

A VENTURE PHILANTHROPY PRIMER

SPRING 2002

INSIDE

2
On a Charitable Note

2
Volunteers Take Note

2
*Donor Grants Top
\$54 Million for 2001*

3
Glad You Asked

4
One Way to Give



If Michelangelo or Mother Teresa's Missionaries of Charity had asked for support from a venture philanthropist, they might have failed to "get funding." While comforting the destitute and painting the Sistine Chapel represent worthwhile endeavors, they do not fit the profile of what venture philanthropy is all about.

In simple terms, venture philanthropy is the application of venture capitalist investment principles and practices to nonprofit endeavors. In reality, depending on your perspective, venture philanthropy is any number of things—an infusion of passion and discipline into nonprofit organizations, a fresh focus on infrastructure and capacity building, an expression of dot-com arrogance, or a new name for a kind of giving that's been going on for years, perhaps even centuries.

Whether you're a donor, nonprofit board member, or volunteer, it's important to understand venture philanthropy (VP) and where it fits in the mix of philanthropic trends. "What's fundamental about venture philanthropy is that it grew from a widespread perception that aspects of the venture capital model are very applicable to supporting nonprofit work, especially in social services," says Les Silverman, nonprofit practice leader for McKinsey & Company, the global management consulting firm. "When strategically applied, these principles have tremendous potential to enhance the effectiveness of nonprofit organizations and allow them to do more for society."

"Venture philanthropy is the best win-win model I've seen in the 25 years I've worked in nonprofit management," says Lea Ann Bernick, vice president of operations for Toolworks, a San Francisco-based nonprofit provider of tools and resources for people with disabilities. "It's helped us focus on how we can work smarter, faster, and more productively and as a result serve more people. From my vantage point, it's a tremendously powerful model."

PATRONS VS PARTNERS

Michelangelo had perhaps the most famous patron of all time, Lorenzo de' Medici, whose generosity enabled the artist to pursue a lifetime of creative genius. Today, the patronage model—sometimes called "checkbook charity"—remains the most common form of philanthropy, in both grand and modest forms. Donors find a ballet company, environmental group, or religious organization worth supporting and simply give money. Outcomes and results are left in the hands of the nonprofit or the artists.

VPs approach their work differently, with the unique exuberance of those who have taken a business from napkin diagram to successful IPO. Urgency, capacity-building, and hands-on involvement are hallmarks, as is an intense focus on solutions and measurable goals.

Mother Teresa's Missionaries of Charity's charter is to take care of "the destitute, abandoned, and dying of all castes and religions," an admirable endeavor. Instead of supporting this goal, a VP might aim to raise living standards in a targeted community, to prevent poverty rather than comfort its victims, or enhance the organization's infrastructure and systems so that more people could be served.

"How many can you serve and at what cost? It's the right question to ask in the social services field, and VPs make us focus on it," says Bernick. "And the next question is always how many more can you serve, and what do you need to make it happen?"

It's noteworthy that one of Mother Teresa's first projects, in 1946, was to establish an open-air school for homeless children in Calcutta, a project that might have been well suited for VPs. "The most effective philanthropy is probably achieved through a mix of venture philanthropy and traditional charity," says Kent Smith, program director for the Venture Society and author of *Venture 21*

continued on page 3



SCHWAB FUND for
CHARITABLE GIVING™

101 Montgomery Street
San Francisco, CA 94104

www.schwabcharitable.org
800.746.6216

ON A CHARITABLE NOTE



Your generosity has reached a major milestone. As of April 2002, the Schwab Fund for Charitable Giving reached the \$100 million mark in total grants to charities since we opened our doors in September 1999. That's \$100 million of your donations now working to enhance the arts and education, support religious organizations, provide disaster aid, shelter homeless families, protect the environment, and more.

