



HM Government

# Growing the social investment market: 2013 progress update



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## Foreword from the Minister for Civil Society

The growing social investment movement is an important one. Pioneering investors and intermediaries are looking for a blend of financial return and social impact. Socially responsible capital is looking to prove the proposition that you can invest for good. The movement may be embryonic but it has the potential to be a very powerful force for positive change.

In the UK, we are beginning to see the benefits. Social investment is already creating new opportunities for individuals and communities – Big Society Capital's first year of operation and its first annual report pay testimony to that. However we have only just started on the mission to find better solutions to expensive social challenges. Gradually we are creating more opportunities for civil society to take over assets and deliver services in new and creative ways. Social investment is helping us create the space inside the public sector for the social innovation that we so clearly need. New tools like social impact bonds bring in risk capital on terms that allow public commissioners to try new solutions. New products are emerging, from charity bonds to regional social enterprise funds. New infrastructure is being developed, including a Social Stock Exchange. Interest from an increasingly diverse investor community is growing. We have the opportunity to transform the funding environment for ambitious charities and social enterprises who want to seize these opportunities and grow. Social investment gives them the chance to access long term, affordable finance and move away from hand to mouth funding.

This is an important opportunity and Britain is widely acknowledged to be the world leader in developing it. More and more countries are interested, which is why David Cameron has put it on the agenda of the G8 this year. A number of countries are using the UK's example to create new social investment infrastructure abroad, and we are building international trade links and sharing best practice. The UK has also created the Department for International Development Impact Programme, which uses a new social investment fund to better support access to affordable goods and services in Africa and Asia, and provides support to build the market infrastructure for impact investment in developing countries.

This short report is designed to update readers on what is happening in the UK to nurture this movement and mobilise this valuable capital. Government has a very important role but cannot act on its own. The progress we have made is the result of collective effort from a small but growing ecosystem of pioneers. Our flagship institution, Big Society Capital, has made a great start but we all know that we still walk in the foothills of an imposing mountain. The short term challenge is building a credible pipeline of things to invest in. Success will require culture change, including long overdue rigour in the way that social outcomes are commissioned and measured.

None of this will happen overnight. However, this report paints a clear picture of market momentum and unwavering commitment from the Government.

*Nick Hurd*

# GROWING THE SOCIAL INVESTMENT MARKET



## This year:

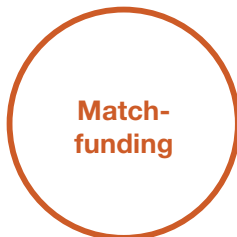
» We committed to a Tax Relief for Social Investment

» We established a £10m Social Incubator Fund

» We created the £20m Social Outcomes Fund

## This is supporting:

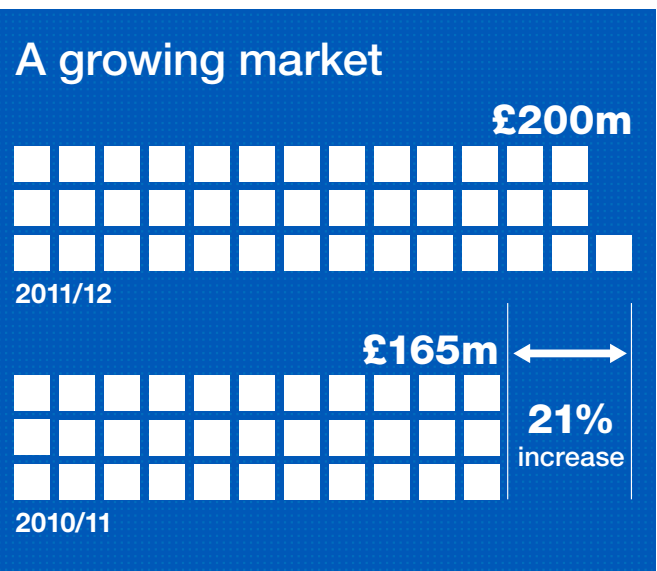
### NEW SOURCES OF FINANCE



### PUBLIC SERVICE REFORM



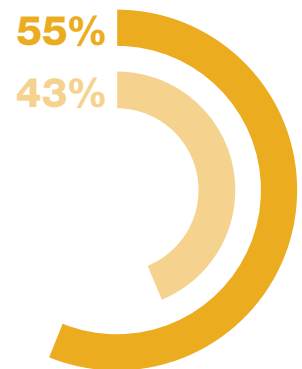
The UK has more Social Impact Bonds than the rest of the world put together



### INNOVATION

Social enterprises developed more new products and services than other SMEs

- Social Enterprises
- SMEs



### ECONOMIC GROWTH

Social enterprises contribute over **£55bn** each year to the economy, and employ...



