



National Social Investment Funds: The U.K.'s Early Experience of Big Society Capital

Pauline O'Connor PhD

*Centre for Voluntary Sector Studies
Ryerson University*

**Working Paper Series
2015(1)**

**350 Victoria Street
Toronto, Ontario M5B 2K3
Tel: 416-979-5000 x 6739/Fax: 416-9795124**

Table of Contents

Table of Contents	0
Acknowledgements	1
Introduction	2
The U.K. National Fund: Big Society Capital (BSC)	4
1. The need: The state of the social investment market	4
1.1. Social investment market participants	5
1.2 The social investment market’s “market failure”	11
1.3 Conclusion	18
2. BSC	19
2.1 Origins	19
2.2. BSC: Overview	21
3. BSC’s success to date	26
3.1. BSC income and dispersal	26
3.2. Attraction of new investment	28
3.3. Where the money went: Social investment and finance intermediaries	29
3.4. Where the money went: Front-line beneficiaries	30
3.5. BSC and social enterprises	33
4. BSC’s investment strategy, 2014–17	38
5. Conclusion	41
Bibliography	46
Glossary	59
APPENDIX 1: Social Enterprise, Social Investment and Social Impact	64
APPENDIX 2: Major BSC Investments in Social Investment and Finance Intermediaries, and Social Investment and Finance Intermediary Funds	70
Endnotes	76

Acknowledgements

Funding for this report was made possible by the TRICO Charitable Foundation and the Business Development Bank of Canada. The report reflects the findings and views of the author.

Introduction

Over the last 15 years or so, Canadian social enterprises have consistently identified lack of access to financing as an important barrier to their growth and sustainability (e.g., Bridge & Corriveau 2009; Mulholland et al 2011; Treurnicht 2011; McIsaac & Moody 2013; Malhotra et al. 2010; Flatt et al. 2013; CTFSF 2010). Social enterprises in other jurisdictions have echoed a similar complaint (e.g., SEUK 2011, 2013). The same period has also witnessed the emergence of “social investment markets” in several jurisdictions. Social investment markets offer the promise of providing social enterprises and other social purpose organizations with the types and amount of financing they need, outside of mainstream commercial markets.

Social investment market development to date has been considered slow (e.g., HMT & BIS 2013). Canada and other jurisdictions have become interested in creating large national funds, or wholesale “funds of funds,” as a way to accelerate social investment market growth and attract new social investment market investors, especially major institutional investors (CTFSF 2010; SITF 2000; USNAB 2014). The Canadian Task Force on Social Finance proposed such an institution for Canada in its 2010 report (CTFSF 2010).

In 2012, the U.K. created what it claims is the first such national fund: Big Society Capital (BSC). This report critically examines the early years of the U.K.’s pioneer fund to assess its impact on the U.K. social investment market and potential social investors, and, more particularly, the extent to which BSC’s impact on the U.K. social investment market may have enhanced the market’s capacity to meet the financing needs of U.K. social enterprises.

‘Social enterprise’ has been defined in various ways, discussed in more detail in Appendix 1. Very broadly, the term refers to organizations that operate businesses—enterprises that produce or sell goods or services in markets—to pursue a social, environmental or cultural mission (e.g., EC 2013; Alter 2004; OTS 2006; Teasdale 2010; DeFourny & Nyssens 2008; UNDP 2008; BMG 2013). Appendix 1 also describes two other concepts key to an investigation of social investment markets: “social investment” and “social impact investment.” All three concepts have been defined and applied in various ways, and their changing definitions and popularity over the last 15 years or more have influenced the evolution of social investment markets and the value of these markets to social enterprises. One finding of this report is that, in the U.K., the changing definitions and uses of these terms are blurring the boundaries between social enterprises and other small and medium-sized businesses, and between social investment and mainstream investment. That blurring both mirrors and influences BSC’s success in meeting the financing needs of U.K. social enterprises. Other important terms used in the report are defined in the accompanying Glossary.

The study method used was a review of publicly available documents and literature, augmented by email communication when written sources required clarification. The documents and literature reviewed included online public documents and articles (including newspaper articles), blog items, and refereed journal articles. Relying as it did solely on online documents

and materials, this report's picture of BSC and the U.K. experience is one seen from a distance, and thus in broad strokes only.

The U.K. National Fund: Big Society Capital (BSC)

The U.K. has been an acknowledged leader in the development of social enterprises—and, more recently, social investment markets—for two decades or more. In 2012, the U.K. was again a pioneer in creating what it says is the world's first national fund—a wholesale fund, or fund of funds—to accelerate the growth of the U.K. social investment market. The U.K. social investment market and BSC were originally envisioned as places where social enterprises, charities and other third sector organizations might go for financing (e.g., OTS 2009; HMT & CO 2007; CUA 2007).

Much of the focus of this report is therefore on the extent to which BSC has begun to realize these initial ambitions.

1. The need: The state of the social investment market

After BSC was created in 2012, the U.K. social investment market—understood as an entity that provides and uses financing to generate both social and financial returns—remained small, despite determined government efforts to grow it (Brown & Norman 2011; ICF 2013). The most widely accepted estimate of its size in 2010–11 was £165 million (Brown & Norman 2011; Hazenberg et al. 2013), rising to £202 million in 2011–12—a 25% year-over-year increase (ICF 2013).

The social investment market remains a minor source of financing for the U.K.'s voluntary sector and for social enterprises. It provides about 5% of the voluntary sector's total funding (Floyd 2014b) and about 13% of its total financing (8% from social banks and 5% from other social investors) (BSC 2013c). Charities and social enterprises relied overwhelmingly on mainstream lenders for financing: according to one estimate, 82% of charities' £3.5 billion debt was with commercial banks in 2013, compared to 12% with social investment market social banks (BSC 2013c). High street lenders were estimated to hold £4 billion in loans to U.K. charities in 2014 (NCVO 2014). (Another £3.3 billion is dispersed annually by trusts and charitable foundations, mostly to the sector and in the form of grants (Nicholls 2010). Major grant-maker Big Lottery Fund alone distributed £778 million to voluntary sector organizations in 2012–13 (Floyd 2014b)).

However, social investment market forecasts have called for spectacular growth in financing provided, with projections ranging as high as £1 billion by 2016 (forecast in 2012) (Brown & Swersky 2012). The U.K. government hoped as much as £10 billion in new social financing would come to the social investment market over time from institutional investors (such as pension funds and local authorities funds), charity and foundation endowments, and income fund investors (Howard 2012; Nicholls and Pharoah 2007 in Nicholls 2010), and retail investors willing to take lower returns on bank accounts in order to support social organizations (CTFSF 2010; HMGov 2011). Canadian proposals for a national fund have similarly identified institutional investors as a key source of funds for the Canadian social investment market (CTFSF 2010). With

£600 million in capital, Big Society Capital was expected to dominate the existing social investment market when it was created and to shape its direction (Brown & Norman 2011).

1.1. SOCIAL INVESTMENT MARKET PARTICIPANTS

The social investment market includes three main groups of actors: investors, intermediaries and investees. These are sketched below.

a) Investors

Before 2012, the U.K. government was the single largest investor in the social investment market, contributing an estimated 50% to 60% of its available funds (Brown & Norman 2011). Much of the money funded programs designed largely to build capacity among social enterprises and other third sector organizations by providing infrastructure, information and other supports (HMT & CO 2007; Nicholls and Pharoah 2007 in Nicholls 2010).¹ Most programs aimed to prime the sector for public sector procurement contracting (UKNAB 2014; Ellis Paine et al. 2012). Through the 2000s, the U.K. government's main purpose in promoting social enterprise, and a major objective of the social investment market, was to create sustainable not-for-profit enterprises to deliver the public services that the government was increasingly outsourcing (SEUK 2011; Chew 2010; DTI 2002).

Another 25% to 30% of total available social investment came from investors in the U.K.'s four big social banks²—Charity Bank, Ecology Building Society, Triodos UK and Unity Trust Bank (Brown & Norman 2011). Some Charity Bank customers, for example, held savings accounts offering zero interest (Nicholls 2010). Another nearly 5% of the total social investment market investment came from charities' and foundations' endowment and investment funds (Brown & Norman 2011). However, foundations and charities were putting very little of these funds—worth at least £95 billion—into social investment market investments, preferring to maximize yields by investing in mainstream markets. A few, such as the Esmée Fairbairn Foundation, had begun to experiment in social investment market investment funds (Brown & Norman 2011; Howard 2012) and other “mission-related investments,” which align investment with social purposes.³

¹ The government set up various funds over the 2000s, including, for example, Futurebuilders, the Social Enterprise Investment Fund and the Phoenix Fund, at least one of which was rolled over into an independent social investment intermediary (HMT & CO 2007; Brown & Norman 2011; Nicholls 2010).

² The Institute for Social Banking describes social banking as “the provision of banking and financial services that consequently pursue, as their main objective, a positive contribution to the potential of all human beings to develop, today and in the future....the focus is on satisfying existing needs in the real economy and the society whilst simultaneously taking into account their social, cultural, ecological and economic sustainability....Generating a monetary profit is not an end but a frequent prerequisite to guaranteeing the necessary flexibility for pursuing its objective in a continuously changing environment.” See <http://www.social-banking.org/the-institute/what-is-social-banking/>

³ More foundations were also seen to be moving from a passive grants approach to funding to “intelligent funding,” which emphasized effectiveness, efficiency and results/outcomes (Shanmugalingam et al. 2011).

Private investor and institutional investment was minimal. Most such investors sought market or near-market returns with low risk, in organizations with strong track records and measurable social returns (Hill et al. 2011).

b) Social investment and finance intermediaries

Most U.K. social investment was channelled to front-line organizations through intermediary social investment funds, known in the U.K. as social investment and finance intermediaries (Brown & Norman 2011; Evenett and Richter 2011; Howard 2012; Brown & Norman 2011; Clearly So 2011). In the two years before 2012, there were 30 to 32 active social investment and finance intermediaries in the U.K. social investment market (Brown & Norman 2011; ICF 2013). In 2011–12, social investment and finance intermediaries made a total of 765 investments (ICF 2013).

By far the biggest social investment and finance intermediaries were (and still are) the four social banks, which together made about 82% of social investment market investments by value, and about 30% of all deals,⁴ in 2011–12 (worth a total of £166 million) (ICF 2013). The bank deals tended to be large, averaging £723,000 each, compared to £264,000 per deal for the social investment market as a whole (ICF 2013). The banks ranged from Charity Bank,ⁱ which provides flexible loans to charities, community organizations and social enterprises that serve community social needs but have difficulty getting high street bank loans, to Triodos UK, a fully commercial bank that lends only to organizations producing social (29% of financing by value), environmental (49% of financing by value) and cultural value, including fair trade and renewable energy enterprises (HMT & CO 2007).⁵

Aside from the four social banks, social investment and finance intermediaries were generally small, often specialized, and fragmented. Only nine of the 26 non-bank social investment and finance intermediaries invested more than £1 million each in 2011–12 (ICF 2013). These larger social investment and finance intermediaries accounted for 56% of all deals and 15% of investments by value (ICF 2013). However, only a handful of these social investment and finance intermediaries were significant social investment market actors: four of them accounted for about 50% of all deals, and three accounted for about 11% of investments by value (ICF 2013). The remaining 16 small social investment and finance intermediaries made 14% of all deals but only 3% of investments by value that year (ICD 2013). The larger non-bank social investment and finance intermediaries' deals averaged £71,000; the smaller social investment and finance intermediaries' deals averaged £56,000 (ICF 2013). Overall, the data indicate that most deals were small but that most social investment market investment by value was in relatively few large deals.

These investments were overwhelmingly conservative (e.g., Brown & Norman 2011; UKNAB 2014; e.g. HMT & CO 2007; Howard 2012). Some 84% of total social investment market investments in 2010–11 were secured loans, rising to 90% in 2011–12 as total investment volumes

⁴ In 2010–11, this percentage was 70% (Brown & Norman 2011).

⁵ See <http://www.annual-report-triodos.co.uk/en/2013/impact.html>

rose (a total £182 million) (Brown & Norman 2011; ICF 2013; Davison & Heap 2013). Some 88% of all loans were at concessionary rates and £16 million of social investment market investment was made through grants (BSC in Davison & Heap 2013). One quarter of the deals were a combination of loans and grants, indicating many of the smaller loans included a grant component (ICF 2013). Even the small deals that dominated the social investment market would therefore have been predominantly low-risk, secured lending, often mixed with grants. In addition, only one of 15 social investment and finance intermediaries interviewed in a 2013 study funded start-ups (Hazenberg et al 2013).

Much of this conservatism was traceable to the dominance of the social banks and their conventional banking practices. Virtually all these banks' investments in 2011–12 were secured loans (ICF 2013). But the larger non-bank social investment and finance intermediaries were also conservative investors (Brown & Norman 2011), with about half of their investments by value taking the form of secured loans and another third by value taking the form of unsecured loans (ICF 2013). Many of these loans were made at commercial rates (e.g., Brown & Norman 2011; HMT & CO 2007; Howard 2012; OTS 2009; Hazenberg et al. 2013; ICF 2013). The small social investment and finance intermediaries were less risk averse: almost 40% of their investments were in equity and a further 17% were in social impact bonds (ICF 2013). Overall, the social investment market before the creation of BSC was a far cry from the hub of entrepreneurial spirit and support for innovation that the government and other social investment market actors hoped it would be (Brown & Norman 2011).

Rates of return on social investment and finance intermediary investments averaged 7% to 8% on each type of investment in 2011–12, except for social impact bond investments (3%) (ICF 2013). Social banks charged the lowest interest rates on loans, while small social investment and finance intermediaries charged the highest (ICF 2013).

Despite their conservative investment approach and these rates of return, few social investment and finance intermediaries were profitable or sustainable. The social banks were understood to be operating sustainably,⁶ but only half of the larger non-bank social investment and finance intermediaries reporting their finances in 2011–12 were covering costs (even though some of them were quite profitable) (ICF 2013). A year earlier, researchers had found an average operating gap of 27% between larger social investment and finance intermediaries' costs and revenues (Brown & Norman 2011). The smaller social investment and finance intermediaries were the least sustainable, with only two out of the seven reporting their revenues covering costs and the seven averaging a 55% operating gap (ICF 2013; Brown & Norman 2011).

The social investment and finance intermediaries were thus not self-sustaining, with grants—largely from government—accounting for 70% of their income (Brown & Norman 2011, in Davison

⁶ The single bank reporting its operating expenses in the 2011–12 study was sustainable, and the only two social investment and finance intermediaries (out of 12 reporting) that covered their expenses in the 2010–11 study were banks (Brown & Norman 2011; ICF 2013).

& Heap 2013).⁷ Another 19% of social investment and finance intermediary funding was in the form of resources repayable at concessionary rates, and 9% came from resources payable at commercial rates (Brown & Norman 2011, in Davison & Heap 2013). Social investment and finance intermediary funding sources appeared to diversify somewhat between 2010–11 and 2011–12 (ICF 2013), leading commentators to see “nascent signs of individual and angel investment,” ongoing trust and foundation experimentation in social investment, and increasing social investment and finance intermediary success in accessing mainstream commercial lending, although this remained uncommon (ICF 2013).

Despite social investment and finance intermediaries’ limited and highly conservative investments, demand for their offerings outstripped supply before BSC’s creation. In 2011–12, two-thirds of social investment and finance intermediaries said they could meet less than half the demand for their money, and no social investment and finance intermediary met more than 70% of the demand (ICF 2013). The data suggested⁸ that larger social investment and finance intermediaries were more able to meet demand than smaller social investment and finance intermediaries were, although the social banks were able to serve only half of their investment applicants (ICF 2013).

The social investment and finance intermediaries were (and still are) concentrated in London (ICF 2013) and had “heavy representation of mainstream bankers” (Nicholls 2010). They took a range of legal forms, from for-profit companies to trusts, companies limited by guarantee, industrial and provident societies, community interest companies, and limited liability partnerships (Brown & Norman 2011; Hazenberg et al. 2013; ICF 2013).

c) Social investment market investees

As already mentioned, the U.K. social investment market was initially promoted by government as a vehicle to finance social enterprises and other social purpose organizations in the not-for-profit third sector (e.g., OTS 2009; HMT & CO 2007; CUA 2007). In addition, some social investment and finance intermediaries, such as Triodos bank, financed profit-oriented enterprises, such as for-profit fair trade and clean-tech ventures.

Social enterprises and other third sector organizations

In 2011–12, most social investment market investees were social enterprises, including social firms (one-third) and charities (one-third) (ICF 2013). This may have represented a widely cast net. By then, the government surveys were defining “social enterprises” to include enterprises that considered themselves social ventures, generated over a quarter of their income from trading and distributed no more than 50% of their profits externally annually (BMG 2013). An estimated 26%

⁷ During the 2000s, government invested significant sums in social investment and finance intermediaries, including £72.2 million in the charity-owned Social Investment Business and half of the £40-million start-up capital of Bridges Ventures (SITF 2003; BIS 2011).

⁸ Sample sizes were small (ICF 2013).

of U.K. small and medium-sized businesses met these criteria in the 2013 survey (IIPC 2013). Using a fairly broad definition of social enterprise,⁹ a 2011–12 survey found that almost all social investment market investees were social enterprises, 95% self-defining as social enterprises¹⁰ and 93% reporting that they used their trading surpluses to further their social or environmental trading activities (ICF 2013). Some 69% were companies limited by guarantee and 16% were community interest companies, and 6% were for-profit companies (ICF 2013).¹¹

Not surprisingly, given the prominence of small social investment market deals, most social investment market investees were small organizations. Over half (58%) had an annual turnover of less than £250,000 and only 10% had an annual turnover of over £1 million in 2011–12 (ICF 2013). Also as expected, most received loan financing and, as noted earlier, one-quarter received a combination loan plus grant (ICF 2013). Loans ranged in size from £1,000 to £600,000,¹¹ with the unsecured loans tending to be smaller (ICF 2013). The social investment market also tended to be the investor of last resort for its investees; over half the investees (60%) had applied to mainstream lenders before seeking social investment market funding, and one-quarter had sought government grants or loans, mostly successfully (18% of all recipients) (ICF 2013).¹² The significant role played by grants indicates that many social investment market investees were unable or unwilling to carry a fully repayable investment.

Investees responding to the 2011–12 survey said they sought loans largely for growth (57%) or for start-up (31%) (ICF 2013). Some 60% of investees delivered public services (Ainsworth 2012a), indicating that the government’s plan to use social investment market financing to build social enterprises’ capacity to deliver public services was having some success.

Profits-with-purpose enterprises

One trend already gaining ground by the time of BSC’s creation was the social investment market’s increasing investment in “profits-with-purpose”—profit-seeking enterprises¹³ that lock in a “social mission” via their governance structure (e.g., golden shares) and/or embed it in their business model (SIITF 2014; Cohen 2014; Pudelek 2014). Proponents equate profits-with-purpose with North American B-Corps (SIITF 2014a; Ward 2014). Inclusion of B-Corps in the social

⁹ The survey used three criteria to define whether investees were social enterprises:

- whether they considered themselves to be a social venture
- whether they generated more than a quarter of their income from trading activities and
- whether they used their trading surpluses to further their social or environmental goals. (ICF 2013)

¹⁰ That is, they matched the 2001 government definition of a social enterprise as “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners” (ICF 2013).

¹¹ About 13% of estimated social investment market investees (99) responded to the survey, which may account for the fact that the maximum size of deals reported in the survey was lower than the social banks’ estimated average deal size.

¹² Social investment and finance intermediaries, such as Social Investment Scotland and Charity Bank, only lend to organizations rejected by mainstream lenders.

¹³ These enterprises may pursue market- or above market-level returns on investment.

investment market has paralleled the growing use of “social impact” discourse in the social investment market, which does not distinguish between non-profit and for-profit enterprises, and reflects comfort with the pursuit of profits. Including profits-with-purpose would seem to offer more potential for the high-growth, highly profitable enterprises favoured by investors, thus sparking both increased investment demand and supply.

Increasing social investment market financing of profits-with-purpose has divided the social investment market (e.g., Duffy 2013). Open conflict erupted in 2012 when an internal report by UNLtd, a social investment and finance intermediary established in 2002 with £100 million in National Lottery funding (Pudelek 2014), found that between 25% and 37.5% of the grants awarded by two of its major grant streams had gone to for-profits between 2008 and 2011. In addition, 44% of the awards through its Big Venture Challenge had gone to for-profits (Cook 2014). UNLtd had historically served charities and regulated social enterprises (CUA 2007), offering small grants (typically under £20,000) to organizations at all stages of development (HMGov 2011). UNLtd later produced a 2014 report, prepared for the G8’s U.K. advisory board, promoting more social investment market financing of profits-with-purpose (SIITF 2014a; Ward 2014; UNLtd 2014).

The 2012 report divided the UNLtd board and led two of its five member organizations to cut ties with the organization (Floyd 2015). Opponents of UNLtd’s new direction argued that a “private-profit social sector” would fundamentally damage public perceptions of third sector activity (Pudelek 2014) and would lead to more social enterprises becoming fully commercial once their founding social entrepreneur moved on (Cook 2014). More fundamentally, the two sides disagreed about whether “you need to go into the mainstream rather than staying in a small tent with an alternative culture. Others say that’s to abandon the whole point of the social economy” (Cook 2014). Opponents also argued that enterprises should not be making significant profits from meeting people’s social needs, since that was to profit from others’ misery (Duffy 2013).

Proponents of the new direction argued that many social entrepreneurs were setting up as for-profits because they needed equity financing in their early years, to get them through the start-up “valley of death” and to grow rapidly (Ward 2014; UNLtd 2014). The implication was that not-for-profit social purpose enterprises were having more difficulty surviving the start-up phase than for-profits were but that both types of enterprises needed grants or subsidized financing in the beginning.¹⁴ In addition, UNLtd argued that government surveys showed a large group of small and medium for-profits identified themselves as pursuing social purposes (Ward 2014). “We believe that there are at least as many profit-distributing, impact-focused businesses in the U.K. as there are social enterprises and trading non-profits: this could give them recognition and draw in more businesses to going social.”¹⁵

¹⁴ An earlier report by the Omidyar Network had argued that some subsidy was required even for an impact investment market that invested in profitable social businesses (Bannick & Goldman 2012).

¹⁵ See <https://unltd.org.uk/2014/09/15/profit-purpose-business-new-frontier-social-economy/>

A quick scan of “profits-with-purpose” grantees on the UNLtd website and “social enterprise grantees” on Big Society Capital’s website indicates at least some overlap between these groups. However, UNLtd explicitly distinguished the two types of organizations; its “profits-with-purpose” investees often fully distributed profits and might have been investor-controlled (Pudelek 2014).

Some other social investment and finance intermediaries, including Nesta, Social Investment Business and Impact Ventures, also financed profits-with-purpose companies (Mair 2013a; O’Donohue 2014). The size or type of investments in profits-with-purpose is not known; UNLtd investments were largely small grants.

1.2 THE SOCIAL INVESTMENT MARKET’S “MARKET FAILURE”

Overall, then, the U.K. social investment market did not function like a regular commercial investment market. Most of the non-bank social investment and finance intermediaries relied on government grants, and a significant share of investees also relied on grant/loan mixes rather than repayable financing alone. Structurally, the U.K. social investment market was small and fragmented, comprising many small, often specialized investment intermediaries in addition to the four social banks. Social investment and finance intermediaries invested in a relatively few large deals with larger enterprises at one end, and in a great many small deals at the other. Nearly all were secured loans. The investees’ profiles mirrored this investment pattern; only 10% of investees were large enough to carry a major investment, and most of them were small. Most had been rejected by mainstream lenders. Very few were start-ups.

