Cyswllt Amgylchedd Cymru | Wales Environment Link

Research into innovative funding mechanisms for environmental projects

Report July 2021

Mewn Partneriaeth â Llywodraeth Cymru
In Partnership with Welsh Government

CRONFA DREFTADAETH HERITAGE FUND

the funding centre

Research into innovative funding mechanisms for environmental projects

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1. Summary

- Wales Environment Link (WEL) has commissioned this report to find practical ways for the environmental NGO (eNGO) sector to broaden its options for funding and to learn from innovation happening in other sectors or other parts of the UK.

- There are some exciting developments in fundraising and funding that may have been accelerated during the last 18 months, particularly in terms of digital fundraising from individuals. As event fundraising and trading have all but stopped at times, many charities have done well to shift their fundraising to digital platforms or have tried forms of fundraising that are new to their organisation.

- NCVO analysis on 2017/2018 income in the voluntary sector across the UK showed how environmental causes, more so than any other, are funded by public donations, and it is the part of the voluntary sector that receives the least amount of government funding.

- The data suggests the wider environmental sector also secures the majority of its income from the public. This would suggest that diversifying the ways for individuals to give should be high on the list for many eNGOs in Wales. It is in the area of **individual giving** that the most innovation is happening in the wider voluntary sector. There are the opportunities presented by new technology that go beyond contactless giving, such as the use of artificial intelligence, virtual reality, and blockchain. However, such innovations are largely the domain of the big national charities and are still the exception due a lack of skills, capacity and knowledge in smaller organisations.

- The trend towards more diverse funding in Wales is clear, as the share of income derived from **public sector sources** has decreased steadily in Wales over the last decade. However this positive picture masks the very real challenges organisations face as they have to chase more and more short-term, project funding. Anecdotally, it appears that although funding is more diverse, the overall income of the sector has not grown.

- Following our departure from the EU, it still remains to be seen how EU successor funds will benefit Wales. With the 'green recovery' firmly on the agenda, and Welsh Government's proactive approach to looking at innovative financing models for eNGOs, it would not be out of the question to assume there may be new funding available on the horizon. The sector needs to be prepared to make the case as to how funding may be spent well.

- Grants from **charitable trusts and foundations** provide the majority of income for many smaller eNGOs in Wales and across the UK. It is difficult to be innovative with trust fundraising, but sometimes it is the funders themselves that are innovating. The Covid-19 crisis has seen funders work closely together, pooling their

resources for greater impact. The Green Match Fund earlier this year is just one example (see Example 5 below).

- While **corporate fundraising** may not form a significant proportion of fundraised income, given the profile of the climate crisis and growing understanding of the nature emergency, it is reasonable to assume that the next decade will see an increase in investment in the environment and sustainability more generally, featuring more heavily in future CSR policies. There are signs that more creative partnerships are being developed.

- It is clear that generating **commercial income** from trading activities is much easier for organisations with strong assets. For example, those with land, property or other physical assets lend themselves well to creating opportunities around tourism, retail, catering or rental income. However, for those eNGOs with intangible assets such as staff expertise, consultancy or training services is an option.

- **Offering training or consultancy** is a popular commercial approach and one utilised currently by some eNGOs, in particular those with specific expertise around a particular species for example. It means that charities can raise awareness of their activities at the same time as raising unrestricted income.

- An **investment-based approach to financing conservation** has not been explored in detail in this report as Welsh Government officials, in collaboration with Natural Resources Wales, Dwr Cymru, Office of the Future Generations Commissioner and eNGOs, have already come together to co-produce an innovative funding framework. In time, this group will make further recommendations for eNGOs to consider around new ways to bridge the funding gap.

- In order for fundraising to be a success, it needs **sustained investment** over a long period of time. It isn't possible to acquire donors, and retain them, without some level of investment in resource and expenditure budget. Many of the examples of innovation throughout this report are from large national charities with access to considerable resource. Unfortunately, many Wales-based eNGOs are simply not big enough to consider investing in many of the innovations mentioned, which often need scale and reach in order for them to become a success. Without external support, smaller eNGOs will struggle to innovate with fundraising.

- If the decision is made to invest in fundraising, organisations can expect to see **return on investment** in the longer-term, with recent benchmarking reports noting that the average return on investment for every £1 spent is £6.83 (including legacies).

- It is becoming increasingly common for funders, in particular statutory and lottery funders, to seek proposals which require a **partnership approach**. Collaboration could be one way to address capacity issues (e.g. shared resources or services). Partnership working can address issues such as scale, reach and impact of projects, making them more attractive to funders or investors.

- We have sought to understand the wider operating context and the impact of Covid-19, in addition to the current way in which the sector is funded. The impact of Covid-19 has been acutely felt in the sector and the negative effects could be long-lasting. The areas of income generation that typically provide unrestricted funds supporting core costs, are those that have been hardest hit by the pandemic, including trading income and fundraising from the public.

- It can be argued that the lack of stability of core funding is a factor which hinders innovation in . By having core funding in place, it can allow fundraisers and other staff within an organisation the time and capacity to diversify income streams, test and develop more innovative funding ideas and take risks.

- Other sectors, for example the arts, culture and sports, receive significant core funding from government grants. This level of public funding plays a vital role in covering core costs, ensuring that Welsh Government objectives are met and enabling recipient organisations the capacity to focus on generating other funding from elsewhere.

- However, in the eNGO sector, statutory and lottery funders have moved away from a model where a core grant is given, to more of a project-by-project approach, with very few multi-year awards being made. This short-term project funding means organisations lack the capacity to explore new funding methods due to the time spent on securing these project grants.

- 'Resilience' programmes in the arts and heritage sectors have provided much needed investment for these organisations to develop and test new ways of fundraising. A similar scheme specifically for the environmental sector in Wales, alongside improved models for core funding from public sources, might provide the boost needed to accelerate the development and testing of innovate funding mechanisms.

- Wales suffers from a lack of skilled professionals in fundraising, at all levels, making recruitment into these posts very difficult. Learning from Arts & Business Cymru's success over the past 10 years, a sector-specific internship programme to attract recent graduates into a career in fundraising could be very beneficial in both the short and long-term to eNGOs in Wales. WEL might be seen as the natural facilitator of this provided it can build strong partnerships with Welsh universities and encourage more talent into the sector.

2. The project brief

Wales Environment Link (WEL) has commissioned this report to find practical ways for the environmental NGO (eNGO) sector to broaden its options for funding projects. WEL recognises that many eNGOs in Wales rely on a small number of large trusts, or public funding, to fund their work. Core funding is increasingly scarce and project funding is also increasingly difficult to identify.

The objectives defined in the brief are:

- To identify methods or models for funding environmental projects, potentially run in partnership, to include private and public funding mechanisms.
- Look to other sectors (e.g. the arts sector) to see what can be learned.
- Provide practical recommendations that eNGOs can use to broaden their funding opportunities.
- Scope out some options for shared project development resources that eNGOs could draw upon to improve their capacity to develop multi-partner projects, particularly if they don't employ dedicated project development staff.

3. Approach and methodology

Innovation can be defined as the creation of something new – this could be a new product, a new process or way of doing things. Methods of income generation that are tried and tested in one sector may be innovative for the eNGO sector. What is innovative for one organisation might be business as usual for another. This report has taken a very broad approach to the definition of innovation.

Desk research was undertaken to look at the wider funding context, the impact of Covid-19 and difficulties with securing core funding. Using Charity Commission data, research also took place into how into how WEL members are currently funded. Following this, a review was undertaken of the different funding sources that are currently available and where applicable, what innovation is taking place within these income streams.

Figure 1 below describes the whole spectrum of income generation in not-for profit organisations. We did not explore in depth the income derived from purchasers or consumers (e.g. statutory contracts, or commercial income).

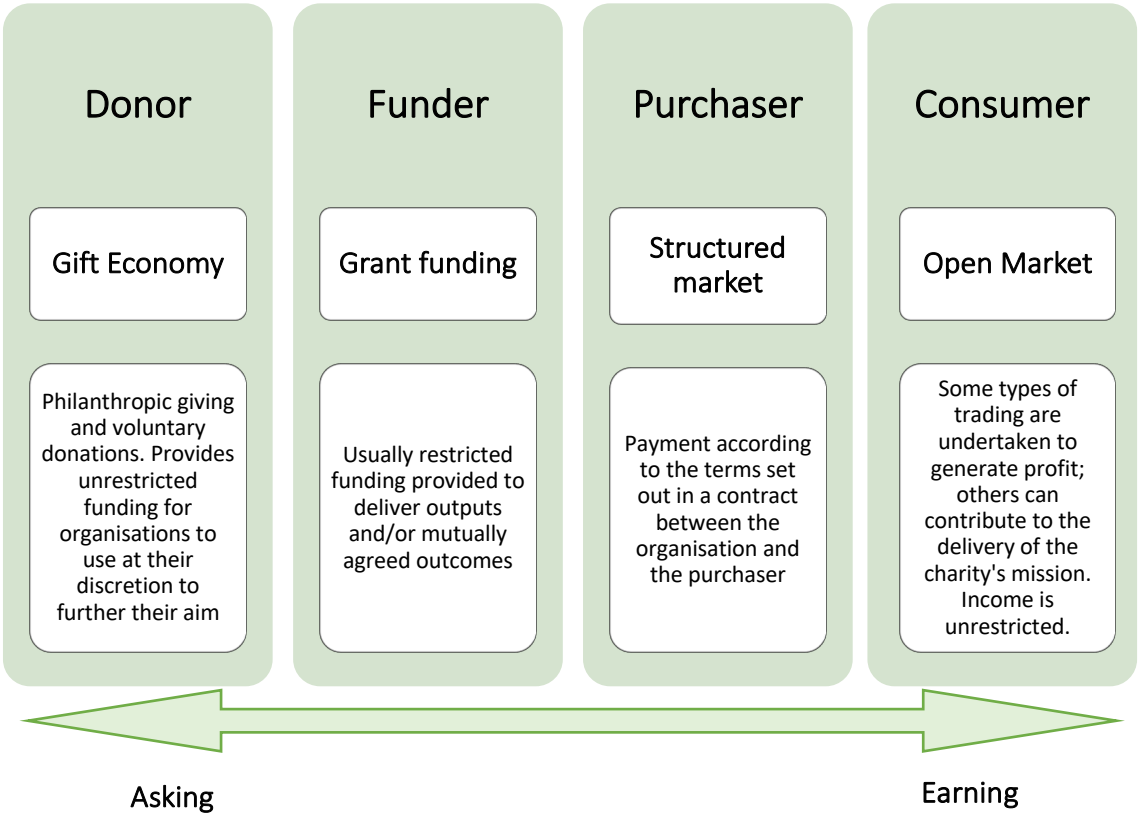
Based on our research, a set of recommendations has been proposed for WEL and eNGOs to consider to broaden their funding base. We have also outlined options for shared project development resources.

As with any report of this nature, there will be limitations. For example, due to the diversity of eNGOs in Wales, not all recommendations will be appropriate. Each eNGO will be very different in terms of its capacity, audience size, appetite for risk and quality of its assets.

This latter element (both tangible assets e.g. land or buildings and intangible assets e.g. staff expertise) could be key to generating income across several areas of fundraising.

Many of the examples used to demonstrate innovation are from larger charities with access to considerably more resource. For smaller charities, the innovation may lie in trying something that works elsewhere but is new for them (for example legacy marketing). However, this report in not intended to be an exhaustive list of 'have you tried this…?' but simply recognises the fact there are many ways to generate income.

Figure 1: the income spectrum (Source: NCVO)



4. Market context and impact of Covid-19

The impact of Covid-19 on the voluntary sector has been researched, surveyed and reported on at several points throughout the past 16 months since the pandemic began in March 2020. It still remains an emerging picture and we are likely to see the impact of the crisis for many years to come. Research to date has unsurprisingly revealed that the crisis has had a very negative financial impact for a lot of charities.

