MajorTrends in Philanthropy
&
Generating more impact in philanthropy by using methods from the profit sector

Benoît Fontaine June 27, 2018 Toronto AAGEF

KBF CANADA

1. The King Baudouin Foundation (KBF)
2. Major Trends in philanthropy
3. Venture Philanthropy
   - -A. A practical tool to maximize social impact
   - -B. Social & Financial impact : Social Impact Bonds
   - -C. Impact investing
4. Q&A

King Baudouin Foundation

Working together for a better society

- 1976

- Public benefit foundation. Large international foundation.

- Values: integrity, transparency (Board, advisory council, finance committee, Audit committee…), pluralism, independence, respect for diversity, and promoting solidarity.

- Sectors : health, social justice and poverty, education, development, heritage, sustainable development. Health and social justice : more gifts.

- Centre for Philanthropy: Stimulating effective philanthropy by individuals and corporations. Tailored advice to: donors (individuals, businesses and organizations) & intermediaries: private bankers, lawyers, notaries and asset managers

- Budget : 100 Mio CAD. Staff 92.. Endowment : 1,5 Billion CAD.

- Support more than 2 000 org. every year + individuals

- 3 Offices : Belgium (Europe), US, Canada

- 4 sources :

National Lotery

Income from Endowment

800 Donor advised Funds, each with their own governance

Other Philanthropic initiatives

- Not classical org with hierarchy, more network org. with more than 2 500 volunteers in jurys and comittees

2. Some major Trends in philanthropy

1. Philanthropy in Europe is on the rise but <u>moren hidden</u>. Canada divided in two : QC and the rest of Canada. QC less, more local and less international. Rest : whole Canada, and more international.

2. <u>Donors' expectations are evolving</u>.

Baby boomers versus younger generation.

They want strategic philanthropy versus 'generosity':

1. To be more involved;
2. Not only to give money but also technical assistance (skills);
3. Measurable impact;
4. Entrepreneurial approach.
5. Very limited overheads & according to the complexity

<u>Donor advised approach</u>: the donors are central in the choices. They know the cause they want to support. And they have the legitimacy.

3. From donating to investing

Grants are more and more seen as an investement, with clear Social Return on Investment expected.

Social finance: more complex financial tools besides grants: loans, guarantees, Social Impact Bonds (depending on the legal context).

4. Risk: a foundation can take risks that a governement can not take. The foundation can make the proof of concept (test) before systemic change by the government. Complementarity.

5. Transparancy and accountability : Social issues are complex (integration, education, homeless people…). Failures can happen, but we need to identify the lessons learned.

6. The investment policy of the endowment should be aligned with our values.

Cfr : best in class shares, Mission Related Investment (real estate: SIB, Foundation House, Social Housing….)

7. <u>Monitoring and Evaluation are key</u>: <u>during</u> the project in order to adapt, and not only at the end when the project is finished.

Process - Output - Outcome

Qualitative and Quantitative.

Attribution problem !

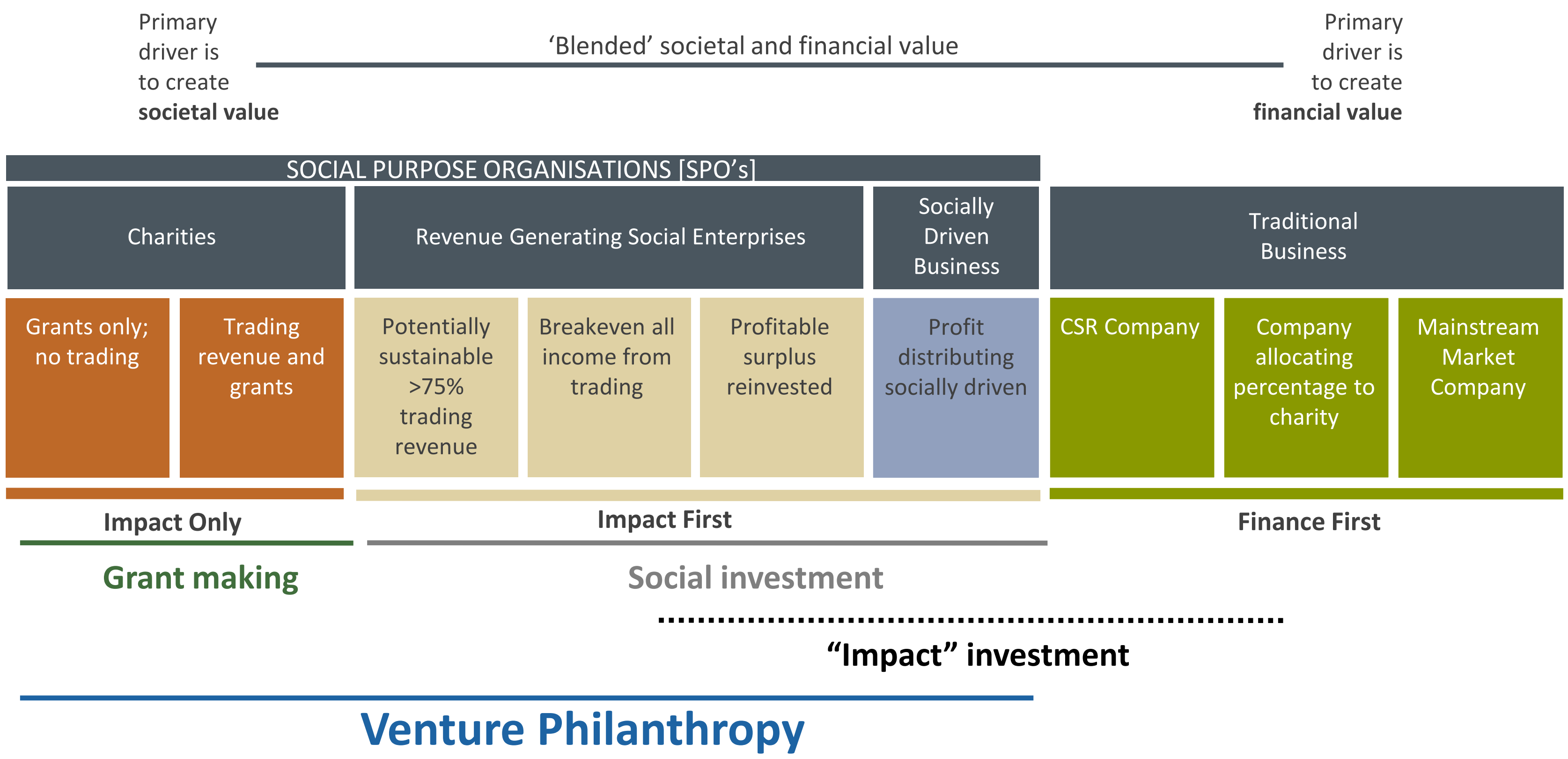
8. <u>Convening role/multistakeholders approach</u>: in very complex issues a foundation can be a forum, act as a neutral actor <u>before</u> the political decision, to prepare the debate and to listen to the various stakeholders, to create a climate of confidence.

