Issue 44: Summer 2011

philanthropy|uk:quarterly *inspiring giving*

Social impact investing

A new direction for philanthropy

The e-magazine for all those interested in the development of philanthropy

welcome

In this issue we focus on social impact investment (SII), which blends enterprise, capitalism and philanthropy to create a new stream of capital that some say will 'transform' the social sector. SII has many supporters including the UK government which has published an action plan to catalyse this new 'impact economy'.

We know SII will be on many philanthropists' radar, especially for those wanting to apply their time, money, business acumen and skills to engage strategically with their passion to make a difference.

But we also know:

- SII is not an easy topic, particularly for those less involved in the worlds of finance or business
- that giving is your choice and not your day-to-day business, so you may not want to be studying complex articles in your spare time
- and SII is only one of many ways to 'give' and should be seen alongside all the other options. As Dr Beth Breeze, researcher, author and Philanthropy UK publications editor says in her book review (pg 41) there is a tendency from those committed to one way of giving to be judgemental about others. Our role is to support not judge, and we recognise the value in all ways of giving – of which SII just one.

In our aim to support and educate we have talked to many experts involved in SII to gain an understanding of the landscape, the challenges and opportunities ahead, and also offer an idea of where donors can play a part. Our case studies illustrate how business, social organisations and philanthropists are coming together to create solutions.

We recognise SII spans a wide spectrum and incorporates many technical issues, and this magazine is intended as a resource; so dive in and take what's useful for you, or put it to one side for reference. Don't be intimidated by the unavoidable complexity at times. There are many more resources and advisors who can help, many of which are listed in our magazine.

Alongside our own reports, we bring word from Europe and America. Melissa A. Berman, president and CEO of Rockefeller Philanthropy Advisors, which is at the vanguard of this new approach in the US, and Serge Raicher, co-founder and chairman of the European Venture Philanthropy Association (EVPA), share useful insight on aspects of SII.

We hope you enjoy this edition of Philanthropy UK Magazine and that it provides a useful resource for those interested in SII. We welcome your feedback which can be sent to: editor@philanthropyuk.org.

Best wishes,

Cheryl Chapman
Managing Editor

in this issue

The purpose of the magazine is to disseminate information about new developments in philanthropy. To submit an article for consideration, please contact the Editor at editor@philanthropyuk.org.

The secretariat for the magazine is being provided by ACF. To subscribe free of charge, please complete the subscription form on our website.

Philanthropy UK c/o ACF, Central House,
14 Upper Woburn Place, London, WC1H 0AE, United Kingdom

+44 (0)207 255 4490; www.philanthropyuk.org

Design & Artwork by **Carrington Griffin Design**

Philanthropy UK aims to inspire new giving by providing free and impartial advice to aspiring philanthropists who want to give effectively. An initiative of the Association of Charitable Foundations, we also publish *A Guide to Giving*, the essential handbook for philanthropists. www.philanthropyuk.org

Philanthropy UK is supported by the
Office for Civil Society in the Cabinet Office

CabinetOffice
Office for Civil Society

Social impact investment

Taking the good to market

by Cheryl Chapman

Social impact investment (SII) brings together two unlikely bed-fellows: social good and financial return. This catalytic blend of capitalism and philanthropy could, say some, give rise to a whole new economy. Here we explore the ambition for SII and the inevitable challenges on the road to a modern-day economic Mecca.

Imagine a trillion dollar industry where shares in social enterprises are bought and sold on an open market; an era in which people and institutions are able to align personal passions with their investment portfolios. With the realisation that philanthropists, investors and entrepreneurs are increasingly likely to be one and the same person, an economy such as this, that can offer an investor social and financial returns through one happy transaction, is starting to make sense.

This blended concept represents a complete rethink of how society should operate and transact. And turning it into a viable market requires a total re-engineering of the social sector to create one that can work with business and attract enterprising funders.

This need to think afresh is driven by a number of factors:

- dissatisfaction with the current situation that sees under-capitalised, over-worked charities struggling to deliver good and unable to measure or scale what works;
- a backlash against the for-profit principle following the market crash;
- a slashing of government funding and a new emphasis on commissioning by results;
- and the realisation that poverty and inequality are probably more prevalent in society today than 20 years ago.

These perspectives have turned up a possible solution, which we will call social impact investing for the purposes of this article. It connects two ends of a spectrum – philanthropy and for-profit–along a line of opportunity that describes a new 'impact economy'.

What could the market look like in a decade?

The vision is for a highly valuable, (See Many happy returns? Page 6) fully functioning alternative market. Its main aim will be to create new and valuable social capital. The hope is that it will attract investors from across the spectrum; both business-minded philanthropists and socially-driven entrepreneurs. Its value, including its social impact,will be determined by yet-to-be agreed measures. And if this new economy cannot cure it might at least prevent or reduce some of society's afflictions.

[1] 'Social impact investment' is distinct from 'sustainable investment'. The latter combines investors' financial objectives with their concerns about environmental, social, and governance (ESG) issues, but market rate returns are expected over the medium to long term. Social impact investment might or might not offer financial returns but that is not its driver.

Sir Ronald Cohen has driven the UK microfinance industry as chairman of Bridges Ventures, The Portland Trust and the government-backed Social Investment Task Force. He was recently appointed as independent advisor to the Big Society Bank.

The 'blended value' concept on which SII is based is attributed to Jed Emerson, one-time social worker, now author, and by his own definition 'accidental' academic lecturing at Harvard, Stanford and Oxford University Business School.

His theory posits that value is generated *"from the combined interplay between the component parts of economic, social and environmental performance.*

"All firms (whether non-profit or for-profit) create Blended Value – the only issue up for debate is the degree to which they maximise the component elements of value, best tracked through the use of a triple bottom-line framework. All investments have within them returns consisting of multiple parts – the only question is how that capital is structured to capture which parts of the value generated by that capital," explains Emerson in his Blended Value Map[2] paper, a 2003 stock-take of thinking and progress.

Sir Ronald Cohen has been at the vanguard of social impact investment in the UK as chairman of Bridges Ventures, The Portland Trust and the government-backed Social Investment Task Force, and now as independent advisor to the Big Society Bank. He offers a vision: *"An entrepreneurially-minded generation has graduated from business schools, start-ups, high-growth businesses and the social sector itself. These entrepreneurs want to make a beneficial social impact. They are among our brightest and best. They have understood that society is becoming unstable and that it is inequitable for people to be left behind. They would like to give others a chance. Given the opportunity, they will apply private-sector investment and*

[2] *The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation*

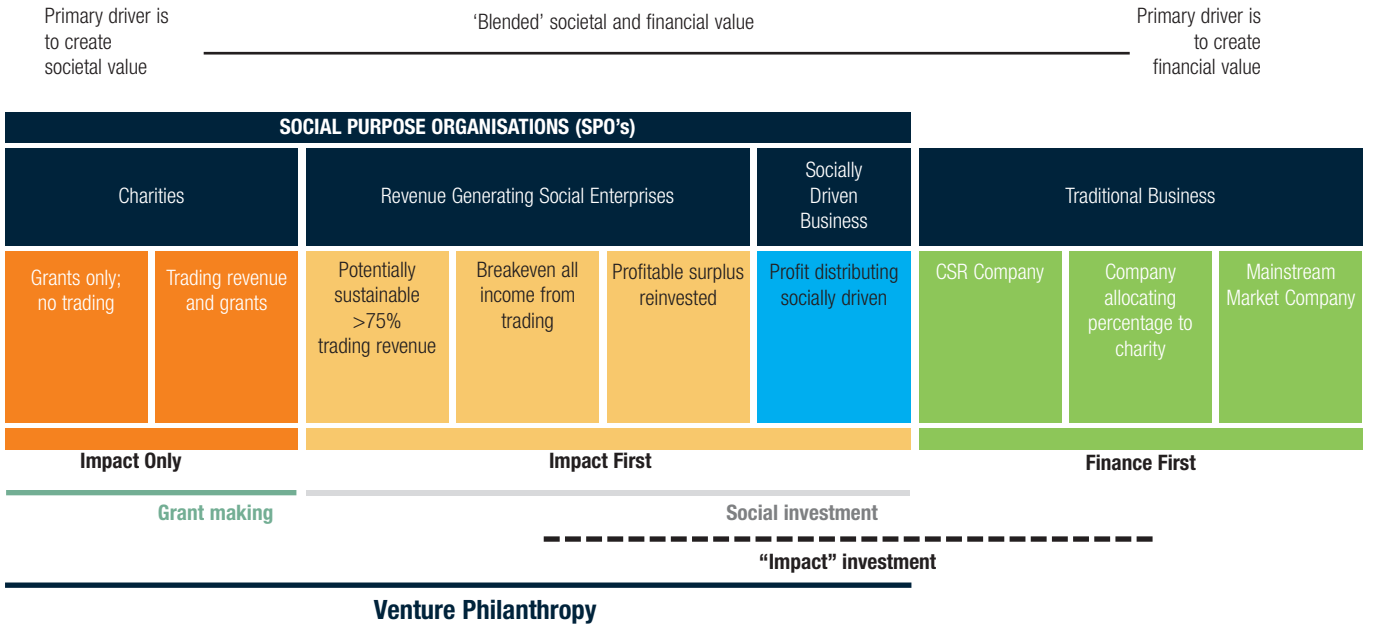


Figure 1.

The European Venture Philanthropy Association's visual shows the spectrum of social impact investment stretching from impact-only grant-making to commercial-grade investment where financial return is the driver.

Source: Shaerpa and EVPA

management techniques to social enterprises and develop private-sector standards of effectiveness and performance measurement."

But there is a long and rocky road ahead before we arrive at this philanthropic Nirvana.

What does the market look like today?

As the market emerges, the parameters and scope of social impact investing are as yet unclear - there are ever more ways and means for philanthropically-minded investors to take part. New funds, intermediaries, platforms, tools and approaches develop apace resulting in a range of investment opportunities. They might be debt-based, grants, bonds or equity deals.

They might result in the loss of some capital, or they might deliver a financial return; they might be risky, or not. The attraction for philanthropists is that investments can be recycled into a greater number of projects than a straight grant – or indeed you can have your money back.

An important point to make is that social impact investment is not a substitute for 'traditional' philanthropy or for government funding come to that; rather an extension of it.

Government calls this new stream of money 'a third pillar of finance' and describes how funds might flow in its strategy paper[3]: *"Our vision could eventually see individuals and families choose some social investments as part of their ISAs or pension fund. And it could help unlock a slice of the £95bn of UK charitable income and endowment assets for social investment… If just 5% of these assets, 0.5% of institutionally managed assets and 5% of retail investments in UK ISAs were attracted to social investment, that would unlock around £10bn of new finance capacity."*

The spectrum of social impact investment stretches between commercial grade investment (finance first) and philanthropy, or minus 100% investment, (impact first) (see diagram).

Though Colby Dailey, a US grant-maker feels this distinction is unhelpful. In a guest blog post on Tactical Philanthropy site she says: *"Rather than thinking about investors in the typical impact-motivated/financially-motivated categorisation, we can describe them as having a 'willingness' to pay for social returns.*

"I would argue that nearly all investors have some willingness to pay for social returns, whether it be the value they place on the return, such as meeting their mission objectives, or the price they pay, such as potentially forfeiting market rate returns.

"Thinking about impact investors in this way enables us to see the impact investment industry as a whole, having a diverse core of investors, rather than as a polarised industry locating investors with competing motivations at each end."

Many happy returns?...

There is much hope and a lot of 'hype' around social investment. Some recent figures beggar belief. A report from JP Morgan Global Research and The Rockefeller Foundation[4] that looks 10 years hence and imagines a new asset class for social impact investments gives a market value forecast of between $400bn and $1trillion dollars which it says could return a profit of between $183bn and $667bn.

[3] Growing the Social Investment Market: A Vision and Strategy, HM Government, February 2011

[4] *Impact Investments, An Emerging Asset Class,* The Rockefeller Foundation and JP Morgan Private Bank, November 2010, http://www.rockefellerfoundation.org/news/publications/impact-investments-emerging-asset

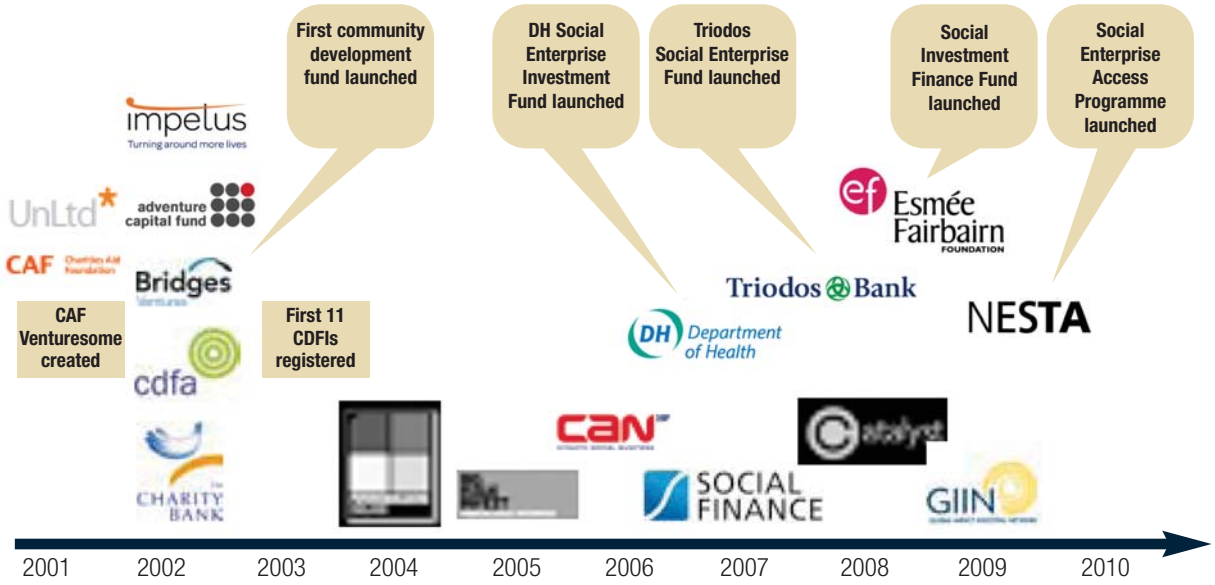


Figure 2.

Timeline for the emergence of social venture intermediaries that provide finance
Source: Growing the Social Investment Market: A vision and strategy, HM Government, Feb 2011

According to the Monitor Institute's report[5], over the next five to 10 years investing for impact could grow to represent 1% of global assets under management in 2008. It would create a market of about $500bn.

These forecasts seem optimistic – though a look to microfinance, which has been 30 years in the making, bears out accelerated growth particularly evident over the last 12 years.

According to CAF Venturesome's latest report[6], the number of microfinance beneficiaries has increased more than 12 times and the number of organisations providing microfinance services more than 10 times since 1998.

Microfinance investment intermediaries have developed from nothing in 1994 to an estimated 122 investment vehicles and other actors in 2009, representing an asset class worth approximately $8.2 bn. This includes participants such as the online peer-to-peer funding platform Kiva,which has placed approximately $175m in loans since 2005.

And it is now reportedly outperforming the mainstream market and attaining steady returns. Over the last 12 months, microfinance returns have risen by 5% yet global equities are down by 30%, says the Social Impact Investment forum.

But should social investors expect market rate returns from social investment?

