



Philanthropy
Impact

Magazine

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Achieving impact: advancing respect and value through policy change

The Arcus Foundation is pleased to be partnering with Philanthropy Impact and to be sponsoring this edition of their magazine. Achieving and measuring impact is an essential element of any philanthropy. Below we have described one example a foundation can achieve significant impact.

On June 12, 2015, the US Fish & Wildlife Service publicly announced that it would reclassify the more than 700 chimpanzees being held in the country's research labs from 'threatened' to 'endangered.' This action placed these chimps, long used as the subjects of invasive research, in the same protected category as their brethren living in the wild, increasing their level of protection and effectively retiring them from research.

This policy change was the culmination of a seven-year effort by a group of NGOs—including the US Humane Society, Jane Goodall Institute, Animal Protection of New Mexico and New England Anti-Vivisection Society—that had been advocating tirelessly to end the harmful and ineffective practices being imposed on some of humanity's closest relatives. One of the key supporters of their efforts was the Arcus Foundation, a funder based in the US and the UK, which is working to conserve the planet's great apes by preserving habitat and ending exploitation.

The Arcus Foundation's Great Ape program focuses on three strategic goals: 1) achieving conservation of apes in their range states by ensuring habitats are managed sustainably and integrated with economic development; 2) building and sustaining a movement to advance ape conservation and wellbeing; and 3) increasing recognition of and respect for the intrinsic value of apes, especially the right to live free of abuse, exploitation, and private ownership. It is in this third area—respect and value—that the Foundation supported efforts beginning in 2008, to protect the more than 700 chimpanzees held captive in research labs in the United States where they were often housed in deplorable conditions and subject to painful and degrading invasive research.

The US was one of the only countries still using chimpanzees in this manner, breeding them to live only as research subjects, warehousing them in cages (frequently in isolation from other chimps), and using them to test harmful drugs and other experimental treatments. Over time, it was shown that this experimentation was largely ineffective and only in extremely rare cases made any contribution to advances in human medicine.

In addition to directly funding advocacy activities, such as the HSUS Chimps Deserve Better Campaign and APNM's Chimpanzees to

Sanctuary Campaign, Arcus supported studies that showed how invasive research practices were causing severe psychological trauma and physical harm to chimps, and how costly this experimentation was for the US government without yielding helpful scientific outcomes. This research provided advocates with new data they could use to argue their case to federal officials and to the public.

While this major policy success demonstrated how Arcus achieved impact in one of its key mission areas, it is only the first step toward the goal of ending exploitation of captive apes in the US. Unfortunately, the reclassification of lab chimps did not help the many still held as pets and trained for use in entertainment. Thus, there is more work to be done on these issues. Plus, now that more than 700 chimps have been retired, they will need to be relocated to sanctuary facilities that must be expanded to accommodate them.

Often in philanthropy policy change is only the beginning.

Kevin Jennings (www.arcusfoundation.org)

Founded in 2000 by Jon Stryker, the Arcus Foundation is a leading global Foundation dedicated to the idea that people can live in harmony with one another and the natural world. Arcus believes that respect for diversity among peoples and in nature is essential to a positive future for our planet and all its inhabitants. We work with experts and advocates for change to ensure that lesbian, gay, bisexual, and transgender (LGBT) people and our fellow apes thrive in a world where social and environmental justice are a reality.

The Arcus Foundation funding strategy targets general operating support, project support for specific programs, public policy and research, capital projects and capacity building, in two main areas of focus: social justice and great apes conservation. We do not make grants to individuals, or for scholarships, lobbying purposes, political campaigns, film production, or medical research.

Arcus grantees work in more than 30 countries around the world, and affect millions of lives. In 2014, 48 grants totaling more than \$10 million were awarded to organizations working to protect the great apes, and 178 grants totaling more than \$18 million were awarded to organizations working to advance social justice for LGBT people around the world.

The Arcus Foundation requires all organizations seeking funding to have in place a board-approved Equal Employment Opportunity (EEO) Policy that specifically includes and lists sexual orientation and gender identity, and requires compliance with all other applicable federal and local EEO laws.



Kevin B. Jennings, Executive Director, Arcus Foundation

Kevin has made a long and distinguished career as an educator, social justice activist, teacher, and author. He served as Assistant Deputy Secretary of Education in the Obama Administration, heading the department's Office of Safe and Drug-Free Schools where

he led the Administration's anti-bullying initiative. Kevin began his career as a high school history teacher and coach in Rhode Island and Massachusetts. During this time he served as faculty advisor to the nation's first Gay-Straight Alliance, leading him in 1990 to found the Gay, Lesbian and Straight Education Network (GLSEN), a national education organization tackling anti-LGBT bias in U.S. schools, which he led for 18 years.

Kevin earned a BA (magna cum laude) from Harvard College, a Master of Education from Columbia University's Teachers College, from which he received the Distinguished Alumni Award in 2012, and an MBA from New York University's Stern School of Business. He has been honored for his leadership in education and civil rights by the National Education Association, the National Association of Secondary School Principals, the National Association of School Psychologists, the National Association of Independent Schools, and numerous other organizations. He is chairman of the boards of The Ubunye Challenge and First Generation Harvard Alumni. Kevin also serves on the board of Marjorie's Fund and the Council on Foundations. His seventh book, One Teacher in Ten in the 21st Century, was published in 2015. Along with his partner of 20 years, Jeff Davis, he is the proud dad of a Bernese Mountain Dog, Jackson, and a Golden Retriever, Sloane.

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Philanthropy Impact: Vision and Mission

Our vision is to increase philanthropy and social investment across borders, sectors and causes.

Our mission is to achieve greater sector knowledge and expertise by working with professional advisors. Through our links with key sector stakeholders we develop thought-leadership on philanthropy and social investment.

We do this by delivering activities that include:

- Events: a comprehensive programme of events that support professional training and development
- Publications and Research: our 'body of knowledge' guides, case studies, and other resources, and the acclaimed Philanthropy Impact Magazine
- Lobbying: we advocate for policies and regulations that encourage philanthropic giving and social investment

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The purpose of the magazine is to share information about philanthropy in a domestic and international context. We welcome articles, letters and other forms of contribution in Philanthropy Impact Magazine, and we reserve the right to amend them.

Please contact the Editor at editor@philanthropy-impact.org

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Join us in our vision to
increase philanthropy and
social investment across
borders, sectors and causes

'I believe Philanthropy Impact has a key contribution to make as a forum to encourage more – and more effective – philanthropy and social investment through the exchange of ideas, spreading knowledge and improving the professional advice available. This is more important than ever.'

LORD JANVRIN Deputy Chairman HSBC Private Bank (UK) Ltd

Philanthropy Impact offers a corporate membership,
for the whole organisation and not just for one individual.

www.philanthropy-impact.org

Social impact measurement: a challenge

Catherine Beringer and Andrew Whitby-Collins (www.auxiliomadvisers.com)

Charities are increasingly forced to face the harsh reality that funding streams previously open to them, particularly local and national government funding, are not likely to be renewed. For many charities this shrinking pot has been a real wake-up call, forcing them to look elsewhere for funding support. Not only are many at a crossroads in terms of deciding how they will continue funding the delivery of services, but the thought of applying for funds through previously unexplored channels can be daunting. This is because it gives rise to a fresh level of scrutiny which, although it should be welcomed in a sector seeking to increase its transparency and accountability, is often anything but.

It seems logical that charities will turn towards private funding as other sources are withdrawn. Arguably this creates an opportunity for trusts and foundations to assume a position of responsibility within a sector facing declining public confidence by demanding the bar be raised where standards of governance, achievement of outcomes and demonstration of impact are concerned.

There are many attractions to an increase in philanthropic funding, not least because it tends to be less bureaucratic, with application processes entailing fewer administrative loopholes. It can often be more flexibly used than other types of funding and can offer a more supportive relationship between funder and recipient. Philanthropists are often better placed to take risks to obtain greater social return and promote innovation. There needs to be room for experimental work to find new solutions to the social and other challenges we face.

Arguably this is where true philanthropic funding should operate at its best, i.e. where really innovative ideas merit funding but are not sufficiently tried and tested to generate evidence of impact required by state or other funders. Philanthropic funders may be more inclined to offer non-financial support alongside funding, take a more flexible approach as to how results are achieved and be prepared to push boundaries. Furthermore they should be more prepared to fund outcomes that are less evident in the short term – such projects being less attractive to funders who are under pressure to stakeholders to justify their decision.

That said, in a climate of rapid decline not only in funding but public confidence in charities, it is more important than ever to focus resources on demonstrating – as opposed to merely claiming – impact. As the demand for funding from trusts and foundations rises, are there ways in which they can promote the value of demonstrating impact amongst the sector and address the challenges associated with impact measurement?



Catherine Beringer



Andrew Whitby-Collins

We think that funders have a valuable contribution to make in helping recipients demonstrate the impact their investment has achieved. This starts with requiring recipients to record data for impact measurement, and funding them to do so. This can be done by undertaking an analysis of outcomes to demonstrate the impact of using that data to create a body of knowledge that can be shared amongst, and used by, the relevant parts of the sector.

It can be the case that charities will not record data unless specifically required to do so by a particular funder, often in relation to a particular project, and then they stop upon completion of the project. Some recipients perceive impact measurement as a box-ticking exercise to satisfy their funder's stakeholders. They do not recognise the wider value of the data they record. Of course there are examples of charities who absolutely do see the wider value in such data. One such example is Community Links, a charity based in Newham, East London with over 30 years of experience working with local people to support children, young people, adults and families. On a national level, the charity shares lessons with government and community groups across the country to achieve social change. Community Links recognises the need to develop measurements of long-term impact as a way to bring about sustainable change. Evaluation¹ of one of its projects showed not only direct impact from its work, but also a finding that 80% of local people interviewed felt that the areas in which that work had been carried out had changed for the better in the 12 months since it started. This has implications for measurement of impact and Community Links has sought to map the full range of outcomes – categorised as (i) primary (which is essentially quantitative and conventionally the only one recognised and paid for by government), (ii) aggregated (long-term outcomes from collaborating with other partners) and (iii) rising tide (sustained and collective) – in order to understand the full potential impact.

Community Links recognises that primary outcomes *'have, at best, only a partial relationship to the changes that the funder wants to achieve'*. They see opportunities to develop a more collaborative approach which *'gives proper weight to the three categories of outcome'* and produces interventions which make the most efficient and sustainable use of resources and consequently deliver a higher return on investment.

This faith in the value of impact measurement is not sector-wide. One key underlying issue is the lack of an agreed, sector wide definition of social impact. If



the sector is serious about demonstrating impact then surely a more unified approach is required as to the meaning of impact in its various contexts.

It is not as simple as the sector lacking the necessary skills to successfully measure social impact (indeed it has taken other sectors a long time to develop the techniques required) but more that there is a need to demystify how impact should be measured. The act of measuring social impact can be incredibly complex (after all, it concerns the effect of an action or intervention on many individuals) and there is no consistent system of metrics used across the sector. It is also easier to measure impact in some areas than others – education, for example, has standardised measures in place which enable changes to be measured over time.

The act of measuring social impact can be incredibly complex (after all, it concerns the effect of an action or intervention on many individuals) and there is no consistent system of metrics used across the sector.

Other areas do not have such measures, making it more challenging to assess outcomes, and certain types of impact are not easily quantifiable or may not accrue until years after the intervention has occurred. In the

context of providing free legal advice, for example, if you were evaluating the impact of facilitating a fair financial settlement in a divorce claim, a lot of the associated benefits would accrue over an extended period of time. The consequences could range from achieving amicability between parties, the medium- and long-term benefits on children, minimising the potentially destructive effect of acrimonious divorce on the family unit and the associated ripple effect that this can have on physical and mental health and wellbeing, the ability to remain in employment, reducing dependency on the state and sustaining successful future relationships – the list goes on. It is, of course, impossible to capture all of this straight away.

Furthermore, the variety of methodologies for measuring impact used across the sector, combined with a lack of consistency amongst funders in terms of what data they require and how it should be presented are all points of confusion for grant applicants. Because methodologies follow trends and cycles which differ according to who the funder is, it is vital for recipients of funding to be clear as to who their audience is when evaluating impact. A charity may produce detailed evidence demonstrating impact in a certain area but it depends on the funder as to whether it will be relevant or not, since one funder's interpretation of data may differ from that of another. The complexity involved and the consequent lack of understanding within some charities as to what the different methodologies required of them mean, exacerbated by a lack of familiarity with the jargon used, can be off-putting. This lack of consistency also gives rise to a question mark within some charities as to the value of the data.

An example of a current government-favoured methodology is the randomised control trial (RCT) which seeks to prove causality between intervention and outcome, but for some charities the prospect of this is intimidating. Aside from allocating resources to facilitate an understanding within a charity of what this would actually entail, the very concept of an RCT does not sit well with some charities given that inevitably it will require a control group – and hence a proportion of people will not receive intervention. Some charities struggle with the premise that, in order to get funding, they will have to turn some people away. Clearly for some charities – a rape crisis centre, for example – it would simply not be appropriate to implement an RCT.

Some charities are disinclined to measure impact due to an ethical conflict arising from the prospect of diverting resources away from the act of carrying

out their objectives. For others it is a resource issue: even where charities have an appreciation of the value of impact measurement, they lack the time, money and people necessary to develop an understanding of the evidence-based methodology required of them by particular funders and to collate and present the data needed in the requisite form. Ultimately this can prohibit smaller organisations accessing funding from those funders who require their recipients to demonstrate impact through complex methodologies and yet are not inclined to build into their funding the cost of enabling impact measurement to be carried out by the recipient.

The sector needs to increase its efforts to educate charities in both the meaning and value of impact measurement; as well as to help charities understand the various tools and techniques used to measure it.

It is worth noting that evidence from projects that have failed to achieve the intended outcome can itself be of significant value in indicating where improvements or changes need to be made and can feed into future delivery to achieve even greater success. However, charities are, for obvious reasons, risk averse by nature and with that comes the fear that taking a chance on something novel and untested could have a damaging effect on their reputation, ultimately impacting negatively on their relationship with donors. Hence there is need for funders willing to take risks and be clear in their support for charities willing to try out innovative approaches.

The sector needs to increase its efforts to educate charities in both the meaning and value of impact measurement; as well as to help charities understand the various tools and techniques used to measure it. Strides are being made to develop online tools to assist with the impact measurement process. Big Society Capital's Outcomes Matrix is a good example.

Many charities lack awareness of resources to help them measure their impact. Big data is one such resource and it clearly offers huge potential for the sector to identify and target areas of need. The voluntary sector is playing catch-up with other sectors which have used big data successfully, although efforts are being made to make more use of existing data to assist with impact measurement and to tap into other sectors' resources. Analysis of big data has been used in a public health context, for example using Twitter data to predict

outbreaks of flu, but how helpful it is will vary according to the aims of the particular organisation.

A big issue for the sector is whether or not the required datasets exist; and if they do, whether access is permitted. A ten-year initiative launched in 2012 called Inspiring Impact has created 'The Hub', which has collated a variety of datasets – The Justice Data Lab, The Centre for Social Impact Bonds Toolkit, Homelessness Statistics and Crime Statistics being just a few examples – to facilitate access to data by charities and social enterprises in order to help them better assess their impact. More investment is required, however, to improve the quality of generation, retention and access to data. There is no doubt that there is more trusts and foundations could – and in our view, should – do to stimulate the production of datasets, to lobby for improved access to administrative data and generate more custom-generated datasets to identify trends, the potential for collaboration and areas of duplication. A good example of this is 'Where the green grants went', a series of publications coordinated by the Environmental Funders Network.

There is no doubt that the government together with a number of sector organisations has been working to promote the message that charities need not be intimidated by impact measurement requirements. Inspiring Impact is managed by NPC and involves a number of sector bodies and impact measurement experts which aims to change the way the voluntary sector thinks about impact and make high quality impact measurement the norm for charities and social enterprises by 2022. Key to the programme is addressing the following questions:

1. What does good impact measurement look like?
2. How do we know what we need to measure?
3. How do we measure it?
4. How can we compare with and learn from others?
5. What is the role for funders?

