

# Social Investment Compendium

Portfolio of research and intelligence on  
the social investment market

October 2013



#### **Disclaimer**

Big Society Capital has developed the compendium from publicly available sources and/or from research conducted for Big Society Capital by third party organisations, in order to bring together disparate information on social investment. It is not meant to be a 100% precise description of the state of the social investment market nor necessarily a statement of Big Society Capital's views on the market.

# We have pulled together available information on social investment to form this compendium

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## What is the compendium?

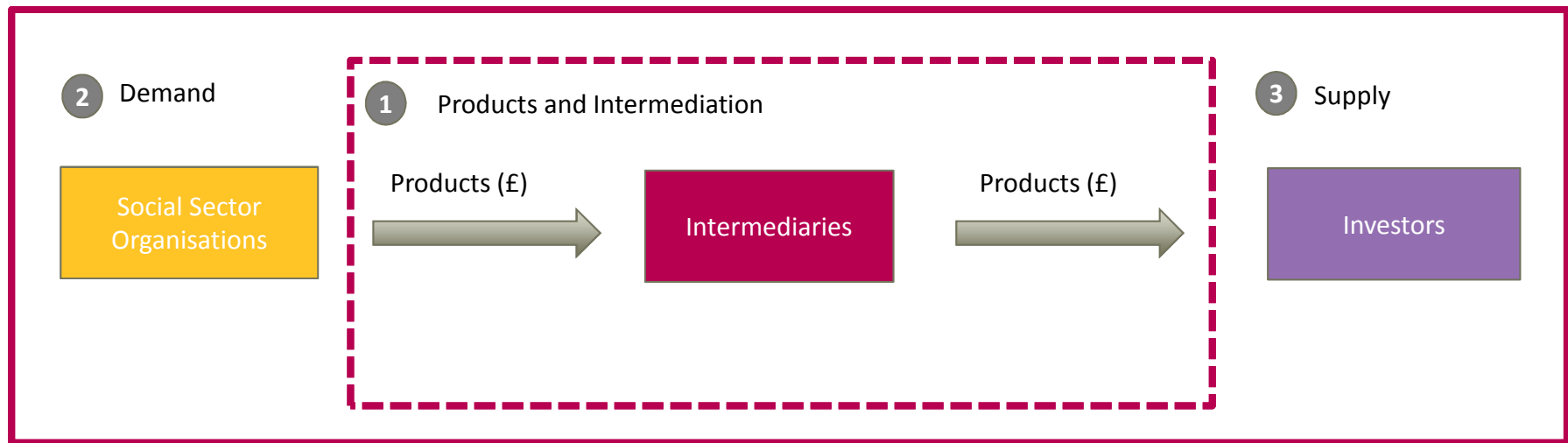
- The compendium is a collection of key pieces of research and information from across the social investment market brought together in one single document
- It tells a story about the current status of the social investment market and opportunities and challenges for further development
- It is clearly not an exhaustive collection of all existing research and information, rather it is an attempt to highlight a broad cross-section of it

## Why did we develop the compendium?

- There is a great deal of excellent research and information already in the social investment market however these have not often been collated in one place
- Big Society Capital believes that this compendium can help us better understand the broader picture of the social investment market, any existing information gaps and help begin to identify opportunities for further research and market development activities

# The compendium is structured into four sections representing distinct parts of the social investment market

## 4 Broader Environment



## Compendium Index

- 1 Products and Intermediation (slides 5 – 14)
- 2 Demand (slides 15 – 24)
- 3 Supply (slides 25 – 35)
- 4 Broader Environment (slides 36 – 45)

# Social investment is evolving, but many challenges and opportunities remain across all four parts of the market

Category	Current status	Future challenges and opportunities
<b>Products &amp; Intermediation</b>	<ul style="list-style-type: none"> <li>£202m in mostly secured lending, representing 90% of market in 2012</li> <li>Four large social banks and 16 small CDFIs make for fragmented SIFI landscape</li> </ul>	<ul style="list-style-type: none"> <li>Pricing of social investments needs more clarity</li> <li>Many traditional market infrastructure roles need to be filled</li> </ul>
<b>Demand</b>	<ul style="list-style-type: none"> <li>Finance demand gap of £300m to £1bn p.a.</li> <li>Social sector showing significant interest in social investment, with 56% Voluntary and Community Sector in England (VCSEs) expressing interest</li> </ul>	<ul style="list-style-type: none"> <li>Long-term risk-taking capital needed, particularly unsecured loans</li> <li>Small deals that are traditionally rated as low credit quality also needed by social sector organisations</li> </ul>
<b>Supply</b>	<ul style="list-style-type: none"> <li>Government has traditionally been a strong source of social investment capital but is likely to be squeezed in current economic environment</li> <li>Existing trusts/foundations capital is limited, estimated to be only around £45m in 2011</li> </ul>	<ul style="list-style-type: none"> <li>High net worth individuals could be the next investor class and could provide £480m</li> <li>New institutions, such as university endowments, housing associations, corporate foundations and local authority pension funds, could also soon be attracted to build scale in social investment market</li> </ul>
<b>Broader Environment</b>	<ul style="list-style-type: none"> <li>New social investment tax relief headlines a broad package of policy and regulatory action conducted by the Government</li> <li>Global impact investing already represents a \$9bn investment per year industry</li> </ul>	<ul style="list-style-type: none"> <li>Finance sector could play a much broader role in the market than just starting impact funds, for example, in distribution and structuring</li> <li>UK can leverage the European experience, particularly its diverse investor classes and emerging regulatory structures (e.g. EUSEF)</li> </ul>

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1. Products and Intermediation

2. Demand

3. Supply

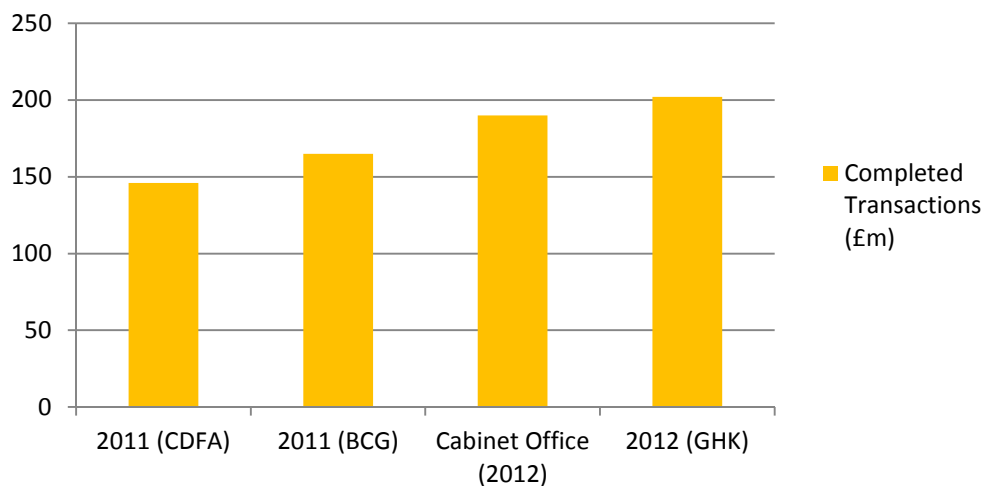
4. Broader Environment

- Size
- Products
- Finance SIFI
- Infrastructure

# Annual amount of social investments still small but the stock of investments is larger

Many studies show an annual social investment market size of between around £150 and £200m

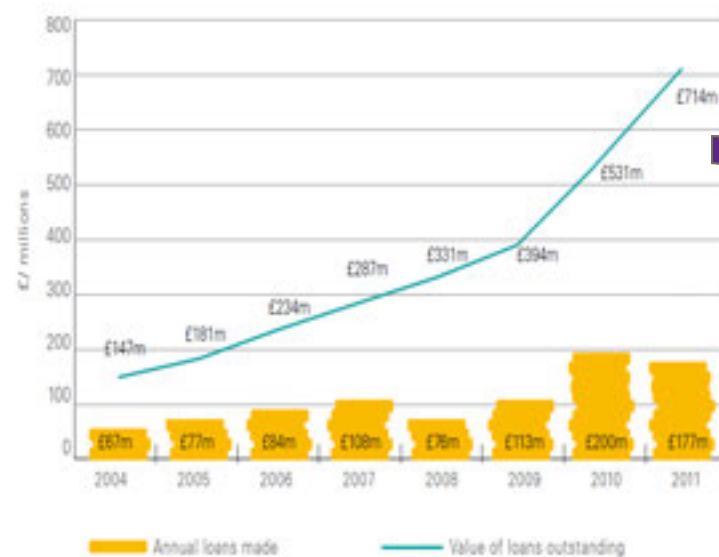
## Social Investment Market Size (£m)



- **£146m** in 2011 from CDFIs (JUST Finance, CDFA (2012))
- **£165m** in 2011 (Lighting the Touchpaper, BCG (2011))
- **£190m** in 2010 by UK Cabinet Office (Making Good on Social Impact Investment, Cabinet Office (2012))
- **£202m** in 2012 (Growing the Social Investment Market, GHK (2013))

... but even for just Community Development Finance Institutions (CDFIs), the stock of social investments is already £750m

FIGURE 2. CDFI GROWTH: LOANS MADE AND VALUE OF PORTFOLIO OUTSTANDING, 2004-2011



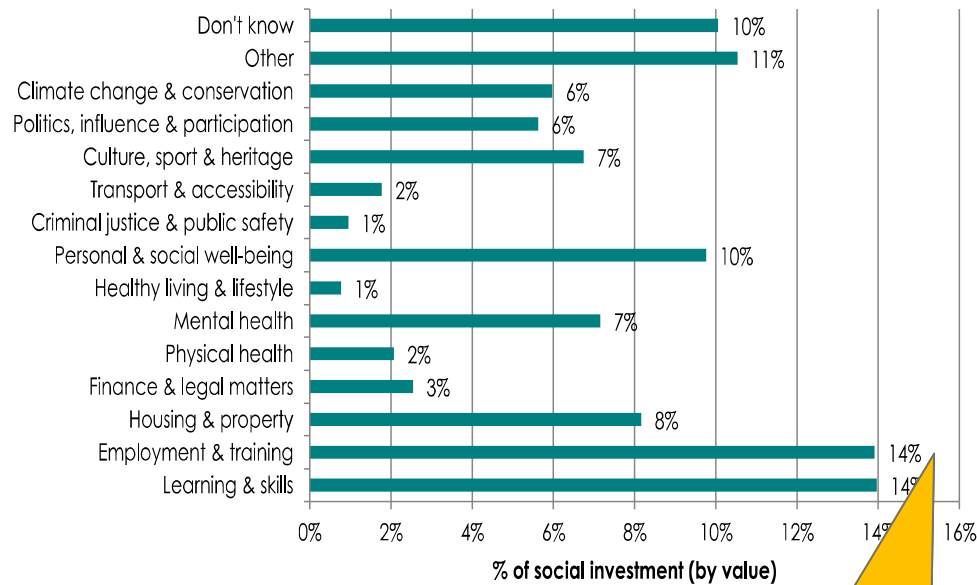
But no data currently exists on the overall stock of social investment

JUST Finance, CDFA (2012) p.11. Note:

- Whilst this £ value is dominated by CDFIs that lend to civil society organisations (approx. 80%), some individuals and businesses investment also included
- Many non-CDFI SIFs also exist that could increase the size of investment – GHK (2013) provides that only 19 out of 29 surveyed identified themselves as SIFs

# The market is diverse in terms of outcome areas but not in terms of products

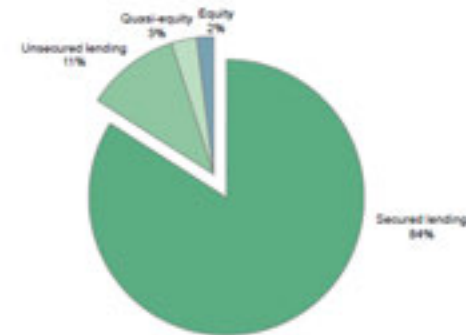
No one social outcome commands more than 14% market share...



Growing the Social Investment Market, GHK (2013), p.26

Employment & training and learning & skills are the largest outcomes invested in at 14%

... however diversity lacks across financial product types with secured lending increasing its dominance



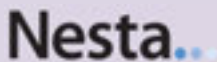



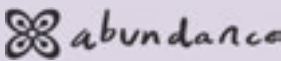
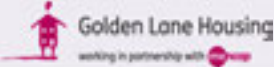

And in 2012:

- Unsecured lending decreased to 5% of total market
- While secured lending increased to 90% of total market

Lighting the Touchpaper, BCG (2011) p.12  
Growing the Social Investment Market, GHK (2013), p.22

# Recently, a wider range of lending products have become available

## Social Impact Bonds had led the development of a variety of new investible opportunities for social investors

Product Type	Investment type	Duration (approx)	Likely return profile (p.a.)	Minimum commitment (£) (approx)	Notable example	Finance SIFI
Impact funds (general)	Limited Partnership	Up to 10 years	5-10%	£125,000	Impact Investment Fund	
Impact funds (specialist)	Limited Partnership	Up to 10 years	5-10%	£125,000	Social Impact Bond Fund	
Venture capital trust (VCT) funds	Fund contribution	Minimum 5 years	5-10%	£2,000	Social Impact VCT*	
Social impact bonds	Debt & equity	Minimum 3 years	Up to and above 10%	£100,000	Essex County Council SIB	
Direct investment	Equity, debt	Any	Up to and above 10%	£Any	Resilient Energy Great Dunkilns	
Charity Bonds	Debt	Minimum 3 years	4%	£2,000	Golden Lane Housing bond	
Deposit Accounts	Cash deposit	Fixed term (3 to 10 years)	3 to 6% currently	£Any £10,000 for CITR product	Charity Bank deposit account	

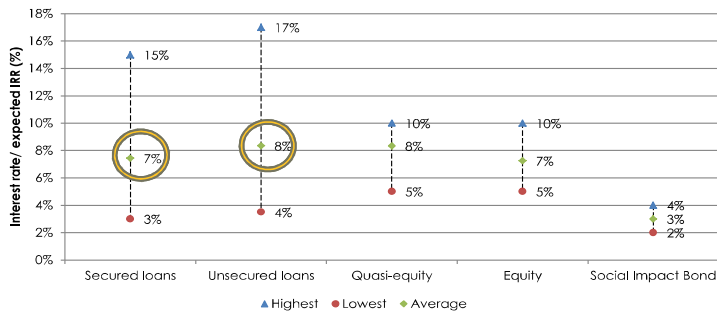
Note that the above table provides only reports of anecdotal evidence of key information relating to social investment products and has been compiled entirely from public sources.

\*Social Impact VCT now closed



# Pricing process is undeveloped – it is difficult to compare to mainstream SME market

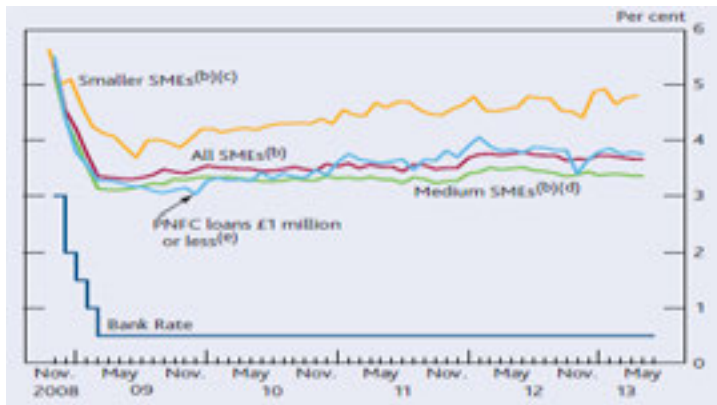
**Social investment pricing defies conventional wisdom in not varying significantly between product/risk types**



Base = 14 (secured loans); 13 (unsecured loans); 3 (quasi equity); 4 (equity); 2 (SIB) SIFs.

