

Reclaiming the Future

Reforming Social Investment for the Next Decade

The final report of the Commission on Social Investment

Supported by



About the Commission on Social Investment

The Commission on Social Investment was an independent group set up by Lord Victor Adebawale CBE to investigate the current state of the social investment market and how the market could better enable the growth of social enterprises.

The Commissioners included representatives from the social enterprise sector, social investors and academia. The Commission's secretariat was provided by Social Enterprise UK, but the Commission's work was independent.

For the purposes of the Commission's work, social investment was defined as "any form of repayable finance (unsecured loan, mortgage, bond, repayable grant etc.) or equity that is given to or invested into social enterprises."

The definition of social enterprise was based on the Social Enterprise UK and Social Enterprise World Forum definition of social enterprise:

- The entity must have a primary social or environmental mission that is clearly expressed in its governing documents;
- It must reinvest the majority of its surplus back into the business or give it to another organisation to deliver its mission;
- It must be independently run in the interests of delivering its mission;

The Commission was supported by Fusion 21, the national social enterprise.

Foreword

Lord Victor Adebowale CBE

The Commission on Social Investment was an independent group set up to investigate the current state of social investment and how the market could better enable the growth of social enterprises. The Commissioners included representatives from social enterprises, investment management and academia with experience of social investment. The Commission's secretariat was provided by Social Enterprise UK, but the Commission's work was independent.

The pandemic has understandably had a significant impact on social enterprises, social investment and the work of the Commission. Despite this, however, the evidence, themes and issues presented to the Commission have been consistent. This gives us confidence that the challenges and recommendations in this report are as relevant and necessary as ever, as we build back together.

The case for reforming social investment to tailor it to better meet the needs of social enterprises is clear. We believe that over the next decade we can support 5,000 social enterprises to reach their potential, supporting 180,000 jobs, with thousands in our most deprived communities. We can add over £3bn to our economy and contribute over £1bn to the Exchequer, more than paying for the investment called for in this report over the long term. We can also make business more inclusive, supporting 2,500 women-led businesses and over 800 Black-led social enterprises. In the long term, as these social enterprises generate profit, this could lead to hundreds of millions of pounds being reinvested back into their communities and in tackling the long-term challenges of climate change.

We believe social enterprises can help transform our society and meet the challenges facing the country. Social enterprises have shown that they can create jobs and employment in places which have been left behind by other forms of business. Social enterprises are also at the forefront of decarbonisation, which we need to see if we hope to meet Net Zero.

We need more of these businesses. And we need existing social enterprises to grow faster if we are going to deliver the social and environmental change

we need in the timescales that people and planet demand. Unfortunately, too many social enterprises have to rely solely on organic growth, reinvesting their surpluses year to year. Yet investment can help social enterprise grow faster, just like any business. This is why social investment is important, to channel capital into the best of British business.

There are clear barriers which are holding back social investment from delivering for social enterprises. This report outlines significant reforms that should be undertaken to make the market work more effectively. In our view, social investment has lost its focus - supporting the growth of social enterprise. As a result, we risk holding back the growth of social enterprise and its promise to build a better country. An urgent course correction is needed. Without reform, we will not realise the full potential of social investment. This report is an attempt to reclaim that future, before it slips away.

We believe that refocusing on growing social enterprises, we can move the needle and achieve ambitions. This is not a revolution in the market, but a significant evolution. The recommendations made in this report are bold but given in a constructive spirit. We look forward to engagement with this report and taking forward discussions on our recommendations with government, social enterprises, social investors and others. We hope that this Commission can help to reconnect social enterprises with investors who can share the same priorities and aspirations.

The case for social investment is the transformative potential of social enterprise. Their success is intertwined - social investment cannot succeed without social enterprises. We want social enterprises to succeed, and social investment too. The offer to government is simple - help us to make social investment work better and we can unlock thousands of new businesses which can level up communities, reduce carbon emissions and create good jobs. This is the future that the Commission wants social investment to deliver.

I would particularly like to extend my thanks to Fusion 21, the national social enterprise, who supported the work of the Commission and were a patient partner in our endeavours.

Lord Victor Adebowale CBE

Key Terms

Social investment: For the purposes of this Commission, this means any form of repayable finance (unsecured loan, mortgage, bond, repayable grant etc.) or equity that is given to or invested into social enterprises.¹

Impact investing: Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.²

Social impact investing: The repayable transfer of money with the aim of creating positive social impact. There is usually a return associated with the investment, meaning the amount of money repaid may differ from the amount invested.³

Social enterprise: Based on the SEUK and Social Enterprise World Forum definitions, a social enterprise must have a primary social or environmental mission that is clearly expressed in its governing documents; reinvest the majority of its surplus into its mission; and be independently run in the interests of its mission.

Social investors: Individuals and institutions that are providing the capital that is used for social investment.

Social investment finance intermediaries: These organisations sometimes have their own capital to invest in social enterprises. But in some cases the objectives and views of intermediaries and investors are separate, and we believe that this is a useful distinction to make.

Patient capital: Finance with a long term time horizon, at least seven years but in many cases longer.

Blended finance: Blended finance is a blend of market capital and either concessionary capital or grant, sometimes both.

¹ <https://www.socialenterprise.org.uk/adebowalecommission/adebowalecommission-frequently-asked-questions/>

² Global Impact Investing Network

³ The Government Outcomes Lab, University of Oxford

Quasi-equity: Where payments to investors are linked to particular milestones, rather than a fixed payment schedule.

Enterprise-centric finance: In the Commission's view, the idea that products can be better built around the needs and circumstances of the investee – an idea which links various concepts such as quasi-equity and terms such as “patient” and “flexible” finance.

Equity: Equity is investment provided in return for an ownership stake in the business.

Black-led and BAME social enterprises: During our work there has been significant debate about the terminology that should be used around ethnicity and race. The Commission on Race and Ethnic Disparities called upon organisations to stop using ‘BAME’ (which has traditionally referred to Black, Asian and Minority Ethnic or Black and Minority Ethnic) and instead be more specific. We have heard evidence particularly on the experience of Black-led social enterprise. However, where the data does not allow for Black-led social enterprises to be specifically identified, some sources refer to “BAME-led organisations”.

Social enterprise infrastructure: Social enterprises, like all businesses, may need support, from improving their financial, digital or marketing skills, coaching and mentoring, or networks to connect them with potential investors and clients. This can be provided by a range of organisations, networks and individuals, some informal and ad-hoc, some formal, from charities, local authorities, Local Enterprise Partnerships (LEPs), Councils for Voluntary Service or Chambers of Commerce. Support is sometimes paid for by social enterprises or sometimes paid for by government or foundations.

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Executive summary

The Commission's Work

Our Commission engaged with at least 300 social enterprises across every region and nation of the United Kingdom, seeking to give voice to the 'end-users' of social investment. We also drew on relevant data and ran 'witness' sessions and workshops with a range of stakeholders.

Structural reform is essential

Our main conclusion is that comprehensive structural reform to the social investment market is required to make it work effectively. New sources of capital need to be brought into the social investment market to enable intermediaries to develop the right products for social enterprises to grow. Existing institutions in the market, such as Big Society Capital, need to be reformed to align their purpose, structure and activities around the needs of social enterprises. New institutions will need to be created to ensure that social investment reaches racialised communities and all parts of the country. If we can build the social investment market around the needs of social enterprises, we can tackle some of the biggest challenges facing our country from climate change to levelling up.

Our Commission is not interested in blaming any individuals or particular organisations. We believe that the flaws in the market are caused by problems in design of the policies and institutions that have been created to support the growth of social enterprises through social investment. As such, our focus is on improving the structures of the social investment market from the sources of capital, the products made available to social enterprises and the support provided to social enterprises to develop.

We have weighed up the evidence we have heard under four areas.

1. What is social investment for?

We found a clear tension between social enterprises, social investment finance intermediaries and social investors, when it comes to a shared understanding of

the purpose and nature of social investment. Social enterprises often feel that social investors do not understand their models. Yet supporting social enterprise has supposedly been at the heart of the case for social investment for two decades, under governments of different persuasions.

Social enterprises have a binding social and/or environmental mission and reinvest their profits in their purpose. There are 100,000 social enterprises in the United Kingdom, turning over £60bn a year and employing 2m people.⁴ They are growing, creating jobs, employing three times as many people per pound of turnover as other businesses, spreading opportunity, tackling inequality, levelling up our most disadvantaged areas, improving our environment faster than other forms of business, and bringing greater productivity to public services. We believe social investment must, once again, put this understanding of social enterprise at its heart.

2. Is social investment working for social enterprises?

Social investment finance intermediaries sometimes complain that there is not sufficient demand for investment among social enterprises. Yet the data tells a different story – social enterprises are applying for finance, more often than business more widely, and in ever greater numbers. The problem is with the investment on offer, which is too often in the form of secured and asset-based investment, as it was a decade ago. Social enterprises have also told us that social investment is too expensive. More unsecured lending and blended finance have emerged in the last few years, but this has levelled off and is at risk, with the future of the Access Foundation unclear.

Social Impact Bonds (SIBs) and property funds have also played a role but are not necessarily strictly investment in social enterprises, whatever their merits. More enterprise-centric finance, in the shape of patient, flexible, equity or equity-like investment is still lacking.

3. Is social investment fair and inclusive?

The Commission has heard evidence from social enterprises, social investors and social investment finance intermediaries about problems in terms of equity and

⁴ Social Enterprise UK, The Hidden Revolution, 2018

inclusion. This is particularly the case around Black-led social enterprises, who told us about the challenges they faced in access, securing support, a lack of understanding and diversity within the social investment community. This was echoed by nearly every witness to the Commission, while the data also backs up this experience. For us, the evidence is clear that social investment continues to have a serious problem with inclusion and equity particularly, although not exclusively, in relation to race.

The Commission concludes that there are structural problems within the institutions that make up the market, which is not working for social enterprises led by traditionally disadvantaged communities. This is partly about power - social enterprises repeatedly report their frustrations but felt unable to affect change. We believe there is not sufficient meaningful challenge and accountability in the market. It does not currently have enough capacity and focus on tackling the issue of inclusion. Leaving things as they are is not an option.

Our focus on the experience of Black-led social enterprises does not mean that the social investment market is fair and inclusive for women, those with disabilities and the LGBT communities. For example, women-led social enterprises appear to receive lower levels of social investment than their male peers in the social enterprise sector. These inequalities need to be tackled and resolved.

However, for practical reasons, the Commission has decided to focus upon the experience of Black-led social enterprises and in resolving the challenges facing these social enterprises, we hope that a model can be created to tackle structural inequalities more broadly.

4. Is social investment reaching the places it should?

The Commission has heard evidence from social enterprises in different parts of the UK. In some cases, we have heard that in many regions, social investment could feel remote and distant, with a lack of fairness in the distribution of resources. The perception of social enterprises is that the market remains London-focused. The data backs this up, showing that London-based social enterprises have greater access to social investment than other regions such as the West Midlands and North West.

The nature of the social investors in each region is a factor. But infrastructure and support are also critical to the development of social enterprise and the success of social investment, especially in more challenging market areas and deprived communities. But support has been underinvested in for a long time. Social investment and support must change if it is going to meet the needs of the social enterprises across all parts of the country. For the purposes of this Commission, we define infrastructure as the organisations, networks and consultants that help to support the operations of social enterprises. This takes many forms, from workshops and courses to more intense one-to-one mentoring and coaching. Social enterprises need specialised support because of their unique characteristics, the challenging markets that they work in and their focus on social and environmental impact.

The problem

The main problem linking all these challenges is the lack of appropriate patient and flexible sources of capital, which affects not only the nature of the products available to social enterprise but also the distribution of investment. The success of social investment depends upon a balance between different sources of capital. Social enterprises can sometimes access market capital, but also need access to philanthropic capital, and concessionary capital - which may expect some financial return but which is more flexible, patient and willing to accept lower than market rate returns.

While charitable foundations, pensions funds and the general public also have a role to play, alongside public or quasi-public subsidy, we have heard how Big Society Capital is too heavily weighted towards market capital and financial returns, deprived of its catalytic potential, which has inhibited the development of more innovative products, and pushed cost through the system, ultimately falling on social enterprises. Market failure cannot be solved by replicating conventional market approaches - the British Business Bank, for example, seeks lower than market rate returns. Responding directly to the evidence, we make four sets of recommendations.

A. New direction

Given the lack of common understanding around social investment, the UK Government must develop a fresh strategy for social investment which puts growing social enterprises front and centre. The UK Government has a critical role to play in correcting power imbalances, and a significant opportunity to support the growth of social enterprise through social investment.

A revised strategy should look at the structural challenges facing UK social investment, ensure accountability, outline additional state resources, consider other policy changes, look beyond public resources, ensure that enterprise support is invested in, consider social enterprise and social investment's contribution to the government's programme, and correct some of the missed opportunities around the potential for social enterprise in public service delivery. A new UK Government Strategy should bring in voices from across the country and the market around a new, shared direction.

B. Greater and more flexible sources of capital

Big Society Capital has done good work in recent years, particularly in supporting the development of the Access Foundation. However, it is our view that Big Society Capital needs to be reformed as its current structure is holding back its potential to support the growth of the social enterprise sector. The financial expectations of Big Society Capital need to be changed, with the approval of the Merlin Banks, and clear direction from the UK Government. This will enable Big Society Capital to reduce the returns it seeks from intermediaries, which in turn, can reduce the cost of finance for social enterprises. The balance of Big Society Capital's portfolio should change, with a greater level of patient, flexible enterprise-centric finance (what we call the "frontier" of social investment) and fewer market capital, legacy investments in property and secured investment. Ideally, this reform needs to be led by Big Society Capital itself, recognising the gaps and challenges that have been raised in this report. However, the UK Government must also ensure that this core institution of the social investment market, which has been underpinned by significant levels of public directed finance, delivers on its objective to assist social enterprises and charities.

We welcome the decision by Big Society Capital and the Association of Charitable Foundation to investigate how more “catalytic capital” can be unlocked, similar to the enterprise-centric finance that we have called for in this report. However, catalytic capital must not be an isolated pilot or investigation but made central to the strategy of Big Society Capital and the entire social investment market.

To that end, dormant assets should be put into social investment through a £400m ‘Frontiers Fund’ *on the condition* that these resources are used to support the development of more enterprise-centric finance for social enterprises, managed by a reformed Big Society Capital or Access Foundation. An additional £50m should be put into the Access Foundation to enable blended finance to continue for smaller social enterprises, and the Access Foundation should be made UK-wide so that social enterprises in all nations can benefit from their investment. Any expansion will need to take a “nation by nation” approach, in recognition of the unique situation in each part of the United Kingdom. For example, in Scotland, there is already a sophisticated blended finance programme and infrastructure, but in Northern Ireland, the sector is more embryonic.

The UK Government should create a new “Flexible Capital Taskforce”, with a target to increase the amount of charitable foundation assets in social investment programme-related investments to 1% by 2030. This should be co-produced and co-led with foundations. In 2019, the Association of Charitable Foundations estimated that there was £145m of charitable foundations investments made through programme related investments and social investment. If we could increase this to 1% this would raise the total amount of capital available to social investment to £380m. The Government should also introduce a new Social Enterprise Loan Guarantee Scheme (SELGS) to help market capital meet the need for traditional debt. with longer repayment terms and lower minimum size of investment, with higher levels of guarantees for those lenders working in the most deprived communities or Black-led social enterprises. We recommend that the size of the guarantee fund would be £200m in the initial phase, with further increases in the future if it was found to be successful in unlocking more patient capital.

C. Social justice at the heart of social investment

We must tackle historic barriers of access for Black-led social enterprises and others which have been underserved and put power and resources into those communities which have experienced disadvantage. An initial £50m should be put into a Black-led and focused social investment intermediary, overseen by Black social investors, intermediaries and social enterprises with the express remit of widening the pool of finance to Black-led social enterprises. Funded by dormant assets, potentially matched with investment from institutions such as the National Lottery. A similar approach could be taken for social enterprises led by those with disabilities, LGBT-led social enterprises and others which have faced particular barriers.

Fairness should run through the distribution of all public money, including with regard to regional inequality, economic and social disadvantage, gender and disability. All social investment institutions which receive money either from the UK Government or through dormant assets should be subject to binding targets for diversity and representation on their boards and investment committees.

D. Investing in social enterprise infrastructure

Investing in social enterprise infrastructure is needed to support the development of an ecosystem of social enterprises in a strong position to take on investment. We should work from the bottom up, providing investment to places directly and give them the opportunity to create the local networks required to support social enterprise, to ensure that social investment reaches all parts of the country.

The Department for Levelling Up, Communities and Local Government (DHLUC) needs to put pressure on LEPs to provide adequate support for social enterprises, with social enterprise representation on their boards, more transparency around their engagement with different forms of business and through investing in social enterprise mapping.

An initial 5% of dormant assets should be earmarked for long-term social enterprise and charity support, or around £44m. This should be directed towards

social enterprise networks, LEPs, Chambers of Commerce or other appropriate institutions which can demonstrate that they have worked with existing providers on the ground, and targeted at those places which the UK Government has identified as needing the most support. Local authorities should be encouraged to match this investment through integrating social enterprises into their local economic strategy and plans for levelling up, as well as using their procurement functions to direct more spend to social enterprise and create revenue streams for the sector.

Investment and Outcome

The aim of these recommendations is to accelerate the growth of social enterprise to enable the sector to transform our society and to meet the challenges facing the country.

Assuming that the more ambitious proposals in this report are taken forward, we can support 5,000 social enterprises building on the foundations already in place and taking a more patient, social enterprise-focused approach to the social investment market.

Social enterprises have shown that they can create jobs and employment in places which have been left behind by other forms of business. Social enterprises are also at the forefront of decarbonisation, which we need to see if we hope to meet Net Zero. Social enterprise and social investment should not work in a vacuum and must be connected with other government priorities.

Overall, we believe that this makes a strong case for why investing in social enterprises presents good value for money, paying for itself and more over the long run.

New investment

In total we are calling for £794m in new funding for the social investment market over the next decade to tackle the various barriers and tensions that we have identified in our work.

Table 1: New investment to reform social investment

Investment	Amount	Outcome
A new 'Frontiers Fund' to double the pool of equity and quasi-equity finance for social enterprises, hosted within a reformed Big Society Capital.	£400m	To expand the pool of products available to social enterprises, particularly equity and quasi-equity investment products and to encourage faster growth of social enterprise.
A new "Social Enterprise Loan Guarantee" scheme to provide security to investors in long term patient capital for social enterprises.	£200m	To encourage longer term debt finance for social enterprises with lower rates of interest whilst providing security to investors.
A new Black-led and overseen social investment fund.	£50m	To increase access to finance and levels of investment into Black-led social enterprises, to raise standards for investment into Black-led social enterprises and to provide leadership and research into the access to finance barriers facing Black-led social enterprises.
A new wave of investment into the Access Foundation and to enable blended finance to be accessed across the whole of the United Kingdom.	£100m	To maintain the pool of blended finance available, particularly to deprived communities and to expand the reach of blended finance to all parts of the United Kingdom.
A new social enterprise infrastructure fund linked to the future flow of dormant assets.	First tranche - £44m	To provide funding for over 80 place-led organisations and networks across England to provide business support to social enterprises, including investment readiness.
Total	£794m	

Given the government is restricted in how it can use dormant assets currently, with social investment being one of the three priorities for these funds. This investment should not be seen as general government spending, such as health or social care. Our business case is about maximising the potential of the dormant assets that would have to be spent on social investment and getting the most out of them for society and the planet.

Dormant assets and government funds channelled through social investment have benefited around 1,520 social enterprises to date.⁵ Based on current data, enabling 5,000 social enterprises to grow and thrive could:

- create **180,000** jobs either directly or indirectly, with **36,000** jobs in our most deprived communities.⁶
- add **£3bn** to the UK economy – injecting over **£600m** into the poorest parts of the UK.⁷
- boost tax revenues by over **£1.1bn** through employment taxes alone.⁸
- supporting over **2,500** women-led businesses⁹ and **550** BAME-led social enterprises.
- lead to over **£300m** being reinvested back into social and environmental causes over the long term.¹⁰

The future investment of dormant assets into social enterprises could generate a 4:1 rate of return, paying for itself over the long term through additional employment taxes alone.

⁵ Big Society Capital, Impact Report 2020, December 2020

⁶ Based on the average employee count of UK social enterprises from The Hidden Revolution 2018 and data on the location and distribution of social enterprises as measured by Index of Multiple Deprivation from State of Social Enterprise 2019.

⁷ Based on the average turnover of a social enterprise £600,000 from The Hidden Revolution 2018.

⁸ Based on average UK salary (£31,461 - 2020) and income tax and NI tax bill for a worker on average salary (£6,278 – tax year 2020/21)

⁹ Based on the rate of women-led social enterprises (41%) in the State of Social Enterprise survey 2019 and the success achieved by targeting social investment funds such as the Resilience and Recovery Loan Fund by Social Investment Business.

¹⁰ Based on the Social Enterprise UK Corporate Challenge Impact Report Year 4 data which found a rate of 10% profit reinvestment on spend with social enterprises.

Methodology

The Hidden Revolution research, carried out by independent economist Dr. Rebecca Harding, is the most recent research to capture the size and scale of the social enterprise sector.

Using this data, we have estimated what supporting 5,000 social enterprises to reach the 'average' turnover and staffing would look like. The mean is used to calculate the average as the median is not available. Based on the pre-pandemic Hidden Revolution research, the average social enterprise employs 20 people. This is in line with the *State of Social Enterprise* survey 2019 which found that social enterprises on average employed 18 people. The *State of Social Enterprise* is carried out by Social Enterprise UK.

The average turnover of a social enterprise based on the Hidden Revolution analysis is £600,000. The *State of Social Enterprise* survey 2019 found that the mean turnover of a social enterprise was £1.1m and the median turnover of a social enterprise was £120,000. The Hidden Revolution's estimate therefore sits in the middle between these two different calculations.

The difference between the *State of Social Enterprise* survey and Hidden Revolution is that the Hidden Revolution was based on analysis of company records with a view to capturing the largest social enterprises which have gone unrecorded in previous surveys. The *State of Social Enterprise* survey is based on survey responses from social enterprises who voluntarily take part in the survey. The *State of Social Enterprise* survey is the largest survey of social enterprises in the country.

The *State of Social Enterprise* survey 2019 has been chosen because it was pre-pandemic and is less likely to be skewed by the short-term impact of this event.

It is impossible to accurately calculate exactly the impact that our recommendations will have. However, our conservative assumption is that by improving access to finance to social enterprises we will help social enterprises that would otherwise not have grown and met their potential to do so. Some will be very successful, others will not grow. As a consequence, we have taken the 'average' as a way of assessing what the impact of supporting 5,000 social enterprises would be to the UK economy.

The Commission

The Commissioners were:

- Lord Victor Adebawale CBE (Chair)
- Dr Susan Aktemel
- Dr Jessica Daggers
- Chris Murray
- Jamie Broderick

Figure 1: How the Commission carried out its work



The Commission held engagement sessions with social enterprises across every region and nation of the United Kingdom country, attended by 72 social enterprises. These sessions were held under the Chatham House rule.

The Commission further drew on the data gathered through the *State of Social Enterprise* surveys which are responded to by over 1,000 social enterprises. Further data was gathered through questions in the Social Enterprise Advisory Panel surveys which have hundreds of responses. We have also held numerous individual conversations with social enterprises, either through the Secretariat or the Commissioners. Combined, we estimate that the Commission has engaged with at least 300 social enterprises during its work.

To complement this, the Commission also ran four 'witness' sessions to enable social enterprises, social investors, government and other experts to contribute evidence to the Commission, on the record. Seventeen witnesses gave evidence and more information on these sessions can be found in the Annex. The Commission also held workshops with social investors to further understand the issues raised by social enterprises and to identify potential solutions. These were attended by 24 social enterprises and social investors.

Commission In Numbers:



Figure 2: Commission on Social Investment information gathering process



The Commission on Social Investment took a distinct approach to our work, through an open-ended enquiry that explicitly aimed to give voice to the 'end-users' of social investment - social enterprises.

