

# VENTURE PHILANTHROPY IN DEVELOPMENT

DYNAMICS,  
CHALLENGES AND  
LESSONS IN THE  
SEARCH  
FOR GREATER  
IMPACT



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Cite this study as:  
OECD netFWD (2014), "Venture Philanthropy in Development: Dynamics, Challenges and Lessons in the Search for Greater Impact", OECD Development Centre, Paris.

# VENTURE PHILANTHROPY IN DEVELOPMENT

## DYNAMICS, CHALLENGES AND LESSONS IN THE SEARCH FOR GREATER IMPACT

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## EDITORIAL

Not a day goes by without a blog post or a newspaper article on what have become very popular terms: impact investing, venture, catalytic or strategic philanthropy, etc. This blossoming vocabulary refers to the use of private financial resources and business principles for public good. Although this trend emerged about a decade ago, the prominence of new ways to invest philanthropic capital are now well established and influencing the development “galaxy”. The recent economic crisis confirmed this trend further, with both high net worth individuals and well-established as well as new foundations committing to funding development challenges using innovative tools and approaches such as impact investment, and marginally compensating for governments’ budget cuts in official development assistance (ODA).

The relevance of impact investment was acknowledged by G8 Leaders at their 2013 Summit, resulting in the creation of a G8 Social Impact Investment Taskforce. These new approaches may have transformational implications for the world of philanthropy and provide important insights for the on-going debate on development finance.

The Development Centre of the Organisation for Economic Co-operation and Development (OECD) has been observing and following this movement with scrutiny, given the potential implications for developing countries; in fact, a large share of venture philanthropic flows and innovative business models target developing and emerging economies.

The study *Venture Philanthropy in Development: Dynamics, Challenges and Lessons in the Search for Greater Impact*, undertaken by the newly created Global Network of Foundations Working for Development (netFWD), is a first step towards offering an in-depth insight on how foundations working for development are evolving in their search for greater impact. It looks at the journeys, enabling environment, incentives and drivers that led a number of philanthropic organisations willing to seek novel ways to address global development issues to (re)define their operating model. While they were once “grant-makers only”, considering allocated money gone for good, an increasing share of foundations are becoming real investors, i.e. expecting a financial return alongside social impact or at least seeking to recover their initial capital.

While we chose to focus on Venture Philanthropy for Development, defined here as “an entrepreneurial approach to philanthropy that combines a variety of financial and non-financial resources to identify, analyse, co-ordinate and support self-sustaining, systemic and scalable (for and not-for profit) solutions to development challenges aimed at achieving the greatest impact”, the report provides a broader overview of innovative ways to support development and to create shared value.

More specifically, this report offers insights into an innovative and cutting-edge development theme, which is becoming pivotal in the Post-2015 context and in discussions on financing for development. Beyond being an important contribution aimed at foundations envisioning a similar transformation towards venture philanthropy, its potential also lies in helping bridge the knowledge and cultural gap between foundations and governments. The latter often lack an in-depth understanding of the philanthropic sector, its drivers, actors and influence. Bridging this is particularly timely, in light of the efforts that have taken place since the Accra and Busan High Level Fora to “enlarge the tent” of development co-operation to new actors and move from aid effectiveness to development effectiveness. In that sense, the Mexico Ministerial of April 2014 will

be a stepping stone, given that it will be the first time that foundations are invited to the table. The study and netFWD more broadly, confirm the role that the OECD Development Centre plays as convener and platform for policy dialogue between development stakeholders.

I am confident that this report will trigger critical discussions and that it will also encourage development actors to deepen their collective efforts towards more effective development co-operation.

**Mario Pezzini**  
**Director, OECD Development Centre**

## ACKNOWLEDGEMENTS

This study was developed by the OECD Global Network of Foundations Working for Development (netFWD), in the context of its Enterprise Philanthropy Working Group.

OECD netFWD would like to express its deepest gratitude to the main contributors to the study, Alexandra Stubbings and Nicolas Ceasar (Talik&Co), as well as to Michael Green (co-author of *Philanthrocapitalism: How giving can change the world*) who provided guidance and insights throughout the development of this work. The conceptualisation and development of this work was led by Bathylle Missika, with inputs and support from Emilie Romon, together with Alessandra Fiedler, Illya Salado Trejo and Florence Longuève. The team is grateful to Federico Bonaglia (Head of Policy Dialogue Division at the Development Centre) for his comments and support.

OECD netFWD is grateful for the inputs and constructive comments made by an independent advisory group, which was set up to enhance the quality of the study and provide external insights and independent expertise, while they do not imply any endorsement. The comments the advisory group provided remained anonymous and were consolidated by the Secretariat before being shared with the authors, alongside comments from individual netFWD members. Members of the advisory group included Eric Berseth (Philanthropy Advisors), Harvey Koh (Monitor), Paula Johnson (Hauser Institute for Civil Society), Erik Lundsgaarde (German Development Institute) and James Vaccaro (Triodos Bank).

Special thanks are extended to the four case study foundations (Emirates, Lundin, Rockefeller, Shell) and to their senior management, who invested a lot of time and energy into this project, by making their staff available for interviews, reviewing earlier versions of this report and by sharing some data which are not usually made available to external audiences. The authors and the Development Centre would also like to express gratitude to the Edmond de Rothschild Foundations, the Novartis Foundation for Sustainable Development as well as to the JPMorgan Chase Foundation, which shared invaluable insights and inputs into the study.

The full list of individual contributors/interviewees is below. The OECD Development Centre and the authors could not have completed this work without their support and good will:

### **Emirates Foundation**

- Clare Woodcraft, CEO
- Badriah al Khouri, Head of Financial Literacy
- Dr Sabha Shamsi, Head of Social Inclusion

### **Lundin Foundation**

- Stephen Nairne, Managing Director
- Ka-Hay Law, Portfolio Manager
- Dale Lewis, CEO of Comaco

### **The Rockefeller Foundation**

- Heather Grady, VP Foundation Initiatives
- Claudia Juech, Managing Director
- Nancy MacPherson, Managing Director Evaluation
- Anna Brown, Associate Director Asia

**Shell Foundation**

- Chris West, Director
- Richard Gomes, Global Policy and Advocacy Manager
- Pradeep Pursnani, Business Director
- Ron Bills, CEO of Envirofit

**Additional key contributors include:**

Ann Aerts, Head, Novartis Foundation for Sustainable Development

Kiara Barnes, Communications Assistant, Novartis Foundation for Sustainable Development

Anna-Marie Harling, Consultant, European Venture Philanthropy Association

Lisa Hehenberger, Research Director of the European Venture Philanthropy Association

Firoz Ladak, Executive Director, The Edmond de Rothschild Foundations

Professor Alex Nicholls, University of Oxford and Skoll Centre for Social Entrepreneurship

Zenda Ofir, African Evaluation Association

Rafia Qureshi, Vice President EMEA, JPMorgan Chase Foundation

Paul Thornton, Director, Verulam Associates

Shirine Voller, Project Manager, Informed Decisions for Actions Project, London School of Tropical Medicine

Finally, OECD netFWD wishes to express their most sincere appreciation for all the support and work provided by the Development Centre's Communications and Publications Unit, especially to Aida Buendía, Delphine Grandrieux, Bochra Kriout, Vanda Legrandgérard, Elizabeth Nash, Federico Recalde-Ovelar and Louise Schets.

The opinions expressed and arguments employed in this document are the sole property of the authors and do not necessarily reflect those of the OECD or of the governments of its member countries.

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## EXECUTIVE SUMMARY

Aid agencies and development partners alike now recognise that private funders and investors, including foundations, are an important and growing part of the global development architecture. In 2011, the Busan Partnership for Effective Development Co-operation specifically identified philanthropic organisations as significant partners in the development process. The global economic crisis and cuts to official development assistance (ODA) associated with its redirecting from low-income to middle-income countries opened up new opportunities for foundations providing mostly grants, unlike official donors increasingly using loans.

From their perspective, philanthropists have long been present in the development arena with more “patient” and “business-like” approaches. Driven by a desire to achieve greater impact, an increasing number of philanthropists have started to experiment with novel methods and set bolder ambitions for themselves to achieve impact on a scale proportionate to the development issues. They often bring expertise from the business sector in their approaches to problem solving, operating models and theories of change. These innovative philanthropists have, in particular, been seeking to achieve tangible development outcomes by leveraging financial and non-financial resources, and by being more interested in results and impact than inputs and grant size. They are often agnostic about the type of organisations they work with, engaging with a diversity of *social purpose organisations* (SPOs) that include for-profit enterprises as much as charities or NGOs. Rather than focusing on the traditional *grant-giver/grantee* relationship, these innovative philanthropists take a more dynamic and hands-on approach; partnering, providing capacity building and developing management expertise within the organisations they support.

This report reviews the experience of members of the OECD Global Network of Foundations Working for Development (netFWD) in adopting aspects of these approaches, summarised for convenience here as Venture Philanthropy (VP). It seeks to distil and disseminate the rationale, organisational implications and perceived benefits of the changes some foundations have undertaken. Four members of netFWD were interviewed in depth as the basis for this report and shared detailed case studies including their methods of assessing impact.

***“We realised that what we were doing wasn’t working... It wasn’t just around a particular challenge or a particular geography but it was not working for everything we did. It was our way of working that was wrong”***

Chris West, Director  
Shell Foundation

### A mid-course re-direction

The foundations that participated in this OECD netFWD study all experienced a clear dissatisfaction with the impact of their grant-making methods, prompting them to embark on a journey of experimentation with and adoption of new models of philanthropy. The foundation leaders interviewed are confident that there is substantial improvement in the social impact of their programmes as a result of the adoption of such new approaches. Yet, they also admit that the transformation required can be lengthy and challenging, and that quantifying the improvement in results is difficult. This study reports on the experiences of these foundations and the lessons they have learnt and are still learning, and puts forward suggestions and recommendations for other foundations that are considering a similar *mid-course re-direction*. Detailed case studies

from four foundations provide insight into their *modus operandi*, ranging from what constitutes effective SPO partnerships to the impact obtained and the methods of evaluation which were used.

Whilst the name the foundations give to their approaches differs – *angel philanthropy*, *enterprise philanthropy*, *catalytic philanthropy*, and most commonly *venture philanthropy* – the principles underlining them are broadly similar. Comparisons between venture philanthropy (VP) and venture capital (VC) models have been made in the literature, but for the foundations, the differences between VP and VC are as numerous as their similarities. Although both share an emphasis on high engagement with their investment portfolio, periods of investment are longer for “venture philanthropy foundations”, often up to 7-10 years. Whereas in VCs only a quarter to a third of investments typically “succeed”,<sup>1</sup> VP foundations aspire to much higher success rates (though in this case categorising success in terms of social benefit in addition to financial return). These foundations employ non-financial support in areas such as technical assistance, market development and the development of core capability (e.g. through the provision of unrestricted funding), along with financial instruments such as smart subsidy, guarantees and soft loans. Rather than the clear-cut exit strategies associated with venture capitalists, the foundations interviewed were more likely to smoothly transition relationships with their SPOs over time, retaining an interest in them or their sector and in some cases taking a seat on their Boards.

Foundations seeking impact as a primary development goal see the private sector (markets and enterprises) as a vital route to scale social benefits, recognising that the complex problems they are endeavouring to solve (e.g. food security, provision of basic services such as health, or better jobs for youth), can be sustainably addressed through an increased focus on market creation, business thinking and commercial finance. They work systemically at policy and market levels to nurture the enabling environments that allow such enterprise-based solutions to flourish.

Hence, their portfolios reflect such interests, with actors drawn from across disciplines to work on them. The Rockefeller Foundation, for example, has convened scientists, urban planners, policy makers and international corporations to address urban climate change vulnerability in Asia, funding and staffing the *Asian Cities Climate Change Resilience Network* to foster co-operation and the co-design of strategies. Shell Foundation, in addition to providing management expertise, grants and loan guarantees to its clean cook-stoves partner, *Envirofit*, has implemented indoor air pollution awareness campaigns and co-founded the *Global Alliance for Clean Cookstoves*.

## Sectoral convergence

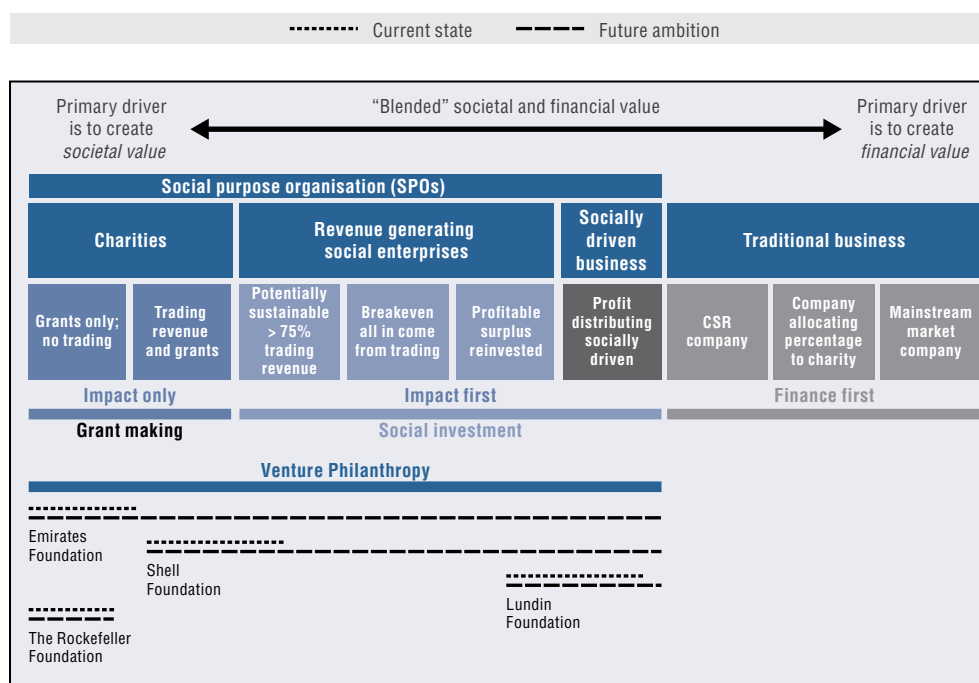
The blurring of sector boundaries is not without its critics. The entry of financial and business jargon into the development lexicon is seen by some as a “hegemonic hijacking” of the development agenda or even as exclusionary tactics to promote business at the expense of the extreme poor. The foundations and most of the specialists participating in this research, however, stress the need for these more

systemic strategies and point to the “revolutionary” power of initiatives such as microfinance and mobile health<sup>2</sup> to show what can be achieved by mobilising cross-sector resources. They also stress that enterprise/venture philanthropy can only be one option in a portfolio of possible interventions. Nevertheless, they see a role for VP, at times filling the gap that “traditional” development assistance leaves behind, for instance helping to create or support a more viable private sector and, as a result, a more stable tax base.

***“We use our flexibility to create fit for purpose capital structures and that includes grants... Anyone who believes there is a market-based solution for everything is simply lost. Particularly in places like South Sudan or the Congo there is a critical need for grants, especially at early stages”***

Stephen Nairne, Managing Director  
Lundin Foundation

Plotting the four case study foundations on the European Venture Philanthropy Association (EVPA)'s "continuum of social investment" (below) highlights the broadening out of intervention options to include market-based solutions and the use of flexible finance to pursue these more integrative strategies.



Source: EVPA, 2013.

By deploying "the highest risk capital in the world" to test and prove business models or provide patient capital to support expansion, the foundations can "prime the pump" to attract mainstream and *impact finance* to the development sector. However, being effective in such a landscape demands concerted co-operation with other development actors and the collaborative mobilisation of resources to achieve the necessary impact at scale.

### A fundamental cultural transformation

Achieving lasting and meaningful collaboration or partnerships between philanthropists and providers of ODA is not simple though, and was too often described by interviewees as being "bureaucratic, costly and ineffectual". Foundations have not typically been known for prioritising collaborative efforts, either with ODA providers or even with each other, given their high degrees of autonomy.<sup>3</sup> In some cases, the levels of transparency, accountability and synergy required to enable large-scale systemic engagement between venture philanthropists and bilateral donors have been and may continue to prove too challenging with too few incentives to change. As a result, when these collaborative efforts do take place, they are more often the result of political will from specific foundations or philanthropic leaders than

***"You can't just write cheques for \$50m without giving some thought to accountability, impact, where the money is going. You have to think about what the net asset value of what you're creating is"***

Clare Woodcraft, CEO  
Emirates Foundation

the outcome of a perceived need or pressure to improve efficiency and impact through broader alliances between foundations and ODA providers.

Within philanthropic organisations, when such changes do occur, they may be quite radical, involving a complete re-imagining of purpose and redesign of strategy and operations. As showed by this study, the transition has been more dramatic in some foundations than others. Yet, despite the great diversity in size, maturity and focus of the foundations looked at in this study, common themes do emerge.

### Effecting transformational change

As the foundations moved from input to output focus, so did their *strategic framing*, from grant-giving towards more targeted investment. Their *scale of intervention* broadened to become more sector and systems-level focused, working simultaneously at levels of start-up enterprise, market stimulation and policy intervention. By taking a “systems thinking approach” and investing more heavily in upfront research in order to investigate development issues in depth, foundations were able to determine which strengths they could most usefully deploy (e.g. reputation in the health sector), where to place capital to achieve greatest leverage and how to orchestrate more integrated interventions.

This approach has prompted a more specialised focus on fewer development issues. Because the “high engagement model” involves providing technical knowledge as well as management capacity to SPOs, the foundations realised they needed staff more specialised in the new areas of focus. The study shows that staff numbers often increased as a way to address new needs to support the SPOs’ management, technical and capacity building capability. In some instances, as with the Rockefeller Foundation and Lundin Foundation, new field offices were opened to allow foundation staff to be based closer to their SPOs. Culturally, the more “partnership-based” relationship with social enterprises plus the infusion of more business-oriented attitudes from the private sector into the foundations has fostered more entrepreneurial thinking, with an emphasis on innovation, results and returns.

The key dimensions of change are captured below:

Dimension	From	Towards
1 Strategic framing	Widespread giving (traditional resource transfer)	Targeted investing (resources targeted in new ways)
2 Scale of intervention	Project-based	Systems or sector based and focused
3 Sector focus	Third (charity or not-for-profit) sector	Sector agnostic
4 Funding mechanisms	Grants	Blended finance (grants, soft loans, equity investment etc.)
5 Engagement style	Minimal (light touch)	Foundation supplying partner with technical and management assistance and capacity building
6 Engagement period	Short (e.g. 1-2 years)	Long (5-10 years or more)
7 Culture and capability of staff	Altruistic, administrative, financial	Innovative, multi-disciplinary, commercial
8 Success criteria	Inputs and outputs	Outcomes and impact

## Determining impact

All the foundations expressed the importance of achieving “impact” and believe the methods they use today achieve far more than short-term, *ad hoc* grant-making had done for their beneficiaries. Yet, due to the methods they use, working systemically with and through multiple actors, they acknowledge that evaluating impact is challenging, and making comparisons between old and new models even more so.

