

European Venture Philanthropy and Social Investment 2012/2013

The EVPA Survey



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European Venture Philanthropy & Social Investment 2012/2013

The EVPA Survey

Executive Summary

April 2014

This is the report¹ of EVPA's third annual survey of European Venture Philanthropy and Social Investment. The purpose of the report is to provide independent data and raise awareness about European Venture Philanthropy & Social Investing ("VP/SI") so as to attract additional resources to the sector. The presence of three years of data allows us to start identifying trends and to analyse interesting evolutions. It is important to note that the trends identified persisted even when we repeated the analysis only for the sample of VPOs that repeated the survey, i.e. the trends were not due to the addition of new, different types of VPOs. The dataset also allows us to draw attention to interesting and sometimes surprising findings that lead to questions about the nature of VP/SI in Europe that, as a sector, we should look into further. We aim for these questions to spur a debate that helps VP/SI practitioners think even harder about their practices and how they can work more effectively.

EVPA acts as the main repository of data on VP/SI in Europe. This year we shortened the survey questionnaire, focusing on the variables that are likely to change from year to year, rather than asking questions about broader VP/SI practices that take more time to change. The financial data provided was for the fiscal year ending in 2012, unless otherwise specified. When comparisons over time are made, they refer to the results of the 2012 and 2011 survey, reflecting data from the 2011 and 2010 fiscal year respectively.

Definition of Venture Philanthropy

Venture philanthropy works to build stronger investee organisations with a societal² purpose (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. The venture philanthropy approach includes the use of the *entire spectrum of financing instruments* (grants, equity, debt, etc.), and pays particular attention to the *ultimate objective of achieving societal impact*. The key characteristics of venture philanthropy include high engagement, organisational capacity-building, tailored financing, non-financial support, involvement of networks, multi-year support and performance measurement.

Survey Scope and Methodology

The survey aimed to capture the activity of venture philanthropy and social investment organisations (VPOs) based in Europe, according to the definition above, although their investment activity may take place in other continents. The survey was undertaken between July and September 2013 and targeted VPOs including both EVPA members and non-members. Out of the 134 surveys sent, we received 75 responses (compared to 61 responses in 2012 and 50 responses in 2011) out of which 20 were from non-members. We do not claim to have captured the entire VP/SI industry in Europe; however we believe the sample to be highly representative.

Summary of Survey Findings

The 2013 EVPA survey confirms many of the findings of the 2012 survey and provides further evidence of the growth of venture philanthropy and social investment, despite difficult economic circumstances. It also raises some interesting questions about the evolution of the VP/SI sector in Europe, which require further research and, if possible, with input from the sector as a whole.

1. Please note that our two first industry surveys are available to download:

The European Venture Philanthropy Industry 2010/2011 at http://evpa.eu.com/industry_data2010_2011/

and European Venture Philanthropy and Social Investment 2011/2012 at <http://evpa.eu.com/knowledge-centre/what-is-vp/industry-data/>

2. EVPA purposely uses the word societal because the impact may be social, environmental, medical or cultural.

The European venture philanthropy and social investment sector continues to grow. Support for the societal purpose organisations through the VP/SI method, continues to increase with **over €2.5 billion invested since inception** and **average financial support per VPO increasing almost 20% to €6.2 million from 2011 to 2012**.

There is a trend towards **more paid employees and pro-bono supporters**, and less unpaid volunteers³. The survey found that the total number of paid employees increased to 1054 people, from 753 last year, and the **average staff size increased from 13 to 14 employees**. The pool of volunteers decreased to 594 people from 634 and the pro-bono contributors increased to 884 people from 617. Traditionally VP/SI organisations have hired consulting services and pro-bono support from various types of organisations in their networks as well having a pool of volunteers.

When considering the annual budgets of VPOs (i.e. taking account of investments and overheads) we see that these remain small, with **58% of respondents having budgets of less than €2.5 million**.

Societal return remains the **primary objective** of the majority of VPOs, but in times of scarce resources, **recycling capital** is increasingly important. The survey targeted organisations prioritising societal return over financial return OR assigning an equal priority to financial and social return (i.e. excluding organisations that prioritised financial return). On a three-year view, VPOs where *societal return is a priority but they accept a financial return* are increasing as are VPOs who put *societal and financial return on an equal footing*, to the detriment of VPOs requiring a *societal return only*. Concretely, this means that the relative importance⁴ of grants is decreasing and the importance of debt and equity is increasing. When asked about return expectations, responses were relatively **evenly distributed** between those VPOs expecting a positive return (33%), those expecting capital to be repaid (35%) and those expecting a negative return (32%). For those respondents who had undertaken exits in 2012, 12% received positive returns (ranging from 4% to 35%, potentially reflecting the diverse geographies and sectors where VP/SI is applied), 39% received full capital repayment and 39% no capital repayment at all. The jury is still out on what should be a “reasonable” expected return on VP/SI investments.

3. Pro-bono supporters provide more targeted and higher level support to investees as opposed to volunteers that help out in a more general way.

4. Importance both in terms of total funding amounts and in terms of % of VPOs using the instrument.

5. Financial inclusion and access to finance (microfinance, microinsurance, financial education services, banking).

6. This analysis refers to the responses from a large majority (98%) of the VPOs who answered the relevant question. Certain outlying responses were not included in the analysis to ensure the results provided an accurate representation of the industry as a whole.

VP/SI organisations still support a wide range of sectors and beneficiaries. In fiscal year 2012, **financial inclusion⁵ topped the sectors (receiving 17% of funding)**, ahead of education (15%), environment (14%) and health (13%). **Children and youth remain the main beneficiaries of VP/SI investments** but with percentages up across the board one must ask whether SPOs are reaching a greater number of different beneficiaries with one intervention. In line with 2011, the **bulk of funding continues to go to Western Europe and Africa** but we see higher amounts of funding going to Latin America in 2012.

European VPOs⁶ continue to invest across a spectrum of organisational types but **social enterprise remains the main target of VP/SI investment**, receiving 35% of funding in fiscal year 2012. The VPO respondents **screened almost 6500** potential investment opportu-

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nities and **supported 438 organisations and 1028 individuals** in 2012, almost doubling the number of new interventions supported in 2011.

Tailored financing is a reality with a combination of grants, debt and equity used by over 50% of respondents. Although **grants remain the primary financing instrument** in terms of € spend.

Confirming the results we have seen for the last two years, **European VPOs continue to take risks by investing in organisations with little track record**. And, in an apparent move towards VP/SI best practice, **funding is increasingly allocated to overhead costs** (67% of funding in 2012). Nevertheless it is clear that funding of project costs is not disappearing entirely.

One notable concern is that **VPOs have shortened the duration of their average commitments**. Although the majority of VP/SI organisations follow a multi-year investment approach, with 63% committing to support investees for between 2 and 6 years, we see a significant increase in the number of VPOs investing for less than 2 years (from 9% in 2011 to 23% in 2012). Further investigation is required to understand what is driving this trend.

Another concern is that non-financial support, considered a key part a VP/SI approach is not keeping up with the growth of the financial support. The survey data for 2012 shows that **non-financial support makes up just 5% of total spend on aggregate** (as compared to 10% in 2011 and 17% in 2010). We explore some possible explanations for this evolution in the report.

Key Trends and Debate Questions on VP/SI Practices

In what follows, we summarise the key conclusions of the survey and raise a couple of questions that are meant to spark debate and push VP/SI practitioners to think even harder about their practices and how they can work more effectively.

1. Key trends

- *Financial support increases:* Despite difficult circumstances due to the financial crisis, the survey provides clear evidence that the venture philanthropy and social investment **sector continues to grow**. The average financial support provided by VPOs to investees increased by almost 20% to €6.2 million from 2011 to 2012.
- *Staff size increases:* While many organisations have been letting go of employees, **VPOs have hired more staff**, with total number of employees increasing from 753 to 1054 and average staff size increasing from 13 to 14 employees. This seems to indicate that VPOs are further building the capacity of their teams to better support their investees.
- *Representing entire spectrum:* The VPOs are fairly **evenly spread** between those expecting a negative financial return, capital repayment and a positive financial return, with societal impact being either the only purpose, the main purpose, or at the same level as financial return.

- *Organisational capacity building funded:* The percentage of funding allocated to overhead costs is increasing, allowing more investees to **build internal capacity**, a key characteristic of the VP approach.

2. Debate questions

- *Multi-year support:* VP&SI claim that SPOs need to receive funding and management support for several years in order for a step change to happen hence multi-year support is important. Given **an increasing number of VPOs are committing for less than two years, is this a change in strategy on the part of VPOs** or is it a symptom of a more difficult financing environment?
- *Non-financial support:* Given the high engagement nature of venture philanthropy and social investment, one would expect a much higher level of non-financial support than we see in the survey data. **Is non-financial support really decreasing or is it just that for many non-financial support is difficult to quantify**, especially considering the presence of pro bono experts and volunteers and the possibility that sometimes staff days may not be counted as expenditure?

EVPA is committed to continue the research and promotion of best practice in the key components of the VP/SI model and reiterates the importance of a collaborative approach to developing the sector. On the questions raised in the survey and/or on any additional thoughts or comments we would be delighted to hear from readers as to their views on what is driving these potential trends. Any comments or suggestions can be sent to lhehenberger@evpa.eu.com.

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Part 1: Introduction

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Purpose of the Report

This is the third report⁷ on European Venture Philanthropy and Social Investment published by the European Venture Philanthropy Association. The purpose of the report is to provide key statistics and raise awareness about a sector that is evolving rapidly so as to attract further resources to the sector.

The report is based on a survey conducted by EVPA's Knowledge Centre that captured key statistics on 75 European venture philanthropy and social investment organisations (VPOs). This is the third such survey that we have conducted and is in line with our ambition to repeat the survey annually and for the EVPA Survey report to become the key point of reference on European venture philanthropy and social investment.

The report is structured as follows. It starts with a definition of VP/SI, its emergence, the role of EVPA and the methodology of the survey. It then presents the results of the survey, including the following sections:

1. Demographics of VP/SI organisations in survey
2. VP/SI positioning in investment landscape
3. Resources of European VP/SI
4. Venture Philanthropy / Social Investment focus
5. Highlights from the VP/SI investment process
 - a. Deal flow and investment appraisal
 - b. Investment
 - c. Exit

Finally, the report presents the key conclusions based on the results of the survey. The presence of three years of data allows us to draw attention to surprising findings that lead to questions about the nature of VP/SI in Europe that, as a sector, we should look into further. We aim for these questions to spur a debate that helps VP/SI practitioners think harder about their practices and how they can work more effectively.

What is Venture Philanthropy?

Venture philanthropy works to build stronger investee organisations with a societal purpose (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. EVPA purposely uses the word societal because the impact may be social, environmental, medical or cultural. The venture philanthropy approach includes the use of the *entire spectrum of financing instruments* (grants, equity, debt, etc.), but pays particular attention to the *ultimate objective of achieving societal impact*.

