FLIP FINANCE

A SNAPSHOT OF THE UK SOCIAL INVESTMENT MARKET

2000 to 2021

JESS DAGGERS, DAVID FLOYD & DAN GREGORY

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TABLE OF CONTENTS

Executive Summary 01

Introduction 04

01. The beginnings of social investment in the UK 07

02. A new vision for social investment 11

03. What do we know? The available data on social investment 26

04. Social investment in 2021: what next? 34

Appendix 40

EXECUTIVE SUMMARY

Since the year 2000, a huge amount has been done to build a market for social investment in the UK. Now, in 2021, the idea that finance can be a tool for social change is increasing in popularity across the world.

But as policymakers, investors, entrepreneurs and businesses look to the future, there is a risk that the UK's two decades of experience and experimentation are overlooked. This Snapshot gives a summary of developments over the last 20 years, providing an overview of what has been tried, what has been learnt, and the questions that remain.

THE STORY SO FAR

As Section 1 explores, the period from 2000-10 saw numerous initiatives that are sometimes forgotten in the story of social investment. The Blair and Brown Governments, via funds distributed through several different government departments, did much to encourage social sector organisations (SSOs) to take on repayable finance. This period also saw significant lobbying, led by Sir Ronald Cohen, for a wide range of policy initiatives that would expand social investment. As a result, the 2008 Dormant Accounts Act made it possible for hundreds of millions of pounds to be directed to a 'social investment wholesaler'.

This paved the way for the explosion of activity described in Section 2. In place of the disparate initiatives of the 2000s, the new Coalition Government adopted a coordinated strategy: they would create a fully functioning 'market for social investment'. The Dormant Accounts Act enabled the creation of Big Society Capital (BSC) in 2012, a wholesaler of social investment capital that would invest in, and build up, a range of intermediaries. A new tax relief for social investment was introduced. Social investment was high on the political agenda and promoted by the UK to the G20.

However, by 2015, discontent with BSC and the much-heralded 'social investment market' was significant enough to require the creation of another social investment institution, Access: The Foundation for Social Investment. Access was intended to help social investment reach those organisations that BSC had proven unable to serve thus far.

Since the abrupt end of David Cameron's premiership in 2016, social investment has not been so high on the UK's political agenda. The 'social investment market' has continued to develop in the meantime, though without the clear (and controversial) strategic direction of the 2010-6 period. In 2021, questions are again being asked about the merits and usefulness of the social investment market, and the direction of future policy.

RECIPE FOR SUCCESS

These are the main events, visible from a distance, but what of the underlying detail? There were, in fact, four 'ingredients' to the Government's strategy which, together, were intended to achieve the vision of a *thriving market for social investment*.

The first of these ingredients was the **plan to attract new investors and new capital into the market**. In this report, we outline the various initiatives which were targeted at attracting institutional investors, at persuading charities to invest their endowments differently, and the curious blind spot of the market 'visionaries' over the substantial volumes of investment already made into SSOs via mainstream bank lending.

The second ingredient was the plan to develop a **wider range of investment products**. Here, venture capital was a source of inspiration, and the idea of 'quasi-equity' received significant interest. Heavy subsidy was deemed necessary and appropriate to support the creation of the first Social Impact Bonds, while the lesser known, but more substantial (in terms of volumes of investment) Charity Bonds also gained traction. The type of investment seemingly most sought after by SSOs, however, was *blended* finance, which offered more generous terms than conventional finance, by combining grants and loans. After being dismissed by the leadership of newly formed BSC as too soft, blended finance later came roaring back with the creation of Access, and has once more become a centrepiece of the social investment market.

Impact measurement was the third ingredient: the idea was that enterprises and investors alike would collect data about their impact and use it to make better decisions, lubricating the market. This was the focus of further policy initiatives, but also perhaps the aspect of the market that deflated most rapidly when subsidy and grant funding dried up. After more than a decade of attempts to influence wider practice, it seems the majority of actors in the social investment market have only very basic measurement practices in place themselves, if they measure impact at all.

The fourth ingredient was perhaps the most ambitious: the plan to **mould the social sector** into a shape where it could more readily take on investment capital. As the need to create the Access Foundation demonstrated, many SSOs were simply not ready, willing or able to take on the kind of investment envisaged by the market visionaries. A range of initiatives have aimed to build 'investment readiness' of SSOs, as well as testing ideas around 'profit-with-purpose' businesses, which stretched the boundaries of the social sector.

A MOMENT FOR REFLECTION

How are we to assess how successfully these four ingredients were combined? Data about the market is an important part of the puzzle, and in Section 3 we provide an overview of where data is available, and where it is not. While there are multiple sources, we are still in a position where an accurate overview of market activity is largely unattainable.

Section 4 then looks to the future of social investment, identifying five key issues:

1. **The terms on which social investment is made available.** Should social investment be on cheaper and riskier terms than other finance? Why? Are social impact metrics part of the equation? Is there a place for often proposed but rarely implemented quasi-equity products?

2. **Niche or mainstream?** Should the social investment market grow? Or should the space which conventional finance does not serve shrink? Social sector organisations can access finance from social investors but also from other investors too, so why focus on growing the specialist market?
3. **The role of government.** What is government's future role in social investment? Previous governments have played significant roles in shaping activity and institutions, the narrative and vision. Future governments may take a different role or, indeed, do nothing.
4. **What to expect from Big Society Capital.** Big Society Capital has several competing aims, while also being constrained by the Dormant Accounts Act, the Merlin banks' expectations, state aid rules, government directions, and its governance, leadership and culture. What can it realistically be expected to do, or do differently?
5. **Who benefits from social investment?** Has public and philanthropic money gone largely to the social sector, investors or intermediaries? Is social investment addressing or perpetuating the gender, geographic, ethnic and class inequalities we should hope it is dismantling?

INTRODUCTION

The years 2000 to 2021 have seen substantial changes in how we think about the way social purpose is financed, in the UK and in many other countries.

A policy vision, propelled by the UK Government, of a thriving, diverse **market for social investment** has ensured sustained interest in the use of repayable[1] finance to achieve positive social good. After 20 years of activity, and the investment of billions of pounds of both public and private money, this document tells the story of social investment in the UK so far.

We hope this work is a helpful summary of events for those both in the UK and further afield, to help readers in making up their own minds about the potential of social investment to bring about social change. Crucially, we revisit the evolving policy vision that has driven so much of the activity in this field, mapping out the initiatives that were designed to make this vision a reality, and exploring the responses to these initiatives – both positive and negative.

In part, this work is designed to inform the work of the *Adebowale Commission on Social Investment*, an initiative driven by Lord Victor Adebowale, Chair of Social Enterprise UK. Launched early in 2020, the Commission set out to "investigate the current state of the social investment market and how the market can support the future growth of social enterprises". Shortly after the Commission was announced, the spread of Covid-19 necessitated the national lockdown of the UK, creating a new context for exploring the state of the social investment market. We hope this *Snapshot* will be informative for the Commission and the many other actors considering the future of social investment.

1/ Note: While debt finance is repayable, equity and quasi-equity investment instruments are not exactly repayable as such, rather they confer rights on the investors which may be expected to lead to future revenue streams. But for the purposes of this report, we refer to all the above as repayable finance.

REPORT OVERVIEW

Initiatives that took place between 2000 and 2010 are covered in Section 1. The legislation releasing Dormant Accounts money was passed in this period, alongside substantial activity building the social investment agenda and testing the idea of repayable finance for the social sector.

These initiatives prepared the ground for the clearly articulated policy vision published by the Coalition Government in 2011. Section 2 revisits the policy vision of this period and uses it as a lens for telling the story of social investment since that time. In this section, we look at the initiatives prompted by the vision of a 'social investment market', and at the reaction and debates these changes provoked across the social sector.

An important part of the story of social investment can be told through numbers. In Section 3 we offer an overview of the main efforts to collate data about the market, highlighting what the data tells us – and what it doesn't tell us.

The Section 4 brings the story up to date, and points to a series of open questions about the suitability and future of social investment.

A note on 'method'

This document is not a research report, and should be read more like longform journalism. The authors have all been involved in social investment over a number of years, from a variety of perspectives.[2] Rather than striving for objective analysis, we are open about how our existing knowledge and understanding has informed the telling of this story. We conducted a series of informal interviews to inform the work,[3] and have endeavoured to signpost readers to published research wherever it is relevant.

DEFINITIONS

Social investment remains a confusing and sometimes contested term. The definition currently published on the UK Government's website is: "Social investment is the use of repayable finance invested into a social organisation to help it achieve its purpose and increase its impact on society."[4]

However, social investment is not easy to define, and no single definition attracts a general consensus. Market actors periodically express frustration at the confusion over terminology. The picture is made considerably more confusing by the related concepts of 'social impact investment' and 'impact investing'. We will not revisit these issues in detail here, especially as multiple attempts have already been made to consolidate the discussion.[5]

However, this debate over what social investment means is important in helping us appraise it. To briefly summarise the issue, we identify three key components that vary across definitions – the nature of the investee, the nature of the investor, and the level of expected returns.

The investee

Part of what defines social investment may be who receives it. While some definitions – like the UK Government's – are quite broad about what kinds of organisations qualify for social investment, others introduce tighter parameters.

The Adebowale Commission, for example, takes a relatively narrow definition of social investment as investment into "social enterprises", where social enterprise is defined according to SEUK's own criteria.[6] On one hand, this excludes many organisations, which, even if they have a commitment to a social purpose, may not have formal restrictions on profit distribution. On the other, it also excludes social sector organisations which do not generate a certain level of traded income. At the same time, other definitions are not concerned at all with the nature of the investee and focus instead on the motivations of the investor.

The investor

In some conceptions of social investment, the matter of investor motivation matters. Some view social investment as the activity of investors who are themselves socially motivated. There are various ways in which this 'social motivation' may manifest itself. It may mean that investors are willing to make investments on terms that would not be acceptable to commercial investors, or it may indicate a commitment to the measurement and understanding of impact, or both.

2/ Author biographies can be found on page 40.

3/ See page 40 for a list of interviewees.

4/ https://www.gov.uk/government/collections/social-investment

5/ Dan Gregory, 'Angels in the Architecture: Building the Infrastructure of Social Investment', 2013; Phil Caroe, 'What Do We Mean By 'Social Investment'?', 2016; Alternative Commission on Social Investment, 'After The Gold Rush', 2015.

6/ SEUK's definition which in turn is based on the internationally agreed definition of social enterprise promoted by the Social Enterprise World Forum: 1) The entity must have a primary social or environmental mission that is clearly expressed in its governing documents; 2) It must reinvest the majority of its surplus back into the business or give it to another organisation to deliver its mission; 3) It must be independently run in the interests of delivering its mission." https://www.socialenterprise.org.uk/adebowalecommission/adebowalecommission-frequently-asked-questions/

Expected returns

Financial return may also be a defining feature of social investment. While some may consider certain grant funding, such as capital grants, to count as investment, social investment in this context is most often used to mean finance that could lead to a financial return. The level of return may still be very wide – for some, social investment implies lower returns, while others have emphasised the possibility of achieving market-rate returns in combination with a social motivation and / or investment in organisations with a social purpose.

‘Social investment’ has other meanings too

Anthony Giddens first coined the expression “the social investment state” in 1998, explaining how this was intended to refer to “a system which invests in preventative measures, and measures which combat inequality.” Here ‘investment’ does not mean repayable finance, but public spending. This term continues to be popular in scholarship on the welfare state.

It is also worth noting that ‘social investment’ has a further completely separate meaning, attached to online or digital technology. Etoro, for instance describes itself as “Your Social Investment Network” and advertises itself as such on hoardings during high profile Champions League football matches, reaching a far greater audience than any government strategy publication.

