# Access – The Foundation for Social Investment

# Learning Report

**By Margaret Bolton**

**December 2016**

# Foreword

ACCESS was set up because its partners recognised that there was an imperative to operate more flexibly, responding directly to the investment needs of charities and social enterprises and also to work with and through a range of partners influencing their behaviour and approach.

An important part of our remit is to build and share an evidence base as to what works in the provision of subsidy for social investment and capacity building support for charities and social enterprises in order to influence the practice of other funders. This means we have a strong commitment to evaluation and learning and see it as fundamental to our role. We are deliberately publishing this report alongside our learning strategy in order to demonstrate this commitment. Our ethos is to experiment, learn and adjust and to communicate about the lessons learned.

This is the first of what will be a series of reports logging our progress in achieving our mission and the lessons we have learned along the way. We asked Margaret Bolton to write this for us because we wanted to have that external perspective on progress so far. Because we are still a very young organisation, this document tells the story of our work to date, explains the rationale for our programme design and describes some early lessons and our future plans.

This report explains how we adapted our approach to the Growth Fund in its early days based on initial research and feedback and emerging learning. It also describes how the design of our capacity building programmes builds on extensive consultation together with our assessment of the strengths and weaknesses of previous initiatives. It also sets out how we developed and implemented our 'total impact approach' to investing our endowment. We very much hope it is of interest.

John Kingston, Chair
Seb Elsworth, Chief Executive

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# 1. Executive Summary

Access - The Foundation for Social Investment was launched in 2015 with the remit to change the way that social investment is delivered in England, making it easier to access and more relevant for charities and social enterprises.
Our brief includes developing and sharing learning about how best to enable charities and social enterprises to access social investment. Given that we are at an early stage of our journey, this, our first learning report, tells the story of our work to date, explains the rationale for our programme design and describes early lessons and future plans.

## Increasing the supply of social investors - The Growth Fund

Our Growth Fund, delivered in partnership with Big Society Capital (Big Society Capital) and the Big Lottery Fund (Big Lottery Fund), seeks to tackle the identified gap in the market for small loans by providing both loan and grant finance for social investors.

Research consistently shows that there is significant unmet demand amongst charities and social enterprises for investment of less than £150k, and often well below this figure. However, many social investors are not able to offer such loans because they are too expensive to administer; and when available they are often unaffordable or require security. The Growth Fund seeks to address this issue by providing subsidy to social investors to enable them to offer affordable smaller loans without requiring security.

So far we have approved seven applications and three funds are live and lending to charities and social enterprises. We are on track to commit the fund by early 2018.

<u>Early lessons and future plans</u>

*Widening the pool of social investors*

The majority of the first applications for the Growth Fund came from organisations with a track record in providing social investment. An explicit goal of the Growth Fund is to expand the range of organisations who are able to offer loans to charities and social enterprises. Research we commissioned from New Philanthropy Capital examining how we could build the pipeline for the Growth Fund concluded that there was a lack of clarity amongst potential applicants about eligibility for the Fund. A common assumption was that only established social investors were eligible. Another key issue was that the broader range of organisations we had envisaged would participate in Fund delivery (for example, sector umbrella bodies or federated charities) needed support to enable them to do so.

The research findings mirrored internal discussions which had concluded that a more generous approach was required. An approach which appreciated and built on the particular strengths of applicants and which did not require them to fully demonstrate every criteria at the start of the process.

*Developing three strategic themes for the portfolio*

To ensure that we had a broad spread of organisations and approaches within the Growth Fund, and to help us analyse applications, we had established three strategic themes for the Growth Fund: *Efficiency*, *New approaches* and *Reach.* We decided to prioritise applications which aligned with the last two of these themes. We also put in place support to enable organisations who had not provided social investment before but with excellent reach into the charitable and social enterprise sectors to access the Growth Fund. For example, by recommending they engage a back office provider of loan administration services.

*Developing appropriate and proportionate agreements*

Our first Growth Fund deal took a significant amount of time to negotiate largely because of the need to reconcile the requirements and processes of the different investment partners. This provided a valuable lesson for us and we are committed to absorbing as much of the complexity of the process as possible as opposed to passing it on to charity or social enterprise recipients of loans. Because of this experience and other feedback we have re-written our guidance and the applications material for the Growth Fund and we are working with Big Society Capital and the Big Lottery Fund to continue to simplify and streamline processes where possible.

*Next steps*

On the basis of the research Access has commissioned, the feedback we have received and reflection on our work to date, we have decided that the next steps with the Growth Fund will be to: encourage social investment product and process innovation; develop our approach to risk monitoring and management and develop and refine our evaluation plans.

We will also be establishing a learning community of Growth Fund social investors to enable them to share good practice and learn from each other. The intention is that their discussions will also inform developments in our own work.

## Encouraging demand - capacity building for charities and social enterprises

Our capacity building programmes and initiatives are still at an early stage therefore operational learning from them is limited. This section therefore reflects on how feedback from the extensive consultation we conducted in the second half of 2015, supplemented by our knowledge of previous initiatives, has informed their design.

