

The Social Investment Business

Innovation in Social Investment

Vinay Nair (www.sibgroup.org.uk)

The social investment business is a pioneer in the field of social investment and capacity building in support of investment readiness. Over the years it has developed a complex set of investment vehicles. It takes a balanced approach supporting social enterprises and charities.



Starting as an experiment...

We started as an experiment. In 2002, the UK government asked us to manage a £3 million fund on their behalf, to test the feasibility of providing returnable finance to community based charities and social enterprises. It was considered a little outlandish at the time. And yet, if we fast forward to today, there is little doubt that these early-movers played a visionary role in putting down some of the building blocks for the social investment sector. We have now grown to be one of the leading social investors in the UK, with investments of more than £375million in over 1,100 charities, social enterprises and community organisations, supporting the development and regeneration of some of the most deprived communities around the UK. Our vision is to develop and channel finance to support these social sector organisations in developing a thriving civil society.



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One of our core objectives is to play a transformational role in developing social investment opportunities in the UK in order to get more of the right funding to organisations delivering the impact. Historically, we worked with various government and institutional partners to manage funds that directly provided loans and grants to organisations around the country. In the last couple of years, as the sector has rapidly evolved, along with needs at the front-line rising rapidly, we felt there was a need – and an opportunity – to build on our history, reach and track record and take a more catalytic approach with our capital. In part, this has been to invest in other social investment organisations and funds in a way, where that investment brings in other investors, especially those who are newer to social investing. Through this approach we have created opportunities for significant multiples of funds available to charities and social enterprises.

The basis of this adapted strategy comes from the experiences we've had along our journey.

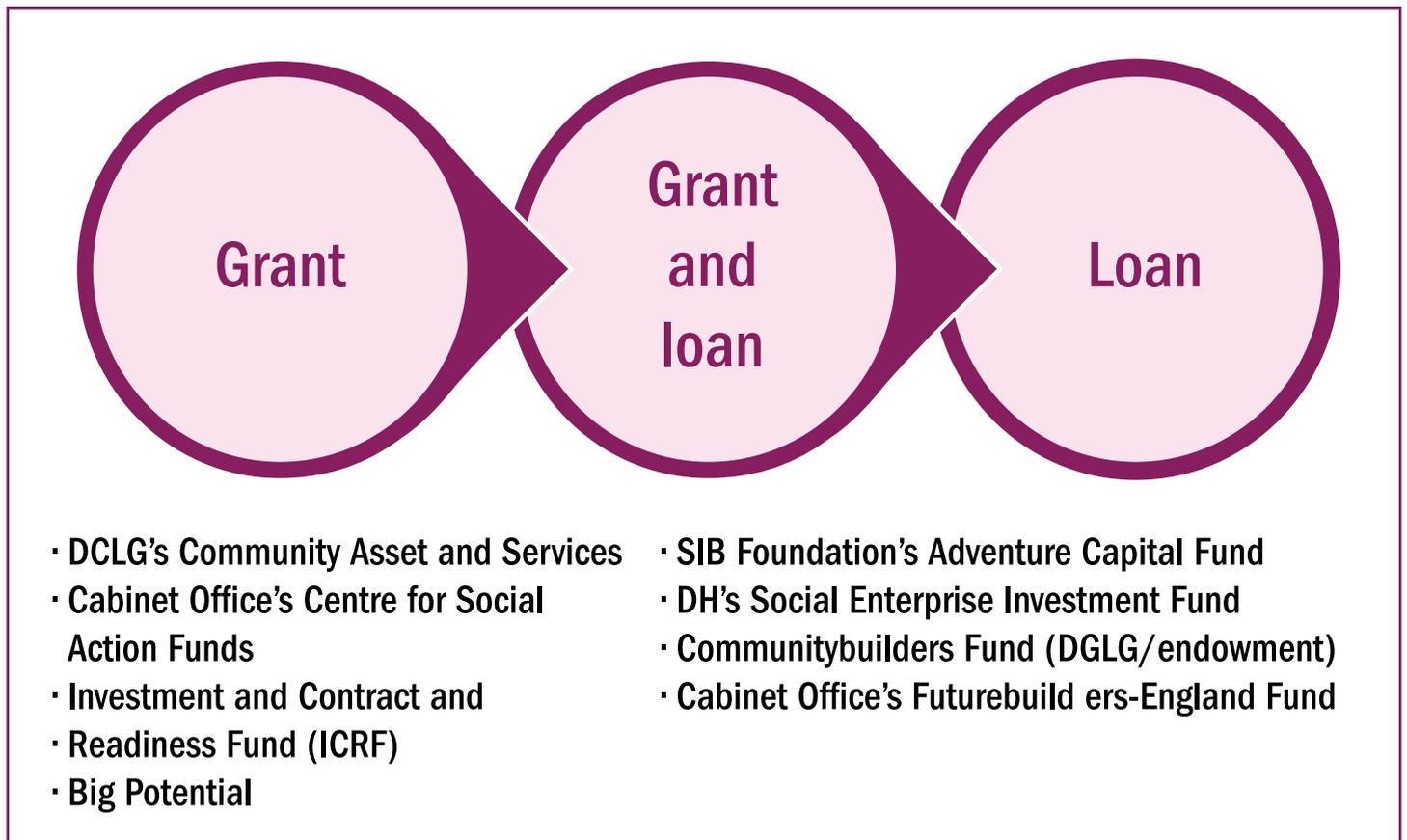
The journey to one of the largest social investors in the UK...

