

TWENTY CATALYTIC INVESTMENTS TO GROW THE SOCIAL INVESTMENT MARKET

Joe Ludlow and Jonathan Jenkins

ABOUT NESTA

NESTA is the UK's foremost independent expert on how innovation can solve some of the country's major economic and social challenges. Its work is enabled by an endowment, funded by the National Lottery, and it operates at no cost to the government or taxpayer. NESTA is a world leader in its field and carries out its work through a blend of experimental programmes, analytical research and investment in early-stage companies.

www.nesta.org.uk

ABOUT PANAHPUR

Panahpur is a faith-based family trust which has recently made the transition from grant-maker to social investor. It is seeking to deploy 100 per cent of its capital for its purpose, as it seeks to reflect a multi-dimensional concern for all people in all that it does.

ABOUT UnLtd

UnLtd is the leading provider of support to social entrepreneurs and offers the largest such network in the world. We resource over 1,000 individuals in the UK each year through our core Awards programmes and operate a unique model by investing directly in the individual.

UnLtd provides a complete package of resources from direct funding of up to £20,000, to ongoing advice, networking and practical support, typically resourcing community entrepreneurs to start-up. We also support those with more established ventures to scale-up; broker relationships between social investors and investment opportunities in the £50,000 - £1million range; and are committed to developing an eco-system of support to make it easier for those who need help to find it.

ABOUT THE SERIES

This publication is one in a series of three that sets out what we have learned about the social investment market through the Big Society Finance Fund – its current nature and its potential for growth.

Also in the series:

Understanding the demand for and supply of social finance, New Philanthropy Capital and NESTA.

Investing for the Good of Society – Why and How Wealthy Individuals Respond, Fairbanking Foundation with Ipsos MORI and NESTA.

FOREWORD

One of the most pressing questions facing a developed country like the UK is how to put our considerable resources to work in innovative ways to address major social challenges.

These challenges, from social exclusion to long-term ill-health, and from demographic change to climate change, are growing. But the ability of our public services and civic society to respond is too often constrained by straitened public finances or by institutional inertia.

There is widespread agreement that innovative approaches hold the key: shifting our efforts from treatment to prevention, and replacing central control with the energy of empowered citizens and communities.

Social investment can help us achieve this. By financing new approaches, increasing the diversity of provision, and allowing money to be diverted from the symptoms of social problems to their causes, it helps innovation take root.

The Government's enthusiasm for social investment, exemplified by their establishment of the Big Society Bank, is to be welcomed. We are excited to see the realisation of a project envisaged 11 years ago when the Social Investment Task Force began its ground-breaking work.

The Big Society Finance Fund is a practical contribution to this project. Working with Panahpur and UnLtd, two of the UK's leading social investment charities, we have constructed a portfolio of pilot investments to demonstrate the kind of products and services that a thriving social finance sector could enable. Alongside the portfolio, we are publishing two substantial pieces of research, looking at UK investors' interest in social investment, and the demand for finance among social enterprises and the organisations that serve them.

We hope that the Big Society Finance Fund, through its portfolio of projects and research base, offers a helpful practical contribution to the development of the UK's social investment market.

As always, we welcome your thoughts.

Stian Westlake
Executive Director of Policy and Research, NESTA

April 2011

EXECUTIVE SUMMARY:

WHAT DOES THE SOCIAL INVESTMENT MARKET NEED TO CATALYSE ITS DEVELOPMENT?

NESTA set up the Big Society Finance Fund in August 2010 to prototype new forms of social investment. By backing innovative investment products, the Fund hopes to catalyse the social investment market, and to demonstrate the role the Government's Big Society Bank could play in the future.

With our partners Panahpur and UnLtd, we issued a public call for proposals, generating a wealth of information about the real need for capital in the social investment market today. Our resolutely practical approach shines a light on the actual state of this emerging market.

The Big Society Finance Fund has supported the development of 20 pilot capital-raising by social investment intermediaries. **This exemplar portfolio, set out in detail in this publication, was chosen to illustrate the demand for different types of capital in the social investment market, and the ways in which this demand can be presented to attract investment.** All of the projects demonstrate the benefit that a catalytic, strategic investor can bring in getting new social investment products to market and in leveraging significant amounts of new investment from private and charitable sources.

Alongside the Fund, NESTA commissioned research into the demand for capital (conducted by New Philanthropy Capital) and the appetite for social investment products amongst individual investors (conducted by the Fairbanking Foundation with Ipsos MORI). These pieces of research are published in parallel with this document.

Taken together, the research and pilot investments suggest the potential to grow the supply of capital for social ventures substantially. The projects in the portfolio provide examples of how small sums of catalytic funding deployed in innovative ways can leverage much larger sums to help social ventures grow. The project also shows the diversity of social ventures and the intermediaries who finance them.

However it is clear that these pilot investments and the social investment market as a whole are in their early days – social investment is an ‘emerging market’. It needs support to grow to scale through product development and for intermediaries to develop a greater track record and sustainability. The investment that is needed to catalyse the growth of the social investment market is development capital – at risk, uncertain of returns, but with a clear strategic objective of a stronger market able to match investors to social ventures on appropriate terms.

Our experience shows that this emerging market for social investment needs a ‘development bank’ – a strategic investor whose objective is the development of the market. The Big Society Bank is ideally placed to be such an institution, making strategic investments to:

- Ensure capital is available to social ventures across the organisational lifecycle, reflecting the needs of the different business models in the social sector and often modest financial surpluses generated by social ventures.
- Catalyse capital raising from a breadth of investors – commercial institutions, charitable foundations and individuals – by supporting the development of appropriate investment ‘products’.
- Develop market infrastructure – the ‘pieces of the jigsaw’ that enable appropriate and timely deals between social investors and social ventures, and support their advisors and intermediaries to operate viable businesses.

A strategic investor can operate with a modest internal infrastructure. The Big Society Finance Fund has acted as a fund of funds. There are similar models already in operation at scale such as the the European Investment Fund, a strategic investor seeking to catalyse greater investment in SMEs in Europe. This sort of structure is appropriate for a strategic development institution because

its primary means of achieving its objective is deploying capital, including investing to build intermediaries that deliver the necessary market infrastructure. Many of the critical pieces of infrastructure or functionality exist in the social investment or mainstream investment markets already, so they can be drawn upon by the investor when needed and do not need to be recreated in a new institution.

The evidence from the pilot investments suggests that a ‘development bank’ will find it difficult to meet the needs of the emerging social investment market and deliver rates of return on its capital that might be considered ‘market-rate’ or commercial.

The pilot investments typically require patient, high-risk taking capital, and the returns they are offering are often low. This implies that such a development bank would see erosion of capital in some segments of its portfolio, especially when capitalising intermediaries and funding product development. While expectations on return need to reflect the reality of the social investment market, commercial discipline will be essential when making investments, so that money is used effectively and strategically.

Experience from elsewhere tells us that market development will not be fast and is likely to involve change over a decade or more. This in itself is an argument for capital to be preserved, i.e. used for social investment and recycled. But a sophisticated asset allocation will need to be employed that finds a balance between preservation for future market development and meeting the needs of the social investment market now. An oversupply of capital, particularly on terms that currently cannot be serviced by the social sector, could quickly lead to mission drift as the pressure mounts on the institution to invest.

The Big Society Finance Fund has engaged the community and social investment market and generated a portfolio of exemplar investments that could be financed in the near term, kick starting the long but vital journey of growing the social investment market.

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PART 1:

LEARNING FROM THE BIG SOCIETY FINANCE FUND PORTFOLIO

1.1 Introduction to NESTA's work in social investment

The social problems we face in the UK are substantial. We have new and changing challenges to address like climate change, an ageing population, and chronic health problems. These challenges are leading to increased demand and higher cost in service delivery. The traditional approach of public service delivery needs to change in response, all the more imperative given tighter public spending.

NESTA is applying its expertise to find innovative ways of delivering public services and addressing our pressing social needs. Future services will need to prevent rather than respond to problems, and will need to draw on the experiences of innovative civil society organisations, social enterprises and other non-traditional providers of public services.

In order for these social ventures to succeed in addressing the challenges we face, on a scale that will make a sustainable difference to the UK, they need to be able to access investment capital and advice in an appropriate form and at the right time. In order to achieve this, we need a functioning, larger-scale social investment market.