Pro Bono Economics (PBE)[1] has been running a Covid Charity Tracker Survey since April 2020, in partnership with the Charity Finance Group and the Chartered Institute of Fundraising. This Tracker has provided live insight into the impact of the coronavirus crisis on charities, from client demand for their services to their own financial situation and how they are adapting to the challenge. Their findings reveal that charity finances have been seriously impacted by the crisis, and the damage is expected to last well into 2021 and beyond. However, while over half of charities saw a decline in their income over 2020, their survey results showed that almost one in four charities saw their incomes increase from the year before. This can be attributed to additional statutory income and an increase in donations from charitable trusts and foundations, which are the two income streams that have increased since the start of the crisis.

A Chartered Institute of Fundraising[2] survey carried out in 2020 confirms this. Their results showed that 84% of charities reported a decrease or a significant decrease in their total income during lockdown. However, there were also major discrepancies between income sources. On average, charities reported that their trading income was 72% lower than expected, and voluntary income was 14% lower. This is juxtaposed with charities reporting that grants from trusts and foundations were 29% higher than expected and government grants and contract 51% higher than expected.

At the very start of lockdown, Charities Aid Foundation (CAF) began frequent charity surveys and by June 2020, over half (53%) their respondents reported a decrease in donations to their charity[3]. However, CAF's special report[4] in October 2020 revealed that despite the crisis, the overall proportion of people who donated money to charity has remained broadly in line with previous years. They also highlight that between January and June 2020, the public donated a total of £5.4 billion to charity – an increase of £800 million compared to the same period in 2019. Unsurprisingly, they also report that 'hospitals and hospices' including NHS charities saw the biggest increase in support.

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[1] Pro Bono Economics (2021), *The Charity Sector through Covid* . Available at: https://www.probonoeconomics.com/the-charity-sector-through-covid

[2] Chartered Institute of Fundraising (2020), *Impact on the charity sector during coronavirus - research report June 2020* . Available at: https://www.institute-of-fundraising.org.uk/news/charities-are-facing-a-124bn-shortfall-in-income-for-the-year/

[3] CAF (2020) *June 2020 CAF Charity Coronavirus Briefing: 3 months into lockdown, how are charities in the UK faring?* . Available at: https://www.cafonline.org/about-us/publications/2020-publications/coronavirus-impact-on-charities

[4] CAF (2020) *UK Giving and Covid-19, a special report* . Available at: https://www.cafonline.org/about-us/publications

It is clear that the financial impact of the pandemic on the wider third sector has left many organisations struggling, scaling back their operations as income and staffing levels decline.

The impact of Covid-19 on the eNGO sector specifically was researched by the Funding Centre in a report commissioned by Natural Resources Wales (NRW) towards the end of 2020[5]. Again, the concerns mainly relate to funding.

The report notes how many of the interviewees reported a considerable drop in income over the period and expressed concern that it may take some time for the sector to recover. Linked to this, there has been an inevitable loss of engagement with volunteers, members, and other stakeholders, which has implications on short and longer-term income streams. A series of quotes from interviewees below provide a sense of the overall picture:

> *"There has been a significant drop in income. For example, a major corporate sponsor cut their support by 50% overnight"*
>
> *"Went from break-even to 650k deficit and all staff were furloughed except for a skeleton team"*
>
> *"Big impact on membership. Had quite a few cancellations initially. Also lost out on all the donations that would normally be generated through visits and events"*
>
> *"All education, outreach, marketing and events staff were on furlough, so this has had a big impact on engagement. We project somewhere between a 30-45% loss of income, depending on how the economy performs over the next couple of years"*
>
> *"Massive initial impact as our visitor centre closed, our income fell by 40% and we had to furlough all of the staff associated with the attraction side of the business".*

Not all the eNGOs who participated in this particular report noted such a negative impact on their funding. It is worth noting that those organisations who had made the effort to diversify income before the pandemic, have actually been the hardest hit, because shops and other trading activities have had to stop.

The ability to weather such crises will depend largely on organisations' overall financial resilience, including their levels of reserves. For the wider third sector, it appears that the smaller organisations are most at risk in this respect. Lloyds Bank Foundation[6] have been monitoring the impact of Covid-19 on their grant holders, who are all charities with an income of less than £1 million per annum. They report that over 50% of their grant holders

[5] The Funding Centre (2020) *Green Recovery: supporting the environmental sector in Wales* . Available at: https://naturalresources.wales/about-us/strategies-and-plans/green-recovery-supporting-the-environmental-sector-in-wales/?lang=en

[6] Lloyds Bank Foundation (2020), *Charities responding to COVID-19* . Available at: https://www.lloydsbankfoundation.org.uk/covid-19/covid

have less than 3 months of operating costs in reserves. They also note that even for those with reserves for 3-6 months, the anticipated prolonged impact on income alongside sustained pressures on demand will draw down on these reserves in the medium to long-term.

Within the eNGO sector, the Wildlife and Countryside Link (WCL)[7] survey early in the crisis reported that over a quarter said they were either at high risk of becoming financially unviable in the coming months or confirmed that they have less than 4 months' worth of financial reserves to survive on. The data from a WEL survey in July 2020[8] showed that 3 out of 11 respondents did not have at least 4 months' reserves.

The impact of the Covid-19 crisis, in particular on core funds, and as a result on charity reserves, is significant. The areas of income generation that provide unrestricted funds are precisely those that have been hardest hit by the pandemic, including fundraising events, corporate fundraising and trading income. While some eNGOs have mitigated this threat through the Government's Coronavirus Job Retention Scheme and other emergency funds, the effect will be undoubtedly be long-lasting.

[7] Heritage Fund (2020), *eNGO Coronavirus Impact Survey Report, March 2020* . Available at: https://www.heritagefund.org.uk/publications/engo-coronavirus-impact-survey-report-march-2020

[8] Wales Environment Link (2020), *Summary of impacts of COVID-19 on WEL members*. Available at: https://business.senedd.wales/documents/s103046/CP%2005a%20Wales%20Environment%20Link.pdf.

5. Funding core costs and what it means for innovation

It can be argued that innovation in funding is more challenging if an organisation does not have the stability of having a large proportion of its core funds covered. By having core funding in place, it allows fundraisers and other staff within the organisation the time and capacity to diversify income streams, test and develop more innovative funding ideas. A stable organisation is much more likely to be open to risk, and be able to manage project failure. An organisation is less likely innovate if it won't accept that some of the new things it tries will not work. On the other side of the debate, there are those that believe the lack of stability of not having core funding drives the need to diversify and innovate.

Core funding is the holy grail in fundraising and there has been much debate over many years within the voluntary sector and with funders alike. In other sectors, such as the Arts and Culture, core funding is largely provided by significant government grants. This level of public funding plays a vital role in covering core costs, ensuring that Welsh Government objectives are met and enabling recipient organisations the capacity to focus on generating other funding from elsewhere. The Arts Council is responsible for distributing Government grants and do so to their chosen 'portfolio' organisations on a 5-year term, providing security and stability on a much longer-term basis than seen in other sectors. This is one reason why many arts organisations have been able to build their fundraising teams, and thus a diverse range of income streams.

However, in the eNGO sector, statutory and lottery funders have moved away from a model where a core grant is given to fund the basic operating costs, to more of a project-by-project approach, with few multi-year awards being made. This model means that funding is restricted with only a small proportion allowed to be spent on the overheads associated with delivering the specific activity or project. This inevitably favours larger organisations with the capacity, and financial expertise, to manage budgets in this way.

The Funding Centre report[9] in 2020 notes that project funding is seen as inefficient by eNGOs particularly when the funding is only short term. This is due to the time spent completing often complex application forms, and managing the risk around failing to secure that funding. Unfortunately, statutory funders are increasingly moving to 1-year grants and contracts, which means that organisations have to manage the administrative burden and difficulties of short-term project staff recruitment, risk of failing to secure ongoing funding, and the closing down of projects only to set them up again the following year. It could also be said that this approach to funding is discouraging collaborative behaviour as organisations compete for limited funds.

It should be noted that the issues outlined above are not specific to the eNGO sector. Community Foundation Wales interviewed more than 100 charities and community

[9] The Funding Centre (2020) *Green Recovery: supporting the environmental sector in Wales*

groups across Wales in 2019 and published their results in their *Loud and Clear* report[10]. 91% of interviewees cited funding as their biggest issue, and specifically they talked about access to core funding and the desire for longer-term funding.

The Funding Centre report highlights that all eNGO stakeholders involved felt the provision of core funding from Welsh Government could be the single most important step to safeguard the stability of the sector and ensure it can withstand future challenges.

To use the Arts and Culture sector as a comparison again, there is a concern that many arts organisations are too reliant on public funding. In response to this, there have been many initiatives to support the sector to broaden their funding base. The Arts Councils in both in England and Wales have invested heavily in 'Resilience' programmes, supporting organisations to become more financially sustainable through training staff and consultancy. Similarly, the Heritage sector has seen several resilience programmes (for example Catalyst Cymru – Heritage Fundraising 2014-2018), supporting organisations to develop their income generation strategies through training and consultancy. The evaluations of these programmes have shown them to be successful, with the latter reporting[11]:

- 44% of organisations noted immediate sustained or increased income as a result of Catalyst.
- 85% expected sustained or increased income from private sources in the next 12 months.

Investment in a similar programme specifically for the environmental sector in Wales, alongside improved models for core funding from public sources, might provide the boost needed to accelerate the development and testing of innovate funding mechanisms.

While many organisations recognise the need to invest in fundraising, they are often hampered by the lack of skills and expertise to do so. Unfortunately, Wales has always suffered from a lack of skilled professionals in this area, at all levels and across all types of fundraising, making recruitment into these posts very difficult. Using the arts sector as an example again, Arts & Business Cymru recognised this almost a decade ago and in response created a very successful 'Creative Internship' programme to address this issue (see Example 1 below). This type of graduate internship scheme could be very beneficial in both the short and long-term to the eNGO sector and WEL might be seen as the natural facilitator of this provided it can build strong partnerships with Welsh universities.

[10] Community Foundation Wales (2020) *Loud and Clear*. Available at: https://communityfoundationwales.org.uk/changing-lives/loud-and-clear/
[11] https://wcva.cymru/projects/catalyst-cymru-resilient-heritage/

EXAMPLE 1: Arts & Business Cymru's Creative Internship Programme

Currently funded by the Moondance Foundation, the scheme aims to attract recent graduates into a career in fundraising and places them in a 10-month fully paid internship into arts organisations as trainee fundraisers. Since the programme began, 24 internships have been completed and a further 5 are currently in their placement. Each intern is supported with a package of mentoring from a senior professional in the field and access to free training. The programme has received funding support in previous years from Welsh Government, Arts Council Wales, National Lottery and Garfield Weston Foundation, among others. This growth in the Wales-based workforce has benefitted the profession across all causes as fundraisers may not necessarily stay within the arts.

