



A Study about the Development and Growing Prospects of Venture Philanthropy in India

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Abstract

India is increasingly becoming a top global innovator for high-tech products and services. However, the country is underperforming relative to its innovation potential with direct implications for long-term industrial competitiveness and economic growth. Traditional grant making organizations have somehow failed to help organizations in building capacity and becoming financially sustainable. Venture philanthropy (VP) can be a response to this crisis as it seeks to use many of the tools of venture capital funding to promote start-up, growth and risk taking social ventures. This nascent field can be developed for sustainable growth and scalability of grass root innovations so that they can create maximum impact with limited resources at their disposal. This paper gives an insight into VP and its role in economic growth of India. The paper ends with giving acumen into the future of VPs in India.

Keywords:

Development; economic growth; impact investing; prospects; sustainable development; venture philanthropy

Introduction

The current development paradigm in India is dominated by the trend of application of private wealth to eradicate poverty and related social evils. India is increasingly becoming a top global innovator for high-tech products and services. However, the country is underperforming relative to its innovation potential with direct implications for long-term industrial competitiveness and economic growth. Traditional grant making organizations have somehow failed to help organizations in building capacity and becoming financially sustainable. While corporate India has responded to the call by increasing its investment in Corporate Social Responsibility. Nevertheless, the abilities, and at times, even the intention of mainstream commercial business to invest in serving the exclusive needs of the disadvantaged sections of society continues to be questionable. The benefits of closed and enhanced association with grass root innovators may ultimately benefit social enterprises. The link between VPs and grass root innovations can be the answer to sustainable growth where both will be the beneficiaries leading to economic development.



VPs are at their nascent stage of evolution in India. Over 300 VPs are operating in the country and are associated with the social & development sectors. Nonetheless, they have not been able to cover the length and breadth of the country yet. To sustain rapid growth and help alleviate poverty, India needs to aggressively harness its innovation potential for inclusive growth to achieve economic transformation. Social venturing as well as venture philanthropy firmly focuses on the development of social entrepreneurship. They take their own responsibility and develop ownership to move towards a much more independent position in society. This forms a difference with the traditional forms of philanthropy. Venture philanthropy can be used to develop a lasting vision by solving societal issues in an entrepreneurial manner for the greater economic and social benefit.

Conceptual Backdrop

The concept of venture philanthropy was introduced in April 1997 with the publication of a Harvard Business Review article entitled “Virtuous Capital: What Foundations Can Learn from Venture Capitalists.” It asked why the trillions of dollars donated by philanthropy over the previous decades were not having greater impact in addressing the societal problems of the U.S. The article speculated that foundations could glean some useful practices from venture capitalists and recommended that philanthropists consider utilizing some of the methods of venture capital including due diligence, risk management, performance measurement, relationship management, investment duration and size, and exit strategy. The approach was named venture philanthropy and received a great deal of attention both within and outside the field. Venture philanthropy takes concepts and techniques from venture capital finance and business management and applies them to

achieving philanthropic goals. It works to build stronger social purpose organizations (SPOs) by providing them with both financial and non-financial support in order to increase their societal impact. As VP spreads globally, specific practices may be adapted to local conditions, yet it maintains a set of widely accepted key characteristics. These are: high engagement, tailored financing, multi-year support, non-financial support, involvement of networks, organizational capacity-building and performance measurement. By and large Venture philanthropy is characterized as given in figure 1.

There are three models for engaging in venture philanthropy. The first is traditional foundations practicing high-engagement grant making. The second is organizations which are funded by individuals, but all engagement is done by professional staff. Good examples of this type of venture philanthropy are the Robin Hood Foundation in New York City and Tipping Point Community in the San Francisco Bay Area. The third is the partnership model, in which partner investors both donate the financial capital and engage with the grantees. Most of these are pass-through funds, i.e. they do not have an endowment, but rather grant all the money they are given annually.

