



Use of Subsidy: Lessons from the Growth Fund programme on blending grant and loan funding

Edward Hickman
December 2025

Table of Contents

| | | |
|------------|--|-----------|
| 1.0 | Introduction | 3 |
| 1.1 | About the Growth Fund | 3 |
| 1.2 | Focus of this report..... | 4 |
| 2.0 | Growth Fund subsidy model..... | 5 |
| 3.0 | Growth Fund social investors and social investment funds..... | 7 |
| 4.0 | Use of subsidy | 11 |
| 4.1 | Grant A | 11 |
| 4.2 | Grant B | 16 |
| 4.3 | Grant C | 22 |
| 5.0 | Conclusions about Grants A, B and C together..... | 26 |
| 5.1 | Recommendations for a future subsidy model..... | 27 |
| 6.0 | Appendices | 29 |
| 6.1 | Methods note..... | 29 |
| 6.2 | Glossary | 30 |

1.0 Introduction

In 2016, The National Lottery Community Fund commissioned Ecorys UK (Ecorys) and ATQ Consultants (ATQ) to evaluate the Growth Fund. The Growth Fund was launched in May 2015 by a Programme Partnership between The National Lottery Community Fund and Better Society Capital (BSC), and delivered by Access – The Foundation for Social Investment (Access) through a range of social investors. As a part of the evaluation, Ecorys and ATQ produced a set of thematic insights. This report is the second, focused on understanding how the Growth Fund's structured grant subsidy model has worked in practice. More information about the Growth Fund and its evaluation can be found on The National Lottery Community Fund's [website](#).

This report may be useful to social investors, funders and policy-makers interested in the use of grant subsidy in the provision of blended finance.

1.1 About the Growth Fund

The Growth Fund was seen as an opportunity to demonstrate how grant subsidy can best be used to develop the social investment market and, in this specific case, offers of blended loan and grant financing to voluntary, community, and social enterprise organisations (VCSEs). The Programme Partnership established the Growth Fund specifically in response to a well-researched and [documented](#) need for smaller-scale, unsecured¹ loan financing.

The Growth Fund was designed to provide flexible unsecured loans of up to £150,000 for charities and social enterprises and make them affordable by combining grants with loans. The design of the Growth Fund recognised the fact that loans below £150,000 require a subsidised model, in this instance provided by a grant, to offer attractive enough terms to borrowers and enable social investors to operate on commercially viable terms.² Previously, this type of finance had not been readily available, mainly because social investors had not felt able to afford to make these small loans. The costs of promoting the fund to prospective borrowers, undertaking due diligence³ and managing the loans are broadly similar, regardless of the loan value. Therefore, the economics of operating only at smaller loan values are such that without a subsidy arrangement, no social investor would be able to operate commercially.

When it was first announced, the Growth Fund blended a commitment of £22.5m of grant from The National Lottery Community Fund with at least £22.5m of loan funds from BSC, plus some additional loan funds from other co-investors. One of the Growth Fund's wider ambitions was to increase the number of social investors supporting VCSEs with blended finance.

¹ Unsecured loans are made without the use of property or other assets as collateral

² There is a broad [consensus](#) that VCSEs, which seek to break even or make only marginal returns, often require forms of concessional finance to grow and develop their services and organisations.

³ Due diligence is undertaken to assess an organisation's financial position, validate financial and business plan information and identify potential risks associated with the loan

The Growth Fund was set up as a ‘test and learn’ programme for all parties involved. Access managed (and continues to manage) the Growth Fund and worked with fifteen social investors⁴ who managed funds under the programme and provided investments to charities and social enterprises. The target at the outset was to make 700 loans to VCSEs.

1.2 Focus of this report

The primary focus of this report is on how well the Growth Fund’s subsidy model addressed the needs of the social investors and enabled them to provide blended finance effectively to VCSEs.

Our first set of [findings](#) on the Use of Subsidy in the Growth Fund, covering the period from the first fund launch in 2017 to March 2020, was published in January 2021. We have included excerpts from the report below to explain how the subsidy model was originally designed. Access has published two Use of Subsidy [reports](#) on the Growth Fund, and a further report explaining the uses of subsidy in its later Flexible Finance programme.⁵ We also refer to and use the factual data in the Access reports in the following sections.

One key question, for all actors in this arena, is how to maximise the effectiveness of any subsidy against identified needs.

The findings from this research are based on:

- ▶ an annual programme of interviews and a workshop with Growth Fund social investors, the most recent of which was completed in June and July 2025;
- ▶ analysis of the data from social investors’ regular reporting to the Programme Partnership; and
- ▶ evidence captured as part of the wider evaluation (see the Appendix for more information), such as surveys and case study visits with VCSEs that received investment and their respective social investors.

The report is structured as follows:

- ▶ Explanation of the Growth Fund’s subsidy model
- ▶ Overview of the social investors and funds
- ▶ Review of the Growth Fund grant findings
- ▶ Conclusions and recommendations
- ▶ A Methods Note and Glossary are included in the Appendices.

⁴ There were 15 organisations approved to run a social investment fund under the Growth Fund programme although only 14 actually deployed funds.

⁵ The Flexible Finance programme was launched by Access in 2020, designed to offer more patient and flexible forms of capital to charities and social enterprise than was otherwise available through other programmes or the wider social investment market.

2.0 Growth Fund subsidy model

The Growth Fund subsidy model blended loan and grant funding so that social investors could offer smaller loans (less than £150,000) to VCSEs. The Growth Fund subsidy model was designed with three grants, called Grants A, B and C, as follows (and shown diagrammatically in Figure 1):

- ▶ Grant A – helped to contribute towards the costs to social investors of making lots of small loans. This meant that the social investor could afford the proportionally higher costs per transaction that could often exceed interest/fee income at this level. Grant A thus reduced the risk for them in managing an investment fund. Grant A was originally set at a maximum of 10% of the total grant allocation to each social investor (total of Grants A+B+C), although this was subsequently increased when required.
- ▶ Grant B – allowed investors to afford for some of the loans to fail. Through blending grant and debt in the fund, the social investors could afford for the portfolio not to break even and therefore were willing to take greater risk on the loans that they made. Grant B also reduced the risk to the capital providers in the Growth Fund, predominantly BSC, not getting their money back from social investors. The proportion of Grant B that each social investment fund agreed varied according to risk.
- ▶ Grant C – allowed social investors to offer grants alongside loans to charities and social enterprises. The main effect was to reduce the amount of loan finance required and therefore made the loans more affordable to VCSEs. The proportion of Grant C for each social investor varied according to need and negotiations over the split between grants A+B+C.

The combined A+B+C grant could only total up to a maximum of 50% of the overall investment fund delivered by each social investor.

There were some constraints in the way that Grants A and B were designed to work in practice, and these constraints were built into the Growth Fund's standardised financial model used by all social investors when making their applications. The model was designed around some basic parameters, including: investment period; deployment forecast; repayment forecast; investment terms and fees; and investors' operating costs⁶.

