The Social Investment Intelligence Network

Q3 – 2018

Connect Fund
Building a better social investment market

SocialSpider

Introduction

The Social Investment Intelligence Network (SIIN) is a new initiative that brings together a group of charity and social enterprise leaders from around the country to provide informed perspectives on developments in the social investment market and discuss how the market could work better for their organisations and others in their regions and sectors.

The SIIN panel meets on a quarterly basis with a short report published after each meeting to reflect the discussions and provide timely information to the market.

Our second report featured key insights including:

- The shift from `investment readiness' to `resilience' is broadly welcome but some charities and social enterprises are sceptical about the motives behind it (Investment Readiness)
- Charities and social enterprises could play a significant role in delivering `investment readiness' support through peer support models if properly resourced (Investment Readiness)
- The social investment sector is not representative of wider society and has not been designed to be, nor has it evolved to challenge existing structures of privilege and power (Diversity and Equality)
- Greater transparency and better data on who is employed in the sector, and to whom money is going, could make it easier to identify and tackle inequalities (Diversity and Equality)
- Charity and social enterprise leaders have differing views on diversity and equality but – while disagreements should be aired and understood – discussions should be conducted in a way that ensures participants are not discriminated against (Diversity and Equality)
- Prominent peer-to-peer lenders continue to discriminate against charities and CICs (Member Updates)

Reflections on Previous Meeting

1

The group discussed events related to the conversation about diversity at the preceding SIIN meeting and the Secretariat explained that two members of the group had decided to leave the network as a consequence of this.

The group agreed that what happened was regrettable, but also created a responsibility and an opportunity for the group to make a positive contribution towards greater equality in the field of social investment. The group would consider individually and collectively how they could do this.

Recent Developments in Social Investment and Panel Members Updates

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The Secretariat updated the group on a range of relevant developments in the field since the last meeting:

- payday lender Wonga going into administration a sign of ongoing failures in the market for personal loans
- the launch of a new 'repayable grant' fund from social investor, Social Investment Business – this is a new approach to risk finance offering funding of £10,000–£25,000
- a group of charities led by Local Trust calling for the creation of a £5 billion Community Wealth Fund making use of a new wave of unclaimed assets to provide long-term funding to strengthen communities

The group discussed the idea of revenue participant agreements and quasi-equity, which are a feature of the new SIB fund. This is an investment instrument based around paying a % of turnover to the investor rather repaying a debt and agreed interest. The group found the current terminology jargon heavy and at some times confusing. The usefulness of the term 'repayable grant' was challenged as a phrase which contains a contraction in terms.

The group agreed that the SIB fund is interesting and encouraging, as it demonstrates investors responding to the specific needs of charities and social enterprises, who largely cannot issue equity and for whom debt finance may not be appropriate. However, it is a small and experimental fund from one lender so there is still a long way to go.

> *"Hundreds of millions of pounds have been cut from council budget lines"*

2

One panel member described how their local credit union has rebranded as 'Your Money Shop', with marketing materials which look more like a conventional private lender. This may have wider lessons for social enterprise and social investment, as the credit union is seemingly going against conventional wisdom. Rather than seeking to compete by differentiating themselves from what the customer expects from more predatory alternatives, they are using similar visual branding to mainstream competitors. One panel member also reflected how credit union interest rates still seemed absurdly high, even though they were more affordable than the likes of Wonga.

Social investment in a shrinking market

Several panel members reflected on the challenging market conditions for charities and social enterprises in a general sense. Particularly when seeking grants or contracts from the public sector, it is clear that it's becoming harder to secure funding for social and environmental projects because there is simply less money around. Hundreds of millions of pounds have been cut from many council budget lines and these challenges are a much more significant factor in influencing the development of social investment than any one fund or product.

Given these increasing challenges, panelists felt it was important to recognise the limitations of social investment as a solution to wider problems of income generation and sustainability. Investment-based finance models are less likely to make sense in a market which is shrinking and in which revenues are falling.

The panel discussed whether, given the Church of England's intervention in seeking to bring about the end of Wonga, faith-based approaches may be worth further consideration in the social investment field more widely.

One panel member suggested that some of the most interesting homelessness work is being undertaken by the Church and also pointed out how the Quaker Housing Trust is offering patient, interest free loans on more generous terms than most social investors. One charity for which the panel member is a trustee received an £80,000 loan to be paid back over 10 or 20 years at zero interest and just 2 pages of terms and conditions.

This can be understood as an example of somewhat unheralded or uncharted social investment merging from an organisation with a particular set of beliefs as opposed to a technocratic approach.

The group also discussed how the church own considerable amounts of land and property which they are sometimes seeking to transfer, and which can sometimes be an easier way for a social enterprise to develop their asset base than accessing finance and buying property.

Place-based Social Investment

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The secretariat introduced the session on place-based models, noting that "place-based" funding is currently very fashionable amongst funders.

The group considered the term's use in the US and how "in most cases, it is more than just a term to describe the target location of funding; it also describes a style and philosophy of approach which seeks to achieve 'joined-up' systems change."

The secretariat presented a range of models of place-based finance, including funds, bonds, credit unions, CDFIs, building societies and mutual, crowdfunding platforms and other intermediaries.