Advice, information and support

One issue that emerged strongly from the consultation was the need for better signposting to sources of advice, information and support. Given this, we have worked with partners to develop GoodFinance.org.uk. We intend to build on this first step, working with a range of other organisations to scope and develop accessible education materials and signposting services.

Designing our programmes

Consultation responses confirmed the need for investment in capacity building support for charities and social enterprises to help them to become investment ready. We are developing and delivering three capacity building programmes over the period 2016-2018 and each is seeking to learn about how this support can best be delivered:

*Aligning incentives in investment readiness grants*

The Reach Fund, operated by the Social Investment Business (SIB), is offering investment readiness grants to charities and social enterprises through a range of approved social investors who we call 'Access Points'. Previous initiatives have tended to be support provider led. Here social investors are at the centre. Based on a sound diagnostic social investors will support organisations with the preparation of an investment readiness plan and help them access support with its implementation. Our belief is that this approach promises to be more effective in helping charities and social enterprises to access investment, and can reduce the cost of the intervention.

*Reducing the barriers to managing impact*

An issue that consultation respondents returned to again and again was the need for support in improving impact management and reporting systems. This led us to develop the Impact Management programme (delivered by New Philanthropy Capital and partners) which has two strands – Pathway for Impact (co-sponsored by Power to Change) which will build on existing work to develop a range of easy to use 'self-service' guidance and tools for charities and social enterprises; and Impact for Growth which is providing support for charities and social enterprises seeking larger investments or contracts to develop their impact management processes. Demand for this type of support is evidenced by the Impact Readiness Fund (IRF); both rounds of which were heavily over-subscribed.

*Building an effective and resilient intermediary market*

We believe that social investment intermediaries are key to the development of social investment. However, many of these organisations are themselves relatively early stage social enterprises and have received little direct support. The Infrastructure Investment Fund (to be managed by the Barrow Cadbury Trust) is a response and will launch in early 2017. It will seek to meet the long term investment needs of intermediaries and to support collaboration and learning.

## Market championing

The principle way in which we will 'champion the market' is by sharing the learning from our work. We aspire to engage partners willing to create change in their own processes. It is early days for us but one concrete achievement is the 'total impact approach' to investment which we have pioneered with our endowment. We hope that the process we followed and the questions we considered, outlined in this report, will inform the investment approach of other foundations.

# 2. Introduction

Access - The Foundation for Social Investment was launched in 2015 with the remit to change the way that social investment is delivered in England, making it easier to access and more relevant for smaller charities and social enterprises. It was created by Big Society Trust (see the box below) with the support of its partners the Big Lottery Fund, Big Society Capital and the Cabinet Office (responsibility within Government moved to DCMS in the summer of 2016).

Access is delivering programmes aimed both at increasing the supply of social investment to charities and social enterprises, particularly smaller charities and social enterprises, and at promoting demand for it. This report considers these two aspects of its work and its role as market champion.

**How is Access funded and governed?**

Access was created by Big Society Trust (BST), working in collaboration with the Big Lottery Fund, Big Society Capital and the Cabinet Office, following extensive consultation with charities and social enterprises. Each of these organisations share the same vision to expand the reach of social investment, and each organisation brings its own resources and expertise to support Access in delivering its mission. BST has a board made up of members with broad experience of the social and financial sectors. It is the sole member of Access and is the company which ensures Big Society Capital remains true to its social mission.

Access's market champion brief includes developing and sharing learning about how best to enable charities and social enterprises to access social investment. This report signals its commitment to this aspect of its work. Given that Access is at an early stage of its journey, it tells the story of Access's work to date, explains the rationale for its programme design and describes early lessons and future plans for the Growth Fund. It will be followed by further reports, regular sharing of performance data from programmes and the publication of findings from comprehensive evaluations. Access has published a comprehensive learning strategy, which can be found here.

The learning strategy covers Access's approach to learning and evaluation and defines measures of success over the Foundation's ten year life, including tracking:

- The number of organisations supported;
- The extent to which those organisations have stronger balance sheets as a result of that support;
- The extent to which those organisations are able to sustain or increase the social impact they generate; and
- The strength of the evidence base generated from Access's work.

The learning strategy also explores the assumptions which underpin Access's theory of Change and identifies evaluation questions to track across Access's life.

# 3. Why was Access established?

Evidence from surveys such as SEUK's *State of the Sector* [1]and the Big Lottery Fund's *Investment Readiness in the UK* [2]demonstrates that there is a significant unmet demand amongst charities and social enterprises for investment of less than £150k, and often well below this figure. However, it also consistently shows that it is difficult to access such small loans. Many social investors are not able to offer such loans because they are too expensive to administer; and when available they are often unaffordable or require security. To increase the supply of smaller, unsecured, affordable loans to charities and social enterprises, the Big Lottery Fund and Big Society Capital worked with Access to establish the Growth Fund. The Big Lottery Fund committed a grant of £22.5m and Big Society Capital pledged at least £22.5m of debt finance.

