

**COMIC  
RELIEF**

# What's in it for us?

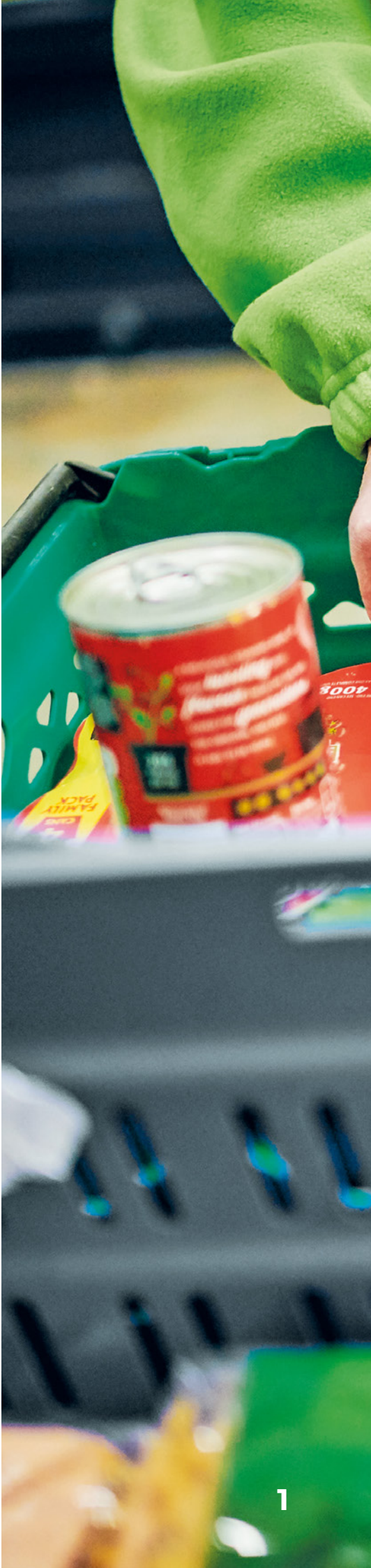
**A Report on Small Charities and Social Investment**



**December 2019**

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**“MANY CHARITIES  
ARE NOT HAPPY  
WITH WHAT THE  
SOCIAL INVESTMENT  
MARKET CURRENTLY  
HAS TO OFFER”**

# Red Shed & Social Investment

## Amir Rizwan

Comic Relief is looking at ways in which social investment could be an important tool to catalyse social innovation and support social organisations to become more sustainable. As a long-term funder of social change we have historically provided grant funding to support social organisations both in the UK and abroad.

Red Shed is a specialist fund within Comic Relief that is focusing on testing new and innovative ways of investing in social change and contributing to Comic Relief's vision of a just world, free from poverty. Through Red Shed, we are looking to understand where social investment fits within our overall funding strategy and the future direction of how we fund social change in the future. The investments that we are looking to make through Red Shed will be testing new and exciting approaches to social issues and offer learnings both for the organisation and the wider social investment sector. Red Shed is also keen to develop an approach where we can work with and support social organisations that find that the social investment market does not work for them.

Over recent months, Red Shed has been developing its thinking on what's needed to transform the social investment market to make it more responsive to the needs of social organisations. Our key thoughts so far have been focused on:

### **Listening to social organisations and working back from there**

Too often new social investment funds are created based on a top down approach. This has led to mismatches between what investors offer and

what social organisations want and need. At Red Shed we are committed to listening to the needs of organisations and working from there. This report is part of that process.

### **Being patient and flexible**

More money is not necessarily the answer. It's about offering the right kind of money. The current market supply is too restrictive, short term and inflexible meaning that organisations are either deterred from taking on investment at all or cannot make effective use of it when they get it.

### **Collaboration and partnerships**

No one in the sector can tackle social problems single-handedly. Funders and social investors need to have the humility to work together to develop holistic approaches that meet organisation's needs.