Antony Ross, fund manager and executive director of Bridges Ventures, that has £150m under management, split between Bridges Venture Funds I and II, the Bridges Sustainable Property Fund and the Bridges Social Entrepreneurs Fund, and aims to return at least 100% capital,thinks not: *"Social impact has to be part of the DNA of a social enterprise. Investment in social enterprise offers both a financial return and a well scoped out social return. It is accepted by investors that there is a cost that must be borne in the aim to deliver social impact."*

The J.P. Morgan/Rockefeller report[7] mentioned earlier included the first large-scale data analysis of return expectations and, when available, realised returns for impact investments. The analysis, based on data collected by the Global Impact Investing Network (GIIN) from more than 1,000 impact investments, shows that investors have broad expectations for impact investment financial returns, ranging from concessionary to market-beating. For those impact investments with realised returns, actual earnings were in line with return expectations it reported.

However Nigel Kershaw, OBE, chairman of the Big Issue social enterprise and CEO of Big Issue Invest, which manages a number of funds shies away from such comparisons with 'normal' market returns and shuns the 'blended' or 'sub-market' labels in describing the investment opportunity.

"A lot of people talk about some of the funds as being sub-market funds, mixes or blended returns, and I'm saying

[5] *Investing for Social and Environment Impact: A Design for Catalyzing an Emerging Market*, Monitor Institute, January 2009, http://www.monitorinstitute.com/impactinvesting/documents/InvestingforSocialandEnvImpact_ExecSum_000.pdf
[6] The Impact Investor's Handbook: Lessons from the world of microfinance, CAF Venturesome, February 2011
[7] *Impact Investments, An Emerging Asset Class,* The Rockefeller Foundation and JP Morgan Private Bank, November 2010, http://www.rockefellerfoundation.org/news/publications/impact-investments-emerging-asset

Nigel Kershaw, OBE, chairman of the Big Issue social enterprise and CEO of Big Issue Invest which provides finance for social enterprises in the form of loans, participation loans and equity.

that it is nothing about sub-market or blended, because if you look at it that way you are assuming that the market, as they see it, is the norm. What I'm saying is that if you create a new asset class, a pioneering class, you cannot describe it as sub-market or blended, it is a pioneering new class by definition. And I think the hardest thing for investors to see is that we're creating something innovative. But this is also the most positive thing because the people who are coming to work with us are those that see the pioneering nature of what we're doing.

"If we're going to dismantle poverty, then we need to be pioneers. We need new thinking. There's no point in old toxic thinking that led to toxic assets coming into and contaminating the sector. We need to use the knowledge and skills that have been gleaned from the marketplace and learn from its failures to build on and use to social advantage."

The risks of the reward

There is a danger in chasing market-beating returns; a pressure to attract commercial funds looking for profit may result in 'mission-drift' where an organisation's operations subtly move away from their original focus. For example, a microfinance institution may find itself drifting toward larger loans and so away from the microborrowers it originally set out to serve; it may redirect its focus from hard to reach rural communities to more accessible urban one.

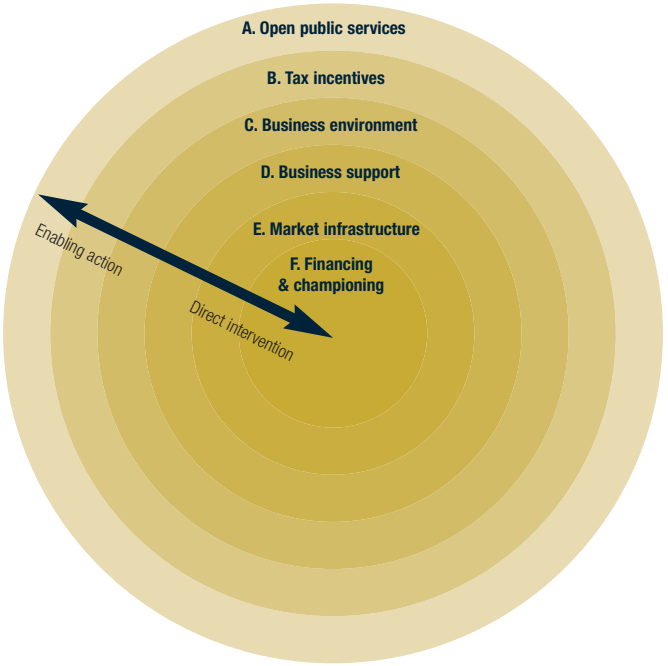
It is up to funders who care about social impact to guard against this. A number of organisations publish a social audit, distributed alongside the annual report, which allows investors to maintain a close relationship with the impacts being achieved, and to monitor social returns just as they do financial ones.

Worse, when commercial and charitable motives clash instead of blend the concept can backfire horribly. The microfinance model offers a cautionary tale. It is seen as a silver-bullet in lifting the financially-excluded out of

Tris Lumley, head of strategy at think tank and consultancy New Philanthropy Capital.

Figure 3.

A framework for action in the social investment market
Source: Growing the Social Investment Market: A vision and strategy, HM Government, Feb 2011



poverty through low-interest microloans, now serving 131m people across the globe. And there is no doubt it has proved itself as a working strategy. However, in recent months the work of microfinance institutions (MFIs) has come under scrutiny after a spate of suicides in the Indian province of Andhra Pradesh was linked to borrowers' inability to repay their loans.

The news made international headlines and highlighted how accumulated debt can harm borrowers required to pay interest rates typically as high as 30%.

Greater regulation, due diligence and transparency might help but the scandal fires a warning shot across the bows of social impact investment which must be wary of how its social ambitions could be elbowed out by commercial investors pursuing profit, with devastating consequences.

The challenges ahead

There is indeed a tranche of knotty and costly issues to address if social action is to be commoditised, capitalised and sold on an open market.

Mindsets must be changed, new behaviours adopted, more tools created, infrastructure built, concepts proved, track records grown and products delivered. Regulation and legislation needs to be tightened and in some cases loosened.

The market currently labours under a large number of imperfections including fragmented deal flow, no common language, a skills gap, an absence of vital infrastructure and a persistent difficulty in measuring social impact.

Philanthropic money is highly active in addressing these issues. Foundations and trusts are using grants to draw in private capital, create financial instruments, data banks, benchmarks and frameworks and invest in social enterprises (for example CAF Venturesome, Bridges Ventures, Big Issue Invest and Esmée Fairbairn Foundation's Finance Fund).

There are moves to establish a social investment stock market to ease turgid deal flow; we have seen the launch of new products such as social impact bonds that directly tie performance to profits for the first time (see BOX: Social Impact Bond, page 10) and new funding models that bring together different streams of money such as Fair Finance (see Case study 3, page 11). The infrastructure is growing.

Making the numbers add up for investors

However, one of the toughest nuts to crack is how to evaluate social impact and package it for sale.

New Philanthropy Capital has championed impact measurement and evaluation in the UK, creating tools, offering thought leadership and support. It recently established the Social Impact Analysts (SIA) Association with the Bertelsmann Foundation, a private foundation

Social Impact Bonds

Social Impact Bonds (SIB) are a form of outcomes-based contract in which public sector commissioners commit to pay for significant improvement in social outcomes (such as a reduction in offending rates, or in the number of people being admitted to hospital) for a defined population.

It is a model that directly ties social impact to returns – if targets are not met, financial returns suffer.

It should be noted that in this way they are unlike conventional bonds that offer fixed rates of return over a specified period of time. In terms of risk they are more similar to an equity investment.

A number of bonds are being considered and a small scheme on these lines is already operating in Peterborough Prison aimed at cutting re-offending. Social Finance in partnership with The Ministry of Justice has sold £5m worth of SIBs to charitable trusts and philanthropists. If re-offending is reduced significantly, the investors could get up to £8m back after six years – an annual return of 7.5%. If recidivism doesn't fall, they stand to lose their money. The return is paid from the savings made by society not having to pay for re-offenders to undergo a further prison term.

The majority of investors in the bond were foundations and charities including: Barrow Cadbury Trust, the Esmée Fairbairn Foundation, Friends Provident Foundation, the Henry Smith Charity, Johansson Family Foundation, Lankelly Chase Foundation, the Monument Trust, Panahpur, Paul Hamlyn Foundation and the Tudor Trust.

A just-published report looking at the early successes of the bond reveal that it was the 'mission-related' aspect that was of interest to investors. Investors were *"keen to fund innovation, that this investment was aligned with their charitable missions to do public good, and that the SIB investment allowed some investors to improve outcomes in an issue area of particular interest to them,"* according to the report.

This research highlighted some potential barriers to investment, namely: tax rules that restrict charities' ability to put money into a SIB and lack of clarification of trustees' duty to maximise financial return, as well as a lack of tax incentives.

The report says future SIB development may benefit from this learning. *"The government could consider whether any steps could be taken to offer tax incentives,"* it says.

A number of charities are actively working with government officials on other schemes where SIBs might be used: cutting school truancy and exclusion; increasing youth employment; reducing acute hospital care by improving community support and provision of fostering to cut the cost of residential placements for children in care.

based in Germany, and the Adessium Foundation, a private foundation located in the Netherlands, designed to support the practice and profession of analysing not-for-profits with the aim of building stronger, more vibrant organisations.

NPC says understanding social impact is central to growing the market successfully. *"If you are going to ask more investors to accept greater risks and in many cases sub-market financial returns by joining this market, they will want to know what social impact they are getting in return,"* says Iona Joy, head of charity analysis at NPC.

NPC's head of strategy Tris Lumley is hopeful that measurement will be done satisfactorily in the future: *"Some organisations are making great strides and I am optimistic that outcome measurement will eventually be done consistently well and by the majority of charities.*

"Some things are harder to measure than others. But that is not a reason not to do it. I have yet to come across a field where outcomes really cannot be measured. Measuring re-offending, might be easier than trying to understand how the trauma of asylum seekers fleeing conflict and persecution has been addressed. But if you don't measure impact you just can't manage your work properly – in the worst case you may not realise your intervention could actually making beneficiaries worse off," says Lumley.

NPC is one of many creating measurement tools, common frameworks, ratings and benchmarks in an on-going wrestle with the metrics of good. Many individual organisations are braving the challenge and creating their own bespoke systems – though some, including the NCVO Funding Commission, think this a bad idea.

Continues on page 12

Case study: Fair Finance

Billed as a 'game-changing' moment in social impact investment, last month's £3m plus deal structured by social lender Fair Finance will allow it to help 100,000 financially excluded Londoners over the next five years with low interest microloans.

While the headline news may have been that banking giant Santander underwrote £1m of debt finance, following Societe Generale and BNP Paribas which each provided half a million pounds, 'the lynchpin', says Mark Cheng, the financial strategist behind the deal, was the £750,000 patient capital underwritten by philanthropists and socially-minded investors to cover costs.

"With costs covered, including expected defaults, all the risk was effectively absorbed and the deal became much more attractive for banks to come in and fund loans – it was crucial to the deal," says Cheng.

The reward to the socially-minded investors willing to shoulder all the risk of this ambitious deal is their money back within 7 years with up to 5% interest per annum, providing that Fair Finance makes a surplus.

Cheng says making money was not the draw for these investors; rather it was the social impact their money could deliver, that their money would go round again and that it could help create a sustainable charity.

"They saw it as an end to the begging bowl for the charity – no more charitable donations. As business people it really appealed to them," says Cheng.

Raising this initial finance was swift, taking a few weeks: *"The philanthropists we presented to got the concept right away. They were very taken with the idea that an investment strategy could be used and their money could be recycled."*

Securing funds from the banks took more than a year and a half and much resolve. An additional £350,000 was provided by the Big Society Finance Fund.

The funding means that over the next five years Fair Finance will be able to open eight more branches and make about £14m of lending available to some 100,000 financially excluded Londoners.

The loans will be for basic purchases such as washing machines, school uniforms, funeral expenses and christening presents. Most of these people are already using high-cost credit companies, including doorstep and payday lenders (charging between 450%-2,500% APR), and Fair Finance expects to save them tens of millions of pounds in interest. It will be asking about 45% APR for its loans.

Another exciting aspect for social impact investing is that the deal could provide a model for other microloan enterprises.

Cheng says: *"There are many more microloan ventures out there that could use this model.We think this can be a way to grow the funding pie for them."*

Mark Cheng is the founder and Executive Director of Chelwood Capital, a social investment firm that provides strategic and corporate finance advice to social enterprises and mission-driven businesses looking to access the capital markets.

Figure 4.
Types of finance available and relative risk to supplier
Source: Growing the Social Investment Market: A vision and strategy, HM Government, Feb 2011

Financial need	Examples of suppliers	Type of finance	Financial risk to supplier
Fixed assets (buildings/equipment)	Barclays Bank Charity Bank The Royal Bank of Scotland Triodos Bank	Secured loan (mortgage)	Very low – asset backed
		Overdraft or standby facilities	Low – short-term cash flow cover
Working capital (short-term cash flow)	Big Issue Invest CAF Venturesome	Unsecured loans	Medium
Working capital (longer-term cash flow)	Big Issue invest CAF Venturesome	Patient capital (long-term loans)	High – long wait (eg. up to 10 years) but repayment expected
Growth capital (start-up and expansion)	Bridges Ventures CAF Venturesome Social Finance	Quasi-equity	Very high (substitute for equity)
	Bridges Ventures CAF Venturesome Community builders	Equity	Very high (potential reward also high)
Various	The Baring Foundation Esmée Fairbairn Foundation	Grant	Complete – no repayment

Note: *Some suppliers provide more than one type of finance.*

Fiona Ellis, chair of the Commission says: *"It proliferates non-comparable measurements and thus makes collective advocacy of effectiveness and comparison between different approaches very difficult. It also makes funders' jobs more difficult as they are more likely to create their own systems. This leads to organisations having to provide yet another set of data!"*

The Commission, along with NPC, is calling for a collective, cross sector approach to measurement, as Ellis explains: *"For example, crime prevention charities uses the same measurements, addiction charities the same set etc, so that measurement is customised to the problem rather than the organisation and proper 'scientific' learning can take place."*

There also exist some 'black box' tools such the Foundation Centre's 'Tools and Resources for Assessing Social Impact' (http://trasi.foundationcenter.org).The Global Impact Investment network (GIIN) whose council comprises leading impact investors committed to building a coherent industry is championing its Impact Reporting and Investment Standards (IRIS) system. It is a common language for reporting the social, environmental, and financial performance of impact investments.

But there is a long way ahead (see Social impact investing and measurement, page 25) before the market achieves coherency and can truly value the social impact of interventions.

The demand for social investment

The good news for market builders is there is already an appetite, though small, for blended products among high level donors and institutional investors along with charitable foundations and philanthropists. The current market stands at about £200m in the UK. Anna Sofat, co-founder of MAD (Make a Difference) Investing, created to meet the demand, says: *"We have found there is an appetite among investors, disenchanted with negative screening and socially responsible investment (SRI) strategies which they feel have not delivered, who want to use their money positively to bring about social change. We call it values-driven investment, rather than values-aware, like SRI,"* she says.

Some charitable foundations are indeed rejecting the idea that assets should be invested in funds that run counter to their missions. A growing number are making grants and loans to organisations working in 'mission-related' areas.

The Esmée Fairbairn Foundation (EFF) for example, is taking a *"cautiously supportive, somewhat experimental approach"* it says. It launched a £20m Finance Fund in 2008 that aims to draw other investors into it and to demonstrate the potential of blended returns.

Friends Provident Foundation has also made a tentative first step into the market. (see Case Study, page 13).

However, the UK's Panahpur Trust has gone further than any other; last year deciding to commit100% of its £5.5m treasury into investing for impact, and its chief executive James Perry explains why.

