The Role of Charities in an Era of Anxiety

Speech given by Andy Haldane for Charity Finance Week

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PRO BONO ECONOMICS

Pro Bono Economics is a research charity that helps charities and social enterprises understand and improve the impact and value of the work. It enables professional economists from across the private, public and third sectors to volunteer their skills to tackle some of the most pressing issues in society. We have worked with over 400 charities across the third sector since our inception in 2009.

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It is a real pleasure to be speaking at this Charity Finance Week event at such a pivotal time for individuals, businesses and charities. Many of you will know from frontline experience just how difficult the economic backdrop has been this year, both for those you have been supporting and for your own charities. I want to thank you all for the crucial role you have played in helping those most in need at their time of greatest need. Not for the first time, civil society has been one of the unsung heroes of this crisis.

All crises are learning experiences and this one will surely be no exception. A learning experience for governments, central banks, companies, and households as they have adapted to new ways of working, interacting, spending and doing business. A learning experience for our marvellous NHS and schools, as they have adapted to the challenges of new treatments and new ways of teaching. And a learning experience for the social sector too, as it has adapted itself to meet the rising demands of those hardest hit.

I want to start by discussing the economic backdrop, how charities have responded to it and the fragilities in the sector this has exposed. I will then offer some brief thoughts on how those fault-lines might be closed, for good, to unleash more of the sector's potential. This is where the Commission on Civil Society, to be launched in a couple of weeks and supported by the Law Family Foundation, can I hope make a real difference, not just to the social sector but more broadly. I shall return to that at the end.

The Impact of the Covid Crisis

It has been an extraordinary roller-coaster of a year, medically, economically and socially. In the first half of this year economic activity in the UK collapsed by a quarter due to the combined effects of the virus and public health measures taken to contain it. You have to scour the history books over many centuries to find a similar pace and scale of economic contraction.

The better news is that since the spring the economy has staged a rapid recovery, recouping around two-thirds of its losses. It is worth dwelling on that for just a moment because it illustrates something important – the remarkable degree of resilience shown by households, businesses and charities through this year, in the face of the twin threats to lives and livelihoods. Whatever happens next, that degree of resilience should be a source of reassurance to us all.

With the second wave of the virus still with us, and with a renewed lockdown in place, the final quarter of this year looks set to be challenging, both economically and psychologically. And it comes against a backdrop of economic activity still being well below its level at the start of the year, around 1 million more people being out of work and perhaps ten times that number having experiencing a cut in their incomes. These are hard financial times.

Moreover, the burden of this hardship has not been evenly distributed; it has fallen disproportionately on the lowest-paid, the least-skilled and the youngest in society. For example, cuts to the income of the lowest-paid quartile of workers, at around 20%, have been around twice as large as among middle-income workers.[1] And the rise in the unemployment rate has been three times faster among younger and lower-skilled workers than among older, higher-skilled workers. Covid has not just levied a massive tax on our collective incomes, but a highly regressive one at that.

These income and job losses understate the all-in costs of the crisis which, for many, have been as much psychological as financial. Many millions still face uncertainties about their finances and businesses. Lockdowns have added to acute problems of isolation and loneliness, as last week's numbers from the ONS illustrated. And levels of anxiety across the UK have ratcheted-up strikingly. If pre-Covid was an Age of Insecurity, we are now living in an Era of Anxiety.

Those anxieties are damaging in their own right – to us as individuals, businesses and charities. But left unattended, they also risk becoming self-fulfilling. Fearfulness can cause households and businesses to hunker down and save rather than spend, worsening the economic outlook. And personal anxieties, if prolonged, can generate a self-fulfilling "gloom loop". The word depression has a dual meaning - part economic, part psychological – for a reason.

The vaccine announcements of the past few weeks offer hope of light at the end of the tunnel, a reversal in the gloom loop. All of us live hope next year will see a sharp reduction in the intense financial and psychological pressures of the past year, which have weighed so heavily on the shoulders of so many.

Even with a vaccine, however, this crisis will leaving lasting scars, especially on the poorest and most disadvantaged: financial scars, with many having run up debts to bridge cashflow shortfalls that will need to be repaid; scars from unemployment, which we know can be deep and long-lasting, especially among the young and lower-skilled; educational scars, for children and young adults whose schooling has been disrupted; and psychological scars, as the isolation of this awful crisis takes its toll on mental health.