Most social investment market commentators, including government, believed the social investment market’s small size and weakness fundamentally reflected a mismatch between supply and demand that, if resolved, would enable the social investment market to grow quickly and sustainably (e.g., HMT & CO 2007; HMGov 2011; OTS 2009; CUA 2007; Hazenberg et al. 2013; Brown & Norman 2011). On the one hand, small and medium-sized social enterprises could not access the type of financing they needed (BIS 2010; DTI 2003; Duffy 2013; OTS 2009; CUA 2007).¹⁶ On the other, some “more commercially minded senior debt providers” could not find attractive investments (CUA 2007; Gregory et al. 2012). Specifically, most demand was for unsecured loans or equity, but most supply was in the form of secured loans (Brown & Swersky 2012). One study found that 73% of the demand was for higher-risk investment—58% for unsecured loans, and 15% for equity—but only 16% of the supply was of this type (Brown & Swersky 2012). The mismatch was estimated at between £300 million and £1 billion in capital per year (CDFA 2013 and NESTA 2012, in UKNAB 2014).

¹⁶ In 2007, a Triodos representative commented, “There continues to be a dearth of higher-risk, unsecured debt available to third sector organizations that don’t have a track record of trading successfully or asset security to offer” (CUA 2007).

Government and most social investment market commentators attributed the mismatch to both supply and demand failures: an inadequate supply of higher-risk investment (e.g., OTS 2009; HMT & CO 2007; Howard 2012) and of total investment (CUA 2007), and an inadequate demand for commercially viable or even repayable investment. Their reports focused mainly on structural changes to resolve these failures. Government reports, for example, were relentlessly optimistic that both supply and demand problems could be overcome (e.g., OTS 2009; HMT & CO 2007; HMGov 2011). Most commentators did not consider a possible fundamental mismatch between most social enterprise organizations' needs and most investors' interests.

a) The government and investor perspective

Supply-side failures

Government and investor-funded reports usually attributed the social investment market's investment conservatism to structural and technical issues they deemed "teething troubles" natural to a young new social investment market. Once these were overcome, they argued, social investment and finance intermediaries could offer higher-risk investments attractive to greater numbers of both investees and prospective social investment market investors (e.g., OTS 2009; HMT & CO 2007; Howard 2012).

As noted earlier, the social investment market's conservative investment approach was mainly a result of the dominant social banks' conventional lending practices. Non-bank social investment and finance intermediaries' conservative approach was most often attributed to their small size and fragmentation, and the lack of tools they needed to operate efficiently. According to this view, the non-bank social investment and finance intermediaries had to invest conservatively because they were too small, and lacked the necessary diversified income base, to carry the high transaction costs involved in making large numbers of small deals with enterprises with unclear prospects (e.g., OTS 2009; HMT & CO 2007; Howard 2012). Enterprises' prospects were unclear because of the lack of relevant metrics to assess investor risk (e.g., Hazenberg et al. 2013; Maree & Mertens 2012 in Hazenberg et al. 2013; Shanmugalingam et al. 2011; Howard 2012; OTS 2009); the lack of established metrics to measure social impact (e.g., Hazenberg et al. 2013; Maree & Mertens 2012 in Hazenberg et al. 2013; Shanmugalingam et al. 2011; Howard 2012; OTS 2009); the lack of track records for individual enterprises and for sector investments as a whole (Howard 2012; CUA 2007); and the lack of a secondary market or securitization for specialized investments in the sector (OTS 2009). These technical problems raised social investment and finance intermediaries' transaction costs by requiring them to undertake very extensive and expensive due diligence. Moreover, new products such as social impact bonds promised potentially "horrendous" transaction costs because of their level of regulation (Hazenberg et al. 2013).

Half of the social investment and finance intermediaries participating in a 2011–12 study cited transaction costs as a barrier to their own organization's growth, seeing it as a much bigger problem for them individually than the dearth of attractive investment opportunities (39%) or constantly changing government procurement rules (39%) (ICF 2013). However, they were most

likely to see the lack of investment opportunities as a barrier to the social investment market's overall growth (ICF 2013).

The widespread view was that bigger and better capitalized non-bank social investment and finance intermediaries would be better able to absorb high transaction costs, and thus make riskier investments. However, one study concluded that only about six non-bank social investment and finance intermediaries had the necessary scale and performance to accept meaningful capital injections (Brown & Norman 2011). It also predicted that even with these capital injections, non-bank social investment and finance intermediaries would need double-digit rates of return to become self-sustaining (Brown & Norman 2011), suggesting that social investment and finance intermediary viability required higher financing prices. Concerns were also expressed that such capital injections could siphon off funds intended for front-line organizations (Shanmugalingam et al. 2011), and one report suggested that the social investment market might eventually need to eliminate social investment and finance intermediaries to obviate risks arising from data misalignment and product mis-selling (Howard 2012).

Government and investor-funded reports also condemned social investment market grants for crowding out repayable investment opportunities and perpetuating social organizations' reliance on non-repayable financing. Social organizations needed to be weaned off grants, they said (Brown & Norman 2011; OTS 2009; Duffy 2009). By 2009, the government was already arguing that the third sector now operated increasingly on a business footing—mostly via public service delivery contracts—and now needed to face business imperatives such as robust financial management and planning for sustainability (OTS 2009). However, other social investment market actors and commentators (e.g., Shanmugalingam et al. 2011; Heap & Davison 2013; Howard 2012; Wilson 2014) argued that grants or subsidies were critical to social enterprises and other social sector enterprises, especially at start-up.

Other supply-side problems were raised, too. Social investment and finance intermediaries were criticized for their narrow range of products, most of them inappropriately borrowed from mainstream commercial markets (Evenett and Richter, 2011; OTS 2009; Nicholls, 2010; Wood et al. 2012 in Hazenberg et al. 2013). They were also criticized for their lack of deep knowledge of the social problems they were investing in (Shanmugalingam et al. 2011) and of the social sector (Hazenberg et al. 2013; Duffy 2013). Government-commissioned social investment pilots in 2007–08 found that social investment and finance intermediaries lacked sufficient expertise in corporate finance, a strong understanding of social enterprise, and the ability to provide the required services at a cost commensurate with the size and value of the deals (OTS 2009). Social enterprise practitioners criticized social investment and finance intermediary staff as mostly London-based, former City investment dealers who were bringing City values to the social sector and charging excessive fees and day rates—a claim that social investment and finance intermediaries rejected (e.g., Mair 2013a; Duffy 2013; Floyd 2015a). One government report found that commercial lenders were often risk-averse (HMGov 2011).

For many social enterprise practitioners, the main supply problem was lack of unsecured financing, as already mentioned. However, the available financing was also too expensive—often more than the high street banks charged—and the amounts were too large (e.g., Duffy 2013).

Demand-side failures

Government and investor-funded reports saw the social investment market's demand-side failure as too-low demand not just for the more commercial investment on offer, but also for repayable investment more generally. The “broader issue” was that “a large part of the Third Sector is not geared up to use any form of repayable funding” (e.g., CUA 2007; Shanmugalingam et al. 2011). The thinking seemed to be that if social enterprises and other potential investees could increase their appetite for repayable investment, especially at reasonable rates, larger and stronger social investment and finance intermediaries could satisfy that need and become sustaining, and attract more investment into the social investment market.

It was acknowledged that most third sector organizations were too small or lacked the assets to take on repayable financing (e.g., CUA 2007). But government and investor-funded reports attributed many social sector organizations' low appetite for financing largely to attitudinal, regulatory and capacity factors. Third sector organizations, especially charities, were seen as risk averse or debt averse (e.g., OTS 2009; Hazenberg et al. 2013) for several reasons: the perceived riskiness of financing (OTS 2009; Hazenberg et al. 2013); the unwillingness of volunteer trustees to take on liability (OTS 2009); the constraints imposed by organizations' legal forms (e.g., charitable status) on profit distribution (OTS 2009); organizations' unwillingness to pay dividends to investors by virtue of their mission (OTS 2009); and organizations' perception that they would be unsuccessful in getting financing (OTS 2009; HMT & CO 2007; Deakins et al. 2008 in Hazenberg et al. 2013).

Third sector enterprises were also seen as unwilling to give up control of their organization or as having a “grant-seeking mindset” (Howard 2012; Hazenberg 2013). Those who did want financing were seen as really wanting “a very long equity that they didn't have to worry about” (Howard 2012). Many enterprises were also perceived to be unaware of the benefits of financing and of the options available (e.g., OTS 2009; Brown & Norman 2011; HMT & CO 2007).

At least one of these third sector attitudes was based in experience. Nearly all of the social investment and finance intermediary investees surveyed in 2011–12 that had sought financing from mainstream banks or building societies had been unsuccessful (ICF 2013): 37% because they lacked security and 22% because they lacked a track record (ICF 2013).

Over and above their attitudes, third sector enterprises were also seen as lacking the necessary organizational capacity needed to get repayable financing, understood as robust governance structures, skilled management teams, and solid business models that demonstrated capacity for growth and profitability (e.g., Hill et al. 2011; Howard 2012; HMT & CO 2007; OTS 2009; Shanmugalingam et al. 2011). Instead, many enterprises' business models appeared “fragile”

because a significant proportion of their income came from voluntary organizations; their turnover or profit margins were low; or they served vulnerable populations whom neither government nor the market was willing to invest in serving because the benefits were “soft,” intangible and often realized over the longer term (OTS 2009; Hazenberg et al. 2013). Social investment and finance intermediary investors wanted enterprises with the potential for great social impact and financial returns, and secure income—aside from grant income—over the medium term (Hazenberg et al 2013), regardless of legal form or current trading profitability. Social investment and finance intermediaries attributed their high transaction costs in large part to investees’ incapacity to handle repayable investment (ICF 2013).

These third sector failings were described as a lack of “investment readiness” (e.g., Hazenberg et al. 2013; Nicholls 2010; HMT & CO 2007; OTS 2009; Howard 2012). During the 2000s, government launched several large programs to increase third sector investment readiness, mainly to prime social enterprises and charities to take on more public service delivery (UKNAB 2014; HMT & CO 2007; OTS 2009; CUA 2007). This strategy continues, even as the government turns increasingly to large private sector companies to deliver services (Davison & Heap 2013; BSC 2014b; Floyd 2014a). In 2012, the U.K. government created a three-year, £20-million Investment Readiness Programme to build the ability of social ventures with “potential for high growth and delivering positive social impact” to access investment of at least £500,000 or to win government service delivery contracts of over £1 million (SIIF 2014; Ritchie 2014).¹⁷ Other commentators argued that the problem of investment readiness was best solved via subsidies through which enterprises could gradually achieve investment readiness (Howard 2012) or suggested the social investment market should seek capital that sought lower returns (Howard 2012).

Criteria for investment readiness

How investment unready were (and are) U.K. social enterprises and other social sector organizations? There seemed to be wide agreement that many third sector enterprises lacked the capacity to take on repayable financing; this included organizations representing social enterprises, which largely welcomed the investment-readiness programs (e.g., Wilson 2014; Mason & Kwok 2010; BSC 2013c). The degree to which this lack of capacity was due to irremediable barriers is unknown.

What counts as investment readiness? One recent study found that most of the 15 social investment and finance intermediaries interviewed conceived investment readiness in much the same way as did mainstream investors (Hazenberg et al. 2013). Moreover, the social investment and finance intermediaries agreed this was the case (Hazenberg et al. 2013). An earlier OECD study found similar results (Mason & Kwok 2010). In practice, investment readiness meant having a detailed, strong business plan that showed evidence of the venture’s capacity to go to scale, generate profit to be financially sustainable (Hazenberg et al. 2013). In addition, the 15 social

¹⁷ Other investments included a £10-million Social Incubator Fund, and £15 million from the Big Lottery Fund for the School for Social Entrepreneurs, launched in 1997 (EC 2014).

investment and finance intermediaries studied indicated a strong preference for a single strong and focused leader, rather than partnerships or consensual leadership (Howard 2012; Hazenberg et al. 2013).

A social mission with potential social impact was prerequisite for financing, but as an entry requirement, with investment decisions then based on financial considerations (McWade 2012; Hazenberg et al. 2013). The social impact assessment did not include the urgency or degree of social value of the social needs the enterprise proposed to meet (e.g. the depth or urgency of the needs). Nor was potential social impact weighed against financial considerations to maximize social impact (McWade 2012; Hazenberg et al. 2013). Maximizing social impact appears to have been equated with growing to scale.

A study of 15 social entrepreneurs conducted to complement the study of social investment and finance intermediaries found that all 15 entrepreneurs lacked investment readiness, based on social investment and finance intermediary investment readiness criteria (Seddon et al. 2013).

b) The third sector perspective

For many social enterprise practitioners and other third sector organizations, the social investment market's central failure was its failure to provide the kind of financing needed by social enterprises and charities least able to access mainstream financing. As already noted, the vast majority of the U.K.'s 70,000¹⁸ social enterprises and 160,000 charities were small and usually lacked assets (e.g., Ellis Paine 2012; SEUK 2013). Only 18% of U.K. social enterprises had annual turnover of £1 million or more in 2013, 60% had annual turnover of £250,000 or less, and 50% had annual turnover of £187,000 or less (SEUK 2013). Thus, relatively few social enterprises were able to access mainstream financing or to carry the larger social investment market deals. The U.K.'s 50 largest (mostly older) social enterprises averaged about £50 million in annual turnover (BSC 2013c).¹⁹ The charity sector was even more polarized into a small number of very large charities and a vast number of very small charities.²⁰

Just over half of U.K. social enterprises were profitable in 2013 (again, more often the older organizations), and about one-quarter recorded a loss (SEUK 2013). Some 72% of social enterprises earned nearly all their income from trade (SEUK 2013), usually from multiple sources (SEUK 2013). About one-third of them traded primarily with the public, and 23% traded primarily with government to deliver public services (disproportionately large, established social enterprises) (SEUK 2013). However, trade with government was proving increasingly difficult for social enterprises (SEUK 2011; SEUK 2013), partly because of its precariousness, strict focus on outcomes and low pay (SEUK 2013; Buckingham & Teasdale 2013), but also because of changing

¹⁸See Teasdale et al. (2013) for a critique of this estimate.

¹⁹ Turnover of both small and large social enterprises declined between 2011 and 2013, due largely to the ongoing effects of the 2008 economic meltdown and government spending cutbacks. The median turnover for social enterprises dropped from £240,000 to £187,000 (SEUK 2013; Davison & Heap 2013).

²⁰ Annual turnover for each of the three largest charities was £200 million or more (BSC 2013c).

government procurement policies. Third sector organizations were increasingly having to work as subcontractors to the large private sector “prime” contractors being awarded huge bundled contracts, or were being excluded entirely (e.g., Davison & Heap 2013; BSC 2014b; Damm 2012; Rees et al. 2013; Dean 2013).ⁱⁱⁱ

Despite government exhortations to become self-sufficient, social enterprises still relied much more often on grants than on external financing when BSC was created. In 2013, when the new Coalition government had slashed budgets and was warning against third sector reliance on grants, 89% of U.K. social enterprises sought grants (and 31% got them), according to an annual sector survey (SEUK 2013). In both 2011 and 2013, just under half (48%) of them sought financing, with 20% of social enterprises seeking loans (SEUK 2013).^{iv} Most financing requests were for small amounts; half were for £58,000 or less (SEUK 2013), although half of the loan requests were for £150,000 or less (SEUK 2013).²¹ About half of the loan applications (52%) were successful (SEUK 2013).

A government survey found even lower demand for financing by third sector enterprises (27% for social enterprises), with the highest demand being for small longer-term loans of £10,000 to £100,000 (BLF 2012 in BSC 2013c; CO 2013 in EC 2014). Half of the third sector organizations sought £10,000 or less, and only 7% sought more than £250,000 (CO 2013 in EC 2014).²² Social enterprises seeking financing most often wanted bank loans (43%), bank overdrafts (26%) or grants (23%) (CO 2013 in EC 2014). The types and amounts of financing that smaller social enterprises looked for from the social investment market were very hard to get from mainstream lenders, with the smallest loans being the hardest to get (BSC 2013c). Close to half (44%) of the social enterprises surveyed in 2013 cited financing as a major issue and as an impediment to sustainability (SEUK 2013).

Social enterprise practitioners argued that what social enterprises most needed from the social investment market was “builder capital,” particularly during their start-up years (Davison & Heap 2013; Heap & Davison 2013). This was “ultra-patient risk capital provided with the objective of seeding, developing and building sustainable social enterprises...capable of solving difficult social problems in innovative and affordable ways. Investors...receive only social returns in the first few years of the enterprise’s life, and...once a pre-agreed level of revenue, social impact or surplus has been achieved then a financial return will become payable” (Heap & Davison 2013). One-quarter of social investment market deals before BSC’s creation in 2012 involved combined loan and grants; however, by 2013, social enterprise practitioner critics saw the social investment market as mostly serving large private sector companies using economies of scale to provide basic services at a cost that generated profits (Davison & Heap 2013).

²¹ By 2013, social enterprises’ debt needs were declining in terms of value. The size of a median loan request had dropped from £250,000 in 2011 (SEUK 2013).

²² Charities also relied heavily on donations, receiving £14.7 billion in voluntary donations in 2010–11, although nearly all of this went to the largest charities (Rotheroe et al. 2013).

Radical cuts in government grants after 2010 intensified pressure on social enterprises to become self-sufficient, just as public sector trading was becoming more difficult. By 2013, some social enterprise practitioners expressed concern that social enterprises' financial environment was changing too quickly for social enterprises to adapt. The rapidity of change had created "insurmountable challenges" to attaining sustainability, since social enterprises were being forced to become market reliant virtually overnight, with almost no resources to do that work (Davison & Heap 2013).

1.3 CONCLUSION

Before the creation of Big Society Capital, then, the U.K. social investment market remained largely a creature of the U.K. government, with most social investment and finance intermediaries and investment supply sustained by government. Only the social banks seem to have been solid. The small, weak and fragmented social investment market provided overwhelmingly conservative investment to a few larger social enterprises and other third sector organizations (or profits-with-purpose), and to many smaller organizations. A significant amount of investment was in the form of grants or loan/grant mixes.

At the same time, third sector demand outstripped supply for some types of finance, while pockets of more commercial investment went untouched. Government and investor reports attributed this mismatch—and the weak, small state of the social investment market—largely to social investment and finance intermediaries' structural inability to provide the higher-risk financing social enterprises wanted most, and to social enterprises' reluctance or inability to take on repayable financing. Their widespread view was that if social investment and finance intermediaries' structural and technical problems could be fixed, and the more promising social enterprises could be made investment ready, social investment and finance intermediaries would begin to generate an adequate supply of higher-risk financing, which would be snapped up by sound, potentially high-growth social enterprises, many of which could carry repayable investment at "healthy" rates. Seeing the potential for viable returns, new investors would enter the market—including, it was hoped, charity and foundation endowment and investment funds, and other social investors that would accept lower returns. To fix the social investment market in this way would involve removing grants and subsidies, raising social investment and finance intermediary rates of return on investment, and arguably cutting loose social enterprises working in areas that might never be profitable.

For many social enterprises, however, the desired state for the social investment market was somewhat different: the social investment market would provide large amounts of "builder capital," affordable, riskier loans, and even grants to social enterprises in their early stages, with some more conventional investment available for enterprises after they had grown. However, could many more social enterprises be made investment ready so that they could survive on more

conventional repayable investment alone, thus obviating the need for more builder capital? If not, could this vision shared by many social enterprises be compatible with growing a bigger, stronger social investment market?

Some social enterprise practitioners believed their desired state could be compatible with a sustainable social investment market, if the social investment market adopted innovative ways of doing business tailored to social enterprises (see the next section), rather than conventional mainstream practices. However, by 2010, one prominent academic was arguing that social investment markets in the U.K. and elsewhere were already undergoing “normative absorption” into mainstream financial markets (Nicholls 2010), mainly due to their use of traditional finance tools and the influx of financiers from the mainstream finance sector (Hazenberget al. 2013). This trend was pushing the point of equilibrium toward that proposed by government and investor-oriented social investment market commentators. Some other social investment market actors doubted the social investment market would ever be absorbed, arguing that regular investors would never be prepared to pay for the real costs of social ventures (Howard 2012).

Complicating these issues was the government’s own agenda to build a large cadre of sustainable social enterprises that could deliver public services effectively and efficiently. In addition, increased adoption of the “social impact” model of social value and social investment was already encouraging some social investment market actors to look beyond small and medium-sized social enterprises to more conventional enterprises—profits-with-purpose—that might also be more attractive to conventional investors.

While BSC would be only one player in the social investment market, it was widely agreed that, once operational, it would to some extent define the boundaries of the social investment space through its decisions on the types of activity and organizations it financed (Brown & Norman 2011; Davison & Heap 2013). Government and many other social investment market actors believed that a well-resourced wholesale bank could help increase investment supply by creating the diversified risk and scale conditions necessary for new investors’ participation (e.g., HMGov 2011). The third sector hoped it would open doors for them to the type of investment they needed (e.g., SEC 2009).

2. BSC

The idea of a wholesale bank/institution or national fund for the U.K.’s social investment market was first proposed in 2006. BSC was approved in mid-2011 and launched as an independent organization in April 2012.^v This section describes the origins, remit, structure and activities of BSC.

2.1 ORIGINS

The Commission for Unclaimed Assets (CUA) introduced the idea for a wholesale social investment bank during a public consultation on ways to distribute funds from dormant U.K. bank accounts, which had an estimated value of up to £400 million (CUA 2007). Heading the CUA was Sir Ronald Cohen, CEO of Bridges Ventures, one of the larger social investment and finance intermediaries in the U.K. social investment market.

The government's original intention was to use the dormant assets to fund services to youth and to improve citizens' financial capability and inclusion (HMT & CO 2007; OTS 2009), but the CUA's final report in 2007 called for at least some of the assets to be used to capitalize a new, independent wholesale social investment bank (CUA 2007). The new bank's mission would be to increase third sector access to social investment market financing, including equity (for which the need was said to be "acute") and financing from broader capital markets (CUA 2007). Its investee targets would be "organizations at all stages of development, from charities without trading revenue all the way to social enterprises that reinvest some or all of their profits in their mission and commercial businesses with a social purpose" (CUA 2007). The social investment bank would be answerable to the third sector (CUA 2007). (The report did not discuss for-profit enterprises, but did offer them as examples of potential social investment bank beneficiaries.)

The plan was to offer front-line enterprises only repayable financing, but with medium to long terms, possibly repayable only upon achieving certain milestones—or, if the financing came in the form of equity, repayable with dividends that were capped based on the investee's growth (CUA 2007). Rates of return on equity products would vary with the level of social return expected of investees (CUA 2007).

To achieve these goals, the bank would strengthen the social investment and finance intermediaries through capital injection, loan guarantees and other supports that would help them attract outside investor capital (CUA 2007). It would also increase demand by developing social investment market capacity to provide advice, support and higher-risk investment to third sector enterprises (CUA 2007).

The bank itself was to be self-sustaining (CUA 2007). The report argued that a self-sustaining wholesale bank would have more impact than, say, a fund, because it would recycle its capital to leverage the maximum amount of external capital into the social investment market (CUA 2007). Later, the government would also argue that a self-sustaining bank would help demonstrate to investors that investing in social ventures can generate both social impact and real financial returns (HMGov 2011).

