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Growth Fund Independent Evaluation

Update Report 2: Full Report

James Ronicle, Rachel Wooldridge, Edward Hickman and Johnny Lillis.

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Executive Summary

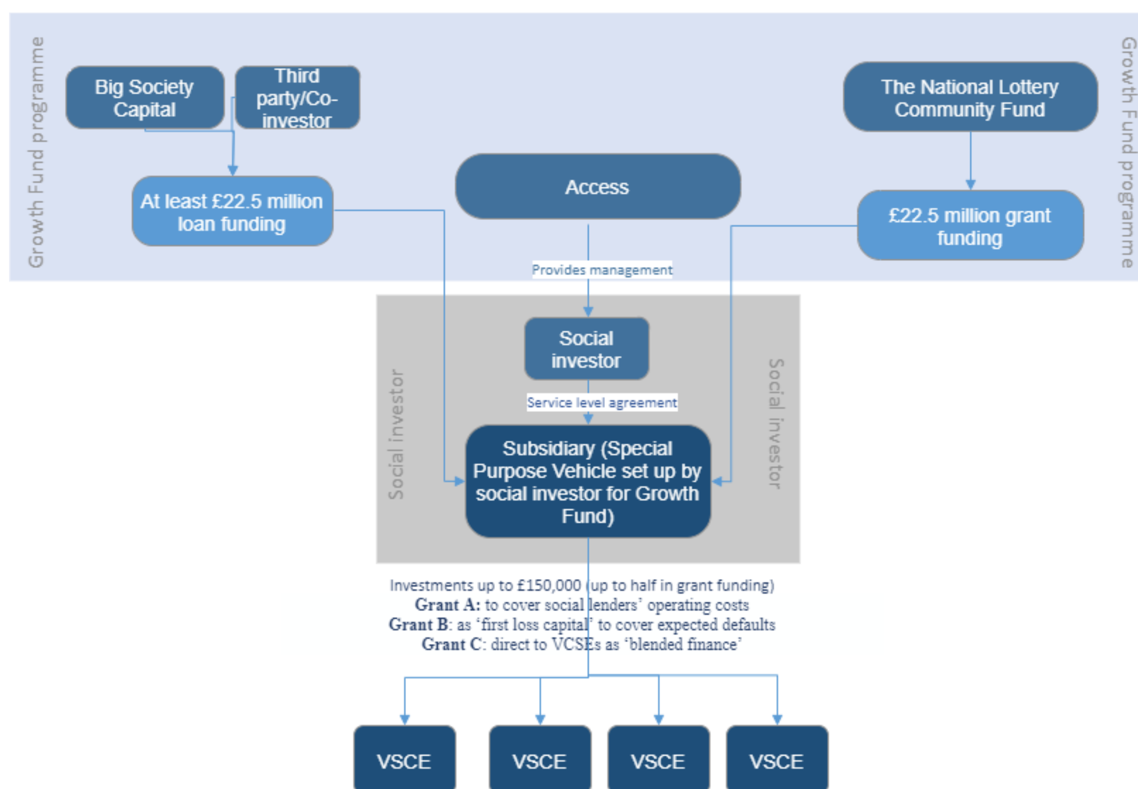
Up to 2020, the Growth Fund had made good progress. It had plugged a gap in the supply of social investment for voluntary, community and social enterprise orgsanisations (VCSEs). This in turn was strengthening VCSEs' financial resilience and increasing their ability to support a wider set of service users. It had increased the number of social investors in this space and increased social investor capabilities. Some aspects of the programme have, inevitably, been more successful than others. Perhaps the most challenging aspect of the programme has been supporting new and sub-sector specialist social investors to operate financially viable investment funds. There is, therefore, much to take from the Growth Fund into future blended finance programmes, and areas to experiment with further.

The Growth Fund is facilitated by an innovative partnership between The National Lottery Community Fund, Big Society Capital and delivered by Access , (collectively known as the Programme Partnership). Launched in 2015, it offers unsecured loans and grants of up to £150,000 to organisations which are unlikely to have taken on social investment before. In 2016, Ecorys and ATQ Consultants were commissioned to evaluate the programme. This Update Report 2 is the second evaluation report, and reports on the progress and impact of the Growth Fund up to the end of 2020.

The Growth Fund and evaluation

- In 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) are able to invest alongside the grant. The management of the Growth Fund is led by Access. Investments of both loans and grants are made into 16 funds run by 15 social investors (one investor runs two funds), who then make loans and blended loan/grant packages into voluntary, community and social enterprise organisations (VCSEs). The social investors are expected to repay the loan to BSC, including interest. Part of the grant funding from The National Lottery Community Fund helps to underwrite some of the capital, based on estimates of a likely default rate. Figure 1 provides an overview of the structure of the Growth Fund.

Figure 1: Growth Fund structure

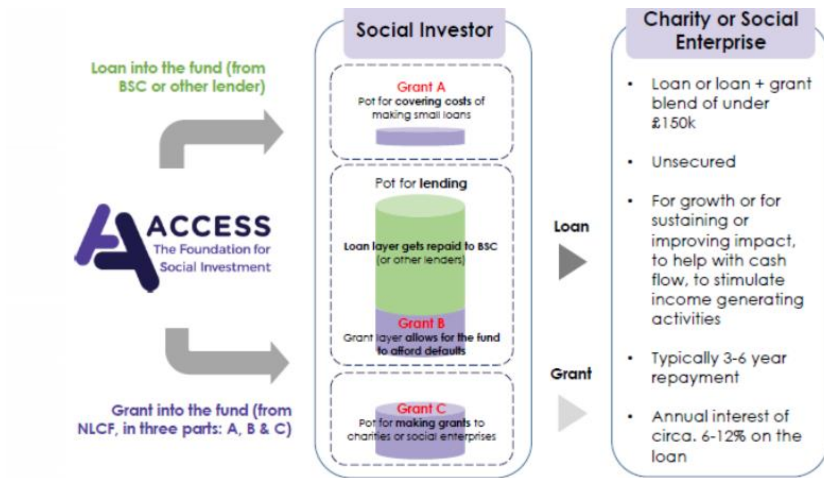


- The National Lottery Community Fund commissioned Ecorys UK, in partnership with ATQ Consultants, to evaluate the Growth Fund. The evaluation runs until 2022, and aims to assess and track the effectiveness of the Growth Fund in enabling a wider group of charities and social enterprises to successfully access social investment, become more resilient and deliver greater social impact. The following activity took place up to February 2021 and fed into this report:
  - Case study visits to 13 VCSEs that received social investment (five visited twice)
  - Analysis of Growth Fund Management Information up to September 2020. This contained information on 795 loans and grant applications from VCSEs
  - VCSE surveys – baseline n=108; two annual surveys (2019, n=46; 2020, n=41)
  - Consultation with one unsuccessful VCSE applicant[1]
  - Consultations with 13 social investors
  - Consultations with three unsuccessful social investor applicants
  - Consultations with seven people from the Programme Partnership.
- The Growth Fund uses the grant in three ways, known as Grants A, B and C. These are summarised in Figure 2 and detailed below:
  - Grant A helps to contribute towards the costs of making lots of small loans; so that the social investor can afford the proportionally higher transaction costs that can often exceed interest / fee income at this level

[1] Due to access issues linked to GDPR the evaluation team has not managed to interview unsuccessful VCSE applicants. The evaluation team is working with the Programme Partnership to resolve this issue.

- Grant B allows investors to be able to afford for some of the loans to fail; by blending grant and debt in the fund the social investor can afford for the portfolio as a whole not to break even and therefore will be willing to take greater risk on the loans that they make.
- Grant C allows investors to offer grant alongside loans to VCSEs; this reduces the amount of loan finance required so that revenue streams are robust enough for repayment.
- More information on the structure of the Growth Fund, and the method for the Growth Fund evaluation, can be found in Chapter 1.

Figure 2: The National Lottery Community Fund grant uses



Progress in delivering the Growth Fund

The Growth Fund is increasing the supply of small-scale, unsecured social investment

- Up to September 2020 the Growth Fund social investors had deployed 505 loans and grants to 419 VCSEs. The total amount deployed was £31,773,091.
- Around a third (31%) of successful VCSEs delivered employment, education, and training activities, and a fifth (20%) delivered activities relating to mental health and wellbeing (see Table 1).

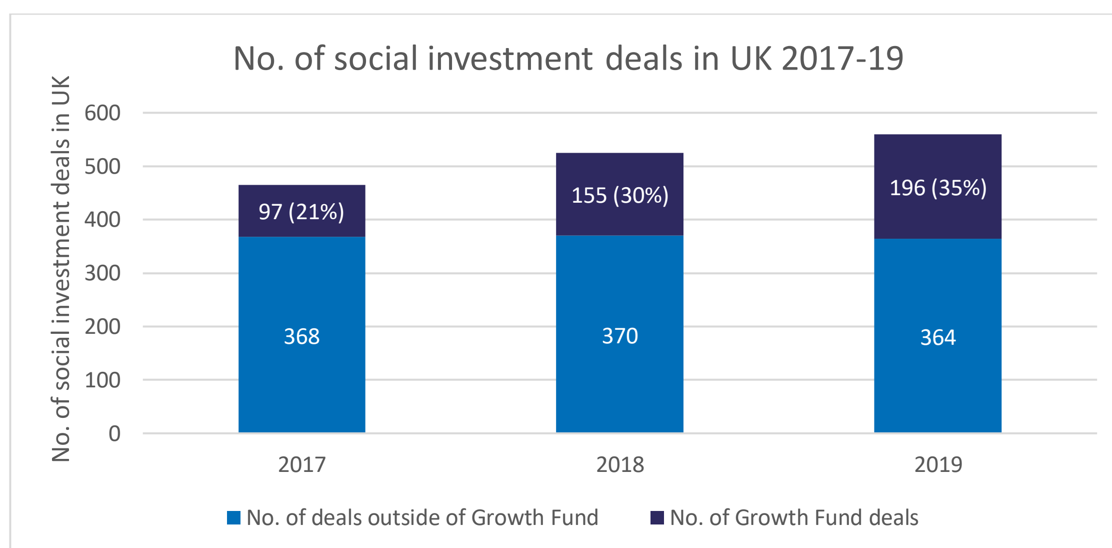
Table 1: Category of activities delivered by VCSEs

Category of activity	Percentage (%)
Employment, education, and training	31
Mental health and wellbeing	20
Mixed	15
Physical health	12
Housing and local facilities	8
Citizenship and community	7
Other	7

Source: Growth Fund Management Information (n=424)

- Stakeholders interviewed for the evaluation saw this as an impressive achievement, especially when this is considered within the wider landscape of social investment in the UK; Growth Fund deals accounted for over a third (**35%**) of all social investment deals recorded in BSC deals data in 2019 (Figure 3).

Figure 3: Growth Fund deals, as a percentage of all deals in UK for which deal-level data is available



Data source: BSC deals data: https://public.tableau.com/profile/big.society.capital#!/vizhome/DLD2019/Who. This is based on deal-level data only; the wider market is larger than this. Chart produced by Ecorys.

- There was significant variation in the progress of different social investment funds against projections. Stakeholders felt that the main challenge was in converting 'latent' demand for loans into 'actual' demand, which took far longer and more resource than first anticipated.
- It is too soon to draw conclusions on the success or otherwise of loan repayments.
- The Partnership has realised that although they all support the over-arching aim of the Growth Fund, they have different views as to how the Growth Fund should have been structured and which aspects should be prioritised during decision-making. There was general agreement that future similar programmes should avoid such a complex partnership structure, and that instead there should be one organisation with core responsibility and decision-making in relation to the grant giving (though views on what this should look like varied).
- More information on the progress made in delivering the Growth Fund can be found in Chapter 2.

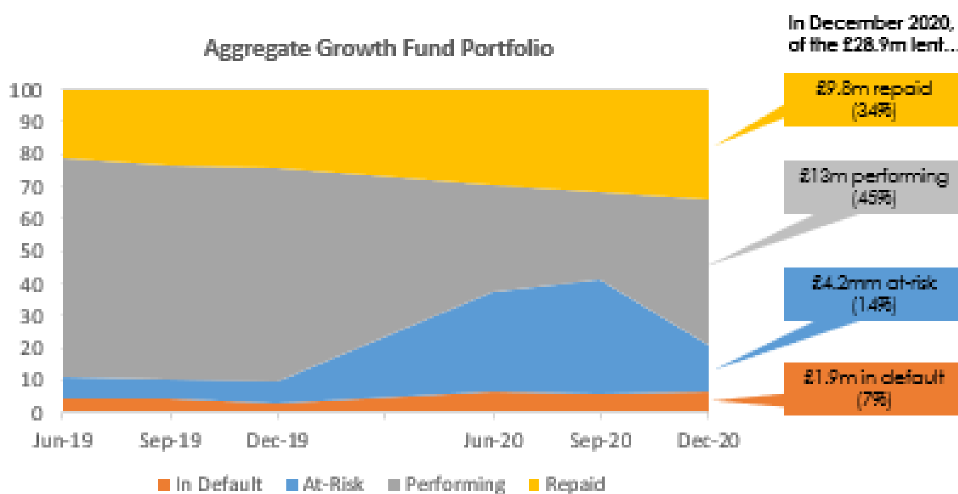
Responding to Covid-19

There was unanimous praise for how the Programme Partnership responded to the Covid-19 crisis.

- It is clear from the evidence that the pandemic impacted all VCSEs in some way, with some able to adapt their business model and keep operations going, while others had to reduce or stop their service offer.

- While some VCSEs were able to keep afloat financially, others struggled during the pandemic and had to take action to respond to financial challenges.
- Investors re-appraised their portfolios following the lockdown, and by June 2020 30% of Growth Fund loans were deemed at risk (though this was a precautionary measure recognising the uncertainty surrounding the pandemic)
- The Programme Partnership introduced a raft of changes to the Growth Fund in response. This included: financial breaks that enabled social investors to offer capital and interest repayment holidays; additional finance (providing additional Grant A and Grant C from The National Lottery Community Fund); freezing of BSC interest accrual to social investors during the six months after March 2020; and easing of administration requirements so investors could focus on providing direct support to VCSEs. When the six month interest-free period on social investors' BSC capital came to an end in September 2020 a further adjustment was agreed by the Growth Fund funding partnership, to provide greater flexibility going forward. This comprised: reducing overall interest accrued for repayment to BSC by the Growth Fund's social investors, by reducing future interest rate accruals on both current outstanding capital and future borrowing from 5% to 2%; and sharing any upside to this return 50/50 between the social investors and BSC. Because of the actions put in place by the Growth Fund and wider actors (i.e. the Government and other funders), overall in 2020 there was no substantial impact on VCSEs' ability to repay the Growth Fund loans. The percentage of loans deemed at risk by social investors reduced, and by the end of 2020 this had dropped to 14%, as social investors re-structured some of the loans (Figure 4). However, there are fears that things could prove more challenging for the funds in 2021 and beyond.

Figure 4: Performance of Growth Fund loans



Source: Access.

- Starting in July 2020 the Programme Partnership worked with the social investors to make a set of further changes to funds. All funds were reforecast and many were significantly restructured, including various changes to deployment period lengths, repayment period lengths, grant amounts/ ratios, and total fund size. Some funds chose to extend their deployment periods whilst others opted to wind-down and close early.
- There was unanimous praise for how the Programme Partnership responded to the Covid-19 crisis, from members of the Partnership and social investors. The Partnership was able to overcome challenges around decision-making and acted in a swift and collaborative manner. Social investors felt the Partnership could not have done more.
- More information on how the programme and its stakeholders responded to Covid-19 can be found in Chapter 3.

Impact of Growth Fund on investors

The Growth Fund has increased the number and capability of social investors operating in this space. Most hope to continue lending to this market in the future, potentially creating a sustained impact

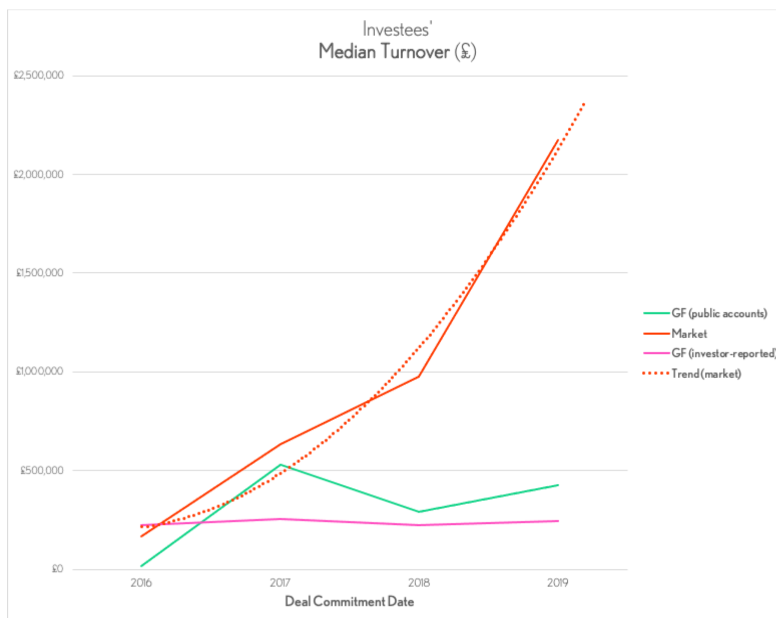
- The Growth Fund Theory of Change with respect to the social investors posits that, with the support from the grant subsidy, capacity and lending activity will increase. This will lead to improved social investor capabilities and sustained interest in the provision of unsecured lending to the sub<£150k loan market. This is so far proving to be broadly correct.
- The Programme partners successfully engaged with 15 social investors and broadened the number of players in the market. Not surprisingly, their experiences of managing respective funds has been mixed.
- The main reasons for the different experiences were a combination of factors, including levels of prior loan book management experience and specific sector and/or geographical focus. Generally, more experienced and more 'generalist' funds were more successful in deploying against their original projections, with organisations new to social investment and/or funds with a specific location and/or sector focus deploying below their forecasts.
- The experienced social investors and some of the new and specialised social investors intend to continue lending in this space after Growth Fund. Four social investors either have not, or will not, carry on. Given it was never expected that all organisations would continue to operate, at this point in time we deem that this means the Growth Fund has achieved its objective of garnering sustained interest in lending to the <£150k market. However, the social investors not continuing are all ones that set up new investment arms to deliver Growth Fund and so, in this respect, the sustainability of social investors operating as stand-alone Growth Fund partners is in question. All of the more experienced social investors that hope to carry on have diversified investment revenue streams and enjoy economies of scale through managing a variety of different investment programmes.
- For all social investors, the experience of managing a blended fund of this scale had increased their respective organisational capacity and capability. Even for those social investors not choosing to continue, the skills and experience gained will be applied in their grant management activities.
- What all of this shows is that becoming a new social investor is a challenging and time-consuming endeavour – whilst some will succeed and stay committed to the space, others will struggle and decide it is unviable. This creates a dilemma for those wishing to grow the social investment space – especially if the belief (supported to some degree by these evaluation findings) is that more specialist organisations add value to the sector. The Growth Fund appears to have shown that 'specialist' social investors can support in extending the reach of social investment, but that it can be problematic if a programme has too many new and specialist funds within it, especially given that viability can be an issue if these funds are too small or the number of sector organisations within their remit are too few. The lesson learnt here is to continue to build on the specialist knowledge of sector specific organisations, but consider carefully how this is done; this could include involving them without them necessarily being the social investors themselves.
- More information on the impact of Growth Fund on social investors can be found in Chapter 4.

VCSEs’ business models and applying to the Growth Fund

VCSEs accessing the Growth Fund are substantially smaller than VCSEs accessing wider social investment. Whether the Growth Fund has reached VCSEs that were not able to access investment in the past is less clear

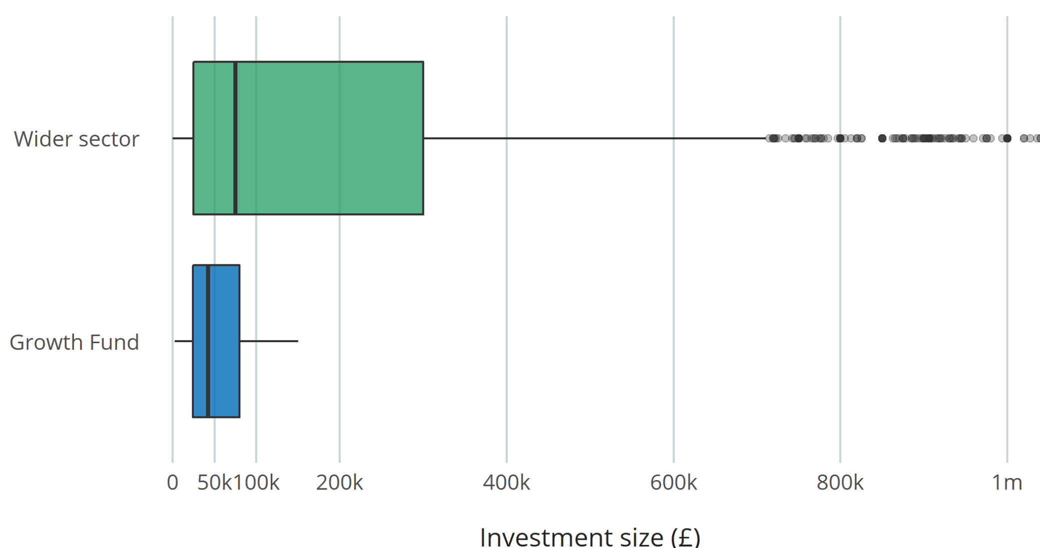
- Growth Fund VCSEs are targeting a wide range of different beneficiaries through their work, with nearly a fifth (18%) working primarily with vulnerable young people and 15% with people living in poverty and/or financial exclusion.
- VCSEs accessing the Growth Fund are substantially smaller than VCSEs accessing wider social investment; Growth Fund has supported organisations with, on average, half the income and 1/8th of the assets of those who normally attract social investment (Figure 5). The Growth Fund is also providing much smaller-sized loans than the wider sector – the median-sized loan in Growth Fund was £42,450, compared to £75,000 in the wider sector (Figure 6).

Figure 5: Comparison of median turnover between VCSEs accessing Growth Fund and the wider social investment market



Source: A tale of Growth Fund and the market. Curiosity Society

Figure 6: Comparison of investment size in Growth Fund and wider social investment sector



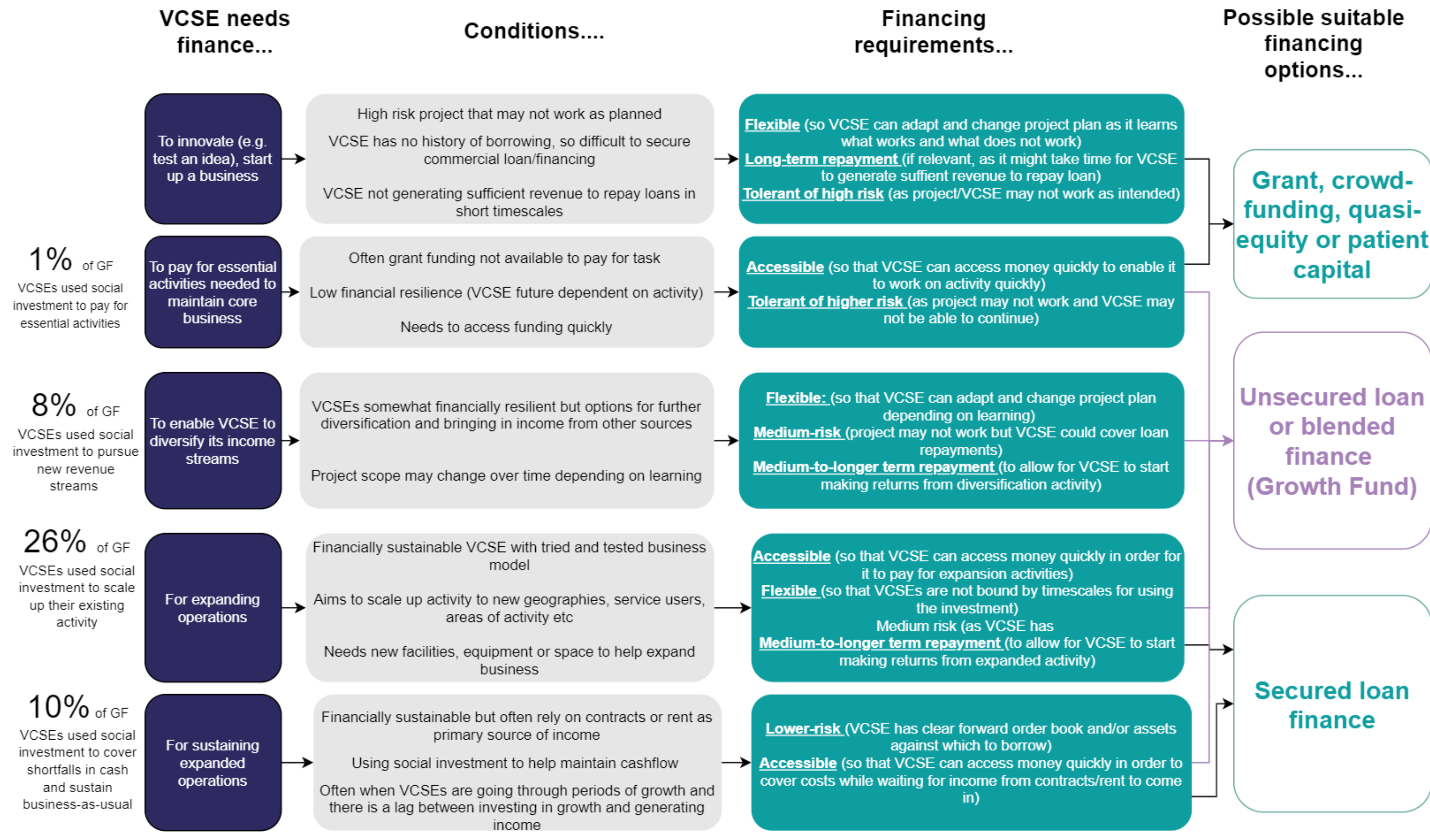
Y-axis truncated to £1,000,000 but maximum investment size for wider sector is £100,000,000

Data source: BSC deals data: https://public.tableau.com/profile/big.society.capital#!/vizhome/DLD2019/Who. Chart produced by Ecorys. Growth Fund deals = 505. Wider sector deals = 4,393. Wider sector deals cover 2002 to 2020; Growth Fund 2017 to 2020. We did not filter wider sector deals so they covered a similar time period because 25% of the deals did not include a date, and these were typically lower deal sizes. Therefore filtering by date would have excluded these deals, which would have skewed the results. Horizontal line shows range of deal sizes. Each box shows the 'middle 50' – i.e. the deals 25% either side of the median. Thick vertical line shows the median.

- Whether the Growth Fund has reached VCSEs that were not able to access investment in the past is less clear; some VCSEs have accessed small-scale loans in the past, but these may have been secured. Qualitative evidence suggests a nuanced picture, and there is evidence that some VCSEs would not have been able to access investment without the Growth Fund, whereas for others, they felt the Growth Fund provided another investment option for them. Some suggested that they would have gone to a commercial lender had they been unsuccessful with accessing social investment, although they could not be certain whether they would have been successful at securing a loan from another (social or commercial) investor.
- It is our understanding that VCSEs were not assessed on whether they could access other forms of investment, social or otherwise. It is our view that to maximize the value-for-money of blended finance programmes then the eligibility criteria should state that it is only available to VCSEs that cannot access other forms of (non-subsidised) investment, and this should be assessed at the application stage.
- Whilst the Growth Fund did plug a gap overall, there is evidence to suggest it did not plug the full gap, as the design of the Growth Fund meant it could mainly offer unsecured loans; other research has argued that there are other gaps in the supply of social investment, specifically around patient capital and quasi-equity products.[2]
- VCSEs took on Growth Fund loans and grants for a variety of reasons, related to their business model. Figure 7 presents a typology we developed based on the Growth Fund research to show how VCSEs appear to need or use different financing types at different stages of their business model development. Often loan finance was the preferred option because it could be used more flexibly than a grant.
- More information on VCSEs' business models can be found in Chapter 5.

[2] Salaway, M 2017. Social Investment as a new charity finance tool: using both head and heart. See: *https://www.cass.city.ac.uk/__data/assets/pdf_file/0007/358864/CCE-Social-Investment-as-a-new-charity-finance-tool-using-both-head-and-heart-Report-May17.pdf*

Figure 7: VCSEs' use of financing types at different stages of business model development



Sources: Growth Fund Evaluation Case studies and Growth Fund Programme Monitoring Data. Building on wider research; Salway (2017): Social Investment as a new charity finance tool: using both head and heart; Flip Finance (2017) Risk Finance for social enterprises and charities. Percentages represent the percentage of VCSEs reporting this finance need in the baseline survey. Percentages do not total 1% as other uses of finance also reported.

VCSEs' experiences of the Growth Fund loans and grants

VCSE have had a positive experience, both during the application and re-payment stages.

- The loan application process for successful VCSEs was generally positive. VCSEs valued their investors' alignment with their mission, regular communications about progress of their application, and reaching agreed terms and conditions. VCSEs were less positive about the evidence required to demonstrate social impact, and the clarity of the application form and requirements.
- Qualitative evidence indicates that VCSEs generally used their loans as they intended to in their business plan. Where changes to repayment plans had been made, it was due to a change in VCSEs' business needs, changes in project timescales, and VCSEs generating less revenue than expected (both pre- and during Covid).
- Grant C – the grant that investors could pass down directly to VCSEs to use flexibly alongside their loans – tended to be used in several ways: to reduce the cost of loan repayments; to purchase new or upgrade existing buildings, facilities or equipment; to develop the organisation; and to cover core costs. The extent to which Grant C was reported by VCSEs as 'essential' varied. It seemed to be most important for those using it to lower the costs of their loans.
- Most VCSEs' experiences of repaying loans was also positive. VCSEs reported positive ongoing engagement with investors, and particularly valued the responsiveness of the investor, their understanding of VCSEs' business and clear, regular communications. However, several VCSEs felt the annual reporting requirements were at times complex and some found it difficult to evidence their social impact.
- The fact that Grant C was deemed most essential when used to pay the loan interest raises some interesting questions for the design of future blended finance programmes. Some VCSEs felt the interest rates were quite high, and wider research highlights high interest rates as a barrier for VCSEs accessing social investment[3]. It needs to be borne in mind that the purpose of the interest rates is to cover the investors' operating costs (and returns to the wholesale investor) – which are in-part covered by the Grants A and B respectively. A possible alternative design option, then, would be to use some of the Grant C money to increase Grant A. This would mean more of the investors' operating costs would be covered by the grant, meaning they would not have to charge so much interest. It is possible, though, that such a re-design, with less available Grant C, would be *less* attractive to VCSEs, as some reported being attracted to Growth Fund because of the grant element. This is something worth exploring in future blended finance programmes.
- More information on VCSEs' experiences of the Growth Fund loans and grants can be found in Chapter 6.

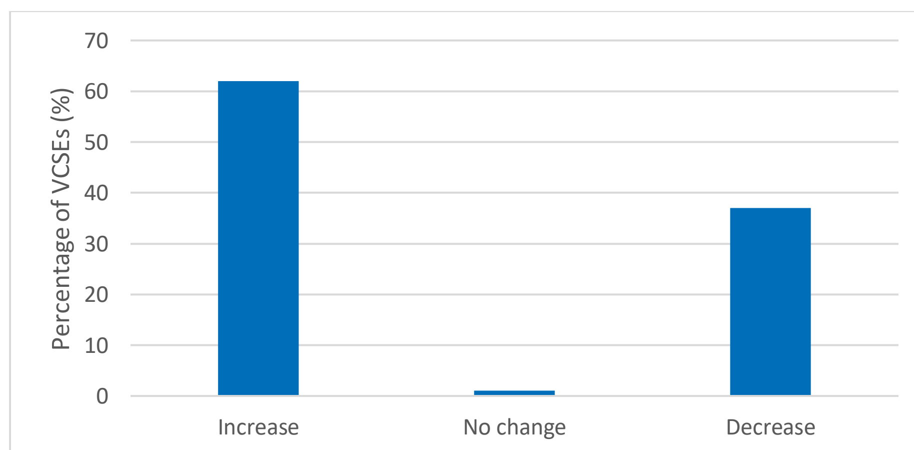
[3] Comic Relief, 2019. *What's in it for us? A Report on Small Charities and Social Investment.* See: https://www.goodfinance.org.uk/latest/post/report/comic-relief-whats-it-us-report-small-charities-and-social-investment

Impact of Growth Fund on VCSEs’ financial resilience and social impact

Overall, VCSEs’ financial resilience grew after taking on Growth Fund finance; the majority of VCSEs attributed this growth to the Fund. VCSEs also reported that it helped them increase their social impact

- VCSEs reported that ‘financial resilience’ could be measured in terms beyond the ‘hard’ financial metrics such as income or net assets. Other important indicators included: the extent to which VCSEs could demonstrate their repayment history; the extent their income streams were diversified; their stability (in terms of cashflow and number of full-time equivalents); and the extent to which they were self-sustaining (i.e. not reliant on grants).
- Evidence suggests that two thirds of 150 VCSEs increased their income (where data was available) after accessing Growth Fund social investment (Figure 8). However, over a third saw a decrease. It has not been possible to compare income changes between Growth Fund VCSEs and similar VCSEs in the wider sector due to limited available data on other VCSEs’ income and net assets. However, most VCSEs in the survey and case studies attributed increases in income to the social investment.
- Diversifying income streams often contributed to increased revenue. Furthermore, VCSE managers often highlighted that the process of researching into and testing approaches to diversifying their income sources led them to have a better understanding of their organisation’s business model and how they could continue to develop it in the future.

Figure 8: Change of direction in VCSEs' income from baseline to March 2020



Source: Growth Fund VCSE Management Information (n=150).

- There appeared to be no net positive impact on net assets, with 51% of VCSEs seeing an increase in net assets, with 47% seeing a decrease.
- Social investment had helped some VCSEs to maintain their cashflow to ensure they could keep covering their core costs while growing their business. 42% of 157 VCSEs for whom data was available grew their number of FTEs, though 27% saw a decrease.
- VCSEs saw an increase in ‘intangible assets’ (i.e. those not recorded on a balance sheet) acquired through the social investment, including improved staff working conditions, upskilled staff, a better or more well-

known brand, and intellectual property. The unsecured nature of loans enabled VCSEs with no repayment history to build theirs up, thus increasing their ability to borrow again in the future.

- Over a third of survey respondents (31 out of 81) said that the social investment had reduced their reliance on grants to 'some degree'; four said that it reduced their reliance on grants to a 'significant' degree. There was both qualitative and quantitative evidence that suggests that social investment is contributing to increased beneficiary reach (in terms of geography, new beneficiaries and new types of beneficiaries), and increased quality of provision.
- Table 2 overleaf provides examples from the case studies of how the Growth Fund finance had boosted VCSEs' financial resilience.
- There were variations in how VCSEs were measuring outcomes. The level of variation in data availability, quality and types of outcomes reported makes it difficult to aggregate the data and report meaningfully on the overall social impact achieved by the Growth Fund. The Programme Partnership is still interested in VCSEs reporting on their core social impact, as it provides assurances that the Growth Fund is investing in socially-motivated organisations. However, we do not think the assurance value is proportionate to the effort required to collate the data, nor would it be legitimate to use such data to claim attribution of investee's core business impact to the investment, and so we would recommend to the Programme Partnership that it ceases collating it. This is not to say that they should stop seeking assurance of organisations' social motivations or trying to assess how the social investment is *contributing* towards social impact; instead we recommend that assurance is better gained through investor due diligence (pre and post deal) and, that gauging the programme's contribution to VCSEs' social impact is better captured through the evaluation surveys and case studies.
- More information on the impact of Growth Fund on VCSEs' financial resilience and social impact can be found in Chapter 7.

Conclusion

- Overall, the Growth Fund had made good progress up to the end of 2020. It had increased the number of social investors in this space, broadened the reach of social investment and increased social investor capabilities. It had plugged a gap in the supply of small-scale social investment for VCSEs. This in turn was strengthening VCSEs' financial resilience and increasing their ability to support a wider set of beneficiaries
- Some aspects of the Growth Fund programme have, inevitably, been more successful than others. Perhaps the most challenging aspect of the programme has been supporting new and sub-sector specialist social investors to operate financially viable investment funds. Many lessons have been learnt along the way, including:
  - It is important for organisations considering funding a blended finance programme to be explicit in their priorities for the programme
  - It is more challenging and resource-intensive to expand the social investment market than originally envisaged
  - It is challenging to aggregate social impact across diverse fund portfolios. Measuring the contribution of investments to social impact at a programme level is better captured through evaluation surveys and case studies than through attempting to aggregate VCSEs' reporting of diverse business-wide social impact numbers that are not solely attributable to the investment.
- There is, therefore, much to take from the Growth Fund into future blended finance programmes, but also areas to experiment with further, including:

- ▷ The most effective and efficient way to use sector-specialist organisations to grow the reach of social investment
- ▷ The best way to ensure programmes are targeted at those that need blended finance the most
- ▷ The best way to blend the loans to VCSEs with grants
- ▷ How to offer a broader set of products to meet VCSE needs, such as patient capital.

