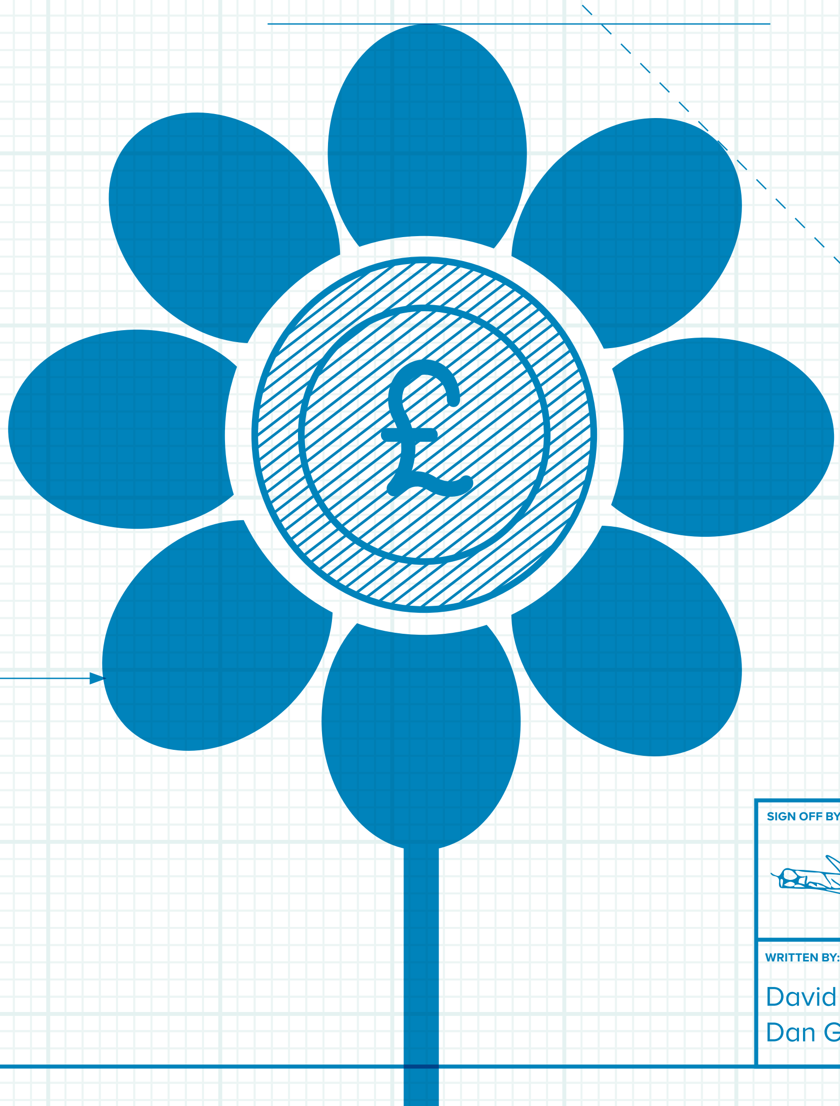
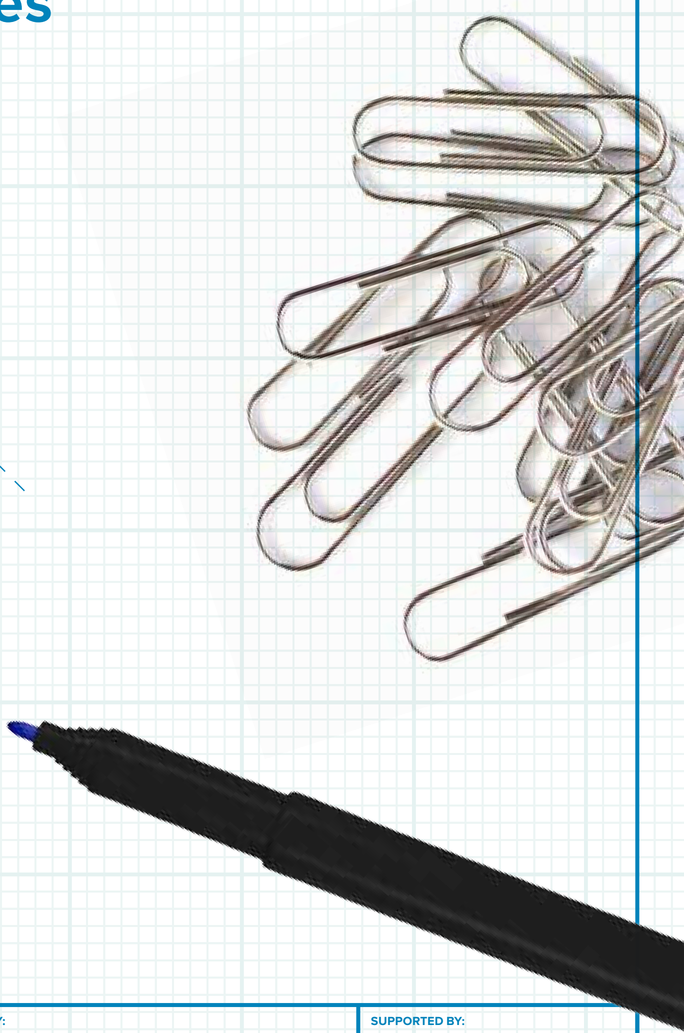
power to change | business in community hands

We still haven't found what we're looking for

Uncharted Investment

in Charities, Social Enterprises and Community Businesses.





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Contents

Foreword

Social investment has come a long way since it was first ideated by Sir Ronald Cohen. History doesn't tell us whether post it notes were involved, or whether the idea was incubated in an open space, developed in a hackathon, or even catapulted in a physical centre. But as innovations go, this one has kept on coming, nurtured like a seedling nestling in organic compost in a pair of cupped hands.

Has it though, delivered what it set out to do, and reached the parts of the social sector that other finance had not?

Dan Gregory and David Floyd's research suggests that by focusing too closely on the Eiffel Tower of Big Society Capital, we are missing a lot of other tourist attractions on the Paris city break of social sector financing.

We are missing, for instance, the potential of equity finance, something to which Power to Change is committed through its Booster Programme.

Community share issues raised £36.4 million of retail investment in 2015 alone. That means that, since 2009, over 120,000 people have invested in hundreds of businesses that serve their community, throughout the UK.

The capital provided by the various forms of crowdfunding also deserves more attention, not least since it is likely to grow in coming years. The simplicity and accessibility of digital platforms appeals to a sufficiently wide market to ensure take up. Crowdfunding can also offer additional value through its marketing and 'pretailing' functions. These can support start up businesses in ways that more traditional financing cannot, in many cases attracting 'first time' investors.

We are also missing the many unexciting, and far from innovative forms of credit on which the social sector, like every other, draws. These include lease finance, hire purchase, credit card loans and overdrafts.

This report shows that we need a different guide, highlighting a series of less obvious points of interest, and both more quantity and more quality in the information we have about them.

That is likely to mean clearer pathways for those seeking access to finance, and much better access to, and understanding of, the available data.

This report points the way. Now we need to get to grips with our mapping.

Gen Maitland Hudson and Ged Devlin

Summary of Findings

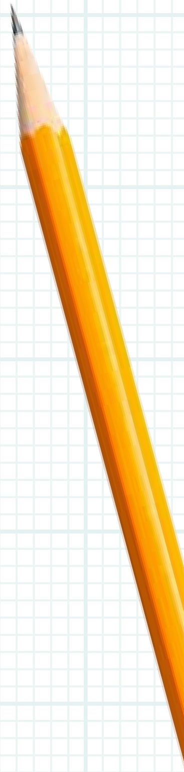
While social investment is estimated to be worth up to £1.5 billion, there is likely to be over £4 billion of total finance provided to charities, social enterprises and community businesses. In fact, Big Society Capital suggests that if we include housing associations and others, total investment in organisations with a social purpose is worth over £68 billion.

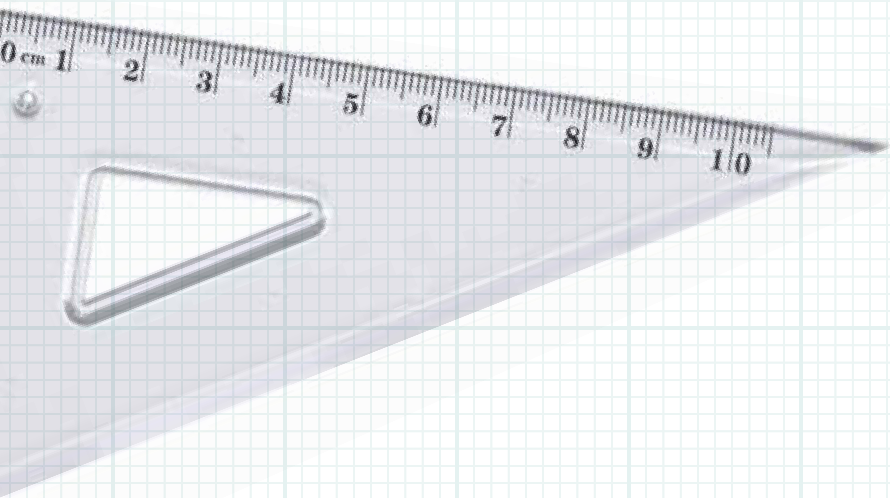
Banks, along with the social investment market of specialist intermediaries, are likely to provide much of this. But at least £1 billion of investment – and perhaps many more times this – is unexplored and unaccounted for. Until now...

Power to Change research has shown that, while community businesses’ current engagement with the social investment market is low, many are interested in taking on repayable finance at some point. This suggests a need to better understand the current scale and potential relevance of ‘uncharted’ investment models for these organisations.

For community businesses and others, the message is clear: look beyond the banks and the social investment community for finance. Look to the local community, friends and family, local authorities and other public bodies, for example. Look into digital funding and finance platforms and bond markets. Research and engage with larger organisations with a similar ethos, and consider lease finance providers and councils. Community businesses may also find that the terms of finance available from such sources have relatively favourable terms compared with banks and social investors.

What’s more, a better understanding of the range and terms of alternative finance options for social enterprises and community businesses may help social investors find their niche in the market more easily – and help them add value to the existing supply of finance.





Introduction

In 2017, social investment continues to attract significant policy focus, rhetoric, financial support and media coverage. Yet the wider understanding of social investment is often:

– **inconsistent** – caused by confusion between definitions and interpretations of social investment.

– **narrow** – rather than looking at flows of capital to charities and social enterprises from the full range of sources, or investment motivated by a social purpose finance into socents, there tends to be focus on where these flows overlap – and it's not clear why.

– **inaccurate** – data is often incomplete, and based primarily on surveys and information provided by Social Investment Finance Intermediaries (SIFIs). Industry figures have a tendency to ignore investment from individuals, for example, and from institutions beyond SIFIs.

We see this report as the third in a series. In After the Gold Rush, our first report for the Alternative Commission on Social Investment, we explored the development of social investment on its own terms, and made several recommendations for making social investment more socially useful and financially sensible. But we also pointed out that common perceptions of social investment are perhaps, as above, rather narrow and blinkered, focused mainly on fund models and "the investment activities of UK SIFIs and the broader social venture lending of Community Development Finance Institutions (CDFIs)".[1]

The second report, The Forest for the Trees, for RBS, stepped outside this narrow field of social investment and explored how, while the social investment market has been promoted heavily, mainstream bank lending is often underestimated. The report also encouraged more debate on the size and scale of mainstream lending to the social sector, and concluded that mainstream bank lending to the social sector was likely to exceed lending from the social investment market significantly.[2]

Meanwhile, the National Council for Voluntary Organisations has estimated total lending to the voluntary sector at nearly £4 billion, of which not all can be accounted for by bank lending and specialist social investors.

As Danyal Sattar, Head of Social Investment at the Joseph Rowntree Foundation, puts it: "There is a pool of people out there who have always done social investment, but don't pop up anywhere, because they are not institutional, social enterprise, or connected to government, whose social investment interests do not get represented."[3]

It is this very activity we aim to shed a light on here.

[1] The Alternative Commission on Social Investment: http://socinvalternativecommission.org.uk/
[2] The Forest for the Trees by David Floyd & Dan Gregory July 2016: http://www.rbs.com/content/dam/rbs/Documents/Sustainability/Forest_for_the_Trees_%202016.pdf
[3] The Alternative Commission on Social Investment: http://socinvalternativecommission.org.uk/

Aim

The aim of this work is to shed light on the scale and terms of uncharted social investment. By 'uncharted' social investment, we mean:

– investment in charities, social enterprises and community businesses that may be socially motivated, but is too often forgotten in social investment narratives, research and publications

– investment in these organisations that may not be socially motivated as such, but is nevertheless significant, has often been ignored, and may warrant further investigation.

This research aims to:

– investigate a range of existing, although sometimes ignored or unexplored primary data

– explore new data and new evidence

– estimate and map the scale of previously uncharted investment activity.

We also present a number of short case studies in distinct areas:

– Lease finance

– Bonds

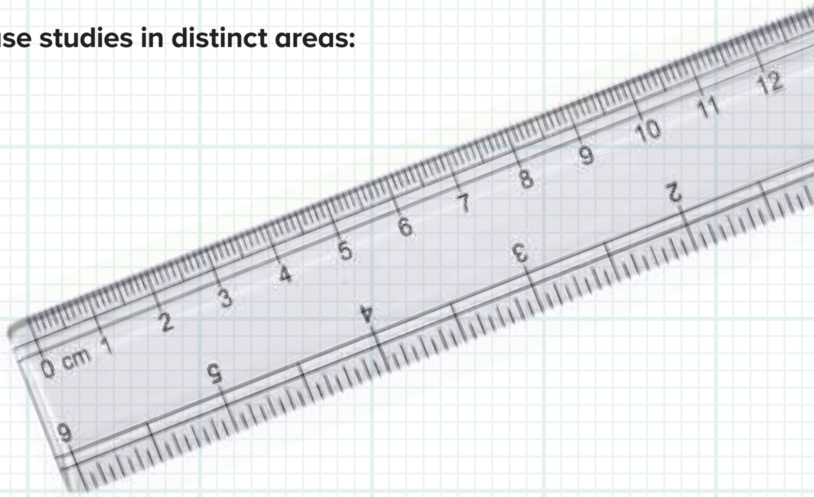
– Platforms

– Community shares

– Friends and family

– Large social businesses to smaller

– Government



We then draw a range of conclusions from our research – each with implications for the sectors, organisations and individuals involved. We hope this report provides greater clarity, which will help community business and social sector organisations, investors and policymakers target their efforts more effectively, and ultimately make finance more accessible and affordable.

Scope

Understanding social investment

As our previous work, Boston Consulting, Big Society Capital and others have acknowledged, various combinations of the investors and investees' social motivations can lead to different interpretations of social investment and impact investment:

Users/Investees	Social intent	No social intent
Social intent	A1 – Emphasis of current BSC strategy A2 – Other social investment / profit-with purpose	C. Wider impact investment (user-led)
No social intent	B. Wider impact investment (investor-led)	D. Not social investment (although positive impact can still occur)

Our focus here is primarily on on box A1 but also on box C. We believe social investment can only be truly understood in the context of access to finance for charities, social enterprises and community businesses. For social investment to make sense, grow and be useful, we need to consider the range of finance options available from the customer's perspective – that is, the social enterprise or community business. This may include finance from banks or lease finance providers, among others.

