Review of grant subsidy for blended finance to support civil society

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We would like to thank all the people who were interviewed for this report, who attended roundtables and who responded to our calls for literature and data about blended finance. Many people worked quickly to help us write this report and we thank them all for their input and their responsiveness. In particular, we would like to thank DCMS, Access, Big Society Capital, Social Investment Business and Keyfund.

Contents

Introduction

This introduction outlines why the review has been commissioned, the methodology employed, the key terms and definitions, and the role that government has played to date in social investment, including its rationale for public policy interventions to support the social investment market to situate this review in its broader context.

Why this review has been commissioned

The Department for Digital, Culture, Media & Sport (DCMS) appointed New Philanthropy Capital (NPC) to conduct a research-based review into the future of subsidy into blended finance interventions within the social investment sector in England. Access—The Foundation for Social Investment (from this point on referred to as 'Access') was set up by the government in 2015 with an anticipated ten-year lifespan and a £60m endowment. The goal of Access was to remove barriers and increase access to affordable finance for voluntary or community organisations and social enterprises (VCSEs)[1], in large part through making grant available into blended finance structures. With Access coming to the end of its originally anticipated lifespan in 2025 / 2026, and with the current supply of grant into blended finance facing increasing uncertainty, there is a live question within the sector about the need for grant subsidy into blended finance to support VCSEs into the future and how this might be distributed in the sector should Access close.

The key objective of this review is to provide DCMS, policymakers, and the social investment market with a clear recommended route forward. The review includes a backward-looking evaluation of how grant subsidy has been used so far for blended finance as well as a forward-looking analysis of potential policy options.

Methodology of this review

To understand how different sectors of the social investment market think about grant subsidy into blended finance for VCSEs, NPC conducted a literature review, 18 one-hour semi-structured

[1] For the purpose of this report, a 'VCSE organisation' is defined as: an organisation with a social or environmental purpose, including charities and social enterprises. For an organisation to qualify, it must satisfy the following criteria: have charitable, social, or environmental objectives; have an asset lock; and have restrictions on the redistribution of its profits.

interviews, and two roundtables. The roundtables and interviews included a range of participants from oversight bodies, infrastructure organisations, wholesalers, social investors, foundations and trusts, and charities and social enterprises (including England, Scotland, and Wales). We analysed these interviews and roundtables to identify common patterns and responses. We held a roundtable with key stakeholders to gather their views on the options for future subsidy.

In addition, we have received data from some of the main providers of blended finance in the sector (see Appendix 1 for details). We asked all the main providers for data, and to recommend who else may have data. However, the data set that we have used is not a complete set of funds that have employed blended finance or used grant funding to offer a blend of loans and grants, as not all were able to provide data. Nevertheless, we feel it can be used to derive representative conclusions. It has sometimes been difficult for social investment managers to get data on their funds because of lack of responses and a lack of capacity to collect data. Despite the difficulties, we are confident that the data employed gives a representative sample, which, triangulated with the findings of the interviews and roundtables and the literature review, is sufficient to draw robust conclusions.

Impact investing, social investment, and blended finance

What is blended finance?

At its simplest, blended finance uses grant alongside repayable finance to make the repayable finance more affordable for VCSEs. The aim of this blending is to facilitate lending to charities and social enterprises which otherwise would not take place, on more favourable terms so that they can leverage in more investment and deliver greater social impact. Blended finance uses an element of grant to attract in investment capital that otherwise would not go to this section of the market.

More widely, blended finance is a financial structuring tool to enable organisations with different or overlapping objectives to invest alongside each other while achieving their own objectives. Again, at their simplest within this context, these objectives are to make a financial return and to deliver social impact.

What is the difference between impact investing and social investment?

Impact investing is one of the most innovative and exciting developments in the financial sector today, and means investing with the intention of delivering a financial return alongside positive social or environmental impact. Social impact investing focuses on driving beneficial social outcomes to individuals, communities, and society.[2]

The term ‘social investment’, as opposed to ‘social impact investing’, has a more specific meaning, relevant primarily within a UK context. It focuses on the type of organisation that delivers the impact and usually refers to investing in organisations that not only have a social purpose, but also some form of legal restriction on their activities, such as the public benefit requirement of charities, or an ‘asset lock’ that means that more than half of any surplus or profit is returned to delivering its social purpose.[3] In general, impact investing targets closer to market rate returns but social investment prioritises the impact, meaning it usually delivers lower financial returns and may in some cases require subsidy. Figure 1 below shows how the three types of investment overlap.

Figure 1: Impact investing, social impact investing, and social investment.

Impact investing
Investing to deliver measurable, beneficial social or environmental impact, irrespective of the type of organisation that delivers the impact.

Social impact investing
Investing to deliver social impact, irrespective of the type of organisation that delivers the impact.

Social investment
Investment in social purpose organisations, such as charities, voluntary or community organisations, and social enterprises (VCSEs), which deliver social impact.

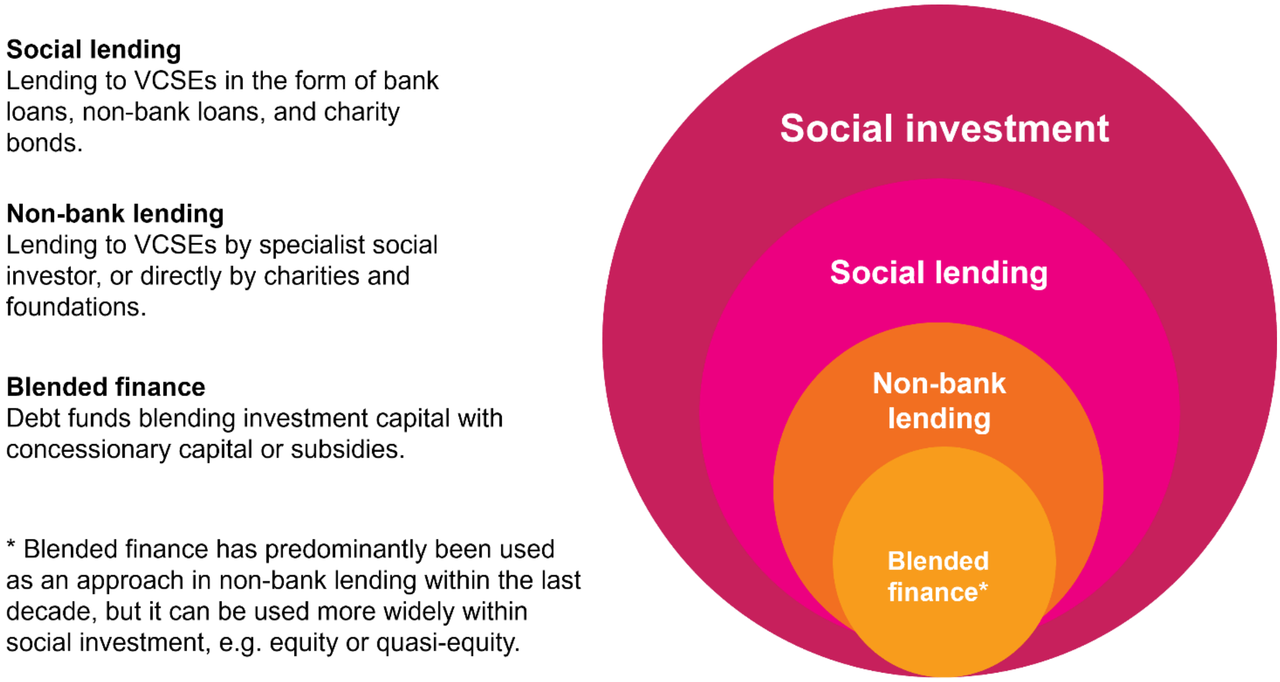
Social lending incorporates lending to VCSEs from high street banks, charity banks, social investors, community development finance institutions (CDFIs), foundations, and trusts. Social