## Over the next year we will:

» Diversify the investor base

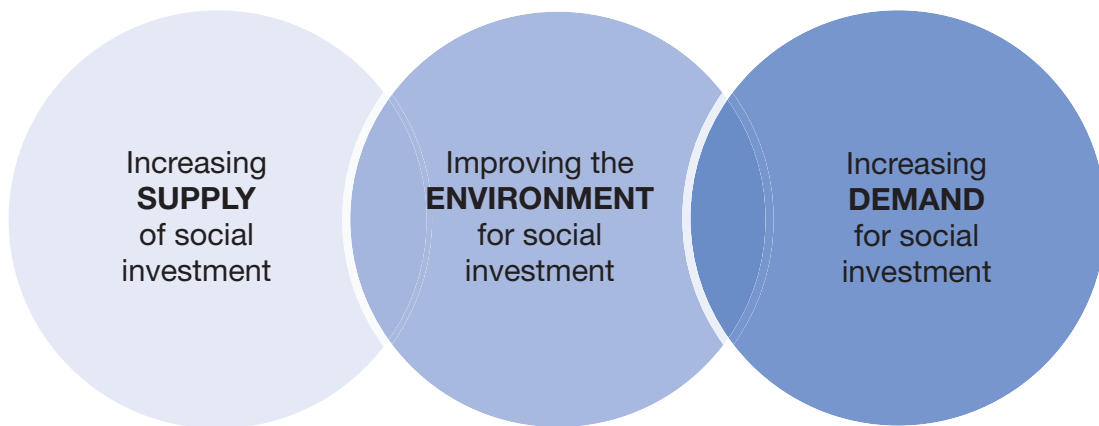
» Support investment-readiness

» Open up markets

» Maximise the impact on economic growth

» Drive the global agenda

# Chapter 1: Why Government is supporting the growth of the social investment market



- 1.1 Social enterprises are businesses focused on achieving social good. They deliver a huge range of services that support communities to tackle social problems and prosper. Their profits are principally reinvested back into the business and community. Social investment recognises this value by supplying private capital to social sector organisations on the basis of social, as well as financial, returns.
- 1.2 As set out in 2011, our vision is for a bigger, sustainable social investment market. Growth in the market so far has demonstrated a range of benefits. These include economic growth, improved public service delivery and innovation. Most importantly, the social investment market has enabled social ventures to support communities in a more effective and sustainable way.
- 1.3 This update sets out what progress has been made in growing the market in the past year, and what this has meant in practice for social sector organisations and those that they champion.

## Supporting economic growth

- 1.4 Social investment makes a unique contribution to business and jobs. Social enterprises' annual turnover is over £163bn. These organisations add at least £55bn each year to the economy (more than the SME construction industry) and contribute over 2 million jobs (more than in Finance and Insurance Services).<sup>1</sup> Social investment helps this high-potential

sector to flourish. It is estimated that the potential demand for social investment market could be worth £1bn by 2016.<sup>2</sup>

- 1.5 This growth is likely to disproportionately benefit disadvantaged groups and their communities. Many social enterprises are based in poorer areas and actively employ people further from the labour market, such as those with disabilities, the long-term unemployed and ex-offenders. Eighty-two percent of social enterprises reinvest their profits locally.<sup>3</sup>
- 1.6 Being a world leader in social investment also gives the UK a competitive advantage. We are creating an export market of innovative services and intellectual capital, and providing an environment through which international deals can flow. The growing social investment market is attracting increasing international finance and talent.

#### What this means in practice: creating jobs with new profit-making enterprise

**Bristol Together** was awarded £92,620 by **Big Lottery Fund's Next Steps** programme in May 2012 to develop a £1m bond with Triodos Bank. This financed the purchase of 10 properties. Working with Aspire and Restore Trust they recruited 34 ex-offenders and long term unemployed to restore these properties. They sought to reduce recidivism through these placements and achieved 97% success in helping those working on the project not to re-offend. The first of these properties have been sold at a 10% profit. This profit and the original capital employed have been reinvested to finance further property acquisition and placement creation. Since the start of 2013 Bristol Together have been working with Triodos to extend the scheme into the Midlands, through a further £5m bond, having been named 2012 'Start-Up Social Enterprise of the Year' for the UK by Social Enterprise UK.

## Reforming public sector services

- 1.7 The social investment market enables new ways of delivering services that can achieve better results for the public. By encouraging enterprising, local and results-focused approaches to the delivery of public services, the Government can unlock innovative ways to tackle local issues.
- 1.8 Social sector organisations often understand local needs and problems much better than some larger, purely commercial organisations, and are able to provide more tailored solutions. Social investment models draw in finance that allows social enterprises to compete for public sector contracts. As outlined in **Social Justice: transforming lives – One year on**, this includes increasing the effectiveness of organisations working with disadvantaged groups and tackling complex social problems.
- 1.9 Through new models such as **Social Impact Bonds**<sup>4</sup>, financial risk is transferred away from both the Government and social ventures towards investors. Public money is only used to fund interventions that work. This leads to better outcomes for the public and better value-for-money for Government.

### What this means in practice: targeted support for the homeless

**The London Homelessness Social Impact Bond**, commissioned by Greater London Authority (GLA) with funding provided by the Department for Communities and Local Government and technical support from Social Finance, began operations in November 2012 and will run for three years. The GLA has commissioned charities St Mungo's and Thames Reach to deliver frontline services to a cohort of 830 entrenched rough sleepers in London. The services will initially be paid for by social investment, with government only paying on the delivery of specific outcomes, including: a reduction in the numbers of rough sleepers; moving people into settled accommodation; reducing A&E admissions; and getting people into employment.

## Enabling social innovation

- 1.10 Last year social enterprises were much more likely than SME employers overall to have introduced new or significantly improved products or services (55% compared to 43% for SMEs). Investors may be willing to take on more financial risk if there is an opportunity for demonstrable social impact. Thus, social investment can support new social initiatives to be implemented and tested, enabling greater innovation in the social sector.
- 1.11 Focusing on results achieved, rather than service delivered, means that social impact measurement is built into payment structures. As such, social investment can help programmes to build up evidence of their effectiveness and use it to attract the capital needed to expand their provision. This gives policy-makers and commissioners a better understanding of what works, and enables more groups and communities to benefit from the most effective programmes.