Our social enterprise-led approach started with the views of social enterprises and this has informed the progress of our work, which has crystallised around four key questions. The evidence we gathered is presented below under four areas:

1. **What is social investment for?**
2. **Is social investment working for social enterprises?**
3. **Is social investment fair and inclusive?**
4. **Is social investment reaching the places it should?**

1. What is social investment for?

A lack of shared understanding

The Commission's first conclusion is that there remains a clear tension between social enterprises and social investment finance intermediaries, when it comes to a shared understanding of the purpose and nature of social investment. This tension has been primarily caused by the structure of the market and the available sources of capital for social investment, which has put generating market returns ahead of meeting the needs of social enterprises.

Understanding of social investment

The Commission heard evidence of **a lack of a shared understanding about the purpose of the 'social investment market'**. While the Commission heard from numerous social enterprises that had successfully raised social investment and had contributed to the growth of social investment, many felt they had been an instrument of social investment, rather than their needs being at the core. Social enterprises tend to view the purpose of social investment as helping them to grow their business and achieve their goals. Social investment finance intermediaries, by contrast, tended to see the purpose of social investment through the prism of 'impact', where social enterprise was just one vehicle among many.

The Commission was also told by numerous stakeholders, including social enterprises themselves, that many social enterprises struggled to understand the jargon of social investment. Differences in language and understanding were regularly raised during the engagement sessions.

Understanding of social enterprise

Social enterprises often feel that they are the experts on how to tackle the social and environment challenges we face. In many cases, those setting up or running social enterprise have been working in these fields for many years and have significant lived experience. However, some social investment finance intermediaries and social investors are also highly specialised in certain fields, such as youth services, health, or the environment, for instance, and also believe that they have significant expertise in these areas.

Yet the Commission was repeatedly told by social enterprises that social investment finance intermediaries do not understand the businesses that they were looking to invest in or the missions those organisations are seeking to achieve and, as a consequence, they made poor decisions. This was a view expressed not just in our public witness sessions, but in our engagement sessions with social enterprises around the country. Social enterprises were also concerned that social investors and intermediaries lacked an understanding of how social enterprises worked or had lived experienced in the causes they were seeking to advance, inhibiting their ability to make good decisions. However, in Scotland, social enterprises had a more positive view about intermediaries.

We heard similar views in our witness evidence sessions. Jerry During, founder of financial inclusion social enterprise, Money A&E, said that social investors did not understand the smaller social enterprises. June O’Sullivan, Chief Executive of the London Early Year’s Foundation, a successful social enterprise in early years education, criticised the experience of those working within social investment finance intermediaries.

“If you were to do an analysis of who sits on the boards of social investment groups, companies, whatever – I’d say it’s pretty light on actual people who actually do the job [of running a social enterprise] and who have successfully done the job.”

One social enterprise told the Commission that the attitude of social investors had changed over the past decade, referencing their engagement with institutions in 2008-2010 which had been more trusting, patient and outcomes focused, compared to the current social investment finance intermediaries. “They [the social investment finance intermediaries] speak a different language now”, they said, further commenting that in their own case social investment finance intermediaries had not even spoken with the social enterprise’s directors or visited the social enterprise before making their decision.¹¹

Our evidence suggests **a lack of a common understanding of what social investment is for**, and the lack of a common dialogue between social enterprises, social investment finance intermediaries and social investors. The Commission believes we need to revisit and restate the underlying purpose of social investment.

¹¹ Commission on Social Investment, Social Enterprise Engagement Session, North of England, July 2020

The case for social investment

"The Government should... seek to release capital from institutional, charitable and individual investors; to develop a more robust community development finance sector; to engage community and social entrepreneurs; and to attract new approaches from local, regional and national Government."

Social Investment Taskforce Report to the Chancellor of the Exchequer, Enterprising Communities: Wealth Beyond Welfare, 2000

"We want a bigger, stronger society. One where communities and citizens have more power to shape their lives and determine their destinies...In the same way that finance flowing to business start-ups is the lifeblood of our economy, so it will be with social enterprises."

Cabinet Office, Growing the Social Investment Market: A vision and strategy, 2011

"Social investment helps economic growth by supporting the UK's thriving social economy. It also supports social innovation by channelling funding towards entrepreneurial solutions to longstanding social problems, and helps public services by delivering better outcomes and, in some cases, savings to the taxpayer."

Rob Wilson, then Minister for Civil Society, House of Commons, 15 June 2016

Social investment comes in different forms and with different objectives. The evidence presented to the Commission has thrown up a number of motivations for investors - from tackling poverty and inequality, to injecting capital into left-behind places and supporting innovation within public services.

Yet it is clear that **social enterprises have been at the core of the development of social investment since the start of the century**. In 2000, then Chancellor of the Exchequer Gordon Brown, launched the Social Investment Task Force (SITF) by saying: "I want to see more investment in the UK in social enterprises – projects which have social objectives, and not simply profit-orientated."¹² The Conservative Party's 2008 *Green Paper on A Stronger Society* made this same specific link between social enterprise and social investment, noting that

¹² Guardian, Cash Drive for deprived areas, 10 February 2021

"with fair funding for service delivery, social enterprise is as capable of growing as any other kind of enterprise. However, any growing sector needs access to investment capital and the market in this area is underdeveloped."¹³

The Dormant Bank and Building Society Account Act 2008 defined a "social investment wholesaler" as a "body that exists to assist or enable other bodies to give financial or other support to third sector organisations" - defined as those that "exist wholly or mainly to provide benefits to society or the environment" - these are social enterprises and trading charities.¹⁴

This was carried through in the development of Big Society Capital and the social investment strategy developed by the Coalition Government. As Nick Hurd, former Minister for Civil Society, who oversaw the creation of Big Society Capital, told the Commission "the mission of the Coalition Government was to scale up the repayable finance...to make it a much more visible and accessible tool in the box for social enterprises and trading charities."¹⁵

In March 2016, speaking about the future of social investment, the then Minister for Civil Society, Rob Wilson emphasised how the Government was "committed to growing the social economy."¹⁶ This focus was embedded in the Conservative Government's 2016 Social Investment Strategy.¹⁷

This has not only been an area of cross-party consensus¹⁸ in Westminster but one shared in our nations and regions. *Scotland's Social Enterprise Strategy 2016-26* discussed social investment from the perspective of supporting the growth of social enterprises.¹⁹ The Welsh Government has supported the development of social investment through Social Investment Cymru - specifically targeted at social enterprises. At a more local level, Kindred has been set up as a social investment fund in the Liverpool City Region targeting social enterprises, and Plymouth City Council's Social Investment Fund (created in 2013) serves the city's social enterprises.

¹³ Conservative Party Policy Green Paper No.5, A Stronger Society – Voluntary Action in the 21st Century, June 2008

¹⁴ UK Parliament, Dormant Bank and Building Society Accounts Act, Section 18, November 2008

¹⁵ Nick Hurd, Commission on Social Investment Evidence Session, 24/02/2021

¹⁶ Rob Wilson, The Future of the Social Investment Market, 23 March 2016

¹⁷ HM Government, Social Investment: A Force for Social Change 2016 Strategy, 2016

¹⁸ Nick Hurd, Commission on Social Investment Evidence Session, 24/02/2021

¹⁹ Scottish Government, Scotland's Social Enterprise Strategy 2016-26, 2016 p.34

In short, the **purpose of social investment for policymakers has been to support the growth of social enterprises and trading charities.**

The emergence of the concept of 'Impact Investing' has added complexity and confusion to this landscape. Although impact investing and social investment share similarities, there are clear differences. As the Quadrennial Review into Big Society Capital noted, there is "a risk that social investment is subsumed within 'impact investing' and the social sector loses capital to 'for profit with purpose' rather than becoming a distinct and recognisable part of the spectrum of capital and benefiting from the recent growth in interest in impact investing."²⁰

The Commission is also concerned by this risk. It is our view that **the needs of social enterprises have been deprioritised over the past decade.** The UK has not had a clear social investment strategy since 2016. This was noted by a number of witnesses to the Commission, and has led to drift and uncertainty in the field of social investment. A number of responses to the Commission identified a decline in interest in social investment from government, business, media and other stakeholders in recent years. We believe that this lack of interest is, in large part, because social investment has lost focus on its purpose – the growth and development of social enterprise – thereby diminishing its own relevance. The Commission wants to re-establish that rationale.

The case for social enterprise

We need to revisit the case for social enterprise. These businesses are growing across the country, creating jobs, working in disadvantaged areas, at the forefront of the transition to Net Zero, and bringing increased productivity to public services. The evidence is clear.

Growth

Social enterprises have never been stronger and are growing rapidly. Since the first lockdown in March 2020, the number of CICs grew to 25,207 – a 33% increase. By contrast, the Companies House register had grown by just 10% between March 2020 and June 2021.²¹

²⁰ The Big Society Trust, Big Society Capital Quadrennial Review Report, July 2020 p.11

²¹ Social Enterprise UK, One Year On: The Effect of COVID-19 on the social enterprise sector, April 2021

Table 2: Evolution of social enterprises since 2010

	2010	2020	Change
Number of social enterprises ²²	68,000	100,000	+47%
Contribution to UK economy ²³	£24bn	£60bn	+150%
Number of jobs in social enterprise sector ²⁴	1,000,000	2,000,000	+100%
UK GDP (£) ²⁵	£1.85tn	£2.17tn	+17%
UK employment	29,013,000	33,005,000	+14%
Number of registered UK businesses ²⁷	4,483,000	5,868,000	+31%

As Table 2 outlines, the scale and scope of social enterprises has grown considerably over the past decade. The latest research, *The Hidden Revolution* found that there were at least 100,000 social enterprises in the UK contributing £60bn to the UK economy and employing over 2m people.²⁸ Social enterprises in the UK are, collectively, three times bigger than the agricultural sector and

²² Small Business Survey 2010 & Hidden Revolution, Social Enterprise UK, 2018

²³ Social Enterprise UK, Fightback Britain, 2011 & Hidden Revolution, Social Enterprise UK, 2018

²⁴ Ibid.

²⁵ Office for National Statistics

²⁶ Office for National Statistics

²⁷ BEIS, Business Population Estimates, 2019

²⁸ Hidden Revolution, Social Enterprise UK, 2018

employ 5% of the UK workforce. Furthermore, 42% of social enterprises are less than five years old, indicating the significant potential for further growth, compared to 10% of SMEs which are less than five years old.²⁹ **Social enterprise is a growth market.**

Jobs, Jobs, Jobs

Creating employment - and good quality jobs - is one of the main challenges facing our country. The Prime Minister has said his vision of a post-COVID recovery is underpinned by the need to create “jobs, jobs, jobs”.

Social enterprises’ track record on jobs is nothing short of outstanding.

Despite accounting for only 1.7% of the UK’s business population, social enterprises employ 5% of the UK’s workforce. Moreover, for every £100,000 of turnover, social enterprises create 3 jobs.³⁰ This compares to 0.66 jobs created for every £100,000 of turnover in the private sector.³¹

Social enterprises invest in their workforce, with 74% of social enterprises investing in work and training for their staff.³² In comparison, just 48% of SMEs more widely arrange or fund training for their staff.³³ These are also good quality jobs, with 76% of social enterprises paying the independently accredited Living Wage to all employees.³⁴ Social enterprises also support those who struggle to access the labour market, with 40% of social enterprises looking to hire people from disadvantaged backgrounds and 12% having at least 25% of its workforce coming from “vulnerable or disadvantaged groups.”³⁵

Levelling up

Social enterprises often work in the most disadvantaged communities, critical to the *levelling up* agenda. **One in five social enterprises work in the most**

²⁹ Department for Business, Energy and Industrial Strategy, Longitudinal Small Business Survey: SME Employers (businesses with 1-249 employees) – UK, 2020, June 2021

³⁰ Ibid.

³¹ House of Commons Library, Business Statistics, January 2021

³² Ibid.

³³ Department for Business, Energy and Industrial Strategy, Longitudinal Small Business Survey: SME Employers (businesses with 1-249 employees) – UK, 2019, June 2020

³⁴ Social Enterprise UK, Capitalism in Crisis: State of Social Enterprise 2019, September 2019

³⁵ Ibid.

deprived parts of the UK as measured by the Index of Multiple Deprivation in England.³⁶ Social enterprises also create disproportionately more jobs in the poorest communities – creating and sustaining over 600,000 jobs in the most deprived communities, around 30% of their total jobs created.³⁷

More than half of social enterprises are located in the North of England and the Midlands. A new pamphlet launched by Secretary of State for Levelling Up, Michael Gove, and authored by ten Conservative MPs, *Trusting the People*, noted the success of social enterprises in reducing inequality and has called for the government to do more to support the growth of social enterprises.³⁸

The evidence shows the success that social enterprises are having in the most deprived places. Plymouth is ranked 245th most prosperous place in the UK out of 379 areas according to the Legatum Institute's UK Prosperity Index.³⁹ It is ranked particularly low for enterprise conditions, namely the ability to set up and run a business, coming 361st in the UK. Yet social enterprises have been able to emerge and flourish in this community where other forms of business have struggled.

This is not just a UK story and can be seen in Spain, for instance, where social enterprise and co-operative business models, such as Mondragon, have transformed the Basque country, which once suffered significant levels of unemployment (reaching 26% in the early 1990s) into one of the strongest performing regions in Europe.⁴⁰

One of the reasons why social enterprises are thriving is that they draw upon a wider range of talent than other forms of business. 13% of social enterprises are led by BAME entrepreneurs compared to just 5% of other SMEs and 6% of charities.⁴¹ Four out of ten social enterprises are led by women, compared to just 17% of SMEs.⁴² A similar number have at least one director who has a disability.⁴³

³⁶ Social Enterprise UK, *Capitalism in Crisis: State of Social Enterprise 2019*, September 2019

³⁷ Social Enterprise UK, *Capitalism in Crisis: State of Social Enterprise 2019*, September 2019

³⁸ New Social Covenant Unit, *Trusting The People*, October 2021

³⁹ Legatum Institute, *UK Prosperity Index 2021*, May 2021

⁴⁰ B. Rich, *Sustainability in a small place: the Spanish Basque Country as a 21st Century model*, 6 January 2020

⁴¹ Ibid.

⁴² Ibid.

⁴³ Social Enterprise UK, *Capitalism in Crisis: State of Social Enterprise 2019*, September 2019

Plymouth: Social Enterprise City

Plymouth was declared a Social Enterprise City in 2015 bringing together the local community, social enterprises and local council. Since then, social enterprise has grown by 33% in the city and created over 2000 jobs in just four years. Many of these are working in Stonehouse, one of the most deprived parts of the city - and indeed the country - where other interventions have tried and failed.

The jobs created are well paid, with over 60% paying the Living Wage Foundation's Living Wage. 56% are led by women – far higher than the average in the private sector.⁴⁴ This growth took place during a period where the City Council committed itself to a multi-million pound social investment fund.⁴⁵ Similar results can be found in places such as Digbeth, Salford and Durham where social enterprises have flourished in challenging markets.

Giroscope: a social enterprise transforming West Hull

Giroscope trains local people disconnected from the labour market to renovate disused houses, providing work placements for over 140 people in 2019. This included ex-offenders, young people, the long term unemployed and people with mental health problems or learning difficulties.

The social enterprise now owns 109 properties, housing over 300 people and has created a Social Enterprise Business Park to support 15 other ventures in the local community and providing employment to local people.

The social enterprise was supported by a range of charitable foundations as well as blended finance from Social and Sustainable Capital and Power to Change. In the last financial year, it made a surplus of over £100,000, demonstrating how social enterprises regenerating communities can be financially viable.

⁴⁴ Transform Research Consultancy Ltd, Plymouth's Social Enterprise and Community Business Sector: The State of the Sector 2019, November 2019

⁴⁵ Gareth Hart, Commission on Social Investment Evidence Session, 25/02/2021

Helping to reach Net Zero

Decarbonising our economy and reaching Net Zero is one of the most pressing issues of our time. **Social enterprises have been pioneers in the green economy**, from sustainable fashion, recycling⁴⁶ and reuse networks to putting the first solar powered bus on the streets⁴⁷. Social enterprises have been consistently ahead of the curve when it comes to tackling climate change.

There are around 7,000 social enterprises working in the 'green' economy across the country.⁴⁸ Nine out of ten social enterprises report that they are actively working to minimise their environmental impact. These businesses are also more likely to report a focus on environmental sustainability and see environmental consideration as being equal or more important than cost when it comes to procurement decisions.⁴⁹

Community Energy England outline how we can power 2.2m homes, save 2.5 million tonnes of CO2 and add £1.8bn to the UK economy and create 8,700 jobs if we channel the right finance to social enterprise. Social enterprises can help deliver a *just* transition, where the benefits of decarbonisation are shared across society and do not compound existing inequalities,⁵⁰ as the profits they generate through successful transition are shared with communities and staff.

Better public services

COVID-19 has shown how high-quality public services are critical to our society. We have clapped for carers and put up posters for our NHS and key workers, many of whom are working in social enterprises. Yet the pressures on the UK public sector increase every year. Demand is rising faster than our population.⁵¹ Increases in government funding are threatened by the impact of the pandemic on the public finances,⁵² while the lessons of the 2000s demonstrate how more

⁴⁶ The Furniture Reuse Centre, a social enterprise in Liverpool, has save nearly two thousand tonnes of waste from landfill and recycled that waste into products for businesses as well as giving away furniture to reduce poverty.

⁴⁷ Big Lemon, a social enterprise in Brighton, was the first social bus company to create a solar powered green bus.

⁴⁸ Social Enterprise UK, Capitalism in Crisis: State of Social Enterprise 2019, September 2019

⁴⁹ Ibid.

⁵⁰ World Economic Forum, How can we ensure a just transition to the green economy?, 14 April 2021

⁵¹ The Institute for Government's Public Service Performance Tracker 2019

⁵² B. Zaranko, Institute for Fiscal Studies, The Future of Public Service Spending, 10 November 2020

investment in public services does not necessarily solve long term pressures.⁵³ In health alone, it is estimated that social enterprises are delivering £1bn of services every year and employ over 100,000 people. One third of all community health services are delivered by social enterprises⁵⁴ This is just the tip of the iceberg - thousands of social enterprises are delivering public services across the country, from buses to social care and education to dentistry. **For example, public service mutuals (a form of social enterprise) deliver higher levels of productivity and better outcomes than their peers in the public and private sectors.**⁵⁵ These mutuals have increased their productivity ten times faster than public services more widely in recent years⁵⁶. A report by the King's Fund in August 2020 described social enterprises as "engines of innovation" in health and care.⁵⁷

There is even greater potential for social enterprises to deliver public services and meet the scale of the demand and the challenges that we face. The UK is currently spending £456bn a year directly on public services, excluding welfare. Yet at present social enterprises are only delivering around £2-3bn of those services – less than 1% of the total.⁵⁸ This is why one of the core objectives for social investment laid out by Labour, Coalition and Conservative governments was to grow the role of social enterprise in public services.⁵⁹

Conclusion

We set out just some of the evidence here for why policymakers and others need to take social enterprise more seriously. Our engagement with social enterprises throughout the work of this Commission has found an ambitious movement of businesses energetic to get on with the work of transforming our economy, society and public services. Social enterprise can transform the United Kingdom. The purpose of the social investment market is to give them the tools to do the job. **Social investment cannot work – and has no purpose - without social enterprise.** Reprioritising and championing the needs of social enterprises at the heart of social investment can reignite interest in social investment, particularly within the UK Government.

⁵³ Institute for Fiscal Studies, Public Spending Under Labour, 2010 Election Briefing No.5, April 2010

⁵⁴ Social Enterprise UK, Public Service Mutuals: The State of the Sector, April 2019

⁵⁵ Social Enterprise UK, Public Service Mutuals: The State of the Sector, April 2019

⁵⁶ Ibid.

⁵⁷ King's Fund, Social Enterprises in Health and Care, August 2020

⁵⁸ Office for Budget Responsibility, A brief guide to the public finances, accessed 23 April 2021

⁵⁹ Nick Hurd, Commission on Social Investment Evidence Session, 24/02/2021

2. Is social investment working for social enterprises?

The Commission has considered the extent to which the supply of social investment is meeting the needs and demands of social enterprises today - and the current gaps in the market.

Demand for social investment

One complaint from some social investment finance intermediaries and social investors is that there is not sufficient demand for investment among social enterprises. In this view, social enterprises may have unrealistic expectations and are unprepared to make the structural changes required to take on this investment. Others argued that the legal structures and asset locks of social enterprises can have an impact on the time and complexity of developing bespoke products for the sector.⁶⁰ Some doubt whether there is demand for more enterprise-centric finance, arguing that quasi-equity investment that funds do exist in the marketplace, such as Bridges Evergreen Holdings, have seen low demand. Yet the pre-COVID *State of Social Enterprise* survey (2019) found that 38% of social enterprises across the UK *are* applying for external finance for their business. As Figure 3 shows, there is consistency across the nations of the United Kingdom in demand for finance.

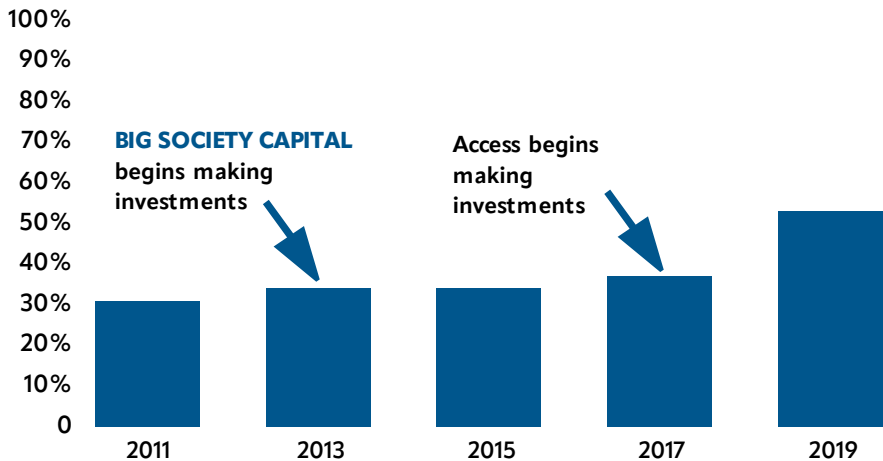
Figure 3: Percentage of social enterprises applying for external finance



Source: *State of Social Enterprise 2019*

It is important to note that this includes grants as well as repayable finance.

Figure 4: Social investment demand as a proportion of those applying for external finance



Source: *State of Social Enterprise 2019*

Overall, around 20% or one in five social enterprises are applying for repayable finance of some kind. **This is significantly higher than other SMEs**, where just 11% of SMEs employers applied for external finance in the previous 12 months.⁶¹ The demand exists.

On the supply side, social investment comes in different shapes, from secured, asset-backed finance to riskier and more innovative forms of finance. The Commission has explored the evidence and data available.