The Emirates Foundation, for example, only has “input” data prior to adopting VP as a new model (i.e. data on the size and placements of grants). They now collect data on indicators such as number of hours of voluntary service or number of social inclusion placements on their financial literacy courses. Their aspiration is to put figures on the social and financial value of their activities, and they are building a baseline to do so.

By investing more heavily upfront in research and prototyping, it is possible to identify proxy indicators for assessing impact. For example, the Rockefeller Foundation identified the creation of urban climate change resilience (UCCR) strategies as a highly visible indicator of city planning for climate change adaptation,

and now collect data on inclusion of UCCR as a topic in policy discussions and decision making at the city and state level. They cannot directly attribute outcomes to the interventions they have made through the network, but are confident that they have played a part.

Impact measurement and evaluation of outcomes is a concern for all the case study foundations and for the sector at large. More resources are being invested to improve the assessment processes, yet this sometimes remains limited. Conversely, there is increasing recognition that evaluation must be used to help deliver better outcomes and to avoid “doing harm” (unintended consequences).

## The next phase of VP in development – A collective endeavour

Increasingly, foundations have the resources and ambition to design and sustain broad social change across a range of development issues. However, the central lesson from this study is that to achieve their potential, in scale and impact, foundations, as stewards of the “highest risk capital in the world”, must be willing to let go some of their autonomy to work more cohesively with partners across sectors and disciplines. Furthermore, becoming more prominent in influence and reach means becoming more visible publicly; therefore more liable to demands for transparency and clearer governance and accountability.

This shift towards more openness and collaboration will require considerable change at the level of mindset and organisational culture in the foundation sector. But as the foundations here testify, the improvements in efficiency, results and therefore returns make the transformational work worthwhile.

***“Looking for before/after comparative data is like comparing apples and oranges”***

Stephen Nairne, Managing Director  
Lundin Foundation

***“Impact is above the accountability line – we’ll measure and look and assess and hope we were a significant contributor but we can’t know for sure”***

Nancy Macpherson, VP Evaluation  
The Rockefeller Foundation

## Lessons and recommendations

The key lessons and associated recommendations from the multi-year journeys of change that each foundation has undertaken are summarised below:

<b>Lesson and recommendation summary</b>	
<b>Lesson</b>	<b>Recommendation</b>
Being prepared to embark on fundamental and comprehensive change of the foundation's model – ranging from beliefs, values to strategy and operations	Undertake a complete review that includes the deep assumptions underlying the current philanthropic operating model and theory of change. Be willing to question deeply held beliefs and customs
Not waiting for change to be imposed from outside – there is insufficient external scrutiny or incentives for change in the philanthropic sector	Use internal changes, such as leaders' transition to gain new stewardship, prompt reviews and increase internal accountability. Plan for comprehensive change but start with small experiments to promote learning if stewardship is slow to appear
Applying “systems thinking” and planning based on more upfront investment in research and evidence-based inputs	Consider investing more in ex ante research to target investments and interventions more accurately, and produce an evidence base for evaluation later on
Including the “market-based approach” more systematically to achieve scale and to aim for SPO self-sufficiency	Add market-based approaches to interventions but be aware that not all challenges will warrant a market-based solution; targeted grants are still an essential funding tool. Intervention at policy and market level may also be required simultaneously
Adopting a “high engagement” approach means being prepared to engage more financial and human resources (i.e. hiring more area specialists)	Review the foundation's competencies and capacity when considering change. Specialisation, outsourcing, recruiting and training offer different routes to meeting future requirements
Being adaptive and staying close to field partners – entrepreneurial SPOs demand responsiveness and real-time interaction	Consciously manage the tensions between size, bureaucracy of supporting projects while keeping enough flexibility to allow the foundation to offer appropriate and dynamic support
Increasing risk tolerance, long-termism and patient capital	Be prepared to take more risk at an earlier stage, while aiming for longer-term and systems-level support. “Reframe” failure as a way of learning and of experimenting, and as an input into the learning curve of change
“Planning the divorce with the wedding” (endogenising exit strategies)	Develop and review measures of success (qualitative and quantitative) that will trigger exit and maintain sustainability for grantees/SPOs
Working with other development actors, especially governments in the field and ODA providers is pivotal	Take a more proactive position in the development arena and be both willing to collaborate and to “share the glory” and the innovation with others while taking into account other actors' constraints
Learning and collaborating with peers to advance the impact of the foundation sector for development	Commit to greater disclosure of lessons learned, either publicly through publication or privately in peer group forums. Integrate this with research and evaluation activity

This is by no means an exhaustive list but rather captures some of the most challenging learning for the foundations who shared their experience.

## Conclusion

The study finds that Venture Philanthropy for foundations working in development does not constitute a coherent, easily defined operating model or strategic approach. Rather it has become more of a blanket term, an expression of a more purpose-, results- and responsibility-driven worldview. It incorporates a diverse set of principles aimed at increasing the reach, scale and social benefit of foundation resources. Such principles include much closer “high engagement” relationships between foundation and social purpose organisations, more strategic and targeted funding choices based on research and evidence building, a more encompassing view of foundation resources and a willingness to partner based on potential for results and scale rather than structural or constitutional type.

As such, the challenges in adopting the VP model are not inconsequential. The capabilities required to successfully achieve the transformation may be only partially present or missing entirely in the foundation at the outset. The inclusion of more commercial and enterprise strategies in the foundation portfolio, especially with for-profit social enterprises, may raise cultural and ideological as well as constitutional concerns. An honest appraisal of the current “state of play” to identify strengths to leverage and barriers to overcome *before* embarking on adopting the model is a prerequisite in deciding if it is suitable and choosing where to start.

The experience of the participating foundations, however, is that taking such a transformational journey is worthwhile. Although verifiable comparative field data is limited at present, foundation staff point to a variety of signals to showcase the value of the approach in engaging other actors to achieve leverage such as the attraction of more mainstream capital to scale social solutions.

The study has raised a number of questions and areas for potential further research. Most critically, it highlights the need for greater inquiry, collaboration and co-learning both between foundations themselves and between foundations and other groups such as impact investors, commercial enterprise and the ODA community. The potential to leverage the philanthropic high risk capital is already considerable, but becomes far more so when economies of scale and the timely sharing of learning for continuous improvement are achieved. Further research to uncover good practice examples of cross-sector collaboration will help move the philanthropic sector forward. This would encourage a deeper appreciation of the goals and methods of such diverse actors. It would also enable dialogue between them in ways that overcome some of the suspicion and unhelpful assumptions that persist. In the meantime, the continued pursuit of “impact” in philanthropy and participation in networks will likely further accountability, transparency and co-learning as well as encourage more measureable data collation and evaluation in foundations.





# I. INTRODUCTION



## I. INTRODUCTION

There is growing recognition from official aid agencies that private funders and investors, including foundations, are an important part of the global development architecture. In 2011, the Busan Partnership for Effective Development Cooperation for the first time identified philanthropy as a significant partner in the development process.

At the same time, new leaders are entering the philanthropic world with novel methods and bolder expectations. Their approaches to problem solving, theories of change and operating models mark a departure from traditional philanthropic giving. They draw on experience from commercial enterprise and seek scalable outcomes through the mobilisation and leveraging of financial and non-financial resources.

These philanthropists are open-minded about the organisations and institutions they work with, whether for- or not-for-profits, and are willing to use a wider array of strategies, commercial and non-commercial, to address development issues. They build partnerships, work across multiple sectors and take greater interest in outcomes and impact than in inputs and grant size.

Their new approaches have attracted a variety of names – angel philanthropy, enterprise philanthropy, catalytic philanthropy and venture philanthropy\* – with the differences between them being more semantic than operational. What the approaches share are operating principles of high engagement with beneficiaries (also known as partners, investees or social purpose organisations – SPOs\*) and a willingness to combine a variety of financial and non-financial disciplines. Some go further, adding creative interventions at policy and market levels to generate the market conditions in which their beneficiaries can thrive.

This report reviews the experience of members of the OECD Global Network of Foundations Working for Development (netFWD) in adopting aspects of these approaches, summarised for convenience here as Venture Philanthropy (VP). It seeks to distil and disseminate the rationale, organisational implications and perceived benefits of the changes these foundations have undertaken.

OECD established netFWD with key aims including optimising and accelerating the impact of philanthropy for development through the sharing of experiences and lessons, policy influence and the development of innovative partnerships. The network was launched by the OECD Development Centre in October 2012 and is a small group of self-selected foundations organised around two working groups: Enterprise Philanthropy (EP) and Innovative Thematic Philanthropy (ITP). The Enterprise Philanthropy Working Group consists of foundations that have each undertaken internal reform in order to enhance the effectiveness of their philanthropic approach.

Four members of netFWD were interviewed in depth as the basis for this report and shared detailed case studies including their methods of assessing impact: the Emirates Foundation for Youth Development, Lundin Foundation, The Rockefeller Foundation and Shell Foundation. Another three, Novartis Foundation for Sustainable Development, JPMorgan Chase Foundation and the Edmond de Rothschild Foundations, reviewed the findings and shared further examples from their own experience.

***These philanthropists are open-minded about the organisations and institutions they work with, whether for- or not-for-profits, and are willing to use a wider array of strategies, commercial and non-commercial, to address development issues.***

\*See glossary for definitions of all terms marked with a \*.

All of the foundations consulted can be described as being on a “transformational journey”, experimenting in very different ways with the principles of Venture Philanthropy. Some are further down the road than others.

Each of them sees merit in adopting aspects of the VP model and believes they are more effective and have greater “impact” as a result. Some, such as Shell Foundation and Lundin Foundation, are making market-based solutions a central plank in their investment portfolio. Others, such as the Edmond de Rothschild Foundations and the Rockefeller Foundation, include such enterprise solutions within a wider portfolio of interventions. All have asserted the importance of working at multiple levels simultaneously – locally with social enterprises and beneficiaries, regionally at subnational level, and at the national policy level in order to develop the enabling infrastructure that sustains and scales solutions.

Whilst the benefit of adopting VP principles is evident to the foundations themselves and to their beneficiaries or SPOs that contributed case studies, longitudinal (year on year) data on impact at scale is still limited at this time. As discussed below (see Section IV, Determining Impact), this is due to factors including the complex and systemic nature of investments and programmes making attribution difficult (e.g. Rockefeller’s Asian Cities Climate Change Resilience Network programme which convenes actors at city and regional level), the relatively early stage of the programmes (e.g. Emirates Foundation’s new Financial Literacy programme) or the challenge of comparing “apples and oranges” between old and new approaches (as with Lundin Foundation). Each of the case study foundations, however, is investing in rigorously measuring their impact against predetermined Key Performance Indicators (KPIs)\* and most are using third party assessment to test and verify results. In some instances “logical frameworks”\* are utilised to translate a high-level strategic intent and theory of change\* into a coherent portfolio of interventions with outcome-focused KPIs (see cases in Annex I).

### **Reading this report**

This report is aimed at organisations, particularly foundations, seeking to increase impact and scale in the field of development. It is not written for venture philanthropy specialists. The hope is that by reading it, other foundations will be encouraged to examine the effectiveness of their own approaches, to share reflections and lessons with others, and to consider, where appropriate, applying similar techniques to enhance the impact of philanthropy more widely. It is also hoped that by digging beneath the surface of this emerging model of philanthropy, official aid donors and development finance institutions will gain a better understanding of how to interact with innovative foundations working for development.

The report is constructed around three connected topics. Firstly (Section II), it questions what Venture Philanthropy for foundations is and how the model is emerging in relation to official aid and development finance. Secondly (Section III), it demarcates how Venture Philanthropy is different to more traditional philanthropic models, along a number of core strategic dimensions such as scale, engagement size and how impact is measured (Section IV). Finally (Section V), it offers some lessons and recommendations from the contributing foundations which may be useful to other institutions considering a model shift or an adaptation of their approaches to effective development co-operation.

## Introducing the foundations

### Case study foundations

#### Emirates Foundation for Youth Development

A semi-public foundation (co-funded by both the public and private sector) based in Abu Dhabi and operating across the United Arab Emirates (UAE), established in April 2005 by His Highness General Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the Armed Forces.

##### The foundation

- Has a mission to improve the welfare of people across the UEA through public-private initiatives, modified in 2012 to focus solely on youth development, using the model of venture philanthropy.
- In addition to funding from sovereign wealth, attracts funding from private sector organisations wishing to invest in social projects as part of their corporate social responsibility within the UAE.
- Spent AED 157 m (USD 42 m) in 2012.
- Funds six youth development programmes, which it manages in-house. The programmes cover financial literacy, support for youth from disadvantaged communities, leadership and soft skills to prepare youth for work in the private sector and volunteering programs to encourage community engagement.
- Has 100 full time equivalent staff.
- Does not generate financial returns from its programmes but has an ambition to transition each of the six programs into a financially viable social enterprise.

##### Achieving impact

Since the foundation started tracking organisation-wide impact, by the end of 2012, it had engaged with 31 664 UAE youth with 10 187 having participated directly in a specific programme. By year end 2013, the foundation had engaged directly with over 63 000 young people in the UAE representing over 15% of its total target audience.

#### Lundin Foundation

A private foundation based in Vancouver, Canada established in 2005 by the Lundin family and co-funded by a number of Canadian natural resource firms and brokerages.

##### The foundation

- Provides long-term capital and technical assistance to small and medium-sized enterprises (SMEs) to support scalable and market-based solutions to environmental and social challenges.
- Uses a combination of impact investments and corporate social responsibility initiatives to support 30 initiatives in 17 countries around the world.
- In 2012 had an impact investment portfolio of USD 13.13 m (USD 5.16 m invested in 2012) and a corporate social responsibility initiative portfolio of USD 2.26 m.
- Currently generates an annual financial return of roughly 10% on its impact investment portfolio.

- Has priority focus areas including access to energy, financial inclusion and smallholder agriculture each of which have been selected because of their demonstrable linkages to benefiting those living near to or at the bottom of the pyramid.
- Has seven full-time equivalent staff.
- Measures its impacts across five variables: financial sustainability, direct employment and wealth creation, product and service impact, contribution to local economies and catalytic influence or the way in which the foundation's work has encouraged additional benefits to take place.

#### **Achieving impact**

In 2012 the social purpose organisations in which Lundin Foundation invested generated USD 38 m in revenue, hired over 1 200 employees and paid over USD 1.4 m in wages, did business with over 54 000 rural farmers and microenterprises and enabled over 449 000 rural clients to gain access to improved agricultural products, equipment, financial services and renewable energy devices.

#### **The Rockefeller Foundation**

A private foundation headquartered in New York, established in 1913, with an endowment from John D. Rockefeller and a mission to improve the well-being of humanity around the world.

##### **The foundation**

- Disbursed grants (and undertook direct charitable activities) totalling USD 142 m (USD 182 m inclusive of costs) in 2011.
- Supports a number of interconnected grant-based initiatives globally covering four related issues, each of which is time bound and outcome focused. The issue areas are called: revalue ecosystems; advance health; secure livelihoods; and transform cities.
- Has 100 full-time equivalent staff.
- Does not generate financial returns from its grant-based initiatives.
- Has a small-scale (USD 23.9 m) parallel portfolio of programme-related investments, in operation since the 1990s and now managed through intermediaries. Financial instruments include debt (44.4%), guarantees (12.5%) and equity (44.4%).

##### **Achieving impact**

The foundation does not aggregate impact achieved at the organisational level. Typically initiative evaluation includes aspects such as findings and lessons, outputs, outcomes, impact, policy influence, efficiency of financial and human resource and governance.

#### **Shell Foundation**

An independent charity based in London, established in 2000 by Shell Group. Its mission is to identify, co-create and scale enterprise-based solutions in order to tackle global development challenges in a way that is ultimately sustainable.

##### **The foundation**

- Provides patient grant finance (disbursed USD 19 m in 2012), business skills and links to markets to support pioneer social enterprises and SPOs to demonstrate new models, to build capacity to operate at scale and to enable the growth of new inclusive markets.
- Focuses on five programmes to tackle major global issues: job creation through the SME sector, sustainable mobility in developing world cities, sustainability of agricultural supply chains, access to affordable modern energy products and services, and cleaner cookstoves for low-income communities.

- Has 13 full-time equivalent staff.
- Does not generate financial returns from its grants but targets the financial sustainability of its partners.
- Maintains partner-wide key specific performance indicators and impact data which is aggregated into four organisation-level KPIs: sustainable (permanent) jobs created or maintained; number of livelihoods improved; reduction in tonnes of CO<sub>2</sub> emitted; and “leverage”, the volume of US dollars invested by third parties in partners or as direct funding for activities and organisations supported by Shell Foundation with clear evidence of a link between Shell Foundation involvement and the leveraged funds.

### **Achieving impact**

Shell Foundation now has several long-term partners that are achieving large-scale impact across Asia, Africa and Latin America. From inception to April 2013, Shell Foundation through its partners has helped create or maintain 22 779 jobs, improved 11.75m sustainable livelihoods, made carbon dioxide reductions of 3.86m tonnes and leveraged USD 3.78 bn.

### **Contributing foundations**

#### **The Edmond de Rothschild Foundations**

A network of private family foundations based in Switzerland, France, Spain, the US and Israel established between 1905 and 2005 by various members of the Rothschild family. The mission of this philanthropic network is to “*promote inclusion, social empowerment and a more collaborative society.*”

#### **The foundations**

- Made total grants/investments in 2012 of approximately USD 20 m. Funds are drawn from the foundations’ endowments.
- Are active in education, health, the arts and social entrepreneurship. In-house social entrepreneurship programmes include Scale Up (training and professional coaching for social entrepreneurs) and the Ariane de Rothschild Fellowship.
- Also collaborate with partners including UnLtd India and the Acumen Fund’s Regional Fellows Programs, which provide financial and non-financial support to social entrepreneurs in developing regions.
- Number of staff: 10.
- Do not seek a financial return, but do require fulfilment of pre-defined objectives and impact reporting.
- Employ due diligence and oversight as a traditional investor would and share an investor’s goal of perennial financial solvability and autonomy in the structures supported.

### **Achieving impact**

Indicators vary across sectors and are tailored to respond to the goals and impact sought. Preference is not to aggregate but track indicators for projects over time, e.g. money granted, subsequent money raised from third-party grantors or investors (buy-in from other funders or capacity to self-finance), number of clients, laureates or patients benefiting from foundations’ grants or supported programmes, year-to-year ratios (ideally one dollar goes further each year).