“Wouldn't take nothing for my journey now.”

– Maya Angelou

The Social Investment Business is a product of coinciding interests between government and advocates for the community sector, starting life as small but highly influential community-investment pilot programme. We were launched in December 2002 as the Adventure Capital Fund, a £2.8 million, 12-month programme offering grants and loans to medium-sized, community-based organisations wishing to engage in social enterprise activity. This became a pioneering project that demonstrated for the first time in the UK that there was both a demand for loan finance among a group of charitable organisations that had hitherto been reliant on grant funding, and they were able to pay the debt back. The work shone a spotlight on the significant role that community-based organisations

Figure 1 – First 10 years



played in meeting the social and economic needs of their communities, and that their contribution was constrained by their financial and organisational fragility resulting from their reliance upon grant funding.

Since 2002 we have grown rapidly. Building on our track-record, we won a number of significant social investment fund contracts, including the Futurebuilders (England) Programme, the Department of Health's Social Enterprise Investment Fund (SEIF), and The Department for Communities and Local Government's Communitybuilders Programme. This portfolio of funds positioned the organisation as one of the leading social investors in the market, and was further enhanced when the Communitybuilders Fund was endowed to us.

Today, the social investment market is growing rapidly, stimulated by a range of government policies encouraging charities and social enterprises to take over the delivery of more services. Demand for finance outstrips supply and is forecast to reach £1 billion a year by 2015/16¹. Access to finance is the single largest barrier to the growth and sustainability of social enterprises, according to a recent survey.² This is a striking development, given just 12 years ago investment into charitable organisations was relatively unheard of. Yet it also provides great weight of responsibility to respond to these front-line needs.

How do we better match-up significant demand for funding with a growing supply

As it stands, stimulating investment is not simply a case of removing frictions to match demand and supply. The challenges are more complex, and we believe the role of philanthropy and grant 'subsidy' for the sector is still critical. Indeed, given this we recognise different approaches will be required to make most use of precious grant capital. Some may be, for instance, to fund earlier stage of social sector organisations, as spoken about elsewhere in this publication.

Our own approach has been to focus on getting organisations 'investment ready' through the management of two funds: *the Investment and Contract Readiness Fund (ICRF)* funded by the Office for Civil Society and *Big Potential* funded by the Big Lottery Fund. These funds help develop the capabilities they need to secure raise significant finance from other sources. We have had early success, as discussed in the interim report by BCG, '**Ready Willing and Able**' and are looking see this as a growth area for our work.