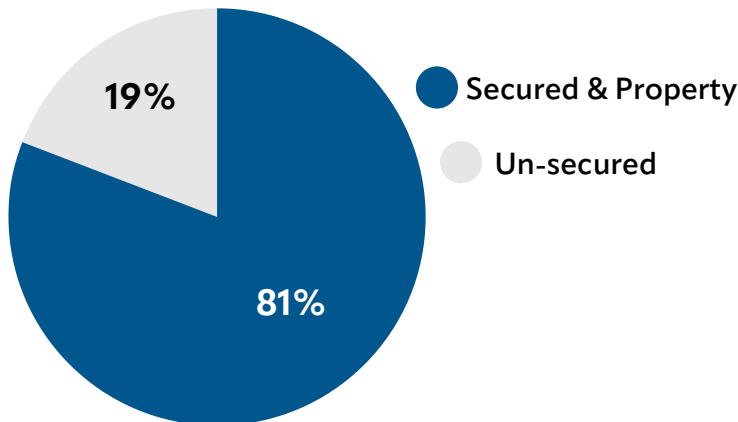
⁶¹ Department for Business, Energy and Industrial Strategy, Longitudinal Small Business Survey 2020, June 2021

Secured and asset-based social investment

Banks have provided asset-backed lending for centuries, with specialist social banks like Charity Bank and Unity Trust Bank doing the same over the last few decades for social enterprises. In 2011, Boston Consulting Group & Young Foundation set out a vision for growing the social investment market, noting that “because the [social] banks are interested in lower risk, longer-term investments, over four-fifths of investment activity is currently secured lending. This is a long way from the vision of social investors taking risks to stimulate growth and innovation in front-line social ventures.”⁶²

Yet the picture was fundamentally the same in 2019 as it was in 2011, based on Big Society Capital’s data, shown in figures 5 and 6. Secured investment still dominates the market of products available to social enterprises, with 77% of investments secured and property related compared to 81% in 2011.^{63 64} It is important to note that according to BCG’s report to Big Society Capital, an estimated 5% of the market was equity or quasi equity before Big Society Capital’s creation, but this does not appear in Big Society Capital’s own historical data.⁶⁵

Figure 5: Overview of the social investment market (£ms invested) in 2011



Source: Commission Secretariat analysis of Big Society Capital data, 2021

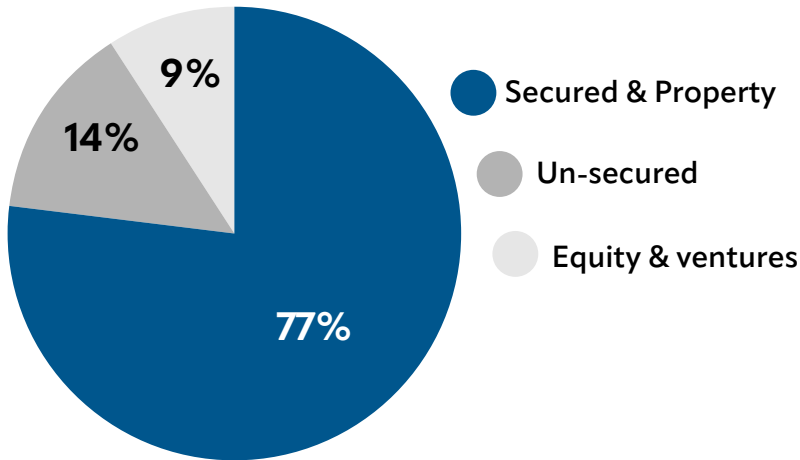
⁶² The Boston Consulting Group & The Young Foundation, *Lighting the Touchpaper, Growing the market for social investment in England*, p.12 NB an estimated 5% of the market was equity or quasi equity in nature.

⁶³ Ibid.

⁶⁴ This includes social bank lending which is overwhelmingly secured and property funds. Unsecured lending combines non-bank lending and charity bonds. Property based investment and secured lending from social banks have been grouped together as both are overwhelmingly asset-backed.

⁶⁵ Ibid.

Figure 6: Overview of the social investment market (£ms invested) in 2019



Source: Commission Secretariat analysis of Big Society Capital data, 2021

The investments made by Big Society Capital as a cornerstone investor in social property funds and significant capital injections into social banks including a £49.5m investment in Charity Bank alone have been fundamental to the growth of property and secured loans in absolute terms.⁶⁶ Big Society Capital has shaped the make-up of the market.

The Commission heard from social enterprises that have successfully raised asset-backed investment, such as Carla Keegans, Director at The Ethical Housing Company.⁶⁷ The social impact of these investments should not be ignored, with thousands of vulnerable people receiving support that otherwise would not be available. Overall, the Commission did not receive evidence from social enterprises, social investors or social investment finance intermediaries that property-based or asset-backed social investment was a challenge to raise in general, although there were some challenges from black-led social enterprises in particular.⁶⁸ Demand for secured lending has increased over the last decade

⁶⁶ Big Society Capital, Portfolio – accessed 2 May 2021

⁶⁷ Carla Keegans, Commission on Social Investment Evidence Session, 18/02/2021

⁶⁸ Henri Baptiste, Commission on Social Investment Evidence Session, 18/02/2021

and is steady, with some social banks actively seeking additional investment in order to expand the finance that they can offer.⁶⁹

It is important to put these trends in context. As was noted by the Alternative Commission on Social Investment and by the advocates of the social investment, there was a long history of secured investment into social enterprises before the development of a social investment market.⁷⁰ There have also been investments that have been historically provided by the high street banks.⁷¹ The Commission does not believe that social investors or intermediaries have intentionally sought to take the market in this direction. Rather, they have gone with the grain of mainstream financial markets which have pushed for greater security in lending following the financial crisis⁷². This begs the question of whether the vision of social investors taking risks to stimulate growth and innovation in front-line social ventures through new products and tools has been achieved.

The Commission has also received evidence from those that think that the way that secured finance has been provided to social enterprise has not maximised the growth of the social enterprise sector. For example, Big Society Capital has invested in the Cheyne Capital Social Impact Fund which does not enable social enterprises to purchase property, but actually provides funds for a commercial firm to then lease those properties on to social enterprises, charities and local authorities. This means that the appreciation of asset values resides with the commercial firms, rather than helping social enterprises to strengthen their balance sheets. The Commission is not convinced, therefore, that social property funds are being used to support the growth and development of social enterprises.

Unsecured lending and blended finance

Our work has heard positive evidence regarding the growth of unsecured lending for social enterprises. According to Big Society Capital's data, the amount of unsecured lending (including charity bonds and non-bank lending) in the social

⁶⁹ Ed Siegel, Charity Bank, How Charity Bank is adapting to meet the changing need of charities and social enterprises, 16 June 2020

⁷⁰ The Alternative Commission on Social Investment, The Report of the Alternative Commission on Social Investment, March 2015 p.17 & ICF GHK & BMG Research, Growing the Social Investment Market: The Landscape and Economic Impact, July 2013 p.56

⁷¹ Social Spider, The Forest for the Trees – UK Banks' Investment In a Social Purpose, July 2016

⁷² For example, the OECD Financing for SMEs & Entrepreneurs 2020 UK Scoreboard found that the percentage of SMEs that had secure collateral in order to obtain bank lending had grown by 25% in 2011 to 41% in 2020.

investment market increased from £149m in 2011 to £689 in 2019, an increase of £540m.⁷³ Yet around 70% of that growth can be attributed to bonds, developed by Allia and others, primarily for larger enterprises and charities with the average issuance between £10-15m.⁷⁴

Evidence presented to the Commission indicates that progress in this respect has been a game of two halves. As former Minister for Civil Society, Nick Hurd, admitted to the Commission, the right institutions were not created for the development of unsecured lending for social enterprises at the beginning of the Coalition Government.⁷⁵ There was a lack of high-risk unsecured social investment at that time⁷⁶, and relatively little available under £100,000.⁷⁷ Some social investment finance intermediaries, backed by Big Society Capital, sought to provide unsecured lending to meet this gap but challenges emerged around the cost of finance, financial performance of portfolios, and a narrow pipeline of social enterprises. A strategic decision by Big Society Capital to not use its own funds to subsidise this part of the sector meant that for several years, this gap persisted.⁷⁸

Overall, the Commission found social enterprises and social investment finance intermediaries had a positive perception of the utility of blended and unsecured finance. We also found that the creation of the Access had had a positive impact on the market.

Access – The Foundation for Social Investment

In response to the lack of finance being accessed by smaller social enterprises, the UK Government (Cabinet Office), Big Society Capital and National Lottery Community Fund created a new institution, Access, set up to channel subsidy and enable social investment finance intermediaries to bear lower short-term financial returns in the marketplace. It developed a “Growth Fund” to offer small scale unsecured loans for social enterprises, developing a blended finance model, using grants from the National Lottery Community Fund combined with debt from Big Society Capital.

⁷³ Big Society Capital, Market Size Data – accessed 12 May 2021

⁷⁴ Henrietta Podd, Retail Charity Bonds – a tradeable way to invest in charities, 15 August 2020

⁷⁵ Nick Hurd, Commission on Social Investment Evidence Session, 24/02/2021

⁷⁶ City of London Corporation, Growing the Social Investment Market: The Landscape and Economic Impact, July 2013 p.5

⁷⁷ New Philanthropy Capital & ClearlySo, Investment Readiness in the UK, July 2012 p.v

⁷⁸ Seb Elsworth, Commission on Social Investment Evidence Session, 25/02/2021

This helped close the gap as smaller social enterprises secured greater access to finance. Access Foundation's own data has found that 517 social enterprises and trading charities have been able to access investment in this way totalling £34m so far, with an average investment size of £66,000.⁷⁹ Social investment finance intermediaries engaging with the Commission have been generally positive about the work and impact of Access.

Blended finance is not just available at a national level - the Commission heard evidence from the development of the Plymouth City Council Social Investment Fund⁸⁰ - a £2.5m blended capital fund providing small investments (£5-10k) to social enterprises through a mixture of loans and grants. In total, around 40 social enterprises were able to use the fund, to create 160 jobs and leverage in additional £2m⁸¹. Similar funds have been developed in Wales, Scotland and in Liverpool City Region.

Social Investment Tax Relief

Social Investment Tax Relief (SITR) was introduced by the Treasury to help increase the flow of unsecured lending. However, the Exchequer Secretary of the Treasury, who was asked to provide evidence to the Commission, now argues that SITR is "not particularly attractive"⁸² and performance has not met expectations. Despite being ranked the 4th most effective tax incentive to foster investment into SMEs and start-ups by SMEs (out of 46 schemes) in a PwC report, which looked at tax reliefs across Europe. SITR has not brought in significant levels of unsecured lending into social enterprises, with only £11.2m in investment raised between 2014 and 2019.^{83 84} The extension of SITR for another two years is welcome, but it is also clear that its potential has not been realised.

⁷⁹ Access – The Foundation for Social Investment, Quarterly Dashboard to 31 Dec 2020, accessed – 15 May 2021

⁸⁰ Gareth Hart, Commission on Social Investment Evidence Session, 25/02/2021

⁸¹ Invest Plymouth, Social Enterprise, accessed 15 May 2021

⁸² Pioneers Post, UK Minister rejects call to extend "not particularly attractive" tax relief, 23 April 2021

⁸³ Jesse Norman, Finance Bill (No.2), Public Bill Committee, 22 April 2021

⁸⁴ Community Investment Tax Relief (CITR) has also failed to live up to expectations. Since 2002, around £145m in private investment has been generated through the relief, less than the £100m per year originally expected. However, CITR has had a positive impact overall in disadvantaged communities and for social enterprises. The estimated economic impact of CITR has been £1.5bn for disadvantaged communities.

While Access has managed to distribute its funds efficiently and effectively, the level of unsecured lending in the social investment market and to social enterprises appears to have levelled off. Non-social bank lending to social enterprises and trading charities peaked at £331m in 2017 after steady growth from 2011 although the total number of transactions has increased, particularly as the Growth Fund has focused on smaller deals.⁸⁵ The number of social enterprises applying for unsecured finance has not risen significantly. In 2013, 55% of social enterprises that applied for a loan said that finance was unsecured. In 2019, this had increased slightly to 60%.⁸⁶ There has not been a significant acceleration in the provisions of unsecured finance for social enterprises. The Access itself is due to wind down in 2025, which will leave a significant hole in the marketplace, particularly for the smallest social enterprises and those operating in the most deprived communities. The majority of Access investments, for example, have been to social enterprises with less than ten members of staff and most investments have been under £50,000.⁸⁷

The evidence presented to the Commission and the data available indicates that without further subsidy, it is unlikely that the market for unsecured lending for social enterprises will be able to grow, or even maintain its current size.

Risk and return

Social enterprises have told the Commission that social investment is too expensive - higher than they would expect to pay from conventional commercial investors, such as the high street banks. According to the Bank of England, the effective interest rate⁸⁸ for SMEs before the pandemic was around 4%.⁸⁹ Social enterprises reported that the interest rates offered on social investment were between 7 and 10%. This is in line with various studies which have found loans in the social investment market to be more expensive than conventional products.⁹⁰

⁸⁵ Big Society Capital, Market Size Data – accessed 12 May 2021

⁸⁶ Social Enterprise UK, State of Social Enterprise 2019, 2019 & Social Enterprise UK, State of Social Enterprise 2013, 2013

⁸⁷ Access – The Foundation for Social Investment, Quarterly Dashboard to 31 Dec 2020, accessed – 15 May 2021

⁸⁸ This is the monthly average of UK resident banks' sterling weighted average interest rate – other loans, new advances, on a fixed rate of small and medium sized enterprises (in percent) not seasonally adjusted

⁸⁹ Bank of England, Data viewer: SME loans, September 2020

⁹⁰ This is in line with other data collected on this issue, for example, Department for Work & Pensions, Growing the social investment market: update on SIFI social investment, July 2016 and City of London Corporation, Growing the Social Investment Market: The Landscape and Economic Impact, July 2013 p.23

The Commission was given evidence by Key Fund and Big Society Capital that the cost of capital for social enterprise currently ranges from 6-12.5% APR. This had changed from a decade ago where the price of loans was higher at 12.75% APR.

Social investment finance intermediaries explained this higher cost of finance partly due to higher levels of risk. We heard repeatedly from social investment finance intermediaries that concerns about losses led to higher rates of interest being charged to social enterprises. Yet social enterprises did not see their levels of risk as being substantially different from any other private company. The Commission found that what available evidence there is points in the opposite direction, namely that **social enterprises themselves are less risky than other forms of business**. For example, research by New Philanthropy Capital after the last financial crisis into the failure rates of social enterprises working with the School for Social Entrepreneurs, found that social enterprises were 40% more likely to survive for 5 years compared to other private sector business models.⁹¹ The latest figures from the pandemic have also found that 1% social enterprises have closed due to COVID.⁹² The Commission has not found any data that indicates that social enterprises default more on their loans than other forms of business or that they are inherently riskier than the private sector.⁹³ Many mainstream financial institutions turn away social enterprises because of a lack of knowledge of the sector or the markets that they operate within. As a consequence, social enterprises which cannot raise conventional market capital have to move into social investment.

The Commission does not believe that social enterprises are being intentionally overcharged but higher costs are due to the capital available and structure of the social investment market. Social enterprises are paying a premium for finance partly because mainstream financial institutions means they are not serving the sector effectively and are not prepared to take a more patient, flexible approach to investment. Social enterprises are also younger on average than other firms. This means that there is a need for a bespoke and empathetic due diligence process. Mainstream financial institutions are often unwilling to take this approach. This means that social enterprises have to turn to social investment. Social investment finance intermediaries may perceive social enterprises

⁹¹ New Philanthropy Capital, Are social enterprises more resilient in times of limited resources?, September 2011

⁹² Social Enterprise UK, Social Enterprise Advisory Panel, 2021

⁹³ Of course, while it appears that social enterprises may have lower 'down-side risk' because of their resilience, they may also have lower 'up-side' potential for delivering large financial rewards.

embarking on social investment to be risky because they have been unable to secure mainstream finance and/or may run a conventional due diligence process similar to that of mainstream financial institutions which leads to similar results. There is a need for an approach similar to Community Development Finance Institutions (CDFIs) which take a different approach to risk and credit in order to lend onto businesses and individuals who have been underserved by mainstream financial institutions. Social investment also has a number of additional layers compared to mainstream financial institutions, which increase the cost of capital.

Social enterprises highlighted to us a lack of understanding by investors of the types of risk encountered by social enterprises, compared to other businesses, as well as a lack of understanding of how social enterprises seek to mitigate financial risk (for example, using their social and environmental impact to build brand or customer loyalty to get through challenging periods). In many cases this was framed in the context of social investment finance intermediaries being too risk averse and do not have expertise in the importance of differences in underlying business models.

Social enterprises told the Commission they were more likely to seek out grants to grow their business or try to develop a new product or service.⁹⁴ As Gareth Hart, Director of Plymouth Social Enterprise Network told the Commission, for many social enterprises in his area “they’d rather apply to the Lottery than to a social investor”.⁹⁵ Another social enterprise in Wales told the Commission that they saw grants as the way to take risk, not investment.⁹⁶ The Commission concludes from the evidence that too often, demand is being skewed towards, on one hand, too risk-averse investment or, on the other, grant funding. More patient and flexible, equity or quasi-equity enterprise-centric investment could be filling a significant gap in unmet demand.

Other products and funds

Two other types of investment are also worth considering here – Social Impact Bonds (SIBs) and ‘social property’ funds - which provide important lessons for the future of the development of social investment. Importantly - and perhaps surprisingly given most conceptions of what social investment is - neither actually represent investment in social enterprise at all.

⁹⁴ Commission on Social Investment, Social Enterprise Engagement Session, North of England, July 2020

⁹⁵ Gareth Hart, Commission on Social Investment Evidence Session, 25/02/2021

⁹⁶ Commission on Social Investment, Social Enterprise Engagement Session, Wales, March 2021

Social Impact Bonds

Social Impact Bonds can take a range of forms, but broadly they involve an investor putting the money upfront for a service provider to deliver a public service, with the investor being paid back by the government later if certain milestones are met.⁹⁷ The risk sits with the investor, who may not receive any money back if targets are missed. In total over £230m has been invested in Social Impact Bonds by the UK Government,⁹⁸ and in total over £270m has been channelled into the development of SIBs.

Table 3: List of Government “outcomes funds”

Government Outcomes Fund	Total Investment
Life Chances Fund	£80m
The Rough Sleeping SIB Fund	£40m
Social Outcomes Fund & Commissioning Better Outcomes Fund (with Big Lottery Fund)	£60m
Fair Chance Fund	£10m
Youth Engagement Fund	£16m
Innovation Fund	£30m
Total	£236m

Source: *Government Outcomes Lab, 2021*

The arguments around SIBs are well documented. Whatever their merits, SIBs have not achieved the level of success outlined for them by the UK Government. In 2016, the then Minister for Civil Society, Rob Wilson, said that he wanted to see a “social impact bond market of £1bn by the end of this Parliament [2020].”⁹⁹ At the time of writing, the current size of the SIB market is less than 1/10th that size. According to the Government Outcomes Lab, set up by the Department for Digital, Culture, Media and Sport to support the development of outcomes-based contracts and investment, the total social investment committed to SIBs is

⁹⁷ Social Finance, Social Impact Bonds, accessed 25 May 2021

⁹⁸ Government Outcomes Lab, UK Government Outcomes Funds for Impact Bonds, accessed 25 May 2021

⁹⁹ Rob Wilson, The Future of the UK Social Investment Market, 23 March 2016

just £72.9m.¹⁰⁰ To put it another way, for every £4 invested into SIBs development just £1 has been leveraged in social investment.

This is not to say that this approach has been wrong or flawed, but it is clear that **where there is interest in a product, significant levels of up-front public and institutional subsidy may be necessary** and can be deployed to support innovation and demand. These have been policy decisions instigated by government and delivered by institutions such as Big Society Capital. Similarly, the Commission has also considered the development of earlier, more flexible, patient funds such as Futurebuilders and Community Builders,¹⁰¹ created as the UK Government recognised the need for patient capital to support the growth of social enterprises and stepped up to provide it. There are lessons here which the Commission believes we need to relearn.

Property funds

In October 2021, Big Society Capital published its latest estimates of the value of social investments in the UK. It is clear from the data on deal flow that the growth in activity over the last ten years is overwhelmingly based on increases in what Big Society Capital refer to as “Social Property” investments. These include investments through a range of property funds, including Cheyne Capital Social Impact Fund, CBRE UK Affordable Housing Fund and BMO Real Estate Partners, among others.

As with Social Impact Bonds, some of these funds do not actually invest in social enterprises. But unlike Social Impact Bonds, where money from the investment flows into social enterprise and charitable service providers to help them deliver their work, they are designed around revenue flowing *from* social enterprises, not into them. Cheyne Capital Social Impact Fund, for instance, develops homes and leases them to housing associations, charities and local authorities, who provide the revenue. This is a vehicle which is predicated on **generating money from social enterprises and charities** - there appears to be no investment in social enterprise or any transfer of assets to social enterprises taking place. The leasing model also means that investors are passing the risk onto social enterprises.

¹⁰⁰ Government Outcomes Lab, INDIGO Database, accessed 25 May 2021

¹⁰¹ Nick Temple, Commission on Social Investment Evidence Session, 03/02/2021

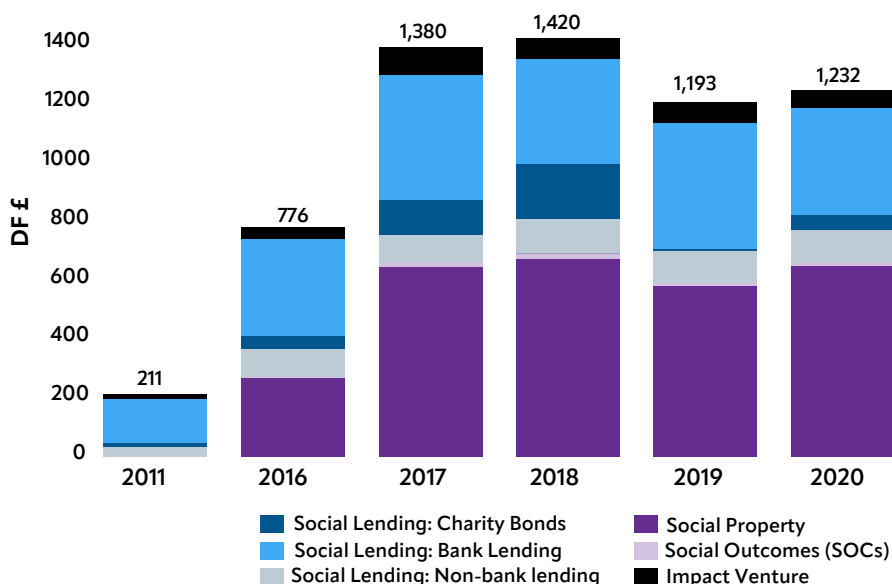
Not all social property funds have operated this way and there other positive examples such as the Social and Sustainable Housing (SASH) fund and Big Issue Invest funds which have been used to support social enterprises and strengthen their balance sheets and generate social impact. Charity Bank and Triodos have also lent money to social enterprises to purchase assets which have strengthened their balance sheets. The point is not that social property funds are bad or that Big Society Capital should not invest in these funds, but that we need to carefully consider the models used for investment and consider how investment can be structured in the best interests of social enterprises.

Social and Sustainable Housing (SASH) – A Social Property Fund

Social and Sustainable Housing (SASH) is a social investment property fund. The result of a process of co-design between Social and Sustainable Capital (SASC) and leading social enterprises, it has four key benefits for high impact organisations:

1. No deposit– the fund lends all the money required.
2. Flexible interest rate – borrowers pay a percentage of actual rent received, passing void risk on to the fund.
3. Repayment – borrowers can never have negative equity as they repay 85% of the value of the properties after ten years, even if this is less than the amount they borrowed.
4. Walk away option - borrowers can hand back the keys to SASH and cancel the loan regardless of the value of the properties.

Launched in mid-2019, SASH has currently allocated over £50m to 15 outstanding organisations housing disadvantaged people across the UK. The pandemic has generated considerable demand in recent months and the fund expects to make new loans at an increasing rate. SASC believes that when social enterprises own housing they can deliver better outcomes for their clients whilst building their own financial resilience. SASH is designed to strengthen borrowers and give them permanent access to high quality housing.

Figure 7: Deal Flow (commitments during the year)

Source: Big Society Capital Deal Data, accessed October 2021

Enterprise-centric finance

Consistently, the Commission has heard from social enterprises across the country that the biggest gap in the marketplace is the **lack of patient and flexible, equity or quasi-equity investment**. Definitions of equity and quasi-equity investment can be confusing but in broad terms, the Commission has heard a consistent message from social enterprises. Specifically, the need for investment to be:

- truly long term, in some cases decades rather than years;
- paid back based on the growth of the business and with flexibility in repayment milestones, rather than a fixed timetable of repayments;
- lower levels of debt interest; and
- structured to strengthen the balance sheet of the social enterprise, rather than accounted for as debt which weakens the balance sheet

The Commission has defined this as “enterprise-centric finance”. There has been a range of research on these models over the years, such as Shift Design’s report on the demand for patient, risk-sharing capital.¹⁰² Indeed, one of the objectives for social investment set by the UK Government initially was to widen access to “venture and equity-like financing for growth”.¹⁰³ But there has been little progress in turning this into practice, piloting patient, flexible, risk-taking finance. Instead, there has been a default towards focusing on conventional products such as loans – or even blending grants with loans as above – and very little development of enterprise-centric financial products, such as revenue participation agreements, which adapt to the needs of social enterprises. Social enterprises told the Commission that this enterprise-centric finance is not available, and this is hampering their growth and development.