### **The role of innovation**

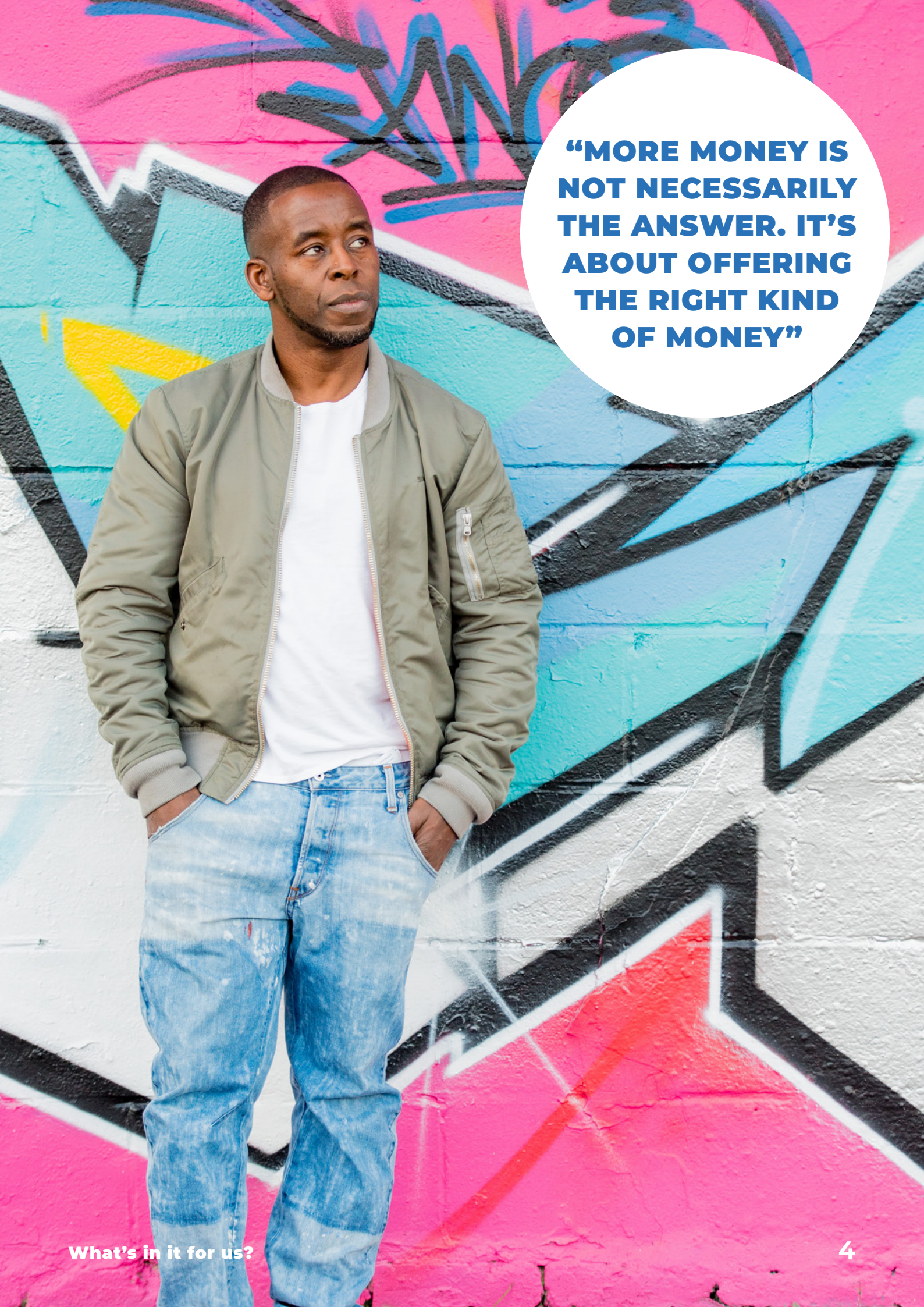
Red Shed supports innovation in two ways: using our money to support social organisations to develop new and exciting approaches to tackling social issues; and using new approaches to financing for us a funder.

### **Blended approaches**

Everyone's talking about it, as a grant funder, this is something that Comic Relief is taking very seriously. We believe there is a real opportunity to support and develop blended finance initiatives in key strategic areas. And we are equally keen to use our work to better understand some of the key questions raised by blended approaches, particularly around capacity building and subsidising the cost of capital.

**Amir Rizwan is Senior Advisor – Social Investment & Social Innovation at Comic Relief**



A man with short dark hair and a light beard stands in front of a wall covered in vibrant graffiti. He is wearing a light olive-green bomber jacket over a white t-shirt and light blue denim jeans. His hands are in his pockets, and he is looking off to the side with a thoughtful expression. The graffiti behind him features bold, abstract shapes in pink, blue, yellow, and red, outlined in black. A large white circle in the upper right corner contains a quote in blue capital letters.

**“MORE MONEY IS  
NOT NECESSARILY  
THE ANSWER. IT’S  
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# Introduction

## Patrick Barker

### Collaborating with Comic Relief

It was a fantastic opportunity to work with Comic Relief. As one of the country's largest charitable funders, its impact spans the UK and beyond. Through this study I have seen how Comic Relief's reach is based not only on its size but also its approach to working with its partners. I hope, therefore, that this research combined with the Red Shed specialist fund provides the platform to innovate at scale and at speed.

### Basis of Research

Small organisations make up the vast majority of charities in the UK, delivering vital work to the most in need and marginalised. Government austerity, combined with the growing needs of an aging population, is putting ever greater pressure on these organisations. The forms in which funding is provided to charities has also been changing and recently, the term "social investment" has entered the charitable lexicon. As a former investment analyst in the private sector, and now a finance director for a UK charity, I am fascinated by the potential that investment could have in channelling money to those who need it most. Though social investment remains a relatively new funding model, there is a growing body of research and commentary. Much of the existing research looks at the supply side of investment, i.e. from a funder's perspective. This study brings to light the often overlooked attitudes and appetite for social investment of small charities, through one of the largest studies of its kind.

### Biography

**Patrick Barker is a Finance Director within the charity sector. He carried out this research as part of his MSc in NGO Management at Cass Business School (City, University of London)**

# Summary: What This Research Means For Red Shed

This research is unusual in giving a substantial number of potential investees the chance to offer their perspectives on social investment and what it might offer to them.

It is a snapshot of opinion which – while not providing a single coherent view – provides some key indications about how social investment can be made more relevant to a wider range of small charities.

For Red Shed as a new player in the social investment market the research points to three key areas where the organisation can have a significant impact.

