Growth Fund Financial Resilience Research
Rapid Evidence Assessment

Ecorys, March 2023

Introduction

The **Growth Fund** was launched in May 2015. It was designed to provide flexible unsecured loans of up to £150,000 for VCSEs and make them affordable by combining grants with loans. The Growth Fund blends a commitment of £22.5m of grant from The National Lottery Community Fund with at least £22.5m of loan finance from Big Society Capital and other co-investors (such as community foundations). Access - The Foundation for Social Investment, manages the programme in a wholesale capacity, working with a number of social investors who manage funds under the programme and provide investments to voluntary, community and social enterprise organisations (VCSEs). The programme itself aims to provide relevant finance to over 700 organisations in England. Further information on the Growth Fund can be found in the latest summary evaluation report.

Ecorys and ATQ Consultants were appointed to evaluate the Growth Fund, with the aim to assess and track its effectiveness in enabling a wider group of VCSEs to successfully access social investment, become more resilient, and deliver greater social impact. The evaluation commenced in 2016 and will run until 2025.

Beyond the evaluation, Ecorys is conducting **research on the wider financial resilience of VCSEs**. The overall aim of this piece is to explore what financial resilience means to VCSEs, and how this can best be achieved.

This **Rapid Evidence Assessment (REA)** was the first part of the research. It draws together evidence of what resilience looks like in the VCSE sector and any gaps in evidence.

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Initial research questions

The **initial research questions** for this piece of research were:

a) What does resilience mean and look like for VCSEs through PESTLE[1] periods of stability, change, shock and recovery – and what is needed to help VCSEs work out how to span cycles of those periods resiliently?

b) How do (or could) VCSEs' use of enterprising business models, different channels of income source types, ability to flex and social investment, help to build long-term resilience?

c) How should affordable social investment be designed to help micro, small and medium VCSEs maximise this resilience while minimising their exposure to risk?

d) What implications does this have for the sourcing of the supply of capital (private funds, charity endowments, grant etc) and design of the risk-mitigation chain between 'investor' and investee?

e) What is a good way to test/ provide assurance that growing VCSEs' resilience delivers social impact?

[1]Political, Economic, Social, Technological, Legal, Environmental

Methodology

- The first step to respond to these research question was to consult existing research on this topic with a Rapid Evidence Assessment (REA). **The aim was to identify what evidence already existed for these questions, where the gaps were, and where additional primary research should focus.**
- The REA focussed on research questions A,B,C and E. Question D was excluded from this review as this is a normative question that is best explored through stakeholder consultations.
- Following the sign-off of the research questions and search strategy, Ecorys identified a list of 190 documents which matched the search parameters. Each title was assigned a total score based on the level of rigour, its relevance to the research questions and the year of publication. Publications were also assigned a weighted score with extra weight being given to the ‘relevance’ variable (see Annex for search strategy and scoring criteria).
- Publications which scored 10 and above (out of 12) on the total score and 20 and above on the weighted score (out of 24) were selected for further assessment. A total of 72 publications were included in this stage.
- Each of the 72 publications was reviewed in further detail to identify the final set on which the REA is based. This process led to 31 publications, to which we added 3 additional publications following consultations with sector experts. To these, the latest report produced in the context of the Growth Fund evaluation was added.
- In total, **35 publications** were read in full with insights extracted and recorded against each of the research questions. A list of these publications can be found in the Annex.

Limitations

- This REA had a solid search strategy and is robust but not comprehensive.
- The aim was to gather a high-level snapshot of what resilience looks like across the VCSE sector and identify the main gaps in the available evidence.
- We recognise that different elements of financial resilience will hold different levels of importance for different sub-sectors, and different types of VCSE entity (such as charity or social enterprise). However, the literature did not provide a detailed breakdown of how resilience varies across different sectors or VCSE entities. We have therefore reported at a VCSE-wide level, though have drawn out specifics / differences within the sector where they were available.

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Research question A:

What does resilience mean and look like for VCSEs through PESTLE periods of stability, change, shock and recovery – and what is needed to help VCSEs work out how to span cycles of those periods resiliently?

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Defining financial resilience

[2] References have been provided in brackets, see slides Appendix for a full list of the Bibliography and the corresponding numbers.

