Social Finance in Northern Ireland: Innovative Thinking and Action

Charity Bank and Ulster Community Investment Trust
Contents

Foreword ................................................................................................................................. 1

1.0 Introduction ......................................................................................................................... 3

2.0 Context ................................................................................................................................ 4

3.0 Demand for Social Finance in Northern Ireland .......................................................... 5
   3.1 Sector Overview ................................................................................................................. 5
   3.2 Consultation and Diagnostic Results .................................................................................. 7
   3.3 Summary Points .................................................................................................................. 8

4.0 Supply of Social Finance ................................................................................................. 9
   4.1 Start Up and Early Stage Finance .................................................................................... 10
   4.2 Established and Growing ................................................................................................ 11
   4.3 Mature and Exit: Equity and Quasi-equity and Bonds ...................................................... 12
   4.4 Non-financial Supply Side interventions ......................................................................... 13

5.0 Conclusions and Recommendations ............................................................................... 15
   5.1 Recommendations ........................................................................................................... 17

List of Tables

Table 3.1 State of the Sector Overview ...................................................................................... 5
Table 4.1 Overview of Social Finance Products ....................................................................... 9
Table 4.2 Charity Bank’s Loan Portfolio by Region, 2002/11 .................................................... 14
Foreword

Social finance has become an increasingly common phrase, intermingled with social investment and social banking, and often used in the same breath as social enterprise. To many it is simply a way of differentiating finance that is used for public or societal benefit from that which is used to facilitate private profit. However, this may be too simplistic a view. We believe that social finance is different because at the heart of its decision-making lies an understanding of the impact that it has on people, planet and the economy. Social finance draws its resources from many sources; some of whom may wish for no financial return but want to see high social and/or environmental impact; others who may want a greater balance between social and financial return, but where the impact their money achieves is important nevertheless. It can recycle funds within the third sector for the third sector.

To understand better the state of social finance in Northern Ireland, two of its leading proponents within Northern Ireland, Charity Bank Northern Ireland and Ulster Community Investment Trust commissioned this study. We are particularly grateful to The Building Change Trust for funding the work under its Deliver Change programme. The report has two annexes, addressing the demand-side and supply-side.

Northern Ireland is different to other parts of the United Kingdom. It has access to two predominant private grant making foundations (The Atlantic Philanthropies and Building Change Trust) as well as other grant makers; it has received significant grant aided support from Europe and the USA; it has a large public sector; and has had a benign banking environment where commercial banks adopted a positive attitude to financing requests from the larger charities and social enterprises. It is little wonder that social finance has not developed at the pace we are beginning to witness in other parts of the UK and the world more widely.

However, nothing stands still. Both Atlantic Philanthropies and Building Change Trust are spend-down grant makers with set closure dates. The grant aided support is no longer as generous and the European Commission has signalled that the next round of European Regional Development Fund (ERDF) and European Social Fund (ESF) will contain social investment elements. The budgetary constraints upon the public sector are beginning to feed through while the particular impact of the economic crisis upon Northern Ireland’s banks is well documented.

But there is also something else at play – a cultural dimension, recognised by the report. This dimension bears out the findings of the National Council for Voluntary Organisations (NCVO) Funding Commission. For the sector as a whole it is apparent that income and expenditure are very closely matched. Where this income is from the public sector, this situation can perpetuate dependency on government funding and make organisations vulnerable to changing policies and priorities. This close equivalence is a reflection of the financial model underpinning much third sector activity. Third sector organisations operate in a strange and contradictory world where the normal rules of business do not apply. In the private sector, businesses charge consumers a price that covers the development and delivery costs, enables the company to invest in future growth and productivity, and rewards the owners and shareholders. In contrast, third sector organisations usually have to secure funding from third parties on the basis of cost, rather than price, which, in turn leads to the provision of under-capitalised services and eventual decline in quality. This can mean that they become preoccupied with sustaining existing activity rather than on their impact and that by not being able to build their capacity, they are less able to innovate or withstand change. Third sector organisations need access to unrestricted capital to maximise their impact and enable them to play a more efficient and effective role in the needs of Northern Ireland. The availability of capital can make an organisation more resilient and give it the capacity to deliver its mission more effectively. Financial capital may be used in a number of ways: as reserves or insurance to give resilience; to acquire fixed assets; and as working or development capital.
Although many of us are used to financial instruments in our business or personal lives, this familiarity is not often brought into the boardroom of a third sector organisation. There is growing evidence, not least from Charity Bank’s work in Yorkshire and the Humber and the development with University of Ulster of the Advanced Diploma in Sustainable Investment for the Third Sector, that organisations and their trustees require support to build their confidence and capability in using a wider spectrum of financial instruments, to be smarter users of money, so that the effect of limited amounts of grant can be maximised. Where commercial finance is available alongside social finance, the latter may seem nominally more expensive because the cost of investment readiness is not cheap and has to be recouped if the social finance provider is to be sustainable itself. Too often, though commercial finance is not available on affordable terms. Government and funders such as Big Lottery can have a significant role to play in enabling capacity building which needs to be bespoke rather than generic. The development needs of age charities may be quite different to those of environmental enterprises. Once that confidence has been built, the sector can help itself. Some charities and community organisations have reserves that can be deposited with social banks to be on lent to peer organisations. Credit unions can work with social finance organisations, as they have with Charity Bank. Others have assets that can be leveraged for the common good.

