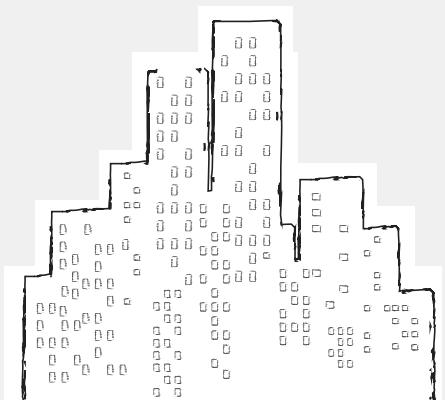
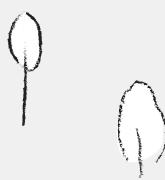
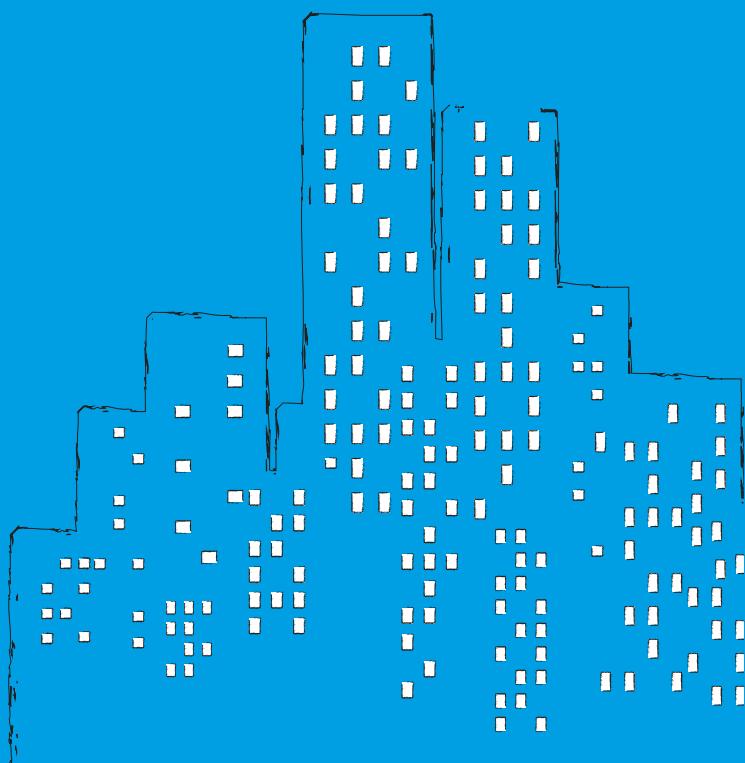


# SOCIAL INVESTMENT EXPLAINED



If you're reading this guide, it's probably because you've heard the term 'social investment' and wondered what it's all about.

The aim of this guide is to give you an overview of the UK's social investment market and help you to work out whether and how it's relevant to your organisation – it's for anyone involved with a voluntary and community organisation or social enterprise (VCSE), be they a trustee, chief executive or member of staff.



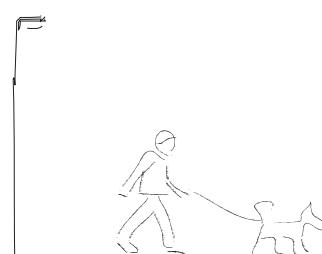
# WHAT DO WE MEAN BY SOCIAL INVESTMENT?

For the purposes of this guide, the term 'social investment' means 'finance provided for VCSE organisations, which the investors expect to both get back and to create social impact.'

The **social investors** providing this money include specialist banks, individuals, and charitable trusts, as well as organisations and funds that have been specifically set up to make social investments. Each has different motivations but what all social investors have in common is:

- ① They expect to get their money back, often with interest**
- ② They want to see positive social change take place as a result of their investment**

Social investment is not a grant or a donation. It is money provided to enable your organisation to generate more income or be more effective: growing your business, putting in place better systems, doing more social good, and repaying the investment in the process.



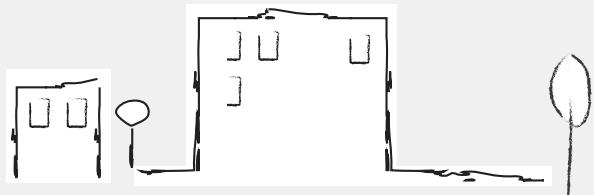
# WHY IS SOCIAL INVESTMENT IMPORTANT RIGHT NOW ?

There are three main reasons why social investment has become an important part of the landscape:

- ① **It recycles the money we have:** there is simply less money available, and there is bigger demand for the grants that are still available from government, donations or charitable trusts. Because social investment returns to the investor, it can be used again to support more charities and social enterprises; and help ensure grants go to where they are needed most.
- ② **It attracts new money:** social investment can also help to address the decreasing resources available by attracting money from new sources: from individuals, mainstream finance, or the private sector. This can help add to the existing money that is available.
- ③ **More organisations can use it:** more VCSE organisations are trading, and trading means that income is being earned and there is the potential for money to be invested and paid back. Social investment can play a role in supporting the growth of new organisations, and in helping existing charities and social enterprises to keep going and do more good.

This does not mean that social investment is necessarily right for your organisation. Not all VCSE organisations can or should be trading organisations, and not all trading organisations need to take on this sort of finance – some may never need it. It also doesn't mean that you can only either go for social investment or grants: many organisations seek to blend the two.





## NOTES ON READING THE GUIDE:

**Structure** – The guide is split into three sections:

**Sections 1 and 3** are designed to be read by everyone.

**Section 2** is divided according to what you want investment for, so some bits of it will be more relevant than others.

The guide is aimed at people working for or starting a VCSE organisation. From now on, these organisations are referred to as 'your organisation'.

For the purposes of this guide, an investor is someone who you approach to make an investment in your organisation.

Words in **bold** are key terms that are included in the glossary.