It is important to distinguish between equity and quasi-equity. Only 23% of social enterprises are in legal forms in which investors can buy shares.¹⁰⁴ Equity benefits such as patience. However, it does come with its own risks around control and focus of the business. It may be, therefore, that social enterprises are not willing or able to give investors stakes in their business and this means that equity cannot be relied upon to be a single solution to the problem of increasing levels of enterprise-centric finance. For social enterprises that cannot give equity, quasi-equity is an alternative which has some of the features of equity (such as the patience and flexibility) but brings its own limitations such as the complexity of structuring deals. We note that some of these forms of capital such as revenue participation agreements are not equity as such, but can be structured in a way to mimic the qualities of equity such as the flexibility of repayment and long term time horizons. What both have in common is, in general, their greater flexibility. Another benefit of equity and quasi-equity is the greater sharing of risk between investor and investee. In using the term “enterprise-centric finance” to cover these and other investments, the Commission seeks to highlight the importance of flexible finance for social enterprises.

There is some evidence to suggest that access to equity investment can lead to higher levels of growth. A 2020 report by Beauhurst and the Scale Up Institute found that scale-up businesses which have achieved strong growth and avoided closure during the initial start-up phase, those that had higher levels of turnover

¹⁰² For example’s Shift Design, *Beyond Demand*, 2020 defined patient, risk-bearing capital as “investment that is prepared to wait a considerable amount of time before seeing a potential return, where the financial risk is shared between investor and investee”

¹⁰³ Cabinet Office, *Growing the Social Investment Market: A vision and strategy*, February 2011 p.17

¹⁰⁴ Social Enterprise UK, *Capitalism in Crisis?*, September 2019

growth were more likely to have raised equity finance.¹⁰⁵ Over half (56%) of scale-ups which grew their turnover by more than 100% have used equity financing.¹⁰⁶ The Department for Business, Energy & Industrial Strategy has also stated that “equity finance investment in the corporate sector...is important to allow firms to fund firm level innovation and growth – hence equity finance is key for economic development.”¹⁰⁷ Although there is not comparable data on the benefits of quasi-equity, this form of investment is designed to mimic the flexible nature of equity finance and could have the same potential benefits for social enterprises, although that would need to be proved. As a consequence, there should be similar benefits from spreading quasi-equity finance within the social enterprise sector. We should apply the same focus that there has been to get more equity capital into small business capital to providing enterprise-centric finance to social enterprises.¹⁰⁸

Fair for You CIC Quasi-Equity Deal

In 2020, Fair For You CIC raised £7.5m in quasi-equity funding through the development of a Perpetual Bond supported by Fair4All Finance – a government-backed fund – and a range of charitable foundations.

Fair For You Finance CIC has helped over 33,000 customers since 2015 to access flexible affordable credit to buy essential goods, such as beds, fridges and washing machines. 60% of their customers now say that they are better able to pay their rent, household bills and council tax compared to before. Together these customers have saved over £9m – just under £300 each, compared to other more expensive forms of credit.

The Perpetual Bond means that Fair For You CIC will be able to draw down on £7.5m of credit with no repayment date and a stable cost of credit. The investment will enable Fair For You CIC to increase its lending ten-fold and pioneer new forms of support, such as revolving loan facilities for its customers.

¹⁰⁵ Beauhurst & Scale Up Institute, The Scale Up Index 2020, 2020

¹⁰⁶ Ibid.

¹⁰⁷ Department for Business, Energy and Industrial Strategy, Equity Finance and the UK Regions, July 2019 p.7

¹⁰⁸ Esmée Fairbairn Foundation, How our impact-first approach led us to our first Perpetual Bond, September 2020

Perhaps surprisingly, social enterprises are more likely to apply for equity investments compared to SMEs more widely, with 5% of social enterprises applying for equity (let alone *quasi-equity* finance) compared to 4% of SMEs.¹⁰⁹ 11% of social enterprises considered applying for equity finance but did not do so.¹¹⁰ Shift Design's report found that 18% of social purpose organisations are looking for patient, risk-bearing capital.¹¹¹ This is around the same level as Social Enterprise UK's surveys have found for equity finance. Many social enterprises are able to distribute dividends or shares - CICs limited by shares are able to distribute up to 35% of their surplus profits to shareholders. Around one in five social enterprises are companies limited by share, which can provide equity to investors.

Yet quasi-equity investments remain a very small part of the marketplace – currently less than 10%.¹¹² Moreover, if Community Shares are removed, outstanding quasi-equity investment has only increased by £278m over the past decade, just 6% of the total growth of the social investment market over the same period.¹¹³ There has been some innovation in this area - we have seen the development of revenue participation agreements, with HCT Group raising £500,000 through a revenue participation agreement as part of a £10m investment.¹¹⁴ Fair4 All Finance and Esmée Fairbairn Foundation created a Perpetual Bond product.¹¹⁵ Guy's and St Thomas' Charity made a £50,000 unsecured loan to a charity to support the design, development and manufacture of a new consumer assistive technology with investment repaid based on a percentage of sales.¹¹⁶ Lessons can be learnt from the devolved administrations - in Wales, Social Investment Cymru has been pioneering the development of quasi-equity investments into social enterprises as has Social Investment Scotland.¹¹⁷

¹⁰⁹ Social Enterprise UK, State of Social Enterprise 2019, 2019 & Department for Business, Energy and Industrial Strategy, Longitudinal Small Business Survey: SME Employers (businesses with 1-249 employees) – UK, 2019, June 2020

¹¹⁰ Social Enterprise UK, State of Social Enterprise 2019, 2019

¹¹¹ Shift Design, Beyond Demand, 2020

¹¹² Big Society Capital, Market Size Data – accessed 12 May 2021

¹¹³ Ibid.

¹¹⁴ Social and Sustainable Capital, Understanding Revenue Participation Notes, 29 January 2016

¹¹⁵ Esmée Fairbairn Foundation, Perpetual Bonds: An answer to equity-like social investment? September 2020

¹¹⁶ Social Shares, Risk Finance for social enterprises and charities, February 2017

¹¹⁷ Commission on Social Investment, Social Enterprise Engagement Session, Wales, March 2021 & Commission on Social Investment, Social Enterprise Engagement Session, Scotland – Social Investors, July 2020

Motivation Quasi-Equity Deal

Motivation is a global social enterprise which provides wheelchairs and support to disabled people across the world.

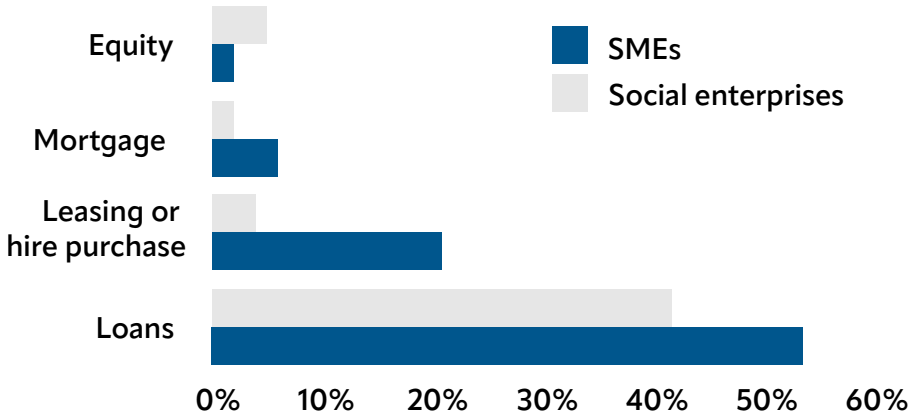
In 2009, CAF Venturesome – a social investment finance intermediary – invested in Motivation to help it to develop its trading income and make it less reliant on grants through selling affordable, specialist wheelchairs.

The investment structure was part loan, part-quasi-equity. Motivation received £125,000 in loan finance with a further £75,000 tied to the performance of the business.

The mixture of loan and quasi-equity has enabled the social enterprise to take more risk and incentivise expansion of the business, leading to significant growth in turnover from £2.1m in 2009 to £3.85m in 2019. Trading income during this time has grown substantially, with sales increased to over £2m a year.

So these are not impenetrable barriers, but do require patience, focus and in some cases, subsidy. The Commission does not believe that enough investment has been put into these types of products. Although there has been significant growth in this type of finance, the overall balance in the market has not shifted - **equity and quasi-equity finance is not being provided to meet demand among social enterprises.**

Figure 8: Applications for various forms of finance (SMEs v SEs)



Source: *State of Social Enterprise 2019, Small Business Survey 2019*

Big Society Capital has committed a small portion of its portfolio to the development of this part of the market, with current data suggesting that under 10% of its portfolio is in this type of product.¹¹⁸ Furthermore, Big Society Capital's equity investments are not targeted at social enterprises but rather, looser "profit-with-purpose" models which can access conventional equity markets, given their looser restrictions. Only a minority, around 30%, of Big Society Capital's equity and quasi-equity investments are in funds which specifically target social enterprises and social ventures. Overall, this is **just 3% of its total portfolio**.

¹¹⁸ Big Society Capital, Portfolio – accessed 25 May 2021

Table 4: Big Society Capital Enterprise Equity Portfolio

Fund	Target group	Big Society Capital Investment
Ada Ventures I	"Purpose-led start ups"	£3m
Ananda Social Venture Fund III	"Social ventures"	£4.5m
Bethnal Green Ventures	"Tech for good start ups"	£2.25m
Bridges Evergreen Holdings	"Profit-with-purpose companies, public sector spin outs, social sector organisations and employee owned businesses"	£30m
Connect Ventures III	"Purpose-led start ups"	£6m
Eka Ventures	"Purpose-led start ups"	£8m
Accession Ventures – Fair by Design Fund	"organisations tackling the poverty premium"	£6m
Impact Ventures UK	"social enterprises with innovative business models"	£15m
NESTA Impact Investments	"social enterprises tackling issues faced by older people, children and communities in UK"	£8m
Total		£82.75m

Conclusion

The Commission has heard repeatedly from social enterprises of their demand for more patient, flexible and risk-taking finance. It is the Commission's view that any lack of demand is due to **too many conventional debt products, asset-backed models and a lack of diversity in the products on offer** designed to

meet the needs of social enterprises.

3. Is social investment fair and inclusive?

Throughout the Commission's evidence gathering, we have heard from social enterprises, social investors and social investment finance intermediaries about problems in terms of equity and inclusion. This is particularly the case around Black-led social enterprises.

The Black-led social enterprise perspective

The Black-led social enterprise witnesses that gave evidence to the Commission told us about the challenges they faced in getting access to social investment, whether in securing support to become more investment ready, in a lack of understanding within the social investment community about their social enterprises, or in the lack of diversity within social investment itself. As Henri Baptiste, Director of Pathways Housing Solutions, told the Commission "one of the key things we have found in the initial scope is that there are clear structural barriers to BAME-led organisations in accessing finance".¹¹⁹

Stephen Bediako, Director of The Social Innovation Partnership, told the Commission that he had to face "additional questions, additional due diligence and risk aversion" in his attempts to access investment.¹²⁰ Challenges around supporting social enterprises to become investment ready were noted by Black-led social enterprises. The Commission was told that social investment remains too "white" and this creates challenges for Black-led social enterprises who lack the social connections of their white peers.¹²¹

The discrimination faced by Black-led social enterprises is complex and at times the Commission found it hard to identify the exact challenges faced by Black-led social enterprises. In broad terms, there appear to be several layers

¹¹⁹ Henri Baptiste, Commission on Social Investment Evidence Session, 18/02/2021

¹²⁰ Stephen Bediako, Commission on Social Investment Evidence Session, 03/03/2021

¹²¹ Jerry During, Commission on Social Investment Evidence Session, 18/02/2021 & Stephen Bediako, Commission on Social Investment Evidence Session, 03/03/2021

to this discrimination. Firstly, there is a cross-society challenge where Black-led social entrepreneurs are not given equal access to the financial skills required to support the development of their business and access finance. This leaves many feeling that they do not have the tools that they need to be able to apply for finance. This is not specific to social investment but is a much broader problem. Secondly, there is an investment-specific challenge whereby Black-led social enterprises which want to access to finance are hampered by the lack of a “track record” or assets which they can borrow against. The nature of any investments means that investors want assurance that their money will be used effectively and repaid. The fact that many Black-led social enterprises have to start from scratch, operate in communities which face multiple economic and social challenges and have been historically undercapitalised hampers their ability to access repayable finance. Finally, as noted above, there is a layer of discrimination which appears to be related to the structure of the social investment market itself which is seen as lacking in people with lived experience of these communities. This has led to a lack of flexibility in working with Black-led social enterprises and additional due diligence being put in place for entrepreneurs that they do not understand. These different layers have made social investment an off-putting process for many Black-led social enterprises.

This was echoed by nearly every witness to the Commission, whether from social enterprise, social investment finance intermediaries or other parts of the marketplace. Before COVID, Social Enterprise UK’s *State of Social Enterprise* 2019 survey found that Black and ethnic minority-led social enterprises were applying for and receiving finance at just one quarter the level for the rest of the social enterprise sector.¹²²

Despite previous efforts made and commitments to tackle the issue, the evidence is clear that **social investment continues to have a serious problem with inclusion and equity particularly, although not exclusively, in relation to race.**

The focus on property-based social investment and large bond issuance has further disadvantaged Black-led social enterprises who are generally smaller and have fewer assets to offer as security for investment. Changing the types of products that are on offer to include more equity, quasi-equity and venture style investment would help to improve the diversity of social investment.

¹²² Social Enterprise UK, *Capitalism in Crisis?*, September 2019

The data

The Commission has explored the data available on social investment and ethnicity, gender, sexuality and disability.

Resilience and Recovery Loan Fund Applications

Nick Temple, Chief Executive of the Social Investment Business, provided some shocking statistics with regard to SIB's Resilience and Recovery Loan Fund, which used the Coronavirus Business Interruption Loan Scheme (CBILS) 80% government guarantee to provide around £24m in loans to social enterprises and trading charities during the COVID pandemic.¹²³ The demographic data in this fund is open to all and provides a useful insight into the barriers facing different groups.¹²⁴

Table 5: Resilience and Recovery Loan Fund Applications

Leadership of organisation	All applicants	Eligibility of applicants	Approved applicants
Women-led	60.4%	57.8%	59.5%
Disability-led	21.1%	12.7%	9.2%
BAME-led	26.8%	10.2%	5.3%
LGBT-led	17.1%	7.8%	5.4%

Source: Social Investment Business, Resilience and Recovery Loan Fund Dashboard, 2021

As shown in Table 5, women-led social enterprises and trading charities were generally approved at rates comparable to the number of applications received. There was a significant drop-out rate for disability-led social enterprises between applications and eligibility stages. However, nearly three-quarters of

¹²³ Big Society Capital, Resilience and Recovery Loan Fund, accessed 29th September 2021 and Social Investment Business, Resilience and Recovery Loan Fund Management Dashboard, accessed 29th September 2021

¹²⁴ Social Investment Business, Resilience and Recovery Loan Fund Dashboard – accessed 26 May 2021

disability-led social enterprises that were eligible for investment were approved. The drop-out rates are starker and more significant for BAME-led and LGBT-led social enterprises and trading charities. Less than 40% of BAME-led organisations that applied were deemed eligible for investment. This compares to over 90% of women-led organisations. Of those that were eligible, there was a significant drop-off rate again in terms of approval. A similar trend can be seen for LGBT-led organisations around eligibility, although a higher proportion of LGBT-led organisations that were eligible were approved for loans. Challenges around eligibility criteria were also referenced in our workshop on diversity in social investment with social enterprises and social investors. For example, organisations had to have a minimum turnover of £400,000 and had been trading for a minimum of two years.

In the case of the Resilience and Recovery Loan Fund referenced above, a number of hurdles presented themselves for many BAME-led social enterprises. Organisations were required to have a turnover of over £400,000, which particularly disadvantaged BAME social enterprises as they are smaller than their peers on average. The median turnover of a social enterprise in 2019 was £120,000 compared to just £62,000 for BAME-led social enterprises.¹²⁵ Applicants also had to show that they had a “viable” business position and were not “in difficulty”, which some BAME-led social enterprises told us proved a challenge when it came to speaking the appropriate language of investment. These criteria were set by HM Government. Power imbalances can be particularly prevalent in the case of Black, Asian and minority ethnic social enterprises and women-led social enterprises. These enterprises often have lower levels of initial capital, or social capital when they start their business.¹²⁶

Social Enterprise UK's State of Social Enterprise

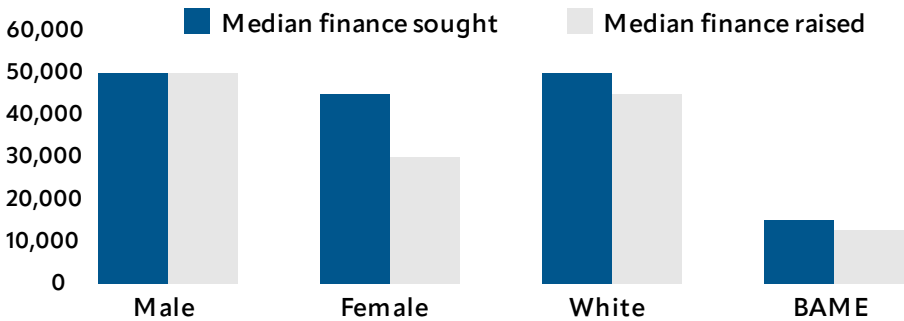
These are businesses which need higher levels of initial investment and more patient and flexible terms of investment if they are going to grow to the levels of their white peers. Yet the evidence suggests the opposite is happening. SEUK's *State of Social Enterprise* survey data indicates that BAME-led social enterprises (including Black-led social enterprises) applied in similar numbers for grants,

¹²⁵ Social Enterprise UK, *State of Social Enterprise 2019*, 2019

¹²⁶ Commission on Social Investment, *Social Enterprise & Social Investment Workshop – Diversity*, March 2021

loans, mortgages, equity and blended finance as other social enterprises - 38% of BAME-led social enterprises applied for external finance compared to 38% of the sector as a whole. Yet many are being put off as they encounter and perceive barriers - one in three (33%) BAME-led social enterprises considered applying for finance in the past 12 months but did not apply for various reasons, compared to around one in five (23%) of social enterprises overall.¹²⁷

Figure 9: Median finance sought versus median finance raised (gender and race)



Source: Social Enterprise UK, *State of Social Enterprise 2019*

As Figure 8 highlights, women-led social enterprises are not only applying for smaller amounts of finance than others but are raising smaller amounts than they initially ask for. **The situation is considerably worse for BAME-led social enterprises, which are raising finance around one quarter the size of their white-led peers.** There are likely to be numerous reasons behind these trends, some specific to social investment and some due to wider, cultural and structural factors within our society, where women and Black-led enterprises are less likely to secure access to finance in the business world more widely.¹²⁸

BAME-led social enterprises are generally smaller than their peers in the rest of the social enterprise sector. On average, they are around half the size of their peers, with the median social enterprise in SOSE 2019 having a turnover

¹²⁷ Commission analysis of State of Social Enterprise 2019 data, Social Enterprise UK, October 2019

¹²⁸ D. Irwin and J. Scott. 'Barriers faced by SMEs in raising bank finance', International Journal of Entrepreneurial Behaviour & Research, 2010 and Carter et al, Barriers to access finance, University of Strathclyde, 2015

of £120,000 compared to £62,000 for a BAME-led social enterprises. Even accounting for this smaller turnover, however, BAME-led social enterprises are still raising less finance proportionally than their white peers. Whilst size is a problem, therefore, it still does not account for all of the gap.

The scale of demand

There is a significant gap in finance raised between BAME-led (including Black-led) and other social enterprises. In total, SEUK's data estimates that there are 5,000 Black-led social enterprises in the UK. Assuming a total pool of 1900 Black-led social enterprises being interested in applying for external finance in any one year¹²⁹ and that half of those will apply for some sort of repayable finance (in line with other parts of the sector), this would mean a pool of around 800 Black-led social enterprises to work with in any one year. If these social enterprises were to access funding at the same level of as other forms of social enterprise (circa £60,000), this would indicate the need for around £48m of investment to meet demand. This is likely to be a significant underestimate of the demand for capital of Black-led social enterprises, given the historic challenges in accessing investment for these organisations.

The Commission is clear that there is no lack of demand for capital amongst Black-led social enterprises or other marginalised groups.

Diversity in social investment

Social enterprises have been shown to be more diverse than other forms of business, with over 40% led by women and 13% BAME-led.¹³⁰ Yet social investment has created further barriers for Black-led businesses, which is deeply concerning and points to **structural problems within the institutions that make up the market**, which is not working for social enterprises led by traditionally disadvantaged communities.

There is a lack of diversity within the social investors themselves, where there are very few BAME officers at senior levels of decision making.¹³¹ Unfortunately,

¹²⁹ Around 40% of Black-led social enterprises are interested in applying for external finance every year
¹³⁰

¹³¹ Henri Baptiste, Commission on Social Investment Evidence Session, 18/02/2021

the evidence presented to the Commission found that there had not been significant progress in recent years in making the social investment market more diverse. The Diversity Forum's Inclusive Impact Report 2018 found that just 19% of BAME employees in social investment had managerial responsibility, down from 21% in 2017.¹³²

Jonathan Jenkins, who was heavily involved in the development of UK social investment, told the Commission that social investors lacked "cognitive diversity" and that this had an impact on the way that they approached investment, particularly around issues of diversity and inclusion.¹³³ Social investment has not developed in a vacuum, as Caroline Mason, Chief Executive of Esmée Fairbairn Foundation, told the Commission, "[w]e have had 50 to 60 years of a certain economic model that has got an investment mentality around it."¹³⁴ Social enterprises, social investors and social investment finance intermediaries themselves have told the Commission that the industry suffered from a certain *groupthink*.

One in five directors in the field are Oxbridge graduates and 40% went to fee-paying schools, six times higher than across the rest of the population.¹³⁵ Overall, just 7% of social investment directors were from a BAME background, compared to 14% of the UK population.¹³⁶ Only 7% of directors had a disability compared to 16% of the population.¹³⁷ Stephen Bediako, Director of The Social Innovation Partnership describes how this undermines the whole field of social enterprise and social investment as homogenous leadership holds back innovation, particular in the deployment of capital.¹³⁸

Power and accountability

Whether social investment is fair and inclusive partly comes down to a question of power. Social enterprises repeatedly reported their frustrations with the state of social investment but felt unable to affect change.

¹³² Diversity Forum, Inclusive Impact Social Investment Sector Report, December 2018

¹³³ Jonathan Jenkins, Commission on Social Investment Evidence Session, 25/02/2021

¹³⁴ Caroline Mason, Commission on Social Investment Evidence Session, 25/02/2021

¹³⁵ Diversity Forum, Inclusive Impact Social Investment Sector Report, December 2018

¹³⁶ Ibid.

¹³⁷ Ibid.

¹³⁸ Ibid.

In the field of grant-making, literature¹³⁹ has identified how power imbalances can limit the ability of funders to understand the issues they are seeking to address and get honest feedback from grantees. As the Association of Charitable Foundations notes in its recent report “where a relationship exists between one party that has something and another party that needs something, it will affect the nature of that relationship.”¹⁴⁰ The Commission believes a similar dynamic exists in the field of social investment. Social enterprises want finance. Investors have the money. Furthermore, intermediaries also need money from the investors. The dynamics of power matter.

We believe that accountability can help rebalance power. However, our workshop on diversity highlighted the lack of accountability in the system for making progress towards a more inclusive social investment market.¹⁴¹ For instance the issue of equity and diversity is not “owned” by any part of the social investment market or system. The UK Government has not taken a close interest in this issue, and Big Society Capital has only recently begun to do more to improve access to finance for Black-led organisations with a £3m investment into Ada Ventures to look at underserved markets.¹⁴²

We believe there is not sufficient meaningful challenge and accountability in the marketplace.¹⁴³ For instance, the Diversity Forum, a self-governing collective within the social investment community, has created a modest manifesto for change, with four simple commitments:

1. to commit to diversity in their staff team and governance;
2. to explore approaches and methods that bring equality, diversity and inclusion in how investment decisions are made in the social investment space across the UK;
3. to explore new mechanisms to support organisations to become more diverse across the UK;
4. to find new ways to encourage social investments to support the full range of diverse recipients and issues we have in the UK.¹⁴⁴

¹³⁹ For example, see New Philanthropy Capital’s A Rebalancing Act – How funders can address power dynamics, March 2020

¹⁴⁰ Association of Charitable Foundations, Funding Practices: The Pillars of Stronger Foundation Practice, August 2020

¹⁴¹ Commission on Social Investment, Social Investment Workshop – Diversity, March 2021

¹⁴² Big Society Capital, Written Submission, April 2021

¹⁴³ Commission on Social Investment, Social Investment Workshop – Diversity, March 2021

¹⁴⁴ The Diversity Forum, Manifesto, accessed 27th September 2021

Although the Diversity Forum has done excellent work, not every social investment finance intermediary is signed up to its manifesto to improve diversity. Moreover, when social investment finance intermediaries have not made sufficient progress, there are no sanctions or penalties.

