

Growing the social investment market: 2014 progress update

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Foreword from the Minister for Civil Society



Social investment is designed to help charities and social enterprises do more. It is the provision of finance to generate social and financial returns. It can bring benefits to enterprises and investors alike: for enterprises it can help finance innovation and growth, improve commercial skills and strengthen governance and accountability; for investors it provides another route to engage with social change.

Social investment is happening now. In 2011 we set out our plan to grow the market. A lot has happened since then.

We're seeing growing momentum in the market both domestically and internationally. In the UK, Big Society Capital has made commitments of over £150 million, with matching funding from third party investors alongside its signed investments.

The UK Government has established a Centre for Social Impact Bonds and made over £70 million available to the sector to support investment through the Investment Readiness programme, DWP Innovation Fund and Social Outcomes Fund. In April we launched the Social Investment Tax Relief – the first of its kind in the world – and in May we announced £30m for two new cross-government social impact bond funds to enable preventative interventions for young people who are not in education, employment or training (NEET).

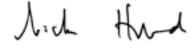
We want to build a market that is accessible to everyone. Thanks to pioneering investors and intermediaries, there is a growing range of products available to individuals that want to use their assets for social good.

Online platforms offer a range of investment opportunities, a wider range of savings products are available through social banks, and there is now a daily liquid FCA registered fund in the UK market. This means the public can now make investments for social impact that they can put in their stocks and shares ISA.

We know that more needs to be done to help this investment reach the frontline. One of the key strands of our strategy for the next year will be Government playing its part by securing funds for investment readiness support over the next decade.

Internationally, engagement in social investment has reached new levels. The number of impact investment funds has doubled over the past five years. And the UK is right at the heart of this global movement. Under our Presidency of the G8, the Prime Minister placed social investment on the agenda and launched the Social Impact Investment Taskforce. This has unlocked huge activity across the G7, and we look forward to responding to the recommendations of the Taskforce and its UK National Advisory Board in September.

Over the past five years we have seen vision turn to reality. The aim of the next year is to turn reality to mainstream. The purpose of this report is to take stock of what has been achieved and set out an action plan for the next 12 months of that journey.



GROWING THE SOCIAL INVESTMENT MARKET

This year:

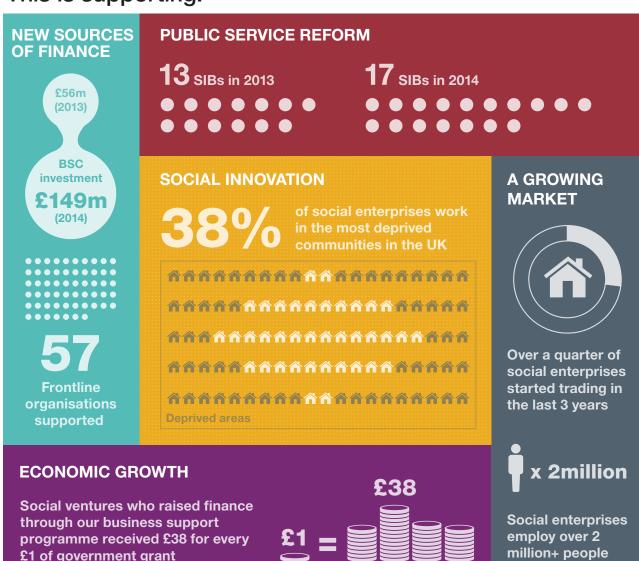
>> We introduced the world's first tax relief for social investment

>> We established a £30m NEETs social impact bond fund

>> We put social investment on the G8 agenda



This is supporting:



Over the next year we will:

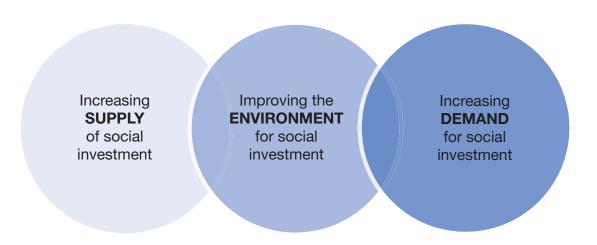
>> Make it easier to be an investor

>> Help communities access investment >> Promote the UK offer

>> Build capacity amongst social ventures

>> Open up markets

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



- 1.1 Social investment is a tool to help increase social impact. The social investment market helps charities and social enterprises do more by providing the capital they need. Growing the market has demonstrated a range of benefits including economic growth, tackling social problems and supporting public service reform.
- 1.2 In 2011, we set out our ambition for a bigger, sustainable social investment market in *Growing the Social Investment Market: a Vision and Strategy*. Following three busy years, the market has moved on considerably.
- 1.3 In 2014, we want to make it easier to be a social investor. We'll support ventures to take on finance by increasing capacity and opening up markets. We'll help communities access social investment and we'll continue to promote the UK offer to an increasingly global audience.
- 1.4 This chapter sets out how our focus has evolved since the 2011 Strategy and the role of government in supporting the market in 2014.

2011: A Vision and Strategy

1.5 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.