Growing the Social Investment Market, GHK (2013), p.24

**Aggregate data suggests lending to small SMEs may be at a slightly lower rate**



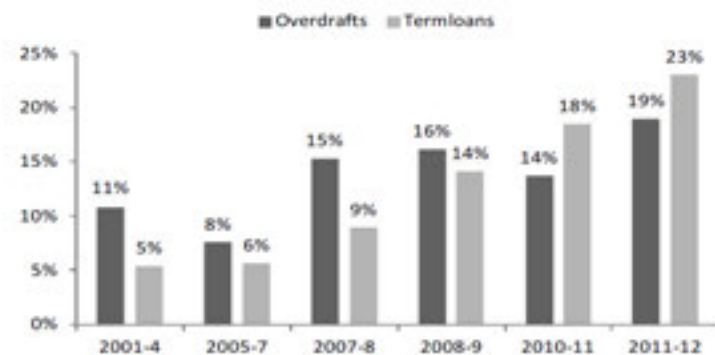
Trends in Lending, Bank of England (2013), however these rates do not differentiate for security or term

**However, anecdotal evidence suggests lending rates for similar types of businesses may be higher**

Institution	Stated Price	Term	Security
Santander	7.9 to 12.9%	12 to 60 mths	Possibly
HSBC	From 7.9%	12mths to 10 yrs	Possibly
Funding Circle	7.1% to 9.4%	6 mths to 5 yrs	Personal guarantee
FSE group	5% to 9%	2 to 5 yrs	Required

Advertised business loans offered from public websites

**Increasing bank lending rejection rates may also further complicate this pricing picture**

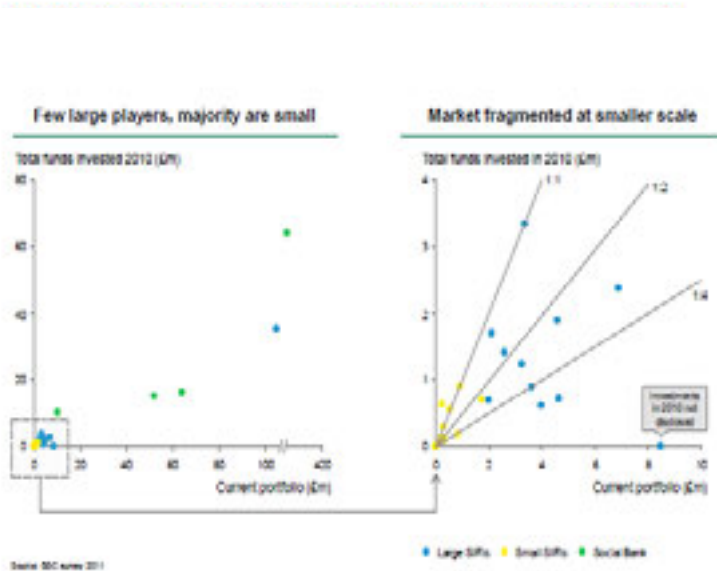


Evaluating Changes in Bank Lending to UK SMEs Over 2001-12, NIESR (2012)



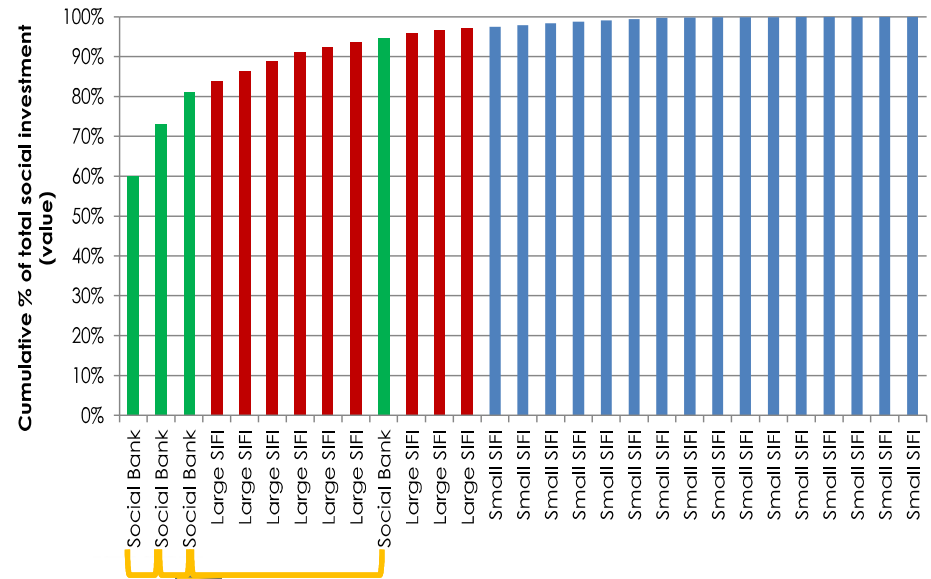
# The current intermediary landscape is fragmented – dominated by social banks...

Few large SIFs have most investment, smaller market fragmented



Lighting the Touchpaper, BCG (2011) p.9

4 social banks and 9 large SIFs together made more than 97% of the annual social investment



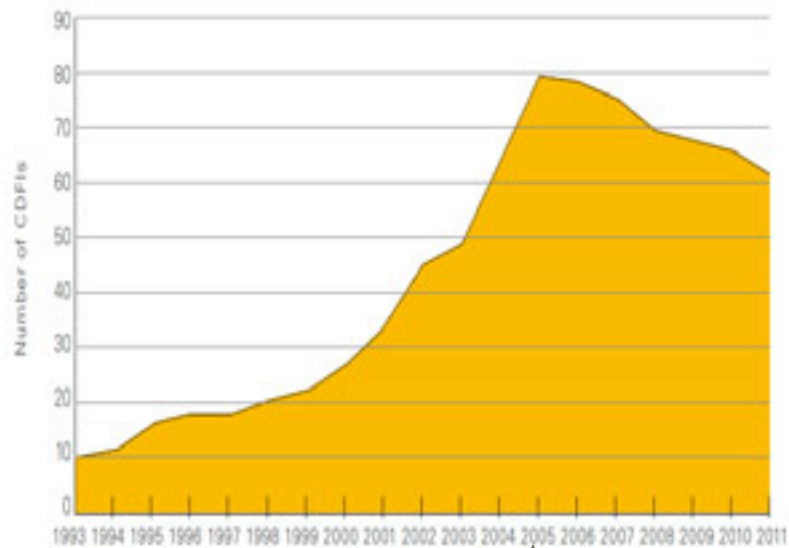
Growing the Social Investment Market, GHK (2013), p.10

The four large social banks are:



# ... and the long tail of small SIFs is mostly due to the large number of CDFIs

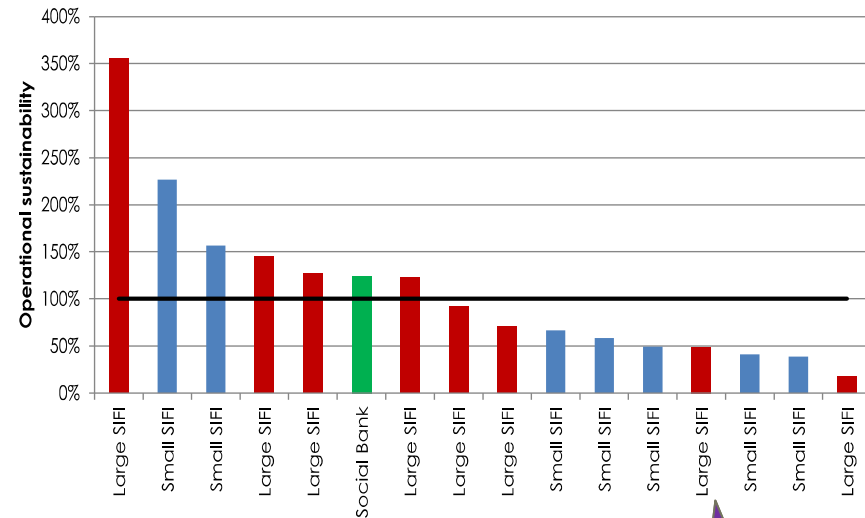
## The number of CDFIs has peaked and is in decline



Mind the Finance Gap, GHK (2012)

There were almost 80 CDFIs in 2005 but now only 60

## Many of the small SIFs are unprofitable



Growing the Social Investment Market, GHK (2013) p.28

Note: Small SIFs means those organisations with less than £1m investment per year

Performance is quite varied across SIFs with small SIFs struggling the most

# In 2013, at this early stage of market development, more infrastructure is needed

We may be in the “marketplace building” phase of the social investment market



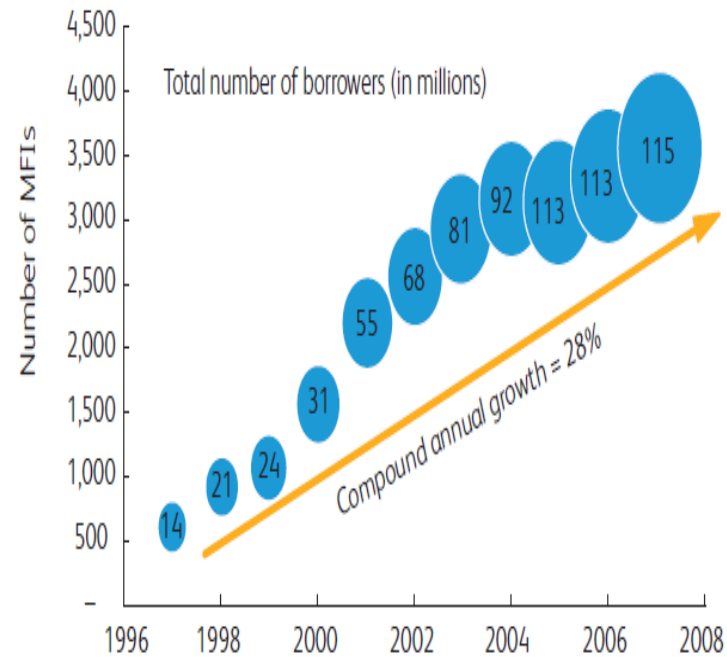
Adapted from Investing for Social and Environmental Impact: Monitor Institute, 2009

Cited in Investor Perspectives on Social Enterprise Financing, ClearlySo, (2011) p.121



The Social Investment Taskforce: Ten years on, SITF (2010) p.12

To mirror the trajectory of development of other markets, such as microfinance...



... lessons can be learned about the infrastructure useful for market development

The Impact Investor’s Handbook: Lessons from the World of Microfinance, CAF Venturesome (2011), p.6

# Much of the traditional infrastructure is still lacking for social investment, particularly data

## Well-functioning markets need key characteristics embodied in traditional infrastructure pieces

## Currently however provision of these roles is limited

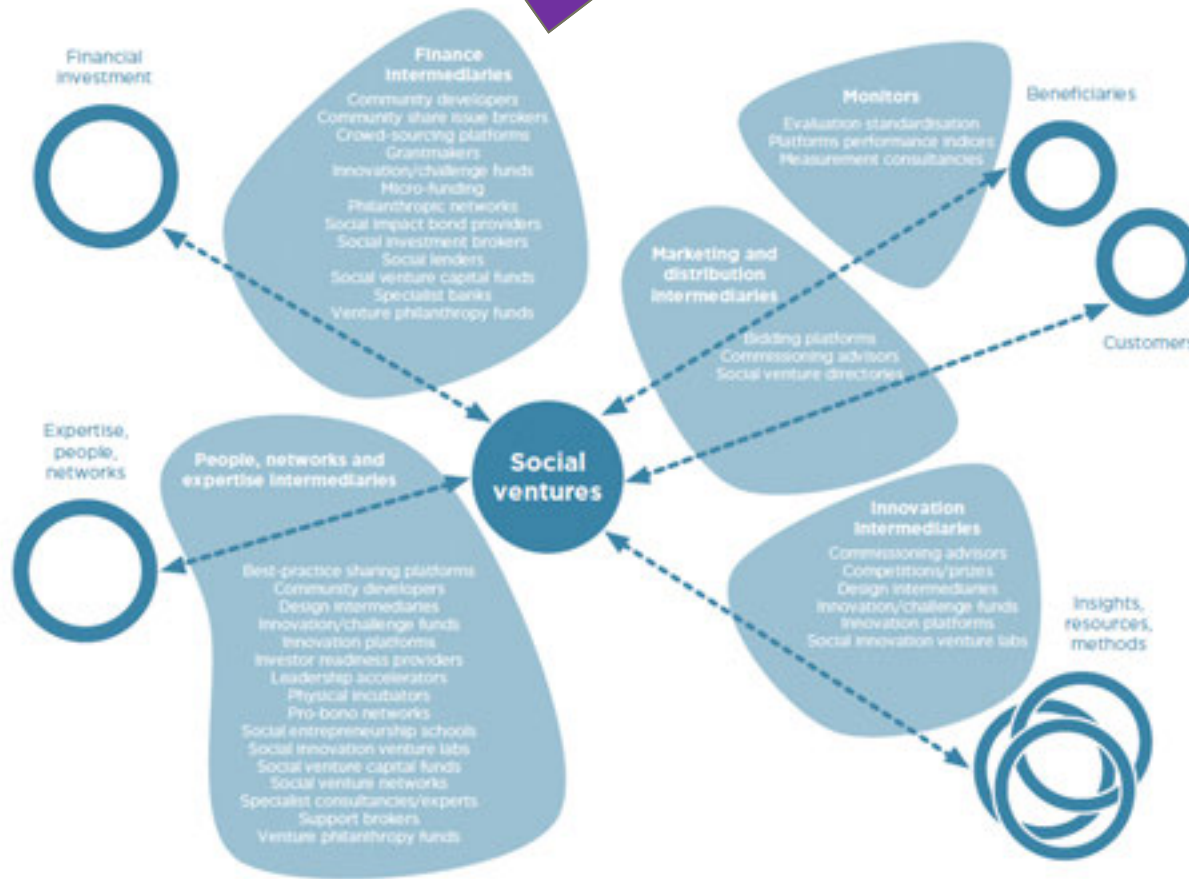
Characteristics of a well-functioning market (or better place)	Potential supporting infrastructure	Current provision
Large number of <b>buyers</b> (e.g. more confident demand) and <b>sellers</b> (e.g. more diverse supply), no barriers to entry.	Authorized brokers and advisors with local, regional and national reach, signposting, pitch events, filters, referrals, etc. NB: distinction between advisers and arrangers.	Limited - ICRF, BLF, ClearlySo play a role with SIFIs themselves providing some of these functions
Standardised and more complete range of <b>products</b> appropriate to diverse needs of demand and supply.	Product developers, at both levels.	Limited – BLF’s Next Steps program
Better quality, more balanced <b>information</b> , benchmarking, research and market intelligence	Data capture, IV&T, assurance and indices, standard setters	Limited - EngagedX is emerging
	Research houses	Some – including ClearlySo, GHK, NPC, NCVO and SEUK
	Product reviewers and media	Limited - Worthstone and Good Analyst
Lower <b>transaction costs</b> (both for those applying for investment and those undertaking due diligence and at both levels)	Sharing services and collaboration mechanism, providers of standardised legal documentation, etc.	Limited
<b>Language and culture</b> shared and proportionate to market activity	Representative trade body	None, although some overlap with CDFI, UKCFA and SEUK’s social investment forum
	Education, skills and training providers	None
Better <b>risk pricing</b> and understanding of social return	Rating agencies	None
Some <b>liquidity</b> (opportunity for exit) and better risk management	Platforms and exchanges	Emerging – Social Stock Exchange and Ethex, Abundance, Microgenius and ImpactBase

Data is a very commonly cited need

All the information in this slide is from Angels in the Architecture, Common Capital (August 2013) p.23-24

# In the long-term, a successful market may need to look outside traditional view of infrastructure

Figure 7: Five key roles of intermediaries



**SIFs**  
Traditional finance SIFs

- OTHER TYPES OF INTERMEDIARIES (and examples)**
- MONITORS**
    - SROI network, GIIN, SustainAbility, NPS, SE100
  - MARKETING AND DISTRIBUTION**
    - 3SC, Young Foundation, Innovation Unit, Social Firms Directory
  - PEOPLE, NETWORKS AND EXPERTISE**
    - Cooperatives UK, DTA, Energy4All, Think Public, The Hub
  - INNOVATION**
    - X Prize, NESTA Big Green Challenge, Social Innovation Camp, Shaftesbury Partnership, UnLtd/BVC