9. <u>Internationalization</u> of Philanthropy in a migration world. Diaspora philanthropy.

KBF : philanthropy enabler. Facilitate tax efficient gifts from Europe, US, Canada.

U.S. philanthropist restores Chambord's formal gardens

3. Venture Philanthropy



Source: shærpa and EVPA

A Venture Philanthropy Fund to maximise social Impact

- A VP approach intends to **maximize societal impact** through the **structural reinforcement** of a portfolio of not for profit **organisations**, in a specific sector or various sectors

-Methodology inspired by **Private Equity and Venture Capital. Bringing the know-how of profit sector in the non profit.**

-Support not only for a project but also for the org.

- Choice to invest in **start-up, scale up, mature org or turnover** non profit org

- Grant as well as **technical support**: in strategy, governance, finances and evaluation

- **Monitoring of the KPI's** every 3 months : dark green, green, orange and red

- **Leadership** of the CEO and Board is key in the due diligence and support

VPF value proposition differs from traditional philanthropy

WHAT IT IS NOT	WHAT IT IS
• **Projects** funding	**Structural organisations reinforcement**
• **One-time** support	**Multi-year** support
• **Unclear view** on social impact generated	**Commonly agreed performance indicators** and expected returns (societal/financial)
• **One-way communication** of results	**Accountability for results** and **collaborative** performance **follow-up**
• **Financial support** only	**Financial and non-financial support** (consulting, network…)
• **Small tickets** < €10K	**~tickets**

Non-financial support needs differ based on lifecycle and share of trading revenues