01. THE BEGINNINGS OF SOCIAL INVESTMENT IN THE UK

THE SOCIAL INVESTMENT TASK FORCE

The history of social investment can be seen to go back centuries, but for our purposes, the story begins in February 2000, when the then Chancellor of the Exchequer, Gordon Brown, launched the Social Investment Task Force (SITF). This was also the beginning of Sir Ronald Cohen's long involvement with senior policymakers and the social investment agenda, as he assumed the position of Chair.

It is often forgotten that, at this stage, social investment was strongly connected to *place*, with a focus on directing capital to places that had historically been deprived of investment. The recommendations included in the SITF's first report[7] were welcomed by the Government, paving the way for a number of initiatives:

- ↘ The introduction of venture capital-style investment into 'community development' settings. This led to the creation of Bridges Community Ventures (now known as Bridges Fund Management) with £20 million from the Government and £20 million from private investors.
- ↘ The creation of multiple new 'community development finance institutions' (CDFIs), as well as a new sector body for the affordable credit sector, the Community Development Finance Association (CDFA, now known as Responsible Finance) in 2002.
- ↘ The creation of Community Investment Tax Relief (CITR) in 2002, which is still in place today.

In line with the focus on place, the SITF also pursued the option of requiring mainstream banks to publish information about where they make loans, on the assumption this would make the problem of underinvestment in deprived communities much more visible. The SITF's final report stated the effort to encourage voluntary disclosure "has not proved successful", and called for legislation to compel disclosure – an agenda that has not been seriously taken up by subsequent governments.

7/ Social Investment Task Force, 'Enterprising Communities', 2000.

FUNDS AND MORE FUNDS

The work of the SITF was taking place in a crowded landscape of initiatives. Around the time of the publication of the first UK Government *Social Enterprise Action Plan* in 2003, government policy responsibility for what we may now understand as social investment was shared, or rather split, across four departments. The then Department for Trade and Industry (DTI) was responsible for social enterprise policy, which included the issue of access to finance for these businesses. The Treasury had set up and retained an interest in the Social Investment Task Force, as well as oversight of CITR and Community Development Finance Institutions, working with the DTI.

Meanwhile, the Home Office's Active Communities Unit held responsibility for policy regarding the voluntary and community sector (VCS), for instance taking on responsibility for oversight of the Futurebuilders programme, an investment fund instigated by HMT around 2003. Around the same time, in 2002, the then Office for the Deputy Prime Minister (now the Ministry of Housing, Communities & Local Government or MHCLG) had set up the Adventure Capital Fund with a similar and overlapping remit and approach, albeit adopting language around 'communities' and 'community enterprise'. Furthermore, in 2007, the Department of Health (DH, now the Department of Health and Social Care or DHSC) also created its own Social Enterprise Investment Fund.

There was also funding available for social enterprise business development in a broader sense through Regional Development Agencies, for instance, alongside national schemes such as the Right to Request, which supported NHS staff to 'spin out' of the public sector by creating new social enterprises to deliver contracts.[8]

Such a lack of joined-up government[9] is not unique to this field, but it helps to put into relief the degree of focus and co-ordination that was introduced in 2010/11, when social investment activity was drawn together under the umbrella of *market building*. At this point in the early-mid-2000s, many trading charities could simultaneously access all of these aforementioned funds and indeed, some did. Alt Valley Community Trust, for instance, has used loans from Futurebuilders, Adventure Capital Fund, the DH's Social Enterprise Investment Fund and the Liverpool City Region Local Impact Fund.[10]

8/ https://research.birmingham.ac.uk/portal/en/publications/right-to-request-social-enterprises(281b1d07-3423-4f38-8a1d-147c391ba3e8).html

9/ An illustration of this fragmentation is found in a report on the Adventure Capital Fund, which states: "The initiative has been developed by a partnership between the Home Office's Active Community Unit (ACU), the Office of the Deputy Prime Minister's (ODPM) Neighbourhood Renewal Unit (NRU), the Department of Trade and Industry's (DTI) Social Enterprise Unit (SEnU), four regional development agencies (RDAs) , the Local Investment Fund (LIF), the Development Trusts Association (DTA), the Scarman Trust (ScT) and the New Economics Foundation (NEF)." For a small fund of £2.5m, no fewer than 11 agencies were involved. Stephen Thake, 'Primed for Growth: Adventure Capital Fund Baseline Report', 2003. p7

10/ https://www.liverpool.ac.uk/media/livacuk/publicpolicyamppractice/the,scale,,scope,and,value,of,the,Liverpool,City,Region,social,economy.pdf

TABLE 1: EXAMPLES OF FUNDS RELEASED IN SUPPORT OF THE SOCIAL INVESTMENT AGENDA

DATE	NAME OF FUND / INVESTMENT	SOURCE OF FUNDING	ADMINISTERED BY	AMOUNT
2002-04	**Adventure Capital Fund**	Office for the Deputy Prime Minister (current day MCHLG)	Multiple agencies	£2.5 million
2002-	**Bridges Community Ventures**	Cabinet Office (& others)	Bridges Community Ventures	£20 million
2003-	**Futurebuilders**	Her Majesty's Treasury / Home Office	Social Investment Business (at the time called Futurebuilders England)	£142 million
2007-	**Social Enterprise Investment Fund**	Department of Health	Department of Health, then Social Investment Business	£100 million, plus further £19 million
2011-	**BSC Dormant Accounts capitalisation**	Dormant Accounts	Reclaim Fund / BSC	£400 million
2012-15	**Investment Readiness Fund**	Cabinet Office (plus Mutuals Support Programme, Department of Health & Arts Council)		£23.2 million overall[11]
	Investment & Contract Readiness Fund		Social Investment Business	£13.2 million
	Social Incubator Fund		Big Lottery Fund	£10 million
2014-17	**Big Potential Scheme**	Big Lottery Fund	Big Lottery	£20 million
2012	**Social Outcomes Fund (top-up fund for SIBs)**	Cabinet Office	The National Lottery Community Fund	£20 million
2012-15	**Innovation Fund**	Department of Work & Pensions (DWP)	Various – 10 SIB contracts	£30 million
2013-17	**Big Venture Challenge**	Big Lottery Fund	UnLtd	£9.6 million
2015-16	**Impact Readiness Fund**	Cabinet Office	Social Investment Business	£3.8 million
2015-	**Access Growth Fund**	Access Foundation	Access Foundation	£45 million
2016-	**Reach Fund**	Access Foundation	Access Foundation	£4 million
2018-23	**Enterprise Development Programme**	Access Foundation	Access Foundation	£40 million

11/ Originally the fund was £20 million but the ICRF component grew from £10 million to £13.2 million. See Ecorys et al., 'In Pursuit of Readiness: Evaluation of the Investment and Contract Readiness Fund', 2015. p1

FOUNDATIONS

Though the Association of Charitable Foundations was cautious about embracing the social investment agenda too enthusiastically (see, for example, page 10 for the implications of social investment for charity law), several foundations decided on their own terms to help move the agenda forward. These included the Esmée Fairbairn Foundation, The Sainsburys Family Charitable Trusts and several more.

Some of this activity was funded through foundations' grant-making activities while a number of efforts were made to explore how it might be easier for foundations to actively engage in this field through their investment activity.

This included consideration of charity law and investment rules, with roots in the 1991 case of Bishop Harries vs. the Church Commissioners, which considered the extent to which ethical, as well as financial considerations could be part of trustees' decision-making. Several reports explored this territory[12] but government did not actively step into this space until later, around 2011, as greater attention turned to CC14 – the Charity Commission's investment guidance.[13]

FROM 'ACCESS TO FINANCE' TO 'SOCIAL INVESTMENT'

For most of the 2000s, the activity we think of as 'social investment' was usually described in terms of *access to finance* for social enterprises, community enterprises, or charities. The emphasis was often on the perspective of the investee rather than the investor. The balance started to shift around 2008.

Building on his success chairing the SITF, which was still ongoing, Sir Ronald Cohen had created a separate initiative, the *Commission on Unclaimed Assets*, which published a consultation paper in 2006[14] and then a final report in 2007 titled *The Social Investment Bank: Its organisation and role in driving development of the third sector*.[15] This was not a government-led or sanctioned body, but one which had significant political influence, not least as Sir Ronald was a significant donor to the Labour Party at the time.

This influence is visible in the 2008 *Dormant Bank and Building Society Accounts Act*, which enshrined in law the potential role of a Social Investment Wholesaler as one of three legitimate destinations for dormant accounts money.

Meanwhile, the SITF brought its work to a close with its final report in April 2010.[16] By this time, the language of the 'social investment market' had become much more common. The Task Force report described how the "ten years since the original Task Force report have seen the emergence of a social investment market in the UK." Examples provided were focused on those investing in social enterprise or social sector organisations – the likes of Charity Bank, Futurebuilders, Venturesome, and so on. Stephen Bubb and Jonathan Lewis, as the new caretakers of the Futurebuilders and Adventure Capital Funds, rebranded their organisation as the "Social Investment Business".

The first Social Impact Bond, positioned as an integral part of this emerging social investment market, was agreed by the Ministry of Justice shortly before the 2010 general election. David Cameron became Prime Minister the following month.

12/ Margaret Bolton, 'Foundations and Social Investment', 2005.

13/ https://www.civilsociety.co.uk/news/new-cc14--seems-designed-to-deter-social-investment--says-expert.html

14/ The Commission on Unclaimed Assets, 'A Social Investment Bank: Consultation Paper', 2006.

15/ The Commission on Unclaimed Assets, 'The Social Investment Bank: Its Organisation and Role in Driving Development of the Third Sector', 2007.

16/ Social Investment Task Force, 'Social Investment – Ten Years On', 2010.

02. A NEW VISION FOR SOCIAL INVESTMENT

In 2010, the new Coalition Government enthusiastically took on the idea of using dormant accounts money to create a new financial institution. Big Society Capital was created within two years.

In some ways, BSC was a logical continuation of the previous decade's work of building social investment activity. In other ways, the creation of BSC signalled a significant shift in focus: instead of a series of disparate departmental funds investing money (via external managers) directly into SSOs, the new regime would attempt to bring some coherence and cohesion to the field, by creating an external organisation to invest into, shape and promote the entire market. In close consultation with Ronald Cohen and members of the *Commission on Unclaimed Assets*, in 2011 the Government published a strategy document describing its vision for a social investment market.[17]

17/ HM Government, 'Growing the Social Investment Market: A Vision and Strategy', 2011.

New wholesaler, new market

In describing the arc of development of the market, the creation of Big Society Capital marks a step-change. Named after his flagship policy initiative, Prime Minister David Cameron personally launched the organisation in 2012, with a sum of capital (£400 million plus a further £200 million from Merlin banks) that dwarfed any other single fund that had been devoted to the social sector (see Table 1 on page 9).

It was not just the volume of capital that changed the landscape: BSC's form and remit also had a huge impact. BSC was created with a mission to build the market for social investment, and as a 'wholesaler' it was prevented from investing directly in frontline organisations. This effectively re-framed the landscape. SSOs became the 'demand side' of the market, and the organisations that would take on BSC's (and other investors') capital and direct it to the SSOs became known as 'intermediaries'. In contrast to the pre-2010 approach of investing directly in SSOs, the Government's role would be to nurture this market from the outside, including helping to build the market infrastructure that would enable deal flow.

The devolved administrations

The key institutions in social investment in Scotland and Northern Ireland have been quite different to Big Society Capital in England.

While Scotland's leading social investor, Social Investment Scotland, has indeed taken on wholesale investment from Big Society Capital, the initial investment it received from the Scottish Government enabled it to invest on concessionary terms – rather than seeking to generate commercial returns from its investments to cover its costs.[18]

In Wales, the availability of funding from the European Regional Development Fund and the Welsh government has enabled Social Investment Cymru to provide significant amounts of blended finance: a mix of grant and loan.[19]

While Scottish and Welsh approaches to growing social investment have not been the same, they share a focus on access to finance for SSOs over building 'the social investment market' as a goal in itself.