The **key characteristics** of venture philanthropy are as follows:

- **High engagement** – Hands-on relationships between SPO management and venture philanthropists
- **Organisational capacity-building** – Building the operational capacity of portfolio organisations, by funding core operating costs rather than individual projects

7. Please note that our two first industry surveys are available to download:

The European Venture Philanthropy Industry 2010/2011 at http://evpa.eu.com/industry_data2010_2011/

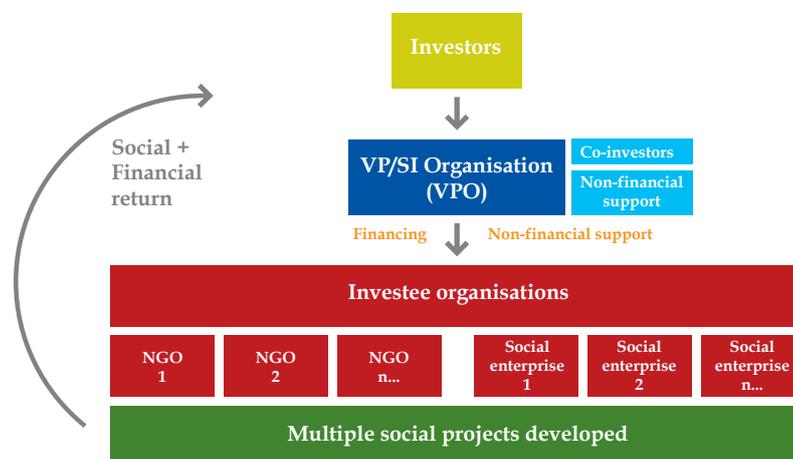
and European Venture Philanthropy and Social Investment 2011/2012 at <http://evpa.eu.com/knowledge-centre/what-is-vp/industry-data/>

Part 1: Introduction

- **Tailored financing** – Using a range of financing mechanisms tailored to the needs of the supported organisation
- **Non-financial support** – Providing value-added services such as strategic planning to strengthen management
- **Involvement of networks** – Enabling access to networks that provide various and often complementing skill-sets and resources to the investees
- **Multi-year support** – Supporting a limited number of organisations for 3–5 years, then exiting when organisation are financially or operationally sustainable
- **Performance measurement** – Placing emphasis on good business planning, measurable social outcomes⁸, achievement of milestones and financial accountability and transparency

The following diagram aims to clarify the role of the venture philanthropy / social investment organisation in building stronger investee organisations with a societal purpose. The venture philanthropy / social investment organisation acts as a vehicle, channelling funding from investors and co-investors and providing non-financial support to various investee organisations. The non-financial support is provided by the VP/SI organisation itself, but also by external organisations and individuals. The investee organisations in turn develop multiple projects that may be focused on particular sectors such as healthcare, education, environment, culture, medical research, etc. The ultimate beneficiaries are usually groups in society that are somehow disadvantaged, including the disabled, women, children, etc. The societal impact ultimately needs to be measured by assessing how the lives of the beneficiaries are improved thanks to the actions of the investee organisations, and going one step further, assessing the contribution of the VPO to that improvement. The VPO generates social impact by building stronger investee organisations that can better help their target beneficiaries and achieve greater efficiency and scale with their operations. Investors in venture philanthropy / social investment are usually focused more on the social return of their investment, rather than on the financial return.

Venture Philanthropy – building stronger investee organisations



8. EVPA's "A Practical Guide to Measuring & Managing Impact" provides more details on a best practice 5 step process for measuring outcomes.

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Role of EVPA in industry evolution⁹

Established in 2004, EVPA aims to be the natural home as well as the highest value catalyst network of a growing number of European venture philanthropists and social investors (VPOs). EVPA's membership covers the full range of venture philanthropy and social investment activities and includes venture philanthropy funds, social investors, grant-making foundations, impact investing funds, private equity firms and professional service firms, philanthropy advisors, banks and business schools. EVPA members work together across sectors in order to promote and shape the future of venture philanthropy and social investment in Europe and beyond. Currently the association has over 170 members from 23 countries, mainly based in Europe, but also outside Europe, in United Arab Emirates and Asia, showing the sector is rapidly evolving across borders.

Beyond being a mere "tool", venture philanthropy and social investment is emerging as a new industry, with an entire support system around it, including advisory service firms and business school with programmes specialised in venture philanthropy and social investment. As venture philanthropy and social investment continues to grow, EVPA's industry-building role becomes increasingly important, thus also calling for the development of best practice, guidelines and market infrastructure.

EVPA acts as the main repository of data on the VP/SI industry in Europe. The survey is the pre-eminent study of European Venture Philanthropy & Social Investment. Now in its third year, it is a point of reference in Europe and beyond. Its purpose is to provide independent industry statistics, understand trends and raise awareness about VP/SI so as to attract additional resources to the sector. It is also an important tool in explaining VP/SI to an external audience, including policy makers. This year's survey is a relatively shorter "activity update" where we have aimed to capture the key changes taking place in the sector from one year to another. A more detailed study of specific practices will be conducted every two or three years.

Starting in 2011, EVPA surveys its members on an annual basis about their VP/SI operations in order to:

- generate key statistics;
- publish report to disseminate the work of VP/SI organisations;
- better target EVPA's services to members' needs

Reliable data on European VP/SI useful for VP/SI practitioners to:

- improve their practices through benchmarking exercises;
- attract resources including funding and professionals;
- make their voices heard in government relations

9. This section is based on EVPA's Code of Conduct: http://evpa.eu.com/wp-content/uploads/2011/11/EVPA-Code-of-Conduct_LR_111122.pdf

Part 1: Introduction

Survey scope and methodology

This survey was elaborated by EVPA's Knowledge Centre. The questions aimed to gain an overview of the VP/SI sector, to gain insight into their daily activities. Many of the questions from the first and second survey were repeated, while others were eliminated in order to create a shorter activity update. Therefore, it was possible to talk about changes from year to year in some cases, but not in others. Furthermore, when trend data is reported, it should be remarked that the sample is not completely consistent from year to year as detailed below. However, it is important to note that the trends identified persisted even when we repeated the analysis only for the sample of VPOs that repeated the survey, i.e. the trends were not due to the addition of new, different types of VPOs. The survey itself was set up in the Qualtrics® tool so that the responses could be made directly online and collected by EVPA.

The survey aimed to capture the activity of **VP/SI organisations (VPOs) based in Europe**, although **their investment activity may take place in other continents**. The survey was undertaken between **July and September 2013** and targeted EVPA's full members, organisations whose primary activity is venture philanthropy, and EVPA's associate members that are active in high engagement grant making and social investment as part of their philanthropy or investment activity. For example, some foundations included in the survey have a separate VP or social investment "fund". In those cases, we asked the respondents to answer the questions only in terms of that VP/SI fund. The survey was also sent to non-EVPA members that fulfilled the criteria of being based in Europe and conducting VP/SI activities with the following return priorities: having a societal return only, prioritising a societal return but accepting a financial return, or putting societal and financial return on an equal footing. Using snowball sampling, we asked all respondents to provide examples of other VP/SI organisations outside of EVPA membership in order to capture as large a percentage as possible of the total VP/SI population in Europe.

The survey was first sent in July 2013 and closed in September of the same year. Follow-up phone calls and emails were conducted in order to reach the final response rate of 56%. Of the 75 completed surveys, 43 respondents also completed the 2012 survey and 32 were new respondents. 30 respondents completed all the surveys (in 2011, 2012 and 2013).

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In the table below, the statistics of the survey are presented:

Statistics on surveys collected	2013	2012	2011
EVPA members surveyed (full members and members with VP/SI activity)	71	74	55
EVPA members completed surveys	55	53	46
EVPA member response rate	77%	72%	84%
Total surveys sent (including non-EVPA members)	134	102	65
Total completed surveys	75	61	50
Total response rate	56%	60%	77%

The response rate was satisfactory for this type of study, although notably higher for EVPA members than for non-members. We do not claim to have captured the entire VP/SI industry in Europe, however we believe the sample to be highly representative.

Part 2:

Presentation of Survey Results

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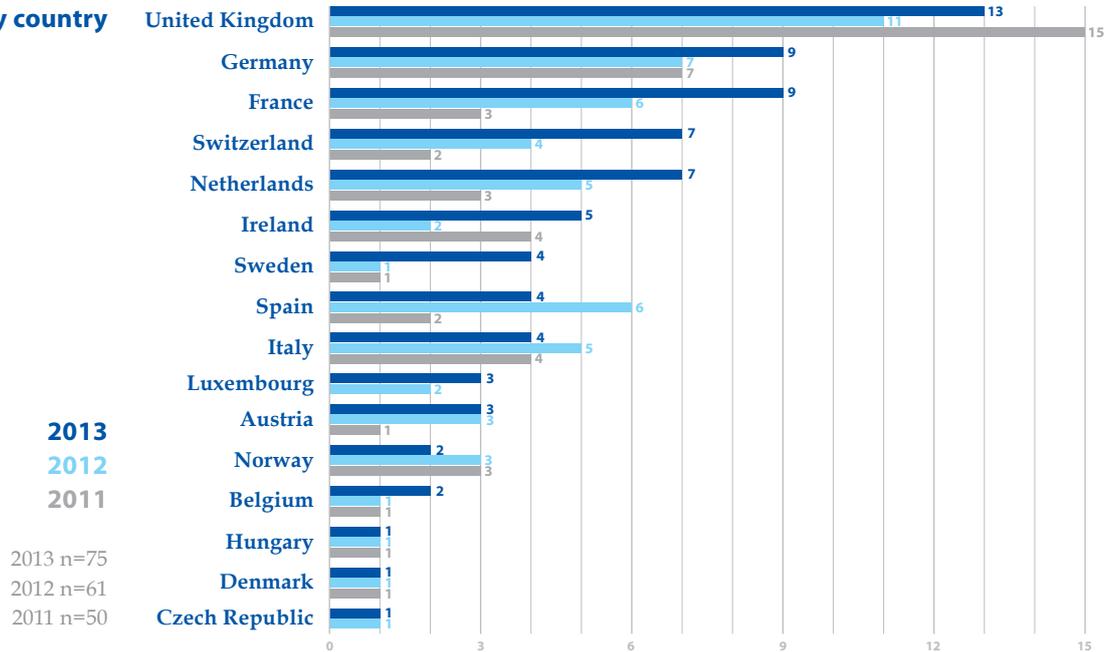
The survey was completed by 75 investors and grant-makers based in Europe, using the venture philanthropy and social investment approach. Most of the financial data provided was for the fiscal year ending in 2012, unless otherwise specified.

1. Demographics of VP/SI organisations in survey

Country of origin

The UK, France and Germany remain the top countries in terms of VPO headquarters. In line with previous surveys most of the respondents were based in Western Europe, the top 3 respondent countries being the United Kingdom (19%), France (12%) and Germany (12%), and only two respondents from Eastern Europe. However, Switzerland and the Netherlands showed an increase in respondents from previous years. The survey aimed to capture the activity of organisations based in Europe, although their investment activity may take place in other continents. The following graph shows the distribution by country of origin, comparing 2013, 2012 and 2011 respondents.