Understanding community businesses

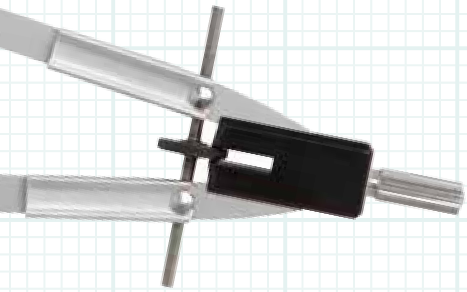
Power to Change is an independent charitable trust with a £150 million endowment from Big Lottery Fund to support community businesses to create better places across England. It describes community businesses as locally rooted, trading for the benefit of the local community, and accountable to it – and with a broad community impact. While this terminology differs from the language used by charities, civil society, and the voluntary, community and social enterprise (VCSE) sector – or the language social enterprise or social ventures use – there is considerable overlap.

So while community businesses are a focus of this research, we'll also consider them in a wider, overall landscape of uncharted investments in civil society, and the wider social economy.

We use a range of terms to describe 'community business' throughout this report. Note that while we don't see them as interchangeable or synonymous, the broader issue of how to describe or define social enterprise and civil society is beyond the scope of this report.

Power to Change's definition of a community business is as follows, from The Community Business Market in 2015, published in March 2016:[4]

> **We developed four tests last year to identify organisations that most effectively deliver this type of impact. We believe these tests (leadership, place, community value and local returns) remain the right ones.**



[4] Research Institute Report No.1 The Community Business Market in 2015 by Chris Percy, Adam Swersky, Doug Hall & John Medley-Hallam: http://www.thepowertochange.org.uk/wp-content/uploads/2016/03/PTC-State-of-the-market-2015-research-report-tagged_AW-REV1.pdf

The report's authors note that: "Relatively few community businesses will excel in all four areas, particularly at an early stage. When examining individual businesses, judgement and an appreciation of circumstances is required." The report also acknowledges that: "Community businesses can take a range of legal forms, and in many ways can be seen as a subset of the social enterprise market – but what makes a community business distinct within that sector is its local accountability and focus on a particular place." The authors set out two sets of conditions for what constitutes a community business in relation to the four community business tests:

– 'Floor': minimum conditions.

– 'Aspiration': ideal conditions.

Building on this approach for the purposes of this report, we group businesses into an 'inner circle' or 'outer circle'. This helps us differentiate between:

a) community businesses likely to meet at least the minimum conditions for all four community business tests

b) organisations that share characteristics with community businesses, but where we can't be certain they meet the minimum 'floor' conditions.

Our inner circle classification includes:

– community benefit societies (CBSs) or community interest companies (CICs) focused on a specific community

– charities focused on a specific community and generating at least 50% of their income through trading

– companies limited by guarantee with a defined social purpose, focused on a specific community and generating at least 50% of income through trading.

Our outer circle also includes:

– other charities, CICs and CBSs

– co-operative societies with a defined social purpose

– other companies limited by guarantee with a defined social purpose

– other businesses that appear to be driven by a social, community or environmental purpose, but where it's not clear that this is 'locked in' by legal form or ownership model.

Methodology

First, we scoped our research – identifying sources, examining existing data, developing a bibliography, creating a databank structure and establishing our methodology. We then gathered further data, analysed it and wrote up our findings, highlighting cases studies and considering some of the challenges these approaches pose to community businesses.

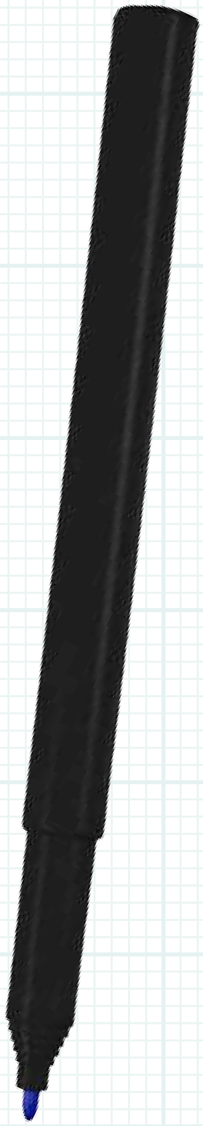
Existing research

The UK Government's Department for Work and Pensions published its latest update on the state of social investment in July 2016[5]. Working with the Centre for Business in Society at Coventry University, ICF International (ICF) studied the size and dynamics of social investment flowing through UK SIFIs, and its report concluded that the flow of UK social investments made by SIFIs in 2013/14 was worth £168.4 million. Perhaps surprisingly, this figure is down from £202.2 million in 2011/12.

However, the ICF study was also designed to consider developments in 'non-SIFI' social investment, and the channels it uses. The authors state: "a narrow, SIFI-based definition of social investment does not take account of recent developments in the types and motivations of social investors, new forms of product, and new investment channels." The study identified new types of investor, new forms of social investment product and new investment channels – in particular highlighting charitable foundations, community shares and new digital platforms. The ICF report didn't gather data for these non-SIFI areas, and the authors suggest "future assessments of the scale and scope of UK social investment markets are likely to require full review of such developments."

Earlier, in March 2016, Big Society Capital had produced its first comprehensive estimate of the size and composition of social investment in the UK[6]. The report suggests that the value of the stock of social investments in the UK was worth at least £1.5 billion at the end of 2015. This included bank lending, community shares, charity bonds and more. Big Society Capital suggests deal-flow in 2015 was worth £427 million, although this was in terms of commitments made, and not money moved[7].

We've built on this data in our research, providing further analysis and critique, and adding to it where we feel it can be further developed. Big Society Capital's report, however, did not consider some other forms of investment in charities, social enterprises and community businesses, which we cover in this report.



[5] Growing the social investment market: update on SIFI social investment by The Department for Work & Pensions July 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535068/rr923-growing-the-social-investment-market-update-on-sifi-social-investment.pdf
[6] Big Society Capital: https://www.bigsocietycapital.com/latest/type/news/uk-social-investment-worth-%C2%A315bn-says-new-big-society-capital-report
[7] Social Investment Insights Series by Matt Robinson March 2016: https://www.bigsocietycapital.com/sites/default/files/attachments/The%20size%20of%20and%20composition%20of%20social%20investment%20in%20the%20the%20UK_3.pdf

New research and emerging data

We used a range of research methodologies to try to unearth new information and data. These included:

- comparing Company Registration Numbers (CRNs) for social sector organisations with CRNs held by a major commercial lease finance provider

- searching online for individual deals

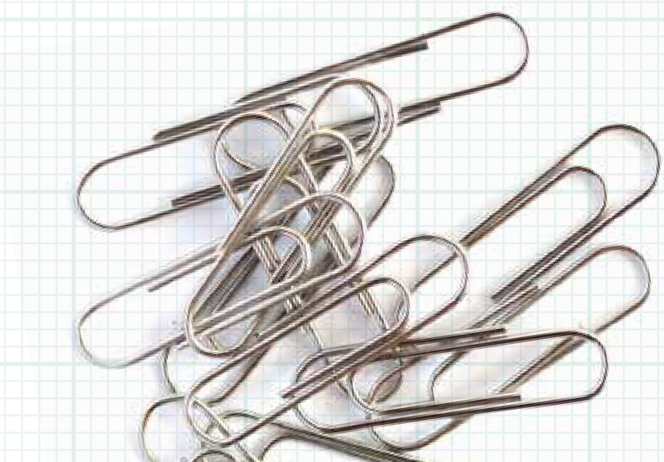
- seeking access to data held privately by intermediaries and platforms, by:

- surveying Charity Finance Group members, in October 2016, with the support of Charity Finance Group and using a web-based survey tool. The survey asked three questions, including whether CFG members had ever borrowed money from friends and family, another charity or a local authority, or other sources. The survey had just eight responses.

- surveying over 650 Financial Directors in the Local Government Associations' CRM system in England and Wales, in October 2016, with the support of Local Partnerships, using a web-based survey tool. The survey asked six questions, including whether the local authority had lent money, guaranteed a loan to, or invested in some other way in a charity, social enterprise or community business in the last five years. It also asked for details of how many investees and how much money. The survey had just six responses.

Some of our methodologies proved more fruitful than others, as outlined below. As this is an investigation into uncharted social investment, information is inherently scarce and/or incomplete. Our broad figures of the level of activity in each area are therefore sometimes based on estimates or extrapolations, and do not allow for a high level of specificity or accuracy.

While we've attempted in each chapter to calculate figures for investment into community businesses and other social organisations, in most cases these figures are intended merely as indicative starting points for more in-depth research.



1. Lease Finance

What do we mean by this?

Leasing can come in a range of forms. Hire purchase (or lease purchase) is understood quite widely by individual consumers – or lessees – as a way to spread payments for things like cars or televisions. Under other arrangements, such as a finance lease, the asset may remain under the ownership of the provider, not the customer, so the transaction is more like a rental arrangement than a purchase. Alternatively, the person or business (the lessee) may have the option to take ownership of the asset at the end of the lease contract.

What do we know already?

Very little, really. The social investment community has mostly ignored lease finance. Admittedly, even in our own research for the RBS Group on mainstream bank lending to the social sector, we largely overlooked the role of RBS' own lease finance specialist, Lombard. We aim to address that omission here...

What have we uncovered?

We've built on our previous work with RBS and worked with leading lease finance provider Lombard, to better understand the scale and scope of lease finance provision to social enterprises and community businesses. As outlined in *The Forest for the Trees*[8], a Company Registration Number (CRN) is an eight-character reference assigned to a company on its incorporation. We used a publicly available NCVO database of CRNs for 197,243 social sector organisations. Data flaws notwithstanding, these are the CRNs for all charities, CICs, companies limited by guarantee (CLGs) and Registered Societies in the UK.

Lombard took this CRN data and compared it to its own customer database to establish the extent of its provision to these organisations. The results suggest Lombard has made lease finance available to 849 organisations, to a combined value of over £150 million. This is around a quarter of all deals in the conventional social investment market (3,400) according to Big Society Capital's most recent figures. Lombard is the largest asset finance provider in the UK, with a market share of around 21%[9]. If the proportion of Lombard's customers that are social enterprises and community businesses is typical of the wider lease finance industry, lease finance may be serving more customers than the rest of the social investment industry combined.

[8] The Forest for the Trees by David Floyd & Dan Gregory July 2016: http://www.rbs.com/content/dam/rbs/Documents/Sustainability/Forest_for_the_Trees_%202016.pdf
[9] Alfa Systems, formely CHP Consulting: http://www.chpconsulting.com/themes/site_themes/chp_consulting/img/ee_uploads/downloads/CHP_AF_March_2016.pdf

Lombard reports that it has 197 customers currently accessing finance, worth £18 million. These customers are diverse, and include well-known national charities, wildlife trusts, theatres, community transport providers, development trusts, recycling businesses and sports clubs.

These figures and findings appear to correspond with government data that suggests leasing or hire-purchase has also been understated – with over 8% of social enterprises accessing it.[10]

Case study – The Severn Project

The Severn Project is an urban farming social enterprise based in Bristol. It employs 11 staff and supplies 220 customers throughout the South West. It is now a well-established and ambitious social enterprise that has combined a commercially successful food-growing and distribution business with a self-funded programme of opportunities for socially excluded people.

Alongside finance from a high-street bank and social investors, the Severn Project has also used lease finance to support its business development. Lombard provided the finance for a delivery van, which costs the project over £200 a month, while Investec provided the finance for a packing machine, with repayments scheduled over three years at over £300 per month.

Data quality

We consider the data here to be highly accurate, based on Lombard's live customer data and the CRNs of recognised social sector organisations. It is not an extrapolation or estimate, as with some of the subsequent chapters of this report. However, to get a sense of the overall level of lease finance accessed more widely and not just provided by one company – Lombard – some estimates are necessary.

[10] Social Enterprise: Market Trends by Cabinet Office March 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/507236/SOCIAL_ENTERPRISE-_MARKET_TRENDS_2015.pdf

100m
of lease finance reaching the frontline social sector.

Conclusions

We suggest that, through lease finance:

Nearly £100 million is currently invested in social sector organisations

71m
of Big Society Capital finance reaching the frontline social sector.[11]

Issues and challenges

Perhaps the biggest challenge for social enterprises and community businesses looking to access lease finance, is a simple lack of awareness of it. With so much policy and support for social investment, and so many events and media coverage highlighting SIFI activity, lease finance can often go unnoticed. This perhaps needs addressing, given the scale and significance of lease finance in the UK more widely, with Finance Lease Association members financing £30 billion – or 31.5% – of UK investment in machinery, equipment and purchased software, and nearly 60% of this with SMEs[12]. In 2015, the asset finance market reported its second year of double-digit growth[13].

In this context, little is known about the unique practical challenges social enterprises and community businesses face when accessing lease finance. Firstly, however, it's clear that lease finance is only suitable under certain circumstances – used mostly for assets such as vehicles, machinery and IT.

Secondly, it's likely that many charities, community businesses and social enterprises aren't as familiar with the accounting and tax treatment of lease finance, compared with the alternatives. In particular, they may not be aware of the VAT, depreciation, capital allowances and other implications.

Thirdly, lease finance under the Social Investment Tax Relief (SITR) regime can be complicated, because the list of excluded activities is being extended to exclude leasing (including letting ships on charter or other assets on hire) and hire-purchase financing. This has led to confusion and disappointment in the social enterprise and community business sector, whereby some 'leasing' activities are being excluded unintentionally – for example, when leasing pubs from a landlord or freeholder.

[11] Big Social Capital: https://www.bigsocietycapital.com/what-we-do/our-kpis
[12] FLA Annual Review 2016: http://www.fla.org.uk/main-data-content/files/2014/redirect/765gjtY/submo_776yietRWTREYYGUGIHI_87/Annual-Review-2016-Web.pdf
[13] ibid

2. Bonds

What do we mean by 'bonds'?

In July 2014, Big Society Capital published a paper as part of its Insight Series into charitable bonds, defining them as "fixed income instruments (bonds) issued by regulated charities and social enterprises which aim to serve a defined and in-need beneficiary group, or work to create a broader public benefit." Big Society Capital described a bond itself as a "type of tradeable debt where the 'issuer' of the bond borrows money from an investor, whilst promising to repay the investor's investment in the future in addition to periodic interest payments (or 'coupons') to compensate the investor for the use of their capital."[14]

In simple terms, bonds can have many lenders, whereas many other forms of debt have just one lender – a bank, for example. This is a retail product where individual investors can invest directly in an organisation without an intermediary fund manager to channel the funds through. Bonds may be listed on a public exchange or be placed privately. Grant Thornton notes that "Whilst institutional bond markets have serviced the corporate bond market for many years, direct access to the retail market has more recently developed through two main channels: the issue of listed bonds on ORB (the London Stock Exchange's retail bond market), and the issue of non-transferable and unlisted mini-bonds."[15]

Case Study 1 – Cambridge University

In 2012, Cambridge University issued £350 million of 40-year bonds priced at 3.75%. The University aimed to use the finance for investment in research facilities, accommodation and other university assets. Moody's rated the University AAA, which was a better credit rating than the Bank of England or the UK Government had at the time.