**Section 1: Questions to consider**

**Pages 6 – 16**

**Section 2: Working out what you need**

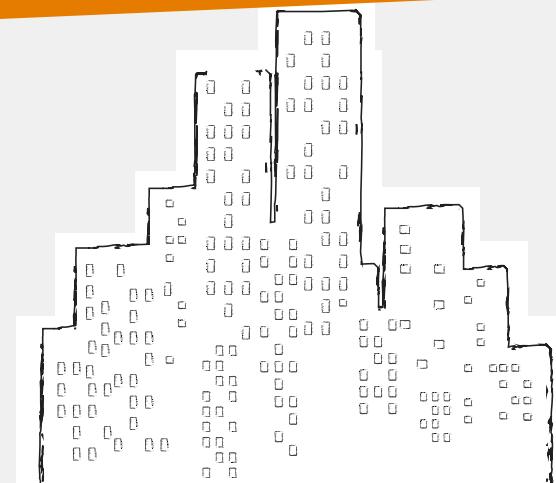
**Pages 17– 31**

**Section 3: Understanding the market**

**Pages 32 – 34**

**Glossary**

**Pages 36 – 37**



# SECTION 1: QUESTIONS TO CONSIDER

## Is Social Investment Right for Your Organisation? 7

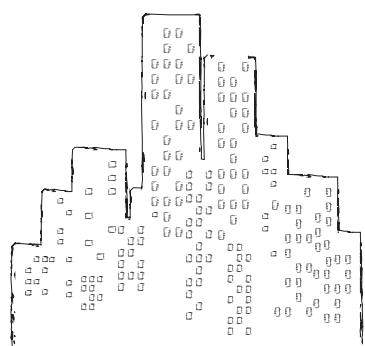
Does my organisation need investment?	7
Should we look for grants?	8
Why might investment be better than grants?	8
What about conventional or mainstream investment?	9
Why might we choose social investment?	10

## Is Your Organisation Investment Ready? 11

Ready for what?	11
Ready or not?	12
Where can my organisation get support to be investment ready?	13

## What Types of Investment are There? 14

Debt	14
Equity	15



# Is Social Investment Right for Your Organisation?

## DOES MY ORGANISATION NEED INVESTMENT?

It's always useful to have money in the bank. But that doesn't mean that taking money or investment from other people is always the right move for your organisation. Investment comes with a cost and you have to decide whether the potential benefits outweigh the costs.

It could be that the best way forward for your organisation is to build up money in the bank gradually by selling products or services to customers at a profit, rather than looking to raise a lump sum from an investor.

For example, a charity which has set up a new enterprise employing a small number of the clients it supports may establish the business gradually and make a small profit each year. This can be reinvested to grow organically and employ more people year-on-year.

On the other hand, an organisation setting up a shop or creating a new product may find it far more difficult to open for business if it doesn't have money up-front to pay for the equipment or to buy the initial stock needed to get started.

The key point here is that you need to be clear about what taking on investment will enable you to do that you cannot do already.

Organisations may need investment for a variety of reasons, which can be grouped into four main sections:

**Getting Started:** to raise money for a new start-up

**Keeping Going:** to support existing activities

**Buying Assets:** to buy buildings or other equipment

**Scaling Up:** to grow and expand

*Each of these are covered in more detail in Section 2 of this guide.*

## SHOULD WE LOOK FOR GRANTS?

If you're clear that your organisation definitely needs money from somewhere, the next question you need to consider is whether you're looking for an investment or grant, or a blend of the two.

The rise of social investment in the UK does not necessarily mean that it's easier to get an investment in your organisation than it is to get a grant.

Some charitable and community activities will never be trading enterprises and can only be funded by grants or donations. In other cases, you may have the long-term aim of turning an activity into a sustainable trading enterprise but grant funding may still be a better way of supporting what you're doing right now. There's no point looking for investment if you don't have a clear idea about how (and when) you will be able to pay it back.

The most obvious advantage of grant funding is that you don't have to pay it back. But most funders do not want to just give grants to support trading activities that lose money.

Situations where a grant may be useful and available to support your organisation's trading activities include:

- You need funding to test whether your idea works
- You need funding to find out whether anyone wants to pay for products and services
- You need funding to sustain an activity that delivers great social value but doesn't bring in enough income
- You need funding to help you reach the point where you can take on investment

*You need a mix of finance that requires both grant and investment*

## WHY MIGHT INVESTMENT BE MORE APPROPRIATE THAN GRANTS?

Despite the obvious advantages of grants, there are also some reasons why taking on an investment alongside a grant or instead of one may sometimes be in the long-term interests of your organisation.

**Flexibility:** Investors are likely to be more flexible than grant funders about what you do. If you find your **business plan** isn't working, an investor is likely to be happy if you change your **business model** to one that's more likely to succeed.

**Active involvement and support:** Investors are more likely to want to get actively involved to support your organisation. This can be useful, especially for start-ups.

**Less restricted:** Social investment tends to be less restricted to particular projects and outcomes than conventional grant funding, giving your organisation freedom to use it most effectively; it can also mean less distraction chasing grants.

**Business discipline:** Social investment can also help organisations increase their effectiveness through requiring them to improve their financial and business processes, and to be very clear on their priorities and objectives.

## WHAT ABOUT ‘CONVENTIONAL’ OR MAINSTREAM INVESTMENT?

As someone running an organisation with a social purpose, you are not obliged to look for social investment. VCSE organisations can borrow money from mainstream banks and take on investment from people that support and invest in all types of business.

The potential advantages of ‘conventional’ investment are:

**Less complicated relationships:** A high street bank may lend you some money if they think you can pay it back, an **angel investor** may invest in your business if they like it or think they can make money, a government scheme to support start-up businesses may lend to you if they think your organisation might succeed.

**Better deals:** Mainstream banks may have better deals or rates on some products because of their greater scale.

**Quick and accessible:** Another benefit of scale, banks have branch networks and online applications which can speed up the process.

It is important to note that most mainstream or conventional investors will not be interested in the social aspect of what you do, but only in the business side of your organisation.

Most investment currently received by charities and social enterprises in the UK is not social investment. NCVO’s 2013 Civil Society Almanac reports that in 2011/12 the voluntary sector owed around £4 billion in loans. Most of this investment is mortgages, with charities and social enterprises taking **secured loans** to buy property.

The UK social investment market in 2011/12 was estimated at £202 million, currently growing in size at over 20% per year.

## WHY MIGHT WE CHOOSE SOCIAL INVESTMENT?

There are (at least) five reasons why social investment might be better for your organisation than conventional investment:

**You can't get the money from a bank:** High street banks and other non-socially motivated investors are not experts in investing in VCSE organisations, and may not be confident to invest because they don't understand your organisation or its market.

**You may get a better deal:** Many social investors receive government or philanthropic subsidies which may mean they can offer your organisation a better deal than investors who need to cover all their costs.

**More likely to understand your business:** Some social investors have extensive experience and expertise in working with VCSE organisations – many are charities and social enterprises themselves. They are therefore more likely to understand the markets you operate in and to be able to provide you with support and advice.

**More likely to be patient:** Social investors do want their money back but they may be more likely than mainstream investors to be flexible and allow you more time to repay an investment if circumstances change.

**Supporting a social finance system:** As someone running a VCSE organisation, you may want to support the sustainability of the social economy by taking investment from a specialist social investor. For example: taking a mortgage from a **social bank**.



### REMINDER: KEY QUESTIONS

- Do you need the money?
- What do you need the money for?
- Why wouldn't you be better off applying for grant?
- Do you really need social investment?

# Is Your Organisation Ready for Investment?

One of the most widely discussed phrases in social investment is **investment readiness**. The question behind the phrase is not a complicated one: 'is your organisation ready to take on an investment?' The section below talks about what this actually means.

## READY FOR WHAT?

Different investors may have very different ideas about whether an organisation is ready to receive an investment.

