

Access has received £30m of dormant account money to provide grant to blend into social investment vehicles to support the charities and social enterprises impacted by Covid-19. Up to a third of this will be used to blend with programmes providing emergency lending to the sector, to allow more organisations to benefit from emergency lending where appropriate, and specifically to fill short term gaps in the supply of finance. At least two thirds will be blended by fund managers and used to develop new patient and flexible forms of finance to support the sector through the recovery. The expression of interest process to apply for blend for emergency lending is now open. Access and the Connect Fund now want to start a conversation about how we best design flexible finance for the recovery.

We know how important it is that this grant subsidy is used in the most impactful way. We want to share the questions, challenges and opportunities we see in shaping how this money is used as widely as possible to ensure it meets the financing needs of charities and social enterprises around the country as much as possible. This is the start of that process and we are keen to begin a dialogue with a range of stakeholders who can help.

We have not yet mapped out exactly how this dialogue will develop, but at this stage we are keen to hear from organisations who feel they can help address what we see as the key challenges and hear early stage ideas from potential applicants for the grant. We hope that this process will help us to design a programme which best meets the needs of charities and social enterprises, as well as the fund managers who will apply and manage the blended finance. The Connect Fund will be able to provide some support to develop ideas and partnerships further ahead of Access' application process opening. At this stage we are keen to know who would like to come on this journey with us and how you would like to be involved.

Access' mandate:

Following the commitment of the dormant account funds to Access, it wrote to the Secretary of State for DCMS to confirm how the money will be used:

We will allocate at least £18m to supporting the development of new, flexible and more patient social investment products to support charities and social enterprises through the recovery. We will do this in a collaborative way, engaging closely with social investment partners and sector infrastructure organisations to co-design the interventions based on what charities and social enterprises need and where the gaps are. We will also design these products around what and how much repayable finance we are likely to be able to leverage. We will use the improved data being developed across the sector to understand more about the business models which work for social enterprise activity and the market context in which they are operating. As with Access's other blended finance programmes, the strategic focus here will be to learn more about the most efficient and effective ways to apply the grant subsidy to build the right investment products for the sector and leverage significant repayable capital at the same time.

While there is much work to do to shape how this money will flow, there are therefore some elements of how it will be used which are set:

- The grant needs to be used to support charities and social enterprises that have been impacted by the Covid-19 crisis to get back on track and rebuild their business model/income generation/impact as the economy begins to recover, with the goal of supporting those organisations to be more financially resilient.
- Access will make the grant available at a wholesale level, to organisations that will then make investments in charities and social enterprises.
- The grant needs to be blended with repayable finance (either in investment vehicles/funds and/or in deals with charities and social enterprises) but will not come ready packaged with the repayable finance. Therefore fund managers will be expected to fundraise for that matching capital, or otherwise already have it in place.
- The products which fund managers develop with this blend should fill gaps in the supply of the sort of finance which charities and social enterprises need to re-establish their enterprise activity and income generation as part of the recovery. There will be a particular focus on products which provide more patient and flexible finance than those which are already on offer, which may include products which behave more like equity finance in asset locked organisations.
- The result of this should be that more charities and social enterprises are able to use repayable finance as part of their journey to resilience and therefore the reach of social investment is extended.
- The grant in the blend must be focused on overcoming the specific barriers to this finance being more available and bridge the gap between the needs/mandate of the providers of the repayable capital and the financing needs of the charities and social enterprises as outlined above.
- The programme must produce valuable learning which builds our collective knowledge about how subsidy is best used to support access to finance for the sector and seeks to secure a legacy so that future sources of the necessary subsidy can be unlocked.

The programme is designed to support recovery, therefore there is an imperative to begin to allocate some resources to fund managers within 2020, for recovery finance to start to flow to charities and social enterprises early in 2021. Access therefore intends to open an initial application process for investment proposals later in the summer for established fund managers who have viable plans and proposals for capital raising, or matching capital already available. Access will release more precise terms and funding parameters at that time and expect that window to be open for the remainder of 2020.