The university holds assets of around £4 billion, and is an exempt charity under the Charities Act 2006.

What do we know already?

In a briefing published in 2014, Big Society Capital discussed bonds issued by charities, CICs and CBSs with exempt charitable status. They noted that the first UK domestic charity bond issued was £1.3 million to Golden Lane Housing in 2003, and that 19 charitable bonds have since been issued in the UK.

[14] Social Investment Insights Series by Alex Goodenough July 2014: https://www.bigsocietycapital.com/sites/default/files/attachments/Social%20Investment%20Insights%20Charity%20Bonds.pdf
[15] Grant Thornton: http://www.grant-thornton.co.uk/Global/Lenders-%20ReportsandPresentations/Mini-Bonds-charities.pdf

Two years later, in their 2016 overview of the UK social investment market, Big Society Capital identified 18 live charity bonds, worth a combined £86 million. This included bonds issued by charities, CICs and CBSs; those with targeted social impact referenced in deal documentation and explicit impact reporting; Allia charitable bonds and the Future Business Centre Bond.[16]

Case Study 2 – Eden Project Mini-Bond

In 2014, the Eden Project raised £1.5 million from 355 investors in just 20 hours. Bondholders are set to receive 6% interest over four years, with the principle returned in a lump sum. The average investment was around £4,000. The Eden Project is a well-known UK charity and social enterprise, famous for its biomes that house the world's largest rainforest 'in captivity'. The money is intended to turn two farmhouses into classrooms for horticulture and food production. It was the fastest mini-bond of its kind at the time.

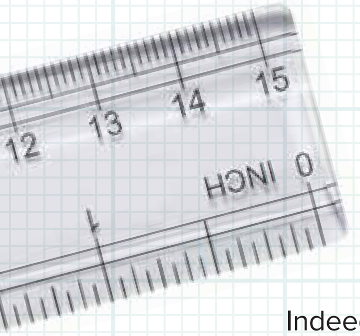
As Crowdcube makes clear, "Mini-bonds are unsecured, non-convertible, and carry risk to your capital. Mini-bonds are not covered by the Financial Services Compensation Scheme. Liquidity is not guaranteed."[17]

What have we uncovered?

As often appears to be the case, the recent interest and excitement around social investment in the UK has drawn attention away from similar activity from decades or even centuries ago, or that has taken place overseas, or been ignored for other reasons.

Evidence exists of bonds issued in Mesopotamia around 2400 BC, and bond markets flourished in Venice in the 12th Century AD. In 1900, in Switzerland, a co-operative society issued a bond of CHF 330,000 to finance an affordable health spa facility that would enable a wider section of the population to take a holiday[18]. Ebeneezer Howard's Letchworth Garden City was financed through members investing £1,000 each at 4% interest on return – provided the new town turned a profit.

[16] Social Investment Insights Series by Matt Robinson March 2016 http://www.bigsocietycapital.com/sites/default/files/attachments/The%20size%20of%20and%20composition%20of%20social%20investment%20in%20the%20the%20UK_3.pdf
[17] Crowd Cube: https://www.crowdcube.com/investment/eden-project-bond-17109
[18] ZFV die Gastronomiegruppe: https://zfv.ch/en/group/about-us/history



Indeed, even the claim that Golden Lane Housing was the first charitable bond may be inaccurate. The Peabody Trust borrowed money from The Rothschild family in 1883 to finance an affordable housing development at Spitalfields[19]. The Rothschilds also financed the Four Per Cent Company, which today is IDS Housing, a registered society. Heywood reports that bonds have been "used extensively, and increasingly, by the UK housing association sector from the early 1990s"[20], while mutual building societies also issued bonds in the UK throughout the 1980s.

Universities have also entered bond markets increasingly in recent years – Cambridge, de Montfort, LSE, Manchester, Liverpool and Northampton Universities have all issued bonds. Bond issues at English universities go back to the 1990s[21]. Lancaster was perhaps the first university to make a public offering, issuing £35 million at 9.75% for 30 years in 1995. In 2016, Cardiff University issued £300 million of bonds at 3%, due to mature in 2055[22].

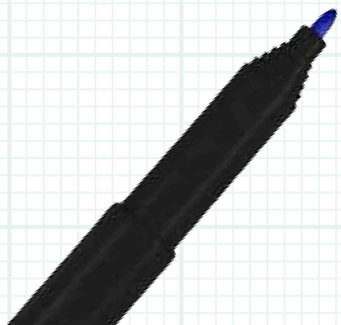
Welsh Water/Glas Cymru was created in 2000, financed by a £1.9 billion bond issue, thought to be the largest ever non-government backed, Sterling corporate bond issue[23]. Glas Cymru is a company independent of government, with no shareholders, and all financial surpluses used to benefit customers.

In January 2015, the Wellcome Trust announced a €400 million Eurobond. The final coupon of 1.125% was the lowest ever for a AAA-rated corporate in the euro bond market[24]. It was also "the lowest ever coupon in the euro bond market for a corporate issuance with a tenure of longer than ten years" and the initial order book was seven and a half times over-subscribed. The Trust had previously issued Sterling bonds in 2006, 2009 and 2014.

So what is the true value of investment via bonds in the UK social sector? Big Society Capital keeps a record of all bonds issued by charities, not including housing associations. It then judges if these bonds count as charity bonds, based on the criteria described above – excluding universities, the Wellcome Trust, Motability, Nuffield Health, the Eden Project, the Church of England Pension Board, and so on. On this basis, Big Society Capital reported a figure of around £86 million in June 2016.

However, the cumulative value of all bonds issue by charities was £7.6 billion. The Eden Project bond – one of the UK's most recognisable social enterprise – was not included, as it didn't conform to Big Society Capital's definition of a charity bond (seemingly falling short by reporting only general rather than

[19] Peabody: http://www.peabody.org.uk/about-us/who-we-are/our-heritage/history-of-our-estates
[20] Innovative Financing of Affordable Housing -International and UK Perspectives by Kenneth Gibb, Duncan Maclennan & Mark Stephens: https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/affordable-housing-finance-full.pdf
[21] The Third Revolution by Andrew McGettigan September 2011: http://exquisitelife.researchresearch.com/files/3rdrevolution-suplement-2.pdf
[22] Cardiff University News: http://www.cardiff.ac.uk/news/view/196908-university-announces-the-issue-of-300m-3-bonds-due-2055
[23] Welsh Water: http://www.dwrcymru.com/en/company-information/glas-cymru.aspx
[24] Wellcome Trust: https://wellcome.ac.uk/press-release/wellcome-trust-prices-400-million-euro-bond



targeted social impact), and it remains arguable that these investments should be excluded from market estimates. Big Society Capital also excludes bonds issued by housing associations, a market it estimates as being worth over £6 billion in outstanding issuance, as at the end of 2015 – including bonds arranged by Allia. It seems inconsistent that the Golden Lane Housing bond is frequently referred to in the social investment community – even advertising itself as a social investment bond[25], while other similar investment activities, also worth billions of pounds, is commonly ignored.

Big Society Capital's useful dataset, however, also excludes other bond-issuing businesses that meet some definitions of social enterprise, and either Power to Change's inner or outer circle of community businesses. These include, for example, bonds issued by:

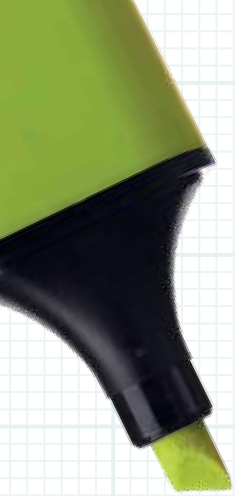
- Glendale Gateway Trust (£122,000 in 2013) and the Drive Housing Co-op (£25,000 in 2012)
- The Jockey Club (£24 million in 2013), The All England Tennis Club (£125 million), Lancashire Cricket Club (3.4 million in 2014), Glamorgan and other cricket clubs, often registered as CBSs
- Ecotricity (£18 million in 2015 and three other issues), BUPA (£350 million in 2009), Pocket Living (£1 million in 2015) and John Lewis (£300 million in 2014)
- Nationwide Building Society (£140 million in 2015) and Yorkshire Building Society (£100 million in 2010).

We should also take into account one other category of bond issuers – those with an international focus but UK links. For example, the International Finance Facility for Immunisation (IFFIm) and the European Investment Bank (a non-profit, long-term lending institution).

Finally, we should also consider how various forms of customer deposits and investments made into CAF Bank (with assets of £980 million), Charity Bank (£80 million), Unity Trust Bank (£700 million), Triodos Bank (£1.4 billion) and the Ecology Building Society (£145 million) are also effectively investments into the social sector akin to bonds. If Big Society Capital's investment in Charity Bank is counted as social investment, why aren't individuals' deposits?

Much of this significant activity doesn't appear in the National Council for Voluntary Organisations (NCVO) figures for total social sector borrowing – which also excludes housing associations' activity. As Phil Caroe, Director of Impact Finance at Allia says, "I actually think we do the market a disservice by excluding the majority of housing associations and universities... Where do we draw the line, if at all?"[26]

[25] Golden Lane Housing: http://www.glh.org.uk/investors/2013-social-investment-bond/
[26] Phil Caroe via personal correspondence by email



It may be that this activity isn't seen as social investment because investors aren't necessarily socially motivated. Regardless, it is investment in the social sector, and certainly an opportunity for socially motivated investors.

Many of these businesses are clearly part of the social sector – as registered charities, for example – although many aren't recognised as community businesses. But perhaps these organisations challenge us to reconsider what constitutes a community business? Must they be small, as maybe people have come to expect? Lancashire County Cricket Club and Cambridge University arguably meet Power to Change's characteristics of a community business in terms of their leadership, place, community value and local returns. Perhaps the All England Tennis Club does too, along with many housing associations and the Yorkshire Building Society… and, if a nation can be a community, then why not Glas Cymru?

Data quality

There are likely to be other societies that have issued bonds, that neither Big Society Capital nor this research have picked up on.[27] The data considered inthis chapter is very accurate on the whole, thanks largely to Big Society Capital's analysis. But it is also incomplete, and admittedly a little tatty around the edges in places.

Conclusions

It seems billions of pounds are invested in social sector organisations in this way.

£86 million
Big Society Capital estimate of value of charitable bonds

£1.9 billion
value of single Glas Cymru bond issue

[27] for example, from the co-operatives listed here - Likely to be more here – Co-Operatives UK: http://www.uk.coop/economy2015/uk-co-operative-economy-2015-report

Issues and challenges

In 2014, Big Society Capital identified several challenges for borrowers, some of which are common to all forms of repayable finance. But others included the time to market, the need for credibility to a wider audience, limited liquidity and transferability of mini-bonds, and the fact that they're not covered under the Financial Services Compensation Scheme.

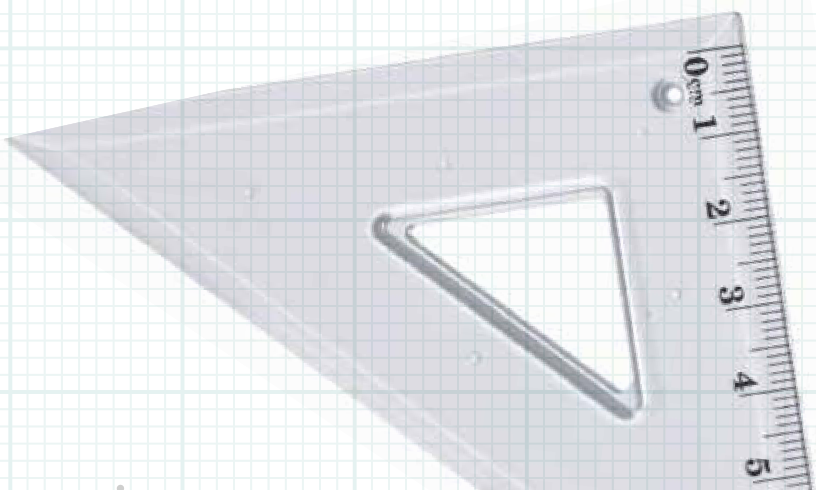
Our research suggests bonds may not necessarily attract a high average cost. In fact, the average cost of the bonds we considered in this study, and are collected by Big Society Capital, was around 4 or 5% – with only the large building societies paying more than 7.5%. However, there are perhaps other challenges for charities, social enterprises and community businesses issuing bonds, such as:

– their suitability for only large or well-known businesses, or those with significant assets

– difficulty knowing what initial price to offer the bonds at

– compliance with listing rules – for example, regarding company information.

The analysis in this chapter suggests two major conclusions. Firstly, that we should not discount the significance of investment via bonds that aren't declared as part of the social investment market, or that Big Society Capital doesn't declare to be so. Secondly, that we should realise how these bonds offer a significant opportunity and a massive market for socially minded investors to engage with. These are often tradeable securities listed on market platforms, and the issuer can set the terms of the offer. They may, in future, help those interested in the growth of social investment to better understand how demand from socially minded investors can affect the price of these investments – and so reduce the cost of capital to social enterprises and community businesses compared to the cost for other businesses with less obviously social or community purposes within the same asset class. As they stand, bonds do not appear to be especially expensive for some large and established social sector and community businesses, and the cost may decrease as socially minded investors realise the opportunity they represent.



3. Platforms

What do we mean by ‘platforms’?