Leading the world

While BSC was still in its early years, Prime Minister David Cameron enthusiastically highlighted the UK's global leadership in the field of social investment. The message was amplified by Cameron's decision to devote part of the UK's presidency of the G8 – an honour that rotates annually around the membership – to the topic of social impact investment. The Social Impact Investment Taskforce (SIIT, not to be confused with the SITF of 2000-2010) was chaired, perhaps inevitably, by Ronald Cohen, and had the effect of pushing the idea of social investment onto the agenda of the other G8 countries.[20]

As the name of the SIIT indicates, the UK's positioning of itself on the international stage required joining the dots between social investment and the impact investing agenda, which had been developing in parallel, particularly in the US, since around 2007, a move that caused even more confusion over what these overlapping sets of terminology meant.[21]

Following the SIIT, the Global Steering Group for Impact Investing (the GSG) was created, and the global agenda increasingly gathered its own momentum. Two specific elements of the UK market attracted particular interest and have been replicated in other countries: there are now 206 impact bonds (193 SIBs, 13 Development Impact Bonds) across 35 countries, and Japan and Canada have drawn significantly on the UK's experience of launching Big Society Capital. Subsequently, Britain began to lose its self-proclaimed position as global frontrunner as the impact investing agenda

18/ https://www.gov.scot/news/supporting-social-enterprises/#:~:text=%E2%80%9CSince%202008%2C%20the%20Scottish%20Government's,needed %20to%20scale%20and%20grow.

19/ https://wcva.cymru/funding/social-investment-cymru/

20/ Russia was expelled from the G8 around this time, and it is now known as the G7. There were however eight countries involved as Australia was invited to join the rest of the G7 (Canada, France, Italy, Japan, Germany, UK, USA).

21/ Caroe, 'What Do We Mean By 'Social Investment'?', 2016.

further developed its own momentum. This was compounded by the end of Cameron's premiership in 2016, after which point no new policy initiatives on social investment were undertaken.

Reality bites

Even before this point, around 2014-15, it was increasingly clear that the government-led vision of social investment was encountering numerous obstacles. Discontent was widespread across the social sector, and the market was nowhere close to hitting projected volumes of investment. In 2014, Esmée Fairbairn Foundation funded the work of an 'Alternative Commission on Social Investment', led by two of the authors of this report, which set out to "investigate what's wrong with the UK social investment market and to make some practical suggestions for how the market can be made relevant and useful"[22] to SSOs.

Perhaps influenced by the Alternative Commission, and explicitly in recognition of the unsuitability of BSC's capital to meeting the needs of most SSOs, in 2015 Big Society Trust (which has now been renamed The Oversight Trust) created a 'sister organisation' to BSC; Access: the Foundation for Social Investment, supported by subsidy from the Big Lottery Fund (now the National Lottery Community Fund) to provide finance responding more directly to the needs of SSOs. This alleviated some pressure on BSC, allowing it to focus more on the kinds of deals that had always been its strength: large investments into larger charities and social enterprises and, in particular, socially useful property schemes, such as specialist housing for homeless people and other vulnerable adults.

Yet as the creation of the *Adebowale Commission on Social Investment* demonstrates, many individuals continue to feel that the social investment market does not work for SSOs. Understanding why requires a more detailed look at the **four ingredients** that were needed to make the vision for the market a reality: attracting new investors into the market, developing a wider range of investment products, embedding impact measurement, and transforming the social sector's ability to take on investment. Each of these 'ingredients' were developed by a combination of research, dedicated funding and policy initiatives. Mixed together, it was hoped, these ingredients would create a thriving marketplace.

INGREDIENT 1: ATTRACTING NEW INVESTORS INTO THE MARKET

The first of the four ingredients for realising the vision was the aim of 'crowding in' new sources of capital.

Who were the investors who would be attracted to these new activities? The main targets were institutions (such as pension funds), high net worth individuals (HNWIs) and charitable endowments. Here we outline the main attempts to bring in new capital, and provide some sense (where possible) of whether they were successful.

Institutional capital

From the outset, the Coalition Government's vision of the social investment market included 'mainstream' investors: large institutional investors such as pension funds which manage enormous volumes of capital. Bringing such investors into the market would mean that individuals could start to participate in the social investment market through their pensions or ISAs.[23]

22/ Alternative Commission on Social Investment, 'After The Gold Rush', 2015.

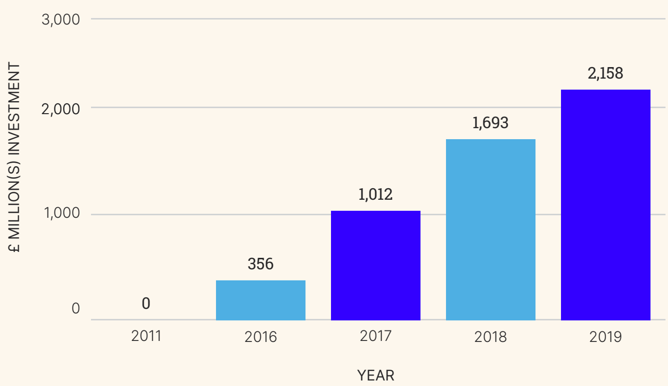
23/ Individual Savings Accounts – a tax-free savings account available in the UK.

The commitment to 'crowding in' institutional capital is at the heart of Big Society Capital's wholesale model, with most (originally all) BSC funds requiring co-investors.

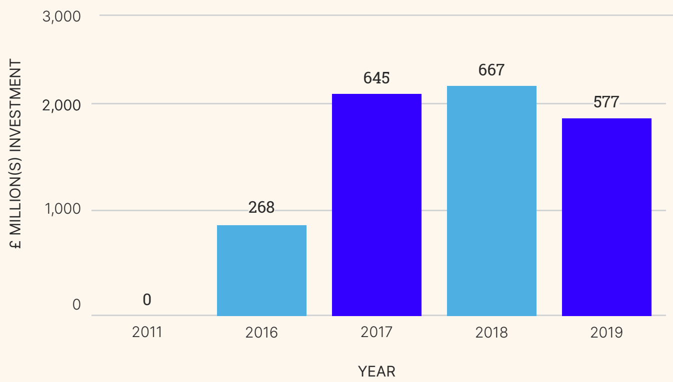
Despite significant attempts, BSC has struggled to attract significant institutional investment into activities other than property – and as a result property-related social investment has increased significantly since 2010.

FIGURE 1: SOCIAL INVESTMENT MARKET SIZE ESTIMATE (TO END 2019) by product type 'property'

OUTSTANDING INVESTMENT (AS AT CALENDAR Y/E)



DEAL FLOW (COMMITMENTS DURING THE YEAR)



ESTIMATED VALUE OF SOCIAL INVESTMENT IN THE UK WAS WORTH £2.16 MILLION AT THE END 2019, REPRESENTING 94 TRANSACTIONS. £577M WAS COMMITTED TO 54 CHARITIES AND SOCIAL ENTERPRISES IN 2019.

Source: Big Society Capital https://public.tableau.com/profile/big.society.capital#!/vizhome/2019MarketSizing/2019MarketSizing

However, even property-related funds that have attracted significant investment from beyond BSC have not necessarily fulfilled the expectations of crowding in mainstream finance. For example, the £57 million Real Lettings Fund – launched in 2013 – received £15 million from BSC with the rest of its investment coming from three charitable foundations, a local council and a housing association. This is not to diminish the achievement of this fund, or others that have crowded in charitable or public sector investment, but co-investment from institutions with an intrinsic social motivation is quite different from converting mainstream finance institutions to investment for impact.

More recently, more progress appears to have been made in this regard. BSC announced the creation of an Investment Trust in partnership with Schroders in 2020, making it possible for investors in public markets to access the social investment market.

Private capital

High Net Worth Individuals were an obvious group to persuade to join the market. Unlike investors with responsibility for other people's money, HNWIs are guided by their own preferences. Around the creation of BSC, initiatives sprung up targeting HNWIs and their wealth advisors, seeking to convince them of the existence of a 'third pot' of investment opportunities, between conventional investment and philanthropy.[24]

24/ Worthstone, Bates Wells and Braithwaite, and Big Society Capital, 'Advising Clients on Social Investments and Deciding on Suitability: The Report of an Expert Working Group', 2012.

The case was also made that the *lack* of a tax incentive was a barrier to HNWIs participating in social investment.[25] The case was successful: in 2013 the Government announced the creation of Social Investment Tax Relief – a scheme designed to give tax breaks to individual investors in charities and social enterprise. Based on the model of a venture capital tax break – the Enterprise Investment Scheme (EIS) – SITR gives investors 30% of the value of their investment off their income tax bill. The key difference being that, unlike EIS, SITR applies to (unsecured) loans as well as equity investments, provided the investment is directed towards certain regulated social sector organisations.

However, SITR, like many aspects of the social investment market, has failed significantly to meet initial expectations. While the Treasury had predicted £83.3 million worth of eligible investments in the first 3 years of its existence, the actual figure generated was £5.5 million.

One major barrier to the success of SITR has been the fact that a wide range of commercial activities carried out by charities and social enterprises, including taking on property, leasing and (more recently) energy generation are excluded from the relief, based on the policy position that these activities do not require subsidy. However, this policy position appears to be based more on the position that mainstream property, leasing and energy investments do not require subsidy and should not therefore be eligible for EIS, rather than a consideration of whether the same holds true for socially motivated business activities and SITR.

SITR was reviewed by the Government in 2019-20. Though it has underperformed against expectations, those who have used it are keen for it to remain in place, and a campaign was launched to encourage the Government to retain it. The announcement was made in early 2021 that the scheme would be extended for another 2 years to 2023.

Beyond SITR and the activities of government, the Big Venture Challenge scheme – funded by Big Lottery Fund and run by Unltd – sought to help social entrepreneurs to raise investment to scale their ventures. Notably, the scheme attempted to attract new investors into the market, particularly 'angel' investors (HNWIs looking to invest directly in early-stage businesses). Four cohorts of social entrepreneurs went through the programme before it finished in 2016, having attracted £4.7 million of new investment into the market.[26]

Charitable endowments

The 2011 Government strategy paper highlighted how "charities hold a significant amount of capital – over £95 billion in income and endowment funds – and freeing up just a fraction of this would release billions of pounds for social investment."[27] The most immediate barrier to charity investment appeared to be the lack of clarity over what charity trustees were able to do when investing endowments, or trusts. The traditional approach has been for charities to use conventional investment practices to generate income from their endowments, then use this income to fund charitable activity through grants.

The vision for social investment challenged this convention, asking why charities could not invest their endowment for impact.[28] Charity regulation was reviewed in 2012 with respect to social investment[29], and new guidance was released in 2016. Whether things will change still

25/ Worthstone, 'The Role of Tax Incentives in Encouraging Social Investment', 2013.

26/ UnLtd, 'Four Years of the Big Venture Challenge', 2016.

27/ HM Government, 'Growing the Social Investment Market: A Vision and Strategy', 2011. p31

28/ Cabinet Office, 'Working Paper: How Foundations Are Using Total Impact Approaches to Achieve Their Charitable Missions', 2014.

29/ Lord Hodgson, 'Trusted and Independent: Giving Charity Back to Charities. Review of the Charities Act 2006', 2012.

comes down to individual charities in deciding how to invest their endowment, however, and very little has happened so far in the scheme of the billions of pounds under consideration.

The forest for the trees

Curiously, one source of mainstream capital that was already well accessed by the social sector was almost entirely overlooked in the new vision for social investment: high street banks. Banks such as Royal Bank of Scotland already made loans to charities and social enterprises in volumes that far outstripped the size of the social investment market, at least as it stood in 2016.[30] Yet this rarely received much, if any attention in the dominant social investment narrative, which rather tended to reinforce the idea that "banks don't understand and don't lend to social enterprises".