Nor would the new bank compete with mainstream commercial lenders, because it would only target existing market gaps through such products as subsidized debt or equity-like products offered to higher risk organizations (CUA 2007). Though sustainable, the bank's rates of return were likely to be below those of mainstream banks (CUA 2007).

2.2. BSC: OVERVIEW

The incoming Coalition government announced the creation of the wholesale social investment institution as part of its launch of the Big Society in July 2010, and Big Society Capital Group was fully launched in April 2012 (UKNAB 2014) as a financially self-sufficient institution with a “locked in” social mission (HMGov 2011).

a) Structure and financing

BSC, as it is called, comprises three entities: a parent company, The Big Society Trust, a company limited by guarantee; a subsidiary operating company limited by share, Big Society Capital Ltd; and a separate entity, Big Society Foundation, which can receive charitable donations to support the group’s mission (HMGov n.d.; CO 2011). The parent company is governed by representatives from the social and financial sectors, plus one government and one big bank representative (HMGov n.d.; CO 2011a). Its CEOs have been drawn from social investment and finance intermediaries and the financial sector.^{vi}

In the end, all £400 million from dormant U.K. bank accounts was used to capitalize BSC, (HMGov 2011; CO 2011a; HMGov n.d.). BSC also received £200 million from the U.K.’s four largest high street banks (the Merlin banks), for a total £600 million (HMGov n.d.; CO 2011a). The capital was to be dispersed over four years or so. BSC was expected to record losses for the first several years, after which it would begin to cover its operating costs from returns on its investments (HMGov n.d.; CO 2011). All its investments seek financial as well as social return, thus securing BSC’s sustainability, although BSC might partner at times with grant-making institutions (HMGov n.d.; CO2011).²³ Any BSC profits are re-invested or given to its charitable trust to further BSC’s mission (HMGov n.d.).

b) Roles, activities and objectives

Like the social investment bank proposed in 2007, BSC’s two main roles are to strengthen the social investment and finance intermediaries, and to support overall development of the social investment market infrastructure to enable it to grow (CO 2011; HMGov 2011). BSC is to strengthen the social investment and finance intermediaries through co-investment in social investment and finance intermediaries, and social investment and finance intermediary funds; provision of subordinated capital;²⁴ direct investment in existing social investment and finance

²³ The banks were reported to have invested with the expectation of market-rate returns (Floyd 2014).

²⁴ “Subordinated capital” is capital (usually debt) that is paid out—in other words, is repaid or receives a return—only after other capital is paid out. See

<http://www.investopedia.com/terms/s/subordinateddebt.asp>

intermediaries; investment in infrastructure organizations²⁵; and investment in and underwriting of innovative financial products, such as social impact bonds (CO 2011; HMGov 2011).

In its second role, BSC supports development of the social investment market through such measures as conducting research; sharing information and networking; helping social ventures access investment capital; helping create a secondary market in social investment securities; accelerating product innovation and process standardization; and developing a common understanding of best practices (CO 2011; HMGov 2011).^{vii}

BSC's specific objectives are as follows:

- develop social investment and finance intermediaries that can “raise capital for investment into social ventures or individuals”
- connect social investors to capital markets to access growth capital
- develop the investor market by creating new investment vehicles that support high-growth ventures, as well as smaller organizations
- support financial innovation so that social organizations are rewarded on the basis of their outcomes
- support development of community-led social enterprises to improve opportunities for young people (CO 2011)

c) Mission and specific priorities

Whereas the social investment bank's mission was to increase access to financing for social enterprises and other third sector organizations, BSC's mission is to grow the U.K. social investment market into a larger sustainable market, able to attract more external capital to achieve social impact (CO 2011; HMGov 2011; BSC n.d.(1); O'Donohue 2014; BSC 2014a; BSC n.d.(1)). As noted earlier, it was assumed that a bigger, stronger social investment market would significantly increase the social sector's access to financing, and hence its ability to deal with social issues (CO 2011). Indeed, U.K. politicians and policy-makers represent BSC as a vehicle to serve third sector and, in particular, social enterprise financing needs (Floyd 2013; Mair 2013a; Floyd 2014). For example, following the government's announcement of BSC, *The Guardian* described BSC as a “£600 million fund to support grassroots social projects” (Watt 2012). However, growing the social investment market takes precedence over serving social enterprises' financial needs. In addition, BSC singles out high-growth, scalable enterprises as priority investees, rather than making a uniform broad commitment to social enterprises (CO 2011).

While, as already noted, a major government interest in promoting social enterprises and the social investment market has been to create a cadre of third sector organizations able to deliver public services, BSC objectives specifically prioritize one procurement mechanism: social impact

²⁵ This investment is likely made through redeemable equity with varying rates of return (CO 2011; HMGov 2011).

bonds (see Glossary) (CO2011). One innovative feature of this payment-by-results procurement mechanism is that it introduces investors directly to public procurement contracting (rather than indirectly, through investment in private sector or social enterprise contractors). The singling out of social impact bonds as a priority signals that public procurement will be a major focus for BSC and the social investment market (e.g., HMGov2013; BSC2014a; SIITF 2014).

d) Investors and eligible investees

BSC is expected to draw in sought-after investors who have been reluctant to enter the social investment market to date (HMGov 2011). These include institutional investors, as well as mainstream financial institutions, high net worth individuals, individual citizens, other financial services firms and intermediaries, and perhaps local government (excluding procurement) (HMGov 2011; BSC2014a). BSC plans to achieve this directly by investing only in social investment and finance intermediaries with other co-investors (initially on a 1:1 basis) (BSC 2013b) and, more broadly, by demonstrating to external investors that investment in the social investment market can be viable and deliver reasonable rates of return (HMGov 2011).

BSC's envisioned beneficiaries remain the same social ventures targeted in the 2007 proposal: social sector organizations that can carry repayable investment (HMGov 2011). These include social enterprises, charities,²⁶ social firms and community organizations (mission-driven organizations serving specific communities or areas, and aiming to build community cohesion and social capital) (HMGov 2011). However, this tent of eligible beneficiaries has expanded. BSC investment policy puts no constraints on beneficiaries' legal form (BSC 2015). For-profit companies can also be beneficiaries, as long as they distribute up to but no more than 50% of their after-tax profits over time (BSC 2015; Ainsworth 2012). The BSC cap follows the caps adopted by the U.K. government (e.g., BMG 2013) and Social Enterprise U.K. However, Social Enterprise U.K. also prohibits external investor control of the enterprise (defined as greater than 49% ownership); BSC apparently does not.

In principle, BSC investment could be available to the estimated 26% of U.K. small and medium-sized businesses that identify as social enterprises and limit profit distribution to 50% (IIPC 2013; BMG 2013). However, beneficiaries must also articulate their social objects in their constitution, or have a constitutional or contractual lock on these social objects and on profit distribution, and must ensure that disposal of assets conforms to their social objects (BSC 2015; Ainsworth 2012). For-profit beneficiaries must also measure and report on their social impact (BSC 2015).²⁷ BSC's requirements for for-profit beneficiaries reassured some practitioners that most BSC investments would go to regulated social enterprises and that "charities are being placed at the heart of this market" (Ainsworth 2012).

²⁶ However, the charity sector has largely been absent from conversations about the social investment market (Mair 2013a).

²⁷ BSC also requires social investment and finance intermediaries to sign a compliance form at the point of drawing down BSC investment that confirms a for-profit investee meets all these criteria (BSC 2013b).

e) Financing and financing criteria

BSC investments are intended to disperse a wide variety of types of repayable financing to front-line enterprises, including loans, equity and quasi-equity. However, as noted earlier, BSC does not fund grants or subsidies. BSC does invest in “all stages of growth and replication, from ‘angel’ financing for start-ups, to venture and equity-like financing for growth, to structured investment products and retail banking for large-scale working and investment capital finance” (HMGov 2011).

The government envisaged social sector beneficiaries using BSC capital to better manage cash flow, finance payments-by-results contracts with government, or invest in equipment and facilities, all to remain sustainable or to grow to scale (HMGov 2011).

The considerations governing BSC investment are threefold: an investment’s proposed social impact, its contribution to social investment market development and its financial returns (BSC 2013b).

BSC measures “social returns” on its investments in terms of social impact, reflecting the prevalence of this criterion of social value in the social investment market. To ensure BSC investments generate social impact, BSC has developed criteria for assessing enterprises’ potential social impact (BSC n.d.),²⁸ as well as procedures to ensure that BSC’s social investment and finance intermediary and front-line beneficiaries produce measurable social impact that can be rolled up and reported back to BSC regularly (BSC 2015; BSC 2013b).^{viii} BSC also has an outcomes matrix that identifies desired impacts in different fields of activity.²⁹

BSC measures “contribution to social investment market development” in terms of leveraging additional capital into the sector; attracting new types of investors; contributing to a stronger social investment and finance intermediary landscape by bringing new social investment and finance intermediaries into the social investment market that are credible and financially sustainable in a parallel asset class, or by making existing social investment and finance intermediaries more sustainable; and channelling investment to previously unreached social service organizations, especially via “a small minimum ticket size, relatively patient or long-term capital and risk or unsecured capital, and investment that gets to the front line quickly” (BSC 2013b). As already noted, BSC also initially required co-investors for each of its investments, but this requirement no longer stands (BSC 2013b; Floyd 2014).

In terms of financial returns, BSC investment policy prioritizes “high risk” investments that mainstream investors will not fund (BSC 2013b). Ideal candidates will have significant assets or the potential to grow to sustainability; well thought out business models and strong management; a strong risk assessment; and a transparency in how they spend the money (BSC 2013b).

²⁸ These social impact criteria rank potential investees, but there is no minimum cut-off. However, weak candidates are not expected to receive investment (BSC n.d.).

²⁹ See <http://www.bigsocietycapital.com/outcomes-matrix>

How does BSC weigh or trade off these three considerations in individual cases? BSC says that depends partly on what the rest of its portfolio looks like (BSC 2013b), because it wants a diversified portfolio in terms of capital and social sectors. Its only hard investment criterion is that recipient social investment and finance intermediaries and front-line investees are unable to access capital on similar terms from similar commercial organizations—or, in the case of social investment and finance intermediaries, anywhere else (BSC 2013b).

f) Measuring BSC success

BSC's success in growing the social investment market is to be measured in terms of both financial and social impact. Financial success will mean lots more external capital entering the social investment market through BSC investment; a bigger,^{ix} more sustainable social investment market; and an efficient market^x (CO 2011; HMGov 2011).

Social impact success is largely equated with financial success. Social impact success is defined as more growth in the number of strong social investment and finance intermediaries, and in the number and scale of social organizations funded by the social investment market (CO 2011). An earlier proposal to measure social impact success more directly was ultimately abandoned.³⁰ Here, a bigger, stronger social investment market (funding more high-growth social organizations) and optimal social impact are equated. The social value of the impacts achieved—for example, the depth or urgency of the needs being met—or the potential for trade-offs between social and financial returns to maximize impact are not part of the assessment.

BSC examples of social impacts include improved educational attainment or health status for defined beneficiary groups, such as deprived communities or vulnerable children (BSC 2013b).

g) Accountability and transparency

BSC is accountable neither to government nor to the third sector (as the social impact bank would have been), but rather is directly accountable to the U.K. public. This accountability is to be expressed through “clear and transparent” public reporting in the form of annual accounts that detail its activities, its spending, and the financial and social impacts of its investments (HMGov 2011). To date, however, the information provided in BSC's first two annual reviews has been limited (BSC 2013; BSC 2014). These provide a detailed account of BSC finances, but no systematic picture of the types of beneficiaries receiving BSC funds or how much individual beneficiaries receive, nor a breakdown of how social investment and finance intermediaries spend their BSC investments.³¹ There is, for example, no master list of beneficiaries. Information on them largely takes the form of decontextualized indicators, or high-level descriptions of selected beneficiaries and their activities. Information is not provided on how much BSC investment in social

³⁰ A document released a few months earlier had proposed to measure BSC's social impact by the social impact of its investments, “where this can be accurately determined” (HMGov 2011).

³¹ Unaudited figures released by the Big Society Capital blog in early 2015 do provide some rough breakdown of the distribution of BSC investments, as discussed below (O'Donohue 2015).

investment and finance intermediaries goes to fees and administrative costs, nor on how much reaches beneficiaries and on what terms. The social investment and finance intermediaries' own websites generally provide some non-financial information on selected beneficiaries.

As indicated earlier, BSC does expect social investment and finance intermediaries to prepare regular reports on investees' expected and actual social impacts, which BSC would roll up and report on regularly through its annual reviews (HMGov n.d.). However, this information does not appear to be made public.

3. BSC's success to date

It is too early to really assess BSC's success in achieving its objectives or, more broadly from a social enterprise perspective, in meeting the financing needs of U.K. social enterprises and other social sector organizations. BSC describes 2012–13 as largely a time of market-building (HMGov 2014). However, some information exists and some trends have emerged. These are described in this section.

3.1. BSC INCOME AND DISPERSAL

In the first two years of its operation (2012 and 2013), BSC received £225.4 million of its estimated £600 million in total capital (BSC 2014), with £106 million of it received in 2013 (BSC 2014). In each of its first two years, BSC reported losses of around £1 million (BSC 2013, 2014).

a) Committed investments

Unaudited figures show that by the end of 2014, BSC had committed a total of £179.6 million investment to 39 deals (O'Donohue 2015). (Committed investments are investments agreed upon in principle but not yet signed.) From a total value of £92.5 million in 2013, new commitments slowed to a total of about £30.5 million in 2014, less than in 2012 (O'Donohue 2015; BSC 2014). The number of committed deals also slowed between 2013 and 2014. BSC made eight new deals in 2014, compared to 11 in 2013 and 20 by the end of 2012.³² The average size of BSC's committed investments also declined between 2013 and 2014, from an average of £8.3 million per deal in 2013

³² In fact, the number of BSC investment commitments to social investment and finance intermediary funds may not have declined as much as these numbers suggest (depending on the nature of the 2014 commitments) because half of the 20 BSC deals committed to in 2011–12 were investments in social investment market infrastructure rather than social investment and finance intermediaries/social investment and finance intermediary funds (BSC 2013). Almost all of BSC's 2013 commitments (10 of 11 deals) were investments in social investment and finance intermediaries/social investment and finance intermediary funds (BSC 2014).

to an average of £3.8 million in 2014—though average deal size was still higher than the £2.85 million per deal committed in 2012 (O'Donohue 2015).

In an interview early in 2014, BSC CEO Nick O'Donohue expressed satisfaction with BSC's investment success to date, calling it a "pretty reasonable achievement, actually" (Floyd 2014). Why the pace of new commitments slowed in 2014 is not known at this time.

b) Signed investments

The value of BSC's signed deals reached a total of £158.1 million by the end of 2014, spread across 36 deals (O'Donohue 2015). The number and value of signed investments was much higher in 2014 than in earlier years, with £110 million and 16 deals signed that year, compared to £8.6 million and five deals signed in 2013 (O'Donohue 2015). The average value of the deals signed in 2014 was also higher than in earlier years: £7 million per deal in 2014, compared to £1.7 million in 2013 and £1.3 million in 2012 (O'Donohue 2015). The surge in signed deals in 2014 may in part reflect the time lag between commitment and signing.

The level of social investment and finance intermediary demand for BSC investment, and the number of BSC committed investments that have failed for lack of co-investors, is not known. However, the £30.5-million net investment that BSC committed in 2014 represented just under half (£65.5 million) of its gross commitments (O'Donohue 2015). At the outset of 2013, BSC CEO O'Donohue indicated BSC was looking to make 20 investments in 2013, for a total of £75 million to £100 million (BSC 2013a). In reality, it made fewer deals (11) but committed over £90 million (BSC 2014).

c) Social investment and finance intermediary vs. social investment market

Nearly all of BSC's committed investments to the end of 2014 were in social investment and finance intermediaries, or social investment and finance intermediary funds, as expected (BSC 2013; BSC 2012). By the end of 2012, BSC's £48.2-million investment commitments to social investment and finance intermediaries had created 13 new social investment and finance intermediaries (BSC 2013). BSC no longer reports its investments in social investment and finance intermediaries separately, or the number of new social investment and finance intermediaries its investments have created, so the number of new social investment and finance intermediaries created to date is not known (BSC 2014).³³ However, by the end of 2013, BSC reported that 4% of its investment to date, or about £5.5 million, had gone to operating intermediaries (BSC 2014).³⁴

d) Drawn-down investment

³³ BSC argued that the indicator did not sufficiently reflect the importance of BSC investment in growing existing social investment and finance intermediaries (BSC 2014).

³⁴ Investments in operating intermediaries—organizations that provide support to the social sector, such as performance measurement and capital-raising (BSC 2013)—included £850,000 for the creation of a stock exchange (BSC 2013) and a £1-million investment in Clearly So, which matches investors to investees (BSC 2013).

By the end of 2014, £36.2 million, or about 23% of BSC's £158.1 million in signed investments to date, had been drawn down—that is, dispersed to front-line organizations and other end users (O'Donohue 2015). The amount of BSC investment being drawn down accelerated during 2014 from earlier periods, with £17.6 million being drawn down that year (O'Donohue 2015). Critics had found the initial rate of draw-down too slow³⁵ (Floyd 2014b), but BSC defended its initial record in its 2013 annual review by stating that it took several months for committed investments to become signed contracts, and that many BSC investments were multi-year and so would be drawn down over three to six years (BSC 2014). By early 2014, BSC CEO O'Donohue conceded that it was taking too long for BSC to close deals and for the money to be drawn down (Floyd 2014). He blamed the delays in part on BSC's policy of requiring co-investors on deals, and the policy was changed that year (Floyd 2014). Overall, though, O'Donohue argued that the lower-than-expected rate of draw-down was not a serious issue (Floyd 2014).

3.2. ATTRACTION OF NEW INVESTMENT

As noted earlier, BSC's mission is to grow the social investment market, a task that includes attracting new investment by bringing co-investors into its own deals (BSC 2013b) and, more generally, by demonstrating the social investment market's potential to deliver viable returns to investors. Before 2014, BSC required co-investors for all its investments. By the end of 2013, BSC signed investments had added a total of £103.6 million to the social investment market (BSC 2014), with over half of it (£55.5 million) coming from co-investors (BSC 2014). These data show that BSC was attracting at least some new investment to the social investment market.

Unaudited figures for 2014 also show that by the end of 2014, almost twice as much co-investment money as BSC money had been drawn down: £68 million from co-investors compared to £36.2 million from BSC investments (O'Donohue 2015).

BSC has been more successful in attracting mainstream private sector institutional investors than in attracting others. The former included investors such as the large high street bank Santander; the asset management group Sarasin & Partners, owned largely by European banks; the socially responsible German Berenberg bank, based in Hamburg; and the Lichtenstein-based LGT Group, owned by the Lichtenstein royal family.³⁶ (See Appendix 2 for more information on their investments.) Small volumes came from U.K. foundations, such as the Esmée Fairbairn Foundation and Barrow Cadbury Trust (for investments such as a Community Share Underwriting Fund),³⁷ and local authorities (BSC 2013). Individual investors and other social investment and finance intermediaries also co-invested in several BSC investments. Thus, little of

³⁵ See <http://www.huckfield.com/blog/no-standing-ovation-for-big-society-capitals-first-annual-report/>

³⁶ See <http://www.investmenteurope.net/regions/uk/new-fund-targets-uk-social-impact/>

³⁷ See <http://www.resonance.ltd.uk/funds/underwriters-club/>

the new investment entering the social investment market appears to be low-priced capital that would prioritize social goals over financial returns.

3.3. WHERE THE MONEY WENT: SOCIAL INVESTMENT AND FINANCE INTERMEDIARIES

BSC and its social investment and finance intermediary investees claim that BSC investments have already driven increasing specialization of intermediaries in terms of region, product type and social issue (UKNAB 2014), and intermediary organizations are becoming more diverse (UKNAB 2014). The social investment and finance intermediaries' dispersal strategies for the BSC investment they receive are less clear, but they are critical to understanding how much social enterprises and other third sector organizations may have benefitted from BSC investments.

To shed light on where social investment and finance intermediaries intended to disperse their BSC investments, a website scan was conducted of BSC's 10 largest committed investments made before the end of 2013, plus one major investment announced in 2014.³⁸ The 10 largest 2012 and 2013 investments together totalled £112.5 million, more than two-thirds of the total of £149.1 million that BSC had committed by the end of 2013, so they provide a reasonable if incomplete picture of BSC investment priorities. Descriptions of these funds can be found in Appendix 2. The results are summarized below.

Ten of the 11 BSC investments appeared to be in new entities—either new funds for existing social investment and finance intermediaries, or new social investment and finance intermediaries. New funds created by existing social investment and finance intermediaries included, for example, the charity Nesta's Nesta Impact Investment Fund and Bridges Ventures' Bridges Social Impact Bond Fund. The only investment in an entity that was clearly not a new social investment and finance intermediary or social investment and finance intermediary fund was a £14.5-million, three-year investment in Charity Bank in 2013 (BSC 2014). Owners of the new and existing social investment and finance intermediaries and social investment and finance intermediary funds included for-profits, community interest companies and non-profits.

Most of the 10 funds sought medium-sized enterprises with potential for major growth, explicitly targeting "high growth" and scalable enterprises. One fund specified "high risk" enterprises. The proposed investment minimums of most of the six funds that disclosed their investment range were substantial, ranging from £250,000 to over £1 million per deal (Appendix 1). Among the 11 major investments, only Charity Bank specifically offered smaller amounts of less than £150,000. Many of BSC's other, smaller investees had similar investment minimums, such as the Technology Spin-Outs Fund, which received £3 million from BSC in 2013 (BSC 2014). Indeed, of the 15 still-open funds in the BSC portfolio in spring 2014,³⁹ only three offered financing in

³⁸ Since BSC's 2014 annual review is not yet published, BSC total investments for 2014 are not known.

³⁹ See <http://www.bigsocietycapital.com/open-funds>

amounts smaller than the median £58,000 requested by half the U.K. social enterprises that reported seeking financing in 2013 (SEUK 2013). These were Charity Bank (over £50,000 in secured lending), PURE Leapfrog's Community Energy Fund (over £10,000) and Social Investment Scotland's Social Growth Fund (over £10,000).

While many of the 11 major funds did not specify expected rates of return, those that did specified rates ranging from between 3% and 5%, or between 6% and 12%. The funds together offered a mix of loans (secured and unsecured), equity, quasi-equity, bonds and property (see Appendix 2).

Five of the 11 major funds explicitly targeted third sector organizations, either regulated enterprises only (at least three) or social enterprises more broadly defined—for a total of £60 million. However, these funds also had substantial investment minimums of £200,000 or more. At least two were seeking market-level rates of return, and one was seeking 3% to 5% rates of return (see Appendix 2). Several of BSC's smaller investments (e.g., its £8-million investment in Social Investment Scotland's social growth fund) were in funds also targeted specifically to third sector organizations (Mair 2014),⁴⁰ and several of BSC's smallest investments, such as £1 million invested in the Community Energy Fund (BSC 2013), appear to have been in funds targeted to community-based social enterprises and other third sector enterprises.

The five funds serving primarily social enterprises and trading charities provided various types of financing, ranging from secured and unsecured loans to bonds, equity and quasi-equity, and property. Most of them targeted "ambitious" enterprises with sound business plans that promised rapid growth to scale.

