A Guide to Giving

3rd Edition

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A Guide to Giving

3rd edition, December 2008

Editor: Susan Mackenzie

Produced by Philanthropy UK
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Foreword

The American industrialist and philanthropist Armand Hammer is quoted as saying "I just want to leave the world a little better than I found it." A Guide to Giving is designed to help you do the same – whether you are a budding philanthropist or an engaged donor and whether you want to give money, time, expertise or encouragement.

With philanthropy playing an increasingly important role in people's lives, the third edition of A Guide to Giving is in a league of its own in providing up-to-date practical information, details of organisations that can help, and features on some of the UK's leading high-net-worth donors. For advisers like us who are involved in helping private clients create their own effective giving strategies, A Guide to Giving is an equally valuable reference.

Susan Mackenzie, editor, and her team are to be congratulated for their professionalism, dedication and enthusiasm in leading this initiative. We are delighted to recommend A Guide to Giving to individuals, companies and foundations considering how they can make a difference.

Mark Evans
Head of Family Business and Philanthropy
Coutts & Co

Maya Prabhu
Senior Philanthropy Adviser
Coutts & Co

Executive summary

British philanthropy is in the midst of a sea change: more wealthy people are giving, and in more sophisticated ways. Donors of all wealth levels are concerned about how effectively and efficiently their money will be spent. They also are increasingly seeking professional advice to help them to give effectively, so that their contributions can have a real impact.

Demand for support is highest at the earliest stages of a philanthropic journey, and many people simply 'don't know where to start'. A Guide to Giving provides inspirational, practical and objective guidance to help you get started in philanthropy, so that you can make a meaningful, positive difference to the causes you care about.

What is effective giving?

Effective giving involves making informed choices, being confident that your gift will make a difference, and being assured that your donation is an efficient use of your money and time.

While this framework and its key principles aim to help inform your giving decisions with objective analysis – that is, how you give – they are not intended to diminish the importance of your empathy and commitment – for instance, what motivates you to give in the first place. Indeed, good philanthropy successfully blends objectivity with compassion.

Following just a few key principles will help you to give effectively.

Key principles

Give responsibly. Be knowledgeable about the causes and organisations you are supporting. Even if you do not have time to engage directly with the recipients of your gifts, read the evaluation reports and modify your giving programme as appropriate.

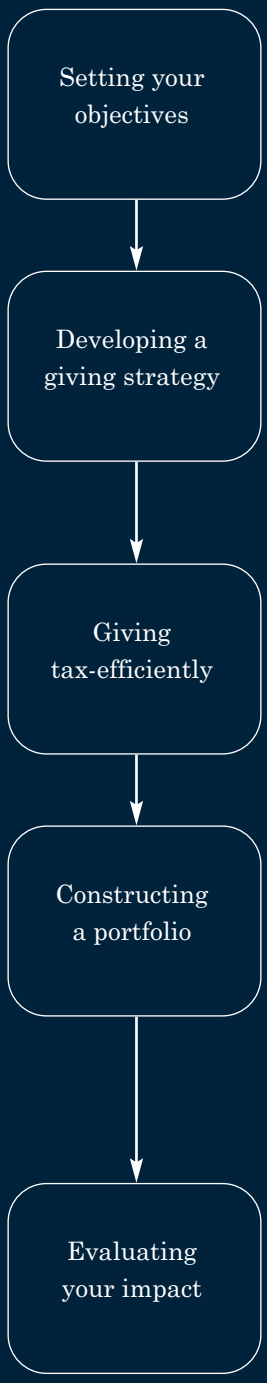
Understand the impact of your giving. Be confident that you are achieving your objectives. What impact do you seek? What impact do you have on the organisation and on its beneficiaries?

Seek advice. There are a variety of good and experienced sources who can advise you on your giving programme and on individual investments. These include professional advisory services as well as informal sources of support, such as family, friends and colleagues.

A framework for effective giving

Guided by these key principles, Philanthropy UK's 'Framework for effective giving' guides you through a step-by-step process to create a charitable giving strategy that reflects your own motivations, interests, circumstances and objectives. This strategy in turn guides your selection of specific charities (or other recipients) for your philanthropic portfolio.

We wish to emphasise that there is no 'right' strategy or 'right' portfolio – it is a question of what matters to you, who you would like to involve, and how you would like to organise the decision-making process. This framework aims, as a guide and a stimulus, to support you as you choose your own path to effective giving.



1. Setting your objectives
The first step is to determine what you want to achieve by your giving. In this stage you focus on the causes you care about and how you might concentrate your giving, based on what you want to achieve and what the needs are.

2. Developing a giving strategy
Having considered your objectives, you are ready to formalise a charitable giving strategy. In this stage, you should think about the goals and objectives of your philanthropy, the focus of your giving, the types of recipients you want to support, and the type of support you will provide.

3. Giving tax efficiently
As you evaluate your circumstances, consider your finances as well as other personal resources. Based on what you want to support and your financial situation, determine how you can give tax efficiently, as well as what giving mechanisms are most appropriate.

4. Constructing a portfolio
Identification and evaluation of potential recipients of your gift will depend upon both the level of your giving and your objectives. However, as with any investment, it is good practice to know as much as you can about the charity and its field of work when making a contribution. When evaluating a charity, essentially you want to know three things: what it does, how effective it is, and how you can make a difference.

5. Evaluating your impact
Donors give because they want to have an impact, to make a positive difference for a cause or in the lives of others. While the nature and degree of this impact will vary, donors will want to assess and understand the results of the investment so that they can better help the charity as well as improve the effectiveness of their own philanthropy.

How to use this guide

Beginning with our 'Framework for effective giving', this handbook provides you with a step-by-step process for creating a charitable giving strategy that will reflect your own unique interests, circumstances and objectives. Each stage of the Framework guides you through a variety of approaches to giving. Options include venture philanthropy, social investment and community development finance – all clearly explained by experts.

We've added a number of new topics for this third edition of the Guide, including:

- Charity impact evaluation
- Community development finance
- Donor advised funds
- International giving
- Social investment
- Sustainable finance
- Plus a new section on family business and philanthropy

We've also included profiles of both new and experienced philanthropists. Their stories bring to life the information and guidance through their inspiring, real-life examples.

Finally, there is a comprehensive guide to the wide range of charitable services and products for UK donors.

Philanthropy UK is delighted to produce this Guide with the continued support of private bank Coutts & Co. Coupled with specialised tax and legal advice from your professional advisor, it is an essential resource for aspiring philanthropists.

Whatever your interests and ambitions, we hope that this Guide helps and inspires you as you develop your own approach to philanthropy. We wish you an extraordinary journey!

Susan Mackenzie
Director
Philanthropy UK

A framework for giving

By Philanthropy UK

"It is more difficult to give money away intelligently than it is to earn it in the first place."

Andrew Carnegie, Scots American philanthropist

Effective giving involves making informed choices, being confident that your gift will make a difference, and being assured that your donation is an efficient use of your money and time.

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Stage 1: Setting your objectives

The first step is to determine what you want to achieve by your giving. In this stage you focus on the causes you care about and how you might concentrate your giving, based on what you want to achieve and what the needs are.

In defining the objectives of your giving, use your responses to the following questions as a guide:

- Why do you want to give? What are your motivations for giving?
- What causes do you care about?
- What types of charities have you supported in the past?
- How do you want to make a difference to a cause you care about?
- What gifts have you found most personally rewarding?

Once you have identified specific causes or issues you wish to support, do some initial research – 'preliminary due diligence', if you like – to identify what the needs are and how you could best support them, given your personal resources. Ask yourself the following questions:

- How much do you know about the issues?
- What needs are most pressing?
- What needs are least well served? Where are the gaps?
- How can you have an impact?
- What information do you need to be confident in your evaluation of the charity and its impact?
- What expertise can you access to help you to give effectively?
- What is the role of private funding in this area? What risks can private funding take that government and other public institutions cannot?

Although you will have your favourite causes, you may also want to set aside something for unplanned giving. This may be in response to a disaster appeal, a specific opportunity you did not expect, or a request from a friend you respect and admire. Some people set aside a specific amount each year for unplanned giving.

Stage 2: Developing a giving strategy

Having considered your objectives, you are ready to formalise a charitable giving strategy. In this stage, you should think about the goals and objectives of your philanthropy, the focus of your giving, the types of recipients you want to support, and the type of support you will provide.

To clarify your strategy, you might find it useful to write a giving strategy statement, asking yourself the following questions:

- What are the goals and objectives of your giving?
- What causes will you support?
- What areas, if any, are off limits?
- What types of recipients will you support (e.g., registered charities, social enterprises, local community projects, individuals, ethical businesses)?
- What type of funding will you provide (e.g., grants, loans, 'quasi-equity')?
- What non-financial support will you offer (e.g., time and expertise)?
- What giving mechanisms will you use (e.g., charitable trust, charity account, venture philanthropy fund)?
- What will be your decision process and giving criteria?
- Will you integrate your social and environmental objectives into your financial investments, such as through socially responsible investment (SRI) and sustainable finance?

In addition, consider whether you might want to involve others in your philanthropy, and what other support would be useful. Networks and other resources you might access include:

- Practitioners and advocates within your focus areas
- Philanthropic intermediaries (such as donor advisory services and community foundations)
- Professional advisers (e.g., wealth manager, solicitor, accountant)
- Other donors
- Membership associations
- Academic research
- Media coverage of your chosen focus area
- Family, friends, neighbours and community leaders
- Colleagues and individuals leading your company's corporate giving programme

Long-term committed giving is often preferred by charities, as it provides them with reliable, baseline funding and enables the charity's management to plan more effectively. Just as in business, charities do need to invest in infrastructure, such as their talent, IT and quality systems, to ensure that funds can be used to deliver the greatest impact.

Make sure the charity understands what your expectations and requirements are before you make the gift, so that the risk of misunderstandings and disappointment is reduced as far as possible.

Stage 3: Giving tax efficiently

As you evaluate your circumstances, consider your finances as well as other personal resources. As you review your financial situation, take account of the following questions. If you are not sure about the answers to any of them, you should contact your financial adviser. In any case, it is a good idea to talk to your financial adviser or lawyer if you are thinking about making a significant or long-term donation. It is also essential if you are contemplating such a donation as part of an overall approach to managing your financial affairs.

- How much money do you think you might be able to give? Over what period of time?
- Is this likely to be one lump sum (for example, from the sale of a company, a block of shares, or an inheritance)?
- Could you set aside a regular amount from your salary, fees or pension?
- Do you sometimes benefit from regular extra income, such as an annual bonus?
- How much do you think you will want to give in the future?
- Do you think you might want to leave some money to charities in your will?
- Would you like to make sure that your donations continue after your death?
- Are there time-sensitive tax considerations (such as giving shares to a charity to obtain tax relief on the gift in the current tax year) that influence your decision?

Based on what you want to support and your financial situation – and how you can give tax efficiently – determine what giving mechanisms are most appropriate. For example, you might consider the following options:

- Setting up a private or family charitable trust
- Giving through an intermediary, such as a venture philanthropy fund or a community development finance institution (CDFI)
- Outsourcing the administration by establishing a named fund at a community foundation or setting up a charity account
- Setting up a mechanism through which you can make cross-border gifts

For tax and legal advice that addresses your own needs and circumstances, please contact your professional adviser.

Stage 4: Constructing a portfolio

Identification and evaluation of potential recipients of your gift will be driven by your charitable giving strategy, decision-making process and criteria. The level of research you undertake will depend upon both the level of your giving and your objectives. However, even if you do not have time to actively manage your charitable giving portfolio, you will benefit from learning as much as you can about your focus areas. This learning can help you be more critical of the evaluation reports you receive, increase your confidence in your philanthropy, and may even encourage you to take some risks.

As with any investment, it is good practice to know as much as you can about the charity and its field of work when making a contribution. When evaluating a charity, essentially you want to know three things: what it does, how effective it is, and how you can make a difference. Consider the following questions:

- What are the mission and aims of the charity?
- What specific need is the charity addressing and who are its beneficiaries?
- How does it meet this need and what is unique about its approach?
- How does the organisation compare to its competitors?
- What is the calibre and experience of the organisation's leadership?
- What is the financial health of the organisation? What are its existing funding sources? How might this change?
- Are there any organisational or environmental constraints?
- What impact has the charity had and how is this monitored?
- What is the potential for growth and replication?
- What are you being asked to support and why?
- What difference can your gift make to the charity and to the lives of its beneficiaries?
- Is there an opportunity to get personally involved, by contributing your time and expertise?
- Can you leverage your giving with the financial resources and expertise of other funders?

If you are flexible in the way you give, then you can discuss with charities that you are considering for support what their funding needs and priorities are. From the perspective of the charities, all contributions are highly valued.

In defining a decision-making process, consider how you want to be involved in the giving decisions. If you wish to use a formal decision-making process, then you might consider your responses to the following questions:

- What criteria – based on your giving strategy statement – will you use?
- Will you accept unsolicited proposals?
- What information, and in what format, will you request?
- Who will you involve in the decision-making?
- How will you respond to proposals?
- What is your preferred method of contact?
- Are there administrative or regulatory requirements?

If, on the other hand, you prefer to have a more informal process, or if you wish to outsource the decision-making to an adviser, then you will likely want to establish, at a minimum, some giving criteria and a preferred method of contact.

Stage 5: Evaluating your impact

Donors give because they want to have an impact, to make a positive difference for a cause or in the lives of others. While the nature and degree of this impact will vary, donors will want to assess and understand the results of the investment so that they can better help the charity as well as improve the effectiveness of their philanthropy.

Before embarking on a philanthropic programme, you may find it helpful to think about what you want to achieve, and how. For instance, your answers to the questions below will help you determine how involved you want to be, the level of your giving and the scope of your giving programme.

- What impact do you seek?
- What do you want to learn? What evidence do you need to assess impact?
- How do you want to learn it (e.g., in written reports, on site visits, through an adviser)?
- Are you prepared to support the costs of the evaluation?
- Do you want to see the 'work on the ground', through site visits or meeting beneficiaries?
- What advice would help you to evaluate your giving programme (e.g., professional adviser, other donors)?

In evaluating specific projects, think about the questions below. If you are making sizeable gifts, you may want to consider building in a percentage to be directed toward a formal appraisal.

- How did the outcomes compare against targets?
- What worked and what didn't?
- What was important to the success?
- What were the challenges?
- What were the internal constraints?
- What external factors affected the results?
- How else could you help the charity (such as by offering your time, expertise or networks)?
- How will your findings impact future giving decisions?
- How might you be more effective in your charitable giving?

Meaningful and useful impact evaluation requires time, skills and funding, and charities often face heavy administrative burdens of performance measurement demanded by a variety of funders. Therefore, donors should consider earmarking part of their gift for evaluation, or work in collaboration with other funders to avoid duplication of resources.

In any case, donors should work closely with the charity to identify appropriate outcomes and impacts to measure that truly capture impact, rather than simple outputs, as well as to agree how these measures will be assessed.

1 Setting your objectives

In this first stage you should determine what you want to achieve by your giving. Focus on the causes you care about and how you might concentrate your giving, based on what you want to achieve and what the needs are.

Think about:

- Why do you want to give?
- What causes do you care about?
- What needs are most pressing?
- What needs are least well served – where are the gaps?
- How can you have an impact?

Philanthropist profile
Tarek Ben Halim

Tarek Ben Halim wants to make a difference in the Arab world by supporting grass-roots projects. His inspiration comes from his parents' experience of being exiled from their home countries of Palestine and Libya.

"I am a very nationalistic Arab and very proud of Arab history, but, at the same time, I am very frustrated with the Arab governments who have not achieved enough in terms of economic and social development."

He believes that there is a silent agreement, not just in the Arab region but everywhere, to maintain the status quo, allowing the rich to get richer and the poor to stay poor. *"There is very little interest in developing the potential of the less well off; wealthy people are prepared to see poor people as beneath them. As Arabs, we should do something about it."*

Tarek has done something about it. He set up a venture philanthropy fund in 2004, now called Alfanar, which means 'lighthouse' in Arabic. The aim is to support organisations that improve the lives and opportunities of poorer communities in the Arab region. The fund backs creative ideas that address entrenched problems. Examples include the Egyptian Association for Social and Economic Rights, which supports potters in Cairo to access economic rights and opportunities, and the Bashayer Women's Project, which provides employment to women and runs health clinics and outreach services.

He is very modest about this achievement: *"Alfanar is a work in progress, I'm not sure it will succeed, but it is a risk worth taking."*

Tarek has been in business for 25 years and has really noticed the difference between running a company and a charity. *"People always ask what percentage of a charity's revenue is spent on administration – they never ask that of business. If you want NGOs to do well, you need good quality people and marketing. The yardstick should be whether you are effective or not."*

Previously a Managing Director at Goldman Sachs, Tarek currently is a non-executive director of the MAF Group in Dubai and an Advisor to the Central Bank of Libya.

Funders such as business and government wield too much power over NGOs, demanding short-term results in return for their investment, argues Tarek. He believes that this changes the nature of what charities do. His philosophy is to support projects that will have a long-term benefit.

He says a lot of funders are driven by their own ego and their need to leave a legacy. *"If you ask them for money to support something that may take thirty years, they are not interested."*

There is a lot of work to do in the Middle East to improve the governance of charities and to strengthen civil society, according to Tarek.

In the future, he would like Alfanar to be seen as an Arab philanthropic institute and not associated with his name. The charity has recently appointed its first chief executive and plans to expand into other countries. *"The challenge will be to maintain our quality and reputation."*

Tarek wants to spend time engaging with potential donors in the Arab world, explaining the benefit of Alfanar's work, which may not be perceived as high profile or glamorous, but may be effective long-term. He has observed that people are often suspicious in the first instance, asking why he is involved and who is backing him. Some wealthy Arabs also prefer to be involved in projects backed by celebrities or royalty.

Overall, Tarek has found the experience of being a philanthropist rewarding but cautions others that it takes more time and money than he had expected. "You have to operate outside of your comfort zone."

His top tips for new philanthropists include: recruiting a good team; challenging accepted norms of how things should be done; and understanding the issues that face potential beneficiaries.

"The most exciting part for me is spending time with the projects and hoping that if we continue to be successful, in five-to-ten years' time we might be able to alter lives. You have to be in it for the long-term."

▶ **Alfanar:** www.alfanar.org.uk

2 Developing a giving strategy

Having considered your objectives, you are ready to formalise a charitable giving strategy. In this stage, you should think about the goals and objectives of your philanthropy, the focus of your giving, the types of recipients you want to support, and the type of support you will provide.

This section describes a range of approaches you might choose for your philanthropy, including opportunities to combine financial and social returns. As with any investment decision, we advise you to consult an investment professional in evaluating your options.

Stage 2 chapters:

- Giving networks
- Giving time
- Setting up a new charity
- Social entrepreneurship
- Venture philanthropy
- Combining financial and social returns
- Community development finance
- Microfinance
- Risk capital
- Social investment
- Socially responsible investment
- Sustainable finance

Giving networks

By Roxanne Clark
Philanthropy UK

Highlights

- More donors are joining together to leverage their funding and to share learning.
- The size and shape of giving circles is wide ranging.
- There is no one 'right' model, and your giving circle may change over time as your goals, and the impact of your giving, evolves.

A rewarding giving route for an increasing number of people is to engage with and share the pleasure of giving within a group where issues relating to wealth and charity can be discussed freely, and where they can learn together about their community and philanthropy.

These groups, known as giving circles and networks, can take many forms and generally involve groups of individuals coming together with a philanthropic purpose, pooling their pounds and resources, and deciding collectively where to give their money.

Within these basic parameters no two groups look or act the same. One of the most appealing and effective aspects of giving circles and networks is the opportunity to shape the group to meet the particular needs of a community, and the interests and capabilities of participants.

They vary in size and structure, ranging from an informal group of friends meeting locally to large, formal organisations with employed staff members.

Types of giving circles

The focus of groups is wide ranging and the approach to giving just as broad as these examples –

- Local – a group of like-minded people who give to local causes, such as the Women's Trust Fund*
- Interest-based – give to a specific cause as in the work of the Oxford Givers Circle*
- Project-based – micro-trusts or 'giving clubs' such as those set-up by Giving Works in which a group of people come together to focus on one project and then disband
- Event-based – networks that draw people together for charitable events and giving as with the marketplace approach of The Funding Network
- In-house corporate – networks within companies that give often via CSR practices, such as BT Women's Network*
- Social media networks – a flourishing trend of collective giving via online sites such as Facebook.

*For more information on these examples, see Philanthropy UK's report, Women & Philanthropy: Inspiring women, inspired giving.

"To have even more impact with your giving circle's funds, you should ensure that your giving is tax efficient."

Setting up a giving network

There are only a few basic guidelines in developing a giving circle –

- Determine size and type of circle, and who you want to involve
- Establish your purpose and objectives
- Agree your focus areas
- Develop your giving approach
- Research and identify potential recipients
- Evaluate your impact before making further commitments

Giving tax efficiently

To have even more impact with your giving circle's funds, you should ensure that your giving is tax efficient. Depending on the focus and approach of your giving circles you may want to explore the options offered via Gift Aid, setting up a charitable trust, or being hosted by a community foundation which will manage the financial aspects as well as offer opportunities for co-operation and shared learning.

A final word

Most importantly, enjoy yourself and don't sweat the small stuff – keep your eye on the big picture (the impact of your donations) and let your circle develop its shape over time. There is no one 'right' model for giving circles. Your original goals and purpose may change as the circle, and the impact of your giving, evolves.

Recommended resources

- **Community Foundation Network:** the network of UK community foundations. You can search for your local community foundation on the website. www.communityfoundations.org.uk
- **Coutts Philanthropy Services:** The private bank offers its clients two donor advised funds, for microfinance and the environment. www.coutts.com/philanthropy
- **Giving Works:** A charity which fosters and supports micro-trusts, or small giving circles.
- **The Funding Network:** the UK's largest giving network, with groups across the UK, including a Youth Funding Network. www.thefundingnetwork.org.uk

About the author

Roxanne Clark is a consultant to Philanthropy UK.

Giving time

By Deborah Xavier
Chief Executive, Pilotlight London

Highlights

- Many charities are chronically under-resourced and lack the business skills in-house to grow and develop.
- The right skills, applied in a sensitive manner, can be at least as valuable to charities as financial donations.
- Consider coaching rather than consultancy, to better help the charity become self-sufficient.
- There are a variety of organisations which can match volunteers with charities.

Small charities need your skills as much as your money

Pilotlight specializes in working with small and medium-sized charities and social enterprises which are already experts in identifying and meeting needs in their communities, but which may not have the business skills in-house to take the next step in their growth or development.

Many small charities face similar challenges. The 85% of charities with a turnover of less than £100,000 are chronically under-resourced, generating less than 7% of the sector's income. The majority are partly or wholly dependent on grant income, which is usually given for specific projects lasting between one and three years. Many funders favour new projects that will demonstrate the greatest impact, and will not consider applications for core costs such as management and administrative salaries. When grant-making priorities change, charities can find themselves stretching the parameters of their mission and expertise to secure the funding they need to keep experienced staff.

Charity managers have a difficult job. They are often responsible for helping vulnerable people and juggling multiple income sources to stay operational. They therefore often struggle to find time to plan for a more secure future.

Volunteers with business skills can teach charity managers the skills, tools and approaches they use in their working lives to help them plan for stability, efficiency and growth. Our Pilotlighters bring a range of much-needed skills to ambitious organisations including financial planning, marketing, income diversification, information technology, human resource management, change management, property management and legal expertise. We have seen that the right skills, applied in a sensitive manner, can be at least as valuable to charities as financial donations. An intelligent and sympathetic eye from outside can be a great source of support and perspective.

What to consider before donating skills

As Pilotlight has grown we have learned many things about how our professional volunteers, or Pilotlighters, can make the greatest difference to our charities.

For instance, you may already have an issue or organisation in mind that inspires you. If you are passionate about the work an organisation does, it will, of course, enhance your personal satisfaction and level of commitment. But you should also consider where your particular skills and working style could make the most difference, and what opportunity there is for you to learn from the people you are working with.

The best matches are those where both the volunteer and the charity learn and develop through their partnership – so be open-minded. At Pilotlight, we find some of our most successful partnerships are created when volunteers choose to work with organisations that challenge their view of the world. For example, one Pilotlighter visited Wandsworth Prison with a charity that teaches inmates new skills, and left with a different perspective on offenders and rehabilitation.

"The best matches are those where both the volunteer and the charity learn and develop through their partnership"

CASE STUDY:

Case study: JusB

JusB provides support for 11-19 year-olds through their youth centre, an outreach scheme and projects with local schools, working to achieve their vision of "a brighter future for young people in Bromley". The charity was founded in 2003 by youth worker Rachel Archer, who saw that local young people needed somewhere to go in the evenings and weekends. Now JusB works with 1,000 young people a year.

A recent Spectator article described their work as "… the sort of grassroots stuff the government is behind – keeping kids away from crime and ASBOs by developing their confidence and self esteem; but Rachel is a youth worker who suddenly found she was running a small business without any business training".

In 2006 Rachel asked Pilotlight to help JusB plan for growth. Pilotlight's first step was to help JusB to clarify its mission and objectives, and to align its core activities with them. The Pilotlighters encouraged Rachel and the trustees to think about their roles as the organisation grows, and helped Rachel shift her focus from frontline work to leadership.

The results have been impressive, and JusB continues to grow. Income from one fundraising stream has doubled and they have recruited three new members of staff to reach more young people. Rachel says, "We might possibly have got there ourselves, but Pilotlight got us there a lot earlier!"

www.jusb.org.uk

Best practice in skills giving

First, be clear about what you want to achieve, and by when.

If you are working on a particular project, agree targets and review dates for the work you plan to do at the outset, and be clear about who is expected to do what. Whether you meet your targets or not, this helps to set expectations and ensure that you are both working to the same aim.

Importantly, this also gives you the opportunity to recognise your achievements. Take time to do this and congratulate yourself and the charity on the progress you have made. If you are bringing new approaches into the organisation, then demonstrating success as early as possible will encourage staff to apply them elsewhere and motivate them to give more time and resources to you and your work.

Second, be patient. Take the time to understand the real issues, and recognise that significant change doesn't happen quickly.

Before you begin, it may be helpful to understand some of the key differences between the private and voluntary sectors, such as the issues of funding mentioned above.

In the UK, trustees are responsible for the strategic direction and financial health of charitable organisations. This system has its strengths and weaknesses, and governance can be a particular challenge for small charities who may not have the profile to reach beyond their immediate community to find the right range of skills. Think about the additional complexities of organisations that are powered by passion. When push comes to shove, shareholders in a business have a single, shared objective – profit, but a voluntary sector organisation has to hold together a group of stakeholders, each of whom may have a slightly different but passionately held visions.

So, when you first meet with the charity, whatever your task is, take time to investigate the challenges they face and to understand the barriers to change, both institutional and personal.

Is the organisation able to clearly articulate its mission and objectives? How do they plan to achieve them? Addressing these essential questions and identifying the gaps will allow you and the charity's staff to begin work with a shared understanding of your goal, avoiding time wasted on tactical projects that never come to fruition because of undiagnosed issues. If you invest more time in understanding the organisation at the beginning, you will make a greater difference by the end.

Things do tend to move more slowly in small charities than they do in the private sector, for a range of practical and cultural reasons. It is likely that, if you embark on a relationship with a charity, you will get frustrated at some point with the speed of progress. When that time comes, remember that the most profound and lasting changes come about when the management and staff change the way they think about their organisation – how it is structured and what its priorities are. It can be a slow process – but we promise it will be worth it if you persevere. We know because we see it happen.

Third, where you can – coach and advise, don't 'do'.

Unless you have a very specific skill which the charity will not need in the long-term, consider offering them coaching rather than consultancy. Coaching is about giving charity staff and trustees the skills they need to be self-sufficient in the future, whereas consultancy is about doing the work on their behalf. Coaching takes longer, and it can be a frustrating process at times, but its effects are more sustainable.

Pilotlight has worked with numerous charities that had a Business Plan written for them by a consultant, gathering dust on a shelf. To many of them it was a bureaucratic exercise, required by funders or trustees, with little or no bearing on their day-to-day work. Our process requires each of our charities to have an up-to-date strategic plan, which the charities write themselves. While our members advise, suggest and cajole, it's the staff team that has to do the work. The result is a living document, which they understand and are engaged with, and can revise in line with their ambitions.

Recommended resources

Skills brokering organisations and advice:

- At **Pilotlight** we offer a highly managed service which enables senior business people to make a measurable difference to the capacity of small charities in just three hours a month., We ask for a donation of £1,300 per year from individual members to support our work, and develop tailored packages for our corporate members who currently include Coutts, Serco, Morgan Stanley, BP, Vodafone, and Marks & Spencer. www.pilotlight.org.uk

- The **Media Trust** matches media professionals with charities who need help with PR, marketing, design, video and online media. www.mediatrust.org

- **Reach** matches the skills of experienced people with voluntary sector organisations. You can register your skills online at www.volwork.org.uk.

- **Challenges Worldwide** recruits and trains volunteers with professional skills and experience to work with their local partners in developing countries. www.challengesworldwide.com

- **The Cranfield Trust** recruits volunteers to act as management consultants to charities with management issues. www.cranfieldtrust.org.uk

- **Arts & Business** develops partnerships between businesses and the arts, offering a programme called Board Bank which helps individuals to join the boards of arts organisations. www.aandb.org.uk

- Your local **Volunteer Bureau** will be able to advise you on a range of volunteering opportunities in your community. www.volunteering.org.uk

- **Getonboard.org.uk:** Many small charities desperately need to recruit skilled and committed individuals to their Boards, although you may want to gain a better understanding of the complexities of the sector through volunteering before you take on the responsibilities of a trusteeship. www.getonboard.org.uk

Other organisations that may be of interest to people wanting to volunteer or develop their skills in the community are:

- **Business in the Community:** www.bitc.org.uk
- **Impetus Trust:** www.impetus.org.uk
- **Cherry D:** www.cherryd.org
- **Common Purpose:** www.commonpurpose.org.uk
- **Timebank:** www.timebank.co.uk

About the author

Deborah Xavier has worked for Pilotlight for five years, initially as Assistant Director to Pilotlight Group Chief Executive Fiona Halton, then fundraising for, and leading, the establishment of Pilotlight Scotland, which opened its doors in September 2007. Deborah became Chief Executive of Pilotlight London in November 2007 and heads up a team of 11, managing the skills of 190 senior business people into 40 small charities and social enterprises. Prior to Pilotlight, Deborah spent eight years working in brand marketing, initially for Scottish & Newcastle, then communications consultancy Circus and advertising agency McCann Erickson.

Setting up a new charity

By Philanthropy UK

Highlights

- An operational charity is one which carries out charitable activities itself, rather than supports the work of others.
- There is a multitude of charities in the UK, and it is likely that there is already a charity that has the same aims as you.
- You should be clear about what value your charity can contribute to your cause.
- Other issues to consider include what resources you will need to run your charity, and the appropriate legal form.

An operational charity is one which carries out charitable activities itself, whether that is helping disadvantaged people or animals, raising money from others for a cause that has inspired them, or working in some other way to improve society.

If you wish to set up an operational charity, then there are a number of points to consider.

First, there are over 164,000 registered charities in England and Wales. It is a tribute to the generosity of past and present generations that this is the case. It also means that it is likely that there is already a charity that has the same aims as you. For example, there almost 800 charities raising money for cancer research and support in the UK. They all compete for funds, have to pay set-up and administration costs, and have to find dedicated trustees. Some raise relatively small sums which, in any case, have to be pooled with those of others to fund an effective programme of research or work.