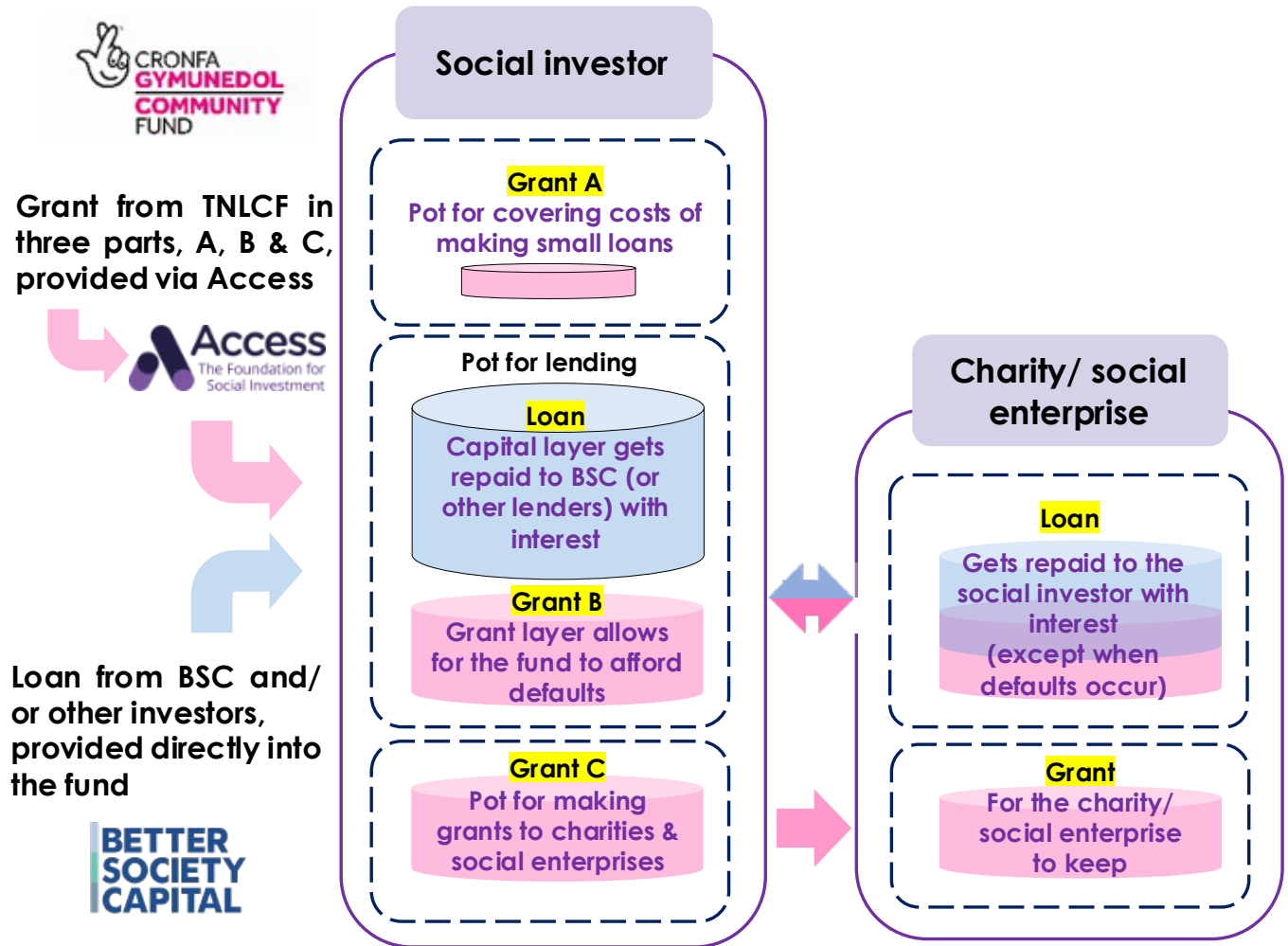
The first version of the financial model at the time of launch for each social investor's fund was called the original forecast. Each social investor's financial model evolved in line with fund re-forecasts⁷ and restructuring⁸ with the most up to date version used for all subsequent monitoring of performance. This is covered in more detail below.

⁶ Operating costs are the management costs withdrawn from funds by social investors, on a quarterly basis and in line with an agreed schedule.

⁷ Re-forecasts are changes to a fund's schedule of quarterly deployment targets. Formal reforecasts were agreed between the social investor and the Programme Partnership

⁸ Restructures are material changes agreed to a fund/ fund model after the fund had launched

Figure 1 Diagram showing Grants A, B and C model



Source: Access

3.0 Growth Fund social investors and social investment funds

Seventeen individual social investment funds were launched by fifteen diverse social investors and deployed funds between 2016 - 2023 (with repayments up to 2029). The social investors had a range of prior experience with social investment. Seven social investment funds were delivered by experienced social investors with prior track records of managing loan funds. Ten social investment funds were delivered by organisations with no prior loan book management experience although six brought an understanding of the VCSE sector through delivery of grant management programmes. Four social investment funds were delivered by organisations entirely new to social investment.

All social investors entered their formal arrangements with the Programme Partnership with an awareness of the risks involved, albeit some with limited prior experience to draw on. Therefore, the lines of argument and related quotes that follow (all anonymised) should be read in this light.

More than half of the total funding deployed was through non-specific investment funds which made loans to VCSEs from any sector and in any location. The other investment funds had a focused approach to lending either to specific sector VCSEs or to VCSEs in defined geographic locations including three that had both a sector and location focus. Finally, two funds were aimed at start-up and early stage VCSEs. Summary details of all the anonymised funds are presented in Table 1.

Table 1 Summary of the Growth Fund funds

| Fund | Prior experience | Investment focus | Deployment Period | Total Grant Utilised | Total Capital Utilised | Total Amount Deployed |
|--------------|-----------------------------------|------------------------------|-------------------|----------------------|------------------------|-----------------------|
| Fund A | Experienced social lender | Location and sector specific | 2016 - 2020 | £1,750,300 | £1,708,212 | £3,206,481 |
| Fund B | Experienced social lender | Non-specific | 2016 - 2023 | £4,091,600 | £2,780,128 | £9,683,935 |
| Fund C | Experienced social lender | Non-specific | 2016 - 2019 | £1,638,107 | £3,626,594 | £7,613,110 |
| Fund D | Experienced social lender | Non-specific | 2018 - 2022 | £2,063,290 | £2,301,552 | £5,212,225 |
| Fund E | Experienced with grants and loans | Location specific | 2017 - 2023 | £527,869 | £604,606 | £1,165,232 |
| Fund F | Experienced with grants and loans | Location specific | 2017 - 2021 | £419,303 | £504,488 | £861,800 |
| Fund G | Grants experience, new to loans | Specific sector focus | 2017 - 2021 | £1,093,932 | £926,855 | £1,986,200 |
| Fund H | Grants experience, new to loans | Location specific | 2017 – 2022 | £1,394,981 | £1,324,772 | £3,254,498 |
| Fund I | Grants experience, new to loans | Location specific | 2017 - 2019 | £233,485 | £189,972 | £396,886 |
| Fund J | Grants experience, new to loans | Start-ups early stage | 2017 - 2021 | £1,403,551 | £1,690,656 | £2,860,787 |
| Fund K | Grants experience, new to loans | Start-ups early stage | 2018 - 2022 | £287,785 | £228,929 | £398,370 |
| Fund L | Grants experience, new to loans | Specific sector focus | 2018 - 2022 | £589,496 | £555,262 | £962,622 |
| Fund M | New social lender | Non-specific | 2016 - 2021 | £2,464,318 | £2,249,151 | £5,220,351 |
| Fund N | New social lender | Specific sector focus | 2017 - 2022 | £1,426,551 | £1,668,460 | £3,181,525 |
| Fund O | New social lender | Location(s) specific | 2018 - 2021 | £546,001 | £547,267 | £790,000 |
| Fund P | New social lender | Location specific | 2018 - 2020 | £119,500 | £0 | £0 |
| Fund Q | Experienced social lender | Location and sector-specific | 2020 - 2022 | £840,350 | £935,249 | £1,780,000 |
| TOTAL | | | | £20,890,419 | £21,842,153 | £48,574,022 |

Source: Access

The summary highlights of the collective performance of the seventeen Funds are as follows:⁹

- ▶ 726 loans were made to 580 VCSEs;
- ▶ A combined total of £48.6m of loan and grant funding was deployed, including recycling of capital into new loans; and
- ▶ BSC's capital was fully recouped (as at July 2025) although both capital and interest are (at the time of reporting) still being repaid, as the final fund closure is not due until December 2029.