During our engagement with individuals working in social investment, several have questioned where the accountability in the system resides. Some have pointed to the role of the Oversight Trust (formerly Big Society Trust) which oversees the dormant accounts that have been invested in Big Society Capital and the Access Foundation. However, the Trust is limited in its role as it has to ensure that the institutions it regulates remain true to their objectives, ensure they are well governed, plans are in accordance with their objects, but does not consider whether their objects need to change - a subject of controversy and debate.

Conclusion

Overall, it is clear that **social investment has a problem with equity and inclusion**. The Commission is **particularly concerned about access to finance for Black-led social enterprises**, but there is evidence to suggest that other groups such as women-led and disability-led social enterprises are also being underserved by the market.

The Commission has also heard how there is no Black-led and focused social investment finance intermediary, from over 50 social investment intermediaries and funds. There is a similar gap for disabled people and disability-led social enterprises. Stephen Bediako, Director of The Social Innovation Partnership, expressed how without “genuine ownership” of funds and flows of money by these groups, any engagement would be superficial and lack depth.¹⁴⁵

There have been isolated examples of some in social investment taking these challenges head on and a welcome focus on the problem in the wake of the Black Lives Matter protests. However, **the Commission does not believe that the market as it is currently structured has enough capacity and focus on tackling the issue of inclusion within social investment**. Leaving things as they are is not an option.

¹⁴⁵ Stephen Bediako, Commission on Social Investment Evidence Session, 03/03/2021

4. Is social investment reaching the places it should?

The Commission has heard evidence from social enterprises in different parts of the UK. In some cases, we have heard that **in many regions of the country, social investment could feel remote and distant, with a lack of fairness in the distribution of resources**. Alastair Davis, Chief Executive of Social Investment Scotland, told the Commission “there is not one social investment market, but four.”¹⁴⁶ Scotland, Wales and Northern Ireland experience a very different set of barriers to those of social enterprises in England. Even within England there are different barriers for social enterprises in the North, Midlands and Southwest compared to London and the South East.

The perception of social enterprises is that the market remains London focused.¹⁴⁷ In many parts of the country social enterprises have reported to the Commission feeling underserved by the market. Gareth Hart, Director of Social Enterprise Plymouth which represents social enterprises in the city, told the Commission that investment was not flowing to social enterprises in the South West.¹⁴⁸ We heard similar concerns when the Commission held engagement sessions with social enterprises in the Midlands and North of England.

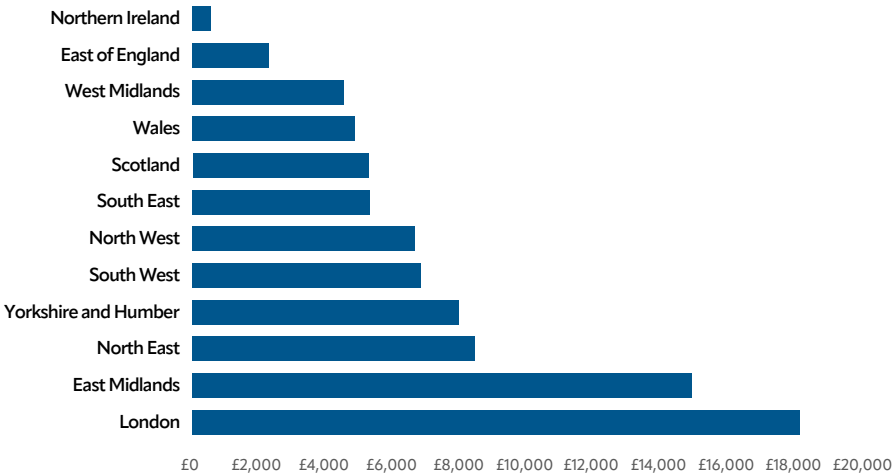
¹⁴⁶ Alastair Davis, Commission on Social Investment Evidence Session, 18/02/2021

¹⁴⁷ Seb Elsworth, Commission on Social Investment Evidence Session, 25/02/2021& Gareth Hart, Commission on Social Investment Evidence Session, 25/02/2021

¹⁴⁸ Gareth Hart, Commission on Social Investment Evidence Session, 25/02/2021

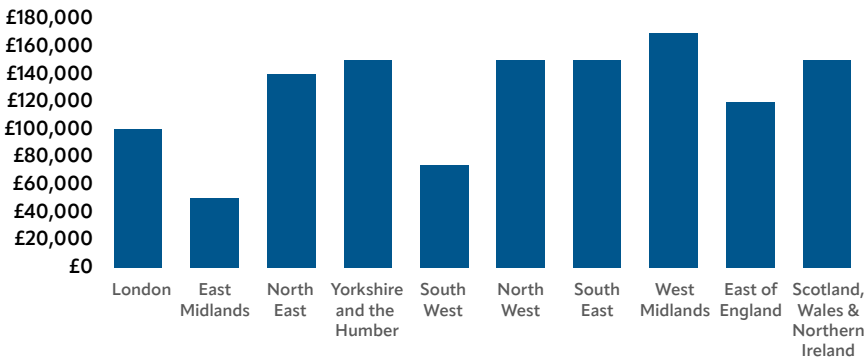
The data

Figure 10: Social investment deployed per charity and social enterprise in each region and nation of the UK



Sources: NCVO, 2021, Social Enterprise UK, 2019 & Big Society Capital, 2021

Figure 11: Median turnover of social enterprises in each region of the United Kingdom



Sources: Social Enterprise UK, 2019

NOTE: Scotland, Wales and Northern Ireland are grouped together in the SOSE data and cannot be put into separate national categories

Figure 10 provides a look at the geographic spread of social investment.¹⁴⁹ Using NCVO and SEUK's data on the distribution of charities and social enterprises through the United Kingdom, as well as Big Society Capital's deal level data¹⁵⁰ on where social investment has been deployed, it divides the total amount for each region and nation by the estimated number of social enterprises and trading charities in each region.

This shows that **London-based social enterprises have greater access to social investment than other regions, along with the East Midlands**, which appears to have seen significant amounts of social investment in the form of charitable bonds and property funds from a handful of social investors.

As Figure 11 demonstrates, this is not necessarily because social enterprises in London and the East Midlands are larger than social enterprises in other parts of the country. For example, the *State of Social Enterprise* 2019 found that the median social enterprise in London was £100,000. This compares to £170,000 median turnover for social enterprises in the West Midlands, despite this region seeing significantly less social investment deployed. The same can be said of regions such as the North West, Yorkshire and Humber.

Some may argue that London has a greater number of large social enterprises, which are more likely to take on investment. However, the North West, Yorkshire and Humber and the West Midlands also have significant numbers of large social enterprises. We do not have enough evidence on the exact proportion of larger social enterprises in each region. However, looking at the mean (not median) turnover of social enterprises in each region may shed some light on this issue. For example, the mean turnover of a social enterprise in London was £950,000. This is compared to £2.9m in the North West and £1.2m in the West Midlands. London does have a higher number of start-ups than the North West and West Midlands, which could drag down the mean turnover in the region, however, we cannot assume that differences in deployment of social investment are purely a function of size.

¹⁴⁹ The lack of data on lending by high street banks to social enterprises also creates a challenge in mapping out access to social investment in the United Kingdom.

¹⁵⁰ This market level data includes only around half of investments but this is a large enough sample to consider the overall trends.

Although the data is patchy the evidence available to the Commission as well as the views presented to the Commission from social enterprises, social investment finance intermediaries and from our witnesses indicates that social investment is not equally serving social enterprises in all parts of the country. Of the devolved nations, Scotland has seemed to have the highest level of success in deploying investment into social enterprises in part because of the significant investment that the Scottish Government has put into infrastructure. This has enabled funds such as Social Investment Scotland to not only deploy investment but to stimulate demand.¹⁵¹

A lack of investment in the development of social enterprises

The Commission has explored the reasons behind this unequal distribution. One significant factor appears to be the nature of the social investors active in each region. For example, in London and the East Midlands there are significant numbers of intermediaries and property-based social investment funds. In the North West, South West and Northern Ireland, a larger proportion of the market is made up of social banks and charitable foundations who make smaller investments on average. There is an uneven spread of specialised social investment intermediaries in the UK, with strong intermediaries (such as Northstar Ventures in the North East and Resonance in the South West) but many gaps, particularly in those places where the UK is looking to “level up” the country.¹⁵² Coverage is uneven, and as Nick Temple, the Chief Executive of the Social Investment Business told the Commission, there must be a better way to mix national infrastructure and local expertise to make the social investment market better at place-led investment.¹⁵³

Some forms of investment, such as blended finance provided by Access, have had a better track-record in getting access to finance throughout the country, although Access only operates in England.¹⁵⁴ Access’ ‘Growth’ investment fund has also been accompanied by a ‘Reach’ investment readiness grant programme to build a stronger pipeline for social investment. Reach fund investments are not

¹⁵¹ Ibid.

¹⁵² Commission on Social Investment, Social Investment Workshop – Place-led social investment, March 2021

¹⁵³ Nick Temple, Commission on Social Investment Evidence Session, 03/02/2021

¹⁵⁴ Ibid.

dependent on social enterprises applying for the Growth Fund, but the focus is on helping smaller social enterprises to grow and development. This is not the norm for most of the market where there is a lack of investment in market development.

The role of infrastructure and support

But the Commission has also heard evidence that **infrastructure and support networks are critical for the development of social investment in more challenging market areas**, whether that is for particular communities (e.g. Black-led social enterprises), certain geographies (e.g. the North East) or specific business models (e.g. delivering public services). Research by the Black South West Network, for instance, found that over 40% of social enterprises identified difficulties in accessing support for BAME-led social enterprises. Similar findings were found in a recent literature review commissioned by Power to Change, Access Foundation and Social Investment Business. We believe that underpinning many of the issues facing social enterprises in getting access to the right investment is the lack of supportive infrastructure for social enterprise over the past decade.¹⁵⁵

Enterprise support for social enterprises has been underinvested by the state for a long time. Local and regional social enterprise infrastructure has disappeared in large swathes of the country. The loss of Regional Development Agencies which had previously invested in social enterprise infrastructure, combined with the unwillingness of successor LEPs and Growth Hubs to engage with social enterprises has led to the erosion of specialised social enterprise business support in many parts of the country.¹⁵⁶ LEPs do have a responsibility to support social enterprises, but in practice enterprise support through is a postcode lottery as there is a lack of funding for specialised business support and no formal mechanisms for holding LEPs to account for failing to serve the needs of all types of businesses in their area. Where there have been enlightened approaches taken by LEPs, such as in Oxfordshire, this has often been sustained by European funding which may not be available in the future. Moreover, many social enterprises have told the Commission many of the LEPs lack the expertise to support social enterprises and lack knowledge on their legal structure, business models and impact reporting which differentiate the sector from its peers. As a consequence, the Commission is not confident that

¹⁵⁵ Social Investment Business et al, Minoritised Ethnic Community and Social Enterprises, August 2021

¹⁵⁶ Kate Welch, Commission on Social Investment Evidence Session, 25/02/2021

LEPs can currently be relied upon to provide adequate enterprise support for social enterprises. However, with the right support and incentives, we believe that mainstream institutions such as LEPs could support social enterprises. We should note that LEPs only operate in England and there are further variations in Scotland, Wales and Northern Ireland.

Plymouth Social Enterprise City

Since April 2014, Social Enterprise UK has been running a Social Enterprise Places programme which now recognises 32 places across the UK as being hubs and clusters for social enterprises.

These places vary in size, from a small village like Alston Moor to a large city like Birmingham. However, together these places all share a passion and commitment to growing social enterprise.

They do this through providing local support to social enterprises, running events, brokering partnerships with local councils, LEPs and other funders. They also help to collect data and analysis on the growth of social enterprises in these places to better inform the support that they offer.

Some of the places have achieved significant levels of growth. Plymouth was declared a Social Enterprise City in 2015 bringing together the local community, social enterprises and local council. Since then and working together on a city-wide basis, the sector has grown 33% and seen the workforce expand by over 2000 jobs in just four years. Many of these organisations are working in the Stonehouse, one of the most deprived parts of the city and one of the most deprived areas in the entire country where traditional interventions have been tried and failed. The jobs created are well paid with over 60% paying the Living Wage Foundation's Living Wage and 56% of the social enterprises in the city are led by women – far higher than the average in the private sector.

Working with Plymouth City Council, they created a £2.5m social investment fund to put patient, flexible finance into social enterprises. The Commission was told that without Places status, this fund would have been unlikely.

The value of infrastructure and support

Local government can play an important role in this regard and we have seen Mayors in Liverpool, Bristol and Greater Manchester seek to do more to support social enterprises and community businesses. But these Mayors and local authorities have limited resources after a decade of cuts and new financial pressures created by COVID. Local authorities and Mayors cannot alone generate the resources required to fund enterprise support and infrastructure for social enterprises. Central government will have to step up, either directly or through others. This has been the approach taken in the nations of the United Kingdom, where the devolved governments in Wales and Scotland have taken a more active role in supporting local infrastructure.¹⁵⁷ In Scotland, this approach had particularly paid off during the pandemic where a 0% loan fund for social enterprises to get through the lockdown of the economy was available within just ten days.¹⁵⁸ This compares to the months that it took to get similar support measures off the ground in England.

The evidence heard by the Commission has been clear that local infrastructure and business support is critical to the development of place-led investment. In Plymouth, having a strong local social enterprise network has helped to stimulate the growth of social enterprise in the poorest parts of the community and develop a social enterprise fund for the city.¹⁵⁹ Nations such as Wales have put in place long term support for social enterprises and cooperatives, and our evidence has found that this has made accessing social investment substantially easier.¹⁶⁰

Social investors and intermediaries that have succeeded in getting their investments out of the door quickly and reaching a wider group of social enterprises have done significant work in growing the pipeline of social enterprises who could then be in a position to access finance later. Where social investment has been successfully deployed through partnership between Access and intermediaries such as Key Fund and Resonance has often been accompanied by investment in infrastructure.¹⁶¹ Evaluation of the Access's

¹⁵⁷ Commission on Social Investment, Social Enterprise Engagement Session, Wales March 2021 & Alastair Davis, Commission on Social Investment Evidence Session, 18/02/2021

¹⁵⁸ Alistair Davis, Commission on Social Investment Evidence Session, 18/02/2021

¹⁵⁹ Gareth Hart, Commission on Social Investment Evidence Session, 25/02/2021

¹⁶⁰ Commission on Social Investment, Social Enterprise Engagement Session, Wales, March 2021

¹⁶¹ Access, Quarterly Dashboard to December 31 2020 – accessed 12 April 2021

Reach Fund, for example, has shown that this pipeline investment has helped social investors and intermediaries to access a wider pool of social enterprises and charities than would otherwise have been the case.¹⁶² Supporting this engagement will help a wider pool of social enterprises to access finance.

The Social Investment Business' Investment and Contract Readiness Fund distributed £13.2m in grants and enabled social enterprises to attract £79m of investment and £154m in contracts.¹⁶³ Futurebuilders, another successful social investment fund, provided support grants to provide social enterprises with business support as well as investment.

The Mondragon Corporation model which has been successful in the Basque Country, has included business incubation and development with its core model. Profits have been reinvested and channelled through Saiolan into stimulating new companies and businesses to create local jobs. Saiolan is a business incubator which helps to new companies in the Basque region, where Mondragon is located. Since 1985, Saiolan has supported the creation of 84 companies by people who had no previous enterprise experience, creating over 500 jobs. Saiolan provided finance, workshops, funds feasibility and tutoring for would-be entrepreneurs. All this is based on the understanding that a constant flow of entrepreneurial and business ideas is required to sustain local transformational.

In Scotland, where there has been investment from the Scottish Government into social enterprise infrastructure and a strategy to support the growth of social enterprises, social investment was viewed more positively than in England and a wider range of products have been made available.

Previous programmes such as BIG Potential and the Contract and Investment Readiness Fund were able to have significant success in helping social enterprises to get access to finance. Part of the reason why London has seen a larger amount of investment deployed is that there are stronger networks to support entrepreneurs including numerous pro-bono support schemes from larger corporates which are not easily available in many towns and rural communities.

¹⁶² Access, The Reach Fund Learning Report, March 2019

¹⁶³ Cabinet Office, Investment and Contract Readiness Fund helps social ventures win business worth £117m, 2014

The Access Reach Fund

The Reach Fund by the Access provides support to charities and social enterprises already close to the point of taking on social investment but in need of further support to improve their investment proposition.

Organisations apply when recommended to do so by a social investor, called an “Access Point” and can apply for grants averaging £15,0000.

In total, 656 grants have been provided to date worth £8.8m. An evaluation of grants made between Oct 2018 and Dec 2020 totalling £5.2m, found 137 organisations raised a total of £38.5m of additional finance, giving leverage of grants to investments of 7:1.

Conclusion

Social enterprises cannot thrive without adequate infrastructure. **The need for a more solid platform of social enterprise business support and infrastructure cannot be ignored any longer.** The lack of infrastructure investment over the past decade is also part of the reason why “place-based” social investment has been so difficult to get off the ground. Place-based funds require significant work to build networks, identify viable social enterprises and then broker investment into places. This is currently unfunded in many parts of the country, or where there is investment at a place-level, funds are very small.

The Commission has found social enterprises in some of our most deprived communities are struggling to access social investment because of a lack of support. It is the Commission’s view that the longer we leave it to develop the infrastructure to support social enterprises, the harder it will become for social investment to reach those places. Enterprise support is essential to the future development of social enterprise and the success of social investment. **Social investment needs to change if it is going to meet the needs of the social enterprises across all parts of the country.**

The problem: sources of capital

The available data and evidence presented to the Commission leads us to conclude social investment can be confusing, is not offering what social enterprises need and is not getting to the people and places it should. The Commission has heard from social enterprises, social investors and social investment finance intermediaries repeatedly that the structure and institutions in the market are not working effectively to create the optimal environment for supporting the needs of social enterprises.¹⁶⁴ Specifically, the sources of capital for intermediaries to on-lend to social enterprises are not the right form to support the growth of the sector. We set out to understand why.

Lack of patient and flexible sources of capital for social investment

If we consider just one of the problems identified – the need for a more rapid increase in the kind of finance social enterprises seek – the Commission was presented with a number of reasons for this. Overwhelmingly, the main argument given was the **lack of appropriate sources of capital** in the market.

The market is to some extent determined by the sources of capital that are available to it – there is a clear tension between the types of capital available for social investment and the type of capital needed to develop the enterprise-centric finance that social enterprises want. Nick Hurd, in evidence to the Commission, noted that sometimes the social investment market was “driven by what is investible rather than what social enterprises need.”¹⁶⁵

The cost of finance and understanding of what creates costs in social investment was not only a point of contention between social enterprises and intermediaries, but also between intermediaries themselves. Social investment finance intermediaries noted that it was hard to convince charitable foundations or other investors to commit the patient capital required to develop these products for social enterprises. Investors located the source of complaints

¹⁶⁴ Nick Temple, Commission on Social Investment Evidence Session, 03/02/2021

¹⁶⁵ Nick Hurd, Commission on Social Investment Evidence Session, 24/02/2021

about the cost of finance to the sources of capital that were available to them. Intermediaries repeatedly told the Commission that they would like to have longer term sources of capital, prepared to take higher levels of risk and flexible about returns and length of repayment, but reported that they are unable to access this type of capital. All the social investment finance intermediaries and social investors that engaged with the Commission told us that there was a need for long-term, patient capital to make social investment succeed. They may also need permanent capital themselves to boost their own resilience as well as considering the terms of the capital which they pass on to social enterprises.

Yet this lack of patient and flexible sources of capital affects **not only the nature of the products available to social enterprise but also the distribution of investment** – the other problems in the market identified above. Immediate pressures on intermediaries to *get money out of the door* quickly and to generate returns prevents investment in a 'pipeline' of social enterprises in places and communities. In both the cases of place-led investment and Black-led social enterprises, we have heard from social enterprises that they have felt ignored or left behind in the development of social investment.¹⁶⁶

Social investment finance intermediaries

Social investment finance intermediaries have more power in this system than individual social enterprises, but as they have reported to the Commission, they are constrained by the returns expected by their investors and the need for liquidity in the system.¹⁶⁷ Most social investment finance intermediaries are themselves social enterprises trying to balance the needs of their investees with their own survival and social mission.¹⁶⁸ However, the Commission is concerned that rather than confront social investors about the impact their demands can have on organisations on the ground, intermediaries are willing to go along with those demands in order to get access to the capital.

¹⁶⁶ Gareth Hart, Commission on Social Investment Evidence Session, 25/02/2021 & Commission on Social Investment, Social Enterprise & Social Investment Workshop – Place-based social investment, March 2021

¹⁶⁷ Alastair Davis, Commission on Social Investment Evidence Session, 18/02/2021

¹⁶⁸ Danyal Sattar, Commission on Social Investment Evidence Session, 18/02/2021 & Nick Temple, Commission on Social Investment Evidence Session, 03/03/2021

Jonathan Jenkins, former Chief Executive of the Social Investment Business, told the Commission that when he had spoken with investors, concerns about financial returns always trumped those of social impact.¹⁶⁹

This was further endorsed by one social investment intermediary who told the Commission that they had to pay 5% interest on the money that they received which significantly increases the cost of capital for the social enterprises they lend to.¹⁷⁰ Seb Elsworth, Chief Executive of Access Foundation, commented that the business models of the intermediaries were determined by the capital that they had available which in turn determined the products available to them.¹⁷¹

Most social investment finance intermediaries are relatively small organisations with portfolios totalling tens of millions of pounds. According to Good Finance there are 53 intermediaries and funds which are currently providing repayable finance for social enterprises and trading charities.¹⁷² Moreover, many of these intermediaries are not running one unified investment fund, but several funds each with their own “strings attached” as one social investor told the Commission.¹⁷³ It does not take many investments to go wrong before an intermediary is suddenly at risk and as they depend on their reputation for their ability to raise funds and survival, this creates inbuilt risk aversion. This was noted even at the beginning of the development of the social investment market by the then Chief Executive of Big Society Capital, Nick O’Donohoe, yet there has been little done to balance against that.¹⁷⁴

For both place-led investment and businesses from disadvantaged backgrounds, such as Black-led social enterprises, there is a need for considerable upfront investment and infrastructure to get places and communities in a position where they can successfully access finance. This creates a tension between the

¹⁶⁹ Jonathan Jenkins, Commission on Social Investment Evidence Session, 25/02/2021

¹⁷⁰ Commission on Social Investment, Social Enterprise Engagement Session, North of England, July 2020

¹⁷¹ Seb Elsworth, Commission on Social Investment Evidence Session, 25/02/2021

¹⁷² Good Finance, Social investors, funds & advisors, accessed 23 April 2021

¹⁷³ Commission on Social Investment, Social Enterprise Engagement Session, North of England, July 2020

¹⁷⁴ The Alternative Commission on Social Investment, March 2015 p.3

pressure to generate returns for investors over the short to medium term to make intermediaries viable versus the long-term need to invest and develop the pipeline of social enterprises suitable for social investment.

The need for patient, up-front investment to develop expertise and relationships run is in tension with the nature of capital available for social investment which generally works on short time horizons¹⁷⁵ of, typically, 5-7 years. It can take that time to build the infrastructure, relationships and expertise to get places and communities in a position to access finance.

