Growth Fund Evaluation

Update Report 1: Delivery so far

James Ronicle, Rachel Wooldridge, Edward Hickman, Sam Isaac, and Matthew Cutmore

April 2019

ECORYS 90 Years Answering tomorrow's challenges today

ATQ Consultants

COMMUNITY FUND

ACCESS The Foundation for Social Investment

BIG SOCIETY CAPITAL

Foreword

This report is the first in a series that will be developed by the evaluation over the lifetime of the Growth Fund. There is much yet to learn and The National Lottery Community Fund has invested in this longitudinal study out of a recognition that the Growth Fund is breaking important new ground.

This report shows that this can be a more nuanced process than we all may have envisaged in the enthusiastic heat of designing a pathfinding collaborative programme. But a head of steam is now beginning to build and it is a significant success that by the time of publication, 14 delivery partners had been appointed as the Fund's social investors and are now providing unsecured lending.

Several of these are new to operating as lenders but bring deep insight into the Voluntary, Community and Social Enterprise sector that come from their relationships with it as grant makers, umbrella bodies, sectoral pathfinders and specialists in their field.

Some are also established social investors, whose experience has been much appreciated by newer peers and the Programme Partners in the reflective discussions that Access bring us all together around, in order to learn about this ground we are all breaking together to increase reach to VCSEs who need more accessible finance to build their impact.

The programme's Theory of Change continues to be a live document to support our path-finding learning. It is continuously being informed by what we learn from the 'praxis' of change – the real experience of all the programme's stakeholders as it unfolds. We are setting out to test assumptions, and discovering important lessons for the future.

In particular, we are learning about the importance of the functional-design and quality of relationships at all levels of the programme's architecture – from what's helpful at the programme management level to the investee/investor level. And we are also identifying important lessons about how the programmes' relationships with other social business support initiatives and wider sector dynamics will bear on its success.

The provision of accessible social investment is an important ingredient for VCSEs who need a loan to bring in the new revenue through enterprising activity that will build their way to greater impact and resilience. But it is part of a recipe involving other ingredients which together make a unique 'bake' for each VCSE, according to their goals, operating context and access to support. Together with Access and its wider work, Big Society Capital and the programme stakeholders, this evaluation will help ensure that lessons from investees' experience of the Growth Fund makes unsecured lending the most helpful ingredient it can be for VCSEs into the future.

James Harcourt, Director of England Grant-making, National Lottery Community Fund

Contents

Executive Summary

In 2015 The National Lottery Community Fund[1], Big Society Capital (BSC) and Access (all three organisations collectively known as the Programme Partnership) launched the Growth Fund, with the aim of addressing specific gaps in the social investment market in England. In 2016, the Programme Partnership commissioned Ecorys and ATQ Consultants to evaluate the programme. This report is part of the first set of Update Reports, and reports on the delivery of the programme so far. The other report in this first set of Update Reports focuses on learning from the set-up of the Growth Fund programme.

The Growth Fund and the evaluation

The Growth Fund

The Growth Fund was launched in 2015 with the aim of addressing specific gaps in the social investment market in England. In particular, the Growth Fund was established to increase the availability of relatively small amounts (<£150k) of unsecured[2] or small but higher risk finance for voluntary, community and social enterprise sector organisations (VCSEs). The Growth Fund has a unique structure of blended finance, which combines grant[3] funding and loan[4] funding in a total pot worth at least £45 million. The Growth Fund makes investments of both loans and grants into funds run by social investors who then provide loans and grants to VCSEs. The social investors can use the grant supplied by the Growth Fund to support their operations in three ways:

- **Grant A:** Social investors use this grant to cover some of the operating costs that arise from running the fund before the investor has sufficient revenue from VCSE loan fees and interest[5] to meet its costs
- **Grant B:** Social investors use this grant as ‘first loss capital’[6] to cover expected defaults from the VCSEs and reduce the risk of return and capital[7] loss of the debt providers
- **Grant C:** Social investors can choose to pass this grant onto their VCSE clients alongside a loan.

The management of the Growth Fund is led by Access, with operational support from BSC and The National Lottery Community Fund. The Growth Fund is governed by a Joint Investment Committee (JIC), which is comprised of stakeholders from BSC, The National Lottery Community Fund and Access.

At the time of writing (November 2018) 14 funds were live, with two agreed but not yet live.

[1] Formerly the Big Lottery Fund.
[2] Unsecured loan: a loan that does not take security over an organisation’s assets. Because the risk for the lender is greater, interest rates are usually higher than for secured loans. The Good Finance glossary has been used to provide definitions in this report.
[3] Grant: a conditional or unconditional gift of money with no expectation of repayment.
[4] Loan: a sum of money which is borrowed and has to be paid back, usually with interest.
[5] Interest: fee paid by a borrower (in this case VCSE) to a lender (in this case social investor) to pay for the use of borrowed money. When money is borrowed, interest is typically paid to the lender as a percentage of the amount owed. Interest usually accrues on a daily basis but is charged less frequently, e.g. monthly, quarterly or annually.
[6] First loss**:** it is possible to have different tiers of investors so that one set of investors accepts that, in the event that the investee suffers financial difficulties, it will lose the money it invested before any of the other investors lose any money. This investor will bear the ‘first loss’. In this specific instance, this grant is used to cover the first set of losses, before the social investor has to bear the cost itself of losses.
[7] Capital: capital usually refers to financial capital or money and in particular the amount of cash and other assets held by an organisation.

The Growth Fund evaluation

The National Lottery Community Fund commissioned Ecorys UK, in partnership with ATQ Consultants, to undertake the evaluation of the Growth Fund. The evaluation runs until 2022 and aims to assess and track the effectiveness of the Growth Fund in enabling a wider group of VCSEs to successfully access social investment, become more resilient and deliver greater social impact[8]. It aims to capture evidence on process and impact, by investigating four key areas:

- The most effective approaches to the use of subsidy in building the market of small-scale unsecured or higher risk loans and the provision of grants and loans to VCSEs
- The impact of the Growth Fund on how social investors provide social investment to VCSEs – with and after subsidy – and how other funders and lenders outside of Growth Fund have been influenced
- The impact of the Growth Fund on the understanding and take-up of social investment amongst VCSEs
- The extent to which greater take-up of social investment leads to greater financial resilience and social impact.

There are two key strands of research activities:

- VCSE research, comprising:
  - 20 longitudinal case studies with a selection of the VCSEs supported
  - Analysis of Management Information (MI) data including data from the investors' quarterly reports and annual social impact returns
  - Survey of all VCSEs
  - Consultations with 10 unsuccessful VCSE applicants

- Social investor and programme management research, comprising:
  - Annual one-to-one consultations with social investors
  - Consultations with unsuccessful social investors
  - Annual consultations with members of the Programme Partnership.

This report draws on the following research:

- Semi-structured interviews with 11 social investors
- Case studies at the baseline stage with three VCSEs
- Semi-structured interviews with the Programme Partnership
- Analysis of quarterly data returns containing information on 277 VCSE applications.

This report covers early qualitative evidence on the most effective approach to providing small-scale loans and grants to VCSEs, from the perspectives of social investors and VCSEs. It is generally too soon to comment on:

- the performance of the funds; and
- the extent to which a greater take-up of social investment leads to greater financial resilience and social impact amongst VCSEs.

[8] Social impact: There is no one definition of the term or concept, but the social impact can be defined as the effect on people that happens as a result of an action or inaction, activity, project, programme or policy. The 'impact' can be positive or negative and can be intended or unintended, or a combination of all of these.

Lending activity completed to date

- The deployment of Growth Fund loans up to September 2018 painted a mixed picture . Deployment was 10% behind original projections, but the loans/grants that had been deployed to date were reaching the areas the Programme Partnership intended to reach.

Analysis of the Growth Fund MI revealed three main findings:

Finding 1: Deployment is 10% behind original projections: Social investors had deployed almost £11m of investment to 166 VCSEs. This was 10% behind original projections. The qualitative research suggests this was due to a combination of:

- it taking longer than expected for social investors to deploy loans/grants to VCSEs, due to the challenges in finding suitable deals, and the time it was taking for these deals to finalise; and
- smaller than anticipated loan and grant sizes, meaning social investors had to deploy a larger number of loans/grants to reach their projections.

Finding 2: Growth Fund is reaching the areas it intended to: By this we mean Growth Fund is:

- *Targeting the intended types of audiences:* Over half (61%) of VCSEs accessing Growth Fund finance are micro-business and the median turnover is £250k. This compares favourably with the wider social investment sector, where VCSEs accessing loans are more likely to have an annual turnover of around £1 million or greater
- *Offering the intended size of loans and grants to VCSEs:* The median size of the loan/grant package in Growth Fund was £50k, compared to £125k in the wider social investment sector
- *Providing loans and grants for the intended reasons:* Growth Fund is support VCSEs wishing to grow, and the most common purpose (33% of VCSEs) for accessing Growth Fund finance was to scale up an existing activity.

Finding 3: The funds are, so far, performing well financially: The vast majority of loans (94%) were not considered at risk, with 6% of loans being at risk (10 VCSEs). The qualitative evidence indicated that the loan repayments were generally manageable for VCSEs. However, given the early stage of the programme, it is too early to comment fully on the financial performance of the loans.

Running funds: Progress and lessons learnt at the social investor level

Experiences of deployment

Social investors reported a range of experiences in deploying Growth Fund monies. As might be expected, the more experienced and established social investors have had the greatest success; less experienced social investors and those who are more geographical- or thematic-bound were facing difficulties in deploying loans and grants.

That said, across the whole piece, a key learning for social investors has been that pipeline development activities must be a priority area of focus – even for social investors with a broad set of relationships with their target VCSE audience (whilst also maintaining a focus on managing repayments of deployed loans).

The main reason social investors were behind their original projections was because they over-estimated how 'investment ready'[9] VCSEs were; it was taking more activity than anticipated to market the funds and encourage applicants, and it was taking longer than expected to work with VCSEs to ensure they were ready to take on investment.

These observations also show how important it is to offer help to VCSEs contemplating loans, such as via the Reach Fund, pre- and post-deal, and to support investors' readiness to make deals that they think VCSEs will be in a position to manage well. It is also noteworthy that such support is needed in addition to social investors' own support offer; their business models are typically geared to provide intensive support too, such as from Investment Managers, Impact Managers and Investment Committee members, and so have a relatively high unit cost in-built.

The VCSE experience

Experiences of the loan/grant application process have generally been positive so far. VCSEs valued the simplicity of the process, building up a strong relationship with the investor and having an honest and open dialogue.

Through the application process itself, VCSEs have benefitted from learning about building a solid business plan and being able to evidence demand for the service.

So far, VCSEs have most commonly used their social investment to scale-up their existing services and pursue new revenue streams. This has been done by:

- building up infrastructure;
- using the investment as working capital[10]; and
- diversifying their activity.

In the case studies there were examples where these activities had contributed to financial growth (with increases in year-on-year turnover), but this does not necessarily equate to financial resilience. Instead, rather than focusing just on increased turnover, VSCEs defined 'financial resilience' in relation to their

[9] Investment readiness: an organisation having the systems, processes and business model to be able to attract investment.
[10] Working capital: finance used to manage the timing differences between spending money and receiving it (income and expenditure).

financial independence (from grant funders), how diversified their income was, how stable jobs were, and where they were in relation to their business forecast.

Data available on 31 VCSEs suggests that there has been an average (median) increase in turnover of 5.8% (£61,020) after taking on the loan/grant. However, recognising the small sample sizes this should be treated with caution.

There is a small amount of evidence to suggest some VCSEs are becoming more financially resilient, as their main sources of income has moved from contracts and grants to trading activities. There were mixed views on how the investments had impacted on financial resilience from the case study research. For some VCSEs it might be too soon to say; only one of the three VCSE case studies reported feeling more financially resilient since receiving social investment.

To date there is limited social impact data at the programme level. However, case study research suggests that VCSEs have achieved social impact in several ways so far as a consequence of taking on the social investment:

- Increasing the number of beneficiaries supported
- Improved quality of support
- Increased range of support
- Being able to maintain a service to beneficiaries.

Conclusions, lessons learnt and recommendations

As one stakeholder commented, Growth Fund is "*doing what it said on the tin".* The findings reported in the first set of Update Reports suggest that it has encouraged new lending activity in an area of the social investment market where demand was not met. The three case-study VCSEs looked at so far have had a positive experience. Many stakeholders are excited about what the Growth Fund will achieve. This is a very positive achievement.

This 'headline' achievement, however, masks many challenges. The Growth Fund is a complex and innovative programme and at times it has been difficult to implement. The social investors that are new to social investment have struggled with deploying loans, and their activity is below original projections. A lot of lessons have been learnt along the way, and these have been captured in this report and summarised in Table 1 below. What is unclear at the moment is whether these challenges are fundamental issues and miscalculations around the on-going level of demand for social investment and the speed with which it can be converted into viable deals, or whether they are early-stage teething issues that can be resolved with commitment and hard work.

Notwithstanding these difficulties, all of the established and newer social investors are themselves 'sold' on the concept of building the market through both blending grant with loans for investors' operations, and grant with loan for VCSEs. They are keen to make it work both for their clients and the social impact that they deliver, as well as for themselves

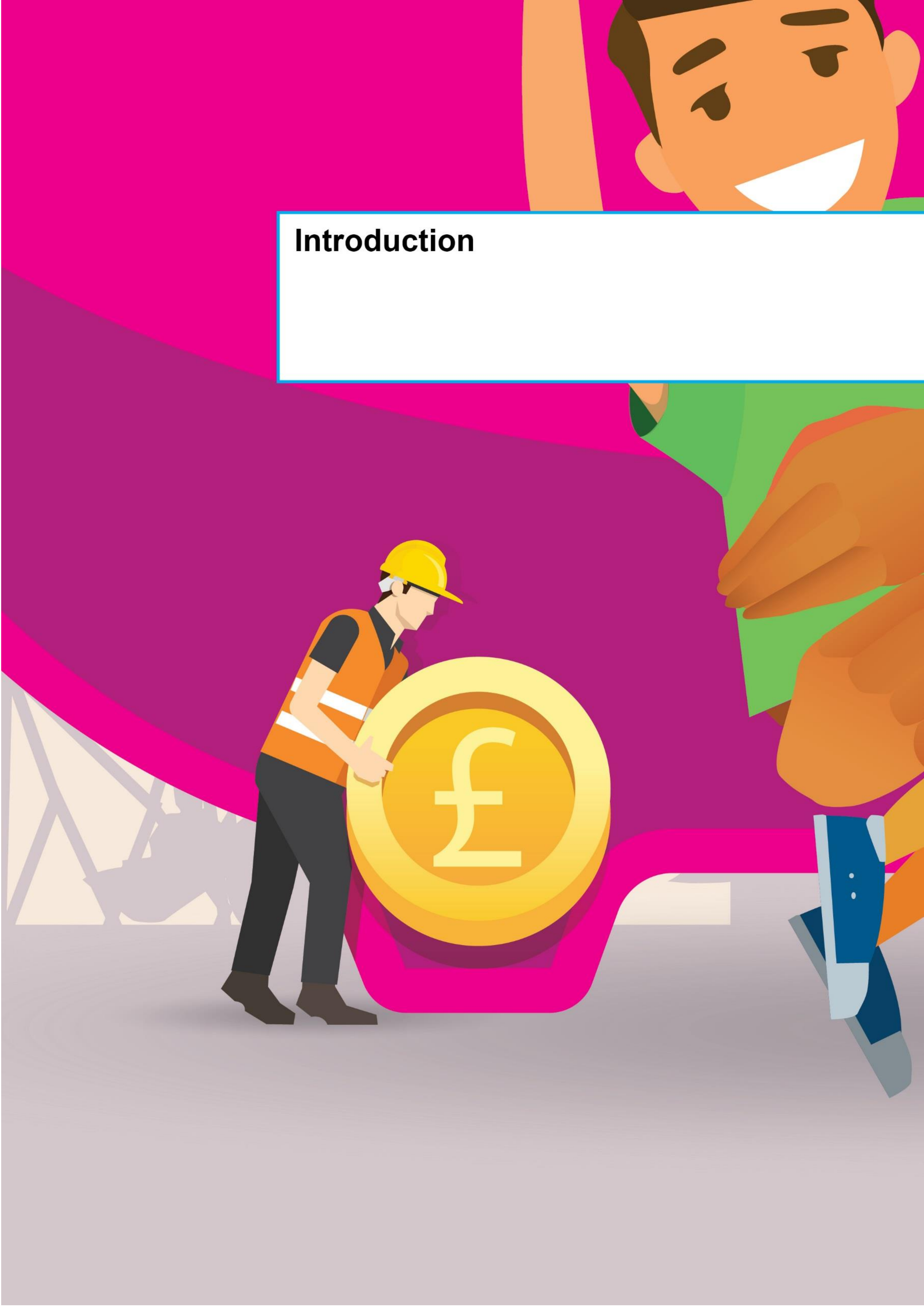
The next 18 months, as these challenges are worked through, will be a major test for the Growth Fund.

These challenges, and the things that were designed into the programme which have worked well, have generated points to note, as detailed below:

Table 1: Lessons learnt

For social investors providing social investment
1. Launch through as wide a target-audience network and through providers of professional services to VCSEs as possible.
2. Maintain a continuous level of marketing ‘noise’ e.g. case studies to build confidence and appetite.
3. Present at networking events / meetings rather than just sending leaflets.
4. Review social media options.
5. The capacity and capability support offer is an important potential hook for engaging VCSEs – but could benefit from more systematic liaison.
6. Word of mouth is a critical route for referrals.
7. Having an open and honest dialogue with an investor, where VCSEs feel free to ask questions so they can receive valuable feedback, is conducive for a positive application experience.
For VCSEs accessing social investment
1. Have a clear and concise business plan.
2. Ensure that the demand for the service is well known and evidenced.
3. Do not be afraid of asking a social investor questions.

Introduction



1.1 The Growth Fund

In 2015 The National Lottery Community Fund[11], Big Society Capital and Access (collectively known as the Programme Partnership) launched the Growth Fund, with the aim of addressing specific gaps in the social investment market in England. In 2016, the Programme Partnership commissioned Ecorys and ATQ Consultants to evaluate the programme. This Update Report 1 is the first evaluation report, and reports on the set-up and early stages of the programme.

This chapter provides more information on the Growth Fund, the evaluation, and the focus of this report.

1.1.1 Background and aims of the Growth Fund

The Growth Fund was launched in 2015, with the aim of addressing specific gaps in the social investment market in England. In particular, the Growth Fund was established to increase the availability of relatively small amounts (<£150k) of finance for voluntary, community and social enterprise sector organisations (VCSEs). It was aimed at VCSES in their early stages of growth or to those looking to sustain their activity, as well as to organisations whose risk profile or trading history would normally exclude them from both the social investment as well as commercial loan market.

