Building a social impact investment market

The UK experience
The UK National Advisory Board to the Social Impact Investment Taskforce was convened in June 2013. Its membership is made up of individuals representing the financial and social sectors in the UK all of whom have played an important role in the development of the social impact investment market in the UK.

The remit of the Advisory Board was to review key developments that had stimulated the growth of the social investment market, and to suggest recommendations to support future market growth.

In Chapter 1 we describe the context and the current state of the UK social impact investment market. It is widely accepted that the UK has been at the forefront of innovation in social investment and in Chapter 2 we seek to show how the UK market has developed since the first Social Investment Taskforce was constituted in 2000. A great many individuals, organisations and all the major political parties have played important roles in developing this market. It would be impossible to list them all in this report and we have therefore included only those organisations and policy initiatives that came after 2000, were explicitly developed to focus on growing social investment, and were mentioned most frequently in our consultations with Advisory Board members and key stakeholders.

We believe our experiences in the UK can be valuable to other G8 countries seeking to develop their own social investment markets and we hope that the global audience for this report will find important lessons, both positive and negative, from many of the innovative approaches adopted in the UK.

In Chapter 3 we have listed a number of recommendations which we believe, if implemented, would help to further drive the growth of our social investment market. In three broad areas the committee has endorsed separate pieces of work led by organisations represented on the Advisory Board (these papers will be published in parallel with this one). These recommendations focus on:

- Promoting a new culture of Government procurement that encourages innovation and prevention and will open many more opportunities for social organisations in need of social investment (led by Social Finance).
- Redefining the social business frontier to ensure that businesses delivering social value can be recognised and will enable them to be supported by social impact investors (led by Big Society Capital).
- Supporting the growth of smaller social organisations by providing capital that blends both grants and investment (led by Impetus-PEF).
- Providing greater choice to retail investors by ensuring that they are offered social investment options as part of their mainstream pension plans.
- Encouraging greater disclosure by financial institutions of their lending and investment both to social organisations and in areas of greatest deprivation.

The publication of the Taskforce Report, and the various national advisory and working group reports that accompany it, will highlight the increasing global momentum behind social impact investment. The UK has been at the forefront of this movement for more than a decade. The result today is a rapidly growing marketplace which is providing new and innovative funding options for social entrepreneurs around the country.

Much however needs to be done if this market growth is to continue to accelerate and drive systemic social change. We hope that this report will help provide better global understanding of what has been achieved so far in this country and tangible recommendations for the key next steps necessary to build on the important foundation that is already in place.

Nick O'Donohoe, Chair of the UK National Advisory Board

Foreword
Introduction

Social impact investments have significant potential to help meet social needs in a sustainable way. Building a strong and diverse market for social impact investments will ensure the social outcomes delivered can last and grow. This report describes the UK experience to date of building a social impact investment market, offers lessons and proposes the next steps to building the market further.

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.1

Building a market for social impact investment requires the development of three elements: the supply of financial investment, the demand for investment by those addressing social need and the intermediaries which link the supply of and demand for investment.

While the rationale for building such a market – to better meet social needs – must always remain the top priority, this report focuses on how the market has been built.

UK context

The UK social impact investment market must be understood in the context of the social, financial and public sectors among which it functions.

The social sector is large but fragmented. There are over 160,000 charities and 70,000 social enterprises with a combined annual income greater than £60 billion and workforce of more than 1.5 million people, representing over 4% of Gross Domestic Product and 5% of UK employment.2 Scale among these organisations, however, is rare. Only the top 100 charities have income of above £45 million per annum and there is a strong reliance on income from statutory bodies, with 35% of income coming from these sources.3

The financial sector is still in transition. Banking is highly concentrated. The top five banks account for 85% of total current accounts across UK, although mainstream political parties are advocating for greater competition.4 Community development finance institutions (CDFIs) are still sub-scale and rely heavily on grants with limited access to debt financing. New models of alternative finance, such as crowd-funding, are starting to receive increasing public attention and Government support. The potential however is not yet known.

The public sector has seen an increase in both the scale and scope of outsourcing of social services to private and social sectors in recent years. This has been fuelled by policy reform goals of a mixed economy of providers and meeting the increasing needs (and demands) of an ageing population. There has been increasing use of results-based commissioning in welfare and public services, including large-scale programmes. The reform of the Ministry of Justice (MOJ) probation services, for example, is a £1 billion programme to improve social outcomes and reduce costs.
This report

The purpose of this report is to share the UK experience of building a market for social impact investments to date. It aims primarily to help inform the international community about the UK journey of market development with a view to assisting other market building efforts. The report also aims to provide domestic social investment policy-makers and market builders with a plan of action for the next phase of market growth.

This report is the culmination of all of this work. It investigates market building through the key initiatives that helped build the UK market and their contribution to a broader UK market ecosystem. It employs a simple ecosystem framework, Figure 1, which divides the market into the demand, intermediary and supply elements and further highlights individual segments within each of these elements. It also categorises the initiatives into five types: new organisation launched, new policy (or policy consultation), an instrument innovation, new programme support launched, and an information platform.

State of the UK social impact investment market

The social impact investment market in the UK remains relatively small but innovative. In its narrowest form, including only investment by specialised social investment and lending intermediaries into charities and social enterprises, it has been measured at £202 million of funding per year, almost 90% of which is secured lending to charities and social enterprises. However, this excludes substantial 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. The range of social impact investment products is relatively broad, including secured and unsecured lending, quasi-equity, equity and social impact bonds (SIBs).

Supply of investment remains heavily dominated by Government funds, charitable trusts and foundations and Big Society Capital. There have been significant steps towards promoting greater retail investor participation through Social Investment Tax Relief and retail investor products (mentioned in Chapter 2), as well as the first steps to encourage broader institutional investor participation, such as local authority pension funds.

There is now a diversity of intermediary organisations emerging, particularly helped by the funding of Big Society Capital, which by the end of its second year, had made 31 investment commitments totalling £149 million. Whilst four large social banks still dominate, wholesale funding has driven increasing specialisation of intermediaries, including by region, product type and social issue, such as the North East Social Investment Company, Bridges Social Impact Bond Fund and NESTA’s Impact Investment Fund. In addition, advisory organisations have emerged, such as ClearlySo and Social Finance.

Demand for investment stems from across the country, with some focus on London (19% by volume). There is evidence of an interest in social investment by a large number of social organisations, and there is evidence that social organisations can’t find the right type of finance currently, a finance gap estimated at between £300 million and £1 billion capital per year.6

5. GHK, Growing social investment: Landscape and economic impact, 2013

Figure 1

Segmentation of UK social impact investment market

<table>
<thead>
<tr>
<th>Demand</th>
<th>Intermediary</th>
<th>Supply</th>
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<tr>
<td>Cooperatives*</td>
<td>Social banks</td>
<td>Individual investors</td>
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<tr>
<td>Charities*</td>
<td>Fund managers</td>
<td>Institutional investors</td>
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<tr>
<td>Social enterprises*</td>
<td>CDFIs</td>
<td>Government investment</td>
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<td>Mainstream business</td>
<td>Infrastructure</td>
<td>Charitable foundations</td>
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<td>Government commissioning</td>
<td>Instruments</td>
<td>Philanthropists</td>
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* Social organisations
Figure 2
Timeline of key developments in the UK social impact investment market

Key developments in the UK social impact investment market

- **2000**
  - **UnLtd**: First social enterprise incubator/accelerator

- **2001**
  - **Bridges Ventures**: First fund focused on community investment with matching capital

- **2002**
  - **Community Investment Tax Relief**: Tax relief for community investment through CDFIs
  - **Charity Bank**: First bank in the UK devoted to servicing charities

- **2003**
  - **Futurebuilders**: Home Office launches first programme targeted at lending to social enterprises
  - **Community Interest Company**: Specific legal form for social enterprises or mutuals

- **2004**
  - **Social Finance Taskforce**: Independent body launched by HM Treasury

- **2005**
  - **Social Investment Taskforce**: Independent body launched by HM Treasury

- **2006**
  - **Social Finance**: Key intermediary to act as advisory party to commissioners and organisations

- **2007**
  - **First Social Impact Bond**: Peterborough SIB launched by Social Finance with MOJ and diverse investors

- **2008**
  - **Investment & Contract Readiness Fund**: First fund to support the readiness of social enterprise to take investment and receive contracts

- **2009**
  - **What Works Centres**: Centres to collect evidence for policy-making

- **2010**
  - **Dormant Accounts Act**: Preceded by the Commission on Unclaimed Assets
  - **Scope Charity Bond**: Scope launches £2m charity bond as part of broader programme

- **2011**
  - **DWP Innovation Fund**: First fund to drive innovation to address NEETs through commissioning of multiple interventions

- **2012**
  - **First Social Impact Bond**: Peterborough SIB launched by Social Finance with MOJ and diverse investors

- **2013**
  - **Investment & Contract Readiness Fund**: First fund to support the readiness of social enterprise to take investment and receive contracts
  - **Big Society Capital**: First wholesale social investment institution
  - **Social Outcomes Fund**: Cabinet Office launches cross-Government fund to help spur departments and commissioners to develop social impact bonds and spur savings
  - **Commissioning Academy**: To address new skills required in commissioning, including for social organisations
  - **Community Shares Unit**: Institution to gather best practice, monitor and promote community share offers
  - **Social Value Act**: Legislation to embed social value in procurement processes across Government

- **2014**
  - **Unit Cost Database**: Open data provides information on costs of certain social outcomes
  - **Social Investment Tax Relief**: First investor-based tax relief targeted at social investments
  - **Charitable Trustees’ Duties Reform Consultation**: Law Commission consultation on fiduciary duties of charitable trustees to better enable charitable trustees to make social investments
  - **UK Social Bond Fund**: Threadneedle with Big Issue Invest launch fund that individual investors can invest into (corner-stoned by Big Society Capital)

- **2015**
  - **Investment Intermediaries Fiduciary Duties Reform**: Law Commission consultation on fiduciary duties of investment intermediaries (and pension funds)
Building the market through key initiatives

This Chapter provides a detailed overview of key initiatives since the Social Investment Task Force of 2000. It provides a view into what initiatives worked and what did not, where effort was devoted and what market was shaped as a result. The key initiatives are listed in Figure 2 and detailed in Appendix II.

