MAKING YOUR MONEY WORK HARDER

Social investment practices - An introduction for foundations

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Dedicated to Pier Mario Vello, an inspirational leader and the creator of the European Learning Lab, which was born from his belief that staff perform best when they feel motivated, encouraged and supported.

About this publication

This is not meant to be an exhaustive, A – Z guide about how to structure a foundation's social investment strategy, nor is it a report of a meeting on social impact bonds. This is in fact a snapshot of foundation practitioners' attitudes about, apprehensions towards, and appreciation for loans, guarantees, and equity investments, i.e. funding and investment modalities other than grants and mainstream market investments as they are used to advance the missions of European foundations. The information contained herein is based on the class discussions, lessons, and group- and homework assignments of the 2013 European Learning Lab in Milan, kindly hosted by Fondazione Cariplo, and its related activities (a 2014 Tiepolo foundation staff placement in London and workshop in Brussels).
Its purpose is to be a companion or initial point of reference if you are considering how to make your money work harder.

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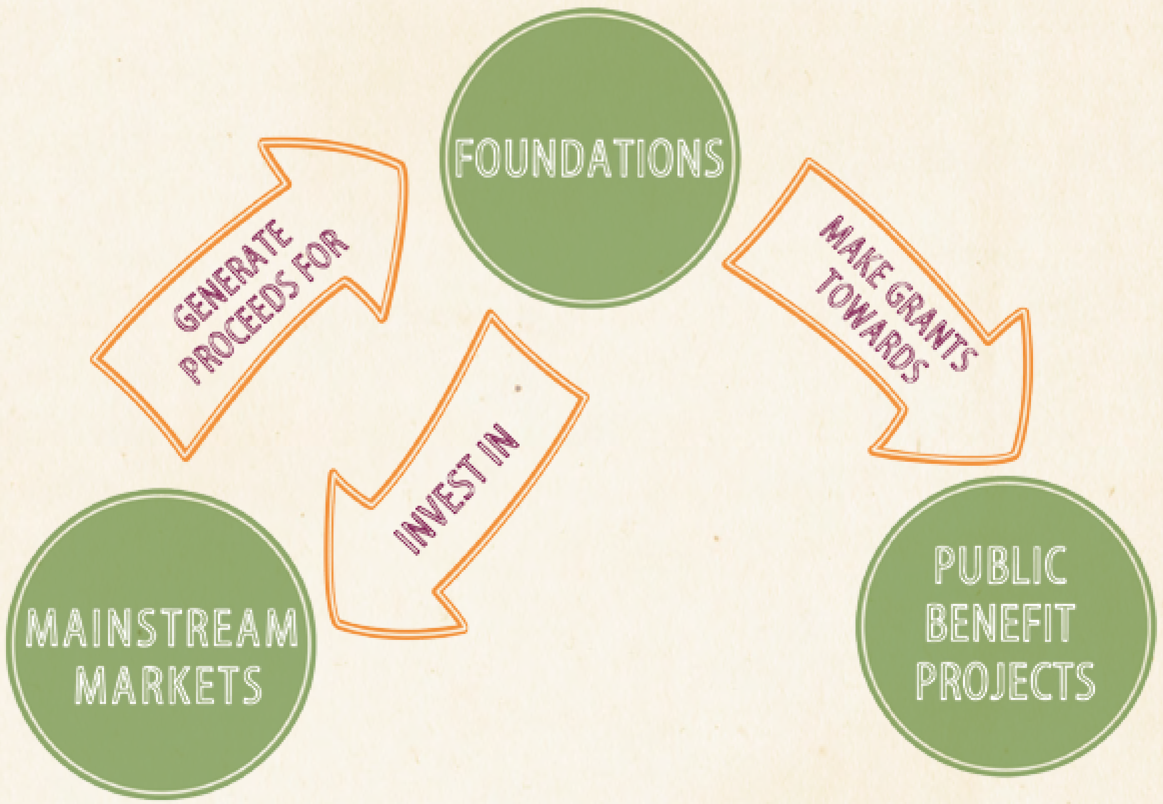
Conventional wisdom gives us a picture of a foundation with an endowment that it invests in mainstream markets in order to make grants with the proceeds of that investment.



But what's wrong with this picture? For starters, it is not the standard for Europe: Many European foundations run their own operations and programmes or combine that modus operandi with grantmaking. Also, in Europe foundations may hold semi- or non-tradable assets. For example they may own entire companies, buildings, art collections or other assets. As to how grantmaking or operations are funded, one can observe similar diversity: Indeed sometimes foundations have endowments they invest, while others receive funding from the for-profit operations they own or are associated with. And many have mixed sources of income.

Yet with all this diversity, rarely do we see that foundations actually use loans or equity investment as instruments to directly pursue their mission.

Which raises a question. When it comes to achieving your philanthropic mission, why indeed would you limit yourself to only grantmaking or operating programmes? Besides grants, you could use different financial instruments, for example making a loan, or giving a guarantee so an NGO or social enterprise can get a loan from someone else. And you can also agree with a social enterprise that in exchange for your financial resources, you obtain a share in terms of equity. Finally there is the option to invest in markets and assets that are not mainstream but that fit your mission ‡ in social housing, in public bonds that fund environmental or social projects, etc. All these options will make your philanthropic money work harder.

Although some people prefer a narrower definition, in practice the term "social investment" can cover anything that is not an investment in a mainstream financial market with the intent to get the best possible financial return.[1] Already in 2006 the EFC commissioned a study to look into practices of foundations in Europe regarding social investment: It looked at so-called Programme Related Investments (providing organisations with loans, guarantees, or equity in the context of programmes that serve the foundation's mission and goals) as well as social investment practices in a broader sense. The study, entitled "Foundations and Social Investment in Europe"[2] concludes that because the language used around social investment is so confusing it is actually difficult to assess what is exactly going on in Europe. At the same time it also concludes that there are plenty of examples of foundations in Europe that use financial tools other than grants, and similarly there are many examples of foundations that invest in assets other than those traded in mainstream markets.

Over the last few years among foundation executives and investment officers in Europe the debate to see how foundations can align mission and investment for greater impact has intensified. And in several foundations programme managers have been exploring if and how loans and other forms of support to social businesses can help them achieve programmatic goals. Currently a rich variety of practices is emerging, but for someone inexperienced, getting started with these new instruments and tools, and choosing the right approach, can be truly bewildering. If only because there is so much technical talk associated with the field that many foundations are not sure which tool may best suit them. And many people are still apprehensive that this is all just a fad. To complicate things, investment managers and programme managers within foundations rarely sit together to exchange notes or to learn from each other. Worse, they may come from and live their daily professional lives in quite different worlds.

1 Some of the terminology differences have to do with branding: For example venture philanthropists call every transaction an investment, even if the transaction has the character of a grant. The other party is called an "investee". Other differences are related to (tax) legislation, like the concept of Programme Related Investment, which is a category in US charity law.
2 Bolton, Margaret (2006), Foundations and Social Investment in Europe, EFC/Brussels.

The European Learning Lab: Exploring the field, finding the tools

The 2013 edition of the European Learning Lab tried to make sense of the possibilities and opportunities available, and began to lay out the spectrum of financial tools foundations can use to advance their missions. It also sought to break down the traditional "Iron Curtain" that exists between foundation programme and financial staff, as engaging with new financing tools calls for new ways of deploying staff. Finally, the Lab wanted to provide tools and practical examples to help participants assess and position their own organisation in this landscape, and explore some of the key issues they need to take into account when considering an expansion of their own "funding toolbox".

The Lab was attended by a mix of programmatic staff; staff responsible for programmatic decision-making and/or the organisation's grantmaking portfolio; and staff responsible for managing the organisation's finances and/or philanthropic investment. In some cases participants would come in pairs, being both from the same foundation.

European Learning Lab 2013 Questions explored

- EMERGING OPPORTUNITIES: HOW CAN NEW FINANCING TOOLS ADD VALUE TO TRADITIONAL GRANTMAKING PRACTICE?
- WHAT GOVERNANCE AND ORGANISATIONAL ISSUES HAVE TO BE CONSIDERED WHEN DESIGNING AND IMPLEMENTING NEW FINANCING TOOLS?
- WHAT FINANCING TOOLS ARE AT FOUNDATIONS' DISPOSAL AND WHEN SHOULD THEY USE THESE TOOLS?
- WHAT METHODOLOGIES AND ASSESSMENT TOOLS ARE AVAILABLE TO HELP FOUNDATIONS MAKE SENSE OF THIS FIELD AND TAKE DECISIONS MOST RELEVANT TO THEIR ORGANISATION'S GOALS?
- WHAT ARE THE APPROACHES TAKEN BY PEERS FROM ACROSS EUROPE IN THIS FIELD?
- HOW CAN PROGRAMMATIC AND FINANCIAL STAFF WORK BETTER TOGETHER?

Digging around in the toolbox

There are huge advantages to using different instruments for different issues. The Law of the Instrument says that "if all you have is a hammer, everything looks like a nail." While grants are a great tool to address social needs and trigger social change, not all social issues benefit from being pounded with grants. So it makes good sense to apply different tools to different social problems. The more tools you have, the better you can help tailor solutions. For example, funders have been accumulating 20+ years of experience with providing micro-credit directly or through intermediaries. Also many foundations are somehow involved in and investing in social housing. And some foundations promoting research and knowledge transfer developed financial tools to help bridge gaps that hinder new technology from being taken up by businesses.