The Growth Fund is facilitated by an innovative partnership between The National Lottery Community Fund, Big Society Capital and Access. These organisations are summarised below:

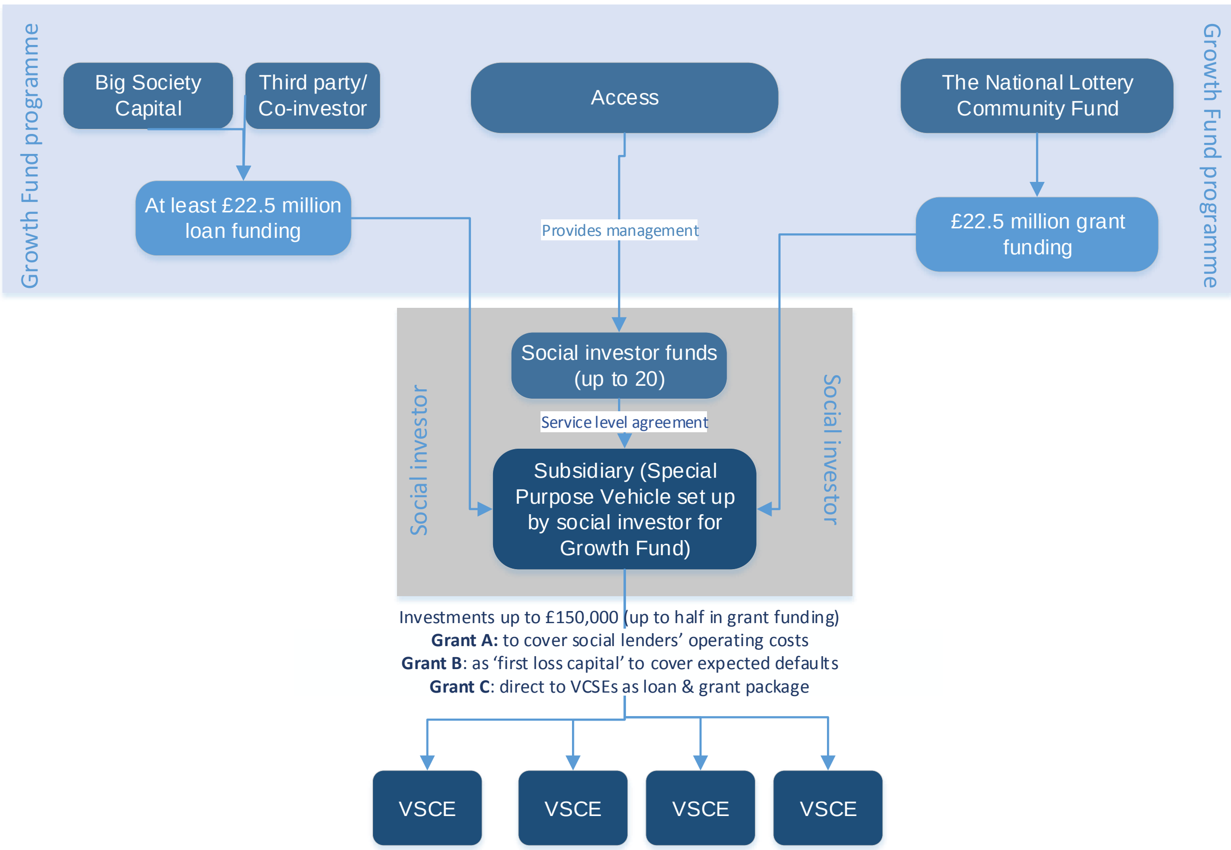
- The National Lottery Community Fund is a non-departmental public body that operates across the UK. The organisation's mission is 'helping communities and people most in need', and its vision is that people should be in the lead in improving their lives.
- Big Society Capital has played a leading role in the development of the social investment market in the UK. It aims to improve lives in the UK by connecting social investment to charities and social enterprises. It does this by engaging with investors, fund managers, charities and social enterprises to make it easier to use social investment, and by making investments into intermediaries, who in turn invest in charities and social enterprises.
- Access was established to help charities and social enterprises in England to be more financially resilient and self-reliant, so that they can sustain or increase their impact. It does this by supporting the development of enterprise activity so VCSEs can grow and diversify their income and by improving access to the social investment, which can help stimulate that enterprise activity.

[11] Formerly The Big Lottery Fund.

1.1.2 The structure of the Growth Fund

To enable finance to be available in a form that is affordable for both those providing and receiving it, the Growth Fund has a unique structure of blended finance, which combines grant funding and loan funding in a total pot worth at least £45 million. **Figure 1.1** provides an overview of the structure of the Growth Fund. The National Lottery Community Fund provides grant funding of £22.5 million, and Big Society Capital provides loan funding of at least £22.5 million. Third party investors (or co-investors[12]) are encouraged to invest alongside the grant, and in some cases this may be in lieu of Big Society Capital investment, and in other cases, it may be alongside it. The management of the Growth Fund is led by Access, with operational support from BSC and The National Lottery Community Fund. Investments of both loans and grants are made into funds run by social investors, who then make loans and blended loan/grant packages into VCSEs. The social investors have to repay the loan to BSC, including with 5% interest. The rationale for this interest rate was to demonstrate sustainability and attractiveness for other investors of loan funds providing small scale finance to VCSEs.

Figure 1.1: Structure of the Growth Fund



[12] Co-investment: investment in a project or fund alongside and often on the same terms as other investors.

To ensure that the Growth Fund had a diverse portfolio, social investors were selected partly on the basis of whether their offer aligned with at least one of the following three market development themes:

- **Efficiency** If the funds meet current demand from VCSEs for smaller, unsecured loans/grants in an efficient way.
- **New Approaches** If the funds offer creative and relevant new products or new ways of delivering social investment to the sector.
- **Reach** If the funds offer social investment and make it relevant for VCSEs who have not benefitted previously.[13]

Reflecting the fact that the Funds have varied activities and remits, some social investors have been classified by more than one of these themes. For example, a fund may be classified as offering both 'New Approach' and 'Reach' because it is offering a new type of product, to a group of charities or VCSEs that have not been able to benefit from social investment in the past.

At the time of writing (November 2018) 14 funds were live with two agreed but not yet live. **Table 1.1** provides details on the funds, including their name, total loan and grant amount (including split between Grants A, B and C, see Growth Fund grant uses) and details of any co-investors.

[13] Access: The Foundation for Social Investment. 2016. The Growth Fund – An Introduction. Available from: https://access-socialinvestment.org.uk/wp-content/uploads/2016/07/Growth-Fund-guidance-basics-v3.pdf

Table 1.1: Live social investor funds

Name of social investor and fund	Name of fund	Remit	Fund Established Date	Approved Total Fund Size	Grant A: Operating cost subsidy	Grant B: Grant for Loans to VCSE	Grant C: Grant passed on as grant	Approved Access total	Approved: Loan component from BSC	Approved: Co-Investment
Key Fund	Northern Impact Fund	North of England and Midlands regions with a thematic focus on newer ventures or business activities and first time users of social investment financing	19/09/2016	£5,359,489	£200,000	£1,358,589	£1,104,000	£2,662,589	£2,696,900	
Big Issue Invest (BII)	Impact Loans England	England wide remit and no thematic focus	20/12/2016	£5,067,438	£140,000	£1,300,844		£1,440,844	£3,626,594	
BII	Impact Loans England (II)	England wide remit and no thematic focus	02/11/2018	£3,925,787	£125,000	£1,268,339	£228,000	£1,621,339	£2,304,448	
Homeless Link	Homeless Link Social Investment Fund	National remit with thematic focus on addressing issues of homelessness	19/05/2017	£4,483,338	£200,000	£1,075,000	£962,500	£2,237,500	£2,245,838	
First Ark	Invest for Impact	North West region with no thematic focus.	11/10/2016	£4,006,487	£170,000	£689,122	£1,080,000	£1,939,122	£2,067,365	
NESTA	Cultural Impact Development Fund	National remit with thematic focus on providing finance to socially-driven arts and cultural organisations	16/10/2018	£3,708,467	£120,000	£1,130,367		£1,250,367	£2,458,100	
Resonance	Health and Wellbeing Challenge Fund (South West)	South West region and thematic focus on health and wellbeing	19/07/2016	£3,414,355	£125,000	£775,504	£805,000	£1,705,504	£1,489,720	£219,131 (South West Academic Health Science Network)
Environmental Finance	PICNIC	National remit with a thematic focus on public parks, expected to particularly target three city regions	30/10/2018	£3,248,503	£119,500	£826,069	£300,000	£1,245,569	£2,002,934	
UnLtd	UnLtd Impact Fund	National remit with thematic focus on addressing barriers to employment and training	20/10/2017	£3,190,734	£133,000	£791,320	£420,000	£1,344,320	£1,846,414	
Sporting Assets	Sporting Capital Fund	National remit with thematic focus on sports organisations delivering social outcomes for communities	27/06/2017	£3,081,192	£105,000	£1,026,786		£1,131,786	£1,949,406	

Name of social investor and fund	Name of fund	Remit	Fund Established Date	Approved Total Fund Size	Grant A: Operating cost subsidy	Grant B: Grant for Loans to VCSE	Grant C: Grant passed on as grant	Approved Access total	Approved: Loan component from BSC	Approved: Co-Investment
Orbit Group and partners	Community Impact Partnership	National remit but targeted mainly on the areas covered by the partners (East Midlands, East, London, South East)	12/11/2018	£2,984,226	£120,000	£621,849	£472,500	£1,214,349	£1,769,877	
The SIB Group and Forward Trust	Forward Enterprise Fund	National remit with thematic focus on addressing issues of addiction recovery and/or people who are ex-offenders	23/04/2018	£2,053,302	£87,852	£542,544	£270,000	£900,396	£1,152,906	
Greater Manchester Centre for Voluntary Organisation (GMCVO)	GM Social Investment	Greater Manchester geographical area only and no thematic focus	10/07/2017	£2,035,237	£100,000	£492,452	£420,000	£1,012,452	£1,022,785	
Devon Community Foundation	Devon Social Investment Fund	Geographical focus on Devon, Plymouth and Torbay and all services except for health and wellbeing	21/07/2017	£1,229,991	£55,800	£280,299	£270,000	£606,099	£323,892	£300,000 (Devon Community Foundation)
Kent Community Foundation	Kent Social Enterprise Loan Fund	Geographical focus on Kent and Medway, focusing on new and existing social enterprises	25/10/2017	£1,124,172	£50,000	£205,543	£252,000	£507,543	£0.00	£616,629
Somerset Community Foundation	Somerset Social Enterprise Fund	Somerset geographical area only with no thematic limit	17/08/2017	£1,095,784	£49,000	£67,178	£375,000	£491,178	£0.00	£604,606 (Somerset County Council)
Total Sum				**£50,008,502**	**£1,900,152**	**£12,451,805**	**£6,959,000**	**£21,310,957**	**£26,957,179**	**£1,740,366**

1.1.3 Growth Fund grant uses

Reflecting the various different needs of the social investors and the VCSEs, the three types of grant component could be used for the following purposes:

- **Grant A:** Social investors use this grant to cover some of the operating costs that arise from running the fund before the Investor has sufficient revenue from VCSE loan fees and interest to meet its costs. It is anticipated at a portfolio level that this will not be larger than 10% of the total grant (i.e. A, B and C combined).
- **Grant B:** Social investors use this grant as 'first loss capital' to cover expected defaults from the VCSEs and reduce the risk of return and capital loss of the debt providers.
- **Grant C:** Social investors can choose to pass this grant onto their VCSE clients alongside a loan.

1.1.4 The Reach Fund

During the process of applying for investment from the Growth Fund, VCSEs have the opportunity to access investment readiness support through the Reach Fund. Prior to the establishment of the Growth Fund, evidence had suggested that there was demand for small scale unsecured finance, but it became clear that there was a need for investment readiness support once demand converted from a latent interest to active pursuit of a loan. Established in 2016 by Access, the Reach Fund provides support to VCSEs who are already close to the point of taking on social investment. VCSEs can register for the Reach Fund and complete a diagnostic tool that asks about Governance and Leadership, Impact and Vision, Market Potential, Financial Performance and Operations. Upon completion of the tool, VCSEs are able to see a report that details the areas in which they could benefit from additional support. They then share the report with an 'Access Point' (that is, a social investor[14]) who decides whether or not to invite them to apply for Reach Fund support. If Access Points do feel the support is necessary, VCSEs can then progress to apply for Reach grant funding of up to £15,000 to pay for the specific support that they need.[15]

1.2 The evaluation

The National Lottery Community Fund commissioned Ecorys UK, in partnership with ATQ Consultants, to undertake the evaluation of the Growth Fund. The evaluation runs until 2022, and aims to assess and track the effectiveness of the Growth Fund in enabling a wider group of charities and social enterprises to successfully access social investment, become more resilient and deliver greater social impact. It aims to capture evidence on process and impact, by investigating four key areas:

- The most effective approaches to the use of subsidy in building the market of small-scale unsecured or higher risk loans and the provision of loans and grants to VCSEs
- The impact of the Growth Fund on how social investors provide social investment to VCSEs – with and after subsidy – and how other funders and lenders outside of Growth Fund have been influenced
- The impact of the Growth Fund on the understanding and take-up of social investment amongst VCSEs
- The extent to which greater take-up of social investment leads to greater financial resilience and social impact.

The reporting (including this report and the other report on 'Programme Learning') does not address all four of these areas in detail because the timescales of the programme and the evaluation means that there is

[14] Not all of the Growth Fund social investors are 'Access Points'.

[15] For more information see: www.reachfund.org.uk

not sufficient evidence to do so. Therefore, the reports cover early qualitative evidence on the most effective approach to providing small-scale loans and grants to VCSEs, from the perspectives of social investors and VCSEs, as well as some learning on how applying to the Growth Fund has impacted social investors so far. There is some qualitative evidence to describe the impact of the Growth Fund on the understanding and take-up of social investment amongst VCSEs, but this will be explored in more detail as the evaluation progresses. Similarly, it is generally too soon to comment on the extent to which a greater take-up of social investment leads to greater financial resilience and social impact, but this report discusses some early findings on financial resilience and social impact.

1.2.1 Methodology

Ecorys and ATQ are conducting a process and impact evaluation, using a mixed-methods approach to meet the aims of the evaluation. There are two key strands to the research activities, as described below:

1.2.1.1 *VCSE research*

The VCSE research aims to capture VCSEs' experiences of the Growth Fund, as well as measure the financial and social impact of the loans and grants that they receive. Several VCSE research activities are being undertaken throughout the course of the evaluation, as follows:

- **20 longitudinal case studies with VCSEs** to capture their experiences of applying for investment, their experiences of using the social investment, and the short-, medium- and longer-term social and financial impacts of the loans. Visits are being undertaken at the baseline, at the mid-point of the loan term, and at the end of the loan term.
- **Analysis of Management Information (MI) data** including data from the investors' quarterly reports and annual social impact returns. These provide information on loan and grant activity, indicators of VCSEs' financial resilience, data on the type and number of beneficiaries reached by the VCSEs and progress by each VCSE against at least one of their chosen social outcome indicators.
- **Survey of all VCSEs** to measure: experiences of taking on and repaying social investment, and the extent to which changes in financial resilience and social impact can be attributed to the social investment. VCSEs complete the survey at baseline (within three months of taking on the social investment) and then on an annual basis.
- **Consultations with 10 unsuccessful applicants** to understand their experiences of the application process and whether they have accessed social investment since.

1.2.1.2 *Investor and programme management research*

The investor research aims to gain reflections on the progress of the Growth Fund at the programme level and the individual Fund level. This research is qualitative in its nature, and involves the following activities:

- **Annual 1:1 consultations with social investors** to gain their reflections on applying for, setting up, and delivering the Funds.
- **Consultations with unsuccessful social investors** to build up a greater understanding of how well the application process functioned and whether or not they have since been able to access the <£150k market.
- **Annual consultations with members of the Programme Partnership** to gain their reflections on programme-level developments.

1.2.2 Activity completed to date

This report draws on the following research:

- **Semi-structured interviews with 11 social investors** to capture their views on the Growth Fund application process, their experiences of setting up the Fund, and their reflections on delivering the Funds to date. Only one of the twelve (then live) social investors could not be reached, so they did not take part in the research.
- **Case studies at the baseline stage with three VCSEs**, drawing on the perspectives of managers and delivery staff to ascertain their perspectives on the application process and their experiences of receiving and using social investment so far. All three VCSEs were from 'Efficiency' social investors.
- **Semi-structured interviews with the Programme Partnership**, which aimed to gather members' views on the progress of the Growth Fund to date, including any lessons learned.
- **Learning workshop with the social investors**
- **Analysis of quarterly data returns** containing information on 277 VCSE applications.

1.2.3 Limitations and considerations

The final intermediaries to join the Growth Fund are still setting up their funds, and at this stage in the Growth Fund, loans and grants are still being deployed across the already-established Growth Fund social investor funds. As Chapter 3 elaborates, some have deployed more investments than others. Therefore, the findings reflect the activity of a small number of the social investor funds in the Growth Fund portfolio rather than the Fund as a whole.

There were several limitations with the data analysis, as described below:

- There was a substantial amount of missing data; in particular, it was not possible to analyse the social impact data (see Annex I for more information).
- Responses did not always conform to the options in the Quarterly Reporting Template, meaning that some responses either had to be recoded, or new codes needed to be created.
- At times the data was inputted incorrectly (for example, application dates were sometimes put later than deployment dates), meaning that some data had to be removed.
- There were also issues with zero values (for example, when annual turnover was listed as zero). All zero values were removed from analysis as it was difficult to discern if the zero value was correct, or if the organisation had inputted data incorrectly.

In light of these issues, data was removed and the dataset was cleaned. This has impact on the analysis because it means that not all data submitted could be analysed. Given the limitations with the data, 'N' numbers are given after each table throughout to denote the number of responses received for each particular question.

As the baseline case studies are being staggered over each quarter, there are currently only a small number of VCSE case studies from which to draw evidence. It is important to note that these case studies are of VCSEs that received social investment early on in the lifespan of the Growth Fund, so their experiences may be different to that of VCSEs receiving investment later on. Therefore, the findings reported in this study in relation to VCSEs' experiences should not be treated as typical of the overall Growth Fund experience.

It has not yet been possible to launch the Growth Fund survey, due to challenges with data access. This means the evaluation does not yet have an overview of the views and experiences of all VCSEs. It also means it is not yet possible to ascertain the extent to which changes in financial resilience can be attributed to the investments.

1.3 Report structure

The report is structured as follows:

- **Chapter 2** discusses the VCSE loan and grant activity completed to date
- **Chapter 3** highlights social investors' experiences of running funds
- **Chapter 4** explores VCSEs' experiences of accessing social investment, and discusses the financial and social impact of the loans and grants
- The **Conclusion** pulls together all the key findings from across the report and provides recommendations.
- **Glossary:** The report includes a set of technical terms, and this glossary provides definitions for these terms, drawing on the Good Finance glossary. Where they are first used, there is a footnote with a definition for the term.

Lending completed to date

Summary

- The deployment of Growth Fund loans up to September 2018 painted a mixed picture. Deployment was 10% behind original projections, but the loans/grants that had been deployed to date were reaching the areas the Programme Partnership intended to reach.
- Analysis of the Growth Fund management information revealed three main findings:

Finding 1: Deployment is 10% behind original projections: Social investors had deployed almost £11m of investment to 166 VCSEs. This was 10% behind original projections. The qualitative research suggests this was due to a combination of:

- It taking longer than expected for social investors to deploy loans/grants to VCSEs, due to the challenges in finding suitable deals, and the time it was taking for these deals to finalise; and
- Smaller than anticipated blended finance sizes, meaning social investors had to deploy a larger number of loans/grants to reach their projections.

Finding 2: Growth Fund is reaching the areas it intended to: By this we mean Growth Fund is:

- Targeting the intended types of audiences: Over half (61%) of VCSEs accessing Growth Fund finance are micro-business and the median turnover is £250k. This compares favourably with the wider social investment sector, where VCSEs are more likely to have an annual turnover of around £1 million or greater
- Offering the intended size of blended finance to VCSEs: The median finance size was £50k (loan and grant), compared to £125k in the wider social investment sector
- Providing blended finance for the intended reasons: Growth Fund is support VCSEs wishing to grow, and the most common purpose (33% of VCSEs) for accessing Growth Fund finance was to scale up an existing activity.

Finding 3: The funds are, so far, performing well financially: The vast majority of loans (94%) were not considered at risk, with 6% of loans/grants being at risk (10 VCSEs). The qualitative evidence indicated that the loan repayments were generally manageable for VCSEs. However, given the early stage of the programme, it is too early to comment fully on the financial performance of the loans.

This chapter contains details of the loan activity to date. It draws on data provided by the social investors and collated by Access on a quarterly basis. In this chapter we have included the main findings; a full set of analysis can be found in **Annex I**.

The data covers organisations who made their initial enquiries between July 2016 and June 2018. Data analysis was carried out at two levels. Firstly, at a Fund level whereby all social investor activity was looked at. Where sample sizes allowed, individual social investors were also examined (namely BII and Key Fund).

The chapter is structured around the following main findings:

- Deployment is 10% behind original projections
- Growth Fund is reaching the areas it intended to
- The loans are, so far, performing well financially.

2.1 Finding 1: Deployment is 10% behind original projections

Up to June 2018 267 VCSEs had submitted applications, and 200 (75%) of these had been successful (deployed or approved). 166 (62%) loans had been deployed.

The total value of this deployment was almost £11m **(Table 2.1)**. Just over £9.6m (88%) was a loan and just under £1.3m (12%) a grant.

This was almost £1.2m (10%) behind the investors' combined original projections. In particular, the amount of grants deployed was quite substantially lower than projected (21% lower).

Table 2.1 Total deployment of all Funds

Investment to VCSEs	Actual	Projected	Variance (£)	Variance (%)
Total value of investments made	£10,914,539	£12,094,760	-£1,180,221	-10%
£ value of loans made	£9,639,915	£10,485,797	-£845,882	-8%
£ value of grants made	£1,274,624	£1,608,963	-£334,339	-21%

Source: Access MI. Base = 166 deployed investments

Our qualitative research suggests this is due to two factors:

- Some social investors finding it takes longer than expected to deploy loans/grants to VCSEs, due to the challenges in finding suitable deals, and the time it was taking for these deals to finalise
- Smaller than anticipated loan sizes; this means that even when social investors are deploying the *number* of loans they anticipated, they are not reaching their target *values* because each loan is lower.