To support the next \$100 million in grants, we continue to make improvements in our programs and services to enhance your ability to support philanthropy. Recently we sent you a letter and brochure outlining how we are expanding the investment choices for your Charitable Gift Account. This exciting enhancement is designed to give you more choice, make it easier for you to monitor account holdings, and give you more opportunity to maximize your charitable giving dollars. By the end of this year, you will be able to invest your account donations in five different investment funds, including a value-style equities fund, two asset allocation funds, and two fixed-income funds. We encourage you to review the materials we sent you and contact us if you would like to receive fund prospectuses or any other information about the investment choices for your Charitable Gift Account.

Thank you for choosing the Schwab Fund for Charitable Giving, and thank you for your continued efforts to support our shared community through your generous contributions.

Kimberly Wright-Violich
President
Schwab Fund for Charitable Giving

VOLUNTEERS TAKE NOTE

Are you a volunteer in support of your favorite museum, homeless shelter, or other nonprofit? Congratulations – volunteering is the most personal form of philanthropy. It can also be a source of tax deductions that are easy to overlook.

If you itemize your federal tax deductions, you can deduct many expenses associated with volunteer work. All you need to do is carefully document these expenses throughout the year.

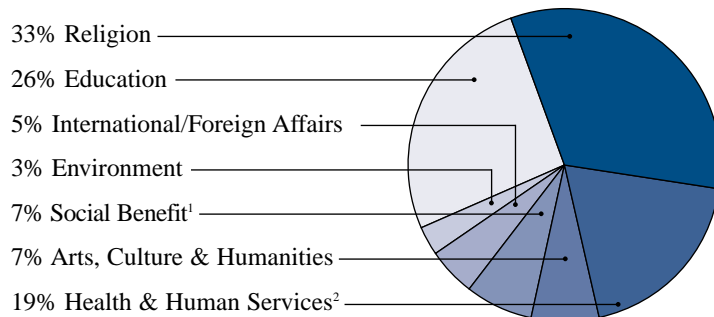
What's eligible?

- Out-of-pocket expenditures for telephone calls, supplies, uniforms (including dry cleaning), or other purchases for a qualified charity;
- The actual cost for using your car in support of a qualified charity, or you can choose to take a flat-rate deduction of 14 cents per mile, plus parking and tolls; and
- Travel and lodging for out-of-town functions associated with a charity, if you are a chosen delegate.

For more information, visit www.irs.gov, Topic 506 - Contributions.

DONOR GRANTS TOP \$54 MILLION FOR 2001

Percentage of total dollars in grants from the Schwab Fund for Charitable Giving, January–December 2001



¹ Includes donations to charities that support civil rights, social action, community building, volunteering, and much more.

² Includes donations to food banks, hospitals, housing and youth-related charities, medical research, and more.

Project: Assessing Venture Philanthropy. “That seems to be the consensus that’s evolving in the field.”

APPLYING VC PRINCIPLES

While VP models differ, their driving principles remain the same. Here are the basics:

A limited portfolio. Private foundations may support hundreds of organizations, with laudable generosity. A VP firm usually supports far fewer, which sometimes generates criticism but allows for greater involvement. It’s noteworthy that in general VPs promise longer term support for the nonprofits they target compared with the traditional one-to-three-year terms of most foundation grants.

Capacity-building. VPs aren’t program-oriented, they’re systems-oriented, a difference that is often cited as their most important contribution to philanthropy. “A real value provided by VPs is a focus on mission and strategy,” says Silverman. “A nonprofit can stray from its mission because it’s been ‘chasing the money.’ An outsider can help an organization to reclaim its mission and create a workable strategy, and the necessary infrastructure, to accomplish its goals.”

Engagement. VPs want to be engaged in the business of the nonprofits they support, sometimes to the consternation of nonprofit staffs. “Many nonprofits are skeptical and nervous about engagement,” says Bernick. “It can seem like a real intrusion from people who know little about our mission or clients, but for Toolworks, it’s been a tremendous benefit.” Toolworks’ VP funders brought in an accounting firm to audit and restructure Toolworks’ financial processing procedures, for example. “We are a much better organization as a result of the experience and infrastructure support VPs have given us,” says Bernick.