### What this means in practice: providing regeneration services differently

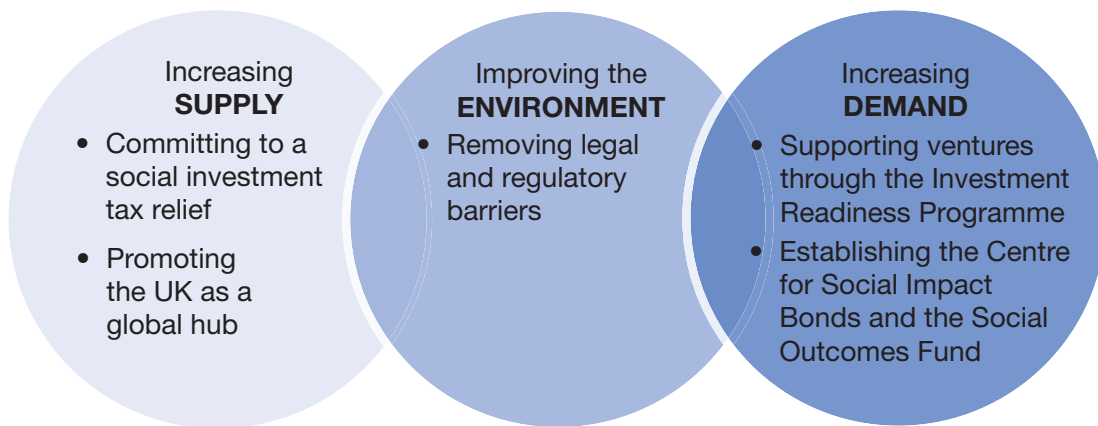
**Blue Sky Development & Regeneration** is a national social enterprise which delivers ground maintenance and recycling contracts for local authorities, other public bodies and private companies. The organisation solely employs people who have recently come out of prison. Blue Sky has secured a social investment and business support package worth £825k (2010-14) from Impetus Trust with support from Deutsche Bank. As a result, Blue Sky has employed 650 ex-offenders since it was established in 2005, which is equivalent to the entire inmate population of a medium-sized prison. Of these, less than 15% have re-offended, which is a quarter of the national average. Given that one prison place costs approximately £41,000 per year, the organisation is saving millions of pounds for the public purse. In addition, half (49%) of Blue Sky's employees have gone onto further employment.



## Government's role as market steward

- 1.12 **Growing the Social Investment Market: a Vision and Strategy** set out our ambition to support the social investment market. We highlighted that, in order to grow, the market requires:
- **Increased supply:** more individual and institutional lenders that are willing and able to invest in social ventures based on both social and financial returns.
  - **Increased demand:** social ventures that are both willing and able to take on finance based on their social and financial returns.
  - **An enabling environment:** infrastructure that enables transactions between the social and financial sector through investment platforms and standards.
- 1.13 Government has an important role to play in the development of this world-leading market, not least in the creation of public goods that support social investment. However, a sustainable market is one which isn't dependent on Government investment. Our job is to highlight best practice, identify where barriers remain, and take action to enable wider participation in the market.
- 1.14 The next chapter sets out the actions that Government has taken in 2012-2013 to support the social investment market.

## Chapter 2: Government's progress on its 2012 commitments



2.1 In our **2012 progress report** we highlighted the first steps we had taken towards our goal to grow the market. In 2010-11, the value of social investments reached **£165m**, and a range of new infrastructure had been developed.<sup>5</sup> By 2011-12 this is expected to have grown to over **£200m**<sup>6</sup> in the UK. In the progress report we also promised to undertake a number of actions, to ensure that this momentum continued:

### Increasing SUPPLY of investment – by attracting new investors to the market

#### We said we would review financial barriers to social enterprises

2.2 We announced in our **Budget 2013** that we will introduce a **tax relief for investment in social enterprise** to encourage investment in the sector. The Government will consult formally on the details of the relief by Summer 2013 and the relief will be introduced in **Finance Bill 2014**.

#### We said we would strengthen the UK's position as a worldwide hub

2.3 Over the past year the Cabinet Office has actively promoted the UK as a global hub for social investment. We are developing new global architecture to enable the sharing of best practice and lessons from around the world.

- 2.4 In October, we led the first successful **trade mission on social investment** to the USA to showcase UK's expertise in social investment services and products. We also hosted the world's first **International Symposium on Social Impact Bonds** and other innovative financial instruments, in November, to showcase UK's lead on innovative financial products. **UKTI** are promoting our intermediaries and enterprises overseas, and targeting inward investment into the UK market.
- 2.5 In December 2012, we launched the Department for International Development (DFID) **Impact Programme to transform the social investment market in developing countries**. Over the next 13 years, this programme will provide social investment of £100 million to Sub Saharan Africa and South Asia. This will benefit over 5 million poor people by offering them access to affordable goods and services, or new opportunities as employees or producers. It aims to draw in sustainable private-sector capital and demonstrate the viability of social investment over the long term.
- 2.6 In June, as part of the **UK's G8 Presidency**, we are hosting the **G8 Social Impact Investment Forum**. This event is the first to use the G8 platform to discuss social investment. It is an opportunity to showcase the UK's world-leading innovations in its domestic social investment market. It is also the start of the processes and discussions that will enable the market to operate effectively on a global scale.

#### What this means in practice: UK social finance and investment intermediaries exporting their services

**UnLtd** is the foundation for social entrepreneurs in the UK, backing over 1000 people each year to start new social ventures with a mix of seed funds, development support and networks. Start-up social entrepreneurs are the vital starting point from which some will grow and become the deal flow for social investment. UnLtd has already been replicated in 4 countries with several more in the pipeline, forming a global learning network to share skills, methods and innovations. UnLtd has partnered with Non Profit Incubator in China to take this model into the world's fastest growing economy, as well as with The GoodLab in Hong Kong, and with the team creating a new social venture for UnLtd Spain.

## Increasing DEMAND for investment– by growing the number of credible social investment opportunities

### We said we would consider options for establishing a Social Incubator Fund

- 2.7 Cabinet Office has launched a **£10m Social Incubator Fund**. This fund supports incubator organisations that provide finance and advice to social venture start-ups, and allows social entrepreneurs to take the first step to developing new social ventures. Four incubators have already been awarded support, with further awards to be announced in early 2014.

### What this means in practice: regional business support

The Social Incubator Fund has invested around £1m into **Social Incubator North**. This is a programme established by the social enterprise Key Fund and regional support network Locality to help high-potential social enterprises in the North of England to grow. Over the next four years Social Incubator North will work in collaboration with four regional Social Enterprise Partnerships to provide finance and business support to 50 organisations, with a further 50 receiving business support only.