There isn't one single way of judging whether your organisation is investment ready (other than whether or not someone ultimately offers you some money) but there are ways of working out what sort of investment you're ready for.

You may be ready for some forms of **start-up investment** simply on the basis that you have a really good idea and a group of people who are enthusiastic about making it happen. On the other hand, if you're looking to take on £500,000 to enable your organisation to scale-up, the investors you're approaching are going to expect much more understanding about how your business works, how you create social value and how they'll get their money back.

## READY OR NOT?

The information that investors may want to know about your organisation might include:

### The people in your organisation:

- The skill and experience of your most senior members of staff
- The role of your board and governance structure
- The skills of your board in key areas such as finance, marketing, business development, human resources and legal
- The balance of your board in terms of both skills and representation of the community and people who use your services
- The overall skills and experience of your staff team and volunteers
- The level of financial and business skills within the organisation

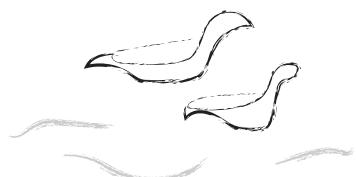
### What you do and who your customers are:

- How clear you are about the products and services you offer
- How many customers you have and who they are
- How are you different from your competitors
- Whether the market for what you do is growing or shrinking, stable or volatile
- How profitable your products and services are or will be
- How well connected you are to local or national networks and partnerships

### How you do things, how well you do them, and how you know:

- Whether you have a clear vision of the impact you're trying to achieve
- Whether you have the capacity, resources and skills to deliver
- Your track record of delivery
- How well you engage with your community and/or people who use your services
- How you manage performance and measure impact
- How you report on your achievements and impact

**Most social investors will expect you to be able to both articulate your social impact, and explain how you measure it. Have you tried and tested your work, and measured the results? Do you know what works and what doesn't? What are the key factors and partnerships that deliver best results? This matters to social investors.**



### How you manage your finances:

- What systems you have in place for managing your finances and producing accounts
- Your knowledge of your financial procedures and systems
- The state of your **cashflow** – eg. over the past 12 months
- Your predicted **cashflow** – eg. over the next 12 months
- The extent and quality of your internal financial reporting

Investors at the start-up stage won't expect you to have all this information, but for larger investments you will need to be able to answer investors' questions on all of these areas.

### WHERE CAN MY ORGANISATION GET SUPPORT TO BE INVESTMENT READY?

Specialist investment readiness programmes such as the Investment and Contract Readiness Fund (ICRF) and Big Potential are specifically focused on helping your organisation get to a point where you can find investment. They provide organisations with grants to buy support from specialist experts and advisors.

**What's on offer:** Grants to support you to develop the capacity of your organisation, to enable you to reach the point where you're ready to take on investment

**Amounts available:** £25,000 – £75,000 (Big Potential) / £50,000 – £150,000 (ICRF)

**What they will expect from you:** You spend the money paying for specialist support to help you improve your organisation.

**What they may hope to get from you:** That you go on to seek investment of anywhere up to a maximum £500,000 (Big Potential) or £500,000 and over (ICRF).

**Key drawbacks:** Specialist advisers may have different ideas from you about how to scale-up your organisation; an investment of time to put advice into practice

**Key benefits:** Enables you to access expertise that you wouldn't otherwise be able to afford; prepares your organisation for investment

If you want more general help on getting ready for investment and finding it, you could apply to a **support programme**, such as the School for Social Entrepreneurs' Scale-Up or UnLtd's Big Venture Challenge / Fast Growth, or one of the growing number of 'accelerators'. These programmes offer a package of help over a set period of time.



#### REMINDER: KEY QUESTIONS

- Is your organisation investment ready?
- What does it mean to be investment ready?
- Who can help me get investment ready?

## What Types of Investment are There?

There are two main types of investment: debt and equity. Both are explained below.

### DEBT

An investor puts some money into your organisation and they want to get that money back, often with **interest**.

The first questions to consider with all debt-based products are:

- a) Will you be able to repay the loan? and
- b) What will happen if you can't repay the loan?

Types of debt-based investments include:

**Secured loans** – these work like mortgages on a house: an investor provides your organisation with a loan against an **asset** (often a building or equipment) as 'collateral'. You repay the loan on an agreed basis (eg. regular monthly payments) often including interest on top of the capital repayments. If you don't repay the loan, the investor may have the right to take possession of the asset and sell it to recover the debt.

**Pros:** Interest rates may be lower than unsecured loans

**Cons:** Risk of losing your building or asset if you can't repay the loan

**Social consideration:** Can social investors offer you a better deal than a high street bank?

**Unsecured loans** – an investor provides your organisation with a loan that isn't secured against an asset. You repay it on an agreed basis, often with an agreed amount of interest on top. If you don't repay the loan, the investor can take you to court to recover the debt.

**Pros:** You don't need to own an asset to get one.

**Cons:** Interest rates are likely to be higher than a secured loan, as it is more risky.

**Social consideration:** Is the investment helping you create more social value and do more good?

**Quasi-equity** – this is a debt-based product which is more flexible than a normal loan and acts a bit like equity (hence the name), with some similarities to an investor buying shares in a business. Rather than paying back a set amount each month, your repayments are based on the performance of the business – such as profit or turnover. This model can be particularly useful if your organisation is a charity or Community Interest Company **Limited by Guarantee**, which cannot sell shares and take equity investment (see below).

**Pros:** You don't have to repay money you haven't got, the investor may provide additional help and support because they only get their money back if the business succeeds

**Cons:** Deals can be complicated to set up; if the business is very successful you may end up paying more back than you would have done with a standard loan

**Social consideration:** Will the market your organisation works in remain consistent to allow it to deliver consistent profit or turnover over time?

**Charity bonds and crowd-funded loans** – a loan is a debt to one investor. Bonds are loans made from lots of investors. You can ask a crowd of supporters to contribute towards an overall total loan, through a crowd-funding website or charity bond. This could be a straight unsecured loan or a quasi-equity loan and may also provide **non-financial rewards**.

**Pros:** proves support for your organisation, opens up opportunity to general public

**Cons:** it can take a lot of time and effort to generate relatively small amounts of money, some organisations are more crowd-friendly than others

**Social consideration:** Are there enough people who care about the social change that you want to bring about?

## EQUITY

An investor put some money in your organisation in exchange for part-ownership of the business. The investor gets a right to share in any dividends which are paid out from profits. They may also sell their shares in the business to someone else as the business grows and those shares become valuable. This type of investment is best known from the TV show Dragon's Den.

