How to scale social investment

Accelerating UK social investment growth

Gareth Davies MP

ONWARD

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About the author

Gareth Davies was elected as the MP for Grantham and Stamford in December 2019. Gareth previously worked for a c.$500bn global investment company, most recently as the Global Head of Responsible Investment Business. He holds degrees from the University of Nottingham and the John F. Kennedy School of Government at Harvard University.

In 2020, Gareth was appointed to the House of Commons Finance Select Committee and serves as Vice Chairman of the All-Party Parliamentary Group (APPG) on Sustainable Finance and the APPG for Financial Markets and Services. He is also Vice Chairman of the Advisory Board for the Campaign for Economic Growth.

In 2020, Gareth led calls in the House of Commons for the UK Government to issue its first ever Sovereign Green Bond and in a later report with Onward, called for a new national development bank to boost private investment in national infrastructure projects. He is a committed champion of UK financial services in Parliament and writes regularly on industry matters.

Contents

Introduction

No matter who is in government, nor how much money the government spends, the State cannot solve all of our problems. The coronavirus crisis has shown the power of the private sector in working together with the State, to innovate and find solutions to shared challenges.

It has been given many names over many decades, from ‘Dunkirk spirit’ to the ‘Big Society’, but we have seen over the past year the true value of community cohesion and action. Our community businesses and local charities are perhaps now more appreciated and cherished than they were before. Their important role and service in the place we call home forms a critical component of our country’s social fabric.

As we emerge from this crisis, we must build the recovery from a mould that has been set throughout the past year - to bolster businesses that deliver clear social benefits, and to ensure greater future financial resilience for charities who provide specialist interventions.

Fortunately, we already have a way to deliver this. The UK is home to the fastest growing social investment market in the world, and has led the way internationally in the development of socially-focused financial innovation delivered by private organisations.

Social investment is a significant opportunity for us to better support businesses and charities in our communities, but it is also a sector that is in need of review to ensure that it can grow at scale and in a way that optimises both financial returns and social benefits.

One of the challenges the sector suffers from is definition. Unlike with green investments, ‘social’ outcomes are not as easily defined. What one person regards as social may not be what another regards as social, and some social purists believe that social investments should not optimise profit regardless of how socially impactful they are. Meanwhile, others argue that without a broadening of the definition of social investment, the ability for social investments to maximise profits, the sector will never achieve the scale it deserves.

This definitional challenge has, in my view, held the sector back. This essay seeks to offer suggestions as to how we can restore balance in favour of a more investment-led approach.

On the whole, social investment remains a minor funder in the UK. Some innovations in the sector to try to stimulate growth by mobilising private investment capital have sadly, to date, seen limited success. Whether it is the somewhat niche, incorrectly named payment-by-results mechanisms known as ‘social impact bonds’, or the well-intentioned but ultimately suboptimal Social Investment Tax Relief (SITR), or the world’s first social investment financial institution, Big Society Capital - the market is still far behind where many hoped it would be by now, and where certainly it could be.

This is the time for action to be taken, both in the wake of the COVID-19 crisis and with the upcoming Dormant Asset Bill announced in the 2021 Queen’s speech.

This paper sets out five proposals for accelerating the growth of social investment in the UK. The main proposed action being the reformation and expansion of Big Society Capital, which has tremendous potential to solidify the UK as a true leader in social finance innovation.

However, the sector must also shake off the definitional issues that have been holding it back and finally accept that some innovations and policies are just not working.

Summary of recommendations

1. End the Social Investment Tax Relief (SITR) in the Budget as an ineffective tax relief and replace it with a new incentive for corporations to issue liquid social debt in the public markets

2. Phase out the Government's Life Chances Fund that provided £80m as a top-up payment for commissioning contracts, and instead redirect that investment into Big Society Capital to specifically establish a new, social investment fund - investing in listed, liquid, tradable social bonds.

3. Establish a new mandate for Big Society Capital, broadening its investment scope under the expanded dormant assets scheme - amending current UK subsidy rules and overturning the 'wholesaler requirement' within Section 18 of the Dormant Bank and Building Society Accounts Act.