Scalability. Creating one efficient food bank is great. Creating 100 is better. VPs want to build enterprises that can be “scaled up” to serve more people, in more communities.

Measurable results. VPs look for a measurable return on their investment—more children vaccinated against polio or fewer families

living in poverty. For this and other reasons, VPs do not generally target the arts. How can you measure a ballet performance or museum? It’s been tried, based on attendance and other metrics, but in general arts organizations may be a better match for the patronage model.

Exit strategy. While not an element shared by all VPs, some take this business principle to heart. If an enterprise isn’t working, when do you fold it? If it’s grandly successful, how can it attract other supporters or generate revenue on its own? An exit strategy clarifies that a VP firm is an incubator of sorts, that its intention is to build an organization and then move on.

The March of Dimes is an example of a nonprofit that decided not to fold after its mission had been fulfilled. Established in 1938 to conquer polio, the organization helped Dr. Salk develop a polio vaccine, which effectively eradicated the disease in the 1950s. Instead of disbanding, The March of Dimes expanded its mission to focus on children’s health issues.

A VARIETY OF MODELS

Venture philanthropy enterprises can be divided into professional and volunteer models. The Silicon Valley Social Venture Fund, known as SV2, is a volunteer fund, a network of individuals who agree to pool resources and expertise to create social change. Affiliated with the Community Foundation of Silicon Valley, SV2 requires “partners” to make annual contributions for a minimum of two years, at levels ranging from \$2,500 to \$25,000. They also set funding priorities and select grantees.

Venture Philanthropy Partners is one of the largest of the professional funds, with more than \$32 million in capital. With a focus on youth development in the greater Washington, D.C. area, its first grant went to HeadsUp, which operates programs for elementary schools, teachers, and parents in the District’s lowest income neighborhoods. Founding members included AOL’s Steve Case, Mario Morino of the Morino Institute, as well as Mark Warner, the governor of Virginia, and more than 20 others. Each made initial contributions ranging from \$500,000 to \$10 million.

Q. What’s the best way to update my Charitable Gift Account information?

A. It’s easy! You can call one of our Donor Relations Specialists at 800.746.6216 and ask for an Update a Charitable Gift Account form, or you can download the form from our Web site at www.schwabcharitable.org. You can use the form to rename your account, change your investment allocations, and add nominators or donors to the account.

You can also use the form to change or add successors or beneficiaries, an important feature of the Charitable Gift Account. You can name up to four successors or recommend up to two charitable organizations as beneficiaries, including the Schwab Fund for Charitable Giving’s Philanthropy Fund.

Q. If I donate securities to my Charitable Gift Account, how do I determine the amount of my tax deduction?

A. For securities you’ve owned for more than a year, you may deduct the fair market value (FMV) of the donated securities on the date of the gift (generally the date they are received by the Fund). For donations of publicly traded stocks and bonds, the FMV is the average of the high and low selling prices on the date of the gift. For mutual fund shares, the FMV is based on the closing price on the date of the gift.

Your deduction is also limited to 30% of your Adjusted Gross Income (AGI) for the year. For securities held for less than one year, the deductibility is the lesser of FMV or your cost basis, up to 50% of AGI. In either case, any excess contribution, over the AGI limitation, may be carried forward and deducted in the five-year period following the year of your contribution.

To contact us, write to the Schwab Fund for Charitable Giving, 101 Montgomery Street, San Francisco, California 94104. Or send e-mail to giving@schwabcharitable.org.

Wealth management advisor Joe Cohen of HoyleCohen in San Diego, California, describes his firm's values-based approach to financial planning as "a process of discovery."

"We begin by asking new clients to consider three questions in relation to their wealth," says Cohen. "What do they need for themselves? What do they want to leave for their heirs? What would they like to do with the remainder of their wealth?" The questions seem simple, but Cohen and his partners say that when clients approach them with honest intent and consideration, discoveries are made.

"Once we determine that our clients have enough for themselves, we ask them to think about what they really want to leave for their heirs, which is often not everything else," says Cohen. "By default they then discover they have 'excess resources' they can put to work in their communities or the world, in their lifetime and beyond. For many of our clients, it's truly an exhilarating realization."

