Title: Assessing the needs of social sector organisations in Portugal and designing a suitable capacity-building framework to improve the impact readiness of those organisations - APPENDICES

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Appendix 1

Organisational barriers to capacity building for impact readiness

“Too often, not-for-profits – driven by their passion, funders’ restrictions or because of other factors – focus their resources on programs or service, without investing in their organisations and initiatives aimed to maximise impact and sustainability.” (PWC Canada Foundation, 2011)

In addition to the lack of finance for capacity building, there are a number of organisational barriers to capacity building general and the lack of focus on enhancing the delivery of impact which need to be overcome. The many gates which block social enterprises, especially smaller organisations, from accessing professional support services required for capacity building has been summarised as follows:

![Figure 1 Organisation Barriers to Capacity Building](image)

Source: The Practices, Impacts and Implications of Inspiring Scotland’s First 5 Years (Isserman)

“BIG staff identified inadequate time, insufficient resources and a lack of organisational buy-in as some of the main barriers to capacity building.” (IVAR, 2010) As well as a lack of knowledge on their own capacity building needs, a lack of knowledge and understanding of available sources of support is commonly cited as a barrier to accessing support for social organisations. In addition, lack of time and capacity and lack of knowledge that there might be resolvable issues that would benefit from support can be an issue. Another important barrier is culture – social organisations, especially those delivering frontline services, prioritise delivery of the service and often do not reflect on capacity gaps or have the confidence (or surpluses) to investment in organisational development. “The culture is not conducive to capacity building” (Third Sector Research Centre, 2014).

In the start-up phase, the majority of social organisations’ resources are dedicated to testing, refining, and implementing its new idea and organisations are focused on delivery of their mission in the short term. In contrast, capacity building tends to be difficult, time consuming and expensive in the short-run which also becomes an obstacle. Other obstacles include a lack of willingness/interest amongst boards and managers to build capacity, an excess focus on programme delivery over back-office functions or within strategic planning and scepticism amongst non-profit leaders on the relevance of business practice to non-profits. (Venture Philanthropy Partners / McKinsey&Co., 2001)

For non-profits, many interpret the skills too narrowly thinking of them as individual skills rather than organisational assets. In addition, many find it easier to identify capacity building with systems and other
capacities for which they can get ‘technical assistance or with organisational structure which they can address with a restructure. However, capacity building for impact requires a change to organisational culture which holds the organisation together and therefore is more vital and more difficult to change than in for-profit businesses. (Venture Philanthropy Partners / McKinsey & Co., 2001)

For social entrepreneurs and enterprises, once a strategy and organisational form to expand the innovation has been determined, the pressure to grow and/or scale often then takes precedence over focus on effectiveness or how best to achieve social impact. (Mulgan & The Young Foundation, 2007)

In the article “Creating High-Impact Nonprofits”, (McLeod Grant & Crutchfield, 2007) the authors challenge conventional wisdom that the greatest social impact is delivered when organisations begin by strengthening their internal management capabilities and then expanding it to reach more people. Instead, through their study of 12 high-impact organisations, they found that these non-profits delivered the greatest impact through building social movement and fields, transforming others (including businesses, government, other non-profits and individuals) and changing the world around them. That is, they achieve higher impact by working with others outside the organization than they ever could achieve by working alone. In particular they observed that high-impact organisations: (i) are good at both service and advocacy, (ii) they use markets to change business behavior on a large scale, partner with corporations to obtain additional resources or run small businesses to help fund themselves, (iii) builds strong communities of supporters (“evangelists”), (iv) nurture networks to build their respective fields through collaboration and collective action rather than competition, (v) they are highly adaptive, modifying their tactics and innovating in response to changing circumstances and (vi) they have a shared leadership model – with a strong leadership at the top - who has learned to share power, long-tenured executive teams with significant responsibilities and boards that are larger than average. Amongst the other basic management traits they all exhibit is that they invest in their own capacity.

In “What Social Sector Leaders Need to Lead”, a survey of such leaders in the US notes that an there is a gap in US non-profit organisations between demands on leaders and their ability to meet those needs, giving rise to concerns “that the sector’s priorities are at risk if organisations lack leadership teams with the capabilities to fulfil emerging missions effectively”. This gap is the result of an under investment in internal capacity building (McKinsey & Company, 2014). In addition, for any organisation to achieve optimal results, leaders need ample time to think, reflect and generate new ideas – a resource that is highlighted as lacking in many social organisations also. (McKinsey & Company, 2014) (PWC Canada Foundation, 2011).

Finally, a barrier in the field of social innovation is the lack of serious analysis of how it is done and how it can be supported. This lack of knowledge makes it harder for the various bodies that fund potential new solutions to refine and explain their own strategies, in turn restricting the means of incubating promising ideas. The lack of knowledge about common patterns is also makes it harder for innovators themselves to be effective and for ideas to be improved into a sustainable form. (Mulgan & The Young Foundation, 2007)
Appendix 2
Who are the industry practitioners (other than government bodies) who have an interest in capacity building for impact?
A roundtable discussion on impact hosted by Big Society Capital in 2013 demonstrates that learning how to become more effective in delivering impact is already a focus across a variety of sectors. The roundtable was a meeting of representatives from inclusive business, microfinance, social investors, social enterprise, venture philanthropy and charity. The discussion found that “all of these sectors are grappling with the issue of how to build organisations that are effective in reaching vulnerable or excluded people, developing the products and services that make a difference to their lives, and delivering these with consistency and quality so as ultimately to have a greater impact.” (Big Society Capital, 2013).

Venture Philanthropy and Impact Investors
Impetus-PEF pioneered venture philanthropy in the UK over 10 years ago and is one of a growing number of venture philanthropists globally who are characterised by their high engagement approach with the aim of prioritising the delivery of a social return over a financial return. These organisations invest not only in the delivery of outcomes, but borrowing heavily from the venture capital model of long-term investment and tailored development support, build the capacity of investees to become more effective organisations that deliver a superior social return. In addition, a Big Society Capital roundtable discussion in 2013 found that delivering impact is of growing importance to other impact investors also. In particular “investors are increasingly moving to look at outcomes and not just financials in their investment decisions...previously structuring of the deal was the main focus – this has shifted significantly.” (Big Society Capital, 2013)

Philanthropy and Non-Profits
The focus of the philanthropic and non-profit sector on increasing the effectiveness of organisations in order to enhance the delivery of impact is not new. The article “Philanthropy’s New Agenda: Creating Value” (Porter & Kramer, 1999) advocated that foundations needed to create more value with their grants through being more selective in funding only the most effective organisations and taking the role of engaged partner to improve the grantee’s effectiveness as an organisation. In the US, foundations who embraced this “effective philanthropy” model have turned underperforming charities in that market into highly effective organisations that reliably produce outcomes for their target market and in Europe there is a growing number of foundations who are using their high-risk/grant capital, long investment horizons and social mission to engage in capacity building to increase their grantee organisations’ effectiveness in delivering impact.
In the UK non-profit sector, capacity building programmes to increase the delivery of impact also emerged in the 1990’s and was based on (i) unlocking the potential of the voluntary sector to deliver services, (ii) an assumption that if voluntary organisations were better managed and more business-like they would deliver more, and (iii) to maximise the impact of grant-making (Big Lottery Fund, 2011). Today, the sector’s focus on impact is evidenced by initiatives such as Inspiring Impact, a 10 year programme that aims to embed useful impact measurement into practice across the UK charity sector. The project began with the starting point that “more social organisations need help to focus on impact,
using measurement to demonstrate achievements and improve their work, ultimately changing more lives” (NPC and Views, 2011). Furthermore, charities themselves identified the need for producing greater impact and the need to improve efficiencies / invest in capacity building among their top 5 strategic priorities in the consultant Aleron’s 2013 survey “Building resilient, high impact charities” (Aleron, 2013). In the US, the Performance Imperative brings together over 50 non-profit leaders. It recently defined “high performance” as the ability to deliver over a pro-longer period of time, meaning, measurable and financially sustainable results for the people or causes the organisations exist to serve and set out 7 organisational pillars that are required for social organisations to deliver that high performance (Leap of Reason Ambassadors Community, 2015).

Intermediaries and Consultants
A key finding of the Big Society Capital roundtable was that there is a key role for intermediaries in capacity building and there are a number of consultants who have provided guidance and led programmes for capacity building. The most widely referenced of these include the following: TCC Group found in a survey of 700 organisations who used it’s diagnostic tool that less than a quarter had the requisite leadership qualities, the same number had the required financial qualities and even less were effective in programme adaptability. It used the results to produce its Sustainability Formula which identified the key capacities and behaviour required for sustainability (TCC Group, 2009). McKinsey, working with VPP, and the Ontario Trillium Foundation have also produced guidelines on capacity building and also developed diagnostic tools to assess the effectiveness of the social organisations (Venture Philanthropy Partners / McKinsey&Co., 2001) (Ontario Trillium Foundation, 2005).

Over ten years ago, “Zeroing in on Impact” (Bridgespan Group, 2015) identified the gap between non-profit organisations’ “mission” – the reason for their existence – and the programs and services they had in place towards fulfilment of their mission. More recently Bridgespan undertook a systematic review to understand the wide range of management tools used by non-profits to enhance performance and successfully meet their mission and determine how effective each of those is (Bridgespan Group, 2015).

The UK consulting company, Aleron, have also focused on maximising impact and produced a number of recent papers for individuals, organisations and governments who seek to create a positive change in society through capacity building. These include a white paper on building resilient, high impact charities (Aleron, 2013) and a set of principles for high impact altruism (Aleron, 2014). However a key finding in a review of intermediaries in the social finance sector in the UK, “Growing Social Ventures” found that too few intermediaries are confident at appraising social impact well enough to be able to improve the effectiveness as well as the commercial sustainability of the ventures they work with. This means that intermediaries aim to increase impact through effective business strategy rather than improving services for the end-user or beneficiary so that these services and developing impact readiness often remain neglected in the support process. (Young Foundation / NESTA, 2011).

Social Enterprises & Social Incubators / Accelerators
In the same report, a commonly held view was that there is a need for social organisations to increase their impact, sustainability and ability to demonstrate results. Almost one-fifth of those surveyed through the primary reason for a failure of organisations to scale was the lack of quality in the sector and a further finding was that a lack of effective accountability and transparency not only prevented social ventures
from finding finance but also prevented them from delivering impact. However, only 17% of those surveyed felt finance was the barrier to growth. The report did find an absence of finance in the £50,000 to £250,000 range which is required to allow an early stage venture to establish its impact. (Young Foundation / NESTA, 2011)

Similarly in “Can Social Finance Meet Social Need” (Tomorrow's People / Can Cook, 2013), the authors note that “the needs of the many small scale and early stage social innovators that are still trying to develop market-based solutions to meet a social need” are not being met. They believe that these social organisations first need support to innovate and then develop the capacity to deliver social value before finally delivering financial value. This “pioneer gap” is also the subject of “From Blueprint to Scale” (Monitor Group / The Acumen Fund, 2012) which advises that if the pioneer gap is closed through early stage capital and value added advisory support provided together, there will be more social organisations delivering high impact. However, they also caution that similar to the experience of traditional VC’s a high rate of failure can be expected so that much of the support provided at this stage will not result in business success i.e. at the early stage delivering social impact cannot be reliably predicted. Social Silicon Valleys (The Young Foundation, 2006) also notes that one of the keys to success in social innovation is ensuring there is as wide a range of choices to draw on as possible – “the good ideas can be supported and the bad ones thrown away”. Furthermore, the application of business-like investment models to the social sector means organisational growth is often promoted as the most reliable way of receiving a measurable return for any investment in innovation. However, in social organisations there may be a conflict or sharp trade-off between the goals of social impact and the goal of achieving a financial return e.g. economics may point organisations towards rejecting difficult clients, avoiding risk and avoiding radical advocacy whereas social objectives may mean chasing down hard problems and taking risks that others will not consider. (Mulgan & The Young Foundation, 2007)

Similar to the traditional enterprise start-up space also, there are a growing number of social incubators and accelerators appearing globally over the last 5 years to provide tailored support to early stage social organisations. Innovation incubators play a critical role – they bring together the skills and expertise necessary to help sustain and grow a social enterprise; provide a space to rapidly test out new ideas in practice, with quick assessments; allow fast learning across a community of innovators; and establish clear pathways for scaling up the most promising models. Initial reviews of these suggest it is too early to tell how successful these will ultimately be in helping social enterprises increase social impact (NESTA, 2014) and there is concern that they are not sufficiently focused on impact data collection from graduates to be able to demonstrate in the future that they deliver this. In addition, early reporting provides some evidence that they have on average a higher acceptance rate than in the for-profit sector and this higher acceptance rate is associated with a lower rate of successful graduates. Finally, there same report also questions how aligned the accelerators that exist are with serving the needs of impact investors as deal flow into impact investors’ portfolios is limited (ASPEN Network of Development Entrepreneurs / Village Capital, 2013).

One example of high success rates is the Young Foundation Accelerator’s Programme in the UK, which for its 2012 cohort reported a 90% success rate in terms of business survival, comparing favourably with
a 50% average success rate for startups in the UK.¹ Organisations are accepted into the programme to build their organisational capacity in order to increase their breadth (i.e. reach in numbers) and depth of (i.e the longer-term outcomes) of their social impact. This is achieved primarily by enabling each venture to better understand and articulate their value proposition and long term vision of social change.

In the area of international development, effectiveness or impact has been an area of focus for these organisations since the early 2000’s and the concept of capacity building for impact is already embedded in the field. This capacity building takes place at the level of service providers, e.g. the USAID’s Development Grants Program included capacity building support to enhance grant recipients’ organizational, technical and administrative capacities to more effectively address development priorities and implement their programs, and at the level of beneficiaries of those organisations, e.g. Acumen’s patient capital is accompanied by a wide range of management support services nurturing the company to scale, with the aim of creating enterprises that improve the ability of the poor to live with dignity and maximises social over financial return. In the UK, British Overseas NGOs for Development (“BOND”) builds organisational capacity and effectiveness within its member organisations, based on the conviction that effective development organisations require robust and appropriate evidence of performance or impact. In a survey of the organisations its supports, practical and capacity building support and tools to organisations was identified as a strong priority for BOND’s work. In particular, the areas of impact assessment methodologies, tools and methods to increase accountability to beneficiaries and organisational learning emerged as NGOs’ preferred support. (BOND, 2008)

Appendix 3
What do we learn from the supporting literature about effective social organisations?
To help bridge the gap between social organisations’ “mission” or their reason for being and the programs and services they have in place to fulfil that mission, organisations need to clarify their intended impact and theory of change. This is an iterative process, informed by an organization’s values and beliefs as well as by hard data – its operations and economics. It also requires leaders and board members to set and hold themselves accountable for their organisations’ (strategic) priorities in order to turn it from theory into delivering outcomes. (Bridegspan Group, 2004). In fact, resetting aspirations and strategies is often the first step towards a dramatic improvement in an organisation’s capacity and without a clear idea of its purpose and strategy, the full potential to deliver impact will never be reached. (Venture Philanthropy Partners / McKinsey&Co., 2001) Organisational effectiveness means that organisations have to go beyond just a strategic plan and also need to understand how the planning process leads to specific outcomes, better programs and subsequently expanded programs and a more stable organisation. (Ontario Trillium Foundation, 2005)

When considering how charities can improve their social impact, it may be helpful to distinguish between the capabilities that are universal business issues and those capabilities that are additional for the charity sector. The latter include theory of change, financial sustainability, governance and the role of trustees, cross sector collaboration and impact measurement, which is considered “the key to unlocking more _______________________

effective performance improvement, and ultimately improved outcomes for beneficiaries”. (Aleron, 2013). However, it is also noteworthy that while a social venture engaged in social finance requires two disciplines - skills in finance and skills in civic action, organisation and delivery - for the impact delivered to be sustainable financial sustainability is required as a core competency. Effective accountability and transparency is identified not only as a barrier to funding for social ventures but it also prevents them from delivering impact. (Young Foundation / NESTA, 2011). The relationship between financing and mission could also be considered as “achieving financial stability (through fundraising) is only possible in a sustainable way when view holistically as a leadership challenge that must maintain primary focus on mission, vision, outcomes and cost-effectiveness.” (TCC Group, 2009)

Building on this, TCC Group in its Sustainability Formula identifies the key characteristics that social organisations need to develop to be sustainable as (1) decisive, strategic and accountable leadership, (2) financial and programmatic adaptability – this notes the interplay between the capacity to raise grant funding and building long term relationships with key funders (3) the resources to deliver core programmes - the most effective organisations do not simply increase service delivery by adding staff and facilities but also continuously improve and evolve service delivery model and practices e.g. through lessons, evaluation findings and ongoing need assessments. In addition, organisations need to distinguish between best practices which maximise the likelihood of a successful outcome and necessary practices (needed but not critical) or unnecessary practices which waste resource, and (4) are learning organisations. (TCC Group, 2009) Similar key competencies for effective organisations were identified by PWC Canada as (1) leadership, management and workforce development, (2) tools and technologies, (3) partnership and organisational structure and (4) resources for innovation. (PWC Canada Foundation, 2011).

