Repayable grants: A way grant funders can address unmet funding needs in the voluntary sector

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July 2025

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Introduction

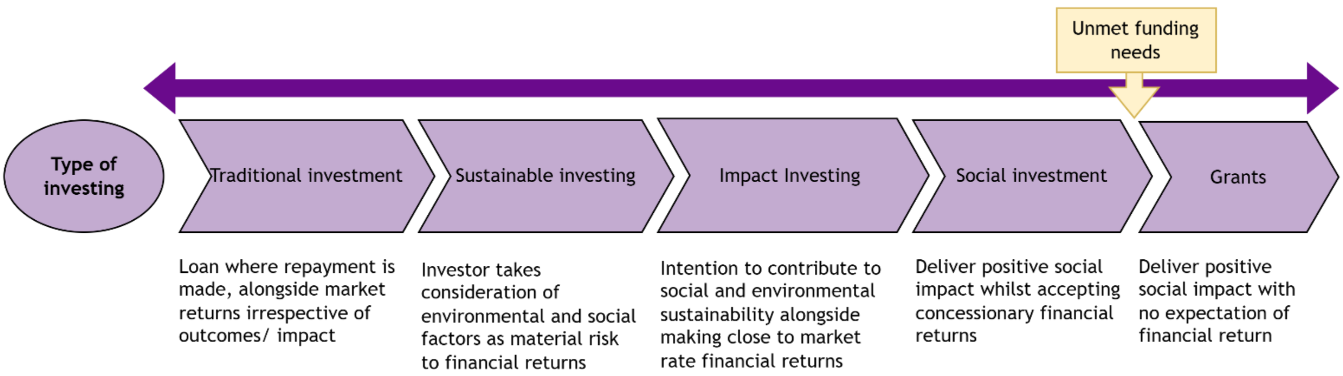
This research has been carried out by Ecorys UK as part of The Growth Fund evaluation, on behalf of the National Lottery Community Fund. The Growth Fund was launched in May 2015 to provide flexible, unsecured loans to VCSEs to grow and create social impact. This was made affordable through blended finance, which is a combination of grants and loans. This summary report outlines the findings of this early exploratory study into repayable grants. It outlines what repayable grants are, their benefits and challenges, and recommendations for the potential of repayable grants to support VCSE financial resilience. The findings may be useful for funders interested in innovating to address VCSEs' unmet funding needs, particularly funders with in-depth relationships with their recipient organisations.

This report is based on a Rapid Evidence Assessment (REA) of existing literature on repayable grants, and interviews and focus groups with VCSEs and a funder carried out in December 2024 – February 2025. A full description of the methodology underpinning this document is provided in the Methods note.

The funding landscape

Recognising that social investment is only one route to increasing VCSE financial resilience, the Growth Fund evaluation team sought to explore wider routes. Ecorys' research found that VCSEs operate within an insecure funding environment and have several unmet funding needs including for core costs (including leadership time for business development planning and training), capital and assets. For some VCSEs, these needs are not met by traditional grants or social investment, as plotted in Figure 1. This is because grants are often focused on front-line delivery and do not typically fund core costs or capital. In contrast, social investment (even blended finance as it is currently structured) focuses on funding activity likely to provide a return within a reasonably short timeframe, and is therefore unavailable for more speculative or riskier proposals.

Figure 1 Spectrum of common VCSE funding products[1]



[1] This is an adapted version of a diagram from Kail, A., Neaum, D., Piazza, R., Kaur, P. and Anderson, R. (2022) *Review of grant subsidy for blended finance to support civil society.* NPC.

What are repayable grants?

Repayable grants are **grants which are partially or fully repaid.**[2] They sit between traditional grants and social investment. The REA found that 'repayable grants' is also an umbrella term which incorporates a range of 0% or low interest, grant-based products which are the focus of this research:

- Repayable grants which are repaid in pre-agreed instalments after being awarded.
- Repayable grants where repayment is triggered when financial outcomes are achieved (sometimes called 'recoverable grants').
  - This may also include repayment by equity shares, for the small proportion of VCSEs with an organisational structure which facilitates this (called 'convertible grants').

Why use repayable grants?