4. Government should make clear that it regards social investment and social businesses as true enterprises and not philanthropic organisations. It can do this by moving social investment under the responsibility of the Small Business Minister in BEIS, instead of the Charities Minister in DCMS.

5. For best practice, governors of Big Society Capital should consider supervisory control by the British Business Bank who have demonstrated great expertise and effectiveness at funding businesses, and who in my view should play a greater role in supporting SMEs.

The Problem

This chapter examines the UK social investment market and exposes four key problems that existed long before Covid-19 struck but that are just as important, if not more important, as we emerge from this crisis.

SMEs have severely lacked access to capital for a long time

The scale of the economic damage caused by Covid-19 has been truly unprecedented. At the time of writing, the UK economy is bouncing back with better than expected growth, however, GDP is still below pre-Covid levels and it is difficult to distinguish between temporary harm attributed to restrictions and behavioural change, and the lasting structural changes that will weaken certain industries in the future.

For many SMEs it is likely that the latter is true. Covid-19 has exacerbated the financing void that already impairs many small businesses in the UK. According to a report by Simply Business, despite remarkable levels of support from HM Treasury, 2 million SMEs still failed to secure financial support in the last year and by June 2020, 80% recorded declining revenues, serious concerns about defaulting on loans, and expectations of reducing headcount in the aftermath of the pandemic. It is difficult to compare SME performance with that of larger companies due to the disparity in balance sheet information available at Companies House. However, it has been estimated by the Bank of England that smaller companies faced a cash-flow deficit between £40 and £70 billion in 2020.

The impact that this will have on our overall long-term economic recovery has been overlooked. SMEs, while less productive on average than their larger counterparts, are nevertheless the centrepiece of the UK's economy - accounting for half of all revenue generated by businesses and making up 61% of the private sector workforce.

Yet, the difficulty faced by SMEs far transcends the economic shock of Covid-19. There has been much focus and concern about financial support and funding for these businesses for many years. Pre-pandemic, two in five small businesses did not have enough access to finance to keep their companies going – a funding gap estimated at £22bn by the National Audit Office. Of those that did have finance options, one fifth were reliant on bank overdrafts.

Therefore, more solutions to this SME funding gap must be found.

Social Investment Tax Relief (SITR) has failed to mobilise investment capital at scale

Just as with all SMEs, one specific category of SME - social enterprises - find it particularly difficult to raise finance. Social enterprises are often ineligible to receive investments under existing tax-incentive schemes such as the Enterprise Investment Scheme and because their legal form prevents social enterprises from raising equity investments.

Therefore, in 2014, the UK Government introduced a new tax relief specifically to attract more investment into trading social enterprises. This tax relief still exists today and is called the Social Investment Tax Relief (SITR).

SITR offers investors tax relief on shares they buy or money they lend the social enterprise, as long as the business follows the scheme rules for at least three years. Individuals investing through SITR may benefit from a range of tax reliefs, including 30% Income Tax relief on the value of their investment.

In addition to assisting social enterprises in gaining access to finance, the purpose was to mobilize significantly more investment capital to the social investment sector. After almost seven years in operation, we now have clear evidence as to its success at both providing more finance capital to social enterprises and the mobilisation rate of private capital.

The most recent assessment can be seen in the outcome of the Government's call for evidence on the SITR, which was published alongside the 2021 Budget. The consultation received responses from a variety of stakeholders, including social enterprises and investors, fund managers, trade bodies and associations, advisers and intermediaries, and registered charities and voluntary organisations. The Government's review found that to date:

- In total, 110 social enterprises have raised £11.2 million through SITR over the seven years of its operation.
- In the last financial year before the pandemic, 2018-19, around 30 social enterprises raised £4.5 million through SITR, up from 2017-18, when 20 social enterprises raised £1.5 million.
- In the Government's summary of responses to the call for evidence, it states that 'take up has been lower than anticipated'. This is somewhat of an understatement. Indeed, in its first three years, the tax relief only mobilised c.6% of the amount estimated at the time of launch.

