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Best to borrow?

A charity guide to social investment

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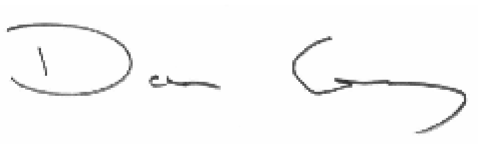
Foreword

We are delighted to publish this guide to social investment for charities. Through it, we aim to open up, in plain language, what social investment is and what it is not, to help charities work out if it is something they should pursue. We hope you find it helpful.

Social investment is an exciting and different way of funding charitable activities. It has the potential to open up opportunities for innovation, expansion and service delivery—something that is very much needed as grant and other funding is under growing pressure, while an increasing number of people need charities' help and support. Social investment is bringing new capital into the sector and has the potential to encourage a new generation of social entrepreneurs into being.

But like any financial product, it is not right for everybody. Charities have to think hard about whether it fits their aim, mission, financial status and even their ethos. We will all fare better if social investment is rolled out with care and to the right people.

Our goal at NPC is to do our bit, in a variety of ways, to help maximise the impact of the charitable sector in meeting the social and economic needs of our times. We therefore want to work with both providers of social investment and with charities, to see how such finance can best move us forward. In producing this guide, I hope that we can help further that aim.



Dan Corry

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Executive Summary

This is an exciting time for social investment. The current and previous governments have worked hard to stimulate the development of the market, and support is coming from a growing number of grant-makers and philanthropists who want to generate social as well as financial returns. The loan portfolios of social investors in the UK are now worth more than £500m.

At the same time, demand from charities for social investment is increasing. Government spending cuts and a decline in voluntary donations are hitting charities hard, and social investment is seen by some as a way out of this funding fix.

What is social investment?

Social investment is the provision of finance to charities and other social organisations to generate a social return. It is a relatively new form of finance, as charities primarily rely on grants, donations and their own reserves to survive. Many charities are coming to social investment for the first time and are wondering whether it is right for them.

There is some guidance about social investment available, but much of this is written for investors or social enterprises. At NPC, we have found no practical, straightforward guidance for charities about the subject. We have therefore produced this guide to help charities learn about social investment, find out about its opportunities and risks, and work out whether it might be right for them.

Should my charity take on social investment?

Social investment has the potential to deliver real benefits for many charities. It can help them to scale up their services, develop new projects and smooth out uneven cashflow. For the disability charity Scope, social investment helped to build new residential facilities for adults with complex disabilities. The children's charity Barnardo's used investment to set up three new social enterprises, with surpluses generated by these enterprises being used to support Barnardo's services for disadvantaged and vulnerable young people.

But while social investment is a valuable tool for some organisations, is not the answer for all charities. Social investment has to be repaid, so charities need a reliable income stream. Investment cannot replace the income that charities receive from donations and contracts.

Investment also involves risk. Failing to make repayments may put the charity under financial pressure or, at worst, could force it to close.

So charities need to think carefully first before taking on social investment. They need to understand the risks and, through good planning and risk management, take steps to mitigate them. They need to be clear about how the investment will create social benefit and improve the lives of their beneficiaries. Charities also need to have support from their whole organisation, especially the board of trustees.

Social investment may not be a cure for all charities' funding problems, but it can be a useful tool to help charities achieve their missions. For charities that are confident of a future income stream and have considered the risks fully, social investment can be an effective way to enable them to do more for the people they help.

Contents

Introduction

Social investment has attracted huge attention in the UK in recent years, with support coming from a growing number of investors, including philanthropists and grant-making trusts**.** The Labour government stimulated the development of this market, through its Social Investment Task Force and The Social Investment Business. The coalition government is also committed to it, most notably through Big Society Capital, a new wholesale bank that will start investing in 2012.

At the same time, demand from charities for social investment is increasing. Government spending cuts and a decline in voluntary donations are hitting charities hard, and social investment is seen by some as a way out of this funding fix.

Social investment is the provision of finance to charities and other social organisations to generate a social return. It is a relatively new form of finance, as charities primarily rely on grants, donations, contracts and their own reserves to survive. Many charities are coming to social investment for the first time and are wondering whether it is right for them.

About this guide

At NPC, we have been studying the social investment sector for two years, and have found no practical, straightforward guidance for charities about the subject. We have therefore produced this report to help charities learn about social investment, find out about its opportunities and risks, and work out whether it might be right for them.

In **Section 1**, we ask: What is social investment? We explain what it means and how it works, and put right some common misconceptions.

In **Section 2**, we ask: Should my charity take on social investment? We look at how social investment can influence how effective an organisation is, and compare social investment with commercial investment. We look at the risks that social investment can have, and provide ways for charities to work out whether they are ready to take on an investment.

In **Section 3**, we weigh up five types of social investment, looking at their benefits and risks.

The appendix lists organisations and resources than can provide further help and advice. At NPC, we are always happy to advise charities thinking about social investment. If you think we might be able to help your organisation, please contact Benedict Rickey on 020 7620 4850 or brickey@philanthropycapital.org.

Definitions

The social investment world is littered with jargon, which we have tried to avoid as far as possible. Here are definitions of some key terms as we use them in this report.

- **Capital:** Money for investment, rather than for the payment of goods and services.
- **Capital repayment:** Repayment of the original investment to the investor.
- **Equity:** A type of investment where an investor owns shares in a company.
- **Income:** Money received by a charity from donations or as a result of providing goods or services.
- **Investee:** The recipient of social investment (usually a charity or social enterprise).
- **Investor:** An individual or organisation providing capital to a charity or social enterprise, either directly or using a social investment intermediary.
- **Lender:** An individual or organisation that lends money to a charity or social enterprise, sometimes taking security to guarantee the loan.
- **Social investment:** Repayable finance invested in organisations with a social purpose, such as charities and social enterprises.
- **Social investment intermediary:** An organisation that uses capital provided by investors to invest in charities and social enterprises.
- **Quasi-equity:** An equity-style investment for organisations, such as charities, that do not have shares. Investors receive success-based rewards for their investment.

1. What is social investment?

Social investment is the provision of repayable finance to charities and other social organisations.

Social investment takes many forms. It could be a straightforward loan repaid over ten years, to help a charity buy a building. It could be a 'working capital' loan repaid within six months, to cover a charity's overheads while it waits for a contract or grant payment. Or it could be a more complex equity arrangement in which a charity shares some of its income with the investor once it has achieved an agreed financial goal, such as a certain percentage increase in income.

The need

Many charities are reluctant to borrow money or take on any kind of investment, relying instead on income from donations, grants and contracts to cover their financial needs.

But at NPC, we believe that some charities could become more effective by using investment. Relying on income or reserves to finance activities can sometimes be limiting and even slow the pace of change. Certain activities—such as building a new office, delivering a 'payment by results' contract or expanding services to new areas—can, in some instances, be done more quickly and effectively with the help of investment.

The lack of access to investment has prevented some charities from growing and developing. Yet more and more charities recognise the potential of investment. Some use commercial investment, such as bank loans, which can be particularly appropriate for large organisations with good financial management and a strong track record of borrowing. However, banks and other commercial investors do not always have suitable or affordable products for charities. We have heard many stories of charities being turned away by high street banks, sometimes because the charity's proposition was not commercially viable, but sometimes because the bank staff did not understand the charity sector well enough to see that the charity would in fact be well-placed to repay.

The role of social investment

Social investment fills this gap in the market. A growing number of grant-making trusts, businesses and individuals want to make investments that deliver social benefit, and in some cases, they are prepared to accept a lower financial return in order to ensure a social return.

