UNDERSTANDING THE CAPACITY AND NEED TO TAKE ON INVESTMENT WITHIN THE SOCIAL SECTOR

EVIDENCE REVIEW (LONG VERSION)
Deb James
April 2016
Contents

1 Introduction ........................................................................................................................................... 3
   Background ........................................................................................................................................... 3
   Aims and scope ................................................................................................................................... 4
   Defining our terms ............................................................................................................................... 5
   Review process and sources .................................................................................................................. 7
2 Findings .................................................................................................................................................. 8
   Marketplace development ..................................................................................................................... 8
   The supply of social investment .......................................................................................................... 11
   The social sector and its funding ........................................................................................................... 14
   The scale of sector engagement ........................................................................................................... 17
   Those who engage and those who do not ............................................................................................ 20
   Motivations and types of funding sought .............................................................................................. 23
   Understanding enablers and barriers .................................................................................................... 25
   Understanding investment readiness ..................................................................................................... 28
   Accessibility and appropriateness ......................................................................................................... 29
3 Key learning and reflections .................................................................................................................. 32
   The evidence base ............................................................................................................................... 32
   Sector engagement ............................................................................................................................... 33
   Measuring success ............................................................................................................................... 35
Appendices ................................................................................................................................................ 37
   Appendix 1 – References ...................................................................................................................... 37
   Appendix 2 – Annotated source list ..................................................................................................... 40
1 INTRODUCTION

Background

1.1 Social investment has met with a mixed reception from the social sector – where it is variously seen as both an opportunity and a challenge. Defined most simply as “the provision and use of repayable finance to generate social as well as financial returns”, social investment has been hailed in certain quarters as offering significant potential for social sector organisations (SSOs) to access new sources of finance and thereby to increase their capacity to make a difference. However, despite being supported and promoted as a funding mechanism and as “a tool to help increase social impact” for over a decade in the UK, it has not been universally welcomed, views of its potential remain very mixed, and it is still regarded within parts of the sector as a challenge as much as an opportunity.

1.2 As a relatively new form of repayable finance, the place and value of social investment within the sector’s broader ‘funding mix’ generates much debate. Views differ across parts of the social sector and elsewhere about the appropriateness and true potential of social investment for SSOs and particularly for charities; about the scale and scope of the market and the sector’s engagement with it – is it in fact being talked about more than it is actually happening?; about how best to develop the marketplace for social investment and build the investment-readiness of SSOs; even about eligibility – which types of organisations should benefit it? More recently debate has focused how to address a concern that while supply of social investment funding has been increasing, demand for it has lagged behind, or, at least, demand and supply have so far been somewhat ‘mismatched’.

1.3 Investment in developing a social investment marketplace has been mirrored by fairly significant investment in research on the topic. A decade’s significant effort and investment in developing the social investment marketplace has been accompanied by significant investment in research, particularly in the last five years. An authoritative online social investment research library already contains more than 110 publications, with around half produced since 2014.

---

3 ACEVO/Big Society Capital (2014) What do charity leaders think about social investment?
4 The social investment market as we know it is relatively new, though some remind us of its antecedents in the 19th Century (eg the work of the Peabody Trust mentioned in Chapman, T. (2015) An assessment of the willingness of organisations to borrow money in the third sector (p6), or even as far back as the 1700s with the work of the Quakers (eg Nine misconceptions about social investment - a Charities Aid Foundation (CAF) blog sourced at http://www.theguardian.com/voluntary-sector-network-caf-partner-zone/2014/nov/11/...)
6 eg including under the umbrella of the Social Investment Research Council, launched in October 2013
7 http://www.bigsocietycapital.com/social-investment-research-library
Aims and scope

1.4 **A review of the evidence seems timely.** At National Council for Voluntary Organisations (NCVO) we are aware that there have already been some useful reviews of the available evidence about investment and trends. Between 2014-15, however, we saw a significant increase in the number of reports and papers focused on the UK social investment market, and we launched our own NCVO Civil Society Almanac for 2015 containing the latest authoritative data on social sector organisations and their financing arrangements. We therefore felt an updated literature review reflecting on the state of the evidence so far would be helpful.

1.5 **This review forms part of a wider NCVO research project.** The overall aim of our research is to improve understanding of the social sector’s existing financing arrangements and the role of social investment, going beyond the numbers where possible to understand more about the profile and characteristics of those who are accessing this funding; about motivations (financing behaviour and decision-making); and about the challenges, barriers and enablers SSOs have encountered in engaging with the market. This review complements an analysis of raw data on social sector organisations’ financing and a set of social investment case studies.

1.6 **Our review focuses on three key themes.** It aims to consider what the available literature tells us about:

- **the social investment landscape.** The current state of the social sector and the social investment marketplace.

- **engagement with social investment.** The nature of the sector’s engagement with social investment – the scope and scale of engagement, who engages and why, what kinds of financial investment are sought, and what we know about those who do and who don’t consider or actively seek social investment.

- **the influencers, barriers and enablers.** What are the factors influencing sector engagement with social investment? What lies behind perceived gaps or mismatches between supply and demand in the marketplace, and what part does investability or investment-readiness play in helping us understand how the marketplace operates?

---

8 Big Society Capital’s Social Investment Compendium was first produced in October 2013. It has since been updated (October 2014).
9 [http://www.data.ncvo.org.uk](http://www.data.ncvo.org.uk)
Defining our terms

1.7 Definitions of social investment vary.\textsuperscript{10} Over and above the basic definition of social investment as: “the provision and use of repayable finance to generate social as well as financial returns”\textsuperscript{11}, some also specify the types of investment that might fall within the definition and the fact that repayment could be full or partial, for instance: “any form of financial support including equity, provided with the expectation that some or all of it is repaid – with or without interest, dividends or revenue participation.”\textsuperscript{12}

1.8 Some definitions clearly emphasise the importance of social impact. Some also include reference to the need not just to fund social and financial returns, but to measure them, as here for instance: “Social impact investments are those that intentionally target specific societal and/or environmental objectives along with a financial return and measure the achievement of both.”\textsuperscript{13} This emphasis reflects the increasing use of the term ‘social impact investment’ rather than just ‘social investment’, particularly since the establishment of the Social Impact Investment Taskforce in 2013.

1.9 Others feel it important to specify investees as social sector organisations. Most definitions make it clear that social investment in the UK is intended for SSOs of a non-profit legal form; “any form of finance offered to social organisations with the expectation that there will be a financial repayment. It does therefore include partial and full loans and equity structures but it excludes grants, where there is no expectation of repayment.”\textsuperscript{14} However, there are those who have recently begun to use the broader language of “impact investing” which does not specify social sector organisations as the target for investment,\textsuperscript{15} and there is interest in some quarters in widening the scope of the social investment market to look at accessibility of social finance for social enterprises with a ‘for-profit’ structure, so-called “profit-with-purpose” businesses.\textsuperscript{16} Eligibility for support and investment is a bone of contention that touches on definitional challenges about what we mean by SSOs as well as notions about who social investment was originally intended to benefit, or who it is “for”.\textsuperscript{17}

\textsuperscript{10} In a recent review the Alternative Commission on Social Investment identified ten different definitions within the literature. After the Gold Rush (2015)
\textsuperscript{11} Joy (2014) p5
\textsuperscript{12} This definition of repayable finance was used in the survey at the heart of Gregory et al. (2012) Investment Readiness in the UK
\textsuperscript{14} Gregory et al. (2012) p1
\textsuperscript{15} ‘Impact investing’ has been defined as financial investment designed to achieve social impact, and by the Global Impact Investing Network as “investments made into companies, organisations, and funds, with the intention to generate social and environmental impact alongside a financial return.” Joy (2014) p5
\textsuperscript{16} HM Govt (2014) Growing the social investment market: 2014 progress update
\textsuperscript{17} The notion of ‘profit with purpose’ businesses has emerged relatively recently and is being championed by, amongst others, UnLtd (a support organisation for social entrepreneurs) in relation to making social investment support available to ‘for profit’ businesses (those with a Companies Limited by Shares (CLS) structure) provided they are dedicated to fulfilling a social mission.
1.10 There is no single agreed definition of social sector organisations. There is debate around definitions and terminology in relation to the notion of a social sector. This definition from the Social Investment Taskforce is a useful one, defining SSOs as “Impact-driven organisations with partial or full asset-lock. For example: charities that do not engage in trading; charities and membership groups that trade but do not distribute profits; social and solidarity enterprises; cooperatives; and other profit- or dividend-constrained organisations.” NCVO’s definition of civil society organisations is commonly used and suggests types and legal forms that might fall within the definition:

- **Registered charities**: Charities registered with the Charity Commission.
- **Charitable foundations and trusts**: General charities whose primary purpose is awarding grants to other voluntary organisations, institutions or individuals.
- **General charities**: Private, non-profit-making bodies serving persons. This excludes sacramental religious bodies or places of worship.
- **Community organisations**: Organisations that work with a confined local or regional focus. Community organisations may have a legal status or a constitution but there are numerous groups which have neither.
- **Co-operatives**: An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.
- **Non-governmental organisations (NGOs)**: Organisations working in the fields of global development, social and economic justice and the environment.
- **Not-for-profit sector**: All non-profit organisations including those for private benefit (eg a freehold management company or other body where the benefit is for a defined group), those that are non-commercial (eg housing associations), quangos and other organisations close to government (eg universities).
- **Social enterprises**: Organisations that trade for a social purpose or use their activity to achieve social goals, eg co-operatives, community businesses and trading arms of charities.

1.11 The ‘social business frontier’ challenges and blurs the boundaries of more traditional social sector definitions. Perhaps the most contested element of the definition of SSOs is around social enterprises, particularly with the recent introduction of the ‘profit-with-purpose business’ definition, further blurring the boundaries between charity and commerce in what is sometimes called “the social business frontier”.

---

19 NCVO Civil Society Almanac NCVO (2014)
20 Profit-with-purpose businesses are defined as “Businesses that lock in social mission through their governance and/or embed it in their business model.” Social Impact Investment Taskforce (2014)
21 Big Society Capital with Bridges IMPACT+ (2014) *The Social Business Frontier: A report that investigates how to recognise and protect the social impact that business delivers in the UK.*
Review process and sources

1.12 We prioritised the most recent literature on the UK marketplace. The sources of evidence chosen for this review focus on social investment in the UK only, and primarily on literature produced since 2012, though we prioritised evidence published within the last year. We identified potential sources using Big Society Capital’s Social Investment Research database as a starting point and widened out our search from there. Our selection was guided by our key themes and our primary interest in evidence that relates to the demand side of the marketplace (social sector organisations and their behaviours). Therefore, we drew on the literature to consider what the evidence tells us about the development of the marketplace and the social investment products available to SSOs; the scope and scale of SSO engagement with social investment; and what is known about influences on that engagement.

1.13 We reviewed 25 published reports of various types alongside a variety of online materials, resources and blogs. Our sample includes academic research, data syntheses and compendiums, national strategy documents, reports of surveys, and discussion papers and think pieces. Newer sources include: qualitative studies that focus on stakeholder experiences and attitudes (Design Council, 2014; Charities Aid Foundation, 2014; ACEVO/Big Society Capital, 2015; The Alternative Commission on Social Investment, 2015; Chapman, 2015); and reviews of national strategy and infrastructure initiatives (Social Impact Investment Taskforce, 2014).

