



# Social Enterprise and The Social Investment Market in the UK An Initial Overview

Prepared  
by  
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## About Aperio Group (Europe) Limited

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- Strategic and business/operations planning enabling an organisation to achieve its vision.
- Maximising an organisation's income from developing or growing social enterprise/trading/public sector contracting.
- Supporting third sector fundraising by means of reviewing existing approaches and opening up new markets to an organisation's existing fundraising activities, targeting and approaching trusts, major gifts revenue generation, corporate sponsorship, and high engagement giving/venture philanthropy.

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### Note to the Reader

**This draft paper is being distributed to inform as well as to solicit feedback. The study is based primarily on net research and feedback from readers; therefore some information may be missing about individual funds. We may have also missed some social venture funds.**

**If anyone has information about the funds listed or about funds that may be missing, could you please send it to John Pepin ([john@aperio-group.com](mailto:john@aperio-group.com)). It would be much appreciated.**

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## 1.0 Introduction<sup>1</sup>

Slowly the world economy is recovering. During the recession social enterprises, in the main, appear to be growing and to be profitable whilst achieving their social ends<sup>2</sup>. Social entrepreneurs' optimism remains high. Social investment in social enterprise remains vibrant in the UK. However, demand for investment continues to outstrip available capital and the search for investible propositions goes on. The investment process remains complex and costly as high engagement is necessary in many cases to support capacity building. Bringing together capital and expertise from philanthropic, government and commercial and corporate sectors, creating collaborative joint investment and capacity building strategies and plans would help to potentially create more effective use of resources and greater impact.

The elements for growth are present. Legal structures are in place in the UK and social entrepreneurship is thriving. Various sectors' engagement, such as the corporate sector and the public sector, is growing. Transparency exists and there is a lack of corruption. Although intermediaries are present, more needs to be done to build the capacity of social enterprises to achieve greater returns. The ability to evaluate performance, to measure success and to be clear about value and risk-return is essential to future growth. Much needs to be done to strengthen the social investment process; much has been accomplished and social entrepreneurs remain dedicated and optimistic.

This paper attempts to give an overview of social investment market in the UK in early 2010, outlining its development since 2001. It sets out some key dimensions of the social investment market including an overview of investor motivation, recent history, the role of government and the meeting a range of market needs. The paper maps the activity of venture philanthropy funds, social venture capital funds and other social investment funds against these dimensions. An Appendix of Social Investment funds is included. The primary methodology used to gather the information was a net web site research, with follow-up phone calls.<sup>3</sup>

Section 2 of the paper addresses the issue of definition. For some readers this is an important issue as it impacts on how funds see social enterprises and how they support them. However, there is not a consensus on how one defines a social enterprise, nor is there one on the various business models that underpin social enterprises. Venturesome<sup>4</sup> has attempted to create a conceptual framework which they feel will help investors and investees understand how the different models create social and financial returns, outcomes and impact. These and other approaches will be discussed in Section 2.

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<sup>1</sup> This paper should be read in conjunction with a paper recently prepared by Aperio entitled **Privatisation of Public Services and The Role of Social Enterprises: An Overview 2010** Email [info@aperio-group.com](mailto:info@aperio-group.com) for a copy.

<sup>2</sup> The State of Social Enterprise Survey 2009

<sup>3</sup> Note: Some of the information we sought is not in the public domain and not readily available, therefore some information is missing from the appendix.

<sup>4</sup> Three Models of Social Enterprises: Creating social impact through trading activities Parts 1 and 2 (2008) [www.venturesome.org](http://www.venturesome.org).

### 2.0 Social Enterprise Activity in the UK<sup>5</sup>

#### 2.1 Recent Survey

There are at least 62,000 social enterprises in the UK, with a combined turnover of £32 billion which equates to 5 per cent of all UK businesses, contributing £8.4 billion to the UK economy each year. When you add charitable organisations' gross revenues of over £52B, half of which is from social enterprise activities such as commissioning and trading, the size and impact of social enterprises are significant<sup>6</sup>.

There is an alternative definition proposed by Delta Economics<sup>7</sup>, one that demonstrated even greater impact. Based on a survey sample of 2121 growth oriented entrepreneurs, it estimated that there were 232,000 who have characteristics of social entrepreneurs. The survey showed that:

- 50% of the entrepreneurs were motivated to make a difference.
- 21% of the businesses had 'making a difference' as the primary reason for creating their business (aggregated up to the general growth-oriented entrepreneurs to get the 232,000 number).
- The annual contribution to the economy is £91.7B.
- They reinvest surpluses to pursue their social goals.
- 10% conformed to the Office for Civil Society (was called Office for the Third Sector) definition of social enterprise.
- The estimated contribution is £91B to the economy.

A recent survey<sup>8</sup> outlines the importance of social enterprise in the UK outlining achievements in profitability and attitudes to the future. The following is from the Executive Summary of The State of Social Enterprise Survey 2009.

- **Social enterprises are recession-busters:** Since the start of the recession, 56% have increased their turnover whilst less than 20% have seen it go down. This is a considerably better performance than SMEs in the UK, where only 28% increased their turnover, and 43% saw it go down<sup>9</sup>.
- **Social enterprises are optimistic:** They're nearly twice as confident of future growth as SMEs, with 48% of social enterprises responding positively as opposed to just 24% of SMEs.
- **Social enterprises are profitable:** Two thirds of social enterprises are making a profit, a further 16% are breaking even – at the height of a significant economic downturn
- **Social enterprises are different from the voluntary sector:** Interestingly, the profile of social enterprise turnover has much more in common with that of the UK's small businesses, rather than with the voluntary/charity sector with which it is often confused or conflated.
- **Social enterprises vary widely in scale:** Whilst some social enterprises are very large, with turnovers in excess of £100m, the majority operate at small-business scales, with a median turnover of £175,000.
- **Scale is important:** Social enterprises appear to be more profitable, less grant dependent and

<sup>5</sup> This section draws from a number of papers prepared by Aperio.

<sup>6</sup> Based on Institute For Employment Studies Annual Small Business Survey 2005-07. SE equals 6% of all SME employers. It does not include sole traders.

<sup>7</sup> Hidden Social Enterprises: Why We Need To Look Again At The Numbers (Delta Economics) 2010

<sup>8</sup> The State of Social Enterprise Survey 2009

<sup>9</sup> IFF Research (2009) *BERR SME Business Barometer February 2009*. Department for Business, Enterprise and Regulatory Reforms (BERR)

faster growing once they reach a £1m turnover. However – there are numerous examples of social enterprises that have found a profitable, sustainable business model at lower turnovers

- **Profit reinvestment for social goals is a reality:** 70% of respondents reinvested profits into development activities - expanding services or providing new services to their beneficiaries.
- **The scope of operations is mainly, but not universally, very local:** Two-fifths work in their local authority area or in only one or two local authority areas (42%). Slightly more than one in ten, however, operate on a national scale.
- **The public sector is already a key customer:** As the economic and social benefits of contracting with social enterprises grow apparent, 39% of social enterprises are reporting that over half their income comes from business with local and central government.
- **Finance is vital, but not impossible to raise**
- **Business support isn't fully meeting social enterprise needs**

### 2.2 Social Enterprise As An Activity

Social enterprise is an activity as opposed to an organisational type. It is one of the forms of activities that social entrepreneurs engage in.

Social enterprise activity does not exclusively need to be performed by organisations commonly called “social enterprises”. Any voluntary and community sector organisation may also engage in social enterprise activity. Often the following words ‘social enterprise’, ‘trading’, ‘earned income’, ‘commercial enterprise’, ‘co-operatives’, and ‘social businesses’ are used interchangeably, although each has a slightly different emphasis on social and financial return. The difference is in how an organisation self identifies – some identify as social enterprises, others as charities or NGO’s with trading arms or holding companies, and others as co-operatives. However, the ends are the same – a social, cultural, economic or environmental mission combined with financial return or financial viability.

Social enterprise/earned income activities may include any of the following types of activities:

- Business activity with primarily social objectives in which surpluses are principally reinvested for that purpose – often identified as a social enterprise.
- Activities performed by the voluntary sector (within the charity or as an external trading company) where a fee is charged in return for the delivery of a product or service (earned income), regardless of whether it is a mission or non-mission related profit making business. This would include a commercial activity or trading company activity to benefit a third sector organisation.

In essence, social enterprises/earned income/trading use business solutions to achieve public benefit – the public good as measured directly as achieving social return on investment or generating profit to benefit the charity which uses the profits to achieve a social return.

### 2.3 Social Enterprise: A Definition

The definition of the term ‘social enterprise’ continues to be discussed at length. In the simplest terms, a social enterprise is a business with more than one bottom line, measuring its performance on more than profit. Social enterprises may have double or triple bottom line measurements - financial; social or community or cultural; or environmental.

This sector, therefore, includes a huge range of businesses, from the credit union set up in a community centre and serving a housing estate, to a corporation producing renewable energy turbines. As the concept of social enterprise has matured, there has been an increase in the range of forms it can take and the number of definitions used to describe it. Perhaps the most frequently cited definition is the Office for Civil Society’s:

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**Businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.**

However, some social enterprise organisations prefer broader definitions which would include social ownership and democratic principles.

### 2.4 Definition from a Charity's/NGO's Perspective

Accepting that there are a variety of definitions for social enterprise activity and there is a huge array of businesses operating in a social enterprise context, it is perhaps helpful to see the primary forms of social enterprise from a charity or NGO perspective. It is worth reviewing what is meant by the term, "Charity Trading" as trading activity can be broader than first perceived.

The three types of voluntary sector trading activity can be further defined as follows:

- a. **Delivery of Services** This aspect of charitable income is increasing as the Government tries to transition the voluntary sector into a front line provider of social services. Income sources are varied but might include Job Centre Plus for the placement of the long term unemployed into work, through to the Prison Service for offender management support work.
- b. **Conversion of Intellectual Property Rights (IPR)** This type of activity is an extension of charity shops and trading but takes an aspect of a non profit organisation's work that it has specialist knowledge and expertise in and converts the knowledge into a service that can generate income. This might be a charity or social enterprise that works with the visually impaired selling Braille and audio tape production to corporate clients or a charity that provides support and counselling setting up an Employee Assistance product to sell to corporate sector. Training and consultancy are growing areas of trading – many charities of different sizes are able to generate income from selling their sector expertise to private, public and third sector clients.
- c. **Charity Shops** Charity shops vary from the traditional second hand clothes and bric a brac shops, through to National Trust outlets selling new goods to Oxfam or establishing Progreso coffee shops<sup>10</sup>.

### 2.5 Venturesome's Definition: From a Social Impact Perspective

Venturesome<sup>11</sup> proposes three models, defining them from a social impact perspective. These include enterprise activity that focuses on maximising profit, with the profits going to support social ends ('profit generator model'), enterprise activity with social impact, with a balancing of commercial activity with social mission ('trade-off model'), and an enterprise activity that has a social impact generating financial returns that grow as the social impact grows ('lock-step model'). Outlined below is a further specification of their framework.

#### Venturesome Three Models Framework<sup>12</sup>

##### Model One – 'Profit Generator'

In this model, the trading activity itself is primarily seeking a financial return only. As such, it is deemed to have

<sup>10</sup> Current closed after six years of operation.

<sup>11</sup> Three Models of Social Enterprises: Creating social impact through trading activities Parts 1 and 2 (2008) [www.vventuresome.org](http://www.vventuresome.org).

<sup>12</sup> Three Models of Social Enterprises: Creating social impact through trading activities Parts 1 (2008) [www.vventuresome.org](http://www.vventuresome.org).

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no direct social impact.

Of course, the trading activity may have desirable effects (eg creating employment) - but these are incidental to the predominant purpose of that trading activity (ie to make a monetary profit).

Only after a profit has been made is social impact possible. It can be seen, therefore, that a social investment in Model One involves two 'bets' – (i) that the business will in fact make a profit; and (ii) that the profit generated is then effectively used to achieve social impact.

In Model One, therefore, the financial risk of the investment is disconnected from the likelihood of achieving social impact.

Examples of Model One include (but are not limited to):

- for-profit businesses with CSR programmes
- charitable foundations investing their endowments in mainstream financial markets
- trading subsidiaries of charities (eg Oxfam shops)
- 'ethical' bottled water companies – which give a percentage of their profits to developing charitable projects (eg Belu Water, Thirsty Planet)
- a hedge fund which gives a slice of its profits to a charitable foundation (eg Children's Investment Fund, which gives 0.5% of its management fees to the Children's Investment Foundation)

Model Two – 'Trade-off'

In this model, the trading activity itself does have direct social impact, but a balance has to be struck between generating financial returns and creating social impact. The firm could increase its social impact by decreasing financial returns, or vice versa. In other words, there is a trade off.

Unlike Model One, social impact is integral to the very nature of the trading activity of Model Two. Even if no financial return is achieved, some social impact will occur by virtue of the existence of the trading activity.

Furthermore, Model Two firms may be capable of providing a risk-adjusted commercial rate of financial return. For example, a Model Two firm may be able to attract commercial investors with an acceptable rate of financial return, while at the same time achieving a level of social return which is acceptable to its other stakeholders. Such firms are, therefore, not necessarily riskier than Model One firms because other factors (financial or otherwise) may or may not increase the risk of Model One or Model Two firms not achieving their financial and social outcomes.

Examples of Model Two include:

- fair trade businesses
- microfinance institutions
- firms that employ the disabled, ex-offenders or other disadvantaged people
- Ethical Property Company plc
- Venturesome

Model Three – 'Lock-step'

In this model, not only does the trading activity itself have direct social impact, but that social impact increases or decreases in lock-step and in parallel with financial returns.

Model Three type firms are scarce, and it may be that outside of their discrete activity, there is a trade-off taking place, eg the visual impact of wind farms on rural areas.

Such organisations clearly operate in competitive markets – both with other Model Three firms and with substitutional products, eg with a wind farm, coal-powered electricity generation.

The level of financial returns that Model Three businesses are able to achieve may be acceptable to a fully commercial (financial return only) investor. However, it is likely that more Model Three opportunities will exist where the financial return that is produced is below the risk-adjusted commercial rate. For example, organic

food businesses fifteen years ago were Model Three firms, but could not yet produce a commercial rate of return because the organic food market was still in early stage development. As such consumer markets mature and become mainstream, commercial rates of return become feasible. It is important to distinguish Model Three opportunities where the market is immature or below scale thereby giving rise to lower financial returns (e.g. because the consumer market is very niche, and scale of production is very low) from Model Two opportunities where the financial return is being genuinely sacrificed.

Examples of Model Three include:

- Cooperatives
- wind farms
- Abel & Cole Organic Food
- Justgiving.com
- FareShare

### 2.6 Corporate Social Responsibility, Venture Philanthropy and Social Enterprises

Corporate social responsibility (CSR), as defined by the Department for Business, Innovation and Skills, is the voluntary action that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society. The World Business Council for Sustainable Development states that CSR is 'the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large'.

There exist numerous approaches to CSR that businesses undertake, from developing employee benefit packages, to sourcing materials and services from 'ethical' producers or donating money to charity. One approach has been for businesses to play an integral role in establishing social enterprises through funding (sometimes using a venture philanthropy approach), contributing business expertise or gifts in kind. The Co-operative Group, Shell, Barclays, Diageo, HP and Google are all examples of companies that operate initiatives to help develop social enterprises and social entrepreneurs. For example, Barclays has engaged lenders of last resort such as Community Development Finance Institutions (CDFIs) as part of its CSR strategy. CDFIs tend to be based within the UK's most disadvantaged communities, and lend mostly to small businesses and social enterprises but also to individuals. Between 2004 and the end of 2008, Barclays funding has helped over 100 credit unions and CDFIs across the UK, providing more than £2.5m to support community finance, much of which is lent on to social enterprises. Indeed, banks have now overtaken regional development agencies as the main source of funds for on-lending for CDFIs. Having lent a record £113m in 2009 - up 50% from 2008, the CDFI loan portfolio now stands at £394m.

In addition private sector foundations or trusts traditionally give grants to charitable causes. The Arthur Guinness Foundation has recently given large awards to support social enterprise including a donation to support social entrepreneurs in Ireland and a grant to develop community social enterprises in Indonesia.

The Shell foundation invests in "enterprise solutions" working with social entrepreneurs and other companies such as M&S tackle problems to do with poverty and the environment.

Big Issue Invest (BII), a leading provider of social investment, has launched a social enterprise investment vehicle to raise funds for social enterprise via the private sector offering both a financial and social return. Big Issue Invest's Social Enterprise Investment Fund accepts investment from qualified professional investors, including high net worth individuals, charitable foundations, financial institutions and businesses and investment trusts. It has a strong network of talented pro-

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bono volunteers in the private equity, venture capital and professional services industries which provide business support to both BII itself and their investee social enterprises.

CAN, with its Breakthrough social investment fund, provides funding and management support to help established social enterprises scale up and maximise their social impact. The initiative was launched in 2005 as a joint venture between the social enterprise CAN and the private equity firm Permira.

Bridges Ventures, founded in 2002, is a private investment company majority owned by its Executive Board and the Bridges Charitable Trust. It receives support from private equity companies Apax Partners, 3i and Doughty Hanson, who contribute expertise and network capabilities. It balances social and environmental goals with financial returns for investors.