Growing Social Ventures, Young Foundation (2010) p.21

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2. Demand






3. Supply

4. Broader Environment

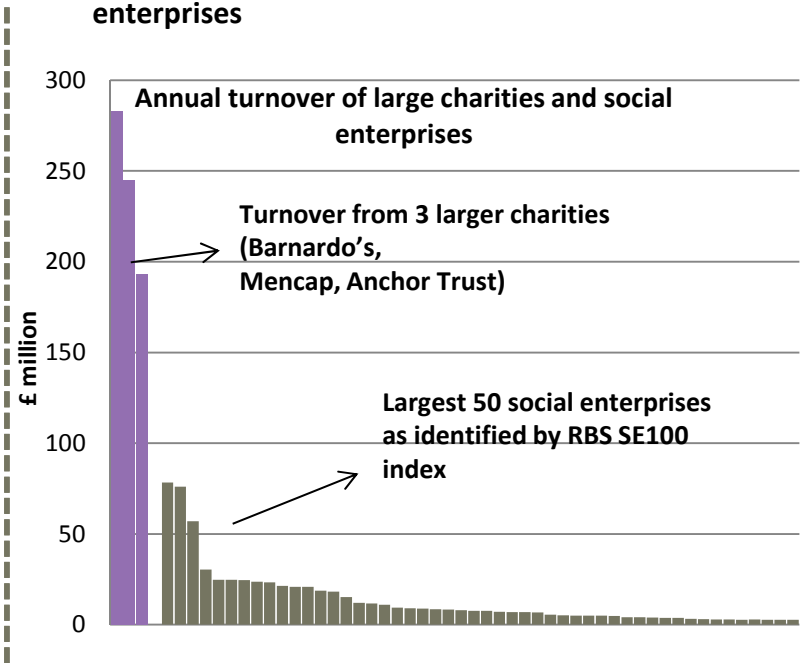
- Overview
- Finance gap
- Segmentation

# The “social sector” is bigger than people think, with some large individual organisations

There are many examples of large social sector organisations with significant revenues

Org	Turnover	Activity	Structure
 Mencap	£193m	Services and information for people with disabilities	Charity
 Age UK	£156m	Care services, information, products, training and research	Charity with social enterprise arm
 CR1	£81m	Drug recovery and criminal rehabilitation interventions	Charity
 Plymouth Community CARE	£90m	Community health care services (NHS spin-out)	Community Interest Company (CIC)
 GLL	£76m	Community leisure and fitness facilities	IPS (BenCom)

Large charities are in a different league to large social enterprises



Public sources and RBS SE100 index

## Social sector statistics demonstrate significant impact

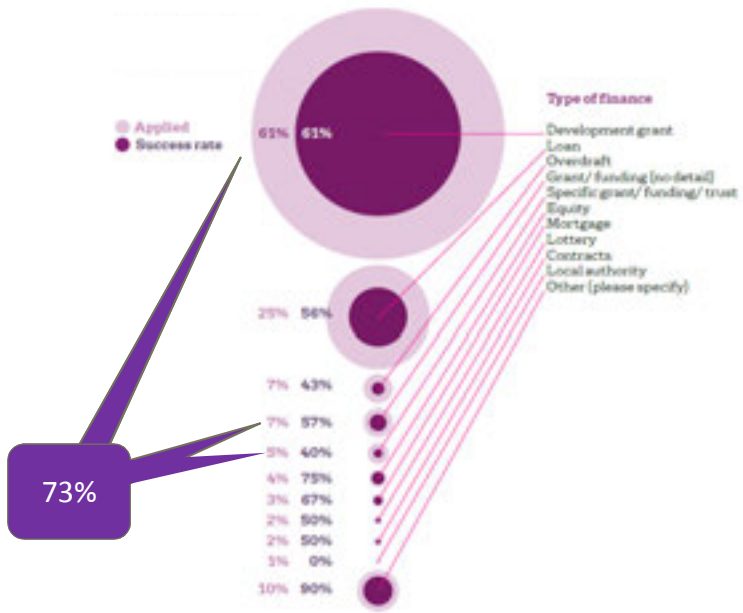
- ✓ 900,000 social sector organisations in the UK
- ✓ Conduit for nearly 20 million adults who volunteer each year
- ✓ Employment in charity sector is 765,000 and employment in the social enterprise sector is 800,000

UK Civil Society Almanac, NCVO (2012), Government estimates from BIS Small Business Survey, BIS (2010)



# Whilst grants are understandably still the preferred source of capital ...

In 2010, at least 73% of social enterprises applied for some form of grant funding



Fightback Britain, SEUK (2010) p.47

And in 2012:

- Applications for grants rose to 89%
- While applications for loans dropped to 20%

The People's Business, SEUK (2010) p.62

Government and trusts and foundations are the targets of 60% of all funding applications



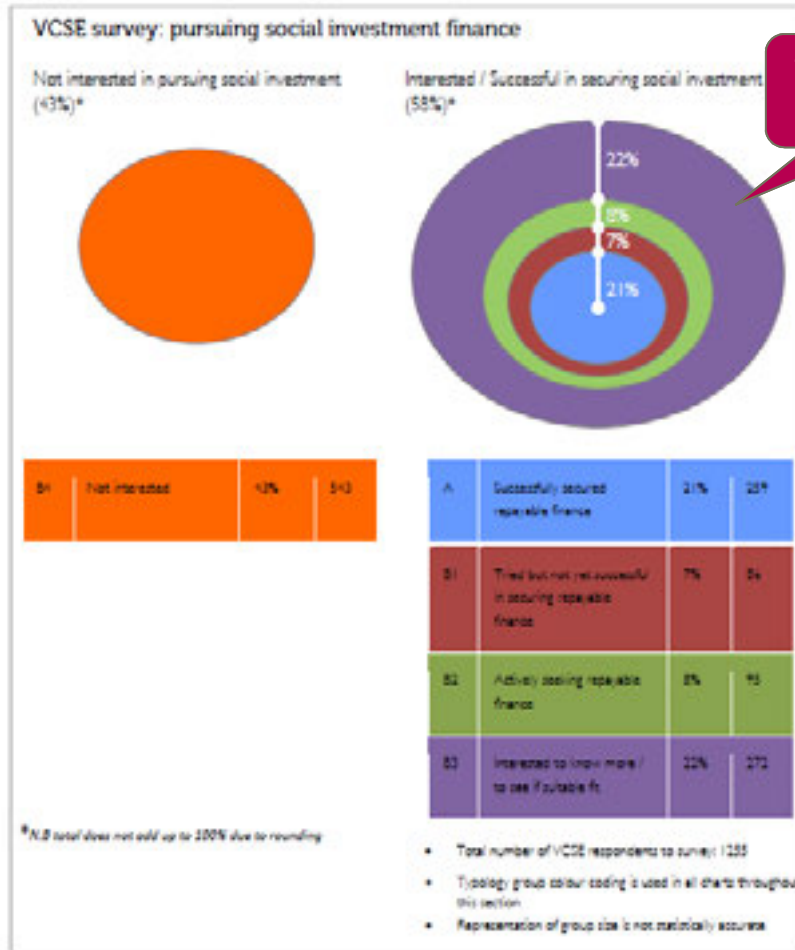
Fightback Britain, SEUK (2010) p.47

Less than a quarter thought about finding finance from social investors

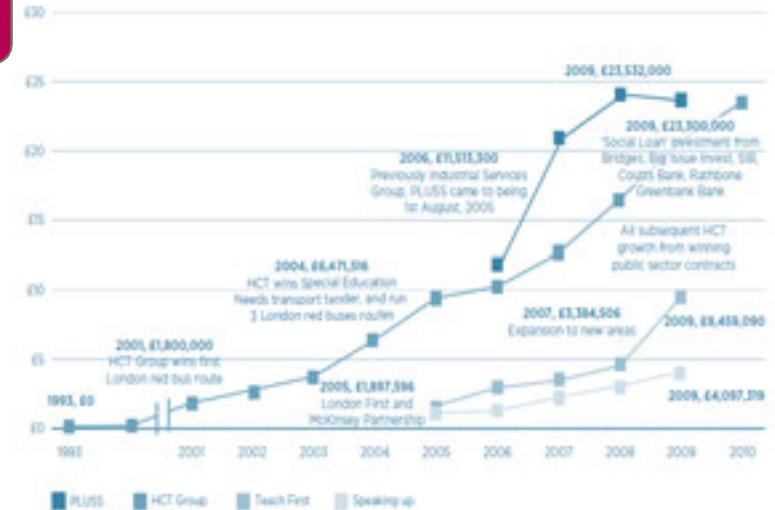
# ... many SSOs are showing an interest in social investment

## Surprising high amount of interest in social investment

## Prominent examples of successful use of social investment have proven the model can work



58% interested in social investment



Source: Charity Commission, Venture annual reports

Growing Social Ventures, Young Foundation (2010) p.15



A "poster-child" for social investment, HCT, provides over **12 million passenger trips** in the social enterprise bus company every year

# Various guesses exist about the gap in financing for SSOs now and in the future

Estimates of the demand gap range from over £1bn annual finance gap (estimated by CDFA) ...

Community Finance Market	Total potential value of annual demand (£b)	Total potential annual number of clients
Businesses	£1.2b	103,000
Civil society organisations	£0.9b - £1.7b	57,000
Individuals	£3 - £5.5b	8,000,000
Homeowners (excluding the Green Deal)	£0.25b	21,000
<b>TOTAL</b>	<b>£5.45b - 6.75b</b>	<b>8,181,000</b>

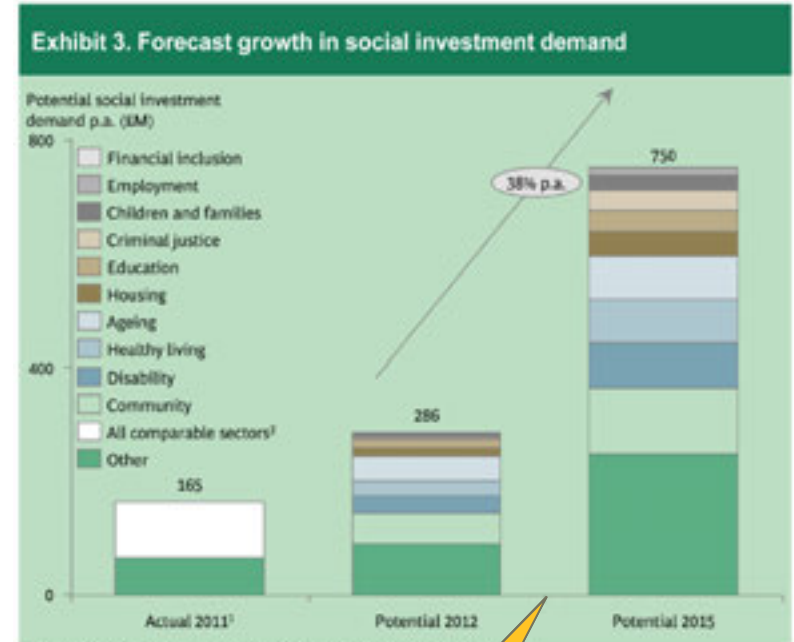
Mind the Finance Gap (2013), p. 6. Note: This is taken from BSC's submission to the European Commission (2011) Notification of State Aid Approval – Big Society Capital

... down to £300m estimated by NESTA

Benefits	Benefits estimate	Financial inclusion
Hard, or commercial, capital to lend on to/invest in businesses Capital not used to support the intermediary, but to invest in the business. It can be loans, shared by facilities, equity. This capital can earn commercial returns commensurate with risk over years.	Gap: £50 million to £75 million potentially in three years. Gross need: c. £300 million to £400 million over next three years.	Not required.
Soft, non-commercial capital to lend on to/invest in businesses Again, this is not used to support the intermediary. It can be loans, shared by facilities, equity. But this capital may not earn commercial returns.	Gap: £50 million to £100 million Gross need: c. £200 million to £300 million over next three years.	Gap: up to £84 million over the next three years.
Capital to fund intermediary capitalisation This is capital which stays with the intermediary to allow it access to other finance. It mainly yields commercial returns.	Gap: £20 million, if BSC can share burden, £40 million if not. Gross need: c. £50 million over next three years.	Only required under certain circumstances.
Capital to fund intermediary overheads The risks on these requirements to seek, but BSC believes that the objectives here should be for positive sustainability. BSC would not like to see demand for this type of funding perpetually regenerated, unless the social impact arguments are compellingly persuasive.	Gap: £15 million to £20 million over next three years, which is also the gross need.	Gap: £7 million to £16 million over next three years.
Capital to build capacity of the sector In the case of credit unions, this may be to pay for mergers and the creation of a Central Services Organisation.	Unquantified.	Gap: £22 million to £25 million over next three to five years.
Capital to develop new products	Gap: £20 million if the BSC share burden. Gross need: c. £50 million over next three years.	Not required.

Understanding the Demand and Supply of Social Finance, NESTA (2012) pp.13-14

Potential demand is forecast to grow strongly



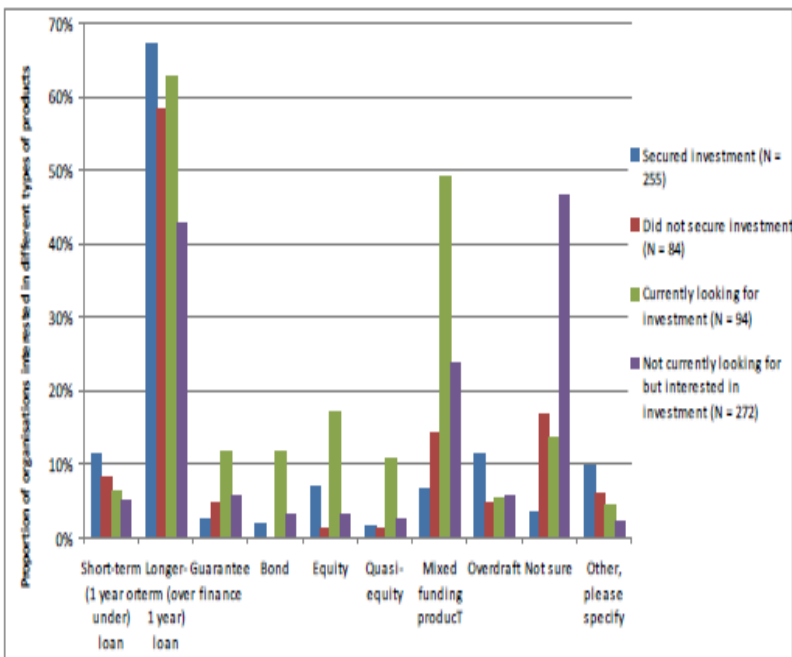
1. From Lighting the Touchpaper: Growing the Market for Social Investment in the UK and  
2. Sector breakdown in Lighting the Touchpaper not fully aligned to the sector breakdown used in this report

The First Billion, BCG (2012) p.9

38% per year growth until £750m by 2015

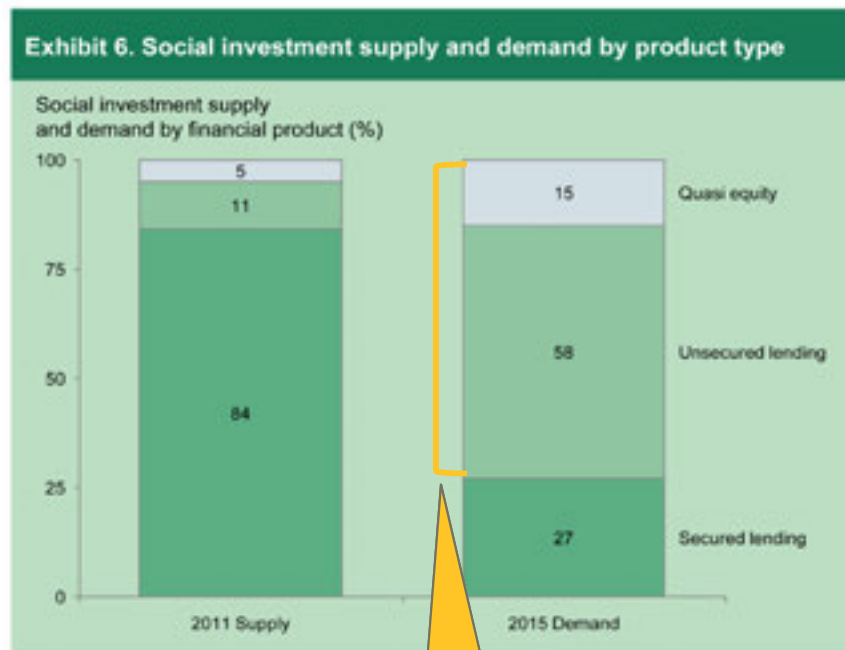
# There is a significant SSO need for long-term and risk-taking capital

