

KIM Trends

Venture philanthropy is making headway in Spain

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Philanthropic investment is key in current development

Venture philanthropy is defined as financial contributions from corporate profits in the business sector, using techniques and models based on venture capital investment. It aims to fund initiatives linked to results and extends beyond gaining financial benefits and economic return.

"Social entrepreneurs need investors to finance their projects. And investors increasingly need a reason or a cause to invest in"

-Glòria Oliver

It comes as a response to traditional investment mechanisms to fund initiatives and extends beyond the financial benefits and economic return.

The big philanthropists, such as foundations or private equity funds, benefit from the vision and social mission of the recipient businesses. In Spain, the journey looks promising but it is still in its infancy and is full of challenges.

The term venture philanthropy was coined by J.D. Rockefeller and the system was born in the 1960s but it is only now that projects are finding it harder to gain access to investment because of the economic slowdown of recent years, that philanthropic investment has reached a peak in interest¹.

¹ According to data provided by the Periódico de Catalunya (1st December 2015), the volume of assets relating to philanthropic investment worldwide amounted to 80 billion euros in 2013, of which 20 billion euros were in Europe (with the Netherlands as the main investor, followed by Switzerland and the United Kingdom).

During the last **KIMconference** held in Barcelona, a panel discussion was organised with industry representatives who discussed the current status and the potential for **economic and social growth**.

Currently, the bodies responsible for most philanthropic investments are **individuals with high purchasing power, foundations or capital investment funds**, while those receiving investments are primarily **foundations, not-for-profit organisations, social enterprises and social entrepreneurs or fair trade organisations**².

The difference with the traditional venture capital system is that philanthropic investment does not direct its focus on financing operating costs as much as on **providing the initial capital**.

The advantages

Venture philanthropy has many advantages. Firstly, it plays an important role in the **diversification of financial markets** because, for once, it is not only intended to give businesses the biggest profit potential, but also takes into account social enterprises and non-profit initiatives.

Another of its great attractions is that venture philanthropy usually guarantees **long-term involvement with the project**, developing a guiding role in the implementation of activities. In most cases, this commitment lasts **between 3 and 7 years**, throughout which the financial contributions are also accompanied by intellectual input and organisational resources.

Some of the most commonly mentioned intellectual and organisational input include the contribution of human resources to the entity carrying out the project, with the assignment of communication and marketing teams, the provision of legal services and access to networks. Furthermore, according to the experts, these charac-

"It seeks to ensure more streamlined administration so that the project develops in a streamlined and versatile way"

-Michael Tados

teristics of corporate philanthropy **bring more versatility and flexibility to projects** in terms of results, which tend to be accompanied by **more streamlined project administration**.

Finally, the speakers at the **KIMconference** emphasised the reciprocity of corporate philanthropy initiatives, as a system where not only those receiving the investment gain something, but the **philanthropists themselves absorb the vision and social mission of the recipient organisations**.

The social impact

Venture philanthropy initiatives base their success and rationale on generating a significant social impact, so they have been forced to develop measurement systems that enable them to quantify their contribution. In order to develop these necessary measurement systems, they rely on the use of traditional venture capital investment metrics, although they are adapted to the use of a "social calculation". It is because of these metrics that one can evaluate not only the capacity for economic growth and return on investments, but also their ability to bring about change and social and systemic improvements³.

"Venture philanthropy means doing things differently, by providing, at the end of the day, added value to the project. We have this duty to society"

-Michael Tados

The problems

The current state of venture philanthropy in Spain, which is still in its infancy compared to other European countries⁴, warrants a great deal of reflection on the subject, to help identify the priorities based on the current difficulties.

The **difficulties or gaps** that can hinder the success of philanthropic investment are given as follows:

³ For more information on measurement systems and indicators, consult "European Venture Philanthropy Association, A Practical Guide to Measuring and Managing Impact", June 2015.

⁴ According to the European Venture Philanthropy Association, the figure in Spain was 217 million euros at the end of 2013 (cited by El Periódico de Catalunya, 1st December 2015).

² According to a study published by the European Venture Philanthropy Association entitled "Learning from failures in venture philanthropy and social investment", EVPA, December 2014, most philanthropic investments come from High Net Worth Individuals, who make 19% of investments, followed by businesses (17%) and foundations (14%).