Managing repayable finance is a new proposition for many charities and young social enterprises. It requires strong business planning and financial strategy, robust governance and leadership and sound systems for monitoring and reporting financial and social returns. Programmes such as the Investment and Contract Readiness Fund and Big Potential have supported organisations to develop these skills and capabilities in order to help them to secure investment and contracts. However, both these programmes have been time limited. To enable longer term funding for this sort of capacity building the Cabinet Office endowed Access with £60m to spend down over 10 years. The premise is that capacity building programmes, by making charities and social enterprises ready for social investment, will increase demand for it.

One of the assumptions implicit in Access's approach is that blended investment, (i.e. providing a mix of grants and repayable finance) will be key to helping charities and social enterprises access social investment, in many cases for the first time, and helping new social investors enter this market. A core learning objective for Access is to better understand the appropriate use of subsidy and how it could be deployed effectively and efficiently for market development. The full details of Access's two year strategy have been published here.

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[1] Social Enterprise UK, *Prospecting the Future: social enterprise and finance data from 2011-2015* (undated).

[2] Clearly So and New Philanthropy Capital, *Investment Readiness in the UK*, Big Lottery Fund July 2012

# 4. The Growth Fund – increasing supply of smaller scale social investment

The Growth Fund is designed to provide smaller (below £150k), affordable, unsecured loans to charities and social enterprises. The target group of beneficiary organisations are likely to be at the early stages of growth or developing their trading income. They may have little track record of trading but have been identified as having potential for income growth. It is likely that they will not have received social investment before.

Access is managing the Growth Fund in a wholesale capacity i.e. it is working through social investors. These social investors will apply to Access for support to set up a fund to make loans and other investments to charities and social enterprises. Financing will be for amounts up to £150k and may include an element of grant for the charity or social enterprise.

*Filling a gap in the market*

Generally small loans (below £150k) have not been available on any significant scale because social investors have been concerned about the risk of default and the costs of running such a loan portfolio. Since social investors are usually borrowing money themselves in order to make loans they need to be confident that they will be repaid.

The Growth Fund seeks to tackle the identified gap in the market for small loans by providing both loan and grant finance for social investors. It offers three sorts of subsidy:

- a direct subsidy to help social investors meet the higher costs associated with providing under £150k investments to charities and social enterprises (referred to as Grant A),
- subsidy in the fund to allow for riskier and potentially loss making loans to be made (referred to as Grant B), and
- an element of grant to enable social investors to offer blended finance, a mix of grant and loan, to charities and social enterprises, making social investment more attractive and feasible for them (referred to as Grant C).

Essentially these three uses of grant de-risk the process for the social investor managing the fund and making loans and for the charity or social enterprise receiving the finance.

## Progress to date

The Growth Fund opened for applications in May 2015. It is envisaged that it will invest in 15-20 new funds by no later than early 2018. Demand for the Growth Fund has been solid but not overwhelming and Access is on track to meet this target. As of end of November 2016, there had been 51 expressions of interest.

Seven applications had been approved with three of those funds live, and a further four were at the due diligence stage.

Support for new funds is not formally announced until all the paper work, including formal legal agreements, is signed and the fund is open for business. At the time of writing (November 2016) the three live funds are:

- The Health and Wellbeing Challenge Fund run by Resonance was the first to launch in July 2016. Resonance helps social enterprises raise capital and has a track record of creating new social investment funds. The Health and Wellbeing Challenge Fund will offer financing of up to £150k to charities and social enterprises in the South West of England working to bring about positive change in health and wellbeing. The fund totals nearly £5m with £400k invested by the South West Academic Health Science Network.

- The Key Fund, which has a track record of making blended investments of small loans and grants to charities across the North of England and the Midlands, launched the Northern Impact Fund in September 2016. The fund will be targeted at new and early stage enterprises seeking finance to support growth. It will offer finance of up to £150k, but typical investments will be around £50k, with up to 20 per cent of the amount available as grant. The total fund value is £5.5m.

- First Ark is part of a group of companies developing property for shared ownership and sustainability and investing to address other community needs related to work and skills, health and wellbeing, financial and digital inclusion and the environment. It launched its Invest for Impact fund for the North West aimed at offering finance to early stage and growing social businesses in October 2016. The £4m fund offers a blend of grant and unsecured loan finance for charities and social enterprises, up to £150k.

**A snapshot of the seven applications approved as of November 2016**

Access considers that the seven funds approved so far provide good geographical coverage across England. They tend not to focus on specific sub sectoral issues but rather to offer support more generally to charities and social enterprises ensuring that a wide range of sector issues will receive investment. After an initial phase in which applications tended to be received from existing providers of social finance, a broader range of organisations are now submitting proposals including infrastructure organisations, both local and sub sector specific, and community foundations and a good proportion of these are being approved.

*Developing strategic themes*

Access has determined three strategic themes for the Growth Fund which provide a framework to understand and support analysis of the strengths and weaknesses of applications:

*Efficiency*: Meeting current demand from charities and social enterprises for smaller unsecured loans in an efficient way

*New approaches*: Providing creative and relevant new products for charities and social enterprises, or new ways of delivering social investment to the sector

*Reach*: Offering social investment to, and making it relevant for, groups of charities and social enterprises who have not been able to benefit to date.