Another way companies get involved is through venture philanthropy. Research by Aperio<sup>13</sup> demonstrated that venture philanthropy investors are helping to develop social enterprises through providing grants, loans and other financial resources coupled with business acumen to start up, bring about a step change or grow enterprises by building organisational capacity. In addition, a number of funds invest in individual social entrepreneurs to help develop skills through training and mentoring as well as financial assistance. For example:

- Most venture philanthropy funds worldwide focus on young social enterprises that are developing their activity (63%), or on non-profits that are expanding their geographical presence or areas of intervention (86%). Established enterprises follow with a percentage of 46%, while start-ups and mature firms represent a smaller section of the portfolio.<sup>14</sup>
- It is important to note that some companies establish venture philanthropy funds as a part of a company's general approach to fulfilling its CSR mandate. The chart<sup>15</sup> below shows that at least 30% of the venture philanthropy funds worldwide are established by corporations.

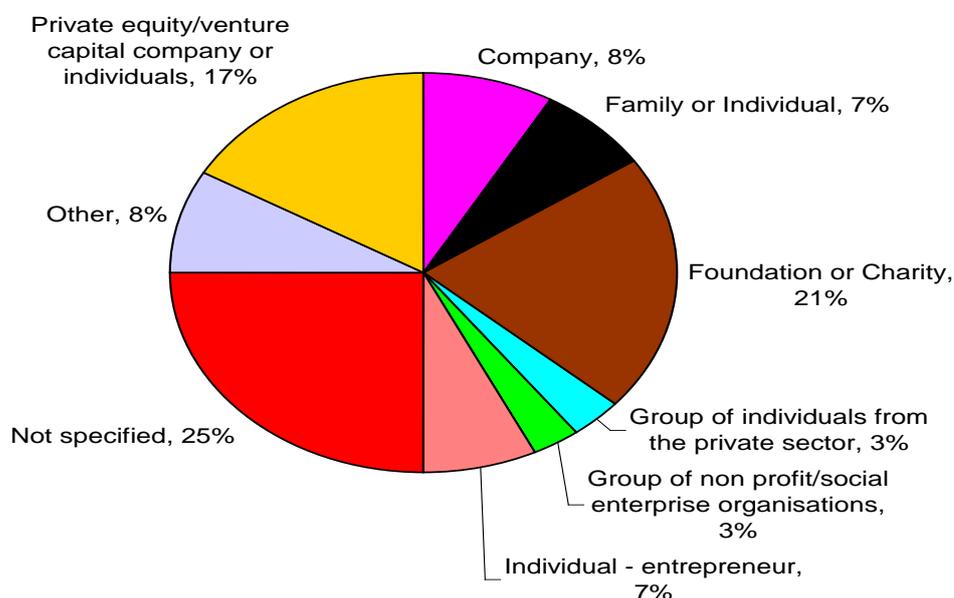
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<sup>13</sup> Aperio, 2008, Existing Venture Philanthropy Funds, Characteristics: A Preliminary Overview

<sup>14</sup> **Venture Philanthropy: applying market mechanisms to foster social development** Giovanna Castelli (Unpublished PhD Thesis 2009)

<sup>15</sup> Existing Venture Philanthropy Funds Characteristics: A Preliminary Overview Prepared by Aperio April 2008

### Founders of Venture Philanthropy Funds - Worldwide



Examples of venture philanthropy funds in the UK include Venturesome, Impetus, Unltd, The Hunter Foundation, ClIFF, Private Equity Foundation, the Shell Foundation and Inspiring Scotland. See Aperio research papers for more details.

#### 2.6.1 The Big Society Bank

More government funding for social enterprise will become available in April 2011 with the creation of the Big Society Bank, which will use hundreds of millions of pounds from dormant bank accounts to finance the start-up and growth of social enterprises, neighbourhood groups, charities, and other non-governmental bodies seeking to foster community activism and engagement in deprived areas. At time of writing it is not clear what mechanism will be used to deliver the money, although it seems likely that it will be a wholesale bank operating a grant-awarding fund to which social entrepreneurs and investors will apply.

The Big Society Bank idea gives rise to many questions regarding eligibility and priority for the initiatives which the bank will be funding. Debate centres around which societal or environmental issues may receive the greatest focus; for example, education, environment, health or unemployment. The degree to which allocated funds may be used to create 'frontline service providers' normally funded by the public purse is also focus of speculation, as is support of existing schemes versus the creation of new ones.

If successfully implemented, the Big Society Bank could help consolidate the UK's position as a global leader in social enterprise development; the dormant funds in question are anecdotally estimated to be in the region of £150-400m. What proportion of those funds will be allocated to the

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Bank remains to be seen, but they have great potential to help develop a sector which clearly needs large amounts of investment capital to support its long-term sustainability and growth.

### 3.0 Definitions: In Summary

The definition of social enterprise was outlined earlier in the paper. For the purpose of this paper the following definitions for social investment and venture philanthropy have been used.

#### 3.1 Social Investment

In the paper, Social Investment is defined as being the supply of finance and non-financial support with the objective of strengthening an organisation's social, economic, environmental or cultural impact whilst potentially seeking a financial return on capital and/or community or organisational financial sustainability and viability.

For purposes of this paper venture philanthropy may be categorised as a form of social investment seeking a social return at the same time as attempting to achieve organisational and/or community sustainability and viability.

Investing for financial gains alone would not fall within this definition.

#### 3.2 Venture Philanthropy (VP)

Venture Philanthropy – often also referred to as “high engagement giving”- is continuously evolving in practice and definition. For the purposes of this document, venture philanthropy is defined as:

*‘Capital and human resources invested in charities and social enterprises by various types of investors in search of a social return on their investment. VP involves a high engagement over many years with fixed milestones and tangible returns and exit achieved by developing alternative, sustainable income’.*

### 4.0 A Spectrum of Investor Motivation<sup>16</sup>

First, one should differentiate social investors and social investment from the broad spectrum of funding for organisations with a social purpose. Social investment is about the supply of financial and non-financial capital to build the capacity of an organisation to deliver its social, economic, environmental or cultural mission. It is not about the supply of revenue to fund on-going operations. It is about helping third sector organisations achieve long term financial sustainability and impact.

In addition, categories of social investors may be distinguished by their motivation. The figure below sets out a spectrum of motivating factors that may see a person or organisation become a social investor.

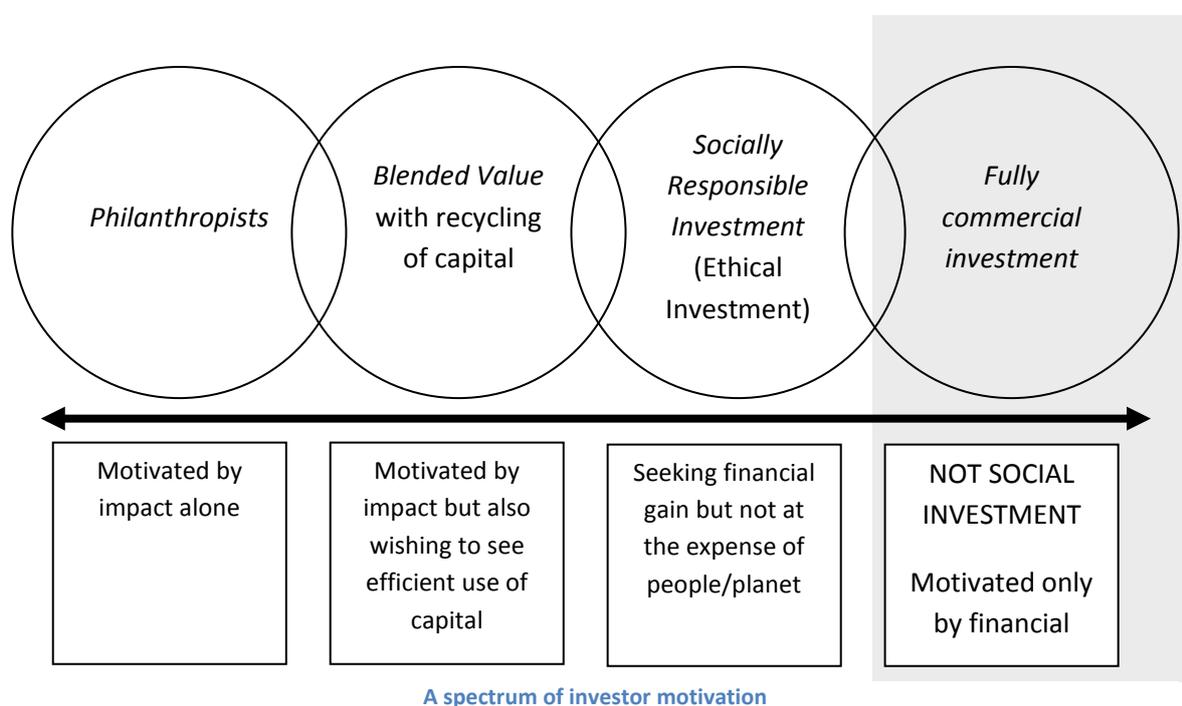
- Philanthropists seek impact by making donations of both money and time. Their objective is to maximise social, environmental or cultural impact through their support.

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<sup>16</sup> Adapted from ‘The Venturesome Model. Reflecting on Our Approach and Learning 2001-6’, M Bolton, J Kingston, J Ludlow, 2006

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- Blended Value Investors seek impact whilst also wishing to see their capital recycled i.e. invested and then repaid. Some of these investors may aim to make a financial return on their investments in addition to achieving impact. Others may be happy to see their capital depleted over time i.e. to see losses from their investments, so long as capital is recycled wherever possible.
- Socially responsible investors make financial investments explicitly to achieve fully commercial financial returns, but limit the range of organisations they are willing to invest in. So called “positive screening” actively seeks out investments which are believed to have a positive impact without any consequence for overall financial performance of a portfolio. “Negative screening” techniques exclude investments whose activities are believed to have negative consequences for society or the environment e.g. arms manufacturers or tobacco producers. Socially responsible investing also looks for high standards of corporate governance in investee companies.



- In between blended value and socially responsible investment one could add in the concept impact investment. Impact investment seeks to solve social problems and receive a financial return at market rates or better at the same time. It differs from socially responsible investment which usually utilises negative screening avoiding investments in socially irresponsible companies; whereas impact investors invest in enterprises that proactively use the business to achieve good.

Socially responsible investment does not just involve the purchase and sale of publicly traded commodities. Socially responsible venture capital is increasingly evident in the UK: Bridges Ventures<sup>17</sup> operates two commercial venture capital funds which only invest in businesses based in regeneration areas, or in key areas of impact: health, environment or education. Triodos Bank is one of a number of players operating commercial venture capital funds in the clean energy sector.

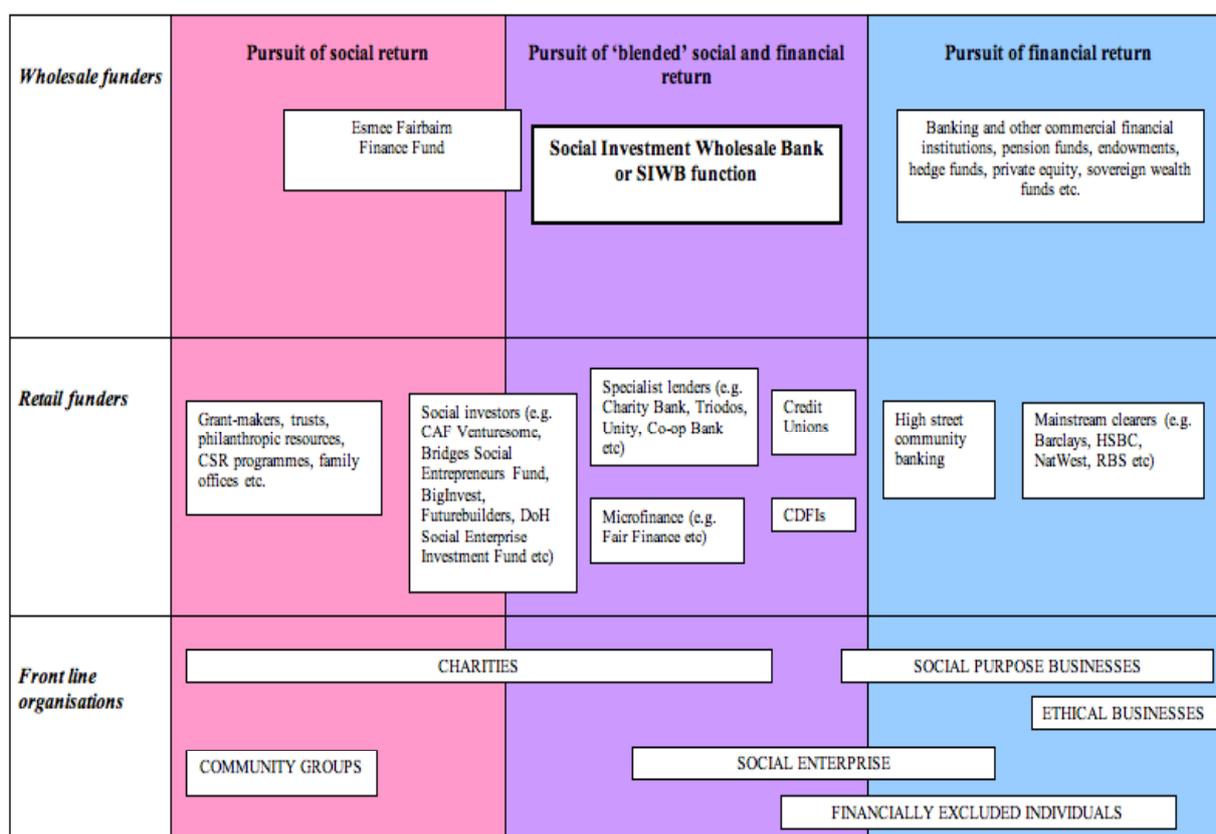
<sup>17</sup> [www.bridgesventures.com](http://www.bridgesventures.com)

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‘Social business’ is a term often used to describe businesses on the boundary of blended-value and socially responsible models where the aim is to deliver commercial returns whilst having strong social purpose. Organisations such as Clearly So<sup>18</sup> and Investing for Good<sup>19</sup> are active promoters of social business investment. The term Mission-Connected Investment or Impact Investing has been adopted by the charitable foundation sector to describe how foundations might use a proportion of their commercial investment capital in support of the change they set out to create – their mission - by investing in social businesses<sup>20</sup>.

An individual or organisation may well allocate their capital across this spectrum e.g. the Esmee Fairbairn Foundation makes grants to charitable trusts, operates a blended value Finance Fund, and invests its endowment commercially.

Venturesome<sup>21</sup> explores further that multiple funding approaches are needed to support and finance the variety of market needs in the sector. They demonstrate this as follows:



<sup>18</sup> [www.clearlyso.com](http://www.clearlyso.com)

<sup>19</sup> [www.investingforgood.co.uk/](http://www.investingforgood.co.uk/)

<sup>20</sup> ‘Mission Possible: Emerging opportunities for mission-connected investment’, New Economics Foundation, 2008

<sup>21</sup> Response to the Office for Civil Society’s consultation on **Social Investment Wholesale Bank: A consultation on the functions and design** CAF October 2009

### 5.0 The UK Social Investment Market – Recent History and Timeline

Historically, that is, prior to 1995, there have always been rare examples of social investment practice – from the foundation of the building society movement in the 1740s as the original community finance institutions, through to prominent examples such as World In Need (now the Andrews Charitable Trust<sup>22</sup>). This is a charitable trust founded by Cecil Jackson-Cole in the 1940s which took what we now call a Venture Philanthropy approach – a notable early success being the development of Oxfam.

In general, social enterprises continued to be excluded from the sources of capital available to equivalent commercial businesses. In 1995, Investors in Society set up a special trust within Charities Aid Foundation; this the precursor to the Charities Aid Foundation, in 2001, establishing the Charity Bank<sup>23</sup> in order to provide bank lending to social enterprises who could not access loans for property acquisition or working capital from mainstream lending banks. The capital and deposits for Charity Bank were all sourced from the private sector – mostly charitable foundations or individuals who had an existing involvement in the social enterprise space typically as philanthropists.

In 2000, the Social Investment Taskforce<sup>24</sup> was formed to review access to capital for social enterprise. Its recommendations to the UK Chancellor of the Exchequer led to several key developments in social investment:

- The UK Government’s introduction of Community Investment Tax Credits as a tax break for some social investment.
- The creation of Bridges Ventures, the UK’s first community development venture capital fund.
- Revised regulations from the UK Charity Commission allowing charitable foundations to make “programme-related investments” i.e. social investments at below the commercial rate of return where the investment is in line with charitable purpose.
- The UK Government funded a programme of financial support for small community development finance institutions.

Four key trends shaped the development of social investment in the early 2000s:

- The promotion of social enterprise as an important means of public service delivery, by both Government and the trade body the Social Enterprise Coalition<sup>25</sup>.
- The promotion of loan finance as the primary supply of capital to social enterprises e.g. the foundation and growth of Charity Bank, Adventure Capital Fund, Futurebuilders, Venturesome, Big Issue Invest.
- The increase in interest in venture philanthropy approaches<sup>26</sup>, evidenced by the launch of funds such as ARK, Unltd, and Impetus and the formation of a trade body the EVPA<sup>27</sup>.
- The exploration by grant making foundations of programme-related investment<sup>28</sup>

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<sup>22</sup> [http://www.andrewscharitabletrust.org.uk/our\\_heritage.htm](http://www.andrewscharitabletrust.org.uk/our_heritage.htm)

<sup>23</sup> [www.charitybank.org](http://www.charitybank.org)

<sup>24</sup> [www.enterprising-communities.org.uk](http://www.enterprising-communities.org.uk)

<sup>25</sup> [www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)

<sup>26</sup> See APERIO Europe paper listing the venture philanthropy funds world wide.