Low — ***Share of trading revenue*** — *High*

<table>
<tr><th>Non-financial support needs</th><th>No trading revenues (<10%)</th><th>Small share (10%-39%)</th><th>Significant share (40%-75%)</th><th>Covering almost all expenses (76%-100%)</th></tr>
<tr><td>Start-up</td><td colspan="4">Support to translate concept into a viable model in the longer term
Mgmt coaching and endorsing image and network from KBF</td></tr>
<tr><td>Growth</td><td colspan="3" rowspan="2">Transformational supports such as governance, ambition definition and new financing sources identification to ensure growth and long term sustainability</td><td rowspan="2">Need for reinforcement, relatively less for model transformation
Access to network/other stakeholders</td></tr>
<tr><td>Maturity</td></tr>
<tr><td>Decline</td><td colspan="4">Transformational support primarily aimed for structural rethinking of core activities and related operating model
Financing strategy, governance support and new idea implementation</td></tr>
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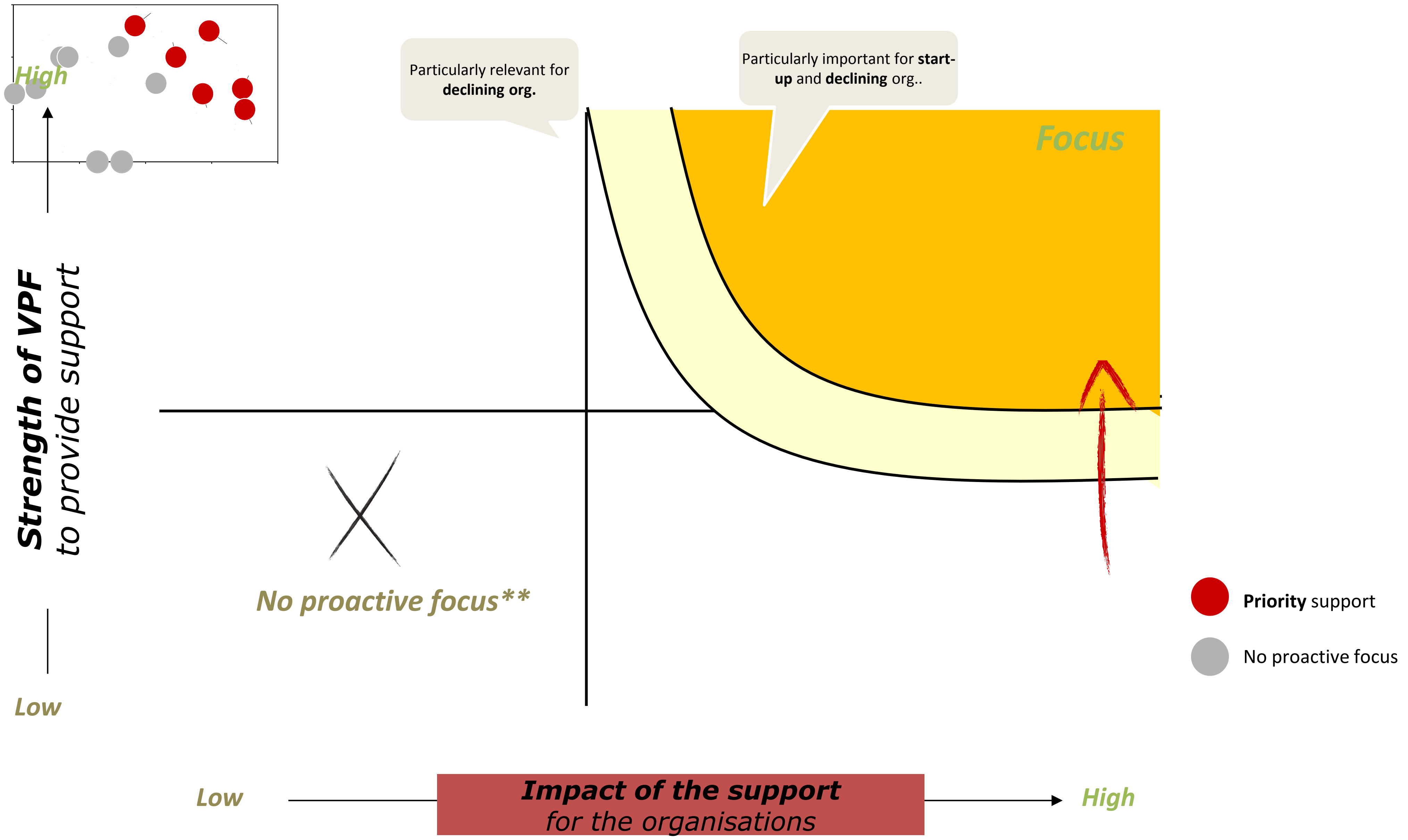
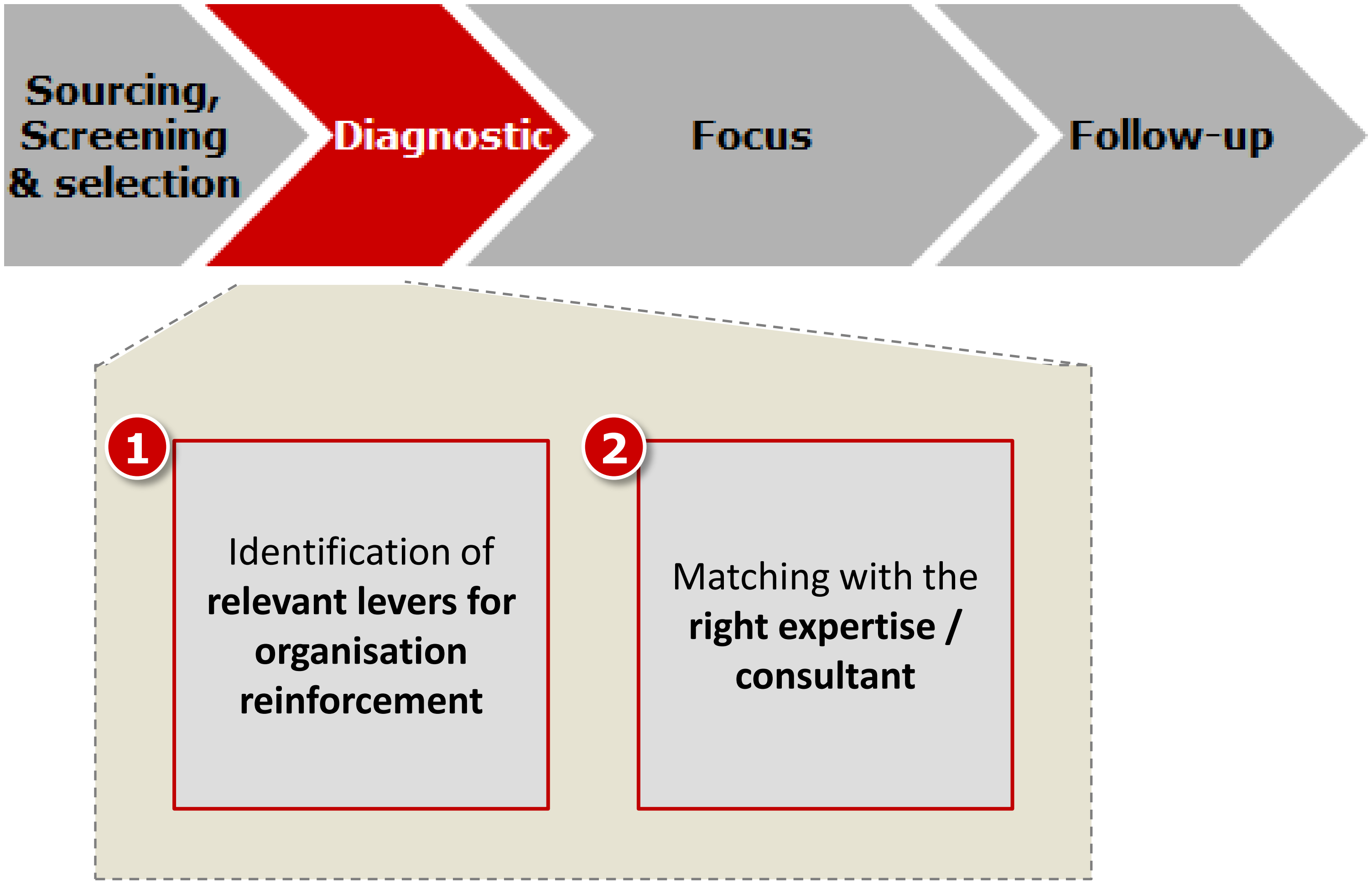
Organisation lifecycle stage: *Early* → *Late*