New charities have to learn about how the charity world works and set up the networks that encourage effective co-operation. This does not mean that they should all merge. In many cases, there will be a different and unique focus, or the charity will be associated with a particular person whose name will make a difference.

How can you make a difference with your own charity?

But there are questions that everyone who is thinking of setting up an operational charity should ask themselves:

- Is there an existing charity operating in the same field?
- Is it well established and regarded, with an effective programme of work and good trustees?
- Would it be willing to carry out the work I have in mind, perhaps creating and monitoring a specific project my funding could be directed to?

You may be able to obtain the answers to these questions from the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator or, from late 2008, the Northern Ireland Charity Commission. You should also talk to existing charities that operate in the same area of work you are considering.

"New charities have to learn about how the charity world works and set up the networks that encourage effective co-operation."

Resources and legal forms

You should also think about the resources needed to run a charity. Some questions to consider include the following:

- How would I see the charity that I am thinking of creating working in the long-term?
- Do I have the time and energy needed to run a charity?
- Am I confident I could raise enough money to make sure that the cause I want to support will receive the level of funding it deserves?
- Will I be able to attract trustees (and staff) of the right quality, commitment and range of expertise?

If you are satisfied that the answers to these questions show that you should go ahead with setting up a new charity, then you need to decide the best legal form to use. To do so, you should think about whether you are likely to have liabilities. For example:

- Am I going to employ staff?
- Am I likely to invest in assets (equipment, machinery, premises and vehicles)?
- Am I going to become involved in fundraising?
- Am I going to have other liabilities?

If you answer 'Yes' to any of these questions, you should limit your liability by setting up as a company limited by guarantee or other limited liability vehicle, such as the Community Interest Company (CIC).

You can obtain a model document ('Model memorandum and articles of association') number GD1 from the Charity Commission, who also have a helpful leaflet CC21 'Registering as a charity'.

If you do not currently have access to someone with relevant professional experience, we would, in any case, advise you to consult an experienced lawyer or accountant, who can go through the process with you. The Charity Law Association (CLA) can advise you on lawyers with expertise in this area who may be able to help.

Recommended resources

- **Charity Commission for England and Wales:** www.charity-commission.gov.uk
- **Office of the Scottish Charity Regulator:** www.oscr.org.uk
- **Northern Ireland Charity Commission** (from late 2008)
- **Community Interest Company regulator:** www.cicregulator.gov.uk
- **Charity Law Association:** www.charitylawassociation.org.uk

Social entrepreneurship

By Alastair Wilson
Chief Executive, School for Social Entrepreneurs

Highlights

- A social entrepreneur identifies and implements practical solutions to social problems through innovation, resourcefulness and persistence.
- The European model of social entrepreneurship differs from the US in fundamental ways.
- Measurement and evaluation is central to the success of social entrepreneurs.
- Philanthropists can play an important role in supporting social entrepreneurs through funding, mentoring, and brokering contacts and networks.

What is a social entrepreneur?

In its simplest definition, a social entrepreneur is someone with entrepreneurial characteristics, traits and abilities using and applying those for social benefit. Which means that 'social entrepreneurship' is a new term for something that has existed throughout the ages, rather than a new phenomenon itself. People like Robert Owen, Florence Nightingale and Michael Young have fit the term in the past century or so in the UK, but social entrepreneurs were also presumably behind innovations dating much further back, like law courts, schools, taxation, democracy and schools.

A social entrepreneur identifies and implements practical solutions to social problems through a combination of innovation, resourcefulness, persistence and pragmatism. They have a clear understanding of their overall goal and the primacy of their social mission, and combine hard-headedness with idealism. They choose whichever models, governance and revenue streams are best fit to help them achieve their vision.

The US model of social entrepreneurship, as evidenced by Ashoka, Skoll Foundation, Schwab Foundation and others, tends to focus on the exceptional, heroic individual seeking to have a large-scale, nationwide, top-down impact.

The UK / European model is different in three ways:
1. It does not place emphasis on the need for scale (some successful social entrepreneurs operate successfully and meet needs locally);
2. It supports bottom-up change as well as top-down; and
3. It emphasises more how social entrepreneurs engage and mobilise communities, teams and movements to achieve change.

Whilst the phenomenon is not a new one, social entrepreneurship is undoubtedly growing and increasing in relevance with each passing year: for example, the organisations that form the Social Entrepreneurship Policy Group have a combined constituency of well over 10,000 individuals.

This growth is fostered by several trends:

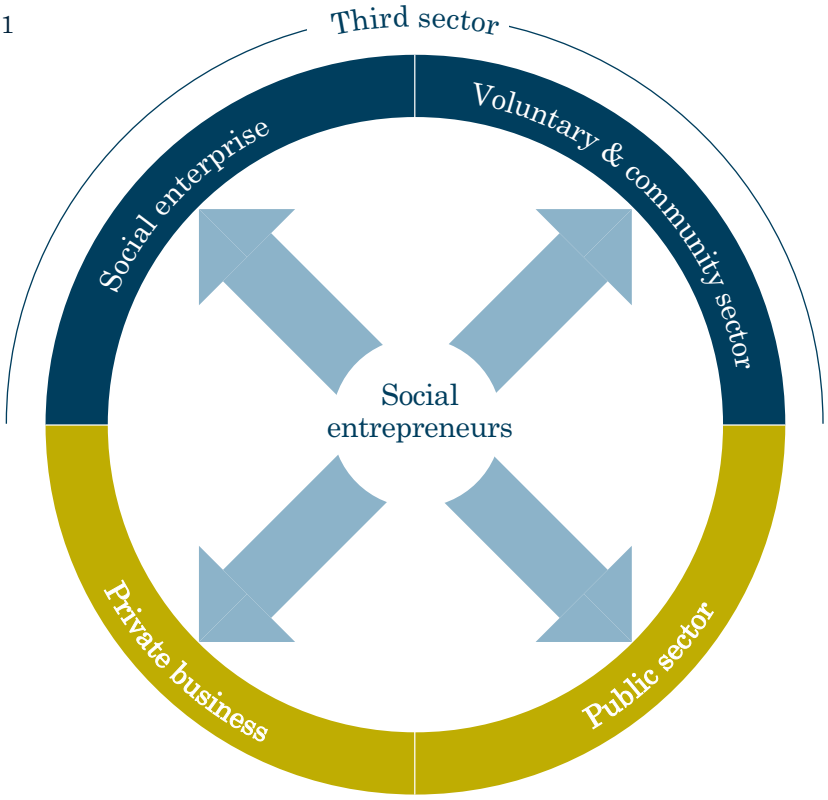
- Frustration and disillusionment with the political system's ability to change things
- Rise of the well-being agenda: more people seeking meaning in their work lives; and increasing self-employment
- Charities becoming more business-like, and the growth of corporate social responsibility in business, bringing the worlds closer together
- Hugely networked and mobile society, on- and off-line
- Wide range of options (organisational, governance, income, support) to choose from to help turn ideas into reality

Social entrepreneurs and social enterprises: what is the difference?

Social enterprises are defined in different ways: by their legal structure (e.g., co-operatives, development trusts, community interest companies, social firms), by the social mission and governance embedded in their structure, or by their business model (profits from traded income that are then reinvested).

Social entrepreneurs do start up social enterprises but, as discussed above, they use whatever structures and processes help them achieve their goal: so they also start registered charities, initiatives in the public sector, and for-profit businesses. Whilst the majority establish themselves in the third sector, they choose from a huge variety of models and structures; or create their own. This operating across the spectrum of organisational options and sectoral boundaries is illustrated by Figure 1.

Figure 1



The difference between social entrepreneurship and social enterprise, therefore, is that the former is about the driven individual, whilst the latter is about the organisational form. Social entrepreneurship is about what people do; social enterprise is about (some of the) structures they choose and use to get it done.

A brief history of social entrepreneurship in the UK

Whilst the term 'social entrepreneur' emerged in the 1960s and 70s, it gained more prominence in the 80s and the 90s. It was towards the end of the latter decade that Charles Leadbeater wrote the influential pamphlet 'The Rise of the Social Entrepreneur' (for Demos), and this happened almost simultaneously with Michael Young starting the School for Social Entrepreneurs (SSE; in 1997) and with the establishment of Community Action Network (CAN) by Adele Blakebrough and Andrew Mawson (in 1998). These two organisations, providing support and networking, played a central role in promoting and legitimising social entrepreneurship.

Social entrepreneurship has grown enormously since then, with different funds, philanthropists, support agencies and awards schemes emerging. Academic courses, research programmes and events have also been established, most notably at the Skoll Centre for Social Entrepreneurship at the Said Business School in Oxford (founded November 2003), which hosts the high-profile Skoll World Forum of Social Entrepreneurship. The UK is widely viewed as a leading nation in the field.

"social entrepreneurs are the lifeblood of the third sector – founding, running and populating charities, social enterprises and social businesses."

The impact of this work is significant: social entrepreneurs are the lifeblood of the third sector – founding, running and populating charities, social enterprises and social businesses. These driven individuals sustainably deliver services and goods for social change at local, regional, national and international levels. They create jobs, gain skills, inspire communities, and are the leaders in creating social capital and social cohesion.

CASE STUDY:

Case study: Tokunbo Ajasa-Oluwa, Catch 22 Magazine CIC

Tokunbo was inspired by his own experiences in the media sector to set up Catch 22 Magazine CIC. Catch 22 is a dynamic social enterprise comprising a magazine journalism training academy and a quality youth culture magazine/website. They champion, train and showcase young aspiring professionals who want experience but can't get it due to their lack of experience… hence their name. As their commercial output they produce their magazine quarterly (at the end of each course run by their Academy), and work as a communications agency.

Catch 22 Magazine editorially embraces a wider definition of youth culture, including the obvious – music, fashion and sports – alongside politics, travel and social commentary, catering for the diverse melting pot known as young London. Since launching, C22 has developed a plethora of industry partners including the likes of Time Out Group, BBC and Trinity Mirror Group.

Tokunbo is now a fellow of the School for Social Entrepreneurs (SSE) and in October 2007 he was appointed one of the 35 Social Enterprise Ambassadors on the three-year Cabinet Office endorsed nationwide programme.

www.catch22mag.com

Outlook for future development

The trends outlined above (well-being, ethical consumerism, self-employment, political disillusionment, etc) are only increasing, so the growth of social entrepreneurship looks set to continue. Whilst not a panacea for every social issue, social entrepreneurship can play a significant role in creating sustainable social change over the coming years, in combination with enlightened physical regeneration, access to finance, and tailored support. Organisational and sector boundaries will continue to blur, and new models and delivery partnerships continue to emerge. To differentiate and distinguish between different initiatives, the following will therefore become crucial:

- The quality of the work/activity/product – for example through reputation, measurement, evaluation, or provenance
- How well this is communicated – for example through brand, voice or community and stakeholder engagement
- The transparency with which the organisation operates – for example through mission, finances, governance or reporting

Future development for social entrepreneurs will centre around these areas, particularly around measurement and evaluation (social return on investment, social auditing and so on) which remains central to their success.

Next steps: practical information for the philanthropist

The obvious way for philanthropists to get involved is to identify social entrepreneurs working in the areas that interest them, and invest in their work. Though inherently more risky than giving to a larger, more established charity, the potential for tangible impact is also that much greater, as is the excitement from being involved in something at an earlier stage. Many social entrepreneurs require pump-priming investment, and this can be incredibly important to their organisation's future. The impact from such an investment can be in the form of a pure social return on an investment, a 'blended' social and financial return, or a pure financial return (depending on the model, and the philanthropist or investor's aims).

Alongside funding, support over the long-term is crucial to the social entrepreneur, and philanthropists can play a role in helping put this in place, both directly (through funding support or mentoring) and indirectly (through brokering contacts and networks).

The power imbalance between the funder and the funded is substantial in this context, and it is particularly important that the social entrepreneur can gain confidence and admit what they cannot do, in order to improve their (soft) skills and knowledge appropriately. Support and involvement of the philanthropist should be sensitive to this, and kept separate from the funding process itself.

It is recommended to work with and through a specialist broker agency that is supporting social entrepreneurs. In this way, a philanthropist can find people they want to invest in, fund support for them (which means success is more likely), and decide whether they want to make further investments in the organisation when it is at a more mature stage.

Recommended resources

Support agencies

- **Ashoka UK:** www.ashoka.org/unitedkingdom
- **Changemakers:** www.changemakers.org.uk
- **Community Action Network:** www.can-online.org.uk
- **Scarman Trust:** www.thescarmantrust.org
- **SENScot:** www.senscot.net
- **School for Social Entrepreneurs:** www.sse.org.uk
- **Skoll Centre for Social Entrepreneurship:** www.sbs.ox.ac.uk/skoll
- **Social Enterprise Coalition:** www.socialenterprise.org.uk
- **Social Enterprise Unit (govt):** www.cabinetoffice.gov.uk/third_sector/social_enterprise
- **UnLtd:** www.unltd.org.uk

Reading

- Everyday Legends: the stories of 20 great UK Social Entrepreneurs by James Baderman and Justine Law (WW Publishing, 2006)
- There's No Business Like Social Business by Liam Black and Jeremy Nicholls (Cat's Pyjamas, 2004)
- How to Change the World by David Bornstein (OUP, 2004)
- Your Chance to Change the World: the No-Fibbing Guide to Social Entrepreneurship by Craig Dearden-Phillips (DSC, 2008)
- The Meaning of Social Entrepreneurship by Greg Dees (Duke Uni, 1998) http://faculty.fuqua.duke.edu/centers/case/files/dees-SE.pdf
- The Power of Unreasonable People by John Elkington and Pamela Hartigan (HBS, 2008)
- The Rise of the Social Entrepreneur by Charles Leadbeater (Demos, 1997)
- The Social Entrepreneur by Andrew Mawson (Atlantic Books, 2008)
- Social Entrepreneurship: new models of sustainable change by Alex Nicholls et al (OUP, 2008)
- Leadership in the Social Economy by Charlotte Young and Fiona Edwards-Stuart (SSE, 2007)

Research / evaluation

- **Social Entrepreneurship Monitor:** www.london.edu/gem/ socialentrepreneurshipmonitor.html
- **Research Initiative on Social Entrepreneurship (Columbia Uni):** www.riseproject.org
- **Social Enterprise Journal:** http://tinyurl.com/62dl6k
- **Evaluation of School for Social Entrepreneurs (1997-2007; nef):** www.sse.org.uk/about.php?sub=OUTCOMESIMPACT
- **Ashoka work on impact:** www.ashoka.org/impact
- **Blended Value:** www.blendedvalue.org

About the author

The School for Social Entrepreneurs offers tailored support programmes for social entrepreneurs: entrepreneurial people working for social benefit. Over 360 Fellows have now completed SSE programmes across the UK network, and this number is expanding rapidly each year.

Venture philanthropy

By Dr Rob John
Chief advisor, European Venture Philanthropy Association

Highlights

- Venture philanthropy (VP) is an approach which adapts some principles of venture capital to organisations that provide public benefit.
- Key VP principles include high engagement, multi-year support and capacity building.
- Interest in VP is growing rapidly across the UK and wider Europe.
- There are a variety of ways to get involved in VP, including investing in an existing VP fund, or becoming more engaged in a charity you already support.

Venture philanthropy is an investment approach to supporting charitable ventures that blends finance with hands-on management advice.

Offering advice to a charity together with grants is far from new of course, given the long history of grant-making in the UK. While the vast majority of grant-makers or individual philanthropists are geared up to screen applications and offer grants without any further involvement, a minority have built closer relationships with the ventures they support, adding a level of advice and engagement that probably sits on the edges of venture philanthropy practice.

Venture philanthropy is an approach which adapts some principles of venture capital, such as long-term investment and hands-on support, to organisations that provide public benefit, such as charities and social enterprises. As venture philanthropy spreads globally, specific practices may be adapted to local conditions, yet it maintains a set of widely accepted, key characteristics[1]:

- **High engagement:** Venture philanthropists have a close, hands-on relationship with the social entrepreneurs and ventures they support. Some may take Board places in these organisations.
- **Tailored financing:** This investment approach determines the most appropriate financing for each organisation. Some offer non-returnable grants, while others use loan, mezzanine or 'quasi-equity' finance.
- **Multi-year support:** Investors provide substantial and sustained financial support to a limited number of organisations. Support typically lasts at least three-to-five years, with an objective of helping the organisation to become financially self-sustaining.
- **Non-financial support:** Value-added services such as strategic planning, marketing and communications, executive coaching, human resource advice and access to other networks and potential funders may be provided.
- **Organisational capacity building:** Investors focus on building the operational capacity and long-term viability of the organisations in their portfolios, rather than funding individual projects or programmes.
- **Performance measurement:** Venture philanthropy investment is performance-based, placing emphasis on good business planning, measurable outcomes, achievement of milestones, and high levels of financial accountability and management competence.

Venture philanthropists work in partnership with a wide range of organisations that have a clear social objective – charities, social enterprises or socially driven commercial businesses. Venture philanthropy is perhaps better described as a 'movement' rather than a model. And while this movement is gaining momentum, there are few hard and fast statistics about how much venture philanthropy is being practised. Recent studies by Oxford University's Skoll Centre for Social Entrepreneurship suggest that there are around 40 organisations describing themselves as venture philanthropy funds in Europe. In the UK there are at least a dozen funds that meet all or most of these core criteria.

1 These core characteristics are taken from the European Venture Philanthropy Association, www.evpa.eu.com

CASE STUDY:

Case study: Speaking Up and Impetus Trust

By Nat Sloane, Co-founder and Vice Chair, Impetus Trust

Speaking Up (SU) provides training and advocacy support to people experiencing learning difficulties, mental ill health or other disabilities to help them better represent themselves and shape their own lives.

Impetus Trust, a venture philanthropy investor, provided grant funding of £400,000 and business expertise valued at £200,000 over four-and-a-half years to support building up SU's management capacity to expand its services beyond its Cambridge base and become a leading player in its field nationally.

SU has grown dramatically since the partnership began in early 2004. Its income has grown from £644k to over £4m in 2008/9, while SU has extended its coverage to 17 locations. Its mix of income has become more secure and sustainable, shifting from 70% grant income in 2004 to over 65% earned income today. SU served nearly 4,000 people in 2007/8, compared to 500 in 2004. SU has exceeded every metric of the business plan we agreed with them in 2004.

Impetus has worked with SU to strengthen its management capacity and capability through various projects including re-branding work, redesigning the IT system, developing stronger performance management disciplines through introducing a balanced scorecard approach, developing quality assurance processes for managing new projects, restructuring the consultancy and training services, developing the business plan and 'sales pitch' for bringing in new funding and contracts for the next phase of development, and executive coaching for senior managers.

About Impetus

Impetus provides strategic funding and expertise to enable ambitious third sector organisations to address major social problems more effectively and on a bigger scale. Impetus provides funding to support the core costs required to scale up effectively. The funding is tied to performance milestones relating to a business plan that Impetus and the investee agree upfront. An Impetus Investment Director works closely with the organisation's chief executive and his/her team to deliver on the strategy and through a network of business people who provide pro bono support.

www.speakingup.org and www.impetus.org.uk

Development in the UK

The modern interest in venture philanthropy is usually traced back to Californian 'dot-com' entrepreneurs in the 1990s, although there are many historical antecedents for engaged grant-making. One UK grant-maker, Andrews Charitable Trust[2], traces its founder's venture philanthropy approach over 40 years to helping launch or develop many charities, including Oxfam, Help the Aged and ActionAid.

From 2000 onwards there has been growing interest in the UK towards forms of philanthropy and social investment that couple finance and skills through a high level of engagement. Most of this interest has come from individuals with a background in financial investment or as successful entrepreneurs. John Kingston, formerly with investment firm 3i, pioneered

2 Formerly named World in Need. See www.andrewscharitabletrust.org.uk

types of 'risk funding' for charities through Venturesome. With a 25-year career in venture capital, Stephen Dawson founded Impetus Trust with entrepreneur Nat Sloane. They realised that charities could benefit from grants when coupled with business-like advice including growth strategy, marketing, governance or executive coaching.

Venture philanthropy applies techniques that resonate with private equity professionals seeking a high impact with their own or their company's philanthropy. For example, UK-based private equity firm Permira has partnered with CAN, a UK-based social entrepreneur support network, to create Breakthrough – a venture philanthropy fund focused on scaling up social enterprises. Damon Buffini, one of Permira's founding partners says, *"What CAN does – scaling up enterprises – that's what we do here at Permira. The issues we try to address with CAN are similar to our day-to-day business."*[3] A quarter of Permira's London-based staff are involved, advising social enterprise on information technology or mentoring their chief executives.

Few grant-making trusts are geared up to the high level of engagement required by venture philanthropy, although many add considerable value to their grants without ever describing themselves as venture philanthropists[4].

Outlook

Interest in venture philanthropy is growing across the UK and wider Europe. Private equity professionals and companies are viewing the movement as a natural outlet for their philanthropy; grant-making foundations, initially sceptical, are beginning to embrace the movement, by helping new funds get off the ground, or co-funding alongside venture philanthropists. For example, the Rayne Foundation is re-engineering its traditional grant-making along venture lines. In Scotland, a new venture philanthropy fund has emerged from the country's largest independent grant-maker. Inspiring Scotland is an exciting initiative with wide support, including from philanthropists and the Scottish government.

Private wealth managers, like Coutts or UBS, have long responded to the demand for philanthropy advice from their clients. Government-based funding agencies are becoming aware of venture philanthropy as a crossover between philanthropy and venture capital. In the UK, the Adventure Capital Fund and Futurebuilders England are independently managed government funds experimenting with venture philanthropy tools.

It is unlikely that the volume of finance flowing through specialised venture philanthropy funds will ever be more than a fraction of independent or statutory grant-making, but

"the movement's power is its ability to help small charities and social enterprises scale up and unlock philanthropic and human resources from the investment end of the business community."

3 Interviewed by the author and quoted in 'Give and Let Give', Policy Exchange, (2007), London
4 E.g. Esmee Fairbairn Foundation has for many years helped small, ambitious charities to grow through a combination of finance and consulting advice, delivered by its grant managers or through paid consultants

Getting involved in venture philanthropy

There are various ways individuals and companies can engage in venture philanthropy.

- Both the EVPA and Philanthropy UK offer online venture philanthropy resources for donors. EVPA's member directory, freely available on its website, includes case studies of all its 'Full' members.

- There are several new funds emerging in Europe and Asia. You could help fund the start up of a new fund where this approach can accelerate the growth and development of social organisations in a part of the world you care about.

- Venture philanthropy funds can make their resources go further if others are prepared to co-invest with them. This offers the donor a taste of the venture philanthropy model while limiting their level of personal involvement – an appealing prospect for time-poor executives.

- You may be in a position to donate time and money to a venture philanthropy operation. Being part of a team that engages with a small charity to help solve problems or strategise can be immensely rewarding. For some who run companies, there may be opportunities to partner with a venture philanthropy fund to provide pro bono services to a portfolio of charities.

- You may even wish to emulate private equity professionals like Stephen Dawson or Damon Buffini, and launch your own high-engagement fund. The EVPA, for example, can provide advice and peer networking to help you do this with the hindsight and experience of others.

All in all, venture philanthropy does not seek to replace more traditional forms of charitable giving. This is an approach that some donors will find attractive, particularly if it connects with their business world. It offers opportunities for funding existing venture philanthropy operations, co-investing in specific projects or donating time and skills. All are rewarding experiences of philanthropy.

Recommended resources

- **European Venture Philanthropy Association (EVPA):** Europe's only peer network of venture philanthropy funds and other organisations promoting the movement. www.evpa.eu.com
- **Skoll Centre for Social Entrepreneurship, Saïd Business School, University of Oxford:** Research and working papers on the non-profit capital market and venture philanthropy. www.sbs.ox.ac.uk/skoll
- **Policy Exchange, 'Give and Let Give':** A study on philanthropy and the UK financial services industry. Includes case studies on venture philanthropy. www.policyexchange.org.uk

Venture philanthropy investors

- **Impetus Trust:** First general purpose venture philanthropy fund in the UK. www.impetus.org.uk
- **Andrews Charitable Trust (formerly World in Need):** A small grant-maker based near Bath whose founder had used venture philanthropy techniques for decades. www.andrewscharitabletrust.org.uk
- **The Rayne Foundation:** A grant-maker that has adopted a venture philanthropy approach to its funding of performing arts. www.raynefoundation.org.uk
- **Futurebuilders England:** An independently managed government fund which helps build the capacity of third sector providers of social services. www.futurebuilders-england.org.uk
- **Private Equity Foundation:** An initiative of several private equity firms to provide venture philanthropy support to UK charities. www.privateequityfoundation.org
- **Alfanar:** A venture philanthropy fund focused on Arab countries. Its founder retired from Goldman Sachs as a investment banker. www.alfanar.org.uk
  Children's Investment Fund Foundation: Linked to a high-performing hedge fund, CIFF has strategic grant-making programmes in Africa and India. www.ciff.org
- **UnLtd Ventures:** The venture philanthropy arm of UnLtd, which supports social entrepreneurs. www.unltd.org.uk
- **Breakthrough:** Venture philanthropy collaboration between Community Action Network (CAN) and Permira, the private equity firm. www.can-online.org.uk and www.permira.com **Inspiring Scotland:** A new venture philanthropy fund with its origins in Scotland's largest independent grant-maker, Lloyds TSB Foundation for Scotland. www.inspiringscotland.org.uk
- **The One Foundation:** Irish venture philanthropy fund co-founded by a business entrepreneur and a social sector leader. www.onefoundation.ie

About the author

Rob John's career in the non-profit sector spans emergency relief operations in Africa to repatriation of Cambodian refugees and microfinance on four continents. For five years he directed a small venture philanthropy fund in the UK and is today chief advisor to the European Venture Philanthropy Association (www.evpa.eu.com). He is a Fellow at the Said Business School in Oxford (www.sbs.oxford.edu) and consults and writes on social entrepreneurship and venture philanthropy. You can contact Rob at rob.john@oba.co.uk.

Some social investors seek to combine financial with social returns. The following chapters outline a range of options available.

As with any investment decision, we advise you to consult an investment professional in evaluating your options.

Community development finance

By Bernie Morgan
Chief Executive, Community Development Finance Association

Highlights

- Community development finance tackles poverty through wealth creation.
- Community development finance institutions (CDFIs) provide finance and support to businesses and individuals in disadvantaged communities.
- Investing in a CDFI is tax-efficient, and offers both financial and social returns.
- CDFIs increase the impact of your investment through recycling funds: as loans are repaid, they are re-loaned.

What is microfinance?

Microfinance offers financially excluded people, including those on low incomes and micro-entrepreneurs, access to financial services such as credit, savings and insurance.

These vital services give people opportunities and allow them to fulfil their potential. Microfinance is a key tool for increasing employment and moving people out of poverty. It fights financial and social exclusion. Microfinance gained international recognition when Mohammad Yunus and Grameen Bank won the Nobel Peace Prize in 2006.

The UK has more material wealth than ever before. At the same time poverty has become more concentrated and inequality more marked. Some of our poorest urban and rural areas have experienced decades of under-investment and neglect. These communities are heavily dependent on charitable giving and public money, whether in the form of welfare benefits or grants.

Community development finance, which includes microfinance, takes a radical new approach by tackling poverty through wealth creation – meeting the needs of previously overlooked entrepreneurs and revitalising untapped markets.

Community development finance in the UK

In the UK, Community Development Finance Institutions (CDFIs) are a fast growing sector. CDFIs provide finance and support to new and growing businesses in disadvantaged communities. These businesses create jobs and offer services where they are most needed. They include small businesses, charities, social enterprises (with both a social and commercial purpose), and businesses started by disadvantaged groups (such as ethnic minorities or the unemployed). CDFIs are also addressing increasing personal debt in poorer communities.

Although not conventional sources of finance, such as banks and buildings societies, CDFIs provide finance to viable enterprises and seek financial as well as social returns on their investments. These organisations combine elements of the private and charitable sectors, promoting a culture of self-help and combating poverty and social exclusion from the bottom up.

An equally important part of community development finance is the recycling of funds. As loans are repaid, they are re-loaned. This continual reinvestment multiplies the impact of every penny loaned.

A growing sector with a major impact

The UK community development finance sector is growing year-on-year. A recent survey of CDFIs showed that growth is accelerating, with CDFI investment and loan portfolios at the end of March 2007 at £287m, up from £181m the previous year – a 59% growth.

The survey also showed that:

- CDFIs have financed 15,000 businesses and households and sustained and created 33,000 jobs.
- CDFIs have levered an extra £330m of funding into the businesses and households they serve, and improved the net income of 210,000 households.
- The sector continues to serve markets that have difficulty accessing finance, including start-up businesses, female and BME businesses, and individuals.

However, community development finance is still a relatively new sector. As with any sector in its infancy, CDFIs need investment if they are to reach their full potential.

CASE STUDY:

Case Study: GLE oneLondon and Les2vents Theatre Company

Abdallah Chikh unites his passion for foreign languages and theatre through Les2vents, a company which helps students learn a second language. With limited resources Abdallah could only extend his business so far - until a series of loans from GLE oneLondon helped with marketing, building an online presence, and developing a mini roadshow to showcase his services to schools.

With a background in teaching Abdallah felt strongly that students could be encouraged to learn a second language using the medium of theatre. Through a unique and innovative comedy show Abdallah acts out traditional fables, actively engaging with the students.

Abdallah applied for funding from GLE oneLondon and was given a £1,000 loan to help him develop marketing materials. He was so successful that he went on to receive a further £4,000 loan from GLE oneLondon to purchase high tech equipment, and to develop a website and roadshow to help market his services.

The response from both students and teachers to Abdallah's successful show has been very positive. One satisfied teacher commented, "The performance was so enjoyable the pupils didn't realise they were learning!"

GLE oneLondon provides a wide range of business support to people thinking of starting their own business and those looking to grow their business. They finance, advise, mentor and train thousands of people every year.

www.gle.co.uk

The benefits of investing

The investor, the CDFI and their clients all share the benefits of investing in a CDFI. In pursuing what is referred to as the 'double bottom line', CDFIs reject the idea that the pursuit of profit and generating social change are mutually exclusive.

In the short-term, high financial returns for such investment may be harder to achieve. But there is a tax relief scheme in place, increasing the prospect of securing a competitive return. Community Investment Tax Relief (CITR) provides the opportunity for a competitive rate of return on investment in CDFIs. The relief alone is worth 25% of the money invested, spread over five years (5% a year) and is worth 8.33% gross a year for higher-rate taxpayers, 6.41% a year for standard-rate taxpayers, and 7.14% a year for main-rate corporation tax payers. On top of this, different CDFIs may offer additional returns in the form of dividends or interest, making the overall financial return higher in some cases.

Socially, investing in a CDFI allows you to maximise the long-term social impact of your money. Unlike grants, your investment will be used as capital for a revolving loan fund – loan finance is circulated again and again rather than given away once. This allows more people to benefit from your investment.

"Socially, investing in a CDFI allows you to maximise the long-term social impact of your money."

What are the opportunities?

You can invest in a national CDFI or a CDFI in your local area. The Community Development Finance Association (cdfa) is the membership body for UK CDFIs. The cdfa's mission is to support the development of a thriving and sustainable community development finance sector.