- Resilience can have more than one dimension, each with its own set of measures and ways through which to manifest itself. For example, while Searing et al (2021) define resilience as **"the ability to withstand sudden revenue shock"** (24[2]), Whittaker (2022) offers a broader definition, namely **"the ability to respond rapidly to changed circumstances, finding nimble and opportunistic ways to continue to make a difference."** (31)

- There is a subtle but important difference between the two definitions: One suggests a return to a pre-crisis position as the overall aim, while the other expects and even encourages carving a new path. This has implications for the financial, operational and organisational structures VCSEs should seek to establish.

- Elsewhere, resilience is defined as a "**risk management strategy to individual, organisational, and societal dangers"** (32), or **"a journey towards improving an organisation's ability to work with change over time."** (33)

- Framing resilince in terms of *absorbative* capacity, *adaptive* capacity and *tranformative* capacity Bene et al (2012, 2016) focus on resilience as an emergent property:
  - **Absorb:** Ability to cope with shocks
  - **Adapt:** Ability to make adjustment in response to change
  - **Transform:** Ability to undertake widespread and lasting change (10)

Absorb

Adapt

Transform

Defining financial resilience

FINANCIAL METRICS

REA	Levels of unrestricted reserves	Revenue	Profit	Levels of debt
Growth Fund	Net assets	Income	FTE	Reducing reliance on grants

- The literature suggests several financial metrics which are important to understanding VCSEs' financial resilience, however there is very little discussion about the levels at which these metrics should be set.
- For example, while there is a general consensus that having reserves is important, there is not a set standard for what is considered a "good level of reserves", with some recommendations varying between 3 to 6 month worth of operating expenditure. (18) This is further complicated by views that VCSEs should be 'strategic' in their accumulation of reserves by both ensuring that they save up *enough* to be resilient but avoid getting their resources tied up by having *too much*. (5)
- Sloan et al (2016) also suggest that VCSE leaders tend to have more flexible views on what constitutes unrestricted reserves compared to other business leaders, often including lines of credit, investment accounts etc in their assessments. (18) This can both lead to over-and under-estimation of what "rainy day" funds VCSEs have access to.

Defining financial resilience

FINANCIAL METRICS

Levels of unrestricted reserves	Revenue	Profit	Levels of debt

Ability to deliver social impact

- Several authors suggested that, unlike other business enterprises, the ability to deliver social impact is incremental to VCSEs' financial resilience, not least because much of their revenue is directly tied to it and it plays a role in funders' decisions. (6,14) By extension, their inability to deliver on their social objectives would pose a direct risk to their financial sustainability.
- Very few publications make comparisons between how resilience is defined in the VCSE sector and how it is measured in the wider economy. Those who do tend to conclude that overall there are not huge differences in the financial metrics organisations use to demonstrate their resilience, with the added caveat that the ability to deliver social impact is an important marker for a VCSE organisation. (18)
- Two studies have suggested that government funding, particularly in the early stages of a VCSEs' setup, carries higher weight and brings more stability than donation income. [24] The extra importance assigned to government funding and the way it is perceived to bring legitimacy to a business model is perhaps more prevalent in the VCSE sector than in other businesses.

Main risks to VCSE resilience

Operational risks

In the State of Social Enterprise (SOSE) national survey (2021), **72%** of organisations cited operational barriers to sustainability (8) as a risk. Issues include…

Internal structure, including management: For Chapman (2022), this was the main determining risk factor to resilience: a poorly managed organisation is more likely to fall victim to environmental changes (33)

Smaller leadership and governance structures, which sometimes means weaker governance (27)

Staff: spanning from issues with recruitment and attainment (heightened by the pandemic) (8,9) to lack of internal marketing and financial expertise, especially with regards to financial forecasting and business planning (12)

Difficulties **accessing customers**, including lack of suitable **premises** or the changing nature of community **needs** (8)

Financial and economic risks

In the SOSE survey, **62%** of organisations cited economic risks (late payments, cashflow issues) and 36% cited financial barriers (8)

Access to funding: size, maturity and geographical location all factors; London-based, larger & more established VCESs least likely to struggle (2,6,8), short (<18 months) funding periods a barrier (33)

Competition for different funding pots with different objectives: concern that this could 'dilute' VCSEs' social mission (14)