The initiatives selected for inclusion in this Chapter have been instrumental to the building of the market, or have the potential to be in the future. It only includes those launched after the 2000 Social Investment Task Force and those which focus exclusively on social investment. However it clearly cannot cover everything, and there are a significant number of other organisations that have played a key role in developing the market. These include the Big Lottery Fund, CAF, Nestlé, Big Issue Invest, ClearlySo, Key Fund. Triodos, Venturesome and a variety of foundations, in particular Esmée Fairbairn. Their support has been crucial to market growth.

The elements of the market ecosystem that the initiatives have focused on have evolved over time (see Figure 3).

The development of the UK market has been led by a strong focus on building robust diverse intermediaries. It has targeted access to deep pools of capital from specific sources. It has also focused on building a case for social investment through supporting social organisations in public services delivery. This has all been driven by the committed support of central Government.

Creating the intermediary infrastructure necessary for the proper functioning of a market has been a large part of UK market building. The UK has been unique in creating a large wholesale bank, Big Society Capital, to directly support the development of intermediaries and to champion market building.

Supply initiatives have had less explicit market building attention. Investors have however been attracted into the market through the activities of intermediaries, such as Bridges Ventures, and new products, such as the Charity Bond. Early on, explicit efforts were made to unleash capital from new investors through tax incentives but this proved less fruitful than anticipated. Recently more direct attention is being given to regulatory reforms to promote increased capital supply with three 2014 initiatives targeting tax relief, reform of charitable fiduciary duties and investment intermediary fiduciary duties.

Demand initiatives have generally lagged behind the creation of intermediary organisations and increasing supply. However, an interesting trend in the UK has been the almost exclusive focus on public sector commissioning, which has taken two forms. First, from as early as 2004 with the Futurebuilders fund, demand side development has been characterised by building the capacity of social organisations to win and deliver public sector contracts. Secondly and more recently, greater attention is being given to the capacity of commissioners to engage and work with social sector organisations.

The type of development has also evolved over time (see Figure 4). Early initiatives were either new organisations or policies that laid broad foundations for future market growth. More recently, a wider range of initiatives has emerged. These include three new innovative instruments, a few new support programmes and new information platforms that would not have been possible ten years earlier because of the need for initial pilots to demonstrate how they would work when scaled up. This diversification reflects a building of market momentum, an increased understanding across a growing landscape of stakeholders and the positive spillover effects of some initiatives on others.

The drivers of the market evolution are reflected in the state of the market today. The Government has played a leading role in many initiatives at their early stages – as a builder of institutions, steward of regulation and commissioner of services. Central Government, through the Cabinet Office’s dedicated social investment and finance team and HM Treasury in particular, has been a particularly strong driver of this market. However, the true potential for innovation and scale appears to be unleashed only when departments directly addressing social issues, such as Department for Work and Pensions (DWP), Ministry of Justice (MOJ) and Department for Communities and Local Government (DCLG), are meaningfully engaged.

In the section that follows, the 25 key initiatives are described in chronological order highlighting for each: what it is, why it is important, what outcomes have been achieved and its significance in the development of the market. In the conclusion to this Chapter, common themes are pulled out to understand what made these initiatives critically important to the broader market.

Figure 3

Key initiatives that advanced impact investing market building in the UK and what part of the market they represent
The Social Investment Taskforce was an independent body launched by HM Treasury in 2000. In outlining a suite of policy proposals, it became an important catalyst and framework for policymakers over the following ten years. Its remit was to understand how entrepreneurship could be applied to combine financial and social returns, while also looking at how to address economic regeneration by releasing new sources of private capital. The Taskforce’s view was that this could best be achieved through social entrepreneurship and investment effected by a powerful social sector that acts alongside government in tackling social issues.

In its report, Entering Communities: Wealth Beyond Welfare, the Taskforce produced five recommendations for the Chancellor of the Exchequer, most of which were subsequently implemented. These included: the introduction of Community Investment Tax Relief; matching finance to help set up the first community development venture capital fund; additional disclosure by banks of their lending activities; legislative and regulatory changes to provide greater latitude and encouragement for charitable trusts and foundations to invest in community development finance; and the creation of the Community Development Finance Association (CDFIA) to provide support for community development finance institutions (CDFIs).

Subsequent to its original recommendations, the Taskforce published three progress reports in 2003, 2005 and 2010. In those papers, the Taskforce also proposed other initiatives such as creating a social investment bank using dormant accounts and developing social impact bonds to fund preventions. As with the first Taskforce, many of these recommendations were later implemented by different parts of the UK government.

Significance in the development of the UK social impact investing market
• The Taskforce acted as a catalyst in bringing key stakeholders together to make recommendations.
• The Taskforce’s outputs provided a visible forum in which Government could formally receive the group’s recommendations, providing policy makers with a clear agenda for implementation over the next 10 years.

Founded in 2001, UnLtd is a non-profit organisation that promotes social entrepreneurship in the UK by supplying an individually-tailored combination of grants, advice and networking support through its Awards programme. UnLtd was founded by seven social entrepreneur-oriented organisations7 with a permanent endowment of £100 million from the Millennium Commission to address the gap in scale and volume of support for entrepreneurs.

UnLtd reaches 1,000 entrepreneurs and potential entrepreneurs each year. Awardees receive from £2,500 to £20,000 as well as support (advice, networking and practical experience). They run early start-up to growth stage enterprises, firmly rooted in delivering positive social change for communities in the UK. UnLtd also looks to develop the eco-system of support to make it easier for social entrepreneurs to find the help they need. It connects investors, entrepreneurs, business support and important networks and attracts private sector investment through specific programmes.

UnLtd has had an enormous impact on the growth of social entrepreneurship across the UK. It has been instrumental in instilling confidence, and providing a sense of direction, focus and momentum across sectors. The social ventures it supports have often created a positive ripple effect in the local communities in which they operate. Even 12 years on, the UK is still the only country with this level of support for social start-ups, open to the more than 1.7 million social entrepreneurs in the UK.8

8. In 2008, Global Entrepreneurship Monitor reported an estimated 1.7 million people leading social organisations in the UK.
Bridges Ventures is a community development venture fund. Founded in 2002, it invests in businesses to earn a return for investors while contributing social or environmental benefit. It was an outcome of the recommendations of the Social Investment Task Force in 2000 and was established to bring the successful principles of venture capital—long-term equity investment, business support to the entrepreneur and rapid growth—to community investment.

The first Bridges fund was raised with £20 million from Government in the form of matched capital, and £20 million from private sector investments. Now, Bridges manages over £460 million, the majority of which now comes from institutional investors such as pension funds and insurance companies. Other investors include large banks, charitable trusts and foundations, corporates, Government and private donors.

Bridges runs three types of funds: sustainable growth funds, property funds and social sector funds. These funds address four main themes: underserved markets, health and well-being, education and skills and sustainable living. Investments range anywhere from £300,000 to £15 million depending on the fund. Each fund takes a hands-on approach, working in partnership with the management teams to support growth strategies.

Bridges has been an important pioneer in developing and trialling a variety of investment models through its multiple funds to drive impact across asset classes. It has built a strong track record, resulting in ten successful exits generating multiples ranging from 1.6 to 22 times. More recently, Bridges has been structuring and investing in SIIBs.

Significance in the development of the UK social impact investing market

- Bridges has demonstrated how an impact-driven investment approach can be employed to achieve social impact with reasonable return in a language that mainstream investors can understand and support.
- Bridges has built a credible track record spanning more than a decade, demonstrating experiential reinvestment and capital markets can be harnessed to bring about social change—creating economic dynamism in underserved areas, and proving through its growth that this can be an attractive area for investors.

02
Charity Bank

Charity Bank is a Community Development Financial Institution (CDFI), which provides charities, community organisations and social enterprises with the flexible loans they need to address social needs within communities. It was conceived in 1992 when Charities Aid Foundation (CAF), a charity which provides specialist financial services to other charities, commissioned research into the concept of a bank for charities and the first discussions with regulators began. It was established to address the lack of finance available to charities through traditional banks or other lenders.

In 2002, Charity Bank was registered as a charity by the Charity Commission, authorised as a bank by the Financial Services Authority and given consent by Inland Revenue, with an opening balance sheet of £6.4 million.

Charity Bank has provided flexible loans to support more than 1,000 charities, community organisations and social enterprises across multiple sectors including: arts, community, education, environment, health, housing, regeneration and sport. It attracts share capital from institutional and individual social investors, takes savings from socially conscious individuals and lends solely to social organisations.

Charity Bank has developed a strong credit record. It has created and expanded social financing products for charities to meet their specific needs. It was the first CDFI accredited by Government to deliver the CITR credit, and launched its first tax effective community investment deposit account, the Charity Bank Community Investment Tax Relief Account (CITRA). In 2006, loan enquiries exceeded £100 million for the first time. It launched the first ever Charity Individual Savings Account (ISA) in 2008. This was the only tax-free savings account where 100% of the funds, the deposit as well as the interest, is used for a charitable purpose.

