



GLOSSARY OF TERMS

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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 non-financial performance measures to traditional financial metrics to give managers and executives a more "balanced" view of organisational performance... [it] transforms an organisation's strategic plan from 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

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.

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: <http://blendedvalue.org>

Business plan

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

Capacity-building / Organizational development

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

Co-investment (also known as Co-funding)

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.

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.

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.

Equity financing (see also Quasi-equity)

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.

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 supports charitable activities either through grant-making or by operating programmes.

Source: <http://www.efc.be/NewsKnowledge/Pages/FoundationsInTheEU/Whatisafoundation.aspx>

Fund

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

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.

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

Impact investing

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

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

Key performance indicators are financial and non-financial, quantifiable metrics used to measure the progress against the objectives of the project, organisation, or company.

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.

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.

Non-financial services (value-added services)

In addition to financial support, venture philanthropists provide value-added services such as strategic planning, marketing and communications, executive coaching, human resources advice and access to other networks and potential funders. Non-financial support is offered by volunteers, VP staff, donors or third party consultants.

Outcomes

Outcomes are the ultimate changes to people's lives that the social purpose organisation is trying to achieve, resulting in changes to the social system, or impact. This might include changes in attitude, behaviours, knowledge, skills, or status.

Outputs

Outputs are results that a company, non-profit, or project manager can directly assess or measure.

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, to 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 (or 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.

Quasi-equity

Quasi-equity is a financial instrument that aims to reflect some of the characteristics of shares (preference or ordinary). However, it is neither debt nor equity, and is usually structured as an investment whereby repayment is linked to the investee's financial performance (e.g. repayment is calculated as a percentage of the investee's future revenue streams).

Source: Venturesome (Paul Cheng)

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 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: EVPA definition presented in 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 different kind of social leaders who: Identifies and applies practical solutions to social problems by combining innovation, resourcefulness and opportunity [and] Innovates by finding a new product, a new service, or a new approach to a social problem'.

Source: www.schwabfound.org

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 social benefit derived from the activities of a social purpose organisation (SPO) or venture philanthropy organisation (VPO).

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 organizations, that may generate a financial return, but whose primary purpose is to generate social impact

Social Purpose Organisation (SPO)

The term SPO captures the entire spectrum of organisations whose primary purpose is to create social value (rather than shareholder value). The terminology for these different kinds of organisation varies enormously across countries and jurisdictions, and is therefore far from precise. The following types of organisation will fall under the banner of SPOs:

- Charity, non-profit, not for profit, foundation, association, company limited by guarantee, (having no trading activities, or where trading is of marginal importance)
- Social enterprise, Community Interest Company, (having trading as a significant or exclusive part of their operations). Some do not make any financial returns to investors (or cap returns) but reinvest surpluses into the organisation. Even within social enterprise there are several different models.
- Socially driven business – profit distributing businesses but with clear and stated social objectives.

Social Return on Investment (SROI)

The Social Return on Investment (SROI) analysis was developed by REDF in 1996

in the US, a non-profit enterprise that makes grants to a portfolio of non-profit agencies. SROI places a dollar value on ventures in the portfolio with social as well as market objectives, combining tools for benefit-cost analysis (used by economists) and tools of financial analysis. SROI has also been used by other organisations in a modified form. Within EVPA, the social e-valuator and the SROI network focus on the SROI tool.

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.

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

Venture philanthropy works to build stronger social organisations by providing them with both financial and non-financial support in order to increase their social impact. The organisations supported may be charities, social enterprises or socially driven commercial businesses, with the precise organisational form subject

to country-specific legal and cultural norms.

As venture philanthropy spreads globally, specific practices may be adapted to local conditions, yet it maintains a set of widely accepted, key characteristics. These are:

- **High engagement:** venture philanthropists have a close hands-on relationship with the social purpose organisation they support, driving innovative and scalable models of social change. Some may take board seats at these organisations, and all are more intimately involved at strategic and operational levels than in many other forms of philanthropy, significantly reducing the number of organisations supported to around 10-15 for the average VP organisation.
- **Tailored financing:** as in venture capital, venture philanthropists take an investment approach to determine the most appropriate financing for each organisation. Depending on their own missions and the ventures they choose to support, venture philanthropists can operate across the spectrum of investment returns. Some offer non-returnable grants (and thus accept a purely social return), while others use loan, mezzanine or quasi-equity finance (thus blending risk-adjusted financial and social returns).
- **Multi-year support:** venture philanthropists provide substantial and sustained financial support to a limited number of organisations. Support typically lasts three to five years, although timescales may become longer as VP in Europe develops. The VPO's objectives will include helping the organisation to become financially self-sustaining by the end of the funding period.

- **Non-financial support:** in addition to financial support, venture philanthropists provide value-added services such as strategic planning, marketing and communications, executive coaching, human resource advice and access to other networks and potential funders.
- **Organisational capacity-building:** venture philanthropists focus on building the operational capacity and long-term viability of the organisations in their portfolios, rather than funding individual projects or programmes. They recognize the importance of funding core operating costs to help these organisations achieve greater social impact and operational efficiency.
- **Performance measurement:** venture philanthropy investment is performance-based, placing emphasis on good business planning, measurable outcomes, achievement of milestones, and high levels of financial accountability and management competence.

Venture Philanthropy Organisation (VPO)

A venture philanthropy organisation provides long-term financing to social purpose organisations (SPOs) operating with the principles of venture philanthropy.

EVPA is a fast-growing membership association supporting and promoting venture philanthropy across Europe. EVPA supports its members by providing a forum for mutual learning, data and research on venture philanthropy, and training programmes on topics relevant to all stages and activities of a venture fund.

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

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



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