

Reflections from Europe on the growth of Social Investment



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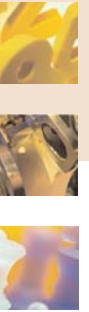
Executive Director Company & International Services

Reflections ...

- From Europe
- From UK & CAF
- Challenges



What is Social Investment (1)



- Socially Responsible Investment (SRI)
- SRI combines investors' financial objectives with their concerns about social, environmental, ethical and corporate governance issues*
- The decision is primarily an investment one, but nevertheless one to be exercised “responsibly”

* Source: European Social Investment Forum

What is Social Investment (2)

- Venture Philanthropy (VP)
- VP* is where private equity/venture capital models are applied in the non-profit and charitable sectors, but we see:
 - Active partnership to achieve agreed outcomes
 - Use of a variety of financing techniques
 - Provision of skills and/or hands-on resources to add value to the development of a charity;
 - Donors wanting to maximise the social return on their investment

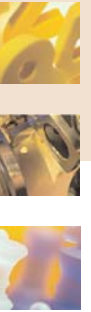
* Source: European Venture Philanthropy Association

An Emerging European Approach?

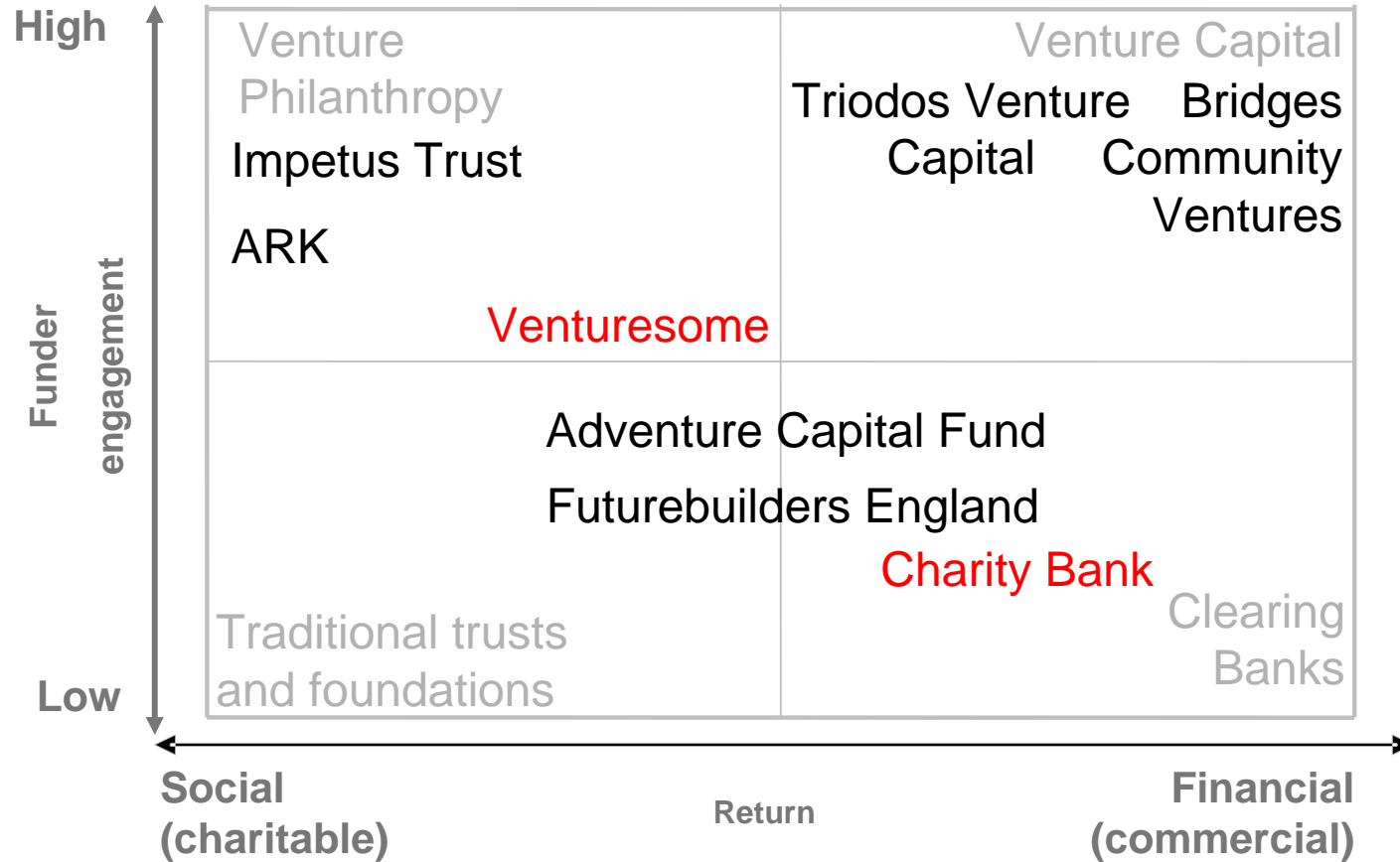


- Unclear language, and few hard measures
 - Venture capital for sustainability reaches Euros1.25bn
 - Top 30 philanthropists in UK pledged or donated last year £1.2bn: described as “innovative and explorative. They see their actions as social investment”
 - \$26bn private equity fund launches VP fund
- EVPA approach has strong links to venture capital/private equity, and uses a wide range of funding models, and moved away from traditional grantmaking
- Tension between “Anglo-Saxon” entrepreneurialism and capital markets and European social cohesion

The Evolution of Funding models in the UK



The CAF Approach



Reflections from CAF (1)



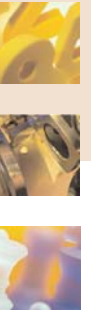
- Venturesome was set up as a high risk fund to:
 - lend or invest in organisations which achieve charitable purposes.
 - Provide finance in the space between a grant and a loan.
 - The model is neither a banking model nor a traditional philanthropic one.