Both of these factors are explored further in Experience of running funds and deploying loans

2.2 Finding 2: Growth Fund is reaching the areas it intended to

The majority of the programme data suggests that, in its early stages, Growth Fund is reaching the areas it intended do. As one member of the programme partnership commented, *"Growth Fund is doing what it says on the tin".*

By this we mean it is:

- Targeting the intended types of organisations
- Offering the intended size of loan
- Providing loans for the intended reasons

We provide more information on each of these points below.

2.2.1 Growth Fund is targeting the intended types of audiences

The Growth Fund is aimed at smaller, earlier stage and innovating VCSEs who would typically not have been able to access loans before. The management information confirms the Growth Fund is reaching small VCSEs, both in terms of their annual income, and number of full time equivalent (FTE) members of staff. In future reports we will be able to comment on the extent to which they would typically not have been able to access loans before, once the findings from the VCSE survey are available.

In terms of annual income, on average (i.e. median average), VCSEs where investment has been deployed had an annual income of £250,000, ranging from £4,060 to £13,000,000 (**Table 2.2** and **Figure 2.1**). This compares favourably to the wider social investment sector; as the Charities Aid Foundation (CAF) (2015) found that in the wider social investment sector those VCSEs more likely to access investment had an annual turnover of around £1 million or greater.[16]

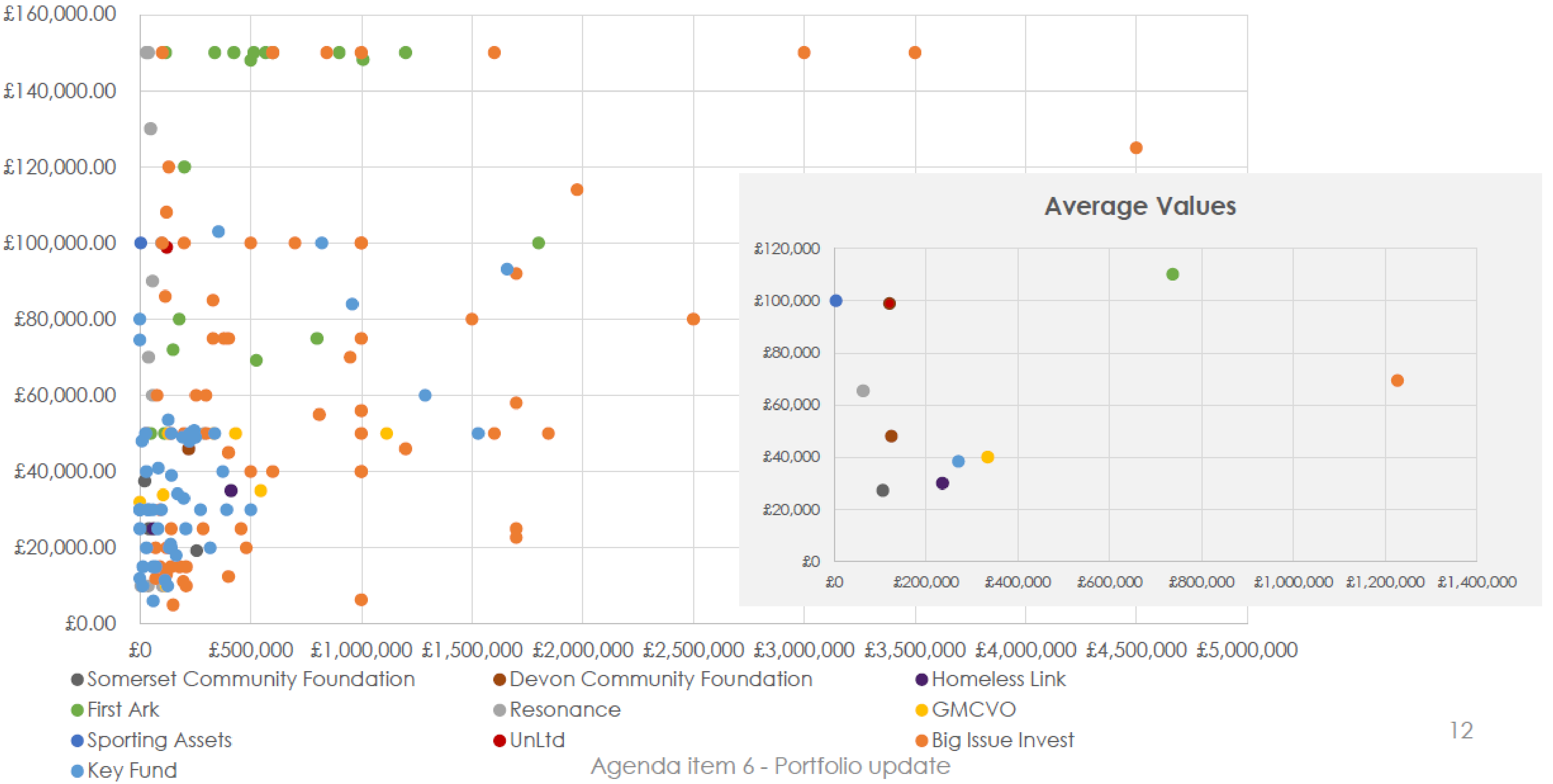
Table 2.2 Annual income range and median

Range – lowest annual income	Median annual income	Range – highest annual income
£4,060	£250,000	£13,000,000

N=166 (responses recording £0 were excluded from analysis)

[16] Charities Aid Foundation. (2015). Social Landscape 2015. Available: https://www.cafonline.org/about-us/publications/2015-publications/social-landscape.

Figure 2.1: Annual income of VCSEs and size of investment



Source: Growth Fund Q2/18 Portfolio Update presentation by Access to Joint Investment Committee. X-axis is annual turnover of VCSE; y-axis is size of investment. In order to provide a meaningful graphical representation, investments into organisations with a reported turnover of over £5m have been excluded.

In terms of FTEs, over half of the successful VCSEs are micro businesses (9 or less employees), 30% are small businesses (10-49 employees) and 7% reporting having no fulltime members of staff (**Table 2.3**).

Table 2.3 Number of FTEs

	VCSEs with deployed investments	
	Freq.	%
Zero FTE	11	7%
Micro (9 or less)	87	53%
Small (10-49)	49	30%
Medium (50-249)	14	9%
Large (250+)	2	1%
Grand Total	163	100%

N=163 (3 missing responses).

2.2.2 Growth Fund is offering the intended size of loan

The Growth Fund was established to increase the availability and accessibility of relatively small amounts of finance (<£150k). To date, this aim has been achieved; the mean total (loan and grant) amount deployed across VCSEs was £65,750. The total investment size ranged from £6,000 to £150,000. The median amount was £50k. Focusing on just the repayable loan amount of deployed investments the average (mean) was £58,072. The average grant amount was £14,007.

Analysis of investment size by VCSE income shows that larger organisations (income >£1m) applied for/received bigger investment. However, the investments received by medium sized VCSEs (in terms of income) were of a similar size to the smaller VCSEs. [17] The median, upper and lower quartiles, range and outliers for total investment by income bands are depicted in **Figure 2.2**.

Figure 2.2: Investment size by VCSE income

Figure shows the median (centre line in the box), the second and third quartiles (bottom and top of the box) and range (the lines coming out of the box, or 'whiskers'

When total investment size is compared to the wider social investment sector, it becomes very apparent that the Growth Fund is filling a gap, and providing a size of loan not available in the rest of the sector. The median sized finance package in Growth Fund was £50,000 (covering both the grant and loan), compared to £125,000 for loans supported by Big Society Capital during the same time period.[18]

The median, upper and lower quartiles, range and outliers are depicted in **Figure 2.3**. The average (median) duration of investment terms was shorter for the Growth Fund (48 months) compared to the wider sector (60 months).

[17] Definitions of organisation size (in terms of income) available here: https://data.ncvo.org.uk/a/almanac18/methodology-2015-16/#Analysis_by_income_band

[18] In order to make comparisons to the wider sector, we utilised data collected by Big Society Capital on social investments from multiple contributors/investors, including those not supported by Big Society Capital; The data was drawn from the years 2016-2018 (same period the Growth Fund has been operational) to allow a comparison. Records for Access were deleted from the Big Society Capital data to avoid potentially including Growth Fund investments in our comparisons. Whilst this data may not cover the whole of the wider investment sector or all of our variables of interest, it does provide sufficient information to assess the Growth Fund against some of its overarching objectives. The median was selected to better account for outliers in the wider sector that would have skewed the analysis.

Figure 2.3: Box and whisker diagram for investment size, Growth Fund and wider sector

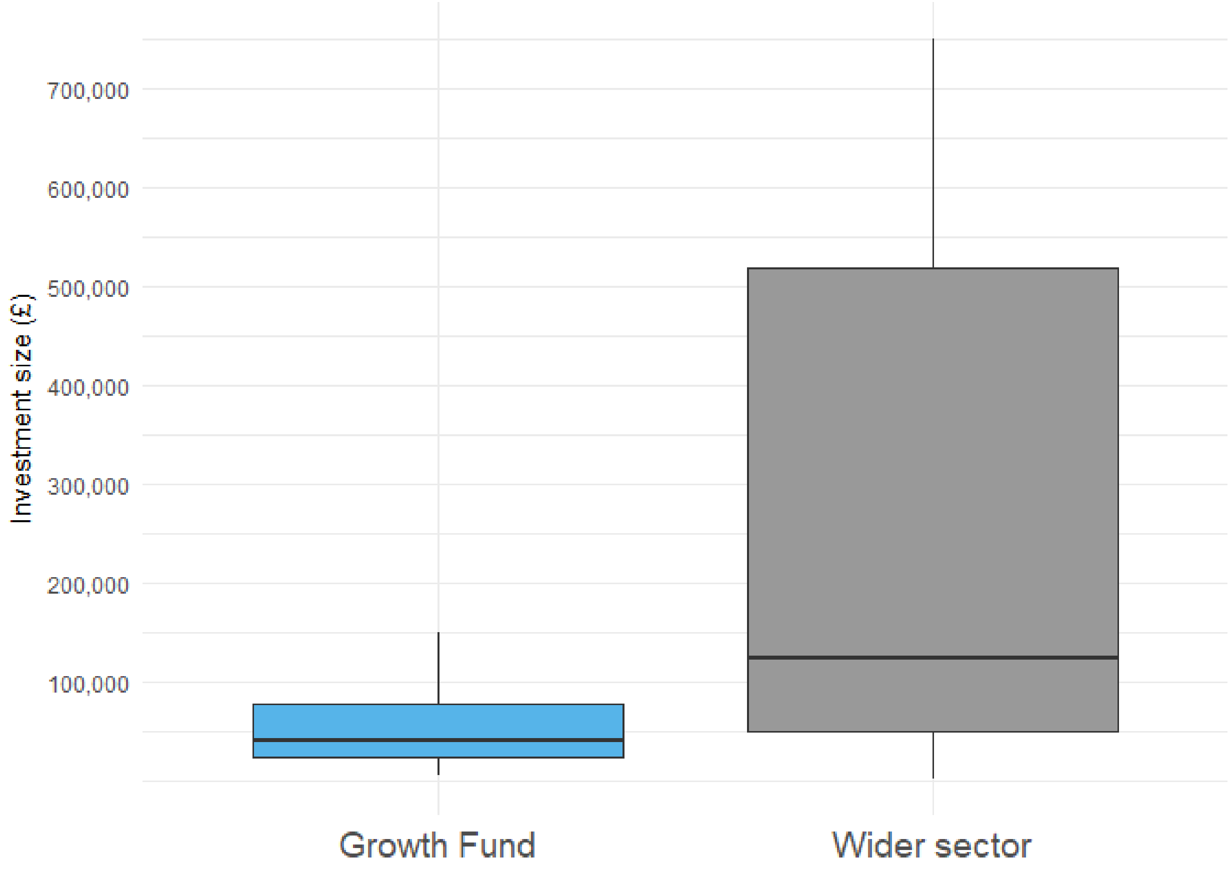


Figure shows the median (centre line in the box), the second and third quartiles (bottom and top of the box) and range (the lines coming out of the box, or 'whiskers'). Investments over £750k are not included in the figure for readability.

Stakeholders interviewed in the qualitative research reported that the average loan size was smaller than they had expected. Whilst this is overall regarded as positive, social investors reported that this raised challenges in delivering funds cost effectively (see Experience of running funds and deploying loans).

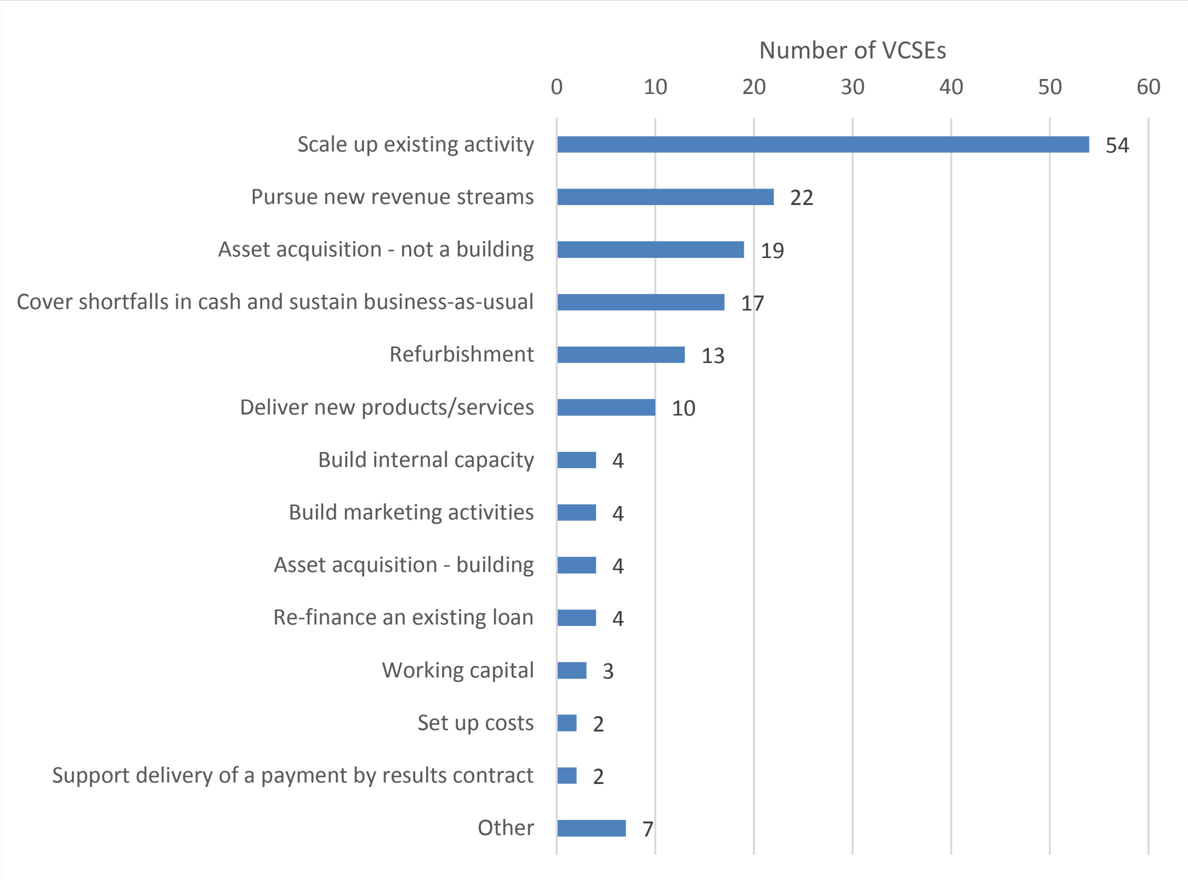
2.2.3 Growth Fund is providing loans for the intended reasons

The aim of the Growth Fund was to enable small-scale VCSEs to access affordable finance, in order for them to develop their enterprising activity to deliver social impact on a more sustainable basis and/or increase their social impact. This might lead to growth or to stronger more resilient VCSEs, which are better able to generate social impact from their activities over the longer term.

It would appear that current Growth Fund activity aligns with this aim, and thus the Growth Fund funds are providing finance for the intended reasons. The most common purposes of deployed funding was to scale up an existing activity (33%) and pursue new revenue streams (13%) (**Figure 2.4**). Furthermore, there are several purposes that can be collectively considered as 'expansion' activity (33%). Expansion activities include asset[19] acquisition, refurbishment, deliver new products/services, build internal capacity and build marketing activities.

However, 2% of the loans were used for re-financing, which is perhaps surprising; the reasons behind this are explored further in Chapter 4.

Figure 2.4: Purpose of deployed investments



[19] Asset: In relation to an organisation's accounts. a financial benefit recorded on a balance sheet. Assets include tangible property (i.e. a property with a physical form such as buildings, equipment and vehicles) and intangible property, and any claims for money owed by others. Assets can include cash, inventories, and property rights.

2.3 Finding 3: The funds are, so far, performing well financially

The vast majority of loans (94%) were not considered at risk, with 6% of loans being at risk (9 VCSEs). In total, 5% of investments were in arrears (n=8). Five investments (3%) were listed as non-performing. No loans had been written off[20].

The three VCSEs interviewed as part of the case studies indicated that they found loan repayments generally manageable. Even in one case study where the organisation was struggling financially, the loan repayment itself did not seem to be exacerbating the impact on them because they had already accounted for it in their financial plans.

However, given the early stage of the programme, it is too early to comment fully on the financial performance of the loans.

2.4 Conclusion: What do these data mean?

The deployment of Growth Fund loans progress up to September 2018 painted a mixed picture. Deployment was 10% behind original projections, but the loans that had been deployed to date were reaching the areas the Programme Partnership intended to reach. The Growth Fund funds were targeting the intended types of organisations (median annual income of £250k; 61% with 9 FTEs or fewer); offering the intended types of loan (median investment size £50k); for the intended reasons (growth).

These figures are confirmed further when compared to activity in the wider social investment sector during the same period; For example the median Growth Fund finance package (£50k) is substantially lower than the median for the wider social investment sector (£125k).

[20] Write-off: when all or part of the value of an asset (e.g. an investment) as shown in an organisation's accounts is reduced. In respect of an investment, this may occur when the investor considers there is no likelihood of any recovery of the amount invested.

Running Funds: Progress and lessons learnt at the social investor level

Summary

Experiences of deployment

Social investors reported a range of experiences in deploying Growth Fund monies. As might be expected, the more experienced and established social investors have had the greatest success; less experienced social investors and those who are more geographical- or thematic-bound were facing difficulties in deploying loans.

That said, across the whole piece, pipeline development activities must be a priority area of focus – even for social investors with a broad set of relationships with their target VCSE audience (whilst also maintaining a focus on managing repayments of deployed loans).

The main reason social investors were behind their original projections was because they over-estimated how 'investment ready' VCSEs were; it was taking more activity than anticipated to market the funds and encourage applicants, and it was taking longer than anticipated to work with VCSEs to ensure they were ready to take on investment.

These observations also show how important it is to offer help to VCSEs contemplating loans, such as via the Reach Fund, pre- and post-deal, and to support investors' readiness to make deals that they think VCSEs will be in a position to manage well.

It is also noteworthy that such support is needed in addition to social investors' own support offer; their business models are typically geared to provide intensive support too, such as from Investment Managers, Impact Managers and Investment Committee members, and so have a relatively high unit cost in-built.

In this chapter we outline the Growth Fund evaluation findings from the social investor's perspective, drawing on the interviews with social investors and the social investor learning workshops. The focus of the research for this first report was on the initial launch stages. In subsequent reports, the focus will cover the investment experience in more detail.

3.1 Characteristics of social investors

Table 1.1 provided a summary of the key characteristics of those social investors interviewed, but for ease of reference it is included again below (**Table 4.1**). When considering the findings outlined in more detail below, it is worth bearing in mind several key differences between social investors as follows:

- Those interviewed had launch dates ranging from July 2016 to May 2018, which means that the launch-experience findings look across both established and more recent entrants
- Only Big Issue Invest has a national (England wide) remit and no thematic limitation
- Others have either a geographical remit and / or a thematic remit, which limits the scope of potential organisations that they are targeting their lending towards
- Some social investors are also introducing loans into new sectors and, through this, supporting those VCSEs looking to diversify income beyond grant funding.