However we imagine that many fund managers and partnerships will need more time to develop their concepts and that there will be subsequent application rounds in 2021.

What we see as the challenges

Beyond the headline mandate above, there is a great deal of flexibility in how the money could be used. We want to get the money flowing to fund managers as soon as is practically possible because we know charities and social enterprises will desperately need this support. But we also want to get this right, and we know that we are much more likely to come up with an effective product and solution if we share our challenges rather than think we can answer them ourselves.

We know that many partners have been thinking about these challenges for years and we want to make the very best of the intelligence which is already out there in foundations, fund managers, advisors, commentators and in other sectors which can help with the design of this work. In particular we see big questions around four areas:

Engaging all parts of the charity and social enterprise sector

- Beyond getting the product right, what are the other barriers which are preventing the breadth of the charity and social enterprise sector from being able to access the finance they need?
- In particular from an equality and inclusion perspective, how do we ensure that this programme engages with the right partners, makes decision in the right way and uses the right language to ensure that it is widening access to finance to groups which have not felt able to access the finance they need?
- How do we ensure that the design of the programme maximises the potential of the sector to demonstrate its economic contribution to the recovery, in particular in the most deprived communities in England, as part of a build back better agenda?

Intelligence about the finance needs of charities and social enterprises in the recovery phase

- Where is the demand for more flexible and patient finance? We know it's a gap, and that need is likely to outstrip demand because these products are not commonly available for the sector. But beyond the generic evidence, where specifically are the gaps here, what sorts of business models in the sector are not being served by existing financial products and how is this picture likely to play out in the recovery?
- What does "patience" and "flexibility" need to look like to meet that need?
- How will fund managers stimulate demand for this sort of finance when it is not commonly understood or asked for?

The availability and sources of capital

- What sources of capital will the grant be blended with? Who is motivated to co-invest in these structures? What is their appetite for doing so now? On what terms? How quickly can that fundraising happen?
- What will be the best delivery models for making this finance available to the sector? At what scale does this delivery make sense? What will that cost and how will that be resourced? What does value for money look like in those delivery models?

The structure of investment funds and products

- How will these investment products for charities and social enterprises actually be structured? The theory may be simple but there have been relatively few examples and they can become notoriously complex in reality. What is the best practice in terms of aligning incentives between investor and investee, and how these are captured from a legal perspective?
- How will blended funds which provide these products be structured? What are the risks or financial challenges which the grant needs to mitigate? How can these risks

be evidenced and how can we establish what good value for money for the grant looks like?

Design Phase: Call for ideas and solutions

We hope that this call for ideas and solutions will aid the development of the programme in a number of ways:

- Providing perspectives and potential answers to some of the questions laid out in the “challenges” section above
- Identification of other challenges or opportunities that we have not yet thought of
- Stimulating collaboration: social investors, providers of capital and others coming together to share ideas, perspectives and work up solutions
- Advice on how to design and deliver this programme well

We are therefore issuing a call for ideas and solutions aimed at social investment fund managers, foundations, infrastructure organisations and others who feel they would like to influence this work and/or who would like to build towards a potential investment proposal in due course. We would like to hear from anyone who feels they have particular plans, perspective, knowledge base or potential solutions that may help us design our programme well. We will use this call to:

- Inform our ongoing thinking and design of the forthcoming call for investment proposals
- Keep in touch with interested parties with updates as the work progresses
- Undertake more detailed advisory discussions in circumstances where we feel that organisations have particular perspectives that will help us
- Identify potential collaborations that may be fruitful but where connections do not appear to have been made yet
- Plan a series of roundtable events where group discussions can both inform our work and allow others to share knowledge and make connections
- Identify early stage solutions that we think have potential that we may wish to give early development support to. Connect Fund has ring-fenced a budget in 2020 for development grants for this purpose

We hope you will join us in this endeavour. To be part of this process, please submit a response form via the link on the [Connect Fund website](#).

If you have any queries, please direct them in the first instance to Alex Padilha on a.padilha@barrowcadbury.org.uk or 020 7632 9087 to schedule a time to speak with Liz Hayes, Connect Fund Manager.