These themes were determined in response to feedback from applicants that it was difficult to meet all the Growth Fund requirements. For example, some had difficulty demonstrating both sufficient experience of managing a loan book and sufficient reach into the charitable and social enterprise sectors. Development of the themes marked a shift in emphasis, one which stresses generosity and which values the specific skills of applicants. The expectation would no longer be that applicants had to be good at everything from the start; and more support would be provided through the process (see the next section).

Particular encouragement is now being given to applications which meet the *New Approaches* and *Reach* themes. Crucially, these may come from organisations who have not provided social investment before but who offer excellent reach into the charitable and social enterprise sectors. This may include organisations such as: federal charities; membership bodies; infrastructure organisations; community foundations and larger charities.

*Supporting new social investors*

Following research and feedback from applicants, Access has put in place a range of support to enable appropriate organisations to develop their role as social investors (see the box below about NPC research for Access). This includes:

- A recommended back office provider of loan administration services.
- Opportunities to form partnerships with experienced lenders to develop a joint proposal.
- Detailed guidance on a range of technical aspects of developing the fund, including legal structure and managing State Aid issues.

NPC, *Building the pipeline for the Growth Fund: final report for the ACCESS Foundation*, 2016

The NPC research *Building the pipeline* focused on how Access might attract applications from a broader range of organisations. It suggested that initially there was a lack of clarity about who could become a provider and patchy knowledge of Access and its role. Other barriers were uncertainty of demand from charities and social enterprises, organisational culture and risk appetite, skills and costs. The research also considered the support that would be needed to encourage and enable a more varied group of organisations with reach into the charity and social enterprise sectors to become Growth Fund providers.

*Legal documents and other paperwork*

Agreeing the legal documents for the first fund to be launched with Resonance was very time consuming. There were a number of issues to work through and resolve as with any commercial arrangement which involves a number of partners. A number of key documents had to be agreed with Resonance and partner organisations:

- An External Delegation Agreement for the Big Lottery Fund to delegate their grant making authority (the EDA);

- A loan agreement with Big Society Capital and the South West Academic Health Science Network (a co-investor in the fund);

- A share charge, which allows the lenders to take security over the new subsidiary company at Resonance which will manage the fund.

- A service level agreement between Resonance and a new subsidiary company which will manage the fund itself;

- In the case of other investors being present there is also a deed of priority between the lenders.

Part of the challenge was for the Big Lottery Fund and Big Society Capital to create proportionate documentation while reflecting the various constrains in which they each operate. The Big Lottery Fund's paperwork is usually designed to cover grants and in this instance, because the Growth Fund is making loans, some of the terms and conditions have had to be adapted. For Big Society Capital it's been a question of developing loan and security documents that work alongside the EDA and do not place a disproportionate administrative burden on the social investor.

As Access worked through these issues it produced new guidance for the Growth Fund which seeks to explain why the core documents are drafted as they are. It also produced a new expression of interest form which better captures what it needs to know at the early stage of an application, and a revised business plan template. With an aspiration to speed up the process of finalising agreements on new funds, it also produced updated templates for its legal documents.

## Challenges, issues and next steps

Work to date on the Growth Fund has generated some early learning for Access about how it might increase the supply of social investment for charities and social enterprises and the principles that should underpin this work. It has also raised some challenges or issues which it is seeking to address:

*Dealing with complexity*

The Growth Fund is based on a partnership between Access and two other financing organisations (Big Society Capital and the Big Lottery Fund) each with different approaches, systems and paperwork that need to be reconciled. This creates complexity (see the box below for an example) which has to be reduced where possible or otherwise managed.

Access has established the principle that it, and its partner social investors, should seek to absorb the complexity of its funding and financing arrangements rather than passing them on to charities and social enterprises seeking investment. It continues to work with Big Society Capital and the Big Lottery Fund to simplify systems, processes and paperwork based on consideration of two key questions: what are we seeking to achieve together and how do we assess, manage and mitigate risk? For example, significant progress has been made on simplifying the EDA with a new template developed in the summer of 2016 which is continually revised based on feedback from applicants.

**Growth Fund structures**

Social investors are required to set up a wholly owned subsidiary through which Growth Fund investment is channeled. The benefit is that this isolates the risk for the social investor and for Access and its partners. Each social investor also needs to set up two bank accounts for the Growth Fund, one for receiving the grant, since the Big Lottery Fund money is held on trust (and should be ring fenced), and one to administer the fund itself. While these requirements are proportionate, it is acknowledged that they add to the administrative burden.

*Operating costs*

Access has capped Grant A (explained above) as a proportion of the total grant amount awarded. This has resulted in a few social investors dropping out or saying that they need to move at a slower pace because of a concern about whether they could viably operate a fund. While this is only one driver affecting the economic viability of running a social investment fund it is an issue which is being continually reviewed by the Joint Investment Committee (which oversees the fund, and comprises representatives of the Big Lottery Fund, Big Society Capital and Access).

## Next steps

The next steps for Access with the Growth Fund are to:

- Encourage innovations in social investment products, for example the development of an equity-like investment product suitable for charities and social enterprises enabling investment risk to be shared between the social investor and the charity. Another example would be automated or low cost delivery processes.

