Mixing it up:
Combining grants and debt to make social investment accessible

Ed Anderton *(www.access-si.org.uk)*

This article describes how Access: the Foundation for Social Investment is approaching the challenge of supporting social organisations to take on repayable finance, and their place on the 'philanthropic spectrum'.

Our creation is further evidence of the growing momentum for social investment in the UK. Created with the backing of Big Society Capital, Big Lottery Fund and the Cabinet Office, our team is charged with delivering a £100m-plus programme, over the next 10 years, to make social investment work for smaller and earlier stage social organisations.

The social investment that Access seeks to facilitate (working via intermediaries) is an unsecured loan, typically of around £40–70K, given to a charity or social enterprise (which will most often be taking on debt for the first time). Taking on that investment enables that organisation to grow and become more resilient by generating more revenue, or more diverse income streams resulting in greater social impact. Crucially, more of this income will be (that magic word) 'unrestricted': theirs to use as they see fit to support their social mission. And that flexibility also makes these organisations more resilient.

Underlying this objective is an acknowledgement that current income sources – grants and public sector contracts in particular – are becoming increasingly difficult to secure. They also, potentially, come with strings attached, which tend to pull organisations in different directions, putting at risk their focus on their core purpose.

We too are a grant funder, having been founded with a £22.5m grant from the Big Lottery Fund, and a £60m endowment from the Cabinet Office: they underwrite our 'Growth Fund' and 'Capacity Building' programmes, which are what we were created to deliver. We are, of course, unusual in that we are using this grant money to support charities and social enterprises to take on social investment. Importantly, the latter is in no way a substitute for the former: repayable finance is not a viable option for organisations who have falling revenues or exhausted their sources of grant income.

The social investment that Access seeks to facilitate (working via intermediaries) is an unsecured loan, typically of around £40–70K, given to a charity or social enterprise (which will most often be taking on debt for the first time).

It will, however, be appropriate for organisations seeking to develop new revenues, grow an existing income stream or looking to sustain their current operating model that is established and secure. The range of organisations in such situations is wide, with many different potential types of social investment available to supporting them, individually and as groups. Access has been given the task of providing the means to test some of these types of financing, and share what we learn as we go.

The Growth Fund will establish 15–20 loan funds, run by a variety of organisations, providing loans up to a maximum of £150K: these deals will combine debt provided by Big Society Capital with our grant funds from the Big Lottery Fund, although some deals may not include a grant component. For those that do, the maximum ratio permitted will be 50:50. The grant can be used for three purposes:

- To contribute to the fund manager's operating costs
- To blend with the debt to cover losses in the fund
- To be passed on as a grant to an investee organisation.

Ed Anderton

At the time of writing we have completed three Growth Fund deals – the Health and Wellbeing Challenge Fund (Resonance), The Northern Impact Fund (Keyfund) and 'Invest for Impact' (First Ark) – and look forward to announcing further deals in the coming months.

Alongside this, the £60m endowment will be spent down over the next 10 years, on grant-funded programmes to provide capacity building for charities and social enterprises who are seriously considering taking on repayable finance (again, typically for the first time). Between July and December 2015, we ran an open consultation with the sector, to inform our strategy: you can read a summary of our findings on our website here. These findings emphasise (among other things) the importance of engaging with existing communities of interest and practice, facilitating the growth of networks, and encouraging a culture of learning and iterative improvements within organisations.

We are pleased to be able to point to two major programmes we have launched, which have been informed by this consultation process: the Reach Fund, an investment-readiness grants programme, and the Impact Management programme, focussed on improving support, practice and consistency across the social sector. A third programme – the Infrastructure Investments Fund – will be opening up in early 2017.

We believe that the use of grant money across our two programmes to help stimulate social investment, especially at this relatively small scale, is essential but not a panacea. It does, of course, come with risks and inherent tension. Learning which methods of providing subsidy are the most effective, so that the precious grant is having the greatest impact, is a key aim of our work.