 - Venturesome is prepared to take higher levels of financial risk than would a bank, in exchange for a social return on its investment.

Reflections from CAF (2)



- At Venturesome we seek to:
 - treat the organisations that approach us for financing as potential customers
 - not applicants
 - work in partnership with these organisations in order to help them clarify their objectives and to raise appropriate funding
 - invest in our own knowledge base and share this knowledge with others
 - encourage growth in the social investment market.

Reflections from CAF (3)



- Key learnings from Venturesome:
 - the model – balancing financial risk with potential social impact – is working
 - the recycling rates are significantly higher than originally targeted
 - advisory aspects of the work are welcomed by charities
 - the success of Venturesome and others is helping to establish a rapidly developing social investment market in the UK

An Opportunity for Emerging Markets? (1)

- VP appears an attractive development for the social sectors in transitional European countries.
- Social purpose organisations are developing rapidly under newfound democratic freedom and economic reform.
- In addition to some favorable tax environments to encourage philanthropy, emerging economies also have some of the highest growth rate for private philanthropy



An Opportunity Emerging Markets? (2)

- The growth of new philanthropy in emerging markets can support social investment:
 - **Russia:** 20 Russian private and family foundations donated over \$50 million in 2004. Overall private giving by ultra wealthy Russians is now over \$100 million/year.
 - **China:** 50 Chinese philanthropists donated over \$160 million in 2004.



What might be the future for social investment in Latin America?

- Globalisation has brought about a steady change in the way business has become an important actor in leveraging its expertise to support social causes through CSR and new philanthropy
- The potential wealth from Family Foundations, Individuals and Companies, coupled with a sophisticated non-profit sector, create the right atmosphere for an adventurous approach to funding social causes using entrepreneurial business techniques
- Support and engagement of the capital markets will drive faster development