- 2.8 The Social Incubator Fund sits alongside our existing **Investment and Contract Readiness Fund (ICRF)**, which provides grants of between £50,000 and £150,000 to high-growth potential social ventures, to purchase tailored capacity-building support. Since its establishment in May last year, ICRF has committed over £3.8 million to support 40 social ventures to secure social investment over £500,000 or contracts of at least £1m.

### We said we would enable a greater number of Social Impact Bonds

- 2.9 The number of Social Impact Bonds (SIBs) in place has increased from just one at the end of 2011 to **13 SIBs now up and running or with contracts signed**. These SIBs involve at least 40 social sector organisations.
- 2.10 The majority of these new SIBs were realised as a result of **DWP's Innovation Fund**. The Innovation Fund is a pilot initiative aimed at testing new social investment and delivery models to support disadvantaged young people, and those at risk of disadvantage. This is the first time that a Government Department has procured SIBs via an open competition. The Innovation Fund projects will support up to 17,000 disadvantaged young people over a three year period.
- 2.11 In November 2012, we launched the **Centre for Social Impact Bonds**, to promote and support the development of more and better SIBs. The Centre for SIBs is achieving this by:
- increasing awareness and understanding of SIBs at workshops and conferences and through online resources such as the **SIB Knowledge Box**; a free online resource and signposting tool on data.gov.uk;
  - reducing transaction and set-up costs by developing standard tools such as **template SIB service agreement contracts**; and
  - supporting SIB developers, by providing strategic advice and analytical support and connecting them with experts.

### We said we would look at options for a dedicated Social Impact Bond fund

- 2.12 In November 2012, we also launched the **£20m Social Outcomes Fund**; a central top-up fund for SIBs. The Fund will pay for outcomes on SIBs in areas where an intervention is value for money in terms of total public sector savings, but where no single commissioner makes enough savings to make all of the outcomes payments.
- 2.13 In June we announced the first two projects that will receive funding from the Social Outcomes Fund. **The Consortium of Voluntary Adoption Agencies has developed a SIB to increase the adoption of hard-to-place children. Manchester City Council has developed a SIB to divert children from residential care**. These projects demonstrate innovative approaches to complex problems, as well as savings for the taxpayer and will bring the total number of SIBs up to 15.

### What this means in practice: diverting children from residential care

**The Manchester Multi-Dimensional Treatment Foster Care – Adolescent Social Impact Bond**, will be commissioned by Manchester City Council with top-up funding from the Social Outcomes Fund and technical support from Social Finance. This will provide specialist care for over 95 children in residential care or at risk of entering residential care over five years. The Social Outcomes Fund top-up enabled Manchester to include children on the edge of care. Social investors will provide the upfront funding to a social sector organisation with Manchester paying on the delivery of treatment and improving the outcomes of children by diverting them from residential care.

## Improving the ENVIRONMENT – by removing barriers to investment and strengthening collaboration

### We said we would review the legal and regulatory barriers to social investment

- 2.14 In January, we passed the **Public Service (Social Value) Act**. This new legislation requires local authorities to consult on how they can improve the social impact of public service contracts before they start the procurement process. This Act should give social enterprises greater access to procurement opportunities, and commissioners the chance to be more innovative in the way they design contracts.
- 2.15 We used the **Red Tape Challenge** to remove inconsistencies and omissions in the existing legal and regulatory framework that governs social investment. **The Financial Services Bill** ensures that regulatory approaches take into account the fact that consumers can have non-financial goals.
- 2.16 We confirmed with the **Financial Conduct Authority (FCA)** that existing rules do not restrict advised sales of social investment products. The FCA has provided a **named contact to industry** and other interested parties on matters relating to social investment.
- 2.17 **The Law Commission** is undertaking a **review of fiduciaries' consideration of social impact**. The review will help clarify the extent to which fiduciaries should consider factors relevant to long-term investment performance that might not have an immediate financial impact, including questions of sustainability or environmental and social impact. This may include looking at the duties of charity trustees.
- 2.18 **The Regulator of Community Interest Companies** is undertaking a **review of the dividend caps for CICs that are limited-by-shares** to ensure that the CIC form continues to be an effective legal form for social enterprises, including those looking to take on investment.

### We said we would continue to drive transparency and collaboration in the market

- 2.19 The Cabinet Office continued to support **Inspiring Impact**<sup>7</sup> This programme, co-ordinated by New Philanthropy Capital, aims to make high quality impact measurement the norm for charities and social enterprises by 2022. The first year of the programme developed a **Code of Good Impact Practice**.

### What this means in practice: improving the measurement of social impact

In partnership with Investing for Good, New Philanthropy Capital and the SROI Network, Big Society Capital has developed an **Outcomes Matrix** – a social impact classification tool. The matrix is made up categories that cover different life stages, mapped against categories of individuals or groups who are potential beneficiaries. The tool can help social finance and social sector organisations to think through their organisational strategy and how they will monitor, evaluate and report on social investments. The Outcomes Matrix is already being used by existing SIFs, and is being considered how to incorporate into the work of large government departments, such as DWP, and even some large corporations.

2.20 We have continued to work closely with all our strategic partners in the sector in order to share perspectives and work together on market growth. Together with **Big Society Capital**, **NESTA** and the **Big Lottery Fund**, we created the UK's first **Social Investment Readiness Charter**, setting out five principles through which to support the market. We have also collaborated with partners in the sector<sup>8</sup> to establish a **Market Stewardship Research Group**. This group delivers an on-going research agenda on issues of common interest to help build the social investment market, such as analysis on the economic impact of the UK social investment market.<sup>9</sup>