- (1) **Information** – situated within an existing grant funder, Red Shed is specifically well placed to engage with Comic Relief's 1000s of grantees to make sure they are aware of what social investment (from Red Shed and others) could offer to them. Social investment may not be relevant to everyone but it is important that those organisations that could make use of it know about it and have the confidence to seek it.
- (2) **Investment relevance** – the research suggests that many charities are not happy with what the social investment market currently has to offer, whether this is due to (the perception of) high interest or because the available investment does not fit charities' business models. Red Shed should seek to lead in developing products that respond to investee need.
- (3) **Capacity Building** – for many charities a key barrier to even considering taking on social investment is having the right combination of knowledge, skills and person time to assess whether social investment is right for them, and then to apply for and make use of it. Red Shed seek to provide charities with support they need to (a) understand whether social investment is right for them and (b) if it is relevant, develop the right plan for using it.

In all three of these key areas, the starting point is to listen and learn: about what charities currently know and need to know; about what kinds of investment could meet charities' needs and expectations; about what support charities need to be able to meaningfully consider investment.

This survey provides a broad overview of current perspectives. Red Shed's next challenge is to begin the process of practical experimentation working with grantees and - in doing so - to play a role in developing a social investment market that works for organisations creating positive change.

# Comic Relief Social Change Strategy

Comic Relief recognises that social change is complex. It happens at many levels and in multiple ways. Sustainable change demands shifts in the structures that keep people poor, as well as alleviation of the immediate suffering people face.

Comic Relief recognises that we are one actor among many. We recognise that we cannot meet every need, but believe we have the potential to play a unique role as a catalyst for change.

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## We believe in:

- Empowering grassroots communities, listening to their voices and needs and basing our decisions on their lived experience
- Linking people to services that are innovative and that can be grown or replicated to meet need at scale
- Connecting these interventions with broader policy and societal influences, creating political space and influencing hearts and minds

We consciously focus both on the ways in which we seek to drive change (how) and the challenges we seek to address (what).

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## How we seek to make change

Comic Relief creates social change in five key ways:



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## What change we seek to support: Social change focus 2018–2023

Comic Relief is committed to a Just World Free from Poverty. In this context, from 2018–2023, we will focus on the following specific challenges facing society today:

- Supporting children to survive and thrive in their critical first 5 years of life
- Providing a safe place to be for the most vulnerable
- Supporting new approaches to mental health
- Fighting for gender justice

In addition, Comic Relief specifically seeks and supports new approaches to funding change through our Red Shed specialist fund.







# Methodology & Context

Social investment is not working for small charities and we need to understand why. This report is step towards doing that.

IVAR research in 2016<sup>1</sup> revealed that large charities had both a better understanding of social investment and had been more involved in the development of the market than small to medium-sized charities. Patrick Barker's work, carried out in partnership with Comic Relief, begins to redress the balance by looking at social investment from the perspective of small charities.

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<sup>1</sup> [www.ivar.org.uk/research-report/small-charities-and-social-investment/](http://www.ivar.org.uk/research-report/small-charities-and-social-investment/)

## This research uses a mixed-method approach based on:

- a primarily quantitative online survey of 233 Comic Relief grantees carried out in May 2018 including 121 small UK charities
- 16 in-depth interviews: primarily with small charities but also with experts in social investment conducted during June and July 2018

## The objectives of the survey and interviews were to address the questions:

- What is the level of awareness of Comic Relief's grantees to social investment?
- What do investees/grantees want from funding, irrespective of the form of that funding being grant or investment?
- What is the appetite for social investment versus grant-based funding?

Alongside these questions, the research aimed to assess perceived organisational competency gaps that may be a barrier to organisations either seeking or taking on social investment.

## Small Charities In The UK: An Overview

This research uses the Small Charities Coalition definition of 'small', those with an income of up to £1 million. There are an estimated over 150,000 small charities in the UK, making up 98% of all registered charities.

Unsurprisingly, recent research<sup>2</sup> points to a challenging operating environment for small charities, with services stretched by increasing referrals and a strained public sector alongside an equally difficult funding environment, particularly in terms of funding overheads.

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<sup>2</sup> Page 14 references

One survey of local charities found that less than half of respondents were confident that they would be operating five years' time.

The NCVO Almanac reports that charitable income is unevenly distributed with 81% of the total going to just 3% of charities. Of the £141 billion net assets held by the UK voluntary sector, only 12% are held by charities with under £1 million turnover.



**“INVESTORS NEED TO  
REALISE THAT SOCIAL  
RETURN SHOULD  
COME FIRST. WE ARE  
EMPLOYING PEOPLE  
WITH AN ABUSIVE  
BACKGROUND. THOSE  
PEOPLE MAY HAVE  
A BAD DAY, AND WE  
CAN’T AND WON’T  
PUSH THEM IN THE  
SAME WAY A COMPANY  
COULD, WHICH MIGHT  
LIMIT OUR RATE OF  
FINANCIAL GROWTH”**

Charity CEO

## Flat Income And Shrinking Reserves

A 2015 survey<sup>3</sup> showed that the overall income of charities with an income under £1.5 million was not increasing to meet increased demand, with organisations increasingly spending reserves to deliver services. 51% had no reserves or declining reserves.