Recommended resources

- Visit CDFA's website to find out details of CDFIs in your area and to download a guide to Community Investment Tax Relief (CITR) for investors. www.cdfa.org.uk
- A list of accredited CDFIs, where your investment will qualify for tax relief under CITR, is available from the Department for Business Enterprise and Regulatory Reform website. www.berr.gov.uk

About the author

Bernie Morgan is the Chief Executive of the cdfa. Since taking up her post in April 2003, Bernie has developed the association into a well respected trade body representing the vast majority of the UK's CDFIs. She is a member of HM Treasury's Financial Inclusion Task Force, a Board member of Transact, the National Forum for Financial Inclusion and an Advisor to the Commission on Unclaimed Assets. In late 2005, Bernie led a successful lobbying campaign which secured £11m transition funding for the UK CDFI sector. Previously, she worked for the Association of Charitable Foundations, the Esmée Fairbairn Foundation and BBC Children in Need.

Microfinance

By Whitni Thomas
Investment Manager, Triodos Bank

Highlights

- Microfinance organisations (MFIs) provide financial services to people on low incomes who do not have access to credit and other financial services.
- Microfinance is now a proven model, and commercial banks are getting involved.
- The potential market is estimated at £150 billion, compared with available capital of £2 billion.
- There are various intermediaries and funds through which individuals can invest in microfinance.

Microfinance's profile is increasing by the day, bolstered by Muhammed Yunnis and Grameen Bank winning the Nobel Peace Prize "for their efforts to create economic and social development from below", and a UN Year to champion the movement in 2005.

Microfinance organisations, or MFIs as they are often called, provide financial services to people on low incomes who do not have access to credit and other financial services. While the services and products vary, MFIs typically make small loans (of around £50) to poor people for short periods of time. The original premise of microfinance was that people who were traditionally excluded from the banking sector because of lack of income or collateral could borrow to meet their credit needs. These needs either go unmet or are met at the exorbitant terms set by moneylenders or loan sharks.

For microentrepreneurs, not being able to access credit can mean not being able to buy inputs at wholesale price because of a lack of working capital or not being able to invest in even the smallest assets such as buying a goat or a stall at the market.

Proven model

Contrary to the perceived wisdom of thirty years ago, the microfinance model has demonstrated that poor people can, and do, repay loans. Although microfinance came to prominence in the 1980s, experiments in it started three decades earlier in Bangladesh and Bolivia.

Since its early days, the industry has come into its own. Microfinance has grown tremendously, but recent estimates suggest that its potential market is £150 billion, compared with available capital of £2 billion. While it is difficult to quantify, recent estimates put the number of people of working age who lack access to financial services at three billion. Indeed, in many developing countries the number of people excluded from the mainstream banking sector is high, reaching 50% in Brazil, for example.

The microfinance industry has shown that poor people are bankable and can be offered financial services in a sustainable manner. On the back of the industry's success, some commercial banks have followed MFIs' lead and partnered with them to reach out to lower income customers. In other markets, microfinance provision is still dominated by non-profit providers.

There remains an inherent tension between microfinance's social goals (inclusion for the poor) and its financial ones (the need for a sustainable MFI). The need to balance the two is what makes MFIs such a powerful example of social businesses, creating social benefits while also generating a financial return on investment. The tension of these dual objectives has generally been good for the sector and has spurred innovation and more efficient delivery models. Many MFIs have branched out to offer other, more sophisticated financial services for their clients such as insurance products.

Microfinance in the UK

The UK microfinance sector operates in a slightly different context than in other countries. British microfinance institutions identify with the community development finance sector. While they share a common purpose to fill gaps in access to finance for socially or economically excluded enterprises or individuals, UK community development finance institutions (CDFIs) adopt a range of different operating structures, products and target groups compared to most microfinance institutions.

Access to finance in the UK is more broadly understood than simply microfinance or start-up finance. Organisations may focus on different market niches, such as: small loans to previously unemployed female entrepreneurs; cultural or creative industry enterprises; business start-ups in deprived areas; or socially driven organisations ('social enterprises'). While some institutions specialise in microfinance loans, the sector as a whole consists of a range of product offerings to address financial exclusion and to channel finance to deprived communities.

How to support microfinance

There are various ways to support microfinance in developing countries as well as in the UK. How the support is structured will vary depending on the amount of money the donor has to invest, her motivations and risk profile.

The most common form of support is a donation to a charity, such as the Microloan Foundation, or fund which makes microloans to individuals or enterprises. There are normally higher costs associated with making small loans to hard-to-reach people, so many MFIs also rely on donations and grants as part of their funding stream, particularly to fund operating costs.

CASE STUDY:

Case study 1: Coutts Microfinance Pilot Donor Advised Fund

The Coutts Microfinance Pilot Donor Advised Fund provides clients with the opportunity to collaborate with each other by pooling funds and directing donations to make an even bigger impact. The Fund is not an investment scheme but rather a collection of donations, directed by donors to support charitable work in microfinance.

The Fund requires a minimum donation of £10,000 and is administered by the Charities Aid Foundation.

Coutts clients also benefit from an independent Microfinance Advisory Panel, giving them access to written reports on microfinance and information on microfinance organisations that the Panel has helped prepare.

www.coutts.com/philanthropy

"The microfinance industry has shown that poor people are bankable and can be offered financial services in a sustainable manner."

Social investors also have opportunities to combine financial with social returns, though as with any investment decision, we advise you to consult an investment professional in evaluating your options.

For example, an investor could structure her investment as a loan, an equity investment or a donation. For example, those wishing to support microfinance internationally might invest in one of the funds accessible to UK investors, like the Triodos Microfinance Fund.

Meanwhile, those wishing to support microfinance activity in the UK could buy shares in one of the MFIs/CDFIs that are registered as industrial and provident societies. Some of these investments would also qualify for Community Investment Tax Relief. More information is available on the website of the Community Development Finance Association (CDFA). Most CDFIs focus on lending to small businesses and to social enterprises. Examples of CDFIs in the UK that focus on lending to sole traders/microentrepreneurs are Street(UK), The Women's Employment, Enterprise & Training Unit (WEETU), and Fair Finance in London.

CASE STUDY:

Case study 2: Triodos Microfinance Fund

Triodos Bank has contributed its unique expertise in sustainable banking to the microfinance sector since 1994. Through the management of three funds, the bank now has over £150m lent to 80 microfinance institutions in 35 countries spread across Africa, Latin America, Asia and Eastern Europe.

The Triodos Microfinance Fund provides an opportunity for UK investors to participate in this sector. The fund is targeting a 5-8% annual return to investors, with up to 50% of the fund invested in the equity of microfinance institutions. E-mail Triodos at investments@triodos.co.uk for more information.

www.triodos.co.uk

MIX is a global information exchange for the microfinance industry. The MIX Market aims to facilitate exchange and investment flows, promote transparency and improve reporting standards in the microfinance industry. MIX is an excellent resource for investors and donors looking to support microfinance in developing countries. There is little information about microfinance in developed countries. For more information on microfinance in Europe and potential European MFIs to invest in, please see the European Microfinance Network on www.european-microfinance.org.

More information on microfinance is available from a number of resources, including the World Bank's Consultative Group to Assist the Poorest (CGAP).

Recommended resources

- **Community Development Finance Association (CDFA):** www.cdfa.org.uk
- **Consultative Group to Assist the Poorest (CGAP):** www.cgap.org
- **Coutts Philanthropy Services** - Coutts Microfinance Pilot Donor Advised Fund: www.coutts.com/philanthropy
- **Fair Finance:** www.fairfinance.org.uk
- **MIX:** www.mixmarket.org
- **New Economics Foundation (nef):** www.neweconomics.org
- **Street(UK):** www.street-uk.com
- **Triodos Bank:** www.triodos.co.uk
- **WEETU:** www.weetu.org

About the author

Whitni Thomas is an investment manager for Triodos Bank, investing venture capital in growing social and environmental businesses. Previously, she was Head of Access to Finance at the New Economics Foundation. Whitni also has helped to run a microfinance programme in Mexico, and has spent six years financing leveraged buy-outs at JP Morgan.

Triodos is Europe's leading ethical bank, with offices in UK, the Netherlands, Belgium, Spain and Germany. Triodos offers a comprehensive range of savings and investments, which it uses to finance organisations that benefit people and the environment: from organic farming to fair trade and microfinance, and recycling to renewable energy. www.triodos.co.uk

Risk capital

By John Kingston
Director, Venturesome

Highlights

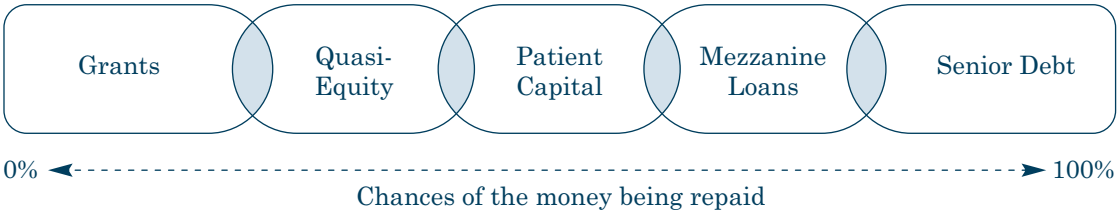
- Risk capital funds support charities that find it difficult to raise funds from more traditional sources, such as grants or bank borrowing.
- A social investment market is emerging to offer a range of funding for different risk profiles.
- Funds are made to work harder: when loans are repaid, the money is reinvested in other charities.
- A range of intermediaries offer an efficient route for individuals to invest in charities and social enterprises.

Since 2000, there has been increasing interest in exploring new ways of providing support to charities, other than grants or donations. Interest is fuelled by a desire to ensure that funds are used as efficiently as possible in the pursuit of social returns.

The Social Investment Task Force Report that year highlighted opportunities to use a range of financial mechanisms that were commonplace in the private sector, yet were almost unknown in the charitable sector.

Since then, the emerging social investment market is beginning to offer charities a range of funding, spanning a spectrum of risk profiles, where risk is defined as the chance that money will be repaid (see Figure 1).

Figure 1



What is risk capital investment?

In the risk capital model, funders see their money 'recycled' several times, rather than given away once, furthering the social impact of their giving. That is, funds are committed to a charity, and then repaid to the funder, usually with interest. These funds are then reinvested, hence the term 'recycled'.

For the charity such tools can be cost-effective, as interest is only charged on money that is drawn down. Underwriting, for example, is commonly used to reduce the level of financial risk to charities, allowing charities to proceed with their plans in the confidence that they could draw down funds should they need to. Risk capital funds may therefore form part of an organisation's overall financial risk management strategy. Further benefit to the charity comes from the mix of finance, advice and access to the wider social investment network that many risk capital funds provide.

Risk capital funds tend to assume higher financial risk than would a conventional bank lender, for whom, in the absence of security, the charity or project could be assessed as too risky or to have too high an appraisal and monitoring cost. Whilst risk capital funds do not necessarily expect a higher financial return for this increased risk, they expect and monitor social returns on their investments. The total return is therefore made up of both financial and social elements.

Demand for Risk Financing

Risk capital funds support charities that find it difficult to raise funds from more traditional sources, such as grants or bank borrowing. This may be because the application falls outside of traditional grant-makers' criteria, is not project specific, has too great a commercial characteristic or because competition for funding in the sector is intense.

Awareness of the potential role of risk capital is growing, and there is greater willingness amongst trustees to consider such finance in a charitable organisation. Charity trustees, who are obliged to consider the management of risk in their organisations, are beginning to see risk capital as an appropriate element of the financing mix of their organisations.

CASE STUDY:

Case study 1: the demand side

A long-standing charity working in urban regeneration required financial support to develop a fee-earning consultancy service, which was closely linked to its mission. Trusts and foundations contributed 95% of the charity's annual income. While these organisations supported the charity's core costs, they viewed the consultancy as 'commercial' and therefore not appropriate for grant support.

Venturesome viewed the project as 'on-mission' trading with the potential to contribute to the core mission, and provided £50,000 as a subordinated loan to help develop the consultancy. An interest rate of 5% (similar to market rates at the time) was charged, with a step-up each year while any balance remained outstanding. A capital repayment schedule was agreed whereby Venturesome would recover its funds over five years.

The consultancy business progressed well – from £40,000 annual turnover to £250,000 within three years, and the charity repaid the Venturesome loan well ahead of schedule (Venturesome does not charge early redemption penalties).

Supply of Risk Capital

Risk capital mechanisms are being explored and supplied by individual donors, trusts and foundations and central government. Support can be given directly, although intermediaries offering the opportunity to invest in risk capital funds are increasingly seen as an efficient route to market for those seeking to maximise the use and social impact of their money.

Intermediaries include Venturesome, Bridges Community Ventures and the Triodos Opportunities Fund, while several banks, including specialists such as Charity Bank, also provide lending support to charities.

"In the risk capital model, funders see their money 'recycled' several times, rather than given away once, furthering the social impact of their giving."

Involvement of individual philanthropists

As the sector grows, individual philanthropists are increasingly taking an investment approach to their charitable giving. By investing in the intermediary risk capital market, philanthropic investors benefit from:

- **Efficiency:** Investors can see their charitable money recycled several times, in contrast to one-off donations.
- **Access and research:** Investors benefit from a route to market, and particularly to small, entrepreneurial charities that they may otherwise miss. This access is backed up by due diligence and screening by a trusted source.
- **Engagement:** Some funds may offer investors opportunities to engage in different ways, from the simple commitment of funds to the opportunity to visit charities, select investments and provide on-going mentoring support.
- **Strategic impact:** Funders taking an investment approach are helping to build the emerging social investment market and have benefited from the mutual learning of their peer group.

CASE STUDY:

Case study 2: individual investor

Seven individual philanthropists have supported Venturesome with combined investment of £2.5m. One example is Peter Baker who makes grants through his charitable trust. He wanted to explore other ways of using his money, and wished to focus on smaller charities where his charitable funds could make a meaningful impact.

From his trust, Peter invested £100,000 in the Venturesome fund. Initially, Peter selected the charities in the Venturesome portfolio that he wished to support. As time went on, he moved to a less hands-on approach, allowing his money to be committed as a percentage of each Venturesome deal.

To date, his funds have been invested in 20 charities, tackling issues ranging from poverty in developing countries to the social exclusion of people with disabilities. He receives regular reports on his investments and face-to-face meetings as appropriate.

Recommended resources

- **Venturesome** is an £8m fund (2008) supported by a mixture of individuals, corporate investors, trusts and foundations. Venturesome uses investment mechanisms such as underwriting, unsecured loans and equity-like instruments to support charities, charitable enterprises and other businesses with a social purpose. www.venturesome.org
- **Bridges Community Ventures** is a venture capital fund investing in ambitious for-profit businesses in deprived areas in England. In 2002, the UK Government committed £20m to its first fund, matched by £20m of private investment. Bridges raised a further £75m from the private sector for its second fund in 2007. www.bridgesventures.com
- **Charity Bank** takes deposits in order to create a source of affordable loans and to provide related support services for the charitable sector. www.charitybank.org
- **Triodos Opportunities Fund** provides investment funding for growing social entreprises. www.triodos.co.uk

About the author

John Kingston is the founder director of Venturesome at the Charities Aid Foundation (CAF). He previously worked for 3i Group plc and Save the Children UK. Venturesome provides growth capital to charitable enterprises, using stand-by facilities, unsecured loans and equity-like investments. It aims to help organisations achieving social impact get access to working and development capital.
For more information, visit www.venturesome.org.

Venturesome was recognised as Britain's Most Innovative Charity 2007, in the Third Sector/Royal Bank of Scotland Awards.

Social investment

By Adrian Hornsby
Head of Research & Analysis, Investing for Good

Highlights

- Social investment combines social or environmental outcomes with financial returns.
- Many social businesses have achieved consistent growth, generating 2%-8% annual returns on average.
- Social investments offer an opportunity for portfolio diversification.
- Social investors should consider their risk profile and requirements for financial return, and the areas where they wish to have an impact.

The internet, climate change, and soaring volumes of international trade have, over recent years, brought about a profoundly heightened sense of global interconnectedness. Ethical questions have come into company boardrooms, and a cross-weaving of interests and concerns has demanded more integrated solutions. Increasingly it is becoming clear that business, society and the environment are mutually embedded.

In contrast to the 'traditional' model of philanthropy, by which people profit-maximise with one hand to then give away profits with the other, the social investment model seeks to co-align financial and ethical interests in a single strategy. The capital itself, rather than a 'charity run-off', is used to further the mission-interests of the investor, and produce a 'blended return' — i.e. one composed of both financial and social or environmental benefits. Together these elements compose a double or in some cases triple bottom line.

Blending offers a number of key advantages:

- A greater degree of congruence is achieved between investments and the values and beliefs of the investor.
- As the capital is invested not donated, it remains in circulation, thus leveraging increased social impact through successive redeployments.
- The market discipline of invested capital obliges socially motivated organisations to engage in profitable activities, encouraging sustainability.
- Conflicts between profit-maximising investments and philanthropic activity are minimized.[5]

The practice of financial and ethical coherence has some history, stretching back to the co-operative credit organisations of the nineteenth century. Over the past three decades socially motivated banking has grown considerably, with organisations such as Triodos Bank and ShoreBank now each managing balance sheets in excess of US$2 billion. However it has been over the past decade that business-style approaches have engaged in large-scale and innovative ways with traditionally third sector issues, and the blended space has started to explode.

Many social businesses have achieved consistent and impressive growth year-on-year, delivering financial returns to investors mostly between 2% and 8%, as well as significant sustainable social and environmental benefits. As the model of for-profit, socially motivated enterprise creates stronger proofs of its viability, investment opportunities are proliferating, with new businesses starting up, and mainstream players such as Deutsche Bank and Morgan Stanley getting involved and creating funds.

However many feel we are still in the early moments of a blended space Big Bang. Given current levels of interest in tackling both climate change and global inequality, and considering the scale of the problems and the clear need to involve business in the solutions, it is likely that the sector will continue to expand rapidly.

5 The reality of such conflicts was notably flagged up in early 2007, when it was revealed that investments made by the Bill and Melinda Gates Foundation were frequently in companies whose activities (chiefly through pollution) were contributing to the very problems which Foundation grants were attempting to address.

What is social investment?

A social investment can broadly be defined as an investment in an organisation (or fund) whose primary mission is to achieve positive social or environmental outcomes, and whose method for achieving such outcomes is through profitable trading. The nature of the business may vary, but whilst trading itself is the driver for mission fulfillment, profitability should not conflict with impact. Therefore what is good for business will equally be good for communities and natural environments.

A popular example is microfinance, where the successful repayment of a loan not only allows the microfinancier to be profitable, but equally indicates that the microborrower is using credit well to grow their business. Similarly, for a clean technology company, better sales figures mean more emissions displaced. The same principles work for, among many others, fairtrade retailers and Community Development Finance Institutions (CDFIs).

However, while the mission-driven organisation should be profitable thanks to and not in spite of its mission, the size of the financial return to investors may have to compete with the organisation's desire to reinvest in its own expansion, or to offer its services at a lower cost. This second situation can arise in particular among organisations focused on impoverished communities (e.g., those providing financial services, clean water, healthcare etc. to the excluded), where the potential for higher returns to investors is sometimes sacrificed in order to ease the burden on the poor.

On the other side, the 'impact quotient' of the blended return may be compromised by mission drift, whereby an organisation's operations move subtly away from their original focus (e.g., a microfinance institution may find itself drifting toward larger loans and so away from the microborrowers it originally set out to serve). This however can and should be scrutinised. A number of organisations publish a social audit, distributed alongside the annual report, which allows investors to maintain a close relationship with the impacts being achieved, and to monitor social returns just as they do financial ones.

CASE STUDY:

Case Study — E + Co

An essential question posed by contemporary social and environmental goals is how to roll out developed world levels of progress without exhausting the planet. E+Co presents a highly innovative new model, based on the financing of clean energy SMEs in the developing world.

The SME approach posits a new development paradigm: re-introducing market-based solutions to national energy supply, and, through the use of small- to medium-scale operations, ensuring supplies are derived from and are sensitive to local conditions. E+Co's mission is to address the current lack of available capital by furnishing demonstrably profitable SMEs with loans.

Environmental benefits are achieved on multiple levels. Clean energy SMEs displace dirty fuel consumption, thus lowering global CO2 emissions, and driving back local environmental degradation such as soil, water and air pollution. Further social impacts come through the provision of electricity, resulting in direct improvements to quality of life, with health and education benefits as well as new employment opportunities, in particular for women, and enhanced productivity.
Over the last 14 years of operations, E+Co's cumulative lending to 173 SMEs has brought electricity to over 4m people and offset 3m tonnes of CO2. In 2008 E+Co launched its People + Planet Notes on 8 and 10-year terms, providing 5% and 6% annual returns, respectively. The Notes are expected to raise US$150m, through which E+Co hopes to service a further 17m people with modern clean energy, and offset 16 million tonnes of CO2.

Criteria and Risks

Social investors are likely to be self-steering in terms of their appetite for risk, their requirements for financial return, and the particular area where they wish to see impacts being delivered (e.g., developing world or UK focus, social or environmental projects). At present, social investment opportunities tend to be medium-to-long-term (five years or more), with little or no liquidity, and are more likely to be debt than equity based.

Not infrequently an investor will be expected to take on a level of risk not compensated to a commercial standard by financial return, and in such cases the investor may need to consider the impact aspect of the blended return in order to rationalise that risk. However, increasingly sophisticated structured offerings are emerging, whereby subordinated layers of debt are taken on by foundations and highly socially motivated investors in order to offer well cushioned senior debt, with fully commercial levels of financial return, to more mainstream investors. As the nascent universe of social investing continues to expand, it is expected that greater liquidity and more innovative financing will develop.

Due to the immense diversity of social investments, risk comes in many different forms. However broader categories of risk can be identified which do apply to large parts of the sector. These include:

- **Early-stage risk:** Many social businesses are early-stage companies with unconventional business models, representing innovative approaches or new technologies, which are largely untested. Companies may have limited financial histories or experience of debt, and market data for comparable operations may not exist.

- **Developing country risk:** Many social investments are made in developing countries, and so are subject to a wide variety of risks including potentially unstable political environments, less solid legal and financial structures, and currency risk.

- **Policy risk:** Business plans of mission-driven companies are sometimes predicated upon sympathetic policy environments (e.g., renewables targets for green energy providers), which may be subject to changes in political mood.

A significant upside for investors comes however in the form of diversification. Because social investments tend to focus on new or underserved markets, often with little correlation to mainstream markets, they offer investors the opportunity to spread investments across a broader range of interests, and thus lower overall portfolio Beta. Moreover, mission-driven organisations often tap into vast and vastly underdeveloped resources, such as solar power, or labour forces in emerging economies.

"The best social investments are able to present strong growth potential regardless of wider economic downturns."

Next Steps

A considerable variety of options is available to social investors, ranging from a growing number of social impact funds through to hands-on venture philanthropy. The key distinguishing features are the levels and types of risk, financial return, and social or environmental impact involved, which taken together form the social investment profile.

The Ethical Investment Association opens a number of avenues for related advisory services, and some regulated IFAs and wealth managers are beginning to offer advice in this area. Still, pressure from clients will be crucial in driving forward the realignment of investment practices with the interests and values of investors.

Recommended resources

- **Investing for Good** is the UK's first FSA-regulated social enterprise offering investment advice, data and market expertise across the social investment sector in the UK and internationally. www.investingforgood.org

- **Triodos Bank** is an ethical bank which uses deposits and investment banking services to finance companies, institutions and projects that add cultural value and benefit people and the environment. www.triodos.co.uk

- **Charity Bank** is the UK's only regulated bank that is also a registered general charity. Charity Bank uses depositors' savings to support charities, voluntary organisations and social enterprises that address society's needs. www.charitybank.org

- The **Community Development Finance Association** (CDFA) is the trade association for community development finance institutions (CDFIs). CDFIs are sustainable, independent financial institutions that provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or underserved markets. www.cdfa.org.uk

- The **Ethical Investment Association** (EIA) is an association of financial advisers interested in the promotion of ethical and socially responsible investment. www.ethicalinvestment.org.uk

- The **UK Social Investment Forum** (UKSIF) is the UK's membership network for sustainable and responsible financial services. www.uksif.org

- **Ethical Investment Research Services** (EIRiS) is a global provider of independent research into the social, environmental and ethical performance of companies. www.eiris.org

About the author

Investing for Good provides investment advice, data and market expertise across the social investment universe. We believe that investment portfolios can and should be better aligned to investors' core values and motivations. Our mission is to incorporate these values into management practices.

Adrian Hornsby heads Investing for Good's pioneering social impact ratings system, which is supported by a unique structured framework of assessment criteria. He is an expert on emerging economies, and is co-author of The Chinese Dream (010 Publishers, 2008). He writes and speaks regularly on issues relating to Chinese and global development as well as on ethical investing.

Socially responsible investment (SRI)

By George Latham
Head of SRI Funds, Henderson Global Investors

Highlights

- SRI funds are increasingly popular and moving closer towards the mainstream.
- Almost £9 billion is invested in Britain's green and ethical funds, with nearly 100 different mandates for retail investors.
- There is a growing focus on 'solution providers' – companies tackling social or environmental issues such as climate change.
- Companies that pay attention to social and environmental issues appear to be better-managed than those that don't.

What does ethical investing mean to you? Does it conjure up ideas of specialist funds with strict exclusion criteria, run by a manager content to work away in a small corner of the market and missing out on the big returns? Or does it seem more like the passing investment trend currently hitting the headlines because of a number of fund houses jumping onto the 'green' bandwagon?

Whatever your opinion, the facts are getting harder to ignore. Ethical funds, or Sustainable and Responsible Investing (SRI) as we prefer to term them, are increasing their share of the investment market, especially in the UK, where according to Ethical Investment Research Services (EIRiS) there is now almost £9 billion invested in Britain's green and ethical funds, divided among nearly 100 different green and ethical mandates for retail investors.

"What was previously seen as a relatively niche area for a few well intentioned investors is now clearly very big business."

Table 1 summarises the evolution of SRI, and highlights the different approaches available.

Table 1: Different SRI approaches

'Values'	'Value'	'Vision'
• Driven by ethical values • Focused on excluding certain types of activities using negative screens	• Enabling differing standards of CR • Focused on best-in-class social & environmental performance and financials	• Enabled by the emergence of environmental & social issues as significant mainstream investment issues. • Focused on investing in 'solutions-providers'

Moving towards the mainstream

Recent developments, both in fund offering and client demand, have seen SRI funds move even closer towards the mainstream. The focus is increasingly on so-called 'solution providers' – companies tackling challenging social or environmental issues such as climate change. Regulatory changes and shifts in consumer behaviour have created opportunities for the private sector to develop and scale-up the technologies that can provide workable solutions to these problems. The result has been the emergence of a range of funds aimed at financing new technologies, ranging from wind and wave power to businesses offering educational and healthcare services around the world.

Some of these funds are unapologetically mainstream; focusing simply on what companies do and largely ignoring the Corporate Social Responsibility (CSR) issues of how they do it. Others funds choose to take a more holistic approach, demanding that those companies are operating and

developing their businesses responsibly. This standpoint takes the logical – and pragmatic – view that companies developing renewable energy also need to be held to account for their actions. Henderson's Industries of the Future Fund aims to do precisely that. We have identified ten environmental and social themes which we believe are growth industries and as such we would expect them to outperform the market over the longer term. Table 2 demonstrates how these fund themes have performed against the MSCI World Index over a number of different time horizons.

Table 2: Social Investment Themes – Henderson Industries of the Future Fund
Backtesting Results 31 May 2008 - discrete annual returns in %

	1 year	2 years	3 years	5 years	7 years	10 years
MSCI World Index	**-5.64**	**15.39**	**33.76**	**77.90**	**36.09**	**43.69**
Cleaner Energy	27.0	78.2	178.1	632.4	295.1	433.3
Efficiency	-0.8	35.5	86.8	207.7	115.6	168.0
Environmental Services	76.8	124.9	280.7	779.4	541.7	247.3
Health	0.8	27.9	59.1	184.4	214.3	627.4
Knowledge	25.2	122.6	222.5	1153.0	1018.9	1585.7
Quality of Life	51.8	115.5	197.9	783.0	648.1	640.4
Safety	3.8	32.6	48.9	124.2	197.5	302.0
Social Property & Finance	-40.2	-28.1	-23.3	17.6	14.6	41.4
Sustainable Transport	5.6	37.8	111.4	238.6	183.8	312.5
Water Management	-0.1	37.7	89.3	191.5	98.5	110.8
Number of stocks	**1263**	**1188**	**1112**	**982**	**902**	**711**

Source: Henderson Global Investors 5 June 2008. Please note that these figures represent past performance of indices which are not a guide to future performance and should not be construed as indicative of fund performance.

Backtest results do not include the expense of dealing and there is no guarantee that a portfolio on these lines could be bought and sold.

Do SRI themes lead to better fund performance?

For SRI fund managers, as well as avoiding or prioritising certain types of companies, there has been a long-running debate about the financial performance of their funds. Critics argue that by limiting the range of companies that these funds can invest in, they also limit the returns that they can make.

While initially this might seem to make sense, there is a solid body of evidence that finds the reverse. Rather, on balance, companies that pay attention to social and environmental issues appear to be better-managed companies than those that don't. Limiting your universe, as critics had originally viewed SRI, looks like quite a good idea if you are effectively screening out companies that are badly managed.

More to the point, every fund manager, SRI-focused or mainstream, has exclusion criteria of their own (for example, whether they are looking for income or capital growth stocks), and chances are their list of companies in which they cannot or will not invest will be considerably longer than the list of companies in which they can invest. Each manager has to cut their cloth according to their particular investment mandate and under a particular set of constraints.

It could be argued that any mainstream fund managers worth their salt would look to actively avoid companies with a reputation for poor CSR, simply as a matter of good business sense. However, until this more long-term approach is applied across all funds, those with an SRI slant look to be setting the investment trend by rewarding better governance and increased responsibility from companies by directing investment in their direction.

SRI as a strategy for long-term investment

There are a number of reasons why SRI and long-termism should be natural bedfellows. Firstly, to incorporate an analysis of CSR into investment decision-making requires an inherently long-term outlook. SRI investors are keen to have a deeper understanding of how the companies they invest in are managed, and how management can ensure that the growth profile and returns generated are sustainable over time. Secondly, SRI investors often apply a research-intensive approach to understand key themes influencing the direction and shape of future economic development, which hopefully will enable investors to identify those companies that are more likely to succeed over time.

Through a long-term and active ownership approach SRI investors are able to exercise stewardship over their investment holdings. Over time managers are able to develop a deeper understanding of an industry and a company's position within that, through building a consistent relationship with company management.

The outlook for SRI is positive

SRI funds have grown greatly in popularity over the last few years, as companies with an active focus on environmental issues have benefited from growing political and consumer support. However, 2008 has brought an altogether more turbulent market, and clean-tech and other SRI funds have not remained immune to the downturn. But even so, the outlook remains promising. New legislation – focusing in particular on climate change, but also championing social issues such as healthcare and product safety – continues to be developed in the UK, EU, US and beyond, serving to provide continued good news for investors in these sectors. What is clear is that the SRI investment sphere will continue to evolve at a rapid pace, which can only be a good thing for investors, and for society as a whole.

Getting started in SRI

If you are interested in finding out more about SRI and ethical investments, contact your Independent Financial Adviser (IFA), who will be happy to give you more information. For details of registered IFAs near you visit www.unbiased.co.uk or call their consumer hotline on 0800 085 3250.