- Work with the evaluators of the programme to refine the evaluation plan for the Growth Fund, in particular so that it includes an assessment of the impact of the various forms of subsidy provided.

- Identify the barriers to accessing social finance for organisations working on equalities issues and work with Growth Fund investees to address them.

- Develop the Growth Fund approach to risk monitoring and management, and ensure that reporting is proportional.

- Encourage the sustainability of the new funds supported

- Develop a 'learning community' of Growth Fund providers to provide peer support and shared learning.

# 5. Capacity Building – removing barriers which inhibit demand for social investment

In the second half of 2015 Access ran an extensive consultation examining the capacity building support needed to equip charities and social enterprises to take on social investment. The consultation generated a clear consensus about the skills and capabilities that charities and social enterprises are likely to need and about the design principles, methods and approaches considered most likely to be effective (see the box below for details).

**The skills and capabilities that charities and social enterprises are likely to need in order to be able to take on social investment:**

*Leadership*: leadership skills, confidence and 'thinking time'.

*Governance*: increased trustee knowledge and risk appetite and sound governance systems and processes.

*Impact management*: an organisations's ability to quantify, report on, increase and 'get paid for' its impact.

*Finances and business modeling*: skills and confidence, the tools and the time to develop income generating propositions.

*Marketing*: market testing new ideas and effectively selling them.

*Data systems and use of data*: an organisation's ability to collect, analyse and respond to rich, relevant data in real time, by maintaining user-friendly and cost-effective systems.

**The design principles, methods and approaches considered most likely to deliver effective capacity building:**

*The framing*. The consultation indicated that framing the work as about 'social investment' is not attractive for charities and social enterprises. However, they are interested in tools or approaches that will help them to achieve their mission.

*Clarity of communication*. Charities and social enterprises engaging for the first time with social investment report that they have to get to grips with a lot of new terms and concepts. The consultation emphasised the importance of using plain language wherever possible and consistently checking for clarity and shared understanding.

*Peer encouragement*. The suggestion was that Access should work through existing networks and communicate through the people and organisations that charities and social enterprises identify with and trust.

*From one-to-many to one-to-one.* Workshops/group discussions are cost effective, encourage stronger networks and provide a route to more bespoke one to one support.

*Diagnosis and 'triage'.* Central to effective programme delivery are quick and inexpensive processes to identify investment potential and support needs.

*Openness and transparency.* The expectation is that Access should be open and transparent, regularly publishing high quality data and demonstrating that it is responding to the learning generated by that data.

One issue that emerged strongly from the consultation was the need for better signposting to sources of advice, information and support. Given this, Access has worked with partners to develop GoodFinance.org.uk. It intends to build on this first step, working with a range of partners to scope and develop accessible education materials and signposting services.

Feedback on Access's consultation process has been very positive. Access has been able to design its capacity building programmes in a collaborative and iterative way with partners and potential recipients of support. This approach was taken on the premise that experimentation and innovation are appropriate in a field in which the data does not point firmly towards a particular model and different options need to be tested. The conclusion is that how Access does things, as well as what it does, can have a significant influence.

Access has developed three capacity building programmes over the period 2016-2018 based on the results of the consultation:

## The Reach Fund

The Reach Fund aims to increase the number of charities and social enterprises able to take on a loan. The Fund, which the Social Investment Business (SIB) has been commissioned to run, is offering investment readiness grants to charities and social enterprises through a range of approved social investors who will act as 'Access Points'.

When a charity or social enterprise approaches a social investor who is an 'Access Point' for a loan, and needs some support before they can take on a loan, the social investor will work with them to

- identify their needs;
- develop an investment readiness plan to meet them, and
- help them to apply to SIB for a grant to support the plan's implementation.

If the charity or social enterprise is successful in their grant application, the social investor can, if needed, support them in finding an organisation to help them to deliver their investment readiness plan. The premise is that once the plan is implemented, the social investor should have more confidence in lending to them.

Each charity and social enterprise receiving a Reach Fund grant completes a standard online diagnostic questionnaire, at the beginning and end of this process. The diagnostic provides a consistent way of measuring progress in terms of capacity and confidence developed during the period (regardless of whether or not the organisation takes on a loan).

The target population of the Reach Fund is broader than that of the Growth Fund. The Reach Fund is being supported from the endowment provided to Access by the Cabinet Office and is open to charities and social enterprises with the greatest potential to have social investment unlocked for them.  This indicates that larger charities and social enterprises, including some who have already accessed investment and for larger sums than £150k, will be eligible.

To test the new model Access launched a small scale version of the Reach Fund at the end of October 2016 involving 10 'Access Points' (see the box below). The intention is to expand the Fund early in 2017 by recruiting further 'Access Points' based on learning from this first iteration.

**The Initial Reach Fund 'Access Points**

Big Issue Invest,
CAF Venturesome,
Co-operative & Community Finance,
FSE Group,
Key Fund,
Northstar Ventures,
Resonance,
Social and Sustainable Capital,
Social Finance and
Somerset Community Foundation.

