



# The Growth Fund – An Introduction

An overview of The Growth Fund



July 2016



# The Growth Fund – What is it all about?

## BACKGROUND

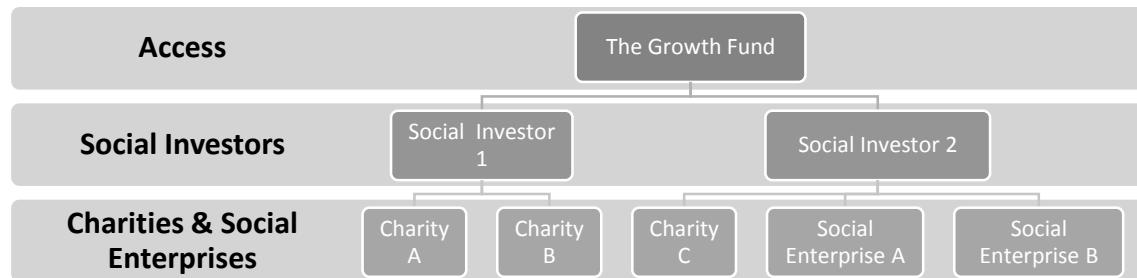
- The social investment market has grown significantly over the last 5 years enabling a greater number of charities and social enterprises to access the finance needed to create an impact on society.
- There are now over 20 Social Investors offering a range of investment products across the UK and for organisations delivering social impact. There is also a [range of support](#) available for charities and social enterprises that are looking to take on investment.
- However there remains a lack of social investment **below £150,000**, despite [research](#) revealing this to be the most demanded but the least available type of finance.

## THE RESPONSE?

### CREATION OF THE GROWTH FUND

The Growth Fund was created as a partnership between **Access, the Big Lottery Fund and Big Society Capital (BSC)**. By combining up to £22.5m of grant from Big Lottery Fund with at least £22.5m of loan funds from BSC (or in some cases, third parties), the Growth Fund (> £45m in total) helps social investors make investments of up to £150,000 in charities and social enterprises.

- Access will manage the Growth Fund in a **wholesale capacity**, working through **social investors**, who will set up funds and make loans to charities and social enterprises. The Growth Fund offers social investors the opportunity to provide charities and social enterprises with the type and amount of finance they need, when they need it.



## HOW WILL THE GROWTH FUND WORK?

- The Growth Fund offers charities and social enterprises **up to £150,000 of flexible unsecured finance** by combining grants with loans into simple products.
- Across its portfolio as a whole, the Growth Fund will seek to achieve a **geographical spread** of users and end beneficiaries **across England**, as well as support a range of social issues. We expect there to be 15 – 20 funds in total.
- The Growth Fund considers applications across 3 themes: Efficiency, New Approaches and Reach
  - Efficiency: meet current demand from charities and social enterprises for smaller unsecured investments in an efficient way*
  - New Approaches: offer creative and relevant new products or new ways of delivering social investment to the sector*
  - Reach: can offer social investment and make it relevant for charities and social enterprises who have not previously benefitted*

# Who/what is a Social Investor?

- ▶ Social investors are **organisations which provide investment or loans to charities and social enterprises** and which are focused on creating social outcomes.
  - ▶ Access is also particularly interested in applications from **partnerships which can fulfil all the roles of a social investor** to ensure that they reach those charities and social enterprises that are not already making use of social investment but for whom this could make a real difference, both to their businesses and to the lives of those whom they support.
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- Roles of a social investor include:**
- Knowledge of the financing and support needs of charities and social enterprises in a particular area
  - Strong networks and reach into charities and social enterprises and ability to market the opportunity to apply for a loan
  - Ability and knowledge of running an application process for grants and/or loans
  - Ability and knowledge of making investment decisions based on detailed social impact and financial information from an applicant
  - Ability and knowledge of actively managing a portfolio of loans and supporting organisations who get into difficulties
  - Ability and knowledge to report on the social and financial impact of a portfolio of loans

**An example of a partnership that may fulfil the role of a social investor:**

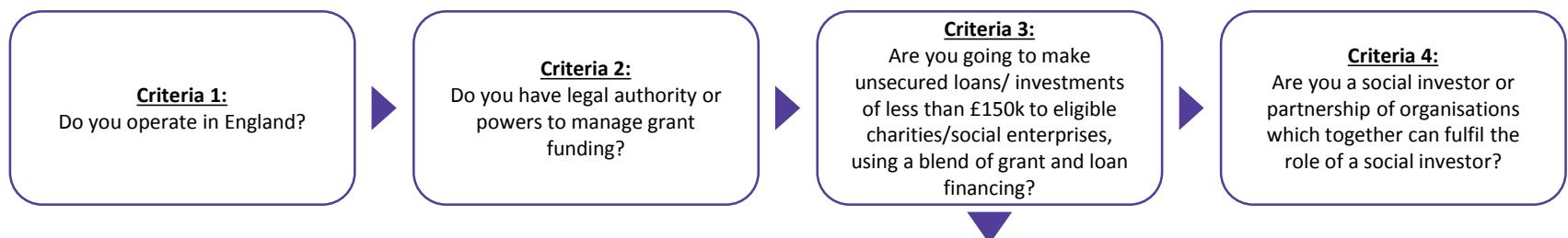
A Responsible Finance Provider with extensive SME lending experience but less knowledge of the social sector might apply in partnership with a local infrastructure organisation, like a CVS, bringing excellent knowledge of the local sector, reach into communities, and links to commissioners of public services.

