

Venture Philanthropy and Giving Circles Adaptation of strategies and innovative models for Israel

*Prepared by the Sheatufim Center for Philanthropy
in cooperation with the Jerusalem Foundation*

In recent years, the field of philanthropy in Israel has been on an upswing. The successful Israel economy has created many new potential young philanthropists. Viewed together with failing government policy in the area of social welfare, one can identify the conditions that have contributed to a lively and creative field for philanthropic activity. The increasing number of philanthropic investments and the lack of information, knowledge and effective investment tools, highlight and sharpen the added value and benefit of long term, planned and coordinated activity based on cooperation within the field.

The goal of this policy paper is to focus on two specific models: venture philanthropy and giving circles. For the last two decades these models have been the most common strategies in the United States. In Israel there are a few social investors working on the basis of this world view. This paper is intended for philanthropists and professionals from this field who are considering the integration of the best qualities of these strategies in their work. This short survey seeks to encourage those interested to use these models and expand their knowledge about the subject.

(I) History

For the first half of the 20th Century, private equity was the domain of wealthy individuals and families. Beginning in the 1960's and 1970's a new type of investment firm began to develop called **venture capital firms**. These firms focused their investment activity primarily on **starting and expanding companies**. More often than not, these companies were **exploiting breakthroughs in electronic, medical or data-processing technology**. In 1995 the **boom in the internet and high technology market** began and venture capital became the mainstay of quick money and booming technology.

Venture Capital Firms formed limited partnerships – bringing in fund managers and partners who would **search for the next technological breakthrough** with **active involvement** and understanding of the technology markets – they would raise funds for these start-up companies, leverage the funds and the opportunity and when the technology was developed – they would share in the big pay-out.

The Silicon Valley was the center of high tech development and innovation in the 1990's and many of the young successful business people who had made their fortune through **venture capital and technology** were now looking (from 2000 forward) for a way to give back to their community. The people that made their money in venture capital funds – became overnight millionaires and had to deal with two facts – **they had a lot of ready cash – and they knew venture capital...**

The Silicon Valley Social Venture Fund is one of the first examples of the integration of venture capital models and philanthropy. See: <http://www.sv2.org/sv2-history/>

(II) Venture Philanthropy

A) Venture Philanthropy takes concepts and techniques from venture capital finance and high technology business management and applies them to achieving philanthropic goals.

(a) Other useful definitions:

Capacity building - The development of sustainable skills, organizational structures, resources and commitment to improvement in a diverse range of sectors, to prolong and multiply overall organizational growth and gains.

Strategic giving - Engaging in philanthropy in a strategic manner to make a major philanthropic impact through making better choices surrounding how much one spends, invests and gives back to society.

Leverage – ability to leverage organizational, social, and human capital by investing in high-impact projects – building partnerships with all agencies, organizations, government in order to leverage all available resources—both financial and non-financial for the most beneficial result for the project.

*Definitions from: <http://nycvpf.org/glossary/>

B) Venture philanthropy is characterized by the following main elements:

1. Venture (Risk) – taking risks to achieve higher gains – experiment and innovation
2. Focus on measurable results
3. Close relationships between the investor/donor and project/grantees
4. High level of investment – fewer projects but high investment in each case
5. Long term relationship between investor/donor and project/grantee
6. Exit strategy for each investment/grant

Baruch Shimoni in his most recent study says that researchers such as Paul Firstenberg in *Philanthropy's Challenge: Building Nonprofit Capacity through Venture Grantmaking*, call on venture philanthropists to adopt principles of direct involvement including organizational development for grantees, long term and measurable evaluation and results, higher investment in management and identification of a clear link between execution and remuneration.

*From: Shimoni, B. (2008), *Business and New Philanthropy in Israel*, Jerusalem: Hebrew University Research Center for Israel Philanthropy, p.16.

C) Models of venture philanthropy:

1. organizations funded by individuals with all engagement done by professional staff: www.robinhood.org/home
2. partnership model – partner investors donate financial capital and engage with grantees: www.sv2.org

The Model of **venture philanthropy** in Europe is slightly more low key and includes more professional staff involvement – to learn more:

www.evpa.eu.com/venturephilanthropy

(III) Giving Circles

A) A Giving Circle is a pooled financial fund that makes grants and is managed by the funds donors. Giving circles pool time, talent and resources between people who share a common interest in a social cause or issue, and allow for a wide range in charitable styles, philosophies and politics, structure, size, and focus through a very hands-on approach.