Respondents by country

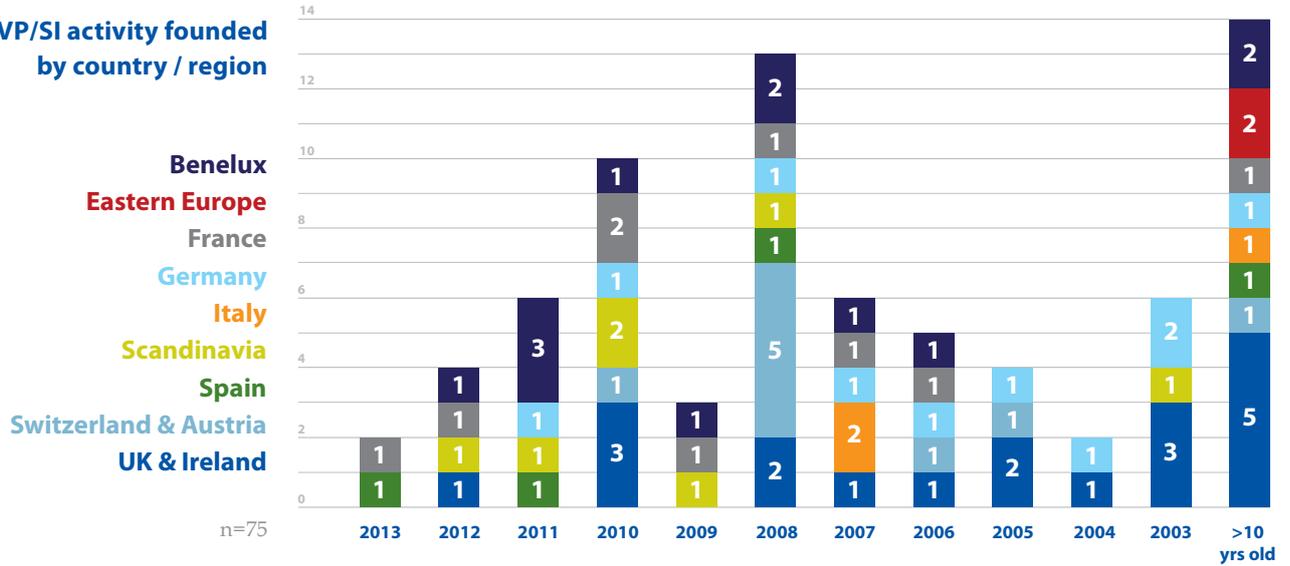


Years of VP/SI activity

The survey asked respondents to specify the number of years their VP/SI activity had been operating. This question was in some cases difficult to answer considering the many ways that an organisation can start engaging in VP/SI, using just a few of the key characteristics or applying the full model. The average age of the VPOs is 7.5 years. Although the VP/SI movement is considered about a decade old in Europe, some respondents claim to have been doing VP/SI for longer than that. We see a peak of VPOs being set up in 2008 and then again in 2010 underlining the slightly different sample of respondents compared to last year (where the peaks were 2007 and 2011). Continuous launches in 2011, 2012 and 2013 show a vibrant VP/SI sector in Europe.

Part 2: Presentation of Survey Results

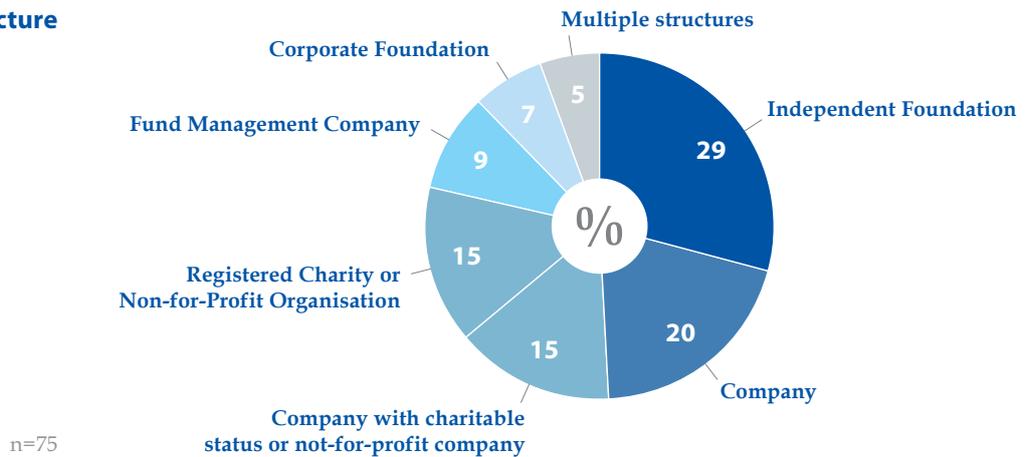
Year VP/SI activity founded by country / region



Organisation structure

Non-profit structures still dominate organisational set up. In line with the last two years' results, a majority (66%) of the European VP/SI organisations are structured as foundations, trusts or charities, although each country has its own terms and variations of this form. Other forms are companies, funds, or multiple structures.

Organisation structure



Out of the 75 respondents, 39% had endowments that allow a fairly predictable funding budget from year to year. The rest are thus non-endowed entities that need to engage in continuous fundraising.

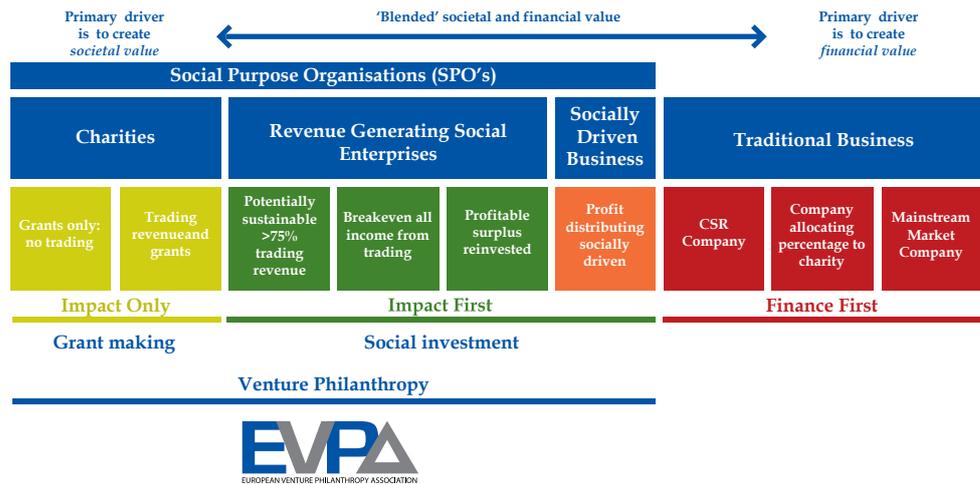
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Endowment structure



2. VP/SI positioning in investment landscape

VP/SI is one tool in the social investment and philanthropy toolkit. It has emerged in Europe during the present decade as a high engagement approach to social investment and grant making across a range of investee organisations with a societal purpose (SPOs), from charities and non-profit organisations through to socially driven businesses. The venture philanthropy and social investment approach includes the use of the *entire spectrum of financing instruments* (grants, equity, debt, etc.), but pays particular attention to the *ultimate objective of achieving societal impact*. In the spectrum¹⁰ below, impact only strategies expect a **societal return and negative financial return**. Impact first strategies aim to achieve a societal return, but may also generate a **financial return**.



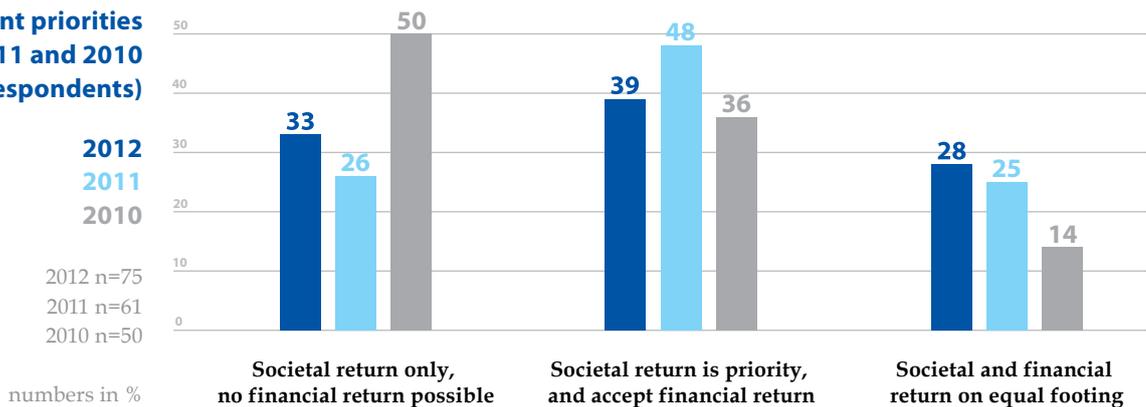
Finance first strategies, where the financial return is maximised and the societal impact is secondary, are not included in EVPA's definition of venture philanthropy and social investment. The relatively newer term "impact investment" tends to include both impact first and finance first strategies, although the term is used to describe a wide range of investment strategies. In what follows, we present data from the survey that highlights the positioning of European VP/SI organisations on the spectrum.

10. Adapted from John Kingston, CAF Venturesome, by Pieter Oostlander, Shaerpa and EVPA.

Part 2: Presentation of Survey Results

Societal return is the main purpose; financial return remains important. The survey targeted organisations prioritising societal return over financial return OR assigning an equal priority to financial and social return (i.e. excluding organisations that prioritised financial return). On a three-year view it looks as though VPOs¹¹ where *societal return is a priority but they accept a financial return* is increasing (from 36% in 2010 to 48% in 2011 and 39% in 2012) as are VPOs who put *societal and financial return on an equal footing* (from 14% in 2010, to 25% in 2011 and 28% in 2012). This is to the detriment of VPOs requiring a *societal return only* (from 50% in 2010 to 26% in 2011 and 33% in 2012). However three years of data is still a limited time in which to consider trends so it is too early to draw definitive conclusions. Nevertheless the pattern is consistent with the view that although societal return remains the primary objective of the majority of VPOs, in a time of scarce resources, recycling capital is increasingly important.

VPO investment priorities in 2012, 2011 and 2010 (by % of respondents)

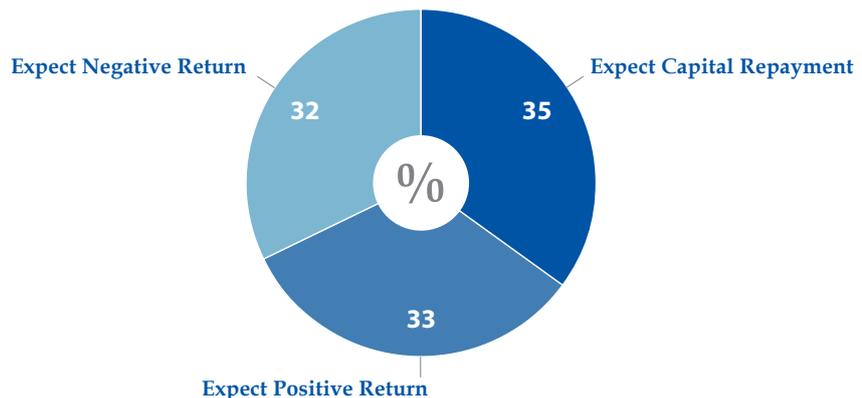


When asked about the financial return they expected from their venture philanthropy investments, the responses were relatively evenly distributed between those VPOs expecting a positive return (33%), those expecting capital to be repaid (35%) and those expecting a negative return (32%).

Summary of return expectations of VPO respondents

11. This analysis refers to the responses from a large majority (98%) of the VPOs who answered the relevant question. Certain outlying responses were not included in the analysis to ensure the results provided an accurate representation of the industry as a whole.

