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

LITERATURE REVIEW (SHORT VERSION)

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SOCIAL INVESTMENT RESEARCH COUNCIL

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1. Introduction

1.1. Research background

The UK social investment market continues to develop and establish itself, surpassing the £200 million mark in value. Several leading investor groups have continued to increase the supply of capital to the market. For instance in 2014-2015, Big Society Capital alone saw £195 million drawn down by intermediaries to support charities and social enterprises. This is in addition to significant investments made by charitable foundations, commercial institutions and individual investors.

Government has supported the growth in supply of social investment through further initiatives including the Social Investment Tax Relief, committing £105 million to Social Impact Bonds in the latest Spending Review, and funds attracting private finance into the market (eg the Arts Impact Fund or Dementia Discovery Fund). A number of initiatives have also aimed to grow the demand for social investment. This includes Access – the Foundation for Social Investment or the Investment and Contract Readiness Fund supporting social sector organisations' ability to attract social investment.

It is, however, difficult to assess accurately the scale of current and potential sector engagement with social investment and we are currently heavily reliant on estimates extrapolated from surveys. This is why, in 2015, NCVO was commissioned by the Social Investment Research Council to investigate how social sector organisations engage with social investment. The overall aim of our research is to improve understanding of the social sector's existing financing arrangements and the role of social investment, using data on the sector's assets and liabilities. The research also seeks to 'go beyond the numbers' where possible to understand more about the profile and characteristics of those who are accessing social investment; about motivations (financing behaviour and decision-making); and about the challenges, barriers and enablers organisations have encountered in engaging with the market.

The financing arrangements of organisations are therefore viewed from three different perspectives that have define the project's three strands of work:

- An analysis of the structure and finances of organisations examining the sector's existing financing arrangements and their assets and liabilities
- A literature review on organisations' financing behaviours from research that has already taken place on the UK social investment market
- Case studies on organisations' social investment journeys.

Defining our terms

The definitions of social investment and social sector organisations often vary. We set out below what we mean by the different terms used in this project:

Social investment is defined in line with the definition used by the Social Impact Investment Taskforce as "*investment that intentionally targets specific societal and/or environmental objectives along with a financial return and measures the achievement of both.*"[1]

We look at the range of **social sector organisations**, broadly defined as *"Impact-driven organisations with partial or full asset-lock. For example: charities that do not engage in trading; charities and membership groups that trade but do not distribute profits; social and solidarity enterprises; cooperatives; and other profit- or dividend-constrained organisations."*

This includes the following types of organisations:

- **Registered charities:** Charities registered with the Charity Commission.
- **Charitable foundations and trusts:** General charities whose primary purpose is awarding grants to other voluntary organisations, institutions or individuals.
- **General charities:** Private, non-profit-making bodies serving persons. This excludes sacramental religious bodies or places of worship as well as organisations like independent schools, government-controlled bodies and housing associations. In this publication we use the term 'charities' to refer to general charities. The data analysis in the document is based on this definition.
- **Community organisations:** Organisations that work with a confined local or regional focus. Community organisations may have a legal status or a constitution but there are numerous groups which have neither.
- **Co-operatives:** An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.
- **Non-governmental organisations (NGOs):** Organisations working in the fields of global development, social and economic justice and the environment.
- **Not-for-profit sector:** All non-profit organisations including those for private benefit (eg a freehold management company or other body where the benefit is for a defined group), those that are non-commercial (eg housing associations), quangos and other organisations close to government (eg universities).
- **Social enterprises:** Organisations that trade for a social purpose or use their activity to achieve social goals, e.g. co-operatives, community businesses and trading arms of charities.[2]
- **Social companies:** companies with social goals that do not distribute their profits and use a non-profit legal status. The primary legal forms included are Community

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[1] *Social Impact Investment Taskforce (2014)* ***Impact Investment: the invisible heart of markets****.*
[2] ***NCVO Civil Society Almanac*** *NCVO (2014)*

Interest Companies, Companies Limited by Guarantee and Registered Societies (formerly known as Industrial and Provident Societies).

1.2. Aims and scope

This report summarises the findings of a literature review on the financing arrangements of social sector organisations. The literature highlighted here focuses on organisations' experiences with social investment, as well as motivations and barriers to obtaining social investment. We have not mapped out every initiative or programme connected to the development of the social investment marketplace, but have focused on the experience of, and perspective of, social sector organisations.[3] The review was completed in the Autumn of 2015 and prioritised the most recent literature on the UK marketplace at that time. We reviewed around 30 published reports of various types alongside a variety of online materials, resources and blogs. Our sample includes academic research, data syntheses and compendiums, national strategy documents, reports of surveys, and discussion papers and think pieces.

2. Literature review

2.1. The social sector and its funding

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

- Numbers: The latest NCVO Civil Society Almanac reports that there are over 160,000 registered charities in the UK. This figure is often taken to indicate the size of the voluntary sector but there are many more organisations that comprise the wider civil society, including trade unions, co-ops, social enterprises, community groups, and others. This makes a definitive statement about the size of social society challenging. One estimate suggests that civil society could comprise as many as 900,000 organisations (including charities).[4] As an example of the challenge in quantifying the size of the sector, the number of social enterprises is particularly contested because of definitional issues. These have led

[3] *This report has been edited from a fuller literature review which gives greater detail on the development of the marketplace and describes some of the initiatives and programmes that have been put in place over recent years to support this development. The full version of this report is available on the NCVO website at www.ncvo.org.uk including an annotated bibliography.*

[4] *NCVO (2014)* ***Civil Society Almanac***

to estimates of the number of social enterprises varying very significantly from 20,000 to 195,000 depending on the definition of 'social enterprise' used.[5]

- Types of organisation: The range of types of organisations within the sector is very diverse – as well as more than 160,000 registered charities there are 46,000 charitable companies (limited by guarantee), an estimated 24,700 faith groups, 135,000 sports clubs, and 5,900 co-operatives.[6]
- People: It is estimated that there are more than 1.5 million people employed in the 'civil society' workforce and its work is supported by millions more – young people and adults who volunteer. Indeed, some estimates put employment in social enterprises alone at over 2m[7]. In 2013/14 approximately 48% of adults in England volunteered at least once a month on either a formal or informal basis. A significant proportion of these volunteer in charity, not-for-profit settings.[8]
- Contribution to the economy: The voluntary sector is estimated to represent over 4% of Gross Domestic Product and 5% of UK employment.[9]
- Focus of activities: In 2012/13 the primary economic activity of 18% (29,000) of general charities was the provision of social services; 14% (22,500) were engaged in culture and recreation; 8% (13,000) were categorised as religious. Excluding umbrella bodies, the category making up the lowest proportion of UK general charities by activity was employment and training (1.2% or 1,900 organisations).[10]
- Reach and impact: Research commissioned by the Charity Commission suggests that as many as 34% of adults in the UK say that they or close friends or family have benefited from a charity.[11] The sector also plays a particularly important role in reaching and supporting some of society's most disadvantaged and vulnerable, with an estimated 25% of general charities benefiting older people, 23% benefiting people with disabilities, and 51% benefiting children and young people.[12]

