VENTURE PHILANTHROPY IN DEVELOPMENT

EXECUTIVE SUMMARY

OECD DEVELOPMENT CENTRE

netFWD
GLOBAL NETWORK OF FOUNDATIONS WORKING FOR DEVELOPMENT

“We realised that what we were doing wasn’t working… It wasn’t just around a particular challenge or a particular geography but it was not working for everything we did. It was our way of working that was wrong”

Chris West, Director
Shell Foundation

Aid agencies and development partners alike now recognise that private funders and investors, including foundations, are an important and growing part of the global development architecture. In 2011, the Busan Partnership for Effective Development Co-operation specifically identified philanthropic organisations as significant partners in the development process. The global economic crisis and cuts to official development assistance (ODA) associated with its redirecting from low-income to middle-income countries opened up new opportunities for foundations providing mostly grants, unlike official donors increasingly using loans.

From their perspective, philanthropists have long been present in the development arena with more “patient” and “business-like” approaches. Driven by a desire to achieve greater impact, an increasing number of philanthropists have started to experiment with novel methods and set bolder ambitions for themselves to achieve impact on a scale proportionate to the development issues. They often bring expertise from the business sector in their approaches to problem solving, operating models and theories of change. These innovative philanthropists have, in particular, been seeking to achieve tangible development outcomes by leveraging financial and non-financial resources, and by being more interested in results and impact than inputs and grant size. They are often agnostic about the type of organisations they work with, engaging with a diversity of social purpose organisations (SPOs) that include for-profit enterprises as much as charities or NGOs. Rather than focusing on the traditional grant-giver/grantee relationship, these innovative philanthropists take a more dynamic and hands-on approach; partnering, providing capacity building and developing management expertise within the organisations they support.

The report “Venture Philanthropy in Development: Dynamics, Challenges and Lessons in the Search for Greater Impact” reviews the experience of members of the OECD Global Network of Foundations Working Development (netFWD) in adopting aspects of these approaches, summarised for convenience here as Venture Philanthropy (VP). It seeks to distil and disseminate the rationale, organisational implications and perceived benefits of the changes some foundations have undertaken. Four members of netFWD were interviewed in depth as the basis for the report and shared detailed case studies including their methods of assessing impact.

A mid-course re-direction

The foundations that participated in the OECD netFWD study all experienced a clear dissatisfaction with the impact of their grant-making methods, prompting them to embark on a journey of experimentation with and adoption of new models of philanthropy. The foundation leaders interviewed are confident that there is substantial improvement in the social impact of their programmes as a result of the adoption of such new approaches. Yet, they also admit that the transformation required can be lengthy and challenging, and that quantifying the improvement in results is difficult. The study reports on the experiences of these foundations and the lessons they have learnt and are still learning, and puts forward suggestions and recommendations for other foundations that are considering a similar mid-course re-direction. Detailed case studies from four foundations provide insight into their *modus operandi*, ranging from what constitutes effective SPO partnerships to the impact obtained and the methods of evaluation which were used.

Whilst the name the foundations give to their approaches differs – angel philanthropy, enterprise philanthropy, catalytic philanthropy, and most commonly venture philanthropy – the principles underlining them are broadly similar. Comparisons between venture philanthropy (VP) and venture capital (VC) models have been made in the literature, but for the foundations, the differences between VP and VC are as numerous as their similarities. Although both share an emphasis on high engagement with their investment portfolio, periods of investment are longer for "venture philanthropy foundations", often up to 7-10 years. Whereas in VCs only a quarter to a third of investments typically "succeed", VP foundations aspire to much higher success rates (though in this case categorising success in terms of social benefit in addition to financial return). These foundations employ non-financial support in areas such as technical assistance, market development and the development of core capability (e.g. through the provision of unrestricted funding), along with financial instruments such as smart subsidy, guarantees and soft loans. Rather than the clear-cut exit strategies associated with venture capitalists, the foundations interviewed were more likely to smoothly transition relationships with their SPOs over time, retaining an interest in them or their sector and in some cases taking a seat on their Boards.

