

Social impact investment

Using investment to address social challenges

Social sector already plays a big role in society and economy

The 'social economy' is playing a key role in addressing social challenges

Charities

160,000 + in number
Annual income £36bn+
Work-force of 765,000

Social enterprises

68,000+ in number
Annual income £24bn+
Work-force of 800,000

Social sector provides great examples of scale, resilience and innovation

Scale



£193m
turnover



£156m
turnover

Resilience

56% of social enterprises reported an **increase in turnover during the recession**

Innovation



re-offending



children at risk

But they face problems raising appropriate capital

**As a whole, the social sector
is under-scale and poorly
capitalised**

Many charities are small

85% of charities have income <£100,000

Under capitalised

many charities have assets equivalent to less
than 3 months trading

Volatile financing

Only route to a strengthened balance sheet often
surplus reinvestment, or volatile donations

**There is a particular need for
long-term risk-taking capital**

Capital as a barrier to growth

48% of social enterprises say lack of affordable finance
is largest barrier to sustainability (v. 33% of SMEs)

Lack of appropriate capital

63% of social enterprises want long-term loans
48% want funding with a mix of debt and equity

Growing demand for capital

demand from sector for higher risk capital will increase
to about £550m (out of total £750m) by 2015

What is “social impact investment”?

An investment approach that intentionally seeks to create both financial return and positive social impact that is actively measured

Impact investing is an investment approach across asset classes (e.g. public and private equity, debt, etc.); it is a criteria by which investments are made

There should be measurable evidence that social or environmental value has been created in order for an investment to be classified as an impact investment

The degree of financial return may vary widely from recovery of principal to significantly above market returns

Investments motivated by the intention to create a social or environmental good are clearly impact investments. If the intention is financial gain, even if the corollary is social or environmental value, the designation of impact investing is less certain

Impact investments can include investments in infrastructure, poverty alleviation, environmental improvement, economic development, etc. but they must meet defined and measurable objectives; job creation cannot be the sole criterion for considering an investment to be an impact investment since most investments create jobs

Philanthropy

Traditional Investing



Impact investors are different than philanthropists in that they are interested in a financial return as well as a positive social impact

Impact investors are different than traditional mainstream investors in that they seek out and intentionally choose investments that have a social impact

Source: World Economic Forum Impact Investing Initiative Working Group (Survey, December 2012)



WEF Mainstreaming Social Investing, WEF (March 2013)

Social impact investment builds on existing finance tools

Community Reinvestment

- Small-medium enterprises in deprived communities by postcode
- Led by US experience
- Community Reinvestment Act promoting bank disclosure, community investment tax credit and Government funding through Community Development Finance Institutions
- Up to **\$50bn** per year investment since 1977

Microfinance

- Financial inclusion of individuals
- Led by experience in developing countries (e.g. Grameen Bank)
- Over 200m clients reached by end of 2010 compared to 70m by 2002
- Estimates **\$7.5bn** of global assets under management

"Microloans enable the poor to lift themselves out of poverty through entrepreneurship."

Pierre Omidyar

Venture Capital

- Growth companies
- Led by experience in developed countries (e.g. Western Europe)
- Amount invested by BVCA firms grew from £7.8bn in 1999 to **£31.6bn** in 2007

"The VC market in Europe has, over the past thirty years, produced some extraordinary success stories... from the rise of global companies such as Skype, to the development of technology such as Bluetooth" BVCA Chairman

Why “social impact investment?”

For Investees

- Fills financing gap for innovation and growth
- Improves commercial skills
- Strengthens governance and accountability