Significance in the development of the UK social impact investing market

- Charity Bank has demonstrated an important demand for secured credit from a specialised lender to the charity sector.
- Charity Bank has created and piloted new products and contributed to broadening charities’ knowledge and use of loan finance.
- Charity Bank has struggled to achieve scale. To a large extent, this was a function of being both a bank and a charity, which in turn made it impossible to raise Tier 1 equity capital. This situation has now been resolved and the bank has received a significant injection of new capital from Big Society Capital that will allow it to greatly expand its balance sheet.

The Community Investment Tax Relief (CITR) is a tax incentive for institutional and individual investors to invest in accredited Community Development Finance Institutions (CDFIs) in the UK. The scheme was a recommendation of the Social Investment Task Force in 2000 and established by the Government under the Finance Act 2002 to attract significant funding into CDFIs.

The CITR is available to any individual or company with a UK tax liability where the investment is held for at least five years. The taxpayer receives a relief of 5% of the amount invested per annum, in addition to any interest or dividend paid by the CDFI.

Eligible investments can be in the form of loans, equity (shares or securities) or deposits (for those few CDFIs that are banks).

Take-up of the scheme, jointly run by HMRC and IBIS, has been limited. Only a minority of CDFIs are accredited to use CITR—15 were accredited in 2002 down to 23 in 2006, to CDFA members raised £87.7 million in 2012 using CITR and only £86 million since 2003, compared to the expectation of £200 million per year. The vast majority (87%) of the total amount raised has been by deposit-taking CDFIs. It had been anticipated that CITR would attract significant investments from banks and large corporations.

Significance in the development of the UK social impact investing market

- CITR has not met expectations. Less than £100 million has been taken up and of that approximately 40% has been through one institution, Charity Bank. Its design was too complex, the terms under which it can be used are too restrictive and public awareness has been limited. Going forward, there is a need to provide support to CDFIs in the UK, but more thought needs to be given to designing a relief that will have a greater take-up.
The CDFA is the trade association for CDFIs. It was a recommendation of the Social Investment Task Force in 2000 to address the need for building the capacity of CDFIs and bolstering the legitimacy of community development finance as an industry. The CDFA has become a well-respected trade body. It represents the majority of UK CDFIs to central and regional Government, and facilitates their growth. In 2013, through the CDFA members, £123 million was lent to 50,700 customers (52% more customers than in 2012), including £48 million lent to social ventures and £52 million to community businesses. As part of its market building role, the CDFA has helped attract and secure new investment in the community finance sector. It has pioneered schemes such as the pilot referral scheme from declined loan applications with banks to relevant CDFIs. It has driven capacity building and acted as a key player in the forming of new initiatives and partnerships across the sector.

Significance in the development of the UK social impact investing market
- The CDFA coordinated the CDFI sector to look and behave like a genuine industry for the first time. It acts as an important advocate for the development of community finance and has been instrumental in attracting European and domestic grant and loan funding to multiple community lenders.

Futurebuilders, currently managed by the Social Investment Business, was a Government fund aimed at strengthening the social sector’s role in public service delivery. It was an outcome of recommendations made in HM Treasury’s Cross-Cutting Review on The Role of the Voluntary and Community Sector (VCS) in Public Service Delivery in 2002, and funded with £125 million from the Office of the Third Sector within Cabinet Office. It was originally managed by a consortium of Charity Bank, National Council for Voluntary Organisations, Northern Rock Foundation and Unity Trust Bank. Social Investment Business, created by the Adventure Capital Fund took over management of the fund in 2008.

Futurebuilders was established to strengthen social sector organisations and in recognition of the fact that social enterprise and charities were not structured to receive capital, yet needed borrowed money to take on public service delivery, but had been turned down by mainstream debt providers. The Government’s aims for Futurebuilders were to overcome obstacles to delivery of efficient services, modernise the social sector and increase the scope and scale of voluntary and community sector service delivery.

Futurebuilders provided loan financing, often combined with grants and professional support, to help social sector organisations bid for, win and deliver public service contracts. It ensured that organisations had the right financial, managerial and governance structures to take on investment loans and to compete successfully for contracts in the public sector. Futurebuilders was closed to new loans in 2012.

Significance in the development of the UK social impact investing market
- Futurebuilders demonstrated that the right grant/loan capital and support could help charities and social enterprises become valued service providers to local authorities and other Government bodies.
- Futurebuilders provided the first large-scale loan programme targeted at charities and social enterprises, that were not catered for by mainstream providers. A number of investments have subsequently successfully been refinanced by mainstream banks during their loan period. It was the largest investor focused explicitly on public services delivery. For many, Futurebuilders provided the first real evidence of Government commitment to developing such a market.

Futurebuilders’ investment process was hampered by time-specific loan targets which could impact long term credit quality. Returns to-date over 10 years show a cumulative 6% write-off of capital dispersed, which is expected to rise to 15-20% over the lifetime of the fund. The model has outperformed expectations given the original “unbanked” concept, but it is not a model that can access non-Government capital without grant and business support.

A Community Interest Company (CIC) is a company structure designed for social enterprises that want to use their profits and assets for public good. It was introduced by the Government under the Companies (Audit, Investigations and Community Enterprise) Act 2004. CICs were established to address the challenges social enterprises faced when structured as a charity, such as onerous restrictions on their activities, and when structured as a business, such as scepticism around protections of the social impact mission.

Fundamentally CICs are normal companies which fulfil a community purpose. They can be established either as companies limited by guarantee (CLG) or companies limited by shares (CLS). They can be small or large-scale organisations operating locally, regionally, nationally or internationally. However, they have three unique features: CICs must pass the “Community Interest Test”, meaning that the CIC Regulator must be satisfied that the activities of that enterprise or business will be carried out for the benefit of the community, a CIC can only use its assets and profits for the community specified (an asset lock), which prevents profits from being distributed to its members or shareholders other than in certain limited circumstances, and a CIC must publish an annual report to the CIC regulator.

In 2014, the number of CICs is now close to 10,000, and the number of applications increased 20% on last year.

Significance in the development of the UK social impact investing market
- The CIC has legitimised and normalised the concept of a social enterprise and provided a form of identity for these organisations. It has made the social enterprise space more identifiable and easier to access particularly by charitable organisations.
- The CIC has proved to be a better “social wrapper” for CLG structures than for CLS.
- The dividend restrictions to external investors have been a significant disincentive to the supply of any equity capital. Most CICs remain small and find it difficult or impossible to access growth capital.

Social Finance is a not-for-profit intermediary organisation that partners with Government, investors and social organisations to support new models of social change and facilitate the flow of capital to help grow these models. It was an outcome of the recommendations of the Commission on Unclaimed Assets to address the gap between social investors and users of social capital.

Social Finance has raised £22 million in investment. It drives innovation through design of investment products that investors can identify with as well as in a way that is supportive of the social mission.

Social Finance was initially funded with £1.3 million from a group of five philanthropists. Later social impact investment has been raised around specific work through grants and loans from trusts and foundations including the Esmée Fairbairn Foundation, Rockefeller Foundation and Sainsbury Foundation. It also secured a three year £5 million Big Lottery Fund grant for development of the SIB market. In September 2010, Social Finance launched the first ever SIB. It worked with the MOJ to fund interventions with 3,000 male, short-sentence prisoners leaving Peterborough
Social Finance has been a major product innovator and promotes social finance on issues such as financial exclusion. Social Finance has helped strengthen the market, bridging the gap between investors and investees by working directly with different parties and being a hub for best practice and experience. Social Finance has been particularly instrumental in working with Government on commissioning and outreach and help to build Government and Local Authority capacity to develop opportunities for SiBs. Social Finance has been a major product innovator and promotes social finance on a global scale. It has spawned sister organisations in the US and Israel and has been leading the development of SiBs both in the UK and other developed economies and also leading the creation of Development Impact Bonds to address social issues in developing economies.

The Dormant Bank and Building Society Accounts Act (Dormant Accounts Act), passed in November 2008, allows a Reclaim Fund established by the Government to collect and redistribute unclaimed bank and building society accounts. Sir Ronald Cohen established a Commission on Unclaimed Assets in 2005 which, after consulting widely, produced a report recommending that the Government consider using dormant accounts to establish a social investment bank.15 The Dormant Accounts bill was drafted with specific reference to the possibility of using unclaimed assets for the establishment of a social investment wholesaler. It specified that it would exist to enable bodies to give financial or other support to "third sector organisations" (defined as those existing wholly or mainly to provide benefits for society or the environment). Significance in the development of the UK social impact investing market

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The first SIB, launched by Social Finance, was signed with the MOJ to finance a prisoner rehabilitation programme in September 2010. It was set up to address the paradox that investing in prevention of reoffending saves the public sector money, but that finding the funds to pay for prevention is difficult for public bodies. The programme was designed to work with 3,000 male, short-sentence prisoners leaving Peterborough Prison. The majority (60%) of short sentence prisoners re-offend within one year post release in the UK, yet there is a gap in statutory support to help these ex-prisoners address the causes of their offending. Through the “One Service” experienced social sector organisations, such as St Giles Trust, Ormiston Families, SOVA, John Laing Training and Mind, provide intensive support to prisoners and their families, both inside prison and after release, to help them resettle into the community. Social Finance raised £5 million from 17 social investors. The MOJ and the Big Lottery Fund pay the investors so long as there is a measured reduction in reconviction events of 7.5% relative to a control group.

In April 2014, the MoJ proposed an alternative funding arrangement for Peterborough SIB in light of the expected introduction of a new approach to UK probation and rehabilitation services at the end of 2014. The proposal allowed the “One Service” to continue but changed the way it is funded to remove outcomes payments for the last cohort of prisoners to be released under the programme from June 2014.