[2] The Global Impact Investing Network’s widely used definition of impact investing encompasses both social and environmental impact. When restricted to social impact, it reads: ‘investing with the intention to generate positive, measurable social impact alongside a financial return’.

[3] The report of the Adebowale Commission on Social Investment, *Reclaiming the Future: Reforming Social Investment*, 2022, uses the widely accepted definition of social investment as any form of repayable finance (unsecured loan, mortgage, bond, repayable grant etc.) or equity that is given to or invested into organisations that have a primary social or environmental mission that is clearly expressed in their governing documents; reinvest the majority of their surplus into their mission; and are independently run in the interests of their mission.

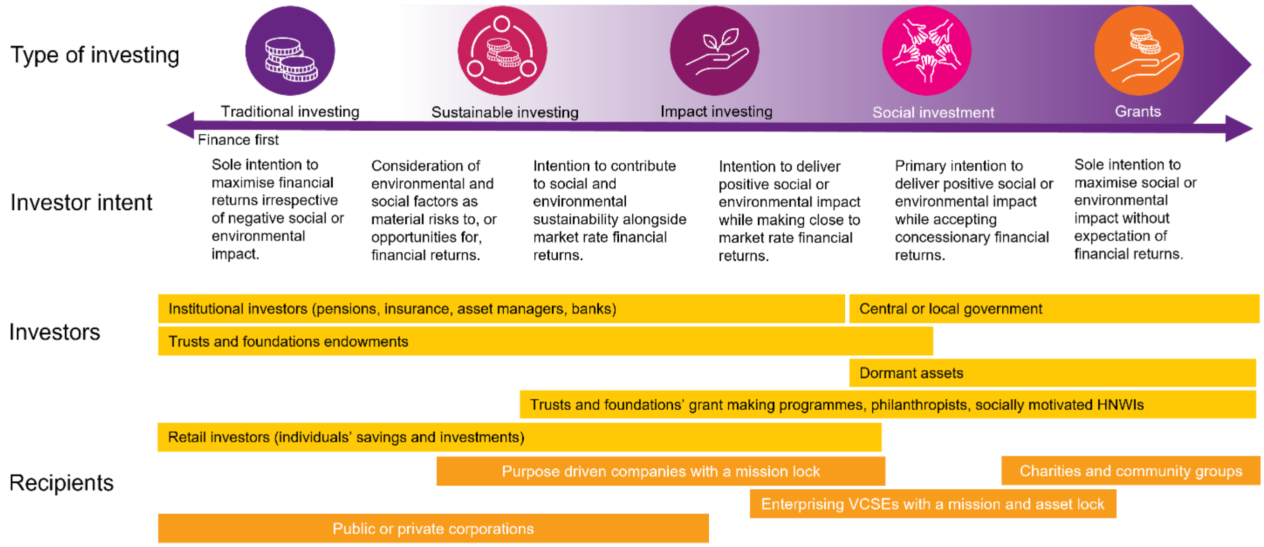
lending comprises a significant proportion of the social investment market. It is worth noting that the widely used social investment market sizing data produced by Big Society Capital does not capture all social lending as it does not include lending from high street banks. Within social lending, the products range from small to mid-sized unsecured loans, typically from social investors, to large, secured bank loans and charity bonds. The universe of blended finance funds sits largely, but not exclusively, within the non-bank segment of the social lending market offering smaller, unsecured loans. Figure 2 shows how blended finance fits into the social investment sector.

Figure 2: How blended finance fits into social investment.



The ‘spectrum of capital’ (see Figure 3 overleaf) shows the distinctions between impact investing and social investment along a spectrum of intent with different types of investors and recipients of finance below them. These distinctions and the divisions between them are not universally agreed upon, but they provide a useful rule of thumb in approaching the complexities of this market.

Figure 3: The spectrum of capital and spectrum of organisations.