This seems to shed light on one of the problems with the vision for social investment – a focus on the role of the specialist providers, with BSC sitting at the 'centre of the web' – to the exclusion of a much broader landscape of lending to social enterprises.

Social investment leaders were obviously not unaware of high street bank lending but appeared to hold the view that this was something different and distinct from social investment, while at the same time counting lending from 'social banks' such as Unity Trust and Triodos as part of the market, and buying shares in Charity Bank.

While the underlying mission of social banks clearly is distinctly different from that of high street banks, the distinction seems arbitrary and confusing from the perspective of charities and social enterprises and the products available to them. But from the perspective of the market visionaries, these billions of pounds of investment perhaps undermined the case that a 'new pillar of finance' was needed to ensure that SSOs had access to the finance they needed.

INGREDIENT 2: DEVELOPING A WIDER RANGE OF INVESTMENT PRODUCTS

The second of the four ingredients was the intention to expand the variety of products available in the market, in the hope of meeting the needs of different kinds of SSOs.

The vision of the social investment market envisaged a wide range of investors and intermediaries designing and developing new financial products. At the point that BSC was launched, the vast majority of investment within the social investment market (90.2%[31]) was debt secured against property. Market actors began exploring what other options could be available.

Equity for the social sector?

Some of the excitement around social investment focused on the untapped potential of equity investing in this context, which gives investors shares in a business rather than fixed repayments, and does not require assets for security. In theory, this provides an organisation with the resources to try out a new idea – or expand their existing business – as the investor doesn't take money out until the business is making a profit.

It was hoped that if something like equity investments could be made available to SSOs, they could develop and test new ways of tackling social problems that, if successful, could be scaled up and replicated. The problem is that most charities and social enterprises have not-

30/ David Floyd and Dan Gregory, 'The Forest for the Trees: UK Banks' Investment in a Social Purpose', 2016.

31/ ICF GHK, 'Growing the Social Investment Market: The Landscape and Economic Impact', 2013.

for-profit structures, so are unable and/or unwilling to sell shares and distribute profits.

Social investor CAF Venturesome first used the term 'quasi-equity' in 2007, to describe a financial product that has characteristics of debt but mimics an equity investment by being repaid according to an organisation's revenue, rather than a fixed set of repayments.

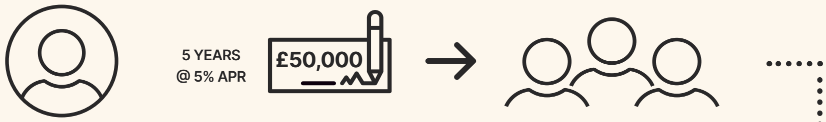
FIGURE 2: HOW QUASI-EQUITY WORKS

STANDARD LOAN AGREEMENT

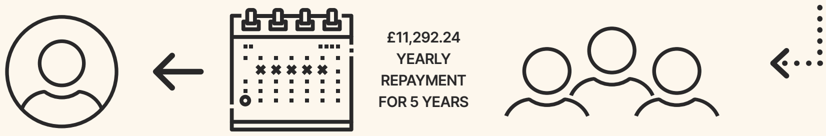
LOANS CAN BE STRUCTURED IN MANY DIFFERENT WAYS BUT THIS SIMPLE MODEL ILLUSTRATES THE GENERAL PRINCIPLE, COMPARED TO QUASI-EQUITY DEALS.

Total repayment = £56,421.20

Total cost of credit = £6,421.20



Investor loans organisation £50,000 for 5 years (60 months) at 5% APR.



Organisation repays £941.02 per month / £11,292.24 per annum.

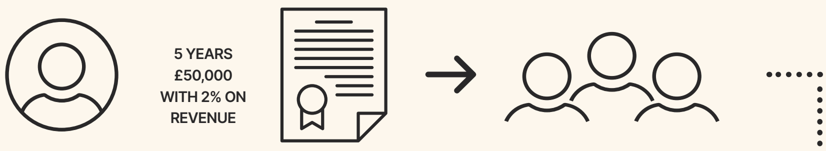
QUASI-EQUITY AGREEMENT

THIS IS A SIMPLIFIED EXAMPLE TO HELP SHOW THE DIFFERENCE BETWEEN THE MODELS. IN REALITY, QUASI-EQUITY SOCIAL INVESTMENTS ARE REPAID OVER A LONGER TIME PERIOD THAN STANDARD LOANS.

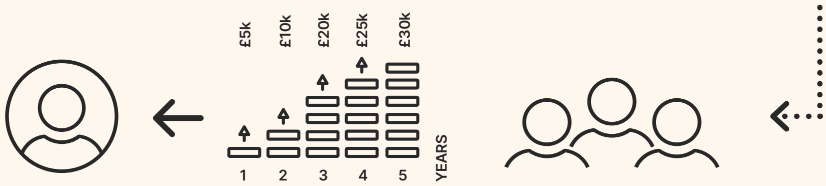
Total payment = £90,000

Total cost of RPR = £40,000

Note: organisation pays based on when/whether they generate revenue and investor risks getting less / nothing if turnover is lower



Investor pays organisation for a Revenue Participation Right (RPR) with agreement that organisation pays investor 2% of revenue for 5 years.



For example, in first year, if the organisation generates £250,000 revenue, they pay the investor £5000. Then £500,000/£10,000 (year 2); £1,000,000/£20,000 (year 3); £1,250,000/£25,000 (year 4) and £1,500,000/£30,000 (year 5).

Source: Flip Finance https://access-socialinvestment.org.uk//wp-content/uploads/2017/02/Risk-Finance-slide-report.pdf

Since 2010, there have been a range of initiatives designed to promote both quasi-equity and other forms of 'patient risk-bearing capital' – such as the 'Builder Capital' initiative, which appealed to investors to make their capital available on the basis that there was significant potential for social return, even if the prospects for financial return were limited.[32]

2017 work from Flip Finance[33] and more recent research from Shift Design makes clear that there is an ongoing perceived need for this kind of capital that is not reflected in the current supply of social investment products.[34]

The name's Bond

A second form of finance that has rapidly grown in this context is the charity bond. Not to be confused with Social Impact Bonds (SIBs), discussed below, they enable large charities to raise large amounts of money to invest in big projects.[35]

Charity bonds are highly regulated products, which can be complicated to create, so are largely only relevant to organisations seeking to raise millions of pounds. However, growing numbers of those larger organisations have been offering them, with the support of BSC-backed funds.

As a result, the market for charity bonds has grown from a value of £2 million in 2011 to over £350 million in 2019, now making up 12% of the social investment market – an example of a sub-sector of the market that is relatively little known but significant in terms of the volume of new investment raised.

The name's Bond but the product is an outcomes-based contract

While charity bonds are relatively little known products that have generated quite a large amount of social investment, the opposite is true of their partial namesake, 'social impact bonds' (SIBs).

SIBs are not bonds, but outcomes-based contracts for the delivery of services that involve a charity (or group of charities) providing the service, with social investors paying the initial, upfront costs and then being repaid based on the social outcomes generated. Where an intervention is deemed successful, usually a government department or local authority pays.

The first SIB – at Peterborough Prison in 2010 – was initiated by the outgoing Labour government but the model became popular with many Conservative ministers, including Work and Pensions Secretary, Iain Duncan Smith, who heralded their potential to "revolutionise public services".

Excluding the dormant accounts money provided to set up Big Society Capital itself, the majority of the *government* funding provided to support the social investment market in the post-2010 period (until 2017) was spent on support for the development of SIBs (see Figure 3 on page 19).[36]

The high profile of SIBs, and the significant resources allotted to supporting them, has created an exaggerated impression of their importance, both within social investment and more widely. In 2019, SIBs and related investments amounted to just £68 million (1.3%) of the £5.1 billion outstanding investment in the market. SIBs are certainly innovative, but they did not provide a wealth of new financing opportunities for SSOs. In fact, from

32/ Helen Heap and Robbie Davison, 'Financing Social Enterprise: The Role of Builder Capital in Funding Innovation to Address Social Need', 2013.

33/ Flip Finance, 'Social Shares: Risk Finance for Social Enterprises and Charities', 2017.

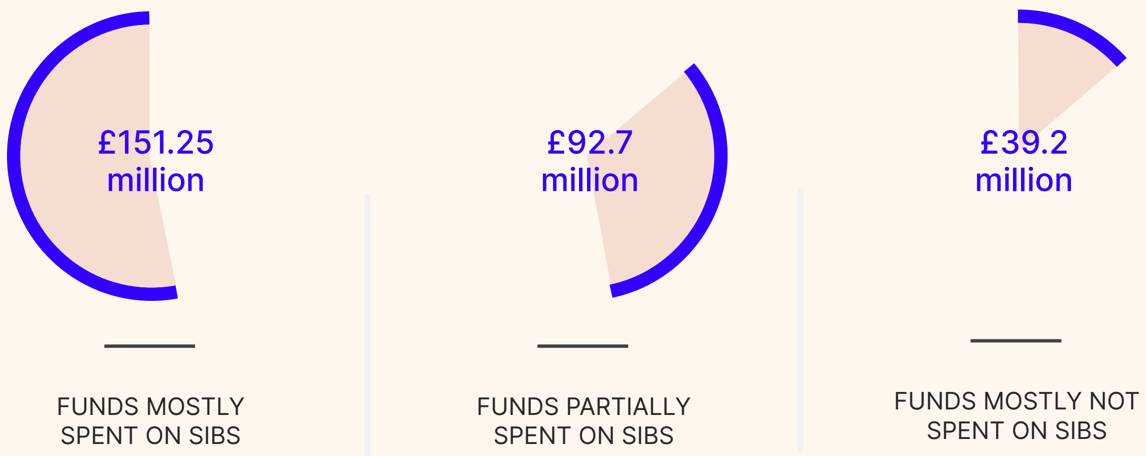
34/ Shift Design, 'Beyond Demand', 2020.

35/ https://bigsocietycapital.com/impact-report-2020/ecosystem/financial-product-types/charity-bonds/

36/ Flip Finance, 'Grant Designs: Mapping the use of subsidy in the UK social investment market', 2017.

a SSO perspective, they are not even finance as such, but revenue to deliver services. Furthermore, they proved immensely complicated to set up, and have tended to involve charities large enough to absorb some of the costs of getting a SIB off the ground.

FIGURE 3: SOCIAL INVESTMENT MARKET SUBSIDY (2000-17)



Source: Flip Finance https://access-socialinvestment.org.uk//wp-content/uploads/2017/09/SubsidyReport.pdf

You've got a blend

Investments that blended grants and loans had been key to the early development of UK social investment, with both major government funds such as Futurebuilders and early intermediaries including Key Fund using the model.

What is blended finance?

'Blended finance' is a term that can be used to refer to any situation where different investors or funders are putting in money on different terms. However, within social investment, it is most commonly used to refer to investment that is a mixture of (non-repayable) grant and (repayable) loan finance.

With the launch of the post-2010 vision for social investment, blended capital was de-prioritised as an option for SSOs, with Big Society Capital CEO, Nick O'Donohoe stating "we're not interested in grants or soft loans".

However, by 2015 and the creation of Access, blended finance was firmly back on the agenda. The Access Growth Fund – made up of £22.5 million investment from BSC and £22.5 million grant from National Lottery Community Fund – provides intermediary social investors with a mix of grant and loan funding to invest into small charities and social enterprises. This capital has been used to make 521 investments of unsecured loans (average size £62,000) into mostly small social enterprises (50% with five employees or fewer).