Continues on page 14

Case study: Friends Provident Foundation

Having decided it was "more important to invest positively than to focus on the negative," in 2007, Friends Provident Foundation made its first impact investment, a £250,000 subordinated loan to Charity Bank Limited. While still keeping 95% of its assets in traditional SRI equity and fixed income funds (which apply positive and negative screening alongside company engagement), the foundation now also aims to devote 5% of its endowment capital to direct investments for impact.

The foundation works with a specialist advisor to help screen for impact investments appropriate to its mission. Foundation director Danielle Walker Palmour, pictured, observes: *"It's given us an excellent idea of what's out there"*. Currently, Friends Provident Foundation has other impact investments with an ethical property company, a community development bank, and the Social Impact Partnership, a social enterprise that works with prisoners to reduce recidivism.

Impact investing has also enhanced the capacity of the foundation and added a new dynamic to its management. *"Trustees are interested in what investees have done. They want to know how things are going in general, not just if they have paid our loan back,"* says Danielle Walker Palmour. Actively participating in the UK impact investment community has also opened up the foundation to the outside. *"We're talking to people we would never have met otherwise,"* she says.

Next year, the foundation will introduce consistent metrics for comparing opportunities side by side and against the mission. *"It's critical to stay tightly focused on the mission,"* says Danielle Walker Palmour, *"rather than spreading ourselves thinly, we ideally look for impact investments that leverage our existing expertise and contribute in some way to financial inclusion or our other charitable objectives"*. The foundation is also considering collaborating with other impact investors to jointly evaluate multiple potential investments at a time.

Recommendations to other foundations:

- Engage your board in actively shaping the SRI / impact investment strategy and linking it to the general mission of the foundation.
- Clarify your impact investing goals. Know what types of enterprises you want to support and how they connect to your mission.
- Look for impact investments that leverage your existing expertise. Push managers to develop new impact investment solutions that fit with your mission. Consider collaborating with other impact investors to share resources and reduce costs.
- Find a good external advisor who can accompany you through the process of developing your investment strategy.
- Participate in dialogue and thought-leadership around your investment activities. It will strengthen your foundation by exposing you to new ideas and generating opportunities to advance your mission.

This is an abridged version of an article that appears in a new report from Mistra '360-degrees for Mission – How leading European foundations use their investments to support their mission and the greater good.'

▸ *http://www.mistra.org/*

"What entrepreneurship has done for business in recent years, social entrepreneurship can now do for society."

In his provocative pamphlet *'The End of Charity'* [8] he explains: *"Increasingly, the contradictions of the charitable paradigm have become untenable. The idea of holding one's capital in enterprises whose only purpose is exploiting their assets for financial profit, in order to use that money to invest in enterprises whose purpose is to combat social problems arising from inequality is self-evidently problematic."*

The majority of foundations and trusts, however, shy away from using 'mission-related' or 'programme-related' approaches that deliver less than market returns on investments. Some are interpreting the rather fuzzy Charity Commission guidance (CC14) on 'fiduciary responsibility' for charities in England and Wales as a duty to achieve the highest returns on their investments. However, this might change. The Charity Commission is due to deliver clarification on CC14 shortly following a redraft published in December 2010 that has been circulated for consultation.

The government appears to support the idea of mission-related investing. In its strategy and vision paper[9] it said: *"Charitable foundations are the investors that are arguably closest to the social investment market. We want to see them take a more ambitious approach to social investment, facilitated by new guidance from the Charity Commission."*

Its own commitment comes in the shape of tax incentives (see BOX: Tax incentives, page 15), moves to loosen regulation and lighten bureaucracy, such as CC14, and the establishment of its jewel in the crown, the Big Society Bank (see BOX: Big Society Bank, page 17). This will act as an engine for the market; a financial wholesaler and catalyst for growth. It aims to make it easier for social ventures to access the finance and advice they need at all stages of their development.

With the footings of a more 'enabling' environment in place the hope is social investment will provide a progressive solution to the current charitable funding crisis – though its impact is not expected to be felt for at least another decade.

There is a worry that now social impact investment has caught the eye of policymakers too much will be expected of it too soon and the fragile market might collapse, swamped with money that has nowhere to go.

Perry says the market should be allowed to develop. *"It has the potential to grow into something amazing but it needs nurturing, research and development and much piloting. I make a plea that that is allowed to happen."*

Next steps

Currently there is a dearth of investment-ready organisations and work is being undertaken by venture philanthropists such as Impetus Trust, and social enterprises such as UnLtd to build the capacity and scale of social enterprises. The Big Society Bank's Charitable Foundation will fund this area. The need to attract capital must go hand in hand with developing organisations that are able to use it, says Sir Ronald Cohen.

Pioneering foundations, individual philanthropists and organisations are working together across the globe to build this new market and to invest in its products.

[8] *The End of Charity,* James Perry, Panahpur Trust, May 2011 http://panahpur.files.wordpress.com/2011/04/the-end-of-charity.pdf
[9] Growing the Social Investment Market: A Vision and Strategy, HM Government, February 2011

Continues on page 16

Tax incentives for social impact investors

Here Natasha Oakshett, of Withers LLP (www.withersworldwide.com), explains the current tax incentives available to social impact investors.

The Enterprise Investment Scheme (EIS) enables qualifying investors to set 30%[10] of the subscription cost of shares in companies meeting the EIS conditions against individual income tax liability[11]. The minimum investment per tax year is £500; the maximum is £500,000[12] with the ability to carry back the full allowance to the preceding tax year. The EIS shares must be held for 3 years from issue or the commencement of the trade to avoid claw-back of income tax relief.

Where shares qualifying for income tax relief (and providing relief has not been withdrawn) are disposed of after 3 years, gains are free from capital gains tax (CGT). In addition, by election losses on disposals can be set against income of that tax year or the preceding year, rather than against gains. If an investor disposes of any chargeable asset and invests in an EIS company within given time limits, the gain on the original chargeable asset is deferred until certain events occur.

Note that, because EIS shares cannot normally be quoted and must be in trading companies, they may attract business property relief from inheritance tax.

Although the EIS has contributed to attracting investment into social ventures, particularly into community-owned environmental energy products with an industrial and provident society (IPS) structure, it is best suited to ventures that more closely resemble commercial enterprises (given the condition required for the EIS company). Many social ventures have a legal structure that does not permit the issuing of shares, and therefore they cannot benefit from EIS investment.

Venture Capital Trust (VCT) scheme that allows investors (who are over 18 but not trustees) to set 30% of the subscription cost of shares in an entity that meets the VCT conditions against individual income tax liability, as well as relieving the income tax burden on dividend income[13]. The maximum investment in any tax year is £200,000. There is no minimum investment, or carry back facility. To avoid any claw-back of income tax relief, VCT shares must be held for 5 years from issue.

In addition to relief for subscription, dividends of up to £200,000 pa from VCTs attract income tax relief that applies for both "second hand" as well as newly issued.

Disposals of VCT shares are free from CGT providing the VCT qualified when the shares were purchased and sold and provided the investment did not exceed the annual limit. This is unaffected by any withdrawal of the income tax relief. This relief is available for both "second hard" and newly issued shares. However, no allowable loss accrues to VCT shares sold at a loss. There is no CGT deferral relief where proceeds of a chargeable disposal are invested in a VCT.

Similar to EIS companies, the use of VCTs for investment in social ventures has been limited.[14]

Community Investment Tax Relief (CITR) is designed to encourage investment in accredited Community Development Finance Institutions (CDFIs) in disadvantaged and underinvested areas. The investment must be by loan to the CDFI, deposit with a bank that is a CDFI or subscription for shares in, or securities of, the CDFI. For qualifying investors (both individual and companies) who invest in accredited CDFIs there is tax relief on the equivalent of 5% of the amount invested per year, for up to five years, which, for individuals is set against their income tax liability of that tax year, and for companies is set against the corporation tax liability of that accounting period. There is no limit to the amount of investment on which a single investor may claim relief, but if for any year the investor does not have enough income tax liability to make full use of the relief any unused relief will be lost. There are limits on the amount of investment that can be raised by any single CDFI. There are also circumstances in which the relief will be withdrawn or reduced during the 5 year period from making the investment.

Although CITR has made a contribution to investment in CDFIs, some feel that the uptake of CITR has been disappointing, with only £63m out of a total of £672m of CDFI investment having been raised in this way since CITR was created in 2002. Charity Bank is the biggest user of the CITR scheme and has raised £53.3m in deposits for lending since 2003. The loans made by Charity Bank with CITR funds have unlocked a social return of, on average, six times the level of investment.

The European Commission granted State Aid approval for CITR for 10 years until 2012, and is currently being under review. In the last Budget the government retained CITR following a sustained campaign by stakeholders.

[10] From 6 April 2011, for shares issued on or after that date the rate is 30%, subject to state aid approval; prior to that date, the rate of relief was 20%.

[11] The relief can only reduce an individual income tax liability to nil.

[12] Subject to state aid approval it is anticipated that legislation will be included in Finance Bill 2012 (for EIS only) for the annual amount that an individual can invest under the EIS will increase to £1 million for shares issued after 5 April 2012.

[13] EIS relief cannot be used against dividend income, unless it is taxable at the higher rate.

[14] Dividends from EIS shares are taxed in the normal way.

But as The Monitor Institute report concludes: *"The pressing question is whether impact investing will remain a small, disorganised, underleveraged niche for years or even decades to come – or whether leaders will come together to fulfill the industry's clear promise, making this new domain a major complementary force for providing the capital, talent, and creativity needed to address pressing social and environmental challenges."*

Sir Ronald Cohen has an answer: *"With the support of government, the philanthropic sector and the capital markets, these new social entrepreneurs will usher in a new, powerful way of dealing with social issues that will help stabilise society and improve the economy. What entrepreneurship has done for business in recent years, social entrepreneurship can now do for society."*

Further information on social impact investing:

Philanthropy UK's Quick Guide for Social Investors:
▸ http://www.philanthropyuk.org/quarterly/articles/where-start-quick-guide-social-investors

A Guide to MAD (Make a Difference) Investing, 2011
▸ http://www.madinvesting.com/media/madinvesting%20guide.pdf

Foundations and social investment, 2005, Esmee Fairbairn Foundation
▸ http://www.esmeefairbairn.org.uk/docs/Soc_Investment_briefing.pdf

For information on funds see:

Growing the Social Investment Market: A Vision and a Strategy. 2011, HM Government

Annex A: A profile of Social Intermediaries.

▸ http://www.cabinetoffice.gov.uk/resource-library/growing-social-investment-market-vision-and-strategy

Twenty catalytic investments to grow the social investment market

Published by NESTA, The Big Society Finance Fund, working with Panahpur and UnLtd, two of the UK's leading social investment charities, constructed a portfolio of pilot investments to demonstrate the kind of products and services that a thriving social finance sector could enable.

▸ http://www.nesta.org.uk/publications/reports/assets/features/twenty_catalytic_investments_to_grow_the_social_investment_market

ImpactBase - Global Impact Investor Network (GIIN)

A searchable, online database of impact investment funds.

▸ www.impactbase.org

One small step for Big Society Bank...

Last month (May) the Big Society Bank, that will act as a wholesale investor for social investment and champion the sector to the public, stakeholders and investors, took a 'momentous step' forward when Francis Maude, minister for the Cabinet Office, gave his endorsement to outline proposals for its development. They were presented by the bank's independent advisors Sir Ronald Cohen, former chair of The Social Investment Taskforce, and Nick O'Donohoe, former global head of research at JP Morgan Private Bank.

The Big Society Bank will invest capital in intermediaries so that they are able to invest in frontline organisations. It will also invest in developing a powerful infrastructure for the social investment sector. Over time it will be capitalised with an estimated £400m from unclaimed assets in dormant bank accounts, and £200m from the UK's largest banks.

It was recommended that the Big Society Bank set up a charitable foundation capable of receiving charitable donations to support its mission, such as grants to venture philanthropy organisations whose purpose is to increase the investment readiness of strategic social organisations.

It represents a vital two-pronged approach to draw money into the social investment while helping create enough investment-ready organisations to use it.

The charitable foundation will receive philanthropic donations from third parties as well as profits from the Big Society Bank at the discretion of its board. However, it will not provide grants alongside investments made by the Big Society Bank.

Recent research commissioned by NESTA[1] to investigate the demand for social finance in the UK, carried out by consultancy and think tank New Philanthropy Capital, suggested investment is needed to make under-developed markets more efficient and sustainable. This sort of 'market building investment' will require subsidy and the charitable foundation could help here, rather than funds coming from the Big Society Bank that would erode its capital base.

The minister has directed the Big Lottery Fund to establish an interim Investment Committee to start making investments from this summer, comprising six experts in social and financial investment who will provide support to social investment organisations enabling them to increase their capability. They are:

- John Kingston, director of CAF Venturesome and chair of the Investment Committee;
- Chair of Big Lottery Fund's England Committee or his/her nominee [to be appointed shortly];
- Anna Southall, Big Lottery Fund;
- Sir Ronald Cohen, independent adviser on the Big Society Bank;
- Nick O'Donohoe, independent adviser on the Big Society Bank; and
- Dawn Austwick, chief executive of Esmée Fairbairn Foundation.

The NESTA research investigated the demand for social finance in the UK in three markets: social finance, financial inclusion (focussing on affordable credit), and social housing.

It found that in both the social finance and financial inclusion markets there is a role that the Big Society Bank could play, and make a difference. However, the absolute amounts needed from a funder like the Big Society Bank total hundreds of millions, not – as some commentators have suggested – billions of pounds.

The research also found that the majority of demand is for soft capital. This means that the Big Society Bank should not expect to achieve commercial returns on many of its investments, it says.

If the bank prioritises commercial returns "*it will fail to support those that it is set up to support and displace capital in investments that would otherwise have been provided by a commercial investor*", the report says.

To find out more about the Big Society Bank project read the full report by NPC, view a presentation delivered by NPC at the report launch, or visit NESTA's website.

http://www.nesta.org.uk/publications/reports/assets/features/twenty_catalytic_investments_to_grow_the_social_investment_market

- http://www.philanthropycapital.org
- http://www.nesta.org.uk

[1] *Understanding the Demand for and Supply of Social Finance, NESTA, April 2011, Authors: Iona Joy, Lucy de Las Casas and Benedict Rickey*
http://www.nesta.org.uk/home1/assets/features/understanding_the_demand_for_and_supply_of_social_finance

Case study: Cool2Care

Cool2Care, a social enterprise and Community Interest Company (CIC) which supports families with disabled children and young people, received £500,000 of investment to expand its services in May.

The finance is a blended form of debt and grant-based investment and comes from a consortium of three social investors: Big Issue Invest, Venturesome and CAN. Big Issue Invest has committed £200,000 of structured debt from its Social Enterprise Investment Fund; Venturesome is investing £150,000 in similarly structured debt; CAN Breakthrough is investing £150,000 in the form of venture a philanthropy-backed grant to fund business development and diversification. Returns are capped at 10%. The impact will be measured quarterly, though draw down of funds is not dependent on performance against them.

Cool2Care was founded by Philip Conway, inspired by his young son Shaun who has a disability.