Longer-term loans are demanded by SSOs, as well as innovative funding cocktails



Investment Readiness in the UK, BLF (2012) p.31

Unsecured lending and quasi-equity demand set to be much greater than supply

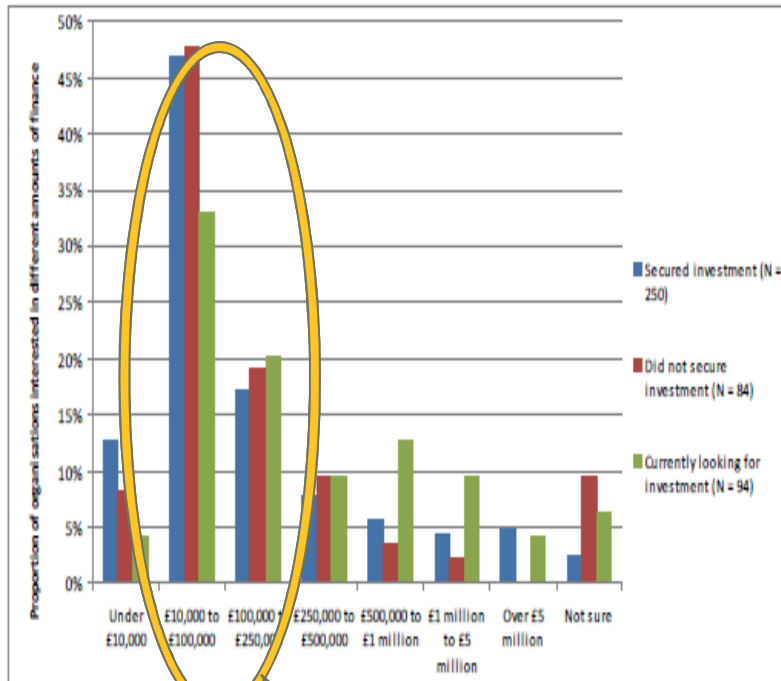


The First Billion, BCG (2012) p.16

73% of capital required needs to be risk-taking

# Another substantial SSO need is for small deal sizes rated as low credit quality...

Demand is strongest for loans £10k to £250k

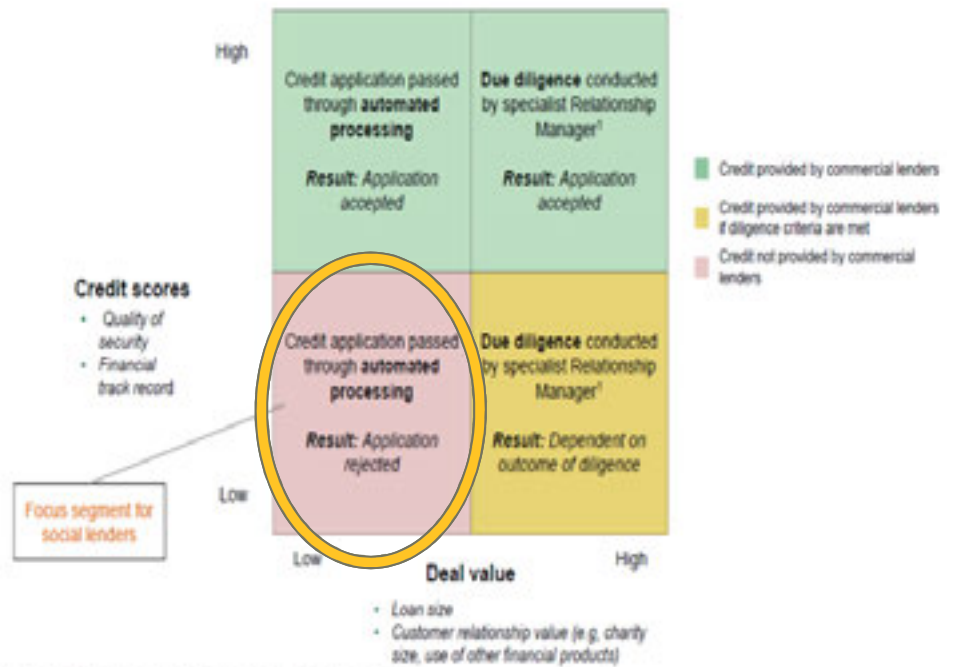


Investment Readiness in the UK, BLF (2012) p.32

SEUK survey also confirms need for investment of £150k (median loan size)

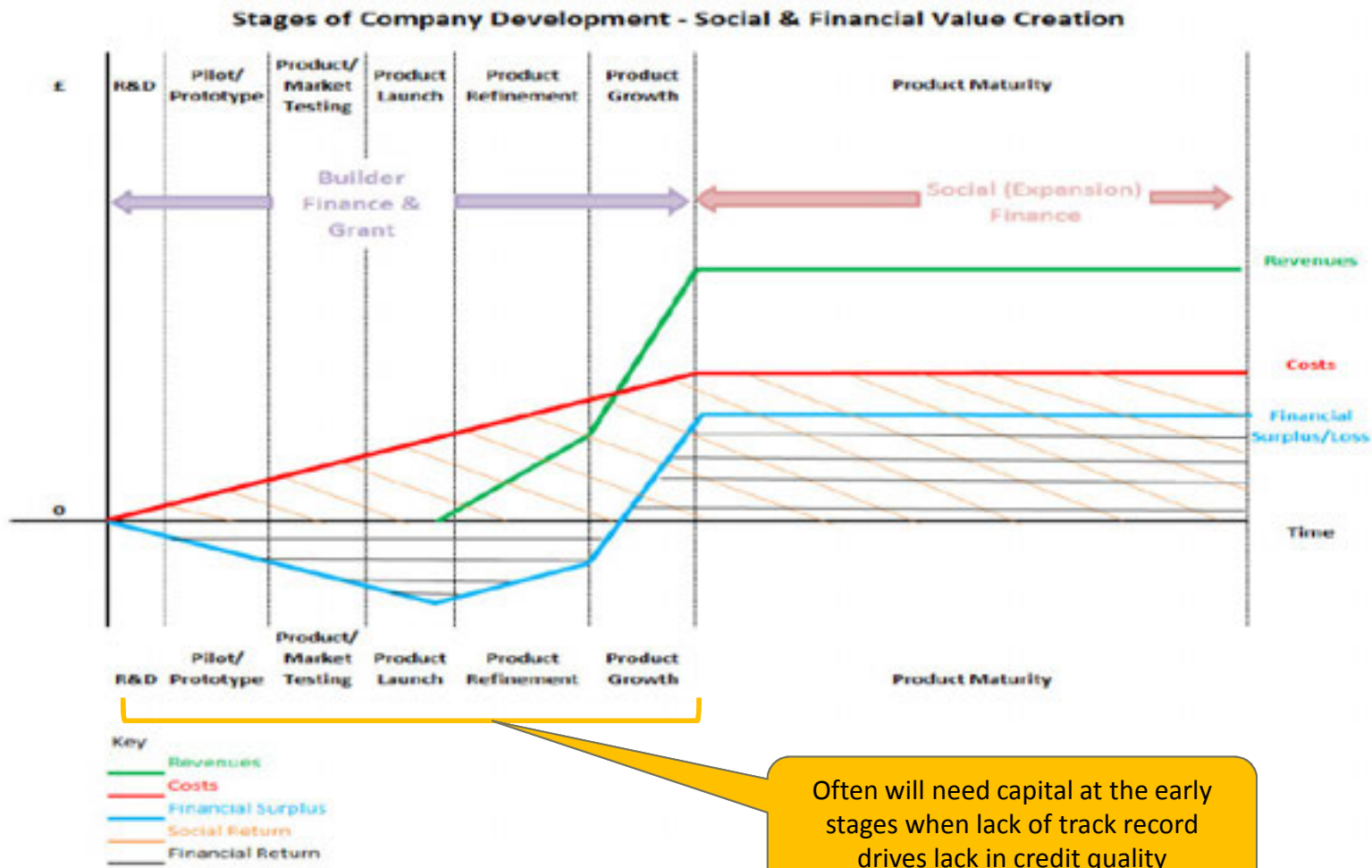
The People's Business, SEUK (2013) p.62

Surveys indicate that small deals without quality security or track record are the most neglected by existing lenders



Internal analysis conducted for BSC (2013)

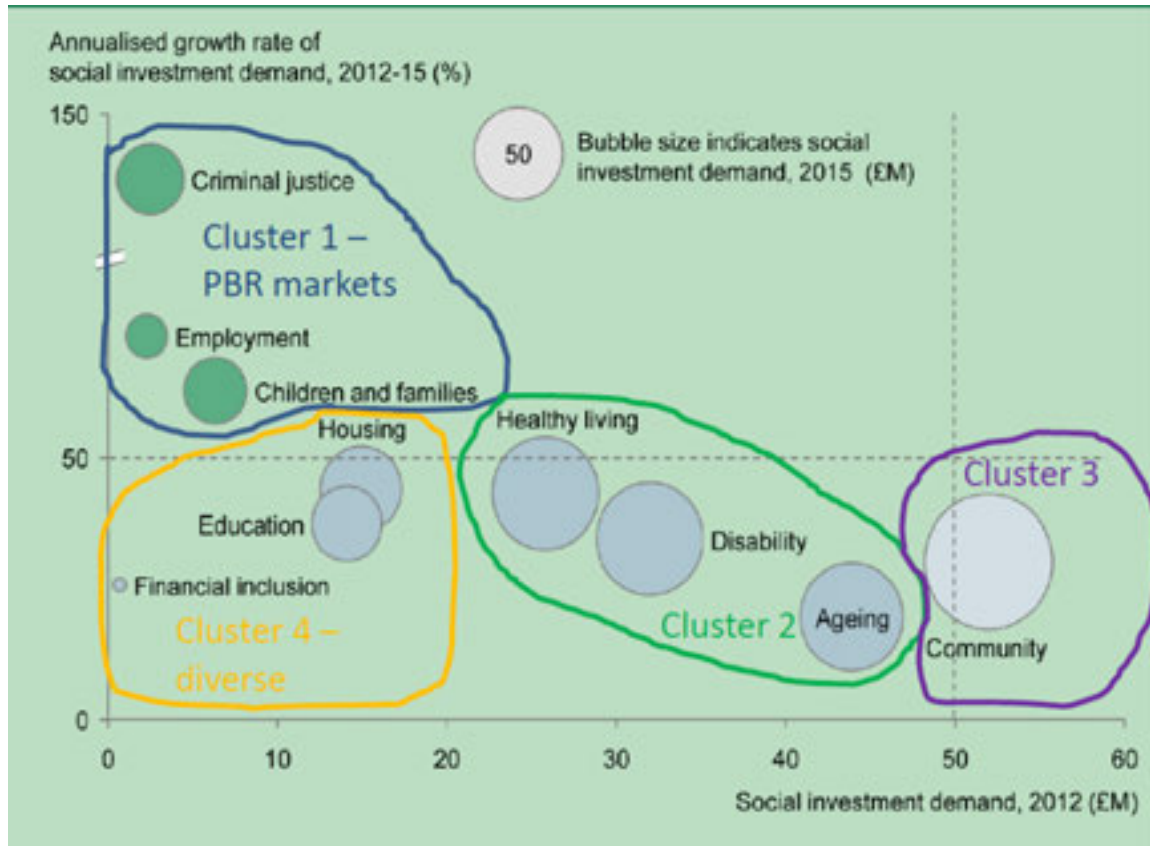
# ... what some commentators have termed “Builder Finance”



Can Social Finance Meet Social Need, Tomorrow's People (2013), p.18

# It is also possible to consider demand across different social sectors...

Four distinct and large clusters of demand for social investment exist



The First Billion, BCG (2012) p.13

Some leading organisations already thinking about these opportunities in different clusters

Justice - Probation Reform



Health social enterprise investment



Community – How to help buy assets



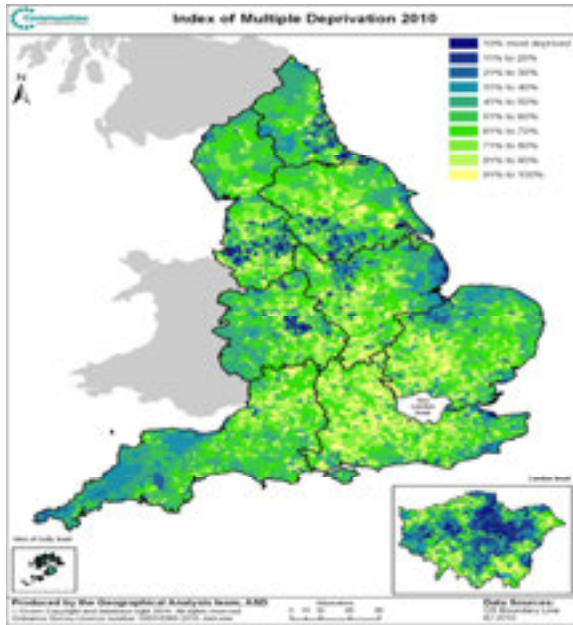
Diverse - Expanded CDFI



SSOs in communities, justice and health will need much social investment to thrive under the coming public service reform

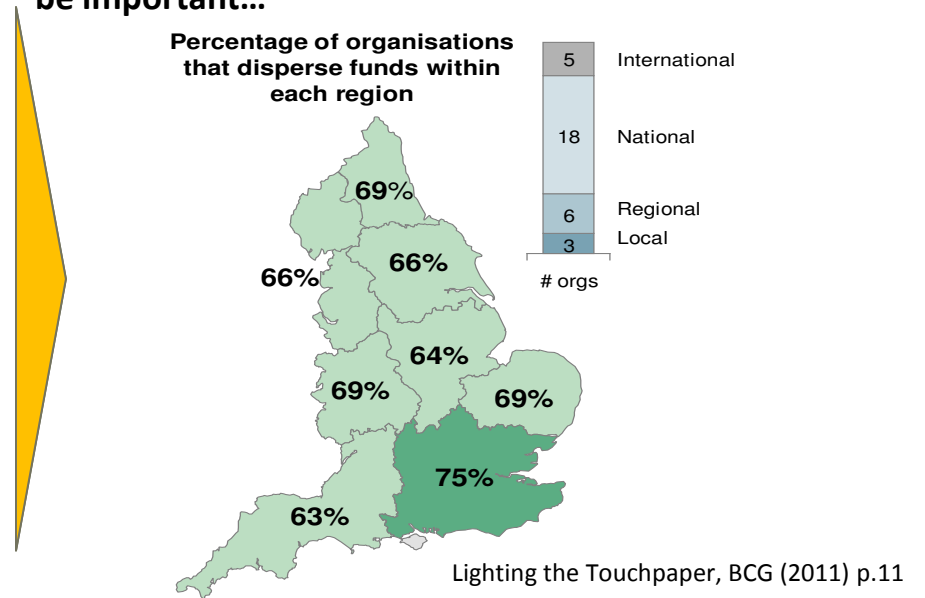
# ... and parts of the UK in most need of social investment

Demand may be greatest in areas of higher deprivation or social need ...



English Indices of Multiple Deprivation, DCLG (2010) p.4

Whilst many SIFIs already look nationally, ensuring social investment matches the most deprived areas will be important...



And social enterprises are often found in these regions...