We believe that funders, in particular trusts and foundations, have a comprehensive and critical role to play in addressing the first four questions. This includes helping to demystify impact measurement by investing in the development of an across-the-board understanding of what is meant by social impact in its varying contexts, and developing techniques and tools for measurement and best practice methodological approaches. Funders themselves should adopt consistent methodologies which achieve a balance between a set of agreed high level values without leaning too heavily towards excessively detailed requirements that risk creating a barrier to funding. They also have a valuable role to play in educating the sector to better understand the value of impact measurement; encouraging a wider use of existing data, including lobbying for greater access to big data; collaborating to create more custom-generated datasets; and in seeking to improve habitual practice of, and improve platforms for, the sharing of intelligence and expertise within the sector. Crucial to achieving this is that they must be prepared to build into funding the resources required to enable recipients to record vital data in a way which is useful for the sector as a whole.

Philanthropic funders are in a unique position to help prevent the erosion of faith in social impact measurement, in particular by encouraging a move away from the damaging perception that it is something to be done simply to access funding and satisfy funders' accountability. They can also encourage a greater commitment to the value of measuring social impact for the benefit of the sector as a whole by developing an appreciation of the value of data and its potential for improving outcomes in the long-term. We hope they take up the challenge.

Catherine Beringer is a director and co-founder of Auxilium Advisers, a company providing consultancy services to charities and philanthropists. She is a qualified solicitor, having trained at Clifford Chance and then specialised as a charity lawyer at Potheary Witham Weld and Charles Russell Speechlys. She holds an MA in Law from the University of Cambridge, where she co-founded the Cambridge University Students' Pro Bono Society. Prior to this she obtained a music degree from the University of Edinburgh and continues to perform locally as a soprano in Hampshire with her husband and two young children. She is also a trustee of a grant-making charity, the Christine Best Foundation, which supports musicians from deprived backgrounds.

Andrew Whitby-Collins is one of the founding directors of Auxilium Advisers, which advises individuals and companies on how to make their philanthropic activities achieve maximum impact and charities on their governance and strategy. Prior to founding Auxilium, Andrew was a lawyer in the charities and not-for-profit group at Charles Russell LLP and before that a political adviser. He is a trustee of Creative Mentors Foundation which supports children with dyslexia through arts and music education and a former school governor.

¹ see <http://www.community-links.org/uploads/editor/Out%20of%20the%20Ordinary.pdf>

How responsible investing in financial services makes an impact

Janet McKinley (www.advanceglobalcap.com)

Investments that seek a double bottom line – financial return and social impact – consider more than profit in their calculation. For the patient impact investor, financial services in emerging markets that focus on financial inclusion have the potential to generate both commercial returns and sustainable impact. When properly structured, they can withstand the turbulence of purely profit-seeking assets and lay the foundation for economic stability and growth.



Janet McKinley

Impact investing and financial inclusion

At Advance Global Capital (AGC), the financial services company I co-founded in 2012, our goal is financial inclusion by helping to build strong financial ecosystems that support small- and medium-sized enterprises (SMEs) in emerging markets.

When I think about impact investing from a financial standpoint, I think about responsible investing, seeking a commercial rate of return grounded in a responsible allocation of capital. We carefully choose where we invest, because the consequences of pulling out of an investment based purely on short-term profit considerations can reduce the long-term impact of the strategy.

Consider the challenge for a food products manufacturer in Kazakhstan. Market demand is local, and demand for the goods is thriving. But uncertainty regarding global interest rates and the collapse of oil prices around the world now limits access to working capital and threatens the stability of the business and community.

The carry trade and local business disruption

Money is moving faster and in greater volumes than ever before, making local, and especially emerging, economies vulnerable to conditions beyond their control. With an unprecedented string of years where central banks have pursued a zero interest-rate policy, the carry trade has exploded. Forbes calls it ‘the multi-trillion dollar hidden market’.

How does it work? Borrow cheap dollars, lend at a higher interest rate somewhere – such as in emerging markets – and earn the spread. It works, until it doesn’t any more. The collapse in oil and other global commodity prices, along with speculation regarding U.S. Federal Reserve interest rate targets, have triggered a tsunami of foreign capital back into dollar-denominated securities. This has taken its toll on local currencies and the balance sheets of local corporate borrowers.

With capital flowing out of emerging markets even faster than it came in, local enterprises have had to deal with the dislocations. Corporates, which borrowed in dollars, now face higher repayment costs due to devalued local currencies. Local financial institutions have less credit to offer aspiring businesses – even if their prospects are good – and the cost of that credit is higher. The Kazakh food products company no longer has access to reasonably priced working capital to cover the gap between when goods are delivered and when the corporate supermarket pays for them. Cash flow is strained all along the supply chain.

Investing in emerging markets to sustain growth

AGC takes a measured approach to trade financing in emerging and underserved markets to deliver an attractive absolute return while contributing to greater financial inclusion. We work with local non-bank and banking institutions to build a more sustainable financial ecosystem with a focus

on invoice discounting and supply chain financing for small- and medium-sized enterprises (SMEs), particularly women-owned businesses.

- Confirmed invoices have an established face value upfront, which the buyer pays months later.
- The discount rate on purchased invoices is not tied directly to any public market rate, such as LIBOR.
- Pricing reflects the credit worthiness of the buyer, the local factor's financial strength and the rate of return a business expects to earn if it can put cash back to work immediately.
- Liquidity is based on the invoice terms – generally 30 to 90 days.

As global financial circumstances change, AGC works closely with factors to evaluate risk and return. Credit lines can be reduced, rolled or expanded on a monthly basis, depending on the potential return and the overall portfolio risk. The factor hedges out the local exchange rate risk, locking in predictability for the time the assets are held. If the cost of hedging is prohibitive, it is a market-warning signal.

Know your customer

Our origination team works with local factors, and meets with suppliers and their buyers to understand local conditions. From 30,000 feet, the terrain may look difficult. It may seem prudent to pull out of a market if short-term benefit are all the investor seeks, but on the ground, there are often solutions and opportunities.

A few months ago, our team travelled to Kazakhstan to meet the local food manufacturer and understand his challenges today and the potential for his business and community in the future. The people we finance have good businesses. They make things people want to buy. Good impact investing is grounded in the place where money is put to work. That stability is an important measure of success in impact investing. It's not a 'bet'. And it's not a show. At Advance Global Capital, we don't talk about fund 'performance'. We want to see positive results.



Janet McKinley, co-founder of Advance Global Capital (www.advanceglobalcap.com), has over 25 years of investment experience, having managed global portfolios in 3 of the 10 largest equity mutual funds in the US. She retired in 2004 as a director of Capital Research and Management Company (assets in excess of US \$1 trillion) and principal executive officer of The Income Fund of America. An active philanthropist for over 20 years, Janet is Chair Emerita of Berkeley Endowment Management Company where she continues to serve on the board, with prior service as Board Chair of Oxfam America, and Board Trustee of Oxfam International, Smith College, the Deutsche Bank Microfinance Consortium Fund and MicroCredit Enterprises. She was a Fulbright Scholar, received her BA degree from Smith College and attended New York University Graduate School of Business.

The meaning of social investment in the Charities (Protection and Social Investment) Act 2016

Julian Smith and Elizabeth Jones (www.farrer.co.uk)

Charities have (or will very shortly have) a new statutory power to make social investments introduced by the Charities (Protection and Social Investment) Act 2016 (the Act). At the time of writing this article the date when the new legislation will be brought into force was unknown, but it is expected imminently. The new power is designed to remove doubts as to whether charity trustees can use their investment assets to make social investments.

The statutory definition of social investment is broad and requires an assessment of whether a charity invests with a view to both directly furthering the charity's purposes, and achieving a financial return. This article explores this definition and the parameters of this power for charity trustees.

Directly furthering a charity's purposes

An investment must 'directly further the charity's purposes'. The Explanatory Notes to the Act confirm that the word 'directly' does not preclude the achievement of the charity's objects by a third party, provided there is a 'sufficiently close causal connection' between the investment and the furtherance of a charity's purposes. In the absence of any legal clarification, trustees may decide to undertake a similar thought process when assessing any form of charitable activity – i.e. does this investment directly further the charity's objects rather than the financial return providing funds to a charity to apply furthering its objects.

In view of the need for a causal connection between the objects and the investment, it is perhaps questionable whether the new power enables the purchase of pre-existing social investments, e.g. shares in a social enterprise held by another investor. Where a pre-existing investment is purchased, the link between buying the shares from another investor and furthering the charity's objects is not clear, as the money to purchase the investment will be paid to the other investor, rather than to the social enterprise to support its work. While the Explanatory Notes don't tackle this point head on, they refer to an example of buying shares in a medical research company being potentially charitable because of the work done by that medical research charity. However, in this example, it is not clear whether the purchase is of shares held by another investor or a new issue of shares.



Julian Smith



Elizabeth Jones

Achieving a financial return

A social investment must be undertaken with a view to achieving a financial return. This requirement can be broken into three parts:

1. Whether an act by a charity is a 'relevant act'
2. What a financial return means
3. What assurances may be necessary to confirm that an investment is undertaken with a view to achieving a financial return.

These are considered in turn below.

Whether an act by a charity is a 'relevant act'

The legislation clarifies that a social investment is capable of involving: (a) an application or use of funds or other property; or (b) taking on a commitment in relation to a liability of another person (such as a guarantee) that puts the charity's funds or other property at risk of being applied or used. This broad definition means that an investment needn't be in cash and that it can include circumstances where no assets of a charity are applied at all, but a guarantee is given.

What a financial return means in relation to the investment

The meaning of 'financial return' depends on whether the investment involves applying charity assets or giving a commitment.

In investment terms, a financial return usually means that the initial capital invested is preserved and there

is some capital appreciation and/or income earned so that the total return is greater than the sum invested. The concept of financial return with a social investment differs because financial return means both a positive and negative return. Consequently the total returned to the charity investor can be less than the sum invested. This flexibility allows trustees to place weight on the charitable return expected and weigh this benefit against the expected financial returns to assess whether or not an investment is in a charity's best interests.

If the form of investment is applying funds (or other property), a financial return is where the financial outcome (ignoring whatever the charitable outcome may be) is better than expending the whole of the funds or other property. Consequently, so long as it is reasonably expected that there will be some form of return (even where this is less than the initial investment), then the test is satisfied.

Where the investment involves giving a guarantee or other commitment, the definition of financial return is satisfied provided that either the guarantee or commitment will not be called upon; or where, if it is called upon, this would not result in the entire amount guaranteed or committed being spent.

What assurances trustees might need to be satisfied that an investment is being undertaken with a view to achieving a financial return

The statutory power does not require generation of a financial return, given the nature of investment is that



the return is often uncertain at the outset. Instead, the obligation on the charity is that the investment is carried out with a view to achieving a financial return, as defined in the legislation.

We expect charities making social investments should have a reasonable expectation of making some financial return. Where an investment is very high risk and there is the potential for no financial return on the investment, the trustees should consider carefully whether there is sufficient expectation of a return being made, if they are relying on the statutory power.

The availability of the power

The power is (or will be) available to both incorporated and unincorporated charities, unless there is a provision in their constitutions excluding the use of the power, and excluding charities established by Royal Charter or as statutory corporations. This excludes most universities, national museums and a number of high profile charities from relying on the new power. It is not entirely clear why these charities are excluded, but trustees of these charities wishing to make social investments will have to consider what other powers may be available to them.

Charities holding permanent endowment must ensure that any investment (whether involving the application of funds or giving a commitment) does not use permanent endowment property, unless trustees are satisfied that the restrictions on expending it are not contravened by the investment.

Trustees' duties when making social investments (whether or not using the statutory power)

The general duties of charity trustees apply to the making of social investments and consequently the overriding duty of charity trustees will be to exercise the power in the way they consider to be in the charity's best interests, taking into account all relevant considerations.

The legislation introduces a list of steps that charity trustees must follow before making social investments, which apply irrespective of whether or not the statutory power to make the investment is being utilised. This requires that before a social investment is made, the trustees have:

1. Considered whether to obtain advice
2. Obtained and considered any such advice
3. Satisfied themselves that the investment is in the charity's interests, having regard to the benefit they expect it to achieve for the charity by furthering the charity's purposes and achieving a financial return.

The social investments of a charity must also be reviewed from time to time by the trustees, with

thought given to whether there is any need to obtain advice on the investments.

Use of the new power

There remain a number of issues around use of the power.

First, there is a concern as to how HMRC may treat social investments for tax purposes. It must be hoped that HMRC will clarify their approach to social investment to provide reassurance to charity trustees.

Secondly, there are concerns as to how trustees satisfy themselves that there is public benefit in the charitable element of a social investment, and that any private benefits are incidental, ancillary or subsidiary to furthering the charity's purposes. This analysis is fact-specific, and because there is little law in this area, it can be difficult for trustees to carry out this balancing exercise, particularly where the charitable return is not on its own sufficient to justify the investment. It is hoped that when the Charity Commission review and revise their investment guidance CC14: *Charities and Investment Matters: A guide for trustees* then this may offer some commentary on assessing private benefit when making social investments.

Next steps

The Act received Royal Assent in the middle of March and should shortly be available to trustees once regulations are made to bring the operative provisions of the Act into force.

Charities wishing to make use of the statutory power should check that the proposed investment falls within the definition in the Act. Furthermore, all trustees making social investments, irrespective of whether they use the statutory power, must ensure that they have complied with the particular duties that are described in the legislation.

Julian Smith is a Partner in the Charity Team at Farrer & Co and is the current Chair of the Charity Law Association. Julian's areas of expertise include charity and trust law, philanthropy, tax and governance.

Elizabeth Jones is a Senior Associate in the Charity Team at Farrer & Co. Elizabeth's advice to charities covers a range of matters including charity law, fundraising and social investment by charities and she was named earlier this year as one of Charity Finance's top 25 professional advisers under 35.

Social investment; just one string to the philanthropic bow

Jayne Woodley (www.oxfordshire.org)

For the past five years, I have had the privilege of being Chief Executive of Oxfordshire Community Foundation. After a lifetime in corporate business development and marketing, my decision to swap Barclays Capital for social capital was largely motivated by a personal vision to see ‘mass philanthropy’ embedded as a social norm during my lifetime.



Jayne Woodley

Given my banking experience, it’s perhaps not surprising that I am enthusiastic about the concept of social investment and its potential for charitable causes to engage with new supporters who are looking to achieve not only a social return but also a financial return. However, I remain yet to be convinced that social investment will radically displace philanthropy. Recent experience has enabled me to identify differences between the moral imagination of those who choose to gift rather than invest in the common good.

Now that’s not intended to suggest that the additional accountability and conditions that typically accompany social investment are demeaning to the voluntary impulse that prefers to trust in the effectiveness of a charity’s work. It is crucial for all charities to take responsibility for evidencing their impact, not only in the spirit of accountability to funders, but also to assess whether or not they are actually making a difference to the cause they seek to champion.

My first encounter with social investment was with Charitable Bonds back in 2012. In their vanilla form they offered a mechanism whereby a supporter could retain ownership of their capital but gift any interest or income accruing to their preferred charitable cause, thereby doing some good with their asset and effectively achieving a social return.

With the benefit of hindsight, I can see that I was somewhat naïve at the time to consider this diversification a good thing in providing an alternative source of income, when balanced with the priority to grow our own endowment via ‘no strings’ donations. So it was interesting to hear Rob Wilson, Minister for Civil

Society, suggest on #GivingTuesday that ‘too many charities are devoting huge resources to chasing the same pot of money (and) too many are dependent on a single source of income, always just one cheque away from insolvency’.

To a large extent what I hope the Minister was really referring to were those charities that have previously heavily relied on significant government grant support. However, the majority of charities receive no statutory funding whatsoever and, according to the National Council for Voluntary Organisations (NCVO), ‘the golden age of government grant funding peaked ten years ago, (and is) now largely replaced by contracts and fees’.