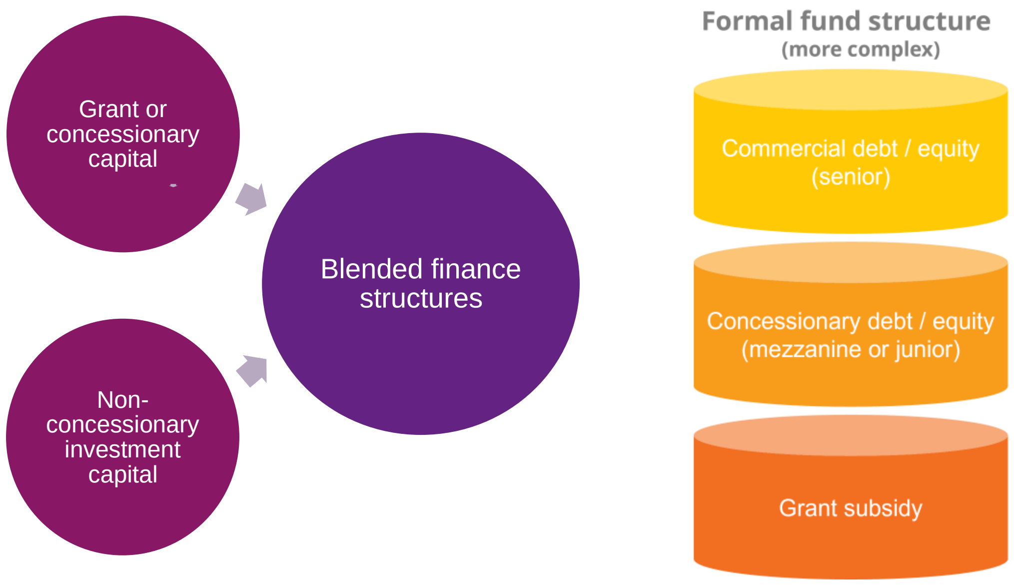


The use of blended finance in social lending funds

The most common form of blending within social investment occurs within social lending funds. In these funds, some form of concessionary capital, offered on more favourable terms than current market rates, is blended with market rate, or non-concessionary, investment capital. The different objectives of each are their proportional weighting of financial returns and social impact.

These funds can be structured in various ways with the concessionary element acting as a subsidy. There are various forms of subsidy, such as tax credits or loan default guarantees, but the most widely used within social investment has been full concessionary or grant capital. Figure 4 overleaf shows how blended finance is structured. This report is concerned only with grant subsidy into blended finance fund structures for lending to VCSEs. In practice this may involve blending the subsidy at the investor level, or directly passing the subsidy onto VCSEs. Grant subsidy has been the most established form of subsidy to date for small, growth stage VCSEs.

Figure 4: How blended finance is structured.



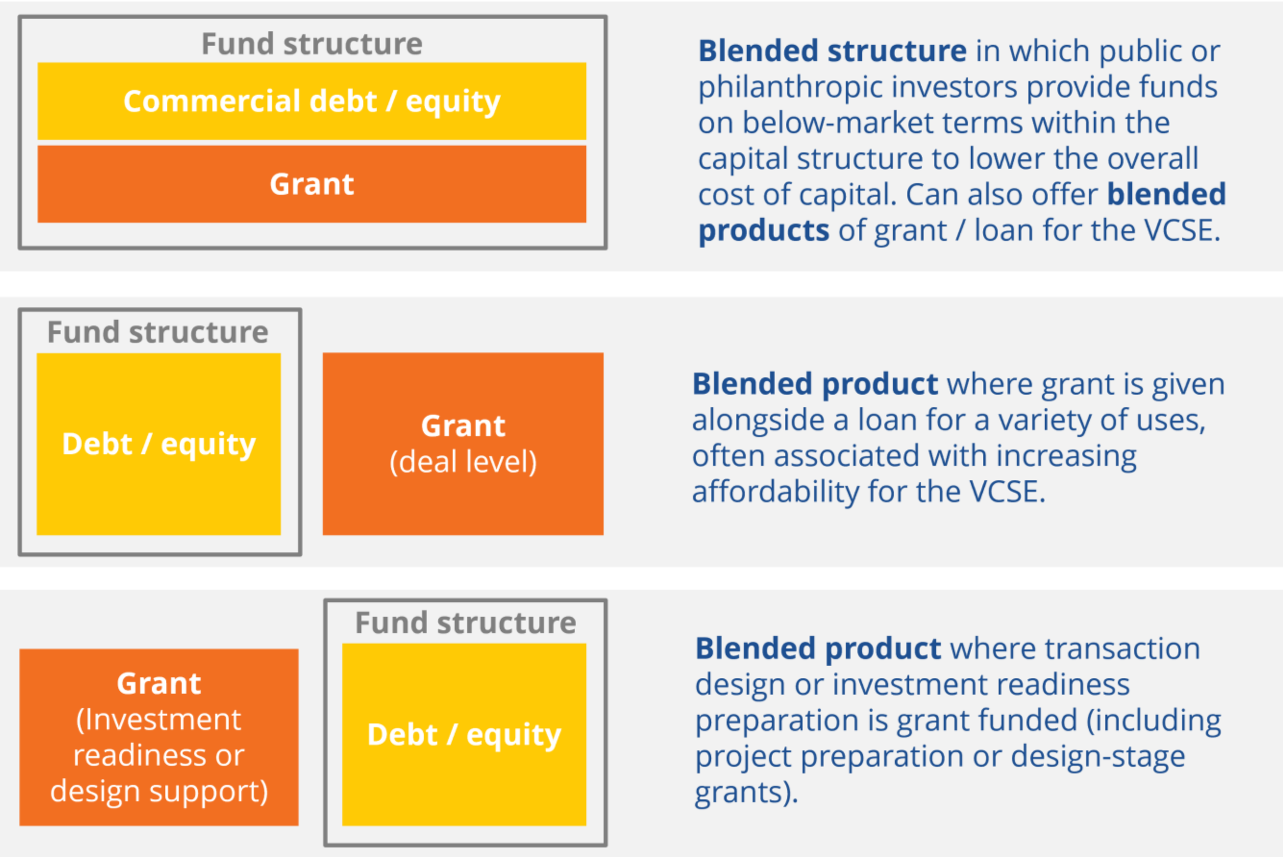
The two primary objectives of employing blended finance within social investment are:

1. To support the delivery of social impact by making the terms of repayable finance more appropriate and affordable for VCSEs, thereby enabling them to grow, strengthen their operations, or scale their impact.

2. To optimise the efficiency of grant and investment capital allocation to meet the financing needs of VCSEs by attracting investment capital through improving the risk and return expectations for investors and by enabling grant money within the VCSE funding ecosystem to go further.

Within the social investment market there is a distinction between blended structures and blended products. As Figure 5 overleaf shows, blended finance is a way of structuring a fund, which may or may not offer a blended product that offers a combination of grant and loan to the investee. We also found that VCSEs and others often use blended finance to mean a blended product, where a grant is provided alongside a loan (they do not necessarily know if their loan has come through a blended structure). We found that what investment professionals tend to use blended finance to mean a blended structure.

Figure 5: Types of blended finance in relation to funds.



How do blended structures bridge the interests of investors and enterprises?

Blended finance structures bridge the gap between investors who make the investment and the investees who receive it. The structure of these financial products balances and serves the interests of both.