Some of these investors work directly with charities and social enterprises. We know of one person who bought a block of flats and is now renting it out to people who are helped by a disability charity. Other investors use social investment intermediaries, which provide financial products (such as working capital loans and growth capital) that charities say are more accessible than products from commercial investors (see Section 3).[1]

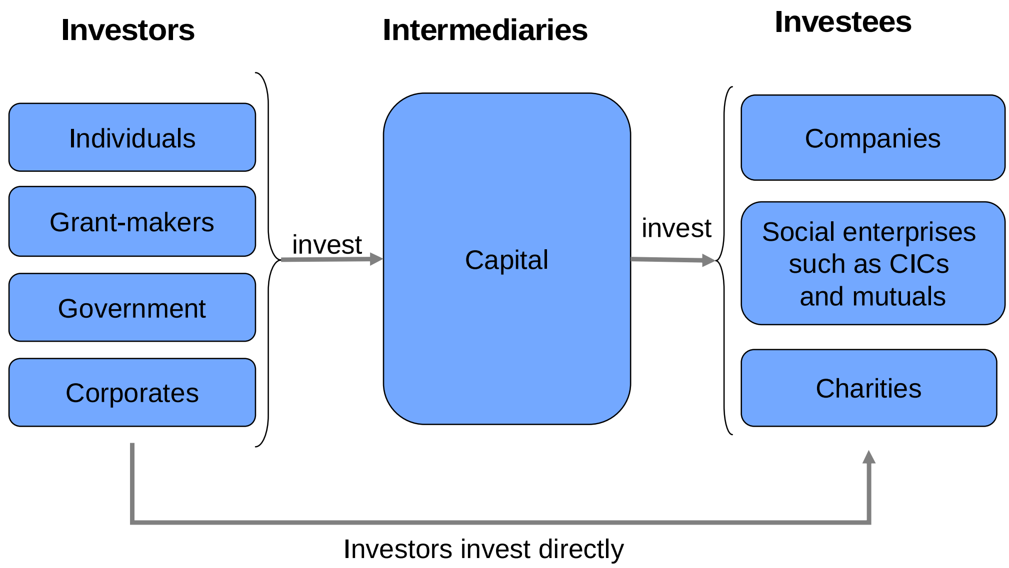
Some charities are developing their own social investments products. The disability charity, Scope, is particularly interested in this area. In 2010, it used a combination of 0% interest loans and grants from donors to build a new residential care facility.[2] In October 2011, Scope launched a £20m bond programme to finance the growth of its charity shops and fundraising work.[3]

[1] More research is needed to look into how products from social investment intermediaries compare with products from commercial investors.
[2] Hedley S. and Joy I. (2010) *New facilities, new funding: A proposed financing model from Scope*.
[3] www.thirdsector.co.uk/news/archive/1101391/Scope-becomes-first-operational-charity-launch-bond-programme

How the social investment market works

The social investment market is structured around investors, intermediaries and investees (see Figure 1). Investors supply capital to investees, usually via intermediaries, but sometimes directly. This capital is invested in different forms (for example, loans, bonds or quasi-equity) depending on the needs of the investee, the preferences of the investor and the products offered by the intermediary.

Figure 1: The social investment market



An emerging market

The social investment 'market' is still emerging, with new players and new products frequently appearing. This growth in activity has taken place partly in anticipation of the government's Big Society Capital (formerly the Big Society Bank), and is likely to accelerate when it starts making investments in 2012. Big Society Capital will have two roles: a 'funder of funds', lending to intermediaries so that they can lend on to charities and social enterprises; and a 'market builder', investing in infrastructure (such as impact measurement) to help the market develop.[1]

Key players

The **government** has been an important catalyst in the development of the social investment market, through both policies and funding. **Wealthy individuals and grant-making trusts**, such as the Esmée Fairbairn Foundation and the Tudor Trust, have also helped to develop the market by increasing the pool of capital available for lending.

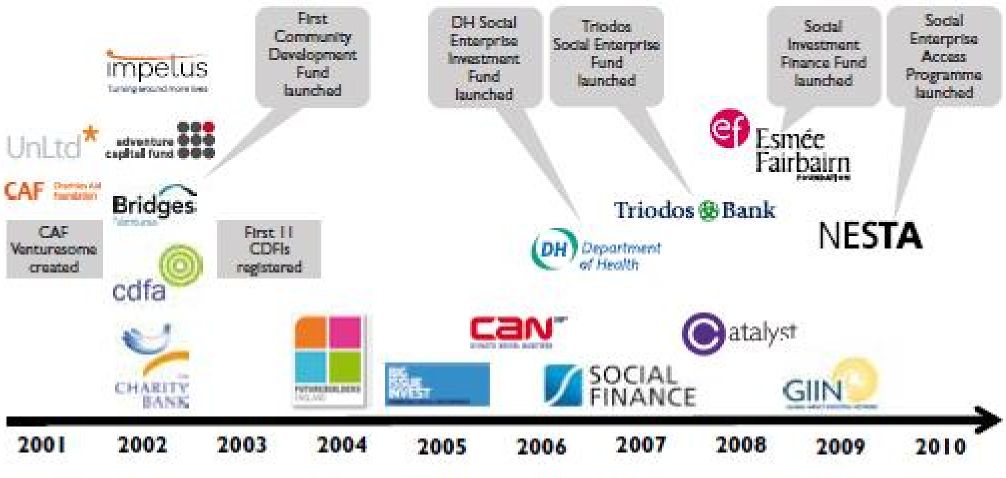
The number of **social investment intermediaries** has grown rapidly over the past decade (see Figure 2), with significant support from the government's Social Investment Task Force.[2] There are some large, national intermediaries, such as Charity Bank, Bridges Ventures, Big Issue Invest, Social Finance and CAF Venturesome.[3] There is also a network of **Community Development Finance Institutions** (CDFIs), which lend money to individuals, businesses or not-for-profit organisations that are struggling to get finance from other sources.[4]

Finally, there is a small but growing number of **social investment advisors**. These include organisations that broker relationships between investors and investees, such as Clearly So

[1] Two recent investments have stimulated innovation: NESTA's Big Society Bank Fund's £11m of investment in 22 intermediaries; and the Big Lottery Fund's £1m investment in the Private Equity Foundation.
[2] *Growing the Social Investment Market: A vision and strategy* (2011), HM Government.
[3] *Social Investment 10 Years On* (April 2010), Social Investment Task Force.
[4] CDFIs are represented by the Community Development Finance Association, formed in 2002.

and the Resonance, as well as consultancies. **Think tanks**, such as NESTA, the Young Foundation and NPC, are also working to build the infrastructure the social investment market needs.

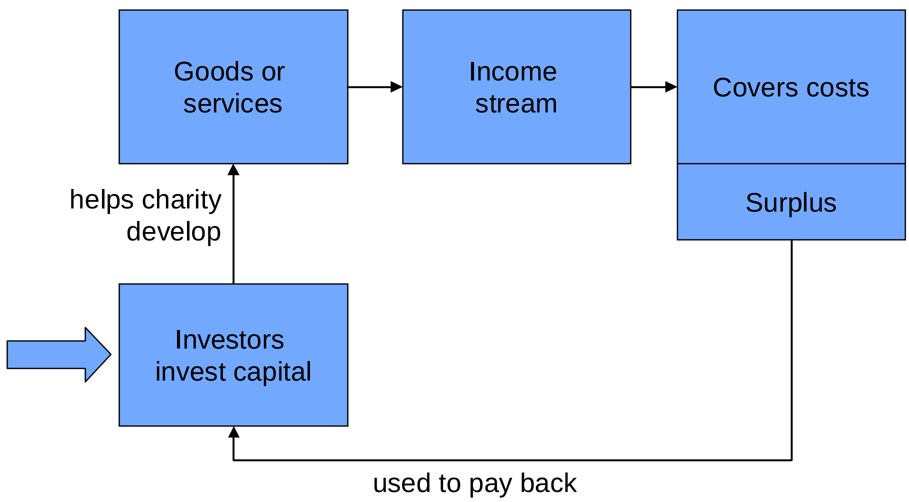
Figure 2: The emergence of social investment intermediaries[1]



How investments are repaid

Social investment needs to be repaid, and sometimes with interest. Figure 3 shows how this typically works.