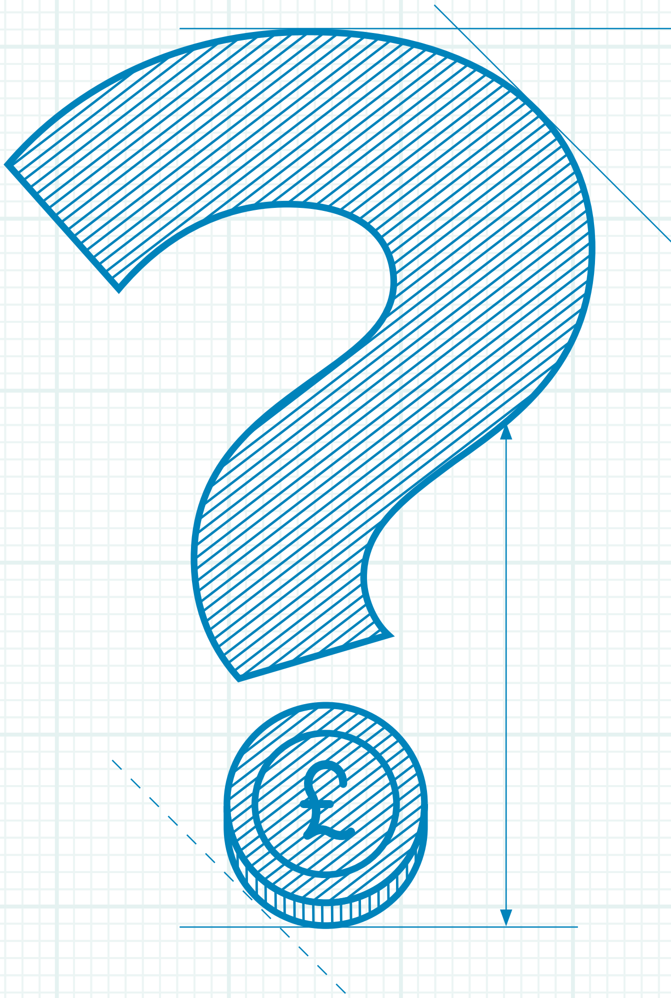
In the foreword to Nesta’s 2014 report Understanding Alternative Finance, Executive Director of Policy and Research, Stian Westlake, described alternative finance as, “a growing movement afoot to revolutionise banking, investing and giving by using technology to simplify the links between those who want to invest money and those who need it.”[28]

Nesta’s report covered nine models of alternative finance administered primarily through online platforms. Of these models, community shares is significant enough to merit its own chapter in this report, and in this chapter we focus on three others: P2P business lending, equity-based crowdfunding and reward-based crowdfunding. In effect, all three are forms of crowdfunding, ie. using small amounts of capital from a large number of individuals to finance a new business venture.[29]

– Nesta describes P2P business lending as “Debt–based transactions between individuals and existing businesses which are mostly SMEs with many individual lenders contributing to any one loan.”[30]

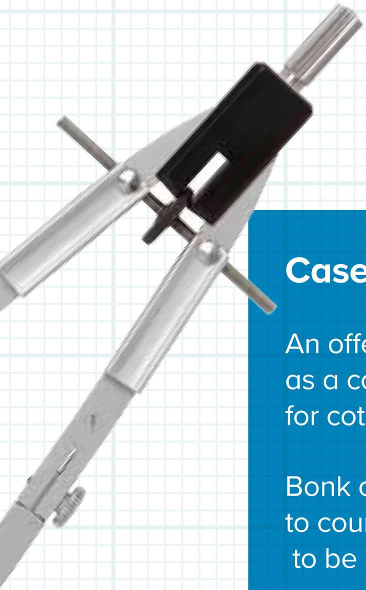
– equity-based crowdfunding is described as the “Sale of a stake in a business to a number of investors in return for investment, predominantly used by early-stage firms.”[31]

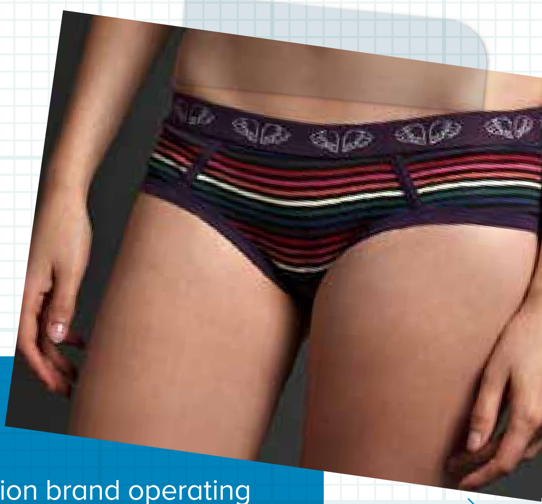
– Accordingly, Nesta defines reward-based crowdfunding as when “Individuals donate towards a specific project with the expectation of receiving a tangible (but non–financial) reward or product at a later date in exchange for their contribution.”



Unlike community shares, which are only available to co-operatively structured social organisations, the three models covered here can be used by a range of organisations, including some from the social sector – which may also be considered community businesses.

[28] Understanding Alternative Finance: https://www.nesta.org.uk/sites/default/files/understanding-alternative-finance-2014.pdf
[29] Investopedia: http://www.investopedia.com/terms/c/crowdfunding.asp
[30] ibid
[31] ibid





Case study – Bonk of Pants

An offer created in 2012 by Pants to Poverty, an ethical fashion brand operating as a company limited by shares, committed to providing fair working conditions for cotton farmers and tailors in India.

Bonk of Pants applied a unique funding mechanism – neither a bank or a bond – to counter regulatory stipulations that wouldn't allow the words 'bank' or 'bond' to be used, and offered investment opportunities via the Buzzbnk platform.

Bonk of Pants exceeded its £30,000 target, raising £54,365 from 104 supporters who were offered interest at 10.2% APR, comprising 3% interest in cash and 7.2% in 'pants' (vouchers).

What do we know already?

Using alternative finance via online platforms is growing fast in the UK. Nesta's Pushing Boundaries[32] report, which looked into the market for 2015, showed an 84% increase from 2014 to 2015 – from £1.74 billion to £3.2 billion.

The portion of that market covered by P2P business lending, equity-based crowdfunding and reward-based crowdfunding is worth £1.17 billion, and provided investment for nearly 19,000 organisations in 2015:

	2015 total	Deals	Average size
P2P business lending (excluding real estate)	£881 million	11,536[33]	£76,280
Equity-based crowdfunding (excluding real estate)	£245 million	468	£523,798
Reward-based crowdfunding	£42 million	6,633	£1,379

It's not clear from the current data what proportion of these include social sector organisations or community businesses. Big Society Capital's State of the Market survey of UK social investment suggests the number of deals via platforms currently recognised as 'social investment' is very small[34]. Its report covers investments via platforms that fall into the wider category of 'equity-like capital'

[32] Pushing Boundaries by Bryan Zhang, Peter Baeck, Tania Ziegler, Jonathan Bone & Kieran Garvey February 2016: http://www.nesta.org.uk/sites/default/files/pushing_boundaries_0.pdf
[33] Nesta estimate around 10,000 SMEs received loans over the course of the year
[34] Social Investment Insights Series by Matt Robinson March 2016: http://www.bigsocietycapital.com/sites/default/files/attachments/The%20size%20of%20and%20composition%20of%20social%20investment%20in%20the%20the%20UK_3.pdf

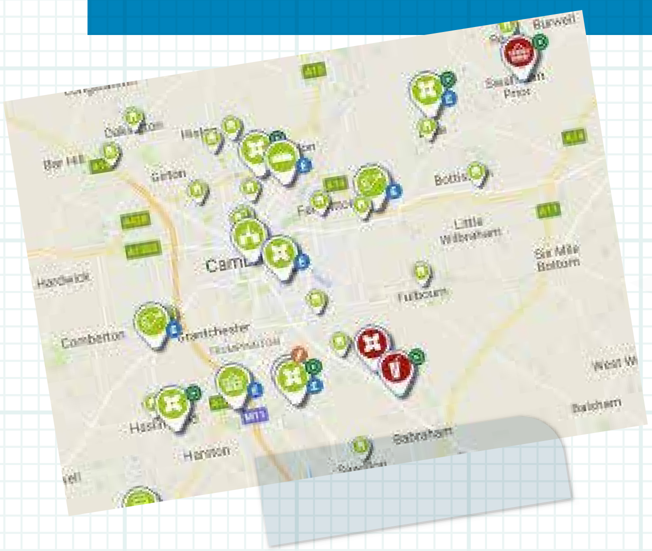
and suggests the total value of current deals in this category was £32 million across 123 deals – while the figures for 2015 were £11 million across 35 deals. However, this investment category includes a minimum of 16 different sources of finance, of which only Spacehive, Thincats, Crowdcube and Buzzbnk were crowdfunding platforms.

While precise information simply isn't available, Big Society Capital indicates that an estimated seven of the 123 current deals are via platforms with a total value of around £2 million. Just two of those deals took place in 2015, with an estimated value under £1 million. Anecdotal information indicates that the number of social investment deals completed via platforms is likely to be significantly greater than seven, but there's no other estimate available at this time. Data in this area remains incomplete and typically unrepresentative.

Case study – Big Barn CIC

Big Barn is a CIC limited by shares, based in Bedfordshire. Its aim is to reconnect consumers with local producers and encourage local trade. It raised £12,000 in equity crowdfunding via the Crowdcube platform in December 2011. The 58 investors are believed to have been motivated by a mixture of social purpose and the prospect of return on investment. The largest individual investment was worth £1,000.

Big Barn's motivations for using equity crowdfunding were to raise money to grow the business and to have shareholders who were long-term customers and advocates of the business. Its investment target was £60,000, so to raise only £12,000 was a disappointment, and Big Barn feels it was advised poorly. The company does not believe that selling shares has had a significant impact on its operations, but found the process of raising money to be a negative experience.



Nesta's Understanding Alternative Finance does, however, shed light on the nature and motivations of investors via these three platforms:

– For P2P business lending, investors tended to be older men – 83% of lenders were male, and 57% were aged over 55. And they were investing relatively large amounts of money, with 84% lending over £1,000.

– Equity-based crowdfunding featured a mix of professional investors with previous experience, high net-worth individuals (38%) and other retail investors (62%). This perhaps suggests this model tends to attract investors with a specific interest in the business they're investing in, rather than a primarily commercial expectation.

– Among backers of reward-based crowdfunding, 78% 'invested' £100 or less via the crowdfunding platform, while 72% 'knew the person running the campaign they backed, either personally or by reputation'.

The researchers asked investors[35] to rank different factors in their investment decisions. These included factors that may indicate social motivation, rated as either 'very important' or 'important':

P2P Business Lending

76% - 'Supporting an alternative to the big banks'

57% - 'I feel my money is making a difference

36% - 'Doing environmental or social good'

26% - 'Lending to local businesses or enterprises'

13% - 'To help increase housing stocks'

Equity-based crowdfunding (38% professional / 62% retail)

63% - 'I feel my money is making a difference'

46% - 'Doing environmental or social good'

33% - 'Investing in local businesses'

[35] Based on a survey of 2007 'consumers' of alternative finance products carried on by ACCA and PwC on behalf of NESTA between March and September 2014

Reward-based crowdfunding

84% - ‘Doing environmental or social good’

62% - ‘Supporting a local project or business’

32% - ‘Getting a reward/product I couldn’t get elsewhere’

9% - ‘Would otherwise have used money for investment’

Case study – Hemp Eyewear

Ethical fashion brand Hemp Eyewear launched a Kickstarter reward-based crowdfunding campaign in 2014 to help it expand production of items handcrafted from hemp fibre.

It raised 149% of the funding goal, at £37,367, from 281 backers. In return for a £70 investment, funders would get a pair of hemp sunglasses with a retail value of £120, and store owners could also secure a small stock of the product via their campaign.

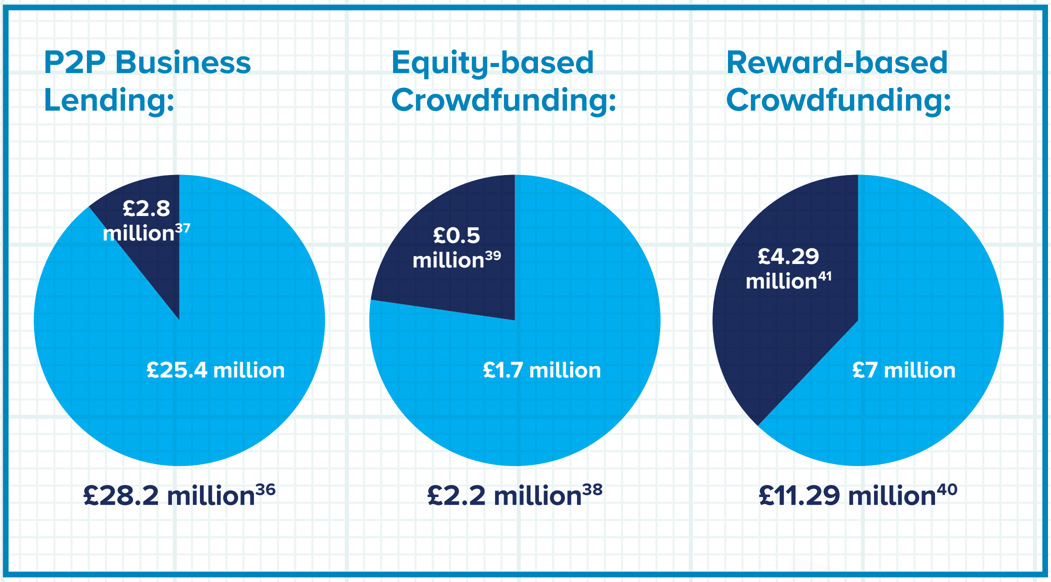
The founders of Hemp Eyewear felt crowdfunding was far easier than going to banks or using business support funding systems, especially given that they were young entrepreneurs with no financial track record. It also meant they could raise start-up funds without giving a large percentage of their business to investors. Interestingly, 30% of their backers came from the 7,000 people who’d already registered online to receive information about Hemp Eyewear products. The success of the Kickstarter campaign put the company under pressure to manufacture the sunglasses quickly to reward backers, but the overall experience was positive.

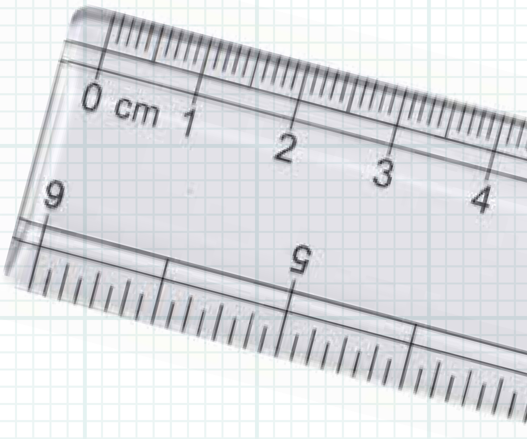
What have we uncovered?

As part of this research, we sought to work with a range of alternative finance organisations, to generate specific data about lending to and funding community businesses and other social enterprises via their platforms. Unfortunately, while several were keen in principle, as relatively small businesses with small staff teams they were ultimately unable to engage fully with our research.

Consequently, we rely on a combination of anecdotal examples and our own estimates of the scale of activity in this area. These are based on the proportion of social enterprises in the wider economy, and of social enterprises that can be defined as community businesses. We note, however, that further research will generate more precise figures.

We have made the following estimates:





[36] 881 million x 5%: based on around 5% of employing SMEs being social enterprises x 64% due to lack of lending via Funding Circle (which makes up 36% of the P2P business lending market)
[37] £881 million x 0.5%: based on 10% of social enterprise meeting inner circle definition of community businesses x 64% due to lack of lending via Funding Circle
[38] £245 million x 0.9%: based on 16% of social enterprises being CLSs
[39] £245 million x 0.2%: based on 4% of social enterprise CIC CLSs
[40] £42 million x 0.32% of funders 'investing' in the product x 84% with social motivation
[41] £42 million x 0.32% of funders 'investing' in the product x 84% with social motivation x 62% focused supporting a local project

Data quality

These figures are drawn from strong data relating to the alternative finance market as a whole, and provide an unusually clear picture of investors' social motivations in a new and fast-growing investment market. However, the available data for this market doesn't give us anything more than an estimate of the 'social' element of that market, or the part of that social element that meets the definition of 'social investment into community businesses'. The imprecise models available to generate these figures mean they're only broadly indicative of the likely reality – particularly in the cases of P2P business lending and equity-based crowdfunding.