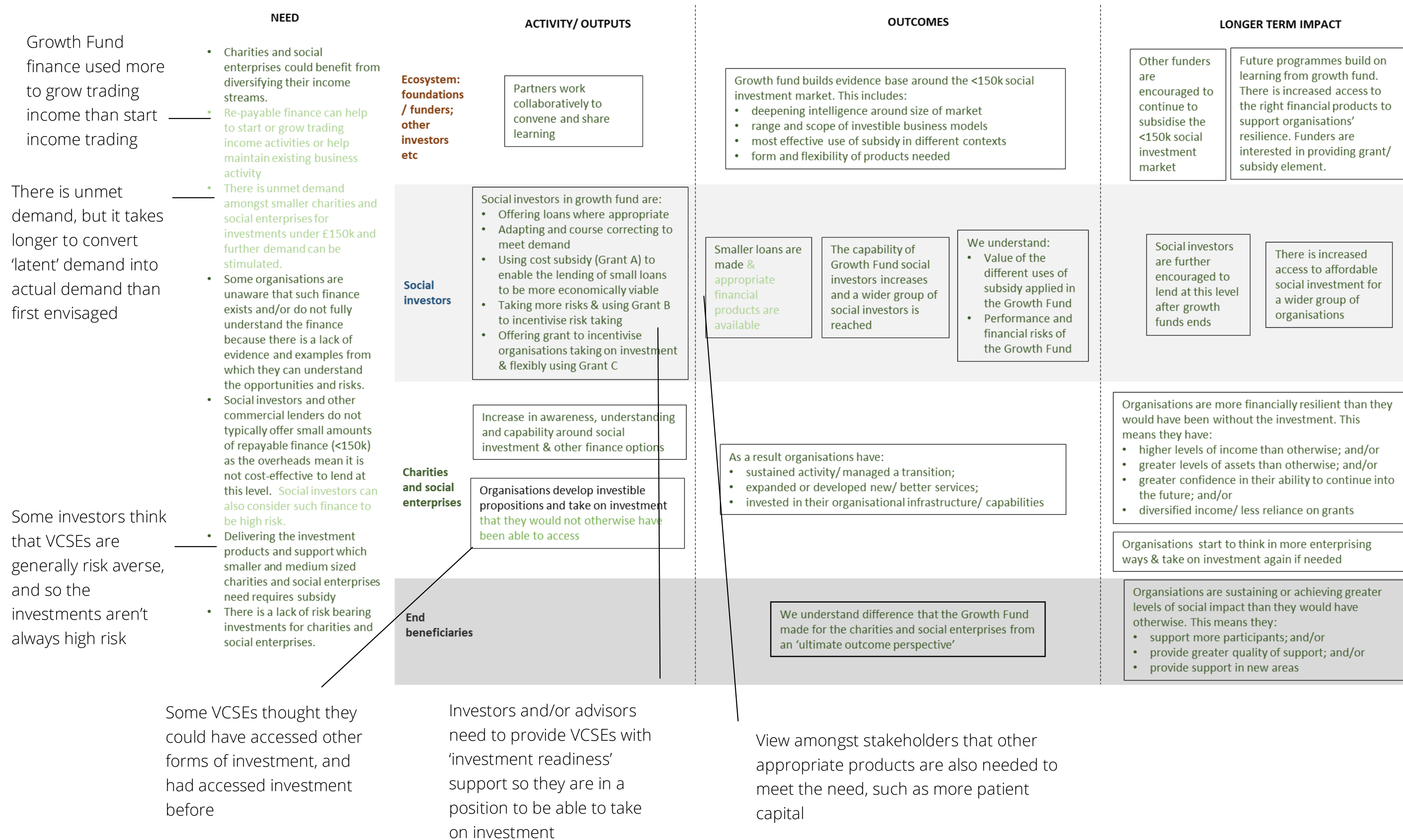
- In Figure 9 we reflect on the degree to which the original Theory of Change We have coded the ToC to highlight where there is evidence to support (or not) the elements of the ToC. We have coded the text as dark green where there is a good level of evidence from the evaluation that this element of the ToC is occurring. We have coded in light green where there is some evidence that this element of the ToC is occurring, but there is some nuance to this element – we have included the nuance in supporting text to the side of the diagram. We intended to include red text where elements of the ToC were not occurring – as can be seen, there were none of these. This coding shows that, overall, the Growth Fund Theory of Change is appearing to be correct, and the expected impact is occurring. There are some nuances in some elements that require highlighting, and designers of future similar programmes should bear this mind.
- More information on the conclusions can be found in Chapter 8.

Table 2: Financial resilience of different case study VCSEs' business models by 'purpose of social investment'.

Purpose of social investment	Expected impact on financial resilience	Actual impact on financial resilience	Counterfactual (what would have happened without social investment)
Paying for essential activities	In this case financial resilience was low at the point of application and the organisation was operating at a budget deficit. The VCSE needed to undertake the specific project (a marketing campaign) to raise awareness of its business, to try and maintain its current beneficiaries as well as attract new ones	Very good – the social investment contributed to increased income and enabled the organisation to transition from operating at a budget deficit to a surplus. Due to this the VCSE expanded its team and is positive about future financial resilience.	This organisation would have likely struggled a lot without the funding – they needed it to keep their business afloat. The manager here also reflected that the social investment was 'key' to catalysing their ability to generate enough income for the project to be self-sustaining.
Diversify income stream	Social investment would enable VCSEs to increase the sources of income, thus reducing reliance on any one source of income (usually grant)	Mixed – one VCSE was, to a large extent, still reliant on its grant funders (especially for core operations), and the other said that it was in a positive place financially; the renovation of its café meant they could sell more goods,	The organisations would have looked for funding elsewhere, however they also felt they would not have been able to secure a grant for the work that they did, so

		attract more people, and therefore brings in more income.	they would likely be less financially resilient.
Expand business	Many of these VCSEs felt that they were financially resilient prior to applying for social investment. These VCSEs thought that social investment would help increase their resilience as it would enable them to expand their reach geographically, or increase the number of beneficiaries reached, which would in theory increase their income.	Mixed – one VCSE had said they had expanded their business, which led to increased income. Some VCSEs said they had increased income, as well as built up their assets to enable them to borrow against in the future. Others felt less sure, and while they had expanded their businesses, they were not meeting their expected numbers yet, which meant that income was lower than anticipated.	Generally, the VCSEs thought they would not have been able to grow at the same rate as they had done with the social investment. For some, it would have slowed their growth, and for others the growth would not have happened (their organisation would have plateaued). For those that felt their financial resilience had increased, they were not sure if they would have been at the same level without the social investment.
Maintain cashflow	These VCSEs needed social investment to plug the gap between outgoings (e.g. overheads and salaries) and income (e.g. from contracts or rent). One was a fairly new VCSE with low reserves, whereas another had huge lags with cash coming in as part of contract work. These organisations felt that social investment would allow them to continue to develop their offers, while covering the core costs.	Good – organisations here were generally still financially resilient, with regular income and stability (i.e. maintained cashflow).	The Growth Fund came at the right time for these VCSEs. Two would have been in trouble financially. One said that their business would have failed because they would not have been able to keep themselves afloat until the future revenue came in. Another VCSE said that they would have failed on the delivery of a contract, because they needed the social investment upfront to bring in staff to deliver the contract.

Figure 9: Revisiting the Growth Fund Theory of Change



Introduction

1 Introduction

In 2015 The National Lottery Community Fund, Big Society Capital (BSC) and Access - The Foundation for Social Investment (Access) launched the Growth Fund. The Growth Fund offers loans and grants of up to £150,000 to organisations which are unlikely to have taken on social investment before. In 2016, Ecorys and ATQ Consultants were commissioned to evaluate the programme. This Update Report 2 is the second full evaluation report, and reports on the progress and impact of the Growth Fund up to the end of 2020. This chapter provides more information on the Growth Fund, the evaluation, and the focus of this report.

1.1 Background and aims of the Growth Fund

The Growth Fund is a 'test and learn' pilot programme, 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 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. It was aimed at VCSEs who were unlikely to have accessed social investment before. The Theory of Change underpinning the Growth Fund can be found in the Conclusion.

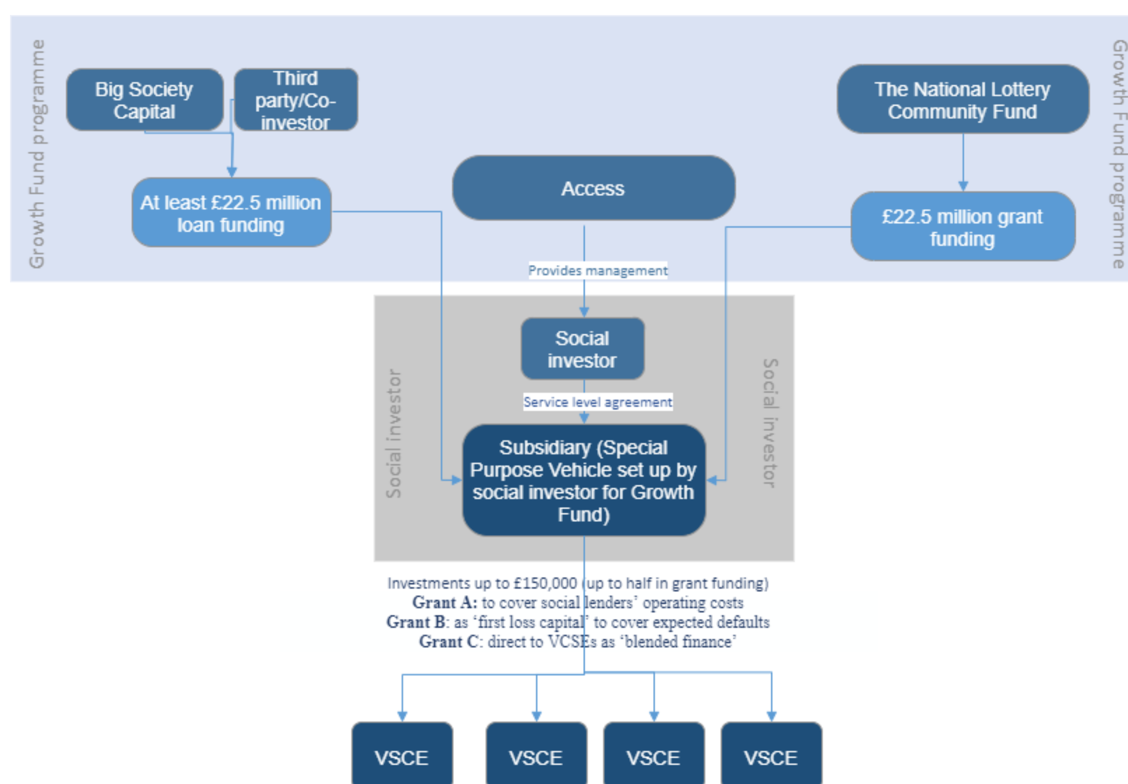
The Growth Fund is facilitated by an innovative partnership between The National Lottery Community Fund, Big Society Capital and delivered by Access , (collectively known as the Programme Partnership). These organisations are summarised below:

- 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.

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[4], which combines grant funding and loan funding in a total pot worth at least £45 million. Figure 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) are encouraged to invest alongside the grant; in some cases this may be in lieu of BSC 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.

Figure 1: Growth Fund structure



The social investors have to repay the loan to BSC, including interest[5]. The interest rate was initially set at 5%. The rationale for this interest rate was to demonstrate sustainability and attractiveness for other investors of loan funds providing small-scale finance to VCSEs, whilst also being affordable to VCSEs. In September 2020 a further adjustment was agreed by the Growth Fund funding partnership, to provide greater flexibility going forward; this was because the six month interest-free period on social investors' BSC capital came to an end, yet VCSEs were still facing financial difficulties due to the pandemic (see Chapter 3). This adjustment comprised: reducing overall interest accrued for repayment to BSC by the Growth Fund's social investors, by reducing future interest rate accruals on both current outstanding capital and future borrowing from 5% to 2%; and sharing any upside to this return 50/50 between the social investors and BSC (up to a capped BSC return of 5% IRR). This change was not made to alter the interest rates paid by the borrowers, but rather to ensure that flexibility was maximised because this flexibility is considered most important to help organisations.

[4] Blended finance is a mix of investment, that needs to be repaid, and a grant that doesn't need to be repaid.
[5] .

16 funds have been involved in the Growth Fund. Of the 16 funds, 13 were still actively lending as at December 2020. Table 1 provides details on the funds, including their name, total loan and grant amount (including split between Grants A, B and C, see Section 1.1.3) and details of any co-investors.

To protect the anonymity of the social investors' responses to the evaluation, throughout the rest of the report the investment funds are referred to as Funds A to P. Again. to protect anonymity, they are not presented in the same order as in this table (i.e. the first Fund in this table is not Fund A).

Table 1: Live social investor funds

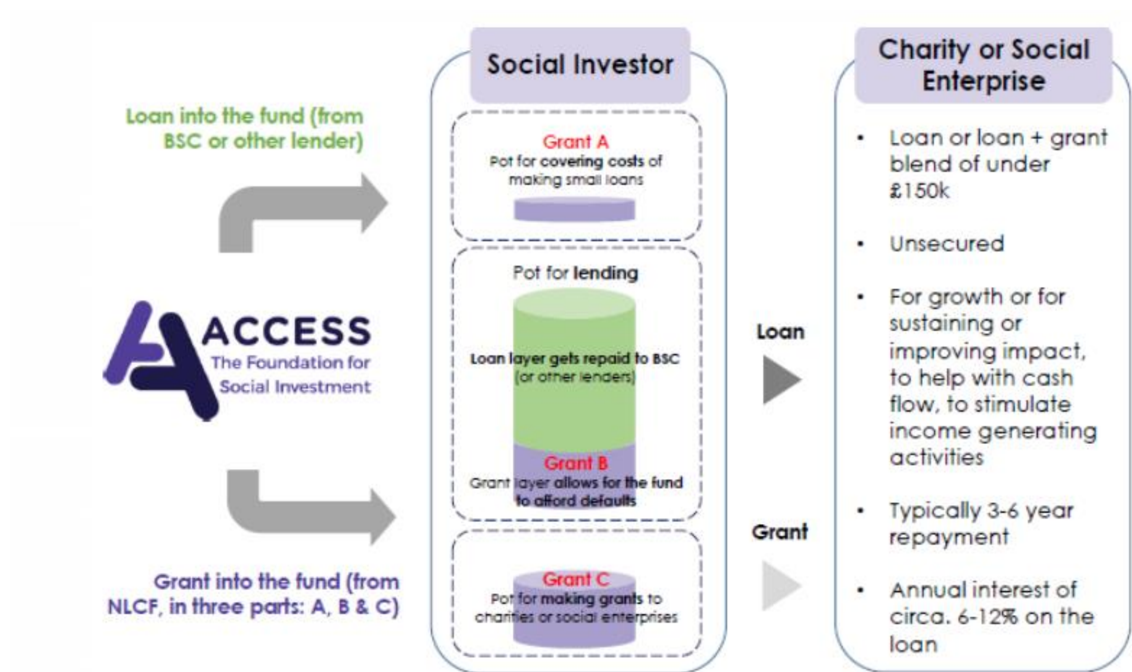
Name of social investor and fund	Name of fund	Remit	Fund Established Date
Key Fund	Northern Impact Fund	North of England and Midlands regions with a thematic focus on newer ventures or business activities and first time users of social investment financing	19/09/2016
Big Issue Invest (BII)	Impact Loans England	England wide remit and no thematic focus	20/12/2016
BII	Impact Loans England (II)	England wide remit and no thematic focus	02/11/2018
Homeless Link	Homeless Link Social Investment Fund	National remit with thematic focus on addressing issues of homelessness	19/05/2017
First Ark	Invest for Impact	North West region with no thematic focus.	11/10/2016
NESTA	Cultural Impact Development Fund	National remit with thematic focus on providing finance to socially-driven arts and cultural organisations	16/10/2018
Resonance	Health and Wellbeing Challenge Fund (South West)	South West region and thematic focus on health and wellbeing	19/07/2016
Environmental Finance	PICNIC	National remit with a thematic focus on public parks, expected to particularly target three city regions	30/10/2018
UnLtd	UnLtd Impact Fund	National remit with thematic focus on addressing barriers to employment and training	20/10/2017
Sporting Assets	Sporting Capital Fund	National remit with thematic focus on sports organisations delivering social outcomes for communities	27/06/2017
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
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
Greater Manchester Centre for Voluntary Organisation (GMCVO)	GM Social Investment	Greater Manchester geographical area only and no thematic focus	10/07/2017
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
Kent Community Foundation	Kent Social Enterprise Loan Fund	Geographical focus on Kent and Medway, focusing on new and existing social enterprises	25/10/2017
Somerset Community Foundation	Somerset Social Enterprise Fund	Somerset geographical area only with no thematic limit	17/08/2017

1.1.3 Growth Fund grant uses

The Growth Fund uses the grant in three ways, known as Grants A, B and C. These are summarised in Figure 2 and detailed below:

- Grant A helps to contribute towards the costs of making lots of small loans; so that the social investor can afford the proportionally higher transaction costs that can often exceed interest / fee income at this level (this use of the grant is a small proportion of the total grant amount). Grant A was first set provisionally at a maximum of 10% of the total grant within each Fund (total of Grants A+B+C), although this has subsequently been flexed higher when required.
- Grant B allows investors to be able to afford for some of the loans to fail; by blending grant and debt in the fund the social investor can afford for the portfolio as a whole not to break even and therefore will be willing to take greater risk on the loans that they make. This will reduce the risk of the provider of debt in the fund not getting their money back (in this case BSC). The proportion of Grant B in each fund varies according to risk.
- Grant C allows investors to offer grant alongside loans to VCSEs; this reduces the amount of loan finance required so that revenue streams are robust enough for repayment. The proportion of Grant C in each fund varies according to need.

Figure 2: The National Lottery Community Fund grant uses



1.2 The Growth Fund evaluation

The National Lottery Community Fund commissioned Ecorys UK, in partnership with ATQ Consultants, to evaluate 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[6] 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.

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:

- A minimum of 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. Each VCSE is visited up to three times during the course of the evaluation.
- Analysis of Growth Fund 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 and programme management 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, and involves the following activities:

- Annual one-to-one 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

[6] An unsecured loan a loan that does not take security over an organisation's assets. Because the risk for the capital source is greater, interest rates are usually higher than for secured loans.

- Annual consultations with members of the Programme Partnership to gain their reflections on programme-level developments.

1.2.2 Activity completed up to end of 2020

This report draws on the following research:

- Case study visits to 13 VCSEs that received social investment. Five of these have been visited twice
- Analysis of Growth Fund Management Information up to September 2020. This contained information on 849 loans and grant applications from VCSEs.
- VCSE surveys. Leading up to this report the baseline survey had been sent out (108 responses), and two annual surveys (August to September 2019, 46 responses; and December 2020 to January '2021, 41 responses).
- Consultation with one unsuccessful VCSE applicant. Due to access issues linked to GDPR the evaluation team has not managed to interview unsuccessful VCSE applicants. The evaluation team is working with the Programme Partnership to resolve this issue.
- Semi-structured interviews with 13 social investors. Two social investors did not respond to our request to be interviewed.
- Consultations with three unsuccessful social investor applicants
- Consultations with seven people from the three organisations within the Programme Partnership.

Previous evaluation outputs are:

- Update Report 1: Programme learning reports on the set-up of the Growth Fund programme
- Update report 2: Delivery so far reports on the Growth Fund activity up to November 2018
- Providing finance that charities and social enterprises need: Lessons learnt in how Growth Fund is blending grants and loans to provide affordable finance to the voluntary sector: This thematic report explores the Growth Fund's subsidy structure in depth.

1.2.3 Limitations and considerations

The onset of Covid-19 and the associated lockdown delayed and altered, but did not completely halt, the evaluation. The evaluation team paused case study visits in March and April 2020, which slightly delayed the number of case studies planned up to this reporting point. Once case study visits resumed, the evaluation team moved visits and stakeholder consultations online – the case studies worked well under this approach. The annual survey was delayed from summer 2020 to winter; the delay of the survey means that the 2020 survey wave findings will likely be heavily affected by the Covid-19 pandemic.

There were some gaps in the MI data – there was no financial data for one social investor and no social impact data for two. Therefore, whilst the MI data presented in this report is quite sizable, it does not provide the full picture of the Growth Fund.

Whilst the response rate to the survey is within an expected range for a survey of this nature, the absolute numbers are quite low. They should therefore be treated with caution – especially when trying to draw comparisons between the survey waves. In particular, only 35 organisations completed more than one survey wave, and so looking at how individual organisations' perceptions changed over time is not possible. Annex I provides details on the representativeness of the surveys. This shows that all the surveys are broadly representative of the types of VCSEs that received loans and grants from the Growth Fund (in terms of VCSE size

measured by income and Full-Time Equivalent (FTE); primary source of income; legal form; location; and total Growth Fund investment). However, the response rates across VCSEs within individual funds in the Growth Fund varied substantially; any responses in relation to VCSEs' relationships with social investors are therefore not representative of all Growth Fund social investors.

1.3 Report structure

The remainder of this report is structured as follows:

- Chapter 2: Progress in Delivering Growth Fund describes the progress of delivering the Growth Fund programme up to the end 2020. It describes the overall progress in disbursing loans and grants; the investor experiences of managing Growth Fund investment funds and repayments; and considers Growth Fund at a programme level, including how the Programme Partnership has operated and the structure and design of the Growth Fund.
- Chapter 3: Responding to Covid-19 describes the impact of Covid-19 on the Growth Fund VCSEs and investors; how the Growth Fund was altered to respond to Covid-19; how VCSEs used the new resources available; and reflections on how the programme responded to the pandemic.
- Chapter 4: Impact of Growth Fund on Investors examines the degree to which the Growth Fund achieved its objectives of increasing the capability of social investors and encouraging more social investors to lend in this space.
- Chapter 5: VCSEs' Business Models and Applying to the Growth Fund provides an overview of the characteristics of VCSEs receiving loans via the Growth Fund and discusses VCSEs' business models, and how these models generated demand for social investment or a grant/loan blend.
- Chapter 6: VCSEs' Experiences of the Growth Fund Loans and Grants provides an overview of VCSEs' experiences of using Growth Fund loans and grants; repaying the loans; ongoing communications with social investors; and measuring social impact. It considers the extent to which the products offered through the Growth Fund met VCSEs' demands.
- Chapter 7: Impact of Growth Fund on VCSEs' Financial Resilience and Social Impact provides an analysis of the impact of Growth Fund on VCSEs. It first looks at the impact on VCSEs' financial resilience, exploring what 'financial resilience' is, before looking at the extent to which VCSEs have achieved it as a result of the social investment. The chapter then goes on to look at the impact of social investment on VCSEs' social impact.
- Chapter 8: Conclusion draws together the analysis in the previous chapters to conclude on the progress the Growth Fund has made towards its objectives.
- Annex I: Technical note on quantitative analysis describes the process taken to cleaning and analysing the programme MI, social impact data, survey data and counterfactual analysis.
- Annex II: Survey representativeness provides tables showing how representative the VCSE survey is against a number of variables
- Annex III: 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.

02

Progress in Delivering the Growth Fund

- Up to September 2020 the Growth Fund social investors had deployed 505 loans and grants to 419 VCSEs. The total amount deployed was £31,773,091.
- Stakeholders interviewed for the evaluation saw this as an impressive achievement, especially when this is considered within the wider landscape of social investment in the UK; Growth Fund deals accounted for over a third (35%) of all social investment deals recorded in BSC deals data in 2019.
- There was significant variation in the progress of different social investment funds against projections. Stakeholders felt that the main challenge was in converting 'latent' demand for loans into 'actual' demand, which took far longer and more resource than first anticipated.
- Generally, more experienced and more 'generalist' funds were more successful in deploying against their original projections, with organisations new to social investment and/or funds with a specific location and/or sector focus deploying below their forecasts.
- The Partnership has realised that although they all support the over-arching aim of the Growth Fund, they have different views as to how the Growth Fund should have been structured and which aspects should be prioritised during decision-making. There was general agreement that future similar programmes should avoid such a complex partnership structure, and that instead there should be one organisation with core responsibility and decision-making in relation to the grant giving

2.0 Progress in Delivering Growth Fund

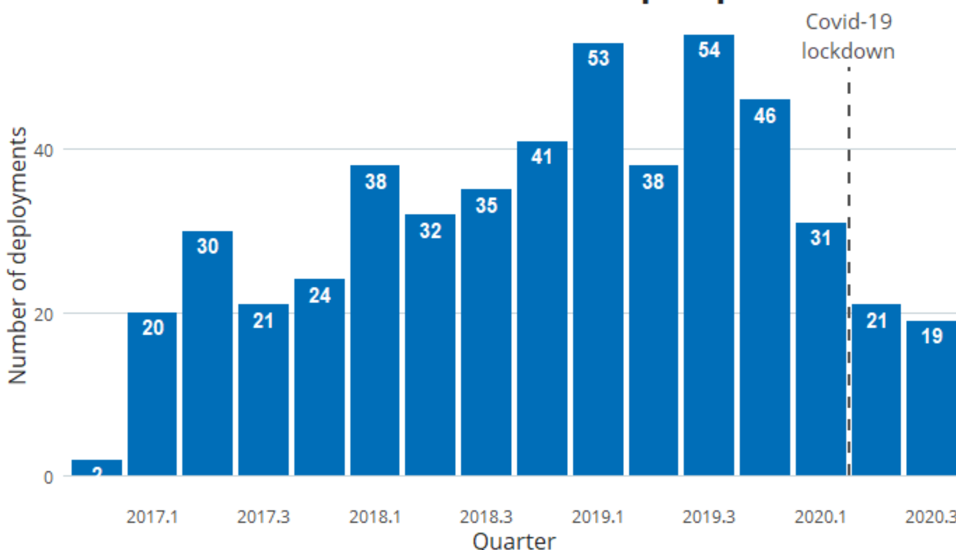
This chapter describes the progress of delivering the Growth Fund programme up to the end 2020. It describes the overall progress in disbursing loans and grants; the investor experiences of managing Growth Fund investment funds and repayments; and considers Growth Fund at a programme level, including how the Programme Partnership has operated and the structure and design of the Growth Fund.

2.1 Progress in disbursing loans and grants

2.1.1 Overall disbursement: A significant contribution to UK social investment

Up to September 2020 the Growth Fund social investors had approved 505 loans and grants to 419 voluntary, community and social enterprise organisations (VCSEs) (the additional 129 were repeat loans and grants to the same organisations)[7] (Figure). The total amount deployed was £31,773,091. Of this, 87% (£27,724,486) was loans, and 13% (£4,048,605) was grants.

Figure 3: Disbursement of Growth Fund loans and grants

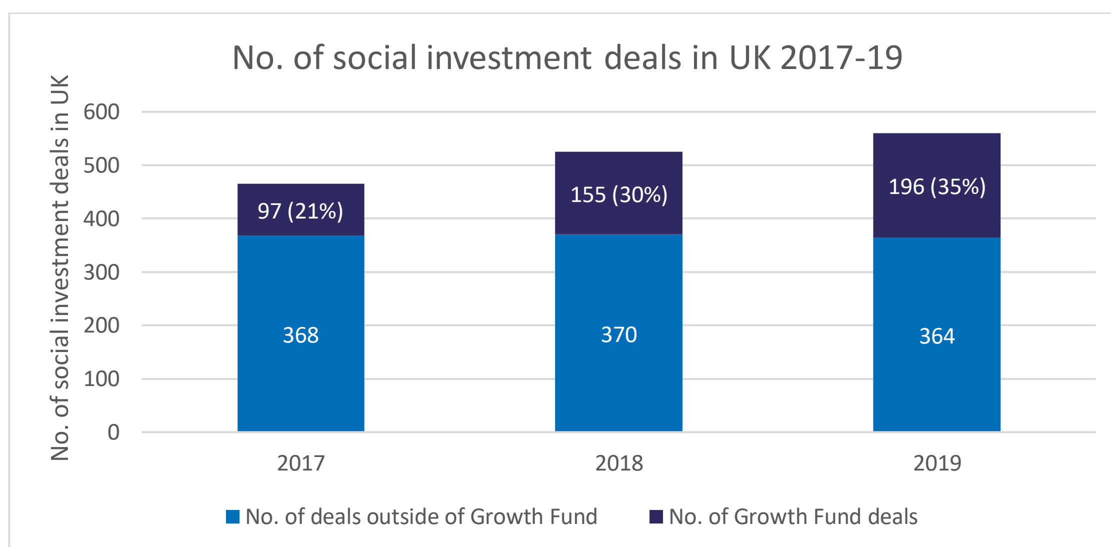


Data source: Growth Fund Management Information to September 2020. Data includes loans, and grants and loans combined. Excludes grants only. Chart produced by Ecorys.

[7] These figures exclude the 66 additional grants disbursed to support VCSEs to respond to Covid-19, see Section 3.5.

Stakeholders interviewed for the evaluation saw this as an impressive achievement, especially when this is considered within the wider landscape of social investment in the UK; as Figure shows, Growth Fund deals accounted for **29%** (448 out of 1,550) of all social investment deals in the UK from 2017 – 2019 recorded in BSC's deals data, peaking at **35%** (196 out of 560) of all deals in 2019 (though this is just for deals on which deal-level data is available; the wider social investment market is larger than this). The extent to which these deals reached VCSEs new to social investment is discussed in Chapter 5

Figure 4: Growth Fund deals, as a percentage of all deals in UK for which deal-level data is available

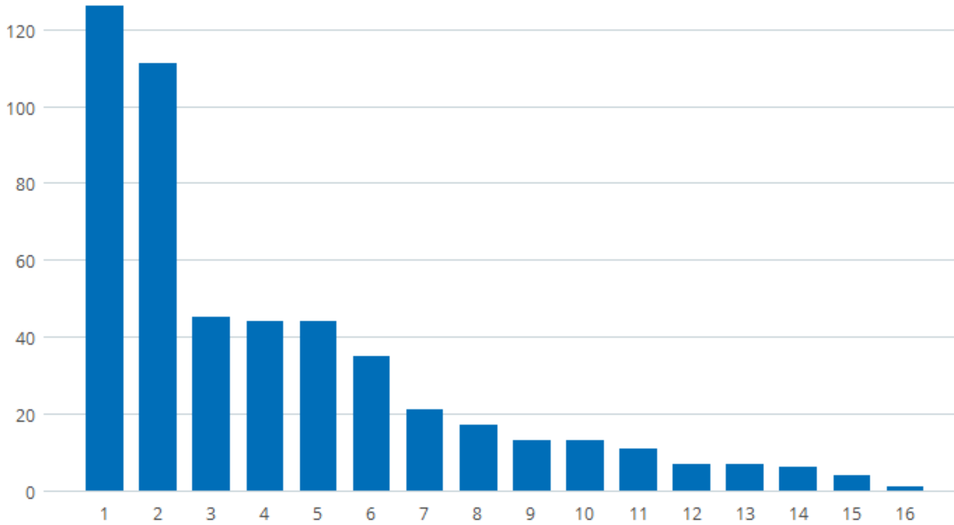


Data source: BSC deals data: https://public.tableau.com/profile/big.society.capital#!/vizhome/DLD2019/Who. This is based on deal-level data only; the wider market is larger than this. Chart produced by Ecorys.

2.1.2 Disbursement across the funds: A mixed picture

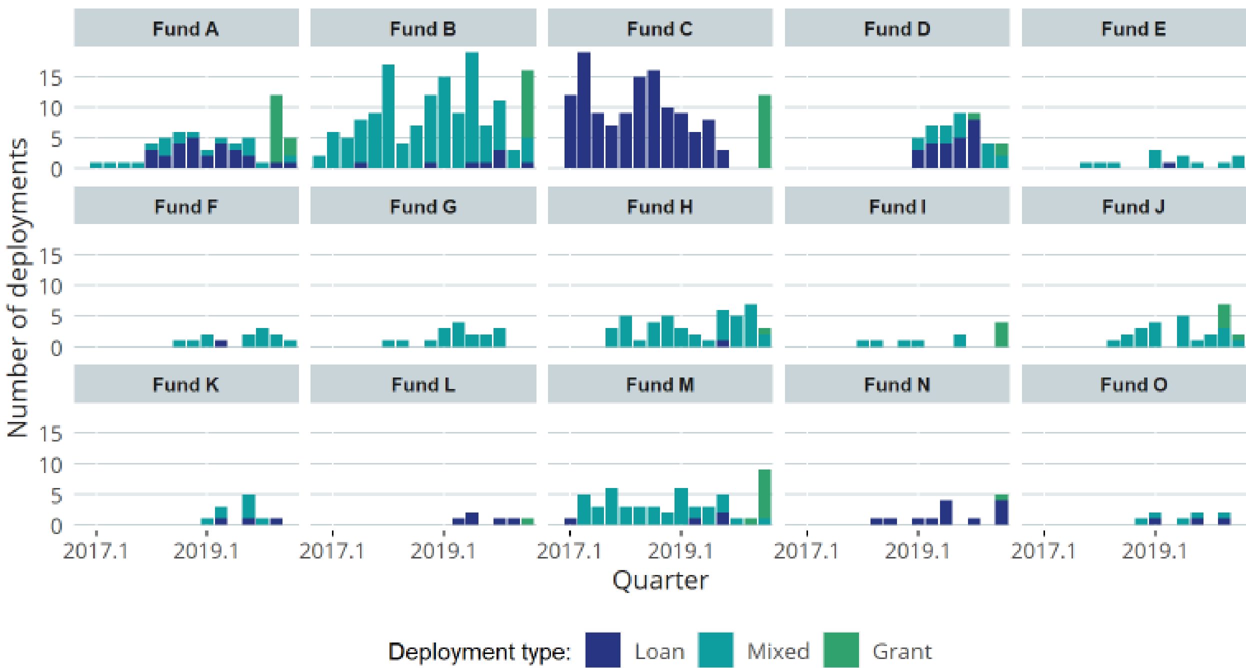
This overarching successful figure masks what was often described by stakeholders as a *"mixed picture"* at a fund level, with varying degrees of success in loan and grant disbursement. Figure below shows the variation across the funds; Figure provides further detail on the variation across the funds over time. Whilst these are helpful charts to understand the differences in fund disbursement, it needs to be borne in mind that the funds were of different sizes and launched at different times, and so some variation in loan disbursement was expected. However, Figure shows the progress of each fund against its projections; this too shows the 'mixed' picture across the funds, with some funds consistently disbursing above projections, some consistently disbursing below, and others fluctuating between periods of over- and under-disbursement.

Figure 5: Trends of disbursement across funds



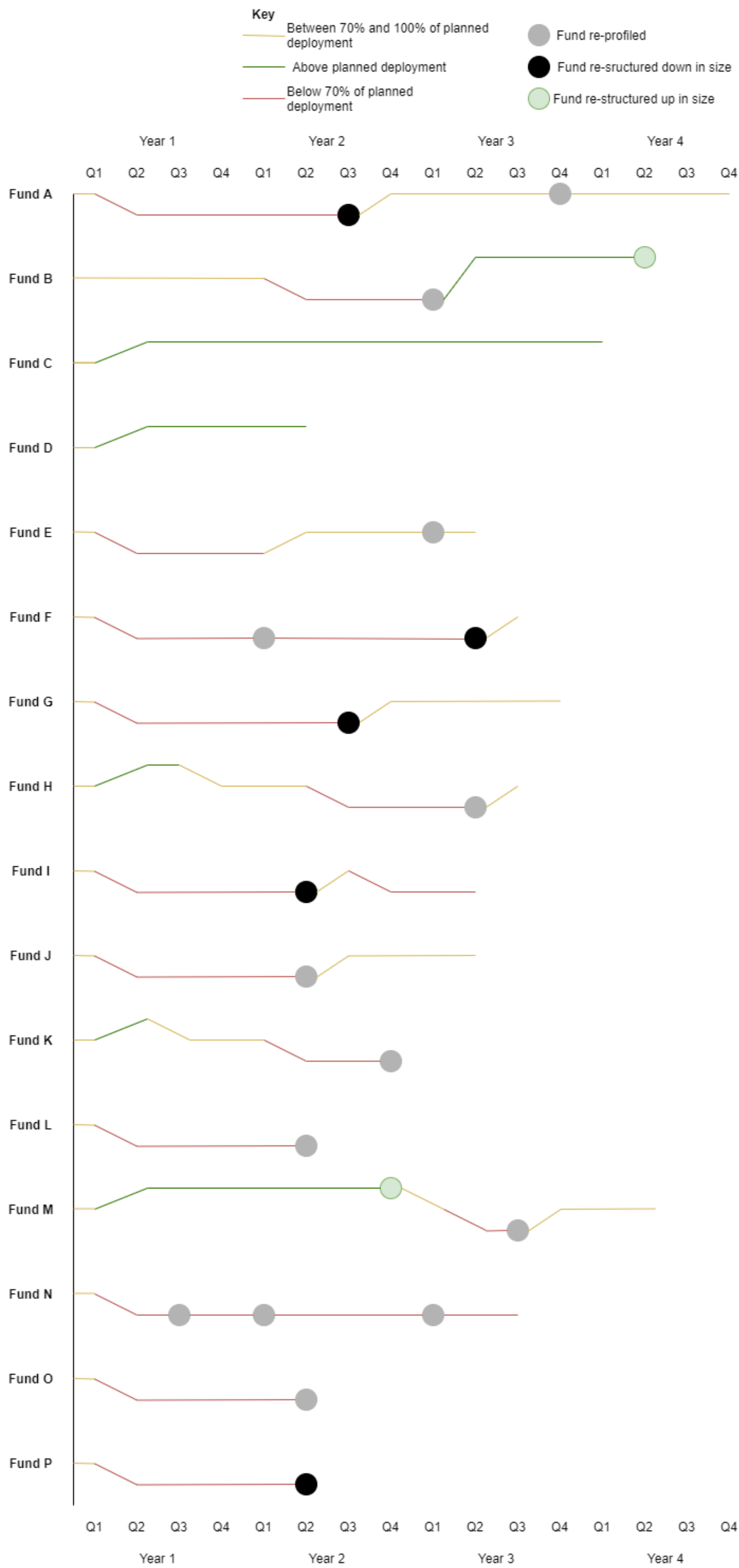
Data source: Growth Fund Management Information to September 2020. Chart produced by Ecorys.

Figure 6: Variation in deployment across the Funds



Data source: Growth Fund Management Information to September 2020. In some cases, investments were deployed over multiple tranches at different time periods. This chart shows every tranche deployed, in order to capture additional 'Grant C' funding. Grant-only deployment is the additional 'Grant C' provided to support responses to Covid-19, see Section 3.4. Chart produced by Ecorys.

Figure 7: Fund disbursement compared to deployment projections



Data source: Growth Fund Management Information to December 2019. 'Planned deployment' refers to the latest forecast in place at the time. Chart produced by Ecorys.

Fund managers and the Programme Partnership mainly attributed the 'mixed picture' to challenges in the fund 'pipeline' – i.e. it was taking more effort than anticipated to generate interest in the loans from VCSEs, and it was taking longer to 'convert' interest in loans into actual agreed and disbursed loans..

A reader may be surprised by these issues with demand, given that there was a generally accepted view prior to launching the Growth Fund that demand for <£150k loans exceeded supply. Given this, one would assume demand for such loans and grants would be high, and the pipeline would not be an issue. Why, then, if demand was purportedly high, was it difficult to attract VCSEs? The general consensus was that this was because it took more effort than expected to convert *latent* demand into actual demand. By that, we mean:

- VCSEs struggled to put forward credible business plans. This was aided through the Reach Fund[8], but nevertheless this still took time.
- 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 had, by the nature of the task, faced a greater challenge in putting their funds to work.

This was therefore more an issue of under-estimating the challenge of supporting VCSEs to access investment, rather than under-delivery on the part of the social investors.

"It wasn't that they didn't know what to do, it was just that the work took time..." (Programme partner)

"The programme was over-ambitious in how much deployment it would make in the timescales." (Programme partner)

2.1.2.1 Understanding the mixed picture further: Prior investor experience and fund focus

Here we examine the mixed success in disbursement across the funds and try to understand what might explain the differences across them. It is worth remembering at this point the level of variation across the funds. As

Looking at Figure 7 again, one key factor that impacted on social investors' ability to deploy loans was the level of prior loan management experience of the social investors. The most experienced social investors, who managed Funds A, B, C and D, all performed relatively well in terms of deployment against plans, even though Fund A had to make some adaptations to its focus before becoming more successful. By way of contrast, three of the four organisations with neither social investment nor grant experience – Funds N, O and P – all struggled to deploy loans against target levels from the outset. Whilst everyone expected it to be more challenging for new social investors to disburse loans and grants, it has been more challenging than people expected.