1.14 The evidence base is growing but nonetheless has some limitations. We found some gaps in the literature, and some challenges in generalising when it was hard to be clear if a source was talking about social investment or repayable finance more generally (eg exploring SSO attitudes towards borrowing generally rather than towards social investment specifically), or where different researchers had used different definitions of social investment or of SSOs. We also found areas of notable overlap in terms of the focus and questions posed, and the stakeholder organisations participating in recent research. This contributed to some sense of overlap and data saturation in reviewing later sources. Those involved in larger national thinktank, intermediary or support organisations feature heavily as participants and as research commissioners and providers and this introduced a source of potential bias (towards proponents of social investment as inherently a good thing). Though we chose our sources purely because they had most relevance to our research questions, we found few were entirely independent (commissioned or delivered by a body without a vested interest). Some robust survey-based research added to our understanding of financing behaviours in useful ways (eg Chapman, 2015; Lyon and Baldock, 2014) but some of the reviewed studies had small and/or potentially biased samples making it difficult to draw reliable inferences from them about sector-wide trends.

22 http://www.bigsocietycapital.com/social-investment-research-library

23 Chapman, T. (2015) How willing are third sector organisations to borrow money? identifies some of the sources of bias in earlier studies from which broad conclusions have been drawn about sector trends, including sample bias from ‘self-selected’ or ‘screened’ samples.
2 FINDINGS

Marketplace development

2.1 The social investment marketplace comprises three core elements: supply, demand, and intermediaries. Different models are used to convey their relationship to each other broadly as shown below.

1: adapted from UK National Advisory Board to Social Impact Investment Taskforce, 2014.


3: adapted from Social Impact Investment Taskforce, 2014
2.2 Since 2000 we have seen three phases of marketplace development; the latest focused on making social investment more accessible.

- **2000-2010 (vision and foundations)** - a decade where the government’s vision was established, foundations and structures began to be put in place, and barriers removed to enable the marketplace to emerge. From the establishment of the Social Investment Taskforce in 2000 to promote enterprise in support of social and economic goals, the decade culminated in the pledging of dormant bank account monies to a social investment fund and the establishment of the Big Society Bank (later Big Society Capital) to help finance SSOs and develop the market.

- **2011-2014 (from vision to reality)** – a second more intensive phase of marketplace development started with the launch of the government’s social investment strategy (Growing the Social Investment Market, 2011) and activities focused on growing investment supply, establishing intermediaries to broker the supply of investment to social society organisations, and building social society organisations’ capacity to access the available funding.

- **2015 onwards (from reality to mainstreaming)** – we have now embarked on a third phase of development, which the government has described as the phase that should take the marketplace “from reality to mainstreaming” with a key focus on making social investment a more widely accessible source of sector funding: “Our aim is to build a market that is accessible to everyone.”

2.3 Development of the marketplace has been more policy- than demand-driven. Developments have been strongly driven by the government’s economic and social policy agendas, with some describing this as a “Build it and they will come!” approach. Investment in the marketplace has reflected an interest in changing how public services are commissioned and the opening up of public service provision to voluntary and independent providers; the desire of funders and commissioners to achieve improved social outcomes at the same time as reducing costs for important services; and an interest in seeking new solutions to entrenched social and economic problems by supporting enterprise and innovation. Though strongly policy driven there have also been relevant supportive factors on the demand-side of the marketplace with SSOs keen to move away from over-dependence on potentially insecure funding sources (eg grants), and the growth in the social enterprise sector bringing increased demand for investment for start-ups and scaling of ventures.

2.4 Marketplace interventions to date have focused more on building supply and developing an infrastructure than on nurturing demand. Whilst interventions have focused on all three elements of supply, infrastructure and demand there has been least emphasis so far on demand, and this has been generally recognised in the literature: “Demand initiatives have generally lagged behind the

---

creation of intermediary organisations and increasing supply.”

We summarise some of the key developments across all three elements below.

1 Building the supply of investment

To make it easier for investors to invest we have seen activity to increase supply and remove barriers so there can be more capital to access; to increase the diversity of supply and develop new products and options; and to encourage and support investors. Much of this has been led by the government with input from strategic partners such as Big Lottery Fund. For instance:

- Making funding available to Big Society Capital and to the Social Enterprise Investment Fund.
- Centre for Social Impact Bonds and funding made available for SIBs.

2 Creating an enabling environment

To make it easier for investors and investees to join up and for organisations to access social investment, activity has included developing the marketplace; strategy development; research and evidence building; and, crucially, creating a network of intermediaries (social investment financing intermediaries – SIFIs).

For instance:

- £20m Social Outcomes Fund offering top-up payments to unlock Social Impact Bonds or payment by results projects that work on complex and expensive social issues.
- Awareness-raising to encourage commissioners to see the social sector as appropriate providers: eg marketing campaigns around the Social Value Act (2013) and work with commissioners.
- Directory of social enterprises and a unit cost database to support commissioning.
- Working in tandem with the Cabinet Office’s Social outcomes Fund, the Big Lottery Funded £40m Commissioning Better Outcomes Fund supports the development of social impact bonds and other forms of outcomes-based investment.

---

27 UK National Advisory Board to the Social Impact Investment Taskforce (2014) Building a social impact investment market. The UK Experience. p10
28 Investors making an eligible investment can deduct 30% of the investment cost from their income tax liability.
29 Social Impact Bonds (SIBs) are a way of raising finance to deliver payment-by-results contracts.
30 Social investment finance intermediaries (SIFIs) raise money from investors and help join up enterprises with investment – they act as a bridge between investor and investee; they can also be organisations that provide online platforms and/or support for organisations to find investment or to help them become investment ready.
3 Building demand for investment from the social sector

To build a ‘pipeline’ of demand, activity has chiefly focused on removing barriers, educating and supporting SSOs via guides, toolkits, training, etc.; supporting SSOs in public services delivery; capacity-building to help build investment-readiness. For instance:

- Future Builders Fund (supporting social organisations to engage in public services delivery).
- A £10m Investment and Contract Readiness Fund (ICRF) to help social ventures secure social investment and bid for public service contracts.
- Big Lottery Fund: Big Potential (2014), a £20m fund delivered by Social Investment Business to support the investment and contract readiness of VCSE organisations; Power to Change, a new £150m Trust to support community enterprises; Social Incubator Fund, a £10m programme, funded by the Cabinet Office, to support the development of early stage social ventures; £15m to support social entrepreneurs and social enterprises via the School for Social Entrepreneurs and Big Venture Challenge; and a guide to social investment, produced by SEUK and Social Spider.
- The £100m Access Foundation (the Foundation for Social Investment) to grow charities’ abilities to win contracts and take on social investment (2015). This comprises a £50m Growth Fund (funded by Big Lottery Fund jointly with Cabinet Office) which established SIFIs to offer blended loans/grants funding and a capacity-building initiative.
- Other support initiatives including Impetus Trust, Social Business Trust, Young Foundation’s accelerator programme, UnLtd’s support for social entrepreneurs and Big Venture Challenge initiative funded by Big Lottery Fund; and the School for Social Entrepreneurs initiative funded by Lloyds Bank, Bank of Scotland and Big Lottery Fund.

The supply of social investment

2.5 The marketplace is commonly described as well-developed, particularly in comparison to other such markets outside the UK. Over the last three years the marketplace has been described as moving from being “embryonic and inefficient”\(^3\) to “relatively small but innovative”\(^3\), and as “one of the world’s most developed social investment markets”.\(^3\) The government describes its own interventions over the period 2011-14 as broadly successful and considers that: “Many more ventures are now taking on social investment. There is a much richer diversity of investors providing social investment. Increasingly sophisticated market infrastructures are now

---

\(^3\) HM Government (2014) Growing the Social Investment Market: A vision and strategy referenced in Gregory et al. (2012) Investment Readiness in the UK \(^p8\)  
\(^3\) UK National Advisory Board to Social Impact Investment Taskforce (2014)  
\(^3\) HM Government (2014)
2.6 The market is estimated to be growing in size and its total value for SSOs may be as much as £202m. Though estimates have varied, in 2011-12 the value of the UK social investment market for SSOs was assessed as being between £150m and £202m and growing.\(^{35}\) (This is just investment by specialised social investment and lending intermediaries into charities and social enterprises, with almost 90% being secured lending to charities and social enterprises.\(^{36}\))

2.7 Recent years have seen increased diversity in the range of social investment products available to the sector. The main types of products are:\(^{37}\)

- **Debt finance** usually loans, secured or unsecured, or overdrafts. Secured loans or mortgages take security over a property or asset. This can be the asset that is being bought with the loan itself, or other assets held by the organisation. If the organisation defaults on its debt, the lender can sell the asset to recoup its loan. Unsecured loans do not take security over an organisation’s assets. Because the risk for lenders is greater, interest rates are usually higher than for secured loans.

- **Equity investment** usually takes the form of shares issued to an investor in exchange for capital. Unlike debt, equity finance is permanently invested in the organisation. The organisation has no legal obligation to repay the amount invested or to pay interest. Equity investors usually invest in organisations that they believe will grow. In return they expect to receive dividends paid out of the organisation’s earnings and/or capital gain on the sale of the organisation or on selling their shares to other investors.

- **Quasi-equity investment**: where equity investment may not be possible – eg if the organisation is not structured to issue shares, a quasi-equity investment allows an investor to benefit from the future revenues of an organisation through a royalty payment which is a fixed percentage of income. The investor may, however, gain nothing if the organisation does not perform. This is

\(^{34}\) HM Government (2014) p7


\(^{36}\) UK National Advisory Board report to Social Impact Investment Taskforce (2014). Note. The £202m estimate does not include lending by traditional commercial banking intermediaries and almost all investment into for-profit companies, whether or not they consider themselves to be social purpose companies. It is about investment from social banks, large SIFIs and small SIFIs. Analysis appears in ICF GHK with BMG Research (2013) and is based on calculations made by City of London Economic Department. Other commentators (eg see *After the Gold Rush*, p27) have criticised this estimate for being partial and excluding other sources of social finance (eg crowdfunding, charitable bonds, community shares activity, other lending/investing from friends, family, trustees) but generally in analyses these sources are described as comprising a negligible (though growing) part of the overall market value.

\(^{37}\) ICF GHK with BMG Research (2013) pp20-21
similar to a conventional equity investment, but does not require an organisation to issue shares.

- **Social Impact Bonds (SIBs):** a form of outcomes-based contract in which public sector commissioners commit to pay for improvement in social outcomes which deliver a saving to the public purse. The expected savings are used as a basis for raising investment for prevention and early intervention services that improve social outcomes. SIBs are not bonds in the conventional sense. While they operate over a fixed period of time, they do not offer a fixed rate of return. Repayment to investors is contingent upon specified outcomes being achieved. There are now 17 SIBs in the marketplace.

- **New forms and products:** e.g. charity bonds, crowd-funded loans, and community shares – these are very new and still relatively small-scale but growing.\(^{38}\)

### 2.8 The market is often described as ‘highly concentrated’ with a small number of social banks and large social investment financial intermediaries (SIFIs) dominating the supply side.

In 2011-12 four social banks accounted for 82% of the social investment market by value; only 29 UK SIFIs were active, and nine large SIFIs accounted for 15% of the market by value and 56% of the total number of investments.\(^{39}\) The mainstream finance sector is relatively unengaged with the social investment market, and other sources such as friends and family, accelerators and incubators, the crowd or community, customers or members make up a very small part of overall financing for the social sector.\(^ {40}\) (Note: generally in the literature on social investment ‘the market’ refers to institutions rather than individual investors.)