Foundations seeking impact as a primary development goal see the private sector (markets and enterprises) as a vital route to scale social benefits, recognising that the complex problems they are endeavouring to solve (e.g. food security, provision of basic services such as health, or better jobs for youth), can be sustainably addressed through an increased focus on market creation, business thinking and commercial finance. They work systemically at policy and market levels to nurture the enabling environments that allow such enterprise-based solutions to flourish.

Hence, their portfolios reflect such interests, with actors drawn from across disciplines to work on them. The Rockefeller Foundation, for example, has convened scientists, urban planners, policy makers and international corporations to address urban climate change vulnerability in Asia, funding and staffing the Asian Cities Climate Change Resilience Network to foster co-operation and the co-design of strategies. Shell Foundation, in addition to providing management expertise, grants and loan guarantees to its clean cook-stoves partner, Envirofit, has implemented indoor air pollution awareness campaigns and co-founded the Global Alliance for Clean Cookstoves.

Sectoral convergence

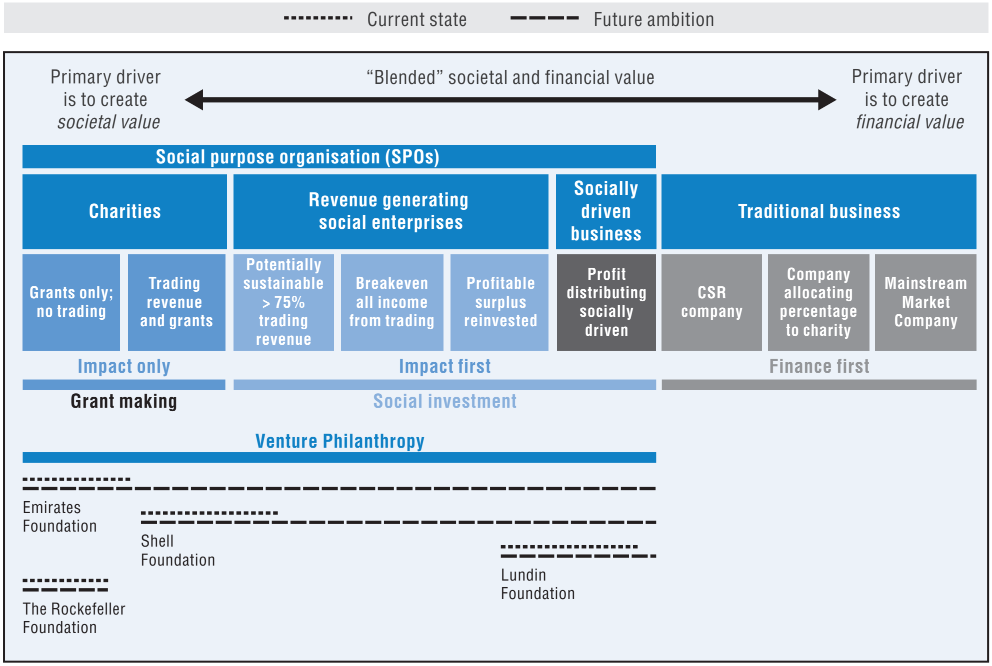
The blurring of sector boundaries is not without its critics. The entry of financial and business jargon into the development lexicon is seen by some as a "hegemonic hijacking" of the development agenda or even as exclusionary tactics to promote business at the expense of the extreme poor. The foundations and most of the specialists participating in this research,

"We use our flexibility to create fit for purpose capital structures and that includes grants… Anyone who believes there is a market-based solution for everything is simply lost. Particularly in places like South Sudan or the Congo there is a critical need for grants, especially at early stages"

Stephen Nairne, Managing Director
Lundin Foundation

however, stress the need for these more systemic strategies and point to the "revolutionary" power of initiatives such as microfinance and mobile health to show what can be achieved by mobilising cross-sector resources. They also stress that enterprise/venture philanthropy can only be one option in a portfolio of possible interventions. Nevertheless, they see a role for VP, at times filling the gap that "traditional" development assistance leaves behind, for instance helping to create or support a more viable private sector and, as a result, a more stable tax base.