So whilst the government might be keen to help the sector by providing a broader, more sustainable range of financial options, of which social investment is obviously one, it doesn’t follow that more options alone will enable the third sector to step in and fill the service gap created by a retreating state. In the current context, what is the role of private philanthropy in securing the future of our civil society?

I see the biggest challenge facing social investment and the community sector more generally to be the lack of public debate about the role charities and social enterprises should play in the 21st century. There is a lack of commitment to reaching an unequivocal consensus as a platform from which civil society can grow. Achieving this consensus is never going to be easy and will demand much reflection, as well as plenty of honest and open dialogue that ultimately might result in our current social norms needing to be radically reformed. However, we only have to look to

other global events happening around us, such as the refugee crisis or climate change, for further evidence that as a society we appear to be in denial about our flaws, and to have reached a point of inertia. We have become increasingly adept at ignoring what we don't wish to be true rather than acknowledging the need for change and the role we as individuals can each play in leading that change.

Community foundations, with their unique ability to convene a diverse goodwill network from across the private, public and business sectors, have a crucial role to play in leading that change. We are uniquely positioned to drive collaborations and initiatives that will find solutions to some of our most pressing social problems. At Oxfordshire Community Foundation, we have hosted several lively and thought-provoking debates at the Oxford Union. In such historic surroundings, we know many of our guests have questioned their own moral purpose and reflected on what impact they are having on the world. At our most recent event we debated whether it was wrong to spend more on looking good rather than doing good – the reality being that as a nation this is actually what we are currently doing, spending the equivalent of £70 billion a year or an average of £1,000 per person on preening ourselves, compared to the £10 billion estimates for money donated to charity or spent supporting those in need.

.....
We are uniquely positioned to drive collaborations and initiatives that will find solutions to some of our most pressing social problems.

As Danny Dorling, one of our speakers against the motion put it: *“A bit of modest spending on ourselves is fine, but if you find that you are spending more on yourself than anything else, then that's veering towards being narcissistic – and narcissism is a disorder.”* Plastic surgeon Nigel Mercer suggested that, on the contrary, the huge personal spending on cosmetic treatments could be capitalised upon for the benefit of society: *“If VAT was put onto Botox and fillers, we could fund the gap in the health service”*, he said. *“We could bring in £2 billion in revenue a year if that tax was brought in – that is how much is spent.”*

A flippant comment perhaps, but one nonetheless that highlights the potential of the debate and creative thinking that seems to be so lacking in both our policy making and wider media coverage of the challenges we face as a society. Proof too, if ever it was needed, that

solutions can often be found where you might least expect them.

This then, is the other challenge that I see for any measurement of social impact: it generally requires the collection of a predetermined set of metrics. I would suggest that the mere existence of these are most likely to hinder rather than encourage creativity and innovation – and besides, humans tend to behave irrationally and frequently act on impulses triggered by a series of unconnected and unintended consequences. Therefore, any meaningful measurement of social impact must allow for this complexity, whilst aspiring to consensus and ultimately rigour and method. What has struck me the most during the past five years is that such complexity requires significant financial resources and focus.

So it would seem the best return on investment available at the moment would be for social investors to consider funding the core costs of charities and social enterprises who do so much to underpin our very existence and bring communities together for the common good. Giving them this much-needed financial stability would provide the freedom and headspace for community leaders to stop firefighting and chasing short-term funds, and invest their creativity and experience into creating permanent and self-sustaining funding models. I have no doubt that social investment has a part to play in this – but it should not be to the detriment of generous and unrestricted funding that is the lifeblood of innovative and genuinely impactful charitable organisations.

As James Partridge of charity Changing Faces put it so eloquently at our recent Oxford Union debate: *“We need to galvanise our society into giving much more, and in the process people will get a buzz out of it.”* Because traditional philanthropy, done well, benefits the person giving just as much as those receiving funding – helping them feel more fulfilled than they ever could by spending their money on themselves (or choosing to invest it for a financial return).

Jayne Woodley spent a corporate lifetime in business development and marketing, then joined Oxfordshire Community Foundation (OCF) in 2010. Her decision to swap Barclays Capital for social capital was largely motivated by a growing personal desire for greater social justice, and an awareness of the evolving role of philanthropy. She sees her current role as a privilege and the chance to indulge her own interests, inspiring others to believe in ‘community as a cause’. Jayne aspires to changing the financial landscape of Oxfordshire for good, and achieving the best possible social return on all charitable funding.

The modern face of philanthropy: is it set to achieve its ambition?

Carla Stent (www.christianaid.org.uk, www.thepowertochange.org.uk)

“Philanthropy – the promotion of welfare of others especially by generous donation of money to good causes.”

Of itself, the definition is self-congratulating and self-perpetuating. Reading it, if you are a philanthropist, you might be quite justified in patting yourself on the back... and thinking about the next noble donation.

But I am not convinced that this very colonial and overly benevolent definition is actually what the majority of those donating the US\$25+bn really aspire to. In *The Meaning of Wealth in the 21st Century*, (<http://features.withersworldwide.com/features/the-meaning-of-wealth-in-the-21st-century>) concludes that major donors are using their wealth in ways that benefit both the family and wider society. But just how are donors measuring these impacts? And are there any unintended consequences?

The multiplicity of global conditions is complicating the eradication of deprivation, poverty and inequality. Take climate change: largely accepted as a consequence of industrialisation, the impacts are felt most severely by those who have the least. Emergency appeals are generously responded to, e.g. the Philippines typhoon raised £97m and the Pakistan earthquake £71m¹, but dealing with the root causes requires bravery, diplomacy, ownership, innovation and policy coherence across governments. Remedial actions need to change attitudes, as well as policies and systems. Simultaneously, they need to be cognisant of local dynamics in order to be successfully accepted, adopted and embedded.

The same can be said for efforts to eliminate gender injustice and the inequality of access to resources –

together, depriving many of their basic rights and causing or reinforcing abject poverty. There are no simple solutions and no easy-to-implement programmes.

Against this complicated background, the donor landscape is also changing. Where once individuals were happy to trust an organisation – and especially a charity – to ‘do the right thing’, we are now a little more circumspect. The media is full of cases where money has (allegedly) been misspent or frittered away. Large organisations, historically held up as pillars of virtue, have been systematically and publically torn down. The global financial crisis (now dubbed the ‘Great Recession’) and increased international terrorism have heightened sensitivities to the value proposition. International NGOs have, additionally, to defend growing public sentiment that charity begins at home and that the need of developing countries cannot be at the expense of national issues.

There are no simple solutions and no easy-to-implement programmes.

Donors, too, have personal pressures. They generally have more disposable income, are older, are achievers and are often commercially minded. This is true even if the individual has inherited the wealth, as family offices are staffed by accountants, lawyers and well-qualified advisors.

Thanks to technology, the media and the ease of travel, individuals also have a wider range of interests than their ancestors had. Where we once trusted experts in the field, Google and YouTube enabled technology now turn us into instant subject matter experts.

The result is that philanthropists have a broader awareness and more approaches from multiple organisations. No matter how many millions they



Carla Stent

may have to donate, available resources have a limit and choices have to be made. And so the individual reverts to the selection processes that they know – a commercial evaluation. What would have the greatest impact? What has the greatest (social) return? Driven by a desire to leave a legacy, as well as by the ‘instant gratification’ society in which we live – the (often unspoken) question is: ‘Will I see a return quickly/ in my lifetime?’

And so more of the donations are funnelled into specific projects that have metrics, baselines and quantifiable impacts, or projects that often have immediate results.

But these projects seldom achieve long-term, sustainable results. As in the business world, legal, systemic and cultural change is not achieved overnight. It may take years for the revised legislation to be passed, or for cultural norms to be embedded. Research has shown that it can take three generations for racial or ethnic change to be embraced.

However, establishing these fundamental frameworks is the only way to create change that has a lasting effect; avoiding constant hand-outs and repeat fundraising. And most people in need do not want to live on hand-outs. They want to be able to help themselves and all want a better future for their children and grandchildren. If they could have permanent solutions, even if these take time to achieve and embed, it gives them a passport to the future. In the face of no such long-term solutions, they have to queue for these hand-outs in perpetuity.

As a trustee of a number of charities, a seasoned commercial executive and an accountant, I am travelling an interesting personal journey. On the one hand, the accountant and executive in me, is demanding that there is some return on investment (even if purely a positive social impact). And as an entrepreneur, I know that rarely is the initial execution plan the one which is ultimately successful.

On the other hand, my very patient board colleagues, are showing me that sometimes the very activity that is difficult to measure, often generates the most significant lasting and systemic change.

I believe it is every philanthropist’s right to choose where to donate. There are certainly immediate circumstances that require quick funding. But I also believe that philanthropists need to consider a portfolio approach to their giving. Some donations may need patient capital; taking longer to show a return, perhaps

have less measurable and/or consistent metrics. Some may initially report limited, or negative, progress. But, nonetheless, the work has the potential to create a lasting and systemic impact: one that has a legacy far beyond the here and now.

Christian Aid’s In Their Lifetime (ITL) model of development is an example of how the new age philanthropists can still meet their objectives whilst addressing the unchanging needs of those in poverty. ITL creates an inclusive, engaged partnership with individuals that goes beyond finances. It also enables the sharing of knowledge, skills and networks whilst influencing long-term, embedded change to overcome poverty.

Let us not forget that the UK has a strong heritage of successful campaign movements: from anti-slavery and anti-Apartheid through to Plan International’s recent #becauseiamagirl.

These campaigns, though, are seldom funded via project work. The activity is hard to define, often requiring diplomacy to navigate and mediate between tensions and deeply ingrained perspectives. Or it requires the funding of the less sexy sibling: governance, finance, advocacy, back office systems without which everything will ultimately fall apart.

The Civicus 2014 open letter to activists described this brave type of donor: ‘Our primary accountability cannot be to the donor. Instead, it must be to everyone that is or has been on the losing end of globalisation and inequality and to the generation that will [otherwise] inherit a catastrophic future.’

Perhaps there is something that philanthropists can draw from the successful angel investment model. This has long been the commercial blueprint for disruptive innovations. Higher risk should have higher return.

Angel investors are brave. Yes, they look at a business plan (often more words than numbers). But more than anything, investors are attracted by a believable and trustworthy management team who understand their market, how to disrupt it and how to be adaptive enough to find ways to create a sustainable solution that delights their customers. Then they drop money in at the company level, leaving the management and board to determine how it is used.

Often the metrics are not clear and take longer to gain traction. Often the measurement of progress is in increments over a baseline. But mostly, and especially in the early days, it is narrative.

Once positive progress gains a foothold, the trajectory and the momentum is significant.

And so mutual trust is important. The donor/investor risks some funding to see if it 'sticks'; and is prepared for follow-on funding requirements. The organisation needs to use the capital wisely – but, more importantly, it needs to have honest communication. Not everything will always be smooth and positive. But those who are open and transparent will build lasting partnerships with investors/donors, local partners and beneficiaries alike.

Perhaps this is a model that philanthropists and charities can adopt. It may just deliver the long-term solutions that the world needs – by taking the best of commerce's measurement of results, combined with flexible (unrestricted) funding that promotes innovative solutions. And that, ultimately, reduces the needs of so many that are currently funded by so few.

Perhaps an alternative definition to philanthropy might be:

'Philanthropy – the promotion of resources alongside trusted partners, creating sustainable solutions and alleviating the need for replication.'

Carla Stent has held a number of senior positions in banking, private equity and retail industries. She has had direct responsibility for corporate finance & post-merger integration, strategy, business operations, brand development & management and business transformation. Carla has operated at Board level in several countries for organisations including Virgin Group, Barclays Bank plc and the Thomas Cook Group.

Carla now has a portfolio career, providing interim strategic, financial and operational consulting to clients in the private, public and third sectors. She is also a serial angel investor, as well as a non executive director on the boards and sub committees of JPM Morgan Elect plc, the Post Office, Marex Spectron Limited, Christian Aid and Power to Change Trust (which she also Chairs).

Carla is a frequent speaker on gender equality and philanthropy, as well as a mentor to emerging talent.

Carla is a qualified chartered accountant and was born and educated in South Africa.

¹ www.dec.org.uk



Emergent impact: a new route to change?

Matthew Taylor (www.theRSA.org)

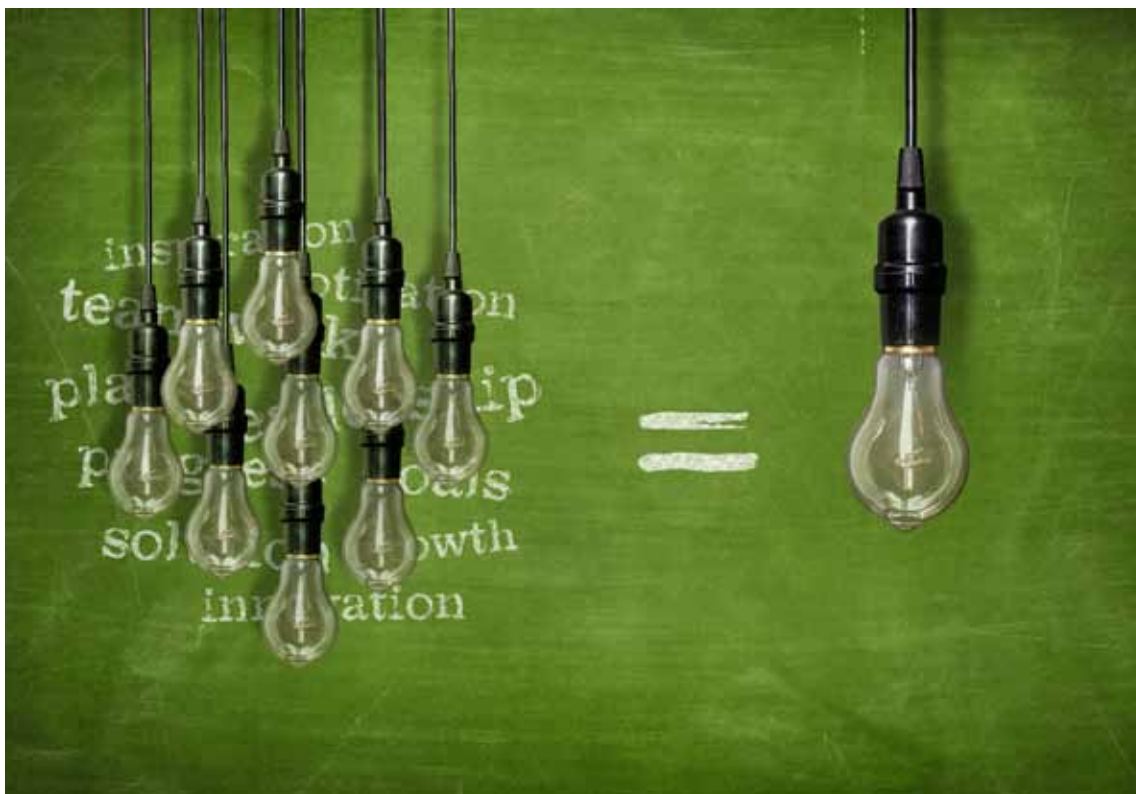
Maximising impact means looking not only at *what we do* but at *what we are* as organisations, exploring whether we are fit for purpose. The organisational change that such introspection can provoke is often painful and can be risky, but without asking the hard questions we are destined to achieve less than we could.

The deep structure of all organisations carries with it strengths and opportunities on the one hand, and weaknesses and threats on the other. Long-standing charities – and the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) has been around for 260 years – will have been created and then evolved under circumstances now past and on the basis of what may be outdated assumptions. Our histories can create expectations and path dependencies which are hard to shift.

Coming out of the hothouse of Downing Street nine years ago, I was attracted to the RSA instead of more conventional think tanks, because of its unusual characteristics, and especially its Fellowship. My predecessor had done an impressive job bringing stability



Matthew Taylor



and greater focus to the Society. But despite her efforts, and possibly reflecting weaknesses in governance, a number of big issues had been left unresolved. Whilst the Society did from time to time pursue worthwhile initiatives, overall its impact was limited.