Of the estimated 770,000 disabled young children in the UK, less than one in 10 receives care from their Local Authority. This leaves many families struggling with the demands of raising a disabled child. Conway says the investment means up to 5,000 families can receive flexible one-to-one support. He says: "*This will give parents regular help with caring, offering them short breaks and improving their ability to raise the young person at home. It can improve family relationships and in some cases help parents access training or employment. Each young person receives friendship, help with basic tasks and a chance to engage in the local community.*"

Nigel Kershaw, CEO of Big Issue Invest and chairman of The Big Issue, says: "*There has been a lot of talk about social enterprise and the Big Society. I believe Cool2Care is a great example of both. It will make a huge difference to disabled children and their parents' lives through a truly transformative model of care and support.*"

John Kingston, director of CAF Venturesome adds: "*Cool2Care is an example of a growing social enterprise that recognises the need to blend earned income with grants. We are particularly delighted to be working in an investment consortium with Big Issue Invest and CAN Breakthrough, demonstrating the increasing maturity of the social investment market in the UK.*"

Andrew Croft, chief executive of CAN, says; "*As outlined by the government's own social investment strategy, venture philanthropy like Breakthrough can play a catalytic role in attracting greater investment for ambitious social enterprises like Cool2Care. This collaborative social investment is a real force for good and an example we hope other investors will follow.*"

Big Issue Invest
- www.bigissueinvest.com

CAN Breakthrough
- www.can-online.org.uk

CAF Venturesome
- http://www.cafonline.org/default.aspx?page=18929

Cool2Care founder Philip Conway was inspired by his young son Shaun who has a disability.

Paul Cheng, CAF Venturesome.

All power to philanthropy?

Do philanthropists have a special role to play in social impact investing (SII)? Many think so and here CAF Venturesome's Paul Cheng explains why a propensity to 'give' rather than 'invest' means philanthropists have more power than most and a 'golden opportunity' not only to play a role, but to have a say in the development of the market.

Paul Cheng, of CAF Venturesome which pioneered social investment in the UK, believes philanthropists are the most powerful of all players in the social impact investment market.

The view is based on early experiences of the now 30-year-old microfinance industry the UK, which Cheng has documented and evaluated in *The Impact Investor's Handbook*[16]. It provides a roadmap for the development of the social investment market.

Cheng says: *"We point to the pivotal role of some leading pioneers in the microfinance industry who proved the concept of microfinance by demonstrating high repayment rates, replicability and market demand. The model was quickly exported and adapted to several geographies. Subsidies and guarantee funds provided these early pioneers with the flexibility and patient capital required to prove their business models. A process of transforming non-profit organisations into commercial businesses was a model promoted by some, which led to a wave of industry professionalisation.*

"The role of private donors and forward-thinking philanthropists has been significant for not only providing access to capital, but also for bringing into the sector skills and expertise gained from the mainstream finance industry."

He uses the example of the founding shareholders of Unitus Capital who came from the private equity and investment sector, and were drawn to the idea of a boutique investment bank for Microfinance Initiatives through their prior involvement with Unitus.

Cheng says social impact investment should embrace and support such sector pioneers

"Muhammad Yunus was instrumental in establishing Grameen and microfinance, but his strong allies both inside and outside of Bangladesh assisted in exporting microfinance to the world. While ACCION and BRAC deserve credit for advancing a highly scalable model of microfinance, early visionaries such as Martin Connell, Calmeadow and international aid organisations also poured in financial resources, and secured hard-won early victories, to prove the concept."

The co-ordination of sources of early grant capital in order to prove experimental models was also crucial, says Cheng.

[16] *The Impact Investor's Handbook, Lessons from the World of Microfinance,* CAF Venturesome: Market Insight Series, February 2011, First Edition

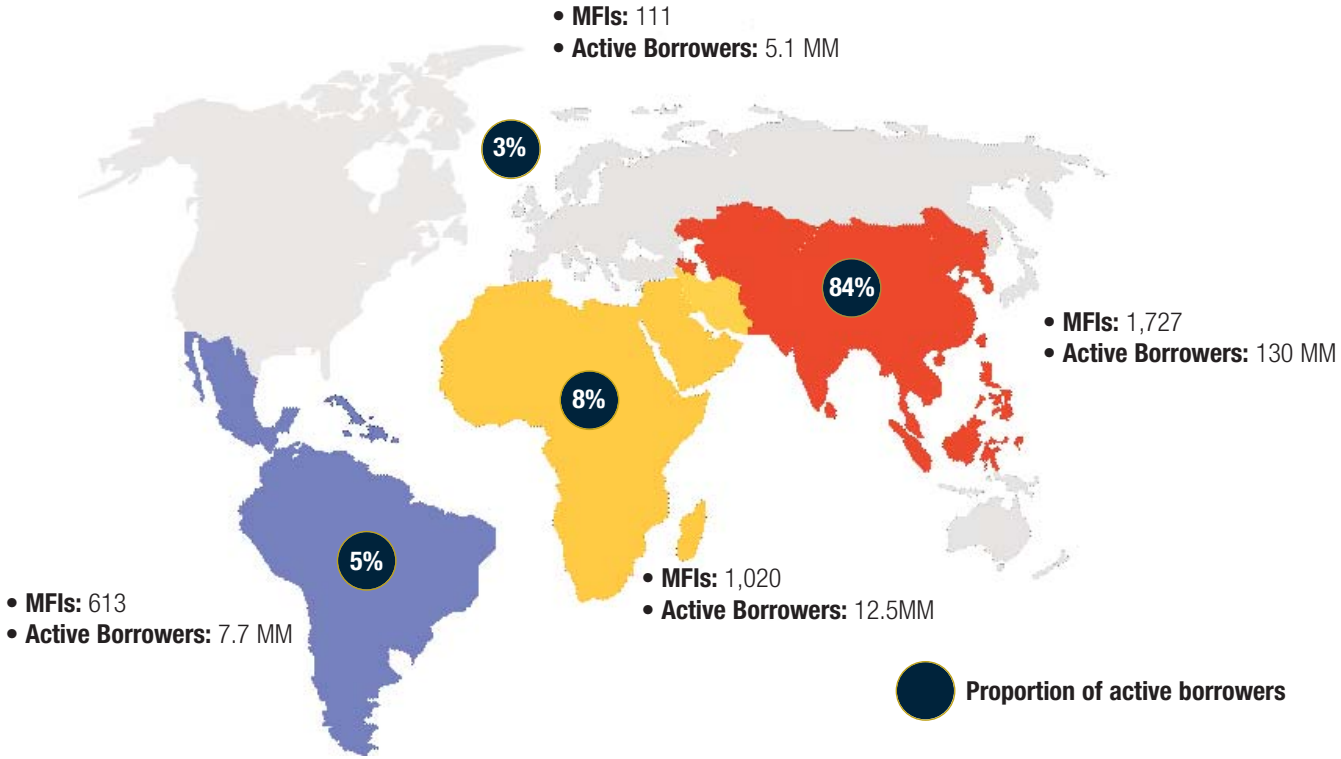


Figure 5.

Caption: Global geographical spread of MFIs and microfinance borrowers
Source: Data obtained from the Microcredit Summit Campaign Report (2009).

"Grant funding was critical for absorbing the early stage risk of high potential microfinance models that remained too uncertain and unknown to attract alternative sources of financial support. Governments, foundations, and other grant funders should be the primary drivers of change in creating beacons of success and momentum for models that need time to both reduce costs and increase scale."

Angel investors

In exploring the role of philanthropy in social investment, The Shell Foundation (SF) identifies 'angel philanthropists' as vital cogs in the new economy's wheel, just as 'angel investors' helped so many of today's for-profit global corporations get off the ground.

Angel philanthropy provides early-stage capital and support to nurture new social enterprises through the rocky early days. It is by nature 'high risk'. But SF has proved it can achieve high reward.

Chris West, foundation director, explains: *"In our inception phase (from 2000 to end 2002) – where we largely provided short-term project based support to multiple not-for-profit organisations – 80% of the initiatives we supported failed to achieve scale or sustainability. This reflected either poor execution or lack of market demand for the proffered products and services.*

"Having changed our strategy to focus on co-developing and implementing new business models with a few carefully selected strategic partners, we now find that 80% of our grants meet our criteria for having achieved scale or sustainability."

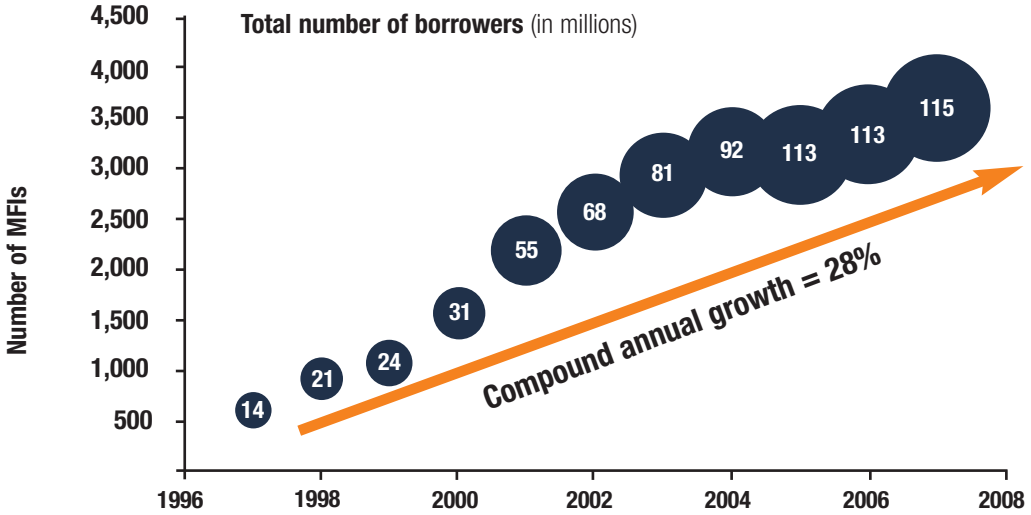
Today, two of its strategic partners (EMBARQ and GroFin) have achieved verifiable globalscale and sustainability and two others (Envirofit and The Better Trading Company) are well-advanced in this respect.

The foundation, which has disbursed $111.9m (£70.4m) since 2000 to *"catalyse scalable and sustainable solutions to global development challenges"*, acknowledges that angel philanthropy requires "focus, patience and flexibility".

West says: *"We acknowledge that it represents a high risk approach given the time needed to achieve developmental returns. But we believe that more angel philanthropists are needed to catalyse and support the growing number of social entrepreneurs until they are ready to source second stage finance from others. Opportunities exist for syndication between angel philanthropists and such impact investors,"* he says.

Figure 6.

Annual growth of MFIs since 1996
Source: Data obtained from the Microcredit Summit Campaign Report (2009)



So there are great expectations of philanthropists as market builders, prospectors and pioneers.

But what do philanthropists receive in return?

After all 'investing' funds is unlikely to garner the kinds of honours that giving money away does, and it returns lower than market returns. One could see it as the worst of both worlds.

Fiona Ellis, who has held many key foundation roles and currently chairs NCVO's Funding Commission offers a view: *"It is true that initially social impact investments may not bring the approbation that straight gifts do, nor can they be expected to bring a strong financial return. But for the philanthropist who genuinely wants to make change there are other rewards. Moreover, as this sort of investment becomes more common there will be a greater understanding of its benefits for the VCS and thus a proper recognition of those pioneers who put their money in early without the expectation of wide public acclaim."*

Dawn Austwick, CEO of Esmée Fairbairn Foundation which has been actively involved in social investment, launching a £20m Finance Fund in 2008 that aims to draw other investors into it and to demonstrate the potential of blended returns, says: *"Social investment can offer the canny philanthropist the opportunity to make their money go further, creating real social impact and the chance of returnable funds that can then be re-invested for further charitable benefit. As an early developing market it does carry risk so any propositions need careful consideration by potential investors but over time it can be a great way to increase the overall flow of funds into charitable activity."*

And Cheng argues against the 'worst of both worlds' idea: *"Philanthropic investors have a golden opportunity to shape the future of a new impact investment economy. Impact investment is set to change everything. Philanthropists who get involved now have the chance to be part of a long-term strategic solution, the impact of which will be felt globally and for years to come.*

"Philanthropists by nature are looking for high-risk, high-impact opportunities and more willing to deploy their money through "minus 100%" opportunities than finance-first investors. This makes them the most powerful of all players involved in impact investing because they have capital that can in effect absorb infinite risk."

Philanthropists, such as Bill Gates and Michael Dell, are essentially trying to *"find and fund the Microsofts and Dells of the non-profit sector,"* says Harvard Professors Robert Kaplan and Allen Grossman[17].

As Cheng says: *"Those who do not engage now might be missing a trick."*

[17] Kaplan and Grossman, Harvard Business Review, 2010, p 114.

Antony Elliott, director of The Fairbanking Foundation.

Inside the mind of a social investor...

by Antony Elliott

What drives a wealthy person to socially invest? According to recent research from NESTA'[18] the major driver is being able to achieve social impact and not the desire for financial return.

The research revealed a number of other key attitudes, drivers and motivations around the appeal of social investment, and showed that age, factors such as having children at home and how the individual feels about their financial situation played an important part in how they view it.

For example, it shows that younger people, those aged under 45, are more likely to respond positively to social investment than those aged over 55, perhaps being driven by a greater sense of needing to change society through their wealth.

It further reveals a desire for investment products with 'novelty and newness' and there is a sense that many potential investors are not particularly happy with how their wealth is currently deployed.

These findings and others are based on the responses of 20 wealthy individuals with more than £1m of investment assets (excludes businesses and property assets) who were personally interviewed for the qualitative research and 505 individuals with investment assets of between £50k and £1m who responded to an online study for the quantitative research.

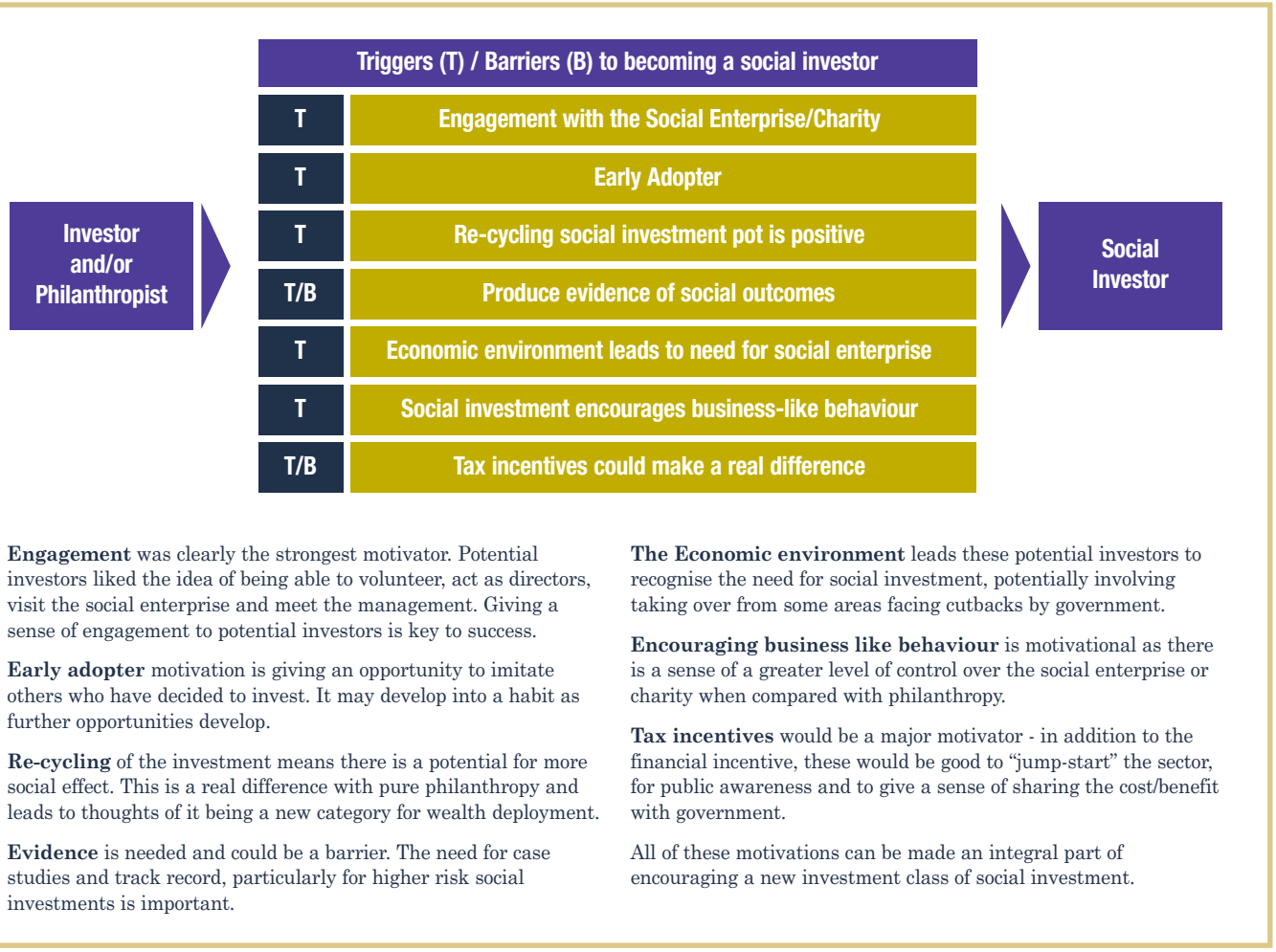
The research reveals that while the group of potential social investors with £50k to £100k of investment assets had complicated and diverse motivations there were clear conclusions for investors with over £100k of investment assets, and the rest of this article is about them.