Blended capital has become a significant proportion of the market, with 16% of all deals in the social investment market in 2019 being made via the Growth Fund.[37] There are also other sources of blended finance, such as the community business funder, Power to Change, who provide a grant element alongside loans from social investors for specific community purposes, and Postcode Innovation Trust, who provide investees with a 50% grant/ 50% loan mix.

37/ This figure is based on 2019 data available on BSC's market sizing dashboard (where Growth Fund investments are part of the figure for 'non-bank lending) and Access' dashboard.

Blended finance clearly has a major role in enabling otherwise unviable investments into smaller organisations with minimal assets. However, the fact that it requires subsidy, either from public agencies or philanthropic sources, raises the question of the extent to which it is sustainable, and how it might fit with some conceptions of social investment.

Share the love around

Community shares are another form of capital, or product, that grew in popularity from 2010, and fit some definitions of social investment. This form of capital was not, however, an explicit focus of the vision for social investment.

What are community shares?

Used mostly in local, co-operative-type community businesses, community shares use withdrawal share capital, where an organisation's members invest and potentially receive dividends on their investment, as well as the right to a vote on how the organisation is run, on a one-member-one-vote basis.

Rather than being sold, share capital can be withdrawn after an agreed period. Community shares can be both a source of patient capital for social enterprises – structured as co-operative societies or community benefit societies – and a way of democratising social investment.

Investment is often raised from large numbers of individual investors each putting in a relatively small amount of money to support (and co-own) a local business, often in their area.

Building on the Community Shares programme, which ran from 2009 to 2011, the Community Shares Unit (CSU) was launched in 2012.

Community Shares can be a particularly patient form of investment. This is partly due to the involvement of large numbers of investors investing relatively small amounts of money in withdrawable share capital, with a total of £155 million invested by 104,203 people since 2012.[38] Another factor is the motivation of investors with 80% saying that they invest based on the 'wider social and environmental benefits of the organisation', compared to just 20% investing based on the prospect of financial returns. 92% of the 440+ businesses that have raised investment through community shares are still trading.

The number of share offers made by co-operative societies and community benefit societies to their members peaked in 2015, with 102 offers raising nearly £47 million.

The number of community shares – in terms of both offers and amounts raised – has dropped since 2016, due primarily to cuts in subsidies for community energy, which had previously been the biggest single sub-sector within the market.

INGREDIENT 3: EMBEDDING IMPACT MEASUREMENT AS STANDARD PRACTICE ACROSS THE MARKET

According to the vision for social investment, the third ingredient for a successful market was widespread adoption of social impact measurement.

Yet another domain of significant activity was the attempt to improve impact measurement (IM) among both investee organisations and investors. In theory, IM would make it possible for all parties to understand and improve their impact, and help oil the market. For investors, it gave some substance to the idea that their investments generated 'social return'.

Where to begin?

In 2010, many government contracts required a formal impact evaluation by third party consultants – generally a lengthy and expensive process. The idea of impact measurement sought to shift the focus and create processes that organisations could integrate into their own operations, without needing third party expertise.

Two flagship initiatives accelerated this agenda in the social investment context. The *Inspiring Impact* initiative was created in 2011 with an initial 3 years' funding of £100,000 per year, with the aim of improving impact practice across the social sector (regardless of whether investment was being sought). Inspiring Impact suggested all SSOs should adopt the 'plan – do – assess – review' cycle, borrowed from project management conventions in the private and public sectors, and "tailored to the issue of social impact".[39]

This basic idea was picked up and re-worked repeatedly over the coming years, as impact measurement guides were produced by the Social Impact Investment Taskforce,[40] the OECD[41], and the European Commission[42], among many others. The challenges of causal attribution were put to one side in favour of approaches that were 'proportional' to the size of the organisation; it was argued that starting on the 'impact journey' was more important than academic rigour.

38/ https://www.uk.coop/blog/understanding-maturing-community-shares-market-new-report

39/ Tris Lumley, Benedict Rickey, and Matthew Pike, 'Inspiring Impact: Working Together for a Bigger Impact in the UK Social Sector', 2011.

40/ Working Group on Impact Measurement, 'Measuring Impact', 2014.

41/ OECD, 'Policy Brief on Social Impact Measurement for Social Enterprises', 2015.

42/ GECES Sub-group on Impact Measurement, 'Proposed Approaches to Social Impact Measurement in European Commission Legislation and in Practice Relating to: EuSEFs and the EaSI', 2014.

Also in 2011, BSC commissioned Investing for Good to produce a substantial guide, *The Good Analyst*, elaborating a new methodology for impact measurement.[43] This was followed in 2013 by another substantial document, *The Good Investor*, which spelled out in more detail how investors might implement impact measurement.[44] This work evolved into Big Society Capital's *Outcomes Matrix*, a tool that was intended to make impact measurement easier by mapping out the range of possible outcomes an organisation might be trying to achieve, broken down by stakeholder types and so on. Despite concerted efforts by BSC to ensure the Outcomes Matrix was the go-to solution for impact measurement across the social investment market, it is not widely perceived to have proven as useful as its creators had hoped.

Raising standards

In 2012, 'innovation foundation' and impact investor Nesta published its influential 'standards of evidence' for impact investing,[45] which tried to reconcile the demands of rigorous measurement with the flexibility required in venture capital investing. It mapped out the journey that start-ups and SSOs could aspire to follow, from a simple articulation of intended change (level 1) through to robustly evidenced models of intervention (level 5). The effect was to insert into the debate around IM in social investment the idea that there was a place for academic rigour, even if it was out of reach for most organisations most of the time.

Additional energy was injected into the IM agenda through several rounds of grant funding from central Government, such as the Impact Readiness Fund (IRF), which had to be spent on IM 'capacity building' provided by approved impact measurement consultants.[46]

Measuring social value

In parallel, the specific 'social return on investment' (SROI) approach was also being developed. Originating in the US in the early 2000s[47], SROI sought to adapt economic cost-benefit analysis to wider consideration of *social* value. Initially developed by the New Economics Foundation,[48] the 'SROI Network' was then created (now called Social Value UK), a members' organisation that runs training for practitioners and produces detailed guidance.[49] In 2009 a Cabinet Office-backed report was published, explaining how SROI could be used in the context of social investment.[50]

Over time, Social Value UK has shifted emphasis away from the SROI methodology towards the seven principles of social value.

Slow progress

In 2014 Investing for Good was commissioned again by BSC, this time to conduct research into what IM looked like among UK intermediaries.[51] It identified enormous variation, and concluded there was significant work left to do, recommending that a peer review group would be a good mechanism to ensure intermediaries held each other to account on improving measurement standards. The group encountered issues around the enormous diversity of measurement challenges they faced. For instance, some made equity investments to a small portfolio of companies, while others made hundreds of small loans a year.

In all cases, it was difficult to make progress on building systems that yielded insight into impact across the industry. CEO of BSC, Nick O'Donohoe said in an interview

43/ Adrian Hornsby, 'The Good Analyst', 2012.

44/ Adrian Hornsby and Gabi Blumberg, 'The Good Investor: A Book of Best Impact Practice', 2013.

45/ Nesta, Ruth Puttick, and Joe Ludlow, 'Standards of Evidence for Impact Investing', 2012.

46/ Adrian Hornsby, '"That's My Hat!": A Review of the Impact Readiness Fund (IRF)', 2017.

47/ Jed Emerson, 'The Blended Value Proposition: Integrating Social and Financial Returns', California Management Review, 2003.

48/ Jeremy Nicholls, 'Social Return on Investment: Valuing What Matters', 2004.

49/ Jeremy Nicholls et al., 'A Guide to Social Return on Investment', 2012.

50/ The SROI Network and Cabinet Office, 'Social Return on Investment – for Social Investing', 2009.

51/ Investing for Good, Sarah Moreau, and Adrian Hornsby, 'Oranges & Lemons', 2015.

in 2016 that he was disappointed in "the lack of progress that has been made" in impact measurement.[52] More recently, international efforts (through the Impact Management Project) to connect impact measurement with existing initiatives to standardise non-financial reporting have yielded a sense of progress that was lacking for most of the 2010s.

Yet after nearly a decade of insistence from the 'visionaries' of the social investment market that IM is crucial, most investors in the social investment market have stepped away from the effort to measure the impact of their investments, or to insist on their investees reporting impact in any detail. Instead, investors mostly use a 'screening' process to decide whether a potential investee is sufficiently impact-focused to qualify for investment. The presence of a measurement system might be one of the criteria for such a screen – or the promise that a measurement system would be developed in the near future – but a few simple 'impact metrics' are all that is required by most social investors.[53]

INGREDIENT 4: TRANSFORMING THE SOCIAL SECTOR'S ABILITY TO TAKE ON INVESTMENT CAPITAL

The fourth ingredient of a successful market, and perhaps the most important and most ambitious, was the transformation of the ability of SSOs to take on investment.

While the 2000-10 Government funds had managed to invest hundreds of millions of pounds into charities and social enterprises, they had done so by offering low interest rates and (often) accompanying grant funding. The post-2010 Government envisaged increased numbers of organisations taking on investments that were commercially viable – without subsidy. This meant organisations had to become 'investment ready'.

What is 'investment readiness'?

Investment readiness is an elusive concept. It only really exists in the eye of the investor and private investors may often decide businesses are ready for investment based on non-commercial motivations such as politics, family loyalty or even personal vanity.

However, for SSOs, the idea was that demonstrating their 'investment readiness' would prove that they were *real businesses*, with systems and business models in place to fulfil their necessary role within the social investment market.[54]

52/ Jess Daggers and Alex Nicholls, 'Big Society Capital: The World's First Social Investment Wholesale Bank', 2016.

53/ We are not aware of recent published research on the prevalence of impact measurement among social investors, but have confidence this characterisation of the situation would be recognised by others in the field.

54/ ClearlySo and New Philanthropy Capital, 'Investment Readiness in the UK', 2012.

Are you ready?

Having launched BSC to put more investment into the market, the Government and its partners then announced several funds aimed at the social sector – so that charities and social enterprises would be able to take on and repay money.

The Cabinet Office-funded £13 million Investment and Contract Readiness Fund (ICRF) (2012-2015) was followed by the Big Lottery Fund-backed £20 million Big Potential scheme (2014-2017), with strands for both large and smaller organisations.

The impact of these programmes is difficult to assess. An evaluation of ICRF reported that the scheme had 'unlocked' £233 million worth of contracts and investment[55] but also reported that only "Around one in three ventures interviewed reported they would not have secured the deals without the support they received".

ICRF was a scheme aimed at organisations aiming to take on contracts or investment of £500,000 or more – an amount significantly higher than the annual income of the vast majority of SSOs. While the successor scheme, Big Potential, extended the scope of investment readiness support to cover smaller organisations, both programmes provoked some controversy for requiring the majority of grant funding to be allocated to consultants – chosen from an approved list – rather than SSOs themselves.[56]

Blurring boundaries

Faced with a limited number of investment-ready SSOs, as well as encouraging SSOs to become more 'investible', those tasked with building the market also started to explore a new avenue to widen the pool: re-examining what it means for an organisation to count as part of the social sector.

The line between the social sector and private business was already somewhat blurred by the diverse understanding and models of social enterprise. But most stakeholders, and indeed the Dormant Accounts legislation, assumed that SSOs would reinvest the majority of (or all) profits into the enterprise, or allocate them to some form of public benefit.[57]

The quest for investment propositions or deal flow to support the vision of social investment put the issue of profit distribution centre stage. New terminology emerged, such as 'profit-with-purpose (PWP)' businesses – companies that pursue social purpose while being set up as private businesses, with no restrictions on profit distribution.[58] Discussion at conferences turned, for example, to 'trust engines' – the mechanisms that would lock in social purpose if restrictions on profit were to be lifted.