From the outset my ambition has been to develop a new model of change, one which mobilised all the Society's resources. But I found my early years taken up working with colleagues to improve individual functions. Areas of change included recasting the expectations of Fellowship from a reward for past achievements to an invitation to future engagement (something which led initially to a decline in numbers); upgrading our events and digital offer so we could compete in the expanding and innovative world of online content; and weaning our research team off central funding and on to winning external income for cogent proposals.

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From the outset my ambition has been to develop a new model of change, one which mobilised all the Society's resources.

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This work contributed to a higher profile for the RSA and a number of successful innovations ranging from our Animate lectures (watched by tens of millions of people worldwide) and headline-grabbing research projects, through to establishing a small grant fund to back Fellows' initiatives and underline our commitment to enable them to be change makers.

Two years ago we had reached the stage where the functions of the Society felt much stronger. A growing international operation and our sponsorship of a family of Academy schools offered greater reach and depth. But our successes, while welcome, revealed more starkly that the whole didn't always match the sum of the parts.

So we embarked on a strategic review. The first goal was greater clarity. Engaging trustees, staff and Fellows we agreed to focus on three areas: public services and communities; education and learning; and economy and enterprise. More importantly, we developed an underlying world view which we call 'The Power to Create'. The RSA sees an unprecedented opportunity in the modern world to expand the scope for human agency and creativity, but big barriers stand in the way. Our modern mission is to help pull down those barriers.

The next step was to reimagine the organisation, moving away from a system based primarily on

functional departments. What is emerging is a model which combines departments, with their focus on expertise, performance management and career progress, cross-cutting collaboratives which enable staff from across the organisation to stand back and look at the overall quality and impact of our portfolio in our three areas of work, but, at the forefront, agile project teams which come together to deliver an outcome and dissolve once the project is deemed to be completed.

Behind these organisational shifts is a big ambition. Taking their prompt from organisations like New Philanthropy Capital (NPC) and publications like the one you are now reading, charities feel an ever greater pressure to demonstrate impact. As NPC argues, to have the best chance of succeeding, organisations need a model of change. This is an account of the world, of what needs to change in the world and of how the charity intends to contribute to that change.

Developing a model of change helps diagnose vulnerabilities and opportunities. The breadth of the RSA's interests and mission can make us hard to describe and risks a lack of focus. But being able to look at problems from many angles and to combine different areas of expertise can also be a major advantage. Our new method of whole organisation mobilisation is enabling us to add a variety of forms of intervention to that breadth of expertise. Whether we think that the problem to address is one of policy, research, practical innovation, public discourse or civic mobilisation, we have the tools ready to act.

For example, a current project with the Heritage Lottery Fund began with the question; why is heritage only occasionally seen as a strategic asset when local political leaders think about the future of their place? An initial inquiry, which benefited from the input of Fellows who are local leaders and heritage enthusiasts, suggested that the problem lay in an ambivalence about the very idea of distinctive local identity.

Seeing the need to widen the debate we then mashed together nearly 100 datasets to develop a national heritage assets and participation index. Not only did the index provoke national media coverage but it generated many local debates – we were even the subject of a motion of censure from one particularly aggrieved northern council! On the back of this interest we hosted well attended heritage question time events in major cities. Most encouragingly, we are now seeing local groups developing – often with Fellows at their heart – wanting to strengthen the role and voice of

heritage in place shaping. We hope to run the index again informed by what we now know about its value as a tool for engagement and activism.

What emerged almost accidentally in this project is now becoming the Society's modus operandi. 'Emergent impact' involves setting out with a clear mission and set of goals in mind but then being able to shift focus and method as the project develops. If a research report generates interest we can develop online content to deepen that engagement. If an idea mobilises people in one place we can push it out into other places through our network of Fellows. If we feel close to persuading a minister or official of the need for a shift in policy, we can swiftly scan our networks and pull together an expert round-table to refine the idea and cement support. If an idea needs to be proven practically we can develop collaborations to test on-the-ground innovations.

Emergent impact isn't easy. It requires continuous inquiry and an ability to shift focus and method quickly. It keeps RSA staff on their toes encouraging them to appreciate all the skills and tools at our disposal and to keep the focus always on what we are trying to achieve. Our existing and potential funding partners share our commitment to change but emergent impact challenges them to work in a more flexible and adaptive way.

The world is changing faster and becoming ever more complex. In such a world impact is a moving target. Combining ambitious long-term goals with diverse and flexible methods seems the right way to go but it's a demanding approach. Whether the RSA can prove the value of emergent impact remains to be seen but right now it feels like we are on to something.

***Matthew Taylor** has been Chief Executive of the RSA since November 2006. During this time the Society has substantially increased its output of research and innovation, has provided new routes to support charitable initiatives of its 26,000 Fellows – including crowd funding – and has developed a global profile as a platform for ideas.*

Prior to this appointment, Matthew was Chief Adviser on Political Strategy to the Prime Minister. Previous roles include Labour Party Director of Policy and Deputy General Secretary and Chief Executive of the Institute for Public Policy Research, the UK's leading left-of-centre think tank.

Matthew is a regular media performer having appeared several times on the Today Programme, The Daily Politics and Newsnight. He has written and presented several Radio Four documentaries and is a panellist on the programme Moral Maze. He writes a regular column for the Local Government Chronicle and the Inside Housing website. He has posted over 1,000 times on his RSA blog site and tweets as RSAMatthew.

Social investment objectives: can they be legally binding?

Peter King (www.weil.com)

People who fund philanthropic enterprises have a natural inclination to want to ensure that their money is used for the purposes for which they gave it. If a wealthy donor gives money to a charity to fund a hospital for sick children, he or she will not want to find out that the money has in fact been used to fund a home for the elderly, or worse still the salary of the charity's CEO. Even those giving smaller amounts to charity are often concerned to know how much of the charity's income is spent on administration and how much on its charitable objectives.

The traditional way of ensuring that money is used for a particular purpose in the UK is to give a charity 'restricted funds' – funds which are specifically earmarked for a purpose.

As a matter of charity law, the charity can only use the money for that purpose. Money is of course fungible, and there is no requirement to keep restricted funds in a segregated account. So, over time, restricted funds may be represented by investments or even creditors rather than cash. Sadly, the history of the UK charitable sector is littered with examples of charities which, under financial pressure, have used restricted funds to meet day-to-day expenditure, and of donors who have had little interest in checking that their donations are in fact used for the specified purpose.

In the new world of social investment the restricted funds mechanism is unlikely to be adequate. Money provided under social bonds and other new types of social finance may not go directly to a charity, but instead to a special purpose vehicle set up for the purpose of the project to be financed. That vehicle may not be subject to the constraints of UK charity law: it may not even be set up in a country with a clear body of charity law. More importantly, among philanthropists and their foundations, there is a shift in mindset from 'donor' to 'investor': investors want to get some or all of their money back, and instead of the normal financial investment return they expect to see a social return.

More importantly, among philanthropists and their foundations, there is a shift in mindset from 'donor' to 'investor': investors want to get some or all of their money back, and instead of the normal financial investment return they expect to see a social return.

As a result, rather than using the framework of charity law to enforce social investment objectives, investors are turning to the tools of contract law. This brings with it its own constraints. For example, one of



Peter King

the requirements of contract law in most jurisdictions is certainty: so social investment objectives included in a contract must be clear and, preferably, measurable. By way of example, an objective which says something like, ‘the funds raised by the issue of these social bonds must be used to improve living conditions in the poorer areas of Nairobi’, creates a number of uncertainties. Clearly the funds could not be spent on improvements to living conditions in Mumbai. But what exactly is meant by ‘living conditions’? What sort of improvements is envisaged? Which specific areas of Nairobi are contemplated?

It is up to those promoting social investment projects to consider these issues carefully so that the expectations of investors are not disappointed. Some suggestions about framing social investment objectives are:

- Careful attention should be paid to issues such as the geographical definition of the project, identification of the beneficiaries and delineation of the social benefits to be achieved.
- Building in a measurement methodology from the start of the fundraising process will assist in achieving certainty.
- Sponsors should also consider some form of regular reporting to investors, just as commercial companies report to their shareholders.
- It may also be appropriate to consider what will happen if the funds raised prove to be insufficient to achieve the objectives, or if there is money left over after the objectives have been achieved.

Following these rules, the sample objective might be redrafted as follows:

‘The funds raised by the issue of these social bonds must be used in providing a supply of clean water to the area of Nairobi shown on the attached map to persons earning less than 20% of the average weekly wage in Kenya as published by the Government of Kenya. For this purpose, the number of dwellings having the benefit of a water supply and the cleanliness of the water supplied shall be measured in accordance with the methodology set out in the Appendix. The issuer of the bonds shall provide semi-annual reports to the investors on the progress towards achieving this objective.’

Most investors in social bonds are not expecting to take legal action against the sponsors to enforce the objectives the sponsors themselves have set. But they are entitled to expect a robust legal framework which constrains how their money is used. Some have suggested that this may require amendments to charity law or even completely new legislation. However, contract law, which has served business so well over many hundreds of years, is flexible enough to do what is needed, provided careful thought is applied to project definition from the outset.

Peter King is a Corporate Partner in the London office of Weil, Gotshal & Manges, an international law firm. He has over 30 years of experience across a wide range of industries, transaction types and geographies, with a particular interest in India. His principal areas of work include cross-border M&A and equity capital markets, with a particular industry focus on the financial services, mining, information technology and utilities sectors. He has particular expertise advising boards of

directors on corporate governance and related issues, including the UK Bribery Act 2010 and is a regular speaker at conferences and seminars on matters such as the UK Takeover Code, London listing rules and anti-corruption programmes. Peter is co-chair of the firm’s Pro Bono Committee, a trustee of several UK charities, a director of the Salvation Army International and was a founder, together with Archbishop Desmond Tutu, of the Tutu Foundation UK.

Hitting the right balance?

Abi Rotheroe (www.thinknpc.org)

When an organisation tries to achieve some social good, they won't know whether they are achieving it unless they measure the impact of that work.

This can be extremely tough to do. But it is also extremely important – not least in the social investment world, the whole premise of which is that both social and financial returns are delivered.

So how can we encourage funders, donors, charities and social enterprises to get to grips with it?

There are two good places to start. We need to stop over-complicating impact measurement (the fact that it can be difficult isn't the same as it always being hugely complex). And we need to pool resources – we are the 'social' sector after all.

At New Philanthropy Capital (NPC), our mantra is 'measure what you treasure'. Charities should choose their priorities and measure their impact, and try and make sure this is proportionate to their resources.

We find a theory of change is a good starting point, from which charities can then hang a measurement framework. A theory of change links together those outcomes which lead to achieving your chosen goal, like a map towards the thing you want to achieve.

But think hard about what goes into that framework. Don't overburden yourself, and certainly don't set yourself up to fail. Has somebody else already proven the causal links you're looking at? Is best practice already known? For example, we know the impact that parental engagement in learning can have on academic achievement. If this is already established, your impact measurement can focus instead on the quality of the intervention, and the best ways to improve the way it is delivered.

At the other end of the spectrum, some charities will start closer to scratch. It may not be clear what

beneficiaries want or need, or how best to help. What is most important, for instance, to support new immigrant groups arriving in a new location? Your focus in this case should be on measuring and understanding the demand for what you are doing, and working out what is going on.

Everyone, ultimately, is on the hunt to find out what works. The process of understanding this can be speeded up if social organisations share their successes and their failures.

Even among those of us who worry there is too little impact measurement, we should be wary of now demanding too much. Not all organisations should be held to the same standard.

Even among those of us who worry there is too little impact measurement, we should be wary of now demanding too much. Not all organisations should be held to the same standard.

What is appropriate for a start-up is unlikely to be the same for an established venture looking to scale-up: while a new, small organisation should probably focus on collecting data to prove their effectiveness, larger charities might be thinking about outcomes data that can be benchmarked against external groups.

There's a lesson here for funders, too. Philanthropists should feel comfortable asking for a clear record of what their money is achieving, but they should also be realistic and proportionate in what they ask for. Ideally, funders should make sure the data they request also has use for the organisation itself.

Too often impact measurement has been seen either as a burden, or so obvious it doesn't need doing. As a result, we have ended up a decade into social investment with no clear idea of the impact that has been generated by a whole realm of programmes.



Abi Rotheroe



Some recent initiatives have targeted this knowledge gap, like the Impact Readiness Fund, which gives ventures money to improve their impact measurement, ahead of bidding for contracts or social investment.

So how can we move the sector along and improve practice so that in ten years' time funders know the impact of their grants and investments? We must leverage the little resources we have.

We must beg, steal and borrow. Work together. Import ideas from other sectors. Take risks – many of the things that can alarm elements of the sector.

There are lots of initiatives that are trying to do this but we need more. We need shared frameworks, standard metrics and outcomes and a willingness to adopt and try out the ideas of others.

I attended the Critical Mass conference in London late last year, and one of the main points I took away was the need to work with others to achieve social change. It was summed up in a presentation from a social enterprise that had been unsuccessful in raising funding, which it explained was 'because we saw ourselves as a good provider we were unwilling to work with others'.

How many of us are guilty of this? Yet if we are to have a chance of contributing to better social outcomes, we need to prioritise measuring and communicating our successes and failures. Only by working with others can we maximise our small footprint.

Abi Rotheroe is Deputy Head of the the Charities Team at NPC. Abi leads NPC's social investment work, and is the author of several reports including work on social impact bonds and charity finances.

Abi began her career at the Schroder Capital Management International and spent over 15 years in investment, working in Hong Kong and London. She is a Chartered Financial Analyst (CFA) and was a Director of Threadneedle Investment Management.

The changing relationship between philanthropic money and mission

Kenneth McDowell CA (www.saffery.com)

What is philanthropy?

The term philanthropy, as many readers will recognise, means ‘love of humanity’ typically in the sense of caring, nourishing, developing and enhancing a cause identified by the philanthropist. Such activities promote public good and focus on quality of life fusing social and humanistic tradition and delivering non-profit outcomes. This contrasts with business or private enterprise whose principal objective is private gain with the primary focus on material prosperity and profit.

Philanthropy, as a behaviour, attempts to resolve society ills at their root cause, as opposed to charitable objectives which seek to relieve, through charitable activities, the pain of the problems identified. Therefore, notwithstanding the common linkage of philanthropy with charitable activities, the philanthropist attempts to cure rather than purely to relieve the pain.



Kenneth McDowell CA

The term philanthropy, as many readers will recognise, means ‘love of humanity’ typically in the sense of caring, nourishing, developing and enhancing a cause identified by the philanthropist.

Whether attempting to cure or relieve the pain of identified social ills, there is a growing trend for measuring the return of funding deployed in social and charitable activities. This paper attempts to explore some of the causes of this and some of the predictable funding trends which might be more prevalent in future social and charitable funding frameworks.

Changing social funding patterns?

As is often said, we live in interesting times. This has never been more profound than in its relevance to the charitable and third sector and its current funding dynamics and developments.

The third sector has recently faced, and continues to face, funding cuts from hitherto predictable sources. Funding sources from central government or local authorities through the UK have witnessed dramatic change in recent years often in front-line service areas. In addition to reductions in overall funding, the structure of the funding has also changed to outcome-based service level agreements thus moving away from the operating grant awards of the past. This has affected welfare, housing and care, and many non front-line activities such as arts and culture have also felt the wind of change.

Such a sustained trend of funding cuts and uncertainty has placed untold pressure on the number of applications for funding to established foundations and trusts to bridge identified gaps in social activities. This comes hot on the heels of further emerging cost issues including mounting pension costs and auto enrolment obligations, minimum wage, sleep over rates and the state of the general economy.

Certain sector commentators have also questioned the efficiency of the third sector and its activities and to what extent the tax regime over-subsidises a potentially overlapping structure of third sector entities and activities. It is reported that there are over 200,000 charities in the UK and a question undoubtedly exists about why the country or indeed a region needs a number of third sector organisations delivering similar outcomes, with their own infrastructure costs, to a similar beneficiary constituency.