2012 – 2014: From Vision to Reality

- 1.6 From 2012 to 2013, we focused primarily on **market-building**. This saw the establishment of many essential elements of government support that underpin a functioning market, such as Big Society Capital (2012), the Investment and Contract Readiness Fund (2012), and the Social Outcomes Fund (2012).
- 1.7 These interventions are beginning to show real and sustained impact. Big Society Capital has made commitments of £149.1 million, with matching funding of 116% from third party investors alongside its signed investments. The Investment Readiness programme has helped 116 frontline social ventures get investment and contract ready and created 10 social incubators which will support over 600 start up ventures. The Social Outcomes Fund has supported four locally commissioned Social Impact Bonds, with many more in the pipeline.

What this means in practice: supporting capacity building through the Investment and Contract Readiness Fund (ICRF)

EmPower Community Energy received a grant of £108,650 from the ICRF, enabling it to secure a £10.1m loan from a UK institutional pension provider. With this, EmPower are delivering a project providing free daytime solar energy to 2300 social housing tenants in Sunderland, reducing their energy bills and cutting carbon emissions.

- 1.8 To help the market scale, from 2013 to 2014 we engaged in **movement-building** activities to raise awareness of the field. This included marketing campaigns around the Social Value Act (2013), placing social investment on the G8 agenda (2013), setting up the Social Impact Investment Taskforce (2013) and establishing the UK's first Social Investment Trade Association (2014). We also introduced a new Social Investment Tax Relief (2014) to drive more investors and social ventures to take up social investment.
- 1.9 These activities have helped contribute to one of the world's most developed social investment markets. Chapter 3 sets out the hugely different context in which government now operates. Many more ventures are now taking on social investment. There is a much richer diversity of investors providing social investment. Increasingly sophisticated market infrastructures are now connecting the two.

What this means in practice: Social Investment Tax Relief

The Conservatoire in Blackheath was facing closure in 2012. Following a successful fundraising campaign and a shift towards a social business model, the Conservatoire has stabilised its financial position and is poised to drastically increase the scale of its social impact. It intends to raise finance with the help of the Social Investment Tax Relief to provide it with the working capital it needs to boost the scale of its outreach programme, which aims to engage with 10,000 children a year across Greenwich and Lewisham by 2017.

2014 – 2015: From Reality to Mainstream

- 1.10 As the market develops, so will our support. The strategic challenge now is to build on this progress and increasingly **mainstream** social investment. Our aim is to build a market that is accessible to everyone.
- 1.11 A major focus will be within government. There is a major opportunity to accelerate public service reform in central and local government. This will require government making use of the platforms and tools that have emerged over the past five years, as well as a dedicated effort to tackle policy issues through the lens of social investment.
- 1.12 Another will be accessibility. We want to create a market that is accessible to a wider range of investors and enterprises. This will require looking at emerging trends in social impact organisations and socially minded investors, as well as the role that new actors in the market such as large corporates can play.
- 1.13 Finally, we have the opportunity to improve our models based on what has worked and what has not. This will require us to look both to our specific funds and support programmes, as well as to wider issues in the investment ecosystem. For example, our research with the Big Lottery Fund and Big Society Capital has shown enduring gaps at the pre- to early-investment stage of the market, which we will look to address over the next year.
- 1.14 The way we work remains critical. We need to work through and alongside others, focusing on the long-term sustainability of our interventions. In such a dynamic market, we also need to be at the cutting edge of policy work. This will require us to make full and frequent use of leading policy tools such as hacks, campaigns, information transparency, and design labs.

What this means in practice: What Works Network

The Centre for Social Impact Bonds partnered with the What Works Network to help local commissioners and service providers develop new evidence-based solutions to long-standing problems. For example, in April, officials from Essex, Greater Manchester and Newcastle Councils as well as Triborough in London, held a workshop with the Early Intervention Foundation, focusing on effective early-years interventions. Over 90% said they would be interested in using social finance as a tool in addressing local social problems.

1.15 The next chapter sets out progress against the actions that Government committed to in 2013-2014 to support the social investment market.

Chapter 2: Government's progress on its 2013 commitments

Increasing Improving the Increasing **SUPPLY ENVIRONMENT DEMAND** Diversify Maximise the Support more the investor impact on targeted investmentbase economic readiness growth Open up markets Drive the global agenda

2.1 In our **2012** progress report we highlighted the first steps we had taken towards our goal to grow the market. In the **2013** progress report we also promised to undertake a number of actions, to ensure that this momentum continued:

Increasing SUPPLY of investment

We said we would diversify the investor base

By increasing investor awareness, unlocking retail investment and making it easier for foundations to invest.

- 2.2 To increase investor awareness, in October 2013 we partnered with Big Lottery Fund, Big Society Capital, Citi and the City of London to establish the **Social Investment** Research Council. The Council's 2013-14 research programme focuses on improving the understanding of social investment market products and investors.
- 2.3 To unlock retail investment, we said we would improve incentives for social investors. In April, we announced the rates of the **Social Investment Tax Relief** at Budget 2014. Individuals making an eligible investment can deduct 30% of the cost of their investment from their income tax liability.
- 2.4 We also said we would work with the market to accelerate the development of infrastructure that connects investors to opportunities. In March, we funded four social incubators to provide business support to social ventures that specialise in market infrastructure. Ventures identified for support include a Social Investment Index, a Platform for Wealth Managers, a Post-Accelerator Fund and a Social Venture News Channel.