Economic sustainability

The undertaking does not always achieve a vision or solid market strategy in the initial phases before the investor has left. Other times, projects do not consider the need to adapt to new markets (a very frequent shortcoming in social innovation projects which place a strong emphasis on the “localisation” of their activities), which limits their potential for scalability. These two shortcomings of vision and scalability, eventually lead to poorly planned and improvised actions when they no longer have the financial and operational support of the philanthropic investor.

Institutional sustainability

The lack of collaboration between businesses and public institutions creates significant, long-term problems for the sustainability of social innovation projects. In many cases, social innovation projects fail to create the necessary institutional.

Operational sustainability

Operational resources provided by the philanthropic institution do not always meet the needs and technical requirements of the executing institution. For example, it may be that the human and intellectual resources provided do have the relevant experience for administrative or communication matters or network management, but lack the necessary knowledge of the sector.

Legal maturity

In 2016, the regulatory structure for the activity of social enterprises is still in the development and consolidation phase, partly because venture philanthropy in Spain is still in its infancy compared to elsewhere in Europe. This lack of precision creates complexities when it comes to financing and implementing these activities.

ISSUES FOR DEBATE

1. How can sustainability be tackled from the start of a project?
2. How can an early market perspective be incorporated?
3. How can an initiative’s scalability be assessed in an effective and timely manner?
4. How can the relationship between businesses and institutions be facilitated?
5. How can a fit between operational resources and technical expertise be ensured?
6. How can we help to speed up the market’s maturity?

KIM Recommendations

Once the areas for improvement in venture philanthropy in Spain have been determined, one can then prioritise the objectives that must be addressed.

When considering these objectives, the experts consulted by KIM formulated the following recommendations:

1. Address the project's sustainability from the very earliest stage

- Incorporate a sustainability strategy into the initial phase of the operation
- Develop a concise exit strategy for the investor

2. Incorporate the market perspective from the initial stages of investment / the project

- Ensure that the project managers have entrepreneurial skills
- Identify systems for recycling capital
- Prioritise investments in disruptive projects

3. Assess the scalability of the project idea / investment

- Assess the willingness / capacity for scalability of the funded projects
- Identify future markets for long-term action
- Identify areas of implementation for the project on a long-term basis

4. Mobilise a network of contacts with their collaboration throughout the project

- Establish partnership agreements with government officials that facilitate the project's sustainability
- Generate stable cooperation networks for the duration of the philanthropic entity's involvement
- Mobilise end users in order to ensure maximum impact

5. Ensure there is a fit between operational resources and technical expertise

- Make use of the philanthropic entity's social responsibility plans to ensure that the operational resources provided are specialised
- Use volunteer corps with appropriate technical skills
- Create mixed teams where technical, administrative and management skills are combined

6. Encourage the development of specific regulations for venture philanthropy and social innovation

- Actively participate in building networks and promoting social innovation and philanthropic investment
- Participate in political mobilisation initiatives for greater regulation of venture philanthropy and social investment

Autors

KIM would like to thank the experts whose opinions and knowledge have made the preparation of this report possible:

Moderator

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With a PhD in Electronic Engineering from the Autonomous University of Barcelona, she began her career in the private sector and then moved into public research, developing a scientific career in prestigious research centres in nanoelectronics and nanotechnology, such as the National Microelectronics Centre (CSIC) and the IMEC Institute (Belgium). Her professional experience acquired in the public and private sectors has created a foundation for her career in the private sector to develop projects which can produce marketable results for new technologies. During her career in KIM, she has been responsible for the area of technology assessment, within which she has developed strategic projects in the energy, new materials, ICT and health sectors.

Ponentes

Gloria Oliver *Pasqual Maragall Foundation*



A graduate in Economics from Pompeu Fabra University, with a Masters in Management Science and a Masters in Spanish Taxation. With over 20 years experience in project management, she has been the Managing Director of the Pasqual Maragall Foundation since 2011. She previously developed her career in the Clinic Foundation of IDIBAPS and the French construction group, Saint-Gobain, working in the area of Financial Management.

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A renowned international consultant in the fields of innovation, evaluation, technology transfer and evaluation, and the definition of business models. Since 2008, Michael has been the Senior Area Manager for Innovation and Science at the Botín Foundation. Previously, Michael held various roles in venture capital businesses and directed the innovation and technology transfer strategy at the Cancer Research Centre for the Spanish Ministry of Health. Michael holds a PhD in Molecular Biology from the National Centre for Biotechnology, a Bachelor of Science in Cell and Molecular Biology and Economic Clusters from Concordia University (Canada) and is a graduate of the French Lycée Jean-Renoir (Munich) and the John F. Kennedy Institute (Berlin).