Social Investment
Shropshire
Compact Briefing

What is social investment?
Social investment or loan finance is a relatively new tool. It involves any investment activity which has a social outcome and a financial return. The changing financial climate means that voluntary, community and social enterprise (VCSE) sector organisations are increasingly investigating and considering the different types of funding and financing options available in order to achieve long term, sustainable business models.

Social investment involves weighing the social and financial return of investment in different ways and investors often accept much lower financial returns when clear social impact can be demonstrated. Non-grant finance requires financial repayment and, as a result, there is risk attached. That risk needs to be carefully managed and mitigated. Social investment requires strong monitoring, financial management, strategic planning and skilled management.

Loans or investment income may be an option where a large sum of money is needed to bridge gaps between receipt of grant payments, or to enable projects to move forward during the time taken to raise capital from more traditional fundraising methods.

What types of social investment are there?

Social impact bonds
A social Impact Bond is a contract, often 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 social outcomes. The financial return investors receive is dependent on the degree to which outcomes improve. The aim is for Social Impact Bonds to lead to greater spending on services that prevent costly health and social problems. See: https://www.gov.uk/social-impact-bonds

Charitable bonds
Another new type of social investment has developed in the form of Charitable Bonds. A charity or social enterprise may be able to issue bonds if it has a viable underlying source of revenue with which to repay the bondholders. These may include a chain of charity shops, payments by result for the delivery of a public service, or a long track record in raising funds from a large donor base (see links section below for more information). To find out more visit: http://knowhownonprofit.org/funding/social-investment-1/investment-types/charitable-bonds

Philanthropic capital
Philanthropic capital is used by foundations and philanthropists to create social benefits. It can act as a financial guarantee to leverage in more funds from both within and outside the VCSE as it can reduce the risk (perceived or actual) or act as a way of encouraging other investors. There are examples of philanthropic capital used within social impact funds that may include impact loans, gift capital (donations) and liquidity facility. New Philanthropy Capital has some interesting publications and case studies, visit:
http://www.thinknpc.org/

Venture philanthropy
Venture philanthropy is a form of strategic philanthropy in which unrestricted grants are provided alongside in-kind support to the investee such as advice, staff, board members etc. It

is of interest to organisations in need of growth capital with ambitions for scaling-up. To find out more visit:
http://www.philanthropy-impact.org/trend/venture-philanthropy

Community Development Finance Institutions (CDFIs)
CDFIs are social enterprises that support communities by providing affordable finance that would otherwise not be available. By making loans, they are able to recycle this finance again and again into neighbourhoods where it is most needed. CDFIs lend money to those unable to get finance from high street banks. They fill the gaps in mainstream lending, addressing market failures and offering an affordable alternative to high interest doorstep lenders. To find out more visit: http://www.cdfa.org.uk/about-cdfis/

Other forms of social investment include:
a) **Community investment** - selling shares to people in the community to create a co-operative enterprise.
b) **Growth/development capital** - finance to help an organisation or project grow.
c) **Equity investment** - finance from the sale of shares.
d) **Quasi-equity/revenue participation** - combining some of the benefits of equity and debt.
e) **Patient capital** - designed to demonstrate and provide business models which can subsequently get to scale by attracting follow on private investment. It is usually used for very large social or environmental impact projects.
f) **Forms of loan including:**
    - Secured loans (use of tangible assets to raise funds)
    - Standby/underwriting facility (secure credit to use if/when income drops)
    - Overdraft facility (secure agreed credit when your account reaches zero)
    - Bridging loan (finance to cover short-term cash-flow shortfalls)
    - Pre-funding of fundraising (loans which help meet short-term fundraising targets)
    - Working capital facility (finance to support dips in cash flow)

When should VCSE organisations consider social investment?
The term 'investment ready' is now widely used and would include the following:
- Strong financial skills and management.
- An understanding of social investment and an assessment of appropriate models.
- Preparation in advance of approaching investors – understanding investors' priorities.
- Access to any support services required.
- Strong leadership, planning and performance skills (an ability to provide robust evidence of social return).
- Risk assessment and planning.
- Strong governance with support from Trustees.

More information on social investment
http://www.bigpotential.org.uk/resource/social-investment-guide
http://www.bigpotential.org.uk/research/social-investment
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210408/Social-Investment-Report1.pdf

The Shropshire Compact
For more information about the Shropshire Compact use the details below:

Website: http://vcsvoice.org/the-compact/

Email: VCSAssembly@shropshire.gov.uk **Telephone:** 01743 252740