Identifying blockers of change

While there is no uniform pattern, to date in Europe for the majority of foundations – large and small classic grantmaking or direct expenditures for inputs for operational activities remain the main tools to pursue a philanthropic mission. And if they have endowments they can invest, they usually opt for mainstream investing to generate optimum revenues in terms of income and risk. Philanthropy and Mainstream Investing. So what blocks foundations from making a more diverse use of their resources? And with those who actually do, what triggered the change? What makes foundations start using different tools?

The 2013 Learning Lab class reflected extensively on what could be the reasons that few foundations explore the use of different social investment tools and they came up with the following list of possibilities:

- It is not in the organisational culture of foundations to test new methods and approaches – there is an antiquated mentality among boards, beneficiaries, donors, etc.
- Grantees don't understand these instruments, they come to foundations for grants.
- How can you be a grantmaker and a lender at the same time? People/grantees will not know who they are dealing with.
- Knowledge and expertise are not available in-house and are expensive to source externally.
- There is confusion around the language and terminology: It seems too complicated to undertake.
- Commercial rules and models do not always translate well in a non-profit context.
- There are regulatory considerations that do not favour tools other than grants.
- What if you fail to get your money back? What would that do to your reputation?
- Experiments can be dangerous and can have negative impacts on the lives and livelihoods of others.
- People will say it is not correct to be earning money off of those less fortunate: How philanthropic are these other tools?
- Foundations are conservative and don't like to admit that other civil society organisations are ahead of the curve, so they dismiss this.

Overcoming blockers of change

John Kingston, the Learning Lab facilitator, argued that to trigger a revolution you need an approach that may involve taking baby steps. You can limit yourself to trying to "sell" the advantages, but John feels it can be equally effective to focus on what actually blocks change in foundations. When you remove those barriers, you unleash the capacity of the organisation to change and adapt and enjoy the benefits of a more flexible and tailored use of financial tools.

But to remove the barriers, to encourage others to take these baby steps, you have to understand the language and the concepts related to financial tools, and you have to understand your own organisation and team up with allies.

Learning from the journey that others have made can be tremendously inspiring, and while you would probably be ill-advised to simply copy what they have done, getting to know the journey of others will trigger your creativity in bringing change to your own organisation.

The participants in the 2013 Learning Lab extensively reflected on different types of blockers and ways to remove them. Following is the wisdom they share.

How to overcome cultural and governance issues

- Don't bully people (boards, colleagues, grantees, partners, etc.) into believing in social investment, but rather make them co-travellers on the social investment journey.
- Use facts and figures (for example declining resources) to help make the case: To increase impact an organisation must find new resources and funding streams.
- Make every step in the social investment journey clear and transparent, from the identification of the investment, to partners involved, to selection of instruments.
- Identify areas where it is easiest to get started and get your feet wet there: Is the organisation already active in social investment in some way?
- Team up with various partners (those with financial expertise or technical expertise from both the profit and non-profit worlds).
- Learn from those you trust, particularly other foundations as this can create a sort of "peer pressure" for those who are considering getting started.
- Be ready to learn from your experiences and to refine subsequent actions based on learning.

Dealing with limited in-house capability and (technical) capacity

- This is all learning by doing as tools are still quite new, anticipate that learning will be needed.
- Foundations can play the role of convenors or facilitators, and can use social investment as a way to get to know communities better, meet different stakeholders, learn who is already active in the field, and gain best practice from peers.
- Over time, begin to internalise capability and to rely less on outsiders and external expertise.
- Do not use complicated tools or construction, keep it simple and work with partners that you trust. If you do not trust the prospective beneficiary of a loan or a guarantee enough to work with a simple deal, you may need to reconsider.
- Ongoing challenges to remain aware of:
    - Knowing contexts and end-users' maturity
    - Locating appropriate, affordable expertise
    - Understanding what tools suit what situations
    - Growing capacity (both of internal staff and external communities)
    - Evaluating impact
    - Connecting foundation financial and programme staff

Coping with risk to the foundation's image and reputation

- Reputational risks stem from a foundation seeming to be uncharitable if engaging in social investment as:
    - It is income forgone, a mainstream market investment usually has a higher financial return than a social investment
    - Less income may imply that immediate social needs remain unattended to
    - Investments may be "less social" than envisaged
    - Investments could lead to indebted institutions
    - It creates a Jekyll and Hyde mentality for foundations: Are you a loan shark or a granting granny?
- But some of these risks can be mitigated by adopting the following approaches:
    - Tie investments to mission as closely as possible
    - Take on gradual approaches and give grantees plenty of time to get used to the new relationship
    - Be diligent in selecting the right tool for the right problem
    - Select investments where impact can be demonstrated
    - Manage expectations regarding returns but prove that the money is in fact working harder
    - Communicate as much as possible
- There is often added value in going through tough social investment due diligence processes as this can actually act as a "stamp of approval" for a non-profit and adds something to the value proposition of an organisation.

Tackling language issues and lack of clarity

- Financial language has real power but is not appropriate when assessing social impact, so there is an important gap to be bridged with the board, financial team, programme staff and external stakeholders when it comes to language.
- Avoid confusion by clearly tying investments to mission and be clear that actions are led by demand, don't replace grantmaking, and have definable outcomes.
- Making stakeholders co-travellers on the social investment journey implies using language that is digestible, clear, and to-the-point.
- Approach the topic in a visual way with charts, graphs, etc. to bring the topic to life and make it more accessible.
- Don't frame social investments as replacements for grants, but frame them as viable alternatives to grants.
- Package social investment approaches as a coherent strategy for a foundation, combining grantmaking and financial management.

Final reflections on how to overcome blockers of change

1. There are always nine reasons not to do something, the trick is finding the tenth reason which will make you take action, and not get bogged down in the practical details.
2. Approach social investments with a medium- to long-term view, don't get involved if it is just for the short term.
3. Assess impact made through social investments to continue making the case for this approach.
4. Increase transparency around social investments, but not if it means increasing complexity around due diligence processes.
5. Humbleness is helpful if you want to inspire change.

Social Investment Tools: The Basics

Finance 101 – Grasping the terminology

For most programme staff that are not familiar with the terminology related to the different financial tools, it all sounds quite complicated, but it's really not rocket science. Grants, loans guarantees: It is all about money (potentially) changing hands, only the conditions vary.

Grant: A financial gift, there may be an agreement as to what to do with the money but there is no financial return expected.

Loan: All money eventually goes back to the provider of the loan plus an agreed interest; usually there is an agreement between the two partners as to what to do with the resources and how and when payments will be made. There are various options:

- When to pay back: within days/months/years
- How to pay back: in instalments or in one payment ("bullet")
- Whether, in case there is a problem, it is unsecured or secured and how (e.g. with property, a mortgage)

Guarantee for a loan: No money changes hand in principle. The guarantee is given by a third party in relation with a loan agreement between two parties; the third party guarantees repayment or takes over obligations of the debtor if (s)he fails to pay.

Underwriting: This is a type of guarantee which is a flexible tool where access to cash resources is provided anticipating returns. Often the arrangement later converts into a loan or a grant.

Equity position: This is where resources are provided but no repayment is expected. Instead, the holder of equity is usually entitled to dividends and a say in how things are managed. Equity positions can be tradable, but in philanthropy that is not always the case.

Mezzanine capital: This is like a loan but riskier, sometimes part of the loan is converted in equity and when the venture fails "normal" creditors get their money back first before the lenders of mezzanine capital.

(Social Impact) Bond: These are like loans but in principle they are tradable and in that sense more similar to equity.

You do not have to become a finance expert but learning the language is imperative to communicate with them. For programme officers trying to get a children's museum to do a project on social exclusion, or wishing to stage a debate on the pros and cons of HPV vaccinations, all this may be mind boggling. Which explains the tendency to keep the transaction short and simple ⸭ and indeed grants are very simple tools. But to make your money work harder, you have to at least learn to speak (and understand) finance. And once you have made the effort and learned the language of (social) finance you will find that the ability to use different funding modalities and tools enriches philanthropy and enables you to be more effective. And the "native finance speakers" will have to learn about programmes and social returns that involve their own jargon and do not behave at all like financial returns. Together you can make your philanthropic money work harder.

Understanding the wide spectrum of philanthropic activity

For most programme staff that are not familiar with the terminology related to the different financial tools, it all sounds quite complicated, but it's really not rocket science. Grants, loans guarantees: It is all about money (potentially) changing hands, only the conditions vary.

In Europe most foundations are private organisations although the legal form is also used for organisations created by government. Between the private public-benefit foundation that makes grants and a mainstream for-profit company a colourful rainbow of options of organisational rationales can be observed. They are all different when you look at the resource flows in and out of the organisations, at how resources are generated, and at what happens with the surplus and how that is decided. This is how that rainbow could look:

It is important to be aware that the terminology and the legal definitions can be quite complicated and they vary from country to country in Europe. Also there are conceptual differences, for example the differences between the Continental European and Anglo-Saxon concepts of what a social enterprise is have actually been the subject of academic study.[1]

But there is no need to go into the academics. When it comes to the various philanthropies, charities, social enterprises etc. it is important to understand from a practical perspective that normally the national regulatory environment determines what an NGO/foundation can and cannot do. There are often rules regarding the generation of income by foundations, about supporting organisations that generate revenues and profits, and about whether it can make loans and the kind of investments that can be made.

