

# Venture Philanthropy: Panacea or Snake Oil?

**T**he already heated debate in the non-profit sector about “venture philanthropy” is getting hotter by the day. Anyone who has not yet voiced an opinion on the subject is no doubt preparing to do so.

How has this fledgling field caused such a furor? Venture philanthropy has been both vilified as a perversion of charity and touted as the solution to the perceived limitations of traditional beneficence. Is it the hard-to-swallow but effective medicine the world of philanthropy needs? Or is it snake oil, an ineffective gimmick that will drag down the whole sector?

## Defining Venture Philanthropy

The term “venture philanthropy” is used by different people to mean very different things. (See page 61) It can be broadly described as an emerging field of “engaged philanthropy” that combines the policies and practices of long-term investment and venture capital models of the for-profit sector with the principles and public-benefit missions of the non-profit sector. Its strategies involve both capital investments in non-profit organizations or social enterprises and some form of technical or capacity-building assistance.

While traditional philanthropists usually award grants and subsidies, venture philanthropists offer their beneficiaries an array of financing options. Instead of one-year grants, they tend to provide longer-term (and perhaps larger-scale) investments. They may also take a position on a non-profit’s board to assist with organizational development and provide

other types of capacity-building, coaching, mentoring or technical assistance.

Venture philanthropists focus their support on the organization as a whole rather than on individual projects or programs. They also encourage innovation by sharing the risk of failure, rather than placing the burden solely on the non-profit.

Measurable results are important for venture philanthropists, who usually expect their beneficiaries to meet agreed benchmarks for success. They require regular progress reports, as opposed to a narrative with a financial report at the end of a grant term.

Exit strategies are also a part of life for venture philanthropists. These may be triggered once their goals are achieved; when they can no longer add value—for instance, when a non-profit outgrows the type of support provided; or when a beneficiary falls short of expectations.

Dorothy Ridings of the Council of Foundations in the United States



thinks that venture philanthropy is hardly a new concept. Indeed, donors and philanthropists have grappled with some of the issues for decades. The Peninsula Community Foundation in San Mateo, California, claims to be the “birthplace of venture philanthropy.” Its Center for Venture Philanthropy claims that the foundation coined the term in 1984, although it was popularized later in the *Harvard Business Review*. What is new is the unique application of venture philanthropy during the past few years. Ven-

ture philanthropy funds have surfaced only recently, putting long-debated principles into practice.

Venture philanthropy has been around in North America and Europe for more than a decade, but is relatively new in Latin America. NESsT, an international non-profit organization operating in Central Europe and in the Andean region and Southern Cone of Latin America, promotes venture philanthropy in developing countries through public education and investment. Through its NESsT Venture Fund

(Fondo Nido), it invests in a portfolio of social enterprises, providing both financial and technical assistance to help the enterprises grow, evolve and become profitable. (See box below)

### Skeptics of Venture Philanthropy

Venture philanthropy does not lack critics. According to Neil Carson of Responsive Philanthropy, venture philanthropy is something of a Rorschach test. “Depending on whom you ask, it

## Venture Philanthropy in Latin America: The NESsT Venture Fund (Fondo Nido)

Feasibility studies help enterprising non-profits make good business decisions.

#### Organization

**Comité para la Democratización de la Informática — CDI Chile**

#### Location

Santiago, Chile (programs throughout Chile)

#### Mission

Use technology as a tool to promote citizen education, health, non-violence, human rights, literacy and other concepts in the poorest communities of Chile through participation in Schools of Information Technology and Citizenship.

#### Social Enterprise

Create a computer-training center transferring the methodology used in mission programs to paying customers.

Cristina de Molina, CDI Chile’s co-director, approached NESsT in mid-2000 with the idea of founding an income-generating training enterprise to support her organization’s mission. Cristina had lofty goals: she wanted to start and organize this business venture and generate income to finance other activities. Using CDI’s proven methodology, the new enterprise would cater to for-profit firms and NGOs. The plan was to make use of the SENCE, a tax deduction that companies can take for the cost of training their staff. Companies can either use this benefit themselves or transfer it to NGOs. However, de Molina had scant knowledge of the size of the market, possible competitors or the potential yield of this enterprise. With NESsT’s support, CDI prepared a comprehensive feasibility study that helped clear these questions and aided her in drafting a more realistic business plan. As a consequence of this study, CDI decided to invest in a training center that could be used for its programs as well as other commercial activities, allowing the organization to achieve considerable savings.