- 2.5 To make it easier for foundations to invest, we asked the Law Commission to review existing law on **mixed purpose social investment by charities**. In April they published a paper stating that many charities make these investments without any difficulty, but that the complexity of the current law may act as a deterrent for some. The Law commission has consulted on ways in which the current law can be clarified and will make a final recommendation in due course.
- 2.6 In November 2013 we also released an open data platform detailing **social investments made by UK charitable foundations**. The code for this work is available in an open source repository and is freely licensed, enabling replication for other data projects.

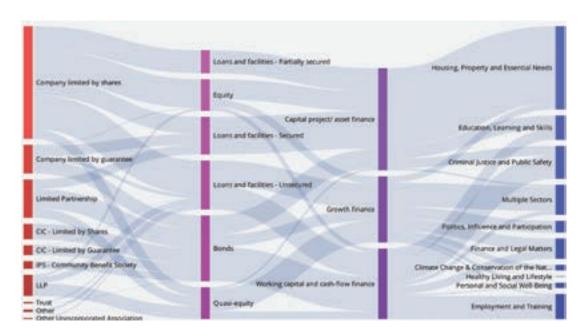


Figure 1: Data resource on social investments by UK charitable foundations

2.7 As a result, we hope to see more retail and foundation social investments.

What this means in practice: peer learning amongst foundations

The 'Social Impact Investors' Group' (SIIG), is a sector specific forum for foundations to come together to share knowledge and to learn about social investment. A number of proposals that have presented to the SIIG have gone on to raise investment, such as the £5m Greenwich Leisure Limited Bond, which was also supported through the ICRF.

Increasing DEMAND for investment

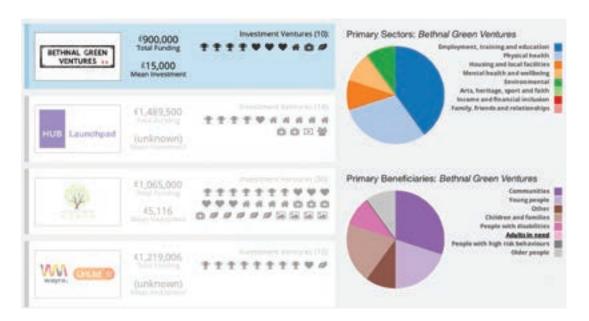
We said we would support more targeted investment readiness

By increasing take-up of the support available for social ventures, focusing our funds on key market opportunities and building on what works

2.8 To increase awareness, we said we would work with the **Design Council** to map sources of funding for investment readiness support. In April we produced a joint report into the user journey of ventures accessing social finance. We are now developing interventions based on these insights in collaboration with partners throughout the sector. Social Enterprise UK is also producing an easily accessible guide to social investment support this summer.

- 2.9 We also supported the development of an online marketplace of impact tools and resources. In June the Inspiring Impact Digital Platform will incorporate an impact selfassessment tool designed to help social ventures determine which areas they need to strengthen, and a marketplace for social ventures to help locate the impact measurement tools they need.
- 2.10 To target market opportunities, we said we would increasingly focus the Investment and Contract Readiness Fund's expertise on high potential service areas and sectors. Throughout 2013 we ran a number of targeted call outs, included a £1m fund for social ventures competing in the Ministry of Justice's Transforming Rehabilitation programme. Alongside this, we issued call outs to support arts ventures and mutuals.
- 2.11 In February, we also supported a further six social incubators through the second round of the **Social Incubator Fund**. We estimate that these incubators will support an additional 400 ventures.
- 2.12 To build on what works, we said we would work with the market to create an evidence base for what types of support are most effective. In March we contributed to a joint report into the **performance of the ICRF**. This identified clear recommendations that will influence the design of future capacity building programmes.

Figure 2: Data visualisation about the Social Incubator Fund



2.13 As a result, we hope to see more social ventures accessing social investment.

What this means in practice: Third Space Learning and the Social Incubator Fund

Third Space Learning is a tech social venture raising numeracy standards for primary school students. Using an online platform to leverage academic talent globally, one-to-one learning becomes more affordable and accessible for those students who need it most. Third Space Learning entered the Wayra UnLtd Academy in 2013, one of the first incubators catalysed by the £10m Social Incubator Fund. Already used in 70 schools across 30 Local Authorities, they announced in May 2014 that they had secured a further £750,000 investment from social angel investors to grow their social impact.

We said we would open up markets

By making it easier to buy from social organisations, set up social impact bonds and map public markets opportunities