We need to focus on how we can build the third sector’s confidence to use money more intelligently, matching types of finance to the risks being taken, and making more of a diminishing pot of grant money available for those who really need it. There is an opportunity for innovative thinking and action within Northern Ireland. We hope this report will prompt new thinking and ways of working.

Malcolm Hayday
Chief Executive, Charity Bank Limited

Seamus O’Prey
Chair, Ulster Community Investment Trust

May 2012
1.0 Introduction

Ecorys and Full Circle Finance were appointed by Charity Bank and Ulster Community Investment Trust (UCIT) in June 2011 to undertake a study into social finance supply and demand in Northern Ireland. This study was funded by The Building Change Trust under its 'Deliver Change' programme.

The objectives of this study as set out in the project brief are as follows:

• To review social finance supply and demand in Northern Ireland.

• To explore new developments in the UK, Ireland, elsewhere in Europe and the US.

• To identify gaps in the market, explore potential funding and delivery mechanisms and, based on external experience, provide an estimate of future demand.

• To produce a blueprint report that will guide the development of new social finance products in Northern Ireland.

In undertaking this study, we were supported by an advisory panel, including; Colin Stutt Consulting (specialist input on the Northern Ireland social enterprise sector); Peter Ramsden of Freiss Ltd (specialist input on local economic development); and Dave Kilroy (specialist input on survey analysis).

This summary report builds on the draft report of December 2011, taking on board comments and summarising key findings. A context section sets out some of the key developments and drivers behind the emergence of social finance. Sections on the demand and supply side respectively assess the market as it stands in Northern Ireland, as well as highlighting relevant examples of developments internationally. Finally, conclusions are drawn with a series of specific recommendations for the development of new social finance products in Northern Ireland within an overall development pathway.

This report is supplemented by two annexes reviewing in more detail the demand and supply of social finance in Northern Ireland respectively.
2.0 Context

There are a number of drivers that have led to an increased impetus for social finance developments. The 2009 economic crisis has led to well documented cuts in public sector expenditure, grant funding and interest rates. This has created multiple challenges for many Third Sector Organisations (TSOs) who have experienced reduced revenues from government contracts, grants and bank deposits as well as a reduction in lending by commercial banks. In addition, inflation continues to add increased pressures, but social needs show no signs of abating.

In addition to wider international and EU developments and a 20 year history of largely supply side interventions in the UK, since 2010 in England, the ‘Big Society’, ‘Localism’ and ‘Open Services’ agendas have emerged to further boost developments around social finance. These bring expectations that TSOs will take new opportunities to deliver public services in innovative ways which are accountable to local communities and are focused on outcomes. As delegated policy areas, Northern Ireland Ministers are pursuing their own reform agendas which draw on the English experience.

Against this changing context, social finance is seen as having potential to support a step change in the way the third sector operates, building on developments over the past decades. Put simply, social finance can offer both financial and social returns to investors and new sources of funding for TSOs. It adapts established investment approaches and offers a pay-off between financial return and social impact. Some of the inspiration for developments comes from the United States, where the Community Reinvestment Act has provided a steady stream of investment capital to local communities since 1977, in addition to a strong tradition of philanthropy.

Recent UK policy initiatives have built on wider developments in relation to social enterprise and the emergence of a range of social finance instruments which go beyond the traditional grant and loan sources to equity/quasi-equity and bond-related products. Most recently, the launch of Big Society Capital and their commitment to impact investment has embodied a desire to directly link social welfare outcomes with the development of a more widely accepted new asset class. There also appears to be private sector interest in developments, with the announcement of a new social finance fund by Deutsche Bank and the launch of an ethical exchange (Ethex) to improve liquidity.

Whilst social finance developments are often linked with parallel developments in social enterprise, the focus of this report is the wider third sector which ranges from large charities and housing associations to smaller voluntary and community organisations and more informal groups. Equally, many of these organisations access mainstream finance from high street banks and other lenders and investors and so social finance represents a relatively small subset of the options available to them.
3.0 Demand for Social Finance in Northern Ireland

3.1 Sector Overview

Periodically, NICVA (Northern Ireland Council for Voluntary Action), a key umbrella body for TSOs in Northern Ireland issues 'State of the Sector' reports. The sector in this case is defined widely as being all not-for-profit organisations with the exception of those in religion or sport. Table 3.1 below presents an overview of the sector for 2001, 2005, 2008 and (in part) 2010.

Table 3.1 State of the Sector Overview

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2005</th>
<th>2008</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third Sector Organisations</td>
<td>4,500</td>
<td>4,700</td>
<td>4,836</td>
<td></td>
</tr>
<tr>
<td>Total Paid Workforce</td>
<td>29,168</td>
<td>28,932</td>
<td>26,737</td>
<td>27,773</td>
</tr>
<tr>
<td>Total Volunteers</td>
<td>75,780</td>
<td>87,723</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total income (£ million), including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned income</td>
<td>123</td>
<td>290</td>
<td>430</td>
<td></td>
</tr>
<tr>
<td>Income from Govt</td>
<td>216</td>
<td>259</td>
<td>392</td>
<td></td>
</tr>
<tr>
<td>Income from Europe</td>
<td>58</td>
<td>11</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Income from Lottery</td>
<td>33</td>
<td>29</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Total Expenditure, including:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure on generating funds</td>
<td>11</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>312</td>
<td>280</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>750</td>
<td>756</td>
<td>738</td>
<td></td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>207</td>
<td>193</td>
<td>215</td>
<td></td>
</tr>
<tr>
<td>Net Assets</td>
<td>543</td>
<td>563</td>
<td>523</td>
<td></td>
</tr>
</tbody>
</table>