### 2.9 Recent years have seen an increase in the number and types of intermediaries and a more diverse range of support available, though opinion is divided as to the efficiency and impact of this part of the market.

As well as the main SIFIs, at least four other ‘types’ of intermediaries have been identified with roles as monitors; in marketing and distribution; sharing and developing people, networks and expertise; and promoting innovation.\(^{41}\) The types of support offered include: seminars and workshops, courses and training; support that is offered one-to-one, via mentors or peer-to-peer; bespoke business support, technical or expert support and capacity-building; challenge packages, competitions and awards; online information and support.\(^{42}\) While some have described the

---

\(^{38}\) For a useful outline of these new forms and products, how they work, estimated recent growth, and their potential role in opening up the market, see Baeck et al. (2014) *Understanding Alternative Finance: The UK Alternative Finance Industry Report 2014* pp10-11.

\(^{39}\) ICF GHK with BMG Research (2013) page i. Note – the four main social banks in the UK are Charity Bank, Triodos, Unity Trust and Ecology Building Society.

\(^{40}\) The level of such funding is hard to quantify because, for instance, figures that exist in relation to sources such as ‘Angel investors’ and crowdfunding do not always distinguish between beneficiaries/investees that are social sector organisations and those that are purely commercial enterprises.

\(^{41}\) Big Society Capital (2014) *Social Investment Compendium*. p54 (based on a Young Foundation typology developed in 2010 in its publication *Growing Social Ventures*).

\(^{42}\) Adapted from Gregory et al. (2012)
emerging intermediary infrastructure as being “increasingly sophisticated”, others have pointed to the “fragmented” nature of provision and support, and researchers and other interested parties have also questioned the effectiveness of some intermediary functions as a way to both develop and connect supply and demand.

### The social sector and its funding

#### 2.10 The UK social sector is large and diverse and makes a significant contribution to UK life.

Social sector organisations are diverse in type, size, and focus and make a significant contribution to life in the UK whether assessed in terms of the services they offer, as an employer, as a promoter of volunteering and social action, or as a source of support and an advocate for some of society’s most vulnerable or disadvantaged members.

- **Numbers:** The latest NCVO Civil Society Almanac tells us there are over 160,000 charities in the UK. This figure is often taken to indicate the size of the voluntary sector but there are many more organisations that comprise the wider civil society, including trade unions, co-ops, social enterprises, community groups, etc. making a definitive statement about the size of social society challenging. One estimate suggests that Civil Society could comprise as many as 900,000 organisations (including charities). As an example of the challenge in quantifying the sector’s size, the number of social enterprises is particularly contested because of definitional issues. Recent estimates have varied very significantly from 20,000 to 195,000 depending on the definition used.

- **Types of organisation:** The range of types of organisations within the sector is incredibly diverse – as well as more than 160,000 charities there are 46,000 charitable companies (limited by guarantee), an estimated 24,700 faith groups, 135,000 sports clubs, and 5,900 co-operatives.

- **People:** It is estimated that there are more than 1.5 million people employed in the civil society workforce and its work is supported by millions more –

---

43 HM Government (2014) p7
44 Big Society Capital (2014) p56
45 For instance see discussions in IVAR (2013) Charities and Social Investment; and Design Council (2014) Social finance in the UK: Designing the experience for ventures.
46 NCVO (2014) Civil Society Almanac
47 See Lyon, F. and Baldock, R. (2014) Financing social ventures and the demand for social investment for a more detailed discussion of definitions and evidence on the size of the social enterprise sector. Estimates that only include organisations with legal forms that restrict distribution of profit and assets to individuals puts an estimate at approximately 20,000, while estimates with a looser definition (and including organisations with private ownership legal forms) give estimates at closer to 72,000 (Teasdale et al., 2012). Recent estimates that have an even looser definition and greater private ownership involvement have quoted figures of 180,000 social enterprises (BMG Research, 2013).
48 NCVO UK Civil Society Almanac 2014
young people and adults who volunteer in social sector organisations. In 2013/14 approximately 48% of adults in England volunteered at least once a month on either a formal or informal basis, and a significant proportion of these volunteer in charity, not-for-profit settings. \(^{49}\)

- **Contribution to the economy:** The sector represents over 4% of Gross Domestic Product and 5% of UK employment. \(^{50}\)

- **Focus of activities:** In 2012/13 the primary economic activity of 18% (29,000) of general charities was the provision of social services; 14% (22,500) were engaged in culture and recreation; 8% (approximately 13,000) were categorised as religious. Excluding umbrella bodies, the category making up the lowest proportion of UK general charities by activity was employment and training (1.2% or 1,900 organisations). \(^{51}\)

- **Reach and impact:** Research commissioned by the Charity Commission suggests that as many as 34% of adults in the UK say that they or close friends or family have benefited from a charity. \(^{52}\) The sector also plays a particularly important role in reaching and supporting some of society’s most disadvantaged and vulnerable, with an estimated 25% of general charities benefiting older people, 23% benefiting people with disabilities, and 51% benefiting children and young people. \(^{53}\)

### 2.11 The vast majority of social sector organisations are small and medium-sized organisations, and although the sector holds assets collectively worth around £105 billion, many smaller organisations have little or no assets or reserves. Around half of voluntary organisations are micro organisations (with an annual income less than £10,000), 34% are small with an income of £10,000-£100,000 and only around 3% have an income above £1million. We know that three quarters of voluntary organisations have no tangible fixed assets, and 20% have no reserves. \(^{54}\)

### 2.12 In recent years social sector organisations have faced significant changes in the way the sector is funded and in the amount of funding available, and have therefore become more adaptive to change, threats and new opportunities in income generation. This ability to adapt has been reflected in the emergence of new forms of organisation and the growth in social enterprise; an openness to new ways of working; and more strategic thinking about funding and sustainability:

- Significant growth in number of social enterprises with close to half of all social enterprises starting trading in the last five years \(^{55}\) and an increasing role in the delivery of public services;

---

\(^{49}\) Workforce Almanac and Community Life Survey

\(^{50}\) Government estimates (BIS) in Keen, R. (2014) Charities, social action & the voluntary sector: statistics. House of Commons Library Standard Note. SN/SW/5428

\(^{51}\) NCVO UK Civil Society Almanac 2014

\(^{52}\) Charity Commission, Ipsos Mori, Base of 1,142 adults in England and Wales surveyed in May 2012.

\(^{53}\) NCVO UK Civil Society Almanac 2015

\(^{54}\) NCVO UK Civil Society Almanac 2015

• A cultural shift and a greater openness and keenness to learn from other sectors, including the private and commercial, which has been seen in changes in organisations’ Trustee base; new types of roles developing within organisations; changes in the types and focus of infrastructure support; and increased interest in outcomes/impact, quality assurance, business and enterprise models;

• A shift in thinking about funding - from fundraising to income generation and sustainable funding strategies, reflecting the fact that SSOs are increasingly thinking more strategically about money; making a distinction between what is needed to carry out activities (revenue/funding/income) and money that can help develop sustainability or growth (capital/finance/investment).

2.13 Despite adapting to change, there is a strong current of concern about funding and financial sustainability that has only worsened in recent years. Research based on a survey of 572 voluntary sector Chief Executives in 2015 supported other recent research findings that SSOs are experiencing an increased demand for their services, but at the same time are concerned about their financial future and ability to meet that demand.

2.14 Overall funding to the social sector has been falling in net real-terms (though not in cash terms) since 2006/07 and income from government has significantly dropped as cuts kicked in from 2010/11. However, individuals and government remain the main sources of income for SSOs.

• Income: NCVO’s analysis of sector income estimated that in 2012-13 the total income of voluntary organisations was £40.5 billion. Earned income contributed 56% of this total, voluntary income 37% and investments 7%.

• Funding sources: Individuals are the voluntary sector’s single biggest source of income. In 2011/12 money from individuals accounted for £17.4 billion (44%) of the sector’s total income (this includes funds raised via donations, memberships, legacies, fundraising and charitable trading). Approximately £8.9 billion (23%) of total income was from donations, gifts and legacies. Statutory bodies continue to be an important funder of the voluntary sector, with 35% of income coming from statutory bodies.

• Variations in funding by size: Income sources vary by size of organisation but income from individuals provides the largest proportion of income for every size band. Major organisations have the smallest share of income from individuals (44%) whilst small and micro organisations have the largest share (56%). This pattern is reversed for income received from government bodies, with major organisations receiving the largest share of income from Government (38%), and small and micro organisations the smallest share.

56 Gregory et al. (2012) p2
57 ACEVO/CAF (2015) Social Landscape - the state of charities and social enterprises in 2015’
58 NCVO UK Civil Society Almanac, 2014
(16%). Small and micro organisations have the largest share of income from investment (17%) compared with all other size bands (10% or less).  

2.15 **For social enterprises, trade with the public and contract funding are the main income sources.** Social Enterprise UK report that trade with the public is the most common source of income for social enterprises (30%), followed closely by trading with the public sector (27%) and with the private sector (17%). The same pattern also emerges when looking at all sources of income with 58% of social enterprises saying they receive at least some income from trading with the public, 59% trade with the public sector, 53% with the private sector, and 45% with another social enterprise or third sector organisation. Thirty-four percent report receiving statutory grants, 28% other grants, and 20% donations.

### The scale of sector engagement

2.16 **It is difficult to assess accurately the scale of sector engagement with social investment and we are currently heavily reliant on estimates extrapolated from sector surveys.** Estimates of those engaging with social investment are largely based on extrapolations from surveys – some of which have small and not always representative samples - making it difficult to assess accurately how many SSOs are actively considering, or might consider social investment as an option, and how many have successfully accessed social investment funding. There is data on investment available from some of the larger providers of social investment finance but this is not consistently collected or reported on, with amounts invested and numbers of deals more commonly reported than actual number of beneficiary organisations or information on the profile of those organisations.

2.17 **Though there is some anecdotal evidence of growth in numbers of SSOs taking on social investment, this is not particularly well evidenced in the literature, and there is a general consensus that developing the demand side of the market remains a priority.** The question of how many ventures are taking on social investment is difficult to answer using existing data and evidence. Commentators more usually draw attention to the fact that levels of engagement are hard to quantify, and that overall demand has not kept pace with supply. Assessing the state of the market in 2013 the UK National Advisory Board to the international Social Impact Investment Taskforce reported that more needed to be done to stimulate growth and to develop a healthy pipeline of demand. It concluded, “Developing a robust pool of social organisations that want, need and can service social impact investment remains critical to building the social investment market. Further efforts to catalyse deeper and broader demand for social impact investment are therefore needed.” Likewise the government’s latest social investment strategy identifies the need to do more to stimulate demand and to match demand and

---

59 NCVO UK Civil Society Almanac, 2014
60 SEUK (2013) *The People’s Business.*
61 UK National Advisory Board to Social Impact Investment Taskforce (2014) p28
2.18 Estimates vary but it seems reasonable to conclude that around 60% of SSOs may not consider social investment to be a suitable funding option for them. For instance, research conducted by the Charities Aid Foundation (CAF) in 2014, one of the larger survey samples we identified (n=1,811), suggested that 61% of charities with an annual income of £60,000 or more have no experience of taking out repayable finance and no expectation of doing so in the future. Furthermore the proportion of those not interested might be expected to be even higher in smaller organisations, which we know make up the vast majority of the sector. Gregory et al (2012) similarly estimated that 65% of the sector was not engaged, based on their earlier survey of 1,255 organisations. However, they found that within this only around 43% were not interested at all, but that 22% would be interested to at least find out more and consider its suitability as an option for them. More recently a report from Durham University based on surveys of SSOs across three areas in the North of England (n=2,266) found that only 14% said borrowing money was of any importance to them when considering potential sources of funding.