Table 4.1: Live social investor funds

Name of social investor and fund	Name of fund	Remit	Fund Established Date	Approved Total Fund Size	Approved A: Operating cost subsidy	Approved B: Grant for Loans to VCSE	Approved C: Grant passed on as grant	Approved Access total	Approved: Loan component from BSC	Approved: Co-Investment
Key Fund	Northern Impact Fund	North of England and Midlands regions with a thematic focus on newer ventures or business activities and first time users of social investment financing	19/09/2016	£5,359,489	£200,000	£1,358,589	£1,104,000	£2,662,589	£2,696,900	
Big Issue Invest (BII)	Impact Loans England	England wide remit and no thematic focus	20/12/2016	£5,067,438	£140,000	£1,300,844		£1,440,844	£3,626,594	
BII			02/11/2018	£3,925,787	£125,000	£1,268,339	£228,000	£1,621,339	£2,304,448	
Homeless Link	Homeless Link Social Investment Fund	National remit with thematic focus on addressing issues of homelessness	19/05/2017	£4,483,338	£200,000	£1,075,000	£962,500	£2,237,500	£2,245,838	
First Ark	Invest for Impact	North West region with no thematic focus.	11/10/2016	£4,006,487	£170,000	£689,122	£1,080,000	£1,939,122	£2,067,365	
NESTA	Cultural Impact Development Fund	National remit with thematic focus on providing finance to socially-driven arts and cultural organisations	16/10/2018	£3,708,467	£120,000	£1,130,367		£1,250,367	£2,458,100	
Resonance	Health and Wellbeing Challenge Fund (South West)	South West region and thematic focus on health and wellbeing	19/07/2016	£3,414,355	£125,000	£775,504	£805,000	£1,705,504	£1,489,720	£219,131 (South West Academic Health Science Network)
Environmental Finance			30/10/2018	£3,248,503	£119,500	£826,069	£300,000	£1,245,569	£2,002,934	
UnLtd	UnLtd Impact Fund	National remit with thematic focus on addressing barriers to employment and training	20/10/2017	£3,190,734	£133,000	£791,320	£420,000	£1,344,320	£1,846,414	

Name of social investor and fund	Name of fund	Remit	Fund Established Date	Approved Total Fund Size	Approved A: Operating cost subsidy	Approved B: Grant for Loans to VCSE	Approved C: Grant passed on as grant	Approved Access total	Approved: Loan component from BSC	Approved: Co-Investment
Sporting Assets	Sporting Capital Fund	National remit with thematic focus on sports organisations delivering social outcomes for communities	27/06/2017	£3,081,192	£105,000	£1,026,786		£1,131,786	£1,949,406	
Orbit Group			12/11/2018	£2,984,226	£120,000	£621,849	£472,500	£1,214,349	£1,769,877	
The SIB Group and Forward Trust	Forward Enterprise Fund	National remit with thematic focus on addressing issues of addiction recovery and/or people who are ex-offenders	23/04/2018	£2,053,302	£87,852	£542,544	£270,000	£900,396	£1,152,906	
Greater Manchester Centre for Voluntary Organisation (GMCVO)	GM Social Investment	Greater Manchester geographical area only and no thematic focus	10/07/2017	£2,035,237	£100,000	£492,452	£420,000	£1,012,452	£1,022,785	
Devon Community Foundation	Devon Social Investment Fund	Geographical focus on Devon, Plymouth and Torbay and all services except for health and wellbeing	21/07/2017	£1,229,991	£55,800	£280,299	£270,000	£606,099	£323,892	£300,000 (Devon Community Foundation)
Kent Community Foundation	Kent Social Enterprise Loan Fund	Geographical focus on Kent and Medway, focusing on new and existing social enterprises	25/10/2017	£1,124,172	£50,000	£205,543	£252,000	£507,543	£0.00	£616,629
Somerset Community Foundation	Somerset Social Enterprise Fund	Somerset geographical area only with no thematic limit	17/08/2017	£1,095,784	£49,000	£67,178	£375,000	£491,178	£0.00	£604,606 (Somerset County Council)
Total Sum				**£50,008,502**	**£1,900,152.00**	**£12,451,805**	**£6,959,000**	**£21,310,957**	**£26,957,179**	**£1,740,366**

Source: Growth Fund Management Information

Another factor that differentiates the social investors is their prior experience of social lending and investment, as opposed to managing grant programmes. **Table 4.2** below shows the social investors who were interviewed in each category:

Table 4.2 Prior social lending experience

Experienced social investors	Grant management or some social lending experience
Big Issue Invest Resonance Key Fund Kent Community Foundation Social Investment Business	GMCVO UnLtd Sporting Assets Somerset Community Foundation[21] Homeless Link Devon Community Foundation

Source: Primary interviews conducted during June/July 2018

The different remits that the social investors have, as well as the extent of their prior social-lending experience, has a bearing on their respective experiences of setting up and running Growth Fund funds. This is particularly the case with respect to developing and growing a pipeline of lending opportunities. We address this separately in Section 4.4 below.

Given the differences between social investors, it is also interesting to note where their experiences (detailed below) have been *similar* across the board.

3.2 Experience of running funds and deploying loans and grants

The Growth Fund social investors' experiences of running funds and putting money to work had varied in line with three broad factors. First, the time elapsed since launch. Second, the prior social lending experience of the social investor. Third, any geographical and thematic limits and also whether the social investor was attempting to introduce loans to VCSEs more used to grant funding.

As shown in Table 4.2 above, seven of the eleven social investors interviewed were new to offering repayable loan financing themselves.

The social investors' progress in deploying loans and varied, with those more experienced in deploying loans typically making better progress against their original projections. Some of the well-established social investors already had - prior to their official launches - a pipeline of potential deals that they had been unable to fund within the risk profile limitations of other funds they already had under management. In effect, Growth Fund's unsecured-lending risk profile, combined with its three types of grant, allowed these social investors to meet a backlog of unfulfilled demand from organisations they already knew to some extent.

It is also noteworthy that the established social investors which had no geographical or thematic focus on who they can lend money to under the Growth Fund, also were in a better position to get their Growth Fund pipelines flowing.

[21] Though Somerset Community Foundation were already running a small loan fund

The social investors who have found sourcing deals relatively harder were those operating within geographical and thematic boundaries and where they were also introducing loans to VCSEs looking to diversify income streams away from grant funding. These social investors were explicitly aiming to increase the diversity of funding in their sectors and their fund drawdown profiles were deliberately back-loaded in recognition of the time they were expecting to take to generate adequate deal flow. However, neither they nor Access could do more than estimate demand during the programme application and due diligence processes. There was an expectation that re-forecasting of social investors' deployment profiles might be necessary and this has proven to be the case.

Table 4.3 below shows the deployment experience of the Growth Fund social investors as at September 2018. All of those who are behind target were, at the time of writing, in the process of re-setting plans in light of their initial experiences.

Table 4.3 Social investor purpose and deployment experience

Social investor	Deployment
Big Issue Invest	Ahead of target
First Ark *	Ahead of target
Key Fund	On track
GMCVO	On track
Resonance	On track (revised plan)
Somerset CF	On track
UnLtd	Behind target
Devon CF	Behind target
Sporting Assets	Behind target
Kent CF	Behind target
Homeless Link	Behind target
SIB and Forward Trust	Just launched

*Source: Access Monitoring Information (*First Ark not an interviewee)*

Clearly, the conclusion to draw is that the more limited the social investor is in its remit and its prior experience of managing repayable finance, then the harder it will be to deploy funds - no matter how experienced the social investor has otherwise been beforehand.

However, as it was the intention of Growth Fund to expand the number of social investors, then this mixed operational experience with respect to deal origination (pipeline development) can only be expected. The recommendation is to understand better the respective reasons – operational, staffing, marketing etc. - and learn from this experience when agreeing deployment targets and plans with new or about-to-launch social investor applicants.

3.2.1 VCSE appetite and capabilities

The reason why social investors were behind their projections was the challenge of generating interest from VCSE organisations. This was partly due to overall awareness of social investment within the VCSE sector.

The anecdotal evidence from the social investors showed a mixed picture of the awareness amongst VCSEs about social investment in the form of repayable finance.

> *"Many VCSEs are not aware of the term 'social investment' but [are] just looking for sources of (repayable) finance." (*Social investor)

> *"VCSEs understand the grant world very well but not 'commercial' terms of business. Although the phrase 'social investment' is widely used, we still find ourselves explaining the absolute basics of repayable financing at workshops and events."* (Social investor)

> *"Some are very clued up and others quite ignorant about repayable finance. It usually depends on the prior experience of the CEO or FD."* (Social investor)

As noted elsewhere, the VCSE appetite for unsecured loan finance was well researched and evidenced before setting up the Growth Fund, but the difference between a 'latent' level of interest which could be activated, and the readiness in terms of the capacity and capability of VCSEs to put forward credible business plans, was less well understood.

The anecdotal evidence from the social investors shows an expected mixed picture of the capabilities of VCSEs to put together credible business plans against which to seek lending.

> *"80-90% need financial modelling support and all need education about repayable finance. Most have an understanding of their revenues and costs but not all have good governance or growth (sales) capabilities."* (Social investor)

> *"There is latent demand [for repayable finance] amongst VCSEs. You have to have a full range of financing and capability support services to draw them out and turn them into deals."* (Social investor)

Access addressed this when reflecting on progress in the Growth Fund, by creating the Reach Fund, offering grants to help with financial modelling, structures and issues such as governance. In the remainder of the evaluation we will explore the extent to which the Reach Fund has been able to address this need.

The willingness and ability of VCSEs to take on repayable finance clearly varied widely, therefore, in line with the varied nature of the VCSE organisations.

The established social investors who have been supporting social enterprises for many years had a readier potential audience for the Growth Fund's finance offer. This readier potential came from the fact that social enterprises have a trading track record and experience of operating as a business, compared to traditionally grant funded organisations.

The newer social investors attempting to introduce a culture change in specific thematic areas or geographies where there is a need to diversify revenue sources away from grant-funding have, by the nature of the task, faced a greater challenge in putting their funds to work.

The Reach Fund development grants and also the ability to use Grant C to fund capability development within borrowing organisations have both proven to be helpful additions to the social investor toolkit; one established social investor who did not offer Grant C to its ready-and-waiting audience later applied to incorporate it into a second phase of loan-making.

3.2.2 Social investor business models and scaling

As recognised in the design of the Growth Fund through provision of the Grant A operating-cost subsidy, it has been expensive to service this market.

Social investors reported that their costs of running the Growth Fund were broadly in line with expectations at this stage, in spite of the extra efforts that some were having to make in deal origination activities. It is worth noting that although broadly in line with expectations, many of the social investors' business models built in some form of cross-subsidy to Growth Fund from their other activities.

However, the social investors also noted that their forecasts of average loan values had not so far been met, and that average loan sizes were lower than anticipated (see Chapter 2). This meant that they had mostly had to find more deals to get the target amounts of funding deployed on schedule, which implied a higher cost per deal than originally expected.

Social investors had all set up their own operating models for firstly originating and then assessing and approving applications before secondly supporting VCSEs once the loans had been made. Several had set up one-to-one account relationship models, in which each VCSE had a designated point of contact in the social investor; this was seen as key to managing risk. It ensured that support, if needed, was forthcoming on a timely basis. VCSEs also found this approach to be valuable in providing them with the support necessary to submit applications (see Chapter 5). However, the one-to-one model also meant that there was only a finite capacity per staff member and that there was only a limited scope for economies of scale as the loan book grew.

The economic and management models of Growth Fund social investors is an area that we will return to in subsequent evaluation reports.

3.3 Social impact measurement

All social investors had social impact as a key initial screening criterion for accepting loan and grant applications from VCSEs. In other words, without a strong social impact outcome, the application got no further.

However, it had become clear that *reporting* on impact by VCSEs to their respective social investor funder had not been easily set up in all cases. This is despite various of the social investors having Impact Frameworks for VCSEs to use in reporting back to them. This is reflected in the amount of missing social impact data the social investors provided to Access. The qualitative research suggests there are three reasons underpinning this:

- **Limited capabilities and lack of simple data capture approaches:** Social investors reported that they were unsure of the best approaches to capture social impact data from the VCSEs.
- **Limited powers to gather data:** Social investors reported VCSEs were not always forthcoming with their impact data, and the social investors felt they had limited powers to force VCSEs to supply the information. They compared this to the ability to gather impact data through a grant, when the supply of data can be built into the grant terms and conditions.

- **Limited appetite:** Some social investors expressed scepticism over the value of gathering such data, questioning both the quality of the data and the ability to tie any changes to the investment itself.

3.4 Pipeline development: Ideas and best practice

Pipeline development has proven to be a challenge for all bar the most experienced social investors and this section outlines the ideas and best practice suggested by some of the social investors as areas for further attention. **Table 4.4** below expands on the lessons learnt by the social investors to date.

Table 4.4 Pipeline development

Idea	Detail
Launch through as wide a target audience VCSE network and providers of other professional services as possible	The professional networks of lawyers, accountants and banks that work with VCSEs can be an invaluable source or leads. They are dealing with their clients on a regular basis. They are in a position to introduce Growth Fund social investors at the time when new funding to expand or grow may be required.
Maintain a continuous level of marketing 'noise' e.g. case studies, to build confidence and appetite	It is very important to market the investment available for VCSEs consistently and not just around the launch announcement. Many social investors reported an initial surge of interest around the time of their respective launch announcement but have since realised that this was not enough. Case studies are a useful tool which gives other potential applicants a real story to relate to. It is worth noting from the data analysis in Chapter 2 that the number of deals in the North West is high relative to the rest of the country. This may well reflect that fact that three social investors are operating in the region – GMCVO, Key Fund and First Ark. Clearly, having three active social investors in the area has helped to create interest.
Present at networking events / meetings rather than just sending leaflets	Sending some leaflets and handouts to networking events is ineffective. Much more effective is attending in person and presenting.
Review social media options	Some of the social investors have tested use of social media and targeted advertising. This has proven effective in driving expressions of interest.
The capacity and capability support offer is an important potential hook for engaging VCSEs, but could benefit from more systematic liaison	The capacity and capability support offer is an important potential hook and Reach support delivery partner networks are a source of potential leads. There may be a role for Access to centrally promote complementary capacity building support such as Reach Fund and similar, to benefit all social investors.
Word of mouth is a critical route for referrals	This should never be underestimated as a tool for supporting origination. social investors reported generating strong word of mouth references through a) rapid turnaround and response to enquiries and b) the one to one support provided through the application and investment stages. .

Source: Primary interviews conducted during June/July 2018

3.5 Future plans

We asked the social investors for their overall reflections on their involvement with the Growth Fund and future plans based on their experiences to date. All eleven of the social investors interviewed clearly expressed their interest in either carrying on their work as social investors or acting as a pathfinder for others to follow after Growth Fund. They collectively saw that providing loan and grant packages of below £150,000 was essential to the VCSE sector.

> *"One of the most successful things we have ever done."* (Social investor)
>
> *"We see this kind of financing as key to supporting the social economy and the solutions these organisations bring and deliver."* (Social investor)

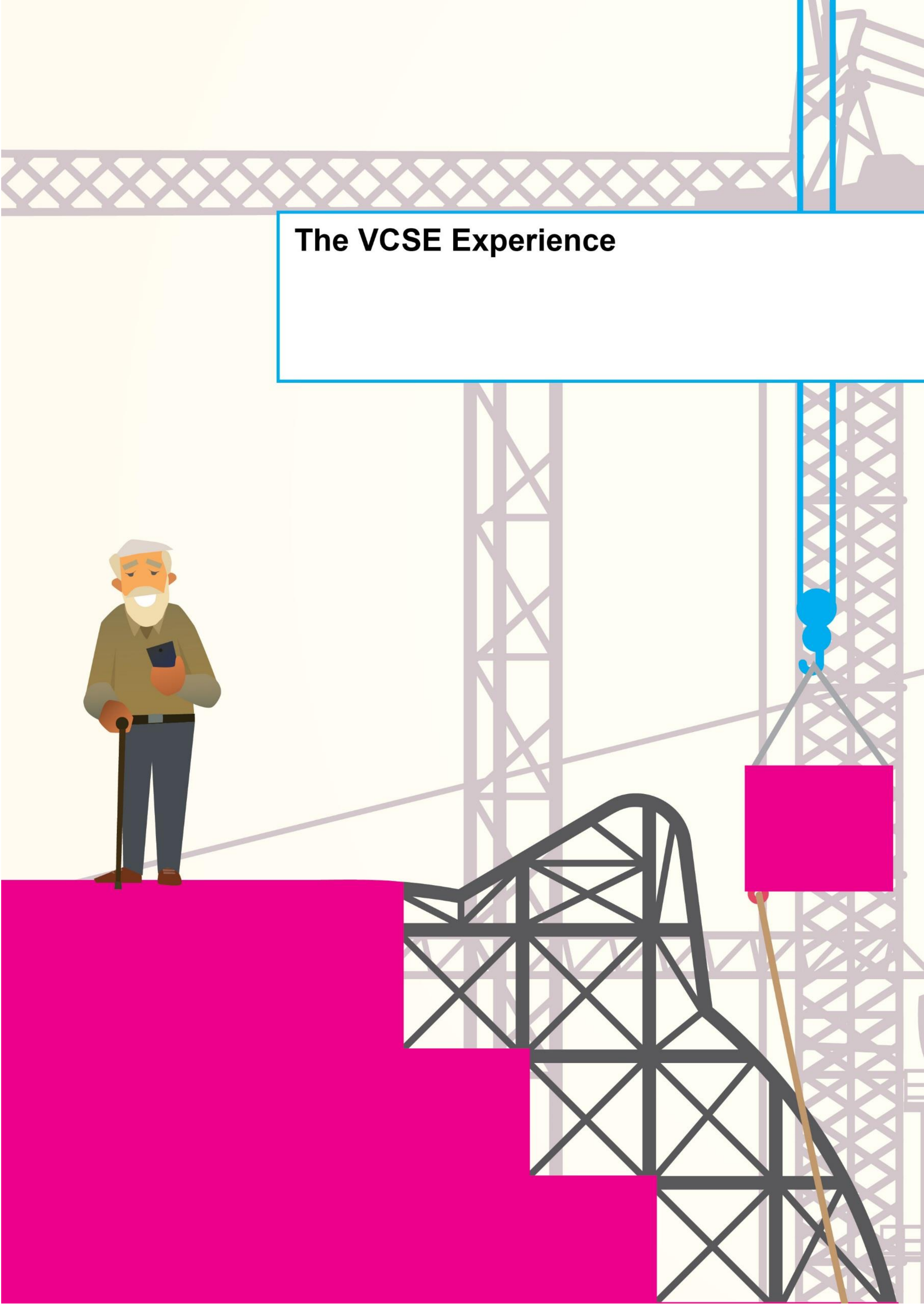
3.6 Conclusion

The Growth Fund has been successful in diversifying the number of social investors providing sub-£150,000 loan and grant packages to VCSEs. It has attracted a diverse range of applicants from established social investors such as Big Issue Invest and Key Fund through to sector specialists such as Homeless Link and Sporting Capital to Community Foundations and GMCVO (a voluntary sector umbrella organisation). There have been challenges, as many of the new social investors have not had prior loan-book management experience or are providing repayable finance to sectors that are looking to diversify income away from previously high levels of grant funding.

Whilst the experienced social investors with long established networks and knowledge of social enterprise loan-financing have found putting Growth Fund monies to work relatively straightforward, the challenge of developing a pipeline of VCSEs has proven to be more significant for the newer and less experienced social investors than they envisaged when they applied to Growth Fund. An element of this is due to the more targeted geographical or thematic focus that some of the newer social investors operate within. They have also found it more time-consuming to work with organisations looking to diversify revenues away from grants. As one social investor remarked, *"the demand is there, but it is a latent demand that takes time and effort to draw out".* It is also important to note that the VCSEs in these sub-sectors often require support to apply for loan funding.

Notwithstanding these difficulties, the feedback to date from all of the established and newer social investors is that they are themselves 'sold' on the blended and subsidised repayable finance concept as the means to deliver small loans. They are keen to make it work both for their clients and for the social impact that they deliver, as well as for themselves.