The Growth Fund has achieved its overall investment deployment aims and the expectations for loan repayment look positive. Whilst repayments are (at the time of reporting) on-going, provisions (for at risk loans) and write downs (loans that will never repay) are expected by the Programme Partnership to remain below the average 25% Grant B level across the whole of the Growth Fund. We comment on this further in our review of Grant B in the following section.

The experience has been more mixed at an individual social investor level. Sixteen of the social investment funds launched successfully, and two social investors started second funds, Funds D and Q, after their original funds completed deployment. Social investors managing Funds B, H, M, and Q also received additional funding during the programme, structured as top-ups to their existing funds. One new social investor managing Fund P engaged with the Programme Partnership but did not deploy any investments and effectively never began its fund.

Social investors managing Funds K, O and L closed them early due to performance shortfalls (a combination of below plan deployment rates and early losses). The Growth Fund model was highly dependent on meeting forecasts for the rate of deployment, and all of the social investors which closed early experienced deployment challenges. Once a social investor fell behind its deployment targets, there was increased pressure to keep costs contained (for example, with lower staffing levels), and there was potential for a vicious cycle to develop where reduced capacity led to further deployment shortfalls. If there were also early loan write-offs, this made fund viability difficult and in three cases impossible.

Access, the programme manager for the Growth Fund, worked pro-actively and flexibly with all the social investors to re-profile, restructure and adapt to specific circumstances, using quarterly report actual data to inform and agree on restructures and changes. On average, every social investor agreed to three restructures through the deployment period of their respective fund, with only one social investor requiring no changes. Any type of change was initially proposed by either a social investor or by any member of the Programme Partnership but had to be agreed between all four parties (the social investor, The

⁹ Source: Q1 2025 monitoring information collected by Access, and interview data.

National Lottery Community Fund, BSC and Access) to take effect. Examples of restructures included:

- ▶ Increase to fund size – as noted above, four social investors agreed to an increase in fund size (officially called a ‘top-up’)
- ▶ Decrease to fund size – ten social investors agreed to a reduction in capital in light of deployment shortfalls. Six of these were before the Covid-19 pandemic in 2020 and six afterwards including two for a second time.
- ▶ Early fund closure – a total of three social investors closed their funds early.
- ▶ Other changes - for example, increases in Grant A and C allocations which were given to the thirteen social investors active in 2020 in response to restrictions imposed during the Covid-19 pandemic.

As of July 2025, six Growth Fund social investors are active in successor social investment funds either continuing as fund managers or joining in partnerships with other managers. As noted, one of the Growth Fund’s wider ambitions was to increase the number of social investors supporting VCSEs with blended finance – this continuation of social investors’ role in the wider ecosystem suggests this has been to some extent achieved. The Ecorys/ATQ final Growth Fund evaluation [Synthesis Report](#) covers this in more depth but we comment further in the findings about Grant A below.

4.0 Use of subsidy

In this section, we review the social investors' collective experience of operating respective social investment funds under the Grant A, B and C benefits and constraints outlined above.

4.1 Grant A

The Grant A contribution to operating costs was modelled with the intention of enabling social investors to deploy sufficient loans during the launch period (called the 'runway' by the Programme Partnership), which was typically around 12 months but, in some cases, up to 24 months. The expectation was that interest, capital repayments and arrangement fees flowing back into each social investor would cover agreed operating costs thereafter.

There were several constraints built into the design of Grant A:

- ▶ Delays in loan deployment would impact a social investor's ability to afford its operating costs.
- ▶ The original upper limit for Grant A as a proportion of Grant A+B+C was set at 10%. As it was The National Lottery Community Fund that provided the grant element of the Growth Fund, reference was made to its general policy of allowing a maximum 10% for administration and overhead costs which applied to other grant programmes at that time (2015).
- ▶ Although the financial model allowed operating cost shortfalls to be covered directly by BSC capital drawdowns, if too much BSC capital was drawn to meet costs, then this created a challenge in meeting the Asset Coverage Ratio (ACR) which social investors were required to maintain after the initial runway period.¹⁰ The ACR level that Social Investment Funds were required to maintain varied between social investors but were generally around 1.2–1.3, to ensure that there were always sufficient assets to meet investors' repayment obligations to BSC (and/or co-investors as applicable).
- ▶ The other financial agreement in the programme was a deployment target – requiring social investors to meet at least 70% of their deployment forecasts over the previous two calendar quarters combined. The rate of deployment was the main early warning trigger of potential issues. If it fell consistently below 70%, then this meant there were fund viability issues.

¹⁰ The ACR is an indicator of a fund's ability to cover its future repayment commitments. The ACR is an equation calculated as (Net of default outstanding capital and interest payments plus cash balance less next 2 Quarter's operating costs) divided by (Outstanding BSC drawdown and cumulative interest amounts).

4.1.1 Grant A performance

The allocation of Grant A, set within the 10% upper limit, was reached relatively quickly in the early experiences of social investors in running their respective funds. Several points of evidence emerged in the early years of the Growth Fund between 2017 and 2020. As [we previously reported](#), the more experienced social investors with established loan management processes and systems were operating closer to their forecasts. However, by the end of 2020, only one of the new social investors managing loans for the first time had generated sufficient interest and arrangement fee income to cover its operational costs.

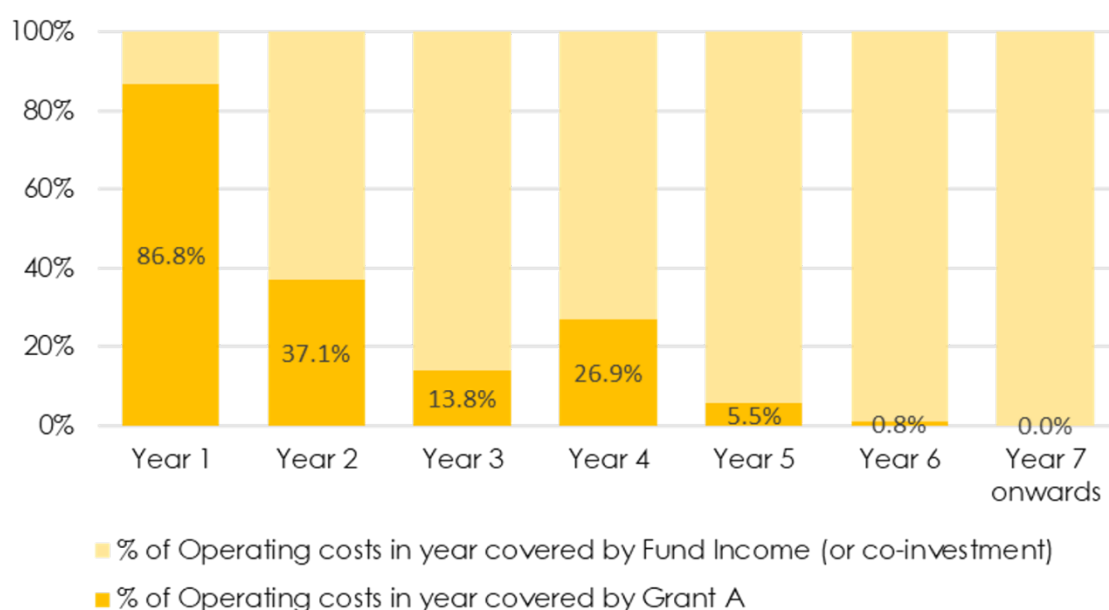
The programme partnership agreed to provide additional Grant A subsidy to help social investors through the Covid-19 pandemic. Although respective adjustments to levels of operating costs and Grant A allocations were being agreed on a case-by-case basis, the most significant adjustment to Grant A was a decision to give all social investors an extra six-month operating cost subsidy in 2020¹¹ to enable them to agree the necessary adjustments (interest and capital repayment holidays) with investees affected by the Covid-19 pandemic lockdowns. The Programme Partnership did not want the social investors to be concerned about their own income but rather be in a position to provide flexible responses to investees affected by the pandemic.

