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Wealth
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Non-profits look to invest in themselves

By Sean Stannard-Stockton

When you donate to a non-profit organisation, you expect your money to be used to help the people the non-profit serves. You want your money to help a pre-schooler, a homeless person or someone with a disease. But what about the non-profit itself? Are donors interested in investing in the growth of a non-profit, so that it can develop a sustainable business model and serve more people over time? Clara Miller and George Overholser think so.

Miller founded Nonprofit Finance Fund in 1980 to lend money to non-profits so they could invest in more energy-efficient light fixtures and equipment. The resulting lower energy bills reduced costs and allowed the non-profits to repay the loan and end up with a permanently lowered cost structure.

The organisation has grown a lot since then. A couple of years ago Overholser, a founding executive of consumer finance giant Capital One and a venture capitalist, joined Miller to launch NFF Capital Partners, which focuses on helping non-profits attract equity-like capital to fuel growth.

As a reader of the Financial Times, you might have invested in a small but growing for-profit company, understanding that your money would be used to grow the firm to a level where it achieved positive cash flow and was able to self-fund future growth. But as a donor, it is unlikely that you have made a similar investment in a non-profit. If VolunteerMatch is any indication, an equity-like investment in a growing non-profit may be in your future.

VolunteerMatch is the largest online volunteer opportunity network. The site

allows non-profits to advertise their need for volunteers, individuals to find and register for volunteer opportunities and corporations to manage their corporate volunteer programmes. In 2006, 16m hours of volunteer services were completed through VolunteerMatch. At an estimated value of \$18 an hour, the organisation facilitated nearly \$300m in social value on an operating budget of \$3.1m.

Some non-profit organisations may be content to rest, confident that they are furthering their mission to do good. But Greg Baldwin, president of VolunteerMatch, wants to more than double the social value of the volunteer hours being facilitated by his network. He needs \$10m to make it happen.

Working with NFF Capital Partners, VolunteerMatch is floating a prospectus of the kind more frequently seen for venture capital backed for-profits. The \$10m offering consists of 40 units at \$250,000 each.

VolunteerMatch is adopting a new accounting methodology to distinguish “growth capital” from the “revenue” of everyday donations.

The accounting methodology, called Segue and developed by Overholser, strives to make a distinction between the money provided by non-profit “customers” and “investors”. For-profit accounting differentiates between money that comes from selling the company’s products or services and the money offered by investors. But in the non-profit world, a donation meant to support an organisation’s existing infrastructure and one meant to help it grow are lumped together.

Investors in VolunteerMatch’s

growth capital offering are promised that their money will go into a special sub-account and that its use will be tied directly to specific growth initiatives. It is VolunteerMatch’s goal that by 2012 it will be self-sustaining and generating an operating surplus that will be used to fund future growth.

Its prospectus lays out an operating model that expects certain levels of support from corporate partners (who pay to use VolunteerMatch for their corporate volunteer programmes), non-profit agencies (who have free access to basic services, but pay for premium access), and reliable ongoing contributions from volunteers.

While Nonprofit Finance Fund is changing the way that non-profits think about fund-raising for growth, some foundations are busy re-imagining how philanthropists provide support. Last year, the Edna McConnell Clark Foundation of New York launched the \$120m Growth Capital Aggregation Pilot, which will raise funds from co-investors. The funds will be used specifically to grow three select non-profits to scale.

The world of philanthropy is changing fast.

While yesterday’s donors were content to give to a non-profit based on an emotional appeal, today’s donors want to know their money is really going to have an impact.

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