### **JPMorgan Chase Foundation**

An affiliate of JPMorgan Chase & Co, it does not distinguish between its corporate philanthropy investment and its foundation.

- Provided over USD 190 m in grants to non-profit organisations across 37 countries in 2012.
- Priority areas fall under the pillars of economic development, financial empowerment and workforce readiness, ensuring that its grants respond to the needs of the communities in which it works.
- Aims to support charities and programmes that have a clear social impact and the potential to be sustainable solutions to social problems.

#### **Achieving impact**

The foundation in Europe, Middle East and Africa (EMEA) has used third party analysts to assess the impact of its programmes against identified criteria including project sustainability and effectiveness of J.P. Morgan funding, as interpreted by its grantees.

Indicators collated show that between 2011 and 2012, J.P. Morgan's funding in EMEA impacted the lives of over 80 000 people; 91% of the projects supported continued beyond the life of J.P. Morgan funding; 88% of grantees in EMEA believe that J.P. Morgan funding helped their organisations increase their overall impact.

### **Novartis Foundation for Sustainable Development**

Established 30 years ago as a corporate foundation, the Novartis Foundation for Sustainable Development is primarily engaged as a competence centre for corporate responsibility and international health, focused on underserved communities.

#### **The foundation**

- Had a budget of CHF 10m (USD 11 m) in 2012, of which CHF 6.8m (USD 7.4 m) was allocated to healthcare projects and CHF 1m (USD 1.1 m) to think tank and networking activities.
- Aims to improve access to healthcare, strengthen human resources in health and empower vulnerable groups.
- Fosters dialogue and networking, acting as a bridge between the private sector, international organisations, governments and NGOs.
- Employs performance-based funding and leverages the capacity of the parent organisation to provide financial and technical assistance for implementation of the health initiatives it supports. In 2012 these included projects in sub-Saharan Africa and Asia related to leprosy, malaria and child and maternal health.

#### **Achieving impact**

Indicators are tracked at the project level. Examples include programmes such as ACCESS (2003-11), aimed at analysing and improving access to effective malaria treatment and care in Tanzania, in particular for pregnant women and children under five years of age through a combination of supply- and demand-side interventions. The final evaluation of ACCESS showed an increase in the number of patients treated with a recommended antimalarial from 36% in 2008 to 62% in 2011. The results indicate that child mortality caused by malaria declined from 25 to 20 per 1000 children. ACCESS interventions are calculated to have saved approximately 400 lives annually in an intervention area that has a population of 500 000.

## Methodology

Interviews with netFWD members form the basis of this report, with supporting data from annual reports and third party impact evaluation literature. Additional source material was drawn from published records, reports and interviews with subject matter specialists (see Acknowledgements: Key Contributors). For each case study foundation, interviews were undertaken with senior managers. Interviews were also undertaken with actors involved more closely in specific projects to provide additional inputs into the case studies. These included foundation project and programme managers, and in the case of Shell Foundation and Lundin Foundation, the CEO and senior management of beneficiary organisations of Envirofit ([www.envirofit.org](http://www.envirofit.org)) and Comaco ([www.itswild.org](http://www.itswild.org)). In addition to external review, the collated findings were shared with netFWD members and associated observers in a facilitated workshop held in September 2013 to test hypotheses and consolidate lessons.

A full list of interviewees is included in the acknowledgements.



# **II. VENTURE PHILANTHROPY AND DEVELOPMENT**



## II. VENTURE PHILANTHROPY AND DEVELOPMENT

### The changing development context

#### Shifting aid allocations

In the last decade, philanthropy has taken a more prominent role in the global debate about financing for development. Bilateral and multilateral official aid agencies are exploring partnerships with philanthropic foundations, impact investors and businesses with a renewed urgency.

This upsurge of interest is, in part, driven by the economic recession in the Global North. With government budgets under pressure, concerns around the role and impact of official development assistance (ODA), mixed results in achieving the Millennium Development Goals (MDGs) (especially in “fragile states”) and the innovative approaches taken by foundations such as venture philanthropy, foundations have become important stakeholders in the “development galaxy”. This has been reinforced by the realisation on the part of traditional donors that aid should first and foremost be an “enabler” of other sources and forms of support, coupled with the growing need to identify new forms of development financing. Indeed, since 2010, ODA has fallen by 6% in real terms. Between 2011 and 2012, bilateral ODA to sub-Saharan Africa fell by 7.9% and the share of ODA to the least-developed countries (LDCs) by 12.8%. Unsurprisingly, the OECD observes that the largest cuts to ODA were from those Eurozone countries impacted most by recessionary factors.

#### A new bottom billion

OECD data suggests that ODA (which in 2011 amounted to USD 161 bn) is shifting away from least developed countries (LDCs) to middle-income countries (MICs). This shift in portfolio allocation has opened debates about where ODA should be directed: to the poorest countries or to the poorest people based in LDCs, low-income countries (LICs) or MICs alike. For example, 2013 witnessed the UK committing to end direct aid to the middle-income economies of India and South Africa by 2015. As low-income countries become middle-income countries and nations like India become donors in their own right, the end of such aid agreements could mean the poorest are left behind. Where two decades ago 93% of the billion poorest globally lived in LDCs, now 75% live in MICs (Sumner, 2010). With not everyone benefiting equally from economic growth and with rising expectations from the Global North to MICs to address their own social protection needs, this remaining quarter of a billion people could fall out of the reach of the official global donor community while not being covered by domestic support systems either. Trickle-down economic growth is not proving sufficient to address such inequality, prompting institutions such as the World Bank to respond with an explicit focus on “shared prosperity” interventions that ensure the progress of the poorest 40% in each society. These interventions include a combination of job creation (public and private) and targeted policy interventions (Basu, 2013).

### Increased private giving

In parallel, funding available from private global philanthropy to address issues like poverty and climate change is growing. This is attributed to a number of factors: a continued transfer of wealth into private hands; the shifting roles of the state, the market and civil society in addressing social issues; broader globalisation trends such as the growth of multinational corporations and corporate philanthropy; and the growing visibility of high-profile philanthropic leaders (Johnson, 2010). The Hudson Institute Centre for Global Philanthropy (CGP) reports that US foundations together with other philanthropists gave USD 39 bn to development issues in 2010, an almost 4% increase on the previous year. Of this giving, 53% went to health and medical services. However it is important to note that these figures are biased by the amounts provided by the Bill and Melinda Gates Foundation and by the top five biggest philanthropic givers. The majority of other philanthropic organisations have rather limited financial resources. Overall, CGP reports that 23 developed countries gave a total of USD 55.9 bn to development through private giving in the same year (Index of Global Philanthropy and Remittances, 2012).

Such figures are still dwarfed, though, by the total of net private flows. These represent, including foreign direct investment, USD 358 bn in 2011 (OECD), highlighting the ever-more important role of private sector finance and the potential leverage that cross-sector co-operation could achieve. The relationship between foundation capital and the broader impact investment market is thus worthy of attention.

### Priming the impact investors

The growing prominence of philanthropic giving has, in some ways, been fuelled by increasing support for impact investment. The latter is also referred to as “social finance”, “social impact investing”, “blended value investing” or “impact finance” (Martin, 2013). With 24% of European Venture Philanthropy Association (EVPA) members calling themselves impact investors, it seems the field of venture philanthropy is also changing with more attention towards new financing vehicles aimed at generating both social and financial returns. The Global Impact Investing Network (GIIN) defines impact investments as investments made into companies, organisations and funds with the intention of generating measurable social and environmental impact, alongside financial return. But this shift also comes with its limitations such as risk aversion for below-market returns investments. In January 2013, J.P. Morgan and GIIN published a survey of 99 impact investors with individual portfolios of over USD 10 m and total investments estimated at USD 9 bn for 2013 (GIIN & JP Morgan, 2013). Interestingly, nearly two-thirds of respondents targeted full market rate returns on their investments, rather than choosing to accept lower financial returns and social impact; respondents subsequently complained that there were not enough high quality investment opportunities available (and only 18% of respondents invest at the seed/start-up stage). Sector opportunities in emerging markets primarily targeted food and agriculture, followed by financial services and microfinance.

Impact investors are now being urged to think more systemically, long-term and consider lower rates of return. In 2012, Omidyar Network’s Bannick and Goldman authored a report, *Priming the Pump*, which called for impact investors to take a more catalytic view of the sectors in which they invest and to pay attention to policy enablers and blockers. Investment is encouraged at an earlier stage in the growth of organisations and in entities that are less likely to deliver risk adjusted returns directly, but which will enable the growth of entire sectors and markets to achieve scale.

Impact investors have been divided into “financial-first” and “impact-first” investors to describe the motivational criteria of the capital providers and, whilst Bannick and Goldman’s request may provide a call to arms for impact first investors (as it has to the foundations in this report), those prioritising financial return are unlikely to respond. Plugging the funding and sector level gaps and working to catalyse less attractive sectors could arguably be a role for foundations and philanthropy and attract more mainstream finance to development.

Growing interest in impact investing is also coming from government and instruments such as Social Impact Bonds (SIBs) and Development Impact Bonds (DIBs), for example, are being seen as a means to direct private financial flows towards development needs. In 2013 the UK Prime Minister launched the Social Impact Investment Taskforce to build a global community of impact investors and drive standardisation through the use of common impact measures.<sup>4</sup> The SIB methodology relies on verifiable data to determine the success of the initiative and involves upfront funding from private investors that are reimbursed with a return by government when successful. Examples include bonds funding preventive social causes such as reducing recidivism in the UK. The question is whether the methodology can be translated to highly complex developing country environments where attribution is challenging. However, such schemes leveraging private sector and institutional funds are already blurring the lines between mainstream, impact and philanthropy social investment.

### The limits of private giving

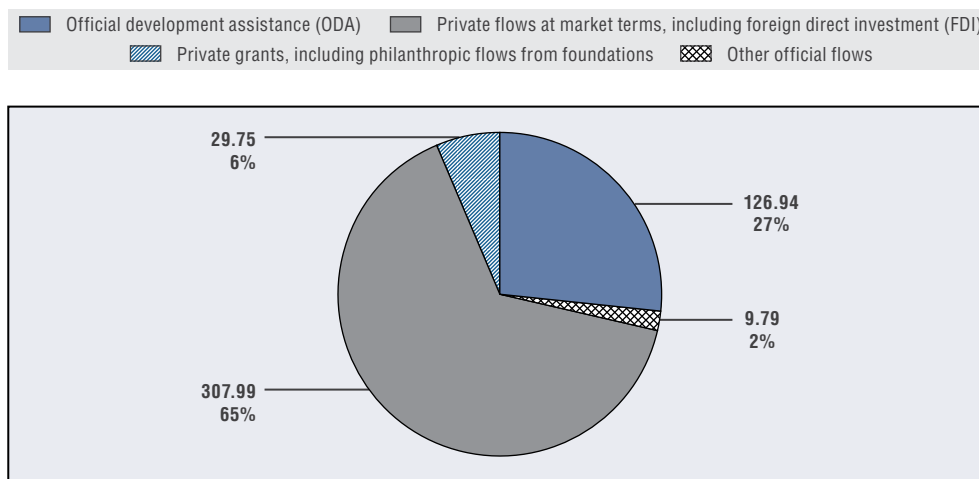
In spite of the diversification and surge in interest in forms of innovative private giving, philanthropy cannot substitute ODA nor meet its shortfalls, as Figure 1 suggests. Although few statistics exist on foundations’ financial contribution to development, this figure tends to show that it is rather limited (6%) in the flows from DAC donors to developing countries, compared to ODA (27%). This is partly due to their limited financial resources, but also because foundations and private funders cherish their autonomy and choose to fund agendas aligned with their particular interests and/or expertise. Articles of a foundation charter may also limit where funds are directed.

***In spite of the diversification and surge in interest in forms of innovative private giving, philanthropy cannot substitute ODA nor meet its shortfalls.***

There appears to be a low willingness amongst foundations to invest time and resources in lengthy interactions with the official aid community. Rather they seem to prefer to use research to define best practices and trial experiments to determine where to deploy funds. Working outside of the constraints of accountability to domestic taxpayers, these organisations can develop innovative investment vehicles more quickly (e.g. combinations of subsidy, soft loans, equity-like instruments), experiment with programmatic interventions (such as the Emirates Foundation’s Social Inclusion programme<sup>5</sup>), learn from experience and be bolder in deploying high risk capital in ways that are not possible for official development finance. The foundations are protective of these capacities. Thus closer collaboration between them and ODA actors will need to take them into account, recognising them as complementary rather than replacing ODA.



**Figure 1. Total net resource flows from DAC donors to developing countries 2012**  
(net disbursements in USD billion)

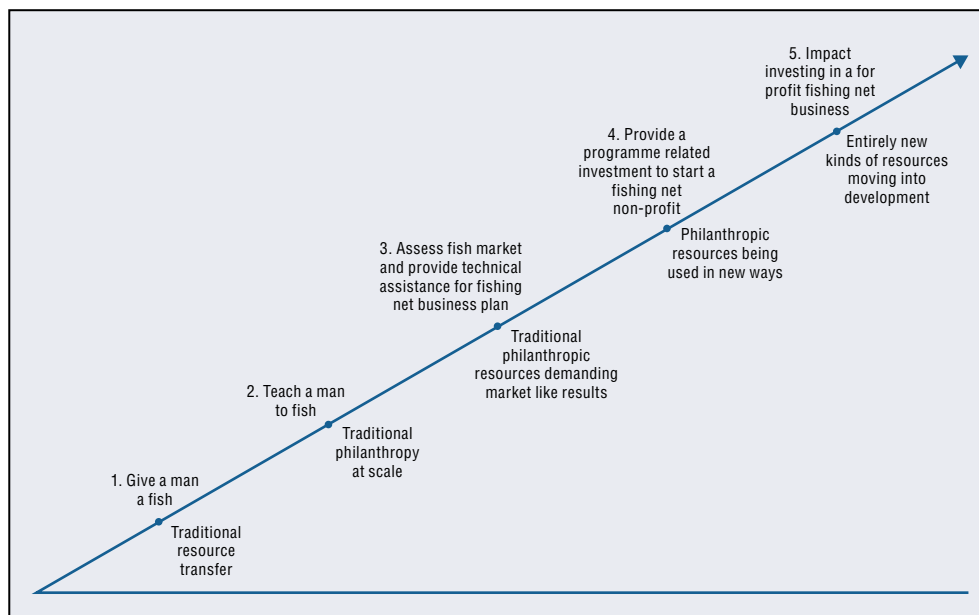


Source: DAC statistics.

**A new approach to problem solving?**

Though most development actors are likely to be driven by a similar set of goals and motivations such as contributing to eradicating extreme poverty, their approaches, theories of change, and operating models may be notably different. Dr Susan Raymond, the Executive Vice President of Changing Our World<sup>6</sup> offers a useful model to illustrate the evolution of different approaches to giving, driven mainly by newcomers to the field.

**Figure 2. The philanthropic “arc of innovation”**



Source: Raymond, 2012.

Raymond's "Arc of Innovation" (Figure 2) shows, perhaps simplistically, the breadth of the field in which donors (public and private) now operate and need to operate in order to scale up sustainable solutions. The day-to-day reality of what the foundations in this report do encompasses the entire spectrum of the continuum above, though with the conscious intent to move upwards from "traditional resource transfer" (give a man a fish) towards generating impact at scale. Their individual goals and methods will determine where on the continuum they direct their efforts. In some cases, the explicit ambition of the foundation is to create investible enterprise solutions (such as with Lundin Foundation) for others "using philanthropic resources in new ways" is being prioritised (such as the Edmond de Rothschild Foundations' educational programmes). Foundations are still equally likely to be providing grants or giving technical assistance to outcome-focused programmes or to be providing, guaranteeing or fundraising for commercial grade finance to invest in for-profit social enterprises.

### **A blurring of boundaries and convergence of approaches**

With new actors moving into delivering social impact, there is a blurring and convergence of approaches. It matters less whether the recipient of funds is a

***It matters less whether the recipient of funds is a non-profit entity or a for-profit social enterprise. It matters more that they have the ability or potential to create long lasting solutions to development challenges.***

non-profit entity or a for-profit social enterprise. It matters more that they have the ability or potential to create long-lasting solutions to development challenges. The social enterprise trend (i.e. businesses delivering against social objectives) is now recognised and enshrined in the US with the establishment of Benefit-Corporations and in the UK with Community Interest Companies. The trend however is a global phenomenon.

The foundations in this report are experimenting with and applying novel practices from other sectors rather than sticking to conventional methods or incremental adjustments. Rockefeller now applies strategic marketing planning methods to identifying social issues to address. The Lundin Foundation is funding development and application of smartphone technology to impact assessment.

A convergence of approaches is also occurring from the commercial sector with large multi-nationals working closely with NGOs and suppliers to strengthen their supply chains and reach new customers. These multi-nationals are excited by the potential at the "base of the pyramid"\* (Prahalad, 2006) and corporations such as Unilever and Procter and Gamble are developing business models and engaging with social enterprises to directly serve the extreme poor. The traditional provinces of philanthropy – healthcare, nutrition, hygiene, education – are now targets for corporate investment that achieve co-benefits to reduce poverty and alleviate associated problems. This concept of "shared value", where prosperity is generated for society and not just for business, has been popularised through the Harvard Business Review and is finding increasing usage in the corporate boardroom (Porter & Kramer, 2006).

The middle ground then between impact-first and financial-first organisations is becoming increasingly muddy, providing fertile soil to germinate new operating models which support for-profit social purpose organisations. Some interviewees, including from the Lundin Foundation and the Novartis Foundation, echo Emerson, Brest and others (2013), in criticising the notion of impact-first or financial-first as a false dichotomy. They see it as too simplistic and too static, suggesting that every investment's priorities vary over its lifetime, so that what begins with a finance-first orientation may ultimately mature to deliver greater social good.

Moreover this blurring and convergence is not seen by all as positive. One NGO representative interviewed expressed concern about the “hegemonic hijacking” of the development agenda, seeing powerful resource-rich elites appropriating the development field to maximise their

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own profits, with the website Business Fights Poverty referenced as a case in point. Another NGO member was suspicious of the “fashion” for business and financial jargon amongst foundations and impact investors, worrying that it was highly exclusionary of the very populations it was intended to serve. Some feel that the “Copernican Revolution” that foundations and impact investors sometimes feel they have introduced in the development field is somewhat exaggerated.

Regardless of the magnitude of change, which might be too soon to assess, much can be learnt through these new models and the practices that are emerging. What is required, the interviews suggest, is to remain open and empathetic to the different perspectives and worldviews emerging while maintaining a critical eye to the potential for unintended consequences.