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[1] Hacioglu Hoke, S, Kanzig, D and Surico, P (2020), 'The distributional impact of the pandemic', *CEPR Discussion Paper No. 15101.*

The Role of Civil Society

This rising tide of anxieties will come as no surprise to those in this virtual room who have been at the frontline when dealing with these problems. It is also clear from the monthly surveys of the charity sector carried out during the year by Pro Bono Economics (PBE) – a charity I co-founded just over a decade ago. The latest survey, for November and out this morning, shows around three-quarters of charities having experienced a rise in demand for their services and a third having seen demand increase by over 25%.[2]

It is heartening that civil society and the charitable sector have risen to these challenges. The increased needs of vulnerable people have been met, helped by a surge in volunteering activity of 2 million extra people since the start of the year. To that you could add many millions more whose informal acts of neighbourliness have made such a difference to people's lives, to say nothing of the over 4000 community mutual aid groups that have spontaneously sprung up. While we have been urged to socially distance, in practice we have combined physical distancing with greater social togetherness.

What this demonstrates, once again, is the pivotal role the social sector plays at times of societal stress: providing support to those most in need, repairing holes in the social fabric, operating as our institutional immune system against financial and psychological stress. We should of course not be surprised, as this is the role we have seen the sector play time and again at times of past stress, from industrial revolutions to pandemics, from wars to natural disasters.

It is also very clear, however, that the crisis has taken its toll on the charitable sector itself, not least financially. Public donations to charities appear to have held up this year. And extra direct financial support of around £750 million has been provided by government. But this has been more than offset by losses of charitable income, in particular from trading operations as shops have been shuttered and from fundraising activities which have been constrained by lockdown.

That leaves the sector in a fragile financial state. In PBE's November survey, over 80% of charities expected their income to decline over the next year, with around a third expecting a decline of 25% or more, largely from earned and fundraising sources. Average levels of reserves have fallen from already low levels. And these hits to income are expected to persist, with two-thirds of charities expecting them to last over a year and a quarter expecting them to last longer than two years.

[2] Pro Bono Economics Covid Charity Tracker Survey, November 2020.

This difficult financial backdrop is already causing some charities to scale back their activities, others to lay off staff and others still to shut their doors. Research by PBE puts the funding gap for the sector this year at around £10 billion.[3] Just last week, a study by YouGov for insurance company Ecclesiastical found almost half of charities expect to run out of reserves in the year ahead. At just the time demands on the sector are greatest, their services are at risk of being squeezed, with the costs felt by those least able to bear them.

Another, closely related, fragility brought home by the crisis is technological. This fragility is by no means unique to the charitable sector. Many businesses and individuals found their digital infrastructures and skills challenged by events this year. Mine certainly were – and indeed still are. By and large, I think digital adaptation has been speedier and more seamless than might have been feared, another example of our collective resilience and flexibility.

Nonetheless, it was clearly the case that many charities entered this crisis, like many businesses, short of being digitally match-fit.[4] There was a long-tail of digital late-adopters across the sector and a large deficit of digital skills. Since 2014, Lloyds Bank have published a UK Business and Charity Digital Index to track progress on digital capability. On the upside, there has been a real improvement in digital use among charities, with the index almost doubling since 2014.

The bad news is that, in the latest pre-Covid survey, almost a third of charities still remained in the lowest digital capability category, double the fraction among smaller businesses. Meanwhile, a survey by Skills Platform in 2017 found that, while almost three-quarters of charities recognised the potential for digital transformation, only a third believed they had the capacity to deliver it.

This year has seen significant improvement, with PBE's survey pointing to three-quarters of charities having made greater use of digital technologies and two-thirds having innovated to deliver services remotely. What was once a digital priority has become a digital necessity. Nonetheless, many charities still have a technological mountain to climb. Or, put more positively, the scope for technology to unleash charities' potential is even larger, and the imperative for doing so even greater, than at the start of the year.

Take fund-raising. It has been estimated that only around 10% of charitable giving is currently done through digital platforms, outside of JustGiving

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[3] See https://www.probonoeconomics.com/news/pres-release-charities-facing-101-billion-funding-gap-over-the-next-six-months .

[4] Haldane, A (2019), 'The Third Sector and the Fourth Industrial Revolution', speech to mark the 10th anniversary of Pro Bono Economics, available at www.probonoeconomics.com .

and disaster relief causes. Broadly speaking, the same is true in other core business areas, from volunteer sourcing and matching, to digital and remote service provision, to the use of Big Data and data science to improve the impact of charitable interventions.

There are plenty of brilliant examples of frontier practices - from GoodBox, Tap for Change and Pay a Charity for contactless donations, to chatbots Woebot and Tess offering instant-messaging advice on cognitive therapies, to micro-volunteering websites such as Help from Home, Skills for Change and Causecorps, to the data science services provided by DataKind. But these frontier models are not yet in the mainstream, or the bloodstream, of the social sector.