The second factor impacting on funds was where the social investor also had a cohort or sector focus, for example, supporting start-ups, ex-offenders, homelessness, sport or arts and culture. Homelessness, sports and the arts are also sectors in which organisations have traditionally sought grant funding rather than blended loan financing, so the social investors were having to convert the sector to new forms of financing at the same time.

The final factor that had an impact was where funds had a specific regional or location focus. Funds E, F, H and I also struggled to meet deployment targets.

We discuss what we view as the implications of these findings in Chapter 4.

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[8] Established in 2016 by Access, the Reach Fund provides support to VCSEs who are already close to the point of taking on social investment. For more information see: https://access-socialinvestment.org.uk/enterprise-development/the-reach-fund/

Table 2Error! Reference source not found. below shows, the Growth Fund social investors varied in the degree to which they had previous experience of managing social investment funds – six of the funds were managed by organisations with previous social investment experience and 10 had no prior organisational experience although they did recruit experienced staff. The funds also varied in their focus; the funds can broadly be divided into four categories in terms of their focus:

- Location specific, i.e. operating within a certain region: Six funds (with another fund being both location- and sector-specific)
- Sector-specific i.e. supporting a specific sector, e.g. homelessness: Three funds (with another fund being both location- and sector-specific)
- Start ups early stage: Two funds
- Non-specific i.e. 'generalist' funds that supported all VCSEs with a social mission and meet the Growth Fund eligibility criteria[9]: Four funds.

Looking at Figure 7 again, one key factor that impacted on social investors' ability to deploy loans was the level of prior loan management experience of the social investors. The most experienced social investors, who managed Funds A, B, C and D, all performed relatively well in terms of deployment against plans, even though Fund A had to make some adaptations to its focus before becoming more successful. By way of contrast, three of the four organisations with neither social investment nor grant experience – Funds N, O and P – all struggled to deploy loans against target levels from the outset. Whilst everyone expected it to be more challenging for new social investors to disburse loans and grants, it has been more challenging than people expected.

The second factor impacting on funds was where the social investor also had a cohort or sector focus, for example, supporting start-ups, ex-offenders, homelessness, sport or arts and culture. Homelessness, sports and the arts are also sectors in which organisations have traditionally sought grant funding rather than blended loan financing, so the social investors were having to convert the sector to new forms of financing at the same time.

The final factor that had an impact was where funds had a specific regional or location focus. Funds E, F, H and I also struggled to meet deployment targets.

We discuss what we view as the implications of these findings in Chapter 4.

[9] For the eligibility criteria see: https://access-socialinvestment.org.uk/blended-finance/the-growth-fund/growth-fund-investors/growth-fund-eligibility-criteria/

Table 2: Variation in prior experience of social investors and fund focus across the Growth Fund

Fund	Prior experience	Focus
A	Experienced social investor	Location and sector specific
B	Experienced social investor	Non-specific
C	Experienced social investor	Non-specific
D	Experienced social investor	Non-specific
E	Experienced with grants and loans	Location specific
F	Experienced with grants and loans	Location specific
G	Grants experience, new to loans	Sector-specific
H	Grants experience, new to loans	Location specific
I	Grants experience, new to loans	Location specific
J	Grants experience, new to loans	Start-ups early stage
K	Grants experience, new to loans	Start-ups early stage
L	Grants experience, new to loans	Sector-specific
M	New social investor	Non-specific
N	New social investor	Sector-specific
O	New social investor	Location(s) specific
P	New social investor	Location specific

2.2 Investor experience in managing loan portfolios

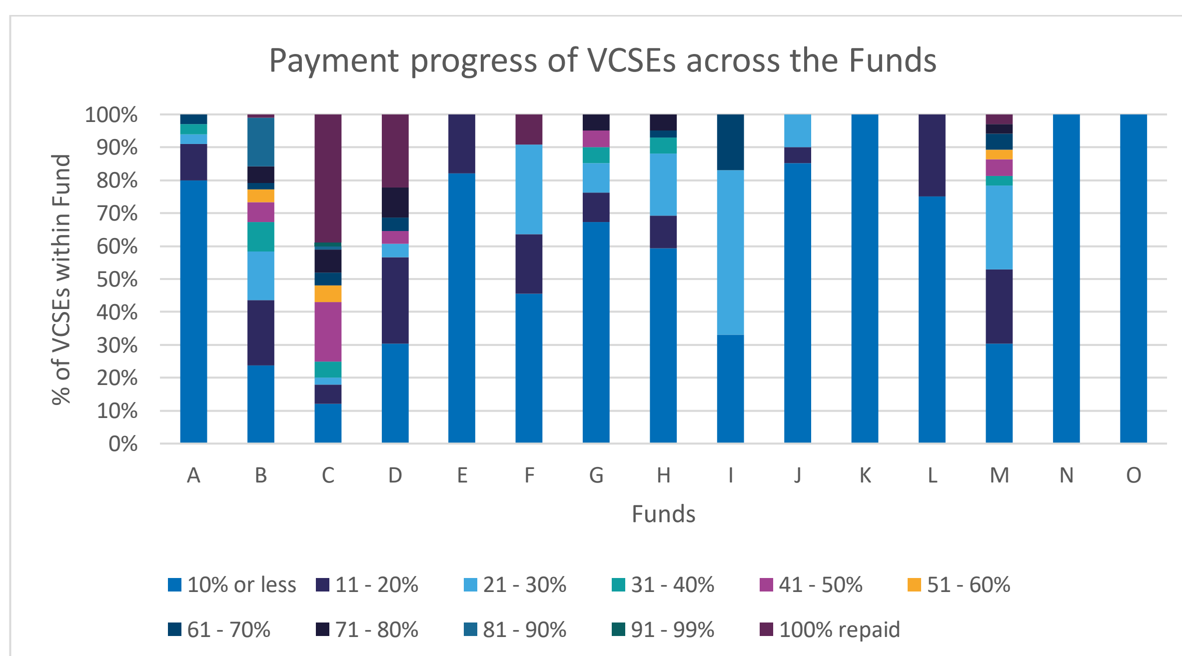
The previous section documented investor progress in disbursing loans. This sub-section documents the investors' experiences in managing their loan portfolios after disbursement. Based on the interviews with social investors and perhaps in contrast to the social investors' experiences with respect to deployment, there was more uniformity of experience with respect to managing loan portfolios.

2.2.1 Portfolio repayments

The reported levels of repayments of each fund reflects both the length of time in operation since respective launches and crucially different capital[10] repayment holiday arrangements (pre-pandemic response).

The repayment status of Funds A to O as at 30/09/2020 is shown inError! Reference source not found. Figure 8 below. The notable feature of this reported data is the fact that in nine of the fifteen funds, repayment levels for more than half their loans were still below 10%, which suggests a good proportion were yet to start being repaid. Four funds had some proportion of their loans fully repaid (ranging from 39% (Fund C) to 1% (Fund B)), but the weight of the statistics points to a clear majority of repayment levels still below one third of the outstanding loan value.

Figure 8: Payment status of the Funds



Date source: Growth Fund Management Information to September 2020. Chart produced by Ecorys.

The social investors reported that repayment progress was exceeding their expectations. However, on the basis of this data, it is too early to draw definitive conclusions about how successful Growth Fund's aggregate lending has been across the portfolio of social investors.

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

2.3 Programme partnership: Improved partnership working but different priorities

At the point of undertaking research for the previous Update Report (November 2018) the Growth Fund had launched and was at an early deployment phase. Stakeholders reported a number of communication issues across the Partnership. The Partnership had just launched a Growth Fund Management Group (GMFG) and were hopeful that this Group would ease decision-making between the three Partnership organisations.

From November 2018 to the point at writing this report (February 2021), the programme had moved from the phase of early deployment into one of portfolio management. The GFMG had become well established and was generally fulfilling its function. Programme partners reported that communication had improved within the Partnership and the GMFG had "done the job we hoped it would do." (Programme partner). There had been, though, quite a lot of 'learning by doing' during this period, as the three Partnership organisations worked out in more detail who was responsible for which element of portfolio management (e.g. compliance). The Partnership updated its Memorandum of Understanding to reflect this, which had added clarity to the programme.

> *"The journey we went along has been really positive."* (Programme partner)

Although the day-to-day partnership working within the Growth Fund was generally improved, it has become apparent that there are a number of more strategic 'debates' around the purpose and priorities within the Growth Fund that have acted as an under-current to almost all discussions. The Partnership has realised that although they all support the over-arching aim of the Growth Fund, they have different views as to how the Growth Fund should have been structured, which aspects should be prioritised during decision-making, and what should be monitored.

> *"If there's any faultline in the partnership, it's probably on the bigger strategic questions around what we're trying to achieve."* (Programme partner)

Based on interviews with representatives from the Programme Partnership, opinions diverge on:

- the priority of different Growth Fund aims; and
- the level of decision-making and autonomy across the partnership.

These two 'debates' are summarised below.

2.3.1 Debate issue 1: The priority of different Growth Fund aims

Whilst the overall goal of the Growth Fund is to increase the supply of <£150k investment to VCSEs, sitting underneath this broad goal are more specific aims, which could broadly be summarised into three aims:

- Demonstrating the financial viability of operating investment funds that provide <£150k investments
- Maximising the availability of funding for VCSEs
- Supporting the social investment infrastructure and the range of investment fund managers.

The Partnership described how, generally, each organisation had different views as to which of these was more important. When the programme was going well, these aims were aligned; however, when things were not going to plan and key decisions needed to be made, then different aims needed prioritising. This could lead to tensions.

> *"There are already as a starting point three slightly different aims."* (Programme partner)

> *"The difficulty in this programme is you're trying to make subsidy work for everyone – front line, fund, funders, and there are incentives you're trying to align, and there are a lot of trade-offs and it's probably not going to satisfy everyone at every level…"* (Programme partner)

There are a number of areas where the partnership seemed to disagree, which appeared to be linked to their competing priorities. For example:

- Balance between number of experienced and new social investors: Those who wanted to support the social investment infrastructure wanted to include more organisations new to social investment, whilst those who wanted to demonstrate the financial viability wanted to prioritise supporting more established investors in order to enhance efficiency.
- Extent to which fund managers are supported during difficult times: Again, those wanting to support the social investment infrastructure wanted to continue to support fund managers when they were struggling with deployment. In contrast, those wanting to maximise the availability of funding for VCSEs felt that the grant being used to support fund managers would be better used to provide more loans and grants to VCSEs.

As a consequence, it normally took the partnership a long time to make decisions, with one stakeholder describing the decision-making process as *"painful"* and one that "*leaves you frustrated*".

Some stakeholders felt that a lesson learnt for operating a three-way partnership of this nature was to spend more time upfront discussing their organisational priorities, and making the divergences explicit rather than implicit. Others, though, felt this was done at great length at the beginning of the programme.

> *"[The programme] might have a combined Theory of Change, but what's underpinning that is each organisation will have a different objective, and it would have been easier to state that from the off."* (Programme partner)

One stakeholder felt they would benefit from a stronger decision-making framework that outlined their core priorities, and use this during decision making; this had been used to respond to Covid-19 and this stakeholder found it useful.

2.3.2 Debate issue 2: Level of decision-making and autonomy across the Growth Fund

The issue described above is a symptom of the fact that the programme is overseen by three organisations, working in the spirit of a partnership . As well as causing difficulties in decision-making, this also made oversight of the programme difficult. . Some stakeholders felt there were tensions in who had responsibility for what in the day-to-day portfolio management (though managed to work through it). Communication could be difficult, and some partners felt that others acted as 'gatekeepers' to other stakeholders within the Growth Fund. Most stakeholders also thought the three-way partnership led to the Growth Fund being a complex programme, with multiple legal agreements across parties.

"The fundamental thing we've had to work through…there are two different pots of money coming here, but three parties." (Programme partner)

To some degree the need for a three-way partnership with strong oversight was a function of the innovative nature of the programme – no one or two organisations had the necessary skills, experience and grant- and investment-giving abilities and so stakeholders felt it necessary to form the consortium. It was also a function of the governance structures of the three organisations, which makes delegation of authority challenging. Therefore, most partners had accepted that the three-way partnership was a necessary part of the Growth Fund. Views differed, though, on what an 'ideal' structure would look like for such a fund. Some thought there should be one organisation with core responsibility and decision-making in relation to the grant giving (though they had differing views over whether that should be the organisation that has fiduciary duty over the grant money or whether responsibility should be delegated to another organisation). Others

felt that a three-way partnership of this nature was necessary to ensure there was balance between the priorities described in the previous section.

2.4 Conclusion

This chapter has provided an update on the progress and implementation of the Growth Fund programme. It has covered the progress in disbursing and managing loans and partnership working within the Programme Partnership.

When viewed at a programme level, the Growth Fund has progressed well up to September 2020. The level of loans disbursed has been impressive when considering that the Growth Fund now makes up over a third of all UK social investment deals for which data is available. Partnership working within the Programme Partnership has now been good on a day-to-day level.

Whilst this summary paints a positive picture overall, there is a ‘mixed picture’ sitting underneath it, and this opens up debates around how the lessons learnt within the Growth Fund could be built upon in future blended finance programmes. We consider the implications of varied success in terms of loan disbursement in Chapter 3, where we examine the impact of the Growth Fund on investors in more depth.

The implications at a programme level are for programme partners to consider carefully the structure and relationship between partners within blended finance funds. There was general agreement that future similar programmes should avoid the complex partnership structure within the Growth Fund, and that instead there should be one organisation with core responsibility and decision-making in relation to the grant giving. Furthermore, if organisations do partner on a blended finance programme, they should have very open and explicit discussions upfront around what they are fully hoping to gain from the programme and which elements of the programme they consider a priority. They could then build a decision-making framework based on this.

That said, these complications were not apparent in how the partners responded to the Covid-19 pandemic, which received universal praise. We discuss this further in the following chapter.

03

Responding to Covid-19

- It is clear from the evidence that the pandemic impacted all VCSEs in some way, with some able to adapt their business model and keep operations going, while others had to reduce or stop their service offer.
- While some VCSEs were able to keep afloat financially, others struggled during the pandemic and had to take action to respond to financial challenges.
- Investors re-appraised their portfolios following the lockdown, and by June 2020 30% of Growth Fund loans were deemed at risk (though this was a precautionary measure recognising the uncertainty surrounding the pandemic)
- The Programme Partnership introduced a raft of changes to the Growth Fund in response. This included: financial breaks that enabled social investors to offer capital and interest repayment holidays; additional finance (providing additional Grant A and Grant C); and easing of administration requirements so investors could focus on providing direct support to VCSEs.
- Because of the actions put in place by the Growth Fund and wider actors, overall in 2020 there was no substantial impact on VCSEs' ability to repay the Growth Fund loans. However, there are fears that things could prove more challenging for the funds in 2021 and beyond.
- Starting in July 2020 the Programme Partnership worked with the social investors to make a set of further changes to funds. All funds were reforecast and many were significantly restructured, including various changes to deployment period lengths, repayment period lengths, grant amounts/ ratios, and total fund size. Some funds chose to extend their deployment periods whilst others opted to wind-down and close early.
- There was unanimous praise for how the Programme Partnership responded to the Covid-19 crisis, from members of the Partnership and social investors. The Partnership was able to overcome challenges around decision-making and acted in a swift and collaborative manner. Social investors felt the Partnership could not have done more.

3.0 Responding to Covid-19

This chapter describes the impact of Covid-19 on the Growth Fund voluntary, community and social enterprise organisations (VCSEs) and investors; how the Growth Fund was altered to respond to Covid-19; how VCSEs used the new resources available; and reflections on how the programme responded to the pandemic.

3.1 Impact of Covid-19 on VCSE service delivery

Analysis of findings from the case study research and open-text survey responses highlighted that VCSEs' delivery of services was impacted by the restrictions introduced in response to Covid-19 in several different ways. It is clear from the evidence that the pandemic impacted all VCSEs in some way, with some able to adapt their business model and keep operations going, while others had to reduce or stop their service offer. The key themes identified are discussed below:

- Increased need for services: VCSE managers described how the Covid-19 pandemic increased demand for their services. Some VCSEs had acted to 'fill the gap' in provision caused by other providers shutting down. In particular, those working in the homelessness sector often continued to deliver services and had increased access to funding through the UK Government's campaign to accommodate all individuals living on the streets at the outbreak of the pandemic. Increased deprivation and isolation caused by the pandemic also led to more people needing these VCSEs' support:

  "While we had to suspend some of our services, or provide them in more Covid-safe ways, overall we took on more property to house homeless clients, started a new specialist drug and alcohol addiction service…" (VCSE Manager)

- Adaptations to delivery: Where VCSEs could still deliver support, all reported making adaptations to the way in which they delivered services. Where these were face-to-face services, adaptations included becoming 'Covid-secure' (e.g. ensuring premises facilitated social distancing and had cleaning stations, and ensuring all staff had appropriate personal protective equipment). However, most VCSEs that could adapt their services reported doing so by shifting their delivery to a virtual setting, either through telephone delivery or online (see next bullet point). Some VCSEs completely changed their business models to adapt to the challenges posed by Covid-19 restrictions. One noted that their trading income had ceased, but as there was still need for support, they became more reliant on grant funding to fund the delivery of services.

  "We had to re-write our business plan almost from scratch. All 2020 plans were cancelled and we were forced to re-evaluate the whole organisation." (VCSE Manager)

- Reduced ability to offer services: Many VCSEs commented on how they had a reduced ability to offer or deliver their services as a result of the Covid-19 restrictions. VCSEs reported having to close their premises, stopping activities deemed 'non-essential', or being unable to deliver face-to-face services in line with social distancing requirements. Some VCSEs highlighted that they were still able to reach some beneficiaries or service users, but because of social distancing requirements, were not able to support as many people as they could before the pandemic.

  "We have had to permanently close our [services] for older people as we could not make them both safe and financially viable." (VCSE Manager)

- Delays to activities: Several VCSEs described how the Covid-19 pandemic caused them to delay or postpone planned activities, such as renovating housing or preventing the launch of new products. One VCSE manager said

that they had to delay the launch of a project due to pressures placed on staff (e.g. staff needing to home-school their children). While, as highlighted, some VCSEs had been able to adapt and move services online, some did have concerns about reaching service users who were not able to engage virtually (due to a lack of access to, or understanding of, the relevant technologies).

"We have had to delay projects or move online - we have concerns about disadvantaged young people being able to access online provision so some projects have been delayed or could not go ahead as planned." (VCSE Manager)

3.2 Impact of Covid-19 on VCSE finances

While some VCSEs were able to keep afloat financially, others struggled during the pandemic and had to take action to respond to financial challenges. Analysis of survey responses highlights that VCSEs took a number of measures to prevent – or limit – the financial impact of Covid-19. The main themes that emerged included:

- Increased grant applications and fundraising: Many organisations reported applying for grant funding or doing additional fundraising to help their organisation financially. VCSEs applied to a range of funding sources, ranging from Central Government funds (e.g. Small Business Grant), through to local government funds (Local Authority Hardship Fund), and charitable donors (e.g. The National Lottery Community Fund's Social Enterprise Support Fund, Crisis, Lloyds Bank Foundation and Virgin Money Foundation). 10 of the 17 VCSEs that responded to the survey question accessed additional Covid-specific funding, as detailed in Box 1.
- Adapted/changed services to generate more income: As highlighted earlier, some organisations shifted their approach to delivery and identified ways to generate increased income. Several VCSEs scaled up their work to respond to increased need, for example, by providing services on behalf of a local council, whereas others offered new products and services to address emerging need through Covid-19. Some of these VCSEs accessed Growth Fund loans to fund these adaptations.

  "[We] offered contracted services to enable council to meet its obligations." (VCSE Manager)
- Reduced rate of growth: Some VCSEs described how, in light of the pandemic, they had reduced their plans for growth, and instead used some investment to hire extra staff to deal with the immediate pressing needs facing their communities.
- Reduced expenditure: several VCSEs highlighted that they alleviated some financial pressures by reducing their expenditure (such as staff hours).

Box 1: Additional Covid-specific financial support accessed by Growth Fund VCSEs

Social Enterprise Support Fund (SESF): This provided essential financial support (£18.7m) to help social enterprises during COVID-19. It helped social enterprises to meet additional demands, change the way they worked, make their spaces COVID-secure, and manage liquidity. The Social Enterprise Support Fund was established in partnership by The National Lottery Community Fund and five social enterprise support agencies: Big Issue Invest, The Key Fund, Community Land & Finance CIC (also known as Resonance), the School for Social Entrepreneurs (SSE) and UnLtd, with support from CAF Venturesome, the Young Foundation and Ashoka. 5 of the 17 VCSE respondents received this support.

Coronavirus Community Support Fund (CCSF): The Government made £200m available for small and medium-sized organisations, disbursed by ,The National Lottery Community Fund, in England. It was intended to increase community support to vulnerable people affected by the Covid-19 crisis through the work of VCSEs and to reduce the temporary closure of essential charities and social enterprises. [11] Of the 17 VCSEs that responded to the survey question, 7 applied for CCSF funding and 1 received it.

Bounce Back Loan Scheme (BBLS): This enables smaller businesses to access finance more quickly during the coronavirus outbreak. The scheme helps small and medium-sized businesses to borrow between £2,000 and up to 25% of their turnover. The maximum loan available is £50,000. The government guarantees 100% of the loan and there won't be any fees or interest to pay for the first 12 months. After 12 months the interest rate will be 2.5% a year. The scheme is open to applications until 31 March 2021.[12] 2 of the 17 VCSE survey respondents applied for a Bounce Back Loan and 1 received it.

Other grants and loans: 5 of the 17 VCSE survey respondents received 'other grant(s)' and 1 received 'other loan(s)'.

3.3 How Growth Fund investors responded to impact of Covid-19

The Growth Fund investors stayed in regular contact with Growth Fund investees during the early stages of the pandemic and re-assessed the risk profile of their investments, increasing the frequency of reviews from previously quarterly to monthly or bi-monthly. As a consequence of the changes described above, the percentage of capital deemed by investors to be 'at risk' increased from 6% to 30%[13] (see Figure 10 later in this chapter). However, investors reported that this was largely a precautionary measure given the uncertainties brought about by the pandemic. Furthermore, capital was classed as 'at risk' for six months after any restructures (including the capital repayment holidays described above); therefore some of this capital will be classed as 'at risk' because it was deemed to be at risk up to six months ago and /

[11] See: https://www.gov.uk/government/news/coronavirus-community-support-fund-awarded-to-8250-charities

[12] See: https://www.gov.uk/guidance/apply-for-a-coronavirus-bounce-back-loan

[13] The Programme Partnership classed investments as at risk if it met any one of three criteria: a) 30-90 days in arrears; b) restructured with the past 6 months; c) considered by the investor to be at risk.

or the investee chose to take a capital repayment holiday, but it does not necessarily mean it was at risk in the following six months.

Investment proposals awaiting Investment Committee approvals were delayed temporarily, but new loan approval processes re-started in the Autumn of 2020. By this stage, some of the implications of the pandemic were known enough such that some applications were withdrawn. Those that went ahead were assessed by Investment Committees with the potential effects on the business case from the pandemic in mind.

3.4 Changes to the Growth Fund programme

3.4.1 Immediate response (March to June 2020)

The immediate response focused on providing 'breathing space' to investors and therefore to VCSEs to enable them to respond to the crisis in the best ways possible. The specific changes are summarised in Box 2; they involved both financial breaks (payment holidays), additional finance (providing additional Grant A and Grant C) and easing of administration requirements so investors could focus on providing direct support to VCSEs.

Box 2: Changes made in Growth Fund during 'response' phase.

Changes introduced at 20 March 2020

Six-month interest free and term extension: BSC agreed to a six-month interest freeze on the BSC loan for all Growth Fund funds as of 20th March 2020, with the option for social investors to extend their investment period (if applicable) and term of their fund by six months. This was so investors could provide interest and capital holidays to borrowers without undermining the viability of the funds.

Additional operating cost grant: The National Lottery Community Fund agreed to provide additional Grant A to cover operating costs over two quarters in recognition that income from VCSE loans will significantly decrease if a high volume of VCSE repayment holidays were made.

Increase investment limit to £200,000 for existing VCSE borrowers: To enable social investors to respond to existing VCSE borrowers' needs rapidly, the JIC agreed to increase the maximum investment limit to £200,000 for six months to enable investors to provide additional liquidity[14]. The £150,000 limit continued for new borrowers.

Support the use of Grant C post-investment: All social investors could use their Grant C allocations to provide post-investment Grant C to existing VCSE borrowers (up to the 50% total funding maximum). Investors were encouraged to balance this use of Grant C with future calls on the grant allocation to support future borrowers.

Suspending financial covenants: From 20 Mar to 20 September, all breaches of the 70% deployment target ratio and the Asset Coverage Ratio were waived (these are ratios used by the Programme Partnership to monitor the performance and risks within the funds).

Relax reporting requirements: Investors were not required to submit reports for Q1 and the annual social impact data submission was also delayed for six months (though investors were encouraged to continue engaging with Access during this time).

Changes introduced at 27 May 2020

Just under £1m of additional Grant C from The National Lottery Community Fund was awarded on 27 May 2020. This was divided between funds (proportionally based on number of investees) for this purpose. This was so that the investors could provide post-investment Grant C support to those VCSEs most impacted by Covid-19, without depleting their existing Grant C allocations (which would have reduced the amount available for future investees). However, investors retained the flexibility to also draw on their pre-existing Grant C for that purpose too. This funding was subject to the following additional conditions:

- It is only to be used for existing VCSE investees (which is defined as those VCSEs who received Growth Fund investment prior to 31st March 2020)

[14] Liquidity refers to the availability of cash that an organisation has to meet short-term operating needs. It is the amount of liquid assets that are available to pay expenses and debts as they become due.

- It is to be used in a targeted manner where there is most need and most potential benefit

- The grant should not be used alongside any other National Lottery Community Fund funded grants which provide support to VCSEs impacted by Covid-19

- The grant may be used alongside the post-investment business support provided by Access and administered by SIB but may also be used separately.

In addition to this, Access provided match funding of £1.048m for post-investment business support (administered by Social Investment Business, SIB) to Growth Fund investees. This was funded through Access' endowment, and so not part of the Growth Fund.

3.4.1.1 Changes social investors made in response

The Programme Partnership offer of a six month interest freeze on their BSC loan and an additional six months' of Grant A funding from the National Lottery Community Fund enabled the social investors to offer VCSEs a capital and interest repayment holiday. This was the single most significant response that all of the social investors offered to their investees some on a case by case and others on a blanket basis. As reported in the interviews, the take up of the offer by borrowers was substantial, as might be expected.

By way of example, Fund H estimated an 85% take-up of the interest and capital repayment holiday and this order of magnitude was confirmed by other social investors.

The rapid response from the Programme Partnership put the social investors on the 'front foot' with their respective investees:

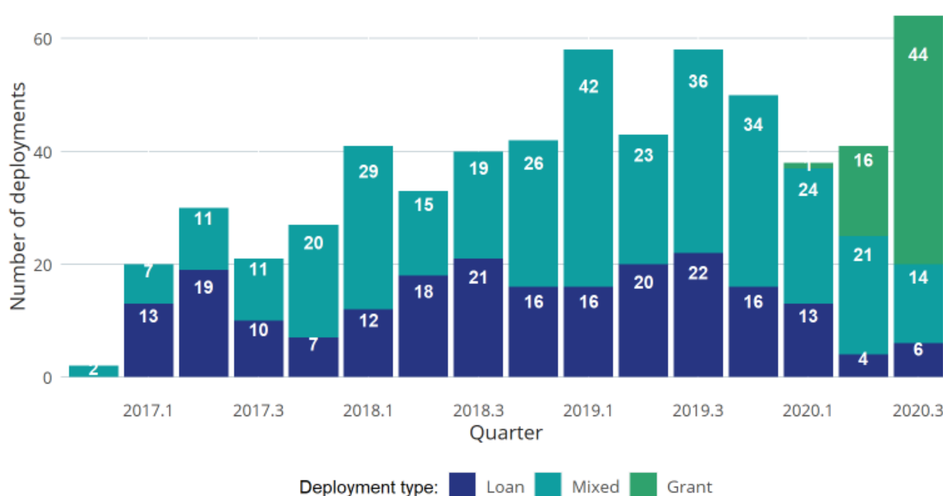
"It allowed us to be the good guys with our investees." (Social investor)

"It allowed us to maintain good relationships with all investees and this will be important in the future as this will be the basis for early conversations when troubles emerge. There is a level of trust built up with investees thanks to the offers we were able to extend on a timely basis." (Social investor)

The timeliness of the response allowed both social investors and borrowers sufficient time to get over any initial shock linked to the first lockdown, take stock and make adjustments.

Social investors deployed 66 grants to VCSEs (Figure 9). Investment Committees were involved in decisions to extend Grant C offers to existing borrowers and this ability to offer additional support to portfolio organisations was similarly well received by the social investors.

Figure 9: Additional Grant C deployment in 2020



Source: Growth Fund Management Information. Chart produced by Ecorys. In some cases, investments were deployed over multiple tranches at different time periods. This chart shows every tranche deployed, in order to capture additional 'Grant C' funding.

Although effects of the pandemic (both good and bad) clearly impacts on individual loan approval decisions on a case by case basis, the social investors did not indicate in the interviews a wholesale review of the risk appetite and stances of the respective funds. Any adjustments will likely happen over a longer timeframe as evidence emerges further in 2021 and beyond.

3.4.2 Later response (July 2020 up to point of research, February 2021)

The Programme Partnership recognised that the assumptions made in relation to delivering the Growth Fund should be re-examined. Starting in July 2020, the Partnership had detailed discussions with each social investor to understand the impact of Covid-19 on future viability and to discuss the social investors' preferred pathways forward. The social investors (with oversight from the Programme Partnership) re-forecast the funds, and some were y restructured, with various changes to deployment period lengths, repayment period lengths, grant amounts/ ratios, and total fund size. Some funds chose to extend their deployment periods whilst others opted to wind-down and close early. We explore this in more detail in Chapter 4.

3.5 How VCSEs used the additional support from the Growth Fund

Several VCSEs used the additional Grant C to expand, change or enable the delivery of services during the pandemic. Some recruited additional members of staff or rented space to account for an increase in volunteers that signed up to help during the pandemic. One of the case study VCSEs used the grant to become Covid-secure. It wanted to ensure its facilities were safe and people would feel comfortable to return when the first national lockdown eased. This included investing in tangible things such as: hand sanitiser; floor markers; new doors (to enable one-way systems); new walls (to create physical barriers between people); putting in a new ventilation system, a new desk in reception (to take temperatures of customers outside the venue), and turnstiles (to monitor how many people entered); upgrading their

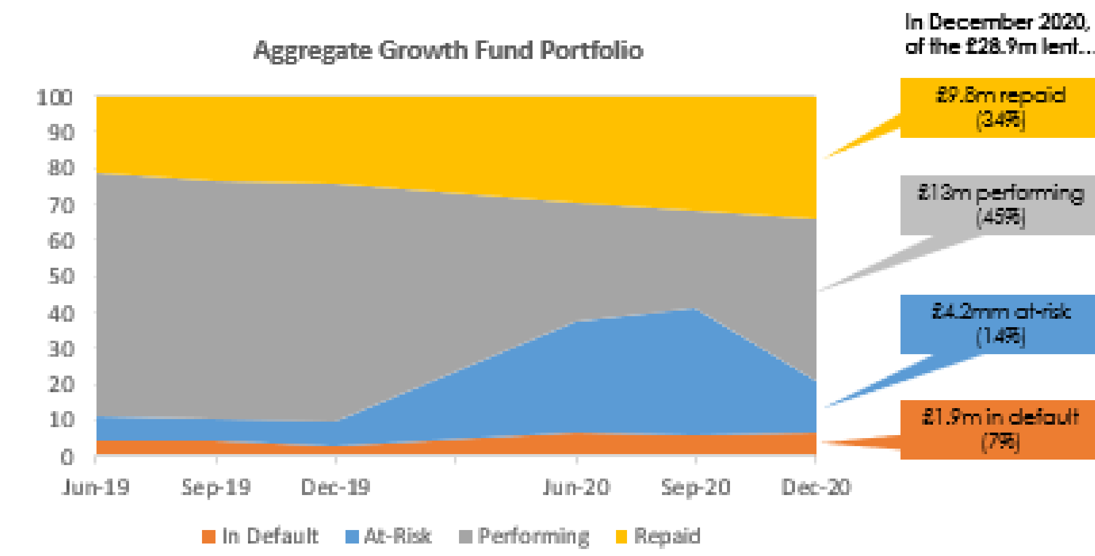
online system to provide a booking system; and creating an app so that people could carry their code with them. The VCSE manager felt that the grant had been very important for ensuring that the VCSE could still operate during the pandemic, thus generating income and helping ensure its financial sustainability.

> *"What [the grant] does allow us to do, is it puts us in a more secure position to repay the loan we got from [the investor] last year. We were in the middle of repayments and those repayments had to stop in March. So we still have money to pay, about half of what we originally took out, but this has now put us in a positive position. The outcome has been that people feel safe to come back and we have had nothing but praise."* (VCSE Manager)

Survey respondents also highlighted that they used the additional Grant C to cover their core costs. One VCSE manager described how the grant helped them to cover overheads and wages, whereas another mentioned that the grant had helped them to meet their existing loan obligations.

Because of the actions put in place by the Growth Fund and wider actors, overall in 2020 there was no substantial impact on VCSEs' ability to repay the Growth Fund loans. In the 2020 annual survey around three quarters (31 out of 41) of respondents stated that 'All repayment have been made on time and have been manageable financially' – a similar proportion to pre-pandemic levels (34 out of 46 stated this in the 2019 survey). Social investors reported that a fair proportion of borrowers restarted payments within the holiday window after three months. This was only of interest payments in some cases but others restarted both capital and interest repayments within the holiday window. The percentage of loans deemed at risk by social investors reduced over 2020, and by the end of 2020 this had dropped to 14%, as social investors re-structured some of the loans (Figure 10). The percentage of funds in default saw a slight increase up to 7% (£1.9m), but has remained fairly static throughout the programme.

Figure 10: Performance of Growth Fund loans



Source: Access.

The ability of the Growth Fund VCSEs to withstand the pandemic and continue to repay their loans in 2020 surprised some members of the Programme Partnership:

"We're surprised at how well that portfolio is holding up." (Programme partner)

However, the open-text responses to the survey would suggest that could be, in part, because many VCSEs were still benefiting from the capital and/or interest payment holidays introduced by the Programme Partnership. Furthermore, stakeholders believed that the sector was being supported in 2020 by the additional financial aid from government and donors, as described previously. There was a fear that whilst the portfolios were holding up, things could prove more

challenging for the funds in 2021 and beyond. Indeed, at the point of being surveyed, some VCSEs were uncertain about their ability to make payments in the future, given how Covid-19 restrictions had impacted on their ability to generate sufficient income.

3.6 Stakeholder reflections on the Covid-19 response

3.6.1 Programme partnership reflections

The Programme Partnership stakeholders interviewed were unanimously positive about how the Growth Fund responded to the Covid-19 crisis – both during the immediate and later responses. Everyone felt that the Partnership responded quickly and in a collaborative manner. A lot of the challenges in relation to partnership decision-making reported on earlier in this report appeared to dissipate.

"It was rapid, collaborative, clear and open." (Programme partner)

Stakeholders were particularly positive about their immediate response during the 'response' phase.

Partnership stakeholders were also satisfied with the decisions made during the immediate response, though noted that there was more compromise in reaching decisions during the later response.

"It was difficult, very time consuming, intensive, hard for staff, involved difficult discussions being accelerated, and involved us getting some of the communication with investors wrong." (Programme partner)

Stakeholders felt that they and the investors had reached the right decisions during the immediate response in how funds needed to be altered in light of the pandemic, and were pleased that the investors came to the decisions themselves rather than having anything 'pushed' on them. Partnership stakeholders had mixed views over whether the decision to close some funds was always going to happen, or whether this was brought about because of Covid-19.

The Partnership acknowledged that some of these positive responses were down to some 'luck' rather than good planning. By that, they meant that they were only able to put in place the measures during the immediate response because there was some unallocated grant in the programme they could draw on – without this they were not sure if the response would have been as strong. Equally, they felt it was fortuitous that the investors reached decisions during the response phase that could be accommodated within the programme funding envelope – had investors responded in different ways (for example, more investors wanting to continue), this could have been challenging. This raises a dilemma for long-term programmes – whether to follow an 'efficiency' route (it is better to deploy all of the resources available) or a 'resilience' route (it is better to keep aside a small pot as contingency, should a crisis emerge). This is something we return to in the conclusion.

3.6.2 Social investor reflections

The feedback from social investors about the Programme Partnership's response to Covid-19 was genuinely heartening.

"Response was excellent - above and beyond. The offer to us and all the other social investors was both quick and comprehensive. It was just what we needed to offer to investees and the risk share with us of the potential downsides due to Covid was also a positive. At the moment we feel in a good position and far less impacted than we feared when Covid first hit." (Social investor)

"Very happy with the response. It was nice to see such a proactive approach. We didn't have to approach [the Partnership]. They were already offering what we thought the portfolio needed within a matter of two weeks. The rapid response plus flexible use of Grant C was a lifeline for some organisations. It would have been hard for them to have done more." (Social investor)

The speed of response and its comprehensive nature was impressive and it put the funds in a strong position to deal with their portfolios in a supportive way. As frequently stated, from the social investors' perspective, the Programme Partnership could not have done any more.

3.7 Conclusion

Overall, the Programme Partnership appears to have responded well to the Covid-19 pandemic. They were able to overcome previous experiences of challenging decision-making, and make big decisions swiftly. These decisions – to provide financial breaks and additional finance, were well received by investors and VCSEs alike. The financial breaks appear to have provided VCSEs with 'breathing space', whilst the additional finance through Grant C enabled them to expand, change or continue service delivery during the pandemic. In 2020, these measures appear to have worked, and VCSEs were able to continue to operate and most have not struggled with repaying the Growth Fund loans. However, it is too soon to assess the longer-term impact of Covid-19 on VCSEs' financial resilience and their ability to repay loans. We will investigate this throughout the rest of the evaluation.

04

Impact of Growth Fund on Investors

- The Growth Fund Theory of Change with respect to the social investors posits that, with the support from the grant subsidy, capacity and lending activity will increase. This will lead to improved social investor capabilities and sustained interest in the provision of unsecured lending to the sub<£150k loan market.