Band	1	2	3	4	5
Social enterprises <sup>23</sup>	38%	26%	14%	9%	7%
SMEs	12%	19%	21%	26%	22%

Most deprived ← → Least deprived

The People's Business, SEUK (2010) p.62

... and devolved administrations





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2. Demand

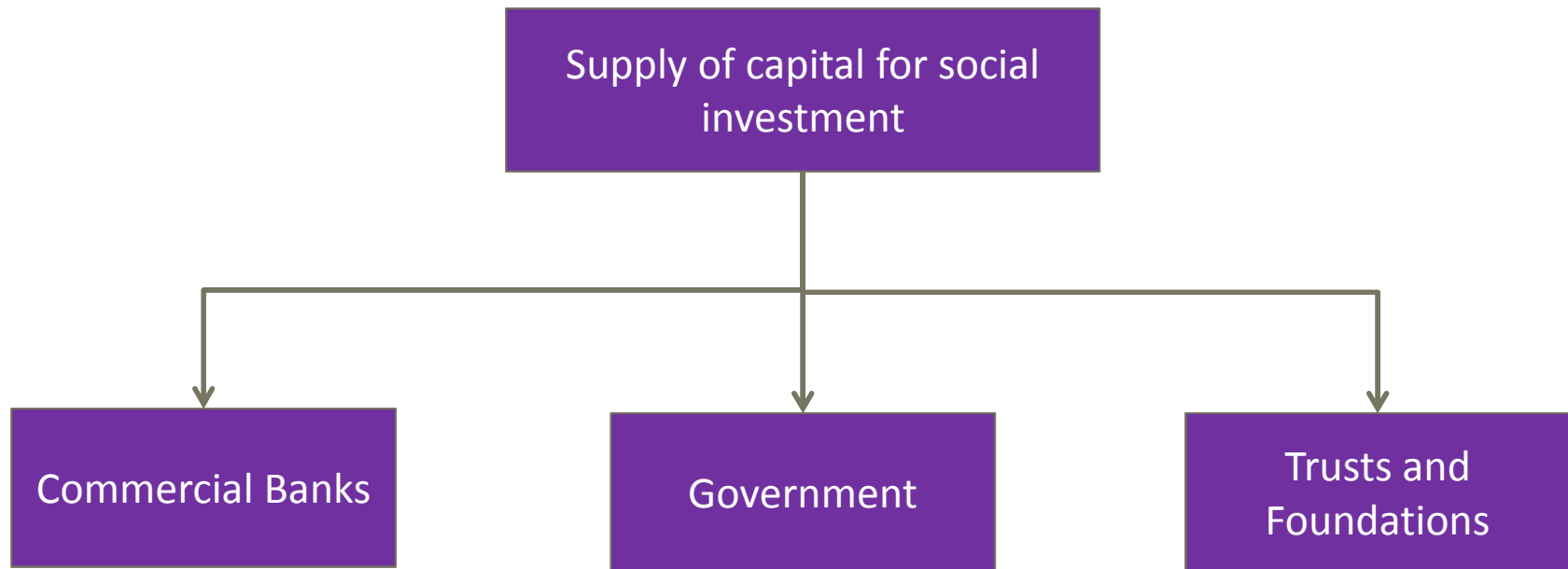
3. Supply

4. Broader Environment

- Early experience
- Model
- Future investors

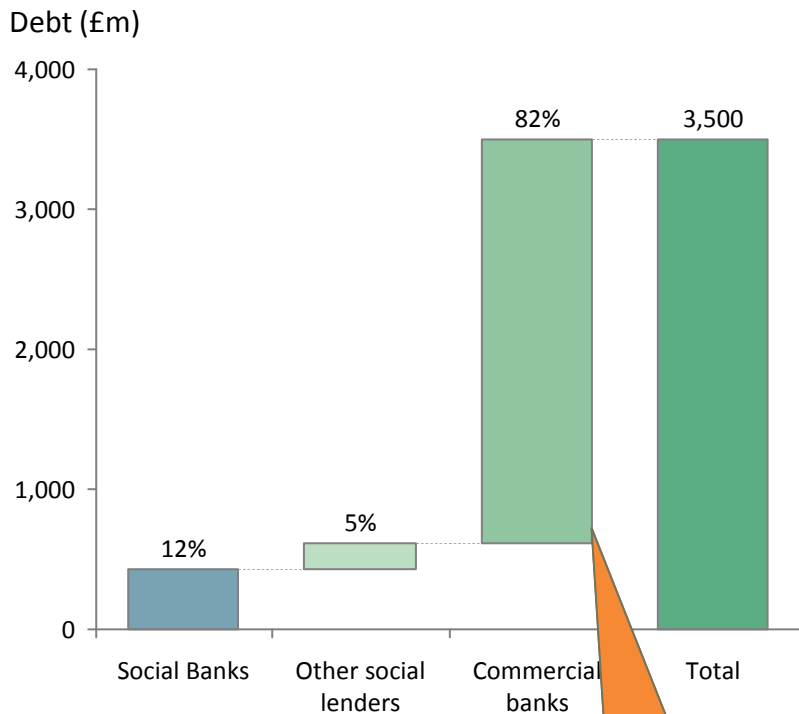
# Traditionally, social investment has been supplied from banks, government and trusts and foundations

Historically there have been three major sources of social investment capital



# Commercial banks account for the largest share of investment into the social sector

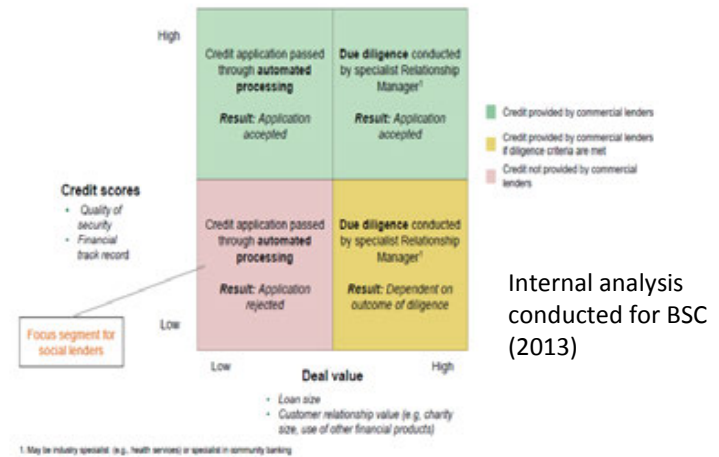
~82% of £3.5B charity debt provided by commercial lenders



NCVO Civil Society Almanac, NCVO (2012), company websites, annual reports, consultant analysis, as provided in internal analysis conducted for BSC (2013)

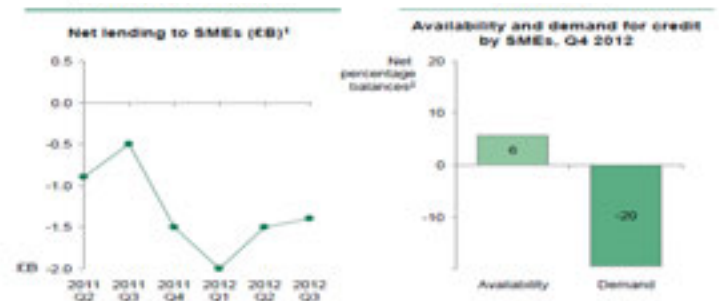
Interesting how much debt commercial lenders are actually providing

Banks however don't target key segments of the social sector that need capital



Internal analysis conducted for BSC (2013)

And in current economic conditions, this is unlikely to change

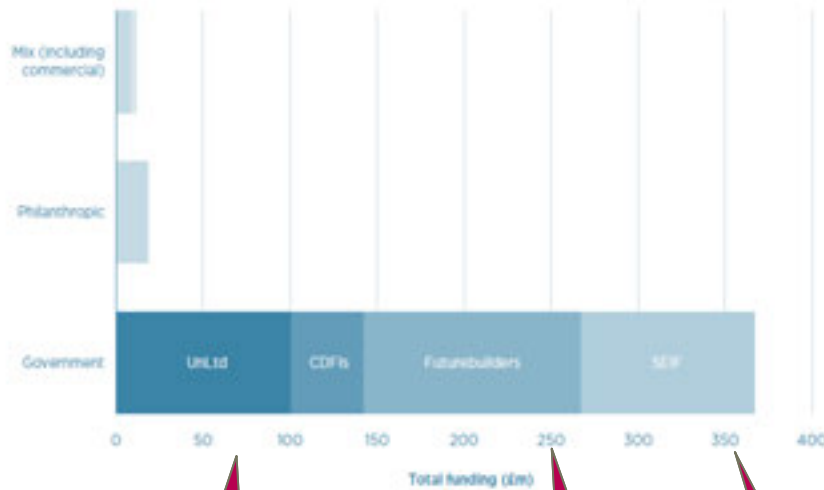


<sup>1</sup> Gross lending minus repayments. <sup>2</sup> Based on surveys by Charities Aid Foundation and NCVO. Source: Financial Lending (Bank of England, Jan 2013); Credit Conditions Survey (Bank of England, Q4 2012); ONS, press releases



# Government has traditionally been an important supplier of social investment, but is retreating

Government grants are drying up, and remaining amounts focused on “soft” capital



Source: Social Investment Task Force, 10 years on, Social Investment Task Force (2011)

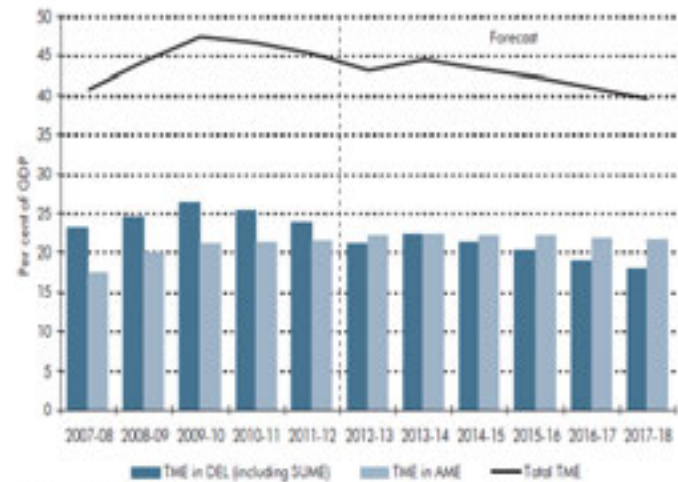
One-off endowment closed

Funding closed

Funding almost closed

As cited in Growing Social Ventures, Young Foundation (2011)

With overall Government spending squeezed, expansion of funding is unlikely

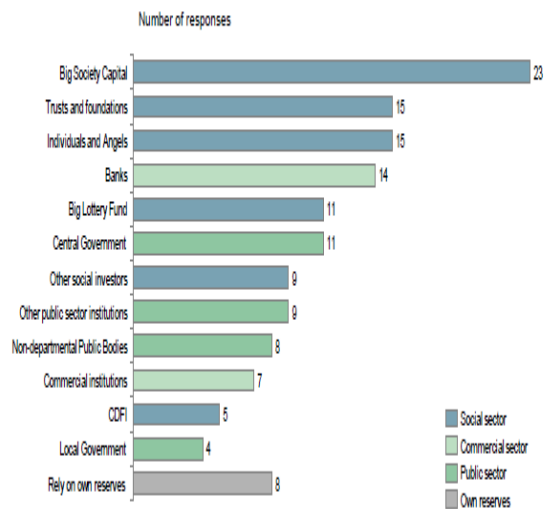


Source: ONS, OBR

Economic and fiscal outlook, OBR (March 2013)

# Trusts and foundations have been pioneers but only have limited resources

**Beyond BSC, SIFs are really looking to trusts and foundations for capital**



Note: CDFI here refers to those CDFIs that are not social banks  
Source: BSC survey 2011

Lighting the Touchpaper, BCG (2011) p.16

**But anecdotal evidence suggests that only £45m trust/foundation capital is available in near term**

Trust	Identified current investment fund size (£ millions)	Date established	Value of investments made to date (£ millions)
Esmée Fairbairn	20	2008	14 <sup>(1)</sup>
CAF Venturesome	10 (current)	2002	22
Lankelly Chase	5	2009	1.38
Panahpur	6 <sup>(3)</sup>	2010	1.2 <sup>(2)</sup>
Sainsbury Family Charitable Trusts	Not ring fenced; depends on Trust within the SFCT group	n/a	>£1m

Sources: gained from interviews with charitable foundations and from their annual reports, where appropriate

Note: This is a snapshot of known funds and is by no means exhaustive; new funds may be emerging all the time; 15 UK trusts invested in the Social Impact Bond Pilot, so there is possibly more activity than may be ring fenced in MCI budgets

(1): £9m drawn down; £5m more allocated; also some double counting as a £2m of Esmée Fairbairn funds are invested in CAF Venturesome

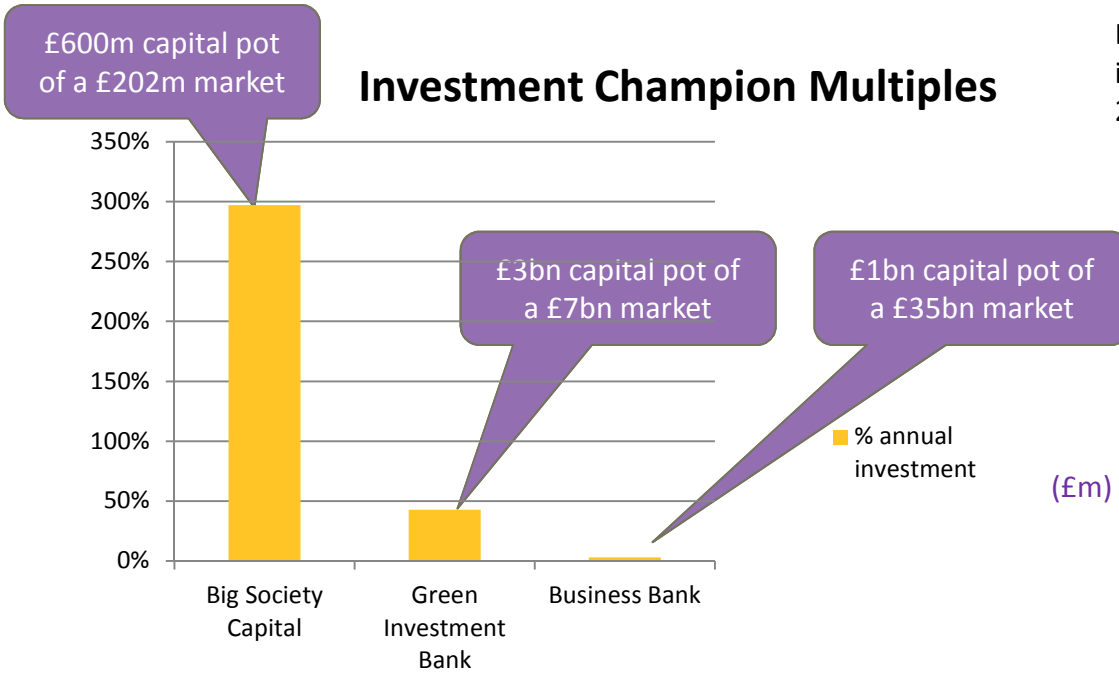
(2) £1m committed, not yet spent

(3) Panahpur is seeking to use 100% of its £6m endowments for social investment

Cited in Investor Perspectives on Social Enterprise Financing, ClearlySo (2011) p.58

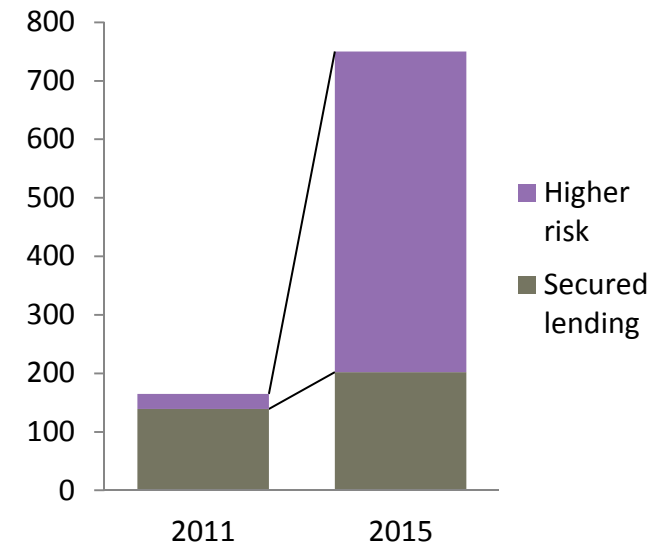
# Even BSC's large supply-side intervention will not be sufficient by itself

BSC's £600m is a large multiple of the size of the social investment market ...