The group of likely social investors agreed strongly that they wanted their money *"to do some good as well as provide me with a return",* secondly, agreed that *"my investment portfolio reflects my ethical values"* and thirdly, agreed that they liked to be *"actively involved in local community activities"*. Maybe this key factor is as significant for what it does not contain, since existing charitable giving was not a key determinant of expressed interest in social investment. This indicates that social investment has different appeal to philanthropy.

It is clear from the research that tax incentives would make a substantial difference in the appeal of social investments, not necessarily in providing a financial motive, but as a way to demonstrate the commitment of a government prepared to recognise the benefit being generated for those with needs in society. Further research should be undertaken to establish the effects of the incentive on different segments.

[18] *Investing for the Good of Society, Why and How Wealthy Individuals Respond,* Antony Elliott, Fairbanking Foundation and Ipsos MORI, published by NESTA (National Endowment for Science Technology and the Arts), April 2011

Figure 7.
Triggers/barriers in the process of becoming a social investor (investment assets over £100k).



Engagement was clearly the strongest motivator. Potential investors liked the idea of being able to volunteer, act as directors, visit the social enterprise and meet the management. Giving a sense of engagement to potential investors is key to success.

Early adopter motivation is giving an opportunity to imitate others who have decided to invest. It may develop into a habit as further opportunities develop.

Re-cycling of the investment means there is a potential for more social effect. This is a real difference with pure philanthropy and leads to thoughts of it being a new category for wealth deployment.

Evidence is needed and could be a barrier. The need for case studies and track record, particularly for higher risk social investments is important.

The Economic environment leads these potential investors to recognise the need for social investment, potentially involving taking over from some areas facing cutbacks by government.

Encouraging business like behaviour is motivational as there is a sense of a greater level of control over the social enterprise or charity when compared with philanthropy.

Tax incentives would be a major motivator - in addition to the financial incentive, these would be good to "jump-start" the sector, for public awareness and to give a sense of sharing the cost/benefit with government.

All of these motivations can be made an integral part of encouraging a new investment class of social investment.

The study examines the reactions of interviewees to four social investment products with different risk, return, liquidity, level of engagement and social/community/ethical benefit:

- a charity bond
- a community business share issue
- a social enterprise property fund
- a social investment fund.

All of these were received well by a substantial group of the interviewees who appeared to have understood their different profiles. This was a reassuring conclusion for being able to develop a variety of social investments, including those with higher risk.

For wealthy investors who found them appealing, against those who were indifferent (passive) or who found them unappealing, there were clear triggers and barriers as to why as Figure 7 shows.

The research explores how all interviewees view these products and, at least one third see them as 'a new type of activity', distinct from philanthropy and investment – a new asset class, while those with more than £100k of investment assets are more likely to view them as part of their philanthropic activity.

The mindset issue is particularly important in thinking about how products might be presented to market. Is it better to present the product as an investment with a lower return in order to achieve social good or a new type of wealth deployment, alongside investment for return and philanthropy?

The interim report for NESTA[19], explores this issue in relation to the thinking of very high net worth individuals (more than £1m of investment assets); those who had

[19] *How do individuals become social investors? Interim conclusions from research into the behaviour of high net worth investors*, Fairbanking Foundation and Ipsos MORI, published by NESTA (National Endowment for Science Technology and the Arts).

made a commitment to social investment were increasingly seeing it as a new type of wealth deployment.

The interim research also reveals the interesting journey a philanthropist takes on their way to becoming social investors.

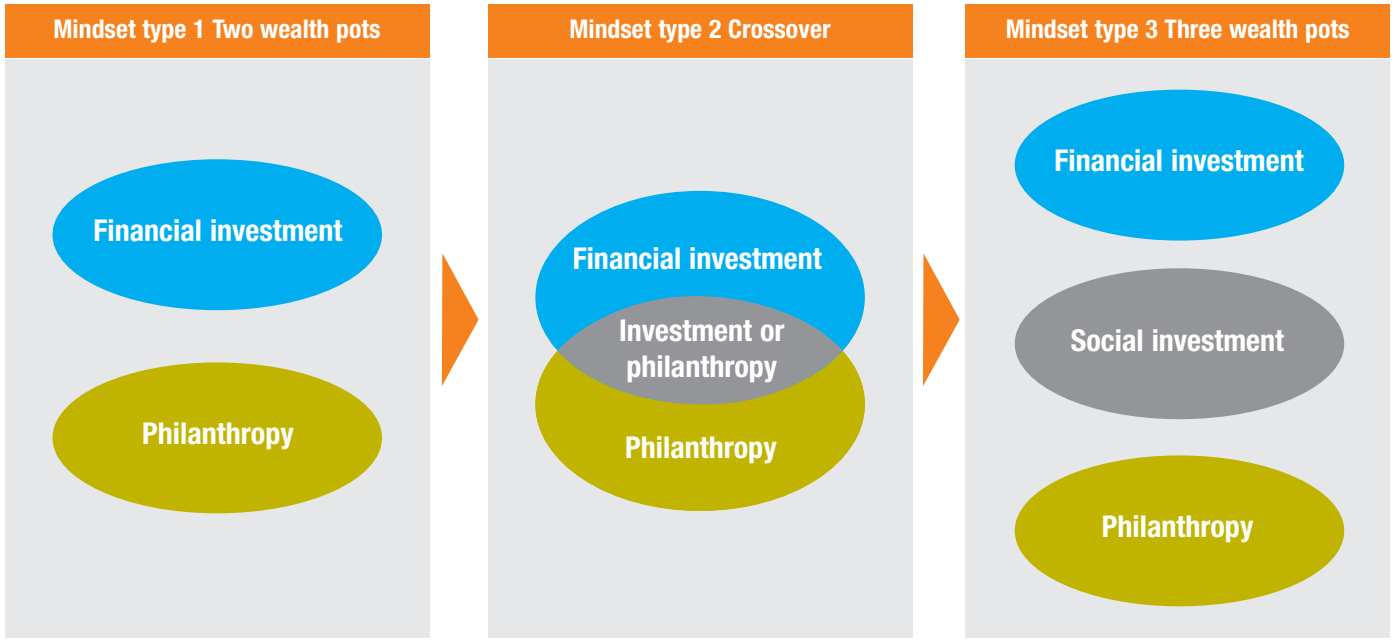
The starting point for the wealthy individual is to think of their money as two pots – philanthropy and investment. But as they become more engaged in social investment they undergo a period of 'confusion' as to where social investment sits in their wealth deployment before realising it is sufficiently different to occupy a pot in it own right – a third 'pot' (see Figure 8) much as the government set out in its recent strategy document[20].

It is an important perspective and one that might be used by those wanting to grow this market. However further research is needed into how these new products, for which there is clearly an appetite, are presented.

Then, it is a question of whether there is sufficient variety of social investment products available in order to create a portfolio that can successfully spread risk.

Figure 8.

Mindset transition to becoming a social investor. Source: How do individuals become social investors? Interim conclusions from research into the behaviour of high net worth investors, Fairbanking Foundation and Ipsos MORI, published by NESTA (National Endowment for Science Technology and the Arts)



Antony Elliott FCIB is the director of The Fairbanking Foundation. Previous roles include Group Risk Director of Abbey National, Group Head of Financial Risk of Man Group and a number of UK and international banks. He has authored reports published by the Centre for the Study of Financial Innovation (CSFI) on the subjects of over-indebtedness (2005) and financial well-being (2009) in the context of banking and was the lead author for research undertaken for the Consumer Financial Education Body into the role of behavioural economics in improving financial capability (2010).

In 2008, he founded The Fairbanking Foundation charity, which has funded research into financial well-being and has produced reports rating banking products using criteria based on the financial well-being research. In 2011, FairBanking expects to have completed the accreditation process in order to grant the first Marks to products meeting these criteria.

Elliott has a degree in Banking and International Finance from City University and a masters degree in Operational Research from Imperial College, London.

[20] *Growing the Social Investment Market: A Vision and Strategy*, HM Government, February 2011

Social impact investing and measurement

By Iona Joy, head of charity analysis, New Philanthropy Capital

Philanthropists are increasingly being asked to make social investments. They are being encouraged to see social investment as a new asset class: neither a grant, where the money is never seen again, nor a financial investment of the type you'd commit to a pension plan. The attraction for philanthropists is that investments can be recycled into a greater number of projects than a straight grant – or philanthropists can have their money back if they aren't quite ready to part with it outright.

Social investment comprises a huge range of options lying somewhere between grants and pension plan: you might lose some of the capital, or you might not. You might get a financial return, or you might not. The investment might be very risky, or it might be surprisingly low risk. Or it might be risky but the financial return nowhere near compensates for the risk. I'm not going to get into a debate here as to definitions and boundaries. I've witnessed too many debates with no agreement reached accept to agree to disagree. But there is one point on which everyone agrees: that social investment should 'do some good'.

And therein lies the rub. How do we know the investment is 'doing good'? It seems to me that if you expect an investor to forego some of his or her financial reward, then he or she ought to know what 'good' will be generated in return.

Understanding this 'good' requires assessment of the investment's social impact. And there is widespread admission in the field that the social investment market has not cracked this conundrum yet. In the US, the Global Impact Investment Network is developing Impact Reporting and Investment Standards—IRIS—an ambitious attempt to develop general metrics across a number of fields such as education, environment, housing. At present what is being measured tends to be outputs rather than impact, but it's a start.

In the UK, Social Finance has based its Social Impact Bond structure around capturing social benefit, so impact measurement is fundamental to this product. Elsewhere in the market the RBS SE100 Data Report focuses on organisational growth and whether impact measurement features in an organisation's corporate processes. It also provides some nice anecdotes and case studies to suggest impact. However, we've seen more sophisticated impact measurement approaches within the charity sector. NPC thinks more could be done to close this gap.

NPC has been working with charities on impact measurement for several years, so we are well aware of the challenges of measuring social benefit. But where there's a will (and some resources), there's a way. Many charities have pursued measurement with enthusiasm, with great results. A charity such as Place2Be measures the well-being of its primary school users to determine

"There is no magic number applicable across the board."

whether the therapists working with troubled children are making any significant difference. So donors know their money is having a measurable impact on these children's lives.

Some charities are even going one step further – attempting to calculate how much economic difference they make to the lives of beneficiaries. They might try to calculate the extra income beneficiaries earn because of help getting a job, or the financial benefits of being supported back to full health. This is sometimes called social return on investment (SROI). But NPC is cautious here: attempting to calculate SROI without first collecting decent data on outcomes is usually pointless.

Organisations courting social investment, be they social enterprises, charities or companies, should learn from these innovations and rise to the challenge of social impact measurement.

Reporting requirements should be proportional however. If investees are likely to repay funds rapidly, with good financial returns, and without ever needing a grant, there is little reason to impose heavy reporting requirements which would stultify the market. But if the investment is long term, risky, or offers sub-market financial returns, the story is different: the bigger the financial hit investors are likely to take, the greater the need for impact measurement.

Shared measurement tools and processes could help reduce reporting burdens. Recent innovations in social impact measurement make it possible to develop common ways of measuring impact for charities working with similar groups and working towards similar goals. For example, NPC's online Well-being Measure for teenagers, in the final throes of development, hopes to achieve this and offer it at an affordable price to charities working with young people. With involvement from a group of charities, we also developed a measurement tool for prisoners' charities working to improve family ties. But even with shared measurement, the results have to be analysed in the context in which each charity is working, and communicated to funders accordingly. There is no magic number applicable across the board.

But organisations have an additional challenge, which is to understand the impact of social investment on the organisation—a similar challenge to venture philanthropy. Assuming that the organisation is doing good things (and has evidence to prove it), then it is also be wise to ask whether the social investment is helping the organisation do even more good, eg by scaling up operations or creating a sustainable income stream.

Understanding social impact is central to growing this investment market successfully. If you are going to ask more investors to accept greater risks and sub-market financial returns by joining this market, they will want to know what social impact they are getting in return. For its part, the social finance sector, including the new Big Society Bank, needs to put its money (or resources) where its mouth is on impact measurement of social investments. Watch this space, as NPC has its thinking cap on.

▸ http://www.philanthropycapital.org

If you require any further information on these stories or have a social investment news item, please contact Lisa Wootton, lisa.wootton@uksif.org

Lisa Wootton, project manager, UKSIF

www.uksif.org

Social impact investing news

A brief round-up of developments from the social investment world

By Lisa Wootton, project manager, UKSIF

City Bridge Trust holds 'Investing in Civil Society' Conference

The event bought together banks, charities, philanthropists and wealth advisors and included presentations on the Big Society, the Social Impact Bond and the evolution of social impact funding. Visit

- www.bridgehousegrants.org.uk

ClearlySo commissioned to research investor perspectives on social finance

The report, commissioned by the City of London Corporation, Big Lottery and the City Bridge Trust, will involve interviews with a wide variety of representatives of the investment community. The focus of the research is to investigate which investment product designs will increase the uptake of social investment.

- www.clearlyso.com

Truestone to launch global impact investment fund

The IM Truestone Global Impact Fund will invest in areas including renewable energy, sustainable forestry, microfinance, agriculture and social housing.

- www.truestoneimpactinvestment.co.uk

SNS Asset Management launches impact investing unit

Dutch fund manager, SNS Asset Management, has launched SNS Impact Investing. The unit intends to invest in social development with an initial focus on microfinance, sustainable agriculture and water.

- www.snsimpactinvesting.com.

New report considers the role of government policy in developing the market for impact investing

'Impact Investing: A Framework for Policy Design and Analysis' addresses the question of how policymakers, investors and civil society can better develop and analyse impact investing policies. The report was written by InSight Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University, with the support of the Rockefeller Foundation.