The VCSE Experience



Summary

- *Experiences of the application process have generally been positive so far. VCSEs valued the simplicity of the process, building up a strong relationship with the social investor, and having an honest and open dialogue.*
- *Through the application process, VCSEs have benefitted from learning about building a solid business plan and being able to evidence demand for the service.*
- *So far, VCSEs have most commonly used their social investment to scale up their existing services and pursue new revenue streams. This has been done by:*
    - *Building up infrastructure*
    - *Using the investment as working capital*
    - *Diversifying their activity*
- *These activities have often led to financial growth (with increases in year-on-year turnover), but this does not necessarily equate to financial resilience. Instead, rather than focusing just on increased turnover, VSCEs defined 'financial resilience' in relation to their financial independence (from grant funders), how diversified their income was, how stable jobs were, and where they were in relation to their business forecast.*
- *Data available on 31 VCSEs suggests that there has been an average (median) increase in turnover of 5.8% (£61,*020) after taking on the loan/grant*. However, recognising the small sample sizes this should be treated with caution.*
- *There is a small amount of evidence to suggest some VCSEs are becoming more financially resilient, as their main sources of income has moved from contracts and grants to trading activities. There were mixed views on how the investments had impacted on financial resilience from the case study research. For some VCSEs it might be too soon to say; only one of the three VCSE case studies reported feeling more financially resilient since receiving social investment.*
- *To date there is limited social impact data at the programme level. However, case study research suggests that VCSEs have achieved social impact in several ways so far as a consequence of taking on the social investment:*
    - *Increasing the number of beneficiaries supported*
    - *Improved quality of support*
    - *Increased range of support*
    - *Being able to maintain a service to beneficiaries*

This chapter focuses on VCSEs' experiences of accessing loans and grants and their perspective on the financial and social impact of investment from the social investors. It considers VCSEs' views on the process of applying for social investment, from their thoughts about social investment prior to the Fund, to hearing about it, to deciding to apply and applying for it. It then discusses how they have used their social investment to grow their organisations and explores whether this has led to increased financial resilience. It finally discusses the social impact of the investments so far, including VCSEs' experiences of measuring social impact.

This chapters draws on case study research with three VCSEs, interviews with social investors and with the Growth Fund programme level partners, and Management Information data returns. It should be borne in mind that all three of the VSCE case studies undertaken by the evaluation so far received investments from 'Efficiency' social investors (that is, those with previous experience of social investment), reflecting the profile of where most of the loans and grants had been deployed from at that point. It is possible, therefore, that not all their views are representative of the wider Fund; for example it is possible that, because these social investors have been running loan funds for some time, their application processes may already have been more efficient. In further years the case study research will include VCSEs from other social investor types.

4.1 VCSEs' experiences of accessing loans and grants

4.1.1 The demand for social investment

Before discussing the experience of applying for loans and grants, it is important to consider VCSEs' prior experience of social investment, to help provide context to their attitudes towards, and expectations of it. Across the qualitative case studies, VCSEs' perceptions of social investment before accessing it through the Growth Fund varied. Unsurprisingly, prior knowledge and understanding of social investment tended to determine people's perception of it, with those with a greater understanding of social investment feeling less daunted by it. For example, one VCSE manager, who was familiar with social investment having worked in the funding arena for a while, viewed social investment as a more accessible form of finance, as compared with a traditional bank loan:

> *"I suppose I had the perception that it [social investment] is typically softer terms than one might expect."* (VCSE Manager)

However, for others, social investment seemed like a more distant concept, far away from the culture of grant funding that they were used to. For example, a manager of a new charity described social investment as "*scary*" and thought that it would be inaccessible for a small charity like theirs. It was not something that they had considered before, due to these preconceptions, and it was only after the social investor described the process in a clear and detailed manner that the VCSE manager thought that it could be an option for them. This corroborates the reports from the social investors that they were finding VCSEs had low awareness of social investment.

For all three of the case study VCSEs interviewed so far, the Growth Fund was their first introduction into accessing investment. Only one VCSE had previously considered investment, but the inflexible terms and conditions that were offered through the commercial loan (i.e. repayment in 12 months with a high interest rate), meant that it was unaffordable for them to take it on. In addition, none of the three VCSEs reported having accessed investment-readiness support in the past.

4.1.2 Perceptions of sustainability and core resilience were mixed

The case study research with VCSEs suggested that securing social investment was necessary for either ensuring the financial survival of the organisation, or for supporting the growth of the organisation. In one case, the organisation's dependency on a small number of grant funders, compounded with the context of austerity and increased local budget cuts, meant that they were low on reserves and needed to find a way to diversify their income streams so they were not reliant on a single source of funding. For other VCSEs, social investment was viewed as a way for them to access finance that would allow them to grow their operations and increase their social impact. While there were not any key concerns with the core resilience of the organisations, in all cases the VCSE managers recognised that growth would not be possible with grant funding, due to the restrictions put on by funders on how the funding can be spent. For example, one VCSE manager described how, when they have grant funding, they have to agree what they spend the money on with the funder beforehand. With the social investment, they have a bit more flexibility with how they spend the money, allowing them to be more innovative with the activities they implement.

4.1.3 Hearing about the Growth Fund funds

All of the VCSEs involved in the case study research heard about the Growth Fund funds through word-of-mouth or by chance. Although all of the VCSEs interviewed were looking to grow or diversify their revenue streams, only one of the VCSEs was actively looking for investment to support this. It heard about the Growth Fund opportunity through a local business group that they were linked into. The others were not looking for social investment, but one heard about it through local networks and another through their bank. This finding emphasises the point made in the previous chapter, about the importance of social investors launching their fund through as wide a network as possible. In particular, linking in with VCSEs' trusted groups or organisations and convincing them of the value of the fund has led to some VCSEs hearing about, and deciding to access, social investment when otherwise they might not have done. The case study below provides an example of how a VCSE heard about one of the funds and decided to access investment.

VCSE case study

A VCSE that provides arts outreach work as well as a mixed-space venue accessed social investment to help diversify their income-generating activities. The VCSE was not actively seeking social investment when they first heard about the fund. The VCSE heard about the opportunity through their local bank - the bank explained that the fund was relatively new and the social investors were looking to speak to interested VCSEs. The VCSE, which was actively thinking about ways in which they could develop their income stream, thought it would be good to talk to the investor about the opportunity. After meeting with the investor, who introduced them to the fund and explained the process, they felt that it was a "*good deal*" and decided to apply.

Each of the VCSE managers contacted the social investor for an initial conversation about the social investment opportunity. Some VCSEs were unsure at this point as to whether or not they would be able to secure social investment, given the small size and scale of their organisation. However, all three VCSE managers reported having a very positive experience speaking to their investor, highlighting that investors took the time to provide detailed answers to their questions, and to discuss what the process would be. For one VCSE manager, the discussion with the investor far exceeded their expectations:

> *"I said to [the investor], 'Look I don't know too much about this,' I just wanted to have a chat, I'm sure [the VCSE] is not something they'd invest in but I thought I'd have a chat. And they were so, so lovely, and so friendly, and really answered things in a lot of detail, and they didn't think I was being silly, didn't think that I was asking stupid questions. They were really, really encouraging. I think I was expecting it to be a lot more corporate, more sales-y, but it wasn't like that at all."* (VCSE Manager)

The focus on building up a relationship with the VCSE appeared to pay off in the three case study examples, as all three felt that the positive introduction had encouraged them to continue on in the process.

All three VCSEs reported that their trustees were on board with social investment. One VCSE manager described how the decision to go for social investment represented a cultural change within the organisation, but their trustees were still supportive of the idea.

4.1.4 The application process

4.1.4.1 *Application tasks*

Overall, the three VCSEs involved in the case study research reported having a positive experience of applying to their lender. They reported having to fill in an application form, produce a business case and create cash flow[22] forecasts. Experience of doing these tasks, however, varied across the VCSEs; nonetheless the process tested people's skills and helped them develop new ones. For example, some managers reported that presentation of business plans for social investment had to be much shorter and more concise than they were used to, whereas one thought the business plan went into much greater depth than they anticipated:

> *"That was a big learning curve for me, because I had never written a business plan to that level of detail before."* (VCSE Manager)

VCSEs were mostly able to complete the tasks in-house. One VCSE required external consultancy capability-building support for business forecasting, which they secured after being referred to the Reach Fund by their social investor. As a result, the VCSE manager developed a 10-year financial plan, and increased their knowledge and skills with regard to business forecasting.

[22] Cash flow: the actual cash held by an organisation over a given period. A cash flow forecast shows the total expected outflows (payments) and inflows (receipts) over the year, usually on a monthly or quarterly basis. It is an essential tool for understanding where there will be shortages and surpluses of funds during the year and planning for ways to resolve these.

4.1.4.2 *Timescales*

The case study VCSEs described the application process as being relatively straightforward and efficient. Their feedback highlights a generally positive perception of the timescales from application to deployment; In comparison to grant applications, the fund application processes followed clear courses, where VCSEs knew what stage their application was at, so they felt it progressed in line with their expectations.

> *"It was a refreshingly quick decision; it was also fairly un-bureaucratic in comparison to other processes that we have had to go through in order to raise funding. So it was a pretty good experience I think*." (VCSE Manager)

> *"It was smooth. There was nothing that made me think, 'Why is this taking so long?' It was a clear process."* (VCSE Manager)

4.1.4.3 *Support from investor*

Case study VCSEs valued the supportive nature of their investor during the application process. While due diligence processes limited the extent to which social investors were able to support VCSEs with their application, their honesty and constructive criticism was viewed as key to a successful application process.

> *"Our funding manager was lovely and so supportive and helpful. I really felt like he was working with us to ensure we got it rather than trying to catch us out...It was a good process and simple process. Once we'd given what was needed it was straightforward."* (VCSE Manager)

Lesson learnt: Having an open and honest dialogue with an investor, where VCSEs feel free to ask questions so they can receive valuable feedback, is conducive for a positive application experience.

4.1.4.4 *The costs of putting together the social investment*

While there is not enough evidence to provide a robust analysis of the cost for VCSEs putting together social investment, findings from the case studies indicate that, generally, VCSE managers put in less time applying to their respective social investors than they do for grant applications. One manager, who was quite knowledgeable about social investment prior to their involvement in the Growth Fund, reported that the process took two members of staff about one week of 'intensive work', whereas another, with less experience, reported it took one person around half a week.

> *"Let's put it this way, we do as much work or more for sums of five or ten grand. It was probably a better return on our time than we get in most places."* (VCSE Manager)

These findings indicate that, even for organisations with limited experience or knowledge of social investment, the application process may not be as onerous as for grant applications. However, this finding can be explored more in future research, as the evidence base on opportunity costs is strengthened.

4.1.4.5 *VCSEs' lessons learned from the application process*

As the VCSEs involved in the case study research were all new to social investment, their lessons learned may be different to VCSEs who have applied for social investment before. Nonetheless, key 'lessons learned' so far include:

VCSE lessons learnt from the application process

- **Have a clear and concise business plan:** Several of the VCSEs had long or outdated business plans that were not fit-for-purpose. Going into the social investment process with a strong understanding of the organisation's mission and aims, articulated succinctly, was viewed as being very important.
- **Ensure that the demand for the service is well known and evidenced**: It is important to be able to demonstrate the demand for the service, through robust evidence, rather than based on anecdotal information.
- **Do not be afraid of asking a social investor questions:** It is important for VCSEs (especially where staff are less experienced or knowledgeable about social investment) to be able to ask questions, even if they might seem too 'simple'.

4.1.5 Accessing social investment

All of the case study VCSEs interviewed received the amount of social investment that they originally asked for. It is also important to note that the social investors reported that the VCSEs to whom they have lent money would not have been able to access other sources of funding – the only exception possibly being the availability elsewhere of start-up grants. Some evidence from the perspective of VCSEs supports this assertion. For example one VCSE, that had been looking for investment, was "*having doors shut… left, right and centre"* from other sources of loans, such as banks. However, as the other VCSEs were not actively looking for investment at the time, it is difficult to judge whether they would have been able to access a similar offer elsewhere. Further qualitative research, as the evaluation progresses, will help provide more clarity on this point.

So far, the findings suggest that the loan and grant and support model, including the aligned offer of Reach Fund grants, has been effective in meeting the perceived 'gap' in the market for unsecured lending of relatively small loan and grant packages, below £150,000.

Generally, the VCSEs were satisfied with the terms and conditions attached to their loan, typically viewing them as fair and not overly prescriptive. One manager had frustrations with the level of admin that they had to complete (such as sending invoices and purchase order receipts on a regular basis), which they thought was too onerous for a loan. However, other VCSEs did not report such conditions, suggesting that this experience was due to an individual social investor's terms and conditions, rather than Growth Fund as a whole. For example, one VCSE was pleased with the relatively loose terms and conditions (as compared with a grant), because the flexibility meant they could use the loan and grant package to fund a range of activities, allowing them to be more innovative in their approach to diversifying their organisation's income streams.

4.2 Impact of loans and grants on VCSEs' financial resilience

4.2.1 Growing the organisation

As highlighted in Chapter 2, VCSEs secured social investment for a range of different purposes, but most commonly to scale up their existing activity and/or pursue new revenue streams. The VCSEs involved in the case study research so far were selected to reflect this audience profile. Future evaluation research will be able to unpick the impact of the loans and grants used for other purposes – such as for asset acquisition or refurbishment – but this report focuses on the impact of the loans and grants for scaling up existing activity and/or pursing new revenue streams, on VCSEs' financial resilience.

There is evidence from the case study research to suggest that the loans and grants acquired through the Growth Fund funds had enabled VCSEs to expand and develop their services. VCSEs had achieved this through using investment in a number of different ways, such as for building their business infrastructure, for working capital, and to support their business's income diversification. **Table 5.1** provides more detail on how organisations had used their loans and grants, under each of these three headings.

Table 5.1: How VCSEs have used the loans and grants

Business infrastructure	Working capital	Supporting income diversification
Creating a website to expand reach of service[23] Buying equipment to enable operations to expand	Covering the running costs of an increased premises before revenue comes in Maintaining the cash flow while acquiring more space for beneficiaries	Developing a dedicated role for a person to focus on developing business

It was common across the case study research for VCSE managers to comment that, without the loan and grant package, they would have not been able to make the changes that would allow them to grow their organisation. This was particularly true in the examples where the package was used as working capital (to maintain cash flow while the businesses expanded their assets or premises) – as typically VCSEs reported they would not have been able to use other sources of finance, like grant-funding, to cover those costs. Therefore, social investment was integral to the growth of their business.

In another example however, social investment was not essential for the growth of the organisation's infrastructure and income streams, and it was likely that this growth would have happened eventually, but the social investment meant they could work on these activities in a much more efficient and focused way. As such, the VCSE experienced growth much more quickly than they would have without social investment.

4.2.2 Growth and financial resilience

There is limited quantitative evidence on the impact of the Growth Fund on VCSEs' financial resilience, as financial measurement data were only available for a small number of VCSEs and we await survey data on VCSEs' own definition of resilience. While the available data provide an indication of how VCSEs' financial resilience has been impacted, it should be read with caution as it only represents the experiences of a small proportion of VCSEs.

[23] Paid for by the grant element, rather than the loan

Data available on 31 VCSEs suggests that there has been an average (median) increase in turnover of 5.8% (£61,020) after taking on the loan/grant. However, recognising the small sample sizes this should be treated with caution.

This finding was also demonstrated through the case study research. As the three VCSEs involved in the case study research all received their loan and grant packages relatively early on in the Growth Fund process, enough time had elapsed to produce some evidence to indicate whether the activities described in Table 5.1 had led to financial growth amongst their services. Two of the VCSE managers interviewed reported that subsequent to receiving the loan and grant package, they had increased turnover. However, the extent to which they could attribute this financial growth to the package varied. One commented that, "*it was too soon to say*", as, at this stage, it was too difficult to disentangle exactly how much the loan and grant package had contributed to growth in certain areas, in contrast to their grant funding. However, others reported that the loan and grant package had definitely led to financial growth, because it had allowed them to expand their operations.

The case study research also highlighted that, while some VCSEs may have experienced financial growth, this did not mean that they experienced increased financial resilience. For the VCSEs, resilience meant more than just the short-term financial gains, such as increased turnover. Instead, VCSEs defined resilience in relation to things such as how financially independent they were, how diversified their income was, how stable jobs were, and where they were in relation to their business forecast. **Table 5.2** summarises these different aspects of 'financial resilience' and VCSEs' progress against them so far.

Table 5.2: Progress against aspects of financial resilience

Aspects of 'financial resilience'	Early findings
Financial independence	• Only one VCSE from the case study research was in the position to say they were more financially independent as a result of the investment. • Another VCSE had experienced an increase in turnover, but felt they still had too much dependence on grant funders
Diversification of income streams	• MI data on 'primary source of data' suggests that eight VCSEs moved from relying on contracts to trading, one moved from rent to trading, and one moved from voluntary grants to trading.
Stability of jobs	• Quantitative analysis indicates that the majority (n=84) of VCSEs experienced no change or an increase in the number of FTEs. • 31 VCSEs saw a reduction in the number of FTEs, which are potentially due to redundancies or having a greater reliance on volunteers.

Early findings from the MI data provides evidence that some VCSEs have diversified their income streams. Analysis of available data related to changes in primary income source suggests that eight VCSEs moved from relying on contracts to trading, one moved from rent to trading, and one moved from voluntary grants to trading. While these findings reflect only a small minority of the VCSEs, they do suggest that these VCSEs are becoming more self-sufficient. There is only data available for eight VCSEs that have experienced changes in their secondary income. Two organisations went from voluntary grants to trading, and one went from voluntary grants to rent, indicating a shift away from a dependency on grant funding. In addition, two organisations experienced a change from not having a secondary income, to voluntary grants, although the reasons for these shifts are not clear.

Only one out of three of the case study VCSEs felt that they were in a position to say they were more financially resilient as result of the loans and grants, as they have made substantial progress against their business forecast and were less reliant on grant funding. While another VCSE had experienced an increased turnover, they felt that they still had too much dependence on grant funders, and had not yet achieved enough financial independence through the development of their commercial activity.

> *"We still are, to a certain extent, reliant on our core funders. There has been a long conversation about diversifying our income stream."* (VCSE Manager)
>
> *"Has it affected our financial strength? I'm not sure. We're surviving - we're still here. It's enabled us to grow, but we're not necessarily stronger - we've had a really tough 12 months."* (VCSE Manager)

As mentioned, interviewees also defined financial resilience in relation to the stability of jobs. Quantitative evidence that relates to the change in FTEs for a substantial proportion of the VCSEs (n=84) suggests that for the majority of these VSCEs, there has either been no change, or an increase, in the number of FTEs since baseline (**Table 5.3**). 31 VCSEs however experienced a reduction in FTE. At this stage in the evaluation, it is not clear exactly why there has been a reduction of FTEs for this minority; in some cases redundancies may have been made, but in others, a reduction in FTE may have been due to a greater reliance on volunteers. Future qualitative research will unpick the reasons for both and positive and negative changes in FTE, to provide more insight into how it has impacted VCSEs’ financial resilience.

Table 5.3: Change in Full Time Equivalents (FTE)

	Number	%
Reduction in FTE	31	27%
No change	63	55%
Increased 1-10	14	12%
Increased 11 or more	7	6%
Total	**115**	**100%**

4.2.3 The impact of loan repayments on VCSEs' financial resilience

Given that the Growth Fund may have been VCSEs' first foray into social investment, it is important to consider the impact of repaying the loans on VCSEs' financial resilience, particularly for those VCSEs that traditionally had been used to a culture of falling back on grant funding.

Evidence from the MI data return indicates that the majority of VCSEs were keeping up with their loan repayments. In particular, 94% of loans were progressing as planned and were not deemed by social investors as being 'at risk'. A small proportion of VCSEs were struggling with repaying their loans. In particular, 6% (n=10) of the 171 loans were considered 'at risk', and 3% (n=5) were listed as 'non-performing. 5% (n= 8) of investments were in arrears, ranging from £916 to £5,830, with two arrears amounts listed as unspecified. However, none of the loans deployed to date had been written off.

4.3 Impact of loans and grants on VCSEs' social impact

A fundamental aim of the Growth Fund is for the social investment to lead to new, larger or strengthened services to enable VCSEs to achieve greater levels of social impact than they would have achieved otherwise. Given the aforementioned concerns with the social impact data received from the VCSEs, there is limited programme-wide quantitative evidence on the scale and nature of VCSEs' social impact over time. Therefore, this section focuses on the evidence from the qualitative research.

This qualitative evidence suggests that the social investment had so far enabled VCSEs to increase their social impact, and **Table 5.4** highlights the ways in which different VCSEs had been able to do this. The headers refer to the type of social impact they had achieved, and the bullet points describe the mechanism through which they had achieved it. As highlighted in Table 5.4, the social impact had not just related to increasing the number of beneficiaries that could be supported, but also to increasing the quality and range of services on offer, or sustaining the service on offer (which may have ended without social investment).