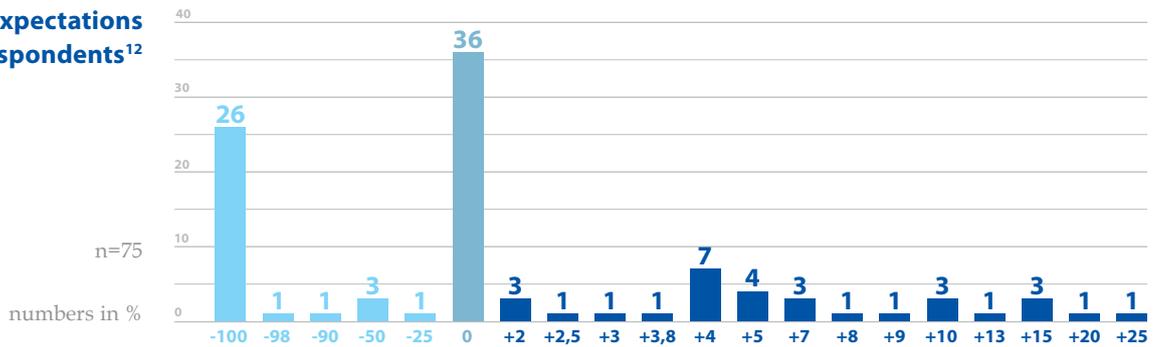
n=75



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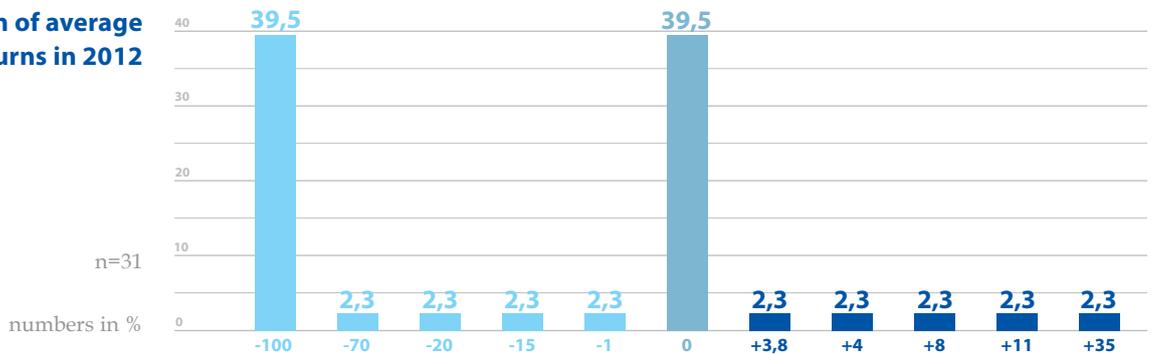
For those VPOs that expected a positive return from their investments the percentage return expected varied from 1% to 25% showing an increase in the distribution of expected positive returns from last year's results.

Details of return expectations of VPO respondents¹²



The survey then asked the respondents whether they had realised any of their investments in the last fiscal year and if so, with what average return. Of the 31 respondents to this question, 39% received full capital repayment and 39% no capital repayment at all. Of the 12% that had realised positive returns in 2012 we see a range from 4% to 35%. Given the small sample of those respondents who received a positive return in 2012 we cannot draw far-reaching conclusions about this result, however it does seem to reflect the diverse geographies and sectors where VP/SI is being applied.

Distribution of average realised returns in 2012



12. Due to rounding numbers may not add to 100%.

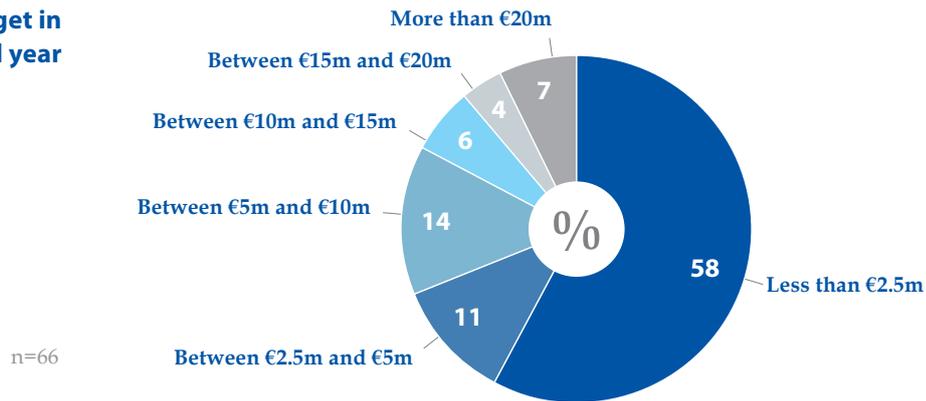
Part 2: Presentation of Survey Results

3. Resources of European Venture Philanthropy / Social Investment

Financial capital

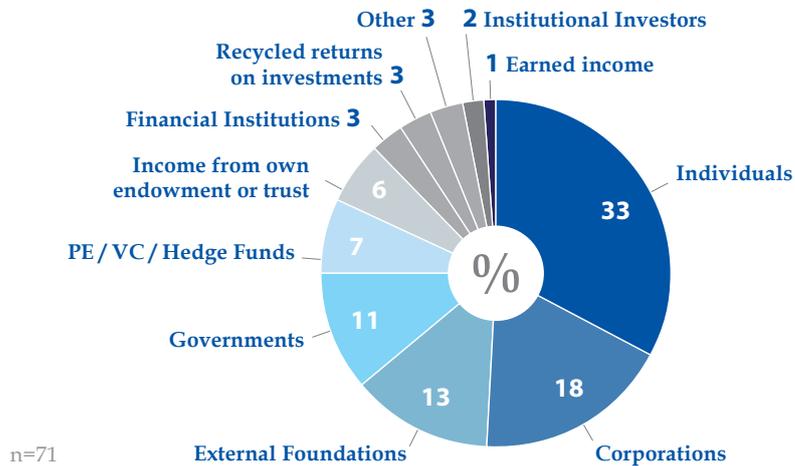
Many European venture philanthropy organisations still have annual budgets lower than €2.5 million. In line with last year's results, the majority of organisations (58%) allocated less than €2.5 million to VP/SI (as a total budget including investments and overhead expenses) in the last fiscal year, the average amount allocated was €7.2 million and the median was €1.5 million. Only a small percentage (7%) had a budget greater than €20 million. The specific question asked was the amount budgeted to a VP/SI strategy in a fiscal year rather than the size of the endowment or fund, avoiding the problem that only a small percentage of endowments tend to be spent every year.

Size of VP/SI budget in the last fiscal year



Individuals are the most important funding sources¹³. This year, individual donors and investors represent the main source of funding for VP/SI activities, with 33%. This is a significant increase from last year's data where they represented 16%. PE / VC / Hedge funds, which represented the largest funding source at 17% last year decreased to 7%.

Distribution of total funding made available by source



13. This analysis refers to the responses from a large majority (98%) of the VPOs who answered the relevant question. Certain outlying responses were not included in the analysis to ensure the results provided an accurate representation of the industry as a whole.

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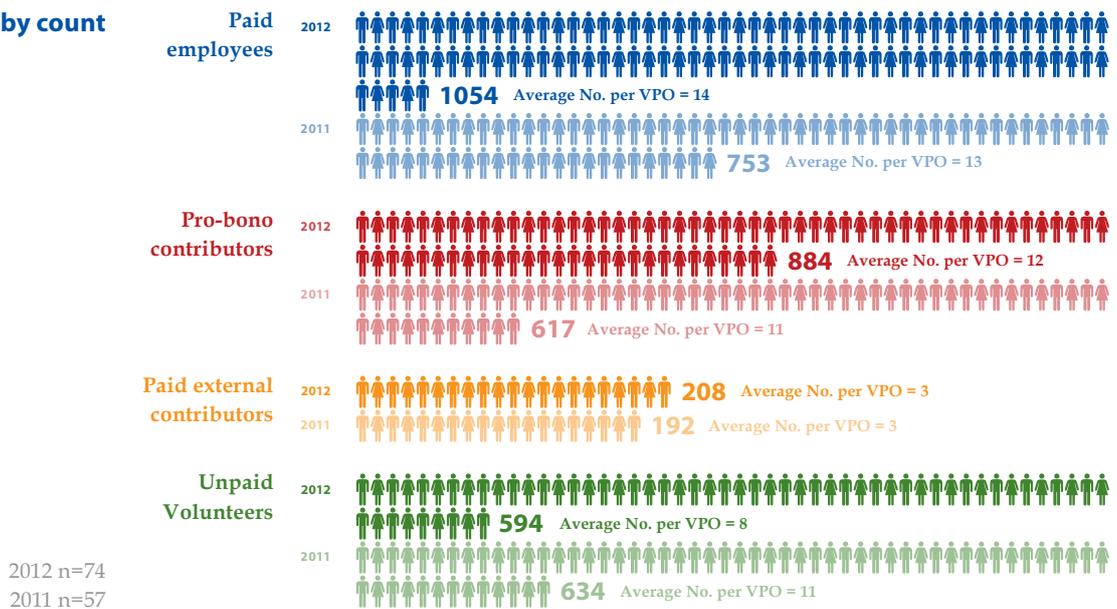
Interestingly, funding support from external foundations doubled in % terms from 6% last year to 13% this year, suggesting the increasing importance of venture philanthropy and social investment for these funders. Corporations reinforced their position, increasing from 14% to the second most important source at 18%, while government reduced from 14% to 11%.

Human capital

VPOs continue to build internal capacity and count less on unpaid volunteers. Venture philanthropy combines financing with non-financial support, implying that a key resource is human capital. The survey found that the total number of paid employees increased to 1054 people, from 753 last year, and the average staff size increased from 13 to 14 employees.

The pool of volunteers decreased to 594 people from 634 in last year’s survey. However, the pro-bono contributors increased to 884 people from 617, and paid external contributors also showed an increase to 208 from 192 people. Traditionally VP/SI organisations have hired consulting services and pro-bono support from various types of organisations in their networks as well having a pool of volunteers. In conclusion, there seems to be a trend towards **more paid employees and pro-bono supporters**, and less unpaid volunteers. This seems to indicate that VPOs are further building the capacity of their teams to better support their investees. The pro-bono supporters are able to provide more targeted and higher level support to investees as opposed to volunteers that help out in a more general way.

Human resources by count

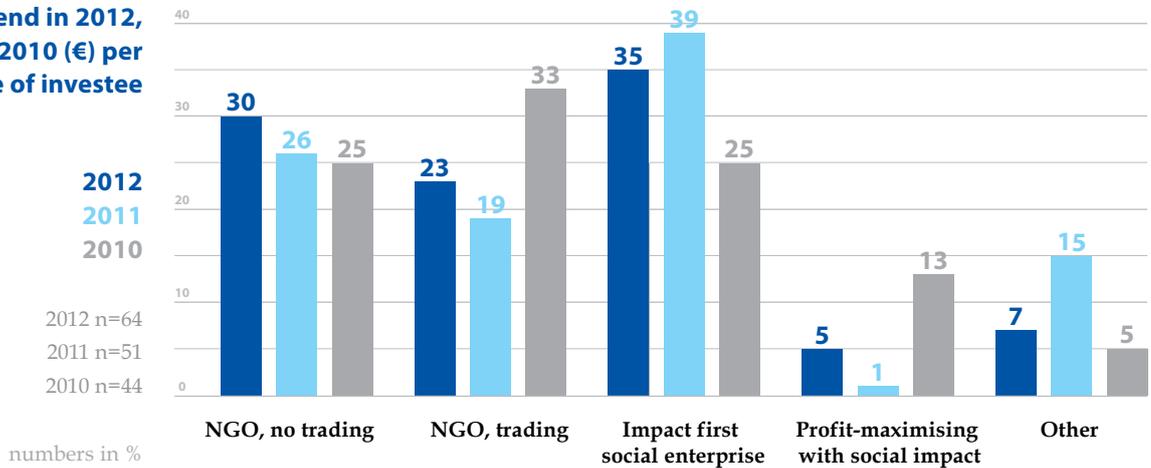


Part 2: Presentation of Survey Results

4. Venture Philanthropy / Social Investment focus

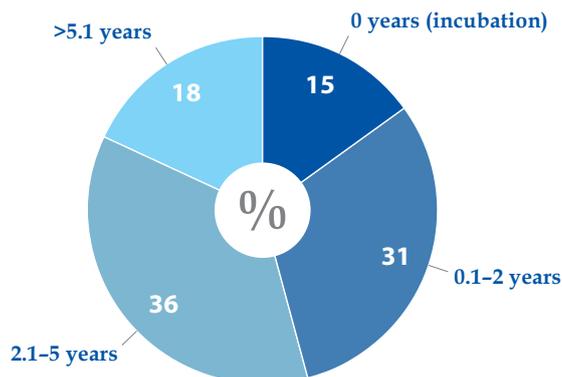
Social enterprise remains the key target of European VPOs. European VPOs¹⁴ continue to invest across a spectrum of organisational types. Social enterprise remains the main target of VP/SI investment, receiving 35% of funding in fiscal year 2012. However, VPOs still target non-profit organisations, with or without trading. Both types of non-profit saw increases from their levels in fiscal year 2011.