Opinion was divided over whether the public and quasi-public funds capitalising the market could legitimately be used to invest in private, profit-distributing companies. This reflects two of the characteristics of the definition of social investment explored above – the motivation of the investee vs. the motivation of the investor. While many considered social investment to be specifically only for those charities and social enterprises with limits to profit distribution, others – perhaps predictably largely those tasked with distributing investment capital – argued that the question of profit distribution was largely irrelevant, as long as the investment was impactful (however that was measured).

These arguments were a cause for concern for social sector leaders. If it was

55/ Ecorys et al., 'In Pursuit of Readiness: Evaluation of the Investment and Contract Readiness Fund', 2015.

56/ Richard Hazenberg, 'BIG Potential Breakthrough Evaluation Report : Year 1', 2015.

57/ HM Government, 'Dormant Bank and Building Society Accounts Act', 2008.

58/ Mission Alignment Working Group, 'Profit-With-Purpose Businesses: Subject Paper of the Mission Alignment Working Group', 2014.

successfully argued that social investment could be directed towards profit-distributing companies, the pressure to find common ground between investors and the social sector would be reduced, and SSOs could lose access to hundreds of millions of pounds that they felt was designated for them.

Ultimately, the borders of the social sector are blurry, and the general conception of how commercial an SSO can be has shifted over time. The creation of Access served to alleviate many of the concerns about whether social investment was sufficiently occupied with the concerns of SSOs.

Ready for resilience

Just as blended finance had come back onto the agenda, so the idea of 'investment readiness' fell out of fashion. Much of Access' work took a much broader view of enterprise development than investment readiness, such as the Enterprise Development Programme (EDP) which provides grant funding for charities and social enterprises seeking to develop their trading activities.

Access CEO, Seb Elsworth wrote in September 2017 of "the reframing of support away from 'investment-readiness' towards enterprise support for the social sector" and, along with other leaders including Social Investment Business CEO, Nick Temple, he has instead put focus on helping charities and other SSOs to become more 'resilient'.

03. WHAT DO WE KNOW? THE AVAILABLE DATA ON SOCIAL INVESTMENT

Section 2 demonstrates just how much activity and resource followed from the vision of social investment.

In an ideal world, this activity would have generated rich data sets, allowing thorough analysis of the market. In reality, there is a patchy and varied array of initiatives seeking to collate information. This section highlights the best available sources of data about the market, and then suggests where the biggest gaps in the data lie.

FIGURE 4: BIG SOCIETY CAPITAL – 2019 MARKET SIZING DATA

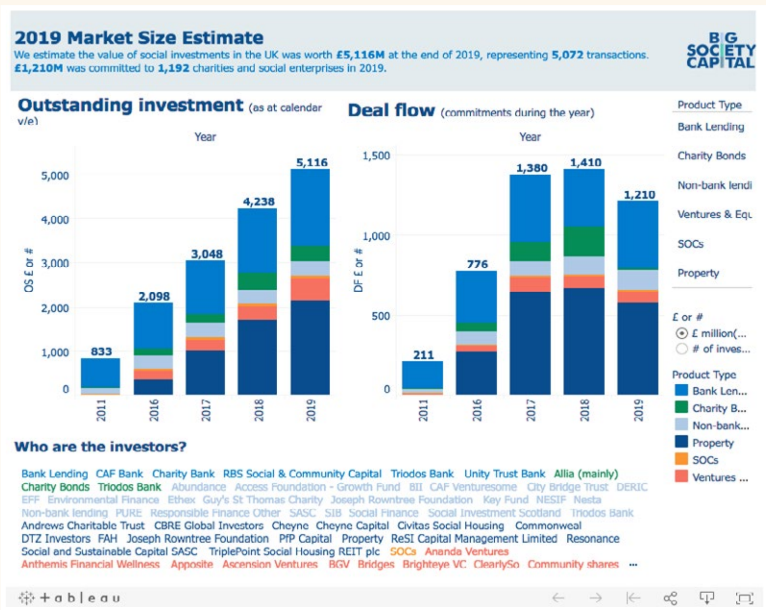


Image: BSC market sizing dashboard and/or deal level data dashboard https://public.tableau.com/app/profile/big.society.capital/viz/2019MarketSizing/2019MarketSizing

CONSULTING THE DASHBOARD(S)

BSC's 'Market Sizing' and 'Deal Level Data' dashboards are the single biggest current source of data on the UK social investment market (see Figure 4 on page 26).

These datasets, which are updated on an annual basis, respectively provide an overview of the market – both dealflow and outstanding investment – for the previous calendar year, and breakdown of (anonymised) individual deals classified by: outcomes, beneficiary group, legal form, asset lock, instrument and investment type.

The data is drawn from a combination of sources: information that BSC receives from its investees in its role as wholesale investor; information that social investors who are not BSC investees choose to submit to BSC; and publicly available information sourced by BSC's data team.

Alongside BSC's dashboard for the entire market, Access also has one specifically for its Growth Fund. This is a static, quarterly update providing details on the investments made by 14 social investors supported by the Fund, including an interactive map showing the location of the investments.

How big is the social investment market?

There is no definitive answer to this question. The most commonly used figure is the **aggregate amount of capital** that has been invested across all known social investment deals. BSC puts this figure at £5.1 billion in 2019, up from £833 million in 2011.

This number has gone up year-on-year, demonstrating how activity has grown as social investors have entered the market, as defined by BSC.

The **change in deal flow is more useful to track the rate at which the market is growing or otherwise**, as it captures how much new capital is invested each year. Between 2011 and 2017 deal flow increased significantly, from £211 million in 2011 to £1.38 billion in 2017. Since then, however, deal flow has seemingly peaked, coming down to £1.2 billion in 2019.

We can also look at the **number of investments made each year.** The number of investments made actually *decreased* in the period to 2017. The launch of the Access Growth Fund helped to reverse this trend, seeing the volume of money being invested decreasing in 2019, alongside an increase in the number of (relatively small) investments being made.

A third data point is the **number of institutions** operating in the market. Both BSC and Access as wholesalers were tasked with increasing the number of institutional investors. BSC has largely focused on supporting the growth of commercially viable investment organisations while Access subsidises the operation of smaller, more specialised investors. There are mixed views about the sustainability of many organisations now operating within the market but it is indisputable that there are now plenty of them, with 56 currently listed on the Good Finance website, compared to around 27 active intermediaries in 2013/4.[59]

How reliable are these numbers?

However, there is no reason to doubt the figures per se, the available information can be interpreted in various ways, and indeed which information has been collected is important. Overall, it is difficult to estimate to what extent the growth in the market represents an increase in investment activity or simply an increase in the labelling of investment activity as 'social investment'. For instance, 'social property' which did not exist as a category in 2011, accounted for £2.1 billion, over 40% of the total value of the social investment market, by 2019.

Charities and social enterprise were able to (and did) take on significant amounts of property-related investment before the idea of social investment and the social investment market existed. While BSC and others might argue that investments such as Real Lettings Property Fund, developed by social investor Resonance, working with homelessness charity St Mungo's, are distinctly different from other investments in charitable property with a purely commercial focus.

59/ Mission Alignment Working Group, 'Profit-With-Purpose Businesses: Subject Paper of the Mission Alignment Working Group', 2014.

In a category of their own

The Government Outcomes Lab (GO Lab) is a partnership between the UK Government and the Blavatnik School of Government at Oxford University, and the UK's leading source of data on Social Impact Bonds (SIBs).

The GO Lab supports the International Network for Data on Impact and Government Outcomes (INDIGO), which has a global dataset featuring (at time of writing) 202 impact bonds, a mixture of SIBs and Development Impact Bonds, including over 100 in the UK.

The dataset features information on individual bonds covering: dates, delivery location, capital raised, target population, intervention description, outcomes and organisations involved.

Meanwhile, the Washington DC-based think tank, the Brookings Institution, also maintains a global database of impact bonds – launched in 2014 – and now publishes a monthly 'snapshot' of the headline figures for the global market.

Surveying the scene

A number of organisations run annual or bi-annual surveys that provide further intelligence on the market from various perspectives:

- Social Enterprise UK's State of Social Enterprise survey, published every two years since 2007, surveys a sample of the UK's social enterprises, and has asked questions about social investment since 2011. The most recent report (2019) provides data on the type of finance organisations have sought to take on, the amount sought and the purpose of seeking it, with some comparative figures going back to 2011. However, some of the survey's questions on financing do not distinguish between grant and repayable finance, or between 'social investment' and investment from mainstream sources.

- The Power to Change *Community Business Survey*, published annually from 2015, has considered questions related to repayable finance: for example, the extent to which survey respondents consider 'Access to loan/equity financing' to be a 'key success factor'. The Covid-19 focused Survey for 2020 reported 6% of respondents receiving loans as a 'type of support received by community businesses in response to Covid-19'.
- The Global Impact Investing Network (GIIN) has a much broader focus than just social investment in the UK, but it provides relevant information on the impact investing market. The 2020 survey features data from 294 impact investors from across the world answering questions both on the amounts and locations of capital invested, and also on their perceptions of the development of the market.

CDFI CARE

A final source of data, and also the longest-running source of information on social investment, is 'The Industry'. The report has been published annually since 2003 by Responsible Finance (previously known as the CDFA), the umbrella body for Community Development Finance Institutions (CDFIs). Responsible Finance members made £92.8 million of loans to 390 social enterprises in 2019, compared to £138.2 million to 475 social enterprises in 2018.

However, this data refers to activity that only partially overlaps with the social investment market. While CDFIs/responsible finance providers are themselves social enterprises re-investing any profits made from lending back into the continuation of their work, they make loans to a mixture of social enterprises, small businesses and individuals. This means that while lending by responsible finance providers to social enterprises is an important segment of the social investment market, not all lending by these providers may be regarded as 'social investment', as defined in recent times. Equally, many social investors are not members of Responsible Finance, the majority of social investment deals are not covered by this report.

ONE-OFF ANALYSES

A range of studies, reports and evaluations published over the years provide considerable insight into aspects of the social investment market. Some of the most notable examples include:

- **Formal evaluations** such as Third Sector Research Centre's 2012 evaluation[60] of the Department of Health Social Enterprise Investment Fund, the three evaluations of Futurebuilders (by academics from Sheffield University in 2010,[61] Boston Consulting Group in 2015[62] and Social Investment Business in 2020) and the evaluation of the Impact Readiness Fund.[63]
- **One-off surveys**, such as the one conducted for ClearlySo/New Philanthropy Capital's 2012 report, *Investment Readiness in the UK*.[64] 1,255 organisations

60/ Pete Alcock, Ross Millar, and Kelly Hall, 'Start up and Growth: National Evaluation of the Social Enterprise Investment Fund (SEIF)', 2012.

61/ Centre for Regional Economic and Social Research, 'Futurebuilders Evaluation: Final Report', 2010.

62/ Boston Consulting Group, 'A Tale of Two Funds: The Management and Performance of Futurebuilders England', 2015.