<u>Designing the Reach Fund</u>

Recent investment readiness programmes such as the Investment and Contract Readiness Fund (ICRF) and Big Potential are 'support provider led'. Their model is that a charity or social enterprise partners with a support provider to identify its needs, and they submit a joint application to an investment committee. Access, wants to test a different approach. It believes that placing the social investor at the heart of the process, and enabling it to work with a charity or social enterprise to design and implement an investment readiness plan, may increase the chance of an investment being secured, and therefore may result in better value for money.

During the consultation on capacity building social investors who already work with Access's target population said how important it is that capacity building support is provided. However, very few of them are able to pay for it. Further, many of the applicants to the Growth Fund have argued the case for resources for capacity building in order to enable them to provide financing to small charities and social enterprises:

*"[The lending should be offered] as part of a holistic approach to social investment locally which will drive demand for social investment but this will need to be supported by your capacity building fund. This is a proposal in the round and the [loan fund] will not stack up without the support offered alongside."*

The model that Access has developed for the Reach Fund responds to a number of key points raised in the consultation, particularly the need for support which is locally based and tailored to the needs of small charities and social enterprises and for impartial advice and help in finding appropriate capacity building support.

<u>Analysing and testing the Reach Fund</u>

Access will work with SIB, who are running the programme, to gather, analyse and share evidence about its effectiveness. This review work will focus on a set of key questions including:

- Is an 'investor centered' model like this more or less effective in securing more social investment than the 'support provider' led model used on programmes like the ICRF or Big Potential?
- How much grant is needed to facilitate investment?
- Are there variations in the level of grant required across different regions and practice areas, or for organisations at different stages of development?
- Is the support provided having an impact on the areas highlighted in the consultation (leadership, governance, impact management, finance and business modelling, marketing, systems and use of data) and if so, does this increase the organisation's ability to take on social investment?
- Are the use of additional peer support and one-to-many provision cost-effective approaches to investment-readiness support?
- How does an online diagnostic process inform the development of an investment-readiness plan and provide a useful measure of progress?

A potential concern about the model developed for the Reach Fund is the extent of the discretion given to social investors. However, the diagnostic, as an objective assessment of a charity's or social enterprises' need for capacity building support, provides a check and balance. Another aspect of the process which puts power in the hands of the charities and social enterprises receiving support, is that a grant may be given to free up management time to enable organisations to do the necessary work themselves (as opposed to recruiting a consultant).

With Big Potential likely to be coming to an end in 2017, Access intends that evidence from the first phase of the Reach Fund will inform discussions about how any successor programme should be designed.

## Impact Management

The need to help charities and social enterprises to quantify, report on, increase and 'get paid for' their impact was a consistent theme in consultation responses. Therefore, building on the learning from the Impact Readiness Fund, and other similar programmes, Access tendered to find a partner to develop an England-wide programme aimed at supporting charities and social enterprises to make impact data part of their performance management systems. NPC, and its partners, were commissioned to deliver the Impact Management programme.

The Impact Management programme has two strands:

- Pathway for Impact will build on existing resources to develop easy to use 'self-service' guidance and tools which charities and social enterprises can use to develop an impact management strategy. The aim is to create an open, shared resource which is useful for, and used by, a wide variety of charities and social enterprises. This element of the work is being co-designed by the charity leaders participating in the programme.

  The initiative aims to explore how the 'unit cost' of support could be reduced through 'self service' products. It also seeks to secure the development of shared, standard approaches, which are well understood and valued by both charities and social enterprises and social investors, commissioners and grant funders.

  Power to Change, an independent charitable trust focused on community business, are co-funding Pathway for Impact.

- Impact for Growth is providing support for charities and social enterprises seeking larger investments or contracts to develop their impact management processes. This is based on the belief that high quality impact reporting can offer such organisations an advantage and increase their chances of success in securing investment or winning contracts. This is particularly the case for those seeking social investment-backed payment-by-results contracts (e.g. through Social Impact Bonds). Demand for this type of support is evidenced by the Impact Readiness Fund (IRF); both its funding rounds were heavily over-subscribed.

Access announced at the beginning of September 2016 that NPC will be leading the programme. They will work with a consortium of charities and social enterprises comprising: Impetus-PEF, NCVO Charities Evaluation Services, Social Enterprise UK, Social Investment Business, Social Value UK and the Young Foundation.

<u>Designing the Impact Management Programme</u>

The Access consultation on capacity building identified that support around impact measurement was critical. It highlighted specifically the:

- different needs and expectations of charities and social enterprises, and their advisors/consultants and the consumers of impact reporting (social investors, grant funders, government);

- common inability of organisations to efficiently collect and respond to key data, using systems which are flexible, well-understood and valued by their staff;

- lack of clarity and consistency as to how impact reporting is used in social investor/commissioner decision-making processes;

- the gap between what charities and social enterprises could/should capture and report for their own performance management and what is required by social investors/grant-makers for monitoring and evaluation purposes.