High focus on transformational organisation support



Match the right expertise for the specific reinforcement need of the association



Engagement styles

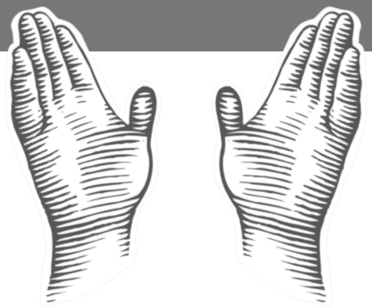
Traditional/ Passive

Philanthropy

High engagement

Philanthropy

Hands-off



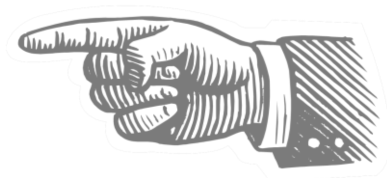
“Do what you said you would do when we invested in your organisation”

Collaborative

“Let’s figure out what to do together”

Preferred / most impactful style, typically most resource intensive

Directive



“Do what we tell you to do”

Source: Bain experience

5 key principles to engage associations for impact

AVOID	FAVOUR
Unclear objectives	**Measurable results indicators**, commonly defined
Passive attitude	**Involved** relationship
One-way mainly informative results readout	**Collaborative dialogue**
Backward looking oversight only	**Forward looking cooperation** to ensure achievements
Being either fully hands-off or overly directive	**Adapted style** along the relationship

Org. claim VPF structural support delivers higher impact than punctual project funding

*"Contrarily to project support, structural support **initiate a reflexion on the organisation model** which is crucial to fulfil our societal impact mission. "*

VPF Supported Association

*"The key benefit of supporting organisations [vs. projects] is the **multiplication effect**. Once the organisation is set on the right track, it will **increase its impact in what is does best**. There is a **true leverage** in structural support."*