- The Programme partners successfully engaged with 15 social investors and broadened the number of players in the market. Not surprisingly, their experiences of managing respective funds has been mixed.

- The main reasons for the different experiences were a combination of factors, including levels of prior loan book management experience and specific sector and / or geographical focus.

- The experienced social investors and some of the new and specialised social investors were proving to be successful operators of funds and intend to continue lending in this space after Growth Fund. Four social investors either have not, or will not, carry on. Given it was never expected that all organisations would continue to operate, at this point in time we deem that this means the Growth Fund has achieved its objective of garnering sustained interest in lending to the <£150k market.

- For all social investors, the experience of managing a blended fund of this scale had increased their respective organisational capacity and capability. Even for those social investors not choosing to continue, the skills and experience gained will be applied in their grant management activities.

- At this interim stage in Growth Fund's life, the social investor Theory of Change is broadly proving to be right.

4.0 Impact of Growth Fund on Investors

This chapter exmaines the degree to which the Growth Fund achieved its objectives of increasing the capability of social investors and encouraging more social investors to lend in this space.

4.1 Introduction: Growth Fund Theory of Change in relation to investors

The Growth Fund Theory (ToC) of Change's (shown in the Conclusion) starting point with respect to social investors is based on the perception of two constraints to the supply of social investment. These are that:

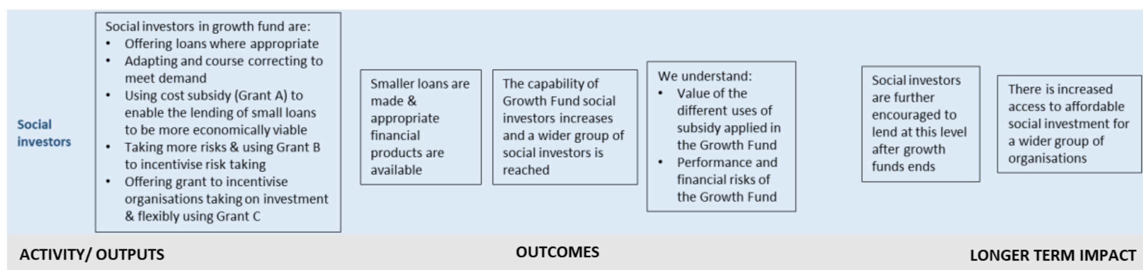
- social investors and other commercial lenders do not typically offer small-sized loans(<£150k) as the overheads mean it is not cost-effective to lend at this level; and
- social investors consider such finance to be high risk.

In designing the Growth Fund, the Programme Partnership structured its grant element carefully in order to try and address these two 'supply' constraint issues (see Chapter 1).

The social investor section of the TOC and the links between these activities, outcomes and longer-term impact are outlined in Figure 11 below. The assumption within the TOC was that these grants would increase the viability of social investment funds operating at this level. The ToC also assumed that by participating within the Growth Fund, social investors would build their capabilities and be encouraged to continue to lend at this level after Growth Fund ended.

This chapter examines the degree to which the elements of the ToC in relation to social investors has been achieved up to the end of 2020.

Figure 11: Growth Fund Theory of Change in relation to impact on investors



4.2 Activities and outputs

The ToC suggests that, with the help of these three grants, Growth Fund social investors will be:

- offering loans where appropriate;
- adapting and course correcting to meet demand;
- using cost subsidy (Grant A) to enable the lending of small loans to be more economically viable;
- taking more risks and using Grant B to incentivise risk taking; and

- offering grant to incentivise organisations taking on investment and flexibly using Grant C.

Chapter 2 of this report outlined overall Growth Fund performance to date (548 loans and grants to 419 VCSEs) and the variation in performance between the different funds. In terms of overall deployment of loans, the Growth Fund was broadly on plan up to September 2020 and could be said at a macro level to be 'offering loans where appropriate'. Appropriate is a loose term and in Chapter 5 we detail the picture from the VCSE perspective, which makes for a more nuanced view as some loans have potentially substituted for other forms of social investment.

There is also evidence of 'course correcting to meet demand', both at the overall Growth Fund level and at individual social investor level. The Programme Partnership, operating through its Joint Investment Committee, has approved both increases and decreases in individual fund sizes. In the 'Lessons learnt in how Growth Fund is blending grants and loans...' report, we highlighted that two funds had already increased in size and three more increases were under discussion in March 2020 i.e. just before the pandemic and subsequently agreed by February 2021. There had also been five restructures of funds to reduce scale at that point in time. We outline the current position of each fund following the re-set discussions in September 2020 below.

At the individual fund level, the most significant challenge for many (as noted in Chapter 2) was pipeline development. Those funds facing the most significant challenges adjusted their market positioning in order to find and 'meet demand'. For example, Fund A had found that an initial focus on organisations selling technology solutions had not generated sufficient interest and so it adjusted to promote its blended finance offer to services organisations and its pipeline improved substantially from then on. With regard to the respective 'uses' of Grants A+B+C, the evaluator's key conclusions based on interviews with the social investors and published in the 'Lessons learnt in how Growth Fund is blending grants and loans...' report were as follows:

- Although the availability of Grant A was a key attraction to the social investors in applying to be Growth Fund intermediaries, more especially the new entrants, the difference in percentage allocation of Grant A between experienced and less experienced providers was less real than it appeared at face value. The proportion of operational costs met by Grant A was in a similar range across the different levels of social lending experience. In setting Grant A at around 10%, it has not allowed enough funding for new entrants to develop their pipelines and deploy the volume of loans required to generate operational cost covering interest payments.
- Grant B does fulfil its purpose to support an overall risk appetite and has widened the availability of unsecured loan finance to VCSEs. Grant B is perceived by the social investors to be set at a generous level and has clearly been well received by them. Its impact also means that VCSEs are gaining access to affordable unsecured loan finance that would not otherwise necessarily be available.
- Similarly, Grant C was also well received by the social investors and the flexibility with which it can be deployed at the start of a loan has been of great help in securing deals and supporting investees.

In concluding this sub-section, it is clear from the data that there is no shortage of activities and outputs up to the end of 2020. Collectively, the social investors had been busy, taken advantage of the grants as per their original design and put significant sums of Growth Fund blended finance to work, notwithstanding the differences in deployment outlined in the previous chapter.

4.3 Outcomes

Full detail and analysis of the loans made to VCSEs is outlined in Chapter 5 in answer to whether 'smaller loans are made and appropriate financial products are available'. This Chapter shows that the Growth Fund did enable smaller loans to be made available, compared to the wider social investment market and this was the primary focus of the social investors' activities.

In terms of appropriate financial products, the Growth Fund did have an initial aspiration for social investors to offer a wider range of sub-£150k funding products than the blended loan product but the restrictions within Growth Fund made this very challenging in reality. As one social investor commented:

"I can see why Growth Fund was designed to meet the sub £150k blended loan demand but the design is such that you can only do one loan product. The product offer is only as flexible as the conditions that BSC and TNLCF allow. Risk changes as clients develop and their financing needs change over time and we would like to be able to move with clients' needs. This is partially addressed through the partnership arrangements but something to consider for future Growth Fund designs." (Social investor)

The second ToC expected outcome is that 'the capability of Growth Fund social investors increases and a wider group of social investors is reached'.

Addressing this in reverse order, the Growth Fund partnership explicitly sought to broaden the number of social investors and broadly achieved its aim in signing up a total of 16 funds with 15 different social investors. Ten of these brought no prior organisational experience of specifically managing a loan portfolio.

The motivations of the new entrants for becoming Growth Fund intermediaries were a mixture as might be expected:

- Experienced social lenders were seeking new funds to manage and deploy as part of their on-going business operations
- Three Community Foundations were motivated by the grant component, which allowed them to start or continue to offer blended funding
- Four sector specialists were looking to introduce blended finance options into traditionally grant-funded sectors
- Two social lenders had a focus on supporting start-up and early-stage social enterprises with an offer of blended finance to support their growth
- Two were looking to establish themselves as new social investors in particular regions.

On the basis of this high-level overview of the Growth Fund social investors, it is clear that it succeeded in 'reaching' a wide diversity of organisations to be social investors, each bringing different levels of prior expertise, sector and location knowledge.

However, the experience of the individual social investors has been mixed as we outline in more detail in below.

4.3.1 Social investors' mixed experience of delivering on Growth Fund objectives

The Programme Partnership had sought a wide mix of social investors and succeeded in assembling a diverse set of organisations to manage the respective funds. Expanding the supply of specialised social investors was one of the ways in which Growth Fund sought to fulfil its objective of broadening the number of social investors in the market and, by extension, that social investment reaches a wider group of organisations.

From the interviews carried out with both the Programme Partnership and social investors, there were some strong views expressed about the range of new social investors, the trials they have experienced with disbursement and potential lessons for the future.

The Programme Partnership were broadly of the view that sector-specific funds did, overall, add value to the Growth Fund, and were able to reach organisations that more 'generalist' funds were not reaching. The Partnership cited multiple 'success stories' of sector-specific organisations new to social investment that were able to engage with organisations within their sector and support them to access social investment who had not accessed it before.

"I do think the smaller and more targeted funds have been helpful in extending investment to those areas." (Programme partner)

Partners also felt that the sector-specific organisations had the expertise to assess the potential social impact of interventions within their sector, and ensure investment was being directed at the most impactful organisations.

"Their deep understanding of what does and doesn't work in [the sector] allows them to make different decisions, on whether actually an organisation is going to be impactful or not …other investors – would they be able to assess that in the same way?" (Programme partner)

However, in the light of the disbursement difficulties experienced by some of the social investors noted in Chapter 2, one commonly held view amongst the social investors was that "*too niche or too local is unviable*" (Social investor). In a similar vein, others questioned whether the economic costs of running a niche fund were justified in terms of the scale of social impact created.

"The Programme Partners may well have wasted some of its grants supporting sub-scale funds. Anything aiming at a niche or a limited geographical area would not find enough demand for loans, or loans would be unsuitable products for example for start-ups." (Social investor)

"Were the new players different enough to justify the subsidy model? The market is bigger but is it big enough to support all the players?" (Social investor)

At the same time, 'generalist' investors also do well at reaching different sectors, and reaching organisations dependent on grants. Whilst the *proportion* of grant-dependent VCSEs is higher in the sector-specific funds, because their size and disbursement is lower, by pure overall number the 'generalist' funds have still reached more grant-dependent organisations – 27 in the 'generalist' funds compared to the 10 in the sector-specific funds. This underlines a point made by one of the stakeholders in the Programme Partnership – the 'generalist' funds were also doing well at reaching grant-dependent VCSEs.

"I wouldn't say we overestimated the ability of the specialists…we under-estimated the major ones to stretch their reach." (Programme partner)

This question of whether a specialist social investor added value over-and-above a generalist investor can be explored further through a specific example. One organisation new to social investment launched a fund targeted at its specific sector where there was already one experienced generalist social investor with wide knowledge of that sector. How this played out is that the generalist social investor, which already had good connections in the sector and also having launched some time before the new specialist, was able to deploy successfully within its wider remit. The sector-specific social investor, conversely, found it took time to develop its market positioning and, although successful enough later on, ended up only lending around £2m against an ambitious original plan of £4.5m. The new social investor will not be carrying on with any new lending funds after Growth Fund based on this experience – although it has been extremely valuable to the organisation in terms of establishing approval and financial management processes which support its other grant management activities.

In the new social investor's opinion, its experience has shown that there was a limit to the demand from this particular niche because there are only so many sector organisations and, in reality, not enough with other social investors also active in the same niche. The fact that a lot of pandemic response grant funding re-emerged during 2020 also contributed to the decision of this social investor on whether to continue or not. We detail the current status and future plans of all funds in Section 4.5 below.

At the same time, though, other sector-specific funds flourished. Another specialist fund struggled to create its market position at the outset, but the situation changed dramatically when the main sector sponsor starting using the social investor in 2019 as its specialist blended loan financing partner and began referring potential organisations to it.

What these two differing stories demonstrate perhaps is that Growth Fund was right to try and create new niche players, as you can never predict with certainty how circumstances might develop either favourably or unfavourably. It was never certain that all the funds would be successful, and the Growth Fund was set up as an experiment in that respect.

However, the Growth Fund experience does highlight other learning in respect to launching new social investment funds. A key learning point within the Growth Fund was that *too* specific a fund created challenges, as it restricted the pool of VCSEs the social investor could reach. In addition, some Programme Partners thought that they had stretched themselves too thinly within the Growth Fund, having too many small sector-specific funds that required a large amount of support.

Finally, partners felt there was a 'minimum scale' at which an investment fund should operate. If they are too small, any delays in deployment can have significant knock-on effects for operating costs. Partners felt the exact number depended on the structure of the fund itself – one stakeholder thought that anything under £2m would be very difficult under how the funds are structured in the Growth Fund (and even £3m could be challenging).

The question of scale and effectiveness of a specialist focus fund does therefore remain, and will be an important consideration for any future subsidised blended finance fund. Indeed, if encouraging new social investors is an objective to increase social investment reach, then a differentiated operating cost subsidy model needs to be considered to make new social investors viable and this was one of the conclusions reached in Providing finance that charities and social enterprises need.

All of these points mean that stakeholders thought a future similar fund should support a smaller number of funds that have a minimum size, and that are a mix of generalist and sector-specific funds, whilst ensuring none are too restricted. Some stakeholders suggested that, rather than having many specialist funds operating at a sub-optimal scale, it might be more effective to operate a 'hub and spoke' model, with one 'generalist' social investor acting as the 'hub' managing the fund, and sector-specific 'spokes' using their networks to engage organisations in their sector and using their experience to support with relevant investment decisions. This would achieve the balance of both operating a fund at scale whilst also drawing on specialist expertise. A similar approach was being used in the Resilience and Recovery Loan Fund, and partners felt this was working well.

4.4 Increases in capability

The capabilities of the social investors were increased in various ways through the experience of delivering Growth Fund. This was both for those which were more successful with meeting loan deployment targets and those that faced more challenges.

The main areas noted in the interviews with social investors were:

- Staff skills: This was the most frequently mentioned capability developed in delivering the Growth Fund. Clearly, in carrying out the activities to promote and deliver blended loan finance, the skills and experience of the staff involved increased and this was true for both experienced and new social investors. This included promoting the funds to potential applicants, assessing lending opportunities, managing the Investment Committee approval processes, managing relationships with the Programme Partners, all the way through to supporting investees and portfolio management.

"This was going to be a learning curve and testing of the option to expand services to include lending. It has been a success. The organisation now has the skills, experience and capabilities that it didn't have before and all of this is now embedded and not just a small operation on the side. (Social investor)

"We now have a capability to run a blended loan fund and capacity that didn't exist before and this was the objective." (Social investor)

- Networks: The development of networks was noted as a key tool by some of the social investors in ensuring that there was a pipeline of applications and that VCSEs knew about their respective funds and eligibility criteria. These networks extended to working with other social investment organisations and are a potential positive legacy from their involvement with Growth Fund for these social investors.

"We have a good network now and have case studies on our website, which other local organisations can see and then talk to the borrowers – lots of people will know each other and be able to ask around." (Social investor)

- Investment Committee (IC) operation: The skills and experience levels of the respective Investment Committees was noted as improving by some of the social investors over time. This was in line with the number of applications processed plus the accumulated experiences of any write downs, which was perceived as leading to better considered decisions over time.

"The main benefit of Growth Fund experience is increased confidence. Continual questioning at the outset means we have a much more robust approach to tailoring or approving changes and have real confidence in our investment decision making." (Social investor)

In Table 3 overleaf we highlight where social investor interviewees explicitly mentioned that their capabilities had improved. An empty box does not indicate that this capability is not there, just that it was not highlighted in the interviews as having changed with the experience of managing Growth Fund.

In some cases the capability developed through delivering the Growth Fund, improved organisations' grant programme management capabilities at the same time.

As a consequence of these increased capabilities, some social investors felt able (and willing) to apply for the management of new funds.

"We have a blended finance product and an operating system that we can take to other funders now, such as local authorities and philanthropists." (Social investor)

There is clearly an overall benefit to social investors in terms of improved capacities and capabilities based on their respective good and bad experiences of operating Growth Funds.

Table 3: Improved capabilities self-reported by social invertors

Fund	Prior experience	Staff skills	Network	Investment Committee
A	Experienced social lender	√	√	
B	Experienced social lender	√		
C	Experienced social lender	√	√	
D	Experienced social lender	√	√	
E	Experienced with grants and loans	√		√
F	Experienced with grants and loans	√		√
G	Grants experience, new to loans	√	√	
H	Grants experience, new to loans	√	√	√
I	Grants experience, new to loans	√		
J	Grants experience, new to loans	√	√	
K	Grants experience, new to loans			
L	Grants experience, new to loans	√		
M	New social lender	√	√	
N	New social lender	√		√
O	New social lender	√		√
P	New social lender			

Source: Interviews with social investors carried out between November 2020 and January 2021

4.5 Longer-term impact

The ToC's expected longer-term impacts are:

- Social investors are further encouraged to lend at this level after Growth Funds ends
- There is increased access to affordable social investment for a wider group of organisations.

Given the impact of the pandemic on Growth Fund and the discussions entered into by respective funds and the Growth Fund partnership in September 2020, we are in a position to provide some early information and commentary on whether social investors are further encouraged to lend at this level after Growth Fund ends.

Based on interviews and data provided by the Programme Partnership, the status of each Fund as at December 2020 and its future plans are outlined in Table overleaf.

On the positive side, the majority of social investors – eight – will look to operate in the sub <£150k loan in the future, whether with a blended offer similar to Growth Fund or via other sources of wholesale funding[15]. These are choosing to continue either because social investment is their core activity or, as for some of the Growth Fund social investors, because the experience of Growth Fund has been positive and created a new area of work for the organisation. There are developments by other partners which provide opportunities of interest to social investors including, for example, Local Access[16].

"Growth Fund fulfils a market need. The number of clients prove that there is demand for simple blended loans sub £150k." (Social investor)

"We will want to service the sub £150k market going forward as we see this as a vital funding 'gap' that will always need to be filled. There is a lot of Covid response funding available short-term but the longer-term need will remain." (Social investor)

As the Table shows, four social investors chose to close their respective funds and will not continue to serve the <£150k blended finance markets in the future.

"Growth Fund experience has not been that value adding for us. We did enter the partnership with eyes open and as an experiment that we were prepared to cross-subsidise from use of wider team resources but it has not worked out." (Social investor)

Two other Funds – L and M – are still operating their respective Growth Funds and have not yet made a decision as to longer-term future plans.

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[15] A social investment wholesaler is an investor which makes larger investments in funds or financial organisations (social investment finance intermediaries) that will themselves invest smaller amounts in a number of charities and social enterprises. Big Society Capital is a UK social investment wholesaler.

[16] Local Access is a joint funding programme, established by Access and Big Society Capital that aims to support the development of stronger, more resilient and sustainable social economies in disadvantaged places. See: https://access-socialinvestment.org.uk/blended-finance/local-access/

Table 4: Fund status as at December 2020

Fund	Projected total Fund size including Grant A+B+C components	Closure	Fund size increased	Planned end date for deployment	Intention to Manage Future <£150k loan Funds	Manage other Funds or grant programmes
A	£3.53m		√	Mar 2022	√	√
B	£7.35m		√	Sep 2022	√	√
C	£5.26m		√	Dec 2019	√	√
D	£4.32m			Dec 2021	√	√
E	£1.14m			On-going	√	√
F	£0.98m			On-going	√	√
G	£2.06m	√		Sep 2020	×	√
H	£2.91m		√	Mar 2022	√	√
I	£0.43m			Dec 2019	×	√
J	£3.34m			Mar 2021	√	√
K	£0.52m	√		Sep 2020	×	√
L	£3.36m			Mar 2023	Undecided	√
M	£4.69m		√	Jun 2021	Undecided	Undecided
N	£3.36m			Jun 2021	√	√
O	£1.37m	√		Jul 2021	×	Undecided
P	£0.12m	√		Mar 2020	×	Undecided

Source: Social investor interviews carried out between November 2020 and January 2021 and information provided by the Programme Partnership

For some of the social investors not continuing, the experience gained in delivering Growth Fund operations does mean that they feel positioned now to act as qualified introducers of business to other social investors remaining in the market. More than one social investor considered being a paid-for 'introducer' to VCSEs as a potential future opportunity – akin to the 'hub and spoke' model we introduced previously, though no examples were given to date.

4.6 Conclusion

In this Chapter we have revisited the ToC with respect to social investors and are able to draw some interim conclusions as to whether Growth Fund's activities and outcomes are leading to the expected longer-term impacts.

As noted, the Growth Fund partnership did not expect from the outset that all social investors would find the experience of managing their respective funds sufficiently successful and rewarding enough to carry on. Growth Fund was always an experiment in trying to expand the number of social investors serving the <£150k blended finance market.

So far eight out of fifteen social investors hope to continue to serve this market and another two still operating are undecided (as at December 2020) but may also reach the same conclusion. Some of these were organisations with no prior social investment experience. Indeed, one of the social investors views its entry into managing funds as a key plank of its future now.

At this point in time, it can be argued that Growth Fund has broadly met its objective of ensuring that the <£150k loan market will continue to be served by a wider range of social investors – dependent of course on the availability of the wholesale capital and grants to fund the blended finance, which is explored in the report Conclusion.

However, the social investors not continuing are all ones that set up new operations to deliver Growth Fund and so, in this respect, the sustainability of social investors operating as stand-alone Growth Fund partners is in question. All of the more experienced social investors that hope to carry on have diversified revenue streams and enjoy economies of scale through managing a variety of different investment programmes. In other words, their fixed costs are spread over more than one social investment fund and this reduces the risk of any particular fund's performance on the whole operation. Other social investors also have grant management capabilities which provides a different revenue stream and again this provides economies of scale for the social investor.

What all of this shows is that becoming a new social investor is a challenging and time-consuming endeavour – whilst some will succeed and stay committed to the space, others will struggle and decide it is unviable. This creates a dilemma for those wishing to grow the social investment space – especially if the belief (supported to some degree by these evaluation findings) is that more specialist organisations add value to the sector. The Growth Fund appears to have shown that 'specialist' social investors can support in extending the reach of social investment, but that it can be problematic if a programme has too many new and specialist funds within it, and viability can be an issue if these funds are too small or the number of sector organisations within its remit are too few. The lesson learnt here is to continue to support the entry of 'specialist' social investors into the market, but consider carefully how this is done – as this chapter has highlighted, this could possibly be through a different operating cost subsidy model, ensuring the funds have a minimum size / broad-enough remit, or even through bringing specialist organisations into a hub and spoke model.

05

VCSEs’ Business Models and Applying to the Growth Fund

- Growth Fund VCSEs are targeting a wide range of different beneficiaries through their work, with nearly a fifth (18%) working primarily with vulnerable young people and 15% with people living in poverty and/or financial exclusion.
- VCSEs accessing the Growth Fund are substantially smaller than VCSEs accessing wider social investment; Growth Fund has supported organisations with, on average, half the income and 1/8th of the assets of those who normally attract social investment. The Growth Fund is also providing much smaller-sized loans than the wider sector – the median -sized loan in Growth Fund was £40k, compared to £75k in the wider sector.
- Evidence suggests that that some VCSEs would not have been able to access investment without the Growth Fund, whereas for others, the Growth Fund just provided another social investment option for them.
- Most Growth Fund VCSEs had multiple revenue streams at the point of applying to the Growth Fund, with over half (55%) with trading as their primary source of income. Nearly half (43%) relied on grants as their secondary source of income.
- Over a quarter of VCSEs (26%) applied for social investment to scale up their existing activity.
- The loan application process for successful VCSEs was generally positive. VCSEs valued their investors' alignment with their mission, regular communications about progress of their application, and reaching agreed terms and conditions. VCSEs were less positive about the evidence required to demonstrate social impact, and the clarity of the application form and requirements.

5.0 VCSEs' Business Models and Applying to the Growth Fund

This chapter provides an overview of the characteristics of voluntary, community and social enterprise organisations (VCSEs) receiving loans and grants via the Growth Fund and discusses VCSEs' business models and how these models generated demand for social investment or a grant/loan blend.

5.1 Characteristics of VCSEs receiving loans

According to the Growth Fund Investment Policy, the programme is aimed at '*smaller, earlier stage and innovating VCSEs… which are unlikely to have accessed social investment but need investment to support them in their activities*'[17]. This section explores the extent to which this was the case up to the end of 2020.

5.1.1 VCSEs' focus

VCSEs that successfully accessed loans via the Growth Fund up to the end of September 2020 targeted a wide range of beneficiaries through the work that they did. According to Growth Fund Management Information (Error! Reference source not found.5), 18% of the VCSEs' main target beneficiary group were vulnerable young people and those not in employment, education, or training (NEET), and 15% of VCSEs were working primarily with people living in poverty and/or financial exclusion. While the findings in Table 5 only cover the primary target beneficiary group, they nonetheless illustrate that the Growth Fund is reaching VCSEs that work with a diverse group of beneficiaries.

Table 5: Target beneficiary group of successful VCSEs

Beneficiary groups	Percentage (%)
Vulnerable young people and NEETs	18
People living in poverty and/or financial exclusion	15
People experiencing long term unemployment	9
Older people (including people with dementia)	8
Vulnerable children (including looked after children)	8
People with mental health needs	7
Homeless people	6

[17] See: https://access-socialinvestment.org.uk/wp-content/uploads/2015/06/Summary-of-investment-policy.pdf

People with learning disabilities	5
People with long term health conditions	4
People with physical disabilities or sensory impairments	4
Mixed/multiple target beneficiaries	2
Other	7
NA	6

Source: Growth Fund Management Information (n=425)

The MI provides some insights into the categories of activities that successful VSCEs were delivering when they applied. Around a third (31%) of successful VCSEs delivered employment, education, and training activities, and a fifth (20%) delivered activities relating to mental health and wellbeing (see Table 6).

Table 6: Category of activities delivered by VCSEs

Category of activity	Percentage (%)
Employment, education, and training	31
Mental health and wellbeing	20
Mixed	15
Physical health	12
Housing and local facilities	8
Citizenship and community	7
Other	7

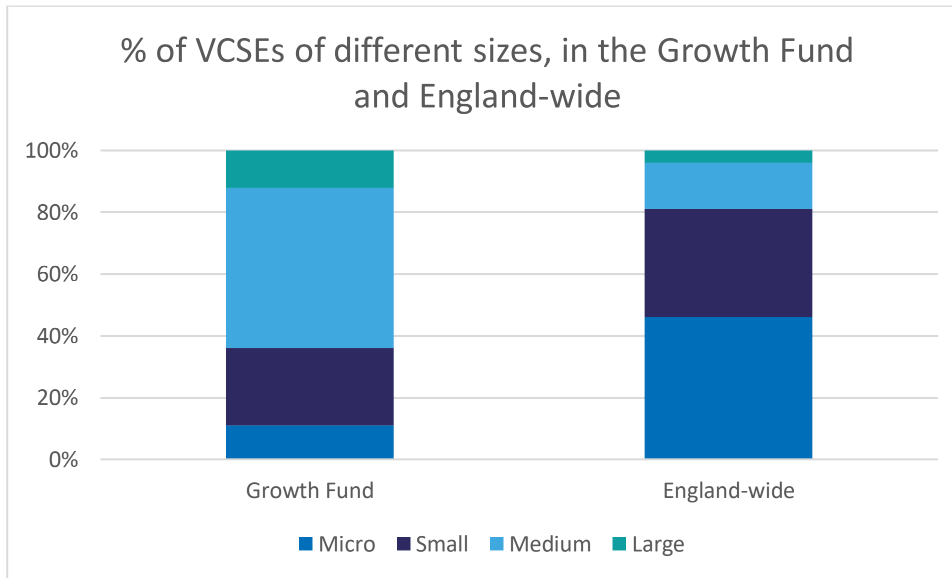
Source: Growth Fund Management Information (n=424)

5.1.2 Size of VCSEs

MI data up to the end of September 2020 suggests that the average (i.e., median) income across the 404 successful VCSEs (where income was over £0) was £220,000. This was slightly lower than the median income reported in the first Update Report, suggesting that, over time, the Growth Fund has reached smaller organisations. As outlined in Figure 12, around half (52%) of 'successful' VCSEs, where annual income was available (n=429), were 'medium' sized (i.e., had an income of between £100,000 and £1 million). Considering that nearly half (46%) of VCSEs in England are 'micro' (i.e., have

an income of less than £10,000),[18] the findings would suggest that the Growth Fund is disproportionately reaching medium-income VCSEs.

Figure 12: Income bands of successful Growth Fund VCSEs, compared with England-wide VCSEs

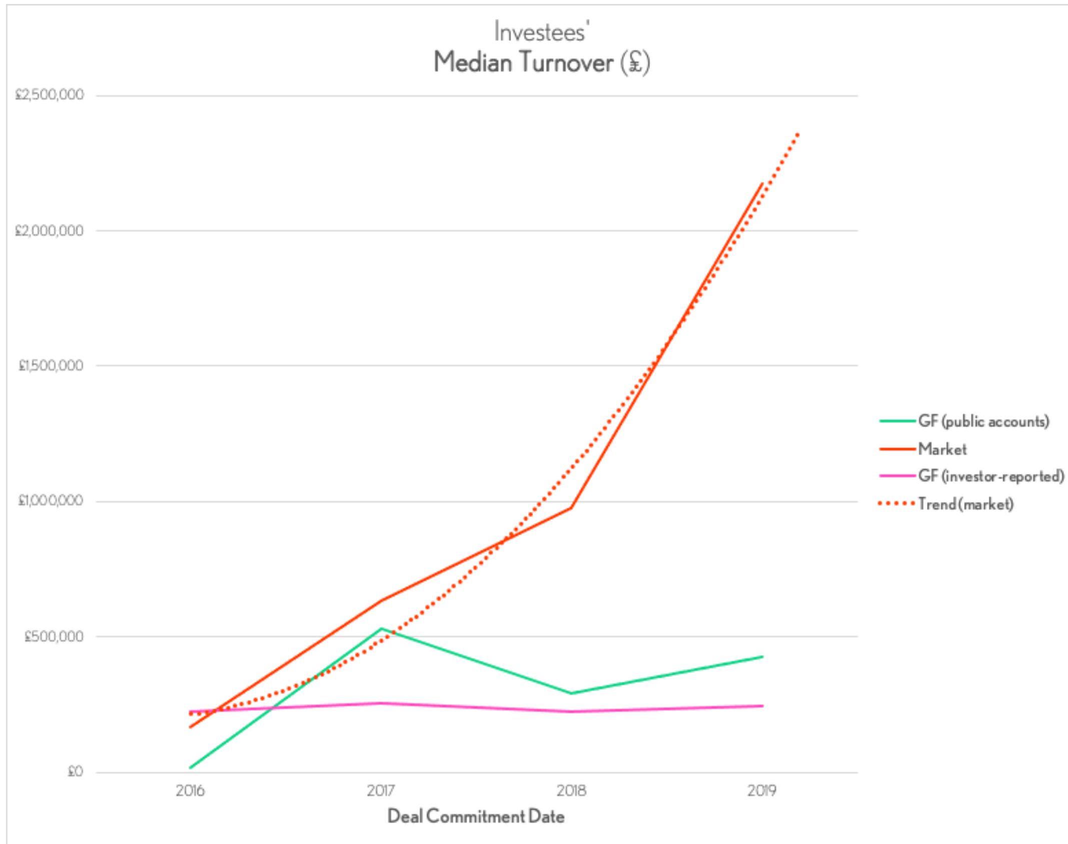


Source: *Growth Fund Management Information & UK Civil Society Almanac 2020: https://almanac.fc.production.ncvocloud.net/about/almanac-data-tables/#payload-wrapper*

The Growth Fund is, though, providing social investment to much smaller organisations in comparison to the wider social investment market (for where deal-level data is available). Figures 13 and 14 compares the size (in terms of turnover and assets, respectively), of VCSEs that received social investment through the Growth Fund with VCSEs that received social investment within the wider market; this shows that the Growth Fund has supported organisations with, on average, half the income and 1/8th of the assets of those who normally attract social investment.

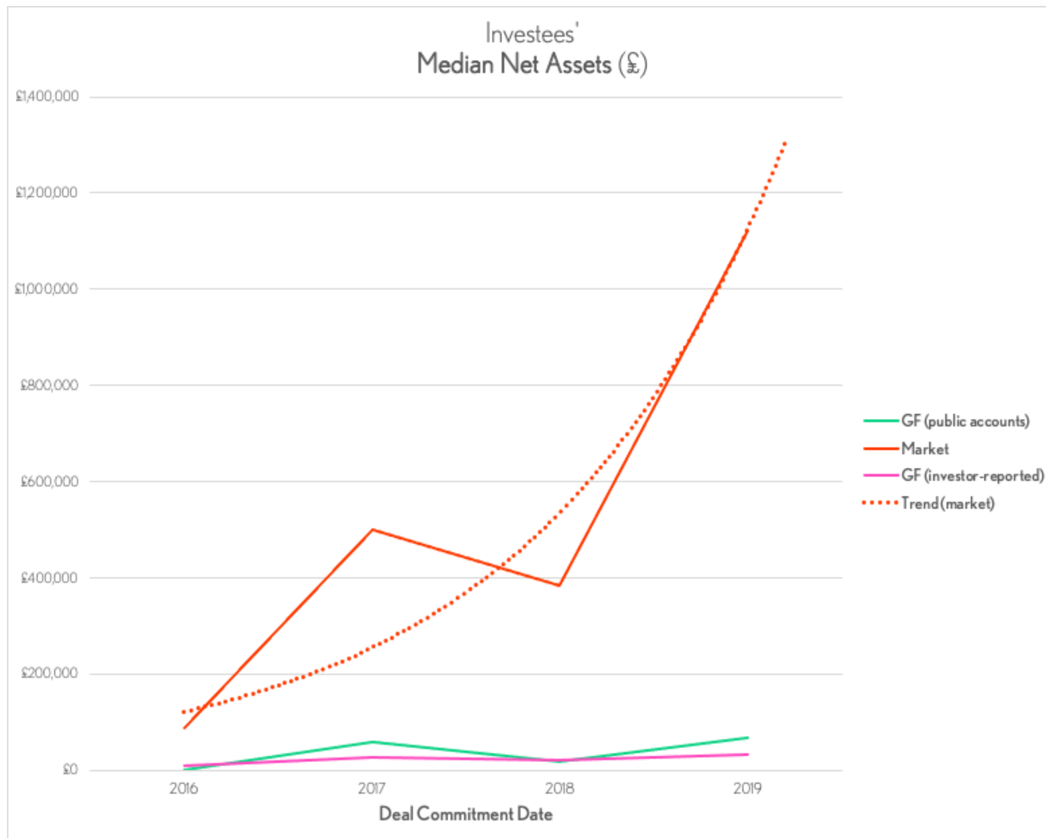
[18] https://almanac.fc.production.ncvocloud.net/about/almanac-data-tables/#payload-wrapper

Figure 13: Comparison of median turnover between VCSEs accessing Growth Fund and the wider social investment market



Source: A tale of Growth Fund and the market. Curiosity Society.

Figure 14: Comparison of net assets between VCSEs accessing Growth Fund and the wider social investment market

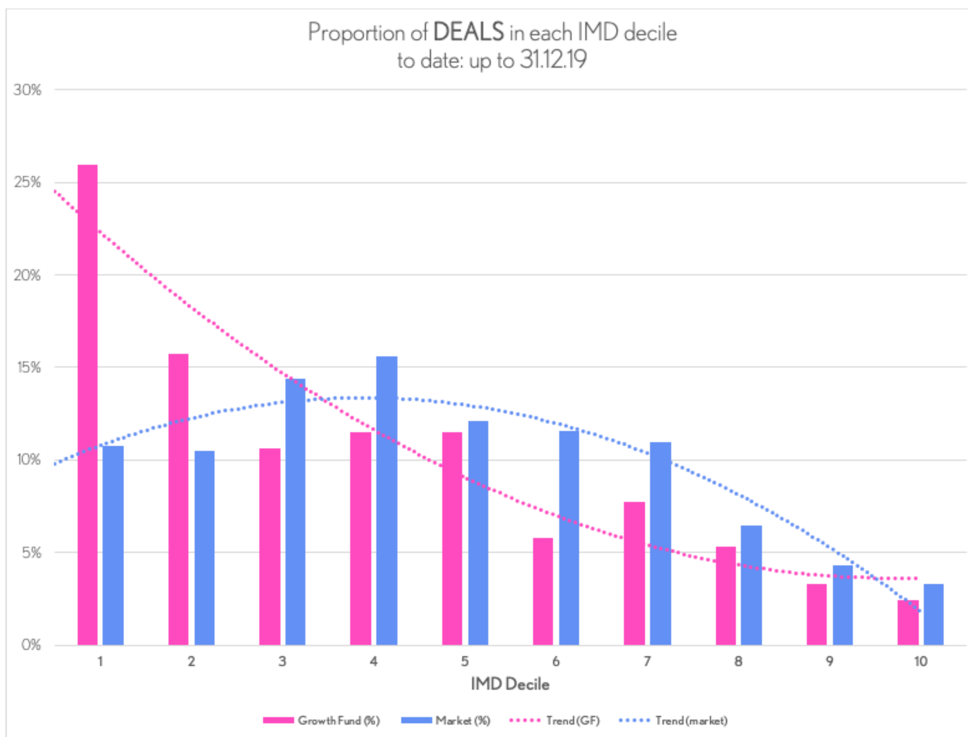


Source: A tale of Growth Fund and the market. Curiosity Society.

5.1.3 Location of VCSEs in relation to Indexes of Multiple Deprivation

Figure 15 shows the location of Growth Fund loans and grants in relation to areas' Indices of Multiple Deprivation (IMD), compared to the wider social investment market. The IMD is a unique measure of relative deprivation at a small local area level. Figure 15 shows that a substantial proportion of Growth Fund loans and grants were being disbursed into the most deprived areas of England, and more so than loans within the wider social investment market (for which deal-level data was available).