- 2.14 To make it easier to buy from social organisations, we said we would raise awareness about how social enterprises can deliver contracts. To achieve this, in June we launched the **Buy Social Directory** in partnership with Social Enterprise UK, the City of London and the Aspire Group. The directory contains 10,000 social enterprises and aims to make it easier for public and private sector organisations to identify products and services to buy from social enterprises.
- 2.15 We also said we would raise awareness of the **Social Value Act**. To achieve this we ran a **series of regional events** throughout 2013. The Act requires commissioners to think about how they can improve social, economic and environmental benefits when procuring services.
- 2.16 To make it easier to set up social impact bonds, we said we would make unit cost data for public services publicly available. In March we published a **unit cost database** bringing together more than 600 service costs. In April we worked with **Rewired State** to challenge developers to use the unit cost database, to develop tools that would support local authority commissioners in commissioning early intervention services.
- 2.17 We said we would run a second round of the **Social Outcomes Fund**. In June we announced support for two new locally commissioned social impact bonds. In addition, we said we would provide a single application process to the Big Lottery Fund's £40m Commissioning Better Outcomes and the Social Outcomes Fund. This is now available online.
- 2.18 We also said we would support more collaborative initiatives to tackle complex social problems. In April we announced two cross-government **pooled outcomes funds** totalling over £30m. Over six departments are involved in these funds. They will cocommission social impact bonds focusing on supporting young people who are not in education, employment or training (NEET) or at risk of becoming NEET.
- 2.19 To map public markets, we said we would identify the **biggest new public sector opportunities** for social investment. In November 2013, we created central government segmentation analysis of social investment opportunities, which we shared with departments. We also created an information pack about how policy makers could use social investment as a policy tool, showcasing models already used by departments.
- 2.20 As a result, we hope to see more social ventures selling their products and services.

Two new social impact bonds providing innovative approaches to complex problems will be commissioned, with top-up funding from the Social Outcomes Fund.

The **Building Connections Social Impact Bond** in Worcestershire will tackle loneliness and social isolation and is the first to be co-commissioned by both a local authority and clinical commissioning groups. The intervention will identify older people at risk and address gaps in provision of services by providing a holistic plan to engage them in their communities. Outcome payments will be made based on achieving a reduction in levels of loneliness, thereby reducing participant dependency on health and social care services.

The **Birmingham City Council Social Impact Bond** focuses on diverting children from local authority care to more stable, family based placements. It reflects the growing replicability of social impact bonds in this space, coming after the Manchester Children in Care Social Impact Bond and the Essex Children at Risk of Care Social Impact Bond.

Improving the ENVIRONMENT

We said we would maximise the impact on economic growth

By unlocking European funds and supporting social investment where it is most needed

- 2.21 To unlock European funds, we said we would work with the sector to engage Local Enterprise Partnerships (LEPs) on their investment strategies for **European Structural Funds**. Most LEPs have now included references to social enterprises in their 2014-2020 investment strategies, and a third of LEPs have expressed interest in specific social investment fund models. We also published analysis into the role of social investment in economic growth.
- 2.22 As a result, we hope to see social investment helping more disadvantaged groups.

We said we would drive the global agenda

By promoting the UK as a global hub for social investment and building the right foundations for growth of the international market

2.23 To promote the UK as a global hub, we said we would create new platforms to share ideas and best practice. In June 2013 we supported the Global Social Entrepreneurship Network for organisations supporting early stage social entrepreneurs. In December 2013 we launched the Global Learning Exchange, a platform for sharing lessons, data and experience in the social investment market.

What this means in practice: driving the global agenda

The Global Learning Exchange provides an online platform, regular webinars and gatherings alongside World Economic Forum events. It aims to connect ideas and resources for sharing best practices on impact investment. The Exchange brings together public officials, investors, philanthropic and civil society organisations, financial institutions, academics and business leaders. Since its launch in 2013, the Global Learning Exchange has had over 700 registrants on its webinars, representing 64 companies.

- 2.24 To build the right foundations for international growth, we said we would work with G8 partners and stakeholders to develop initiatives to grow the global market. In June 2013 we hosted the **Social Impact Investment Forum** and established a Social Impact Investment Taskforce to explore the necessary conditions for a global market.
- 2.25 The Department for International Development (DFID) has established the DFID Impact Fund along with a Technical Assistance Facility that will support underlying investee companies. The fund's first investment was £15 million to Novastar Ventures, a venture fund investing in transformative businesses in East Africa.
- 2.26 As a result, we hope to accelerate the growth of the global social investment market.

There are activities we are yet to achieve

Part of our commitment to open policy making is being transparent about what we have not achieved and why, so that we can learn going forwards.

- 2.27 We said we would pilot a co-mingling social investment fund. To achieve this we worked alongside a group of organisations in the arts and social sectors to develop a co-mingling fund. The first documents, comprising template fund structure notes and guidance notes for charitable investors were published in November last year. However, as this was the first fund of its type, it has taken us longer to agree the fund mechanics than we first anticipated. We are working in collaboration with the Arts Ventures Fund steering group to enable the fund to be launched in the autumn.
- 2.28 The next chapter sets out a high-level snapshot of current trends in the social investment market.

Social investment becoming mainstream

Social enterprises and social investment opportunities are increasingly prominent in everyday life, reflecting a growing engagement from consumers and investors alike. Below are 3 national adverts, seen on billboards, showing diversity in the range of ways consumers can use their money to have a social impact.

Greenwich Leisure Ltd runs a nationwide chain of leisure centres and community services. They provide access to over 115 affordable quality community leisure and fitness facilities.





Profits from Divine Chocolate are shared with the cocoa famers. Divine is available across the UK and also exports to Europe and beyond. Divine received socially-minded investment from Oiko Credit.

Abundance offers everyday investors the chance to invest in renewable energy projects, many of which have demonstrable social impacts. For example, a wind turbine that has helped raise money for the local community and school computers.