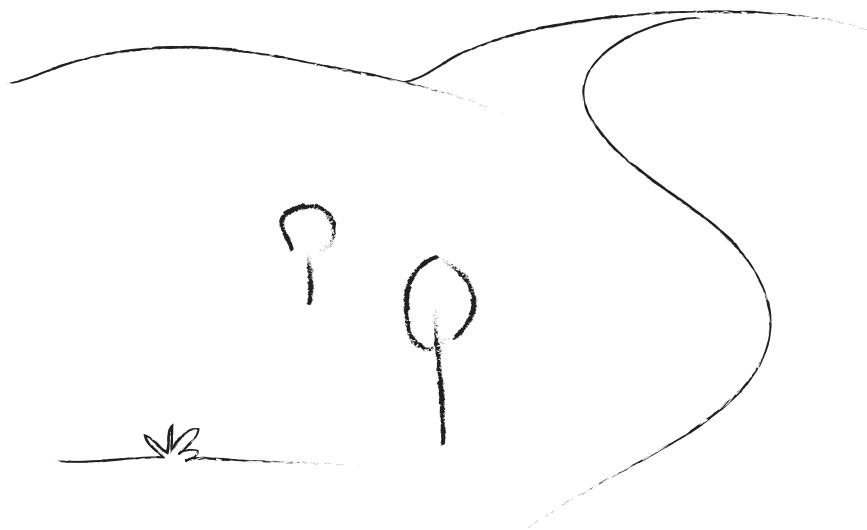
It is important to note that most charities and social enterprises cannot and do not sell shares and therefore cannot and do not distribute profits to shareholders. But CIC Limited by Shares, community benefit societies and some other co-operative and company structures can enable some organisations to issue shares and pay dividends within certain guidelines: this means they can still be recognised as social enterprises with a social purpose.

**Key questions for enterprises with a social purpose looking to sell shares are:**

- a) Do you want to give up a proportion of control over your business?
- b) Are you going to (or do you want to) make enough profit to give shareholders a return on their investment?

One of the most common types of equity social investment is community shares: the sale of shares in enterprises serving a community purpose. This has been used to finance shops, pubs, community buildings, renewable energy and other community-based enterprises.

**Social impact bonds** – Social impact bonds (SIBs) are a form of investment product originally developed by Social Finance to make it easier for charities and social enterprises to deliver **payment-by-results** contracts. Investors in SIBs do not make a direct investment in the charities and social enterprises that are responsible for delivering the contracts: they invest in a **special purpose vehicle** with a management agent. If the social enterprises and charities deliver the anticipated outcomes, and the expected savings to government, the local or national government pays back the investors with interest.



# **SECTION 2:**

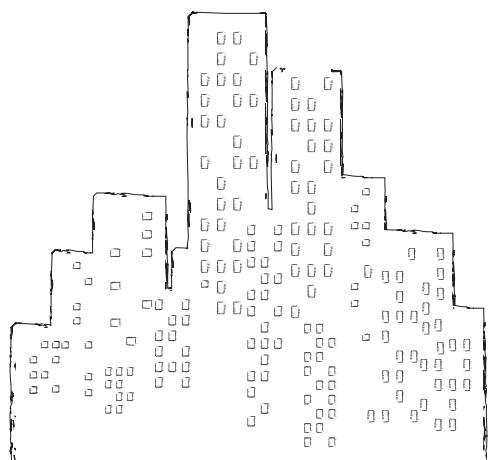
## **WORKING OUT WHAT YOU NEED**

**Getting Started** **18**

**Keeping Going** **22**

**Buying An Asset** **26**

**Scaling Up** **29**



## Getting Started – Part One

You're an entrepreneur with a great idea for a new social venture or an existing organisation looking to start something new. Now all you need is the money to get it off the ground.

---

### RISKY BUSINESS

Most start-up enterprises are relatively high-risk investments because new businesses do not have a **track record** (though the team behind it might). Even if you've got some evidence that someone wants to buy the products and services you're going to sell, there is no way of being sure they'll buy from you (or that you'll make a profit) until you start.

### HIGH-RISK, LOW RETURN

For most social start-ups, unlike their private sector equivalents, it is very unlikely that your organisation will be able to offer investors a large financial return even if successful. This is because of the way **equity** works and how early-stage investors can sell shares on when a company grows very fast: few charities and social enterprises can take equity investment and most are not owned by shareholders, so this is seldom possible.

So this usually means finding investors who are able to accept that there is a larger chance they won't get their money back and a more limited chance they will make lots of money. Fortunately, social investors want their money to be used to create social value and those who invest in start-ups are often prepared to accept these 'high-risk, low return' realities.

### WHAT DO YOU NEED MONEY FOR?

At the start-up stage, your main challenge is to get your business to the point where you can find out:

- a) whether anyone wants to buy your products or services or not
- b) whether enough customers want to buy your products or services at a price that will enable you to create a sustainable business

Possible uses for investment are:

- a) Product or service design and development
- b) Delivering products and services to customers
- c) Sales and marketing
- d) Investment in systems (eg. IT, online, data)
- e) Staffing – paying yourself and others

### HOW MUCH MONEY DO YOU NEED?

At start-up stage it's particularly important to be realistic about the amount of investment you need: the less investment you take on and spend, the less you have to earn in order to pay back. You need to work out how much investment is absolutely essential to developing the organisation to get off the ground and to the point where you're able to sell something.

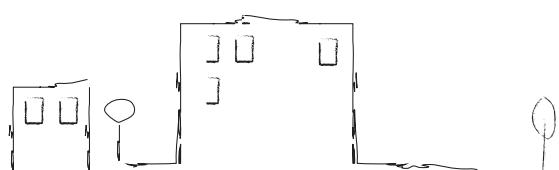
### HOW WILL YOU PAY THE MONEY BACK?

You need to consider both the model for repaying an investment and how repaying an investment will affect your organisation.

If you haven't reached the stage where you're generating income, it's fairly pointless (and potentially irresponsible) to take on a loan that needs to be repaid immediately; but assuming you can find investment that doesn't require this, you need to be very clear about how you'll be able to repay it in future from your trading activity.

### WHAT SUPPORT/INPUT DO YOU WANT FROM INVESTORS?

Different types of investors can offer (and want) very different levels of involvement in your social venture. You should ask yourself whether you are looking for an individual or organisation that gets actively involved with developing your business, or one that invests and leaves you to get on with it.



## Getting Started – Part Two

What is on offer?

### POSSIBLE INVESTORS:

#### Your Own Existing Organisation

**What's on offer:** Investment from your charity or social enterprise's reserves to enable you to start your organisation.

**What they will expect from you:** Their money back; a new business that meets the organisation's social aims.

**What they may hope to get from you:** Profit on their investment; an ongoing source of unrestricted income.

**Key drawbacks:** The charity/social enterprise may lose its money; possible conflict between aims of the investor and aims of the start-up.

**Key benefits:** Likely to be a patient investor; may understand the market; profits go back into creating more social value.

#### Friends and Family

**What's on offer:** Small investments from people that you know or support you personally.

**What they will expect from you:** trust, integrity, etc. Hopefully not too much.

**What they may hope to get from you:** Either their money back or profit on their investment.

**Key drawbacks:** Your friends and family lose their money; negative crossover between personal and business relationships.