### **A new breed of philanthropic leader?**

In concert with these trends, a new breed of socially-driven solutions-focused leaders is emerging (Raymond, 2012; Elkington and Hartigan, 2008). These “Venture Philanthropists” support for-profit or not-for-profit entities without being wedded to a particular organisational form and combine grant giving with commercial grade investments. They draw on experience and knowledge from business to identify clear desired outcomes with smart objectives. They seek to mobilise resources as efficiently as possible to achieve those ends. Innovation – finding smarter, more efficient and impact-raising technologies and processes – is core to their *modus operandi*. A number of these leaders have come from dotcom and tech sectors (Osberg, 2006) and bring a love of technology with them. Such innovation will often include deploying non-financial resources – business management skills, financial and commercial acumen, market analysis – to social purpose organisations. They seek partnerships that leverage their resources and in some instances (as Shell Foundation and Emirates Foundation here exemplify) they seek self-sufficiency (“spin off”) as a long-term objective for the SPOs they fund. This suggests that the individuals driving change may influence shifts in the development sector more than new theories of change or models themselves.

With the focus more on creatively combining and leveraging resources and capital than on writing cheques, these leaders are willing to adapt and employ a vast array of resources, knowledge, skills and financial mechanisms to meet their objectives. This is mirrored in Figure 3 produced by the EVPA which, although placing emphasis on financial structures, shows how so-called “Venture Philanthropists” span the entire spectrum of charitable grant giving through to investing in profit distributing socially driven business. Given this wide range, perhaps the most important leadership attributes of these individuals are the abilities to learn and question, innovate, collaborate and consequently adapt and flex with the emerging needs of their programmes and initiatives.

The four case study organisations have been added to the diagram to illustrate their direction of travel, towards a more encompassing range of options (e.g. from grantmaking alone towards grantmaking plus social investment).



appeared to be”. As such, formulating an exact definition for venture philanthropy could restrict further evolution and so may be counterproductive. Rather, and what the foundations interviewed best typify, is a continuing evolution, a willingness to try out new approaches and to learn from them, in ways that defy strict codification.

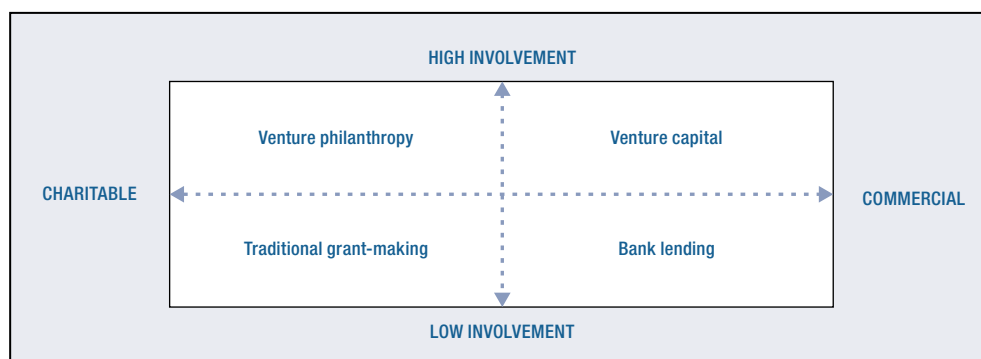
Conceptually, the idea of venture philanthropy found popular expression in 1997 with the publication of a Harvard Business Review article, “Virtuous Capital: What Foundations Can Learn from Venture Capitalists” (Letts, Ryan and Grossman, 1997). The article recommended that philanthropists should consider utilising venture capitalist tools such as risk management, performance management, relationship management and exit strategies in order to have a greater impact in addressing societal problems.

Developing the concept further, the Morino Institute in 2001 defined venture philanthropy as “the process of adapting strategic investment management practices to the non-profit sector to build organisations able to generate high social rates of return on their investment... this approach is modelled after the high end of venture capital investors” (John, 2006, p. 9).

Other terms have become prominent in the last decade. Bishop and Green (2008) coined the term “philanthrocapitalism” to describe the emerging VP or catalytic philanthropy model, exploring the strategies of a particular class of successful market-savvy philanthropists led by Bill Gates and Warren Buffet who are “trying to apply the secrets behind their money-making success to their giving”.

Helping to put venture philanthropy into a broader landscape of investment and engagement, Emerson et al. (2007) plot venture philanthropy and venture capital together (Figure 4). They illustrate how both practices emphasise the role of engagement (high involvement strategies) between investor and investee and the importance of the non-financial often managerial support that both deploy.

Figure 4. The involvement profit matrix



Source: Emerson et al., 2007.

Since 1997 the influence that venture philanthropy has had on foundation giving is thought to be more conceptual than practical, changing ideas of how success is defined for non-profit (or social purpose) organisations rather than wholly reconstructing its application (Grossman et al., 2013). It is definitely not redefining the philanthropic sector in terms of amounts disbursed. In 2001, for example, the application of venture philanthropy was estimated to account for just 0.2% of total foundation giving in the US (Moody, 2009). It is also recognised that due to differences in the concept’s definition and application, drawing tight boundaries around what is and is

not conceived to be venture philanthropy, what its value is, and who is and is not applying the concept is problematic. Questions raised in the debate include: how scale and growth of grantee organisations can be best supported; what time and size commitment is required for grants to achieve meaningful success; how performance should be measured; how grantees should be selected; and what other non-financial support may be required.

The EVPA's definition of venture philanthropy is philanthropy that: "works to build stronger social purpose organisations by providing them with both financial and non-financial support in order to increase their societal impact." They also suggest that a set of widely accepted characteristics are common to this approach. These are: high engagement, tailored financing, multi-year support, non-financial support, involvement of networks, organisational capacity-building, and performance measurement. How this translates into practices, they propose, will vary according to local conditions (EVPA website 2013).

***The idea of venture philanthropy found popular expression in 1997 with the publication of a Harvard Business Review article, which recommended that philanthropists should consider utilising venture capitalist tools such as risk management, performance management, relationship management and exit strategies in order to have a greater impact in addressing societal problems.***

### **Social purpose organisations**

The use of the term *social purpose organisation* is an important element of this definition of venture philanthropy. The EVPA uses it to emphasise that unlike the Morino Institute definition, and the Emerson illustration, venture philanthropy may fund a range of organisational types, from charities and non-profit organisations to socially driven businesses. So whilst Emerson's model (Figure 4) places venture philanthropists in a quadrant only able to fund charities, the implication is that they could move further right to fund and catalyse commercial enterprises too. A number of the foundations interviewed (Lundin Foundation and Shell Foundation for example), will invest in or partner with for-profit social enterprises as well as not-for-profits, not least for their ability to attract a wider array of financial funding types (e.g. equity investments) and generate profit for themselves as they mature or at a minimum become self-sustaining over time.

Beneath the blanket term of venture philanthropy, the foundations interviewed use different terms to be more specific about their particular approaches and to differentiate themselves from the more generalised venture philanthropy field. Terms such as enterprise philanthropy, impact investing, applying business principles and angel philanthropy were all referenced in this context.

At face value, the explicit application of a venture capital or a business approach to philanthropy raises questions for concern as posed by a Council of Foundations paper in 2001. For example:

- What is an appropriate level of involvement between a philanthropist and their grantee organisation? What is healthy and what is intrusive and what are the implications for governance?
- Does the approach constitute a collision of value systems between the for-profit and not-for-profit worlds and how is this resolved?
- How does the (occasional) introduction of a for-profit motive distort decision making and prioritisation (otherwise known as mission drift)?

The interviewees were keen to highlight that at the motivational level, the approach was unlike venture capital specifically because their dedication to programmes and social purpose organisations aimed for a much higher success rate (e.g. 80% or higher) compared to a venture capital organisation (typically 20% to 30%). This suggests that whilst there is broad recognition of the “high risk” potential of foundation capital, the urge to see development projects succeed can drive investment behaviours (of financial and non-financial assistance) that substantially mitigate riskier ventures. “What we do directs targeted resources to produce specific, measurable achievements so it’s like venture capital in that way, but we certainly do not invest in ten initiatives and then only expect three to pay off.” Heather Grady, VP, the Rockefeller Foundation.

### Defining venture philanthropy for this report

For the foundations in this report, some subtle differentiators to the EVPA definition of venture philanthropy are apparent. These primarily relate to the use of research to determine points of maximum leverage (where resource deployment can maximise impact), to the methods of evaluation of that impact and to longer-term “patient” relationships with SPOs that reflect the efforts required to generate new markets and enabling environments for enterprise solutions.

As such, a working definition for venture philanthropy focused on development that encapsulates these subtle distinguishing features provides some boundaries, for determining what may or may not be considered a venture philanthropy approach in the development field. For the purposes of this report then:

“Venture philanthropy for development is an entrepreneurial approach to philanthropy that combines a variety of financial and non-financial resources to identify, analyse, co-ordinate and support self-sustaining, systemic and scalable (for and not-for profit) solutions to development challenges aimed at achieving the greatest impact.”

The definition differentiates the application of VP in the development context, reflecting the greater need for cross-sector enabling interventions in terms of policy, education, infrastructure and culture. Without devoting at least as much time and effort to the enabling environment through policy influence, market stimulation and encouraging distribution networks, the social purpose organisations the foundations support may not succeed. Whilst it is not exclusively the domain of VP in the development context, VP in developed economies can be undertaken more readily without the need for such a deep degree of systems innovation and intervention.

***Venture philanthropy for development is an entrepreneurial approach to philanthropy that combines a variety of financial and non-financial resources to identify, analyse, co-ordinate and support self-sustaining, systemic and scalable (for and not-for profit) solutions to development challenges aimed at achieving the greatest impact.***

The interviewees label some of these interactions as “de-risking” or mitigating a broader set of risks in order for their solution to succeed. Such work is highly resource-intensive and for other development actors and impact investors may be cost prohibitive, beyond their capability or both. Regardless of the degree of investment in the enabling environment, this model implies calling on other philanthropists to adopt similar VP-oriented approaches and to provide more catalytic capital to the identified partners. These additional or mainstream sources of capital can be unlocked and thus contribute to addressing development challenges in a more sustainable way.

The next section goes on to introduce and compare some of the actions (defined as strategic dimensions) associated with the new approaches that the four case study foundations are taking.

# **III. A NEW STRATEGIC DIRECTION FOR FOUNDATIONS?**





### III. A NEW STRATEGIC DIRECTION FOR FOUNDATIONS?

#### A desire for fundamental change

For the case study foundations, the organisational change required to adopt a venture philanthropy model has been “transformational”, meaning it has involved not only the redesign of internal processes and procedures but a wider reimagining of the foundation’s role and its relationship to markets, sectors and other actors. It reflects a shift in “worldview” where the core purpose for which foundations are seen to exist becomes more ambitious and results focused. Deep internal reflection processes have been necessary to question and reframe informing assumptions about how to create lasting solutions to development challenges.

*The means have changed but the ends have not.*

“We realised that what we were doing wasn’t working across everything we did. It wasn’t just around a particular challenge or a particular geography but it was not working for everything we did. It was our way of working that was wrong”.

Chris West, Director, Shell Foundation

What has followed has been a transformation of the assumptions informing foundations’ overarching theories of change, which in turn has led in some cases to dramatic internal restructuring, refocusing of resources and rewriting of core strategies as the examples below testify.

Whilst it is not always possible to mark the turning point in strategy precisely, it is notable that the arrival of new leadership can act as a catalyst for such questioning of purpose and for substantial change to take place. This was the case for a number of the contributing foundations. The Rockefeller Foundation’s shift toward more focused and impact driven philanthropy is well publicised as starting with Judith Rodin’s appointment in 2005. Lundin Foundation reviewed its strategy with the arrival of Stephen Nairne (Managing Director) as did Emirates Foundation with the arrival of Clare Woodcraft (CEO). Novartis Foundation and the Edmond de Rothschild Foundations also pointed to new senior appointments as an impetus for change.

“The new president has broad authority to change the way the Foundation works. Judith brought in new staff from all different sectors: NGO, private and government, producing a creative dynamic in the Foundation. The changes opened the opportunity to fundamentally question how philanthropy creates impact within a broader system of actors.”

Heather Grady, VP, the Rockefeller Foundation

Conversely, conscious of the potential for change to be too dependent on specific leaders, Shell Foundation’s 2010 report “Enterprise Solutions to Scale” was published in part to share their journey of transformation with others, but also to cement change internally (Shell Foundation, 2010).

#### Strategic dimensions of the change

Strategy can be broadly divided into three areas: why an organisation exists, i.e. its *raison d’être* or purpose; what it does to fulfil its purpose; and how it chooses to deploy its resources to achieve those ends. Much analysis, learning and insight is necessary to make informed choices in these three areas and for the foundations interviewed, this has involved the employment of

external consultants (Emirates Foundation), a prolonged period of reflection and review (Shell Foundation), experiments with new ways of doing things (Lundin Foundation) and root and branch restructuring of people and resources (The Rockefeller Foundation). Yet whilst much of this work has focused on what the foundations should do and how they should do it, their fundamental purpose remains broadly unchanged. The means have changed but the ends have not. The Rockefeller Foundation’s mission is the same as it was in 1913.

The following box summarises key dimensions of the transition that the foundations are undertaking as part of their new ways of working. The movement “from” and “to” in most cases is a general direction of travel rather than a dominant feature. As foundation representatives highlighted at a review workshop gathering participating foundations, these features point more towards a broadening of scope while integrating previous dimensions rather than radically replacing one approach with another (see Table 1).

**Table 1. Strategic dimensions**

<b>Dimension</b>	<b>From</b>	<b>Towards</b>
<b>1</b> Strategic framing	Widespread giving (traditional resource transfer)	Targeted investing (resources targeted in new ways)
<b>2</b> Scale of intervention	Project based	Systems or sector based and focused
<b>3</b> Sector focus	Third (charity or not-for-profit) sector	Sector agnostic
<b>4</b> Funding mechanisms	Grants	Blended finance (grants, soft loans, equity investment etc.)
<b>5</b> Engagement style	Minimal (light touch)	Foundation supplying partner with technical and management assistance and capacity building
<b>6</b> Engagement period	Short (e.g. 1-2 years)	Long (5-10 years or more)
<b>7</b> Culture and capability of staff	Altruistic, administrative, financial	Innovative, multi-disciplinary, commercial
<b>8</b> Success criteria	Inputs and outputs	Outcomes and impact

Whilst the foundations recognise these dimensions as evident in their transition there is notable heterogeneity. The differences between the case study foundations are summarised in Table 2.

Table 2. **Strategic dimensions – Comparative table**

<b>Dimension</b>	<b>Emirates Foundation</b>	<b>Lundin Foundation</b>	<b>The Rockefeller Foundation</b>	<b>Shell Foundation</b>
<b>1</b> Strategic framing	In-house creation of scalable, self-sufficient programmes for UAE youth development	Development and scale-up of market orientated solutions to development issues	Convening regional actors to develop systemic solutions; grant funding of scalable initiatives	Development and scale-up of market orientated solutions to address development issues
<b>2</b> Scale of intervention	UAE region	Targeted SME organisations, often sub-national, with potential to scale	Global: regional, national, sub-national (e.g. cities)	Targets early-stage social enterprises and market enablers with vision for global scale-up
<b>3</b> Sector focus	Youth in the UAE	SMEs in Africa Energy, financial inclusion and smallholder agriculture	Ecosystems, health, secure livelihoods, cities (resilience and infrastructure)	SMEs, urban mobility, agricultural supply chains, access to energy
<b>4</b> Funding mechanisms	Direct internal grants drawn from a combination of government and private sector funds	Grants, loans, guarantees, debt, equity	Grant funding for initiatives. Programme related investments use debt, equity and guarantees	Smart subsidy, guarantees, convertible grant and programme-related investments*
<b>5</b> Engagement style	Programmes managed in-house as individual business units using “corporate centre” approach	Formal, e.g. Non-Executive Director (NED), and informal roles, management and strategic support and capacity building	Facilitator-style relationships with diverse actors; convenor and developer of networks	Formal (NEDs) and informal roles, management and strategic support, capacity building, linking between markets
<b>6</b> Engagement period	5+ years	5+ years	7-9 years	7-10 years
<b>7</b> Culture and staff capability	Learning and development focused, increasingly enterprise oriented. Staff have social enterprise and business skills; sector and subject matter expertise is key	Venture capital style; staff is entrepreneurial, agile, results-focused. Investment into in-country management resources	Scientific and evidence led; staff is increasingly business-like and impact driven. Additional research and evaluation capability; sector and subject matter expertise	Entrepreneurial combining social values with commercial orientation. Additional business skills hired into team
<b>8</b> Success criteria (KPIs)	Programme level output KPIs set to measure success with ambition for wider impact assessment	SPO level KPIs linked to wider outcomes and third party field studies	Programme KPIs and independent evaluation and monitoring at milestones linked to defined outcomes	SPO level KPIs linked to wider outcomes and third party field studies

## Strategic dimensions explained

### Strategic framing – From widespread giving to targeted investing

Having undergone much of this transformation, some of the interviewees were critical of their old approach to philanthropy (the “from” dimension above). They saw their previous attempts as complicit in sustaining problems of dependency and low absorptive capacity in the regions in which they operate. Tales of creeping dissatisfaction with approaches, results and the scale of impact achieved mirrored stories heard from other philanthropists that have entered the sector from the tech and dot.com sectors (Bishop and Green, 2008; Osberg, 2010).

This pronounced turn (which some have compared to a Copernican Revolution) is visible in the broadening of funded solutions to include investments in commercial enterprise. Framing the foundations as investors rather than philanthropists is important semantically because investors

make investments with the expectation that they appreciate in the future and will produce returns. Yet, the philanthropy dimension remains ever-present, given the nature of the capital invested and the possibility that the project will not succeed as expected.

### **Scale of intervention – From project-based to systems- or sector-based and focused**

In the pursuit of impact and scale, the case study foundations display a preference for taking a systems-thinking approach. This is visible in their initial research phase to identify points of leverage. It is also visible in their efforts to intervene at multiple points and levels simultaneously. Rather than funding individual organisations exclusively, they can convene numerous organisations and partners (including ODA providers) around a common issue, funding research to produce an evidence base, facilitating stakeholder dialogue and influencing for policy change and market stimulation.

Working systemically means engaging with a diversity of organisations and institutions at different levels: individual, organisational and focused on the enabling environment. “We crowd-in grantees, allies and partners. Through conferences and global gatherings, we share our ideas and strategies and seek potential partners whose networks and resources will complement our own”. Heather Grady, VP, the Rockefeller Foundation

***Framing the foundations as investors rather than philanthropists is important semantically because investors make investments with the expectation that they appreciate in the future and will produce returns.***

The Emirates Foundation engaged stakeholders from across government, education, financial and private sectors and non-profits to determine where to focus their programmes. “We spent a year looking at issues... we found lots of small scale *ad hoc* initiatives at the level of one individual or institution but nothing UAE wide and nothing scalable... we formed a stakeholder working group ... meanwhile checking externally on what others were doing, who’s doing it successfully in other countries, looking for partners and experts”. Clare Woodcraft, CEO, Emirates Foundation

For the Rockefeller Foundation, this methodology has become common practice. Their “Asian Cities Climate Change Resilience Network” initiative convenes actors from across government, urban development, aid and business to co-operate on the production and roll out of city-level climate change resilience strategies. Substantial early investment in cross-sector research has provided evidence on the problems at stake, such as energy, transport and sanitation, and enabled the design of potential responses, resulting in the collaborative production of urban climate change resilience strategies. The Rockefeller Foundation has formalised this systems perspective and matched it with relevant staff capability.