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[5] *See Lyon, F. and Baldock, R. (2014)* **Financing social ventures and the demand for social investment** *for a more detailed discussion of definitions and evidence on the size of the social enterprise sector. Estimates that only include organisations with legal forms that restrict distribution of profit and assets to individuals puts an estimate at approximately 20,000, while estimates with a looser definition (and including organisations with private ownership legal forms) give estimates at around 70,000 (Teasdale et al., 2012, Social Enterprise UK 2015. Others quote figures of 195,000 social enterprises - based on survey data where organisations self-identify as social enterprises and declare that they do not distribute more than 50% of profit to shareholders and generate at least 50% of income from trading (Cabinet Office, 2016, based on Small Business Survey 2014).*

[6] *NCVO UK Civil Society Almanac 2014*

[7] *Cabinet Office (2016)*

[8] *Workforce Almanac and Community Life Survey*

[9] *Government estimates (BIS) in Keen, R. (2014)* **Charities, social action & the voluntary sector: statistics** *. House of Commons Library Standard Note. SN/SH/5428*

[10] *NCVO UK Civil Society Almanac 2014*

[11] *Charity Commission, Ipsos Mori, Base of 1,142 adults in England and Wales surveyed in May 2012.*

[12] *NCVO UK Civil Society Almanac 2015*

The vast majority of social sector organisations are small and medium-sized organisations, and although the voluntary sector holds assets collectively worth around £105 billion, many smaller organisations have little or no assets or reserves. Around half of voluntary organisations are micro organisations (that is, they have an annual income of less than £10,000), 34% are small with an income of £10,000-£100,000 and only around 3% have an income above £1million. We know that three quarters of voluntary organisations have no tangible fixed assets, and 20% have no reserves.[13]

In recent years social sector organisations have seen significant changes in the way the sector is funded, and have become more adaptive to change, threats and new opportunities in income generation. We have seen the sector's ability to adapt reflected in the emergence of new forms of organisation and the growth in social enterprise; an openness to new ways of working; and more strategic thinking about funding and sustainability:

- Significant growth in number of social enterprises with close to half of all social enterprises starting trading in the last five years'[14] and an increasing role in the delivery of public services;
- A cultural shift and a greater openness and keenness to learn from other sectors, including the private and commercial, which has been seen in changes in organisations' Trustee base; new types of roles developing within organisations; changes in the types and focus of infrastructure support; and increased interest in outcomes/impact, quality assurance, business and enterprise models;
- A shift in thinking about funding - from fundraising to income generation and sustainable funding strategies, reflecting the fact that organisations are increasingly thinking more strategically about money; making a distinction between what is needed to carry out activities (revenue/funding/income) and money that can help develop sustainability or growth (capital/finance/investment).[15]

Despite adapting to change, there is a strong concern about funding and financial sustainability that has grown in recent years. Research based on a survey of 572 voluntary sector Chief Executives in 2015 supported other recent research findings that social sector organisations are experiencing an increased demand for their services, but at the same time are concerned about their financial future and ability to meet that demand.[16]

Overall funding to the social sector has been falling in net real-terms (though not in cash terms) since 2006/07 and income from government has significantly dropped as cuts kicked in

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[13] *NCVO UK Civil Society Almanac 2015*

[14] *Social Enterprise UK (2015) State of Social Enterprise Report 2015,* ***Social Enterprise UK***

[15] *Gregory et al. (2012) p2*

[16] *ACEVO/CAF (2015)* ***Social Landscape - the state of charities and social enterprises in 2015'***

from 2010/11. However, though individuals and government remain the main sources of income for social sector organisations, the sector has a diverse range of income sources.

- Income: NCVO's analysis of sector income estimated that in 2012-13 the total income of voluntary organisations was £40.5billion. Earned income contributed 56% of this total, voluntary income 37% and investments 7%.
- Funding sources: Individuals are the voluntary sector's single biggest source of income. In 2011/12 money from individuals accounted for £17.4 billion (44%) of the sector's total income (this includes funds raised via donations, memberships, legacies, fundraising and charitable trading). Approximately £8.9 billion (23%) of total income was from donations, gifts and legacies. Statutory bodies continue to be an important funder of the voluntary sector. In the same financial year, NCVO's almanac reported that 35% of the sector's income came from statutory bodies.[17]
- Variations in funding by size: Income sources vary by size of organisation but income from individuals provides the largest proportion of income for every size band. Major organisations have the smallest share of income from individuals (44%) whilst small and micro organisations have the largest share (56%). This pattern is reversed for income received from government bodies, with major organisations receiving the largest share of income from Government (38%), and small and micro organisations the smallest share (16%). Small and micro organisations have the largest share of income from investment (17%) compared with all other size bands (10% or less).[18]

For social enterprises, trade with the general public, and trading with the public and private sectors are the main income sources. Social Enterprise UK report that trade with the public is the most common primary source of income for social enterprises (30%), followed closely by trading with the public sector (27%) and with the private sector (17%). The same pattern also emerges when looking at all sources of income, with 58% of social enterprises, saying they receive at least some income from trading with the public, 59% trade with the public sector, 53% with the private sector, and 45% with another social enterprise or third sector organisation. Thirty-four percent report receiving statutory grants, 28% other grants, and 20% donations.[19]

2.2. Sector engagement with social investment

It is difficult to assess accurately the scale of sector engagement with social investment and we are currently heavily reliant on estimates extrapolated from sector surveys. Estimates of

[17] *NCVO UK Civil Society Almanac, 2014*

[18] *NCVO UK Civil Society Almanac, 2014*

[19] *SEUK (2015)* ***The State of Social Enterprise Survey 2015***

those engaging with social investment are largely based on extrapolations from surveys – some of which have small and not always representative samples of social sector organisations - making it difficult to assess accurately how many organisations are actively considering, or might consider social investment as an option, and how many have successfully accessed social investment funding. Investment data is available from some of the larger providers of social investment finance but this is not consistently collected or reported on, with amounts invested and numbers of deals more commonly reported than number or profiles of investee organisations.