Source: NICVA State of the Sector Reports

Table 3.1 illustrates a sector accounting for some 4,500-4,800 separate organisations, around 28,000 employees and that attracts some 80,000 volunteers. This is significant in overall economic terms (contributing around 3.5% of regional employment and over 2% of GDP). NICVA also offer more limited information on the financial characteristics of individual organisations, based on a sample of 500 organisations who submitted financial accounts to the survey.

Interpreting NICVA data alongside data on grant-aid funding from government and EU sources, we can make the following observations:

- In broad terms the number of organisations in the sector has been rising steadily.
- There would have been the prospect of growth to around 5,000¹ over the next two years had it not been for spending cuts.
- In employment terms, the sector has provided a relatively steady platform over the past decade, showing small variation around a mean of 28,000 FTEs.

¹ Taking a wider definition, the Charities Commission for Northern Ireland’s (www.charitycommissionni.org.uk) September 2011 list of 'deemed charities' in Northern Ireland totals 6,674.
• The level of volunteer input is considerable and growing giving the sector as a whole (employed and volunteer) a major place in the region’s economy and society, perhaps as much as 8-10% of the active population or 80 - 90,000 volunteers.

• Income, expenditure and assets are all shown as having a value of around £750m respectively for the sector as a whole (data variability means that these estimates need to be treated with caution).

• Other data indicates that about 53% of the sector’s income is derived from Government sources, increasing to 66% when Government, European and Lottery sources are grouped together as public sector sources of funding.

The most recent NICVA report\(^1\) highlights a potential long term trend in a reducing asset base (by value) and increased debt across the third sector in Northern Ireland. Between 2003/04 and 2006/07, the level of assets decreased by 2.4% and liabilities rose by 11.3%. It is very likely that this trend will continue in light of more recent public sector cuts and that larger / well–developed TSOs will increasingly need to achieve leverage from these assets. The concentration of funding in a small number of these large TSOs (70% of funding dominated by 4% of TSOs) means that demand for finance could significantly increase, in particular amongst small and medium sized organisations.

Furthermore, with two thirds of the sector’s income coming from Government grants and the remainder having the public sector as its major client, public sector cuts pose a serious threat going forward. NICVA highlights cuts amounting to £2.2m in Northern Ireland in the six months between April 2011 and October 2011\(^2\), representing an estimated 2% annual reduction. Whilst significant, this is a far less severe cut than for GB and, together with the delay in cuts for devolved administrations, may explain why demand for social finance appears to be lagging developments elsewhere.

There is a hint that Sydney Checkland’s Upas Tree metaphor\(^3\) (applied to the suppressive effect on Glasgow’s small firm culture of its dominant heavy industry base between the wars) might apply in Northern Ireland. It appears that the legacy of a grant-dependency culture may have crowded out a seedbed for social finance and social innovation and has led to suppressed demand.

However, change is underway. NICVA highlights trends towards diversification of funding sources and service delivery as well as increased collaboration which are all set to continue. In addition, one of the key grant funders, The Atlantic Philanthropies is a spend-down foundation due to close in 2018. The flipside of the Upas Tree metaphor is that new types of and demand for social finance may find it easier to manifest. Steps along this pathway are already in train through Charity Bank's Advanced Diploma in Sustainable Investment in the Third Sector, funded by The Building Change Trust and The Atlantic Philanthropies and delivered by the University of Ulster, the Social Enterprise Means Business Masterclass Series, developed by UCIT and the Social Entrepreneur Programme funded by Invest NI.

Linked to these developments is a growing need for the sector to value and articulate more effectively its contribution to meeting social needs in Northern Ireland. This is an increasing pre-requisite for attracting social finance and new contracting models, such as the commitment to introducing Social Impact Bonds in the 2011 DUP NI Assembly Manifesto. Partly this needs to be achieved through a more widespread use of social, economic and environmental impact measurement and reporting techniques, as well as a more proactive and coherent approach to communicating the results.

\(^1\) State of the Sector V, NICVA (Feb 2009)

\(^2\) www.nicva.org/cuts/list accessed October 2011

\(^3\) The Upas Tree: Glasgow 1875-1975: A Study in Growth and Contraction, S G Checkland (1976)
3.2 Consultation and Diagnostic Results

In order to get a more detailed understanding of demand for social finance amongst TSOs, we undertook a series of consultations with stakeholders as well as a sample of diagnostic exercises with selected TSOs. This included some well-known organisations with a robust financial standing developed over many years of trading, with small income and expenditure surpluses and healthy positive cash flow. It also included small scale community-based organisations with very limited assets and no trading history.