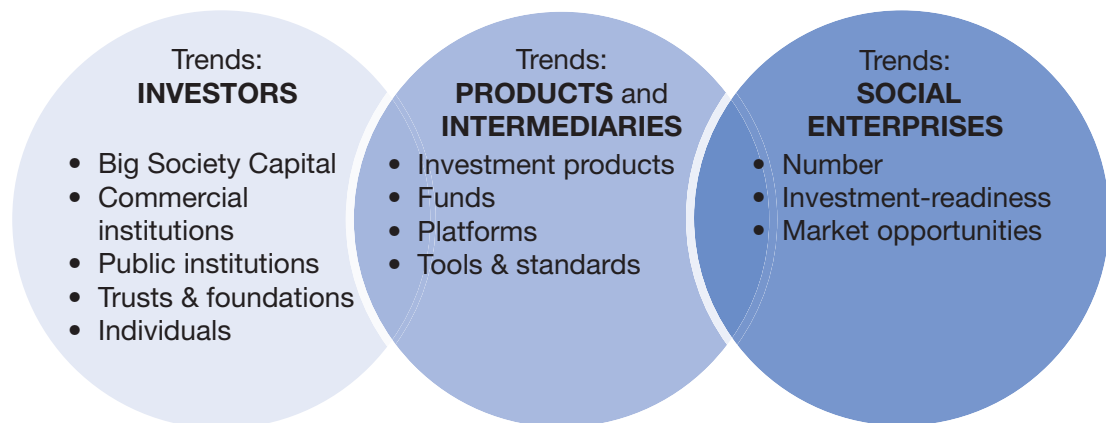
### Strategic partner work: Big Lottery Fund

Big Lottery Fund aims to play a catalytic role in developing the social investment market in England. The organisation has carried out a range of activity towards this goal, including:

- **Supporting investment readiness:** by delivering the **Social Incubator Fund** on behalf of the Cabinet Office; providing £15m funding to **School for Social Entrepreneurs** and **Unltd**, to provide social entrepreneurs and social enterprises with financial and expert support; and by developing an **investment readiness fund** that complements the ICRF, to be launched later this year.
- **Supporting social investment product development with the Next Steps fund:** Awards totalling nearly £3m, have been made through Next Steps to a range of initiatives, and the fund has already leveraged over £20m in social investment. BIG is also developing a fund to grow the market in Social Impact Bonds (SIBs) and other outcomes based investment instruments, aligned with HMG's Social Outcomes Fund.
- **Supporting social investment research:** as part of the joint Market Stewardship Research Group, Big Lottery Fund has also co-commissioned research with Big Society Capital into what a better functioning market might look like.

2.21 The next chapter sets out a high-level snapshot of current trends in the social investment market.

## Chapter 3: Current trends in the market



- 3.1 Driven in part by the actions highlighted in the previous chapters, we are seeing an increasing pace of development in the market in terms of the **range of investors**, a **growing number of social enterprises** and a more **robust market infrastructure**.
- 3.2 In 2010-2011, social finance intermediaries said they wanted to grow by 35% per annum over the following years.<sup>10</sup> Evidence for 2011-2012 suggests that this ambition was close to being achieved, with the UK social investment market expected to have reached over **£200 million and over 750 deals**.<sup>11</sup>
- 3.3 **The global social investment market is also growing.** The **G8 Social Impact Investment Forum** builds on increased interest in social investment around the globe, measured in part by an increase in internationally-focused market infrastructures.

### Trends in INVESTORS

- 3.4 **Big Society Capital's first year of operation has helped to grow the supply of capital into the market.** As set out in its **first annual report**, during 2012 BSC committed £56 million investment across 20 social finance intermediaries (which will be match-funded by other social investors, doubling the investment). **Twenty-three frontline organisations** have received investment commitments so far. BSC aims to commit £75-100m in up to 20 new investments in 2013.<sup>12</sup>

- 3.5 **Commercial institutional investment is still largely separated into traditional lending or CSR donations.** Commercial banks provide the largest share of investment for the social sector (82% of £3.5bn charity debt is provided by commercial lenders),<sup>13</sup> but this is traditionally on the basis of financial returns only. Conversely, commercial investors often donate significant amounts through their social and corporate responsibility arms, without reference to charities' financial sustainability. However, increasingly commercial financial institutions, such as Deutsche Bank,<sup>14</sup> are using their expertise to create social investment functions within their business.

#### Market trends: new UK-based funds with commercial institutional backing

The LGT Private Banking and Asset Management Group has an impact investment arm within their business – **LGT Venture Philanthropy**. In 2012, they set up a new investment fund – **Impact Ventures UK** – together with Berenberg Bank (a private German bank). The fund will invest risk capital into 15 to 20 social enterprises with proven business models that have the potential to scale and increase the delivery of their social impact in the UK. BSC's investment in the fund brought it to the UK.

- 3.6 **Trusts and foundations continue to be an important source of funding for the social sector.** The top 100 family foundations hold around £30bn in assets and in 2010, the top 5 contributed around £800m in charitable giving.<sup>15</sup> While there are no robust figures on the amount made in social investment over the same time period, a number of foundations are now exploring opportunities for allocating larger proportions of their assets to social investment to complement their grant-making.<sup>16</sup>
- 3.7 **There is unmet potential from individual investors.** Sixty-eight percent of High-Net-Worth-Individuals in the UK say that they are likely to invest in a product that has a comparable return on money and a positive social impact. However, less than 16% have investments with ethical, community or social benefits.<sup>17</sup> This untapped potential is mirrored in the broader investor base. Seventy-seven percent of potential pension contributors said they would prefer to contribute to a social investment fund than to a conventional fund for their pension. Thirty-six percent said that they would choose a social investment even when it involves significant trade-off with financial return.<sup>18</sup>

#### Market trends: new structures enabling individual investors

Innovative platforms are emerging to service the retail social investment market. **Ethex**, a new ethical investment platform, is one such example, launched to help charities and social enterprises raise finance and engage individuals in social investment. On the Ethex website investors can compare and choose from leading ethical investments; invest online from as little as £10; and build a personal portfolio delivering social and financial returns. Ethex launched with 8 positive investments and has now reached 12, including the **Golden Lane Housing Bond**.