Figure 15: Location of Growth Fund loans and grants in relation to Indices of Multiple Deprivation, compared to wider social investment market

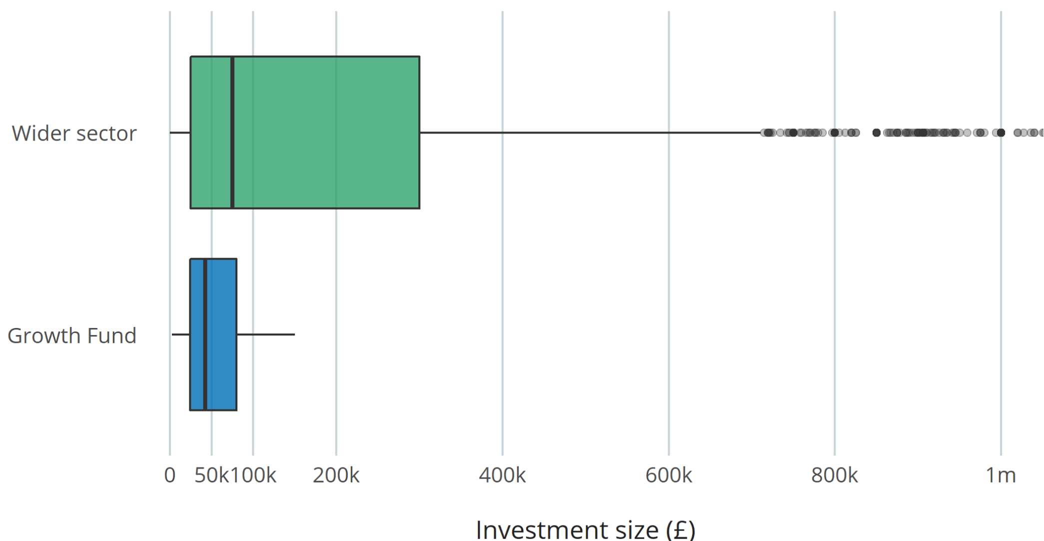


Source: A tale of Growth Fund and the market. Curiosity Society. IMD is the Index of Multiple Deprivation. Those in group 1 are in the 10% most deprived areas in the UK; group 10 are in the 10% least deprived.

5.1.4 Size of loan

Figure 16 shows that the size of loans provided through the Growth Fund are markedly different from those provided by the wider social investment sector (for where deal-level data is available). The median-sized loan provided by the Growth Fund was £42,450 (mean £55,009), and the median-sized total investment (loan and grant) was £50,000 (mean £62,917); in the wider sector the median was £75,000 (mean £590,767). Wider sector data only includes "repayable finance" and therefore we do not think it includes grants, so in the following chart we only display Growth Fund loans.

Figure 16: Comparison of investment size in Growth Fund and wider social investment sector



Y-axis truncated to £1,000,000 but maximum investment size for wider sector is £100,000,000

Data source: BSC deals data: https://public.tableau.com/profile/big.society.capital#!/vizhome/DLD2019/Who. Chart produced by Ecorys. Growth Fund deals = 548. Wider sector deals = 4,393. Wider sector deals cover 2002 to 2020; Growth Fund 2017 to 2020. We did not filter wider sector deals so they covered a similar time period because 25% of the deals did not include a date, and these were typically lower deal sizes. Therefore filtering by date would have excluded these deals, which would have skewed the results. Horizontal line shows range of deal sizes. Each box shows the 'middle 50' – i.e. the deals 25% either side of the median. Thick vertical line shows the median.

5.1.5 Prior investments

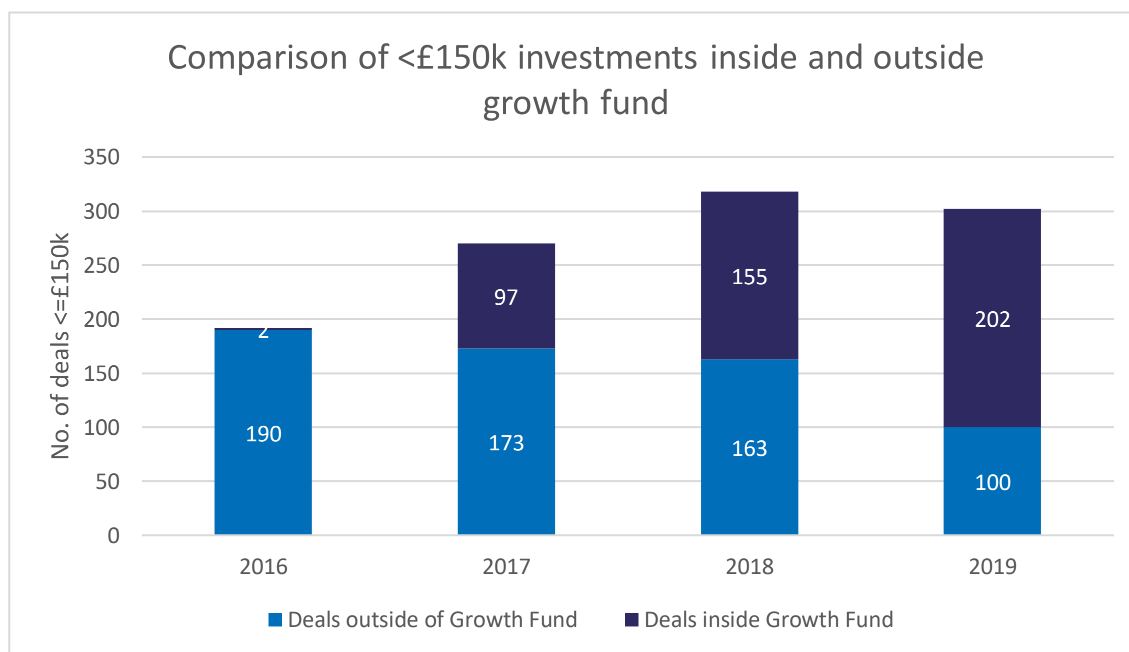
Along with reaching smaller VCSEs, the Growth Fund also aimed to reach VCSEs that were unlikely to have accessed social investment before. The findings from the quantitative and qualitative research indicate that the achievement of this aim up to September 2020 has been mixed. Findings from the baseline survey with successful VCSEs found that just over half (55%, 57 out of 103) had not accessed investment before, and nearly half (45% or n=46) had (not including those received Growth Fund more than once). Although the Growth Fund programme aimed to increase VCSEs' access to the <£150,000 social investment market, of the 103 VCSEs in our survey that had received investment in the past, over a third (37) said that they had received small-scale investment before (i.e. <£150,000k). However, the survey responses did not indicate if the loans were unsecured or secured, so we cannot assess from the quantitative evidence if the Growth Fund has addressed demand by offering <£150,000 *unsecured* loans

Additionally, some VCSE managers highlighted that prior to securing investment via the Growth Fund, they had accessed loans from their Growth Fund investor, whereas others had accessed small-scale loans from charitable foundations (with favourable terms like interest-free, long-term repayments). However, one VCSE had not been able to access investment before because it did not hold enough cash reserves against which it could borrow, so found that it could not borrow from commercial banks. In this case, the Growth Fund addressed the demand for an unsecured loan. Analysis of the MI

indicates that this may have been the case for other VCSEs; the median net assets[19] of successful VCSEs (n=452) at the point of application was £22,000, suggesting that generally VCSEs had low levels of assets against which they could borrow.

We also know that the number of <£150k deals being offered by the wider sector decreased after the Growth Fund was launched. Figure 17 below shows that the number of <£150k investment deals outside of the Growth Fund nearly halved three years after the Growth Fund was launched – from 190 in 2016 to 100 in 2019.

Figure 17: Examining how <£150k market activity changed after Growth Fund launched



Data source: BSC deals level data: https://public.tableau.com/profile/big.society.capital#!/vizhome/DLD2019/Who. Chart produced by Ecorys.

What does this mean? There are several possible explanations:

- VCSEs have accessed prior subsidised social investment. This social investment is no longer available, and so they have accessed Growth Fund instead. It is therefore still plugging a gap and is providing VCSEs with finance they would not have been able to access otherwise
- The Growth Fund has replaced some sub-£150k investment activity that would have happened anyway
- The survey response numbers are too small, and so we cannot draw any conclusions on the Growth Fund at a programme level.

We do not have enough evidence to be able to conclude on which of these explanations is most likely to be correct (or whether there is an alternative explanation). It is possible that the continued case study research will help shed further light on this. However, the number of case studies is still small relative to the size of the Growth Fund, and this depends on whether future case study VCSEs accessed social investment before.

[19] An asset is 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.

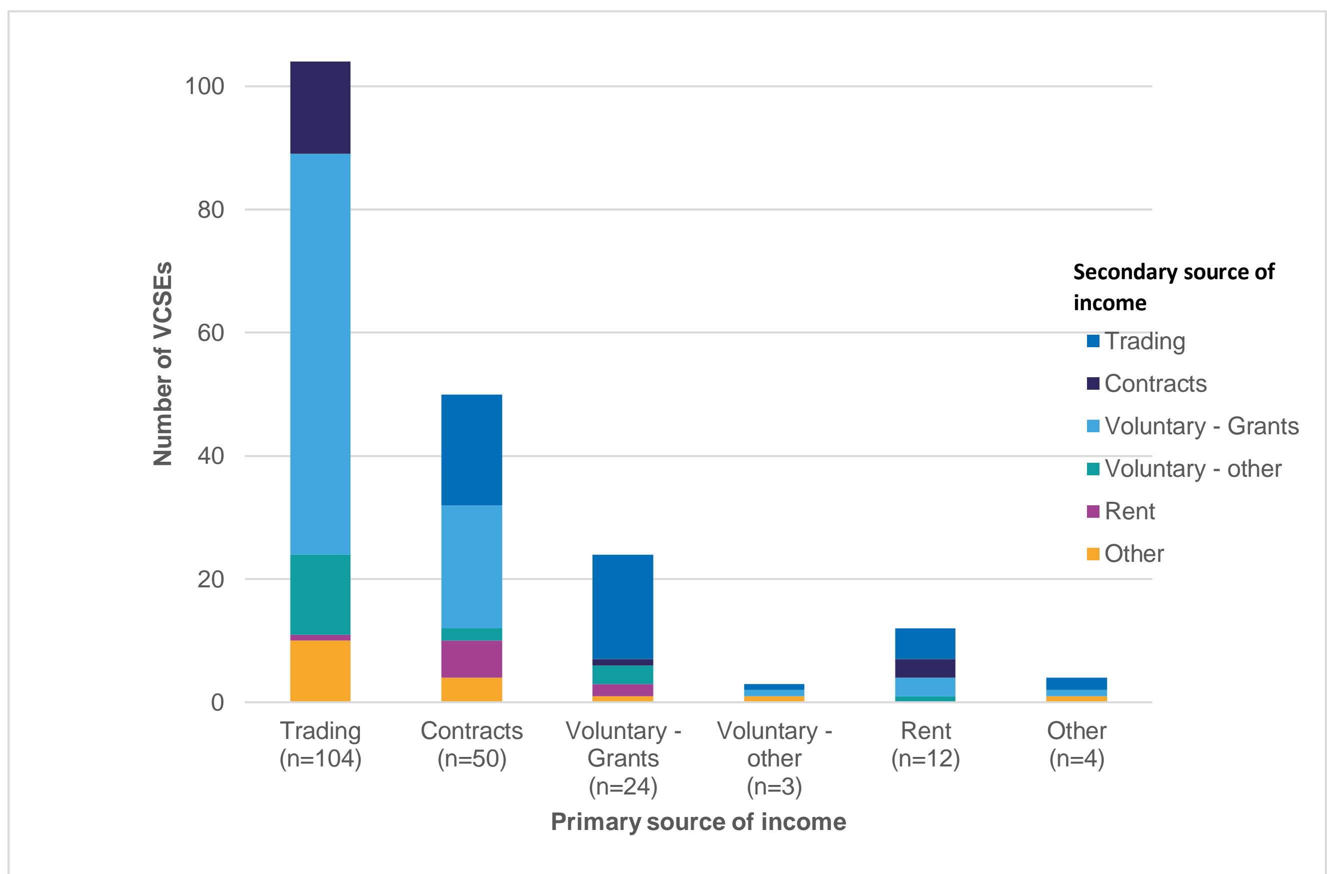
Overall, the evidence up to 2020 suggests that the Growth Fund has reached small VCSEs in terms of FTEs. In terms of income, most are classed as medium-sized VCSEs. Whether it has reached VCSEs that were not able to access investment in the past is less clear.

5.2 Purpose of loans

5.2.1 Business models prior to applying to the Growth Fund

Figure 18 shows successful VCSEs' primary and secondary sources of income, according to programme MI. Due to small sample sizes for VCSEs whose primary sources of income include voluntary sources (grants and other), rent and 'other', it is not possible to compare the relationship between primary and secondary sources of data across the each of the 'primary sources of income' groups. However, Figure 18 does help to emphasise the point that overall, there does not seem to be a trending configuration of income streams for VCSEs successful in accessing social investment from the Growth Fund, though it also shows there is a large degree of variation.

Figure 18: Successful VCSEs' primary and secondary sources of income



Source: Growth Fund Management Information (n=197). Excludes cases where primary and secondary sources of income were the same because it is not clear from the MI if the secondary source was a sub-set of the source of income, or if those with just one source of income (e.g trading from one activity) and it was put it in both categories.. The total height of each bar represents the total number of VCSEs whose primary source of income is the type indicated by the label on the x-axis (e.g. 104 VCSEs had a primary source of income as 'trading'; the breakdown of these VCSEs' secondary source of income is shown within the bar).

Overall, the evidence emphasises the different configurations of VCSE business models, showing that various combinations of revenue models and revenue streams can be used to help organisations achieve their social impact. Often, VCSEs draw on different revenue streams to help subsidise their social impact activities and it appears that having a diverse revenue model is an important feature.

Table 7 provides an overview of the 13 case study VCSEs' business models, outlining VCSEs' key activities, their target audience and reach, their revenue model (i.e. from whom they generate their income), and the revenue streams (i.e. how they generate their income). The three types of revenue model described in the table are:

- Business-to-consumer (B2C): where VCSEs generate their income from selling services or goods directly to consumers (e.g. customers or service users);
- Business-to-business (B2B): where VCSEs generate income through selling services or goods to other businesses; and
- Business-to-government (B2G): where VCSEs generate income through selling products and services to government - including Central Government, local governments and other public sector bodies.

Table 7: Case study VCSE business models

VCSE	Target audience & reach	Key activities	Revenue model	Revenue Streams			
				Trading	Contracts	Grants	Rent
VCSE 1	General public, targeted outreach work with the over 60s, young people, military veterans Other organisations/businesses	Arts venue, Facilities and equipment hire, outreach and learning programme	B2C; B2B	x		x	x
VCSE 2	People with mental health needs Organisations	Therapy to clients and training to public and private organisations	B2C; B2B	x	x	x	
VCSE 3	People with additional support needs	Independent housing and support	B2C; B2G	x		x	X
VCSE 4	General public	Relationship support	B2C; B2B; B2G	x	x	x	
VCSE 5	General public	Community sports venue and activities	B2C; B2G	x		x	

VCSE	Target audience & reach	Key activities	Revenue model	Revenue Streams			
				Trading	Contracts	Grants	Rent
VCSE 6	Sporting organisations	Support to make sporting facilities sustainable	B2B	x	x		
VCSE 7	People experiencing homelessness, drug and substance misuse, unemployment or ill-health	Training opportunities, employment support and renovation of housing	B2C	x		x	x
VCSE 8	Older people, people with long-term health conditions, people who are socially isolated and people with low self-esteem	Health and wellbeing support services	B2C	x	x	x	
VCSE 9	People experiencing mild-to-moderate dementia	Health and wellbeing support services	B2C; B2G	x	x	x	
VCSE 10	General community (including young people)	Community theatre	B2C	x		x	
VCSE 11	Socially excluded people, long-term unemployed people	Community theatre and education services	B2C	x	x	x	
VCSE 12	General public (local community)	Community sports and activities provision	B2C	x	x	x	x

VCSE	Target audience & reach	Key activities	Revenue model	Revenue Streams			
				Trading	Contracts	Grants	Rent
VCSE 13	General public	Coffee shop with aim of supporting community cohesion and reducing loneliness in the community	B2C; B2B	x			

Table 7 highlights the diversity of successful VCSEs' business models. VCSEs' activities ranged from delivering specific services direct to beneficiaries (such as counselling and therapy, training and education opportunities, health and wellbeing classes, appropriate and affordable housing) to providing amenities for the wider community (such as community centres/venues, community activities, goods sold through shops). Other VCSEs tended to focus their activity on supporting specific individuals. For example, one VCSE provided appropriate independent housing for people with additional support needs. Another provided wellbeing services to people with mild-to-moderate dementia.

In terms of who they generated the income from in order to allow them to serve their communities, most (n=12) of the VCSEs generated all or part of their income from selling goods or services to 'consumers' (e.g., customers, service users or beneficiaries). These 'consumers' were not always the target group for the social impact activities; some VCSEs would generate income from these 'wider' consumers to enable them to fund or subsidise their targeted social impact work - as with the case study below. This was also the case for those VCSEs that generated their revenue through selling goods or services to other businesses (B2B) or to government (or B2C); often, this funding would help VCSEs to fund their direct work with target groups.

Table 7 also shows that case study VCSEs rarely relied on one revenue stream (i.e. trading, contracts, rent or grants) and instead had a combination. All VCSEs generated at least some of their revenue through trading activities, either by charging people/businesses/government to use their services or buy their goods. Sources of revenue from trading activities included booking fees and selling tickets (through events), selling goods (e.g., food, beverages, furniture) or offering pay-as-you-go services (e.g. equipment hire, counselling services, or video production). There were also some examples of B2B activity, where VCSEs sold – on an ad-hoc basis – training to public and private organisations, or delivered sessions (e.g. exercise classes) to various local community groups.

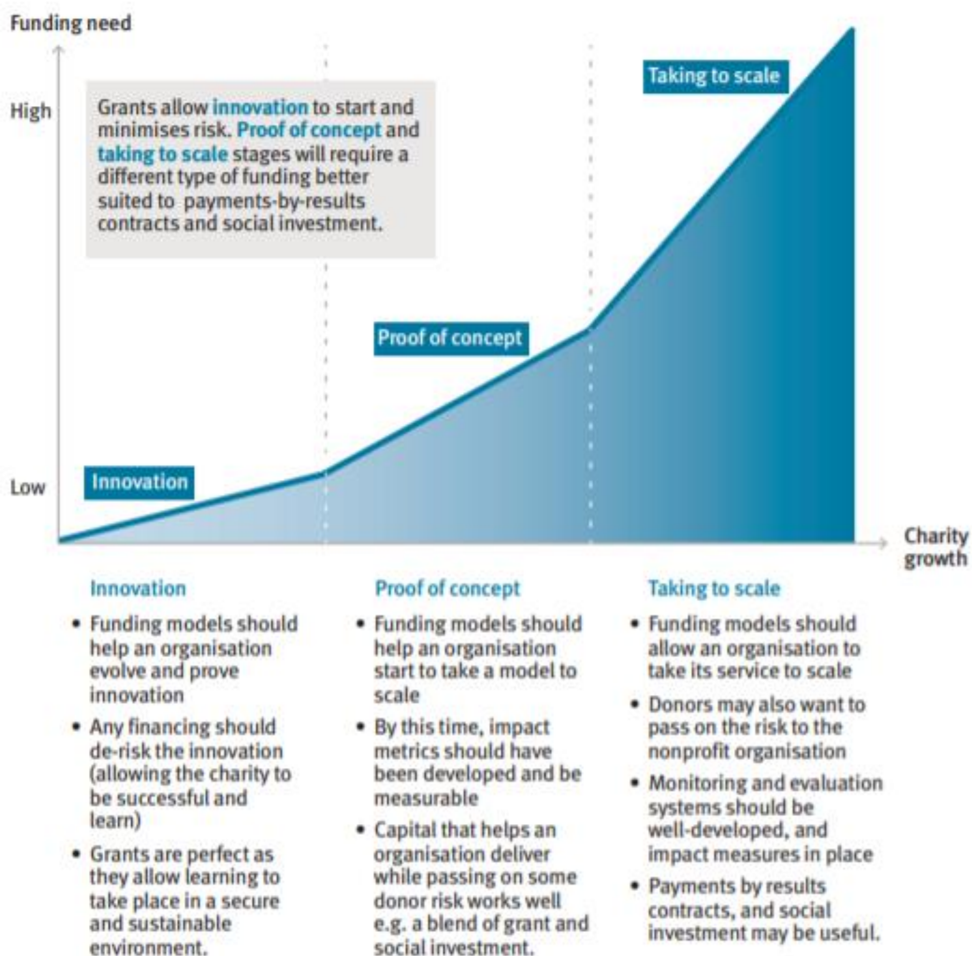
Most VCSEs (n=12) also noted that grant funding was a key source of income. The extent of reliance on grants varied: one VCSE relied on grants to cover about 50% of its core costs; others just used grant funding to deliver specific projects (e.g. some had grant funding from The National Lottery Community Fund to deliver projects addressing a particular theme, such as loneliness). Seven of the case study VCSEs reported holding contracts with a range of commissioners to deliver services. They were mostly contracted to deliver public-facing services (e.g., therapy or wrap-around support services). Four VCSE managers mentioned that rental income was a key source of revenue. This tended to be VCSEs that rented out properties as part of a supported housing scheme.

5.2.2 Using social investment to progress VCSE business models

Previous research into VCSE financing has emphasised the relevance of different funding mechanisms depending on where VCSEs are in their growth cycle. Salway's (2017) research, which included a survey with 190 charities, funders and advisors in charity finance, suggested that were three key stages to a VCSE's growth cycle (also shown in Figure 19):

- innovation (to evolve a new approach);
- proof-of-concept (to test the approach); and
- 'taking to scale' (to enable the VCSE to roll-out its approach more widely).

Figure 19: Funding models at different stages of a charity's evolution



Source: Salway, M (2017) Social investment as a new charity finance tool: using both head and heart. Page 22.

The research found that at the innovation stage, grant funding was helpful for providing a 'secure and sustainable environment' for VCSEs to test their ideas. At the proof-of-concept phase, *"capital that helps an organisation deliver*

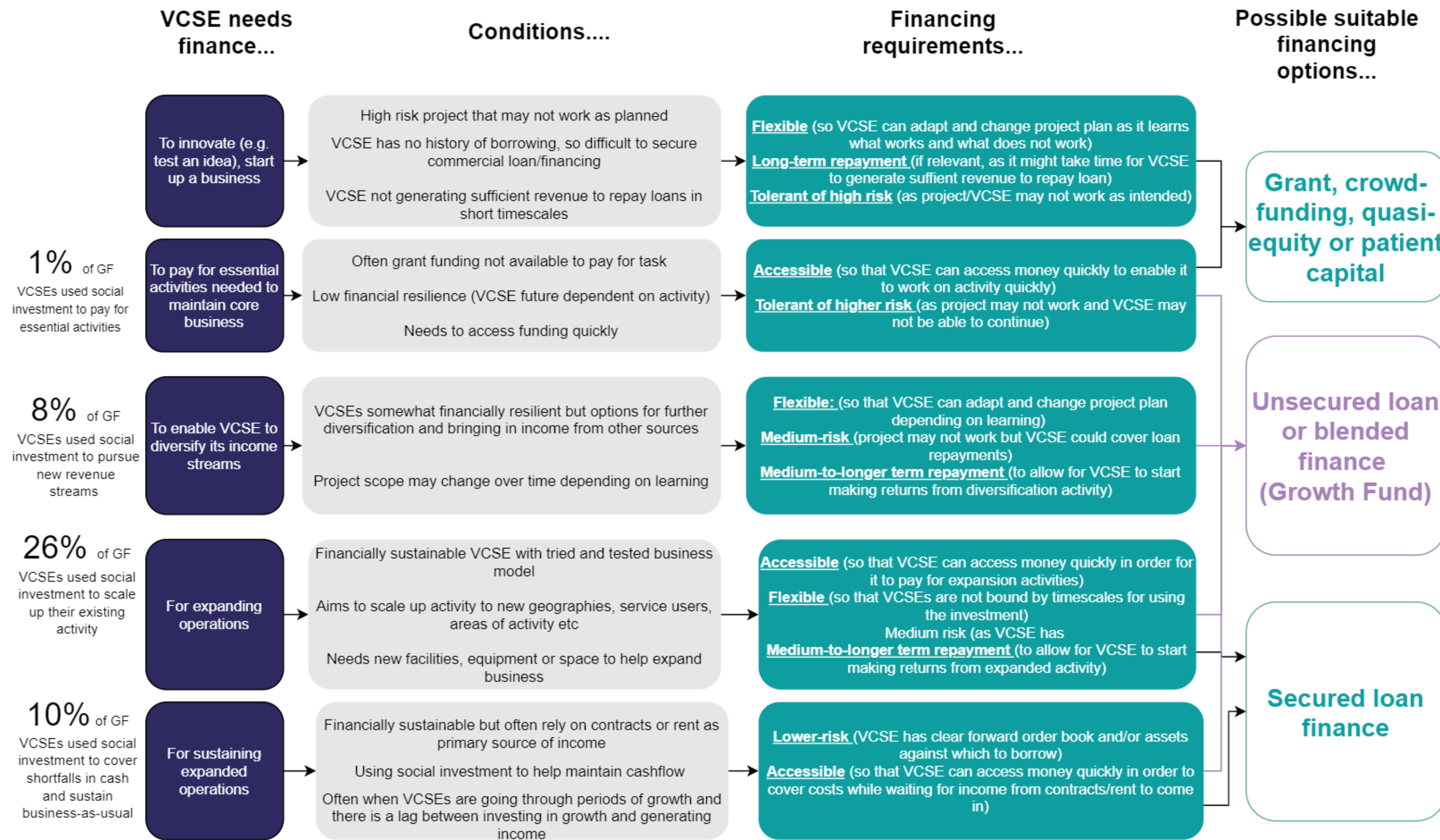
while passing on some donor risk works well (e.g. blend of grant and social investment)" as well as other financing activities such as crowd-funding or patient capital. Finally, at the point of 'taking to scale', social investment may be useful (e.g. through loan finance, or a social impact bond).[20] (though it is worth highlighting that this assumes something can easily be replicated at a larger scale, which is not always the case). However, further evidence has indicated the potential use of other forms of innovative financing to support VCSEs in their strategy; a study by Flip Finance (2017) provided some insight into the role of quasi-equity, and other revenue participation-based risk models. The study defines quasi-equity as being *"based on organisations repaying an investment as a percentage of their annual revenue (or profits, or product revenue) so they do not have to repay the investment if they are unable to"*[21].

The research outlined provides a useful framework for situating the Growth Funds' VCSEs. Based on the case study research and the findings from the MI analysis of Growth Fund Programme data, Figure 20 adds to previous work to show how Growth Fund VCSEs' stage in their business cycle shaped their demand for social investment, or blended finance, via the Growth Fund. It does not show all possible stages of business model development, nor does it show all uses of loan. Rather, it presents a typology based on the general themes emerging from the case study research. We intend to test and add to this typology as the evaluation progresses and we conduct more case study research. It also shows that there is some overlap with funding options – i.e. at the early-stage VCSE end it is possible to pursue some activities with grants or social investment, and at the 'supporting growth' end it is possible to pursue some activities with secured or unsecured loans (including social investment); this is informed by the case study research, which found that some VCSEs thought their activities could have been funded by grants (but none were available at the time needed), and other VCSEs thought they could have accessed secured loan finance from commercial banks or investors but chose to go with the Growth Fund investment package because it offered flexible loan terms and, for some, a grant as well as loan.

[20] Salway, M (2017) Social investment as a new charity finance tool: using both head and heart. Available from: https://www.cass.city.ac.uk/__data/assets/pdf_file/0007/358864/CCE-Social-Investment-as-a-new-charity-finance-tool-using-both-head-and-heart-Report-May17.pdf

[21] Flip Finance (2017) Risk finance for social enterprises and charities. Available from: https://access-socialinvestment.org.uk//wp-content/uploads/2017/02/Risk-Finance-slide-report.pdf

Figure 30: VCSEs' use of financing types at different stages of business model development.



Sources: Growth Fund Evaluation Case studies and Growth Fund Programme Monitoring Data. Building on wider research; Salway (2017): Social Investment as a new charity finance tool: using both head and heart; Flip Finance (2017) Risk Finance for social enterprises and charities. Percentages represent the percentage of VCSEs reporting this finance need in the baseline survey. Percentages do not total 1% as other uses of finance also reported.

Despite the case study VCSEs all working at varied scales, delivering diverse activities, and having different configurations of income streams, there were some patterns in terms of the stage at which they were at in their business cycle, how they perceived their financial resilience, and how these factors together generated a demand for social investment. These patterns fell broadly into a typology of four categories, detailed below, in order of where they fit on the 'growth cycle' continuum outlined in Figure 31. It is interesting to note that, from the case studies, none used Growth Fund financing for the first category highlighted in Salway's research – to innovate and launch a completely new idea / business. This suggests that the Growth Fund is not supplying products to meet all the financing needs within the VCSE sector – a theme we return to later in the report.

VCSEs did use Growth Fund financing in the following ways:

- Demand for social investment was generated in one case to **pay for essential activities**, for which there was no alternative source of funding available at the time it was needed.

Case study: Paying for essential activities (B2C, B2B, B2G)

Before accessing social investment from the Growth Fund, this VCSE that provides therapeutic support to individuals generated revenue through a mix of paying clients, contracts, and grants. The VCSE needed to develop a marketing campaign, to ensure continued awareness of its services following a re-brand. The organisation perceived its financial resilience as 'low' at this point: this work needed to be carried out to ensure the organisation could continue trading and delivering contracts at levels that would ensure its financial viability. Being able to access funding in a timely way was imperative for the organisation, and the opportunity via the Growth Fund could serve this purpose. Once the organisation had run its marketing campaign, it expected to increase its number of paying service users, which would then help it to repay the loan.

- Several case study VCSEs wanted to use social investment to further **diversify their business models**, to use the investment to explore the feasibility of different ideas and then implement them. VCSEs here felt like they were relatively financially resilient (and were able to cover their core costs) but felt there were other options they could explore to generate revenue, to help reduce reliance on other income streams (e.g. one organisation relied quite heavily on its grant income). Similar to those VCSEs looking to expand their delivery, demand for social investment for VCSEs wanting to diversify their business models stemmed from managers' perceptions that the investment could be used more flexibly than grants or contracts linked to specified project activities.

Case study: Diversifying income stream (B2C, B2B)

One VCSE, that provides arts services and activities to the community, planned to use the investment to pay for a commercial manager, whose role would be to identify ways for the organisation to diversify its sources of income and to implement the ideas deemed most appropriate. The organisation relied on grant funding to pay for 50% of its core costs, so they felt if they were able to diversify their income streams then they could lessen their reliance on

grants. The flexibility of the social investment in terms of how it could be used was a key reason for the organisation pursuing it over a commercial loan or another grant.

"[The organisation has] been quite dependent on grants, so in a grant culture you receive funding from a trust or foundation to do something specific, but this is much different because it effectively allows us to use the financing to do a range of different activities." (VCSE Manager)

The organisation did not want to use its grant funding for anything other than its core operations; the social investment would provide up-front capital that could be used to develop its business model, which would generate returns to repay it later down the line.

- Half of the case study VCSEs managers considered their organisation to be in a financially sustainable position and wanted social investment to help them to expand their operations and grow their business. Their business model had been tried and tested (and was generating positive financial returns), and the next step in their business model was growth. The demand for loan or blended finance (rather than just grant finance) came from VCSEs wanting flexibility with how they could use the investment, as often grants came with restrictions over how they could be used.

"Social investments are sort of key in one way for businesses like ours, the charity arm, to sort of develop, move on and keep growing. It is very difficult for charities to secure funding to develop and grow. So social investments are very key to ensuring that we can grow and we can deliver." (VCSE Finance Manager)

Case study: Expand operations and grow the business (B2C, B2G)

One of the case study VCSEs used the social investment from the Growth Fund to expand their operations, by launching their service across some new geographic areas. The investment was used to set up the service – which provides support for those with mild-to-moderate dementia – in three new areas and cover costs of advertising, training staff, buying materials, and rent for each of the locations. The organisation felt that social investment could be used to help set up and run the project, without being constrained by restrictions on time limits for spending the money (like they had with grants). It hoped to repay the loan by generating income from the session fees that service users pay in the new areas as well as through contracts held with the council.

- Finally, demand for social investment was generated across several VCSEs by their need for finance to maintain cashflow while going through a period of growth (e.g. winning a contract to deliver a big piece of work). Investment was needed in these examples to enable the VCSEs to cover their core costs whilst also being able to continue with delayed payments from contractors/renters, afford to expand to deliver other contracts that they had recently won, or purchase new properties.

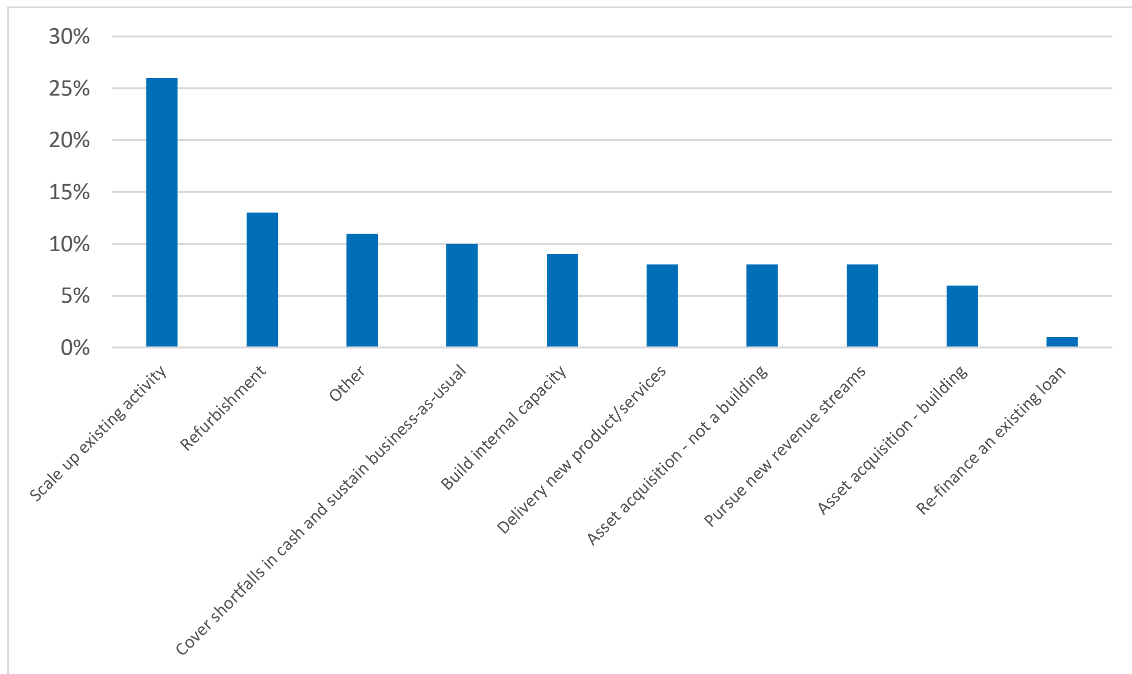
Case study: Maintaining cashflow (B2C)

A theatre-based VCSE organisation that provides support to socially excluded adults to help them into education or employment had secured government contracts to provide end-to-end provision to adults (i.e. ranging from initial engagement, through to getting them into education or employment). The organisation had just secured a new, large contract, and there was a time lag between the VCSE delivering provision and being paid for it, so it needed some money to help maintain cashflow so it could continue to cover its costs (e.g. new staff members) in the meantime. The social investment was available at the time the organisation needed it, so it decided to apply to the Growth Fund. The organisation intended to repay the loan through the income generated from delivering its services

More widely, evidence from the Growth Fund MI suggests that VCSEs successful in applying to the Growth Fund intended to use the loan for a variety of reasons. Figure 22 shows that scaling up/expanding the business was the main purpose of the loan/loan-grant package for over a quarter (26%) of successful VCSEs, followed by 'refurbishment' (13%), 'other' (11%) and to cover shortfalls in cash and sustain business-as-usual (10%). Interestingly, this is slightly different to other research into the main motivations for taking on social investment; for example, research with 150 VCSEs found that the primary reason for taking on social investment was to diversify income streams[22], yet this ranked 7th of the 10 primary purposes for taking on social investment in the Growth Fund. As Figure 22 shows, 2% of loans accessed were for the purpose of re-financing an existing loan. This means that VCSEs used the Growth Fund loan to pay off an existing loan, presumably for the more favourable terms and conditions offered by their Growth Fund investor.

[22] Salway, M., 2017. *Social investment as a new charity finance tool: using both head and heart*. See: https://www.cass.city.ac.uk/__data/assets/pdf_file/0007/358864/CCE-Social-Investment-as-a-new-charity-finance-tool-using-both-head-and-heart-Report-May17.pdf

Figure 21: Purpose of loan for successful VCSEs



Source: Growth Fund Management Information (n=453). Chart produced by Ecorys.

Up to September 2020, VCSEs successful in accessing social investment via the Growth Fund were diverse in terms of their area of activity, the types of the beneficiaries they served, the activities they did, and the way that they generated their revenue. Despite this variation, however, the evidence gathered indicates the types of activity organisations successful in securing investment are doing; how this shapes their demand for social investment, as well as the type, and subsequently the terms and conditions of, the products that they wish to take on to address their needs. This section explores this in more detail.

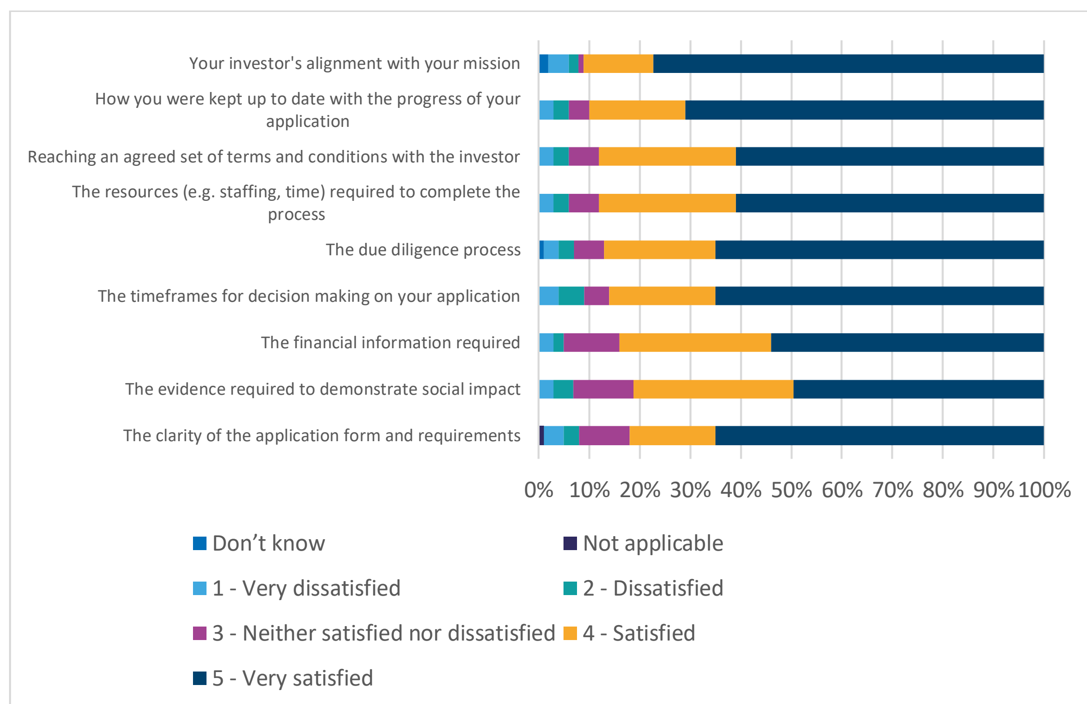
5.3 Experience of loan application process

Findings from the Baseline VCSE Survey and the case study research suggest that, generally, VCSEs' experience of the application process was positive. While the findings in this section only represent the experiences of those who were successful in their application – and therefore may be skewed[23] – there is still plenty of learning about elements that worked particularly well, as well as aspects of the application process that could have been improved.

