

Growing the Social Investment Market: Progress update

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Foreword by Nick Hurd MP



Minister for Civil Society

We want charities and social enterprises to play a bigger role in strengthening our communities and helping us deliver better public services. Too often they are held back by a 'hand to mouth' funding environment which is very inefficient. So it is a priority for us to open up new sources of funding and make it easier to access affordable, long-term finance.

Our strategy is to accelerate the growth of the social investment market. This is money that is prepared to consider a blend of financial return and social impact. It is an embryonic market, but it is real and we lead the world in developing it. As investment opportunities grow and track records get established by credible intermediaries, we believe that the social investment market will become increasingly attractive to charitable foundations, pension funds and retail savers. We have the opportunity to create a third pillar of funding for the social sector to sit alongside philanthropy and the state. Success will unlock the potential to improve many more lives.

In February of last year, we published our first Social Investment Strategy document. Since then a great deal has happened. This follow-up document is a stock take designed to recognise what has been achieved and set a road map for the next twelve months.

A handwritten signature in black ink that reads "Nick Hurd". The signature is written in a cursive, slightly stylized font.

Nick Hurd MP
Minister for Civil Society

Executive Summary

In the last twelve months, significant progress has been made in developing the social investment market. We have seen the launch of the first social investment institution of its kind in the world in Big Society Capital; the development of pioneering social impact and charity bonds; and the emergence of new investors in the space. This momentum firmly establishes the UK as the world leader in driving this social innovation. In turn, this creates commercial opportunities to establish the City of London as the global hub for social investment.

The biggest single event has been the creation of Big Society Capital. This groundbreaking partnership between Government and leading UK banks is a gamechanger in terms of **increasing the amount of finance available**.

However, we remain at a very early stage in this journey. Government continues to have a central role to play in growing this important market.

The next twelve months will see us focus on:

- **Increasing the number of credible social investment opportunities** by supporting social entrepreneurs with promising ideas to start-up new social ventures through the development of 'social incubators' that provide space, finance and support.
- Supporting more social impact bonds to get off the ground and enable social ventures to deliver large public service contracts through a potential dedicated Outcomes Finance Fund.
- Making it easier to invest in social ventures by reviewing and **removing the legal, regulatory and financial barriers to social investment** and social enterprise.

1. Growing the Social Investment Market: A vision and strategy

1.1 Our objective is to grow the social investment market and make it easier for social entrepreneurs to access capital. Last year, we set out a [framework](#) to achieve this. Our framework ranged from broad reforms of public services that open new markets to social ventures, through to directly injecting finance into the social investment market. In particular, we set out measures to:

- Increase the **supply of finance** through the establishment of a 'Big Society Bank' to act as a wholesale investor in, and champion of, the social investment market;
- Increase the number of **credible social investment opportunities** by supporting social ventures to develop the financial capacity and skills to access investment, as well as opening up opportunities for social ventures to deliver services and take over local assets;
- **Remove the legal, tax and regulatory barriers** to social investment and social enterprise.

1.2. We want to enable and encourage more high-net-worth individuals, charitable foundations and mainstream institutional investors to invest in social ventures. We also want to enable individual savers to support social ventures through new social ISAs or pension funds or through new mechanisms to invest in their local communities.

1.3. To support this vision the market needs to have a rich and sustainable infrastructure, with diverse intermediaries developing new products and connecting more investors with opportunities to invest in social ventures. In turn, social ventures need the capacity and skills to assess their financial needs so that they can secure the right investments and manage those investments effectively.

2. What we have delivered

Increasing the supply of finance for social investment

2.1 Within just two years, we have set up **Big Society Capital** (BSC), the first social investment institution of its kind in the world. Funded by dormant bank accounts and equity investment from Britain's four largest banks, BSC will have approximately £600 million of capital. It has been set up to be independent of Government, with two measures of success: growth in the social investment market and the social impact of its investments. BSC will not give grants but will always invest, with a mandate that covers the whole of the UK. BSC's mission is social, but it also needs to secure a blended return on investment that ensures that it is sustainable. BSC has been set up as a wholesaler because we want to grow this emerging market and not distort it by setting up a competitor to existing intermediaries. So BSC will support charities and social enterprises by investing in, and through, intermediaries.