Venture Philanthropy, although emerged about a decade ago, the prominence of new ways to invest philanthropic capital are now well established and influencing the development “galaxy”. The recent economic crisis confirmed this trend further, with both high net worth individuals and well-established as well as new foundations committing to funding development challenges using innovative tools and approaches such as impact investment, and marginally compensating for governments’ initiative for economic development. Venture philanthropists work with a range of



organizations – social enterprises and social entrepreneurs, trading charities and socially driven commercial organizations. Originally led by ‘high net-worth’ individuals and their foundations, it now takes in traditional foundations, hybrid foundations, a range of social venture and ethical funds and even some for-profit funds. Some refer to themselves as primary practitioners who provide financial and non-financial support.

International Status of VP

Embedded practices of venture philanthropy, such as outcome measurement, are becoming increasingly important to the grant making of many traditional foundations. New tools and ideas with roots in venture philanthropy, such as impact investing, are growing as innovative ways to build social value (Grossman, et.al. 2013). Venture philanthropists work with a range of organizations – social enterprises and social entrepreneurs, trading charities and socially driven commercial organizations. It has been a major force in changing the conversation about measuring effectiveness and defining success for nonprofit organizations. There are now some 1000 venture philanthropy organizations around the world. Just over half are based in the US, a third are European and the rest from elsewhere, reaching as far as Japan, China and Argentina. To name a few VPs around the world, there is BonVenture in Germany, Impetus Trust, CAN-Breakthrough and Venture Partnership Foundation in the UK, D.O.B. Foundation in the Netherlands, Good Deed Foundation in Estonia, Invest for Children in Spain, Oltre Venture in Italy and Social Venture Partners and Venture Philanthropy Partners in the US. VP has been a major force in changing the conversation about measuring effectiveness and defining success for nonprofit organizations by creating indirect benefits for the nonprofit sector. Nonprofits funded by venture philanthropists that have achieved significant scale are addressing how to reshape the

systems in which they operate. For example, City Year in US brought the conversation about service and civic engagement to the national level and was a key driver in increasing national funding for public service. Also, Youth Villages is helping to transform policy and pushing for performance-based contracts by working with states to provide evidence-based programs for children in the child welfare, juvenile justice, and mental health systems. These and other organizations are taking an active leadership role in changing the perspectives of policy makers and funders as to what might be possible for addressing societal problems at scale (Jagpal&Laskowski, 2012).

According to the 2012 index of global philanthropy and remittances, while government aid accounted for just 18% of total financial flows within international development, philanthropic giving, remittances, and private capital investment accounted for 82% of the developed world's economic dealings with developing countries. This gives a clear picture of the VP scenario and its role in development of nations. All over the world, even philanthropic organizations are now increasingly adopting corporate ethics, venture philanthropy or philanthrocapitalism.

Venture Philanthropy in India

Philanthropy has a tremendously important role to play as India has struggled for years to lift hundreds of millions of people out of poverty. This situation paves way for entrepreneurial development leading to economic growth. When compared with US donors, India's high-net-worth individuals (HNWI) are newcomers to philanthropy. Majority of the HNWI in India are novice donors while their counterparts in the US are comparatively experienced. However, the country is also home to one of the fastest-growing HNWI populations in the



world (Letts, Ryan & Grossman, 1997). When we consider both the inexperienced status of existing affluent givers and the emergence of ever more potential givers, the combined forces are likely to drive the continued growth of Indian philanthropy. Although NGOs and grass root organizations remain top recipients of donations across all causes, private foundations have experienced an increase in donations over the last year. With the rise of prominent avenues for giving such as the AzimPremji Foundation and the Shiv Nadar Foundation, the model for private foundations in India is gaining traction.