2.19 Recent research suggests that, as with the social sector as a whole, around two-thirds of the enterprise sector may not currently consider social investment as an option for them. Although social enterprises and/or organisations with a social enterprise ‘arm’ have been categorised as more likely to consider social investment as an option, a recent analysis of data from a sample of 878 social enterprises found that 65% were not interested in social investment. Within the same study the researchers found that although 15% of social enterprises were seeking loan finance, most were borrowing from high street banks, and only one in five borrowers (3.6% of all social enterprises) were approaching lenders with a social mission. They concluded that the actual level of demand for repayable finance from social enterprises is not clear.

2.20 It is generally accepted that not all parts of the sector could or should seek social investment, but there is potentially a proportion of those not currently considering it for whom it could be a suitable option. In understanding engagement with social investment, the literature commonly makes a distinction between those not engaging because it is not suitable for them, and those not engaging but for whom it could be helpful. We know a little about some of the

---

62 HM Government (2014) p8
64 Chapman (2015). Note – this went up to 39% among larger organisations but down to 6% of the smallest and micro organisations.
65 Lyon and Baldock (2014)
66 This research conducted by members of the Third Sector Research Centre (TSRC) was based on an analysis of the 2013 annual survey of social enterprises conducted by Social Enterprise UK (SEUK). The authors further drew attention to how their findings echoed earlier research done in 2012 which found social enterprises continuing to rely on public sector grants and in fact cautious about taking on debt.
reasons why organisations may not engage (see 2.24-2.28 below) but we are not able to quantify how many of those not engaging fall into the category of those for whom social investment could be beneficial.

2.21 There is a general consensus that the number of SSOs who have accessed social investment funding remains relatively small. We know that the £202m investment reportedly made in 2011-12 represented 765 investment deals. This rose to 1,204 deals in 2013/14 and was estimated to rise to 2,583 in 2014/15 (although the overall amount invested was still around the £200m mark in that year). We also know that Big Society Capital’s £150m investment over 2012-14, represented 30 investment deals with just 57 frontline organisations having received financial commitments by the end of 2013. Other SIFIs and intermediary organisations likewise report investees in their hundreds rather than their thousands.

2.22 More SSOs are interested in social investment than are able to access it currently, though estimates of the level of interest (or demand) vary widely. Commentators often mention a finance demand gap, that is, the fact that more organisations need finance than can currently access it, and SIFIs report not being able to fully meet demand. However, estimates of the demand gap vary and it is not always clear how robust the calculations are for reaching these estimates; so we find estimates ranging from £300m to £2.1bn per year. The evidence that exists on applications for social investment finance suggests a relatively high drop-out rate – that is, organisations that drop-out before any funding is agreed, and a relatively high failure rate - organisations applying but not succeeding and/or not receiving all that they have requested. The low ‘conversion rate’ from requests for support to financial commitments is commonly noted as a matter of concern in the literature.

2.23 To date there has been more access to social investment recorded in London than in other regions, but this may in part at least reflect the distribution of SSOs across regions, and in particular the distribution of larger (and asset-owning) organisations in the capital. Demand for investment stems from across the country, but in earlier years certainly the largest proportion was reported to have

---

67 This £202m comprises funding from social banks and large and small SIFIs only. The analysis appears in ICF GHK with BMG Research (2013) and ICF International (2016).
68 Big Society Capital (2014) Social investment from ambition to action. Annual Review 2013. More recent figures were released just as we finalised this review under Big Society Capital’s transparency agenda. These suggest that by the end of 2015, 270 deals have been made either through Big Society Capital funds or through raising capital from organisations like Clearly So. http://www.bigsocietycapital.com/transparency
69 For instance, in its 13 years of operation CAF Venturesome, has lent over £35m to just over 425 charities and social enterprises http://caf-venturesome.tumblr.com/aboutus
70 ICF GHK with BMG Research (2013)
71 Big Society Capital (2014) Social Investment Compendium p4 suggests there’s a finance demand gap of anything between £300m to £1bn per annum and it sources different estimates in full later in the publication (p63). Another source is CDFA/RBS Group (2013) Mind the finance gap: evidencing demand for community finance which estimated the potential funding gap for social ventures to be in the order of £1.3bn and £2.1bn per annum. http://www.cdfa.org.uk/wp-content/uploads/2013/01/Mind-the-Finance-Gap-summaryreport
72 For instance, Gregory et al. (2012) references a low conversion rate of between 5 and 15%. More recently in the Design Council’s 2014 study of social ventures, a third of their sample who had tried but not been successful (32%) had pulled out/withdrawn from the process with 44% doing so before even approaching investors.
gone into London.\textsuperscript{73} We know, however, that there are more SSOs per head of the population in London, and that there are also more larger and asset-owning organisations. We also know that many national charities have their headquarters in the capital so that though they may receive funding in London, that funding could be spent across the country and even internationally.\textsuperscript{74} The emergence of various regional funds has been seen as way of redressing the perceived geographical imbalance over time and some investors report recently a more balanced profile of deals made across regions. For instance, Big Society Capital’s latest data on investment suggests that of 270 deals these are spread across regions, and the largest proportion of awards have been made to organisations working nationally or globally.

Those who engage and those who do not

2.24 Engagement across the sector correlates strongly with size. SSOs engaging with social investment finance tend to be larger organisations, with a turnover of upwards of £600,000 and more usually a turnover of around £1m or more. It is large charities and large social sector organisations identifying as social enterprises that have mostly benefited from social investment to date.\textsuperscript{75} Among social enterprises the latest available data suggests that here too it is organisations with a turnover of over £1m that are more likely to seek and access repayable finance.\textsuperscript{76}

2.25 SSOs more likely to consider social investment as an appropriate option for them have a number of characteristics in common, and one of the most important seems to be a positive attitude towards social investment and/or risk within their governing body. Trustees are widely recognised as “a major enabling factor in the decision to take on finance”,\textsuperscript{77} and positive trustee attitudes to social investment correlate strongly with an organisation’s likelihood to take on repayable finance.\textsuperscript{78} There is conflicting evidence about the links between having an enterprise culture and a positive attitude towards social investment. For instance in CAF’s 2014 research the 37\% of charities in their survey sample who self-identified as a social enterprise exhibited more positive attitudes to repayable finance than other charities. However, more recent research based on surveying with over 2,000 SSOs found little correlation between enterprising attitudes and activities and a positive view of social investment.\textsuperscript{79}

2.26 Financial capacity and perceived potential for either income generation,
public service delivery and/or growth are also relevant factors in organisations’ decision to consider social investment. SSOs considering social investment have to have either assets (buildings or reserves usually) and/or a reliable revenue stream (or a convincing case that one can be developed). IVAR in their 2013 study of charities and social investment for the Charity Commission usefully defined a reliable revenue stream as “income from an identified source that is timely, reliable, steady and with potential to grow over time.”\textsuperscript{80} A key driver for a proportion of those who engage is about upscaling or restructuring to enable bidding for large contracts, not least because that is how much of the funding and support is set up (eg much intermediary activity has explicitly focused on contract-readiness as well as investment-readiness). We can see from the evidence that an actual or perceived inability to generate income needed for repayment, or to put up assets as security for repayable finance, acts as one of the most significant barriers to engaging with social investment,\textsuperscript{81} with one study finding that 63% of its sample of SSOs reported an inability to generate sufficient surpluses to repay was a key factor in not considering social investment.\textsuperscript{82}

2.27 Asset ownership is an important factor in enabling social investment to be framed and perceived as more of an opportunity than a risk for SSOs. Much of the literature points to engagement so far being linked to a desire to purchase or refurbish assets (land or buildings) and also concludes that this driver will continue to be a priority for the sector. Ownership of assets is seen as reducing risk, increasing independence, and making repayable finance more of an opportunity for larger charities and other ventures.\textsuperscript{83}

2.28 Having a specific purpose/plan in mind and a prior (positive) history of accessing repayable finance can also affect decisions about taking on social finance. Several sources report that prior experience is an important factor in decision-making, with a recent Design Council report noting “the extent to which individual funding experiences can shape future interactions with the social finance sector”\textsuperscript{84} as significant, and various reports explaining similarly that organisations with a positive past experience of taking on repayable finance are significantly more likely to consider taking on finance in the future either because they feel more confident they can pay money back and/or they have the support they need from leaders who are more open to the idea.\textsuperscript{85} Some also mention the driver of having a specific expansion plan in mind such as developing a new service, expanding into a new area, or trying to establish a trading arm.\textsuperscript{86}

2.29 When we consider what is known about organisations that do not engage, risk aversion among governing bodies and/or managers is often cited as one of the biggest barriers to engagement, though views differ about whether

\textsuperscript{80} IVAR (2013) \\
\textsuperscript{81} CAF (2014); Gregory et al (2012); Design Council (2014); IVAR (2013) \\
\textsuperscript{82} Gregory et al (2012) \\
\textsuperscript{83} Design Council (2014) \\
\textsuperscript{84} Design Council (2014) p45 \\
\textsuperscript{85} CAF (2013); ACEVO (2015); IVAR (2013) \\
\textsuperscript{86} ACEVO (2015)
**this is a fair assessment of the situation.** Across the literature when identifying characteristics of those charities that are either unsure, unlikely or certain not to take on repayable finance, researchers have placed trustee attitudes at the top of the list.\(^{87}\) However, in research that has looked at the views of investors, investees and intermediaries, it often emerges that the issue of risk is perceived differently, with, for instance intermediaries or investors feeling that charity investees are excessively risk-averse but investees themselves feeling that in fact “their wariness ensured a responsible and risk-based approach.”\(^{88}\) The Design Council’s 2014 study brings to life some of the complexities around the issue of risk, including the issue of personal risk for start-ups or others that have established themselves on the basis of individual entrepreneurs investing and taking personal risk. It outlines how having started by taking personal risk, such ventures can then feel unwilling to add to this by taking on more risk through social investment (preferring self-funded or revenue-based growth).\(^{89}\) This challenges some of the more simplistic ideas in the literature that it is charities who are risk averse in their views towards social investment and social enterprises who are less so. The issue is more complicated and nuanced.

**2.30 A proportion of those SSOs who choose not to engage with social investment have based their decision in part on simply feeling that social investment is not an appropriate form of financing for the charity sector.** Though we do not have robust data on how widespread this view is, various studies have identified that some in the charity sector are not open to considering social investment not just because of the financial risk but also because it does not feel compatible with their charitable goals. For instance, one survey-based study identified concerns within its sample about potential reputational damage and about how social investment can be seen as running “counter to the ethos of charity.”\(^{90}\) Another found that 75% of their sample who identified as not interested in social investment felt charity money should be spent on delivery, not on repaying loans.\(^{91}\)

**2.31 Lack of awareness, knowledge and understanding remains a significant barrier to SSO engagement with social investment.** Reports that explore barriers to engagement raise the issue of a lack of awareness and understanding. This is variously cited in relation to products, repayment options, and/or sources of information/advice or sources of financing,\(^{92}\) with one research team finding that only just over a third of charities in their sample (37%) felt they had a fair or better understanding of the term ‘social investment’,\(^{93}\) and another finding that one in three potential investees reported that identifying who to go to for social investment was ‘very difficult’.\(^{94}\) This lack of understanding can lead not just to experiencing a barrier in even considering social investment but also to a lack of engagement in the first place.