## Trends in SOCIAL VENTURES

- 3.8 **There are 180,000 social enterprise SME employers, representing 15% of SME employers in the UK.** The sector employs over two million people, including half a million sole traders.<sup>19</sup> Social enterprises are generating increasing revenue through earned income streams. Eighty-five percent were not reliant on income from grants and donations in 2012, up from 77% in 2010.<sup>20</sup>
- 3.9 **There has also been an increase in applications for social investment.** In contrast to 2010, SME social enterprises are now more likely than other SMEs to have applied for finance over the last 12 months, with 28% seeking finance in 2012<sup>21</sup> In 2011-12, social investment finance intermediaries (SIFIs) reported that overall they were able to meet less than half of expressed demand for social investment. No SIFI met more than 70% of their prospective customers' request for social investment.

### Market trends: new investment-readiness support

The **Tech for Good Challenge** is seeking innovative uses of technology that will transform the lives of young people. It combines £500k worth of investment and mentoring to turn early-stage ventures into successful enterprises delivering sustainable social and financial returns. The initiative is a partnership between Big Issue Invest and Nominet Trust with support from five corporate partners: Bank of America Merrill Lynch, LDC, The MITIE Foundation, Salesforce Foundation and Unity Trust Bank.

- 3.10 **Social enterprises could play a bigger role in the public sector and Public Sector Reform is creating new market opportunities.** During 2012, 28% of social enterprises had worked for the public sector (either as a prime contractor or part of the supply chain).<sup>22</sup> *HMG social investment initiatives 2013* details Government policies that could help this to grow by creating more business opportunities for social investment and social enterprise. These, alongside broader reform work such as the transformation of **rehabilitation and probation services** and **clinical commissioning**, support innovative, sustainable and outcomes-focused approaches to delivering public services.
- 3.11 **The commercial sector presents a growing market for social enterprises.** In 2010, social enterprises achieved at least £2.6bn in turnover through trade with private business. Despite this, only 13% reported trade with the private sector as their main source of income.<sup>23</sup>

## Trends in PRODUCTS and INTERMEDIARIES

- 3.12 **Around 30 SIFIs were making social investments in 2011-2012.** Existing intermediaries, such as social banks and CDFIs are continued to use social investment to develop and scale their models. Social investment fund managers also offered increasingly diverse support, including:
- **Specialised funds:** investing in specific social outcomes such as health and social care or specific types of contracts won by social sector organisations.
  - **Social Impact Bond Funds:** to invest in SIBs, which themselves are a way of raising finance to deliver payment-by-results contracts.
  - **Operating intermediaries:** to provide support for the social sector, such as performance measurement and capital-raising.

- 3.13 **The market remains concentrated in terms of funding.** In 2011-12, the three largest SIFIs accounted for just over 80% of total investment. The 15 smallest SIFIs grew by 25% since 2010-11 but still only accounted for 3% of total social investment. However, the vast majority of SIFIs expect to increase their investments in social ventures over the next 2-3 years, and just under half are expecting to develop and launch new products in the same period.<sup>24</sup>

#### Market trends: new investors and funds that support impact measurement

Nesta's first **Impact Investment Fund** was launched in October 2012 and is worth £25m. The Fund aims to blend Nesta's expertise in early stage venture capital with impact investment to invest in organisations developing innovative solutions to address social challenges facing the UK. Alongside Nesta, the current investors in the Fund include the Omidyar Network and Big Society Capital. Over £17.5m of commitments have been made for the Fund's first closing.

- 3.14 **There is an increased diversification in investment products.** Traditional financial products are being redesigned to incorporate social impact performance, creating products through which investors can invest in social ventures. Since 2010, a range of new products have come to market including Social Impact Bonds, Charity Bonds,<sup>25</sup> deposit accounts and venture capital funds. However, there remains a relative lack of unsecured lending products.<sup>26</sup>

#### Market trends: new investment products

**Golden Lane Housing** (a subsidiary of the Royal Mencap Society) has raised £8m through the launch of their charity bond programme. Golden Lane Housing offers specialist housing development and intensive housing management support for people with a learning disability. The bond, promoted by Triodos Bank, has attracted £8m from social investors who have each put forward £2,000 or more. The funds raised by the bond are being used to purchase and adapt up to thirty freehold properties where people with moderate to severe learning disabilities can live independent lives.

- 3.15 **New trading platforms are emerging to support social investment transactions.** The **Social Stock Exchange** (SSE), an index of social purpose businesses, will become operational in 2013 and smaller trading platforms are developing to service the retail investment market. The sector is also working to develop **best practice tools** for embedding social impact into the investment process, such as BSC's **outcomes matrix** and EngagedX's investor guidance.

## Strategic partner work: Update on Big Society Capital

**Achievements for 2012:** Big Society Capital became operational in April 2012. During its first year, BSC committed £56 million to 20 different intermediaries, using its capital to cornerstone ten social investment funds. This work has acted as a key driver in the growth of the market. For example:

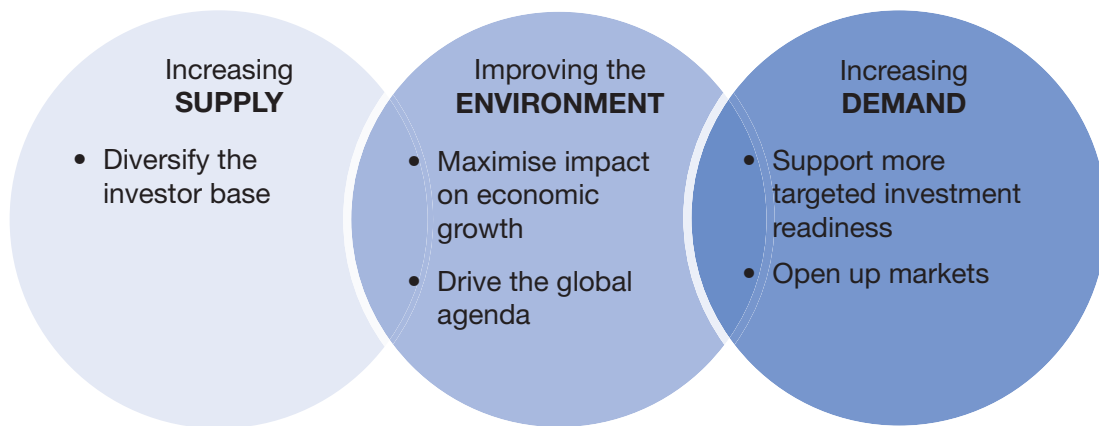
- **Introducing new funds:** At the beginning of 2012 there were only two funds in the UK dedicated to social enterprises with committed capital in excess of £10 million. Now there are five, with more planned.
- **Introducing new products:** Social Impact Bonds have grown from 1 to 13 (soon to be 15). Big Society Capital has invested in six of them. BSC has also provided the finance required to set up the first fund specifically to invest in a range of Social Impact Bonds.
- **Acting as a market champion:** BSC have collaborated with social investors and experts in the field to produce a set of tools to deliver a more consistent approach to evidencing social value. BSC have also sponsored research in a number of areas, to enable a better understanding of the market.