VPs and allied organizations have been in existence in the country since the late 1990s. Over 300 VPs are operating in the country and are associated with the social & development sectors (Parul, et.al. 2012). Some of the VPs in India are:

1. **Dasra-** In 1999, DevalSanghavi and wife NeeraNundy decamped to India from United States to help nonprofits build organizational capacity; they founded what is now **Dasra**, the country's first venture philanthropy fund. Since then, Dasra has grown in part through the launch of giving circles with more than 60 members worldwide. Dasra has become a vehicle not just to scale organizations, but also to accelerate effective philanthropy in India. It has been able to attract a significant international audience while spending less than 2 percent of their time as an organization internationally through their giving circle model. They aim at building capacity in India, finding social entrepreneurs and helping them to grow.
2. **Acumen Fund-** A pioneer in developing the "patient capital" investment model to support Special Purpose Organizations (SPOs), non-profit and for profit enterprises, the Acumen Fund is a global organization with operations in India, Pakistan, East and West Africa.

Incorporated in 2001 with seed capital from the Rockefeller Foundation and the Cisco Systems Foundation, it has invested US\$28,000,000 in 24 investees in India till date. The Acumen Fund raise philanthropic capital from social investors to invest in innovative SPOs to maximize the social impact. Its investment criteria include scalability of ideas and innovation; financial feasibility and sustainability; skill, experience and commitment to social impact of investees' management.

3. **Smile Foundation-** A development organization that has built venture philanthropy into its DNA is Smile Foundation. Co-founded by Santanu Mishra in 2002, the organization says it reaches out to more than 300,000 underprivileged children and youth across 25 states of India. They set up a foundation and chose to run it on a venture capital model. The approach enabled them to look for individuals who had talent, ideas and a wish to do something but lacked adequate resources.
4. **Deshpande Foundation-** Established in the US in 1996, the Deshpande Foundation commenced its India operations in 2005. Since then, the organization has funded more than 100 NGOs and for-profit organizations. Describing itself as an active practitioner of VP, the Deshpande Foundation provides access to human resource capabilities, networks and reinforcement efforts in addition to funding support for innovative NGOs. The foundation only expects social returns from its investments, since it seeks to build a large network of leaders, who can develop and implement relevant and scalable ideas that will benefit local communities.
5. **Social Venture Partners (SVP)** gives platform to Corporates and individuals who have wanted to make meaningful



contribution towards solving social issues. Starting its operations in Bangalore, SVP India has now initiated its chapter in Pune and Mumbai. It brings together influential leaders committed to solving complex social issues through personal philanthropy, advocacy and capacity building. SVP India focuses on three themes- livelihood enhancement including job creation for unskilled workers, effective vocational training and job placement, incubation of social enterprises and supporting them by giving them access to resources and connection. The idea behind the platform is to pool individual philanthropy and use venture capital investment principals.

6. **LGT Venture Philanthropy-** It works as an impact investor that supports organizations with outstanding social and environmental impact. They have presence in five continents. The organization strives to increase the sustainable quality of life of less advantaged people by inspiring clients for active philanthropy, providing individualized philanthropic advice and investment implementation by providing financial, intellectual and social capital. Depending on the need of the clients, they perform due diligence on potential engagements; apply state-of-the art management practices; recommend high quality organizations; monitor selected organizations and provide detailed reporting.
7. **First Light Ventures-** It is an Atlanta-based seed fund that is affiliated to Gray Ghost Ventures. It launched First Light India Accelerator in collaboration with the Shell Foundation in 2009. Since its launch, First Light India Accelerator has made nine social sector investments in the country First Light India Accelerator provide seed capital to Indian enterprises with an environmental or social mission.

The fund seeks to invest in companies that provide goods and services to low-income customers in emerging markets and clean-tech and renewable energy companies. It aims to address a structural gap in the market: start-up enterprises often lack both sufficient financing and meaningful skills support necessary to attract next-stage investors.

8. **Chilasa Venture Philanthropy** was founded in Geneva and Chennai in 2012 as a pioneering venture to design, validate, and scale a new and disruptive solution to poverty. It invests in small growing businesses located in disadvantaged communities and builds sustainable enterprises that create jobs and drive economic growth. They provide four integrated services- financing, market access support, capacity building and research and development.