VP/SI Spend in 2012, 2011 and 2010 (€) per type of investee



European VPOs continue to take risks by investing in organisations with little track record. Confirming the results we have seen for the last two years, venture philanthropy and social investment generally targets organisations that are young, although 43% of organisations have no set criteria. Of those that do (57% of respondents), 2-5 years is the most common age of investee organisations (36% of respondents). Some VPOs target early-stage organisations with an age of 0-2 years (31%), and others take the risk of incubating start-ups (15% of respondents). With a slight increase from last year's results, 18% of respondents (compared to 13% in 2011) invest in more mature organisations that are more than 5 years old.

Age of investee organisations, for those VPOs that had a set criteria



¹⁴ This analysis refers to the responses from a large majority (98%) of the VPOs who answered the relevant question. Certain outlying responses were not included in the analysis to ensure the results provided an accurate representation of the industry as a whole.

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The International Classification of Non-profit Organisations

Social sector focus

The social sector classification used follows the International Classification of Non-profit Organisations (ICNO)¹⁵, first introduced by Salomon and Anheier in 1992, which has since become a standard in research on the non-profit sector. The classification system is as follows:

1.	Culture and Recreation (Culture, Arts, Sports, Other Recreation and Social Clubs)
2.	Education (Primary, Secondary, Higher, Other)
3.	Research
4.	Health (Hospitals, Rehabilitation, Nursing Homes, Mental Health / Crisis Intervention)
5.	Social services (Emergency, Relief, Income Support / Maintenance)
6.	Environment (organic, cleantech, animal protection)
7.	Development and Housing (Economic, social, community development, fair trade, ethical clothing, employment and training)
8.	Law, Advocacy and Politics (Civic/advocacy organisation, law/legal services, political orgs)
9.	Philanthropic intermediaries and Voluntarism promotion
10.	International (intercultural understanding / development and welfare abroad / providing relief during emergencies)
11.	Religion
12.	Business and Professional associations, Unions
13.	Other
14.	No focus

Given the importance of classification 7, “Development and Housing” to the VP/SI sector in Europe, this was divided into two categories: Economic & Social Development and Housing. The high number of respondents who responded “Other” and then stated that this was “Financial Inclusion”, including microfinance, microinsurance, and other types of access to finance, meant that this was added as a separate category in our analysis.

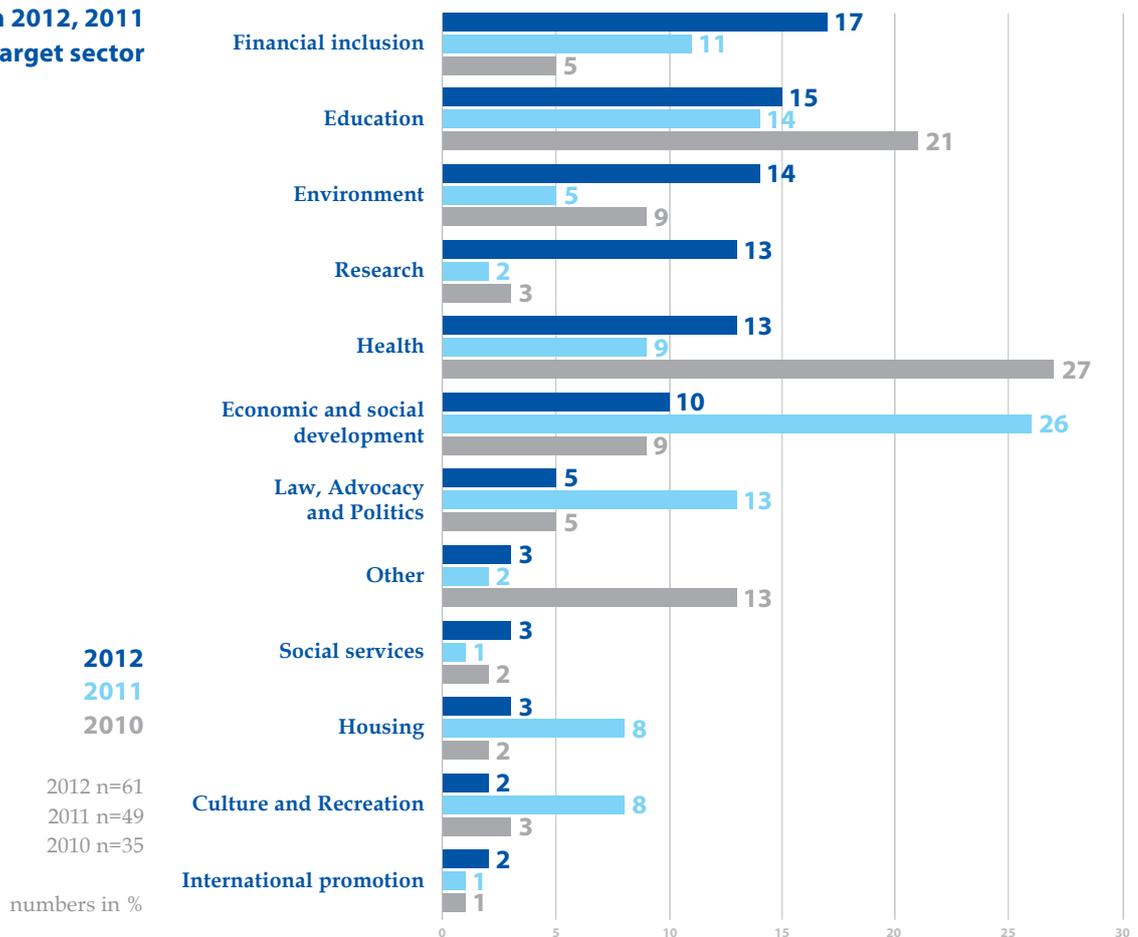
We asked respondents¹⁶ to indicate the value of the investments made in the last fiscal year dedicated to each social sector. The following chart takes the resulting percentages for 2012 and compares the results to 2011 and similar data from 2010. In terms of funding, health (13% of funding in 2012) and education (15% of funding in 2012) remain among the top sectors and are joined by environment (14% of funding in 2012). Interestingly, financial inclusion (17% of funding) and research (13% of funding, although the increase in funding for research was mainly due to one specific new responder to this survey) now rank among the top sectors in terms of funding, to the detriment of economic and social development.

15. Salomon, L. M., and Anheier, H. K. (1992). In search of the nonprofit sector. II: The problem of classification. *Voluntas*, 3(3), 267-309. Link to the publication: http://ccss.jhu.edu/wp-content/uploads/downloads/2011/09/CNP_WP3_1993.pdf

16. To ensure an accurate comparison to previous years, responses that were purposely excluded from last year’s survey were included this year given they responded to both years’ surveys.

Part 2: Presentation of Survey Results

VP/SI Spend in 2012, 2011 and 2010 (€) by target sector



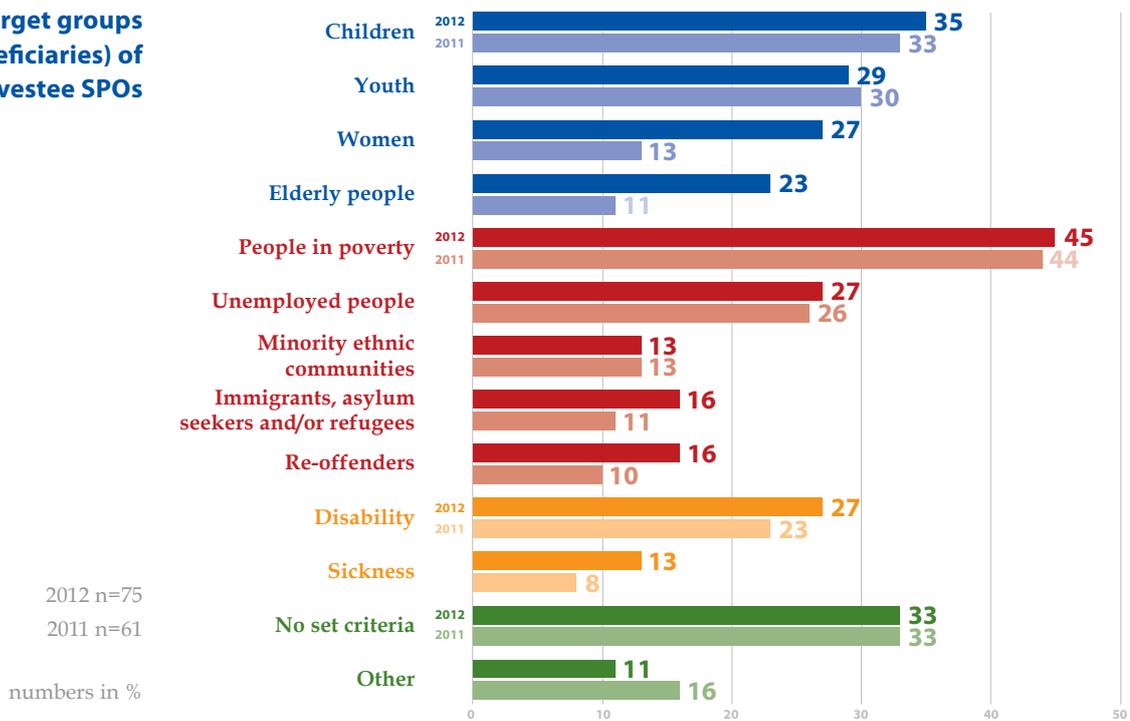
Final beneficiaries – target groups

Children and youth remain the main beneficiary of VP/SI investments. The survey also asked whether VPOs targeted any particular type of final beneficiaries of the investee SPOs. These categories are non-exclusive, meaning that the same SPO may be targeting Immigrant Women, or Disabled Youth. Therefore, the survey question allowed respondents to provide multiple answers. The survey found that, like the previous two years, 64% of European VPOs target children and youth as the ultimate beneficiaries of their investees’ activity. People suffering from poverty (45%) are still the second most supported group, however both women (27%) and elderly people (23%) are now a more important group of support than in fiscal year 2011. Unemployed people (27%) remain important, followed by disabled (27%), re-offenders (16%), immigrants, asylum seekers and/or refugees (16%) and minority ethnic communities (13%). With increasing percentage numbers across all beneficiaries, we must ask why. Could SPOs be reaching more categories of beneficiaries with the same intervention?

The chart below provides the entire data set.

