

Venture Philanthropy Brings 'Social Returns'

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Special to THE WALL STREET JOURNAL

[Paris, December 28, 2001] Venture capitalists may be fixated on financial returns, but they're not all a bunch of Scrooges. After all, would Scrooge slap on mosquito repellent and cycle through the Vietnamese jungle to raise money for charity? A group of 32 venture capitalists and private equity investors plan to do just that next month – and they're part of a growing number who aim to spread their wealth and experience among charitable organizations.

“Doing things for charity when you are in the fund business is a no-brainer; it's something that needs to be done,” says Serge Raicher, managing director of Pantheon Ventures, a fund-of-funds that invests in private equity funds. Mr. Raicher is now hitting up colleagues and friends to sponsor his eight-day bike ride through Vietnam, for which he's taking unpaid leave. The trip, to kick off in Hanoi on Jan. 20 and take in highland villages throughout the northern stretches of the country, was the brainchild of Doug Miller, chief executive of International Private Equity London, a financial intermediary that helps private equity funds raise money. A veteran of the Vietnam War, Mr. Miller and his pedaling counterparts hope to raise 250,000 euros (US\$220,000) for 60 charities of their choice, including the Manchester, England-based Mines Advisory Group, which trains villagers to clear land mines.

Ian Simpson, director of private equity fund-raiser Helix Associates, says he's taking part because he believes strongly in MAG's activities - and because he was so impressed that such a busy group of financiers would take time out for charity. “I think it's great that so many people from a world most associate with capitalists running tooth and claw are getting together for a good cause,” says Mr. Simpson, who has known most of the rid-

ers for years. “After all, private equity is not usually an industry related to ‘good will to all men!’ “ Still, the Scrooge-like reputation of venture capitalists may be well-deserved – at least for the time being. In Europe, where the private equity market is still in its early stages, few venture capitalists are yet active in charitable works, says Luciano Balbo, chairman of Italian private equity management firm B&S Electra. But that may be because few charitable organizations seek out venture capitalists.

“People are interested in giving, but there are so few initiatives,” says Mr. Balbo, a Vietnam bike ride participant who hopes to bring the concept of “venture philanthropy” to Europe. Already a thriving subsector of the U.S. private equity market,

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venture philanthropy – so called because donors “invest” in nonprofit organizations and help them develop over a period of years – enables venture capitalists to donate know-how as well as money to charitable causes. Organizations such as Social Venture Partners in Seattle and Venture Philanthropy Partners in Washington have gained a large following by applying the venture capital model to the funding of nonprofit social organizations.

The concept may slowly be catching on in Europe. Budapest-based Nonprofit Enterprise and Self-Sustainability Team (NESsT), for example, funds charitable groups and enables them to develop self-sustaining, revenue-generating activities. To finance its good works, the organization last year launched the NESsT Venture Fund, which is funded by grants and donations.

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low it, helping it raise further funding and fine tune revenue-generating projects. And the investor realizes a return on his investment – but a “social return” rather than a financial one. Watching a group help drug-addicted teens to reintegrate into society is such a return, says Joanna Messing, NESsT’s enterprise development director. “A lot of times VCs are interested in getting involved in the social sector, but they don’t know where they can have the greatest impact,” Ms. Messing says. Venture philanthropy allows a venture capitalist to use the skills gained in the private equity world to “have a big impact on the social sector.”

Geza Tatrallyay, a partner at venture firm Mava Capital in Budapest, is one VC who believes in the venture philanthropy concept. “I’m attracted to NESsT because it’s an area where I can use my background,” he says. He regularly meets with Ms. Messing and some of the group’s portfolio organizations to review business plans and to brainstorm self-financing concepts.

One risk of applying venture capital investing techniques in charitable organizations is that the organization could feel pressure to generate continuing revenue, instead of focusing on their core goals of alleviating the ills of society. (Venture philanthropy groups say it’s even more constraining for a nonprofit to have to rely completely on new grants and donations.) One long-running charitable aid foundation, though, has found a way around such concerns.

The Charities Aid Foundation is setting up a venture philanthropy fund that will provide young nonprofit organizations the funds to get started - but rather than “investing” the money, it will provide it as a loan. The nonprofit has to pay it back, but without the pressure to use the money to generate continuing revenue, says Cathy Pharoah, director of research for the group. “Venture philanthropy means many things, but to us it means the use of capital in an entrepreneurial way for social ends,” she says.

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