

## Philanthropic Equity Pays Off for Nonprofits

### Summary Analysis of NFF Capital Partners' 2011 Portfolio Performance Report

#### Overview

Since 2006, Nonprofit Finance Fund Capital Partners has supported 18 campaigns for philanthropic equity, totaling \$326 million in financial investments. This report analyzes the role of philanthropic equity in the nonprofit sector, results generated to-date by 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 by building healthier, more efficient organizations.

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

- ▮ Is an enterprise-level investment that is discrete from other forms of (still-important) funding, such as program and operating support;
- ▮ Funds cumulative deficits incurred en route to sustainability;
- ▮ Creates a dramatic increase in social benefit;
- ▮ Is intentional and transparent in application, and is accounted for separately from regular revenue.

#### 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 resoundingly makes the case for further philanthropic equity investments. **The bottom line: At a time when many peer organizations are struggling, recipient programs are thriving. Annual program delivery has grown at a compound rate of 44% per year on average.**

Campaign Start	Organization	Program Delivery			
		Metric	Baseline	Current	Growth Multiple
2006	GlobalGiving	Project Resources Delivered	\$1,684,000	\$25,000,000	14.8x
2007	DonorsChoose.org	Student Resources Delivered	\$2,600,000	\$24,500,000	9.4x
2007	VolunteerMatch	Value of Volunteer Hours	\$294,000,000	\$617,000,000	2.1x
2007	Year Up	Youth Served	352	1,023	2.9x
2008	Ashoka Changemakers	Direct Innovation Funds Seeded	\$7,000,000	\$20,250,000	2.9x
2008	VisionSpring	Eyeglasses Sold	35,000	209,221	6.0x
2009	Stand for Children	Education Reform Victories	15	14	0.9x
2009	YES Prep Public Schools	Students Enrolled	2,008	4,192	2.1x
2010	Health Leads	Clients Served	4,487	5,814	1.3x
2011	Shared Interest	Total Guarantees Outstanding	\$1,500,000	n/a	n/a
2011	Success Measures	Organizations Served	167	n/a	n/a

Annual business model revenue for these nine organizations has grown on average by a factor of 2.7x, with a compound annual growth of 32%. Encouragingly, program delivery has grown at a faster rate than business model revenue, an indication that organizations are becoming more efficient at turning resources into impact.

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### Key Challenges

- ▶ **Building funder support.** We've witnessed over \$300 million of philanthropic equity infused into the sector but have not seen widespread funder adoption.
- ▶ **Maintaining rigor.** Some nonprofits have begun to raise operating funds in the name of philanthropic equity, but without a clear bridge to sustainability. Without the benefits of rigorous planning and transparency, these "knock-offs" could distort the efficacy of this funding approach.
- ▶ **Economy.** Growth Capital campaigns are not immune to the challenges caused by a recession economy—the current climate has made the prospect and reality of pre-raising large sums of money a challenge.

### About Capital Partners



NFF Capital Partners focuses on helping nonprofits attract equity-like financing to fund growth, achieve financial sustainability, and increase social impact. Through Capital Partners, NFF is changing the way nonprofits and donors think about growth and fundraising. Our goal is to close the nonprofit "equity" gap forever by creating a generally accepted distinction between builders, those of us who invest towards creating high-performing nonprofit enterprises, and buyers, those of us who put money directly towards effective program execution.

Learn more at [nonprofitfinancefund.org/capitalpartners](http://nonprofitfinancefund.org/capitalpartners)

### 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.

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