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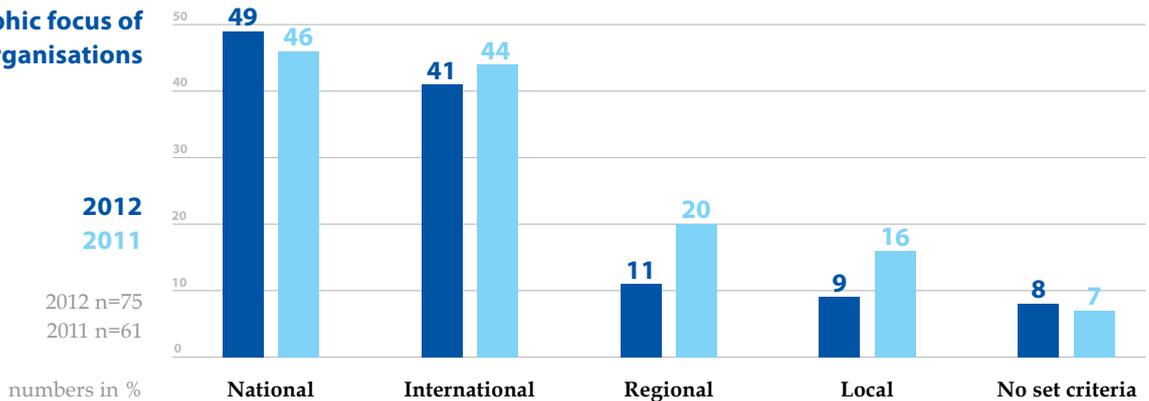
**Ultimate target groups
(final beneficiaries) of
investee SPOs**



Geographies targeted

European VPOs tend to focus their activities either nationally i.e. in their home countries (49%) or internationally i.e. outside their home countries (41%). The remainder is divided between a regional focus (11%) or local focus (9%) within their home countries or no set criteria. It would be interesting to understand further this bifurcation. In theory, the VP/SI approach requires proximity to the investees (given the importance of non-financial support), but the national focus probably means that the sector is not developed enough to generate sufficient deal flow at regional or local scale. We also wonder if a majority of those organisations who invest internationally have teams on the ground to facilitate the provision of non-financial support?

**General geographic focus of
VP/SI organisations**



Part 2: Presentation of Survey Results

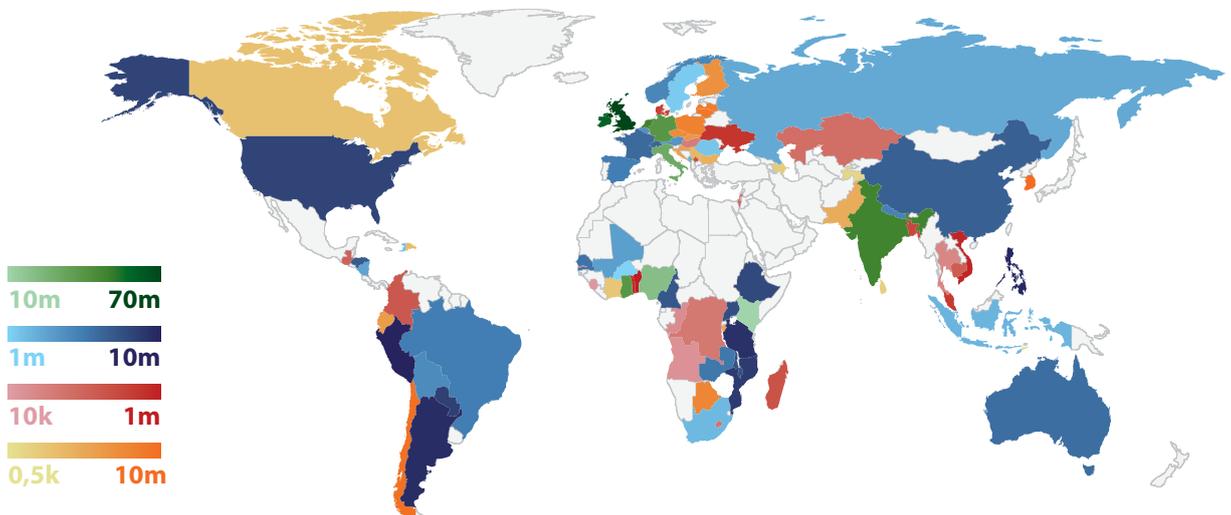
Western Europe followed by Africa remain the principal target regions. In line with last year's results, European VPOs tend to focus their activities in Western Europe (49% of funding) and otherwise on developing countries, with Africa (26%) being the main target region followed by Latin America (11%) and Asia (10%). North America, Eastern Europe and Oceania attract just 2%, 1% and 1% of funding, respectively.

Geographic focus of VPOs by € Spend in 2012



The chart below shows a more visual representation of the countries that receive most investment from European VP/SI organisations. The UK received the highest amount of investment (almost €70m), followed by Ireland (€56m) and India (€20m). Also in the top 10 for receiving investments from European VP/SI organisations were the Netherlands (€17m), Germany (€17m), Ghana (€15m), Italy (€14m), Nigeria (€12m), Kenya (€10m), and Peru (€9m), reinforcing the support from European VP/SI for organisations both in Europe and in the developing world, in particular Africa.

Country focus of VPOs by € spend in 2012



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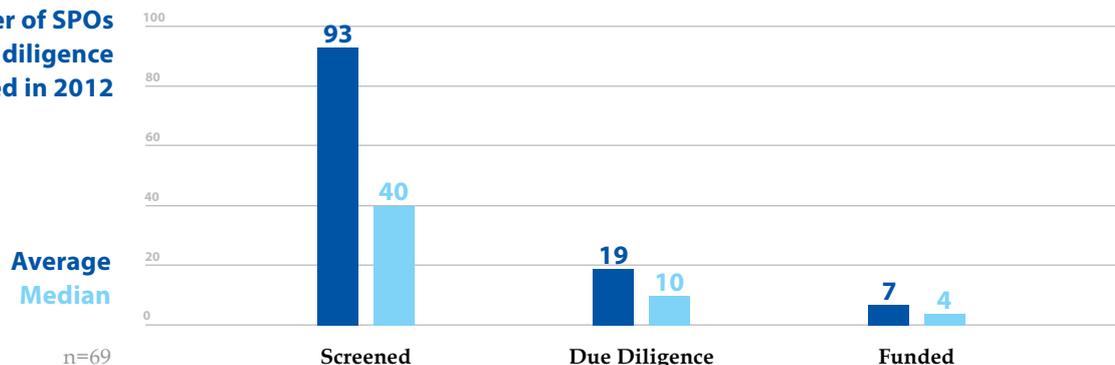
5. Highlights from the VP / SI Investment process

a. Deal flow and investment appraisal

The VPOs screened almost **6500** potential investment opportunities in 2012, a 30% increase from the 5000 screened in 2011.

On average, a VPO will screen 93 organisations in a year, do further due diligence on 19 of them and select 7 investees. In other words, to fund one new investee, a VPO will have screened 13 SPOs and performed due diligence on 3.

Average number of SPOs screened, under due diligence and funded in 2012



b. Investment

Total investment made in VP/SI

Average financial support per VPO increases by 19% in 2012 as compared to 2011. VP/SI organisations, as captured in the survey, have invested just over €2.5 billion in financial and non-financial support since they began their operations (the average age of VP/SI activity being 7.5 years).

There was a 19% increase in the average annual financial spend per VPO from €5.2 million in 2011 to €6.2 million in 2012. Despite these average numbers there is still a significant concentration in the amounts available for funding SPOs, with the top five VPOs accounting for 57% of all VP/SI investment that occurred in 2012.

The yearly financial spend of European VP/SI organisations, using a VP/SI approach according to EVPA's definition, with investments ranging from grants to equity was €413 million in 2012 for the aggregate 66 respondents who answered this question, an increase of 49% as compared to the annual spend of €278 million in 2011 for 54 respondents, and an increase of 119% as compared to the annual spend of €189 million in 2010 for 44 respondents.

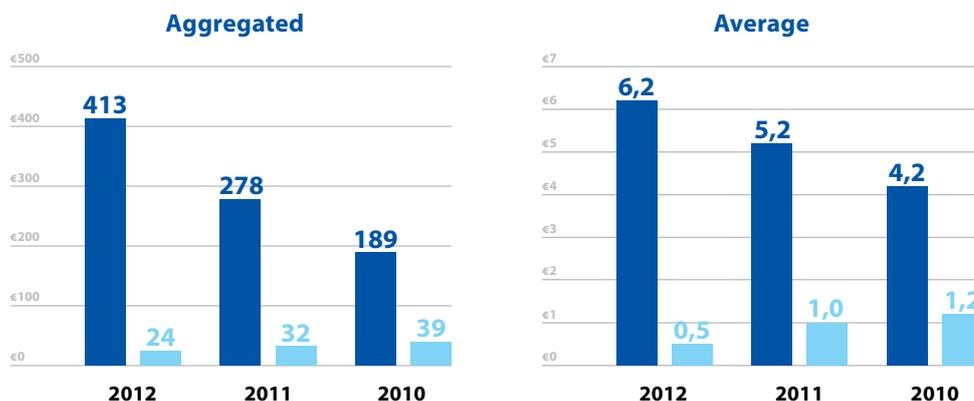
Part 2: Presentation of Survey Results

Aggregated (all respondents) & Average (per VPO) annual spend (€) on VP/SI

Financial Spend Non-financial Spend

Financial spend
2012 n=66, 2011 n=54, 2010 n=45
Non Financial spend
2012 n=47, 2011 n=31, 2010 n=31

numbers in € million



	Aggregate (all respondents)			Average (per VPO)		
	2012	2011	2010	2012	2011	2010
Financial Spend / Total Spend	95%	90%	83%	93%	84%	77%
Non-financial spend / Total Spend	5%	10%	17%	7%	16%	23%

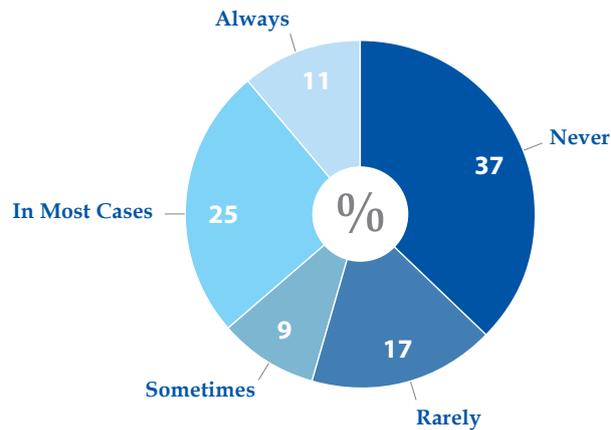
Non-financial support is still difficult to quantify. The non-financial spend displays an opposite trend to the financial support with €24 million spent in 2012 with 47 respondents, compared to €32 million spent in 2011 with 31 respondents and to €39 million spent in 2010 also by 31 respondents. The amount spent on non-financial support is merely 5% of the total spend in 2012, a decrease from the 10% reported in 2011 and 17% reported in 2010.

Given the high engagement nature of venture philanthropy and social investment, one would expect a much higher level of non-financial support. Further research should be carried out to understand what is behind this trend. Is non-financial support really decreasing – or is it just that, for many, non-financial support is difficult to quantify? Preliminary evidence indicates that many VPOs do not quantify the value of the presence of pro bono experts and volunteers and that sometimes staff days may not be counted as expenditure.

To understand whether difficulties in measuring the cost of non-financial support were a potential cause for this trend, the survey probed respondents about whether they did so. Only 11% of respondents always measure the cost of the non-financial support provided and 37% never do. Having said that, 25% of respondents do so in most cases and 9% sometimes do. It seems that the challenge of measuring the non-financial support provided could be one of the causes of the trend.