For organisations with a social mission, but particularly non-profits, culture plays an even more vital role than it does for business and because of its pervasiveness and importance is difficult to change. Therefore it is necessary when capacity building for impact to distinguish between two aspects of an organisation’s culture – its core values, beliefs and behaviour norms on the one hand and its performance culture on the other. (Venture Philanthropy Partners / McKinsey&Co., 2001) The role of culture has also been described as central in determining organisational outcomes and performance. Cultures of continuous improvement, value-based leadership, ongoing self-reflection and assessment and that are constantly adaptable and flexible are required. As structural change may require a change in the culture of an organisation, it may take three to five years to implement effectively. (Ontario Trillium Foundation, 2005)

In “Putting Users at the Centre of Voluntary Organisations”, the use of customer-centric ways of working to maximise service impact is based on the assumption that they “will improve the services delivered, delivering greater impact in a more targeted and personalised way” and studies suggest better outcomes, particularly within health and education, can be achieved when user perceptions are used as a source of information. Capabilities such as aligning strategy with the organisation’s vision, collaborative planning and governance are requirements to build such a customer centric focus. (Aleron, 2014)
The Ontario Trillium Fund developed its framework around 4 pillars: relevance, responsiveness, effectiveness and resilience – the intention is to determine which pillars are already strong and which need strengthening at a point in time so that not all pillars are addressed at once. However, as internal and external circumstances change, the pillars that require an organisation’s attention will change as well. (Ontario Trillium Foundation, 2005). In addition to resilience (the flexibility to adapt and survive through mitigating rather than anticipating undesirable events) skills for improvisation (using existing resources in a new way) and bricolage (combining existing resources in a new way) have been identified as requirements for social organisations in order to deliver impact sustainably in a changing world. This new world needs to look beyond just the capacities of the social organisation but also take into consideration the wider ecosystem in which it operates when determining what is required to maximise the overall benefit to beneficiaries. (Big Lottery Fund, 2011). This is a key finding of TCC Group also who note that that organisations need to meet their own internal capacity needs and contribute to the capacity of the larger social ecosystem. This introduces additional capacities that social organisations need to develop including the capacity to understand the ecosystem, the capacity to respond to an ever-evolving ecosystem and the capacity to structure itself in response to its ecosystem. (TCC Group, 2014)

Appendix 4
Frameworks, guidelines and criteria for organisational effectiveness
TCC Group – Framework + Diagnostic Tool

Figure 2 Nonprofit Organisational Capacity

Source: Deeper Capacity Building for Greater Impact (TCC Group)
KEY
Leadership and adaptive capacities are the most critical – they drive an organisation. Next come management and technical capacities. Organisational culture is also key as it has a significant impact on each of the other capacities.

- Leadership Capacity: the ability of all organizational leaders - both senior executives and board members - to inspire, prioritize, make decisions, and provide direction in a concerted effort to achieve the organizational mission.
- Adaptive Capacity: the ability to monitor, assess, respond to, and stimulate internal and external changes. It enables an organization to be reflective, innovative, flexible, and resilient
- Management Capacity: the ability of a non-profit organization to ensure the effective and efficient use of organizational resources
- Technical Capacity: the ability of a non-profit organization to implement all of the key organizational and programmatic functions
- Culture: is the unique history, language, organizational structure, and set of values and beliefs of each organisation – that foster staff unity and provide opportunities to re-energize staff

**Diagnostic Tool:** Core Capacity Assessment Tool (CCAT)
http://www.tcccat.com/

McKinsey & Co. – Framework + Diagnostic Tool

*Figure 3 McKinsey’s Capacity Framework*

**Source:** Effective Capacity Building in Non-Profit Organisations (Venture Philanthropy Partners / McKinsey & Co)
**KEY:**

There are 7 essential elements for capacity arranged in a pyramid to emphasise the importance of each element both individually and in relation to all the other elements, as well as in the context of the organisation as a whole.

Aspirations, strategies and organisational skills are 3 higher level essential elements and the most important elements. Systems and infrastructure, human resources and organisational structure are 3 foundational elements and therefore less important in their own right. Culture is an element that connects all the others.

**Aspirations:** An organization's mission, vision, and overarching goals, which collectively articulate its common sense of purpose and direction

**Strategy:** The coherent set of actions and programs aimed at fulfilling the organization’s overarching goals

**Organisational Skills:** The sum of the organization’s capabilities, including such things (among others) as performance measurement, planning, resource management, and external relationship building

**Human Resources:** The collective capabilities, experiences, potential and commitment of the organization’s board, management team, staff, and volunteers

**Systems and Infrastructure:** The organization’s planning, decision making, knowledge management, and administrative systems, as well as the physical and technological assets that support the organization

**Organizational Structure:** The combination of governance, organizational design, inter-functional coordination, and individual job descriptions that shapes the organization’s legal and management structure

**Culture:** The connective tissue that binds together the organization, including shared values and practices, behaviour norms, and most important, the organization’s orientation towards performance.

**Diagnostic Tool:** Organisational Capacity Assessment Tool (OCAT) – the McKinsey Assessment Grid

There are 4 interrelated pillars: relevance, responsiveness, effectiveness and resilience. A well-balanced organisation requires all 4 pillars and each pillar has several elements of which an organisation needs to be aware of to build a healthy organisation.

- **Relevance**: aligning with and understanding community realities such as socio-economic mix, societal norms and values, diversity, history, physical environment, assets/capacities and issues/needs.
- **Responsiveness**: developing and strengthening community relationships through ongoing consultation and collaboration to create a shared vision and promote inclusiveness.
- **Effectiveness**: practising good board governance, management systems and evaluation; implementing well-planned programs and services, communication strategies, resource management and technology.
- **Resilience**: nurturing an organizational culture that fosters leadership and creativity and embraces strategic thinking, financial vibrancy, continuous learning, asset/strength-based thinking and change management.

**Source**: Building Capacity, Granting for Impact (Ontario Trillium Foundation)
One common definition of High Performance is central to the framework. Pillar 1 is the preeminent pillar – good leadership is critical to success while all three of pillars 5, 6 and 7 are required for an effective organisation.

Organisations that commit to pursuing high performance generally make the most progress by cultivating seven core disciplines:

- **Pillar 1**: Courageous, adaptive, executive and board leadership
- **Pillar 2**: Disciplined, people-focused management
- **Pillar 3**: Well-designed and well implemented programmes and strategies
- **Pillar 4**: Financial health and sustainability
- **Pillar 5**: A culture that values learning
- **Pillar 6**: Internal monitoring for continuous improvement
- **Pillar 7**: External evaluation for mission effectiveness

**Source**: The Performance Imperative (Leap of Reason Ambassadors Community)
KEY:
This is a framework for recognizing the complete set of perspectives and capabilities required to address complex social challenges. Innovation is not good enough and cannot be an end in itself. Instead there is a need to mobilize grant funding alongside investment capital, organizational innovation, and government collaboration. This requires the mobilisation of 4 different types of capital:

1. **Financial Capital** – Required to pay for both expanded project delivery (such as new ambulances or shelter beds) and to build healthy and sustainable organizations. The combination of grants and investments will differ for each intervention, but the Complete Capital approach relies on having sufficient resources to sustain operations, change business models, and facilitate growth.

2. **Intellectual Capital** – Required to draw on rapidly expanding evidence about what works and what does not at the business model and systems level.

3. **Human Capital** – Required to translate bold ideas into action. More than just a capable management team and board, human capital is the leadership ecosystem of outside advisors, volunteers, and clients that organizations need to thrive in challenging environments.

4. **Social Capital** - Enables people and organizations unused to working together to collaborate effectively – requires government, private funders, organization leaders, and their clients to reposition in new relationships. Trust and creativity is essential for social capital formation, supporting and pushing stakeholders to confront collective challenges and embrace innovative solutions.

Source: Complete Capital Initiatives (Non Profit Finance Fund)

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2 http://www.ssireview.org/articles/entry/complete_capital
KEY:
This framework seeks to answer how can charities improve social impact, become more resilient, and maintain sustainability in good times and bad? The solution lies in organisations having all these building blocks in place, being responsive to sector specific challenges and embracing impact measurement.

1. **Laying the Foundations** – these are the building blocks common to all organisations
2. **Performing as a Charity** – these are unique to the non-profit and social sector
3. **Measuring to Improve** - impact measurement is the key to unlocking more effective performance improvement, and ultimately improved outcomes for beneficiaries.
Charity Commission (UK) - Guidance

The aim of the guidance is to help trustees to improve the effectiveness of their charity. While these all these hallmarks are relevant to every charity the way in which they can be demonstrated or achieved will vary depending on the size, income, complexity and activities of each charity, although some charities may find different routes to the same end

**Hallmark 1: Clear about its purposes and direction**

An effective charity is clear about its purposes, mission and values and uses them to direct all aspects of its work.

**Hallmark 2: A strong board**

An effective charity is run by a clearly identifiable board or trustee body that has the right balance of skills and experience, acts in the best interests of the charity and its beneficiaries, understands its responsibilities and has systems in place to exercise them properly.

**Hallmark 3: Fit for purpose**

The structure, policies and procedures of an effective charity enable it to achieve its purposes and mission and deliver its services efficiently.

**Hallmark 4: Learning and improving**

An effective charity is always seeking to improve its performance and efficiency, and to learn new and better ways of delivering its purposes. A charity’s assessment of its performance, and of the impact and outcomes of its work, will feed into its planning processes and will influence its future direction.

**Hallmark 5: Financially sound and prudent**

An effective charity has the financial and other resources needed to deliver its purposes and mission, and controls and uses them so as to achieve its potential.

**Hallmark 6: Accountable and transparent**

An effective charity is accountable to the public and others with an interest in the charity in a way that is transparent and understandable.

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New Philanthropy Capital Guidance - The Little Blue Book

**KEY:**

Effectiveness is judged to be a charities’ ability to improve people’s lives and to create lasting change for the better. To be effective, charities need to:

- **focus on activities** that address a genuine need and achieve a real difference;
- **use evidence of results** to demonstrate what it achieved and improve performance;
- **make good use of resources**, including staff and volunteers; and
- **be ambitious** to solve problems.
- All of this requires **high-quality leadership** – trustees and management - **and staff**, and
- **good financial management**.
The guide is a tool that gives an analysis framework for non-profit organisations whose effectiveness can be graded in each of 6 areas as follows:

*Figure 8 Charity Analysis Framework*

<table>
<thead>
<tr>
<th>Area for analysis</th>
<th>Assessment criteria</th>
</tr>
</thead>
</table>
| **Activities**    | • Focus on greatest needs  
                    • Range of activities  
                    • Ability to adapt and innovate  
                    • Links between activities |
| **Results**       | • Results culture  
                    • Evidence of positive results  
                    • Quality of evidence  
                    • Sharing results |
| **Leadership**    | • Management team  
                    • Governance  
                    • Vision and strategy  
                    • Priorities |
| **People and resources** | • Staff  
                    • Use of volunteers  
                    • Other resources (such as IT, property and brand)  
                    • External leverage |
| **Finances**      | • Financial security  
                    • Quality of financial management  
                    • Efficiency  
                    • Unit costs |
| **Ambition**      | • Potential to grow or replicate  
                    • Potential to improve results  
                    • Potential to solve problems more widely  
                    • Willingness to change |

*Source: The Little Blue Book (NPC)*

Each part of the framework contains an analysis of risks. This considers the challenges and threats to the organisation achieving its goals and looks at internal factors, related to existing resources, and external influences, related to how the organisation is able to respond to events out of its control. The main risks are identified as follows:

- financial risk (such as a sudden decline in income);
- management risk (such as relying too heavily on a single person);
- risks to activities (such as projects becoming less relevant to the target group); and
- reputational risk (such as a scandal that affects the perception of the charity).

**Notes:**

1. The analysis is accompanied by a grading grid.
2. This approach can be applied to different types of charity, including large complex organisations, campaigning charities, and charities that work in developing countries.
3. Assessing effectiveness is complex – judgement is a vital part of the process and expectations will need to be varied according to the organisation’s goals, size and maturity.

The Big Lottery Fund – Factors for Success

**KEY:**

Through its research the Big Lottery Fund has identified capacity and capability building functions and ingredients that it believes can help organisations to be successful. These are as follows:
Capability
- **Appropriate skills** among staff and volunteers at all levels, for project work and for organisational management
- **Adequate governance** with appropriate policies, processes and procedures
- **Tailored development support** via a clear diagnostic process that enables change to take root in the organisation.

Capacity
- Links to organisations working with similar aims and beneficiaries (especially for communities of interest) as it enables effective engagement and consultation
- Adequate premises and equipment
- Appropriate marketing, and links with wider stakeholder organisations
- Adequate funding and planning for all of the above.

Impetus-PEF – 17 Criteria of Highly Effective Organisations

**KEY:**
There are 3 high level criteria that Impetus-PEF look for in the organisations they invest in.
- **Ambition** - charities and social enterprises that aspire to effect far-reaching change for their beneficiaries. This is the first and foremost requirement
- The prospect of **sustainability**
- **Impact focus** - commitment to outcomes and to developing measurement and evaluation systems

In addition they look to invest in charities which operate programmes which
- theoretically can claim to make a difference to outcomes ("face validity") and have some evidence of achieving outcomes,
- are financially stable in the short term and
- have a CEO/leadership who are actively concerned about having an impact and are open to organisational challenge and change to achieve it

To guide their investments, they use their 17 Criteria of highly-effective organisations to evaluate an organisation³

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Leadership</td>
<td>Extent to which the CEO is clear on the organisation’s strategic priorities and their alignment with mission</td>
</tr>
<tr>
<td>Performance Leadership</td>
<td>Extent to which the CEO inspires staff commitment to mission and goals, and dissatisfaction with failure to achieve them, and is open to change and driving continuous improvement</td>
</tr>
<tr>
<td>Board</td>
<td>Effectiveness of the Board in supporting achievement of the mission and strategy, contributing to strategic development, holding the CEO to account, raising funds and providing fiduciary oversight</td>
</tr>
<tr>
<td>Senior Management</td>
<td>Quality of individual functional leadership and collaboration within the SMT, and demonstrated operational management to enable high performance</td>
</tr>
<tr>
<td>Clarity of Mission</td>
<td>Extent to which mission is specific and articulates the organisation’s intended impact and value proposition, and guides daily operations and accountability</td>
</tr>
<tr>
<td>Programme Design</td>
<td>Extent to which the programme or elements of the programme have been validated by external research</td>
</tr>
<tr>
<td>Evidence of Impact Delivered</td>
<td>Strength of the evidence that organisation achieves socially significant positive impact against its intermediate or long-term outcomes</td>
</tr>
<tr>
<td>Codification</td>
<td>Extent to which programme specifications in operational terms exist, guide daily delivery and provide the basis for monitoring process</td>
</tr>
<tr>
<td>Strategic Performance Management</td>
<td>Extent to which the organisation is a learning organisation, and systematically reviews data to make adjustments at programme and organisational level</td>
</tr>
<tr>
<td>Tactical Performance Management</td>
<td>Extent to which frontline staff and their managers use performance data day-to-day to plan, deliver, review and adapt services to ensure individual service users progress</td>
</tr>
</tbody>
</table>
Venture Philanthropy Partners Checklist

**KEY:**

VPP seek to improve the organisational effectiveness and sustainability by focusing on the following building blocks of organisational strength:

- A **performance driven culture** characterised by expanded thinking,
- Greater **accountability**,
- More **managerial rigour**;
- A **focus on outcomes** achieved.

To do this, VPP focus on improving management fundamentals as the basis for improving everything else the organisation undertakes (i.e. underpins their delivery of impact also). VPP have identified 6 key characteristics for high-performance non-profit organisations:

1. Strong senior management team
2. Highly effective and engaged boards
3. Clear mission and goals
4. Requisite capital and financing – financial accountability
5. Effective programs and services
6. An establish outcomes assessment system - impact measurement

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4 http://www.vppartners.org/about-us/approach
Bridgespan – Effective Organisation Design\textsuperscript{5}

**KEY:**

Bridgespan had developed a model of effective organisations is based on the following 5 areas where it needs to strong:

*Figure 10 Bridgespan’s 5 Strengths of Effective Organisations*

- In assessing organisations’ capacities, particularly in the non-profit sector it suggests 4 principles:
  o Above all do no harm
  o Be rigorous but don’t overdo it
  o Be realistic – context matters so depending on the size, age, and growth trajectory of a nonprofit organization or a particular program, capabilities will look quite different.
  o Be forward-thinking
- In this moderate approach it provides a checklist of questions divided into 4 categories - Strategy and Results, Leadership, Financials, and Organization and Operations.
- For each category it provides a list of ‘red flags’ which act as a trigger for further enquiry.

