Focus on... International

Raising Growth Capital amid Cuts

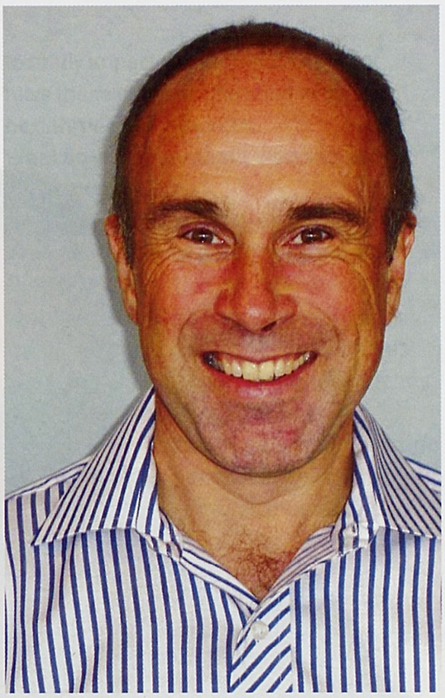
Even in tough times, there are ways to raise capital. Jon Hugget has seven tips and examples from third sector organisations abroad.

Demand for third sector solutions is growing and as a result we need capital to scale. Yet government spending faces cuts. As a sector, it is hard for us to raise capital in the best of times. Overseas experience points to seven pointers for third sector organisations (TSOs) trying to raise capital in these tough times:

1) Be clear how much capital is needed to grow: TSOs need to invest in people, property, equipment, and working capital, just like firms and governments. But, around the world, third sector accounting can make it hard to show this clearly. "Programme expenses", "overheads", "core costs" and "capacity for growth" usually blur. Nonprofit Finance Fund in New York helps US nonprofits raise growth capital as if they were a business, explaining the accounting all the way.

2) Share results: Khulisa in South Africa shows how its programmes in prisons more than halve the rate of re-offending. South Africa wants lower crime more than cheaper prisons. Third sector solutions can offer much more than saving a few percent of cost of failed programmes. The better we are at sharing our results, proving our value, the easier it will be to get funding.

3) Raise capital as a team: Chief executives of growing nonprofits in the US often spend 75% of their time raising money. Many US boards ask their members to contribute and their staff to raise capital: Give, get, or get off. Raising serious capital is a serious investment of time and as many stakeholders as possible should be involved in the process.



4) Pick the right leader: Social entrepreneurs are great for start-ups, but often fail to scale what they spawn. Organisations at different stages of their life cycle need different leaders. We need to ensure that our organisations have the right type of CEO at the right time leading the way.

5) Don't rely on the government: We have an Office of the Third Sector and President Obama has created an Office of Social Innovation and Civic Participation. However, TSOs cannot rely on the government for funding and must continue to be creative when it comes to funding. The reality is over the next few years the UK may be more like the US under Reagan: more work for TSOs amid cuts. Teach for First received a multi million pound commitment from the government to expand in the UK whereas Teach for America raised its $60 million for expansion from foundations & individuals – different funding streams are essential for all of us.

6) Find new sources of capital: Some large US foundations now donate significant growth capital. The Edna McConnell Clark Foundation invests in fewer organisations with large, multi-year commitments for capacity building, bringing in other partners – for example it led a multi-million dollar round of funding for Nurse Family Partnership. Social Ventures Australia and New Profit in the US bring advice as well as capital to growing TSOs.

7) Create new ways to receive capital: Philanthropic investors often want to "catalyse innovation" or "create a legacy". Communities in Schools asked for an innovative scaling of its proven programme and Boys Town has an endowment fund that can spread investments over multiple years.

These seven guidelines have shown promise where it is hard for TSOs to raise growth capital. Smaller social entrepreneurs can turn to incubators and growth funds. Global NGOs such as the Red Cross or Oxfam use their brands to appeal to the public. Raising TSO growth capital is hard. But our peers around the world have succeeded.

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