As a result of these cumulative changes, the actual amount of Grant A allocated through the life of the Growth Fund turned out to be higher than the original 10% limit. The original forecast allocation of Grant A across all social investors was 9% of the grant A+B+C total and to contribute 19.9% of overall forecast operating costs. In practice, Grant A allocations increased to 14% (vs 9%) of the grant total and 40.5% (vs 19.9%) of overall operating costs. In cash terms, the amount of Grant A rose from an original allocation of £1.95m to £3.02m, an increase of £1.07m or 55%. Using an average quarterly operating cost estimate of between £25k to £30k, around £500-600k – or half – of this cash increase was due to the additional six months cost subsidy given in 2020 as part of the Covid-19 support package.

Figure 2 shows the percentage of Growth Fund income covered by Grant A from Year 1 to Year 7 for each social investment fund. The pandemic period of Grant A support happened over the same six months in 2020 for all funds, but for each fund this may have occurred in anything from the first year to the fourth year of their fund life, therefore the effect of this Grant A injection is variously represented across the first four bars of the chart. As many investment funds launched in 2017, Year 4 was 2020 for these funds.

¹¹ Funded from a grant underspend up to then

Figure 2 Percentage of Growth Fund income covered by Grant A



Source: Access

4.1.2 Social investor views on Grant A

Grant A and the capital provided on an accrued interest basis by BSC were key attractions to social investors. The design of the Growth Fund and the proposed subsidy model succeeded in attracting fifteen different social investors, both established players and others new to social investment. The main finding from our interviews with social investors, which we first reported on in our 2021 [report](#), was that Grant A made it more attractive to become a Growth Fund social investor. Around half of social investors stated that they were interested in using the Growth Fund “*to test the new waters*” or “*build up a social lending skill set*” in their respective organisations and any subsidy was of help. It was understood by all social investors that Grant A would not cover all of their costs. Social investors stated, as one put it, that “*they expected to put skin in the game themselves.*”

A parallel attraction to Grant A was the availability of BSC’s capital which meant that funds did not have to be raised from either internal or other external resources. It was noted by the experienced social investors how much time and resources would have had to be invested otherwise in finding an alternative capital provider to BSC and it would have been virtually impossible for a new social investor to raise external capital without a solid track record. The fact that BSC’s capital was also made available with interest accruing to be repaid at the end of the programme was a further benefit. This meant that interest income could be used to fund operating costs which in turn meant less of the grant total needed to be allocated to Grant A, leaving more for either Grant B or C.

Predicting and managing operating costs over the entire programme timetable has proven challenging. Social investors’ experience has shown that trying to forecast operational costs over anything up to a nine-year timeframe is difficult, if not impossible. Operating costs

were one of dimensions of the financial model which was used to monitor investment fund performance and viability. One social investor observed that gauging operating costs over a long period of time is inevitably challenging. Another social investor stated that: *“Operating costs are set at an expectation of efficient to start with and a shoestring level later in the life of a fund. Always in the red at the set-up phase and hard to recover over the life of the fund.”* Social investors noted that the expectation that operational costs will fall as funds near the end of their respective repayment periods is misplaced. It was observed that: *“Those at the end of the fund are the ones experiencing the most challenge usually after payment holidays etc.”* In effect, the investees still repaying towards the end of the life of the fund are those that are likely to need more contact and resource to manage and help ensure repayment. A social investor concluded they had underestimated the costs of running their fund.

Social investors have also found that operational costs fluctuated widely over the life of a fund. There are both external shocks, such as the impact of the Covid-19 pandemic, as well as issues that arise with individual investees that can mean delays in repayments. Delays in repayments mean less income to cover operating costs. As one social investor noted: *“The operational costs varied in line with fluctuations in need [such as the] Covid response and it was a struggle to balance the income versus expenditure every quarter.”* As outlined in our previous evaluation [report](#), the additional Grant A covering six months of operating costs in 2020 made a significant difference to the social investors at that point in time. Another social investor observed that its own forecasts of income could be impacted at short notice, due to factors such as restructures, which led to interest and capital holidays, therefore resulting in less income than expected.

Additionally, several social investors spent the Grant A allowance more quickly than planned. One social investor’s experience was that: *“Grant A was spent earlier and more quickly than profile, and interest income did not come in at a level or timing to cover costs.”* It was noted that some of the runway period covered by Grant A was spent by new social investors on activities required by the Growth Fund, such as establishing back-office systems and formalising investment manuals which investors suggested took resources away from pipeline development activities. The combination of Grant A and the limit on operational expenditures that the financial model allowed meant that investors behind in deployment were effectively unable to add the capacity needed to get back to plan. Several newer social investors reported having, as one put it, *“to employ fewer [full-time equivalent] investment managers than originally planned”* due to this constraint.

4.1.3 Conclusions about Grant A

Evidence from the Growth Fund demonstrates how much it actually costs to run a blended finance loan book and what flexibility might be required. The issues that social investors raised with respect to Grant A were linked to the difficulty of forecasting operating costs over such a long period of time, particularly as these costs are bound to fluctuate because of investee issues and external shocks. The modelling also assumed a falling cost base at the end of respective funds’ repayment phases, which has shown to be optimistic. This means that

Access can confidently negotiate with future grant providers and social investors over contributions needed to subsidise the operational costs of a social investor.

The early experiences of the organisations that were new to social investment confirmed that a longer period of grant support for operational costs was needed for these new ventures to get up and running successfully. As explained above, the Growth Fund model was highly dependent on meeting forecasts for the rate of deployment, and the social investors which closed early all experienced deployment challenges. The common thread behind the deployment challenges was that the target VCSE cohort was too narrow, i.e. there were not enough VCSEs within social investors' target group to generate sufficient demand for blended loan financing. With hindsight, some more thorough due diligence by the Programme Partnership about the potential for deal flow (latent demand and readiness amongst potential applicants) and opportunities for deployment for some of the narrower targeted funds would have been advisable.

There is a need for more flexibility in the draw-down of Grant A. It was observed by more experienced social investors that *"the deployment phase of any fund will always be loss-making."* These more experienced social investors noted that the model's limits on operational drawdowns needs to be more flexible over the life of a fund, particularly for newer or less-experienced social investors.

Future attempts to widen the base of social investors will need relatively higher levels of Grant A operational cost subsidy to allow for the additional time needed for the specialist investment management skills, and supporting systems to embed in the new organisations. An experienced social investor observed: *"You can't run a social investment fund 'on the side'. Specialist skills and systems are required which has a cost."* The experience of new social investors operating social investment funds has largely borne this out. For example, the one new social investor that succeeded in the Growth Fund, and which is now operating a successor fund, had a subsidy from its parent organisation for the first three years to cover the extra costs above its Grant A allocation.

Access has taken a number of key lessons from the Growth Fund into the design of its successor programmes such as Enterprise Growth for Communities (EGC) and Flexible Finance programmes. There is greater flexibility in the amounts and timing of Grants A and B to cover operating costs, addressing one of the Growth Fund's subsidy model constraints. The programmes also encourage developing consortia and partnerships, which enables sector specialists to remain involved with social investment whilst not incurring the operational costs and risks of running an independent fund. Successor funds also incorporated a 'Grant D', which covers for pre-and-post investment support and for unexpected grant A, B or C contingencies. If a Grant D had been available in the Growth Fund, it would have potentially helped some of the social investors with overcoming, for example, slower than planned deployment.

4.2 Grant B

Grant B provided the insurance layer in the Growth Fund subsidy model. This grant element provided protection against loans that were not repaid (i.e. losses), both to the social investors and to BSC as the main provider of capital in the Growth Fund.

Grant B was a key reassurance factor for BSC and the other capital providers. As noted above, the facility whereby the social investors were able to use interest and capital repayments to cover operating costs was an attractive feature of the design of the Growth Fund for social investors. The order of priority for the quarterly allocation of repayments received from investees (known as the 'sweep') was first to social investors' operational costs; second to capital repayments to BSC (and other parties as relevant); and finally to payment of interest accrued on the capital. In effect, BSC, as the main provider of capital into the Growth Fund, did not receive interest on a quarterly basis (as would be more usual) but rather at the end of the repayment phase for each respective social investor. In the Growth Fund, BSC was taking the risk of not being repaid some or all of both its interest and capital in the situation where a social investor failed.