Against this developing funding landscape and commentator view, a question also arises over whether each Board of Trustees is aware of the need to measure and monitor the effectiveness of their charity's delivery of outcome and its efficiency. Or, put another way, is their charity deploying the maximum income resource percentage into charitable activities and in turn outcomes?

There is an undoubted conflict that the third sector faces between maximising beneficiary outcomes and servicing ongoing cost obligations. A truly troubling challenge exists for those charities which need to fund past deficits on defined benefit schemes using current funding resources. This is compounded further by the fact that many of these schemes have 'last man standing' characteristics.

The third sector, therefore, faces funding issues and efficiency questions. As a consequence, as with all market forces, new and emerging solutions blossom to potentially address this developing need.

The rise of philanthropic foundations, modern charities and social enterprises

Philanthropic foundations

In recent times, there has been a rise in the prominence of foundation charities which facilitate the activities of modern philanthropists or grant givers. Such charities often provide the administration and management support services which removes the requirement for separate trust and family foundations to be set up. Such

a professional and flexible service provides an umbrella of legal and charitable activities which can allow the philanthropist to focus on outcomes and impact.

This can provide a centralised solution for many philanthropists without the legal and regulatory burden and value-for-money challenges of running their own charity, thereby addressing some of the commentator views on efficiency noted above.

Modern charities

Modern charities need to be more business-like in their activities. Income shortfalls and cost pressures have already resulted in more collaborative behaviour between sector charities whether through shared facilities, procurement groups or driving best practice in areas of benefit to all. There is sector momentum on such commercial initiatives, and increasingly 'forced marriage' behaviour from key funding stakeholders has become more apparent with recent examples in care and housing. Again with more funder focus on outcomes and efficiency and the perceived and actual number of charities carrying out activities for common beneficiaries, a prospective merger and acquisition landscape would not be a surprise.

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There is an undoubted conflict that the third sector faces between maximising beneficiary outcomes and servicing ongoing cost obligations.

Commercial activities are also more relevant to a sector needing to generate more self-funding. Utilisation of charitable assets remains a key priority but the sector must always be mindful of the corporate and legal trading structures required to ensure such activities are delivered without jeopardising charitable status.

Social enterprises

Social enterprise investment vehicles provide financial capital to third sector organisations such as charities, social enterprises and community groups. Their model takes investment from private business, private individuals, government and banks. Using a loan funding model, they can provide much needed capital to social activities and, in certain circumstances, can gradually move third sector entity funding models from heavily grant subsidised to heavily self-sustaining. These developing funding alternatives are providing a solution for enterprises that generates both financial and social return. Such activities have been provided,

since 2013, with an additional boost through the introduction of Social Investment Tax relief (SITR), the world's first tax incentive of its kind targeting social investors. Tax incentives can potentially tap into a new type of philanthropic constituency which previously may not have been attracted to the third sector.

The consequential need to measure social impact

Due to the changing funding landscape, the competition for benefactors and grant givers and outcome-focused funding packages, there is a need to demonstrably measure the impact of funding.

Put simply, social impact is the outcome or effect that a social or charitable activity has on the community and the well-being of its people.

Measuring social impact can be difficult; however, over recent years principles have been developed. Many charities and social organisations need to grasp the modern concept of why it is important to measure social impact. Only by doing so can the entity understand, manage and communicate the outcomes and attach value to its stakeholders and in particular to its funders.

Having impact and agreed impact indicators provides information to enhance efficiency and an improved ability to deploy charitable resources to their best use. In addition such measures can allow targeting of activities that have proven to be particularly worthwhile. Conversely it may inform an orderly retreat from activities or investments where the return on investment or activity was not as expected.

Within the modern charity, these are expected operational key performance metrics. In addition, with

the advent of social investment there is a business need to ensure that the social entity's activities become attractive to this new form of investment. Social investment with the attendant tax breaks for private individuals has become, and is set to remain, financially attractive for the modern high net worth individual with social aspirations. As a consequence, if social investment is to become as important as financial return the measurement of social impact must be simple to understand, measure and communicate.

Many charities involved in social activities find themselves in an increasingly competitive situation through service level agreement tenders. Against this background, it is vital for such organisations to advertise their offering in a coherent and intelligible way to award-making local authorities and other customers. Such needs are heightened when there is little difference between alternative service providers and where procurement is influenced by legislative development such as the Social Value Act.

Conclusion

It is clear that the funding climate for the third sector has changed. There is less centralised funding and that which remains is changing more to outcomes service arrangements and less to the revenue grant funding models of old. Efficiency in the third sector is now a key driver and necessary measure for modern philanthropists. Modern philanthropy can more often now be routed in return on investment which, to the new SITR investor will be both social and financial. In a less funded and more efficient future, it is undoubtedly the case that measuring the outcomes of funded activities will be the modern measure of philanthropy.

Kenny McDowell CA is a partner in Saffery Champness, Edinburgh with specialist experience in the not-for-profit sector.

He brings a wealth of experience, having worked with a number of large Scottish charities as auditor and adviser, and has acted as trustee on a number of charitable boards for many years.

With over 20 years' experience, Kenny provides assurance, advisory and consultancy services to Scottish charities in the theatre, arts, education and care sectors, as well as faith-based charities and grant-making organisations. Kenny is also a

member of the Saffery Champness Not for Profit national Group and further specialises in financial reporting developments, more particularly, FRS 102, Charitable SORP and micro reporting developments through his membership of a number of national committees which are at the forefront of technical development in these areas.

Kenny is also a recognised speaker and sector commentator on financial reporting developments. Before joining Saffery Champness, Kenny was a partner in an Edinburgh accountancy practice for 12 years.

Profit for purpose: how housing charities are safeguarding services in a time of austerity

Mark Henderson (www.homegroup.org.uk)

In 2009, after years of abuse at the hands of her partner, Emma fled her home in Gateshead. She turned to the local women's refuge, run by Home Group, and began the process of rebuilding her life.

She soon discovered a passion for care and found that sharing her story inspired hope and fortitude in others.

She made her way through college and into a 'dream' job supporting Home Group customers.

Such was Emma's impact on those she helped that the refuge has recently named a room in her honour.

These achievements are Emma's; we at Home Group simply gave her a safe place to live and the opportunity to fulfil her potential.

As one of the largest housing charities in the country, it's something we do with tens of thousands of some of the most vulnerable people in society every day – helping people like Emma live healthier, more independent lives.

Over the 80-year history of Home Group – we were forged in the social ferment that produced the Jarrow March – we've built our reputation on high quality homes and services that are central to people's lives.

2015, however, marked an inflection point in that long history. Never before has the social housing sector faced such a concentrated period of political and financial upheaval.

As well as accelerated welfare reform, the extension of Right to Buy to housing association customers and withdrawal of the right to social rent for families earning more than £30k, the government has imposed a rent cut of 1% for each of the next four years.

Now, 1% might not sound particularly onerous, especially when compared to the much deeper cuts imposed on local authorities in recent years. But it means rents will be 12% lower than expected by 2020, reducing income by £2.3 billion a year. And care services already operate on wafer-thin margins.

The UK HomeCare Association says that councils currently pay an average of £13.66 an hour for care. The Living Wage will push those costs up to £16.70 an hour. Of that, the provider's margin is just 50p.

Factor in 40% cuts since 2010 to the budgets of local authorities who commission these services and you can understand why the HomeCare Association is warning of 'catastrophic failure' in the market.

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.....

They estimate a £750m shortfall in social care costs next year and an extra billion pound funding gap by 2020.

The care sector as a whole is working to achieve a new settlement that secures the future of care services and housing associations have a vital role to play in that future. We can reduce the burden on the NHS by providing more effective, more affordable care for people whose best interests are not served by a hospital bed or whose problems, such as debt or social isolation, can't be medicated away.

Consider the case of Derek, a client of ours at Home Group. Derek was clinically depressed, to the point that he had attempted suicide. He was referred to us by his GP at a time when he was lonely, isolated, weighed 25 stone and was deeply sceptical of the value of any help offered to him.

Through our Physical Activity Service we helped Derek become more active, encouraged healthy eating and portion control. As a result he lost 11 stone, his depression subsided and he no longer required medication.



Mark Henderson



Clearly this is a fantastic outcome for Derek and his family but the benefits for the NHS are equally clear. Rather than many years of medication and a high risk of illness due to a deteriorating physical condition, Derek is happy, healthy and increasingly independent. In fact he is now a volunteer assisting with the programme and helping others follow in his footsteps.

The cost of delivering this service works out at around £1,600. When you consider the positive outcomes it brings: increased well-being, reduced dependency on primary care services, lower prescribing costs and the ability to keep people out of hospital, you can appreciate that this approach saves the NHS money. And this isn't just a financial argument either. We can achieve outcomes that are better, as well as cheaper, and which keep people closer to home and their family support structures.

Our social impact is not limited to our traditional care services either.

Take Rayner's Lane for example, an estate in Harrow where Home Group is now 14 years into a regeneration project that has transformed a formerly deprived area of London.

The scheme showcases the unique ability of housing associations to combine social improvement with building at scale – delivering 700 new homes that help tackle the housing crisis while also shaping a vibrant, supportive community with people at its heart.

As a result, crime is down on the estate, and employment and educational achievement are up. The community is healthier and more integrated than ever before.

Such success is only possible because we marry our social mission and development expertise with solid financial foundations.

Those foundations rest largely on our ability to build and maintain our surplus.

Surplus, or profit, is often misunderstood when it comes to housing associations.

Proof of this comes when people pose the question, in these times of austerity: what should we choose, profit or purpose?

That is a false choice. The answer has to be both.

When people hear profit they might reflexively think of housing association fat cats sitting on piles of cash that could otherwise be put to good use. But that couldn't be further from the truth.

For us, profit is an investment dividend. We borrow against our surplus to build more homes and help more people, with greater surpluses providing greater confidence to our financial partners.

Without profit, there is no purpose. You can't pay the bills with good intentions. If the financial model isn't sustainable, the whole thing collapses. And you can't help anyone if you go bust.

I'm acutely aware of where our profit comes from and the responsibility that brings.

Rent payments from some of the poorest and most vulnerable people in society make up our income, supplemented by millions of pounds of public money.

There is, therefore, a mutuality in our organisations between us as custodians of the asset and the customers who pay us rent.

That imposes an ethical responsibility on us to ensure that money is reinvested in maintaining good quality stock and building even more homes to help meet demand.

So how are we safeguarding surplus and ensuring we're fit for a future in which we'll have to be much more self-sufficient than we have been in the past?

A large proportion of our expenditure is statutory – it's mandated by law. This includes the work we do on anti-social behaviour, for example, or to ensure homes are safe.

Another chunk is spent on discretionary services, like fitting out houses above and beyond the Decent Homes standard.

And on top of that we have tax liabilities to meet.

If we accept our income overall is going to fall – as a result of rent cuts and further welfare reform – the only way to ensure surplus is protected, so we continue to have the financial strength to do what we do, is to reduce the discretionary spending – cutting back on what is simply nice rather than necessary.

Key to that is being very clear about things we won't do.

Some housing associations have found themselves propping up failing companies that aren't viable or trying to fill in for every discarded service the local council has deemed unfeasible. Such overreach is likely to be fatal.

We need, instead, to focus on our core activities – those statutory requirements – and be ruthless about cutting waste.

We need to double down on what we do best: leveraging our financial strength and utilising our experience to build high quality homes at scale.

Housing associations do an invaluable, irreplaceable job. We make a substantial contribution to the country's economy and play a pivotal part in tackling the UK's housing crisis.

Most importantly of all, we remain true to the philanthropic roots of social housing laid down by the likes of George Peabody and Joseph Rowntree in the 19th century.

For people like Emma, we help transform lives. When I hear her describe Home Group as her 'guardian angel' and I see what she, and so many others, have been able to achieve with our support it makes me ever more determined to safeguard our future, so we can continue to play a part in safeguarding theirs.

Mark Henderson is the Chief Executive of Home Group, one of the UK's largest social enterprises – with over 55,000 homes under management across Scotland and England. It is the UK's largest provider of Supported People services in England, Wales and Scotland helping in over 500 projects and working with over 36,000 individual clients each year.

Home Group has a turnover of some £340 million per annum and was voted the UK's best Landlord and best Housing Association in the UK.

He has nearly 30 years of experience in regeneration and business support.

Mark is passionate about placing customers at the heart of any organisation. He previously ran his own business before joining Home Group, and before that had worked with the RDA as Operations Director. He has also undertaken a variety of regeneration and economic development jobs across the country in local government, most recently as Chief Executive of one of the largest County Councils in the country. He is a newly appointed Board Member for the National Housing Federation.

Mark is a motorcycle racing fan and a season ticket holder at Newcastle United.

Social investment for social change: putting your wallet where your heart is

Robert Gordon (www.stpaulsinstitute.org.uk)

New instruments are emerging that show an indication of a re-shaped capitalism, one in which economic activity is looked at with a new eye for common good and solidarity in an atomised world. Social investment has arisen amongst some of the stark inadequacies of contemporary capitalism (inequality, climate change, financial instability) with the potential for enabling transformation in areas that neither traditional investment nor charity are currently reaching. Such investment can encourage a more cohesive and holistic set of societal relationships, allowing us to lift others as we climb whilst constructing proactive and disciplined solutions to many of the problems we see in the world today.

Put simply, social investment places the importance of achieving positive social impact over and above monetary returns – allowing initiatives that have been denied funding streams a way to thrive in an encouraging environment. Whilst traditional investments might see consistent annual returns of 2 – 5% (adjusted for inflation)¹, the social investment of three major lenders has recently been shown to have negative financial returns of -9.2% over a 12-year period².

However, the benefit of being able to recycle such positive impact funds through a number of different initiatives (retaining 90% of the capital in the process) can clearly be a productive and ongoing way to facilitate outward-looking social change. The technique provides a discipline in terms of measured outcomes that can be more effective than charitable giving, as well as acting as a multiplier to the extent that invested principle can be used several times over. This enables a kind of parallel evolution of charitable models, with its own pros and cons, whilst still continuing to highlight the fact that *few solutions that meet the fundamental needs of the poor will get you your money back*³.

Put simply, social investment places the importance of achieving positive social impact over and above monetary returns – allowing initiatives that have been denied funding streams a way to thrive in an encouraging environment.

Social investment has emerged as a response to the failure of financial markets to support many important areas of non-monetary value creation. It asks us to consider how commitment to a higher good or social purpose might change the way in which we direct much of our economic activity and expectations. By pursuing such an approach, we are able to focus more on processes that facilitate a successful transition to more inclusive, collaborative and peaceful communities both locally and globally. This allows a much closer alignment of moral



Robert Gordon

values with economic activity – two things which are often abstracted away from one another – and should be seen as a fruitful path towards true fulfilment and prosperity. Social investment is a tangible and viable means to facilitate positive social change, you just have to leave (some of) your profits at the door.

If positive change is the goal, what might successful and productive social investment look like and what criteria should we be encouraging in this new sector? Here are four areas to consider.

To begin with, the relationship between investor and investee must be seen as an ongoing commitment to achieving shared goals; conducted through a balanced and mutually beneficial arrangement. This implies a degree of involvement in helping overcome challenges where the investor might have appropriate expertise (should the investee so desire it). It also extends to the terms of the investment. Understanding that *'unscheduled interest free periods, repayment holidays or restructuring of the deal'*⁴ could be a component, amongst other concessions, is important in developing such activities in a manner which places social impact over and above the importance of financial return.

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...the relationship between investor and investee must be seen as an ongoing commitment to achieving shared goals; conducted through a balanced and mutually beneficial arrangement.