It is worth noting the considerable difficulty in getting engagement with organisations in relation to this consultation. This general lack of interest adds to the results of the consultations that did take place in indicating that demand for social finance can currently be described as 'latent', with a low level of awareness and a risk averse attitude prevalent. Larger TSOs are able to use their asset base to access mainstream funding, where there are some strong, historical relationships in place with lenders. Examples such as Bryson Charitable Group, Action Cancer and Cedar Foundation are seen as 'bankable' and have little need for specialist social finance lenders.

For small organisations, the response to spending cuts has been cushioned to a greater extent than the rest of the UK by the continuation of some grant funding. In the absence of a dramatic 'shock' to the system through withdrawal of public funding, TSOs are generally 'struggling on' and absorbing marginal reductions through re-structuring and cost cutting. There was some evidence of demand for social finance from medium sized TSOs (5-20 FTEs) with specific needs around purchase of equipment (for example), which are unable to offer security for loans and so unable to access mainstream funding.

Demand does not yet appear to be driven by increasing commercialisation of the third sector as seen in other parts of the UK. Outcomes-based payments and new commissioning approaches do not yet appear to have had a knock on to demand for example. working capital and bridging loans. There was limited mention of growth opportunities which could require growth/development capital and a low level of awareness of equity/quasi-equity and bond-related products.

The diagnostic exercise highlighted a series of wider needs around; financial management, governance, monitoring, impact reporting and organisational development which could be termed 'investment-readiness' needs as pre-cursors to social finance. It also highlighted a conservative attitude amongst management and Board members whose response to public spending cuts has been largely to retrench, rather than look for new (commercial) opportunities or to sustain their mission.

Overall, our consultations and diagnostics did not identify a significant groundswell of demand for social finance currently in Northern Ireland, although Charity Bank and UCIT have seen some demand. This does not mean that significant need does not exist, just that the drivers and level of awareness are not yet in place. Longer term trends in the decline of the third sector's asset base and increasingly commercial relationship with the public sector are likely to change this in the longer term and in this sense Northern Ireland is in a strong position to learn lessons from elsewhere.

In particular, social finance approaches which combine grants and loans and follow a progression route with integrated support appear to have potential for wider application in Northern Ireland. Examples of grant programmes taking more of an 'investment' approach, with tapered grant being replaced by diversified income streams are outlined in Annex 1 and the supply-side section below. Similarly, there appears to be potential for hybrid products which address the lack of assets in the sector amongst smaller organisations through loan guarantees or quasi-equity approaches.
3.3 Summary Points

In summary, the key demand-side features of social finance in Northern Ireland are:

- A powerful and important legacy of TSOs which has been built up over many years and has been supported by a range of funding sources.
- The legacy of grant funding may have stifled the development of social entrepreneurs and social innovation and achieving cultural change is seen as a long term project.
- The sector has huge variety and has the potential if the right environment is generated to offer a powerful source of social innovation for the challenging times ahead.
- Some of the organisations of the sector are secure, well-managed and well-equipped and already access mainstream funding.
- At the other end of the spectrum there exist a large number of smaller and medium sized organisations from which a proportion can be expected to develop a need for social finance in light of changing economic, social and commercial circumstances.
- A programme of awareness raising, diagnosis and support could play a key role in stimulating demand.
There are a number of ways of presenting the increasingly complex range of social finance products on offer currently in what is a dynamic and fast moving environment. From the framework set out in the UK Government's Vision and Strategy for Growing the Social Investment Market (OCS 2011) to NCVO's recently launched online guide, most products can be summarised in terms of four headings (with an increasing number cutting across at least two categories):

- **Grants**
- **Loans**
- **Equity**
- **Bonds.**

Examples of the types of products under each of these categories is given in Table 4.1 below, with Annex 1 providing more detail on examples within and across each category from outside Northern Ireland; in Great Britain, the Republic of Ireland, Europe and internationally (in particular the United States).

### Table 4.1 Overview of Social Finance Products

<table>
<thead>
<tr>
<th>Category</th>
<th>Type</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Grants</strong></td>
<td>Government grants / grants to loans / grants+</td>
<td>Adventure Capital Fund (UK), BIG Lottery (UK), Tudor Trust (UK), Unltd (UK), Peace Programme (EU), Social Innovation Fund (USA)</td>
</tr>
<tr>
<td></td>
<td>Foundations/Trusts</td>
<td>Esmee Fairbairn Foundation (UK), UnLid (UK), FB Heron Foundation (USA)</td>
</tr>
<tr>
<td></td>
<td>Donor advised funds</td>
<td>Schwab Charitable (USA)</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>Unsecured</td>
<td>Aston Reinvestment Trust (UK), Charity Bank in the North (UK), CDFIs (Key Fund, London Rebuilding Society), UCIT, Clann Credo (RoI),</td>
</tr>
<tr>
<td></td>
<td>Secured</td>
<td>Charity Bank (UK), CAF Bank, Social Enterprise Loan Fund, UCIT, CDFIs, Banca Etica (Italy), mainstream banks</td>
</tr>
<tr>
<td></td>
<td>Bridging Loans</td>
<td>Charity Bank, UCIT, Big Issue Invest, Co-operative Bank, Key Fund</td>
</tr>
<tr>
<td></td>
<td>Stand-by / underwriting</td>
<td>Charity Bank, UCIT, CAF Venturesome, The Social Investment Business</td>
</tr>
<tr>
<td></td>
<td>Pre-funding of fundraising</td>
<td>Charity Bank, UCIT, CAF Venturesome</td>
</tr>
<tr>
<td></td>
<td>Working Capital</td>
<td>Angel Investors, Charity Bank, UCIT, CAF Venturesome, Co-operative and Community Finance</td>
</tr>
<tr>
<td></td>
<td>Patient capital</td>
<td>Acumen Fund, Social Investment Scotland</td>
</tr>
<tr>
<td></td>
<td>Overdraft</td>
<td>Unity Bank, Co-operative Bank</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>Equity</td>
<td>Acumen Fund, Angel Investors, Big Issue Invest, Merism Capital, Triodos Opportunities Fund</td>
</tr>
<tr>
<td></td>
<td>Quasi-equity / revenue participation</td>
<td>Angle Investors, Bridges Ventures, Big Issue Invest, CAF Venturesome,</td>
</tr>
<tr>
<td></td>
<td>Philanthropic Capital</td>
<td>Deutsche Bank Impact Investment Fund, Esmee</td>
</tr>
</tbody>
</table>