The EFC periodically collects information about the regulatory environment for foundations in different countries in Europe (European Union and beyond). The legal and fiscal country profiles compiled by the EFC contain – among many other informative facts – answers for each country to the questions:

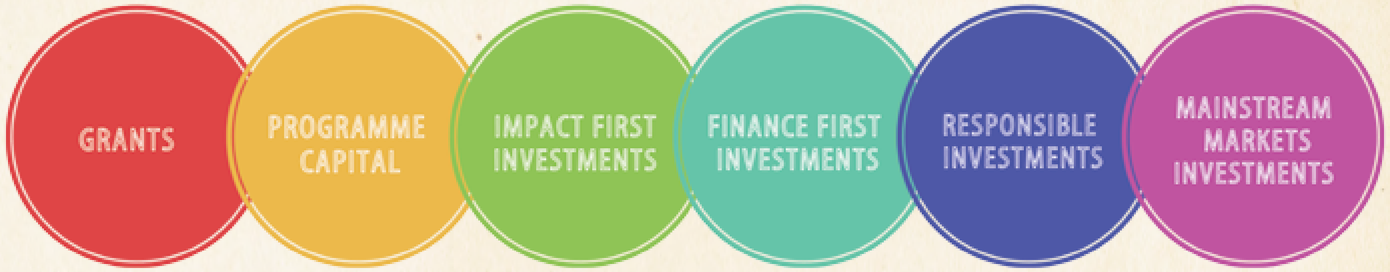
- Are economic activities allowed (related/unrelated)?
- Are there any rules/limitations regarding foundations' asset management?
- Are foundations legally allowed to allocate grant funds towards furthering their public benefit purpose/programmes which (can) also generate income? (recoverable grants; low interest loans; equities)

See: http://www.efc.be/programmes_services/resources/Pages/Legal-and-fiscal-country-profiles.aspx

So explore the rainbow and make sure that you know which rules apply in your country!

1 If you are really into concepts and definitions, see "Conceptions of Social Enterprise and Social Entrepreneurship in Europe and the United States: Convergences and Divergences" by Jacques Defourny and Marthe Nyssens in Journal of Social Entrepreneurship Vol 1, No 1, 32-52, March 2010, Routledge/Taylor&Francis.

Using the entire toolbox



As a foundation you can diversify the use of philanthropic financial tools starting from either side of the spectrum: You can start using alternative tools in programming or make your investments less mainstream and more responsible. In practice you see in foundations both types of change happening, and sometimes the changes happen simultaneously.

In most foundations professionals work on one side of the spectrum, either working with grants in the programme area using their expertise to maximise social returns, or they work with investment in the financial, investment area and draw on their expertise to optimise financial returns. To negotiate the middle of the spectrum, these two groups of experts will have to pool their expertise and work together!

Counting all the benefits

When we deploy philanthropic resources to achieve a public benefit, we normally define that benefit in social terms. To understand – and argue for – why using different tools actually can make your money work harder, you could also look at the same process in terms of financial results, and financial returns. And vice versa: What are the social returns (or costs!) of your investments?

Let's look at the financial return for the foundation on funds that we programme to achieve a public, social return. You could roughly define three types of philanthropic transactions:

- All resources change hands and completely leave the foundation: You could say there is a financial return of minus 100%.
- Repayment by the recipient to the foundation is expected but there will be no interest or profit for the foundation: This results in a negative financial return for the foundation but less than the minus 100% financial return that the foundation has when giving grants.
- Repayment is expected and on top of that the foundation perceives a financial return at a low rate usually less than 10% Often debt or ownership titles of philanthropic investments cannot be easily traded.

It is important to acknowledge that provided that achieving a social return is indeed the goal - and these social returns indeed materialise - you could say that all these are somehow philanthropy.

Type	Resource transfer with-out the expectation of any financial return or re-payment	Resource transfer with-out the expectation of any financial return but with the expectation of repayment	Resource transfer with the expectation of a financial return. This can be a secondary concern, a primary concern or the sole concern.	Resource transfer with the expectation of a financial return and repayment as the sole concern.
Label	Classic Philanthropy	Philanthropy Capital	Impact Investing	Mainstream Investing
Expected return and liquidity	Financial re-turn is minus 100%: The money is gone once you give it....	This capital will slowly erode (negative financial return) because of infla-tion and recipients that fail to repay	Return is zero to low at single digit rates and titles are not always tradable.	Market-based returns, and tradable.
		Philanthropy		

So from classic philanthropy to impact investing, it is all philanthropy. What is different is the size and the importance of the financial return on transactions.

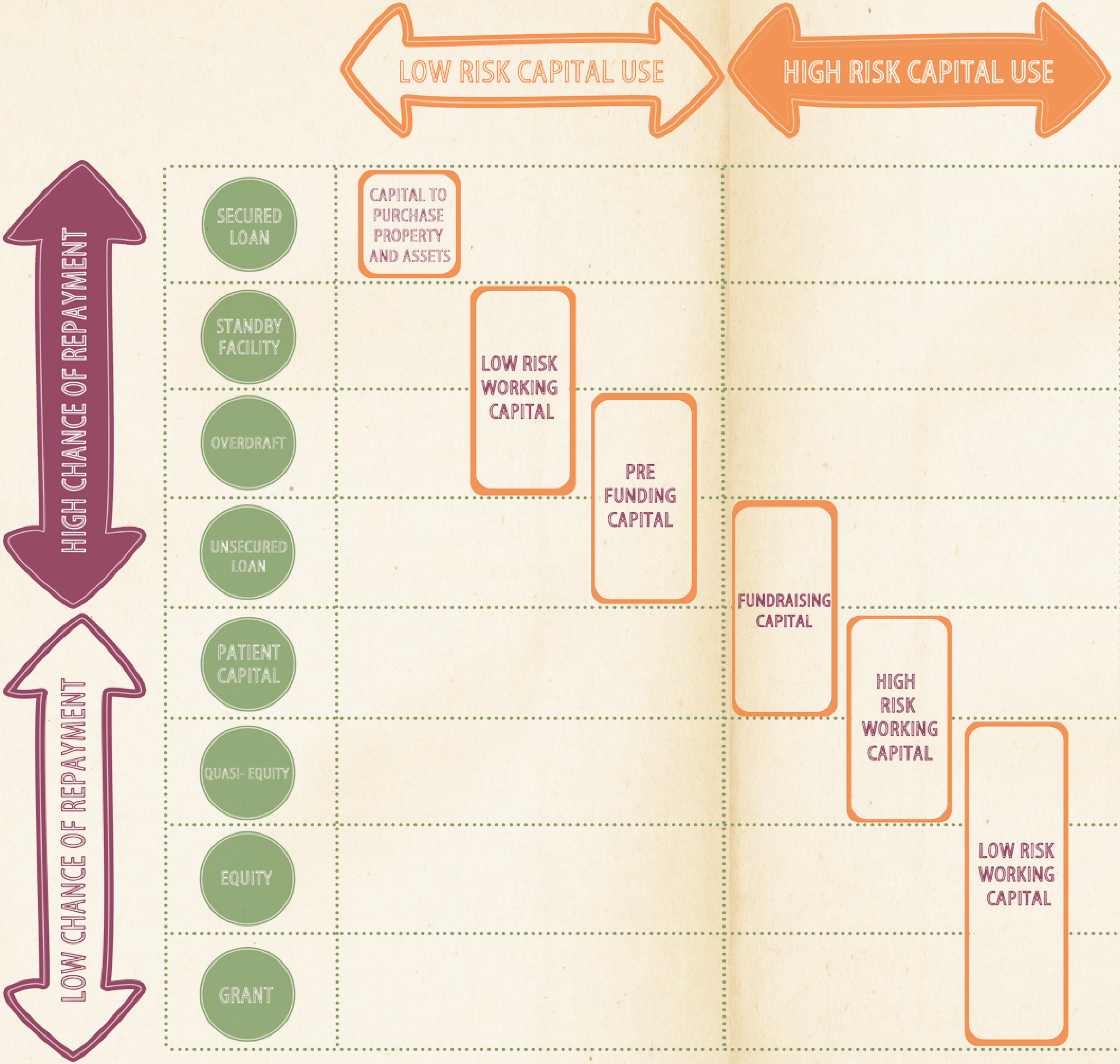
Traditional foundations make their endowment work really hard through mainstream investing, and at the same time they perceive a minus 100% financial return on the grants they make to seek public, social benefits. Using the intermediate options, you can make your philanthropic money work harder, obtain good social return and a mix of financial returns.

A closer look at risk, income and capital

Let's assume that – with restrictions – in your country you can use financial modalities other than grants to further your programme objectives and seek social returns. And also, you can invest in assets other than those traded in mainstream markets. In specific cases, why would you do that? And which of the alternatives would you use, and when?

The main reason is that different problems need different solutions. You can get a mortgage for a house, but you need cash for the grocery bill. Different kinds of expenditures come with different kinds of funds. There is no need to give grants when loans for low-risk working capital are needed or when underwriting can be done. You can use these tools to satisfy the capital requirements of organisations that do not have assets, and that may not be able to secure a commercial loan or mortgage.

Organisations with very limited financial assets (NGOs, associations, charities) have capacities that can be harnessed for public benefit, but they need financial resources. They need income to pay for people, rent and expendable materials related to their projects and services. But they also have capital needs: They can benefit from property and assets that save them expenditures for rent, for equipment and training activities that make their staff and volunteers more productive, and they need resources to pay for activities unrelated to projects and clients, activities that help them grow and adapt as an organisation. And finally many NGOs can benefit from some capital that helps them manage cash flows and the costs involved in being chronically reliant on donors. Philanthropy often provides resources to NGOs, mostly for expenditures, sometimes for equipment.



With some exceptions, all in all NGOs are notoriously capital starved. So there are opportunities for philanthropic investments in this area.