**Key benefits:** (Hopefully) patient, early investors.

#### Crowd-funding

**What's on offer:** Lots of small amounts of money from lots of people who support what you're doing, usually raised through an online platform.

**Amounts available:** Usually £2,000 to £50,000.

**What they will expect from you:** Success of the project; non-financial rewards (eg. something associated with the activities of the organisation, like an invite to all future events)

**What they may hope to get from you:** (Some or all of) their money back.

**Key drawbacks:** Not easy to find a crowd of investors: you need a crowd before you get a crowd of investors; listing fees.

**Key benefits:** Patient investors. Evidence of support for what you're doing.

## Community Shares

**What's on offer:** Small amounts of money from lots of people in your local community.

**Amounts available:** Average raised £200,000.

**What they will expect from you:** Success of the project; ownership stake; some of their money back.

**What they may hope to get from you:** (Some or all of) their money back.

**Key drawbacks:** Not easy to find a crowd of investors, as with Crowd-funding; often requires promotional activity; requires co-operative or other shareholder legal structure.

**Key benefits:** Patient investors. Evidence of support for what you're doing.

## Accelerators, Incubators, Challenges, Prizes

**What's on offer:** Investment and other support for social enterprise ideas that have the potential for scale.

**Amounts available:** £10,000 – £100,000.

**What they will expect from you:** You participate fully in their programme, which may include being based full-time at their offices or attending specific sessions.

**What they may hope to get:** A return on their investment through profits or selling their stake (if they have taken equity).

**Key drawbacks:** You may need to get match funding; programme may not suit you.

**Key benefits:** Additional support to develop your business including training and office space.

## Examples:

**Case Study 1: Fairphones** – The team behind Fairphones received initial investment and support from the Bethnal Green Ventures accelerator programme in 2012 to start the process of developing an ethical mobile phone. Two years on, they've successfully brought the product to market and sold 55,000 of them.

<http://bethnalgreenventures.com/tag/fairphone/>

## Type of investment – Equity

**Case Study 2: Artspace Bath** – A group of artists based in Bath wanted to set up a pop-up artspace for four days in the city centre. They ran a crowd-funding appeal on social innovation charity the RSA's Crowd-funding platform and raised over £10,000 from 116 investors offering rewards including postcards, t-shirts and original artwork.

<https://www.kickstarter.com/projects/1121676540/artspace-bath-a-4-day-contemporary-arts-event-in-t?ref=328b4z>

## Type of investment – Crowd-funding

## Keeping Going – Part One

You've been running your organisation for a few years, you have paying customers for your products or services, and you are delivering positive social change. Unfortunately, money is tight and if you don't get some more in from somewhere over the next few months, you'll have a problem. You may well be delivering public service contracts of one type or another.

### WHAT DO YOU NEED MONEY FOR?

The answer here is almost always **cashflow**: your organisation is profitable overall and income covers your costs; but income doesn't always come in before the bills need to be paid. There are investment products which can help your organisation manage these gaps and dips between people paying you and you having to pay bills and other organisations:

**Working capital** – you might need investment to manage your cashflow so that you have enough money in the bank – this gives you **working capital**, which is used to finance the everyday operations of an organisation.

**Bridging loan** – this type of one-off loan bridges bigger gaps in cashflow; for example, if payments don't come in as expected, or there is an unexpected cost that needs to be paid; a standby or overdraft facility can also be used at such times.

### HOW MUCH MONEY DO YOU NEED?

This can vary from very small amounts to much larger, more complicated arrangements for big public service, payment-by-result contracts.

### HOW WILL YOU PAY THE MONEY BACK?

The key question here is whether you are planning to pay the money in one lump sum (having been paid for contract delivery) or to repay the money in stages over time? Or is the facility available to use in a more expected, regular way? This will almost always be specific to your organisation's situation and the type of contracts and delivery it is involved in.

### WHAT SUPPORT/INPUT DO YOU WANT FROM INVESTORS?

In some cases, specialist social investors may be prepared to make an investment on the condition that they get involved in the business and help you to make it more profitable. You may welcome this kind of help but you may disagree with investors' ideas about how you should change the business.

## Keeping Going – Part Two

Finding out what's available:

### Your Own Organisation

**What's on offer:** Investment from your charity or social enterprise's reserves to enable you keep going.

**What they will expect from you:** Their money back; the enterprise continues to meet the organisation's social aims.

**What they may hope to get from you:** That the enterprise becomes profitable.

**Key drawbacks:** The charity/social enterprise may lose its money.

**Key benefits:** Likely to be a patient investor; may be able to provide money quickly.

### Friends and Family

**What's on offer:** Small investments from people that you know or that support you personally.

**What they will expect from you:** Their money back.

**What they may hope to get from you:** The enterprise becomes successful and doesn't need to ask them for more money.

**Key drawbacks:** Your friends and family lose their money; negative crossover between personal and business relationships, creating added pressure in an already difficult situation.

**Key benefits:** (Hopefully) patient investors.



## Customers

**What's on offer:** A customer that buys your products and services may be able to pay you earlier than usual to enable you keep the business going.

**What they will expect from you:** That you are able to provide them with the products and services they need – and that you can offer something that other providers can't.

**What they may hope to get from you:** A better working relationship in the long-term.

**Key drawbacks:** Asking for this kind of investment shows the customer that you are in trouble and may make them less likely to buy from you.

**Key benefits:** If a customer has invested in your business, they're more likely to have a long-term commitment to working with you; they will understand the realities of the market.

## Members

**What's on offer:** Co-operative enterprises can raise money from members (both individuals and organisations) enabling them to maintain a strong, ongoing financial position.

**What they will expect from you:** Enterprise continues and delivers a good service.

**What they may hope to get from you:** A share of profits; continuing on mission.

**Key drawbacks:** Can withdraw money too, depending on arrangement.

**Key benefits:** Builds relationships with members; not reliant on external agencies.

## Social Banks

**What's on offer:** Loans and overdraft facilities on similar basis to high street banks.

**Amounts available:** Depends on organisational situation.

**What they will expect from you:** Their money back with interest.

**What they may hope to get from you:** You continue to do social good.

**Key drawbacks:** May not offer a better deal than a high street bank.

**Key benefits:** Better understanding of needs of VCSE organisations.

## Specialist Social Investors

**What's on offer:** Loans, bonds and standby money (a guarantee to provide you with money if you need it).

**Amounts available:** £25,000 – £500,000.

**What they will expect from you:** Their money back with interest.

**What they may hope to get from you:** You continue to create social value.

**Key drawbacks:** Interest may be high if loan is high-risk or needed urgently.

**Key benefits:** Specifically want to help organisations with a social purpose; good understanding of business realities.

**Examples:**

**Case Study 1: The Midi Music Company** – the south London-based charity that provides music lessons, course and careers advice for disadvantaged children and young people was experiencing cashflow problems so it went to its bank for help, but was unable to get an overdraft. They managed to secure a £36,000 loan from social investor, CAF Venturesome which enabled them to continue with their work.