**European Venture Philanthropy Association – Detailed Screening Criteria**

**KEY:**

The EVPA in its knowledge centre paper “Establishing a Venture Philanthropy Organisation” (EVPA, 2010) recommends a 2 step process to screening for investment candidates for venture philanthropy

\textsuperscript{5}http://www.bridgespan.org/getmedia/b1139597-adfe-4dd7-bbb2-ac8c67883020/Effective-Organizations_-Structural-Design.pdf.aspx
funds – a first high level review leading to a simple “reject / continue” decision and a second detailed screening or due diligence process for those selected to continue. Key factors, which are determinants of what makes an effective organisation that will benefit from the VPs investment and non-financial support, at each stage are as follows:

- **STEP 1**
  - Thematic focus • Geography • Investment size • Social relevance/impact

- **STEP 2**
  i. **Organisation** - legal structure; quality of management; governance; transparency of results, Board quality
  ii. **Market** - Market size, growth, developments, segments; relevant other initiatives / competitive positioning;
  iii. **Sources of income** - Funding trends and funding mix
  iv. **Strategy** - What is the theory of change? This can be built using a decision-making framework, such as the Social Change Model, which links strategic choices back to specific social impacts
  v. **Operations** - What the SPO does to deliver on its strategy, including details of the organisation’s income-generating model, if relevant. A technical review of the appropriateness and solidity of the product or service the SPO delivers / performs may be a part of the process.
  vi. **Financial** - History (results, previous financings); budgets and forecasts; funding gap / financial ask; co-financing; terms of investment, financial reporting and control process in place
  vii. **Social** - Track record of execution; social impact targets; monitoring and reporting on social performance

**Mapa da Inovação e Empreendedorismo Social de Portugal (MIES)**

**KEY:**

MIES is a research project undertaken by IES that aims to identify and map all Portuguese social initiatives. It maps the innovation and local entrepreneurship ecosystem, analyses the competitiveness of the innovative business models identified, and publishes and disseminates national and international success stories and best practices. It has identified the following as the most important internal skill sets for social enterprises:
Fledge Social Accelerator – Selection Criteria

**KEY:**
Fledge is a “conscious company” accelerator that is also a for-profit investment fund that invests in every company invited into the programme. Its selection criteria is explained in 3 simple categories as follows:

- **Team:** A strong team with
  - the knowledge and experience to put together all the pieces of entrepreneurship (product, marketing, sales, funding, communications, and leadership), and
  - passion to solve the social problem (How long has the entrepreneur been thinking about the problem? What have they been doing to solve it? How much have they struggled so far to find a solution and will they ever give up trying?)

- **Impact:** Mission driven entrepreneurs
  - is the world a better place if the company exists?
  - no limit on sector of impact and have a preference for ideas that can scale globally but will also consider more local solutions

- **Odds of Success:** The probability the business will earn revenues of $2m and how long will it take?
  - this is a specific requirement of Fledge’s revenue-based equity investment
  - the scale of funding needed, the complexity of the business model, and the competitive landscape are also factored in

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6 http://lunarmobiscuit.com/what-fledge-looks-for/
Echoing Green – Selection Criteria

KEY:

Applications are assessed based on the following criteria:

- The Entrepreneur
  - Purpose / Passion: exhibits strong passion and commitment for the program area in which they plan to work, as well as personal integrity
  - Resilience: demonstrated ability to overcome obstacles
  - Leadership: demonstrated leadership potential
  - Ability to Attract Resources: capable of attracting money, people and other resources to cause

- The Organisation / Idea
  - Innovation: innovative and demonstrates new approach
  - Importance: addresses serious social problem
  - Potential for Big, Bold Impact: clear potential for tangible impact to the beneficiary population and either has potential for effecting systemic change (e.g., policy change, societal change, influence in their field) and/or demonstrates potential for replication and growth
  - A Good Business Model: clear and compelling mission and objectives, and has given real thought to program development and delivery, ways to measure success, raising money, and other key factors indicating potential for sustainability

7 http://www.echoinggreen.org/fellowship/selection-criteria
Appendix 5

How do capacity building needs vary according to the context of organisations across the social sector?

While there is little research on which groups have the greatest need, there is quite a lot of evidence which suggests certain groups have particular needs. In particular, smaller organisations, groups in transition, groups in crisis and partnerships have been found to have specific needs. Challenges faced by small groups are that they may not recognise themselves as ‘organisations’ and therefore do not realise capacity building is relevant to them. Furthermore they typically have difficulties with finding resources, funding and time, required for capacity building. For organisations in crisis, there are 3 particular occasions when specific support is needed – starting off, scaling up and facing a crisis. Partnerships’ particular needs include time and resources to work effectively, trust building for joint working and learning and tailored and ongoing support. In addition, while secondary to sector issues, issues relating to location e.g. under-served rural areas should also be considered (Third Sector Research Centre, 2014). Small organisations’ range of capacity building needs include governance, income generation and project management. In many cases they need help in how to apply funding once they have secured it. In addition, as small organisations are often heavily dependent on a small number of key staff, staff and volunteer recruitment and retention is a common need (IVAR, 2010).

The relationship between the size of social organisations and their capacity building requirements also emerges in the report “The Practices, Impact and Implications of Inspiring Scotland’s First Five Years” (Isserman, 2013). This report segments social organisations into 3 zones based on the organisation’s delivery capacity, where the zones also closely relate with size - Zone 1 is populated largely by smaller micro organisations, Zone 3 populated by larger ventures and Zone 2 is everything else. The larger organisations typically have larger delivery capacity (i.e. reach more people per venture), more organisational capacity and are more likely to have access to professional supports. For these larger organisations, any incremental organisational improvements can deliver significant social service improvements. The micro-organisations have much smaller delivery capacity and typically the scope for organisational improvement is much larger but they may be too small to absorb intensive capacity building support which makes capacity building tricky. The main social gain that can be delivered through capacity building in these organisations is moving them to Zone 2. Organisations in Zone 2 also deliver at a smaller scale than the larger ventures but are still likely to have organisational gaps that can rapidly be improved and tend to be large enough to support capacity building support. These organisations are large enough that any improvements delivered to the organisation through capacity building will also result in significant social gains.

Maslow’s hierarchy of needs⁸ has been used to develop a framework to define how the capacity building vary with development stages of an organisation and gives the following 5 levels: (i) basic needs – resources, funding, staff, etc., (ii) legal, processes and operational needs, (iii) interaction with others, networking and collaborations, (iv) recognition of others, and (v) reach potential and influence others. As with Maslow’ original model, this model describes the capacity needs that need to be fulfilled

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⁸ Maslow’s hierarchy of needs is a psychology theory that identifies basic human needs at a number of levels which should be met in order of: physiological needs required for human survival, then safety, love and belonging, esteem to self-actualisation). The most basic needs must be met before someone will desire the higher level needs.
sequentially as organisation develops in order for it to function effectively (Third Sector Research Centre, 2014). The changing needs of for capacity building in organisations as they develop was also noted in Arrivo Consulting review of Inspiring Scotland’s programme, where organisations noted that the type of support and its intensity changed over time, with the early period of involvement in the initiative characterised by more support and by more challenges while later the non-financial support reduced as the need was also lower (Arrivo Consulting, 2012).

Social enterprises have specific needs related to their dual role of targeting a social need while creating and growing a business. This requires dealing with different worlds – customer management, beneficiaries’ social needs, business and management discipline and public policy in the space in which they operate. Finding management with these skill sets is difficult in such a young sector and many of these organisations have better skills in relation to the social issue and lack business and management skills. In addition they often exist not only to meet social need but innovate also and innovation requires different capabilities to growing existing models or businesses. Finally as the state or public sector is the customer of many social enterprises buying services on behalf of third parties (the beneficiaries) it means these organisations typically have a need for capacity building to reach and sell to 3 separate parties - the public sector, commissioners and beneficiaries. Helping social enterprises build demand amongst these 3 parties is key to ensuring they deliver impact and are sustainable financially. (Young Foundation / NESTA, 2011)

The innovation aspect of social enterprises also lends itself to looking at capacity building for impact requirements based on the organisation’s stage of development stage. (Monitor Group / The Acumen Fund, 2012) (Social Investment Lab, 2014). The trajectory social innovation projects or social enterprises move throughout their development cycle from start-up involve various tasks, challenges and types of funding which lead to different capacity building needs at each stage of development. If the packages of early stage funding and value added advisory support to close the “pioneer gap”, at the validate and prepare stages, is closed more social enterprise will deliver high impact, attract later stage financing, achieve profitability and growth, and thereby deliver social impact at scale. Specific requirements for each stage of the Pioneer journey are outlined by Monitor Group / Acumen Fund⁹. At the validation stage there is a particular need to focus on building commercial skills given social entrepreneurs are typically driven by developing a means of meeting an unmet social need at the blueprint stage. Effective capacity building support at these early stages is required to help organisations deal with difficulties they face in developing models that generate financial surpluses so that ultimately they can benefit from infusions of impact capital and sustainable scale or, alternatively, help them to realise that their ideas are not commercial in nature, and should be reframed and optimised as non-profit models. Capacity building to meet the pioneer gap requires purpose (management, funders, intermediaries and investors should be well-aligned on their goals and expectations for the business) and persistence (for multiple cycles of business model testing, learning and refinement).

In addition to start-ups created to solve a specific social need, social enterprises can emerge from the voluntary sector - namely charities that move to a market revenue model based on public sector

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⁹ See Appendix 6 for the full list of capacity building requirements given by the Monitor Group/Acumen Fund
contracts, the public sector – when public sector managers spin out services or whole ventures into the social venture space and finally from the private sector as non-profit organisations’ corporate social responsibility programs become more sophisticated. As each of these moves into the new social venture space, they will have particular capacity building needs e.g. legal advice and strategy for charities, change management and culture (e.g. ways of working, innovation) for public sector spin-offs and building partnership and collaborations for the private sector. (Young Foundation / NESTA, 2011)

Finally the context of the social organisation in terms of the type of organisation it is and the need it seeks to address will also determine its capacity building and funding needs. In particular, organisations at the early stage which are innovating to meet unmet need or delivering on a small scale to meet more specialist users’ needs have specific capacity building and funding requirements (Tomorrow’s People / Can Cook, 2013). The categorisation of social sector organisations by the social need being met maps quite closely to the development path of social enterprises and the capacity building need of each type of organisation will, therefore, reflect the development stage it maps to. However, in this case the decision to scale through a market revenue model or a traditional non-profit model will lead an organisation to delivering services through bulk provision or in preventive spend model which will result in slightly different capacity requirements in order to successfully deliver impact.

Appendix 6
Capacity building for impact readiness across the social sector in diagrams

*Figure 12 Impact Delivery vs Venture Capacity*

![Figure 12 Impact Delivery vs Venture Capacity](source)

**Source:** The Practices, Impact and Implications of Inspiring Scotland’s First Five Years (Isserman)
Figure 13 Maslow’s Hierarchy of Social Organisations’ Needs

Source: Building Capabilities in the Voluntary Sector (TSRC)

Figure 14 The Missing Middle identified by NESTA / The Young Foundation

Source: Growing Social Ventures (The Young Foundation/NESTA)
Figure 15 Sources of Entrants into Social Sector

Source: Growing Social Ventures (The Young Foundation/NESTA)

Figure 16 Potential of Impact vs Social Product Cycle

Source: Research Note #41. (Social Investment Laboratory)
Figure 17 Four Stages of the Pioneer Firm's Journey

<table>
<thead>
<tr>
<th>Stage of Pioneer Journey</th>
<th>Blueprint</th>
<th>Validate</th>
<th>Prepare</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities</td>
<td>• R&amp;D</td>
<td>• Pilot/Prototype • Product Market/Testing • Product Launch • Product Refinement</td>
<td>• Product Growth</td>
<td>• Product Maturity</td>
</tr>
<tr>
<td>Key Capacity Needs</td>
<td>• Innovation capability • Strategy development and business planning • Talent networks • Seed funding</td>
<td>• Operationalizing the model • Focus on cost, value and pricing • Learning orientation and flexibility • Innovation capability • Funds to facilitate market trials and refinement</td>
<td>• Marketing strategy and execution • Supply chain design and implementation • Systems and processes • Talent and networks • Funds for marketing, supply chain, fixed assets, inventory</td>
<td>• Competitive strategy • Realizing scale efficiencies • Risk management • Formalization of impact standards and expectations • Stakeholder management • Funds to support expansion</td>
</tr>
</tbody>
</table>

Source: Adapted from From Blueprint to Scale (Monitor Group / Acumen Fund)
Figure 18 Comparison of Organisations Needs in Segmentations

<table>
<thead>
<tr>
<th>Main Finance Type</th>
<th>BUILDER FINANCE &amp; GRANTS</th>
<th>BUYER FINANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Why</strong></td>
<td>To Solve a Problem</td>
<td>To Fix a Problem</td>
</tr>
<tr>
<td><strong>How</strong></td>
<td>Trial &amp; error, developing goods &amp; services</td>
<td>Exchange of money for agreed piece of work or activity*</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SOCIAL SEGMENT</th>
<th>UNMET NEED</th>
<th>INNOVATIVE SPEND</th>
<th>BULK PROVISION</th>
<th>PREVENTATIVE SPEND</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>User Need</strong></td>
<td>Marginalised users with inadequate service provision</td>
<td>More specialised user with greater need than 'average'</td>
<td>Meeting the need of the 'average' user with minimum cost</td>
<td>Reduce overall users in the long term, paid for with future cost savings</td>
</tr>
<tr>
<td><strong>Service Provider</strong></td>
<td>Social enterprises &amp; charity (many start out have focused simply on solving the unmet need)</td>
<td>Social enterprise &amp; charity</td>
<td>Private sector, large charities &amp; social business</td>
<td>Large charities &amp; voluntary orgs. with financial stability</td>
</tr>
<tr>
<td><strong>Characterised by</strong></td>
<td>Period of experiment, research and development before have stability &amp; scale to deliver impact</td>
<td>Operating on a small scale to first tackle need but look to grow impact and efficacy with support</td>
<td>Revenue and cost efficiency focus required to win contracts</td>
<td>Long lead times to demonstrate intervention works and large working capital requirements</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage of Product Cycle</th>
<th>1st Stage</th>
<th>2nd &amp; 3rd Stage</th>
<th>4th Stage</th>
<th>4th Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stage of Journey</strong></td>
<td>Blueprint</td>
<td>Validate/Prepare</td>
<td>Scale (Market based route)</td>
<td>Scale (Non-market based route)</td>
</tr>
</tbody>
</table>

| Key Challenges & Needs - Co-creation | - High degree of risk, sweet equity and personal sacrifice | - Need to develop appropriate blend of income for social impact intended | - Access to start up support and capital | - Challenge of managing cash flows & building financial capacity | - Balancing social & financial objectives | - Ensuring there is the equipment, infrastructure and growth (debt & equity) capital | - Operating sustainability | - Financial sustainability | - Balance sheet sustainability | - Social/impact sustainability | - Operating sustainability | - Financial sustainability | - Balance sheet sustainability | - Social/impact sustainability |

* This can be customers paying for a good or service or third party funders (public e.g. local authority service payment or private e.g. philanthropic grant) paying for services to be delivered on behalf of beneficiaries

**Source:** Author’s Own
Appendix 7
What do we learn from the supporting literature on capacity building & social impact?

The core elements of capacity building programmes identified by Third Sector Research Centre contains many of the success factors for effective capacity building reported by the Alliance for Non-Profit Management as follows: Timely, peer-connected, assessment-based, contextualised, customised, comprehensive, readiness-based and competence based. (Ontario Trillium Foundation, 2005)

Adopting a Comprehensive and Systematic Approach

McKinsey’s 2001 report “Effective Capacity Building in Non-Profit Organisations” also noted the best results are achieved when organisations take a deliberate, pro-active approach to capacity building and assessed their needs in relation to the entire organisation. (Venture Philanthropy Partners / McKinsey&Co., 2001) while the Ontario Trillium Fund emphasise that successful capacity building needs to be deliberate, comprehensive and requires commitment in terms of time and support from the top. (Ontario Trillium Foundation, 2005)

The Purpose of Support (WHY)

Social organisations targeting significant social impact need to do so both in breath, i.e. reaching a significant number of people and in depth i.e. effecting a significant improvement in the quality of life of people who have significant needs. For social organisations who wish to scale their social impact, they can do so either through economies of scale i.e. delivering more impact with the same or less resources or through scaling out/graft and grow with ideas adapting as they spread rather than growing in a single form. (Young Foundation / NESTA, 2011)

Learning in the area of capacity building indicates such programmes are most productive and useful when they are driven by the organisations’ perception of its needs. This will have to be balanced with funders’ requirements that for the outcomes of capacity building programmes to align with their specific programme objectives. (IVAR, 2010)

The lifecycle stage in which a social organisation can be placed is also a factor that can be considered for determining the why of capacity building. Three broad categories are (1) core program development, (2) infrastructure development for the purpose of taking programs to scale and (3) impact expansion which it defines as community leadership that changes the systems and policies that affect an organisation’s ability to achieve its mission. (TCC Group, 2009)

There is a risk in measuring success based on program demand and growth as all too often additional resources or programs result in unhealthy growth that impedes programme quality and leaves organisations financially unstable – a risk that materialises when organisations that through expanding programs and staff without building the organisational support to sustain that growth. (Ontario Trillium Foundation, 2005)

The Targets of Support (WHO)

For example, the capacity requirements of social entrepreneurs can depend on their background. They often fall into one of two types: (i) entrepreneurs from the sector who have a good understanding of delivering impact but lack the business skills required for strategic planning and scaling of the business which is required to reliably deliver impact in a sustainable way and (ii) entrepreneurs from a private sector background with strong business skills but who face challenges in executing their model to deliver
impact. Both types of entrepreneurs are often cash-strapped and resource-strapped and fall into the trap of short term challenges over long term planning. (Dasra, 2012)

There is a difference between a focused capacity building approach that provides technical support to improve structures within an organisation and a community development approach that sees capacity building as a process and involves collaborative work between the grantor and the recipient on practices for self-learning within the broader context. (Ontario Trillium Foundation, 2005)

Methods of Support (WHAT)

When grant-holders receive just two or three types of assistance it appears to be ineffective. There may also be a role for funders to provide their own capacities in the form of knowledge, overview and voice (Big Lottery Fund, 2011).