The respondents to the Government's call to evidence helpfully described a number of reasons as to why the SITR has been underwhelming, but three key issues stand out:

1. **Better alternatives:** Many of the respondents felt that a tax incentive is not necessarily the best way to mobilise investment capital into social enterprises. Indeed only 25% thought that SITR is the best lever to pull to mobilise private investment, citing instead the need for grants, business development loans and match crowdfunding.
2. **Investment viability:** Respondents also highlighted that investors are just as focused on the investment viability of the social enterprise as its social purpose, wanting assurances on the legal structure, growth potential and development plans. This has meant that demand and use of SITR from potential investors has been low.

3. **Illiquidity and low returns:** Some respondents reported concern that SITR is rarely used due to investors being deterred by asset-locking and low investment gains despite the tax relief.

In April 2021, the Public Bill Committee (Finance Bill) First Sitting discussed their concerns about the scale of SITR and stated that the Government needed to do more to increase its take-up. In response, Jesse Norman MP, the Financial Secretary to the Treasury, stated that:

> "*The truth of the matter is that many people invest in and support social enterprises by charitable giving rather than through investment, so the use of a deduction does not appear to be particularly attractive to them."* [1]

He is right. The responses to the government's Call for Evidence as outlined above makes clear that, unless investors are confident in the robust viability of the organisations seeking investment, no tax relief, no matter how generous, will encourage investors to put capital at undue risk.

This brings us back to one of the fundamental issues in the sector - definition. The sector needs to be clear on whether it is philanthropic or an investment proposition. Without clarity on this, the default will always be philanthropic.

In the Finance Bill 2021, SITR was extended from April 2021 to April 2023. It is my view that this tax relief should be removed in the Budget and Government should work with the social enterprise sector to develop alternative policies, particularly around procurement, to help incentivise more trade rather than just investment capital.

'Social Impact Bonds' have failed to mobilise investment capital at scale

In 2011, the UK became the first country to launch what has been commonly, if somewhat misleadingly, described as a 'Social Impact Bond' (SIB). This is a misnomer. This mechanism is not actually a bond - a tradable liquid security, but rather an arrangement constructed to commission the voluntary sector to deliver an outcome following upfront repayable financing provided by investors. These are complex arrangements, typically with local authorities, and the UK has launched 87 of the 201 such arrangements that exist globally today.

About a quarter of these projects are in the homelessness sector, a quarter in the employment and training sector, and a quarter in the child and family welfare sector. Others relate to health, education and criminal justice. These arrangements were initially promoted as an 'invest-to-save' mechanism, whereby repayment of investors would be tied to evidence that costly negative outcomes, such as ex-prisoners re-offending, had been avoided. Proving such savings occurred, determining where in government they fall, and linking them to the work funded by the SIB, has proven costly and difficult.

[1] Jesse Norman MP. (2021). Public Bill Committee (Finance Bill), First Sitting, 22 April 2021 cc15-17

This is an extremely innovative and interesting approach to tackling common problems and I want to be clear that I support their existence and believe there is a place for them in public policy. However, of the 87 different arrangements so far launched, only £73m in investment capital has been committed to these schemes.[2] This is a remarkable failure when you consider that a decade ago, it was hoped that the market for these arrangements would hit £1 billion by 2020.[3]

There are several reasons why these arrangements have so far failed to mobilise private capital. Fundamentally, SIBs operate outside the norms of traditional investment analysis. It is very difficult to predict returns or indeed ascertain the risks of such investments. So much so that in 2013, the Social Market Foundation highlighted in their Risky Business report that an investor in these arrangements is not just risking a potentially low return, but their principal too. In the case of the Peterborough 'social impact bond', the report highlights that the financial terms offered by the Ministry of Justice were so stringent that no ordinary investor would be willing to take on such a project.