Table 5.4: Social impact achieved by case study VCSEs

Able to offer more support to more beneficiaries	Able to offer a better quality of service to beneficiaries	Able to offer a wider range of services	Able to continue offering a service to beneficiaries
• Increasing the size of premises • Acquiring new equipment • Taking on new leases to rent to beneficiaries • Increasing the reach of advertising via website	• Acquiring more appropriate facilities (e.g. better rooms, improved equipment and resources) • Staff able to spend more time with beneficiaries	• Having the space and facilities to offer a number of different services • Investing in new equipment or staff who can deliver new services	• Without social investment, the provision may have ended, due to lack of financial sustainability

All three case study VCSEs reported that the loans and grants had enabled them to offer more support or increase their reach to more beneficiaries. In two cases, this was a direct outcome of the loan and grant package, because the VCSEs had expanded their premises or were able to take on new leases to rent to beneficiaries, so more people were able to benefit from the service. In another example, the VCSE used some of the investment to improve their website, so that they could advertise the service to more people, thus increasing the reach of their organisation. The case study overleaf provides an example of how the social investment had increased the VCSEs' social impact.

VCSE case Study

A VCSE that provides specialist therapy in the community used the social investment to acquire a new space, so that they could do more therapy work. The new space that they acquired was larger and had better facilities, allowing the therapists to provide support that was more appropriate for their clients. Not only had this improved the quality of the support that therapists could offer, because they had more useful space to do meaningful work in, but having more space also enabled the organisation to offer services - such as baby yoga, baby massage and 'lunch and learns' - that did not exist in the area before. This strengthened the VCSEs' overall offer, so that, according to one therapist, they had the best space in the local area.

> *"Having control of those spaces has enabled us to give an edge over the service we offer...The environment is so, so important in therapy…[Before] they were trying to do therapeutic sessions in broom cupboards, any space they could get their hands on. What we have here is two purpose built play therapy areas."* (VCSE Manager)

There was not always a direct correlation between the social investment and the social impact. This was the case particularly for one VCSE that used its loan and grant package to develop its commercial income stream. As the package was channelled into the development of a range of different activities, it was difficult for the VCSE to unpick what the social impact had been. However, as one member of delivery staff articulated, the social impact of the investment related more to ensuring that the service would continue to be there for beneficiaries in the future:

> *"I think what the investment does is it gives a life vest to beneficiaries... it's not direct impact because they don't see it, but without additional income, what we are offering to those groups will become less and less and less... So we would still be helping people, but it wouldn't be as much."* (VCSE Delivery staff)

4.3.1.1 *VCSEs' experiences of measuring social impact*

As mentioned in Chapter 4, interviews with social investors highlighted that VCSEs' impact-reporting had not been set up in all cases. The interviews with VCSEs reflected this; only one reported working with their investor to develop social impact measures. The others did collect social impact data, but this was part of their reporting requirements to their other funders, and they reported that they did not provide this data to their investor because they had not been asked to. While these may be anomalies, given that these were some of the earliest VCSEs to secure social investment, the finding does suggest that more attention should be paid by social investors to ensure that VCSEs are supported to monitor their social impact and act on their performance management data to continuously improve their offer to beneficiaries.

Recommendation: Undertake detailed debriefing with SIFIs to understand and resolve gaps in social impact data - Spend more time with SIFIs and VCSEs well in advance of the next social impact data return to co-design a strategy to ensure there are fewer gaps in data.

4.4 The Growth Fund's impact on perceptions of social investment

There was some evidence from the case-study research to indicate that VCSEs' perceptions of social investment had changed since receiving loans and grants through the Growth Fund. Generally, VCSEs were more amenable to the idea of social investment. This was the case especially for VCSEs who were less knowledgeable about social investment, or had perceived it to be quite a 'scary' thing beforehand. A positive experience with the social investor was a common reason as to why people's perceptions had changed, because investors had made the experience less daunting and more accessible. This point further emphasises the importance of social investors investing time to support VCSEs throughout the social investment process.

Two of the VCSEs reported that they would consider taking on social investment again, following their positive experience with the Growth Fund. However, this is not to suggest that they would prefer social investment over other sources of finance, but they would give it more weight when considering their future financing options.

> *"We might have considered it [future social investment] but it would have been much lower on our list and possibly a last resort. But now we will be looking at it [social investment] more proactively, and if we're going to be having things that have a financial return[24], one of the best ways of doing that might be through a social investment fund of some sort."* (VCSE Manager)

4.5 Conclusion

This chapter has highlighted the key findings from case study research and MI data so far on VCSEs' experiences of applying to their respective funds, their experiences of securing loans and grants, and their reflections on the impact of the loans and grants on their financial resilience and social impact.

Experiences of the application process seem to be positive so far, with VCSEs particularly valuing building up a strong relationship with the social investor and having an honest and open dialogue. VCSEs described the process as being clear and light-touch, although there is learning for VCSEs to take on board in relation to the need to have a solid business plan and to be able to evidence demand for the service.

To date, VCSEs commonly used the loans and grants from Growth Fund to scale up their existing services and pursue new revenue streams, and they had done this by building up their infrastructure, using the loans and grants as working capital, and diversifying their activity. While this had led to growth in their operations, this had not always led to an increase in financial resilience. According to our assessment of the three case study VCSEs, it is possibly too soon to say if the Growth Fund has impacted VCSEs' financial resilience.

The evidence indicates that VCSEs had achieved social impact as a result of the loans and grants in a number of ways. Most commonly, it had related to increasing the amount of beneficiaries they could support – or reach – but it had also related to the quality and range of support they could provide. For some, the social investment may lead to a longer-term outcome of being more resilient organisations - that can continue to offer their services to beneficiaries in the challenging contexts of reduced availability of grant funding and local budget cuts.

[24] Financial returns: the monetary surplus generated by an organisation on an investment. It may be expressed as "net" (i.e. after deducting all expenses from the gross income generated by the investment) or "gross".

Conclusions and Recommendations

This chapter provides an overview of the conclusions and recommendations from the evaluation so far. It brings together the key findings from this report, and the other report we have produced that focuses on programme learning.

4.6 Revisiting the Growth Fund Theory of Change

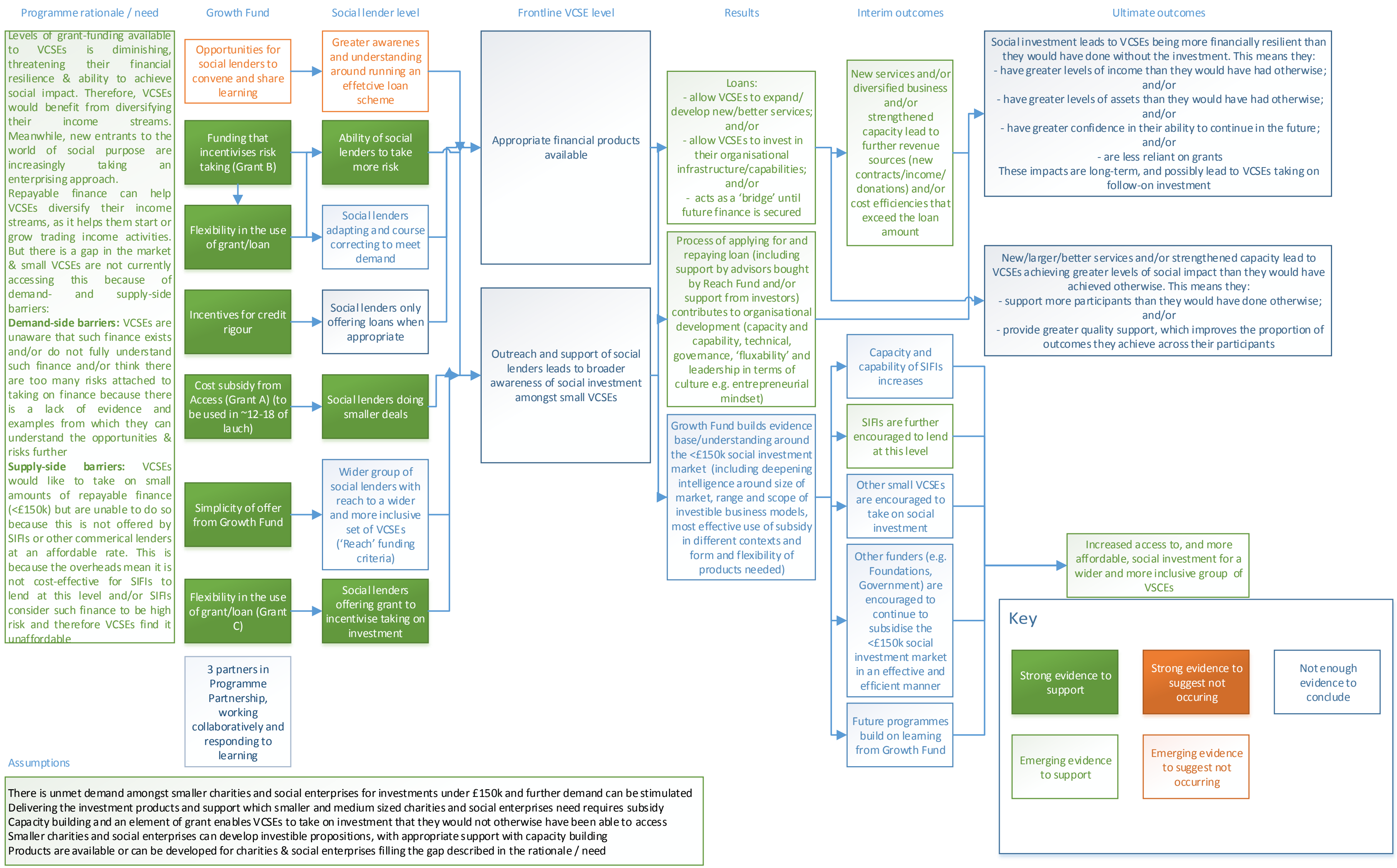
Figure 6.1 outlines the Growth Fund Theory of Change (ToC); this was amended part-way through the programme, recognising that the initial ToC would benefit from further detail. We have coded the ToC to highlight the areas that, based on the evaluation findings so far, appear to be proving correct or incorrect. We have also added in additional aspects that, with the benefit of hindsight, appear to be crucial elements to the programme ToC. In **Annex II** we have included previous versions of the ToC, so the reader can see how the ToC has evolved as stakeholders have understood the programme, and which factors are critical to its success.

The key points from this are:

- The programme rationale/need is proving to be correct, as the Growth Fund is demonstrating that there is demand for small-scale social investment, and that altering the form and reach of the loan offer from social investors enables this demand to be met. However, the demand appears to be more latent than expected – i.e. it is taking longer to identify this demand and bring it to fruition than initially anticipated.
- Most of the inputs at the Growth Fund programme level were being implemented as expected: the different levels of grant to social investors were being implemented as intended, and were incentivising risk and enabling social investors to administer repayable finance of a smaller value.
- The area where further consideration could be needed is around convening market-engagement opportunities for social investors; whilst there are good opportunities for them to share learning, there is a desire for more structured opportunities for them to convene stakeholder engagement on the ground and take advantage of economies of scale in collectively organising this.
- We have added the detail to the ToC that there is an expectation that Grant A will be used in 12-18 months, as this expectation appeared to be critical to the fund performances.
- We have added the input that the three partners in the Programme Partnership will work collaboratively and respond to learning, as this factor appears critical to the success of the Fund.
- There is strong evidence that some of the social-investor level activities are occurring as expected, such as social investors providing smaller loans. It is too early to tell whether social investors are course-correcting to meet demand – this will become evident in the next 18 months.
- It is also too early to tell whether the Growth Fund's full complement of social investors will be able to reach a significantly wider and more inclusive set of VCSEs. It is apparent that they are *targeting* VCSEs less experienced in taking on social investment, but the experience to date suggests that these VCSEs are further away from taking on social investment than initially anticipated.
- There is emerging evidence from the case studies that the loans and grants are being used in the ways intended, and are enabling VCSEs to expand and invest in their organisational capacity. They are also benefiting from their work with investment managers during the application process, as it is strengthening some of their business cases.
- There is not enough data to be able to report on how the Growth Fund has currently impacted on VSCEs' financial resilience or levels of social impact.
- The assumptions are proving to be broadly correct, with the following exceptions:
  - Whilst the Fund is certainly meeting unmet active demand, it has proven harder than anticipated to stimulate further demand from more latent interest among VCSEs

- Capacity and capability building support does indeed enable VCSEs to take on investment, but more support is still required directly from the social investors than initially anticipated
- Products have been developed to meet VCSE demand, but not the more innovative products which other research suggests is required to meet the full level of VCSE needs or demand.

Figure 6.1: Growth Fund Theory of Change revisited



4.7 Conclusion and lessons learnt

As one stakeholder commented, Growth Fund is "*doing what it said on the tin".* The findings reported in the first set of Update Reports suggests that it has encouraged new lending activity in an area of the social investment market where demand was not being fully met. It has enabled established social investors to offer something new by de-risking investments, and it has allowed new social investors to enter the space. The funds are providing the right type of loans and grants to the right type of organisations i.e. small-scale unsecured loans/grants to small VCSEs who have not accessed social investment before. The three case-study VCSEs looked at so far have had a positive experience. Many stakeholders are excited about what the Growth Fund will achieve. This is a very positive achievement.

This 'headline' achievement, however, masks many challenges. The Growth Fund is a complex and innovative programme and at times it has been difficult to implement. The social investors that are new to social investment have struggled with deploying loans, and their activity is below original projections. A lot of lessons have been learnt along the way, and these have been captured in this report and summarised in **Table 6.1** below. What is unclear at the moment is whether these challenges are fundamental issues and miscalculations around the level of demand for social investment and the speed with which it can be converted into viable deals, or whether they are early-stage teething issues that can be resolved with commitment and hard work.

Notwithstanding these difficulties, all of the established and newer social investors are themselves 'sold' on the concept of building the market through the two tiers of blended repayable finance (i.e. blending grant with capital for investors' operations and grant with loan for VCSEs). They are keen to make it work both for their clients and the social impact that they deliver, as well as for themselves

The next 18 months, as these challenges are worked through, will be a major test for the Growth Fund.

These challenges, and the things that were designed into the programme which have worked well, have generated points to note, which are summarised in the table below:

Table 6.1: Lessons learnt from the Growth Fund

For social investors providing social investment
1. Launch through as wide a target-audience network and through providers of professional services to VCSEs as possible.
2. Maintain a continuous level of marketing 'noise' e.g. case studies to build confidence and appetite.
3. Present at networking events / meetings rather than just sending leaflets.
4. Review social media options.
5. The capacity and capability support offer is an important potential hook for engaging VCSEs – but could benefit from more systematic liaison.
6. Word of mouth is a critical route for referrals.
7. Having an open and honest dialogue with an investor, where VCSEs feel free to ask questions so they can receive valuable feedback, is conducive for a positive application experience.
For VCSEs accessing social investment
1. Have a clear and concise business plan.
2. Ensure that the demand for the service is well known and evidenced.
3. Do not be afraid of asking a social investor questions.

4.8 Areas for further research

Throughout the Update Reports we highlight aspects that require further research in order for the areas to be fully understood. We summarise those aspects here. We also indicate the extent to which these will be explored in future rounds of evaluation activity:

- How the Growth Fund and Reach Fund interact (addressed in remainder of evaluation), and the extent to which the Reach Fund supported VCSEs to become 'investment ready' (explored in part through this evaluation)
- What investors mean when they describe an application as being 'unsuitable' (addressed in remainder of evaluation)
- Why investors report they cannot make impact reporting a term of a loan, when it is possible to make this a term of grants (addressed in remainder of evaluation)
- Use of different loan and grant products, including 'repayable grants' (addressed in remainder of evaluation)
- The social investors' experiences of managing the investment funds (addressed in remainder of evaluation)
- The economic and management models of the social investors, including the role of cross-subsidy from lenders' other work (addressed in remainder of evaluation)
- Experiences of VCSEs receiving loans and grants from organisations newer to social investment (addressed in remainder of evaluation)
- Costs and resources required to apply for the loan and grant packages (addressed in remainder of evaluation)
- The extent to which VCSEs could have received funding (either grants or loans) elsewhere (addressed in remainder of evaluation)
- The impact of the loans and grants used for other purposes other than scaling up existing activity – such as for asset acquisition or refurbishment (addressed in remainder of evaluation)
- The impact of the social investment on VCSEs' financial resilience and social impact (addressed in remainder of evaluation both qualitatively through the case studies and quantitatively if data quality issues highlighted in this report are addressed

Annexes

Annex I: Glossary

Below are list of definitions of terms used within the report. These definitions have been taken from the Good Finance glossary.

Asset: in relation to an organisation's accounts. a financial benefit recorded on a balance sheet. Assets include tangible property (i.e. a property with a physical form such as buildings, equipment and vehicles) and intangible property, and any claims for money owed by others. Assets can include cash, inventories, and property rights.

Capital: capital usually refers to financial capital or money and in particular the amount of cash and other assets held by an organisation.

Cash flow: the actual cash held by an organisation over a given period. A cash flow forecast shows the total expected outflows (payments) and inflows (receipts) over the year, usually on a monthly or quarterly basis. It is an essential tool for understanding where there will be shortages and surpluses of funds during the year and planning for ways to resolve these.

Co-investment: investment in a project or fund alongside and often on the same terms as other investors.

Financial returns: the monetary surplus generated by an organisation on an investment. It may be expressed as "net" (i.e. after deducting all expenses from the gross income generated by the investment) or "gross".

First loss: it is possible to have different tiers of investors so that one set of investors accepts that, in the event that the investee suffers financial difficulties, it will lose the money it invested before any of the other investors lose any money. This investor will bear the ‘first loss’.

Grant: a conditional or unconditional gift of money with no expectation of repayment.

Interest: fee paid by a borrower to a lender to pay for the use of borrowed money. When money is borrowed, interest is typically paid to the lender as a percentage of the amount owed. Interest usually accrues on a daily basis but is charged less frequently, e.g. monthly, quarterly or annually.

Investment readiness: an organisation having the systems, processes and business model to be able to attract investment.

Patient capital: loans or equity investments offered on a long-term basis (typically five years or longer). It is often used to describe long-term investment by investors looking for non-financial as well as financial gains and may be offered on soft terms (e.g. capital/interest repayment holidays and at zero or sub-market interest rates).

Quasi-equity investment: a hybrid of equity and debt investment. Equity investment may not be possible if an organisation is not structured to issue shares. A quasi-equity investment allows an investor to benefit from the future revenues of an organisation through a royalty payment which is a fixed percentage of revenue. This is similar to a conventional equity investment but does not require an organisation to issue shares.

Social impact: There is no one definition of the term or concept, but the social impact can be defined as the effect on people that happens as a result of an action or inaction, activity, project, programme or policy. The 'impact' can be positive or negative and can be intended or unintended, or a combination of all of these.

Unsecured loan: a loan that does not take security over an organisation's assets. Because the risk for the lender is greater, interest rates are usually higher than for secured loans.

Working capital: finance used to manage the timing differences between spending money and receiving it (income and expenditure).

Write-off: when all or part of the value of an asset (e.g. an investment) as shown in an organisation's accounts is reduced. In respect of an investment, this may occur when the investor considers there is no likelihood of any recovery of the amount invested.

Annex II: Detailed Analysis of Growth Fund Management Information

This Annex provides detailed analysis of the Growth Fund Management Information (MI). A summary of this data, including contextualising its meaning through triangulating with the qualitative research, is provided in Chapter 2.0 Loan activity completed to date.

This Annex draws on data provided by the social investors and collated by Access on a quarterly basis. This section includes: overall loan activity; the types of VCSEs accessing loans; the types of loans being provided; the purpose of the funding; and the financial performance of loans. The data covers organisations who made their initial enquiries between July 2016 and June 2018.

Data analysis was carried out at two levels. Firstly, at a Fund level whereby all social investor activity was looked at. In addition, the data was analysed by individual social investors (namely BII and Key Fund where there were sufficient sample sizes for analysis).

Whilst most of the analysis focuses on VCSEs whose investments had been deployed, to begin with reference is made to VCSEs whose loans were *approved (but not yet deployed)*, *awaiting approval*, those whose loans were *unsuccessful* and those who withdrew their loan applications ('*withdrawn*'); this is to provide insight into the different types of organisations applying to the fund.

