



Turning risk into return

Risk is something we like to talk about at NPC. It offers an exciting opportunity for donors looking to create big impact. We spoke to two funders to find out what risk means to them.

NPC believes that risks represent opportunities for donors. Donors that are willing to take risks can choose to fund innovative, new approaches or solutions, or make an impact in areas where government money won't reach.

As long as risk is identified, understood, communicated and managed, risk is not something to be avoided. NPC sees risk in a number of different dimensions:

- organisational risk: the risk that the charity can't deliver what it says it will;
- financial risk: the danger that the charity can't raise the funds it needs to deliver, it has low reserves or poor cost allocation;
- external risk: the threat from factors that the charity can't control, like market forces and government policy; and
- evidence risk: the risk that there is not enough evidence to know the charity's approach will work or that it will create any long-term impact.

NPC does due diligence on the charities that it recommends, to help donors understand the risks they can take in their giving. By maintaining relationships with the charities we recommend, and updating donors on the impact of their giving and status of the charities they fund, NPC helps donors to manage the risks they take. Together, those two approaches can result in high returns from a donor's investment.

NPC presents donors with a risk/return profile of the charities they have chosen to support (see box 1 for example). High risk can mean high returns, and many donors

are attracted by the potential of creating a big bang with their buck. For example, Autism Speaks is the only charity in the UK promoting and raising funds for biomedical autism research. Research is inherently risky, as there is no guarantee of a certain outcome, and it doesn't usually offer a quick return. However, the research carried out could help scientists understand the causes of autism, and help many thousands affected, meaning potential huge returns for a donor investing in this charity.

Taking risks to create real change

Jamie Cooper-Hohn, Chief Executive of the Children's Investment Fund Foundation (CIFF), believes that the ability to take risks is one of the most exciting aspects of philanthropy. *'We are set up as an organisation to take risks,'* she says. *'If you're going to create real change you must aspire to focus on the bottlenecks and problems that stop change happening. You must aim to do things that have never been done before—that means taking a risk that you can't pull it off.'*

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Because CIFF is aiming to create change on a significant scale, it also relies on governments to take up the reins of the programmes it develops. *'Governments have to follow through on the commitments they make to our programmes,'* she says. *'For us, that's where much of the risk lies.'*

Even if the risk doesn't pay off, NPC believes failure can be a learning process, both for the donor and for the charity. Knowing an approach doesn't work can be a useful step towards establishing which approach is the most effective. And in some cases, a failure can lead to unexpected discoveries. Many well-known medical treatments today, including antidepressants, were discovered after expected results did not occur.

Danielle Walker Palmour, Director of the Friends Provident Foundation, is the second donor we spoke to. She believes risk is part and parcel of giving: *'Risk is inherent in anything when you're asking someone else to deliver something for you, or doing anything that's new,'* she says. *'I can see how donors might see risk as a negative concept, but you're going to have to take risks to do interesting things.'* For Walker Palmour, this means that it's most important to be open and clear about risk—to know what you're getting into.

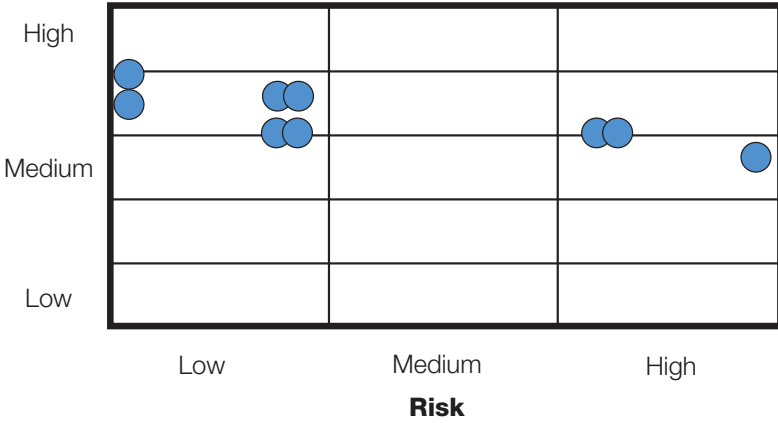
Managing risk

So how do these two funders manage risk? Danielle Walker Palmour is clear about the importance of due diligence before funding an organisation, and engagement with the charity throughout the funding period.



Box 1: Results/risk profile of organisations supported

Results: each dot represents a charity



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“You have to try to be clear about risk at the beginning of the relationship,” she says. “It can help to bring in other stakeholders—an advisory group—to test the charity’s understanding of its own risks.”

For Jamie Cooper-Hohn, CIFF’s approach is to understand the risk by engaging closely with the delivery organisation. “We take a “portfolio manager” approach,” she explains. “We put someone who is a strong manager with each of the projects. They give regular updates so we are able to take

corrective action when something goes wrong. We provide real-time information to the board so they can see what’s going on—when things are working and when they aren’t.”

For CIFF, this approach means it can attempt new ways that other funders might find too risky: “We try things that haven’t been done before,” she says. “You could say we actually take more risks than other funders by doing this, but by using our portfolio managers to be close to the action, by having really clear goals, by having milestones and funding in increments, we actually think our risks are much lower than they are for other funders.”

Donors who are interested in funding new, exciting approaches and innovations, and giving outside government’s remit should not shy away from higher-risk charities. By identifying and managing the risk, NPC can help donors turn risk into return.

Padraic Brick and Tris Lumley

Children’s Investment Fund Foundation

CIFF is a non-profit organisation which aims to improve the lives of children living in poverty in developing countries. The organisation is formally linked to The Children’s Investment Fund (TCI), which was set up by Cooper-Hohn’s husband, Chris. TCI contributes a portion of its management fees and profits to the Foundation.

Friends Provident Foundation

The Friends Provident Foundation is a grant-making charity, independent of Friends Provident plc. Much of its grant-making activity focuses on addressing financial exclusion, and the foundation has co-funded NPC’s upcoming report exploring this issue.