Venture philanthropy in context



Source: EVPA, 2013.

Plotting the four case study foundations on the European Venture Philanthropy Association (EVPA)'s "continuum of social investment" (see figure) highlights the broadening out of intervention options to include market-based solutions and the use of flexible finance to pursue these more integrative strategies.

By deploying "the highest risk capital in the world" to test and prove business models or provide patient capital to support expansion, the foundations can "prime the pump" to attract mainstream and impact finance to the development sector. However, being effective in such a landscape demands concerted co-operation with other development actors and the collaborative mobilisation of resources to achieve the necessary impact at scale.

A fundamental cultural transformation

Achieving lasting and meaningful collaboration or partnerships between philanthropists and providers of ODA is not simple though, and was too often described by interviewees as being "bureaucratic, costly and ineffectual". Foundations have not typically been known for prioritising collaborative efforts, either with ODA providers or even with each other, given their high degrees of autonomy. In some cases, the levels of transparency, accountability and synergy required to enable large-scale systemic engagement between venture philanthropists and bilateral donors have been and may continue to prove too challenging with too few incentives to change. As a result, when these collaborative efforts do take place, they are more often the result of political will from specific foundations or philanthropic leaders than the outcome of a perceived need or pressure to improve efficiency and impact through broader alliances between foundations and ODA providers.

> You can't just write cheques for $50m without giving some thought to accountability, impact, where the money is going. You have to think about what the net asset value of what you're creating is"
>
> Clare Woodcraft, CEO
> Emirates Foundation

Within philanthropic organisations, when such changes do occur, they may be quite radical, involving a complete re-imagining of purpose and redesign of strategy and operations. As showed by the study, the transition has been more dramatic in some foundations than others. Yet, despite the great diversity in size, maturity and focus of the foundations looked at in the study, common themes do emerge.

Effecting transformational change

As the foundations moved from input to output focus, so did their strategic framing, from grant-giving towards more targeted investment. Their scale of intervention broadened to become more sector and systems-level focused, working simultaneously at levels of start-up enterprise, market stimulation and policy intervention. By taking a "systems thinking approach" and investing more heavily in upfront research in order to investigate development issues in depth, foundations were able to determine which strengths they could most usefully deploy (e.g. reputation in the health sector), where to place capital to achieve greatest leverage and how to orchestrate more integrated interventions.

This approach has prompted a more specialised focus on fewer development issues. Because the "high engagement model" involves providing technical knowledge as well as management capacity to SPOs, the foundations realised they needed staff more specialised in the new areas of focus. The study shows that staff numbers often increased as a way to address new needs to support the SPOs' management, technical and capacity building capability. In some instances, as with the Rockefeller Foundation and Lundin Foundation, new field offices were opened to allow foundation staff to be based closer to their SPOs. Culturally, the more "partnership-based" relationship with social enterprises plus the infusion of more business-oriented attitudes from the private sector into the foundations has fostered more entrepreneurial thinking, with an emphasis on innovation, results and returns.