Overall, the evidence suggests that around half of the lion's share of BSC investment received by social investment and finance intermediaries was being targeted to social enterprises and other third sector organizations, at least in terms of value. However, this investment was targeted to the relatively small minority of social enterprises able to carry substantial repayable investment, and in particular to the small percentage of these enterprises with the potential for rapid growth to scale. Much BSC investment by value was going into funds and institutions intending to make relatively safe asset-backed investments, as the distribution of drawn-down funds (see below) would confirm (Floyd 2014c).

3.4. WHERE THE MONEY WENT: FRONT-LINE BENEFICIARIES

As noted earlier, by the end of 2014, £36.2 million in BSC investment had reached front-line enterprises. How many, and which, enterprises benefitted?

a) Numbers and types of beneficiaries

⁴⁰ Social Investment Scotland was one of the organizations that quit UNLtd over its decision to invest in profits-with-purpose.

The total number of front-line ventures receiving BSC investment to date is not known,⁴¹ but by the end of 2013, 57 front-line beneficiaries had benefitted (BSC 2014). This number is very small compared to the 765 total social investment market investments made in 2011–12 (ICF 2013), and underwhelming relative to the promises for a BSC-led social investment market, although these are early days for BSC.

As already noted, there is no public master list of BSC front-line beneficiaries. However, early in 2015, BSC provided a rough breakdown of how the £36.2 million in BSC investment drawn down to date had been spent (O'Donohue 2015). About 20% of it by value had been directly invested in regulated social organizations (charities, community interest companies, community benefit companies, companies limited by guarantee and cooperatives) and another 8% invested in companies limited by share—some or all of which may have been social enterprises broadly defined (Donohue 2015).

The bulk of the money (though perhaps not of the deals) was ultimately dispersed for property purchases, “mainly to help charitable service delivery” (31%); “critical social investment infrastructure” (20%); help for charities to participate in social impact bond delivery (9%); and management fees paid to social investment and finance intermediaries, or cash balances (money not invested) on social investment and finance intermediary balance sheets (12%) (O'Donohue 2015).

In other words, about one-third of the drawn-down funds went directly to infrastructure or fees, or was not invested; close to another third went to property investments; and close to 10% financed public procurement bids via social impact bonds.

The property investments appear to have gone largely to property funds (usually working with a charity) to buy or build housing units to be rented to homeless people or other marginalized populations; to community organizations buying local public assets; and to enterprises with property-related needs, such as renovations.⁴¹ The U.K. government cut back its capital grants programs (amid rising needs for social housing) in the late 2000s (Agnew 2014; James 2014) and has also been keen to sell public property assets to community anchor organizations and other local entities⁴² (CUA 2007). A significant share of BSC investment thus seems targeted to filling a gap left by government cutbacks, raising the question of how much net gain in social impact BSC investments represent.

Property investment is also seen as a low-risk, safe investment, a far cry from the high-risk ventures envisioned by BSC (BSC 2013b). It may also prove lucrative to investors once U.K. urban housing prices recover from their decline in the late 2000s.

⁴¹ This report was completed before publication of BSC's 2014 annual report, which should provide the total number of beneficiaries to the end of 2014.

⁴² For example, the new Community Investment Fund described in Appendix 1 in part targets community-led purchases of anchor community assets.

The 20% of funds going to “critical social investment infrastructure” included BSC’s £14.5-million, three-year investment in Charity Bank, as well as investments in structures such as a stock exchange, and in operating intermediaries or investment brokers (O’Donohue 2015). The Charity Bank investment aims to help the bank increase its lending “from around £55 million today to £250 million by 2018” (BSC 2014). O’Donohue noted that, to date, the operating intermediaries into which BSC had invested had lent or arranged about four times the value of BSC’s original investment (O’Donohue 2015).

As indicated earlier, social impact bond ventures were an explicit priority for BSC from its inception. Most BSC investments in social impact bonds to the end of 2013 occurred during BSC’s first year of operation, and included investment in six of the U.K.’s 14 operating social impact bonds (for a total of £2.425 million), plus a £10-million investment in a new social impact bond fund managed by Bridges Ventures (BSC 2013).⁴³ Another major fund receiving BSC investment, the Community Investment Fund, also funds charities and social enterprises engaged in public trading, including those working under payments-by-results contracts.

Overall, social sector organizations and for-profit social enterprises may have directly received about £10.5 million in new financing, plus some financing from the first tranche of BSC’s Charity Bank investment, and an unknown amount of additional funding to support their public trading, particularly preparation of social impact bond bids.⁴⁴ Even generously construed, the sum of money reaching social sector organizations was not large—certainly not large enough to increase their access to social financing significantly.

b) Front-line demand for BSC investment

Social investment market leaders concede that demand from front-line enterprises for BSC investment has been slow relative to the size of BSC investment funds (SIITF 2014). This does not surprise social enterprise practitioners, who point to the high investment minimums of BSC’s major funds, the perceived high rates of interest charged on loans relative to earlier concessionary rates⁴⁵ and the broader inability of many third sector organizations to carry repayable interest at moderate rates (e.g. Floyd 2015a; Davison & Heap 2013; Duffy 2013; Floyd 2014b).⁴⁶ ⁴⁷ One indicator of ongoing lack of social enterprise demand for BSC-financed investment may be the government’s continued efforts to increase investment readiness among social sector enterprises.

⁴³ The government has also invested heavily in the development of social impact bonds, creating a £20-million Social Outcomes Fund in 2012 to support enterprises developing social impact bond proposals. The Big Lottery Fund contributed a £40-million top-up to the fund in 2013 (UKNAB 2014).

⁴⁴ In a year-end blog, O’Donohue reported that close to 50 charities had received BSC funding through social impact bonds. They liked that the bonds allowed them to take a flexible approach to service delivery, focus on outcomes and deliver new services that wouldn’t otherwise be funded. However, complexity, unnecessary oversight and bureaucracy were problems needing to be fixed (O’Donohue 2014).

⁴⁵ How many social investment and finance intermediaries still offer such rates is unknown.

⁴⁶ See <http://socinvalternativecommission.org.uk/home/>

⁴⁷ At least two of the funds serving social enterprises and trading charities only opened for business in late 2014, so it is difficult to assess demand more directly.

3.5. BSC AND SOCIAL ENTERPRISES

The foregoing would suggest that about half of BSC investment by value has been directed to, and a small proportion actually received by, social enterprises and other third sector organizations, and that most of that has been targeted to a small minority of larger organizations. According to BSC, about half of its committed deals by mid-2014, including infrastructure funding, were designed to improve the availability of “bread and butter” investments to small and medium-sized social sector organizations (BSC2014a). It pointed to two major funds in particular—the Third Sector Loan Fund and the Community Investment Fund—into which it had invested a total of £25 million and which were targeted solely to regulated⁴⁸ third sector enterprises (BSC 2014a) (see Appendix 1). The minimum investment for both funds is £250,000, as noted earlier, and at least one of them seeks 6% to 12% rates of return on loans.⁴⁹ (One of them also focuses in part on financing social enterprises delivering public services.⁵⁰) As already noted, few social enterprises would be in a position to access these larger funds. It is striking that BSC would foreground these funds as evidence of its achievement in meeting the financing needs of social enterprises and other third sector organizations.

The other investment presented by BSC as reflecting its commitment to the third sector is its £14.5-million, three-year capital injection into Charity Bank, noted earlier.⁵¹ Some social enterprise practitioners had recommended strengthening of the social banks as an effective strategy to support social enterprises, given the large gap between demand from small and medium-sized social sector enterprises and BSC’s total potential supply (Perry 2013).

a) Social enterprise practitioners’ critique

Social enterprise practitioners wanting the social investment market to serve the broader financing needs of social enterprises, as described in Section 1.1, have been highly critical of BSC’s actions (e.g., Floyd 2014b; Davison & Heap 2013; Duffy 2013; Gregory 2014; Mair 2013a). By mid-2013, the widespread feeling was that the gap between social enterprise practitioners looking for money and social intermediaries looking to protect their capital was “as wide as ever” (Davison & Heap 2013). BSC’s subsequent investments in 2014 did not narrow that gap. By 2014, some critics were going so far as to call the social investment market “a farce” and to question whether the social investment market could be made to work for social sector organizations at all, if anyone (Gregory 2014).

⁴⁸ See Appendix 1 for a description of regulated social enterprises.

⁴⁹ See <http://www.pioneerspost.com/news-views/20141107/30m-third-sector-loan-fund-launches-the-uk>

⁵⁰ Ibid.

⁵¹ BSC also noted that other small, localized funds, such as the Community Energy Fund (£1 million in 2012), fulfilled this need (BSC 2014a).

Common criticisms of the BSC-funded social investment and finance intermediaries/social investment and finance intermediary funds were the high investment minimums and market value interest rates noted above. These criticisms coalesced into the view that BSC was providing very little that the social sector could use (e.g., ACSI 2015). For critics, BSC's investments raised fundamental questions about what BSC was aiming to achieve. Did it see itself primarily as (a) a vehicle to help charities and social enterprises become sustainable businesses; (b) a vehicle to either promote new forms of public procurement, particularly social impact bonds; or (c) a vehicle to create social change by unlocking new pools of private capital to create social impact—mainly through for-profit corporations—which one commentator described as “clean capitalism” (Floyd 2013; Mair 2013a; ACSI 2015)? Critics pointed out that these goals were quite different and that the first and third, in particular, would result in quite different social investment markets (Mair 2013a; Floyd 2013; ACSI 2015).

The criticisms culminated in the establishment in 2014 of an Alternative Commission on Social Investment, funded by a major foundation. The commission's aim was to investigate “what's wrong with the U.K. social investment market” from social sector organizations' point of view and to recommend changes to make the social investment market “more accessible and relevant to a wider range” of social sector organizations.⁵² The Commission reported in March 2015 with 50 recommendations (ACSI 2015), many directed to BSC in particular. The recommendations for BSC—some of which also applied to social investment and finance intermediaries and/or the government—included the following (ACSI 2015a):

- revise BSC's current role to prioritize building a sustainable and distinctly social investment market over “crowding ” institutional financing into a new market;
- split BSC's capital from unclaimed assets and Merlin banks, dedicating the former to serving social sector organizations—as required by the 2008 law permitting their re-allocation—and dedicating the latter to broader “social impact” investing;
- cease efforts to grow the social investment market just for its own sake;
- should BSC become profitable, allocate 50% of its profits to a pot for funding reduced transaction costs for social investment and finance intermediaries, before paying out any dividends;
- have BSC bear more transaction costs of deals, particularly those imposed on social investment and finance intermediaries through demands for extensive legal processes;
- employ more social entrepreneurs and others with social sector experience;
- don't replicate expensive models from mainstream financing;
- explore ways to use social models and technology to keep costs down;
- explore alternative due diligence models, including developing common approaches to due diligence for different types of social investment;

⁵² See <http://socinvalternativecommission.org.uk/home/>

- support the development of a distinctly social secondary market for social investments, where early-stage investors will be able to sell investments to investors with similar social commitment but less appetite for risk;
- support models of social investment that enable investments from people with moderate incomes and assets;
- consider democratizing BSC's board, or at least be more open and clear about who has controlling stakes and vetoes within its structure, and make both the board and the staff team more representative of the sectors they serve;
- have politicians and advocates of social investment minimize social investment hype.

Another cluster of recommendations called for transparency in BSC and social investment and finance intermediary investment activities, including publishing all information on all social investments by all investors, as well as transparency and clarity in what constituted “social” in BSC and social investment and finance intermediary investments, the social investment market, and “social impact” (ACSI 2015). The Alternative Commission on Social Investment also recommended that social investment and finance intermediary investors “better reflect and understand the market they are seeking to serve by getting out and about, meeting a broader range of organizations—particularly organizations based outside London—recruiting from the sector and cutting costs that deliver no social value” (ACSI 2015).

More broadly, the commission recommended that the mainstream financing on which the third sector largely depends be included in the social impact investment universe, and that government, social investment market actors and mainstream banks consider how to increase social sector organizations’ access to this financing through guarantees and other subsidies, and through information and awareness-raising (ACSI 2015).

One academic participant in the commission came to the following conclusion: “Since the financial crisis, we have seen increasing interest in how capital might be harnessed for social good. But the danger here is that we simply recreate models from mainstream financial markets and expect them to work in the social sector, while at the same time letting social values succumb to the power of capital. Instead, we need fairer, more open and inclusive investment models that can help tackle inequality.”⁵³

b) BSC response

BSC conceded early on that it was not meeting the financial needs of small and medium-sized social enterprises relative to larger social enterprises and other third sector organizations (O’Donohue 2014; Schwartz 2014; Mair 2013; Floyd 2014). As early as 2013, BSC CEO O’Donohue agreed that unsecured loans remained in short supply and that available loans were too expensive (Mair 2013).

⁵³ See <http://beanbagsandbullshit.com/author/beanbagsandbullshit/>

However, O'Donohue argued that investment deals of less than £250,000 were simply not economically viable unless they consisted partly of grants (Floyd 2014). Smaller loans were expensive to originate and monitor, and default risk was always going to be reasonably high (Floyd 2014). Social investment and finance intermediaries could not cover the costs of providing smaller loans and still earn the double-digit returns on investment that they—and BSC—needed to be self-sustaining (Floyd 2014). Even at the higher amounts, the existing cost of BSC loans, despite seeming high, was actually around a real rate of zero, O'Donohue said.⁵⁴

O'Donohue suggested the only possible solutions to this conflict between social investment market self-sufficiency and smaller social enterprises' financing needs were to increase the number of larger, unsecured loans to the social investment market, through more funds with high investment thresholds,⁵⁵ and/or to offer subsidies in addition to repayable investment (O'Donohue 2014; Floyd 2014). As O'Donohue noted, BSC did not finance grants or partial grants because it had to seek financial returns on virtually all its investments to ensure its own sustainability (Floyd 2014; HMGov 2011).

At least some social enterprise practitioners disagree with the idea that investments below £250,000 are not viable. Several argue that alternative, innovative investment strategies could make BSC investments viable at thresholds well below this (e.g., Floyd 2014b⁵⁶; Gregory 2014). One commentator also responded that if “the cost of capital for frontline social enterprises has to be so high that almost no-one wants it,” then the social investment market itself might be unviable (Gregory 2014). He suggested eight major changes needed for the social investment market to survive (Gregory 2014).

In 2014, BSC decided to pursue the second possible solution (in addition to the first) and to begin financing mixed loan/grants (BSC 2014a). However, the grant funds would be supplied by the U.K.'s largest grant-maker through a partnership with BSC.

On the broader issue of how much of BSC's investment should serve social enterprises, large or small, O'Donohue made clear that social sector organizations are only one of BSC's “demand” markets (O'Donohue 2013, 2014; IIPC 2013). BSC targets include “support for community development, providing access to new funding for charities through loans and Social Impact Bonds, and trying to provide equity and other risk capital to social entrepreneurs to develop profit-with-purpose companies. All of these are very different types of investment that require

⁵⁴ “I know there are people out there who think our cost of capital is too high and if it was cheaper then we'd be able to square the circle. When you look at what we're really doing—we're making unsecured lending available on an unmatched basis at projected returns of just over 3%. Now that's nominal. You take off our own operating costs, which we said we'd try to keep at less than 1%, and you take off 2% inflation, that's zero real rate.” (O'Donohue in Floyd 2014).

⁵⁵ Presumably, increasing the number of larger loans would increase social investment and finance intermediaries' income and help them cover transaction costs for a proportion of smaller deals.

⁵⁶ See responses to the original blog post for several specific suggestions on how to make small investments at affordable prices.

different ratios of grants and commercial capital, have very different risk profiles and appeal to very different groups of investors,” O’Donohue said (IIPC 2013).

BSC’s current vision for itself thus does seem to be an amalgam of the three options—(a), (b) and (c)—posited by its critics.⁵⁷ As per (c), BSC is pursuing more investments in profits-with-purpose (O’Donohue 2014) through initiatives such as its £15-million Business Impact Challenge, launched in December 2014.⁵⁸ The challenge aims to “catalyze corporate social investment” and is open to “high-impact investment ideas that generate strong business and social value in the United Kingdom,”⁵⁹ using “profitable business models to generate positive social change.”⁶⁰ Examples given include social impact bonds, corporate investment funds investing directly in social enterprises and social purpose joint ventures (collaborations between businesses and social purpose organizations to tackle social issues with a business model).^{61 62 xii} BSC has also actively courted mainstream co-investors, such as hedge fund giant Cheyne Capital, as it originally proposed to do.

As per (b), BSC’s three-year strategy, announced in 2014 and described below, also confirms BSC’s priority commitment to promoting and investing in social impact bonds, in addition to directly financing social enterprises delivering public services.

Sir Ronald Cohen was BSC’s first (interim) chairman, and a driving force in its development and in the operation of the social investment market through his social investment and finance intermediary, Bridges Ventures.⁶³ In a recent speech to the London Lord Mayor’s Charity Leadership Programme, he sketched a vision of the social investment market that reflected no interest in meeting the financing needs of small and medium-sized social enterprises. Instead, Cohen envisioned a social investment market in which scaled-up non-profits with strong balance sheets and profit-with-purpose corporations—all “high risk innovative social organizations” able

⁵⁷ Those options are as follows: (a) a vehicle to help charities and social enterprises become sustainable businesses; (b) a vehicle to promote new forms of public procurement (particularly social impact bonds); or (c) a vehicle to create social change by unlocking new pools of private capital to create social impact (mainly through for-profit corporations).

⁵⁸ See <http://www.bigsocietycapital.com/business-impact-challenge>

⁵⁹ Ibid.

⁶⁰ See <http://businessimpactchallenge.com/>

⁶¹ Ibid.

⁶² As noted earlier, BSC’s investment policy permits investment in for-profits that distribute less than 50% of their profits over time. Some of these would overlap with profits-with-purpose, but the latter category extends the scope of BSC’s original investment parameters.

⁶³ Cohen also headed the dormant assets commission that first proposed a wholesale social investment bank (CUA 2007). In addition, he headed the government-initiated Social Investment Task Force that operated between 2000 and 2002, and continued to release intermittent reports on the state of the U.K. social investment market until 2010.

to access capital markets -- would deliver market rate returns (7% to 10% net of fees) to investors, as well as measured and defined “social impact” (Cohen 2014).⁶⁴

Cohen presented public procurement, particularly social impact bonds, as a major growth area for social investment market investment, estimating that “about half [of the £200-billion cost of direct service delivery], say £100 billion, might be simplistically viewed as ‘accessible’ to impact investment” (Cohen 2014). Presumably, the scaled-up, highly profitable non-profits in Cohen’s vision would be concentrated in this arena. Again, to the extent that investment would go to supporting delivery of public services that government once delivered, and would otherwise still deliver, it is unclear how much net increase in U.K. social impact would occur.

c) An impact-maximizing strategy?

One social investment and finance intermediary principal has defended BSC’s current investment approach of “helping the least needy” as the best strategy to maximize social impact. In a 2013 blog post, ClearlySo CEO Rodney Schwartz argued that by investing largely in organizations that were already close to viable, rather than (financially) “hopeless” enterprises, investors were maximizing the social impact of existing investment resources (Schwartz 2013). Schwartz goes on to suggest that “we need to start with the least needy, and work our way backwards.” However, it is hard to see why investors seeking market returns would ever work backward to less viable enterprises. Moreover, the argument does not consider that the financially “hopeless” enterprises might, if supported, produce more social impact, or impact of greater higher social value, than the close-to-viable enterprises that investors seek.⁶⁵ It thus begs the question of whether a market driven by investors seeking market returns maximizes social impact.

4. BSC’s investment strategy, 2014–17

The three-year investment strategy unveiled by BSC in mid-2014 seems to confirm BSC’s plan to continue serving multiple constituencies. On the one hand, as noted earlier, BSC announced a new investment stream of blended grants/loans earmarked for smaller social sector organizations and more financing to help them compete for public service delivery contracts. On the other hand, BSC intensified its commitment to investments in in profits-with-purpose in addition to larger social enterprises, and to safe property funds and social impact bonds, all to be financed largely by mainstream capital seeking market rates (BSC 2014a).

⁶⁴ Cohen’s vision of social enterprises as scaled-up enterprises competing for public sector contracts with private corporations was already articulated to some extent in the final report of the Commission on Unused Assets, which proposed a wholesale investment bank (CUA 2007).

⁶⁵ Schwartz equates the capacity to produce social impact with the capacity to be financed by mainstream capital—ignoring all other options—so of course, by definition, current investment in the least needy is maximizing social investment. The argument is circular.

a) The grant/loan stream

One of four components of the strategy's vision is to increase access to financing for early-stage small and medium-sized social sector organizations through a new fund offering mixed subsidy/grant investments of less than £150,000 (BSC 2014a; Radojev 2015). The new Access Growth Fund, unveiled early in 2015 and managed by the new Access Foundation, is capitalized with £45 million in BSC loan funding and Big Lottery Fund grant funding (Radojev 2015). An additional £60-million endowment from the U.K. government brings the total available funding to £105 million, with the government's share to be phased in over 10 to 15 years (Radojev 2015). The initial endowment is £36 million (Radojev 2015). The Big Lottery Fund is one of the few remaining large granting organizations in the U.K. (Ellis Paine et al. 2012), dispersing £778 million in grants to social sector organizations in 2012–13 (Floyd 2014b). How much of the initial endowment represents BSC investment is not known. The total BSC commitment is likely less than £25 million.

b) A more level public procurement field

The strategy also commits BSC to ensuring that social enterprises and other third sector organizations can access financing to compete with large private contractors for large public sector contracts, and to exploring better partnerships between the large “prime”⁶⁶ private contractors and social sector organizations on such contracts (BSC 2014b). However, the strategy received a setback with the release in late 2014 of preferred bidders for Ministry of Justice rehabilitation services, which strongly favoured very large private contractors. BSC and other commentators saw the announcement as a clear signal that the government did not plan to pursue or protect procurement diversity but was content for charities and social enterprises to participate only as subcontractors (BSC 2014b; Floyd 2014a).^{xiii}

c) Mass participation: More retail investment

The second main component of the strategy is to continue to attract more retail investors into the social investment market, as another way to increase access to capital for smaller grassroots and community projects (BSC 2014a). BSC has already injected capital into Charity Bank, as noted earlier, and has also tried to foster retail investment through its £10-million contribution to the £60-million retail Threadneedle Social Bond Fund (BSC 2014a; O'Donohue 2014). The bond fund is a registered mainstream investment product for individuals and institutional investors that invests in fixed income securities of companies, associations, charities and trusts in “social intensity areas,” such as affordable housing, and employment and training.⁶⁷

⁶⁶ “Prime” contractors under the government's current procurement policies are the contractors awarded the increasingly huge bundles of service delivery contracts, the components of which they then subcontract in cascading tiers of sub-contraction. Social enterprises and other third sector organizations are increasingly at the bottom of the cascade, doing front-line delivery.

⁶⁷ See <http://www.bigsocietycapital.com/for-investors/opportunities/uk-social-bond-fund>

BSC also lobbied successfully for expansion of the U.K. government's social investment tax relief in 2014. Social investment tax relief allows individuals to claim 30% back on the value of their investments in charities and other asset-locked bodies, such as community interest companies, and industrial and provident societies; these investments can include the provision of unsecured loans (HMRC 2015; Ainsworth 2014). The expansion raises the eligible investment limit to £5 million a year from £290,000 every three years (HMRC 2015) and is forecast to generate around £230 million in additional investment by 2020. In its announcement of the expansion, the government also intimated that it was exploring tax breaks for unregulated social enterprises—those operating under legal forms that do not “asset lock” profit distribution partially or completely (HMRC 2015).