For an investor, blended finance structures allow them to invest in delivering social impact while meeting their appetite for risk, which is a way of gauging their expectation of what financial returns they are likely to receive from the investment. With any investment, the first risk is that the investee will default on loan repayments because they do not generate enough income from the investment to pay back the investor. When this happens, the rate of interest charged on the investment capital will not be received and some of the principle, or initial capital invested, may also be put at risk. The second risk is that the enterprise or business will fail and there will be a complete loss of capital. Judging the risk and requirements for a loss provision is how the investor sets the return expectation, and the more data there is on the likelihood of defaults or losses, the better an investor can judge their risks and set their return expectations. Blended finance structures bridge the gap between the real (or unknown) risks and return expectations of an investment, and the actual risk appetite and desired return expectations of an investor. Grant subsidy, or any form of concessionary capital within that structure, is what enables the gap to be bridged.

For investees, blended finance structures allow them access to capital by receiving investment that otherwise might not have been there, or at a cost they can afford and on terms that are flexible or patient enough to ensure they can pay it back without defaulting. The cost of the investment capital is determined by the level at which the interest rates are set. Its affordability for an investee depends on whether they can generate enough income to pay back the investor. Blended finance structures bridge the gap between what is affordable for an investee, based on their business model and income generation expectations, and the real cost of capital offered by an investor, based on their return expectations and their judgement about the risks involved. Grant subsidy, or concessionary capital within the blended structure, bridges the gap between what is affordable for an investee and the real cost of capital offered by an investor.

Grant subsidy within blended structures plays a crucial role in balancing the affordability of investment capital and its availability at that rate. It is because blended structures provide a bridge between the interests of the investor and the investee that they can serve to stimulate either the supply of investment capital from investors or the demand for that capital from potential investees, or both.

On the one hand, grant subsidy can increase the affordability of investment capital for VCSEs by subsidising a lower interest rate than is justified by the risks to the investor. On the other hand, grant subsidy can increase the availability of investment capital for VCSEs by subsidising the return expectations of the investor, thereby reducing the risk of them allocating capital into those products or markets. Another way of putting this is that the relationship between the supply and demand, or the affordability and availability of investment capital, is elastic. Grant subsidy can stretch or stimulate either side depending on how it is used within a blended finance structure.

Another important consideration in understanding the role of grant subsidy within blended finance structures is the viability of the business models of VCSEs for taking on repayable finance. There are many VCSEs that do not generate any income and are entirely reliant on grants. Obviously, repayable finance would be unviable and inappropriate for them. There are also many who generate sufficient income to take on investment and repay their investors in full. Blended finance structures allow some of those in the middle to receive investment. Their business models generate some income, but an insufficient amount to repay their investors in full without subsidy, despite delivering significant social impact for their beneficiaries. In simple terms, it is worth the grant-maker subsidising these VCSEs to grow their social impact by subsidising investors' financial returns. Grant subsidy acts as an informal pricing mechanism that converts the public value of the social impact into financial value by enabling some of the value of the impact generated to be returned to investors in monetary terms.

What role has government played in supporting social investment?

Government has played a leading role in supporting social investment in the last two decades, leading up to the establishment of Access to support blended finance in 2015. Table 1 below shows a snapshot of the history of the development of government initiatives to support social investment.

Table 1: A selective snapshot of key government initiatives and interventions to support social investment.

Date	Initiative
2000	Social Investment Task Force (SITF) took a place-based approach to supporting social investment, focusing on meeting the needs of under-invested communities.[4]
2000-2010	Range of initiatives and funds to support access to repayable finance for VCSEs[5], focusing on supporting investment or contract readiness and capacity building.
2004-2010	Futurebuilders England provided loans, grants, and blends of loan and grant to charities and social enterprises to help them finance public service delivery contracts.
2007-2013	Social Enterprise Investment Fund (SEIF) offered blended products to social enterprises providing health and social care services in England.
2007	The Commission on Unclaimed Assets recommended that *'an independent Social Investment Bank should be created using the capital from dormant accounts to develop the social investment market on a scale that can support the UK's vibrant and diverse but under-capitalised third sector, including social enterprise, community development and voluntary organisations.'*[6]

[4] Social Investment Task Force, *Enterprising Communities*, (The Commission on Unclaimed Assets, 2000) p. 3.

[5] For a summary of these see Flip Finance, *A Snapshot of the Social Investment Market* (2021).

[6] https://thegiin.org/assets/binary-data/RESOURCE/download_file/000/000/22-1.pdf

2010-2016	The government developed an overarching strategy for growing the social investment market, centred around the establishment of a social investment wholesaler capitalised primarily from dormant accounts.[7]
2012	Big Society Capital established as a social investment wholesaler, not investing directly in VCSEs but in funds managed by social investors—known as social investment intermediaries.
2012-2014	Social Incubator Fund (SIF) to increase social investment deal-flow through support to drive social ventures.
2012-2014	Investment & Contract Readiness Fund (ICRF) provided support to social ventures to better enable them to access public sector contracts and investments.
2012-2019	Communitybuilders Fund provided loans, grants, and blends of loan and grant to community-led charities and social enterprises.
2015	Access—The Foundation for Social Investment is established as a wholesaler of grant subsidy into blended finance social investment funds and other initiatives.

The major structural intervention by government in the social investment market in the last two decades was the establishment of two social investment wholesalers: Big Society Capital and Access.[8] The main difference between them is that Big Society Capital is a wholesaler of investment capital and Access is a wholesaler of grant subsidy.

Big Society Capital was established with a remit to build the social investment market. It was capitalised with £200m from four high street banks and £400m from dormant assets, which are assets that have not been used or claimed for many years and are unable to be returned to their owners.[9] It currently describes its overall purpose as *'to help build an investment ecosystem that*

[7] See in particular: Social Investment Task Force, *Enterprising Communities* (The Commission on Unclaimed Assets, 2000); *The Social Investment Bank: Its Organisation and Role in Driving Development of the Third Sector* (2007); and HM Government, *Growing the Social Investment Market: A Vision and Strategy* (2011).