The Big Lottery Fund in the UK identified 4 delivery models proposed including (i) staff delivery (ii) third party consultants hired by BIG (iii) other support organisations and (iv) providing organisations with resources to purchase their own support while barriers to capacity building included inadequate time, insufficient resources and a lack of organisational buy-in. For their part, organisations expressed a preference for option (iv) in terms of delivery, consistent with their preference for personal relationships expressed found in this survey also, and identified cost, time, resources and trust in support providers as barriers. (IVAR, 2010)

Intermediaries in the UK on the other hand propose that improved generic information and early stage diagnostic tools (e.g. workshops and off the shelf guidance, peer groups and networking) be offered in advance of more bespoke tools (and more costly, therefore should be targeted to only more advanced organisations with the greatest chance of success). (ClearlySo & NPC / The Big Lottery Fund, 2012)

A recent systematic review of the wide range wide range of management practices or tools being used by non-profits to enhance performance and successfully meet social organisations’ mission listed 25 popular tools, divided into 2 categories – those such as scenario planning and benchmarking which migrated from the business work and others such as funding models and beneficiary engagement which evolved specifically for the social sector. The top 5 tools used by organisations were partnership and collaborations (86%), social media programs (78%), strategic planning (70%), program evaluation (69%) and performance measurement and improvement (66%). (Bridgespan Group, 2015)

The European Venture Philanthropy Association (EVPA, 2010) note that capacity building can have a staff focus, e.g. personal development / coaching / mentoring / training for the chief executive and the team, or an organisational focus, e.g. capacity-building projects in areas such as marketing, income generation or performance management, and can be delivered by venture philanthropist’s in-house team, pro-bono experts introduced by the venture philanthropist, paid consultants introduced by the venture philanthropist or paid consultants sourced by the social organisation itself. It also notes that the 2007 Skoll Study “Beyond the Cheque: how venture philanthropists add value” set out the following as the main areas in which VP provide capacity building supports:

10 John, R. (2007), “Beyond the Cheque: how venture philanthropists add value,” , Skoll Centre for Social Entrepreneurship, Said Business School, University of Oxford,. (n = 34; European VPOs surveyed = 32; American = 1; Australian = 1)
A survey of the social finance market in the UK (Young Foundation / NESTA, 2011) showed that advice was typically used to help bridge skills gaps in management and their teams around business and strategy skills. This was largely delivered as one-to-one advice and guidance (offered by 90% of intermediaries), was time intensive (around one-third spend more than 5 days per month on each venture they work with) and was largely directed at ventures in the start-up or relatively mature phase (many intermediaries offer one of two types of support - either mentoring in the start-up phase; or pro-bono consulting and private equity-style input in a mature phase).

Mode of Support (HOW)

In McKinsey’s capacity building framework, the requirements for an effective organisation are combined in a pyramid with 3 higher levels (aspirations, strategy and organisational skills), 3 foundational level (human resources, systems and infrastructure and organisational structure) and the overarching element of culture. The key to successful capacity building is then to examine each element individually and in the context of the organisation as whole and then the greatest gains in social impact are generated when capacity building programmes are aligned within the pyramid. In addition they note that capacity building requires patience as it can take a long time and be frustrating. (Venture Philanthropy Partners / McKinsey&Co., 2001)

While the definition of capacity building varies, so that sometimes it includes strategic thinking, organisational culture and collaborations/relationships as core components, there is a commonly shared view that all components of all components of capacity building are interrelated. Focusing on just one element of capacity building can be ineffective and good practice requires support for different dimensions such as leadership and the ability to reflect, mobilise resources and build solid relationships (Ontario Trillium Foundation, 2005)

When management support organisations (“MSOs”) take the approach of only focusing on technical needs of organizations, their support may be overwhelming so there is a need to develop more flexible
and client centred approaches to building capacity as an alternative to MSOs. Given these concerns process-oriented strategies such as peer support/mentoring groups and team learning opportunities, undertaken with due respect for the context of local communities, could help ensure more positive effects than imposing “best practice” approaches that ignore broader context and specific realities. (Ontario Trillium Foundation, 2005). This is also the case for small organisations. For small organisations, while broadbrush approaches to support may work in some technical areas of organisation and management, more sophisticated interventions (i.e. tailored packages of support) will be required to improve their performance and stability. (IVAR, 2010)

The risk of having too few intermediaries with an understanding of the social problem that the sector aims to solve has been highlighted in the UK (Young Foundation / Nesta, 2011). If the intermediaries are unable to determine whether ventures have the capacity for creating social impact or not, it may mean that many intermediaries support ventures that are not better than existing provision, or able to make a significant impact. Additionally, intermediaries may aim to increase impact through effective business strategy rather than improving services for the end-user or beneficiary. To address this problem it recommends that the gap in the capacity of intermediaries is addressed through hiring social specialists.

The Support Context (WHERE AND WHEN)

Intermediaries in the UK emphasised that there is a range of diverse support required at different stages in the development of organisations’ business models, with the needs also dependent on context and market sector. There is a need to distinguish between early stage organisations with the potential and ambition to scale from smaller (local) organisations who intend on remaining that way so filtering processes are therefore essential to identify support needs at the right stage in the process. (ClearlySo & NPC / The Big Lottery Fund, 2012). In addition, amongst early stage start-ups there is a great variation of need so they need to be defined not just by their age, scale or sector but also by what support they need e.g. team formers – finding cofounders, proposition seekers – refining the combination of problem to solve, idea and potential customer, etc. Furthermore the focus of social incubators and accelerators are social ventures that aim to achieve large scale or rapid growth, which requires a different support from those that aim to stay smaller or grow more slowly (NESTA, 2014)

Capacity building must be driven by the senior management of the organisation and both leadership and management are important – leaders to drive the vision but managers will be required to implement the change through the organisation. In addition, management time and organisational resources need to be freed up for daily responsibilities in order to focus on the bigger picture of capacity building. (Venture Philanthropy Partners / McKinsey&Co., 2001) Successful capacity building requires effective leadership at the management, executive and board level – particularly visionary leaders who can build upon and improve existing successes. This is considered by grantees to be the key success factor for capacity building programs. (Ontario Trillium Foundation, 2005)

Organisational readiness is a critical factor for capacity building. Furthermore the impact of funding a particular pillar is contingent upon factors within a broader organizational context which can include the size of the organizational infrastructure, level of planning, program complexity, timing, current funding environment, community support for issues and more. A “best practice” therefore needs to be
individualized and customized to each organization, taking into consideration the organizational culture within a broader societal context and in that particular period of time. (Ontario Trillium Foundation, 2005) Bridgespan Group found that the size of the organizations is an important factor in the number of tools used and their nature e.g. larger organizations use more expensive but effective tools such as knowledge management systems at twice the rate of smaller non-profits and are also more likely to be early adopters of tools such as big-data analysis. Key learnings for getting the most when using tools for capacity building are (i) time is needed to understand best practice, (ii) use in conjunction with effective change management processes and (iii) the need to be willing to learn from mistakes and to keep trying. Implementation is a long-term process and it requires careful tool choices that are implemented selectively (rather than trying to implement a large number of tools all at once). A commitment from top leaders, including the board, is needed to invest the necessary time to make any aspect of organizational development part of an organization’s day to day. (Bridgespan Group, 2015)

As well as commitment in terms of time and support from the top, capacity building needs to meet internal needs and strengthens relationships so organizations can respond and adapt to external needs and needs to develop with the context of each organization in mind. (Ontario Trillium Foundation, 2005)

The survey of intermediaries in the UK (Young Foundation / NESTA, 2011) identified that mid-sized organisations, which fall between start-ups and large organisations with established management teams, require significant advice and guidance on systems, staff and structures, but lack the capacity to absorb very resource-intensive due diligence processes. The best support mechanisms are considered to be in those in the form of practical support e.g. IT, HR, financial services, in order to allow organisations scale up or scale out and therefore will increase their overall impact. Providing links such as networks and support growths between these social sector entrepreneurs and non-profit entrepreneurs could provide additional practical support.

**Diagnosis improves support**

There is a key role for grantees and other interested parties to assess organizational readiness for capacity building through undertaking organizational reviews, feasibility studies or organizational skill assessments as an important first step in preparing organisations to undertake more comprehensive organisational development work. (Ontario Trillium Foundation, 2005)

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**Appendix 8**

**Inspiring Scotland – A case study of successful capacity building for impact in action**

Inspiring Scotland is an outcomes focused philanthropy organisation which as well as investments provides non-financial support to charities in which it invests. It is focused on (i) improving their performance to deliver outcomes, and (ii) building their capacity to become stronger, more robust and sustainable organisations.

Two assessments of this programme “Inspiring Scotland – Exploring the Added Value” (Arrivo Consulting, 2012) and “The Practices, Impact and Implications of Inspiring Scotland’s First Five Years”
(Isserman, 2013) were carried out. Arrivo Consulting concluded that “non-financial support” provided by Inspiring Scotland has added value by building the capacity of organisations to deliver better outcomes which has increased mission impact as well and has resulted in stronger and more sustainable businesses. Isserman notes that the ventures who received support believed they had become more effective in providing social services and that after 5 years in operations the Inspiring Scotland model itself showed significant and efficient building of organisation’s capacity.

These reports also reveal that many of the core elements of Inspiring Scotland’s model are consistent with the most good practice identified for the common elements of capacity building programmes reported in “Building Capabilities in the Voluntary Sector” and therefore Inspiring Scotland helps provides a body of evidence on how they help increase the impact of social organisations in practice.

<table>
<thead>
<tr>
<th>ELEMENTS OF GOOD CAPACITY BUILDING</th>
<th>Arrivo Consulting’s Findings</th>
<th>Isserman’s Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adopting a comprehensive and systematic approach</strong></td>
<td>- Inspiring Scotland is committed to building the capacity and sustainability of the organisation, not only the ventures’ capacity to deliver project outcomes. -In its unique approach, alongside long term finance, funding packages include investment in building the management capacity and infrastructure of the organisations. -The scope of the business development support available to ventures is immense - ranging from practical support (e.g. support to develop marketing materials) through to strategic planning advice.</td>
<td>- An intensive portfolio approach is a distinctive feature intentionally designed. - Ventures believe Inspiring Scotland takes a “business-like approach to philanthropy”.</td>
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<tr>
<td><strong>Which has a clear purpose agreed by stakeholders (WHY and WHO)</strong></td>
<td>- The non-financial support is focused on improving the capacity of ventures to deliver project outcomes (i.e. performance) and on building the organisational capacity of ventures. -The outcomes approach has a focus on setting clear outcomes and on measuring impact. A performance management process maintains the focus on delivering results and has driven improvements in processes and outcomes. (This is a critical success factor). -The Performance Advisors, who support charities in developing and delivering their mission, also hold them accountable to it. -Its approach is not to take seats on boards so it is working alongside rather than taking a</td>
<td>- Ventures are selected in fund specific processes, where each fund has clear social impact goals (agreed with fund investors). - There is a rigorous scoping and selection process, with support provided during the application process by consultants and staff.</td>
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<td><strong>Is tailored to the organisation’s specific needs (WHO)</strong></td>
<td>- The extensive range of non-financial support is not off-the-shelf but is a bespoke service tailored to meet individual or specific developmental needs of ventures. This tailor made business development support is aimed at building the capacity and sustainability of the entire organisation. Pro bon support is also accessed on demand.</td>
<td>- Described by ventures as “thoughtful and bespoke”. - Ventures receive many non-financial supports.</td>
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<tr>
<td><strong>Following a diagnostic process (HOW)</strong></td>
<td>- Performance Advisors carried out a training needs analysis with all ventures.</td>
<td>- Performance Advisors work with charities to ascertain their needs and work with them</td>
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<tr>
<td><strong>Delivered through highly capable and trusted providers (HOW)</strong></td>
<td>- Ventures report higher levels of engagement and quality of support. Each Performance Advisor has a caseload of 7-9 ventures only. - PAs bring critical business skills and have a unique relationship with ventures which is grounded in their commitment to supporting ventures to succeed. - The staff team was highly regarded for the professional approach and level of business skills which they brought to the ventures. - It also levered additional specialist business skills and support into ventures through its extensive network of pro bono supporters - the scale of pro bono support and the quality of the input delivers impact which is unique and unquantifiable.</td>
<td>- Relationships with ventures are described as highly engaged, high-trust “partnerships”, characterised by open and respectful relationships, provision of high-quality expertise and networks - Each organisation has a Performance Advisor assigned who provides direct counsel and support and functions as a sounding board and executive coach on an ongoing basis. - Support comes from Inspiring Scotland staff (2/3 of services), by a formal network of external professionals who provide services pro bono and contracts with paid consultants to provide specific services (split equally)</td>
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<tr>
<td><strong>And includes a range of different mechanisms which together involve the whole organisation</strong></td>
<td>- Development of the whole organisation, not just programmes are supported. - The outcomes focused approach drives a culture change in organisations, transforming entire the company.</td>
<td>- In total 570 categories of services were reported, including executive coaching, support to develop financial systems, human resource expertise, or legal advice. Each organisation received 9.2 categories on average. - Networking is supported as ventures within the same fund meet at least twice per year at events, which feature targeted networking as well as expert speakers and training relevant to each fund (shared learning). - It has also seeded and fostered a number of collaborations amongst its ventures.</td>
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Appendix 9
What do we learn from the supporting literature about diagnostic tools?
PWC Canada undertook a comparison of the tools provided by McKinsey & Company, TCC Group and Ontario Trillium Foundation. Although it acknowledged that each had its strengths, it expressed a preference for TCC Group’s approach as being both comprehensive (reflects external environment, resources, 4 aspects of organisational capacity and culture) and easily understood. Like McKinsey’s framework, it is accompanied by a detailed capacity assessment tool that aligns with the framework and together these help facilitate a deeper understanding of the organisations’ existing capacities and facilitates discussion. (PWC Canada Foundation, 2011). In contrast, the consultant Blueprint Research & Design named the McKinsey assessment grid’s as its preferred tool and described its advantages as follows: (i) it includes a comprehensive set of questions, including those on higher level elements of leadership, mission and vision when others focus primarily on technical and organisational skills, and (ii) it use of a 4 level rating scale with descriptions of activities that demonstrate capacity at each level. It believes these help ensure consistency in responses from all users, reduces subjectivity within an organisation and increases the validity of scoring across non-profits – even those doing different kinds of work. However, it also found that the layout or logic of this assessment tool can be difficult to explain to staff and translate into concrete work plans that in practice, so advocated amending the diagnostic tool to incorporate TCC Group’s 4 dimensions approach - leadership, adaptive, management and operational. (Blueprint Research & Design, 2005)
A lot of valuable insight the use of diagnostic tools found in the literature is provided in the report “Building Capabilities in the Voluntary Sector: what the evidence tells us” (Third Sector Research Centre, 2014). While various stakeholders are involved in capacity building, who diagnoses the need and their objective is likely to determine the capacity building focus. Capacity building support providers can also undertake these reviews to provide a more independent assessment, although there may be some conflict issues when they are engaged by funders. There is also evidence to suggest that larger organisations with staff are better at reporting needs than smaller organisations – which may be an indicator that some organisations are better at acknowledging or identifying a need for increasing impact than others. This is probably linked to the problem that certain organisations may not acknowledge or be aware of their needs. IVAR found that in smaller organisation, they tend to focus more on building upon existing strengths and less on deficits. In addition, they identify their needs less as being related to specific programme and typically more on the needs of the organisation as a whole. (IVAR, 2010)
Factors that have been found to be important to ensure the success of the health check at the delivery stage are the relationship between the provider and the organisation, sensitivity and flexibility in using the health check, developing a conversation around prompts and focusing on positive aspects for improvement. More generally key success factors are who does it, the capabilities of the providers who undertake the health - these are central to success of the delivery process, and the degree of integration between the diagnostic process and the capacity building process itself – there is a need for joined up thinking to avoid duplication.
When the diagnostic tool is being used by funders or support providers, a key message is to convey that it is being used to assist organisations and not to judge them, while organisations should be
encouraged to approach the assessment as a process rather than a survey. Reflecting this, assessment tools are also called organisational strength reviews by some practitioners. When respondents feel assured that the assessment is a vehicle to improve their capacity they are more likely to be honest (whereas there may be a temptation to inflate scores if it is included as part of say a funding decision). It is also noteworthy that when the tool is used for self-assessment, organisations are more likely to use it to inspire action or enhance areas of strength than using it to identify new issues or highlight existing gaps. This may be because lower levels of capacity in some areas may not be problematic or a high priority at certain stages in their development. Other tips to optimise the process include involving board members (e.g. a shortened version of the assessment tool could be used to encourage their engagement) as well as those from multiple staff members and management and tying the results in with an organisational planning and goal setting process (Blueprint Research & Design, 2005).

