positive outcomes ('displacement'); and for unintended consequences (which could be negative or positive).

- **Social indicators (see Social Impact, SROI, Balanced Scorecard)**

Key performance indicators specifically adapted to measuring the performance of social purpose organisations.

- **Social investing**

Investing, in social purpose organisations, that may generate a financial return, but whose primary purpose is to generate social impact.

- **Social impact investment (SII)**

Social Impact Investments are those that intentionally target specific social objectives along with a financial return and measure the achievement of both.

Source: http://www.socialimpactinvestment.org/reports/Impact%20Investment%20Report%20FINAL[3].pdf

- **Social impact investment**

Social impact investment is the provision and use of capital to generate social as well as financial returns. The social impact investment approach has many overlaps with the key characteristics of venture philanthropy, however social impact investment means investment mainly to generate social impact, but with the expectation of some financial return (or preservation of capital).

- **Social impact investor**

An organisation pursuing a social impact investment approach.

- **Social Purpose Organisation (SPO)**

An organisation that operates with the primary aim of achieving measurable social and environmental impact. Social purpose organisations include charities, non-profit organisations and social enterprises.

- **Socially Responsible Investing (SRI)**

Also known as sustainable, socially conscious, "green" or ethical investing, this term defines any investment strategy seeking both financial return and social good. In its broadest usage, SRI refers to proactive practices such as impact investing, shareholder advocacy and community investing. Socially responsible investments encourage corporate practices that promote environmental stewardship, consumer protection, human rights and diversity. They can also represent the avoidance of investing in industries or products that can be socially harmful, including alcohol, tobacco, gambling, pornography, weapons and/or the military. The term dates back to the Quakers, who in 1758, prohibited members from participating in the slave trade.

- **Social Return on Investment (SROI)**

The SROI concept, essentially a cost-benefit analysis, is used by charities, donors and non-profit organisations to rate the results of their endeavours with firm evidence of impact and created value. The idea of social return on investment was pioneered in the 1990s by a U.S. venture fund called REDF and has since caught on.

- **Social venture capital**

Social venture capital is an enterprise approach to tackling social problems through investment to support the creation and expansion of commercially sustainable enterprises to maximise social and financial returns. In developing countries, this approach is used to create jobs and empower the poor.

- **Syndication Temporary**

Association of funders who jointly invest in a specific project or organisation.

- **Theory of change**

A theory of change defines all building blocks required to bring about a given long-term goal. This set of connected building blocks is depicted on a map known as a pathway of change or change framework, which is a graphic representation of the change process.

- **Triple Bottom Line (TBL)**

Coined by John Elkington, founder and chairman of Sustain Ability, in his 1997 book Cannibals with Forks: the Triple Bottom Line of 21st Century Business, the term refers to the three prongs of financial, social and environmental accountability. While businesses of the past only had to be accountable for their financial performance, today's enterprises are increasingly pressed to demonstrate concern for three bottom lines: financial, people/communities, and the environment.

- **Triple-bottom-line investment (see also Blended Value)**

Triple-bottom-line investment is the simultaneous pursuit of beneficial returns along three dimensions: economic, social, and environmental.

- **Venture philanthropist**

A venture philanthropist is engaged in venture philanthropy, either as an individual or in conjunction with a venture philanthropy organisation.

- **Venture philanthropy**

VP is a high-engagement and long-term approach to generating societal impact through three practices:
• Tailored financing: Using a range of financing mechanisms (including grants, debt, equity hybrid financing) tailored to needs of organisation supported.
• Organisational Support: Added-value support services that VPOs offer to investees (SPOs) to strengthen the SPO's organisational resilience and financial sustainability by developing skills or improving structures and processes.
• Impact measurement and management: Measuring and managing the process of creating social impact in order to maximise and optimise it.

- **Venture Philanthropy Organisation (VPO)**

Organisations following the venture philanthropy approach. A Foundation can be a VPO.