In addition, through its strategy, BSC promised to facilitate investment in the community share investment market (BSC 2014a), to invest more in retail platforms that social sector organizations could use to raise their own financing (e.g., by issuing their own bonds) and to advocate for a “right to choose” ethical products in defined private pension schemes along the lines of the French *Fonds Solidaire* law (BSC 2014a).

d) Social impact bonds, property-related investments and profits-with-purpose

Two of the strategy's four components continue the major BSC focus on investments earmarked for larger enterprises with potential for high growth and for high rates of return likely to attract mainstream investors (BSC 2014a). The main change foreseen in the strategy is a tighter focus on specific types of investments and on supports for high-growth, high-risk ventures (BSC 2014a; O'Donohue 2014). The strategy promises to increase capital to accelerate growth in “socially innovative organizations, and interventions”—especially social impact bonds. BSC plans to support the environment for social impact bonds and ensure that bonds coming to market can access enough capital through existing or additional social impact bond funds (BSC 2014a). BSC may also expand its domain of investment beyond the social sector as traditionally understood to such areas as education and financial inclusion-focused funds (BSC 2014a).

Another major strand in this part of the strategy is to provide more growth capital to support ambitious social enterprise and social purpose (i.e., profits-with-purpose) companies involved in “really exciting” innovations (O'Donohue 2014). O'Donohue pointed to BSC investments in Impact Ventures and Nesta Impact Investments as examples of such investment (O'Donohue 2014). BSC's Business Impact Challenge, described earlier, also exemplifies this activity stream. Social enterprises offering capped profit distribution, if any, would be competing with profits-with-purpose for investment under this program.

The fourth component of the strategy is to finance even larger investments to attract more institutional investors (O'Donohue 2014). The primary focus here appears to be property-related investment (O'Donohue 2014), including investment in social housing niches and high-impact property funds (BSC 2014a). BSC also plans to accelerate the market for charity bonds to help finance “capital-intensive service delivery models,” some of which will include property funds

(BSC 2014a). One of the aims of increasing investment in “really exciting” innovation is to draw in more corporate and institutional investment (BSC 2014a; O’Donohue 2014).

e) Conclusion

In summary, BSC’s three-year strategy will likely continue BSC’s initial investment patterns, with the lion’s share of its capital going to investments that will attract external investors seeking more conventional, often safe, investments delivering healthy rates of return. Increasing numbers of these, it seems, will be profits-with-purpose rather than large social enterprises or trading charities. Support to social enterprises delivering public services—about a quarter of social enterprises, mostly larger ones (SEUK 2013)—will shift more toward the social impact bond model, in which investors participate directly in the delivery contracts and receive potentially higher returns on investment. This investment approach aligns with the current U.K. government’s vision for the social investment market. Now that the market has been built, the government says, its goal is to “increasingly mainstream social investment. Our aim is to build a market that is accessible to everyone..... to a wider range of investors and enterprises. This will require looking at emerging trends in social impact organizations and socially minded investors” (HMGov 2014).

Scaled-up non-profits with strong balance sheets—Cohen’s description of the larger, high-growth social enterprises desired by the social investment market—will have access to BSC financing to grow and to compete for public service delivery contracts. However, as noted above, more of the social investment market’s procurement-directed investment will take the form of social impact bonds. At the same time, a relatively small proportion of BSC investment will now be earmarked to provide the “builder capital” type of mixed loan/grant financing that many social enterprise practitioners and other social investment market commentators argue is essential to social enterprise and trading charity start-ups during their early years (e.g., Shanmugalingam et al. 2011; Heap & Davison 2013; Howard 2012; Wilson 2014; Floyd 2013). Beyond that, small and medium-sized social enterprises will still have little access to the lion’s share of BSC investment capital, even where that is earmarked for social enterprises.

5. Conclusion

Big Society Capital was created to help fix a U.K. social investment market that was small, weak and fragmented, and heavily reliant on government support to survive. That market was failing to serve the financing needs of the majority of the social enterprises and other Third Sector organizations it was originally intended to serve. Small and medium-sized social enterprises seeking financing could not access enough of the small amounts of unsecured financing they wanted, and had great difficulty getting financing from mainstream lenders. At the same time, pockets of more commercial investment in the social investment market sat unused for lack of attractive prospects.

The dominant government and investor-based perspective attributed the social investment market's troubles largely to two factors: social investment and finance intermediaries' structural inability to provide the higher risk financing that social enterprises most wanted; and social enterprises' and other third sector organizations' reluctance or inability to take on repayable financing. The widespread view seems to have been that if social investment and finance intermediaries' structural and technical problems could be fixed, and the more promising social enterprises could be made ready for repayable investment, social investment and finance intermediaries would begin to generate an adequate supply of higher risk financing, which would be snapped up by sound, potentially high-growth social enterprises, many of which could attract investors seeking healthy returns.

Relying as it does solely on online documents and materials, this report's picture of BSC and the U.K. experience is one seen from a distance. Close up, the picture may differ in significant ways and is bound to be muddier than what is presented here. This said, what has happened so far? The primary mandate of the BSC created in 2012 was to help expand and stabilize the social investment market, rather than to ensure social enterprises' and other third sector enterprises' access to financing. To this end, since 2012 BSC has focused primarily on strengthening the market's social investment and finance intermediaries and its infrastructure, through investments designed to attract external mainstream co-investors—especially institutional investors—and to demonstrate the market's potential for delivering viable returns to such investors. The strategy does appear to have attracted some new external investment in the form of co-investors and new social investment and finance intermediary funds. However, much of the incoming mainstream investment appears to want safe, potentially lucrative investments, rather than risky investments. The amount of high-risk venture capital entering the social investment market thus seems much lower than originally hoped. Nor has BSC attracted much of the investment that puts social purposes ahead of financial returns and provides inexpensive capital. This raises the question of how much of this type of capital really exists to be tapped. More broadly, BSC's experience raises doubts about whether even a relatively mainstream social investment market, explicitly aiming to draw in mainstream external investors, can meet young enterprises' needs for high-risk capital.

To date, in keeping with BSC's primary mandate, the bulk of BSC investment by value appears to have been aimed at larger front-line beneficiaries able to attract new investors seeking healthy financial returns (and to deliver healthy returns to social investment and finance intermediaries). About half of the major investments of this type have been earmarked for larger third sector enterprises. In addition, BSC has made several smaller investments designed to provide small amounts of financing to small and medium-sized social enterprises and other third sector enterprises. BSC estimates that half of its committed investments to mid-2014 aimed to improve the availability of "bread and butter" investments to small and medium-sized third sector

enterprises. Increasingly, though, BSC's larger investments⁶⁸ are also going to profits-with-purpose rather than to social enterprises—regulated or unregulated—or trading charities.

The primary purpose of this paper was to assess how well BSC has helped increase access to financing for U.K. social enterprises. So, first, have BSC investments targeted to larger social enterprises hit their mark? Anecdotal reports suggest that the larger social enterprises sought by BSC-funded social investment and finance intermediaries—potentially high-growth, highly profitable social enterprises—have proven in short supply. However, the picture is possibly more complex. The investment search parameters may have been unnecessarily stringent. The shift toward profits-with-purpose by BSC and the social investment market, for example, seems to at least partly reflect demand by the mainstream investors entering the social investment market through BSC investments (and by social investment and finance intermediaries) for greater financial returns than even the most profitable social enterprises can deliver. The increasing use of “social impact” as the sole social criterion for investment, and its use in a way that sits comfortably with profit maximization, both facilitates this shift and points to an increasing investor demand for conventional financial returns that only profits-with-purpose could deliver. These financial expectations appear to be driving much of the search for high-growth, highly profitable enterprises in which to invest—enterprises that, anecdotally, seem in short supply. A slightly lower investment bar might find a significant body of moderate-growth, reasonably profitable social enterprises seeking major financing. In short, investor demands, translated into stringent investment criteria designed to deliver maximum financial returns, might explain at least some of the apparent lack of demand for larger BSC investments.

This issue cannot be resolved from this distance. However, whatever is actually happening, the BSC experience does raise questions about the viability of a relatively mainstream national fund, or social investment market, that targets only potentially highly lucrative social enterprises and seeks market rates of return or higher. That market seems to be small. An additional issue here is whether investment-readiness programs can prime enough social enterprises to attract significant investor interest. How big is the group of potentially high-growth, highly profitable social enterprises? At the same time, however, these programs are designed at least in part to prime social enterprises to take on large public service delivery contracts, a line of business for social enterprises that is in increasing jeopardy.

Could a national fund find enough social enterprises with reasonable prospects to invest in and still earn enough from them to be sustainable? BSC's operating parameters prevent this: BSC must not only be sustainable but must also attract institutional and other mainstream investors to grow the social investment market, and to align the social investment market with mainstream markets. Many of these investors seem to want healthier rates of return than most moderately profitable social enterprises arguably could deliver. A national fund or a social investment market that targeted moderate-growth social enterprises might have to filter out more aggressive

⁶⁸ This statement may also apply to its small investments. One would need to scan all BSC's investments to determine this.

investors and grow a smaller social investment market. Even then, such a national fund or such a social investment market might not prove viable.

For small and medium-sized social enterprises, BSC has been largely a disappointment until recently. The large, high-priced investments that BSC has prioritized are beyond reach for small social enterprises and trading charities (and not intended for them). Also, at the bottom end of the market, BSC initially refused to provide the subsidized financing that many social enterprises craved. BSC has now recanted its position and allotted a modest share of its investment to grant/subsidy financing, but BSC's large high-priced investments remain out of reach for this group of social enterprises, and its smaller, fully repayable investments remain modest in terms of value. Could BSC be serving this group of social enterprises better? BSC has argued that smaller investments (of less than £250,000) undermine its own sustainability, because they are too expensive to provide. BSC thus proposes a stark choice between having a sustainable national fund, and meeting major small and medium-sized social enterprises' needs for smaller deals—primarily, unsecured loans. BSC's critics eschew this choice, arguing that BSC faces it only because, along with much of the social investment market, it uses inappropriate mainstream financing practices and products familiar to the mainstream financiers now “taking over” the social investment market, who do not understand social enterprises or what they do.

Still, the BSC experience suggests that a self-sustaining national fund likely cannot meet the repayable financing needs of small and medium-sized social enterprises in any large measure while using mainstream market approaches and practices. Possibly, more innovative investment approaches and practices might not attract mainstream investors. Certainly, though, as BSC's reversal on the issue of subsidized loans shows, a BSC or a social investment market cannot meet the needs of small struggling social enterprises using solely mainstream investment approaches and practices.

What should a national fund committed to serving the financing needs of all sizes of social enterprises look like? The Alternative Commission on Social Investment tried to answer this question with a wide range of recommendations, some of which are listed in this report. In the broadest terms though, as the Commission suggests, such a national fund would very probably stop prioritizing social investment market growth, a goal that generates investor pressure for market-level rates of return (often on safe investments), and adopt very innovative, non-mainstream strategies to finance social enterprise investments. The mainstream social investment market that the U.K. government wants BSC to build does not seem compatible with meeting small and medium-sized social enterprises' needs. Nor does the social investment market nurtured by BSC to date seem to have become robust by serving larger social enterprises in conventional ways.

Arguably, the current strategic choices for a U.K. national fund and the social investment market would change considerably if more social investment could be tapped for the market—that is, investment that prioritized social purposes over financial returns and accepted low

financial returns. Such investment has not emerged in significant amounts to date, although that situation may change.

As it stands, BSC's investment strategy does not appear to be heading in the direction that the Alternative Commission has mapped out. What may this mean for social enterprises? One commentator sees new types of organizations already springing up to fit the investment demands of the new investors and social investment market financiers, which are not social enterprises. She foresees these types of enterprises eventually eclipsing social enterprises (Mair 2013a). Presumably, they will more resemble B-Corps or profits-with-purpose. Another recent report on European trends goes further to suggest that the "impact" model of investment now being pursued by BSC and much of the U.K. social investment market will become dominant by 2020 (BC 2014). As a result, the report suggests, larger social enterprises will be competing with "superb, ethically run businesses" to produce and measure social impact, and in doing so will become more like these businesses (BC 2014). Smaller social enterprises will have difficulty finding financing (BC 2014). Investment priorities in social investment markets will focus on outcomes that can be profitable, monetized or marketized, and social issues that cannot produce profits will become a new "underclass" of social causes (BC 2014).

Bibliography

- Agnew, H. (2014) Cheyne Capital plans £300m impact property fund. April 14, 2014. *Financial Times*. U.K. April 14, 2014. Retrieved January 21, 2015, from <http://www.ft.com/intl/cms/s/0/73db604e-c3ef-11e3-b2c3-00144feabdco.html#axzz3RUVePXYG>
- Aiken, M. (2007) *What is the role of social enterprise in finding, creating and maintaining employment for disadvantaged groups?* A social enterprise think piece for the Office of the Third Sector. London, U.K.: Cabinet Office, Office of the Third Sector.
- Ainsworth, D. (2012) Big Society Capital states conditions for profit-making companies to receive investment. *Third Sector Co.UK*. September 17, 2012. Retrieved March 10, 2015, from <http://www.thirdsector.co.uk/big-society-capital-states-conditions-profit-making-companies-receive-investment/finance/article/1150261>
- (2012a) Most demand for social investment comes from service providers to public sector. *Third Sector Co.UK*. September 26, 2012. Retrieved March 10, 2015, from <http://www.thirdsector.co.uk/demand-social-investment-comes-service-providers-public-sector/finance/article/1151855>
 - (2014) Autumn Statement: Social investment tax relief threshold set at £5m a year. *Civil Society.Co.UK*. December 3, 2014. Retrieved January 20, 2015, at http://www.civilsociety.co.uk/finance/news/content/18695/autumn_statement_social_investment_tax_relief_threshold_set_at_5m_a_year
 - (2014a) 30m social investment fund launches with funding from Santander. *Civil Society.Co.UK*. November 7, 2014. Retrieved January 19, 2015, from http://www.civilsociety.co.uk/finance/news/content/18542/30m_social_investment_fund_launches_with_funding_from_santander
 - (2014b) £30m social investment fund planned by Sarasin and Bridges. *Civil Society.Co.UK*. January 23, 2014. Retrieved January 19, 2015, from http://www.civilsociety.co.uk/finance/news/content/16756/sarasin_and_bridges_plan_30m_social_investment_fund
- Alternative Commission on Social Investment (ACSI) (2015) *After the gold rush*. The Report of the Alternative Commission on Social Investment. March 2015. Available at http://socinvalternativecommission.org.uk/home/wp-content/uploads/2015/03/SS_SocialInvest_WebVersion_3.pdf
- Bannick, M. & Goldman, P. (2012) *Priming the pump: The case for a sector-based approach to impact investing*. U.K.: Omidyar Network. Retrieved January 15, 2015, from https://www.omidyar.com/sites/default/files/file_archive/insights/Priming%20the%20Pump_Omidyar%20Network_Sept_2012.pdf
- Big Society Capital (BSC) (2013) *Annual report and financial statements 2012*. London, U.K.: Big Society Capital. Retrieved January 6, 2015, from www.bigsocietycapital.com/annualreport.

- (2013a) Big Society Capital commits £56m in its first nine months and sets ambitious targets for 2013 [Press release]. January 14, 2013. London, U.K.: Big Society Capital. Retrieved January 6, 2015, from <http://www.bigsocietycapital.com/sites/default/files/pdf/Investment%20Announcements%20Jan%202013%28FINAL%29.pdf>
- (2013b) *Big Society Capital's investment policy*. London, U.K.: Big Society Capital. Retrieved January 14, 2015, from <http://www.bigsocietycapital.com/sites/default/files/pdf/BSC%20investment%20policy.pdf>
- (2013c) *Social investment compendium: Portfolio of research and intelligence on the social investment market*. London, U.K.: Big Society Capital. Retrieved February 16, 2015, from http://www.bigsocietycapital.com/sites/default/files/pdf/Social%20Investment%20Market%20Compendium%20Oct%202013%20small_o.pdf
- (2014) *Social investment: From ambition to action. Annual review 2013*. London, U.K.: Big Society Capital. Retrieved January 6, 2015, from http://www.bigsocietycapital.com/sites/default/files/BSC_AR_2013.pdf
- (2014a) *Big Society Capital: Our strategy for the next three years*. May 2014. London, U.K.: Big Society Capital. Retrieved January 6, 2015, from <http://www.bigsocietycapital.com/sites/default/files/Strategy%20v5.pdf>
- (2014b) *Probation services: What next for the social sector in big public service outsourcing contracts?* Big Society Capital blog post, posted November 6, 2014, at <http://bigsocietycapital.com/blog/probation-services-what-next-social-sector-big-public-service-outsourcing-contracts>
- (2015) *For-profit social sector organizations (SSO)—Governance agreement*. January 2015. Big Society Capital. Retrieved January 26, 2015, from <http://www.bigsocietycapital.com/sites/default/files/pdf/Gov%20Agreement%20Final%20%28Jan2015%29%28CGJ%29docx.pdf>
- (n.d.) *Big Society Capital: Social impact tests and thresholds*. Big Society Capital. Retrieved January 26, 2015, from <http://www.bigsocietycapital.com/sites/default/files/pdf/Social%20Impact%20Tests%20and%20Thresholds.pdf>
- (n.d.(1)) *Big Society Capital: Vision, mission and activities*. Big Society Capital. Retrieved January 26, 2015, from <http://www.bigsocietycapital.com/sites/default/files/pdf/BSC%20Vision,%20omission%20and%20activities.pdf>

BMG Research. (2013). *Social enterprise: Market trends (based upon the 2012 small business survey)*. London, U.K.: Cabinet Office.

Bridge, R., & Corriveau, S. (2009). *Legislative innovations and social enterprise: Structural lessons for Canada*. Abbotsford, B.C.: B.C. Centre for Social Enterprise.

Bridges Ventures (2013) *Launch of the Bridges Ventures Social Impact Bond Fund* [Press release]. April 29, 2013. London, U.K: Bridge Ventures. Retrieved February 1, 2015, from <http://www.bridgesventures.com/launch-of-the-bridges-social-impact-bond-fund/>

- (2014) *Impact report. Learning from a multi-fund approach*. Bridges Ventures. London, U.K.: Bridge Ventures. Retrieved February 1, 2015, from <http://www.bridgesventures.com/wp-content/uploads/2014/12/Bridges-Ventures-Impact-Report-2014-print.pdf>

British Council (2014) *What will social enterprise look like in Europe in 2020?* Available at https://uk.live.solas.britishcouncil.net/sites/britishcouncil.uk2/files/what_will_social_enterprise_look_like_in_europe_by_2020_o.pdf

Brown, A. & Norman, W. (2011) *Lighting the touchpaper: Growing the market for social investment in England*. BCG Consulting Group & the Young Foundation, Report commissioned by Big Society Capital. November 2011. Retrieved January 13, 2015, from http://youngfoundation.org/wp-content/uploads/2012/10/owing_the_market_for_social_investment_FINAL.pdf

Brown, A. & Swersky, A. (2012), *The first billion: A forecast of social investment demand*. Boston Consulting Group Report for Big Society Capital, September 2012. Retrieved January 10, 2015, from <https://www.bcg.com/documents/file15598.pdf>

Buckingham, H. & Teasdale S. (2013), *International insights into job creation in the social economy*. Third Sector Research Centre (TRSC) Briefing Paper No. 97. Available at <http://www.birmingham.ac.uk/generic/tsrc/documents/tsrc/working-papers/briefing-paper-97.pdf>

Cabinet Office (CO) (2011) *The Big Society Bank (“BSB”) outline proposal*. May 2011. London, U.K.: Cabinet Office, UK Government. Retrieved January 16, 2015, from http://collections.europarchive.org/tna/20130629141248/https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/60546/big-society-bank-outline-proposal.pdf

- (2011a) *Big Society Bank launched* [Press release]. July 29, 2011. London, U.K.: Cabinet Office and the Rt Hon David Cameron MP. Retrieved January 8, 2015, from <https://www.gov.uk/government/news/big-society-bank-launched>

Canadian Task Force on Social Finance (CTFSF) (2010) *Mobilizing private capital for public good*. Toronto: Social Innovation Generation. Retrieved February 10, 2015, from <http://www.marsdd.com/wp-content/uploads/2011/02/MaRSReport-socialfinance-taskforce.pdf>

Chancellor of the Exchequer (CE) (2009) *Securing the recovery: Growth and opportunity. Pre-budget report*. London, U.K.: UK Government. Retrieved January 20, 2015, from http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/pbro9_complereport.pdf

Cheng, M. & Oldenburg, F. (2013) Social finance: The money’s there but the entrepreneurs are not. *The Guardian*. Guardian blog, posted April 30, 2014, at <http://www.theguardian.com/sustainable-business/blog/social-finance-entrepreneurs>

- Chew, C. (2010). Strategic positioning and organizational adaptation in social enterprise subsidiaries of voluntary organizations. *Public Management Review*, 12(5), 609–634.
- Cohen, R. (2014) *Revolutionising philanthropy—Impact investment*. Presentation to the Lord Mayor’s Charity Leadership Programme, London, U.K., January 23, 2014. Retrieved February 16, 2015, from http://www.cass.city.ac.uk/_data/assets/pdf_file/0003/209775/LM-CLP_Sir-Ronald-Cohen-Jan-14.pdf
- Commission on Unused Assets (CUA) (2007) *The Social Investment Bank: Its organization and role in driving development of the third sector*. March 2007.
- Cook, S. (2014) Profit with purpose: The dispute over doing well while doing good. *Third Sector.Co.UK*. December 18, 2014. Retrieved February 1, 2015, from <http://www.thirdsector.co.uk/profit-purpose-dispute-doing-doing-good/social-enterprise/article/1326694>
- Corfe, E. (2015) Social impact property fund reaches more than £46m. *Civil Society.Co.UK*. January 7, 2015. Retrieved January 19, 2015, from http://www.civilsociety.co.uk/finance/news/content/18819/social_impact_property_fund_reaches_more_than_46m
- Damm, C. (2012) *The third sector delivering employment services: An evidence review*. Third Sector Research Centre Working Paper No. 70. Available at <http://www.birmingham.ac.uk/generic/tsrc/documents/tsrc/working-papers/working-paper-70.pdf>
- Davison, R. & Heap, H. (2013) *Can social finance meet social need?* Tomorrow’s People & Can Cook. 2013. Retrieved January 20, 2015, from <http://www.tomorrows-people.org.uk/files/blog/can-social-finance-meet-social-need-heap-and-davison-june-20131.pdf>
- Dean, A. (2013), Tackling long-term unemployment amongst vulnerable groups, *OECD Local Economic and Employment Development (LEED) Working Papers*, 2013/11, OECD Publishing. Available at <http://dx.doi.org/10.1787/5k43jct8n2nv-en>
- Defourny, J., & Nyssens, M. (2008). Social enterprise in Europe: Recent trends and developments. *Social Enterprise Journal*, 4(3), 202–228.
- Department for Business, Innovation and Skills (BIS) (2010). *Response to the consultation on the dividend and interest caps*. Cardiff, U.K.: Department for Business Innovation and Skills. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/264664/CIC-13-1333-community-interest-companies-response-on-the-cic-consultation.pdf
- (2011) *BIS equity finance programmes qualitative reviews of (A) UKHTF and (B) the Bridges Fund*. London, U.K.: Ecogen, Balobu and Department for Business, Innovation and Skills. Retrieved March 5, 2015, from