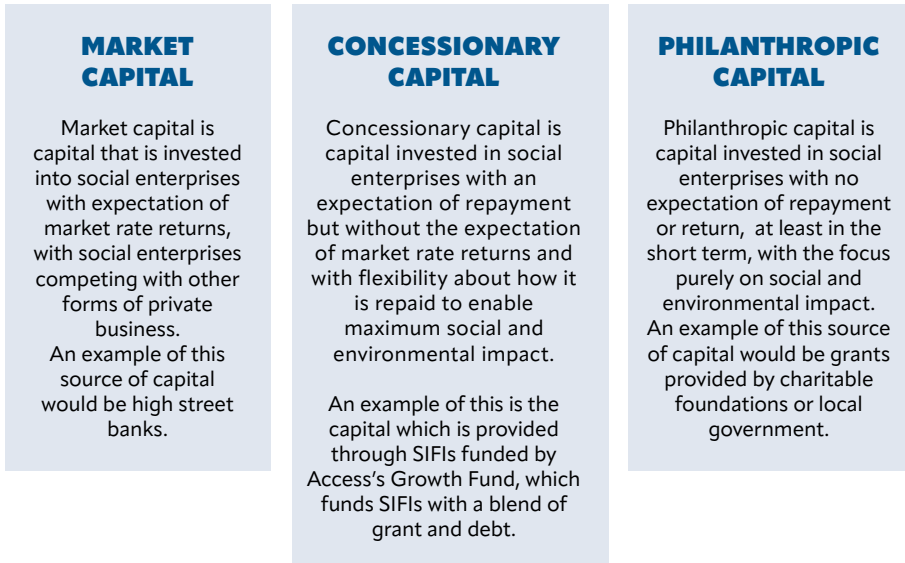
Sources of capital

The Commission's view is that there is a misunderstanding – or at least the lack of a common understanding - of the need for different sources of capital to make the social investment market work.

- Social enterprises can sometimes access *market capital* and many will continue to do so, at market rates and from mainstream institutions such as high street banks. More needs to be done to encourage market institutions to invest in social enterprises, explored below .
- Social enterprises also need access to *philanthropic capital* which is focused on social and environmental benefit with no expectation of return, at least in the short term. Grants from government, charitable foundations and high-net worth individuals can be sources of this flexible and patient capital.
- However, there is another source of capital which is important for social enterprises and that is *concessionary capital*. This is capital which may expect some financial return but which is flexible about how that repayment takes place and is willing to accept lower than market rate returns including the loss of some capital.

¹⁷⁵ Stephen Bediako, Commission on Social Investment Evidence Session, 03/03/2021

Figure 12: Sources of capital for social enterprise



To succeed, the social investment market needs a balance between different sources of capital: market, concessionary and philanthropic. The Commission has heard that **capital available from Big Society Capital and others is considered too heavily weighted towards conventional market capital**, although we appreciate Big Society Capital and other investors have sought to use market investments.

Market failure cannot be solved with market capital. In the Commission's view it is important that we identify where targeted subsidy is required – and where it is not – and then focus public or philanthropic funds on that space in order to secure maximum value for money.

Big Society Capital

The Commission's view is that Big Society Capital operated more in the 'market capital' space, than the 'concessionary capital' space.

As one of the major sources of capital for the social investment market, Big Society Capital plays a critical role in the social investment market. When a social investment wholesaler was proposed towards the end of the 2000s, many social enterprises and intermediaries assumed that it would act as a home and beacon for concessionary capital.

It is important to note that Big Society Capital has helped advance strong growth in social investment and has pioneered a number of funds which have helped social enterprises. These include social property funds and larger scale so-called 'charity bonds'. Through its strategic investments in social banks such as Charity Bank, it has also stabilised and grown the secured lending market for social enterprises and trading charities. Big Society Capital has done remarkably well in this respect in helping significant growth in social investment activity, given its constraints.

Yet it is worth comparing Big Society Capital to another financial institution, the British Business Bank, which has a similar goal to Big Society Capital but for small and medium sized enterprises. The British Business Bank is a state-owned development bank, created by the Coalition Government in 2014 with an initial £1bn in investment from the UK Government. The British Business Bank manages loan guarantee schemes, such as Recovery Loan Scheme and the Start Up Loan Scheme.

When compared to the British Business Bank, Big Society Capital's approach in supporting finance into social enterprises and trading charities through targeting market rate returns seems odd. The British Business Bank, for example, does not target market rate returns but ties its financial target to the cost of long-term government debt. In effect, this means that the British Business Bank is seeking to target a rate of return of 1.5% for its overall portfolio. This compares with Big Society Capital's target rate of 4.5% across its portfolio – although it is important to note that this target rate has not been achieved.¹⁷⁶ This means that despite social enterprises working in more challenging markets and having particular restrictions that inhibit their ability to access mainstream financial capital, **the sector's wholesaler is trying to target a higher rate of return than the British Business Bank because of a commitment to preserving capital.**

¹⁷⁶ The Big Society Trust, Big Society Capital Quadrennial Review Report, July 2020 p.15

Similarly, Fair4All Finance , a new initiative which has been created by the UK Government to support financial inclusion through the use of dormant assets, unlike Big Society Capital, does not have a financial target and appears to have built further subsidy and injections of dormant assets into its financial model. Fair4All Finance is clear that is a source of concessionary capital for its market, and this provides clarity to social enterprises and investors working on financial inclusion. Big Society Capital's approach is also different to that taken in other devolved nations. For example, in Scotland, the Scottish Government enabled Social Investment Scotland to make loans on a concessionary basis.¹⁷⁷

Big Society Capital itself and others have noted that they are hampered both by their constitution which requires them to make a market return for their shareholders¹⁷⁸ and their mission which is to attract co-investment to grow the size of the social investment market.¹⁷⁹ Big Society Capital has big potential but is not making the most of the flexibilities available to it.

The justification for this has often been that Big Society Capital needs to target a market rate of return in order to show that social investment is viable and to attract other investors. However, this has not been proven in practice. Currently, Big Society Capital has achieved a 2:1 co-investment ratio, bringing in £2 for every £1 it has invested. Moreover, it is not clear why the rate of return of Big Society Capital would in itself give confidence to investors. The rate of return to investors at an individual fund or deal level may need to be a market rate or close to market rate to attract some investors, but Big Society Capital's own portfolio return is not critical for influencing their individual investment decisions.

This has deprived BSC of its catalytic potential and has created frustration amongst both social enterprises and social investment finance intermediaries, also identified in the Quadrennial Review last year.¹⁸⁰ We have heard from numerous stakeholders that Big Society Capital's target of a market rate of return has inhibited the development of more innovative products and has pushed cost and pressure through the system, ultimately falling on social enterprises. Big Society Capital has been forced to develop products and

¹⁷⁷ Daggers, J. et al., Social Investment Snapshot, September 2021

¹⁷⁸ These are the so-called Merlin Banks: Barclays, HSBC, Lloyds Banking Group and RBS

¹⁷⁹ The Big Society Trust, Big Society Capital Quadrennial Review Report, July 2020 p.12

¹⁸⁰ Ibid.

services which can achieve a market rate return, in order to meet its financial objectives, rather than serve the needs of social enterprises. It is important to note that although there has been a significant growth in the amount of social investment that has flowed to social enterprises. The question is whether that investment has come to social enterprises in the forms that they would like to see or has maximised their potential to grow. Defenders of the current market would say that any investment is good investment. The Commission's view is that through targeted reform, there is an opportunity to both increase the level of investment and provide it in forms which meet the needs of social enterprises.

Big Society Capital is not a private institution, but a public institution, underpinned by a large amount of public money. As a consequence, it could and should have the ability to put the priorities of social enterprises at the heart of its model without the pressures of conventional financial institutions.

There is also a strong case for changing the governance of Big Society Capital to ensure that it is focused on the needs of social enterprises and trading charities, as it is required to do under the Dormant Assets legislation. The current structure of Big Society Capital means that the voice of social enterprises and trading charities that are the customers of the wholesaler are not being heard. Greater representation should be given to social enterprises and trading charities which have direct experience with the market, not just representative bodies. There should also be representation from the devolved administrations as Big Society Capital's remit is UK-wide.

Foundations

Big Society Capital was not alone - some criticism from social investment finance intermediaries was aimed at charitable foundations, which they believed could put more capital into social investment, on a longer term basis, and less focused on market returns.

The data shows that social investment is only pursued by a minority of charitable foundations. The three hundred largest charitable foundations hold £67bn in assets, a 50% increase over the past decade.¹⁸¹ According to the Association

¹⁸¹ Association of Charitable Foundations, Giving Trends 2019, October 2019 & Association of Charitable Foundations, Giving Trends 2014, May 2014

of Charitable Foundation's Giving Trends research social investment (and programme related investment) accounted for only 0.17% of charitable foundations' investments in 2016/17, rising to 0.21% in 2017/18.¹⁸² It is clear that social investment is a minority sport within the foundation community, although a recent update by ACF found that programme related investments (a form of social investment) had increased by 7.5% between 2017/18 and 2018/19, indicating that there is room and appetite for further growth.¹⁸³

The Commission notes that some of the most innovative approaches to social investment have been pursued by charitable foundations, such as Esmée Fairbairn Foundation, which has won it plaudits from both social enterprises and social investors. This shows the potential within foundations to increase the pool of patient, long-term investment for social enterprises.

Philanthropic capital through charitable foundations has a critical role to play in growing the social enterprise sector and enabling the provision of more enterprise-centric finance. Several of the most pioneering social investors have been foundations such as the Esmée Fairbairn Foundation, Comic Relief and City Bridge Trust. The Association of Charitable Foundations and Big Society Capital have also formed a Social Impact Investment Group to encourage more capital into this space, with forty foundations participating with two-thirds actively participating in social investment. Unfortunately, despite growth, **social investment amongst foundations has not reached the levels required.**

In part this is due to a lack of accessible products for foundations. It is unreasonable, for example, to expect every foundation to have its own social investment fund and only the largest will be able to do so. But listed funds which provide tradable shares in social investment funds are rare, one recent example is the Schroders BSC Social Impact Trust. However, this was targeted at private investors to gain greater experience of 'social impact investing'.¹⁸⁴ This fund has brought in investment from foundations and is an example that could be used as a model to attract further foundation investment. There has also not been consistent engagement by the UK Government and other actors with charitable

¹⁸² Association of Charitable Foundations, Giving Trends 2019, October 2019

¹⁸³ Association of Charitable Foundations, Foundations Giving Trends Update 2020, October 2021

¹⁸⁴ Schroders, Schroders and Big Society Capital to launch UK social impact trust to improve lives of those in need, 3 December 2020

foundations to see what could be done to bring their capital into the social investment market for the benefit of social enterprises.

We should also not ignore the potential of larger charities, which are not foundations, to use their assets to support other social enterprises and trading charities to grow. According to the NCVO Civil Society Almanac 2021, UK charities have £118bn in investments.¹⁸⁵ Subtracting the ACF foundations data, this indicates that operational charities have tens of billions of pounds in investments currently. This is a sizeable market which should not be ignored. Moreover, the latest NCVO Almanac also estimates that charities have over £15bn in cash in hand or in the bank, some of which could perhaps be more productively employed in supporting the growth of the social enterprise sector.

Pension funds

Pension funds can also be sources of finance for social investment. The Social Investment Taskforce in 2000 indicated that pension funds, including local authority pension funds, could be a source of capital for CDFIs.¹⁸⁶ The Coalition's 2011 vision for the social investment market referenced the opportunity to provide individuals with pension funds with a "social return element".¹⁸⁷ In 2015, a report by Big Society Capital & The Social Market Foundation called for the development of "Social Pension Funds" based on the French solidarity 90/10 pension fund model.¹⁸⁸ The Government also asked the Law Commission to identify if there were any significant legal barriers for pension funds investing socially and found that there were no substantive regulatory barriers.¹⁸⁹ There have been a few positive examples of pension funds investing in social enterprises, for example, the Merseyside Pension Fund¹⁹⁰ and the Teeside Pension Fund.¹⁹¹

¹⁸⁵ NCVO, NCVO Civil Society Almanac 2021, accessed November 2021

¹⁸⁶ Social Investment Taskforce Report to the Chancellor of the Exchequer, *Enterprising Communities: Wealth Beyond Welfare*, 2000

¹⁸⁷ Cabinet Office, *Growing the Social Investment Market: A vision and strategy*, February 2011 p.18

¹⁸⁸ Social Market Foundation & Big Society Capital, *Good Pensions: introducing social pension funds to the UK*, September 2015

¹⁸⁹ Department for Work and Pensions & Department for Digital, Culture, Media and Sport, *Pension funds and social investment: the government's final response*, June 2018

¹⁹⁰ which has invested in a Social Impact Bond to tackle youth unemployment

¹⁹¹ which has invested in the Ethical Housing Company

The general public

The Commission has heard evidence of success in attracting individuals to provide capital to social enterprises. As Danyal Sattar, Chief Executive of Big Issue Invest, told the Commission “don’t miss the ordinary people, it is really easy to miss these people but they have built this [social investment].”¹⁹² A number of stakeholders positively referenced the Community Shares model, at the more philanthropic end of the marketplace where over 100,000 people have invested £155m in social enterprises since 2012.¹⁹³ The general public have been willing to make flexible and patient investment through institutions such as Charity Bank and Triodos as well as digital platforms such as Ethex.

Public money and subsidy

Government investment (and dormant accounts or lottery funding) has been critical to the growth of social investment market. Over £900m had been invested by the HM Government in England state to support social investment.¹⁹⁴ But since 2015, just £92.8m of new public money has been channelled into supporting social investment. This compares to £526m of investment between 2010-2015 and £119m between 2005-2010.

An example of the flexibility of public capital is Futurebuilders England, a government-backed fund that provided loan financing to social enterprises and trading charities to bid for, win and deliver public services. Futurebuilders distributed £116.6m in loan and blended finance between 2004 and 2010.¹⁹⁵ The average loan length was 13.9 years, considerably higher than the average social investment, and in some cases there were repeated changes to terms and condition to ensure the sustainability of organisations.¹⁹⁶

The Commission notes the reticence to consider the large-scale deployment of public funding into social investment to support social enterprises, despite

¹⁹² Danyal Sattar, Commission on Social Investment Evidence Session, 18/02/2021

¹⁹³ Co-operatives UK, Understanding a maturing community shares market, October 2020

¹⁹⁴ J. Daggers et al., Social Investment Snapshot, September 2021

¹⁹⁵ Social Investment Business, Futurebuilders England Fund – Learning Project, Understand what makes social investment work?, August 2020

¹⁹⁶ Nick Temple, Commission on Social Investment Evidence Session, 03/03/2021

the fact that the state (or state directed) resources are more likely to be able to take risk and bear losses in the pursuit of more innovative approaches, like Futurebuilders England.

Yet even those operating at the market capital end of the social investment have supported subsidies for social investment such as the Community Investment Tax Relief (CITR) and SITR as well as the blended funds which have been created by Access. As former Minister for Civil Society, Nick Hurd, noted in his evidence to the Commission, the development of the Access was a recognition by government that there had been some mistakes in the development of the social investment market and an underestimation of the role that subsidy would play in helping social enterprises, particularly the smallest, to access finance.¹⁹⁷ Access appear to have done this work effectively. Some subsidy has always been built into the structure of social investment. This is also true for SME finance more widely with the subsidies provided by the British Business Bank and tax reliefs such as the Enterprise Investment Scheme. There are lessons here for future development and co-production of products and funds that meet social enterprises' needs.

The question of **how to effectively deploy subsidy should be where we focus our attention over the next few years**. The new £880m of dormant accounts that have been identified by government could have an important role to play in getting finance into social enterprises over the next decade.

¹⁹⁷ Nick Hurd, Commission on Social Investment Evidence Session, 24/02/2021

Recommendations

A. New direction

Given the lack of common understanding around social investment, its purpose and the mission drift away from a focus on social enterprise as the heart of social investment, the Commission believes that the UK Government has a responsibility to help refocus social investment. The Commission's view is that a common understanding of the market can be created between social enterprises and social investment finance intermediaries. To this end, the **Government must develop a fresh strategy for social investment which puts growing social enterprises front and centre**, reprioritising the market to meet their needs.

Governments shape the framework in which all markets function. Ultimately, the social investment market is a political construction, dominated by the influence of public investment, dormant assets, quasi-public institutions, tax reliefs and more. As a consequence, the UK Government is the only entity with the power and resource to implement the structural reforms to the market to meet the needs of social enterprises. It is the only stakeholder with the power and influence to bring together the various stakeholders that are required to fix the market for social enterprises.

The last UK Government Social Investment Strategy was developed in 2016 and is out of date. The world has changed, through Brexit, COVID and the events of the last 5 years. The Commission welcomes the words of the former Minister for Civil Society, Diana Barran, who told the Commission that she wanted to look at social investment "more strategically".¹⁹⁸

As former Minister for Civil Society Nick Hurd highlighted to the Commission, left to itself, the social investment market has looked for the easier options which are able to scale faster¹⁹⁹, rather than working back from the needs of social enterprises. The UK Government needs to shape social investment to avoid that outcome and has a critical role to play in correcting power imbalances, with power concentrated in the hands of investors who have the capital that social enterprises need. The UK Government can act as a corrective to these power imbalances, rather than compounding them. For example, the development of Big Society Capital put market returns and scaling up

¹⁹⁸ Baroness Barran, Commission on Social Investment Evidence Session, 03/03/2021

¹⁹⁹ Nick Hurd, Commission on Social Investment Evidence Session, 24/02/2021

the social investment market itself, ahead of the needs of enterprises on the ground,²⁰⁰ effectively giving greater power to investors and intermediaries than social enterprises. The least powerful parts of the social enterprise sector have struggled to make the system adapt to their needs. There is a significant opportunity for the UK Government to support the growth of social enterprise through social investment to help deliver its agenda. A clear strategy can help to give clarity and purpose to the market to focus on the end user, in this case, social enterprises. A revised strategy should:

- look at the structural challenges facing UK social investment and ensure that there is effective accountability in the system;
- outline the additional resource that the UK Government is prepared to commit and direct to support the growth of social enterprises;
- consider policy changes to support social investment finance intermediaries and social investors to provide more enterprise-centric finance and put the needs of social enterprises at the centre of capital deployment and product development;
- look at other sources of investment for social enterprises beyond merely public resources, bringing together stakeholders from the private sector and charitable foundations;
- consider that enterprise support is invested in as a public good, particularly in already disadvantaged communities (see below);
- consider social enterprise and social investment's contribution to the government's levelling-up agenda, the challenge of achieving Net Zero by 2050, linking social investment into the government's wider programme.²⁰¹
- correct some of the missed opportunities in the development of the social investment market, in areas such as public service delivery, where the lack of "quick wins" has seen the market move away from supporting social enterprises to win public service contracts in favour of areas where faster deals can be agreed. Patient prioritisation of social enterprises within the market could help to stimulate the development of models that can meet both the needs of social enterprises and the long-term opportunities within public sector commissioning.

²⁰⁰ Ibid.

²⁰¹ HM Treasury has been exploring policies such as Green Gilts, to access environmentally responsible investment funds, for instance.

A new strategy would help to bring social enterprise, social investment and the government together around shared agendas. A refreshed UK Government Social Investment Strategy should bring in voices from across the country. The UK Government can learn from what has happened in Scotland, in combined authorities such as Liverpool City Region and places such as Plymouth which have put in place a strong framework to support social enterprises through social investment. A new strategy must not be a top-down exercise, but an opportunity to share learning from across the country.

Public service reform

The nature of commissioning and contracting means that it can take several years for social enterprises to build relationships with local government, public bodies and other agencies, with long lead in times for the early stage of ventures.²⁰² As former Minister for Civil Society, Nick Hurd, told the Commission, one area of disappointment about the development of social investment has been the inability of the market to better connect “the social economy with the public sector.”²⁰³

The timeframes for commissioning and procuring services have shortened and cuts to staffing in procurement teams mean that the trend in contracting has been towards larger and larger contracts. Shortened time frames and fewer individuals to engage with has created challenges for social enterprises who want to deliver public services. Central government has also removed capacity from the system, including the recent closure of the Public Services Mutuals Team within DCMS. Initial enthusiasm for social investment in public services, through Social Impact Bonds, for example has cooled.²⁰⁴ Some of this can be traced back to the cuts in public spending by the Coalition Government, but it is interesting to note that this has happened during a period where investment in social enterprise and mutuals units within central government departments, contract readiness funds and infrastructure have also been cut.

²⁰² Commission on Social Investment, Social Enterprise Engagement Session, East of England, March 2021

²⁰³ Nick Hurd, Commission on Social Investment Evidence Session, 24/02/2021

²⁰⁴ The then Minister for Civil Society, Rob Wilson, in 2016 said that the Government wanted to create a £1bn market for Social Impact Bonds by 2020. The true figure is under £100m.

In Scotland, where the Scottish Government has pursued an active social enterprise strategy and worked with the social investment market to support the development of social enterprise, there has been a more flexible approach taken to developing products to support social enterprises and utilising policies that support social enterprises. Scotland, for example, has been more active in using Sitr to support social enterprises with 1/5th of all investments made through this tax relief coming from Scotland. Scotland was also faster in rolling out emergency finance for social enterprises during COVID, with Social Investment Scotland using powers to make concessionary investments on a case-by-case basis and rapidly developing a 0% interest loan fund. It also has created SIS Ventures as a way to generate equity investment through schemes such as Sitr. A new “Catalyst Fund” has also been created by Firstport to provide more growth finance for social enterprises.

The government strategy should be independent and co-produced with devolved and local governments, social enterprises, social investors, social investment finance intermediaries, charitable foundations and experts. To counter the imbalanced power dynamics that have been identified in this report, we recommend that the strategy is co-Chaired by a Government Minister and a representative from the social enterprise sector. This will ensure that the needs of social enterprises are taken seriously in the development of this strategy.

Any UK strategy needs to respect the devolution settlement and the policy programmes of devolved governments. For example, in Scotland the Shared Policy Programme between the SNP and Greens has agreed a shared priority to support the growth of social enterprises and co-operatives building on consistent strategic support for the sector within Scotland over the past decade. The aim of a shared UK Strategy would be to learn from all parts of the country, to align around shared priorities and to ensure that the institutions of the social investment market are serving social enterprises in all parts of the United Kingdom.

B. Greater and more flexible sources of capital

It is clear to the Commission that getting patient, flexible finance into social enterprises will not be possible without harnessing the right sources of capital. We need significant reform to bring **more flexibility to the market so that it can develop and expand enterprise-centric finance**. New resources will also be needed, focused on where the gap between supply and demand is greatest. The evidence given to the Commission is clear that without attracting new and different sources of capital which can be patient, flexible and tolerate risk, we are unlikely to develop the products that social enterprises need to grow in the future.

We can achieve this through reform of existing social investment market institutions, targeted use of new subsidy and attracting the sources of capital that are willing to be patient and social in their approach to investing.

Harnessing the power of subsidy

Subsidy should be linked to the provision of enterprise-centric finance. In giving evidence to the Commission, Seb Elsworth, Chief Executive of Access, said that “if we want a tolerance for risk someone has to pay for that. How we use subsidy is the answer to the question of how social investment can meet the needs of social enterprises.”²⁰⁵ The capital provided by the government, the National Lottery and Dormant Assets, as well as tax reliefs, can all be better harnessed.²⁰⁶ The Commission agrees that we have to be clear about the need for and the purpose of subsidy within the social investment market.

The market needs subsidy - the *Social Investment Snapshot* sets out how the number of social investment deals actually fell between 2010 and 2017.²⁰⁷ This fall was only arrested by the work of the Access Foundation which has consciously worked to expand its reach through the country and particularly into deprived communities. Furthermore, subsidy is not unique to social enterprises. The UK

²⁰⁵ Seb Elsworth, Commission on Social Investment Evidence Session, 25/02/2021

²⁰⁶ Grant Designs, Mapping the use of subsidy in the UK social investment market, September 2017

²⁰⁷ Daggers, J. et al., Social Investment Snapshot, September 2021

Government provides £16bn in loan guarantees to subsidise and provide export finance to businesses.²⁰⁸ The British Business Bank now has over £3bn assets under management provided through a range of subsidised guarantees and loan funds – five times the initial level of investment in Big Society Capital.²⁰⁹ Sectors such as transport and housing are heavily subsidised. Through just one tax relief, the Enterprise Investment Scheme (EIS),²¹⁰ the UK Government has effectively deployed the equivalent of one Big Society Capital into the SME finance market every single year, and this is just the tip of the iceberg. Subsidy does not mean that social enterprise are not proper businesses or that social investment has failed. Markets often struggle to provide the long-term patient, flexible finance without the right policy framework in place. Social enterprises, just like SMEs, can require carefully targeted subsidy.

Greater and more flexible capital

The growth of social enterprises means that we need to grow the pool of finance available to the sector. Since March 2020, over 6,000 new Community Interest Companies have been registered, of which many will need access to finance to grow their social enterprises.²¹¹ Although the Commission believes that existing resource can be redeployed more effectively, this will take time and even if our recommendations were put into effect, may free up a little over £100m for more innovative investments. Even if all this was put into more flexible, quasi-equity investment, this would only increase the total amount of capital available through these products by 25% based on Big Society Capital estimates. This is not sufficient for a £60bn sector, with over 100,000 businesses and growing rapidly.