Repayable grants are sparsely documented in available evidence, which may be due to their limited use. Where evidence has been published, the mechanics of the funding is rarely detailed. This presents a challenge when assessing the potential for repayable grants. However, the research team uncovered a case study example which demonstrates the possible use-case for repayable grants. It illustrates that repayable grants may have a use-case in specific, individual circumstances where neither a traditional grant nor social investment, as they are currently structured, are available or suitable.

Case study: The Rank Foundation's repayable grant

The Rank Foundation is a grant-making foundation providing funding to a wide-range of VCSEs across the UK. Recognising VCSEs' need for finance for leadership development, they became interested in supporting enterprising activity and started offering repayable grants.[3] Repayable grants enabled The Rank Foundation to provide funding for VCSEs to secure assets, which were outside of scope for their mainstream grant programmes, whilst not taking away from the pot of funding available for traditional grants. *"It was a way of supporting them to acquire assets, but not taking away from those […] who need regular salary funding, revenue funding."* - The Rank Foundation.

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[2] We started this research with the following working definition of repayable grants, from Community for Caring: 'Repayable grants are a type of financing where an organisation or individual receives funds that they are expected to repay in the future, with little or no interest. These grants are designed to help promote economic development and advance social or environmental causes.'. However, much of the literature does not include a clear definition of what a repayable grant is. The term is often used to describe different products, and is sometimes used to describe loan-based products. Of the 18 publications reviewed in the REA, just 2 provided a definition.

[3] Alongside other non-repayable grants which also aimed to support enterprising activity such as capacity-building support and grant funding for core costs.

A place-based approach was taken to the repayable grant programme.[4] The Rank Foundation provided repayable grants for enterprising initiatives in a specific locality, to VCSEs well-known to the foundation. Upon repayment, the funding was re-offered to other VCSEs working in the same local area, creating a local circular economy whilst promoting the financial health of the VCSE sector working together in a community.

See The repayable grant agreement small-print below for more detail on the small-print and repayment schedule.

A repayable grant in practice

A VCSE needed around £300k to make an all-cash offer on a property when it hit the open market in their local area. They approached a social investor, who was unable to provide them with the pre-agreed funding they needed in advance of the property being put up for sale. Additionally, the investor needed the VCSE to get planning permission for the property to show its potential value - because the current value was not enough to secure the loan against. The VCSE was unable to risk spending time and money on planning permission for a building before securing it.

Instead, the VCSE looked for grant funding for the property. However, at the time at which they needed it, no capital grants were available. The VCSE approached The Rank Foundation, who they had an established relationship with, who offered a repayable grant.

The Rank Foundation provided the funding to secure the property as a grant, and repayments came back as income. At the time of the interviews, 4 years after the grant was disbursed, the VCSE had repaid almost all of the grant. The VCSE interviewee suggested that the motivation to repay was underpinned by the strong social contract behind the grant agreement – they wanted to maintain the positive relationship they had with the funder, uphold their good reputation, and support the re-use of repayments to fund other VCSEs in the same local community.

A win-win situation? The repayable grant was disbursed quickly, in advance of the VCSE bidding for and purchasing the property: *"that we could have the [funding] pre-agreed, and then just draw it down when we were ready, was really key."* – VCSE interviewee. They were able to set up a community shares programme to generate income, bring an empty property into community ownership, and provide more space for local VCSEs, small businesses to use, and opportunities for local people to connect. The Rank Foundation was glad to have supported the VCSE's enterprising activity and meet their unmet funding needs.

[4] The Rank Foundation also have a national repayable grant programme.

Benefits of repayable grants

VCSE and funder perceptions of the benefits of repayable grants are outlined below.

Benefits for VCSEs

VCSEs liked that repayable grants could overcome the limitations of social investment and grants in one product:

- Compared to grants, they offered the opportunity for longer-term funding which could be used for core costs, purchasing assets, and testing new ideas
- Compared to social investment, repayable grants are lower/no interest, could be pre-agreed and disbursed quickly, and could be used to fund concepts deemed too risky or unviable for social investment.

Benefits for funders

The benefits of repayable grants for funders, particularly grant-funders, are:

- The opportunity **to recycle capital which could be used to meet the funding needs of more VCSEs,** which in turn may support the financial health of the sector more broadly.
- To **provide funding for things funders may not feel comfortable grant funding** (for example, capital projects, purchasing assets, profit-making ventures, core costs, and business development time) or to organisations more difficult to fund through traditional grants (such as Community Interest Companies)
- **Not charging interest may be a better fit with grant funders' philanthropic ethos** (rather than loans)
- **Easier and more comfortable to administer than a full loan book**.