---

\(^{87}\) CAF (2014); Design Council (2014), IVAR (2013)  
\(^{88}\) IVAR (2013)  
\(^{89}\) Design Council (2014)  
\(^{90}\) IVAR (2013)  
\(^{91}\) Gregory et al (2012)  
\(^{93}\) CAF (2014)  
\(^{94}\) Gregory et al (2012)
investment, but also to later problems with deal sourcing.\textsuperscript{95}

2.32 A large number of SSOs who do not engage may simply not offer the kinds of services that lend themselves to social investment opportunities and/or may find there are fewer opportunities linked to the kind of social impact they are trying to create. The kinds of goals and activities of an organisation and the nature and characteristics of its beneficiary group are also relevant to understanding decisions about engagement. Some types of charitable activity lend themselves better than others to marketing, attracting investment or generating a financial return, and, of course, opportunities play a part so we know that there are more opportunities in some sectors than in others.\textsuperscript{96}

Motivations and types of funding sought

2.33 SSOs seeking social investment most commonly do so for asset acquisition or renovation, except in the case of social enterprises where the drivers and priorities for investment are different. Studies of organisations who have sought and/or secured repayable finance identify a range of reasons and motivations for seeking investment but the most common is strengthening an asset-base through asset acquisition or refurbishment, with the most prevalent asset class being property.\textsuperscript{97} There is some suggestion that this is linked to SSOs having recognised that strengthening their asset-base could be more efficient than fundraising if for a large sum for a property, and has the advantage of bringing independence.\textsuperscript{98}

2.34 Social enterprises, particularly younger and smaller ones, are more likely to consider social investment for venture growth or start-up than for asset-driven purposes. Research undertaken for City of London in 2013 found around half of the social ventures in the sample (n=99) had sought social investment for venture growth or start-up. However, the researchers do acknowledge that their survey sample is slightly skewed towards younger and smaller social ventures rather than larger who might be more likely to be looking at secured loans/mortgages to buy buildings.\textsuperscript{99}

2.35 Although growth or scaling up are important motivations for considering social investment, consolidation is equally important. Growth capital is generally identified as being harder to access and sustainability has been more important than growth/scaling as a motivator for many in such straitened economic times. As the Design Council concluded in their recent research, although motivations

\textsuperscript{95} Gregory (2013) Angels in the Architecture: Building the infrastructure of social investment.
\textsuperscript{96} Big Society Capital (2015) Where next? Future opportunities for social investment. Big Society Capital’s own overview of investment by subsector as drawn from its Social Investment Insights Series shows a higher volume of capital to date aimed at addressing housing compared to other areas such as financial inclusion, unemployment or health and social care.
\textsuperscript{97} ACEVO/Big Society Capital (2015); CAF (2014); Gregory et al (2012); IVAR (2013)
\textsuperscript{98} IVAR (2013)
\textsuperscript{99} ICF GHK with BMG Research (2013)
were mixed and diverse, “typically consolidation was more of an immediate priority for ventures than growth”.  

2.36 Adapting to survive also features as a motivation for seeking investment, and this often reflects organisations wanting financial support to help them move into a new area of work, develop a trading aim, or develop a new product/service. The data that is available on motivations seems to suggest that this motivation is more common than seeking investment to address a cash flow/bridging problem, although this also features in the literature.  

2.37 Truly understanding what drives organisations to consider social investment requires more sophisticated segmenting than by size or type of organisation. Motivations and/or stage of development are helpful aspects of typologies aimed at understanding financing behaviour and decisions. As City of London noted in their recent handbook on Social Impact Investment, “As in the mainstream Small and Medium Enterprise (SME) sector, the stage of an organisation’s development may determine the purpose and the type of capital sought.” Various typologies have been developed to help increase understanding of the relationship of SSOs to social investment funding. One of the most useful considers the development stage and motivations of organisations alongside other characteristics. It broadly differentiates between four types of potential investee:

- **Social start-ups**: incubation, seed funding, growth over time.
- **Shape shifters**: well-established ventures wanting to move to a more commercial model, often interested in new products/services to increase sustainability.
- **Steady eddies**: large charities aiming for growth and scale, likely to hold assets, could also be spinouts and subsidiaries.
- **Not a social enterprise**: seeking investment in business - not necessarily less social minded but with different drivers as more likely to be driven by a market opportunity that addresses a social need than the other way around.

2.38 Overall debt-based rather than equity-based products are the most widely accessed by those seeking social investment. The evidence suggests that equity-based products are rarely sought by SSOs (only 5% of investments in 2010-11 and a similar proportion in 2011-12 were categorised as equity or quasi-equity investments) and the evidence on repayable finance options taken up by social

---

100 Design Council (2014) p29
101 IVAR (2013)
103 Design Council (2014)
enterprises suggests the same is true for the Social Enterprise sector.  

### 2.39 Secured loans or mortgages are the most common forms of repayable finance taken on by SSOs, with high street lenders the most common provider rather than social investors. Corresponding with the prevalence of borrowing for the purpose of acquiring property, mortgages have been the most widely accessed finance product with some sources suggesting that perhaps as much as 90% of all social investments by value made in 2011/12 were secured loans or mortgages. Unsurprisingly given this interest in mortgages it has been suggested that more than half of repayable finance actually comes from high street lenders. For the social enterprise sector the picture is much the same in terms of sources of repayable finance with high street banks remaining the main source of repayable finance.

### 2.40 Investments range so considerably in size that attempts to suggest an average size of investment are not very meaningful. However, the evidence suggests that the majority of investments are large, with most over £50,000 and some considerably higher. In fact a relatively small number of very large investments skews the bigger picture of investment in the sector. One source suggested in 2013 that the average investment size at that time was £264,000 but looking at the range of investments shows this to be less helpful than it might first appear. The same is true when trying to understand the average size of loan or investment accessed by social enterprises. One attempt to calculate this found that the level of debt finance sought during 2012 ranged from £500 to £30m, with a mean of £1.04m and a median of £85,000. The researchers concluded that the differential between the mean and median demonstrated how the data was skewed by exceptionally high levels of debt financing required by larger social enterprises, an issue that applies across the social sector as a whole where a few very large investments skew the bigger picture of investment.

---

**Understanding enablers and barriers**

### 2.41 The experience and characteristics of those who successfully access social investment suggest strong governance and leadership combined with sound business and financial planning were the factors most strongly associated

---

105 Lyon and Baldock (2014) report that demand for equity finance among social enterprises is in line with national SME trends, which typically see less than 2% of all SMEs seeking this type of finance annually.

106 Source of 2012 data ICF GHK with BMG Research (2013). Other sources confirm this pattern, including more recently ACEVO (2015).

107 CAF (2014)

108 64% of social enterprise respondents in the sample cited this this as their main source of investment with only one in five of those looking for debt finance saying they were approaching social investors. Lyon and Baldock (2014) p11.

109 The source was an analysis produced in ICF GHK with BMG Research (2013) for City of London – the average was based on averages ranging from £56k (the average investment from small SIFIs) to £723k (investment from social banks).
with success. Apart from a soundness of business case for the investment, it has been suggested that those who have received funding have in common a shared sense of mission, good governance/an engaged board, skilled management, and strong relationships with their investor(s).\textsuperscript{110}

\subsection*{2.42 Access to appropriate and timely support is commonly identified as an important enabler for SSOs even though the evidence base for the effectiveness of some of the available support is not strong.} Though commentators commonly report that support, particularly for investment readiness, is crucial, there has not been much independent evaluation of this support and it is not clear precisely who it helps and how and/or whether certain sorts of support are more effective or helpful than others to organisations at different points in their investment journey.\textsuperscript{111}

\subsection*{2.43 From those unsuccessful in accessing social investment, or finding it harder than expected to access the investment they wanted, there are sometimes significant differences of opinion about what has hindered them. These are often drawn along an investor/investee line, and often framed in a narrative about some aspect of mismatched supply and demand.} Some attribute difficulties or failure to secure investment to how the market functions (eg to issues with intermediaries and processes). However, more commonly a demand side feature is blamed (eg SSOs fail because they are not sufficiently investment-ready) or it is a supply side issue (eg the right products are not available), or some combination of the two in a narrative about mismatch between supply and demand.

\subsection*{2.44 Some regard costs and inefficiencies, processes that are not user-friendly for investees (nor investors), and a lack of mutual understanding between parties as key contributors to SSOs’ failure to secure investment.} The most common explanations in the literature for the low success rate (and/or relatively high drop-out rate) for organisations seeking social investment are:

- The complex or costly nature of deals and/or negotiations, with relatively high transaction costs - particularly for the amounts of funding sought - seen as significantly affecting the affordability and accessibility of social investment.\textsuperscript{112} One commentator summed up the issue as follows: “the market is characterised by a number of small and complex deals with high transaction cost for both sides, (and) an absence of standardised products ...”\textsuperscript{113} with another finding that 32\% of charities who said they would be unlikely to borrow, cited unaffordable costs as a barrier.\textsuperscript{114} Lyon and Baldock’s study of

\textsuperscript{110}IVAR (2013); CAF (2014)

\textsuperscript{111}One example of an independent evaluation of investment readiness support is the Boston Consulting Group’s report on the Investment and Contract Readiness Fund (2014)


\textsuperscript{113}Gregory (2013)

\textsuperscript{114}CAF (2014)
social enterprises reported that the cost of finance was also the most significant deterrent for social enterprises.\textsuperscript{115}  

- **The length of time it can take** to identify and negotiate an investment and to meet the requirements of an investor is also commonly regarded as an off-putting factor or barrier, with average investment-readiness journeys described as taking between 18 months and two years (and no certainty of funding at the end of that time).\textsuperscript{116} Investees are not the only research participants suggesting that the market needs to be easier to navigate and that decision-making needs to be quicker.\textsuperscript{117} Their complaints are echoed by investors and other important stakeholder groups, as here: “there are clearly challenges around complexity, unnecessary oversight and bureaucracy. Commissioners and arrangers need to address these issues.”\textsuperscript{118}  

- **An inefficiency or problem with intermediaries.** The literature points to some mixed feelings about intermediaries, where they are sometimes described as adding a layer of bureaucracy, or, most usually, that there is simply a lack of mutual understanding. Studies that have looked in more detail at SSOs’ journeys and barriers along the way to social investment commonly identify a lack of shared understanding between investees and intermediaries and/or investors as a factor impeding development with mention of a clash of culture or values, groups speaking a different language, and a mismatch of expectations.\textsuperscript{119}  

2.45 The language of gaps and mismatches between supply and demand is commonly used in discussions about the operation of the social investment marketplace and may be the most helpful way to understand where and how things go wrong. The literature identifies several areas of mismatch between supply and demand:  

- **Demand side issues:** a mismatch between what is on offer and SSOs’ lack of investment understanding, and more usually a mismatch between what investors require and what investees are able to deliver (a mismatch in expectations or a gap in investment- and/or impact-readiness).  

- **Supply side issues:** a mismatch between what is on offer and what investees are actually able to apply for, and between what is on offer and what investees actually most need and want (issues about the accessibility and appropriateness of the available options).

\textsuperscript{115} Lyon and Baldock (2014) – though the latest (2015) national survey of social enterprises also suggests that key barriers are navigability, accessibility and confidence. (Social Enterprise UK, 2015).  

\textsuperscript{116} Gregory (2013) p22 “a significant burden falls on the demand side, with prospective investees sometimes reporting a process of almost two years of due diligence ultimately leading to no investment.”  