[8] Section 18 of the Dormant Bank Accounts Act of 2008 stipulates that 'social investment wholesaler' means a body that exists to assist or enable other bodies to give financial or other support to third sector organisations, and that 'third sector organisation' means an organisation that exists wholly or mainly to provide benefits for society or the environment. See: https://www.legislation.gov.uk/ukpga/2008/31/section/18

[9] In England, this pool of funding is ring-fenced for initiatives focused on youth, financial inclusion or social investment.

supports enterprises to improve people's lives'.[10] As a wholesaler, Big Society Capital invests in intermediaries that directly invest in organisations that deliver social impact. They understand their role as helping to create a fair society by improving the lives of people in the UK through investment and they do this through working *'with expert partners, seeking to understand the issues, design and deliver investments and grow market participation, enabling a systemic and sustained impact to improve the lives of people in the UK'*.[11]

Despite their success in facilitating the flow of investment capital to VCSEs, Big Society Capital recognised that there were many organisations in the sector whose business models could only support repayable finance if it was subsidised in some way. One of the primary forms of subsidy is grant subsidy. Grant subsidy might take the form of grants for infrastructure to support the growth of the market; or grants to help organisations develop their capacity or readiness to take on investment capital; or grant subsidy into blended finance to make smaller and riskier loans. This was particularly the case for smaller charities and social enterprises or early-stage organisations. Big Society Capital sought to address this need by working with the Cabinet Office and Big Lottery Fund (now the National Lottery Community Fund), resulting in the establishment of Access in 2015.

Access was established with a £60m endowment from the Cabinet Office to provide long-term capacity building funding to VCSEs to increase their ability to take on investment. Big Society Capital and the Big Lottery Fund invested £22.5m each to form the £45m blended finance Growth Fund, which Access managed.[12]

Access defines its remit as working *'to support charities and social enterprises in England become more financially resilient and self-reliant, so that they can sustain or increase their impact'*.[13] Since the establishment of Access, a significant component of government support for social investment has taken the form of provision of grant subsidy into blended finance, the main delivery mechanism for which has been Access. Government support for social investment has also been given through social investment tax relief (SITR) and guarantees for social investors, although these forms of subsidy are outside the remit of this review.

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10 https://bigsocietycapital.com/annual-review-2020/market-building/

11 https://bigsocietycapital.com/about-us/our-role/

12 This was Cabinet Office's Social Innovation and Finance team, which now sits in DCMS under a different name (Civil Society Impact Funding team, formerly the Government Inclusive Economy Unit).

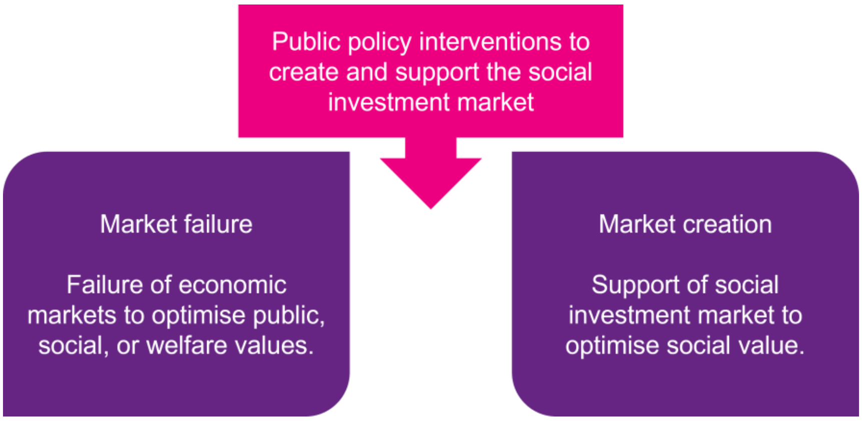
13 https://access-socialinvestment.org.uk/us/what-we-do/

The rationale for government support for building a social investment market

The mandate to address market failures provides a clear and persisting rationale for government public policy interventions to support the social investment market. The case for public policy interventions based on market failure is outlined in *The Green Book* and concerns the optimisation of public or social welfare values.[14] These are values that economic markets are unable to either fully capture or register. The underlying case for government establishing and supporting the social investment market is based on the failure of the financial markets to optimise social value and the corresponding capacity of a social investment market to remedy this failure (see table 2 below).

There are various ways that the market fails to finance VCSEs that deliver social impact. At their simplest, the business models of VCSEs that generate income often have a higher level of risk associated with them because they are not just focused on generating income but also on delivering positive social and/or environmental impact. Many of them are on the viability threshold for being able to take on investment due to the high cost of capital resulting from the risks associated with their business models. Grant subsidy into blended finance provides a mechanism and policy lever for government to address this failure and optimise the social impact these VCSEs deliver. This underlying market failure can be exacerbated by a lack of information about default rates and likely losses in frontier markets, or by the high transaction costs associated with developing a market and building a pipeline of investable propositions, particularly from smaller VCSEs. The underlying failure remains the inability of the financial markets to adequately price social impact and optimise public or social welfare values that impact-oriented VCSEs deliver.

Figure 6: The case for supporting the social investment market.



[14] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent/the-green-book-2020

Table 2 below shows the main persisting market failures, and their implications for the social investment market.

Table 2: Persistent market failures and their implications for the social investment market.

Main persisting market failures	Implications for the social investment market
Information asymmetry between borrowers and lenders	Without subsidy, markets will fail to optimise the social value that VCSEs can deliver, as mainstream institutional investors will not invest in the market without subsidy due to the persisting uncertainty of risks and returns in social investment and the level of defaults in these portfolios (particularly in areas with emerging business or enterprise models).
High transaction costs for social investors	Without subsidy, markets will fail to optimise the social value that VCSEs can deliver, as social investors will not offer products into the market (especially into untested geographies or thematic areas of the market) without subsidy due to the persisting costs associated with transacting with smaller VCSEs wanting smaller amounts of investment and the resultant reduction of their returns.
Inability to price the positive externality of social value	Without subsidy, markets will fail to optimise the social value that VCSEs can deliver, as the persisting inability of the market to price social value means that the delivery of impact within their enterprise models is unaccounted for and devalued.

Since the original policy objectives around social investment expressed in the government's 2011 strategy paper, *Growing the Social Investment Market: A vision and strategy*, government policy has become more recently focused on the levelling up agenda. The Levelling Up White Paper committed to *'consider how best to encourage social organisations to flourish in left-behind places'* and *'generate evidence on what social enterprises need to do to thrive in disadvantaged places'*.[15] It also committed £20m of grant funding for a blended finance intervention to support levelling up through civil society that will be delivered through Access. This report will examine the extent to which blended finance has the capacity to encourage social organisations flourish in left-behind places and deliver the government's levelling up policy objectives.

[15] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052706/Levelling_Up_WP_HRES.pdf p. 215.

Usage of grant subsidy within blended finance

To assess the potential role of government in any future provision of grant subsidy into blended finance for VCSEs, it is important to understand:

- how grant subsidy has been used within blended finance to date.
- how that grant subsidy has been blended into the market.
- where it has come from and what potential there is for supplement or substitution of provision.
- what examples there are from outside England.
- what challenges it has, or has not, been used to solve.