<sup>3</sup> Page 16 FSI reference

Smaller charities have been receiving decreasing income from government in recent years. The Small Charities Index reported a 11% decline in government funding for small charities between June 2013 and May 2017, while the NCVO Almanac reported the continuation of a long-term shift in government funding from grants to contracts.

While there has been an increase in overall government funding for charities in recent years, this has gone primarily to £100 million+ mega charities.

In contrast, the Small Charity Index found that earned income was growing 11% but that only 20% were estimated to be developing these new income streams

## Social Investment To The Rescue?

With research suggesting that earned income from customers other than government can be an increasing income source for small charities, social investment offers a possible way to fund the development of these income streams – supporting a move away from grant dependency.

The launch of government-backed wholesaler Big Society Capital (BSC) in 2012 was part of a wider effort by government to work with socially-minded investors to support the development of a social investment market in the UK – and, in doing so, enable investment to become a bigger part of the charity funding mix.

It is clear is that, since BSC's launch, a lot more social investment is happening – and BSC itself estimates<sup>4</sup> that the UK market grew from £213 million to £595 million between 2011/12 and 2016. However, alongside this growth in the market, many commentators in both the voluntary and social investment sectors have questioned the lack of risk tolerant, patient capital.

<sup>4</sup> [www.bigsocietycapital.com/impact-report/impact-market](http://www.bigsocietycapital.com/impact-report/impact-market)

2016 research by IVAR found that charities with an annual turnover of over £1 million were three times more likely to seek repayable finance than those with a lower turnover.

The report identified four key themes related to small charities and social investment:

- A need for blended finance
- High-risk, patient capital
- Need for good governance
- Need for capacity building

The findings below offer a snapshot of the point-of-view of small charities on what social investment currently means to them.



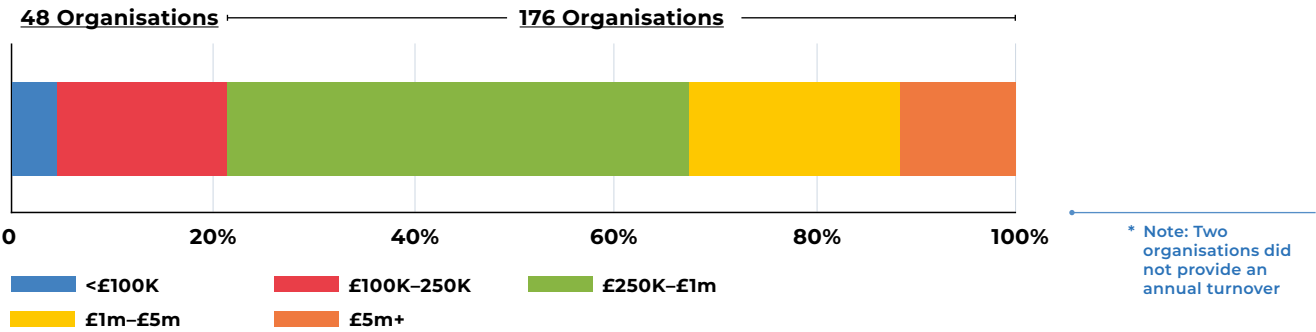
# Survey & Interviews

## Who Responded

The survey of Comic Relief grantees received responses from 233 organisations (a 23% response rate). 233 of those organisations were UK-based and 121 of those were small charities.

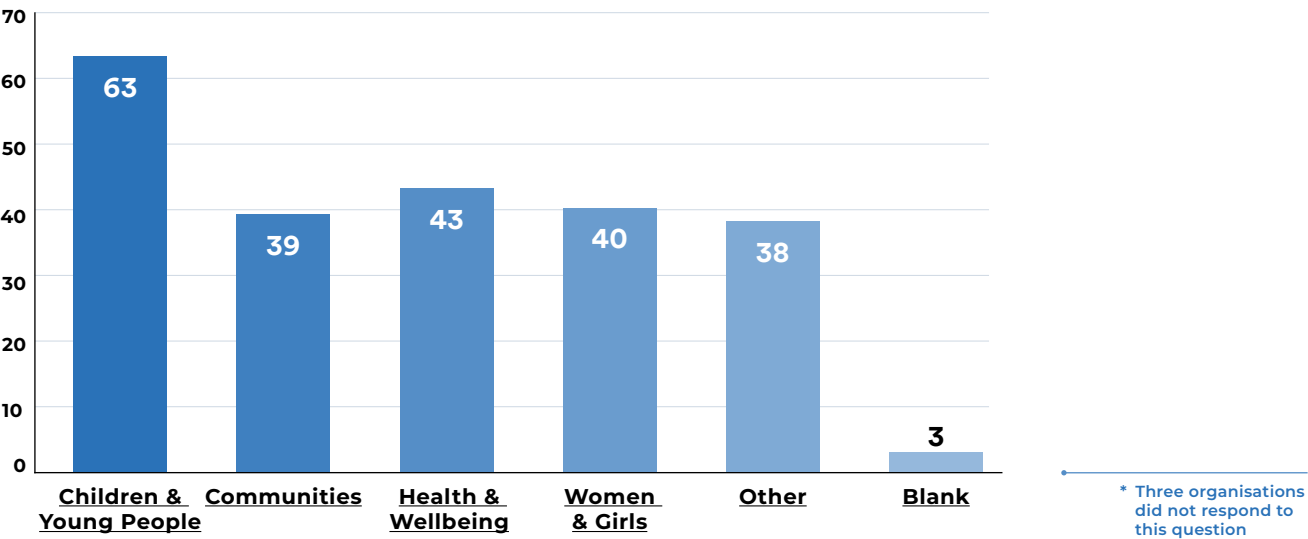
The chart below gives more detail on the turnover of the organisations responding.

