Philanthropy as multiplicator: Innovative philanthropic capital & blended finance deals

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Philanthropy today:

• Philanthropists want to know the most efficient use of their personal engagement budget (time & money)

• Philanthropists prefer a strategic approach and want to have a plan for their giving

• Philanthropists see themselves as effective altruists

• Philanthropists want to make their boots dirty

• Philanthropists want to share their ideas and discuss their impact potential with their funding partners/co-investors and investee companies

• NextGen Philanthropists prefer a mix between philanthropy and social investing

• NextGen Philanthropists are strongly interested in the Social Enterprise field

• Informed giving (Transparency and Impact Measurement)
Philanthropy is interlinked with other sectors:

- Cross-sector collaboration (collective impact)
- Organic transition line between Philanthropy and Impact Investing
- Interlink between Philanthropy & Social Innovation (Fourth Sector)
- New hybrid forms of financing between Private- and Public Sector (Blended Value)
A new market for social risk capital:

Value banks

Social Enterprises

Social Investment Funds / Impact Investment Funds

Social Stock Exchanges

Funding Platforms (i.e. FASE)

Social Investment Advisors

Social Impact Insurers
Impact Investing: the trend and its challenges

Lucy Bernholz / Blueprint of Philanthropy (Ed. 2015) as well as the World Economic Forum recently confirmed that “**Impact Investing is getting mainstream**”;

“**Impact investing**” is seen as the most promising trend by most philanthropists worldwide (BNP Paribas Individual Philanthropy Index Study, 2015).

“Impact Investing reveals a **growing global market** with investments being made across all geographies and a range of sectors (J.P.Morgan / GIIN Fifth Annual Impact Investor Survey, May 2015)

Our experience shows that for most investors today, impact investing still **needs to be translated from a compelling concept** into a **sound strategy**.
Drivers for NextGens to engage in impact investing

- According the 2015 EY Wealth Management Survey, “holistic goals based planning and investing” as top request

- LoHaS: more conscious use of existing resources and preference for social investing
Unlocking innovative philanthropic capital
Why is there a need to unlock more innovative philanthropic capital?

Small market size of impact investments:

Compared to the massive investment opportunities in traditional financial assets – actual impact investing assets are still small (60bn)

Why is this?

-> it is not because of the lack of available capital but of the lack of investible target enterprises/organizations

Why are there not enough impact investment targets that are investment ready?

-> impact investing targets are typically set up as social enterprises
   -> they have a financing gap in particular in the seed- and start-up phase as they have different financing requirements than traditional business oriented enterprises
Social Enterprises - drivers of change and social innovation

**Hybrid Organization:**
Intersection of social value creation and business mission

**Value Creation**

**Charity Layer**

**Commercial Layer**

Source: PVA Advisory 2015
Risk capital in the form of impact investment alone is not enough to address the current enormous social & environmental challenges – as impact investments usually come in at a later funding stage (late stage-venture or expansion stage)

-> Innovative philanthropic capital can be a strategic bridge to impact investing
Innovative philanthropic capital: Background

What is innovative philanthropic capital?

• Innovative philanthropic capital are social investments (hybrid forms of financing that blend charitable money and grant-elements with debt and equity) that take place in the seed-funding stage and trigger the future flow of capital by pulling back the first layer of risk.

• Traditionally charitable foundations have provided donations, simple grants or traditional loans

Foundations can leverage their funding by using innovative philanthropic capital ->

  - it broadens the access to social capital markets
  - it peals back the first layer of risk
  - it helps to scale social enterprises to investibility
  - it attracts further investors
  - it is catalytic as it stimulates and nourishes the impact investing market
Innovation in practice:

By using innovative forms of philanthropic capital, foundations help to expand the impact that philanthropy can have on social- and impact investing.

**What must foundations do?**

- Foundations must show pioneering spirit and be open to experiment where other sectors can not (foundations have more experience in sectors and regions where other more risk averse investors don’t)

- Foundations need to go beyond classical grant funding and bridge the gap to market-rate mission-driven capital
Re-structuring of traditional funding instruments

Grants / Loans:

- Recoverable Grant
- Convertible Grant
- Performance based Grant
- Loan Guarantees
- Subordinated Loans
- Bridging Loans
- Forgivable Loans
Other innovative structuring forms of early philanthropic capital

- Demand Dividend Investment Vehicle
- Quasi-Equity Debt
- Credit Enhancements (Example of Catalytic First Loss Capital)
- Pooling
- Revenue Share Agreements
- Social Impact Bonds
- Social Impact Incentives
- PPP projects
«Blended Finance Deals»
Mobilizing private/institutional investor capital through blended finance

“Blended Finance is the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets”, World Economic Forum (Blended Finance Primer 2015)

Value Add / a triple win:

Philanthropists / Public Actors:
More impact achieved with limited resources
For public sectors typically reduced risk

Private Investors:
Attractive return on capital plus social footprint

Impact Sector:
Larger funds for mainstreaming impact investing
Blended finance in practice

Convergence Platform

https://www.youtube.com/watch?v=MjSXbymk18s

European Commission Examples – Blending Facilities

Latin America: Latin America Investment Facility (LAIF)
Asia: Asia Investment Facility (AIF)
Central Asia: Investment Facility for Central Asia (IFCA)
Caribbean: Caribbean Investment Facility (CIF)
Pacific: Investment Facility for the Pacific (IFP)
Africa: Africa Investment Facility (AfIF) and EU-Africa Infrastructure Trust Fund (ITF)
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