- https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32220/11-1009-bis-equity-finance-qualitative-reviews-ukhtf-bridges.pdf
- (2013). *Response to the CIC consultation on the dividend and interest caps*. Cardiff, U.K.: Department of Business Innovation and Skills. Retrieved November 30, 2013, from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/264664/CIC-13-1333-community-interest-companies-response-on-the-cic-consultation.pdf
- Department of Trade and Industry (2002). *Social enterprise: A strategy for success*. London, U.K.: Department of Trade and Industry. Retrieved September 16, 2014, from http://www.uk.coop/sites/storage/public/downloads/se_strategy_2002.pdf
- (2003). *Enterprise for communities: Proposals for a community interest company. Report on the public consultation and government's conclusions*. Available from <http://webarchive.nationalarchives.gov.uk/+/http://www.dti.gov.uk/cics/pdfs/cicreport.pdf>
- Duffy, M. (2013) *Shining armour or sheep's clothing? Views on social investment in the UK*. The Clore Social Leadership Programme and New Street. Available at <http://www.cloresocialleadership.org.uk/mary-duffy>
- Ellis Paine, A., Taylor, R. & Alcock, P. (2012) “Wherever there is money there is influence”: Exploring BIG's impact on the third sector. Third Sector Research Centre (TRSC) Briefing Paper No. 75. Available at <http://www.birmingham.ac.uk/generic/tsrc/documents/tsrc/working-papers/briefing-paper-75.pdf>
- European Commission (EC) (2013) *Social economy and social entrepreneurship*. Social Europe Guide, Vol.4. Euricse (European Research Institute on Cooperative and Social Enterprises). European Commission. Available at <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7523>
- (2014) *A map of social enterprises and their eco-systems in Europe. Country report: United Kingdom*. ICF Consulting Services and BWB for the European Commission. Retrieved February 20, 2015, from ec.europa.eu/social/BlobServlet?docId=13001&langId=en
- Evenett, R. & Richter, K., (2011), *Making good in social impact investment: Opportunities in an emerging asset class*. London, U.K.: Social Investment Business and TheCityUK. Retrieved January 15, 2015, from <http://www.sibgroup.org.uk/sir/making-good/#c661>
- Flatt, J., Daly, K., Elson, P., Hall, P., Thompson, M. & Chamberlain, P. (2013) *Inspiring innovation: The size, scope and socio-economic impact of non-profit social enterprise in Ontario*. Burnaby, B.C.: Canadian Community Economic Development Network, Simon Fraser University. Retrieved February 10, 2015, from <http://www.mtroyal.ca/wcm/groups/public/documents/pdf/socialenterprise2.pdf>
- Floyd, D. (2013) *I agree with Nick (mostly)—part one*. Beanbagsandbullshit blog post, posted August 26, 2013, to <http://beanbagsandbullshit.com/2013/08/26/i-agree-with-nick-mostly-part-one/>

- (2014) *Report from emerging market* Beanbagsandbullshit blog post, posted February 28, 2014, to <http://beanbagsandbullshit.com/2014/02/28/report-from-emerging-market/>
- (2014a) *How bad is the bad news, how good is the good?* Beanbagsandbullshit blog post, posted November 18, 2014, to <http://beanbagsandbullshit.com/2014/11/18/how-bad-is-the-bad-news-how-good-is-the-good/>
- (2014b) *The end of the beginning*. Beanbagsandbullshit blog post, posted May 10, 2014, to <http://beanbagsandbullshit.com/2014/05/10/the-end-of-the-beginning/>
- (2014c) *Pretty good year*. Beanbagsandbullshit blog post, posted December 31, 2014, to <http://beanbagsandbullshit.com/2014/12/31/pretty-good-year/>
- (2015) *Purpose unclear*. Beanbagsandbullshit blog post, posted January 5, 2015, to <http://beanbagsandbullshit.com/2015/01/05/purposeunclear/>
- (2015a) *The squeezed middle*. Beanbagsandbullshit blog post, posted January 27, 2015, to <http://beanbagsandbullshit.com/2015/01/27/squeezedmiddle/>

Gosling, L. (2013) Berenberg and LGT launch social impact fund. *Investment Week*. July 25, 2013. Retrieved February 1, 2015, from <http://www.investmentweek.co.uk/investment-week/news/2284743/berenberg-and-lgt-launch-social-impact-fund>

Gregory, D. (2014) *How to make social investment more social—and more financially viable*. Blog post, posted September 24, 2014, to <http://commoncapital.blogspot.co.uk/2014/04/how-to-make-social-investment-more.html>

Gregory, D., Hill, K., Joy, I. & Keen, S., (2012), *Investment readiness in the UK*. London, U.K.: Big Lottery Fund. Available online at www.biglotteryfund.org.uk/er_invest_ready.pdf.

Hazenbergh, R., Seddon, F. A. and Denny, S. (2013), *Intermediary perceptions of investment readiness in the social investment market*. Paper presented to the *Seventeenth Annual Conference of the International Research Society for Public Management (IRSPM XVII)*, Prague, Czech Republic, April 10–12, 2013. Available at <http://nectar.northampton.ac.uk/5181/>

Heap, H. & Davison, R. (2013) *Financing social enterprise: The role of builder capital in funding innovation to address social need*. Tomorrow's People & Can Cook. 2013. Retrieved January 20, 2015, from http://www.seebohmhill.co.uk/images/documents/Financing_Social_Enterprise_-_The_Role_of_Builder_Capital.pdf

Hill, K. & ClearlySo (2011) *Investor perspectives on social enterprise financing*. Executive summary. London, U.K.: ClearlySo, Big Lottery Fund, City of London and City Bridge Trust. Available at: http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/research-2011/Investor%20Perspectives%20on%20Social%20Enterprise%20Financing_ExecutiveSummary.pdf

HM Government (HMGov) (2011) *Growing the social investment market: A vision and strategy*. London, U.K.: U.K. Government. Retrieved January 11, 2015, from

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/61185/404970_SocialInvestmentMarket_acc.pdf

- (2013) *Growing the social investment market*. 2014 progress update. London, U.K.: U.K. Government. Retrieved January 11, 2015, from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205295/Social_Investment_Strategy_Update_2013.pdf
- (2014) *Growing the social investment market*. 2014 progress update. London, U.K.: U.K. Government. Retrieved January 11, 2015, from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321483/2014_Social_Investment_Strategy.pdf
- (n.d.) *Frequently asked questions about the Big Society Capital*. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/85855/Big_Society_Capital_FAQs.pdf

HM Revenue & Customs (HMRC)(2015) *Income tax and capital gains tax: Social investment tax relief- enlarging the scheme*. London, U.K.: U.K. Government. Retrieved February 17, 2015, at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/415155/Budget_2015_announcements_on_Social_Investment_Tax_Relief.pdf

HM Treasury (HMT) & Cabinet Office (CO), Office of the Third Sector (OTS) (2007) *Unclaimed assets distribution mechanism: A consultation*. London, U.K.: U.K. Government. Retrieved January 16, 2015, from http://collections.europarchive.org/tna/20080527154325/http://www.hm-treasury.gov.uk/media/9/o/consult_unclaimedassetsdistribution170507.pdf

HM Treasury (HMT) & Department for Business Innovation and Skills (BIS) (2013) *Consultation on social investment tax relief*. Cardiff, U.K.: Department for Business Innovation & Skills. Retrieved January 27, 2015, from <https://www.gov.uk/government/consultations/consultation-on-social-investment-tax-relief>

Howard, E. (2012), *Challenges and opportunities in social finance in the UK*. U.K.: Cicero Group. October 2012. Retrieved January 15, 2015, from http://www.cicero-group.com/Research-Analysis/Pain_in_spain_report.pdf

Huckfield, L (2015) “Why we’ve got it wrong on social investment”—Former MP. *Pioneers Post*. March 6, 2015. Retrieved April 8, 2015, from <http://www.pioneerspost.com/news-views/20150306/why-weve-got-it-wrong-on-social-investment-former-mp>

Hulme, M. (n.d.) *Demonstrating social value*. Presentation. Big Society Capital. Retrieved February 2, 2015, from www.senw.org.uk/.../Marcus-Hulme-Presentation-Slides-for-NW-event1.

ICF GHK-BMG (ICF) (2013) *Growing the social investment market: The landscape and economic impact*. Report prepared for the City of London, Big Lottery Fund, Big Society Capital and Her Majesty’s Government. Available at

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210408/Social-Investment-Report1.pdf

Impact Investing Policy Collaboration (IIPC) (2013) *Lessons learned from establishing the world's first social investment bank*. IIPC. August 20, 2013. Retrieved February 17, 2015, from <http://iipcollaborative.org/lessons-learned-from-establishing-the-worlds-first-social-investment-bank/>

James, S.B. (2014) Big Society Capital puts £12m into firm's new social property fund. *Third Sector.Co.UK*. November 27, 2014. Retrieved January 19, 2015, from <http://www.thirdsector.co.uk/big-society-capital-puts-12m-firms-new-social-property-fund/finance/article/1324139>

Last, J. (2013). Charity Bank formally sheds charitable status. *Civil Society.Co.UK*. June 3, 2013. Retrieved January 20, 2015, from http://www.civilsociety.co.uk/finance/news/content/15289/charity_bank_formally_sheds_charitable_status

Law Works Choices (2012). *Charitable entities: Structural options table*. Retrieved January 7, 2014, from http://lawworks.org.uk/tmp_downloads/q9q48b128w2a127i129y94d22c132c105u4of23k50s54049/trading-arms.pdf

Mair, V. (2013) Big Society Capital to focus on “plain vanilla lending” for charity sector. *Civil Society.Co.UK*. March 27, 2013. Retrieved February 7, 2015, from http://www.civilsociety.co.uk/finance/news/content/14778/big_society_capital_to_focus_on_unsecured_lending_for_charity_sector

- (2013a) *Social investment: Funding for charities or white-washing of capitalism?* Civil Society Co. UK blog post, posted March 27, 2013. Retrieved February 7, 2015, at http://www.civilsociety.co.uk/finance/blogs/content/14777/social_investment_funding_for_charities_or_white-washing_of_capitalism
- (2014) Social Investment Scotland gets £16m in investment for new fund. *Civil Society.Co.UK*. April 8, 2014. Retrieved February 7, 2015, from http://www.civilsociety.co.uk/finance/news/content/17290/social_investment_scotland_gets_16m_in_investment_for_new_fund

Malhotra, A., Laird, H., & Spence, A. (2010). *Social finance census 2010: A summary of results from the social finance census of nonprofits and social purpose businesses*. Toronto: Social Venture Exchange and Ontario Nonprofit Network. Retrieved December 5, 2014, from <http://www.socialventureexchange.org/docs/sfcensus2010.pdf>

MaRS (2014) *State of the nation: Impact investing in Canada*. Toronto: MaRS Centre for Impact Investing and Purpose Capital. Available at <http://www.marsdd.com/wp-content/uploads/2014/09/Impact-Investing-in-Canada-State-of-the-Nation-2014-EN.pdf>

- Mason, C. & Kwok, J. (2010) *Facilitating access to finance: Discussion paper on investment readiness programmes*. Organisation for Economic Co-operation and Development. Available at <http://www.oecd.org/investment/psd/45324336.pdf>
- McIsaac, E., & Moody, C. (2013). *Sector signal: The social enterprise opportunity for Ontario*. Toronto: Mowat Centre for Policy Innovation. Retrieved September 15, 2013, from <http://mowatcentre.ca/pdfs/mowatResearch/85.pdf>
- McWade, W., (2012), The role for social enterprises and social investors in the development struggle, *Journal of Social Entrepreneurship*, 3(2), 96–112.
- Mulholland, E., Mendelsohn, M., & Shamshiri, N. (2011). *Strengthening the third pillar of the Canadian union: An intergovernmental agenda for Canada's charities and non-profits*. Toronto: Mowat Centre for Policy Innovation. Retrieved September 15, 2013, from <http://www.mowatcentre.ca/pdfs/mowatResearch/30.pdf>.
- National Council of Voluntary Organizations (NCVO) (2014) *UK Civil Society Almanac 2014*. London, U.K.: National Council of Voluntary Organizations UK. Retrieved February 20, 2015, from <http://data.ncvo.org.uk/a/almanac14/how-much-is-the-voluntary-sector-borrowing-2/>
- New Market Funds (ed) (2014) *A guide to “how it has been done”—Social finance investment funds in Canada: Selected case studies*. Available from http://seedwinnipeg.ca/files/Social_Finance_Investment_Funds_in_Canada_-_May_2014.pdf
- Nicholls, A. (2010) The institutionalization of social investment: The interplay of investment logics and investor rationalities, *Journal of Social Entrepreneurship*, 1(1), 70–100.
- O'Connor, P. (2014) *The new regulatory regime for social enterprises in Canada: Potential impacts on nonprofit growth and sustainability*. Working Paper Series Vol. 2014 (1). Toronto: Centre for Voluntary Sector Studies, Ryerson University. Available at <http://www.ryerson.ca/content/dam/cvss/AODAforms/datedPapers/WP%202014.1.OConnor-Social%20EnterpriseRegRegime.FINAL.Working%20Paper.%20Oct.21.2014.pdf>
- O'Donohue, N. (2014) *How social investment has developed in 2014*. Big Society Capital blog post, posted December 12, 2014, at <http://www.bigsocietycapital.com/blog/how-social-investment-has-developed-2014>.
- (2015) *January update from Big Society Capital*. Big Society Capital blog post, posted January 21, 2015, at <http://www.bigsocietycapital.com/blog/january-update-big-society-capital>.
- Office of the Third Sector (OTS) (2006) *Social enterprise action plan: Scaling new heights*. Cabinet Office, Office of the Third Sector. London, U.K.: U.K. Government. Available at http://webarchive.nationalarchives.gov.uk/+/http://www.cabinetoffice.gov.uk/media/cabinetoffice/third_sector/assets/se_action_plan_2006.pdf

- (2009) *Social investment wholesale bank: A consultation on the functions and design*. Cabinet Office, Office of the Third Sector. London, U.K.: U.K. Government. Retrieved January 18, 2015, from <http://collections.europarchive.org/tna/20100512160912/http://www.cabinetoffice.gov.uk/media/224319/13528%20social%20bank%20web%20bookmarked.pdf>

- Perry, J. (2013) Big Society Capital: The performance review. *Pioneers Post*. May 8, 2013. Retrieved April 3, 2015, from <http://www.pioneerspost.com/news/20130508/big-society-capital-the-performance-review>

- Pudelek, J. (2014) CAN and Senscot part ways with UnLtd over its vision for a “private-profit social sector.” *Civil Society*. Co. UK. September 18, 2014. Retrieved March 1, 2015, from <http://www.civilsociety.co.uk/finance/news/content/18171/social-enterprise-support-charities-can-and-senscot-part-ways-with-unltd-over-its-vision-for-a-private-profit-social-sector>

- Radojev, H. (2015) Access Foundation launches with £105m worth of funding for social investment. *Civil Society Co.UK*. March 20, 2015. Retrieved April 5, 2015, from <http://www.civilsociety.co.uk/finance/news/content/19299/new-foundation-launches-with-105m-worth-of-funding-for-social-investment>

- Rand, T. (2012) The MaRS Cleantech Fund: Early-stage funding for the Canadian cleantech ecosystem [Press release]. March 26, 2012. Toronto: MaRS Discovery District. Retrieved March 8, 2015, from <http://www.marsdd.com/news-and-insights/mars-cleantech-fund-unlocking-early-stage-funding-fast-flowing-canadian-cleantech-ecosystem/>

- RBC (2014) *Financing social good: A primer on impact investing in Canada. An RBC social finance white paper*. Toronto: RBC, and MaRS Centre for Impact Investing and Purpose Capital.

- Rees, J. Whitworth, A. & Carter, E. (2013) *Support for all in the UK Work Programme? Differential payments, same old problem*. Third Sector Research Centre Working Paper 115. Available at <http://www.birmingham.ac.uk/generic/tsrc/documents/tsrc/working-papers/working-paper-115.pdf>.

- Ritchie, M. (2014) Cabinet Office support fund helps charities and social enterprises win £115m in deals. *Charity Times*. Co.UK. November 26, 2014. Retrieved January 17, 2015, from <http://www.charitytimes.com/ct/cabinet-office-support-fund-helps-charities-and-social-enterprises.php>

- Rotheroe, A., Hedley, S., Lomax, P. & Joy, I. (2013) *Best to invest? A funder’s guide to social investment. Executive summary*. U.K.: New Philanthropy Capital. Retrieved January 24, 2015, from <http://www.thinknpc.org/wp-content/uploads/2013/07/Exec-summary-FINAL1.pdf>

- Schwartz, R. (2013) *Social finance: The case for helping the least needy*. ClearlySo blog post, posted January 22, 2013, at <http://www.clearlyso.com/social-finance-the-case-for-helping-the-least-needy/>

- (2014) *Third sector—Do name and form matter?* ClearlySo blog post, posted November 10, 2014, at <http://www.clearlyso.com/category/blog/investors-blog/>

Seddon, F. A., Hazenberg, R. and Denny, S. (2013) *What are the barriers to investing in social enterprises? An investigation into the attitudes and experiences of social entrepreneurs in the United Kingdom*. Paper presented to 4th EMES European Research Network International Research Conference on Social Enterprise, University of Liege, Belgium, July 1–4, 2013. Available at <http://nectar.northampton.ac.uk/5851/>

Shanmugalingam, C., Graham, J., Tucker, S., & Mulgan, G. (2011) *Growing social ventures—The role of intermediaries and investors: Who they are, what they do, and what they could become*. The Young Foundation & Nesta. Retrieved January 17 from http://www.nesta.org.uk/sites/default/files/growing_social_ventures.pdf

Social Enterprise Coalition (SEC) (2009) *Response by the Social Enterprise Coalition to social investment wholesale bank: A consultation on functions and design*. U.K.: Social Enterprise Coalition.

Social Enterprise UK (SEUK) (2011) *Fight back Britain: A report on the state of social enterprise. Survey 2011*. London, U.K.: Social Enterprise UK. Available at http://www.socialenterprise.org.uk/uploads/files/2011/11/fightback_britain1.pdf

- (2012) *What makes a social enterprise a social enterprise?* Available at http://www.socialenterprise.org.uk/uploads/files/2012/04/what_makes_a_social_enterprise_a_social_enterprise_april_2012.pdf
- (2012a) *The shadow state: A report about outsourcing of public services*. Available at http://www.socialenterprise.org.uk/uploads/files/2012/12/the_shadow_state_3_dec1.pdf
- (2013) *The people's business*. Available at http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf

Social Impact Investment Task Force (SIITF) (2014) *Impact investment: The invisible heart of markets. Harnessing the power of entrepreneurship, innovation and capital for public good*. Available at <http://www.socialimpactinvestment.org/reports/Impact%20Investment%20Report%20FINAL%5B3%5D.pdf>

- (2014a) *Profit with purpose businesses: The new frontier for the social economy*. Subject paper of the Mission Alignment Working Group. Retrieved March 1, 2015, from <https://unltd.org.uk/wp-content/uploads/2014/11/Mission-Alignment-Report.pdf>

Social Investment Task Force (SITF) (2000) *Enterprising communities: Wealth beyond welfare*. A Report to the Chancellor of the Exchequer. Available at http://www.socialinvestmenttaskforce.org/downloads/SITF_Oct_2000.pdf

- (2003) *Enterprising communities: Wealth beyond welfare*. A 2003 update on the Social Investment Task Force. CDFA Conference Cardiff. July 2–3, 2003. Available at http://www.socialinvestmenttaskforce.org/downloads/SITF_July_2003.pdf

- Svedova, J., Cuyegkeng, A., & Tansey, J. (2014) *Demystifying impact investment*. Vancouver: ISIS Research Centre, Sauder School of Business, and UBC. Available at http://www.sauder.ubc.ca/Faculty/Research_Centres/ISIS/Research/Impact_Investing/~media/Files/ISIS/Reports/Social%20Economy%20Reports/DemystifyingImpactInvestingFinalVersionApril2014.ashx
- Teasdale, S. (2010). *What's in a name? The construction of social enterprise*. Third Sector Research Centre Working Paper No. 46. Available at <http://www.birmingham.ac.uk/generic/tsrc/documents/tsrc/working-papers/working-paper-46.pdf>
- Teasdale, S., Lyon, F., & Baldock, R. (2013). Playing with numbers: A methodological critique of the social enterprise growth myth. *Journal of Social Entrepreneurship*, 4(2), 113–131.
- Treurnicht, I. (2011). The new normal: Building, supporting and scaling social finance in Canada. *Policy Options*. May 2011. Montreal: Institute for Research on Public Policy.
- UK National Advisory Board to the Social Impact Investment Taskforce (UKNAB) (2014), *Building a social impact investment market: The UK experience*. Report to the Social Impact Investment Taskforce established under the U.K.'s Presidency of the G8. Available at <http://www.socialimpactinvestment.org/reports/UK%20Advisory%20Board%20to%20the%20Social%20Investment%20Taskforce%20Report%20September%202014.pdf>
- United Nations Development Programme (UNDP) (2008) *Social enterprise: A new model for poverty reduction and employment generation—An examination of the concept and practice in Europe and the Commonwealth of Independent States*. EMES & UN Development Programme Regional Bureau for Europe and the Commonwealth of Independent States. Bratislava, Slovakia.
- Unlimited (UNLtd) (2014) *Pushing boundaries: Why some social entrepreneurs are using a for-profit legal form for their ventures, and how they are embedding their social mission*. Retrieved March 1, 2015, from http://unltd.org.uk/wp-content/uploads/2014/04/UnLtd_Research_Publication_Number71.pdf
- U.S. National Advisory Board on Impact Investing (USNAB) (2014) *Private capital, public good: How smart federal policy can galvanize impact investing—and why it's urgent*. Retrieved January 15, 2015, from http://static1.squarespace.com/static/539e71d9e4b0ccf778116f69/t/53aa1681e4b04a6c515fac31/1403655809489/Private_Capital_Public_Good.pdf
- Ward, E. (2014) Under scrutiny: Cliff Prior on profit with purpose. December 16, 2014. *Pioneers Post*. Retrieved March 1, 2015, from <http://www.pioneerspost.com/news-views/20141209/under-scrutiny-cliff-prior-on-profit-purpose>
- Watt, N. (2012) David Cameron launches £600m “big society” fund. *The Guardian*. April 4, 2012. Retrieved March 1, 2015, from <http://www.theguardian.com/society/2012/apr/04/david-cameron-big-society-fund>

Wilson, K. E. (2014) New investment approaches for addressing social and economic challenges, *OECD Science, Technology and Industry Policy Papers*, No. 15, OECD Publishing. Available at <http://dx.doi.org/10.1787/5jz2bz8goojj-en>

Glossary

B –Corp (benefit corporations)

(U.S.) A type of for-profit corporation that includes positive impact on society and the environment among its legally defined goals, in addition to profit.

Builder capital

As defined by Heap & Davison (2013), “ultra-patient risk capital provided with the objective of seeding, developing and building sustainable social enterprises....capable of solving difficult social problems in innovative and affordable ways. Investors...receive only social returns in the first few years of the enterprise’s life, and ...once a pre-agreed level of revenue, social impact or surplus has been achieved then a financial return will become payable.”

Business seeking impact

(U.K.) A business that sets and maintains social outcome objectives for a significant part of its activities, without locking in its mission (SIITF 2014).