---

1. [http://www.knowhownonprofit.org/funding/social-investment-1](http://www.knowhownonprofit.org/funding/social-investment-1)
### Category | Type | Examples
--- | --- | ---
| | Fairbairn, Tudor Trust |
| Venture Philanthropy | CAN Breakthrough, Impetus Trust, Venture Partnership Foundation, Unltd |
| Growth / Development Capital | Bridges Ventures Social Entrepreneurs Fund, Charity Bank, Key Fund, Impetus Trust, Social Investment Business, Unity Trust Bank |

<table>
<thead>
<tr>
<th>Bonds</th>
<th>Social impact bonds</th>
<th>Social Finance (UK)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Payment by results</td>
<td>DWP Innovation Fund (UK), Social Innovation Fund (USA), Mayors Fund to Advance NYC (USA)</td>
</tr>
<tr>
<td></td>
<td>Charitable Bonds</td>
<td>Allia, Investing for Good /Scope, Triodos Bank</td>
</tr>
</tbody>
</table>

The 2011 RBS SE100 Data Report¹ provides a snapshot of investment into 118 UK social enterprises in 2011. The two dominant forms of finance are grants (55% of deals and 16% by value) and loans (28% of deals and 17% by value). Private equity investment deals account for 6 deals and 2.2% by value.

For the Northern Ireland third sector, as outlined in section 3, grant funding continues to be very important from Government sources and independent foundations, whilst secured (property based) loans are well catered for by mainstream lenders. Charity Bank and UCIT are also active in the secured and to a lesser extent unsecured loan market, but there is little evidence of supply in the equity and bonds arena, nor in ‘mezzanine’ or mixed products. These types of products would be new to the Northern Ireland market and may require marketing, education and capacity development.

The following section sets out some of the key stages in a development pathway for TSOs, drawing on a typical SME trajectory, to explore some of the specific supply side developments, issues and potential product gaps in Northern Ireland.

### 4.1 Start Up and Early Stage Finance

Start-up and early stage finance provides a route into social finance and can be used alongside grant aid as a ‘bridge’, so that over time grant aid tapers off as social finance increases. An important component of the start-up and early stage finance offer is an array of non-financial support activities that sit alongside to support organisations as they make the transition. A number of examples of this grant-to-loan approach and linked support activity are highlighted in the box below.

This segment of the market can be expected to feature transactions below £50,000, with amounts nearer to £5,000 common. TSOs would normally seek low rates and soft terms as well as long repayment periods. Social finance in this segment is typically used for a range of activities, including: working capital, building repairs, purchase of equipment or vehicles and project development.

¹ http://www.socialenterpriselive.com/supplements/the-rbs-se100-data-report-2011-0
Selected examples of investment readiness support linked to start-up and early stage finance

Charity Bank in the North operates a £10m programme running from 2006 to 2016, including a £7.5m loan fund for the third sector and is structured around three main elements; Investment Readiness Programme (including one-to one support); Key Fund Yorkshire (providing combined grant and loan funding up to £50,000), and Charity Bank, providing larger amounts of loan and investment funding.

The Communitybuilders Fund was endowed to Adventure Capital Fund (ACF) in March 2011 and is managed by the Social Investment Business. It supports community-led organisations to become more sustainable through a mixture of loans, grants and business support. The Business Development Fund offers an early stage grant of up to £15,000 and five days support. There is also a Managed Workspace Fund providing investments, loans and grants to community enterprises for managed workspace facilities.

Community Share Issues have also become a relatively new form of finance and collaboration between Locality and Co-operatives UK, funded by Office of Civil Society and the Department for Communities and Local Government (DCLG) has funded a number of pilots including the Hudswell Community Pub Limited with 202 community investors investing over £250,000.

In Northern Ireland, the potential gap in the market for early stage / start up finance for TSOs will shortly be at least partly addressed through a new £5m investment fund launched by Invest NI. Whilst primarily a revolving small business loan fund, one of the specific target groups is social enterprise, with 5% of the fund earmarked to support Not in Education, Employment or Training (NEET) and Neighbourhood Renewal Areas (NRA) groups.

The fund will launch in the summer of 2012 and will offer loans of up to £50,000 at 8 - 12% interest. It will link with Invest NI’s parallel social entrepreneurship programme, which is expected to provide referrals. It will also include compulsory support and mentoring and it is expected that loans will be used to lever other forms of finance where appropriate.