<https://www.cafonline.org/charity-finance--fundraising/borrowing/tools-and-guides/case-studies/providing-support-midi-music.aspx>

**Type of investment – Loan**

**Case Study 2: The Phone Co-op** – The ethical telecommunications provider invites all customers to become members investing a minimum of £1 in the co-operative. The company has more than 6,000 members with over £1.6million in the share accounts. Members can withdraw their money at one week's notice but new investments exceed withdrawals. Raising money from members means The Phone Co-op has a strong balance sheet and is well placed to grow.

<http://communityshares.org.uk/case-studies/phone-co-op>

**Type of investment – Members / Community Shares**

## Buying An Asset – Part One

One thing that charities and social enterprises can do to improve their long-term financial stability is buy an asset.

An asset is anything your organisation owns that is worth something: usually a building or some equipment that's vitally important in enabling you to do business – such as a bus for a community transport enterprise.

For many organisations, the cost of renting their premises is their second biggest cost after staff salaries. Buying the building where you're based can be a good way to get some long-term benefit from money otherwise used for rent. You can also potentially rent out space to others, and benefit from any increase in value. There are downsides though: as with personal homes, buildings can also decrease in value and require ongoing maintenance – not all organisations are fit to be social landlords alongside their core business.

In recent years, there has also been growing support for **Asset Transfer** – this is where a charity or social enterprise takes ownership of a building previously owned by part of the public sector; the building is usually one that is particularly valued by the local community.

### WHAT DO YOU NEED MONEY FOR?

Are you buying a building? Do you need more money to renovate a building to get it to a point where it's useful? Do you need to buy equipment that can help your organisation improve its productivity? All of these are potentially good reasons to seek investment.

Mortgages to buy buildings are one of the most common forms of investment available to VCSE organisations from both mainstream and social investors. Indeed, **secured loans** make up a significant proportion of the current social investment market (90% in 2011/12).

### HOW MUCH MONEY WILL YOU NEED?

This depends on what you are seeking to buy. It is worth noting that there is sometimes grant funding available from government-backed agencies or trusts and foundations to help VCSE organisations to buy assets, which can reduce the amount you need to borrow.

## HOW WILL YOU PAY THE MONEY BACK?

If the asset you're buying is the building where your organisation is based, then you won't have to pay rent anymore but you will still need to be clear about how you're going to afford the cost of repaying the investment – plus any additional costs you've taken on as a result of buying the asset.

## WHAT SUPPORT/INPUT DO YOU WANT FROM INVESTORS?

Some social investors are particularly focused on helping VCSE organisations to buy community assets. Are you looking for a social investor that specifically understands the project you're undertaking or do you just want a mainstream investor who will give you the money you need and let you get on with it?

# Buying An Asset – Part Two

Finding out what's available:

### Your Organisation:

**What's on offer:** Investment from your charity or social enterprise's reserves.

**What they will expect from you:** Their money back.

**What they may hope to get from you:** Long-term security; profitable activity.

**Key drawback:** Charity/social enterprise may lose its money.

**Key benefits:** No need to pay interest on a loan to an outside investor.

### Community Shares:

**What's on offer:** Small amounts of money from lots of people in your local community.

**What they will expect from you:** Success of the project; some of their money back.

**What they may hope to get from you:** Their money back; sense of community.

**Amounts on offer:** Average raised £200,000, although can be higher (c. £2m).

**Key drawbacks:** Money may take a long time to raise (requires promotion + supporters).

**Key benefits:** Patient investors; evidence of support for what you're doing.

## Social Banks

**What's on offer:** Commercial mortgages similar to those offered by high street banks.

**What they will expect from you:** Their money back with interest.

**What they may hope to get from you:** Social value created as a result of their investment.

**Amounts on offer:** £25,000 – £15 million.

**Key drawbacks:** If you don't keep up your repayments, the property could be sold.

**Key benefits:** They understand VCSE organisations; support for the social economy.

## Specialist Social Finance Providers

**What's on offer:** Some or all the finance you need to buy a building or equipment

**What they will expect from you:** To get their money back with interest.

**What they may hope to get from you:** Evidence of the social outcomes achieved.

**Amounts on offer:** £200,000 – £1 million.

**Key drawbacks:** If you don't keep up your repayments, the property could be sold.

**Key benefits:** May be more likely to lend you the money than a high street bank.

## Examples:

**Case Study 1 – FC United** – FC United is a co-operatively owned football club, formed by supporters of Manchester United who wanted to set up an affordable, community-based, fan-led club. Having initially been based at another team's ground, in 2006, they launched a fund to build their own stadium and community facility in Moston, Manchester. Over 1400 members have invested more than £1.8 million through a community share offer and the stadium is now being built.

## Type of investment – Community Shares

**Case Study 2 – Valley Kids** – Valley Kids is a South Wales-based charity with a 30-year track record working with and supporting disadvantaged children and families. In 2001 they received a £210,000 loan from social bank, Charity Bank, to enable them to buy a building they'd previously rented. Since then they've secured more than £3 million in funding to buy more buildings and expand their activities. This includes a £395,000 loan from Unity Trust, another social bank, in 2013.

<http://www.biglotteryfund.org.uk/global-content/research/uk-wide/investment-readiness-case-studies>

## Type of investment – Secured Loan

## Scaling Up – Part One

You've been running your organisation for a few years. You're helping to make life better for a group of people and/or your local area, while generating enough income from selling your products and services to cover your costs and make a profit.

Now you've decided you want to **scale-up** so you can:

- bid for bigger contracts
- sell your products and services to more people
- deliver a wider range of products and services
- deliver your products and services across a wider geographical area

All of which helps you to create more social value and change more people's lives.

### WHAT DO YOU NEED THE MONEY FOR?

It's important to be clear about how you're going to scale up and what resources you need to do it. Do you just need to employ more staff to enable you to do more of what you're already doing? Do you need to employ specialists to enable you to bid for new contracts? Do you need to invest in opening in a new location? Do you need to pay for sales and marketing?

### HOW MUCH MONEY DO YOU NEED?

How much money you need depends on your organisation, your growth plans and what you are going to use the investment for. This will help inform what types of investment you might decide are suitable. Generally, seeking to scale up involves more risk than borrowing against an asset but is not as risky as a start-up because you have a proven track record.

### HOW WILL YOU PAY THE MONEY BACK?

If you get an investment that enables you to grow your organisation and it's already profitable, then hopefully you will be able to repay an investment on a regular basis with part of your increased income that comes with that growth. You need to think about the risks if growth (and profit) does not happen in line with your predictions.

## WHAT SUPPORT/INPUT DO YOU WANT FROM INVESTORS?

Some investors are keen to actively help organisations to scale-up their activities. This can be useful in providing you with the additional skills and expertise needed to take your organisation to the next level. There are also a growing number of support programmes, accelerators, and incubators dedicated to VCSE organisations looking to scale up.