Recommended resources

- **Ethical Investment Association (EIA):** www.ethicalinvestment.org.uk
- **Ethical Investment Research Services (EIRiS):** www.eiris.org.uk
- **UK Social Investment Forum (UKSIF):** www.uksif.org

About the author

George Latham is Head of SRI Funds at Henderson Global Investors. Henderson manages a comprehensive selection of equities, fixed income and multi-manager products, giving clients a wide choice of traditional and cutting-edge investment strategies. With over 30 years' experience of sustainable and responsible investing, Henderson is one of the world's leading providers of SRI funds. We currently manage £869m (as of 31 December 2007) in SRI assets for clients including pension funds, local authorities, charities and individuals. More importantly, our SRI fund range has demonstrated that 'green' investments can deliver competitive returns over the long-term.

Sustainable finance

By Alex Connor
Investor Relations UK, Triodos Bank

Highlights

- Sustainable finance is about using money to encourage socially responsible business and to create a sustainable society.
- The three main types of ethical banking institutions are: co-operatives and credit unions, social banks, and microfinance institutions.
- The number and quality of sustainable finance products continues to improve.
- In evaluating your options, investors should consider how you wish to make a difference, as well as your financial return and liquidity needs.

'Traditional' philanthropy – or giving without expecting a financial return – is one way to do something positive with your money.

However, the way you choose to lend, deposit or invest can be an even more powerful force for good. Funds lent to or invested in a business, social enterprise or charity are normally repaid (with interest) and can be re-lent or invested several times. So money that's recycled in this way can make more of a difference than a one-time cash donation.

What is sustainable finance?

Sustainable, or ethical, finance is a broad term which means different things to different people.

To some it means Socially Responsible Investment (SRI), the term for investment in publicly listed companies with screens to weed-out the ones that produce negative impacts or to select companies judged to be more 'ethical' than their peers. This is the most established and widely available form of ethical investment, though it could be argued that this is essentially a 'reduced harm' strategy.

Others believe that sustainable finance can only truly mean social investment. This is finance which is used to support the 'social economy' or environmentally driven organisations. These kinds of investments have traditionally been scarce and trading in them harder than in the more liquid, mainstream markets. But they are becoming increasingly accessible through specialist funds (see case study), or investments and deposits offered by ethical financial institutions.

While definitions may vary, essentially sustainable finance is about using money to encourage socially responsible business and to create a sustainable society. Consumers are increasingly putting their money where their mouth is, by not only buying organic, fair trade and environmentally friendly products (growth in ethical consumption is outstripping normal household consumption three-fold), but also by depositing and investing their money in ways that reflect their wider ethical view of the world.

The history of sustainable finance in the UK

The historical roots of sustainable finance are grounded in religion. Ethics were behind the medieval Catholic Church's desire to avoid usury and behind Islam's avoidance of interest. Methodists, Quakers and Hindus all have a history of rejecting investments in sectors that contradict their beliefs, such as alcohol and gambling. These early efforts to screen-out certain investments were the key drivers behind SRI funds and early sustainable finance in the US and the UK.

"sustainable finance is about using money to encourage socially responsible business and to create a sustainable society."

However, today ethical investment is no longer a niche market, with growing awareness that the social return on money counts. In the past few decades specific events and global trends have resulted in an expansion of the sector. The oil scares of the 1970s and the Chernobyl nuclear disaster were catalysts for the development of renewable energy investments. Growing opposition to apartheid and the boycotting of businesses operating in South Africa also fuelled ethical screening moves. Increased concerns about pollution, intensive farming and genetically modified produce have driven the organic sector. Greater awareness of third world poverty and the need for sustainable solutions has been behind the emergence of the fair trade and microfinance sector.

Three main types of ethical banking institutions have emerged:

- **Co-operative banks and credit unions:** Formed in the 19th century to provide finance to their members, many co-operative banks expanded their activities and lost their special social mission when commercial and savings banks started offering banking services on a broader scale. Some of these institutions have more recently rediscovered their roots and are redirecting some of their activities to support specific areas such as community development, the non-profit sector and environmental development.

- Social banks: In the last 40 years, new social banks have emerged, driven by social and human development concerns, including care for the environment. They want to stay true to their values even as they grow and change. Growth is not a target on its own, and financial profitability is seen as a condition for further development.

- **Microfinance institutions:** Microfinance has developed to provide banking for the 'unbankables' (people without access to finance). It contributes to poverty alleviation through micro-lending for income-generating activities of the poor themselves. Microfinance banks focus their efforts in the poorest parts of the world.

Outlook

The mainstream financial sector has responded to calls for more sustainable finance options by offering an increasing array of ethical investment funds, and by introducing lending policies which outline minimum environmental criteria. There are now more than 600 ethical investment funds worldwide and their number is constantly growing. The amount invested in Britain's SRI retail funds is now over £8 billion, up from the 1997 figure of less than £1.5 billion[6].

However, the ethical quality of these products differs substantially in terms of quantity and content. The main growth has been in SRI funds, with a focus largely on negative screening and 'best in class' investment. Mainstream financial institutions are also increasing their range of environmental investment offerings. This is expected to continue to expand at a fast pace as consumers drive demand for environmentally sound products. These offerings are largely driven by expectations of substantial financial returns in a high-growth sector.

However the most interesting future developments are likely to be in investment opportunities that blend financial returns with social or environmental benefit, and for which the positive impact of the investments is the key driver.

6 EIRiS: Key ethical / socially responsible investment (SRI) statistics (www.eiris.org)

While mainstream financial institutions remain focused on making as much profit as possible, rather than on social and environmental impacts, access to truly sustainable investment offerings will remain the domain of social financial institutions. Expanding these specialised institutions and funds, and broadening their product offerings, will drive growth in truly sustainable finance.

How to get involved in sustainable finance

To maximise the social impact of investments and savings, you need to answer some key questions. These will govern the types of investment and savings that work for you.

- Do you want your money to actively make a positive difference, or are you happy to pursue a 'do not harm' strategy?
- Are you trying to make as much financial profit as you can with your investments, or are you happy to accept a potentially reduced but decent financial return alongside positive social benefits?
- Are you interested in a particular social or environmental goal, or do you want to drive development of a specific sector?
- Do you need easy access to your funds or are you happy to make a longer-term commitment, or take some risk, which may have more impact?

Considering these questions will help you to better evaluate the range of sustainable finance options available. However, it may not be possible to achieve all of your aims, in which case you will need to make some tough decisions about what is most important to you. For example, you may not be able to actively invest in fair trade businesses while maximising your financial returns and having easy access to your funds.

Sustainable savings and investment options

Sustainable banking options fall into two broad categories: savings and investment. But there are many subsections to these, such as:

- **Savings options:** Deposit accounts, bonds
- **Investment options:** SRI funds, sector-specific listed funds, microfinance funds, fair trade funds, social venture capital funds, individual ethical businesses

As people and institutions struggle to deal with the problem of social and environmental change, sustainable finance is emerging as one of the most powerful solutions. Sustainable private banking advice can help determine the best options for investors and depositors.

CASE STUDY:

Case study: Triodos Opportunities Fund

The Triodos Opportunities Fund is a ground-breaking venture capital fund for social enterprises. It invests in high-impact and commercially sustainable social enterprises, and provides expertise to help them grow. Social enterprises are profit-making businesses set up to tackle a social or environmental need. Jamie Oliver's Fifteen restaurant, fair trade drinks company Cafédirect and Triodos Bank itself are all examples.

The Fund is an exciting addition to Triodos' range of services for the third sector, complementing the Bank's existing lending to and capital raising services for charities and social enterprises. It also builds on Triodos' 16 years of experience of investing venture capital in growing social and environmental businesses.

The Fund has raised £3m in its first fundraising round, which closed on 30 June 2008. Investors include charitable foundations The Waterloo Foundation and The Tudor Trust, as well as private investors who see the Fund as a great example of social investment which promises to deliver both a financial and social return.

Recommended resources

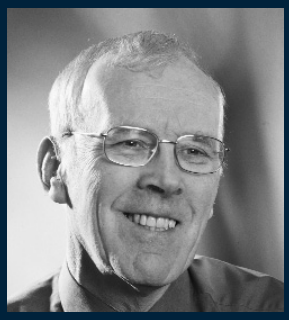
Independent commentators

- **New Economics Foundation:** www.neweconomics.org
- **UK Social Investment Forum:** www.uksif.org
- **Ethical Investment Research Service:** www.eiris.org
- **International Association of Investors in the Social Economy (INAISE):** www.inaise.org
- **European Federation of Ethical and Alternative Banks (FEBEA):** www.febea.org
- **Institute for Social Banking:** www.social-banking.org
- **UK ethical banking organisations**
- **Triodos Bank UK:** www.triodos.co.uk
- **Charity Bank:** www.charitybank.org
- **Co-operative Bank:** www.co-operativebank.co.uk
- **Unity Trust Bank:** www.unity.uk.com

About the author

Alex Connor is head of investor relations for Triodos Bank in the UK. Triodos is Europe's leading ethical bank, with offices in UK, the Netherlands, Belgium, Spain and Germany. Triodos offers a comprehensive range of savings and investments, which it uses to finance organisations that benefit people and the environment: from organic farming to fair trade and microfinance, and recycling to renewable energy. www.triodos.co.uk

Philanthropist profile
Sir Ian Wood



Sir Ian Wood is a philanthropist who thinks, and acts, both locally and globally. Through the work of the Wood Family Trust (WFT), whose mission is to help develop and support individuals to become contributing members of their communities, he predominantly focuses on developing economic opportunities in Sub-Saharan Africa and the development of young people in the UK.

Influenced by the ethos of his family's business, Wood Group, the global energy services firm founded in 1970, which sees itself as a 'good citizen company', Sir Ian soon became involved in the business of corporate philanthropy and community projects.

"We are all part of the same humanity – we must all contribute to humanity, not just take from it," says Sir Ian. "Our company has benefited from globalisation and so should assume responsibility for some of the global problems."

The Wood Group was involved with community and corporate philanthropy from its early inception, and while he was inspired by the company's philanthropy, in setting up his family trust in 2007, Sir Ian, his wife and three sons took a fresh look at what causes they would support.

True to his belief and experiences in working with global communities, Sir Ian felt a responsibility to help people help themselves and improve their economic livelihood. He intends to give away £50m over the next 5-10 years, and his choices of causes to support *"come from the heart balanced with a look at some of the core issues in society"*, and a common theme of the Trust's projects in the UK is tolerance, citizenship and enterprise.

Establishing a foundation was the most effective way Sir Ian could see to effectively facilitate giving away his money, providing a structure to help formalise plans and introduce more discipline. For Sir Ian it also provides a platform to talk to partners and other funders.

WFT has three clear areas of investment focus: economic development in Sub Sahara Africa; Developing young people in Scotland and Volunteering overseas; The Trust is *"not in the aid business, we are seeking to make a long-term difference through supporting sustainable initiatives which deal with the root causes of our funding portfolios"*

Sir Ian's personal involvement in the Trust is essential to his belief in empowering individuals and communities. "You must get directly involved to give effectively, and good philanthropy shares a lot of the same principles as good business – you need good people and performance."

Garreth Wood, Sir Ian's youngest son is very involved with the Trust, alongside his father. *"We have had a good debate on the benefits of 'aid' v 'livelihood', for instance,"* says Sir Ian, *"and doing this as a family means a shared interest and bond."*

"We typically provide capacity building, network, and collaboration as well as funding to our funded projects, we recognise that effective performance does not just rely purely on a

financial transaction." Meeting people, the satisfaction of seeing the impact and changing people's lives in a positive way in the longer term are the rewards Sir Ian gains from the Trust's work.

One of Sir Ian's flagship programmes in Scotland is the Youth and Philanthropy Initiative, which will see Scottish pupils identifying grassroots charities making a positive contribution to their community. Having learnt how to analyse the charity's management, budget and strategy, teams give a presentation on why their proposed charity deserves the £3,000 support. The programme aims to hit the majority of secondary schools in Scotland. *"This programme emulates a very important core value of our Trust, developing tolerant and caring citizens and we are very excited by the impact this will have on young people in Scotland."*

Sir Ian wants to maximise the effectiveness and efficiency of his giving. "As the Trust was just founded last year we see this stage as a learning experience, and our approach is still evolving."

His advice to budding philanthropists – *"watch your head v heart. You can lead by your heart, but your head must come into it too!"*

▶ **Wood Family Trust:** www.woodfamilytrust.org

3 Giving tax-efficiently

As you evaluate your circumstances, consider your finances as well as other personal resources. Based on what you want to support and your financial situation, determine how you can give tax efficiently, as well as what giving mechanisms are most appropriate.

This section presents a range of tax-efficient mechanisms to consider.

Stage 3 chapters:

- Charitable trusts
- Community foundations
- Donor advised funds
- Gift Aid for individuals
- Legacies
- Payroll giving
- Gifts of assets
- Community Investment Tax Relief
- Gift Aid for businesses
- Charity events
- Affinity cards

Charitable trusts

By Sonia Sinanan (ed.)
Information and Communications Manager, Association of Charitable Foundations

Highlights

- A charitable trust provides a framework for strategic giving and offers many tax benefits.
- You do not need a large amount of money to set up a personal charitable trust.
- You can involve your family and friends as an enjoyable way of developing a shared commitment to giving.
- The charitable purposes must be for public benefit.

What is a charitable trust?

A charitable trust or foundation is a legal organisation which can be set up by anyone who has decided that they want to set aside some of their assets or income for charitable causes. They are registered charities and can be registered as companies or unincorporated associations.

The trust is governed by a trust deed (see 'How does it work?' section) which includes the charitable purposes that the trust will work within.

You do not need a large amount of money to set up a simple personal charitable trust. Often, the first endowment is a lump sum from a bonus, an inheritance or the sale of shares. But because a charitable trust is a charity, it can receive money tax-free using Gift Aid or payroll giving. So a charitable trust may be suitable if you want to give regularly to a number of causes, if you want to give a reasonable amount as a one-off gift from time to time, or if you want to ask others to contribute to the trust's funds.

What are the advantages?

"Setting up your own trust provides a framework for planning your charitable giving in a systematic and thoughtful way."

It may also give you a greater say in how the money you give is directed to the causes you want to support.

You can choose what to call your trust, so it can carry your family name or that of someone you want to honour, or be totally anonymous. By giving it a personal name, you can give your charitable giving an identity, which can be as flexible as you want. You don't have to include the word 'trust' in the title. You can call it a 'foundation' or 'charity' or any similar term.

Many people involve their family, or friends and colleagues, as trustees and find it an enjoyable and constructive way of developing a shared commitment to giving.

You and the other trustees can decide independently exactly how much you would like each beneficiary to receive. It is simple for them and for you. Your main responsibility is to work within the charitable purposes and the powers set out in the trust deed that governs the trust.

The trust will be able to take advantage of many tax benefits. Apart from the tax relief on your own donations to the trust, it will not pay tax on its investment income. It will not pay corporation tax or inheritance tax, or business rates (there is mandatory relief against business rates at 80% and a further 20% on a discretionary basis) if it eventually runs its own office. Also the trust will not have to register for VAT, unless it is supplying a significant amount of products or services that are subject to VAT. This is unlikely if it is simply making grants to other charitable organisations.

If you are employed, and your employer has a scheme where they will match your donations to charity, for example through payroll giving, you may be able to take advantage of this to make your trust even larger.

The only outside supervision comes from the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator or, from late 2008, the Northern Ireland Charity Commission. Once the trust has been registered it must publish a formal annual report and accounts which should include a list of any grants made to organisations and report any significant changes to the trust. These reports are sent to the appropriate supervisory body. This involves some paperwork but is generally not a huge burden. As long as the trust stays within its own rules and is properly administered, the regulators generally cannot tell the trustees what to do.

The trust can continue after your death, and may be the beneficiary of a legacy from your estate which will also be tax-free. The trustees will continue to distribute funds according to the guidelines set out in your constitution. This way you can make sure that your favourite causes continue to benefit.

How does it work?

There are several ways of setting up a trust, but the basic model needs:

- A **donor** or 'settlor' (which may be you, your family or business);
- **Trustees** (who could be you and members of your family, as well as someone outside the family such as your lawyer or a family friend);
- **Charitable purposes** (which set out the type of causes the trust can support); and
- A **trust deed** (which forms the trust's constitution).

The **trustees** hold and control the trust's assets. They decide how the income and capital (assets) of the trust should be distributed, and make sure that this is in line with the charitable purposes of the trust.

The **charitable purposes**, or aims, form part of the trust deed and describe the sort of causes that the trust can support. These can be worded in quite a general way so the trustees can keep their options open and allow the areas of interest to develop over time, or they can be very specific to ensure that the funds are distributed for the purpose intended by the donor.

The charitable purposes must be for public benefit within the purposes that the law regards as charitable, which include relieving poverty, promoting education or religion, or helping the community in many other ways. Guidance on the definitions of public benefit can be found on the regulators' websites.

Within the charitable purposes, a trust can help organisations or individuals. It can operate anywhere in the world unless you have decided in your charitable purposes to restrict it to the UK or a particular geographical area.

"The trust will be able to take advantage of many tax benefits."

The **trust deed** is the constitution of the charitable trust. It sets out the framework within which the trustees must operate. Apart from describing the charitable purposes the trust has been set up for (which can be general), a trust deed will generally describe:

- The powers and responsibilities of the trustees;
- How they are appointed and removed;
- The approach to investment;
- How the constitution (but usually not the charitable purposes) can be altered; and
- What will happen after the death of the settlor.

Setting up a charitable trust can be very rewarding and relatively easy. It will need some effort and help at the start and in terms of running costs, which can be paid for out of the trust's own income. Usually your lawyer or accountant will manage all of that, for a fee. Running costs are generally not high, but some trusts have eventually become large enough to make it worthwhile or necessary to employ their own professional staff.

The Charity Commission has a set of simple model trust deeds available on their website as a good example of what you will need to think about.

It is not possible to give an exact estimate of set up or running costs but, as a guideline only, if you ask your lawyer to help you to set up a simple trust, it might cost up to £1,500 plus VAT. Also, yearly fees from your accountant might be up to £1,000 plus VAT. If there is a significant lump sum, there may also be investment management fees to ensure the best return on your investment.

Recommended resources

- **Association of Charitable Foundations:** www.acf.org.uk
- **Charity Commission for England and Wales:** www.charity-commission.gov.uk
- **Simple model trust deeds:** www.charity-commission.gov.uk/Library/publications/pdfs/gd2text.pdf
- **Coutts Trust and Charity Investment Services:** www.coutts.com
- **Office of the Scottish Charity Regulator:** www.oscr.org.uk
- **Northern Ireland Charity Commission** (from late 2008)

About the author

A version of this article, written by Theresa Lloyd, was first published in A Guide to Giving (2003).

Association of Charitable Foundations (ACF) is the leading membership association for trusts and foundations in the UK with over 300 members ranging in size from small and local grant-makers to some of the world's largest foundations. We provide support for the distinctive role of grant-making trusts and foundations, while respecting – and protecting – their independence. Through our services to members we provide a framework in which trusts and foundations can learn from each other's experience, explore matters of common concern and achieve good practice in grant-making.

Community foundations

By Stephen Hammersley
Chief Executive, Community Foundation Network

Highlights

- Community foundations provide grant-making and administrative support to donors giving locally.
- Community foundations funds are tax-efficient and low-maintenance.
- In 2006-07 UK community foundations made grants of over £75m to more than 18,000 charities and community groups.
- Community foundations offer a variety of fund types to suit the donor's own interests and financial situation.

"Empower communities to bring about change for themselves"

Overview

Community foundations are independent charities that provide professional and personalised philanthropy advice and grant-making services to clients who are interested in addressing issues of any scale at a local level. A community foundation is like a match-maker and relationship counsellor rolled into one: they help clients identify the organisations which will achieve their objectives and then help to manage the process to ensure these projects deliver the intended results.

Community foundations exist to empower local people to bring about change for themselves, connecting those that have financial resources with those that have the local knowledge, contacts and motivation to make a difference. They manage funds donated by individuals and organisations, create endowments, and act as a vital link between local donors and local needs, enabling clients to achieve far more than they could by themselves.

By March 2007, UK community foundations supported over 12,500 donors and collectively held nearly £200m in endowment. In the year 2006-07 they made grants of over £75m to more than 18,000 charities and community groups on behalf of a wide range of donors – individuals, families, businesses, charitable trusts and statutory bodies. Community foundations have been active in the UK since the 1980s and have grown rapidly. The network now has 57 foundations across the UK, of which 45 are Quality Accredited[7].

Each community foundation is unique and develops information on priority local needs – for example, community development, children and young people, health, older people, arts and culture, education or the environment.

For donors

Engaging in community philanthropy can be an especially rewarding experience. There's a sense of satisfaction in empowering local people to bring about change for themselves in an area where the donor often has first-hand knowledge of the issues and a very real sense of what they want to see achieved.

Community foundations are also knowledgeable about the area that they work in and are often in contact with hundreds if not thousands of local charities and community groups.

7 Quality Accreditation is an independently audited programme to recognise best practice, managed by the national association of community foundations, CFN. It is based on a set of standards and has been formally endorsed by the Charity Commission for England and Wales. Standards cover seven key performance areas (definition, governance, finance, donor services and development, grant-making, community engagement and communications) plus an overall corporate assessment.

Through their grant-making activity of many years they have built up connections and information which can be invaluable to all types of philanthropists, whether they are just getting started in effective philanthropy, or want to expand their current giving, or don't know who to support, or simply don't want the burden of administering their own charitable trust.

"Community foundations help clients improve the effectiveness of their giving by differentiating between the hundreds of charities and community groups that compete for their attention. "

Importantly, they are independent and cause-neutral. Community foundations work with donors, large and small, to make sure their gift makes the most difference. This personalised approach to philanthropy means many different kinds of donors use community foundations to manage their giving.

Benefits include:

- **Local understanding and reach:** Community foundations connect those with money to dynamic local organisations whose ability to change lives for the better is only inhibited by a lack of money.

- **Grant-making expertise:** Community foundations are the UK's leading expert in revitalising local communities through effective charitable giving. They support cutting edge programmes, create new organisations and meet new and emerging needs. They target grants that make a genuine difference to the lives of local people. Comprehensive grant-making policies and due diligence procedures ensure grants are targeted responsibly and carefully.

- **Results orientated/maximum impact:** Local expertise and in-depth knowledge ensures that money invested makes the lasting difference donors want and expect. Thoughtful grant-making ensures that money goes where it is needed and can have the most value.

- **Minimum hassle:** The community foundation takes care of time-consuming administration, so that philanthropists can focus on the causes they care about.

- **Flexibility and engagement:** Donors are free to set the terms of their fund, and to decide on the level of involvement that suits them. Community foundations support them, if they wish, in meeting and being involved with the people and projects supported by their funds.

- **Regular feedback:** Clients are kept up-to-date with how their money is being spent, and what recipients have achieved.

- **Cost-effectiveness:** Community foundations help donors to give tax efficiently, while keeping administrative costs to a minimum. The costs that all charitable trusts incur are spread over many clients of the foundation.

- **Long-term effectiveness:** By setting up an endowed fund, donors and their families can make a real difference to people's lives, now and for years to come.

Community foundations have seen remarkable growth rates in recent years. Actual long-term endowed giving managed has more than doubled since 2002, and will likely see a further boost thanks to the UK Government establishing a new £50m fund. Effective for three years from July 2008 this is designed to give philanthropists an incentive to support small community projects by more than trebling the value of their donations when higher rate tax relief is taken into account.

CASE STUDY:

Case study: Leeds Community Foundation

In March 2008 Leeds Community Foundation (LCF) secured a £10m donation from local Yorkshire entrepreneur Jimi Heselden, the owner/director of Hesco Bastion, a Leeds-based manufacturing company. Heselden has always given generously, particularly to local hospitals, hospices and children's charities.

Hesco Bastion had enjoyed a bumper year, with turnover of £190m in 2007-08, and Heselden wanted to put some of his profits into a charitable trust. But time was tight and it was proving difficult to set one up before the end of the financial year.

A local lawyer recommended the community foundation, and within seven days of being contacted, LCF had not only established a £10m donor-directed fund for Heselden, but also made its first donation to a local cause.

www.leedscommunityfoundation.org.uk

Next steps

You can find out where the community foundation nearest to you is by going to the Community Foundation Network (CFN) website for contact details and a web link to each UK community foundation. The site also indicates if your local community foundation is Quality Accredited. Community foundation staff will provide personalised advice and information on organisations working locally.

After making contact, donors will be invited to discuss with community foundation staff what they want to achieve, and how their fund should be structured to best achieve the desired results and impact.

Although all arrangements are bespoke, donors have several core options in giving through a community foundation:

- Donations can be pooled in a single, general fund, so that donors can contribute to a wide variety of causes in a specific area.
- Donations can be directed to themed funds, which address issues such as children or older people.
- Donors can establish a separate, tailor-made named fund – the Donor Advised Fund (see below).

Donor advised funds

Community foundations are pioneers of the Donor Advised Fund, which provides many of the same benefits as a private family charitable trust (including all tax reliefs) but allows philanthropists to make use of the community foundation's grant-making, due diligence, monitoring and reporting processes. Once a fund is established, it is the trustees of the community foundation who take legal responsibility for the fund.

Clients will be guided through a variety of options, reflecting whether they have a lump sum immediately available or whether they plan to build an endowed fund (usually of at least £25,000) over a longer period.

Once the fund is up and running, it is up to the client to determine her level of involvement with funding decisions, as the foundation uses its local knowledge to support organisations and projects that have been assessed for their value to the community.

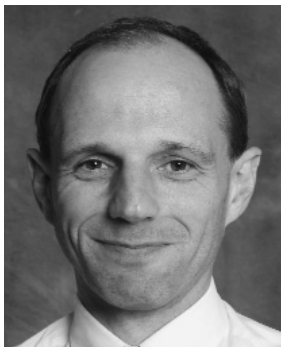
The community foundation will continue to monitor recipients of grants on behalf of donors and keep them informed of their progress. Donors can, if they wish, engage more closely with the causes they care about by giving time and other resources.

Meanwhile, professional investment managers will be applying their expertise to build the value of the fund.

Recommended resources

- Established in 1991, Community Foundation Network (CFN) is the national network linking, promoting and supporting almost 60 community foundations in the UK. For more information, or to locate your nearest community foundation, please visit CFN's website, www.communityfoundations.org.uk.

You also can ask your professional advisor for a referral.



About the author

Stephen Hammersley joined Community Foundation Network (CFN) in 2004 as Chief Executive from Tearfund, where he was Director responsible for pro-poor enterprise. Prior to that Stephen spent 17 years at Barclays, most recently as Head of Marketing. Stephen is Chair of the Leprosy Mission's trading company, runs part of his Church's youth activity and Chairs the UK fundraising committee for a refugee hostel in Nepal. CNF is the national association of community foundations. www.communityfoundations.org.uk

Donor-advised funds

By Philanthropy UK

Highlights

- Donor advised funds are simple to use and tax efficient.
- The host organisation manages the administration and distribution of funds.
- A charity account works like a bank account designed especially for charitable giving.
- In some circumstances, it may be more cost effective to give directly to your chosen charity.

Donor advised funds are simple and easy to set-up and use, and there are a variety of schemes available which suit most donors' needs.

You decide how much you want to give and pay it into your fund. You can also fund the account through payroll giving or by gifts of shares.

One of the benefits of operating a donor advised fund is that the host organisation deals with the administration and distribution of funds, and provides you with all the tax benefits. Donor advised funds are a tax-efficient way of giving to charity, as they can claim back the tax on Gift Aid donations and add it to the amount in your account. If you are a higher-rate taxpayer, the periodic statements you will receive provide a useful record of your giving and will help you make your personal tax claim on your Self Assessment tax return.

For example, you could start a fund with your local community foundation. You can determine your level of involvement with funding decisions, while benefiting from the foundation's local knowledge, grant-making expertise, monitoring and reporting processes.

Charity accounts, another type of donor-advised fund, are similar to bank accounts and are designed especially for charitable giving. There are many ways to give to your chosen charities through a charity account: generally donations can be made online, with charity cheque books, via debit cards or vouchers, or by telephone, post or standing order.

However, if you are giving relatively few donations of larger amounts, or if you use payroll giving and want to benefit a particular charity regularly, it may be less expensive (and not much more complicated) to give directly to your chosen causes. You would save the administration charges, and because no interest is paid on your charity account, there could be a sizeable cost if you maintain a significant balance in your account.

"Donor advised funds are simple and easy to set-up and use,"

CASE STUDY:

Case study 1: Charities Aid Foundation

The Charities Aid Foundation (CAF) Charity Account can be opened with a single payment of £100 or more, or a monthly Direct Debit of £10, and you can make more payments at any time.

Because CAF is a charity, setting up an account in this way means that you receive all the tax benefits, whatever method you use, and you give the gross amount to the charities you want to support. When you open an account, you receive a CharityCard and 'charity chequebook' so that you can make donations by post, in person, by telephone or online to any recognised charity you wish to support.

Using Gift Aid to add to your Charity Account
You make a donation of £1,000 = £1,000
CAF claims back tax at 20%* on what you had to earn to receive £1,000 net = £250
Total amount in your account = £1,250
CAF charge for administration (4%) = £50
Amount available to give away = £1,200
*Although the basic rate of income tax was reduced to 20% from 6 April 2008, CAF will still be able to claim 28p in Gift Aid for every £1 you add to your Charity Account until April 2011 as a result of transitional relief of 2%.

Because tax has already been claimed back on the amount in the Charity Account, the overall administrative costs associated with claiming back tax on donations are reduced for the receiving charity.

If you have at least £10,000 to give to charity, you can also set up a CAF Trust as a way to give long-term support to your favourite causes. You build up a capital sum and give the income to charity once it's invested. You can also choose to distribute the capital to charity at a later date. A CAF Trust gives you the features of an independent trust, while CAF manages the administration.

www.cafonline.org

CASE STUDY:

Case study 2: Coutts Pilot Donor Advised Funds

The Coutts Environment and Microfinance Pilot Donor Advised Funds provide clients with the opportunity to collaborate with each other by pooling funds and directing donations to make an even bigger impact. The Funds are not an investment scheme but rather a collection of donations, directed by donors to support charitable work in these two areas.

The Funds require a minimum donation of £10,000 and are administered by the Charities Aid Foundation.

Coutts clients also benefit from independent Microfinance and Environment Advisory Panels, giving them access to written reports on these two topics and information on charitable work that the Panels have helped prepare.

www.coutts.com/philanthropy

Other charity accounts and donor-advised funds include:

Charities Trust manages payroll giving schemes for companies and individuals. It sets up and administers match funding for payroll giving, where the employer matches the employee donations, and may opt to also pay the donor administration charge. Charities Trust provides advice and support on fundraising and Gift Aid. It also offers company and individual Freedom Accounts, which enable online, cheque or voucher donations.

Prism administers donations for foundations, trusts and individuals. Each donor has an individual Prism account, where regular or infrequent deposits and donations are managed. Transfer requests can be made by phone or email, or a regular giving plan can be created. Each donor has a charity voucher book that can be personalised or anonymous, as the donor requires.

Stewardship is a Christian financial support services charity. For individual donors it provides the Sovereign Account, a single account to manage charitable giving. Variations of the account exist for donors giving £10,000 or more as well as recipients such as churches wishing to out-source their Gift Aid process.

Community foundations manage funds donated by both individuals and organisations, create endowments and connect donors to local needs. They help donors to give in the most tax-effective way and deal with all the necessary administration on the donor's behalf.