This new fund will provide an important test bed for this market segment for TSOs and provide information on actual demand as well as the investment readiness and risk associated with social enterprises (as a subset of TSOs) applying to the fund. It does however leave a potential gap for wider third sector (non social enterprise) organisations who require similar loans.

4.2 Established and Growing

This segment captures a range of loan (and sometimes equity) products between £50,000 and £200,000 which are used for development and growth and are usually secured against property. Uses include property acquisitions, capital equipment purchase, repairs, working capital and bridging loans. TSO activity in this segment in Northern Ireland is currently limited to larger, established ‘bankable’ organisations with well-developed organisational structures and financial management systems who access mainstream finance alongside social finance provided by Community Development Finance Institutions (CDFI) such as Charity Bank and UCIT.

The UCIT Loan Fund has a good reputation and has assisted over 240 community organisations since January 2001. Over £30m of social finance had been provided in areas including; enterprise and workspace projects, training initiatives, energy and environmental initiatives. In parallel, Charity Bank Northern Ireland has made six loans since 2006 to the sector in this segment totalling £1.25m.

However, the supply of social finance in this segment in Northern Ireland is limited by competition from mainstream lenders as well as limited demand as a result of a lack of investable growth opportunities being pursued by TSOs. Interestingly, in parallel to the new start-up fund being launched by Invest NI in
2012 outlined above, a sister growth fund is also being launched offering loans of £50,000-£500,000. However, this is not being targeted at TSOs as they are not seen as having sufficient growth potential to meet eligibility criteria. In this respect, a gap may emerge in this part of the market, should the drivers outlined in the demand section above continue to grow.

Wider examples of mid-sized growth funds are set out below.

Selected examples of established and growing social finance providers

Big Issue Invest’s Social Enterprise Investment Fund (£3m raised, investments between £50,000 and 500,000) in the UK is structured as tailored investment in loans and or equity, potentially as part of blended finance offer. Investment has been in ‘transformational social enterprises’ such as: 4Children, Active Life, Barnardos, SCA Healthcare, Turning Point, the Venture Partnership Foundation and War Child. Its uses include commercial property purchase or renovation, residential property with support services, equipment and other capital expenditure, growth, acquisition and working capital.

Clann Credo Social Investment Fund supports social enterprises, charities and community organisations in the Republic of Ireland by providing accessible loan finance. Between 1996 and 2009, Clann Credo invested €26.4m in social enterprises and projects with loans of up to €500,000 over seven years.

The Social Enterprise Investment Fund (SEIF) is run by the Social Investment Business and supports social enterprises in England to deliver innovative health and social care services and products and become more financially sustainable. Qualifying expenditure includes; property or land purchase; renovations and refurbishments; purchase of vehicles; equipment for delivery of services such as fixtures and fittings; and IT equipment.

4.3 Mature and Exit: Equity and Quasi-equity and Bonds

In this stage of development, organisations have typically undergone some significant growth and so have established a strong asset base and commercial track record which makes them increasingly attractive to lenders and investors. At this point, the organisation may be looking for a significant change in its operating model, including a potential exit for founders or merger which requires a significant injection of funds. Asset-backed investments and property-secured loans are preferred by lenders but may not meet the full range of needs across TSOs.

This means that other forms of capital beyond loan finance can come into play and this segment of the market is the least developed for TSOs, primarily because their status often does not allow traditional equity-type investments and they may already have leveraged loan finance. However, quasi-equity (where future revenues are used) and hybrid products are increasingly being developed in addition to bond-related products which similarly require a level of organisational maturity. These products are also used, albeit usually at a smaller scale at the start-up stage, for example the Bridges Ventures Social Entrepreneurs Fund.

Whilst there is much interest currently in the potential to develop Social Impact Bonds (SIBs), bonds more widely have offered opportunities for TSOs for some time. This is illustrated by the Allia Bond and Investing for Good. Bonds typically offer a fixed return (e.g. 3%) over a fixed period (2 years) and thereby a pay off between risk (lower) and return (relatively long term) which involves some form of attributed social return, typically in terms of an early intervention into a social issue.
SIBs have developed recently and are a form of outcome based / payment by results contract, with the government, in which it commits to pay for improved social outcomes. The first SIB, called the One* SIB was launched in September 2010 at Peterborough Prison. It targets re-offending - if investors achieve a reduction of 7.5% in the re-offending rate over a period of six to eight years, they get their capital back. If they do not reach the target, they get nothing. If they exceed it, they get a yield of 2.5% to 13%. Subsequent SIBs have focused on vulnerable children and rough sleeping although take up by investors appears slow. Additionally, the Department for Work and Pensions (DWP) in England has used the SIB approach to launch an Innovation Fund to support disadvantaged young people.

SIBs may offer an alternative where the service being provided is the best possible solution and that benefits can be proven. However, it should be recognised that SIBs are not likely to be a solution to the funding needs of most TSOs, not least because they are going to be developed by service funders (such as the prisons service) rather than the TSOs themselves.

Currently in Northern Ireland there is very little third sector activity in relation to quasi-equity or bonds, which can also form part of a hybrid approach as illustrated in the box below. This could represent a medium to long term market gap which would need development activity and awareness raising in the meantime. This would relate both to TSOs and social finance and mainstream providers who may need to develop capacity and knowledge around the range of non-secured and blended/flexible options set out in Table 4.1 and as illustrated by some examples in the box below.