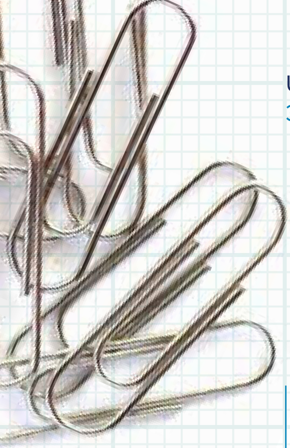
Conclusions

We estimate that up around £42.7 million may have been invested in social sector organisations via alternative finance platforms in 2015.

Issues and challenges

It appears that community business and other social organisations face a range of challenges when seeking to raise investment via alternative platforms, but this model also offers significant opportunities.

Perhaps the most significant challenge is that the UK's largest P2P business lending platform, Funding Circle, actively refuses to allow its lenders to lend to charities and CICs. While other P2P lenders, including IWOCA and Thin Cats, do make loans to these organisations, Funding Circle told us that "as Funding Circle is a risk-based product, and private individuals lend their money through the platform, we have to take appropriate steps to ensure the right businesses are listed on the platform. Therefore, we are unable to accept not-for-profit organisations on the platform." They add that "CICs and charities can often rely on donations as a source of income, which can make it more difficult to assess risk effectively. In addition, if a borrower was to default on a loan, we would need to be prepared to potentially take legal action and as I'm sure you can appreciate, this becomes difficult if the borrower is a charity or not-for-profit organisation such as a CIC."



Equity-based crowdfunding is only a feasible option for a small proportion of community businesses and social enterprises, due to their organisational structure. It is nevertheless more feasible for 'profit-with-purpose' or 'mission-led' private businesses with a social purpose – many of which would fit within our 'outer circle' of community businesses. With almost half of equity-based crowdfunders seeking to do social and environmental good, this seems likely to be a growing market.

Reward-based crowdfunding is not commonly understood as a form of repayable 'investment'. However, we believe it's worth noting how many reward-based offers involve a form of pre-order of products or service, or 'pretailing'. We believe this model has enough in common with repayable investment that it should at least be considered within the scope of this report. These are situations where:

– the rewards offered create a clear liability for the 'investee' to deliver the rewards to the 'investor'

– the reward offered is part of the principle (social) business activity of the organisation being funded

– the value of rewards is not inflated disproportionately compared to the ultimate retail value of the product of service.

Reward-based offers that support the launch of new magazines are perhaps one of the clearest examples of this. The 'business with purpose' magazine Ethos ran a campaign during 2016 to fund the launch of its print publication, and raised over £7,500. Rewards offered included an annual subscription to the magazine for £25 plus shipping, and an advertorial in the magazine for £700. Those interested in investment in the social sector might well consider this kind of 'pretailing', as the business looking to raise money may choose to go down the reward-based crowdfunding route rather than seek other 'alternative' forms of repayable investment. It seems likely that purchasers of these kinds of rewards – or 'investors' – may be among the 32% of reward-based crowdfunders cited in Nesta's research as funding an offer on the basis of "getting a reward/product I couldn't get elsewhere".

On the other hand, many other examples of rewards-based crowdfunding use a model that most won't see as a form of investment: organisations offering rewards as an additional benefit within what is essentially a fundraising campaign. In one example, the Jim Clark Trust, a charity seeking to raise £300,000 to help fund a museum about motor-racing driver Jim Clark, are offering rewards including a pin badge for £25 and a t-shirt for £50. While these rewards might be an incentive to potential crowdfunders, they do not represent 'investing' in a badge-making or t-shirt business – people are merely supporting a museum, with a badge or t-shirt to prove it.

4. Community Shares

What do we mean by 'community shares'?

The Community Shares Unit (CSU) describes them as "withdrawable share capital; a form of share capital unique to co-operative and community benefit society legislation."[42] Investors become members of the community, and receive one vote regardless of how much they invest. Members may receive interest on their investment and withdraw some or all of it, subject to terms and conditions.

The widespread use of community shares is a relatively recent phenomenon. The CSU reports that between the early 1990s and 2008, only 39 societies raised over £10,000 in share capital – from 20 members or more. Between 2009 and 2014, however, 246 share offers were launched, bringing 60,000 new investors to market in less than five years.

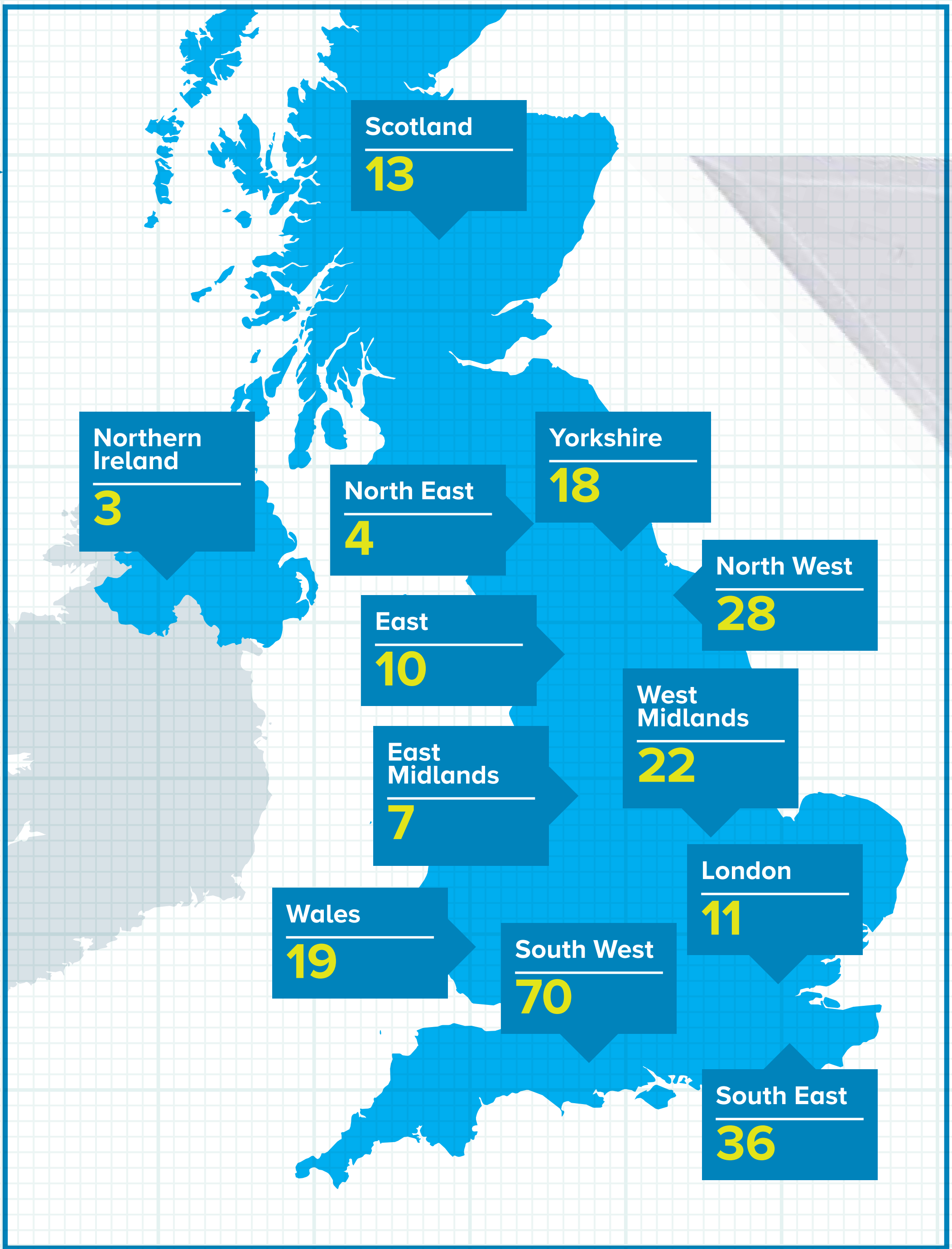
What do we know already?

By 2014, community shares were the second largest form of crowdfunding in the UK's wider alternative finance market[43], and community shares exceeded all other forms of unsecured investment in the UK's social investment market. In its report The Size and Composition of the Social Investment Market in the UK, Big Society Capital estimates the community shares deal-flow during 2015 at £30 million – around 10% of the total social investment market (excluding investments in for-profit social businesses).[44] The market for community shares grew by 124% from 2013 to 2014 (from £15 million to £33.6 million).

Based on the findings of the CSU's Inside the Market Report 2015[45], which looked at offers in the 2009-2014 period, the key sectors for community shares activity have been energy, community retail, pubs and brewing, regeneration and development, food and farming, and sports. Community share offers in the energy sector account for 70% of the market, with the highest average offer size at £600,000 – the next highest is food and farming at £320,000.

[42] Community Shares: http://communityshares.org.uk/find-out-more/what-are-community-shares
[43] Understanding Alternative Finance by Peter Baeck, Liam Collins & Bryan Zhang Novemeber 2014: https://www.nesta.org.uk/sites/default/files/understanding-alternative-finance-2014.pdf
[44] Social Investment Insights Series Matt Robinson March 2016: https://www.bigsocietycapital.com/sites/default/files/attachments/The%20size%20of%20and%20composition%20of%20social%20investment%20in%20the%20the%20UK_3.pdf
[45] Community Shares: http://communityshares.org.uk/community-shares-inside-market-report-2015

The most popular region for community shares offers is the South West, with the CSU attributing this to “good weather for renewable energy, and a culture of self-reliance.”



More community share offers are being made by organisations registered as CBSs than as co-operative societies. These organisations are the investees most likely to fit Power to Change's 'inner circle' definition of investees that are likely to be community businesses.

	Co-operative	CBSs
2009	9	8
2010	7	14
2011	7	31
2012	12	37
2013	14	46
2014	19	42

Case study – Broompower

BroomPower is a small-scale hydroelectric renewable energy project in Ullapool. Lochbroom Community Renewables Limited is a CBS set up by Ullapool Community Trust to run renewable energy projects. It closed its community share offer in August 2016 after reaching its target of £900,000. The money will support BroomPower's development.

The interest on community shares stays at 0% until power generation begins, with a target of 4% once it starts to create income. The aim is to repay capital within 20 years. Surplus income from electricity generated by the scheme will be reinvested in future projects that aim to create value for the local community.

Direct investment in community shares comes primarily from individual investors. Nesta's report Understanding Alternative Finance 2014 shows that investors in community shares are likely to be involved directly with the project beyond simply investing in it, and that they're not predominantly motivated by financial return.[46] Community shares investors differ demographically from other investors in the Alternative Finance market, in that they're mostly from lower income groups, investing relatively small amounts of money that are nevertheless significant considering their income.

[46] Understanding Alternative Finance by Peter Baeck, Liam Collins & Bryan Zhang Novemeber 2014: https://www.nesta.org.uk/sites/default/files/understanding-alternative-finance-2014.pdf

Investments:

– Average investment: £368

– Average amount raised: £174,286

– Average number of investors: 474

Investor motivations:

– 38% attend local shareholder meetings

– 32% offered to volunteer directly in organisation

– 24% cared about financial return

Investor demographics

– 14% based in London

– 18% under 44 years

– 55% 55 or older

– 39% income less than £25,000

– 17% earn £50,000 or more

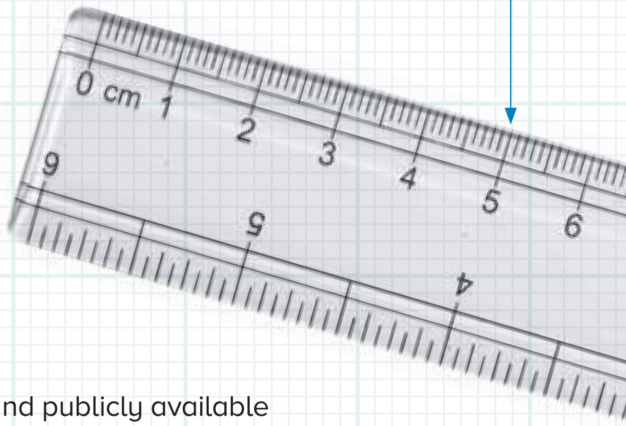
– 40% invest between £101 and £500

– 2% invest £50 or less

Case study – Ivy House Community Hub

In 2012, the Ivy House pub was served an eviction notice, and the property was put up for sale. A steering group formed and managed to get the building listed as an Asset of Community Value under the 'community right to bid' provisions of the Localism Act 2011. After raising funds to purchase the pub, the group opened a community share offer to raise money for repairs and refurbishments – they raised £142,600.

The Ivy House has 371 shareholders and a management committee that is subject to shareholder approval. The pub is registered as a community benefit society.

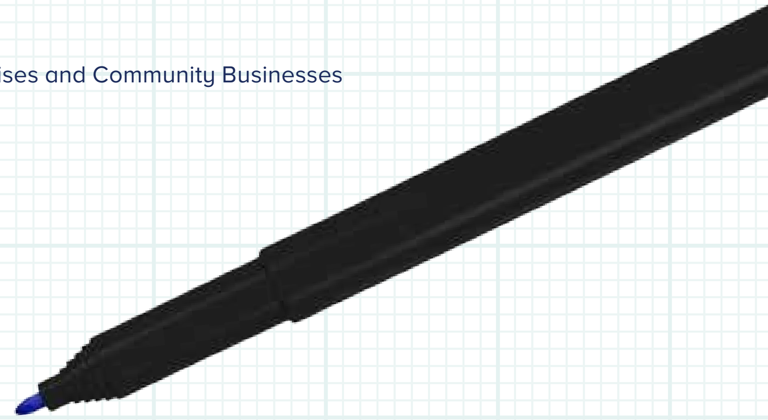


What have we uncovered?

New data from the CSU draws on its own database and publicly available accounts to provide details of all publicly known community share offers issued between 2009 and 2016.

There were 421 share offers issued by 307 organisations, raising a total of £123 million. The table below divides these offers into the sub-sectors of community business identified by Social Finance in The Community Business Market in 2015, and compares the number of community share offers to the number of community businesses.

	Number of		Number of
Sector	Community share offers	Repeat offers	Community businesses
Energy	138	58	275
Pubs	48	5	30
Shops	37	23	320
Food and Farming	20	5	1000
Multi-use	11	10	300
Sport and Leisure	11	0	1000
Tourism and Arts	8	1	120
Digital	7	1	60
Public Land	7	1	320
Craft/Production	5	1	500
Transport	5	0	1000
Housing	5	0	300
Finance	4	1	150
Health & Social Care	1	0	25
Libraries	0	0	250
	307	106	
Other	8	0	
Total	421		



Data quality:

There is a range of high-quality data on community shares, available from several different sources. However, while the broad picture each provides is quite similar, there are clear discrepancies. For example, Big Society Capital suggests a £96 million market in 2015[47], while Ethex suggests a £160 million market[48] for roughly the same period, and the Community Shares Unit figure sits somewhere in the middle. There are number of potential explanations for these discrepancies:

– Not all community share offers are necessarily regarded as 'social investment'.