**What this means in practice:** One example of a **frontline organisation** that has benefitted from BSC's investments is **The Greenway Centre**. BSC has invested £1m into the PURE Community Energy Fund, which provides finance for community renewable energy projects. PURE has in turn invested in The Greenway Centre, a local community and business hub in Southmead, Bristol, run by Southmead Development Trust. It hosts a wide range of activities for community groups, from employment and training courses for adults to exercise classes for ex-offenders and those who have had heart attacks or lung problems.

**2013 Priorities:** BSC have announced 2013 priority work that supports some of the opportunities for growth set out in Chapter 3.

- **Regional funds:** Funds with a specific regional focus support social investment around the country, and pull in geographically-minded investors. BSC is partnering with Northern Rock Foundation to start a fund serving the North-East and is aiming to create a structure for further regional funds in the future.
- **Community assets:** Local areas need accessible finance to help them bid for and develop local assets. BSC is working with leading grant makers and industry experts to investigate how best to improve finance for community asset development.
- **Retail funds:** Having a suitable retail product for individual investors would open up social investment to a mass investor market. BSC has called for retail products that will be diversified across underlying securities, sufficiently liquid, and eligible for tax wrappers such as ISAs.
- **Unsecured loans for charities and social enterprise:** BSC is working with a number of intermediaries to get more unsecured lending facilities for social sector organisations structured in an appropriate way. BSC is also investigating the risk profile of this sort of lending and the link between pricing and demand.
- **Outcomes finance:** Bridges Social Impact Bond Fund was set up in 2012 to support social ventures to bid for and deliver services under payment-by-results contracts. In 2013, BSC is aiming to set up a second outcomes finance fund to meet growing demand in the public sector for Social Impact Bonds.

## Chapter 4: Growing the market in 2013-14



4.1 To continue to build the market, we have five key targets for the coming year: diversifying the investor base; supporting more targeted investment readiness; opening up markets; maximising the impact on economic growth; and driving the global agenda.

### Diversify the investor base

4.2 To make it easier for more foundations to use social investment to increase their impact, we will work with leading foundations to **pilot a 'co-mingling social investment fund'**. We will use the pilot to support the potential development of easily replicable models of co-mingling funds that drive impact at scale.

4.3 We will **work with the market to accelerate the development of missing products and infrastructure** such as secondary markets, listed products, and risk ratings for investment products. We will explore opportunities for individuals with as little as £10 to invest to make social investments through initiatives such as social networks, peer to peer and crowd-funding platforms.

4.4 We will continue to improve incentives for social investors. The **new tax relief** for investment in social enterprise will come into force through the **Finance Bill 2014**. We will also explore the role that guarantee schemes for social enterprise could play in boosting the social investment market.

- 4.5 As a result of these actions, we hope to see more investors taking part in the social investment market, as well as an increase in supply from current investors.

## Support investment-readiness

- 4.6 We will increasingly focus the Investment and Contract Readiness Fund's expertise on targeted service areas and sectors. For example, we recently announced a specific call out for social ventures interested in services being tendered under the Ministry of Justice's rehabilitation transformation programme.
- 4.7 To make it easier for social ventures to locate the investment-readiness support that they need, we are working with the market to create a **'what works' evidence base** for what types of support are most effective. We are also working with the Design Council to **map sources of funding** for investment readiness support and communicate this to frontline ventures.
- 4.8 As a result, we hope to see more social ventures moving from start-up to sustainability to accessing investment more quickly.

## Open up markets

- 4.9 To increase the demand for social investment across Government, we want to ensure that new payment-by-results mechanisms and other commissioning reforms are open to social ventures. Building on our work to ensure that probation reforms create accessible business channels for social enterprise, we will **identify where the biggest new public sector opportunities for social investment** exist and shape policy to maximise these. We also want to draw on the data coming out of social investment work so far to improve policy making through a **Government social investment data strategy**.
- 4.10 We will work to ensure that the new Social Value (Public Services) Act makes a positive impact across public sector supply chains. Throughout the year we are **running a series of regional events** with partners to highlight how local government commissioners can make use of and benefit from the Act.
- 4.11 We will also work in partnership with the private sector to increase market opportunities for social enterprises. We are working with Social Enterprise UK to **raise awareness in the commercial sector** about how social enterprises can deliver contracts, and exploring options for fuller databases of procurement opportunities.
- 4.12 We will continue to work with the sector towards the next round of European Structural Funds (2014-2020) and are actively exploring the role social investment can play in delivery of those funds, to ensure sustainable impact.
- 4.13 Finally, we will support more SIBs to be set up, especially collaborative initiatives that tackle complex social problems. We will run a **second round of the Social Outcomes Fund** later in 2013. We are working with Big Lottery Fund who are also developing their own outcomes fund to provide a single application process and ensure maximum impact from our respective work in this area.