Reflecting on the overall application process (including working with the investor), 72% of the 103 Baseline VCSE survey respondents said that they were 'very satisfied' with the process, and a further 19% were 'satisfied'. Figure 22 below provides an overview of VCSEs' level of satisfaction with various elements of the application process. VCSEs were most satisfied with their investors' alignment with their mission (92% of VCSEs were satisfied or very satisfied) and how they were kept up-to-date with the progress of their application (90% of VCSEs were satisfied or very satisfied).

[23] We intended to speak to some unsuccessful VCSEs but so far it has not been possible to interview enough to report on their experiences anonymously.

Figure 22: VCSEs' satisfaction with elements of the application process



Data source: Baseline VCSE survey (n=103)

Alignment between the investor and VCSE was an important feature discussed in the case study research and open-text survey responses also. This went beyond investors being 'socially motivated', and it manifested in terms of investment managers really taking the time to understand VCSEs' social mission, how they were intending to use the social investment and how they would get there. VCSE managers in the case study research suggested that the application approach felt quite collaborative or relational, rather than transactional. This was valued by VCSEs, particularly in those where staff were less experienced or familiar with social investment.

> *"Our investment manager was very detail-oriented and empathetic at the same time, always keeping an eye on the bigger picture and focussing on the ultimate goal [of the VCSE]. We very much appreciated this as it meant that the work [in preparing for the application] was done to an extremely high quality and that the principal focus was well aligned with what we are trying to achieve."* (VCSE Manager)

While many VCSEs felt that their investor made an effort to understand their business model and plans, there was limited evidence that this collaborative approach changed VCSEs' core plans for the use of the loan. Instead, it seemed to contribute to a productive process of fine-tuning VCSEs' general approaches.

> *"The application process is helpful in reviewing where you are and if your potential for growth is viable. It focusses the mind on achievable goals and the stages required to be successful."* (VCSE Manager)

VCSE respondents highlighted that investors provided regular communications and were responsive to queries. VCSE managers valued having a named point of contact they could go to with queries, but they also remarked on investment teams generally being approachable and willing to help.

VCSE managers were generally happy with the costs of putting together the application for social investment, in terms of the amount of time, and number of staff needed throughout the process. 88% of survey respondents (see Figure 24) were either satisfied or very satisfied with the resource that the process took. Case study VCSE managers generally felt that the process of accessing social investment cost less than putting together an application for a grant. The main focus of resource for most VCSEs was researching and demonstrating the business plan and doing all of the financial modelling and projections to underpin it. Even where VCSE

managers/finance staff felt they had spent a comparable amount of time on the social investment application to a grant application, generally they were able to access more money through social investment, suggesting the social investment application process was more cost-effective than the grant application process.

As shown in Figure 24, 88% of VCSE respondents were either satisfied or very satisfied with reaching an agreed set of terms and conditions with the investor. Qualitative evidence suggests that VCSEs valued, or were content with, the following aspects of the loan terms and conditions:

- Blended finance offer: Some survey respondents noted that the grant was a 'particularly significant' part of the offer because it helped to offset the costs of the interest on the loan, and therefore reduce the overall cost of the loan.
- Interest rate: While there was some consternation among survey respondents that the interest rates were too high (especially, they reasoned, in relation to current Bank of England interest rates), when case study VCSEs and VCSE survey respondents commented on interest rates, they usually described it as being 'low' or 'reasonable'. This may have been shaped by the extent to which VCSEs could access loans elsewhere – those with low reserves or 'risky' ventures had fewer or no alternatives.

  "Our terms - interest rate - are steep. However, we understand this is a high-risk loan; we couldn't receive finance from elsewhere for this reason; so we understand why the interest rate is so high." (VCSE Manager)

  Several VCSEs who gained investment from one fund also appreciated the ability to reduce interest rates contingent on social impact being achieved.
- Repayment period: For those VCSEs that commented on it, longer repayment periods were good because it enabled monthly repayments to be lower, which subsequently reduced strain on organisations' finances and monthly outgoings.
- Repayment terms: Several VCSEs commented on flexibilities in the repayment plans. For some, this involved interest-only payments for a fixed period of time, while for others there was a repayment holiday (usually between six and 12 months) at the start of the loan term. Others reflected on the flexibilities built into the loan terms and conditions, where they could be offered a repayment holiday if they hit any difficulties and had any low cashflow.
- Flexibility: Along with having the potential option of future repayment holidays built into loan terms and conditions, VCSEs also commented on flexibilities in terms of how the loan could be used (e.g. bridging loan, draw down funds, medium-term loan) and the size of the loan.

  "The flexibility… as we only need £50k, very few other providers offered investment that small." (VCSE Manager)
- Unsecured: VCSEs welcomed unsecured loans. A barrier to some had been that they did not have enough assets against which to borrow, so the Growth Fund helped address a gap in what was available to them. For example, one charity respondent said that because of their legal form (i.e. a charity), it was difficult for trustees to sign off on a funding package which would carry penalties. They were happier to sign off on an unsecured loan, even though it required more due diligence by the investor.

While most respondents (86%) were satisfied or very satisfied with the timeframes for decision-making on their application, from the qualitative research there were examples of what VCSEs described as 'excessive' timescales, which at times almost jeopardised organisations. Causes of such delays included investment decisions being postponed and identifying problems or requesting changes in business plans late on in the process, While these were exceptions, it is worth highlighting, because, as mentioned in Section 5.2, the perceived timeliness of accessing a loan compared with other forms of finance was a key pull factor for some VCSEs considering social investment via the Growth Fund. One VCSE manager highlighted that there were multiple delays to their application, and during that time the business almost collapsed with significant cashflow issues. This meant the organisation's business plan had to change and the investment proposal had to be scaled back. The reduced level of investment impacted the VCSE's ability to leverage in funding from other funders, thus affecting the

organisation's short- and medium-term strategy. Some VCSEs also commented that the paperwork requirements were 'laborious' or 'rather excessive' for the amount of loan that they were requesting.

Of the options in the survey, a smaller – albeit still large - proportion of respondents (82%) were satisfied or very satisfied with the evidence required to demonstrate social impact. Qualitative survey responses provided some illumination of why fewer respondents were happy with this than the elements of the loan; some VCSEs were uncertain of how they could demonstrate their social impact in their application. This is a theme we return to in Section 6.5.

Overall, VCSEs appeared to have had a generally positive experience of the Growth Fund application process, but as highlighted, the evidence is only from the perspective of successful VCSEs. While the majority of respondents were happy with all aspects of the application process, the most valued aspects were the alignment with – and understanding from – the investor, the regular and clear communications, and the cost effectiveness of putting together the loan application. VCSEs struggled more with timescales (and some delays to the process) and demonstrating social impact.

5.4 Conclusion

Overall, the evidence to date suggests that the Growth Fund is reaching small- and medium-sized VCSEs, and on average a cohort that is smaller than those reached by the wider social investment market. This is important, given one of the aims of the Growth Fund, which was to increase investment to early stage VCSEs.

Whether it is reaching VCSEs that were not able to access investment in the past is less clear; some VCSEs have accessed small-scale loans in the past, but these may have been secured. Qualitative evidence suggests a nuanced picture, and there is evidence that some VCSEs would not have been able to access investment without the Growth Fund, whereas for others, the Growth Fund just provided another social investment option for them. Our recommendation here for future blended finance programmes is that more restrictions are placed on who can access the loans and grants, to ensure the programme is adding value to other activity

Different configurations of business models generated demand for social investment in different ways. From the case study research, we identified four ways in which VCSEs had demand for social investment (and how they expected it to increase their resilience): to expand their operations and grow the business (already financially resilient so hoping to expand that); to diversify their business models (to become less reliant on one source of income); to pay for a discrete task (to allow business to do an essential activity, without which the business would fail); and to maintain cashflow (to help the VCSE through a period of growth, allowing it to invest in internal operations while also paying overheads, staff costs etc).

Often loan finance was the preferred option because it could be used more flexibly than a grant. Social investment was the only viable option for some VCSEs because they could not secure a loan from a commercial bank. For some VCSE managers, taking on social investment over a grant was not necessarily the preferred option, but the only available option (due to time constraints or lack of suitable grants).

This chapter has described VCSEs' reasons for, and experiences in, *applying* for social investment. In the following chapter we describe their experiences of social investment in using and repaying the loan.

06

VCSEs’ Experiences of the Growth Fund Grants and Loans

- Qualitative evidence indicates that VCSEs generally used their loans as they intended to in their business plan. Where changes to repayment plans had been made, it was due to a change in VCSEs' business needs, changes in project timescales, and VCSEs generating less revenue than expected.

- Grant C – the grant that investors could pass down directly to VCSEs to use flexibly alongside their loans – tended to be used in several ways: to reduce the cost of loan repayments; to purchase new or upgrade existing buildings, facilities or equipment; to develop the organisation; and to cover core costs. The extent to which Grant C was reported by VCSEs as 'essential' varied. It seemed to be most important for those using it to lower the costs of their loans.

- Most VCSEs' experiences of repaying loans was positive. VCSEs reported positive ongoing engagement with investors, and particularly valued the responsiveness of the investor, their understanding of VCSEs' business and clear, regular communications. However, several VCSEs felt the annual reporting requirements were at times complex and some found it difficult to evidence their social impact.

- The Growth Fund's investments are intended to contribute to building VCSEs' resilience and opportunities. This in turn is expected to contribute to their ability to deliver social impact. The programme has sought to collect impact data as an indicator of the investees' impact trajectory and health whilst using social investment. However, the level of variation in data availability, quality and types of outcomes reported makes it difficult to aggregate the data and report on the overall social impact status of investees during their time with the Growth Fund. The Programme Partnership is still interested in VCSEs reporting on social impact, as it provides assurances that the Growth Fund is investing in socially-motivated organisations. However, in view of the variability of the data being presented, we do not think the assurance value is proportionate to the effort required by all parties to collect and aggregate the data at the programme level, and would recommend to the Programme Partnership ceases gathering it. This is not to say that VCSEs themselves should not measure and manage their performance for their own purposes. Nor is it to say that the Programme Partnership should stop seeking assurance of organisations' social motivations or assessing how the social investment is contributing towards social impact at the level of the VCSEs' end-user; instead we suggest that such assurance is better gained through investor due diligence (pre and post deal) and that assessment of the contribution to social impact is better captured through the evaluation surveys and case studies.

6.0 VCSEs' Experiences of the Growth Fund Loans and Grants

This chapter provides an overview of voluntary, community and social enterprise organisations' (VCSEs) experiences of using Growth Fund loans and grants, repaying the loans, ongoing communications with social investors, and measuring social impact. It considers the extent to which the products offered through the Growth Fund met VCSEs' needs.

6.1 Using the loans

Most of the VCSE case studies used their loan as they originally intended. However, there were a few examples of where the planned activities (in these cases, delivery of services) turned out to be unviable, or there was less of a demand for them than expected. In one case, the VCSE had drawn down half of the loan amount, but as the business idea was not working in practice, the investor decided to withhold the other half. The VCSE was able to secure a grant from a non-Growth Fund source to trial a different approach and used the loan that it had drawn down to cover day-to-day running costs. At the point of the case study visit, the VCSE manager was not confident about whether the organisation would be able to pay back the loan or not. In another example, the loan had been used as intended – to bring in a member of staff to try and expand delivery to a new beneficiary group – but as they started delivering, they realised there was not enough demand for this new delivery and the post was not sustainable. However, in this case, the VCSE was able to repay the loan, from the income generated through its core contract work. Both of these examples illustrate the potential risk involved in social investment, especially when VCSEs are trialling untested approaches to expanding their business. Though they also need to be considered in the broader context (see Chapter 2), that prior to Covid-19 only 6% of loans were deemed to be at risk.

6.2 Use of Grant C

As described in the Introduction, investors had the option of passing on an element of the grant aspect of their Funds directly to VCSEs, to use flexibly alongside their loan (i.e. as Grant C). The Growth Fund programme was not prescriptive about how VCSEs could use Grant C, so a key part of evaluation activity has been to understand how VCSEs have used their grant. Findings from VCSE case studies and open-text survey responses indicate that Grant C has been used in several ways:

- Reduce the costs of loan repayments: As mentioned in Section 5.1, the option to use the grant to cover the costs of loan repayments was something that some VCSEs felt made the Growth Fund opportunity a viable one. Usually, VCSEs used the grant to pay for the interest on the loan, but one case study VCSE held back their grant to use for repayments in case they ran into any problems generating income later down the line.
- Purchase new or upgrade building/equipment: Some VCSEs reported using the grant to help improve their infrastructure. This ranged from capital works, such as renovations or rebuilds, to buying equipment or investing in systems (IT or finance) to improve business processes. Often, VCSEs used the grant in this way to improve efficiency or improve the quality of their facilities.
- Develop the organisation: Other VCSEs reported using the grant to help develop their organisation. How the grant was used varied substantially, and ranged from investing in developing staff members' capacity, exploring

approaches to diversifying income streams, developing their approach to measuring social impact and developing their business strategy.

- Covering core costs: There were some examples where VCSEs said that they were using the grant to cover some of their operational costs, and for cashflow purposes.

While VCSEs used Grant C in many different ways, the extent to which VCSEs reported that Grant C was an essential part of the offer varied. The blended finance offer tended to be most important for those using it to reduce the costs of loan repayments, or for covering core costs. From the evidence available, it was less clear if the grant was useful, but non-essential, for VCSEs that used it for developing infrastructure or their business model. Some VCSEs provided a slightly different take on the Grant C element and commented that the grant was the key element of 'social' investment. As one VCSE manager noted:

> *"If social investment didn't have the grant element and wasn't low interest then I wouldn't consider social investment - if it's not on better terms than what commercial lenders can offer, then why would you go for it? The fact that this is an unsecured loan was not a deciding factor in going for it."* (VCSE Manager)

The fact that Grant C was deemed most essential when used to pay the loan interest raises some interesting questions for the design of future blended finance programmes. Some VCSEs felt the interest rates were quite high, and wider research highlights high interest rates as a barrier for VCSEs accessing social investment[24]. It needs to be borne in mind that the purpose of the interest rates is to cover the investors' operating costs (and returns to the wholesale investor) – both of which are in-part covered by the Grants A and B. A possible alternative design option, then, would be use some of the Grant C money to increase Grant A. This would mean more of the investors' operating costs would be covered by the grant, meaning they would not have to charge so much interest. This could then make social investment more affordable and attractive to a wider set of VCSEs.

This could, though, have negative consequences – as the quote above demonstrates, the grant element is attractive to VCSEs, and we could hypothesise that it would be particularly attractive for VCSEs more used to accessing grants. It is possible then that such a re-design, with less available Grant C, would be *less* attractive to VCSEs. A solution to this could be offering repayable grants, as this would retain the grant 'branding'. This is something worth exploring in future blended finance programmes.

6.3 Repaying loans

Generally, across the VCSE case studies and the survey respondents, the experience of repaying loans was positive, which aligns with the data in Section 2.2.1 which showed that there had been very few loan write-downs or defaults. The timing of the follow-up surveys and baseline case studies may have affected this to some extent, especially for VCSEs that had a 6-12 month repayment holiday or interest-only payment period at the start of their loan term, as they had only just – or not yet – started making repayments. VCSEs that were making repayments often reported that repayments went out by direct debit, meaning there was no, or limited, cost or time needed to manage the repayment process. Most of the VCSEs who provided feedback in the survey did not experience any changes in where the income for their repayments would come from, indicating that – to date - their business plan had panned out as intended. Where VCSEs had experienced a change in their source of income for their repayments, it was generally due to three reasons:

- Change in business needs: Several VCSEs reported that their business model had evolved since taking on the loan, which led to them making adjustments to how they repaid their loan. One VCSE used its loan to diversify its income streams, so the repayment plan developed during the application process was built on assumptions that were subject to change depending on how they diversified their income streams. Going ahead in the evaluation it will

[24] Comic Relief, 2019. *What's in it for us? A Report on Small Charities and Social Investment.* See: https://www.goodfinance.org.uk/latest/post/report/comic-relief-whats-it-us-report-small-charities-and-social-investment

be interesting to explore whether other VCSEs – whose primary purpose of the loan was to diversify their revenue streams – also experienced changes in the sources of income for their repayment.

- Change in project timescales: Where VCSEs had applied for social investment to pay for capital works – e.g. buying a property, refurbishment – there were sometimes delays to these works processes resulting in delays in VCSEs being able to generate an income from them. This subsequently meant that they were not able to make repayments as planned.
- VCSEs generating less revenue than expected: Some VCSEs had to make changes to repayment plans because they were not generating enough revenue to maintain good cash flow[25]. This was usually because there was less of a market for the VCSEs' business than they anticipated in their original forecasting.

As highlighted, some VCSEs were forced to make changes to their repayment plans, often due to unexpected changes or contextual factors. There were some examples provided from the open-text survey responses and the VCSE case studies of how late payments from commissioners for contracted work impacted some organisations' cashflow, meaning they missed a loan repayment. In all cases, there were no negative impacts of repayment changes on VCSEs' relationships with their investor. Where VCSEs provided a comment alongside this survey response, they said that their investor had been very supportive. Regular communications were viewed by VCSE managers as being key to ensuring that both VCSEs and investors could work well to overcome challenges in relation to repayments.

6.4 Ongoing experience of social investment

Given that many VCSEs in the case study research and the survey research reported having positive engagement with the social investor during the application process, it is perhaps unsurprising that this seems to have continued for VCSEs during the loan repayment period. Out of 81 respondents to the Annual Survey, 60 were 'very satisfied' with the level of support they received from their social investor and 59 were very satisfied with the level of communication. In the open-text survey responses, VCSEs mentioned key positive factors as the responsiveness of their investor and their ongoing understanding of the business, as well as clear, regular communications. However – in line with experiences reported in the Baseline Survey – one area of contention related to the reporting requirements. Several VCSEs felt that the annual monitoring requirements were quite complex, and some found it difficult to evidence their social impact. From the case study research there appeared to be variations in VCSEs' monitoring requirements, with some having to provide detailed social impact reports, and others just having to provide annual accounts.

6.5 Measuring social impact

The broad ambition of the Growth Fund, as stated in the Investment Policy, is to *"enable greater social impact to be created through wider access to a range of financing tools."* Consequently, the ambition of the parties involved in the Growth Fund was to *"put in place a framework for evaluating and evidencing the social impact generated across the SIFI portfolios."* (ibid)

In response to this, the investors capture data on social impact from all VCSEs receiving grants and loans. They provide annual figures in relation to at least one outcome metric, and also report on the number of service users they supported that year, and how this compares to a target they set. This is collated by the investors, who pass it to Access and is then analysed by the evaluation team at Ecorys. Ecorys also includes a set of questions in the annual survey to assess the degree to which VCSEs attribute any changes in social impact to the investment they received. The evaluation also explores how social investment has affected organisations' social impact through the case studies.

[25] Cash flow is 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.

Over time, those involved in the operational delivery of the Growth Fund from all organisations in the Programme Partnership have come to the view that the social impact MI provided by the VCSEs has limited *analytical* value. That is, it is not possible to aggregate the data of so many disparate organisations, reporting on such disparate metrics, especially when the quality of the data captured by the VCSEs is of varying quality.

Many also felt that analysing the social impact reveals little about the social investment itself. They felt that the prime goal of the Growth Fund was to bolster the financial resilience of VCSEs. The investment itself does not achieve social impact – instead it supports socially-motivated organisations that then go on to achieve such impact. As a consequence they felt the programme should measure and be judged on its contribution to *financial resilience*, rather than the social impact achieved by the organisations within its funds. Therefore, whilst they felt it critical to ensure the Growth Fund was investing in socially-motivated organisations, they did not necessarily see measuring social impact after the loan had been disbursed as a priority.

"At our level…our role is to support the investors, and we need to trust the investors, we should judge the success of Growth Fund based on what it was trying to achieve – that there's a gap in lending, has it achieved that and getting that money to the sector? Whether or not social investment supports sectors to achieve social impact – that's not the thesis that we're trying to demonstrate." (Programme partner)

Instead, those involved in the operational delivery of the Growth Fund had come to the view that the social impact provided *assurance* value. In that, they meant that the Growth Fund was aimed at socially motivated organisations, and by asking VCSEs to report on social impact, this provided the Fund with assurances that they were indeed investing in socially motivated organisations.

"The indicative social impact data collected at the programme level is a way of demonstrating assurance that the trust investors place in investees was warranted - in that the investees continue to take an impact management approach, collecting data, in relation to a theory of change at the investee level." (Programme partner)

Whilst this view is held amongst many of the stakeholders, it was not, though, a universally-held view. Some felt that the approach within the Growth Fund was a *"missed opportunity"* in further understanding the contribution social investment made to social impact.

"Success is seen as money into the sector. But if you don't have some sort of impact goal – to improve economic value in the local area – what are you doing? They ought to be able to do it." (Programme partner)

The views of the social investors on the value and nature of the social impact reporting varied substantially. Views varied in relation to:

- how the data was captured (some thought there should be more standardisation, whilst others thought the flexibility was important);
- whether it was proportionate (some thought it was a reasonable ask, others felt it was disproportionate to the loan value and others felt this was a 'grant'-style mindset and should not be asked of loans); and
- whether it was valuable (with some thinking it should be prioritised more, and others thinking there is minimal value in capturing and aggregating it).

We provide our own perspectives on the value of the social impact from an analytical and assurance perspective below.

From an *analytical* perspective, we have sympathies with the views of the Programme Partnership. We think that whilst it was correct to experiment and see if there was value in collecting, aggregating and analysing the social impact MI data, the reality is that, due to the variety across the programme, it does not provide a lot of useful information on the social impact of the social investment. In section 7.2 below we provide analysis on how the social investment has supported VCSEs' social impact. However, in undertaking this analysis we primarily drew on the data captured through the VCSE survey and case studies, rather than the MI provided by the VCSEs.

We are less convinced than the Programme Partnership on the value of the social impact MI from an *assurance* perspective,. From our interviews with social investors, we understand that this assurance is already gained through the due diligence at the investment decision point – investors take into consideration the social motivations (and potential social impact) of organisations when deciding on their investment. If the social impact is already assured through this process, one has to ask what *additional assurance* is gained from capturing and aggregating the MI at the programme level. And given both the huge variation of the data and the reality that the investment alone cannot always be credited as the cause of an investee's core business impact, the meaningfulness of such aggregation would be dubious. Furthermore, we question whether this additional assurance is *proportionate* to the level of data burden that is placed on VCSEs and investors to gather it. Considering both investors and VCSEs reported that investors provide minimal oversight over the data collection for programme partners – i.e. they gather the numbers but do not really engage with VCSEs around them – we do not see that the programme aggregation process provides assurance value over and above the investment due diligence process – especially not if the investors were to maintain that due diligence during the loan period, as per their terms of grant with The National Lottery Community Fund.

Therefore, we would recommend to the Programme Partnership that they cease gathering this data. This is not to say that they should stop seeking assurance of organisations' social motivations or trying to assess how the social investment is contributing towards social impact; Our recommendation is that this assurance is better gained through the investor due diligence and that gauging the programme level contribution to social impact is better captured through the evaluation surveys and case studies.

6.6 Extent to which products met VCSEs' needs and expectations

Evidence from the VCSE Annual Survey and the case study interviews suggests that, generally, the products offered through the Growth Fund met VCSEs' needs. 61 out of 81 survey respondents reported being 'very satisfied' with their investment, and 66 out of 81 said that they would 'definitely recommend' other organisations in a similar situation to take up a similar investment. Furthermore, 57 out of 81 respondents felt 'very satisfied' with the level of tailoring/structuring of the investment to meet their organisations' needs. Case study research generally reflected this, with VCSE managers broadly using the investment as intended.

The follow-up case studies provided an opportunity for VCSEs to reflect on the extent to which the Growth Fund offer had met their needs 1-2 years after the initial deployment. In all five follow-up case studies, VCSE managers were positive about the way they had used the investment and how it worked for their organisation. The wider literature indicates that social investment products (from loan finance through to quasi-equity[26]) are most suitable for VCSEs that have a clear business model and rationale for using it (Flip Finance, 2017; Salway, 2017). This came through strongly in the follow-up research; all five VCSE managers felt that social investment had been the right decision for their organisation at the time, either to diversify their income streams, expand their business (geographic and beneficiary reach) or pay for a specific project. Regardless of whether the organisations struggled financially (two organisations did for reasons not linked to the social investment), they found the offer they received useful, as it was unsecured, and because of the long loan terms, the loans' unrestricted nature (i.e. the fact that they could use loans flexibly).

> *"Now I definitely see social investment as part of our plan for growth over the next few years."* (VCSE Manager)

[26] Quasi-equity investment is 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 investment] is useful and more people should look at it. I think it's better because we got funding for 3 or 4 years. [The loan] allows you to front-load it to get started, then under normal circumstances make it work."* (VCSE Manager)

Of the 81 respondents to the VCSE annual survey, 52 said that they had received new sources of investment since they received social investment via the Growth Fund. Of this 52, the vast majority (n=47) had applied for a grant, eight VCSEs had applied for either social or mainstream investment, and two applied for a combined grant/loan. 37 of the 52 VCSEs were successful in accessing the grant, six were in accessing loan finance, and two were in accessing a combined grant or loan. This suggests that successful VCSEs are still using grant funding (although some VCSEs completed surveys during 2020 and the Covid-19 pandemic, which may explain why they had not taken on loan finance – see Chapter 3). However, nearly half (n=39) of the 81 respondents said that they would 'definitely' apply for further investment in the future. Most respondents (n=57) said a grant would best meet their needs, but almost half (n=40) said that a blend of grant and loan would be suitable. 28 said that a loan from a social investor would meet their needs.

These findings indicate that around half of the 81respondents had not opted for loan finance again (either in a pure loan or blended finance package). Generally, this was not because their experience with the Growth Fund was negative. Rather, it reflected where their business was, and whether they felt investment was the best option for them. For example, one of the follow-up case study VCSE managers highlighted that their social investment was 'necessary' for enabling their organisation to grow, but they did not want to take on any more investment because they did not want any more debt, and grant funding – along with their trading income – would sustain them. The sentiment that social investment is one of a range of financing products for VCSEs was reflected in the survey open-text responses:

> *"There are many different financial products that we consider. The applicability of any one of them will depend on the reason the money is needed. i.e. financing cashflow for manufacturing, equity for big R&D projects or financing our marketing spend month to month."* (VCSE Manager)

One VCSE manager – at the mid-point case study visit – commented that it was not just the product (blended finance, in this example) that met their needs as a VCSE; it was the way that their investors approached the relationship and their willingness to be flexible when things did not go as planned for the VCSE.

> *"If it was bank lending, there may have been less patience, [the bank] may have restricted their lending."* (VCSE Manager)

There were only a handful of negative responses regarding the products in the survey research. While this could suggest that the offers provided via Growth Fund have generally met VCSEs' expectations, it may also reflect a bias in that those with more positive experiences were more likely to participate in the research (or that VCSEs for whom an unsecured loan was not a suitable product did not engage with the Growth Fund). Contrasting the generally positive perception of flexibility outlined in Section 5.3, there were some examples where VCSEs felt that there had not been flexibility. For example, one respondent felt their investor was unwilling to be flexible about interest rates during Covid-19. Others felt the high interest rates were particularly magnified by contrast with the low Bank of England rates of recent years.[27]

[27] While some VCSE respondents made this comparison, it may be more appropriate to compare Growth Fund interest rates with non-subsidised and non-secured Small and Medium Enterprise lending to better reflect the terms and conditions associated with Growth Fund programme loans,

6.7 Conclusion

Overall, VCSEs had a positive experience within using Growth Fund loans and grants, repaying their loans, and their ongoing communications with social investors. Case study VCSEs generally reported using their loans as originally intended and most had positive experiences of repaying them. Some VCSEs responding to the VCSE survey noted that they had changed their source of income for making repayments, usually for one of three reasons: a change in business needs, a change in project timescales, or the VCSE was generating less revenue than expected. The survey also indicated high levels of VCSE satisfaction with their investors, especially in terms of responsiveness, understanding of the VCSE's business and regular, clear communications.

Where experience was quite mixed was in relation to measuring social impact. Some VCSEs struggled to measure social impact, and investors provided limited support. Impact management capacity across VCSEs varies in general from high to low (as indicated in this Community Fund report) and future programme design needs to consider how best to address cases where capacity is limited; the offer of impact management workshops through the programme saw little take-up and, one of the investors which focussed its lending model on intensive support made few deals. Across the Growth Fund there was also doubt about the value of collecting and aggregating social impact numbers from such a diverse set of VCSEs. The Programme Partnership is still interested in VCSEs reporting to the Partnership on social impact, as it provides assurances that the Growth Fund is investing in socially-motivated organisations. However, we do not think the assurance value is proportionate to the effort required to collate the data and, would recommend to the Programme Partnership that they cease gathering it. This is not to say that they should stop seeking assurance of organisations' social motivations or trying to assess how the social investment is contributing towards social impact, but that assurance is better gained through investor due diligence – both during deal assessment and the investment period - and, that gauging the programme's contribution to social impact is better captured through the evaluation surveys and case studies.

The extent to which the Grant C element of the Growth Fund has contributed to meeting VCSEs' demand is mixed. For those VCSEs that received a 'blended finance' offer (i.e. a loan and a grant), the grant was used in several ways, including to reduce the cost of loan repayments, purchase or upgrade their facilities or equipment, for developing their organisation and for covering their core costs. However, the extent to which VCSEs reported that Grant C was an 'essential' part of the offer varied, and VCSEs were most likely to report Grant C as being essential when they were using the grant to cover the costs of the loan interest. This raises an interesting question as to whether more of Grant C could be funnelled into Grant A (i.e. the grant that is used to cover investors' operating costs), meaning that investors would not have to charge so much interest.

07

Impact of Growth Fund on VCSEs' Financial Resilience and Social Impact

- VCSEs reported that 'financial resilience' could be measured in terms beyond the 'hard' financial metrics such as income or net assets. Other important indicators included: the extent to which VCSEs could demonstrate their repayment history; the extent their income streams were diversified; their stability (in terms of cashflow and number of full-time equivalents); and the extent to which they were self-sustaining (i.e. not reliant on grants).

- Evidence suggests that two thirds of 150 VCSEs (where data was available) increased their income after accessing Growth Fund social investment, with most attributing this to the investment itself. Just over half (51%) saw an increase in their net assets, but around 48% saw a decrease. However, qualitative evidence highlights that VCSEs have seen an increase in intangible assets (i.e. those not recorded on a balance sheet) acquired through the social investment, including improved staff working conditions, upskilled staff, a better or more well-known brand, and intellectual property.

- The unsecured nature of loans enabled VCSEs with no repayment history to build theirs up, thus increasing their ability to borrow again in the future.

- Diversifying income streams often contributed to increased revenue. Furthermore, VCSE managers often highlighted that the process of researching into and testing approaches to diversifying their income sources led them to have a better understanding of their organisation's business model and how they could continue to develop it in the future.

- Social investment had helped some VCSEs to maintain their cashflow to ensure they could keep covering their core costs while growing their business.

- 42% of 157 VCSEs for whom data was available grew their number of FTEs, though 27% saw a decrease.

- Most VCSEs still used grant funding following the social investment, although there was some evidence to suggest the social investment had helped them to reduce their reliance on grants to some degree.

- There was both qualitative and quantitative evidence that suggests that social investment is contributing to increased beneficiary reach (in terms of geography, new beneficiaries and new types of beneficiaries), and increased quality of provision.

- It was harder for VCSEs to attribute the social investment to any change in the *outcomes* experienced by service users.

7.0 Impact of Growth Fund on VCSEs' Financial Resilience and Social Impact

This chapter discusses the impact of the Growth Fund social investment on voluntary, community and social enterprise organisations (VCSEs). It first looks at the impact on VCSEs' financial resilience, exploring what 'financial resilience' is, before looking at the extent to which VCSEs have achieved it as a result of the social investment. The chapter then goes on to look at the impact of social investment on VCSEs' social impact.

7.1 Impact on financial resilience

7.1.1 What is 'financial resilience'?

In the first Update Report, early findings from the case study research allowed us to explore what VCSEs understood 'financial resilience' to mean. The research suggested that VCSEs viewed their financial resilience in terms beyond just the financial indicators, such as increased income or increased net assets, but also how financially independent/self-sustaining they were, how diversified their income was, how stable jobs were, and where they were in relation to their business forecast. For this year's Update Report, we had more data from the case studies and the baseline and annual surveys to confirm the findings from the first Update Report, as well as add to them. Each of the elements of 'financial resilience' identified are described below:

- Income: Income was a key factor for VCSEs in describing their financial resilience and they often reflected on the extent to which they had generated revenue, were operating at a profit and were able to build up a surplus of cash.
- Net assets: VCSEs mentioned the extent to which they owned assets, including tangible (e.g. buildings and equipment) and intangible (e.g. claims for money owed by others) as an indicator of financial or organisational resilience.
- Repayment / credit history: As discussed in Chapter 4, the availability of unsecured loans was important for some VCSEs because they either did not have assets to get a secured loan, or their venture was deemed to 'risky' for investors to invest in. Therefore, VCSEs discussed the extent to which they had built up a history of making regular loan repayments, and therefore the extent to which they could borrow again in the future, as an indicator.
- Diversified income streams: Linked to the point above about income, VCSEs discussed financial resilience in terms of the extent to which their income streams were diversified, and the extent to which they relied, disproportionately, on one source of revenue.
- Stability: VCSEs spoke about stability and the extent to which cashflow was maintained and whether the number of full-time equivalents (FTEs) remained the same or increased.
- Self-sustaining: Some VCSEs spoke about the extent to which their organisation was 'self-sustaining' (i.e., able to maintain cashflow and in some cases, increase growth) by relying on income through enterprising

activities (e.g., through delivering contracts, collecting rental income or through trading) and with less reliance on grants.

The rest of this chapter explores the extent to which VCSEs have achieved 'resilience' in these different ways, and the role that the loans, blended finance, and other, wider factors contributed to this resilience.

7.1.2 Impact of the Growth Fund offer on VCSEs' organisational and financial resilience.

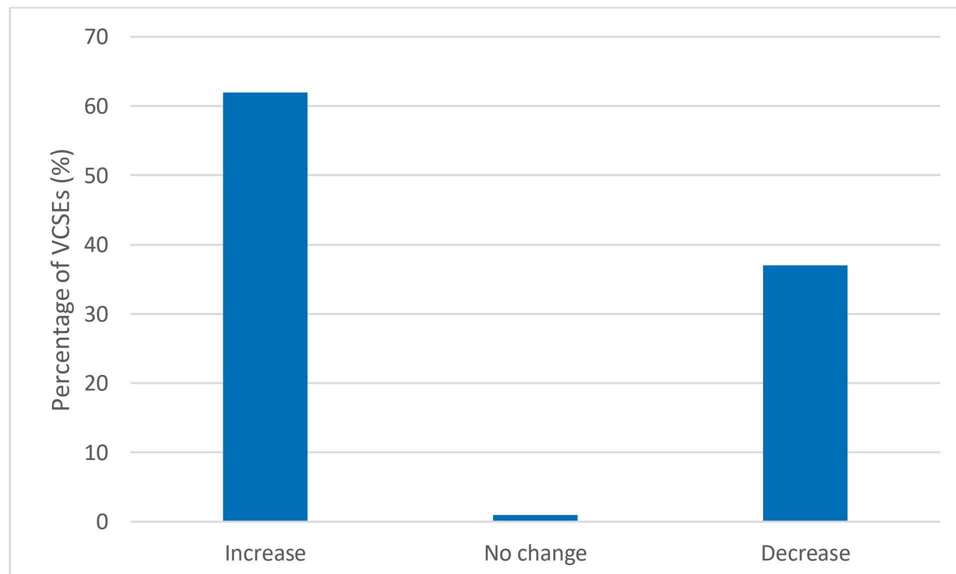
The rest of this section seeks to discuss the progress that VCSEs have made against the range of indicators outlined in the previous section, and how this shapes VCSE managers' views of their organisation's 'financial resilience'. No single indicator described below can provide a full understanding of an organisation's financial resilience, and the Growth Fund offer may have been one out of several factors impacting a VCSEs' resilience. We will also only have a partial impression of the impact of the Growth Fund finance as some organisations only took on the investment recently; we will have a fuller picture as the evaluation progresses.

It is also worth highlighting that whilst the evaluation team attempted to undertake an impact evaluation, this was not possible due to data limitations (described further in section 7.1.4 below). Whilst we asked VCSEs to estimate the degree to which they believed the Growth Fund finance contributed to their financial resilience, it is not possible to estimate what would have happened had they not taken on the finance.

7.1.2.1 Income

Evidence from the analysis of the Management Information suggests a positive direction of change for most VCSEs' income from their baseline through to March 2020. As shown in Figure 23, nearly two thirds (62%) of VCES saw an increase of income from baseline to March 2020. Only 1% of VCSEs saw no change to their income, and over a third (37%) saw a decrease.