NESTA has been working for several years to support the development of the social investment market, for example by:

- Making cornerstone investments in two pioneering social venture capital funds: Bridges Social Entrepreneurs Fund and Big Issue Invest Social Enterprise Investment Fund.
- Supporting social venture intermediaries – the organisations that stimulate, incubate and take to scale social innovations. For example, we have incubated organisations like Participle and Thinkpublic, and provided risk capital for the development of new services to support community enterprise, like the Young Foundation's Health Launchpad and UnLtd's investment readiness service, UnLtd Advantage.

- Addressing the structural barriers to investment, for example supporting CSFI's report 'Investing in Social Enterprise: The role of Tax Incentives' and working with Bates Wells and Braithwaite to develop an appropriate regulatory regime for the promotion of social and community investment.

In the past year, NESTA has launched two new initiatives to build the social investment market:

- Our Social Venture Intermediary Fund is currently in the process of selecting around eight social venture intermediaries, meeting an immediate need for support among such organisations and allowing us to better understand their role in supporting the social ventures to grow and scale on a sustainable basis.
- The Big Society Finance Fund was established to prototype potential activities for the Big Society Bank and to commission research to address gaps in the evidence base that are central to the development of the social investment market.

1.2 The Big Society Finance Fund

NESTA set up the Big Society Finance Fund in August 2010, and it will conclude in April 2011 in time for the launch of the UK Government's Big Society Bank.

Two significant gaps in the evidence base for the development of the social investment market were identified, and research to address this was commissioned from leading firms:

- New Philanthropy Capital (NPC) was asked to set out the nature of current and future demand for capital from social finance intermediaries and to develop an understanding of the mix of financing the Big Society Bank will need to support.

Table 1: A summary of the 22 proposals selected for further development

Social Investment Organisations	Short description
Abundance	A local and nationwide investment platform that will allow the general public to invest in and benefit from renewable energy farms.
Big Issue Invest 1 with Mark Campanale	An exchange-listed social investment fund that will invest in both UK exchange-listed and early-stage social businesses in healthcare, education and social housing.
Big Issue Invest 2 with PwC	A contract finance facility offering working capital finance to social enterprises seeking to bid on payment by results contracts working alongside a prime contractor to DWP.
CAF Venturesome	The CAF Impact Fund is a UK retail impact investment product that invests directly in charities and social enterprises.
Charity Bank / Investing for Good	The Charity Bond Programme offers charities a turnkey solution to raise investment capital unsecured and at scale from individuals and institutions.
Community Land & Finance	A new fund to support Community Land Trusts to develop affordable rental housing.
Community Shares Unit	A Fund to support equity investment in community-owned enterprises.
Ethex Ltd	A web-based meeting place for ethical investors and social enterprises, making it easy for individuals to invest in businesses with a social mission.
Fair Finance	A scale-up of Fair Finance's successful personal loans business to tackle loan sharking and extortionate lending in London.
Finance South East	A national mezzanine loan fund for social enterprises co-investing alongside business angels in an innovative and collaborative manner.
Five Lamps	Growing its successful financial inclusion activities on to a regional platform, growing the scale of lending to excluded individuals by by a bond issue targeting local institutions and individuals.
Impact Assets	Exploring its US donor-advised fund structure can increase social investment in the UK.
Lincolnshire Community Foundation	Natural Conclusion - a land and legacy project for Lincolnshire (to be cascaded UK-wide) where the surplus from land-based social enterprise goes into grant pots for local communities.
Local Partnerships	A mutual and social enterprise spin-out fund to support independent, innovative and enterprising staff-led spin-outs from local public bodies with youth services as a priority investment area.
London Rebuilding Society	A home improvement scheme using an equity release mechanism to support the Government target that 75 per cent of vulnerable homeowners will live in decent homes by 2020.
One Church 100 Uses	A fund to support church congregations to explore more entrepreneurial, mixed use of church buildings using appropriate loan products.
Resonance 1	A £2 million fund and investor club for underwriting asset-backed community share issues with a target of unlocking over £10 million from people investing in their own communities.
Resonance 2	A Social Enterprise Angel fund to provide investment and additionally the skills, know-how and networks of experienced business angels to grow/launch social enterprises.
Shaftesbury Partnership	The FranchisingWorks Licence Fund is a fund that helps unemployed people start up franchise businesses by purchasing franchise licences on their behalf until their businesses are able to repay the loan.
Sidekick Studios	Sidekick School is a technology incubator for social business.
Social Finance Ltd	Development work on further social impact bonds in health.
Social Stock Exchange Ltd	A public stock market for social enterprises, social purpose businesses and social instruments such as bonds to list and to allow social impact investors to invest.

- Fairbanking Foundation with Ipsos MORI was asked to conduct a programme of qualitative and quantitative research to identify the types of individual investors and investment products that are likely to be important in the growth of the market for social or community investment.

Both pieces of research are published in parallel with this document and we have drawn on the findings from the research in the analysis of the proposals to the fund that follows.

In November 2010 we made a public call for proposals from social venture intermediaries who are currently or planning to raise capital from investors. Our criteria sought simple, scalable and quick-to-deliver ideas where the Fund's support would leverage a multiple of additional capital.

We received 89 proposals, seeking £45 million of investment from the Fund. These submissions, from a mix of existing social investment bodies and new entrants, showed the growing potential of the social investment market in the UK and high levels of innovation in raising capital and making social investments. An independent investment advisory panel was recruited, representing experts from the social and financial sectors and chaired by Sir John Gieve, to select proposals for investment in two rounds.

We selected 22¹ pilot investment proposals for further development. These proposals were selected both for their quality and:

- To illustrate the nature of demand for capital the Big Society Bank will encounter.
- To illustrate the range of offers to investors that might be possible.

Table 1 lists our initial selection of proposals, and Part 2 of this publication sets out more detail about the pilot investments.

1.2.1 What next for NESTA's Big Society Finance Fund?

Overall, we believe that within our final pilot portfolio of 20 proposals there is at least £12 million of investment that could be made within the next six months, and that over time this would catalyse at least five times that sum in additional investment.

1.3 What does the Big Society Finance Fund Portfolio tell us about demand and supply in the social investment market?

There is a need for a wide range of social ventures to tackle problems in our society – from fully commercial companies, through social enterprises and charities to local community groups. These organisations have a range of financial needs and these are strongly reflected in the Big Society Finance Fund portfolio.

1.3.1 There is demand for capital across the lifecycle of a social venture

The capital-raising proposals in the portfolio span the lifecycle of a venture, from start-up and local impact, through stages of growth to maturity where larger-scale initial public offers and secondary markets are needed. The proposals also reflect the need for appropriate finance that matches the underlying financial risk to the use of funds, e.g. fixed assets attracting secured debt finance, expansion being financed by equity. Table 2 illustrates this.

1.3.2 Catalytic capital can unlock much larger sums from third parties

We made a call for proposals where investment from the Fund would be the 'missing ingredient' that unlocks investment from charitable, commercial and individual investors. The selected portfolio illustrates that a strategic investor, aiming for market development, can use its money as a catalyst to leverage additional funds. Table 3 is based on NPC's² analysis and explores five distinct uses of capital by intermediaries, and the role of a catalytic investor in facilitating the raising of capital for this purpose. Table 4 shows the expected leverage of the Big Society Finance Funds' investment – a multiple, in aggregate, of c.15 times our investment over a five year time frame, although the median leverage forecast by portfolio members is a multiple of five.

1.3.3 Expected returns on capital are low given the risks involved

Our work with NPC in the Big Society Finance Fund, along with work commissioned by NESTA from the Young Foundation,³ suggests that the majority of existing frontline social ventures currently need access to capital below the commercial market rate (noting that the commercial capital market does not function perfectly, e.g. in delivering risk capital to SMEs).

In addition to increasing the supply of capital to frontline ventures, the Big Society Finance Fund has demonstrated the need and opportunity to invest in the development of the infrastructure

Table 2: The portfolio spans the social venture lifecycle

Lifecycle/Financing Need	Pilot examples
Start-up and early-stage funding with advice	Sidekick Studios – Social Incubator Finance South East and Resonance – Business Angel Co-investment Fund
Growth capital	Franchising Works Local Partnerships
Initial Public Offer	Charity Bank Resonance – Community Shares Underwriting Fund Big Issue Invest – Listed Investment Fund
Secondary markets	Ethex Social Stock Exchange
Working capital loans – individuals and social enterprises	Fair Finance Five Lamps CAF Venturesome
Asset finance	Community Land and Finance 1 Church 100 Uses London Rebuilding Society Abundance

of the social investment market. This means ensuring that a broad range of intermediaries are providing the services necessary to enable social ventures to raise appropriate capital in a timely and cost-effective manner from investors. But the Fund and NESTA's wider experience in this field shows that the majority of social venture intermediaries are also early-stage ventures themselves. So in developing infrastructure, a strategic investor is likely to be backing young, relatively unproven models. This area of activity is also likely to require patient capital at rates below the commercial market's risk-adjusted rate.