- 4.14 To assist this, the Centre for SIBs will continue to grow the support it provides to SIB developers. As well as providing advice and signposting, it will work with departments across central Government and with local authorities **to make unit cost data for public services publicly available**. This will make it easier for SIB developers to access the information they need to set up a SIB. We will also work with the market to understand and develop the key tools and information needed to reduce the time and cost associated with developing a SIB.
- 4.15 As a result, we hope to see a greater proportion of public and private sector contracts being delivered by social enterprises. We also hope to see more Social Impact Bonds established.

## Maximise the impact on economic growth

- 4.16 We want to ensure that both new economic activity and social impact that results from social investments are happening in the areas where it is most needed. We will work to better understand the role of **social investment in economic growth**.
- 4.17 We will support BSC's work to roll out **regional funds**, in order to ensure that the benefits of social investment have wide geographical spread. We are also working with BSC and Big Lottery Fund to support the development of a fund to enable **community asset development**.
- 4.18 As a result we hope to be able to monitor the impact on growth from social investment more effectively, and see an increase in social ventures' activity in deprived areas.

## Drive the Global Agenda

- 4.19 We will strengthen UK intermediaries by continuing to promote London as global hub for social investment. Together with UnLtd we will establish **a global network for social entrepreneurs**. This is to bring together social entrepreneurs from across the world in a forum where they can share ideas and best practice, and work together to grow social business models.
- 4.20 We are working with our G8 partners and stakeholders to develop **public sector and industry-led initiatives** that will help build the right foundations for global growth of the social investment market, and develop the right transparency for sharing what works. These will include working with the OECD to analyse the size and impact of the global social investment market; establishing new multilateral **Social Impact Investment Taskforce**; and creating a new **Global Learning Exchange** – bringing together investors, social entrepreneurs and policy makers from around the world.
- 4.21 We will **make DFID's investment capital available to social investment funds**. DFID is also partnering with the Global Impact Investing Network (GIIN) to support **broader market development**, including a skills-building programme to increase capacity for fund managers based in developing countries.
- 4.22 As a result, we hope to see an increase in the amount of international investment in the UK social investment sector, more social investment in developing countries, as well as continued cross-border collaboration in building a global market.

## Endnotes

- <sup>1</sup> Cabinet Office (2013), *Social Enterprise: Market Trends (based upon the BIS Small Business Survey 2012)*. This survey estimates the size of the SME social enterprise sector. The total contribution of the social enterprise sector is therefore even higher than the figures included in this report.
- <sup>2</sup> Boston Consulting Group (2012), *The First Billion: a forecast of social investment demand*.
- <sup>3</sup> Social Enterprise UK (2011), *Fightback Britain: a report on the State of Social Enterprise survey 2011*.
- <sup>4</sup> A social impact bond is a funding mechanism that aims to improve a social outcome through the collaboration of governments, service providers and investors. At its heart is an agreement by government to pay for an improvement in a social outcome, when it is shown to have been achieved. The improvement in social outcome is pursued by service providers who deliver an intervention to a group within the community. Investors provide working capital for service providers to deliver the intervention. Both government payments and investor returns increase if greater improvements in the social outcome are made. For more information about Social Impact Bonds, go to the Centre for Social Impact Bonds Knowledge Box: [http://data.gov.uk/sib\\_knowledge\\_box/](http://data.gov.uk/sib_knowledge_box/)
- <sup>5</sup> Boston Consulting Group (2011), *Lighting the Touchpaper: growing the market for social investment in England*.
- <sup>6</sup> Not yet published. Market Stewardship Research Group (2013) *The UK social investment market and its economic impacts*.
- <sup>7</sup> This is alongside support from Big Lottery Fund, The City of London, Deutsche Bank and the Diana, Princess of Wales Memorial Foundation.
- <sup>8</sup> Big Society Capital, City of London, Social Enterprise UK, and Big Lottery Fund.
- <sup>9</sup> Some of the research findings are referenced in this strategy update. The full report will be published in June 2013.
- <sup>10</sup> Boston Consulting Group (2011), *Lighting the Touchpaper: growing the market for social investment in England*.
- <sup>11</sup> Not yet published. Market Stewardship Research Group (2013) *The UK social investment market and its economic impacts*.
- <sup>12</sup> Big Society Capital (2013) *Annual Report and Financial Statements 2012*.
- <sup>13</sup> NCVO (2012) *Civil Society Almanac*.
- <sup>14</sup> Our 2012 strategy progress update highlighted how Deutsche Bank had become the first commercial investment bank to create a discrete, ring-fenced social investment fund. Several other financial institutions have followed their lead.
- <sup>15</sup> Research Centre for Charitable Giving and Philanthropy (2012), *Family Foundation Giving Trends*.
- <sup>16</sup> These pioneering foundations are investing in new products such as social impact bonds and **co-mingling funds**, new specialist advisory services and new exchange platforms.
- <sup>17</sup> NESTA (2011), *Investing for the good of society*.
- <sup>18</sup> Defined Contribution Investment Forum (2013), *Identifying new ways to engage with savers in Defined Contribution Pensions*.
- <sup>19</sup> Cabinet Office (2013), *Social Enterprise: Market Trends (based upon the BIS Small Business Survey 2012)*.
- <sup>20</sup> Ibid.
- <sup>21</sup> Ibid.
- <sup>22</sup> Ibid.
- <sup>23</sup> Harvard Kennedy School of Government (2013), *Supply Chains for Social Impact: An examination of Social Enterprise to Business Trade in the United Kingdom*. Research commissioned by BSC, to be published in June 2013.
- <sup>24</sup> Not yet published. Market Stewardship Research Group (2013) *The UK social investment market and its economic impacts*.
- <sup>25</sup> There is no official categorisation of social investment products, but Big Society Capital has a segmentation model based on their internal analysis.
- <sup>26</sup> Research shows that most social ventures are small and without equity, but the majority of current loans entail secured lending. More unsecured loans for charities and social enterprises would provide growth and working capital for organisations without equity.

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