<sup>27</sup> European Venture Philanthropy Association, [www.evpa.eu.com](http://www.evpa.eu.com)

<sup>28</sup> ‘Foundations and Social Investment’, Esmee Fairbairn Foundation, 2005

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By the mid-2000s, the supply of non-grant capital specifically for Social Enterprises was estimated at c£1bn sterling. However, this capital was concentrated in the majority as public funding, and provided as loan finance.

In the period 2004 – 2006, several market participants began to advocate the need to increase the supply of “risk capital” or social venture finance<sup>29,30</sup>, in the form of equity and equity-like finance. The drivers of this being: the inherent mismatch between the high risk of rapid growth and lower risk profile of loan finance; and the wish to implement high engagement models closer akin to venture capital than bank lending.

Also in this period, a number of new venture philanthropy funds were established - often funded by the then booming private equity/venture capital and hedge fund sectors. These include the CAN/Permira Breakthrough Fund; Venture Partnership Foundation; The Children’s Investment Fund; and the Private Equity Foundation<sup>31</sup>. Social enterprise incubation – as a subset of venture philanthropy – also saw growth in activity in the mid 2000s including the launches of: UnLtd Ventures providing grants and consultancy support to start-up organisations funded from a public sector endowment; and the Young Foundation’s Launchpad<sup>32</sup> – a business incubator for social innovations funded by charitable foundations and NESTA<sup>33</sup>.

In 2007, two public bodies sought to stimulate the social venture fund market specifically targeting the sub-commercial Blended Value space. NESTA sought proposals for new funds providing Equity for Social Enterprises, and the Office for Civil Society<sup>34</sup> undertook a consultation on the supply of risk capital to social enterprises. This led in 2009 to an award of support from NESTA and investment totalling c£5m from the Office for Civil Society into Bridges Ventures Social Entrepreneurs Fund. Big Issue Invest’s Social Enterprise Investment Fund also attracted funding from NESTA. These two policy interventions/market stimulations have been pivotal in the establishment of an increasing range of social venture funds in the UK, which have attracted funding from public, charitable and corporate sources.

It is important to note that Triodos Bank and Venturesome have been active in social investment for several years throughout this period.

Looking forward in 2010, although much has been achieved the supply of capital remains limited especially for social venture and venture philanthropy funds. There are therefore some emerging themes for further development:

- The need to develop business advisory and investment readiness services to prepare social enterprises for venture philanthropy or social venture fund support. This need is being recognised by social venture funds who, having raised capital are actively seeking investment ready organisations with some frustration.
- A questioning of the role and resilience of the UK Government as the largest supplier of capital in the market, in the context of expected public expenditure cuts.

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<sup>29</sup> ‘Equity-like capital for social ventures’, 2004, Bridges Social Ventures

<sup>30</sup> ‘The Financing of Social Enterprises: A Special Report by the Bank of England’, Bank of England, 2003

<sup>31</sup> See individual fund listings in the Appendix.

<sup>32</sup> <http://launchpad.youngfoundation.org/>

<sup>33</sup> NESTA – the National Endowment for Science, Technology and the Arts – is a non-departmental public body with a mandate to promote innovation.

<sup>34</sup> [http://www.cabinetoffice.gov.uk/third\\_sector/funding\\_finance\\_support/risk\\_capital\\_fund.aspx](http://www.cabinetoffice.gov.uk/third_sector/funding_finance_support/risk_capital_fund.aspx)

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- The development of models to attract capital at a ‘wholesale’ level, and the emergence of professional capital raising services, for example Social Finance<sup>35</sup>.
- Increasing interest in the small investor at a community level, not least through local community share and bond offers (discussed further below).
- The need to evolve secondary markets - via further public offers, social stock exchanges and trade sales – in order to give an exit from the maturing cohort of investments made in the mid 2000s (also discussed further below).
- The implications of the change of government and the impact of the ‘big society’ concept including the so-called ‘big society bank’. For social investment purposes.

In addition, funds such as Apposite<sup>36</sup> must be taken into account as they, and investment funds similar to them, are playing a greater role investing in companies active in the social and health sectors. For example Apposite is a private equity and venture capital investor in the healthcare industry, investing in ‘all stages of the corporate life cycle’ with a ‘focus on life sciences and healthcare services companies’<sup>37</sup>.

### 6.0 The Key Dimensions of Social Investment

This section reviews a number of defining factors for social investment activity, and maps current UK social investment funds according to these dimensions. The diagrams should be read in conjunction with the Appendix listing of Venture Philanthropy and Social Venture Funds.

- **Appetite for risk and the risk inherent in the use of funds**  
This dimension measures the chances of the investment achieving its primary objective – social or financial allied to the use of funds e.g. an equity investment in a start-up organisation is higher risk than a loan secured on a building.
- **Financial instrument**  
The different means used to supply funding to an organisation from grants, equity shareholding to bonds and secured loans.
- **Pricing – financial and social**  
The target financial returns from each investment and across a portfolio of investments. The expected social returns from each investment and across a portfolio, and the means of measuring them.
- **Engagement and non-financial support**  
The closeness of the relationship between investor and investee, and the level of engagement with operations of the organisation.
- **Stage of development of the organisation**  
Does the investment fund support start-up projects, early stage / incubation, development / growth capital, publicly traded investments, mature businesses, refinancing and rescues?

#### 6.1 Mapping the Market

The diagrams in this section do not map every fund listed in the Appendix. They map key players and indicate the ‘density’ of activity in the market.

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<sup>35</sup> Social Finance raises capital in substantial volumes (£2m+) on behalf of other funds.

[www.socialfinance.org.uk](http://www.socialfinance.org.uk)

<sup>36</sup> [www.appositecapital.com](http://www.appositecapital.com)

<sup>37</sup> [www.appositecapital.com](http://www.appositecapital.com)

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

### 6.1.1 Use of Funds and Financial Instruments

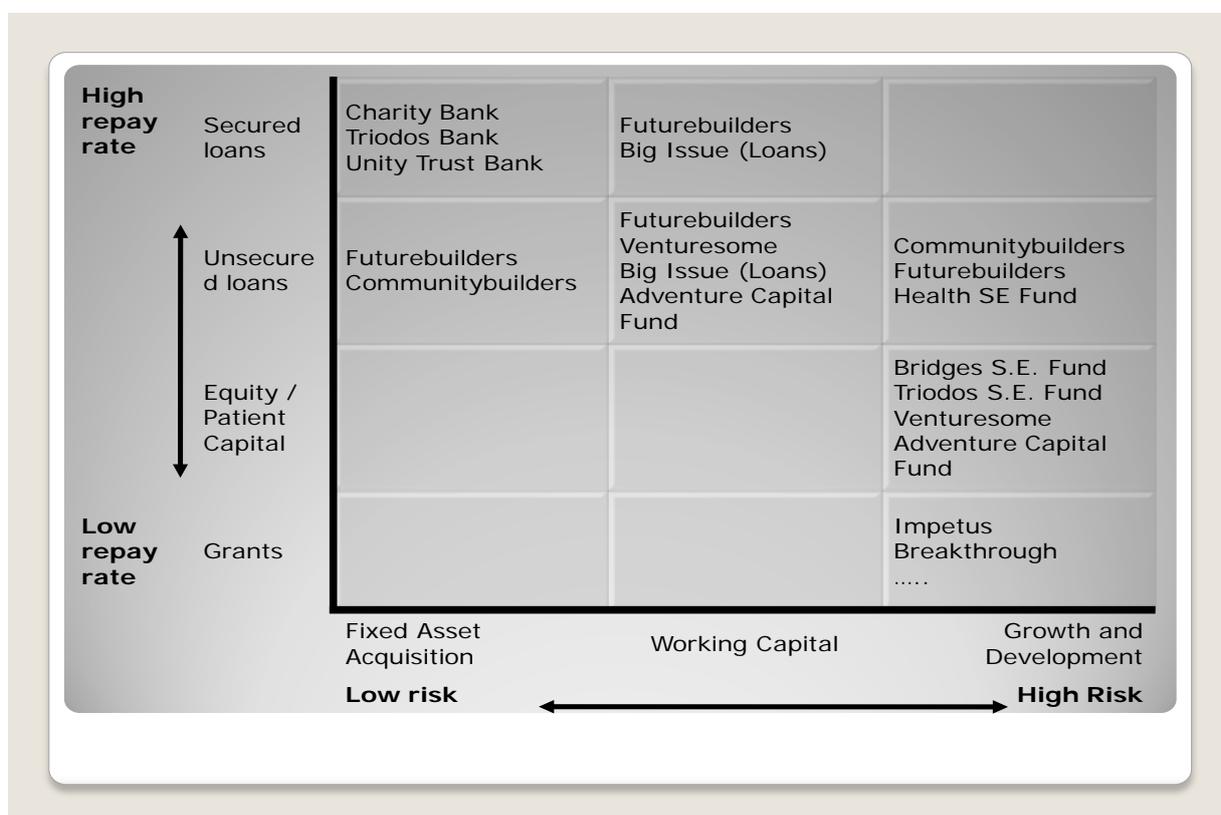
The figure below plots

- The financial instruments at work from secured loans (with a high likelihood of repayment) through to equity investment and grant making (a low likelihood of repayment).
- The range of financial needs being met by social investment from fixed asset acquisition (a low investment risk as the asset can usually be sold) through to growth and development (a high investment risk as funds are spent on additional expenditure ahead of income).

Despite the apparent coverage of this map with social investment funds, the financial capital available from these sources is very small in comparison to the need.

Overall in the social enterprise sector, it is important to note that the assets are concentrated in a few charitable organisations and not available for general social investment.

*'One third of the sector's assets are held by just 54 organisations; four charities own 20% of the sector's assets.'*<sup>38</sup>

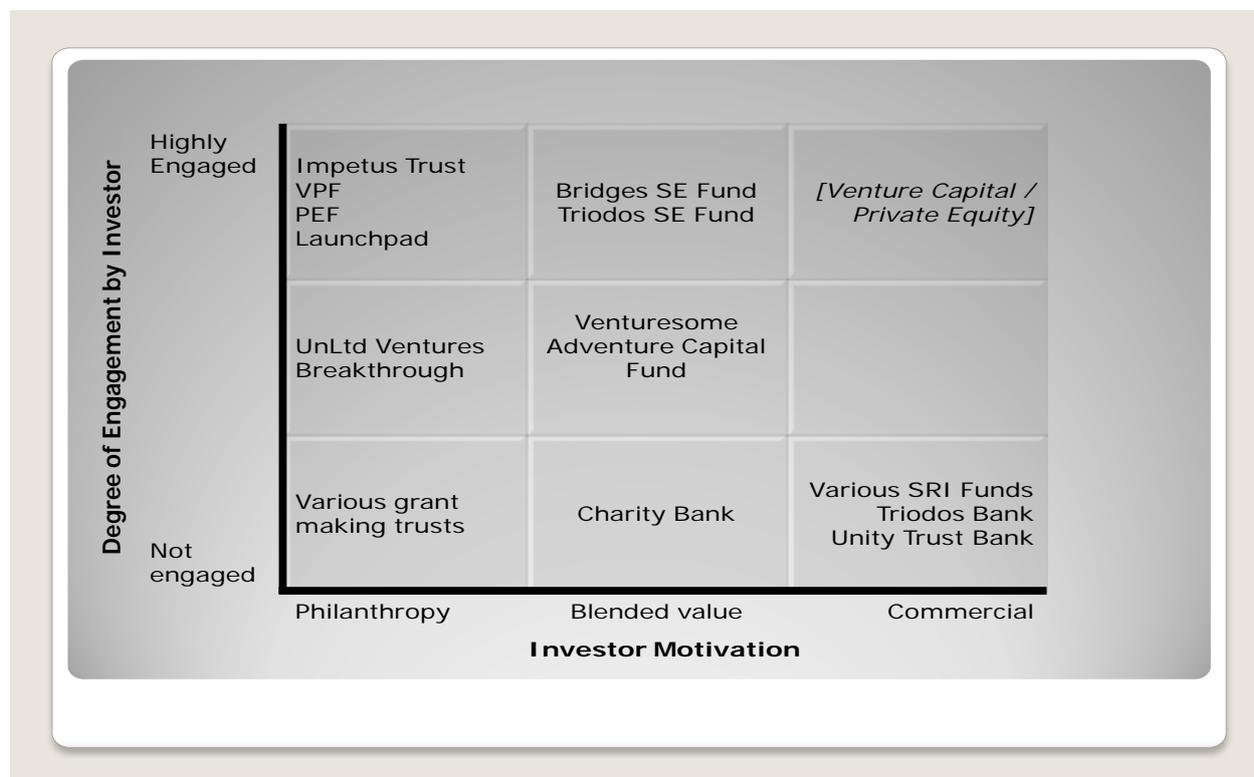


UK Social Investment Funds by Use of Funds and Financial Instrument, adapted from 'Financing Civil Society', Venturesome, 2008

<sup>38</sup> NCVO Funding Commission, 'Paper for Meeting 3'; [http://www.ncvo-vol.org.uk/sites/www.ncvo-vol.org.uk/files/UploadedFiles/Paper\\_for\\_Commission\\_Meeting\\_3.pdf](http://www.ncvo-vol.org.uk/sites/www.ncvo-vol.org.uk/files/UploadedFiles/Paper_for_Commission_Meeting_3.pdf)

## 6.1.2 Levels of Engagement

Social Investor Engagement and Motivation<sup>39</sup>



The figure above maps social investors by their degree of engagement with their investees. Venture philanthropy funds such as Impetus are frequently joining the board of their portfolio organisations, and supplementing executive management with new appointments and consultancy. Launchpad and ARK both incubate social ventures, recruiting management to develop start-up proposals.

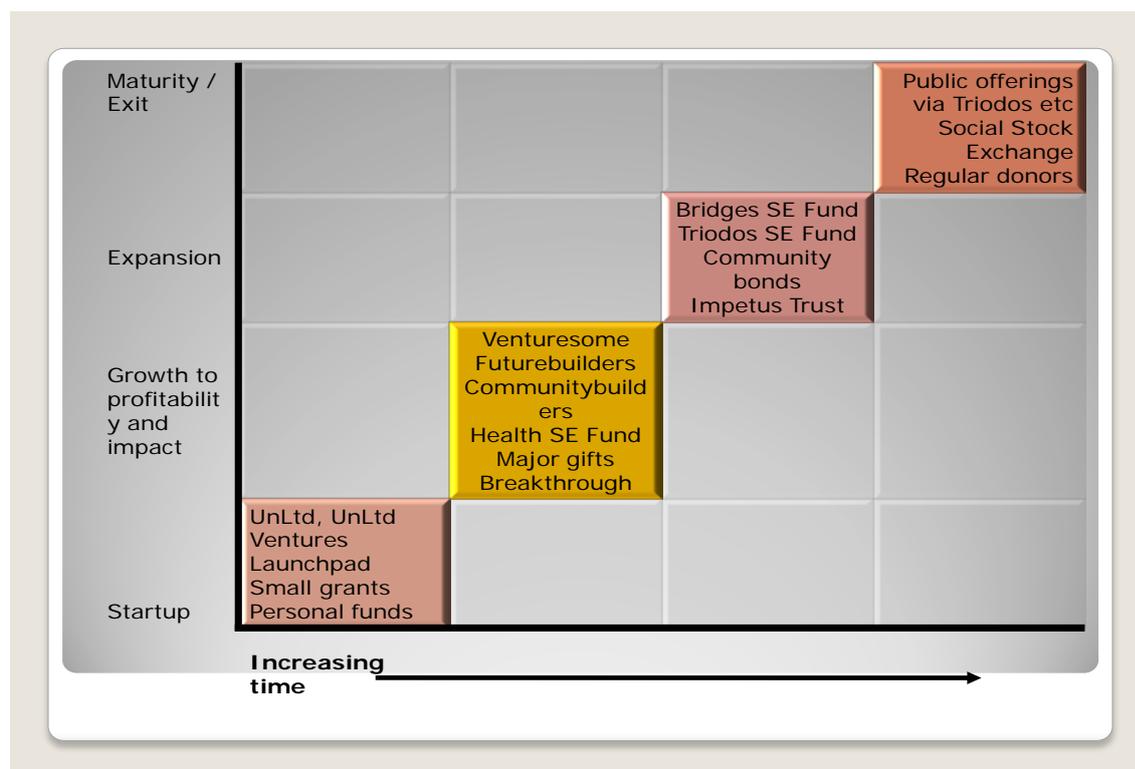
In the Social Venture Fund field, there is a contrast between:

- The very closely engaged funds such as Bridges and Triodos, who mirror traditional Venture Capital models of engagement with executive and non-executive director appointments.
- Funds such as Adventure Capital Fund and Venturesome whose engagement is high in the due diligence phases as business plans are shaped, but then become more of a monitoring relationship beyond that.

The operational consequences of a high degree of engagement are substantial: man-hours per investment are high; networks of experienced non-executives and trusted consultants are required to give specialist support; portfolios tend to be small as a consequence. Highly engaged venture philanthropy and social venture funds such as Impetus and Bridges Ventures have managed to lever pro-bono services from a range of commercial consultants and non-executives. Inspiring Scotland is a noteworthy example of venture philanthropy borne out of the traditional charitable trust sector yet still leveraging non-financial support from commercial and charitable sectors.