The key dimensions of change are captured below:

	Dimension	From	Towards
1	Strategic framing	Widespread giving (traditional resource transfer)	Targeted investing (resources targeted in new ways)
2	Scale of intervention	Project-based	Systems or sector based and focused
3	Sector focus	Third (charity or not-for-profit) sector	Sector agnostic
4	Funding mechanisms	Grants	Blended finance (grants, soft loans, equity investment etc.)
5	Engagement style	Minimal (light touch)	Foundation supplying partner with technical and management assistance and capacity building
6	Engagement period	Short (e.g. 1-2 years)	Long (5-10 years or more)
7	Culture and capability of staff	Altruistic, administrative, financial	Innovative, multi-disciplinary, commercial
8	Success criteria	Inputs and outputs	Outcomes and impact

Determining impact

All the foundations expressed the importance of achieving "impact" and believe the methods they use today achieve far more than short-term, *ad hoc* grant-making had done for their beneficiaries. Yet, due to the methods they use, working systemically with and through multiple actors, they acknowledge that evaluating impact is challenging, and making comparisons between old and new models even more so.

The Emirates Foundation, for example, only has "input" data prior to adopting VP as a new model (i.e. data on the size and placements of grants). They now collect data on indicators such as number of hours of voluntary service or number of social inclusion placements on their financial literacy courses. Their aspiration is to put figures on the social and financial value of their activities, and they are building a baseline to do so.

By investing more heavily upfront in research and prototyping, it is possible to identify proxy indicators for assessing impact. For example, the Rockefeller Foundation identified the creation of urban climate change resilience (UCCR) strategies as a highly visible indicator of city planning for climate change adaptation, and now collect data on inclusion of UCCR as a topic in policy discussions and decision making at the city and state level. They cannot directly attribute outcomes to the interventions they have made through the network, but are confident that they have played a part.

> "Impact is above the accountability line – we'll measure and look and assess and hope we were a significant contributor but we can't know for sure"
>
> Nancy Macpherson, VP Evaluation
> The Rockefeller Foundation

Impact measurement and evaluation of outcomes is a concern for all the case study foundations and for the sector at large. More resources are being invested to improve the assessment processes, yet this sometimes remains limited. Conversely, there is increasing recognition that evaluation must be used to help deliver better outcomes and to avoid "doing harm" (unintended consequences).

The next phase of VP in development – A collective endeavour

Increasingly, foundations have the resources and ambition to design and sustain broad social change across a range of development issues. However, the central lesson from the study is that to achieve their potential, in scale and impact, foundations, as stewards of the "highest risk capital in the world", must be willing to let go some of their autonomy to work more cohesively with partners across sectors and disciplines. Furthermore, becoming more prominent in influence and reach means becoming more visible publicly; therefore more liable to demands for transparency and clearer governance and accountability.

This shift towards more openness and collaboration will require considerable change at the level of mindset and organisational culture in the foundation sector. But as the foundations here testify, the improvements in efficiency, results and therefore returns make the transformational work worthwhile.

Lessons and recommendations

The key lessons and associated recommendations from the multi-year journeys of change that each foundation has undertaken are summarised below. This is by no means an exhaustive list but rather captures some of the most challenging learning for the foundations who shared their experience.