When you look to address the capital needs of charities and NGOs it is important to understand how they correspond with activities that bring different levels of risk regarding the income that an NGO can generate through that activity. For example, operating a neighbourhood theatre will generate little surplus income on the plays staged, but a well-managed café housed in the same building could be entirely cost-recovering.

Depending on the level of risk involved in the use of resources, you have to tailor the supply of different forms of capital. There are various modalities that suit specific needs and come with different chances of repayment :

Not that risk in this picture is the risk that the activity will not generate income as projected. Such income can come from sale of services, but also from donations, private or institutional. You really have to look very carefully at what income and what risk you are dealing with. For example, when there is an approved grant from the European Commission that the NGO or charity is waiting to be released, you can provide low-risk working capital to help them get started with this programme through an overdraft or a standby facility. But if you were to get involved nine months earlier in this process, by for instance developing the concept note that produced that grant, as a funder you could at this stage only provide development capital because there is no guarantee that any revenue will be generated.

A lot to digest, so how have foundations actually come to use these different tools and learned to make their money work harder?

Track Records

Change as a journey – Multicolour examples from the Esmée Fairbairn Foundation

At the 2013 Learning Lab, in his role as Social Investment Manager of the UK-based Esmée Fairbairn Foundation, Danyal Sattar shared how his foundation embarked on using part of its endowment to generate both social impacts and financial return.

The Esmée Fairbairn Foundation was established in 1961. At its establishment it held 50,1% of the shares in M&G, an investment company held by Ian Fairbairn, who pioneered in the UK ways to enable everyone to access possibilities to invest in equity. Esmee Fairbairn Foundation sold its holdings in M&G in 1999 and the endowment of the foundation is currently valued at £800 million.

The foundation on average spends £30-£35 million annually on grants. About half the resources granted go to initiatives to promote social change, about a quarter is granted to organisations and projects in the area of art and heritage, and the rest goes to education and environment. In 2012 the foundation approved 340 grants. It operates a £26 million Finance Fund which invests in organisations that aim to deliver both a financial return and a social benefit.

The change from being a traditional grantmaker cum mainstream investor into an organisation that uses the whole toolbox and operates all over the spectrum has been a gradual change. Occasionally a programme loan was made to charities but in 2003 the foundation decided to invest in bonds issued by Golden Lane Housing, a company that provides (rented) housing to people with disabilities. This was an area of work they knew from the foundation's philanthropic work. Two more loans to acquire property followed in 2004/2005 before they engaged with two UK intermediaries that provided capital to charities. And the learning continues. Since 2008 they manage a "pilot fund" – calling it a pilot makes it less threatening, Danyal suggested – and in 2012 Esmée Fairbairn Foundation invested over £6 million in social investment projects. Danyal explained the fundamentals of their policy, which are clear and simple:

- Follow demand (i.e. do not think you may create it)
- Invest in your heartland charities
- Work through intermediaries to support other charities
- Keep a strong focus on your mission

Esmée Fairbarn does not expect that all of the resources from the Finance Fund will be repaid. Just like its endowment, the foundation manages its Finance Fund weighing and spreading risk, liquidity and revenues. Danyal warned that a portfolio should always be diverse, and he joked that his socks were his secret tool to help check and make sure that all the different types of assets (or rather "colours" in his example) were represented in a balanced way in the overall portfolio.

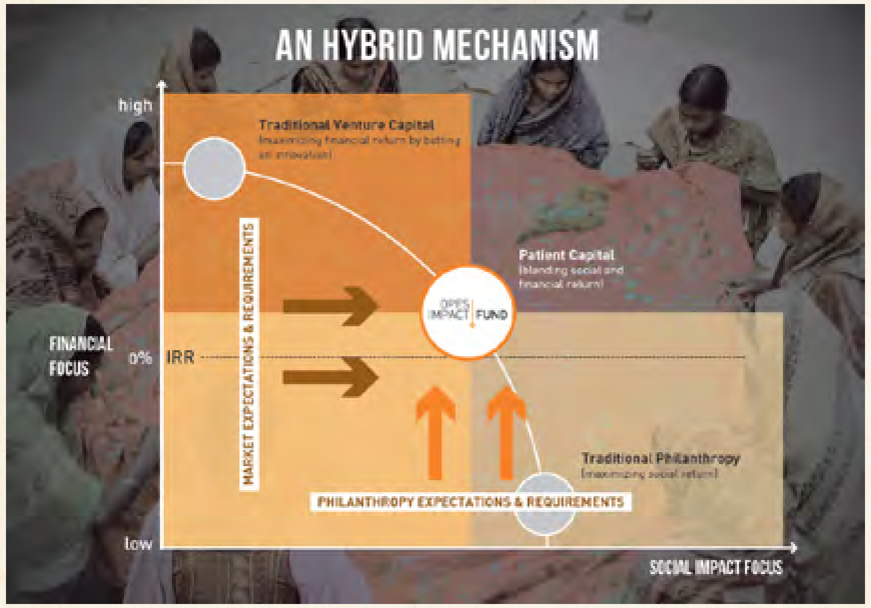
Esmée Fairbairn's Finance Fund invests in land purchase, in social impact bonds as well as in loans and funds managed by intermediaries. Provisions are made for default and losses, but already on eight deals they have exited with a full repayment. The average investment is £364,000 and the average term is seven years. The Fund projects an average 2.5% internal rate of return (before costs) although probably no more than 1% will remain after costs.

Danyal's story illustrates how this journey of change is a learning process and his advice to the group is clear and practical:

- Start
- For as long as possible, experiment, pilot, test, trial and examine, or claim you are doing so
- Work with others who have skills you do not have
- Work with other foundations if you can
- It is within your competence and
- ..keep it within your competence

Investing in entrepreneurs - The OPES Fund

The Italian OPES Fund was established, with support of Fondazione Cariplo, among others, to invest in support of social entrepreneurs in developing countries, in particular in the water/sanitation, education and fair trade sectors. OPES Fund deliberately seeks to fill a gap between traditional philanthropy and traditional venture capital. In its



first phase OPES Impact Fund will invest in India and East Africa through equity and soft loans with investments of between €50,000 and €400,000. To date OPES has invested in pre-school services, solar energy, washable menstruation pads, construction materials from recycled plastics, and retail services to Bottom-of-the-Pyramid consumers.

Elena Calosari shared with the group the experience of the OPES Fund, stressing that many problems and problem solvers, the social entrepreneurs in developing countries, do not need our grants nor our charity. What they need is access to patient capital under conditions that fit their situations. Through concrete examples OPES Impact Fund is showing the Italian public that it is worthwhile to invest in these Southern entrepreneurs and it hopes to contribute in this way to the development of a social finance market it Italy: "We have an exciting journey ahead," Elena inspired the group, "but we know we are on the right track and we are looking forward to learn."

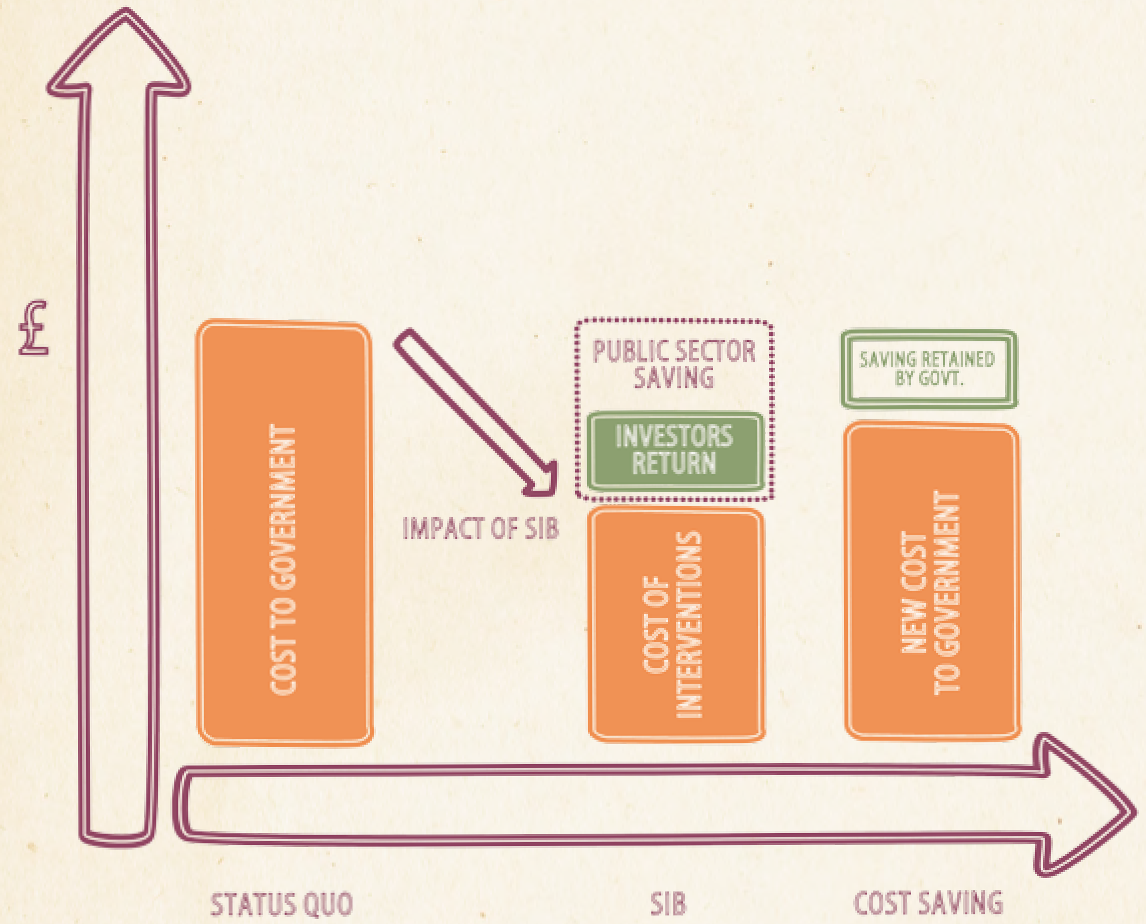
Embracing social investment – How the Barrow Cadbury Trust does it

The Barrow Cadbury Trust is a private, family trust operating in the UK. It has an endowment of nearly €100 million and the trustees have the freedom to decide whether to strictly maintain the value of the endowment or spend it on its philanthropic mission, which is focussed on equity and social change.

