



NESST INVESTMENT CASE STUDY

NESST Partners

Engaging Local Philanthropists with Investment Mindsets in the Czech Republic

Introduction

NESsT believes that bringing people together and connecting individuals with different backgrounds and interests can generate transformational results in society. With this goal in mind, it launched NESsT Partners, a global program to engage individuals to catalyse their philanthropy to achieve social impact.

The partners do this by building powerful relationships with social entrepreneurs who are developing dignified employment for marginalised people who are excluded from the mainstream labour market. NESsT Partners is a “giving circle” that fosters social change and inspires and engages the partners at multiple levels, from strategic giving and impact investing, to volunteering, networking, and donor education.

NESsT Partners is based on the model of [Social Venture Partners \(SVP\)](#), the largest network of individual philanthropists in the world, with 3,400 members across nine countries, impacting 900 civil society organisations. The program builds on NESsT’s 20-year track record of working with private sector business professionals who offer the organization and its portfolio pro bono advisory support. The SVP model provided NESsT with an opportunity to structure this network into local chapters comprised of these same professionals who pool their time and financial resources in order to support a specific social enterprise.

In the program design phase, NESsT worked with SVP to build on the Seattle-based organization’s extensive experience and to adapt the already proven model to the realities of the emerging market countries where NESsT is active.

In 2016, NESsT launched its first two chapters in Sao Paulo, Brazil and Prague, Czech Republic. SVP supported NESsT with technical assistance and coaching to structure the program and helped organise the launch event in Sao Paulo, Brazil. SVP founder Paul Shoemaker came to speak at the event and met with many potential individuals interested in joining the chapter.

NESsT further adapted the SVP model to the local context and its strategy, keeping it focused on social enterprises generating employment, integrating NESsT Partners in the use of its existing methodology (i.e. selection process and criteria, impact goals, long-term support), while involving the Partners in the execution of the program at the local level. The Partners in the network:

1. Leverage their impact by connecting with like-minded philanthropists to increase strategic giving and pool donations, knowledge, and contacts to amplify impact.
2. Measure impact to understand where financial contributions go.
3. Participate in shared learning about engaged philanthropy and recruit individuals who are similarly situated in their philanthropic journey.
4. Network by developing meaningful personal and professional connections with like-minded philanthropists.

The Partners contribute in the following ways:

- Investment Committee: Help select social enterprises to receive investments.
- Voluntary Advisory Committee: Provide pro-bono consulting, training and coaching to social enterprises.
- Internal Committee: Provide input and guidance on governance issues, sustainability and strategic growth of the NESsT Partners chapter.

In the Czech Republic, the program grew, in only couple of months from its launch, to include eight partners that have raised EUR 39,000. The strong team of the three leading partners – recognised and respected investment professionals – reached out to their peers who, tired of more traditional charity giving models, were quickly convinced of the program's engaged philanthropic approach.

They got involved in sourcing, selecting, investing, and mentoring the social enterprises, in close partnership with NESsT.

Through this experience, the Partners expanded their knowledge of the social sector through experiential learning consisting of:

- Researching the pipeline of employment social enterprises in the country,
- Contributing to communication and outreach efforts,
- Participating in due diligence, including reviewing applications, conducting interviews and site visits and preparing the final documents,
- Assisting enterprises to validate their business model and impact, and,
- Advising these enterprises on their business growth plans.

They provided two carefully selected social enterprises with access to financing, capacity building and networks among social enterprises in their community. In the post investment stage, they provided pro bono consulting, training, and coaching to social enterprises. Through their engagement in NESsT Partners, they were able to invest their intellectual, financial and social capital towards growing venture philanthropy in the country.

Achievements

NESsT Partners Czech Republic provided mentoring to two social enterprises to build their capacity to manage operations and to develop growth objectives. The NESsT Partners also made their first grant disbursements to help the enterprises expand and improve their production capacities. They contributed to securing raw materials, improving the production equipment and developing and implementing marketing strategies.

The first phase of the program involved an open window inviting social enterprises from across the country to apply. The Partners' strengths in evaluating business acumen, financial and personal motivations of each social enterprise led to a successful selection process. The full alignment of the Partners and NESsT on selection criteria, social enterprise impact, and applicant motivations was key to the success of the initiative. The two selected enterprises were Fair & Bio and Texman.