... however, it will never be enough in itself to meet growing market needs

Even £600m of BSC funds will not be enough by itself to satisfy forecast £750m demand per year by 2015

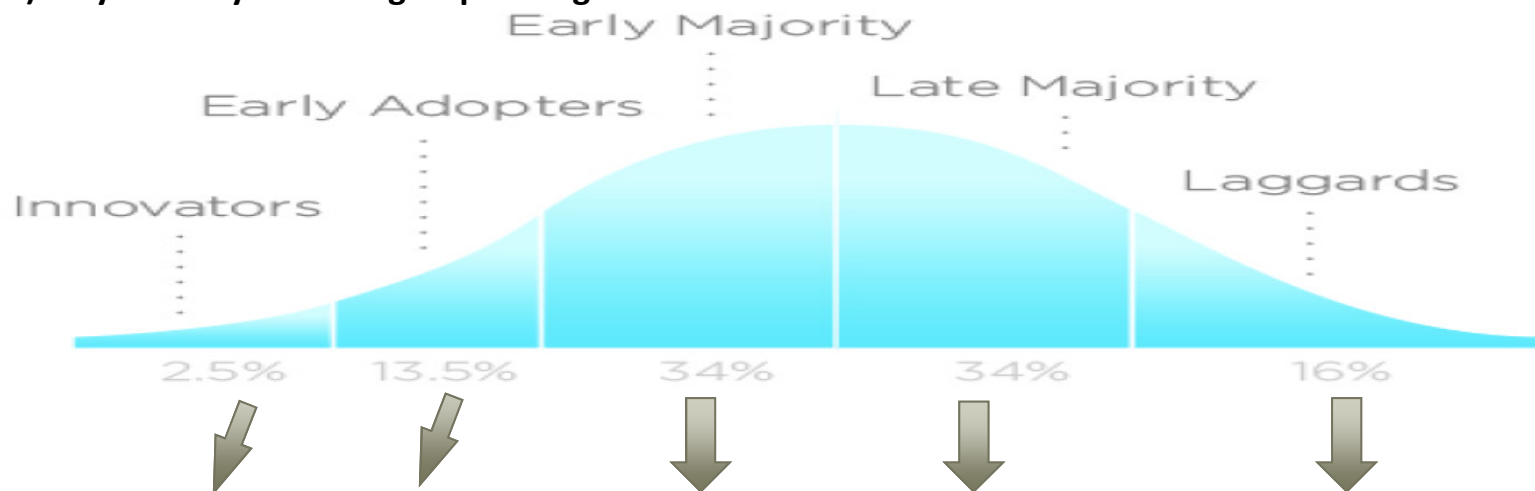


- Data from:
- Growing the social investment market, GHK (2013)
  - Green Investment Bank, ACE (Aug 2012)
  - Trends in Lending, Bank of England (Jan 2013)

The First Billion, BCG (2012)

# Future supply growth depends on accessing new investor classes in the right order

If evolution of the social investment market follows a well-trodden curve, High Net Worth Individuals (HNWIs) may be a key investor group to target next<sup>(1)</sup>



Terms	Trusts & Charitable Foundations	HNWIs	Early Institutions	Mass retail	Traditional Institutions
Description	Charitable institutions with mandate for social investment	Investors with >£100k investable assets	University endowments, housing associations, local authority pension funds, corporate foundations	Individual investors with <£100k investable assets	Investors, such as pension funds, investment trusts
Size	£40m-£60m total	£100m per year	Unknown	Unknown	Unknown
Interest?	Market building, infrastructure, first mover notoriety	Early adopter, engagement with relevant social mission	Marketing, aligned with organisational mission, corporate social responsibility, social responsible investing	Ethical investment wave, engagement with local social and community issues	Keeping up with other investor classes, socially responsible investing
Distribution	Foundation networks, directly	Independent financial advisers	Unknown networks, directly	Mainstream financial institutions (e.g. within ISAs), directly	Mainstream fund managers

(1) Everett Rogers' 1962 Bell Curve in Diffusion of Innovation as cited in Microfinance..., Social Finance (2012)  
Collated from internal information, BSC (2013)

# HNWIs needed as both the likely early adopters and to reach the next level of supply

## HNWIs are a prime target for social investment

### HNWIs desire to use £ to do some good

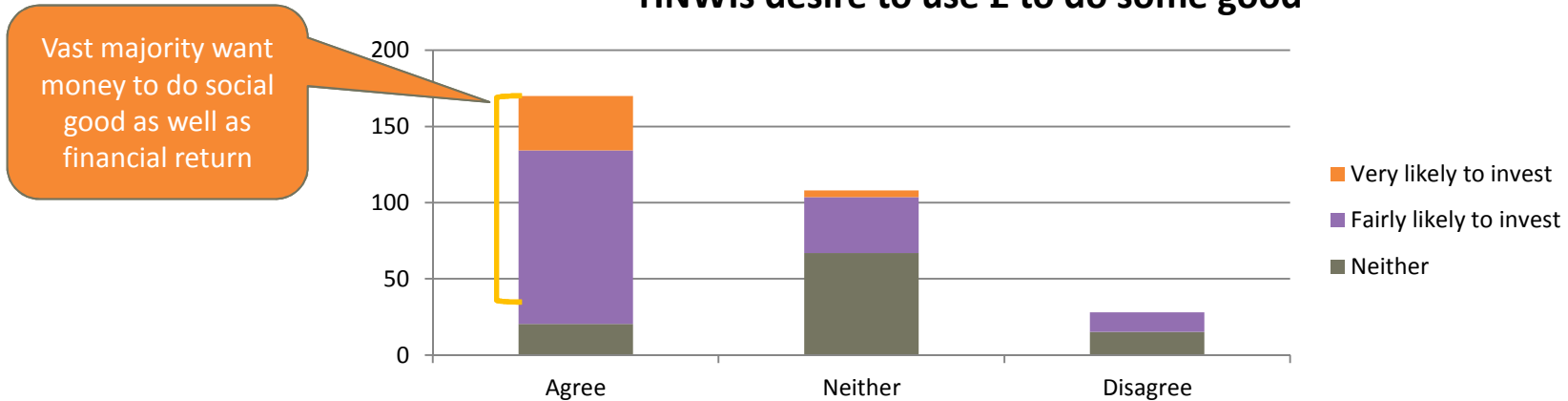


Chart reconstructed from data in Investing for the Good of Society, IPSOS Mori and NESTA (2011), p.9

### “Active Investor” class >£100k

£100k+ asset group		
1	Engagement with the Social Enterprise/Charity	T
2	Early adopter	T
3	Re-cycling social investment pot is positive	T
4	Produce evidence of social outcomes	T/B
5	Economic environment leads to need for social enterprise	T
6	Social investment encourages business-like behaviour	T
7	Tax incentives could make a real difference	T/B

**Both Active and Passive Investors are needed**  
 Both *Active* and *Passive* Investor classes can be encouraged to make social investment by hitting the right triggers, namely:

- Tax incentive (see section 4); and
- Case studies/evidence of social outcomes

### “Passive Investor” >£100k

1	T/B	Need tax incentives
2	T/B	Need case studies
3	B	Need a return even if it is for a social purpose
4	T	Economic environment means social investment important
5	T/B	Need for assurance about professional fund management
6	B	Need to know money will only be used for social purpose





# Early institutions are likely to include university institutional endowments

## University endowments historical experience naturally favours social investment

US endowments have long history of social conscience in their investment policies in leading divestments of its endowments, particularly against:

- Apartheid in South Africa (1980's)
- Tobacco (1990's)
- Darfur, Sudan (2005)

## International universities are leading the way for more proactive social investment policies



Tufts is a leader in social investment of its endowment through the \$115 Omidyar donation. It operates a fund-of-funds into various microfinance institutions in the world and some CDFIs



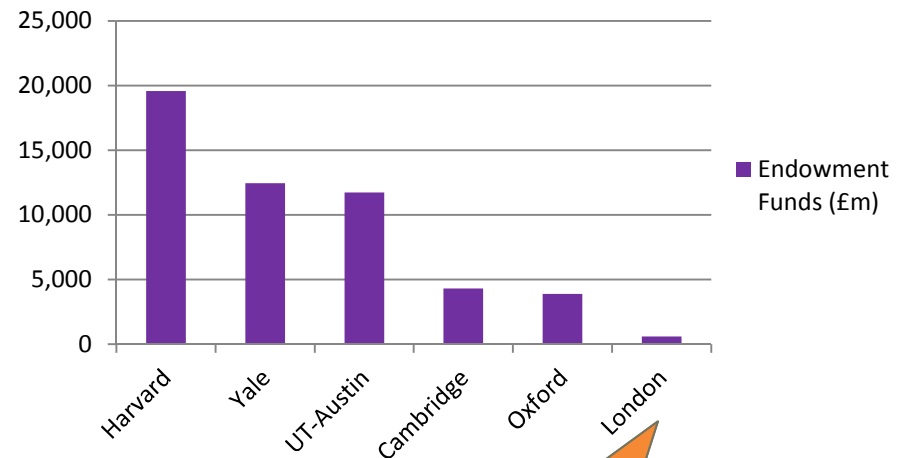
Harvard has responded to student pressure in creating a Social Choice Fund for Harvard has also invested in \$20m in affordable homes in the local Cambridge/Boston areas

Guardian (19 Dec 2012),  
IRRC and Tellus Institute (July 2012)



## In the UK, endowments are more limited than the US but universities can be pathfinders for other bigger institutions

### Endowment Funds (£m)



After the big two universities in the UK, available endowments begin to dry up

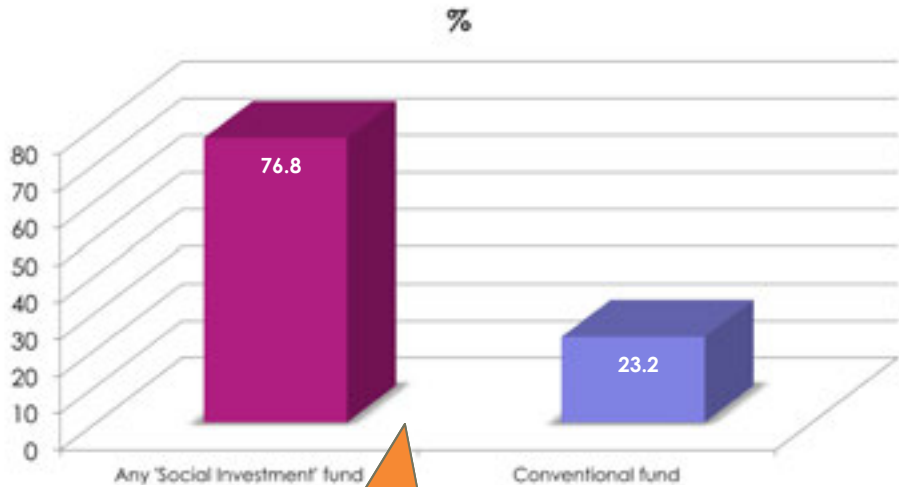
Relevant university public disclosures (2013)

### Other potential early institutions include:

- Local Authority Pension Funds
- Corporate Foundations
- Housing Associations

# Mass retail have underlying interest in social investment even with financial trade-off

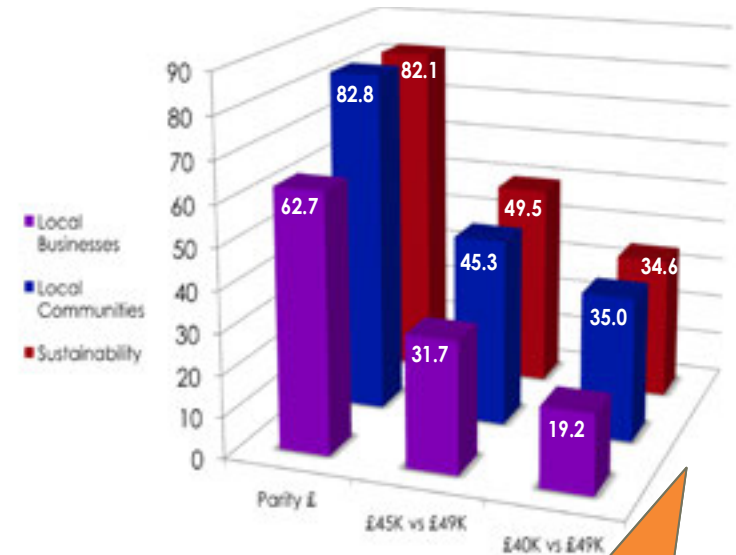
## Substantial interest amongst retail investors in social investment



77% of over 1000 survey respondents would prefer a social investment to conventional pension

Defined Contribution Investment Forum, Movement Research (March 2013) p.6

## Even when this involves significant trade-off with financial return



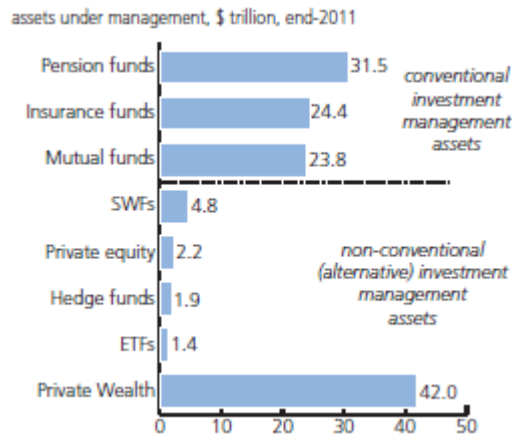
35% of people would be willing to take a 20% reduction in final pay-out for a social investment for local communities (e.g. local housing)

Defined Contribution Investment Forum, Movement Research (March 2013) p.12

# Institutional investors are the key to scale but there is clearly still work to do to attract them

## Size is a massive attraction

\$90trillion of capital is potentially available from different institutional investment classes globally

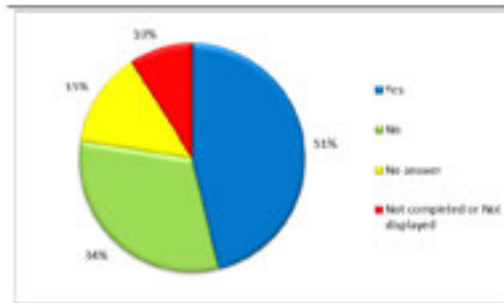


Fund Management 2012, CityUK, 2012

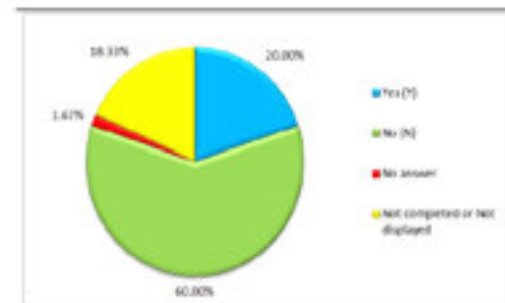
Even 1% of this would fulfil the JPMorgan report prediction of \$1trillion of impact asset market

## ... but pension fund managers still need convincing about social investment

Do you consider that it is the role of pension funds and institutions to invest in Socially Responsible Investment (SRI) assets?



Do you consider that it is the role of pension fund/institutions to invest in Impact Investments?



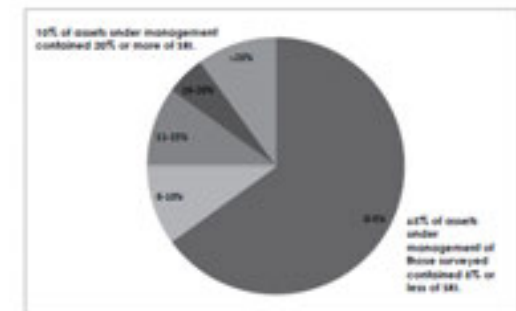
Whilst pension funds are interested in SRI (51%), impact investments remains less interesting to investment managers (20%). Regulation (discussed next) may be a key barrier for institutional investors.