Recommended resources

- Other **'Giving tax efficiently'** chapters in this Guide
- **CAF:** www.cafonline.org
- **Charities Trust:** www.charitiestrust.org
- **Community Foundation Network:** www.communityfoundations.org.uk
- **Coutts Philanthropy Services** – Coutts Microfinance Pilot Donor Advised Fund and Coutts Environment Pilot Donor Advised Fund: www.coutts.com/philanthropy
- **Prism the Gift Fund:** www.prismcharity.co.uk
- **Stewardship:** www.stewardship.org.uk

Gift Aid for individuals

By Philanthropy UK

"Gift Aid is one of the most effective ways of giving to charity"

Highlights

- Under Gift Aid, for every pound you give the charity can claim another 25p tax back from HMRC.
- Higher-rate taxpayers can claim the difference between the basic rate and the higher rate on their donation.
- There are limits on the benefits given in return for a donation.

Gift Aid was introduced in 1990 as a way for donors who are UK taxpayers to increase the value of the gift the charity receives, and for higher-rate taxpayers to obtain tax relief on donations to charity. In 2000, the limit of £250 was removed, so the arrangement covers any size of gift. It is now one of the most effective ways of giving to charity.

Using Gift Aid means that for every pound you give, the charity can claim another 25p tax back from HM Revenue & Customs (HMRC), helping your donation go further. Gift Aid allows the charity to reclaim the basic rate of income tax that you have paid on the donation.

You can make payments (of any size) by cash, cheque, postal order, direct debit, standing order, debit or credit card or even in a foreign currency.

To be eligible for Gift Aid, you must:

- Make your gift to a UK registered charity
- Pay tax in the UK
- For the relevant tax year, pay income tax or capital gains tax at least equal to the amount of basic rate relief claimed by the charity
- There are rules limiting the benefits a donor can receive for a Gift Aid donation

How Gift Aid works

For basic-rate tax payers, charities can claim back the tax you have paid. That is, charities take your (after-tax) donation and then reclaim basic rate tax (20%) on its 'gross' equivalent (the amount before the tax was deducted).

Example 1: If you give a charity £1,000 under Gift Aid, the charity can claim back £250 on your donation. This is because the 'gross' amount of the gift is £1,250, or £1,000 ÷ 0.8.

Example 2: For a charity to receive £1,000, you make a Gift Aid donation of £800. This amount is £1,000 less tax at the basic rate of 20%. The charity claims back tax on your donation at the basic rate, or £200.

As long as you have paid at least £200 in tax during the financial year in which you make the donation, HMRC will repay the tax to the charity. In general, you can work out the amount of tax the charity will reclaim by dividing your donation by four.

Through the 2010-11 tax years, charities receive a government grant as transitional relief of 3% in recognition of the reduction in the basic rate of tax from 22p to 20p. This means that, for the tax years 2009-11, for a charity to receive £1,000, you need to make a Gift Aid donation of £780. This transitional relief does not affect your personal tax position.

For higher-rate payers

If you are a higher-rate taxpayer, you are entitled to claim the difference between the basic rate (20%) and the higher rate (40%) on the total value of your donation (the 'gross' amount). You can make this claim on your Self-Assessment tax return and if you file your tax return 'online' the system will work out the relief owed.

Example 3: Using Example 1 above, you can claim back £250, which is 20% of your gross donation of £1,250. The net cost of the gift to you is therefore £750, while the charity benefits from the 'gross' value of £1,250.

Example 4: Using Example 2 above, for a charity to receive £1,000, you make a Gift Aid donation of £800. The charity claims back tax on your donation at the basic rate, or £200, while you can claim back an additional £200 (20% of the 'gross' value of the donation) on your tax return.

The net cost to you of a £1,000 gift is £600, which is £800 (the original donation) less £200 (higher-rate tax reclaimed). Therefore the effective tax relief to you is 25% (£200 ÷ £800).

Regular donations

If you want to spread payments (for example, yearly or monthly), you can still use Gift Aid and make one simple declaration. The charity should provide you with a Gift Aid Declaration form, or you can use HMRC's model form (see below). You would then send the cheques on agreed dates or make out a regular standing order or direct debit to the charity.

Similarly, if you want to plan to make a number of gifts to the same charity, you only need to sign the form once, as long as you use a version of the form that makes it clear you want this and all future donations to be Gift Aid donations.

Donor benefits

Charities may want to recognise your donation and offer tokens of appreciation. However, there are limits on the value of the benefits given in return for a donation. If they are worth more than a certain amount, the payment cannot be considered a donation and is not eligible for tax relief.

Acknowledgement on literature, poster or plaques is fine provided they are modest. If the charity is a heritage property or wildlife sight, they may offer you free or reduced entry. Membership fees may allow a charity to claim back Gift Aid in specific circumstances.

Literature that describes the work of the charity which is provided as a gift in return for a donation is not regarded as a benefit for Gift Aid purposes and so should not be taken into account in the limits for gifts detailed below.

The limits are:

Amount of donation	Value of gifts
£0-100	25% of the value of the gift
£101-1,000	£25
£1,001 – 10,000	5% of the value of the gift
Over £10,000	£500

The process of making Gift Aid donations:

Your donation will qualify for Gift Aid if you:

Pay at least as much UK tax income tax or capital gains tax at any rate as the amount your chosen charity (and all other charities you support in this way) will reclaim on your gifts in the financial year in which you make them (tax credits on dividend income and tax deducted from bank and building society interest count towards the tax paid); and

Make a simple declaration to the charity that you want your gift to be treated as a Gift Aid donation. You may send this by post, fax or email. However, you may also make an oral declaration over the telephone or face to face.

Recommended resources

- **HM Revenue & Customs (HMRC):** www.hmrc.gov.uk

Model Gift Aid declaration

Name of Charity .....

Details of donor

Title .....Forename(s) .....

Surname .....

Home address .....

.....

..... Post Code .....

I want the charity to treat

*the enclosed donation of £ ..... as a Gift Aid donation

*the donation(s) of £ .....which I made on ...../...../..... as (a) Gift Aid donation (s)

*all donations that I make from the date of this declaration until I notify you otherwise as Gift Aid donations

*all donations I have made for this tax year and the six years prior to the year of this declaration, (but no earlier than 6/4/2000) and all donations I make from the date of this declaration until I notify you otherwise, as Gift Aid donations.

*delete as appropriate

You must pay an amount of Income Tax and/or Capital Gains Tax at least equal to the tax that the charity reclaims on your donations in the appropriate tax year (currently 25p for each £1 you give).

Legacies

By Philanthropy UK

Highlights

- Gifts made to charities in your will are tax-free.
- Your charitable trust can be a beneficiary of your will, and no inheritance tax will be due on the amount given to the trust.
- You can also set up a 'Legacy account' with a donor advisory organisation, such as a community foundation.

Giving money to charities during your lifetime can be highly rewarding. Most people enjoy being involved with a cause that is close to their heart and seeing their gift make a difference to the lives of those the charity works with.

Many people feel that they might like to be more generous to the charities they support, but are concerned about their own savings. They want to make sure that they have considered all the likely demands on their resources, and have made appropriate plans for their children, parents (if they are still alive) and other dependants and for their own old age.

"Legacies should be seen as part of a strategic approach to giving"

Some find that making a decision to give to charities after their death is also satisfying – it costs the donor nothing in their lifetime and yet it can help protect the long-term future of their favourite causes. But to do so it is necessary to have a will. This is also the main way to protect the future of your own family. Without a will, it will not be clear how you want your estate to be dealt with. Without a will you will lose freedom of choice. What is more, you should not assume that if you die without a will, your family and others will be provided for as you would want. Legacies should be seen as part of a strategic approach to giving and part of the planning for distributing your assets after you die.

When someone dies or when assets are transferred to a discretionary trust (a trust whose trustees can choose who should benefit from the trust and how much they should receive) or to a company, inheritance tax (IHT) must be paid if the estate or the value of the assets transferred is more than the tax threshold. For 2008/2009, the tax threshold is £312,000 (£624,000 for a married couple). This threshold takes account of gifts, other than certain small gifts, made in the last seven years as well as those made when you die.

IHT does not apply to gifts made to charities in your will; they are tax free.

There are several different ways of leaving money to charities in your will:

- **Pecuniary:** A fixed sum of money.
- **Specific:** You may wish to leave a particular item (such as jewellery, furniture, shares or property). Gifts of works of art may be left directly to art galleries instead of paying tax. This means that more of your inheritance tax bill is settled than if the work was sold and the proceeds used to pay the tax. However, if you are considering making a non-financial gift, it is extremely important that you contact the organisation you propose to give it to, to discuss your plans.
- **Residuary:** The residue is what is left of the value of your estate after all the specific bequests (gifts) have been met and all debts and administration expenses have been settled. You could leave the total residue, or a share of the residue, to one or more charities.

If you have set up a charitable trust, it can be a beneficiary of your will, and no inheritance tax will be due on the amount given to the trust. If you have already made a will, you can still add another legacy by drafting a codicil. This is a separate legal document which adds to or amends the will you have already made. It should be kept with your will.

Another approach is to set up a 'Legacy account' with a donor advisory organisation, such as the Charities Aid Foundation, Stewardship or your local community foundation. In this case, you name the donor advisory organisation as the beneficiary of the amount you want to leave, and give them a signed list of the charities you want to benefit, and the amount they should receive.

This list is your letter of wishes. You can change it as many times as you like, simply by writing to the organisation. Unless you want to change the total amount given, you do not need to change the will itself and will not have to pay any legal costs.

After your death, the money you have left to the Legacy account will be paid by your executors into the account. The organisation will then distribute your gifts according to your wishes.

There may be a small administrative charge for this service, which is taken when funds are received from the estate.

The process of making a will

We would always advise you to use a solicitor when making your will. Many charities have expert legacy departments that can guide you on the process. In any case, it is a good idea to contact them if you are considering a substantial bequest.

A useful starting point is to make a list of all your assets and estimate how much your estate is worth. This is the net figure of all your assets, less any debts or mortgages which will have to be paid.

You should then make arrangements for those closest to you, and consider any other demands on your estate, before thinking about giving an amount or share to any causes you would like to support.

When you have decided what you would like them to receive, your solicitor will explain the best way to make sure that your will sets out exactly what you would like to happen.

We would advise you to appoint at least two executors in your will. They are responsible for making sure that your wishes are carried out after your death. They may be friends or family members, as well as a professional adviser such as a solicitor.

HM Revenue & Customs (HMRC) leaflet, HMRC Inheritance Tax: Customer Guide, is a useful guide to inheritance tax. Remember A Charity also provides some helpful information for individuals who wish to leave a charitable legacy in their will. Another resource is the Society of Trust and Estate Practitioners (STEP), a global membership organisation.

Every donor's situation will be different and we strongly recommend that you seek professional advice in relation to inheritance tax.

Recommended resources

- **Coutts Trust and Philanthropy Services:** www.coutts.com/philanthropy
- **HM Revenue & Customs (HMRC):** www.hmrc.gov.uk
- **Remember A Charity:** www.rememberacharity.org.uk
- **Society of Trust and Estate Practitioners (STEP):** www.step.org

Payroll giving

By Philanthropy UK

"Through payroll giving, money you would have paid in tax goes to your chosen charity."

Highlights

- Payroll giving is a way of giving money each week or month direct from your pay.
- Once set up, it is simple for the donor to change the amount or charity destination of the donations.
- Some employers will match the payroll giving donations made by their staff.

Payroll giving is a way of giving money each week or month direct from your pay. It is a tax-efficient way for employees, non-executive directors and those receiving a company pension to give a regular amount to one or more charities, or to make a one-off gift.

The donation is made from you gross salary (before tax has been taken off). This means that you receive tax relief immediately on the value of your gift. Another way of looking at it is that money you would have paid in tax goes to your chosen charity.

An increasing number of companies offer this scheme, and some will match the donations of their staff. This could significantly increase the value of the gift. Even without that incentive, payroll giving is for most people in regular employment, receiving director's fees or a company pension, the simplest way to give tax-efficiently.

Example: If you make a pledge of £10 a month and you pay 20% tax, the tax relief at that rate is taken from your original £10, so the cost is £8 a month. If you are a 40% taxpayer, £4 will be taken from the £10, so the cost to you is £6 a month. If your company matches your donations, the charity will benefit even more.

The process of payroll giving:

- If you are a UK taxpayer receiving a salary or pension through PAYE, your company is eligible to offer a payroll giving scheme. If they agree to set up a payroll giving scheme they will do this in association with a payroll giving agency. This is a charity that collects donations from various employers and distributes them to the employees' chosen charities. Give as You Earn is run by the Charities Aid Foundation (CAF), a leading agency, and there are several others.

- The payroll-giving agency will charge an administration fee each month. This will be taken from the donations the charity receives. The fee is sometimes paid by the employer. Fees vary, but are usually about 4%. This does reduce the amount the charity receives, but as all the administration is handled by the payroll giving agency the charity's expenses are often less for this process than for Gift Aid, so it is cost-effective for the charity.

- To take part in the scheme, all you have to do is ask your employer for a charity nomination form. This gives your employer the authority to make the deductions from your pay or pension, and sets out how much you want to give, and to which charity or charities.

- The donation will be taken from your salary after working out National Insurance but before working out PAYE. It will be handled automatically by your payroll administrator. You may change the size of your donations or the charity, or stop at any time, simply by telling your employer.

If your company does not provide a payroll-giving scheme, you might consider encouraging them to set one up. HM Revenue and Customs (HMRC) produces a simple guide which describes how the scheme works from the point of view of an employer. Also, the charity you want to support may be experienced in payroll giving and be able to give you the expert advice.

Once payroll giving is set up it is simple for the donor to change the amount or charity destination of the donations.

Recommended resources

- **HM Revenue & Customs (HMRC):** www.hmrc.gov.uk
- **Charities Aid Foundation (CAF):** www.cafonline.org

Gifts of assets

By Philanthropy UK

Highlights

- Individuals and companies can claim tax relief when giving certain assets to a UK charity.
- Companies may receive tax relief for gifts of items manufactured or sold, or on machinery or plant used, in the course of their trade.
- Sharegift specialises in helping donors give small lots of shares to charity.

Individuals and companies can claim tax relief when giving certain assets, such as shares and land, to a UK charity. Outright gifts are also free of inheritance tax. Unlike cash donations under Gift Aid, all the tax relief is claimed by the donor.

The amount of tax relief you are eligible for involves two elements: Capital Gains tax relief and Income tax/Corporation tax relief.

Capital Gains tax relief

If you make an outright gift of assets to a UK charity, or if you sell the asset to the charity for an amount less than you originally paid for it, then the disposal is treated as having been made on a no gain, no loss basis for Capital Gains tax purposes. This can be an effective relief for the taxpayer because they are not subject to Capital Gains tax on any chargeable gain arising on the disposal of the asset.

However, if the charity buys the asset for more than you originally paid, then you incur a capital gain based on the amount the charity actually pays you.

Income tax/Corporation tax relief

You may also be entitled to income tax/corporation tax relief if the assets are qualifying investments.

The amount of relief which is allowable as a deduction against income, thereby generating tax relief, is the market value of the qualifying investments at the date of the gift, less any consideration given by the charity, plus any incidental costs of making the gift. The relief on a sale of assets is the difference between the open market value and the price paid by the charity. Please note that the relief is reduced if the donor receives any benefit as a result of the disposal.

To give land or property, you must transfer the whole of your interest in the asset to the charity. This means that you cannot give a building to a charity and continue to live in it. Nor can you give land and continue to access that property.

Qualifying investments

Shares and securities listed or dealt in on the UK or another recognised stock exchange
Units in an authorised unit trust (AUT)
Shares in a UK open-ended investment company (OEIC)
Holdings in certain foreign collective investment schemes – broadly, schemes established outside the UK that are similar to unit trusts and OEICs
A qualifying interest in land and buildings in the UK

Note that a company cannot get relief for a gift of its own shares.

Example 1: You own a holiday home and decide to give it to a UK charity. A qualified agent values the property at £250,000 and charges £500 for the valuation. As a token of appreciation, the charity gives you a painting worth £1,500.

To calculate the tax relief, you add together the value of the property and any incidental costs (the agent's fees), and subtract the value of any benefit received (the painting).

Value of property:	£250,000
plus valuation fees	£500
less value of painting	£1,500
Total deduction	£249,000

So you can deduct £249,000 from your total taxable income for the tax year in which you made the gift.

Example 2: You are a higher-rate tax payer and give a UK charity shares worth £10,000 that cost you nothing. If you had sold the shares yourself, you would have received £10,000 but paid £1,800 capital gains tax (at 18% assuming no annual exemption), for a net gain of £8,200.

By giving sharers to the charity instead you would receive the following tax reliefs.

Capital gains tax	18% of £10,000	= £1,800
Income tax	40% of £10,000	= £4,000
Total		= £5,800

So, in this case, the total saving is worth £5,800 (ignoring broker's fees). This means that a gift with an after-tax cost to you of £4,200 would be worth £10,000 to the charity, and that is the size of the gift you would be recognised for.

Example 3: A higher-rate tax payer, you give shares worth £10,000 that cost you £5,000.

You would save capital gains tax on the £5,000 gain – that is, £900 (18% of £5,000). Also, as in Example 2 above, you would benefit by £4,000 income tax relief on the whole value of the gift.

So in this case the total tax relief is £4,900 and the net cost to you of a £10,000 gift is £5,100.

Advantages to donors

"For some affluent donors, giving shares rather than cash could allow them to be more generous because of the higher tax relief. "

You may have shares in a company or sector that is no longer part of your main portfolio and be willing to donate them to a charity. Or you may have a significant holding of shares and want to support a particular charity at a time when your cash flow might not support a cash gift.

You may have small shareholdings that may cost more to sell than they are worth, yet you still have to fill in parts of a self-assessment tax return for these investments.

If you have small shareholdings and want someone else to manage your donations, there are two options. You could donate the shares (at least £500) to a donor-advised fund, such as the Charities Aid Foundation (CAF), Stewardship, or your local community foundation – all of which are registered charities. For a small fee, they will then distribute the proceeds to one or more registered charities chosen by you.

Another approach is to give the shares to Sharegift. This is a registered charity which specialises in helping donors give shares to charity. They accept any number of shares and collect them until there are enough to sell. They make donations to charities that have been suggested by share donors. They do not charge for this service.

Companies and businesses

Companies may receive tax relief for gifts of items manufactured or sold, or on machinery or plant used, in the course of their trade. To be eligible, the business must be a trading company, a sole trader, or a trading partnership. The tax relief is given on the cost of manufacture/purchase of the items manufactured/sold; i.e., relief is not given on their usual sale price.

In the case of machinery or plant used in the course of your trade, treat it as having been disposed of at nil value for capital allowances purposes (rather than at market value, as would otherwise be the case). The total capital allowances given to you in respect of the article will be equal to its cost.

How to gift shares directly to a charity

- First you should contact the charity to confirm that it can accept your gift.
- If your shares are held in paper form (share certificates) you need a stock transfer form. Either the charity or your broker or the company registrar will provide this. The details of the registrar will be on the share certificate, dividend voucher, annual report or website.
  - When you have filled in this form, send it to the company register with your share certificates. You should make sure you include the full name and address of the charity. The company will then issue a new share certificate in the name of charity.
- If your shares are held in a nominee account and the charity has a nominee account, you must have the name and contact details of the person who handles the nominee account, the account details and the charity name and registration number.
  - You should then instruct your broker to arrange for your shares to be transferred into the charity's nominee account.
  - If the charity does not have a nominee account, you will have to arrange to withdraw the shares from your nominee account and for a share certificate to be produced. Your broker or advisor can arrange this. There may be a charge, but you can include any fees or charges in the cost of the donation and receive tax relief on this.
- If the charity asks you to sell the shares on their behalf, you must make sure you have proof that you have given shares and not the proceeds from the sale of the shares. You must keep written evidence (a signed and dated letter of your intentions) that shows you have given shares and the charity has then asked you to sell the shares on their behalf. The date of the sale must be later than the date of the gift. Without evidence you may be treated as having made the sale on your own account. As a result, you will not be eligible for income tax relief and may also have to pay capital gains tax (although the sales proceeds could be donated under Gift Aid).

- If the charity offers a gift in return (for example, tickets to an event), the total value of the gift would be taken from the value of the donation before working out income tax relief.

- To claim relief, you can either complete a Self Assessment tax return or, if you pay tax through PAYE (Pay As You Earn), you can contact your tax office. You can only claim income tax relief for the tax year in which you make the gift.
- There are no special forms to complete, but you should keep the following records:
  - Share transfer documents
  - A certificate from the charity that confirms the asset has been transferred to them
  - Any written request from a charity to sell the asset on its behalf

As with all schemes involving income tax relief, your yearly income tax and capital gains tax must be at least as much as the value of the gift to obtain the full income tax benefit. Every donor's situation will be different and we strongly recommend that you consult your accountant or financial advisor.

Recommended resources

- **HM Revenue & Customs (HMRC):** www.hmrc.gov.uk
- **Sharegift:** www.sharegift.org

Community Investment Tax Relief

By Philanthropy UK

"CITR is in addition to any interest or dividend paid by the CDFI."

Highlights

- CITR is a tax incentive to investors in community development finance institutions (CDFIs).
- CDFIs lend and invest in deprived areas that cannot access mainstream finance.
- The total relief is worth up to 25% of the value of the investment.

The Community Investment Tax Relief (CITR) scheme, set up under the Finance Act 2002, offers a tax incentive to investors in accredited community development finance institutions (CDFIs). It is run jointly by HM Revenue & Customs (HMRC) and the Department for Business, Enterprise & Regulatory Reform (BERR).

CDFIs lend and invest in deprived areas and markets that cannot access mainstream finance. They provide financial services to enterprises and individuals, with the aim of achieving both financial and social returns.

What is the CITR Scheme?

CITR is available to any individual or company with a UK tax liability investing in an accredited CDFI where the investment is held for at least five years. The taxpayer, who can either be an individual or company, receives a relief to offset against their income or corporation tax liability of 5% of the amount invested in the year the investment is made, and a further 5% in each of the subsequent four years.

The total relief is worth up to 25% of the value of the investment. This tax relief is in addition to any interest or dividend paid by the CDFI.

Example: An individual subscribes £10,000 for shares in a CDFI on 1 June 2008. CITR would reduce the individual's income tax liability for the tax year 2008/9 and for each of the four subsequent tax years by £500 (5% of £10,000). Total income tax reduction over the five years would be £2,500.

What requirements must investors meet to qualify for CITR?

- Your investment must be in a CDFI accredited by BERR.
- Your investment must be made on or after the CDFI's accreditation date.
- Your investment must be either in shares, securities, or a loan.
- You must be the beneficial owner of the investment.
- Your investment must be for a minimum of five years.
- Your investment must not be subject to arrangements such as insurance, indemnities or guarantees that protect you against the risks attached to the making of that investment.

CASE STUDY:

Case study: Key Fund Yorkshire and Tiger11

By Community Development Finance Association

Tiger11 is a new development trust in South Leeds funded by Key Fund Yorkshire (a CDFI), Sharing The Success (Leeds LEGI) and commercial finance. Based in the heart of Beeston and Holbeck, an area ranked in the bottom 2% of the Index of Multiple Deprivation, Tiger11 was founded by local resident Jeremy Morton who worked tirelessly with other residents to establish the Community Development Trust.

Tiger11's first major project was the re-development of the local landmark building Hillside Primary School in Beeston into a sustainable community building providing a 'Catalyst Centre', office space, workshop space, community/conference space and a café/restaurant.

In May 2007, Tiger11 received a loan of £50,000 from the Key Fund for support in paying salaries, temporary office costs, office equipment and marketing. The group had found it extremely difficult to find funding from other sources as it was a relatively new organisation with no track record and was seen as a high-risk investment. The Key Fund loan allowed essential development work to take place, ensuring that some valuable streams of private finance were unlocked.

The Hillside redevelopment is now nearing completion with building works expected to finish in 2008, meaning that Tiger11 is getting closer to its vision of a thriving building that will become a 'community anchor'.

www.keyfundyorks.org.uk and www.tiger11.org.uk

Recommended resources

- **The Community Development Finance Association** (CDFA), the trade association for CDFIs, has published a guide for investors, including examples and case studies, which is freely available on its website. www.cdfa.org.uk
- Detailed information is also available from the websites of **HMRC** (www.hmrc.gov.uk/specialist/citc_guidance.htm) and **BERR** (www.berr.gov.uk).

Gift Aid for businesses

By Philanthropy UK

Highlights

- Gift Aid allows businesses to obtain tax relief when they give money to charity.
- The way you receive tax relief depends on whether the business is a company, a sole trader or a partnership.
- There are limits on the benefits given in return for a donation.

Under the Gift Aid scheme businesses can obtain tax relief when they give money, whether as a one-off or a regular payment. It applies to donations of money of any amount to UK charities. The HM Revenue & Customs (HMRC) website provides details of tax incentives for corporate giving.

The way you receive tax relief via the Gift Aid Scheme depends on whether the business is a company, a sole trader or a partnership.

For companies

To make a charitable donation through Gift Aid, a company simply gives the full amount to charity and deducts the amount as a 'charge' when working out profits for corporation tax purposes.

Unlike Gift Aid for individuals, the charity does not reclaim any tax on the gift, and because gifts of money by companies are made before tax is deducted (i.e., out of gross income or profits), no Gift Aid declaration is required.

If your company has no corporation tax liability in the financial year when the donation is made, then there are special rules regarding how any loss created by the donation can be used. In this case you should contact your accountant or the HMRC office that deals with your tax affairs for further guidance.

For sole traders

Gift Aid donations from the self-employed (sole traders) are treated in the same way as Gift Aid by individuals. The donation will be treated as paid out of taxed income and the charity can reclaim basic rate tax on it from HMRC. The trader will be required to complete a Gift Aid declaration for the donation to the charity. A higher-rate taxpayer can obtain tax relief on the difference between the basic and the higher-rate of tax on the gross amount of the gift on his tax return. For more information, see the chapter on Gift Aid for individuals.

For partners

Gift Aid donations received from businesses that are run as partnerships are treated as donations of equal amount from the individual partners, unless the partnership decides to split them in different proportions.

The gift is paid out of after-tax income, and the charity reclaims the basic rate tax from HMRC. Higher-rate tax payers can claim tax relief on the difference between the higher rate and the basic rate of tax on the gross amount of their share of the gift.

Unless one partner has power under the partnership agreement to make a Gift Aid declaration on behalf of the partnership, a Gift Aid declaration will be required from each partner. This can be done on one form provided it includes each partner's details.

In Scotland, where partnerships have a legal personality, a partner may make a Gift Aid declaration on behalf of the partnership; showing the partnership's name and address.

Donor benefits

Some charities, particularly those which have membership schemes, like to acknowledge their donations with some small gift in return, such as a book. This is acceptable as long as whatever the charity gives (or anyone connected with the donor) in return for the donation is within the limits below.

A person is connected with the donor if that person is:
- The wife or husband
- A relative: brother, sister, ancestor (e.g., mother) or lineal descendant (e.g., grandson)
- The wife or husband of a relative
- A company under the control of the donor, or under control of connected persons

Literature that describes the work of the charity which is provided as a gift in return for a donation is not regarded as a benefit for Gift Aid purposes and so should not be taken into account in the limits for gifts detailed below.

The benefit to the donor (or anyone connected to them) from each charity must be within the limits below.

The limits are:

Amount of donation	Value of gifts
£0-100	25% of the value of the gift
£101-1,000	£25
£1,001 - 10,000	5% of the value of the gift

The total benefits you receive from one charity in the same tax year must not exceed £500. These limits apply to a gift relating to any donation made from 6 April 2007. Any donation made before that time cannot trigger a benefit of more than £250.

Other tax relief

"Companies can also claim tax relief on employee secondments and sponsorship payments."

For example, when seconding employees to a charity on a temporary basis, they can claim relief for the employment costs they continue to incur. Additionally, trading companies, sole traders or trading partnerships can also claim relief for sponsorship payments to a charity, provided that the payments are made wholly and exclusively for the purposes of your trade and are not of a capital nature.

Please also see chapter on 'Gifts of assets' for information about other charitable tax reliefs available to businesses.

Recommended resources

- **HM Revenue & Customs (HMRC):** www.hmrc.gov.uk

Charity events

By Philanthropy UK

Highlights

- Donors can give tax efficiently when attending or participating in charity events.
- The types of charity events have grown immensely in the past few years.
- Various organisations and online portals can help donors raise money for their favourite causes.

Many charities raise money by running special events. The charity benefits from the difference between the cost of putting on the event and the ticket receipts plus any money gathered during the event itself.

The charity should be able to tell you what amount or percentage of the price of an individual ticket or table for an event is expected to be the amount left after all the costs are covered. This is the donation part of the ticket price. Some charities will give a 'suggested donation' as part of the ticket price.

"The part of the event ticket that is a donation can be given tax-efficiently,"

whether by a Gift Aid donation or a cheque taken from your trust account. The larger the percentage of the ticket cost that is a donation, and the more efficient the charity is at making the most of the tax relief, the higher the proceeds for the charity. So if the charity manages to have all of the costs of putting on an event met directly or as gifts in kind, the entire ticket cost is a donation.

The type of event a charity may engage with has grown immensely in the past few years and now covers fundraising auctions and dinners, walks, runs, team activities, overseas volunteering and hikes, bike rides and even sky dives. The list is as vast as a charity fundraisers' imagination.

Challenge events are a fun and interactive way of raising funds for your chosen cause and can bring you into contact with like-minded people. Jeremy Gane and Simon Albert, the founding directors of Charity Challenge, met during a charity trek up Kilimanjaro and have created a well established infrastructure for running numerous and varied group adventure travel expeditions. The charity has supported over 750 events, raising almost £15m since 1999.

Doitforcharity.com, set up by Skyline Events, the UK's largest charity events organiser with over 1,500 charities, raises over £4m every year. An online portal, Doitforcharity.com links potential participants to thousands of charity events every year including abseiling, zip sliding, knockout, trekking and dragon boat races.

Also, if you would like to host your own event to raise money for your chosen charity, you can create your own site on Justgiving.com.

Recommended resources

- **Charity Challenge:** www.charitychallenge.com
- **Doitforcharity:** www.doitforcharity.com
- **Justgiving:** www.justgiving.com

Affinity cards

By Philanthropy UK

"a painless way of creating extra income for your chosen charity."

Highlights

- With affinity cards, your bank makes a donation to a named charity every time you use them.
- You should compare charity cards to establish the standard APR charged as well as how much the chosen charity will receive.
- Affinity cards are not tax efficient.

Spending on credit cards is common practice nowadays, and another way of helping good causes is to swap your standard card for one of the many 'affinity' or 'charity' cards on the market.

You do not receive tax relief on the amounts the charity receives, but it is a painless way of creating extra income for your chosen charity. Charity cards are provided by many banks. They work just like ordinary credit cards, except that instead of offering 'air miles' or other 'points' they make a donation to a named charity or cause every time you use them.

Many banks now offer 'charity' credit cards and usually donate £5 or £10 to the cause the first time you use them and, from then on, up to £1.25 (depending on the card) for every £100 spent – which is paid by the bank, not by you as a charity affinity credit card holder. This may not sound like much, but these small donations soon add up. You do not have to be a customer of the particular bank issuing the card to support a chosen charity in this way.

If there is a cause you would like to help in this way, the first step should be to contact them directly to see if there is a particular card that they benefit from. They should be able to give you a form you can use to apply to the issuer for a card.

It is worth comparing charity credit cards (unless you have a specific cause you wish to support) to establish the standard APR charged as well as how much the chosen charity will receive with each purchase you make. Fair Investment, a financial comparison website, provides a wide range of comparisons for charity credit cards.

The most high profile affinity card launched recently is the American Express RED credit card. When you use the RED card, you generate valuable donations to support RED's work to fight AIDS and HIV in Africa through special partnerships with leading companies, such as American Express, at no cost to yourself. RED offers a generous donation, paying 1% of annual spend up to £5,000, and 1.25% of any further spend.

