INVESTING IN CIVIL SOCIETY – MAKING THE MONEY GO FURTHER
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NEW FORMS OF FUNDING

I wonder if you have come across the web site *'pangloss.com'?* I find it addictive with its endless series of 'best of all possible worlds' type sayings. Perhaps my nerd-like enthusiasm for it helps explains why I'm sometimes accused of naïve optimism about the ingenuity and capability of the voluntary sector.

Even my relentlessly positive view of the voluntary sector's abilities to be creative, canny and clever about getting hold of the funds needed to deliver fantastic and highly valued activities has been sorely tested recently – in a month when the financial plight and vulnerability of so many organisations in the voluntary sector has attracted more national and local publicity than I can ever recall happening before.

It may seem somewhat in-credible to be suggesting at such a time that there could be new types of finance that some of those same organisations could be looking to. How to survive through the short term is dominating the agenda of so many organisations, of so many trustees and staff. Not many are likely to welcome with open arms the suggestion that, while battling immediate funding threats, they should take time out to consider various additional types of finance which, in combination with the funding upon which they have relied until now, might not only be relevant to their survival and sustainability but could help them grow and thrive.

Nonetheless – here goes!

I've got only a few minutes, so I'll concentrate on some scene setting headlines – I hope that the subsequent panel discussion will provide opportunities to extend and develop some of the points I'll make. Apologies in advance if some of the scene setting is an assertion of the 'bleeding obvious'.

At the start of any discussion about the funding of civil society, of the voluntary and charity sector, it's always important to issue a health warning that generalisations should be avoided – the diversity of the sector, the different sizes, shapes, histories, aims and functions of the organisations within it (and of their funders) – make most generalisations pretty empty. Some of the recent public and political debates about the fate and prospects of the sector reinforce the need for that health warning.

Nonetheless, I'll start with 4 generalisations!
First

1. Beware the single magic wand – success in funding is usually about assembling a jig-saw of different types of funding from different types of funding source – a jig-saw, what's more, that will be made up of different pieces at different times in an organisation's growth and development. Sadly, too many organisations in the voluntary sector have too limited a funding base and are often chronically undercapitalised for what they are trying to do. They have neither strong enough revenue streams and/or reserves to deal with cash flow threats; nor are they well enough capitalised to invest in new developments, to explore risky but potentially promising opportunities; or just to invest in strengthening themselves and making themselves more resilient and robust. No single new form of funding can provide

that magic wand but I do reckon that the menu of types of finance and funder is longer than most organisations have yet sampled.

2. Second – Grants are OK! I'm an activist wall spraying graffiti artist for this campaign. I despair of the assertions that we hear so often about 'grant dependency'. Grants are an absolutely essential and completely legitimate part of the funding menu for almost every organisation at various points in its life and for specific situations and purposes. Given scarce resources, however, it seems self-evident that grants should only be used where no form of other funding (whether it be earned, borrowed or self-generated) can be used as effectively. The types of finance that I'm talking about are additional items on the funding menu – and most of them are only relevant when grant income is also judiciously and appropriately used.

3. Third – Funder Behaviour is critical to financial health. I expect Fiona Ellis will pick up on this in her presentation, given the messages coming out of the Funding Commission report[1] – but too many aspects of the present funding system are inefficient and wasteful. As many commentators have observed, there are perversities at the heart of many Voluntary Sector funding transactions:
   - transactions that add futile and unnecessary costs (for both the funder and the funded)
   - transactions that impose terms and conditions which can require the volunteer boards of recipient organisations to take on unwise risks and which "add burden – not value"
   - transactions that are compliance fixated, focused on outputs and not on the quality of achievement
   - transactions that are set up in ways that can actually weaken the organisations a funder seeks to support.

   As another commentator has observed, somewhat ruefully: "Funders often give the wrong type of money."

   This also means, I fear, that too much fund-raising is driven by the imperative of 'following the money' – wherever it is and whatever the terms – an understandable tendency but one that can easily lead to mission distortion which will be, ultimately, self-defeating.