Applying any of these frameworks requires judgement and relies on the skills and opinions of the analyst. Analysis is therefore a mixture of objective assessment and subjective opinion, and must take into account the context in which the charity is working. This qualitative aspect of evaluating organisation is emphasised both in using these diagnostic tools and by investors in relation to their health checks or selection criteria used as part of their due diligence processes.
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<thead>
<tr>
<th>Name</th>
<th>Owner</th>
<th>Underlying Framework</th>
<th>Free</th>
<th>Pillar/Care Categories</th>
<th>No. of Questions</th>
<th>No. of Hand &amp; Levels for</th>
<th>Recommended respondents</th>
<th>Objectives</th>
<th>Support</th>
<th>Other documents</th>
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<td>Core Capacity Assessment Tool- OCAT</td>
<td>TCG Group</td>
<td>TCG Group’s Non-Profit Organisational Capacity</td>
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<td>Core +3</td>
<td>165</td>
<td>Management</td>
<td>Score for core capacity (100 point scale: 30 is strong, 10-29 is satisfactory and &lt;10 is challenging)</td>
<td>Self Assessment</td>
<td>Telephone technical support</td>
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<td>2 to 0 Board</td>
<td>Classifying according to a lifespan (as applicable scores)</td>
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<td>Priority areas (capacity building)</td>
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<td>Benchmark of 100+ non-profits based on country data service sectors type or programme</td>
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<td>Self Assessment</td>
<td>Telephone technical support</td>
<td>Not every question needs to be answered</td>
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<td>Leadership team</td>
<td>Telephone technical support</td>
<td>Lifecycle differs from age of an organisation</td>
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<td>Adaptation and distribution require permission</td>
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<td>Some of the board</td>
<td>Mapping of each capacity against performance and outcomes</td>
<td>Provides other online resources to help assessment and capacity building</td>
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<td></td>
<td>Additional staff</td>
<td>Allows identification of “strengths to build upon”, “areas to improve” and “areas to build alignment”</td>
<td>Adapted OCAT in PDF version available to view from: <a href="http://www.mckinsey.com/capacity-assessment/detailed-analysis-of-diagnostic-tools-international-benchmark">http://www.mckinsey.com/capacity-assessment/detailed-analysis-of-diagnostic-tools-international-benchmark</a></td>
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<tr>
<td>Name</td>
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<td>Pillar/CORE Categories</td>
<td>No. of Questions</td>
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<td>Health and Safety</td>
<td>Board</td>
<td>Good Egreeness</td>
<td>Yes</td>
<td>5</td>
<td>19</td>
<td>2</td>
<td>Aggregate (average score per pillar provided in spider diagram format; spider diagram displays the results for the building blocks within each pillar.)</td>
<td>Self Assessment</td>
<td>Not every pillar needs to be completed</td>
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<td>Also allows a check for variations on responses by team/cell/any level</td>
<td>Provide other online reports and resources to help assessment and equality building</td>
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<td>Benchmark against organisations using the following filters: organisation size, themes of work, context of work, approach to programme, approach to assessment</td>
<td>Provide recommendation for best performer in each role for each pillar</td>
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<td>Stake: represent different stages in organisation’s development: success, emerging, maturing, strong.</td>
<td>Level 3 is considered a good benchmark for any organisation</td>
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<td>Provides an evidence checklist for the quality of reporting outputs</td>
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<td>VCS Asset Assessment Tool</td>
<td>Voluntary</td>
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<td>Yes</td>
<td>5*</td>
<td>15</td>
<td>4</td>
<td>Graphs provide strengths and weaknesses in programme's core business, scores on a scale of 0 (poor) to 4 (high)</td>
<td>Additional financial information is required for commercial viability and future sustainability</td>
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<td></td>
<td>and Community Service</td>
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<td>Overall strengths and weaknesses are also proved using the mean score for each section</td>
<td>Supporting evidence requested</td>
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Appendix 11
Overview of International Capacity Building Programmes – What can Portugal learn?

1. Third Party Model

Social Innovation Fund (US)

Overview of main features:
US government sponsored fund – $40m in 2015; grants of $1m-$10m per year for up to 5 years to intermediaries chosen through an open competition who are required to match fund $1:1 and distribute at least 80% of grants in awards. Intermediaries award up to $100,000 per year for up to 5 years to post-idea stage social organisations chosen by intermediaries in an open, evidence based competition (evidence is based on a 3 tier approach). Grantees are also required to match fund. The key focus of fund is on innovation, shared learning and an outcomes based approach with strong evaluation for both intermediaries and social organisations to improve evidence building.

Key learnings for Portugal:
Leverages off the knowledge of on the ground entities with strong skills and track record of success in competitively selecting, validating, and growing high-performing non-profit organizations - they are provided with funding for own capacity building and due diligence processes. Leverages private dollars through match funding. Achieves scale through growing innovative programmes to make broader and deeper impact and using evaluation of outcomes to drop less successful programmes. An outcomes and evidence focus demonstrates what works and builds capacity of non-profits to measure evidence. It rigorously documents and shares best practices and lessons learned for knowledge sharing. Once funded grantees and subgrantees have to improve their evidence standards and to help meet the programme’s high evidence standards both are provided with access to a team of evaluation experts.

Source: Fund website, (Corporation for National & Community Service, 2012), (Impetus PEF, 2012)

Social Enterprise Development & Investment Fund (Australia)

Overview of main features:
A$20m of government funds match funded by 3 intermediaries from range of investors. Intermediaries are experienced fund managers in the social sector chosen in an open competition process who in turn use model of choice for selecting social enterprises with proven concept. These intermediaries have been responsible for marketing outreach programs to raise awareness and using own networks to help build pipeline. They also provide capacity building through consultants, mentoring, a grants programme and referrals to existing capacity building programmes. Impact reports are to be published on an annual basis using Impact Reporting and Investment Standards for comparability. Finally, intermediaries meet regularly to share key learnings and develop common standards and approaches.

Key learnings for Portugal:
Setting up and marketing to build a pipeline largely dominated first 12 months of the programme work. Educating organisations on the concept of social entrepreneurship and need for social finance was required. Capacity building needs were found to be similar to those of other small and medium enterprises (financial viability and business planning, operations and governance were the highest need areas), demand for capacity building exceeded supply, and opportunities for shared capacity building
and cross referrals were undertaken to address challenges – a key conclusion of the report was the need for additional capacity building support in social enterprises and the need for government to develop such capacity building initiatives. In this case fund managers undertook more capacity building for earlier stage enterprises in order to improve potential pipeline of investment ready applicants and an effort was made by funds to develop the pipeline of capacity builders also. Repayable finance rather than grants were chosen as more appropriate for the development stage (growth) of the social enterprises selected. The government has documented the programme in detail and learnings have been shared for transparency and to increase market knowledge.

Source: Fund website, (Australian Government, 2013)

2. Demand Centred Model

Investment & Contract Readiness Fund (UK)

Overview of main features:

£10m evergreen fund to result in 130 awards of £50,000 - £150,000 grants, paid quarterly against milestone achievements as reported by provider and the venture itself. Targets social ventures seeking to raise investment or bid for contracts in following 3 years. Open call period with a meeting of selection panel every 2 weeks but has focused on themed calls at intervals. Selection panel draws on experts from social finance market while the programme generally is managed by Social Investment Business. Social enterprises choose from a panel of 40 approved intermediaries with a track record in providing support to social ventures in attracting investment or winning public service contracts - responsible for assisting social enterprises to develop realistic proposals (including milestones) for capacity building when applying to fund and providing support from its networks during programme implementation. Grants are used to pay suppliers of advisory services (largely the lead advisor in application but others also allowed) and cover internal costs to put the investment/contract readiness plan into action (up to 40% of grant). This capacity building programme can be up 18 months and quarterly reports are submitted to track progress versus milestones.

Key learnings for Portugal:

The fund reported success in its goals in the BCG review – there was a significant increases in skills and knowledge and 70% of recipients thought they would need less help in the future while the market providing business support services grew. In addition, ventures were starting to become more willing to pay for them as they became aware of the benefits they could bring. Around 50% of intermediaries who applied were approved to provide services under the fund. The role of Social Investment Business, using its experience of similar programmes, in the smooth running of the fund was key. However, it was underfunded which resulted in a less supportive role during the application process than applicants would like. The lack of feedback, transparency and consistency on panel decisions as well as a lack of representation on the contract award side was noted. A repayable portion for investment readiness grants was introduced in mid-2013 to encourage pricing discipline, incentivise outcomes, and develop investor understanding of investment readiness costs. For contract readiness grants were capped at £75,000 to encourage venture contributions.

**BIG Potential Fund (UK)**

*Overview of main features:*

A BIG Lottery grant fund of £20m over 3 years – split between a £10m Breakthrough fund providing grants of £25,000-£75,000 for in-depth investment readiness work and a £10m Advanced fund providing grants of up to £150,000 for organisations looking to raise £500,000 or new investment or contracts worth over £1m. The fund is aimed at social enterprises considering raising finance for the first time. Applicants have an eligibility scoring based on criteria such as track record in providing services/products, the social impact of the organisation’s work, management and governance and financial performance and controls. Applications are invited through an open competition and while recommendations are made by a panel of social sector organisations the ultimate decision is made by the BIG Lottery Fund. A fully supported application process where an online diagnostic tool is supported by an in-depth one-to-one session with an expert advisor and a provider matching service highlights to applicants providers most relevant to their requirements – however, the applicant has free choice in which provider it partners with for submitting its application in the form of a proposal for an investment readiness plan. The intermediary also monitors the capacity building programme and submits periodic reports once the programme begins. A list of approved providers, an online diagnostic tools (not limited to use by applicants only) and a free resource centre providing an introductory guide and case study films are also offered as part of the programme.

*Key learnings for Portugal:*

The fund was set up in response to a gap in funding investment readiness identified in the report “Investment Readiness in the UK” (ClearlySo & New Philanthropy Capital / Big Lottery Fund, 2012) for earlier stage and smaller organisations than those targeted by the Investment and Contact Readiness Fund. The fund design incorporates many of the recommendations for capacity building programmes made in that report. For example, while the fund is run by Social Investment Business who runs regional events to promote the fund and helps support applicants, it also partners with other social sector organisations such as Locality who provide pre-application support, Social Enterprise UK and Charity Bank who run regional events and support sessions and University of Northampton as an independent evaluator. The ability of organisations to select providers is empowering but the assistance and diagnostic tool during the application process help overcome some of the issues with demand led schemes identified in the BIG Assist Fund review. (There is no report on the performance of this fund yet available.)

*Source: Website*

**Impact Readiness Fund (UK)**

*Overview of main features:*

This is a pilot fund of £1.5m managed by Social Investment Business. Targets ambitious ventures which have a commitment to raise money or secure contracts within 18 months and are at an earlier stage in their development of impact systems and processes so the funding is for new activities. Provides 2 types of funding: (i) Impact Readiness grants between £15,000 and £25,000 to improve the ability of ventures to measure and report on their impact - suitable for ventures that are at an earlier stage in their
development of impact systems and processes, and (ii) Impact Growth grants of between £25,000 and £150,000 to support intensive interventions to help develop specific systems and processes to increase the impact that the venture is delivering. The social organisation chooses support provider from an approved list (26 providers) and works with them to develop an impact readiness plan which it will help to deliver – this is submitted for the application. The proposed programme of capacity building needs to be complete within 3 months.

**Key learnings for Portugal:**

This fund was launched in response to the gap in the market with respect to impact readiness which was identified by the UK Advisory board to social impact investing taskforce in 2014. Helps build on the ICRF to offer more targeted support to ventures to demonstrate their social impact more effectively to investors and commissioners to improve their chances of closing the investment deal or winning contracts. Enables them to buy in specialist support they might otherwise might not have accessed. However the programme period is very short given the specific nature of the capacity building support being funded and the target is very specifically linked to social organisations that are committed to raising investment finance or signing a contract and have a strong track record of programme delivery so excludes those smaller organisations that will always remain small. The narrow target of the fund is also reflected in the information required for the application - it needs to include information on the theory of change, beneficiaries and wider impact and must outline specific milestones and outcomes that will be achieved as a result of the grant. Applicants who show the use of pro-bono support or match funding alongside the grant application will be given priority.

*Source: Website*

**BIG Assist Fund (UK)**

**Overview of main features:**

A fund of £6m from the BIG Lottery delivered through the NCVO to enable Voluntary Sector and Charity Enterprise infrastructure or umbrella organisations through providing support in areas such as demonstrating impact, organisational strategy and developing new business models. This is a voucher programme where vouchers are issued for a fixed amount, suppliers have to be chosen within 2 months and the programme of support completed within 4 months – all interactions are recorded on a website. A demand led initiative so even though a diagnostic test is mandatory suppliers select which support services they need and prioritise themselves. Also provides a peer-to-peer programme to umbrella organisations as well as learning and networking both face to face and online.

**Key learnings for Portugal:**

This provides a good example of a voucher scheme in practice and on the merits of (i) demand led schemes and (ii) building the capacity of market intermediaries. Capacity builders were reviewed at the end of the service to ensure quality of delivery. One of the issues highlighted by the programme participants was that the level of support requested by organisations exceeded the level of support available through the voucher scheme. (This was addressed by allowing those organisations reapply for support.) A review of this scheme, along with other demand led schemes, noted the variable or limited capacity amongst the organisations to self-diagnose and to identify and engage with the most
appropriate support providers. It also highlighted the value of a diagnostic tool as a useful process in its own right, both as a means of ensuring organisations with limited capacity could identify their capacity building needs and as a means of reflecting the priorities and concerns of all stakeholders within each organisation.

Source: Website, (Sheffield Hallam University / TSRC, 2014)

UK Social Incubator Fund (UK)
Overview of main features:
The £10mn government fund supported social incubators to provide investment of between £50,000 and £1.5mn as well as intensive support to early stage social ventures. It aimed to drive a robust pipeline of start-up social ventures into the social investment market, by increasing focus on incubation support and attracting new incubators into the market. It was a 3 year fund with 2 elements – one which supported operating costs for four years with grants ranging from £50,000 to £250,000 per year and another which provided between £100,000 and £700,000 to contribute to each fund’s investment book. The fund was set up with the goal of support 10 incubators who applied for funding through expressing an interest in response to calls and attending an obligatory funding session.

Key learnings for Portugal:
Incubators were expected to apply for both types of funding, but the investment fund portion came with the restriction that it had to be invested in social ventures using non-grant financial structures. The first round of funding was open only to established social incubators (4 won awards) while subsequent rounds also accepted applications from newer incubators. The grant decision was made by an advisory board comprising of 4 social finance organisations, chaired by the Cabinet Office.

Source: Website

3. Accelerator Model
UnLtd (UK)
Overview of main features:
UnLtd is a non-profit organisation that promotes social entrepreneurship in the UK by supplying an individually-tailored combination of grants, advice and networking support through its Awards programme. In 2014 it made 1,744 awards which include funding, confidence building, diagnostics, signposting and access to networks, pro-bono support and mentors through working with delivery partners and volunteers. Awards from partners are typically given at earlier stages, with the number of recipients decreasing and the award sizes and the intensity of support increasing as they progress from Try It to Do It to Build It (each programme is 12 months). It also looks to develop the eco-system of support to make it easier for social entrepreneurs to find the help they need. It connects investors, entrepreneurs, business support and important networks and attracts private sector investment through specific programmes as well as having a strong focus on learning through innovation in its programme delivery and sharing learnings.

The awards are tailored to meet the needs of social entrepreneurs at different stages in their development, progressing from Try It and Build It to Fast Growth and Scale. All of the awards offer
tailored one-to-one and peer support, and include diagnostics, skill development and confidence building. Try It and Scale It are open to applications at all times and accept 3 cohorts each year while Fast Growth Award is an intensive 12 month accelerator programme that is held once a year and targeted along the line of social themes and regions. UnLtd also runs the BIG Venture Challenge targeted at entrepreneurs that are highly ambitious to scale up at a rapid pace. The programme provides 12 months of intensive support including business support, networking and match funding. Recently, this programme has also moved from grants based to having a repayable grant component i.e.5% of revenues capped at 50% of the grant. The success of this programme is attributed to rigorous assessment process, intensive support from a team of consultants and the matched investment approach to funding.

*Key learnings for Portugal:*

UnLtd offers an unprecedented level of support to social starts ups as it aims to help social entrepreneurs to develop skills, confidence and resources at each stage of their development journey. Tailored support packages adapted to different stages of development; use of partners (including a strong focus on working with universities), mentoring and pro-bono support to extend the reach of the programme; and the backing of people over enterprises in order to instil confidence, especially in start ups, are all key programme features that could be replicated in Portugal. A survey of awardees reveals that many ventures stay small but create a significant impact collectively e.g. by reaching fewer people but working with them in depth and often face-to-face, while a few grow to scale and create a major impact individually through a broader reach, for example those providing online services or selling products that meet social needs. Given the profile of social entrepreneurs in Portugal, the UnLtd model is also likely to be very suited to this market also.