High levels of debt prevent growth as organisations use their surplus to service the debt rather than invest in the business (24)

Inadequate reserves and cash flow add dependency on limited income sources (32)

Policy risks

In the SOSE survey, **29%** of organisations cited wider changes in policy as barriers to sustainability (8). This includes…

The uncertainty surrounding the post-**COVID-19** recovery and general economic instability. See next slide for further review on how the pandemic has affected VCSEs' resilience (8, 9,10)

Impact of COVID-19 on VCSE resilience

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NEGATIVE IMPACTS

- The early months of the pandemic were especially difficult, with 1 in 3 charities suffering a drop in income, and those organisations relying on public donations or on fundraising events especially likely to have been hit. (5,31) There was also a drop in grant funding, especially in the first weeks of the pandemic, as funders suspended some operations while adapting to the new context.
- Later, funders adopted a more flexible approach, relaxing some of the requirements or allowing grants to be re-purposed. (22) However, not all VCSEs benefited equally from these changes; arts organisations are traditionally more financially vulnerable than human services organisations, and the pandemic offered no exception, with VCSEs from the arts sector being among the worst affected in terms of lost funding. (18)
- In the medium and longer term, there are concerns around wider economic stability, changes in governments' priorities, and what this might mean for the future availability of grant funding for the VCSE sector. (5)

POSITIVE IMPACTS

- The pandemic demonstrated the resilience of the VCSE sector, with social enterprises, on average, seeking less support from the Government and being more likely to report an increase in turnover than other business types. (8)

State of Social Enterprise survey (2021)	Increase in turnover	Increase in staff hours
Social enterprises	44%	20%
Business as a whole	18%	9%

- Many VCSEs adapted their business models to the restrictions (e.g. by moving activities online) or sought to offer additional services to respond to new or heightened community needs (which in return generated new revenue streams for them). (10,22)
- The pandemic accelerated trends to more flexible volunteering and greater use of technology, which is expected to bring efficiencies. (22)
- VCSEs fostered stronger relationships with external parties (e.g. stronger links with infrastructure organisations, funders, experts, peers). This contributed to give VCSEs a stronger sense of mission, which in turn is likely to contribute to their future fundraising campaigns. (22)
- The pandemic had helped "crystalise" solutions and internal changes which had been sitting in the 'waiting room' for some while before the pandemic came along. (34)

PESTLE factors relevant to VCSE resilience

Political factors	**Availability of public funding**: The VCSE sector, with its high reliance on public funding particularly through contracts with Local Authorities, continues to be vulnerable to changes in government policies and priorities. (6,31, 32). This was demonstrated by the age of austerity (when public funding was drastically decreased) and the COVID-19 pandemic (when public funding was drastically increased). **Reach of public funding:** East of England, East Midlands, West Midlands are traditionally under-represented in funding programmes and harder to reach. (13)
Economic factors	**Markets availability**: The State of Social Enterprise national survey (2021) showed that social enterprises are exporting at higher rates than other businesses. Government has framed Brexit as an opportunity for the UK to access wider markets, which if realised has the potential to benefit the social enterprise sector. (8) **Perceived business efficiency:** There is some evidence that donors tend to invest in VCSEs where they can either expect to see quicker results (26) or think that resources are more efficiently spent (for example, there are some suggestions that donors are, at least partially, influenced by how much VCSEs spend on overheads as part of their overall expenditure). (16) **Reserves:** While in the US VCSEs sought to increase their reserves as a lesson from the 2008 recession (18), at the start of COVID-19 the median UK charity had 3.2 months worth of reserves, with a fifth having less than a month. (5) **Inflation:** The projected inflation is likely to impact VCSEs' donation streams and cash reserves . Furthermore, a staff exodus is expected as 17% of charity staff earn less than the real Living Wage and the sector does not have the resources to offer wage increases in line with the inflation rate. (31) **Austerity**: During the period of austerity, many VCSEs reported a drop in funding. A typical charity's headline income decreased by 2% (4) which may not seem like a lot but given that the surplus income levels across the sector can be relatively low (12), as a proportion this decrease was notable.

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PESTLE factors relevant to VCSE resilience

Social factors

Reputation: The way VCSEs are perceived by the public is important given the reliance of the sector on public donations. This could have both positive implications for their financial behaviour [the fall in trust in 2016/2018 in the wake of a series of high-profile scandals led to a push for greater transparency (6)] as well as negative implications [charities are keen to appear “lean” and “not wealthy”, which has a direct impact on how willing they are to build up their reserves (18)].