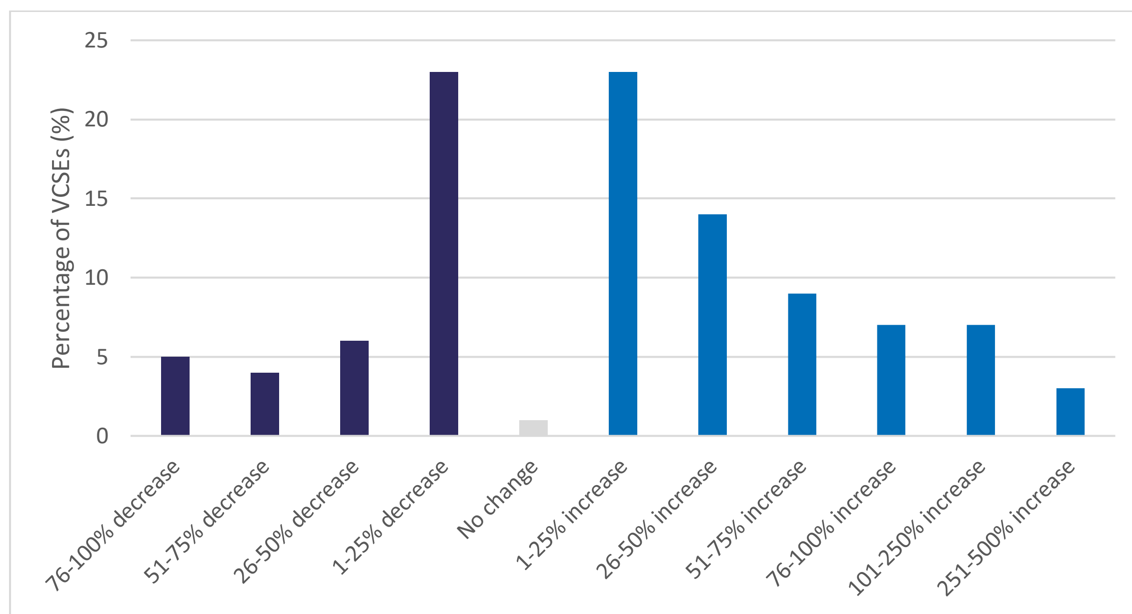
Figure 23: Change of direction in VCSEs' income from baseline to March 2020



Source: Growth Fund VCSE Management Information (n=150)

Figure 24 below helps to provide more detail on the extent to which VCSEs experienced a percentage increase or decrease. The dark blue bars indicate the percentage of VCSEs that have experienced an increase in income, and the lighter blue bars indicate the percentage that have experienced a decrease. The chart shows that nearly half (46%) of VCSEs fall within the range of +/- 25% change in income.

Figure 24: VCSEs' percentage change in income from baseline to March 2020



Source: Growth Fund Management Information (n=150)

Results from the Annual VCSE survey indicate that nearly half (n=38) of the 81 respondents felt that the social investment that they received via the Fund helped them to 'significantly' improve their income, and 19 said that it 'slightly' improved their income. For 12 VCSEs, their income had been maintained at current levels. Respondents to the 2019 Annual Survey were more likely to state that the investment helped to improve their income than respondents to the 2020 Annual survey, perhaps reflecting the impact that Covid-19 restrictions had on their ability to increase income in 2020.

For most of the baseline case study VCSEs, often it was too early for them to say whether the social investment had led to an increase in income. Most felt optimistic about their income generation, although managers of two VCSEs flagged their concern that they would not be able to repay their loan from the income generated from the activity the loan was funding. In one case this was because the demand for the service was less than anticipated, so they were not reaching their forecasted income and had to repay the loan from their reserves. The follow-up case study visit found that although, over time, the organisation increased its income from the activity, Covid-19 restrictions meant that it could no longer provide its services and had to close. Therefore, even though income had increased, on its own, it was not enough to ensure the financial viability of the organisation.

The other follow-up case studies painted a more positive picture. Two organisations had experienced an increase in income: one because it had used the investment to help enable it to grow, and the other because it used the investment to fund an activity that would spread awareness of the service to help it reach more paying beneficiaries and organisations. However, just one of these VCSEs considered themselves 'financial resilient' in terms of their income. The year in which they received the loan they were operating with a deficit budget, but a year later, once they had advertised their services, they had a surplus.

> *"Financially sustainability has changed significantly. We've grown significantly again in the last year in terms of turnover but also in terms of financial position."* (VCSE manager)

A survey respondent highlighted a similar picture, in that their activities had not just generated a profit but had actually improved their reserves so that they could afford to cover other costs of the organisation.

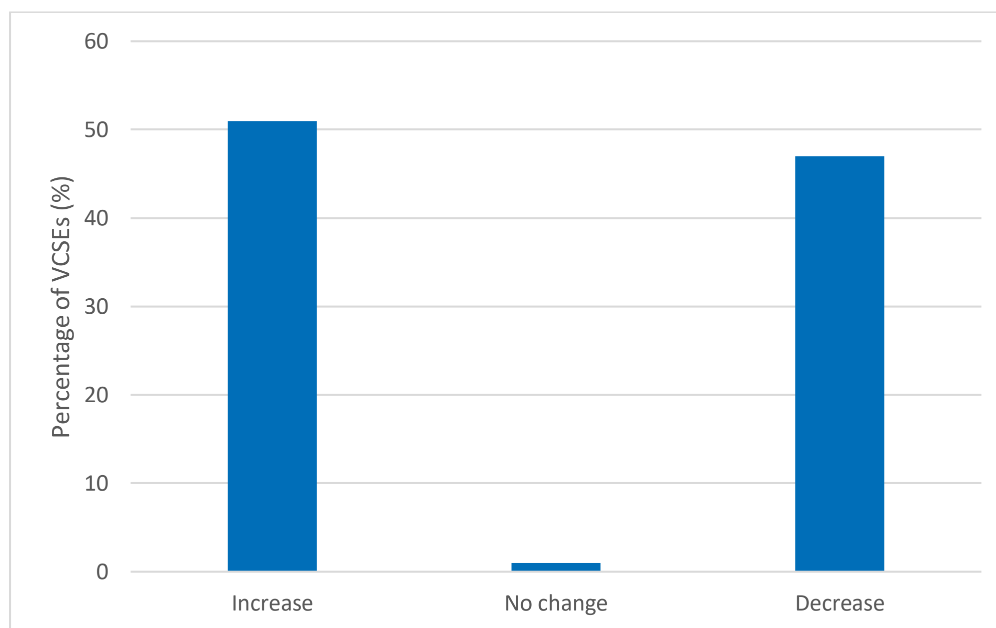
> *"The investment has created income that not only pays the loan, but contributes to the core costs of running the building"* (VCSE manager)

Five of the 81 Annual VCSE survey respondents reported experiencing a decline in income, but felt that the social investment had helped to reduce a 'significant' decline. There was no qualitative evidence explaining why this may have been the case, so it is something that we will continue to explore in the evaluation.

7.1.2.2Net assets

Findings from analysis of net assets data (from the Growth Fund social impact dataset) from baseline to follow-up suggest that while just over half of the 150 VCSEs (51%, n=77) for whom data was available, did experience an increase in net assets from baseline to March 2020, almost half (47%, n=71) experienced a decrease (Figure 25). From the data we cannot say why net assets increased or decreased, nor whether a decrease represents a good or a bad thing, as this depends on context (for example, when an organisation could be selling its assets to pay a loan).

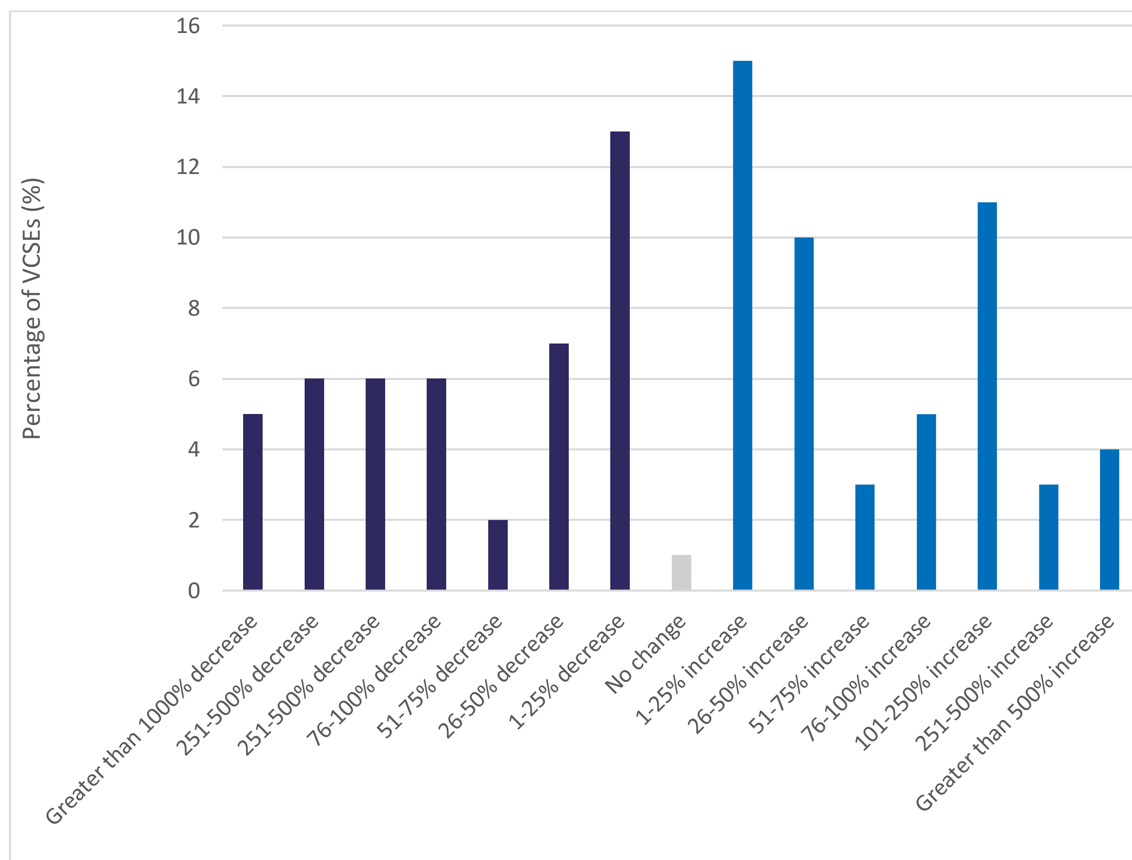
Figure 25: Direction of change of VCSEs' net assets from baseline to March 2020



Source: Growth Fund Management Information (n=150)

Figure 28 provides more detail on the percentage change of VCSEs' net assets from baseline to March 2020. As with the previous analysis on income (see Figure 26), the dark blue bars indicate the percentage of VCSEs that have experienced an increase in net assets, and the lighter blue bars indicate the percentage that have experienced a decrease. Only one VCSE (1%) saw 'no change'. The chart shows that just over a quarter (28%) of VCSEs fell in the range of +/- 1-25% change in net assets. For the VCSEs that experienced a percentage decrease in net assets, there does not appear to be much variation in the bands beyond -25% change. However, for the VCSEs that experienced a percentage, it seems VCSEs tended to experience either a modest growth (i.e. 1-50% increase) or substantially large growth in net assets (101-250%).

Figure 26: VCSEs' percentage change in net assets from baseline to March 2020



Source: Growth Fund VCSE Social Impact Data (n=150)

Reflecting the findings outlined in the social impact data, findings from the Annual VCSE survey suggested that just over half (n=47) of respondents felt that the investment had increased their net assets, either 'significantly' (n=26) or 'slightly' (n=21).

There was limited qualitative evidence on why and how VCSEs' net assets had decreased, so future evaluation will seek to explore this where possible. There was more evidence on why and how VCSEs had increased their net assets; open text survey responses suggested that VCSEs had increased their tangible assets, including buying properties, buying equipment, or increasing the number of staff. Increasing these tangible assets generally contributed towards increasing VCSEs' income, whether through being able to rent out more properties or increasing levels of trading (or increase trading margins) through acquiring new properties or using more efficient equipment. Acquisition of tangible assets as a result of social investment seemed more common for organisations using the investment to expand their organisation, or to diversify their income streams.

> *"Funding allowed us to set up our tea room which, before COVID-19, allowed us to increase trading income."* (VCSE Manager)

There was also some evidence to suggest that VCSEs had increased their levels of intangible assets – i.e., those that are not represented on balance sheets[28] but still important for organisations. Intangible assets acquired through social investment included improved staff working conditions (and subsequently staff satisfaction), upskilled staff, a better or more well-known brand, and intellectual property.

[28] A balance sheet is a "snapshot" of the assets and liabilities of an organisation at a single point in time.

7.1.2.3Repayment history

There was some evidence from the VCSE survey research to suggest that being able to access an unsecured loan via the Growth Fund had been important for some VCSEs because it helped them to bolster their loan repayment history. This was particularly for those who had not been able to secure a loan in the past. They felt that this would increase the likelihood they could borrow again in the future, should it be needed.

> *"We did not previously have any assets and the second loan should be covered by our rent income once the property is ready.... This will put us in a good position should we decide to buy a second property in the future."* (VCSE Manager)

> *"Ability to repay loan payments has allowed us to reach out to other debt funders and show that we have not defaulted on our payments etc. as proof of the sustainability of our business model."* (VCSE Manager)

7.1.2.4 Diversified income streams

As mentioned in Chapter 4, VCSEs' ambition to diversify their income streams was one of the reasons why VCSEs had demand for social investment. Evidence from the Annual VCSE Survey and the case study research suggests VCSEs have been able to expand their operations into new areas, including increasing their trading or gaining new contracts. Some have even been able to leverage further grant funding.

> *"We have generated new contracts, new grant funding relationships and obtained equity release mortgages on properties which we have purchased."* (VCSE manager)

In addition to contributing to increased revenue, VCSE managers often highlighted that the process of researching into and testing approaches to diversifying their income sources led them to have a better understanding of their organisation's business model and how they could continue to develop it in the future. For example, one of the case study VCSEs had used the social investment to bring in a member of staff to oversee its commercial development. This role involved scoping out a range of different options and testing which might work for the VCSE. At the follow-up case study visit, the VCSE manager highlighted how for reasons not related to the social investment, the VCSE was plunged into a 'financial crisis', which made the actual implementation of the planned commercial activities extremely challenging. The member of staff left the organisation, and the remainder of the social investment was used to support with cashflow throughout that time. The VCSE had to make a number of changes to increase its financial resilience, including redundancies. However, the VCSE manager commented that the social investment they received enabled them to understand what was possible – but also what their limitations were as an organisation. This proved to be very important for the organisation and helped inform their next steps to build up their financial resilience. As the manager summarised:

> *"Social investment has allowed us to act more sophisticatedly and strategically. We're more in control of our destiny."* (VCSE Manager)

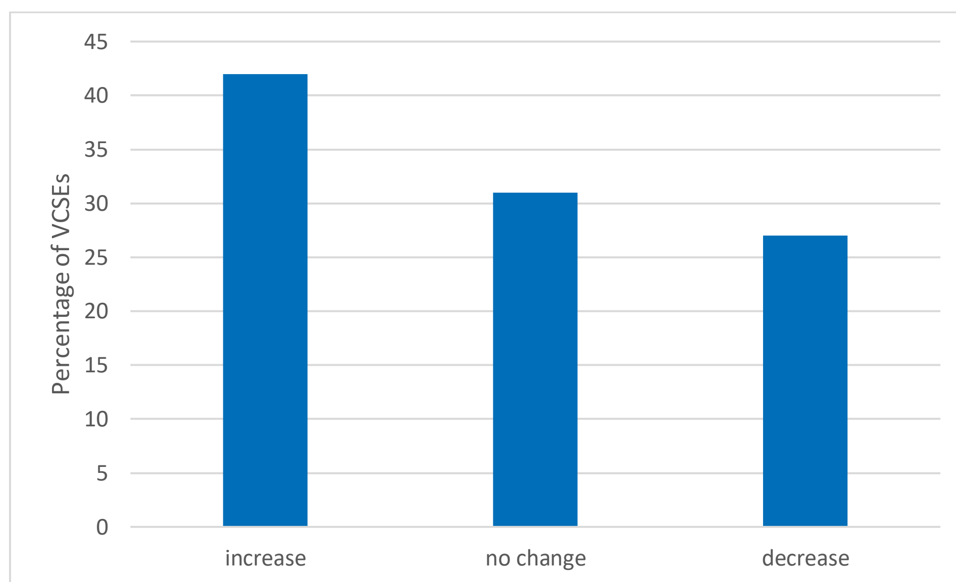
7.1.2.5Stability

There was some evidence from the VCSE Annual Survey to suggest that the social investment had helped contribute to some VCSEs' stability. The most common theme that VCSEs commented on was that the social investment had allowed them to maintain their cashflow, so that organisations could continue to cover their core costs while undertaking other activities to expand their operations. In most cases – and as highlighted in Chapter 4 – increased stability with regards to cashflow was common for organisations who used the investment for cashflow purposes.

> *"The investment loan has been used as a cash flow facility which has greatly reduced the stress of late payments to us, we have struggled to maintain good reserve funds, so the cash flow issues have been historical. The investment loan has taken the pressure away from management which has been very welcomed."* (VCSE Manager)

Alongside cashflow, in the first update report, we highlighted that VCSEs managers felt that stability or increase in the number of FTEs was also an indicator of financial stability. FTE data for baseline and March 2020 was available for 157 VCSEs. Figure 27 provides an overview of this data, and shows that 42% (n=66) of VCSEs saw an increase in the number of FTE, and 31% (n=49) saw no change. Compared to findings in the first update report (where only 18% of VCSEs had seen an increase of FTEs), these findings suggest that over time, Growth Fund VCSEs have increased their number of FTEs, suggesting that it can take several years for VCSEs to start to see positive changes in their FTEs following social investment.

Figure 27: Direction of change for VCSEs' number of Full-time equivalents (FTEs)



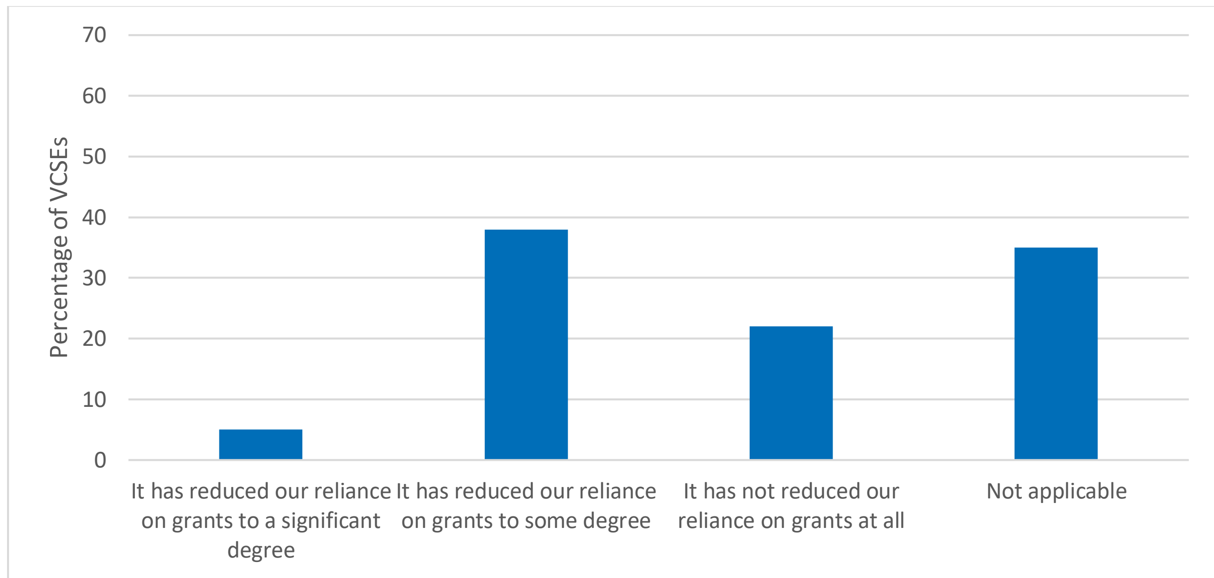
Source: Growth Fund Management Information (n=157)

However, the qualitative evidence indicates that while increased FTEs can signify increased financial resilience, it also needs to be considered in the context of VCSEs' other indicators of financial resilience. As the case study example in the previous section (diversified income streams) suggests, a reduction in FTE does not always signify reduced 'financial resilience' for a VCSE. Scaling back staff numbers can be a difficult, yet at times, essential element for VCSEs in strengthening their resilience.

7.1.2.6 Self-sustaining

Another key element of financial resilience referred to the extent to which VCSEs became 'self-sustaining' – i.e., less reliant on grants and more able to sustain themselves through enterprising activities – following the investment. As shown in Figure 28, just over a third (31 out of 81) said that the social investment had reduced their reliance on grants to 'some degree, and just four said that it reduced their reliance on grants to a 'significant' degree. There were no significant differences in responses from VCSEs completing the survey in 2019 and those completing it in 2020, suggesting that, at least for VCSEs completing the survey, Covid-19 had not yet had a major impact on the ratio of grant income to other revenue sources.

Figure 28: Extent to which VCSEs think the social investment has reduced their reliance on grants



Data Source: Annual VCSE Survey (n=81)

Our analysis of the impact of social investment on business models suggests that how and why VCSEs' business models generated demand for social investment – and subsequently how they used social investment – has a bearing on VCSEs' expected and actual financial resilience. Table 8 below summarises these findings for the case study VCSEs, in order to highlight how social investment has impacted on the financial resilience of VCSEs taking on social investment for different reasons. It also summarises what VCSEs think would have happened to their organisation's financial resilience without the social investment (i.e. the counterfactual).

Table 8: Financial resilience of different case study VCSEs' business models by 'purpose of social investment'.

Purpose of social investment	Expected impact on financial resilience	Actual impact on financial resilience	Counterfactual (what would have happened without social investment)
Paying for essential activities	In this case financial resilience was low at the point of application and the organisation was operating at a budget deficit. The VCSE needed to undertake the specific project (a marketing campaign) to raise awareness of its business, to try and maintain its current beneficiaries as well as attract new ones	Very good – the social investment contributed to increased income and enabled the organisation to transition from operating at a budget deficit to a surplus. Due to this the VCSE expanded its team and is positive about future financial resilience.	This organisation would have likely struggled a lot without the funding – they needed it to keep their business afloat. The manager here also reflected that the social investment was 'key' to catalysing their ability to generate enough income for the project to be self-sustaining.

Diversify income stream	Social investment would enable VCSEs to increase the sources of income, thus reducing reliance on any one source of income (usually grant)	Mixed – one VCSE was, to a large extent, still reliant on its grant funders (especially for core operations), and the other said that it was in a positive place financially; the renovation of its café meant they could sell more goods, attract more people, and therefore brings in more income.	The organisations would have looked for funding elsewhere, however they also felt they would not have been able to secure a grant for the work that they did, so they would likely be less financially resilient.
Expand business	Many of these VCSEs felt that they were financially resilient prior to applying for social investment. These VCSEs thought that social investment would help increase their resilience as it would enable them to expand their reach geographically, or increase the number of beneficiaries reached, which would in theory increase their income.	Mixed – one VCSE had said they had expanded their business, which led to increased income. Some VCSEs said they had increased income, as well as built up their assets to enable them to borrow against in the future. Others felt less sure, and while they had expanded their businesses, they were not meeting their expected numbers yet, which meant that income was lower than anticipated.	Generally, the VCSEs thought they would not have been able to grow at the same rate as they had done with the social investment. For some, it would have slowed their growth, and for others the growth would not have happened (their organisation would have plateaued). For those that felt their financial resilience had increased, they were not sure if they would have been at the same level without the social investment.
Maintain cashflow	These VCSEs needed social investment to plug the gap between outgoings (e.g. overheads and salaries) and income (e.g. from contracts or rent). One was a fairly new VCSE with low reserves, whereas another had huge lags with cash coming in as part of contract work. These organisations felt that social investment would	Good – organisations here were generally still financially resilient, with regular income and stability (i.e. maintained cashflow).	The Growth Fund came at the right time for these VCSEs. Two would have been in trouble financially. One said that their business would have failed because they would not have been able to keep themselves afloat until the future revenue came in. Another VCSE said that they would have failed on the delivery of a contract, because they needed the social investment upfront to bring

	allow them to continue to develop their offers, while covering the core costs.		in staff to deliver the contract.

Source: VCSE Case Studies (n=13)

7.1.3 Other factors affecting financial resilience

Aside from Covid-19 (as discussed in Chapter 3), case study research with VCSEs highlighted several factors that they felt had contributed to their financial resilience, that were not as a direct result of the social investment capital itself. One factor stemmed from the application process, and the amount of work that VCSEs had to do with financial modelling/forecasting. For example, one of the follow-up case study VCSE managers highlighted that the 'biggest' outcome for their organisation accessing investment from the Fund was that they had been upskilled through the application process to better understand financial planning, and the future of their business. In another example, the VCSE underwent a restructuring, which included redundancies, accessing tax relief credits, and developing a new capital investment plan. The VCSE commented that these activities – although requiring at times some difficult decisions – had enabled the organisation to be as financially resilient as ever.

7.1.4 Comparing changes in financial resilience to the wider sector

Whilst this section has broadly shown that VCSEs became more financially resilient after taking on social investment, a key question is whether this would have happened anyway – to what degree does social investment from the Growth Fund make an organisation more financially resilient compared to if they hadn't taken on social investment ? One way of trying to answer this question is by comparing the changes in financial resilience of organisations in the Growth Fund with the wider VCSE sector.

In order to do this, the evaluation team set out to compare the changes in net income of Growth Fund VCSEs with a 'similar set' of VCSEs. After a feasibility study of comparing multiple datasets, we concluded that the most comparable dataset was the Charity Commission data. The full method can be found in Annex II.

We examined the change in net income from 2017 to the most recent financial record available (excluding any older than 2019). We compared the difference in net income changes between Growth Fund VCSEs and a similar set of VCSEs not part of Growth Fund. We found that the change in the net income of VCSEs that took on Growth Fund social investment was £5k higher than similar VCSEs that did not access Growth Fund investment. However, this change was not statistically significant. Furthermore, there are substantial limitations with the data:-

- the only variables on which VCSEs could be matched was income and expenditure, meaning they are not necessarily 'similar' VCSEs;
- only 27% of the Growth Fund recipients were in the Charity Commission data and so this does not represent all Growth Fund VCSEs;
- we have no way of knowing if non-Growth Fund VCSEs took on other forms of social investment, so we are not necessarily comparing VCSEs that took on social investment with those that did not. Therefore, we cannot conclusively say that organisations that take on <£150k social investment have stronger or weaker financial resilience compared to those that do not take on social investment.

This limitation, however, should not wholly detract from the findings described in this sub-section – that for most VCSEs that took on Growth Fund social investment their financial resilience improved, and they in-part attribute this to the social investment they received.

7.2 Impact on social impact

Overall, nearly two thirds of the 81 Annual VCSE survey respondents (n=51) felt that the investment had a 'strongly positive' impact on their organisation's social impact. Below we discuss how this impact manifested, both in terms of the number and type of beneficiaries reached, as well as the outcomes achieved by beneficiaries.

7.2.1 Reach

Table 9 provides an overview of the number of VCSEs that exceeded, met or did not reach their targeted number of beneficiaries for 2019 and 2020. As shown in the Table, over half of VCSEs in both years did not provide any data on how many beneficiaries they reached. These findings should be interpreted with caution (and further thought given to co-design of data monitoring with any future programmes' investees). It may be that VCSEs that are not monitoring or reporting on the number of beneficiaries reached are more likely to not be reaching their targets, so, the number of 'not reached' could be higher. However, of the data available, in both 2019 and 2020, VCSEs were more likely to exceed or meet their targets for the number of beneficiaries they reach, than not.

Table 9: Estimated and actual average (mean) number of beneficiaries reached

	Number of organisations	
	2019	2020
Exceeded	45	23
Met	55	48
Not reached	41	47
N/A	270	293

Data source: Growth Fund Social Impact Data (n=411)

Exploring perceptions of VCSEs' reach, nearly two thirds (n=50) of the 81 Annual VCSE survey respondents felt that the social investment had a 'strongly positive' impact on the number of beneficiaries that they supported. When comparing findings from the baseline survey to the annual survey, for the 32 VCSEs that completed both, there was a slight – but not significant – decrease in the number that felt that the investment would have a strongly positive impact (n=23 at baseline and n=22 at annual survey). This suggests that generally, the VCES' expectations aligned with what happened in practice. From qualitative survey responses there was some evidence social distancing restrictions during Covid-19 limited the number of people that VCSEs could support (see Section 3.1). However, small sample sizes restrict the extent to which we can infer this was the case for the whole cohort.

Several VCSE managers in the case study research reflected that there had been increased reach as a result of the activities funded through social investment (both in terms of geographic reach, but also increased capacity to offer services to more people). For example, one VCSE refurbished its café space meaning that it could serve more people in the community. Another had used the social investment to help it increase its housing stock, ultimately enabling it to provide supported housing for more people with learning disabilities. A VCSE that used its social investment to run a marketing campaign to advertise its services saw a large increase in the number of people it was working with, as well as an increase in the geographical area from which its beneficiaries came from.

> *"We wouldn't have got our brand out there, we wouldn't have been as well known. So I guess less people would have been coming to us."* (VCSE delivery staff)

VCSE delivery staff also highlighted how they had noticed increased reach. One delivery manager from a VCSE felt that the social investment had enabled the organisation to grow and increase the number of staff. This meant that they were able to offer more sessions for their service users. A frontline support worker in another VCSE said that they had noticed that since the organisation received the social investment, it had "expanded rapidly", both in terms of the numbers of beneficiaries they could support (because the organisation acquired more housing to lease out as part of its supported living arm), but also in terms of the geographic reach – they felt the work was "much more geographically dispersed". There was also some evidence from beneficiaries to suggest that they had noticed a change in the reach of the services. For example, one beneficiary of a theatre-based VCSE had regularly attended film screenings. They noted that at first (before the investment), there were only 10-20 people attending, but after the investment, they were around 50-60 people (the investment had been used to refurbish a space which enabled the organisation to host more people). Another beneficiary of a VCSE that had expanded its delivery into a new geographic area, said that other than the activity they attended at the organisation, there was not really anything else for them to do. This made a difference in terms of helping them to meet and talk to other people, get out of the house.

For some VCSEs, the number of beneficiaries reached increased, but less than expected. For example, one VCSE used its social investment to set up its service in several new geographic areas, but there was not as much demand for the service as the original business plan anticipated.

Some VCSEs highlighted that their reach had actually reduced, due to the impact of Covid-19 restrictions. Where VCSEs were still able to operate, due to social distancing requirements and adaptions, they were not able to support as many people.

> *"To deliver the same social impact we are having to work a lot harder."* (VCSE Manager)

7.2.2 Types of beneficiary supported

Findings from the annual survey found that just less than half (n=36) of the 81 VCSEs thought that the social investment had a 'strongly positive' impact on the different types of beneficiaries they were able to support. There was not much evidence from the qualitative research with VCSEs to understand how VCSEs were reaching different types of beneficiaries, although this may have just been because the VCSEs that participated in the case study research did not necessarily intend to reach different types of beneficiaries. However, in a VCSE that used the social investment to advertise its services more widely following a re-brand of its service (which made it clear that it was offering a range of therapeutic services), the VCSE manager had noticed that over the years they started working with people with much more complex challenges than they were before they re-branded.

7.2.3 Quality of provision

A common theme across a range of different stakeholders involved in the case study research, from VCSE managers and delivery staff through to beneficiaries, was a noticeable difference in the quality of the services offered. From the perspective of VCSE managers there had been some examples of increased quality. For example, several VCSE organisations used the social investment to help grow their supported living offer (either via purchasing their own properties or acquiring leases) to provide more high quality, specialised services for vulnerable tenants.

> *"[The social investment] has enabled us to provide quality, affordable, support accommodation to people who can't access housing benefit which normally funds that. So lowering the cost of housing for us has been a big benefit."* (VCSE Manager)

Delivery staff from across a range of VCSEs commented on how the increased investment into their organisations had increased the quality of services provided to beneficiaries. For example, one of the VCSEs used some of the social investment to upskill its staff, by giving them more access to training courses. A frontline worker commented

that the staff were able to work to "a better standard". Another member of staff from the same organisation said getting in new equipment as a result of the investment allowed them to offer more activities to their service users.

7.2.4 Quality of outcomes

Of the 81 respondents to the Annual VCSE survey, just over half (n=47) said that the social investment had a 'strongly positive' impact on the outcomes (number and/or quality) achieved by beneficiaries. In the case study research, it was often difficult for some VCSE managers and staff to say exactly what the outcomes for beneficiaries had been, because their level of engagement with beneficiaries may have been fairly limited. For example, VCSEs running cafes, art exhibitions, or services for the general public (i.e., not always regular service users), did not have a mechanism for understanding how their services affected outcomes. Rather, these organisations would use indicators (e.g. data collected on reach, or service user feedback on quality). Furthermore, some did not think it was always possible to attribute changes in beneficiaries' outcomes to the social investment.

However, where VCSEs offered services that involved service users or beneficiaries over a longer period of time, staff were more able to say whether or not the quality of outcomes had improved.

A member of delivery staff in one VCSE, which used some of the social investment to move its services online, said that were able to continue delivering their employability service, and had helped people to improve their employability skills and move people into work. Service users of this organisation reported that they felt more confident after joining the employability course, and one even secured a temporary job. Without the social investment, the organisation would have struggled to move its delivery online.

Overall, while the Growth Fund Social Impact data suggests the average number of beneficiaries reached by VCSE investees has not met targets in every year, there is qualitative evidence that social investment from the Growth Fund has helped improve some VCSEs' social impact. This is in terms of their reach to beneficiaries, the types of beneficiaries they support, the quality of service provision and the quality of outcomes achieved. It was harder for some organisations to articulate if there had been changes in outcomes, because of the extent to which they engage with service users, customers or beneficiaries close enough to collect that data. However, for those that were able to provide an insight, it did appear as though the activities supported by the social investment had supported beneficiaries to continue to achieve – or in some cases achieve more – outcomes.

7.3 Conclusion

Overall, the quantitative evidence indicates that most VCSEs have seen increases in their income, suggesting that, generally, VCSEs have grown since receiving their social investment. VCSEs reported other progress in becoming more resilient, such as being able to diversify their income streams and becomes less reliant on grants. There was limited evidence on how the grant element specifically increased VCSEs' resilience, although in cases where it was used to offset the costs of loans, it did contribute to VCSEs maintaining a healthy cashflow.

In terms of the impact of the Growth Fund on VCSEs' social impact, there is both qualitative and quantitative evidence that suggests that social investment is contributing to increased reach (in terms of geography, new beneficiaries and new types of beneficiaries), and increased quality of provision. Often, VCSE managers felt confident that the social investment was having a direct impact on these outcomes. It was harder to explore the relationship between the social investment and improved quality of outcomes. For organisations that had less direct or ongoing interaction with service users, it was difficult for them to assess outcomes, or 'distance travelled'. While there were some examples of where VCSE interviewees felt that the social investment had an impact on the quality of outcomes, generally most found it difficult to attribute change to the social investment from the Growth Fund.

08

Conclusion

8.0 Conclusion

In this chapter we draw together the analysis to conclude on the progress the Growth Fund has made towards its objectives.

8.1 Conclusions: 5 key questions

In order to assess the progress of the Growth Fund towards its over-arching objectives, we need to ask five core questions:

- Is the Growth Fund plugging a gap in the supply of social investment for voluntary, community and social enterprise organisations (VCSEs)?
- Is this additional supply of social investment supporting VCSEs to strengthen their financial resilience, and is it helping them to sustain or increase their social impact?
- Is the Growth Fund supporting the capability and reach of social investors?
- Have lessons been learnt in how to design and manage blended finance programmes effectively?
- Is the Growth Fund leaving a legacy?

In this section we answer each of these questions in turn, before re-visiting the Growth Fund Theory of Change and providing recommendations for stakeholders.

8.1.1 Is the Growth Fund plugging a gap in the supply of social investment for VCSEs?

The answer to this question would be broadly yes. The rationale for launching the Growth Fund was that there was a gap in the supply of unsecured loans below £150k, and the Growth Fund has plugged this gap by providing loans and grants to 452 VCSEs. Whether the Growth Fund has reached VCSEs that were not able to access investment in the past is less clear; some VCSEs have accessed small-scale loans in the past, but these may have been secured. Qualitative evidence suggests a nuanced picture, and there is evidence that some VCSEs would not have been able to access investment without the Growth Fund, whereas for others, they felt the Growth Fund provided another investment option for them

It is our understanding, though, that VCSEs were not assessed on whether they could access other forms of investment, social or otherwise. On balance, it is our view that to maximize the value-for-money of blended finance programmes, and to avoid any potential displacement, then the eligibility criteria should state that it is only available to VCSEs that cannot access other forms of blended finance, and this should be assessed at the application stage. Indeed, other funding programmes have done this.

Finally, whilst the Growth Fund did plug a gap overall, there is evidence to suggest it did not plug the full gap, as the design of the Growth Fund meant it mainly offered simple loans, whereas others argue that there are other gaps in the supply of social investment, specifically around more patient capital[29] and quasi-equity products (though some investors did offer quasi-equity). Given that we have commented in this report that the level of innovation within the Growth Fund was very high at multiple levels (new partnership, organisations new to social investment, VCSEs new to social investment), we think this focus on primarily one type of loan product was the

[29] Patient capital is loans or equity investments offered on a long-term basis (typically 5 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).

right one – adding another layer of innovation through multiple loan products we think would have complicated the programme even further. This is an area where we think blended finance programmes should experiment in the future, though; to that end it is encouraging to see Access doing so with their additional dormant accounts funding.[30]

8.1.2 Is this additional supply of social investment supporting VCSEs to strengthen their financial resilience, and is it helping them to sustain or increase their social impact?

The evidence so far suggests that the Growth Fund social investment did help VCSEs increase their financial resilience, against a broad set of indicators used by the Growth Fund evaluation and VCSEs themselves to define this. The social investment provided the VCSEs with the opportunity to scale up activities that were generating revenue, or enable the VCSEs to invest in new activities in order to diversify their revenue streams. In most cases this had appeared successful.

Was blended finance the best route for VCSEs to achieve this increased financial resilience? For many VCSEs participating in the evaluation the answer would be yes – for some it was the only option available, as it can be hard to find grants to fund this sort of activity, and commercial organisations would not provide the necessary finance. For others, other options could have been available but social investment was the preferred route because of its flexibility, and the alignment in social mission between the VCSE and social investor – something VCSEs placed great weight on. What's less clear is whether a *blended loan and grant* was entirely necessary – for some VCSEs the grant was an added bonus (for some a nice surprise as they weren't aware they would be receiving a grant until the end of the process) but not essential. For those that did see it as essential, it was to bring down the – in their opinion – high interest rates. Would this grant have been better used to reduce the social investor operating costs, thereby bringing down these interest rates in the first place? Given that social investment is seen as having high interest rates, this could have made the initial offer more attractive – a key issue when considering one of the main issues the Growth Fund faced was converting latent demand into actual demand.

In terms of the impact of the Growth Fund on VCSEs' social impact, there is both qualitative and quantitative evidence that suggests that social investment is contributing to increased reach (in terms of geography, new beneficiaries and new types of beneficiaries), and increased quality of provision.

8.1.3 Is the Growth Fund supporting the capability and reach of social investors?

Organisations both experienced in, and new to, social investment have reported increased capabilities as a consequence of participating in the Growth Fund. The staff within these organisations increased their skills, the organisations expanded their networks, and the skills and experience of Investment Committees also increased.