**MaRS Centre for Impact Investing (Canada)**

*Overview of main features:*

The MaRS Centre for Impact Investing uses a model of mainstream integration to create systems change and therefore opens up government supports and their own training programmes for non-profits to social ventures. They have developed a screening criteria that helps determine the services and resources that ventures needs based on its current stage of development where it attempts to achieve one of the following milestones: determining problem-solution fit; validating product-market fit; or driving growth. They offer tailored advice and support at each of the key milestones in this tiered services model and employ a funnel approach so that as social enterprises progress, they move from group support to one-to-one mentoring.

It also offers an 8 week boot camp called Impact 8 which is a fast track for high potential social ventures that have achieved product validation and look to increase investment readiness. The bootcamp leverages the skills and expertise of the MaRS and partners to deliver targeted workshops, one-to-one advisory services, mentorship, peer learning, community profile, investor introductions and pitch opportunities. Successful social enterprises here can become eligible for to become SVX issuers or the
Impact Venture Fund. In addition, it offers a talent development model along with core skills to a group of 18-29 year olds in Studio Y (C$10m, 5 year investment), connections through the MaRS network and market intelligence.

**Key learnings for Portugal:**

Key features of the MaRS’ model such as screening social enterprises to match with development milestone, tiered services model/funnel approach to match tailored capacity building to the social enterprises’ stage of development, its provision of support for all points of the development stages so that social enterprises can progress from start up to funding and its model of opening up mainstream capacity building to social enterprises are also likely to be appropriate for a capacity building. These are also likely to be relevant for capacity building in the Portuguese market also.

*Source: Website*

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**Appendix 12**

*What do existing studies and mappings of the Portuguese social sector identify about its characteristics and capacity building needs for impact?*

**Map of Social Enterprises and their Eco-Systems in Europe: Country Report Portugal**

The European Commission carried out a review of Portugal’s social sector in 2014 which resulted in their country report for Portugal as part of the series Map of social enterprises and their eco-systems in Europe”. (EC, ICF Consulting Services, 2014). They identified 5,099 IPSS\(^{12}\) registered entities in Portugal, which includes associations; Misericórdias (mercies), foundations of social solidarity, social and parochial centres and institutes of religious organization. Non-IPSS misericordias, mutual and foundations totalled 776. It also noted the Portuguese social sector includes the co-operative sector (3,109) and a solidarity sub-sector of co-operatives (108), philanthropic associations (3,309) and other legal entities or regular social enterprises with a social mission (unknown number).

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\(^{12}\) IPSS are Private Institutions of Social Solidarity – these are “non-profit institutions, created by private initiative, with the purpose of giving organized expression to the moral duty of solidarity and justice between individuals and they are not administered by the State or a local government body to proceed among others, their goals, through the provision of goods and services”. IPSS is a legal status and resembles the EU definition of social enterprises.
They noted that the social enterprise concept is not yet fully established in Portugal but a growing support for social entrepreneurship is exemplified by the creation of the Social Innovation Bank (Banco da Inovação Social, BIS) in 2013. It identified a number of publicly funded schemes specifically designed for or targeting social enterprises.

<table>
<thead>
<tr>
<th>Support type</th>
<th>Are there any schemes specifically targeting social enterprises?</th>
<th>Are any of these schemes funded by ERDF/ESF?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-start support (e.g. incubators)</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Awareness raising (e.g. awards)</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Social entrepreneurship education (e.g. school for social entrepreneurs)</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Business support (e.g. business planning, management skills, marketing etc.)</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Training and coaching schemes</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Investment readiness support</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Dedicated financial instruments</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Physical infrastructure (e.g. shared working space)</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Collaborations and access to markets</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Networking, knowledge sharing, mutual learning initiatives</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Source:** Based on Country Report: Portugal (ICF Consulting Services/EC)

**Source:** Country Report: Portugal (ICF Consulting Services/EC)
Other initiatives for growing and supporting the market include MIES, the University of Coimbra’s centre dedicated to the social economy, a number of courses targeted at prospective social entrepreneurs from other universities, social economy training from FORMAES and the workshops, peer learning and networking events hosted by the weekly group “Start Up Pirates” in Porto. Networks and mutual support mechanisms mentioned in the report include Fundação EDP’s social lab, the Institute for Social Entrepreneurship (IES) and the Agencia de Empreendedores Sociais (SEA). However, it found that generally networks and mutual support mechanisms are not well established in Portugal, with social initiatives seeming to be based more on donations than on economic activity.

Finally it noted that barriers to growth and development of the sector include (i) the measurement of social impact has not yet been established - only 5% of social enterprises are estimated to carry out strategic evaluations to measure their impact and few make use of indicators to measure social impacts in their annual reports, (ii) the large dependence of the sector on public sector funding at a time its availability is being reduced and other sources of finance or investment remain difficult to access, and (iii) there are internal barriers such as a lack of knowledge on how to start an enterprise, draft business plans, attain sustainable incomes, monitoring and evaluating projects. The last barrier has two related components. While the Banco de Valores Sociais and several consultancies offer training in capacity building, strategic planning, reporting standards, financial sustainability and communication, the support outreach is still relatively small (albeit growing). Secondly, where business support and additional information do exist for the growing number of people who are coming from the third sector to start businesses, they often do not know how to find or access those supports (lack of awareness).

Other characteristics of the sector are governance structures and strategic management plans that are in need of reform – “the role of the organisations’ boards of directors and executive directors often mix and overlap, in an intrinsically inefficient structure, which fail to provide a long-term strategic plan or vision.”, the high level of volunteering which was estimated to be about 40% of total FTEs in the sector in 2013 and low wages of qualified staff that are only 83% of the national level.
Diagnostico das ONG em Portugal

This is a report based on a 2014 survey of c.150 Non-Government Organisations (NGOs) across all activities and regions of Portugal. (Universidade Católica Portuguesa/Fundação Calouste Gulbenkian, 2015). Some of the defining characteristics used for NGO’s include: (i) they are legal entities, civil corporates and are private in that they are free of public control and their governance is independent of the state, (ii) their clients, who are typically independent of the users of the organisations’ services, are volunteers who contribute their money or time in order to support the activities of the NGO, (iii) their primary mission is to encourage collective action to promote relationships based on solidarity between human beings and between people and the environment where they live, (iv) when they achieve their mission they deliver a public good – which may include providing goods and services at a below market
rate to individuals who would otherwise be unable to pay for that good or service, (v) any profits or surpluses generated are reinvested to support the organisations’ activities and are not distributed, and (vi) assets are managed for the benefit of society at large and not only for benefit of the stakeholders of the organisations.

The Directory of Social Economy (DES) produced by the Universidade Católica (Porto) identifies 17,012 entities who meet the characteristics of NGO’s utilised in this survey. A core of approx. two thirds of these organisations operate at below municipality level (e.g. community or parish level) and typically exist as a collective response to a need for social services, responding to emergency situations (e.g. firefighters), and the support of cultural, arts and other recreational activities. 37.5% of all organisations are focused on the provision of social services alone. These findings are consistent with Southern Europe (e.g. Italy, Spain), where social services in particular are the most important area of intervention as the non-profit sector has historically replaced the State in this area of activity. Other NGOs address wider needs such as scientific activities, environmental protection, human rights, education, etc.

Figure 23 Categories of NGO's in Portugal

<table>
<thead>
<tr>
<th>ATIVIDADES PRINCIPAIS</th>
<th>N.ª ONG</th>
<th>% DO TOTAL DAS ONG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atividades Artisticas e Culturais</td>
<td>3851</td>
<td>22.6</td>
</tr>
<tr>
<td>Associativismo de Moradores</td>
<td>820</td>
<td>4.8</td>
</tr>
<tr>
<td>Servicos Sociais</td>
<td>6377</td>
<td>37.5</td>
</tr>
<tr>
<td>Protecao Civil</td>
<td>537</td>
<td>3.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>11585</td>
<td>68.1</td>
</tr>
</tbody>
</table>

Source: Diagnostico das ONG em Portugal (Universidade Catolica Portugesa / Fundação Calouste Gulbenkian)

The main misalignment between the location of NGOs and the need is found in the interior of Portugal where population is falling (rather than on the coast). Lisbon represents an exception to this where there is a large concentration of NGOs addressing more general or wider needs e.g. scientific needs, international operations and immigration supports tend. There is emerging class of NGOs that aim to provide services and mobilise support for social economy organisations but this group is not sufficiently dispersed or diversified to respond satisfactorily to the need of the organisations they hope to serve. Only those organisations within the core social services sector have attained sufficient scale or influence to develop a voice at a national level in Portugal’s social sector.

Furthermore, the report includes a comparison of the number of NGOs, non-profits and social organisations according to DES and statistics from INE as follows:
In this analysis, ISFL are Institutes Sem Fins Lurativos or non-profit organisations while OES are Organizações da Economia Social or social economy organisations. The major difference between the social economy concept and the civil society or non-profit sector concept used here is the inclusion of mutuals and cooperatives in the former and their partial exclusion from the latter on grounds that they distribute profits to their members. Based on these figures, non-profit organisations are c. 30% of the social sector.

A key findings of the case studies carried out as part of the study is that the environment for NGO’s is increasingly difficult, dynamic and complex. Financial difficulties are the main concern across the sector. Some of the issues faced by NGO’s include the growing demands of users, the increasing complexity of problems to be resolved and the increased competitiveness from other organizations, both in the services provided and in the access to funding. Another of the key challenges faced by the sector is the
“building of capacities within the organizations that operate in this sector, which will need to prove they are equal to the task that lies ahead” as they seek to grow and respond to these challenges.

In the top 10 skills that were identified as being missing by NGO’s themselves, the majority have to do with marketing and fundraising (e.g. external image and communication, fundraising campaigns, management and mobilization of members); a lack of skills related to strategic management (including impact measurement skills to assess results and impacts), and others connected to such areas as drafting of business report, identification of donors and funding lines and application processes to obtain European funds.

Figure 25 No. 1 Problem Identified in Survey of Portuguese NGOs

<table>
<thead>
<tr>
<th>PROBLEMA N.º 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dificuldades de financiamento</td>
</tr>
<tr>
<td>Falta de apoio financeiro do governo</td>
</tr>
<tr>
<td>Desajustamento de políticas públicas</td>
</tr>
<tr>
<td>Dificuldade em atraí pessoa novas para os órgãos sociais</td>
</tr>
<tr>
<td>Grave situação financeira</td>
</tr>
<tr>
<td>Instalações casadadas</td>
</tr>
<tr>
<td>Falta de utentes / clientes</td>
</tr>
<tr>
<td>Multos membros / associados que não pagam quotas</td>
</tr>
<tr>
<td>Falta de conhecimentos de marketing / angariação de fundos</td>
</tr>
<tr>
<td>Falta de pessoal qualificado</td>
</tr>
<tr>
<td>Falta de conhecimentos de gestão</td>
</tr>
<tr>
<td>Desmotivação dos recursos humanos</td>
</tr>
<tr>
<td>Problemas cada vez mais complexos na comunidade / utentes</td>
</tr>
<tr>
<td>Dificuldade em obter apoios empresariais</td>
</tr>
<tr>
<td>Elevada concorrência de serviços públicos</td>
</tr>
<tr>
<td>Elevada concorrência de serviços privados</td>
</tr>
<tr>
<td>Conflitos internos</td>
</tr>
<tr>
<td>Direção estatutária ausente</td>
</tr>
<tr>
<td>Dificuldade de articulação entre a direção técnica e a direção estatutária</td>
</tr>
<tr>
<td>Dificuldade na elaboração de candidaturas</td>
</tr>
<tr>
<td>Outros 3</td>
</tr>
<tr>
<td>Outros 2</td>
</tr>
<tr>
<td>Outros 1</td>
</tr>
</tbody>
</table>

Source: Diagnostico das ONG em Portugal (Universidade Catolica Potugesa / Fundação Calouste Gulbenkian)

The need for organisations to urgently develop skills in terms of fundraising and improving market knowledge was seen at the top priority for NGOs. While NGO’s have a social mission as their primary objective, to fulfil this mission in a meaningful and sustained manner they require financial sustainability. Gaps in capacity in terms of financial management are the largest issues for both IPSS and non-IPSS organisations.

Currently there is an over-reliance on public funding in the sector, although this reliance varies significantly amongst organisations in the sector e.g. one reported 85% of funding from public sources while at the other end one organisation reported 60% of funds came from non-public sources. Other financial sources are own funds and private donations, which accounted only for a small share of funding. Several organizations reported difficulties in attracting business financial support (or continuity
maintenance support) as a result of the difficult economic environment but this has been mitigated to some degree by accessing pro-bono services provided by businesses (legal services, financial services, market research, marketing and communication, etc.). Difficulties identified in accessing grants include a mis-alignment of mission between the grantor and the grantees, some organisations find it difficult and expensive (in terms of time and resources) to undertake the application process and a mismatch of public policies that tend to favour the financing of large projects (and large NGOs) to the detriment of smaller ones.

There is an understanding for a need for the diversification of sources of funding e.g. EU funds are becoming more utilised. There is also a growing appreciation for the potential of growing own revenues by turning the vast know-how accumulated in their areas of activity into profitable services. In some cases, this perception arises from the lack of alternative sources of funding, while in others it comes from the opportunities created by social innovation and social entrepreneurship. While this movement is seen as having the potential to pay an important role in the NGO sustainability for several organisations, it remains at a very early stage and needs further development and investment by all the organisations surveyed. Finally there is a growing awareness of the importance of rigour in financial management, made clear by financially weak situations brought to light in recent years due to their seriousness and because transparency of accounts is becoming increasingly crucial to obtaining funding among potential donors.

A reported lack of users appears to contradict the growing demands on NGO’s more generally in the market, but is an issue reported by several NGO across the country and relates largely to one of two factors (i) a fall in demand from users due to their inability to pay as the economic crisis has resulted in lower incomes or families are undertaking care at home due to reduce costs or as unemployed household members become available to provide the care, and (ii) an overlap of services being provided by a number of IPSS in one region which is attribute to a lack of co-ordination and co-operation between organisations and between NGOs and public authorities, or private companies beginning to offer the services which results in excess capacity and destructive competition.

The other main areas examined in the survey were governance and management, paid workers and volunteers, and sharing of resources, networking and relations with public bodies. Some of the key weaknesses identified in these areas include (i) poor governance and difficulty attracting people to serve on boards, (ii) an over-reliance on, a risk of burnout and lack of training for leaders and management, (iii) training and performance management are in place for staff and volunteers but the quality is questionable and skills development is required – particularly in the area of marketing and communications, (iv) strategy planning needs to be improved to align with the organisation’s mission and for better integration across the organisation (through alignment with staff roles and responsibilities), and (v) networking and partnerships that do exist tend to be inefficient and focused on knowledge sharing but not on other types of resources and while the relationships of NGOs with the public bodies closest to them (e.g. central government decentralized agencies, municipalities, etc.) is open and participatory, developing relationships with funding public bodies is more difficult to set up.
The Portuguese Non-Profit Sector in Comparative Perspective

This report (Franco, Sokolowski, Hairel, & Salamon, 2005) was the first research to map the civil sector society in Portugal and was undertaken 10 years earlier than the latest survey of the NGO sector, and involves one of the same authors, Raquel Campos Franco, from the Universidade Católica Portuguesa. This research was carried out based on a John Hopkins University methodology as part of an exercise to map the sector globally.

At the time of the earlier report, composition of the sector was found to be similar with the same core two-thirds of organisations but social service provision was slightly higher at 48%. The dependency on state (and EU) support was reported as second for income generation to fees (40% vs 48% for the latter) but growing in importance at that time. A key finding of the report was the need for NGOs to professionalise the management of their institutions in order to guarantee the best service possible to their beneficiaries. Already a very small number of non-profit organisations had begun to pursue capacity building programmes to address this need but significant work.

EVPA’s Country Focus Series: Portugal

In “What Does the Portuguese Venture Philanthropy / Social Investment sector look like?” (EVPA, 2014) the European Venture Philanthropy Association also notes that the VP/SI sector is “a nascent but rapidly growing one, and that a multifaceted ecosystem tackling social challenges is developing” in Portugal. It notes that the sector has a number of supporting bodies already in place and these include:

- Portuguese Inovação Social, launched in December 2014, that will be the market catalyst in the country through growing social services and promoting social investment in Portugal,
- the Social Investment Lab, which was established to help set-up the foundations of a social investment market in the country by working with social organisations, investors and the public sector in developing innovative solutions to finance social innovation,
- the Social Investment Taskforce, which is an initiative to catalyse the market infrastructure through the contribution of a variety of local sector members as well as interested parties from private and public spheres – its work is focused on 3 key areas which are market intelligence, potential financial mechanisms for social innovation and identifying capacity building programmes that improve the impact and investment readiness of social innovation initiatives, and
- the Calouste Gulbenkian Foundation, an established local player which has a key role in supporting the Social Innovation Lab and MIES discussed earlier and is exploring new avenues to create and foster social impact in its Human Development Programme stream of work.