Significance in the development of the UK social impact investing market

- The first SIB demonstrated to investors that Government was willing to share the savings of successful interventions with outside investors. It was initiated by the Labour Government and continued by the subsequent Coalition Administration. All three major parties recognised its value.
- The first SIB was a tangible prototype of a new product with a direct link between social and financial return, encouraging innovation to address challenging social issues.
- Since the launch of the first SIB, there have been 16 new SIB issues in the UK. They have ranged across multiple social issues including adoption, children in care, youth education and employability.
- Key questions still remain on the scalability of the SIB. Designing and managing the structures are complex and costly. Securing Government commissioning when there is a lack of hard evidence to rigorously prove effectiveness and when cashable savings are hard to measure can be particularly challenging.
- Outcome metrics and benchmarks can be difficult to define and development costs remain high.

Announced in May 2011, the DWP Innovation Fund provided £30 million in funding over three years. The fund was established to support and test payment-by-results (PbR) programmes that enable disadvantaged young people aged 14 and over to participate and succeed in education and training, and to address the need to test different PbR models. The total investment from external investors is close to £10 million and the total maximum payments for outcomes amounts to £24 million. SIB propositions for the programme were commissioned over two rounds via an open competition, with an expectation from Government for emphasis on personalisation and results. In total, ten SIBs were established. Each programme will work with vulnerable children, who have been identified by their schools as being at risk of dropping out of school and becoming unemployed. They focus on helping improve confidence, well-being, life skills and attainment at school, and ultimately help the young people successfully transition from school to employment, further education or training.

The Innovation Fund tested the range of social investment and innovative delivery models established. These can be categorised under three models: the single investor model; the intermediary model; and the multiple investor special purpose vehicle (SPV) model. To date, the Innovation Fund has supported over 5,000 disadvantaged young people and achieved over 1,500 successful outcomes.16

Significance in the development of the UK social impact investing market

- The Innovation Fund has piloted coordinated Government support of innovation around a targeted outcome objective with the aim of eventually expanding and financing successful programmes across the UK and informing future policy decisions.
The Investment and Contract Readiness Fund (ICRF) is a £10 million Government fund that was launched by the Cabinet Office in 2012. It was established to address the inability of many social ventures to secure new forms of social investment or to compete for public service contracts. The fund provides grants to social ventures that have the potential for high growth and delivering positive social impact. The grant will pay for the purchase of specific capacity building support to help facilitate that growth. It is a three year fund, with grants ranging between £50,000 and £150,000 per venture. To be eligible, social enterprises need to be seeking more than £500,000 in investment or capital for contracts of over £1 million within 18 months. Funds are earmarked for revenue purposes rather than acquisition of capital assets.

The fund is managed by the Social Investment Business. Providers of support are accredited to be ICRF providers and typically offer guidance and assistance to social ventures to develop realistic proposals to become investment and contract ready. Support can include business planning, finance, governance, investment structuring or impact measurement and social mission. The aim is to maximise the likelihood that organisations will successfully attract investment after they have had ICRF support.

By 2014, social ventures had raised £24.1 million in investment and won £13.5 million in contracts with the support of the ICRF.17

Significance in the development of the UK social impact investing market

• The ICRF has identified lessons for the future including: the importance of warming up and engaging the social investment market prior to launch of the capital; ensuring projects are of a sufficient size and scale to facilitate evaluation; the importance of being flexible in the commissioning and contractual process; and the importance of allowing sufficient time for forming and agreeing partnerships.

• UK Government is currently expanding the concept to include more departments in a £30 million fund.

Scope Charity Bond

Scope is a national charity that exists to create opportunities for the disabled. In 2011, Scope partnered with Investing for Good, a specialist social finance adviser, to become the first UK charity household name to enter the capital markets through a listed bond programme. The Scope Bond is listed on the Luxembourg Stock Exchange. This built on previous bond issues from other charities, such as Golden Lane Housing and the Welcome Trust.

The Scope Bond programme operates in the same way as similar corporate bond products, and carries the flexibility to issue sterling bond tranches at varying nominal amounts, maturity dates and coupon rates under one programme. The funds raised were used to develop sustainable revenue streams, such as expanding its network of charity shops in the UK. This in turn will allow them to further develop and fund expansion of its work with disabled people across the UK.

In May 2012, Scope, supported by Investing for Good, raised £2 million from a broad range of socially motivated investors including charitable foundations, private trusts, high net worth individuals and institutional fixed income managers. As well as meeting the annual interest payment, each year Scope is required to be assessed independently on its social impact. By paying a yield of 2-3%, Scope can assure investors that at least 60 new families with a disabled child will be supported each with £50,000 investment.

Significance in the development of the UK social impact investing market

• The Scope Bond illustrated demand for listed bonds issued by a well-known charity. It also showed that the yield on those bonds need not be the same as on commercial bonds in order to attract demand. Despite its small size, it has led to a focused attempt to develop a dedicated charity bond market in the UK.

2012 Investment and Contract Readiness Fund

• The Innovation Fund has identified lessons for the future including: the importance of warming up and engaging the social investment market prior to launch of the capital; ensuring projects are of a sufficient size and scale to facilitate evaluation; the importance of being flexible in the commissioning and contractual process; and the importance of allowing sufficient time for forming and agreeing partnerships.

• UK Government is currently expanding the concept to include more departments in a £30 million fund.

Big Society Capital

Big Society Capital is a social-wholesale investment bank established by the Cabinet Office and launched as an independent organisation in April 2012. It was established in response to the recommendations from the Commission on Unclaimed Assets in 2007 that pointed to the urgent need for greater investment and professional support in the third sector and for suitable capital for social organisations at all stages of development.

Big Society Capital is expected to receive over £400 million from unclaimed bank accounts, via the Dormant Accounts Act 2008, and £200 million from Britain’s four biggest banks as part of their commitment to expand lending through the Merlin Agreement.

Its aim is to develop the social investment market in the UK by improving access to finance for social sector organisations and by raising investor awareness of investment opportunities that provide a social as well as a financial return. It does this by: Promoting best practice and sharing information; improving links between the social investment and mainstream financial markets; working with other investors to embed social impact assessment into the investment decision-making process. At the time of publishing its 2013 annual report, Big Society Capital had made £149 million in social investment commitments across a broad range of outcome areas, from youth unemployment to isolation of older people. In most cases it requires its capital to be matched by other social investors.

Significance in the development of the UK social impact investing market

• Big Society Capital has been critical to helping market participants focus on market development. It has built confidence through both its scale and role as a permanent and independent institution, and has provided strategic direction.

• Big Society Capital has provided a substantial amount of funding into existing and new intermediaries.

• Big Society Capital’s remit is focused on channeling capital to “third sector organisations”: it has highlighted the need to stimulate demand for investment capital from these organisations. To date, this demand has been limited relative to the size of Big Society Capital funds. Its remit also precludes investment in many “social purpose companies” and in organisations which focus on creating social impact through place-based job creation.

• Big Society Capital is precluded from any grant making. There are clearly areas of current activity where it might wish to provide grants. For example, the Social Action Fund which provides up to £300k for community-led, local projects with a focus on promoting positive youth outcomes could be matched by Big Society Capital.

The Commissioning Academy is a training programme for senior leaders from all parts of the public sector. It was launched in 2012 by Cabinet Office to address the challenge of increasing demand and decreasing resources. The academy is supported by the Local Government Association, DCLG, MOJ and the National Offender Management Service, the Department for Education, the Department of Health, the DWP and the Home Office. Its aim is to improve the skills of public sector leaders so their teams can design service provision, influence external parties and shape and manage markets.

While the overall aims are broad, much of its key content is directly related to social investment such as outcome-based commissioning, working with the voluntary and community sector, alternative funding models, such as SIBs, joint commissioning across organisational boundaries and new models of delivery, such as mutual and joint venture companies.

Significance in the development of the UK social impact investing market

- The Commissioning Academy is the first cross-sector Government initiative promoting innovative training on commissioning outcomes and culture change across departments, particularly with specific focus given to improving practices related to key elements of social investment. It is wide ranging and has the potential to lead to an increase in demand for third sector service providers, as well as better capacity for creating meaningful contracting arrangements that focus on social outcomes.

The Social Outcomes Fund is £20 million of Government money managed by the Cabinet Office. It was established to address the main challenges to the growth of SIBs: the difficulty of aggregating benefits and savings which accrue across multiple public sector spending ‘silos’ in central and local Government.

The fund provides a funding contribution to outcomes based programmes that are designed to deal with complex and expensive social issues. It operates in England only and funding is available to Government departments, local authorities and other commissioning bodies such as the police forces or clinical commissioning groups.

The aim of the Social Outcomes Fund is to catalyse innovative new projects in areas where no single commissioner can justify making all of the outcomes payments, but where the wider benefits mean that a SIB is value for money. As reporting and assessment of performance data is a condition of funding, it will also generate evidence on the effectiveness of the project to overcome these barriers in the future.

In 2013, the Big Lottery Fund launched a similar fund to top-up outcomes payments in SIB propositions. The £40 million Commissioning Better Outcomes Fund was established to support the development of more innovative approaches to improving social outcomes.

Significance in the development of the UK social impact investing market

- The Social Outcomes Fund creates an increased incentive for Government to commission social ventures to address complex social issues by effectively addressing the issue of siloed commissioning processes. It bridges the gap between Government procurement of public services delivery and social sector providers, and drives up demand for social organisations in commissioning.

- The Social Outcomes Fund drives experimentation and helps build a track record for PbR/SIB models of public sector commissioning.

The Social Value Act provides justification for Government commissioners to specifically consider how the service they are procuring could bring added economic, environmental and social benefits.

The wording of the Act states that the authority must consider how what is proposed to be procured might improve the economic, social and environmental well-being of the relevant area, and in conducting the process of procurement, it might act with a view to securing that improvement.

Significance in the development of the UK social impact investing market

- The Social Value Act provides justification for Government commissioners to specifically consider how the service they are procuring could bring added economic, environmental and social benefits.