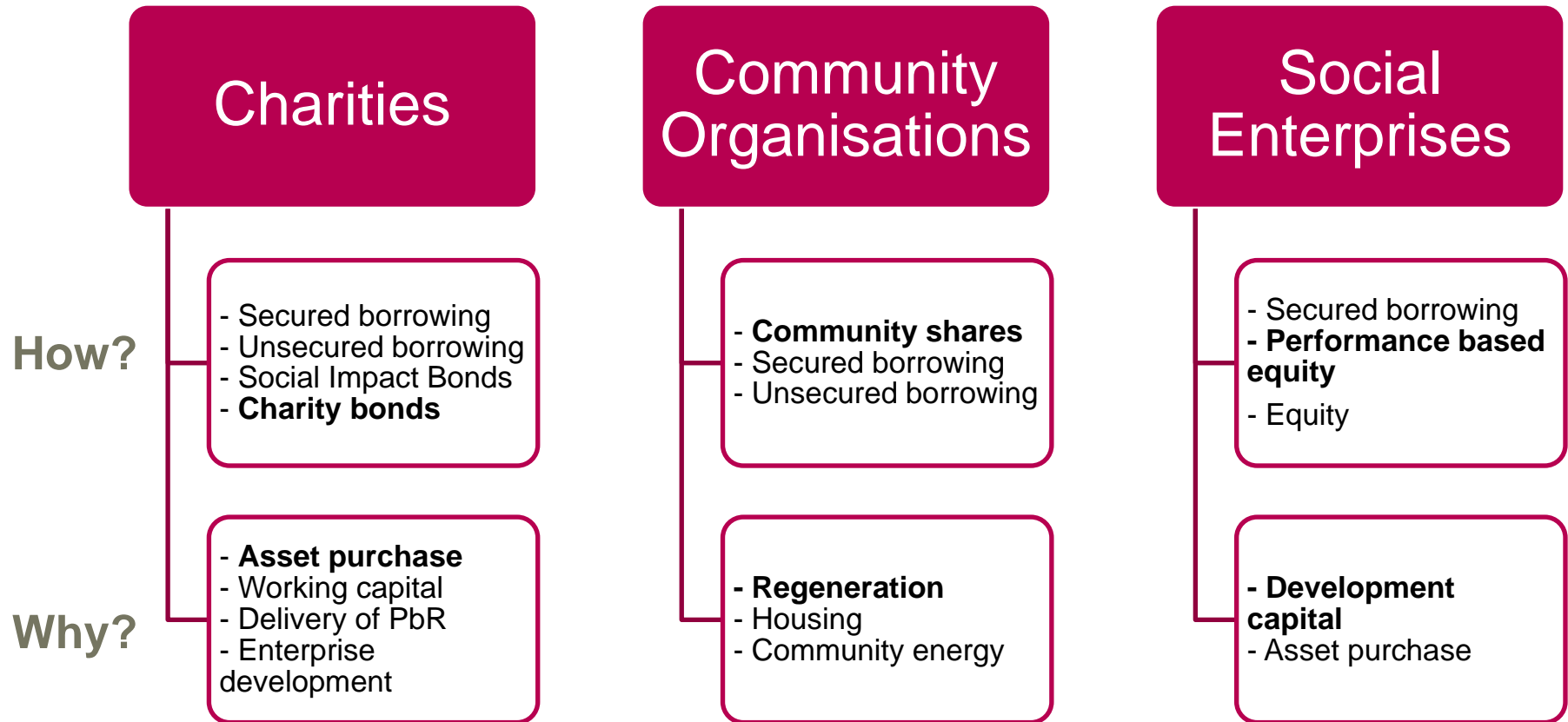
For Investors

- Capital is recycled for onward investment
- Deeper engagement with social sector and community
- Helps shape new form of responsible capitalism

For Government

- Supports innovation by social sector
- Improves evidence base for social policy
- Provides greater opportunity to purchase and from social sector

A variety of organisations may be interested ... in a variety of products...



... and potential investors are diverse – appeals to more than just private financial institutions

Investor classes may be diverse

High Net Worth Individuals

Majority want their money to do good as well as provide financial return ⁽¹⁾

Corporations

Large corporates are establishing social investment funds in areas of their expertise, e.g. health