2.2 Big Society Capital has already made **investment commitments** of just under £8 million. These include investments to enable the long-term unemployed to set up their own businesses; support vulnerable young people into employment; enable deprived communities to establish their own energy projects; provide community-owned affordable housing in deprived areas; and to establish the one of the first social stock exchanges. Short case studies of BSC's investments are included in **Annex A**.

2.3 Big Society Capital sits alongside broader measures to ease the flow of credit to small

and medium-sized enterprises, including social ventures, by diversifying their sources of finance and making them less reliant on bank lending. Government is making available £1.2 billion through the **Business Finance Partnership** to be invested through non-bank lending channels. Up to £100 million of this will be invested through non-traditional channels that lend directly to small businesses. These could include mezzanine finance funds, supply chain finance schemes and peer-to-peer lenders.

Increasing the number of credible social investment opportunities

2.4 Increasing the supply of finance is crucial if we are to grow the social investment market, but we know that the market will not reach scale without a clear pipeline of viable investment propositions. The market is new and social investment represents a significant culture change for many organisations, which have historically relied on grants and donations. Many social ventures tend not, therefore, to have the capacity or financial skills to properly understand the type of finance they need, or to secure and manage that finance effectively.

2.5 We are committed to **building the investment pipeline** by providing a ladder of support for social entrepreneurs from start-up through to investment and growth. In May, we launched the £10 million **Investment and Contract Readiness Fund** to create a strong pipeline of social ventures that are equipped to secure new forms of investment or compete for public service contracts. The Fund will provide grants

of between £50,000 and £150,000 to ambitious social ventures, with the potential for high growth, to purchase tailored capacity building support to help raise investment or to bid for public service contracts.

2.6 To take on investment and grow, social ventures also need access to markets. We are improving the quality of our public services by opening them up to competition and enabling diverse providers to deliver services in innovative ways. We are also devolving power away from the centre and enabling communities to take responsibility for the services and amenities that they want in their local areas. The open public services and localism agendas are providing real opportunities for social ventures to enter new markets which, in turn, is building new, credible social investment opportunities:

- The **Right to Challenge and the Right to Bid**, both part of the Localism Act, will open up opportunities for community groups, including social ventures, to bid to run local services and assets. This will create social investment opportunities as community groups seek finance to purchase buildings or to provide working capital to increase capacity to deliver services.
- We are also making it easier for employees to spin out of the public sector and set up their own public service mutuals. The Right to Provide, new rights for public sector employees to bid or request to take over the service they deliver, has been extended to adult social care and NHS Trusts. It is also in the consulting stage in areas including youth services and probation services. Alongside this, the £10 million **Mutual Support Programme** is providing bespoke packages of support for fledgling public service mutuals. As more mutuals are established, opportunities for social investment will grow as they look to take over new services, win new contracts or expand their existing services.
- The Department for Work and Pensions' **Innovation Fund** uses a social investment approach to deliver payment by results interventions to improve employment prospects for young people. It is testing a range of social investment models and the extent to

which they help build the capacity of smaller organisations, particularly social ventures, to deliver innovative programmes of support. The Fund has already commissioned a number of new social investment models that are enabling social ventures to deliver new interventions to support disadvantaged young people.

- **Social impact bonds (SIBs)** help social ventures to deliver public service contracts by providing up front working capital and enabling them to deliver services in advance of payment for results. We have worked with four local authorities: Birmingham City Council; the London Borough of Hammersmith and Fulham; Leicestershire County Council and Westminster City Council to design SIBs targeting troubled families. We are using insights from these and other SIBs to establish a **Social Impact Bond Centre of Excellence** to support the development of more SIBs across the public sector. This will increase opportunities for social ventures to deliver payment by results contracts and create more viable social investment opportunities.

Removing barriers to social investment

2.7 We know that for the social investment market to grow we need to remove the barriers that can prevent social ventures from accessing investment.

2.8 The lack of common or standardised outcome metrics and methods of accounting for social impact can act as a barrier to social investment because, without them, it is difficult for investors to understand and price risk. We have worked with impact measurement experts, investors and social sector leaders to drive **Inspiring Impact**: a new programme to accelerate the use of high quality **impact measurement** in the UK social sector over the next decade. It will encourage the adoption of common outcomes and shared approaches to measurement, and will develop appropriate impact measurement data and tools.