\textsuperscript{117} Alternative Commission on Social Investment (2015)  

\textsuperscript{118} Nick O’Donohoe (Big Society Capital) How Social Investment has developed in 2014 (Blog dated December 12 2014 accessed from http://bigsocietycapital.com/blog/how-social-investment-has-developed-2014)  

\textsuperscript{119} IVAR (2013) and Design Council (2014)
Understanding investment readiness

2.46 Lack of investment readiness does affect parts of the sector but the evidence suggests that investment readiness is partly in the eye of the beholder, leading investors and investees to give different weight to this as a problem for the market. Investment readiness has been defined as “an investee being perceived to possess the attributes which make them an investible proposition by an appropriate investor for the finance they are seeking.” However, the literature strongly suggests that there is some difference of opinion about ‘readiness’ between investors and investees. In research that brings together views from both perspectives, the most divergent views are often on investment readiness, on what this constitutes and whether or not this is really the heart of the problem.

2.47 Investment readiness encompasses a set of skills and competencies - organisational and financial capacity; the ability to create and demonstrate impact; having and being able to ‘sell’ a sound business proposition; and issues about timing. Drawing together what the literature tells us about investment-readiness suggests the following core components. We see a lack in one or more of these areas commonly identified as a factor in organisations failing to be assessed as investable:

About the organisation:
- A board with experience
- Staff with skills
- An appropriate track record
- Demonstrable ability to create impact
- An openness to healthy risk (low risk aversion)

About the viability of the proposition:
- Viability of plans including a revenue model on which to base the deal
- Customers with cash and a market (a credible business plan)
- Financial management skills
- Ability to sell the proposition (marketing and promotional skills)

About the timing:
- Seeking finance at the right time
- Allowing (and being in a position to allow) sufficient time.

2.48 There is a growing interest in the notion of impact readiness as an element

---

120 Gregory et al, (2012) p6
121 eg Design Council (2014)
of investability that may warrant more attention. An interesting development in the debate has been the shift to discussing impact readiness, with suggestions that the ability to achieve, measure and demonstrate impact is also an important part of ‘getting things right’ in the market.\textsuperscript{122} For instance, one recent report argues that there is an important capacity gap in relation to impact, and identifies a lack of “outcome-producing capabilities” in the sector as a key threat to the development of a market using finance to solve social problems.\textsuperscript{123} To counter this there has been much work done on impact planning and measurement in the social sector in recent years and significant progress has been made in promoting a more outcomes-focused culture in parts of the sector. There is not a consensus in the literature that the sector lacks ‘outcome-producing capabilities’. Many believe the sector can and does produce or achieve outcomes, though there is an acknowledgement that it still needs support to measure and demonstrate these.\textsuperscript{124}

### Accessibility and appropriateness

2.49 It is widely acknowledged that some of the difficulties in how the market currently functions for SSOs relate to the fact that what is on offer does not best fit what SSO’s actually want or need. The literature commonly focuses on the issue of mismatch between the types of product and/or types of finance that the sector needs and what is being offered to them. Both the type and amounts of investment on offer have been identified as problematic.

- **There is a lack of unsecured, high risk capital** and it is widely suggested that this is what the social sector needs more than what is most readily on offer (secured capital), in part because so few SSOs have enough assets to use as security to enable secured loans. Particular issues have been identified with the availability of early stage risk capital and the lack of affordability of risk capital.\textsuperscript{125}

- **Some have argued there is a need for more blended capital** than the market is currently offering.\textsuperscript{126} Blended capital, it is suggested, would be of particular interest to small SSOs in transition - eg between the stages of receiving grants and the point at which they can attract investment at scale, and at a point where they are not ready to handle pure debt and would therefore consider a blend of investment capital and grants. The UK National Advisory Board to the Social Impact Investment Taskforce recognises this as an issue but also notes

\textsuperscript{122} Impetus (2014) *Building the Capacity for Impact. A report on the capacities needed by the social sector to deliver the aims of the social investment market* (for Social Impact Investment Taskforce)

\textsuperscript{123} Impetus (2014)


\textsuperscript{125} Design Council (2014); Gregory et al (2012); CAF (2014); ICF GHK with BMG Research (2013)

\textsuperscript{126} For instance, Gregory et al. (2012) reported that 49% of their survey respondents expressed an interest in mixed funding products but only 7% had received them.
the challenge in identifying those for whom blended capital would be appropriate and then tailoring such products to meet their needs.\textsuperscript{127}

- There is unmet demand for smaller investments. Various studies have identified the need for longer-term funding of less than £100,000 to help scale up existing activities, which does not match the dominant type of capital on offer. For instance, Gregory et al (2012) found SSOs were most interested in accessing investments of between £10 to £100k. In their 2014 study CAF found that two-thirds of charities were hoping to raise less than £250k in repayable finance and concluded that in order to better meet the repayable finance needs of charities, there should be increased provision of affordable risk capital, available for borrowing at lower amounts.\textsuperscript{128} Similar studies of social enterprises also commonly identify that most would be seeking investment of tens rather than hundreds of thousands of pounds.\textsuperscript{129}

- There is a lack of understanding about realistically what the options might be for engagement of small and medium-sized charities and social ventures. Improving access to repayable finance for small and medium-sized SSOs is one of Big Society Capital’s strategic goals. However, there is some sense that we do not yet have sufficient understanding of the extent to which even with more user-friendly products, social investment could be a viable or appropriate option for small and medium-sized charities and small social ventures. There may be a mismatch between what is being proposed and what this (large) part of the sector most wants or needs. Furthermore, some are concerned about the capacity of the market to develop and offer smaller deals, including whether or not this could ever be independently sustainable (ie, without being subsidised in some way). As one research team recently found, “More than one late stage funder noted the difficulty of covering the costs of multiple smaller deals in the social finance space where margins are low, even though this is the area with the most demand from social ventures.”\textsuperscript{130}

2.50 There is growing recognition that to function effectively the market (supply) may need to adapt to what SSOs need, just as SSOs have had to adapt to the kinds of supply on offer. Several studies have touched on this issue and as one concluded, “Ventures of all types are highly adaptable and will shape themselves to the opportunities in the social finance market ... but there are limits to how far they can adapt. It is important that the social finance market also remains responsive and

\textsuperscript{127} Recognising this demand and starting to take up this challenge, the new government and Big Lottery-backed Access Foundation (the Foundation for Social Investment) was established early in 2015 and is making available up to £50m of blended capital (a mix of loans and investment for smaller organisations) through its Growth Fund. (http://access-socialinvestment.org.uk/)

\textsuperscript{128} CAF (2014)

\textsuperscript{129} eg SEUK and Seebohm Hill quoted in After the Gold Rush p16. The latest national Social enterprise Survey (based on a sample of 1,159 enterprises) confirmed more recently that the median amount of finance sought is still around £60,000 – below the minimum thresholds of many specialist social investors and funds. Social Enterprise UK (2015) p49.

\textsuperscript{130} Design Council (2014) p29
There are signs of new options emerging that may offer alternatives that better respond to demand, though as yet these are offered on a relatively small scale. Some of the alternative options mentioned in the literature as having potential longer-term include: philanthropy of high net worth individuals and corporates; encouraging greater involvement of grant-making trusts and foundations; co-mingling - i.e., using philanthropic funds to leverage in commercial capital; and crowd-funding platforms that cut out the ‘middle men’ and enable smaller scale investments.

For the future, we are largely dependent on estimates rather than soundly-evidenced forecasts of how the market might develop and what might be needed. Although estimates of the scale and type of demand vary, an increase in demand is almost universally projected. Some believe a more varied set of motivations may emerge and drive demand; and most believe that there will be a continued if not growing need for investment-readiness support.

- **Estimated growth in demand.** Though estimates vary and are often reliant on extrapolations from unreliable or unrepresentative datasets, a growth in demand is generally forecast. For instance, one source estimates the average annual demand for repayable finance by charities over the next five years could be in the region of £765 million with another suggesting that by 2016 demand could have reached £1 billion.\(^\text{132}\)

- **Anticipated changes in motivation and/or needs.** It has been suggested that the future may hold a more varied make-up of borrowing purposes and an increase in demand for unsecured products.\(^\text{133}\) However, in general there is a consensus that though there may be a greater need for capital to develop organisations, or working capital to carry on business as usual, the acquisition or improvement of a building is still likely to be the most prevalent driver for seeking investment.

- **Anticipated need for more investment readiness support.** One commentator has suggested that (with some caveats) the pipeline of demand for investment readiness support could reach between 70,000 and 140,000 organisations in the years 2012–2017.\(^\text{134}\) Though this was a ballpark figure extrapolated from a single survey and seems a high estimate given the overall size of the sector and potential marketplace, nonetheless almost all commentators have agreed that more readiness support and capacity-building will be needed, even if they differ in their views of the level of need and what would be most helpful.\(^\text{135}\)

---

\(^{131}\) Design Council (2014) p 21

\(^{132}\) Boston Consulting Group report for Big Society Capital (2012) The First Billion p8

\(^{133}\) CAF (2014)

\(^{134}\) Gregory et al. (2012)

3 KEY LEARNING AND REFLECTIONS

The evidence base

3.1 Despite a growing and increasingly “voluminous” body of research on social investment\textsuperscript{136}, there remain a number of important gaps in the evidence base.

As Big Society Capital recently concluded, “Many questions about the social investment market remain unanswered and require further research.”\textsuperscript{137} Others who have reviewed the available evidence have reached much the same conclusion, with perhaps the most significant concern being the lack of robust evidence of current and future demand from SSOs: “As much of the rest of the world looks to the UK experience of social investment, there is a need to show how the demand for social investment is based on clear evidence.”\textsuperscript{138}

3.2 As well as evidence gaps, there are large areas where evidence (or interpretations of it) is conflicting, leaving us with more points of disagreement than consensus about how, and how well, social investment is working in practice both for investors and for investees.

One key area of difficulty lies in producing an accurate estimate of the scale of engagement with social investment and the proportion of the sector interested in or potentially interested in it. Some of the most recent research suggests that several influential pre-2014 studies may have overstated the significance of social investment as a source of funding for the social sector, and possibly also the pace at which market growth has so far taken place, or might take place in the future.\textsuperscript{139} In some of that recent literature we found an emerging theme of concern about social investment “hype” – with calls from research teams and other commentators for claims about social investment to be tempered with better use of evidence. Our review identified three main sources of confusion:

- **Definitions and data.** A lack of shared definitions and a lack of completeness, consistency and transparency with regards to data collection and reporting about investments and investees has contributed to a lack of clarity about market activity and growth.
- **Conflating investment levels with engagement levels.** We know a relatively small number of large organisations have benefited from some very large investments. Referencing only the total amount invested in such circumstances

\textsuperscript{136} Social Spider CIC (2015) p5
\textsuperscript{137} Big Society Capital (2014)
\textsuperscript{138} Lyon and Baldock (2014)
\textsuperscript{139} See a useful summary and critique of the different estimates of market size and growth at Leslie Huckfield (2014) *Builder Capital – It’s time to get real on social investment.* (Blog at http://www.huckfield.com/blog/builder-capital-its-time-to-get-real-on-social-investment/)
has the potential to mislead about the scale of sector engagement and may have contributed to over-estimates of engagement.