   It's important – for both funders and the organisations they want to support – that 'the money' is the 'right sort' for the specific purpose at which it is directed.

4. A final generalisation – the topic of this event, 'Making the Money Go Further', has several inter-linked components – all of which are relevant in different ways and proportions to the strategies and operations of almost all voluntary organisations and funders:
   - to use existing resources more effectively – better funding
   - to recycle some existing funds – use them more than once
   - to attract new types of funder
   - to generate new sources of income
   - to build organisations, to build their resilience and their financial survivability – not just to 'buy' activities or projects from them

[1] Funding the Future NCVO Funding Commission – see: http://www.ncvo-vol.org.uk/fundingcommission

The title of this session may give the wrong impression – the debate is not only about 'new forms of funding' (though there are some potentially very interesting ones emerging) but also about how existing underused or underdeveloped forms of funding can be applied more widely in the voluntary sector – to help build stronger organisations.

Many of these established and new forms of funding get labelled as Social Investment – around which a whole lot of other terms are clustered; there's a danger of a veritable Tower of Babel' of terminology and funding jargon rearing up to confuse and to mystify.

When talking about Social Investment, I have sometimes found it simpler to illustrate the possibilities on the menu by drawing on examples of my own family's finances. That may seem bizarre, perhaps – but it is curious that so many charity trustees and voluntary organisations have been so reluctant to use the same range of financing options in their community endeavours that they will use in their own domestic lives.

For example:

1. I have borrowed from myself – from savings built up either for a rainy day/crisis/ cash flow problem or as a restricted fund for specific purchase: The equivalent for voluntary sector organisations are ***Reserves***
   - Building up reserves is a key aspect of prudent management and long-term planning.
   - Too many funders of sector have been very negative towards such good practice
   - Organisations that are reserves poor are particularly vulnerable at present

2. I have borrowed when faced with a single item beyond my immediate ability to buy – the lender (and I) banking on my earnings track record, taking the risk that I will be able to generate enough income going forward to keep myself fed and to be able to repay the debt. Sometimes I've borrowed commercially, from a bank or building society, sometimes from family who have offered more 'patient' lending – you pay such 'patient lenders' back when you can, not immediately when income streams may not necessarily be strong. The equivalent? –
   Commercial Loans from banks or 'patient finance' from foundations

3. I've sometimes looked to friends or family to guarantee some undertaking – to put their trust in me and the strength of my plan to guarantee, say, a bank to lend me money which I would not otherwise be able to access:
   Guarantees – from Foundations or philanthropists

4. I've bought something jointly – say a car, to share with others both its use and costs – on my own I could not do it – but it's been possible as a joint purchase, a funding collaboration
   Shared purchase or shared services
   - an aside: funders could behave more like this, more collaboratively, rather than always insisting on individual transactions – I do hope that more of them will discover the value of syndication, of pooling funds – one taking the lead and the rest 'trusting' their fellow funder to manage the funding on their behalf. Some notable pooled funds have emerged in recent years (for example Impetus or the Venture Partner Foundation in the Venture Philanthropy space; Venturesome or Bridges in the Social Investment arena) – but the general practice of most funders to insist on individual, separate transactions has remained unchanged.

5. I’ve looked for people to invest in an entrepreneurial plan – to go beyond a loan and, in effect, to make an equity type investment in my plan. If I fail, the money will have gone; if I succeed their financial return reflects the scale of my success:
   Equity or Quasi-equity

6. I’ve also gone for hybrid funding – a mix of subsidy and investment (just as in the private sector – that market is certainly not a subsidy or grant free area!).
   - like so many of my generation, I’ve given my children the capital sum needed for them to borrow the rest of the money needed to buy their homes – it’s hybrid funding as they have combined gifts from me, some borrowing from me, also borrowing from themselves, the mix completed with some commercial borrowing – the latter not accessible without the former being in place:

   Philanthropy/foundations leveraging commercial lending or public sector funding

All of these, if applied to voluntary sector organisations, are forms of social investment – whether by an individual, a foundation, a company, an investment fund or by government – providing financial resources to achieve a social aim but with the possibility of a financial return.