Chapter 3: Current trends in the market

Trends: Trends: Trends: **INVESTORS** CONNECTORS SOCIAL **ENTERPRISES** Big Society Capital Products and Number Commercial services Investment-readiness institutions Funds Market opportunities Trusts & foundations Platforms Individuals

- 3.1 The social investment market demonstrates clear value in social terms, but also in terms of economic benefit. In 2011/12, the market grew to £202m over 765 investment deals. At a gross level, over the lifetime of their finance period, the 765 investments resulted in the creation or safeguarding of 340 social ventures, 6,870 FTE jobs, and £58m in annual GVA contribution to the UK economy. We expect this to be the lower bound of the total size of the market.
- 3.2 The global social investment market continues to grow. In 2013, social investors report having committed £6.3bn, and intend to invest 19% more (£7.5bn) in 2014.² The OECD will provide further analysis on developments in the global social investment market in September.

Trends in INVESTORS

- 3.3 Big Society Capital's second year of operation has continued to help grow the supply of capital into the market. As set out in its second annual report, during 2013 BSC committed almost £93 million in new investment, bringing its total commitments to nearly £150 million across 30 investment deals. Fifty-seven frontline organisations have received investment commitments so far.
- 3.4 Commercial institutions continue to increase their focus on social investment and social enterprise, with a steady stream of new business-supported incubators and social enterprise programmes in place across multiple industries. Research indicates

Market trends: corporate social investment

Centrica established its first £10m social investment fund, Ignite Social Enterprise, the UK's first fund focused on energy. Over the next ten years Ignite Social Enterprise will make investments in the UK of between £50k and £2m, with its first investment of £500,000 in Midlands Together CIC to scale their work buying, refurbishing and selling empty homes, creating opportunities for people facing barriers to employment.

- 3.5 Trusts and foundations are an important source of funding for the social sector. The latest research by the Association of Charitable Foundations (ACF) estimates that charitable foundations have provided £100m in social investment over the last decade, of which around £50m has been committed to deals. Investment has been relatively concentrated, with ten foundations providing nearly 90% of foundation investment. A typical foundation investment has been a direct investment of £100,000 for a term of about five years, usually in the form of a loan with some income return contingent on the success of the project.⁴
- 3.6 Ordinary retail investors represent an important potential source of social investment. Ordinary retail investors are retail clients who are neither high net worth individuals, nor sophisticated investors. Analysis of a survey of retail investors with investable wealth of between £50k and £99k identified that as much as 40% of this group would be actively interested in making social investments, and 33% 'passively' interested, based on their responses to social investment opportunities presented to them. The Social Investment Tax Relief will encourage social investment from the retail market by giving individuals who invest in qualifying social organisations a reduction of 30% of that investment in their income tax bill for that year. Challenges remain, however, in terms of restrictions imposed through the Financial Promotions Regime on social ventures marketing investment opportunities to ordinary retail investors.

Market trends: new retail investment products

Threadneedle Investments and Big Issue Invest have formed a social investment partnership to bring the first daily liquid, FCA registered diversified Social Bond Fund to the UK market. Big Society Capital provided £10m of seed investment to help launch the fund, with Threadneedle, a leading investment house that manages assets of nearly £85 billion, contributing a further £5 million. Both retail and institutional investors are able to invest at least £2,000 in the fund which will invest in companies, associations, charities and trusts in areas including affordable housing, employment and training, and health and social care.

Trends in SOCIAL VENTURES

- 3.7 A growing number of social entrepreneurs are choosing for-profit legal forms for their social ventures. Social entrepreneurs now often choose to incorporate their venture as a company limited by shares (CLS), the form most commonly used by mainstream for-profit businesses. The key factors driving this trend are the CLS' simplicity and ease of set-up, its potential to enable access to a wide range of finance from diverse investors, and its flexibility in terms of allowing both an investable structure and social purpose.⁷
- 3.8 Social ventures continue to have both investment and impact readiness requirements. A survey of 85 fund applicants to the Investment and Contract Readiness Fund⁸ showed that 64% were looking to raise investment and 53% were looking to win contracts. According to Big Society Capital, investors are increasingly moving to look at outcomes and not just financial decisions.⁹ At the same time, only 22% of social ventures surveyed by the ICRF evaluation were confident they had the skills to measure their impact or develop their social mission strategy. This may suggest an increased requirement for impact-readiness support and provision.

Strategic partner work: Big Lottery Fund

In 2013-14, the Big Lottery Fund has continued to work to develop the social investment market in England:

- Supporting social organisations: In December, Big Lottery Fund launched the £150m grant programme Power to Change. The programme is run by an independent Trust and will provide financial and technical expertise to support community led enterprises to grow and, where appropriate, take on social investment. It will be open for applications in Autumn 2014.
- Building the market: Big Lottery Fund continued to deliver the Social Incubator Fund, announcing in 2014 six new specialist incubators which will support early-stage social ventures across England. These incubators received match-funding from several leading private sector businesses including Barclays, UBS, Bank of America Merrill Lynch and Janssen Healthcare Innovation.
- Developing new products: Big Lottery Fund has supported the next phase of the Big Venture Challenge (BVC), a co-investment programme for social ventures delivered by UnLtd, Clearly So, the Social Investment Business and the Shaftesbury Partnership. In the first year, £1.7m of co-investment from BVC unlocked £3.8m of external social investment from over 80 different investors.
- Understanding the market: As part of both the Social Investment Research Council
 and through its general work, the Big Lottery Fund has supported a range of different
 pieces of research.
- 3.9 Important markets for social investment include **education and health**. An estimated 16% of social enterprises operate in education, with start-ups more likely than established social enterprises to operate in this sector.¹⁰ Social investment could play an especially important role in closing the attainment gap and helping disadvantaged pupils through financing new post-16 education and training institutions, funding best-evidenced interventions through social impact bond approaches, and scaling innovative social enterprises in this space.¹¹ In health, Big Society Capital has invested £1.3 million in Greenwich Leisure Limited, the UK's largest charitable social enterprise delivering leisure, health and community services.

Trends in Connectors

3.11 There is a **growing range of products** available to individuals that want to use their assets for social good. Online platforms and exchanges such as Microgenius, Abundance, Ethex and the Social Stock Exchange offer a range of investment opportunities. A wide range of savings products are available through social banks such as Triodos, Charity Bank and Ecology Building Society. And the public can now make investments for social impact that they can put in their stocks and shares ISA.

Market trends: Retail Charity Bonds

Retail Charity Bonds is an issuing platform to raise medium term debt finance for UK charities through bonds issued to retail and wholesale investors and listed on London Stock Exchange. The platform opens up a new dimension of borrowing and an alternative to bank debt for established charities with strong credit worth. It also gives charities the opportunity to significantly raise their profile and engage with a new audience of investors. Retail Charity Bonds is an initiative of Allia, a charitable community benefit society, and has been established in association with Canaccord Genuity Limited.

3.12 Most Social Investment Finance Intermediaries (SIFIs) offer a variety of products and services alongside direct investment. In 2011/12 just under two thirds of SIFIs provided some form of advice and knowledge sharing to social ventures, and around half provided business support and investment readiness advice. Provision of recently emergent products and/or new forms of delivery was low, with just 5% of SIFIs reporting that they operated crowd sourcing or bidding platforms. Nevertheless, no SIFIs reported providing either service in the previous year.¹³

Market trends: new social investment funds

Impact Ventures UK made its first two social investments in rapidly growing social ventures. The fund established by LGT Venture Philanthropy and Berenberg, with £10m cornerstone investment from Big Society Capital, invested £800,000 in K10, a social venture providing construction apprenticeships across London. This was followed by an investment in Buddy Enterprises Ltd, a social enterprise that was founded to provide a digital tool, Buddy App, to support therapy services in the fields of mental health and well-being.

3.13 There is greater availability of risk-taking capital in the market. Big Society Capital has responded to market demand from small and medium social sector organisations for greater access to risk-taking capital, such as unsecured loans. Big Society Capital invested in two loan-focused investment funds: a £15 million investment into the Third Sector Loan Fund, managed by Social and Sustainable Capital; and a £10 million investment into the Social Impact Accelerator Fund managed by the FSE Group. These funds will be used to raise additional capital and will make finance available to organisations that do not qualify for traditional secured lending, such as community assets.

3.14 There is evidence of greater geographic coverage. Latest research shows that two thirds of SIFIs operate UK-wide and each of the Devolved Administrations and English regions are served by at least three quarters of the SIFIs. The West Midlands was the most-served UK region, with just over 85% of all SIFIs indicating that they would invest there – a combination of nationally-oriented SIFIs together with those that only invested in the West Midlands.¹⁴

Market trends: new social investment products

Social and Sustainable Capital launched a new social investment fund jointly financed by the Social Investment Business and Big Society Capital. The Community Investment Fund makes loans and equity investments of £250,000 to £1 million in community-based social enterprises that are improving the lives of local people, particularly the vulnerable and disadvantaged, providing local solutions to local needs, creating jobs and developing their local economy.

- 3.15 The market is building on momentum to create **domestic and international platforms**. These include events like Skoll World Forum, Oxford Jam and the Good Deals conference in the UK; networks such as the E3M club, Makesense and Wavelength; and news sources like Pioneers Post. Movements are also emerging in schools and universities, such as the Ashoka Changemaker Campuses and UnLtd's SEE Change programme in higher education institutions.
- 3.16 The final chapter sets out our plans to support market growth in 2014–15.

Strategic partner work: Update on Big Society Capital

Achievements for 2013: During its second year of operation Big Society Capital made £93m worth of investment commitments. This took their total investment commitments to £150m across 31 deals, including £48m worth of investments signed with 116% match-funding.

Although still in their early stages, the organisations it has invested in are now addressing a broad range of social issues such as: helping children find adoptive parents; supporting community groups to provide care to the elderly; improving education prospects; keeping children out of care; and providing exercise classes in old people's homes.

A year ago, Big Society Capital set out five key areas of focus. Progress on these was as follows:

- **Regional funds:** Big Society Capital made investment commitments of £4.5m into a North-East fund and £8m into a Scottish fund.
- Community organisations: £10m investment was made into the Community Investment Fund. Work on a joint community asset fund with Big Lottery Fund is still ongoing.
- Retail investment: a £10m cornerstone investment was made into the Threadneedle UK Social Bond Fund, launched in partnership with Big Issue Invest.
- **Unsecured lending:** investment commitments of £15m into Third Sector Loan Fund and £10m into the Social Impact Accelerator fund, growing the provision of unsecured loans.
- Social impact bonds: no new investment was made, on the basis that the 2012 investment into Bridges Social Impact Bond Fund and individual social impact bonds so far was adequate.

