

Philanthropic Equity Pays Off for Nonprofits

Summary Analysis of NFF Capital Partners' Portfolio Performance Report

Overview

Since 2006, Nonprofit Finance Fund Capital Partners has supported 16 campaigns for philanthropic equity, totaling \$312 million in financial investments. This report analyzes: the role of philanthropic equity in the nonprofit sector, results associated to-date with philanthropic equity investments, and key challenges to developing a robust capital marketplace for philanthropic equity.

The Role of Philanthropic Equity in the Nonprofit Sector

Many nonprofits with strong programs and great results fail to thrive. One reason is the way the sector is currently financed. Nonprofits are rewarded for keeping margins tight, and few have access to the type of capital needed to explore better business models, scale impact, and create lasting change. In contrast to the money needed to fund "business as usual," **philanthropic equity** can radically improve our ability to address society's critical needs.

Nonprofit Finance Fund's definition of philanthropic equity done right:

- ▶ Is capital consumed on the path to sustainable growth or change.
- ▶ Is an enterprise-level investment that is discrete and distinct from other forms of (still-important) funding, such as program and operating support.
- ▶ Creates a dramatic increase in social benefit.

Results To Date

Philanthropic equity investments are high-stakes investments that have the potential to dramatically improve social outcomes, but are subject to the risks inherent to substantial change. Among NFF Capital Partners' nine comprehensive philanthropic equity campaigns for which multi-year data are available, the impact-to-date makes the case for further philanthropic equity investments. **The bottom line: Annual program delivery has grown on average by a factor of 3.1x, with a compound annual growth rate of 57%.**

Campaign Start	Organization	Program Delivery			
		Metric	Baseline	Current	Growth Multiple
2006	GlobalGiving	Project Resources Delivered	\$1,684,000	\$8,577,494	5.1x
2007	DonorsChoose.org	Student Resources Delivered	\$2,600,000	\$10,117,000	3.9x
2007	VolunteerMatch	Volunteer Referrals	441,000	677,000	1.5x
2007	Year Up	Youth Served	352	793	2.3x
2008	Ashoka's Changemakers	Direct Innovation Funds Seeded	\$7,000,000	\$39,400,000	5.6x
2008	VisionSpring	Eyeglasses Sold	35,000	201,000	5.7x
2009	Root Capital	Loans Disbursed	\$41,200,000	\$56,900,000	1.4x
2009	Stand for Children	Education Reform Victories	15	17	1.1x
2009	YES Prep Public Schools	Students Enrolled	2,008	2,638	1.3x
2009	College Summit	High School Seniors	15,500	n/a	n/a
2010	Project HEALTH	Clients Served	4,487	n/a	n/a

Philanthropic equity exists to transform nonprofits in a way that sticks, which means that organizations must be able to attract reliable revenue on an ongoing basis: **Annual business model revenue for these nine organizations has grown on average by a factor of 2.0x, with a compound annual growth of 36%.** In aggregate, business model revenue, which excludes Philanthropic Equity, has expanded by \$30 million compared to pre-campaign baselines.

Philanthropic Equity Pays Off for Nonprofits

Summary Analysis of NFF Capital Partners' Portfolio Performance Report

Key Challenges

While the results make a strong case for further development of a capital marketplace for philanthropic equity, many challenges remain, including:

- ▶ **Clarifying the role of the “philanthropic equity” stakeholder.** This is a new way for funders to behave, and most do not yet have a shared view of what it means to participate as a nonprofit “equity” stakeholder.
- ▶ **Building syndicates.** True syndicates act on a single set of metrics, goals, and reports. These exist, and are critical to adoption of philanthropic equity “done right,” but are still not the norm.
- ▶ **Maintaining rigor.** Some nonprofits have begun to raise operating funds in the name of philanthropic equity, but without sustainability plans. Without the benefits of rigorous planning and transparency, these “knock-offs” could hurt more than help.

About NFF

As one of the nation’s leading community development financial institutions (CDFI), Nonprofit Finance Fund (NFF) makes millions of dollars in loans to nonprofits and pushes for fundamental improvement in how money is given and used in the sector.

We provide a continuum of financing, consulting, and advocacy services to nonprofits and funders nationwide. Our services are designed to help great organizations stay in balance, so that they’re able to successfully adapt to changing financial circumstances—in both good and bad economic times—and grow and innovate when they’re ready. In addition to loans and lines of credit for a variety of purposes, we organize financial training workshops, perform business analyses, and customize our services to meet each client’s financial needs. For funders, we provide support with structuring of philanthropic equity and program-related investments, manage capital for guided investment in programs, and provide advice and research to help maximize the impact of grants. Visit us! nonprofitfinancefund.org