Amongst other choices, Courtesy of Coutts, the loyalty scheme attached to the Coutts World and Gold Cards, offers clients the opportunity to donate the points they earn to any of three selected charities: The Woodland Trust, Alzheimer's Research Trust and Rainbow Trust Children's Charity.

Affinity cards cost you nothing to use if you clear your card balance each month, but because they often have higher than average APRs, they may not suit you if you borrow regularly on your credit card.

Ultimately, however, they are not a tax-efficient route to giving and, if you do use a credit card regularly, a more tax-efficient way which is also more profitable for charities is to get a cashback credit card. Although similar to a charity card these pay you a small percentage of every spend made.

The biggest difference is that the best cashback cards pay you substantially more than charity cards pass on to your chosen good cause. You get more money and then can donate it to your chosen cause and claim Gift Aid in the process. This means that for every £1 a basic rate taxpayer gives, the charity actually receives £1.28 compared to a flat £1.00 via a charity card.

Recommended resources

- **Fair Investment:** www.fairinvestment.co.uk/Deals/Compare_charity_credit_cards.aspx

Philanthropist profile
Lyn and Trevor Shears

Lyn and Trevor Shears established a charitable trust in 1996 after the public sale of their transport company, which realised £20m. The Shears Foundation started with an endowment of £8m, and is very much a family affair with family members as trustees. The couple plans to pass the management of the trust on to their children in about ten years. Each year, they distribute £800,000 in grants.

The couple's philanthropic work covers a wide range of good causes, from restoring trams to encouraging young opera singers to helping sex workers find new employment. But they have clear criteria for funding, supporting charities and organisations that fall into the categories of cultural, educational, environmental, health and medical and community.

Today the Foundation's endowment stands at £14m, and the couple distribute over £800,000 per year. They say that, *"Having a charitable foundation has helped our philanthropy because shares can be transferred to the trust tax free, enabling us to give more. It also means that we are registered with the Charity Commission, which puts us on a more professional standing and makes it easier for people to know about the categories of giving we are interested in."*

As they are based in Newcastle, Lyn and Trevor support a number of projects in the North East. Lyn has a particular interest in the arts and in singing. Their largest donation to date, of £300,000, has been to The Sage, in Gateshead, a prominent music venue and education centre.

Frequently Lyn and Trevor make a long-term commitment to the charities they invest in. After an initial grant of £70,000 to the refurbishment of the Live Theatre in Newcastle Quayside, they continue to make an annual grant of £10,000 to its education programme to encourage young playwrights.

The Shears also increase funding to charities they are particularly impressed with; their funding of The Woodland Trust has gone from £1,000 a year to £10,000 a year over the past seven years.

Through their Foundation, the couple is supporting the newly opened Tyneside Cinema. Lyn says: *"We are fired up about this project as it ticks many boxes by refurbishing an important building and providing a unique experience for the community and for students."*

The Foundation's giving often has an educational element but two projects are specifically in the education sector. They fund two bursaries at Trevor's old school, Bradford Grammar. Lyn explained: *"We are hoping that we may be able to add to this fund and create an endowment that might go into perpetuity."* They also fund Open University scholarships.

The Foundation also supports a furniture-recycling project in Northumberland. Lyn says: *"They are taking furniture that might otherwise end up on landfill sites, restoring it and selling it cheaply to people in need."* It also provides employment for people, who often have special needs, helping them to gain confidence.

On the health and medical front, Lyn and Trevor give money towards Alzheimer's Research. *"Lyn's mother has Alzheimer's and we are fully aware of the horror of this terrible condition",* Trevor explained.

To support other local projects, Lyn and Trevor helped to set up an endowment with the Community Foundation in Tyne and Wear. Lyn advises newcomers to philanthropy to work with their local community foundation to gain advice on funding. She also advocates being clear from the start about what you want to fund, setting clear criteria and talking to other philanthropists to learn from their experience. *"And insist on feedback from the projects you support."*

In the future, Lyn and Trevor plan to build up the endowment so that they will be able to make grants of over £1m a year. In ten years' time, they plan to hand over responsibility for the trust to their children.

Lyn concludes: *"It is so rewarding to pass on our ideas of philanthropy to our family and know that they also want our foundation to go on into perpetuity."*

▶ **The Shears Foundation:** www.theshearsfoundation.org

4 Constructing a portfolio

Identification and evaluation of potential recipients of your gift will depend upon both the level of your giving and your objectives. However, as with any investment, it is good practice to know as much as you can about the charity and its field of work when making a contribution.

When evaluating a charity, essentially you want to know three things: what it does, how effective it is, and how you can make a difference.

Stage 4 chapters:

- UK charitable sector overview
- Charity selection
- Giving internationally
- Supporting individuals

UK charitable sector overview

By Philanthropy UK

Highlights

- The charitable sector is large and diverse.
- The largest charities attract most of the sector's funding.
- Charities are becoming more entrepreneurial.
- Charity law has undergone significant changes in recent years.

In evaluating a commercial investment opportunity, understanding the company's business environment is an important step towards understanding the company itself. Making charitable investments is no different. As you learn more about the causes and charities you wish to support, you will also want to understand and appreciate the environment in which they operate. To provide some context, this section offers a brief introduction to the characteristics and challenges of the UK charitable sector.

The charitable sector is large and diverse

There are over 164,000 registered 'general charities' in the UK[8] with a total income of £31 billion in 2005/06 and expenditure of just over £29 billion. These charities employ 611,000 paid staff (2.2% of the overall workforce). The sector has grown substantially in the past few years. In 2002 there were around 150,000 registered charities with a total annual expenditure of £20.4 billion. Based on income, health is the largest sector (see Figure 1)[9].

On top of these 'general charities', there are many other organisations and groups – such as schools and universities, housing associations and faith groups. In total there are 865,000 civil society organisations. Many of these, such as the 600,000 informal community organisations, have very little or no income.

The largest charities attract most of the sectors funding

The largest charities attract most of the sector's funding. There are only 353 charities with an income of over £10m, or 0.2% of the sector. They garner £13 billion, or 42%, of the sector's income. Charities with an income of below £100,000 make up 85% of charities. In 2005/06 their total income was £1.96 billion, or 6.3% of total sector income. The disparity in funding has increased since 2004, when the largest charities received 38%, and the smallest 9%, of total sector income.

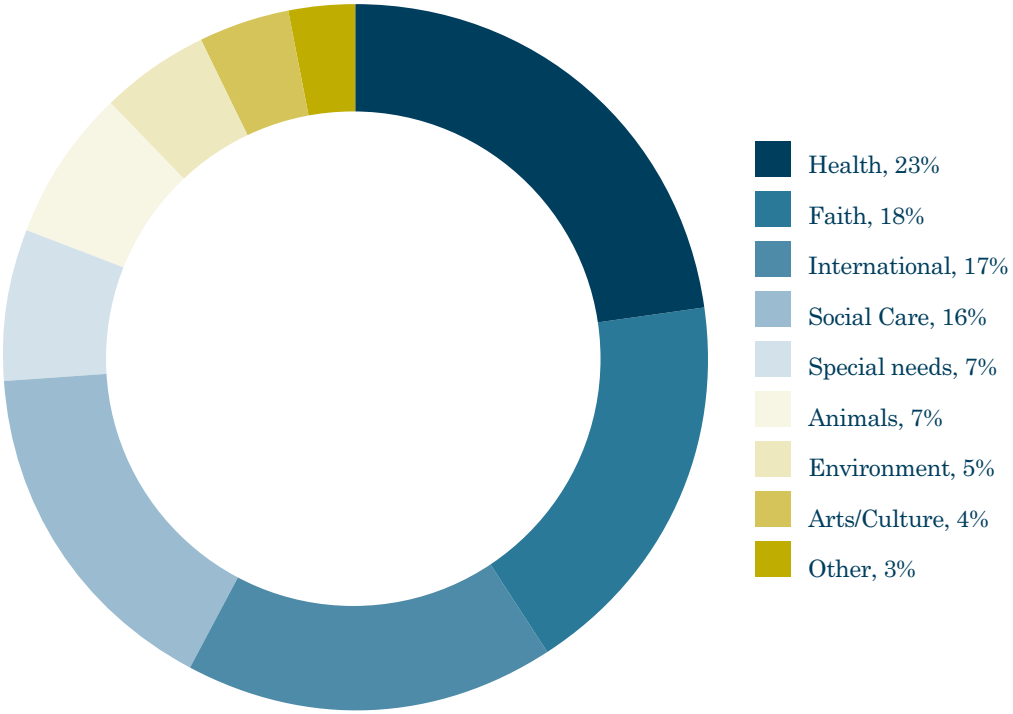
The current economic environment is likely to disproportionately affect smaller charities. While larger charities tend to have stable funding reserves, small and mid-size charities face heightened pressures when overall funding declines. Mid-sized charities are perhaps most at risk as small, local charities can more easily adapt to changing conditions as they have fewer paid staff and a smaller beneficiary base.

Government funding of charities is changing

Total government funding represents 35.7% of the sector's earnings. Charities with an income of between £100,000 and £1m rely most on government funding, while charities with an income of less than £10,000 rely the least (9.2%). There has been a shift from grants to contracts since 2002. Over 60% of third sector statutory income is from government procurement of third sector provision of public services such as counselling services and care for the elderly.

8 The data in this section, except where otherwise noted, is from: Oliver Reichardt, David Kane, Belinda Pratten, Karl Wilding, The UK Civil Society Almanac (London: NCVO, 2008).
9 Source: Cathy Pharoah, Charity Market Monitor 2008, Volume One: Fundraisers (London: Caritas Data, 2008)

Figure 1: Share of total fundraised income by cause



Source: Charity Market Monitor 2008

Charities are becoming more entrepreneurial, now earning over half their total income

Earned income now, for the first time, represents over half of income coming to charities (50.3%). Earned income includes fees for services and goods provided, public sector fees and payments for contracted services, sponsorship and income from trading subsidiaries. Charities are becoming more entrepreneurial, largely due to external funding pressures. Many charities have set up social enterprises to generate independent income. For example, you might have donated items to a charity shop on the high street, or have attended a social event held at a museum or art gallery.

"Earned income now, for the first time, represents over half of income coming to charities "

Charity law has undergone significant changes in recent years

The origins of UK charity law date back to the Charitable Uses Act of 1601, although charity law has developed differently in each of the home countries.

England and Wales: The Charities Act 2006 has important consequences for charitable organisations in England and Wales; it does not apply to charities in Scotland or Northern Ireland.

The Act is deregulatory in spirit and largely gives greater flexibility to charities to fulfil their purposes more effectively. It does not change the principle of what makes an organisation charitable: a charity "*is established for charitable purposes only and is subject to English and Welsh law.*"

However, the definition of charitable purpose has been expanded to include twelve subsections and a need for the purpose to be of public benefit. The twelve subsections are:

a) The prevention and relief of poverty
b) The advancement of education
c) The advancement of religion
d) The advancement of health or the saving of lives
e) The advancement of citizenship or community development (including rural or urban regeneration, and the promotion of civic responsibilities, volunteering, the voluntary sector or the effectiveness or efficiency of charities)
f) The advancement of arts, heritage, culture or science
g) The advancement of amateur sport
h) The advancement of human rights, conflict resolution or reconciliation or promotion of religious or racial harmony or equality and diversity
i) The relief of those in need by reason of youth, age, ill-health, disability, financial hardship or other disadvantage
j) The advancement of animal welfare
k) The promotion of the efficiency of the armed forces of the Crown
l) Any purpose which may reasonably be regarded as analogous to the above including existing charity law.

The definition of public benefit is not a new one. A charity's activities must be: *"Of clear benefit to the public or a section of the public. A benefit that is not unreasonably restricted by geographical or other restrictions, or by ability to pay fees."* Public benefit is no longer presumed in the case of poverty, religion and education. Every charity must now clearly demonstrate its public benefit, but the existing legal understanding of the term still applies. In practise, the activities of registered charities are regulated by the Charity Commission.

An important aim of the Act is to define and modernise the role of the Charity Commission. For example it requires that, "So far as is reasonably practicable the Commission must, in performing its functions, act in a way which is compatible with the encouragement of – (a) all forms of charitable giving, and (b) voluntary participation in charity work."

Details of the Bill, and its stages of implementation, can be accessed on the website of the UK Parliament.

Scotland: Since the 1990 Act there have been several reviews of charity law in Scotland, culminating in the Charities and Trustee Investment (Scotland) Act 2005 which established a system of charity regulation in Scotland. The Office of the Scottish Charity Regulator (OSCR) was established through Part 1 of the Act and is required to regulate all charities in Scotland.

The 2005 Act removed the presumption of public benefit for all charities and introduced a two-part 'Charity Test'. It also allowed for a proportionate regulatory regime to be introduced by Ministers and introduced a new legal form which allows charities to take on corporate status and limit liabilities for their members.

More information on charity law in Scotland can be found on the website of the Office of the Scottish Charity Regulator.

Northern Ireland: The Charities Bill for Northern Ireland was introduced in December 2007. It creates the first statutory framework for charities in Northern Ireland, including providing statutory definitions of charity and charitable purpose, and establishes a Charity Commission for Northern Ireland (CCNI) and a charity tribunal. It also creates a Register of Charities for Northern Ireland and introduces the Charitable Incorporated Organisation (a new legal form) as well as setting out new rules with regard to fundraising and collections.
The draft legislation is similar to the 1993 and 2006 Charities Acts for England and Wales. Some significant points of variation are:

'The advancement of peace and good community relations' is included as a charitable purpose.
Promoting the efficiency of the armed forces is not a charitable purpose (as it is in England and Wales).
There will be a public benefit test similar to that in Scotland.
All charities that operate in Northern Ireland will be required to register, with no exemptions.
'Designated religious charities' which meet certain criteria will have more organisational freedom than other charities.

The Social Development Committee published its Report on the Charities Bill in May 2008. It is anticipated that the Bill will receive royal assent in 2008. For the most up-to-date information, visit the website of NICVA, the umbrella body for voluntary, community and charitable groups in Northern Ireland.

Recommended resources

- **NCVO:** www.ncvo-vol.org.uk
- **Charity Commission for England and Wales:** www.charity-commission.gov.uk
- **Office of the Scottish Charity Regulator:** www.oscr.org.uk
- **Charities and Trustee Investment (Scotland) Act 2005:** www.opsi.gov.uk/legislation/scotland/acts2005/asp_20050010_en_1
- **Northern Ireland Charity Commission (from late 2008) NICVA:** www.nicva.org
- **UK Parliament:** www.parliament.uk

Charity selection

By Tris Lumley
Senior Research Analyst, Head of NPC Tools, New Philanthropy Capital

Highlights

- Return and risk are the fundamental criteria donors should consider when analysing charities.
- Results are hard to measure and articulate, so most charities do not have the evidence to demonstrate what they really achieve.
- Donors should get into the mindset of thinking about return.
- Different donors will have different appetites for accepting risk.

Charitable giving can change people's lives. For example, £1,000 can provide a long-term social network for a disabled child, transport to allow 50 housebound older people to take part in community activities, or emotional health support for nine pupils for a year. When donors give to effective charities, the results can be rewarding for everyone involved.

But how can donors make sure they choose effective charities? On what grounds should they make their giving decisions? We outline the factors that New Philanthropy Capital (NPC) considers most important – return (i.e., results) and risk. We believe that thinking about these factors can help inform a donor's decision-making.

Reasons for giving

Whether the reasons for giving are based on personal connections or a need to fulfil funding criteria, it is generally true that most charitable giving is not based on results – that is, the actual changes that occur in people's lives as a consequence of the charitable activity being funded. There are many possible reasons for this lack of connection between the reasons for giving and results achieved.

NPC believes the main cause is that data on results is generally not available to funders. Because results are hard to measure and articulate, most charities do not have the evidence to demonstrate what they really achieve. So how can a donor incorporate results into their decisions? Whether or not evidence is readily available, we believe that a good first step is to get into the mindset of thinking about return.

Return and risk

"NPC's approach to charitable giving focuses on investing to deliver results, or equivalently, to generate a social return on that investment."

CASE STUDY:

Case study: Thames Reach

NPC has uncovered some surprising rates of return that should inspire donors. For example, we have calculated that it costs £10,840 for the charity Thames Reach to help a homeless person off the streets and into work. Given that a year's earnings on minimum wage comes to £11,500, this represents a return of 6% on money invested in the charity. The next year, there are no training costs but the earnings continue, so the return rises to 112%. Of course, the benefits go far beyond the financial ones. Stable work gives people something to build a new life around, keeps them healthier and less isolated, and also makes it easier for them to manage the rent and keep a roof overhead.

NPC believes that charities producing the best returns should attract more funding. Of course, funding any charity necessarily involves accepting some level of risk (e.g., the risk that expected results may not occur).

Return and risk are, therefore, the fundamental criteria donors should consider when analysing charities. Donors should look for evidence that a charity's results (whether proven or projected) are significant, relative to others working in the same field, and that the risks of failure are mitigated as comprehensively as possible.

The implication of this approach is *not* that donors should consider only those charities offering high returns at a low level of risk, as different donors will have different appetites for accepting risk. It is worth mentioning that the relationship between return and risk is not necessarily the same as that seen in the commercial sector, where there is a functioning market for funding. Without adequate information flows on return and risk, there is nothing to drive a relationship between the two factors.

Delving into detail

NPC's analytical approach breaks down return and risk into several factors that a prospective donor might consider:

Return: the results of a charity's work

- **Depth:** Not all results are of the same magnitude. For example, a project providing information on benefits to pensioners via a website is likely to have less significant results than one which also works face-to-face to help someone apply for all the benefits to which they are entitled.
- **Breadth:** Not all results affect the same number of people. For example, a project examining the provision of palliative care services in a given county can have more far-reaching results if it shares these findings nationally.
- **Change:** Not all results lead to fundamental change, in that they may address the symptoms rather than the causes of a social issue. To tackle root causes successfully, results generally need to be achieved across a number of levels of society – at the level of the individual, their community, the services available to them and policy governing them, and society itself. For example, a project supporting people with mental health problems is likely to have more impact if it also campaigns for policy change and awareness throughout the UK, based on its experience of the issues.

Risk: the risk that a charity's work will not deliver the expected return

- **Strategy and concept:** An untried concept may be risky but have great potential results. Equally, an activity or charity may not deliver results because it has not been designed to take into account the factors that could influence its success. These risks can be controlled by developing a strong strategy and logical model showing how the work will deliver results.
- **Management:** A charity that lacks strong leadership, clarity of vision and management structure is risky. These risks can be controlled by establishing the style, strength and capacity of a charity's management.
- **Operational:** A charity lacking the operational capacity (i.e., processes, staff, systems) to deliver potential results is risky. These risks can be controlled by establishing a charity's capacity in detail in these areas.
- **Financial:** A charity can face many financial risks, such as the loss of a particular funding source. These risks can be mitigated by actively managing funding sources, such as by diversifying funding streams and working to replace funding sources well in advance of them expiring.
- **External:** A charity can face many external risks, based on factors beyond its direct control – such as other organisations or stakeholders, or social, economic or political factors. For example, a charity may deliver high-quality training courses to get people into employment, but its clients may not be able to obtain jobs if the local economy suffers a downturn. These risks can be managed by regularly monitoring external conditions and influences.

As well as analysing return and risk, you also should assess organisational capacity. Further details of NPC's analytical framework and an overview of our approach to return and risk is available in our report Funding Success, which is free to download online from our website.

Getting started with your giving

When approaching philanthropy you need to think through what you want to achieve with your giving, such as what issues you are interested in, and what social impact you want to achieve.

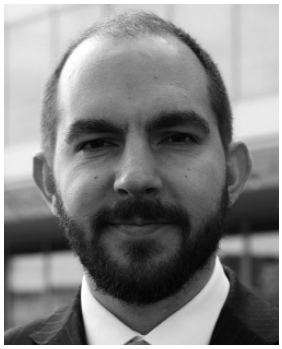
However, with over 160,000 charities in the UK it can be a struggle to find, and research, charities that fit with your giving strategy. The guidelines above indicate the factors donors should examine when choosing a charity. But analysing all of these details when looking at the return and risk associated with a charity requires a significant investment of time and effort, which is not something all donors have.

NPC aims to bridge this gap, providing donors with advice based on research and rigorous analysis. We help donors to find charities that match their areas of interest and to build a balanced portfolio of charity recommendations. Donors also can search for charities to fund within different sectors or geographies, and with differing results or levels of risk, using NPC's online charity selector. NPC advisors can help you think through the issues and provide advice, whatever stage you are in your giving.

There are also other providers donors can use when searching for charities to fund. These include GuideStar UK, which provides a database of charity and voluntary organisations in England and Wales; The Big Give, which runs a website to help donors find charity projects in their field of interest; and Intelligent Giving, which has reviews of over 500 UK charities on its website, based on the transparency of the charities' reporting.

Recommended resources

- **GuideStar UK:** www.guidestar.org.uk
- **Intelligent Giving:** www.intelligentgiving.com
- **The Big Give:** www.thebiggive.org.uk
- **Martin Brookes, Cathy Langerman & Tristan Lumley, Funding success:** NPC's approach to analysing charities, (London: New Philanthropy Capital, December 2005)
- **Lucy Bernholz, Creating Philanthropic Capital Markets:** The Deliberate Evolution (New York: John Wiley & Sons, Inc., 2004)



About the author

Tris Lumley is Senior Research Analyst, Head of NPC Tools, at New Philanthropy Capital (NPC), a charity that helps donors and charities to maximise their impact It does this through independent research, tools for charities and advice for donors. All of NPC's research reports and charity recommendations can be downloaded free from www.philanthropycapital.org

Giving internationally

By Bea Devlin
Head of International Development, Charities Aid Foundation

Highlights

- Philanthropy is an important source of income for developing countries.
- Donations to organisations outside a donor's home country have increased significantly in recent years.
- The beneficiary should qualify as a charity under the laws of the country where the funds are held.
- The UK tax environment is one of the most favourable to donors and charities in the world.

Charities are firmly in the era of the global village when it comes to giving. As our society increasingly forms links around the world through families, friends, colleagues and business interests, charities are under pressure to develop new ways of raising funds to draw on these links and grow their income. That means the charitable sector looks to take maximum advantage of the communications tools which connect us globally.

We can see events unfolding live, right around the world and the public has shown, in response to disasters such as the Asian tsunami and the recent Chinese earthquake, that there is great generosity of spirit in this developing sense of global citizenship. As we visit villages and cities around the world in person or virtually we are inspired by the communities and entrepreneurial leaders we encounter. We want to make a positive contribution, to encourage and support a change or cause we passionately believe in and want to see succeed.

There are also sound practical reasons for international giving founded on the huge income disparity between and within developed and developing countries. Now, the new generation of global philanthropists gets first hand experience of the desperate need in other countries through travelling or simply via the internet. These issues are even more personal for the growing Diaspora – the huge numbers of people who have sought, or been forced to seek, a better life in another country and have prospered in their adopted home. They understand better than anyone the importance of giving to help develop educational or health services in the country they left behind.

The most recent data shows that UK-based charities operating internationally continue to dominate the league table most frequently given to by those using CAF's services. CAF also helps donors give direct to organisations based outside the UK and the US. Over the years, we've seen a significant increase in the number of donors wishing to give this way and the value of their giving. UK, US and Australian donors asking CAF's help to direct funds to, and increasingly to source charities, outside their principal home countries gave over £42m in 2007/08 through CAF, an increase of 26% on the previous year.

In 2006/07 the estimated amount given to charity by individuals in the UK was just under £1bn, while the percentage share given to `overseas' causes was 9%[10]. People donating to overseas/disaster relief work or religious causes are most likely to give to the other – these causes 'cluster' together more strongly than others.

Total official government aid to developing countries is estimated at over $105bn; however philanthropy is a larger source of revenue for developing countries' civil society organisations than is official aid. It is often the income from philanthropists that 'buys' charities freedom from government and the flexibility to try new approaches.

10 Liz Goodey et al, UK Giving 2007 (London: NCVO and CAF, 2008)

"philanthropy is a larger source of revenue for developing countries' civil society organisations than is official aid."

Issues to consider when giving internationally

Philanthropy UK's principles and framework for effective giving, outlined in this Guide, apply to giving whether at home or abroad. Your objectives, assets, focus and mechanisms for giving will form your giving approach or strategy; monitoring and evaluation will inform and refine your giving.

Philanthropy is more successful when you have a clear, costed and workable strategy in place. You may know you want to give, but be unsure of which charities to support. Alternatively you may know which charities you want to give to and what support you'd like to provide, but would like this to be independently evaluated.

Thinking about your charitable goals and objectives will help you shape your long-term strategy, while your assets and choice of giving mechanism will determine how much you give. Monitoring and reviews are recommended to inform and shape your giving.

You may require an overview of the strengths and areas for improvement of a particular sector in a region, country or countries. You may be looking for a review of organisations working in particular areas on which to base your decisions. Your appetite for risk and for building capacity will be crucial to determining the decisions you make. For example, would you prefer to support an existing, robust organisation, or a fledgling charity where vital support is needed to build capacity and infrastructure?

We want to know that we can trust the charity that we are supporting. Fundamental to all international giving facilitated by CAF is whether the organisation would qualify as a charity under the laws of the country where the funds are held. This means that in the UK, for example, the beneficiary's governing documents, accounts and activities are assessed under UK law.

The UK tax environment for giving is one of the most favourable to donors and charities in the world. However, giving direct to charities based outside the UK does not carry tax benefits for individuals or companies unless an intermediary, such as a private foundation, is used.

How to find charities and charitable projects

There is a growing number of philanthropic advisors working independently, in non-profits and in private banks. CAF, for instance, has a presence in Asia, the Americas and Europe as well as an extensive network of advisors and partners. Our Advisory and Consulting Service, working with donors who make grants of £10,000 or more each year, designs, runs and reviews giving programmes. It provides information and research on charities across the world and undertakes in-depth organisational reviews, including site visits where appropriate.

Other specialist advisors include New Philanthropy Capital, Geneva Global and the Asian Foundation for Philanthropy, as well as web portals such as Global Giving and The Big Give.

Tax-efficient international giving

The UK's stable political climate, generous tax regime and favourable reputation for governance provides an ideal environment to establish a charitable foundation. You can set up your own charitable trust or contact CAF's Global Trustees service which works with overseas donors to establish endowed charitable foundations in the UK to support charitable activity in their home country and throughout the world.

Alternatively, UK tax payers can make tax-efficient gifts to charities outside the UK by using a CAF Charity Account or Trust. As funds are paid into the account CAF reclaims the basic

rate tax paid via Gift Aid and adds it to your balance. Donors paying higher-rate tax can reclaim this on their tax returns and gift the funds on. UK businesses are able to offset donations made to CAF for onward granting against Corporation Tax.

If you are paying tax in both the UK and the US, US tax rules can invalidate UK tax breaks on charitable giving. The CAF American Donor Fund can help you to make the most of tax reliefs from both countries and make gifts to charities across the world.

Another resource is Transnational Giving Europe (TGE), which enables tax payers in participating countries to make tax-effective cross-border donations. If you want to make a tax-effective donation to a UK charity from one of the member countries, then this is a solution. CAF is the UK partner, and other members are currently working in Belgium, France, Germany, Ireland, Netherlands, Poland, Switzerland; with more countries planning to join soon.

CASE STUDY:

Case study

A year after the death of her husband, Geraldine decided to sell the family home. She wanted to give part of the proceeds to help people in a small town in South Africa where she had spent part of her childhood.

She didn't know the name of any charities helping people in that particular region and wasn't clear on what causes she wanted to support. CAF discussed the needs in South Africa and undertook some preliminary checks on Geraldine's behalf. We established that the HIV/AIDS infection rate was high in this area of the country and Geraldine, concerned by this finding, wanted to do something to help.

As the geographic area she wanted to support was so specific, we asked our colleagues in our South Africa office to research which charities were working effectively in Geraldine's former home town. We reviewed the financial status of the charities and how efficiently they were managing their money, as well as their charitable status against the guidelines of the Charity Commission and HM Revenue & Customs.

Finally we identified three charities which matched Geraldine's criteria: a charity that provided free anti-retroviral drug treatment, a local hospital clinic and a medical research charity.

Geraldine established a CAF Trust in her late husband's name to start supporting these three projects right away. By keeping her money in an invested trust, she has secured her support for the area for many years to come.

Recommended resources

'Giving tax efficiently' section of this Guide

- **Giving in Europe:** A guide to cross-border giving within EU member states, Giving in Europe provides a search tool for information based on country of donor, country where assets held, and country of beneficiary. The online resource is hosted by King Baudouin Foundation, a member of Transnational Giving Europe. www.givingineurope.org
- **United States International Grantmakers** (USIG) site carries information by country on types of civil society organsiations and tax laws prepared by the International Center for Not-for-Profit Law, the leading source of information on legal environments for civil society. www.usig.org and www.icnl.org

About the author

CAF (Charities Aid Foundation) distributed over £360m to 30,000 charities on behalf of donors in 2007/08. CAF supports local and cross-border giving through funds management, advisory and consulting services. It has network offices in America, Australia, Bulgaria, Brazil, India, Russia, South Africa, and the UK, with partners across the globe.

Bea Devlin is Head of International Development at CAF, working with the CAF network and partners to increase philanthropy and social investment. She joined CAF in 2004 and was a senior manager in CAF's Company Services team working with companies, mainly in the FT Global 500, to develop their community/social investment programmes. www.cafonline.org

Supporting individuals

By Theresa Lloyd
Theresa Lloyd Associates

Highlights

- Making a difference to individual lives is one of the most rewarding aspects of philanthropy.
- Popular areas are the arts, education, sports and entrepreneurship.
- In most cases an intermediary organisation helps identify and select potential beneficiaries.

Some people like to include the support of individuals in the portfolio of their charitable giving. Making a difference to individual lives was one of the most rewarding aspects of philanthropy reported in **Why Rich People Give**[11], and the specific support of individuals among the most satisfying donations.

Such experiences ranged from the support of doctors from developing countries to train for a year in the UK to the funding of young sportspeople, usually those involved in activities in which the donor also has an interest. Examples included the backing of young riders in training for the Olympics and a young cricketer ambitious to play for his country.

The provision of scholarships at schools and universities is a traditional focus. In the second edition of this Guide we reported on the refugee from Nazi Germany who had established a Trust to fund scholarships in his name at leading universities. These are aimed at tackling the causes and consequences of intolerance, and are intended for Ph.D. students who plan to explore the nature of religious, racial and cultural prejudices and to find ways of combating them. This donor has since died, and the Trust has benefitted from the bulk of his estate; there will be an endowment of over £2m to support such scholars in perpetuity.

Support of the arts is a frequent focus. An example is the funding of a scholarship to cover the fees and accommodation of a young girl from the North East of England who had won a place at a ballet school. Trevor and Lyn Shears, who feature elsewhere in this Guide, are major supporters of the Samling Foundation which supports the development of young opera singers.

CASE STUDY:

Case study 1: London Music Masters

A new initiative set up by Victoria Sharp in partnership with the LPO, the RCM and the Wigmore Hall is the recently launched (May 2008) London Music Masters (LMM). Through sustained teaching and learning, mentorship programmes, and performing opportunities, its primary aims are to encourage young people to take up an instrument and young adults to enter the professional music world. Having identified an opportunity gap, LMM brings a passion for music to its efforts to prepare artists to serve as positive role models, to reach new audiences and to enrich their communities and themselves.