Community interest company

(U.K., Canada) A hybrid legal form specific to social enterprises. A company may incorporate as one of several legal forms, and then register as a community interest company. The registration entails additional legal requirements, such as a legal commitment to serving a social purpose; reporting annually on activities designed to meet that purpose; capping the distribution of income and assets to private beneficiaries; and establishing other asset locks. At the end of 2013, the U.K. community interest company’s dividend distribution cap was 35% of total annual profits, with carryover allowed (BIS 2013).

Company limited by guarantee

(U.K.) A corporate legal form. A company limited by guarantee is allowed to distribute profits, but only to members (LawWorks 2012). This is the legal form most widely used by U.K. third sector organizations, in the absence of a North American non-share corporation (non-profit corporation).

Golden share

A type of share that gives its shareholder veto power over changes to the company’s charter. A golden share holds special voting rights, giving its holder the ability to block another shareholder from taking more than a ratio of ordinary shares. See

<http://www.investopedia.com/terms/g/goldenshare.asp>

Impact investment assets

Investments intended to create positive impact beyond financial returns, where the social or environmental returns are measurable and integral to what the enterprise does. The intention to create social impact is equated with the enterprise's operation, or production or sales of goods or services, in the social or environmental sector to meet a perceived need. Once these social criteria are met, investments may be made solely on financial criteria (MaRS 2014).

Industrial and provident society

(U.K.) A limited liability organization controlled and run by member-shareholders democratically (DTI 2003). These organizations include the familiar cooperative, set up to serve primarily members, as well as community benefit companies ("bencoms"), which by law must serve the broader community. Bencoms range from building societies to working men's clubs, allotment societies, Women's Institute markets, housing associations, football supporters' groups, social groups, and local interest, literary and historical societies.

Operating intermediary

An organization that provides support to the social sector, such as performance measurement and capital-raising (BSC 2013).

Profit-with-purpose

(U.K.) A profit-maximizing or -satisficing enterprise that locks in a social mission via its governance structure (e.g., golden shares) and/or embeds that mission in its business model (SIITF 2014; Cohen 2014). Proponents equate "profits-with-purpose" with North American B Corps (SIITF 2014a; Ward 2014).

Social bank

A bank that provides "banking and financial services that consequently pursue, as their main objective, a positive contribution to the potential of all human beings to develop, today and in the future....the focus is on satisfying existing needs in the real economy and the society whilst simultaneously taking into account their social, cultural, ecological and economic sustainability...Generating a monetary profit is not an end but a frequent prerequisite to guaranteeing the necessary flexibility for pursuing its objective in a continuously changing environment."⁶⁹

Social economy

(North America, Europe) The sector of the economy that includes charities and other community-based not-for-profits, such as cooperatives, financial mutual societies, building societies, employee-owned businesses, housing associations and development trusts. These organization

⁶⁹ <http://www.social-banking.org/the-institute/what-is-social-banking/>

types share two main features: their social mission is primary, and they prohibit or constrain the distribution of surpluses in order to re-invest them in the enterprise.

Social enterprise

Very broadly, a business that produces or sells goods or services in markets to pursue a social, environmental or cultural mission (e.g., EC 2013; Alter 2004; OTS 2006; Teasdale 2010; DeFourny & Nyssens 2008; UNDP 2008; BMG 2013). See Appendix 1 for more detail.

Social enterprise—regulated

(U.K.) A social enterprise whose social purposes, plus a restriction or prohibition on the distribution of surpluses, are legally embedded in its legal form, such as a trading charity, community interest company or cooperative (industrial and provident society). Regulated social enterprises are a subset of the larger number of enterprises that conform to the government's and Social Enterprise U.K.'s broader definition of social enterprises, as enterprises that identify themselves as pursuing social or environmental goals, and that distribute less than 50% of their annual profits.

Social firm

(U.K.) A business that employs individuals with disabilities (Aiken 2007). At least 25% of social firms' workers must have disabilities (Aiken 2007). In addition, social firms must generate at least 50% of the firm's income (excluding contract income to train people and provide work experience) (Aiken 2007).

Social impact

See Appendix 1.

Social impact bond

An innovative form of government payments-by-results procurement, in which non-government actors contract to set up and run a service within the realm of government's responsibility, such as employment and social supports for released prisoners, but for which government pays only if the services achieve agreed-upon targets. If the project succeeds, the non-government actors may receive payment of up to a 13% annual rate of return (the rate paid on the first social impact bond). If it does not succeed, presumably the government discontinues the service they produce. The U.K. government, which has been strongly promoting social impact bonds, describes them as essentially cost free, since current social impact bonds are largely targeted at prevention programs that the government expects will produce down-the-line savings for other government programs (UKNAB 2014). The government describes payments to social impact bond contractors as the "sharing" of these future savings with these contractors (UKNAB 2014).

Social investment

See Appendix 1.

Social investment and finance intermediary

(U.K.) An organization that attracts money from social investors and uses it to make direct investments in front-line social ventures. This category includes organizations whose primary activity is social investment, as well as organizations for which social investment forms part of a wider portfolio of activity (Brown & Norman 2011; Evenett and Richter, 2011; Howard 2012; Clearly So 2011). Social investment and finance intermediaries may provide financing or support services to enterprises..

Social investor

An investor who seeks both social and financial returns.

Social sector

(U.K.) A descriptor for social sector organizations that also refers to the traditional—social, as distinct from private—sphere of activity of such organizations, and so includes health and human services, especially services for vulnerable, excluded and/or poor populations.

Social sector organizations

(U.K.) “Impact-driven organizations with partial or full asset-lock, for example: charities that do not engage in trading; charities and membership groups that trade but do not distribute profits; social and solidarity enterprises; cooperatives; and other profit- or dividend-constrained organizations” (SIITF 2014; BSC n.d.). “Social sector” and “social sector organizations” have superseded the “third sector” in U.K. discourse on social investment.

Social venture

(U.K.) A category of enterprises that typically includes not-for-profit enterprises that earn substantial income from trade but re-invest most of their surplus income to further their social objectives. For example: “Social ventures operate across a range of markets and span a range of organizations including charities which trade, social enterprises, and community organizations. They are not defined by legal form but rather by their objective—which is to deliver social results, as opposed to that of private sector businesses, which is to generate profit for owners or shareholders. Social ventures can, and do, operate in a commercial way but are distinguishable by the fact that they use the majority of any surplus generated to further their social objectives. Additionally, social ventures are independent from Government” (ICF 2013). Social ventures are typically equated with social sector organizations, and they include enterprises in the third sector.

Subordinated capital

Capital (usually debt) that is paid out—meaning that it is repaid or receives a return—only after other capital is paid out. See <http://www.investopedia.com/terms/s/subordinateddebt.asp>

Thematic investment vs. impact-first investment

(North America) Thematic investment focuses “on one or more issue areas where social or environmental need creates commercial growth opportunity for market-rate returns” (MaRS 2014a). Impact-first investment focuses “on one or more issue areas where social or environmental need may require some financial trade-off” (MaRS 2014).

Third sector

(U.K.) A segment of the economy now often called “civil society” or the “social sector.” It is roughly similar to the North American and mainland European “social economy.” It includes a range of types of organizations that primarily pursue social purposes, and constrain or prohibit distribution of profits. There are more than 900,000 U.K. organizations in this sector—including, for example, charities, social enterprises, cooperatives, financial mutual societies, building societies, employee-owned businesses and housing associations, as well as other not-for-profit organizations that in Canada would incorporate as non-profits. The U.K. does not have a “non-share corporation” legal form analogous to the North American non-profit corporation. For the full range of organizations included in civil society, see the National Council of Voluntary Organizations at <http://data.ncvo.org.uk/a/almanac14/what-is-civil-society-2/>

Voluntary sector

An older term for the third sector, also synonymous with the community sector, the non-profit sector (in the U.K.) and civil society. See <http://data.ncvo.org.uk/a/almanac14/civil-society/what-is-civil-society-2/>

APPENDIX 1: Social Enterprise, Social Investment and Social Impact

Here is a summary discussion of the three core concepts used in this report.

1. Social enterprise

As indicated in the Introduction, social enterprises are, most broadly, organizations that operate businesses—enterprises that produce or sell goods or services in markets—to pursue a social, environmental or cultural mission (e.g., EC 2013; Alter 2004; OTS 2006; Teasdale 2010; DeFourny & Nyssens 2008; UNDP 2008; BMG 2013). In Canada, the term is often applied only to businesses run by non-profits and charities, organizations whose legal form or status requires that they serve a social purpose and do not distribute any surpluses to private beneficiaries, such as investors (e.g., Flatt et al. 2013; Malhotra et al. 2010; UNDP 2008). These social enterprises generally run businesses to earn income to fund their social purpose activities (e.g., a museum shop) or run the business as a way to help the people they serve (e.g., work integration social enterprises that train and employ vulnerable or marginalized individuals) (e.g., Flatt et al. 2013).⁷⁰

However, more often in Canada, as elsewhere, “social enterprises” include both non-profit and charity enterprises, and for-profit enterprises that also re-invest most of their profits to maximize their social purposes. What distinguishes a social enterprise in this definition is not its legal form but its social purposes or mission, and its re-investment of most of its surpluses back into the enterprise (SEUK 2012; BMG 2013; CUA 2007; CTFSF 2010; SIITF 2014). The Canadian Task Force on Social Investment’s definition of social enterprise, for example, explicitly covers “organizational forms—ranging from enterprising charities, non-profits and co-operatives to social purpose businesses, which are for-profit businesses designed to fulfill a social mission” (CTFSF 2010). This report uses this more comprehensive definition of social enterprise.

This more comprehensive definition has widening boundaries, however, at least in the U.K. There, social enterprises incorporated in legal forms that secure their social purposes, as well as either prohibiting or restricting the distribution of their surpluses, are called “regulated” social enterprises.⁷¹ Other social enterprises also pursue social objectives and restrict distribution of surpluses, but how they do so varies, depending on the definition (e.g., BMG 2013; EC 2014). Over the last 15 years, the restrictions on profit distribution have loosened, and the criteria for pursuing

⁷⁰ In this taxonomy, for-profit social enterprises are called social purpose businesses (Flatt et al. 2013; Malhotra et al. 2010).

⁷¹ One example is the U.K. community interest company (see Glossary). In Canada, Nova Scotia and British Columbia have emulated the U.K. in creating the community contribution company (B.C.) and the community interest company (N.S.). At the end of 2013, the U.K. community interest company dividend cap was set at 35% of total annual profits, with carryover allowed (BIS 2013).

social objectives have weakened (e.g., Teasdale 2010; Teasdale et al. 2013; DTI 2002).⁷² At this point, the government and Social Enterprise UK, for example, permit social enterprises to distribute up to 49.9% of their surpluses to private investors or other private beneficiaries (SEUK 2012; BMG 2013; EC 2014), and government surveys allow enterprises to self-define as “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners)” (BMG 2013; EC 2014; ICF 2013).

The distinction between social enterprises and small and medium-sized businesses has therefore begun to blur (e.g., IIPC 2013; Huckfield 2015). Indeed, the government now estimates, based on these criteria, that some 284,000 small and medium-sized U.K. businesses were social enterprises in 2012, about 26% of all such businesses (EC 2014). Nearly three-quarters of this number were for-profit companies (31% companies by share, 29% sole proprietorships and 13% partnerships) (EC 2014).

At the same time, the minimum threshold to be considered a social enterprise has also dropped, allowing more charities and non-profits in as social enterprises. The government now considers organizations that generate 25% or more of their revenue from trading, and meet the other conditions, as social enterprises.⁷³ While Social Enterprise UK uses the 50% distribution limit, it also restricts external ownership of the enterprise to 49.9% (SEUK 2012).

Even with these loose definitional boundaries, social enterprises are still clearly distinct from, on the one hand, enterprises that distribute most or all of their surpluses but whose activities also meet social goals (and whose activities may be chosen for this reason), and on the other, charities and other not-for-profit organizations that pursue social purposes and do not run a business. The former can have several names: for example, “social businesses” (operating primarily for profit) (Hill et al. 2011); “profits-with-purpose” (SIITF 2014); or “businesses seeking impact” (SIITF 2014). “Profits-with-purpose” lock their social purposes into their governance structure (e.g., by using golden shares), and/or embed them in their business model, but may maximize profits (SIITF 2014; Cohen 2014). They are seen as analogous to North American B Corps (SIITF 2014; Cohen 2014; Ward 2014). “Businesses seeking impact” pursue profits and engage in activities that meet social goals but do not lock in their social mission (SIITF 2014).

2. Social investment

Social investment is generally distinguished from mainstream commercial investment by the social or environmental purposes to which it is put, which are seen as desirable or as meeting an

⁷² The absence of a non-share corporation legal form (the non-profit corporation) in the U.K. may have made this loosening and weakening easier than it would otherwise have been.

⁷³ Other European authorities put the benchmark higher at 50% (EC 2013). Most definitions of social enterprise allow social enterprises to receive income from grants and donations (in Canada, e.g., Flatt et al. 2013, Malhotra et al. 2010), but one recent U.K. report precludes this (SIITF 2014).

important social or environmental need (e.g., addressing climate change) (e.g., OTS 2009; Nicholls 2010; RBC 2014). An additional criterion often used is that the enterprise cannot access financing in mainstream markets to pursue its socially or environmentally important activities, and, indeed, it is precisely this inability to raise conventional capital that sometimes seems to affirm its special social or environmental value. Investment in fully commercial clean-tech, renewable energy and other tech enterprises appears to be seen this way (e.g., CTFSF 2010; Nicholls 2010). Arguably, investment in renewable energy, for example, will cease to be a “social” investment once these technologies are mainstream (e.g., CTFSF 2010).

As with social enterprise, the definitional boundaries of social investment keep moving, as views change about which organizations social investment is meant to serve and to what end. In some circles in the U.K.,⁷⁴ until the mid-2000s or so, “social investment” referred largely to investment in organizations that primarily or exclusively pursued social or environmental missions and re-invested all or most of their surpluses—for example, social enterprises, charities and cooperatives (e.g., OTS 2009; HMGov & CO 2007; CUA 2007). The investment might or might not produce any financial returns; these would be limited or long term, if they existed. What made such organizations social was the primacy of social purposes over financial considerations (e.g., CUA 2007; Rotheroe et al. 2013). This view of social investment still has considerable currency, especially among these types of investee organizations (e.g., Davison & Heap 2013; Ward 2014; Floyd 2015; ICF 2013). However, definitions of social investment have broadened steadily over the last 10 to 15 years, in the U.K., at least. They may now encompass enterprises pursuing and even maximizing profits—along with their social or environmental missions—funded by investors seeking healthy or market-level financial returns (OTS 2009; HMGov 2011; ICF 2013; Brown & Norman 2011; Nicholls 2010). In the U.S., social investment appears to have been commercially oriented from its inception.

At its broadest, “social investment” now encompasses investment in enterprises ranging all the way from socially responsive businesses—conventional businesses that use best practices in environmental, social and government matters, or practise corporate social responsibility—to charities that rely solely on grants or donations (e.g., RBC 2014; SIITF 2014; Nicholls 2010; Wilson 2014).⁷⁵ Any social dimension to the enterprise at all makes investment in it “social,” by this definition. Narrower definitions exclude investment at both extreme ends of the broader definition. Narrowly defined, social investment always seeks financial as well as social returns—that is, repayable financing. Also, the social returns have to be integral to, and not a by-product of, the enterprise’s mission—as with socially responsible corporations (e.g., Hazenberg et al. 2013; Brown & Norman 2011; ICR 2013). The narrow definition of social investment makes financial returns more important than did the earliest definitions and may allow them primacy over social returns. It also shifts the “social” focus of the investment from social purposes to social returns.

⁷⁴ The following discussion in this section is heavily influenced by U.K. discussions of these issues.

⁷⁵ See also the Social Investment Organization’s definition of social investment.

Social enterprises fit comfortably within the broader definition of social investment, and some social enterprises fit within the narrower definition—those that rely on repayable financing to run their businesses. Indeed, social enterprises appear to be defined increasingly in narrow social investment terms, as enterprises that pursue both financial and social returns (Nicholls 2010; ICF 2013; SIITF 2014).

3. Social impact investment

Increasingly, the concept of “social impact” is replacing the looser “social investment” as the model for determining which enterprises, and what types of investors, are included in the social investment market. Social impact investment also seeks both social and financial returns and, like social investment narrowly defined, the social returns must be integral to the enterprise’s mission (e.g., Brown & Norman 2011; Hazenberg et al. 2013). However, social impact investment also specifies, in a way that the definition of “social investment” does not, just what counts as a “social return.”

The concept was coined in 2007 during a Rockefeller Foundation-sponsored discussion on how to draw on more private sector investment to help solve global social and environmental problems, and has spread rapidly since. In one widely circulated definition, impact investments are “investments intended to create positive impact beyond financial returns” (J.P. Morgan 2010 report in RBC 2014). In another, they are defined this way: “[I]nvestments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return” (GIIN in Svedova et al. 2014).

The tone of these definitions gives clear primacy to financial returns, although financial returns can range from return of principal to market-beating returns from profit-maximizing enterprises (e.g., MaRS 2014; RBC 2014). What makes “social impact investment” distinctive, however, is that it defines “social returns” solely in terms of the investment’s measurable⁷⁶ “impact” on social or environmental issues (e.g., BV 2014; UKNAB 2014; Schwartz 2014).

So what is a “social impact”? The notion seems to be extremely simple. “Impacts” are outcomes or—very often in the U.K., at least—outputs, such as numbers of people served or even the giving of advice (Davison & Heap 2013). So, for example, impacts can include the number of seniors living in a senior care lodge⁷⁷ or the number of jobs created by an enterprise (e.g., BV 2014).⁷⁸ Social impacts are positive impacts on social or environmental needs—non-economic needs that

⁷⁶ Enterprises receiving social impact investment must also have a business model that is “intentionally constructed to deliver...social value” (RBC 2014; SIITF 2014). Also, the “social impact” must be measurable, and a demonstrable result of investor and investee activities (RBC 2014; SIITF 2014).

⁷⁷ This measure, used by Bridges Investments to measure the impact of its investment in seniors’ lodges, does not encompass outcomes for lodge residents’ health and well-being, which of course would vary depending on the quality of care. It is a purely quantitative output.

⁷⁸ By implication, all job creation by corporations would be “impact,” though not necessarily social impact.

affect all of us as a society, or needs of specific groups in society that our current social and economic arrangements do not meet. Meeting the latter is the traditional territory of non-profits, charities and other social organizations.

In practice, social impacts seem simply to be any positive impacts in traditional non-profit or charity areas, such as education, health and human services, and community economic development; housing for the homeless, employment or employment supports for the unemployed; community economic development in deprived regions and neighbourhoods; care of vulnerable populations, such as the elderly and children at risk; and health services targeted to the vulnerable (e.g., Hulme n.d.; SIITF 2014).⁷⁹ Social impact investments within these target areas may have varying degrees of impact based on how much change they produce and for how many people (e.g., BSC n.d.). However, differences in the depth or urgency of the needs they address – the ‘qualitative value’ of the impact --are ignored in most current discussions of social impact(e.g., BSC n.d.). The social re-integration of five homeless individuals produces the same social impact as the housing of five individuals in a nursing home, for example.

This simplistic model of “social impact” makes it easier for investors to treat all social problems as of equal value, and so to select investments based on financial criteria. It also enables companies to claim they are “social impact” companies simply because they operate within the traditional territory and—as companies by nature do—deliberately produce some services or products there, and measure them.

In principle, there is no reason that social impact investors cannot trade off financial and social returns to maximize social impact—that is, take home less profit to maximize benefit to the people they serve. In practice, however, “social impact” is not usually traded off against financial returns in making investment decisions (McWade 2012; Hazenberg et al. 2013). Instead, having the potential to produce social impact is treated as an entry requirement for social impact investment. Once the criterion is met, investors usually make their decisions on purely financial grounds (McWade 2012; Hazenberg et al. 2013). U.K. social investment market principal and social impact investment proponent Sir Ronald Cohen recently described “social returns” as a “tweak” or add-on to conventional investment decisions (Cohen 2014). In this view, to maximize social impact, one needs only to maximize the growth of companies that meet the entry requirement of “having a social purpose,” which itself can simply be the deliberate production of goods and services within traditional non-profit or charity arenas.

Social and financial returns are harder to treat separately in the earliest notion of social investment still in circulation. What makes a social investment “social” in this earliest definition is its primarily or exclusively social purpose; this is what needs to be maximized, and financial considerations take second place to doing this. The best enterprises to receive social investment, in this view, are therefore those that will dedicate their resources to pursuing their social purposes—in particular, organizations with social purpose embedded in their legal or statutory

⁷⁹ Similarly, “environmental” impacts seem to be simply positive impacts on pollution, climate change and any other perceived environmental issues.

structure, such as charities, regulated social enterprises, and other organizations that legally restrict or prohibit the distribution of profits to individuals for their private benefit. Moreover, the earliest notion of social investment leaves room to rank social needs based on their depth and urgency, permitting a more nuanced criterion of “social impact” or social outcomes.

“Social impact investment,” in contrast, makes no distinction between profit-maximizing companies and trading charities, but is “sector neutral” (Schwartz 2014).

The replacement of “social investment” with “social impact investment” in social finance markets may be bad news for social enterprises, understood as enterprises that re-invest some or all of their surpluses to pursue their social goals. Social enterprises have a place in social investment markets ruled by the “social impact” criterion, but it would not be the privileged place they once held in social investment ecosystems as the engines of social change (at least in the U.K.). Indeed, as noted in this report’s conclusion, one commentator sees new types of organizations already springing up to meet the investment demands of the new investors and social investment market financiers, which are not social enterprises. She foresees that these types of enterprises will eventually eclipse social enterprises (Mair 2013a). Another report goes even further to suggest that “social impact investment” will dominate European social investment markets by 2020 (BC 2014). As a result, she says, larger social enterprises will compete for financing with profit-maximizing but “superb, ethically run” businesses, while smaller social enterprises will continue to lack access to social financing, and social enterprises that focus on activities in which there is no profit to be made will become a new “underclass” of social causes (BC 2014).

APPENDIX 2: Major BSC Investments in Social Investment and Finance Intermediaries, and Social Investment and Finance Intermediary Funds

This appendix provides thumbnail sketches of 11 BSC major investments between 2012 and 2014. A summary of this group of investments can be found in the main text, in section 1.3.3.

1. Social and Sustainable Capital and its funds

The recipient of the single largest amount of investment to the end of 2013 was Social and Sustainable Capital (SASC), set up in 2012 (BSC 2013, 2014; Ainsworth 2014a). After investing £10 million in SASC before 2013 (BSC 2013), BSC invested an additional £25 million in two new SASC funds in 2013. This total of £35 million represented close to 25% of all BSC investments to the end of 2013.