- **Enthusiasm for the idea of social investment.** Some of social investment’s most engaged champions and advocates, people with a genuine enthusiasm for social investment, may have been over-represented as contributors to the body of research as it has emerged so far and their enthusiasm may have played a part in what has recently been called “forecast optimism”, generating an over-optimistic view of the time needed to grow the market and to increase the sustainability or impact of SSOs through new and different types of investment.\(^{140}\)

### Implications – improving the evidence base

There is a need to focus future research more carefully on gaps to avoid reaching a kind of saturation where new research takes place but few new insights are generated as a result. Building on some of the more robust large-scale surveying of SSOs and/or making better use of financial data on investments and financing behaviours in the sector may address some gaps, and overall we would add our voices to those of others who have recommended more consistent collection of data and greater transparency. Without definitional clarity and better information-sharing there is a danger that researchers will continue to generate conflicting estimates about the value of the market and levels of sector engagement with it, and will be unable to meaningfully measure progress or growth over time.\(^{141}\)

---

**Sector engagement**

### 3.3 The evidence suggests that a majority of SSOs considering or actively seeking to attract social investment continue to be larger organisations, and that there is a strong correlation with not only size but also asset ownership, and attitudes towards investment and risk within the organisation’s leadership team or governing body. However, motivations for seeking investment are mixed and issues of timing and the availability of relevant opportunities are also important factors.

More sophisticated typologies of SSOs who might be interested in social investment are starting to emerge as it becomes clearer that the factors affecting engagement with social investment are more complex and relate less to the type or form of organisation or even the level of enterprise than may have been assumed previously. The most

\(^{140}\) Huckfield (2014)

\(^{141}\) As we finalised this report, EngagedX launched its first dataset containing open data on more than 400 investment deals in the UK social investment market – a promising sign that at least some of these issues are starting to be addressed as aggregated investment and impact data is shared. Visit [http://data.gov.uk/dataset/engagedx-dataset1-sirc-performance-data-of-social-investment-released-for-first-time](http://data.gov.uk/dataset/engagedx-dataset1-sirc-performance-data-of-social-investment-released-for-first-time)
common motivations for seeking investment are still to invest in assets and growth/scaling up, including to win larger contracts. However, because of the way the marketplace has been developed, the pattern of motivations and take-up of investment may be as much shaped by supply as by what organisations most need and there is some evidence that, particularly in what are difficult financial times for the sector, consolidation and adapting may be equally important drivers.

3.4 A relatively high proportion of the sector remain uninterested in social investment and repayable finance more generally, simply not seeing it as an option for them. The evidence suggests that explanatory factors include a lack of awareness/understanding and a lack of confidence in how to engage. In addition organisations are concerned about the level of risk and lack of capacity to generate income to repay debt. Others consider it a poor fit with charitable values or views on income generation, or a poor fit with the type of services and/or social outcomes the organisation delivers.

If the overall goal is to widen participation in the market by SSOs who might benefit from social investment, it makes sense to continue with the current provision of a range of types of information and support, available at different points in an organisation’s investment journey. However, while making social investment more accessible to everyone may be an achievable goal, making it appropriate for everyone may not be. We know that the majority of the sector comprises small organisations who are asset-poor, and for many of these repayable finance may never be an appropriate option. Some of those that assess and dismiss social investment may be making the right judgement. Therefore a better understanding of these organisations and their decisions might lead to more appropriate targeting of awareness-raising or investment-readiness support to those for whom it could really make a difference.

3.5 There is broad consensus that the market could operate more effectively for those who are interested in social investment, and that it could be easier for SSOs to engage. Despite differing views on what to prioritise to improve things, the three most commonly identified solutions are: addressing mismatches between supply and demand; continuing to offer investment readiness support; and finding ways to reduce the costs of investment and the complexity of investment processes.

- **Addressing issues of mismatch.** Solutions commonly proposed to address issues of mismatch between what’s offered and what’s needed are that a wider range of products should be made available, including unsecured capital and more blended capital, and that making available smaller investment amounts would better match what the sector needs.

---

142 HM Government (2014) p8
143 NCVO (2015)
• **Continuing to support investment readiness.** Despite some debate as to the extent to which investment readiness is a problem, and a lack of evidence about the effectiveness of investment readiness support, almost all commentators have suggested an ongoing and potentially growing need for investment-readiness support.

• **Simplifying investment journeys.** Common recommendations are that steps should be taken to reduce the costs of borrowing, the time taken to broker deals, and the complexity of the processes involved in securing deals, as these are identified as key barriers to SSO participation in the marketplace.

---

### Implications – improving sector engagement

Most commentators are in agreement that there is a need for a more diverse range of investment products that are both more affordable and more easily accessible. There are some signs that the market is taking these considerations into account with new products and types of product emerging whose development is being both supported and watched with interest.

Most are also in agreement that the social sector will continue to need support to engage in the longer term. However there are gaps in our knowledge about how effective support has been to date. Many more organisations are trying and failing to attract investment than are succeeding, and many more are engaging with intermediaries and receiving social investment readiness support than are receiving actual investment. Despite these organisations representing the majority, their stories are less well represented in the literature than the stories of those that achieve investment. Learning more about organisations whose journeys falter, about the value and impact of support, and about what happens when organisations seeking investment are unsuccessful in their attempts, could all be useful additions to the evidence base on how best to support the sector and improve sector engagement over time.

---

### Measuring success

3.6 **Much of the research that has been conducted to date focuses on the effectiveness of social investment as a funding mechanism rather than as “a tool to help increase social impact”.**\(^{144}\) It may be timely now for future research to look at questions of impact alongside questions of effectiveness, that is, to address fundamental questions about what difference social investment is making.

Inevitably as the focus has been on developing an effective marketplace, much of the research to date has focused on effectiveness and how to increase this. However, as

\(^{144}\) HM Government (2014) p6
the recent report of the Alternative Commission on Social Investment concludes, we need to avoid falling into the trap of treating the development of the social investment market as an end in itself. Simply achieving a more accessible marketplace would be just one measure of success. There are some less well-explored research questions that it might be useful to focus more attention on in the near future, including:

- What happens after investment?
- To what extent are the anticipated outcomes of social investment being achieved for investors and investees, for SSOs and their beneficiaries?
- Who is benefiting and how?
- What is the impact of investment on organisations who receive it? Is social investment helping organisations achieve their goals - reach scale, become more sustainable, or increase their reach or impact?
- Is social investment achieving its larger policy goals, including helping the sector contribute (more) to tackling important social problems and if so, how?

An important startpoint to measuring success in a more ‘rounded’ way will be the ability to access good quality data and reporting from investors. A positive step in the right direction can be seen in that some larger investors and investment institutions are starting to publish their own impact reports and to make their data available for independent analysis, with Big Society Capital leading the way in this. We know, however, that there are gaps not just in how SSOs measure and report on their impact, but also in how investors and SIFIs report on theirs. Addressing these gaps would also be helpful as we seek to better understand the true value of social investment not just for the sector but, importantly, for our wider society.  

---

**Implications – measuring success**

Just as we found a lack of clarity and agreement about what social investment is, and how much is taking place, so there is a lack of clarity and agreement not just about the impact of it to date, but perhaps even about how success will ultimately be measured. The focus on access to finance and increasing accessibility of the marketplace runs the danger of encouraging us to see marketplace development as an end in itself. Therefore, focusing some of our attention as researchers now on questions of impact feels both timely and appropriate – particularly if social investment is to keep social impact as much at its core as financial return.

---

145 A useful overview of the state of play of impact measurement amongst SIFIs was produced in 2015. “Oranges & Lemons”, written by Investing for Good and funded by Big Society Capital and the Esmee Fairbairn Foundation [June 2015] identified some of the challenges and also identified the need for more work to be done to understand the best ways of measuring the impact of different types of investment.
APPENDICES

Appendix 1 – References

Publications

ACEVO/Big Society Capital (2014) What do charity leaders think about social investment?
Big Society Capital (2013) Social Investment Compendium
Big Society Capital (2014) Social Investment Compendium
Big Society Capital - Social Investment Insights Series (occasional papers drafted by members of Big Society Capital’s team on areas of interest to the social investment market)
Big Society Capital with Bridges IMPACT+ (2014) The Social Business Frontier: A report that investigates how to recognise and protect the social impact that business delivers in the UK.
CAF (2014) In Demand: The changing need for repayable finance in the charity sector
CDFA/RBS Group (2013) Mind the finance gap: evidencing demand for community finance
Design Council (2014) Social finance in the UK: Designing the experience for ventures


ICF GHK with BMG Research (2013) Growing the Social Investment Market: The Landscape and Economic Impact

Impetus (2014) Building the Capacity for Impact. A report on the capacities needed by the social sector to deliver the aims of the social investment market (for Social Impact Investment Taskforce)

IVAR (2013) Charities and Social Investment


NCVO (2014) UK Civil Society Almanac 2014

NCVO (2015) UK Civil Society Almanac 2015

NESTA (2011), Investing for the good of society.


Tomorrow’s People (2013) Can social finance meet social need?

UK National Advisory Board to the Social Impact Investment Taskforce (2014) Building a social impact investment market. The UK Experience

Websites

Access Foundation (the Foundation for Social Investment) at http://access-socialinvestment.org.uk/


Big Society Capital research library at http://www.bigsocietycapital.com/social-investment-research-library