Workforce:

- There is a growing evidence highlighting the economic benefits of a diverse workforce. VCSEs are, on average, more diverse than other businesses and are also more likely to draw on local talent, strengthening their links to local communities. (8)

- At the same time, barriers to investment faced by non-white, non-male business owners elsewhere in the economy are also present in the VCSE sector, with a recent evaluation of the Reach Fund (an investment readiness fund) showing that both the success rate and the value of investment for social enterprises led by female, black- and minority-ethnic, or LGBT leaders was lower compared to the rest. (12)

- Some skills are still missing from the sector, particularly around financial forecasting, with younger organisations more likely to experience this skill gap. (8)

- Social enterprises have the ability to rely on a large pool of volunteers (23). Although this gives organisations a pool of flexible resources to draw from in times of tight funding (23), it is also likely to fluctuate widely in response to sudden shocks such as during the pandemic (8).

Networking and collaboration: Being able to tap into wider networks and receive external perspectives can lead not only to more and better opportunities but could also result in efficiencies as VCSEs learn new ways of do things. (12)

PESTLE factors relevant to VCSE resilience

Technological factors	**Digitisation**: The pandemic forced many VCSEs to move their delivery online and engage remotely with their service users. While this shift was necessitated by the restrictions imposed at the time and it is unlikely to be embraced long-term by everyone, there is some evidence that it helped some VCSEs increase their reach and develop new products. (22)
Legal factors	**Governance**: A national survey revealed that 18% of social enterprises don't have a board (8). While on its own this finding does not tell us much about organisations' resilience, it gives food for thought given the role governance structures play in any decision-making process and by extension the way organisations respond to challenges. **Structure of investment:** Recent studies show that despite charities' endowment funds amounting to over £95billion, very little of it is made available for social investment. One of the potential barriers is that charity trustees are nor clear on what they are allowed to do with the funds and, because of this, opt for the default, more conventional investment practices. (7)
Environmental factors	There has not been much discussion about this in the literature, which is surprising given the overall societal focus on the climate emergency. Where it was explored, however, a survey showed that 84% of social enterprises believe the social and environmental friendliness of products is as or more important than cost (8), and the majority are factoring in the environmental impact of their supply chains when developing their business.

Research question B:

How do (or could) VCSEs' use of enterprising business models, different channels of income source types, ability to flex and social investment, help to build long-term resilience?

Types of business models VCSEs use

- Not many of the papers discussed the type of business models VCSEs use and those that did, focussed exclusively on social enterprises.
- Among social enterprises, education and skills development is the most popular sector (14%), followed by retail (12%) and business support consultancy (11%). (8)
- There are some regional variations, with social enterprises in the least deprived areas more likely to trade with the general public, while social enterprises in the most deprived areas tend to generate their income by trading with the private and public sector or other social enterprises (e.g. by offering business support consultancy). (8)
- While social enterprises are mainly service orientated, small and medium-sized organisations are more likely to engage in the production and sale of goods than the larger entities. (27)
- The type of business model VCSEs use can have a direct impact on their resilience. A study found that leisure trusts and housing associations had a 100% success rate in raising investment. While this success rate is mainly explained by the fact that these organisations have large assets that can act as collateral, there is also an argument to be had that their relatively simple business model and secure revenue streams make them an attractive investment. (25)
- Research by Ecorys as part of the Growth Fund Evaluation highlighted that if a VCSE is able to clearly define their social mission, the VCSE is better enabled in thinking about appropriate income streams to achieve that mission.