6. WEL member financial overview

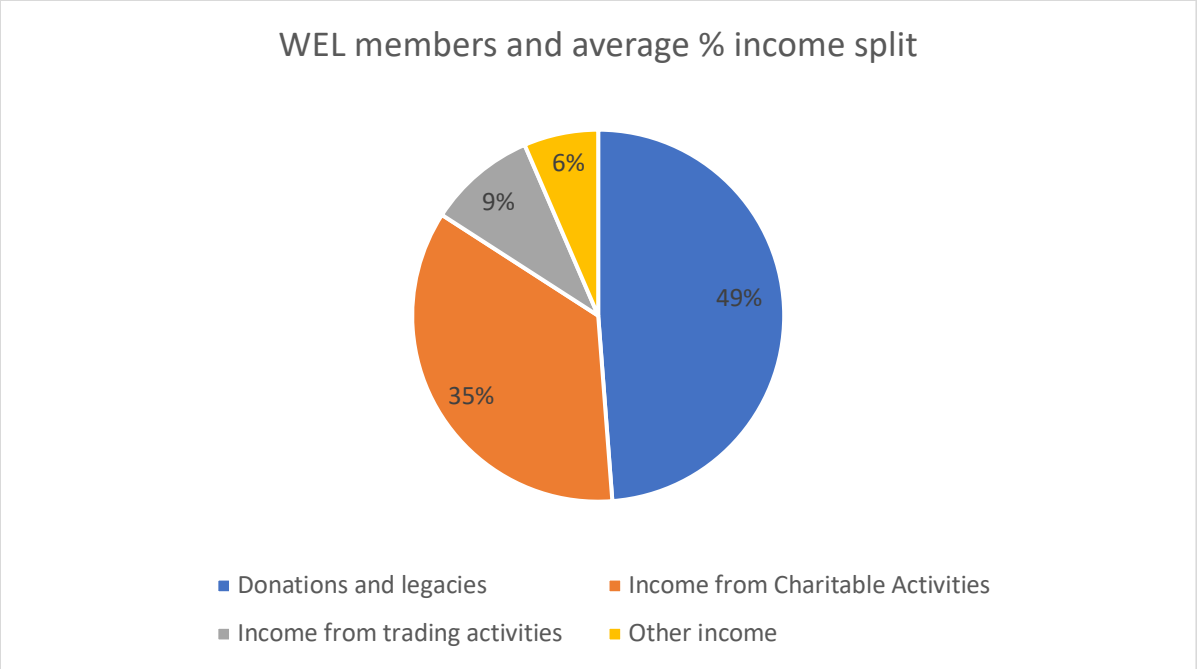
The Wales Environment Link (WEL) members are as diverse as the wider eNGO sector itself. They vary significantly in size with total annual income ranging between just under £100,000 to £681m. Some are place-based charities, with land or other physical assets, while others are campaigning organisations, or charities dedicated to a particular species on land or at sea. Some are Wales-based and only working in Wales, while other are national charities, based across the border but work in Wales.

The nature of such diversity within the eNGO sector makes it difficult to make generalisations about they way they are currently funded. An NRW commissioned report by The Funding Centre[12] in 2020 noted some evidence from a series of interviews with WEL members that the financial strength of those exclusively based in Wales, is poorer than those with an English headquarters, and they are possibly less effective at fundraising than those who have a strong presence in England.

The most recently published accounts with the Charity Commission of 25 member charities of WEL were researched to gain a clearer insight to their current funding position. The reported income therefore, will not have been significantly affected by the Covid-19 crisis as the reporting period is largely 2019/2020. It will only be towards the end of 2021, when charities begin to publish their accounts for the 2020/2021 financial year, that the full picture of how fundraising has been affected will emerge. For now, basing this report on what could be seen as a 'typical' year is more beneficial in any case.

The pie chart below shows a fairly balanced income split between income from charitable activities and income from donations and legacies. What is clear from this picture is that few report significant income from trading activities.

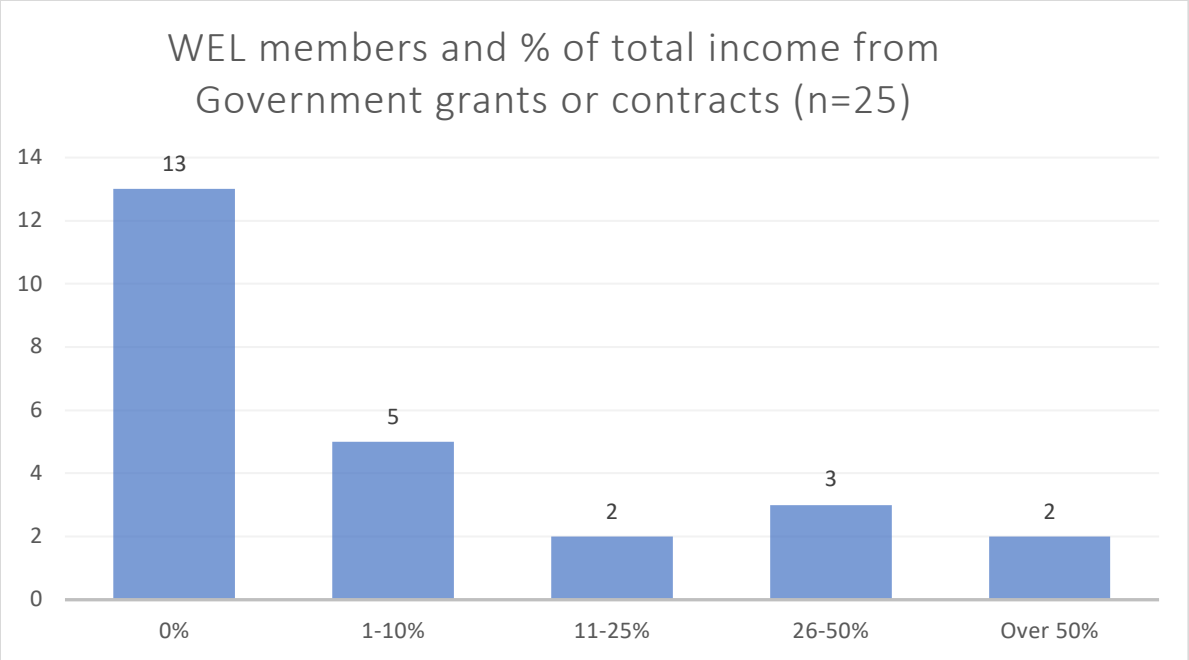
[12] The Funding Centre (2020) *Green Recovery: supporting the environmental sector in Wales*. Available at: https://naturalresources.wales/about-us/strategies-and-plans/green-recovery-supporting-the-environmental-sector-in-wales/?lang=en



Source: Charity Commission

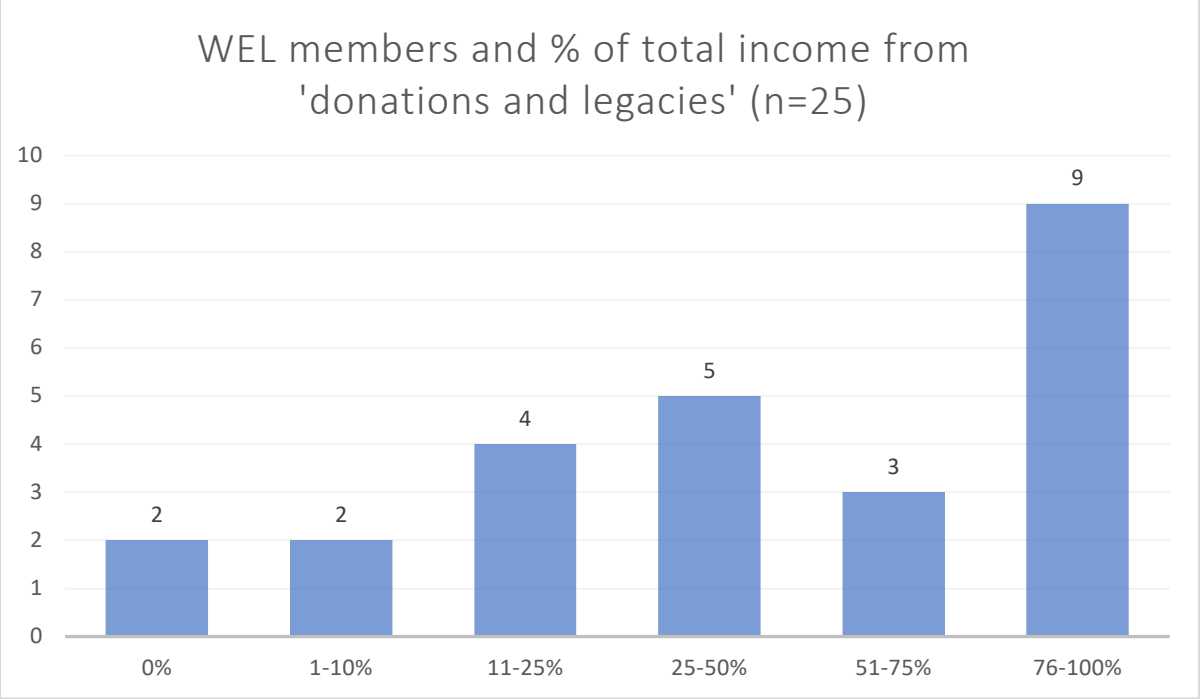
While income from trading activities isn't reported as being a large proportion of total income, this could be explained by the way some charities report their income. For example, some charities have reported sales and consultancy income under 'income from Charitable Activities' while others account for this under 'income from trading activities. This will often be dependent on whether the trading income is seen as furthering the mission of the charity or not. This inconsistency with how income is reported in charity accounts is prevalent throughout the whole voluntary sector, not just limited to eNGOs.

Of the 25 WEL members researched, only 14 reported any income from Government grants and contracts to the Charity Commission. Just over half of these (8) reported that it constituted 10% or more of their total income in that financial year and only 2 with more than 50% of their income from Government grants. While not all charities report their income in the same way, this largely dispels the anecdotal but commonly held belief that they are overly reliant on statutory income (which is true for some cause areas).



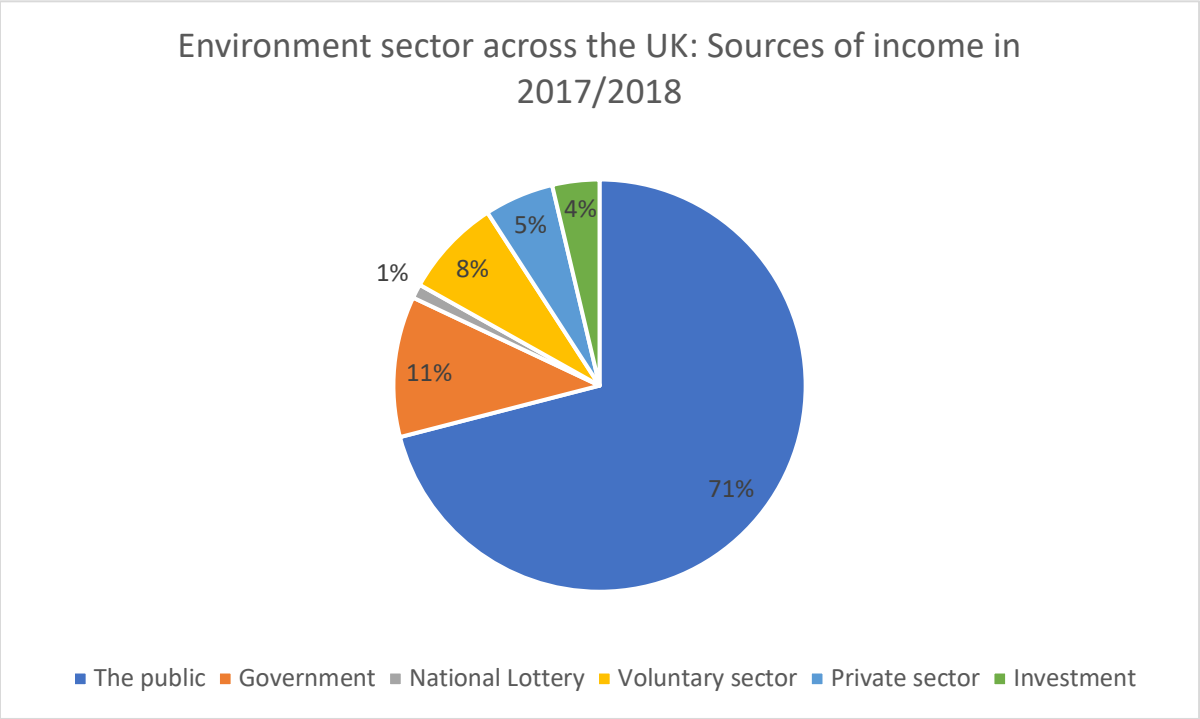
Source: Charity Commission

All with the exception of 2 eNGOs report income against 'donations and legacies' within their accounts. The 2 that do not report income from 'donations and legacies' note on the Charity Commission that they do not raise funds from the public. While the amount raised varies considerably of the remaining 23 charities, it averages at 53% of total income (median: 51%). For more than third of them, donations and legacies constitute more than 75% of their total income.