Lesson and recommendation summary

Lesson	Recommendation
Being prepared to embark on fundamental and comprehensive change of the foundation's model – ranging from beliefs, values to strategy and operations	Undertake a complete review that includes the deep assumptions underlying the current philanthropic operating model and theory of change. Be willing to question deeply held beliefs and customs
Not waiting for change to be imposed from outside – there is insufficient external scrutiny or incentives for change in the philanthropic sector	Use internal changes, such as leaders' transition to gain new stewardship, prompt reviews and increase internal accountability. Plan for comprehensive change but start with small experiments to promote learning if stewardship is slow to appear
Applying "systems thinking" and planning based on more upfront investment in research and evidence-based inputs	Consider investing more in ex ante research to target investments and interventions more accurately, and produce an evidence base for evaluation later on
Including the "market-based approach" more systematically to achieve scale and to aim for SPO self-sufficiency	Add market-based approaches to interventions but be aware that not all challenges will warrant a market-based solution; targeted grants are still an essential funding tool. Intervention at policy and market level may also be required simultaneously
Adopting a "high engagement" approach means being prepared to engage more financial and human resources (i.e. hiring more area specialists)	Review the foundation's competencies and capacity when considering change. Specialisation, outsourcing, recruiting and training offer different routes to meeting future requirements
Being adaptive and staying close to field partners – entrepreneurial SPOs demand responsiveness and real-time interaction	Consciously manage the tensions between size, bureaucracy of supporting projects while keeping enough flexibility to allow the foundation to offer appropriate and dynamic support
Increasing risk tolerance, long-termism and patient capital	Be prepared to take more risk at an earlier stage, while aiming for longer-term and systems-level support. "Reframe" failure as a way of learning and of experimenting, and as an input into the learning curve of change
"Planning the divorce with the wedding" (endogenising exit strategies)	Develop and review measures of success (qualitative and quantitative) that will trigger exit and maintain sustainability for grantees/SPOs
Working with other development actors, especially governments in the field and ODA providers is pivotal	Take a more proactive position in the development arena and be both willing to collaborate and to "share the glory" and the innovation with others while taking into account other actors' constraints
Learning and collaborating with peers to advance the impact of the foundation sector for development	Commit to greater disclosure of lessons learned, either publicly through publication or privately in peer group forums. Integrate this with research and evaluation activity

Conclusion

The study finds that Venture Philanthropy for foundations working in development does not constitute a coherent, easily defined operating model or strategic approach. Rather it has become more of a blanket term, an expression of a more purpose-, results- and responsibility-driven worldview. It incorporates a diverse set of principles aimed at increasing the reach, scale and social benefit of foundation resources. Such principles include much closer "high engagement" relationships between foundation and social purpose organisations, more strategic and targeted funding choices based on research and evidence building, a more encompassing view of foundation resources and a willingness to partner based on potential for results and scale rather than structural or constitutional type.

As such, the challenges in adopting the VP model are not inconsequential. The capabilities required to successfully achieve the transformation may be only partially present or missing entirely in the foundation at the outset. The inclusion of more commercial and enterprise strategies in the foundation portfolio, especially with for-profit social enterprises, may raise cultural and ideological as well as constitutional concerns. An honest appraisal of the current "state of play" to identify strengths to leverage and barriers to overcome *before* embarking on adopting the model is a prerequisite in deciding if it is suitable and choosing where to start.

The experience of the participating foundations, however, is that taking such a transformational journey is worthwhile. Although verifiable comparative field data is limited at present, foundation staff point to a variety of signals to showcase the value of the approach in engaging other actors to achieve leverage such as the attraction of more mainstream capital to scale social solutions.

The study has raised a number of questions and areas for potential further research. Most critically, it highlights the need for greater inquiry, collaboration and co-learning both between foundations themselves and between foundations and other groups such as impact investors, commercial enterprise and the ODA community. The potential to leverage the philanthropic high risk capital is already considerable, but becomes far more so when economies of scale and the timely sharing of learning for continuous improvement are achieved. Further research to uncover good practice examples of cross-sector collaboration will help move the philanthropic sector forward. This would encourage a deeper appreciation of the goals and methods of such diverse actors. It would also enable dialogue between them in ways that overcome some of the suspicion and unhelpful assumptions that persist. In the meantime, the continued pursuit of “impact” in philanthropy and participation in networks will likely further accountability, transparency and co-learning as well as encourage more measureable data collation and evaluation in foundations.

OECD Development Centre

The OECD Development Centre was established in 1962 as an independent platform for knowledge-sharing and policy dialogue between OECD member countries and developing economies, allowing these countries to interact on an equal footing. As of July 2013, 18 non-OECD countries are full members of the Centre's Governing Board. The Centre draws attention to emerging systemic issues likely to have an impact on global development and more specific development challenges faced by today's emerging and developing countries. It uses evidence-based analysis and strategic partnerships to help countries formulate innovative policy solutions to the global challenges of development.

For more information on the Centre and its members, please see **www.oecd.org/dev**

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