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December 13, 2005

## Venture Philanthropy in Central & Eastern Europe

Only the beginning

By Martin Kolmhofer

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**The European Venture Philanthropy Association (EVPA), formed in 2004 by professionals from the European Private Equity community, has made great progress in a short space of time. How?**

"We view the EVPA as both a catalyst and bridge, bringing the investment community, foundations and non-profit organisations together to make a positive social impact", explains EVPA chairman Doug Miller. EVPA's Members represent nine European countries and include venture philanthropy funds, foundations, private equity groups and a research center. It is sponsored by 3i, Barclays Capital and KPMG, endorsed by the EVCA and has a formal relationship with the European Foundation Center in Brussels. Its vision is a diverse market place for funding nonprofit organisations, at all stages of their development, which is responsive to their needs. The main investment criterion is the potential social impact of the funded programs, which is assessed on the ground by tracking social data, such as school attendance, existence of vaccination and nutrition programs or housing quality.

### Filling the Gap

Operating in Hungary, the Czech Republic, Slovakia and Croatia, venture philanthropy fund NESsT (Nonprofit Enterprise and Self-sustainability Team) currently has 20 organizations in the early and later-stage portfolios of its "Venture Fund," and works together with more than 40 business advisers, some of whom are also donors from Central Europe. Since 2000, the Fund has provided capacity-building and/or financing to over 270 Central and Eastern European NGOs. In the early '90s, several large international organiza-

tions were channelling large sums of money into the region in order to facilitate the birth of local civil sectors. By the late '90s, however, most of them started to pull back from the region; and since then, young local organisations have been faced with a financing vacuum. "With traditional sources of philanthropic monies gradually drying up in Central Europe, local NGOs need to become more self-sustaining through the development of profitable entrepreneurial activities, and being able to use the revenue to carry out intended missions. What we do is inject some of our for-profit thinking, experience and capital into a group of selected start-up or expanding ventures," says Eva Varga, enterprise development manager

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of NESsT, "There is growing interest in venture philanthropy within the international business community, because it gives donors an opportunity to be personally involved with their selected charitable causes. In addition to granting financial support, engaged philanthropists make their professional skills and network of contacts available to grantees."

### The Best of Both Worlds

NESsT's funding principles involve a very critical initial screening of the organizations' business and social capacity. This is followed by the development of a pre-feasibility study, feasibility study and a business plan, a process guided by NESsT and performed by the organization. If the business plan meets NESsT criteria and the organization's staff and structure are prepared and equipped to pursue the enterprise, a multi-year cooperation begins with NESsT, involving co-financing by the organizations themselves, as well as regular performance evaluations. These evaluations are car-

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ried out in accordance with a set of criteria to be determined together by an investment committee comprising members of the organizations, NESsT experts, and private and institutional investors. "We carefully examine applications for assistance in order to be able to focus our limited resources in the most efficient way," Varga said, adding that "out of the 270 organizations in CEE that have started NESsT's rigorous social enterprise development process, 33 have completed pre-feasibility studies; 31 performed feasibility studies; and 10 developed business plans with NESsT support. Of these, seven organizations have entered NESsT's later-stage portfolio, receiving multiple rounds of start up financing and one-on-one mentoring from NESsT to develop their enterprise."

Traditionally, the donations handed out by large foundations were provided for specific projects. Money was seldom available for more general requirements, such as strategies for the improvement of organizational and institutional structures. "The problem," says Lee Davis, co-founder and director of NESsT, "is that the available financing has not reflected the needs of the non-profit organizations. Nonetheless, they need to grow as true organizations, not merely as pet projects that donors like to finance. Our chosen strategy focuses on self-financing - that is to say we try to help non-profit organizations generate their own income through the production of marketable goods or services, which are not always related to their particular field of endeavour." Among foundations, it is often said, that beneficiaries tend to depend too much on the donations they receive. The result of such dependence is that the non-profits have to focus their attention on the donors, instead of tending to their mission. What Venture Philanthropy offers the non-profits is the opportunity to exercise greater control over their own destinies.

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In its recently published book "All in the same Boat: An Introduction to Engaged Philanthropy", NESsT sums up the advantages of its approach for both parties involved: For donors, engaged philanthropy offers a unique opportunity to be involved with their selected charitable causes. In addition to giving financial support, engaged philanthropists enjoy the substantive partnership that comes with making their professional skills and network of contacts available to grantees. Some donors feel that engaged philanthropy is a more effective model since they can witness and participate in the organization's work.

For nonprofit organizations, engaged philanthropy yields many benefits, including a sustained relationship of mutual respect between donor and grantee. Nonprofit leaders feel a greater degree of support, knowing that their aspirations and risks are a shared responsibility. Moreover, the benefits of donors' financial resources are multiplied by management expertise, technical assistance and access to influential colleagues.

It is still too early to tell how far the early promise of venture philanthropy in CEE will be fulfilled. However, the EVPA has already

invested a lot in defining a compelling rationale and vision for venture philanthropy and strengthening the foundations of the field itself through collaboration and shared learning.

*For more information about NESsT and the NESsT Venture Fund, visit [www.nesst.org](http://www.nesst.org) or write to [nesst@nesst.org](mailto:nesst@nesst.org)*

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