“When looking for a managing director I am almost looking for an architect. I am looking for someone that can build a time-bound initiative that’s going to shift a system within a set number of years. This involves creating the framework for the initiative’s goals, outcomes, theory of change, results based framework and monitoring and evaluation, then looking at the field and deciding which organisations will be the most complementary partners.”

***Rather than funding individual organisations exclusively, they can convene numerous organisations and partners (including ODA providers) around a common issue, funding research to produce an evidence base, facilitating stakeholder dialogue and influencing for policy change and market stimulation.***

Heather Grady, VP, the Rockefeller Foundation

Such thinking is also evident in the market-based interventions of the Lundin Foundation. Comaco, in Zambia, a co-operative that promotes sustainable agriculture, increases food security for small-holder farmers through improved farming methods and market building, radically reducing the incidence of poaching and returning local ecosystems to health. In that case, the evidence base was collated and peer reviewed to determine the social and environmental impacts of the interventions and where to target future funds. The CEO of Comaco, Dale Lewis, is adopting the role of what Heather Grady calls an “architect”, now building alliances with government policymakers and multilateral institutions to scale the model on which Comaco is based.

By way of comparison, the Edmond de Rothschild Foundations stressed the importance of collaborative approaches to identify issues and solutions, offering the example of working in the field of reconstructive surgery, an underserved need for victims of brutality in failed states.

“We were working with a group of plastic surgeons from Switzerland, who were engaged in humanitarian work in challenging environments like the Congo. The concept of flying doctors – that’s been done. They fly in and they fly out, but the need remains the same. In terms of strategic thinking how can we go beyond that? So we started to train other [local] doctors in this specialist area ... and help them to structure an organisation and recruit, to become managers...”

Firoz Ladak, Executive Director, the Edmond de Rothschild Foundations

### **Sector focus – From charity/not-for-profit to inclusive of for-profit and private sectors**

With a focus on finding optimal solutions to systemic issues, there is no reason to think that the philanthropist should necessarily favour a for-profit or not-for-profit approach from the outset. Some preferences may emerge depending on the issues to be addressed, and Shell Foundation and Lundin Foundation work explicitly with the private sector in delivering market-based solutions and in supporting social enterprises. These organisational forms have an advantage over not-for-profits in that they can take on investment in exchange for equity and have the potential to become self-financing businesses over time. Whilst the Emirates Foundation also recognises the benefit in the approach, organisational forms such as social enterprises are still nascent in the United Arab Emirates which necessarily leads to developing partnerships with not-for profit actors. Regardless, the ability to incorporate such market-based approaches is broadening the array of options foundations have at their disposal. The Edmond de Rothschild Foundations and the Rockefeller Foundation are clear that these are “additional tools in the bag”, not replacing grant-making but allowing for more creative solutions to be developed.

Utilising these more market-based approaches to addressing development challenges has led some foundations to focus more overtly on regions and sectors where potential exists for markets to evolve. The Rockefeller Foundation looks for regions with a higher “market dynamism”, where new technologies and innovations are more readily taken up in civil society and where market economies are strengthening. This meant an initial preference for Asia over Africa when developing their programme focused on city-level urban climate change resilience (Asian Cities Climate Change Resilience Network). Shell Foundation likewise noted that culturally their cook-stoves initiative has seen greater success in countries where faster development is taking place. This poses the problem of the limitation of these approaches to solving problems in the poorest countries where markets are less mature and where the enabling environment can be seen as less conducive to market-based approaches.

Similar to impact investing, there is a risk that a focus on private sector approaches could bias philanthropists towards more readily monetised solutions and sectors. Sectors such as

low carbon transport and infrastructure, agriculture and agricultural supply chains, energy, technology and finance predominate although education remains a significant focus of funding for a number of the foundations (e.g. The Rockefeller Foundation, Emirates Foundation, the Edmond de Rothschild Foundations).

### **Funding mechanisms – From grants alone to a mix of financial instruments**

The EVPA member survey (2013) indicates a possible trend in that between 2010 and 2011, VPs moved away from grants in favour of other financial instruments such as debt, equity and guarantees. For foundations however, such financial innovations are still nascent in use. Burckart (2013) found that since 1968, when Ford Foundation made its first programme-related investment, only 1% of US foundations' assets have been used for anything other than grant-giving and only 5% of that amount has been used for any kind of equity style investment.

Despite intentions to do otherwise, of the four foundations interviewed, all still use grants as a primary funding mechanism. The Rockefeller Foundation also uses comparatively small programme-related investments (in the form of debt, equity and guarantees) with a policy not to invest in the same initiatives and organisations to which it provides grants. Lundin Foundation finds it is now giving more grants than before its transformation in support of its impact investments.

“We use our flexibility to create what I call fit for purpose capital structures and that includes grants. In fact we are providing more grants now than we were before. Market-based solutions are not appropriate everywhere. Particularly in [fragile economies] there is a critical need for grants, especially at early stages.”

***Similar to impact investing, there is a risk that a focus on private sector approaches could bias philanthropists towards more readily monetised solutions and sectors.***

Stephen Nairne, Managing Director, Lundin Foundation

Terms used to help frame this approach to philanthropic finance included angel, patient capital, smart subsidy as well as impact investing.

“Angel” had been used in the past by Shell Foundation to highlight the very early stage nature of the interventions made, referring to angel investment, investments commonly made by high net-worth individuals who invest in early stage start-ups for reasons of interest as well as return. “Patient capital” was used to highlight numerous factors such as a longer investment timeframe, higher risk appetite, availability to for-profits and not-for-profits, and below market returns with above market social and environmental outcomes. “Smart subsidy” was used to distinguish the way grants are deployed to enable scale, efficiency and competitiveness rather than constrain these aspects (in the way poorly targeted subsidies and grants are perceived to do) and to emphasise the strategic nature of the approach. Smart subsidies are transparent, time restricted, rule-bound and used where possible to attract other forms of capital (Morduch 2005).

***Despite intentions to do otherwise, of the four foundations interviewed, all still use grants as a primary funding mechanism.***

Differences in terminology mask an aligned view that well-targeted grants are necessary for novel solutions to development challenges to succeed. In developing economies, particularly in post conflict contexts, interviewees considered venture philanthropy to be able to make the much needed early stage, high risk and catalytic grant funding that is out of reach of the impact investment and banking community and even traditional aid. As an example, one third of the

USD 250 m deployed by the Omidyar Network (an “impact first” impact investor) since 2004 to support base of the pyramid (BoP) start-ups has been in the form of grants (Bannick and Golman 2012).

Another reason grants are still important is the embryonic and systemic nature of the work these foundations do compared with other philanthropists. These foundations often start at the level of concept rather than funding an existing initiative and therefore either establish or cofound the solution with partners. In some instances, they are also seeking to become market-makers in developing countries where doing business is significantly more challenging and accompanies a higher risk of failure.

“We imagined the social investment landscape as a relay. We’d start something off, then someone else would come in with second stage support and then they would hand it on as more commercial sources of investment became available. The reality was quite different. What happens is that you start running the race with the simple aim to prove new models can work, but then you look around and find few organisations are willing to pick up the baton to grow these further. So the type and longevity of support we provide has had to evolve way beyond our original thinking.”

Chris West, Director, Shell Foundation

One of the “actors” referred to is the impact investment community and it is thought that impact investors systematically under-invest in creating the conditions necessary for innovations and new sectors to be catalysed and scaled (Bannick and Goldman, 2012).

Frustration was shared around the lack of other foundations and investors willingness to align with such an early stage approach. Why this is the case requires further research and analysis, although the organisational challenges associated with adopting the approach (see Section V: Lessons and Recommendations below) and the personal reputational risk that foundation leaders and impact investors believe they need to take on may be factors.

### Engagement style – From light touch to valued partner

The core differentiator or “litmus test” for VP according to John (2006) is the high degree of engagement, not the financial instrument deployed. This study finds that what this looks like in practice ranges across a wide spectrum from quarterly attendance at board meetings through to a co-founded venture such as Envirofit’s cook stoves business that “is like a marriage” where foundation members work so closely with SPO management that they “feel like one of the team”.

***The core differentiator or “litmus test” for VP is the high degree of engagement, not the financial instrument deployed.***

Despite only one of these foundations being co-located with their SPOs, levels of contact in addition to face-to-face meetings were very high. For Emirates Foundation, this high engagement has been institutionalised such that programmes are incubated in house (for example young leaders’ and social inclusion programmes) and benefit from a shared service approach (IT, HR, finance, monitoring and evaluation etc.).

The type of assistance provided is dependent on the initiative, resource capability and resource availability of the foundations. As initiatives mature, needs also change and the foundations have to be able to flex both the quantity and quality of support on offer. Such flexibility requires the availability of highly skilled and talented human resources.



Pradeep Pursnani from Shell Foundation discussed how he sees his work with Envirofit, one of the SPOs.

“Slowly we will get less involved operationally and move towards strategic and governance issues and will probably maintain a role on the board. We’ll continue to work in the sector and try to use our learning to catalyse the wider market. We’re currently working across the supply chain, for example on new models for distribution. Perhaps in the future we’ll support the next generation of stoves.”

Pradeep Pursnani, Business Director, Shell Foundation

The high quality of the engagement is due in part to the amount of time the foundations invest in partner and initiative selection upfront, a strong element of which is about ensuring a shared ethos and ability to work well together. For Comaco and Lundin Foundation, and Envirofit and Shell Foundation there was an acknowledgement of each party’s ability to add value to the relationship, to be committed to long-term success (together with an acceptance of the inevitability of short-term setbacks) and open, transparent and frank communications between parties.

### **Engagement period – From short (1-2 years) to long (5-10 years or more)**

“Our bigger challenge will be how to transform our programmes into social enterprises that can self-generate and self-sustain. We see this as a five to ten year time horizon that needs capacity building, market development, regulatory reform, social enterprise registration and improved cost efficiencies including the need to move away from centralised support functions as they spin-off.”

Clare Woodcraft, CEO, Emirates Foundation

In the development context, the number of years of support received by an initiative or a single SPO is often in excess of five years, with a longer time horizon considered to be desirable in order to establish related sector and system changes from scratch. The Rockefeller Foundation’s initiatives aim to exit and hand over their initiatives after nine years of engagement.

### **Unclear exit strategies**

With only the Rockefeller Foundation having a clear policy around the length of engagement, the question arises as to how the principal-agent relationship manifests in these relationships and how the investment and other interests of different parties are managed. In venture capital structures, conditions are typically agreed at the outset that would trigger engagement termination, whether related to the realisation of the investment or the right to abandon. VCs are also legally required to liquidate their funds after a certain time period (Sahlman, 1990). Such policies and regulations have not yet been consistently adopted in the relationships between foundations and their SPOs and so exit strategies remain more an intention than a clear plan of action in the case study examples.

***Exit strategies for venture philanthropy are still evolving and harder to ascertain than venture capital. The certainty of exit is reduced because development issues are often multi-faceted and fluid and the solutions novel.***

As Grossman et al. (2013) recognise, exit strategies for venture philanthropy are still evolving and harder to ascertain than venture capital (initial public offering, sell the business etc.). For many of those interviewed working more systemically, the certainty of exit was reduced because

development issues are often multi-faceted and fluid (sometimes called “wicked problems” – those with incomplete, contradictory, and changing needs that are difficult to analyse) and the solutions novel. High levels of organisational interdependence and relational ties further reduced the desire to exit.

In this context, the term “exit” is perhaps best conceived as a process of transition whereby a VP that seeks to develop scalable and replicable solutions switches its resources to different points of leverage be that a new geography, new product and service development or research and advocacy in order to achieve these aims rather than terminate the engagement completely.

“We’re talking about problems that impact billions of people. Envirofit have sold 700 000 stoves and will soon get to the point where they’re selling one to two million a year – but that’s only scratching the surface so the first point is that we set big goals for scale. Our long-term aim is then to grow the new sector. That may mean broadening existing partnerships to create new solutions to common barriers, and working with new partners to build the infrastructure needed for the market as a whole to thrive.”

Pradeep Pursnani, Business Director, Shell Foundation

### **Culture and capability – From altruistic and administrative to innovative, multidisciplinary and commercial**

Commensurate with the ideological turn to applying venturing style principles is a move towards a more diverse and innovative culture. Active recruitment from the private sector has brought new operating practices into foundations, along with specialist competence in finance, marketing and business administration. The stronger orientation towards results and impact can also be associated with a more commercial mindset. However the patience required for funding SPOs for up to ten years or more runs counter to the dominance of shorter-term, even quarterly, returns. For innovation to take off, concerted attention is also needed to transition the foundations’ cultures from one where “failure” is frowned upon to one of learning and experimentation.

***For innovation to take off, concerted attention is also needed to transition the foundations’ cultures from one where ‘failure’ is frowned upon to one of learning and experimentation.***

In addition to the provision of business management and technical assistance, some of the foundations have chosen to develop in-house capacity in research and development and in impact assessment, monitoring and evaluation. The Rockefeller Foundation, known historically for its scientific approach, has built a department dedicated to “searching and scanning” for identifying new trends, emergent issues and interpreting these. In parallel it has expanded its monitoring and evaluation function to examine the impact of its interventions. The Emirates Foundation is similarly investing, having restructured to create a team dedicated to research and advocacy which can both examine emerging trends and develop appropriate policy positions, and a monitoring and evaluation team to determine impact.

As these foundations have focused on specific issues in partnership with SPOs, they have developed a deeper understanding and capability around what is needed managerially, technically and at the issue level. In essence, the foundation teams are creating boutique socially-driven management consultancies with very high management competency. Doug Miller of the EVPA cited in Grossman et al. (2013) emphasises the importance of this, “venture philanthropy, not unlike venture capital or private equity is a methodology which is only as good as those who practice it.”

The case study organisations have developed the required capabilities in different ways. The Rockefeller Foundation has used its global brand to attract world class executives highly regarded in each of their fields (market research, monitoring and evaluation etc.) Shell Foundation has drawn from the private sector externally but also by using its links with the corporate parent has attracted likeminded talent from Royal Dutch Shell. The Emirates Foundation is committed to growing its talent in-house as part of its wider social commitment to youth in UAE and is undertaking an extensive period of up-skilling and culture change with its existing staff.

Noting that Shell Foundation has needed to double its headcount in order to realise its new model, Chris West acknowledged how important the foundation's staff now are. "If we had to cut something I would cut income before cutting staff".

Cultural change typically lags behind strategic and operational change and certain practices take time to catch up. The mid-term evaluation for Rockefeller's Asian Cities Climate Change Resilience Network (ACCCRN) initiative notes discrepancies between the intent towards long-term partnerships and a more short-term transactional approach to grant giving and SPO engagement following a traditional application procedure. Inconsistencies are to be expected when foundations make rapid adjustments to long-established routines. The Emirates Foundation is actively using staff development to mitigate such dilemmas.

### Success criteria – From inputs and outputs to outcomes and impact

The foundations interviewed regret that official donors view their contribution to development merely in terms of the volume of financial resources they provide. Even the Rockefeller Foundation, once a major financial force in addressing social issues, is dwarfed by both the scale of the problems faced and the new sources of philanthropic finance available today. Whilst this has led the foundations to thinking about resource allocation and the outcomes they seek to achieve in new ways, there is still a clear opportunity for greater co-operation between them that achieves economies of scale and shares learning and scarce resources more effectively.

*The foundations interviewed regret that official donors view their contribution to development merely in terms of the volume of financial resources they provide.*

Measuring foundation grant size is only useful if calculated relative to the impact achieved. Clearly, the more that is known about the social impact an investment achieves, the more accurate the performance ratio of investment dollar per unit of desired outcome. Such data and the more sophisticated data-gathering efforts it requires, improves resource allocation and efficiency at programme and organisational level. It also overturns some long-established assumptions about the need for low core operational or overhead costs. In other words, success for the foundation is no longer determined by size of grant (*inputs*) or even immediate results (*outputs*, e.g. number of volunteers trained). Rather *outcomes* (such as the benefit to "service users" of volunteers' assistance) and the social impact of the programme (e.g. generating greater awareness and pro-social values in young people) become the indicators of success. Quality staff, low turnover and solid monitoring of one's KPIs are seen as key to achieving good results. What is seen as the old style of performance measurement (e.g. looking at the overhead ratio as one measure of cost efficiency or focusing too much on inputs such as the number of staff trained) was cited for creating continued dependency on grant funding rather than creating sustainable organisations and solutions with the high quality core capability to continue indefinitely.

At the review workshop, the foundations in this report agreed that the favoured tax status conferred on them comes with an implicit responsibility to spend their money efficiently and effectively. Some participants even suggested that if foundations were unable to prove they were able to add more value to the tackling of social challenges than the public sector in their home countries (through the provision of ODA) then such preferential tax treatment should be scrutinised.

The search for maximising the ratio between financial and non-financial inputs and outcomes and impact has led to a new lexicon being used to describe criteria for success. “Leverage” – the ability to attract additional public and private funding and non-financial support, either in addition to the foundation’s own or to take an initiative to the next stage of maturity – is commonly used in this context.

“Scale” was also a common marker of success; generally meaning reaching larger scale, but this was not formulated as such by all. The Shell Foundation arrived at their definition of scale in 2007. This definition includes: large-scale development outcomes (measurable); multiple country and/or regional operations (measurable); earned income derived from the market (measurable); leverage that matches or exceeds their grant contribution (measurable); and management team competence to execute the venture (subjective).

The word “impact” was frequently used in the interviews as a summary indicator of success. Core to the VP model in development is the realisation of “impact”, but although used liberally, it is not a well-defined term.



# **IV. DETERMINING IMPACT**



## IV. DETERMINING IMPACT

The foundations in this study represent broad diversity in size, age, reach and focus. As a result, what constitutes “impact” and how each foundation determines its success in achieving it varies widely too.

The Lundin Foundation is a relatively small and young private foundation in this study group, with a staff of seven and an impact investment portfolio in 2012 of USD 13.13 m focused predominantly on sub-Saharan Africa. It generated USD 38 m in revenue on its investments in 2012, did business with over 54 000 rural farmers and micro-enterprises and enabled over 449 000 rural clients to access agricultural, financial and clean energy services.

