Institute for Voluntary Action Research

Small charities and social investment

Briefing Three: What we learned from sharing the research

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In October 2016, Barrow Cadbury Trust and Access – the Foundation for Social Investment provided further funding for IVAR to share the research report *Small charities and social investment.* Between November 2016 and March 2017, we gave tailored presentations, held meetings, spoke at conferences and ran workshops about the findings reaching more than 250 people through 12 separate events.

We found broad understanding and agreement that small charities need flexible funding that can be used to keep going, not just to initiate new projects. There were varying levels of awareness that, as one participant put it, *'social investment is marginal money going into fragile organisations using untested infrastructure'.* However, there was certainly an appetite to engage, reflect and learn.

We have organised what we learned under seven headings. Headings 1–3 featured especially in conversation with those delivering loans. Headings 4–7 came from borrowers and seemed to us to be important issues when we raised them with lenders.

1. Mission and marketing

Outreach and marketing came up a great deal in meetings and events. People seemed to have a hunch that they weren't getting it right but couldn't put their finger on what they were doing 'wrong'. They were aware that charities mainly don't shop around when it comes to funding: *'It's not the price [that charities engage with] it's immediacy. That's why people go to Wonga and not the credit union'.* A few points emerged and seemed to help. First, understand that the purpose of outreach and marketing is to promote a tool that can help charities deliver on their mission. An approach that says 'is your organisation able for social investment...', or 'are you investment ready' is unlikely to be productive. Social investment providers need to communicate stories of how social investment can support small charities to manage their opportunities and challenges. Second, people engage with social investment at the point when it becomes relevant to them so *'you have to hover until they want to hear'.* Integrating outreach and marketing into existing charity peer networks is likely to be more fruitful than adverts or developing specific social investment networks. Third, social investment needs to collaborate with other charitable and statutory funders on individual projects, as most charities are working with a range of support from grant-funders, capacity-builders, networks and social investors.

2. Spotting stress and getting to 'no'

People were interested in hearing more about the kinds of charities that are likely to have a stressful social investment 'journey'. These were generally organisations with no previous experience of social investment, who had not entered into the process in a planned way, where a loan was the only finance available at a time of urgent need. We explained that investors can help by saying 'no' as early as possible in the application stage, or by providing early support to explain the difference between applying for grants and loan finance and what the due diligence process will require.

3. Charity survival is an impact

We challenged the people we spoke to about 'impact' and whether all social investment is, or should be, 'impact investing'. We found that charities wanted lenders to see survival or continuing service as *'a legitimate form of social impact'.* Lenders did not disagree with this and understood that charities required investment for a range of reasons, not all of which were directly linked to delivering impact. However, several said that their focus is on impact investing. Some people liked the way Charity Bank distinguishes between sustaining impact and increasing impact.

4. Relationship between charity and lender

The research highlighted the importance of building the relationship between charity and lender; and of the lender understanding that every interaction needs to leave the organisation stronger in mission and finance. This made sense to everyone we spoke to although the distinction between a transaction and a relationship was not always fully understood. This is best illustrated by a quote from a lender, who said: *'As an investor, you end up focusing on what will get that investment across the line, which can mean that you don't do the stuff that will strengthen the organisation over time'.* What struck us was that most lenders are seen by their borrowers as 'good' at the relationship after a loan has been awarded. Small, low cost interventions such as linking new, inexperienced borrowers to previous clients in similar sectors, could mitigate the isolation and uncertainty at the start.

5. Blended finance and finding ways to fund 'good things'

What we heard from charities was that they need different kinds of support and they could see why blended finance would make sense. In the course of our meetings with lenders, we came across different ways of describing this, as well as, different levels of familiarity with the idea of blended finance. We heard people talk about, for example, 'locally blended finance', 'programme blending' or 'mixed funding' for individual charities. What mattered was that whoever is working with a charity on the ground needs the skills and knowledge to identify the funding needs and to help put the funding package together. To make this happen will require greater integration of grants and investment and for investors to be willing to work with other kinds of funder. In order to engage more funders in a conversation about the potential that blended finance offers, it may be helpful to arrive at a simple common understanding about what we mean when we use the term.

6. Trying out different products

How do we broaden the range of products and integrate them with grants so that we start with the organisation and then discuss with them what funding might be right for them? *'If people aren't taking up the product, change the product'.* Mentioned were repayable grants, zero return loans, revenue participation agreements and grant-loan hybrids. There was also a discussion about what foundations could do to underwrite risk. Both grant-funders and lenders need similar skills to be able to analyse funding needs and flexibility to be able to respond to those needs.

7. What IS good about social investment?

Much of the study is about negative experiences, but we were aware that for most of the charities the experience had been a mixture of positives as well as challenges. Top of the list is that charities experienced loans as a form of flexible funding (like unrestricted funding) where even a standard term loan is more flexible than it first appears because of payment holidays or other flexible measures. Other positives were the relationship with the loan officer after the loan has been made, as well as (for some, not all), building an asset base.

For further information on the project, you may wish to read 'On the shoulders of giants: Charity leaders call for a "humble and modest" social investment market' on ivar.org.uk and you can read the full 'Small charities and social investment' report here.

Areas for further action

We know there is plenty that can be done to develop the way funding for small charities is organised. In relation to our own research and the discussions we have had, we identify three areas for action.

- **Workforce:** Not only skilling up trust and foundation staff but also skilling up social investment staff, addressing diversity and bringing on the next generation of social lenders.
- **Narrative:** Creating an alternative language and narrative that re-frames and re-presents social investment as a tool to help deliver on mission.
- **Data**: Review and analysis of quantitative data held by social investors and intermediaries.

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