VP practitioner

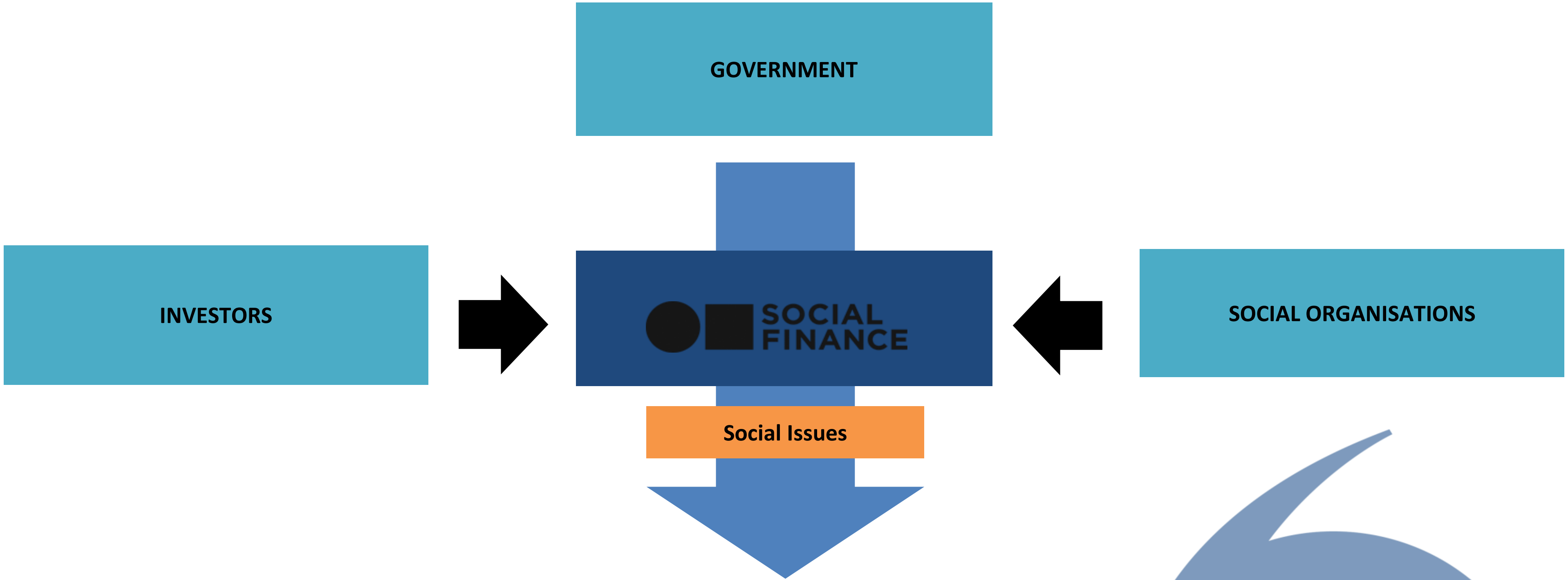
*Many **valuable organisations**, with a **high potential for impact** are **disappearing** due to **structural issues** which **can be addressed**."*

Social sector organisation director

B. Social Impact Bonds (Social Finance)

- The Social Impact Bond is a means of investing in intensive prevention services where improved social outcomes are likely but not certain.
- Social Impact Bonds are contracts with public sector commissioners under which government commits to pay for improved social outcomes.
- On the back of this contract, investment is raised from non-governmental investors.
- This investment is used to pay upfront for a range of interventions to improve social outcomes.
- Investors are repaid only if successful outcomes are achieved. Investors stand to lose some or all of their capital if positive outcomes are not achieved.
- The investor takes the <u>risk</u> that the interventions do not deliver the desired outcomes. The greater the improvement, the greater the financial return to investors.

Social Impact Bonds(Social Finance)



Social Impact Bonds bring new investment to bear on social issues, and align all parties around a common goal

Rationale for a sib

Social Impact Bonds provide up front funding to pay for additional services to help improve outcomes for service users, with investors risking their money based on the outcomes that will be achieved

A SIB is…

- A way of tackling social problems that require a range of interventions
- Up front funding for service delivery
- <u>Only going to achieve returns for investors if social impact is achieved</u>
- An attempt to make more non-governmental money available to the social sector

A SIB is not…

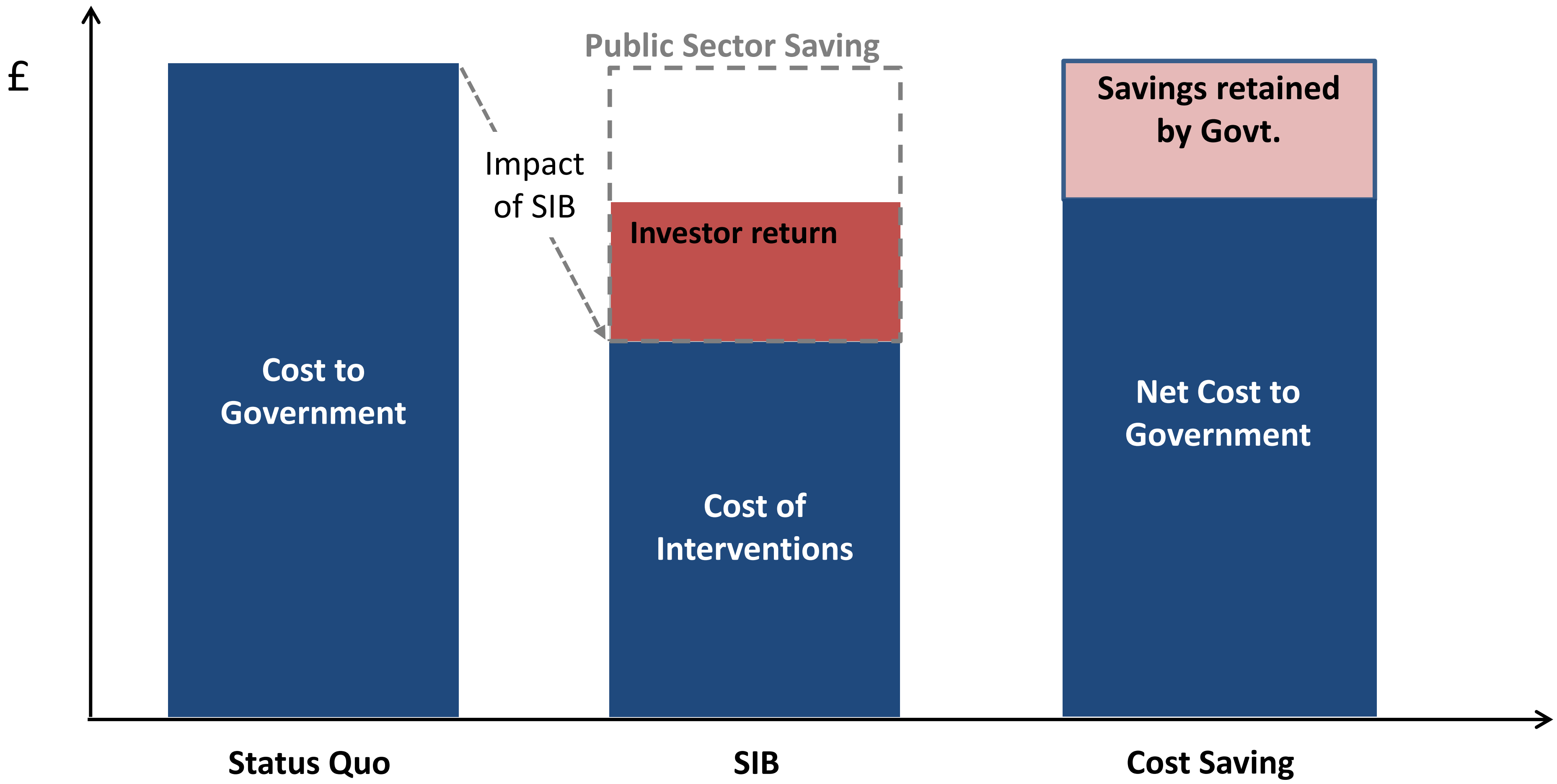
- Payments for failure – if no social impact is achieved investors lose their money