CAF Venturesome at http://caf-venturesome.tumblr.com/aboutus


NCVO Civil Society Almanac data at http://www.data.ncvo.org.uk

Blogs and online resources


## Appendix 2 – Annotated source list

<table>
<thead>
<tr>
<th>Title</th>
<th>Authors</th>
<th>Date</th>
<th>Summary</th>
<th>Research methods, sample, notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Investment readiness in the UK</td>
<td>Dan Gregory, Katie Hill, Iona Joy, Sarah Keen. (Clearly So and NPC for Big Lottery Fund)</td>
<td>2012</td>
<td>Research into state of investment readiness in the sector focused on understanding investment readiness and exploring the mismatch between supply and demand, needs and expectations, etc.</td>
<td>Survey of 7,420 VCSE organisations from Big and Clearly So’s databases. Response rate of 1,255. Also a literature review and 40 interviews plus five case studies of journeys to secure investment. Potential sources of bias acknowledged – using lottery database and Clearly So members database (social enterprises with an interest in attracting investment).</td>
</tr>
<tr>
<td>2. Growing the Social investment market: a vision and strategy</td>
<td>Cabinet Office</td>
<td>Original 2011, update 2014</td>
<td>National strategy document with update after three years.</td>
<td>n/a – strategic rather than research based though useful overview of the evidence of scale and scope of the market in terms of amounts invested and key players (SIFIs) as well as perspective on what should happen next to build the market and (in 2014) make financing more widely accessible. The research methodology included a survey inviting all known SIFIs in the UK to participate (n=29), and a survey of social ventures who have received social investment (n=99). The economic impact assessment followed a complex methodology outlined in full at the back of the report. The survey of social ventures is one of the few that gives aggregated data on the experience of organisations who have actually received social investment through SIFIs/social banks.</td>
</tr>
<tr>
<td>3. Growing the Social Investment Market: progress update</td>
<td>ICF GHK in association with BMG Research (for City of London and partners)</td>
<td>2013</td>
<td>Big Lottery Fund, Big Society Capital, City of London Corporation, and HM Government commissioned this research to look at the size of the market, and calculate its economic impact 2011-12.</td>
<td>The survey of social ventures is one of the few that gives aggregated data on the experience of organisations who have actually received social investment through SIFIs/social banks. Synthesising across products and intermediation, demand, supply and the broader environment in</td>
</tr>
<tr>
<td>5. Social Investment Compendium.</td>
<td>Big Society Capital</td>
<td>Original 2013</td>
<td>Big Society Capital. This useful compendium focuses on the</td>
<td></td>
</tr>
<tr>
<td>Title</td>
<td>Authors</td>
<td>Date</td>
<td>Summary</td>
<td>Research methods, sample, notes</td>
</tr>
<tr>
<td>-------</td>
<td>---------</td>
<td>------</td>
<td>---------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Portfolio of research and intelligence on the Social investment market</td>
<td></td>
<td>updated 2014</td>
<td>current status of the market and opportunities and challenges for future development.</td>
<td>a set of slides rich in quantitative data. A wide-ranging scour of the literature available at Oct 2013. (The 2014 updated version gives useful update and has more detail on social enterprise.)</td>
</tr>
<tr>
<td>6. Building a social impact investment market. The UK experience</td>
<td>UK national advisory board (to the Social Impact Investment Taskforce)</td>
<td>2014</td>
<td>Useful overview of the state of the market currently, how it got to where it is, and recommendations for how to assure further growth.</td>
<td>Mostly desk research and interviews/engagement with key players.</td>
</tr>
<tr>
<td>7. Angels in the Architecture. Building the infrastructure of social investment</td>
<td>Dan Gregory (Common Capital)</td>
<td>2013</td>
<td>The aim was to outline a vision for the social investment market and ‘infrastructure’ required to deliver it, to take stock of the current state of the market and to make recommendations for future.</td>
<td>This research draws on conventional economic theories, two roundtable meetings, desk-based research and a number of interviews with experts, practitioners and observers</td>
</tr>
<tr>
<td>8. Lighting the Touchpaper: Growing the market for Social Investment in England</td>
<td>Adrian Brown and Will Norman (BCG and Young Foundation)</td>
<td>2011</td>
<td>A useful early overview of SIFI activities and investment with some discussion of barriers, challenges and ways forward and recommendations.</td>
<td>Based on a survey of SIFIs with desk research and qualitative interviewing with key stakeholders (industry experts). Sample size unclear but 59 SIFIs responded to the survey directly but more data analysed on SIFI arrangements.</td>
</tr>
<tr>
<td>9. Can social finance meet social need?</td>
<td>Robbie Davison Director, Can Cook CIC and Helen Heap, Tomorrow’s People</td>
<td>2013</td>
<td>A discussion paper aimed at stimulating debate on social enterprise, types of funding needed, etc.</td>
<td>This reflects on developments from a social enterprise perspective and is written from the perspective of individuals deeply involved in a very practical way in social enterprise.</td>
</tr>
<tr>
<td>10. NCVO Civil Society Almanac (2014)</td>
<td>Kane et al. (NCVO)</td>
<td>2014 and 2015</td>
<td>A compendium of data on UK civil society, its size,</td>
<td>Detailed and wide-ranging analysis of the state of the sector updated annually. Financial data from</td>
</tr>
<tr>
<td>Title</td>
<td>Authors</td>
<td>Date</td>
<td>Summary</td>
<td>Research methods, sample, notes</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------</td>
<td>------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>11. NCVO Civil Society Almanac (2015)</td>
<td></td>
<td></td>
<td>workforce, profile and activities, income, expenditure, assets, etc. and trends over time.</td>
<td>charitable and company accounts forms the basis of much of the analysis.</td>
</tr>
<tr>
<td>12. In demand: The changing need for repayable finance in the charity sector</td>
<td>Charities Aid Foundation</td>
<td>2014</td>
<td>Maps out the current state of play in charities’ demand for repayable finance by looking at charity attitudes to social investment, the demand for finance and the barriers to accessing it. Considers all forms of repayable finance available to charities, not just social investment.</td>
<td>The findings of this report are taken from 1,811 charities screened to take part in the research and 252 detailed surveys with larger organisations (over £600k) who have or will consider social investment.</td>
</tr>
<tr>
<td>13. Charities and social investment. A research report for the Charity Commission</td>
<td>Leila Baker and Niamh Goggin IVAR (for the Charity Commission)</td>
<td>2013</td>
<td>Challenges, risks and opportunities facing charities involved in social investment – experience of receiving, making and also considering opinions about future 5 years.</td>
<td>Qualitative study – interviews, meetings, group discussions with intermediary organisations, recipients (CEOs and trustees) and charities that have made investments (senior managers/trustees). Sample of 70 - relatively small but research is qualitative/exploratory and findings reported appropriately.</td>
</tr>
<tr>
<td>14. What do charity leaders think about social investment?</td>
<td>ACEVO and Big Society Capital</td>
<td>2015</td>
<td>An attempt to explore current appetite for and needs in the area of social investment</td>
<td>Based on a survey of ACEVO members – self-selecting sample from within the membership and 128 charity CEOs responded. Survey (online) titled “The changing face of charity: ACEVO social sector tracker new markets survey 2014” (contained a few questions on social investment). Relatively small sample and acknowledged sample bias (more than 50% (73) were CEOs of</td>
</tr>
<tr>
<td>Title</td>
<td>Authors</td>
<td>Date</td>
<td>Summary</td>
<td>Research methods, sample, notes</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------------------------------</td>
<td>-------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>15. Financing social ventures and the demand for social investment.</td>
<td>Fergus Lyon and Rob Baldock</td>
<td>2014</td>
<td>Overview of SE debates and state of play including types of finance being sought by social enterprises; segmenting the demand: the types of seekers of repayable finance and success rates in seeking debt finance; and discouraged borrowers.</td>
<td>Charities with &gt; £1m income and organisations with an annual income of more than £10m were also over-represented. Draws on the findings of the SEUK annual survey of 2013. Considers those general findings about business and social society organisations and looks at extent to which hold true of social enterprises – eg issues of investment readiness and other commonly identified barriers. This paper draws on an analysis of the Social Enterprise UK survey, which surveyed 878 social enterprises (SEUK, 2013). Robust analysis using regression model to look at significance of different characteristics.</td>
</tr>
<tr>
<td>16. The People’s Business. State of Social Enterprise Sector Survey 2013</td>
<td>SEUK</td>
<td>2013</td>
<td>The SEUK annual survey of social enterprises 2013 as later analysed in more detail by Lyon and Baldock, TSRC. (see elsewhere in this table)</td>
<td>The State of Social Enterprise Survey 2013 was commissioned by Social Enterprise UK, in association with the RBS Group. BMG Research were contracted to carry out the survey fieldwork with the objective of gathering information from and about social enterprises. A total of 878 responses were gathered both online and via telephone interviews with the person in day-to-day control of the business or the person responsible for the business finances.</td>
</tr>
<tr>
<td>17. Where next? Future opportunities for social investment.</td>
<td>Marcus Hulme Big Society Capital</td>
<td>2015</td>
<td>A synthesis of main findings from a series of ten BSC occasional papers. These papers on key subsectors have</td>
<td>The Insights series has been based on reviews of research and interviews with experts in each subsector area. This paper summarises headlines from each of these and gives some short case</td>
</tr>
<tr>
<td>Title</td>
<td>Authors</td>
<td>Date</td>
<td>Summary</td>
<td>Research methods, sample, notes</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>-------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>[Social Investment Insights Series]</td>
<td></td>
<td></td>
<td>focused on identifying opportunities for social investment, challenges and areas for further exploration.</td>
<td>examples of funding under the different Big Society Capital high level outcomes.</td>
</tr>
<tr>
<td>18. Social finance in the UK. Designing the experience for ventures</td>
<td>Design Council (commissioned by HM Government)</td>
<td>2014</td>
<td>Research undertaken over ten weeks at the end of 2013. This qualitative study focuses on the journeys of social ventures – experience of accessing social investment and barriers. Develops a typology that is useful. One of very few reports that contains more in-depth material on experience and journeys.</td>
<td>Used ‘social venture’ as a collective term for organisations with a social mission that might seek social finance (eg charities, community interest companies, for-profit social ventures set up as companies limited by shares or guarantee). Interviews with 20 social ventures (13 London-based) and 12 funders, an open survey with social ventures, desk research and 2 focus groups (6 social ventures and 15 funders) to test findings.</td>
</tr>
<tr>
<td>19. Building the Capacity for Impact. A report on the capacities needed by the social sector to deliver the aims of the social investment market</td>
<td>Impetus – The Private Equity Foundation (for Social Impact Investment Taskforce)</td>
<td>2014</td>
<td>A qualitative piece prepared for the UK National Advisory Board to the Social Impact Investment Taskforce</td>
<td>Based report findings on consultation, examples of successful capacity-building, and examples of organisations developing capabilities that have helped them ensure they can successfully deliver on social investment deals. Shares a model around investable organisations. Focus is impact readiness as opposed to investment readiness.</td>
</tr>
<tr>
<td>20. Smart money: understanding the impact of social investment</td>
<td>Iona Joy (New Philanthropy Capital)</td>
<td>2014</td>
<td>A summary of NPC’s learning so far about impact measurement as it sits as part of social investment and some</td>
<td>More of a thinkpiece or discussion paper than a research study. Contains useful reflections on outcomes frameworks and matrices along with other links and ideas for improving impact measurement over time.</td>
</tr>
<tr>
<td>Title</td>
<td>Authors</td>
<td>Date</td>
<td>Summary</td>
<td>Research methods, sample, notes</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------</td>
<td>------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>21. Impact investment: The invisible heart of markets. Harnessing the</td>
<td>Report of the Social impact</td>
<td>2014</td>
<td>An overview of progress in international context, but includes useful data on UK experience (high level) and some models for understanding aspects of investment.</td>
<td>Not research-based. Useful for overview at high level, including where UK fits alongside other global developments. Some short case studies, introduces social impact investment and talks about impact investment more than social investment. Also has a useful overview of the profit-with-purpose model.</td>
</tr>
<tr>
<td>power of entrepreneurship, innovation and capital for public good</td>
<td>Investment taskforce</td>
<td></td>
<td>general good practice recommendations.</td>
<td></td>
</tr>
<tr>
<td>22. After the Gold Rush – The Report of the Alternative Commission on</td>
<td>Social Spider CIC</td>
<td>2015</td>
<td>Funded by Esmee Fairburn, this report is based on a qualitative project described as a “wide-ranging participatory discussion” that engaged 100 people in person and 20 through an online survey. Its focus was to take stock and look at what’s wrong with the market and how it can be made more relevant and useful. It makes 10 key points and 50 recommendations (strategic and practical)</td>
<td>A team of 14 Commissioners with experience in social enterprise and social investment carried out an enquiry based on desk research, interviewing, roundtable events and an online survey (n=20). This focused more on the perspective of SSOs than intermediaries and investors. Provides rich analysis of available evidence as well as the data from interviews and roundtable events for different stakeholder groups.</td>
</tr>
<tr>
<td>Social Investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23. An assessment of the willingness of organisations to borrow money in</td>
<td>Tony Chapman (Durham University)</td>
<td>2015</td>
<td>This report is based on a detailed analysis of the Northern Rock Foundation’s Third Sector Trends study.</td>
<td>Survey-based research conducted in the North of England by Northern Rock Foundation Third Sector Trends study (n=2,266) across three areas. There was a core set of questions common across</td>
</tr>
<tr>
<td>Title</td>
<td>Authors</td>
<td>Date</td>
<td>Summary</td>
<td>Research methods, sample, notes</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>---------</td>
<td>------</td>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>Third Sector: Findings from studies in Yorkshire, North East England and Cumbria</td>
<td></td>
<td></td>
<td></td>
<td>the surveys and these were analysed with some additional analysis of questions specific to an area.</td>
</tr>
</tbody>
</table>