Figure 3: How social investments are repaid



Put simply, an investor provides a charity with capital in the form of social investment, which the charity might use to develop a new income stream or expand an existing one. This income stream covers the costs of generating the income in the first place and generates a surplus. The surplus is used to repay the investor the original capital and make interest payments.

The way that charities generate a surplus to repay investors differs with each social investment. We have come across four main variations: trading activity, contracts for services, payment-by-results contracts, and donations or grants. The motivations of the people who pay for the services, and their connection to those who benefit, affect income risk and growth potential, so charities need to understand these dynamics. Table 1 sets out these connections.

[1] HM Government (February 2011) *Growing the Social Investment Market: A vision and strategy*.

Trading activity

Charities sometimes generate a surplus by selling goods or services, such as Christmas cards or training courses. For example, a charity may use a loan to finance the refurbishment of a charity shop. The loan would be repaid by increased customer spending in the shop.

The children's charity Barnardo's used trading income in this way. It received an investment from Big Issue Invest to set up three social enterprises: conferences; training and consultancy for children's services professionals; and specialist insurance. These social enterprises have all been successful, and Barnado's has used the surplus they generate to fund some of its charitable work and repay its loan.[1]

When the beneficiaries are also paying for a good or service (for instance, charity shop customers), then the charity has a direct relationship with the customer. If the charity pleases the customer, sales are more likely to increase. The issues and risks associated with this type of investment are not unlike the business risks experienced by any commercial company with customers paying for goods and services.

Contracts for services

Some charities repay investments using income from contracts. Social investment might provide capital for a charity to set up a new service—for example, developing a short breaks service for families with a disabled child. A grant-maker or local authority might then contact the charity to provide the service, and the charity can use this money to repay the investor. Alternatively, social investment might be used to cover overheads, such as salaries, when grant or contract funding is paid in arrears. This is often referred to as working capital.

The health and social care charity, Turning Point, received investment and expertise from Big Issue Invest to develop its new social enterprise, Connected Care. The social enterprise delivers health, housing and social care services, which are paid for by local authority contracts. Income from these contracts is then used to repay the original investment. Connected Care reached over 120,000 people in its first year.[2]

Charities investing in capital development, for instance developing new residential facilities for disabled people, could take on social investment for this, but again would need to use income from contracts to repay the investment.

Income from contracts holds different challenges to trading activity, because the service user is rarely the payer. The charity usually has to please a payer paying for the service on behalf a service user, and they may have conflicting motivations. For instance, is the local authority legally required to provide a particular service to vulnerable people unable to pay for it themselves? In which case the service is unlikely to be cut, but the service might be put out to competitive tender with pressure applied to the price. If the service is not legally required, it may be at risk of cuts.

If a charity is considering a loan or other social investment, then the price of the contract will need to cover all costs of providing the service. That includes the cost of capital: both interest and repayment. Private sector providers have to take the cost of their own capital into consideration when bidding for contracts—charities are not alone in needing to think about this.

Payment-by-results contracts

In a payment-by-results contract, the funder withholds a proportion of its funding until the charity demonstrates that it has achieved an agreed result for its beneficiaries. For example, payment-by-results contracts are being used in the Work Programme, a government initiative

[1] www.bigissueinvest.com/investments.aspx
[2] Big Issue Invest, *Social Enterprise Investment Fund LP: Scaling up businesses that create social impact.*

working with businesses and charities to help get people into work. The government intends to develop more contracts like this.[1]

One type of payment-by-results contract is the Social Impact Bond (SIB), a model developed by Social Finance. SIBs differ from other payment-by-results contracts because they involve private investors, including philanthropists and grant-making trusts. These investors pay for an intervention to be delivered, and if the intervention achieves agreed outcomes, the government pays for the service so the investors can recover their investment and a return. One SIB has been established so far, aiming to reduce re-offending rates of prisoners leaving Peterborough prison. More SIBs are likely to be developed in the future (see Section 3 for more information).

In basic contracts, the financial risk is taken on by the government (or whoever issues the contract). In payment-by-results contracts, the financial risk is usually held with charities and other delivery partners who are delivering the contract, although in SIBs, private investors bear the risk.

A number of these contracts are arising because government may be funding a service, such as rehabilitation of prisoners, because the service saves government or society money in the long run. Again, this affects the motivations of the funder. The people receiving the service have little say in who provides it: the charity must please the government departments benefitting from the cashable savings.

Grants, donations and other sources of repayment

Some investments can be repaid from grants and donations, or other sources such as the sale of assets. For instance, Hartlepool Hospice took out a loan to complete its new hospice quickly, in the correct expectation that donors would contribute over a longer timescale. Scope borrowed to develop a new residential facility: this was partly repaid from the proceeds of selling the old facility.

Table 1: Generating a surplus to repay investors

Arrangement	Example of goods or services	Who pays?	Who benefits?
Trading activity	Charity shop	Customers buying goods from the shop	Customers buying goods; and the charity's beneficiaries (because the charity receives unrestricted income to spend on its activities)
Contract	Supported living apartments for disabled people	Government	Disabled people who are living and being cared for in the apartments
Payment-by-results contract (including Social Impact Bonds)	Rehabilitation services for ex-offenders	Government	The government (which enjoys cash savings, because fewer people are incarcerated); society (as there is less crime); and ex-offenders, whose lives are improved
Grant, donation or sale of assets	Hospices	Donors, grant-makers or purchasers of assets	Charity beneficiaries

[1] Cabinet Office (2011) *Open public services white paper.*

Common misconceptions about social investment

Social finance is a new idea to many people, and as it has grown, various misconceptions have arisen. Here, we dispel four myths about social investment.

Myth 1: Social investment can replace income

One potential error is to believe that social investment could replace charities' income from grants, donations and contracts, particularly in a time when government is cutting spending and donations are falling. This is not the case, as social investment and income are fundamentally different. Social investment is repayable finance, loaned to a charity on a temporary basis. Income from grants, donations and contracts does not need to be repaid. It can be used to cover costs and generate surpluses. In some cases, investment can help a charity increase its income—for instance, investment could be used to refurbish charity shops, which in turn increases sales. But investment cannot replace income.

Myth 2: Social investment is only for social enterprises

Some charities believe that social investment has nothing to do with them, and is the preserve of social enterprise. There are several reasons for this. Firstly, social enterprises' business models often lend themselves well to social investment: many have commercial operations that generate a surplus, which can be used to pay off a loan. Secondly, many social investment products are targeted at social enterprises. And thirdly, social enterprises are often seen to be more business-minded than charities, and so better placed to take on social investment.

However, none of these reasons rule charities out of social investment, and many charities are well placed to take investment on. Hundreds of charities, including Barnardo's, Scope and Turning Point, have done so already. What is more, many, if not most, social investment intermediaries lend to charities, offering a wide range of appropriate products.

Myth 3: Social Impact Bonds are the only type of social investment

Social Impact Bonds (SIBs), developed by Social Finance, have had a high profile in sector and national press as an innovation in public service delivery. As a result, some people have come to see SIBs as the main, or only, form of social investment.

In fact, SIBs make up only a small part of the social investment market. Only one bond has been fully established so far (aiming to prevent re-offending in Peterborough) and at the time of writing, only £5m had been committed to SIBs.[1] Recent estimates put the total loan portfolios of social investors in the UK at over £500m.[2] So, in terms of value, SIBs represent around 1% of the total funds managed by social investment intermediaries. What is more, although the number of SIBs is set to increase (the government has announced plans to develop a new SIB

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[1] Disley, E. et al (2011) *Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough*. Ministry of Justice.
Joy, I. et al (2011) *Understanding the demand for and supply of social finance: Research to inform the Big Society Bank*. New Philanthropy Capital.
[2] The loan portfolio of members of the Community Development Finance Association was £531m in 2010 (CDFA 2010, *Inside Out: The State of Community Development Finance*). NPC estimates the total funds under management of the main social finance intermediaries to be around £573m, excluding Triodos. See Joy, I et al (2011) *Understanding the demand for and supply of social finance*: *Research to inform the Big Society Bank.* New Philanthropy Capital.

to support chaotic families[1]), this growth is likely to be limited by the cost and complexity of setting them up—it took 18 months to develop the first SIB in Peterborough.[2]

Although SIBs are an exciting innovation, and likely to grow in number and value in future, at present they are only a small part of a much larger social investment market.