2.9 The social investment market has developed significantly since the launch of **Growing the Social Investment Market: A vision and strategy**, but this is not due to the achievements of Government

alone. Building a market is a collaborative effort and the vision, passion and ingenuity of countless others who make up the social investment market have been essential in driving the changes we have seen to date. While it is far from exhaustive, **Annex A** highlights some examples of other important developments in the market.

3. Our priorities now

3.1 With Big Society Capital fully established, our priority now is to continue to develop and support credible social investment opportunities and to remove barriers to social investment so that there is a clear pipeline of viable organisations for Big Society Capital to invest in.

Increasing the number of credible social investment opportunities

3.2 As part of our commitment to building the investment pipeline by supporting social ventures from start up to investment and growth, we are considering options for establishing and funding a **Social Incubator Fund**. This would support the development of 'social incubators' that provide space, finance and advice to social venture start-ups. We hope that the fund will demonstrate a range of models of social venture incubation that attract investors and create more opportunities for social entrepreneurs to take the first step on the ladder to developing new social ventures.

3.3 We want to see more social impact bonds (SIBs) enabling social investors to share the risks and rewards of public service innovation and providing more social ventures with investment to deliver large public service contracts. Although there is often strong political backing for SIBs, as well as analysis showing improved outcomes for services in both central and local government, departments can sometimes be reluctant to contribute to SIBs commissioned by others. This is because SIBs are a relatively new and experimental mechanism.

3.4 We have brought together experts from across government and the social investment sector to share thinking on where we might go further in supporting the use of payment by results and SIBs. We are particularly focused on what can be done to better enable collaboration between public sector commissioners when tackling complex social issues and where savings accrue across multiple departments or can only be realised once scale has been achieved. As part of this work, Government is considering the potential for a dedicated '**Outcomes Finance Fund**' and options for how it might be funded.

Removing barriers to social investment

3.5 We want to make it easier to invest in social ventures, whether that is buying shares in a local community shop, lending to a start-up social venture employing disadvantaged people through a new crowd funding platform, or investing alongside others in a dedicated social investment fund. We believe, however, that there are some inconsistencies and omissions in the existing legal and regulatory framework that may present barriers to both institutional and individual social investors and so we are **reviewing the legal and regulatory barriers to social investment**. We are using the [Red Tape Challenge](#), part of a wider drive to get rid of unnecessary regulation, to develop policy options to break down any barriers.

3.6 HM Treasury is also currently **reviewing the financial barriers to social enterprise**, while [Community Interest Tax Relief \(CITR\)](#) was revised

in March 2012 to relax on-lending requirements and to allow investors to carry unused relief forward. These revisions to CITR will make investing in [Community Development Finance Institutions](#) (CDFIs) more attractive for the investor and make it easier for CDFIs to use CITR for the first time.

3.7 Finally, we want to capitalise on the fact that the UK is fast emerging as a worldwide hub for social investment. We will work with the City of London Corporation, Big Society Capital and others to export the UK's social investment skills and expertise and bring business and investment into this country in ways that will further strengthen and grow our social investment market at the same time as creating and securing jobs.

3.8 Growing a strong and sustainable social investment market will rely on market actors working together and being open and transparent. Transparency is one of the founding principles of Big Society Capital and they have already made great progress in opening up information and data on the social investment market with the establishment of a [guide to the market](#) on their website, alongside the first comprehensive [directory of intermediaries](#) and a [library](#) of key research papers and market analysis. We are committed to continuing to work in partnership with others to continue to grow the social investment market and ensure that social ventures can access the finance they need.

Annex A: Market developments

1. Over the past two years we have seen a real step-change in the growth of the social investment market as a result of the hard work and ingenuity of thousands of motivated individuals across the UK.

2. We have seen new investors entering the social investment market as mainstream investors have begun to take a different approach to how they invest. Charitable foundations and philanthropists have also started to look to use their resources in more innovative ways:

The **European Investment Fund (EIF)** recently made its first impact investment in the **Bridges Ventures III Fund**. This fund will invest in a portfolio of 15-20 promising businesses addressing social or environmental issues. The EIF has also secured an initial €50 million investment from the European Investment Bank and is now seeking to raise an additional €50 million in private investment for its new European Social Entrepreneurship Fund.