Though there is some anecdotal evidence of growth in numbers of social sector organisations taking on social investment, this is not particularly well evidenced in the literature, and there is a general consensus that developing the demand side of the market remains a priority. The question of how many ventures are taking on social investment is difficult to answer using existing data and evidence, and commentators more usually draw attention to the fact that levels of engagement are hard to quantify, and that overall demand has not kept pace with supply. Assessing the state of the market in 2013 the UK National Advisory Board to the international Social Impact Investment Taskforce reported that more needed to be done to stimulate growth and to develop a healthy pipeline of demand. It concluded, "*Developing a robust pool of social organisations that want, need and can service social impact investment remains critical to building the social investment market. Further efforts to catalyse deeper and broader demand for social impact investment are therefore needed*."[20] Likewise the government's latest social investment strategy identifies the need to continue to stimulate demand and to match demand and supply. The strategy commits to "*… ensure that social investment is working effectively to support frontline ventures by improving existing market infrastructure and creating new infrastructure where necessary.*"[21]

Estimates vary but it seems reasonable to conclude that between around 60% of social sector organisations may currently not consider social investment to be a suitable funding option for them. For instance, research conducted by the Charities Aid Foundation (CAF) in 2014, based on one of the larger survey samples we identified (n=1,811), suggested that 61% of charities with an annual income of £60,000 or more have no experience of taking out repayable finance and no expectation of doing so in the future. It also suggested that the proportion of those not interested might be expected to be even higher in smaller organisations, which we know make up the vast majority of the sector.[22] Gregory et al (2012) similarly estimated that 65% of the sector was not engaged with social investment, based on their earlier survey of 1,255 organisations. However, they found that within this only around 43% were not interested at all, but that 22% would be interested to at least find out more

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[20] *UK National Advisory Board to Social Impact Investment Taskforce (2014) p28*
[21] *HM Government (2016)*
[22] *The actual survey findings were that 71% said that they felt "social investment is appropriate for charities" but in fact only 33% said their Trustees felt it would be suitable for their own charity.*

and consider its suitability as an option for them.[23] More recently a report from Durham University based on surveys of social sector organisations across three areas in the North of England (n=2,266) found that only 14% said borrowing money was of any importance to them when considering potential sources of funding.[24]

Recent research suggests that, as with the social sector as a whole, around two-thirds of social enterprises may not currently consider social investment as an option for them. Although social enterprises and/or organisations with a social enterprise 'arm' have been categorised as more likely to consider social investment as an option, a recent analysis of data from a sample of 878 social enterprises found that 65% were not interested in social investment.[25] Within the same study the researchers found that although 15% of social enterprises were seeking loan finance, most were borrowing from high street banks, and only one in five borrowers (3.6% of all social enterprises surveyed) were approaching lenders with a social mission. They concluded that the actual level of demand for repayable finance from social enterprises is not clear.[26]

It is generally accepted that not all parts of the sector could or should seek social investment, but there is potentially a proportion of those not currently considering it for whom it could be a suitable option. In understanding engagement with social investment, the literature commonly makes a distinction between those not engaging because it is not suitable for them, and those not engaging but for whom it could be helpful. We know a little about some of the reasons why organisations may not engage [see findings 20 –23] but we are not able to quantify how many of those not engaging fall into the category of those for whom social investment could be beneficial.

There is a general consensus that the number of social sector organisations who have accessed social investment funding remains relatively small. We know that the £202m social investment made through social investment intermediaries in 2011-12 represented 765 investment 'deals'. This rose to 1,204 deals in 2013/14 and was estimated to rise to 2,583 in 2014/15 (although the overall amount invested was still around the £200m mark in that year)[27] We also know that Big Society Capital's £150 million investment over 2012-14, represented 30 investment deals with just 57 frontline organisations having received

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[23] *Gregory et al. (2012) p30.*

[24] *Chapman (2015). Note – this went up to 39% among larger organisations but down to 6% of the smallest and micro organisations.*

[25] *Lyon and Baldock (2014)*

[26] *This research conducted by members of the Third Sector Research Centre (TSRC) was based on an analysis of the 2013 annual survey of social enterprises conducted by Social Enterprise UK (SEUK). The authors further drew attention to how their findings echoed earlier research done in 2012 which found social enterprises continuing to rely on public sector grants and in fact cautious about taking on debt.*

[27] ***This £202m comprises funding from social banks and large and small SIFIs only. The analysis appears in ICF GHK with BMG Research (2013), and ICF International (2016).***

financial commitments by the end of 2013.[28] Other SIFIs and intermediary organisations likewise report investees in their hundreds rather than their thousands.[29]

More social sector organisations are interested in social investment than are able to access it currently, though estimates of the level of interest (or demand) vary widely. Commentators often mention a finance demand gap, that is, the fact that more organisations need finance than can currently access it, and SIFIs report not being able to fully meet demand.[30] However, estimates of the demand gap vary and it is not always clear how robust the calculations are for reaching these estimates; so we find estimates ranging from £300m to £2.1bn per year.[31] The evidence that exists on applications for social investment finance and success rates suggests a relatively high drop-out rate – that is, organisations that drop-out of the process before any funding is agreed, and a relatively high failure rate - organisations applying but not succeeding in accessing funding and/or not receiving all that they have requested. The low 'conversion rate' from requests for support to financial commitments is commonly noted as a matter of concern in the literature.[32]

To date there has been more access to social investment recorded in London than in other regions, but this may in part at least reflect the distribution of social sector organisations across regions, and in particular the concentration of larger (and asset-owning) organisations in the capital. Demand for investment stems from across the country, but in earlier years certainly the largest proportion was reported to have gone into London.[33] We know, however, that there are more social sector organisations per head of the population in London, and that there are also more larger and asset-owning organisations. We also know that many national charities have their headquarters in the capital so that though they are based in and may receive funding in London, that funding could be spent across the country and even internationally.[34] The emergence of various regional funds has been seen as a way of redressing the perceived geographical imbalance over time. Though Big Society Capital's