### Annual Turnover\*



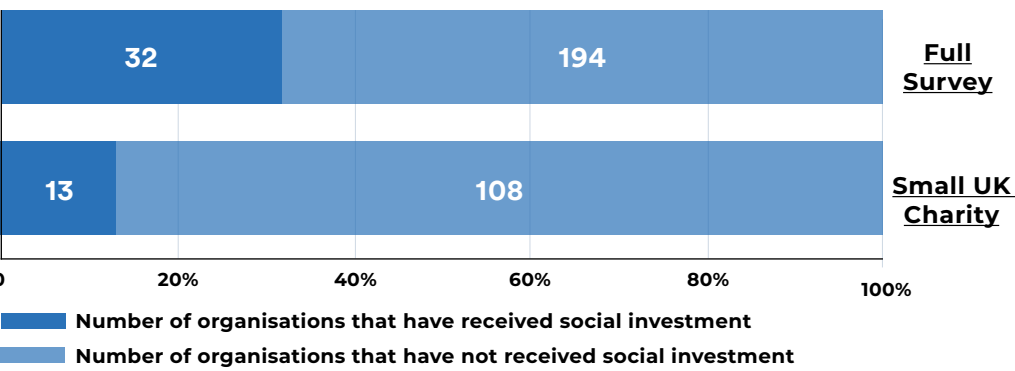
The organisations responding to the survey operate across a range of different activities reflective of Comic Relief’s key focus areas, with the biggest response coming from organisations working with children and young people.

Fig 1. Number of Organisations\*

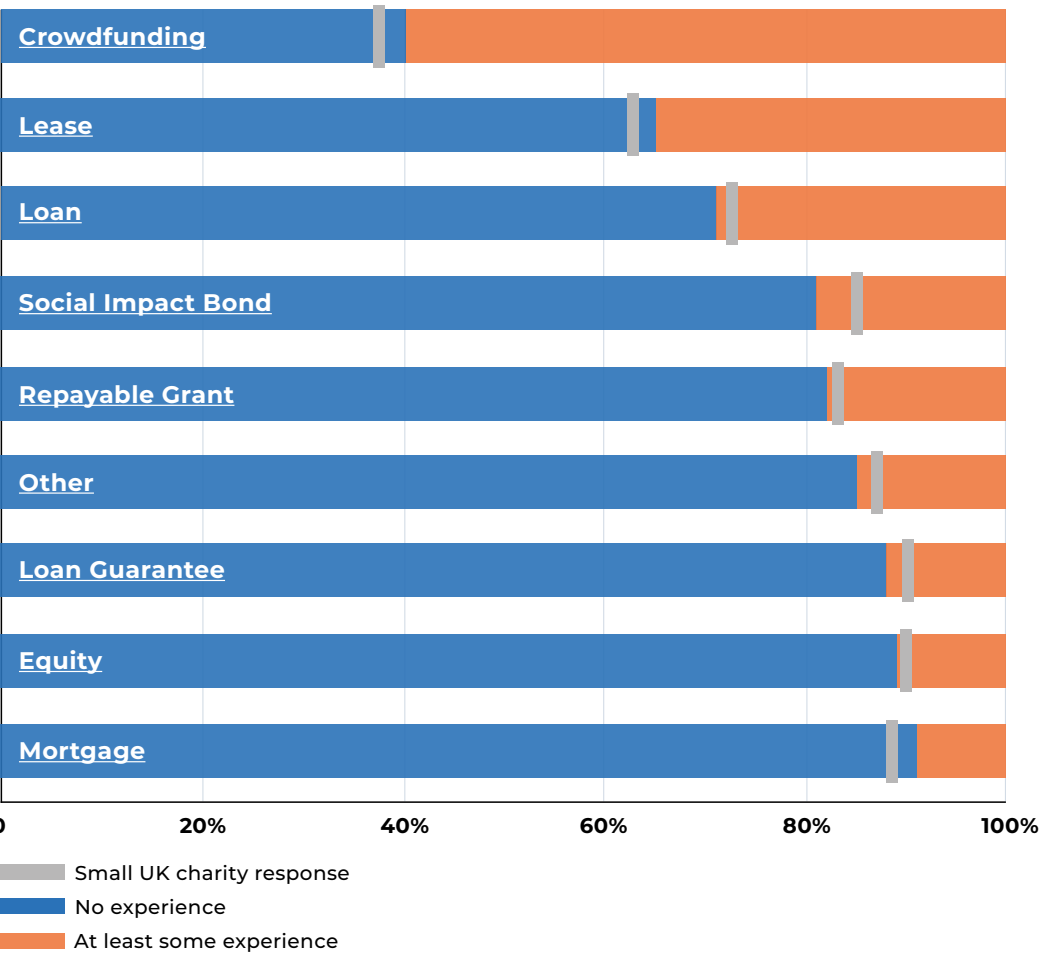


# Experience of Social Investment

A minority of respondents have experience of receiving social investment with small UK charities being slightly less likely (11%) than all surveyed organisations (14%).