Source: Most recent available accounts published with Charity Commission

The data on income sources for the wider environment sector shows that WEL members do rely more on grants than others across England and Wales, with NCVO data showing that on average, the environment sector has the following income sources:



Source: NCVO

This shows that on average, the wider environment sector is largely funded by public donations rather than grants.

Unfortunately, not all WEL members provide a breakdown of what constitutes their 'donations and legacies'. For some it includes membership subscriptions, while for others this is considered income under 'charitable activities' rather than under 'donations'. Some WEL members include statutory income and other grants in this, but most do not. This is more often accounted for under income from 'charitable activities'. It also doesn't include income from fundraising events or sponsorships as this usually is considered under trading income. All of these variations in reporting make it difficult to draw comparisons from looking at accounts.

In terms of legacy income, 18 of the charities reported receiving some in that financial year, with half stating this to be less 15% of the total reported under donations and legacies. Unsurprisingly it is the larger national charities who report significant levels of legacies income, as these charities are much more widely known to the general public and have the resources to dedicate to legacy marketing.

The majority (19) of those charities researched have an individual membership scheme, which accounts from between 1% to 52% of total income with an average of 19% (median: 18%), indicating this to be a very important sources of income.

Financial overview conclusions

While there is no single formula for an ideal funding base, there are some indicators that are considered to be 'healthy'. This includes:

1. Having a diverse mix of income streams, and within these having multiple sources. For example, multiple trusts and foundations rather than just relying on 1 or 2 large grants.
2. Multi-year funding.
3. Having sufficient reserves to cover any gaps in funding.
4. Benchmarking against similar types and size of organisations reveals comparable or better than average results.
5. Has a development plan for generating new sources of funding.

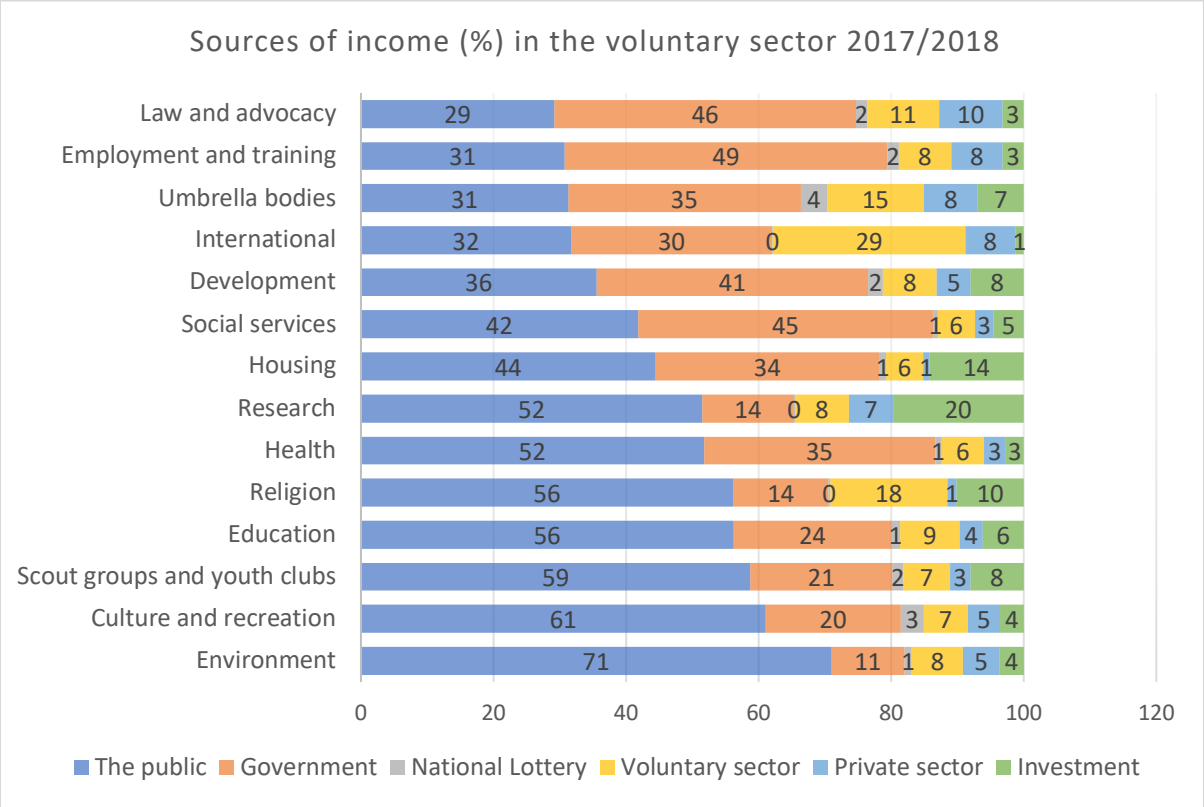
For many of the larger, national WEL members, it can be said that most of the above is true. However, for the smaller Wales-based charities, there is definitely more that could be done to improve their funding base.

While this overview is not intended to give an in-depth insight into the funding make-up of WEL members, it does reveal that:

- They are not overly reliant on statutory income.
- WEL members have a good mix of restricted grant income and unrestricted income from donations and legacies (including membership subscriptions).
- Legacy income is largely restricted to the bigger, more well-known organisations.
- It is clear that there is potential room to look at diversifying income from trading activities for some members.

7. How are other sectors funded?

There is a wealth of information on how the wider voluntary sector across England and Wales is funded. The NCVO's annual *UK Civil Society Almanac*[13] is widely acknowledged to be the definitive reference publication. As noted above, it's 2020 edition (based on 2017/2018 data) showed how the environment sector, more so than any other, is funded by public donations and is the sector with the least amount of government funding:



Source: NCVO

The research here does take into account the size of organisation, but despite this, the data reveals that on average, public donations (including legacies) are the largest source of income for all voluntary organisations regardless of their size.

[13] NCVO (2020) *UK Civil Society Almanac 2020*. Available at: https://data.ncvo.org.uk/

8. Innovation by sources of income

The eNGO sector in Wales is very diverse, with few organisations of varying size and capacity, with a preponderance of very small organisations. Scale and capacity will greatly influence an organisation's ability to develop their income generation strategy. It is important to diversify carefully, testing new activity before committing, and investing in skills across the organisation to successfully realise new income streams. It is very common for smaller organisations to bring in most of their income from a small number of sources and it should be highlighted that it is prudent to invest well in one area, rather than spreading resources too thinly across lots of different areas.

This section outlines the main income streams available to fundraising organisations with examples of innovative practice. These are summarised in Table 1 below.

8.1. Statutory funding

The share of income derived from public sector sources has decreased steadily in Wales over the last decade. Welsh Government grant funding decreased by around 21% in the 7-year period between 2010/11 (£350 million) and 2017/18 (£278 million) and Welsh Government contracts have remained largely the same with £44 million being awarded to the third sector in 2012/13 compared with £45 million in 2017/18. In addition, the recent prevalence of short-term funding cycles with all statutory funding is having a significant negative impact.

Following our departure from the EU, it still remains to be seen how EU successor funds will benefit Wales. The UK Community Renewal Fund with a pot of £220 million in 2021-22 is the precursor to UK Shared Prosperity Fund, which will launch in 2022. It is unclear how the eNGO sector in Wales will benefit from these funds but initial guidance suggests that all funded projects should be able to demonstrate the extent of their contribution to net zero objectives or wider environmental considerations. They also note how projects will need to consider how they work with the natural environment to achieve project objectives.

With the 'green recovery' firmly on the agenda, and Welsh Government's proactive approach to looking at innovative financing models for eNGOs, it would not be out of the question to assume there may be new funding available on the horizon.

Statutory contracts and commissioning are not the core concern of this paper, but there may be some eNGOs for where it is relevant. While this cannot be considered innovative, the main areas of focus would be to ensure that:

- Current relationships are well maintained and that everything is done to ensure repeat contracts/commissions.
- There is a systematic approach to gathering data about forthcoming opportunities – who, what, when, how much.
- There is a clear process for deciding whether or not to bid.

- There is a clear process for ensuring that high quality bids are submitted with the full support of the organisation.
- Bids are priced properly, reflecting full cost recovery or that any subsidy is fully signed off with a clear business rationale.
- That projects are well managed, monitored and evaluated.

This rather obvious set of recommendations can be challenging to deliver for smaller organisations. However, if these processes are well implemented then the organisation will not only be in a position to secure statutory contracts and grants, it will have done most of the work to enable more effective fundraising from charitable trusts and foundations which require a very similar approach.

8.2. Individual giving

The data reveals the wider environmental sector secures the majority of its income from the public. Diversifying the ways for individuals to give should be high on the list for consideration for growth and innovation. According to trend data from NfpSynergy[14], the popularity of environment and nature conservation charities has been rising across the UK since 2015. This is unsurprising given the growing media coverage of environmental concerns and urgency around climate change issues. While the Covid-19 crisis has diverted attention towards hospital charities and more local community causes, as we emerge from the pandemic the eNGO sector is well-placed to bring awareness back to environmental issues and nature more specifically.

It is in the area of individual giving that the most innovation is currently happening. Crucially, individual giving can be largely unrestricted and can therefore be spent on core costs, overheads and be used to build up financial reserves.

However, this is one the most expensive areas of fundraising to establish, and requires some of the more complex methods, demanding significant support and internal coordination if it is to be effective. Individual giving programmes can take several years to 'break even' and immediate ROI can languish well below 2:1 for years afterwards. But, they are an excellent way of identifying and developing relationships with people who care about the cause, and who may grow closer to the organisation if nurtured.

Digital and use of new technology

Online sales as a % of total sales have been increasing steadily over the past decade according to ONS data[15], but the first Covid-19 lockdown saw a huge jump from just 19% in February 2020 to over 30% in May. Even now restrictions have been lifted, it remains at 29% as of April 2021. This has clear implications for fundraising as digital becomes the new normal and we operate in an increasingly cashless society.

[14] NFP Synergy (2020), *How can charities keep the environment at the top of the post-pandemic agenda?* . Available at: https://nfpsynergy.net/blog/keeping-the-environment-at-the-top-of-the-post-pandemic-covid-19-agenda-climate-change

[15] ONS (May 2021) *Internet sales as a percentage of total retail sales (ratio) (%)* . Available at: https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi

In reality, the Covid-19 crisis has only accelerated the existing trend in this shift. Over two thirds of charities in the UK had already seen a rise in individual giving online over the course of 2018 and 2019[16] but that said, giving by cash and cheque still accounted for the largest proportion of this income stream[17] back then. While offline giving still reigned supreme in 2019, there is a definite shift not to be ignored, which will only be more pronounced as we emerge from the pandemic. Interestingly, when CAF carried out their survey of charities in May 2020, only 63% of charities said that they could accept some form of digital donations, which will have undoubtedly contributed to the decline in income for many charities over the past year.

Just as with any other channel, digital media has strengths and limitations. There can be a perception that acquiring new supporters through digital is free or inexpensive, because the costs are primarily indirect (staff time) or in kind (e.g. Google Adwords allowance). Most charities attempting digital acquisition find that click through rates on appeals and 'donate' buttons are not encouraging, and donation conversion rates are even less so. Of the social media channels Facebook tends to have the highest conversion rates if individual users are doing the sharing rather than brands.