Grant B was designed to set a risk appetite and envelope that was wider than it would have been without the first loss¹² protection. Grant B allowed for a certain level of VCSE loan default without impacting the social investors' ability to meet their own repayment obligations to BSC (or other co-investors). The proportion of Grant B in each fund varied depending on the level of expected risk but it was always drawn down by the social investor in a fixed proportion. For example, a fund with a 25:75 ratio of Grant B to BSC loan would drawdown £25 of Grant B from The National Lottery Community Fund (via Access) at the same time as each £75 drawn down from BSC. The social investors then initially on-lent to VCSEs in that ratio, which meant that VCSE repayments were then sometimes recycled and re-lent by the social investor. Thus, any loss ratio below the respective Grant B agreed percentage would lead to a residual amount of money at the end of the repayment period. It was a design feature of the Growth Fund that social investors would be able to apply to The National Lottery Community Fund to retain and use any residual Grant B at the end of the fund's repayment period.

The key initial dependency of the model is the amount and speed of loan deployment. Other dependencies, such as loss ratios (i.e. proportion of total loans that have been written down or lost), became important once a loan book had been built up. The alignment of operating costs and interest income alone was unlikely ever to match perfectly across the social investors. The original plan was for social investors to deploy enough loans during the Grant A runway period to cover operating costs with interest payments and arrangement fees. However, it was recognised that many investors could also rely on loan capital repayments to meet their operational expenses.

¹² First loss refers to the initial portion of losses that a designated party agrees to absorb before other parties incur any losses – in this case the designated party is the Grant B subsidy.

4.2.1 Grant B performance

The original level of Grant B varied between the social investors' funds and ranged between 10% and 35.5% of total fund size, with the average at 29%. The table below shows the original and final Grant B percentage for each of the funds that went live.

Table 2 Original and final Grant B percentage for each Fund

| Fund | Original Grant B for loans to VCSE | Amount of Grant B as % original total fund size | Actual Grant B used for loans to VCSE | Grant B as a % of total actual loan deployment - final actual |
|--------------|------------------------------------|---|---------------------------------------|---|
| Fund A | £1,305,248 | 29.5% | £693,800 | 30.0% |
| Fund B | £1,358,589 | 33.5% | £1,819,500 | 23.5% |
| Fund C | £1,300,844 | 26.4% | £1,300,844 | 17.5% |
| Fund D | £1,268,339 | 35.5% | £1,286,339 | 27.4% |
| Fund E | £67,178 | 10.0% | £67,178 | 8.7% |
| Fund F | £205,543 | 25.0% | £168,163 | 25.0% |
| Fund G | £1,075,170 | 32.4% | £464,933 | 29.6% |
| Fund H | £492,452 | 32.5% | £684,612 | 26.5% |
| Fund I | £280,299 | 31.0% | £85,350 | 28.0% |
| Fund J | £791,320 | 30.0% | £757,844 | 31.0% |
| Fund K | £542,544 | 32.0% | £107,731 | 31.9% |
| Fund L | £1,130,367 | 31.5% | £255,339 | 30.4% |
| Fund M | £684,122 | 25.0% | £812,320 | 20.9% |
| Fund N | £1,026,786 | 34.5% | £1,023,336 | 34.1% |
| Fund O | £621,849 | 26.0% | £149,383 | 26.0% |
| Fund P | £826,069 | 29.2% | £0 | |
| Fund Q | £253,469 | 28.3% | £369,750 | 26.8% |
| TOTAL | £13,230,188 | 29.0% | £10,046,422 | 26.1% |

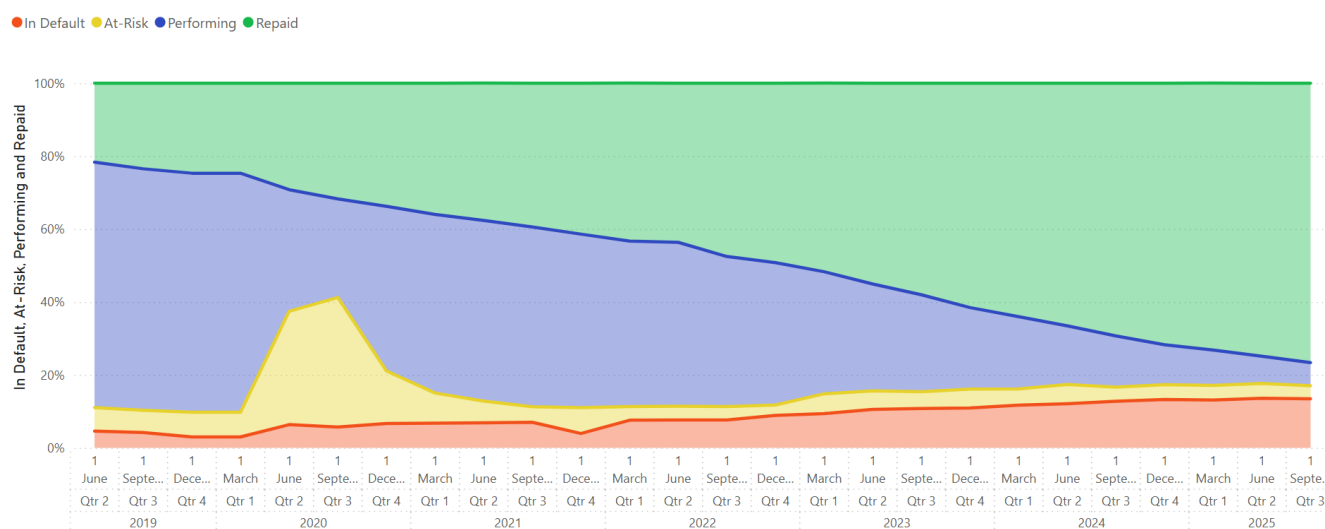
Source: Access

Over the course of the programme, the amount of overall grant that was allocated for use as Grant B has decreased from £13.23m to £10.05m. This lower total can be explained partly by the early closure of three funds, which did not draw down their original allocation of Grant B, and partly by others that reduced their fund size from their original plan.

Early losses could challenge the viability of a social investor's fund. Grant B was drawn down in a fixed proportion at the time that each loan was made. This meant that the Grant B pot in each social investor's fund accumulated over time, in line with the respective rates of deployment, loan repayments, and the recycling of repaid capital into new lending. The main implication of this was that the early loss of a larger loan would severely impact the viability of a social investor's fund. As noted in the analysis of Grant A, this issue became real for some of the new-to-social investment ventures which experienced both deployment challenges and early losses. In three cases, this contributed to their respective early fund closure decisions.

The overall Growth Fund performance remains broadly in line with expectations with respect to provisions¹³ for at-risk loans and write-downs for in-default.¹⁴ Figure 3 shows performance of all the loans in the Growth Fund between June 2019 and September 2025. The spike in 'At-Risk' in 2020 was linked to the impact of Covid-19 pandemic lockdowns. Access and BSC assumed at the outset that an overall loss ratio of up to 20% of the Growth Fund total portfolio would be an acceptable final outcome and, if forecasts remain in line with experience to date, then this will be close to the actual. As of September 2025, the overall Growth Fund default rate across all funds was 13.5% with a further 3.6% at risk.

Figure 3 Performance of Growth Fund loans



Source: Access Power BI tables

Individual social investors' experience of provisions and defaults was different. As of September 2025, the data suggests that four social investors could end up with final default rates extremely close to their original default projection, with eight social investors set to deliver a lower-than-expected default rate, and two set to deliver a higher-than-expected rate. Two others have repaid BSC and taken the outstanding loan risk on to their own balance sheets, so are no longer providing data to Access on losses.