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[28] *Big Society Capital (2014)* ***Social investment from ambition to action. Annual Review 2013****. More recent figures were released just as we finalised this review under Big Society Capital's transparency agenda. These suggest that by the end of 2015 270 organisations have taken on investment either through Big Society Capital funds or through raising capital from organisations like Clearly So.* http://www.bigsocietycapital.com/transparency

[29] *For instance, in its 13 years of operation CAF Venturesome, has lent over £35m to just over 425 charities and social enterprises http://caf-venturesome.tumblr.com/aboutus*

[30] *ICF GHK with BMG Research (2013)*

[31] *Big Society Capital (2014)* ***Social Investment Compendium*** *p4 suggests there's a finance demand gap of anything between £300m to £1bn per annum and it sources different estimates in full later in the publication (p63). Another source is CDFA/RBS Group (2013)* ***Mind the finance gap: evidencing demand for community finance*** *which estimated the potential funding gap for social ventures to be in the order of £1.3bn and £2.1bn per annum. http://www.cdfa.org.uk/wp-content/uploads/2013/01/Mind-the-Finance-Gap-summaryreport*

[32] *For instance, Gregory et al. (2012) references a low conversion rate of between 5 and 15%. More recently in the Design Council's 2014 study of social ventures, a third of their sample who had tried but not been successful (32%) had actually pulled out/withdrawn from the process with 44% doing so before even approaching investors.*

[33] *ICF GHK with BMG Research (2013) p25*

[34] *NCVO Civil Society Almanac, 2015*

investment only represent a part of the market and there are significant gaps in data on deals (see elsewhere), their latest data on investments suggests that the balance may be changing. Of 270 deals the data shows a more balanced spread of investment [in terms of numbers of deals] across regions. It also shows that the largest proportion of awards have in fact been made to organisations who work nationally or internationally.[35]

2.3. Those who engage and those who do not

Engagement across the sector correlates strongly with size. Social sector organisations engaging with social investment finance tend to be larger organisations, with a turnover of upwards of £600,000 and more usually a turnover of around £1m or more. It is large charities and large social sector organisations identifying as social enterprises that have mostly accessed social investment to date.[36] Among social enterprises the latest available data suggests that here too it is organisations with a turnover of over £1m that are more likely to seek and access repayable finance.[37]

Social sector organisations more likely to consider social investment as an appropriate option for them have a number of characteristics in common, and one of the most important seems to be a positive attitude towards social investment and/or risk within their governing body. Trustees are widely recognised as "a major enabling factor in the decision to take on finance",[38] and positive trustee attitudes to social investment correlate strongly with an organisation's likelihood to take on repayable finance.[39] There is conflicting evidence about the links between having an enterprise culture and a positive attitude towards social investment. For instance in CAF's 2014 research the 37% of charities in their survey sample who self-identified as a social enterprise exhibited more positive attitudes to repayable finance than other charities. However, more recent research based on surveying with over 2,000 Social sector organisations found little correlation between enterprising attitudes and activities and a positive view of social investment.[40]

Financial capacity and perceived potential for either income generation, public service delivery and/or growth are also relevant factors in organisations' decision to consider social investment. Organisations considering social investment have to have either assets (buildings or reserves usually) and/or a reliable revenue stream (or a convincing case that one can be

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[35] http://www.bigsocietycapital.com/transparency
[36] *CAF (2014)* ***In Demand: The changing need for repayable finance in the charity sector****; IVAR (2013); ACEVO/Big Society Capital (2015)*
[37] *Lyon and Baldock (2014) found in their sample of social enterprises that demand for debt finance is significantly greater amongst the largest social enterprises with annual income of over £1m (28.1%), with least demand (9.8%) exhibited amongst the smallest with less than £100,000 annual income*
[38] *CAF (2014)*
[39] *CAF (2014); IVAR (2013)*
[40] *Chapman (2015) p55*

developed). IVAR in their 2013 study of charities and social investment for the Charity Commission usefully defined a reliable revenue stream as "*income from an identified source that is timely, reliable, steady and with potential to grow over time*."[41] A key driver for a proportion of those who engage with social investment is about upscaling or restructuring to enable bidding for large contracts, not least because that is how much of the funding and support is set up (e.g. much intermediary activity has explicitly focused on contract-readiness as well as investment-readiness). We can see from the evidence that an actual or perceived inability to generate income needed for repayment, or to put up assets as security for repayable finance, acts as one of the most significant barriers to engaging with social investment,[42] with one study finding that 63% of its sample of social sector organisations reported an inability to generate sufficient surpluses to repay was a key factor in not considering social investment.[43]

Asset ownership is an important factor in encouraging social sector organisations to perceive social investment as an opportunity. Much of the literature points to engagement so far being linked to a desire to purchase or refurbish assets (land or buildings) and also concludes that this driver will continue to be a priority for the sector. Ownership of assets is seen as reducing risk, increasing independence, and making repayable finance more of an opportunity for larger charities and other ventures.[44]

Having a specific purpose/plan in mind and a prior (positive) history of accessing repayable finance can also affect decisions about taking on social finance. Several sources report that prior experience is an important factor in decision-making, with a recent Design Council report noting "*the extent to which individual funding experiences can shape future interactions with the social finance sector*"[45] as significant, and various reports explaining similarly that organisations with a positive past experience of taking on repayable finance are significantly more likely to consider taking on finance in the future either because they feel more confident they can pay money back and/or they have the support they need from leaders who are more open to the idea.[46] Some also mention the driver of having a specific expansion plan in mind such as developing a new service, expanding into a new area, or trying to establish a trading arm.[47]

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

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[41] *IVAR (2013)*
[42] *CAF (2014); Gregory et al (2012); Design Council (2014); IVAR (2013)*
[43] *Gregory et al* (2012)
[44] *Design Council* (2014*)*
[45] *Design Council (2014) p45*
[46] *CAF (2013); ACEVO (2015); IVAR (2013)*
[47] *ACEVO (2015)*

Across the literature when identifying characteristics of those charities that are either unsure, unlikely or certain not to take on repayable finance, researchers have placed trustee attitudes at the top of the list.[48] However, in research that has looked at the views of investors, investees and intermediaries, it often emerges that the issue of risk is perceived differently, with, for instance intermediaries or investors feeling that charity investees are excessively risk-averse but investees themselves feeling that in fact "their wariness ensured a responsible and risk-based approach"[49] The Design Council's 2014 study brings to life some of the complexities around the issue of risk, including the issue of personal risk for start-ups or others that have established themselves on the basis of individual entrepreneurs investing and taking personal risk. It outlines how having started by taking personal risk, such ventures can then feel unwilling to add to this by taking on more risk through social investment (preferring self-funded or revenue-based growth).[50] This challenges some of the literature which suggests that it is charities who are risk averse in their views towards social investment and social enterprises who are less so. The issue is more complicated and nuanced.