In the recent past, the trust has spent annually about €5 million and maintained an investment portfolio in equities, bonds and properties applying an ethical investment policy that ensures that the portfolio is aligned with the missions and the (ethical) values of the Trust. This may also imply active engagement as shareholder. Grants continue to be an important tool but not the only way the Trust pursues its mission. As a first step the Trustees have decided to allocate 5% of the endowment specifically to social investment. Currently the Trust has invested €2.3 million in 9 investments.

At the 2013 Learning Lab, Investment Officer Mark O'Kelly shared his experience in managing the Trust's endowment and experimenting with social investment. He noted that when they started, the "market" for social investments was very much underdeveloped, so the Trust also considers it as one of its responsibilities to help develop the market.

Mark explained that in social investment you always weigh financial returns and social returns. But none of these returns are a given, so you have to manage



the risks. There can be a risk from a financial perspective. These risks can be assessed for each individual investment and you may decide to accept lower returns when there are lower financial risks. You can also balance financial risks at the level of your portfolio.

But in social investment there are also risks from a social impact perspective which are managed differently. You have to weigh the scale of your investment and the expected impact, and you may very well decide to fund large scale impacts that run a high risk of low or negative financial returns. At the same time, it is not recommended to invest large sums in concepts that have not been tested and that are high-risk in terms of achieving their expected social impacts.

Besides these risks, Mark also recommended to consider reputational risks and he pleaded to consider worst case scenarios. Again, a failure may come with a financial loss, but in social investment there are other losses to be considered and the adage should be to "do no harm".

Mark talked in detail about some of the social investments of the Trust, including its investment in the Petersborough Social Impact Bond which funds a programme to prevent reoffending among former prisoners; Bristol Together, a programme to create jobs for homeless people; and investments in charity bonds like Golden Lane Housing, a venture which Esmée Fairbairn also supported.

In the UK Mark suggested social investment is rapidly developing but a barrier to further growth is the lack of a secondary market which limits the liquidity of social investments. An example of such a secondary market is www.ethex.org.uk. Other big barriers are lack of skills, expertise and investable products.

All you ever wanted to know about social impact bonds

So the big new thing is impact bonds: (semi)tradable assets that give both a financial return and a social return and that can provide a steady flow of capital to NGOs that have good solutions for social problems.

Social Impact Bonds create a triangle to kill the proverbial two birds with one stone:

- The investor runs a financial risk, providing the NGO-agent with upfront cash and receives its money back from the government with a bonus upon delivery of the results
- The NGO-agent(s) receive(s) a steady flow of cash and can focus on producing results as efficient and effectively as possible
- The government saves money providing the investor with (less) cash once the results are produced

Lisa Barclay from Social Finance UK explained to the group in detail how these SIBs work and shared background information on some of the concrete experiences with this tool in the UK. While explaining what an SIB is, she also emphasised what it is not: An SIB is not a loan, it is not a grant, and when the programme fails to produce the results, the investor does not get his/her money back. Nor is it a so-called Private Finance Initiative where private resources are invested in public goods. It is a bond, and if all works out well the private investor gets his/her money back from public resources.

There is an opportunity for the use of an SIB when the government is investing in services (or is prepared to do so) and the actual service providers can do more effectively and/or at a lower cost when they have a guaranteed cash flow. The savings thus generated can be used (in part) to compensate the investor for the risk they take. The picture explains:

A Social Impact Bond can only be used when you have a social problem that has a solution for which the impact can be measured. Evidence of impact and metrics are critical Lisa emphasised, because they underpin the rationale from the perspective of the government who issues the bond, and the investor who is reimbursed (with a financial return) only on the basis of the delivery of measurable results.

Lisa explained in some detail the Essex Social Impact Bond. How it was developed, structured and who is involved. In short it is about preventing 11-16-year-olds entering youth care. Research shows that once a child in that age group enters care, he is likely to spend 80% of his remaining childhood in care. The strategy of the intervention is to provide children at risk and their parents and families with Multi-Systemic-Therapy. In that way you can reduce the number of – very costly – care placements and save money you would have almost certainly spent on providing care. Everybody wins when a young person can be prevented from entering into care. Obviously this (financial) incentive that all parties have to prevent that a youngster enters into care should not result in any individual being put at risk, so careful safeguards are necessary and checks and balances have been put into place.

The Essex Bond is £3.1 million and will mature in 7 years. There is an outcome contract between the Essex County Council and CSSL. CSSL is funded by investors and (co) managed by Social Finance. CSSL releases resources to the service providers on the basis of agreements and the Essex County Council reimburses CSSL on the basis of the results.

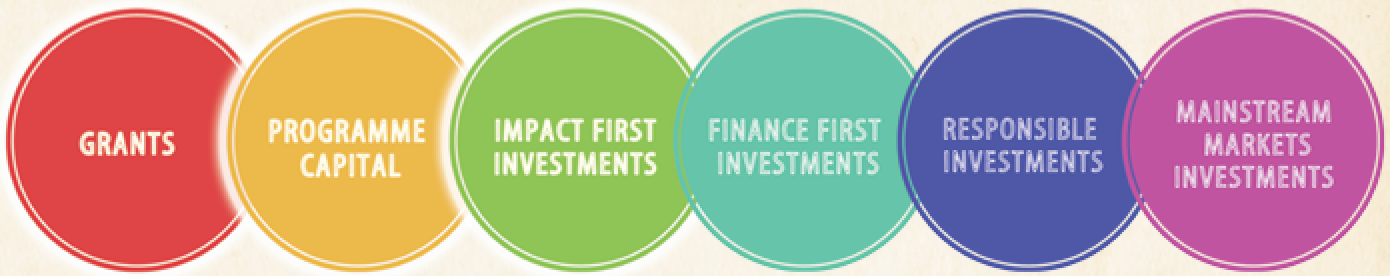
Lisa explained that investors were interested in investing in the Essex SIB for a variety of reasons.

If you want to find out how the project evolves you can check the Social Finance UK (www.socialfinance.org.uk/) website, their blog, or sign-up for their mailing list

Where We Are: The Lab Stories

To make your money work harder, practices in foundations have to change, slightly in some ways and radically in others. And change is a journey. The following case studies provide a sample of the roads that European foundations are traveling to make their money work harder. They show the diversity in situations and contexts faced, but also the similarities and the potential to learn from each other.

An investor and an investee at the same time - Mozaik Foundation, Sarajevo, Bosnia & Herzegovina



Mozaik Foundation was established in 2002 with the aim of encouraging the development of rural communities in Bosnia and Herzegovina. Today, Mozaik is a leading social enterprise in the region with the vision of working on an economically and socially strong Bosnia and Herzegovina.

The foundation's focus is on mobilising local resources for sustainability of socio-economic development which it achieves through the programmes YouthBank and "All Inclusive", which involve grants to support formal and non-formal youth groups whose actions bring economic and social benefits.

Mozaik Foundation is the owner of two social businesses, established as limited liability companies: EkoMozaik Ltd. and MaŠta Agency. The enterprises operate at "mainstream markets" as social enterprises and serve as an example of combining success in business with a responsibility to society. MaŠta Agency has had positive revenues, while EkoMozaik has had some setbacks, mainly because as a community agri-business it operates in a complex market and is vulnerable to weather conditions.

In terms of the spectrum of funding and investment tools, Mozaik Foundation draws on external grants and donations (also in kind). The foundation has recently also started building an endowment fund in order to ensure sustainability of the foundation. The foundation expects to have $5 million by 2023 in an endowment which will be conservatively managed, in order to give 4-5% of interest per year. With these resources, the Mozaik Foundation funds operations and grant schemes. It does not make loans to beneficiaries. In the past Mozaik Foundation has channelled resources to the social enterprises but it has also procured their services and expertise as a client.

Opportunities to make the foundation's money work harder

Mozaik is currently finalising its 10-year strategy, aiming to create an army of young social entrepreneurs by 2025, who will run their social businesses, create jobs and be role models for 500,000 young unemployed persons whose biggest dream is to leave the country for good. Achieving this mission requires creative use of all the available financial tools and modalities. Mozaik is working to synchronise all existing projects and programmes with its new strategy, and it will engage the social enterprises it has founded – EkoMozaik and MaŠta Agency – in the development of innovative new approaches.

In practical terms the plan is to mobilise new resources and to (re)invest all profits generated in new social business in Bosnia and Herzegovina and in programmes to support young people to start up social businesses that create sustainable employment and positive social impacts. To enable young people to do this, among other things the Mozaik Foundation will provide training, mentoring, support and inspiration, and provide or broker access to start-up capital. And it will work to create a broader (legal and policy) environment to support young social entrepreneurs.