The fund has found some opportunities for making commercial rate investments, but these are limited. A strategic investor – like the Big Society Bank – must be careful to stick to its catalytic role and avoid crowding out investors already in the space. Underwriting can overcome this problem by facilitating capital-raising without crowding out third party investors.

Table 4 shows the average yield that the Big Society Finance Fund portfolio is expecting to pay to the Fund and to third party investors on

debt, equity and philanthropic offers.

A key issue – not addressed by this Fund – is the critical need for social ventures and their customers to agree a fee for their services that both covers operational costs and a reasonable, risk-adjusted cost of capital. This is not being achieved at the moment. In the absence of more appropriate pricing, social ventures tackling complex social problems will continue to need lower cost and patient capital, with equity-like finance needing to be particularly discounted in comparison with commercial market levels. We should work towards better pricing of social outcomes. However the capital raised today by intermediaries for onward investment and lending needs to reflect the current nature of the social investment market, as illustrated by the research and prototypes in the Big Society Finance Fund.

1.3.4 Some of the pilots are focused around specific causes but there is a need to support proposals that have a general social purpose too
The Big Society Finance Fund portfolio shows how social venture intermediaries will increasingly be raising capital to address specific areas of

Table 3: Different capital requirements of intermediaries and the role of catalytic investment

Capital	Catalyst required	Pilot examples
Hard, commercial, capital for lending or investing. The money is distributed onwards to social ventures.	Money is required to match or underwrite the raising of capital from other investors on commercial terms.	Franchising Works Abundance Five Lamps
Soft, semi-commercial capital for lending or investing. The money is distributed onwards to social ventures.	Money is required on sub-commercial terms, to match others, take a junior position or to underwrite the raising of capital from other investors.	London Rebuilding Society Finance South East/Resonance – Business Angel Co-investment Fund Fair Finance Community Land and Finance 1 Church 100 Uses Local Partnerships
Capital to fund intermediary capitalisation.	Money is held by the intermediary, and this enables them to raise additional funds to be distributed to social ventures.	Resonance – Community Shares Underwriting Club CAF Venturesome
Capital to fund intermediary overheads until viable scale is achieved.	Money is used by the intermediary as development capital to grow their business to a sustainable scale.	Ethex Impact Assets Social Stock Exchange
Capital to develop new products for social ventures and investors.	Money is required to fund the research and development of new products. Successful products raise capital for social ventures and generate fees for the intermediary.	Charity Bank/Investing for Good Social Finance

Table 4: Types of capital being raised by BSFF portfolio with leverage and forecast yield

Source of capital ⁴		Value	Average forecast yield
Big Society Finance Fund potential investment	Equity	£4,875,000	6.7%
	Debt	£4,425,000	2.2%
	Philanthropy	£2,085,000	-87.1%
	Total BSFF investment required	£11,385,000	
Further forecast capital raising in the form of:	Private debt	£20,300,000	6%
	Private equity	£38,185,000	5%
	Public debt	£70,000,000	2%
	Public equity	£43,750,000	2%
	Total Non BSFF Capital	£172,235,000	

Table 5: Causes addressed by the portfolio

Cause	Examples from the portfolio that demonstrate this
Unemployment	Franchising Works
Local communities	Resonance - Community Shares Underwriters Community Shares Unit-Matched Investment Scheme 1 Church 100 Uses
Financial exclusion	Five Lamps Fair Finance
Health	Social Finance
Children and young people	Local Partnerships
Sustainability and renewable energy	Abundance Natural Conclusion
Housing	Community Land and Finance London Rebuilding Society
General social purpose	CAF Venturesome Finance South East/Resonance - Business Angel Co-investment Fund Charity Bank/Investing for Good Ethex Impact Assets Social Stock Exchange

social need. But, as Table 5 shows, a number of intermediaries require capital for general social purposes. In some cases this is because the area of demand or supply they are addressing is currently very small and to differentiate further by cause would not be viable, e.g. attracting business angels to social enterprise investing. In other areas, the intermediary is developing an important piece of infrastructure relevant to all social purposes.

We know from the research conducted by Fairbanking with Ipsos MORI⁵ with individual investors that evidence of the specific social outcomes being delivered is important, and that those with less wealth may want to understand the specific charities or social enterprises being funded. However, the pilot portfolio suggests that a strategic investor, like the Big Society Bank, needs to be able to invest in cause-specific proposals and to support general purpose proposals so long as investment contributes to market development.

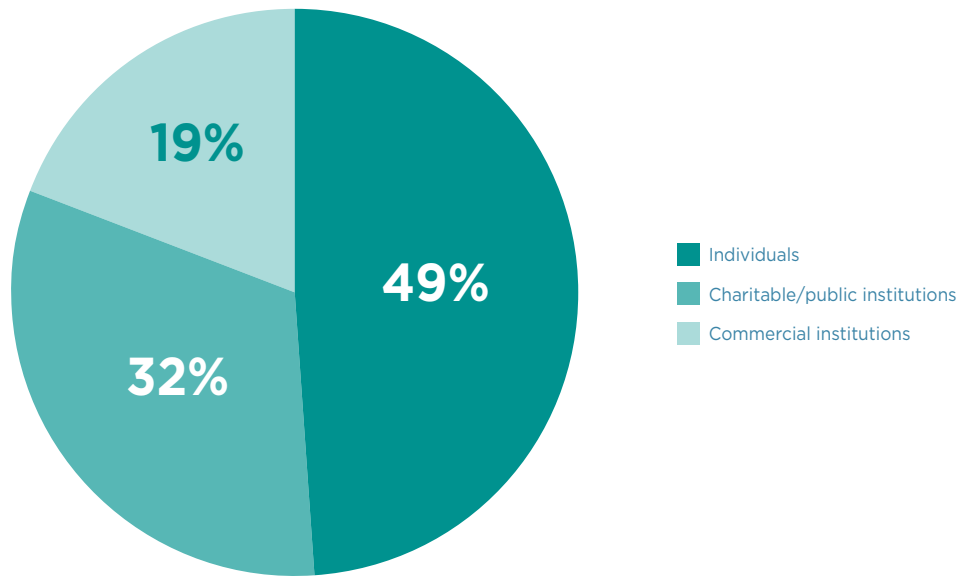
1.3.5 Intermediaries are focusing their capital raising on individuals, and charitable or public institutions

The pilot investments in the Big Society Finance Fund portfolio have developed a range of new offers for different investor segments - individuals, charitable foundations, public bodies and commercial institutional investors.

Many of the pilots in the Big Society Finance Fund portfolio are expecting to raise funds from multiple investor segments. However, our analysis of their primary target investor segment in Figure 1 shows a strong preference for raising funds from individuals and charitable or public institutions.

The portfolio is only beginning to test its offers with investors, but the pilots do illustrate an increasing understanding of investor needs in each of these segments and the beginning of differentiation of offers between the segments.

Fairbanking Foundation with Ipsos MORI's

Figure 1: Fundraising by primary target segment, by value**Table 6:** How pilots appeal to individual investors

Investor segment	Point of appeal	Examples from the portfolio that illustrate this
High net worth individuals and Mass Affluent, with higher worth	Social investments as a new 'third pillar' for allocating personal wealth.	Big Issue Invest - London Listed Fund Social Stock Exchange
	Early adopters, joining a club.	Ethex Resonance - Community Shares Underwriters
	Getting involved and helping the social sector to be business-like.	Finance South East/Resonance - Business Angel Co-investment Fund Franchising Works
	Working with/leverage of Government.	London Rebuilding Society Social Finance - Social Impact Bonds
	Appeals to ethical values, community involvement, can feel a part of it.	Community Land and Finance Ethex Community Shares Unit
	Product in a form familiar to financial advisors.	Charity Bank/Investing for Good Five Lamps Big Issue Invest - London Listed Fund
	Mass Affluent, lower worth	Seeking new ways to achieve financial well-being.
Charitable activity, Specific causes.		CAF Venturesome 1 Church 100 Uses

Table 7: How the portfolio appeals to institutional investors

Investor segment	Point of appeal	Examples from the portfolio that demonstrate this
Charitable Foundations	Specific causes of interest/product in line with mission.	Resonance – Community Shares Underwriting Fund London Rebuilding Society
Charitable Foundations	Leverage of additional funding for charitable purposes.	CAF Venturesome
Charitable Foundations	Working with/leverage of Government.	Social Finance Local Partnerships
Charitable foundations and commercial institutions	Product in a form familiar to investment managers.	Charity Bank/Investing for Good Big Issue Invest – Exchange Listed Fund
Commercial institutions	Reasonable commercial terms and clear social benefit.	Fair Finance Franchising Works

research⁶ for the Big Society Finance Fund has highlighted the potential for greater social investment by high net worth individuals and the ‘mass affluent’ with more than £100,000 of investment assets. Table 6 shows some of the techniques used in the portfolio to attract individual investors, reflecting some of the factors identified in the research. It is apparent that the social investment market needs to work particularly on developing the communication of its products in ways appropriate to these distinct segments of the consumer market. Further ‘technical’ product development may not be needed.