Myth 4: Borrowing by charities is always bad

Some people believe that social investment will never be the right option for charities. They may think that social investment is too 'commercial' for charities. Or they may think that the benefits of social investment will never outweigh the risk of the charity being unable to repay the investment and becoming insolvent, which would have a severe negative impact on the people the charity helps.

Social investment does come with risks, and it is unwise for charities to take on an investment without fully considering these. But this does not make social investment an inherently bad thing for charities. As long as a charity has the right structures, processes and controls in place, is confident it will be able to repay the investment, and has considered the risks fully, there is no reason why it should not take an investment on.

[1] www.thirdsector.co.uk/news/archive/1087083/Office-Civil-Society-trial-40m-social-impact-bond-scheme-support-problem-families

[2] Ministry of Justice (2011) *Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough.*

2. Should my charity take on social investment?

Charities should ask themselves four questions when thinking about whether they should take on a social investment:

1. Will investment help my charity become more effective?
2. Should we use commercial or social investment?
3. What are the risks of taking on investment?
4. Is my charity ready for social investment?

This section is aimed at charities that have not taken on an investment before and are starting to think about it. If you are seriously interested in social investment, contact an intermediary or specialist for tailored advice (see the appendix). If you find that your charity is not ready for social investment, see Box 4 for some suggested next steps.

Will investment help my charity to become more effective?

Charities should only ever take on social investment if it allows them to become more effective and make a bigger difference in people's lives:

> *'By effectiveness, we mean charities' ability to improve people's lives and to create lasting change for the better. To be effective, charities need to: focus on activities that achieve a real difference; use evidence of results to improve performance; make good use of resources; and be ambitious to solve problems. All of this requires high-quality leadership and staff, and good financial management.'*[16]

Investment can help charities to become more effective in a variety of ways. For example, investment can help charities:

- **Focus on activities that achieve a real difference:** Upfront investment can help to finance preventative or early intervention work that struggles to get funding from elsewhere.
- **Make good use of resources:** For example, investment in fixed assets, such as buildings, could help a charity build a new residential facility or school. As well as providing a charity with an asset, a building could generate income for years to come, perhaps by sub-letting rooms. Investment can help to build a charity's capacity, allowing it to recruit staff or improve systems.
- **Become more financially stable:** Investment can help charities to:
  - **increase their income**, for instance, by expanding fundraising or trading activities;
  - **win contracts**, by strengthening business support or capacity; and
  - **smooth out uneven cashflow**, for example, by covering overheads, such as salaries, while delivering contracts paid in arrears.

Charities should also consider whether investment is a better option than other financing options. For example, running a fundraising appeal can be both costly and lengthy, taking years to raise the amount of money that investment could provide much more quickly.

[16] New Philanthropy Capital (2010) *The little blue book*.

Investment can also help charities to avoid using unrestricted funding and thus depleting a valuable financial resource. And of course, investment can help to prevent a charity from falling short and failing to deliver a project.

Capturing the social benefit

It is important that charities try to capture the social benefit of the social investment they receive, partly so that they can understand the impact of their work, and partly so that they can report back to investors, who are increasingly interested in measuring the social return of their investments. But there is no consensus on how to capture the impact of social investments practically and proportionally, although some types of investment, such as social impact bonds, do have their own requirements. Charities can help themselves by being on the front foot with their own impact measurement.

There are two factors to consider when working out the social return of an investment:

- First, is the charity having a positive impact? If it can show the difference it is making in people's lives, its investors can be confident that their investments will achieve social returns. For instance, a charity working to improve young people's well-being could demonstrate this by using a tool like NPC's Well-being Measure, which shows improvements in self-esteem, relationships and so forth. NPC can help charities to measure their impact and find the best ways to report this to stakeholders, including potential investors.
- Second, is the investment helping the charity to achieve even more than it would otherwise have done? How has it helped to make the charity more effective? For example, it may enable the charity to offer new services or increase its income.

Should we use commercial or social investment?

Once a charity has decided that an investment could make it more effective, the next question is: should we take on a commercial or social investment? Both have their benefits and drawbacks, and in some cases, a combination of the two may be the best option.

Commercial investment

Commercial investors serve many charities, and there are many commercial products that are well suited to charities' needs. Most of these investors lend to charities that have a reliable income, a good borrowing history, and a robust business plan that shows how they will make repayments. Box 1 explains when commercial investment might be appropriate for a charity.

Banks offer two key benefits that can make them more favourable than social investors and intermediaries. First, if there is a clear business plan for repayment, they can provide quick access to finance. Second, they have access to huge amounts of capital, well beyond the scope of social investors. NPC reviewed six social investment intermediaries, finding that the typical investment ranged from £50,000 to £3.5m.[17] This may not be enough to meet a charity's needs. However, this situation is changing, and some intermediaries are now offering larger loans or brokering access to larger loans.

[17] Median range from six social finance intermediaries that publish this information: Social Enterprise Investment Fund (£25,000–£10m), Adventure Capital Fund (£50,000–£750,000), Bridges Ventures (£0.5m–£10m), UnLtd (£50,000–£1m), Unity Trust Bank (£100,000–£6m), and Social Investment Scotland (£10,000–£30,000). Findings are based on publicly available data accessed in the week commencing 3 October 2011.

Box 1: When could I use commercial investment?

Commercial investment tends to be appropriate for charities when they:

- need a simple product, such as an overdraft facility or a mortgage, which may be cheaper from a bank than from a social investor;
- are able to pay commercial rates of interest;
- have a strong borrowing history, servicing debts and repaying loans on time; and
- do not need support to get investment ready (for instance, when developing a business plan).

Social investment

If commercial investment is not appropriate, social investment may be a good alternative. It differs from commercial investment in three mains ways:[18]

- **More affordable products:** Although some simple products, such as mortgages, can be cheaper from commercial lenders, many social investment products provide interest rates that are lower than many commercial rates. We have found that the typical interest rates charged by social investment intermediaries on loans ranges from 5% to 6.5%, but we have also seen products charging as low as 0%.19
- **More tailored products:** Some social investment products are similar to traditional bank products, but tailored in some way to charities and social enterprises (for example, offering a longer repayment period or more flexible repayment terms). There are also some innovative products, such as Social Impact Bonds, which are unique to social investment.
- **More support:** Social investment intermediaries are often more prepared than commercial investors to support charities to become 'investment ready'. For example, they help the charity to develop a sound business plan and repayment schedule to enable them to repay the investment.

Social investment can therefore be more accessible than commercial investment for some charities, particularly if they are small or new. Box 2 explains when social investment might be appropriate for a charity.

[18] This is based on a review of products offered by around a dozen intermediaries, and our research for Nesta: Joy, I. et al (2011) *Understanding the demand and supply of social finance: Research to inform the Big Society Bank.* New Philanthropy Capital.

[19] The average top interest rate was 4.88% and the top was 6.5% for the four intermediaries that published this information: Charity Bank (5.5%–7.5%), CAF Venturesome (5%–7%), Unity Trust Bank (2%–3.5%—Bank of England base rate +1.5% and +3%), and Social Investment Scotland (7%–8%). This was part of a review of 11 social investment intermediaries. Findings are based on publicly available data accessed in the week commencing 3 October 2011.

Box 2: When should we use social investment?