Nick Temple, Chief Executive of the Social Investment Business, told the Commission that more flexible sources of finance would enable a broader range of investments and more creative ways for money to flow through the system.²¹² This was a view shared by many of the social investment finance intermediaries and social investors that gave evidence to the Commission.

²⁰⁸ HM Government, Whole of Government Accounts 2018/19, 2020

²⁰⁹ National Audit Office, British Business Bank, February 2020

²¹⁰ Enterprise Investment Scheme (EIS) is a UK Government scheme that helps younger, higher-risk businesses raise finance by offering generous tax reliefs to investors. The scheme has been around since 1994. Investors can claim on up to £1m-worth of investments in qualifying companies per person per year. Relief is provided through a range of taxes depending on the taxpayer, including income tax, capital gains tax and inheritance tax. Income Tax Relief through EIS cost HM Treasury £500m in 2019-20 alone.

²¹¹ Commission analysis of CIC Regulator data, September 2021

²¹² Nick Temple, Commission on Social Investment Evidence Session, 03/03/2021

Big Society Capital

Reforming the social investment market is not possible without also reforming one of its core institutions, Big Society Capital . The decisions and choices that Big Society Capital makes have a considerable wider bearing on the market for social enterprises. Given its track record, it would be wrong to say that Big Society Capital has “failed”. However, it will need to adapt if it is going to help the next phase of development within the social investment market. We recommend the reform of Big Society Capital to bring its purpose, structure and activities in better alignment in order to make this critical institution work effectively.

If Big Society Capital is reformed along the lines that we suggest in this report, we believe that it could become an effective home for new sources of dormant assets targeted at providing enterprise-centric finance to social enterprises. However, if Big Society Capital is not reformed, we believe it would be prudent for the government to consider other methods of distribution. For example, Access’s role could be expanded with further dormant assets to enable it to focus on providing enterprise-centric finance across the UK without having to depend on a partnership with Big Society Capital and the National Lottery Community Fund. This would enable a focus on providing enterprise-centric finance across the UK. All English dormant assets (including previously granted dormant assets) could be transferred to Access with Big Society Capital allowed to focus on “impact investing” and private sector, profit with purpose, investment.

Financial expectations

The **financial expectations of Big Society Capital need to be changed**. If we are going to adapt the social investment market to put the needs of social enterprises at the centre, Big Society Capital will need to change.

Some have argued that Big Society Capital targeting a market rate return is necessary to ensure that capital is preserved for the future and to ensure that it can continue to make social investments for decades to come. It should be noted that within Big Society Capital’s current Articles of Association its objective is “financial self-sufficiency” rather than specifying a target rate of return or over how long that cycle of self-sufficiency should be.²¹³ We have heard from Big

²¹³ The Big Society Trust, Big Society Capital Quadrennial Review Report, July 2020 p.5

Society Capital itself that the current financial target does not impact its lending decisions and Big Society Capital has noted that it has repeatedly posted losses during its existence. This begs the question why such a target is necessary at all, if it does impact on decision making. Providing that it is focused on meeting the needs of social enterprises and trading charities at that time and with a view to the future needs of these sectors, we are not clear why Big Society Capital needs to focus on “financial self-sufficiency”. The Commission believes that Big Society Capital’s governance should be focused on achieving its objectives to increase the growth of social enterprises and trading charities, rather than to target a specific rate of return or the preservation of capital. In some cases, particularly during periods of financial difficulty for the social enterprise sector, Big Society Capital may need to run at a loss, as it has done despite its target for a number of years. HM Government should ensure that Big Society Capital has the resources required to fulfil this objective, as it has done with the British Business Bank.

Removing the 4.5% return on its portfolio as a whole and enabling Big Society Capital to determine its financial targets based on meeting the needs of social enterprises would enable this central institution to change its investment strategy which would have a far wider influence.

A clearer purpose for Big Society Capital

A clear purpose to support the growth and development of social enterprises, would give more direction to Big Society Capital. If the role of social investment is to grow social enterprises, which this Commission believes it should be, then this should be reflected in the articles of the leading institution within the market. Every stakeholder we have spoken to in the course of the Commission’s work has made clear their focus and determination to support the development of social enterprises and trading charities, including Big Society Capital. **The time has come to write this on the tin.**

The Commission recommends that Big Society Capital is reformed to make clear that it acts as a source of concessionary capital. This would bring it into alignment with the needs of social enterprises, removing its current financial target and giving Big Society Capital more flexibility in the investments that it makes. Big Society Capital’s Articles of Association should be changed to set its goal as supporting the growth and development of social enterprises and trading charities, rather than seeking to grow the social investment market as an end in itself.

The British Business Bank

The BBB's objectives are:

- a. Make finance markets in the UK work effectively for SMEs;
- b. Increase the supply of finance available in the UK to SMEs;
- c. Help create a more diverse market for finance available in the UK to SMEs;
- d. Help promote better information in the market in the UK, building confidence amongst SMEs and in the finance options available.²¹⁴

The objective of the organisation is based around the needs of its target market, SMEs. Although increasing the supply of finance is important, this is targeted specifically at the needs of SMEs. Meanwhile, Big Society Capital's current objectives are:

- Promote and develop the social investment marketplace.
- Ensure that dormant accounts monies are used in accordance with the Dormant Bank and Building Society Accounts Act 2008.
- Seek to achieve and sustain self-sufficiency.

Big Society Capital's portfolio

Flowing from its financial target and its governance is the way that Big Society Capital allocates capital. Greater flexibility will enable Big Society Capital to reduce the returns it seeks from social investment finance intermediaries that it invests in, which in turn can reduce the cost of finance for social enterprises on the ground. With greater flexibility, we would expect that Big Society Capital could move away from providing 'market capital' in areas such as property and secured investment towards more enterprise-centric finance for social enterprises which is patient, takes risks and is flexible. We appreciate the work that Big Society Capital and others have done to show that social property and secured investment into social enterprises can work, however, the Commission

²¹⁴ British Business Bank plc, Shareholder Relationship Framework Document, 2013

believes that the aim should now be to bring in more mainstream investors into these products to free up limited concessionary capital in order to focus on more enterprise-centric finance.

Big Society Capital has done important work in proving that certain types of investment can work and the broader credibility of the social enterprise sector to take on debt and repay it. This includes a broad range of products from shares in social banks such as Charity Bank which lend primarily to the social enterprise sector or social property funds. In some cases, there may be a need for Big Society Capital to invest further in these areas.

However, now that these have been proven or at least significant amounts of data have been captured in relation to these investments, Big Society Capital needs to move forward into the frontiers of social investment which have not yet been tackled, particularly the development of deeper equity, quasi-equity and venture finance for social enterprise.

Figure 13: Restructuring the activities of Big Society Capital

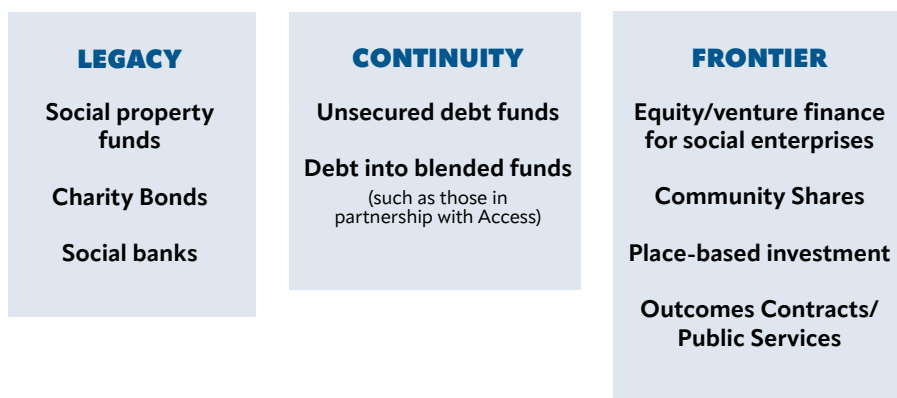


Figure 13 outlines the broad current structure of Big Society Capital's 51 investments and puts them into three categories.

The first are social property funds, charity bonds and investments into the social banks. These are classed as legacy investments, which have helped to prove the viability of models in these areas but which the Commission believes need to be – and can be – shifted into the mainstream. They are and should be seen as relatively safe assets which should involve the minimal investment of limited public funds. This does not mean that Big Society Capital should stop working with social enterprises in these areas or using its convening power to bring investment in, or still have a role in educating and encouraging mainstream investors, government departments and other public institutions to ensure that social property, social banks and bonds can get access to the capital that they require.

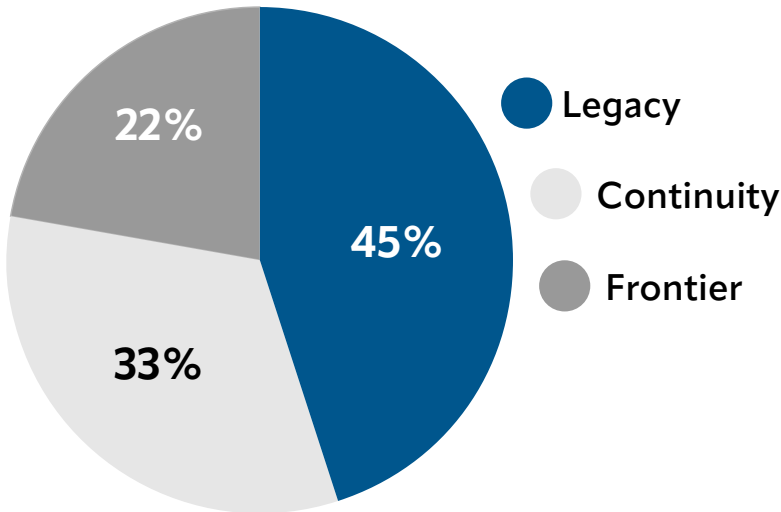
The second class are “continuity” funds, particularly around unsecured debt and providing debt into blended finance, which will continue to need investment from Big Society Capital and in the case of blended finance, will need to be matched with an ongoing subsidy. We are pleased to note that Big Society Capital’s 2025 strategy outlines continued support for blended finance and Access. It is the Commission’s view that this class of investments will continue to need the support of Big Society Capital over the long term and although the model is proven, the complexities of the model and the challenging markets that social enterprises in deprived communities operate within mean that targeted subsidy will be necessary.

Finally, there are “frontier” investments in enterprise-centric finance for social enterprises. This is a broad space that includes equity, quasi-equity, community shares, place-led investments, outcomes contract financing to enable innovation in public service delivery. These are areas where the Commission believes that Big Society Capital needs to focus on the years ahead and where there is the greatest need for risk-taking capital invested through a social investment wholesaler.

There may also be other funds which do not fall neatly into these categories such as the Community Investment Enterprise Facility, managed by CIEF, which has a £30m commitment from Big Society Capital. However, in broad terms, we believe that these categories are useful.

Figure 14 outlines the current distribution of Big Society Capital’s investments across these three broad categories.

Figure 14: Big Society Capital's Investment Portfolio by Commission categories



Source: Commission secretariat of Big Society Capital's investment portfolio, 2021

As Figure 14 shows, nearly half of Big Society Capital's portfolio is invested in the legacy categories, with a third in the continuity categories and less than a quarter in the frontier. **The balance of these investments needs to change over the coming decade**, with a greater level of frontier investments and fewer legacy investments to meet the needs of social enterprises in a post-COVID age.

Shifting the portfolio

The Commission believes Big Society Capital's legacy investments should be wound down to around a quarter of its current portfolio. This would free up £126m in capital which could be used for investment in the frontier and continuity investments. Big Society Capital has already worked with Schrodgers to launch a UK social impact trust to raise private capital for its own social

investments which has raised £75m.²¹⁵ Given Big Society Capital's track record, the Commission is confident that its previous investments could be packaged successfully to private investments to encourage mainstream investors to crowd in and free up capital for new activity.

Big Society Capital can shift its current investment portfolio towards more enterprise-centric finance. In fact, by acting as concessionary capital that is prepared to give up some of its returns in order to attract market capital, Big Society Capital may be able to bring in more investment into social enterprise, *crowding in* greater levels of investment.

We must recognise at the outset that this will be a period of experimentation. This is why limited public and philanthropic capital needs to be effectively targeted, because only these sources of capital are able to take risk and patience to pioneer and test new methods of financing the social enterprise sector. Big Society Capital has shown through the development of Social Impact Bonds, that it can play a product development role where there is flexibility and government interest.

Governance and oversight

Underpinning all these reforms, the governance of Big Society Capital needs to be changed to increase the power of the consumers of capital, social enterprises as well as increase the accountability and control of this primarily publicly-funded organisation. It is important that any board has a range of expertise and knowledge, and it is proper that a number of board members have come from the financial services sector. However, Big Society Capital would benefit from having more social enterprise leaders and experts on its board, including those from smaller social enterprises. To avoid Big Society Capital merely choosing those voices it wishes to hear, one social enterprise representative and one charity sector representative should be elected to the board by social enterprises and charities directly, this would compliment the other board members who can be selected for specific skills. There should also be greater representation from the devolved administrations.

²¹⁵ Portfolio Advisor, Schroders raises another £75m from second trust IPO in a month, 17 December 2020

Since its creation, both the Chairs of Big Society Capital have been from the financial services sector. We believe that this has further isolated Big Society Capital from the businesses which it is there to support. We strongly recommend that the next Chair of Big Society Capital should be someone who has run a social enterprise and can ensure that the needs of these businesses are put at the heart of Big Society Capital's strategy. Moreover, whenever there is a Chair of Big Society Capital that does not have social enterprise or trading charity experience, we recommend that a Vice-Chair is appointed from these sectors to provide more balance to the leadership of this institution.

The importance of these reforms has been highlighted in the new Big Society Capital strategy. Despite all the challenges that have been identified for social enterprises accessing enterprise-centric finance, for example, Big Society Capital's strategy has decided to focus its venture investment into "technology start-ups tackling social issues". Whilst some of these may be social enterprises, it is an example of Big Society Capital seeking to use its capital to support social issues of its own choosing, rather than meeting the needs of social enterprises and allowing them to determine the best routes to achieving social and environmental impact. Worryingly, its strategy also speaks of supporting "small businesses" in its social lending work, which could lead to further mission drift, given the existence of the British Business Bank to meet the financing needs of small businesses.

New Dormant Assets

The UK Government has recently introduced a new Dormant Assets Bill which will unlock £880m of dormant assets in the short term, with billions over the lifetime of the scheme.²¹⁶

Big Society Capital received an initial £400m of dormant assets in 2012. Given the size and scale of the challenges that are still facing social enterprises, the Commission believes that at least the same level of investment is required again to support new forms of finance for social enterprises and trading charities, particularly for those working in the most deprived places. Again, taken into consideration the size and value of social enterprise activity, we believe a similar level of investment is required again.

²¹⁶ HM Government, Government response to the consultation on expanding the Dormant Assets Scheme, January 2021

New frontiers

To achieve this, the Commission's view is that more dormant assets should be put into social investment *on the condition* that these resources are used to support the development of more enterprise-centric finance for social enterprises. A £400m 'Frontiers Fund' funded through dormant assets would provide the space and patience for new models to be developed, building on the small-scale experiments we have seen in social investment so far. This fund can pilot, develop and scale patient and flexible products which are built around the needs of social enterprises, in all their diversity. In effect, this fund would act as a significant injection of R&D for social investment.

The Commission believes that the need to experiment and the risks associated with that experimentation mean that only dormant assets can provide the safe space required to fix the marketplace. This is why dormant assets have an important role to play. We are not yet in a position where the financial needs of social enterprises can be met purely from private or philanthropic sources. But dormant assets must not be seen as a 'quick fix' to the problems in the social investment market and must be accompanied by reform to the institutions that make up the social investment market.

If reformed, then Big Society Capital could become an appropriate home for the next wave of dormant assets, working with intermediaries. We would expect a reformed Big Society Capital or Access to use this investment to increase enterprise-centric finance into social enterprises and trading charities. The Fund would also enable the development of financial products to help people take over and run services that mean most to them from local broadband services to community shops, transport and even sports clubs. If Big Society Capital is not reformed, then an existing institution (such as Access) may be necessary to act as a home for concessionary capital for social enterprise. A reformed Big Society Capital, with a strategy more aligned to being a pool of concessionary capital for social enterprises, flexible in its deployment of that capital and focused on the needs of social enterprises and trusting social entrepreneurs to deliver impact, is essential to making social investment work. Ideally, this reform needs to come from within Big Society Capital itself, in collaboration with social enterprises, investors and other stakeholders, but the UK Government also needs to ensure that this important institution is delivering on its potential.

The Commission does not have a view about whether Big Society Capital is following the Dormant Accounts legislation. In consultation, Big Society Capital told us that their strategy is based on their experience of working with social enterprises over the past nine years and has been endorsed by the Oversight Trust. However, it has been drawn to our attention that there is a risk of drift between the spirit of the Dormant Accounts legislation which focuses on assisting third sector organisations (i.e. social enterprises and charities) and Big Society Capital's strategy which has embraced specific themes (e.g. homelessness or technology) and concepts, such as impact investment, which do not appear to be directly focused on meeting the financial needs of social enterprises. Significant levels of capital are being deployed in advancing these objectives. We would urge Big Society Capital, and all those that use dormant accounts monies, to reflect on whether their strategies are keeping with the spirit of the legislation.

Building on success

There are also parts of the marketplace which will require ongoing subsidy, such as unsecured finance for smaller social enterprises. Small loans are more costly to administer, and smaller social enterprises may require a blend of grant and loan to bring down the cost of capital to make it affordable. This is unlikely to come from mainstream financial sources. The work of Access has been broadly positive, enabling investment to reach the poorest communities and across the country.²¹⁷ Evidence gathered by the Commission raised concerns that the loss of Access from the marketplace could lead to a drying up of funds for smaller social enterprises and trading charities.

We recommend that an additional £100m should be put into Access over the next decade to enable blended finance to continue for smaller social enterprises and trading charities which would be unable to access finance without some form of subsidy. £100m over the next decade would be sufficient to meet demand and preserve this important part of the social investment market.

We have heard that social enterprises from nations such as Northern Ireland and Wales that they would like to have access to investment from the Access.

²¹⁷ The Oversight Trust, Access: The Foundation for Social Investment Quadrennial Review Final Report, June 2021

We recommend that Access is made UK-wide so that social enterprises in all nations can access this funding. We would also encourage the National Lottery institutions in all devolved administrations to support this part of the market. Our engagement with social enterprises in the devolved nations has found widespread support for this expansion. Given the UK Government's aspiration to level up the country and reduce inequality between our nations and regions, we believe that this expansion fits within the philosophy of the current administration. We would urge the UK Government to use its convening power to begin a dialogue with devolved administrations to see whether this can be achieved. We would urge the devolved administrations to facilitate such an expansion.

Charitable Foundations

Dormant assets alone cannot do all the heavy lifting in social investment. Other forms of patient capital are required. The Commission is aware that significant work has gone into supporting charitable foundations to become social investors by Big Society Capital and others. But this has not gone far enough.

Using its power to convene and bring various stakeholders together, we recommend that the UK Government create a new "Flexible Capital Taskforce", co-chaired by the Government (likely the Department for Digital, Culture, Media & Sport) and charitable foundations, with a target to increase the amount of charitable foundation assets in social investment programme-related investments to 1% by 2030. This could unlock up to £380m in additional patient, flexible finance into social investment by the end of the decade, akin to endowing another Big Society Capital.

This Taskforce would consider what the current barriers to social investment are for foundations, what products and services need to be developed to encourage foundations to provide capital for investment in social enterprises and how the law and regulation may need to change further to enable that to take place. It could also consider what subsidy or form of subsidy may help to attract more foundation investment and enable them to preserve their capital. The Taskforce should not be used to bully or cajole foundations, but to create an enabling environment, recognising that most foundations would prefer that their investment portfolios supported the growth of social enterprises and charities to deliver social and environmental benefit.

The Government has made a step in the right direction by introducing a new Charities Bill which will make permanent endowments more flexible which could open the door for more social investment in England and Wales.²¹⁸ But more legal or regulatory changes may be necessary to enable foundations to do more to invest their capital in line with their values.

We recognise that a barrier for many charitable foundations is that they lack the expertise and capacity to make social investments themselves. However, it is common for foundations to hold shares in listed funds and a similar approach could be taken with social investment. Creating social investment funds which foundations could take a stake in, and which in turn would make investments, would make it easy for smaller foundations to invest in social enterprises, without relying on each individual foundation to develop its own social investment programme.

We note that a similar recommendation was made by Danny Kruger's review into *Levelling Up Communities* for the Prime Minister.²¹⁹ The work of the Esmée Fairbairn Foundation, the Barrow Cadbury Trust, City Bridge Trust and Trust for London should give us confidence that increasing the levels of social investment by charitable foundations can benefit both foundations and social enterprises.

A Social Enterprise Loan Guarantee

High street banks

Social enterprises have been able to access market capital for many years through the high street banks, which are already significant investors into UK social enterprises. A 2016 report by Social Spider²²⁰ made a conservative estimate that these banks could be lending around £1bn to social sector organisations.²²¹ However, this was only 1% of the amount of lending going to SMEs as a whole.²²² Some banks have supported social investment intermediaries in the past, such as Lloyds Banking Group and Royal Bank of Scotland, which have invested in Social Investment Scotland. As social

²¹⁸ HM Government, Queens Speech Background Notes, May 2021 p.121

²¹⁹ Danny Kruger MP, *Levelling up our communities: proposals for a new social covenant*, September 2020

²²⁰ Social Spider, *The Forest for the Trees – UK Banks' Investment In a Social Purpose*, July 2016

²²¹ Social Spider, *The Forest for the Trees – UK Banks' Investment In a Social Purpose*, July 2016

²²² British Business Bank, *Small Business Finance Markets 2020/21*, March 2021 p.76

enterprises are currently 1.7% of the business population, and growing rapidly, there is a case to be made that social enterprises are being underserved by the mainstream banks. Achieving parity between social enterprises and existing forms of business could unlock an extra £800m for social enterprises in finance, which would be bigger than the entire loan book of Big Society Capital.

The COVID-19 experience

The Coronavirus Business Interruption Loan Scheme (CBILS) provided an 80% government guarantee to the lender up to a value of £5m. The Government also committed to cover the first 12 months of fees and interest payments so that there would be no upfront costs to the business. Big Society Capital, Social Investment Business and other social investors came together to provide emergency finance for social enterprises through a Resilience and Recovery Loan Fund backed by CBILS. Around £23m has been invested into social enterprises and trading charities, and evidence indicates that the guarantee has been critical in enabling a more flexible approach and encouraged a wider pool of enterprises to be invested in.²²³

CBILS has now been replaced by the Recovery Loan Scheme (RLS) which has a 70% guarantee (from 1 January 2022) however, the business is liable to pay any fees or interest within the first 12 months. Social enterprises are eligible for the Recovery Loan Scheme, but there are some inflexibilities in the RLS which could inhibit its effectiveness for social enterprises. For example, the term of any RLS loan can only be a maximum of six years,²²⁴ still a relatively short period of time. The size of the loan is also high, with a minimum size of £25,001 for term loans and overdrafts.²²⁵

In an ideal world, the Recovery Loan Scheme should be tailored to suit the needs of social enterprises through enabling social enterprises and trading charities to get longer term loans over 10 years, with a lower minimum size and for eligible lenders to apply for their whole RLS portfolio to be covered up to 80% rather than just individual loans. Moreover, evidence to the Commission indicated that for smaller loan sizes, it may be necessary for a guarantee to cover an overall portfolio, rather than individual loans.²²⁶

²²³ from Big Society Capital and Social Investment Business to the Commission has

²²⁴ British Business Bank, Recovery Loan Scheme – accessed 23 May 2021

²²⁵ Ibid.

²²⁶ Big Issue Invest, Written Submission, February 2021

Research into loan guarantee schemes for SMEs by the UK Government²²⁷ has found that the government backed loan guarantee scheme had brought additional capital into the market for small businesses and had helped them to access finance that they would otherwise not have been able to. These businesses had a growth profile similar to their peers but like many small social enterprises, tended to lack collateral or assets that they could borrow against and this inhibited them from accessing market capital.²²⁸ Loan guarantees can attract market capital by reducing the cost to the investor through mitigating losses, increasing the supply of finance. They can also make market capital more affordable to social enterprises.