The table below shows the types of social investment used by those survey respondents who have experience of using social investment. Crowdfunding was included because Comic Relief recently ran a pilot programme to support the use of this approach.



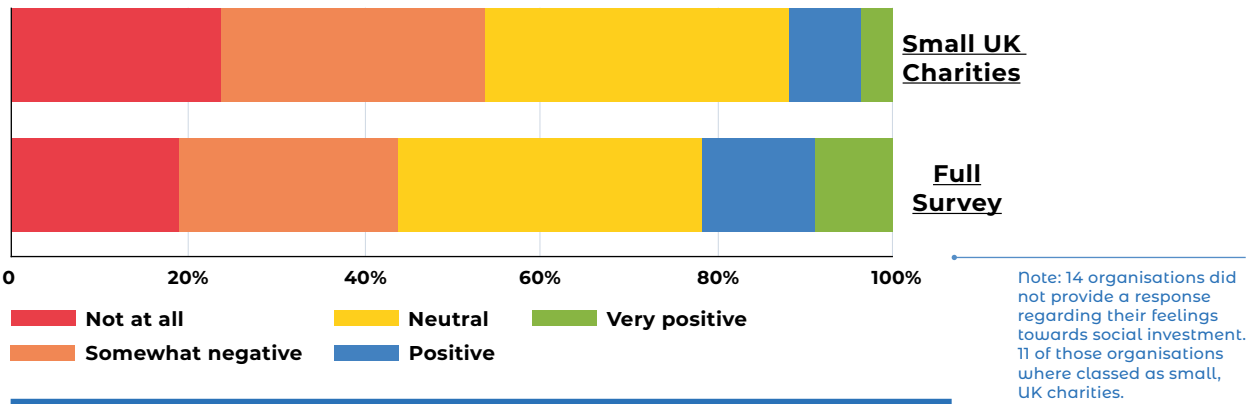




**“THE PERCENTAGE  
OF ALL RESPONDENTS  
WITH POSITIVE  
FEELINGS ABOUT  
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WAS VERY LOW”**

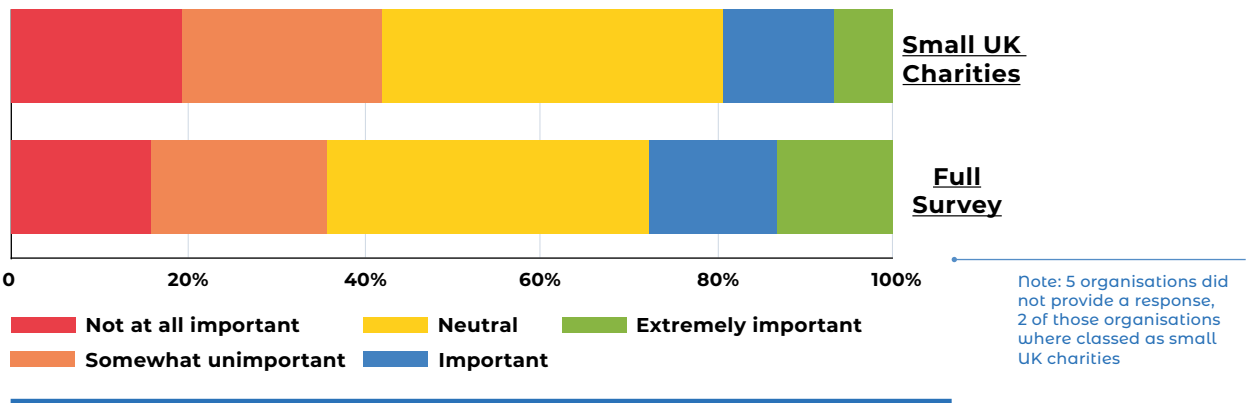
# Feelings About Social Investment

The percentage of all respondents with positive feelings about social investment was very low (22%) but the figures for small UK charities were significantly lower (12%), with more than half the small UK charities surveyed having actively negative views.



# Future Importance Of Social Investment

Despite limited use and negative perceptions of social investment, a higher percentage of small charities believed that social investment would be important for them in the future, with 19% saying it would be either 'Important' or 'Extremely important'.



# Barriers To Taking On Social Investment

Based on the multiple-choice options offered, the single biggest barrier identified to taking on social investment across all survey respondents was 'confidence'. Evidence from qualitative interviews provides some clearer evidence of what this might mean.

	Responses	%
Confidence in taking on such funding	133	65%
Knowledge needed for application	78	38%
Knowledge of funding sources	69	34%
Cost of funding	59	29%
Time required	49	24%
No need for such funding	24	12%

# Interviews

The 16 in-depth qualitative interviews sought to understand the potential role of social investment within the wider funding landscape.

Many interviewees recognised the need to increase their organisation’s financial resilience by developing a more diverse funding mix and some saw social investment as a route to doing that.