Being able to receive contactless donations is no longer innovative, but essential for all charities fundraising from the public. However, using contactless in innovative ways is increasing. For example, the Blue Cross 'Tap Dogs' which were introduced by the charity across the UK in 2017. The dogs, which attend fundraising events, wear special dog coats with contactless payment devices fitted in a pocket. Anyone wishing to donate can simply 'pat and tap' the dog to make a £2 donation using their contactless payment card or smart device.

The opportunities presented by other new technology include using artificial intelligence (AI), virtual reality (VR), and blockchain. However, they are still very much the exception within the wider third sector due a lack of skills and experience. Some of the larger charities are using these new technologies for awareness raising in an innovate way and connecting the public with their beneficiaries. For example, between 2016 and 2019, the National Autistic Society ran their public awareness raising campaign *Too Much Information*. They created a 360-degree virtual reality video, to let the viewer experience what it's like to be an autistic child experiencing an information overload. The video puts viewers in the shoes of Alex, a real ten-year-old autistic boy, as he accompanies his mother on a trip to a shopping centre. During the campaign they took the video to audiences in shopping centres across the UK. It is still available as an app download to watch in Google Cardboard or other VR headsets, and also as a 360-degree video on YouTube[18]. While this wasn't a fundraising campaign, it demonstrates how VR could allow potential supporters to feel a bond between themselves and the beneficiaries of the

[16] Blackbaud (2019) *The Status of UK Fundraising 2019 Benchmark Report* . Available at: https://hub.blackbaud.co.uk/npinsights/the-status-of-uk-fundraising-2019-report
[17] Blackbaud (2018) *The Status of UK Fundraising 2018 Benchmark Report* . Available at: https://hub.blackbaud.co.uk/npinsights/the-status-of-uk-fundraising-2018-benchmark-report
[18] https://www.youtube.com/watch?v=DgDR_gYk_a8

charity. VR is now tool frequently employed by larger charities at fundraising events to engage with supporters and by face-to-face fundraisers (see Example 2 below[19]).

[19] https://www.youtube.com/watch?v=mUosdCQsMkM

EXAMPLE 2: UNICEF's *Clouds over Sidra* (2015) as part of the United Nations Virtual Reality (UNVR) project

UNICEF extensively tested their first virtual reality (VR) film, *Clouds Over Sidra*, to measure the effectiveness of VR as a fundraising tool. Premiered in 2015, the film is the story of a 12-year-old girl living in a Syrian Refugee camp. The film follows her to school, to her makeshift tent and even to the football pitch. They have used it widely to advance the UN's advocacy for the Syrian crisis. It was screened at a high-level donor meeting prior to the Third International Humanitarian Appeal for Syria in Kuwait in March 2015, which eventually raised 3.8 billion US dollars. It has been translated it into 15 different languages and screened in 40 different countries by UNICEF face-to-face fundraisers. Their results show the impact of VR has been significant on several different levels (particularly with face-to-face fundraising). They report that the use of VR:

- Increased propensity to stop and engage;
- Increased inclination to donate after engagement;
- Increased average donation value
- Enabled access to better fundraising locations and venues.

Since this first film by UNICEF, the UNVR project includes films by UNDP, UNFPA, UN Foundation, UNHCR, UNOCHA, UN Women, WFP, and MINUJUSTH-UN Haiti, all aiming to inspire viewers towards increased empathy, action and positive social change.



Image credit: http://unvr.sdgactioncampaign.org/get-involved/donate/#.YOyv7uhKg2w

Artificial intelligence (AI) is also increasingly being used in innovative ways to support fundraising (see Example 3 below[20]). However, once again, it is only really the larger charities that are able to make the most of it. AI and machine learning need large data sets in order to learn patterns, behaviours, and create models based on this. For example, Parkinson's UK and Prostate Cancer UK have both seen revenue and response rates rise through testing AI-driven fundraising techniques in direct mail campaigns[21]. However, their data sets are huge in comparison to many of the eNGOs in Wales. Having enough data and having it in a usable, useful state is key for success in this area, and likely to problematic for smaller organisations without the internal resource to facilitate this.

Example 3: Global Radio and Say it Now (2020-2021)

Last year, Global (Europe's largest radio company) collaborated with Say It Now on an Innovate UK funded research project to investigate the efficacy of donating to charity facilitated by voice assistants on smart speakers (Amazon Alexa). The project ran advertising campaigns between September 2020 and April 2021 with NSPCC, WWF and Comic Relief. Targeted audio ads ran specifically on devices that support a voice assistant, with listeners given the option of finding out more about the individual charity or donating straight away with a simple verbal instruction, providing the voice assistant is directly linked to a payment service, such as Amazon Pay. The results of the campaign are yet to be published but the example demonstrates that there are charities leading the way with digital innovation.

Legacy fundraising

Legacies (gifts in wills) play an important role in the income base of many charities and as already noted above, legacy fundraising can provide an excellent return on investment. However, it is not widely employed by Welsh eNGOs, in particular the smaller organisations. It is often harder for smaller charities to make their case for support as potential legators often believe their gift will be 'safest' with some of the larger charities who are less likely to cease operation.

Smee & Ford's extensive data on legacy giving notes that legacy income in 2019 reached almost £3bn – the largest ever reported, and that 14% of the population leave a bequest in their will.[22] While the average age for women to make their last will is 80, and for men is 77, people often begin making their first wills a lot younger than this so target audiences may be younger than expected. The Smee & Ford report notes how environment charities typically have a higher % of younger supporters leaving a gift in their will than other causes.

[20] https://www.youtube.com/watch?v=v668P95j-lU
[21] https://fundraising.co.uk/2021/03/05/ai-boosts-charities-direct-mail-campaign-performance/
[22] Smee and Ford (2020) *Legacy trends report 2020*. Available at: https://smeeandford.com/whitepaper/post?pitem=smee-ford-legacy-trends-report-2020

An organisation should not assume there will be any return for at least 5-10 years from beginning promoting a legacy message as there is an average of 6.7 years between people making their last will and their date of death.

As we have seen with other areas of fundraising, innovation in legacy fundraising is seen more in the larger national charities who have the resource and expertise (see Example 4 below). However, that isn't to say that smaller organisations, like many of the eNGOs here in Wales, can't begin to integrate legacy marketing into their usual communication channels with little or no additional resource required.

EXAMPLE 4: Shelter's *Give People Change* campaign

Last year, Shelter ran a campaign to boost their legacy pledges from long-standing supporters. Give People Change* was a cross-platform campaign that has generated £1 million in legacy pledges. The campaign featured across digital platforms, direct mail and in their charity shops. They reached 95,000 across their digital platforms and received 896 unique views on their landing page. Overall, the campaign reached a 50:1 return on investment.

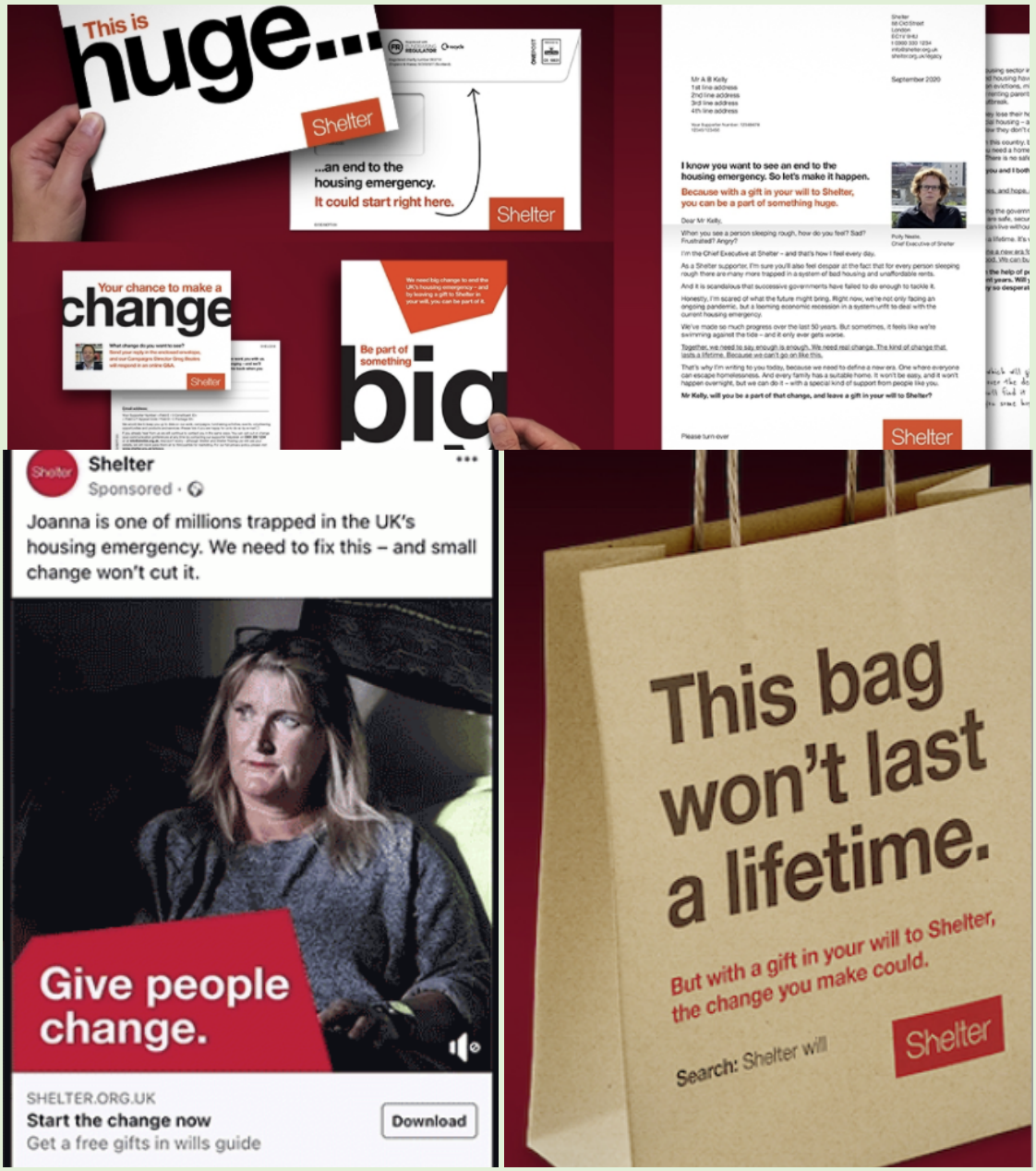


Image credits: SOFII

*As featured on SOFII[23]

[23] SOFII (Showcase of fundraising innovation and inspiration): https://sofii.org/case-study/shelter-give-people-change

Legacy fundraising could be a potential growth area for Wales-based eNGOs as individuals are looking to make a longer-term impact for their children and grandchildren.

8.3. Charitable trusts and foundations

Grants from charitable trusts and foundations provide the majority of income for many smaller eNGOs across the UK. Unfortunately, there are relatively few trusts and foundations that core costs, and the vast majority focus their grant-making on projects that can meet their priorities in specific areas of interest.

An organisation's best chance of success for securing grant income from the larger foundations is to develop projects or programmes with funders' priorities in mind, as well as carefully considering how best to make the case for support when applying. During its design, if a potential project can be shaped, located or tweaked in a direction that is likely to be appealing to funders, so much the better. In the environmental sector, this often requires collaboration with other NGOs. Collaborations between species-specific charities such as the Rethink Nature partnership have enabled the partners to use the Heritage Fund grant process to leverage a range of matched funding from trusts and foundations as well as from statutory sources.