Indeed, a number of the 87 'SIBs' appear to have some form of 'soft money' guarantee in the form of a charitable foundation or government department in effect underwriting potential losses to the service providers. It has been said that many of the arrangements cross over several social issues and so achieving clear-cut outcomes, and thus being able to see a return on initial investment, is very difficult and complex.

The Government Outcomes Lab recently acknowledged that there has been very limited adoption of the 'SIB' model by UK local authorities without central government top-up funding. Their evidence suggests that this is because 'SIBs' are "too complicated to set up, commissioners lack the necessary access to skills and resources, and it has proved difficult to balance the ease of adoption with the need for local tailoring."

Just as with SITR, these SIBs' represent a highly innovative approach to connecting private investment capital to solve social problems. However, they too have significantly failed to achieve what they set out to do because they have not proven to be viable investment propositions for investors who require robust business models, clarity on investment returns and a simple-to-understand business case.

Rightly, there does not appear to be any noticeable appetite by the Government to make greater use of these arrangements, nor to promote at this time. The Government's current policy appears to be managing the Life Chances Fund which was launched in 2016 to support a number of 'SIBs' around the UK with an £80 million top-up payment. My recommendation is that there is a place for these arrangements in public policy, but solely within the scope of public and philanthropic funding rather than through mislaid hopes of mobilising private investment capital. The capital should come from government, charities and foundations, and such mechanisms should be termed as

[2] Go Lab Policy Memo (2020) 'What Next for SIBs in the UK?'. Blavatnik School of Government.
[3] Wilson, R. (2016) Speech: The Future of the UK Social Investment Market. Delivered on 23 March 2016. Cabinet Office. Available from: The future of the UK social investment market: Rob Wilson speech

‘arrangements’ or ‘contracts’ (as BSC have started calling them), so as to not mislead potential investors by keeping the incorrect term ‘social impact bonds’.

Clearly, there are other ways in which we can mobilise private capital to bolster the social investment market and one of these ways is through a relatively more successful endeavour, the financial institution known as Big Society Capital.

Big Society Capital is operationally suboptimal

Big Society Capital became the signature policy in Prime Minister David Cameron’s Big Society Programme. While innovative and ground-breaking in many ways, it remains fundamentally underutilised and predominantly focused on charities.

In 2010, over £60 million was lying dormant in English bank and building society accounts and through the establishment of a ‘Big Society’ bank, it was hoped that this would finance the most dynamic of social organisations. Big Society Capital was established in 2012 as the financial vehicle to drive this ambition – the first financial institution in the world dedicated to social impact investment.

This philanthropic mandate was rooted in the then need to obtain state aid clearance from the European Commission. Big Society Capital distributes State resources. It is capitalised through monies from the English share of the dormant accounts released for spending through the Dormant Accounts Scheme.

The EU State Aid regime operates on the principle that, unless an exemption applies, State Aid cannot legally be granted until it is formally approved by the European Commission. To fall within one of the exceptions and circumvent investment approval, Big Society Capital had to channel money solely to the social enterprise market. As a result, it is defined as a “social investment wholesaler” for the purposes of distribution under Section 18 of the Dormant Bank and Building Society Accounts Act 2008.

Clearly, Big Society Capital has been circumscribed by EU rules since its inception. The legal obligation to maintain a level playing field within the internal market has structurally confined the financial institution as a lending wholesaler exclusively to social enterprises. As such, section 18 of the Dormant Bank and Building Society Accounts Act stipulates that it is authorised to invest solely in Third Sector Organisations (TSO) which ‘exist wholly or mainly to provide benefits for society or the environment’. Big Society Capital’s governance principles reiterate this requirement for investment decisions - entirely precluding any organisations of indirect social benefit.

The Governance Principles include, but are not limited to, the following conditions:

1. eligible enterprises must enshrine a specific social mission within the business' constitutional documents;
2. demonstrate a causal link between its operations and the achievement of that social mission;
3. have a policy of limiting profit after tax, capping profit at 50% over time.