There will be a level of residual grant in the successful social investor funds when they close. As noted earlier, the residual grant will be available to the social investors to use, in line with their original respective Grant A+B+C purposes, in future blended finance lending programmes. The first social investor whose fund has closed successfully with a residual grant

¹³ Provisions are made by lenders when there is an expectation that some and potentially all of an outstanding loan balance may not be repaid (sometimes also known as write-downs). Write-offs are made when there is no expectation that an outstanding loan balance will be repaid. Cumulatively, write-offs add up to the proportion of a fund in-default.

¹⁴ Access has been collating data relating to the experience of provisions and write downs of loans made before, during and after the period of the Covid-19 pandemic across 2020 and 2021 to see whether there has been a statistically significant impact. It is still too early to see evidence of an impact, but the research is on-going and will be completed at the Growth Fund close.

amount, has negotiated and agreed with The National Lottery Community Fund on how it will use the money. Others are in negotiation as of Autumn 2025.

4.2.2 Social investor views on Grant B

The social investors were clear about Grant B and understood its purpose from the outset of negotiations in 2016. One social investor confirmed that Grant B had *“set the risk appetite wider than they would otherwise have been comfortable with”* without it. Another investor commented that Grant B encouraged them to take risk and they valued that aspect of the Growth Fund subsidy design.

Grant B was set at a level that reassured both experienced and new-to-social investment applicants. Two experienced social investors with prior knowledge of blended loan funds had seen previous loss ratios of up to 20%. Several social investors noted that the level of first loss cover provided was good, at an average of 25% across all of the investment funds. From the new social investor perspective, the level of Grant B was a key issue. As one social investor put it: *“We maxed out on the Grant B. The thinking was to maximise the de-risking of the programme to get it past our board. We stretched the model to the limit – maximised Grant A and B to reduce risk and then the rest was for Grant C. Board was very worried about it. Quite a big extra step, so went for the highest level of subsidy we could get.”* The motivation for maximising Grant B was similar for more experienced social investors. For example, one social investor stated: *“Grant B application – it was a question of balancing in the model between A, B and C to a) make it work internally and b) offer a decent product to the market. At which point did the model break? Grant A was very specific and set. [We] wanted to maximise Grant B as much as possible so that Grant B generated some residual value.”*

Social investors indicated that grant B combined with the ability to offer flexibility to investees during repayment difficulties were key reasons for lower-than-expected default rates. One social investor noted that Grant B enabled them to be a more ‘sympathetic lender’ by offering support and tolerance to investees needing repayment holidays. This flexibility, investors believed, was a key reason for the low default rates experienced as it meant VCSEs could restart repayments after working through short-term issues.

Several other factors also contributed to the lower-than expected default rates:

- **The relationship that the Growth Fund social investors established with investees.** As one observed: *“Flexibility offered by Growth Fund on, for example, capital repayment holidays has made a big impact on low default rate. Mainly though I feel it was the close relationships we maintained with borrowers that helped make it work.”* On a similar basis another noted the benefit of: *“The ability to restructure. It allows for engagement and dialogue which means organisations can get over bumps in the road and keep delivering on social outcomes.”*
- **As part of separate [research](#) completed during this evaluation into the financial resilience of social sector organisations, social investors expressed that many**

social sector management teams and leaders are very reluctant to let anyone down – be it staff, beneficiaries, suppliers or lenders - and they therefore work extremely hard to overcome difficulties when they arise.

- ▶ **For one of the sector-focused social investors, the default rate was low because the impact of a failure on the service-users and beneficiaries was such that the social investor was never prepared to make a loan if it had the potential to jeopardise an investee's future.** The sector knowledge helped in this regard, as it meant that the social investor understood the business models and risks of the sector providers very well. This example gives evidence in favour of one of the Growth Fund's objectives: to widen the social investor base with sector specialists.
- ▶ **Several social investors highlighted a correlation between good governance in investee organisations and better repayment outcomes.** As one observed: *“Organisations that understand their cash positions and finance well at both CEO and Finance Director level have performed.”* It was also noted that strong trustee boards are important in providing network connections and support to investee organisations.

One issue that is emerging as funds approach final close dates is how to handle those investees that are still repaying but will not be able to fully repay in the timeframe – often after having had repayment holidays. As noted in Grant A section above, towards the end of the fund is where some of the challenges are more likely to be found. As one social investor put it: *“A hard deadline leading to write downs of loans against Grant B seems immoral if the investees are able to repay over a longer timeframe.”*

4.2.3 Grant B conclusions

Grant B has had a simple purpose in providing first loss cover and has met this need for most of the social investors. In total, the share of Grant A+B+C that has been allocated to Grant B has reduced over the life of the Growth Fund. This could suggest that the average level set at the outset included a sufficient buffer but the reduction was also because the funds which closed early no longer needed their respective Grant B allocation. As outlined above, some social investors will be able to make use of a residual grant value when their respective funds close. The level of Grant B insurance for future unsecured loan funds, like the Growth Fund, can be refined based both on the data that has already emerged and with more certainty when the last fund's repayment ends in December 2029 and the final outcome is known.

Grant B also enabled the social investors to work with investees to find ways through loan interest and capital repayment problems. Grant B was one of the enablers for establishing constructive relationships between social investor teams and investees. As some social investors reported, previously provided for loans began repaying again after working through issues with the support of social investors.

The way that Grant B was drawn down in line with loan deployment had a logic from the Programme Partnership's point of view as it was simpler to administer. However, it meant

that those social investors which had low deployment rates and experienced early losses did not have enough income to sustain their operating costs and continue as viable funds. That is not to argue that those funds would have ever been successful given the deployment difficulties they were facing but it does highlight that alternative ways of putting Grant B to work might need to be considered in future funds. The most obvious example would be to allocate some or all of Grant B to the social investors at fund launch which might even allow for deposit interest to accrue to the social investors as well. However, alternative arrangements have drawbacks as well as advantages and ultimately, fund viability depends on sufficient deployment and loss ratios in line with expectations.

The need for subsidy to provide first loss protection in a future fund depends on the provider(s) of capital and their respective models. In the Growth Fund, the main provider of capital was BSC, which had a duty to preserve its own capital base (as well as generate a return) and so a first loss subsidy was a pre-requisite. Other providers of capital may have their first loss cover needs met through a subsidy provided by a third-party guarantor. There are examples of capital providers that are prepared to absorb loan losses and see their capital pot reduce to zero over three or four rounds of lending. Some Community Foundations operate on this basis.

4.3 Grant C

Grant C was the element of subsidy aimed at supporting investees directly by making the loan more affordable or the business plan more achievable.

There were constraints attached to the deployment of Grant C. In the application process, social investors were asked whether they wanted to offer Grant C to all, some or none of their investees. The respective plans for using Grant C and the level agreed with the Programme Partnership then became an operating constraint during deployment. A further constraint was that Grant C could not be used for investment readiness¹⁵ support pre-loan, as Access had an alternative Reach Fund available to provide grants to meet this need.

For the majority of the programme, social investors were only permitted to disburse Grant C alongside loans. However, when the Covid-19 pandemic lockdowns began in early 2020, the Programme Partnership agreed to offer Grant C top-ups to all social investors and allowed them to deploy ‘post-investment Grant C’ to VCSE investees that they had already made loans to through the programme. This allowed social investors to offer discretionary support to VCSEs and respond to individual situations. Because of this extra allocation, the amount of overall grant that was allocated for Grant C was increased from £6.68m to £8m. The average (per fund) proportion of Grant C was originally forecast to be 13.4%. The actual average by the end of the deployment programme was 17.8%.

4.3.1 Grant C performance

The original and final allocation of Grant C to each social investor fund are detailed in the table below.

¹⁵ Investment readiness is a VCSE's capacity to understand and meet the specific needs and expectations of investors, in this case the Growth Fund social investors.