*There are two main gaps in capacity: 1. Capacity for measuring and reporting on social impact. Many organisations still struggle to collect the information that they 'need' to report to their funders. 2. Capacity for managing and maximising social impact. Very few organisations are collecting the information that they need to help them make decisions about how to improve their service. This is also an issue about a lack of capacity to implement and embed useful systems for data collection.*

Quotation from consultation responses

## The Social investment infrastructure investments

Social investment intermediary organisations (social investors, advisors, trading platforms and other support organisations) are critical to the long term development of the social investment market. Addressing their investment needs is a key part of Access's strategy.

Access has appointed the Barrow Cadbury Trust as its partner to manage the Social Investment Infrastructure Fund, which will be launched in Spring 2017.

Six million, or 10 per cent of Access's endowment, will be dedicated to this goal over Access's 10-year life.

Through this investment Access seeks to develop a shared understanding of how the market could and should develop, what infrastructure is required to support this development and the financing needs of different types of investment intermediary. The Fund will provide grants for collaborative projects to support the development of tools, networks and partnerships. The Fund Manager will also work with other funders to create a long term patient investment product for intermediaries to help build their sustainability and resilience.

In the conversations held about the Fund to date three key themes have emerged:

- Learning and insight. This is focused on understanding the long-term impact on the recipients of support, and hence the value of the support provided.

- Use of data systems. There is an opportunity cost in not making optimum use of data (both for individual intermediaries and across the market as a whole).

- Recruitment and talent. This theme means different things for different intermediaries. It can refer to a difficulty finding suitably experienced candidates, while others report that they cannot retain talented staff.

# 6. Market Championing

Access was established with the brief not only to deliver specific investment and support programmes but also to champion access to investment for charities and social enterprises. The principle way in which it will do this is by sharing the learning from its work, seeking to influence other funders as a result. A comprehensive learning and evaluation programme for the Growth Fund has been commissioned and Access has also published a learning strategy outlining, in some detail, its overall approach to evaluation and learning. Access also commissions research to inform its work.

This section focuses on two specific aspects of Access's market championing work, the research it has commissioned and its development of the Total Impact Approach.

## Research

Access has commissioned a number of research reports which have informed its approach. Two of these are outlined below:

*SEUK Prospecting the Future: social enterprise and finance data from 2011-2015 (undated)*

Prospecting the future confirmed the importance of products that meet organisational needs. While some of these are well known (i.e. the need for smaller amounts of capital for 'riskier' projects) others have had less attention. For example, the data indicates that working capital and cash flow are key issues; so the report concludes that intermediaries and wholesalers might want to think about invoice funding and factoring products for social enterprises. It suggests that these might be more attractive than equity or revenue participation deals.

The research confirmed that the business models of social investment intermediaries are challenged by the median amounts applied for and raised by social enterprises since more numerous deals for lower sums with riskier organisations results in intermediaries carrying more cost.

The report concludes that place-based social investment has not been properly explored but is potentially very important given the devolution agenda. It suggests that improving the quality of the data available on social enterprise and access to social investment will create a deeper understanding of need and how to address it.

*IVAR, Smaller charities and social investment, 2016*

The IVAR research concludes that 'the aim of all social investments should be to leave an organisation in a stronger position not only financially but also in relation to its ability to pursue its mission'. This requires:

- broad assessments which enable social investors to understand the social and financial potential of the charity;

- a recognition that not all investment is social investment, small charities may also require overdrafts and mortgages;

- a willingness to engage with inexperienced charities to enable them to survive;

- financial products and associated outreach and marketing tailored to charity need;

- robust challenge as to whether particular property investments are the best option.

It highlights how better relationships might be built between social investors and charities based on an understanding that charities are mission driven; the need for social investors to base products and services on charity needs and the importance of reserves and working capital to charities.

## Total Impact Approach

Access aspires to build a strong learning eco-system, which engages partners who respond to the knowledge generated and create change in their own processes. It is early days for Access but one concrete achievement is the 'total impact approach' to investment it has pioneered.

Access was established with a £60m endowment from the Cabinet Office which it is tasked to spend down over its ten year life. A stipulation made by the Cabinet Office when providing the £60m was that before this cash is given in grants, it should be invested using a 'total impact approach'. This means that Access should consider not only the financial return but also crucially the social impact of investing its endowment. It is testing the hypothesis that it is possible both to achieve financial goals and generate social impact. The aspiration is that Access would model this approach inspiring other foundations to follow a similar process in formulating their investment strategy.

*Developing the investment strategy*

Access set up an Endowment Working Group (EWG) to help it work out how it could best implement a 'total impact approach'. This Group comprised Access trustees, the CEO and Finance Manager and a number of independent advisors who have a deep interest in encouraging the growth of impact investing.
The EWG decided to turn the usual approach to developing an investment strategy on its head. It started by thinking about what sort of impact could be achieved through investment of its endowment. The usual approach is to begin by asking what are our financial objectives and how do we screen out the bad

stuff so for example, excluding investments in arms companies or the tobacco industry.  Access's ambition was to start with mission congruent investments and to fill as much of its portfolio as possible with these, while at the same time meeting its financial goal, to retain the value of its capital over its 10 year life, taking into account the impact of inflation.