OR

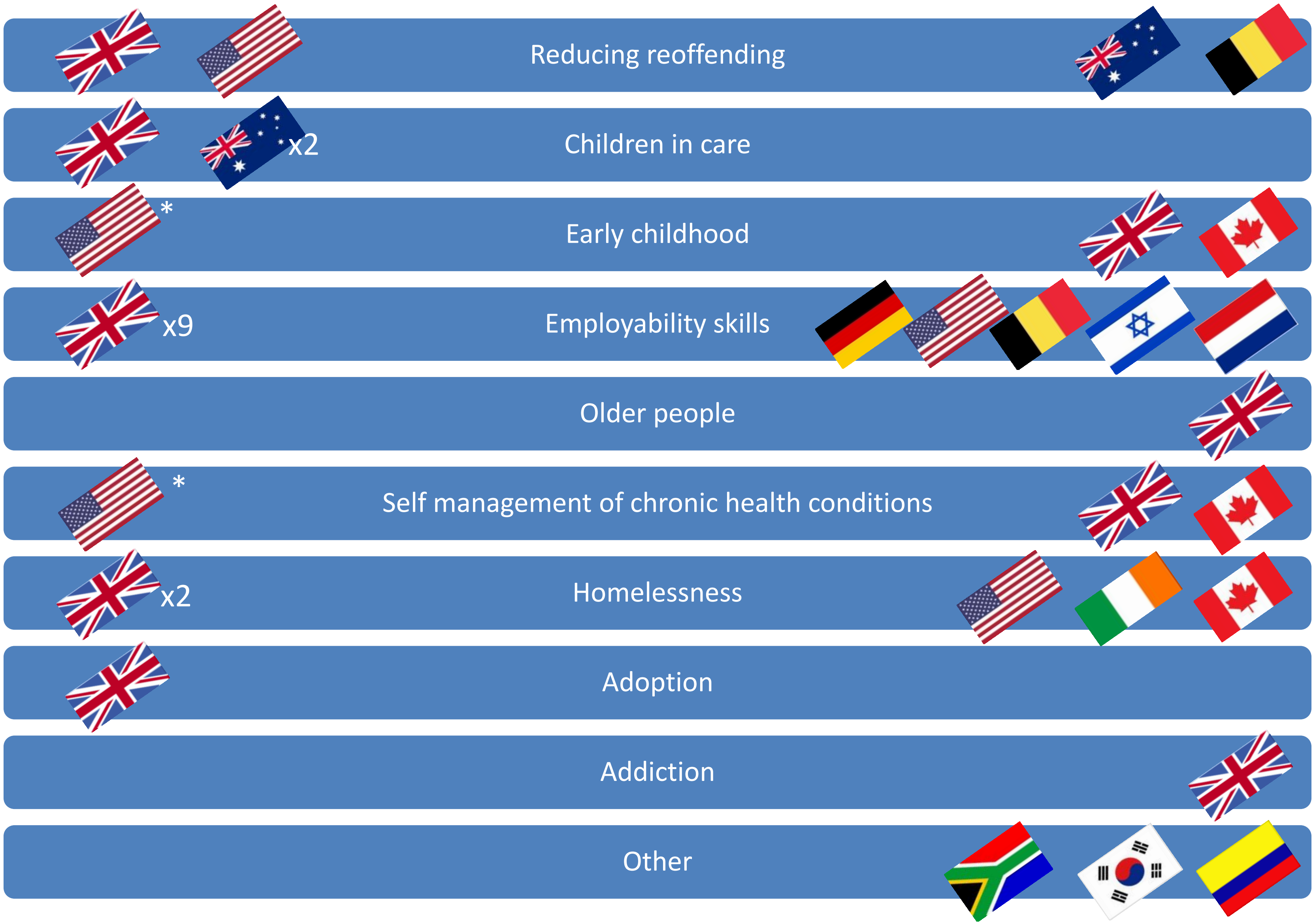
- Debt or grant funding for service providers