## Interviewees were concerned that grant funders are increasingly focused on:

- New and innovative programmes rather than existing activity
- Programme funding at the expense of core funding
- Short term funding on annual basis

Some perceived social investment as a tool to enable them to increase unrestricted trading income and, as a result, fund areas of activity no longer supported by grant funding. There was a view that grant funding supported risk taking in programme delivery – including pilot projects – whereas social investment was more suited to lower risk programmes with a strong track record or evidence base. Social investment was not associated with innovation for any of the charities interviewed.

**“I hope social investment doesn’t begin to displace grant funding, as many projects are not suitable for loans due to the nature of their work and may end up struggle if things moved in that direction. I also think the rates of interest on social loans are often not competitive compared to mainstream Lenders”**  
**Charity CEO**

## Barriers To Investment – Interest Rates

Several interviewees said cost was a barrier when seeking social investment: quoting rates of 7% for mortgage and 9.5% for an unsecured loan. One interviewee had decided to pursue an unsecured loan because of the cost, while others generally viewed interest rates as expensive and prohibitive.

On the other hand, the social investors interviewed felt interest rates were not a major issue. The table below illustrates the investor point that – for the kind of loans that small charities might realistically take on – interest rates have a limited effect on the month-to-month repayments organisations must make.

Investment	£100,000			
Duration	5 years			
Interest rate	3%	5%	7%	9%
Monthly repayment	£1,797	£1,887	£1,980	£2,076
Variance		£90	£93	£96



## Barriers To Investment – Charity Culture

The operating model and culture of the charity was a determining factor in their willingness to take on social investment with many expressing the view that: “running a business is different to running a charity.” As a result, social investment was more attractive to those charities who already perceived themselves to be operating at least partly as a business.

Interviewees saw creating new trading income as possible when the skills needed were like those involved in running a charity, with activity flowing naturally from the organisation’s existing work – for example, training activities where those clients who could afford to do so paid a fee. New activities were seen as a possible distraction from core charitable activity. Interviewees who were researching into opportunities to take on social investment tended to be those organisations who were actively seeking to grow.

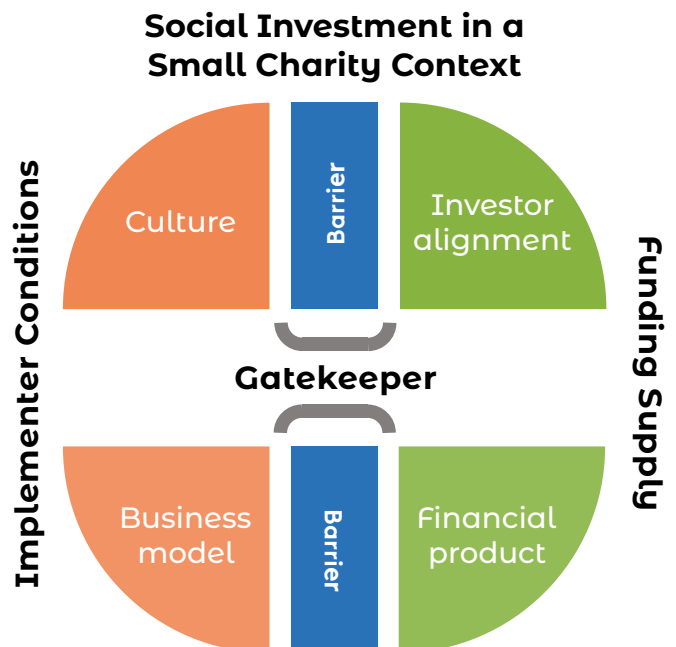
For some organisations, the professional background of trustees was important. One interviewee (a charity CEO) felt their board of local trustees (from non-corporate backgrounds) was less likely to support proposals to take on social investment than the board at their previous organisation, which had included more people corporate experience. This was based on their differing familiarity with financial principles and perceptions of risk.

Potentially cautious trustees were likely to be more influential within smaller charities due to the smaller staff team.

## Barriers to social investment – lack of knowledge and perceptions of risk:

None of the charities interviewed had been specifically approached about taking on social investment – and perceived risks and uncertainties meant many were not planning to research further.

While some trustees were averse to social investment based on previous financial difficulties experienced by the charity, staff felt that trustee fears were often primarily motivated by lack of knowledge – with those who were aware of social investment likely to be positive about it. Some CEOs viewed trustees as gatekeepers with a key role in unlocking the use of social investment through their decision-making.



For many charities, limited time available for fundraising meant that they were more likely to seek funding from existing reliable donors – leading to an inherent inertia for the social investment market to overcome.

**“ABOUT 5 YEARS AGO,  
A LOCAL AUTHORITY  
COMMISSIONED  
PROGRAMME ENDED. WE  
ALMOST WENT BANKRUPT  
AND, I THINK, THE SCARE  
OF THAT EXPERIENCE IS  
STILL FELT BY MY TRUSTEES.  
SINCE THEN I HAVE  
FOCUSED ON CREATING A  
MIX OF FUNDING SOURCES,  
INCLUDING SOCIAL  
INVESTMENT. WE ARE IN  
A MUCH MORE STABLE  
POSITION NOW, AND  
THAT’S A LEGACY I WANT  
TO LEAVE.”**

Charity CEO



A full-page photograph of two young women standing outdoors in front of a red brick building. They are both wearing roller skating gear, including helmets, elbow pads, knee pads, and wrist guards. The woman on the left is wearing a black helmet and a black hijab, while the woman on the right is wearing a green helmet. They are both wearing grey long-sleeved shirts with yellow accents and black shorts. The woman on the left is holding a colorful skateboard, and the woman on the right is standing on a skateboard. A white circular graphic with blue text is overlaid on the lower left portion of the image.