Microfinance..., Social Finance (2012) p.19

## Potential Institutional Investors

- SRI funds
- Bank: Investment, Private, Retail, Social
- Pensions
- Mainstream private equity
- Social private equity

Figure 4.2.3.1: Percentage of Assets Under Management containing SRI component



Source: EthicalSource/Baron et al. 2009: High Net Worth Survey

Investor Perspectives on Social Enterprise Financing, ClearlySo (2011) p.58

# CONTENTS

1. Products and Intermediation

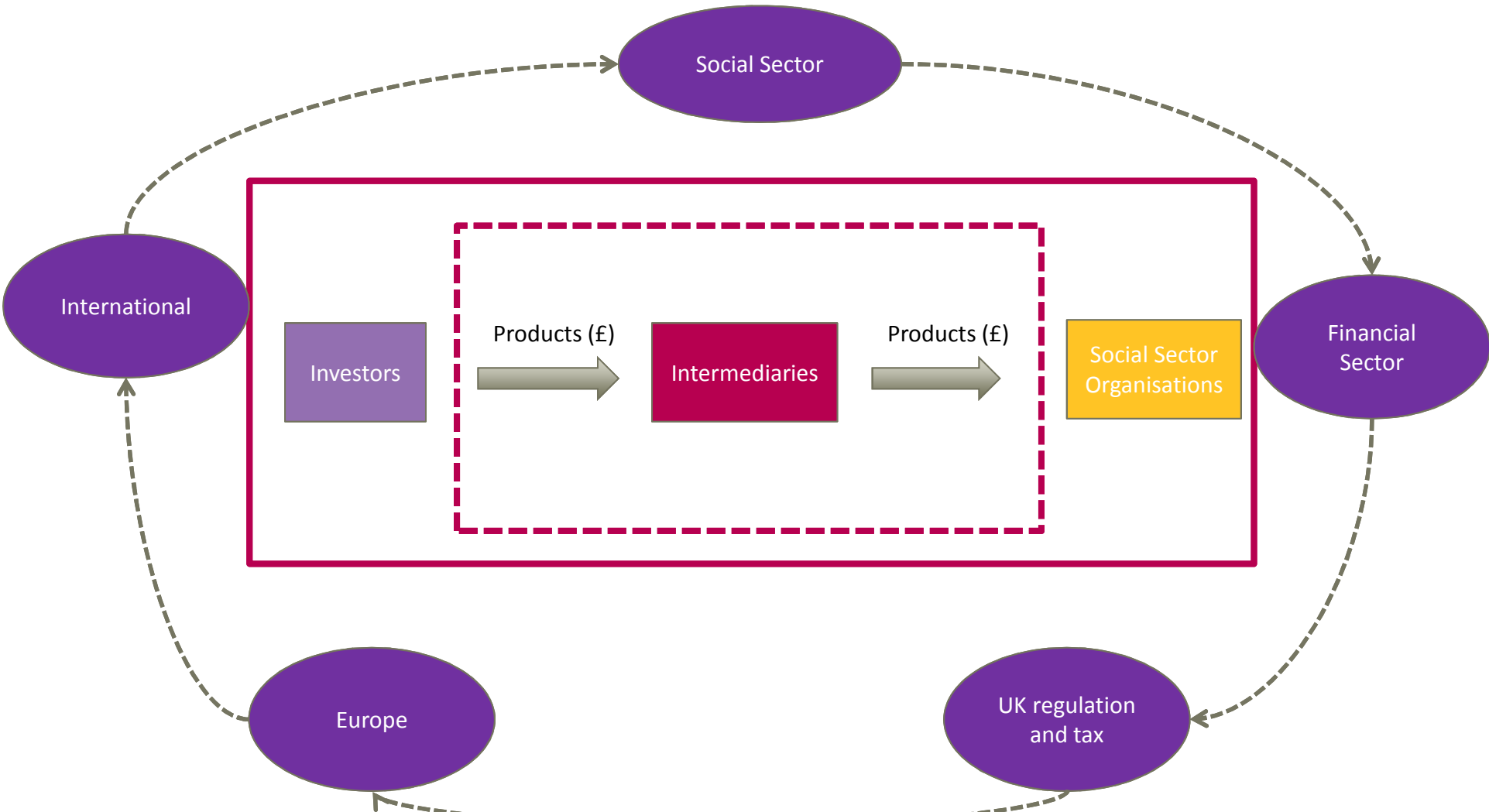
2. Demand

3. Supply

4. Broader Environment

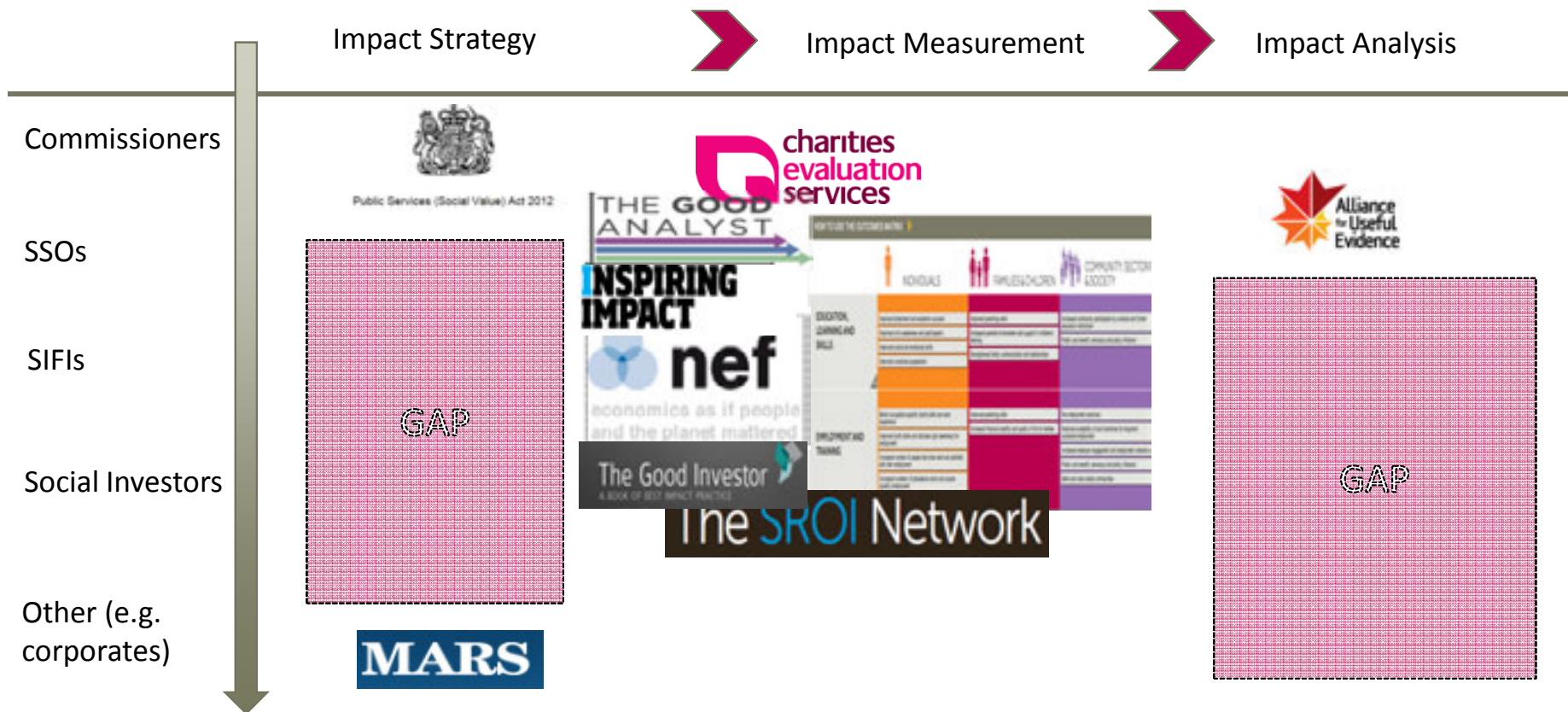
- Overview
- Social sector
- Financial sector
- UK regulation and tax
- Europe
- International

# Broader environment impacts social investment through various ways



# Strong social sector interest, particularly for evidencing impact yet big gaps remain

Social impact analysis tools have developed however still focused on measurement and investors



Further opportunities

Focus on **impact strategy** and **impact analysis**  
Focus on other **commissioners**, such as government, for greater reach

# The mainstream finance sector is still relatively unengaged with the social investment market

Whilst there has been lots of talk about putting social investment within mainstream finance ...



“Social investment is an area where the expertise of the financial services industry could be usefully deployed”

Deputy Prime Minister Nick Clegg (January 2011)

“Tremendous innovation of the city (had already helped to) create a market”



Sir Michael Bear, Lord Mayor of the City of London (July 2011)

... and several well-know institutions are ‘dipping their toe’ into investment ...



\$50m fund-of-funds



Invested in the first US SIB alongside Bloomberg

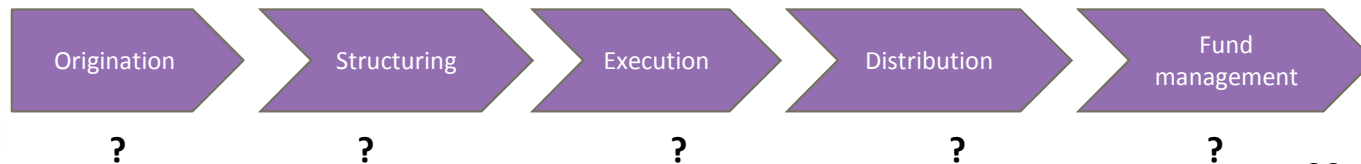


£10m Impact Investment Fund I



MicroFinance fund

... there has been limited involvement in the broader social investment process



# There has been progress on some UK regulatory issues but important reforms still to be tackled

## BWB Ten Recommendations\* half underway is a good sign but the biggest reforms still untouched

No.	Recommendation	Status
1	A social investment duty should be placed on each of the Financial Conduct Authority and the Prudential Regulation Authority to encourage sensitive regulation.	Complete – Financial Services Bill
2	The rules governing financial promotions should be reformed to take account of investors who invest with social or philanthropic motives, crowdfunding and peer-to-peer lending.	No change
3	A specific authorisation regime should be introduced by the Financial Conduct Authority to facilitate crowdfunding, peer-to-peer lending and other online direct investment facilities.	Consultation under way by FCA
4	The regulatory concept of ‘suitability’, which undergirds investment recommendations and discretionary management activity, should expressly include investors’ social goals.	FCA has given express guidance that not affected though IFAs still uncertain
5	A tax break should be introduced for social investment and community interest companies to level the investment playing field and encourage more social enterprise start-ups.	Tax incentive under consultation with HMT
6	The law concerning the investment duties of charity trustees should be reformed to strengthen and expand the ability of charities to invest for social impact.	No change
7	The law concerning the investment duties of pension fund trustees should be reformed to add to the ability of pension funds to consider environmental, social and governance factors.	No change
8	Company law and co-operative law should be reformed to encourage the formation of more start-up companies with a social purpose and more new co-operatives.	No change
9	A model social investment fund structure should be introduced to enable Government, charities and other investors to more easily invest in structured funds for social impact.	No change
10	The registration of co-operatives and community benefit societies should be moved to Companies House and the CIC Regulator, to create a new Social Economy Commission.	No change

\*Note: Above is an extract of the ten recommendations to grow the Social Investment Market prepared originally by BWB, along with a status item recording exactly where the recommendation has been acted on or not. Red indicates no action take yet. This is not an indication of what should be done.



# The tax landscape is changing to support social investment by individuals

Current tax incentives do not currently target investment by individuals in social sector organisations

Funding Tax incentive	Eligible Investees	Investors	Funding type	£m/yr
GiftAid	Registered charities	Individuals	Donation	£bns
EIS	CLS	Individuals	Equity	£600
SEIS	CLS	Individuals	Equity	£100
VCT	Unlisted VCT funds	Individuals	Debt and equity	£300
CITR	Accredited CDFIs	Companies, Individuals	Debt and equity	£60 (total)

No tax incentive for investment in registered charities, IPS (BenComs) and CICs ... until now

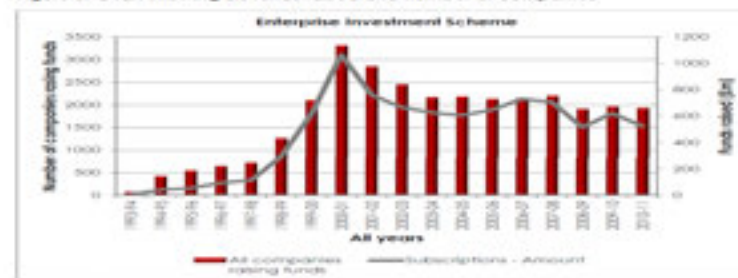
HMT announced on 20 March it would consult on a social investment tax incentive to introduce in Budget 2014



**1.135** Social enterprises play an important role in growing the economy, reforming public services and promoting social justice. **The Government will introduce a new tax relief to encourage private investment in social enterprise.** The tax relief will complement the Government's other recent measures to help social enterprises access the capital they need, such as the launch in 2012 of Big Society Capital. The Government will consult formally on the details of the relief by summer 2013 and the relief will be introduced in Finance Bill 2014. (Budget 2013)

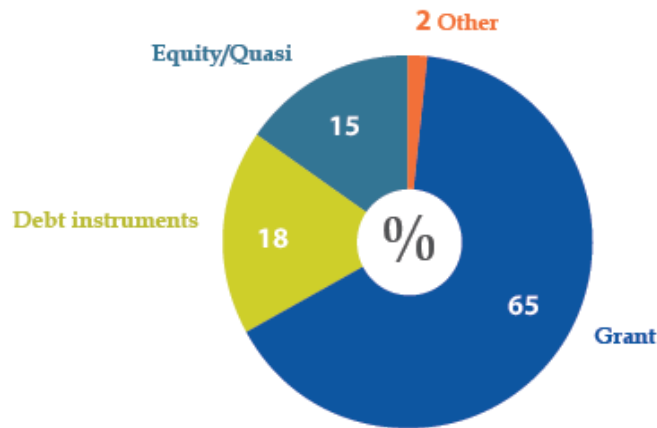
**If EIS is any guide, it may take 5 years for the tax incentive to build genuine investor interest**

Figure 3: Chart showing EIS funds raised and number of companies



# European-level social investment is still relatively young but current supply is interesting

EU-wide social investment market stands at €280m and remains dominated by grants<sup>(1)</sup>...

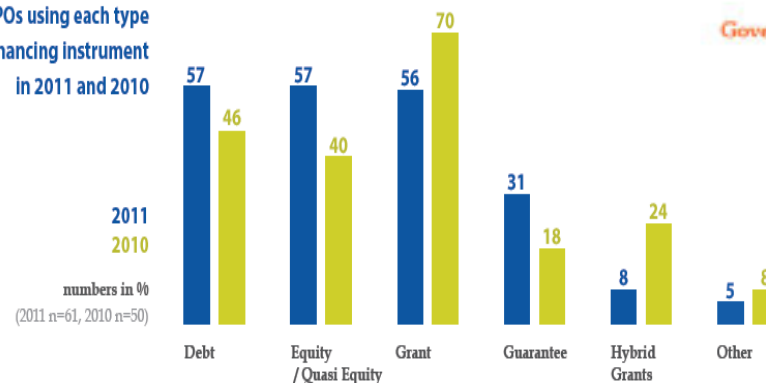


...but experience of attracting institutional investors provides a lesson for the UK



... many social investors invest in debt and equity frequently but for small amounts

% of VPOs using each type of financing instrument in 2011 and 2010



European Venture Philanthropy and Social Investment 2011/12, EVPA (2012)



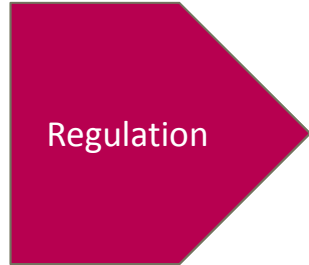
Note: (1) Market size for European social investment is not much larger than the UK market size (in the Touchpaper report of £178m). Differences in methodology and terminology or small size of the EVPA survey may be the cause of this.