#### Organization

**Corporación CIEM**

#### Location

San Felipe, Chile

#### Mission

Preservation and promotion of indigenous culture and local sustainable development in the Aconcagua region through the *Centro de Artes y Oficios El Almendral*, an arts and trades center, to teach local handicrafts, environmental conservation, etc.

#### Social Enterprise

Sale of printing services using donated equipment. Sale of local handicrafts and coffee shop for visitors.

Jorge Razeto, director of CIEM, requested help with three business activities: a small printing shop, a coffee shop and a handicrafts store. These businesses had already been launched, but neither the coffee shop nor the store had managed to cover its costs or generate income for CIEM. Only the printing shop seemed to be breaking even, and Razeto and his team did not have a clear idea of future earning potential of the businesses or how to make them grow. With NESsT’s support, CIEM is finishing a feasibility study that will help them decide the future of the businesses and seek financing for their expansion.

is the future of philanthropy, a passing fad, good grant making or misguided hubris,” he says.

Some critics believe that venture philanthropists are promoting an investment-like strategy that fails to recognize the unique needs and culture of non-profit organizations. Their interventions force non-profits to reengineer themselves in a way that many are unprepared to attempt. But although some philanthropists may have little knowledge about or experience with non-profits, there is indeed a high demand for investments in the sector. A large, untapped market of social entrepreneurs can benefit from the venture philanthropy approach to financing and technical support.

Others view venture philanthropy as a fleeting fashion that derived its cachet from entrepreneurs who became immensely rich thanks to the technology revolution. Certainly, many U.S. venture philanthropy funds depend on the energy, drive and wealth of founders from the high-tech sector. However, the principles and practices of venture philanthropy are now an integral part of the philanthropy sector.

**“Depending on whom you ask, it is the future of philanthropy, a passing fad, good grant making or misguided hubris.”**

—Neil Carson, Responsive Philanthropy

The field is becoming a mainstream financial source, attracting a wider body of proponents and investors and weaving itself into the fabric of the non-profit sector.

Some skeptics cite the high risks and uncertain returns in the venture philanthropy approach, even though the high rates of failure among startups in the for-profit sector have not dissuaded investors. Additionally, the high level of risk in the non-profit sector is balanced by a high potential for social returns. The non-profit ventures of the world may be pretty safe long-term investments if one is willing to

trade a purely financial return for a social return on investment.

Much of the criticism of venture philanthropy is aimed at the demand side of non-profit enterprise development, the obstacles and challenges non-profit entrepreneurs face and their capacity-building needs. Less thought is given to the supply side, the models and strategies for “investing” in entrepreneurial activities of non-profit organizations and strengthening these social-purpose enterprises. Venture philanthropy is largely regarded as unproven, much as microlending was viewed just a decade ago.

### Bottom Line

While most venture philanthropists are somewhat critical of the traditional approach to grant making, few question the fundamental importance of charitable giving. Venture philanthropy is intended to complement, not replace, beneficence. The field has attracted fresh resources to the non-profit sector by reaching out and engaging a new type of philanthropist. As long as these enterprising donors help expand the array of philanthropic investment tools, current charitable giving should not be threatened.

Venture philanthropy may be in its infancy, but it holds great promise for the diverse organizations of civil society, including those involved in micro-enterprise development. Just as venture capitalists once were an avant-garde and now are mainstream members of the for-profit financial world, venture philanthropists will soon be accepted by the rest of the non-profit sector.

—LEE DAVIS AND NICOLE ETCHART

*Adapted from “Venture Philanthropy: The Rise of New Philanthropy in the Old World,” an article published in Philanthropy in Europe (Paris, Spring 2001).*

### Three Faces of Venture Philanthropy

Venture philanthropy approaches help achieve a variety of different, though interrelated, ends.

#### 1. Investing in Individual Social Innovators:

Some venture philanthropists provide targeted financial and capacity-building support to individuals they refer to as “social entrepreneurs”—individual leaders who address a critical social problem in a unique or particularly effective way.

#### 2. Investing in Social Purpose Enterprises:

Other venture philanthropists provide capital, technical assistance and access to other support networks to for-profit enterprises owned and operated by non-profit parent organizations to generate income and provide employment opportunities for poor or marginalized constituencies.

#### 3. Investing in Non-Profit Organizational Development:

Still other venture philanthropists provide financial and capacity-building support to non-profit organizations in an effort to “bring to scale” their successful activities.



For additional information, please visit the website: [www.nesst.hu/venture.asp](http://www.nesst.hu/venture.asp)