A proportion of those social sector organisations who choose not to engage with social investment have based their decision in part on simply feeling that social investment is not an appropriate form of financing for the charity sector. Though we do not have robust data on how widespread this view is, various studies have identified that some in the charity sector are not open to considering social investment not just because of the financial risk but also because it does not feel compatible with their charitable goals. For instance, one survey-based study identified concerns within its sample about potential reputational damage and about how social investment can be seen as running "counter to the ethos of charity".[51] Another found that 75% of their sample who identified as not interested in social investment felt that charity money should be spent on delivery and not on repaying loans.[52]

Lack of awareness, knowledge and understanding remains a significant barrier to engagement with social investment. Reports that explore barriers to engagement raise the issue of a lack of awareness and understanding. This has been cited in relation to products, repayment options, and/or sources of information/advice or sources of financing,[53] with one research team finding that only just over a third of charities in their sample (37%) felt they had a fair or better understanding of the term 'social investment',[54] and another finding that one in three potential investees reported that identifying who to go to for social investment was

[48] CAF *(2014); Design Council (2014), IVAR (2013)*
[49] *IVAR (2013)*
[50] *Design Council (2014)*
[51] *IVAR (2013)*
[52] *Gregory et al (2012)*
[53] *CAF (2014), Design Council (2014), IVAR (2013)*
[54] *CAF (2014)*

'very difficult'.[55] This lack of understanding can lead not just to experiencing a barrier in even considering social investment, but also to later problems with deal sourcing.[56]

A large number of social sector organisations who do not engage may simply not offer the kinds of services that lend themselves to social investment opportunities and/or may find there are fewer opportunities linked to the kind of social impact they are trying to create. The kinds of goals and activities of an organisation and the nature and characteristics of its beneficiary group are also relevant to understanding decisions about engagement. Some types of charitable activity lend themselves better than others to marketing, attracting investment or generating a financial return, and, of course, opportunities play a part so we know that there are more opportunities in some sectors than in others.[57]

2.4. Motivations and types of funding sought

Social sector organisations seeking social investment most commonly do so for asset acquisition or renovation, except in the case of social enterprises where the drivers and priorities for investment are different. Studies of organisations who have sought and/or secured repayable finance identify a range of reasons and motivations for seeking investment but the most common is strengthening an asset-base through asset acquisition or refurbishment, with the most prevalent asset class being property.[58] There is some suggestion that this is linked to organisations having recognised that strengthening their asset base could be more efficient than fundraising if the aim is raising a large sum for a property, and has the advantage of bringing independence.[59]

Social enterprises, particularly younger and smaller ones, are more likely to consider social investment for venture growth or start-up than for asset-driven purposes. Research undertaken for City of London in 2013 found around half of the social ventures in the sample (n=99) had sought social investment for venture growth or start-up. However, the researchers do acknowledge that their survey sample is slightly skewed towards younger and smaller social ventures rather than larger who might be more likely to be looking at secured loans/mortgage to buy buildings.[60]

Although growth or scaling up are important motivations for considering social investment, consolidation is equally important. Growth capital is generally identified as being harder to

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[55] *Gregory et al (2012)*
[56] *Gregory (2013)* ***Angels in the Architecture: Building the infrastructure of social investment***.
[57] *Big Society Capital (2015)* ***Where next? Future opportunities for social investment***. *Big Society Capital's own overview of investment by subsector as drawn from its Social Investment Insights Series shows a higher volume of capital to date aimed at addressing housing compared to other areas such as financial inclusion, unemployment or health and social care.*
[58] *ACEVO/Big Society Capital (2015); CAF (2014); Gregory et al (2012); IVAR (2013)*
[59] *IVAR (2013)*
[60] *ICF GHK with BMG Research (2013)*

access and sustainability has been more important than growth/scaling as a motivator for many in such straitened economic times. As the Design Council concluded in their recent research, although motivations were mixed and diverse, "typically consolidation was more of an immediate priority for ventures than growth".[61]

Adapting to survive also features as a motivation for seeking investment, and this often reflects organisations wanting financial support to help them move into a new area of work, develop a trading aim, or develop a new product/service. The data that is available on motivations seems to suggest that this motivation is more common than seeking investment to address a cash flow/bridging problem, although this also features in the literature.[62]

Truly understanding what drives organisations to consider social investment requires more sophisticated segmenting than by size or type of organisation. Motivations and/or stage of development are helpful aspects of typologies aimed at understanding financing behaviour and decisions. As City of London noted in their recent handbook on Social Impact Investment, *"As in the mainstream Small and Medium Enterprise (SME) sector, the stage of an organisation's development may determine the purpose and the type of capital sought."*[63] Various typologies have been developed to help increase understanding of the relationship of social sector organisations to social investment funding. One of the most useful considers the development stage and motivations of organisations alongside other characteristics. It broadly differentiates between four types of potential investee:

- Social start-ups: incubation, seed funding, growth over time.
- Shape shifters: well-established ventures wanting to move to a more commercial model, often interested in new products/services to increase sustainability.
- Steady eddies: large charities aiming for growth and scale, likely to hold assets, could also be spinouts and subsidiaries.
- Not a social enterprise: seeking investment in business - not necessarily less social minded but with different drivers as more likely to be driven by a market opportunity that addresses a social need than the other way around.[64]

Overall debt-based rather than equity-based products are the most widely accessed by those seeking social investment. The evidence suggests that equity-based products are rarely

[61] *Design Council (2014) p29*
[62] *IVAR (2013)*
[63] *City of London (2015)* ***A Brief handbook on Social Impact Investment: A UK perspective****.* *https://www.cityoflondon.gov.uk/business/supporting-local-communities/Documents/a-brief-handbook-on-social-investment.pdf*
[64] *Design Council (2014)*

sought by social sector organisations (only 5% of investments in 2010-11 and a similar proportion in 2011-12 were categorised as equity or quasi-equity investments)[65] and the evidence on repayable finance options taken up by social enterprises suggests the same is true for the social enterprise sector.[66] Recent research on SIFI investment, however, suggests that this may change in the future with equity and quasi-equity investments predicted to have reached 10% of total investments in social investment intermediaries in 2014/15.[67]