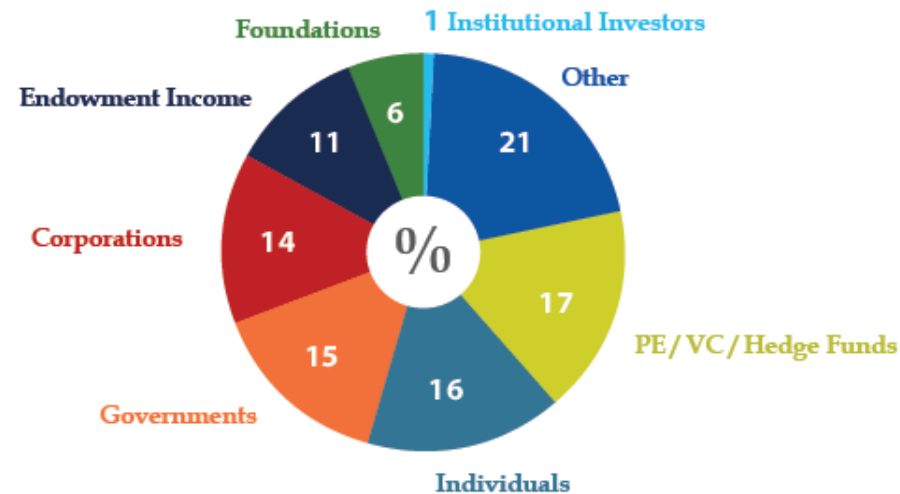
Local authority pension funds

Consortia developed to look to use £250m into more social investments⁽²⁾

Individual Investors

35% of individual investors in pension funds suggested they would sacrifice some return for social impact⁽³⁾

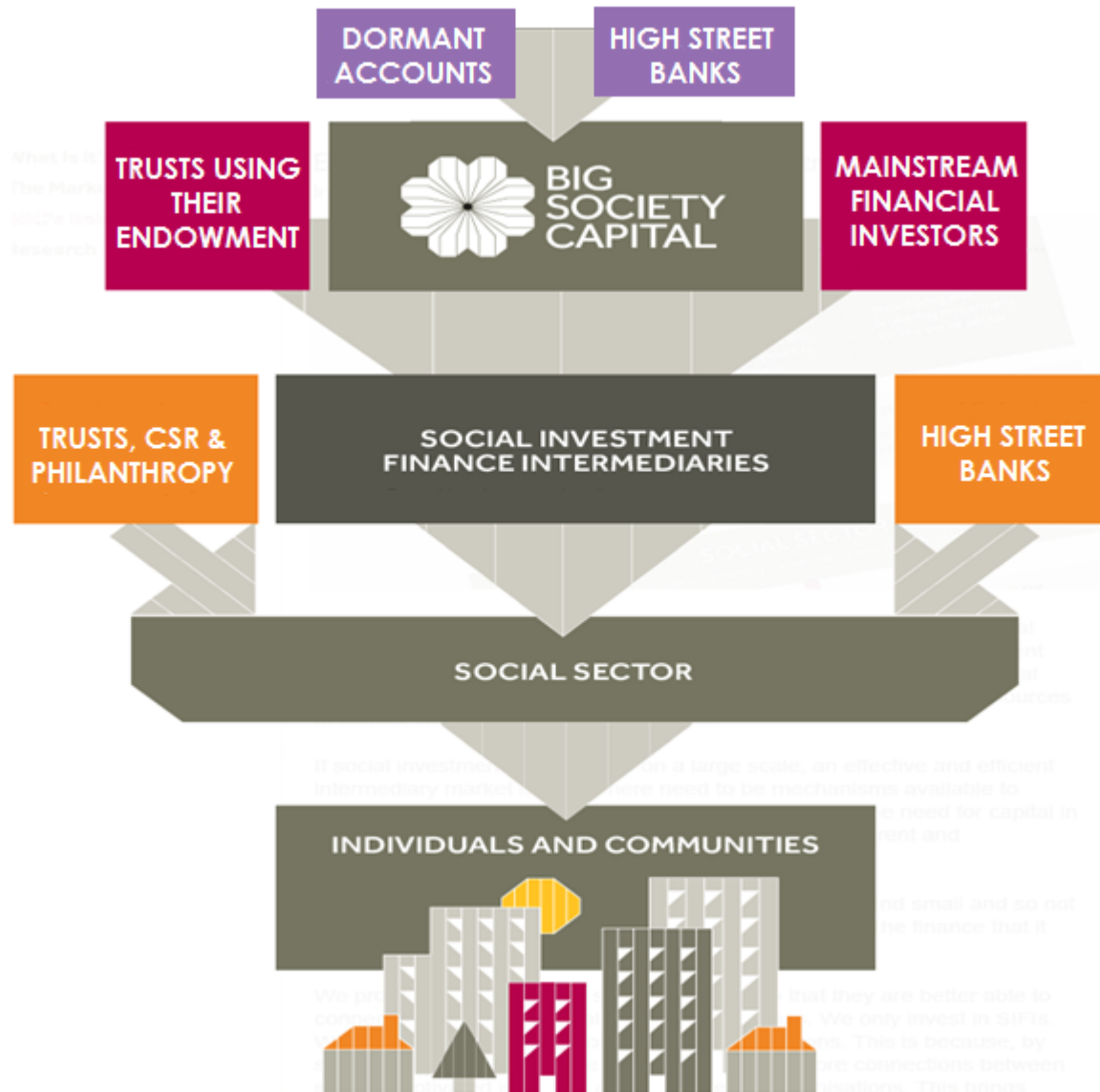
Broad European experience also suggests high diversity