How flexible these business models are (i/ii)

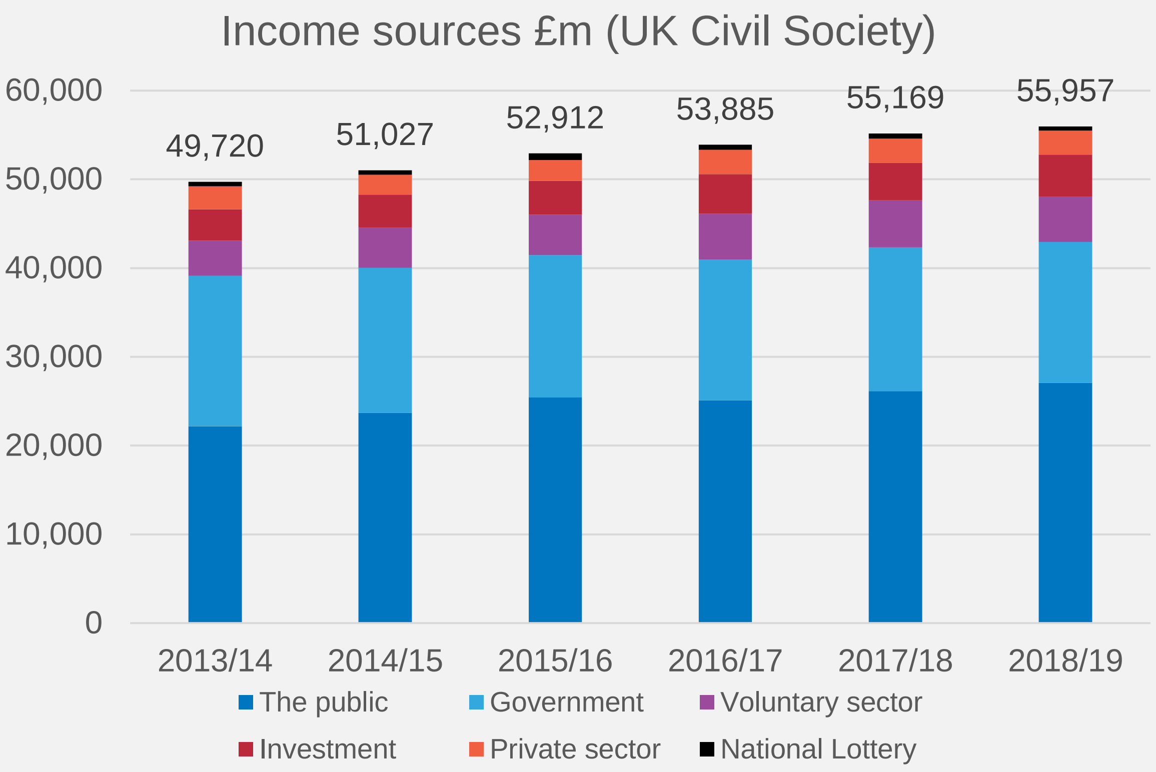
IGNORE → RESTRUCTURE → SPECIALISE → COOPERATE → DIVERSIFY

- Business model flexibility can be viewed as a scale with diversification (introducing new products or services) at the one end and sticking to ‘business as usual’ (ignore) at the other end. In between are different ways through which an organisation can respond to the changing environment, including by becoming more open to cooperation, specialising in order to make its offering more competitive or restructuring its staff model (19).
- Diversification is seen as a form of security. For example, VCSEs might have property assets which limit overheads such as rents and provide a source of regular income by letting space (34). However, diversification is not always a secure route to success: adding income streams too rapidly and broadly may put additional pressures on organisations if they lack expertise in certain forms of income generation and its management, or may not simply be appropriate for all organisations (33).
- The COVID-19 pandemic demonstrated VCSEs’ ability to adapt and ‘pivot’ their business models, with many successfully changing the mode of delivery (from in-person to digital) or developing new products and services altogether in order to respond to the shift in demand. The State of Social Enterprise national survey (2021), showed that six in ten organisations introduced a new product or a service (a significant increase compared to 2019), compared to three in ten of small and medium sized businesses in the rest of the economy. (8)

How flexible these business models are (ii/ii)

- Questions however remain about how prevalent such flexibility is outside of acute crisis periods, with a 2016 evaluation of the Impact Management Programme showing that 50% of participating VCSEs found it hard to discontinue ineffective practices. (28)
- A study into the responses of environmental VCSEs to the austerity period suggest that the behaviour is influenced by organisational size, with larger, more established VCSEs more likely to opt for the 'ignore' response as they have sufficient resources to weather the storm. The same study also found that while large VCSEs carried on because they could, the small VCSEs who followed the 'ignore' path did so out of powerlessness, showing that there is a difference between "wanting" to do something and "being able" to do it. (19)
- The role of size in organisations' ability and willingness to change their business model was also explored as part of the evaluation of the Grow Programme, which concluded that individually-led charities were more reluctant to take on board external advice and appeared more 'set in their ways'. In contrast, collectively-run charities were more open to suggested changes. (2)
- And then there is the question of whether being flexible with one's business model is a good thing. While it can increase organisations' resilience, particularly at times of significant changes, it could also lead to a 'mission drift', which could explain why some VCSEs, particularly those with strong ties to a specific community, are wary of any modifications. (14, 27)

Main sources of income



The NCVO Almanac presents the main income sources across the UK Civil Society (including VCSEs).