The Public Services (Social Value) Act was passed in 2012. It was designed to open up more opportunities for social enterprises to win bids for the delivery of public services. It requires public sector agencies, when commissioning a public service, to consider how the service they are procuring could bring added economic, environmental and social benefits.

The wording of the Act states that the authority must consider how what is proposed to be procured might improve the economic, social and environmental well-being of the relevant area, and in conducting the process of procurement, it might act with a view to securing that improvement.

Significance in the development of the UK social impact investing market

- The Social Value Act provides justification for Government commissioners to specifically consider how the service they are procuring could bring added economic, environmental and social benefits.

The Community Shares Unit is a dedicated support service for those interested in and involved with community share offers. It was launched in 2012 with funds from DCLG for three years and is delivered by Co-operatives UK and Locality to address the lack of community engagement in models of social investment.

Community shares are a way of raising investment capital from communities. Local people can buy shares in, and become part-owners of, a local enterprise. As shareholders they are more likely to do everything they can to ensure the success of the business by becoming loyal customers, volunteers and supporters of the enterprise.

This type of share capital can only be issued by co-operative societies, community benefit societies and charitable community benefit societies. This type of investment has been used to finance a host of community-based ventures, including shops, pubs, community buildings, renewable energy initiatives and local food schemes.

Significance in the development of the UK social impact investing market

- The Community Shares Unit dramatically increases the participation of individual citizens in social investment.
- The Community Shares Unit acts as a central reference point for market intelligence, providing the latest information on community share activities nationwide, as well as producing regularly updated guidance materials.

What Works Centres are a network of six independent specialist centres to support evidence-based policy-making. They were launched in 2013 to address areas where there is pressing social need and major public spending but where the evidence base is limited.

The centres cover health and social care, educational attainment, ageing better, local growth, crime reduction and effective early intervention. The Centres, independent of Government, collate published evidence on the effectiveness of interventions, assess these using a common ‘currency’, publish synthesis reports and share findings in an accessible way with practitioners and commissioners and policy makers. The Economic and Social Research Council plays a significant role in ensuring the highest standards of academic rigour are applied. The What Works Centres will also highlight where it is possible to further develop the evidence base.
They are funded from a combination of Government and non-Government sources including the Economic and Social Research Council and the Big Lottery Fund. Such evidence-based centres have been the priority for multiple parts of Government. It was also a key action in the policy section of the Civil Service Reform Plan of June 2012.

Evidence is targeted at: local commissioners in informing their decisions on how best to spend public money; public service providers in establishing how best to deliver public services and how to improve those services; and policy makers in coming to an informed view of what is and is not cost-effective in public services.

Significance in the development of the UK social impact investing market

- What Works Centres have the potential to be a major force for consolidating a common understanding of social impact and for compiling evidence-based recommendations on public service procurement.

The Unit Cost Database is a toolkit to help commissioners, providers and intermediaries advance the development of SIBs quickly and cost-effectively. It was created jointly by New Economy and the Cabinet Office to address the lack of consistent, reliable and robust cost estimates in different areas.

The Unit Cost Database provides more than 600 cost estimates in a single place, most of which are national costs derived from Government reports and academic studies. The costs cover crime, education and skills, employment and economy, fire, health, housing and social services. The costs can be used by local commissioners, charitable organisations and social enterprises to inform SIB proposals for new interventions or the redesign of existing public services and feasibility studies and evaluations.

Significance in the development of the UK social impact investing market

- The Unit Cost Database has significant potential to help the market develop a common understanding of the costs of public services to better quantify the impact of social interventions in economic terms. It could help spur investors and social organisations to work together to originate new PbR and SIB transactions.

The Social Investment Tax Relief (SITR) was launched in April 2014 to address the gap in the tax system for incentivising risk capital for small social sector organisations.

SITR will give individuals who invest in qualified social organisations a reduction of 30% of that investment in their income tax bill for that year. Existing tax incentives only cover charitable donations, gift aid, and enterprise investment in limited companies through the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) investments.

The 30% rate is the same rate as the EIS and VCT, creating a level playing field for investment. It aims to attract the same capital gains tax reliefs. Eligible organisations can receive up to €344,827 (around £290,000) over 3 years in tax-advantaged investment. The European Commission currently limits the amount of investment a qualifying organisation can receive. The Government aims to seek approval from the European Commission to increase the maximum amount of investment an organisation can receive, after a consultation on indirect investment options to increase the impact of the tax relief, and a review of the tax relief after 18 to 24 months.

Significance in the development of the UK social impact investing market

- SITR has the potential to provide a financial incentive for individual investors to supply social investment capital.
- SITR has the potential to provide up to €480 million of new capital to small social organisations, including charities and CICs, in the form most commonly demanded, unsecured lending.

In 2014, the Cabinet Office and the Law Commission agreed that the Law Commission will consider, as part of its charity law project, whether law reform is needed to make clearer the powers and duties of charity trustees in undertaking mixed-purpose investment. Currently, there is a lack of social investment activity among charities as investors due to regulatory barriers, both real and perceived.

Mixed-purpose (or mixed-motive) social investment is a relatively new phenomenon where a charity makes an investment in part to achieve a financial return, and in part to achieve a social benefit which furthers its objectives. Some charities are already making such investments. However, the potential is much greater, as charitable foundations represent over £63 billion in assets.

Social investment in general presents many challenges for charity trustees, complicated by the novelty of the concept and immaturity of the social investment market. But there is also a specific concern that while the Charity Commission guidance explains that charity trustees can make mixed-purpose investments, the current legal framework does not easily accommodate them. This can deter trustees from taking advantage of social investment opportunities, and result in high transaction costs.

Significance in the development of the UK social impact investing market

- To date, whilst many have provided significant capital, many have been reluctant to engage with social investment for reasons including a wish to maximise risk-adjusted returns to maintain income levels for grant-making. The Charity Commission’s guidance has the potential to make it easier for charitable foundations as the reform intends to clarify the position and make it easier for foundations to reflect their social mission through their investment decisions. This should encourage more foundations to engage with this market.

The Review found that pension fund trustees do not have to focus solely on maximising returns in the short-term at the expense of risks over the longer term. It concluded that where trustees think ethical or environmental, social or governance (ESG) issues are financially material they should take them into account. It also concluded that, while the pursuit of a financial return should be the predominant concern of pension trustees, the law is sufficiently flexible to allow other subordinate concerns to be taken into account.

The law permits trustees to make investment decisions that are based on non-financial factors, provided that they have good reason to think that scheme members share the concern, and there is no risk of significant financial detriment to the fund.
Significance in the development of the UK social impact investing market

• The reform to increase the flexibility and autonomy of fund managers has the potential to increase the level of consideration of and substantially increase commitments to social impact investments.

• The reform has the potential to provide greater clarity to a number of large pension funds, including Local Authority Pension Funds, on their ability to make social impact investments. This could encourage greater interest in and focus on social impact investing.

The UK Social Bond Fund is the first Financial Conduct Authority (FCA) registered diversified Social Bond Fund. The aim of the fund is to balance financial returns with positive social outcomes. It was developed by Threadneedle Investments and Big Issue Invest to address the lack of access of individual investors to such products. Big Issue Invest is a leader and innovator in backing sustainable social enterprise. Threadneedle Investments is an established asset manager with a strong reputation across both bonds and social investment.

The investment objective of the UK Social Bond Fund is to achieve a total return (by way of income and capital appreciation) through investments that are deemed to be supporting and funding socially beneficial activities and development, primarily in the UK. It has a unique structure, and uses Big Issue Invest’s Social Assessment Methodology to guide investment decisions.

This fund unlocks the potential of bonds to target particular social outcomes as well as generate reasonable financial returns in line with UK corporate bonds. It is a mainstream investment product with daily liquidity that can appeal to a broad institutional and retail investor base. The initial investment of £10 million was provided by Big Society Capital to help launch the fund, with Threadneedle contributing a further £5 million.

Significance in the development of the UK social impact investing market

• The UK Social Bond Fund is the first of its kind. It has the potential to set the bar for the further proliferation of products and product innovation that engages retail investors in the social impact investing market.

Lessons learned

The key initiatives referenced in this Chapter have all played an important role in helping to kick-start the social impact investment market in the UK. There are some common themes across these initiatives:

1. They were catalysed by multiple actors. Government, individual or institutional investors, philanthropists and social sector organisations. They worked best when those actors worked collaboratively seeking solutions that started by focusing on social needs and worked backwards to provide ways in which financial or social capital could be used to help address those needs.

2. They focused on developing an ecosystem that supported supply, demand and intermediation. They recognised that these three elements needed to be mutually supportive and interdependent.

3. They leveraged a range of intervention types: policy-making, market initiatives, support programmes, infrastructure development (organisations) and product innovation.

4. They tried to be ambitious in terms of scale and achieve a sufficient breadth of interventions to catalyse real change.

5. They recognised a need to find champions. The Government, numerous individuals and foundations, and more recently Big Society Capital, have been vital champions, without which the market would not be where it is today.

6. They recognised the important need for grant support to develop and build the market. Intermediaries need grant support to build capacity and scale. Social lenders need a layer of grant capital if they are to be sustainable and many socially-oriented organisations need advice and capacity building support if they are ever to access social capital.

The UK is still a distance from having a robust and scalable social investment market but has played a leading role in much of the innovation in social impact investment internationally. The UK National Advisory Board hopes that by sharing some of what has worked, as well what has not worked so well, it will help accelerate the development of social impact investment around the world.
Building the market further

The next phase of market building

The UK social impact investment market has made significant progress towards becoming a strong, diverse and sustainable market, particularly through the key initiatives described in Chapter 2. The historical focus on building the right intermediary institutions to operate the market, ensuring that a significant supply of capital is available and strengthening demand for social investment particularly from increased Government procurement of social services, has ensured that the market has developed to where it is today. However, challenges still remain. 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.