The value for money case for a social impact bond

SIBs work when the cost of achieving the target outcome are substantially less than the resulting public sector saving.



SIBs: International activity



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Developing The Essex social impact bond

- There are four main areas we work through when developing SIBS

Social Issue	Target Population	Intervention	Outcomes Metrics
What was the problem Essex identified?	Which group of children would most benefit?	What services could improve outcomes for this group?	How should success be measured and paid for?
Poor outcomes and high costs associated with children entering the care system	11-16 year olds at risk of entering care or who recently entered care; key issues are behavioural problems or family breakdown	Multi-Systemic Therapy (MST) identified as the intervention with the strongest evidence base	Total number care placement days saved compared against a comparison group within Essex before the SIB

The problem (cont.)

Scope of the problem is large and growing

Numbers of Children in Care

- There are more than 68,000 children in care in the UK
- In Essex, when we conducted our feasibility work, there were 1,600 looked after children. This number had been growing by around 28% over the previous five years
- In Essex as in many English local authorities, 10-15 year olds remain the largest age group to be looked after, representing c.40% of all looked after children

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Cost of Children in Care

- Average costs of care range from £40k - £200k p.a. per child, depending on type of care placement
- Adolescents tend to spend more time than the average child in residential care which is at the more expensive end of the spectrum

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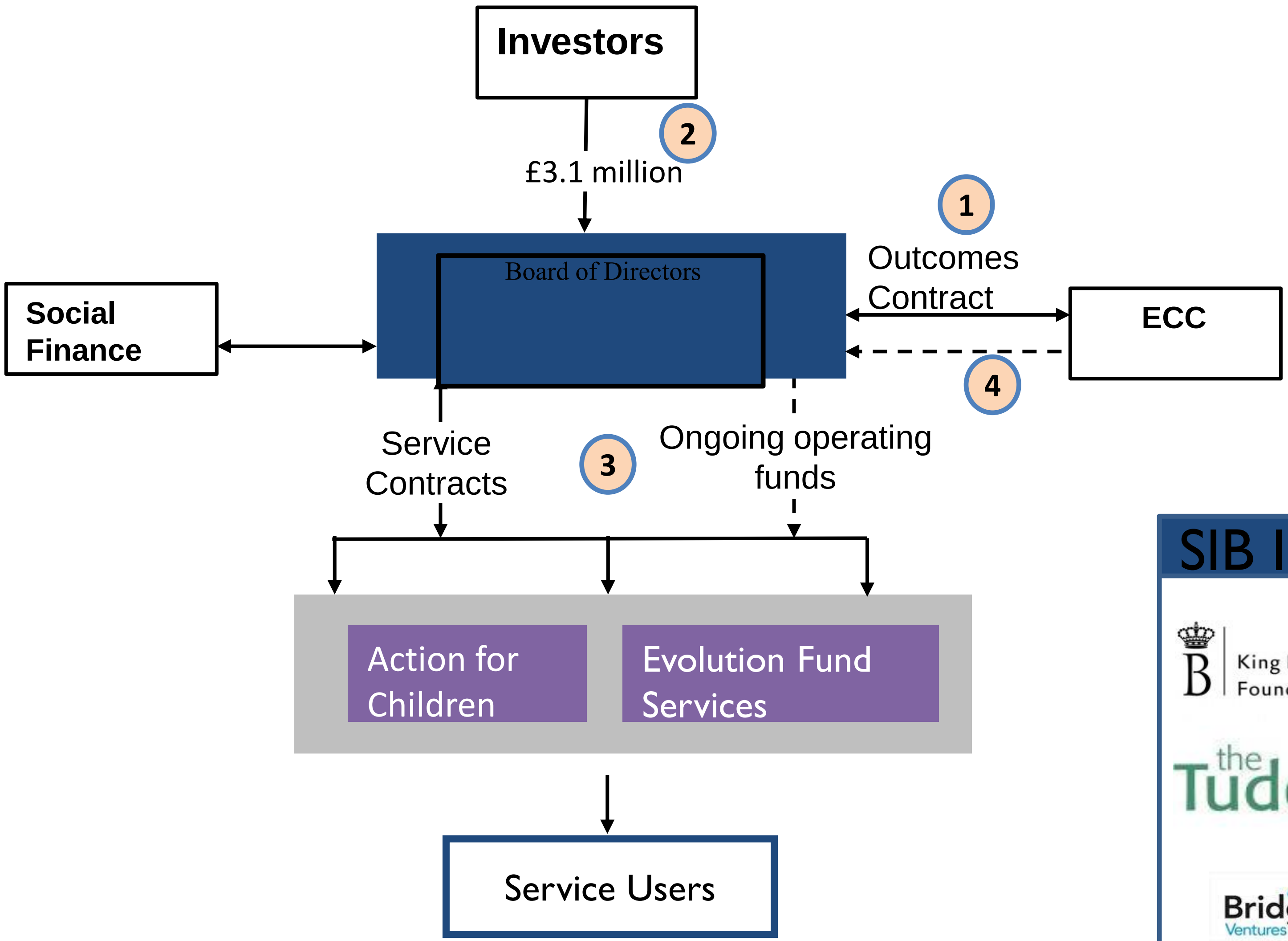
How it works - Summary