A new loan guarantee

Building on the lessons learnt from this experience, the Commission recommends that UK Government introduces a new a £200m tailored Social Enterprise Loan Guarantee Scheme (SELGS) to help market capital meet the need for traditional debt. The initial guarantee scheme could be limited to an initial £200m in loans. If the scheme were successful, further expansions could take place. In the same way that loan guarantees have been used to broaden the pool of investors into small and medium sized businesses, there is an opportunity to use the same approach to bring market capital into the market to provide more patient finance for social enterprise. This would free up other forms of capital and institutions within the social investment market to focus on providing more enterprise-centric finance to social enterprises.

The Commission believes that given the unique characteristics of the social enterprise sector, SELGS-backed loans should have longer repayment terms and lower minimum size of investment, to meet the needs of social enterprises. In return, investors should be provided with a higher level of guarantee and provide an incentive for high street banks and other mainstream finance institutions to invest into the sector. A level of between 85-90% would be necessary to make it qualitatively different to those provided to smaller businesses. To ensure that the loan guarantee was additional to existing public investment into the sector, loans being made with public funds and dormant assets should not be eligible

²²⁷ 2013 evaluation of the Enterprise Finance Guarantee (the predecessor to CBILS)

²²⁸ Department for Business, Innovation and Skills, Economic Evaluation of the Enterprise Finance Guarantee Scheme, February 2013

for the SELGS to ensure that genuinely new capital was being brought into the marketplace.

In the case of certain groups such as those working in the most deprived communities or Black-led social enterprises, a higher level of guarantee should be offered to recognise the significant extra barriers that exist for these social enterprises, potentially even 100% guarantee as with the Bounce Back Loans²²⁹.

²²⁹ Bounce Back Loans were an emergency COVID finance instrument for small businesses, providing 100% loan guarantee to small businesses on loans of up to £50,000 with nothing to pay for the first year.

C. Social justice at the heart of social investment

The Commission has listened carefully to the feedback of stakeholders on the issues of equity, diversity and inclusion within social investment. Equity, diversity and inclusion are not about one particular group. **We must ensure that fairness runs through the distribution of all public money, including with regard to regional inequality, economic and social disadvantage, gender, LGBTQ+ and disability. We must put power and resources into those communities which have experienced disadvantage.** We cannot continue as we have done up till now. The rate of progress is simply not fast enough and we are wasting the potential of hundreds of social enterprises.

Black-led social enterprises and BAME social enterprises

During the work of the Social Investment Commission, there has been significant debate about the terminology that should be used to discuss minority-led social enterprises, most notably following the publication of the Commission on Race and Ethnic Disparities which was set up by the UK Government.

The Commission on Race and Ethnic Disparities called upon organisations to stop using 'BAME' (which has traditionally referred to Black, Asian and Minority Ethnic or Black and Minority Ethnic) to describe organisations and instead to be more specific about the characteristics of the organisation described.

The Commission has focused on the experience of black-led social enterprises and so in general, we refer to "black-led social enterprises" wherever possible to be clear about the social enterprises we are referring to.

We use the term "black-led" as a broad term, referring to those communities that have been minoritised, have historically discriminated against and continue to experience discrimination due to their race.

Institutions which are black-led are those that have a majority of their board or their leader from one of these communities.

However, where the data does not allow for black-led social enterprises to be separated out or sources have referred to “BAME-led organisations” we have used the term “BAME” to ensure consistency and avoid error. As not all BAME-led organisations are black-led, this data needs to be taken as indicative of the experience of black-led social enterprises.

Black-led social enterprises and social investment

In our work, we have particularly focused on the experience of Black-led social enterprises which have come forward to us. This is not to ignore the experiences of other parts of society or to privilege one part of society over any other. However, the Commission believes that having heard from the experience of Black-led social enterprises, an initial focus and practical recommendations in this area may hold lessons for other parts of society. The Commission is clear that Black-led social enterprises are not the only entities facing barriers in social investment, but we feel that Black-led social enterprises are the right place to start. Of course, there will be no one-size-fits-all solution to the issues of equity and social justice within social investment.

We have welcomed the positive engagement and reflection by social investment finance intermediaries and institutions, such as Big Society Capital, on the discrimination that Black-led social enterprises experience in accessing social investment. However, it is not good enough that it has taken the death of George Floyd and the Black Lives Matter movement to shake up social investment and bring a sense of urgency. Existing institutions have had years to look into the problems facing Black entrepreneurs and have not taken the necessary action. The Commission is concerned that once immediate pressure has passed, social investment will fall back on bad habits.

Baobab Foundation

In 2020 BAME-led charity networks came together to launch the Baobab Foundation.²³⁰ This would be a BAME-run foundation to invest in BAME charities and communities, in contrast to the overwhelmingly white-dominated charitable foundation.²³¹

The Foundation aims to raise £1bn in an endowment to then distribute £50m in grants every year. The Foundation intends to focus on tackling racism and inequality at a community level. The Foundation is due to be launched in late 2021.

Baobab has already been supported by a number of funders and they hope that having a BAME-run foundation will challenge other institutions to take the issue of race seriously and correct the historic barriers which have prevented the emergence and maintenance of BAME-led charities and community groups.

The issues of race and diversity are complex, and it is unfair to expect an institution such as Access or Big Society Capital which already have broad and complicated remits to solve the issues of race within social investment. It is, therefore, the Commission's view that a new Black-led social investment fund is essential. We understand that there are already advanced plans to create such a body. This fund should be overseen by Black social investors, intermediaries and social enterprises. We note that a similar need for Black-led institutions has been recognised in the charitable foundation space. New Black-led oversight must also be co-produced and not imposed from the top. This is also not about replacing existing funding or warding off existing investors from this space.

²³⁰ Baobab Foundation, What makes us different? – accessed 13 April 2021

²³¹ <https://www.thirdsector.co.uk/trusts-foundations-embed-diversity-sector-report-says/management/article/1661567>

An initial £50m should be put into this new Black-led and focused social investment intermediary, with the express remit of widening the pool of finance to Black-led social enterprises. This organisation could be modelled along the lines of Access, working with other intermediaries with to deploy its funds where possible but also driving the agenda through its own research and convening power. However, it should also have the flexibility to make its own direct investments to pioneer new approaches if the right partners cannot be found.

Design principles

Whilst the design of this fund and organisation needs to be co-produced through engagement between social investors and the Black community, we believe that there are some principles that should be at the heart of this work.

1. **Ownership and oversight by the Black community** – improving access to finance will require long-term change and engagement. The Commission believes that Black leadership is required in order to ensure that focus is not lost and to build the credibility to engage with Black-led social enterprises and institutions. This does not mean excluding other parts of society or those with expertise, but if we want to see change, the Commission believes that we need to put power into the hands of the Black community.
2. **Building on what is already available** – it would be a mistake to create a new fund or organisation from scratch without building on what is already there. There are a number of Black-led organisations such as Voice for Change England, Ubele Initiative, Black South West Network and others which represent the voice of the Black community. There are also institutions such as Social Investment Business, UnLtd, Ada Ventures and others that have developed funds to support Black-led organisations. Any new fund should work with existing institutions and oversight of this fund should be developed in collaboration with existing, Black-led networks and organisations.
3. **Recognising the intersectionality of racial inequality** – in many cases, Black-led social enterprises are led by women, people with disabilities and those from deprived communities. Multiple disadvantages and discrimination mean that although the fund and oversight must be Black-led, there must also be an intersectional approach.

4. **A long-term approach** – making progress on reducing the historic barriers to Black-led social enterprises will take time. Unlike the Access, which was given a ten-year lifespan at the outset, we do not believe that it would make sense for this fund to have a similar target. It may take time to engage with Black-led social enterprises to find the right methods for the distribution of funding and we cannot rush solutions to the barriers facing Black-led social enterprises.
5. **Setting standards for the market** – a Black-led fund should not lead to other institutions avoiding action to improve access to finance for Black-led social enterprises. A new fund should pilot approaches and standards which can be adopted across social investment more widely, sharing its research and best practice far and wide.

Given the particular challenges facing Black-led social enterprises, this fund should be resourced by dormant assets so that it can take a flexible, patient approach, rather than being dependent on market capital which requires returns in too short a time horizon to deal with historic barriers to finance. It could be matched with investment from institutions such as the National Lottery Community Fund, as we saw with the development of the Access.²³² Big Society Capital and National Lottery should take a long-term view, with these institutions being silent partners to begin with, to give space for Black leaders to shape the direction of the fund.

We believe that this new fund and oversight should take an approach similar to the Access which has had success in expanding the pool of blended finance available to social enterprises, particularly to those working in disadvantaged communities. A close collaboration between the Access and a new fund would be beneficial and in its initial phase, such a fund could be incubated within the Access to avoid having to build brand new infrastructure from scratch.

We estimate that an initial investment of £50m from a variety of sources would get a Black-led and overseen social investment fund off the ground and test the concept. Assuming an average investment of £60,000 this could help 800 Black-led social enterprises and trading charities, although the targets and aspirations

²³² It will be important for any black-led and overseen investment fund to consider how funding can be structured in a way to ensure that it is compliant with Islam and other faiths which have prohibitions of receiving investment from certain sources.

of such a fund should be determined by the Black community. This should include resources on a permanent basis for oversight of this fund and evaluation, so that there can be sufficient investigation into the impact of the fund as well as the barriers that exist to Black-led social enterprises.

Working in collaboration with others, this fund should pioneer new models of investment, gather data on the barriers and challenges facing Black-led social enterprises and raise standards of investing across the marketplace. A similar approach could be taken for social enterprises led by those with disabilities, LGBT-led social enterprises and other social enterprises which have faced particular barriers in accessing finance.

In tackling the discrimination faced by Black-led social enterprises through the creation of this fund, the Commission is aware that we will be undertaking a new path and direction with considerable uncertainty. However, we believe that the prize is worth the risk, and it will be important for any new fund to be reflective and adaptable, learning more about the challenges faced by Black-led social enterprises and listening to those with experience and expertise. The Commission has laid out an approach that we believe could provide a long term solution to this challenge, but it will be up to social enterprises, social investment intermediaries and social investors to decide the best means to deliver it.

Social investment and diversity

The question of representation within social investment also needs to be urgently addressed. We have heard from social enterprises and social investment finance intermediaries that there has **not been sufficient progress in achieving parity for women, those from ethnic minorities or those with disabilities**. This is not because of a lack of talent. Alastair Davis of Social Investment Scotland also told the Commission that it was possible to get the right balance and experience on investment committees, if sufficient effort is made.²³³

Whilst a voluntary approach may be acceptable where private money or business is in question, a significant amount of the social investment market is subsidised in one form or another by the state or state-directed resources such as dormant assets. The Commission does not believe that it is acceptable

²³³ Alastair Davis, Commission on Social Investment Evidence Session, 18/02/2021

that organisations in receipt of public funds should be allowed to shirk their responsibilities or avoid taking steps to address this challenge. All dormant assets should be considered through the lens of fairness, not just for ethnic minorities and those with disabilities.

All social investment institutions which receive some form of public money either directly from the UK Government or indirectly through dormant assets should be subject to binding targets for diversity and representation on their boards and investment committees. This would counter the historic cultural dominance of those from privileged groups (e.g. privately educated) or with one type of business experience (e.g. financial services) from controlling access to capital.

At a minimum, the Commission recommends that every social investment institution should sign up to the Diversity Forum Manifesto which has been developed by the social investment community itself. Institutions which within an acceptable period of grace are unable or unwilling to make changes to their boards and investment committees would no longer be eligible for funds until they have made sufficient changes.

Diversity targets should be set in a co-productive manner, including stakeholders such as The Diversity Forum and representatives from minoritised social enterprises, women-led and LGBT+ led social enterprises. Investment intermediaries that receive money should be obliged to report on these targets in their annual reports and this should be made public to enable effective scrutiny. Big Society Capital, the National Lottery and UK Government should collect this data and publish information on the intermediaries that they invest in.

The Commission is not confident that we can rely on existing institutions to change this state of affairs. Many of the current social investment finance intermediaries lack the representation and knowledge to tackle historic structural barriers to finance. We need fresh thinking and ideas, giving leadership to Black and ethnic minority entrepreneurs and financial backing whilst not ignoring the need to support other underrepresented groups already working within social investment.

D. Investing in social enterprise infrastructure

The success of social investment relies on a healthy pipeline of investible social enterprises. This was one of the five market failures that Big Society Capital was mandated to address in its original business plan. The Commission has listened carefully to social enterprises, social investment finance intermediaries and other stakeholders. We are concerned that this pipeline is at risk because of a lack of infrastructure to support the growth and development of social enterprises.

A fragile pipeline

We know the potential exists. We have significant numbers of social enterprises being created. For example, over 6,000 new CICs have been registered since the first national lockdown.²³⁴ The number of social enterprises identified in the UK economy has increased by 47% over the past decade.²³⁵

But the pipeline to investment and growth is fragile. In many communities, there will be individual and community talent which is not being unlocked. We cannot expect communities to transform their places and entrepreneurs to develop new models without adequate support. Furthermore, the Commission's view is that the barriers to place-led investment, and barriers to finance for Black-led social enterprises and deprived communities are rooted in a lack of enterprise support for social enterprises. Without a change of approach, we will struggle to build a sustainable pipeline of social enterprises and there will be a smaller market for social investment to operate within.

Indeed, enterprise support is essential to the success of social enterprise, social investment and the government's objectives to level up the country. We need tens of thousands of social enterprises to emerge over the coming years to

²³⁴ Commission analysis of CIC Regulator data, September 2021

²³⁵ Social Enterprise UK, The Hidden Revolution, 2018

tackle the social and environmental challenges we face. We cannot neglect and underfund this vital work. Enterprise support for social enterprise is a public good and should be funded accordingly.

Infrastructure and support

Infrastructure development can take years, working with entrepreneurs and communities to ensure that access and opportunity are spread throughout the country. Infrastructure investment must not be a one-off, but should provide a regular and constant stream of social enterprise support, including:

- Business support and advice services for start-ups, particularly around choosing the right legal models;
- Improving the digital and marketing skills of social enterprises;
- Helping social enterprises to measure their social impact;
- Support in accessing external investment and social investment;
- Identifying local social enterprise “leaders” to inspire and mentor future generations of entrepreneurs;
- Targeted grant support for social entrepreneurs from disadvantaged backgrounds;
- Legal fees and advice in setting up new ventures, acquiring assets or other commercial opportunities.

A place-led approach

Rather than seeking to do this top-down, with national initiatives such as Access or Power to Change being asked to piecemeal fund infrastructure within local places we should work from the bottom up, providing investment to places directly and give them the opportunity to create the local networks required to deliver change. A more place-led approach is required if we are to ensure that social investment reaches all parts of the country. Infrastructure needs to be shaped at the level of place and not be centrally directed. Local actors are in the best position to judge what networks and infrastructure are best for their social enterprises and communities.

The Commission believes that the Department for Business, Energy & Industrial Strategy needs to put pressure on LEPs to provide adequate support for social enterprises. This could be done through having social enterprise representation on their boards, more transparency around their engagement with different forms of business and through investing in social enterprise mapping in their local areas. LEPs should be supportive of all forms of enterprise, including social enterprise.

To fill the funding gap and provide an incentive for LEPs to work with social enterprises, the Commission recommends that a portion of future dormant assets are earmarked for long term social enterprise and charity support. Given the historic lack of investment in this area, we recommend that an initial 5% of dormant assets are earmarked for this work. Out of the current £880m tranche of dormant assets this would be worth around £44m. The Dormant Accounts Act describes how resources must be allocated “to assist or enable other bodies to give financial or other support to third sector organisations”, clearly within the scope of the Act. This would also provide additional investment to the devolved nations, likely to be several millions of pounds, which they should be encouraged to invest in similar place-led networks and infrastructure.

Areas should bid for infrastructure support and bids should only be accepted from those places which can demonstrate that they have worked with social enterprises and existing providers of support to the sector on the ground, where they are present. We should trust local social enterprises and organisations to deliver the support that social enterprises need and work with existing institutions, such as the Access, which appear to have strengthened local infrastructure successfully. Places would be given the flexibility to decide how best to use this investment. Local authorities should be encouraged to “match” this investment through integrating social enterprises into their local economic strategy and plans for levelling up, as well as using their procurement functions to direct more spend to social enterprise and create revenue streams for the sector.

Social enterprise networks, LEPs, Chambers of Commerce or other appropriate institutions with the support of their local authority or Metro Mayor, would be encouraged to bid for this funding up to £500,000 per place. Alternatively, funding could be targeted at those places which the UK Government has identified as needing the most support through its Levelling Up Fund or some other mechanism to ensure funding reaches the areas with the greatest

need on the basis of objective criteria, in order to encourage collaboration between different local partners. In either case, we estimate that such a fund could support nearly 90 locations across the United Kingdom to benefit from dedicated enterprise support over the next decade.

ANNEX A:

Commission on Social Investment Engagement sessions, Witness sessions and Workshops

Social Enterprise Engagement Sessions

Throughout the Commission's work, we have held engagement sessions with social enterprises to ask for their perspectives and experiences on the functioning of the social investment market. In total, 72 social enterprises attended the engagement sessions laid on by the Commission. The dates were as follows:

- North of England – 6th July 2020
- Midlands – 9th July 2020
- Scotland (Social Enterprises) – 11th August 2020
- Wales – 24th February 2021
- South of England – 31st March 2021
- East of England – 1st April 2021
- Northern Ireland – 8th July 2021

Expert Witness Sessions

To inform the Commissioners analysis and recommendations, the Commission on Social Investment held four 'expert witness' sessions with a range of stakeholders. The dates of these sessions and attendees were as follows:

Expert witness Session 1: 18th February 2021

Name	Background
Henry Baptiste	Director, Pathways Housing Solutions
Carla Keegans	Founder, Ethical Lettings Agency & Ethical Housing Company
June O'Sullivan	Chief Executive, LEYF
Jerry During	Founder Money A&E
Stephen Meurs	Interim Chief Executive, Big Society Capital
Danyal Sattar	Director – Big Issue Invest
Alastair Davis	Chief Executive, Social Investment Scotland

Expert witness Session 2: 24th February 2021

Name	Background
Nick Hurd	Chair of Access Foundation for Social Investment & Former Minister for Civil Society
Kate Welch OBE	Chief Executive – Social Enterprise Acumen CIC
Daniel Brewer	Chief Executive – Resonance

Expert witness Session 3: 25th February 2021

Name	Background
Gareth Hart	Chief Executive Iridescent Ideas & Plymouth Social Enterprise Network
Vidhya Alakeson	Chief Executive, Power to Change
Seb Elsworth	Chief Executive – Access Foundation for Social Investment
Jonathan Jenkins	Former Chief Executive, Social Investment Business
Caroline Mason	Chief Executive, Esmée Fairbairn Foundation

Expert Witness Session 4: 3rd March 2021

Name	Background
Baroness Diana Barran MBE	Minister for Civil Society & DCMS
Stephen Bediako OBE	Executive Chair – The Social Innovation Partnership
Nick Temple	Chief Executive – Social Investment Business

Policy Workshops

The Commission held four policy workshops with social investment finance intermediaries, social enterprises and other stakeholders in April 2021 in order to road test the ideas that were emerging from the Commission's work and to help inform potential recommendations. These workshops were:

- Place-led social investment – 6th April 2021
- Increasing flexible, patient finance - 7th April 2021
- Diversity within social investment – 8th April 2021
- Social investment and public service delivery – 9th April 2021

The Commissioners

Lord Victor Adebowale CBE

Lord Victor joined social enterprise Turning Point as Chief Executive in 2001 and is a champion for the cause of those affected by poverty, mental health issues, drugs, alcohol, learning disability and complex needs.

Victor began his career in housing and was Chief Executive of Centre Point, the National Youth Homelessness Charity from 1995 until 2001.

In 2000, Victor was awarded a CBE for services to the New Deal, the unemployed, and homeless young people and in 2001, he was appointed a cross bench member of the House of Lords. Victor is on the Board of the Audit Commission and former chair of the Home Office's Stop and Search Community panel.

He is President of the International Association of Philosophy and Psychiatry, President of the Community Practitioners and Health Visitors Association and sits as a Non-Executive Director at 360 IT collaboration Ltd. Victor is Chancellor at the University of Lincoln, a commissioner for the UK Commission for Employment and Skills and sits on the National Quality Board (DH). He is an associate of the Cambridge University Judge Business School, and Birmingham University Centre for Health Service Management. He is also Director at Leadership in Mind Ltd.

He has a Post Graduate Diploma from the Tavistock Institute and an MA in Advanced Organisational Consulting from City University London. Victor is also a member of the NHS Future Forum and regularly appears in the national media commenting on various issues relating to health and social care and public policy.

Dr Susan Aktemel

Susan Aktemel is Executive Director of Homes for Good Social Business Group. An experienced property developer, she has combined these skills with her commitment to improving people's lives to create Scotland's first social enterprise letting agency and social landlord in the private rented sector. From 1994-2012 she created and grew Impact Arts, now a leading Scottish charity.

Since 2014 she has raised over £20 million in social investment for Homes for Good, named Social Enterprise of the Year 2016 in the Scottish Business and Social Enterprise Scotland Awards. In 2017 she received an Honorary Doctorate from University of Strathclyde Business School for achievements in Social Enterprise, and in 2019 was inducted into the Strathclyde Academy of Distinguished Entrepreneurs. In July 2019 Susan was awarded the inaugural Trinity College Social Innovation Prize at Judge Business School in June, Cambridge. Susan is also a board and investment committee member of SIS Ventures, and an Enterprise Fellow at Goldsmiths, University of London.

Dr Jessica Daggers

Dr Jess Daggers is an academic and consultant specialising in social investment and impact investing, with particular expertise in impact measurement. Her PhD thesis *'Solving' social problems with markets and measurement: a critical study of social impact investing* analysed the growth of the social investment market in the UK between 2010 and 2016. Alongside her research, Jess' consultancy work has deepened her understanding of the market and of the challenges of implementing impact measurement. She has worked with a wide range of organisations including small social sector organisations, sector bodies such as Investing for Good, CAN Invest, New Philanthropy Capital, and The Social Innovation Partnership, and the Skoll Centre for Social Entrepreneurship at Saïd Business School, Oxford University. She was interim Impact Director within Nesta's Impact Investments team from 2018-9, and has recently joined Flip Finance, a collective of researchers specialising in developing better solutions for the social investment market. Jess has published work with Oxford University on the landscape of academic research into social impact investing, and is currently working with Cambridge University to produce content on impact measurement for the Masters in Social Innovation. Jess takes a keen interest in the ongoing debate over the potential of impact investing and the role of measurement, regularly writing and tweeting on the topic.

Chris Murray

Chris is Chair of award-winning social enterprise procurement company Fusion21, and their charitable foundation. Fusion delivers results-led solutions for members, alongside transformative support for the communities in which they work.

He also works as Director of the Core Cities UK, a collaboration between eleven cities at the centre of the largest economic areas outside London. Chris has worked at the forefront of UK urban policy, and with cities internationally, helping lead a nationwide process of decentralisation and devolution to cities. He previously worked as a Director of the Commission for Architecture and the Built Environment, the UK Government's watchdog for urban design, and for over a decade in local government.

Earlier on, Chris worked in psychiatry, education and community work, and is author of several publications and books including 'Psychology & The City: The Hidden Dimension', co-authored with Charles Landry. He is also an Honorary Fellow of the Heseltine Institute at Liverpool University."

Jamie Broderick

Jamie Broderick is a Director of the Impact Investing Institute, an independent, non-profit UK organisation that aims to accelerate the growth and improve the effectiveness of the impact investing market. The Institute is supported by the Government Inclusive Economy Unit, the City of London Corporation, and a number of financial services organisations in the UK. Jamie was head of UBS Wealth Management in the UK from 2013-2017. Jamie joined UBS after nineteen years at J.P. Morgan Asset Management, latterly as Chief Executive of its European operations. He joined J.P. Morgan in New York in 1993 and moved to London in 1996. He started his financial services career at Wellington Management Company, an independent asset management partnership in Boston. He studied Arabic Linguistics and Near Eastern Languages and Civilizations at Harvard College and continued those studies in a Ph.D. program at the University of Chicago.

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