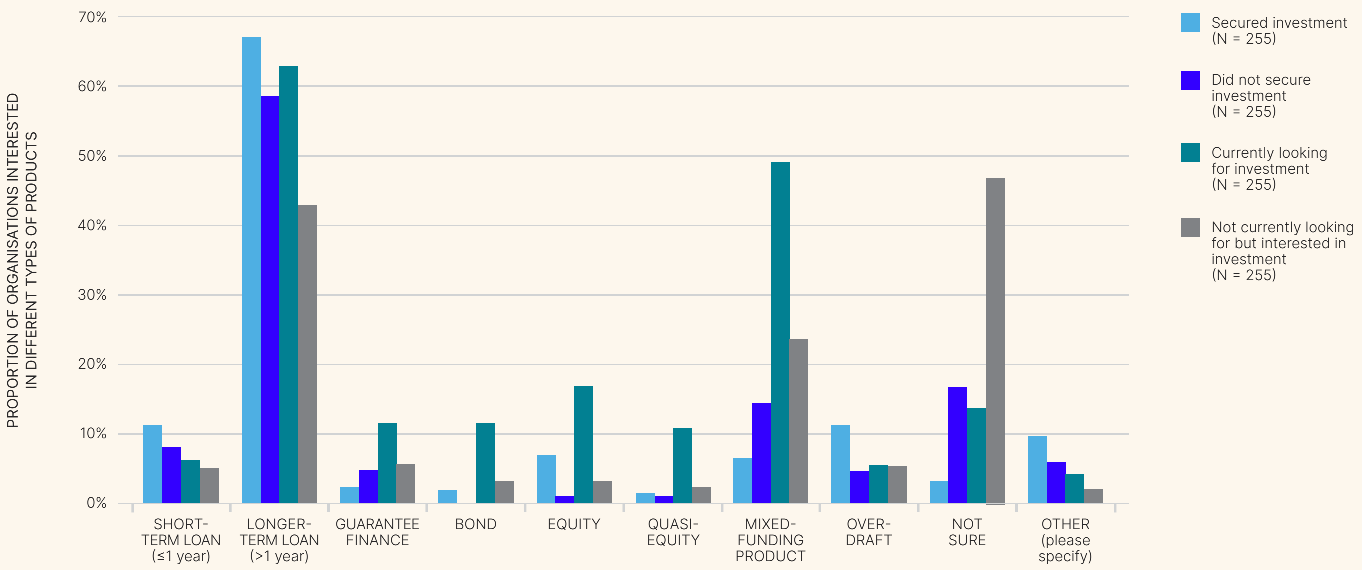
63/ Adrian Hornsby, '"That's My Hat!": A Review of the Impact Readiness Fund (IRF)', 2017.

64/ ClearlySo and New Philanthropy Capital, 'Investment Readiness in the UK', 2012.

completed the survey, which asked questions about whether investment had been sought or secured in the past, the types of investment products sought and barriers to taking on investment. No other focused investigation of charity and social enterprise demand for social investment has been carried out on a similar scale, either before or since.

65/ The Young Foundation and Boston Consulting Group, 'Lighting the Touchpaper: Growing the Market for Social Investment in England', 2011.

FIGURE 5: DEMAND FOR BLENDED FINANCE ('MIXED FUNDING PRODUCT') AMONGST ORGANISATIONS WHO ARE 'CURRENTLY LOOKING FOR INVESTMENT' (2012)



Source: ClearlySo and New Philanthropy Capital, 'Investment Readiness in the UK', 2012. p31
https://www.thinknpc.org/resource-hub/investment-readiness-in-the-uk/

- **Scoping studies** published in the early days of the new vision for social investment, such as *Lighting the Touchpaper*,[65] which provided the first detailed estimate of the total size of 'the social investment market' at £165 million, and *Growing the Social Investment Market: The Landscape and Economic Impact*,[66] which provided a more detailed overview of 'the market' for the following financial year. The two reports between them essentially provide a benchmark for BSC's subsequent performance as wholesale finance provider and 'champion for the social investment market'.[67]
- The one-off collection of **deal-level data** by EngagedX in 2015 produced 'the first aggregate benchmark data for the historic performance of deals' in the UK social investment market. The anonymised data on 400 closed deals was made available on a UK Government website, along with a report.[68] The authors note: "This was a seminal project in that it required the SIFIs[69] to report financial performance on their investments to a much greater level of detail and rigour than they have before, which was never required by the wholesale capital providers involved at the early stages of

66/ ICF GHK, 'Growing the Social Investment Market: The Landscape and Economic Impact', 2013.

67/ Big Society Capital, 'Social Investment Insights: The Size and Composition of Social Investment in the UK', 2016.

68/ EngagedX, 'The Social Investment Market Through a Data Lens', 2015.

69/ 'SIFI' is a term for institutional social investors which is no longer widely used.

the market." The authors' hope that the dataset would be expanded over time has not been realised.

- Flip Finance's 2016 report *Forest for the Trees*,[70] commissioned by RBS, used that bank's data to produce a one-off snapshot of the potential level of mainstream bank lending to charities and social enterprises. However, the likely accuracy of the estimate was severely limited due to the fact that data was only available from one bank.

THE LIMITS TO WHAT WE KNOW

Despite these efforts, there are significant barriers gaining an understanding of the social investment market.

Pick a version

The most obvious barrier is the different views of what 'social investment' means. As we have seen, social investment is sometimes seen as investment for social enterprises – which then opens up the question of how to define a social enterprise. Other perspectives focus on the motivation of the investor. Others on both.[71]

In effect, this means there are multiple versions of the social investment market. There can be no definitive and comprehensive picture of 'the UK social investment market'. Big Society Capital is very influential and has market-sizing data[72] which provides an overview of the market as they define it, but their approach is based on a range of potentially contentious decisions. These include, for example: should high street bank loans to charities be included? BSC says 'no'. How about angel investments into 'profit-with-purpose' businesses? BSC says 'yes' – as long they're the ones it happens to know about. It is also difficult to compare social investment with access to finance for (non-social) small and medium enterprises (SMEs). Such analysis is possible, but it requires meticulous use of data sets and caution in drawing conclusions.[73]

Gaps in the data

Even adopting one definition, the data only tells us so much. Based on BSC and Access data, we have fairly good knowledge of the number of deals that take place every year, and the size and type of those investments. But there is no ongoing source of information on the amount of repayable finance that organisations receive from mainstream banks. Some of the potentially most useful types of information, such as the terms on which investments are made, are also some of the most commercially sensitive. Such information could in theory be published in anonymised and aggregated form, but such practices seem currently a very distant possibility.

Creating standards

A challenge for improving the quality of any data is standardisation, and this is certainly a challenge for the social investment market. Each lender has its own conventions for managing its investments, making it difficult to build a detailed picture – especially when records in some cases are not even fully digitised.

The Social Economy Data Lab (SEDL) aims to tackle this directly. Run out of Social Investment Business, SEDL works "to support the social economy to access and make better use of data to inform decisions". The initiative has created a 'data specification'

70/ David Floyd and Dan Gregory, 'The Forest for the Trees: UK Banks' Investment in a Social Purpose', 2016.

71/ Fergus Lyon, Bianca Stumbitz, and Ian Vickers, 'Social Enterprises and Their Ecosystems in Europe : Country Report : United Kingdom', 2019.

72/ https://public.tableau.com/profile/big.society.capital#! /vizhome/2019MarketSizing/2019MarketSizing

73/ Fergus Lyon and Robyn Owen, 'Financing Social Enterprises and the Demand for Social Investment', Strategic Change 28, no. 1 (2019): 47–57.

for use by social investors to enable comparison of data across the social investment market. 18 social investors have so far signed up to provide data using this approach.

What about social impact?

Top of the list of what we don't know about social investment is the impact of all of this activity. Aside from the most recent Futurebuilders' evaluation,[74] we have little knowledge of the *financial* impact of social investment for the organisations receiving it: in terms of their financial sustainability, employment of staff or other business measures.

74/ https://www.sibgroup.org.uk/resources/futurebuilders-learnings

Beyond that, in terms of the wider 'social impact' that is the rhetorical raison d'être of social investment, there is no standardised impact measurement approach within the social investment market. While investors use a range of models to consider the potential social impact of investments before they invest, there is little post-deal social impact measurement at all – other than that which is carried out as part of the contractual functioning of SIBs.

This is not to argue that such measurement would be desirable or practically useful for the majority of social investors or investees. The point is simply to note that the rhetorical relationship between impact data and social investment is significantly detached from the relationship in practice.

In summary, any attempt at thorough or detailed analysis of social investment encounters the limitations of the available data. Efforts that have taken place to date underline just how much work is required to ensure good quality and relevant data is collected and made use of, and how much more work is required if insight into the success of social investment is going to improve.

What can other countries learn from the UK?

What gets called 'social investment' in the UK will be seen as a subset of 'impact investing', or perhaps 'social impact investing', in other settings. The difference is terminology is superficial, and we argue that the decades of experience in the UK should be informing international debates.

Some of the dynamics in the UK market are unlikely to be repeated in other settings, such as the restrictions on BSC's capital. But the way these dynamics have played out tells us something: it is not possible to straightforwardly combine commercial interests with the interests of organisations that work primarily to create social impact.

We know this because the social sector in the UK was *entitled* to BSC's capital, in a very real sense, and was vocal in asserting that right. The result was significant difficulty making investments in the short term, and the creation of an organisation that could subsidise the investment of its capital in the medium term.

Global impact investing markets contain no such mechanism to empower global social entrepreneurs to claim their right to investment capital. The vast majority of market activity is aimed at convincing investors that they should invest for impact – and that they can continue to achieve market-rate returns while doing so.

The contrast between these two conversations is striking. The danger of not giving investees a voice in the development of the market is being recognised, for example by the European Venture Capital Association's campaign to distinguish between investing 'with' and investing 'for' impact.[75] But many questions remain. Is enough being done to listen to the investee perspective? Are investees who could only ever access subsidised capital recognised as legitimate participants in the market? Are the limitations of investing for commercial returns being adequately recognised? And how are the benefits of impact investing distributed?

75/ EVPA, 'Impact Strategies: How Investors Drive Social Impact', 2018.

04. SOCIAL INVESTMENT IN 2021: WHAT NEXT?

Two decades after we started talking about social investment, and a decade after concerted market-building activities commenced, there are multiple directions that the social investment agenda could take. Various parties, including the *Adebowale Commission on Social Investment*, are examining this question.

We believe five issues are particularly important:

1. The terms on which social investment is made available.
2. Staying niche or going mainstream?
3. The role of government.
4. What to expect from Big Society Capital
5. Who benefits from social investment?

For each of these issues, there are multiple responses, and different actors in the market will have different opinions over the best way forward. We lay out the issues here, and leave it to the reader to make up their own mind.

1/ THE TERMS ON WHICH SOCIAL INVESTMENT IS MADE AVAILABLE

Should social investment be on cheaper and riskier terms than other finance? Why? Are social impact metrics part of the equation? Is there a place for often proposed but rarely implemented quasi-equity products?

There are many, conflicting opinions about the price of capital in the social investment market. Where BSC's capital is involved, prices tend to be higher, as it passes down its own relatively high return requirements to intermediary social investors, who then pass it on. Many complain that the cost of this capital is simply too high. The same complaint is made across the wider market, with social investors charging interest rates that some organisations perceive to be expensive, despite not taking BSC's money. These opinions seem to be strengthened by the unfavourable comparison with high street banks, who will often lend to SSOs on more favourable terms than social investors.

The 'cost of capital' issue is partly practical: SSOs say they cannot afford to take it on. It is also a matter of principle, with many in the sector thinking it is inappropriate to repay large amounts to investors when that money could be used to further the social mission, *especially* when those investors call themselves 'social' investors.

Many social investors would respond: if you can get money from mainstream banks, you should do – social investment is there for riskier investment that banks won't make and the interest rates take account of that. Others would argue that, even if they will give you a loan, mainstream banks take a far less patient approach when things get tough – so you pay extra to work with a patient lender who won't seize your property at the first sign of trouble. The debate may be more productive if better data were available – though data, of course, only has some bearing on matters of principle.

There is also the question of whether new forms of capital could change things for the better. The social investment visionaries looked to the transformative effect of venture capital on the world economy and asked: *what if* the tools of finance can unlock new ways of doing things in the social sector?

The narrative of VC-style risk taking and innovation still informs thinking in the social investment market. While most of the social investment market consists of straightforward, often asset-backed, loan products – or unsecured loans with heavy subsidy – the idea of new models, that have not been tried and that can open up new possibilities, continues to capture the imagination of actors in the market.