**“SOCIAL  
INVESTMENT WAS  
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OPERATING AT  
LEAST PARTLY AS  
A BUSINESS”**



# Findings

This report has considered the potential role for social investment within a small charity's funding mix, the following have emerged as recurring themes.

## Limited Understanding

Only 14% of all charities responding to the survey had used social investment and the interviews suggest significant barriers to wider use by small charities around:

1. Limited understanding of social investment
2. Lack of the appropriate types of investments at the right price
3. Inability of many charities to monetise their activities

However, our research shows that charities are increasingly seeking to diversify their income in response to the decreasing availability of grant funding, particularly in terms of funding to cover core costs.

## Recognition Of Potential Role

Given the need to generate unrestricted income to fill the gaps, many charities were open to social investment but overall significant doubt remains regarding its long term relevance.

The two key issues for charities considering taking on social investment are:

- (a) Organisational culture
- (b) Business model

Put more simply, do they want to take on repayable finance and are they realistically able to.

## Matching The Funding To The Situation

Charities felt that social investment was best for proven programmes, with grant funding the better option for new and innovative work. Some charity leaders arrived at this position for pragmatic reasons

with one CEO asking: "Why ask for a loan, when I can get a grant?"

However, our findings showed that, whether receiving grant or investment, interviewees felt it was important for funders and charities to be well aligned based on:

- Shared values
- Empathy for both the work of the charity but also the challenges faced by charities.
- Ability to collaborate with funder on impact measurement, reporting and when seeking capacity support

On the matter of cost, there was a clear divergence between the charities and investors interviewed. Charities felt interest rates were problem while investors felt they had no impact. This may illustrate a lack of engagement between investors and small charities.

## Assessing the risks

The risks involved in social investment were a recurring theme with quotes such as "I simply can't see how we'd pay back a loan". However, it is not clear to what extent these fears could be alleviate if charities had more knowledge of possible ways to generate trading income and the role of social investment in developing those models.

The single biggest concern mentioned by 65% of survey respondents was 'lack of confidence'.

There is potential for social investment to become a significant tool for some charities seeking to develop or grow their trading income but that it will:

- (a) Not be relevant to all charities
- (b) Will only be useful with a wider mix of funding streams which, for most organisations, will continue to include some grant funding

# Appendix:

## Red Shed Theory of Change

### 1 The Challenge

- Sustainability is a key issue with charitable organisations over reliant on grant funding
- Social investment products don't always meet the needs of charities and organisations with a social mission
- Charities in particular struggle to access, or lack capacity to manage social investment
- To date, Comic Relief hasn't adequately tested social investment or explored our potential role in the sector

### 2 What We Do

- Red Shed defines social investment as all forms of repayable finance. Social impact will be always be at the heart of Red Shed investments
- Red Shed will make investments directly and through intermediaries, in partnership with other investors and Comic Relief teams to find opportunities to test new ideas and ways of working, and to draw in their expertise and share learning
- Red Shed will work with organisations who are ready for social investment, as well as those who aren't yet ready. Red Shed will work with those organisations to become ready
- Red Shed will work in the UK and globally across Comic Relief's 4 issues but will work outside of the 4 issues where there is a particular form of financing we want to test

### 3 Outcomes

#### Short-term

- Red Shed will work with organisations who haven't had social investment to become investment-ready using blended finance
- Red Shed will offer suitable and affordable financing to investment-ready organisations to fund innovative approaches to addressing social issues
- Red Shed will increase their understanding of social investment by learning from partners and sharing their learning with the sector
- In collaboration with other departments, Red Shed will build Comic Relief's capabilities to make and manage social investments
- Red Shed will build understanding across Comic Relief about what social investment is, what we are funding and what we are learning in order to increase buy-in

#### Mid-term

- Organisations will be ready for repayable finance
- Organisations will feel supported to strengthen and are able to make planned repayments

#### Long-term

- Repayments recycled back into Comic Relief and re-invested to increase social impact
- Red Shed will contribute to good practice in the sector, as well as improve their offer
- Red Shed will prove the concept of social investment for Comic Relief and where to use it to have the greatest impact

### 4 Assumptions

- Social investment has the potential to have greater social impact when you offer the right financing model to the right organisation
- Repayments will be recycled back into Comic Relief and be re-invested in other organisation addressing social issues, thus having a greater impact than grants
- Testing a range of different financing models across a range of issues and types of organisation will enable Red Shed to understand where Comic Relief can best play a role in the social investment sector
- Because we want to test a number of different models of financing, this may lead us to invest in issues outside of Comic Relief's 4 priority issues
- Red Shed can support charities struggling to access, or lacking capacity to manage social investment and become investment-ready through blended finance
- Working in partnership with other investors will enable Red Shed to test more products and learn more, faster. In turn we can influence the sector by being transparent with our own learning
- Comic Relief will never be the largest social investor but are privileged to have a flexible fund to test different approaches. Our profile is attractive to potential investees

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Comic Relief is the operating name  
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