An equally large challenge is that service users may themselves not have the digital skills or kit to make most effective use of digital services, especially if they are older or have low income and skills. The recent Charity Digital Skills report found that more than a quarter of charities have cancelled services this year because they or their users didn't have the necessary skills or technology. Bridging the digital divide means not only making charities digitally match-fit but their users too.

The Commission on Civil Society

At root, what these fault-lines tell us is that, for all its fantastic work, the social sector's foundations, including financially and technologically, lack resilience. This is one of several resilience challenges unearthed by the Covid crisis. For the social sector, it is worth asking why.

You will have better-informed views than me, but the sector's contribution often seems under-estimated and overshadowed relative to the public and private sectors. These sectors, the market and the state, are fairly well-defined and well-measured. The amorphous mass of civil society is neither. The result is that civil society has too often been the "invisible residual" relative to the market and the state, largely out of statistical sight and too often out of policymakers' minds.

As Raghu Rajan, former Governor of the Reserve Bank of India, has recently discussed, this has been a cause of the structural erosion of social and community capital across many countries over many years and a catalyst for rising societal distrust in Governments, businesses, institutions and indeed even charities.[5] And if that was true pre-Covid, it would be a greater mistake still if, in the light of the crisis, this relative neglect of social capital and the social sector were to persist.

A couple of months ago, Danny Kruger's Government review of the social sector laid out some thoughtful and interesting proposals for

[5] Rajan, R (2019), 'The Third Pillar: how markets and the state leave the community behind', *William Collins*.

strengthening its foundations.[6] From a potentially long list, let me highlight two areas where progress is possible and where the impact could be considerable. They concern measurement and technology. These are closely linked because lack of information and measurement is an important cause of the sector's fragile finances which, in turn, inhibits their investment including in technology.

On measurement of the sector, the problems are long-standing and multi-faceted. Whether at the micro level of individual charities or businesses, or at the macro level of whole economies, the social sector's contribution seems to be significantly and systematically under-stated. As arid as measurement may sound, the lack of it is an important reason why the sector has been an invisible residual.

At the micro level, there has been progress in measuring the social impact of individual charities over a number of years. And I hope the work of PBE, in helping over 500 charities to measure their social impact over the past decade, has played its part here. Nonetheless, large parts of the sector remain untouched by impact measurement, leaving their true contribution neither quantified nor understood.

What is true of individual charities is true too of individual companies. Beyond the CSR paragraph, company accounts do not recognise the wider contribution a company or their staff makes to social and community capital. From the numbers in published accounts, a firm with an active volunteering, community and environmental programme is indistinguishable from one with none of these. Financial and physical capital score with auditors, while social, community and natural capital do not.

Progress is being made through the ESG framework to better measure companies' environmental footprint – the E. But relatively little progress has so far made with the S – the social. Companies could start by measuring the well-being of their own staff (which is particularly important during this period of extended working from home) and reporting on how they and their staff are contributing to their communities through volunteering and other activities.

If we turn from companies and charities to national economies, the measurement gaps become larger still. The larger part of activity in the social sector does not score in economic success measures such as GDP. Those 2 million extra volunteers and more than 4000 mutual aid groups will not be found in the National Accounts, in this or any other year. Like UK entries to the Eurovision song contest, they score null points.

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[6] Kruger, D (2020), 'Levelling up our communities: proposals for a new social covenant', available at https://www.dannykruger.org.uk/sites/www.dannykruger.org.uk/files/2020-09/Levelling%20Up%20Our%20Communities-Danny%20Kruger.pdf.

It has been estimated there are around 1 billion volunteers globally and around 20 million in the UK alone.[7] In the world of national income accounting, they too are largely invisible. I have estimated that the social sector in the UK contributes over £200 billion in social value each year or around 10% of GDP. Yet only around one tenth of that currently finds itself into GDP.[8] When measuring the social contribution of charities, auditors and statisticians tend to misplace the decimal point.

These are glaring holes in the measurement of the contribution not just of our charities, but our businesses and economies. Although there are signs of progress, all mainstream reporting, whether of economic performance through the National Accounts or company or charity performance through company accounts, continues largely to ignore social capital and significantly understate the contribution of volunteering and the social sector. The residual, in other words, has largely remained invisible.