– Information on some community share offers is not publicly available, other than in an organisation's accounts, which may not be published by the time investment data is compiled.

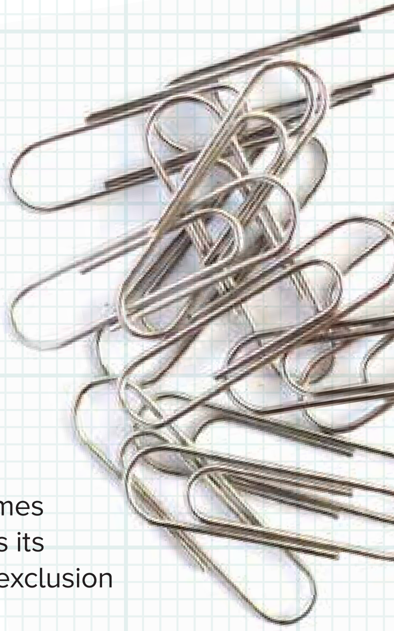
– In some cases, information may be available on the amount of share capital offered, but not on the amount of share capital raised.

Based on the Community Shares Unit's work sourcing data from company accounts, its dataset is likely to be the most comprehensive source of information on deals completed between 2009 and September 2016, but other sources may include outstanding investment made before then.

Conclusion

We estimate that around £123.5 million may have been invested in social sector organisations in this way up to September 2016, with around £36.4 million invested in 2015, the last complete year for which data is available.

[47] Social Investment Insights Series by Matt Robinson March 2016: http://www.bigsocietycapital.com/sites/default/files/attachments/The%20size%20of%20and%20composition%20of%20social%20investment%20in%20the%20the%20UK_3.pdf
[48] The Ethex Positive Investing Report 2015: https://www.ethex.org.uk/medialibrary/2015/10/16/50cc80f2/Ethex%20Positive%20Investing%20Report%202015_LOW_RES_15.10.15.pdf



Issues and challenges

Investments in community businesses running Renewable Energy schemes support the growth of the community shares market. But this market has its challenges, including cuts to subsidies for renewable energy[49] and the exclusion of renewable energy projects from Social Investment Tax Relief.[50]

Community shares work best for businesses such as energy-generators, pubs and shops, where there is clear potential for a mass customer base. Other community businesses such as libraries, that equally large numbers of people in a community might use but don't expect to pay for – are understandably less suited to securing this form of finance.

This need for a mass customer base is also a potential challenge for community business of any sort seeking to use community shares at a relatively early stage of development, ie. when they've not yet had chance to develop an engaged community of local customers. A community share issue is one way to generate that engagement, but many organisations will need funding and other support to enable them to do it.

[49] The Guardian: https://www.theguardian.com/environment/2016/apr/08/solar-installation-in-british-homes-falls-by-three-quarters-after-subsidy-cuts
[50] Financial Times: https://www.ft.com/content/07f89b32-86f6-11e5-9f8c-a8d619fa707c

5. Friends and Family

What do we mean by 'friends and family'?

The expression 'friends, family and fools' has become a well-known phrase in the finance industry. While only half serious, the phrase's implication is that in the absence of formal, institutional investors, enterprises can sometimes turn to more informal contacts who may be more willing to invest –sometimes foolishly – based on subjective, more personal judgements.

In a more positive light, high net worth individuals (HNWIs) and 'angel investors' have developed a reputation as increasingly important pieces of the finance jigsaw – investing at the crucial stage after start-up but before institutional venture capital or private equity starts to operate. This group is often recognised as 'sophisticated investors' – formal terminology from the Financial Conduct Authority that refers to a type of investor considered to have sufficient investing experience to evaluate the risks and rewards, with criteria including net worth and income restrictions.

In the charitable sector, it is sometimes understood that people should not lend to, or borrow from, charities of which they are trustees. However, many charitable governing documents explain how a "charity trustee or connected person may receive interest on money lent to the charity at a reasonable and proper rate", and the Charity Commission explains that while recognising that lending to, or receiving a loan from, a charity can create a conflict of interest that needs recognising and dealing with, this can be permitted.[51] It is certainly not a disallowed activity.

What do we know already?

NCVO suggests that "because unsecured loans do not take security over an organisation's assets, the risk for lenders is greater and interest rates tend to be higher than for secured loans. However, unsecured lending is still an important type of sector borrowing. Data on types of loans and sources of finance is not consistently recorded but it is likely that a proportion of this unsecured lending is informal, perhaps lent by a donor or trustee with favourable terms."[52]

Yet in the charity, social enterprise and community business sector, there has been relatively little effort to collect data on how these individuals invest in the sector. ClearlySo is perhaps the most high-profile intermediary operating in this area, connecting ventures with investors through their social business angel network. Big Society Capital's estimates of social investment activity note equity-like investment facilitated by ClearlySo, as well as a number of deals eligible for Social Investment Tax Relief – but beyond this, we know little about lending by charitable trustees, friends and family, HNWIs and angel investors.

[51] The essential trustee: what you need to know, what you need to do by Charity Commission for England and Wales July 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/509664/cc3_lowink.pdf
[52] UK Civil Society Almanac https://data.ncvo.org.uk/a/almanac15/liabilities/

Case study – Tower of London Poppies

The Tower of London's Blood Swept Lands and Seas of Red installation marked the centenary of the outbreak of the First World War. 888,246 ceramic poppies created by artists Paul Cummins and Tom Piper progressively filled the Tower's famous moat between July and November 2014.

The Paul Cummins Ceramics Blood Swept Lands And Seas Of Red CIC was created to support the project, and saw turnover of around £23 million in 2014/15 – distributing over £8 million to charitable causes. At least £7 million went to Paul Cummins Ceramics Ltd, a separate company. The CIC was wound up in September 2016.

The Derbyshire Enterprise Growth Fund had provided a £450,000 support package for Paul Cummins, with a £170,000 grant and a £280,000 loan,[53] although it is not clear whether this investment was made into the new CIC or the separate business owned by Paul Cummins. Meanwhile, the Daily Mail reported that to finance the poppy project, "Mr Cummins took out a private loan from British financier Mr Whitfield" and suggested that "he was making an estimated profit of more than a million pounds."

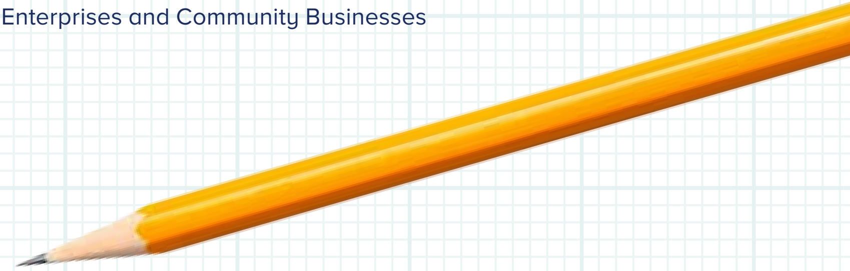
This case study demonstrates how significant loan finance may be provided to enable multi-million pound social enterprise projects, while the size and terms of the finance remain unclear to those interested in social investment, and to the wider world.

What have we uncovered?

The survey that Charity Finance Group ran on our behalf, asked whether its members had ever borrowed money from friends, family, trustees or other individuals, among other sources. Even from a disappointingly low number of respondents, one charity with a turnover of between £10,000 and £100,000 reported that it had indeed borrowed money in this way.

In July 2016, New Philanthropy Capital undertook a study of investment in social sector organisations that qualified for Social Investment Tax Relief (SITR). It reports that "£3.4 million of investment that qualifies for SITR has been raised since July 2014 across 30 organisations."[54] 55% of investees were charities while 23% were CICs and 23% CBSs. 82% of investments were loans and 9% community shares.

[53] Derby Telegraph: http://www.derbytelegraph.co.uk/poppy-artist-paul-cummins-working-big/story-28127971-detail/story.html
[54] NPC: http://www.thinknpc.org/publications/social-investment-tax-relief-sitr/



Investors "have so far been a mix of high-net-worth individuals (HNWIs) and angel investors, sourced through the fund managers' existing networks." These investors are all friends and family in some way, if not fools.

Government research appears to back this picture up, suggesting 0.2% of those seeking finance sought equity investment from other shareholders and 3.9% sought finance from family, business partners, and/or directors of social enterprises[55] compared to just 0.4% for SMEs more widely. If a significant proportion of this is successful, then it is potentially worth hundreds of millions of pounds.

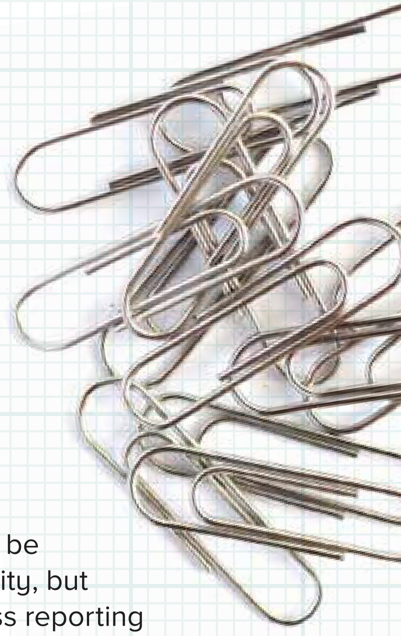
Case study – Assemble CIC

Assemble CIC was the surprise winner of the Turner prize. Assemble was nominated for projects including their work with the Granby Four Streets Community Land trust in Liverpool. Assemble is a London-based collective that works in art, design and architecture to create projects in tandem with the communities who use and inhabit them.[56]

Steinbeck Studio describes itself as a social investor, and commissioned, initiated and funded Assemble's work in Liverpool. Steinbeck Studio describes how it "made large interest-free loans to the community, managed their restoration projects and ultimately commissioned Assemble to create designs for the restored houses."[57] Steinbeck describes how it "started with the finance – from a single investor who called himself a 'social impact investor' – he had similar prerequisites to a pension fund.... but shall we say... 80% safety and a 4% return."[58] The terms seemed to evolve as the project gathered steam, however, as Xanthe from Steinbeck Studios describes how eventually, "We offered Granby Four Streets CLT a £500,000 interest-free loan."

Again, this case study shows how less-formal, non-institutional investment can lead to success for a social enterprise that captures the public's imagination while the nature and terms of the investment remain relatively unknown – even to the social investment community. Granby Four Streets, as a Community Land Trust, is very much a community business.

[55] Social Enterprise: Market Trends by Cabinet Office March 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/507236/SOCIAL_ENTERPRISE-_MARKET_TRENDS_2015.pdf
[56] TATE: http://www.tate.org.uk/whats-on/tramway/exhibition/turner-prize-2015/turner-prize-2015-artists-assemble
[57] Steinbeck Studio: http://steinbeckstudio.com/news/
[58] Steinbeck Studio: https://static1.squarespace.com/static/55514870e4b0a69c09120257/t/57dfb89ac534a555a9096b42/1474279580120/Specificity+and+Scalability.pdf=



Data quality

Data in this area is sparse and difficult to gather. Individual deals can be identified and surveys can provide an indicative picture of wider activity, but comprehensive data is unavailable and will likely stay that way unless reporting requirements change over the coming years.

Conclusion

In summary, our research suggests that while it is impossible to make an accurate assessment of the scale of this activity:

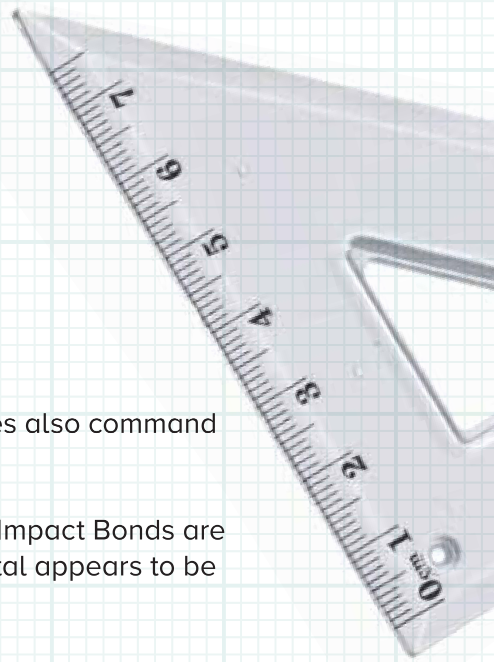
Potentially hundreds of millions of pounds may be invested in social sector organisations by friends and family

0.4%

of SMEs more widely sought finance from family/business partner/directors

3.9%

of social enterprises sought finance from family/business partner/directors



It also suggests that this type of investment:

– is seldom transparent in terms of scale and terms

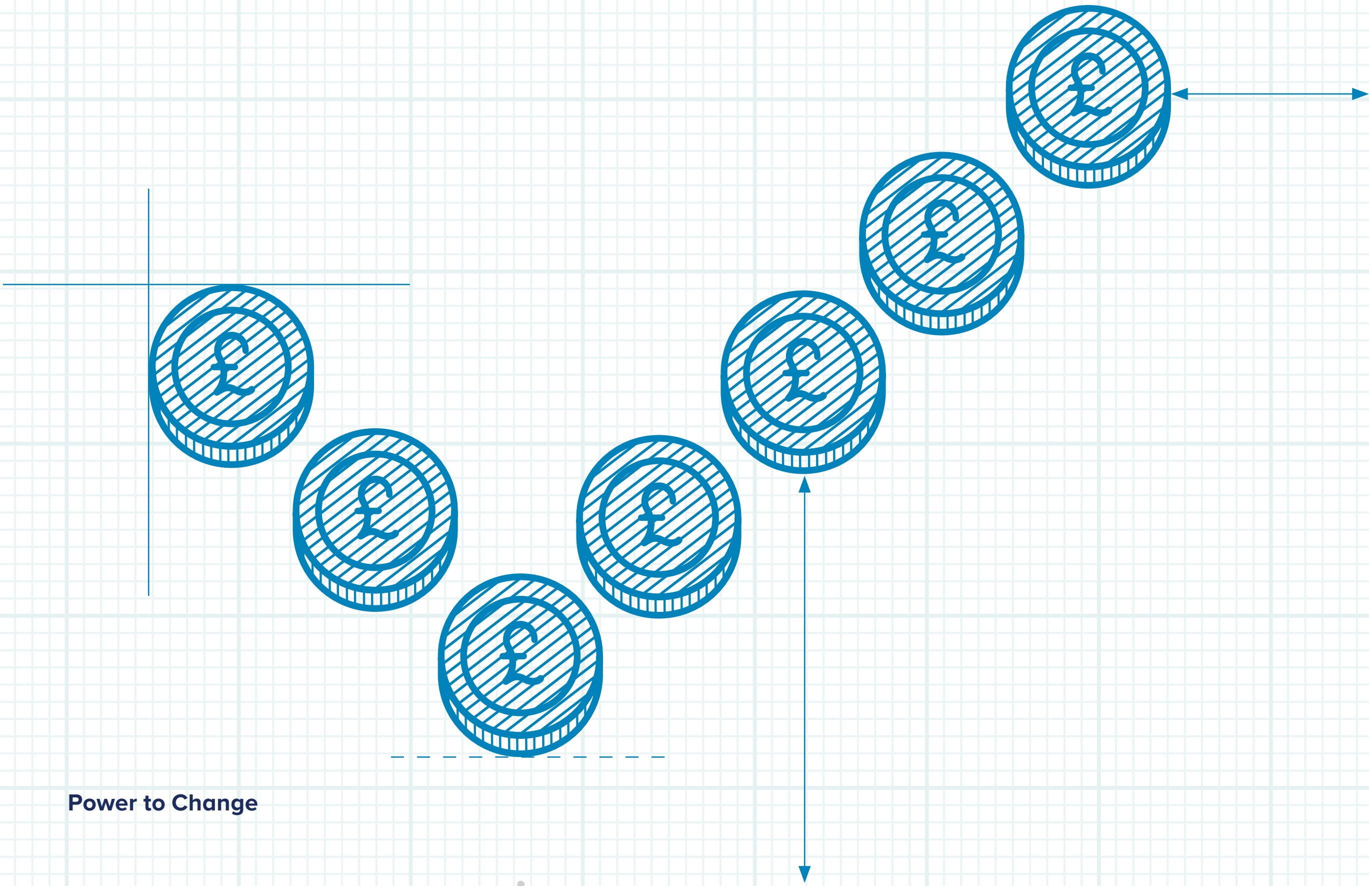
– may be very soft, on generous and patient terms, yet at times also command the potential for high rewards