- www.pacificcommunityventures.org

Bridges Social Entrepreneurs Fund receives funding of £2.75m

The J.P. Morgan Social Finance Unit has invested £2.75m in the Fund, bringing it to a final close of £11.75m. It aims to address the funding gap faced by fast growing social enterprises.

- www.bridgesventures.com

US Government announces $1bn impact investing fund

The Small Business Administration (SBA) has committed $1bn investment to funds that invest growth capital in companies located in underserved communities.

- www.whitehouse.gov

Credit Suisse Private Banking publishes white paper on strategic philanthropy

'Strategic Philanthropy: Unlocking Entrepreneurial Potential' outlines how strategic philanthropists can stimulate entrepreneurship and small business growth in developing countries.

- www.credit-suisse.com

The social impact investment spectrum is broad and offers investors many ways to take part. Here we asked leading practitioners to answer our quick Q&A on their respective investment approaches.

Q&A: What is venture philanthropy?

Daniela Barone Soares, chief executive of Impetus Trust, answers our quick Q&A on venture philanthropy

What is venture philanthropy?

Venture philanthropy is an active approach to philanthropy, which involves giving skills as well as money to high-potential charities and social enterprises. The Impetus model of venture philanthropy uses the principles of venture capital, with the investee organisation receiving management support, specialist expertise and financial backing.

What returns does venture philanthropy offer?

The donor is looking for a social return, rather than a financial one. We work with the charities and social enterprises in our portfolio over three to five years, to help them become more efficient, scale up and turn around the lives of many more people. The first two charities in our portfolio, for example, grew the number of people they were able to help nine-fold and fifteen-fold respectively, in five years.

Does it/will it ever offer financial return?

Impetus Trust typically puts in place a "surplus share" arrangement with our investee charities. This means if we help them to develop particular income streams that generate surpluses, they will share a small portion of those surpluses with Impetus (subject to not depleting their reserves or constraining execution of the business plan). We see the ability to provide some return on funding as an important step on the road to our investees' financial sustainability and this arrangement then enables us to reinvest these funds in other deserving charities.

One of the important benefits of the venture philanthropy approach is its ability to leverage donors' money by attracting co-investment and valuable pro bono support. At Impetus, we are able to add nearly £4 more of value to every £1 of donors' money we give to the charities in our portfolio.

What risks does this kind of investment carry?

We invest in innovative, smaller charities working in very challenging areas such as reducing reoffending or raising disadvantaged teenagers' aspirations. They are not safe bets or the "usual suspects", and some are at a relatively early stage of their development. But we believe that this is where some of the most innovative and impactful solutions to social problems can be found, and the risk – and significant hard work – involved is worthwhile in order to help them grow their impact quickly and sustainably.

What is/can be done to mitigate risk?

In many ways, venture philanthropy is a very low-risk approach. This is in part due to the fact that we spend several months carrying out extensive due diligence prior to investment, to ensure that we are selecting organisations with the greatest potential to really break the cycle of poverty. We are backing a business plan to grow the capacity of the entire organisation, not a single project that might be discontinued in a few years' time; our investments are designed to result in sustained growth, thereby ensuring the long-term impact of the funder's investment. An Impetus investment director works closely with the charity throughout the entire investment period to help them achieve the agreed business plan. Grants to the charities in our portfolio are paid out quarterly, contingent on them reaching agreed milestones. Because our investment executive works so closely with the charity, we are able to monitor performance continually and provide additional support if needed.

What should the potential funder know about venture philanthropy?

Investing in venture philanthropy is intelligent giving, for several reasons. Savvy funders like investing in Impetus because their donations will:

- have a long-term impact
- be multiplied in value, as we are able to match them with co-investment and pro bono expertise
- fund charities that are proven to be effective
- treat the root causes of disadvantage
- yield measurable results.

Venture philanthropy is also great for funders who want to get involved and see at first hand the direct impact of their donations. Many of our funders share their skills and experience with our portfolio charities; Impetus is very adept at managing this interaction to ensure maximum value to the charity and a satisfying experience for the funder.

▸ www.impetus.org.uk

Q&A: What is a Community Development Finance Institution (CDFI)?

Bernie Morgan, outgoing chief executive of the Community Development Finance Association (cdfa), answers our quick Q&A on Community Development Finance Institutions (CDFIs)

What is a Community Development Finance Institution (CDFI)?

A CDFI is a social enterprise providing finance (usually loans, sometimes equity) to individuals, businesses and social enterprises which cannot access all or part of their financial needs from mainstream sources such as banks. There are currently around 70 CDFIs operating in the UK. CDFIs routinely offer support to their borrowers which helps them manage their personal and/or business finances.

What returns does investment in a CDFI offer?

Some CDFIs offer a tax relief to investors, Community Investment Tax Relief. This is a five year investment which provides a 5% relief each year for five years. Other CDFIs may offer returns through a mutual model, or other vehicles.

Mostly though, as the sector is new, the returns will be social rather than financial.

Do they/will they ever offer financial return?

As more CDFIs mature and become investment-ready they will be more able to offer financial returns. It is likely that those returns will always be lower than can be gained in traditional investment vehicles. Lower financial returns are offset by social returns such as an increase in employment, lower personal debt, stronger community groups etc.

What risks does this kind of investment carry?

As with all investments, there is a risk attached. There is a lower risk to investors who use regulated banks such as Triodos, Charity Bank and Unity Trust Bank. Investors will need to contact specific CDFIs to discuss potential risks with them. We find that some investors are prepared to take higher financial risks, especially if they want to achieve higher social returns.

What is/can be done to mitigate risk?

The cdfa has a performance framework, called Change Matters, which is creating industry standards for the sector. Once this is in place, investors will be able to assess a CDFIs performance and make a decision based on their own risk preferences.

What should the potential funder know about investing in CFDIs?

The cdfa is the best starting point.

- www.cdfa.org.uk

Q&A: What is social enterprise?

Antony Ross, executive director of Bridges Ventures and manager of the Bridges Social Entrepreneurs Fund answers our quick Q&A on social enterprise.

What is social enterprise?

The sector is evolving and there are many definitions. We would define a social enterprise as being an organisation that delivers social impactthrough operating a fully sustainable business model i.e. one that is not reliant on donations.

For investors, it is important to recognise that a social enterprise's focus on impact is likely to result in lower financial returns. Fortunately, an increasing number of investors are willing to accept this trade off and support the sector's growth.

For example, we would not describe a nursing home operated by a fully commercial owner as a social enterprise, even though it may be delivering excellent service to its residents.

To be a social enterprise, the nursing home would have to go further and commit to re-invest all or a portion of its trading surpluses to enhance its social impact - social impact has to be part of the DNA of a social enterprise.

What is the Social Entrepreneurs Fund?

The Bridges Social Entrepreneurs Fund was seeded by the Bridges Charitable Trust in 2008, and launched in August 2009. It has raised nearly £12m for investment in scalable social enterprises delivering high social impact and operating sustainable business models, and so far has made three investments.

Supporters include individual philanthropists, foundations and trusts, and The Office for Civil Society. Each investment is tailored to ensure that it fits the needs of each particular social enterprise, while also allowing the Bridges Social Entrepreneurs Fund to make a sufficient financial return to demonstrate a sustainable funding source for social enterprises.

What returns does investment in social enterprise offer?

Investment in social enterprise offers both a financial return and a well scoped out social return. It is accepted by investors that there is a cost that must be borne in the aim to deliver social impact.We aim to offer a return of at least 100% capital.

What risks does this kind of investment carry?

The same risk as any investment in any business at this stage of development

What is/can be done to mitigate risk?

By providing hands on help and support to investees alongside financial investment we aim to develop strong, sustainable organisations and to therefore mitigate risk.

What should the potential funder know about investing in funds such as the Social Entrepreneurs fund?

Social enterprises offer the opportunity to deliver long term and scalable social impacts and reduce the requirement to receive charitable donations.

▸ www.bridgesventures.com

Q&A: What is microfinance?

Maya Prabhu, head of UK philanthropy at Coutts & Co, answers our quick Q&A on microfinance for philanthropists.

What is microfinance?

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises.

What return does investment in a microfinance fund offer?

Microfinance spans the broad spectrum of social investing and investors can choose whether they wish to invest for impact only, for financial return only, or for a blend of both.

What role can philanthropists play in microfinance?

Microfinance is at a complex stage of its development. Many issues need to be carefully considered when deciding how to engage with it – including the mission and culture of the MFI, the strategy and goals, the regulatory environment it operates in, its current funding mix and how it measures its social impact. With the presence of significant sums of commercial funding in the microfinance sector, it can be confusing for philanthropists to understand the role they can play. The very first thing to understand is that there is a spectrum of types of microfinance organisations around the world in terms of size, maturity, funding mix and goals. For the philanthropists interested in achieving purely social return, as those members of Coutts' Microfinance Donor Advised Fund (a purely philanthropic fund) are – I see three potential roles:

- They can fund projects in hard to reach areas, say the mountains of Nepal, where creating a commercially viable operation would be difficult because of its geographical remoteness
- Microfinance is about more than offering loans to the financially excluded; it goes hand in hand with providing training and support to help clients with training including in business skills or even education and health - it is these training and support projects that are often critical to achieving the desired social impact that might also be a target for philanthropic funds.
- And philanthropic capital that expects no financial return might also provide the initial 'risk capital' to get a new microfinance organisation off the ground.

What risks does investment in microfinance carry?

We have seen how successful microfinance can be and it has come of age. However, even recently, we have witnessed events (in India for example) that have led some to question aspects of microfinance. There is a need for funders to be fully aware of how each project operates, what its social and financial ambitions are and how these ambitions will be fulfilled. Mission drift (where an organisation's drive for financial returns is achieved to the detriment to its social returns) needs to be guarded against.

▸ www.coutts.com

Glossary

Social impact investment has added a tranche of new terms to the philanthropy vocabulary. Here we offer some definitions from leading sector organisations.

First-loss

'First loss' refers to a segment of an investment fund that stands ready to absorb any losses up to a pre-agreed maximum. (See Case study 3: Fair Finance, page 11)

Source: Impact Investors Handbook – Lessons from the world of microfinance, CAF Venturesome, Feb 2011

http://www.cafonline.org/pdf/impact_investor_report_2011.pdf

Impact First

'Impact-first' investors target social or environmental good as their primary objective, above achieving a financial return. This may mean accepting a lower-than-market ratereturn in order to reach tougher social/environmental goals that are seemingly not achievable through mainstream investment or even philanthropic activities. Because of their somewhat more altruistic vantage point, Impact First investors are also often willing/able to invest in more innovative products.

Source: An Overview of Impact Investing, November 2010, Phillips, Hager & North Investment Management, http://pfc.ca/en/wp-content/uploads/files/home%20page%20temporary/Impact_Investing_Nov_12_2010.pdf

Finance-First

'Finance-first' investors, prioritise the financial return objective over the nonetheless desirable social/environmental objective(s). This group tends to include commercial investors searching for investments that offer close-to-market-rate returns and also yield social or environmental good.

Source: An Overview of Impact Investing, November 2010, Phillips, Hager & North Investment Management, http://pfc.ca/en/wp-content/uploads/files/home%20page%20temporary/Impact_Investing_Nov_12_2010.pdf

(Social) Impact investing

Impact investments aim to solve social or environmental challenges while generating financial profit. Impact investing includes investments that range from producing a return of principal capital to offering market-rate or even market-beating financial returns. Although impact investing could be categorised as a type of "socially responsible investing," it contrasts with negative screening, which focuses primarily on avoiding investments in "bad" or "harmful" companies – impact investors actively seek to place capital in businesses and funds that can harness the positive power of enterprise. 'Impact investing' is rapidly gaining currency as the phrase of choice to describe all investment activity which has an expectation of both a specified social outcome and an explicit financial return.

Source: Global Impact Investment Network (GIIN)

Investment plus

Where positive screens are used to help a foundation select investments which also help it advance its charitable purposes. In the US this is sometimes referred to as mission-related investment.

Source: Esmée Fairbairn Foundation; Social Investment Briefing, 2005, http://www.esmeefairbairn.org.uk/docs/Soc_Investment_briefing.pdf

Microfinance

Microfinance can be understood as a section of the broader impact investing marketplace. Although a conclusive definition of microfinance is not universally agreed, it generally refers to financial mechanisms and arrangements that offer *"poor people access to basic financial services such as loans, savings, money transfer services and microinsurance"*.

Source: Impact Investors Handbook – Lessons from the world of microfinance, CAF Venturesome, Feb 2011

http://www.cafonline.org/pdf/impact_investor_report_2011.pdf

Mission-related investment

Loans, equity purchases, or quasi-equity funded from the foundation's income or capital, with the primary aim of advancing the foundation's charitable purposes,but including a "for-profit' motive.

Source: Esmée Fairbairn Foundation; Social Investment Briefing, 2005, http://www.esmeefairbairn.org.uk/docs/Soc_Investment_briefing.pdf

Programme-related investment

Loans, equity purchases, or quasi-equity funded from the foundation's income or capital, with the primary aim of advancing the foundation's charitable purposes, but in contrast to mission-related investment, does not specifically aim to achieve a financial gain.

Source: Esmée Fairbairn Foundation; Social Investment Briefing, 2005, http://www.esmeefairbairn.org.uk/docs/Soc_Investment_briefing.pdf

Social Impact Bond

See BOX, page 10.

Socially responsible investment (SRI)

Loans, equity or fixed asset purchases (funded from the foundation's capital) with the primary aim of producing income or appreciation in value but with some weight given to social considerations in choosing which investments to make and/or how to manage them. Socially responsible investment takes three main forms:

- Negative screening – to avoid socially harmful ways of getting a good return an ethical investment policy is developed and companies which do not match up are excluded.
- Positive screening – socially beneficial ways of getting a good return are sought out and investment is made, for example, in companies with responsible business practices or which offer beneficial goods or services.
- Shareholder action – investors encourage more responsible business practice by voting their proxies and/or making direct contact with companies.

Source: Esmée Fairbairn Foundation; Social Investment Briefing, 2005, http://www.esmeefairbairn.org.uk/docs/Soc_Investment_briefing.pdf

Social investment market

Specifically the range of impact investing in the UK (from capital/balance sheetfunding, grants, debt, equity, quasi-equity and underwriting). The terms 'social capitalmarket', 'social finance market' and 'social finance sector' are more generic andinclude the global microfinance industry as a subset.

Source: Impact Investors Handbook – Lessons from the world of microfinance, CAF Venturesome, Feb 2011

http://www.cafonline.org/pdf/impact_investor_report_2011.pdf

Serge Raicher, co-founder and chairman of the European Venture Philanthropy Association.

www.evpa.eu.com

EuroView: *Defining a changing landscape*

by Serge Raicher, co-founder and chairman of the European Venture Philanthropy Association

If one follows the press and ongoing debates, it becomes clear that the world of philanthropy and social investment is changing.

Foundations and wealthy individuals are increasingly investigating new forms of giving and experimenting with ways of using mission-related strategies for investing their endowment. Relatively newer stakeholders, such as private equity firms and financial institutions, are pushing into the market.

At the same time, more attention is paid to how social enterprises can solve social issues while achieving financial sustainability and generating both financial and societal returns to their investors. Debates are flourishing on topics such as 'grants versus investments' or 'single impact versus blended value'. Is it possible to do good and at the same time receive a (financial) return on the investment one makes?

As co-founder and chairman of the European Venture Philanthropy Association, I follow these debates with great interest and cannot help but feel intrigued by the various definitions of venture philanthropy, impact investment or social investment.

Why are definitions so important to this discussion? We have a responsibility for transparency vis-à-vis all stakeholders and should ensure that our governance, remuneration structure, impact measurement and communication are properly aligned with our objectives.