- ▶ To encourage other such partnerships, Access has partnered with **Street UK** who is able to offer a back office solution for managing a loan portfolio. If potential applicants lack the experience of managing a portfolio of loans to charities and social enterprises, this partnership is available to be explored. More information is available on request.
- ▶ Importantly, Social Investors **do not need to be FCA regulated** in order to lend/make investments as part of the Growth Fund.
- ▶ **WHY?** Lending to incorporated charities and social enterprises (companies) is not a regulated activity in the UK. Lending is only regulated to consumers and not incorporated entities.
- ▶ Access recommends the fund is managed through a new wholly owned subsidiary of the social investor. The Big Society Capital loan is designed to only have recourse to the assets of this subsidiary, and not other assets of the social investor.

# Who can apply to the Growth Fund?

- ▶ As the Growth Fund is provided on a wholesale basis, through social investors, charities and social enterprises will not be able to apply for Growth Fund finance directly to Access, but rather via a social investor.
- ▶ **Social investors or prospective social investors can apply to Access for funding** – namely a grant from Big Lottery Fund alongside a loan from BSC. In this way, social investors will be able to offer a wider range of products to a wider group of charities and social enterprises than if solely accessing loan finance themselves.
- ▶ Social investors should have a clear idea of the market gap they're trying to fill, a strategy for how the use of the grant and loan will enable them to meet unmet demand for finance from charities and social enterprises and a clear articulation of the offer to charities and social enterprises.

## What are the eligibility criteria for organisations looking to apply to the Growth Fund?



## WHO ARE ELIGIBLE CHARITIES AND SOCIAL ENTERPRISES?

Eligible charities & social enterprises must be serving communities in England and can be regulated or unregulated. Regulated organisations are charities, Community Interest Companies or Community Benefit Societies. Unregulated organisations may be eligible if they meet some requirements including: having a clear social mission aligned to a charitable purpose locked into the constitution of the company, and if it distributes less than 50% of their post tax profits.

- ▶ Social investors or partnerships can apply to Access in one application for a combination of loan finance and grant, **up to a total of £10m** (with a maximum of £3m as the grant element).

### LOAN FINANCING

BSC will provide the loan finance at an interest rate of 5% to successful applicants. In certain cases, third parties may provide loan financing as long as there is no private benefit accruing from the use of the grant. The amount of loan applied for must always be greater than the total amount of grant.

### GRANT COMPONENT

Big Lottery Fund provides the grant for:

- Supporting the high transaction costs of the investor
- Blending with the BSC loan to offer charities & social enterprises loans < £150k and to allow loans to be made with greater risk
- To provide a grant component alongside the loan for charities and social enterprises

# What is the process of applying to the Growth Fund?

**STAGE 0:**  
Social Investor expresses interest via EOI

**STAGE 1:**  
Social Investor provides business case to Access (after being invited to apply)

**STAGE 2:**  
Following JIC approval, due diligence of application by Access and BSC

**STAGE 3:**  
Signing of all legal agreements

**ONGOING:**  
Monitoring of activities

Invited to apply if eligible & suitable

1<sup>ST</sup> formal committee decision

2<sup>ND</sup> formal committee decision

**Expression of Interest (EOI) form received**

Initial consideration of eligibility of social investor by Access. If successful, invited to apply.

**Business plan received**

Review strategic fit with Growth Fund. Proposal to include: market gap; proposed solution; social impact; track record; risks; benefits to the market

**JOINT INVESTMENT COMMITTEE (JIC) INITIAL ROUND**

**Assessment, Due Diligence**

Amend application post JIC feedback; Validate info in application form and consider State Aid issues

**JIC FINAL ROUND**

**Legals**

Loan agreement signed between BSC & social investor; Agreement between Big Lottery Fund & social investor; Incorporate legal entity to manage funds

**Ongoing Monitoring**

Disbursing funds; Quarterly reporting; Course correction based on performance and experience; Portfolio reviews with JIC

## THE EOI AND BUSINESS PLAN

The EOI is a pre-cursor to a formal application and should be treated as such in terms of the detail provided and time spent in completing the form. Once Access has reviewed the EOI for eligibility and suitability, the applicant will be invited to apply by completing the Business Plan.

Guidance on the [EOI](#) and [Business Plan](#) is available separately on the Access website.

## THE JOINT INVESTMENT COMMITTEE (JIC)

The JIC is the decision making body for Growth Fund awards. It is made up of [two representatives](#) from each of Access, Big Lottery Fund and BSC and is chaired by Access. The JIC meets every 6 – 8 weeks to consider applications.

(Click here for the detailed [Terms of reference](#) and [Investment Policy](#))

## DUE DILIGENCE, LEGALS AND ONGOING MONITORING

Due Diligence is performed on the organisation applying to the Growth Fund by BSC and Access and forms the basis for the decision in the JIC Final Round. Once the application is approved, the completion process begins ultimately resulting in signing various legal documents.

# Interested in finding out more? Where to go next and what you need to know at each stage

Detailed guidance on the below topics is available to view on the Access website:

CONSIDER AT STAGE 0

The initial Expression of Interest (EOI)

CONSIDER AT STAGE 1

How to complete the Business Plan

The **Financial Model** (to be completed as part of the Business Plan)

**State Aid** implications and a social investor's requirements

CONSIDER AT STAGE 2

What to expect from the **due diligence** process

What to expect from the **legal agreements**

The **legal structure and form** of the investment

CONSIDER AT STAGE 3

What to expect **going forward** e.g. monitoring

**NOTE:**

Guidance currently available

Guidance under development

Access would expect applicants to adhere to the following time line:

Stage 0 - no limit

Stage 1 - 3 months

Stage 2 - 3 months

Stage 3 - Up to 3 months

Invited to apply if eligible & suitable

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