– may be cheap, especially with the support of SITR. If Social Impact Bonds are excluded from the SITR deals, then the average cost of capital appears to be around 3.1%. For community shares, the price is nearer 2%

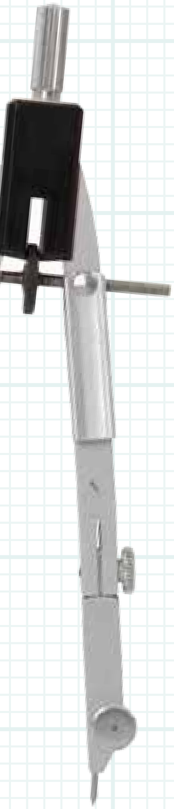
– depends very much on personal contacts and access to HNWIs, sophisticated investors and others who feel a personal connection with the project

– can be facilitated by intermediaries, as with ClearlySo, Resonance or Steinbeck Studios, who do not offer SIFI-style fund models as such, but help connect supply and demand. The long-term business model for these intermediaries remains unclear at this stage in the development of the social investment market.

It appears that this type of investment – based on subjective, human judgement – can provide particularly attractive terms to social and community enterprises. We still know very little about it, however. Intermediaries can play an influential role in making data about these investments more freely available, keeping organisations and individuals anonymous if need be.



6. Large to Small



What do we mean by 'large to small'?

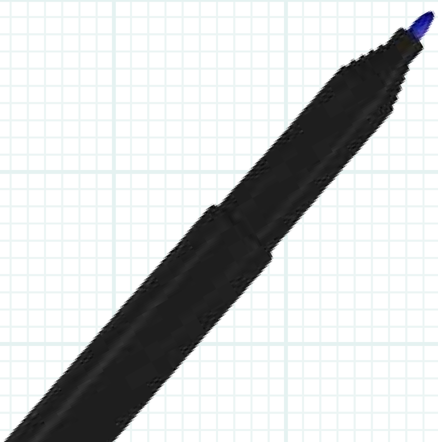
This chapter focuses on investment by relatively large charities and social enterprises that have capital available to invest in smaller charities, social enterprises or community businesses. These investments may include loans from the larger organisation to the smaller, or taking an equity stake, or even some forms of merger.

We're interested primarily in investments by one organisation in another, while there may be some confusion or overlap with investments large organisations make into funds specifically designed to invest in community businesses or other social enterprises. We're also aware that growing numbers of grant-making trusts and funds now make social investments alongside their grant-making portfolio, while many SIFIs are themselves charities or social enterprises. This chapter focuses primarily on social investment by organisations for whom providing funding for other organisations is not a primary activity.

What do we know already?

Data on these deals, beyond anecdotal information, is extremely scarce. Existing research, such as the Institute for Voluntary Action Research's 2013 report 'Charities and Social Investment', focuses on the role of grant-making trusts and foundations as providers of social investment – rather than the possibility of other charities making social investments as part of their wider activities.[59]

ACEVO's 2014 report Good with Money notes that UK charities held £63.8 billion of reserves in September 2014, with 1,990 charities holding reserves of over £5 million and accounting for nearly £2 billion of £3.5 billion total investment income.[60]



[59] SIVAR- Institute for Voluntary Action Research: https://www.ivar.org.uk/research-report/charities-and-social-investment-a-research-report-for-the-charity-commission/
[60] ACEVO- Charity Leaders Network: https://www.acevo.org.uk/news/goodwithmoney

ACEVO's survey of those charities large enough to have an investment policy reveals:

– 47% of those surveyed ensure that anything they invest in is consistent with their charity's mission, even if it means compromising returns

– 30% invest in a way that supports their mission, and can do so without compromising returns

– 7.5% consider return on investment unimportant, and make investments solely to achieve impact

– 7.5% invest in impact or programme-related investments whose work furthers their charitable objectives

– 2.4% have funds invested in social investment programmes.

The Social Investment Consultancy's 2014 report for the Social Investment Research Council New Specialist Sources of Capital for the Social Investment Market identifies a range of (institutional) sources for more than £5 billion of social investment beyond government and existing SIFIs. It estimates an existing £500 million pot from the sources, of which "£100 million+" is from charitable organisations, £10-20 million is from housing associations, and under £1 million from faith-based organisations[61].

The report also cites housing associations as a possible source for new risk investments, including "direct investments into local social enterprises/funds supporting community agendas or service delivery" due to their increasing operating surpluses and concern for social outcomes. It also notes that housing associations have a history of "wide-ranging support for social enterprises, either through procuring from them, by setting them up or by acquiring from them".

Meanwhile, the SIFI community, as commonly understood, is a relatively well connected group of investment intermediaries that often attend the same events and are members of the Social Investment Forum, for instance. Yet other investors, and even fund managers, operate away from this self-styled social investment industry, and their activity perhaps deserves rather more attention.

[61] City of London: https://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/New-specialist-sources-of-capital-for-the-social-investment-market.aspx

Case study – The Art House, Sheffield

The Art House is a centre that has pottery and art studios, exhibition space and a café in an old church building owned by St Matthews Church in Sheffield. Alongside a mixture of grant funding from other sources, the project received a £365,000 loan in 2015 – comprising £200,000 from Charity Bank and £165,000 from Vincent Housing Association.

In its 2015 annual review, Vincent House explains the rationale behind the investment, noting: “one of our objectives is to help others working in a more direct way with those affected by homelessness or poor housing.”[62]

What have we uncovered?

Anecdotal deal-level data includes:

Individual deals

Investee:	Investor:	Amount:
Active Minds	Albion Healthcare	£100,000 (estimated)
Phone Co-op	HCT	£500,000
The Art House	Vincent Housing	£165,000

There is a small amount of other data that’s potentially relevant to our investigation when mergers occur. The 2015/16 Good Merger Index[63] published by Eastside Primetimers notes that 4% of mergers during 2015/16 (two deals) resulted in social organisations joining group structures – described as when “two or more organisations transfer activities and assets to become part of a group, and operate as one of a number of wholly-owned subsidiaries.”[64]

[62] Vincent House London Residence Annual Review 2015: http://www.vincenthouselondon.com/wp-content/uploads/2013/08/VHA-ANNUAL-REVIEW-2015.pdf
[63] Eastside Primetimers: https://ep-uk.org/publications/charity-mergers-good-merger-index/
[64] ibid

Case study – Active Minds

Active Minds started up in 2010. The organisation designs activities for people suffering from dementia, to help them maintain their cognitive abilities and keep their minds active.

In 2013, it undertook investment, and a redesign and redevelopment, winning UnLtd's Big Venture Challenge. The prize was intensive investment readiness support plus £100,000 of match funding, alongside investment from Albion Heath Alliance Limited.

We've also identified other large social sector organisations or infrastructure bodies investing in social enterprise and community business, together with somewhat 'under-the-radar' funds. These include the England and Wales Cricket Board, Solidfund, Baxendale, Capital for Colleagues, the Co-operative Loan fund managed by Co-operative & Community Finance, community foundations and other local funds. The Architectural Heritage Foundation has a loan portfolio of around £13 million. Between them, these investors have over a hundred million pounds under management or invested in charities, social enterprises and community businesses.

Case study – The Rugby Football Foundation

In 2003, the Rugby Football Union set up the Rugby Football Foundation (RFF), a registered charity and company limited by guarantee. The RFF provides interest-free loans of up to £100,000 for capital works to rugby clubs at Level 3 and below that contribute to the retention and recruitment of community rugby players. The RFF also offers clubs Green Deal loans up to the value of £20,000 to support them in installing facilities that reduce utility costs.[65] The RFF appears to invest around £1.5 million per year.

[65] Rugby Football Foundation: http://www.rugbyfootballfoundation.org/what-we-do/grants-loans

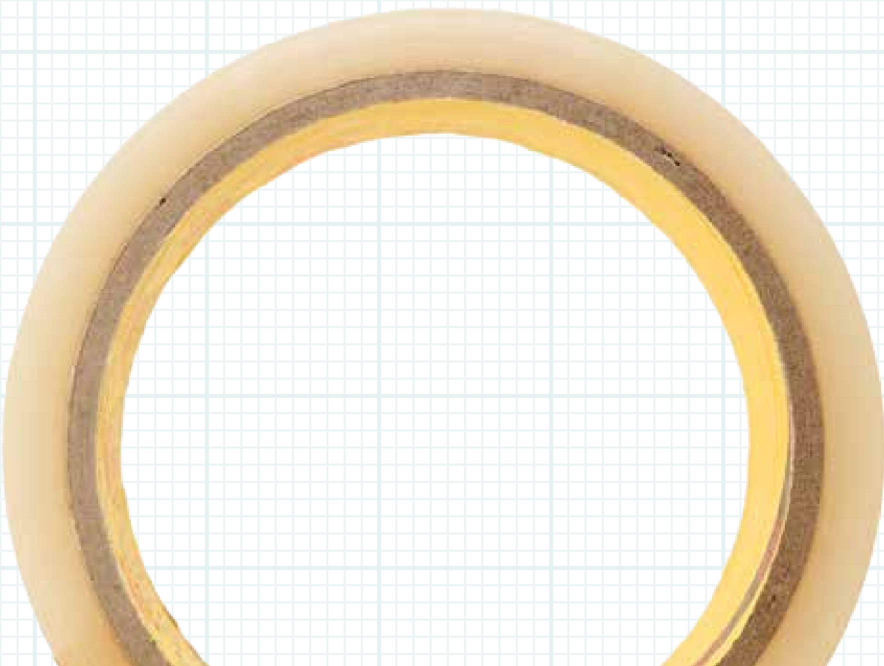
Data quality:

Data on larger social organisations investing in smaller ones is extremely hard to come by – both in terms of publicly available information and responses from organisations we've approached directly or via surveys. While we have a series of interesting anecdotal examples of organisations that aren't specialist investment organisations making investments, we haven't uncovered a clear picture of the extent of this activity. Fund data is easier to uncover, but isn't reported consistently, and requires further investigation – ideally with the support of those funds identified above. The numbers in this chapter are therefore very rough estimates of the value of activity in this area. There is, as yet, no meaningful way to measure the potential extent of wider investment activity.

Case study – Emmaus UK

In 2012 Emmaus UK launched the Emmaus Fund, an innovative social investment model that provides low-cost loans to federation members. When their social enterprises are profitable, the loans are repaid to the Fund so they can be recycled and used to open new companion rooms elsewhere in the country.

Emmaus UK carries out due diligence, assesses and makes recommendations to the Investment Committee on loan applications, working closely with applicants and social investment partners. Emmaus also manages the loan portfolio, and reporting and monitoring requirements.



Estimated social investment in this area:

While tens of millions more are likely invested through fund structures, we estimate that large social sector organisations may have directly invested more than £3.3 million in smaller social sector organisations in 2015.

63.8 billion

of reserves held by UK charities in September 2014

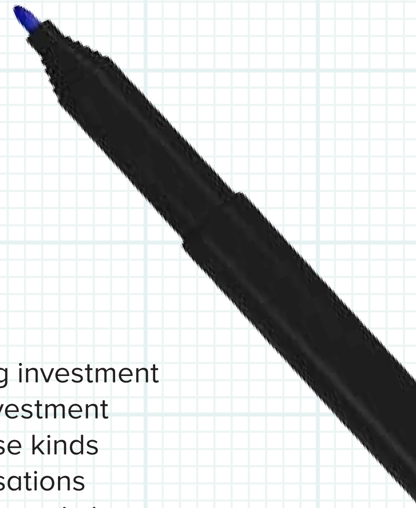
1.5 billion

estimated value of social investment market in 2015

Case study – HCT

In 2015, telecommunications co-operative The Phone Co-op loaned £500,000 to public transport social enterprise HCT Group, as part of a £10 million funding round designed to help the organisation ”grow its business and boost its social impact”.

The Phone Co-op’s chief executive Vivian Woodhall told Co-Operative News: “At the Phone Co-op, we like to ensure that the way we invest surplus cash means that it is working in support of our values, so that it is not just us who earns a return but society as a whole.”



Issues and challenges

From an investee point of view, the most significant barrier to seeking investment from a larger charity or social enterprise is being aware that such investment might even be available. Most of the few anecdotal examples of these kinds of investments are based on organisations investing either in organisations that are high profile and known to be seeking investment, or based on existing working relationships.

From an investor point of view, there's the risk that any investment loses funds that are supposed to be directed towards social benefit, coupled with a lack of capacity and expertise when it comes to making investment decisions. However, there is also the possibility that the expertise larger organisations have within their own industries may place them well to gauge the viability of new entrants into the particular social markets they operate in – and, as a result, make investments that are both financially viable and meet social needs.

Potential ways of dealing with these challenges may include the dissemination of guidance and lessons learned by larger organisations that have, successfully or otherwise, invested in smaller charities, social enterprises and community businesses. Investment-readiness support programmes could also be adjusted to support organisations seeking funding from larger social organisations operating in the same area and/or professional field.

7. Government

What do we mean by 'government'?