Data show that their income has **steadily increased** between 2013/14 and 2018/19 (+13%).

Note on definitions: Income from the public includes donations, legacies, fees for services (income earned through voluntary organisations providing charitable services) and fundraising. Income from the Government means central and local government in the UK, EU and international governments. Income from the Voluntary sector means from foundations and trusts. Income from investments refers to income generated from investments and cash balances.

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Main sources of income

Source	Growth rate (2013/14 – 2018/19)	Difference 2018/19 and 2013/14 (£m)
Public	+22%	+ 4,924.40
Government	-7%	- 1,121.30
Voluntary sector	+30%	+ 1,184.70
Investment	+34%	+ 1,198.30
Private sector	+4%	+ 97.00
National lottery	-9%	- 46.00
Total income	*+13%*	*+ 6,237.20*

NCVO Almanac data also show income sources have changed across years.

Looking at the data, it looks that **growth in total income was due to the increase in income from the public**[1] (+22%, or +£4.924m).

This growth, together with the increase of income from investment (+34%, or £1.198m), the voluntary sector[2] (+30%, or £1.185m), and to a smaller extent from the private sector (+4%, £97m) was large enough to balance the decrease income from the government[3], which went down by 7% (-£1.121m).

1 Income from the public includes donations, legacies, fees for services (income earned through voluntary organisations providing charitable services) and fundraising.
2 Income from the Voluntary sector means from foundations and trusts.
3 Income from the Government means central and local government in the UK, EU and international governments.
4. Income from investments refers to income generated from investments and cash balances.

Main sources of income

Earned income

- Two thirds of social enterprises earn most of their income by trading (8,25)
- For all VCSEs, most trading income comes from training with the general public (27)
- Charities who rely mostly on earned income through their charitable activities have the lowest levels of reserves (5)

Grant funding

- The pandemic led to an increased reliance on grant income as many activities were curtailed due to the restrictions put in place. However, still only one in ten VCSEs rely on government grants as their main income source, and one in twenty rely on other grants (8)
- This is an interesting shift as statutory grant funding has been decreasing across the sector since the start of the austerity period (21)
- Social enterprises who are led by people from a minority background or with disabilities are more likely to rely on grants as their main income source (8)

Donations

- Charities are more reliant on public donations compared to other VCSEs (4,20)
- This can pose problems for those charities who champion causes which are less likely to attract public attention (6)
- Donation income tends to carry higher admin costs and can be more volatile, especially in times of crisis (3)

❑ Most VCSEs continue to rely on single income sources (8,20)

❑ The type of income source can influence organisations' behaviour as they carry different "push and pull" factors (6,14)

Research question C:

How should affordable social investment be designed to help micro, small and medium VCSEs maximise this resilience while minimising their exposure to risk?

Lessons from other social investment schemes

- There was not much discussion in the literature about how the design of social investment could impact VCSEs' resilience. Where the design was explored, it was mainly with reference to how open VCSEs were to the investment and their perception of it. Nevertheless, some lessons were identified which can be applicable to the questions the REA is looking to answer.

- Several publications highlighted the role of blended finance in making social investment more affordable, and by extension more desirable, to VCSEs (7,12,35).