<sup>39</sup> Adapted from Venturesome Access to Capital

## 6.1.3 Organisational Lifecycle



Social Investment Funds by Organisational Life Stages

The figure above looks at the distribution of social investment funds across the organisational lifecycle. Whilst growth and expansion capital have been a focus of activity for both social venture funds and venture philanthropists, the beginning and end of the lifecycle are less well served. This may be a matter of risk – backing existing organisations, with some evidence of impact and financial performance is lower risk than complete start-ups. But equally, it may be that the infrastructure to support very early stage activity, and to support secondary markets is not well enough developed.

The work of, for example, UnLtd and the Young Foundation/Launchpad<sup>40</sup>, in incubating early stage ideas has led growing interest in supporting social innovation with incubator space, social venture competitions, as well as seed funding. The development of a ‘social’ business angel network is a key gap in support for very early stage ventures.

At the mature end of the lifecycle, projects in development such as the Social Stock Exchange, funded by the Rockefeller Foundation<sup>41</sup>, have attracted much interest and some funding. More commercial social enterprises, such as Café Direct, Ethical Property Company, Traidcraft and several other social housing providers have been able to issue publicly traded instruments using ethical

<sup>40</sup> Launchpad.youngfoundation.org.uk

<sup>41</sup> News article from March 2008 at <http://www.philanthropyuk.org/NewsandEvents/Latestnews/RockefellerFoundationtofundsocialstockexchangefeasibilitystudy>

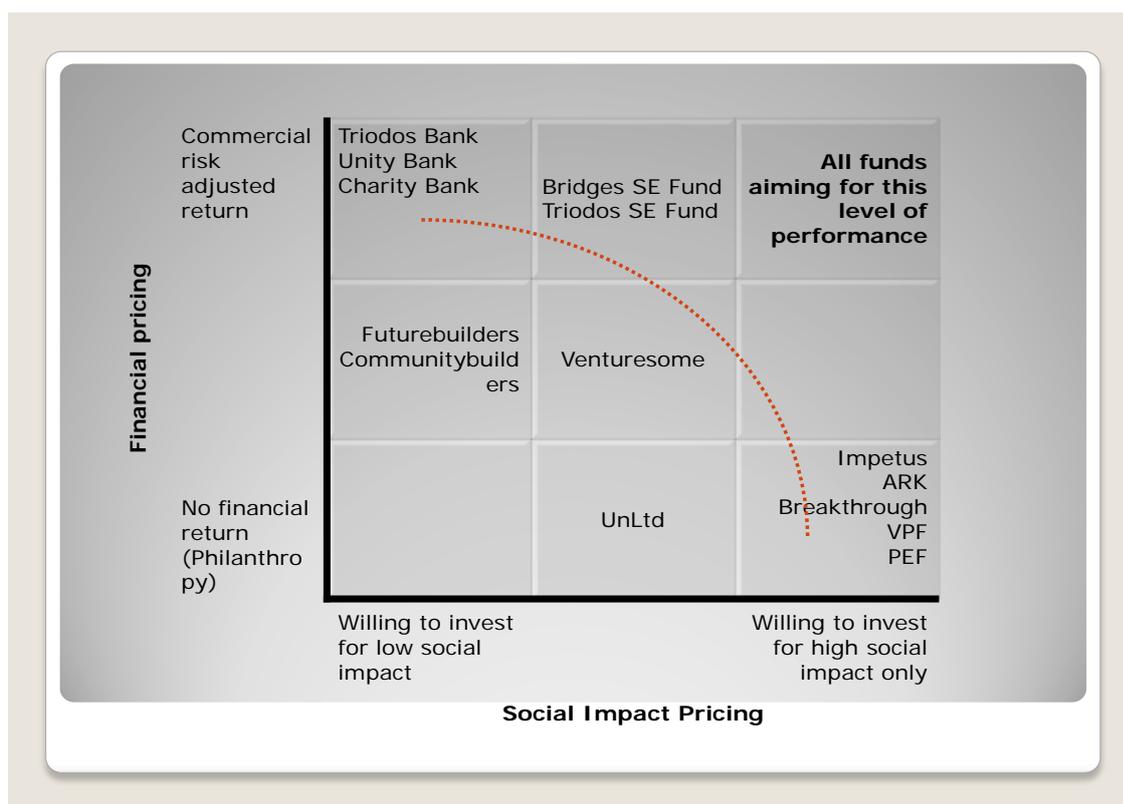
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investment banking and market making services from, for example, Triodos<sup>42</sup>. Appendix 4: Examples Mission Connected Investments gives a range of examples of investment opportunities structured to access mainstream capital markets.

An emerging trend is the re-emergence of co-operative models which are able to issue shares and bonds to small investors at relatively low cost. Co-operatives UK and the Development Trusts Association<sup>43</sup> are piloting a portfolio of community share issues as a means of raising capital from individual investors which may be traded or redeemed over time. Triodos Bank has helped a number of organisations with bonds and sales of private shares – Cafe Direct (£5m in private shares, Ehtical Property (£7.2m with three public share offerings), Golden Lane Housing (£1.7m through the sale of bonds), Triodos Renewables (£17.4m in four shares issues), the East London Bond in support of two charities, and community bonds.

Finally, the long-standing funding model of regular donation must not be overlooked as a means of a venture philanthropy funds being able to reduce its support as a stable base of regular donors is built – many substantial national and international non-profit organisations have built their capital base on such funds, as they are typically unrestricted capital, as opposed to restricted revenue funding supplied by statutory and multi-lateral donors such as the EU or the World Bank.

### 6.1.4 Pricing and Performance Measurement



Social and financial pricing of Social Investment Funds, adapted from - amongst others - Acumen Fund, "The nature and type of social investors", April 2009

<sup>42</sup> [www.triodos.co.uk](http://www.triodos.co.uk)

<sup>43</sup> <http://www.communityshares.org.uk/>

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The figure above maps social investment funds by their approach to pricing for both financial return and social impact. Funds to the upper left of the diagram are charging more-or-less commercial prices, and whilst they have filters for social impact they make little judgement about the impact of an investee – e.g. Charity Bank requires organisations to be of certain legal structures but does not conduct a detailed comparative assessment of social benefit. Funds to the bottom right are philanthropic, and in exchange for their expectation of no financial return wish to support “best-in-class” impact e.g. Impetus Trust conducts detailed due diligence on its potential investees seeking to find evidence of superior impact, management strength, and the potential to scale; investment appraisals can take three to six months.

An initial attraction to potential social investors can be the idea that high social impact can be achieved with little or no reduction in financial return. Often the marketing of social venture funds appears to suggest this. Practice appears to suggest that the territory to the top-right of the indicative dotted line in the diagram is short of investment opportunities. The authors of this paper have anecdotal evidence that UK social venture funds are experiencing difficulty in identifying social enterprise investment opportunities which meet their expectations of financial return and social impact. As of early 2010, Bridges Social Entrepreneurs Fund announced two investments (Hackney Community Transport and Call Britannia) and Triodos Social Entrepreneurs Fund one investment after c12 months of operation<sup>44</sup>.

### 6.2 Performance Measurement

A number of methodologies have been developed, that seek to measure social impact performance. For example:

- The Global Impact Investing Rating System developed by Rockefeller Foundation and others works by giving points to the organisation within prescribed categories (Governance & Leadership, Community, Employees, Environment, and Consumers), according to how many of a set of desired features are present in the organisational and operational model of the enterprise being rated.
- Social Return on Investment (“SROI”) – SROI measures wider social benefits and has gained official support from the Office for Civil Society in the UK. A SROI measurement consists of “a cost-benefit analysis and aims to provide monetary values for the total social costs and benefits involved in a given project or activity...” Carrying out an SROI analysis involves six stages:
  1. *‘Establishing scope and identifying key stakeholders.*
  2. *Mapping outcomes. Developing an impact map, or theory of change, which shows the relationship between inputs, outputs and outcomes.*
  3. *Evidencing outcomes and giving them a value. This stage involves finding data to show whether outcomes have happened and then valuing them.*
  4. *Establishing impact. Having collected evidence on outcomes and monetised them, those aspects of change that would have happened anyway or are a result of other factors are eliminated from consideration.*
  5. *Calculating the SROI. This stage involves adding up all the benefits, subtracting any negatives and comparing the result to the investment.*
  6. *Reporting, using and embedding. Sharing findings with stakeholders and responding to them.’*

Extract from ‘A guide to Social Return on Investment’, Office for Civil Society, April 2009.

- Methodology for the Analysis and Rating of Impact Investments (“MARII”) – Developed by Investing for Good (a UK based organisation offering investment advice and research

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<sup>44</sup> Data from [www.bridgesventures.com](http://www.bridgesventures.com); [www.triodos.co.uk](http://www.triodos.co.uk)

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products), the process involves qualitative analysis of key indicators (as self-reported by a social enterprise), the outcome of which is a CRI rating (Confidence, Return and Impact of the investee). According to Investing for Good,

*'The first stage in the rating is the mapping procedure, by which the investment and the underlying organisation are assessed in a non-evaluative fashion to identify their core characteristics, and to create an investment profile. The second step is the assessment of the three elements: Confidence, Return, and Impact. Each of these three is treated separately, and the investment offering and its underlying organisation are assessed across a series of specific considerations and scored accordingly. The various considerations are weighted, with the total number of points available for a particular consideration reflecting the weight of that consideration in the final score. Certain considerations are scored negatively, where the criteria under assessment is seen to detract from rather than add to the value of the investment offering. Assessing and scoring the investment offering and its underlying organisation on each of the considerations yields a total score for each element of the rating. These total scores relate to a grade — 1, 2 or 3 — on each element, with 1 indicating best practice. These grades then enter the final rating. Thus the Investing for Good Investment rating itself comprises of three numbers between 1 and 3 — e.g.: Confidence 3, Return 2, Impact 1. While the Investment Rating is geared toward rating an investment offering, the approach has a wider functionality, including most importantly the ongoing evaluation of an organisation after the investment offering has closed.'*

Specialist non-profit analysis firms, such as New Philanthropy Capital<sup>45</sup>, have developed to undertake customised and thematic assessments of Social Enterprise impact.

In considering social performance measurement, it should be recognised that:

- Social, environmental or cultural impact are complicated, multi-dimensional concepts. Approaches that seek to monetise social costs or savings inevitably make assumptions that are difficult to verify.
- Most social problems are complex with multiple organisations tackling them, so direct attribution of long-term impact is difficult, and proxy indicators will need to be sought.
- The objective of social investment is to strengthen the capacity of an organisation to achieve its mission in the long run, not to fund a specific set of outputs directly e.g. help a children's charity to sustain a doubling of its service level in the long term, not fund one year's service output.
- A major issue is the data management that underpins performance measurement. Key organisational readiness issues and barriers exist that need to be addressed if there is to be effective performance management. These include:
  - A lack of appropriate understanding and systems for data management.
  - Disparate forms of information/gaps in information.
  - Few defined performance measures.
  - Lack of capacity and priority.
  - Cultural issues and internal politics.
  - Cost of the project; not seeing the benefit of organisational performance and funding.

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<sup>45</sup> [www.philanthropycapital.org](http://www.philanthropycapital.org)

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Social Finance's promotion of a Social Impact Bond<sup>46</sup> that monetises long term impact rather than social outputs is an emerging model of linking finance to social impact performance.

### 6.3 Sources of Capital and the Role of Government

#### 6.3.1 Background

Venture philanthropy funds and social venture funds have raised capital from:

- High net worth individuals, many from the financial sector and entrepreneurs.
- Charitable foundations e.g. Esmée Fairbairn Foundation, Tudor Trust, Sainsbury Family Trusts.
- Public funding from across Government (Departments of Health, Business (BIS), Treasury, Communities, local government, and Office for Civil Society).

Several commentators have estimated the amount of social investment (non-grant finance) now available as being in excess of £1B<sup>47</sup>; others estimate that it is c£1.5B from banks and £0.5B from elsewhere<sup>48</sup>. However, it is clear that:

- There are substantial gaps in the supply of capital: seed capital from business angels, secondary markets.
- The level of capital available is significantly below the latent demand (estimates of UK Social Enterprise sector turnover are c£30 - £40B<sup>49</sup>).
- Over £400m of capital has come from UK Government departments via a tendering process and is concentrated under the management of one funder - The Social Investment Business.
- Some charities have significant reserves and they have in many cases been reluctant to invest them in social enterprises.

There is concern to develop a resilient, long term supply of capital to social enterprises.

#### 6.3.2 The Role of Commercial Capital and the Mainstream Banks

As discussed above, socially responsible investment funds and social business as typified by the opportunities in the Appendix are positioned to attract commercial capital especially the capital in ethical investment funds. According to the Ethical Investment Association<sup>50</sup>:

- 700 000 people in the UK now invest in green and ethical investment funds.
- There are now more than 90 UK ethical funds with almost £9 billion invested in them, which may be ISAs, Unit Trusts, OEICs (open-ended investment companies) or investment trusts.

The mainstream banks in the UK have begun to address the potential business opportunities in the growing social sector, arguably having been led to this market by the specialist lenders such as Charity Bank. Mainstream banks – notably the Royal Bank of Scotland/NatWest bank have entered the market to provide lending on commercial terms for property acquisition and working capital and to attract deposits from social enterprises.

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<sup>46</sup> 'Social Impact Bonds: Rethinking finance for social outcomes', Social Finance, August 2009

<sup>47</sup> For example, 'Access to Capital', Venturesome, 2009

<sup>48</sup> From informal discussions with Venturesome.

<sup>49</sup> Office for Civil Society,

[http://www.cabinetoffice.gov.uk/third\\_sector/research\\_and\\_statistics/facts\\_figures.aspx](http://www.cabinetoffice.gov.uk/third_sector/research_and_statistics/facts_figures.aspx)

<sup>50</sup> [www.ethicalinvestment.org.uk](http://www.ethicalinvestment.org.uk)

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Whilst there appear to be public relations and social responsibility advantages in working with social enterprises, fully commercial banks also face a reputational risk in working in this market. These centre around the negative consequences of enforcing a contract should a social enterprise default, leading to the closure of a social service.

Mainstream banks have also found it important to gain specialist knowledge and understanding of the social enterprise sector's culture and business models. This has led to the creation of specialist charity and social enterprise departments at, for example Barclays Bank and NatWest Bank.

Finally, there continues to be demand from social enterprises for the introduction of a 'Community Reinvestment Act' in the UK, similar to that in place in the USA which forces the disclosure of lending to people and organisations in deprived areas.

### 6.3.3 The Role of Government

The history of the development of social investment in the UK has shown the role of Government to have been significant at several key points. Government has both stimulated the capital market – significantly promoting the provision of loan finance and social venture funds - and supplied substantial capital (c£450m).

Government support has been across many departments. In the lead has been the Office for Civil Society (OCS) – created in 2006 to oversee policy for the social economy. OCS plays an important role to building the capacity of the social investment and social enterprise sectors. Significant interventions from the OCS include:

- The provision of up to £10m for social venture funds in the UK.
- Managing consultation on the use of unclaimed assets to create a social investment wholesale bank.
- Promoting the 'Compact' and the National Programme for Third Sector Commissioning – a programme to establish beneficial terms on which public departments should commission services from the social enterprise sector, and support social enterprises to win contracts. Public sector revenue funding represents c33%<sup>51</sup> of income in the social enterprise sector, two-thirds of which is supplied as contract/commissioned income, not grant aid<sup>52</sup>.
- Being the lead department for the development of Futurebuilders Fund (£215m of loan capital) – providing capital to support greater commissioning of public services from social enterprises.
- Promoting the transfer of publicly owned property assets to social enterprises via the Community Assets programme (£30m).

Overall, the OCS has a budget of £500m for the period 2008-2011.

The Department of Health has identified social enterprise as a key means of improving the delivery of health services in the UK<sup>53</sup>, and has an internal Social Enterprise Unit to promote action. It has three key interventions to support Social Enterprise:

- The Health Social Enterprise Investment Fund is a £100m fund offering grants and loan finance to Social Enterprises providing health services. It is managed by the Social Investment Business with Local Partnerships, on behalf of the Department of Health.

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<sup>51</sup> It is estimated that over 50% of the funding for charities is in the form of public sector contracting and trading.

<sup>52</sup> Data at [http://www.cabinetoffice.gov.uk/third\\_sector/research\\_and\\_statistics/facts\\_figures.aspx](http://www.cabinetoffice.gov.uk/third_sector/research_and_statistics/facts_figures.aspx)

<sup>53</sup> <http://www.dh.gov.uk/en/Managingyourorganisation/Socialenterprise/Aboutsocialenterprise/index.htm>

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- The Social Enterprise Pathfinder Programme provides business support services to young Social Enterprises in the health sector.
- The Innovation for Life Challenge Fund has been developed in collaboration with the Social Enterprise Coalition. It asks local health and social care commissioners to propose innovative ways of using social enterprise solutions to meet local health and well-being challenges.

Communities and Local Government<sup>54</sup> has also established a unit to support the role of social enterprises in local communities. It has:

- Funded the £70m Community Builders programme, which supports community organisations which provide services addressing a wide range of a neighbourhood's needs. It is a loan and grant fund which aims to support organisations to become sustainable through trading activity.
- Created the £10m Empowerment Fund to provide grants to Social Enterprises which work to improve people's engagement with their local community.