The group then considered recent place-based social investment models, including:

- The Social Investment Business Local Impact Fund in Liverpool
- Resonance local funds - including SITR Funds in Bristol and the West Midlands
- Key Fund's focus on the Midlands and North of England
- Social Investment Scotland's nation-based activity.
- The regionally-based North East Social Investment Fund
- Local investors such as Bristol and Bath Regional Capital

The panel considered the potential pros and cons of place-based social investment, which included enhanced local knowledge, with greater trust on one hand, and lower economies of scale, higher costs and risks on the other.

Experience of these models appears to be mixed, from both the perspective of the investors and the social sector. A common theme was around how place-based finance lends itself to closer relationships between organisations looking for funding and funders. One panellist suggested that a place-based approach tends to work well for small scale-social enterprises and enterprises centered around a physical asset.

Models from Liverpool to Bath and beyond have managed to deploy capital, but at a slower rate than foreseen - although this mirrors activity in the industry more widely. Although Liverpool had a vibrant charity and enterprise scene during the pilot stage of the Local Impact Fund (2014), the finance offer (5-8% up to 5 years), was not taken up particularly quickly.

There was a suggestion that this fund got caught in a time when people had little confidence in what the social investment market was able to deliver. The approach seemed to be 'build it and they will come'.

Increased focus on 'community'

Panel members highlighted the general shift of some pots of grant funding towards activities at a community scale, and community-led projects. This has clear benefits, but panellists did feel that this shift excluded many charities and social enterprises from grants, which already have lots of other conditions and stipulations.

One panelist noted the role of community business funder Power to Change in providing blended finance for organisations seeking social investment from social investors, Key Fund and Social and Sustainable Capital. A grant element provided by Power to Change made loans affordable for the community business and viable for the social investor.

There was a perception amongst some panellists that certain places are excluded from the place-based approach. Norfolk and Bournemouth were highlighted as being two excluded areas and the London-centric focus of social investment was referenced.

One of the panellist with a personal connection to Preston questioned whether the much heralded "Preston model" was as impressive as it sounds, since no-one locally really knows about it.

The role of equipping people with the tools to access investment in their local area where local funds are missing was suggested as a more useful approach than trying to stimulate local investment funds.

Multiple panellists discussed the opportunities of utilising local networks of high net worth individuals, utilising tax incentives such as social investment tax relief (SITR) and the potential role which open-access investment angel communities could play in the place-based approach.

One panellist has developed a responsible finance institution in response to the decline in credit unions over the past 3 years, a lack of credit union coverage, and a gap in the 10-50k lending space. A key goal is to enable communities to drive the funds that are created and to utilise an integrated, interconnected place-based approach.

The group also discussed the role of large charities, community foundations and Councils in investing in social sector organisations and housing projects. Panel members reported how a number of housing and solar energy based social enterprises have been able to access affordable finance via their local Councils accessing the Public Works Loan Board and on-lending

> *"If a social entrepreneur knows they are going to live somewhere for 25 years, they will think about how to use finance to make a long term impact"*

Inside-out investment

Panel members agreed that place-based models had the potential to enable finance to flow towards identified local needs, rather than money flowing to organisations who were good at competing for cash by creating eye catching initiatives. If money was committed to a local investment pot, then it may flow slowly, but it would act as a catalyst for community organisations to come together and work out, together, how it could be best directed to tackle underlying needs and problems, tailoring a product around what the community needs.

This could be called an inside-out, rather than top-down approach. Indeed local models are not necessarily a reaction to the power and primacy of London, either within the social investment field or without, but to top-down models more widely. The idea of taking back control was seen as relevant here.

Panelists suggested that the main problem with social investment is that, too often, demand and supply just aren't aligned. This can result in a situation where organisations are more inclined to skew themselves, or their projects, to what the funder needs, rather than funders seeing what the demand is and what they need to provide. It was suggested that successful place based models create better alignment of supply and demand as there is nowhere else for the money to go.

If a local social entrepreneur knows they are going to live in their community for the next 25 years, they will inevitably think about how they could use the finance to make a long-term impact. Such funds could be targeted at genuine systemic change, not short-term initiatives. City scale seemed about the right scale for several participants. The question of how existing infrastructures such as local authorities, the community voluntary sector and community banks could be leveraged was raised. One panellist argued that funding and finance and initiatives that aren't locally led simply come and go, and it is only local models which have sustainable impact. A panellist raised the point that a place-based perspective is a critical piece, but not necessarily the last piece, of the puzzle.

Key Insights

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From Recent Developments and Member Updates:

- New investment models such as 'repayable grants' may a good way to meet charity and social enterprises investment needs but there is a danger that new terminology can be jargon heavy and confusing
- Wider market conditions for charities and social enterprises are a key barrier to the success of social investment. With grants and contracts from the public sector, in particular, increasingly hard to come by, social investors are often attempting to invest in shrinking markets
- Faith-based models of social investment are currently little-known and under-explored but could provide a valuable source of relevant finance

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From Place Based:

- At its best, place-based social investment involves greater levels of trust and local knowledge, which leads to closer relationships between investors and investees
- Some panelists felt placed-based approaches meant that areas already excluded from the London-centric social investment market would be further disadvantaged if investment was focused on location
- Place-based social investment offers significant opportunities for money to flow towards identified local needs rather than just to the organisations who are best at bidding for funding

What’s Next?

The fourth SIIN meeting will focus on updates on panel member’s experiences over the past year, along with a discussion on what UK social investment can learn from social investment in other countries.

Meeting Date September 5th 2018
Venue St George’s Centre, Leeds

The content featured in this report includes opinions expressed in phone interviews with panelists who were not able to make the meeting in person.

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