Table 3 Original and final allocation of Grant C to each social investor fund

| Fund | Investment focus | Grant C original grant | Grant C final amount passed on |
|--------------|-------------------------------|------------------------|--------------------------------|
| Fund A | Location and sector specific | £288,000 | £890,500 |
| Fund B | Non-specific | £1,104,000 | £1,939,100 |
| Fund C | Non-specific | £0 | £149,349 |
| Fund D | Non-specific | £228,000 | £544,451 |
| Fund E | Location specific | £375,000 | £394,691 |
| Fund F | Location specific | £252,000 | £189,150 |
| Fund G | Specific sector focus | £962,500 | £417,000 |
| Fund H | Location specific | £420,000 | £665,708 |
| Fund I | Location specific | £270,000 | £91,585 |
| Fund J | Start-ups / early stage VCSEs | £420,000 | £412,237 |
| Fund K | Start-ups / early stage VCSEs | £270,000 | £60,440 |
| Fund L | Specific sector focus | £0 | £122,622 |
| Fund M | Non-specific | £1,080,000 | £1,325,018 |
| Fund N | Specific sector focus | £0 | £178,215 |
| Fund O | Location(s) specific | £472,500 | £215,450 |
| Fund P | Location specific | £300,000 | £0 |
| Fund Q | Location and sector specific | £238,000 | £400,000 |
| TOTAL | | £6,680,000 | £7,995,515 |

Source: Access

Only three funds did not apply for Grant C in their original applications. Two of the three were social investors working in sectors where there was wide availability of other grant funding. Their interest in becoming involved with the Growth Fund was in part to identify whether sector organisations could be persuaded to use blended loan finance as an alternative to solely relying on grants to fund their activities. The other decided not to offer Grant C at first. It subsequently took up the Covid-19 response additional Grant C offer and also included Grant C in a second fund when it saw the usefulness of offering a separate grant component.

Grant C was used at the discretion of social investors and deployed in a variety of ways including:

- ▶ relief of interest cost;
- ▶ directly funding a social impact role or activity;
- ▶ fixed asset loan-to-value gap financing (i.e. where there is a gap between a property mortgage loan offer and the sum required to make the purchase);
- ▶ funding a necessary role for a new venture;
- ▶ cashflow funding for public sector contracts;

- ▶ funding upfront costs for opening or refurbishing premises that are otherwise difficult for VCSEs to finance through borrowing;
- ▶ as quasi-equity with repayment linked to exceeding agreed performance thresholds only (i.e. a form of lower pressure financing); and
- ▶ as additional subordinated debt.

Grant C was offered at the social investors' discretion. Fund G offered the same Grant C component to all approved loans as a way of granting relief of interest cost. For all the other social lenders using Grant C, it was offered on a case-by-case basis and usually discussed from the start. However, Grant C was sometimes discussed with potential borrowers only at the end of the application approval process.

4.3.2 Social investor views on Grant C

Grant C was well received by social investors and was an important enabling factor. It was noted by many social investors that the flexibility with which Grant C could be deployed (as per the examples listed above) was of great help and was an important differentiator in the market. Grant C was also very helpful in the marketing of the Growth Fund loans especially in the early stages when the social investors were trying to create a deal pipeline and deploy on schedule. One commented that the combination of loan and grant made it: *“More attractive as a product, especially for more grant-reliant organisations.”* Another commented that: *“Two thirds of our clients wouldn't come through if there was no grant element.”* However, it was noted by another social investor that: *“By the time you applied BSC's return expectations, then Grant C was needed to make the loans affordable.”*

Findings from the VCSE investees survey, as part of the wider evaluation work, highlighted that they found Grant C to be beneficial. Of VCSEs responding to the evaluation's baseline surveys, 43% (71 out of 167) stated that they were interested in this investment in particular because grant funding was part of the package. VCSEs that feature as case studies and received a grant most commonly perceived Grant C as reducing the overall cost of finance and/or enabling additional investment to enhance their respective business proposition. In the evaluation's 2024 annual survey of investees, 62% of respondents (43 out of 69) reported that 'a blend of grant and loan' would best meet their needs in the future.

All social investors were keen to see a social impact linked to any Grant C funding and, as one commented, Grant C was viewed as *“important in helping us fulfil our wider social mission”*. VCSEs perspectives on Grant C are outlined in the overall evaluation [Synthesis Report](#). A summary impression of the social investors' view is that, as one stated: *“Grant C allowed organisations to take on larger loan sizes, implement more quickly and deliver impact more rapidly.”*

The challenge in applying Grant C differently and on a case-by-case basis was not straightforward to implement. In practice, many of the social investors found it was hard to see a reason to allocate a specific amount towards to a client and so defaulted to a blanket

Grant C offer. As one social investor put it: *“There was no moral case for deciding on whether one organisation was more deserving than another.”* However, another social investor which had used Grant C differently across its investees, stated that it was: *“One of the more successful elements of our fund.”*

4.3.3 Grant C conclusions

Grant C has fulfilled its function in enabling social investors to make the Growth Fund loans attractive to charities and social enterprises. For the design of future funds similar to the Growth Fund, viewing Grant C as a separate ‘enabling’ grant pot will be important. It has been the differential point for investees and, for example, has helped some VCSE investees to consider and then take on loan finance for the first time.

It was noted by social investors that the market is competitive on grant ratio offers. VCSEs look for the best deal available to them and it can be hard to get money deployed if other funds are available that offer higher grant ratios. As it was put: *“Everyone wants grant, the higher the better”* and *“clients view grant as a comfort blanket.”* In this context, the social investors found it helpful that they were allowed to deploy Grant C on an entirely discretionary basis and this is a key learning for any future fund.

The Programme Partnership showed flexibility when it added to the Grant C allocation in 2020 as part of its support to social investors during the Covid-19 pandemic. Along with the additional funding, permission was given to use Grant C to fund post-investment support for investees, which had not been allowed beforehand. This was a further example of the flexibility shown in support of social investors and investees through the life of the programme.

Grant C may not have been deployed in as wide and imaginative ways as, perhaps, the Programme Partnership was open to at the beginning . The Programme Partnership was open to discuss all product innovation suggestions and, for example, two social investors introduced innovations around the loans. One offered a quasi-equity¹⁶ product and another offered a small lowering of the interest rate linked to meeting social impact outcome measures. In successor funds, such as Flexible Finance, there were more products and different investment fund models in [evidence](#).

¹⁶ Quasi equity is a form of debt that shares some traits with equity. The characteristics include flexible repayment terms, for example, linked to financial milestones or targets being reached.

5.0 Conclusions about Grants A, B and C together

The language of Grants A, B and C, first used in The Growth Fund, to describe their specific purposes has stuck. It has continued because the language is clear and readily understood by all the stakeholders involved. As one social investor put it: *“A lot of thought was put into the structure of A, B and C. It makes a lot of sense as a structure. There are a few iterations now to show this. It is fairly transparent; these are the problems that arise and here are the grants designed to address / fix them.”* Subsequent new programmes such as EGC and Flexible Finance use the same A+B+C language.

The Growth Fund subsidy model has been flexed over the life of the programme, responding to the needs of VCSEs and social investors. The ‘test and learn’ philosophy that the Programme Partnership embodies in the Growth Fund context has been applied throughout. Both Grants A and C have ended up with higher totals allocated and spend compared to original expectations, largely linked to the Covid-19 pandemic response, and Grant B has been lower (due to early closure of three funds and the downsizing of others). Changes made included relaxing the rules around how Grant C could be applied and increasing the size of investments up to £200k from £150k. BSC also lowered its interest rate.