It would be hard to think of a better time than now, with civil society playing such an important and increasing role, to recognise these contributions, to make the invisible visible. Doing so calls for a broadening of our measurement horizons and a refocussing of our statistical sights. It means putting well-being and social capital at the centre of how we measure societal success. There has been good progress in measuring these concepts recently. This is now a question of willingness rather than ability. And if we are not willing to make that change now, then when?

Turning to technology, the scope for progress here is equally large. There are plenty of positives on which to build, including the growing "Tech for Good" movement, the UK's Centre for Acceleration of Social Technology (CAST), and indeed many of the fascinating sessions planned at this conference. To those terrific initiatives, I'd like to add just a couple of more ideas about digital infrastructures, which I think could transform how social action is recorded and rewarded.

On recording, at present there is no systematic, much less digital, means of recording the voluntary actions taken by those 20 million people who regularly volunteer across the UK. Those good deeds are lost, if not forgotten. This problem is eminently fixable. Indeed, it has already been fixed, at least among young people, north of the border in Scotland where a digital civic passport exists. The same thing exists in some other countries.

A digital civic passport provides a simple and cheap way of recording civic service. It could then more easily form a component of the school

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[7] Haldane, A (2014), 'In giving, how much do we receive? The social value of volunteering', speech available at www.probonoeconomics.com.

[8] Haldane, A (2019), 'The Third Sector and the Fourth Industrial Revolution', speech to mark the 10th anniversary of Pro Bono Economics, available at www.probonoeconomics.com.

curriculum for children and the training or apprenticeship programmes of adults. The Halliday Review suggested the Chartered Institute of Personnel Development (CIPD) might oversee the latter initiatives, helping embed civic service in adult training.

Passport-approved civic service could be made the basis for awards, as in Scotland and as is currently the case with the Duke of Edinburgh scheme. At a time when the demand for social and interpersonal skills in the workplace is growing, a digital civic passport could enhance someone's CV, at the same time helping make civic service a lifelong habit and a core ingredient of lifelong learning.

With that passport, the door is also opened to thinking imaginatively about ways in which volunteer activity might be encouraged or even rewarded. One way of doing so, which again already exists in parts of England and in Scotland, would be a system of "time credits" for the time spent volunteering. These credits can then be used as a discount on certain activities or goods among participating companies – another way for those companies to support their local communities.

Since 2008, over 50,000 volunteers have earned time credits, exchangeable in over 500 venues across England and Wales. Over 1,200 charities and community groups have signed-up to the Time Credit scheme. Evidence suggests these credits can serve as an effective incentive for individuals to volunteer, especially those from poorer backgrounds who are currently under-represented. In surveys, 59% of volunteers report that they had never (or only rarely) volunteered before earning Time Credits.

Any time credit system needs to be designed carefully to avoid any adverse effects on incentives and behaviours. As the philosopher Michael Sandel has discussed, monetising voluntary exchanges can cause some people to think and act differently about their approach to these exchange and could, for some, even lead them to reduce their giving.

Subject to those important design questions, however, the time seems to be ripe for bringing the time credit system into the 21st century, with a platform that is digital in design and comprehensive in coverage. There is great interest in digital currencies for the private and public sectors, so I do not see why the social sector should miss out. Indeed, as there is no currency at all for voluntary activities at present, the returns from introducing one may be large, making often invisible volunteering not just visible but valuable.

Conclusion

These are no more than tentative suggestions about future directions for a 21st century model of civil society. You will have better ones. And lasting solutions will in any case require more detailed analysis and evidencegathering, together with a wider-angle lens on how we should reconceive of the respective roles of the public and private, as well as the social sector, and the way these sectors can best act in partnership.

The Commission on Civil Society, chaired by Gus O'Donnell and supported by the Law Family Foundation, aims to do just that. Better recognising your societal contribution, and increasing that contribution, is the mission of this Commission. It launches on 1 December, with keynote speeches from Secretary of State for Culture, Media and Sport Oliver Dowden and Shadow Minister for the Cabinet Office Rachel Reeves. I hope as many of you as possible are able to participate.

The Commission combines high-level figures from across the public, private and social sectors.   It will, over the course of the next two years, gather evidence, conduct research and then arrive at a policy blueprint for civil society. As everyone in this virtual room – and indeed everyone outside of it – has a stake in civil society, I want to encourage as many of you as possible to help us in this work.

Covid has shaken the foundations of every person in every sector and in every country in the world. It has ushered in an Era of Anxiety. It has also taught us a lot about what really matters. It has been both a searing and a learning experience for us all. This gives us the opportunity to rebuild not just better, but kinder. The social sector has a pivotal role to play delivering that better and kinder society. Thank you.

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