This department is also responsible for funding social housing providers. Many social housing providers, whilst being substantial social enterprises in themselves, support local social enterprise activity for example, Social Enterprise Clydebank was established by a partnership of Scottish Housing Associations<sup>55</sup>

The UK Treasury was a pioneer in developing Government's role in supporting social enterprise and social investment. As noted above, the Treasury introduced Community Investment Tax Relief<sup>56</sup> to provide tax relief for investment in Community Development Finance Institutions. The Treasury was the original sponsoring department of the Futurebuilders Fund. Whilst the majority of the Treasury's responsibilities for social enterprise have been transferred to the Office for Civil Society, it continues to have an important role in:

- Making available unclaimed assets for the proposed social investment wholesale bank.
- Considering further tax incentives for social investment beyond CITR.
- Supporting the regulation of financial institutions, to ensure access to finance for Social Enterprise is maximised.

The Department of Business, Innovation and Skills<sup>57</sup> has also transferred the majority of its social enterprise activity to the Office for Civil Society. However, it continues to have responsibility for:

- Regulation of companies, including Community Interest Companies.
- Providing business support services via "Business Link", and ensuring these services cater for social enterprise.
- Funding Regional Venture Capital Funds designed to invest in small firms or underinvested areas. These funds can support social businesses achieving commercial returns.

But there are concerns about the role of the UK Government in the future:

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<sup>54</sup> <http://www.communities.gov.uk/corporate/>

<sup>55</sup> <http://www.socialenterprisecldebank.org.uk/>

<sup>56</sup> [http://www.hmrc.gov.uk/specialist/citc\\_guidance.htm](http://www.hmrc.gov.uk/specialist/citc_guidance.htm)

<sup>57</sup> <http://www.berr.gov.uk/>

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- The dominance of the public sector as the supplier of capital is not seen as sustainable in the light of expected future public sector expenditure cuts, which would lead to a substantial scaling back of the capital available.
- The majority of capital put to work has been in the form of loan finance, when equity like capital for growth and expansion may be more appropriate, and when loan finance is reasonably well served by specialist banks such as Charity Bank and Triodos. It is estimated that only c40% of Futurebuilders Fund has been lent
- The funds available are seen as have strong political objectives e.g. Futurebuilders funds social enterprises only in order to seek contracts to deliver public services.
- The majority of funds are the under management of one body, The Social Investment Business (see Appendix), which receives the majority of its funding from government departments and this approach is not seen as supportive of a robust and diverse capital market.

The promotion of a 'Social Investment Wholesale Bank' indicates a revised role for Government in the future, as is discussed further in the next section.

### 7.0 The Infrastructure of a Robust Venture Philanthropy and Social Venture Fund Market

With a substantial number of venture philanthropy, social venture and loan funds operating and funding social enterprises, attention is now turning to the supporting infrastructure necessary to ensure an efficient and consistent matching of capital with the needs of social enterprises.

#### 7.1 Ensuring a Robust, Diverse Supply of Capital: a Social Investment Wholesale Bank

In 2007, the independent Commission on Unclaimed Assets recommended the use of funds held in dormant bank accounts to create a wholesale investment institution to raise capital for social investment funds<sup>58</sup> primarily from non-Government sources, including charitable foundations and ethical investors. A similar model – The Calvert Foundation<sup>59</sup> – has been in operation in the USA for over ten years.

In 2009, the UK Government undertook a public consultation<sup>60</sup> on the creation of this institution. Whilst its response is not yet published, this indicates a revised role for Government in the future – one that uses its position and funds to stimulate market activity not directly control it.

#### 7.2 Preparing Social Enterprises for Investment

Evidence of low appropriate demand for some social venture funds suggests that social enterprises can find it difficult to access the finance needed to grow. This may be because some social entrepreneurs have low levels of financial literacy and their businesses are not always 'investment ready'. Consultancy support is required to<sup>61</sup>:

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<sup>58</sup> 'The Social Investment Bank', The Commission on Unclaimed Assets, March 2007

<sup>59</sup> [www.calvertfoundation.org](http://www.calvertfoundation.org)

<sup>60</sup> 'Social Investment Wholesale Bank: A consultation on the functions and design', Office for Civil Society, July 2009

<sup>61</sup> Adapted from Growing Your Trading and Enterprise Profitability, Enhancing Your Financial and Social Return', John Pepin, Mike McGee and Tanya Pepin, Aperio ([www.aperio-group.com](http://www.aperio-group.com))

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- Help clarify the organisation's objectives in seeking investment, and assessing the situation of the current enterprise (marketing, sales, operations, staffing, management, finances and risk).
- Prepare the organisation culturally for rapid growth and ensure appropriate human resource structures and procedures are in place.
- Undertake detailed market research, collecting detailed information on the industry and target markets, analysing competitive environment and key players, and assessing growth opportunities
- Gather, assess and present social benefit data as a compelling case for impact and growth.
- Develop internal systems and processes including measurement and reporting (social and financial), data management, customer relationship management, product management and new product development.
- Prepare detailed business plans, including high quality financial modelling.

A number of organisations are now offering business advisory and investment readiness support to social enterprises e.g. Aperio, UnLtd Advantage, Pilotlight (see Appendix). It remains unclear how social enterprises or social venture funds will seek to fund this type of consultancy. NESTA is piloting a Social Enterprise Access to Investment facility designed to offer a success fee to investment readiness providers who enable a social enterprise to obtain investment.

A key structural issue in preparing social enterprises for investment is ensuring that the organisation has an appropriate legal structure and form of governance<sup>62</sup> to deliver its mission and attract appropriate investment<sup>63</sup>. The table below compares a number of forms in use in the UK and looks at the models of governance and means by which capital can be raised. The Community Interest Company (CIC) form was established to achieve a balance between preserving social mission, protecting capital for social benefit whilst allowing management a role in the governance (unlike a charity) and investors to participate in a proportion of any financial returns on equity. Until recently the caps on financial returns to investors have been low, and this has significantly limited the supply of equity investment to CICs.

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<sup>62</sup> See Aperio papers on governance especially as it related to social enterprise [info@aperio-group.com](mailto:info@aperio-group.com)

<sup>63</sup> 'Keeping it legal: a guide to legal forms for social enterprises', available from Bates, Wells and Braithwaite [http://www.bateswells.co.uk/Files/Publications/sec\\_keeping\\_legal\\_complete2b.pdf](http://www.bateswells.co.uk/Files/Publications/sec_keeping_legal_complete2b.pdf)

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## A comparison of legal forms and governance for social Enterprises

Legal form	Governance Model	Allowable capital structure	Regulation
Unincorporated Charitable Trust	Individual members are Trustees and their liability is unlimited. Trustees cannot usually be paid	Loan finance with interest payable Retained surpluses may not be distributed No equity On liquidation, transfer of assets to organisation with similar impact	Regulated by Charity Commission
Company Limited By Guarantee (CLG)	Individual Directors liability is limited. Directors cannot usually be paid if registration as a Charity sought	Loan finance with interest payable Retained surpluses may not be distributed No equity On liquidation, distribution of assets determined by Memorandum of Association	Company may or may not register with Charity Commission dependent upon purpose, tax benefits and desired governance model
Company Limited by Shares (CLS): May be a CLG.	Individual Directors liability is limited. Directors can be paid	Loan Finance Equity Finance No lock on distribution of profit or assets	Cannot register as a Charity
Charitable status	Individual members are Trustees and their liability is limited. Trustees cannot usually be paid May set up a trading arm (CLG or CLS) or holding company with subsidiaries(Usually CLS)	Loan finance with interest payable Retained surpluses may not be distributed No equity On liquidation, transfer of assets to organisation with similar impact	Regulated by Charity Commission
Community Interest Company status: May be a CLG or CLS	Individual Directors liability is limited. Directors can be paid Mission constrained by what is acceptable as a community interest by the regulator.	CLG: Loan finance only CLS: Loan and equity finance An 'asset lock' and 'dividend cap' constrain the proportion of profits and assets that may be distributed to investors.	Regulated by the Community Interest Company Regulator
Industrial and Provident Societies (Mutual or co-operative bodies)	Members of the society may be employees Directors (Management committee members) are elected from the membership on the basis of one member, one vote. Liability of Members is limited	Loan finance with interest payable A form of equity is available through shareholding membership, capped at a maximum of £20,000 per member.	May be charitable in terms of tax status. Regulated by the Financial Services Authority.

### 7.3 Promoting Collaboration between Funds

As the Appendix demonstrates, there is now a wide range and high number of venture philanthropy and social venture funds in operation. Enabling funds to work together efficiently, to provide packages of funding which are larger and/or use a range of financial instruments e.g. grant, equity and loan is an important next step.

There are prototypes of this approach emerging:

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

- Bridges Ventures and Big Issue Invest co-invested in Call Britannia<sup>64</sup>.
- Inspiring Scotland, Impetus Trust and the Private Equity Foundation have co-invested in Street League and Tomorrow's People<sup>65</sup>.

Co-investment approaches have also driven the development of brokerage services – often as part of investment readiness support. UnLtd Advantage and Clearly So offer such services. At a wholesale level, Social Finance also provides brokerage services.

The UK has a diverse range of Venture Philanthropy and Social Venture Funds. However, the level of capital available in these forms is small relative to available loan finance, and to overall demand for capital. Early stage support, and secondary markets enabling exits for social venture funds remain underdeveloped areas. There is not yet a consistent approach to performance measurement and data management.

There is a diversity of approaches to both venture philanthropy and social venture funding being employed – the types of financial instrument employed and the levels of investor engagement being key differentiators between funds. Whilst some funds market their delivery of optimised financial and social returns, there is little evidence that such investment opportunities exist.

Government has played an important role in stimulating the development of social venture funds. But Government must be mindful to create a diverse market which attracts non-government funding. Government has a role to play in building the infrastructure of the market around wholesale fundraising and investment readiness.

What next? Current issues and barriers and emerging ideas should be monitored<sup>66</sup>. Much is happening to strengthen the social enterprise market place. Some examples of the latter includes:

- Mission, Models, Money and its support of alternative financial supports ([www.missionmodelsmoney.org](http://www.missionmodelsmoney.org))
- UnLtd Advantage helping social enterprises become investment ready ([www.unltd.org.uk](http://www.unltd.org.uk))
- Social Finance is active in this area including piloting the social impact bond ([www.socialfinace.org.uk](http://www.socialfinace.org.uk))
- Venturesome is a key innovator ([www.venturesome.org](http://www.venturesome.org))
- Community shares ([www.commnityshares.org.uk](http://www.commnityshares.org.uk)) and bonds ([www.citylifeltd.org](http://www.citylifeltd.org)) is growing in importance

In summary, much has happened in the UK in the social investment area. There is still a requirement for more and a greater variety of resources to be made available as investment needs are not being met. Investment readiness of the third sector is an issue as are cultural barriers. Capacity building is essential to the success of the social marketplace and to using resources effectively and efficiently.

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<sup>64</sup> 'Pioneering contact centre that aims to lift 10,000 out of unemployment secures £1m investment', Press Release, 10.11.2009, [www.bridgesventures.com](http://www.bridgesventures.com)

<sup>65</sup> '14:19 Fund Report', Inspiring Scotland, May 2009.

<http://www.inspiringscotland.org.uk/UserFiles/Documents/1419%20Fund%20performance%20report%20May%202009.pdf>

<sup>66</sup> For a detailed overview see Access To Capital: A Briefing Paper Venturesome 2009

### Appendix 1: Bibliography<sup>67</sup>

For more information see papers prepared by APERIO Europe Limited (listed in Appendix 2 of this paper) as well as two unpublished APERIO Europe Limited papers

- Key Organisations Supporting Social Enterprise in the UK (April 2009)
- Bibliography of Key Social Enterprise Documents (April 2009)

Adby, M., & Bolton, M. (2007). *Foundations for Organisation Development*. London: Baring Foundation.

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Bates, Wells and Braithwaite. *Keeping it legal: a guide to legal forms for social enterprise*. London: BWB LLP

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<sup>67</sup> For more information see Bibliography of Key Social Enterprise Documents (APERIO Europe Limited) April 2009 and Key Organisations Supporting Social Enterprise in the UK (APERIO Europe Limited) April 2009 – available by emailing [john@Aperio-group.com](mailto:john@Aperio-group.com)

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New Economics Foundation (2008). *Mission Possible: Emerging opportunities for mission-connected investment*. London: New Economics Foundation

Social Finance Ltd. (2009). *Social Impact Bonds: Rethinking finance for social outcomes*. London: Social Finance Ltd.

SQW Ltd. (2007). *Research on Third Sector Access to Finance*. London: Office for Civil Society.

The Commission on Unclaimed Assets. (2007). *The Social Investment Bank*. London: The Commission on Unclaimed Assets.

The Social Investment Taskforce. (2000). *Enterprising Communities - Wealth Beyond Welfare*. London: Social Investment Taskforce.

### Appendix 2: Papers Prepared by Aperio Group (Europe) Limited

- Achieving Your Dreams Success with Unreasonable People Encouraging Support for Social Entrepreneurs; Aiding with Growth of Their Social Enterprises 2009
- A Guide to Revenue Diversification for Directors of Non-Profit Organizations 2003
- A Review of Leadership Theory and Practice 2006
- Being Responsible Approaches to Governance and Leadership in the Third Sector A Background Paper 2007
- Being Responsible: Third Sector Governance, Transparency and the Obligation of Leadership From the European and North American Perspectives (Pepin et al) 2009
- Bibliography of Key Social Enterprise Documents 2009
- Choices Have Consequences: Collaboration Strategic Issues, Process and Benefits Some Preliminary Thoughts Updated 2009
- Choices Have Consequences Collaboration Strategic Issues, Process and Benefits Some Preliminary Thoughts 2006
- Corporate Governance in the UK: Requirements and Best Practices 2004
- Cost Cutting/Margin Enhancement Whilst Generating Income 2009
- Data Is More Than Information, It underpins Performance Management 2008
- Expressing CSR Through Social Enterprise Support and Capacity Building Some Initial Thoughts (Pepin et al) 2009
- Good Results Will Be Addictive High Engagement Giving/Venture Philanthropy: Future Trends 2005
- Growing Your Trading and Enterprise Profitability: Enhancing Your Financial and Social Return 2007
- Existing Venture Philanthropy Funds Characteristics: A Preliminary Overview 2008
- In-House Charity Based Venture Philanthropy Social Equity Fund (SEF) An Approach to High Engagement Giving Concept Development and Discussion Document 2004
- Key Organisations Supporting Social Enterprise in the UK and Potential Partners 2009
- Maximising Income Generation Quick Tips for non-profits to achieve sustainability through trading, earned income, social enterprise and commercial ventures 2007
- Mentoring A Process To Improve Non Profit Organizational Effectiveness
- Performance Management – Must Have or Nice to Have? APERIO Insight’s Experience and Learnings Applying Tested Corporate Sector Data Management Approaches to the Third Sector 2008
- Privatisation of Public Services and The Role of Social Enterprises An Initial Overview 2010
- Responsibility, Trust and Accountability Integrating A Culture Of Business Some Preliminary Thoughts 2003
- Risk Management Holdings – A Structural Approach 2004
- Senior Management Teams Emotional Capacity Aids in Organisational Effectiveness 2002
- Sharing Without Merging 2005
- Enterprise Activity In The UK A Preliminary Overview 2005
- Social Enterprise Activity In the UK: A Preliminary Overview Updated 2009
- Social Enterprise Legal and Organisational Issues February 2006
- Social Enterprise/Trading: Legal and Organisational Issues Social revised 2007
- Social Investment Market in the UK: An Initial Overview 2010
- Social Sector Entrepreneurship and Innovation Booklet revised 2007
- Spinning Off: Creating a New For-Profit Spin-Off Effective Transitions, Lesson Learned 2004
- Succeeding With Social Enterprise - Quick Tips For Building Sustainable Non-Profit Organisations Through Earned Income Booklet 2004
- Success with Unreasonable People: Encouraging Support for Indonesian Social Entrepreneurs; Aiding with Growth of Their Social Enterprises 2009
- The Social Investment Market in the UK: An Initial Overview 2010
- Venture Capitalists and Entrepreneurs Become Venture Philanthropists Revised 2004
- Venture Philanthropy Funds 2008

### Appendix 3: UK Venture Philanthropy Funds, Social Venture Funds, Social Investment Funds and Infrastructure Organisations

Please note that this list is not complete. It was created through net research with some follow-up telephone calls.

#### Absolute Return for Kids

Website	www.arkonline.org
Telephone	020 3116 0700
Style of fund	Venture Philanthropy
Capacity of fund	£40m+
Sources of capital	Multiple High Net Worth Individuals
Fund structure	Charitable Trust
Number in portfolio	N/A
Investee life stage	Startup, Growth, Expansion
Typical deal size	£1m+
Risk profile	Startup funding, incubation, growth capital, expansion capital
Financial instruments used	Grants
Degree of engagement	Business incubation - ARK assumes executive roles
Selection Criteria	Projects must be able to rapidly scale so as to deliver measurable, sustainable and substantial impact in the fields of HIV/AIDS, Education, Children in Care. Full selection criteria are not publicly available.
Selection Process	In-house ventures department researches new opportunities, and uses small budget to undertake feasibility studies. Ventures board approves larger budget for further development. Major projects launched at annual fundraising event, with capital raised on a project specific basis.

#### Alfanar

Website	www.alfanar.org.uk/
Telephone	020 7235 5502
Style of fund	Venture Philanthropy
Capacity of fund	Unknown
Sources of capital	Unknown
Fund structure	Charitable Trust

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Number in portfolio	8
Investee life stage	Unknown
Typical deal size	Unknown
Risk profile	Unknown
Financial instruments used	Grants
Degree of engagement	Unknown
Selection Criteria	An imaginative idea meeting a compelling and demonstrable need within a community, enterprising leadership and culture, a long-term focus, a commitment to income generation, a commitment to their own organisational development, a good fit with Alfanar's principles and ways of working.
Selection Process	A business plan sent to the Director.