Secured loans or mortgages are the most common forms of repayable finance taken on by social sector organisations, with high street lenders the most common provider rather than social investors. Corresponding with the prevalence of borrowing for the purpose of acquiring property, mortgages have been the most widely accessed finance product with some sources suggesting that perhaps as much as 90% of all social investments by value made in 2011/12 were secured loans or mortgages.[68] Unsurprisingly given this interest in mortgages it has been suggested that more than half of repayable finance actually comes from high street lenders.[69] For the social enterprise sector the picture is much the same in terms of sources of repayable finance with high street banks remaining the main source of repayable finance.[70]

With the size of investments ranging so considerably, talking about an average investment is not always meaningful. However, the evidence suggests that the majority of investments are large, with most over £50,000 and some considerably higher. One survey estimated that that the average investment size in 2013/14 was £140,000, but average investment size varies significantly with the size of investor or intermediary.[71] The same is true when trying to understand the average size of loan or investment accessed by social enterprises. One attempt to calculate this found that the level of debt finance sought during 2012 ranged from £500 to £30m, with a mean of £1.04m and a median of £85,000. The researchers concluded that the differential between the mean and median demonstrated how the data was skewed by exceptionally high levels of debt financing required by larger social

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[65] *Brown, A. and Norman, W. (2011)* ***Lighting the Touchpaper, Growing the market for social investment in England*** *Boston Consulting Group and Young Foundation. p3*
[66] *Lyon and Baldock (2014) report that demand for equity finance among social enterprises is in line with national SME trends, which typically see less than 2% of all SMEs seeking this type of finance annually.*
[67] *ICF GHK (2016)*
[68] *Source of 2012 data ICF GHK with BMG Research (2013). Other sources confirm this pattern, including more recently ACEVO (2015). The value of secured loans is estimated to have fallen to 65% of SIFI investment by 2013/14, partially attributed to changes in investment activities by social banks (ICF International, 2016).*
[69] *CAF (2014)*
[70] *64% of social enterprise respondents in the sample cited this this as their main source of investment with only one in five of those looking for debt finance saying they were approaching social investors. Lyon and Baldock (2014) p11.*
[71] *ICF International (2016)*

enterprises, an issue that applies across the social sector as a whole where a few very large investments skew the bigger picture of investment.[72]

2.5. Understanding enablers and barriers

The experience and characteristics of those who successfully access social investment suggest strong governance and leadership combined with sound business and financial planning were the factors most strongly associated with success. Apart from a soundness of business case for the investment, it has been suggested that those who have received funding have in common a shared sense of mission, good governance/an engaged board, skilled management, and strong relationships with their investor(s).[73]

Access to appropriate and timely support is commonly identified as an important enabler for social sector organisations even though the evidence base for the effectiveness of some of the available support is not strong. Though commentators commonly report that support, particularly for investment readiness, is crucial, there has not been much independent evaluation of this support and it is not clear precisely who it helps and how and/or whether certain sorts of support are more effective or helpful than others to organisations at different points in their investment journey.[74]

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

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

- **The complex or costly nature of deals and**/or negotiations, with relatively high transaction costs - particularly for the amounts of funding sought - seen as significantly

[72] *Lyon and Baldock (2014)*
[73] *IVAR (2013); .CAF (2014)*
[74] *One example of an independent evaluation of investment readiness support is the Boston Consulting Group's report on the Investment and Contract Readiness Fund (2014)*

affecting the affordability and accessibility of social investment.[75] One commentator summed up the issue as follows: "*the market is characterised by a number of small and complex deals with high transaction cost for both sides, (and) an absence of standardised products …*"[76] with another finding that 32% of charities who said they would be unlikely to borrow, cited unaffordable costs as a barrier. [77] Lyon and Baldock's study of social enterprises reported that the cost of finance was also the most significant deterrent for social enterprises.[78]

- The length of time it can take to identify and negotiate an investment and to meet the requirements of an investor is also commonly regarded as an off-putting factor or barrier, with average investment-readiness journeys described as taking between 18 months and two years (and no certainty of funding at the end of that time).[79] Investees are not the only research participants suggesting that the market needs to be easier to navigate and that decision-making needs to be quicker.[80] Their complaints are echoed by investors and other important stakeholder groups, as here: "*there are clearly challenges around complexity, unnecessary oversight and bureaucracy. Commissioners and arrangers need to address these issues.*"[81]
- An inefficiency or misunderstanding with intermediaries. The literature points to some mixed feelings about intermediaries, where they are sometimes described as adding a layer of bureaucracy, or, most usually, that there is simply a lack of mutual understanding. Studies that have looked in more detail at organisations' journeys and barriers along the way to social investment commonly identify a lack of shared understanding between investees and intermediaries and/or investors as a factor impeding development with mention of a clash of culture or values, groups speaking a different language, and a mismatch of expectations.[82]

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

- Demand side issues: a mismatch between what is on offer and organisations' lack of investment understanding, and more usually a mismatch between what investors

[75] Gregory et al (2012); Gregory (2013) Design Council (2014); CAF (2014); IVAR (2013).
[76] Gregory (2013)
[77] CAF (2014)
[78] Lyon and Baldock (2014) – though the latest (2015) national survey of social enterprises also suggested that in fact key barriers are navigability, accessibility and confidence. SEUK (2015).
[79] Gregory (2013) p22 "a significant burden falls on the demand side, with prospective investees sometimes reporting a process of almost two years of due diligence ultimately leading to no investment."
[80] Alternative Commission on Social Investment (2015)
*[81] Nick O'Donohoe (Big Society Capital) **How Social Investment has developed in 2014** (Blog dated December 12 2014 accessed from http://bigsocietycapital.com/blog/how-social-investment-has-developed-2014)*
[82] IVAR (2013) and Design Council (2014)

require and what investees are able to deliver (a mismatch in expectations or a gap in investment- and/or impact-readiness).
- Supply side issues: a mismatch between what is on offer and what investees are actually able to apply for, and between what is on offer and what investees actually most need and want (issues about the accessibility and appropriateness of the available options).