With ICRF and Big Potential, we provide grants to charities and social enterprises to specifically pay



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for dedicated business support (between £50,000 and £150,000) from a range of specialist providers, helping them to take on investment. As BCG cited, the £10 million ICRF has demonstrated that relatively small grant sums can have major results. The Fund has so far made grants worth £8.9 million to 94 social ventures to purchase specialist support, and eight of these, receiving £815,000 in ICRF grants, have raised investment or won contracts worth £34.9 million. This also shows that philanthropy/grants involved in social investing need not be (rightly or wrongly perceived as) soft; but, rather, play a catalytic role to prime the pump of the sector and enable more capital to flow to frontline organisations.

Building towards a 'catalytic' investment strategy...

With our growing understanding of how philanthropy can leverage in additional finance, we are developing a broader strategy at the Social Investment Business to make catalytic investments which attract greater funding from other investors and potentially reducing the risks they face. We are working with philanthropic funders such as trusts and foundations, corporates' programmes, and high net worth individuals to design funds in which their money can stimulate multiples of investment for the causes they care about and make a much greater impact.

Our approach to growing the market for social investment comes at a time when there is global interest in using it to tackle difficult social issues. Britain is a world leader and the Social Impact Investment Taskforce is due to issue a report on how to develop the global impact investment market in September.

Exploring more impactful partnerships from local government to the European Union...

One of the other challenges we hear from so many front line organisations is the need for loans at a smaller investment size – from £50,000 to £250,000. This size can be difficult for many social investors as they struggle to make the ‘fund economics’ work with such investments sizes.

Our approach has been to explore partnerships with various organisations, including local government and the European Union to stimulate this part of the market. Earlier this year, we invested £1 million in the UK’s first Local Impact Fund in Liverpool, catalysing a matching £1 million investment from the European Regional Development Fund (ERDF), which will provide business support and unsecured loans of £50,000 to £250,000 to charities and social enterprises. By supporting organisations at this level, we are seeking to support the economic and employment benefits of the local sector, in addition to creating social impact.

This strategy builds on finding ways to support front-line organisations on their ‘ladder of finance’ (see Fig. 2) – so that we support organisations with the right type of finance along their journey.

To date we have received Expression of Interests in Merseyside with a total value of £1.95m, and have received Full Applications with a total value of £1.2m. We aim to commit the entire fund by December

2014 and disburse the funds by June 2015. This is a ten year fund with the first wave of investments being made in 2014 for up to 5 years and a second wave of investments being made in 2017-19 from the repayments on the first wave of investments.