Nevertheless, it is important to stress that Big Society Capital was established against the backdrop of an underdeveloped social investment market in the UK. In 2011, social impact investment in the UK was valued at just £830 million and has since grown sixfold in the last nine years. As a financial institution, it has undoubtedly made strides in promoting and funding the work of charities and social enterprises that address pressing social issues, especially unemployment and homelessness.

The Greater Manchester Homes Partnership is one example, which successfully helped 447 people secure safe accommodation in the area and should be credited for housing over 90% more people than originally targeted, and at a lower cost to the Government per person than originally anticipated. Internationally, Big Society Capital has inspired various programmes to address the challenges associated with sustainable growth and regional inequalities, setting the keystone for dormant accounts utilisation.

Indeed, there has been some positive success and Big Society Capital should be credited for spearheading purpose-led investment in the UK. However, the restrictive, albeit unavoidable philanthropic mandate, has had a significant impact on Big Society Capital's financial performance. It has been predominantly loss-making. In only two out of eight consecutive years since founding has Big Society Capital made a profit. In fact, it was not until 2017 that the organisation recorded its first net profit, which was again followed by net losses of £6.5 million in 2018 and £2.1 million in 2019. This is perhaps unsurprising given that only 22% of SMEs in the UK are considered to be socially orientated. Within that small proportion, obviously the scope and universe of potential investments is significantly limited and whenever you have a limited investable universe inevitably the potential for investment gains are impacted.

To combat this, The Big Society Trust's most recent review suggested that Big Society Capital can, and should, play a greater role in the 'Levelling Up' agenda and more generally, consider expanding 'place-based investment'. I wholly support this proposal as it would not only expand the ability for BSC to play a role in ensuring a more even spread of investment around the country, by expanding its remit it would also see an expansion of investment opportunities, giving it a greater chance of becoming a profitable organisation.

Solutions

As we emerge from this pandemic, we should look to address the definitional confines of social investment in the UK and allow Big Society Capital to unshackle itself from the required returns profile currently embedded in its operating model. If we are successful, we will drive more impact in rebuilding communities dependent upon the existence of smaller, local businesses.

1. Broaden the Dormant Assets Scheme to cover a wider array of social investment

The Dormant Assets Bill, announced in the Queen's Speech in May 2021, is the perfect opportunity to cover a wider array of potential investments. I propose that the expansion of the Dormant Assets Scheme and a portion of the additional £880 million is directed to SMEs with social co-benefits. These businesses may not place the alleviation of certain social issues at the forefront of their corporate strategy, but still possess an invaluable indirect benefit to the communities they serve. Overseen by the British Business Bank who have vast experience and expertise in investing in SMEs, BSC could develop a set of clear criteria for eligible SME's:

- location (is the business in an area of low employment, or area of deprivation?)
- size (BSC should set a definition based on number of employees and balance sheet total)
- Wider community impact (can the business clearly demonstrate that its existence provides additive benefit to the community it operates in, such as plans to increase employment or assist in the transition of employment by upskilling workers?)

This would create a new potential funding stream for SMEs who have historically struggled to obtain credit and financing from mainstream banks, it would broaden the investable universe of BSC and therefore provide greater opportunities for enhanced returns.

Case Study: Japan Social Innovation and Investment Foundation

Japan has done something similar under their dormant deposit scheme. Their Dormant Deposit Utilization Act – which governs the deployment of deposits three times that of the UK – allows for targeted regional investment. The legislation authorises the promotion of activities relating to the support for certain areas facing social difficulties and also references the funding of activities not specifically concentrated in large cities or regions. Specifically, the Social Innovation and Investment Foundation, charged with distributing subsidies sourced from dormant deposits in Japan, has more recently embarked upon a project for regional revitalisation in collaboration with Misogigawa KK – funding start-ups that have roots in deprived regions.

The aim of the Local Business Lab is to create a new mechanism for sustainable businesses that makes use of local resources to continue to operate in certain deprived regions. While the Community Investment Enterprise Facility at Big Society Capital emulates this in the sense it was set up to assist social enterprises across the UK unable to access mainstream finance, this remains restricted to those businesses able to satisfy the institution's governance principles and philanthropic investment criteria. Over £30 million was committed to this facility - and only 111 small businesses have been supported.