The pilot portfolio also illustrates how social investment products and capital raisings are being designed to appeal to institutions – charitable and commercial, as shown in Table 7. Further research, commissioned by City of London Corporation, Big Lottery and City Bridge Trust, is being undertaken by Clearly So⁷ to explore in more detail the perspectives of institutional investors on what social investment products are favoured by their clients.

In summary, the Big Society Finance Fund portfolio shows the diversity of capital required by social ventures and the intermediaries who serve them. A catalytic investor will need to typically provide low-cost, patient capital for onward investment and to strengthen intermediaries providing vital infrastructure to

the market. Intermediaries need to develop an increased sophistication in their understanding of what appeals to the different investor segments they are targeting. As we discuss in the next section, the Big Society Bank can play a vital role in meeting these market development needs.

1.4 What do the pilots tell us about the strategy, structure and asset allocation of The Big Society Bank?

The Big Society Finance Fund has supported the development of 20 pilot investments. The research and the pilots together show a high degree of innovation in the social investment market and the potential to grow the supply of capital for social ventures substantially.

1.4.1 An emerging market that needs patient, at-risk development capital

However, it is clear that these pilots and the social investment market as a whole are in their early days – the social investment market is, in effect, an ‘emerging market’.

It needs support to achieve greater scale through product development and product track record. In doing so, the intermediaries in the market should achieve a greater degree of sustainability. The support needed is development capital – at risk, and uncertain of returns.

We believe, therefore, that this emerging social investment market needs a ‘development bank’ – a strategic investor whose objective is the development of the social investment market and therefore an increased supply of appropriate capital and advice to social ventures. The Big Society Bank could be such an institution, making strategic investments to:

- Ensure capital is available to social ventures across the organisational lifecycle, reflecting the needs of the different business models in the social sector and often modest financial surpluses generated by social ventures.
- Catalyse capital raising from a breadth of investors – commercial institutions, charitable foundations and individuals – by supporting the development of appropriate investment ‘products’.
- Develop market infrastructure – the ‘pieces of the jigsaw’ that enable appropriate and timely deals between social investors and social ventures, and support their advisors and intermediaries to operate viable businesses.

1.4.2 Catalysing the development of intermediaries is crucial

The Big Society Finance Fund’s pilot portfolio shows that the social investment market is being operated by high-potential, but often fragile and young intermediary organisations. It is imperative that any market development intervention is sensitive to this delicate, evolving ‘ecology’ which could easily be damaged or distorted by an insensitive intervention. This is why we are supportive of a development bank role for the Big Society Bank that works through and invests in these intermediaries. Many of the critical pieces of the social investment market’s infrastructure already exist in the social investment market, or if not, then in the mainstream investment market. They can be drawn upon by the Big Society Bank when needed and this in itself will help to develop the market.

1.4.3 A strategic investor can operate with a modest internal infrastructure

The Big Society Finance Fund has modelled a fund of funds structure. Similar models are in operation at scale – for example the European Investment Fund is a strategic investor seeking to catalyse greater investment in SMEs in Europe. Such a structure is appropriate for a strategic development institution because its primary means of achieving its objective is deploying its capital, including investing to build the intermediaries that deliver the necessary market infrastructure.

1.4.4 We must be realistic about the pace of market development and the starting point for financial returns

The evidence from the pilot investments suggests that a ‘development bank’ will find it difficult to meet the needs of the emerging social investment market and deliver rates of return on its capital that might be considered ‘market-rate’ or commercial. The pilot investments typically require patient, high-risk taking capital, and the returns they are offering are low. This implies that such a development bank would see erosion of capital in some segments of its portfolio, especially in capitalising intermediaries and funding product development.

While expectations on return need to reflect the reality of the social investment market, commercial discipline will be essential when making investments, so that money is used effectively and strategically.

Experience from elsewhere tells us that market development will not be fast – we may be considering change over a decade or more. This in itself is an argument for capital to be preserved, i.e. used for social investment and recycled rather than granted. But a sophisticated asset allocation will need to be employed that finds a balance between preservation for future market development and meeting the needs of the social investment market now. An oversupply of capital, particularly on terms that currently cannot be serviced by the social sector, could quickly lead to mission drift as the pressure mounts on the institution to invest.

1.4.5 A real need for a strategic investor with a market development objective

The Big Society Finance Fund, through its research and pilot investments, has shown:

- A demand for capital from social ventures and the intermediaries who serve them and a clear role for a catalytic investment to leverage greater capital.
- The need to invest in intermediaries themselves so that the infrastructure of the social investment market is in place.
- Appetite for social investments amongst individuals, but the need for products to be tailored and communicated in appropriate form.

The Big Society Bank has a vital role to play in addressing all three of these areas.

PART 2:

SUMMARIES OF 20 CATALYTIC INVESTMENTS

We present below summaries of the 20 pilot projects submitted to the Big Society Finance Fund for investment.

Abundance

Abundance: a local and nationwide investment platform that will allow the general public to invest in and benefit from renewable energy farms.

Target Investors	Type of capital	Risks
Members of the public	<ul style="list-style-type: none"> An investment of £6,000 (before tax) will pay the average electricity bill in the UK for the life of the investment (around 20 years). By providing meaningful benefit to the local and national community, acceptance of renewable energy will increase. Investment can start from as little as £5 allowing the benefit to be shared by as wide an audience as possible. 	<ul style="list-style-type: none"> The return is linked to revenue of the energy farm and is therefore variable, and can be negatively affected by operational issues among other things. Energy is regulated and renewable energy is subsidised – changes in policy may affect performance. As with all investments, there is risk and the possibility exists in extreme cases that some or all of the investment may be lost.
Use of Funds	Size of investments/loans to social ventures	
Funds are invested in specific renewable energy projects.	The first offerings will be up to £2 million each. Larger offerings are also possible.	
Catalytic investment requested from the Big Society Finance Fund		
The provision of funds gives support to Abundance's offerings by renewable energy farms and can provide certainty of capital to the energy farm.		
Contact details		
Karl Harder 07812124420 Karl@abundancegeneration.com www.abundancegeneration.com		

Big Issue Invest I

Big Issue Invest in partnership with Mark Campanale: launch of a listed social investment fund. The portfolio will include UK exchange-listed social purpose businesses typically with market capitalisations of less than £15 million and unlisted social businesses.

Target Investors

Institutional (70 per cent) and retail (30 per cent) investors. The fund would be marketed to investment managers that look after endowed foundations and other investors, particularly those with a mandate to invest in listed securities including investment trusts.

Indicative terms

Investment instruments will include straight equity purchased either when new companies are admitted to an exchange via an IPO or through share purchases in the secondary market. Additionally, it will also seek to provide direct investment in the form of Convertible Loan Notes or Revenue Participation Loans.

Risks

Would be viewed as a high-risk investment opportunity until track record is established.

Use of Funds

Socially-driven businesses in the UK including both listed businesses (typically on alternative stock exchanges) and unlisted social enterprises.

Size of investments/loans to social ventures

Growth capital investments in the range of £500,000 to £2 million.

Catalytic investment requested from the Big Society Finance Fund

Development funding to cover preparation and launch costs to bring the fund to market. Investment capital to signal investment worthiness to private investors.

Contact details

Sarah Forster 0207 526 3431 sarah@bigissueinvest.com www.bigissueinvest.com

Big Issue Invest II

Big Issue Invest in partnership with PwC: A contract finance facility offering working capital finance to social enterprises seeking to bid on payment by results contracts developed in partnership with a prime contractor to DWP.

Target Investors

The finance facility will likely be set up as a Special Purpose Vehicle that will raise investment from high street banks and building societies.