Social investment tends to be appropriate for charities when they:

- cannot afford commercial interest rates;
- need support to get ready for investment (for example, in developing a business plan);
- need a knowledgeable lender who understands charities and the field they are working in;
- need flexibility (for example, some social investors are prepared to renegotiate repayment schedules);
- need a complex product (such as a blend of grant and loan finance); and
- are clear about the social benefit the investment will bring, as social investors are increasingly looking to understand their social return.

What are the risks of taking on investment?

Investment comes with risks, and risk is a necessary part of development, innovation and ambition. So rather than avoiding risks altogether, charities should try to manage them, assess them, and have a plan to mitigate them.

What can go wrong?

Charities considering a social investment should conduct a thorough assessment of the risks involved, and we do not provide a comprehensive list here. We think there are two main areas where things can go wrong.

Firstly, **the investment might not achieve the intended social benefit**. This might be because the project did not go as planned, or it may be that the charity overestimated or misjudged the impact the project would have.

Secondly, **the charity might not achieve the forecasted income levels needed to repay the investment**. This might be because:

- The charity's forecasts were wrong: It may have misjudged demand for its services; it may have been affected by factors beyond its control (such as the economy or public policy); or its income might have been affected for another reason, such as a building selling for less than expected.
- The timing of income changed: The predicted income may be generated at a slower rate than predicted. This is a common problem, particularly when the charity intends to repay an investment from the sale of an asset.
- The project did not go as planned: For example, it may have taken longer to complete or to start generating income, or it may have failed entirely.

What happens if something goes wrong?

The consequences of a charity failing to repay an investor depend on the terms of the investment. It may result in:

- **Pressure on the charity's other resources:** A charity that finds it difficult to return an investment may find itself under pressure to use other funds to make repayments. This may mean stopping other projects or activities.

- **Pressure on management and trustees:** Dealing with a failing project or an investment that is not going to plan is time-consuming and stressful. Managers should not underestimate the potential drain on energy and resources.
- **Personal liability of trustees:** Before borrowing, especially commercially, trustees should take legal advice on the charity's status. Most charities are now incorporated with limitations placed on the personal liability of trustees. However, not all charities are incorporated in the most appropriate way, and some are not even permitted to borrow according to their governing documents.
- **Reputational risk:** Not honouring obligations can affect a charity's brand and reputation. A poor credit history may affect a charity's ability to borrow in the future or to benefit from the most favourable terms from investors.
- **Rescheduling or restructuring:** This is the most likely scenario when a charity defaults or fails to make interest payments or capital repayments. It requires a great deal of effort from the charity and the investor to sort out.
- **Enforcement, administration or liquidation:** The lender may be able to impose sanctions on the charity if it does not meet the terms of the loan. It could enforce repayment, which may involve the appointment of an administrator to run the operations and recover money. If administration fails, a liquidator will sell assets to recover the loan and wind up the operation. If the investment is a secured loan, the lender can recover its money from the sale of assets or mortgaged building in preference to other creditors. Enforcement like this is generally only used as a last resort—it is an expensive and unpleasant process rarely resulting in full repayment, and cases of enforcement against charities are rare. Aversion to enforcement may explain why some lenders are reluctant to lend to charities: the prospect of having to enforce against a hospice, for example, is so appalling that lenders do not even want to contemplate the possibility, so do not invest.

Is my charity ready for social investment?

Charities need to have the capacity to take on a social investment. Since many charities are unused to investment, it may take some time for them to be ready. Charities need to meet six basic criteria before they can take on any form of social investment: they need a future income stream, a robust business plan, good financial management, good risk management, support and scrutiny from their board, and the right corporate structure.

1. A future income stream

To take on social investment, a charity needs to be confident it can pay the investment back at some point in the future. It therefore needs a solid projected income stream. This could either be an income stream already in place (for example, an ongoing contract), or one that will be created with the help of investment (for example, a new trading activity or the ability to secure a new contract). In either case, the charity needs evidence to show that this income will continue at a level to enable it to repay the investment.

It is important to consider how reliable the expected income stream is, and it may be safest to rely on more than one source of income. Charities should think about the motivation of the people or organisations paying for their services. For example, if income is coming from a local authority, the charity should think about whether the service is essential or just a 'nice-to-have' service from a discretionary pot of funding. The latter is likely to be more vulnerable to cuts.

2. A robust business plan

Once a charity has a promising income stream, it needs a thorough business plan to go with it (see Box 3 for some useful toolkits). There is no single business planning process that all charities should follow, especially given that so many different types of income streams might be used. However, all business plans should provide a 'route map' to success. They should:

- test the viability of the income stream;
- focus your ideas so you are clear on what you are proposing;
- identify all the resources you need;
- prepare a timeline for the income stream linked to repayments of the investment;
- identify likely sources of investment;
- identify the social impact to be achieved; and
- include a risk analysis.

Box 3: Business planning toolkits

Social Enterprise London's *A business planning guide to developing a social enterprise* has lots of good advice and includes a business planning template at the back.

The Social Economy Project's *Social Enterprise Toolkit* has a useful section on business planning.

3. Good financial management

Timelines and accuracy

Good financial management should mean that accurate financial information reaches decision makers as quickly as possible. This enables a charity's leaders to make prompt decisions, particularly if a project or its income is not going to plan.

Forecasting

Financial managers should use current financial information and market intelligence to predict what will happen in the months ahead. Forecasting should include a good understanding of future cashflows and profit and loss. Month-by-month cashflow modelling helps charities to map when receipts are due and when payments need to be made. This will show whether cash reserves are sufficient to cover fluctuations in income and expenditure, or whether an overdraft may be necessary.

Analysis of information

Good business people examine financial data closely, asking: What is this activity actually costing? How does this compare with the income? Are projections being met, or is a shift in strategy necessary? Is there going to be a cashflow problem in six months' time? NPC's forthcoming paper on financial analysis explores these issues in more detail.

4. Good risk management

Good planning helps to reduce and mitigate risks. Charities should think about different situations they might find themselves in and plan how they might respond (scenario planning). This may even include identifying a potential merger partner or 'white knight' to turn to in a particularly difficult situation.

Table 2 gives an example of one risk management tool.

Table 2: Extract from a risk management tool

Risk	Likelihood	Impact	Prevention or mitigation
Building project is delayed or goes over budget	Medium	High	• Plan the project carefully • Hold regular progress meetings • Appoint a good project manager • Establish an appropriate contract with project contractor
Income received is lower than expected	Medium	High	• Understand motivation of whoever is buying this service and how badly they need it • Draft contracts to ensure commitment to buy services • Understand external environment • Identify other income streams

Charities tell us that when they plan for the worst case, it rarely occurs. But the planning process increases confidence when confronted with uncertainty, and can help to engage staff. Some charities also find they can use the risk assessment process to identify opportunities.

5. Support and scrutiny from the board

It is still not common for charities to take on investment, so there may be some resistance from the board. If a senior management team is interested in taking on an investment, they need to make the case to their trustees and get their support.

A charity's board of trustees is ultimately responsible for the financial health of the organisation. The trustees need to sign off the annual budget and any borrowing, so they need to be confident that taking on an investment is the right option for the charity. To scrutinise borrowing plans effectively, it helps to have at least one trustee with a commercial or financial background.

6. The right corporate structure

Charities need to make sure they have the right corporate structure before taking on an investment. They should take legal advice here—NPC is not qualified to offer guidance on corporate structuring. However, here are some pointers:

- Is the charity permitted to borrow or take on an investment under its governing documents? If not, can these documents be altered?
- What are the liabilities of the charity and trustees? Are they unlimited or limited through incorporation?
- Should the charity consider setting up a separate legal entity to undertake the project and use the investment? If so, what sort, and how should ownership be structured?

Box 4: Not ready for social investment?