Big Society Capital has also continued to act as a market champion through activities such as the G8 Taskforce and its National Advisory Board; running information events and helping to establish the Social Investment Research Council.

2014 strategy

Building on its experience, Big Society Capital set out its vision for the four elements needed to create a thriving social investment market. These are:

- Improve access to finance for small and medium-sized charities and other social sector organisations: ensuring every social organisation for which repayable finance is appropriate can access a range of simple sustainable products.
- **Build mass participation:** enabling millions of people to contribute to social change through personal finance opportunities for social investment.
- Provide capital that allows the most innovative approaches to tackling social problems to quickly grow and replicate: ensuring social entrepreneurs tackling the most entrenched social problems can access the capital they need.
- Bring far greater financial scale to bear in the financing of social issues: bringing
 greater financial scale to bear in financing social issues by supporting capital intensive
 areas.

Chapter 4: Supporting market growth in 2014-15

Increasing **SUPPLY**

 Make it easier to be an investor

Improving the **ENVIRONMENT**

- Help communities access social investment
- Promote the UK offer on social investment

Increasing **DEMAND**

- Build capacity amongst social ventures
- Open up markets
- 4.1 Our goal is to create a robust tool for social change through mainstreaming the use of social investment by ventures and investors alike.
- 4.2 To achieve this, we have updated our key targets to grow the market: making it easier to be an investor, building capacity amongst social ventures, opening up markets, helping communities access social investment and promoting the UK offer.

i. Make it easier to be an investor

There is increasing investor interest in social investment, but it can be difficult to get involved. We want to increase the accessibility of social investment.

- 4.3 To increase everyday investment activity, we intend to **pilot a guarantee fund** to support **crowdfunded social investment** alongside an evaluation study to increase our understanding of the effectiveness of credit enhancements in the social sector.
- 4.4 We will assess the suitability of existing **financial promotion rules** as they apply to social investment opportunities. This will draw on recent research commissioned by the Social Investment Research Council and incorporate recent changes to Financial Conduct Authority's regulatory approach to crowdfunding.
- 4.5 We will also make the Social Investment Tax Relief work as effectively as possible. We will seek state aid clearance for a larger scheme, consult on options for indirect investment, and accredit social impact bonds. To make it easier for social enterprises to apply for approval under the scheme, we will put the application process online as part of the new HMRC Multi-Digital Platform, the first of its kind.

- 4.6 To increase the size of investments, we will explore the ways in which **institutional investors** in particular pension and insurance funds can more easily participate in socially positive investment.
- 4.7 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.

ii. Help communities access social investment

Social investment can strengthen communities. We want to build the right platforms to help the wider public take advantage of social investment's benefits.

- 4.8 We will explore options for how recent data on **lending to local areas** can be best used to support lending to deprived areas and disadvantaged groups. We will draw from international examples, including the US.
- 4.9 We will continue to develop long-term support for **community lenders**. This will include working with private and civil sector partners to address infrastructure and distribution challenges to increased community lending.
- 4.10 As a result of these actions, we hope to more easily monitor the impact from social investment, and see an increase in its use amongst disadvantaged groups.

iii. Promote the UK offer on social investment

The UK is seen as a global leader on social business and investment. We want to support organisations to export overseas as well as attract business and investment to the UK.

- 4.11 To promote the UK offer, we will launch a **GREAT campaign** focusing on social investment and social business. This will include advertising campaigns in pilot overseas markets, as well as a targeted marketing effort in the UK, aimed at encouraging social enterprises to export.
- 4.12 We will establish an **international working group** to co-ordinate promotional activity on social investment and social enterprise across key international industry and government bodies. This will include publishing a UK government Social Business International Strategy.
- 4.13 We will also contribute and respond to the recommendations of the **Social Impact Investment Taskforce** and **UK National Advisory Board** on how to catalyse the growing global social impact investment market and the UK's role within it (see box overleaf).

Social Impact Investment Taskforce

The Social Impact Investment Taskforce has been chaired by Sir Ronald Cohen throughout 2013-14. It is made up of one government and one private sector representative from each of the G7 countries, the EU and Australia. Each of the country representatives has been supported by a domestic National Advisory Board.

In September 2014, the Taskforce will publish a report with recommendations for policy changes and private sector action. There will be specialist recommendations on asset allocation, mission alignment, impact measurement, and aid and development. The Taskforce report will be paired with an OECD report scoping the size of the global social impact investment market.

At the same time, the UK National Advisory Board supporting the Taskforce will also deliver a report containing recommendations for policy actions. There will be specialist recommendations for government on public sector procurement, legal forms for social business, and capacity-building for social ventures.

4.14 As a result of these actions, we hope to see an increase in trade and investment, and continued cross-border collaboration in building a global market.

iv. Build capacity amongst social ventures

Social ventures need support to take full advantage of the social investment market. We want to make it easier to find that help, and to secure long-term support for the sector.