In 2013, BSC committed £10 million to the new Community Investment Fund (BSC 2014), which provides working capital, growth capital, and capital for property purchase or renovation, or other capital expenditure requirements, as well as support to social enterprises and charities engaged in public trading—that is, delivering public services either directly or under payments-by-results contracts. Investee targets are community enterprises trading for a local social purpose and re-investing profits back into their businesses; community enterprises buying public community land or building assets that can turn a profit, which can then be re-invested into the community; and locally led social sector organizations meeting their communities' needs and developing a financially sustainable model to do so.⁸⁰ The fund offers investments of between £250,000 and £3 million.⁸¹ BSC's co-investor was the Social Investment Business (SIB) Foundation, which also contributed £10 million.⁸² BSC and the SIB Foundation initially contributed £3 million each to the new fund, which expects to invest around £5 million a year in organizations providing health and social care, education, training and employment support, and children's services across England.⁸³

In 2013 BSC also committed £15 million to SASC's Third Sector Loan Fund, which provides secured and unsecured loans to charities and community interest companies that are “improving the economic and social well-being of individuals, particularly those who are vulnerable and disadvantaged.”⁸⁴ The fund is a closed fund; this structure allows investors with different risk and return appetites to invest in the same structure.⁸⁵ Loans will be for between £250,000 and £3

⁸⁰ <http://www.bigsocietycapital.com/how-we-invest/community-investment-fund>

⁸¹ See <http://socialandsustainable.com/community-investment-fund/>

⁸² Ibid.

⁸³ http://www.charitytimes.com/ct/Social_Sustainable_Capital_launches_20m_fund%20.php

⁸⁴ See <http://socialandsustainable.com/seeking-investment/third-sector-loan-fund/>

⁸⁵ See <http://socialandsustainable.com/looking-to-invest/>

million,⁸⁶ chiefly at rates of between 6% and 12% (Ainsworth 2014a). The SIB foundation also contributed £1.5 million to the fund, in a form similar to a repayable grant (Ainsworth 2014a). In late 2014, the Spanish-based high street bank Santander announced would also invest £13.5million in the fund, making the fund “the largest loan fund for the charity sector” (Ainsworth 2014a). Santander’s funding is seeking market rates of return and, under the arrangement, SIB has agreed to first loss, followed by BSC, if the fund falters (Ainsworth 2014a). BSC will receive a higher level of interest in exchange (Ainsworth 2014a). The fund was launched in November 2014.

SASC is a social enterprise, with 51% of its profits going to its charity partner, the SIB Foundation SIB.⁸⁷ SASC provides loans and equity investments to charities and social enterprises, to support the growth of scalable businesses that deliver social impact and sustainable financial results. It provides investments ranging from £250,000 to £3 million.⁸⁸ SASC was founded by Ben Rick, a former managing director at Bank of America Merrill Lynch, and Adam Knight, formerly a managing director at Goldman Sachs and Credit Suisse.⁸⁹

2. Poverty Relief and Increasing Social Mobility fund

In 2013, the new Poverty Relief and Increasing Social Mobility (PRISM) fund also received up to £15 million in investment from BSC in the form of matching funding. The fund managers are Bridges Ventures and Sarasin & Partners LLP (BSC 2014), the latter also committing £13.5 million to the fund, along with £1.5 million from social investment and finance intermediary Social Investment Business (BSC 2014; Ainsworth 2014b). The fund will provide property, bonds and quasi-equity⁹⁰ to charities and primarily asset-locked social enterprises (BSC 2014). PRISM is designed to provide the same sort of “risk capital” financing that a company gets by issuing shares (Ainsworth 2014b). The fund aims for a rate of return of between 3% and 5%, and will have a board of independent advisers to measure its social impact (Ainsworth 2014b).

Sarasin & Partners LLP is a London-based asset management group that manages £13.9 billion in investments on behalf of charities, institutions, intermediaries, pension funds and private clients from the U.K. and around the world.⁹¹ Sarasin is 60% owned by Bank J Safran Sarasin Ltd, one of the largest private banking groups in Switzerland, and 40% owned by its London-based partners.⁹² Bridges Ventures is described in section (f) below.

3. Two health and well-being funds

⁸⁶ See <http://socialandsustainable.com/seeking-investment/third-sector-loan-fund/>

⁸⁷ See <http://socialandsustainable.com/>

⁸⁸ See <http://socialandsustainable.com/about-us/>

⁸⁹ See http://www.charitytimes.com/ct/Social_Sustainable_Capital_launches_20m_fund%20.php

⁹⁰ This will be in the form of a loan repayment, terms for which are based on the success of the charity (BSC 2014).

⁹¹ See <http://www.fundweb.co.uk/sarasin-and-partners/414827.supplier>

⁹² Ibid.

Also in 2013, BSC committed investments of £10 million each to two social investment and finance intermediary funds operating in the health and well-being field (BSC 2014). The new £30-million to £50-million Apposite Social Impact Healthcare Fund was created and managed by Apposite Capital LLP, an established private equity firm investing mainly in clinical health care ventures.⁹³ The new fund, created in 2013, offers equity or equity-like capital to social enterprises at all stages of development, ranging from start-up to emerging and well-established social enterprises nationwide.⁹⁴ Investment is illiquid for 10 years, with a further two possible years' investment.⁹⁵ The fund's stated aim is to build viable, scalable and sustainable businesses. Target investees are social enterprises that help improve access to and quality of health care provision, especially for the most disadvantaged and vulnerable.⁹⁶

The other new BSC health care investment was in the new Care and Wellbeing Fund managed by Social Finance (BSC 2014). The new fund will invest in prevention, early intervention and community-based solutions, particularly for disadvantaged groups.⁹⁷ Social Finance is a not-for-profit organization established by Sir Ronald Cohen in 2007. Social Finance pioneered social impact bonds and development impact bonds (aimed at developing countries), and social impact bonds continue to be a major focus of the organization.

4. Social Impact Accelerator Fund

Another new fund receiving a £10-million investment in 2013 was the Social Impact Accelerator Fund, set up by the FSE group. Expected to reach between £15 million and £20 million, the fund offers flexibly structured loans of £200,000 to £1 million to ambitious regulated social sector organizations,⁹⁸ including trading arms of charities. The loans will primarily fund organization growth,⁹⁹ but it will also consider investees that fall outside or beyond traditional lending criteria, based primarily on current and projected cash flows and growth potential.¹⁰⁰ Risks for fund ventures are expected to be higher than traditional senior lender financing. Pricing will be structured accordingly and based on bespoke risk assessment.¹⁰¹ Loan term estimates range from two to five years¹⁰² to 10 years.¹⁰³ The Social Impact Accelerator Fund's investment focus is general social issues.¹⁰⁴

⁹³ See <http://www.appositecapital.com/>

⁹⁴ See <http://www.appositecapital.com/social-impact>

⁹⁵ See <http://www.bigsocietycapital.com/for-investors/opportunities/social-impact-healthcare-fund>

⁹⁶ See <http://www.appositecapital.com/social-impact>

⁹⁷ See <http://www.bigsocietycapital.com/how-we-invest/commitments>

⁹⁸ See <http://www.bigsocietycapital.com/for-investors/opportunities/social-impact-accelerator>

⁹⁹ Ibid.

¹⁰⁰ See <http://www.thefseggroup.com/social-impact-funding/sia>

¹⁰¹ Ibid.

¹⁰² Ibid.

¹⁰³ See <http://www.bigsocietycapital.com/for-investors/opportunities/social-impact-accelerator>

¹⁰⁴ Ibid.

The FSE group is a community interest company that provides fund management, training and consultancy, and management of business angel networks, to ambitious social enterprises and small and medium-sized enterprises¹⁰⁵ with potential for significant growth or scalability.¹⁰⁶ FSE also invests in community-based renewable energy projects.¹⁰⁷ Before 2013, the FSE group received a £750,000 BSC investment in another of its funds, the Community Generation Fund, to provide “commercial but creative loan funding” for communities to develop community-owned renewable energy infrastructure.¹⁰⁸ FSE funds projects in pre-planning and construction phases.¹⁰⁹

5. Impact Ventures UK Fund

Impact Ventures UK Fund was one of the three funds in which BSC invested £10 million (each) before 2013. The new fund invests risk capital—equity and smart growth capital investments,¹¹⁰ and debt (Gosling 2013)—in social enterprises (loosely defined) working in disadvantaged and marginalized communities. Investment targets are small to medium-sized businesses with robust business plans, and clear near-term ability to scale up and generate “reasonable, sustainable returns”—in other words, “innovative, high growth social enterprises” (Gosling 2013). Investees are expected to have been in business for two to five years.¹¹¹ The fund’s minimum investment is £250,000, with most investments expected to range from £500,000 to £5 million (Gosling 2013), and to generate a 7% annual rate of return net of fees and expenses (Gosling 2013). The fund is “suitable for sophisticated private or institutional investors” (Gosling 2013). Fund management fees are 2.75% per annum for assets up to £30 million, decreasing on a sliding scale to 2.25% when the fund grows above £50 million (Gosling 2013). The fund is looking to invest in 20 to 30 enterprises.¹¹²

The fund is co-owned by Hamburg-based Berenberg Bank and by the Lichtenstein-based LGT Group, whose LGT Venture Philanthropy identifies and invests in social impact businesses.¹¹³ Berenberg is a giant, socially responsible investment bank and private bank, and the world’s oldest investment bank. The giant LGT Group, owned by the Princely House of Liechtenstein, focuses on asset management and private banking.¹¹⁴ The Impact Ventures UK Fund’s website currently identifies four recipients to date.

6. Bridges Social Impact Bond Fund

¹⁰⁵ See <http://www.bigsocietycapital.com/for-investors/intermediaries/fse-group>

¹⁰⁶ See <http://www.thefsegroupp.com/>

¹⁰⁷ See <http://www.thefsegroupp.com/social-impact-funding>

¹⁰⁸ See <http://www.thefsegroupp.com/social-impact-funding/community-generation-fund>

¹⁰⁹ Ibid.

¹¹⁰ See <http://www.impactventuresuk.com/social-enterprises/>

¹¹¹ Ibid.

¹¹² Ibid.

¹¹³ See <http://www.investmenteurope.net/regions/uk/new-fund-targets-uk-social-impact/>

¹¹⁴ See <https://www.lgt.com/en/lgt-group/>

In 2012, BSC also invested £10 million in the new Bridges Social Impact Bond Fund, managed by Sir Ronald Cohen's private investment firm, Bridges Ventures LLP (BSC 2013). The fund provides working capital to social organizations delivering public services under payments-by-results contracts, including social impact bonds (BSC 2013). The fund achieved a final close of £22.5 million, with additional investment from the European Investment Fund, Deutsche Bank Social Investments, J.P Morgan Social Finance and two foundations (BV 2014; Bridges 2014). Initial projects included early intervention for troubled families, therapeutic foster care, employment and education (BSC 2013). They included several social impact bond projects in which BSC also invested (Bridges 2013). Fund investments range up to £3 million.¹¹⁵ Before opening the fund, Bridges Ventures had also invested in three payments-by-results projects with local authority pension funds (Bridges 2013). By 2015, the fund had invested in 11 enterprises.¹¹⁶

Bridges Ventures is owned by its principals and donates 10% of its profits to a subsidiary, Bridge Charity Trust.¹¹⁷ It operates three types of funds: property funds, sustainable growth funds and social sector funds (the last comprising the Bridges Social Impact Bond Fund and the Social Entrepreneurs Fund). Most of these operate in deprived or low-income regions, and seek market or above-market returns while also helping meet "pressing social or environmental challenges."¹¹⁸ Investments include care homes for the elderly, repurposing of heritage buildings, no-frills gyms in low-income areas, and home care and car insurance companies.¹¹⁹

7. Nesta Impact Investment Fund

In 2012, BSC also committed £8 million to the Nesta Impact Investment Fund, a new fund owned by the large Nesta charity (BSC 2013). The new fund aims to provide equity and debt risk capital to 15 to 20 front-line organizations in the areas of youth unemployment, elder care and community exclusion (BSC 2013). Investments will range from £150,000 to £1 million.¹²⁰ The fund is targeted to "ventures with high impact, scalable innovations that are run by outstanding entrepreneurs."¹²¹ Its website currently identifies eight fund investees.¹²²

8. Cheyne Social Property Impact Fund

BSC's focus on large investments, often in newcomers from the mainstream financing sector, appears to have continued into 2014. Late in 2014, BSC announced a £12-million investment in principle in the new Cheyne Social Property Impact Fund (James 2014). The fund plans to buy or build properties, and rent these out to social services organizations seeking to provide affordable housing, prostitution rehabilitation, and solutions related to homelessness and elder care (Agnew

¹¹⁵ See <http://www.bridgesventures.com/social-sector-funds/social-impact-bond-fund/>

¹¹⁶ Ibid.

¹¹⁷ See <http://www.bridgesventures.com/about-us/>

¹¹⁸ Ibid.

¹¹⁹ Ibid.

¹²⁰ See <http://www.bigsocietycapital.com/open-funds>

¹²¹ See <https://nestainvestments.org.uk/>

¹²² Ibid.

2014). The fund will issue an “impact” share class that aims to deliver returns of 10% to 12% per year net of fees, with a semi-annual cash distribution of 5% to 6% a year. A “deep impact” share class will offer slightly lower financial returns (Agnew 2014). The fund is targeting an initial fundraising of £100 million to £150 million, with an eventual target of £300 million (Agnew 2014). Cheyne is a giant hedge-fund group with about £7 billion in assets under management (Agnew 2014).

9. Charity Bank

In 2013, BSC invested £14.5 million in principle in Charity Bank, one of the social investment market’s four social banks (BSC 2014). Charity Bank provides flexible loans solely to charities, community organizations and social enterprises that address community social needs but that cannot get financing from high street lenders (BSC 2014). The three-year investment aims to help the bank—strictly speaking, incorporated now as an institution rather than a bank because of European Commission rules (Last 2013)—increase its lending “from around £55 million today to £250 million by 2018” (BSC 2014). Charity Bank typically offers investments of less than £150,000. Like mainstream banks, Charity Bank acquires capital mainly from small retail investors, but as a social bank, it offers zero-interest or low-interest savings accounts to individuals who to support social ventures (Nicholls 2010).

Charity Bank’s assets grew from £6.4 million at its founding in 2002 to over £50 million in 2011 (UKNAB2014). It lent over £130 million during that period, £85 million of which has been repaid to date (UKNAB 2014), with returns generally ranging from 0.5% to 3% (HMGov 2011).

Endnotes

ⁱ By 2011, Charity Bank had more than £50 million in assets, up from £6.4 million at its founding in 2002 (HMGov 2011). Charity Bank is also a community development financial institution (ICF 2013; HMT & CO 2007), providing loans and support at affordable rates to social enterprises and other third sector organizations in deprived areas that cannot access mainstream financing (Brown & Norman 2011; OTS 2009). Investors in community development financial institutions receive a tax break of up to 25% on their investment through the community investment tax relief scheme. Community development financial institutions are currently in decline (BSC 2013c).

ⁱⁱ A study in 2010-2011 found that two-thirds (66%) of social investment and finance intermediary investments by value were in not-for-profit organizations with a social focus. The remaining third were made in various forms of for-profit enterprises, of which 65% re-invested most of their profits, 20% distributed most of their profits to owners and 15% distributed 100% of their profits to owners (Brown & Norman 2011). A much earlier 2004 study of social investment and finance intermediaries, including government funds (McKinsey & Company 2004, in CUA 2007) had noted the following.

- Four social investment and finance intermediary organizations provided equity and equity-like capital—Impetus (assets £3.5 million), CAN Breakthrough (assets €1 million), Venturesome (assets £6.5 million) and Bridges Community Ventures (assets £40 million) (CUA 2007). All but the last of these served only social enterprises and charities (CUA 2007). Bridges Community Ventures solely served profit-maximizing ventures in marginalized communities (CUA 2007).
- Three organizations offered subordinated debt or patient capital to social enterprises, trading charities, and profit-distributing but socially driven enterprises—the government's Futurebuilders (assets £125 million), Social Investment Scotland (£3.3 million in loans approved) and the Adventure Capital Fund (assets £10 million).
- Two organizations provided grants to high-risk ventures—UnLtd (assets £13 million) and Scarman Trust (invested £7 million in 2006). Scarman Trust served non-charities through to profit-maximizing enterprises, while UnLtd served charities and social enterprises.

ⁱⁱⁱ Private sector companies doubled their public sector service delivery market between 2008 and 2012, from £9.8 billion to £20.4 billion (Davison & Heap 2013). In a recent report, Social Enterprise UK argued that these corporations now control the public procurement market to the point where they continue to receive contracts regardless of performance, to the detriment of service quality and of job quality in the increasingly squeezed smaller subcontractor social enterprises and charities (SEUK 2012a).

^{iv} Very few social enterprises (3%) sought equity in 2013, but close to 40% got the amount they asked for (ICF 2013). However, the size of equity requests rose considerably between 2011 and 2013, from a median of £200,000 to a median of £375,000 (SEUK 2013). During the same period,

the size of requests for both mortgage financing and loans dropped considerably (SEUK 2013). In both 2011 and 2013, social enterprises receiving financing received about half what they asked for: a median of £30,000 in 2013 and a median of £60,000 in 2011 (SEUK 2013).

^v The proposal for the bank was approved in May 2011, and the Big Lottery Fund—the nominated distributor of dormant accounts as set out in the *Dormant Accounts Act*—established an interim investment committee that same month, announcing its first “in principle” investment in July 2011 and four more investments in December 2011 (BSC n.d.(1)). The bank was fully operational by the beginning of 2012.

^{vi} The Big Society Trust controls 80%, and the Merlin banks (Barclays, HSBC, Lloyds and RBS) 20%, of the voting rights of BSC. The Big Society Trust owns 60% and the four Merlin banks own 40% of the operating company’s shares (Edmonds 2014). BSC’s first (interim) chair was Sir Ronald Cohen (CO 2011a), former chair of the Social Investment Task Force in 2000–02 and the Commission on Unclaimed Assets in 2006–07, and a principal of the social investment and finance intermediary Bridges Ventures, created in 2002 as a result of Social Investment Task Force recommendations. BSC’s first CEO was Nick O’Donohue, former global head of research at JP Morgan (CO2011a). The parent company is responsible for keeping the bank true to its mission. See (CO2011a) for a list of members of the inaugural boards of directors of the parent and operating companies. For technical reasons, BSC is an institution rather than a bank.

^{vii} Additional strategies included encouraging social investment and finance intermediary growth and working with grant-makers to fund investment-readiness initiatives; promoting best practices, such as social impact bonds, transparency in social investment and finance intermediary use of BSC funds, and initiatives to help communities raise local capital for local services; advising government and regulators on how best to grow the social investment market; and partnering with banks to promote commitment to the social investment market (CO2011; HMGov2011).

^{viii} The 2015 social impact test sorts potential investees into strong, medium and weak investment candidates (BSC n.d.). Strong candidates have their social mission locked into the articles and investment terms; are asset locked; can clearly show how they align their financial returns with long-term social performance; have experience operating in the specific social context; have a strong track record of delivery; have strong management; are innovative and take social risks; have strong evaluation, measurement and reporting structures in place; have arranged for a third-party audit of their social impact reporting claims; and have exit plans that are very likely to be achieved when the investment ends or for which the infrastructure to facilitate exit is already in place (BSC n.d.).

Medium candidates are weaker than strong candidates along all social impact criteria. For example, their social mission lock is on the basis of “reasonable best efforts,” their assets are locked only for the duration of the investment, profit distribution and remuneration are on the

basis of “reasonable best efforts,” and salaries are higher than average in the context in which the social investment and finance intermediary operates (BSC n.d.). It is not clear whether, in a situation where strong candidates are lacking on this dimension, BSC or a BSC-funded social investment and finance intermediary can choose a medium candidate, even where this violates the governance requirements of for-profits described below.

The test also contains breadth requirements—that the impact make a significant difference to many peoples’ lives, and that it would not happen without the investment (BSC n.d.). However, in keeping with the social impact investment model, there are no criteria for ranking the social value of social impacts (e.g., Davison & Heap 2013; BSC n.d.), and thus no way to measure whether one enterprise is producing more social impact than another, except as measured by quantity. An example would be determining whether a work integration social enterprise that re-integrates five ex-prisoners into the labour market by providing holistic supports, as well as a job, is producing more, less or the same social impact as a venture that places less or equally disadvantaged workers in jobs, or a business that hires highly employable local workers in a depressed region.

^{ix} Measures of “market growth” include more new social investment and finance intermediaries and social ventures entering the social investment market, contributing to a net increase in the total number of social ventures, while allowing for the failure and exit of some organizations; a greater proportion of social ventures bidding for and winning public service contracts, as consortia if necessary; and more social investment available to social ventures, including investment in social investment and finance intermediaries (HMGov 2011). BSC is free to decide how it will achieve financial impact according to these measures (HMGov 2011).

^x Measures of efficiency include increased ease of doing business for social ventures and investors; a decrease in average deal transaction times and costs; a rise in deal volumes and values, year over year; better measurement systems to quantify social return and risks; and decreased need for external investment-readiness support (HMGov 2011).

^{xi} In 2012, much of the money going to property purchases would have gone to BSC’s £15-million investment in the multi-investor Real Lettings Property Fund (Corfe 2015; BSC 2013), owned by the Resonance group. It buys housing units in London and leases them to Resonance’s Real Lettings, which then rents them for a fixed period to homeless families and individuals, working in concert with a major London charity. (See <http://www.resonance.ltd.uk/funds/real-lettings-property-fund/>) Fund co-investors include several charities, a local authority and the City of London (Corfe 2015). In 2012, BSC also invested £2.5 million in Resonance’s new Affordable Homes Rental Fund (BSC 2013), and in 2014, it injected £1 million into Resonance’s new multi-investor Community Share Underwriting Fund. The Community Share Underwriting Fund helps communities buy local assets by underwriting asset-backed community share issues by up to 50% of the project’s fundraising target (<http://www.resonance.ltd.uk/funds/underwriters-club/>). The Affordable Homes Rental Fund provides loans to community land trusts and other community-

led groups to buy and develop properties (<http://www.resonance.ltd.uk/funds/underwriters-club/>).

Late in 2014, BSC announced a further £12-million investment in principle in another property fund, the new Cheyne Social Property Impact Fund (James 2014). The fund plans to buy or build properties and rent them out to social services organizations (Agnew 2014). (See Appendix 1 for more details.) These investments bring BSC's total direct committed investment in dedicated property-related funds to £31.6 million, or about one-sixth of BSC's total investment commitments to the end of 2014. This includes £1.1 million to the charity Commonweal Housing to buy properties, which it then leases to a partner charity to rent at a subsidized rate to destitute people (<http://www.bigsocietycapital.com/how-we-invest/commonweal-housing>).

^{xii} In 2013, O'Donohue called for a better definition of "social enterprise" for tax break purposes, saying that many of the small and medium-sized enterprises claiming to be social enterprises—and recorded as such on surveys, using the U.K. government's very broad criteria—were not. It is not clear, but he appeared to be calling for two categories of for-profits for BSC investment: social enterprises, defined more strictly, and other for-profits, which would have no limits on their distribution of profits, but which would be like "profits-with-purpose" or B Corps in having a legal form, or mechanisms built into their governance, that would protect their social purpose (IIPC 2013).

^{xiii} Only one of the 21 companies listed in the preferred bidders' list was a socially led consortium (which stood to gain about 3% of the total available funds) and had some social involvement or equity stake (BSC 2014b). All the remaining private sector consortia except one had at least one multinational member with assets in the hundreds of millions, if not billions. All bidders had to provide a parent company guarantee worth 100% of the annual contract value (BSC 2014b), which would have ruled even large charities out of the bidding. Around 75% of the subcontractors in these bids were voluntary sector or mutual organizations, but the value of the work to be assigned to them was unclear. BSC had sought to find private guarantors for socially led consortia, with no success. BSC itself offered a form of guarantee to three socially led consortia, but these were unsuccessful or dropped out (BSC 2014b).