In November last year **Oxford City Council** became the first council to act as a guarantor on a loan to a social venture. They guaranteed a £115,000 CAF Venturesome loan to Arts @ The Old Fire Station which has redeveloped Oxford's old fire station to become a hub for the arts and a centre to help homeless people.

Deutsche Bank has become the first commercial investment bank to create a discrete, ring-fenced social investment fund with the launch of its £10 million **Impact Investment Fund**. The Fund will invest in social ventures through intermediaries, with the aim of generating both a social and financial return. The Fund has already invested in Bridges Ventures and Big Issue Invest.

CAF Venturesome launched the **CAF Social Impact Fund** in June last year, the first retail social investment fund in the UK. Individuals can invest upwards of £10,000 in the Fund which provides loans to social ventures on a revolving basis. The Fund has attracted the largest single social investment by an individual investor in the UK to date of £2.5 million.

The Charity Commission's **revised investment guidance for charities**, with the increased prominence that it gives to social investment, is an important step towards unlocking some of the £95 billion of UK charitable endowment assets for social investment. We hope that this will encourage more charitable trusts to consider social investment as part of their investment strategy, following in the footsteps of pioneers like **Esmée Fairbairn Foundation**, who have invested or committed over £20 million to date through their Finance Fund which makes loans and other investments into charities and social enterprises.

Mainstream business interest in social innovation and entrepreneurship is growing, with a number of support programmes in place. These include the **Deloitte Social Innovation Pioneers** programme which is providing 30 high-growth-potential social businesses with a package of bespoke support to help them mainstream and become investment-ready. Over the course of 12 months the Pioneers will receive a comprehensive package of assistance from Deloitte, including a dedicated Deloitte support team, skills workshops, pro bono work and potential procurement and joint venture opportunities.

3. There is also more varied and innovative specialist support becoming available for social entrepreneurs to start up and grow social ventures:

The **Big Venture Challenge** is a national competition run by UnLtd and funded by the Big Lottery Fund to support 25 ambitious entrepreneurs in England to grow their social ventures. The 25 winners will get an initial £25,000 grant as well as the opportunity to pitch for up to £150,000 of further match funding. In addition, the winners will also have access to bespoke business support, networks and mentoring.

Universities are playing a key role in stimulating and developing social ventures. The University of Northampton has recently launched a challenge to the Higher Education sector to spend at least £1 billion of the £7 billion it spends every year on procuring goods and services from external suppliers with social enterprises. They have also established **Inspire2Enterprise**, the first UK-wide free-to-access business support service for social entrepreneurs providing specialist advice from start-up through initial growth and beyond. Plymouth University, in partnership with private and social enterprise partners, has launched the Social Enterprise University **Enterprise Network** to support staff and students to establish social enterprises.

4. Innovation is also happening organically in the social investment market, with increasing numbers of new financial products and mechanisms being developed and tested.

Interest in **social impact bonds (SIB)** is growing steadily among commissioners, investors and providers. There are currently seven **SIBs in operation**: The Ministry of Justice has commissioned a SIB tackling reoffending in Peterborough and DWP has commissioned six SIBs, through the Innovation Fund, to improve employment outcomes for young people in Merseyside, Shoreditch, Newham and Waltham Forest, the West Midlands, Nottingham, and Perthshire and Kinross.

There are also a number of **SIBs in development**. Essex County Council is in procurement for a SIB to improve outcomes for children at the risk of being taken into care and Manchester City Council has committed to piloting a similar SIB. Age UK and Improving Care are developing a SIB on ageing and care in Cornwall. The Greater London Authority is also working with the Department for Communities and Local Government to set up a SIB on rough sleeping in the capital.

Big Lottery Fund's Next Steps Programme is funding proposals to develop innovative social investment vehicles and funds through which investors can invest in social ventures. BIG is also developing more proposals to support the development of the social investment market in a way that contributes to its mission to improve communities and the lives of those most in need. This reflects BIG's revised **policy directions** from Government to strengthen and increase the capacity of the social investment market.