What have been the key delivery mechanisms used to blend grant subsidy into the market?

Until 2015, blend primarily occurred directly with VCSEs, rather than within fund structures

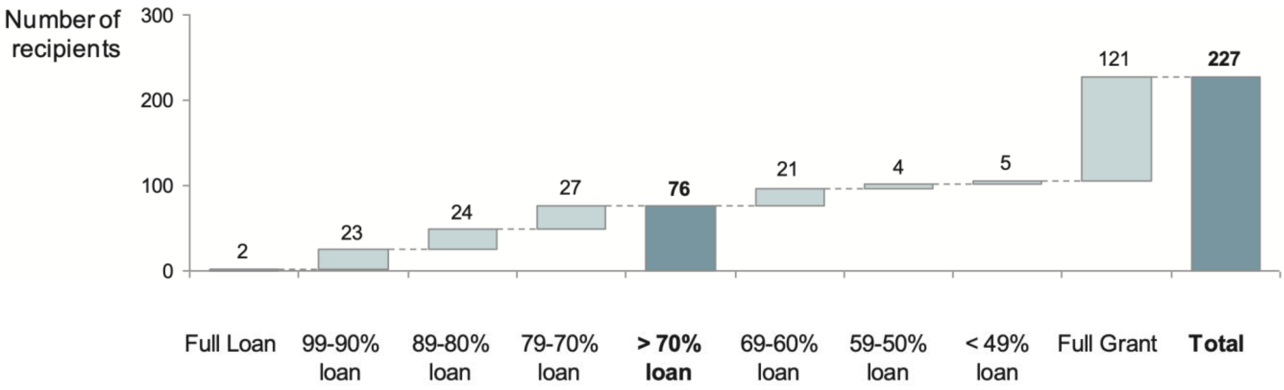
Prior to 2015, the key mechanisms used to deliver grant subsidy into the social investment market were funds capitalised by government grants and managed by social investors, or mainstream banks with expertise in social lending. These funds offered a blend of grant and loan to VCSEs but did not generally blend investment capital with grant in the fund itself.

The most significant of these was the £142m Futurebuilders England Fund (Phase I, 2004-2008 and Phase II, 2008-2010), which provided loan and grant financing to social sector organisations in England to which mainstream banks would not lend, to help them bid for, win, and deliver public service contracts. The fund was capitalised entirely by government with no external investment capital but with a remit to provide grants and loans with a fixed 6% interest rate. The fund offered blended products with a range of loan / grant percentage breakdowns dependent on the organisation and its needs, as well as 100% loans and 100% grants.

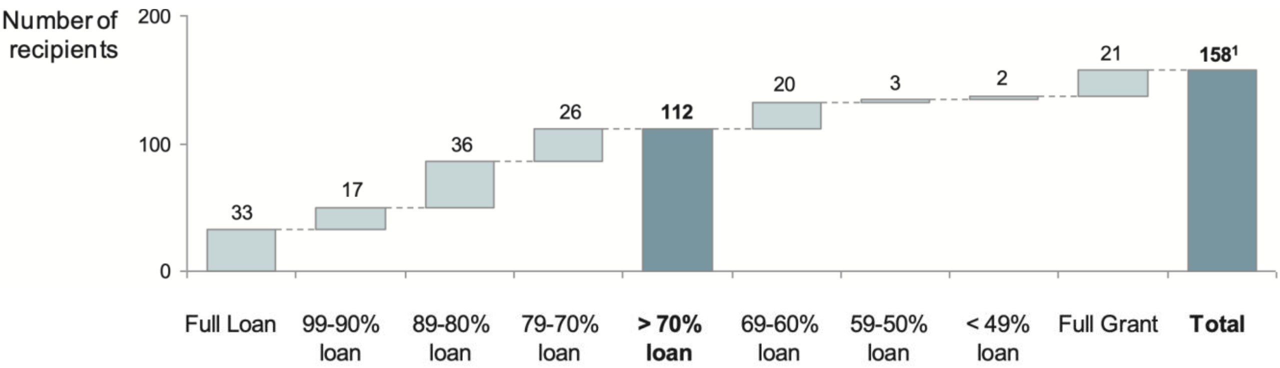
Figure 7 overleaf shows the number of recipients by proportion of loan / grant. There were 106 recipients receiving a loan in Phase I and 138 receiving a loan in Phase II, showing the demand within the sector at that time. The fund was innovative in providing this blend of grant and loan.

Figure 7: Number of recipients by loan / grant proportion in Phase I and II of the Futurebuilders programme.

Phase I



Phase II



Another example of blended finance products was the Social Enterprise Investment Fund (SEIF) managed by Social Investment Business. Capitalised by the Department of Health, SEIF invested more than £100m in more than 600 social enterprises working across a wide range of health and social care areas, including disability services, mental health, substance misuse, and carers' organisations.[16]

The transition from blended products to blended structures within social investment

The foundation of Big Society Capital in 2012 as a social investment wholesaler marked the beginning of a transition in the way social investment funds were structured. With a remit to build

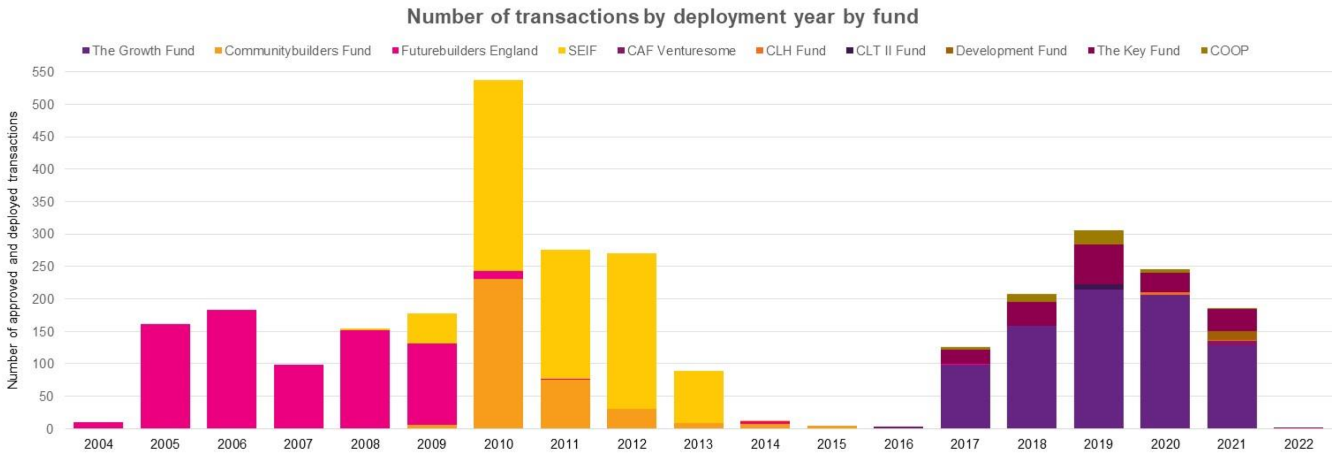
[16] *'55 SEIF investees received a loan (to March 31st 2011) totalling £11,372,637 with an average loan size of £206,775. Of these loans, 47 were agreed in conjunction with an additional SEIF grant (capital or revenue), leaving only eight investees receiving 'straight' loans. Stand-alone loans had an average size of £64,494, whilst the average loan size in grant-loan deals was £230,993; almost four times that of straight loans. The average grant given with each of these loans was £130,203.'* https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/tsrc/reports/SEIF/SEIFevaluationreport-December2012.pdf p. 35-6.