Victoria says, *"Having seen first-hand how a sustained musical experience positively shapes, enhances and inspires the lives of young people, our aim is to bridge the opportunity gap by offering this chance to a wider spectrum of individuals. The hope and expectation is that those who have benefited will in turn touch the lives of others with that musical joy and inspiration."*

Some cultural organisations, usually in the performing arts, encourage the involvement of individual donors by associating them with the training of young artists or the support of established musicians – whether singers or players. Examples include the Chair Sponsorship scheme at the Orchestra of the Age of Enlightenment, which links donors, individual players and the orchestra as a whole, promoting strong networks between donors who enjoy sharing a passion for the orchestra and the music it performs.

11 Theresa Lloyd, Why Rich People Give (London: Philanthropy UK, Association of Charitable Foundations, 2004)

Some donors may never meet the beneficiaries of their philanthropy. There is the example of child sponsorship schemes, such as that run by ActionAid, in which the money given is pooled for the benefit of the community as a whole, and the child is essentially an ambassador or representative of that community.

Another way to change the lives not only of individuals but also of whole communities is to support social entrepreneurs – extraordinary individuals with unprecedented ideas for change in their communities. An example is Ashoka, which identifies and supports Fellows who are 'practical visionaries' committed to systemic social change in their field. Such entrepreneurs provide new opportunities and better lives for their fellow citizens.

CASE STUDY:

Case study 2: Ashoka

Among the entrepreneurs Ashoka has backed is Rodrigo Baggio. With grant money from Ashoka, Rodrigo has trained almost one million at-risk children with computer and internet skills. His project, the Committee to Democratize Information Technology (CDI), initially created a network of more than 200 self-managed computer schools in the urban slums of 17 Brazilian states. Helping students who might otherwise have turned to drug trafficking or violence, Rodrigo is bridging the digital divide while providing important job opportunities to young Brazilians. His project is expanding exponentially as he opens schools in other countries, now with corporate support.

In the UK The Prince's Trust provides a wide range of opportunities for disadvantaged youngsters. One element is the support of young people through microfinance and associated business expertise. Another example is Prowess, a network of organisations and individuals throughout the country who provide financial and non-financial support to disadvantaged women seeking to start their own businesses.

Microfinance, or microcredit, is also seen as a major tool in international development. Programmes provide credit and other financial assistance, as well as business training and networking opportunities, to economically active poor people. Such people typically are outside the banking system and at the mercy of money-lenders who charge exorbitant rates. Average loan sizes from microfinance organisations are small (sometimes as little as £40) and repayment rates as high as 97%. Most clients are women. Such loans create jobs and, crucially, help people to help themselves. Many international NGOs have such programmes. An example in this field is Opportunity International.

Yet another way of having an impact is to offer expertise. A leading organisation in this area is Voluntary Service Overseas. VSO sends volunteers who have expertise and skills which are not available in the relevant developing country. VSO volunteers are trained and experienced professionals with an average age of 38. They come not only from the UK but also are recruited worldwide through bases in the Netherlands, Canada, the Philippines, Kenya and India. The volunteers receive living expenses only, but there is a cost in supporting them and ensuring that their knowledge is transferred so that they leave a lasting legacy.

For nearly every profession there is an associated benevolent fund that provides help to individuals who have fallen on hard times. Such funds may be supported by those who have done well in the profession, such as the law (e.g., the Barristers' Benevolent Association), or by those who have enjoyed the pleasure of the sport (e.g., the Injured Jockeys Fund) or the art form (e.g., the Musicians Benevolent Fund).

In virtually every case the money is not going directly to individuals without the intervention of an intermediary organisation that helps identify and select potential beneficiaries and monitors

how the money is spent and accounted for. In some cases the donor will have no influence on the recipient – for example in choosing the women to participate in a microfinance scheme or the VSO volunteers or the Ashoka Fellows – or indeed the head of a woodwind section in an orchestra.

However, with VSO or Ashoka there may be a list of possibilities from which the donor may choose a project that fires his or her imagination. In a few cases the donor may initiate the process and help select recipients, as a panel member. This was the case with the scholarship established to look at the causes and consequences of intolerance – an opportunity rejected by the first university approached by the donor. The beneficiary of the ballet school bursary was identified because she was the daughter of the local postman.

The Association of Charitable Foundations has a network for those involved in supporting individuals. There is also the Association of Charity Officers. This is an umbrella body for charities, including private trusts, who provide aid and advice to individuals in need.

Supporting institutions that are part of the fabric of our society is important and rewarding. Many changes in society can only be achieved by backing organisations and their leadership.

"People include the support of individuals in their philanthropic portfolio because they see that they are making a difference to individual lives and, sometimes, through them to whole communities."

They may have an opportunity to share their passion and convictions with like-minded fellow donors, and, sometimes, see the results of their investment: the cricket match won, the riding medal achieved, the final year performance at the dance school. They may receive letters from the doctors they have supported telling them what a difference they have been able to make in their home countries.

One person funded a place at a course in the social sciences for someone he has never met. Years later he saw her name on an influential paper: "*I felt proud*".

Recommended resources

- **Association of Charitable Foundations:** www.acf.org.uk
- **Association of Charity Officers:** www.aco.uk.net
- **Ashoka:** www.ashoka.org
- **London Music Masters:** www.londonmusicmasters.org
- **Prowess:** www.prowess.org.uk
- **The Prince's Trust:** www.princes-trust.org.uk

About the author

Theresa Lloyd is an advisor to individuals and families on the development of their philanthropic strategies. She also advises on strategic planning, fundraising and governance for Boards and senior management in the non-profit sector. Theresa was Founder Director of Philanthropy UK (2001-04). She devised and wrote the first edition of A Guide to Giving (2003), and also researched and wrote Why Rich People Give (2004) and Cultural Giving: Successful donor development for arts and heritage organisations (2006). Theresa is a member of the Advisory Board of Philanthropy UK and a Trustee of the European Association of Planned Giving. www.theresalloyd.co.uk

Philanthropist profile
Alan Hodson

Alan Hodson probably wouldn't describe himself as a philanthropist. "I am lucky enough to have some time and some money", he explains, and so has had the opportunity to become involved in philanthropy.

In 2004 Alan retired as the Global Head of Equities from UBS. He is currently chair of Blackrock Commodities Income Investment Trust and on the advisory board of Norges Bank Investment Management. Today he spends around a third of his time on charity, a third on business, and a third on 'enjoyment'.

Twelve years ago Alan made his first major gift, to Great Ormond Street Hospital (GOSH) after being inspired by the quality and sympathetic care the hospital gave his daughter, who had died from cancer. He now chairs the organisation's Board of Trustees, and has also funded a parent room in the hospital for parents whose children are undergoing treatment overnight.

Deciding against setting up his own charity, Alan believes that *"there are already enough charities doing good work"*. Instead, he supports existing *"first class"* organisations, often helping them to fundraise.

In memory of his daughter, Alan and his wife Christiane founded the Olivia Hodson Cancer Fund, a special purpose fund within the Great Ormond Street Hospital Charity which funds a range of projects and staff, all focused on childhood cancer.

Alan seeks to share his experiences of successful giving whenever possible, using his business and financial expertise, as well as his experience as Chair of the UBS CSR programme. For example, inspired by the The Tick Tock Club at GOSH, a 'giving circle' for donors each giving £75,000 over three years to fund a new heart and lung centre, Alan supported other similar schemes, such as a Save the Children circle funding a new programme in Mozambique.

Alan's philanthropy is very much influenced by his business experience. For example, he takes a 'portfolio approach' to his giving and mostly focuses on either large and established or much smaller charities.

"In business and in the charitable sector, I'm cautious about mid-sized organisations. I would prefer to invest in world-class organisations with scale and the capabilities to have a real impact, or in small organisations, preferably with a smart idea or skill, sufficiently limited costs for an investment to make exceptional returns, and with sensible management," he says.

He continues, *"I will invest significant sums in larger, proven organisations, but prefer to support a diversified portfolio of smaller charities and projects. As the markets have recently found to their cost, leverage can be bad as well as good. I prefer to see opportunities that are scalable and have the potential to lead to much wider applications."*

This portfolio approach is partly driven by the difficulty philanthropists face in evaluating the impact of their donations. Alan finds that the quality of assessment generally available is wanting, which makes strategic philanthropy challenging. He wants to see the impact for himself: *"Reading a letter from a beneficiary is much more rewarding than any detailed analytical report."*

Alan's 'portfolio' includes serving as a Trustee of The Roundhouse Trust, a performing arts centre in Camden, and he was deputy chair of The Beacon Fellowship from 2005-2007.

More recently, Alan became a director of The Funding Network (TFN) after meeting its co-founder Fred Mulder through Beacon. TFN is a network of philanthropists who come together to leverage their funding to support small grassroots charities. At quarterly meetings, pre-screened charities present to members, who then pledge their support in an 'auction' format. TFN monitors the performance of the charities and reports back to its members.

Alan explains, *"Whether in companies or charities, it is critical to have faith in the management team. That's why I especially like the TFN model, which gives members the chance to 'look management in the eye'."*

Reflecting on his philanthropic journey, Alan admits that his philanthropy is still evolving, and that he has not yet "found the perfect model for my giving". He says that he is still learning, and has found speaking to as many donors as possible a good way to learn what works, and what doesn't. But the journey, he says, is "tremendously rewarding".

- Great Ormond Street Children's Charity: www.gosh.org
- The Funding Network: www.thefundingnetwork.org.uk
- The Roundhouse Trust: www.roundhouse.org.uk

5 Evaluating your impact

Donors give because they want to have an impact, to make a positive difference for a cause or in the lives of others.

While the nature and degree of this impact will vary, donors will want to assess and understand the results of the investment so that they can better help the charity as well as improve the effectiveness of their own philanthropy.

Stage 5 chapters:

- Charity impact evaluation
- Social return on investment (SROI)

Charity impact evaluation

By Kerry McCarthy
Matrix Knowledge Group

Highlights

- Impact measures help donors understand how their contribution has made a difference.
- Donors should be clear about what they want to achieve with impact evaluation.
- Impact evaluation can be resource-intensive, so donors should seek ways to add value and not duplicate efforts.
- A variety of evaluation methods are available depending on the objectives, resources and stage of the project.

What do we mean by 'impact'?

Impact measures are useful information for donors to understand how their contribution has made a difference. In this article, we have created 'AnyService' as an example to illustrate the range of information which can be provided through evaluation and performance management data on an organisation's services.

Information on how and what AnyService is intending to achieve can be collected. This is often referred to as a logic model or theory of change. Input and output data can be included, for example the services offered and how they are staffed, the number of people who use AnyService and the sequencing of different parts of the service.

Information can also be collected on the wider context in which AnyService operates, for example where it is located, the people who use the service and how it links to other services in the area. If the data is available, the outcomes for people who use AnyService can be monitored, both the short-term consequences from using the service and longer-term impacts.

Finally, understanding how much it costs to deliver AnyService, combined with data on the impact it is having, can inform an assessment of the value for money it offers.

The benefits of measuring performance and impact

There are two stages when performance and impact measurements can benefit donors.

The first stage is when funds are being allocated. Anecdotal evidence, visits to services and the stories of service users will undoubtedly remain powerful influences on giving. Evaluation or performance data can provide an additional source of information to support or question these experiences. The existing evidence base can be reviewed, through a transparent and systematic rapid evidence assessment, to identify what is already known about effectiveness. It is not uncommon to have no published evidence of impact; however this does not mean a particular type of service or intervention is necessarily ineffective. This is a particularly important point for philanthropic giving, which often seeks to support and incubate new and innovative work, which by its very nature will not have an established evidence base. Qualitative evidence, for example from an interview programme with experts in the area, can also be a useful contribution to decision-making.

The second stage is once funds have been allocated. Measuring performance and impact offers benefits on a number of levels:

- **For donors:** to assess the impact of their giving and provide information for the wider donor community.
- **For the recipient organisation:** to inform their internal development and growth. Evidence of impact can also be used to support further fundraising and bids for service contracts.
- **For the end beneficiaries:** measuring impact is an important check that the individuals using a service are benefiting.

"The research will also need to be informed by an understanding of what it is that the service is trying to achieve, that is, their intended outcomes."

Key principles of impact evaluation

Before exploring the detail of how to measure impact, three principles should always be borne in mind, regardless of the method employed.

1. **Attribution risk:** It is important to assess and clearly report the extent to which the subject of the evaluation, the service or intervention, is responsible for the impact found. For example, if AnyService supports people to find jobs, to what extent does can we be sure that the reported impact on the employment rate among the people they support is to do with AnyService, and that it would not have happened anyway?
2. **Passion for improvement:** Impact evaluation can identify when things do not work and why, thereby providing useful information to improve services or funding decisions. It is important to secure the support of all stakeholders for a process which is not about identifying failure but about finding ways to improve the services and interventions which they are passionate about.
3. **Adding value:** Donors can add value through impact evaluation by building on existing evidence and ensuring that new impact evaluation includes the contextual information needed for results to inform practical decisions about replication and scaling up. Collaboration among donors to develop evidence on a particular area can ensure that efforts are not duplicated and that charities providing data do not have unnecessary burdens on their time and processes.

How to measure impact

There is no one method for measuring impact. The final choice will need to take into account:

- The purpose of the research
- The data which is available or can be accessed
- The resources and timescales for the research
- The stage of implementation of the service to be evaluated

The research will also need to be informed by an understanding of what it is that the service is trying to achieve, that is, their intended outcomes. It is important to be clear about the purpose of the research at the outset, before commissioning.

A brief overview of some options is provided below.

Experimental or quasi-experimental impact evaluation

While these research designs are regarded as the most rigorous or 'scientific' in terms of demonstrating the impact of an intervention, they are resource intensive and not always appropriate. For example, the objectives of 'developmental' programmes typically cannot be sufficiently specified in advance, so intended outcomes may not be immediately identifiable.

Individual tracer studies

Following up a cohort of service users to see what happens in their lives and relating these to the inputs of a service. Picking out a few exemplars from this cohort to use as individual 'stories' is also possible.

Self evaluation / performance monitoring

Encouraging the project staff to review, keep records, set targets, and analyse what happens with some guidance supports self learning and continuous improvement, while also providing a system which is embedded and owned by the organisation and is not time limited.

Case studies

Well designed case studies can provide in-depth qualitative data, which can be very useful in understanding whether, how and why an intervention is working from the perspectives of those involved.

Theory-based evaluation

This approach is useful when the true impacts extend beyond the timescales available to apply the methods suggested above and/or when our knowledge base only supports general hypotheses of likely change. The outcome of such models is

a) direction of travel (what needs to be happening at AnyService to indicate that true impacts will happen in the future); and
b) distance travelled (how far AnyService has gone in the relevant direction).

Next steps: practical information to get started

A number of questions need to be considered to get started on impact evaluation:

- What do we want to know about, for what purpose and for what audience?
- What evidence already exists?
- What data is available?
- What resources are available?
- When do we need to have results by?
- Who else wants to know about this? Can we work together?
- What support do we need?

Getting answers to some of these questions may require support, for example through a rapid evidence assessment or data gap analysis. Once these questions have been answered it is possible to commission or undertake the most appropriate research with a clear expectation of what it can deliver.

Recommended resources

- **Matrix Knowledge briefings:** http://matrixknowledge.com/category/events-and-publications/knowledge-briefings
- **Policy Hub Magenta Book, 'Guidance Notes on Policy Evaluation':** www.nationalschool.gov.uk/policyhub/magenta_book
- **UK Evaluation Society:** www.evaluation.org.uk
- **Think Research: Using Research Evidence to inform service development for vulnerable groups':** www.cabinetoffice.gov.uk/~/media/assets/www.cabinetoffice.gov.uk/social_exclusion_ task_force/think_research/think_research%20pdf.ashx

About the author

Kerry McCarthy most recently was the Matrix Knowledge Group Partner for Charities & Foundations. The Matrix Knowledge Group has a successful 20-year record of delivering highly valued consulting, software, evaluation and research services. We are passionate about maximising organisational capital and improving public well being. Charities and donors want to understand the value of what they do and make best use of their resources for their beneficiaries and service users. Our approach can build on the information, processes, people and insights already in place to leave a positive and sustainable legacy.
www.matrixknowledge.co.uk or enquiries@tmkg.co.uk

Social return on investment (SROI)

By Jeremy Nicholls
Director, SROI UK

Highlights

- SROI is a cost-based analysis tool which assigns financial values to social and environmental impacts.
- New approaches to SROI are making the tool more accessible to organisations of all sizes.
- Disparity in how organisations define outcomes and impact remains a barrier to impact measurement.
- The investment decision is not made on the basis of the expected SROI alone, but also reflects other operational factors.

Inequality - and a critical aspect of inequality, levels of social mobility – does not seem to be improving despite increasing levels of public and private investment and expenditure. In part the problem is the extent to which investments are made against expected outcomes, such as a measurable change in inequality or in specific aspects of inequality, as opposed to a continued reliance on outputs, which is merely a quantified summary of activity.

In the second edition of the Guide (2005), I argued that this was beginning to change – that funders were becoming more interested in understanding the difference they are making and in managing the impact of their investments and activities – and that there was an increasing convergence in how organisations manage and report on these impacts.

This is still true today, three years on, but it is also the case that these changes still have not become widespread, and there is still much disparity in how organisations, both funders and funded, define words like outcomes and impact.

"(SROI) is a measurement approach developed from traditional cost-benefit analysis, in which the social and environmental impacts of an investment are given financial values."

Social return on investment (SROI)

Social Return on Investment (SROI) is a measurement approach developed from traditional cost-benefit analysis, in which the social and environmental impacts of an investment are given financial values. Often the change created by the investment is not recognised in financial markets, especially when it relates to those who are excluded and on low incomes.

SROI is a framework for telling a story about change that builds on a set of key principles. The principles are critical because it is easier for organisations and investors to converge around a set of principles, or perhaps around a specific application of those principles.

SROI was pioneered by REDF, a US venture philanthropy fund, and the concept has since evolved into a widely used, global framework. European and UK SROI networks have been working on a set of principles.

The first principle is that **stakeholders' perceptions** of the change or impact, both positive and negative, are central, which means that there may be different changes for different stakeholders. Second, for each of these changes, the role of the organisation or the investment in creating the change needs to be explained in what is often called a **'theory of change'** which links the investment through activities, outputs, outcomes and impact. The theory of change also may be different for each stakeholder.

It is important to keep the story focused, and aspects of change relevant to both the organisation and its stakeholders. This means making use of the idea of **materiality**, as developed by AccountAbility. This principle means focusing on the changes created by an organisation that should be included in order for stakeholders to make decisions based on the analysis.

This principle allows organisations to set the scope of analysis to a level which is appropriate for them, providing that there is transparency about how that scope has been determined and what information has not been included. This means that SROI can be used by all sizes of organisations at different stages of development, helping people to build management systems, governance structures, and products and services which achieve the objectives of their stakeholders.

Another principle is that not all the change may be a result of the activities of one organisation, but may involve other people or organisations, and that even without this group some stakeholders will achieve the changes they want through other means. Therefore attribution and 'deadweight', or 'what would have happened anyway', benchmarking are required. For each of the material changes an indicator is needed so that change can be measured.

SROI then calculates both the cost of the change and assigns financial proxies to the indicators of change. For some stakeholders, for example where the public sector is a funder, financial proxies can be used by reference to the savings made from the change. For other stakeholders such as beneficiaries, it may be necessary to involve stakeholders in understanding the financial value they would give to a change.

As in the financial markets, however, the investment decision is not made on the basis of the expected return alone, but also reflects accompanying assessments of risk, management and other operational factors. SROI is a story in which the return provides a hook for the analysis. It does, however, attempt to bring a quantitative approach – providing a 'voice' for values which we would all recognise but find difficult to express in financial terms – thereby allowing us to compare the impacts of an organisation to the investment being made.

Growing interest in this area has meant that there needs to be some quality assurance of SROI analysis and use within organisations. In the UK, SROI UK has been set up to develop assurance of SROI work against process and principle, arguing that this will be an important basis for the consistency that investors and funders will require.

At the same time developments in SROI have being focusing on ensuring that it is cost effective for users and that there are tangible benefits for how organisations manage and report on the changes that they were set up to achieve.

"the investment decision is not made on the basis of the expected return alone, but also reflects accompanying assessments of risk, management and other operational factors."

CASE STUDY:

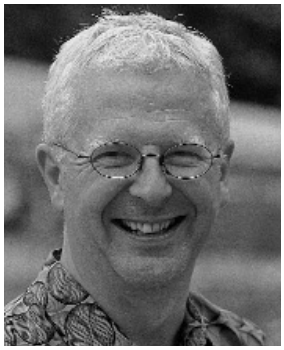
Case study: Getting Out to Work

Getting Out to Work (GOTW) is a Tomorrow's People programme in Merseyside that helps young ex-offenders into long-term, sustainable employment through intensive, one-to-one job coaching and personal support. Although the investment – in this case grant funding for one year – does not generate a financial return, it does produce social returns, some of which can be monetised (i.e., they can be assigned a financial value). For example, as GOTW clients gain work, they begin to pay taxes to the government while ceasing to claim welfare benefits. Furthermore, they are no longer re-offending, thus saving costs to the criminal justice system.

nef's SROI analysis demonstrated, in financial terms, the impacts the programme was having on society. In its first twelve months, GOTW exceeded both funder objectives and regional targets for employment, while reporting client re-offending rates that were 15%-20% lower than national averages. These outcomes translated into economic impact on a scale of 10.5:1. That is, for every £1 invested in the programme, it generated a return of £10.50. Furthermore, the analysis projected that the funder would 'recover' its investment with only 13 clients placed into sustainable employment in the year.

Recommended resources

- **SROI UK:** www.sroi-uk.org
- **European SROI Network:** www.sroi-europe.org
- **SiMPACT Strategy Group:** www.simpactstrategies.com
- **Global Social Venture Competition:** www.socialvc.net
- **New Economics Foundation:** www.neweconomics.org
- **The SROI Primer:** http://sroi.london.edu



About the author

Jeremy Nicholls is the Chair of SROI UK, a member of the European SROI Network and a fellow of the new economics foundation (nef). Jeremy is also a founder and Director of the Beta Model, which reports on trends and dynamics in business size and numbers in the UK, and is Chair of Fair Pensions.

Philanthropist profile
Stanley Fink

Stanley Fink learned the value of giving from his parents who while not wealthy, were always willing to help others less fortunate. When Stanley was a pupil at Manchester Grammar School, he volunteered at a youth centre. He also joined the fundraising committee for Rag Week at Cambridge University.

After gaining a law degree, Stanley qualified as a chartered accountant with Arthur Andersen and held positions at Mars and Citibank prior to joining Man Group, where he rose to become Chief Executive in 2000. He left Man Group earlier this year and after a two-month break, became Chief Executive of International Standard Asset Management (ISAM), a London-based commodities trader, specialising in gold markets. He wants to increase ISAM's assets ten-fold over the next five years.

Stanley takes a similar approach to his social investments, ensuring maximum return. He splits his giving three ways. One third goes to education, one third to health and the other third is spread among academia and public policy, including Jewish causes. Crucial to his giving is ensuring that his money is well spent and that it will have a positive, measurable impact. He also looks for opportunities to become personally engaged with the charity, and to leverage his investment with additional funding.

He says: *"I look for efficiency, projects that affect many lives at low cost. I like to invest in what I call 'transformational' charities."*

The biggest gift Stanley has ever given is £2m to ARK to fund Burlington Danes City Academy in White City in London. He also gave £500,000 when he was chair of a £10m appeal to help build The Evelina Children's Hospital in London, the first new children's hospital in London for 100 years.

He became a patron of the charity ARK (Absolute Return for Kids), a collective philanthropy initiative supported predominantly by the European hedge fund community. He is now a trustee, driving their support for academy schools and their work in developing countries, helping companies to grow through micro-finance. ARK's model is to maximise impact and ensure strong accountability.

Stanley is also a family trustee of the Prince of Wales Rainforest Foundation and a trustee of Guy's and St Thomas' Charity, where he chairs its investment committee. He says, "*We seek to generate income to support new ways to treat illness. This pioneering fund is a great way for the hospital to have an impact on public health."*

Longer term, Stanley wants to remain involved with many of the charities he supports, but to focus on fewer charities. He also enjoys making gifts as a family, and his children are getting more involved. "They must make a case to the family foundation, and last year they chose a local charity, a home for the blind, to support. It is rubbing off on them."

As a trustee of the Mayor's Fund for London, Stanley believes there should be more philanthropists in the City. *"There is a moral imperative, when you have more than you need, that the rest of your wealth should be given to society. It is also morally uplifting if you give it, rather than the taxman taking it. It is enlightened self-interest."*

He is very aware of the disparity between the wealthiest and the poorest in society. *"It is embarrassing that the wealthiest give only 1-3% of income. Tithing is the minimum the rich should do."*

Companies should also do more to encourage giving, such as by matching employee donations and supporting employee volunteering opportunities.

Whether you are giving time or money, Stanley is an advocate of being engaged in good causes. *"Do everything with passion, and enjoy it. If you don't enjoy it, then move on."*

He says it's great to see the impact of your giving. *"It's fascinating to get outside of your everyday life and meet interesting people, from beneficiaries to celebrities." He adds: "In life, the more I've given, the luckier I've got."*

▶ **ARK:** www.arkonline.org
▶ **Guy's and St Thomas' Charity:** www.gsttcharity.org.uk

Family business and philanthropy

Family philanthropy and the family business

By Mark Evans
Head of Family Business & Philanthropy, Coutts & Co

Highlights

- Corporate philanthropy can involve the giving of money, assets, time, and expertise.
- In 2005/6 UK corporate giving was £1.1 billion compared to £8.9 billion of individual donations.
- Corporate philanthropy can be an expression of the ethos of the company.
- A family trust can be used to teach the next generation the value of money and provide a new sense of purpose to family members leaving the business.

"A business that makes nothing but money is a poor business."
Henry Ford

As more companies consider what corporate responsibility means to them, so questions are being asked about what is meant by corporate philanthropy.

Corporate philanthropy can be defined as the giving of money, assets, time, encouragement and expertise by companies to create positive social and environmental impact. In other words, it's one of the things to think about when it comes to corporate responsibility.

Although you might think that companies give much more than individuals, the reality is that corporate giving for 2005/6 in the UK was around £1.1 billion compared to the £8.9 billion of individual donations for the same year, according to Charities Aid Foundation.

Why?

Well, when it comes to altruism, some argue that it is not up to companies to give shareholders' money away; that it's up to employees to seek the company's support for charities or projects; and that companies are already supporting communities through their core products and services or by providing employment.

As far as being a force for marketing, others remain unconvinced that corporate philanthropy does much to create competitive advantage, improve a company's reputation; attract the best employees; make it a better neighbour; help it win customers or strike better terms with suppliers. In other words, the game may not be worth the candle.

That said, some companies are just getting on with it. For example, in 2006 The Royal Bank of Scotland invested nearly £60m in the communities in which it operates. In the same year, over 25,000 staff took advantage of The Royal Bank of Scotland's employee giving programmes generating £12.7m for over 8,500 good causes across the UK.

A number of family businesses are also leading the way. Not only do they not see anything wrong with the company benefiting, they can see how the family benefit too.

- Kent-based healthcare provider Active Assistance makes significant donations to two charities, one that is involved in lobbying and another that is involved in rehabilitation for people with spinal injuries;
- Newbury-based merger and acquisition company, BCMS Corporate has set up a family charitable trust and built a school and orphanage in India as well as supporting local charities;

- Top hotelier English Lakes Hotels is passionate about the environment, involving employees as well as family members in reinvesting in the Lake District to repair footpaths, walls, riverbanks and lake shores;
- For Thame-based butchers, M Newitt and Sons Ltd, it's about advancing food education among children, with practical onsite demonstrations and teaching for schools;
- Pertemps Ltd, the recruitment agency, focuses on bringing investment to deprived areas of inner-city Birmingham, having given away more than £11m in the last five years, matching money raised by employees to a maximum of £500 each;
- Sheffield-based coffee roasters Pollards Tea and Coffee Ltd is committed to supporting Fairtrade and help business coffee growers in India make every effort to support both the pickers and the planters whilst they are working and when they retire;
- Surrey-based construction and property development company, Wates Group, makes a substantial contribution to the community as one of the top 100 companies included in the Business in the Community's Corporate Responsibility Index, in addition to the many causes supported by the families charitable foundation and the wide involvement of family members in the Wates Foundation, making grants of over £3m per annum;
- Basildon-based pharmaceutical company Waymade Healthcare has established fresh water and eye hospital initiatives and a university for the teaching of English in India and has also set up a family foundation – the Shanta Foundation – to channel their giving and raise additional funds.

What these companies have in common is that they are all winners of the 2006 Coutts Prize for Family Business, designed to recognise and celebrate the best run small, medium-sized and large family businesses in England and Wales, regionally and nationally. For them corporate philanthropy is an expression of the ethos of the company, what the company is, what it does and how it does it. For these family businesses it's right to be seen to be doing well by doing good and encouraging others to do the same.

And in addition to making good business sense, and responding to social needs in innovative ways, corporate philanthropy can help keep the family together especially when not all the family are involved in the business. One way family businesses do this is to set up a family trust and donate a percentage of pre-tax profits to the trust. It can also be used to teach the next generation the value of money and can provide a new sense of purpose to family members leaving the business.

Not to mention that it can be amongst the most enjoyable and rewarding things a company can do.

"the investment decision is not made on the basis of the expected return alone, but also reflects accompanying assessments of risk, management and other operational factors."

So where should you start...

- Look at what the company is already doing.
- Agree who is or should be involved – the family may want to do something as a family as well as engaging employees.
- Discuss the criteria you are going to use to select the causes and the charities you are going to support. Refer to this Guide to Giving and other resources by Philanthropy UK.
- Find out about effective charities to support. Look at online charity directories like Guidestar UK, New Philanthropy Capital's Charity Selector and Intelligent Giving.
- Agree how much you are going to give. Consider a percentage of pre-tax profits.
- Take advice on how your giving can be made tax effective under the Gift Aid Scheme. Consider setting up a charity bank account or charitable trust for individual giving.
- Approach organisations like Coutts & Co, Charities Aid Foundation, the Community Foundation Network, the Institute for Philanthropy and New Philanthropy Capital for ideas, research and advice on creating a giving strategy.

Recommended resources

- **Philanthropy UK:** www.philanthropyuk.org
- **Coutts & Co:** www.coutts.com/philanthropy
- **Guidestar UK:** www.guidestar.org.uk
- **New Philanthropy Capital:** www.philanthropycapital.org
- **Intelligent Giving:** www.intelligentgiving.com
- **Charities Aid Foundation (CAF):** www.cafonline.org
- **Community Foundation Network (CFN):** www.communityfoundations.org.uk

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About the Author

Mark Evans is Head of Family Business and Philanthropy at Coutts & Co. Mark sits on the Advisory Council of the Institute for Family Business (UK) and is a member of Pilotlight, working to help small, innovative charities grow and fulfil their potential. He is on the Community Foundation Network's Professional Advisers Council and the Board of the Family Firm Institute (FFI). Prior to joining Coutts & Co., Mark was a vice president of JPMorgan and a senior private banker to clients in the United Kingdom. He began his career at Citigroup based in London and Geneva.

Growing a socially responsible business

By Nicky Amos
Nicky Amos CSR Services Ltd

Highlights

- Companies are beginning to incorporate CSR into their core business activities.
- Benefits of CSR include more motivated employees, greater collaboration with customers and suppliers, and improved reputation and local profile.
- SMEs should keep things simple, and focus on a few primary areas.
- There are a number of simple ways to get started in CSR, such as setting up a payroll giving scheme.