Neither return can be guaranteed – the social aim may fail; the financial plan may collapse.

The social investor will have made similar judgments about the possibilities for social benefits and impact as would a grant-maker, checking out the idea, the landscape, the people and the organisations involved; also checking the financials – is it sustainable? Is it at an acceptable level of risk?

As in any market, investor aspirations and attitudes to risk will vary:

- Some social investors will be so tolerant of risk that they are prepared, if necessary, to see no financial return, to convert the investment into a grant
- Others will look only to get their money back, not to ‘earn’ anything above it
- For others, the obligation to repay with interest is writ large and failure to do so could breed insolvency and closure of the voluntary organisation – but so, as we are seeing at the moment, could a failure to secure adequate grant, contract or donated income.

So – how’s my ‘panglossian’ optimism rating at the moment?
For the medium and longer term, it’s holding up:

- New funds have been emerging across the spectrum – like Venturesome or Bridges – actively seeking out (and finding) organisations they can assist

- Some existing funders are adding to their repertoire (like the Esmee Fairbairn Foundation)

- The specialist banks serving the sector – Triodos, Charity Bank, Unity – are all reporting record loan activity (and those are not soft loans – they are subject to all the standard commercial risks and judgments)

- Last week was especially busy – the Government launching its 'Vision and Strategy on Growing the Social Investment Market'[2] – which also explained how they hope the Big Society Bank will work.
  We also heard more details from NESTA about their Big Society Finance Fund[3] – some intriguing new financial mechanisms such as the proposed Charity Bank Bonds Programme – and some quantitative evidence that the Social Investment market is a dynamic one. NESTA's short list of 22 propositions are all eminently fundable and all would lever in private sector or other funds alongside those from NESTA.
  (Last week also saw the publication by The Young Foundation of 'Growing Social Ventures'[4] – so there's lots of relevant new reading to get stuck into!)

- There are also some potentially enormous new developments in the mainstream investment markets with the strengthening emergence of what is called Impact or Mission Connected Investing. These developments are being supported by the work the Charity Commission is doing at present to clarify what trustees can do to invest charitable fund and assets "more for mission" – more in line with their charitable purposes – or at least not blatantly contrary to them.
  These moves could eventually lead to the splendid situation where the obligation on charity trustees would be to explain why they invest in anything which is harmful or deleterious to their charitable mission; and not, as happens now, to have to justify any departure from what is in so many ways the tragically limited current orthodoxy – that asserts that trustees must invest only for maximum financial return.

Of course there's a huge amount to do – much is at risk especially as established funding dries up and organisations flounder and cut back beyond the bone.

Big 'if's' hang over the success of many of these developments:

- A broader and more adventurous market has to be built within the sector (and among its funders)
- The scepticism voiced by some charity leaders about social investment and the apprehension felt among some trustees about debt has to be challenged
- and remember the jigsaw – the pieces are all connected. If the grants market is not healthy then the challenge to the development of a variety of forms of social investment becomes too intense. If the Social Investment market is not flowing and gathering strength, voluntary organisations and charities will be missing out on a range of potentially important additional sources of funds.

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[2] Growing the Social Investment Market: a Vision and Strategy *Office of Civil Society* – see: http://www.cabinetoffice.gov.uk/resource-library/growing-social-investment-market-vision-and-strategy
[3] NESTA Big Society Finance Fund – see: http://www.nesta.org.uk/areas_of_work/public_services_lab/social_enterprise/assets/features/big_society_finance_fund
[4] Growing Social Ventures *Young Foundation* – see: http://www.youngfoundation.org/publications/reports/growing-social-ventures-february-2011