The Rockefeller Foundation, conversely, is the longest established (which celebrated its centenary in 2013) foundation in this group, with arguably the broadest reach globally. Its charitable giving and activities totalled USD 142 m in 2011 and it has a staff of 170. It does not aggregate impact figures to the foundation level, but collects data at the initiative level.

*Core to the VP model in development is the realisation of “impact”, but although used liberally, it is a not a well-defined term.*

There was broad consensus amongst the case study foundations that taking a more strategic approach to philanthropy, seeking opportunities to leverage non-financial as well as financial resources, and utilising more “high engagement” practices (Kramer, 2009) all lead to greater impact than the methods they had hitherto employed.

Measuring impact and particularly the relative impact of the venture philanthropy model against other models, however, is challenging. Because the foundations generally take a system-wide rather than project-based approach, and because they work with and through numerous other actors, it is often not possible to attribute outcomes, let alone impact to specific activities. This challenge is similar to what traditional donors face when they can take direct credit for results (attribution) versus when they are part of a broader system of programmes (contribution). Unlike with physical sciences and healthcare, there is not the counterfactual or control group evidence against which to benchmark their results. Ironically, the very efforts the case study foundations are making to maximise impact impedes defensible evidence-based impact assessment. Random control trials (RCTs) whilst providing the most robust data, are not practical to ventures of this nature, and evaluation specialists contributing to this report challenged the diversion of scarce resource into RCTs in this field for that reason.

Proxy\* measures of outcomes, where more simple and visible indicators are used to represent more subtle and intangible outcomes, are being used by the foundations in some instances. Examples include the number of city-level climate change resilience (CCR) strategies produced, or growth in the number of cookstoves distributed. Such proxies carry weight in these scenarios because the upfront investment in rigorous research has identified such solutions as points of significant leverage in the “system” (i.e. in promoting city-wide social engagement with urban climate change resilience or in improving indoor air quality and health, and reducing carbon dioxide emissions and fuel expenditure).

Given that the foundations work in this systemic manner an alternative benchmark of impact is necessary, such as longitudinal data. However, when asked to compare relative impact before and after adopting VP principles, the difficulties in making such comparisons are revealed. One CEO (Lundin Foundation) described it as “trying to compare apples and oranges” with entirely different data before and after.



“All I can tell you is that I feel confident now that we are significantly more impactful... I don’t think I could ever show you data that could categorically prove this...”

Stephen Nairne, Managing Director, Lundin Foundation

The relatively early adoption of the VP model in some instances is also an issue in finding relevant data. For the Emirates Foundation, only “input” data at hand, e.g. the size of grants made and the overall endowment fund, is available pre-transition in 2011. Post-transition, the foundation is now tracking programme level indicators such as volunteers trained and attendance on programmes, data they are aggregating to become part of foundation-level figures. For example, in 2012 over 10 000 UAE youth took part in programmes and activities. Whilst these are still output and outcome level indicators currently, they provide a snapshot of year-on-year progress on youth involvement and development and enable ratios such as “investment-per-volunteer” to be tracked. More sophisticated measures of social impact are now in planning.

***Endowment size, or even grant size, is far too blunt an instrument for determining relative influence and impact of different foundations.***

### **Diverse approaches to assessing impact**

The foundations in this study use a variety of methods for assessing results. The breadth of performance indicators tracked, data collected and the locus of responsibility for monitoring and evaluation (M&E) reflect the diversity of objectives being pursued. Some foundations have chosen to invest more heavily in M&E, recognising it as a change intervention in its own right. The Rockefeller Foundation has for instance adopted a more learning-centric approach, locating monitoring activities as close to the action as possible to promote partner engagement and real-time learning. The outcomes discussed in the mid-term evaluation report for the Asian Cities Climate Change Resilience Network are primarily qualitative, concerned with, for example, levels of engagement from city officials and businesses, capacity building and knowledge transfer, and the locus of ownership of climate resilience strategies. Taking a more qualitative than quantitative approach to assessing results means snapshot comparisons cannot be made, but learning can be shared. Other quantitative indicators such as volumes of additional funding attracted from third-party donors (over USD 200 m to 2013) provide additional insight into the perceived value of the initiative.

Stakeholder inclusive methods such as Participatory Action Research (PAR) are helping to address concerns from developing country evaluation professionals that M&E is too often a “rich donor” preoccupation with short-term social and financial return on investment. Effective impact evaluation, says Zenda Ofir of the African Evaluation Association, needs to consider the long-term sustainability of the initiative and be alert to unintended consequences.

The example of Comaco, the social enterprise supported by the Lundin Foundation, provides an alternative illustration. Comaco conducts its own impact assessment and publishes it in peer reviewed journals. The Lundin Foundation in turn aggregates data across its portfolio using the industry-standard IRIS metrics and Pulse software<sup>8</sup> to track 20 indicators including smallholder supplier and micro-entrepreneur numbers. Focusing at the SPO level like this, quantitative measures become easier to track. Shell Foundation monitors a number of indicators such as jobs created and cookstoves sold. From the latter they determine carbon dioxide and particulate reductions based on average fuel saving data collated by Envirofit, with output numbers as a proxy for extrapolating outcome and impact figures.

Not all the foundations aggregate data up to the foundation-wide level as the Emirates Foundation does. With the sectors, goals and methods of the foundations studied in this report being so heterogeneous, developing a standard framework for future comparison would be far from straightforward. Some, such as the Rockefeller Foundation, monitor programme and SPO-level indicators instead. Given the diversity of programmes funded, this is not surprising. However it emphasises the point that endowment size, or even grant size, is far too blunt an instrument for determining relative influence and impact of different foundations.

Ultimately, assessing the relative merit of venture philanthropy against other philanthropic models needs additional longitudinal data, as well as standardised (and thus comparable) monitoring and evaluation frameworks including social/financial return on investment (ROI) ratios. For example, tracking the value of commercial grade investment raised following the catalytic effect of the early stage interventions by a VP can give a measure to the leverage achieved. Success here is measured in volumes of conventional capital attracted to the sector. Shell Foundation already tracks this data. Consideration to unintended consequences and unexpected ancillary benefits, through more holistic qualitative evaluation methods, may also provide a more rounded picture of systems-level impacts as Rockefeller aims to identify. Over time, as common standards such as IRIS are increasingly agreed upon and taken up, it may become easier to make comparisons and substantiate (or contest) claims of impact achieved.

For the time being, the question remains for whose benefit such depth of scrutiny in determining impact is necessary. For the foundations in this report, the priority is to inform their grant-making and investment decisions on an iterative basis. Therefore data that reflects the social ROI is key, alongside the ability to share it for learning purposes. High quality evidence of a qualitative and social nature is potentially equally or more valuable here than quantitative metrics. However, for impact investors and development finance to collaborate, a different set of metrics (“investment grade analysis”) and potentially a more open and standardised tracking system that promotes transparency may need to be developed. This would allow these metrics to be made available to beneficiaries and even to partner countries, acknowledging that they are accountable to taxpayers for overall development results. For the time being, this is still work in progress.



# **V. LESSONS AND RECOMMENDATIONS FOR OTHER FOUNDATIONS**



## V. LESSONS AND RECOMMENDATIONS FOR OTHER FOUNDATIONS

The primary sources of data for the lessons shared below are the case study foundations. However, the three additional foundations – the Edmond de Rothschild, the Novartis and JPMorgan Chase Foundation – have all contributed to deepen and augment the findings.

As already emphasised, the foundations in this study are all at different stages on their journey. They have started from very different positions and have adopted VP principles in different ways. However, there are some commonalities in their experience of testing and applying those principles in practice. Some of these experiences have been gained over a short amount of time (for the Emirates Foundation only two years). For others, such as Shell Foundation and the Rockefeller Foundation, this journey has taken ten years and counting. By comparison, certain corporations may have gone from “good to great” and fallen by the wayside in that time. These lessons and recommendations then are offered as context-specific insights that may or may not be relevant to all. From an organisational change perspective however, the common themes of leadership, stimulus to change, challenges with buy-in and human resource management are familiar enough to provide some useful prompts to further dialogue on how to capitalise on the early lessons of the VP model.

Lesson and recommendation summary	
Lesson	Recommendation
Being prepared to embark on fundamental and comprehensive change of the foundation’s model – ranging from beliefs, values to strategy and operations	Undertake a complete review that includes the deep assumptions underlying the current philanthropic operating model and theory of change. Be willing to question deeply held beliefs and customs
Not waiting for change to be imposed from outside – there is insufficient external scrutiny or incentives for change in the philanthropic sector	Use internal changes, such as leaders’ transition to gain new stewardship, prompt reviews and increase internal accountability. Plan for comprehensive change but start with small experiments to promote learning if stewardship is slow to appear
Applying “systems thinking” and planning based on more upfront investment in research and evidence-based inputs	Consider investing more in ex ante research to target investments and interventions more accurately, and produce an evidence base for evaluation later on
Including the “market-based approach” more systematically to achieve scale and to aim for SPO self-sufficiency	Add market-based approaches to interventions but be aware that not all challenges will warrant a market-based solution; targeted grants are still an essential funding tool. Intervention at policy and market level may also be required simultaneously
Adopting a “high engagement” approach means being prepared to engage more financial and human resources (i.e. hiring more area specialists)	Review the foundation’s competencies and capacity when considering change. Specialisation, outsourcing, recruiting and training offer different routes to meeting future requirements
Being adaptive and staying close to field partners – entrepreneurial SPOs demand responsiveness and real-time interaction	Consciously manage the tensions between size, bureaucracy of supporting projects while keeping enough flexibility to allow the foundation to offer appropriate and dynamic support
Increasing risk tolerance, long-termism and patient capital	Be prepared to take more risk at an earlier stage, while aiming for longer-term and systems-level support. “Reframe” failure as a way of learning and of experimenting, and as an input into the learning curve of change
“Planning the divorce with the wedding” (endogenising exit strategies)	Develop and review measures of success (qualitative and quantitative) that will trigger exit and maintain sustainability for grantees/SPOs
Working with other development actors, especially governments in the field and ODA providers is pivotal	Take a more proactive position in the development arena and be both willing to collaborate and to “share the glory” and the innovation with others while taking into account other actors’ constraints
Learning and collaborating with peers to advance the impact of the foundation sector for development	Commit to greater disclosure of lessons learned, either publicly through publication or privately in peer group forums. Integrate this with research and evaluation activity

### **Lesson one – Be prepared to embark on fundamental change**

It has been suggested (e.g. EVPA, 2012) that it is possible to overlay elements of venture philanthropy onto an existing operating model and structure. Although this may be the case, the foundations interviewed have all chosen to go further and have fundamentally restructured themselves, using VP principles to pursue more impact-driven agendas. Piecemeal application of principles may lead to incremental improvements in existing performance and impact, but this will likely be limited. More importantly, such an approach risks creating two, potentially conflicting, operating models and even ideologies thus creating confusion and even reputational damage.

#### **Recommendation**

To fully embrace the VP model, a willingness to consider organisation-wide change is preferable, possibly through a strategic review that allows the foundation to reflect on the deep assumptions underlying their current operating model and theory of change, as well as the current culture and values, noting how these are challenged by the VP model. Such a review will highlight strengths and potential pitfalls in attempting such fundamental paradigmatic change, e.g. the willingness of staff to “buy in” to the new model and mindset or how the addition of market-based approaches may impact relationships with existing beneficiaries, with Board members and with other stakeholders.

*To fully embrace the VP model, a willingness to consider organisation-wide change is preferable.*

### **Lesson two – Don’t wait for change to be imposed from outside**

With little external scrutiny of foundation activities, the impetus for change in the case study foundations has come from within, and not from stakeholders or consultants, nor necessarily from the foundations’ own board. In the cases shared, a growing dissatisfaction with results internally, whether from the leaders themselves (e.g. Shell Foundation) or by the board (e.g. Lundin Foundation) prompted the switch to the new model. In the Rockefeller Foundation and the Emirates Foundation a new leader was appointed to drive through the change agenda. The highly visible symbolic nature of such an action sends a strong statement inside and outside the foundation that significant change is intended.

#### **Recommendation**

Changes in leadership along with the completion of major programmes, systemic shocks and market disruptions can all offer opportunities to review strategy and purpose and develop change plans. However, organisational change is not solely planned and formal and does not always require a major event to initiate. Whilst slower in nature, small-scale experimentation can be less risky and provide much needed learning and proof-points to validate the strategy.

### **Lesson three – Practising systems thinking and planning for greater upfront investment in evidence building**

Each of the foundations interviewed has strategies grounded in systems thinking. Most have invested in research and evidence building to identify interventions that could achieve greatest impact with the most targeted action and funding. Some (the Rockefeller Foundation, the Emirates Foundation and the Edmond de Rothschild Foundations) then focused their activities “top-

down”, convening stakeholders from across organisations, markets, networks and governments to create partnerships, policy and infrastructure supportive of their planned change. Others (Shell Foundation, Lundin Foundation) took a more “bottom-up” approach, starting with funding and capacity building of specific SPOs before moving “up” to target policy and market makers. Each looked for where their existing strengths, reputation and knowledge could bring most benefit to the issues and regions they wished to serve.

### Recommendation

Invest in research, whether conducted in-house or with third parties, because it pays real dividends. On-going funding and capacity building can be targeted far more strategically as a result (Fiennes, 2012) including at multiple points around the system in question. A solid evidence base also enables more focused and representative performance indicators to be modelled and tracked, as well as for discoveries to be published and disseminated more widely to push learning forward. Whilst research can be resource-intensive and requires more upfront investment, shrewd co-operation with research institutions shares the costs and broadens the audience.

*Invest in research because it pays real dividends.*

Choosing whether to take a top-down or bottom-up approach will depend on the foundation's strengths and circumstances. An existing strong reputation and association with an issue (as with The Rockefeller Foundation with agriculture or healthcare) make a top-down approach more feasible. Foundations with fewer resources available may choose to target funding and capacity building to SPOs to work together to achieve more than they could individually.

### Lesson four – Integrating the market-based approach

Central to the model is a common belief in the power of markets to reach the poorest of the poor. Whilst some foundations (Shell Foundation, Lundin Foundation) prioritise an enterprising approach and proactively seek out such opportunities, others (e.g. The Rockefeller Foundation, the Edmond de Rothschild Foundations) situate market approaches in a wider landscape of possible solutions.

The advantage in adopting market-based strategies is that high risk capital can be used to seed fund new business models and start-up operations, creating enterprises that commercial grade social financiers can then support for rapid expansion and dissemination. The risk is that the only solutions sought are those that can ultimately see a financial return, or at least can become self-sustaining (i.e. no longer requiring grant funding). Certain regions (those with higher “absorptive capacity”) and sectors (finance and microfinance, clean technologies) will be favoured over others. Market failures, e.g. in maternal healthcare and in failed states, may see funding sources eroded.

### Recommendation

Foundations need to look critically at the portfolio of beneficiaries. Achieving scale and impact through market-based mechanisms involves identifying opportunities where early stage funding (smart subsidy, grants, guarantees) has the potential to create the proof of concept

*Achieving scale and impact through market-based mechanisms involves identifying opportunities where early stage funding (smart subsidy, grants, guarantees) has the potential to create the proof of concept and market-ready enterprises that investors can then take to scale.*



and market-ready enterprises that investors can then take to scale. Conditions that contribute to the success of scalable models include favouring demand-led technologies that can be rapidly expanded and disseminated in regions that display high absorptive capacity (what the Rockefeller Foundation calls market dynamism). However, a critical review of the portfolio should address questions of balance and the applicability of market-based solutions to identified needs, seeing them as one of a number of options alongside more conventional strategic grant giving.

### **Lesson five – Adopting high engagement means higher resource requirements**

Foundations engaging with VP principles are adopting more inventive and diverse approaches to providing SPOs and partners with resources. High engagement and non-financial support is highly valued, in some instances more than financial contribution. Engagement devices used by foundations range from taking a seat on the board of partner organisations to in-house incubation and programme management. Alternatives to grant-giving and impact investment, such as capacity building field expertise and supporting public-private partnerships, widen the range of options available to foundations but require specialist knowledge and hands-on management.

Providing deep expertise, whether of a technical or commercial nature, has obliged foundations to develop deeper specialist knowledge in issues and sectors (e.g. climate change, agriculture, microfinance). High engagement also requires more contact time, and foundations have seen their staff numbers swell to accommodate the increased demand.

#### **Recommendation**

High engagement strategies require more human resources. This may be bought in from outside or developed internally, as the Emirates Foundation has sought to do. The best choice will reflect the foundation's objectives and culture. Capabilities will need to include commercial and business management skills as well as financial knowledge. Familiarity with consultancy skills, such as facilitating strategy and change is also beneficial. Management should anticipate considerably greater time spent in the field for themselves and their staff.

Headcount in organisations is often associated with cost, and so increasing staff numbers can be seen by boards as a cost rather than an investment. Boards need to buy into the concept of widening the resource pool the foundation makes available to SPOs and partners, from funding alone to capability provision and capacity building. This requires a reframing of the foundation's "value" to partners by senior managers, from financial contribution alone to a balanced portfolio of financial and non-financial resources. Capturing indicators that account fully for non-financial contributions will substantiate the case for implementing such changes.

***Central to the model is a common belief in the power of markets to reach the poorest of the poor.***

### **Lesson six – Being adaptive and staying close to your partners**

Foundations stressed the importance of staying agile and being able to move swiftly as needs emerge. In particular the ability to switch direction to alternative funding instruments and packages for SPOs was considered vital, especially when partnering with fast-moving social enterprises in developing markets. Being more agile was associated with a more entrepreneurial culture and mindset, and with less bureaucratic operations.

**Recommendation**

Transitioning to a venture philanthropy model may well require the dismantling of long-established processes and protocols in order to become more responsive to SPO needs and to be more adaptive. This may include potential sacred cows such as how SPOs are identified, how opportunities are screened (the shift from inviting proposals to proactively seeking partners), how funding is assigned and through which instruments. Responsibility and authority may need to be delegated to staff in the field.

*Transitioning to a venture philanthropy model may well require the dismantling of long-established processes and protocols in order to become more responsive to SPO needs and to be more adaptive.*

**Lesson seven – Increasing risk tolerance, long-term orientation and patient capital**

The deployment of foundation capital to social enterprise start-ups and to support innovative business models to achieve proof of concept requires a willingness to accept higher levels of risk and find novel methods to de-risk initiatives. Lengthier funding periods than those associated with venture capital or mainstream investment, the so-called “patient capital”<sup>10</sup> investment, provide the security and stability necessary for social enterprises to become commercially investment-ready. Inevitably, the potential for failure is higher in these circumstances and for those who come from environments less tolerant of failure this can be challenging. Being conscious of personal as well as organisational risk appetite is important.