<table>
<thead>
<tr>
<th>Selected examples of finance sources for mature and successful organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope, a charity working for people with disabilities, has developed a ‘hybrid philanthropy capital’ model using loans to finance the redevelopment of its physical premises which mixes; a 6% interest bearing loan repayable from cashflow, a 0% loan from donors linked to property value and gift aided donations. It is also developing a £20m bond programme in partnership with Investing for Good, following the similar approach developed by Triodos Bank.</td>
</tr>
<tr>
<td>CAF Venturesome, alongside unsecured loans, can provide equity-like investments of between £25,000 and £250,000 - structured as tailored investments over 3 to 5 years targeting an internal rate of return of 10%.</td>
</tr>
<tr>
<td>The Esmee Fairbairn Foundation Finance Fund is a quasi-equity investment fund which takes a percentage of revenue generated by trading activities as the return on investment.</td>
</tr>
</tbody>
</table>

### 4.4 Non-financial Supply Side Interventions

A common feature across a number of social finance categories and development stages is the important role that advice, guidance and support play in helping to stimulate and maintain the social finance market. There is some evidence to suggest a link between investment readiness support which forms part of the offers outlined in the examples above and the uptake of social finance. An analysis drawn from the Charity Bank loan portfolio is shown in Table 4.2 below. This appears to show a marked increase in both the volume of loans and their cumulative value for Yorkshire and the Humber region since the introduction of Charity Bank's Investment Readiness Programme, funded by Yorkshire Forward.

---

1 Reference is made here, and throughout this section, to ‘A Technical Guide to Developing Social Impact Bonds’, Social Finance, March 2011
### Table 4.2 Charity Bank’s Loan Portfolio by Region, 2002/11

<table>
<thead>
<tr>
<th>Region</th>
<th>Loans 2002/06</th>
<th>Loans 2006/11</th>
<th>Ranking 2006</th>
<th>Ranking 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No, Value</td>
<td>No, Value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South West</td>
<td>41, 2,926,000</td>
<td>10, 1,600,250</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>South East</td>
<td>40, 2,817,000</td>
<td>37, 16,064,000</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>London</td>
<td>26, 2,745</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Scotland</td>
<td>23, 1,542,000</td>
<td>1, 30,000</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>North West</td>
<td>22, 1,738,000</td>
<td>15, 4,259,206</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>East Midlands</td>
<td>16, 803,000</td>
<td>3, 314,000</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Eastern</td>
<td>15, 1,504,000</td>
<td>7, 1,221,000</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Yorks &amp; Number</td>
<td>12, 1,088,000</td>
<td>19, 4,829,500</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>UK Wide</td>
<td>9, 331,000</td>
<td>0, -</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Wales</td>
<td>8, 971,000</td>
<td>8, 2,310,500</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>West Midlands</td>
<td>8, 574,000</td>
<td>6, 1,950,000</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>International</td>
<td>3, 57,000</td>
<td>2, -</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>North East</td>
<td>2, 0, 1</td>
<td>30,000</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>0, 3, 910,000</td>
<td>13</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>225, 14,353,745</td>
<td>112, 33,518,456</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The examples throughout this section highlight the mix of approaches covering awareness raising, grant and one to one support which have been used to stimulate and support access to social finance. The subset of TSOs able to make the transition to sustainable use of social finance may turn out to be relatively small in Northern Ireland. However, there may be longer term benefits of a wider strategy in terms of an improved information base on the profile and needs of the sector as well as changed attitudes.

Examples such as the Adventure Capital Fund have proactively filtered TSOs through a programme of support to a point where 4,000 enquiries resulted in 37 full loan applications. Similarly, UnLtd Advantage is an intensive investment readiness programme dedicated to scaling up high impact social ventures. The programme involves a needs assessment and development of a structured plan of action including; business plan development; financial modelling; governance; strengthening teams, boards and networks; growth strategy; replication strategy; and introduction to appropriate investors.

In Northern Ireland, Charity Bank, with support from The Atlantic Philanthropies, has helped build financial capability in the demand side through an investment readiness programme (Advanced Diploma in Sustainable Investment for the Third Sector), developed with the University of Ulster, ORTUS and CIPFA. This helps address the challenges and opportunities including procurement, managing loan and equity investment, contract pricing and negotiation, risk management and financial planning. Building on these initiatives, there appears to be scope for a much more widely available support mechanism to help TSOs commercialise and develop financial management capacity.
5.0 Conclusions and Recommendations

The third sector is significant in its scale and contribution to Northern Ireland economically and socially, but is relatively under-developed in terms of social finance. The stimulus to develop the market will continue to increase as the longer term effect of public sector cuts and increasing commercialisation of the sector impacts.

In the past, financial sustainability involved adept third sector organisations nimbly shifting from one grant programme, as it ended, to another. In the future, it will increasingly revolve around the ability of the organisation to either win contracts, deliver services or develop their own income streams from leveraging assets. Financial sustainability will be achieved through a combination of these approaches, with grants being the icing on the cake rather than the cake itself.