### Andrews Charitable Trust

Website	<a href="http://www.andrewscharitabletrust.org.uk/">www.andrewscharitabletrust.org.uk/</a>
Telephone	0 117 9461834
Style of fund	Venture Philanthropy
Capacity of fund	Unknown
Sources of capital	Non-financial corporate
Fund structure	Charitable Trust
Number in portfolio	Unknown
Investee life stage	Unknown
Typical deal size	£50,000 - £200,000
Risk profile	
Financial instruments used	Grants
Degree of engagement	Unknown
Selection Criteria	<ul style="list-style-type: none"> <li>◆ Making existing resources more effective through better sign-posting, working together, referrals and knowledge sharing.</li> <li>◆ Innovative approaches to family support which result in demonstrable change and improved outcomes for homeless parents and their children.</li> <li>◆ Building on and developing monitoring and evaluation processes to add to the evidence base for early intervention and preventative work.</li> <li>◆ Promoting links between parenting and homelessness services and sharing best practice.</li> <li>◆ Potential for replication or for learning by others organisations.</li> </ul>
Selection Process	Application form, followed by discussion with Director. Board of

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	Trustees takes final decision.
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### Big Issue Invest

Website	www.bigissueinvest.com
Telephone	020 7526 3434
Style of fund	Debt fund: Growth capital fund/social venture fund
Capacity of fund	Debt fund: £5 milion, Venture Fund, aiming for £10 million
Sources of capital	Charitable Foundations, Multiple High Net Worth Individuals, UK Government, Banks/Financial Institutions
Fund structure	Venture fund: English Limited Partnership with Big Issue Social Investments Limited as General Partner and CCLA as FSA Registered Fund Manager. All deal origination, due diligence and monitoring contracted to BII as Appointed Representative of CCLA.
Number in portfolio	20+
Investee life stage	Growth, Expansion
Typical deal size	£0.25m - £0.5m
Risk profile	Working capital, Growth capital
Financial instruments used	Secured, unsecured loans, equity / equity-like investments
Degree of engagement	Network of consultants and non-executive advisors for investees
Selection Criteria	Investees will typically have: clear social purpose; compelling business model; strong management; demonstrable and sustainable revenue stream and growth potential; have been trading for three years and have a turnover of over £250,000 or start up organisations that have a robust business plan and strong cash flow projections.
Selection Process	Application form, followed by follow up telephone discussion. Face to face meetings and initial due diligence period, then investment committee approval. Further due diligence leading to legal contract and capital draw down. Monitoring and support from BII and pro-bono advisor network, including non-executive Board positions.

### Bridges Ventures Social Entrepreneurs Fund

Website	www.bridgesventures.com
Telephone	020 7262 5566
Style of fund	<ul style="list-style-type: none"> <li>Bridges Ventures manages two Bridges Venture Funds, the Bridges Sustainable Property Fund and the Bridges Social Entrepreneurs Fund. Here we focus on the Social Entrepreneurs Fund, which makes equity-like investments in social enterprises</li> </ul>
Capacity of fund	£9m
Sources of capital	Charitable Foundations, Multiple High Net Worth Individuals, UK Government
Fund structure	Limited Partnership

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Number in portfolio	2
Investee life stage	Primarily growth stage, although the Fund has backed a start-up
Typical deal size	£0.5m - £1m
Risk profile	Primarily expansion capital
Financial instruments used	Equity / Equity-like investments
Degree of engagement	Board membership, Network of consultants and non-executive advisors for investees
Selection Criteria	The Bridges Social Entrepreneurs Fund invests in social enterprises based in England that have: a clear social mission (protected in their legal structure), the ability to grow to scale and increase their social impact, a financially sustainable model, the ability to generate surpluses to repay financing, a strong management team. Investments are up to £1.5m per social enterprise; structured as flexible and tailored investments, usually in the form of quasi-equity; repayable with an appropriate return through the social enterprises's trading activities.
Selection Process	Bridges works with an extensive network of contacts to assist in analysing opportunities and adding value to portfolio organisations post-investment. The process is: Appraisal - review business plan. If of interest, meet management team; Approval - formal due diligence; Completion – if satisfied with due diligence, approve the investment, finalise the legal aspects, draw up contracts and arrange the advance of capital. Monitoring takes place through board membership by Bridges executives or non-execs in their network, plus regular reporting.

### Calvert Foundation

Website	<a href="http://www.calvertfoundation.org">www.calvertfoundation.org</a>
Style of fund	Social Investment Bank
Capacity of fund	US\$1Bn +
Sources of capital	Multiple institutions and individuals
Fund structure	Unknown
Number in portfolio	50+
Investee life stage	All
Typical deal size	£1m+
Risk profile	Low
Financial instruments used	Bonds and other savings / deposit instruments
Degree of engagement	Low engagement
Selection Criteria	Not available
Selection Process	Not available

### CAN Breakthrough

Website	www.breakthroughfund.org.uk
Telephone	020 7250 8000
Style of fund	Venture Philanthropy
Capacity of fund	€ 2m
Sources of capital	Financial corporate
Fund structure	Grant-making trust
Number in portfolio	8
Investee life stage	Growth, Expansion
Typical deal size	c£200,000
Risk profile	Growth capital only
Financial instruments used	Grants
Degree of engagement	Network of consultants and non-executive advisors for investees
Selection Criteria	Established social enterprises needing expansion capital to move to the next stage of development. 3 years' audited accounts are required. Minimum of 50% of income must be earned
Selection Process	Complete on line form, then discussion with investment manager.

### Charity Bank

Website	www.charitybank.org
Telephone	01732 774040
Style of fund	Social Enterprise Loans
Capacity of fund	£50m
Sources of capital	Institutional and high net worth funders, donations
Fund structure	Regulated bank
Number in portfolio	100s
Investee life stage	Growth, Expansion
Typical deal size	£180,000
Risk profile	Working capital, asset acquisition
Financial instruments used	Secured and unsecured loans
Degree of engagement	Low engagement
Selection Criteria	Can lend to any organisation that is either a registered or exempt charity, as well as to community associations, voluntary organisations, community businesses, social enterprises or social landlords as long as the purpose of the loan is charitable. Also lends to 'for profit' companies if the loan is for exclusively charitable

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	purposes. General bank lending criteria.
Selection Process	Initial enquiry line, application form, assignment of loan officer, approval by credit committee.

### Children's Investment Fund Foundation

Website	www.ciff.org
Telephone	020 7440 2357
Style of fund	Venture Philanthropy
Capacity of fund	US\$1.7Bn
Sources of capital	Financial corporate
Fund structure	Charitable Trust
Number in portfolio	15 - 20 annually
Investee life stage	Expansion
Typical deal size	Growing: typically £3-10m in 2013-2015
Risk profile	Medium
Financial instruments used	Grants
Degree of engagement	High
Selection Criteria	CIFF seeks to invest in “big wins” defined as opportunities to effect profound improvements in well-being indicators in its priority impact areas which benefit large numbers of children, and where successes extend well beyond the direct impact of the funded programmes. Investment criteria include: tangible targets for impacting children; scalability; sustainability; value for money. CIFF believes in targeted, evidence-based investments and requires all programmes to measure outcomes and demonstrate social returns. It seeks to identify like-minded co-investors for its programmes and to attract new charitable investment to advancing children’s well-being.
Selection Process	Area of impact identified and detailed external and proprietary research undertaken to establish the nature and scale of the issue, and apparently effective means of addressing it. Investment opportunities are identified and approached, usually as a co-investment with a third party.

### ClearlySo

Website	www.clearlyso.com
Style of fund	Social Investment Infrastructure
Capacity of fund	Not Applicable
Sources of capital	Not Applicable
Fund structure	Not Applicable
Number in portfolio	Not Applicable

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Investee life stage	All
Typical deal size	Not Applicable
Risk profile	Not Applicable
Financial instruments used	Not Applicable
Degree of engagement	Online advisory and brokerage
Selection Criteria	A broker offering services to social enterprises and social investors
Selection Process	Not Applicable

### Co-operative and Community Finance

Website	<a href="http://www.co-operativeandcommunityfinance.coop">www.co-operativeandcommunityfinance.coop</a>
Telephone	01179 166 750
Style of fund	Social Enterprise Loans
Capacity of fund	£4m: £2m on lend, £2m in bank
Sources of capital	UK Government, Non-financial corporates and individuals
Fund structure	PLC, IPS
Number in portfolio	130
Investee life stage	Growth, Expansion
Typical deal size	£35 - 150k
Risk profile	Working capital, Growth capital
Financial instruments used	Secured and unsecured loans
Degree of engagement	Low
Selection Criteria	Organisations must have clear social purpose, usually enshrined in their constitution. Also must have a commitment to democracy and open membership. General business lending criteria apply.
Selection Process	Complete the application form along with two copies of business plan and two copies of constitution. The business plan should include: a full description of proposed activities; Membership, Constitution and Management Structure details; 2 years' projections of Profit and Loss accounts, Balance Sheets and Cash Flows; Overall finance requirements and any other proposed sources of finance; Audited accounts for 3 years for established businesses. The appraisal is undertaken by loan officers.

### Diageo Foundation

Website	<a href="http://www.diageo.com/csr/community/Pages/diageo-foundation.aspx">http://www.diageo.com/csr/community/Pages/diageo-foundation.aspx</a>
Telephone	0208 978 6000
Style of fund	Infrastructure support
Capacity of fund	Unknown

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Sources of capital	Non-financial corporate
Fund structure	Charitable Trust
Number in portfolio	Unknown
Investee life stage	Unknown
Typical deal size	<£50,000
Risk profile	High
Financial instruments used	Grants
Degree of engagement	Unknown
Selection Criteria	<p>Projects must fall within one of four key focus areas: Skills for Life, Water of Life, Local Communities or Disaster Relief. They must also:</p> <ul style="list-style-type: none"> <li>• address a community/social need, in particular excluded and disadvantaged people</li> <li>• build partnerships with community groups and NGOs</li> <li>• help build the skills-base of individuals or communities</li> <li>• maximise grants to make them as effective as possible</li> <li>• build the economic prosperity of a community</li> <li>• plan a clear exit strategy to ensure that the benefits derived from the project are sustainable</li> <li>• have clear, well-defined objectives in place, including planned outcomes, desired impact, measurement and evaluation</li> </ul>
Selection Process	Unknown

### Esmee Fairbairn Foundation Finance Fund

Website	<a href="http://www.esmeefairbairn.org.uk">www.esmeefairbairn.org.uk</a>
Telephone	020 7812 3700
Style of fund	Social Investment Infrastructure
Capacity of fund	£700m endowment, £50m Finance Fund
Sources of capital	Single High Net Worth Individual (deceased)
Fund structure	Charitable Trust
Number in portfolio	267
Investee life stage	Startup, Growth, Expansion
Typical deal size	<£5m
Risk profile	Asset acquisition, Working capital, Growth capital
Financial instruments used	Secured, unsecured loans, equity / equity-like investments, grants
Degree of engagement	Co-investment / Low engagement

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Selection Criteria	<p>Broad spectrum of programme related investment and mission connected investment opportunities. Investments often made for purpose of testing the market as well as for their direct impact. Also work which:</p> <p>Addresses a <i>significant</i> gap in provision</p> <ul style="list-style-type: none"> <li>– Develops or strengthens good practice</li> <li>– Challenges convention or takes a risk in order to address a difficult issue</li> <li>– Tests out new ideas or practices</li> <li>– Takes an enterprising approach to achieving its aims</li> <li>– Sets out to influence policy or change behaviour more widely</li> </ul>
Selection Process	Two page initial application, followed by detailed discussions with staff. Investment committee approval, then due diligence and legal contracting.

### The Hunter Foundation

Website	<a href="http://www.thehunterfoundation.co.uk/">www.thehunterfoundation.co.uk/</a>
Telephone	Not Available
Style of fund	Venture Philanthropy
Capacity of fund	£35m+
Sources of capital	Single High Net Worth Individual
Fund structure	Charitable Trust
Number in portfolio	Unknown
Investee life stage	Startup, pilot programmes
Typical deal size	Unknown
Risk profile	Medium
Financial instruments used	Grants
Degree of engagement	Unknown
Selection Criteria	THF invests in programmes that embed a 'can do' spirit in children and that tackle the root causes of the problems that see children consigned to the 'Not in Education, Employment or Training' group (NEET Group). In the developing world THF looks towards investing in holistic programmes of intervention that support self-sustainable communities thriving. Often these combine health, education, agriculture and business creation and development interventions.
Selection Process	The Hunter Foundation proactively sources programmes for investment, or works with partners to develop new programmes where a gap or clear need is identified. As such it is very rare indeed for THF to fund unsolicited bids

### Impetus Trust

Website	<a href="http://www.impetus.org.uk">www.impetus.org.uk</a>
Telephone	020 3384 3940

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Style of fund	Venture Philanthropy
Capacity of fund	£12m
Sources of capital	Multiple High Net Worth Individuals, grant-making trusts, corporations
Fund structure	Charitable Trust
Number in portfolio	14
Investee life stage	Growth, Expansion
Typical deal size	c£350,000
Risk profile	Growth capital
Financial instruments used	Grants
Degree of engagement	High: board membership, Network of consultants and non-executive advisors for investees, management support from Impetus staff
Selection Criteria	<p>Coverage: Impetus backs charities and social enterprises that are working with significant numbers of economically disadvantaged people. Applicants must be:</p> <ul style="list-style-type: none"> <li>▪ A registered charity or social enterprise</li> <li>▪ Headquartered in England (and not Scotland, Wales, Ireland, or any other country)</li> <li>▪ Operational, with audited accounts for at least three years</li> <li>▪ Already generating income of over £250,000 a year</li> <li>▪ Focussed on working with economically disadvantaged people</li> <li>▪ Able to show the impact of the organisation's work, eg, number of people who have entered education/gained employed/not re-offended</li> <li>▪ Ambitious to grow and expand its reach</li> <li>▪ Seeking the Impetus venture philanthropy model of hands-on management support, specialist expertise and capacity-building funding</li> <li>▪ Not part of an umbrella organisation/network</li> <li>▪ Not seeking funding for a particular project/building</li> </ul>
Selection Process	Completion of online application form. Due diligence phase leads to Phase 1 investment (12 months). If satisfactory progress, investee receives substantial support in Phase 2.

### Inspiring Scotland

Website	<a href="http://www.inspiringscotland.org.uk">www.inspiringscotland.org.uk</a>
Telephone	0131 442 8760
Style of fund	Venture Philanthropy
Capacity of fund	£55m
Sources of capital	Charitable Foundations, Government, high net worth individuals
Fund structure	Charitable Trust

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Number in portfolio	24
Investee life stage	Start-up, growth, expansion
Typical deal size	£20,000 - £1m+
Risk profile	Medium: some high risk
Financial instruments used	Grants
Degree of engagement	High: dedicated support manager, network of consultants and non-executive advisors for investees
Selection Criteria	Each fund is allocated a theme (i.e. 14:19 year olds) and organisations are invited to apply based on that theme. Determined by detailed study of the issue being addressed, and effectiveness measures are developed as selection criteria.
Selection Process	For the first fund (14:19 Fund launched in January 2008): over 170 organisations submitted outline proposals. These were assessed by Inspiring Scotland's Performance Advisors and by a group of experts working in this field and 44 organisations were invited to submit full proposals. These organisations received capacity building support to help them develop their proposals. All the full proposals were also assessed by Performance Advisors and a group of experts, and the work they were proposing to deliver was mapped against need. This meant IS considered not only individual proposals but also how they would fit together in a portfolio that took into account geography, working with different age groups and providing a continuous pathway of support for the young people the organisations would be working with. In November 2008 a group of 24 organisations, or 'ventures', were invited to join the 14:19 Fund initial portfolio.

### Investing for Good

Website	<a href="http://www.investingforgood.co.uk">http://www.investingforgood.co.uk</a>
Telephone	020 7060 1175
Style of fund	Socially responsible investment advisory service, serving private banks, foundations and asset managers
Capacity of fund	Not applicable
Sources of capital	Not applicable
Fund structure	Not applicable
Number in portfolio	Not applicable
Investee life stage	Mature enterprises, public markets, Expansion
Typical deal size	Not applicable
Risk profile	Not applicable
Financial instruments used	Not applicable
Degree of engagement	Investment advisory business
Selection Criteria	Proprietary impact measurement tool

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Selection Process	Identify and assess potential investment targets, then work with investors to build portfolios on a discretionary or advisory basis.
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### Joseph Rowntree Foundation

Website	www.jrf.org.uk
Telephone	01904 629241
Style of fund	Grant making trust
Capacity of fund	£200m
Sources of capital	Charitable endowment
Fund structure	Charitable Trust
Number in portfolio	100s
Investee life stage	All
Typical deal size	<£200,000
Risk profile	High
Financial instruments used	Grants
Degree of engagement	High
Selection Criteria	No unsolicited proposals. UK –focused projects only. No general appeals, core or revenue funding. Seek to understand the root causes of social problems, to identify ways of overcoming them, and to show how social needs can be met in practice. Commissions expert social research before funding practical solutions
Selection Process	Makes 'calls for proposals' to attract projects in line with research and funding objectives, which are then reviewed by grant officers.