AII.1 Loan activity

AII.1.1 Total deployment

Up to June 2018 all social investors had deployed almost £11m of investment (**Table A.1)**. Just over £9.6m (88%) was a loan and just under £1.3m (12%) a grant.

This was almost £1.2m (10%) behind their combined original projections. In particular, the amount of grants deployed was quite substantially lower than projected (21% lower).

Table A.1 Total deployment of all Funds

Investment to VCSEs	Actual	Projected	Variance (£)	Variance (%)
Total value of investments made	£10,914,539	£12,094,760	-£1,180,221	-10%
£ value of loans made	£9,639,915	£10,485,797	-£845,882	-8%
£ value of grants made	£1,274,624	£1,608,963	-£334,339	-21%

Source: Access MI. Base = 166 deployed investments

AII.1.2 Applications

As can be seen in **Table A.2**, across all investors, 267 VCSEs had submitted applications and 166 had been deployed. The most common reason for an application being unsuccessful was unsuitable (n=8)[25], followed by fund criteria not being met (n=4) and other (n=6), which included not being financially viable or requiring pre-start up funding.

[25] At this point in the evaluation we do not have the data to know what unsuitable means. This will be explored qualitatively with the investors in future waves of the evaluation.

Table A.2 Applications made to date

Application status	Freq.	%
Deployed	166	62%
Application approved	32	12%
Application received	30	11%
Application rejected	20	7%
Application withdrawn	19	7%
Grand Total	**267**	**100%**

N=267

In terms of deployment rates by individual social investors, for BII this was 82% and Key Fund it was 63%.

AII.1.2.1 Deployment rates over time

Deployment rates did not appear to be changing over time. The deployment rate was around 70% over the periods Q3-Q4 2016, Q1-Q2 2017 and Q3-Q4 2017 but fell in Q1-Q2 2018 to 44%. However, this can be explained by a larger proportion of investments awaiting deployment/decision at this time.

Table A.3 Success rates over time

	Deployed		**Approved**		**Awaiting**		**Rejected**		**Withdrawn**	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Q3-Q4 2016	22	71%	2	6%	1	3%	2	6%	4	13%
Q1-Q2 2017	46	75%	2	3%	4	7%	5	8%	4	7%
Q3-Q4 2017	66	69%	7	7%	7	7%	7	7%	8	8%
Q1-Q2 2018	31	44%	19	27%	15	21%	5	7%	1	1%

N=267 (9 VCSEs had no recorded application date).

AII.2 Types of VCSE accessing loans

AII.2.1 Geographical reach

Geographical reach was varied, although, one quarter of deployed investments were for the North West region. It is important to note that two social investors (First Ark and GMCVO) are focused on the North West specifically. Relatively few of the applications covered the East of England (3%) and the South East (4%).

Table A.4 Geographical reach of deployed investments

	Frequency	%
North West	43	26%
Yorkshire & Humber	27	16%
South West	26	16%
London	18	11%
North East	15	9%
East Midlands	13	8%

England-wide	7	4%
West Midlands	6	4%
South East	6	4%
East of England	5	3%
Grand Total	**166**	**100%**

N=166

AII.2.1.1 Geographical reach over time

Trends over time were stable with the North West being an area of significant reach since 2016. During the last six months of 2016, the Growth Fund reached six geographical areas. In the first half of 2017, all areas had been reached.

AII.2.2 Types of organisations accessing investment

More than half of all applicants (60%) were Companies Limited by Guarantee (CLG). The next most common type of organisation was a Company Limited by Shares (CLS) (9%).

Table A.5 Types of organisation receiving investment

	Freq	%
CLG – Company Limited by Guarantee	99	60%
CLS – Company Limited by Shares	15	9%
CIC	14	8%
CIO - Charitable Incorporated Organisation	12	7%
Charity	10	6%
Registered Society (BenCom)	2	1%
PLC - Public Listed Company	1	1%
Mutual (Friendly Society)	1	1%
Other	12	7%

N=166

AII.2.3 Annual income of organisations accessing investment

On average (i.e. median average), VCSEs to whom investment had been deployed had an annual income of £250,000, ranging from £4,060 to £13,000,000 (**Table A.6**).

Table A.6 Annual income range and median

Range – lowest annual income	Median annual income	Range – highest annual income
£4,060	£250,000	£13,000,000

N=166 (responses recording £0 were excluded from analysis)

In terms of income bands, the most common overall was £100,001 - £500,000 (44%) (**Table A.7)**. However, it is also worth noting that 26% of the VCSEs had an annual income of £100,000 or less.

Table A.7 Annual income bands (VCSEs where investment has been deployed)

	Freq	%
Zero income	3	2%

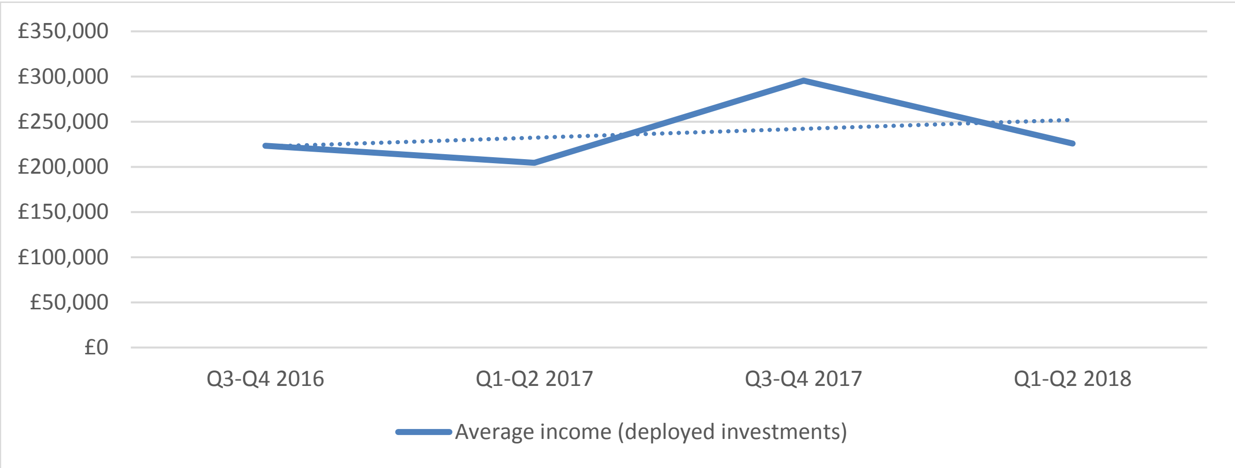
£1 - £10,000	3	2%
£10,001 - £25,000	5	3%
£25,001 - £100,000	30	19%
£100,001 - £500,000	71	44%
£500,001 - £1,000,000	23	14%
£1,000,001 - £10,000,000	26	16%
£10,000,001 - £100,000,000	1	1%

N=162 (income missing for 4 VCSEs)

AII.2.3.1 Annual income over time

Over time the total reported income of organisations accessing investment via the Growth Fund appeared to be stable (Figure A.1).

Figure A.1 VCSE income over time (median)



AII.2.4 Sources of funding

Over half of organisations cited trading as their primary source of income (56%) (**Table A.8**). The next most common income source was contracts, with 26% of successful applicants listing this as their main income.[26]

Table A.8 Primary source of funding (VCSEs with deployed investments)

	Frequency	%
Trading	91	56%
Contracts	42	26%
Rent	11	7%
Voluntary - grants	10	6%
Voluntary - other	2	1%
Other	7	4%
Grand Total	**163**	**100%**

[26] There may be some overlap between trading and contracts depending on how VCSEs interpret these. This is a limitation of the data which we will seek to address with Access.

N=166 (primary income source missing for 3 VCSEs)

AII.2.5 Number of full-time employees

Over half of the VCSEs with deployed investments to [date] are micro businesses (9 or less employees), over a quarter are small businesses (10-49 employees) and 7% reporting having no fulltime members of staff **(Table A.9)**.[27]

Table A.9 Number of FTEs

	VCSEs with deployed investments	
	Freq	%
Zero FTE	11	7%
Micro (9 or less)	87	53%
Small (10-49)	49	30%
Medium (50-249)	14	9%
Large (250+)	2	1%
Grand Total	163	100%

N=166 (number of FTEs missing for 3 VCSEs)

AII.2.6 Previous capacity building support received

Almost three quarters (73%) of successful applicants had not previously received any capacity building support (**Table A.10**). For those who had received support, this was most commonly from the Reach Fund, with 21% of organisations having received support from this source.

Almost all unsuccessful applicants as well as withdrawn applicants had received no previous capacity building support (just one unsuccessful applicant and one withdrawn VCSE had each received Reach Fund support).

Table A.10 Previous capacity building support

	VCSEs with deployed investments	
	Freq	%
No	119	73%
Yes - Big Potential	1	1%
Yes - Reach Fund	34	21%
Yes – Other	9	6%
Grand Total	163	100%

N=166 (previous capacity building support missing for 3 VCSEs)

It appeared that the Reach Fund was being used by the different social investors to varying degrees. In terms of the three funds that had deployed the most so far, 40% of VCSEs receiving loans from BII had used the Reach Fund, as had 10% of First Ark's VCSEs. By contrast, Key Fund did not deploy loans to any VCSEs who had used Reach support.

AII.3 Types of loans being provided

In the vast majority of cases social investors were providing fixed-term loans. In a small number of cases (6, 3%) the loan included a repayment-free period on their capital payments, for on average six months.

[27] FTE does not included volunteers

Some social investors also offered ‘repayable grants’ as quasi-equity; the VCSE only has to start paying back the grant if they reach a certain level of turnover.

AII.3.1 Size of investments requested

The Growth Fund was established to increase the availability of relatively small amounts of finance (<£150k). To date, this aim has been achieved; the mean total (loan and grant) amount deployed across VCSEs was £65,750. The total investment size ranged from £6,000 to £150,000. Focusing on just the repayable loan amount of deployed investments the average (mean) was £58,072. The average grant amount was £14,007.

Table A.11 Range of investments

Range – smallest amount requested	Average amount requested	Range – largest amount requested
£6,000	£65,750	£150,000

N=166

In terms of total investment size, those in the £50,001-100,000 band were most common, with 25% of successful applicants applying for a loan of this size. In total, 58% of investment requests were for amounts of £50,000 or under (**Table A.12**). As somewhat expected, larger (in terms of total income) VCSEs tended to take on bigger investments.

Table A.12 Investments deployed

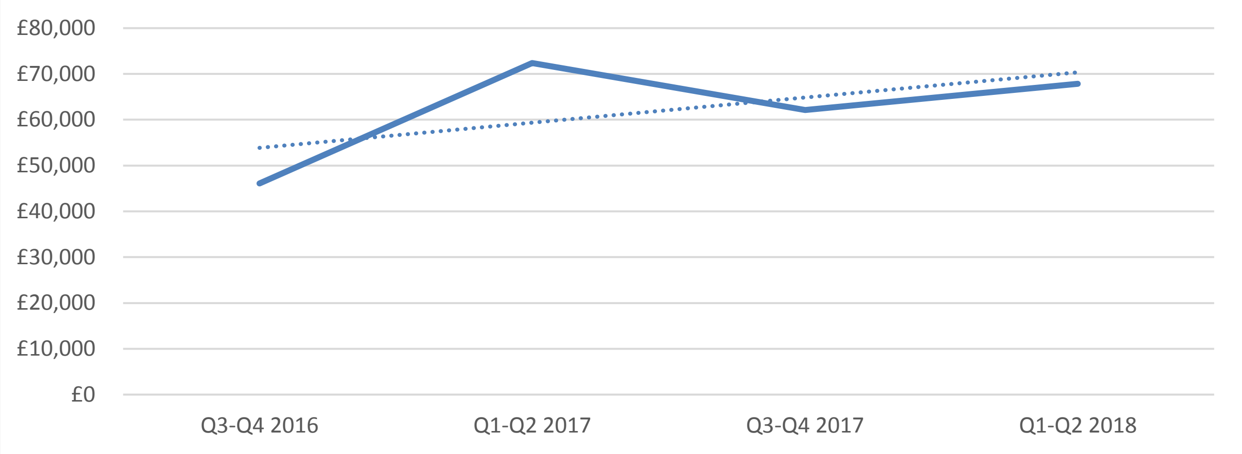
Amount approved £)	Successful applicants	
	Freq	%
10,000 or less	9	5%
10,001 to 20,000	20	12%
20,001 to 30,000	19	11%
30,001 to 40,000	13	8%
40,001 to 50,000	29	17%
50,001 to 100,000	42	25%
More than 100,000	34	20%
Grand Total	166	100%

N=166

AII.3.1.1 Size of investments over time

Over time, the size of investments (grant and loan) deployed appeared to be increasingly slightly (**Figure A.2**). However, we urge some caution here due to limited time points. Trends will be continued to monitored as more data becomes available.

Figure A.2 Investments over time



AII.3.2 Investment to turnover ratio

Total investments were most commonly 10% or less of the VCSE's annual turnover (33%) (**Table A.13**). More than half of investments were 20% or less of annual turnover.

Table A.13 Investment to turnover ratio

	Freq.	%
10% or less	52	33%
11% - 20%	38	24%
21% - 30%	20	13%
31% - 40%	6	4%
41% - 50%	9	6%
51% - 100%	16	10%
101% or more	18	11%
Grand Total	**159**	**100%**

N=166 (7 VCSEs missing or zero turnover)

AII.3.3 Size of grant compared to loan

55% of VCSEs received a grant as part of their investment. Half of the VCSEs receiving a grant received an amount 11%-20% of the loan value. Analysis of total investment to grant ratios revealed a similar picture with 60% of VCSEs receiving a grant of 11%-20% of the total investment value.

AII.3.4 Interest rates

Almost all interest rates were at 6% or above. When rounded to the nearest whole number, the most common rate of interest was 7% (41%) (**Table A.14**).

Table A.14 Interest rates for deployed investments

	Freq	%
5%	1	0%

6%	7	3%
7%	75	41%
8%	48	30%
9%	27	19%
10%	7	6%
Grand Total	165	100%

N= 166 (VCSE with interest rate recorded as 0% excluded)*Percentages rounded to the nearest whole number

AII.3.5 Duration of investment

The most common duration of investment was 4 to 5 years, with 35% of deployed investments being for this period of time (**Table A.15**). Just 11% of successful applications were for 12 months or fewer, with more than three quarters being for more than two years. 12% of loans had loans terms of five years or more.

Table A.15 Duration of loan terms

	Freq	%
6 months or less	4	2%
7-12 months	15	9%
1 - 2 years	18	11%
2 - 3 years	36	22%
3 - 4 years	15	9%
4 - 5 years	58	35%
5 - 6 years	13	8%
More than 6 years	6	4%
Grand Total	165	100%

N=166 (1 VCSE missing loan term)

AII.3.6 Time scales involved

The number of days from application to approval ranged from 0 to 337 days (**Table A.16**). For approval to deployment the range was 0 to 236 days. For application to deployment of funds the number of days involved ranged from 4 to 360. The median number of days taken at each stage was 22, 32, and 62 respectively. Regarding VCSEs with 0 days recorded, this applied to just three organisations.

Table A.16 Time scales involved

Time scales	Range – least number of days	Median number of days	Range – most numbers of days
Application to approval	0	22	337
Approval to deployment	0	32	236
Application to deployment	4	62	360

N=166 (5 VCSEs with missing dates)

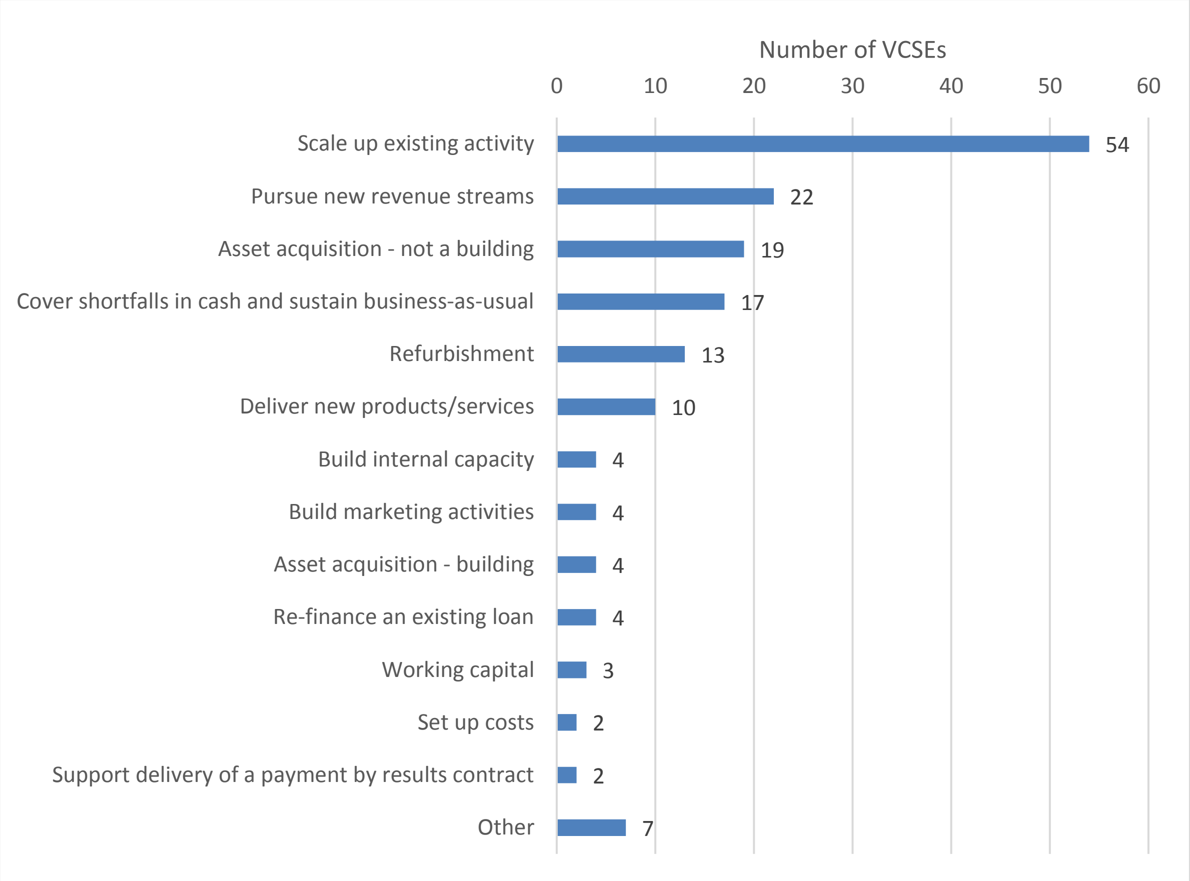
AII.4 Purpose of funding

AII.4.1 Purpose of grant/loan

It would appear that current Growth Fund activity aligns with this aim, and thus the Growth Fund funds are providing finance for the intended reasons. The most common purposes of deployed funding was to scale up an existing activity (33%) and pursue new revenue streams (13%) (**Figure A.3**). Furthermore, there are several purposes that can be collectively considered as 'expansion' activity (33%). Expansion activities include asset acquisition, refurbishment, deliver new products/services, build internal capacity and build marketing activities.

However, 2% of the loans were used for re-financing, which is perhaps surprising; the reasons behind this are explored further in Chapter 4.