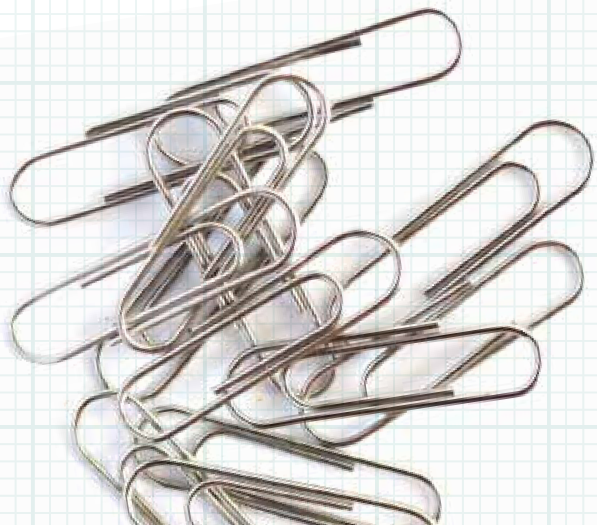
In previous chapters we've explored finance that is sometimes forgotten in the social investment industry, including lease finance – investment by individuals, communities and larger social sector organisations via bonds, digital platforms, and directly in social enterprises, charities and community businesses. This still leaves investment by local authorities and other public bodies, sometimes via community foundations.

What do we know already?

First, while investment by local authorities in social enterprise shouldn't be seen as social investment but public investment, such activity has nevertheless attracted interest from the social investment community. Warwickshire Council, for example, invested £40 million in Threadneedle Investments' social bond fund.[66] Yet little is known about more direct investment by local councils in social enterprises. While the Local Government Association and Social Finance co-produced An Introduction to Social Investment, this was predominantly concerned with explaining social impact bonds, and didn't even consider the role local authorities might play as investors in social enterprises and community businesses.[67]

What have we uncovered?

Through desk research, we tracked down examples of local authorities investing in social enterprises, charities and community businesses. Then, with Local Partnership support, we also surveyed the Finance Directors of all Local Authorities in England and Wales. Disappointingly, very few responded, but those that did all reported they had invested directly or indirectly in a charity, social enterprise or community business. Two of our survey respondents reported they had invested less than £1 million, and two reported investing between £1 million and £10 million.



[66] Thread Needle Investments: http://www.columbiathreadneedle.co.uk/media/8038060/en_social_bond_fund_anniversary.pdf
[67] An Introduction to Social Investment by Local Government Society: http://www.sesc.org.uk/wp-content/uploads/2015/05/Social-investment.pdf

We have established through this research that, at a minimum, these councils have invested directly or indirectly in the social sector:

– Somerset Council – £25,000 to Taunton Athletic Club[68]

– Lancashire Council – £4 million to Lancashire Country Cricket Club[69]

– Haringey Council – £210,000 loan to Chicken Town[70]

– Bristol Council – £400,000 to Gloucestershire Country Cricket[71]

– Kent Council – £166,250 to Turner Cars, Beach Creative and others[72]

– Oldham Council – £50,000 loan to Get Oldham Working[73]

– Warwickshire Council – £20 million to Warwickshire Country Cricket Club[74]

Other loans have been made by Leicester Council, Staffordshire Council and Conwy Council, among others.

Case study – Haringey Council

In December 2015, a new social enterprise offering an alternative to fried chicken was launched in Tottenham. Chicken Town received support from Haringey Council and the Mayor of London's Office, to serve high quality fried chicken with less fat than its high street competitors.[75]

Chicken Town received £300,000 in loans and grants from the council's Opportunity Investment Fund, in partnership with the Mayor of London's Office.[76] A further £210,000 was allocated as a loan. Hundreds of individual contributions through the crowd-funding website Kickstarter also helped, with 732 backers raising £55,649.

[68] Somerset community Foundation: http://www.somersetcf.org.uk/news/114/73/The-first-loan-has-been-made-from-the-Somerset-Social-Enterprise-Fund
[69] Manchester Evening News: http://www.manchestereveningnews.co.uk/news/greater-manchester-news/trafford-council-approves-4m-loan-8921422
[70] Harringay Online Community: http://www.harringayonline.com/forum/topics/council-admits-it-is-actually-300-000-for-chickentown
[71] Insider Media Limited: https://www.insidermedia.com/insider/southwest/67685-bristol-city-council-pitches-cricketers
[72] Kent Community Foundation Annual Review 2012: https://democracy.kent.gov.uk/documents/s40646/D1%20-%20Appendix.pdf
[73] Oldham Evening Chronicle: http://www.oldham-chronicle.co.uk/news-features/8/news-headlines/81391/50000-jobs-bonanza
[74] Birmingham Post: http://www.birminghampost.co.uk/news/regional-affairs/warwickshire-county-cricket-club-delays-5101097
[75] Chicken Town N15: http://chicken-town.co.uk/
[76] Haringey London: http://www.haringey.gov.uk/news/innovative-chicken-town-marks-month-success

National government also invests in the UK social sector, although not overtly. Examples include:

– Green Investment Bank – lending £2.5 million to a joint venture between Places for People and a private partner to install energy-efficient heating systems in sheltered housing

– the forthcoming HCA Homebuilding Fund – worth £3 billion and open to small builders, community builders, custom builders and regeneration specialists as well as larger builders and developers

– Department for International Development – which guaranteed a £400,000 loan to Divine Chocolate

– the Welsh Assembly Government – through the £5 million Sports Facilities Capital Loan Scheme and other schemes.

Data quality

The above data is accurate, although some of it may now be out of date. However, this is likely just a small proportion of total lending from councils and national government to social enterprises and community businesses.

Conclusion

It seems tens of millions of pounds are invested in social sector organisations in this way.

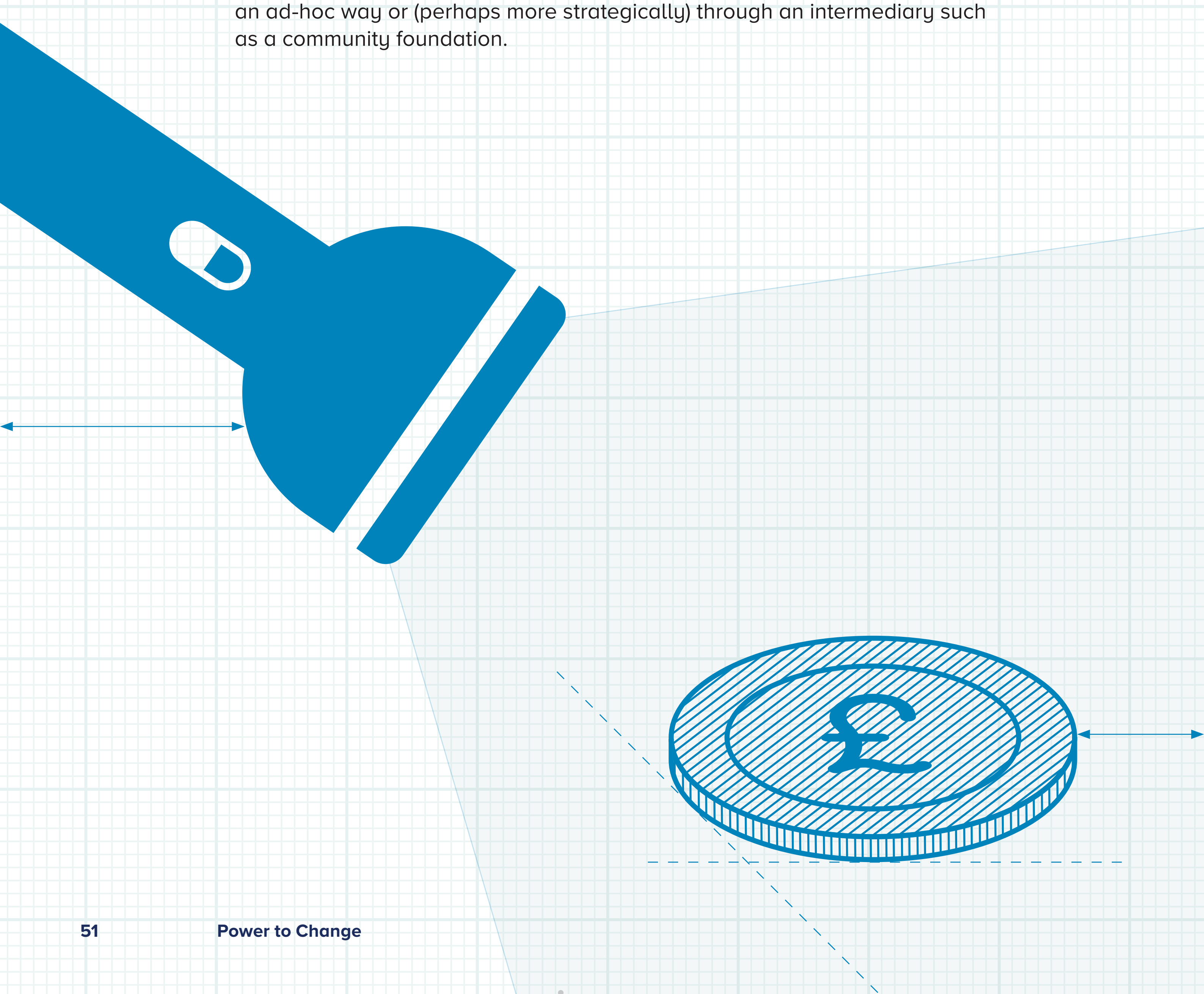
20 million
Warwickshire Council loan to Warwickshire Country Cricket Club

39 million
total value of investment in all UK social impact bonds

Issues and challenges

Further research may shed light on the issues and challenges community businesses face when borrowing from central and local government. Nevertheless, our research suggests:

- ease of access to finance is linked to the strength and influence of political contacts
- reputational risks for councils if loans fail
- unpredictable behaviour from central government, sometimes linked to spending annuality rules – and to the efficacy of councils investing directly in an ad-hoc way or (perhaps more strategically) through an intermediary such as a community foundation.



Conclusions

From the research presented above, we draw the following conclusions:

– Leasing or hire purchase has been understated, with over 8% of social enterprises accessing it alongside credit cards and overdrafts. It appears to be worth many hundreds of millions of pounds. It's likely that more social enterprises have accessed lease finance than social investment, yet it is almost never talked about.

– Big Society Capital estimates capital bonds to be worth around £100 million. However, charities have issued over £7 billion of bonds, and almost £20 billion has been financed in this way by housing associations. Tens or hundreds of millions have been issued by community businesses.

– It seems social sector organisations, especially community businesses, are raising tens of millions of pounds each year through crowdfunding platforms, despite one major platform explicitly discriminating against CICs and charities. 'Pretailing' models – a blend of cashflow finance and income – merit greater attention.

– At least £123.5 million may have been invested through community shares up to September 2016, with £36.4 million invested in 2015 – the last complete year data is available for.

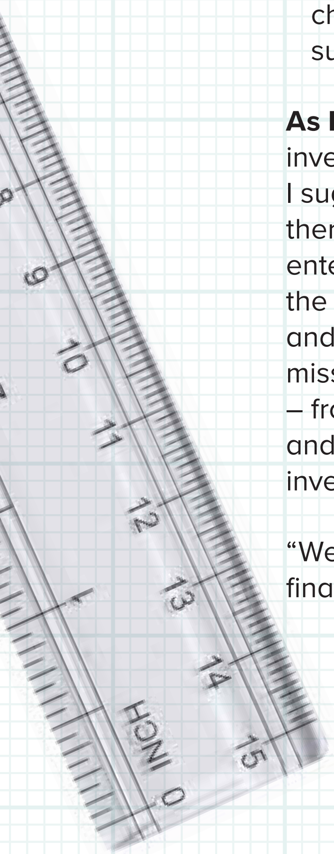
– Lending and investing by trustees, directors, friends and family is probably worth hundreds of millions of pounds, with tens of millions attracted by community businesses.

– Direct or indirect investments by large social sector organisations into smaller social enterprises or community businesses have been underreported, and may be worth many tens of millions of pounds.

– Local authorities are lending significant amounts to social sector organisations – worth many tens of millions of pounds. Much of this to community businesses.

– The narrow focus of Big Society Capital and others on 'social investment' – where investors and investees both have explicit social intent – may inhibit the collection of data that would support a wider understanding of how social sector organisations use repayable finance.

– The lack of relevant data on many of the investment models we've looked at has led to some broad and speculative estimates of the extent and nature of activity. Better data on previously 'uncharted' social investment is much needed.



This research raises many further questions:

– Does the notion of 'social investment' help charities, social enterprises and community to understand the range of financial options available to them – or is it a red herring?

– To what extent is it useful for policymakers to differentiate between socially-motivated investment and access to finance for social enterprises and community businesses – and to prioritise one over the other?

– While participants in the social investment market engage in ongoing debates around financial promotions regulations or tax treatment, the need for subsidy for intermediaries, and the cost of capital, these issues seems less prevalent in these uncharted waters. Could further research into what works in other parts of the market help those working in social investment better understand the challenges they face?

– Are Social Investment Finance Intermediaries fully aware of the wider market they operate in, and how their products compare to competitors, including alternative finance provision? How can social investors ensure they provide charities, social enterprises and community businesses with the best possible support in choosing the right financial options?

As Phil Caroe of Allia says, "the fact that we talk about this concept of 'social investment' as a type of finance raised by charities and social enterprises is, I suggest, one of the main barriers to them getting involved... My proposition therefore, radical as it might sound, is that we stop talking to charities and social enterprises about raising social investment as a type of finance. We stop giving the impression that social investment is a thing with definable characteristics, and instead simply talk about how repayable finance could support their mission. We explain how there is a spectrum of different investors and lenders – from banks to venture philanthropists – each with their own mix of social and financial goals. And some of these might describe themselves as social investors."[77]

"We hope that this report takes us further in understanding the broad range of finance available to charities, social enterprises and community businesses."

[77] Allia: http://allia.org.uk/latest-news/blog/what-do-we-mean-by-social-investment-chapter-3/

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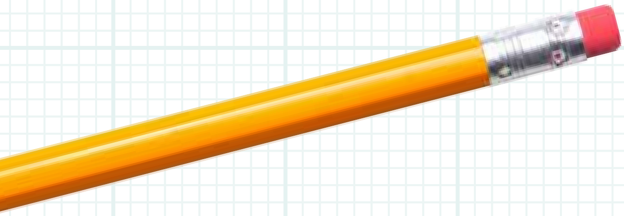

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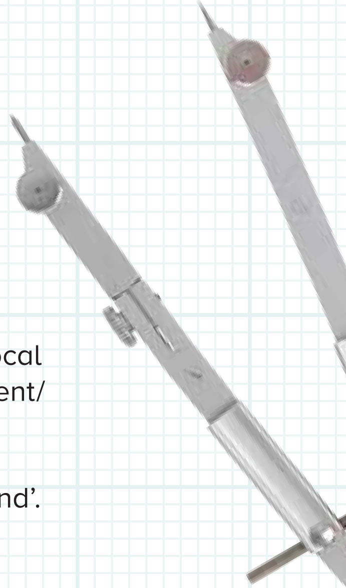

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