Indicative terms

The loans may be structured as 'participation loans' in which repayment is linked to revenue performance which in turn will link to contract performance. Social returns will be expected in the form of measurable success in moving people from welfare into sustainable employment, including the long-term unemployed and those with complex needs.

Risks

BI's feasibility work has found that such contract finance is viewed as high-risk by high street banks. If they were to consider funding such contracts directly they would typically want to have some form of tangible security and evidence of sufficient cashflow to make repayments.

Use of Funds

The Contract Finance Facility would offer social enterprises and voluntary organisations bidding on public sector contracts a new source of low-cost, flexible contract finance, as well as business support.

The facility will purposely set out to support not just larger social enterprises, but also smaller social enterprises and voluntary organisations that meet specialist needs or serve a particular local area. Smaller organisations will be provided with a bespoke 'business support and growth package' by PwC.

Size of loans to social ventures

Unsecured working capital loans in the range of £50,000 to £500,000.

Catalytic investment requested from the Big Society Finance Fund

The Big Society Finance Fund could help by providing funds for development of the facility and first loss capital to underwrite the initial perceived risk to investors. Over time, as contracts are successfully delivered and revenues become proven and more predictable, the expectation is that such a finance facility could raise capital independently of public support.

Contact details

Sarah Forster 0207 526 3431 sarah@bigissueinvest.com www.bigissueinvest.com

CAF Venturesome

CAF Social Impact Fund.

Target Investors

CAF Trust clients; High Net Worth Individuals

Indicative terms

Unsecured loans to charities and social enterprises with charitable purposes, for a period of three to five years, and typically at an interest rate of 6 per cent.

Risks

The Fund aims to achieve social impact. It offers investors recycling of their philanthropic capital (at 0% interest rate). Social impact will be indicated by the recycling rate, and the use of funds to support effective work by investees. There is no guarantee of financial return (and therefore some risk of default), but Venturesome's 10-year track record suggests a high recycling rate.

Use of Funds

The money will be used to finance the cashflow and working capital needs of small and medium-sized charities and social enterprises.

Size of investments/loans to social ventures

From £25,000 to £250,000.

Catalytic investment requested from the Big Society Finance Fund

The Fund will use patient capital/grants to leverage in redeemable capital. The Big Society Finance Fund investing alongside other core capital providers would enable such leveraging. As the Fund establishes its track record, it will develop its offers both to investors and to investees, thus providing increasing amounts and greater diversity of capital to social ventures.

Contact details

Paul Cheng 03000123256 pcheng@cafonline.org www.venturesome.org

Charity Bank

Charity Bank Medium Term Note Programme arranged by Investing for Good CIC.

Target Investors

Mainstream capital represented by SRI funds, wealth managers and their clients, and public and private Foundations seeking eligible investments for mission-related investment portfolios.

Indicative terms

Flexible capital raising programmes from £1 million enabling an issuer to choose different tranches for amount, maturity and yield. Denominations from £25,000. Each bond will be listed to provide liquidity, pricing and ease of processing. Integral to the programme is social impact reporting.

Risks

The programme uses a well understood and established financial product. The risks to an investor are articulated in the prospectus of each issuer.

Use of Funds

To support large charities and social enterprises to deliver their mission more effectively.

Size of investments/loans to social ventures

The programme raises unrestricted debt finance at a scale that maximises an issuers' use of their assets and moves them away from project-specific income and erratic donations flows.

Catalytic investment requested from the Big Society Finance Fund

Finance from the Big Society Finance Fund would provide a cornerstone investment into the first issue and underpin the development of the programme to provide a generic bond platform that is designed to be used by numerous charities and is therefore highly replicable and scaleable.

Contact details

Geoff Burnand 01732 774040 gburnand@charitybank.org www.charitybank.org

Community Land & Finance

Community Land & Finance are developing a core funding model for rental housing provided by Community Land Trusts (CLTs) and other community-led housing providers.

Target Investors

It is envisaged that a layered fund of £10 million will be created. The Fund would raise funds at sub-market rates from trusts, ethical lenders and at commercial rates from mainstream financial institutions.

Indicative terms

A £10 million layered fund is proposed in which indicative returns to commercial investors will be up to 6 per cent. Returns to charitable trusts and other social investors will be 2-3 per cent. Social returns will be achieved by providing local homes for local people that supplement and complement what is currently available in the private and housing association sectors.

Risks

Considerable protection is provided as the loans are for the provision of residential property much of which will be located in wealthy rural communities. There are risks associated with project failure but the fund is likely to be split between 15-20 CLTs thus the capital is spread over numerous locations.

Use of Funds

The money will be loaned to CLTs and other community-led housing providers. The Fund would also arrange longer-term mortgage borrowings to re-finance its loans from after five to seven years.

Size of loans to social ventures

A CLT will typically borrow approximately £100,000 per rental home on a mortgage for a defined period of five to seven years.

Catalytic investment requested from the Big Society Finance Fund

Big Society Finance Fund support is sought as 'first mover' in the sum of £1 million for which a nominal interest will be payable. This together with matching money from a commercial source will enable a pilot fund to be established to demonstrate that the concept works in practice.

Contact details

Bob Paterson 01409 281875 robertjpaterson@crookedoak.co.uk www.communitylandandfinance.co.uk

Community Shares

Community Shares Unit: Co-operatives UK in partnership with Locality, Key Fund and Co-operative and Community Finance: Intermediate finance for co-operative and community benefit societies raising equity investment from local communities.

Target Investors

Financial intermediaries will raise ethical and social investment capital from banks, philanthropic and charitable funds, and individuals through the marketing of sector-specific Reinvestment Funds. These funds will offer transferable equity, and will be available through new listed markets or ethical investment clubs. Reinvestment funds will be used to finance three financial products: the Pioneer Fund, Underwriting Fund and Subscription Fund.

Indicative terms

Financial returns will be in the region of 4 per cent to 8 per cent, consistent with FSA requirement that co-operatives and community benefit societies interest rates are “no more than is necessary to attract and retain the investment”. Social returns will be sector-specific. Re-investment funds will enable ethical and social investors to back sector-specific social outcomes.

Risks

By channelling investment through Reinvestment Funds, the exposure of ethical and social investors will be reduced. Due diligence associated with underwriting offers will reduce risks and stimulate higher levels of community investment. Highest risks are associated with pioneer investment in pre-start enterprises, which will be targeted at philanthropic investors.

Use of Funds

Co-operatives and community benefit societies in following sectors: community renewables, community land trusts, asset transfers, community sports, community supported agriculture, community retailing and community regeneration. These societies will be raising equity from local communities through the offer of withdrawable share capital.

Size of loans to social ventures

Three financial products: Pioneer Fund to match-invest in pre-starts (up to £10,000 matched by £10,000 from communities). Underwriting Fund to support time-bound community share offers (underwrite up to one-third of total funding required – average size £250,000). Subscription Funds to provide short-term finance for community share subscription offers for periods up to three years (average size £0.5 million). Anticipate 30 deals in year one, rising to 120 deals in year five.

Catalytic investment requested from the Big Society Finance Fund

The Big Society Finance Fund will provide immediate scale and impact, so that all three financial products can be launched simultaneously, allowing time for the sector-specific Re-investment Funds to grow to scale, eventually replacing the need for public sector investment. Anticipate developing up to eight sector-specific Reinvestment Funds over next five years.

Contact details

Hugh Rolo/Petra Morris 01274 491615/0161 246 2960 h.rolo@dta.org.uk/petra.morris@uk.coop
www.communityshares.org.uk

Ethex

Ethex Investment Club Ltd: online meeting place providing detailed information on equity-focused investment products in more established socially directed companies and co-operatives.

Target Investors

Retail investors especially those who make small equity investments into ethical businesses making them effectively sophisticated investors. Also foundations, high net worths and any investor seeking consistent and trustworthy information on these businesses.

Indicative terms

Indicative returns to investors will be around 6 per cent, based on a sub-ordinated loan paying 2.75 per cent per annum plus additional capital repayments over a ten year period. Social return will be measured through the quality of businesses supported and the quantity of investments and investors brought into the sector.

Risks

Repayment of loan is dependent on the success of Ethex as a business. The investor is not exposed directly to the businesses listed. Loans will be unsecured and repayment will be dependent on profitability. However no commercial borrowing will be undertaken and so the investors' loan will not be subordinated. Ethex members are later expected to invest in Ethex, providing an additional exit route.