It is difficult to be innovative with trust fundraising, but sometimes it is the funders themselves that are innovating. The Covid-19 crisis has seen funders work closely together, pooling their resources for greater impact. The Green Match Fund earlier this year is just one example (see Example 5 below).

EXAMPLE 5: Innovative funders

Many funders recognise the considerable difficulties that charities face in generating new income and are taking steps themselves to come up with new ways of giving, at the same time as incentivising others. For example, the UK's largest coordinated environmental fundraising campaign took place only this year. Run by The Big Give, the Green Match Fund aimed to raise over £1 million for environmental charities and ended having raised £1,760,769, including Gift Aid. Donations made to participating charities were matched by 'Champion' funders, sourced by the Big Give and the Environmental Funders Network. Funders included the Reed Foundation, Garfield Weston Foundation, Oglesby Charitable Trust, Michael O'Mara Books, John Spedan Lewis Foundation, EQ Foundation. 112 charities took part and of those, 106 hit their fundraising targets. It attracted over 11,000 people from 59 different countries making a donation, with an average of £74. The Big Give decided to launch the campaign in response to its survey in November 2020 where almost two thirds (63%) of environmental charities reported a decrease in income in 2020 because of Covid-19, and 1 in 5 environmental charities were planning to reduce service delivery as a result.



Collaborations with third sector organisations outside of the environmental sector should also be considered as an avenue for innovation in trust fundraising. Amgueddfa Cymru / the National Museum of Wales has, for example, an excellent track record of engaging volunteers from disadvantaged groups and local community development partners such as Action in Ely and Caerau and the Wallich. These partnerships arguably helped to attract funders to the major St Fagans appeal, and themselves grew out of a major project funded by a trust (the Paul Hamlyn Foundation 'Our Museum' project). The arts sector has also learned a number of lessons about the importance of community engagement being genuine and long term in intention if the collaboration is to succeed.

8.4. Corporate support

Fundraising from business can take many different forms, from one-off cash donations or sponsorship of specific projects, to longer-term partnerships or even gifts in kind. There is little evidence to suggest that corporate support could form a significant part of fundraising income, in particular for the smaller Wales-based eNGOs. Wales is not blessed with a large number of FTSE 100 headquarters. Major brands tend have a history of investing in the health sector and mainly in very high-profile initiatives. For example, one of the largest corporate gifts in the UK in recent years was to the Francis Crick

Institute in London. Cancer Research was given $25 million by HSBC[24] towards the project's overall capital costs. However, examples of corporate support at this level are unsurprisingly scarce

While corporate fundraising may not form a significant proportion of fundraised income, given the climate crisis and its level of coverage in the media, it is reasonable to assume that the next decade will see an increase in the environment and sustainability featuring more heavily in future CSR policies. It should be noted that it is crucial to make sure that any donations received from a corporate align with, or at least don't conflict with, your values as an organisation (see Example 7 below). A policy should ideally be in place prior to seeking corporate support. VAT rules applied to corporate fundraising and sponsorship can be complex so it is also important to understand these before entering into any partnerships.

Corporate donations

Corporate donations are increasingly rare as they are the most expensive way for a company to support a charity (although they are tax-deductible). Many larger companies form their own Trust or Foundation, which often has a separate Board and an application process similar to that of other charitable trusts and foundations. Many Corporate Foundations focus on community causes close to their area of operations e.g. Ford Britain Trust has a preference for projects in the areas around their plants and Greggs Foundation has a preference for supporting communities in the North-East where they originate.

Corporate partnerships

Corporate partnerships are often very bespoke based on both the needs of the business and that of the charity. For the business, this could be strategic goals, such as creating access to new audiences, strengthening their reputation or increasing employee loyalty. They can be hugely valuable if delivered well. Partnerships often involve large-scale fundraising by staff (e.g. challenge events), payroll giving, volunteering and site-visits.

Sometimes these partnerships are advertised as Charity of the Year partnerships. They are notoriously competitive and work very well for big charities with lots of resource. That it isn't to say that a smaller charities shouldn't be thinking about these types of approaches. In recent years, corporates have moved away from the 'one charity partner' approach and are instead supporting multiple charities that align with different strategic goals. This provides an opportunity for smaller charities to get on the radar of big businesses. However, small charities need to be realistic about their capacity to deliver such partnerships. Where Corporate partnerships or Charity of Year schemes are decided based on a staff vote, as they often are in large national companies, it is mainly the bigger-brand charities that are successful.

[24] https://www.hsbc.com/media/media-releases/2015/cancer-research-uk-and-hsbc-join-forces-in-usd25-million-partnership

There are several examples of successful long-term strategic partnerships between environmental organisations and corporate partners. For example, HSBC has been a partner of the Earthwatch Institute since 2002, providing expertise in sustainability leadership and learning, employee engagement, and scientific research. Earthwatch has benefitted from over £3 million from HSBC in the last five years to deliver this partnership. More recently, HSBC UK has donated £4 million to the National Trust[25] to fund the planting of two million trees over 4 years, which is the largest environmental donation of its kind made to the National Trust.

Strategic corporate partnerships are more than being just about the fundraising income. There are many great examples of charities working together with a large corporate to access funding and achieve their charitable objectives. For example Tesco's five year charity partnership with Cancer Research UK, the British Heart Foundation and Diabetes UK. The campaign, called *Helping you to live healthier*, focusses on improving the health of Tesco shoppers and employees. It will develop a workplace health programme, use its communications campaigns to support health messages, and use its sales data to help develop health policy, as well as fundraising for them. There are many examples in the environmental sector too, including some with multiple partners involved:

EXAMPLE 6: WWF – The Rivers Trust – Coca-Cola (2012-present)

WWF, The Rivers Trust and Norfolk Rivers Trust began a partnership with Coca-Cola to restore the River Nar to good health between 2012-2015. The Nar in Norfolk is an area where a lot of sugar beet – which ends up in Coca-Cola drinks – is grown. The partnership engaged farmers to improve agricultural practices over 2000 acres and reduce pollution that might otherwise have run off into the river. Through this project, they also restored 1km of straightened and deepened channel of the river back to its natural condition. The partnership helps Coca-Cola meet its global 'Replenish' commitment to safely return to communities and nature the same amount of water it uses in producing its drinks. In 2016, the partnership embarked on a new project with EU funding, called WaterLIFE, this time in East Anglia with the Cam and Ely Ouse Catchment and the Broadland Rivers Catchment. The project has put in place on the ground interventions to reduce silt and stop pollution entering the rivers and directly engaging thousands of farmers across the region to encourage water sensitive farming. The partnership is also working to bring other food and drink businesses together to make joint commitments and a shared vision to reduce the environmental impact of their supply chains.

Sponsorship

Examples of companies active in sponsoring the third sector in Wales at a range of levels include Principality Building Society, various companies in the energy sector, utility companies, housing associations such as Grŵp Cynefin and Cartrefi Conwy, and higher education providers. In order to access sponsorship markets, it is crucial to understand

[25] https://www.nationaltrust.org.uk/features/record-hsbc-uk-donation-to-enable-mass-tree-planting

audiences and how they are desirable to potential sponsors, and what collateral can be offered, for example, marketing on their behalf or direct access to audiences for sponsorship, or naming rights to a building or programme for donations.

At the other end of the scale, small business support of charity in Wales has a tendency to focus on grassroots sport such as jersey sponsorship, and very local causes. There could be potential for smaller eNGOs to secure some small sums in sponsorship from local tourism businesses where there are synergies. Previously bank branches were a safe bet for local sponsorship, but these are disappearing rapidly. However, there is still some activity around the banking and insurance industry.

Corporate membership schemes

Corporate 'membership' schemes with defined benefits for a fixed annual price are often a good way of recruiting corporate supporters at a low level. For example, WEL member Buglife has 35 members of its 'Corporate Investors in Nature' membership scheme which has levels ranging from £250 per year to £10,000 per year (they currently have 3 listed at this top-tier level)[26]. Defined benefits include negotiated use of logo, PR opportunities, invitation to events, team building day and staff talks. Many eNGOs often have unique benefits that can be very attractive to businesses. Schemes such as this will often provide 'a foot in the door' and lead to further income generation as the relationship progresses, more akin to a corporate partnership.

EXAMPLE 7: Friends of the Earth and Octopus Energy

In 2019 Friends of the Earth partnered with Octopus Energy as a recommended supplier of energy to their supporters. They believed that Octopus could play a key role in advancing the take-up of renewable energy in the UK. However, less than a year later it pulled out of the partnership after Octopus accepted investment from an Australian energy company involved in coal power generation and fracking - a direct conflict with the vision and mission of Friends of the Earth.

Friends of the Earth acknowledged the difficulty balancing the need to reach large audiences and raising funds whilst not compromising their mission. Examples such as this reinforce the need to have a clear policies and ethical principles in place when seeking new corporate partnerships, and the need for due diligence where appropriate.

8.5. Endowments

Fundraising for endowments in the UK is still in its infancy and they are not universally popular amongst UK donors. With the relatively modest returns that are given on the capital sum, donors would prefer to see their gift in action now, rather than locked up in a long-term fund. This view is changing slowly but we are still a long way from the approach

[26] https://www.buglife.org.uk/get-involved/corporate-partnerships/

taken in the United States where endowments are far more popular across all sectors. Whilst there is no public funding currently available that might support an endowment, there are some examples of Lottery funds being used for this purpose and some small-scale investment from Welsh Government[27]. Should any eNGOs be seeking to go down this route, it is likely the capital will need to come in large part, from the private sector.

Some of the largest endowments in the UK, such as those held by Oxford and Cambridge University, frequently report returns of over 10%. Over 10 years to 2019, Cambridge generated an annualised return of 10% and Oxford 9%. However, the large scale of these endowments means that the level and consistency of returns are relatively high compared to smaller funds. Annualising figures can also conceal year on year fluctuations that would potentially be unacceptable for smaller eNGOs needing a reliable return to operate (for example Cambridge University's £3.2bn endowment fund posted an 8.8% investment return for the 12 months to 30 June 2018 – just under half its 18.8% return for the previous 12-month period).

While the benefits of having an annual return from an endowment are clear, there are a number of well-known disadvantages. For example, it can be difficult to retain the real value of the capital, and income often does not keep up with inflation. Charities can find themselves fundraising simply to retain the value of their endowments or expending large amounts of energy to maintain them. Permanent endowments are also notoriously inflexible and burdensome to administrate.
Ultimately, eNGOs would need to assess their appetite for risk.

In terms of securing the initial investment to create a fund, charitable trusts and foundations tend not to make grants to endowments and businesses are also not known to support endowment appeals in the UK. While noted above that most individuals are reluctant donors to this type of appeal, eNGOs may be well placed to cultivate a small number of major donors who believe in making long-term investments. However, this would require significant resource to undertake prospect research, cultivation of those prospects and securing their gift, not to mention the ongoing stewardship that would be expected.

In recent years there has been a small number of specific endowment campaigns, namely through the National Lottery Heritage Fund Catalyst programme, which is helping to raise the public profile and need for this type of investment. Their programme was relatively successful in reaching its fundraising targets, but was dominated by very large organisations participating. In the first round completed in 2017, 31 grantee organisations raised a total of £53.3 million from the private sector. It is important to note that these successful appeals have been run by very well-established fundraising teams with significant capacity.[28]

[27] National Endowment for Music (Wales) and Catalyst Endowments for Heritage
[28] Centre for Philanthropy, University of Kent (2017) *Evaluation of the Catalyst: Endowment Grant Programme* . Available at: https://www.heritagefund.org.uk/sites/default/files/media/publications/endowments_evaluation_report-accessible_v2.pdf

Should eNGOs wish to explore establishing an endowment, further research and expert advice would be required to assess the feasibility of securing support for such an appeal.