Secondly, the onus of responsibility applies both ways, which means that measuring impact is another important aspect of successful engagement. A duty on organisations to prove their social impact in a consistent way works to the benefit of all parties involved and, most importantly, for those who are actually in need and for whom the work is conducted. This links closely with the need for objectives to be *'supported by a high-level theory of change to identify overarching goals and steps to achieving them using the financial tools at the fund's disposal'*⁵. Allowing such a measured theory of change to direct the terms of the financial relationship helps to overcome both issues of mission drift as well as the temptation to focus on more affluent communities (because they provided consistent revenue streams). The hard part is how to accurately measure impact in a way that isn't detrimental to the day-to-day operating of the organisations concerned. Small organisations often don't have the capacity for the kind of auditing required

to report back on their work well, and there is always the possibility that the need to meet targets can have a detrimental impact on operational behaviours.

Thirdly, it's vital to consider on whose terms the investment takes place. There is an important opportunity through these instruments to help overcome deep-seated issues around the mutuality of contracts. Ensuring that all sides of a transaction feel like they have come out ahead (for their own different reasons) should be the basis of a high-functioning economic system. Underpinning effective social investment is also the recognition that one engages because of a concern for the real impact that capital provision can have on facilitating the alleviation of human suffering or social shortcomings. The boundaries should therefore be primarily framed by the extent to which support can be provided to the shared social goals of all parties involved, rather than just the financial concerns and timeframes of the investor. The ongoing formality of a financial relationship – when conducted on a truly level playing field – can be of great benefit when helping to develop accountability and measured impact. Also, the need for discipline can be applied to an endeavour.

However, it should never veer into areas that might place unnecessary and restrictive strain or become a burden to the organisation being assisted.

Finally, positive impact investments should make up a significant part of your overall portfolio. These investments should be seen as a fundamental category not to be overlooked or de-emphasised merely because of single bottom-line returns, particularly because they can often develop intangible areas of stability and economic vitality in society. The sustainability of the system as a whole is just as important to a long-term outlook as returns on any single investment. Indeed, it is only within a sustainable system that the socioeconomic context for investments can exist at all. Resilient processes for positive change can be formulated through investment alliances that build discipline and efficacy into society-focused initiatives – focused on what it truly means to have a healthy, flourishing and prosperous society within which to operate.

A mechanism through which investors can see their positive values lived out in a wide variety of practical and tangible means is worth our enthusiasm and energy. It's not the whole picture, but when implemented properly social investment can provide avenues through which a concern for common good and diversity of wellbeing can be enacted. This

helps – at a fundamental level – to right some of the imbalances and inequalities that we have seen develop under finance capitalism. It requires a shift in perspective away from returns on investment towards a collaborative vision supported by measured impact. Such an approach enables a much broader potential for aligning personal or corporate values with social purpose and can be tailored to different avenues of change according to the concerns of individual investors. Organisations such as Big Society Capital, New Philanthropy Capital, Investing for Good and the findings of the Social Impact Investment Taskforce can help give an overview of the sector. For those who want to use purchasing power, the Buy Social Directory can provide similar guidance.

For what still remains a fledgling area, we must wholeheartedly develop the potential of social investment. Experiments in these areas aren't always going to work out, and there are still difficulties with defining truly productive indicators and ensuring balanced relationships, but attempts to link the private sector with a keen sense of higher good and social purpose should be embraced. Social investment is an important step towards creating an economic system that is loyal to the public as a whole, one that overcomes the tendency to extract the results of our shared creative potential for the benefit of a very small minority. Recent history has shown, once again, that the destructive results of systemic failure are often left behind as a burden for those who profit the least. By moving a significant proportion of capital away from monetary returns, putting it to task as an engine of positive social returns instead, we could even view this emerging sector as a proactive form of restorative justice.



¹ *The Barclays Equity Gilt Study – June 2014*

² *The Social Investment Market Through a Data Lens, Social Investment Research Council – June 2015*

³ *Kevin Starr, The Trouble with Impact Investing, Stanford Social Innovation Review – January 2012*

⁴ *The Social Investment Market Through a Data Lens, Social Investment Research Council – June 2015, p6*

⁵ *Smart Money: Understanding the Impact of Social Investment, New Philanthropy Capital – September 2014, p9*

Robert Gordon is the Manager of St Paul's Institute (stpaulsinstitute.org.uk) located at St Paul's Cathedral in London, a position he has held since 2009. He also sits on the Steering Group of JustShare, a coalition of churches and charities committed to global development and social justice that operates out of St Mary-le-Bow Church, Cheapside. Originally from Australia, he received a B.A. (Hons) from Melbourne University with a degree in Anthropology before continuing his studies in the UK with an M.A. in Museum Studies from University College London. A keen and active writer, he has particular interest in reconciling faith and morality with notions of success and progress that the modern world is centred upon.

The challenges for place-based charitable foundations engaging in social investment

Sue Cooper (www.stjohnsbath.org.uk)

St John's Hospital is a locally focused charity in Bath, which has grown since 1174 to become a major philanthropic charitable foundation, built on gifts of land and buildings over the last 840 years. For all that time we've been providing almshouse accommodation and support to individuals and organisations in and around the city.



Sue Cooper

Our philanthropy includes making grants to individuals in financial crisis and charities working locally with disadvantaged people and communities.

In September 2014 we launched a £4m Social Investment Programme and recently paid out our first loan to a charity working with carers across our region of Bath and North East Somerset. Our decision to engage with social investment enables us to support organisations over a longer period. Loans and investment can help organisations to become financially independent and sustainable over time, to refocus on their mission and reduce reliance on short-term contracts and grants. We're using this additional tool alongside our grant making to enable our money to reach more local people and to make a greater positive impact.

Loans and investment can help organisations to become financially independent and sustainable over time, to refocus on their mission and reduce reliance on short-term contracts and grants.

There's still considerable talk by central government about the benefits of social investment, including a range of new financial instruments such as social impact bonds. However, smaller and medium-sized local organisations find this agenda difficult to engage with. The financial landscape continues to change around them, with potentially reducing sources of income, which may impact on their long-term viability. As a result, many Boards continue to adopt

a conservative attitude to financial risk and remain anxious about taking on debt and investment.

In 2015 we conducted a social investment survey locally, which showed that while the majority of respondents understood the benefits of taking out a loan through a social investor, such as shared values and greater long-term support, there were few ready to expand their borrowing to grow and develop their activities. More than half had not sought to borrow money over the past two years while, of those who had, 12% had failed to raise funds using traditional methods, such as mainstream banks.

Despite this, a third of those questioned said that they considered themselves 'well informed' about the benefits of social investment and more than half (53%) said they thought they knew 'more than average'.

Probably our biggest challenge, as a 'place-based' foundation, is to grow our local market to generate new investment applications. We need to do this by building knowledge and confidence about what social investment is as well as how it can help organisations to become financially sustainable in a changing world. We've been tackling this by talking to lots of people and local networks, running free seminars with local and national practitioners giving presentations as well as collaborating on some academic research with the University of Bath about how third sector boards make financial decisions. This is something we'll continue to do in 2016.

We've also started the process of trying to measure the impact our money makes across our grant making and social investment using existing best practice. This

is a new activity for St John's and is work in progress. Local organisations recognise they have to do more about measuring the impact they make but, with their resources already stretched, this is quite an ask.

So we've developed an impact measurement tool, to start having those conversations when we make our own decisions. This then enables us to talk to organisations about what information they have available and to collect both quantitative and qualitative data to build the evidence of how our money is making a difference in our local area.

Social investment isn't new and won't be right for every organisation. However, loans or investment can provide an opportunity for those organisations that want to become more enterprising and grow and develop. This doesn't replace grant making but sits alongside the new range of options available to local organisations.

We'll continue to see how this form of philanthropic investment can shape the funding landscape in and around Bath, and help third sector organisations to become more financially resilient and able to respond to growing areas of local social need.



Sue Cooper is Head of Social Investment at St John's Hospital, a leading almshouse charity based in Bath and originally established in 1174.

The charity makes small grants to individuals in financial crisis and larger grants to organisations working with disadvantaged people and communities in and around Bath. Sue has led the development of St John's £4m social investment programme, which was launched in September 2014.

Previously Sue worked as CEO of Prometheus Finance, a social banking group in Wellington, New Zealand. She has extensive management, banking and social lending experience, working for Barclays Bank for over 20 years before joining Triodos Bank and leading the development of its lending to charities and social enterprises.

Small is bountiful: why local charities make perfect partners

Lewis Garland (www.localgiving.com)

Philanthropy is no longer a simple act of giving – the new generation of philanthropists are committed, innovative and engaged – they want to be the driving force of social change.

This generation want to see and understand the social impact that their donations are having. Moreover, most are not only motivated by the difference their money can make, but also by the difference they can make as individuals. They want to be the change they wish to see.^{1,2}

The changing dynamics of philanthropic behaviour, if channelled properly, can go a long way to addressing some of the deepest, long-term issues facing the UK charity sector.

The too-often neglected local voluntary sector can particularly benefit from this change. As Localgiving's recent report has shown, beneath its fragile financial state, this is a sector with an abundance of untapped skills and unfulfilled potential. For those who see the value of their philanthropy beyond monetary terms, the local voluntary sector is awash with opportunity.

The state of the sector

In October 2015 I co-authored a report on the sustainability of the local charity sector for Localgiving. This report found the local voluntary sector stretched to its absolute capacity with widespread concerns about the future. Local charities are severely lacking in time and resources, leaving them unable to build reserves or invest in alternative income sources, training and volunteer recruitment. Many groups fear for their survival, with just 47% of respondents confident that they will stay afloat over the next five years.³

This picture may not be one that immediately screams return on investment (ROI) to philanthropists looking to invest. Of course, it is true that significant skill, time and effort will need to be put in to make the sector flourish. However, the greatest opportunities for return (be it financial or social) do not lie in those organisations already flying high but in those with the greatest untapped skills, or unfulfilled potential. Local charities and community groups have potential in abundance.



Lewis Garland

That there is a great need for the services provided by local groups is in no doubt. The sector has witnessed a year-on-year increase in service demand, with 81% of charities expecting a further increase in the upcoming year. This trend has been exacerbated by an economic climate that has seen deep cuts to statutory services. Many of the issues facing local charitable groups stem from this escalation in demand. At present, the sector simply does not have the resources or skills to keep up with this spiralling demand while remaining sustainable.

That there is a clear, identifiable need for the services provided by small, local groups does not automatically lead to the argument that philanthropists should invest in these groups.

Could it be, for example, that larger, national or international groups with greater resources could provide the same services at a lower cost – thus representing a greater ROI for philanthropists? Or do local groups have their own intrinsic value, which simply can't be replicated by larger organisations whose operations are dictated from afar?

The true value of local charities

The local voluntary sector is wide and varied. There will, therefore, undoubtedly be some projects that could be provided by larger organisations. However, for the overwhelming majority of services in question, evidence suggests that small, local groups not only provide a better ROI for investors (in terms of input to outcomes) but are arguably the only providers able to achieve the desired outcomes.

- Firstly, it is necessary to point out that the often repeated assumption that larger charities are more financially efficient than their smaller counterparts has little basis. The evidence suggests that smaller charities demonstrate at least equal programme spending efficiency and administrative efficiency as larger groups. Whatever larger charities may gain from economies of scale, smaller charities more than adequately make up for it in resourcefulness, as well as lower overheads, fundraising and marketing spend.²
- Secondly, and crucially, the types of services that small, local groups often specialise in are heavily reliant on the trusting relationships and knowledge that come from being deeply embedded in a community. One cannot truly measure the impact of a coffee morning,

community garden or buddying session through outputs and feedback forms. The 'goods' produced by these services are hard to quantify and even harder to replicate. Perhaps the question, then, is not whether local or national groups represent a better ROI, but whether organisations without this community knowledge can deliver these services (and related goods) at all?

Grassroots groups are often at least as efficient as larger groups and, moreover, their strong community links make their work almost impossible for outside organisations to replicate. However, if current funding trends continue, the viability of this essential sector – including thousands of charities and their irreplaceable services – will be in serious doubt.

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This alone is a strong argument for philanthropists to invest in the local voluntary sector. The loss of these groups and services will not only damage the lives of individual beneficiaries, but could also lead to the degradation of our civil society as a whole. Through investing in local charities directly, in projects that enable the equitable dispersal of funds around these groups or in practical skills training for local voluntary sector personnel, philanthropists can play a fundamental role in changing this trajectory – helping to secure a forward-looking, flourishing civil society. Given the potential impact of such an investment, both at the micro and macro level, it is difficult to find a greater potential for ROI.

Of course, few philanthropists are motivated solely by such utilitarian ideals. While attaining some public or common good still lies at the heart of philanthropy, many philanthropists are also driven by the desire to make a personal difference and by the sense of self-worth and gratification they can take from this.

Like all major organisations, larger national charities often, by their very nature, provide little space for influence or innovation from individual investors. The contrast with small, local charities could not be greater. A carefully considered investment in the local voluntary sector will enable philanthropists to build tangible,

mutually beneficial relationships with groups, their beneficiaries and indeed the wider communities within which they are based.

- Many philanthropists are highly skilled people and would like their skills to be seen as assets by the organisations they work with. Most large organisations already possess core skills – including specialist teams for fundraising, marketing, finance etc – leaving limited space for a philanthropist’s skills to be utilised. Conversely, the local voluntary sector is severely short on these specialist skills.⁴ Whether a philanthropist chooses to focus on one local charity or to offer his or her expertise to a number of local groups will come down to both the motivations of the philanthropist and the needs and skills gaps in any given area. Either way, smaller local charities are far more likely to welcome and benefit from such a skills-offer than their larger counterparts.
- Larger groups are often firmly entrenched in their practice, culture and politics, making them inflexible and closed to new ideas. Moreover, these groups frequently have multiple stakeholders, including major investors, all vying for influence over the group’s activities and direction. Smaller organisations are usually far more flexible – few have competing stakeholder interests or cumbersome decision-making structures standing in the way of change or innovation.
- Finally, one huge advantage of philanthropists becoming involved in local initiatives is that they are more likely to have an understanding of the area and community within which they are investing. As discussed, one of the great strengths of local charities is their ability to fully understand and provide for the specific, often highly nuanced needs of their communities. This also applies to philanthropists. Those who are part of a community are far better placed to evaluate whether their investment is achieving its intended outcomes and recognise gaps in provision.

These days, philanthropists want to see and understand the social impact that their investment is having. Moreover, the motivation behind philanthropy is changing. Philanthropists increasingly want to balance their time at the bank with work at the coalface.

Investing in the local voluntary sector provides both of these opportunities.

There will always be people who choose to invest in big charitable causes and organisations. Indeed, this must remain the case. Just as small, local organisations excel in delivering specialist community-based projects, larger groups are usually better suited to addressing global public goods and mobilising mass support or emergency assistance.

The issue is not that people should give to local groups over national, or small charities over large, but that different philanthropists are suited to different sectors.

For those philanthropists who wish to ‘be the change they want to see’ through offering their knowledge, time and skills as well as their money, local charities represent perfect partners.

¹ *Duncan, B. (2004), A Theory of Impact Philanthropy, Journal of Public Economics 88, 2159-2180*

² *Borgloh, Sarah and Dannenberg, Astrid and Aretz, Bodo, (2010) Small is Beautiful - Experimental Evidence of Donors’ Preferences for Charities . ZEW - Centre for European Economic Research Discussion Paper No. 10-052*

³ *van der Heijden, H 2013, Small is beautiful? Financial efficiency of small fundraising charities, British Accounting Review, vol 45, no. 1, pp. 50-57., 10.1016/j.bar.2012.12.004*

⁴ *Localgiving, (2015), Local Charity and Community Group Sustainability Report: https://localgiving.org/reports/Local_Charity_Community_Group_Sustainability_Report_2015.pdf*

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Measuring our impact in the world of smallholder farming

Claire Allan (www.farmafrica.org)

Operating in four countries in eastern Africa, Farm Africa is a charity working to reduce poverty permanently by unleashing African farmers' abilities to grow their incomes and manage their natural resources sustainably. We develop innovative models that help farmers to not only boost yields, but also gain access to markets and add value to their produce. Our aim is to develop successful models that can be replicated at scale to deliver sustainable change for whole regions.