At a surface level the introduction of sector 'specialist' organisations to become social investors appears to have achieved its original assumption of reaching out to VCSEs new to social investment. However, their reach beyond the 'generalist' social investors has perhaps not been as high as originally anticipated (more because the 'generalist' social investors also did well at expanding their reach), and the effort and resources required to extend this reach has been higher than expected. The lesson learnt here is to continue to support the entry of 'specialist' social investors into the market, but consider carefully how this is done – this could possibly be through ensuring the funds have a minimum size / broad-enough remit, or through bringing specialist organisations into a hub and spoke model.

[30] https://access-socialinvestment.org.uk/access-receives-30m-of-dormant-account-money/

8.1.4 Have lessons been learnt in how to design and manage blended finance programmes effectively?

The Growth Fund is a ;'test and learn' programme intended to generate lessons for future blended finance programmes. It has most certainly learnt lessons along the way, and the Programme Partners have been open to sharing these through, for example, regular blog posts. This evaluation report has also highlighted some of the lessons learnt through the Growth Fund, such as:

- It is important for organisations considering funding a blended finance programme to be explicit in their priorities for the programme. A programme of this nature can have competing priorities and partners may not always agree on which are more important. There are a number of other structuring issues too that influence why and where partners may not agree, such as the level of autonomy in decision-making across the partnership. Potential partners would benefit from discussing these early on and creating a decision-making framework to aid discussions. That said, some members of the Programme Partnership do think this was done upfront, and that some differences in opinion are inevitable during a programme, especially as individuals change and organisations develop.
- It is more challenging and resource-intensive to expand the social investment market than people may think – both in terms of supporting new social investors and in converting latent demand amongst VCSEs into actual demand.
- The Growth Fund raises a dilemma in relation to being resilient and responsive to shocks. The Programme Partners responded well to the Covid-19 crisis, but were aided by unallocated grant within the programme. To ensure a long-term programme can be resilient to 'shocks', one option could be to build in a contingency fund to enable programmes to respond to crises quickly. However, partners would also need to consider the 'opportunity cost' that such a decision brings – i.e., is it better to allocate these funds early on to see greater impact, accepting that any crisis response would be limited, or is it better to keep some funds aside to respond better to crises? The decision needs to be made on a case-by-case basis, considering the costs and benefits of both scenarios.
- The Programme Partnership now has a clearer sense of who the programme is aimed at, and how they are expected to gain from such blended finance programmes. The original programme aims stated that the Growth Fund was aimed at organisations that usually had not taken on social investment before; they have now learnt that such a programme should be aimed at organisations that cannot currently access social investment (irrespective of whether they've taken on social investment previously). Another aim was to reduce the reliance on grants; they have now learnt that blended finance is about supporting organisations to grow their revenue-generating areas, but that this might not reduce their overall reliance on grants.
- There is not enough public data on the finances of the VCSE sector to undertake robust research on the financial impact of programmes. In appraising options for testing what would have happened if the Growth Fund had not been available, the evaluation has provided lessons in the utility of public data collected on VCSEs. Our ambition was to compare the financial resilience of VCSEs receiving Growth Fund social investment with a similar set of VCSEs that did not receive social investment, to understand the full impact of the investment. Despite scoping out multiple data sources, and running the analysis with Charity Commission data, the reality is there is not enough public data on VCSEs to be able to undertake this counterfactual analysis. In Annex Three we set out what data we would have needed to have been able to undertake this analysis.
- There are also aspects that, based on the findings within this report, we think the Growth Fund and other blended finance programmes could do differently: We think the Growth Fund should stop collating social impact data at the programme level. Aggregating social impact data is currently justified on the basis that it provides the Partnership with assurances that investors are investing in socially-motivated organisations. However, we think assurance is already achieved through the due diligence process undertaken by investors at investment stage – and would be reinforced by this continuing throughout the loan period.

We do not think the assurance value of aggregating highly variable data is either meaningful or proportionate to the effort required to collect the data; especially when the investors do not currently appear to check such data and so it is not clear what assurance it is providing. This is not to say that the Partnership should stop trying to assess how the social investment is contributing towards social impact, but that measuring the programme level contribution to social impact is better captured through the evaluation surveys and case studies.

The Growth Fund has also, in our opinion, identified a set of areas for future blended finance programmes to keep experimenting with:

- What's the most effective and efficient way to use sector-specialist organisations to grow the reach of social investment? It might not be through funding multiple sector-specific organisations to run separate funds, but rather to bring them together into some sort of hub-and-spoke partnership model. In this model, sector specific organisations would find and refer-in organisations, and support in assessing their investment cases, with one more experienced investor managing the loan book (see Figure 29). However, some members of the Programme Partnership thought this might not be possible for organisations completely new to social investment, as they would not have the required skills and experience to support the partnership. This requires further experimentation.
- Is it better to provide grants direct to VCSEs, or to use this to reduce headline interest rates? In the Growth Fund, the use of Grant C was seen by VCSEs as most essential when used to offset interest rates. Does this mean it is better for funders to simply allocate a greater proportion of the grant pot to off-setting interest rates, as this might make social investment more attractive and extend its reach? Or is it better to keep the proportion allocated to Grant C flexible (with the option to use it for offsetting) and therefore tailored by investors to VCSEs' specific circumstances – as was the case in the Growth Fund? Also, could removing any grant element actually make social investment *less* attractive to VCSEs reliant on grants?
- How do you offer a broader set of products to meet VCSE needs, such as patient capital? The Growth Fund plugged some gaps in the social investment market, but arguably not all due to its limited offer of patient capital and quasi-equity-like products. However, at the same time it is not clear entirely how these products can be best delivered. Prior research[31] suggests that delivering a broader suite of products could face even greater challenges in terms of converting latent to actual demand, as the terms of these products would be unfamiliar to VCSEs and they struggle to see their relevance. Furthermore, some programme partners interviewed commented that it can be very complex and time-consuming to put together more bespoke deals. It is reassuring to see that these are being explored through Access' other programmes[32], and the learning from this might help understand how to best offer these products.

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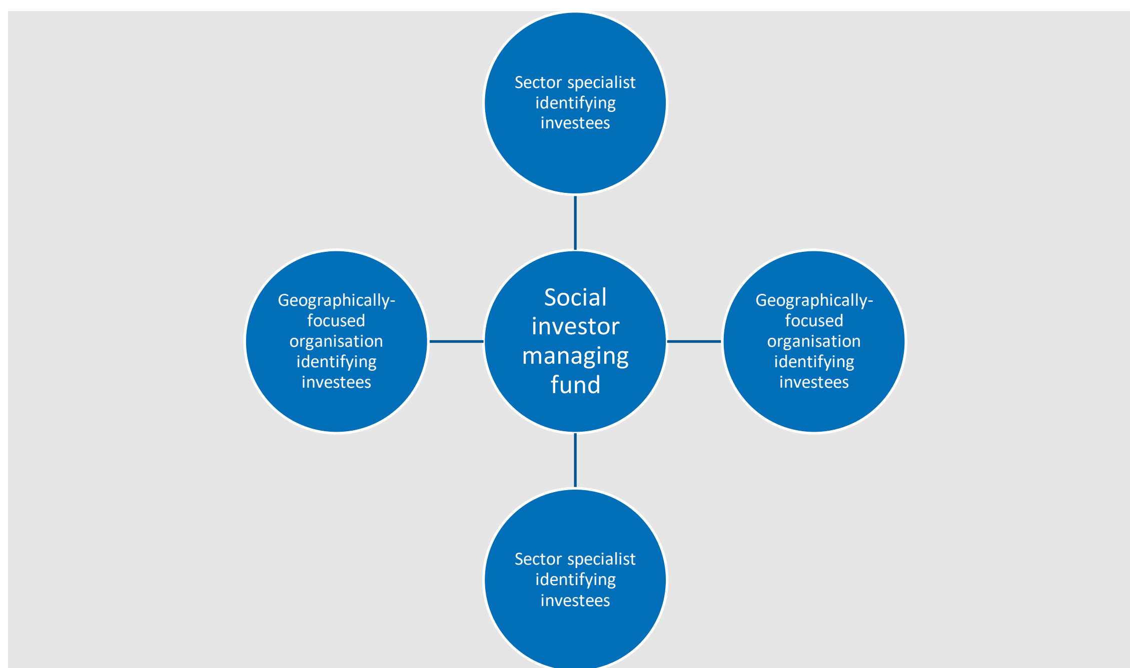
[31] Flip Finance, 2017. *Risk finance for social enterprises and charities*. See: https://access-socialinvestment.org.uk//wp-content/uploads/2017/02/Risk-Finance-slide-report.pdf
[32] https://access-socialinvestment.org.uk/access-receives-30m-of-dormant-account-money/

Figure 29: Potential 'hub and spoke' model for social investment



Source: Ecorys.

8.1.5 Is the Growth Fund leaving a legacy?

The ultimate aspiration for the Growth Fund is that it has a lasting change on the understanding around, and supply of, the right types of investment for VCSEs. Specifically, at the 'ecosystem' level the Growth Fund Theory of Change describes the following outcomes and longer-term impact:

- Growth fund builds evidence base around the <£150k social investment market. This includes:
  - deepening intelligence around size of market
  - range and scope of investible business models
  - most effective use of subsidy in different contexts
  - form and flexibility of products needed
- Other funders are encouraged to continue to subsidise the <£150k social investment market. Future programmes build on learning from Growth Fund. There is increased access to the right financial products to support organisations' resilience. Funders are interested in providing grant/ subsidy element.

We report on each of these in turn below.

8.1.1.1 Building the evidence base

The answer here is, so far, yes. The scale of the Growth Fund, the data available and the 'purity' of its delivery (in that it has been reasonably consistently applied, and so it is possible to examine the implementation of multiple blended-finance funds following the same structure) means that the Growth Fund is forming an evidence base around the <£150k market. As captured within the pages of this report, and other evaluation outputs and numerous blogs penned by the Programme Partnership, the Growth Fund is gathering evidence in relation to the size of the market (and the difference between latent and actual demand); the range and scope of investible business models (to be elaborated on further in the next evaluation thematic insight focusing on business

models); and the most effective use of subsidy in different contexts (which featured as a previous evaluation thematic insight: Providing finance that charities and social enterprises need: Lessons learnt in how the Growth Fund is blending grants and loans to provide affordable finance to the voluntary sector).

The Growth Fund has increased people's understanding around the use of the unsecured loan for VCSEs, in terms of their ability to repay this product, and how it impacts upon their financial resilience and social impact. However, because the Growth Fund has predominately supplied unsecured debt loans, it has not necessarily built the evidence base around the appropriateness of *different* products in different contexts. That said, Access' further programmes – specifically their use of an additional £30m in dormant account money supplied by the government – will be focusing on expanding the range of financing tools available, and so this evidence base may be generated in the future.

8.1.1.2 Encouraging other funders to continue to subsidise the <£150k market

Out of the 15 social investors involved in the Growth Fund, eight have expressed a desire to continue lending in this space, including some organisations new to social investment. Therefore, from an intermediary point of view, the Growth Fund appears to have encouraged investors to lend in this space. This though, is dependent on the supply of investment and grants.

It is too early to fully state whether the Growth Fund has encouraged other funds to subside the <£150k market. Furthermore, at this stage in the evaluation the team has not interviewed wider stakeholders to assess the degree to which they have learnt from and built on the Growth Fund; instead, the evaluation is reliant on the perceptions of the Growth Fund stakeholders on the degree to which the programme has influenced the wider ecosystem. Accepting these limitations, the findings are so far positive, though there are some aspects that could be problematic in the future.

Stakeholders from the Programme Partnership reported that wider representatives within the UK social investment sector are supportive of, and continue to lobby for, further blended finance programmes.

"The recognition of it as a tool is pretty good….At an ecosystem level it's become an essential part of the investment ecosystem." (Programme partner)

This recognition has converted into direct blended finance programmes being launched, and partners believe it unlikely these would have been launched if Growth Fund had not paved the way first. Most substantially, the government has provided Access with a further £30m from dormant accounts to expand its blended finance programmes in response to Covid-19. Furthermore, other blended finance funds have been launched outside of this:, such as Club Capital**:** The £10m Club Capital fund offers unsecured loans of between £25,000 to £250,000 (up to £750,000 in exceptional circumstances) to enable clubs to procure, expand or safeguard existing, dedicated gymnastics facilities. It is supported by British gymnastics, Sporting Assets, Sport England, Big Society Capital and the Bank Workers Charity.[33]

Therefore, the early signs of the influence of the Growth Fund has had are that it has encouraged government to subsidise the <£150k market.

We do not know currently whether donors and foundations have also been encouraged – this is something we hope to explore later in the evaluation. We also do not know whether other investors have been encouraged to provide capital to lend at this market on a substantial scale, other than BSC. Whilst other investors have invested in other blended finance programmes – described above – our understanding at this stage is BSC is still the main investor in these funds (though there are other investors in the arts and culture impact fund). Stakeholders from the Programme Partnership were unsure as to whether other investors – who do not have a remit to serve this

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[33] See: https://clubcapital.co.uk/

part of the market – would be encouraged to do so, given they felt it was substantially more time consuming for wholesale investors to operate in the small-scale lending space. This limitation of supply of investment may also prove problematic in the future –and the necessity to use grant funding to protect BSC capital presents financial governance and therefore programme wiring complications for the Partnership, as well as a fine value-for-money balancing act. The sources and therefore the terms of capital and grant will be key factors shaping any future availability of funds to subsidise the blended finance area. Furthermore, given that the restrictions in relation to BSC funding are one explanation provided by the Programme Partnership as to why they were unable to offer more 'flexible' products (like patient capital), this raises questions as to whether more flexible products can be provided by the current set of investors in the UK. Access' Flexible Finance programme[34] is working with social investors to try to address these issues.

However, it is worth stressing again that these are early conclusions and no stakeholders outside of the Growth Fund have been interviewed for the evaluation – this will hopefully be an activity the evaluation will undertake in the future.

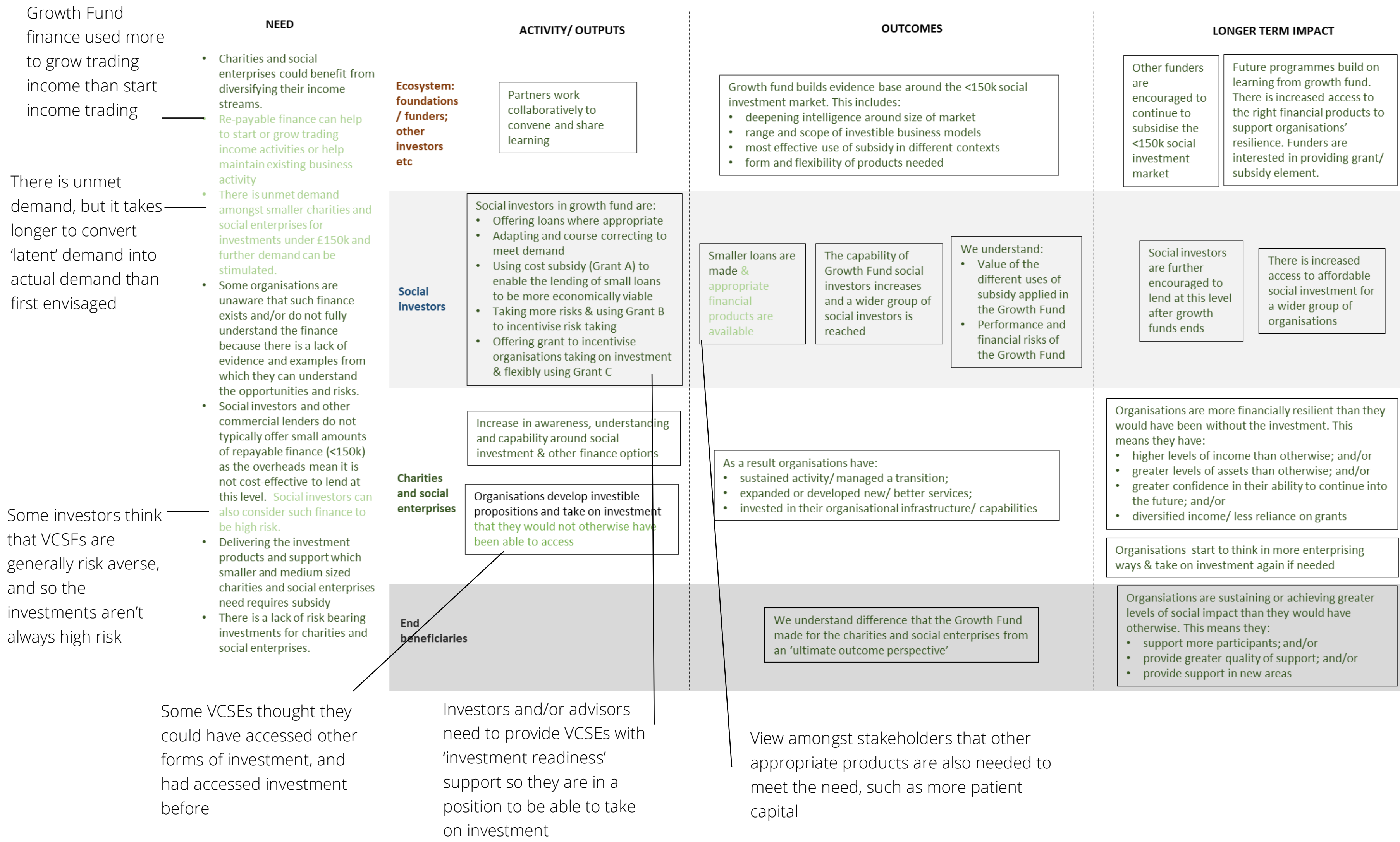
8.2 Revisiting the Theory of Change

In Figure 30 we present the Growth Fund Theory of Change (ToC). We have coded the ToC to highlight where there is evidence to support (or not) the elements of the ToC. We have coded the text as dark green where there is a good level of evidence from the evaluation that this element of the ToC is occurring. We have coded in light green where there is some evidence that this element of the ToC is occurring, but there is some nuance to this element – we have included the nuance in supporting text to the side of the diagram. We intended to include red text where elements of the ToC were not occurring – as can be seen, there were none of these.

This coding shows that, overall, the Growth Fund Theory of Change is appearing to be correct, and the expected impact is occurring. There are some nuances in some elements that require highlighting, and designers of future similar programmes should bear this mind.

[34] https://access-socialinvestment.org.uk/blended-finance/flexible-finance-for-the-recovery/

Figure 30: Revisiting the Growth Fund Theory of Change



8.3 Overarching conclusion

Up to 2020, the Growth Fund had made good progress. It had plugged a gap in the supply of social investment for VCSEs. This in turn was strengthening VCSEs' financial resilience and increasing their ability to support a wider set of beneficiaries. It had increased the number of social investors in this space, broadened the reach of social investment and increase social investor capabilities.

Some aspects of the programme have, inevitably, been more successful than others. Perhaps the most challenging aspect of the programme has been supporting new and sub-sector specialist social investors to operate financially viable investment funds.

There is, therefore, much to take from the Growth Fund into future blended finance programmes, but the evaluation has also highlighted areas to experiment with further.

Annexes

Annex I: Technical note on quantitative analysis

This Annex describes the process the evaluation team underwent in cleaning and analysing the Growth Fund MI, social impact data, survey data and counterfactual analysis.

MI data

Records marked as "Enquiry live", "Enquiry not live", or "Pre-enquiry" were removed, leaving only applications which were marked as approved, deployed, received, withdrawn, or rejected. Records were then manually reviewed to identify and remove duplicates. Duplicates were defined as records where the VCSE name, deployment date, and all loan/grant details were the same. In total 25 duplicate records were identified and removed. Where there were multiple records for a VCSE, the VCSE names were manually reviewed to ensure they were consistent, since the VCSE name was used as a grouping variable in later analysis.

For some variables, categories had not been entered consistently despite data validation rules in the master spreadsheet. Therefore cleaning was required to recoded or collapse variables (e.g. "category of activity outcomes", "target beneficiary groups"). Additional recoding was also undertaken to group VCSEs into categories based on income, FTE, and loan term. Finally, variables were added to define SIFIs/investors based on specificity (non-specific; location-specific; sector-specific; start ups and early stage) and experience (experienced social lender; experienced with grants and loans; grants experience, new to loans; new social lender) based on typologies developed as part of the Use of Subsidies report.

We performed analysis on both successful applications (n=587) and successful VCSEs (n=452), since some VCSEs had more than one successful application. Where a VCSE had more than one record, we used the earliest record. When analysing loan/grant amounts, if a VCSE had more than one record we summed the amounts across all records, to give a total investment amount for each VCSE. There were 10 VCSEs where the investment amount was either missing or reported as £0, so we excluded these from analysis of investment amounts.

For some analysis we grouped funds together. In terms of specialism, the funds were grouped as follows:

- Non-specific: Funds B, C, D and M
- Location-specific: Funds A, E, F, H, I, O and P
- Sector-specific: Funds E, F, L and N
- Starts ups early stage: Funds J and K.

Social impact data

Social impact data had been provided as individual spreadsheets for each SIFI/investor. These spreadsheets were merged together to create a master spreadsheet. One SIFI (HWCF) had used a different template for recording social impact data, so this required further cleaning to make it consistent with the master spreadsheet. Additionally, this SIFI provided no financial data so was excluded from analysis of change in financial metrics. Two SIFIs (Somerset Community Foundation and Devon Community Foundation) did not provide any social impact data.

In order to enable analysis of change in financial and employment metrics from baseline to present, MI data (baseline) was matched to social impact data (current) using the unique reference included in both datasets. When matching on unique references, there were 37 VCSEs present in the social impact data which did not have a match in the MI data. These were manually reviewed for each VCSE: we cross-checked records between MI and social impact datasets and updated the reference number in the social impact data so that it corresponded to that in the MI data. HWCF had no unique reference numbers in the social impact data, and GMCVO and First Ark had some instance where reference numbers varied by one digit, suggesting they were manually entered incorrectly. These records were corrected so that all VCSEs in the social impact data matched to their corresponding records in the MI data. To ensure that the same year's financial data was not being used across both data points of the comparison, where a VCSE's income and assets were the same in both the MI (baseline) and social impact (current) datasets, these were excluded from analysis on change in financial and employment metrics.

After calculating percentage change for assets and income between MI data (baseline) and social impact data (current), VCSEs with very high or low percentage change were manually reviewed. The Companies House website was used to check whether financial data had been entered correctly in both datasets. In some instance financial details had been entered incorrectly, while some VCSEs had previously been dormant in the financial year preceding their Growth Fund application. Some VCSEs had not published income figures in their financial returns due to making use of small companies exemptions. In all cases where change in income or assets was very high and it could not be verified that the financial metrics were correct, these VCSEs were removed from analysis on change in financial metrics. Due to the time-consuming nature of manually validating MI and social impact records against Companies House, we were only able to review the VCSEs with highest or lowest percentage changes in incomes/assets.

Survey data

Baseline VCSE survey

Manual review of responses identified that three VCSEs had completed the baseline survey twice and one VCSE had completed the survey three times. For these VCSEs, only their earliest survey response was retained and later responses were excluded from analysis.

Annual VCSE survey

Manual review of responses identified that 10 VCSEs had completed the annual survey in both years. When reporting aggregate figures across both years of the annual survey, for these 10 VCSEs we only used their Year 2 response and excluded their Year 1 response.

Longitudinal analysis (matching Baseline VCSE survey and Annual VCSE survey)

Unique VCSE reference numbers taken from the MI data were manually assigned to each survey response for the Baseline and both Annual surveys. Where the MI data had multiple unique reference numbers for the same VCSE, they were manually checked to ensure that both Baseline and Annual survey were assigned the same reference number. Where a VCSE had more than one entry in the Baseline survey we retained the earliest entry, and where a VCSE had completed both years of the Annual survey we retained the most recent entry. Baseline and Annual surveys were then joined using the unique reference numbers to produce a merged dataset which had contained both baseline and annual responses, enabling longitudinal comparison.

Counterfactual analysis

Methodology

Our initial plan was to use the VCSE Strength Checker as our comparator group. However, inspection of the data showed that for each VCSE there were only two consecutive years of financial data – the most recent financial year from when they completed the Strength Checker, and the year preceding that. Since our treatment period spanned multiple years, from 2017 baseline (i.e. prior to Growth Fund deployment) up to the most recent year, the Strength Checker did not provide a suitable comparison since we would be comparing change across 3-4 years for Growth Fund VCSEs with change over 2 years for non-Growth Fund VCSEs. An additional limitation with the Strength Checker data was that there were insufficient records to individually match Growth Fund VCSEs to non-Growth Fund VCSEs. Instead we would have had to compare mean income across the two datasets, which would have reduced the comparability of the two groups.

After concluding that the VCSE Strength Checker was unsuitable, we scoped different datasets to use as a comparator group for the counterfactual analysis. The main requirements were that the comparator group had organisations who were similar to the Growth Fund VCSEs, but which had not received Growth Fund investment. We required financial metrics relating to the pre-Growth Fund period and most recent accounting period, and ideally a range of variables on which we could match Growth Fund VCSEs to the comparator group. We selected the Charity Commission "extract_financial" database since it offered financial variables for both pre-Growth Fund and recent financial reporting years, for both Growth Fund and non-Growth Fund charities. This dataset was not ideal, since it only contained two variables to be used for matching – income and expenditure – but it was the only option which had financial data at both required time points. We used charity numbers in the Growth Fund MI data to identify which charities in the Charity Commission database had received Growth Fund investment and added a variable to denote receipt of Growth Fund. In total, 120 charities from the Growth Fund MI were identified in the Charity Commission database, representing 27% of all Growth Fund recipients.

To ensure that baseline figures reflected charities' financial circumstances before Growth Fund deployment, for each charity we selected financial metrics from the financial year ending in 2017. The outcome variable was net income (calculated as income minus expenditure) for the most recent year recorded in the Charity Commission database. Analysis confirmed that the Growth Fund charities differed from the non-Growth Fund charities in terms of income and expenditure, as they represented a subset of the entire charity sector which was situated at the lower to middle in terms of income. To account for these differences and enable a more meaningful comparison, we used propensity score matching to construct a more balanced comparison group. Growth Fund charities were matched to non-Growth Fund charities on income, expenditure, and net income. Different matching methods were trialled and compared, and a Nearest Neighbour method with a 4:1 ratio of control to treatment units was selected as it offered the most balanced treatment (Growth Fund) and control (non-Growth Fund) groups.

Reporting

We used the Charity Commission database to construct a comparator group of charities which were similar to Growth Fund charities at the baseline, but who had not gone on to received Growth Fund investment. We defined the baseline as 2017, since this was the year that Growth Fund deployment began. By using financial records whose year end was in 2017, these were most likely to capture the most recent financial metrics prior to Growth Fund deployment. For each charity we also identified their most recent year's financial data, from which we derived the outcome variable of most recent net income. Charities where the most recent financial year was prior to 2019 were removed from the analysis – i.e. we examined change in net income from 2017 to either 2019 or 2020, depending on what data was available.

We used propensity score matching to match each of the 120 Growth Fund charities to the charity it most closely resembled, based on their income and expenditure at baseline (2017). To estimate the treatment effect of receiving

Growth Fund investment, we fitted a linear regression model with most recent year's net income as the outcome, and the treatment (a binary variable where 1 = Growth Fund and 0 = not Growth Fund) and covariates (baseline income, baseline expenditure, baseline net income) as predictor variables. The coefficient of the binary variable denoting whether a charity had received Growth Fund investment was used to estimate the treatment effect, and a cluster-robust variance was used to estimate standard error with matching substratum membership as the clustering variable. The estimated effect of Growth Fund on charities' net income was £5,009, with p = 0.92.[35] Therefore, Growth Fund investment was not found to have a statistically significant effect on the net income of charities.

There are several limitations to the analysis, due in large part to data constraints. Most notably, the Charity Commission database which we used as our comparison group only had two variables for each charity per year: income and expenditure (plus a third variable, net income, derived by subtracting expenditure from income). Income and expenditure can only partially describe a charity, but we were limited to matching our comparator group solely on these variables. It is possible that Growth Fund charities were matched to non-Growth Fund charities which, despite having similar income and expenditure, differed on other characteristics which may have impacted change in net income over time (for example, assets and FTE may have been relevant, and sector/geographic location could have been important especially in the context of Covid-19 restrictions). Another limitation is that we could not ascertain whether the non-Growth Fund charities had received other social investment in the period between baseline and most recent financial reporting. Any social investment received by control charities may have lessened the comparative impact of Growth Fund investment. A third limitation is that because we used the Charity Commission database, we were only able to compare Growth Fund charities, which comprised about a quarter of all VCSEs which received Growth Fund investment. Our analysis therefore does not incorporate all Growth Fund recipients, and risk of systematic differences between charities and non-charity VCSEs means that generalisations should be made with caution.

Implications for the future: The data we would have needed to have been able to undertake a robust impact evaluation

The challenge we faced when conducting the Growth Fund counterfactual analysis is that, at present, there is no single data source which operates as an effective comparator group. An effective comparator dataset should be sufficiently large, be broadly representative of the entire sector, and contain useful data for identifying ways in which VCSEs are similar/different from one another. It should also have regular updates on relevant metrics (e.g. financial metrics).

For matching techniques, you increase your likelihood of getting robust matches if you are able to match on information which you think may impact your outcome measure. For example, if you are interested in changes in income, then primary source of income and sector of operation might be important for ensuring that you are comparing similar organisations.

In terms of what data to collect, a useful starting point is to consider what information helps us to group and differentiate VCSEs. Suggested measures include:

[35] P-values indicate the likelihood of an observed difference within the data occurring due to chance. A p-value close to 1 suggests that any difference is likely due to chance, while smaller p-values suggest that observed differences between groups are not simply due to random variation in the data. A p-value below 0.05 is sometimes interpreted to indicate that a difference is statistically significant. The p-value here of 0.92 indicates that it is likely that the observed difference of £5,009 between groups is due to random variation in data and not indicative of any effect from Growth Fund support.

Category	Measures	Comments
Financial	Total income, net income, assets	This data all exists already between Charity Commission database and Companies House, but currently it is not possible to download all CH data (due to there being so much)
	Sources of income	This would be a helpful variable for matching – we might expect those with high reliance on grants to be different from those who receive majority of income from trading
	Investment history (e.g. grants/loans previously received)	This would be helpful for identifying impact of funding
Geographical	Region, reach of organisation (e.g. local, national, international), postcode (to enable further analysis e.g. by linking to other datasets)	Again, postcode data already exists so the rest can be coded from that, but postcodes are not all centrally available (although should exist in CC and CH data)
Category of services provided	This would need to be a discrete pre-defined list	This could also be helpful for matching – we might expect organisations in different sectors to have different outcomes
Legal structure	Whether CLS, CLG, CIC, CIO, etc	We're unsure on whether we would expect to see differences in outcomes depending on legal structure, but as a minimum we would want to differentiate between charities and non-charities
Size	Number of employees, number of volunteers	We might expect VCSEs with more employees/volunteers to have wider reach, so it's an easier-to-collect proxy measure for something like number of service users

This list could be expanded to include further measures, but there is a balance between having more data and increasing submission/collection burdens as well as variability in data. For instance, a measure of service users supported per year might be helpful, but not all VCSEs will collect this and those that do may define it in different ways, therefore making comparison difficult.

Annex II: Survey representativeness

The following tables show how the profile of survey respondents compared to the overall profile of all Growth Fund VCSEs across key metrics. For each metric, we show breakdowns for all VCSEs, all baseline respondents, merged annual survey responses, and individual annual survey responses.

Note that total counts for merged annual survey and 2020 annual survey vary slightly from total sample size of each survey reported elsewhere in this report. Variation is due to the fact that not all respondents to the 2020 annual survey could be matched to MI data, since MI data only covered VCSEs who had received deployment up to the end of September 2020 whereas 2020 annual survey was conducted in December 2020 – January 2021 and therefore included several new VCSEs.

Annual total income bands	Percentages					Counts				
	All VCSEs	Baseline survey	Annual surveys			All VCSEs	Baseline survey	Annual surveys		
			Merged	2019	2020			Merged	2019	2020
£10,000 or less	11%	16%	14%	15%	12%	48	16	11	7	5
£10,000 to £100,000	23%	20%	18%	11%	29%	105	21	14	5	12
£100,000 to £1,000,000	49%	46%	55%	61%	48%	222	47	44	28	20
Greater than £1,000,000	12%	13%	14%	13%	12%	53	13	11	6	5
NA	5%	6%	-	-	-	24	6	-	-	-
Total	*100%*	*101%*	*101%*	*100%*	*101%*	*452*	*103*	*80*	*46*	*42*

FTE bands	Percentages					Counts				
	All VCSEs	Baseline survey	Annual surveys			All VCSEs	Baseline survey	Annual surveys		
			Merged	2019	2020			Merged	2019	2020
Zero FTE	9%	9%	6%	9%	5%	40	9	5	4	2
Micro (9 or less)	53%	50%	55%	46%	69%	241	52	44	21	29
Small (10-49)	25%	29%	32%	41%	19%	113	30	26	19	8
Medium (50-249)	6%	7%	4%	4%	2%	28	7	3	2	1
Large (250+)	1%	1%	1%	-	2%	4	1	1	-	1
NA	6%	4%	1%	-	2%	26	4	1	-	1
Total	*100%*	*100%*	*99%*	*100%*	*99%*	*452*	*103*	*80*	*46*	*42*

Primary source of income	Percentages					Counts				
	All VCSEs	Baseline survey	Annual surveys			All VCSEs	Baseline survey	Annual surveys		
			Merged	2019	2020			Merged	2019	2020
Contracts	24%	26%	26%	30%	21%	107	27	21	14	9
Voluntary - grants	9%	10%	10%	11%	14%	41	10	8	5	6
Other	2%	2%	1%	2%	-	11	2	1	1	-
Rent	7%	11%	9%	11%	5%	31	11	7	5	2
Trading	54%	46%	54%	46%	60%	242	47	43	21	25
Voluntary - other	2%	2%	-	-	-	7	2	-	-	-
NA	3%	4%	-	-	-	13	4	-	-	-
Total	*101%*	*101%*	*100%*	*100%*	*100%*	*452*	*103*	*80*	*46*	*42*

Legal form of VCSE	Percentages					Counts				
	All VCSEs	Baseline survey	Annual surveys			All VCSEs	Baseline survey	Annual surveys		
			Merged	2019	2020			Merged	2019	2020
Company Limited by Guarantee (CLG)	52%	41%	36%	37%	36%	233	42	29	17	15
Company Limited by Shares (CLS)	14%	23%	28%	22%	36%	63	24	22	10	15
Charitable Incorporated Organisation (CIO)	9%	9%	8%	11%	7%	39	9	6	5	3
Community Interest Company (CIC)	8%	8%	8%	11%	2%	37	8	6	5	1
Charity	3%	2%	4%	7%	-	14	2	3	3	-
Registered Society (BenCom)	2%	2%	1%	2%	-	9	2	1	1	-
Community Benefit Society (CBS)	1%	2%	2%	4%	-	4	2	2	2	-
IPS	1%	2%	1%	2%	-	4	2	1	1	-
Mutual (Friendly Society)	1%	2%	2%	-	5%	6	2	2	-	2

Registered Society (Cooperative)	1%	1%	1%	-	2%	3	1	1	-	1
LLP - Limited Liability Partnership	0%	-	-	-	-	1	-	-	-	-
PLC - Public Listed Company	0%	-	-	-	-	1	-	-	-	-
Unincorporated Organisation	0%	-	-	-	-	1	-	-	-	-
Other	7%	6%	9%	4%	12%	32	6	7	2	5
NA	1%	3%	-	-	-	5	3	-	-	-
Total	*100%*	*101%*	*100%*	*100%*	*100%*	*452*	*103*	*80*	*46*	*42*

Total investment	Percentages					Counts				
	All VCSEs	Baseline survey	Annual surveys			All VCSEs	Baseline survey	Annual surveys		
			Merged	2019	2020			Merged	2019	2020
£0 to £25,000	26%	25%	16%	13%	21%	117	26	13	6	9
£25,000 to £50,000	31%	35%	31%	41%	26%	138	36	25	19	11
£50,000 to £75,000	14%	13%	18%	15%	19%	62	13	14	7	8
£75,000 to £100,000	13%	11%	15%	13%	14%	58	11	12	6	6
£100,000 to £125,000	4%	1%	5%	2%	7%	16	1	4	1	3
£125,000 to £150,000	13%	16%	15%	15%	12%	61	16	12	7	5
Total	*101%*	*101%*	*100%*	*99%*	*99%*	*452*	*103*	*80*	*46*	*42*

Geographical reach	Percentages					Counts				
	All VCSEs	Baseline survey	Annual surveys			All VCSEs	Baseline survey	Annual surveys		
			Merged	2019	2020			Merged	2019	2020
North West	25%	20%	26%	37%	17%	114	21	21	17	7

South West	16%	24%	21%	17%	29%	74	25	17	8	12
Yorkshire & Humber	13%	5%	8%	13%	-	60	5	6	6	-
London	10%	13%	11%	7%	17%	43	13	9	3	7
North East	10%	7%	9%	9%	7%	46	7	7	4	3
South East	9%	12%	8%	-	14%	41	12	6	-	6
East Midlands	6%	4%	4%	2%	5%	26	4	3	1	2
England-wide	4%	7%	6%	7%	5%	18	7	5	3	2
West Midlands	4%	4%	5%	4%	7%	17	4	4	2	3
East of England	2%	4%	2%	4%	-	10	4	2	2	-
NA	1%	1%	-	-	-	3	1	-	-	-
Total	*100%*	*101%*	*100%*	*100%*	*101%*	*452*	*103*	*80*	*46*	*42*

Investor	Baseline survey		
	No. of VCSEs responded	No. eligible	Response rate (%)
Devon Community Foundation	3	6	50
UnLtd	9	19	47.4
Homeless Link	10	22	45.5
Social Investment Business & Forward Trust	3	7	42.9
Resonance	15	37	40.5
Community Impact Partnership	3	8	37.5
GMCVO	12	43	27.9
Kent Community Foundation	4	17	23.5
Somerset Community Foundation	3	13	23.1
Big Issue Invest	22	108	20.4
Sporting Assets	3	15	20
NESTA	1	5	20
Key Fund	12	114	10.5

First Ark	4	38	10.5

Annex III: 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.

Balance sheet: a "snapshot" of the assets and liabilities of an organisation at a single point in time.

Blended finance: a mix of investment, that needs to be repaid, and a grant that doesn't need to be repaid.

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.

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

Liquidity: refers to the availability of cash that an organisation has to meet short-term operating needs. It is the amount of liquid assets that are available to pay expenses and debts as they become due.

Patient capital: loans or equity investments offered on a long-term basis (typically 5 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 investment wholesaler: an investor which makes larger investments in funds or financial organisations (social investment finance intermediaries) that will themselves invest smaller amounts in a number of charities and social enterprises. Big Society Capital is a UK social investment wholesaler.

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