8.6. Commercial income

Looking to generate commercial income is something that many eNGOs already do very successfully (see Example 8 below). This includes offering consultancy services or training; having a retail outlet or selling products online; running a café; offering spaces to rent; or receiving income from car parking facilities. Commercial income can be hugely beneficial because it is unrestricted, and therefore can go towards paying vital core costs.

When considering exploring commercial income, organisations need to think carefully about what assets they have to offer. These can be tangible assets such as property or space, or intangible assets such as staff expertise or the charity's brand. Other considerations are alignment with the charity's mission, potential financial return, and capacity to deliver a commercial offering if it means that staff are taken away from their day-to-day priorities.

It is also likely that if starting up a new commercial activity, there may be upfront costs that could mean borrowing or loans. There will also need to be a recognition that it may take several years to become profitable.

Ultimately, there will need to be an appetite for risk when embarking on a new venture. The Funding Centre report in 2020 found there were some good examples of organisations that were innovative and had a positive attitude to managing risk and encouraging creativity. However, there was a broad sense that key players in the sector are and have been for some time, focused on their immediate survival and unable to invest time in longer term planning. Starting a new venture requires a significant investment of time to undertake a feasibility stage assessing the activity's target audiences and the size of the available market.

Offering training courses is a popular commercial approach and one utilised by many eNGOs, in particular those with specific expertise around a particular species for example. It means that charities can raise awareness of their activities at the same time as raising unrestricted income.

Running a café or having an on-site shop can be a valuable source of income, a way of reaching a new audience and increasing visitor numbers, but also providing volunteering opportunities for supporters.

EXAMPLE 8: The Wildlife Trust of South and West Wales

The South and West Wales Wildlife Trust operates a very successful trading subsidiary, which generated a £453,884 net profit in the financial year ending 31st March 2020. Their overall trading income, including this, was over £700,000 and accounted for 30% of their total income. The Trust is able to offer holiday accommodation on nature reserves, catering for visitors and the retailing of bought-in goods.

8.7. Investment-based approach to financing

It is clear that statutory funding and philanthropy are not sufficient to meet the scale of need in the sector. However, beyond consultancy and tourism, few eNGOs have embarked on becoming involved in more innovate ways of financing. A recent report[29] endorsed by RSPB and the National Trust notes that failing to design a coherent framework for financing UK nature recovery will lock in dependence on public funding for the long term. The Covid-19 crisis will undoubtedly have long-lasting effects on public finances so the need to find financing solutions is very real and urgent.

Scotland recognised this need before the pandemic, and a coalition of private, public and third sector organisations ("Scottish Conservation Finance Pioneers") came together to meet the Scottish Conversation Finance Project's £1 Billion Challenge. As a result, a new route map towards unlocking £1 billion of new investment for nature conservation in Scotland was recently published by the Scottish Wildlife Trust and the Scottish Environment Protection Agency (SEPA)[30]. It highlights nine investment opportunities to contribute to a green recovery. It also includes models which aim to stimulate investment in Scotland's natural capital by delivering a financial return to investors. The opportunities include a Natural Capital Pioneer Fund, a Marine Fund, and a Nature-Climate Bond. Wales has now embarked on a similar path with Welsh Government officials, in collaboration with Natural Resources Wales, Dwr Cymru, Office of the Future Generations Commissioner and eNGOs, coming together to co-produce an innovative funding framework. The aim of this 'Innovative Funding Group' and their work is to sustainably increase the funding available to support the transformational change needed to improve biodiversity across Wales in particular through conservation financing. In time, this group will make recommendations, presumably in a similar vein to the Scottish Conservation Finance Project.

Innovative financing for conservation has been a discussion theme for the past two decades and several new approaches have been developed, such as Payment for Ecosystem Services (PES) and various offsetting schemes. Private investment is increasingly being investigated as an option for larger eNGOs across the world who can

[29] Broadway Initiative, Green Finance Institute and Finance Earth (2020) *Financing UK Nature Recovery* . Available at: https://financingnaturerecovery.uk/proposal

[30] Scottish Environment Protection Agency (SEPA) and Scottish Wildlife Trust (2020) *The £1 billion Challenge: Route map from the Scottish Conservation Finance Project* . Available at: https://scottishwildlifetrust.org.uk/news/route-map-to-1-billion-for-nature-conservation-published/

deliver at scale and realise the returns needed to make it an attractive option for investors. There is also a clear demand for socially responsible and impact-focussed investing. An RSPB report[31] into bridging the finance gap notes how there is ample funds available, and investors who are interested but there is a lack of investable projects with 'finance-ready' proposals.

In the UK, the RSPB has investigated various different options to generate income from the use of green taxes in order to achieve environmental goals. Green taxes (i.e. levies on the use of peat, pesticides, fertilisers and carbon) are intended to provide a financial incentive to businesses and individual consumers to reduce their negative environmental impact, but at the same time generating revenue to fund environmental programmes.

Many private sector business are interested in protecting the environment. Indeed, many CEOs donate personal funds and sometimes the businesses they run may make token investments if they don't impact too much on profitability. However, distinct from philanthropy, they won't deploy capital for conservation or environmental projects that don't promise economic returns. Private investment in nature is about generating profit. The RSPB report on conservation financing makes some notable conclusions around the barriers that exist in the UK (but also globally) to making this the norm for eNGOs:

- Lack of investable projects.
- Most organisations have little track-record of this type of financing and lack the in-house financial expertise required.
- Most organisations and would likely need to collaborate with partners to develop a successful project due to scale and expertise.
- There is a lack of larger scale projects that are typically attractive to investors.
- Government will need to lead the way through strategy, regulation and incentives that will induce the private sector to invest.

This latter point is key, because without Government support, it will be very difficult for organisations to generate revenue from an investment-based approach. A recent report published by The Paulson Institute, The Nature Conservancy and Cornell Atkinson Center for Sustainability[32] outlines several recommendations for Governments that would accelerate conservation financing to bridge the funding gap, some of which could be applicable in a Welsh context.

The RSPB believe that higher government spending on enhancing biodiversity; improving water and air quality; facilitating carbon storage; and improving mental and physical health with nature, will lead to an increase in private sector investment. This 'crowding in' occurs because higher government spending leads to an increase in economic growth,

[31] RSPB (2018) *Bridging the finance gap* . Available at: https://www.rspb.org.uk/our-work/policy-insight/wildlife-and-the-economy/financing-nature/

[32] Deutz et al (2020) *Financing Nature: Closing the Global Biodiversity Financing Gap* . Published by The Paulson Insititute, The Nature Conservancy and Cornell Atkinson Center for Sustainability. Available at: https://www.paulsoninstitute.org/key-initiatives/financing-nature-report/

which in turn encourages private sector firms to invest because there are now more profitable investment opportunities.

The current 'Innovative Funding Group' led by Welsh Government will undoubtedly publish some interesting recommendations in this area of financing and it will remain to be seen how quickly they progress to address such an urgent need.

8.8. Social investment

Social investment, distinct from conservation financing as discussed above, is the provision of repayable finance to charities and other social organisations. Social investment is not income in itself, but can be used to generate income. While repayable finance certainly isn't an innovative concept in the commercial world, there are still relatively few charities that see this as an option. However, there are an increasing number of funders who are offering either a blend of grant and finance, or fully repayable finance options. Social investment can range from straightforward loans to be repaid over a set number of years or it could provide a funding bridge to be repaid within a shorter timeframe, for example, to cover overheads while waiting for a contract or grant payment.

The Arts and Culture sector is increasingly using repayable finance as a way of supporting new ideas, new programmes or business models to enable them to achieve their mission (see Example 9 below). Larger organisations are typically more likely to consider repayable finance as an option, with smaller organisations citing concerns over repayments, conditions of contract and not enough internal resource to manage the process[33].

Organisations developing new models of repayable finance include UNICEF (see *Investment in Fundraising* below), who are working with the World Bank, to support their expansion and development of fundraising in 18 emerging market countries.

There are some charities developed their own social investments products. The disability charity, Scope was one of the first charities to enter the social bond market with a £20m bond issue in 2010. It funded and was to be repaid by, fundraising and charity shop expansion. Scope partnered with specialist social investment firm Investing for Good and commercial operators including the Bank of New York Mellon, Capita, and Linklaters and Weil. Since then, the market has expanded considerably with more of the larger charities considering this as an innovative way to finance their mission.

[33] Nesta (2018) *Repayable finance in the arts and culture sector*. Available at: https://www.nesta.org.uk/report/repayable-finance-in-the-arts-and-cultural-sector/

EXAMPLE 9: Arts and Culture Finance by Nesta

Some sectors are increasingly looking at new ways of funding. Nesta has been at the forefront of this in the Arts and Culture sector, working collaboratively with other funders to offer affordable, repayable finance.

Nesta launched the Arts Impact Fund in 2015 as the world's first impact investment fund specifically for the arts and cultural sector. It was created by a number of funders coming together (Bank of America, Esmée Fairbairn Foundation, Arts Council England, Calouste Gulbenkian Foundation) and convened with the help of the Cabinet Office, to demonstrate the significant social value created by arts organisations and support their work through loan finance. The Fund offered unsecured finance between £150,000 and £600,000 repayable over a period of three to five years. Between July 2015 and September 2019, £8.8 million was invested across 27 organisations.

Nesta carried out further research in sector which evidenced the demand for affordable repayable finance, but on a smaller scale*, so following this, in 2018, they launched the Cultural Impact Development Fund. This fund offered smaller amounts of repayable finance between £25,000 and £150,000 to enable organisations to adapt their business models in order to increase their financial resilience and achieve their social impact goals. The Fund was supported by Access – The Foundation for Social Investment through the Growth Fund programme, with finance being provided by its partners, National Lottery Community Fund and Big Society Capital.

Building on the success of the previous 2 funds, they have recently launched the world's biggest impact investment fund for the creative arts. The fund brings together a mix of public, private and philanthropic investors – Arts Council England, the National Lottery Heritage Fund, Big Society Capital, Bank of America, the Esmée Fairbairn Foundation, the Freelands Foundation and Nesta itself. With £23million available, the fund if offering loans between £150,000 and £1 million repayable until 2030.

*Nesta report: *Repayable finance in the arts and culture sector*

8.9. Summary

Table 1: Summary of income sources

Income source	Opportunities	Threats
Statutory	• Green recovery firmly on Welsh Government agenda potentially leading to new funding becoming available. • Lobbying could support a shift back to longer-term multi-year funding (including covering core costs).	• Grant funding in decline. • Value of contracts remains static. • Current approach is largely short-term project-based funding. • Complex application processes. • Long decision timeframes.