Use of Funds

Ethex will support existing ethical businesses to improve their investor relations through the Ethex platform, to collaborate on attracting investors and providing their investors with improved support, removing current liquidity problems. Ethex will also bring in new investors and new businesses into the space creating a new form of patient equity capital.

Size of investments/loans to social ventures

Once established, Ethex will handle around £50 million of investments from around 50,000 people and will facilitate trading or new equity investment of around £5 million a year to some 50 ethical businesses.

Catalytic investment requested from the Big Society Finance Fund

The Big Society Finance Fund could help by providing the initial capital required for set-up costs and to ensure that Ethex can be established to a suitable quality to provide a top class service for investors.

Contact details

Jamie Hartzell 01865 403303 Jamie@Ethex.org.uk www.ethex.org.uk

Fair Finance

Fair Finance: £3.25 million capital raising to take a personal lending CDFI to self-sustaining scale.

Target Investors

There are two different types of investors in the proposal – equity social investors who will fund growth and accept and understand the risk of it; and commercial debt investors who will require security but can scale up successful models.

For the equity investors we have identified and convinced a wide range of social investors who comprise of High Net Worth Individuals and corporate investors.

For the debt risk we have engaged commercial and investment banks. These will be on full commercial terms and be leveraged against the social investment.

Indicative terms

Social investors will receive a capped return of 5 per cent, based on performance of the business over a ten year cycle.

Bank lenders will receive a commercial market-based rate of return (currently between 5-6 per cent), with five-year renewable interest only loans.

Risks

The lack of market data on lending performance means that it is a higher risk investment. It also can only evidence low financial returns.

However the social impact will be substantial. The social investment leverages commercial finance allowing the impact to be multiplied further.

Use of Funds

The money will be used to provide accessible, affordable and responsible financial services to the financially excluded. It will compete with moneylenders and loans sharks, while addressing market problems in the access of finance to poor and marginalised communities.

Size of loans

A typical Fair Finance personal loan is between £500 and £850.

Catalytic investment requested from the Big Society Finance Fund

Because of a lack of track record in financing social business models it is considered too risky for commercial banks and investors to get involved without some incentive. In the absence of tax reliefs and guarantees for social enterprise activities the BSFF will act as subordinated debt to limit senior debt holders' exposure, and over a longer term to give the element of comfort that a stable fund is in the mix. Once a track record is built up and evidence of success proved, it is anticipated that the private investors/lenders will scale up their investment and for the BSFF to exit.

Contact details

Faisel Rahman 0207 254 1976 info@fairfinance.org.uk www.fairfinance.org.uk

Finance South East & Resonance

A business angel co-investment fund for social enterprises.

Target Investors	Indicative terms	Risks
<p>The target investors in the Fund include: philanthropic and charitable institutions and corporate investors. The proposed fund will co-invest alongside mainstream business angel investors, who are currently active investors in the for-profit sector.</p>	<p>The Fund aims to enhance the supply of growth funding to ambitious enterprises that are both commercially robust and deliver a 'disruptive social impact'.</p> <p>It is anticipated that an interest rate of around 10 per cent pa would be sought. Where a deal is equity-based, it is anticipated that the returns sought by the private sector investors will be higher to reflect the associated risks.</p>	<p>The Funds will invest in enterprises that reflect the risk profile of typical business angel investments, but that aim to deliver a social impact as well as financial return. Thus the risk to investors will be broadly similar to those typically taken by mainstream business angels in the for-profit sector.</p> <p>The Fund will encourage the active participation of the business angel investor who, as well as money, will bring skills, experience, networks and time commitment to the investee business in order to 'de-risk' the investment.</p>
Use of Funds	Size of investments/loans to social ventures	
<p>We will invest in social enterprises that:</p> <ul style="list-style-type: none"> • Have a clear and credible commercial business model that will deliver both substantial growth and an appropriate level of surplus/profit to meet investor requirements. • Deliver an activity that has the potential to have significant, positive, social impact. 	<p>The Fund will deliver early-stage acceleration funding to social enterprises with a minimum Fund investment size of £25,000 and a maximum Fund investment size of £100,000 in the form of debt, quasi equity and equity. The Fund investment will be subject to raising at least 1:1 match investment from private sector business angels.</p>	
Catalytic investment requested from the Big Society Finance Fund		
<p>Finance from the Big Society Finance Fund will enable a small pilot Fund to be established to demonstrate proof of concept for this innovative mechanism to enhance the supply of business angel funding to the social enterprise sector, which can be used to build understanding of the barriers to finance in the sector and how they can be overcome and also raise a more significant follow-on Fund.</p>		
Contact details		
<p>Sally Goodsell 01276 608510 sally.goodsell@financesoutheast.com www.financesoutheast.com</p>		

Five Lamps

Five Lamps: a £3 million regional community bond issue at c.4 per cent to finance an expansion of the largest CDFI in the North East of England.

Target Investors	Indicative terms	Risks
<p>Regional institutions and individuals including: Charitable Foundations; High Net Worth Individuals; Housing Associations; Pension Funds; Local Authorities; NHS/Public Bodies; Financial Institutions.</p>	<ul style="list-style-type: none"> • 5 year Bond (c.3.5-4 per cent pa) • Target amount - up to £1.5 million initially • £25k - £500k per investor • No Amortisation in year 1 • Equal instalments of 25 per cent of principal at end of years 2-5 • Early Redemption (Annual Option to Repay) • Capital raised (net) to fund growth in lending activity to financially excluded individuals in North East England 	<p>The provision of unsecured personal loans to our target customers carries a risk of delinquency and bad debt.</p> <p>To cover risk:</p> <ul style="list-style-type: none"> • Loan products are priced accordingly. • Five Lamps has robust operating procedures and experienced staff. • Four years of experience in lending to the target market and provisioning for bad debt. • Resilience against further impact from economic pressure in the North East as the majority of customers are likely to be unemployed or socially and economically excluded.
Use of Funds	Size of loans	
<p>Five Lamps is seeking capital for on-lending to realise its plans to grow unsecured lending activity to 50,000 loans per annum by 2015.</p> <p>Our target customers are financially excluded individuals living in the North East of England. Five of the 13 'red areas' in England, where there is the greatest mismatch between supply and demand for affordable credit, are covered by our service.</p>	<p>The loans made by Five Lamps average £415 and are unsecured, commonly over periods up to 12 months. The service also includes first-stage debt advice and support.</p>	
Catalytic investment requested from the Big Society Finance Fund		
<p>Five Lamps requires: (i) support in developing the bond prospectus; and (ii) a cornerstone investment in the bond to give regional investors confidence in the offer.</p>		
Contact details		
<p>Graeme Oram 01642 608316 graemeoram@fivelamps.org.uk www.fivelamps.org.uk</p>		

Impact Assets

Impact Assets: A Donor Advised Fund and Impact Investing Platform designed to drive capital to maximum environmental, social and financial investment impact.

Target Investors

Wealthy Retail Clients, High Net Worth Individuals, Trusts and Foundations.

Indicative terms

DAF funds do not provide a financial return to the investor as they are donated and benefit for tax relief. Once DAF funds are under management returns (to the DAF account) can vary from -100 per cent (philanthropic donation) through to near commercial returns.

Use of Funds

While funds are under management they will be allocated into SRI funds and through the Impact Assets Global Impact Ventures (GIV) platform. The GIV platform allows direct as well as third party investments in both debt and equity to be allocated to impact investments selected as part of the GIV platform selection criteria.

Size of investments/loans to social ventures

The GIV platform will host deals of circa £1 million and above. Its unique structure allows low minimum investment levels through its aggregated portfolio system, thus allowing individuals and foundations to test impact investment and upweight investments incrementally. Minimum investment levels for individuals and foundations are likely to be in the region of £1,000.

Catalytic investment requested from the Big Society Finance Fund

Impact Assets requires finance to launch in the UK and move, over five years, to break even. A mix of grant and PRI funding is required to realise this.

Contact details

Ben Metz 07961 373 385 mail@benmetz.org

Local Partnerships

Local Partnerships – The Top Spin Fund: a proof of concept proposal for an investment fund for mutual and social enterprise spin-outs, with youth services as a priority investment area.

Target Investors

The target investors for the Top Spin Fund include: commercial lenders, blended return investors, social investors and public investors, and individual investors.

Indicative terms

The anticipated social and financial returns vary depending on the type of investor: grant makers and social investors making investment on 0 per cent financial return, but seeing improvement in youth services and outcomes for young people. Social VCs could expect an indicative IRR of 13.3 per cent. Commercial lenders could expect an indicative IRR of 6.7 per cent.