FAIR & BIO

Fair & Bio, which markets fair trade coffee and employs people with disabilities, received support from the Partners in the areas of financial management, budgeting, and leadership development. The enterprise employs seven people with disabilities with a plan to increase that number to 15 in the next four years.

Fair & Bio received a USD 19,000 grant from the collective contributions the Partners made to the program. The money was used to invest in specific equipment for the grain processing work, including a refractometer, hygrometer for grains, mill burner, specific weights and thermometers, and an air conditioner for the roaster.

The leader of the social enterprise participated in a regional capacity building retreat, alongside enterprises from Hungary, Poland, Romania and Serbia.

TEXMAN

Texman, which produces bed sheets and linens for hospitals by employing people with disabilities, received support from the Partners in the areas of business planning, leadership development, and financing. The enterprise employs seven people with disabilities and plans to replicate its model to new cities in the Czech Republic.

Texman also received a USD 19,000 grant from the Partners that helped the social enterprise with working capital needs allowing it to invest in raw materials and improved outreach to clients (marketing efforts and e-commerce) to increase sales.

Based on this experience, NESsT Partners dedicated time to identifying the proper structure and strategy to grow, deciding to develop an action plan, including ongoing support to the two investees and eventually making the decision to set up a venture philanthropy/social investment fund.



SOCIAL ENTERPRISE SPOTLIGHT

Fair & Bio Pražírna

Fair & Bio is the first fair trade coffee roasting company employing people with disabilities in the Czech Republic. It processes and distributes fair trade coffee and provides other services, including catering and consulting.

Fair & Bio provides its employees with several benefits, including dignified income, meaningful self-realization, a support network, and improvement of their own capacities and education.

The enterprise is structured as a cooperative to ensure transparent and democratic decision-making, and works with farmers' cooperatives to source coffee. The organization's leadership believes that "a self-help economic structure makes a significant contribution to sustainable development."

NESsT Partners selected Fair & Bio to support the social enterprise in consolidating its business, with a special focus on marketing and financial management.

Throughout the due diligence process, NESsT Partners provided almost USD 14,000 in capacity-building support. Moving forward they will focus on growing sales (an 80% turnover increase from 2016 to 2017) to multiply their social impact by employing more people with disabilities and strengthening the team and the brand. They also need to consolidate their operations and move to a larger facility.

The goal is to ensure that Fair & Bio is able to support people with disabilities in the long term by providing the enterprise with a strong foundation.

NESST PARTNERS MEMBER SPOTLIGHT

Silke Horáková

Silke Horáková, former CEO of the Czech Private Equity & Venture Capital Association, co-founded NESsT Partners Czech Republic.

She has been working closely with NESsT over the last couple of years together with seven other professionals of the wider private equity community to pilot the venture philanthropy model in the Central and Eastern European region.

She works closely with the social enterprises – both during the due diligence process, and also in the post-investment stage. In addition, she is on the investment committee responsible for deciding the amount and type of investment provided to each selected enterprise.

In a 2017 interview conducted by the European Venture Philanthropy Association (EVPA), Horáková reflects on the trajectory of the social entrepreneurship ecosystem in the region and the power of venture philanthropy to propel it forward.



What are the main challenges you notice in the Central and Eastern European (CEE) region?

I have been involved closely in the Czech social sector and particularly in building the impact investment ecosystem. The social sector, and I think this is true for the entire region, is still largely financed by grants – but with an increasing awareness for the need to be more sustainable (and independent from public financing). However, impact investment is very much at the beginning – from both the demand and the supply sides.

On the demand side, most of the social enterprises are still in a very early stage, lacking business expertise and scalable business models. On the supply side, we also miss a solid infrastructure for financing social enterprises – impact investors with proper expertise. If I compare the situation with Austria and Germany (not to speak about the UK, the most developed social impact market in Europe), then I would add another observation: most of the social enterprises are developed within NGOs. We still lack social entrepreneurs in the region, people with an entrepreneurial spirit (and ideally with business background) willing and able to build a social enterprise.

Why do you think we need to create a social investment movement in the region? What is the potential of the region?