## Scaling Up – Part Two

Finding out what's available:

### Crowd-funding

**What's on offer:** Lots of small amounts of money from lots of people who support what you're doing, usually raised through an online platform.

**Amounts available:** Usually £2,000 to £50,000.

**What they will expect from you:** Success of the project; non-financial rewards.

**What they may hope to get from you:** (Some or all of) their money back.

**Key drawbacks:** Requires a large crowd to raise a large fund.

**Key benefits:** Patient investors; evidence of support for what you're doing.

### Community Shares

**What's on offer:** Small amounts of money from lots of people in your local community.

**Amounts available:** Average raised £200,000.

**What they will expect from you:** Success of the project; some of their money back.

**What they may hope to get from you:** (Some or all of) their money back.

**Key drawbacks:** Not easy to find a crowd of investors; can raise large amounts, but tends to be suited to smaller and asset-based investment; only available to some legal structures.

**Key benefits:** Patient investor; evidence of support for what you're doing.

### Social Banks

**What's on offer:** Loans secured against assets (usually property).

**Amounts available:** £25,000 – £15 million.

**What they will expect from you:** Their money back with interest.

**What they may hope to get from you:** Your organisation creates more social value.

**Key drawbacks:** Usually need to have property or other asset to borrow against.

**Key benefits:** Interested in VCSE organisations and the social value they create.

## Specialist Social Investors

**What's on offer:** Loans, bonds and equity investments.

**Amounts available:** Usually £200,000 – £3million.

**What they will expect from you:** Their money back with interest if it's a loan or an exit within 3–5 years having made a profit on the investment if equity / quasi-equity.

**What they may hope to get from you:** You continue to do social good.

**Key drawbacks:** High interest if loan is high risk; scale of deals can be out of reach of smaller organisations.

**Key benefits:** Established to help VCSE organisations looking to scale up.

## Examples:

### Case Study 1: Bonk of Pants

Social enterprise underwear brand, Pants to Poverty, raised a total investment of £58,365 from over 100 supporters through social crowd-funding website, Buzzbnk. The money was raised through bond-style deal, enabling the enterprise to expand their operations with investors getting their money back plus 10.2% interest per year of which 3.0% is payable in cash and 7.2% in pants.

<https://www.buzzbnk.org/bonkofpants>

### Type of investment – Crowd-funding

### Case Study 2: Bristol Together / Midlands Together

Social enterprise Bristol Together was awarded £92,620 by Big Lottery Fund in May 2012 to develop a £1m social impact bond with Triodos Bank. This financed the purchase of 10 properties, each of which was restored by ex-offenders being helped into employment (97% have not re-offended); the first has been sold at a 10% profit. The enterprise has since worked with Triodos to expand the scheme through its Midlands Together arm, and successfully raised £3m to buy and refurbish 15 properties each year of the 5-year bond.

<http://www.biglotteryfund.org.uk/funding/big-stories/bristol-together>

### Type of investment – Bond



#### REMINDER: KEY QUESTIONS

- What do you need money for?
- How much money do you need?
- How will you pay the money back?
- How much input do you want from investors?
- What are your investors expecting to happen?

# SECTION 3:

## UNDERSTANDING THE MARKET

### The Social Investment Market – Investors and intermediaries

#### WHAT IS THE SOCIAL INVESTMENT MARKET?

The social investment market in the UK is made up of people and organisations involved in four main activities:

- ① Charities and social enterprises looking for investment
- ② Individuals and organisations making investments in charities and social enterprises
- ③ Individuals and organisations (including government) providing money for other people to invest into charities and social enterprises
- ④ Organisations supporting the investment process

It's easy to work out if you're a charity or social enterprise but identifying the role of other participants in the market can be a bit more confusing.

#### HOW DOES THE SOCIAL INVESTMENT MARKET WORK?

Institutions provide capital to investors who structure different investment products and funds; these funds then invest in VCSE organisations delivering on the frontline. Different organisations act as intermediaries along different parts of this process, as indicated on page 33.

Here is an example. In 2012, the government launched Big Society Capital, an organisation with £600 million of capital to develop the social investment market in the UK. Big Society Capital (the capital provider) invested some of its money in a fund managed by Impact Ventures UK (product / fund) and they have invested in a social enterprise called K10 which employs apprentices and places them in the construction industry. The investment is to help them scale their activities. ClearlySo, an intermediary, helped K10 prepare for investment through the Investment and Contract Readiness Fund (see Section 1 on pages 6 – 16).



## WHO ARE THESE SOCIAL INVESTMENT AND FINANCE INTERMEDIARIES (SIFIS)?

The term SIFI covers a wide range of different organisations that help to connect enterprises with investment. This includes:

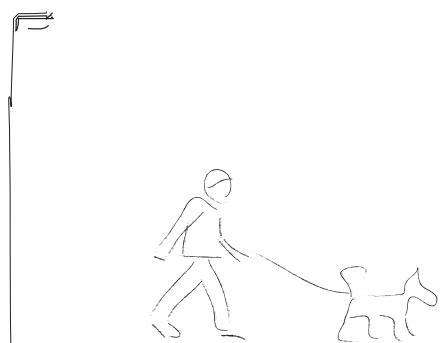
- Organisations who raise funds from investors and invest that money into VCSE organisations
- Organisations that provide online platforms for VCSE organisations to find investment
- Organisations that help VCSE organisations to find investment from other people, or to become investment ready

As an organisation looking for an investment, SIFIs are therefore an obvious first port of call.

The main places you can go for investment are:

- ❶ **social banks**, such as Triodos, Charity Bank, and Unity Trust, which mostly provide fairly large investments to organisations who own or are buying a building and
- ❷ **specialist social investment providers**, such as Big Issue Invest, Key Fund, Social Investment Business Group, Bridges Ventures and CAF Venturesome, who offer a range of different levels of investment through different funds
- ❸ **a wider group of supporters**: such as Crowd-funding websites like BuzzBnk and CrowdMission; community shares, as supported by web platforms like Microgenius; for larger scale investment opportunities, platforms like Ethex and intermediaries like Allia and Investing for Good enable social organisations to offer investment in bonds and share offers.
- ❹ **angels**: wealthy individual 'angel' investors who provide investment, usually riskier finance in start-ups
- ❺ **trusts and foundations**: a growing number of charitable trusts and foundations engage in social investment, newly investing or supporting existing grantees

If you want help finding and raising investment, **brokerage** organisations, such as Clearly So and Social Finance, can connect you with either individual or institutional investors. National umbrella bodies such as Social Enterprise UK and NCVO can also help you identify suitable support and advice. Big Society Capital and the Social Investment Forum provide information on social investors, intermediaries, news, research and opportunities.