In addition, it identifies a number of other member organisations such as IES (the research and training centre for social entrepreneurship), Stone Soup Consulting and Santa Casa da Misericórdia de Lisboa (SCML). Stone Soup is an international network of consultants that works with social organisations on strategy creation and implementation aiming at maximising their social value and in the fields of social impact evaluation, social business models and scaling-up strategies. SCML, founded in 1498 and one of Portugal’s largest charitable organisations, is very active in the fields of social entrepreneurship and social innovation. In addition, through its Department for Entrepreneurship and Social Economy it
supports projects and start-ups aimed at creating social impact through social entrepreneurship acceleration programmes designed specifically for seed and early stage projects.

**Mapa da Inovação e Empreendedorismo Social de Portugal (MIES)**

MIES is a research project undertaken by IES that aims to identify and map all Portuguese social initiatives. It maps the innovation and local entrepreneurship ecosystem, analyses the competitiveness of the innovative business models identified, and publishes and disseminates national and international success stories and best practices. Its main objective is to contribute to the growth and competitiveness of a new Portuguese market of social innovation and social entrepreneurship.

For the mapping project, it screened 550 social innovation and social entrepreneurship initiatives, following an initial screening of all organisations referred to the project and of these c.100 were certified as having high potential.

Some of the key findings of this mapping initiative are provided in the presentation “Measuring Social Innovation (ES+ Methodology)” (IES, 2014) which are reproduced here in the following charts:

*Figure 26 Portuguese Enablers*

- Public Universities: 12%
- Municipality / local body state / EC Portuguese support framework programs: 43%
- Private company: 12%
- Private foundation: 9%
- Private / cooperative: 24%
- Non-profit private association: 1%

*Figure 27 Portuguese Social Investors*

- Private social association: 1%
- EC Portuguese support framework programs: 45%
- Private foundation: 16%
- Municipality / local body state: 8%
- Private company: 30%
Estudo Pro Bono Portugal Relatório Final

In the study “Estudo Pro Bono Portugal Relatório Final” (Social Entrepreneurs Agency, 2015) the study focuses on the provision of pro-bono services, by which it means the voluntary service of basic professionals to NGOs in the public interest which is without a monetary reward. In its overview of the social sector in Portugal it notes that while small by Western Europe standards, in 2010 it represented 2.8% of Portugal’s national production and 5.5% of total paid employment (with 180,000 full time equivalents). It also noted that in 2010 the sector was characterised by a strong heterogeneity, both in number and in the type of activities undertaken, with 55,383 entities in the sector in 2010. In relation to volunteering, it notes that according to the World Giving Index (http://futureworldgiving.org) in 2014 only 16% of Portugal’s population participated in one voluntary activity during the year, compared with 45% and 42% for the US and Canada in North America or 37% of the Irish and Dutch populations that volunteered in the same year. However, it also notes that pro-bono in recent years has begun to meet the needs of NGO’s in the areas of human resources, strategy, marketing, technology, legal and other
services who do not have sufficient financial resources in these areas and reflects the growing desire of younger employees to work in socially responsible organisations.

Of the organisations that participated in the study of 278 social sector organisations (54% of which were IPSS) a small majority had used pro-bono volunteers. Of the 47% who hadn’t used this option, 26% were unaware of the option to access pro-bono services while 21% were aware of it but hadn’t considered it for their organisation. Of those who did use pro-bono volunteers, 21% used help in marketing, 20% in IT services and solutions, 18% in activities to raise funds and 13% in the area of construction, architecture and real estate. This is consistent with the areas seen as most appropriate for organisations to use external rather than internal skills – these were marketing & communications, IT implementation and fundraising. These are also consistent with the areas identified by the organisations as being most important for their development – these are fundraising, creating a new financing model, increasing brand awareness and external communications. Generally a high level of satisfaction was reported for all pro-bono services received. In the future, 51% would like to utilise pro bono support in fundraising followed by marketing / branding (40%), strategic planning and management (27%) and IT / software solutions (23%)

The main reasons for using pro-bono work was the lack of financial resources to hire staff (35%), the existence of professionals willing to volunteer (26%) and the lack of their own staff with the necessary skills. The main barriers to using pro bono work was that organisation didn’t know of it or how to access it. Long-term support from a pro bono professional was preferred but a pro bono working on a specific project or a team of pro bono employees working on a specific project were nearly equally popular. 31% of organisations noted a preference for receiving a few hours of pro bono services a week but 22% noted that there was no time commitment that would make the use of pro bono services interesting to them.

On the supply side, 30% of the 198 corporate organisations surveyed already Human Resources (29%), organizational management (26%) and strategic planning (20%). It notes that 18% indicated that prefer to do classic volunteering.25% were possibly interested in implementing pro bono activities, indicating that a majority of 67% do not offer this opportunity to employees currently. On the employee side, the majority did not request the opportunity to provide their skills in volunteer activities (57%) or mentoring (64%) but 67% of employees asked to take part in more classic volunteering situation at least once a year (e.g. one day / weekend off-site activities which didn’t require their professional skills). In addition, 39% of survey respondents had experience in this type of classic volunteering while 25% had experience of providing their professional skills pro-bono and 20% had never volunteered. Again, those who had volunteered largely found it a satisfactory experience. For those who didn’t volunteer, 33% didn’t know how to go about it while 30% did not have the time for voluntary work. Only 13% of those survey stated that they would volunteer in the future and 40% might depending on the conditions. 34% of respondents would be available to collaborate 1-2 days a year (e.g. in a weekend), 26% could be available one day a month while 20% would collaborate between 3-11 days per year. Most (64%) would prefer to collaborate in a project while 33% responded that working in a long term co-operation with one or more organisations would be their preference for volunteering. The skills that could be available on a pro-
bono basis were human resources (29%), organizational management (26%) and strategic planning (20%) while 18% indicated that would prefer not to provide professional skills but do classic volunteering. Finally the report concludes that pro-bono volunteering falls short on both the demand and supply side. On the social organisation side work needs to be done to prepare the third sector organisations to receive and accompany the volunteers e.g. prepare people, introduce them to the organization, working with them to set goals and carrying out evaluations of their performance. On the professional side, more needs to be done to raise the awareness of pro-bono opportunities and the fulfilment they could provide to volunteers. Furthermore, the report notes that there is a skills mismatch between the areas where the social organisations seek help and the professional skills that pro bono volunteers have to offer. Therefore, it recommends that Portugal set up an exclusively focused platform for volunteering skills, helping to expand pro-bono work, promoting networking and connecting professionals, businesses and nonprofit organisations.
Appendix 13
What did we learn from the Social Investment Taskforce focus group and survey?
The focus group, chaired by the Social Investment Laboratory, was attended by representatives from 17 different intermediaries with an interest in capacity building in the social sector. All invitees in the focus group were also invited to answer a survey of 15 questions. The key aim of the survey was to gain more in-depth information from the intermediaries on the capacity building services provided and their insight into the social sector organisations in their client base. The survey received 8 complete responses, therefore was not sufficiently large to be considered a statistical representation of the sector but does help provide us with some additional insights into the supply side of the market as follows:

In which region(s) are you based? (more than 1 answer possible)

The largest number of respondents are located in central (which contains Lisbon) but all regions are covered as well as international

What is your primary role in the organisation?

The majority of respondents are at management level or higher

13 The survey was carried out on Qualtrics and a link with the survey was posted to the focus group on April 21st, the day before the focus group was held. It remained open until the analysis of results was carried out on May 11th.
Which of the following best describes your organisation?

**Survey respondents are mostly specialist consultants**

- Incubator / accelerator
- University / education institution
- Financial institution
- Foundation/sponsor
- Social investor
- Finance - public
- Specialist consultant (e.g. specialised support to social organisations)

Do you prioritise any of the following causes in your work?

**Economic development, networks & partnerships and unemployment were the most frequent areas of social need in which respondents worked**

- Addictions and Risk Behaviour
- Health
- Active Aging
- Domestic Violence
- Poverty
- Children & Youth at Risk
- Education
- Unemployment
- Networks & Partnerships
- Economic Development
Which of the following capacity building supports do you provide / fund? (Multiple answers allowed)

Business and strategy planning and funding applications are the most supported areas while the more important capacities for delivering social impact along with basic business supports receive the least support.

How many initiatives/projects/organisations (approximately) have you supported in each of the following ways?

Support given is split evenly between skills development and a combination of financial & non-financial support. Approx half report 100+ projects/clients, 1 reports 60 and the remaining 2 support 5 or less.

Financial Support

Non-financial support (skills development)

Financial and non-financial support
How is the support provided?

Group training is the most frequent delivery method following by one-to-one support

- Group training: 46%
- One-on-one support: 32%
- Peer learning/networking: 17.5%
- Advocacy: 5%

Which of the following describes the one-on-one support you provide mostly?

One-to-one support is split equally between standardised and tailored support

- Standardised Support: 50%
- Customised support: 50%

Provide an estimate of the average amount of time you spend working with each social organisation per month?

Most firms spent 5 days or more per mth with each social organisation they support

- 0 - 1 day
- 3 - 5 days
- 1 - 3 days
- More than 5 days
Do you measure the impact of your capacity building work in any of the following ways?

![Chart showing measures of impact]

- Improvement in outcomes to beneficiaries
- Increase in organisational effectiveness
- Client satisfaction

In what areas of capacity building for impact do you think your support adds the most value? (Rank the area you provide most value as 6 down with 1 being the area you add least support)

![Chart showing areas of support]

- Knowledge of the social problem and sectoral framework
- Leadership, board and management training including governance
- Design and implementation of project and impact management
- Financial skills
- Network of experts, advisors and mentors
- Business model, operational model, strategy and analytics
- Respondents ranked their ability to support general business skills and networking capacity most highly, own ability to support capacities key for social organisations is weaker.

How do you ensure that you are meeting the needs of the social organisations?

![Chart showing methods for ensuring needs]

- Having a diversity of staff is the most used method of ensuring that service providers can meet client needs, all other methods (including use of diagnostic tool) are also used equally.
- Undertake assessment of progress (e.g. KPIs, balance scorecard)
- Organisational learning (e.g. networking events, conferences, umbrella...)
- Use a diagnostic tool to assess organisations' needs
- Diversity of staff (e.g. combination of third, private and public sector)
- Other. Please describe
In your experience what are the priority areas for social organisations to build capacity in order to become impact ready? (Rank in order of 5 as the highest priority area and 1 as the lowest)

<table>
<thead>
<tr>
<th>Priority Area</th>
<th>Average Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme delivery and impact management</td>
<td>4.5</td>
</tr>
<tr>
<td>Leadership, board and management team</td>
<td>2.5</td>
</tr>
<tr>
<td>Financial management</td>
<td>3.0</td>
</tr>
<tr>
<td>Business and strategy planning</td>
<td>3.0</td>
</tr>
<tr>
<td>External relationships (e.g. networking, collaborations, partnerships)</td>
<td>3.5</td>
</tr>
</tbody>
</table>

What are the greatest barriers faced by social organisations in Portugal in accessing capacity building? (Rank in order of 5 being the greatest barrier while 1 is the least important)

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Average Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient resources (time and staff) or capabilities to absorb support</td>
<td>5.0</td>
</tr>
<tr>
<td>Insufficient knowledge - do not identify capacity building need</td>
<td>4.0</td>
</tr>
<tr>
<td>Lack of finance</td>
<td>3.5</td>
</tr>
<tr>
<td>Lack of knowledge - do not identify capacity building need</td>
<td>3.5</td>
</tr>
<tr>
<td>Insufficient knowledge on how to access support</td>
<td>3.0</td>
</tr>
<tr>
<td>Insufficient knowledge on how to access support</td>
<td>3.0</td>
</tr>
<tr>
<td>Culture - supporting skills is not a priority initiative</td>
<td>2.5</td>
</tr>
</tbody>
</table>

No. of Firms Requesting Feedback on Survey

- Yes: 7
- No: 1

Note: Out of the 8 surveys fully completed, there was just 1 anonymous respondent who did not request feedback. All other organisations provided their organisation's name and requested the survey results.
Appendix 14

What do we learn from existing literature on government funded support and designing frameworks for capacity building?

“Impact Investing: A Framework for Policy Design and Analysis” (InSight at Pacific Community Ventures & The Initiative for Responsible Investment at Harvard University, 2011) is underpinned by the Rockefeller Foundation’s premise that the resources of government and philanthropy alone are insufficient to address the world’s biggest problems and therefore private sector capital will also be required to tackle social problems. This report in particular provides a framework for thinking about the role government policy can play in creating an enabling environment for impact investing, through providing a model that illustrates the opportunity for policy intervention and outlining 6 criteria with which to evaluate the policy and its effectiveness. The latter can provide a starting point for designing and researching impact investing policy. The policy framework can be summarised as follows:

Figure 30 Framework for Government Policy in Impact Investing

Source: Impact Investing: A Framework for Policy Design and Analysis (InSight at Pacific Community Ventures & The Initiative for Responsible Investment at Harvard University)

This framework shows the proposed Portuguese fund to support capacity building for impact is a government direct participation intervention on the demand development segment of the market. The paper puts forward a number of reasons as to how the involvement of the private sector can help ensure long-term sustainability. For example, when policies that support private-sector development create investment ecosystems that last beyond the immediate and possibly short-lived priorities of any particular political administration, and market signalling, which can lead other sources of private sector capital to take voluntary action in line with the sectors that the public sector has publicly highlighted it is willing to commit to.

The capacity building programme for social impact proposed in Portugal should then meet the following 6 criteria: (i) targeting – match the focus of the policy to its objectives, (ii) transparency in the substance and mechanism of the policy, (iii) the policy should co-ordinate with existing policy (and in this case with the other initiatives undertaken by the Portuguese wholesaler fund), (iv) engagement with investors, intermediaries and social enterprises is important for clarifying the needs of each party, (v) commitment
to the policy should be consistent with the need, and (vi) an institutional context and infrastructure that supports efficient implementation and modification is critical to success.

The principles underpinning this paper are explored further in “A Framework for Action: Social Enterprise & Impact Investing” (United Nations Global Impact & Rockefeller Foundation, 2012). This aims to assist three stakeholder groups – investors, corporations and public policymakers – to understand how to navigate the social enterprise and impact investing space. Each group is advised to follow three steps: prioritise the rationale for engagement, define a strategy and choose a specific approach. For government this takes the following form:


While this model is aimed at governments in developing economies, it is also relevant for government seeking to support social enterprise development in developed markets also.

For prioritising rationale, it advises shifting from a subsidy model to a for-profit model in areas where it can effectively be deployed will promote fiscal efficiency and allow funds to be regenerated and reinvested in new projects. Furthermore private sectors may be able to act more quickly that public bureaucracies and may help sectors that were dependent on subsidies become more efficient through the financial discipline they can bring.

When it comes to defining strategy, governments can choose to shape social enterprise activity either as a direct participant in impact oriented markets or as an outside influence. Then regardless of the strategies it selects, a government must take care to ensure that its interventions are well targeted, transparent and implemented efficiently at a fitting scale and for the appropriate duration. The proposed Portuguese capacity building fund is an example of a participation strategy where the government leverages direct investment to promote capacity building services that can create a positive social impact. In addition, if a matched funding element is introduced it can also help the overall availability of capital in the social sector. Finally, under this second element of the framework the government is also employing a participation strategy by mitigating the risk to future social investors by improving the impact readiness of organisations and helping increase the supply of capacity building providers.

Finally, in its approach it has clearly decided to provide capital support through funding technical assistance for capacity building in all social organisations. This is an area of the social sector which is characterised by low private sector interest (in terms of both financing and service provision) but which has future potential for more robust private sector participation, in the form of more venture philanthropy investors and other intermediaries focusing on capacity building for social impact.
In a third report from the Rockefeller Foundation on building the impact investment market between 2008 and 2012, “Accelerating Impact” (ET Jackson & Associates, 2012), it notes that the impact investing industry had focused largely on the supply-side efforts to mobilise capital and therefore relatively less work was done on developing the demand side. It also noted that providing an appropriate combination of business and social sector expertise was a crucial factor for building the investment readiness of social organisations, especially for seed and early-stage ventures, across all delivery models. In order to grow the demand side of the market the report recommended “identifying and supporting successful and cost-effective approaches to improving the management capacity of social entrepreneurs, while nurturing a range of enterprise supports throughout the life cycle of growing ventures.”

The progress report on SEDIF published in 2013 into its first 18 months of operation also provides some interesting insights into providing capacity building initiatives in the early stages of developing a new social finance market. (Australian Government, 2013) The principal focus of the first year was establish funds to the point of operation which included setting up internal processes for managing applications, governance and credit assessment practices. This was followed by the funds opening for business. As new funds in an emerging field their approach to market is being refined based on their early experience but it is noteworthy they achieved significant reach. There was a strong response to SEDIF with 600 initial responses, however many early enquiries were very broad in their enquiry (reflecting a lack of understanding of the finance on offer) and came from funds at too early a stage of development so that only 125 social ventures engaged with the funds and only 50 of those progressed through to a loan application. To address this, fund managers had to engage with more established enterprises that may not yet identify with the language of ‘social enterprise’ despite meeting the criteria and building understanding and appetite for the role that different sources of capital can play in developing an organisation.

SEDIF addresses the 3 side of the market bringing an increased supply of capital, building the demand for capital from social organisations who deliver social impact and building the intermediaries in the middle who facilitate transactions between the two.