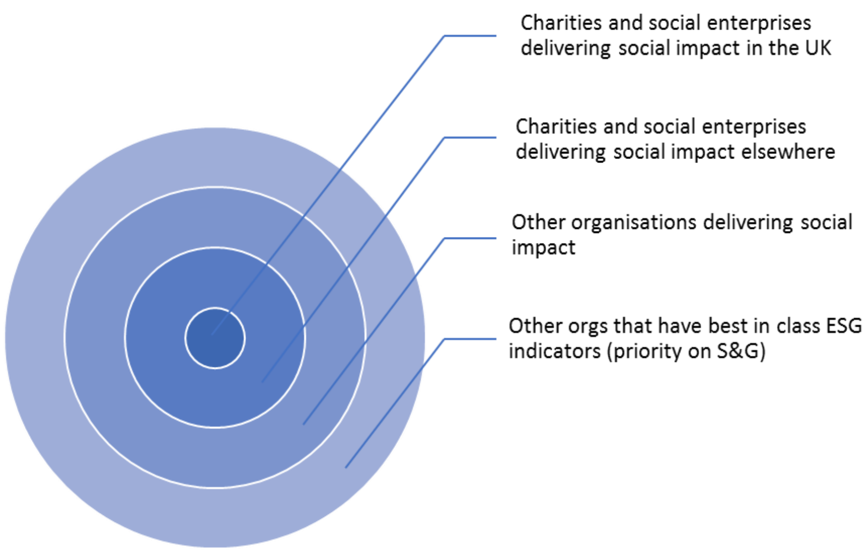
*Key questions*

In the course of formulating its approach, Access had to think through a number of questions

What type of assets to include in the portfolio.
Access began by considering the assets that might be used to construct its portfolio categorising these on a spectrum from those with a purely financial return (and very little social impact) to those with maximum social impact but potentially minimal financial return.

How to define social impact.
It was only once Access had defined the impact it was seeking to achieve that it could start identifying specific investment opportunities. It was careful not to give social impact too narrow a definition. It would otherwise have been in danger of developing a strategy for which few investment products were available.

Access determined that it should use its endowment to improve access to capital for charities and social enterprises. It used a "bull's eye" analogy. Investment products directly on mission hit the bull's eye.   It was aware that suitable products were unlikely to be available to enable it to fully invest in the bull's eye. It therefore proposed consideration of investments in a series of concentric circles, with those furthest from the centre having the least mission impact.



*Establishing the financial need*

Access developed a financial model, taking into account cash flows over the next ten years. This explored portfolio scenarios based on different assumptions around asset allocation and rates of returns. It analysed how the mix of assets would affect both the financial return of the portfolio as well as the financial risk. It also looked at how the grant available for distribution would differ depending on how it chose to invest the money. This process took several months and required significant expertise, particularly in modeling the likely financial impact of choosing different product mixes, but was core to achieving Access's objective. The objective being to define an asset mix within the portfolio that ensured Access had the cash available when it needed it, an acceptable level of risk (both financial and impact) resulting in the desired social impact and financial returns. It called this 'the investment sweet spot'.


*Defining the strategy*

Access decided that its 'investment sweet spot' was best represented by a portfolio that:

- Was predominately fixed income. This would secure the cash flow needed at relatively low risk. It also considered that investing in charity bonds, right in the centre of its bull's eye, presented the best opportunity for social impact. It decided to limit the amount invested in any one charity bond both to spread its risk and to avoid the danger of crowding out other social investors.

- Had a small cash holding to allow for flexibility. Crucially it would try to place deposits in ethical banks investing in charities and social enterprises.

- Excluded traditional listed equity given the need for certain cash flow. It did not want to be in a position where it needed to sell in sub-optimal conditions. It also felt that arguably this investment would deliver the least amount of impact, at best in the outer ring of the bull's eye.

- Had a small proportion of the total invested in suitable private equity because the right opportunity would potentially deliver a high financial return and significant social impact. It determined the maximum it would be willing to invest, assuming the worst case scenario that it lost 100 per cent of the investment.

*Turning the strategy into reality*

Access chose to work with a mainstream asset manager to implement its investment strategy. It did this for two main reasons. Firstly, because, like many foundations, it does not have direct investment expertise in house. Secondly, it wanted to influence the practice of asset managers and to support and enable impact investing to become mainstream by helping to develop investment products which other foundations could use.

Discussions were held with eight asset managers, three of whom were invited to submit a proposal. These three were interviewed by the EWG at the end of February 2016. Access considered a number of criteria in making its decision, but ultimately Rathbones were appointed because they provided the best cultural fit with Access and demonstrated the capability and ambition to make investments in the 'bull's eye' from day one.

With a couple of notable exceptions, Access's experience of engaging with investment managers demonstrated an industry which is behind the curve in developing social investment products. This is despite the fact that investment managers acknowledge the likelihood of growing demand for total impact based approaches in the future.

By the end of the first month of transferring the funds, the portfolio had 20% invested in the bull's eye, and by the end of November 2016 this had risen to 22%. Access and Rathbone's share an ambition to steadily increase this percentage over time as new impact investment opportunities become available.