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Proportion of VPOs who measure non-financial support

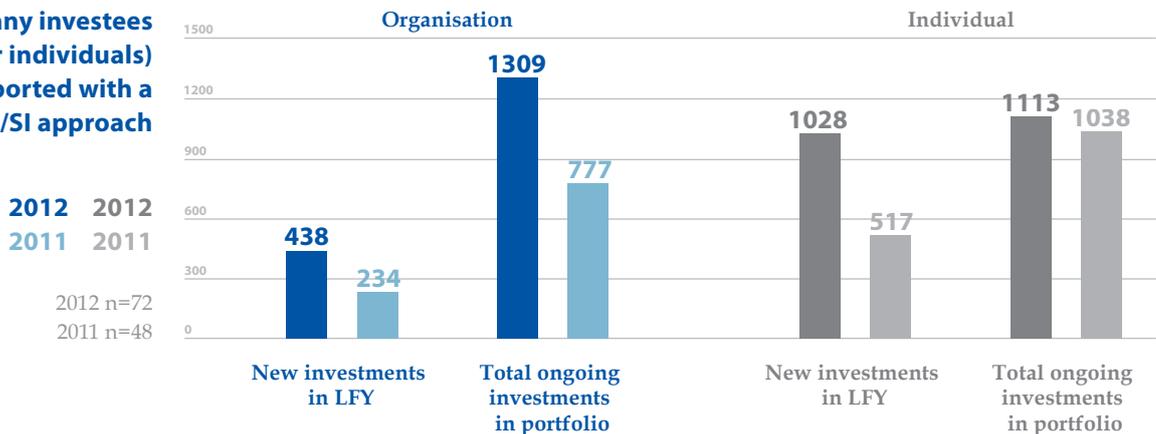


n=75

No. of investees

VPOs have supported almost double the number of SPOs in 2012 compared to 2011. In 2012, 72 respondents made new investments in 438 organisations and 1028 individuals. This brought the total number of investees held in portfolios to 1309 organisations (increasing from 777 in 2011) and 1113 individuals (increasing from 1038 in 2011).

How many investees (organisations or individuals) have you supported with a VP/SI approach



2012 n=72
2011 n=48

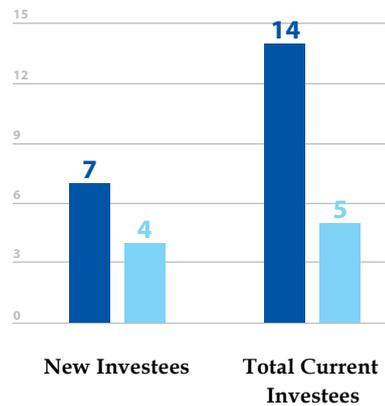
Focusing on those VPOs that invest in organisations we find that for fiscal year 2012 the median number of investee organisations in the portfolio of a VPO was 5 and the average number is 14. The median number of new investee organisations added to the portfolio in 2012 is 4 and the average is 5. These results reinforce our view that the high engagement approach of venture philanthropy is only possible with portfolios containing a relatively small number of investees.

Part 2: Presentation of Survey Results

Median and average investees (organisations) per VPO

Average Median

n=72

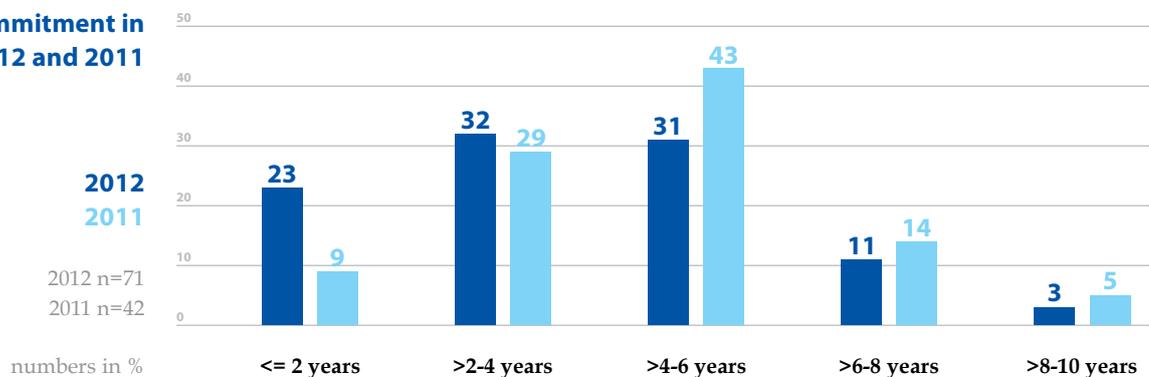


Duration of investment

VPOs have shortened the duration of their average commitments. Although the majority of VP/SI organisations follow a multi-year investment approach, with 63% committing to support investees for between 2 and 6 years, we see a significant increase in the number of VPOs investing for less than 2 years (from 9% in 2011 to 23% in 2012). Some VPOs do still commit for longer time periods, for example 6–8 years (11% in 2012, down from 14% in 2011) and 8 to 10 years (3% in 2012, down from 5% in 2011), however the proportion has decreased.

Given another of the VP/SI principles is multi-year support, claiming that the SPOs need to receive funding and management support for several years in order for a step change to happen, it is important to dig deeper into what is driving this change. Is this a change in strategy on the part of VPOs or is it a symptom of the more difficult financing environment? Are VPOs becoming less “patient”?

Average Commitment in 2012 and 2011



Capacity building. One of the issues that the VP/SI approach attempts to solve is the lack of financing dedicated to the core costs of SPOs. Non-profit managers are more often able to raise money for specific projects than for the strategic development of the organisation itself. Since VP/SI aims to build stronger SPOs, it is also **logical that much of the fund-**

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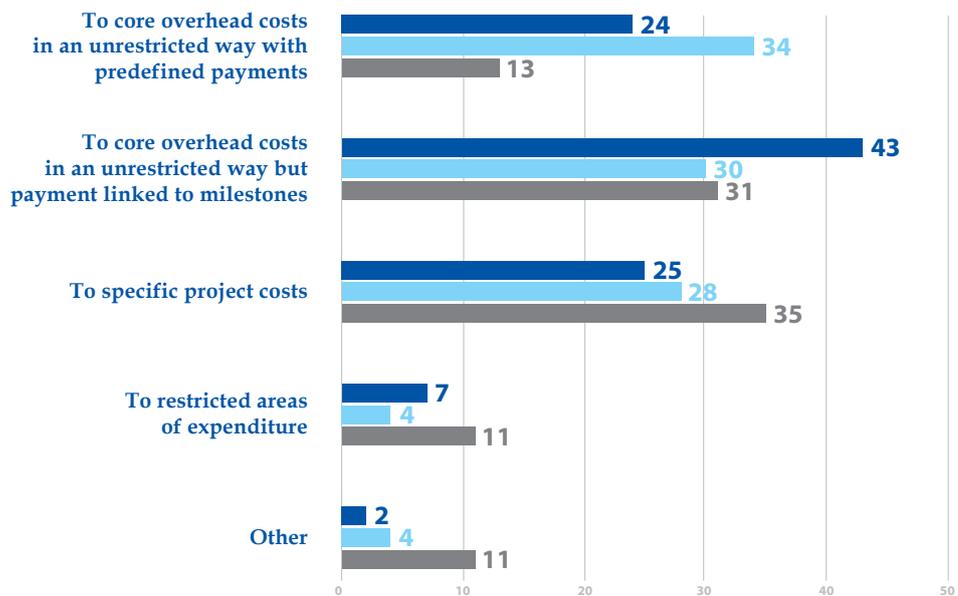
ing goes to support core costs. The survey tested the extent to which this is happening by asking respondents how they allocate their funds. Comparing to 2011 and 2010 results we continue to see an increase in the percentage of funds directed to overhead costs, increasing from 44% in 2010 to 64% in 2011 to 67% in 2012. We also see a continued decrease in funding going to project costs, decreasing from 35% in 2010 to 28% in 2011 to 25% in 2012. This change seems to indicate that **VPOs are moving towards best practice in using the VP/SI approach**. Nevertheless it is clear that funding of project costs is not disappearing entirely.

Respondents' "portfolio" of allocation of funds in 2012, 2011 and 2010

2012
2011
2010

2012 n=63
2011 n=42
2010 n=43

numbers in %



17. This analysis refers to the responses from a large majority (98%) of the VPOs who answered the relevant question. Certain outlying responses were not included in the analysis to ensure the results provided an accurate representation of the industry as a whole.

18. Grants are cash allocations that do not produce any repayment and a negative financial return.

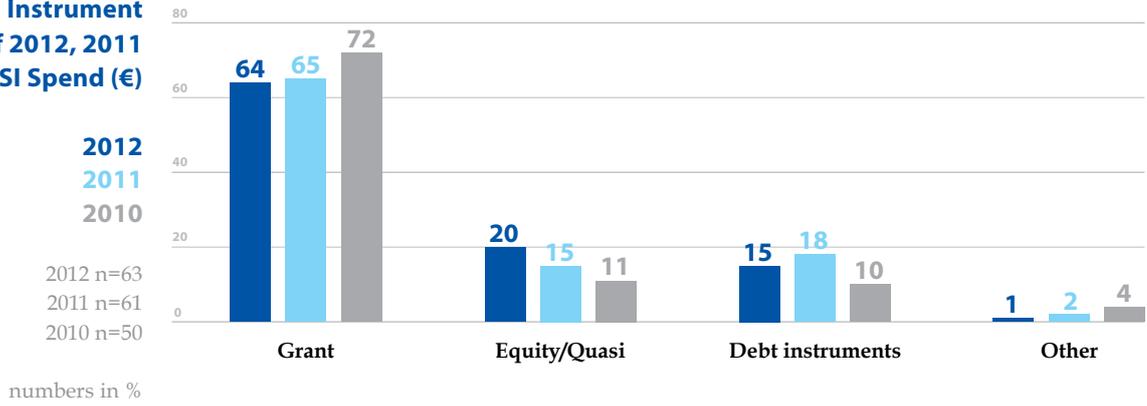
19. Equity involves becoming a shareholder of the investee organisation, and quasi-equity or mezzanine finance is a provision of a high-risk loan, repayment of which depends on the financial success of the investee.

Financing tools used

Tailored financing is a reality with grants, debt and equity used by over 50% of respondents. Grants remain the primary financing instrument in terms of € spend. VP/SI organisations¹⁷ use a range of financing instruments, from grants to equity investments. In confirmation of the 2011 results, grants¹⁸ remain the primary financing instrument used by European VPO's in terms of total funding, representing 64% of the funding distributed to investees, in line with the 65% of total funding distributed through this tool in 2011. This category also includes stipends, a form of funding often used to finance individual social entrepreneurs. Equity and quasi-equity¹⁹ represent 20% of the total funding, an increase from the 15% in 2011 and 11% in 2010. Debt instruments see a marginal decrease from 18% in 2011 to 15% in 2012 but still show an increase compared to the 10% in 2010. Debt instruments include loans, senior loans, subordinated loans, and convertible loans. Other includes hybrid grants, guarantees and other financing instruments.