I'm convinced that social impact investment is the right answer for solving societal problems in a sustainable way, with scalable business models, which increase social impact as they grow. The CEE region has a huge untapped potential in this respect. There are many powerful NGOs tackling important social problems. In the Czech Republic, we have about 5-6 social accelerator programs, supporting the best social start-ups. There is a close cooperation of the main actors in the sector as well as support from the government.

The Social Banking Unit of Ceska Sporitelna (part of Erste Group) has tested financial instruments in the social sector and the Czech NESsT Partnership has piloted a venture philanthropy approach since 2016.

What is the reasoning behind building a venture philanthropy/social investment fund in Czech Republic? What do you expect to accomplish?

The main reason for initiating the first impact investment fund is to demonstrate how effective business models can help to grow social enterprises, make them sustainable and scale their impact.

The founders and executives of the fund combine the expertise of the private equity sector with long-term experience in the social sector.

Most of them worked also together in the Czech NESsT Partnership – a venture philanthropy program connecting the expertise and resources of private equity professionals with the experience of NESsT.

So, we are well prepared to help early stage social enterprises to shape their business model for growth. Moreover, we would like to prove that successful social companies are able to return investors' patient capital – although the fund will have an "impact first" focus.

Last, but not least, we want to increase awareness of the sector and I'm convinced this will attract more successful entrepreneurs to the social sector.

Lessons Learned

NESsT learned several lessons regarding the management and growth of an engaged philanthropy program such as NESsT Partners¹ during this initial period. Overall, the key lesson is the importance of innovating and experimenting with new models to align with the expectations of philanthropists in emerging market countries.

- Once partners are involved, they see value in the program and exceed expectations. They are willing to increase and renew their financial contribution and eager to devote a greater portion of time interacting with fellow partners, mentoring entrepreneurs, and expanding the ecosystem in their region.
- Philanthropists – while they make significant contributions of time and money to the program – have limited capacity for ongoing program management. NESsT staff worked alongside the partners to support them on program implementation. A special structure within NESsT is needed for the program to be managed in the long run and to be brought to the next level. Funding needs to be secured in order to set it up.
- Alignment and integration between NESsT's overall mission and NESsT Partners is key. Therefore, several meetings between the partners and NESsT's global staff and Board of Directors took place, with the goal of clarifying the roles among partners to be better able to divide the responsibilities between NESsT Partners and NESsT staff members. NESsT Partners is part of an existing NESsT program, with a clear methodology, due diligence and investment processes and a level of adaptation of the tools used was needed.
- Local connections and local language capabilities are key for the local implementation of the program. Most of the Partners are expatriates living in Prague, and the interactions with the entrepreneurs happen in the local language.
- Donor education and social networking are important factors for partner development, recruiting, and cultivation. Communication and dissemination efforts contribute to its visibility and success. The Czech chapter was promoted and presented during the Czech Venture Capital Association Christmas dinner in Prague and the London Annual Private Equity Conference as a good practice model. Silke Horáková, one of the leading partners, was awarded with the International Venture Philanthropy Award, recognizing her many contributions to the program.
- Recruitment of new partners is an ongoing process that requires constant time and attention. NESsT worked closely with existing partners to develop a recruiting committee and identify strategies to onboard new members. The recruitment cycles require a minimum of 18 months of engagement between the organization and a major gifts philanthropist.
- The experience of venture philanthropy motivated one of the NESsT Partners to launch a EUR 1 million loan fund to provide more flexible and reliable financing opportunities to early-stage enterprises that are too large for microfinance institutions and too small for traditional banks. This will be the first donation-based impact investment fund in the Czech Republic.

¹The financial support of the European Commission and Newman's Own Foundation was instrumental in shaping the program and its piloting.

ABOUT NESsT

NESsT has been working for 20 years to provide dignified employment to lift people out of poverty in emerging markets. NESsT achieves its mission by raising philanthropic capital to invest in and develop social enterprises that create employment and viable income opportunities for the poorest communities facing isolation, discrimination, lack of job skills and poor education. To date, NESsT has invited 187 social enterprises to enter its portfolio providing them with an average of four years of support and investing more than USD 15 million in capacity building and direct funding. Through this investment, NESsT has contributed to creating more than 49,500 dignified employment and sustainable income opportunities.

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