"CSR in not about philanthropy, but about fundamental business practices."
Guy Ryder, General Secretary of the International Confederation of Free Trade Unions, UN Global Compact Summit, China, 2006

Over the last decade, the term corporate social responsibility (CSR) has found its way into the lexicons of most large companies as they strive to demonstrate their broader role in society. What began primarily as a means of managing risk by measuring and monitoring the impacts of a company's operations, CSR quickly moved into the realms of 'expectation management' as companies tried to anticipate and respond to the growing needs and expectations of its employees, customers and other stakeholders.

Today CSR has developed into a new paradigm for business. Companies are moving away from simply mitigating potentially negative social and environmental impacts. They are now thinking about how they actually do business and how they can change their business models to better understand their interaction with wider society. For a growing number of companies, CSR is fundamentally changing the way they operate.

With this backdrop, it is important to consider the relative role of CSR in smaller, privately owned businesses. It is true that many of the drivers for CSR in larger companies – the need to manage reputational risk; enhance the brand and improve relationships with local communities, regulators and shareholders – are less relevant to small and medium-sized companies (SMEs). Yet, a DTI-sponsored survey by MORI[12] found that:

A large number of SMEs were already engaged in social responsibility where defined as a contribution to the community, relations with employees and protection of the environment Training, employment and education were top priorities for SME investment SMEs were not yet defining social responsibility as an issue that could be integrated into all core business activities.

What are the business drivers for SMEs?

Owners and managers of smaller companies typically seek answers to the following questions:

- How do I respond to the growing demands of my larger customers for information about environmental, community or supply chain issues?
- How can I ensure that my lack of CSR knowledge will not jeopardise our tender application?
- How do we attract, motivate and retain good people?
- How can I reduce my company's footprint without spending a fortune?
- How can I motivate my employees to be greener and take their responsibilities seriously?
- I want my business to be active in the community but I have limited resources.
- I'm not sure which environmental legislation is relevant to my business?

12 Survey of Small-Medium Sized Enterprises (SME) attitudes to CSR conducted by MORI, sponsored by DTI, 2002

Why get started?

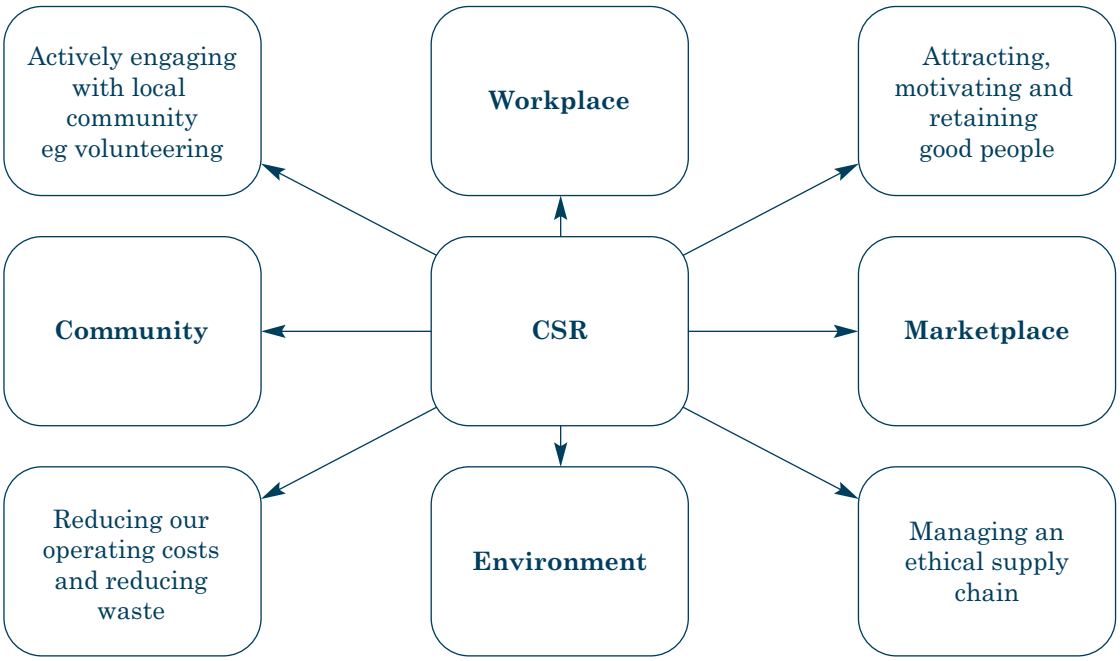
There are a number of reasons why companies decide to take action. Some are self-motivated; others are in response to external factors, such as increased competition or customer demands. The following are commonly cited objectives:

- The need to reduce operating costs
- Questions from customers about the way we do business
- The need to satisfy the long-term interests of investors
- The need to keep ahead of the competition
- The personal values of our company founder/owner
- A growing interest from employees
- The need to retain our license to operate locally
- The need to stay abreast of relevant legislation
- An opportunity to profile our company in a trade magazine or the local press

What are the key CSR focus areas?

There is little merit in using some of the extensive frameworks published by individual companies or business groups to determine the focus of your CSR activity. The trick is to keep things simple. Focus on four primary areas: Workplace – Marketplace – Environment – Community, to identify the key outcomes that will directly benefit your business (see Figure 1 for an example).

Figure 1: CSR framework



"For a growing number of companies, CSR is fundamentally changing the way they operate."

What are the business benefits?

The business benefits will be dependent on the size and nature of your business, the availability of resources and the effectiveness of your actions. However, typical benefits for smaller companies include:

- More motivated and engaged employees
- Improved customer retention
- Greater collaboration with customers and suppliers
- Innovation in new products or services
- Improved reputation and local profile
- Cost and efficiency savings
- Compliance with necessary legislation and regulations

CASE STUDY:

Case study: Shepherd Neame

Shepherd Neame is Britain's oldest brewer, employing over 250 people at its site in Faversham and more than 3,000 through its 370 pubs. Since its inception in 1698, the family brewer and pub retailer has maintained distinct standards on how business should be conducted, and a sense of responsibility towards the community and environment. Innovation, tradition, investment, individuality and community spirit are qualities the company holds dear.

Supporting the local community: The pub is the hub of the community and Shepherd Neame is helping to make life easier for people in remote rural locations by providing wireless broadband technology and post office services. It also supports community initiatives such as charity walks and a range of grassroots and county-level sports including rugby, cricket and golf. The company has long-term sponsorship agreements with Kent County Cricket Club and Essex County Cricket Club.

Supporting local suppliers: Shepherd Neame's Local Food from Local People initiative helps to forge business partnerships with Kent suppliers. The scheme not only benefits the environment and the local economy, but enables its pub restaurants to serve fresh, quality produce from the finest fisheries, farms, and orchards in the Garden of England.

Environmentally sound: Shepherd Neame takes its impact on the environment seriously, and its award-winning team is constantly striving to maintain and improve its position as the UK's 'greenest' brewery. It is using less water, less electricity, making less noise and making fewer road journeys. More than 50 members of staff have been given free bicycles to travel to work.

External recognition: The company's strict values and high standards have been recognised through a number of awards including The Queen's Award for Enterprise: Sustainable Development 2006 and winner of the CSR category in the National Business Awards 2006.

www.shepherd-neame.co.uk

What does a socially responsible company look like?

- The creation of wealth goes hand-in-hand with the creation of benefits to people and the planet.
- Managers are concerned about the long- and short-term effect of their business practices.
- Employees see it as a great place to work.
- Managers consider social, environmental and ethical risks and opportunities as an integral part of their decision-making.
- Customers and suppliers regard it as a good company to do business with.
- The local community values it as a good neighbour.
- Investors regard it as a company worth investing in.
- Managers actively seek feedback and ideas from employees; and suppliers and customers and are willing to learn from others.

How do I get started?

The chances are, you are probably doing things already that constitute social responsibility. However, there is no harm in reminding employees about the importance of 'doing the right thing' and encouraging them to come up with their own ideas. Here are some simple actions you might take:

- Install recycling bins in offices and warehouses with clear signposting for sorting waste
- Consider removing individual waste bins from employee desks to encourage them to think about responsible waste disposal
- Recycle printer toners and cartridges
- Use recycled paper products in stationery and cloakrooms
- Replace paper or plastic drink cups with china mugs
- Buy fair trade tea and coffee and eco-friendly cleaning products
- Encourage employees to put computers on standby and switch off printers overnight
- Put stickers up reminding people to turn off lights
- Use windows and blinds rather than air conditioning to cool offices
- Consider setting up an employee payroll giving scheme
- Involve employees in decisions about local charity donations
- Consider an employee volunteering event to support a local community cause
- Introduce an employee award for outstanding contribution to the community or the environment

Once you have managed to embed some simple principles into your employee culture, you can think about a more strategic approach to CSR that will directly support your business aims. This might include:

- Collaboration with customers and/or suppliers around new product or service innovation
- Partnership with a national or local charity to directly support their objectives
- Membership in key networks or working groups to contribute and learn from best practice
- Workshops with suppliers to help overcome key challenges in the supply chain
- Increased communication of your CSR approach internally, via website and other external media

Recommended resources

- **Business in the Community (BITC):** BITC is a movement of 700 member companies committed to continually improving their positive impact on society. Their website has a section dedicated to SMEs. www.bitc.org.uk
- **Time Bank:** TimeBank is a volunteer-led charity which matches employee volunteers with local community need for skills and hands-on support. www.timebank.org.uk
- **Chamber of Commerce:** Most regions have an organisation dedicated to helping companies become involved in local causes. Check with your local Chamber of Commerce or other business advice services for local contacts. www.chamberonline.co.uk
- **The Small Business Consortium (SBC):** SBC was established in March 2002 in response to feedback from SME owner-managers who asked for a collaborative approach to CSR by the main SME stakeholder organisations. The Consortium is open to any SME that wants to engage in CSR. www.smallbusinessjourney.com
- **Charities Aid Foundation (CAF):** CAF is a registered charity committed to increasing the flow of resources to the voluntary sector. CAF works in partnership with organisations by providing a range of services including payroll giving though Give As You Earn, matched giving programmes, charity accounts, personal charitable trusts and corporate trusts/foundations. www.CAFonline.org/companies
- **Business Community Connections (BCC):** BCC is a non-profit organisation dedicated to helping charities obtain more support from SMEs. www.bcconnections.org.uk

About the author

Nicky Amos is a recognised expert on CSR with over 15 years' corporate experience gained through her role as Head of Corporate Responsibility at The Body Shop International and over five years spent in management consultancy. Nicky advises multinational companies, SMEs and charities on all aspects of corporate responsibility and is an active speaker on the subject across business, academic and media networks. To learn more about Nicky's work visit www.nicky-amos.co.uk.

Community Interest Companies and CSR

By Julian Smith
Partner, Farrer & Co

Highlights

- The CIC is a relatively new legal form aimed at social enterprises.
- CICs offer significant opportunities for corporate community programmes, and can provide a financial return to your company.
- CICs must be used for community purposes and are regulated.
- CICs can attract external finance and raise funds through commercial trading.

What are CICs?

The Community Interest Company (CIC) is a relatively new type of company, aimed at 'social enterprises'. It became possible to register them from 1 July 2005. It is fairly clear that the Government did not see the CIC as being of use to the commercial sector. However, in our view, the CIC offers companies significant opportunities for their community programmes.

Social enterprises need to reconcile conflicting principles. They are commercial entities, so there is no guarantee that their profits will be dedicated to the public good. On the other hand, as social organisations, they are not focused solely on the financial bottom line; the returns they look for are social as well as financial.

The CIC reconciles these principles in a single legal form. CICs can be private companies (limited either by guarantee or by shares) or public limited companies, in both cases with special features. These features mean that their assets can only be used for community purposes and can only be disposed of at full value if the recipient is either a beneficiary of the CIC's work, or is another similarly asset-locked body.

CICs are regulated. To be registered as a CIC, an applicant must satisfy the CIC Regulator that the company's activities will benefit the community. A CIC will then have to file annual reports with the Regulator, explaining how its activities have benefited the community. These factors provide comfort to philanthropic investors.

On the other side, CICs can offer dividends to equity investors, take loans at commercial interest rates and provide security. Although dividends and interest on loans must be capped (the cap is set by the CIC Regulator and is expected to be generous), a CIC's ability to offer a return on investment makes it a more attractive prospect for commercial investors.

"As one of the first companies to create a CIC, you can position yourself as a leader in a new form of community investment."

What are the opportunities for Companies?

The CIC is a new form. As one of the first companies to create a CIC, you can position yourself as a leader in a new form of community investment. Currently, most companies either run their community programmes 'in-house' or establish a charitable foundation and make donations to it. The CIC offers most of what these forms offer, without some of the downsides.

For instance, a charitable foundation can attract external support and benefit from tax reliefs, but cannot be created in order for it to produce a commercial benefit to its sponsoring company, or easily attract venture capital funding. It must also be independent, with the trustees acting only in the best interests of the foundation, not according to the company's agenda. Furthermore, a charitable foundation cannot undertake commercial trading activities, unless it establishes a subsidiary trading company.

The upside of in-house programmes is that they remain completely under your control, and you can derive as much benefit from them as you want. However, they have difficulty attracting external investment, so their scope for growth (and thus for brand enhancement for you) is limited to the size of the CSR budget.

By contrast, as a separate organisation, a CIC can attract external finance, be it philanthropic, governmental or venture capital, allowing unlimited growth. It can also raise funds through commercial trading. At the same time, it can provide a return to your company, through loan interest, dividend payments and brand enhancement. Provided the CIC's activities benefit the community, it does not matter how much you dictate its activities. In other words, you can both retain control of the organisation and benefit from the growth afforded by external funding.

It is sometimes said that charitable foundations are better because donations can be made tax effectively, via Gift Aid. However, if you finance your CIC as a form of business development expenditure, you should be able to deduct the cost from your profits, giving you the same effect, tax-wise, as Gift Aid.

In conclusion, unlike in-house programmes and charitable foundations, the CIC offers a vehicle for community programmes that allows those programmes to develop a life of their own and yet, at the same time, remain under your control – enabling your brand to enjoy the boost afforded by large-scale social projects. If the project is profitable, it can also give you a financial return.

Frequently asked questions

1. **What does a CIC offer that a non-charitable company limited by guarantee does not?**
   We recognise that companies can – and do – successfully use guarantee companies for CSR purposes. Nevertheless, there are a few things that, in our view, give CICs an edge over them:
   - CICs contain an in-built asset lock. It is possible to create a guarantee company with an asset lock, but it is not an intrinsic part of the format.
   - CICs can attract share capital as well as loan capital, and offer dividends. Guarantee companies can only raise capital by taking loans. Both may accept donations.
   - CICs are approved and monitored by the CIC Regulator, giving your community programmes an official stamp of approval. Non-charitable guarantee companies do not enjoy this endorsement. The CIC Regulator has said that regulation will be light-touch, with his powers of intervention being used only in extremis. So it seems unlikely that a CIC will have to 'pay' for this recognition by subjecting itself to stringent regulation.

2. **Does taking profits from a CIC dilute the brand enhancement aspect of the programme, perhaps even having a negative reputational effect on the company?**
   At this stage, it is impossible to know whether this would happen. That said, our experience is that people want to see social programmes thrive. Indeed, the whole premise of social enterprise is that it is possible for social action to be a game in which both society and the investor win. With charities also becoming more involved in social investment (as opposed simply to making grants), our view is that opinion is changing on this point.

3. **How much benefit can a sponsoring company gain from its CIC before it can no longer be said that the CIC's activities are conducted for the benefit of the community?**
   As a CIC's activities must, as a whole, benefit the community, as a matter of law, this is an important question. The simple answer is that the more successful the social programme, the greater the benefit to the sponsoring company. Provided the success of the programme is put first, we imagine that any resulting benefit to your company (be it through reputation enhancement or financial return) is unlikely to be viewed as disproportionate.

Other points include:

- That Directors could be paid;
- Investments in CICs are tradable although their value will be based primarily upon their capacity to generate income;
- Any assets left on dissolution of a CIC must go to another CIC or to a charity; and
- A CIC can form part of a group structure involving a charity as well as a CIC. However, a CIC cannot be a charity.

Recommended resources

- **Community Interest Companies Regulator:** www.cicregulator.gov.uk
- **Department for Business Enterprise and Regulatory Reform (BERR):** www.berr.gov.uk

About the author

Robert Datnow contributed to this article. Farrer & Co is a London-based law firm that offers wide-ranging specialist advice to a large number of prominent private, institutional and commercial clients. It has a solid practice of innovative solutions for clients across the charitable, not-for-profit and community sectors. To access the full article, visit www.farrer.co.uk.

Philanthropist profile
John Wates

John Wates comes from a family of philanthropists. In 1966, his father and two uncles amalgamated their personal charitable trusts to set up the Wates Foundation. He says: *"As a family, we were brought up in the tradition of the Christian imperative of philanthropy."* John is now the Chairman of the Foundation, which has a capital endowment making grants of up to £3m a year.

Before becoming a philanthropist, John says he was an activist. In his student days, he was a prison visitor and on his last university vacation joined the Washington, D.C. rally for Dr Martin Luther King, when Dr King gave his famous *'I have a dream'* speech.

In the mid-sixties, John qualified as a solicitor and volunteered for the Poor Man's Lawyer Scheme at the Katherine Low Settlement. He was also a member of the Council for Community Relations in Brixton.

John's desire to make a difference has been influenced by spending twenty years as a magistrate in Croydon, where he *"was in weekly contact with people at risk of falling off the fringes of society."*

His parents' generation set the broad areas of interest for the Wates Foundation – tackling social deprivation, near the company's base in South London. The wealth of the family is based on the Wates Construction and Housing Group.

However, the Foundation has always been kept very separate from the company. John explains the challenge this presented: *"To some extent, that worked against us as we had an interest in the built environment and yet were slow in tapping into that area of family expertise. We now have a productive relationship with the Group's Corporate Social Responsibility Strategy Committee."*

John also has his own personal Trust, and has also chaired the Visitors and Friends Committee at the local psychiatric hospital for 15 years. When the hospital closed, he set up a charity to take people into the community. John reflected: *"I suppose that I am probably most proud of the development of our residents and our 100+ staff in developing new ways of helping people with mental health recover as full a life as possible."*

As well as money, John gives his time. He states categorically: "Money without experience and understanding is valueless. The power of ideas is as important as money."

The Wates Foundation trustees insist on visiting projects. No application reaches the Committee without being visited by a trustee or grants committee member. This involves a substantial amount of time, but John insists: "This is how, over many years, we have built up a considerable knowledge of the sector and the people involved."

He enjoys being part of a family of philanthropists. *"It has been a pleasure to find how our generation have shared what might be described as a genetic pre-disposition to philanthropy and how united our thinking has been over many years. The challenge is to try to find a way of encouraging the next – much larger and more physically diverse – generation down the same pathway."*

In the short-term, the Wates Foundation hopes to fund organisations that are delivering high quality and imaginative work which will, in the longer-term, have an impact in delivering effective solutions and raising standards across the sector.

One of the biggest challenges for philanthropists, he says, is not to have the arrogance of "Mr. Moneybags" where everybody is nice to you because you are in a position of power. His years of experience in philanthropy have taught him three key lessons: maintain high professional standards; ensure a personal knowledge and passion about what you are funding; and surround yourself with effective staff. *"The Wates Foundation has been very fortunate in this respect,"* says John.

"Effective Philanthropy is a detailed business – due diligence needs to be done; grants monitored and evaluated; investment and finances very carefully controlled; regulators to be satisfied and a mass of ever-changing legislation to be mastered. I am afraid that only when all that is done professionally, with the help of good staff, can the individual and the trustees have the challenge and fun of trying to leave the world a better place."

▶ **The Wates Foundation:** www.watesfoundation.org.uk

Further resources

Philanthropy funds and social investments

These UK-based organisations are taking new approaches to supporting the third sector, such as social entrepreneurship, venture philanthropy, loans and sustainable finance. Many support causes outside their home country.

See **The Philanthropy Directory** for a full list, at www.philanthopyuk.org.

A Glimmer of Hope www.aglimmerofhope.org
Engaged funder that seeks to make a sustainable difference to the lives of poor rural people in Ethiopia and of socially excluded young people in London.

Absolute Return for Kids (ARK) www.arkonline.org
An international charity which aims to transform children's lives through direct implementation in the areas of HIV/AIDS, children in care and education.

Alfanar www.alfanar.org.uk
Supports projects run by grassroots organisations in the Arab world in a variety of sectors including education, health, human rights and the environment.

Ashoka www.ashoka.org
Ashoka identifies and invests in leading social entrepreneurs. It has invested in more than 1,800 Ashoka Fellows in 60 countries.

Bridges Community Ventures www.bridgesventures.com
A community development venture capital company investing in businesses in the most economically deprived parts of England.

Charity Bank www.charitybank.org
Ethical bank providing deposit accounts for individuals and using some of the interest to lend to charities on affordable terms.

Children's Investment Fund Foundation www.ciff.org
CIFF supports projects that aim to have a lasting impact on people living in poverty in developing countries.

Coutts & Co. www.coutts.com/philanthropy
Coutts offers advisory services and donor advised funds for clients interested in microfinance and the environment.

Global Giving www.globalgiving.co.uk
Website connecting individual and institutional donors directly to social and economic development projects and environmental causes around the world.

Impetus Trust www.impetus.org.uk
First general purpose venture philanthropy fund in the UK.

MicroLoan Foundation www.microloanfoundation.org.uk
Provides microfinance services in Malawi, Zambia and the Philippines.

Oxfam Projects Direct www.oxfam.org.uk/direct
A web-based programme that allows donors to invest directly in a broad range of Oxfam-supported development projects around the world.

Private Equity Foundation www.privateequityfoundation.org
The fund invests in charities serving children, community support and education.

SHINE (Support and Help IN Education) www.shinetrust.org.uk
Venture philanthropy fund investing in education to help disadvantaged children and young people.

Sutton Trust www.suttontrust.com
Venture philanthropy fund investing in educational opportunities for young people from non-privileged backgrounds.

The Big Give www.thebiggive.org.uk
Website that allows donors to search for and donate to charitable projects ranging from £100,000 to £10m.

The Funding Network www.thefundingnetwork.org.uk
Member-driven giving network of individuals from a variety of backgrounds who come together to fund social change.

Triodos Bank www.triodos.co.uk
A European-wide ethical bank. It offers a variety of savings and investment products for individuals, charities and social businesses.

Venturesome www.venturesome.org
Offers mezzanine finance – loans and investment support that fill the gap between grants and bank loans – to charities and social enterprises.

Donor support and advisory services

The organisations below are a good starting point for your journey in philanthropy and social investment. They provide support services and products for donors, including bespoke philanthropy advisory services and networks.

See **The Philanthropy Directory** for a full list, at www.philanthopyuk.org.

Asian Foundation for Philanthropy www.affp.org.uk
AFP helps British Asians to make a difference to social and economic development in India.

Association of Charitable Foundations www.acf.org.uk
ACF is the membership association for UK grant-making trusts and foundations. Its members include individuals and companies using a charitable trust.

Charities Aid Foundation www.cafonline.org
CAF offers various giving mechanisms, such as the CAF Charitable Trust and the CAF Account, as well as provides advisory services.

Charities Trust www.charitiestrust.org
Charities Trust is a national payroll giving and corporate donation management agency.

Carrington, David www.davidcarrington.net
UK-based independent consultant working with individual philanthropists and organisations wishing to encourage new philanthropic initiatives.

Community Development Finance Association www.cdfa.org.uk
CDFA is the trade association for community development finance institutions (CDFIs). CDFIs provide capital and support to develop and create wealth in disadvantaged communities.

Community Foundation Network www.communityfoundations.org.uk
UK-wide national network of community foundations, which promote and support local voluntary and community activity, including the bespoke management of donors' funds.

Coutts & Co www.coutts.com/philanthropy
Coutts offers a range of philanthropy advisory services including bespoke advice on creating giving strategies; education and networking with experts and other donors through the Coutts Forums for Philanthropy and Coutts Handbook for Philanthropy; and opportunities for collective giving through donor advised funds.

European Venture Philanthropy Association www.evpa.eu.com
European peer network of venture philanthropy funds and other organisations promoting venture philanthropy.

Geneva Global www.genevaglobal.com
Geneva Global provides independent research, advice, and grant management for clients.

Giving in Europe www.givingineurope.org
Online resource for donors and charities which advises on making cross-border gifts.

Institute for Philanthropy www.instituteforphilanthropy.org.uk
The Institute provides various donor education programmes.

Intelligent Giving www.intelligentgiving.com
The Intelligent Giving website aims to help donors "give with confidence". It includes charity profiles and ratings, as well as a charity blog.

Just Giving www.justgiving.com
Online fundraising portal. Donors can donate directly to charities registered with the site as well as create their own fundraising pages for challenge events and other initiatives.

Lloyd, Theresa www.theresalloyd.co.uk
UK-based independent consultant advising individuals and families wishing to establish or develop a strategic approach to their charitable giving.

New Philanthropy Capital www.philanthropycapital.org
NPC provides independent research and tailored advice on the most effective and rewarding ways to support charities.

Philanthropy UK www.philanthropyuk.org
Online resource providing free and impartial advice to help individuals get started in philanthropy.

Pilotlight www.pilotlight.org.uk
Pilotlight recruits and manages teams of senior business people to coach charities through the process of building measurably more sustainable and efficient organisations.

Prism the Gift Fund www.prismcharity.co.uk
Prism administers and monitors donations from individuals, companies and trusts/foundations. It advises on tax-effective charitable giving and promotes and assists in share-giving processes.

ShareGift www.sharegift.org
ShareGift provides a charity share donation scheme, targeting in particular unwanted holdings which are too low in value to be worth selling.

SMART Fund www.cranfieldtrust.org
A venture philanthropy model that finances a national programme to benefit non-profits by providing free management consultancy support.

Stewardship www.stewardship.org.uk
Stewardship is a Christian financial support services charity which aims to facilitate effective giving.

Synergos Global Philanthropists Circle www.synergos.org/philanthropistscircle
The GPC is a network of leading international philanthropists dedicated to eliminating poverty and increasing equity worldwide.

The More You Give www.themoreyougive.co.uk
The More You Give is a bespoke match-making service, working with wealthy individuals, and national and global companies to develop their philanthropy strategies.

UK Social Investment Forum www.uksif.org
UKSIF promotes and encourages the development and positive impact of socially responsible investment (SRI). Membership is open to individuals.

Glossary

Please see Philanthropy UK's Giving Glossary for a full list, at www.philanthopyuk.org.

Capacity building – Investing in the core costs of an organisation, such as its operational capacity and long-term sustainability, rather than supporting specific projects.

Charitable trust – A trust is an arrangement whereby a person or persons (the trustees) is made the nominal owner of property for the benefit of another person or group of people (the beneficiaries). Where the trust is charitable, the beneficiaries are not named and the purposes are public.

Community development finance – Providing debt and equity finance (loans and shares) in communities or markets where mainstream financial services are weak and which are said to be 'undercapitalised'. Community development finance provides financial services for for-private-profit businesses working in disadvantaged neighbourhoods and for social enterprise activity.

Community foundation – A grant-making charity established to strengthen local communities, creating opportunities and tackling issues of disadvantage and exclusion. They provide products and services for individual and corporate donors.

Core costs – The overhead costs of an organisation, as opposed to those specific to a project. Whilst these costs do not directly produce outputs of charitable activity, they are necessary to deliver these activities. Examples include general management staff, training, fundraising and governance.

Expendable endowment – An expendable endowment fund is a fund that must be invested to produce income. Depending on the conditions attached to the endowment, the trustees will have a legal power to convert all or part of it into an income fund which can then be spent. However there is no actual requirement to spend the principal for the purposes of the charity unless or until the trustees decide to.

Foundation – The terms 'trust' and 'foundation' are often used interchangeably. All charitable foundations are trusts. A foundation is a trust whose income derives from an endowment of land or invested capital.

Full Cost Recovery (FCR) – Under FCR organisations and their funders ensure that the price of contracts and grants reflects the full costs of delivery, including the legitimate portion of overhead costs.

Legacy – A gift of money or property by Will.

Leverage – A method of grant-making whereby an investment is made in a charity or other organisation with the express purpose of attracting funds or other support from additional sources.

Microfinance – A term for financial services aimed at micro-enterprises and individuals, usually in under-invested communities, including small loans, savings facilities with no (or a very low) minimum deposit and other low-cost financial services.

Mission-related investment (MRI) – Making investments from either endowment or income directly in pursuit of an organisation's charitable objectives, which are expected to generate a financial return. Examples include low-interest loans to non-profit organisations. Also known as programme-related investment (PRI).

Objects – Objects is the term used by the Charity Commission to describe and identify the purpose for which the charity has been set up. They do not say what the organisation will do on a daily basis. A charity's objects must be exclusively charitable.

Operational charity – An operational charity, as opposed to a grant-making charity, is one which carries out charitable activities directly. However, some operating charities make grants as well, whilst some grant-making charities also operate services, such as schools or almshouses.

Permanent endowment – Permanent endowment is property of the charity which the trustees may not spend as if it were income. The trustees cannot normally spend permanent endowment without authority from the Charity Commission.

Philanthropy – The word philanthropy is originally Greek and means 'love of mankind'. Today, it is a broad term used to cover voluntary giving of money, goods, services, time or expertise by an individual, group or organisation to promote the common good. Recipients are often registered charities, but can also be individuals, groups or organisations. Financial donations can take many forms including cash grants, loans, and other types of financing.

Restricted funds – Assets or income which are restricted for a particular use, such as a donation made to a charity specifically for a bursary or a named project run by the charity.

Social enterprise – A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

Social investment – A way of creating new or scaling up existing streams of financing for civil society organisations and social enterprises as well as other initiatives that seek to offer sustainable solutions to development. Strategies employed include mission-related investment, venture philanthropy, institutional building and social enterprise development programmes through vehicles such as micro-lending and patient capital.

Socially responsible investment – Ethical, socially responsible, or sustainable investment are terms used to describe any area of the financial sector where the social, environmental and ethical principles of the investor (whether an individual or institution) influence which organisation or venture they choose to place their money with.

Spending out – Spending out refers to a time-limited foundation spending all or part of its capital assets in furtherance of its charitable objectives.

Third sector – The collective name for charities, voluntary, non-government and campaigning organisations. Also known as the voluntary and community sector (VCS).

Tithe – To contribute a tenth of one's annual income to charity, especially for the support of the clergy or church.

Unrestricted funds – Funds which can be used for the general purposes of a charity.

Venture philanthropy – An approach to charitable giving that applies venture capital investment principles – such as long-term investment and hands-on support – to the citizen sector.

Contacts

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Philanthropy UK is the leading resource for free and impartial advice to aspiring philanthropists who want to give effectively. We also publish the quarterly Philanthropy UK Newsletter, and companion News Bulletin, read in over 60 countries.

An initiative of the Association of Charitable Foundations (ACF), Philanthropy UK was founded in 2001 and is supported by a range of charitable foundations with funding from the Office of the Third Sector in the Cabinet Office.

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Coutts philanthropic heritage is evident throughout our 300 year-old history. Our most famous philanthropist, perhaps, is Angela Burdett-Coutts, one of the great Victorian philanthropists who involved herself, most discreetly, in a range of charitable interests.

Today, we understand that clients would like more guidance in tackling the unique challenges they face in giving their money away – so that it is effective and rewarding. From setting up trusts/foundations to helping clients create their own personal giving strategies to offering opportunities to learn, share ideas and experiences through the Coutts Forums for Philanthropy, we offer a complete service to assist clients to make a bigger difference.

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