European Venture Philanthropy and Social Investment 2011/12, EVPA (2012)

- (1) Investing for the Good of Society, IPSOS Mori and NESTA (2011)
- (2) Investing for Growth Initiative
- (3) Defined Contribution Investment Forum , Movement Research (March 2013)

BSC as a wholesale social impact investor connecting social sector and investors



BSC has a diverse investment portfolio to support market development and social impact

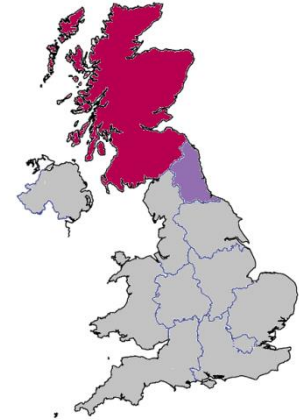
Issue Specific Funds



Social Impact Bonds



Regional Funds



Operating Intermediaries



Social Entrepreneurs Funds



Government can play a creative role in enabling social impact investment

Supply of Investment



Social Investment
Tax Relief (risk capital)



Retail investors (social
savings)



EU structural funds (local
impact funds)

Demand for Investment



Investment readiness
support



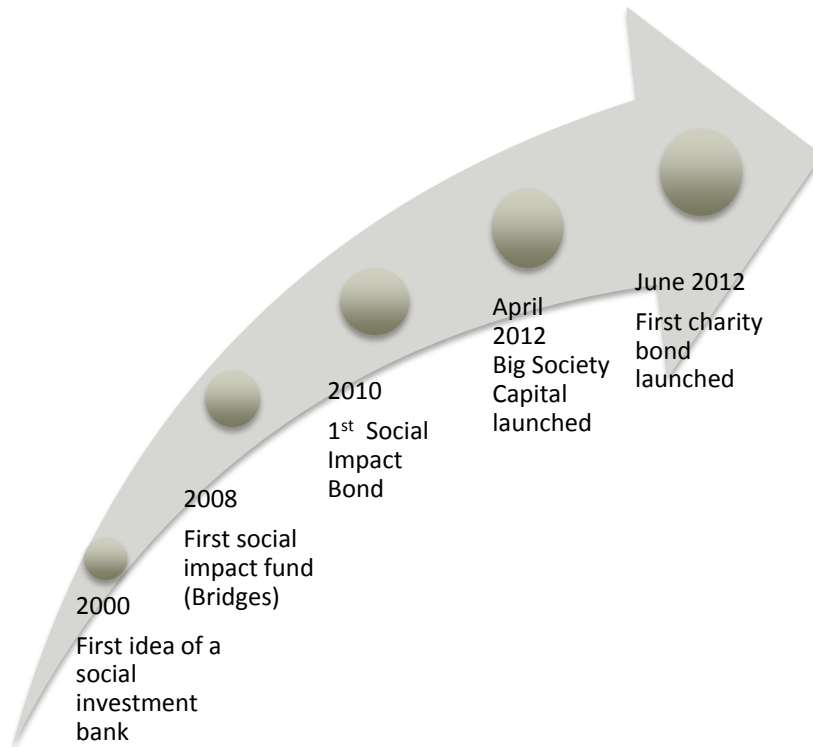
Mixing grant and
investments



Government procurement

Social impact investment is at an early stage but growing

Social impact investment is growing in the UK...



... and also around the world through key bodies

G8 UK
UNITED KINGDOM 2013

GIIN
GLOBAL IMPACT INVESTING NETWORK



IIPC
IMPACT INVESTING POLICY
COLLABORATIVE

"Investors have committed \$8bn to impact investments in 2012 and plan to commit \$9bn in 2013"

(JPMorgan, GIIN, Perspectives on Progress: The Impact Investor Survey (7 Jan 2013))

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Big Society Capital is authorised and regulated by Financial Conduct Authority number 568940.