On the demand side SEDIF reinforces that social enterprises have much in common with other small and medium-sized enterprises and found the highest capacity building needs were in financial viability and business planning, operations and governance. While all fund managers focused on profile building in the early stages of the market, approaches to pipeline building. One used a demand led approach which is supported through supported through concentrated campaigns to generate interest and focus applications at particular time periods, another focused on building brand recognition and developing networks through meeting with the full range of market stakeholders while the third focused primarily on its well established networks for potential investments. Pipeline building through existing networks and partner organisations was reported to result in stronger potential investment propositions as contacts were able to identify opportunities and also act as a preliminary screen for investment suitability. Other sources of pipeline included with local employment co-ordinators, regional education, skills and jobs co-ordinators and other the department staff around Australia.
The fund managers identify capacity building needs throughout the investment appraisal process and areas needing development and each developed its own approach to capacity building. One established a group of consultants – for this approach an important feature matching consultants with social enterprises that have similar experiences or organisational characteristics. Another focused on brokering mentor relationships with a bank and local university. While the third provided annual grants – social enterprises applied for grants with the appropriate documentation such as business plans. In addition fund managers also made referrals to existing capacity building programmes.

However, demand for capacity building exceeded supply in the Australian market so that a continued focus of the fund managers will be to develop links to capacity building opportunities in order to build the investment pipeline and in the market generally there is a need for more early stage support programmes. Finding support that matches the specific needs of social enterprises is one area that managers will need to focus on e.g. finding mentors in remote area and they have also begun to work together to address some of these capacity building challenges e.g. workshops to share learnings and priorities so in future referrals can be efficiently co-ordinated between them. Another SEFA is focusing more on developing support networks as a source of referrals and spending more ‘hands-on’ time with loan applicants, as it found it needed to divert some of its resources to improving support throughout the investment process.

This need to use the capacity building approach to feed into the investment pipeline and develop the demand side of the market is also included as one of the priorities of the fund for the year ahead. This challenge for capacity building in early stage social organisations has been characterised as similar so that for all other SMEs in the Australian market. Other priorities are using impact measurement frameworks to capture the impacts of the funds to ensure the funds are meeting their objectives, based on the common IRIS standards reported once a year, and continuing to respond to the challenges and opportunities of the emerging impact investment market with innovative solutions and approaches. 

Other reporting arrangements include quarterly reporting. This is one of the department’s key accountability mechanisms and although a pro-forma report has not been prescribed it has worked with the fund managers to develop a set of minimum data indicators to achieve greater consistency of data across the funds. This consistent data is important for building an understanding of the impact investment market, illustrating market activity and identifying potential barriers and opportunities to market development. Reporting requirements will be streamlined as the funds mature. Furthermore, on a semi-annual basis, the working group meetings have served as a forum to share information and different perspectives on the market. This option to meet collectively with the department was identified as an opportunity to discuss issues that were relevant to all fund managers and to share learnings and best practice.

Impetus PEF’s report on the Social Innovation Fund in the US, “From Social Innovation to Social Investment: Learnings from the US” (Impetus PEF, 2012) it notes some of the key unique features of the fund such as SIF’s funding flows through a network of selected philanthropic intermediaries (including venture philanthropists), which match government dollars 1:1, intermediaries then provide funding, as well as capacity-building support, to community level organisations, based on themes or in certain geographic areas and with grantees also required to match fund and that SIF emphasises the
need to increase robustness, impact and capacity in the social sector, and requires enhanced impact measurement from all participants. It addition it notes that the majority of social investors will not invest in social innovations before they build significant capacity and at that stage organisations rely on grant funding to improve and evidence their model, extend their reach, and build organisational strength. Without grant funding to grow social innovations, the social investment pipeline will largely dry up. While government is often a source of this funding, SIF is built on evidence that governments are not effective grant makers and therefore create much more value by investing through intermediaries with a mandate to scale organisations. Based on the SIF model Impetus uses this report to call on the UK government to consolidate disparate grant pots, and seek the best intermediaries to identify the most effective social innovations, and help drive their growth.” In addition it recommends that government work with civil society including intermediaries and venture philanthropists to develop thematic focuses to concentrate both concentrate both state and private grant funding on finding the best solutions to social problems as well as providing a strong social investment pipeline.

Through Impetus’ conversation with a senior figure within the fund, some other of the learnings from SIF which are worth a mention are as follows (i) even unsuccessful applicants for intermediary grants have reported finding the process helpful as it includes two external reviews, which have informed their future development, (ii) while some concern was expressed that the high bar for match funding required at the sub-grantee level may risk excluding some social sector organisations most agree that the requirement forces the not-for-profit organisations to build their fundraising capacity for the long-term, (iii) the fund is subject to an independent evaluation to assess the results of each intermediary, (iv) SIF has helped raised awareness and discussion around key concepts underlying social innovation such as the need to learn more about how best to grow them without diluting their impact and (v) it has introduced a a truly collaborative way of government working with civil society, in particular where working with intermediaries has started a wider movement of funding focused on results and impact and that the debate around these is getting more sophisticated. The annual gathering of intermediaries has been seen as very valuable in this regard.

The role of intermediaries is also discussed in detail in two further reports “Reaching Underserved Markets: The Role of Specialist Financial Intermediaries” (Forestors & Social Trades, 2013)(Kode, Forestors & Social Trades, 2013) and “Growing Social Ventures” (Shanmugallngam, Graham, Tucker and Mulgan, (Young Foundation / NESTA, 2011). In the Social Trader’s report, it notes that while intermediaries are not new in other industries and are critical to the success of transactions in mainstream markets the role of intermediaries in the Australian market was relatively new and not well understood. This paper therefore highlights “the need for a multidimensional response and tailored intermediation, which involves building supply and demand capability at different lifestages of social enterprises”. In particular it reports on the role of financial intermediaries in unlocking access to funding for underserved markets e.g. through building capacities and capabilities on the demand side of the market as well as increasing access information and access to information on the supply side, bridging gaps between the needs and capacities on the demand side and brokering between the demand and supply side of the markets so capital can flow – this helps redress market failures in underserved markets. Intermediaries engage in this market on both a transactional (opening access) and
transformational (ensuring access lead to real impacts and opportunities) basis. For the social enterprise sector, where organisations face significant barriers to accessing debt and equity capital required to start, develop, grow and scale, it sees this role as building investment readiness (which also includes impact readiness), providing demand led financing opportunities (i.e. ensuring that capital is not only available to social enterprises but also leads to greater impacts through the greater viability and sustainability of the recipients) and growing and balancing the supply of capital towards social enterprises (which requires growing and diversifying the available sources of capital without ending up with a mis-match due to a supply side push seen in the UK and other markets and developing effective ways to measure and share outcomes and results with investors and the sector as a whole).

In the UK, NESTA commissioned the report from the Young Foundation in order to improve their understanding of the role and approaches used by social venture intermediaries, as well as any recommendations on how the role of the state needed to change to provide stronger support and markets for social ventures. At the time of the report, the social sector included a dynamic and diverse set of over one hundred intermediary organisations, ranging from social venture funds, and incubators to providers of technical assistance, service designers, skills and training providers and providers of networks. These form an infrastructure serving organisations with a social purpose. The vital role played by these intermediaries in the market was evident in the statistics such as the following:

(i) ventures surveyed for the report who had been supported by a social venture intermediary reported a 132% increase in their numbers of beneficiaries and a 149% increase in their revenues;
(ii) 75% rated the support they had received from intermediaries as ‘good’ or ‘excellent’ for business advice, financial investment, service design, market insight and personal development; and (iii) around half reported that the intermediary they worked with had helped them raise additional investment.

While social ventures require a range of different financial resources, at earlier stages of development it noted that finance is not always their most important requirement - access to skills, advice in shaping business models, and networks and relationships is equally important. It reported sophisticated and intensive types of support on offer helped to bridge skills gaps among social ventures and their teams, in particular around business and strategy skills. This support was typically quite time intensive. It also identified a lack of adequate support in the critical growth phase whereas good support was available at the start up stage. It also noted a gap in the intermediaries understanding of social impact which they rated themselves as their least strong support quality and in the number of intermediaries working to help social ventures set up supply to government and reach other markets.

The report calls government when introducing new forms of finance (such as the introduction of innovative social finance in Portugal) that it needs to be supplemented with focused attention on innovation, skills, business models and shaping the markets for social ventures. In particular it notes that government as an investor in intermediaries should aim to plug finance gaps for very early stage but potentially high-impact innovations to ensure a pipeline for later-stage investors, using stage-gate investment models and grants. It also recommends that it support intermediaries in providing capital, rather than revenue financing, alongside an effective mix of finance, skills, networks and other kinds of support. Finally it calls on both government to enable and the field of social intermediaries to develop more in-depth knowledge of particular fields with high growth e.g. care and the environment.
For intermediaries themselves it recommends more collaboration to provide easy access to guidance on what each provides, to assist entrepreneurs and innovators e.g. through common websites and guidance. It also advises that intermediaries need to focus on training the next generation of social entrepreneurs – bright, talented and ambitious young people who can learn to develop a basic business proposition and a clear understanding of a social need. Finally it also recommends that they commit to common goals and best practice as a sector including (i) provide services to social ventures based only on the basis of their genuine needs so they leave ventures better off and more sustainable as organisations, (ii) promote the use of common impact measurement, (iii) commit to transparency, (iv) working better together and (v) buying from social ventures where possible themselves.

There are two final reports from the development of the social finance market in the UK that provide valuable insights and learning that could help inform the design of a capacity building framework for impact in Portugal. “Investment Readiness in the UK” (ClearlySo & New Philanthropy Capital / Big Lottery Fund, 2012) focused on identifying gaps in the investment readiness of organisations but many of its recommendations are also relevant for building impact readiness.

In this report intermediaries advised providing improved general information and early stage diagnostic tools in advance of more expensive bespoke support to overcome patchy support. Generic support such as workshops and off the shelf guidance which can be provided on a mass market basis and therefore may provide economies of scale may be more suitable for organisations at an earlier stage of development, while more costly and time consuming tailored support can then be targeted to more advanced organisations as they prepare and seek to address more specific or complex needs. It notes that support can be targeted by (i) taking a sector approach, (ii) taking a skills approach, and (iii) taking an approach that focuses on the support need associated with the development stage of the organisation. On this latter approach, the report points out the need to provide filtering and signposting, e.g. provided by competitions, award schemes and other selective programmes, as well as the need to be able to distinguish between early stage organisations which are small but ambitious for growth from those which are small but will remain locally based.

When it comes to designing capacity building programmes the report provides recommendations on how to make the most effective use of sources available and to leverage sources elsewhere, even when the main source of funds is some form of public or quasi-public charitable subsidy. When using such grant funding, it advises consideration of:

- Conditionality e.g. milestones, repayable triggers or repayment after investment is secured, some contribution from the recipient, etc.,
- Partnerships e.g. development of a referral panel to assess organisations’ needs and direct them to the relevant supports, utilising “approved” provider list based on track record or user recommendations to provide grantees with a say in their choice of provider which will ensure buy-in along with the quality of supplier and potentially having risk share with the provider; and
- Targeting e.g. the use of vouchers to empower recipients, using grants at the appropriate stage of an organisation’s development and making sure that generic services (e.g. technical skills such as an Excel model) are provided at scale to avoid duplication and costs.
Finally, the report also provides some recommendations on how to communicate the capacity building support programmes to ensure it is made available to the most appropriate organisations e.g. forming a partnership with intermediaries can be used for signposting, sharing and linking business with support, linking to mainstream business provision to co-ordinate support and help build links and co-ordinate support, and using links with regional and local networks and providers of support can be effective at targeting the most relevant organisations.

For practical learnings from the UK, “Ready, Willing and Able” (BCG, 2014) on the Investment and Contract Readiness Fund notes the fund was the first of its kind globally and includes several innovative features such as the Investor Panel to evaluate applications and the introduction of a repayable component to grants. Their report sought the views of various stakeholders such as panel members, support providers and social ventures to assess the fund’s performance and impact as well as providing recommendations for the future.

A key finding was that the fund appeared to achieve its aim of increasing the investment readiness of social venture and strengthening providers. In the 3 outcome areas explored of investment raised, capacities of social ventures increased and an increase in the number of support providers, the ICRF was found to have found significant and positive value. The most significant increases in capabilities were for approaching legal issues; measuring impact; and building a case for expansion. In addition, the Social Investment Business was recognised as doing a good job due to their experience designing and managing other funds over the years and the fact that they already had suitable systems, processes and relationships in place upon which they could build.

However, areas for improvement were found to be (i) increase transparency of provider performance – to help applicants choose their provider and to increase engagement of providers with the fund, (ii) improve feedback to panel applicants in a standard format e.g. need to clearly define what falls under “capacity building” for application purposes, (iii) enhance the contract readiness of the panel, (iv) reduce or remove the direct grant provision – it was widely believed that ventures would be more incentivised to push for outcomes if they feel they have some skin in the game and would help move the market to a more sustainable basis, (v) improve the predictability of the Fund, in terms of when it is open for applications, more engagement during the application process from the administrator and which could be helped by changing the variability of panel members from meeting to meeting, and (v) enhance the role of the fund administrator, which was found to be constrained by underfunding, and move to online submissions which would allow better data capture for tracking and analysis.

Both foundation and venture philanthropy investors are concerned with capacity building for both impact and investment readiness in social sector organisations. In the foundation sector these tend to be framed in advice on how to build capacity building for effective organisations with “Leap of Reason” being a reference book in this regard. TCC Group’s briefing paper “Deeper Capacity Building for Greater Impact” (TCC Group, 2007) is also an insightful guide into designing long-term initiatives to strengthen a set of non-profit organisations using the experience of the James Irvine Foundation. This guide provides tangible examples of design options, best practices, and common challenges of such initiatives and provides a summary of the key critical decisions that have to be made when designing such an initiative as follows:
1. Set goals for the initiative,
2. Establish the duration of the initiative,
3. Ascertaining the level of resource,
4. Clarifying your role in the initiative,
5. Deciding if you will work alone or collaborate with other funders,
6. Determining the selection process for participants,
7. Choosing what type of assistance will be offered to participants,
8. Deciding how you will evaluate the initiative, and
9. Figuring out what will happen to participant organisations after the initiative.

The European Venture Philanthropy Association has similarly produced a practical guide “Establishing A Venture Philanthropy Organisation in Europe” (EVPA, 2010), which captures and shares the learning of a number of pioneer European venture philanthropy organisations to assist other start-up or early state VP organisations. It provides guidance on all of the key decisions that have to be made up from set-up and funding to investment strategy, deal flow including how the selection process for candidates, investment appraisal, portfolio management and adding value, both financial and non-financial, which also have relevance for designing a capacity building framework such as that contemplated by the Portugal Inovação Social.

Appendix 15

Recommendations for putting learnings on design elements from the implementation of other capacity building which can be put into practice?

- All capacity building programmes should have the following common components:
  - an open competition based on clear criteria should be held for applicants to each fund; support should be provided to applicants (as well as an opportunity for questions and feedback);
  - all applicants should complete a common diagnostic tool as part of the application process; every programme should allow for the appointment of a “key person” for each social enterprise who design an appropriate capacity building programme with them and will advise and support them over the life of the programme;
  - all programmes should have a strong focus on building the capacities identified as particular to effective social organisations e.g. impact measurement and evaluation, performance measurement, leadership and governance; and
  - there should be standardised reporting on common programme outcomes.

- A rigorous selection process to select only the most promising social organisations, in terms of potential to deliver a reliable social impact, has been identified as the key to the success of many capacity building programmes. A panel of advisors from across the social sector should be appointed to provide an independent but informed viewpoint when selecting programme candidates. In addition, such an independent panel could be used to advise on process, programme design and the decision process. Partnerships with intermediaries to promote capacity building programmes and assist social organisations in the application process for each programme is recommended.
• Applicants who can bring leverage to the funding in terms of (i) use of pro-bono suppliers and volunteers, mentors, networks (ii) integration with mainstream funding programs and/or share capacity building programmes with other providers, (iii) utilising existing networks to recruit programme candidates and provide mentoring and/or (iv) match funding should be prioritised. In particular match funding from potential venture philanthropists who can engage in and learn from the capacity building initiative and then replicate and sustain that learning once the programme ends should be encouraged.

• The type of funding utilised should change according to the stage of development of the social organisation supported. For start-up/low capacity organisations that will remain small, it should be expected that the level of success (e.g. measured in terms of growth in number of beneficiaries reached or survivorship rates) will be low so the goal should be to reach the largest number of organisations possible with grant funding. Grant funding, drawn down against milestones for longer term capacity building programmes, is also recommended for supporting organisations in the validate stage. Introducing a repayable element to grants or debt finance for organisations in the growth or scale stage will be more appropriate for the development of the social organisation as they move towards investment or contract readiness, while also leveraging the funds available. Consideration in designing the framework should be given to the appropriate split of funds that will be directed to each of these three segments to meet the wholesaler fund’s overall goals.

• The amounts of funds provided to both intermediaries and social organisations should contain an appropriate allowance to cover that entities’ internal costs associated with undertaking the capacity building programme e.g. hiring extra staff to free up management time, etc.
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