**Recommendation**

Foundations are seen to have both a privilege and responsibility to effectively place high risk capital, and therefore need to acknowledge their real, as opposed to stated, tolerance of risk and failure and explore the assumptions inherent in their portfolio. Reframing failure as learning and instigating regular evaluation can help address cultural antipathy to risk and surface risk mitigation strategies. Identifying where low risk tolerance may be preventing engagement with longer-term development issues and more complex solutions will also make visible areas currently underserved in the portfolio. Moreover, the dynamic nature of risk management means that as risk is managed down new opportunities will emerge.

*Foundations are seen to have both a privilege and responsibility to effectively place high risk capital, and therefore need to acknowledge their real, as opposed to stated, tolerance of risk and failure and explore the assumptions inherent in their portfolio.*

**Lesson eight – Planning the divorce with the wedding or risk going native**

One of the key risks associated with high engagement strategies was the difficulty in exiting a partnership once it was underway. In some cases, there was strong interdependence, relational ties, and incentive alignment between the foundations and the partners. Although this is clearly helpful to ensure common purpose and mutual success, it also makes disassociation harder. Shell Foundation likened their relationship to Envirofit to a “joint venture” or even a marriage. So whilst the long-term intention was to exit the partnership, a clear strategy for doing so had not yet been identified. Other foundations showed similar intention to exit without specific plans.

VP is markedly different from VC in this respect. Whilst superficially the relationships look similar, the longer period of partnership (7-10 years rather 2-3) and the shared values of social benefit create more personal ties. Such ties may be more or less discussable amongst the partners and they may not even be aware of the dynamic. But it can have profound implications in continuing relationships past the point of greatest utility, even tying up high risk capital when impact investors should be picking up the funding baton.

### **Recommendation**

The high engagement approach produces real dilemmas for foundations looking to add non-financial value to their partners and collaborate with them. Whilst the concept of the “pet project” is by no means unique to venture philanthropy, the blurring of organisational boundaries that comes with the practice, particularly in collaboratively tackling near intractable issues over many years, makes the challenge of shifting funds and attention elsewhere more overt and the risk of “going native” (becoming one of the team) more inevitable.

Remaining conscious of these issues and the potential to go native is needed and, along with the regular strategic review recommended above, enables the continual monitoring of where funds and resources are directed and whether support should continue.

### **Lesson nine – Working with other development actors**

The foundations interviewed have focused very few of their restructured resources in engaging with parties active in the international policy debate on development, such as with the Post-2015 Sustainable Development Goals (SDGs). The Rockefeller Foundation, which was more active in the formulation of the Millennium Development Goals, sustains involvement but admits it is reduced since the new president’s arrival. In general terms, the process of engaging in high-level policy dialogue with multilateral and bilateral development institutions is viewed as bureaucratic and time consuming for foundations, running counter to both the limited resources at their disposal and their desire to create tangible impact. Whilst there was support for the Post-2015 SDGs, none of the foundations were actively attempting to influence their priorities.

It was noted, however, that as philanthropy and private investment become more important to the ODA agenda, the representation of foundations’ voice at policy level will become more crucial. Impact investing, new products such as social impact bonds and other non-conventional funding vehicles for development are driving ODA’s interest in accessing philanthropic capital and in how foundations deploy their funds and invest their endowment monies.

Likewise, as foundations increasingly act to achieve impact at scale and to influence at policy level, they can expect increased scrutiny from governments, NGOs and civil society opinion-shapers, all of whom will demand increasing transparency and openness.

### **Recommendation**

With higher levels of impact comes higher visibility and the expectation that foundations’ influence will be accompanied by efforts to be more accountable publicly. Just as various business sectors have had to become more transparent in their dealings in order to maintain a license to operate, so too will philanthropy. Maintaining a “seat at the table” and relevance, particularly in the development arena, also means taking an active position in the development debate, being willing to collaborate

***As philanthropy and private investment become more important to the ODA agenda, the representation of foundations’ voice at policy level will become more crucial.***

and subordinate individual foundation goals for collective societal and multi-party ones. All these represent significant shifts in current preferences and are best achieved through cross-sector collaboration.

### **Lesson ten – Learning and collaborating with peers**

The foundations participating in netFWD are aware of a need in the philanthropic sector for greater co-operation with peers, with more focus on learning, and on generating and sharing new insight. Co-operation by foundations was noted as a challenge for the sector, whether with peers or more broadly in the official aid arena. Perceived obstacles to co-operation include established cultures of high autonomy and the tendency to follow founders' interests. There has been little willingness historically to subordinate brand and individual strategy to the pursuit of a common goal with peers. Now, however, the unprecedented scale and complexity of the development issues to be addressed requires collaborative action that overcomes individualism.

Networks such as netFWD, GIIN and EVPA have sprung up to meet the growing need for foundations and impact investors to share experience and learning, and to co-design means to address developmental, social and environmental challenges. These fora provide much needed opportunities to share discoveries and learning from the field, to apply insight from one sector to another and to attract funds and partnerships to where they are needed most. They also promote the cause of avoiding an unnecessary duplication of effort.

### **Recommendation**

Participation in networks and associations, particularly for foundations seeking to apply a VP model for development, will provide a much needed forum to explore experiences and learn strategies for change, at a pace necessary to meet shifting development demands. Further, taking a structured approach to learning, using processes like Action Research and multi-stakeholder engagement techniques, as well as embedding learning cycles into monitoring and evaluation processes, will help not only the foundation itself to engage with and embed transformational change, but can also bring SPOs and others along on the journey. Ultimately, for the foundation to become successful at achieving impact at scale, it must learn to work effectively with and through others, become more transparent and aligned in the way it discloses and shares successes and failures with the sector.

***The unprecedented scale and complexity of the development issues to be addressed requires collaborative action that overcomes individualism.***



# **VI. CONCLUSIONS: CONTINUING THE DEBATE**



## VI. CONCLUSIONS: CONTINUING THE DEBATE

The scope of this report, reflecting the scope of the foundations participating, has been ambitious. It has attempted to: represent the current discourse on what constitutes venture philanthropy in the field of development and its direction of travel; set out the organisational challenges for foundations who might adopt the principles or even a variation of the VP model and provide lessons from the experience of a small number who are already on the journey; and explore the merits of the model in terms of the impact that can be achieved.

*Venture Philanthropy for foundations working in development does not constitute a coherent, easily defined operating model or strategic approach. Rather it has become more of a blanket term, an expression of a more purpose-, results- and responsibility-driven worldview.*

The study finds that Venture Philanthropy for foundations working in development does not constitute a coherent, easily defined operating model or strategic approach. Rather it has become more of a blanket term, an expression of a more purpose-, results- and responsibility- driven worldview. It incorporates a diverse set of principles aimed at increasing the reach, scale and social benefit of foundation resources. Such principles include much closer “high engagement” relationships between foundation and social purpose organisations, more strategic and targeted funding choices based on research and evidence building, a more encompassing view of foundation resources and a willingness to partner based on potential for results and scale rather than structural or constitutional type.

As such, the challenges in adopting the VP model are not inconsequential. The capabilities required to undertake more complex strategic modelling, engage more closely with stakeholders and build coalitions, develop management, technical and financial capacity in SPOs, acquire and deploy financial and non-financial resources, evaluate outcomes and achieve efficiencies, may be only partially present or even entirely lacking in the foundation at the outset. The inclusion of more commercial and enterprise strategies in the foundation portfolio, especially with for-profit social enterprises, may raise cultural and ideological as well as constitutional concerns. An honest appraisal of the current “state of play” before embarking on adopting the model, to identify strengths to leverage and barriers to overcome, is a prerequisite in deciding if it is suitable and choosing where to start.

The experience of the participating foundations, however, is that taking such a transformational journey is worthwhile. Although verifiable comparative field data is limited at present, foundation staff point to a variety of signals to showcase the value of the approach in engaging other actors to achieve leverage: attraction of more mainstream capital to development and maturing of commercially investible enterprises, involvement of non-development focused actors in addressing social issues (e.g. involving the banks in youth education for financial literacy) and the leveraging of tried-and-tested commercial techniques (e.g. distribution channels) to scale social solutions. At a much more personal level too, foundation staff also expressed a greater sense of fulfilment from taking a more hands-on and responsible attitude to their work.

The study has raised a number of questions and areas for potential further research. Most critically, it highlights the need for greater inquiry, collaboration and co-learning both between foundations themselves and between foundations and other groups such as impact investors, commercial enterprise and the official aid community. The potential to leverage the “highest risk capital in the world” is already considerable, but becomes far more so when economies of scale



and the timely sharing of learning for continuous improvement are achieved. Further research to uncover good practice examples of cross-sector collaboration (e.g. government, philanthropy, business, finance), such as with vertical funds, which draw out applicable and replicable lessons will help move the philanthropic sector forward. This would encourage a deeper appreciation of the goals of such diverse actors, of the very different languages and frames of reference they use (business and finance versus policy and development). It would ultimately enable dialogue across them in ways that overcome some of the suspicions and unhelpful assumptions that persist. In the meantime, the continued pursuit of “impact” in philanthropy and participation in networks will likely further accountability, transparency and co-learning as well as encourage more measureable data collation and evaluation in foundations.

# GLOSSARY

## GLOSSARY

<b>Action research</b>	A participatory process concerned with developing practical knowledge in the pursuit of worthwhile human purposes (...) It seeks to bring together action and reflection, theory and practice, in participation with others, in the pursuit of practical solutions to issues of pressing concern to people. (Source: Reason and Bradbury, 2001)
<b>Base of pyramid (BoP)</b>	Poorest socio-economic group globally. Typified as those living below a specified income threshold, e.g. USD 2 a day (Prahalad and Hart, 1998, updated to USD 2.50 a day ( <a href="http://www.wikipedia.org">www.wikipedia.org</a> ). Also defined more widely (e.g. IFC) to include not only lack of money but also lack of access to basic goods, services, and income generation opportunities.
<b>De-risking</b>	The process of reducing or lowering risk. In practice this requires an understanding of risk measurement, risk appetite, the assessment of acceptable levels of risk, and financial and non-financial risk mitigation approaches, including hedging. (Source: authors, from interviews)
<b>Enterprise philanthropy</b>	The appropriate application of the disciplines, principles and thinking from enterprise or business to the practice of philanthropy. (Source: authors, from interviews)
<b>Impact investing</b>	Investments intended to generate social and environmental impact beyond financial return. (Source: The Rockefeller Foundation and J.P. Morgan 2010)
<b>Inclusive business</b>	Inclusive business is a private sector approach to providing goods, services, and livelihoods on a commercially viable basis to people at the base of the pyramid by incorporating them in the value chain of the core business as suppliers, distributors, retailers, and/or customers. Inclusive business is found across regions and sectors, including telecommunications, infrastructure, agribusiness, retail, distribution, affordable housing, health, and education. (Source: International Finance Corporation)
<b>Key performance indicators</b>	A set of quantifiable measures that a company or industry uses to gauge or compare performance in terms of meeting their strategic and operational goals. (Source: <a href="http://www.investopedia.com">www.investopedia.com</a> )
<b>Logical framework</b>	Management by objectives applied to programme or project design, monitoring and evaluation. The approach consists of four steps: (1) establishing objectives, (2) establishing cause-and-effect relationships (causal linkages) among activities, inputs, outputs, and objectives, (3) identifying assumptions underlying the causal linkages, and (4) identifying objectively-verifiable measures for evaluating progress and success. (Source: <a href="http://www.businessdictionary.com">www.businessdictionary.com</a> )
<b>Official development assistance</b>	<p>The DAC defines ODA as those flows to countries and territories on the DAC List of ODA Recipients which are:</p> <ol style="list-style-type: none"><li>i. provided by official agencies, including state and local governments, or by their executive agencies; and</li><li>ii. each transaction of which:<ol style="list-style-type: none"><li>a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and</li><li>b) is concessional in character and conveys a grant element of at least 25%(calculated at a rate of discount of 10%).”</li></ol></li></ol> <p>ODA is the basic financial support used to develop the building blocks of nations, from healthcare and education services, to building infrastructure. Once these are firmly in place, nations can typically start to attract or develop other sources of development finance, as they move up the income scale. ODA can flow directly from a donor to a recipient country (bilateral ODA) or be provided via a multilateral agency (multilateral ODA). (Source: OECD DAC)</p>

<b>Programme-related investments</b>	Programme-related investments (PRIs) are investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame. PRIs include financing methods commonly associated with banks or other private investors, such as loans, loan guarantees, linked deposits, and even equity investments in charitable organisations or in commercial ventures for charitable purposes. (Source: <a href="http://grantspace.org/Tools/Knowledge-Base/Grantmakers/PRIs">http://grantspace.org/Tools/Knowledge-Base/Grantmakers/PRIs</a> )
<b>Proxy indicators</b>	Use of substitute indicators that are generally more tangible, easily defined and measureable to function in place of those which are harder to delineate, quantify and collect data on; e.g. number of city urban resilience strategies as proxy measure for extent of engagement and activity on urban resilience across multiple stakeholder groups. (Source: authors, from interviews)
<b>Social enterprise</b>	Any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has a capacity of bringing innovative solutions to the problems of social exclusion and unemployment. (Source: OECD, Social enterprises, 1999)
<b>Social investment</b>	Social investment provides capital which gives social sector organisations the capacity to deliver returns. These may be social, financial or both. This investment can be used towards revenue funding for output or outcomes or capital investment that builds long-term capacity to achieve a social mission. Social investment is repayable, often with interest but also at below market rate. (Source: G8 Information Centre)
<b>Social purpose organisations (SPOs)</b>	The EVPA uses the term SPO to show that venture philanthropists may fund a range of organisational types, from charities and non-profit organisations through to socially driven and even purely commercial businesses. What unites these organisations is their individual or collective contribution to positive social and/or environmental impact rather than their legal status or the generation of profit. (Source: authors, derived from EVPA)
<b>Systems thinking</b>	Systems thinking is a way of thinking about, and a language for describing and understanding, the forces and interrelationships that shape the behaviour of systems. This discipline helps us to see how to change systems more effectively, and to act more in tune with the natural processes of the natural and economic world. (Source: Senge, 1990)
<b>Theory of change</b>	Methodology to review philosophy, values and underlying assumptions associated with desired change outcomes, and to map out and co-ordinate the activities needed to achieve them. (Source: authors, and <a href="http://r4d.dfid.gov.uk/pdf/outputs/mis_spc/DFID_ToC_Review_VogelV7.pdf">http://r4d.dfid.gov.uk/pdf/outputs/mis_spc/DFID_ToC_Review_VogelV7.pdf</a> )
<b>Venture philanthropy</b>	Venture philanthropy is an entrepreneurial and cross-sector approach to philanthropy that combines a variety of financial and non-financial resources to identify, analyse, co-ordinate and support self-sustaining, systemic and scalable solutions to development challenges for greatest impact. (Source: authors, from interviews)



# **ANNEX I: CASE STUDIES**

## EMIRATES FOUNDATION FOR YOUTH DEVELOPMENT AND FINANCIAL LITERACY



“You can’t just write cheques for USD \$50 m without giving some thought to accountability, impact, where the money is going. You have to think about what’s the net asset value of what you’re creating?”

Clare Woodcraft, CEO

Emirates Foundation is an independent foundation established by the Government of the Emirate of Abu Dhabi to facilitate public-private funded initiatives to improve the welfare of people across the UAE. Following a strategic review conducted on arrival of the new CEO, Clare Woodcraft, in 2011 the foundation was remodelled from short-term grant-making across multiple sectors to focus exclusively on youth development in UAE. The new direction aligns more closely to the Government’s Economic Vision 2030, with priorities to promote Emiratisation, engage young people and develop the skills necessary, across science and technology, to establish a strong knowledge economy.

Emirates Foundation has taken an operational approach, building on existing “programme nuggets” developed in the margins of the old operating model. It already had 28 000 young people in its database, many of whom had attended short educational programmes. Creating a handful of programmes with capacity to scale, they have invested in capability building of staff, new systems and significant restructuring to facilitate their growth. The current portfolio includes social inclusion, volunteering, leadership skills and emergency aid skills development, and now financial literacy. The foundation runs the programmes relatively independently, with some limited co-operation between them. The intention is that each programme follows the Shell Foundation model of “incubate, pilot, scale-up and spin-off”, ultimately becoming self-sufficient in terms of financing and management. Foundation staff are the first to admit, however, that self-sufficiency is more easily achieved for programmes with high demand, those seen to benefit participants with skills, knowledge and access to networks, rather than those that

are more supply-driven, such as teacher-assistant training for social inclusion, raising internal debate around innovative funding models.

Once the new strategic focus was established, the foundation conducted a year-long research effort to decide where to focus its resources, with input from stakeholders including government actors, representatives of the education sector, the private sector and social enterprise to identify the most pressing issues. Financial literacy (FL) was one of these and has now become a flagship programme.

Foundation staff formed a working group including representatives of government, universities, banks, the Central Bank and credit agencies. Through a series of workshops, the group designed an educational programme on financial literacy with outreach to young people via a bus fitted out with iPads, pamphlets, videos, and teaching areas that will tour schools and universities. The working group is also seeking to change the institutions that have allowed youth debt to become a problem in the first place, addressing credit availability in banks, advertising and media messages. The approach reflects a more systemic mindset and a collaborative partnering approach that has been established with the new operating model.

### Assessing impact

Emirates Foundation are keen to demonstrate the impact of their programmes but recognise the challenge of connecting inputs – attendance on programmes, education – with outcomes and impact such as levels of social inclusion and financial literacy. Since the restructuring, they have a dedicated monitoring and evaluation team and are tracking a number of quantitative indicators at programme and foundation levels, including number of attendees on programmes and active alumni. The production in 2013 of a “logical framework” to connect their theory of change to a small number of metrics is intended to produce more sophisticated

measures of outcome and impact, including the value of the social benefit provided.

“For example, if our volunteers spend 30 000 hours in total volunteering, then what’s the social value we are creating there?”

Clare Woodcraft, CEO

The FL programme is a new programme and, therefore, as yet has limited capacity to demonstrate impact in quantifiable and meaningful terms. The FL team set a performance target of 3000 young people to have visited the bus in the first year. In the first week, over 13 000 passed through, picking up information and speaking to advisors. Whilst the response was overwhelming for Emirates Foundation and confirmed that they were addressing a social need, the real impact of the programme can only be determined long-term as incidence and scale of youth debt is charted and tracked.

In the short to medium term, the increased media coverage and on-going interaction with financial institutions to alter their credit products will provide more proxy evidence of impact as and when it occurs. Likewise, the crowding-in of additional financial and non-financial (specialist advisory) support from banks and other institutions evinces the value they are placing on the programme.

Qualitative evidence of systemic change through anecdotes is starting to emerge, including momentum towards collaboration between historically competitive institutions.