Essex Children's Social Impact Bond ("SIB")	
Issue	Essex Children's SIB
Size	c.£3.1 million
Objective	Improve outcomes for children and young people at the edge of care
Public Sector Counterparty	Essex County Council, contracting with SIB delivery entity
Delivery Partner	Children's charities and other service providers
Maturity	Up to 8 years
Outcome Metrics	Care placement days saved Education, offending and behavioural outcomes tracked but not linked to payment
Target Returns	8-11% p.a.
Target Investors	Trusts, foundations and funds

How it works - Essex sib structure



1. CSSL and ECC enter Outcomes Contract
2. Investors fund CSSL
3. Funds released to service providers according to Service Provider Agreement
4. ECC returns a % of savings from reduced cost of care placements

SIB Investors

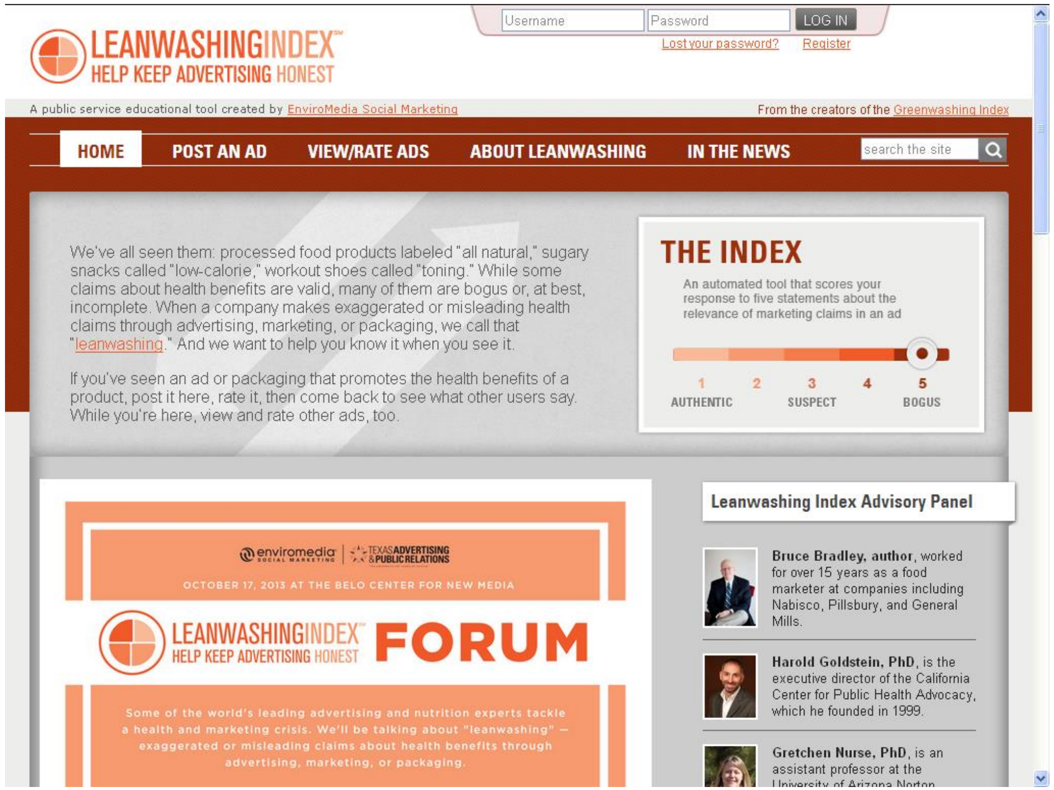
King Baudouin Foundation
Esmée Fairbairn Foundation
Barrow Cadbury Trust
the Tudortrust
CAF Charities Aid Foundation
Bridges Ventures
Big Society Capital Transforming social investment
Social Venture Fund

Issues with SIB

- Ideological debate
- Pressure on the service provider
- Independent evaluation team
- Risk aversion !

C. Impact Investing

-Grey zone. Can be VP or absolutely not !
-Financial or social criteria?
-Team behind : Asset managers or/and impact managers?
-Performance ?
-Performance fee ?
-Investement committee : « Social box ticking »or real due diligence ?



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