- 4.15 To make it easier to take on social investment, we will work with the **Design Council** to deliver interventions that improve the user experience for social impact organisations. These will be measured against the extent to which they are improving outcomes for ventures and changing ways of working for funders.
- 4.16 We will raise awareness of **social angel investment** through **campaigns**, working with partners to support the development of **social angel networks** and syndicates, and through an online knowledge and **support hub**.
- 4.17 We also aim to provide funds to **tailor support packages** for public market opportunities, starting with health and social care. Building on the success and lessons from our targeted callouts in 2013, the funds will pay for specialist business support to help social ventures achieve scale.
- 4.18 To secure long-term support for the sector, we will use the **Future Builders loan book** to fund investment and impact readiness. This will focus primarily on the needs of social impact organisations who are getting ready to take on social investment. We aim to endow these funds to a champion for this area.
- 4.19 As a result of these actions, we hope to see more social ventures accessing social investment as part of their ambitions to reach scale and sustainability.

v. Open up markets

To grow, organisations need to be able to sell their services and goods. We want to help social impact organisations to access commercial, corporate and public markets.

4.20 To increase access to commercial markets, we will work with social enterprise membership bodies and the open data community to **strengthen data** on the Buy Social Directory. We will explore opening data on social enterprises to encourage innovation in market infrastructure.

- 4.21 We will also run dedicated **campaigns** promoting social enterprise to everyday consumers. This will include work with Social Enterprise UK to promote a 'Social Saturday' in September 2014. Social Saturday will be a day to celebrate and raise awareness of social enterprises.
- 4.22 To increase access to corporate markets, we will run a series of **events** with corporate stakeholders to identify ways in which they can use social investment to increase their impact. We also aim to develop a **framework** that encourages companies to factor in social value throughout their procurement processes.
- 4.23 To increase access to public markets, we will create a **live information hub** about the uses of social investment as a policy tool, including evaluation of models across government. This will be measured against the extent to which it increases understanding and take-up of social investment models across the public sector.
- 4.24 We will continue to promote social impact bonds within government. This will include working to establish cross-government **social impact bond rate cards** and building the case for social impact bonds as a model for tackling complex cross-cutting issues. We will also explore the role of a **central commissioning fund** which would focus on complex social issues and aim to build evidence behind preventative and innovative interventions.
- 4.25 We will support locally commissioned social impact bonds. This will include **mapping** the pipeline of social impact bonds and using this to build a stronger network of commissioners, providers, investors and intermediaries. We will **run a series of engagement events** to reach out directly to commissioners and providers across the country. We will also respond to the procurement challenges that social impact bond developers face, and explore the potential for explicit guidance on procurement for social innovation.
- 4.26 We will also build the data required for social impact bonds to reach scale. This will include partnering with **What Works Centres** to identify areas to build a strong evidence base for future social impact bond development. We aim to add to the **unit cost database** to make it easier for providers to bid to deliver a service. We will also run a **Social Impact Bond Challenge Prize** to catalyse the development of solutions to the structural barriers that restrict the growth of the social impact bond market.
- 4.27 As a result of these actions, we hope to see more market opportunities for the sector. We also hope to see more social impact bonds established.

Looking ahead

4.28 How we work will be crucial to the delivery of these objectives. Government's role is primarily that of an enabler and as a platform for others to build from. Over the next year, we aim to run a series of **challenge prizes** to bring social investment to new people, places and products. We will host a **social investment awards event** to increase awareness of social investment. And we will continue our efforts to **unlock data** and meet our Open Government Partnership commitment to be the most transparent social investment market in the G20.

HMG support for the social investment market: Update on cross-government support

The Department for Energy and Climate Change has set up a cross-sector group looking at ways to support community energy groups to access finance and social investment. The group will report their recommendations in the summer.

The Department for Business, Innovation and Skills is promoting awareness of SME support for SME social ventures through their Small Business GREAT Ambition framework. The CIC regulator consulted on changes to the CIC limited by shares. The CIC regulator aims for the reforms – removing the cap on dividends paid to shareholders and raising the cap on performance related interest on loans from 10% to 20% – to become law in stages from June to October 2014.

UK Trade & Investment are embedding social investment and social enterprise in their policy and programmes to drive more deals through the UK.

The Department for Health is holding a global event in London focusing on the potential for social impact investment and dementia to come together to stimulate innovation. The Technology Spin-out Fund was launched recently to provide loan funding to health and social care spin-outs for investment in technology to improve service delivery. The £6 million Fund is jointly financed by the Department for Health and Big Society Capital, providing an example of where public funds are being used to leverage social investment.

The Department for International Development (DFID) is exploring ways it can support the market for Development Impact Bonds in developing countries. DFID announced in April that it will be putting £1.5 million towards designing the world's first development impact bond to prevent the spread of deadly sleeping sickness in Uganda. In addition, DFID will set up a new 'open source' platform to share lessons to inform future investment.

4.29 Finally, we will continue to respond to the breadth and diversity of the social economy – a continuum that ranges from regulated social sector organisations to socially positive businesses. As part of this work, we will explore options to strengthen the regulatory landscape supporting the social economy, as well as the approaches that can both evidence and protect social mission and impact.

Endnotes

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