“We told them we won’t use their logos, and it doesn’t matter where they come from – Mastercard, Visa, or whatever – that’s not what it’s about”.

Badriah al Khouri, Head of Programme

In addition to the bus, the FL team has now been asked to help reform the secondary education curriculum. Levels of interest from other institutions so far, including financial support from stakeholders, has been lower than anticipated, and Emirates Foundation are still driving the initiative. They note that for the programme to scale, ownership must become more distributed and the baton taken up by other actors.

However, the FL programme, as with the portfolio in general, is intuitively taken to be delivering greater

social benefit and impact at scale than the old model of restricted grant-funding.

“The fact we shifted from short-term grants to long-term programmes was already going to help us add value... you cannot take 18 months to look at a fundamental social issue. It takes time. So that is our starting point – the shift in mindset from short-term to long-term”.

Clare Woodcraft, CEO



## LUNDIN FOUNDATION AND COMACO



“We smelled success from the beginning. But how could we scale it? How to make it pay for itself? ... We didn’t want to fall in the same traps of being a donor-led project... this needs to be seen as an investment not a hand-out. How do we get away from a subsidised base and get it into the market?”

Dale Lewis, CEO Comaco

Dale Lewis, a career conservationist focused on wildlife conservation in Africa, led an initial research on the reasons why poachers kill wildlife (in this instance elephants), in collaboration with the World Conservation Society (WCS). For that purpose, he conducted a qualitative inquiry with poachers and communities living adjacent to national parks in Zambia. Lewis’s research revealed a clear causal link between low food security in the local communities and poaching activities. Inadequate crop yields arising from poor farming methods, soil erosion and deterioration, vulnerability to erratic weather patterns and water scarcity, and lack of effective local economic institutions, has compelled farmers to resort to dangerous and illegal practices such as poaching to augment very poor incomes and feed families. Having found the link, Lewis conducted an experiment with WCS funding, providing a community with “artificial food security” and comparing the rates of snaring to a control group over a 12 month period. The comparison groups showed “a phenomenal difference” [Lewis]. With this data, Lewis went to the World Food Programme which agreed to co-finance provision of seed and support to take the experiment further. Within two years, Lewis and a growing team had a clear proof of concept and were providing outreach and capacity building on conservation farming methods that were increasing yields, whilst simultaneously restoring local ecosystem health. In addition, the team determined that extending the value chain and converting commodities into value-added products (e.g. from peanuts to peanut butter) would, if a market was made available, further increase farmers’ income.

“Out of that came a proposal. Let’s do it ourselves because no-one else is doing it. Let’s just come together and form a company, find finance, make a special brand. We’re not motivated by the same old conventional methods, but from where farmers can get their surplus into good value high quality products that people will buy. Money will come back. It was a real Shangri-La moment romantic idealised vision. I’m sure everyone thought we were completely wacko. Except us. We took it very seriously indeed”.

Dale Lewis, CEO Comaco

Despite having secured additional funding from the Norwegian Government, to get to scale, Lewis saw a need for significant further seed capital and sought alternative options more aligned to Comaco as a social enterprise. An introduction to Lundin Foundation followed.

Lundin Foundation structure their investment portfolio based on a two-by-two matrix with axes of social impact and financial return. Preferable deals fall in the top right (high social impact, high financial return) or bottom right (high social impact, low financial return). The value of Lundin’s style of philanthropy to this sector, according to Stephen Nairne of Lundin Foundation, is that it is “fast, flexible, very innovative, can take early stage risk and provide fit for purpose capital structures – and that includes grants”. It provides the incubation and accelerator conditions that make enterprises “investment-ready”.

Stephen Nairne discovered Comaco in 2008. He “saw the results and loved the model and wanted to meet” [Lewis]. Comaco met the Lundin Foundation criteria, being based in sub-Saharan Africa, having the potential to be a scalable social enterprise with requisite capability and proof of concept. It had the potential to benefit from an enterprise philanthropy approach.

Direct support includes grants for capital and soft loans including USD 1 m in revolving inventory

finance loans in 2011.<sup>9</sup> Subsidy has gradually been reduced, while debt and other tailored financing has increased. Stephen Nairne holds a non-executive directorship at Comaco and acts as an intermediary between the Comaco Board and the Lundin Foundation Board. Engagement in practice may be *ad hoc* phone calls between Nairne and Lewis (and the team) to provide business advice, discuss milestones and develop capability for example around cash flow management or financial modelling.

Asked to characterise the relationship between Comaco and Lundin Foundation, Lewis tellingly answers from the perspective of the relationship between himself and Stephen Nairne.

“We’re the best of friends... Stephen is hugely bright, incredibly patient. In his heart and mind when he sees something that he thinks is the right approach and the right people he’ll stick by you through thick and thick! With a company like ours that has definitely seen some bumps in the road he hasn’t been deterred and keeps us absolutely accountable and on track.”

Dale Lewis, CEO Comaco

Comaco has a monitoring and evaluation unit in Lusaka and a comprehensive evaluation framework. Results from on-going monitoring are posted on the [itswild.org](http://itswild.org) website for public scrutiny. Indicators tracked and published include, for example, the percentage difference in yield between use of conservation farming (CF) methods and non-CF methods (in 2006 CF methods showed a 15% improvement over non-CF methods).<sup>10</sup> Third party data is gathered to support and validate the team’s findings. These include aerial and satellite imagery from Virginia Tech University with analysis focused on tree cutting, fires and watershed impact from farming (PNAS, 2011).

Through peer-reviewed published research, Lewis and Comaco have made substantiated arguments for their conservation farming methods and enterprise-based market-building model. It has now been recognised in at least one peer-reviewed journal (PNAS) for its use of an “innovative business model ... that has resulted in wildlife populations stabilising and rebounding in areas once ravaged by

poaching. In addition, local people – including some of the world’s poorest farmers – are now benefitting from higher crop yields and improved livelihoods”.<sup>11</sup>

Lundin Foundation’s role as a primary funder, exhibits a high degree of engagement with Comaco that includes flexible and responsive tailored funding, capacity building and operational support over an extended multi-year period (with no current plans to exit), attraction of other funders to realise plans for scale and sustainability, and empirically grounded performance management. Further the case demonstrates impact at (increasing) scale across a number of social and environmental indicators (PNAS, 2011). Making substantiated claims for the value added of Lundin Foundation’s involvement and the enterprise philanthropy approach they apply is not straightforward. Immediate counterfactual evidence, e.g. that Comaco’s approach could scale without such investment and support, is not available. Qualitative data from the interviews however suggest the value-added has been considerable.

## THE ROCKEFELLER FOUNDATION AND ASIAN CITIES CLIMATE CHANGE RESILIENCE NETWORK



“Communities around the world need better weapons — new tools, techniques, and strategies — if they hope to tame the three-headed hydra of climate risk, poverty, and precipitous urbanisation. Each successive day we do not act brings us — and them — closer to catastrophe.”

Judith Rodin, CEO  
Press Release, January 2009

The Rockefeller Foundation, a US based grant-making foundation, celebrates its centenary in 2013. Its mission, to improve the welfare of humanity, has remained unchanged in that time. In 2011, its endowment was worth USD 3.5 bn and it paid out USD 142 m to grants and direct charitable activities (Annual Report, 2011).

In 2005, a new CEO, Judith Rodin, was appointed, marking a strategic turn for the foundation towards (or in Rodin’s terms back to) “scientific philanthropy”, that is focused on leveraging the funds and expertise available to achieve impact at scale (The Economist, Dec 2006). Since her arrival, considerable restructuring and capability building has occurred, with the formation of a specialist “searching and scanning” function to apply rigorous scientific methods to researching social and environmental trends. Effective evaluation has also been a priority and the evaluation team engages with partners leading the assessment field in developing regions to develop best practice methodologies.

One of the early flagship initiatives associated with the new philanthropic model is the Asian Cities Climate Change Resilience Network (ACCCRN). A nine-year programme covering ten cities across India, Indonesia, Thailand and Viet Nam, it was launched in 2008, when climate change adaptation was still an under-acknowledged concern, with a USD 42 m grant from The Rockefeller Foundation. Its published aims are to “catalyse attention, funding, and action” in the areas of experimentation and testing of local approaches to urban climate change

resilience (UCCR) for institutions serving poor and vulnerable communities, demonstrating and disseminating knowledge about approaches and awareness-raising among funders, practitioners, policy makers and business to promote investment.

Asia was initially chosen over Africa for the programme, despite similar issues of rapid urbanisation and population growth, as it was seen generally to have higher absorptive capacity, a more stable economic base and market dynamism, i.e. it had the capacity, though nascent, to engage with and ultimately own responsibility for, the development of adaptation strategies. Five years on the programme is being rolled out to other regions globally, with Africa a priority.

Despite being a non-operational foundation (Heather Grady, in interview), ACCCRN has involved a hands-on approach with foundation staff establishing the office. Two full-time staff are supported by numerous part-time foundation staff. The team’s activities, described by Anna Brown, Associate Director responsible for leading ACCCRN, include co-ordination and “bridging” between disciplines such as climate science, urban planners and financial institutions; influencing actors, especially donors, to attract additional funding; convening stakeholders and building networks, including with governments and the private sector; and financing on-going research and thought leadership, including with international firms such as Arup and ISET. Support to social enterprises prototyping solutions to adaptation problems, such as reducing waste treatment and infrastructure vulnerabilities to extreme weather events, is also in the portfolio. Enterprise is recognised as a central, but not the only, mechanism for effecting impact at scale.

“We have a role to build understanding, education and outreach around what UCCR is and getting buy in to it. It’s about brokering and linking other donors with our partners. To enable scale-up with

the resources we have so we can punch above our weight... we can help to be a voice on this issue”.

Anna Brown, VP ACCCRN

### Assessing impact

“We’re in this for a set period of time and then we’re out and climate change isn’t going away. The importance of growing institutional capacity and ownership over this issue across diverse institutions is critical to have lasting impact.”

Anna Brown, VP ACCCRN

Heather Grady describes the foundation’s ambition as wanting “to make a paradigm shift in a decade”. Venture philanthropy is not a term used actively in the foundation, though many of the principles are shared. The ACCCRN programme is considered its first foray into proactive systems change of this nature and it has produced a wealth of learning applicable to other programmes, according to the foundation staff interviewed, including on matters of ownership (who takes primary responsibility) and evaluating impact in incredibly complex social systems.

A mid-term formative evaluation for ACCCRN was conducted by a third party, Verulam Associates, and published in April 2011. It confirmed that each of the ten participating cities has developed climate resilience strategies (CRSs) and 36 grants have been made to 18 grantees to further knowledge acquisition and dissemination. The report also identified areas for development, including the need for more lateral knowledge sharing and co-learning between cities. The ACCCRN core team were still acting as too much of a hub in a hub-and-spoke model of communication and leadership. ACCCRN took this learning on board, says Paul Thornton, author of the report, and in the last two years peer-to-peer networks have strengthened considerably.

The network has now attracted over USD 200 m (to 2013) in direct funding from donors including UK’s Department for International Development and KfW (German Development Bank) with additional funds expected. The Rockefeller Foundation is now, as the programme heads towards conclusion in 2015, looking to hand over increasing responsibility for leadership to state representatives and use its

name and reputation to crowd-in further financial resources, particularly from private sector and impact investors. A summative evaluation will be completed in 2016.

Internal performance indicators are primarily tracked at the output and outcome level, including: capacity building amongst “city partners”; technologies developed and owned by city partners; extent of lessons shared from reflection on practice. Impact is recognised as impossible to attribute directly but degree of city-level engagement with UCCR is seen as demonstrative of broad success with the programme.

“Impact is above the accountability line – we’ll measure and look and assess and hope we were a significant contributor but we can’t know for sure”.

Nancy Macpherson, VP Evaluation

## SHELL FOUNDATION AND ENVIROFIT



SHELL  
FOUNDATION

“There are many examples where organisations have given products away for free. And there is certainly a time for this type of intervention, in post-conflict or disaster relief situations for example. However, the world is beginning to realise that behind high-quality, beneficial products such as clean technology cookstoves, there needs to be a self-sustaining social enterprise.”

Ron Bills CEO and Chairman, Envirofit

One of Shell Foundation’s six core programmes, the Envirofit programme seeks to address the major social and environmental problems that arise from over 3 billion people in developing countries burning biomass on traditional and inefficient stoves. The WHO reports that the resultant indoor air pollution (IAP) is the cause of diseases such as acute lower respiratory infections, chronic obstructive pulmonary disease and lung cancer, and is responsible for 3.5 m deaths a year. It is thought to be the biggest cause of death in children under five (Bruce et al., 2002). Inefficient cooking is also extremely expensive: raising fuel costs for low-income families (both financially and in some countries in time spent gathering wood), while the black carbon produced is also a major contributor to climate change.

In line with its mission, since 2002 Shell Foundation has sought to catalyse an enterprise-based solution to this issue through the development of a clean cook stoves sector (cook stoves with lower emissions and fuel use). After five years of pilots with nine NGO partners across seven countries (at the cost of just over USD 15 m) to explore new technologies, business models and fuel types, Shell Foundation concluded that a totally new enterprise structured for scale and with global ambitions was required. Compared to pilot partners, there was a need for new capability and new mindset. The partner had to be highly competent at designing new products for low-income communities and getting them to market, have a desire to achieve scale of impact at its core and display an entrepreneurial approach.

Resilience and flexibility were also important due to an expectation that the business model would need constant adjustment.

Envirofit International based out of Colorado State University, had no experience of cook stoves but did have many of the attributes described above. Serial entrepreneur Ron Bills applied these principles to develop a two-stroke engine retrofit kit business in the Philippines that reduced fuel use by 30% and emissions by 70%. A meeting between Ron Bills and Kurt Hoffman at Shell Foundation in 2007 immediately highlighted synergies between the two organisations. This led to a long-term strategic partnership between the organisations to design, produce and sell high-quality, high-volume cookstoves in emerging markets around the world. Over the following six years Shell Foundation has provided a total of USD 17.5 m in grants (released in staged payments on the achievement of agreed milestones) and a loan guarantee of USD 1.5 m.

Direct support includes: core funding to cover operations and build capacity; participation in the day to day operational decisions of the business as part of the management team; strategic and marketing support; joint commissioning of in-depth customer research; formal review of Envirofit’s performance on a quarterly basis through planning meetings; leveraging links with Royal Dutch Shell to access networks and business tools; business development assistance to create new B2B distribution partnerships; support to register and trade carbon savings; funding research and development to create durable, affordable, high performance products and to assess the best approaches to mass production; and a presence on the Envirofit Board of Trustees.

Indirect support includes work across the cookstove value chain to tackle major market barriers to scale, for example: the implementation of local and national IAP awareness-raising campaigns to foster market demand; innovative partnerships with microfinance institutions and

NGOs to provide consumer finance and improve affordability; establishing a range of new “last mile” distribution channels to reach under-served customers in remote areas, including the creation of Dharma Life, a specialist social enterprise that markets social-impact products across rural India; funding Berkeley Air Monitoring Group to conduct independent monitoring of stove performance in the field; innovating new carbon financing partnerships to improve the viability of clean energy products and services; and co-founding the Global Alliance for Clean Cookstoves with the United Nations Foundation in 2010 to stimulate sector-level interest, legitimacy, and competition.

### Assessing impact

Envirofit have now sold over 700 000 biomass cookstoves across India, Africa and Latin America. They have a range of products tailored to different consumer needs and desires – with the least expensive wood stove starting at approximately USD 15 and sold with a five-year warranty. Extensive testing, both in Colorado State University labs and in the field through Berkeley Air Monitoring Group, show that each stove significantly reduces emissions, cooking time and fuel usage, with results varying depending on stove type, quality of biomass, kitchen ventilation and the way the stove is used.

The indicators used to assess the effectiveness of the partnership vary according to the type of decision the information is intended to inform. For example, emphasis is placed on product performance, product costs, sales volumes and market penetration for the partner to make day-to-day operational and investment decisions. The Shell Foundation management team needs information to be aggregated to a level that makes the programme sufficiently comparable with other programmes in order to inform resource allocation decisions. The board of trustees requires directional information to show that the foundation is meeting its objectives and is on mission. Time has been spent developing defensible methodologies to make such comparisons available to derive social impact.

At the systems level, data needs to be collected to develop an evidence base at the geographic, demographic and meta-level for stakeholders to determine the efficacy of clean cookstoves as a solution to the global problem of IAP and potentially climate change.

To date the partnership with Envirofit is already a success based on Shell Foundation’s own definition of scale. The partner operates in multiple countries and regions, it is earning income derived from those markets and attracting funding (such as USD 3.5 m from Calvert Foundation) that matches or exceeds the grant contribution. The management team is also highly competent.

It is however too early to tell if large-scale development outcomes will be achieved and, more likely, that global success will come from broader market development rather than from single cook stove producers. To this end, Shell Foundation is also supporting the development of the clean cookstoves sector as a whole, through a range of new partnerships to tackle market barriers such as affordability, consumer awareness and rural distribution; and by efforts to leverage investment and codify best practice at an industry-level through its work with the Global Alliance for Clean Cookstoves. Shell Foundation also sees it may have a role in grant funding future research and development into the next generation of cook stoves.

If Envirofit attracts capital from private equity in 2014, it will be testament to the robustness of the organisation, the market potential and Shell Foundation’s approach. At that point Shell Foundation intends to retain a position on the board to ensure the organisation remains focused on impact.





## Notes

1. <http://online.wsj.com/news/articles/SB10000872396390443720204578004980476429190>
2. Mobile Health refers to the use of mobile and smartphone technologies in the provision of healthcare.
3. [www.effectivephilanthropy.org/index.php](http://www.effectivephilanthropy.org/index.php)
4. The OECD has been asked to scope and size the market in a Global Social Impact Investment report to be published in the course of 2014.
5. See case study in Annex I.
6. Changing Our World, a fundraising and philanthropy consultancy.
7. In front of the US Congress, and defined as “the imaginative pursuit of less conventional philanthropic purposes than those normally undertaken by established public charitable organisations” (Osberg, in Nicholls, 2006).
8. <http://iris.thegiin.org/iris-standards> and [www.pulsesoftware.co.uk](http://www.pulsesoftware.co.uk)
9. [www.lundinfoundation.org/i/pdf/ppt/LundinFoundation\\_EMRC2011.pdf](http://www.lundinfoundation.org/i/pdf/ppt/LundinFoundation_EMRC2011.pdf)
10. Example taken from Comaco website: [www.itswild.org/food-production](http://www.itswild.org/food-production)
11. Proceedings of the National Academy of Sciences, 2011.

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For more information:  
[dev.foundations@oecd.org](mailto:dev.foundations@oecd.org)

[www.oecd.org/site/netfwd](http://www.oecd.org/site/netfwd)



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