- The length of repayment terms were not specifically looked into but some providers commented that what is currently available tend to be relatively short, with terms usually extending to 5 -10 years. Some expressed a desire for longer-term patient capital. (13)

- The importance of capacity building was also highlighted in the literature as something that funders such as trusts and foundations should try to incorporate in their investments, as it would ultimately make the organisation better prepared to face any challenges (1). There are different ways this support can be offered, with an evaluation of the Reach Fund emphasising the benefits of a less centralised approach. Reach Fund grantees' could choose who they want to get support from to become investment ready, as opposed to being given a list of pre-approved consultants. This model resulted in organisations developing strong relationships with their providers (which were often local to them) and tapping into their networks. Another learning is that demand-led capacity building (i.e. linking it to a specific investment) has the potential to be more effective than a 'generic' approach (12)

Lessons from other social investment schemes

- The evaluation of the **Growth Fund** (35) provides good evidence that social investment can increase VCSE's resilience. While the evaluation is still ongoing and it would not be appropriate to make conclusive statements at this stage, there are some elements of the social investment which have been highlighted as particularly helpful by the VCSEs:

- **Having good alignment between the social investor and the VCSEs' mission:** Some VCSEs stressed the importance of being on the same 'wavelength' as the investor. This can lead to a strong working relationship, which sometimes goes beyond the Growth Fund.

- **Flexibility with how the social investment can be spent:** Some VCSEs preferred the social investment to grants, as they could use it how they liked, which arguably helps them be more responsive and boost their resilience.

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What is considered an acceptable level of risk

- This was another area which was not extensively covered in the literature. Where it was explored, it was highlighted that balancing ‘risk’ and ‘benefit’ within the social investment field is more complex than in other parts of the economy and it is ultimately guided by the investors’ social priorities. For example, while an investment can be perceived as financially too high risk by one investor, another can consider it acceptable given the social impact it aims to achieve. This dynamic means that it is difficult to set universal thresholds for risk levels. (2)

- The question of risk and the role it plays in social investment can also be explored through the prism of what the social investment market aims to achieve. If the goal is to bring the VCSE sector closer to the mainstream financial markets, then framing the conversation around exposure to risk would make sense. If, however, the aim is to provide finance to organisations which cannot raise funds otherwise, then by default social investors are inherently comfortable with lower recoverability of their investments. (7)

- Where potential mitigations to risk were discussed, the use of blended finance was mentioned (7) and so was the set of hubs of investors so they can exchange learning (13). The best way the risk to the investment can be reduced, however, is by ensuing that the VCSEs have a clear financial model and a good understanding of how to use the investment efficiently. (11)

Research question E:

What is a good way to test/ provide assurance that growing VCSEs' resilience delivers social impact?

What methods have been used and with what success

- Measuring social impact remains an area that both VCSEs and funders struggle with and most organisations only have basic measurement practices in place. (13, 7)
- This gap is not for the lack of trying: There have been numerous attempts at setting out guidance and introducing measurement metrics over the years: the Good Investor, the Good Analyst, Big Society Capital's Outcomes Metrix, NESTA'S Standards of Evidence, SROI (social return on investment) are some of the approaches used over the years, but none of them seem to have 'cracked the problem'. (7)
- Some suggest that it is inherently difficult to create a set of measurements for what can often be nuanced changes in a complex environment. (6) Another challenge is the need to convince VCSEs in the usefulness of gathering this data in the first place, with many not seeing a direct link between impact assessment and funding. (14, 28)
- The methods used by evaluators and/or investors to date can be clustered into four broad categories:

- **Surveys:** these tend to be administered at key time points and often rely on VCSEs' self-assessment (1,12,14)
- **Theory of Change:** these are continuously updated as the VCSEs work toward their set goal (1,12)
- **Assessment tools:** this can take the form of a diagnostic tool which collects key financial and organisational data at the start and end of the investment (13); another example is the MIAA tool (Methodology for Impact Analysis and Assessment) developed by Investing for Good (13)
- **External data mapped to VCSEs' self-reported data:** such as downloading VCSEs' submitted annual accounts (13,3) or using deprivation index data to map where VCSEs' activities are clustered (23)

What methods have been used and with what success

- Learning from the **Growth Fund evaluation** (35) is that we can measure changes in social impact, and we can measure changes in resilience, but the two are not always perfectly aligned. For example, investing in financial skills development might in the long-term help the organisation to grow, but it is virtually impossible to attach a social impact to this specific investment.
- This also poses the question whether we *should* aim to link up the two in the first place. One might argue that by seeking to establish an explicit link between resilience and social impact, and by encouraging funders to seek assurance that the latter is an integral part of the former, funders will focus on short-term funding specifically linked to social activities. This in turn may risk further perpetuating the problem of not enough funding being available for activities that are either long-term or focused more broadly on developing organisational capacity.