Blockers of change

Mozaik Foundation faces some big challenges. Some obstacles can and will be removed, others may need to be circumvented, or somehow negotiated. Among them:

- Political and economic instability in the region, and continued lack of social cohesion between various nationalities in Bosnia and Herzegovina: This is a reality that makes it difficult to unleash the entrepreneurship of young people and is a constant source of tension.
- Financial risks and markets: Markets in Bosnia Herzegovina are small and depend very much on global economic movements.
- Bosnia Herzegovina is among the most corrupted societies in the world. Although corruption can jeopardise success of any business, those with social values are more vulnerable.
- There is little awareness about social investment and its possible impact in the whole region. Promotion, success stories, and lessons learned should be widely shared to raise awareness of the importance of social investments.
- Joint actions among government, businesses, foundations: This is expressed in negative perceptions and distrust but also in concrete policies and regulations, as well as competition.
- To support young entrepreneurs you need visionary and devoted managers of our social enterprises, as well as capable and visionary experts. Lack of human resources, both in numbers and in quality is a huge challenge.
- In general the entrepreneurial spirit and skills of young people will have to be nurtured, since values from the past do not foster entrepreneurship and our educational system fails in creating a supportive environment for development of entrepreneurial skills.

Mozaik's new strategy involves an upgrade of the overall structure of the organisation. The relationships between Mozaik Foundation and the limited liability companies, MaŠta Agency and EkoMozaik, will be clarified. At this stage the social businesses require a strict divide between ownership and management for all three actors to fulfil their potential. And yet, while operating independently, all three enterprises will continue to fully share the overall mission, goals and values.

Another important task is to further raise the capacities of Mozaik's staff in social investments, contemporary practice and lessons learned from within and without the foundation. The foundation needs to modernise programme management, financial and administration models and tools, such as developing a web portal, implementing Navision financials bookkeeping system, Sharepoint, paperless offices, monitoring and evaluation, data visualisation, etc.)

The journey ahead

Over the coming years Mozaik Foundation wants to become a leading resource for the development of social businesses in the region and will focus all of its resources in that direction.

Also, in collaboration with Deloitte consultants, Mozaik has focused on four areas of development: talent management; curriculum development; monitoring and evaluation and data visualisation; and running social investment and social innovation competitions to make sure that the foundation finds the young people with the highest potential to become social entrepreneurs and accelerate their development.

To serve social entrepreneurs and beneficiaries, the foundation also has to invest in itself. A process of on-going capacity building for the foundation's staff will contribute to better understanding of the financial tools which help them to use every opportunity offered by social investment.

Anja Didović, Finance and Administration Manager of Mozaik Foundation, participated in the European Learning Lab 2013 and comments: "We believe that social issues need to be addressed in an economically sustainable way. That's why we became a social enterprise. And, as a social enterprise, we change all the time. We want to grow fast, in the most cost-effective and efficient way, without losing focus on our mission. The energy to do so comes from within, but we need to collaborate with national and international experts through consultancy, corporate volunteering, mentoring and coaching – and we will learn as we move ahead."

Connecting philanthropy and investment: A social investment strategy 2.0 - Fondazione CARIPLO, Milan, Italy

Fondazione Cariplo was officially established in 1991 following the privatisation and rationalisation of the Italian banking system in accordance with the "Amato-Carli" Act. It operates in the Lombardy region working in four programme areas: arts and culture; environment; social services; and scientific research and technology transfer.The foundation has an endowment of over €7 billion (value of total assets: €7.198 million, 31st December 2013) and, during the last decade, a wise and diversified asset management has ensured a steady flow of funding for philanthropic activities (every year Fondazione Cariplo approves grants for approximately €150 million).

Since 2008, Fondazione Cariplo has managed the bulk of its liquid assets following a "Socially Responsible Investing - SRI" approach in order to align its investment portfolio with its mission and philanthropic activities and to reduce market and reputational risks related with investing in countries involved in severe human rights violations or companies involved in producing weapons of mass destruction, or in violating human rights, international labour, or biological diversity conventions. During the last decade Fondazione Cariplo has been increasingly using a variety of instruments and approaches along the spectrum, in order to make the foundation's endowment work harder.

Beside its core grantmaking activity, in the early 2000s Fondazione Cariplo approached social investing through so-called "Programme Related Investments - PRI", providing loans to universities and social entities at a below-market interest rate. In the mid-2000s Fondazione Cariplo moved forward, fostering tighter connections and interactions between foundations' philanthropic and investment activities, promoting and investing in initiatives that were coherent with the philanthropic mission of Fondazione Cariplo. These initiatives, which the foundation called "Mission Connected Investments - MCI", pursue a dual goal: social welfare and positive, but below-market, rate of financial returns (2% + inflation rate).

In 2009 the Strategic Committee of Fondazione Cariplo decided to integrate "Mission Connected Investments" into the strategic allocation of its endowment, allocating 7% of total endowment to this asset class. The Strategic Committee decided also to allocate €510 million in terms of net commitments and identified 4 specific areas of intervention for "Mission Connected Investments": domestic social housing; domestic venture/seed capital; domestic private equity/infrastructures; and social investments related with the strategic philanthropic goals of Fondazione Cariplo.The current portfolio of "Mission Connected Investments" of Fondazione Cariplo is a blended portfolio that includes both "Impact First" and "Finance First" investments and includes both direct and indirect investments, such as private equity funds, microfinance funds, social housing funds, technology transfer funds, etc.

Opportunities to make the foundation's money work harder

Fondazione Cariplo is constantly looking for new tools in order to make the foundation's endowment work even harder, as Viviana Bassan, member of the social services department; Alessandra Valerio, member of the arts and culture department; and Alessio Bellincampi, financial officer, explain: "Recently the Social Services Department of Fondazione Cariplo launched several 'hybrid' philanthropic/financial instruments. These instruments combine traditional grants with other financial tools and we are actively looking for integration with existing 'Mission Connected Investments'. During the last years we have provided funds to NGOs (eg. to OPES Impact Fund) that, even if formally considered as grants, could actually be considered as 'social impact investment'. Our goal is to find a way to leverage the grants' social impact and to change perceptions as if 'classic' grants are the only answer to the needs of NGOs and the only answer that Fondazione Cariplo can provide."

There is still a considerable potential to further connections between the foundation's philanthropic and investment activities. Viviana, Alessandra and Alessio, who were involved in the European Learning Lab 2013, observe: "Within our 'Mission Connected Investments' portfolio we currently have investments that are hardly connected with our philanthropic programmes but stem from our foundation's governing law and statute (eg. investments in infrastructure funds). When these investments will expire, paying back the capital, we could invest more resources towards 'impact first' investments." They also observe that the hybrid financial instruments have been used to date mainly by the social department of Fondazione Cariplo while they could also be very useful for other areas. To move ahead there seems to be room to increase the level of internal motivation, awareness and commitment about social investment among colleagues and directors. In 2013 a new Board of Directors and a new Strategic Committee have been chosen. The foundation is now in the process of formulating a new strategic plan, which is an opportunity to give renewed attention to social investments and it can be a crucial moment to closely involve the (new) members of these bodies, drawing on the experience gained in the past.

Blockers of change

MBoth external and internal factors hinder progress. Good social impact investment opportunities, which allow you to recover an investment and possibly earn a positive return, are not plentiful in Italy. The Italian "ecosystem" is not mature yet, both in terms of the financial agents and the NGOs operating in the sector.

Internally Fondazione Cariplo probably still lacks expertise at different levels in the organisation, as Viviana Bassan observes: "If we want to create new and big experimental financial instruments, it's necessary to invest in human resources and to build consensus among board members, because this may involve a long complex decision-making process."

The journey ahead

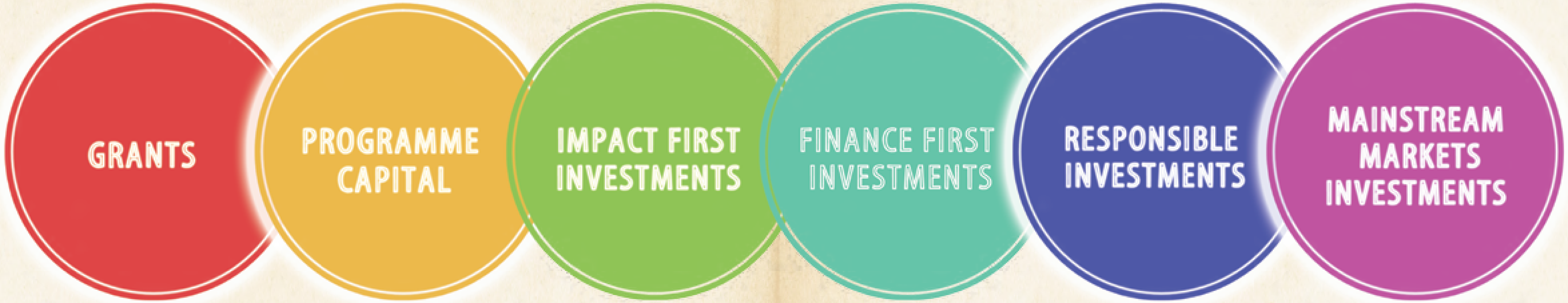
Fondazione Cariplo is latching on to a variety of opportunities to strengthen the connections between the foundation's philanthropic and investment activities and to involve the board and committees in discussions around social impact investments. These are some examples of concrete activities:

- Fondazione Cariplo is taking part in the work of the G8 Social Impact Investment taskforce
- The social services department of Fondazione Cariplo organised a presentation to the foundation's new board about actual positions in social impact investments
- Internally working groups on social investments were launched in the environment and arts & culture areas
- Fondazione Cariplo commissioned research into social impact bonds and presented the results at a public event and to its board

In addition, Fondazione Cariplo is a partner of BENISI project, supported by the European Union (about €1 million grant) within the 7th Framework Program. The BENISI partners (i-propeller, Impact Hub, DIESIS, EURADA and PEFONDES) are seeking to build a Europe-wide network of networks of incubators for social innovation. This network will proactively identify at least 300 social innovations with high potential for scaling successfully, and ensure the delivery of necessary support services to them.