The prospect of transformative *quasi-equity* models is the best known example but there are other approaches being suggested. In theory, new models of investment which share risk and return with investees, that don't insist on the security of underlying assets, and which are fundamentally different to what is on offer from traditional finance, could go much further in meeting the needs of SSOs. In practice, this almost never happens.

Access's £21 million Flexible Finance for The Recovery fund – funded via new dormant accounts money in response to Covid-19 – provides an opportunity for this challenge to be tackled at a relatively significant scale compared to previous attempts. Has the time for new forms of patient, risk-bearing capital in the social investment market finally arrived?

And where does impact measurement fit in? There is an enormous disconnect between what impact metrics were supposed to provide to oil the market, and how they are used in practice, if they are used at all. The role of impact metrics in most social investors' decision-making is, at best, unclear. How should this inform the future of social investment? Should we carry on insisting that impact measurement is fundamentally important? Or should we modify our aspirations in light of experience?

Overall, these issues all fall under a broader question: who should set the terms of the investment? The idea of a marketplace for financial products obscures the power relations at play: investors have the resources, and SSOs seek them. The vision of the social investment market, as it was set out in 2010, largely supported the investor side of the market in determining what appropriate investment looked like. Looking forward to the 2020s, a different balance could allow more room for the demand side of the market to determine the shape, forms and terms of finance. Perhaps it is time for investors to step much further out of their comfort zone.

2/ NICHE OR MAINSTREAM?

Should the social investment market grow? Or should the space which conventional finance does not serve shrink? Social sector organisations can often access finance from both social investors and the mainstream, so why focus on growing the specialist market?

There remains a confusing ambiguity over what the social investment market is intended to achieve.

One version social investment aims to grow a specialist market that meets the needs of organisations whose needs are not otherwise met. In this light, social investment can serve specifically 'social' organisations, who cannot be expected to operate on the same terms as other ('non-social') businesses. In this landscape, social investors are willing to take on the risk and/or lower return with organisations that are 'unbankable'.

Another version sees the goal as being to progressively blur the line between social investment and mainstream financial markets. Both sides are shifting: SSOs are getting better at operating on commercial terms, and investors are building their understanding of social impact. The market here is understood more in terms of the need for 'intermediation' between existing players – finding ways to connect up players who could and should be aligned.

There is still hope in some quarters that these two versions can be reconciled: that the market can both meet the needs of even the 'unbankable' SSOs, while leveraging in capital from mainstream providers. *Subsidy* is a key mechanism in achieving this goal – now that the social investment market has an increasingly substantial track record, perhaps the right use of subsidy can enable deals that meet the interests of all parties. This remains to be seen.

This leaves us with two questions: should an idea of a 'specialist' market be maintained and nurtured? And where should the subsidy that is needed come from?

3/ THE ROLE OF GOVERNMENT

What is government's future role in social investment? Previous governments have played significant roles in shaping activity and institutions, the narrative and vision. Should future governments take such an active role?

After years of intense interest and engagement from senior policymakers, the period since 2016 has seen very little involvement from central Government. Occasionally, there are hints of activity, such as the 2019 Conservative manifesto pledging to create a

£150 million 'Community Ownership Fund' (launched in July 2021), and Access receiving £30 million of Covid-19 related emergency support funding.

A recent announcement of the forthcoming release of further dormant assets money – a follow-on from the capital that funded BSC – raises the question of whether this will and should become available for social investment. For non-governmental actors seeking to influence social investment policy, there is a sense of possibility, begging the question of what they want policymakers to do. After Social Investment Tax Relief was recently extended for another two years to 2023, other options remain open. For example should (more) government money be used to subsidise the market? Should more funds be released for building skills and capacity? Should more be done to integrate the social investment market with green investment initiatives?

4/ WHAT TO EXPECT FROM BIG SOCIETY CAPITAL

BSC has several competing aims, while also being constrained by the Dormant Accounts Act, the Merlin banks' expectations, state aid rules, government directions, and its governance, leadership and culture. What can it realistically be expected to do differently?

BSC was set up to operate within a series of significant constraints. As well as the terms of the Dormant Accounts Act and the Merlin banks, BSC continues to operate under further constraints: its founding mission to accelerate "the growth of the social investment market"; the effects of State Aid rules, which limit the extent to which it is able to provide sub-commercial finance; and the legacy of its CEOs and the Board – who have set its operational direction and way of working to date.

There is a strong argument that BSC has been highly successful when judged on its own terms. The 'social investment market' as defined by BSC is now more than six times bigger than it was when the organisation launched; it has played a key role as investor in ground-breaking initiatives;[76] it can demonstrate its role in catalysing new kinds of investment in the social property space; and it now has sufficient track record to have raised £75 million for a Social Impact Trust with Schroders Bank.

However, a recent independent review[77] highlighted that BSC still needs to improve its relations with the social sector. From the perspective of many in the sector, BSC is an inherently problematic institution. Far from the original idea of creating a wholesaler which avoids 'distorting' the market, BSC has become a dominating presence, with an unparalleled vantage point, and more financial firepower, resources and influence than any other organisation in the market.

In late 2019, a group of social investment market leaders conducted some research, speaking to the majority of the main market intermediaries. They reported that all but one were frustrated with the current situation, placing the blame firmly on BSC's capital requirements. They propose a 'lean wholesaler' model that – in contrast to BSC – would operate a small team that concentrates on distributing capital without predetermined return requirements.

So what should happen next? In theory it would be possible to replace BSC, or drastically change its terms of operation, which could completely alter the dynamic of

76/ Such as Resonance's Real Lettings Fund with St Mungos https://resonance.ltd.uk/for-investors/investment-opportunities/property-funds-1/the-real-lettings-property-fund

77/ Big Society Capital, 'UK Social Investment – Opportunities, Challenges and the "Critical Questions"', 2016; Big Society Trust, 'Big Society Capital Quadrennial Review', 2020.

the social investment market. This would take a good deal of political will, particularly given the successes that BSC's leadership could claim.

Even if BSC continues to operate with an unchanged constitution, there remain questions about its future: should it continue to play to its strengths, leaving the Access Foundation to serve harder to reach SSOs? Should it redouble its efforts to build better working relationships with the social sector?

5/ WHO BENEFITS FROM SOCIAL INVESTMENT?

Does public and philanthropic money go more to the social sector, investors or intermediaries? Is social investment addressing or perpetuating the gender, geographic, ethnic and class inequalities present in society?

For most – though not all – actors in the market, social investment is about 'doing good and doing well'. It is expected that multiple parties will benefit from engaging in investment – the investors, the investees, and the clients or beneficiaries they hope to reach.

But is everyone winning? Who is accessing social investment? And how are benefits distributed across participants? Given the sense of mounting crises we face in 2021, not at all present in 2000 or 2010, these questions take on enormous significance.

Equality, diversity and inclusion were not explicitly a part of the social investment vision. 'Diversity' generally applied to the range of investment products on offer rather than the people working in and served by the market.

This situation is beginning to change. At the time it was published, a 2016 report on gender lens investing from the Young Foundation[78] was an isolated example of work that explicitly focused on diversity issues. The Social Investment Diversity Forum was then created in 2017 in response to the lack of diversity in social investment, and the Equality Impact Investing Project was created in 2018 with the intention to "better harness the growing social impact investing movement to tackle inequality and advancing human rights". The Connect Fund also provides funding for issues including a focus on improving diversity. Tech for Good investor, Bethnal Green Ventures, provide a clear example of a socially-focused investment organisation with a track record on diversity which is way ahead of their mainstream peers – achieved based on clear, intentional actions. These initiatives seek to explore both who is receiving investment, and who is making the investment decisions.

Initiatives such as these will be important in looking to the future of social investment. What are they uncovering? What can be done differently as a result?

Questions should also be asked about the distribution of benefits across market participants, especially if further subsidy flows. Clarity is needed on *who* is being subsidised, as subsidising the cost of capital for the SSO is quite different to subsidising the returns for the investor. Neither is inherently better or worse, but the question of which is being undertaken should be open, not opaque.

For both of these sets of issues, consistent and high quality data is needed about what is happening in the market. Existing efforts to collate such data highlight

78/ Ceri Goddard and Katherine Miles, 'The Sky's the Limit', 2016.

just how much resource has been needed to generate such data. This opens up questions regarding the sector's data strategy. Should more be done to build data infrastructure across the market? Should dedicated funding be sourced, potentially from Government, for completing this work? Should any organisation on the receiving end of public or quasi-public money be obliged to make certain data openly available as a condition of such funding?

However, data is not the answer to big challenges facing the social investment market, it is a route to better understanding the questions. Ultimately the allocation of investments funds and subsidies is a battle for resources and – while most support positive social change – there are different views about what that means and what the priorities are. We hope that this Snapshot has helped to illuminate some of the different perspectives on the development of the UK's social investment market – and will enable wider participation in the debates about what happens next.

APPENDIX

LIST OF INTERVIEWEES

1. Caroline Mason / Ben Smith (Esmée Fairbairn Foundation)
2. Holly Piper (Fair4All Finance)
3. Niamh Goggin (Independent / Good Economy)
4. Bonnie Chiu (TSI Consultancy/Diversity Forum)
5. Nick Temple / Genevieve Maitland Hudson (Social Investment Business)
6. Danyal Sattar (BIG Issue Invest)
7. Kieron Boyle (Guy's and St Thomas' Charity)
8. Seb Elsworth (Access)
9. Jeremy Rogers / Nick Benton (Big Society Capital)
10. Eleanor Carter (Government Outcomes Lab)
11. Alastair Davis (Social Investment Scotland)

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ABOUT THE AUTHORS

Dr Jess Daggers

Dr Jess Daggers is a writer, academic and consultant specialising in social investment and impact measurement. Her PhD thesis examined the development of the social investment market in the UK, and she is a Commissioner on the Adebowale Commission on Social Investment. As well as writing about the role of impact measurement in the growing impact investing movement, she works with a range of clients to build strategies and frameworks for impact measurement. Jess is an Associate Research Fellow at Birkbeck College, University of London, and a Fellow of the Centre for the Understanding of Sustainable Prosperity (CUSP).

David Floyd

David Floyd is Managing Director of Social Spider CIC, where he is publisher for a group of five social enterprise community newspapers. He was project manager for the Alternative Commission on Social Investment and has carried out research and consultancy on social enterprise and social investment for funders and partners including: National Lottery Community Fund, Social Investment Business, Power to

Change, GMCVO, RBS, Nesta and Centre for Public Impact. David is a fellow of the RSA, Finance Innovation Lab and The School for Social Entrepreneurs, a trustee of Magma Poetry and a non-executive director of Significant Seams CIC and Doing Social.

Dan Gregory

Dan has supported social enterprises for over ten years, developing policy at the highest level and delivering in practice at the grassroots. He has worked for the Treasury and Cabinet Office, where he led the development of government policy on social enterprise access to finance and the role of the voluntary and community sector in public service delivery. For SEUK, Dan has advised government departments globally on the development of social enterprise policies and has led research into social enterprise in around 20 countries. He also directed Social Economy Alliance and works independently under the banner of Common Capital, delivering work for NCVO, Co-operatives UK, Meanwhile Space and the Good Economy Partnership, the Lottery and Oxfam. Dan also practically has helped to attract millions of pounds of investment, funding and commercial contracts towards social enterprises on the ground.

ABOUT FLIP FINANCE

Flip Finance is a collective of independent researchers and practitioners focused on designing investee-focused approaches to investment and supporting organisations to develop innovative business models across the social economy. We hold a range of complementary skills and expertise that is distinctive in its breadth.

Flip Finance was founded off the back of the Alternative Commission on Social Investment, with the central mission of making social investment more accessible, attuned and responsive to the needs of social organisations. While our starting point was social investment as a tool, our wider focus is on the broader questions of how to finance, support and understand the impact of business activity with a positive social purpose.

To find out more about our work see: www.flipfinance.org.uk

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