The UK National Advisory Board identified early on that there were three priority areas that need to be addressed once an organisation is able to reliably deliver positive impact. Helping organisations scale up can only be achieved through performance management and a number of investment funds, grant making foundations, government programmes and other organisations have been working on this issue for some time. However, investment readiness is only part of the equation. Performance management has received a substantial lack of attention in social organisations and there is a critical skills gap in this area. Performance management is about reliably and repeatedly producing social outcomes and managing measurable social returns. It is about attribution of results to the work of the programme. It demands robust measurement, a strong theory of change and, often, an agile operational programme structure.

Together, these recommendations may go some way towards improving demand for social impact investment. Whilst improving demand is the priority, the UK National Advisory Board identified other issues that should also be addressed to target specific areas of the social impact investment market.

• Small social organisations in transition need more types of blended capital.
• Retail investors are seeking social value but more mainstream social pension opportunities are needed to adapt to capture this interest.
• Financial institutions may also be able to better support social organisations and deprived communities across the country through disclosure and greater investment.

Each of these recommendations would target specific issues within the market by building on previous initiatives. Government remains the cornerstone of market building for the UK for the foreseeable future. Government is not only being looked to for committed funding, launching the right information platforms, and developing the right policies, but also as an active player within the market leveraging social impact investing approaches across Government silos and departments to deliver social impact to people in need.

This Chapter therefore presents the six priority topics, including the importance of each area to the development of the market, context and overview of the specific issues, and recommendations.

Support social scaling in capacity building

Scope: Social organisations whose core business is producing social outcomes, and whose ability to generate revenue depends on their ability to consistently produce these outcomes. These include organisations which aim, for example, to get the long-term unemployed into work, stop offending behaviour, or increase academic attainment in target populations.

Importance

Charities and social enterprises respectively already deliver more than £63 billion21 and greater than £18.5 billion22 annually to the economy. Yet there is a lack of high-performing and investable social organisations that can scale-up their activities. If a small portion of these organisations were effective at both receiving and managing investment to grow their social impact, this could lead to a significant industry that could require different types of social impact investment as it scales.

Context & Issues

The social impact investing market has more capital available than demand side organisations can reasonably absorb. This has been attributed to a lack of ‘investment-readiness’ among social organisations particularly due to skills gaps in financial and strategic management and a number of investment funds, grant making foundations, government programmes and other organisations have been working on this issue for some time. However, investment readiness is only part of the equation. Performance management has received a substantial lack of attention in social organisations and there is a critical skills gap in this area. Performance management is about reliably and repeatedly producing and managing measurable social returns. It is about attribution of results to the work of the programme. It demands robust measurement, a strong theory of change and, often, an agile operational programme structure. Performance management knowledge and capabilities often require new skills, practices and techniques distinctive to the social sector.

Impact, through performance management, is and will become an even more significant issue particularly as Government looks to commission more high-quality public service provision through SIbIs or PbrR models. Investors too need to be aware of and identify organisations with strong performance management capabilities as failure to do so will leave investors exposed. Helping organisations scale up can only be addressed once an organisation is able to reliably deliver impact through performance management.

Recommendations

1. Create a social impact & scaling fund

Create a new fund to focus on developing the capacity of social organisations in performance management and then to help scale-up. It would fund the delivery by providers and frontline organisations of the performance management knowledge and capability building required to reliably produce social outcomes and help organisations ready to scale-up in priority areas of social need.

2. Expand the ICRF fund

The ICRF, which provides grants to social ventures that have the potential for high growth with a view to helping them build capacity and take on new investment, should be expanded to include specialist funding allocated by relevant social outcomes and the funding should be secured for an extended period of time. This would sit alongside an ongoing focus on capacity building from grant making foundations and social investors.

21. Sector Facts and Figures, Charity Commission, 30th June 2014
### Promote a new culture of Government procurement

**Scope:** Commissioning the delivery of public services that are accessible to social investment models and social investors. This does not include procurement effectiveness more generally.

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| Contracting public service delivery to voluntary organisations in the UK began in earnest in the mid-1980s, but only in recent years has the sector’s involvement in public service delivery grown rapidly in both scale and scope. | Current procurement models are not well designed for programmes that address complex human needs. Commissioned services tend to procure services that follow well-established patterns and that do not allow for flexibility or adaptation. This leads to rigid programmes that are not suited or tailored to those they are trying to support. | 3. **Launch a Government hub for prevention & innovation**

The hub would have three primary functions: to gather, share and promote best practice; to support and spur pilots that address prevention, innovation, long-term planning (such as whole-life costing) and services for complex issues; and to promote adherence to the Social Value Act. |

4. **Create social prevention & innovation pilots fund**

The fund would support piloting new initiatives, instruments and structures that address any of the following: prevention, innovation, long-term planning and services for complex issues. It would cut across Government departments and seek to support interventions in multiple social issues. |

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**Importance Context & Issues Recommendations**

**Importance**

Contracting public service delivery to voluntary organisations in the UK began in earnest in the mid-1980s, but only in recent years has the sector’s involvement in public service delivery grown rapidly in both scale and scope.

**Context & Issues**

Current procurement models are not well designed for programmes that address complex human needs. Commissioned services tend to procure services that follow well-established patterns and that do not allow for flexibility or adaptation. This leads to rigid programmes that are not suited or tailored to those they are trying to support.

Present models of procurement are also failing specifically around service innovation and preventative services. This is not just a UK problem but one that most developed economies deal with. Greater innovation and agility is possible, even within the existing rules, but procurement practice on the ground often falls short of what could be achieved using best practice. Funding earmarked for prevention is also hard to find, even when the cost of prevention may be more attractive than the costs of management.

In the UK, the Social Value Act promotes commissioning that incorporates social and environmental benefits. It was designed to open up more opportunities for social enterprise. However, meaningful promotion of the Social Value Act faces several challenges. For example, it is not clear how such an Act could be judicially reviewed, nor how to execute on this Act with so few commissioned deals to set a precedent. There are, however, emerging precedents for changing models of Government procurement, particularly in Europe, which give a sense of the opportunity to create change.

**Recommendations**

3. **Launch a Government hub for prevention & innovation**

The hub would have three primary functions: to gather, share and promote best practice; to support and spur pilots that address prevention, innovation, long-term planning (such as whole-life costing) and services for complex issues; and to promote adherence to the Social Value Act.

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### Strengthen the social business frontier

**Scope:** Corporate forms and approaches to securing social mission that impact-driven businesses can take and investors can invest in, as well as mechanisms that support embedding protections and supporting these forms.

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<td>There are around 180,000 regulated social sector organisations, such as charities, community interest companies and community benefit societies. These are easy to identify through their regulators and their asset locks. However, there are potentially an additional 250,000 organisations that are delivering social outcomes but don’t take a regulated social form. Capturing these organisations would not only increase the chances to make impactful investments, but also help strengthen the unique roles needed on the social business frontier.</td>
<td>Pro-fit-with-purpose businesses, by definition, blur the traditional black and white distinction between private and non-profit sectors. Whilst distinct social legal forms do exist, they do not serve the needs of all growing impact driven businesses. Some social entrepreneurs, for example, want to retain flexibility when at an early stage, and do not wish to restrict themselves by adopting a one of these forms.</td>
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In response to this demand, new models of business that combine elements of private and social sectors are emerging. There is substantial diversity in these organisations which can demonstrate the delivery of significant social value. However, because they are adopting characteristics of both conventional for-profit and conventional non-profit, it is difficult to identify and validate them and quantify the strength and resilience of their social mission. This difficulty acts as a bar to investors and policy makers supporting them.

So a new framework is needed to understand how these social entrepreneurs can secure the social impact they deliver, without needing to adopt regulated social forms which may in some cases be constraining.

Profit-with-purpose businesses can be identified by how they protect the delivery of positive social outcomes to a defined beneficiary group. How strongly they do this is determined by if, and how, they lock in: their Social Mission; their Assets; and their Social Performance. Each of these locks need to be secured by an enforcer, such as a regulator, investor, commissioner, board and so on. The enforcer employs discrete tools – such as embedded social mission in articles, contracts and so on. There are a variety of tools already being used in the UK that can be employed by the variety of enforcers to manage and secure different elements that contribute to impact. Clarity over these tools and confidence in how they are enforced will help social entrepreneurs to raise capital and retain their focus on social impact, and enable policy makers to target support to this crucial sector of the economy. |

5. **Launch a Social Economy Commission**

Launch a Social Economy Commission as an independent authority established by the Government that would coordinate, register, monitor and champion the non-charity forms of social business.

6. **Establish a Social performance Certifier and golden shareholder model form**

A Social Performance Certifier would offer a complete and transparent presentation of impact performance for business seeking to secure their impact performance, building on existing work of other certifiers, such as B Lab. To develop greater recognition of the golden shareholder model as a robust way to identify mission lock, a set of standards needs to be developed to determine minimum requirements of golden shareholder models and then a community of golden shareholders should be fostered that uphold these standards in order to build a credible reputation.

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Deliver more blended capital funding

**Scope:** Blended capital describes the investment need of social organisations between the stages of receiving grants to when they can attract investment at and for scale.

**Importance**
The social impact investment market is still nascent with a limited track record. Therefore testing what does and doesn’t work is critical, particularly for the large numbers of small social organisations that need their first financing package and cannot financially or managerially handle pure debt. On many occasions a more appropriate funding structure is a blend of investment capital and grants.