It was critically important that the European Learning Lab 2013 ask for participation of staff members from both the programme and the investment areas: "This was a great opportunity to develop a common ground and awareness among colleagues which has continued in the daily job, exchanging ideas and involving new colleagues. The Learning Lab was also important to compare and share what we do in Fondazione Cariplo with other European foundations, helping us to better understand our position and our potential."

On a learning curve - The Bernard van Leer Foundation, The Hague, Netherlands



The Bernard van Leer Foundation shares office space with its primary benefactor, the Van Leer Group Foundation. The endowment of the Bernard van Leer Foundation is managed by the Van Leer Group Foundation, and the Group's investment portfolio resides primarily in the mainstream markets, with some exposure to responsible investing. At the same time, the Bernard van Leer Foundation itself has historically inhabited the far left of the investing spectrum, focusing on grants. Over the previous couple of years, Bernard van Leer Foundation has tried to expand its portfolio by venturing further to the right in the spectrum. So there has been some movement at both ends of the spectrum.

In the Bernard van Leer Foundation the plan over the previous two years was to identify five social impact investments in order to achieve three goals:

1. An investment return on invested capital to gear up further social impact.
2. Successful projects that would have a positive social outcome.
3. A database of investments/projects along with lessons learned that could be shared within the organisation and with outside partners as well.

Two investments were identified in 2013: One is a loan to a Dutch childcare organisation starting up a new childcare facility characterised by a focus on quality rather than on profit, and the other is an equity position in an Indian film production.

Both investments have taught the foundation important lessons. The Dutch childcare facility has faced typical cash flow issues that a normal start-up would face, but remains an actively managed investment. The film production investment has stalled for a number of reasons, but might be reincarnated in a different form in the future. Both investments are positioned in the centre of the spectrum. At the start – because of their experimental nature – there was no explicit decision that they were to be managed as either impact first or finance first. However, due to their underlying social effect, they would slightly lean towards impact first.

Opportunities to make the foundation's money work harder

Organisationally, the foundation is slowly identifying further prospective investments and trying to look at regular grantmaking through the lens of social impact investment opportunities. It is now looking at a third investment, a children's lunch programme in Israel servicing Arab Bedouin children in the Israeli desert, staffed by formerly unemployed Bedouin women. The programme would work through an existing partnership that has been supported with grants in the past. The working model has proven profitable and they are now in need of financing for two new facilities, which would be supported through a loan from the Bernard van Leer Foundation. Due to the financial and investing expertise of the Van Leer Group Foundation, the two foundations work on these topics in a collaborative manner.

Blockers of change

There have been two primary blockers, one at the system level and the other organisationally. There is a fundamental, and complex, change in the way one approaches impact investing as compared to traditional grantmaking. Besides the competencies involved in projecting realistic financial results and benchmarks, compared to grants there are differences in the day-to-day relationship between the foundation and its partners, and money is managed and administered differently. Because there is such a limited track record and history that can be studied, the foundations find that there are only few "investable" projects. Organisationally, there are limitations in terms of the human resources needed for identifying, managing, and administering these special types of investments, both within the foundation and among its partners.

The journey ahead

Within Bernard van Leer Foundation the major blockers are being addressed, to a certain extent, through additional staffing. The board of the foundation recognises the benefit in leveraging impact investing for additional impact opportunities. This acknowledgement from the top of the organisation provides both the drive for existing staff to accelerate their efforts and the permission to add additional resources.

Tim Otto, Assistant Investment Manager at the Bernard Van Leer Foundation, participated in the European Learning Lab 2013 and says: "Sometimes we are too stuck in our systems, so to change course, a boost is required. We need certain escape velocity for this type of investment to flourish within the organisation. In the Bernard van Leer Foundation we are on a learning curve. For the time being, it seems as if an inordinate amount of resources is necessary to effectively and efficiently manage these projects. But we think that as time and experience increase, the dependence on these resources will decrease."

Beyond the items already listed, the most pressing other help needed would be the continued sharing of knowledge and experience with peer organisations. Bernard van Leer Foundation invests a lot not only in the programmes themselves, but also in managing these programmes and in learning-by-doing. These costs can be mitigated as organisations share their experience with one another. As Tim Otto observes: "Philanthropic organisations should continue to take advantage of the fact that they are not competing with each other, but rather working together to increase social impact."

Moving from experiment to strategy - King Baudouin Foundation, Brussels, Belgium

The King Baudouin Foundation uses modalities all over the spectrum. Originally a grantmaking and operational foundation with a considerable endowment, since 2009 the foundation has been involved in a variety of pilot projects and investments to advance its mission and it uses different financial tools. Through these pilots the foundation tries to develop good practices and add to its know-how. Eventually this experimenting should lead to a more comprehensive strategy.

The Board of the foundation decided in 2009 to commit part of the endowment to "mission related investments". In addition investments are made from the resources the King Baudouin Foundation manages on behalf of private donors. Some of these look for new approaches to have more impact and they want to recycle the assets of their funds while prioritising social returns above financial returns. Among the people involved the experimenting has led to a growing insight into the benefits of differentiating approaches and how specific financial tools suit specific circumstances.

After the European Learning Lab from 2013, King Baudouin Foundation has sought to continue to foster the interest for social impact finance among staff and stakeholders by organising internal and external seminars for social organisations, investors and intermediaries. Also, a thorough organisation-wide assessment has been executed to see how social finance techniques could be a valuable part of the foundation's strategy and philanthropy toolbox to have a higher social impact. On the investment side, this has led to a few new concrete social impact investments and to financial support for the execution of feasibility studies for new initiatives and social impact investing to make sure that these are an important part of the foundation's next strategic plan which starts in 2015.

Opportunities to make the foundation's money work harder

Social investment creates opportunities to recycle the foundation's resources and consequently to support more organisations, which is important in the current context of growing social needs and scarcity of resources. Also, in the foundation, staff see a growing demand coming from donors and investors who favour new approaches to have more impact and look for investment- and lending opportunities but prioritise social return above financial return.

One of the additional benefits and opportunities emerging from this is that the use of different financial tools changes the way the foundation intervenes: There is a stronger focus on building long-term partnerships as opposed to project-by-project approaches.

Blockers of change

The principle obstacles for further change are perceptions of stakeholders, both among programme partners and stakeholders in the foundation. Such perceptions are not always based on logic, yet they persist. For example grantmaking remains for a majority of stakeholders the most appropriate, recognisable tool for philanthropy. And some would say that mission-related investments are too risky.

Among the different external stakeholders and internally in the foundation there is also a lack of knowledge and know-how.

The European Learning Lab participants identify concrete blockers: "It would probably be helpful to have more clarity in the language used. Also it seems as if there are a lot of ideas circulating but there is not always maturity in them, which does not help. And particularly internally the foundation still needs to improve our legal and financial competences."

They also observe that there will always remain the need to balance long-term commitments and the need for quick wins and note that social investment often implies long-term commitments.

The journey ahead

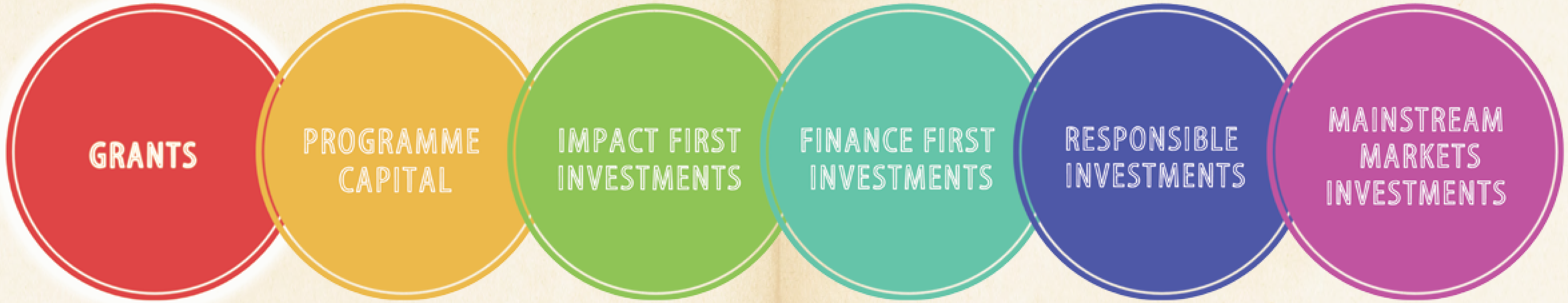
Currently the King Baudouin Foundation is investing in capacity and capability building through learning by doing, starting and documenting pilots and gathering good practices. Other roads to travel involve networking and looking for new opportunities to use modalities other than grants. And the foundation invests in supporting others and promoting diverse approaches in Belgium.

Internally the foundation is developing a clear strategy on the different types of instruments to be used for various activities. This raises a plethora of strategic questions: Who are our partners? Who are the beneficiaries? What are the expectations of the foundation and of the various stakeholders? At a practical level, the King Baudouin Foundation is also thinking of an appropriate communication strategy to change perceptions.