Repayable grants may therefore be of interest to grant funders wishing to explore funding outside their usual remit. That said, repayable grants come with several challenges.

Challenges of repayable grants

As with any repayable finance, the main issue with repayable grants is that they need to be repaid. This makes them unsuitable for many VCSEs with no current or future plans for generating traded income. Beyond the limitations of any type of repayable product, the main limitations of repayable grants for funders to consider are:

- **Overhead management costs of monitoring and recuperating the grant**. The case study illustrates that in cases where trust between the funder and VCSE is high, absorbing the costs of managing the repayable grant may not be higher than managing non-repayable grants. However, funders should consider the resourcing required to do any further monitoring should this be felt necessary.
- **Risk**: Funders are unlikely to seek repayment where a VCSE is unable to make repayments. Funders will need to consider the likelihood of repayment, and how comfortable they are with the risk of not being repaid.
- **Confusing terminology:** Funders will need to be clear about what a repayable grant is, to ensure VCSEs understand the product. Echoing the inconsistent use of the term in the literature, VCSE interviewees unanimously agreed that the phrase 'repayable grant' is confusing. For them, a repayable grant was no different to a 0% interest loan. Indeed, one VCSE stakeholder who had received a repayable grant suggested they had not fully realised the implications of taking on a 'repayable grant', and believed the term 0% interest loan would have been more transparent.
- **Liabilities:** Similarly, funders will need to be prepared to provide guidance on the accounting for repayable grants. VCSE interviewees were concerned about the liabilities that would come with a repayable grant. Both VCSEs who had received a repayable grant, and those who had not, were worried about not fully understanding the implications of taking on a repayable grant, and the potential for debt to negatively affect funders' perceptions of their organisation when applying for future grants.

"Then when we subsequently are trying to raise further money, it is more difficult when you've got a loan [repayable grant] outstanding. Because a lot of funders do not want to pay money to a charity which has money outstanding because that meant their money might be going to repay a loan [repayable grant]" – VCSE interviewee

Conclusion

Our research found that VCSEs have unmet funding needs, not being met by either social investment or traditional grants. There are limitations to the extent to which social investment and traditional grants could be changed to meet these needs, because:

- Traditional grants are in high demand, and funders are uncomfortable providing grants which could lead to profit.
- Social investors are unable to cover the costs of monitoring and managing loans, without charging interest or using blended finance. There are also limitations to funding risky projects whilst maintaining due diligence and the need to make a financial return.

The case study presented here illustrates the **potential, in specific cases, for funders to meet VCSEs' funding needs for softer, more patient capital through repayable grants,** and to recycle funding. It provides grant funders with the opportunity to fund things which support VCSE financial resilience, but which do not fall within the norm of grant funding, due to the potential for repayment.

It demonstrates the importance of a **strong relationship** between repayable grant funders and recipients to identify the bespoke use-case for repayable grants. **Close relationships** between funders and VCSEs are needed to understand when a repayable grant is needed (when other options are less suitable) and the likelihood of repayment, as well as to trust that repayments will be made based on a **strong social contract**. The emerging evidence suggests that small, local grant funders are therefore best placed to offer repayable grants.[5]

Recommendations

The remaining recommendations are targeted towards grant funders with close relationships with their VCSE community, who may be well-placed to offer repayable grants.

- Grant funders may wish to **consider a repayable grant when offering a traditional grant is not possible** (for example, due to the use of the grant funding on assets or other activities which sit outside of scope of a funder's grant portfolio) but a VCSE has unmet funding needs.
- Grant funders may also wish to consider a repayable grant when there is a high demand for traditional grants but an application for a grant appears to be **for something profitable.**
- Grant funders may consider **using a repayable grant as a form of social venture capital** to fund VCSEs to develop an idea before seeking funding (such as social investment).

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[5] Compared to large, national organisations without close relationships with VCSEs, or social investors who need to recoup administrative costs and monitor funding closely to report to investors.