**Context & Issues**
Risk capital for early stage organisations or those exploring new models of revenue generation is particularly important in such a fast growing sector. Increasingly charities are looking to transition from pure grant taking to revenue raising models. Additionally the latest findings from the quarterly RBS Enterprise Tracker show there is a growing appetite for social enterprise amongst entrepreneurs with more than one fifth (22%) of budding young entrepreneurs planning to start social enterprises in 2013.25 Yet early stage social organisations and small charities need capital which can be difficult to find. It is not practical to saddle very early stage organisations with debt, which can also change the incentives around how they innovate, nor for small charities that are in precarious financial positions already, where debt at this stage can bring undue risk of collapse.

Evidence from the market also indicates that many early-stage organisations, and those testing new models, are unable to service traditional debt products themselves. A mix of grants and loans (blended capital) is vital for these organisations to develop from the early stages to maturity. However, the specific blend ratios to be targeted correctly to ensure the existing provision of social investment products are not unfairly distorted, stifling previous market building efforts.

To be delivered at scale and with the sophistication required, intermediaries are needed that can identify those social organisations that genuinely need blended capital products and that have the ability to tailor these blended products to the bespoke needs of social organisations.

**Recommendations**

- **7. Establish a blended capital facility**
  Create a blended capital facility to provide a combination of grants and investment to intermediaries. This facility should be focused on supporting the provision of smaller unsecured lending facilities to charities and social enterprises. It could also be used to support early stage risk capital.

Require a social investment pension option

**Scope:** Individual investment in impact investing, through the lens of pension funds (institutions).

**Importance**
If individual investors in UK pension funds had just 1% (£23.9 billion) of their members’ assets allocated to social impact investment, the effect on the market would be dramatic. Engaging individuals in social impact investment through products that are workable for them will also help bring social impact investment in the UK to the mainstream.

**Context & Issues**
Individual investors are still relatively new to social impact investment. While efforts have been made to encourage individual retail investors further, such as through the Community Shares Unit, Social Investment Tax Relief and the UK Social Bond Fund, there is still a significant way to go to reach people at scale with products that they understand. Pension funds are a natural route to access individual investors at scale.

Unlike some of their peers in the Netherlands, Scandinavia, Switzerland and the USA, pension funds in the UK have been slow to consider social impact investment in their portfolios. France has also seen a growing interest in social pensions and has established a scheme where employee pension accounts can be invested in “solidarity funds”. These require a 90/10 portfolio of investments – balanced between traditional investments that are subject to a social responsible investment filter and social impact investments. In 2013, France sourced €230 million from a total £7 billion AUM through solidarity funds. UK pension funds are, however, genuinely interested in social impact investing, according to a survey of opinion leaders in the industry about attitudes towards social impact investment.26 The survey revealed that 23% already include social impact investing in their current portfolio, although most of these investments are in very long established domain areas of social housing and green energy.

There are a number of challenges that funds face in the UK to move deeper into social impact investment. Outside of long established areas, pension fund managers often claim that their fiduciary responsibilities restrict action on environmental and social issues unless they are material to financial returns. Pension fund members who enquire about an ethical issue often encounter the seeming paradox of being told that their views must be ignored because of the trustees’ fiduciary duty to act in their best interests.27 Most funds that have the internal resources to understand social impact investment often require minimum investment sizes (greater than £200 million) far beyond the capacity of the investment opportunity.28 The consultation on fiduciary duties of investment intermediaries may address part of this, but may also need to be considered again.

More fundamentally, both awareness and expertise are lacking among large institutional investors. There is a lack of “branded” asset managers, peer investors, awareness of investment opportunities and an assumption that an investor “automatically gives up return when they’re doing good” amongst other issues.

**Recommendations**

- **8. Require all pension funds to offer a social investment pension option**
  Legislate that all pension fund managers that offer defined contribution investment funds must also offer at least one voluntary “solidarity” choice. This could be based on the French model but include important adaptations to reflect the UK’s particular interpretation of social impact investment, to include charity bonds, social property portfolios and SIBs.

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25. RBS Enterprise Tracker, UnLtd, 2014
Many companies, communities and individuals across the UK remain unable to access fair and affordable credit and financial services. This can often lead to small and medium-sized companies, particularly in deprived areas, being unable to access credit to grow and provide employment opportunities vital to turning around the area. It can also lead to vulnerable individuals turning to high cost credit and spiraling into unsustainable debt.

The UK has shown that legislation can incentivise mainstream lenders to provide more capital to areas of greatest economic and social deprivation.

**Scope:** The provision of finance to community development organisations, particularly in deprived communities, throughout the UK, with the involvement of traditional financial institutions.

**Importance**

Financial institutions have significant potential reach across communities in the UK. However, banks are closing retail branches leaving certain geographic areas unable to physically access a local financial institution. CDFIs and local credit unions can play a key role in helping address local financial needs, however they remain largely sub-scale. They are also not connected to capital from any mainstream financial providers and rely largely on grant funding.

This is in stark contrast to the experience of the US where the 1977 Community Reinvestment Act (CRA) has driven investment in under-invested communities through a combination of disclosure requirements with social performance ratings and incentives. The CRA yielded substantial investment, with community development investment averaging $17 billion a year in the 1990s.

In the UK, recent developments make this a particularly relevant time for readdressing this question. New data has in 2013 been voluntarily disclosed by banks through the British Bankers’ Association, which starts to reveal trends in lending and access to finance across the country through the top seven banks. However, this remains a first step and the level of disclosure provided still does not allow community lenders to identify the areas of greatest need.

The UK also faces a different context to the US. In the UK, there are some existing incentive schemes already in place for investment in CDFIs, such as GTR. There is also a higher banking concentration with less likely bank merger activity in the future. Further, there is a strong emphasis in the UK on helping provide investment to social organisations as well as those in deprived communities.

**Context & Issues**

The UK’s social impact investment market has evolved since the inception of the Social Investment Taskforce in 2000. Whilst market development has focused on building intermediaries and locating the right pools of capital, recent momentum is driven by initiatives to increase public service delivery by social organisations.

The recommendations seek to build on earlier initiatives and embed the progress from successful innovations. However, the recommendations also recognise that the crucial gap in the market today is a lack of robust social investment opportunities. Providing greater support to social entrepreneurs to help build capacity and access capital are critical to addressing this gap and ensuring the ongoing growth of the market. Providing smart commissioning strategies to help investors to evaluate social outcomes will also stimulate broader social sector involvement and provide more investment opportunity for ambitious social organisations and for social investors, providing greater mechanisms to understand the social value of businesses could spur a wave of new social business and attract new commercial investors.

We also learned from the UK’s history of market development that addressing all the segments of the market – demand, supply and intermediation – is critical. Indeed the interrelationship between recommendations is clear. Capacity building will be critical to capture the opportunities created by better procurement. Better recognition of the social business sector will likely be a draw for retail and institutional investment. Building the market further will require paying careful attention to the lessons of the past.

What does success look like if these recommendations achieve their goals? In the medium-term, a successful social investment market will mean having a greater degree of sustainability and scale for both social organisations and social financial intermediaries.

**Recommendations**

**9. Encourage greater transparency around lending into deprived communities**

This would require that large financial service institutions support existing moves to deliver greater regional transparency in an accessible and user-friendly way, including transparency on lending to social organisations. It could also serve to motivate financial institutions to provide greater access to finance for those in deprived areas directly and via CDFIs.

**Conclusion**

Subsidy is likely to continue to play a role, however its focus over time will migrate to critical areas that require targeted development before becoming self-sufficient. Similarly, stronger financial intermediaries will arise out of a market with more diversified sources of revenue.

Scale will become a more common feature of both frontline organisations and financial intermediaries as the social investment market takes hold. Larger organisations, which must manage a social mission differently but will benefit from greater economies of scale, will become increasingly relevant in public and private markets alike.

As the same time, a fully functional market will identify and disseminate the most effective social intervention models on a regular basis. Social entrepreneurs will work with social investors to test their ideas, using an efficient market to assess their potential value.

As the social investment market broadens and gains critical mass, it will increasingly shape how capital is allocated across social issues. Its influence will grow as the spectrum of investment extends into what were previously ‘un-investable’ solutions. The growth of social capital markets will focus ever more entrepreneurs on bringing people together to solve social challenges.

Building the social impact investment market in the UK has been a lengthy, complex and challenging experience. But with momentum building through a history of at least 14 years of key initiatives, the UK is starting to uncover the real potential of the market to use investment to address social needs sustainably and at scale. The UK National Advisory Board hopes that by sharing this experience, this report can be helpful to shape not just the next phase of the UK social impact investment market, but also to help shape efforts amongst the international community to develop social impact investment markets around the world.
Appendix I: UK National Advisory Board and Interviewees

Chair
Nick O’Donohoe, Big Society Capital

Members
Bernard Horn, Social Finance
Cliff Prior, UnLtd
Daniela Barone Soares, Impetus-PEF
David Gregson, CRI
David Hutchison, Social Finance
David Royce, CRI
Dawn Austwick, Big Lottery Fund
Deidre Davis, Deutsche Bank
Geoff Mulgan, Nesta
Harvey McGrath, Big Society Capital
James Perry, Panahpur
James Vaccaro, Triodos
Jim Clifford, Bates, Wells, Brabhaule
Johannes Huth, Impetus-PEF
John Kingston, Association of Charitable Foundations
Jonathan Jenkins, Social Investment Business
Mark Boleat, City of London Corporation
Michele Giddens, Bridges Ventures
Nat Sloane, Big Lottery Fund
Peter Holbrook, SEUK
Peter Wanless, ASPCC
Philip Colligan, Nesta
Philip Newborough, Bridges Ventures
Rob Owen, St. Giles Trust
Sir Anthony Greener, St. Giles Trust
Toby Eccles, Social Finance
William Shawcross, Charity Commission

Secretariat support for the UK National Advisory Board was provided by Simon Rowell of Big Society Capital.