Claire Allan

Farm Africa works in complex contexts and understanding impact is critical to our success. If we don't know what change we have brought about and why, we cannot learn what works best in which situations or persuade others to adopt our approaches to benefit more people than we can reach alone. For us, impact is essentially about understanding what difference we make – what return do our investments generate?

Challenges in measuring ROI

The first challenge of measuring return on investment (ROI) in social investment is of course defining it. For most of our work, the main 'investment' comes from project donors. However, the communities we work with also invest their time and resources, and most projects are also partly subsidised by general funding. It is important to understand the extent of these additional investments to ensure we know the true cost of achieving our results.

Defining the 'return' side of the equation is more complex. Farm Africa's primary interest is the benefits of our work for rural communities. If people do not benefit enough from the activities we introduce, they will not maintain them and we simply cannot expect to deliver lasting change. Yet putting a value on these benefits and understanding what they mean for small-scale farmers is challenging for a variety of reasons.

Firstly, economic return (cash income) for smallholders will always be an important aspect of our work and is usually necessary to ensure sustainability.

But it is not sufficient. To really know what difference we are making, we also need to understand the social and environmental impacts of our work. Farm Africa is committed to improving the livelihoods of both current and future generations. This means integrating economic and environmental sustainability in all our work. It is easy to commit to this but valuing and comparing different dimensions of impact in practice is not straightforward.

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For example, if a project was found to boost household incomes of smallholder farmers but did so in a way that degraded soils, damaging the prospects of future generations, we would not consider this successful and would take immediate action to stop the negative effects. Although true impact cannot be known until after a project has closed, it is important that we are mindful of potential impacts, both positive and negative, during project lifetimes. Responsive, and responsible, management requires regular collection and application of feedback and evidence from the communities we work in.

Then there is the question of the appropriate period over which to assess returns. The lifetime of



our projects is usually insufficient to see full impact. Indeed we design projects specifically to bring about lasting change. But what is the right period? By the end of the project we can assess intermediate changes and estimate the likely longer-term impacts, but these cannot truly be known until sometime after completion. Of course, the longer we wait to measure impacts, the more external factors will have influenced people's outcomes and the more difficult it is to define the contribution of our work. Added to this, when a project closes, so does its funding stream, making it difficult to find funders willing to support measurement after the project is complete. Yet, failing to measure longer-term impacts can lead to short-term 'sticking plaster' approaches being prioritised over sustainable change, as they tend to cost less per head at the outset.

Our approach

So, should charities try to continually measure all short-, medium- and long-term economic, social and environmental impacts in all their work? Farm Africa believes not. We face trade-offs when deciding how much of our limited resources to allocate to measurement. On the one hand, we want to dedicate enough that we are confident we will know what is working and where change is needed to deliver the best results. On the other hand, we must be careful not to divert resources that would be better used to deliver more or better services to our target communities.

Spending on measurement has an opportunity cost and we aim to spend where the 'marginal benefit' is

highest. Rather than stifling innovation, we believe that appropriate measurement should be a key feature of innovation – after all, there is little point being creative if you are unable to demonstrate to yourself or others that your innovation works. We encourage our project teams to develop measurement systems that are consistent with our organisational approach but commensurate with their scale and needs. This 'fit-for-purpose' approach has led us to combine universal minimum standards that ensure we can track success across the board, with targeted use of general funds to go deeper to address priority knowledge gaps.

For example, last year we tested the use of mobile technology as an alternative to face-to-face demonstrations to train farmers in optimal sesame cultivation. As we had been working in the area for some time we already had good evidence that, if farmers' knowledge about appropriate agronomic techniques is improved, then their yields and subsequently income also tends to improve. To evaluate the technology, we focused on the unproven link in the chain – could the use of training modules on tablet computers increase knowledge as effectively as field-based training does? We found that the mobile training course did in fact increase knowledge to a similar level and did so at around one third of the cost. As a result we are now further exploring the use of mobile technology on a larger scale.

Similarly, we identified a gap in our knowledge of the wider, less tangible benefits of our natural resource management work. For example, in Chilimo

in Ethiopia, where we launched our first participatory forest management project in the 1990s, satellite imagery clearly demonstrates that deforestation was not only halted but forest conditions actually improved throughout the project. Similar results have been found across our forestry work, yet the socio-economic impacts of shifting forest management from state-control to joint management with communities have been more challenging to value. Rather than attempt to measure these less tangible outcomes in every project, we decided to conduct a 'social return on investment' study focusing on one or two longer running forestry projects. This will ensure sufficient depth of evidence to generate more credible conclusions that can inform how we measure, and ultimately deliver, similar work across the region in the future.

These two examples of sesame cultivation in Tanzania and forestry in Ethiopia show how different Farm Africa's projects can be, and illustrate the necessity of tackling impact measurement on a case-by-case basis. While there are similarities in some of the impacts of these two projects in terms of increased yields and household incomes, other impacts, such as reduced carbon emissions associated with reforestation in Ethiopia are not found across all our projects and therefore require a bespoke approach to measurement.

Claire Allan leads Farm Africa's impact measurement and learning function. Responsible for ensuring tools, systems and skills are in place to measure our impact on the ground, Claire's work is instrumental in obtaining robust evidence of what drives success in different contexts, helping us to understand and expand our impact.

Claire holds a Master degree in Economics from the University of Glasgow and a Masters in Applied Development Economics from the University of Cape Town. Before joining Farm Africa she worked as an economist in the government of South Sudan, providing analytical support to the newly formed Macroeconomic Planning Department of the Ministry of Finance during the transition to independence. She has also worked in the UK government as an economic analyst, supporting evidence-based policymaking on issues of environment and education in Scotland. In this role she developed an interest in the economic valuation of environmental assets and services – an interest that continues to inform her work today.

Claire has developed extensive professional experience in the public and non-profit sectors, specialising in results measurement, organisational learning and analytical capacity building. She has lived and worked in five continents and has a passion for improving the use of evidence in decision-making.

¹ <http://www.farmafrica.org/downloads/resources/ict244lowres.pdf>

Winning hearts through the arts:

increasing philanthropic support for arts and culture through awareness of its widespread positive influence on society

Jayne Smith (www.wmc.org.uk)

Investment – by definition – is the acquisition of goods that are not consumed today but utilised in the future to create wealth. The level of return determines the ‘success’ of that investment, but how is this marketed, monitored and managed for maximum impact and continuous cultivation in the creative sector where art and culture has significant impact emotionally and socially as well as economically? And how difficult is it becoming for arts organisations to attract investment initially, given the barriers faced within this arena?

As a registered charity, the Wales Millennium Centre has achieved exceptional results since its birth in 2004. Built at a cost of £106m, its construction was funded by the Welsh Assembly Government and National Lottery through the Millennium Commission and Arts Council for Wales. The Centre is now supported through an annual public investment grant from the Arts Council for Wales, which is less than 20% of its turnover. For every £1 received from the public purse, an additional £4.50 is generated by its commercial activities and fundraising.

The Centre now sustains up to 1,000 jobs and contributes over £60m annually to the Welsh economy. It is home to eight other cultural organisations including arts organisations Hijinx Theatre and Touch Trust, which support young people in arts and creativity. The Centre endeavours to work holistically across the organisation to satisfy both internal stakeholders and external investors of our passion and commitment through two major goals:

- Change peoples’ lives through inspiring a nation
- Take the best of Wales to the world and bring the best of the world to Wales.

How does this translate to those interested in supporting what is clearly a valued investment in Wales as well as those more interested in commercial return? Evidence that participation in the arts adds value to individuals’ existence certainly helps us in our quest to secure funding – but we still face the pressures of providing output for both private and public investors whilst not compromising our ambitious artistic, creative and educational output. As we evolve from a presenting house in the heart of Cardiff Bay to an organisation creating and touring its own productions, the risks increase but opportunities for success present a chance to engage new users and beneficiary groups for a far higher return.

In February 2015, Deputy Minister for Culture, Sport and Tourism, Ken Skates AM, gave a supportive



Jayne Smith

address to the Arts Council of Wales National Annual Conference, Risking Delight – the arts as a resource for hope. In his speech, he shifted the debate on public policy for the arts to the core of the Voluntary Arts Wales’ remit – active participation in grassroots arts and culture. Mr Skates talked about how Wales was more advanced than England in realising the intrinsic value of the arts beyond wealth generation:

*“We have values that strive for something greater than just immediate monetary return, **values that place belonging, identity, competence and security at the forefront of our actions.** For sure, our values are under constant threat from what Oliver James calls ‘Affluenza’, the persistent search for happiness from materialistic acquisitions. However, unlike most Western capitalist economies, I believe our values have the roots to withstand the seductive but withering influence of Affluenza.”*

With this level of recognition for the arts, we are in a strong and confident position that engagement, participation and output will all increase as a result of political influence and direction of support.

The Centre currently provides one of the largest free performance programmes in the UK and engages with nearly 90,000 young people annually through its Creative Learning and Community Engagement programme – the outputs of which have been exceptional and life changing for many.

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The issues currently faced within this sector, however, include funding cuts which ultimately breeds increased competition for investment from what is already a smaller, more selective portion of the philanthropic population. Inevitably this means a greater need to present investment opportunities to our supporters more clearly, professionally, attractively and – in our very nature – creatively, which certainly requires resources. A great deal of time, money and energy is absorbed in preparation and follow-up in addition to the physical delivery of a broad selection of innovative and educational activities to a wide-reaching target audience. The challenge for all organisations in our sector is how and where we direct this resource based on priorities. Depending on the project



supporter, monitoring and determining the level of accountability for stated key performance indicators varies. There is a focus on managing this effectively for efficient internal processes, cultural consistency and external perception of our infrastructure as well as retaining loyalty to our creative remit.

Since the register of charities was launched in the 1960s, the number has steadily grown with at least 2,500 organisations registering every year. In 2010, 4,448 new general charities were registered. The UK is not alone in experiencing such growth. The total number of non-profits, or tax-exempt organisations, in the US increased by 27% from 1995 to 2005. This highlights the competitive environment in which we currently operate with the prospect of this being compounded by the growing social enterprise culture which also draws on public funds and support.

Strong definition of case for support

What is important for us as an iconic, passionate arts venue and active international communicator of the need for culture to benefit those who may not access this in absence of our support, is that we work to ensure there is a strong case for supporting specific projects as well as unrestricted funding opportunities for more dynamic giving. The very nature of the sector demonstrates flexibility which can prove challenging when presenting proposals. Short lead times require a swift response for programming which may jeopardise the opportunity of attracting investment leaving some

exciting, worthy and valuable projects unfunded, underfunded or displacing funds. The ability to inject resources into defining a project increases the strength of this as an investment opportunity but it is not always possible in such a fluid, creative environment. Strategic decisions need to be made in light of the core values and objectives of the business and may not be easily presented purely as a commercially viable case.

Stakeholder engagement and public perception

We feel passionately about involving stakeholders in our activities and fully understand and appreciate the changing economic, social and philanthropic landscape not only in Wales – but in the UK and worldwide. In an organisation which presents a range of unique options for funding from individual sponsorship to large-scale educational programme support, defining our offering and ‘insuring’ it with our profile through reputational capital is critical to effectively matching aims to the demands of the investor. Recognising that social investment may be considered a higher risk than other opportunities to generate wealth, using insight from various perspectives and exploring both loyal and new relationships increase our opportunity of being able to define the offering and disseminate the outputs.

The ways in which we interact with communities beyond the walls of our beautiful building amazes and inspires all with whom we engage. Over its 11 years’ existence, the Centre has provided creative opportunities to over 200,000 children and young people and is continuing to expand its educational programme with the support of investors. Collating information and data from the communities which have benefitted from this outreach work and amalgamating that with the more general outputs associated with consumption of artistic culture is strengthened with extended involvement from stakeholders and insight from wide-reaching perspectives. It also enables us to undertake a more robust review based on feedback that can be fed into future strategy, which furthers our artistic influence, reach and impact.

Communication and understanding expectations

Articulating the return on social investment via the artistic programme we deliver is a challenge, as is understanding, translating and managing investor expectations. Exploring the most effective methods of ongoing communication is also imperative when designing and developing investor relations so that individuals, groups and funding bodies feel well informed of steps to achievement. We are fortunate

enough to be able to invite supporters to experience or witness some elements of our programme which emotionally attaches them to that investment. Through experiential interaction, the level of understanding is enhanced and individuals are inspired for future opportunities. Gauging the level of interest in these markers will link to certain activities/achievements, and how best this information is shared needs to be understood. A well informed team, strong client management systems, and a high level of customer insight and service ensures strong relationship building for now and to retain loyalty in the future.

Future at the forefront

The scope of social return from involvement in art and culture is extensive and will frequently and naturally impact on the economy – lending itself to the association of a monetary value to the delivery of our artistic activity. Whether the investor has an interest in financial impact or pure social benefit, the opportunity to collate the broader distribution of our work is a key indicator for the Wales Millennium Centre and provides the team with greater leverage for continued or future support.

Understanding the full force of our artistic imprint enables us to strengthen future applications which may require funding from government level. Again, in light of heavier demands on the economy, our ability to compete on a national and international scale for centrally and publically distributed funds is strengthened with statistics and economical impressions generated from our artistic and educational work. These metrics enforce clarity from the outset and engender accountability – outputs of which can be utilised to support future projects. Be this of importance to our investors or not – it’s a measure we enthusiastically share to reduce any associated element risk and attract a higher level demand for involvement in arts and culture in Wales.

¹ <http://data.ncvo.org.uk/a/almanac12/is-the-number-of-voluntary-organisations-increasing/#References>

Jayne Smith is the Business Performance Improvement Manager at Wales Millennium Centre based in Cardiff Bay. A Chartered Marketer, Jayne is responsible for supporting the Marketing and Development department in achieving the organisational vision and mission - enhancing the profile of the Centre as a catalyst for creativity and deliverer of an accessible, inclusive arts and cultural programme internally and beyond the building.

Return beyond measure

Alistair Lomax (www.philanthropycompany.com)

“If you can’t measure it, you can’t manage it.”

This quote has been attributed to Peter Drucker and famously adopted by McKinsey.

Philanthropy thrives on vision – on bringing the defiantly impossible problem under control, or turning the most fanciful notion of perfection into a reality. But how can we measure our progress towards such ideals? What is the purpose of being able to report on the impact that you are having?

Of the greatest interest to the major donor is the vision. Once a big vision is defined, the impact measurement needs to refer back to this. Big gifts follow big ideas. Ideals attract idealists.

Measurement of impact is incredibly important. It is so important that a major donor would be put off without it being in place. The best impact reporting exists when what is measured is directly related to vision. Too often, impact is considered in terms of the technical and tangible.

It is interesting to look at the differences between commercial investment and giving. In the case of commercial investment, the metrics are of course developed to the extent that it is easy to compare like with like. It is perhaps easier to make an investment. Should I invest in stock X or stock Y? But the form of both investment and return is the same: I put in money and I am returned more of it.

In philanthropy, however, I put in money and I get out pleasure, joy, satisfaction and a sense of wellbeing. I also want to contribute to and see the way that my gift advances the cause and makes a difference to beneficiaries. The relative lack of a hard and fast framework is perhaps behind the mantra that we often

hear from philanthropists that ‘it is hard to give money away effectively’.

Philanthropy is about intimate relationships and deep motivation. The very word philanthropy translates from Greek, meaning ‘for the love of people’. The real return on investment (ROI) for any major donor lies in the sort of pure pleasure that defies measurement.

Impact is important. No major donor would give serious consideration to an organisation if it were not able to measure and describe the effect of its work. Charities are becoming more sophisticated in the way that this is done and how it is reported.

Measuring impact and ROI are essential, but they are also fundamental – the ‘must haves’. You might call them the ‘hygiene’ factor.

Measuring impact and ROI are essential, but they are also fundamental – the ‘must haves’.