*Definition from: <http://nycvpf.org/glossary/>

B) Characteristics of Giving Circles:

1. Group of donors from same geographic area
2. Group of donors from same social circle
3. Social events are also held and networking between members is an added benefit
4. Clear and focused goals and area of activity identified
5. Time limited commitment – 6 months – 3 years
6. Donors forge strong bonds with each other and with grantees

C) Giving Circle Models:

Host Generated: the host initiates and develops circle – holds and disperses funds, provides services: publicizing, educating, identifying grantees and presenting specific issues for engagement.

Donor Generated: a group of donors initiates a circle and searches for a host to provide them with needed services to administer giving but forms goals and methodology independently from the host.

In a Host Generated Giving Circle – questions asked to begin the process:

- How do we create a giving circle mission that is compatible with the host mission? The circle must be focused around a refined theme aligned with host organizational mission.
- Are expectations clear?
- How will administration costs be covered?
- How will the circle and host promote each other if at all?
- What do donors or host or both want the circle to accomplish for themselves and the community?

IV) There is a clear connection between venture philanthropy and giving circles

Characteristics	Venture Philanthropy	Giving Circle
Structure	Capacity Building	Pool money and resources
Organization	Close Engagement and Strategic Giving	Decide together how and what to fund
Values	Measureable Results	Learn together and evaluate needs and results

(V) Relevance to Israeli society
Case Study for Israel – Cross-Border Philanthropy

Cross-Border Philanthropy is the initiative of the Sheatufim Center for Philanthropy in cooperation with the UJC which will bring together ten philanthropists in Israel with ten American philanthropists to act together.

Vision: partnership between Israeli and American social investors to create new standards in cooperation and professionalism in the manner of giving in Israel and the creation of a lobby and leadership for new social investors.

Goal of partnership: advancement of social goals in Israel and the world through a combination of financial investment, resource development and creation of a whole that is greater than its parts.

This model combines strategic implementation, characteristics of investment and organizational due diligence that exist in venture philanthropy and giving circles. Since the project is just beginning, it will be evaluated at the end of two years of activity to determine if it achieves the measurable results that it sets for itself.

Determination of Strategy	Characteristics of Investment	Due-diligence
<ul style="list-style-type: none"> ▪ Support of existing models ▪ Building organizational capacity ▪ Research and development ▪ Implementation of new model ▪ Advocacy and Lobby ▪ Leadership development ▪ Sustainability and scalability 	<ul style="list-style-type: none"> ▪ Size of investment: field, organization or project ▪ Potential growth: continuous or one time ▪ Innovation: new or existing project ▪ Well established: leading or existing organization ▪ Size: large or small organization ▪ Community: age, gender, ethnic group, geographic focus ▪ Level of risk/venture: ability to predict success in advance ▪ Exit strategy ▪ Leverage: cooperation vs. leverage 	<ul style="list-style-type: none"> ▪ Past successes ▪ Management capability ▪ Strength of business/action plan ▪ Leadership ▪ Reporting and Transparency ▪ Supervision and accountability

Conclusions:

As the Israeli market is very familiar with venture capital and the strength of high tech industry – there is a strong possibility that these models can be adopted and integrated in Israeli philanthropy. In a small country with clear social/business and societal

benefits to be gained from creating giving circles based on venture philanthropy principles – the untapped potential appears to be large.

As possible linking funds between Israeli and Overseas donors these models also provide a universal language of social and financial benefit that will help to unite cross-border philanthropy and provide a demonstration of a “younger” generation of donors in equal partnership with donors from the countries traditionally supporting Israel alone.

Bibliography and Background Materials:

Firstenberg, B.P. (2003), *Philanthropy's Challenge: Building Nonprofit Capacity through Venture Grantmaking*, New York: The Foundation Center.

Shimoni, B. (2008), *Business and New Philanthropy in Israel*, Jerusalem: Hebrew University Research Center for Israel Philanthropy.

Silber, Ilana (2008), *A New Era for Elite Philanthropy? The Israeli Case*, Israel Center for Third-Sector Research Journal, Vol.1:3.

See: www.givingforum.org for detailed guides and material for forming giving circle

Presentation to potential investors that will convince participants that this is a serious endeavor with research to back up the cause – see: www.communitywealth.org
www.comunitywealth.org/powering_social_present.pdf

See also model of funding and professional services that presents a model of advancing social change through philanthropy and involvement:
www.tidescanada.org

See: Clarence Foundation – Global Circle Giving Program for an example of a small circle (5-15 members) for short term (6-9 months) – meeting once a month to advance their goal. www.theclarencefoundation.org/GivingCircleArticle.pdf

See: New York City Venture Philanthropy Fund for an example of focused but large circle of giving: <http://nycvpf.org/>

See: VC Experts, **Contributing Editor:** Joseph W. Bartlett for more information on venture capital
http://vcexperts.com/vce/library/encyclopedia/documents_view.asp?document_id=15