Across the Growth Fund, subsidy operates in three different ways to tackle three specific problems:

a) At the level of fund managers, subsidising operating costs allows them to manage the process of making and monitoring many small loans. However, it obviously means that funds are not used at the front line and may not always encourage new approaches to loan making.

b) In the fund, subsidy allows for the fund to incur significant losses while still repaying the debt, encouraging the lender to take risk and back organisations with potential but who are unproven. For charities and social enterprises seeking to borrow these relatively small amounts of money, there is a lack of evidence about how risky those loans are and what levels of default should be expected. Therefore, we hope to generate a significant new evidence base which will allow for more similar funds to be created in the future. The risk of using subsidy in this way is one of market distortion; however, at the present time it would be reasonable to argue that there is not a functioning market to distort.

c) In the deal, subsidy in the form of a grant sitting alongside the loan helps the charity or social enterprise to more readily afford the loan, and de-risks the total investment for them. However, the organisation should not see this grant as normal income but rather part of the capital investment to help grow. It should also be distinct from any grant received earlier in their investment journey as part of the capacity-building programme.

Our capacity-building programme provides a fourth form of subsidy, allowing organisations to pay for the development work needed to get to the point of taking

on a loan. This is a widely recognised need and meeting it was one of the core reasons for Access being set up.

Together, these two programmes are designed to test, from a number of different angles, how grant funding can be combined with repayable finance in order to 'open up' social investment for a wide range of social organisations. Indeed, a crucial aspect of 'getting it right' for us and our delivery partners will be to quickly and accurately identify an organisation's potential for successfully using repayable finance to increase its social impact.

Together, these two programmes are designed to test, from a number of different angles, how grant funding can be combined with repayable finance in order to 'open up' social investment for a wide range of social organisations.

Our interest is in those business models which can generate both financial and social value. This does not invalidate models of grant-funding and donations when they are the most appropriate choice for making social impact. However, we are tasked to contribute to the sector's understanding of itself by providing rich evidence for the value created through blended finance. The 'social investment spectrum' includes grants and donations, blended finance, loan finance through to social/impact or equity-like investment. Any of which may be directly or indirectly subsidised by grant-funded programmes, such as the Big Potential.

On this spectrum, our aim is to be a bridge between the constraints and unpredictability of grant-funding and the resilience and independence organisations can win for themselves through diversifying and generating their own income. For some, there may be a happy and stable medium, in which they combine thoughtful grant-application and fundraising alongside trading and managing an asset like a community building: for others, there may be a natural progression towards growth and operating at scale. The challenge for the latter may be to retain (and be seen to retain) the values upon which they were founded, as they inevitably take on some of the characteristics of purely commercial organisations.

For this reason and many others, we must also have an eye to the implications of our work for the private sector. Already there is a clear trend towards commercial organisations seeking to understand and implement 'social practices', driven by market opportunity, consumer demand or personal commitment. From Fairtrade through to B-Corps, social practice can, and has, become mainstream. As we seek to support social organisations to better understand and articulate their impact, the commercial world will be, increasingly, finding reason to do the same. If played astutely, this in itself represents a huge growth opportunity for our sector.

Both the challenges and opportunities before us – Access, and those organisations we wish to support – are considerable. Having been founded to exist for 10 years and no more, our work is usefully constrained: in order to fulfil our purpose we must operate through others, and seek at every turn to make ourselves dispensable. Success, ultimately, will consist in working through how this bridge needs to be constructed, and demonstrating how others – funders, investors, government, delivery organisations – can continue to be bridge-builders long after Access has ceased to exist.

Ed Anderton *joined Access in July 2015 as the Strategy and Policy Manager. His primary focus was managing an open consultation for its capacity building programme, alongside setting up systems and reporting processes.*

Prior to joining Access, Ed spent three years at Nominet Trust, the UK's leading #techforgood funder, where he led their involvement in the 360giving open data initiative, developed systems for their Triple Helix impact reporting process, and was principal researcher for the Nominet Trust 100. He began his career working in performing arts education, which led circuitously into community development, education consultancy, conflict resolution (mediation and training), and a stint in Whitehall (BIS) working on improving the regulation of the social sector.