### Launchpad at the Young Foundation

Website	http://launchpad.youngfoundation.org/
Telephone	020 8980 6263
Style of fund	Venture Philanthropy
Capacity of fund	c£10m
Sources of capital	Multiple institutions
Fund structure	Registered charity
Number in portfolio	c25
Investee life stage	Startup
Typical deal size	£0 - £1m+
Risk profile	Startup
Financial instruments used	Grants and equity
Degree of engagement	Very high - business incubator which will provide staffing to a project

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Selection Criteria	Work with projects at an early stage of development and look to add the funding, social capital and entrepreneurial expertise to see them succeed. This could be ideas that need to be turned into a new venture or existing ventures still at an early stage of development. The ventures can be social enterprise, commercial or not-for-profit; the goal is social impact. Looking to support ideas that are particularly innovative in how they achieve social impact, can be delivered in a sustainable way and are scalable, replicable so their impact is beyond a local level.
Selection Process	Initially engage with projects that fulfil the criteria in an informal manner - probing its elements, conversing with founders or experts and analysing the landscape it seeks to work in such that the Launchpad team can make a decision on the most viable projects to progress with. Decisions to progress are made through internal Launchpad meetings once such an analysis of the project has been completed and a basis for how the project may be developed and supported is established. If agreement is reached by the team, the project is taken forward to an investment committee meeting where a formal decision on the funding will be decided.

### London Rebuilding Society

Website	<a href="http://www.londonrebuilding.com">www.londonrebuilding.com</a>
Telephone	020 7682 1666
Style of fund	Social investment fund
Capacity of fund	£3.5m
Sources of capital	Government grants, bank loans, shareholder members of London Rebuilding Society ( an Industrial and Provident Society)
Fund structure	Social enterprise equity fund
Number in portfolio	50
Investee life stage	Seed, growth
Typical deal size	£35k
Risk profile	High - focus on innovation
Financial instruments used	Secured and unsecured loans, Equity
Degree of engagement	Low engagement
Selection Criteria	Will fund social enterprises, not-for-profit sector and privately-owned companies focused on community or environmental benefit.
Selection Process	Enquiry stage includes business diagnostic, investment-readiness support. Appraisal and due diligence stage leads to an Investment Officer report and recommendation to our Loan Approval Panel. Enquiry stage depends on the level of development of the enterprise plan/proposal. Appraisal to approval process average time is 3-4

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

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### NESTA - Public Services Lab

Website	www.nestalab.org.uk
Telephone	020 7438 2500
Style of fund	Social Investment Infrastructure
Capacity of fund	Unknown
Sources of capital	UK Government
Fund structure	Non-departmental public body
Number in portfolio	50
Investee life stage	Seed, growth
Typical deal size	~140k, but up to £1m
Risk profile	High - focus on innovation
Financial instruments used	Equity
Degree of engagement	Low engagement
Selection Criteria	NESTA's public services innovation lab funds experiments in new approaches to public service delivery, including social enterprise. It is particularly interested in social investment activity. Seek to invest in UK-based high-tech companies in sectors with annual sales of at least <i>£100 million</i> . Will only invest in companies that have proven technical and commercial management teams, and a clear exit strategy.
Selection Process	Funding opportunities are identified through informal discussion and formal invitations to tender, with approvals in line with typical government contracting processes.

### New Philanthropy Capital

Website	www.philanthropycapital.org
Telephone	020 7785 6300
Style of fund	Social Investment Infrastructure
Capacity of fund	Not applicable
Sources of capital	Not applicable
Fund structure	Charitable Trust
Number in portfolio	100s
Investee life stage	All
Typical deal size	Not applicable
Risk profile	Not applicable
Financial instruments used	Research reports only

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Degree of engagement	Very high - detailed social impact analysis firm
Selection Criteria	Makes recommendations of charities to support based upon evidence of impact gathered in its research reports.
Selection Process	Pro-active searching and evaluation of charities within an area of impact.

### Pilotlight

Website	<a href="http://www.pilotlight.org.uk">www.pilotlight.org.uk</a>
Telephone	020 7396 7414
Style of fund	Venture Philanthropy - advisory service only
Capacity of fund	Not applicable
Sources of capital	Many
Fund structure	Charitable Trust
Number in portfolio	Unknown
Investee life stage	Growth, Expansion
Typical deal size	Unknown
Risk profile	Not applicable
Financial instruments used	Non-financial support only
Degree of engagement	Network of consultants and non-executive advisors for investees
Selection Criteria	Charities and social enterprises wishing to work with Pilotlight should: have a turnover of under £3 million (however the majority of the charities we work with have a turnover of around £200k); have been operational for at least 2 years; have at least 1 full time member of staff; have secured funding for at least the next 6 months; have ambition to grow; be willing to be open, honest and committed throughout their relationship with Pilotlight; be willing to have their work and outcomes measured.
Selection Process	Application form, followed by discussion with Charity CEO and a Trustee.

### Private Equity Foundation

Website	<a href="http://www.privateequityfoundation.org/">www.privateequityfoundation.org/</a>
Telephone	0 845 838 7330
Style of fund	Venture Philanthropy
Capacity of fund	c£16m
Sources of capital	Financial corporate
Fund structure	Charitable Trust
Number in portfolio	17

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Investee life stage	Growth, Expansion
Typical deal size	£400k
Risk profile	Medium risk
Financial instruments used	Grants
Degree of engagement	Network of consultants and non-executive advisors for investees
Selection Criteria	Charities are selected based upon: Contribution to solving the problem of young people being not in education, employment or training; proven record of effectiveness; strength of leadership; potential for a step change in impact through PEF's support.
Selection Process	New Philanthropy Capital are contracted to undertake thematic studies and make portfolio recommendations to the Private Equity Foundation. A Charity Committee reviews proposals.

### The Rayne Foundation

Website	<a href="http://www.raynefoundation.org.uk">www.raynefoundation.org.uk</a>
Telephone	020 7487 9656
Style of fund	Venture Philanthropy
Capacity of fund	c£16m
Sources of capital	Individual endowment
Fund structure	Charitable Trust
Number in portfolio	17
Investee life stage	Start-up, Growth, Expansion
Typical deal size	<£200k, average £15.6k
Risk profile	Unknown
Financial instruments used	Grants
Degree of engagement	Low: some monitoring
Selection Criteria	Charities are selected based upon their contribution to: <ol style="list-style-type: none"> <li>1. 'Enlarged sympathies' – that is, increased understanding and/or tolerance.</li> <li>2. Reduced social exclusion.</li> <li>3. Reduced conflict.</li> <li>4. Public benefit from new productive relationships</li> </ol>
Selection Process	Online application form, selection by response from Trust.

### Sainsbury Family Charitable Trusts

Website	<a href="http://www.sfct.org.uk/">http://www.sfct.org.uk/</a>
Telephone	020 7410 0332
Style of fund	Grant making trust
Capacity of fund	£200m+

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Sources of capital	Charitable endowment
Fund structure	Charitable Trust
Number in portfolio	100s
Investee life stage	All
Typical deal size	£10,000 - £1m+
Risk profile	High
Financial instruments used	Grants, Equity, Loans, Guarantees
Degree of engagement	Low engagement
Selection Criteria	A portfolio of Trusts, whose selection criteria are driven by their individual founders. Some Trusts have a particular interest in social venturing and invest using equity and loan instruments.
Selection Process	An initial two page proposal is considered, and if successful further supplementary information and face to face meeting with Trust officers take place.

### Shell Foundation

Website	www.shellfoundation.org
Telephone	0207 934 2727
Style of fund	Venture Philanthropy
Capacity of fund	US\$300m
Sources of capital	Non-financial corporate
Fund structure	Charitable Trust
Number in portfolio	Unknown
Investee life stage	Unknown
Typical deal size	£100k+
Risk profile	Unknown
Financial instruments used	Grants, Equity, Loans, Guarantees
Degree of engagement	Co-investment with partners
Selection Criteria	Not publicly available
Selection Process	Not publicly available

### SHINE

Website	www.shinetrust.org.uk
Telephone	020 8393 1880
Style of fund	Venture Philanthropy
Capacity of fund	£1.5m pa

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Sources of capital	Multiple High Net Worth Individuals
Fund structure	Charitable Trust
Number in portfolio	Unknown
Investee life stage	Startup, Growth, Expansion
Typical deal size	£20,000 +
Risk profile	
Financial instruments used	Grants
Degree of engagement	Unknown
Selection Criteria	SHINE considers funding organisations that can demonstrate that they are: well managed; in a healthy financial position; working with other local agencies, particularly schools and local authorities; providing venues and services which are open and accessible to all; and led by staff who have a high level of experience and competency. SHINE funds projects that have the following key elements: the main focus is on educational subjects, especially promoting literacy, numeracy and science; content and methodology will excite and engage participants, making creative use of IT where appropriate; there are clear and measurable target educational outcomes principally this will mean linking to standardised tests (at primary level) and GCSEs or a recognised equivalent (at secondary level); a significant number of children / young people will be supported; these children / young people themselves want to improve their situation; the project will be sufficiently long term to support sustainable improvement; families of participants are linked to the project in a way which supports their child's learning; there is appropriate use of volunteers; and the project budget represents value for money.
Selection Process	Pro-active searching for grant opportunities. Does accept speculative contact.

### Social Finance Ltd

Website	<a href="http://www.socialfinance.org.uk">www.socialfinance.org.uk</a>
Telephone	020 7182 7878
Style of fund	Social Investment Infrastructure
Capacity of fund	N/A
Sources of capital	Multiple High Net Worth Individuals
Fund structure	Regulated financial institution
Number in portfolio	Unknown
Investee life stage	Expansion
Typical deal size	£2m+
Risk profile	N/A

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Financial instruments used	All
Degree of engagement	Financial advisory / corporate finance services
Selection Criteria	A wholesale fundraising service working with philanthropists and commercial capital markets
Selection Process	N/A

### Spark

Website	www.sparkchallenge.org
Telephone	Not Available
Style of fund	Venture Philanthropy
Capacity of fund	c£1.5m pa
Sources of capital	Multiple corporate donors plus UK Gov
Fund structure	Subsidiary of social enterprise - TREES
Number in portfolio	15 pa
Investee life stage	Startup
Typical deal size	c£100,000
Risk profile	High
Financial instruments used	Grants
Degree of engagement	Mentoring and business support from corporate partners
Selection Criteria	Organisations that meet the following criteria: Organisations that are preventing or tackling homelessness, including those that work with people who are at risk of being homeless; Organisations must be using - or intend to use – a social enterprise model; Organisations must be legally constituted in order to be considered; Organisations must be operating in England; Organisations that demonstrate robust business cases and sustainable models; Organisations with a model that can be scaled and replicated through other parts of the country; Organisations with robust financial projections and clear evidence of the ability of the management to deliver on their plans, irrespective of your record.
Selection Process	Application form reviewed by partner consulting firm, judging panel for annual "competition" makes investment decision.

### The Social Enterprise Loan Fund

Website	www.tself.org.uk
Telephone	020 7680 1028
Style of fund	Social Enterprise Loans
Capacity of fund	Unknown
Sources of capital	Regional sources, including regional government

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Fund structure	Registered charity
Number in portfolio	100s
Investee life stage	All
Typical deal size	<£250,000
Risk profile	Low
Financial instruments used	Loans
Degree of engagement	Low engagement
Selection Criteria	Can provide loans to charities and other social enterprises that have a charitable purpose, operating within the regional boundary of the funds available. Most of new loans to organisations operating in one of the 25% most deprived boroughs or wards in England
Selection Process	Complete online form, then discussion with lending officer.

### The Social Investment Business incorporating:

- Adventure Capital Fund
- Futurebuilders
- Communitybuilders
- Health Social Enterprise Investment Fund

Website	<a href="http://www.socialinvestmentbusiness.org">www.socialinvestmentbusiness.org</a>
Telephone	0191 261 5200
Style of fund	Social Enterprise loans, grants and business support.
Capacity of fund	£400m - Futurebuilders England Fund: £215m - Social Enterprise Investment Fund: £100m - Communitybuilders (Adventure Capital) Fund: £70m - Modernisation Fund: £9.5m
Sources of capital	UK Government
Fund structure	Fund management service
Number in portfolio	100s
Investee life stage	All
Typical deal size	£20,000 - £2m
Risk profile	Medium
Financial instruments used	Secured and unsecured loans, Grants
Degree of engagement	Business advisors / consultancy
Selection Criteria	Criteria vary by fund. General bank lending criteria requiring

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

	certainty of cashflow forecasts for loan repayment.
Selection Process	Initial enquiry form, followed by discussion with business development advisor. Further information submitted (business plan, financial forecasts) and case then allocated to Investment Manager. If approved, legal completion and drawdown of capital. Then allocation of case to Portfolio Manager who monitors on six-monthly basis.

### The Sutton Trust

Website	www.suttontrust.com
Telephone	020 8788 3223
Style of fund	Venture Philanthropy
Capacity of fund	£3-4m
Sources of capital	Single High Net Worth Individual
Fund structure	Charitable Trust
Number in portfolio	c25
Investee life stage	Startup,pilot
Typical deal size	Unknown
Risk profile	Medium
Financial instruments used	Grants
Degree of engagement	Unknown
Selection Criteria	Funds research and policy work in three principal areas (all education-related): <ul style="list-style-type: none"> <li>• School projects</li> <li>• University</li> <li>• Early years (0-3 year olds)</li> </ul>
Selection Process	The Trust is now focusing on research and policy work, and will only be funding a select handful of small scale pilot projects. Unsolicited approached are not welcomed.

### Triodos Bank UK

Website	www.triodos.co.uk
Telephone	0117 973 9339
Style of fund	Social Enterprise Loans
Capacity of fund	£100m+
Sources of capital	Many
Fund structure	Regulated bank
Number in portfolio	100s
Investee life stage	Growth, Expansion

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Typical deal size	£0.1m - £5m+
Risk profile	Working capital, asset acquisition
Financial instruments used	Secured and unsecured loans
Degree of engagement	Low engagement
Selection Criteria	Businesses and charities that support positive social, environmental and cultural change. General commercial lending criteria apply.
Selection Process	Initial telephone discussion, face-to-face meeting, review of business plan and financial information, further due diligence and meetings, investment committee approval.

### Triodos Social Entrepreneurs Fund

Website	<a href="http://www.triodos.co.uk">www.triodos.co.uk</a>
Style of fund	Social Venture Fund
Capacity of fund	£4m
Sources of capital	Charitable Foundations, Multiple High Net Worth Individuals
Fund structure	Discretionary Investment Management Service
Number in portfolio	1
Investee life stage	Expansion
Typical deal size	£0.25m -£0.75m
Risk profile	Expansion capital
Financial instruments used	Equity / Equity-like investments
Degree of engagement	Board membership, Network of consultants and non-executive advisors for investees
Selection Criteria	Eligible if the business: has been trading for at least two or three years and has at least £400,000 of annual sales; has a scaleable business model and ambitious growth plans with regional or national reach; has an outstanding and entrepreneurial management team; is willing to share ownership, governance and future profits with social investors. Excluded if: a start up social enterprise or has annual turnover of less than £400,000; grants make up more than 25% of turnover; there isn't a group of stakeholders that benefit from the existence of the organisation.
Selection Process	Submission of business plan to Investment Manager. Review and potential meeting with management. Formal due diligence. Initial investment committee approval. Further due diligence and investment structuring. Final approval, completion and draw down of capital in line with milestones. Monitoring through non-executives and regular reporting.

### Tudor Trust

Website	<a href="http://www.tudortrust.org.uk">www.tudortrust.org.uk</a>
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## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Telephone	020 7727 8522
Style of fund	Grant making trust
Capacity of fund	£250m
Sources of capital	Charitable endowment
Fund structure	Charitable Trust
Number in portfolio	100s
Investee life stage	All
Typical deal size	£10,000 - £1m+
Risk profile	High
Financial instruments used	Equity, Loans, Guarantees
Degree of engagement	Low engagement
Selection Criteria	Tudor is unlikely to grant fund a social enterprise, choosing instead, if it does fund, to fund as a social investment. Tudor's focus is on smaller groups, led by people of vision, which are committed to growth, progression and development. Other criteria include: organisations which are embedded in and have developed out of their community – whether the local area or a 'community of interest'; organisations providing direct services to marginalised people; a focus on building stronger communities by overcoming isolation and fragmentation and encouraging inclusion, connection and integration; high levels of user involvement, and an emphasis on self-help where this is appropriate; work which addresses complex and multi-stranded, often difficult, problems in unusual or imaginative ways; organisations which are thoughtful in their use of resources and which foster community resilience in the face of environmental, economic or social change; organisations and people who know what difference they want to make and have the energy and vision to make it happen
Selection Process	For grants: Two stage initial application, followed by detailed discussions with staff. Investment committee approval, then due diligence. For investments: approaches are discussed at committee meetings to reach decision. Due diligence will then be undertaken before a decision is made and all potential investments are reviewed by solicitors.

### Unity Trust Bank

Website	www.unity.uk.com
Telephone	020 7462 5601
Style of fund	Social Enterprise Loans
Capacity of fund	>£50m
Sources of capital	Many

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Fund structure	Regulated bank
Number in portfolio	100s
Investee life stage	Growth, Expansion
Typical deal size	£0.1m - £5m+
Risk profile	Working capital, asset acquisition
Financial instruments used	Secured and unsecured loans
Degree of engagement	Low engagement
Selection Criteria	Charities, social enterprises, co-operatives and trade unions. General commercial lending criteria.
Selection Process	Initial telephone discussion, face-to-face meeting, review of business plan and financial information, further due diligence and meetings, investment committee approval.

