

Venture Philanthropy: A Private Equity Approach to Giving

The concept of venture philanthropy—leveraging private sector techniques to generate greater impact from charitable giving—is not a new one. The term is believed to have been first coined by John D. Rockefeller III in 1969, but the model took off during the height of the tech boom, when cash-flush VCs were looking for more innovative ways to put their donations to work, and conventional grant-making models were beginning to fall out of favor.¹

Like PE, venture philanthropy is based on a deep level of engagement with a focus on building a nonprofit's capacity to serve its target market.² Funding is typically provided over a multi-year period, tied to mutually agreed benchmarks, with a clear "exit strategy" for ending the relationship. Unlike a grant making model that relies on proposal submissions, venture philanthropy organizations actively seek out organizations that would benefit from funding and expertise—including innovative startup charities perhaps less suited to traditional funding models. [See Exhibit 1 for an illustration of the venture philanthropy ecosystem.]

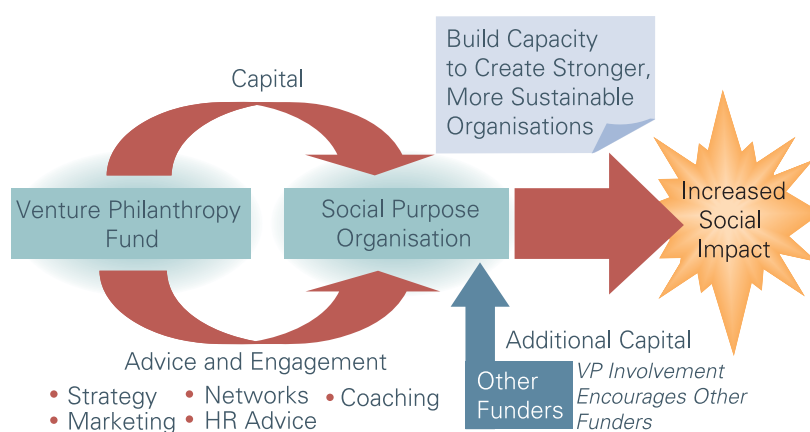
The venture philanthropy model understandably holds great appeal for private equity contributors, and a number of organizations promoting high-engagement grant making are specifically focused on mobilizing the private equity industry.

One such example is the Private Equity Foundation (PEF). Launched in 2006 by eight private equity firms—among them KKR, Blackstone and TPG, the PEF is a charitable trust that applies private equity principles to the selection and funding of youth-focused charities in the UK and Europe. With the backing of 70 PE firms and advisors, the PEF has raised roughly US\$10 million to date and made investments in 11 organizations. Each candidate charity is treated as an investment, subject to a due diligence process and Board approval.

While venture philanthropy organizations are plentiful in the US and Europe, emerging market nonprofits are the focus of a growing

roster of groups, including NESsT (Nonprofit Enterprise Self-Sustainability Team). [See Exhibit 2 for a list of Venture Philanthropy organizations active in EMs.] Founded in 1997, NESsT works with nonprofits in 10 countries in Central and Eastern Europe and Latin America. NESsT's ultimate aim is self-financing, i.e., providing the funding and assistance necessary to help nonprofits grow to a point that they can generate their own income to sustain opera-

Exhibit 1: Venture Philanthropy Ecosystem



Source: European Venture Philanthropy Association

Exhibit 2: Sampling of EM-focused Venture Philanthropy Organizations and VP Networks

Acumen Fund	www.acumenfund.org
Ashoka	www.ashoka.org
Children's Investment Fund Foundation (CIFF)	www.ciff.org
Endeavor	www.endeavor.org
European Venture Philanthropy Association (EVPA)	www.evpa.eu.com
NESsT (Nonprofit Enterprise Self-Sustainability Team)	www.nesst.org
The Global Fund for Children	www.globalfundforchildren.org
World Resources Institute/New Ventures	www.new-ventures.org

¹ The 1997 Harvard Business Review article, "Virtuous Capital: What Foundations Can Learn from Venture Capital," authored by Christine Letts, William Dyer and Allen Grossman, argued that existing grant-making models placed undue emphasis on the grant seeking process without adequately focusing on self-sustainability and capacity building.

² Several terms are used interchangeably to describe this model: strategic philanthropy, high-engagement philanthropy, philanthropic investment.

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tions. NESsT works with startup charities to develop and test their business plans. Supported nonprofits can vet ideas among potential backers through Investors Circles. Later-stage charities have access to *pro bono* business advisory networks in each country.

Like PEF, NESsT has close ties to the private equity community. NESsT counts among its institutional donors firms such as Advent International, 3i, Enterprise Investors and Société Générale Asset Management. NESsT's Business Advisory Networks include dozens of individuals from the private equity industry. The Private Equity Shares campaign currently underway seeks to raise at least €125,000 from Central European PE firms and advisors.

The European Venture Philanthropy Association (EVPA) offers a somewhat different model for promoting private equity involvement in venture philanthropy. Formed in 2004 with the backing of

PE professionals, EVPA is a membership association comprised of PE partners and others seeking to promote venture philanthropy in Europe. EVPA provides its members with various platforms intended to facilitate their decisions related to venture philanthropy. EVPA hosts training and country seminars, as well as an annual forum, most recently in Frankfurt in September 2008. EVPA's research is focused on the practice of venture philanthropy and has included an examination of VP's potential to add value beyond finance, and development of a toolkit for performance measurement and impact assessment.

For firms and individuals that support, but are not yet active in engaged philanthropy, networks like EVPA can help them make informed decisions about their contributions. Those ready to invest have a range of options for channeling their philanthropic interests in way that ensures measurable impact. ■



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structure

Private equity firms today are pursuing new investment and fundraising strategies and structures. Private equity funds are investing internationally and raising capital from investors in multiple jurisdictions. The credit crunch, increased regulation and evolving tax policies further complicate dealmaking and fundraising.

Debevoise has been focusing on private equity fund formation and M&A for more than 25 years in the United States, Europe and Asia.

In this time of change and increasing complexity, we invite you to talk to the Debevoise & Plimpton Global Private Equity Group, a team of exceptionally seasoned and talented lawyers adept at helping clients structure new solutions to new challenges.

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