And last but not least the monitoring and administrative follow-up processes within the King Baudouin Foundation need to be organised differently because the use of different funding modalities requires another workflow and different competences.

Learning from other foundations is useful, as Jan Vander Elst, a participant in the European Learning Lab 2013 stresses: "We know that learning from peers really helps us to move forward."

Discovering New Horizons - Fondazione Marcegaglia, Milan, Italy



Fondazione Marcegaglia is a young, family foundation that seeks to protect the dignity of individuals, enhance the social role of women and contribute to the development and economic growth of people and their communities. To date it has addressed mainly women's issues in both industrialised and developing countries, providing training, knowledge and tools.

The programmes of the foundation are funded through a budget that is made available to the foundation by the family every year. Until now it has only made grants but the use of other financial modalities has been extensively discussed and the staff has convinced the foundation president that a pilot project should be considered.

In terms of the spectrum, Fondazione Marcegaglia is at the very left side using grants as its only financial tool. And it is also at the very right side, as all the foundation's resources come from the family business, which operates on commercial markets.

Opportunities to make the foundation's money work harder

Staff feel that progress could be made towards adopting alternative financial tools when the Board of the foundation becomes convinced – through a successful pilot project in which a loan or a guarantee is provided – that the funds of the foundation could have a larger impact compared to simply giving grants. Being involved in a pilot may also imply new partnerships from which the foundation could learn.

Blockers of change

Discussions with members of the Board of the foundation about social investments are difficult, according to staff, because they feel that charity has to do with giving. They see providing support other than through grants as investment, and they associate investments with business, not with philanthropy. Also, while the family has extensive experience with business investments, no one in the family or in the foundation has knowledge of or experience with social investments. So there is lack of confidence and fear for risks while they perceive grant giving as less risky (which is not true, but perceptions are important).

The journey ahead

Open communication between staff and the board of the foundation is essential for change. For any progress to happen, it is very important that the family feels connected and engaged with the work of the foundation. Every step and action towards removing blockers has to reinforce this positive connection between family and foundation.

Besides meeting with the president and the entire board, staff also plan to meet with a financial advisor of the family to help translate this idea of connecting "investment" with "charity". A pilot in which the foundation provides a guarantee could be a good first step, and the advisor could help with such a pilot. In addition, they will table the topic of alternative financial tools again in the discussions with the board around a strategic plan for the next period.

In the longer term it could be helpful to engage in a learning-by-doing partnership with an (Italian) foundation that has more experience. And possibly recruiting a financial expert that is knowledgeable about supporting social enterprises could also promote change.

Through meeting with peers in the Learning Lab the foundation staff has gained a better understanding of the financial tools and their use. There are also opportunities for partnerships, and staff felt inspired and stronger: "We are now better informed, and more able to interact with the foundation board on this topic."

Continuous Learning

To make your money work harder, practices in foundations have to change, slightly in some ways and radically in others. And change is a journey. The following case studies provide a sample of the roads that European foundations are traveling to make their money work harder. They show the diversity in situations and contexts faced, but also the similarities and the potential to learn from each other.

Making your potential work harder

The European Learning Lab on Social Investment offers insight into how new financial tools can be sustainable – and still make a difference

By Silvia Silvozzi, NEF Project Officer

It was last year in June, when I received an email from the European Foundation Centre. It encouraged me to participate in the forthcoming 2013 European Learning Lab, "Making Your Money Work Harder".

A key element of the EFC's professional development approach, and organised together with Fondazione Cariplo, the European Learning Lab (ELL) seeks to increase the skills and knowledge of European foundation staff. The theme of the 2013 ELL was social investment. Spread over three modules (the third of which was set to be held in October 2014, in Brussels) the programme was a successful blend of theory and group work, embedded in a very pleasant atmosphere. Foundation staff and speakers shared success stories, while analysing obstacles to social investing in their national contexts. Four of us (Anja Didovic from the Mozaik Foundation, Alessandra Valerio and Alessio Bellincampi from Fondazione Cariplo and I), formed the group that presented the case study of Eko-Mozaik. This is a social business that supports gender equality through women's empowerment and by creating a more harmonious, multi-ethnic environment in Bosnia and Herzegovina.

Our group was awarded a Tiepolo prize, the Tailor-made International Exchange Programme Offering Learning Opportunities organised by the EFC, which gives foundation staff the opportunity to develop their skills through short placements in other EFC member foundations. Inspired by successful stories from the Esmée Fairbairn Foundation on social investment, and from the Barrow Cadbury Trust and Social Finance on the creation of a Social Impact Bond to fund a programme of rehabilitation for former prisoners in Peterborough, we asked for a placement in London. Here, for four days in June, we followed a busy schedule, visiting different types of organisations, all of them doing pioneering work in social investment.

Throughout the stay, we had strong support, both theoretical and practical, from both our hosts, the Barrow Cadbury Trust and the Esmée Fairbairn Foundation. I am glad to say that the experience has generated further interest in social investment among my colleagues, stimulating debate.

Social investment has made a variety of financial tools available as a way of tackling social issues with creativity, while providing an attractive financial return (on average between 0% and 5% of invested capital). However, the reality is so complex that in some cases ethical questions arise about trade-offs between financial and social returns and the right way to allocate funding for social goals. Therefore, although I hope this new market develops further, I also believe that social investment should be handled carefully by foundations. I hope that more participants will benefit from similar programmes in the future, so they can help to ensure that foundation staff are empowered to fill their potential.

To add to this, some of the 2013 pioneers participated in an event in October 2014, connecting with a new group of curious foundation professionals.

All this reflects the EFC's commitment to provide opportunities to its members to learn from each other on this important topic.

For more information on current activities, contact efc@efc.be

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The EFC would like to thank Rosien Herweijer for writing this guide as well as the following contributors for their input, participation and patience

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Jenkins, Richard		2012	For Good and Not for Keeps - How long-term charity investors approach spending on their charitable aims	Comprehensive overview of UK regulations and (good) endowment management practices
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Commission Européenne			L'Initiative pour le Entrepreneuriat Social	Website with resources (in French and German) related to the Social Business Initiative
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Notes

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Learning Lab Hosts

European Foundation Centre

As an association of foundations in Europe and globally, the EFC has a distinct perspective on foundations and the landscape they inhabit. Our "helicopter view" presents a unique opportunity for us as an organisation, hand in hand with our members, to reflect on, understand and in turn engage with and together enrich the environment of foundations. We do this by gathering and employing intelligence on our members, their activities, interests, and needs. We analyse and think through trends within the sector, but equally cast our eyes outwards, to explore the wider context; the issues that affect foundations and the issues they seek to address. Harnessing the potential of our vantage point and making a virtue of the great diversity to be found within our membership, the EFC serves its members, supporting them both individually and collectively to foster positive social change in Europe and beyond.

www.efc.be

Fondazione Cariplo

Fondazione Cariplo does not aim at taking the place of public or private organisations already active in the field nor to merely provide financial backing to them. Fondazione Cariplo is called upon to set its own objectives which reflect its scope and status as a private entity and which set its action apart from that of other players in the field.

The mission of Fondazione Cariplo is therefore to be a resource that helps social and civil organisations better serve their own community. The Foundation's primary vocation is supporting the organisations of civil society that represent the social infrastructures of our system. Its approach is based on the principle of subsidiarity.

In a nutshell, its mission, role and operational strategy contribute to outline the profile of a foundation which acts as an entity that anticipates emerging needs - or selects deep-seated yet still unmet needs - tries new solutions to respond more effectively and in a less costly manner to them, and ultimately makes its best endeavours to disseminate successful solutions.

www.fondazionecariplo.it

Ten Tips to get you going

So, you have been convinced: It's time to change and make your foundation's money work harder. The 2013 European Learning Lab class, as its legacy, considers the following tips to be the most important to keep in mind:

1. JARGON CAN BE OVERCOME AND IT'S REALLY NOT AS CONFUSING AS IT SEEMS.
2. SPEAKING TO PEERS FROM OTHER FOUNDATIONS IS INVALUABLE: ODDS ARE THEY HAVE DEALT WITH THE SAME ISSUES AND PROBLEMS THAT YOU THINK ONLY YOU HAVE CONSIDERED.
3. START WITH MODEST INVESTMENTS: JUST BE SURE TO START.
4. IF STARTED ORGANICALLY, THE FIRST TEN YEARS OF A FOUNDATION'S EXPERIENCE WITH SOCIAL INVESTMENT IS LIKELY TO BE AD HOC AND HAPHAZARD: FOR AS LONG AS POSSIBLE, PILOT AND TEST.
5. WORK WITH OTHERS WHO HAVE SKILLS YOU DON'T, AND TRY TO PARTNER WITH OTHER FOUNDATIONS AS MUCH AS POSSIBLE.
6. TAKE A LONG-TERM VIEW (SUGGESTED AVERAGE OF SEVEN YEARS PER INVESTMENT).
7. INVESTING, USING A DIVERSE SET OF FINANCIAL TOOLS, IS WITHIN YOUR COMPETENCE, AND MAKE SURE YOU KEEP IT WITHIN YOUR COMPETENCE.
8. SOCIAL INVESTMENT WORKS BEST WHEN ACTIONS ARE TIED TO THE ORGANISATIONAL MISSION: KEEP STAFF WHO BELIEVE IN THE MISSION CLOSE TO INVESTMENTS SO THERE IS LESS DISCONNECT.
9. SOCIAL INVESTMENT IS ABOUT TRUST AND VERIFYING THAT TRUST.
10. DON'T BE FRIGHTENED: THE HARDEST PART IS STARTING.