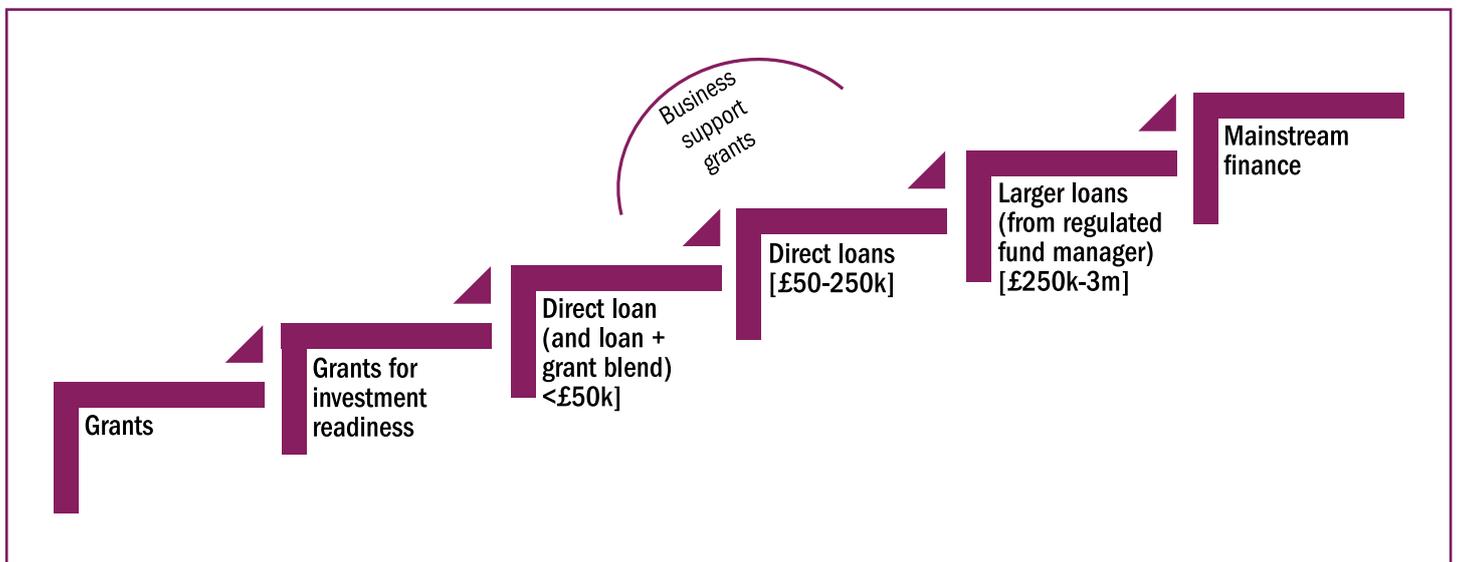
We are working in more than a dozen areas around the country now to develop more Local Impact Funds. The ERDF funding requires matched funding and, beyond providing the match ourselves, we have commenced speaking with local donors and investors committed to develop their local economy and services. We have early interest from local authorities, Clinical Commissioning Groups and other public bodies, institutions like social investors, universities and housing associations, and national locally-focused individuals.

Creating a strategic partnership with Social and Sustainable Capital (SASC)...

A further way to support the high demand for funding is to find ways to attract more private sector capital to the front-line.

Last year, we made a strategic investment into a new FCA regulated fund manager called Social and Sustainable Capital, itself a social enterprise, to help grow its activities. Through creating a formal partnership with SASC, we aligned our organisation, with history and experience in the social sector with a group of FCA regulated individuals with institutional

Figure 2 – Ladder of Finance



credibility in the commercial investment sector. This has proven a positive opportunity to bring new commercial investors into the social investment market.

We have committed £10 million of our endowment to SASC's first fund, the Community Investment Fund, catalysing a matching sum from Big Society Capital, with initial contributions of £3 million each. The fund expects will provide loans and equity investments of £250,000 to £1 million in community-based social ventures and will seek to generate a 5% net return. A second, larger fund, The Third Sector Loan Fund will be formally launched later in the year that will provide loans to the sector, to fulfil a robust pipeline of organisations seeking investment.

With much of the sector yet to engage with more complex products like Social Impact Bonds or quasi-equity, the money brought into the sector from SASC will be put into funds that absorb any complexity, in order to mainly provide simple, straightforward loan products for the sector; an area which builds on the SIB's strong experience.

The investment into SASC is part of a strategy to transform funding for charities and social enterprises by making catalytic investments which unlock new sources of finance.

We work closely with SASC to pioneer funds which appeal to investors with different motivations: philanthropists, who want their money to have maximum impact on the causes they care about may expect little or no return; socially motivated investors, who seek both a social and financial return; and mainstream financial institutions, who want to support positive social change while achieving security of investment and an appropriate risk-adjusted rate of return.



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Where to from here...

We will continue to find new ways to develop and channel finance to support these social sector organisations in developing a thriving civil society. We will support these organisations directly, and also make indirect but catalytic investments to create more capital for the sector. Most importantly, we will continue to listen to what charities and social enterprises need and adapt our structures, solutions and products accordingly so that, as much as we can, the correct capital gets deployed to the most impactful and sustainable organisations.

¹ *The First Billion, Boston Consulting Group, September 2012*

² *The People's Business, Social Enterprise UK, July 2013*