The description offered by Charles Handy, ten years ago now, of ‘a new breed of philanthropists’, still rings true today:

“Individuals, still in the prime of life, who have been successful in their chosen careers, made money, sometimes a lot of it... They talk of making a difference, of giving something back, but they aren’t satisfied by writing cheques to worthy causes. These people want to be in the driving seat because that’s where they belong... The chance to do this... makes the whole business of making money worthwhile.”

They are used to having the ear of leadership and to being able to influence the agenda. There is no shortage of people who fit Handy’s bill.

Today there are 12 million people worldwide who are classified as ‘high net worth individuals’. Their collective wealth is estimated at US\$55.8 trillion. There are more millionaires in London than in any other city in the world. 10% of the UK population has average assets



Alistair Lomax

of more than £967,000, including their home. The wealthiest 1%, or 600,000 have average assets of £2.8m.

But levels of individual giving have not increased as affluence has risen. Not everyone gives. 50% of all giving to charity is done by fewer than 20% of people.¹

While levels of wealth have increased dramatically over the last three decades, as John Nickson has argued, levels of giving have remained static. Even a small percentage increase in giving could make a dramatic difference.

The role performed by charities and social enterprises has been increasing as the role of the state has been in retreat. As the tide of state support goes out, so it reveals more opportunities for new forms of funding including for the would-be philanthropist. Many of these opportunities are in favourite areas for very wealthy donors such as healthcare, education and poverty relief.

But how much of this is down to the failure of organisations to engage with the needs and expectations of the would-be major donor? Organisations of all sizes may be unready to meet the expectations of major donors and to receive big gifts.

Philanthropists are self-motivated in their giving and they bring a level of sophistication that many organisations can find daunting. They have, in all likelihood, had a lengthy relationship with a cause long before they do anything about it. The organisation is then viewed as a channel.

When the Philanthropy Company starts looking at an organisation, we typically look at four areas:

- **Vision** – does the organisation have a compelling vision?
- **Leadership** – is there a credible and charismatic individual whose strength inspires confidence?
- **Process** – is there a programme of engagement, database and method of engagement?
- **Systems** – the database, people, bank account and gift aid registration.

Each of these areas needs to be robust. But the first two are of infinitely greater importance to major donors than the last two. The vision is more important than the process.



I'd suggest that whatever other factors are measured, an organisation needs to locate the vision at the centre of any impact measurement. There are three parts to the cycle: future, present and past.

- **Future** – this is when everyone is looking forwards and defining the most inspirational vision. The question to ask is how will we know when the vision is a reality. What will be measured?
- **Present** – how much progress have we made towards making the vision a reality? How do we capture the present (progress towards the vision)?
- **Past** – was the vision realised? How should we look back on success? What lessons may be drawn? What can and should we do next?

Consider an iconic example of a fundraising campaign – the Full Stop Campaign run by the NSPCC. The language is defiant and the end goal is often absolute. Nothing less will be tolerated than the total realisation of the vision. The name of the activity says it all as the focus is very much on the outcome or impact; the word campaign is used in the title, thus indicating a call to action.

There is a sense of resounding confidence. Each has had a well-developed and compelling case for support.

Each has attracted major funding and provided the rallying call to a large number of donors of every shape and size. It is much easier for organisations to define what they measure and report.

What should be measured and to what purpose? I'd suggest that, at least for major giving, everything needs to be related back to the vision. If such a resolute vision is defined, then it becomes easier to measure. In the case of Full Stop it was possible to measure the number of cases and the numbers of individuals afflicted and cases brought.

The impact report needs to set out and measure the level of progress towards making the vision a reality (that is where, after all, the pot of gold is located).

More than talking about impact, philanthropists often speak about the sense of peace and pleasure that they derive from giving. Dame Stephanie Shirley, one of our best-known and most celebrated philanthropists, has described her giving as *'the greatest achievement in life'*.

Even if all the rational impact measures are in place, the emotional return involved in major giving is beyond measure. The heart rules the mind. Wealth begets wealth, but philanthropy offers abundantly more.

Alistair Lomax was founding CEO of the UNIAID Foundation - 'the students' charity'. Recent clients include the University of Buckingham (£30m Campaign for Medicine), Educate a Child International (global £1 bn 'No Child out of school' campaign), the Scout Association, Save the Children International, NHS England, the Children's University, VSO, Experiment in International Living, UCL, Refugee Resource, Oxfam, Hertford College, University of Oxford, the William Morris Gallery and Modern Art Oxford. He holds a BA from Newcastle University, a Professional Performer's Diploma from the Royal Northern College of Music (Oboe) and an MBA from the University of Surrey.

Alistair is Director of the Foundations in Philanthropy course that is currently being run at Somerset House in London. He has worked with the Philanthropy Company for five years.

His work as a trainer and facilitator has been rewarded by a National Training Award, an E-Learning Award, a World of E-Learning Award and a Third Sector Award. He is a Trustee of Samaritans, in Oxford where he lives with his partner and children.

¹ Keen, R. (2015), *Charities and the voluntary sector: statistics*, Office for National Statistics. Ref SN05428.

Full spectrum finance:

how philanthropy discovers impact beyond donation and investments

Felix Oldenburg and Bjoern Struewer (www.ashoka.org, www.roots-of-impact.org)

Thinking of ourselves as the centre of the universe is a mistake we all make sometimes. We correct it when new phenomena cannot be explained using our old model. The social sector may experience such a moment with the rise of social innovations that clash with both the expectations of philanthropy on the one hand and business on the other.

According to research by Ashoka and McKinsey&Company published recently (Harvard Business Manager 6/2015), several recent billion dollar markets have been pioneered by social entrepreneurs – who never had profitable markets as their primary goal. And neither did the philanthropists who backed their ideas early in their journey such as open education, private hospitality, organic agriculture and peer-to-peer loans. Today, many of these markets are in the crosshairs of venture capitalists.

The findings illustrate an increasingly confusing world, with social entrepreneurs creating communities with huge economic potential, with businesses engaging in venture philanthropy for long-term market gains, with foundations testing the waters of mission investing and governments creating (misnamed) bonds to generate social impact.

‘For profit or not for profit?’, though, is still the simple question that frames our thinking as well as the reality of pretty much every social entrepreneur. It suggests that business models either return at -100%, and thus require donations or subsidies, or return well above inflation rate, and thus attract loans or equity. Pretty much all financial instruments currently in broad use correspond to one of these two ends of the spectrum.

Yet the most interesting ideas live between these extremes, and clash with the expectations of traditional donors and investors alike.

Let us play a simple game of three questions. The first two are: ‘Have you ever made an investment?’, ‘Have you ever made a donation?’ Most people answer

yes to both. But for the third question, ‘Have you ever invested in the same organisation you have given a donation to?’ we yet have to find the first person to say yes. This is mind boggling, and exposes a deep divide hardwired in our brains.

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A part of the explanation is culture, but another part is the business model and legal environment. Much of the discussion about what works, what scales and what is worth investing in has been pioneered by a growing community of impact investors. Most have a background in venture capital and private equity, with a language alien to much of the social sector. Even more importantly, they typically use straightforward business models targeting a small range of risk-return profiles and deal sizes. And in contrast to the excitement they create, their footprint has remained tiny, in particular in Continental Europe. There is good reason for this: in its pure form they are a dangerous promise to many social organisations who are not able to deliver the expected financial returns. More often than not, markets remain imperfect and do not translate the whole value created for society into returns created for investors. There is a significant mismatch between the available financing volume, investors’ expectations and the actual needs of social entrepreneurs.



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This is why it is time for the other end of the return spectrum to make its play. Philanthropists can create a compelling business case, and respond to the demand from social entrepreneurs. Rather than emulating the restrictive investment models of most impact investors, they could think of investing as recycling of donations, and could develop the flexibility to ask only for partial returns. In effect, by thinking of their grants and their endowment as puzzle pieces that can be combined in creative ways, they could deploy a broad range of financial instruments covering the full spectrum of financial returns from -100% all the way up to positive returns. Even where foundation regulations are not supportive of this approach, foundations can stay within current rules and still implicitly connect grant making, investment and partnership strategies.

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Doing so helps them solve three challenges. Firstly, most grantees come back for the same money after funding ends. Using investments where possible can nudge them towards developing earned income streams and ultimately reduce financial dependency on grant makers. Secondly, foundations can spend (parts of) every dollar, euro and pound multiple times, and increase their portfolio even in times of low market returns. Thirdly, using both grant making and investing and everything in between replaces the one-to-one relationship of a foundation and its grantee with a more collaborative network of players, increasing the potential for learning and impact orientation.

It sounds plausible in theory, but how do we implement this ambitious plan in practice? Philanthropists are neither investing with negative return expectations nor are they going to subsidise the returns of investors or take over the risks for them. Well, in fact, that's exactly what they should do (and some already are doing) if they are really looking for the most effective way to realise their own objectives: generating social impact on a large scale. The most common strategy at present is using guarantees and other de-risking instruments like junior equity or subordinated debt provided by public funders or

philanthropists. This mechanism addresses the concern of private capital providers by ensuring their capital can be preserved.

But there are other innovative models in the field of hybrid or blended finance which are paving new ways for full spectrum finance – either through smart combinations of different sources of capital or via innovation in the financial instrument itself. Intermediaries like Roots of Impact, the Financing Agency for Social Entrepreneurship and others are continuously developing models that are ready to be adopted on a broader scale. Here are some examples of these 'game changers':

Impact mezzanine/revenue participation agreement

Mezzanine capital is characterised by a mixture of features from equity and debt. The aim of this 'quasi equity' is to provide growth capital without the need for a social enterprise to sell equity, resulting in less dilution of ownership or loss of control – a key consideration for companies with deep social missions that might be compromised through traditional financing. A specific form of mezzanine is the revenue participation agreement. It entitles the investor to a pre-defined amount of the revenues of the company. The social enterprises pays back in line with its revenue generation capability. The revenue sharing model provides the company with financial flexibility and flexible repayment options.

Hybrid investments – philanthropy plus investment at the same time

There are several ways to bring philanthropic and investment capital together in a single transaction. For example, both types of capital can be brought in at the same time with the explicit intent to reduce the cost of capital for the social enterprise via the philanthropic funds. There are many social enterprises operating with (at least) two legal entities – a non-profit and a for-profit organisation. This hybrid business structure facilitates the combination of different sources of funding. In countries like the UK or the US there are already legal forms for social enterprises established that have hybrid elements from the for-profit and from the non-profit world.

Hybrid investments over time

Another means of using full spectrum finance is going hybrid 'over time'. Examples include convertible grants or forgivable loans. With a convertible grant the social investor provides the organisation with a grant that is

converted into equity or debt only in the case of success. Consequently the financing risk of a certain project or intervention is covered by the provider of the convertible grant. The opposite of that is a forgivable loan. It is a loan which is converted into a grant in the case of success. If the social enterprise reaches the goals agreed on beforehand by the investor and investee, the loan does not have to be repaid. The social enterprise bears the full risk of project success and on top of that has a strong incentivisation for making it happen as planned.

New pay-for-impact model: Social Impact Incentives

The pay-for-success landscape is currently dominated by the Social Impact Bond (SIB). SIBs are typically based on pre-defined outcome targets and if the service providers achieve these targets, investors are paid back with premiums (returns). This approach has been further developed: considering that there is no simple yes or no answer for impact, the aim of the innovative Social Impact Incentives (SIINC) is to generate a strong incentive for all parties – not only the investors – to continuously outperform the outcome targets and accelerate the impact. This ‘incentivation approach’ is applied to high-impact social enterprises running market-based models.

How does this work? An outcome payer, e.g. a philanthropic organisation, development agency or other donor, agrees to make premium payments to the enterprise based on the social contribution generated by their operations. These premiums are paid in parallel to the revenues the enterprise generates through its activities – straightforward and without complicated structures. In this way, impact is incentivised with the social performance of the enterprise being directly linked with its levels of profitability and thus its attractiveness for investors. The SIINC model is therefore an effective means of leveraging public or philanthropic funds to catalyse private investment in areas where there is high social impact, but where current conditions would provide below market-rate financial returns.

The first use of the SIINC model will be in Latin America and the Caribbean, where Roots of Impact has launched a Public Private Development Partnership (PPDP) with support from Ashoka and in collaboration with the Swiss Agency for Development and Cooperation (SDC) and the Inter-American Development Bank (IDB).

The challenge in all this is not in the financial engineering. It is a public education task. How many

foundation executives will have the courage to seem less generous on the surface as they reduce pure grant making and move along towards investing along the spectrum?

The key to winning the argument lies in clear impact measures for moving from grants towards hybrid investments. There really is a simple imperative: choose the financial instrument that maximises impact over time and look for the most appropriate financiers to make it happen. This needs to be transparent towards grantees/investees as well as the public.

What we envisage is almost a Copernican revolution. Rather than revolving around maximising the utility of one instrument (grants), philanthropy would revolve around the potential impact of a portfolio organisation, and use grants as one of several enabling and highly leveraged tools in a far more collaborative toolbox

***Felix Oldenburg** is one of the pioneers for social entrepreneurship in Europe. Ranked for the third time in Germany's '40 under 40' list, he is a BMW Young Leader, member of the Baden-Baden CEO Conference, and recipient of the German PR Award 2007. He started an internet company before he graduated in Philosophy (Bonn, Tübingen, Oxford) and Policy Management (Georgetown). He worked with McKinsey&Company in London, and later led a series of large-scale citizen participation projects across Europe before joining Ashoka as Germany director in 2009. In this role and as European director, he pioneered a number of innovations including the first Financing Agency for Social Entrepreneurship, new Ashoka programs in Austria, Turkey, Netherlands and Southern Europe, and helped several governments design social innovation strategies. Felix also serves on several boards, and speaks and publishes internationally. He lives with his wife and two children in Brussels and Berlin.*

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Join us in our vision to increase philanthropy and social investment across borders, sectors and causes

Why join us

'I believe Philanthropy Impact has a key contribution to make as a forum to encourage more – and more effective – philanthropy and social investment through the exchange of ideas, spreading knowledge and improving the professional advice available. This is more important than ever.'

LORD JANVRIN Deputy Chairman
HSBC Private Bank (UK) Ltd

Participants find events 'essential', 'highly educational' and 'inspiring'

Philanthropy Impact exists for the benefit of its members. We welcome any suggestions or contributions at editor@philanthropy-impact.org

To find out more about member benefits including free event registration, partnership opportunities and free resources please visit our website

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Since 1998 Philanthropy Impact has been delivering services to professional advisers and other key stakeholders including philanthropists, trusts, foundations, and charities. Our vision, as a charity, is to increase philanthropy and social investment across borders, sectors and causes.

We provide resources and learning opportunities to professional advisers and other sector stakeholders in order to enhance their expertise, awareness and influence in increasing the level of philanthropy and social investment. Philanthropy Impact's 2014 – 2017 strategy as a centre of competence and impact encompasses growth by:

- Supporting advisers, ensuring they are equipped with best-practice philanthropic and social investment knowledge for discussion with their clients
- Organising learning events seminars for members and interested parties
- Creating networking opportunities to enhance understanding amongst advisors, philanthropists, social investors, trusts, foundations and charities
- Providing know-how, reports and analysis on philanthropy and social investment
- Disseminating information that raises awareness about best-practice amongst advisors
- Collaborating with third parties to support the development of philanthropic and social investment practices relevant to advisors and their clients
- Advocating for philanthropy and social investment internationally

FOR PROFESSIONAL ADVISERS

We produce a range of resources to support advisers, donors and their families:

- Opportunities to meet and network with professional advisers, philanthropists, trusts, foundations and charities
- News and updates on philanthropy, social investment and corporate giving
- Support to help fulfil CSR mandates and improve employee engagement in philanthropy
- Bespoke initiatives and advocacy activities to promote philanthropy and social investment
- Tailored professional development programmes

FOR NON-PROFIT ORGANISATIONS AND PHILANTHROPISTS

We offer a range of resources to help non-profits improve their social impact:

- Free access to our network through roundtable discussions with expert speaker panels and topical subjects.
- Opportunities to engage with members and increase influence through publications, events and advocacy initiatives
- News and resources on charity governance, giving trends and social investment.



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