If the UK could emulate Japan and broaden the dormant deposits scheme, it would bolster the Government's 'Levelling Up' agenda and direct a significant pool of capital to those businesses who need it most.

In order to do this, it would require amending current UK subsidy rules and overturning the 'wholesaler requirement' within Section 18 of the Dormant Bank and Building Society Accounts Act. Having left the EU, the UK is now strictly free to design a regime of subsidies. As announced in the Queen's Speech, the Government is setting up an independent UK subsidy control system to replace EU state aid controls and following public consultation on the design of UK subsidy control, will bring forward primary legislation to establish a subsidy control system in domestic law. If this is rewritten, Big Society Capital could be authorised as a direct investor to broaden its mandate and national impact.

2. Reform Big Society Capital to catalyse a new dynamic social investment market

Since its creation, Big Society Capital has focused on private, illiquid investments on the basis that the leadership felt that engagement in the public markets would not be sufficiently impactful or 'catalytic'. The constrained scope of investment has also meant that their investment programme has focused, in my view, on potential investments they feel need help rather than provide a sound investment return based on a rigorous risk/return assessment. The result is that the organisation has not mobilised capital for the social investment sector at scale, and has not performed financially - indeed it is a loss making organisation, more focused on supporting organisations that have found it difficult to secure financing than picking winners or indeed optimising capital mobilisation.

As part of expanding the scope of investment, I recommend that the investment programme look to enhance returns and the mobilisation rate by balancing the portfolio with both private and publicly traded investments. The work BSC are doing in the private, illiquid market is meaningful, investing £37.1 million in financial intermediaries who provide small-sized patient loans to many hundreds of community organisations and social enterprises. That work should continue in order to fulfil the social mission of Big Society Capital as a Government related organisation supplementing purely commercial providers of investment capital.

However, I feel that there is an opportunity for BSC to play a more significant catalytic role in the public markets too, which would also help generate higher returns overall for the organisation. These returns can then be re-invested in the business in the private market. This means seeking to divide the investment programme into both liquid and illiquid investment portfolios.

Illiquid Investment Programme

The illiquid investment programme should continue to focus on investments, loans and guarantees under an expanded scope of 'social benefit' as suggested above and with more place-based social investment. This could continue through investment partners such as the existing partners, Cheyne Capital or Schroder Investment Management. It should also include however, a new programme of loans and guarantees administered in partnership with the British Business Bank.

Liquid Investment Programme

Big Society Capital is already investing, through Rathbones Investment Management, in liquid fixed income securities issued by the charity sector. The charity bond sector is growing, but like all aspects of social investment, has not yet developed to anything approaching full scale. By 2020, charity bonds had grown to over £300 million, growing from £30 million in the last six years.

Likewise, significant growth in the social bond sector has not yet reached the scale of green bonds, let alone general-purpose bonds issued by corporates and Governments, especially in sterling. In 2020, more than 680 green bond issuances were launched, raising over $227.6 billion. By comparison, there had been 138 social bond issuances. Big Society Capital has an opportunity to act as a significant catalyst for the social bond market, specifically in the UK, and affirm the City of London's leadership in ESG investing and using capital markets for public goods.

A bond is a fixed income instrument that is essentially a tradeable loan made by an investor to a borrower. The borrower is typically a corporation or a government, but other organisations such as charities can issue bonds to raise finance and to diversify their funding so as to not be as reliant upon fundraising. Charity issues are currently dominated by Housing Associations and AAA rated Wellcome Trust. A bond has an end date when the principal of the loan is due to be repaid to the bond owner (investor) - throughout the life of the bond a fixed interest rate is paid by the borrower. Globally, bond markets account for c.$128 trillion, 73% of which is in government issued-bonds. The UK bond market size is approximately £3.5 trillion.