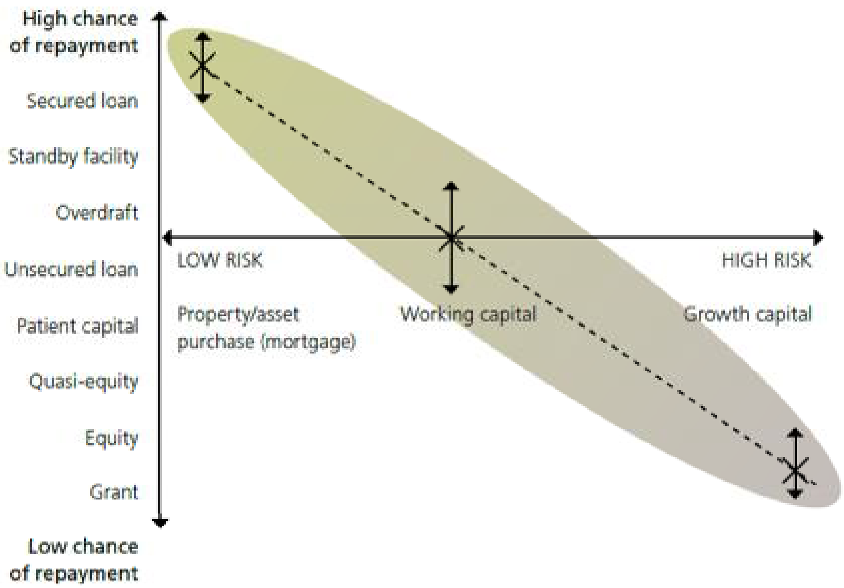
If your charity is not ready to take on social investment, but you are still looking for something more than a grant, you could look at a variety of options. Here are some suggestions for charities that are just starting up, looking to grow, or trying to improve.

- **Start-ups:** If you are setting up a charity or social enterprise, there are several organisations, such as Unltd, that can provide support.
- **Growers:** If your charity has a demonstrated social impact and is looking to grow rapidly, you may want to approach funders that have adopted a venture philanthropy model—for example, the Impetus Trust, Absolute Return for Kids, Esmée Fairbairn Foundation, Inspiring Scotland, and Venture Partnership Foundation.
- **Improvers:** If your charity wants to improve the way it is run, but is struggling to find the resources, you may want to discuss your aspirations with grant-makers. Some grant-makers are prepared to take a more hands-on approach and provide non-financial support, as well as funding.

3. Five types of social investment

There is a wide variety of social investment products available, meeting the different needs of charities and ranging in their risk to investors (see Figure 4). Some are low risk products with a high chance of repayment, such as a secured loan, mortgage or overdraft. Other products, such as investment used to fund growth capital, are riskier and have a lower chance for repayment.

Figure 4: Appropriate funding mechanisms vs. charities' funding needs[1]



We have reviewed the products offered by 11 social investment intermediaries and identified five key types of social investment.[2]

Tables 2 to 6 describe the main features of these types of social investment and how they can be used by charities. We set out the potential benefits and risks of the products, and their implications for charities (what changes charities may have to make to get ready for each type of investment). These are generic descriptions of general types of products, and we do not cover every type of product or every nuance of these products.

We hope these descriptions will get charities thinking about which products might be right for them. If you are seriously interested in taking on a social investment, you should speak to an independent financial advisor or social investment intermediary (see the appendix).

[1] Diagram taken from CAF Venturesome (2010) *Financing the Big Society: Why social investment matters.*
[2] These social investment intermediaries are Charity Bank, Social Investment Business (Communitybuilders, Social Enterprise Investment Fund, Adventure Capital Fund), Social Finance, Bridges Ventures, CAF Venturesome, UnLtd, Big Issue Invest, Unity Trust Bank, Social Investment Scotland, Triodos, and Rathbone Greenbank Investments. Findings are based on publicly available data accessed in the week commencing 3 October 2011.

Investment in trading activity	
Description	Investment in trading activity aims to increase a charity's earned income, by either: • increasing an existing income stream (for instance, by investing in a charity shop refurbishment programme); or • generating a new income stream (for instance, providing start-up investment for a new social enterprise). This investment could be structured as an equity or quasi-equity arrangement—for example, an investment agreement where the charity shares some of its income with the investor once its shops are generating an agreed level of surplus.
When investment is appropriate	When there is a projected income stream that is sufficient to repay the loan and interest. When there is proven demand from customers for this product or service.
Source of income	Customers who buy the product or service.
Typical length	Depends on how long it takes for the income stream to generate enough of a surplus to repay the loan. This could be as little as three years or as many as ten years.
Risks	**Weak business plan:** Before taking on the investment, the charity needs a thorough business plan that tests the viability of the income stream and sets out all the components that need to be in place for the project to be a success. **Insufficient growth in income:** Once the investment has been made, the biggest risk is that the income from the trading activity is insufficient. To avoid this problem, charities have to make their income projections conservative, and ideally rely on more than one income source for repayment.
Key requirements	Trading activity requires business acumen—the skills needed to set up and run a successful business, such as market research, product development, business planning and financial management.
Questions to ask	Do we have proof of demand for this product or service? Is the investment going to help us increase surplus income? How? Do we have the right staff to manage the enterprise?
Example	The children's charity Barnardo's used investment from Big Issue Invest to set up three social enterprises: conferences; training and consultancy for children's services professionals; and specialist insurance. All the enterprises have been successful and Barnado's has used the surplus generated to fund its charitable work and repay its loan.
Investors and intermediaries	Social Enterprise Investment Fund provides debt-based products from £25,000 to £10m for up to 25 years. Adventure Capital Fund has two relevant funds: one offering a grant and loan mix of £50,000 to £750,000 (Main Fund); another offering start-up grants of up to £15,000 (Business Development Fund). CAF Venturesome offers loans of £25,000 to £250,000 for three to five years on average, with interest rates of 5% to 7%. Triodos offers loans from £25,000 to £15m at 'competitive interest rates' to charities and social enterprises.

Investment for service expansion	
Description	Investment in something like staff skills can help a charity grow its services, increase its income and use surplus income to repay the loan. It is the most demanded form of investment, but also the most difficult to access. Investment for service expansion is usually long term and large scale. Modelled on growth capital in the commercial sector, it often takes the form of equity, quasi-equity or 'patient capital'. In some instances, lending is combined with grant funding, and may come with advice and support to develop growth plans.
When investment is appropriate	When the charity has ambitious plans for growth and a clear demand for its services that would enable it to grow rapidly, but where a lack of finance is holding it back.
Source of income	Funders, including government, which pay the charity to deliver more services.
Typical length	Five to ten years.
Risks	If the aim is for the charity to expand and generate more income, the biggest risk is that the growth forecast is inaccurate and growth is lower than expected. The best way to mitigate this risk is to test forecasts thoroughly. It is important to communicate risks clearly to investors.
Key requirements	The charity needs to be prepared for growth. It should have a business plan that shows clear demand for its service and a strong proposition to commissioners (including evidence of impact). It should also have buy-in from staff and build their capacity to support the growth plans.
Questions to ask	Do we have proof of demand for this product or service? Do we have a detailed and realistic growth plan? Can we demonstrate our charity's impact to commissioners?
Example	The health and social care charity, Turning Point, received investment and expertise from Big Issue Invest to develop its new social enterprise, Connected Care. The social enterprise delivers health, housing and social care services, which are paid for by local authority contracts. Income from these contracts is then used to repay the original investment. Connected Care reached over 120,000 people in its first year.[1]
Investors and intermediaries	Charity Bank provides investment of £50,000 to £2m for up to five years at interest rates of between 5.5% and 7.5%. Social Enterprise Investment Fund provides capital grants of £50,000 to £450,000. Adventure Capital Fund offers a grant and loan mix, from £50,000 to £750,000, through its Main Fund. Bridges Ventures has a Social Entrepreneur Fund that makes investments in charities. Unltd offers grants of £500 to £20,000 to early stage social entrepreneurs, and offers loans of £50,000 to £1m.