Risks

The risks to investors include: Failure to deliver social return through service failure. Failure to secure financial return through organisational failure, change of government policy, etc.

Use of Funds

The purpose of the Top Spin Fund would be to provide the financial means to catalyse, nurture and support the spin-out of youth services from the local public sector, into viable social enterprises.

Size of investments/loans to social ventures

The Top Spin Fund will make specific investments dependent on the investee, their needs and stage of development. The Top Spin Fund would provide early stage grant and quasi-equity of circa £150,000, and as spin-outs developed, anticipated loans of approximately £350,000.

Catalytic investment requested from the Big Society Finance Fund

The Big Society Finance Fund would provide the missing ingredient, providing quasi-equity to support youth services spin-outs making the transition from early-stage option appraisal and planning funded by grant, to being stand alone and bankable entities.

Contact details

Julie McEver 020 7296 6788 julie.mcever@local.gov.uk www.localpartnerships.org.uk

London Rebuilding Society

The Home Improvement Scheme provides vulnerable homeowners with fully financed packages of works and adaptations tailored to meet their health, housing and financial needs. The finance is secured as a percentage of the value of the property, and repaid on disposal of the property.

Target Investors

The Home Improvement Scheme is a high impact, secure, long-term investment opportunity. The fund is open to private individuals and institutional investors and lenders.

Indicative terms

Returns on investments of £50,000 to £499,000 will be c.3.5 per cent pa with capital repayment at the end of the term. The terms for investments of £500,000+ are subject to negotiation with London Rebuilding Society.

Quantified social returns include: savings in public expenditure from fewer GP visits and hospitalisations, reduced costs due to bed blocking - for example the £150 per day charge to local authorities associated with this, reduced demand on care services, and up to 50 per cent reductions in domestic carbon emissions. SROI will be reported annually.

Risks

Low risk capital investment as investment secured against property portfolio.

The major risk to investors is a lower than expected rate of property disposal across the portfolio.

This risk can be mitigated by managing deal flow to reduce capital expenditure and increasing the number of term loans offered.

In terms of social impact, the Home Improvement Scheme offers a no risk proposition. Each investment makes a quantifiable, immediate and ongoing social impact.

Use of Funds

In the UK there are over 1.2 million vulnerable households living in non-decent, private sector homes. Poor quality housing adversely impacts on occupants' health and well-being, causes fuel poverty and indebtedness, is a major source of carbon emissions and increases pressure on public services. London Rebuilding Society will target vulnerable owner occupiers in the London area facing the most acute need and who cannot access finance from traditional sources.

Size of investments/loans to social ventures

The average size of each investment is £60,000. However, for complex cases where homeowners require comprehensive works and debt restructuring to ensure they can stay in the property, the total investment can be considerably more depending upon the value of the property. London Rebuilding Society limits investments to no more than 40 per cent of the value of the homeowners' equity, apart from rare and exceptional circumstances.

Catalytic investment requested from the Big Society Finance Fund

Patient, cornerstone equity from the Big Society Finance Fund would enable the Home Improvement Scheme to service debt from a mix of social and commercial lenders, until the rate of disposal outstrips the rate of capital investment.

Contact details

Naomi Kingsley/Sue Poulter 020 7682 1666 naomi.kingsley@londonrebuilding.com/sue.poulter@londonrebuilding.com
www.londonrebuilding.com

Natural Conclusion

Natural Conclusion is a CIC that provides natural burial sites with profits being invested as endowment and interest distributed as small grants to charities and local good causes.

Target Investors

Charitable Trusts and finance institutions that provide grant and patient loan mixed to community businesses. The total needed is circa £400k. The loan term will probably span 20 years.

Burial is a long-term business.

Indicative terms

Return to the investor is negotiable. The SROI will be measured through the number of grants made and the impact within the local community generated by each grant. We plan to generate £100k per year to endowment after year five.

Risks

Natural Conclusion believes the risk is low because the current market for natural burial is growing at 30 per cent per annum. This proposal requires a patient loan investor and this is not suited to a quick return investment.

Use of Funds

Profit will be distributed as grassroot grants through Lincolnshire Community Foundation to small groups, charities and good causes.

Size of investments/loans to social ventures

The proposal is to make grants in the range £1k - £5k; the current average has been £2,800 per applicant.

Catalytic investment requested from the Big Society Finance Fund

It would provide the initial investment to allow a network of natural burial sites to be established close to areas of highest conurbation. We propose nine across the county of Historic Lincolnshire.

Contact details

Ian Pepperdine 07918667592 ian.pepperdine@btinternet.com

One Church, 100 Uses

One Church 100 Uses Fund: a rolling loan fund of patient, low-interest capital for church-based capital projects which create mixed-use church and community facilities.

Target Investors	Indicative terms	Risks
<ul style="list-style-type: none"> • Church bodies, Dioceses, Synods etc. • Charitable trusts. • Possibly individuals. <p>Institutionally churches and church/community projects have mostly zero gearing. Modest borrowing for projects that can service low interest long-term lending is potentially very significant.</p>	<p>Primarily 2-3 per cent: the purpose is to introduce loan capital where perhaps grants had been available before. Whilst there is income to repay loans, from lettings and trading for example, most church/community capital projects are not able to sustain higher rates of interest. It is also likely that often the resulting buildings cannot realistically be sold, so in effect the loans will often have to be unsecured. The social return is both the size and quality of the multi-use space that is created, and how that space is then used. Specific metrics will be developed to capture this social return.</p>	<p>The risk/reward ratio would not be attractive to commercial lenders. Projects will be carefully assessed and only approved if the project is viable in terms of the capital programme and the revenue model to repay the loan. It is not likely that capital projects will fail to be built, but a small percentage must be expected to take longer than planned to repay the loan. A low interest rate makes the impact of delayed payment manageable.</p>
Use of Funds	Size of investments/loans to social ventures	
<p>The funds would be lent to church and community capital projects, either new church and community facilities or redevelopment of existing buildings. It is likely that the majority of projects will be getting funds from elsewhere, e.g. grants/enabling development, but will have a funding gap that needs to be bridged to make the project viable. The majority will be buildings with multiple uses, e.g. worship, sports, youth, education, care, health, arts etc.</p>	<p>Expected to average at about £300,000, but will range from £25,000 through to £800,000 depending on the ultimate size of the fund.</p>	
Catalytic investment requested from the Big Society Finance Fund		
<p>As the fund is not a commercial proposition, it needs investors who do not need to demonstrate a purely financial return on investment. The social returns are, however, significant. As the loans will be recycled, a revolving fund can be created which uses funds more efficiently than a grant programme. Whilst there are loan funds which aim to deliver higher rates of financial return, we suspect that much of the social sector requires a lower rate of finance than is currently available. The danger is that, as at present there are funds available, but the terms (both rates and guarantees/underwriting) are such that the majority of the social sector are unable to utilise them.</p>		
Contact details		
<p>Donald Findley/Joseph Fraser j.fraser@onechurch100uses.org</p>		

Resonance

Resonance: Community Share Underwriting Fund enables communities with viable business plans and capital raising proposals to proceed to acquire the asset whilst continuing to market their community share offer.

Target Investors	Indicative terms	Risks
<ol style="list-style-type: none"> Charitable trusts that want to encourage more people to invest in their own communities but also want to invest strategically rather than on individual deals. Other CDFIs and professional investors wanting to invest more than the £20k maximum equity investment in an IPS. 	<p>Indicative returns to investors will be circa 6 per cent on a fund size of £2 million. Investors will make an enhanced return with better liquidity than buying community shares directly.</p> <p>Social impact will be variable, but as an example of a commitment from the fund, £300,000 would unlock enough other capital to support 15 autistic adults being supported through independent living; or 5,000 sqft of affordable workspace being available for local community groups and social enterprises; or 200 hectares of community woodland; or 11 grant free affordable homes.</p>	<p>There is considerable downside protection as only projects with a track record of delivery and with asset backing will be financed. The exits are achievable either through increased senior debt or through additional community investment. There are risks associated with complete project failure but even in this scenario the capital is unlikely to be completely lost.</p>
Use of Funds	Size of investments/loans to social ventures	
<p>Into community benefit societies with asset-backed propositions such as community property, affordable/supported housing, community farm/forestry, community renewables.</p>	<p>Expected to average at about £300,000, but will range from £25,000 through to £500,000 depending on the ultimate size of the fund.</p>	
Catalytic investment requested from the Big Society Finance Fund		
<p>The Big Society Finance Fund would provide a cornerstone investor to launch the fund at a pilot size and draw in other investors both as investors in the fund and co-investors in specific projects on equal terms.</p>		
Contact details		
<p>Daniel Brewer 0845 0043432 info@resonance.ltd.uk www.resonance.ltd.uk</p>		

Shaftesbury Partnership/FranchisingWorks

FranchisingWorks Licence Fund: A fund supporting the activities of FranchisingWorks. FranchisingWorks is a social enterprise that is delivering a highly innovative programme to tackle unemployment in Greater Manchester by creating new businesses and jobs using franchising.