A significant area of discussion between the Programme Partnership and social investors revolved around funding available to provide support to investees. As noted above, in the deployment phase of the Growth Fund, pre-investment support grants were available through the separate Reach Fund. However, evidence from the Growth Fund and other programmes suggests that capacity-building support for VCSEs may not always lead to success. For example, Barrow Cadbury Trust ran a Connect Fund project (which was a time-limited trial of providing post-investment support to investees) but the impact on default rates was inconclusive at the time. This tallies with the Growth Fund social investors’ experience. As one reported: *“A lot of investees needed help to run their businesses better. Grant A did not provide enough to allow for a consultative role with investees rather than just a lender role. Having said that, all three of our defaulters would have folded anyway.”* Whilst this suggests that changes to allow grants A or C to be used for capacity building support may not have ultimately changed the outcomes for investors, further consideration should be given to the value of wider support pre and post investment for VCSEs and the best ways to fund this.

The level of supportiveness and flexibility shown by the Programme Partnership has been transferred by the social investors into their relationships with their investees. It can be argued that the lower-than-expected losses seen to date show that such flexibility and supportive approach has a positive impact on investees, although much remains to be proven and some of the challenging cases are the ones still in the portfolios.

The Programme Partnership of BSC, The National Lottery Community Fund and Access made, as one of the Programme Partners put it, *“a brave move”* establishing the Growth

Fund. The combination of making BSC capital available on repayment terms that allowed for interest to be paid last alongside grant funding that allowed for the possibility of a surplus to be retained by social investors was innovative and unique. The Programme Partnership wanted to demonstrate and learn more about how blended finance could work to support VCSEs with smaller loans. As one social investor put it: *“It shows what works in blended loan finance.”*

5.1 Recommendations for a future subsidy model

Throughout the programme the Growth Fund subsidy model has changed in various ways to increase flexibility and support for the social investors. That said, as a test and learn programme, the Growth Fund has also generated substantial learning on the use of subsidy. Much of this learning has already been taken forward by Access into their successive blended finance funds. The recommendations for other potential future providers of subsidy:

1. **To provide a grant for social investors to operate blended loan finance funds.** There will always be a need for Grants A and C to ensure social investor viability and the ability to offer a subsidy to VCSEs. Grant B is likely to be needed as well although this depends on the source of capital and whether the risk of defaults needs to be insured against.
2. **Any future Grant A subsidy should not be a one-size-fits-all model.** When Grant A was set at a maximum of 10% across all types of social investors it was not sensitive to the needs of either those new to social investment or those targeting niche lending markets. If a future subsidy provider is intent on widening the base of social investors as an objective, then the true costs of setting up and running a fund from scratch will need to be considered.
3. **With respect to operating costs, social investors should not each need to arrange for a back office and systems.** The associated running costs meant that pressures from, for example, lower than planned deployment developed quicker for the smaller funds, which were usually the less-experienced and newer-to social investment organisations.
4. **There is a need for more flexibility in drawing operating costs in line with fluctuations in activity over the life of a fund.** A key recommended change is an ability to draw more flexibly on Grants A and B to meet operating costs. This already exists in both the successor Flexible Finance and EGC programmes.
5. **A possible wish list recommendation would be for a version of the Grant A subsidy to be available to social investors to cover periods between fund programmes.** The social investors involved with the Growth Fund are relatively small and/or operate without substantial financial reserves. The biggest cost of running a loan fund is staffing, and there is a risk that social investors must let staff go if there are lengthy gaps in between programmes and the availability of programme specific Grant A subsidy.

6. **In the Growth Fund, Grant B was set at a high enough level at an average of 25% to enable social investors to be supportive and flexible with VCSE investee repayments. It will be important for the level to be set at a similar high enough level in future funds.** However, consideration should be given to the method for drawing down Grant B. In the Growth Fund, this was strictly in line with the deployment rate which meant that early losses meant some investment funds became unviable. There are alternatives which would allow for Grant B to be drawn down on a different basis (e.g. deploying some or all of Grant B at the start).
7. **Grant C was an enabling subsidy that supported social investors in deploying funds.** VCSEs found it beneficial and loans more affordable (see the Growth Fund evaluation [Synthesis Report](#) for more detail) and it should therefore be a core element of any future subsidy model.
8. **There should also be flexibility and wide discretion over how Grant C can be applied** so as to adapt to specific VCSE needs both pre and post investment. Again, this has been addressed with the development of Grant D subsidy, in the Flexible Finance and EGC programmes, which provides for pre and post investment support.
9. **Future Programme Partners should continue to apply a ‘test and learn’ approach to application of the subsidy.** Adapting to changes in circumstances has been one of the key strengths of the Growth Fund and underpinned the successful deployment of over £48m by the respective investment funds.

6.0 Appendices

6.1 Methods note

The findings from this research are based on qualitative and quantitative analysis as well as wider evaluation research findings.

- ▶ **Qualitative research through an annual programme of interviews with Growth Fund social investors.** Seven rounds of interviews were completed between 2019 and 2025. All active social investors were contacted each round and we also interviewed those social investors in the year that their funds were closed early, except for Fund P which closed before deploying any funds. The interview completion rate was over 90% as it was rare not to be able to schedule a time. The final round of interviews were completed in June and July 2025. We used a semi-structured topic guide which asked core questions every year as well as questions to support the wider evaluation's investigation of specific themes such as VCSE financial resilience and repayable grants. In July 2025, we also conducted a workshop with the social investors to explore the Use of Subsidy issues addressed in this report.
- ▶ **Quantitative analysis of the data from social investors' regular reporting to the Programme Partnership.** We have analysed the data relating to: operational costs and the respective levels of Grant A subsidy; provisions and write downs and the respective levels of Grant B subsidy; and, the deployment of Grant C subsidy.
- ▶ **Evidence captured as part of the wider evaluation, such as surveys and case study visits with VCSEs that received investment.** VCSE surveys consisted of a baseline survey sent to VCSEs when they first took on a loan and a follow-up survey sent to VCSEs every year. The 2024 edition of the annual survey has informed this report, receiving 69 responses from 68 unique organisations. Longitudinal case studies were carried out with VCSEs that received social investment through the Growth Fund and their respective social lender. Case studies involved up to 3 visits: when the VCSE first took on the loan; part-way through; and a final visit when they had stopped repaying or by July 2025 (depending on which came sooner). 20 VCSEs had been tracked through to a final visit.

6.2 Glossary¹⁷

Concessional finance refers to financial support, usually in the form of loans, provided on terms more favourable than those available in the standard market.

Deployment forecast refers to the amount of loan and grant investment that each social investment fund was projected to deploy. It was monitored on a quarter-by-quarter basis against a **Deployment target** of 70% of forecast over the previous two calendar quarters and acted as an early warning indicator for Access and the social investors.

Due diligence is undertaken to assess an organisation's financial position, validate financial and business plan information and identify potential risks associated with the loan.

First loss refers to the initial portion of losses that a designated party agrees to absorb before other parties incur any losses – in this case the designated party is the Grant B subsidy.

Investment readiness is a VCSE's capacity to understand and meet the specific needs and expectations of investors, in this case the Growth Fund social investors.

Operating costs are the management costs withdrawn from funds by social investors, on a quarterly basis and in line with an agreed schedule.

Provisions are made by lenders when there is an expectation that some and potentially all of an outstanding loan balance may not be repaid (sometimes also known as **write-downs**). Write-offs are made when there is no expectation that an outstanding loan balance will be repaid. Cumulatively, write-offs add up to the proportion of a fund in-default.

Quasi equity is a form of debt that shares some traits with equity. The characteristics include flexible repayment terms, for example, linked to financial milestones or targets being reached.

Re-forecasts are changes to a fund's schedule of quarterly deployment targets. Formal reforecasts were agreed between the social investor and the Programme Partnership.

Repayment forecast refers to the projected schedule of loan repayments being made by VCSEs.

Restructures are material changes agreed to a fund/ fund model after the fund had launched.

Subordinated debt is lower ranking debt that is only repaid after senior debts have been cleared

Unsecured loans are made without the use of property or other assets as collateral.

¹⁷ Definitions are either taken from the Good Finance glossary or written up by the evaluator.