[1] Big Issue Invest, *Social Enterprise Investment Fund LP: Scaling up businesses that create social impact.*

Investment in tangible assets	
Description	Investment in tangible assets includes loans to pay for the purchase, refurbishment or rebuilding of equipment or buildings, such as office space or a care home. This could be in the form of a mortgage. Some charities take out a mortgage with a mainstream bank, and receive extra financial support from a social investment intermediary.
When investment is appropriate	• When rent or other income (such as a government care contract to use space) is sufficient to repay the loan and interest. • When the sale of buildings can be used to repay the loan and interest.
Source of income	• Funders who pay the charity for beneficiaries to use the facility. • Commercial customers who pay to use the facility (such as office space) or who buy a building.
Typical length	10–25 years where the loan is repaid using income from use of the building; 3–5 years where the loan is repaid through the sale of the building.
Risks	**Problems with development:** Many problems can arise with a large building project, including going over budget or taking too long. **No sale or rent:** The charity may not be able to sell the building or rent out space, and as a result will struggle to repay the loan. This problem is more acute at times of recession or slow economic growth.
Key requirements	Taking on a large building or refurbishment project requires building acumen. But not all charities have knowledge of the rental and sale market, for example, or experience of building projects. The charity may opt to bring in a third party to project manage the process.
Questions to ask	Are we confident that we can sell the building? Are we confident that our revenue will be sufficient to repay the loan? Who is managing the project? Is he or she competent? Who is taking the risk on project completion and costs—us or a contractor?
Examples	Scope developed a funding model to redevelop accommodation at a facility for adults with disabilities.[1] Sefton Carers Centre bought the building it was renting (worth £1.2m) using a mortgage from a commercial bank and £150,000 development capital facility from Venturesome. So far, it has achieved surpluses and kept up with repayments.[2] Learning Fields refurbished its visitors centre using a £30,000 loan from The Social Enterprise Loan Fund.
Investors and intermediaries	Charity Bank provides loans of £50,000 to £2m for up to five years at interest rates of 5.5%–7.5%. Social Enterprise Investment Fund provides capital grants of £50,000–£450,000. Adventure Capital Fund has its Main Fund, which offers a grant and loan mix from £50,000 to £750,000, and its Managed Workspace Fund, which also provides a grant and loan mix. Bridges Ventures' Sustainable Property Fund invests in properties in regeneration areas and environmentally sustainable buildings. CAF Venturesome offers loans of £25,000–£250,000 for three to five years on average at interest rates of 5%–7%. Big Issue Invest provides loans between £50,000 and £500,000. Unity Trust Bank provides a range of funds, such as its Social Mortgage Fund, that offer loans from £25,000 to £6m with interest rates ranging from 1.5% to 3% above the Bank of England base rate, with repayment in 3 to 30 years. Social Investment Scotland offers property loan of £30,000 upwards at 'competitive interest rates' to charities and social enterprises. Triodos offers loans from £25,000 to £15m at 'competitive interest rates' to charities and social enterprises.

[1] Hedley, S. and Joy, I. (2010) *New facilities, new funding: A proposed financing model from Scope*.
[2] Venturesome (2008) *Financing civil society: A practitioner's view of the UK social investment market*

Social Impact Bonds	
Description	Social Finance, which developed the Social Impact Bond (SIB) model, describes a SIB as *'a contract with the public sector in which it commits to pay for improved social outcomes. On the back of this contract, investment is raised from socially-motivated investors. This investment is used to pay for a range of interventions to improve the social outcomes. The financial returns investors receive are dependent on the degree to which outcomes improve.'*[1]
When investment is appropriate	According to Social Finance, SIBs are feasible if: • *'They address a social problem that has high costs for the public sector and can be measured … [and are high enough] that, if avoided, they will reduce the public sector's expenditure…;* • *Interventions that would deliver improved social outcomes are known; and* • *The interventions cost substantially less than the public sector savings that would result from improved social outcomes.'*
Source of income	Private funders pay for the SIB to deliver the service, and if the service successfully improves outcomes for its beneficiaries (for example, ex-offenders), then the government repays the private funders.
Typical length	The first SIB, which aims to reduce re-offending among male prisoners leaving HMP Peterborough, will work with prisoners over six years.
Risks	Investors risk non-repayment if the charity delivering the services does not achieve the expected social outcomes. The charity faces reputational risks: if it does not achieve the expected social outcomes, its reputation may suffer.
Key requirements	**Impact measurement:** The charity needs to be confident that its intervention delivers consistent positive social outcomes. This requires a high standard of evidence of impact, which may mean commissioning an external evaluation. **Economic analysis:** To develop a SIB, the delivery organisation needs to prove that its intervention creates a saving that is greater than the direct cost to the public sector. For the Peterborough prison pilot, St Giles Trust had to prove that its intervention for prisoners cost substantially less than the cost of sentencing and prison resulting from reconviction.[2] **Long-term commitment:** If a charity wants to get involved in delivering a SIB, it has to be committed. It may take time to build the case that its work creates savings, and the process of agreeing a SIB contract is long and intensive for all parties.[3]
Questions to ask	Are we confident that the problem has a high enough cost to the state to justify developing a SIB? Are we confident that our intervention consistently delivers positive social outcomes, and can we prove it? Do these social outcomes create savings for the public sector that substantially outweigh the costs of our service?
Examples	The first SIB aims to reduce re-offending among male prisoners leaving HMP Peterborough, who have served a sentence of less than 12 months. The main delivery partner is St Giles Trust, and three other charities are involved: The Ormiston Children & Families Trust, SOVA, and Cambridgeshire & Peterborough YMCA.
Investors and intermediaries	Social Finance is the only organisation so far that has developed a SIB.

[1] Social Finance (2010) *Towards a new social economy: Blended value creation through Social Impact Bonds.*
[2] Pro Bono Economic's analysis of the economic impact of St Gile's Trust's Through the Gates service.
[3] Ministry of Justice (2011) *Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough.*

Working capital	
Description	Working capital is investment to manage the time between spending money and receiving income. Investors and social investment intermediaries distinguish between 'open' and 'closed' working capital.
When investment is appropriate	As Venturesome explains:[1] • *'"Open" working capital tides an organisation over before it has raised all the money it needs to meet its costs … [For instance, it] may need to act quickly to secure a property or hire (or keep) critical staff.* • *"Closed" working capital tides an organisation over before committed funding is paid, by means of a bridging loan or an overdraft.'*
Source of income	Grants and contracts from funders: working capital is typically used by charities to smooth out peaks and troughs in grant and contract income.
Typical length	Between three months and a year.
Risks	The main risks are financial:[2] • Open working capital is *'high risk … since future income is not yet committed.'* Here, the risk is that the projected income does not materialise. • Closed working capital is *'at the low end of the risk spectrum … since the grant money for repayment has already been committed.'*
Key requirements	In the case of open working capital, the charity has to ensure its income projections are robust if it is to avoid problems with repayment.
Questions to ask	Is working capital preferable to the alternatives (for example, cutting costs)? How confident are we that we will receive our projected future income?
Examples	Questscope used closed working capital to cover a funding gap for a grant paid in arrears. B-Eat used open working capital to cover a funding gap from uneven income.[3]
Investors and intermediaries	Charity Bank offers loans of £50,000–£2m for up to five years, at interest rates of between 5.5% and 7.5%. Social Enterprise Investment Fund offers support grants for social enterprises. Adventure Capital Fund's Main Fund offers a grant and loan mix of £50,000–£750,000. CAF Venturesome offers loans of £25,000–£250,000 for three to five years on average at interest rates of 5%–7%. Big Issue Invest provides loans between £50,000 and £500,000. Unity Trust Bank provides a Grant Bridging Overdraft (£50,000) at 3% above the Bank of England base rate, and an overdraft facility (up to £1m) at 2% above the Bank of England base rate. Social Investment Scotland offers Bridging Loans of over £10,000 with interest rates of 7%. Triodos offers working capital loans from £25,000 to £15m at 'competitive interest rates' to charities and social enterprises.

