

# The Best of Both Worlds

The concept of venture philanthropy is proving to be one of the most efficient means of financing non-profit organizations.

• By *David Yanovich, Miami*

“It’s not enough to buy washing machines,” says the director of a non-governmental organization that works with women in Santiago, by way of explanation of why these groups need technical assistance. The washing machines she is talking about were meant to provide employment opportunities for several women living in extreme penury in the Chilean capital. The problem is that there is no market for their services in the neighborhood where they live. So, there sit the washing machines, and the jobless women.

Cases like these are legion in the world of non-profit organizations. There is a serious lack, says Lee Davis, of vitally needed technical assistance: planning, feasibility studies and business models.

“In the business world there are capital markets offering thousands of different financing options, something utterly lacking among non-profit organizations,” explains Davis, co-founder and director of Nesst, a philanthropic fund operating in Chile and Central Europe. Traditionally, NGOs have depended on the donations handed out by the large foundations on a yearly basis. Such donations are normally provided for specific projects, such as a sewage sys-

tem in a Latin American town, or an educational program in Hungary on human rights. Money is seldom available for more general requirements, such as strategies for the improvement of organizational and institutional structures.

“The problem,” says Davis, “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. The factor that really distinguishes Venture Philanthropy is that it is all about philanthropy with commitment, which is destined to change the dynamics of the relationship between donors and beneficiaries.”

capital not only helps finance new projects, but also provides technical assistance and business connections with yet other companies, thus helping achieve growth and profits. Venture Philanthropy also permits a more focused application of the donated funds on the institutional strengthening of non-profit organizations, while providing a long-term view of performance strategy and the implementation of such strategy in accomplishing their mission.

Besides institutional strengthening, there are yet other areas amenable to improvement through Venture Philanthropy. It also provides for investment (in the most general sense of the word, which includes not only finan-

## VENTURE PHILANTHROPY CONCENTRATES ON INSTITUTIONAL STRENGTHENING OF NGOS.

The main characteristic of Venture Philanthropy is the donor’s commitment towards the organization being helped and financed. In fact, funds donated to non-profit institutions serve much the same purpose as risk capital in the business world. Such

cial resources but also technical assistance and diverse services) in what are called social “innovators” or “entrepreneurs” – those individuals who are approaching social problems in an innovative way, or who are engaged in activities of self-financing, so that the non-



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- Nicole Etchart and Lee Davis, co-founders of Nesst, opened their first office in Budapest in 1997 because both had had experience dealing with Central Europe. They opened a second office two years later in Chile.

profit organizations might have access to alternate forms of financing and not have to depend on the largesse of a few donor foundations.

This is precisely what Nesst provides. It's a fund that until now has raised fully \$1.5 million of capital, has offices in Budapest and Santiago, a full-time staff of eight, a part-time staff of two, and a network of world-class advisors. Among the foundations that finance Nesst are some of the most renowned names in the world,

such as Avina, the Rockefeller Foundation, the Levi Strauss Foundation, and American Express.

Nesst is the brainchild of the 36-year-old Davis. As a researcher at Johns Hopkins University, he was struck by the utter lack of financing opportunities for non-profit organizations. While researching this problem, he met Nicole Etchart, a 43-year-old Chilean woman who became co-founder with him of Nesst. Etchart has spent her entire life working on devel-

opment issues and non-governmental organizations. Nesst opened its first office in Budapest in 1997, because both Davis and Etchart had had experience dealing with Central Europe.

"Our chosen strategy focuses on self-financing," says Davis. "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 endeavor. The sale of such goods and

services provides the organizations with a more stable, flexible and dependable source of income – and also opens the door to future growth.”

Nesst provides technical assistance to non-profit organizations through the design of business plans that will lead to just such alternative sources of income. In some cases, the fund has actually invested its own money in the newly developed business ventures.

The structure of a company established to generate income for non-profits varies according to the business undertaken. “If the business activity has to do with the non-profit’s mission,” explains Nicole Etchart, “it doesn’t matter if the activity is carried out within the non-profit itself. But if the activity has no bearing on the non-profit’s mission, then it’s better to set up a subsidiary so as to avoid the possibility of untoward effects on the mission.” Furthermore, the organizational structure will also depend on the legal framework and tax status of the non-profit in each of the countries in which Nesst operates.

At present, Nesst has a portfolio of four companies in Central Europe, in which it has invested both money and technical assistance helping them accomplish their stated mission. In Chile, where Nesst has been in operation since 1999, there are already several non-profits in the process of due diligence, a six to eight-month procedure, to determine whether they will qualify for Nesst’s technical assistance. “We have a rigorous process of due diligence,” explains Etchart. “The organizations we work with are small. Typically, they’ve got budgets of \$200,000 to \$300,000 a year, and are involved in human rights issues, the environment, social development, and health.”

Nesst does not expect financial gain from the investments it makes in the companies it helps establish. “All the financial returns go to the non-profit,” explains Etchart. Adds Davis, “Nowadays, our donors don’t expect



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financial reward. The organizations that finance us do so exclusively through donations.”

For donors, the idea of working through organizations like Nesst presents interesting options for their philanthropic activities. Serena Cosgrove, until two months ago the Avina Foundation’s liaison officer for Nesst, and now a private consultant, puts it this way: “Among foundations, it’s 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 Nesst offers the non-profits is the opportunity to exercise greater control over their own destinies.”

Donors often tend to change their focus, depending on the fashion of the day. Since donations are usually made on an annual basis, the missions of many organizations can easily end up on the chopping block. Venture Philanthropy avoids this.

Nonetheless, there are those who claim that organizations like Nesst are simply packaging financing schemes that already exist under other guises, and that they’re not really offering anything new in terms of philanthropy. Such claims have generated intense debate among philanthropic organizations worldwide.

An airtight case for organizations like Nesst will only be made once they have proved their claims on an international scale. According to figures published by Venture Philanthropy Partners, there are at present some 44 such philanthropic organizations worldwide, managing approximately \$400 million.

In 2001, they invested over 50 million dollars in qualified non-profits. Not much, when compared to the

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\$26,700 million donated yearly by U.S. foundations alone. Furthermore, most of the venture philanthropies are simply too new for an objective evaluation of their results.

Regardless of such skepticism, the truth is that the venture philanthropies have become an interesting option – for both donors and beneficiaries. And as long as they continue to be an interesting option, the future is looking a lot brighter for organizations such as the one that wants to help the women of Santiago. ♦