In response to this, there is potential to increase awareness and capacity-build across the demand side in parallel to drawing on wider developments to help develop the supply side. Within this, we have identified three cross cutting conclusions in relation to capacity building which highlight a way forward for social finance in Northern Ireland.

First, there is a need to improve the measurement of social benefits generated by TSOs. This can also be driven by public sector funders making it clearer what social return they are interested in procuring through grants and service contracts. This is an underpinning culture change which is required to shift the sector away from its ‘soft’ image and prepare itself for the expectations of commissioners (payment by results) and social funders who will want to see explicit social impacts valued and measured robustly.

Second, TSOs in Northern Ireland need to build skills and experience around operating commercially and financial management. There are significant information gaps regarding the financial profile of the sector overall as well as a need within individual TSOs to develop their understanding of surplus / margin generation, balance sheets, reserves, working capital and the need for risk capital for innovation and growth. Intuitively all the players in the sector would claim to be operating this way almost by definition, but would not necessarily currently articulate what they do in a social finance-friendly way.

Addressing these two areas will be a challenging learning process for all stakeholders and will require significant investment and co-ordination. However, we see them as essential building blocks which would also be a driver for innovation. Given the scale of the challenge, both recommendations would require considerable support over the medium term (5 years).

Our third conclusion is therefore that in order to be successful, an identifiable and integrated new platform or ‘space’ would need to be created as a focal point. This would provide a clear marker and resource for change, commercialisation and social innovation around social finance which could cut across the public, private and third sectors.

Debates about how to deal with the rationalisation and re-positioning of the existing stock of publicly-funded organisations will have their own challenging agenda and we see it as important that any new social finance initiative is detached from this. There is some urgency to this given the prospect of further public sector cuts and the momentum being created elsewhere in the UK around social finance.
In addition to an overall need for capacity building and awareness raising we have also highlighted some specific potential gaps in the social finance market in Northern Ireland as follows:

- Development of more blended grant-to-loan products with integrated support to run alongside Invest NI's new start up fund.
- Potential need for a tailored progression route for TSOs making the transition from start-up to unsecured growth / development finance and working capital.
- Development of more flexible 'layered' products for mature TSOs which move away from asset-dependency.

These would address specific gaps as part of the development of a blueprint development pathway in Northern Ireland comprising:

(I) **Pre-Finance**

Development of management and systems capacity for TSOs selected as having an ability to pursue commercial opportunities.

(II) **Patient Capital**

Creation of a small-scale revolving loan fund with targeted at start-ups with favourable entry terms and a finance escalator over a number of levels with longer term (e.g. 3 - 5 years) repayment terms.

(III) **Consolidation and Mutual Credit**

Achieving scale and resilience by drawing TSOs together to link investments and pool risk as part of a portfolio approach (i.e. offer a brokered 'package' of investments, potentially on a thematic basis) and as a prior step toward sector consolidation and scaling up.

(IV) **Development Loan Finance**

A portfolio of larger scale stepped and sequenced loans (revenue and capital) to fund development once a TSO is established and can accommodate more commercial lending terms. This would not typically be used for sustaining existing projects unless these can be placed on a revenue footing by a shift from grant to contract revenue.

(V) **Equity and Quasi-Equity Products**

Equity taken in enterprises generating social impact (for those whose legal form makes this feasible) or quasi-equity / bond vehicles which take advantage of developments of models in other markets.
5.1 Recommendations

Building on these conclusions, we offer the following practical recommendations going forward for the development of social finance in Northern Ireland.

1) Building Financial and Commercial Capability in the Third Sector

Provide introductory financial management, commercialisation and investment readiness training and support for smaller scale TSOs. Develop a ‘social finance pathway’ to segment development stages and products within an integrated approach.

2) Focus on Funding Outcomes and Impact

Promote awareness and use of social impact measurement tools across Third Sector Organisations to include valuing volunteering, supporting funders and working with commissioners to focus on impact through promoting social impact measurement tools. There will be some useful learning from the recent introduction of the Social Value Bill in England and Wales.

3) Deliver a Sustainable Sector with Strong Financial and Social Balance Sheets

Develop hybrid products which include an element of transitional grant funding and incorporate service delivery models as well as quasi-equity approaches for both entry level and mature TSOs. This could also include a mix of investment readiness approaches whereby the process of matching organisations to opportunity could operate like a diagnostic filter. Ideally instigated and operated by the TSO itself (therefore demand led), but accompanied by information and access to the necessary expertise and support.

4) Support Innovation and Growth by Sharing and Learning

Improvement to the information base for the financial profile of TSOs in Northern Ireland, including an element of needs assessment. It would also provide a dedicated social finance platform for stakeholders to come together and deliver capacity building at a community level. Northern Ireland is in a unique situation, with access to philanthropic capital in a way that GB regions do not and a relatively under-developed social finance sector. There is an opportunity to stimulate a demand-led approach through raising awareness and a more strategic and holistic approach to investment readiness and support.
Ecorys UK Ltd
Vincent House
Quay Place
92-93 Edward Street
Birmingham
B1 2RA
Tel: 0845 313 7455
www.uk.ecorys.com

UCIT
13-19 Linenhall Street
Belfast
BT2 8AA
Tel: 028 9031 5003
www.ucittld.com

The Charity Bank Ltd
Community House
Albert Street
Belfast
BT12 4HQ
Tel: 02890 244179
www.charitybank.org