Thus, it is important to know what we expect from the investment we make: are we satisfied with societal return only or are we expecting societal return first, but welcome a "financial little something" on the side? Or are we indeed expecting a financial return on the investment we have made?

At EVPA we make a clear distinction between societal and financial return of investment. We define the venture philanthropy approach as *building stronger social purpose organisations by providing them with both financial and non-financial support* thus *helping them increase their societal impact*. However, contrary to most views in the UK, we understand that venture philanthropy can employ a range of financing mechanisms from grants to equity and other forms of social investment, tailored to the needs of the investee social purpose organisation. The key is the combination of financial and non-financial support. We are always referring to an 'investment' because time and money is being invested in expectation of a societal return.

"Whilst in some cases a degree of financial return might be possible we should be wary of creating inflated expectations."

Indeed, if you look at EVPA's full members – these include venture philanthropy organisations that provide either grant funding, social investment, or a combination thereof, always in a high engagement manner. Another distinction that EVPA makes is that our *emphasis is on societal return as a primary goal*, as opposed to financial return.

There are a number of articles and papers that are heralding that investing in people in need bears much potential for financial return. A recent paper by JP Morgan and the Rockefeller Foundation even estimates a profit opportunity of between $183bn and $667bn over the next decade in five sectors – housing, water, health, education, and financial services – serving global populations earning less than $3,000 annually.

Whilst in some cases a degree of financial return might be possible we should be wary of creating inflated expectations. The importance of the societal impact resulting from high engagement philanthropy or social investments may be lost by focusing too much on the potential financial return.

You might have noticed that I use the words 'societal impact' throughout this article. Although this may sound unfamiliar to the English ear, we have adopted the word to the EVPA vocabulary to reflect that impact can be social, but also environmental or artistic.

Artistic initiatives are not the typical target of venture philanthropy activity. However, the Culture Forum, a body created by Arts & Business and the National Campaign for the Arts in the UK, issued a report in January which included the recommendation to "*encourage new philanthropy initiatives such as a limited profit Arts Investment Fund and venture philanthropy funds*".

Thus, it can be seen that there is a real demand in many areas for blended approaches to philanthropy. In order to fulfil these demands and to avoid false expectations, it is necessary to have clear definitions of the various approaches. There seems to be a divergent understanding of venture philanthropy and the emergence of relatively new terms, such as impact investing, seems to add to the confusion. I hope that by clarifying the stand that EVPA takes on venture philanthropy – reflecting more the pan-European understanding of the approach – we can demystify the current debates on the changing faces of philanthropy.

Serge Raicher

After 20 years in the Private Equity industry, including at Pantheon Ventures where he was a Partner until 2009, Serge Raicher decided to focus on his philanthropic activities and more particularly on the European Venture Philanthropy Association (EVPA) which he co-founded and has presided over since 2008. Serge sits on the Venture Philanthropy Fund's Investment and Management committee of the King Baudouin Foundation in Brussels and is a member of Toolbox a.s.b.l. Serge holds an MBA from INSEAD.

▸ www.evpa.eu.com

Letter from America: *New blends and bonds*

by Melissa A. Berman

As America prepares to celebrate its 235th year of independence from Great Britain on July 4th, there's one growing phenomenon which continues to inspire philanthropists on both sides of the pond.

Social investors in the UK, United States, and indeed around the world are eager to leverage new vehicles, new capital, and new partnerships to solve our most difficult social issues – poverty, education, human rights and environmental concerns.

In the process this new breed of investors is redefining what it means to be a philanthropist and an NGO by blurring the boundaries between the business and not for profit sectors, and in many cases pushing back on the traditional rules that have guided philanthropy for years.

This is not your just-make-a-grant-to-a-charity-and-hope-for-the-best kind of donor. This investor brings to the table a sophisticated toolkit jam packed with a range of strategies and investment tools including a willingness to make outright loans or underwrite loan guarantees, earmarking capital for equity investment in a for-profit social enterprise or certified Beneficial ("B") Corporation; actively owning and managing securities positions through proxy voting; as well as investing in a host of below-market and market-rate investments. These donors want to be engaged, want impact, and increasingly are demanding and getting a bottom line return on their impact investments.

Melissa A. Berman, president and CEO of Rockefeller Philanthropy Advisors.

Some of the most recent developments fueling this movement include:

- ***Return on Investment:*** Bottom line conscious investors no longer have to choose between doing good and ROI. There is now a track record of individual and institutional donors which have demonstrated you can have both. At the prodding of investors looking to align both their personal and philanthropic assets with their social goals, wealth managers are taking notice and are now incorporating socially innovative investment strategies in the products offered to their clients.
- ***Social entrepreneurship:*** Innovation is being driven by a new group of savvy global leaders who are exploring a variety of social enterprise vehicles which provide them more flexibility in addressing social needs while attracting much needed investment capital. B Corporations and LLC entities are gaining a foothold throughout the US as vehicles of choice for social entrepreneurs.
- ***Government's role:*** The UK's leadership in testing social impact bonds has not gone unnoticed in the US as an innovative tool for social investors to support outcomes-based public sector initiatives. The government issues the bonds to address a critical need, but pays out financial returns only if outcomes are met (e.g. school dropout prevention targets are met). It's a creative way to fund prevention and early intervention services which can have significant government savings in future years. US social investors were thrilled that President Obama included a small ($100m) allocation to pilot social impact bonds in his 2012 budget request Modest in comparison to the UK commitment, but an important gesture in highlighting the critical role government can play in attracting investors to this space. This vehicle is also generating interest at the state level with Massachusetts recently issuing a request for information to explore how to leverage the 'social impact' bond approach.

Blended philanthropy, social investing, impact investing, and venture philanthropy are just a few labels attached to this new breed of social change agents. We see this space only growing as both individual and institutional donors embrace the notion that as the world and its problems become more complex, the pressure is on to leverage all available assets for meaningful social change.

Melissa A. Berman is president and CEO of Rockefeller Philanthropy Advisors. www.rockpa.org

My philanthropic journey

Engaging and enjoying... *by Louis Elson, chairman, Impetus Trust*

Louis and wife Sarak Elson

"I have always remembered a Talmudic story my father once told me of an old man planting a carob tree whilst a passer-by looked on. The passerby knowingly asked the old man when the tree would bear fruit and the old man replied, "Seventy years." The passer-by laughed and asked the old man if he really expected to live to see the tree blossom. The old man answered that he had greatly enjoyed the fruit of carob trees planted by his grandfather and his great grandfather before him and now he himself was fulfilling his role by doing the same for his own grandchildren and great grandchildren after them. It is the spirit of this tale that inspires my own philanthropy.

Philanthropy is about engagement and there are as many ways to approach it as there are individuals! With my wife Sarah, we have always followed our instincts and focussed on those areas of need which have truly inspired us and pulled us into a deeper personal engagement. It is not only important to us to "do good" or to have "good intentions," it is also important to enjoy our opportunity to participate.

"Fulfilling philanthropy" is a skill which develops over time, but still starts, like all skills, in a closely proximate comfort zone. As Sarah and I have become more practiced,

"In giving to a charity, whether that be one's money or one's time, donors should not be afraid to ask how well contributions are being utilised or what that organisation has really accomplished."

and thereby more confident, we have moved further afield and followed our passions to areas less directly relevant to us but equally as engaging. That is one of the great pleasures of committing to philanthropy early on in one's life – with confidence, many more doors open up to a host of social change activities which can be truly world-changing.

We tend to be very open about the possibility of getting involved. If a friend approaches us with an opportunity to give to an organisation, we will pretty much always give something. This allows us to see beyond what is immediately visible to us. Second, we have learned not to be shy about pushing in, asking questions and seeking a deeper engagement. We avoid the fears most people typically have early on – *"I don't want to be too forward"* or *"they must hate answering that question so many times"* or *"I don't want to get too close too soon as they may expect somethingof me"* – and we get active in exploring what the charity is doing, how they are doing it and what impact they are having on our community. That is exactly how I became involved in Impetus Trust where I am now board chairman. Executives of charitable organisations like the team I first met at Impetus do their jobs out of a genuine commitment to their cause, which means they are more than willing to engage on it, explain it and enthuse about it!

Impact is very important and making sure that the impact an organisation has can be scaled is also a key to my assessment of whether or not to place a priority on my support. And measurement, while sometimes difficult and, depending on the situation a bit amorphous, is still the only way to establish if a result is actually happening. Too often, philanthropically-minded people make commitments out of a sense of obligation or emotion and fail to focus on the purpose of the charity and what "investment criteria" should be required. In giving to a charity, whether that be one's money or one's time, donors should not be afraid to ask how well contributions are being utilised or what that organisation has really accomplished. At Impetus, "measurement of result" is an extremely important value which is applied in two ways for us. First, we require the portfolio charities we support to report regularly to us on key performance indicators which we identify and agree with them at the start of the relationship. Second, we collate and publish our own key performance indicators to ensure our constituents also understand fully the impact we ourselves are having.

The number one piece of advice I can offer to others wishing to make a difference to the world is to GET GOING! There are so many ways to generate excuses about why it cannot be done – not enough time, not the right time, not the right charity, not the right cause, not enough money, too much money, etc, etc, etc. But by focussing simply on the act of planting that carob tree, more than its purpose or its potential success or failure, the process of engagement begins and one's ability to focus, develop, manage and accelerate a set of philanthropic activities becomes easier and more enjoyable.

And number two is GET INVOLVED! The more one is involved in the charitable organisation itself, or in the cause, the more fulfilling the activity of supporting that cause or organisation will be. And that is what it is all about – enjoying being a part of a better future, in whatever direction that future ultimately manifests itself.

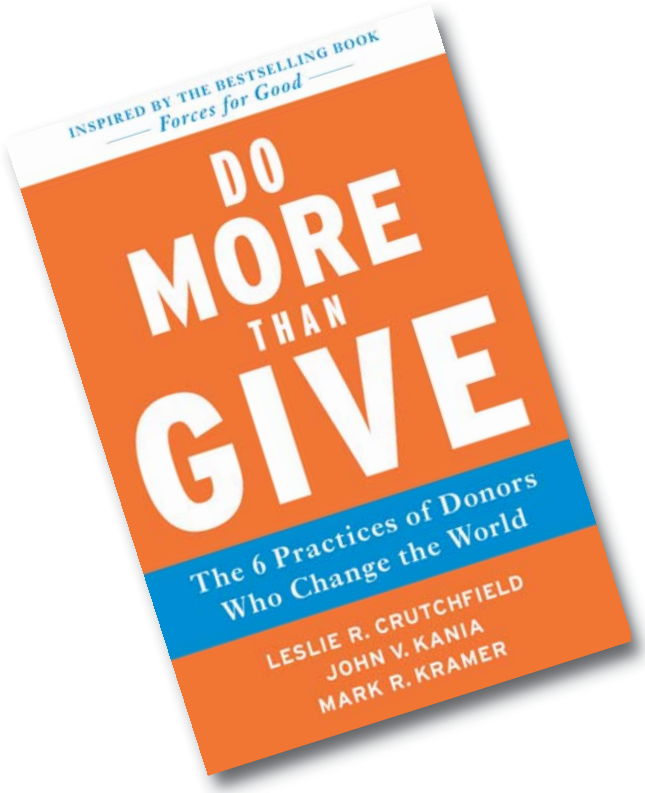
Philanthropy is one of life's great pleasures, like having children. And like having children, the pleasure cannot be explained, yet is so clear when one experiences it for oneself. How great it is to be actively involved in making the world a better place, no matter how small the change!

Louis G. Elson, chairman of Impetus Trust, is the managing partner of Palamon Capital Partners, a private equity firm he co-founded in 1999. He has been an active member of the European private equity industry for more than twenty years. He is on the development executive of The Prince's Trust, where he heads philanthropic initiatives, and also serves as a trustee of the Education Endowment Foundation and The Voices Foundation. Additionally, he is a member of the advisory board of the British Film Institute.

Publications, reviews and notices

review

by Dr Beth Breeze, publications editor



Do More than Give: The six practices of donors who change the world
Leslie R. Crutchfield, John V. Kania and Mark R. Kramer
San Francisco: Jossey-Bass, 2011. 250pp. Hardback
ISBN 978-0-470-89144-5 £19.99 www.josseybass.com

In the UK, where encouraging people to give remains an uphill struggle, the idea of getting people to do more than give seems like something we should worry about once we've finished climbing the current mountain. Yet here at Philanthropy UK we know there are plenty of donors on our shores who aspire to be better philanthropists, and who want to learn about the tools and approaches that can help them to achieve more through their giving. This book describes and illustrates one such approach: 'catalytic philanthropy' which, according to the grandstanding in the subtitle, can help donors to *'change the world'*. More modest language within, describes the aim of the book: *"to highlight effective problem-solving philanthropy and to provide a roadmap for all donors who aspire to maximise the impact of their charitable resources"*.

The idea of catalytic philanthropy involves two premises: firstly that donors have something valuable to contribute beyond their money (*"clout, connections, business know-how, and political savvy"*), and that contemporary donors must take into account the complexities and interdependencies that exist in the world today. The authors assert that, *"more donors must move from traditional giving practices to embrace catalytic philanthropy"*. But the central tenet advanced by Crutchfield, Kania and Kramer – that donors need to do more than write cheques if they want to achieve meaningful change in a complex world – is not substantively different to those advocating strategic philanthropy, high engagement philanthropy and so on.

All the current crop of 'how to do philanthropy' books argue that there are more and less effective ways of being generous, and that those following the blueprint set out in any given book can consider themselves the 'best' type of philanthropist. The judgmental nature of these books is illustrated by the use of pejorative words for anyone who doesn't follow their plan. For example, in this book the 'passive grantmaker' is unflatteringly compared to the 'proactive problem solver', whilst 'traditional' foundations that do not practice catalytic philanthropy are said to

simply "sprinkle their gifts" and be seeking "public relations cover". Meanwhile, 'small donors' who convert to being catalytic are assured they will achieve "*more impact than some billionaires who rank above them in sheer giving*". Whilst it may well be true that taking a catalytic/strategic/highlyengaged approach can help donors to "punch above their weight", it would be a shame if the donor who wanted, or was able, only to give money, felt their contribution was in any way devalued. Charities need money, they have salaries and bills to pay, and no fundraiser I have ever met would be anything other than entirely grateful for a donation made without anything extra offered!

However, this book has an essentially positive message, that "*donors can make lasting and systemic change in today's complex social sector ecosystem, and they are most successful when they do more than give*". The authors provide clear advice on how to become a catalytic donor, with lists of practical suggestions aimed at both new and experienced donors.

Guidance on how to choose one causethat will become the focus of both donations and non-financial activity is the topic of an early chapter. Focusing philanthropic activity on the one area where the donor believes they can do the greatest good isdifficult, given the avalanche of requests that most wealthy people receive on a regular basis. It is acknowledged that most donors will also want to set aside money to respond to requests fromthe communities they belong to, and to honor the commitments that arise from personal and professional relationships. However, the authors urge that the vast majority of cash, time and effort ought to go to an important issue "that matters deeply" to the donor because only those with a 'total commitment' can be truly catalytic.