"What we're so fervent about," says Cohen, "is that people who work through these questions are more likely to discover their values about wealth in real terms."

Once they have created a financial plan, Cohen recommends that many of his clients use donor-advised funds, such as the Schwab Fund for Charitable Giving,[™] as their primary vehicle for giving. "Our clients' experience with donor-advised funds has been uniformly positive," says Cohen. "They're a useful financial planning tool, and once clients start using them, they appreciate the simplicity and flexibility an account gives them."

Cohen also appreciates the legacy planning features of donor-advised funds. "There are oftentimes strong family values attached to wealth, and to shared philanthropic goals," says Cohen. "Setting up a donor-advised fund with children and other family members can help to support that legacy."

A grassroots model of venture philanthropy has developed in the San Francisco Bay Area through Craigslist, a wide-ranging community bulletin board service. Through its Nonprofit Venture Forums, the Craigslist Foundation brings together local nonprofits with people who want to learn more and get involved. The forums are hip, informal events with music, food, and a no-host bar. Participating nonprofits make short presentations about their work, and attendees are encouraged to ask questions, network, and make new community connections. So far, about 40 nonprofits have participated, and together they've received more than \$185,000 in contributions, as well as pro-bono professional assistance, new Board members, and valuable consultations from a team of presentation advisors.

"Our model is one that any community can replicate, although there's a lot of time and preparation that goes into these events," says Nancy Shaw, director of the Craigslist Foundation.

DRAWBACKS & RECOMMENDATIONS

The venture capital model of business-building had faults as well as strengths, and the same holds true for venture philanthropy. There's no study documenting its effectiveness, and some have questioned the relevance of the model to philanthropy. "VCs are fond of saying that of every 10 investments, there will be four failures, four 'walking wounded,' and maybe one or two real hits. Is this the kind of system we want to emulate?" asks Bruce Sievers, executive director of the Walter & Elise Haas Fund, a private foundation with a 50-year history of broad-based philanthropic giving.

Sievers points out that although VPs may have the best of motives, they may not bring useful tools to the table. "In business, profits are the simple and universal test of success. There's no such corollary in nonprofit work. Trying to re-form what we do in philanthropy into quantifiable metrics is problematic at best and nonsensical at worst."

Engagement is probably the most troublesome area for nonprofits, according to Sievers, because it blurs the lines between owner and donor. "Even with the best of intentions," says Sievers, "an overly intrusive donor can

FOR MORE INFORMATION

Visit these Web sites for more information about venture philanthropy.

Craigslist Foundation

www.craigslistfoundation.org

McKinsey & Company

www.mckinsey.com

The National Gathering for Social Entrepreneurs

www.ngse.org

Silicon Valley Social Venture Fund

www.cfsv.org/sv2.html

Toolworks

www.toolworks.org

Venture Philanthropy Partners

www.venturephilanthropypartners.org

Vesper Society

www.vesper.org

create real chaos in a nonprofit." Sievers also notes that much of what venture philanthropy is doing has been done by private foundations for decades. "It's great to focus on training and infrastructure, but these are not new approaches to philanthropy," he says.

"What's really enduring about the venture philanthropy model is this idea of high engagement," counters Les Silverman, who provides consulting services to nonprofits through McKinsey's Washington, D.C. office. "In venture philanthropy, donors aren't just check-writers, they're partners who can provide helpful resources and expertise. It's true that some aspects of the VC model don't transfer well to philanthropy, but many do, and the results so far have been extremely positive."

TO LEARN MORE

Resources and models abound for donors and nonprofits that want to learn more about venture philanthropy and strategic giving. A good place to start is on the Web (see list of Web sites) or with The Schwab Fund for Charitable Giving. "Many of our donors are agents of change," says Kim Wright-Violich, president of the Fund. "We're always available to act as a resource for those who are looking to give in innovative ways and work in their communities to enhance philanthropic enterprises, through venture philanthropy or other means."