- In lieu of more formal repayment terms (such as in loan agreements), funders should **emphasise the importance of repayment so the funding can be recycled, in order to support other VCSEs** and promote wider VCSE sector health.

- Repayable grant funders should **ensure that VCSE recipients are fully informed about the repayable grant and its requirements before taking it on.** This requires funders to explain how a repayable grant differs from other products, the expectations for repayment, and that taking on a repayable grant will present as a liability on their balance sheet (which may be taken into consideration by future funders).

Areas for further research

- As repayable grants are relatively undocumented, there is a need to **document cases and share learning** to further explore the potential of repayable grants and drive innovation in supporting VCSEs with financial resilience.

- In particular, **learning about the administrative processes and requirements to successfully recoup repayable grants should be shared** so funders understand the resourcing needed to provide repayable grants, and for solutions to be considered. For example, new technologies could be trialled to support grant funders new to repayment.[6]

- **Further research is needed** to explore different use-cases for repayable grants, and how they sit alongside other products. Future research should seek to provide funders with guidance on the different funding options available or optimal in different cases to support VCSE financial resilience.

[6] For example, scoping the transferability of software such as 'Singlify' used by social investors to track repayments.

Appendices

The Growth Fund evaluation

The Growth Fund was launched in May 2015. It was designed to provide flexible unsecured loans of up to £150k for voluntary, community and social enterprise organisations (VCSEs) and make them affordable by combining grants with loans. The Growth Fund blends a commitment of £22.5m of grant funding from The National Lottery Community Fund with at least £22.5m of loan finance from Better Society Capital and other co-investors (such as community foundations). Access – The Foundation for Social Investment, manages the programme, working with a number of social lenders who manage funds within the Growth Fund and provide investment to VCSEs. More information about the Growth Fund and its evaluation can be found in the latest evaluation summary update.

The Growth Fund aimed to enable a wider group of VCSEs to access social investment and through this, supported VCSEs to become more financially resilient. Recognising that social investment is only one route to increasing VCSE financial resilience, the Growth Fund programme partnership became interested to explore wider VCSE financial resilience. The programme partnership were therefore interested to explore whether repayable grants could meet VCSEs' unmet funding needs and support VCSE financial resilience.

The repayable grant agreement small-print

Beyond The Rank Foundation's close relationship with the VCSEs they provide repayable grants to,[7] the Board of Trustees are also invited to meet each VCSE in-person and see delivery on the ground, ask questions about the proposed business model, and consider the likelihood of repayment. The approach taken to providing repayable grants is underpinned by a grant mindset: *"think of it as a grant that may come back"* – The Rank Foundation.

The Rank Foundation sought legal advice to develop a template grant agreement, adaptable to the needs of each VCSE. In the case study example, the agreement stipulated that the VCSE must set up their proposed income generation model (which would secure the funding needed to repay the grant – in this case, a community shares scheme) within a year. Investment was raised from local individuals and organisations who became shareholders in the VCSE. The VCSE repaid the majority of the grant in a single lump sum repayment once income from their new model was secured, and were repaying the remaining amount quarterly. No charge was placed on the VCSE's assets should they go into administration –

[7] The Rank Foundation's repayable grants programme offered funding on an invite-only basis.

The Rank Foundation suggested this did not fit with their ethos and, based on learning from previous experience, the legalities of securing the loan against assets was costly.

Methods note

This research was carried out between Summer 2024 and Spring 2025. The research commenced with a working definition of repayable grants, which was further refined through the research process:

> *"Repayable grants are a type of financing where an organisation or individual receives funds that they are expected to repay in the future, with little or no interest. These grants are designed to help promote economic development and advance social or environmental causes."* – Community for Caring

The research sought to answer three overarching research questions:

- What does the repayable grant landscape currently look like?
- How, if at all, do repayable grants support the financial resilience of VCSEs?
- How could repayable grants be designed to support VCSE financial resilience?

The methodology for each stage is further outlined below.

Research Advisory Committee (RAC)

A RAC made up of 17 academics, VCSE infrastructure organisations and funders were engaged through two interactive workshops to support the refinement of research questions, identification of literature for the REA, interpretation of research findings, and formulation of conclusions and recommendations.