Next steps

Next steps

Following this REA, Ecorys consulted with the Programme Partnership and with the Research Advisory Committee – a group of 30 sector experts set up specifically for this research.

The group revised the initial research questions to formulate a **final set of core and sub research questions**. The new questions are now as follows:

- **RQ1: What does resilience mean and look like for VCSEs through PESTLE periods of stability, change, shock and recovery? What is needed to help VCSEs work out how to span cycles of those periods resiliently?**
    - What are the enabling and inhibiting factors that help VCSEs' ability to absorb, adapt and transform in their journey, whilst being able to deliver social impact? (e.g. staff, governance...)
    - How do VCSEs define resilience? And how does sectoral literature define it? What is a credible definition of resilience for VCSEs?
    - To which extent and how does this definition differ across PESTLE periods of stability, change, shock and recovery?
    - To what extent does the 'absorb, adapt, transform' framework hold true in times of 'business as usual'?
    - What metrics should be used to measure resilience, including in the context of assessing due diligence?
    - What does the journey towards achieving resilience look like for VCSEs? What are the key learnings stemming from their experience?

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Next steps

- **RQ2: How do (or could) VCSEs' use of enterprising business models and sources of income help to build long-term resilience?**
  - What are the implications of the decreasing income from government? Does this make some VCSEs particularly vulnerable?
  - To which extent can we expect the income from the public to change in the current economic context?
  - What is the link between income source diversity and financial resilience? To which extent does having more than one income stream affect the resilience of a VCSE?
  - What are the examples of business model innovation/adaptations in VCSEs that helped them in building (long-term) resilience?
- **RQ3: How should affordable social investment be designed to help micro, small and medium VCSEs maximise this resilience while minimising their exposure to risk?**
  - What do VCSEs appreciate the most from social investment? And how could social investment be better adapted to support financial resilience?
- **RQ4: What implications do the research findings have for government, donors, social investors and VCSEs?**

These revised research questions will guide the second phase of this research, which will feature primary research. In this phase, Ecorys and ATQ will interview 20 England-based VCSEs across two years and investigate their work, and their journey with financial resilience.

Annexes

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Search strategy

The literature used for this research was identified by:

1. Searching relevant databases/search engines (e.g. Google scholar) using key search terms (e.g. VCSEs, financial resilience, business models, funding structure, social investment, evaluation, impact measures) and specific search parameters (i.e. literature published since April 2016 onwards; in the UK). Key search terms that we will use include e.g. ("social investment" / "blended finance") "UK" "research"; ("social investment" / "blended finance") "UK" "impact" and others.

2. Searching publications pages of organisations working in social investment, by searching on the 'resources' or 'publications' webpages of specific organisations that we know work in this space (e.g. Big Society Capital, Access, Good Finance, Social Enterprise UK, New Philanthropy Capital, Social Investment Business, The National Lottery Community Fund, Financial Times, Pioneers Post, Flip Finance, Lloyds Foundation, Esmee Fairburn, Power to Change, Locality, Social Spider, Impact Investing Institute, Barrow Cadbury Trust, Equally Ours, and Black South West network).

3. Internal Call for Evidence, inviting stakeholders involved in the Growth Fund and the Research Advisory Committee created for this research to recommend any reports that they are aware of that could be of relevance.

We then appraised the literature according to key quality metrics, to ensure that we prioritise the most relevant and highest quality literature, as outlined in the table below. We assigned a score for each measure for each piece of evidence and prioritised reviewing the literature with the highest scores.

Score	1	2	3
Level of rigour for publication	Low (organisational blog, newspaper article or opinion piece)	Medium (annual report, internal report, policy paper, internal evaluation)	High (independent evaluation, academic journal, other independent report)
Extent that it is grounded in evidence	Some evidence referenced but no methodology	Research with a methodology supplied but substantial weaknesses in the methodology	Research with strong design and robust methodology (no or very few weaknesses)
Relevance	Relates to very specific element of VCSE financial resilience AND has a non-UK focus	Relates to very specific element of VCSE financial resilience AND/OR has a non-UK focus	Relates to financial resilience of VCSE sector in UK
Year published	2016-2017	2018-2019	2020+