2.6. Understanding investment readiness

Lack of investment readiness does affect parts of the sector but the evidence suggests that investment readiness is partly in the eye of the beholder, leading investors and investees to give different weight to this as a problem for the market. Investment readiness has been defined as “an investee being perceived to possess the attributes which make them an investible proposition by an appropriate investor for the finance they are seeking”[83] As the social investment marketplace began to develop significant resources were assigned to building investor readiness, understanding this to be a key barrier to market participation for social sector organisations.[84] However, the literature strongly suggests that there is some difference of opinion about ‘readiness’ between investors and investees. In research that brings together views from both perspectives, the most divergent views are often on investment readiness, on what this constitutes and whether or not this is really the heart of the problem.[85]

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

About the organisation:

- A board with experience
- Staff with skills in relevant areas (e.g. finance, enterprise, business)
- An appropriate track record (considering service delivery and financial history)
- Demonstrable ability to create impact

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[83] *Gregory et al, (2012) p6*

[84] *For instance, the £10m Investment and Contract Readiness Fund (ICRF) aimed at helping social ventures secure social investment and bid for public service contracts; Big Lottery Fund’s Big Potential, a £20m fund delivered by Social Investment Business to support the investment and contract readiness of social sector organisations; and more recently the Access Fund (http://access-socialinvestment.org.uk/).*

[85] *eg Design Council (2014)*

- An openness to healthy risk (low risk aversion)

About the viability of the proposition:

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

About the timing:

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

There is a growing interest in the notion of impact readiness as an element of investability that may warrant more attention. An interesting development in the debate has been the shift to discussing impact readiness, with suggestions that the ability to achieve, measure and demonstrate impact is also an important part of 'getting things right' in the market.[86] For instance, one recent report argues that there is an important capacity gap in relation to impact, and identifies a lack of "outcome-producing capabilities" in the sector as a key threat to the development of a market using finance to solve social problems.[87] To counter this there has been much work done on impact planning and measurement in the social sector in recent years and significant progress has been made in promoting a more outcomes-focused culture in parts of the sector. There is not a consensus in the literature that the sector lacks 'outcome-producing capabilities'. Many believe the sector can and does produce or achieve outcomes, though there is an acknowledgement that it still needs support to measure and demonstrate these.[88]

2.7. Accessibility and appropriateness

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

- There is a lack of unsecured, high risk capital and it is widely suggested that this is what the social sector needs more than what is most readily on offer (secured capital), in part because so few organisations have enough assets to

[86] *Impetus (2014)* ***Building the Capacity for Impact. A report on the capacities needed by the social sector to deliver the aims of the social investment market*** *(for Social Impact Investment Taskforce)*
[87] *Impetus (2014)*
[88] *See Joy, I.* (2014) ***Smart Money: understanding the impact of social investment.*** New Philanthropy Capital and more at *www.inspiringimpact.org.*

use as security to enable secured loans. Particular issues have been identified with the availability of early stage risk capital and the lack of affordability of risk capital.[89]

- Some have argued there is a need for more blended capital than the market is currently offering.[90] Blended capital, it is suggested, would be of particular interest to small organisations in transition – e.g. between the stages of receiving grants and the point at which they can attract investment at scale, and at a point where they are not ready to handle pure debt and would therefore consider a blend of investment capital and grants. The UK National Advisory Board to the Social Impact Investment Taskforce recognises this as an issue but also notes the challenge in identifying those for whom blended capital would be appropriate and then tailoring such products to meet their needs.[91]
- There is unmet demand for smaller investments. Various studies have identified the need for longer-term funding of less than £100,000 to help scale up existing activities, which does not match the dominant type of capital on offer. For instance, around 82% of social enterprises in the Small Business Survey 2014 reported seeking finance of up to £100k.[92] In their 2014 study CAF found that two-thirds of charities were hoping to raise less than £250k in repayable finance and concluded that in order to better meet the repayable finance needs of charities, there should be increased provision of affordable risk capital, available for borrowing at lower amounts.[93] Similar studies of social enterprises also commonly identify that most would be seeking investment of tens rather than hundreds of thousands of pounds.[94]
- There is a lack of understanding about realistically what the options might be for engagement of small and medium-sized charities and social ventures. Improving access to repayable finance for small and medium-sized organisations is one of Big Society Capital's strategic goals. However, there is some sense that we do not yet have sufficient understanding of the extent to which even with more user-friendly products, social investment could be a viable or appropriate option for small and medium-sized charities and small

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[89] *Design Council (2014); Gregory et al (2012); CAF (2014); ICF GHK with BMG Research (2013)*
[90] *For instance, Gregory et al. (2012) reported that 49% of their survey respondents expressed an interest in mixed funding products but only 7% had received them.*
[91] *Recognising this demand and starting to take up this challenge, the new government and Big Lottery-backed Access Foundation (the Foundation for Social Investment) was established early in 2015 and is making available up to £50m of blended capital (a mix of loans and investment for smaller organisations) through its Growth Fund. (http://access-socialinvestment.org.uk/)*
[92] *Cabinet Office (2016)*
[93] *CAF (2014)*
[94] *e.g. SEUK and Seebohm Hill quoted in* **After the Gold Rush** *p16. The latest national Social Enterprise Survey (based on a sample of 1,159 enterprises) confirmed more recently that the median amount of finance sought is still around £60,000 – below the minimum thresholds of many specialist social investors and funds. SEUK (2015) p49.*

social ventures. There may be a mismatch between what is being proposed and what this (large) part of the sector most wants or needs. Furthermore, some are concerned about the capacity of the market to develop and offer smaller deals, including whether or not this could ever be independently sustainable (i.e. without being subsidised in some way). As one research team recently found, "More than one late stage funder noted the difficulty of covering the costs of multiple smaller deals in the social finance space where margins are low, even though this is the area with the most demand from social ventures."[95]

There is growing recognition that to function effectively the market (supply) may need to adapt to what social sector organisations need, just as they have had to adapt to the kinds of supply on offer. Several studies have touched on this issue and as one concluded, "*Ventures of all types are highly adaptable and will shape themselves to the opportunities in the social finance market … but there are limits to how far they can adapt. It is important that the social finance market also remains responsive and can adapt …*"[96] There are signs of new options emerging that may offer alternatives that better respond to demand, though as yet these are offered on a relatively small scale. Some of the alternative options mentioned in the literature as having potential longer-term include: philanthropy of high net worth individuals and corporates; encouraging greater involvement of grant-making trusts and foundations; co-mingling - i.e. using philanthropic funds to leverage in commercial capital; and crowd-funding platforms that cut out the 'middle men' and enable smaller scale investments.

