RAISING THE BAR

NPC's response to Big Society Capital's transparency consultation

August 2015

Introduction

When Big Society Capital (BSC) was established in 2011 by the Government, the aim was not simply to distribute the £600m of funds it was given. Welcome though that was, it was to be a 'one-shot' intervention into the sector: when the money was gone it would all be over. For that reason it was made clear that its 'mission [was] to grow a new market'[1]. This ambition is just as important—if not more so—today as we reach a crucial time for charity funding and sustainability.

Transparency is paramount to achieving this objective. It is instrumental in giving confidence to the private financial market that social impact investing is not only viable, but that it can make an appropriate financial return at the same time as achieving social impact.

In our 2015 manifesto *A vision for change*, we called for BSC to promote greater transparency in the social investment sector. We therefore welcome BSC's positive response to our proposal and for their recognition of our role in provoking their *open conversation about transparency* consultation.

While we acknowledge that BSC has already done a great deal in this area, and this consultation is a further step forward, we believe it can and must go even further if it is to be successful in achieving its mission and use public funds productively. In order to build the social investment market BSC needs to prove what is achievable, and create a new lexicon and measurement framework which will have the confidence of potential private sector entrants. This means pushing the boundaries, taking risks that the private sector would never take, experimenting with the best ways to capture and report on social impact—and doing this all publicly, warts and all.

Impact reporting is crucial to transparency

Such boundary pushing with regards to reporting on social impact is instrumental to real transparency. BSC can achieve this by publishing its framework for measuring impact, and by assessing the impact of its funds and its own impact as an organisation, including its investment process and financial and social return requirements. For example, BSC states that it currently publishes details of its commitments and investments into social investment finance intermediaries (SIFIs). However, this is just a list of organisations, with no details about the amount of investment, type of investment or any expectations of either social or financial impact to be achieved by each investment. The consultation's proposal to, in future, publish paragraph-length rationales as to why these investments were made does not succeed in filling this gap. We'd like to see BSC publishing financial amounts and the intended social impact of these investments. The KL Felicitas Foundation is a useful example—they publish investment evaluators of their investment deals, stating the terms of the deal, the rationale for investment, and expectations for social and financial return.[2]

[1] https://www.gov.uk/government/news/launch-of-big-society-capital-the-world-s-first-ever-social-investment-market-builder

[2] http://klfelicitasfoundation.org/impact-investing-overview/strategy-overview/program-related-investments/

With regards to social impact measurement, BSC's first social impact report is a step in the right direction—but it needs to go further to explain how it is measuring social impact and what each investment is achieving. Even if, as will often be the case, it is too early in an investee's development to demonstrate much impact, this should at least be recognised. This will create a framework for other market participants to benchmark their own processes against best practice and encourage the development of shared outcome measures. BSC is in a position to help the rest of the sector learn from its work and should maximise this opportunity.

Setting standards and leading by example

We recognise that this is a challenge for BSC, since it uses intermediaries for its investments and their transparency requirements will be much higher than other investors in the fund who may prioritise commercial confidentiality over market building. However, this is an issue that BSC should not compromise on. As the biggest player in this nascent market, BSC should lead by raising the bar on financial reporting and social impact reporting. To raise the bar it needs to show SIFIs what is expected of them through its own reporting.

Recent reports[3] have shown that SIFIs have not been collecting financial or social impact data in a usable form or in a way that can help inform the market going forward. This has been a missed opportunity for a new market. BSC's case studies are a step in the right direction—but do not contain sufficient detail to do more than satisfy the partially curious. Better data on investment deals is a necessary step to open up the market to those outside the inner circle and encourage new entrants.

While we recognise that BSC has been instrumental in requiring SIFIs to focus on social impact, more is needed in this area. Agreement on measurement, verification/auditing and reporting on social impact data should be a precondition for investment. As a recent guest blog on our site[4] by BSC's Head of Strategy and Market Development Matt Robinson argues, we have a long way to go to really understand what social impact social investment is having. If BSC is building a new market, it needs to be transparent not only about its practice and what it demands of SIFIs today, but also how it plans to build towards a future in which investors have comparable data on both social impact and financial returns within sub-sectors like education or housing.

BSC set out in their consultation paper some 'scores' for different proposed moves, referring to their potential impact but also the difficulty and costs of actually implementing them. This is sensible—and of course one must be aware that partial information given to the market can in some circumstances lead the market in the wrong directions, or cause some difficulties for SIFIs and others. Nevertheless, we would emphasise that the costs involved in transparency are, in almost all cases, massively trumped by their ability to help build this market.

Britain is on the verge of leading the world in its innovative approach to social investment and BSC is central to determining our success. Without further transparency, we will look back at this as a missed opportunity to transform for the long term the supply of affordable finance opportunities for charities, social enterprises and community groups.

Next steps

NPC has long lobbied for a more transparent, sustainable impact investment market. We look forward to working further with BSC and other partners to try and make these proposals a reality.

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[3] For example: *Oranges and Lemons* http://esmeefairbairn.org.uk/news-and-learning/publications/oranges-lemons
A tale of two funds http://www.sibgroup.org.uk/fbe/ *The Social Investment Market Through a Data Lens* http://www.engagedinvestment.com/downloads/SIRC_EngagedX_The_Social_Investment_Market_Through_a_Data_Lens_FINAL.pdf

[4] http://www.thinknpc.org/blog/does-the-emperor-have-no-clothes-standards-for-social-impact-measurement/

TRANSFORMING THE CHARITY SECTOR

NPC is a charity think tank and consultancy which occupies a unique position at the nexus between charities and funders, helping them achieve the greatest impact. We are driven by the values and mission of the charity sector, to which we bring the rigour, clarity and analysis needed to better achieve the outcomes we all seek. We also share the motivations and passion of funders, to which we bring our expertise, experience and track record of success.

Increasing the impact of charities: NPC exists to make charities and social enterprises more successful in achieving their missions. Through rigorous analysis, practical advice and innovative thinking, we make charities' money and energy go further, and help them to achieve the greatest impact.

Increasing the impact of funders: NPC's role is to make funders more successful too. We share the passion funders have for helping charities and changing people's lives. We understand their motivations and their objectives, and we know that giving is more rewarding if it achieves the greatest impact it can.

Strengthening the partnership between charities and funders: NPC's mission is also to bring the two sides of the funding equation together, improving understanding and enhancing their combined impact. We can help funders and those they fund to connect and transform the way they work together to achieve their vision.

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