Interviewees
Many of the members of the UK National Advisory Board listed above were interviewed for this report. It would like to thank the following additional individuals who agreed to be interviewed:
Alastair Davis, Social Investment Scotland
Alastair Graham, Golden Lane Housing
Ben Rick, Social and Sustainable Capital
Bob Annibale, Cit
David Carrington, Independent Consultant
Dan Corry, New Philanthropy Capital
Patrick Crawford, Charity Bank
June O’Sullivan, London Early Years Foundation
Keith Smithson, Barclays
Kieron Boyle, Cabinet Office
Rt Hon Hazel Blears MP, Labour Party
Nigel Ball, Teach First UK
## Appendix II: Key Initiatives in Detail

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<thead>
<tr>
<th>Year</th>
<th>Development</th>
<th>Market Element</th>
<th>Type (Description)</th>
<th>Gap addressed</th>
<th>Provision</th>
<th>Initial Funding Source</th>
<th>Initial Funds Amount</th>
<th>Spur</th>
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| 2001 | UnLtd       | Intermediary   | Organisation (Fund Manager, Non-profit) | Lack of scale/volume of funding specifically for social entrepreneurs | • Grants  
  • Support | Millennium Commission endowment | £100 million | Group of seven social entrepreneur organisations |
| 2002 | Bridges Ventures | Intermediary | Organisation (Community Development Venture Fund Manager) | No venture capital model funds for social/environmental impact | • Loans/Investments  
  • Management support | Government + matched private investor capital | £40 million | Social Investment Task Force |
| 2002 | Community Investment Tax Relief | Supply | Policy | Lack of mainstream investment (individuals, institutional) in CDFIs | • Tax relief for investors in CDFIs | HM Revenue & Customs (HMRC) + Department of Business Innovation and Skills (BIS) | £86 million since launch | Social Investment Task Force |
| 2002 | Charity Bank | Intermediary | Organisation (Social Bank (CDFI)) | Lack of secured loans to charities | • Deposit services  
  • Loans | Charities Aid Foundation (CAF) / Investors in Society | £6.4 million (2002) | Charities Aid Foundation |
| 2002 | Community Development Finance Assoc. | Intermediary | Organisation (Trade association) | Lack of coordination and standards among CDFIs | • Support to CDFIs  
  • Government advocacy | HM Treasury, UK Sustainable Investment Forum | n/a | Social Investment Task Force |
| 2004 | Futurebuilders/Social Investment Business | Demand | Fund | Poor capacity of social sector organisations to win/ deliver public services contracts | • Loans/grants  
  • Support | Cabinet Office | £125 million | HM Treasury Review: Role of the VCS in Public Service Delivery |
| 2004 | Community Interest Company (CIC) | Demand | Policy (Company Structure) | Lack of recognisable distinct legal vehicle for social enterprise | • New legal form for use by organisations | n/a | n/a | Bates Wells Braithwaite |
| 2007 | Social Finance | Intermediary | Organisation (Non-profit developing new products/ innovations) | Weak ability of different investors and investees to partner and channel funds | • Product development  
  • Advisory | Philanthropists (Santar Trusts/ Foundations) | £1.3 million | Commission on Unclaimed Assets |
<p>| 2008 | Dormant Bank and Building Society Accounts Act/ Commission on Unclaimed Assets | Supply | Policy (Government led) | Lack of capital to fund a social investment wholesaler | • Identified source of capital | Dormant bank accounts from individual savers | Up to £600 million | Commission on Unclaimed Assets, Cabinet Office, HM Treasury |
| 2011 | Department for Work and Pensions Innovation Fund | Intermediary | Programme supports Government backed funding for SIBs | Lack of Government funds for prevention, and lack of understanding of what kind of SIB structures work | • Funding for set of different SIB structures | Department for Works and Pensions | £14 million | Department for Work and Pensions |
| 2011 | Scope Charity Bond | Intermediary | Instrument | Lack of access to funds for charities at scale and lower rates | • Operating capital for charity | Scope internal resources | £2 million | Scope/Investing for Good |
| 2012 | Investment and Contract Readiness Fund | Demand | Programme support (Government based) | Weak capacity of third sector to win public services contracts, attract investment | • Grants and loans to pay for capacity building support | Cabinet Office | £10 million | Cabinet Office |</p>
<table>
<thead>
<tr>
<th>Year</th>
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<th>Initial Funding Source</th>
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</table>
| 2012 | Big Society Capital | Intermediary | Organisation (Wholesale social investment bank) | Gap in cohesion of the market/ market development | • Investment in intermediaries  
• Advocacy and broader market championing | Cabinet Office, Reclaim Fund | £120 million (in first year) | Social Investment Taskforce and Commission on Unclaimed Assets |
| 2012 | Social Outcomes Fund | Demand | Programme support (Government based) | Government departmental budgets lack ability to account for savings outside department (budget silos) | • Top-up funds/grants for SIBs/ PbR type commissions | Cabinet Office | £20 million | Cabinet Office recognised need to enable development of SIBs |
| 2012 | Commissioning Academy (Government) | Demand | Information platform (Government training programme) | Disparate/outdated commissioning capabilities and approaches with lack of understanding of social organisations | • Training senior government in commissioning | Cabinet Office | n/a | Cabinet Office/Efficiency and Reform Group |
| 2012 | Community Shares Unit | Intermediary | Information platform | Need to raise awareness of opportunities for community shares | • Best practice sharing  
• Monitoring and promotion | Department of Communities & Local Government (DCLG) | n/a | Co-operatives UK, Locality and DCLG |
| 2012 | Social Value Act | Demand | Policy | Gap in explicit policy directive for social value in procurement across Government | • Policy for commissioning social impact | Cabinet Office | n/a | Chris White MP (private members bill), SEUK |
| 2013 | What Works Centres | Demand | Information platform | Lack of validated and consolidated evidence-base for social outcomes | • Provides rigorously tested impact information | Different funders for each centre | n/a | Cabinet Office/HM Treasury |
| 2014 | Unit Cost Database | Demand | Information platform | Information about costs of certain social outcomes | • Provides cost information on certain social outcomes | Cabinet Office and New Economy | n/a | Data derived from operation of first SIB highlighted opportunity for greater data use |
| 2014 | Social Investment Tax Relief | Supply | Policy | Lack of tax credit available for social investment, lack of risky capital for social organisations | • Tax relief | n/a | n/a | NCVO commission on tax incentives for social investment (2012) |
| 2014 | Charitable Trustees’ Duties Reform (ongoing) | Supply | Policy (consultation at present) | Weak/inability of charitable trustees to make social investments | • Review/revise legal rules | n/a | n/a | Lord Hodgson Review of Charities Act |
| 2014 | Investment Intermediaries Fiduciary Duties Reform (ongoing) | Supply | Policy (consultation at present) | Restrictions on fund managers to make decisions based on social/ environmental considerations | • Review/revise legal rules | n/a | n/a | Kay Review into UK Equity Markets and Long-Term Decision Making (note: not specific to social impact (investment but parts relevant to it) |
| 2014 | UK Social Bond Fund | Intermediary | Instrument | Lack of mainstream access for individuals to invest | • Registered mainstream investment product for individual investors | Big Society Capital + Threadneedle | £15 million | Threadneedle |
Appendix III: Recommendations

The recommendations for advancing the UK social impact investing market are:

1. Create a social impact & scaling fund
   Create a new fund to focus on developing the capacity of social organisations in performance management and then to help scale-up. It would fund the delivery by providers and front line organisations of the performance management knowledge and capability building required to reliably produce social outcomes and help organisations ready to scale-up in priority areas of social need.

2. Expand the ICRF fund
   The ICRF, which provides grants to social ventures that have the potential for high growth with a view to helping them build capacity and take on new investment, should be expanded to include specialist funding allocated by relevant social outcomes and the funding should be secured for an extended period of time.

3. Launch a Government hub for prevention & innovation
   The hub would have three primary functions: to gather, share and promote best practice; to support and spur pilots that address prevention, innovation, long-term planning (such as whole-life costing) and services for complex issues; and to promote adherence to the Social Value Act.

4. Create social prevention & innovation pilots fund
   The fund would support piloting new initiatives, instruments and structures that address any of the following: prevention, innovation, long-term planning and services for complex issues. It would cut across Government departments and seek to support interventions in multiple social issues.

5. Launch a Social Economy Commission
   Launch a Social Economy Commission as an independent authority established by the Government that would coordinate, register, monitor and champion the non-charity forms of social business.

6. Establish a Social Performance Certifier and golden shareholder model form
   A Social Performance Certifier would offer a complete and transparent presentation of impact performance for business seeking to secure their impact performance, building on existing work of other certifiers, such as BLab. To develop greater recognition of the golden shareholder model as a robust way to identify mission lock, a set of minimum standards needs to be developed to determine minimum requirements of golden shareholder models and then a community of golden shareholders should be fostered that uphold certain standards in order to build a credible reputation.

7. Establish a blended capital facility.
   Create a blended capital facility to provide a combination of grants and investment to intermediaries. This facility should be focused on supporting the provision of smaller unsecured lending facilities to charities and social enterprises. It could also use this facility to support early stage risk capital.

8. Require all pension funds to offer a social investment pension option
   Legislate that all pension fund managers that offer defined contribution investment funds must offer at least one voluntary “solidarity” choice. This could be based on the French model but include important adaptations to reflect the UK’s particular interpretation of social impact investment, to include charity bonds, social property portfolios and SiBs.

9. Encourage greater transparency around lending into deprived communities
   This would require that large financial service institutions support existing moves to deliver greater regional transparency in an accessible and user-friendly way, including transparency on lending to social organisations. It could also serve to motivate financial institutions to provide greater access to finance for those in deprived areas directly and via CDFIs.