## NEXT STEPS

Watch films of charities and social enterprises that have taken social investment:  
[www.bigpotential.org.uk](http://www.bigpotential.org.uk)

Use the Big Potential diagnostic tool to find out if you're investment ready:  
[www.bigpotential.org.uk/diagnostic-tool](http://www.bigpotential.org.uk/diagnostic-tool)

Find funds and investors looking to invest:  
[www.bigsocietycapital.com](http://www.bigsocietycapital.com)

Keep up to date on information and news on social investment:  
[www.socialinvestmentforum.org.uk](http://www.socialinvestmentforum.org.uk)



## GLOSSARY

*The words or phrases that appear here appear in bold elsewhere in the guide. The descriptions below are not the dictionary definitions of the words but explain what the terms refer to in the context of social investment:*

**Accelerator:** a short-term programme of investment and support for early-stage enterprises

**Angel Investor:** an individual investor who makes an investment in an early-stage enterprise

**Asset:** something that your organisation owns – often a building or equipment

**Brokerage:** making the connection between an investor and an organisation seeking investment

**Business Model:** what your organisation does, what it produces or delivers, and who pays for that product or service

**Business Plan:** document explaining your organisation's goals and how you will achieve them

**Cashflow:** the movement of money in and out of your business over a period of time, and the gaps and dips of when you have cash in hand

**Debt:** an amount of money borrowed by one organisation from another

**Donations:** a gift that your enterprise can spend fulfilling its social aims however it chooses to do so

**Equity:** a stake in an enterprise owned by shareholders

**Grant:** a payment to your organisations that may have some conditions attached but does not have to be repaid

**Interest:** fee paid by a borrower to a lender

**Investment Readiness:** an organisation having the systems, processes and business model to be able to attract investment

**Limited by Guarantee:** an organisation that does not have shareholders

**Loan:** some money provided by an individual or organisation to another individual organisation on the basis that they will get it back, usually over a set period of time in return for a fee (see interest)

**Patient Investor:** an investor who is prepared to wait a relatively long time to get their money back

**Payment by Results:** a contract, usually with the public sector, where an enterprise is paid based on whether the service they deliver meets a series of targets

**Profit:** the difference between the cost of providing a product or service and the price it is sold for

**(Non-financial) Rewards:** gifts an organisation gives to crowdfunders to encourage them to invest in the enterprise

**Risk:** the potential of losing an investment weighed against the potential of making a profit on the investment and/or achieving positive social change through that investment

**Scale Up:** an enterprise growing its operations to sell its products and services to more customers and/or over a wider geographical area

**Social Bank:** a bank set up with a social and environmental purpose, and concerned with the environmental and social consequences of its investments

**Social Impact:** the effect of an organisation's activities on 'society' – usually a specific social problem, group of people or local area; also referred to as social value

**Social Investment Finance Intermediaries (SIFIs):** organisations that connect enterprise with a social purpose with investment, either by raising and investment funds or by helping enterprises to find investment

**Social Investors:** people or organisations (including government) who invest in charities and social enterprises with intention both of at least getting their money back and of supporting positive social change

**Special Purpose Vehicle (or SPV):** an enterprise created for specific and sometimes time-limited purposes, for example, a charity or social enterprise delivering a contract with a private sector company.

**Start-up:** a new business, usually up to 3 years old

**Track Record:** the achievements and past performance of your organisation

**Turnover:** the total amount of business done by your organisation over a given period of time

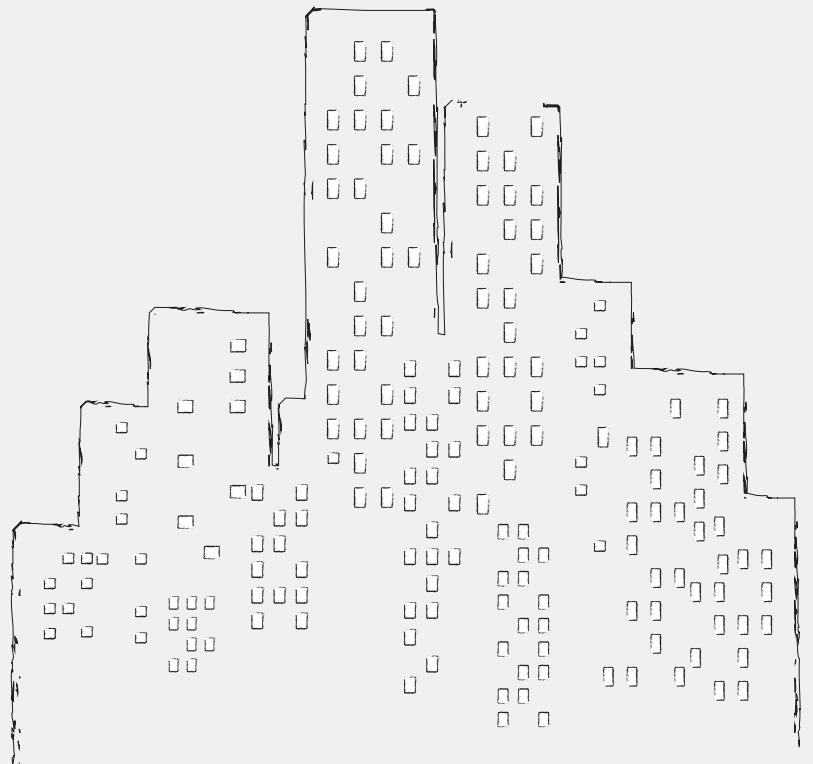
**Working Capital:** money your organisation needs to finance its day-to-day operations

## Acknowledgements

Big Lottery Fund commissioned Social Enterprise UK (SEUK), the national body for social enterprise, to produce this guide, which was written by David Floyd at Social Spider and Nick Temple at SEUK, with support from Dan Gregory. Particular thanks to Fran Gorman at SEUK and Matter & Co for all their work on the design and production of this guide and the accompanying films and infographic.

Many thanks to the whole social investment and communications teams at the Big Lottery Fund for their significant contribution of time, insight and work, especially Sharon O'Brien and Catherine Teague.

Finally, thanks to all the social investors, intermediaries and VCSE organisations which contributed to the guide. A special thank you to Geetha Rabindrakumar at Big Society Capital and Katie Hill at City of London for their advice and insight.



## SOCIAL INVESTMENT EXPLAINED

*Further copies available from:*

**Phone** 0845 4 10 20 30

**Text Relay** 18001 **plus** 0845 4 10 20 30  
(for those with a hearing or speech impairment).

**Our website** [www.biglotteryfund.org.uk](http://www.biglotteryfund.org.uk)

## BIG LOTTERY FUND

The Big Lottery Fund is responsible for distributing 40 per cent of all funds raised for good causes by the National Lottery (about 11 pence of every pound spent on a Lottery ticket). This totals around £600 million each year.

## OUR MISSION

Helping communities and people most in need.

© Big Lottery Fund, July 2014.



**MATTER** & CO