**Towards the right funding mix for charities: how charities need to consider the full range of options to build their resilience**

If charities are to fulfil their ambitions on a sustainable basis it is important for them to diversify their funding sources and consider the full menu of options now available.

Evidence shows that funding is the biggest issue for charities especially those of small to medium size. How to fund core activities is keeping CEOs awake at night. Government financing is in shorter supply, contracts are more difficult to win, and traditional donations, often tied to specific programmes, can dry up at any time. When income is taken away Charities have to look at an immediate reduction in core costs. They may advertise for "fundraising trustees" in the hope of new funds, or keep going back to the same pool of donors or grant-making organisations, but is that enough and is it sustainable?

It may not always be possible but I would suggest this damaging cycle of income and cost reduction could be smoothed over with a more diverse funding approach. The entrepreneur behind an ambitious early stage business venture would explore as many sources of finance as possible. In fact, that is often the priority activity until the right funding is secured. Charity leaders may find it extremely difficult to free up the time to do this but if well focused it could be time very well spent. Even if the funding isn't right for the charity or the investor it could help prepare the ground down the line. One contact leads to more contacts and it's the start of building a healthy network of possible funders and social investors.

Understanding and investigating new sources of finance is a vital step towards addressing the growing gap between the rising demand for a charity's services and their increasingly stretched funding. And there is now a good menu of options. To name just a few: crowd-funding communities and platforms are growing, more social investors are supporting early stage ventures, charity banks are providing substantial loans and there are a number of grant-making bodies with programmes designed to fund and support small to medium sized charities across the UK.

Corporate social investment is getting more sophisticated. As part of a longer term CSR strategy, businesses are looking to fund effective multi-year partnerships with charities of all sizes through collaborative structures. These can work in many ways. For example, there are structures which are designed to help the local communities around a business's offices, and engage their own employees in mentoring and skill sharing. Company Foundations are also being formed to create the creative space, skills and structures required to focus on social returns rather than profit.

Lending is another source. Charities may be reluctant to consider loans if they have always relied on grants or contracted work. Of course, stringent due diligence needs to be passed, but lending is an option which could be explored by a greater number of charities.

Social investment in the form of unsecured loans could be used to finance many situations including bridging loans (for example to plug the gap ahead of a grant being available), growth capital to build core operations or scale, match funding, or simply helping a charity through a cashflow shortage. If the charity needs support there are many organisations providing access and "investment readiness" advice.

Wealthy private donors are also an important part of the mix. Rather than being the big "cheque writers" at fundraising events, many see themselves as investors and entrepreneurs. Wealthy donors are looking for exciting opportunities to make a real difference and get some kind of multiple payback on their investment. This is not in the form of pure financial ROI but in terms of understanding the difference their funds have made to the organisation or its beneficiaries. These entrepreneurial investors are attracted by greater "bang for the buck" and a strong multiplier effect. For example, using their funding to generate additional finance from others, making improvements to charity efficiency or their core capabilities, and seeing evidence through impact stories and key data.

New funding doesn't have to come from external sources. What does the charity own or have access to, in terms of services, knowledge or other assets, which could be of value to potential buyers? New revenue streams could be untapped by thinking creatively about matching a charity's strengths to different market opportunities.

It may help charities, and to some extent social enterprises, to pay more attention to longer-term financial strategy and business planning rather than just short term budgeting. Time is always scarce but inadequate funding soaks up this scarce time even more. All stakeholders want to see high impact but how will that impact be financed over time? What is the optimal funding mix both now and in the future, and in terms of core and programme activities? What are the right sources for this optimal mix? This is an important part of good strategy and governance and a topic which a Board should drive and be able to contribute to.

In summary, charities should investigate the full menu of financing options available so they can diversify income sources, reduce risk and establish a more sustainable operation. The unpredictable income which comes with the territory of being a charity makes efforts towards more predictable funding even more important.

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