the social investment market, Big Society Capital was able to allocate investment capital into funds managed by social investment finance intermediaries (SIFIs) and to attract other investors to co-invest. This meant that their investment capital could be preserved and remain available to be recycled into further future investments in the sector, making it an economical and sustainable use of funds. The aim was to attract more capital into the sector and reduce the grant dependency of VCSEs, while offering them access to the finance they needed on terms they could afford.

Within the provision of blended finance for VCSEs, this marked the start of a transition from blended products offered through large funds capitalised by government offering a mix of grant and loan, to blended structures that blended investment capital and grant with the aim of both attracting other investors and reducing the cost of capital for VCSEs.

This transition is evidenced in our data set, which includes the government-funded Futurebuilders fund and the Social Enterprise Investment Fund (SEIF), and shows the dramatic drop in the amount of blended finance taken on by VCSEs after these funds closed. Figure 8 shows this drop after the end of Futurebuilders fund, which offered blended products to a smaller number of larger organisations and stopped taking on new investments in 2009, but before the Growth Fund began to offer blended finance to a larger number of smaller VCSEs in 2016. It is important to note that the fall in blended finance in Figure 8 does not chart the rise of unblended social investment that Big Society Capital began to offer to the market through its wholesaling activities from 2012 onwards.

Figure 8: Transaction by deployment year by fund.



Recognising the need for grant subsidy into blended finance structures

Big Society Capital's focus on increasing the amount of investment capital flowing to VCSEs was accompanied by a recognition that, at least at that stage of the market's development, there were many VCSEs with business models that would only be able to take on finance that was subsidised in some way. This led to the identification of a particular gap in the small unsecured loan market that blended finance structures could help to bridge.

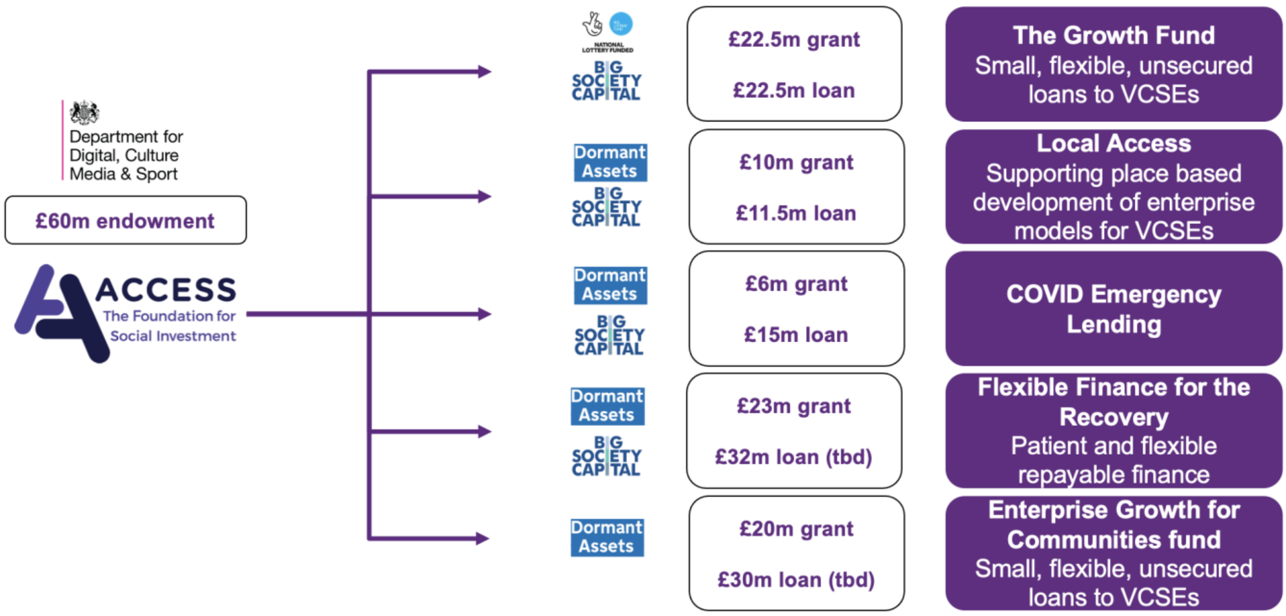
During interviews conducted as part of this review, a view was presented that as time has progressed, it has become clearer that the need for subsidy exceeds this particular gap and that it is not temporary. The market failure is not just about getting more data about what the real risk and return profiles of the market are or achieving scale, but about the viability of those business models to take on repayable finance without subsidy due to the fundamental inability of the market to price the social value created by VCSEs. They noted that if the aim is to grow and scale the social value that VCSEs deliver, then an element of subsidy is required for a significant portion of the market, but that this subsidy can go a long way—by leveraging in other investors to increase the amount of capital available to VCSEs and by helping to recycle a significant percentage of the public money invested in the sector.

Access—The Foundation for Social Investment was created to provide that subsidy

Access was launched in 2015 as a mechanism to deliver grant subsidy into the social investment market through funds enabling that grant to be blended with investment capital. It was tasked with developing programmes to stimulate both the demand for social investment from VCSEs and the supply of the right sort of finance to meet the needs of the VCSE sector.