3. Introduce specific "use of proceeds" bonds

Most bonds issued by government or non-government organisations are issued to finance general financing programmes. The UK government issues bonds to pay for public services with the amount raised going to HM Treasury for it to then be distributed to the NHS, state education, defence and other public services. Businesses issue bonds to help finance investment in things like research and development, expansion of operations or to fund marketing activity - but again, the bonds issued are not defined for specific purposes.

However, in recent years, the market has seen the emergence of specific use of proceeds bonds. These are bonds issued by governments or corporations who issue debt with the use of proceeds restricted to specific purposes. Perhaps the most well-known are green bonds, where debt raised is ring-fenced specifically for activities that help tackle climate change or help the environment. 2020 saw a record year for green bond issuance with $269.5 billion issued and that is likely to only increase further as climate change has shot up the political agenda. The UK government announced in November 2020 that it will be issuing the first green sovereign bond (green gilt) in 2021 ahead of COP 26 totalling an additional £15 billion in green bond issuance.

Just as with green bonds, another type of 'specific use of proceed' bond has emerged as a growing sector within debt capital markets. Social bonds, just as with green bonds, are bonds issued by organisations to specifically fund projects, investment and initiatives that have a definable social benefit and 2020 saw a record year in social bond issuance with $59 billion now outstanding in the social bond sector. The acceleration in social bond issuance happened after the International Capital Market Association (ICMA) published its Social Bond Principles in June 2017- setting out guidelines that help define what is meant by 'social' and ensuring transparency, disclosure and reporting by issuers.

Social bonds are a great opportunity to achieve more positive social outcomes in our country by funding organisations to specifically target social issues. Affordable housing, regeneration of deprived areas and improving accessibility to public transport are all just a few examples of the kind of social good existing social bonds are doing. As mentioned, charities are also now starting to issue bonds - we have seen the sector issue £300 million in 2019, up ten times the amount issued in 2014.

I believe Big Society Capital could go far further to catalyse the social bond market, providing investment capital directly into charity and other social bonds to provide further institutional investor demand. BSC could do so by establishing a dedicated fund management arm within the BSC framework and launch its own social bond portfolio to market to retail and institutional investors, for a management fee. This would catalyse further issuance and become a revenue generating organisation to enable it to be more sustainably financed.

BSC has recently called on the government to half the limit for issuing charity bonds to £5 million in order to make it easier for more charities to issue bonds. HM Treasury are apparently considering this option. If this goes ahead, BSC should establish its own regulated pooled social bond fund and invest directly into these bonds.

Conclusion

For ten years the UK has made progress in developing a social investment market. This has been aided by national policy but there is clearly now a greater appreciation that SMEs and community businesses are a fundamental part of our economy, as well as the fact that tackling shared challenges requires partnership between private and public entities. Covid-19 has shown us this like never before and now it is time to fully capture the opportunity that the social investment sector presents our country, our economy and our neighbourhoods.

Fundamentally, social investment is good economics - it is there in your A Level textbook under the section “externalities”. Businesses who encompass social costs and benefits into their operations are more resilient, stable and sustainable. Likewise, governments who support these businesses are able to allocate resources across an economy at a more efficient equilibrium point.

While much has been tried to bolster this market, many initiatives, as I have outlined, have failed to achieve what they set out to do. Ultimately, definition is the critical factor here. For perfectly understandable reasons given the market’s infancy, the focus so far has been far too imbalanced on the social mission of organisations, rather than on the social benefits of so many businesses we know and love in our communities. In order to truly mobilise private investment, I strongly believe the sector needs to be defined just as much by its potential to generate returns as its social outcome.

It is also important that we encourage larger, more mainstream business organisations to participate in social investment. As I have set out, we can achieve this through the liquid, tradable social bond market - it just needs a bigger push and that push can come from the world’s first social investment institution, the pioneering Big Society Capital.

I hope the Government will capture the opportunity of leaving the European Union to expand our definition and scope of social investment and unleash a freer, higher return generating organisation in Big Society Capital.

If we do this, the UK will be the true global leader in social investment, it will pave the way for a more efficient use of taxpayer resources and harness the true potential of enterprise to enhance the social fabric of our economy and communities.

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