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

- Estimated growth in demand. Though estimates vary and are often reliant on extrapolations from unreliable or unrepresentative datasets, a growth in demand is generally forecast. For instance, one source estimates the average annual demand for repayable finance by charities over the next five years could be in the region of £765 million[97] with another suggesting that by 2016 demand will have reached £1 billion.[98]
- Anticipated changes in motivation and/or needs. It has been suggested that the future may hold a more varied make-up of borrowing purposes and an increase in demand

[95] *Design Council (2014) p29*
[96] *Design Council (2014) p 21*
[97] CAF (2014)
[98] *Estimate of demand by 2016. Boston Consulting Group report for Big Society Capital (2012)* ***The First Billion*** *p8*

for unsecured products.[99] However, in general there is a consensus that though there may be a greater need for capital to develop organisations, or working capital to carry on business as usual, the acquisition or improvement of a building is still likely to be the most prevalent driver for seeking investment.

- Anticipated need for more investment readiness support. One commentator has suggested that (with some caveats) the pipeline of demand for investment readiness support could reach between 70,000 and 140,000 organisations in the years 2012-2017.[100] Though this was a ballpark figure extrapolated from a single survey and seems a high estimate given the overall size of the sector and potential marketplace, nonetheless almost all commentators have agreed that more readiness support and capacity-building will be needed, even if they differ in their views of the level of need and what would be most helpful.[101]

3. Closing summary

3.1. The evidence base

Despite a growing body of research on social investment, there remain a number of important gaps in the evidence base. Those who have recently reviewed the available evidence on social investment have concluded, as Big Society Capital did in 2014, that *"Many questions about the social investment market remain unanswered and require further research."*[102] Perhaps the most significant concern raised has been the lack of robust evidence of current and future demand from social sector organisations: *"As much of the rest of the world looks to the UK experience of social investment, there is a need to show how the demand for social investment is based on clear evidence."*[103]

As well as evidence gaps, there are large areas where evidence (or interpretations of it) is conflicting, leaving us without consensus about how, and how well, social investment is working in practice both for investors and for investees.
One key area of difficulty lies in producing an accurate estimate of the scale of engagement with social investment and the proportion of the sector interested in or potentially interested in it. Some of the most recent research suggests that several influential pre-2014 studies may have overstated the significance of social investment as a source of funding for the social sector, and possibly also the pace at which market growth has so far taken place,

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[99] *CAF (2014)*
[100] *Gregory et al. (2012)*
[101] *CAF (2014), p21. Brown, A. and McAllister, K. (2014)* ***Ready, willing and able: An interim review of the Investment and Contract Readiness Fund***
[102] *Big Society Capital (2014)*
[103] *Lyon and Baldock (2014)*

or might take place in the future.[104] In some of that recent literature we found an emerging theme of concern about social investment "hype" – with calls from research teams and other commentators for claims about social investment to be tempered with better use of evidence. Our review identified three main sources of confusion:

- Definitions and data. A lack of shared definitions and a lack of completeness, consistency and transparency with regards to data collection and reporting about investments and investees has contributed to a lack of clarity about market activity and growth.
- Conflating investment levels with engagement levels. We know a relatively small number of large organisations have benefited from some very large investments. Referencing only the total amount invested in such circumstances has the potential to mislead about the scale of sector engagement and may have contributed to over-estimates of engagement.
- Enthusiasm for the idea of social investment. Some of social investment's most engaged champions and advocates, people with a genuine enthusiasm for social investment, may have been over-represented as contributors to the body of research as it has emerged so far and their enthusiasm may have played a part in what has recently been called "forecast optimism", generating an over-optimistic view of the time needed to grow the market and to increase the sustainability or impact of organisations through new and different types of investment.[105]

3.2. Sector engagement

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

More sophisticated typologies of social sector organisations who might be interested in social investment are starting to emerge as it becomes clearer that the factors affecting engagement with social investment are more complex and relate less to the type or form of organisation or even the level of enterprise than may have been assumed previously. The most common motivations for seeking investment are still to invest in assets and growth/scaling up, including to win larger contracts. However, because of the way the marketplace has been developed, the pattern of motivations and take-up of investment may be as much shaped by supply as by what organisations most need and there is some

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[104] *See a useful summary and critique of the different estimates of market size and growth at Leslie Huckfield (2014)* ***Builder Capital – It's time to get real on social investment.*** *(Blog at http://www.huckfield.com/blog/builder-capital-its-time-to-get-real-on-social-investment/)*

[105] *Huckfield (2014)*

evidence that, particularly in what are difficult financial times for the sector, consolidation and adapting may be equally important drivers.

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

If the overall goal is to widen participation in the market by social sector organisations who might benefit from social investment, it makes sense to continue with the current provision of a range of types of information and support, available at different points in an organisation's investment journey. However, while making social investment more accessible to everyone[106] may be an achievable goal, making it appropriate for everyone may not be. We know that the majority of the sector comprises small organisations who are asset-poor,[107] and for many of these repayable finance may never be an appropriate option. Some of those that assess and dismiss social investment may be making the right judgement. Therefore a better understanding of these organisations and their decisions might lead to more appropriate targeting of awareness-raising or investment-readiness support to those for whom it could really make a difference.

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

- Addressing issues of mismatch. Solutions commonly proposed to address issues of mismatch between what's offered and what's needed are that a wider range of products should be made available, including unsecured capital and more blended capital, and that making available smaller investment amounts would better match what the sector needs.
- Continuing to support investment readiness. Despite some debate as to the extent to which investment readiness is a problem, and a lack of evidence about the effectiveness of investment readiness support, almost all commentators have suggested an ongoing and potentially growing need for investment-readiness support.

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[106] *HM Government (2014) p8*
[107] *NCVO (2015)*

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

3.3. Measuring success

Much of the research that has been conducted to date focuses on the effectiveness of social investment as a funding mechanism rather than as “a tool to help increase social impact”.[108] It may be timely now for future research to look at questions of impact alongside questions of effectiveness, that is, to address fundamental questions about what difference social investment is making.

Inevitably as the focus has been on developing an effective marketplace, much of the research to date has focused on effectiveness and how to increase this. However, as the recent report of the Alternative Commission on Social Investment concludes, we need to avoid falling into the trap of treating the development of the social investment market as an end in itself. Simply achieving a more accessible marketplace would be just one measure of success.

If we are to focus on measuring success, there are some less well-explored research questions that it might be useful to focus more attention on in the near future, including:

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

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

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[108] *HM Government (2014) p6*

the true value of social investment not just for the sector but, importantly, for our wider society.[109]

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