Rapid Evidence Assessment (REA)

The research started with a REA to identify what evidence already existed about repayable grants. Key search terms included 'VCSES', 'charities', 'social enterprises', 'repayable grant' 'zero interest loan', 'convertible grant', 'recoverable grant'. The documents were sourced through an online search and recommendations from members of the RAC Ecorys identified a list of 38 documents which matched the search parameters. Each title was assigned a total score based on quality metrics outlined in Table 1. Publications which scored 1 or less on relevance or rigour were excluded. Documents with a total score of 6+ (n=18) were progressed to full review. Insights were extracted against each of the research questions. A list of all publications informing this report are provided in Bibliography.

Few examples of repayable grants were uncovered by the literature review, and where they had been tested, there was a lack of public information about the lessons learned. Therefore, further primary research was required to answer the research questions.

Table 1 Literature appraisal scoring criteria

Score	0	1	2	3
Level of rigour	N/A	Low (organisational blog, newspaper article, 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	N/A	Some evidence referenced but no methodology	Methodology supplied but substantial weaknesses in the methodology	Strong design and robust methodology (no or very few weaknesses)
Year published	N/A	Last 10 years (2012-2016)	Last 5 years (2017-2021)	Last year (2021-2022)
Relevance - relates to:	Other funding mechanisms for VCSEs, but not repayable grants (outside of UK)	Other funding mechanisms for VCSEs, but nor repayable grants (UK focused)	Repayable grants to VCSEs (outside of UK) *Or* Repayable grants to non-VCSEs (UK focused)	Repayable grants to VCSEs (UK focused)
EDI discussed?	No - not mentioned	Yes - discussed	N/A	N/A

Interviews and focus groups

The research team sought to carry out a series of deep-dive case studies into the small number (n=6) of repayable grants identified. However, few funders of repayable grants engaged in sharing their experiences. The main barriers were that funders had stopped offering repayable grants and key stakeholders involved in the deployment had moved on, thus the institutional knowledge of the grants had been lost. The research methodology was subsequently pivoted, to include the views of VCSE leaders who had not received a repayable grant, but who shared their reflections about the characteristics of funding they needed to meet their unmet funding needs.

Overall, the research team consulted one funder of repayable grants, two repayable grant recipients, and 10 VCSE representatives who had not received repayable grants. All data was triangulated and synthesised with the REA and RAC inputs. The methods are outlined in further detail below.

Case study interviews

Following the REA, further primary research was required to answer the research questions. A first step involved identifying potential case studies of repayable grants being used in practice. The REA and RAC identified six funders of repayable grants as potential case studies. Of these, five funders did not partake due to staff changes within their organisation resulting in the loss of institutional knowledge of the repayable grants, the product not meeting the working definition for this study (i.e., being a loan-based product)[8], or a lack of response.

One triangulated case study of repayable grants was achieved, composed of three interviews: one with a repayable grant funder, and two with recipient VCSEs.

Focus groups

Recognising that 17% of the most recent Growth Fund annual survey of VCSE investees indicated that a repayable grant would best meet their funding needs, the research team agreed with The National Lottery Community Fund to pivot the research to include the views of VCSEs who had not received a repayable grant. An expression of interest form was shared with VCSEs through a sub-set of The National Lottery Community Fund's mailing list, achieving 22 expressions of interest to participate in the research. Three online focus groups were carried out in February 2025, reaching a total of 10 VCSE representatives. The focus groups were qualitative in nature and did not intend to achieve broad representativeness of the wider VCSE sector, however, a diverse range of organisations took part, including a range of:

- **Thematic sectors**: Mental health and wellbeing; Citizenship and community; Arts, heritage, sports and faith; Employment, education and training; Conservation of the natural environment; Income and financial inclusion; Physical health; Family, friends and relationships.
- **Organisation size**: one micro-sized VCSE (income less than £10k), five small (income £10k-£100k) and four medium VCSEs (income £100k-£1m).
- **Leadership makeup:** Nine women-led VCSEs, two LGBTQIA+-led VCSEs, two disability-led VCSEs, and one Black and minoritised ethnic-led VCSEs.
- **Organisation structure:** Four charities, two Community Interest Companies (CICs), two Company Limited by Guarantee, and two Charitable Incorporated Organisations (CIOs).

[8] It was not possible to explore the range of other products which sit between traditional grants and social investment within the resources available for this study.

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