Buzzbnk is a crowd-funding platform that connects social ventures who need funding with backers who want to pledge time, money or social media (or all) support. In its first year, Buzzbnk has helped raise over £330,000 for 33 socially-minded projects. This includes The Converging World which raised £110,000 towards a new wind turbine through a five year loan. Buzzbnk received £50,000 from the **Innovation in Giving Fund** to strengthen its website use on a wide range of mobile phones and tablets.

Disability charity **Scope** became one of the first UK charities to enter the capital markets with the launch at the end of 2011, of its pilot **£20 million bond programme** structured by Investing for Good. The first £2 million issue has been fully subscribed through a combination of investors including public foundations, private trusts, institutional wealth managers and high net worth individuals. Scope will use this finance to scale up its fundraising activities, including its 250 retail shops which already contribute c£3 million operating surplus to support its work with disabled people.

Nesta's Big Society Finance Fund

supported the development of 20 pilot capital-raising by social investment intermediaries. It illustrated the demand for different types of capital and the benefit that a catalytic, strategic investor can have in helping new social investment products get to market and leverage new investment from private and charitable sources. Nesta is now launching its own social investment fund, targeting innovative early stage ventures in three areas of need: older people, children and community sustainability.

5. International interest in social investment is increasing, with many governments, investors and intermediaries around the world looking to the UK as a global centre of social investment, innovation and expertise.

The **European Commission** launched its **Social Business initiative** in November 2011, setting out 11 actions to improve access to finance for social businesses; to increase the visibility of social entrepreneurship; and to improve the legal environment for social businesses and social investment. It builds on much of the work that is already happening in the UK.

The **Massachusetts State Government** issued a call for proposals in January for social impact bonds (or 'pay for success' bonds) to tackle chronic homelessness and to support juvenile ex-offenders.

The **New South Wales State Government** is in the process of procuring 'social benefit bonds' in the areas of justice and out-of-home care for children.

The **Australian Federal Government** has recently published a social investment strategy.

The **Omidyar Network**, a US foundation, has granted c£1.3 million to Social Finance to support the expansion of social impact bonds in the United States, Ireland, Scotland, Australia, Canada and Israel.

A social stock exchange is in development in **Singapore**.

In **South Africa** a new social bank is being established alongside an online platform for impact investors to access opportunities to invest in social businesses.

Big Society Capital Investments

Big Society Capital has agreed to invest £750,000 in **The Community Generation Fund** established by Finance South East. The Fund will lend money to disadvantaged communities to build their own community renewable energy projects, enabling them to reduce their energy costs and carbon footprint and to generate an income for the community. Projects such as wind-turbines and small hydro-electric generators will produce energy for communities who will be able to sell any surplus back to the national grid and use the income to support community projects.

Big Society Capital has invested £450,000 in **ThinkForward Social Impact**, a company established by the Private Equity Foundation which has been commissioned under the Innovation Fund to tackle youth unemployment in Tower Hamlets. ThinkForward will support youth charity Tomorrow's People to provide intensive school-based support for 950 young people at risk of becoming NEET. Each young person will have a tailored action plan to keep them in school, improve their employability, and sustain them in training and jobs when they leave school. DWP will pay ThinkForward according to the results they deliver.

Big Society Capital has agreed to invest £1 million alongside other investors in the **FranchisingWorks Licensing Fund** which is managed by the Shaftesbury Partnership. The Fund will provide financial support to up to 200 unemployed and financially excluded people in Manchester to set up their own franchise businesses and could create a total of 800 jobs in disadvantaged communities.

Triodos New Horizons, a fund established by Triodos Bank, has been commissioned by the Innovation Fund to tackle youth unemployment in Merseyside. It will work with a charity to provide intensive support to 3,900 young people, including those who are currently in the care system, young offenders and young people with learning difficulties, into employment, education or training. The aim is to improve behaviour, attendance, job outcomes and qualifications and investors in the fund will be repaid by an outcome payment from DWP. Big Society Capital has committed to invest £450,000 in Triodos New Horizons.

The **Social Stock Exchange** (SSE) will enable the trading of securities in social purpose businesses on a stock exchange authorised by the Financial Services Authority. The new exchange aims to open with around 15 businesses and grow to upwards of 200 within five years. This will become an essential part of the market infrastructure that connects socially motivated investors with social ventures in need of capital. Big Society Capital has committed to invest £850,000 in the Social Stock Exchange.

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