Figure A.3 Purpose of deployed investments



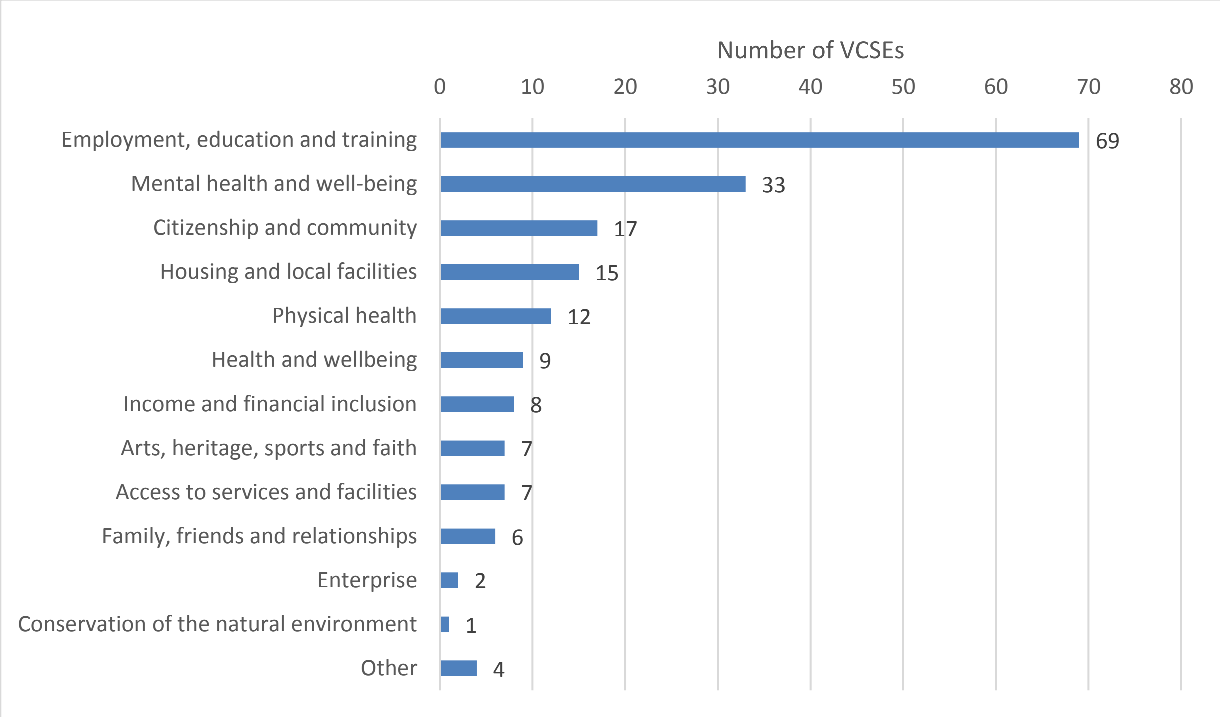
N=166

AII.4.2 Outcome/activity categories

41% of VCSEs with deployed investments were focussed on activities related to employment, education and training , followed by 18% focussed on mental health (**Figure A.4**). In total, 20 of the successful VCSEs listed multiple main activities.

ECORYS

Figure A.4 Outcome/activity categories (VCSEs with deployed investments)

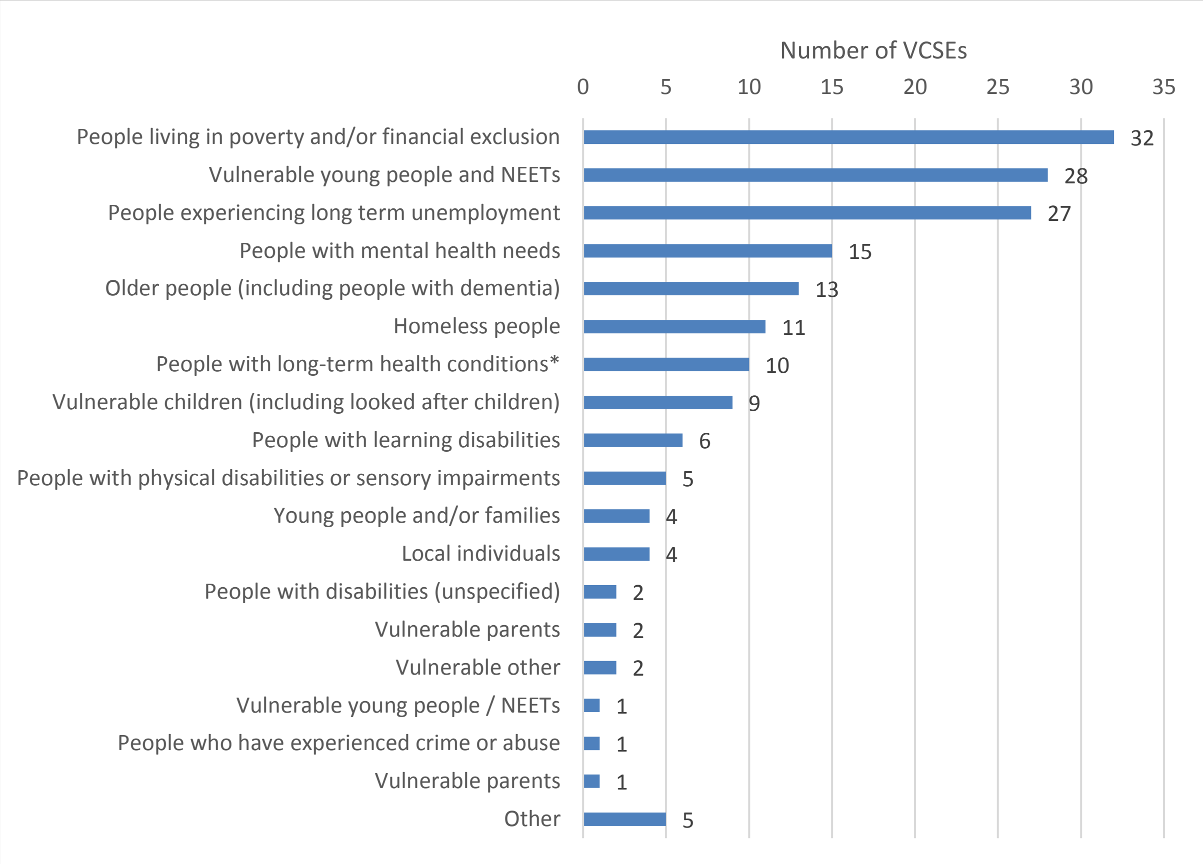


N=166

AII.4.3 Target beneficiary groups

The target beneficiary groups of successful applicants were varied (**Figure A.5**). The most common groups cited were people living in poverty and/or financial exclusion (19%), people experiencing long term unemployment (17%) and vulnerable young people and NEETs (16%). Eight of the VCSEs cited multiple target beneficiary groups. However, it is possible this is an underestimate as some VCSEs may just reported their primary target group.

Figure A.5 Target beneficiary groups (VCSEs with deployed investments)



N=166 (excludes multiple responses)

**and/or life threatening illness*

AII.5 Financial performance of funds

Key points regarding the financial performance of funds include:

- The vast majority of loans (94%) were not considered at risk, with 6% of loans being at risk (9 VCSEs).[28]
- Five investments (3%) were listed as non-performing.[29]
- In total, 5% of investments were in arrears (n=8). These ranged from £916 to £5830, with two unspecified.

The qualitative evidence indicated that the loan repayments were generally manageable for VCSEs because the repayments were built into their monthly cash flow forecasts. Even in one case study where the organisation was struggling financially, the loan repayment itself did not seem to be exacerbating the impact on them because they had already accounted for it in their financial plans.

[28] Note that investors may have different definitions of "at risk". As such, we advise some caution with the interpretation of this factor. Data missing for 13 VCSEs.
[29] Data missing for 16 VCSEs

AII.6 Comparison of Growth Fund to wider social investment sector

In this section we consider the extent to which the Growth Fund loans differ to loans made in the wider social investment sector. In order to make comparisons to the wider sector, we utilised data collected by Big Society Capital on social investments from multiple contributors/investors, including those not supported by Big Society Capital;[30] The data was drawn from the years 2016-2018 (same period the Growth Fund has been operational) to allow a comparison. Records for Access were deleted from the Big Society Capital data to avoid potentially including Growth Fund investments in our comparisons. Whilst this data may not cover the whole of the wider investment sector or all of our variables of interest, it does provide sufficient information to assess the Growth Fund against some of its overarching objectives. The wider sector comparator group consists of 694 investments.

Where comparable raw data was not available, we have made comparisons using secondary sources

AII.6.1 Relative to the wider sector, has the Growth Fund been able to meet demand for investments <£150k?

The Charities Aid Foundation (CAF) (2014) found that around half of VCSEs would like to borrow £50k or less. The analysis of successful Growth Fund investments against the wider sector reveals this demand is being better met by the Growth Fund than the wider sector– the average (median) loan for the Growth Fund was £41,500 (excluding grant) compared to £125,000 for the wider sector. However, it is important to bear in mind that the wider sector consists of a significant minority (c.10%) of investments >£1m. The median, upper and lower quartiles, range and outliers are depicted in **Figure A.6**. The average (median) duration of investment terms was shorter for the Growth Fund (48 months) compared to the wider sector (60 months).

[30] https://www.bigsocietycapital.com/latest/type/blog/reflections-dataset

Figure A.6: Box and whisker diagram for investment size, Growth Fund and wider sector

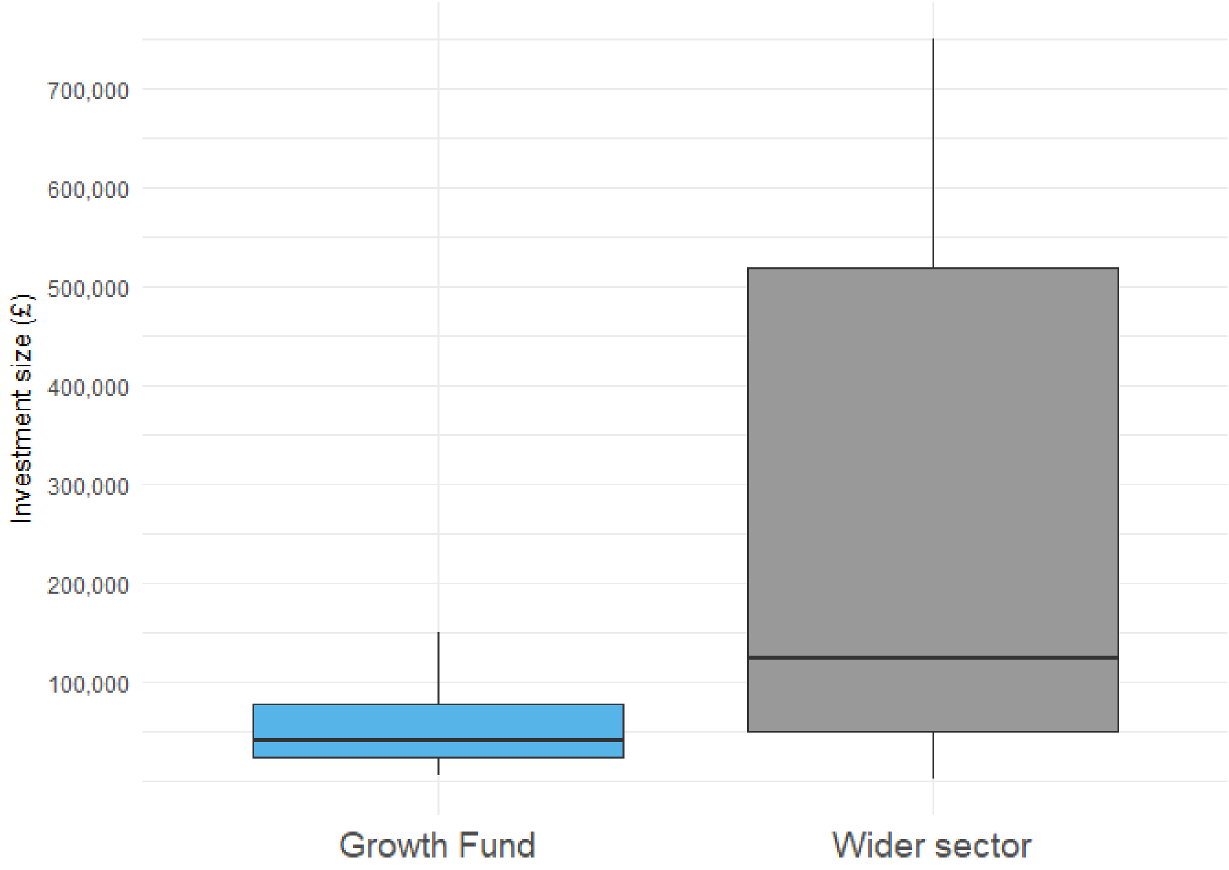


Figure shows the median (centre line in the box), the second and third quartiles (bottom and top of the box) and range (the lines coming out of the box, or 'whiskers'). Investments over £750k are not included in the figure for readability.

AII.6.2 Relative to the wider sector, what size VCSEs are accessing social investment?

The Charities Aid Foundation (CAF) (2014) found that VCSEs with annual turnover of around £1 million or greater are more likely to access social investment. The Growth Fund, in contrast, reached much smaller VCSEs (median turnover of £250k).

AII.6.4 Is the distribution of investments by service area different for the Growth Fund?

Table A.18 details the main service area of VCSEs receiving social investment. Relative to the wider sector, a greater proportion of investments supported by the Growth Fund were to VCSEs focused on employment, education and training, and mental health and wellbeing, whereas a smaller proportion of loan were made to those VCSEs focusing on housing and local facilities, and arts, heritage, sports and faith.

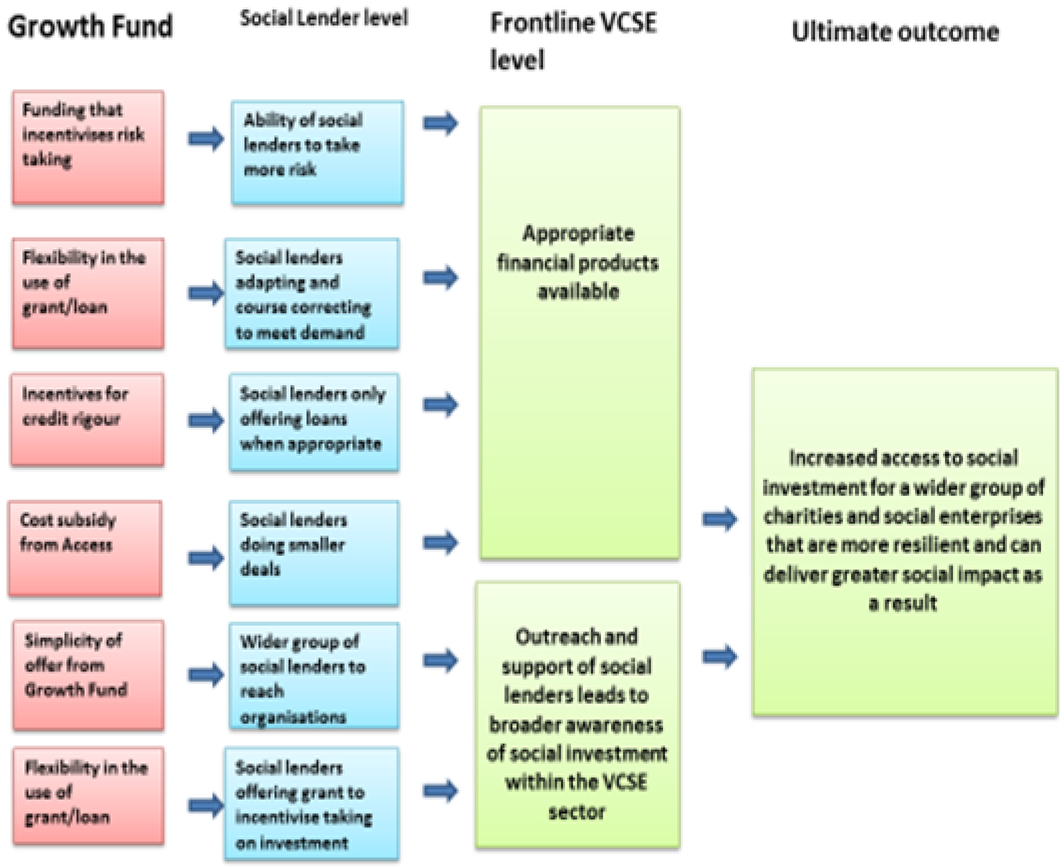
Table A.18 Distribution of investments by service area, Growth Fund and wider sector

	Growth Fund		Wider sector	
	Freq.	*%*	*Freq.*	*%*
Employment, education and training	69	42%	122	20%
Mental health and well-being	33	20%	37	6%

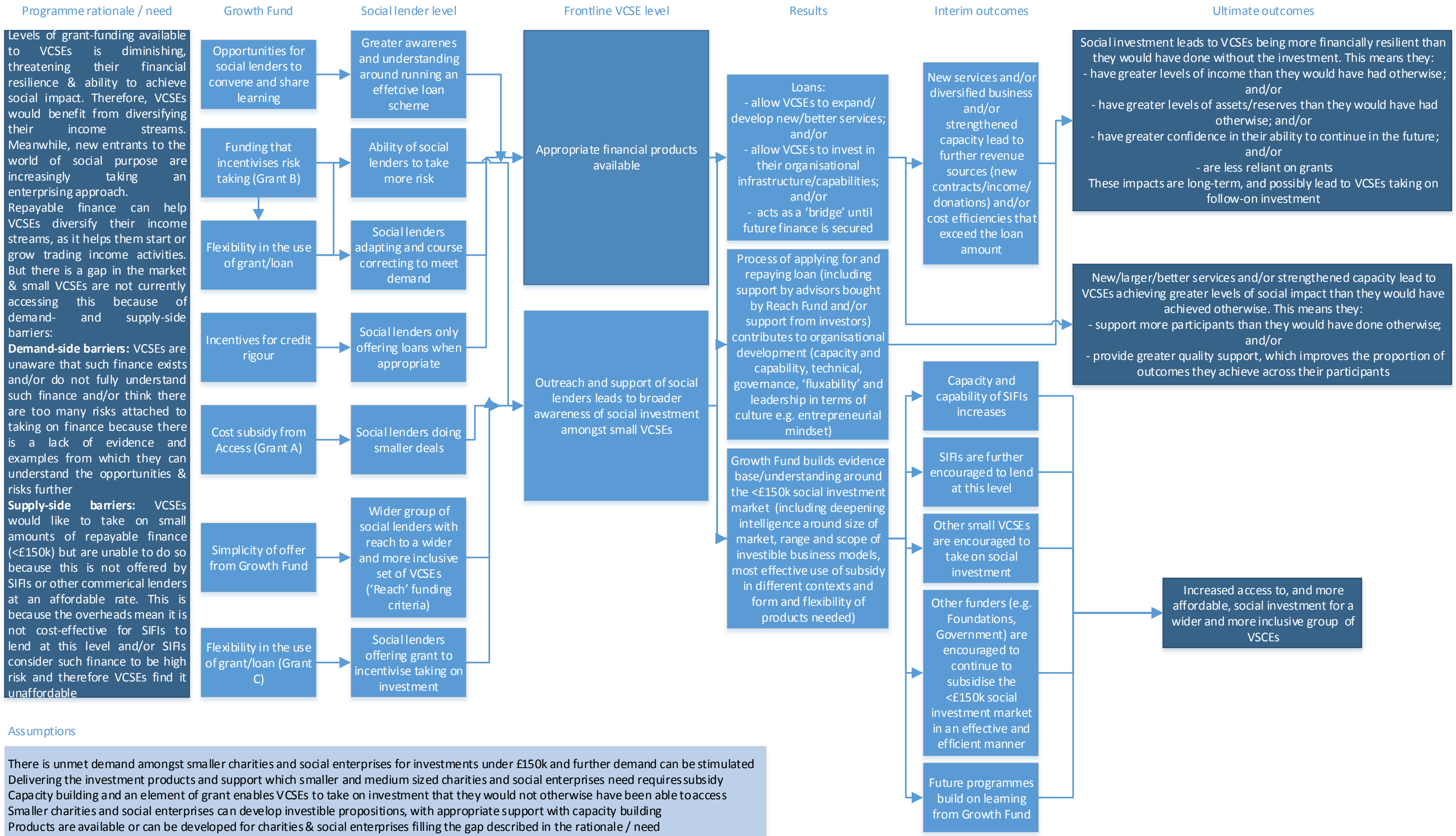
Citizenship and community	17	10%	92	15%
Housing and local facilities	15	9%	112	19%
Physical health	12	7%	43	7%
Health and wellbeing	9	5%	0	0%
Income and financial inclusion	8	5%	29	5%
Arts, heritage, sports and faith	7	4%	93	16%
Family, friends and relationships	6	4%	14	2%
Access to services and facilities	7	4%		0%
Other	4	2%		0%
Conservation of the natural environment	1	1%	46	8%
Enterprise	2	1%		
Multiple outcome areas			2	1%
Intermediary			10	2%
Grand Total	**166**	**100%**	**600**	**100%**

Annex III: Previous Versions of the Programme Theory of Change

Original Theory of Change at programme launch



Revised Theory of Change



Assumptions

There is unmet demand amongst smaller charities and social enterprises for investments under £150k and further demand can be stimulated
Delivering the investment products and support which smaller and medium sized charities and social enterprises need requires subsidy
Capacity building and an element of grant enables VCSEs to take on investment that they would not otherwise have been able to access
Smaller charities and social enterprises can develop investible propositions, with appropriate support with capacity building
Products are available or can be developed for charities & social enterprises filling the gap described in the rationale / need

ECORYS