### Unltd

Website	www.unltd.org.uk
Telephone	0207 566 1100
Style of fund	Social investment with engagement (multiple funds)
Capacity of fund	£100m
Sources of capital	UK Government
Fund structure	Permanent Endowment
Number in portfolio	Many 1000s
Investee life stage	Startup and investment readiness
Typical deal size	<£20000
Risk profile	Startup funding
Financial instruments used	Grants
Degree of engagement	Business advisors
Selection Criteria	Individual social entrepreneurs who demonstrate: a real social impact; fulfil a clear need and demand; have clear outputs and goals; provide a learning experience. Will not fund living expenses
Selection Process	Complete an application form, attend interview with development manager. Approval by Awards Committee.

### Unltd Advantage

Website	www.unltd.org.uk
Style of fund	Infrastructure support
Capacity of fund	N/A
Sources of capital	UK Government

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Fund structure	Charitable Trust
Number in portfolio	2
Investee life stage	Growth, Expansion
Typical deal size	Unknown
Risk profile	N/A
Financial instruments used	Non-financial support only
Degree of engagement	Investment readiness services
Selection Criteria	Encourages applications from social entrepreneurs with established ventures that: are seeking at least £250,000 (possibly in several stages); are scalable; are sustainable (i.e. cash generative); have good management in place.
Selection Process	Initial enquiry form, followed by discussion with consultant. Tailored programme of support in raising capital from social venture funds.

### Unltd Ventures

Website	<a href="http://www.unltd.org.uk">www.unltd.org.uk</a>
Style of fund	Infrastructure support
Capacity of fund	Unknown
Sources of capital	UK Government, Charitable Foundations
Fund structure	Charitable Trust
Number in portfolio	Unknown
Investee life stage	Growth
Typical deal size	£20,000 - £50,000
Risk profile	Startup funding
Financial instruments used	Grants
Degree of engagement	Business advisors / consultancy
Selection Criteria	Unknown
Selection Process	Unknown

### Venture Partnership Foundation

Website	<a href="http://www.vpf.org.uk">www.vpf.org.uk</a>
Telephone	Not Available
Style of fund	Venture Philanthropy
Capacity of fund	£1.5m
Sources of capital	Financial corporate
Fund structure	Charitable Trust

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Number in portfolio	10
Investee life stage	Unknown
Typical deal size	£75-125k
Risk profile	Unknown
Financial instruments used	Grants
Degree of engagement	Network of consultants and non-executive advisors for investees
Selection Criteria	VPF looks for socially entrepreneurial organisations with high potential social impact, with the ability to be scaled up rapidly and which are at a crucial stage in the evolution of the charity. It finds these through a due diligence process, using selection criteria which are not published.
Selection Process	Unknown

### Venturesome

Website	www.venturesome.org
Style of fund	Social Venture Fund
Capacity of fund	£10m
Sources of capital	Charitable Foundations, Multiple High Net Worth Individuals
Fund structure	Multiple Trusts
Number in portfolio	c60
Investee life stage	Growth, Expansion, Refinancing and turnaround
Typical deal size	<£500,000
Risk profile	Working capital, Growth capital
Financial instruments used	Unsecured loans, Equity-like investments
Degree of engagement	Close support from Investment Officers
Selection Criteria	Supports organisations which: are registered in the UK; can clearly articulate their charitable purpose and social impact (organisations do not have to be registered charities but do need to be of charitable purpose); have at least one year's history of trading and/or income; are looking for between £20,000 and £350,000; have a legal structure which allows them to take on debt / equity funding.
Selection Process	Initial telephone discussion, face-to-face meeting, review of business plan and financial information, further due diligence and meetings, investment committee approval. Quarterly reporting and meetings thereafter.

### Wood Family Trust

Website	www.woodfamilytrust.org
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## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Telephone	01224 373176
Style of fund	Social Venture Fund
Capacity of fund	£50m
Sources of capital	High net worth individual
Fund structure	Multiple Trusts
Number in portfolio	c60
Investee life stage	Growth, Expansion, Refinancing and turnaround
Typical deal size	<£500,000
Risk profile	Working capital, Growth capital
Financial instruments used	Grants, Unsecured loans, Equity-like investments
Degree of engagement	Close support from Investment Officers
Selection Criteria	<p>Programs that support</p> <ul style="list-style-type: none"> <li>▪ Self-help and livelihood development in developing countries, particularly sub-Saharan Africa. 75% of investment.</li> <li>▪ Young people in the UK to volunteer overseas and broaden their horizons. 12.5% of investment.</li> <li>▪ The promotion of personal achievement programs in Scotland, particularly focusing on the vulnerable, that encourage tolerance in young people and good citizenship principles. 12.5% of investment.</li> </ul>
Selection Process	Initial telephone discussion, face-to-face meeting, review of business plan and financial information, further due diligence and meetings, investment committee approval.

### Yorkshire Key Fund

Website	www.keyfundyorks.org.uk
Telephone	0845 140 1400
Style of fund	Social Enterprise Loans
Capacity of fund	c£5m
Sources of capital	UK Government, European Structural Funds
Fund structure	Company limited by guarantee
Number in portfolio	168
Investee life stage	Startup, Growth, Expansion
Typical deal size	£10k - £100k
Risk profile	Startup capital, Working capital, Growth capital
Financial instruments used	Secured and unsecured loans, Equity, Grants
Degree of engagement	High: comprehensive support is provided to applications throughout the application, pre award and post awards periods

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

Selection Criteria	Will support: community and voluntary organisations; individual or groups starting up a Social Enterprise; Social Enterprises looking to grow and develop; Social Firms which employ a significant number of staff with a disability, organisations whose aims are focussed on community impact and use income generated from the provision of goods/services to pursue social mission; Credit Unions or other community saving and credit schemes; Cooperatives.
Selection Process	Initial telephone discussion, face-to-face meeting, review of business plan and financial information, further due diligence and meetings, investment committee approval. Quarterly reporting and meetings thereafter.

## Social Enterprise and The Social Investment Market in the UK: An Initial Overview

### Appendix 4: Examples Mission Connected Investments

Reproduced from 'Mission Possible: Emerging opportunities for Mission-Connected Investment', NEF, 2008

Asset Type	Name	Area	Arranger/ Provider or Investor	Expected financial return or benchmark	Term	Min investment	Max investment	Use	Mission areas
Savings Account	Charity Deposit	UK	Ecology Building Society	4.2 gross variable	Open ended	£25	£125,000		Environment, Community, Regeneration
Savings Account	ShoreBank Certificate of Deposit	US	Shore Bank	4-5%, and guarantee 5.09% for 15 months	1-3 yrs	USD 2500			Community and Micro Finance
Overdrafts	Overdrafts provided by Triodos UK (some of which are linked to the Small Firms Loan Guarantee Scheme)	UK*	Triodos Bank UK	Determined on case-by-case basis and linked to base	Up to 12 mths, renewable	£25k	£10m		Social/environmental
Direct Loan	Direct Loans provided by Triodos UK (some of which are linked to the Small Firms Loan Guarantee Scheme)	UK*	Triodos Bank UK	Determined on case-by-case basis and linked to base (fixed rate option for 1st 10 yrs)	Up to 25 yrs	£25k	£10m		Social/environmental
Direct Loan	Loan to Baxi Partnership	UK	JRCT	8-10%	Over 5 years	None	None	Start-up Capital	Enables and support employee ownership
Direct Loan	Loan to Belu	UK	Life Water Ltd	8-10%	Over 5 years	n/a	£400k	Working Capital for Belu Mineral Water product; for environmentally sustainable bottled water production	Environment, Climate Change, Water resources
Subordinated Loan	Charity Bank notes	UK	UK Foundation investor	4%	Redeems 2012	n/a	n/a	Fixed rate subordinated unsecured notes for working capital	Environment, Community, Regeneration
Subordinated Loan	Direct loan	UK	Friends Provident Foundation	4-5%	Over 5 years	100k	£250,000	Capital for leveraging other finance	Community Finance/Micro Finance
Subordinated Loan	Direct loan	UK	Ecology Building Society	150-200 basis points above LIBOR	10-15 years	£250,000	£500,000		Environment, Community, Regeneration
Subordinated Loan	Direct loan to private company	Sweden	Ekobanken	4-5%	Over 5 years	EUR 50,000	none		Environment, Community, Regeneration, Education, Health, Social Care, Arts/Culture
Fixed Income Fund	BBVA - Codespa Microfinanzas	n/a	BBVA	Libor USD 6 months + 1%- 2%	Open-ended	n/a	None	Invest in unsecured partly FX hedged debt from microfinance initiatives in Lat. Am.	Latin American Microfinance
Fixed Income Fund	Citibank Microfinance Fund (to be launched Oct 07)	n/a	CITIBANK	Libor USD 6 months + 1% - 2%	Open-ended, 2.5 yrs lock-up	tbd	None	Invest in unsecured debt partly FX hedged from microfinance initiatives	International Microfinance
Fixed Income Fund	Dexia Micro-Credit Fund	n/a	Dexia-BIL	Libor USD 6 months + 1%-2%	Open-ended	\$10,000 / £10,000	None	Invest in unsecured debt fully FX hedged from microfinance initiatives	International Microfinance
Fixed Income Fund	Saint-Honoré Microfinance Fund	n/a	Banque Privée Edmond de Rothschild	Libor USD 6 months + 1%	Open-ended	EUR 25,000	None	Invest in unsecured debt from second level microfinance initiatives	International Microfinance
Fixed Income Fund	HSBC Microfinance fund (to be launched Oct 07)	n/a	HSBC	Libor USD 6 months + 1% - 2%	Open-ended	tbd	None	Invest in unsecured / not FX hedged debt from microfinance initiatives	International Microfinance

\* Bank also operates in Netherlands, Spain, Belgium and Germany

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Asset Type	Name	Area	Arranger/ Provider or Investor	Expected financial return or benchmark	Term	Min investment	Max investment	Use	Mission areas
Senior Loan	Loan or syndicated loan by Ecology Building Society	UK	Ecology Building Society/joint (syndicated)	1-2% over base	10-25 yrs	25k	£1m	Capital to projects providing social and/or environmental benefits	Environment, Community, Regeneration
Senior Loan	Deutsche Bank Eye Fund	n/a	Deutsche Bank	8%	5 years	None	n/a	Capital investment, program expansion, bridge financing	Health
Bond	HBOS Social Housing Bond Programme	UK	HBOS	Range of tranches paying coupons linked to Libor or Euribor	5/10/20 years	None	n/a		Social Housing
Bond	Ecotidy Bond £2.5 million	UK	Triodos UK	7%	5 years	£5,000	None	Working Capital, R&D, investment for wind energy	Environment
Bond	Golden Lane Bond for Mencap	UK	Triodos UK	Paying 1% above inflation measured by RPI	10 years	£500	None	Social Housing	Mental Health
Bond	EPOS II Climate Awareness Bond	EU	European Investment Bank	Guaranteed redemption of 105% of nominal value, redeems up to 75% of FTSE4Good European Environmental Leaders	Redeems in 2012	None	n/a	Project finance as selected by EIB; option to convert yield above 25% into carbon reduction	Climate change; renewable energy and energy efficiency innovation
Bond	Wellcome Trust AAA Bond	UK	Wellcome Trust	Capital Appreciation and principal	Redeems in 2036	None	n/a	General Purposes of the Trust	Funding for Wellcome Trust objectives, healthcare, scientific research,
Convertible Bond	Solon A.G. Convertible bond	Germany	Solon A.G.	Coupon 4.5%	Redeems in 2010	None	n/a	Working Capital	Environment
Convertible Bond	Organic Farm Foods Convertible loan stock	UK	Organic Farm Foods	8%	n/a	£30,000	n/a	Working capital	Organics, Environment
Listed Equity Fund	Clean Water Asia Fund	Asia	CLSA Capital, Singapore	Absolute Return Fund, launched 01/05/07	Open	\$5,000,000	None	Companies involved in clean water and waste management technologies	Environment
Listed Equity Fund	First Trust NASDAQ (R) Clean Edge (R) U.S. Liquid Series Index Fund	US	First Trust	Target 0.95% correlation with NASDAQ Clean Edge U.S. Liquid Series Index	Open	Inception price \$20	n/a	Investing in companies involved in clean energy, solar energy and biofuels	Climate Change, Environment
Listed Equity Fund	POWERSHARES WILDERHILL CLEAN ENERGY PORTFOLIO	US	PowerShares	Target 0.95% correlation with WilderHill Clean Energy Index	Open	n/a	n/a	Companies engaged in clean-energy technologies; solar photovoltaic, biofuels and advanced batteries	Environment, Climate Change
Listed Equity Fund	Impax Environmental Markets Pfy	UK	Impax and Dresdner Kleinwort Wasserstein	Perf: over 5 years +37%; benchmarks MSCI World and ET50	Open	none	n/a	Investment in companies involved in technologies for alternative and efficient energy, water treatment, pollution control and waste technology	Environment, Climate Change
Direct Unlisted Equity	Charity Bank Preference shares	UK	Tudor Trust	9.34%	Over 5 years	No	None	Equity Capital	Voluntary Sector Support
Direct Unlisted Equity	Baywind Energy Cooperative	UK	Fenland Green Power Co-operative Limited	8-10%	n/a	£300	£20,000	Finance for Fenland Cooperative and Wind Prospect Ltd for local investment into local production of wind energy, with 20% tax benefit scheme and track record of returns of over 5%	Climate Change and Renewable Energy
Direct Unlisted Equity	Integra Social Enterprise Fund	Slovakia	Integra	8-10%	Over 5 years	EUR 100k	No		Community and Micro Finance
Direct Unlisted Equity	Triodos Renewables Fc	UK	Triodos UK	7-10%	Open	£20 in secondary market, £990 at offering	None	Investment Capital for small-scale renewable energy projects	Environment, Climate Change

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Private Equity Fund	PCH-FIP Brazilian Small Hydropower Investment Fund	Brazil	LaGuardia Foundation and Globalbank	Target 13%	7 years capital return	Euro	None	Local currency investment capital for the development of small-scale hydroelectric products	Environment, Renewable Energy, Climate Change
Listed Equity Fund	Triodos Renewables Europe Fund	EU	Triodos Bank	8-10%	Open	1 share	None	2/3 Equity and 1/3 Subordinated debt for renewable energy power plant projects	Environment, Renewable Energy, Climate Change
Private Equity Fund	BlueOrchard Equity Fund	n/a	BlueOrchard	USD IRR 15%	10 years	USD 250,000	None	Invest in equity of leading, transforming and start up Microfinance companies	International Microfinance
Venture Capital Fund	China Environment Fund 2004	China	Tsinghua Venture Capital of Tsinghua University, China	Target 25%	Closed; 5 years, with various exits strategies	\$3,000,000	None	Venture capital for Chinese SMEs; recycling/resource recovery/ renewable energy and efficiency and resource management	Environment, Climate Change
Venture Capital Fund	Triodos Opportunities Fund	UK	Triodos UK	10%	5-7 years	£30,000	None	Venture Capital for companies with a demonstrable social impact and benefit a clearly identifiable stakeholder group	Environment, Community, Regeneration, Education, Health, Social
Venture Capital Fund	Bridges Community Development Ventures	UK	Bridges	11-15%	Over 5 years	No	no	Seed and venture capital	Regeneration
Direct Property Investment	DUV Invest	Slovakia	Integra	11-15%	Over 5 years	EUR 75k	No	?	Community and Micro Finance, Social Care
Property Fund	Triodos Vestgoedfonds	Netherlands	Triodos Fund Management	8-15%	Open	1 share	None	Property investment for sustainable development, and sustainable management of property	Regeneration, social development, environment and sustainable development
Property Fund	Igloo	UK	Morley	IRR 15%	2016	5,000,000	N/A	Property development and investment	Regeneration
Property Fund	ECOS Fund Limited	UK-Southwest	ECOS Homes	Target 8-9% interest, no capital appreciation but buyback at original price offered but not guaranteed	Flexible	£500	£20,000	Equity Capital for zero-carbon property development	Climate Change
Balanced fund	Oasis Fund (to be launched Oct 07)	n/a	Oasis Finance	8-10%	5 year initial lock-up	\$250,000	None	Mix of long and short term debt and equity for social entrepreneurship	International social entrepreneurs
Asset Backed Securities	Enterprise Social Fund	US	Deutsche Bank	2.5% and 5.5% with 20% loss guarantee	5 years	n/a	n/a	Finance for social housing and low-income housing by the Enterprise Social Fund	Regeneration, Social Housing
Asset Backed Securities	Blue Orchard Microfinance Securities 1	global	OPIC and BlueOrchard	Range of tranches - paying coupons linked to US Libor	7 years	n/a	None	Invest in unsecured debt from microfinance initiatives	International Microfinance
Asset Backed Securities	Blue Orchard Loans for Development 1 (BOLD)	global	Morgan Stanley and Blue Orchard	Range of tranches - paying coupons linked to Euribor, US Libor	5 years	n/a	None	Invest in unsecured debt from microfinance initiatives	International Microfinance
Asset Backed Securities	Blue Orchard Loans for Development 2 (BOLD 2)	global	Morgan Stanley and Blue Orchard	Range of tranches - paying coupons linked to Euribor, US Libor	5 years	n/a	None	Invest in unsecured debt from microfinance initiatives	International Microfinance
Asset Backed Securities	responsAbility Global Microfinance Fund	global	responsAbility Social Investment Services	Targeting to exceed USD money market rates	Open	USD 1000	n/a	Invest mostly via debt, though some equity, in microfinance funds or directly in microfinance institutions	Microfinance and fair trade