Target Investors	Indicative terms	Risks
<p>The target investors for the Pilot Phase, operating in Greater Manchester, 2011-12 include Banks, CDFIs, Social Investors.</p> <p>The target investors for the Expansion Phase, operating in 3-4 cities in 2012 include Social Investors, and Social Finance Institutions investing £0.5 million to £1 million each (possibly supported by further investments from HNWI's).</p> <p>In the third, scaling phase (2013 onwards) we may move to a social bond if the social investment return is sufficiently proven. In this case, the social bond would be offered to retail social investors.</p>	<p>We are raising a total of £600,000 for the pilot in Greater Manchester (to purchase 50 franchise licences) and £1,800,000 for the expansion phase in 2012 (to purchase 150 franchise licences).</p> <p>Investment will be on a quasi-equity basis. For each of the first two phases there will be an annual dividend depending on performance of the individual franchise businesses in each year; a final dividend and principal will be paid at the end of year 6. We forecast an IRR of 12-15 per cent for social investors who invest in the pilot and expansion phases of the programme.</p> <p>The investment will support asset-generation, job-creation and improvement of business skills and in local economies in deprived urban communities.</p>	<p>Risk is mitigated by:</p> <ol style="list-style-type: none"> 1. Working with a large portfolio of individual licences. Some will perform better than others. 2. Working in an established industry with established franchise businesses that have tested financial projections for the performance of individual franchisees. 3. The Licence Fund owns the licence, meaning that even if a franchisee fails in the business, the licence can be re-placed with another franchisee and continue to generate income.

Use of Funds	Size of investments/loans to social ventures
<p>The FranchisingWorks Licence Fund supports the activities of FranchisingWorks training and brokerage service by purchasing franchise licences from participating franchisors when they come to an agreement with a franchisee who otherwise would not have access to the capital required. The franchisee is then able to run the business, gradually earning money to buy out the licence from the fund and therefore own an asset whose value they can continue to build. FranchisingWorks focuses on supporting people who are from deprived urban communities, who enter the programme from unemployment, and who have poor access to capital.</p>	<p>The Licence Fund invests in franchisees through purchasing the franchise licence for their business. Individual franchise licences can cost between £1,000 and £100,000. We will focus on the lower entry-cost end of the market, investing in individual licences up to a value of around £20,000. We project our average investment to be £10,000.</p>

Catalytic investment requested from the Big Society Finance Fund

Although we are working with established businesses in an established industry, the idea and structure of the Licence Fund is a new proposition. A cornerstone investment and potentially underwriting of a proportion of loss, in that event, that would bring in more social investors to cover the remainder. This would allow the Fund to deliver licences and jobs in 3-4 cities in 2011 and 2012.

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Social Finance Ltd

Social Impact Bonds: An innovative way of attracting new investment to improve social outcomes to benefit people and communities.

A Social Impact Bond is a contract in which a public sector entity commits to pay for any significant improvement in social outcomes (such as a reduction in offending rates, or in the number of people being unnecessarily admitted to hospital) for a defined population.

Target Investors	Indicative terms	Risks
Socially-motivated private investors.	Through a Social Impact Bond, private investment is used to pay for services which are delivered by providers with a proven track record. Financial returns to investors are based on improved health and social outcomes. If outcomes do not improve, then investors will receive no payment. The financial returns would depend on the precise project. The precedent Social Impact Bond in Peterborough achieves an annual IRR of 7.5 per cent to 13 per cent assuming at least a 10 per cent reduction in offending behaviour in ex-offenders.	The social and financial risks of investing in Social Impact Bonds are aligned: investors will have the potential to receive a return on their investment if health outcomes improve, but all of the capital is at risk.

Use of Funds

Social Finance believes that the healthcare field presents a really significant opportunity for developing Social Impact Bonds. There are large financial and social gains to be made by investing in services that improve and manage patients' health, rather than focusing on acute services that are expensive for commissioners and unpleasant for patients.

The restructuring of the healthcare commissioning landscape makes it more difficult to obtain commissioner support for the initial development of products than in other sectors. Funding is therefore needed to develop fully constructed propositions to take to commissioners.

Following feasibility studies to assess the potential in this field, Social Finance would aim to create three health Social Impact Bond products, raising a total of around £25 million.

Catalytic investment requested from the Big Society Finance Fund

Establishing successful Social Impact Bonds capable of delivering sizable savings requires a long research and development phase. For example, it requires considerable financial modelling around potential new preventative health services and working closely with investors.

Patient capital of £250,000 is initially required to support the development of Social Impact Bonds that can then be taken to the commissioner and investor market. Social Finance will repay the investment used – with a small return – as funds are raised into the first health Social Impact Bonds.

During the development stage, the patient capital investment will be drawn down only as and when needed, and supplemented with other sources of funding. The proposal is that capital repayments and a modest return are spread across a number of health-related Social Impact Bonds as they are launched, mitigating the development risk. The structure is designed to reduce the risk of product development while enabling repayment where possible.

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Social Stock Exchange Ltd

The Social Stock Exchange: an FSA authorised and regulated investment exchange for the trading in securities of social enterprises and other social purpose businesses. It is designed to be the premier trading venue for social businesses wishing to raise risk capital and for social impact investors who wish to find global businesses that reflect their values.

Target Investors	Indicative terms	Risks
<ul style="list-style-type: none"> • Charitable Foundations, Trusts and Family Offices • High Net Worth Individuals • SRI Pension Funds • Local Authorities Pension Funds • Financial Institutions • Individual members of the public 	<p>Investors will receive financial returns in the way normally associated with stocks and shares: either dividend yield or capital (share price) appreciation. SSE demands that social returns are measured using mandatory reporting requirements against standards such as UK SROI.</p>	<p>Risks are identical to that of any equity investment product: the value of the investment can go down as well as up.</p>
Use of Funds	Size of investments/loans to social ventures	
<p>SSE seeks to provide the equity risk capital component to the balance sheets of social businesses and social enterprises (including trading arms of charities as appropriate and Community Interest Companies). Targeted sectors include affordable housing, social transport, ethical consumerism, clean-tech, recycling, regeneration, public health, education, sustainable forestry and organic agriculture. SSE also offers a venue for exits for social private equity/VC funds and for the development of pooled products such as Social ISAs.</p>	<p>Capital raises on the SSE will normally be in the range accruing to small- and micro-cap stocks which reflect the current state of the social enterprise sector: £1 million to £20 million. But, for larger capital intensive or infrastructure investments, capital raises could potentially be in the many millions of pounds depending on investor appetite.</p>	
Catalytic investment requested from the Big Society Finance Fund		
<p>BSFF would form the final capstone tranche of funding to allow the SSE to launch. SSE Ltd has raised £1.2 million so far out of its £2 million target to provide the working capital to run the SSE through six years to hit profitability.</p>		
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ENDNOTES

1. Twenty proposals were ultimately submitted for consideration for investment.
2. NPC and NESTA (2011) 'Understanding the demand for and supply of social finance: Summary of research to inform the Big Society Bank.' London: NPS and NESTA.
3. NESTA/Young Foundation (2011) 'Growing Social Ventures: The role of intermediaries and investors; who they are, what they do, and what they could become.' London: NESTA and Young Foundation.
4. In Table 4, 'Private' describes capital raised from institutions and sophisticated individual investors; 'Public' covers a range of investment offers made through public investment channels including industrial and provident society exemptions. Philanthropy may include grants recoverable in circumstances of positive performance.
5. Fairbanking Foundation, Ipsos MORI and NESTA (2011) 'Investing for the Good of Society: Why and How Wealthy Individuals Respond.' London: Fairbanking Foundation, Ipsos MORI and NESTA.
6. Ibid; and Fairbanking Foundation and Ipsos MORI (2011) 'How do individuals become social investors?' London: Fairbanking Foundation and Ipsos MORI
7. See <http://www.clearlyso.com/>



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