The rest of the book is concerned with the six 'essential' practices. Firstly, donors must be willing to advocate for change (as well as funding frontline services) by lobbying, raising awareness and educating the public. Secondly, they should harness the power of business as an engine of change. Thirdly, non-profit peer networks should be supported, according to the old adage that 'anything can be accomplished if you don't care who gets the credit'. Fourthly, philanthropists should view recipients as participants in the problem-solving process. Fifthly, donors should become influential leaders by seeking opportunities to encourage other key players in the private and public sectors to advance their cause. Finally, evaluation and learning should be used to revise future strategy rather than simply to assess past progress. A whole chapter is devoted to explaining and illustrating each of these six practices, with examples drawn from across the globe. For example, practice two: 'blending profit with purpose' draws on the innovative experiences of the UK based Shell Foundation, which has contributed to economic growth and job creation in sub-Saharan Africa by providing support to small and medium enterprises based in that part of the world.

The book concludes by reiterating that social change requires the engagement and alignment of many players, that the answers to social problems lie with the people concerned, and that solving social problems takes far longer than the usual one to three year funding cycles.

Philanthropists willing to be generous, patient and committed for the long-term would be well advised to consider the ideas set out in this book, but with no hard evidence that catalytic philanthropy is 'better' than other approaches; it is probably wisest to consider it alongside those offering similar recipes for success.

Influential reading: *Lenka Setkova*

In each magazine, Philanthropy UK invites an influential person from the philanthropy sector to tell us what books have most inspired and shaped their approach to philanthropy.

Our 'influential reader' in this edition is Lenka Setkova, senior philanthropy advisor at Coutts Bank. She can be contacted at Lenka.Setkova@coutts.com

Lenka says:

"There is no doubt that my views of philanthropy have been most profoundly inspired by the interactions I have been fortunate to have with civil society leaders and the people whose lives they seek to improve. No books could replace the learning gained from meeting people in the field, or indeed from the discussions I have had with peers. Working with the C.S. Mott Foundation in Central and Eastern Europe at an early stage in my career also exposed me to the importance of philanthropy that is driven by listening to people in the field, respecting that they are the experts when it comes to making change happen and recognising that patience, unrestricted funding and long-term support is critical to achieving positive lasting change.

However, in considering the literature that has influenced my thinking about philanthropy, it became clear that there are three core themes that I have pro-actively sought to learn more about, that reflect my own personal interests and some of the key challenges in the field of philanthropy.

The first theme relates to the important role philanthropy can play in strengthening democracy and civil society. The most influential and practical book I have read on the slippery concept of civil society is by Michael Edwards: his

Lenka Setkova

Civil Society provides an invaluable three-dimensional framework for understanding what this concept really means: civil society as associational life (including voluntary and community organisations, faith-based organisations, trade unions, cooperatives and social movements); civil society as a 'good' society (a shorthand for the type of society we want to live in); and civil society as the arenas for public deliberation (where people or organisations discuss and develop solutions to society's most pressing problems and reconcile differences peacefully). Mike's book highlights that philanthropy is essential to developing the 'scaffolding' that enables people to participate in, and make informed decisions about issues that affect their lives as well as to hold powerful institutions to account. Examples include philanthropy that supports the development of public information disclosure laws (such as the Campaign for Freedom of Information) or the development of a more pluralist and independent news media, a theme highlighted in ***Making Good Society***, the final report of the Inquiry into the Future of Civil Society that I led as director of the Democracy and Civil Society programme at the Carnegie UK Trust.

The second theme was a key focus of my reading when writing my dissertation for an MSc in Development Management, which focused on the practice of social justice philanthropy. My reading revealed the important role that philanthropy can play in providing risk capital to test solutions to society's problems at their source. Among the inspiring quotes I came across was this from Joseph Rowntree: "*Charity as ordinarily practised, the charity of endowment, the charity of emotion, the charity which takes the place of justice, creates much of the misery which it relieves, but does not relieve all the misery it creates.*" And from Martin Luther King Junior: "*Philanthropy is commendable, but it must not cause the philanthropist to overlook the circumstances of economic injustice that make philanthropy necessary*".

"Philanthropy is commendable, but it must not cause the philanthropist to overlook the circumstances of economic injustice that make philanthropy necessary".

Perhaps the most accessible practical resource I found on this theme was ***Robin Hood was right: A guide to giving your money for social change*** by Chuck Collins and Pam Rogers. Although US-focused, this book provides a rich resource of practical examples to help philanthropists understand how they can help address the root causes of problems rather than just alleviate their symptoms.

The third and final theme reflects perhaps one of the most significant current challenges to endowed foundations – that of responsible investment, and how foundations can leverage all their resources and tools to affect positive and lasting change. There is a growing body of literature that seeks to enhance discourse and to encourage best practice regarding this emerging field, including the recent report ***Protecting our best interests: Rediscovering fiduciary obligation***, by FairPensions (of which I am a trustee), supported by the Nuffield Foundation. However, the most inspiring paper of direct relevance to foundations with investment assets is ***Changing corporate behaviour through shareholder activism***, by the Nathan Cummings Foundation in the US. Emphasising the business case for responsible investment and long-term shareholder-value, this report documents the Foundation's extensive experience of using its assets to achieve concrete changes in corporate behaviour through shareholder activism. The report provides practical illustrations of how – without spending a single extra dollar on grants and with very little in the way of administrative costs - it has pushed corporations to strengthen shareholder rights, improve governance practices, increase transparency and think more strategically about environmental and social issues. This report is therefore an inspiring resource for any foundation that wishes to use all its assets to further its goals without expending any additional grant funds."

notices

by Dr Beth Breeze, publications editor

Give Smart: Philanthropy that gets results

Thomas J. Tierney and Joel L. Fleishman

This modestly priced hardback book is co-written by one of the sharpest and smartest minds in the philanthropic world. Joel Fleishman's previous book on American foundations was a tour de force and his latest contribution is equally essential reading. Provocatively arguing that contemporary philanthropy is characterized by under-performance, the authors draw on research and experience to suggest a results-driven approach based on personal reflection by the donor about what they hope to achieve through their giving. A full review of this book will appear in the next edition of the magazine.

New York: Public Affairs, April 2011. 257pp. Hardcover. ISBN 978-1-58648-895-6. £12.99 www.publicaffairsbooks.com

The Social Entrepreneur's Handbook: How to start, build and run a business that improves the world

Rupert Scofield

In a similar format to Jacqueline Novogratz's well-received book The Social Entrepreneur's Handbook is 'part business book, part memoir', which draws on the author's own experiences of social entrepreneurship and forty-years of working in international development. The 'how to' element of the book takes many of the principles typically reserved for amassing personal wealth and shows how they are relevant to the charity sector. As Scofield argues:
"The modern non-profit must adopt many of the same strategies, policies, and best practices employed by successful enterprises in the for-profit world". According to the publisher, whether your mission is as ambitious as pulling millions out of poverty or as modest as feeding people in your neighbourhood, this book provides a practical plan for creating a business that uses commercial best practices for socially beneficial ends.

Singapore: McGraw-Hill, May 2011. 272pp. Hardcover. ISBN 978-0071750295 £19.99 http://www.mcgraw-hill.com.sg/product/same_author.php?author=Rupert+Scofield

The Philanthropy of George Soros: Building open societies

Chuck Sudetic

Featuring an introduction by George Soros himself, this is clearly an authorised account of a remarkable man who has given away more than $8 billion to his worldwide network of Open Society Foundations. Written by former New York Times journalist Chuck Sudetic, this book explores Soros's philanthropic strategies and the implementation of his commitment to promoting democracy and human rights around the world. Soros is probably better known amongst the general public for making money, rather than for giving it away, but Sudetic insists that equal attention should be paid to his philosophy-driven philanthropy, the results of which are said to include helping to topple communism in eastern Europe and the Soviet Union, attempting to foster civil society in China, supporting democratic resistance in Burma and building communities in Haiti's roughest slums. Even less well known in the UK are his efforts within the USA, which include fighting poverty, drug addiction and reforming dysfunctional justice systems in Baltimore, New Orleans, and other major cities. This book will be of great interest to those keen to learn more about one of the world's most fascinating living philanthropists.

New York: Public Affairs, May 2011. 384pp. Hardcover. ISBN 978-1-586488228 £12.59 www.publicaffairsbooks.com

Understanding the Roots of Voluntary Action: Historical perspectives on current social policy

Colin Rochester, George Campbell Gosling, Alison Penn & Meta Zimmeck (Eds)

This collection of essays offers insights into the historical factors that have shaped the contemporary charity sector. Alongside chapters on volunteering, organizational issues and the role of the state, two chapters are devoted to the topic of philanthropy. The first, by American professor Jonathan Fowler, discusses the emergence of 'scientific philanthropy' in the work of the eighteenth century philanthropist Thomas Bernard and the influential organization he founded, the Society for Bettering the Condition and Increasing the Comforts of the Poor. The second, written by Philanthropy UK's publications editor, Dr. Beth Breeze, explores the hype surrounding the idea of 'new philanthropy' and concludes there is no historical basis for claims regarding the existence of a distinctively 'new' philanthropy at the start of the twenty first century. Whilst these essays are written by academics, general readers should learn much about the roots of UK philanthropic action.

Brighton: Sussex Academic Press, March 2011. 206pp. Softcover. ISBN 9-781845-194246. £25.00 http://www.sussex-academic.co.uk/sa/titles/CulturalSocialStudies/rochester.htm

Understanding the demand and supply of social finance: Research to inform the Big Society Bank

Iona Joy, Lucy de Las Casas and Benedict Rickey

This report was commissioned by NESTA (the National Endowment for Science, Technology and the Arts, whose mission is to support innovation), in order to investigate the degree and type of demand for social finance in the UK. NPC finds that in both the social finance and financial inclusion markets, there is both a demand for capital, and organisations that are capable of using such capital effectively, and it is estimated that hundreds of millions of pounds could be utilised. However, the report notes that the Big Society Bank must provide the right type of capital. For example, interviews with intermediaries and umbrella bodies find that the majority of demand is for soft capital, which means that the Bank should not expect to achieve commercial returns on many of its investments. The report also argues that markets are underdeveloped, therefore investment is needed to make them more efficient and sustainable. This sort of 'market building investment' will require subsidy, which might be provided from another source. However, the authors note that if the Bank wishes to invest in developing the market for social finance, such costs would erode its capital base, and judgment would be required to ensure the correct trade-off between building the market and maintaining capital.

London: New Philanthropy Capital in association with NESTA, April 2011. 53pp. Free to download at http://www.philanthropycapital.org/download/default.aspx?id=1143

How funders provide monitoring and evaluation support: A national performance programme report for funders, charities and support providers

Sarah Hedley, Tris Lumley and Hannah Pavey

It is still rare for funders to offer charities support to measure impact, despite many funders recognising its importance. Few funders provide consistent support to their grantees to measure their performance, and one in three never provide such support. This report argues that funders are missing an opportunity, because supporting charities to focus on the impact of their work can help both funders and grantees better understand the difference they are making and build skills in monitoring and evaluation. This report provides examples of the different ways that some grantmakers are already offering this type of support, and suggests how all funders might think through their approach in order to make it as effective as possible. Report author Sarah Hedley says: *"There is no one right approach to providing monitoring and evaluation support and no one size fits all solution. But we believe there are a number of questions all funders can ask themselves to make sure their support is as effective as possible. This includes taking into account your aims for the support, the principles or values that guide your approach, as well as practical considerations, such as cost, and the needs of grantees."*

London: New Philanthropy Capital, March 2011. 22pp. Free to download at http://www.philanthropycapital.org/publications/improving_the_sector/grantmaking/helping_grantees_focus_on_impact.aspx

Sharing Knowledge to Increase Impact: A guide for charitable funders

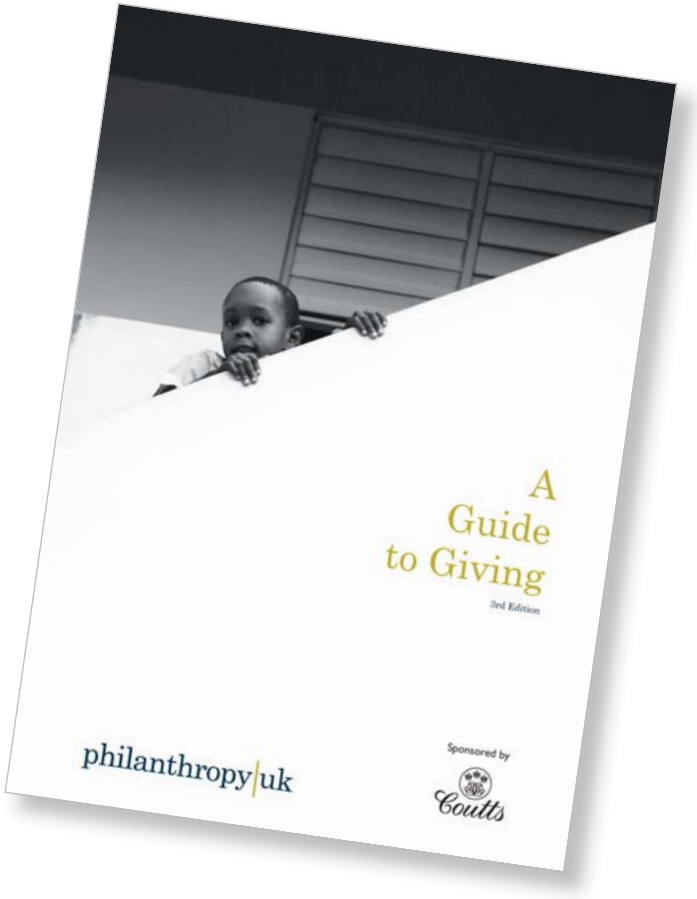
Matthew van Poortvliet, Lucy de Las Casas and Padraic Brick

Learning and knowledge-sharing across the charity sector are not working as well as they might. According to one of the authors of this report, Matthew van Poortvliet: *"Charitable funders are usually seen in terms of the money that they give out: as cash machines doling out grants. But effective funders also have considerable intellectual assets—expertise and specialist knowledge about the areas they fund, about supporting charities, and about how to fund effectively. Making the most of this knowledge is vital, especially when financial resources are stretched."* This report suggests how funders could increase their impact by developing a culture of learning within their own organisations so that they can learn more through their own grant-making. By sharing their knowledge with other funders, charities and policy-makers, the rest of the sector can also benefit from their experience.

London: New Philanthropy Capital, March 2011. 33pp
Free to download at
http://www.philanthropycapital.org/publications/improving_the_sector/grantmaking/knowledge_sharing.aspx

A Guide to Giving 3rd edition

The essential handbook for 21st century giving



Published by Philanthropy UK with the continued support of private bank Coutts & Co, *A Guide to Giving* is a valuable and up-to-date resource for both philanthropists and their advisors that sets the benchmark for inspirational, practical and objective guidance.

This updated guide reflects the evolved and sophisticated approach donors now take in their giving. New topics include charity impact evaluation, community development finance, donor advised funds and sustainable finance; all written by experts in the field. A new section on family business and philanthropy explores the growing trend in corporate philanthropy as an expression of the ethos of family-owned businesses.

Profiles of both new and experienced philanthropists, including Sir Ian Wood, Stanley Fink and John Wates, engage readers in the journey of giving.

"The third edition of A Guide to Giving couldn't be more timely given the current turmoil in financial markets. Philanthropy UK are to be congratulated for showing just how easy and fun it can be to give time, money, encouragement and expertise to make the world a better place. It's all about balancing heart and mind."

– **Mark Evans**, Head of Family Business & Philanthropy, Coutts & Co.

A Guide to Giving 3rd edition (144pp), £25, plus postage and handling. Email your order to info@philanthropyuk.org or order online at www.philanthropyuk.org/AGuidetoGiving/OrderBook

For further information please contact us at **info@philanthropyuk.org** or **+44 (0)20 7255 4490.**