		• Payments can be delayed.
Individuals *(incl. members, regular givers and other one-off donors, challenge event fundraisers, major donors, legacies)*	• Growing awareness of environmental issues. • Potentially large market size. • Valuable source of unrestricted income. • Developing a wide supporter-base brings resilience. • Source of volunteers and ambassadors.	• Cost of fundraising – needs sustained investment over time to deliver a return. • Capacity to fundraise and subsequently steward donors – needs investment in resource. • Lack of skilled professionals in Wales. • Lack of wealth in Wales.
Charitable trusts and foundations	• Large trusts doing more to encourage applications from Wales. • Application processes becoming easier with quicker decisions being made. • Improvements in reporting – becoming less onerous.	• Often restricted income and may not cover associated core costs. • Wales is not home to a large number of charitable trusts, nor is it historically the beneficiary charitable trusts based elsewhere. • Collaboration and partnership bids may be required to for trusts requiring innovation
Corporate (*Incl. one-off donations, sponsorships, strategic partnerships, members)*	• Companies increasingly looking to improve their environmental credentials. • Access to staff expertise, potential volunteers, and individual income.	• Cost of fundraising – needs investment of resource. • Wales is not home to a large number of big companies or HQs. • Ethical considerations. • VAT implications
Commercial/Earned *(incl. consultancy, training, retail, rental, food and beverage, events)*	• Source of unrestricted income. • Draw in wider audience. • Can align with mission.	• Potential need for upfront costs that could mean borrowing or loans. • Can take several years to become profitable. • Staff could be diverted from core mission.
Endowment	• Annual source of unrestricted income. • Donors increasingly interested in long-	• Fundraising for the capital very difficult.

	term impact, in particular for the environment.	• Potential requirement to fundraise to maintain the capital. • Year on year fluctuations on the return not suitable for organisations needing stability. • Currently low interest rates.
Conservation financing	• Welsh Government officials, Natural Resources Wales, Dwr Cymru, Office of the Future Generations Commissioner and eNGOs, coming together to co-produce an innovative funding framework - recommendations coming soon.	• Lack of financial expertise within eNGOs. • Lack of large-scale investable projects. • Government needs to lead the way through strategy, regulation and incentives that will induce the private sector to invest.
Social investment (*Repayable finance/loans)*	• Long repayment terms. • Affordable rates of interest.	• Poor business planning leading to being unable to meet repayments

9. Investment in fundraising

It is widely accepted that in order for fundraising to be a success, it needs sustained investment over a long period of time. It isn't possible to acquire donors, and retain them, without some level of investment in resource and expenditure budget. There have been several programmes in Wales, funded by Welsh Government and Lottery, aimed at building capacity in fundraising. Higher Education (see Example 6 below), the Arts and Culture, and Heritage sectors have all benefitted from this investment.

Example 10: Higher Education Funding Council Wales (HEFCW) Matched Funding Scheme for Voluntary Giving

In 2008, Welsh Government recognised the need for Higher Education Institutions to invest in fundraising to stimulate private investment. In 2009, HEFCW followed England's lead by agreeing a £10m funding pot over 3 years to increase and expand the fundraising capacity of Welsh universities, and incentivise voluntary giving from alumni and other individuals by guaranteeing government match funding. Some of the funding was allocated to capacity building. Those institutions with little or no existing fundraising experience were each given £20,000 as an initial investment and all had access to funded training provided by CASE (Council for Advancement and Support of Education).

Match funding was applied across a range of fundraising income streams including:

- Cash gifts from individuals
- Gifts of shares
- Gifts from small/medium-sized charitable trusts and foundations that donate less than £60m per annum;
- Corporate gifts
- Overseas gifts
- Gift Aid

The scheme was deemed to be a success. In its third year, Welsh universities secured £5.7 million from fundraising, having only generated £1.7 million in the year before the scheme started.* While some have found it harder than others, nearly all Welsh universities continued to invest in fundraising following the end of the match funding scheme and 12 years on, the majority have well-established fundraising teams generating income across all philanthropic income streams.

*Ross-Case Survey Report 2012[34]

Some charities are raising the investment needed in an innovate way. For example, UNICEF have recently reported a financial instrument is being developed to facilitate investment in fundraising[35]. The financial instrument will entail an arrangement between the World Bank and UNICEF to raise the additional financing, leveraging the services and

[34] NatCen (2012) *Giving to Excellence: generating philanthropic support for UK Higher Education 2010-11, Ross-CASE Survey Report*. Available at: https://www.case.org/resources/case-ross-support-education-survey-united-kingdom-and-ireland

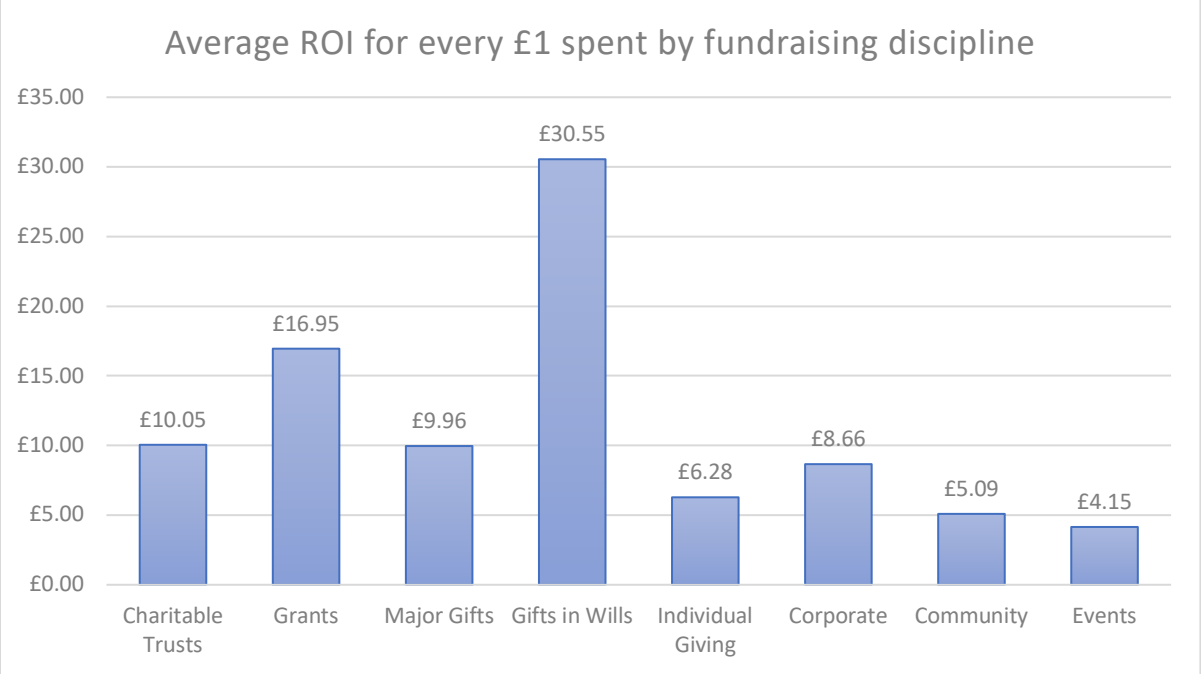
[35] https://www.unicef.org/executiveboard/documents/world-bank-instrument-facilitate-sustained-investment-private-sector-fundraising-frs-2021

expertise of the World Bank in the financial markets. This innovative model will see $50 million being used to finance the growth of private sector fundraising in 18 emerging country markets, which, together with other investments, is expected to yield $450 million from private monthly pledge donors in emerging markets over a five-year period.

Many of the examples of innovation throughout this report are from large national charities with access to considerable resource. Unfortunately, many Wales-based eNGOs are simply not big enough to consider investing in many of the innovations mentioned, which often need scale and reach in order for them to become a success. Without external support, most smaller eNGOs will struggle to innovate with fundraising.

9.1. Expected return on investment

Unfortunately, there isn't much recent data providing the evidence to show the return on investment from fundraising. While charities are required to report their expenditure on raising funds in their annual accounts, there is so much variance as to what this includes, it cannot be used to calculate a true return on investment. The Chartered Institute of Fundraising used to carry out its annual *Fundratios* survey, which had valuable insight into average returns on investment, but this hasn't been undertaken in 2013. Recently, one consultancy has started an annual benchmarking survey (albeit with a small sample size of 39 charities) and the 2020 results appear to reflect anecdotal evidence on ROI[36]:



Source: LarkOwl

While legacy fundraising is the clear winner, it is very difficult to correlate expenditure on this area of fundraising with income in any given year. It should also be noted that the

[36] LarkOwl (2020) *The Calm before the Storm: UK Fundraising ROI 2020* [Online]. Available at: https://larkowl.uk/fundraising-benchmarking-2019/

survey respondents varied greatly in size, cause, area of operation, and length of time invested in fundraising – all of which can have a considerable impact on ROI. These headline figures can also hide the great variation that exists. For example, while the average ROI for individual giving is £6.28 for every £1 spent – the responses in the survey actually ranged from £0.22 and £26.56, with 8 of the 28 charities having an ROI of £2 or less.

10. Options for shared project development resources

The Funding Centre's report in 2020 commissioned by NRW highlighted meaningful partnerships and collaboration will lie at the heart of the Green Recovery. It recommends resourcing consortium and partnership building activities. For example, learning how to build consortia for bids or complex partnerships when you don't know how can be almost impossible without support.

In England and Scotland, some of the most ambitious eNGO project partnerships to date have been made possible by working in collaboration with government agencies: Natural England (Back from the Brink) and NatureScot (Species on the Edge). Similarly, the Natur am Byth project that is currently being prepared for a £5 million request to the National Lottery Heritage Fund is a good example of how NRW can facilitate ambitious, joint projects.

It is becoming increasingly common for funders, in particular statutory and lottery funders, to seek proposals which require a partnership approach. EU transnational funding has required partnership bids from multiple members states for many years as a way of encouraging cohesion. However, this level of collaboration requires resource and capacity at a scale that most eNGOs in Wales do not have. Seeking new ways to resource multi-partner project development will be key.

A Funding Centre report commissioned by Wales Environment Link on building capacity, collaboration and diversity in the eNGO sector has highlighted the issues that WEL members face:

- Declining resource is the single biggest issue impacting on ability to create large-scale collaboration.
- Many of the organisations are very small and only have a small number of project staff in Wales – others have very significant resource in Wales or access to it in England/UK.
- Little capacity in Wales to work on project development other than for the short term.

Other barriers that have been raised by WEL members include lack of core funding, limited networks, lack of strategic direction, being able to demonstrate evidence of impact, a reticence because potential partners are seen as competitors.

WEL members should consider how best to actively engage the key funders in the sector – Welsh Government, Natural Resources Wales, and the National Lottery Heritage Fund – in discussions about how they might be able to use their role to help remove barriers to collaboration, for example, by providing seed funding or development funding for partnership working and collaboration.

11. Conclusions and recommendations

- Innovation will look different for every organisation. There is always the possibility of truly genuine innovation, trying something that has never been tried before, but for the environmental sector, it is perhaps more important to remember that innovation may mean trying something new that is working elsewhere for an organisation. There is plenty of scope to be the first organisation in Wales, or the first environmental organisational in Wales, to develop a particular approach to fundraising.

- There are some really exciting developments around individual giving, especially by using digital technologies, but it may well be the tried and tested that can have more impact in the medium term. Legacies being a prime example.

- Innovation requires a certain degree of stability and organisational capacity. For the majority of eNGOs in Wales who rely on project funding and short term contracts with little or no core funding, this is a real barrier to innovation. Investment must be made into the environmental sector in Wales, possibly through a support programme specifically for the sector, and the case made for improved models of core funding from public sources. WEL can play an important role in helping to drive the message.

- To address the skills shortage in fundraising, consider the feasibility of a graduate internship programme similar to Arts & Business Cymru's model with their 'Creative Internship'. This type of scheme could be very beneficial in both the short and long-term to the eNGO sector and WEL might be seen as the natural facilitator of this provided it can build strong partnerships with Welsh universities.

- Consider how fundraisers at eNGOs could be targeted for professional development support, for example, through networking opportunities via WEL or another organisation such as CIOF Cymru, WCVA etc.

- A strengths based approach to supporting organisations that are already good at fundraising may have the beneficial effect of increasing capacity across the whole sector. This has certainly been the case in the Arts where larger organisations with significant capacity have hosted interns or apprentices who then go on to work in smaller organisations where they can have significant impact.

- Collaboration between environmental organisations and organisations outside the sector, such as social causes and community groups, could be a source of innovation leading to new funding opportunities from statutory sources and trusts and foundations, as well as sharing skills. As we complete this report, the National Lottery Heritage Fund have announced a new fund to support people from deprived communities to make more of the natural environment around them –

Local Places for Nature – Breaking Barriers[37]. This is an encouraging example of the potential for collaboration with the social sector

[37] https://www.heritagefund.org.uk/funding/local-places-for-nature-breaking-barriers