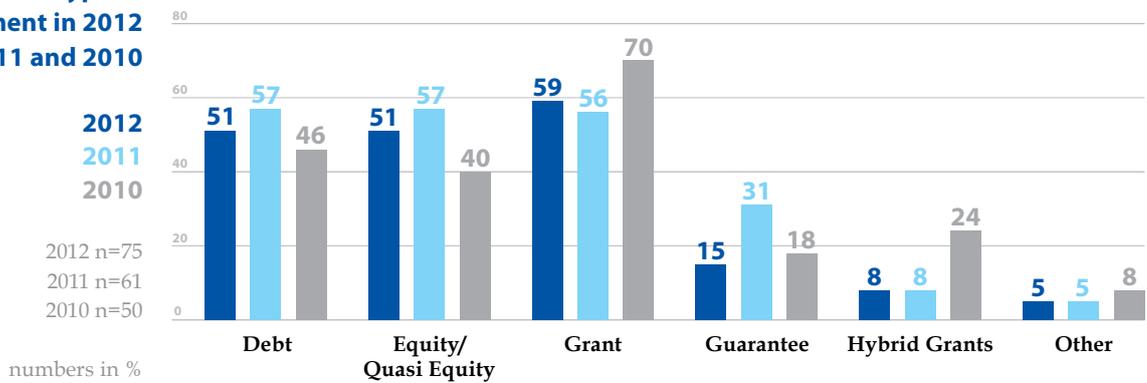
Part 2: Presentation of Survey Results

Financial Instrument Portfolio, % of 2012, 2011 and 2010 VP/SI Spend (€)



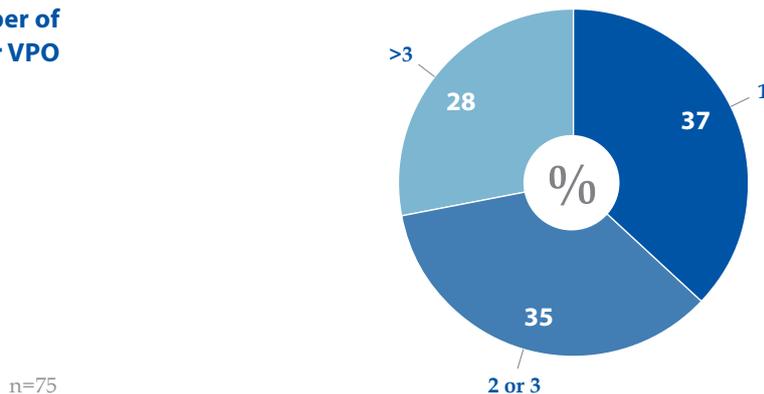
The usage of variety of financing instruments is reinforced by the 2013 survey results, showing that over 50% of respondents use equity, debt and grants, proving that tailored financing is becoming a reality for many.

% of VPOs using each type of financing instrument in 2012, 2011 and 2010



When asked the average number of instruments used, the respondents' answers were fairly evenly split between greater than 3 instruments, two to three instruments and one instrument, reinforcing the idea that tailored-financing is a reality.

Average number of instruments used per VPO



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c. Exits

In VP/SI, the “exit strategy” is the action plan for how to end the relationship in a way that minimises the negative impact on the investee. The “exit” is the end of the relationship between the VPO and an investee organisation either after a pre-defined time when the VPO can no longer add value or when the investment objectives have been achieved. In the case of a grant-funded investment, the exit is a discontinuation of a grant, whereas for social investment the exit may involve repayment of a loan, or divestment of an equity stake. In any case, an exit requires careful planning and support, notably by building both the organisational and financial resilience/independence of the investee organisation. Other KC publications²⁰ include greater detail on how to conduct exits in VP and social investment and the KC is currently conducting more in depth research on exit strategies.

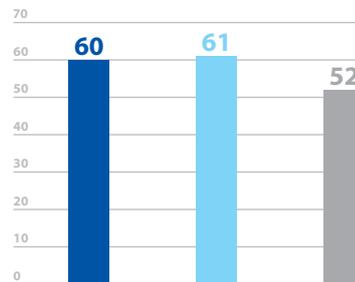
We also asked whether the VPO respondents had achieved any exits so far. Confirming last year’s results, a majority of VPOs (60%) have already been through an exit process, compared to 61% in 2011 and 52% in 2010.

% of VPOs that have experienced exits (2012, 2011 and 2010 data)

2012
2011
2010

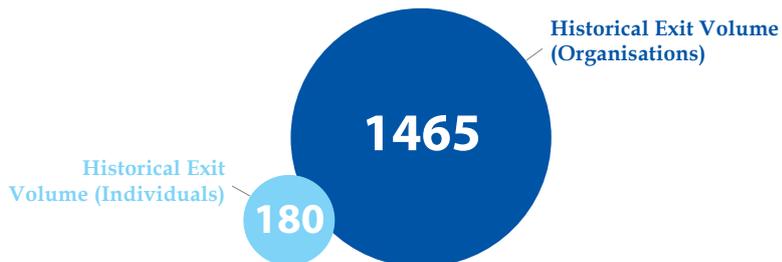
2012 n=75
2011 n=61
2010 n=50

numbers in %



The 47 VP/SI organisations that provided a number for historical exits reported to have exited from 1465 organisations and 180 individuals in total. 218 of those exits took place in 2012.

Historical exits (by count) to date



20. Balbo, L., Hehenberger, L., Mortell, D., & Oostlander, P. (2010), “Establishing a Venture Philanthropy Organisation in Europe”, EVPA Knowledge Centre Research Paper. http://evpa.eu.com/wp-content/uploads/2010/11/EVPA-Knowledge-Centre_Establishing-a-Venture-Philanthropy-Organisation.pdf

n=47

Part 3: Conclusion

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The 2013 EVPA survey confirms many of the findings of the 2012 survey but also raises some interesting questions about the evolution of the VP/SI sector in Europe. We have listed those questions at the end to spur debate in the sector as a whole.

Support for the societal purpose organisations through the VP/SI method, continues to increase with **over €2.5 billion invested since inception**. The average financial support per VPO increased almost 20% to €6.2 million. VPOs are increasing their staff with both total and average numbers increasing. However, non-financial support, considered a key part a VP/SI approach is not following suit. Additionally when considering the annual budgets of VPOs (i.e. taking account of investments and overheads) we see that these remain small, with **58% of respondents having budgets of less than €2.5 million**.

There is a **fairly even split** between VP/SI organisations seeking capital repayment, a positive financial return or accepting a negative return, with the **focus** in all cases on achieving a **societal return**. In terms of sectors and beneficiaries, VP/SI organisations still support a wide range of sectors and beneficiaries with **financial inclusion topping the sectors** ahead of education, environment and health. **Children and youth remain the main beneficiaries of VP/SI investments**. In line with 2011, the **bulk of funding continues to go to Western Europe and Africa** but we see higher amounts of funding going to Latin America in 2012.

European VPOs²¹ continue to invest across a spectrum of organisational types but **social enterprise remains the main target of VP/SI investment**. The VPO respondents **screened almost 6500** potential investment opportunities and **supported 438 organisations and 1028 individuals** in 2012, almost doubling the number of new interventions supported in 2011.

Tailored financing is a reality with grants, debt and equity used by over 50% of respondents. Although **grants remain the primary financing instrument** in terms of € spend.

Confirming the results we have seen for the last two years, **European VPOs continue to take risks by investing in organisations with little track record**. And, in an apparent move towards VP/SI best practice, **funding is increasingly allocated to overhead costs**. A final notable concern is that **VPOs have shortened the duration of their average commitments**.

Key trends and debate questions on VP/SI practices

It is clear that on some aspects, the survey results are very positive and show strong evidence of continued growth, particularly in terms of € amounts invested, organisations supported and evidence that the sector is moving towards best practice in the VP/SI approach in some areas e.g. tailored financing and organisational capacity building (through funding overhead costs).

In what follows, we summarise the key trends of the survey and raise a couple of questions that are meant to spark debate and push VP/SI practitioners to think even harder about their practices and how they can work more effectively.

²¹. This analysis refers to the responses from a large majority (98%) of the VPOs who answered the relevant question. Certain outlying responses were not included in the analysis to ensure the results provided an accurate representation of the industry as a whole.

Part 3: Conclusion

1. Key trends

- *Financial support increases:* Despite difficult circumstances due to the financial crisis, the survey provides clear evidence that the venture philanthropy and social investment **sector continues to grow**. The average financial support provided by VPOs to investees increased by almost 20% to €6.2 million from 2011 to 2012.
- *Staff size increases:* While many organisations have been letting go of employees, **VPOs have hired more staff**, with total number of employees increasing from 753 to 1054 and average staff size increasing from 13 to 14 employees. This seems to indicate that VPOs are further building the capacity of their teams to better support their investees.
- *Representing entire spectrum:* The VPOs are fairly **evenly spread** between those expecting a negative financial return, capital repayment and a positive financial return, with societal impact being either the only purpose, the main purpose, or at the same level as financial return.
- *Organisational capacity building funded:* The percentage of funding allocated to overhead costs is moving in the right direction, allowing more investees to **build internal capacity**.

2. Debate questions

- *Multi-year support:* Given **an increasing number of VPOs are committing for less than two years, is this a change in strategy on the part of VPOs** or is it a symptom of a more difficult financing environment?
- *Non-financial support:* **Is non-financial support really decreasing or is it just that for many non-financial support is difficult to quantify**, especially considering the presence of pro bono experts and volunteers and the possibility that sometimes staff days may not be counted as expenditure?

EVPA is committed to continue the research and promotion of best practice in the key components of the VP/SI model and reiterates the importance of a collaborative approach to developing the sector. We would be delighted to hear from readers as to their views on the questions raised in the survey and/or on any additional thoughts or comments on what is driving these potential trends. Any comments or suggestions can be sent to lhehenberger@evpa.eu.com.

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Appendix

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List of Respondents to the Survey

Absolute Return for Kids, <i>United Kingdom</i>	Immochan, <i>France</i>
Adessium, <i>The Netherlands</i>	Impact Finance, <i>Switzerland</i>
Alter Equity, <i>France</i>	Incluvest BV, <i>The Netherlands</i>
Anton Jurgens Fonds, <i>The Netherlands</i>	Inkludera Invest, <i>Sweden</i>
Artha Initiative, <i>Switzerland</i>	Inspiring Scotland, <i>United Kingdom</i>
Ashoka, <i>Germany</i>	Invest for Children, <i>Spain</i>
Atlantic Philanthropies, <i>Ireland</i>	Investir & +, <i>France</i>
Auridis, <i>Germany</i>	Karuna Foundation, <i>The Netherlands</i>
Bamboo finance, <i>Switzerland</i>	King Baudouin Foundation, <i>Belgium</i>
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BonVenture Management GmbH, <i>Germany</i>	Martin & Gerda Essl Sozialpreis, <i>Austria</i>
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CAF Venturesome, <i>United Kingdom</i>	Medicines for Malaria Venture, <i>Switzerland</i>
Canopus Foundation, <i>Germany</i>	NESsT, <i>Hungary</i>
The Children's Investment Fund Foundation (CIFF), <i>United Kingdom</i>	Nesta Investment Management, <i>United Kingdom</i>
Citizen Capital, <i>France</i>	Noaber Foundation, <i>The Netherlands</i>
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Den Sociale Kapitalfond, <i>Denmark</i>	Shaerpa, <i>The Netherlands</i>
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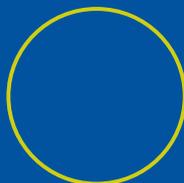
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Established in 2004, EVPA aims to be the natural home as well as the highest value catalytic network of European Social Investors committed to using venture philanthropy and social investment tools and targeting societal impact.

EVPA's membership covers the full range of venture philanthropy and social investment activities and includes venture philanthropy funds, social investors, grant-making foundations, impact investing funds, private equity firms and professional service firms, philanthropy advisors, banks and business schools. EVPA members work together across sectors in order to promote and shape the future of venture philanthropy and social investment in Europe and beyond. Currently the association has over 170 members from 23 countries, mainly based in Europe, but also outside Europe showing the sector is rapidly evolving across borders.

EVPA is committed to support its members in their work by providing networking opportunities and facilitating learning. Furthermore, we aim to strengthen our role as a thought leader in order to build a deeper understanding of the sector, promote the appropriate use of venture philanthropy and social investment and inspire guidelines and regulations.
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