In addition to the above organizations, there is high involvement from wealthy young entrepreneurs that represent an important opportunity for future growth. Some of these young individuals already are part of an established community of givers; they often are entrepreneurs' sons and daughters who are taking the helm of the family business. Others are part of a new wave, they are senior executives at Indian and multinational firms or self-made entrepreneurs who have benefited from India's economic boom. These "next-generation" donors show greater interest in making donations through formal channels to established NGOs, rather than giving money to a local religious institution or setting up their own informal projects as their parents may have done. Many next-generation donors have been educated overseas and want to adopt Western practices that favor more structured ways of giving, with a focus on outcomes, according to Indian philanthropy experts. At the same time, they



want to make those practices relevant to India's existing strong culture of giving. As a result, young Indian philanthropists are playing a key and outspoken role in their family's charitable activities. Among families who participate in philanthropy, 76 per cent have younger relatives who have assumed an active role in choosing charities, while 69 per cent say young members shape or spearhead the family's charitable mission. Some estimates suggest that creating a more employable workforce also could reduce poverty by as much as 70 per cent and increase per capita income up to 33 per cent by 2025.

Prospect of VP in India

Today, there is sufficient evidence to assert that a VP approach to distributing philanthropic capital has made a contribution in shaping the nonprofit sector. VP and allied organizations in India are increasingly gravitating toward advocacy to generate financial returns which will help the social sector achieve the following:

- Profit-making SPOs will be able to attract the interest of a wide pool of investors, and thereby, be able to meet capital requirements for their future growth.
- They will also be able to attract the best talent, since they will have adequate resources (generated internally) to pay skilled professionals.

The availability of highly skilled human resources will help them achieve growth and ultimately enhance their social impact. However, VP and allied organizations are collectively not ignorant about the complexities of investing in the social sector, and therefore, are reasonable in their expectations on the quantum and duration of returns. Furthermore, becoming more prominent in influence and reach means becoming more visible publicly; therefore

more liable to demands for transparency and clearer governance and accountability. This shift towards more openness and collaboration will require considerable change at the level of mindset and organizational culture in the foundation sector. But the improvements in efficiency, results and therefore returns make the transformational work worthwhile.

VP and allied organizations have been operating in India for around 10 years. This is an extremely short-time horizon as compared to the history of philanthropy, official development assistance and even CSR. While these organizations have been able to register themselves as being capable of delivering change, the real social change promised by the VP initiative has not been able to comprehend. This conclusion leads to the questions, what might be the primary constraints to VP adoption for these emerging philanthropists and what could be done to lower the barriers to adoption? Perhaps the most important contribution to encourage adoption would be to provide knowledge to inexperienced donors about VP as a way to optimize the results of their philanthropy. Donors must understand the differences in nonprofit management, fund flows, organizational culture, scaling, mission focus, attaining financial sustainability, etc. These considerations add layers of complexity to the practice of venture philanthropy when compared to for-profit investing. Not unimportantly, this approach takes a good bit of time to execute well. Due diligence, measurement, and management support are just a few of the challenges that require a significant commitment of resources beyond what might be needed for traditional philanthropy (Grossman, et.al. 2013).

Conclusion

In India, the VP sector is fragmented and there is a need to enhance the reputation,

scale and effectiveness of SPOs. In addition, they need to pay greater attention to the capacity and institutional progress of not only their investee SPOs, but of their own organizations as well. There will always remain a pull between financial and social returns on investment. For venture philanthropists the challenge is how to internalize the distinctive culture and economy of mission-driven organizations in order to be able to provide the expertise, the

support and the capital that are often so needed. And reciprocally social organizations need to recognize that they too have much to learn from the venturing skills and imagination of the venture capital community. The field is small but maturing and with it a particular set of skills and methods are being developed which have important ramifications for traditional grant making and grant receiving organizations.

Figure 1



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