[1] Venturesome (2008) *Financing civil society: A practitioner's view of the UK social investment market.*
[2] CAF (2008) *Financing Civil Society.*
[3] Venturesome (2008) *Financing civil society: A practitioner's view of the UK social investment market.*

4. Conclusion

Social investment has the potential to create significant value for charities. It can help them renovate buildings, generate new income streams and win public sector contracts. It can ultimately help them to function better, make valuable grant funding go further, and help their beneficiaries in the best possible way.

But while social investment has proved to be a valuable tool for some organisations, it is not suitable for all charities. Investments have to be repaid, so recipients need a reliable income stream, and they cannot count on investments to replace the income they receive from donations or contracts.

Charities should only take on social investment when it helps them to achieve their mission. If they cannot make a clear case for how investment will make them more effective, it may well not be appropriate. Social investment also involves risk. If a charity misjudges its future income, for example, it may fail to meet repayments, putting its activities under financial pressure or, at worst, threatening the charity with closure.

So charities need to think carefully before taking on social investment. They need to understand the risks and, through good planning and risk management, take steps to mitigate them. They need to be clear about how the investment will create social benefit and improve the lives of their beneficiaries. Charities also need to have support from their whole organisation, especially the board of trustees.

Social investment may not be a cure for all charities' funding problems, but it can be a useful tool to help charities achieve their missions. For charities that are confident of a future income stream, have the support of their board, and have considered the risks fully, social investment can be an effective way to help them do more for their beneficiaries.

Appendix: Further information and advice

At NPC, we work with charities all the time and understand the context in which they work. We also know the funding world and have good links with many social investors. We are always happy to talk to charities thinking about social investment. If you think we might be able to help your organisation, please contact Benedict Ricky on 020 7620 4850 or brickrey@philanthropycapital.org.

Main national social investment intermediaries (lenders)	
Charity Bank www.charitybank.org	Finances social enterprises, charities and community organisations, with the support of depositors and investors who want to use their money to facilitate real social change.
Social Investment Business www.thesocialinvestmentbusiness.org	Helps civil society organisations as a whole prosper through better access to finance, support and long-term strategic thinking. Runs Communitybuilders, Adventure Capital Fund and Social Enterprises Investment Fund.
Social Finance www.socialfinance.org.uk	Building a pioneering organisation to develop financial products that marry the ambitions of investors and the sector. It developed the Social Impact Bond concept.
Bridges Ventures www.bridgesventures.com	Establishes funds that aim to achieve social and/or environmental goals as well as aiming to achieve financial returns for investors.
CAF Venturesome www.cafonline.org	Provides loans to charities, social enterprises and community groups when grants may not be available and access to traditional financial institutions is difficult.
Triodos www.triodos.co.uk	Describes itself as the world's leading ethical and sustainable bank. Provides products for charities and social enterprises.
UnLtd unltd.org.uk	A complete package of resources from direct funding, to ongoing advice, networking and practical support, typically for community entrepreneurs.
Rathbone Greenbank Investments rathbonegreenbank.com	Provides personalised and professional investment management services for investors who want to ensure their investments take account of their environmental, social and ethical concerns.
Big Issue Invest www.bigissueinvest.com	A specialised provider of finance to social enterprises or trading arms of charities that are finding business solutions that create social and environmental transformation.
Unity Trust Bank www.unity.co.uk	A specialist bank for civil society, social enterprises, councils, trade unions and small businesses.
Social Investment Scotland www.socialinvestmentscotland.com	Aims to help grow the size of the social business marketplace in Scotland. Runs the Social Investment Scotland Loan Fund and Scottish Investment Fund.

Regional social investment intermediaries (lenders)	
GLE OneLondon www.gle.co.uk	Provides a range of financial products to unlock the potential of businesses and organisations across the UK, from grants and loans, to cashflow and equity finance.
The Key Fund www.thekeyfund.co.uk	Provides grants and loans, investment, and support for social enterprises, charities, community and voluntary organisations.
The Social Enterprise Loan Fund www.tself.org.uk	Provides loans to charities and social enterprises that are unable to secure sufficient funding from mainstream sources.
Ulster Community Investment Trust www.ucitltd.com	Provides affordable finance and free support for community organisations, charities and social enterprises.

Trusts and foundations	
The Ashden Charitable Trust www.ashdentrust.org.uk	Supports charitable activities through loans, interest free loans and in some cases an equity stake in organisations that meet the charitable objectives of the Trust. It invests in response to requests by grant recipients.
Esmee Fairbairn Foundation www.esmeefairbairn.org.uk	Its £15m Finance Fund provides social finance in three main ways: indirect funding via intermediaries, direct funding to not-for-profits, and development funding to test new ideas.
EMF Foundation www.emfoundation.org.uk	Over the past five years, EMF has developed a portfolio of social investments aimed at nurturing community, regeneration, sustainability and social enterprise.
Impetus Trust www.impetus.org.uk	Impetus combines strategic grant funding and expertise to enable ambitious charities and social enterprises to turn around more lives.
Panahpur www.panahpur.org/portfolio	Makes investments in not-for-profits to move them to long-term independent sustainability, and in social enterprises for positive social and financial outcomes.
Private Equity Foundation www.privateequityfoundation.org	Provides grant funding and pro bono private equity advice to portfolio of youth-focused charities.
Trust for London www.trustforlondon.org.uk	Has set up Capital for London to make investments that, in addition to offering a financial return, contribute to its mission of tackling poverty and inequality in London.
Tudor Trust www.tudortrust.org.uk	Has made programme-related investments over a number of years—75 loans since 1985—usually to purchase or refurbish properties.
Venture Philanthropy Foundation www.vpf.org.uk	Has so far invested in three organisations: Charity Technology Trust; Training for Life; and Riders for Health.

Brokers of finance and advice	
Resonance http://www.resonance.ltd.uk	Works with social enterprises in the UK, assisting them in their development strategies and matching them with investors. It currently manages two funds financing property and community share underwriting.
Shaftesbury Partnership www.shaftesburypartnership.org	Develops mechanisms to support the incubation and funding of large-scale social initiatives, by harnessing in a risk-managed way the capacity of high calibre young people, seeding them with the help of institutional and retail philanthropic investors.
Social Stock Exchange Ltd www.socialstockexchange.com	A public stock market for social enterprises, social purpose businesses and social instruments such as bonds to list and to allow social impact investors to invest.
Clearly So www.clearlyso.com	The first online marketplace for social business and enterprise, commerce and investment.

Other	
Allia (formerly City Life) www.allia.org.uk	Allia's mission is to raise funds for charities working to tackle unemployment and disadvantage. Its charitable bond invests in social housing and distributes profits to charities.
Nesta www.nesta.org.uk	Nesta is an independent body with a mission to make the UK more innovative. Its recent work on social investment includes running a Big Society Finance Fund to prototype wholesale social investment activities in order to demonstrate the role the Big Society Bank could play.
The Young Foundation www.youngfoundation.org	The Young Foundation provides research and policy advice on social investment to local and national governments as well as internationally. It also works in partnership with charities and social ventures to develop their business model and strategies including the design of SIB and payment by results models.

New Philanthropy Capital (NPC) is a charity think tank and consultancy dedicated to helping funders and charities to achieve a greater impact.

We provide independent research, tools and advice for funders and charities, and shape the debate about what makes charities effective.

We have an ambitious vision: to create a world in which charities and their funders are as effective as possible in improving people's lives and creating lasting change for the better.

For **charities**, this means focusing on activities that achieve a real difference, using evidence of results to improve performance, making good use of resources, and being ambitious to solve problems. This requires high-quality leadership and staff, and good financial management.

For **funders**, this means understanding what makes charities effective and supporting their endeavours to become effective. It includes using evidence of charities' results to make funding decisions and to measure their own impact.

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