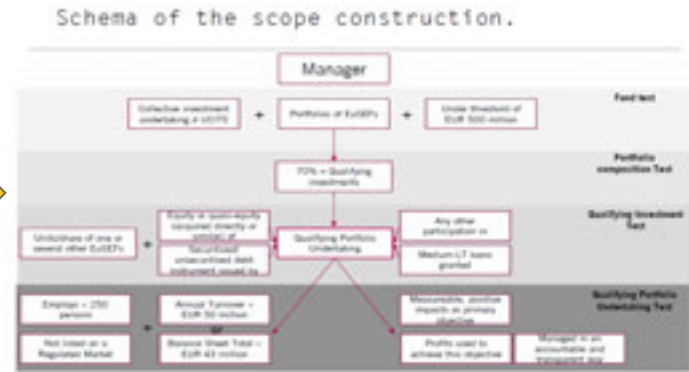
# Strong support of social investment by European Commission could lead to new opportunities for the UK

Broader Environment

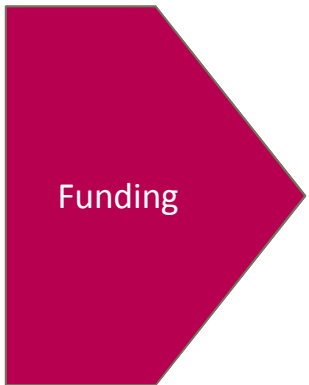
Europe



- EU Social Business Initiative
- EUSEF branding framework to be launched in Summer 2013
- State Aid regulation reforms - de minimus and public services consultations



European Social Entrepreneurship Funds, Linklaters (2013)



- European Investment Bank (over €240bn)
- European Investment Fund Social Impact Accelerator launched in 2013
- European Financial Instrument focused on employment outcomes
- Progress Microfinance Facility (€200m)
- Structural funds (ESF and ERDF) may provide support for civil society in social investment, possibly through local impact funds



## Local Impact Fund



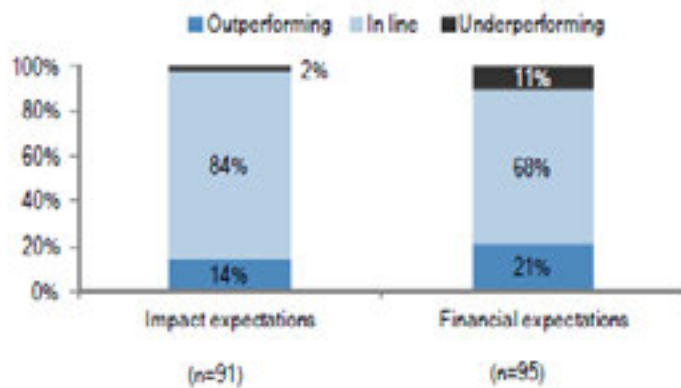
Supplementary Guidance to Local Enterprise Partnerships, HM Government (2013)



# UK social investment market is a leading player in a broader global impact investing phenomenon

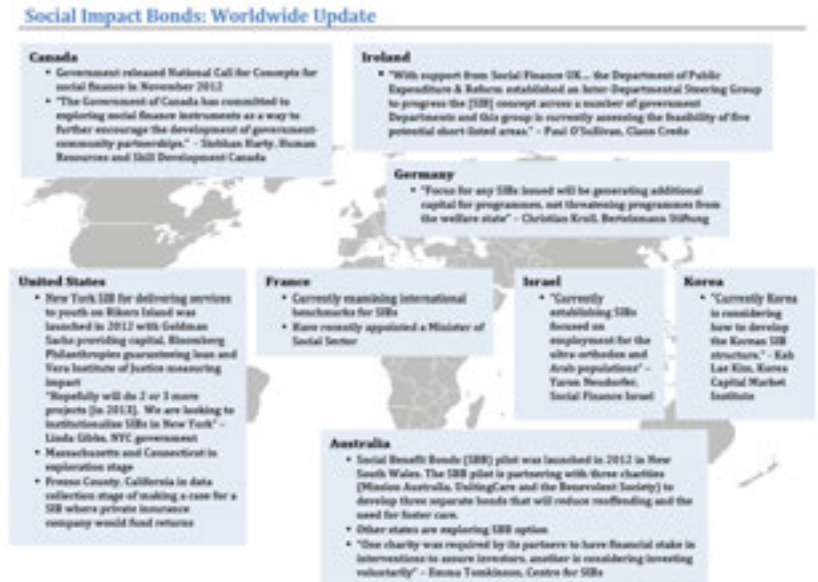
## Potential huge worldwide demand for impact investment

- \$8 to \$9 billion in impact investments already
- Driven by performance against impact and financial expectations



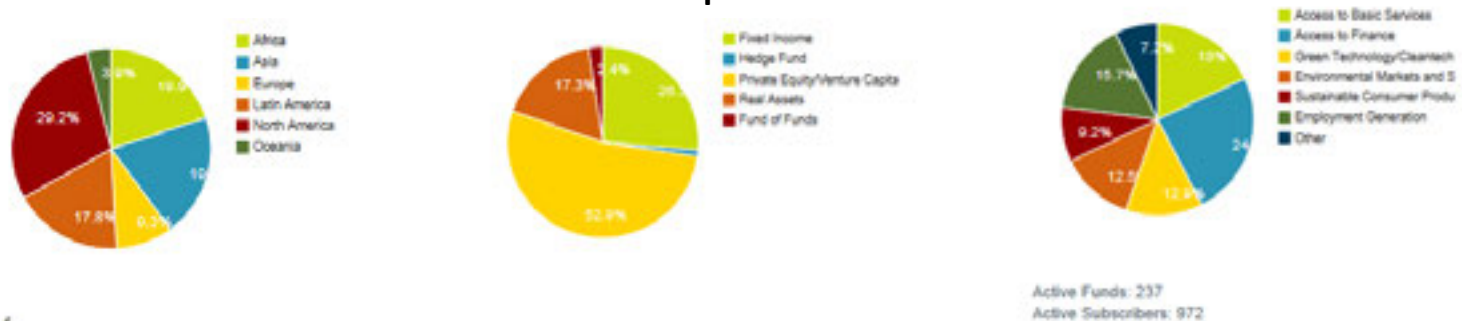
Perspectives on Progress, JPMorgan (2012)

## SIBs have been expanding around the world



The Social Investment Market, CO and SBS (2013) p.6

## Financial inclusion leads social outcomes in international impact investment

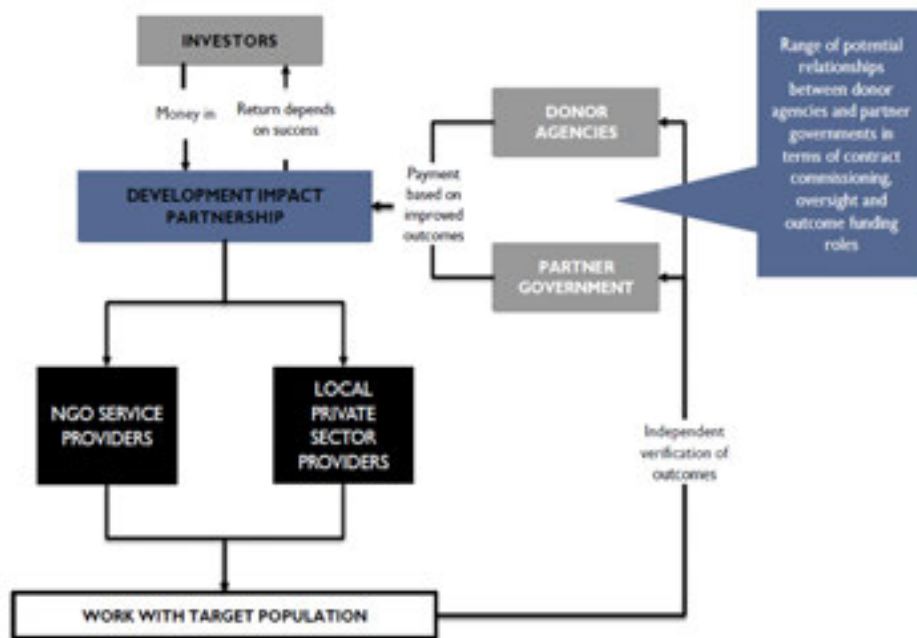


ImpactBase website, GIIN (2013)

# UK social impact investment is also now influencing the broader international agenda

Traditional aid providers are looking at the opportunity presented by development impact bonds

Key international conferences have driven social impact investment up the international agenda



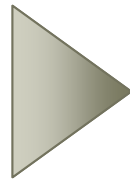
Development Impact Bonds, Working Group Meeting, 29 May 2012, Social Finance

... and the new Taskforce on Social Impact Investment, led by Sir Ronald Cohen, could be a focal point

WHAT'S NEXT?

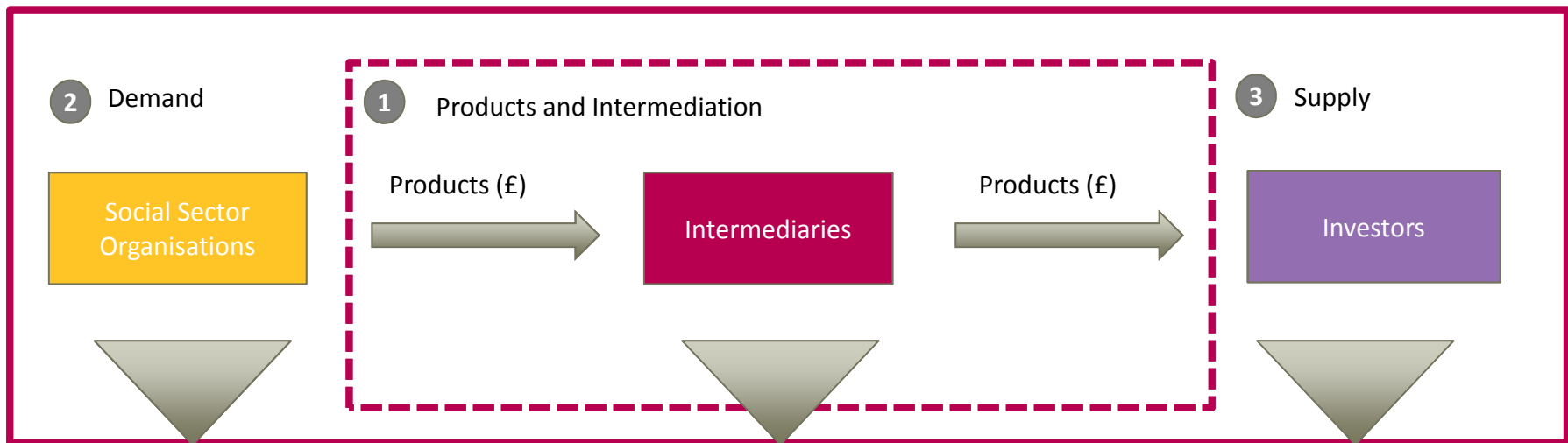
# Many questions about the social investment market remain unanswered and require further research

## 4 Broader Environment



### Broader Environment

- Financial promotions reform to suit small SSO investments and retail investors
- Corporate form: International comparison of key attributes of social corporate forms
- EUSEF: What are the opportunities to use new EUSEF regulations in the UK?
- Labour: What workforce does the social investment market need and how to attract this?
- US: What broad lessons should we learn from US community finance experience?



### Demand

- Regions: Which UK regions should be targeted for different social investments?
- SIBs: What social issues could SIBs target?
- Corporations: What steps to encourage companies to buy from social enterprise?
- Consumers: How to build greater consumer awareness of social enterprise?
- Marketing: How to help social sector demonstrate and exploit its competitive advantage as against private sector?

### Products

- Characteristics of SIBs as an asset class
- Catalogue of types of quasi-equity/ performance-related debt
- Nature of secured lending available, needed and for what purpose

### Infrastructure

- What are the social impact measurement intermediaries required?
- Crowd-funding models: Which ones could work for social investment and why?
- How to further build up the capacity to accurately price social investment?

### Supply

- Angels: Who are the potential social angels and how to best work with them?
- Who are the next big specialist investor class?
- Retail: Who are the retail investors and what motivates them?
- Banks: What internal restrictions for mainstream banks lending to SSOs and how to overcome?
- Foundation investors: Current and future size
- Social incubators: What is the most effective form of incubators?

# We would welcome hearing further research ideas or thoughts on market development

---

## Research commissioners

Many market players, such as Big Lottery Fund, HM Government and the City of London, as well as BSC, are looking to coordinate research more closely in the future.



## Efforts are underway to improve social investment data

Work is underway to develop a data platform to help describe the data in the market



**BSC** continues to look for ways to advance knowledge about the social investment market through research and further market development ideas. For any ideas or thoughts, please contact:

**Matt Robinson**, Head of Strategy and Market Development  
[mrobinson@bigsocietycapital.com](mailto:mrobinson@bigsocietycapital.com)

**Simon Rowell**, Strategy and Market Development Director  
[srowell@bigsocietycapital.com](mailto:srowell@bigsocietycapital.com)





# APPENDICES

# References for Compendium (1)

This slide records the references to the sources quoted in this Compendium.

No.	Title	Author	Year
1	Lighting the Touchpaper: Growing the Market for Social Investment in England	Adrian Brown and Will Norman	Nov 2011
2	The First Billion: A Forecast of Social Investment Demand	BCG	2012
3	BSC Blog: Market Update and Call for Ideas	BSC	Oct 31, 2012
4	Ten Reforms to Grow the Social Investment Market	BWB	July 2012
5	The Social Investment Market: The Role of Public Policy in Innovation and Execution (Perspectives from the Social Investment Symposium 2012)	Cabinet Office, Said Business School	January 2013
6	Mind the Finance Gap: Evidencing demand for community finance	Nick Henry and Philip Craig (GHK)	2013
7	Fightback Britain: A report on the State of Social Enterprise Survey 2011	Social Enterprise UK	2011
8	Investment Readiness in the UK	Dan Gregory, Katie Hill, Ioana Joy, Sarah Keen	July 2012
9	Investing for the Good of Society: Why and how wealthy individuals respond	IPSOS Mori and NESTA	April 2011
10	European Venture Philanthropy and Social Investment 2011/12: The EVPA Survey	EVPA	March 2013
11	Microfinance, impact investing and pension fund investment policy survey	Social Finance	October 2012
12	Impact Investment: An emerging asset class	JPMorgan	Nov 29, 2010
13	Perspectives on Progress	JPMorgan and GIIN	Jan 2013

## References for Compendium (2)

This slide records the references to the sources quoted in this Compendium.

No.	Title	Author	Year
14	JUST Finance: Capitalising communities, strengthening local economies: A new vision for community finance	CDFA	2012
15	Understanding the Demand and Supply of Social Finance	NESTA	2011
16	Evaluating changes in bank lending to UK SMEs over 2001-12	NIESR	2012
17	Investor Perspectives on Social Enterprise Financing	Katie Hill (ClearlySo)	July 2011
18	Growing Social Ventures: The role of intermediaries and investors: who they are, what they do, and what they could become	Young Foundation	2010
19	The Green Investment Bank: Market conditions, challenges and rationale behind GIB	ACE	2012
20	Trends in Lending	Bank of England	Jan 2013
21	Guardian Newspaper: Will US colleges kick coal out of their endowments?	Guardian Environment Network	19 Dec 2012
22	Environment, Social and Governance investing by College and University endowments in the United States: social responsibility, sustainability and stakeholder relations	IRRC Institute, Tellus Institute	July 2012
23	Defined Contribution Investment Forum (DCIF): Identifying new ways to engage with savers in Defined Contribution Pensions	Movement Research	March 2013
24	European Venture Capital Funds and European Social Entrepreneurship Funds: Twin proposals from the European Commission to promote small and social businesses	Linklaters	Dec 2011
25	ImpactBase	GIIN	2013
26	UK Civil Society Almanac	NCVO	2012

# References for Compendium (3)

This slide records the references to the sources quoted in this Compendium.

No.	Title	Author	Year
27	Growing the Social Investment Market: Landscape and Economic Impact	ICF GHK, BMG	2013
28	The People's Business	SEUK	2013
29	The Development and Delivery of European Structural and Investment Fund Strategies: Supplementary Guidance to Local Enterprise Partnerships	Government	July 2013
30	Development Impact Bonds: Working Group Meeting	Social Finance	29 May 2012
31	Angels in the Architecture: Building the Infrastructure of Social Investment	Common Capital	August 2013
32	Can Social Finance Meet Social Need	Tomorrow's People	2013
33	Small Business Survey	BIS	2010
34	Funds Management 2012	The CityUK	2012
35	The Impact Investor's Handbook: Lessons from the World of Microfinance	CAF Venturesome	2011

# Definitions of abbreviated terms

This slide provides definitions for the abbreviated terms used in this Compendium.

Term	Author
BSC	Big Society Capital
CDFI	Community Development Finance Institution
EUSEF	European Social Entrepreneurship Funds
HNWIs	High-Net Worth Individuals
SIB	Social Impact Bond
SIFI	Social Investment Finance Intermediary
SSO	Social Sector Organisation
VCSE	Voluntary and Community and Social Enterprise
VCT	Venture Capital Trust