The first remit was funded through a £60m endowment from the government, and the second by acting as a wholesaler of grant subsidy for blended finance to sit alongside Big Society Capital in its role as a wholesaler of investment capital. Initially, this was delivered through the creation of the Growth Fund, which blended grant funding from the Big Lottery Fund and debt (loans) from Big Society Capital. Subsequently, this has expanded to include the Local Access fund, Covid-related Emergency Lending, Flexible Finance for the Recovery, and Enterprise Growth for Communities fund (in development) (see Figure 9 overleaf). These funds have blended grant funding from dormant assets with investment capital from the wider social investment sector.

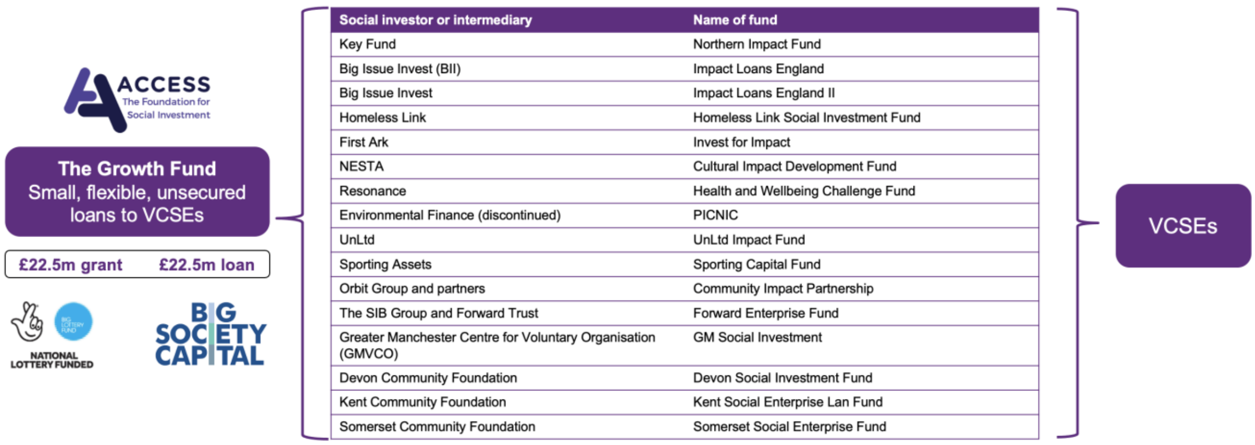
Figure 9: Access's blended finance funds.



The Growth Fund

The Growth Fund was created in 2016 by combining £22.5m of grant from the Big Lottery Fund (now called the National Lottery Community Fund) with £22.5m of loan funds from Big Society Capital. Access manages the Growth Fund in a wholesale capacity, working through social investors, who set up funds and make loans to charities and social enterprises (see Figure 10 below). The fund is designed to help social investors offer flexible unsecured finance to charities and social enterprises by making investments of up to £150,000. Its aim is to provide charities and social enterprises with the type and amount of finance they need.

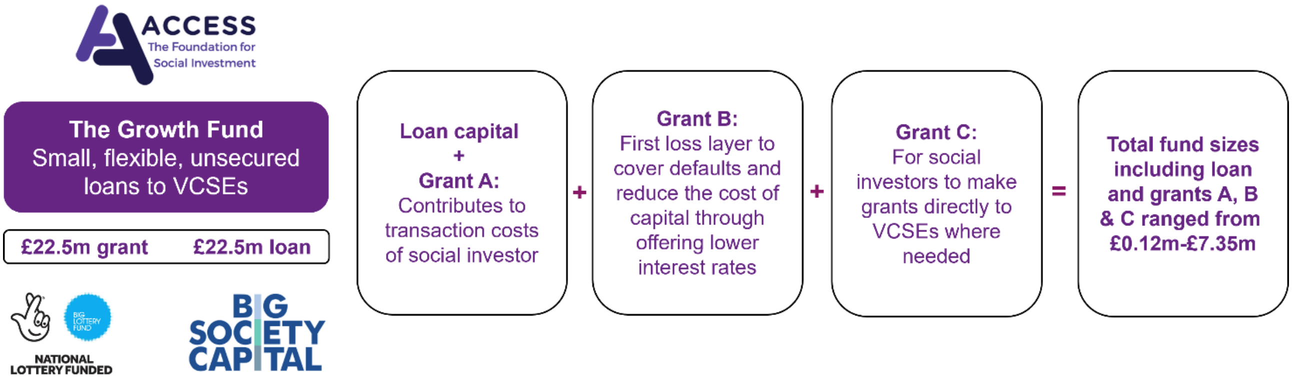
Figure 10: The Growth Fund.



Social investor or intermediary	Name of fund
Key Fund	Northern Impact Fund
Big Issue Invest (BII)	Impact Loans England
Big Issue Invest	Impact Loans England II
Homeless Link	Homeless Link Social Investment Fund
First Ark	Invest for Impact
NESTA	Cultural Impact Development Fund
Resonance	Health and Wellbeing Challenge Fund
Environmental Finance (discontinued)	PICNIC
UnLtd	UnLtd Impact Fund
Sporting Assets	Sporting Capital Fund
Orbit Group and partners	Community Impact Partnership
The SIB Group and Forward Trust	Forward Enterprise Fund
Greater Manchester Centre for Voluntary Organisation (GMVCO)	GM Social Investment
Devon Community Foundation	Devon Social Investment Fund
Kent Community Foundation	Kent Social Enterprise Lan Fund
Somerset Community Foundation	Somerset Social Enterprise Fund

The Growth Fund used three different types of grant that could be employed together at differing levels, and were designed to overcome three specific barriers to this sort of finance flowing, at the fund manager, fund, and VCSE levels (see Figure 11).

Figure 11: The three types of grants used in the Growth Fund.



Local Access

The Local Access fund expands the use of blended finance by taking a place-based approach to supporting VCSEs. Local Access is financed by £10m of dormant accounts money allocated to Access from the Reclaim Fund, and around £15m of repayable finance provided by Big Society Capital. It is a joint funding programme that aims to support the development of stronger, more resilient, and sustainable social economies in disadvantaged places. In addition, Access has made available a further £8m of grant funding into the fund from its endowment to support enterprise development activity.

This fund concentrates on six places that were chosen based on their plans for how a blend of grant and repayable finance could support their local social economy. The six places are: Bradford; Bristol; Gainsborough; Greater Manchester (Bolton, Oldham, Stockport, and Wigan); Hartlepool, Redcar & Cleveland; and Southwark in London (see Figure 12 overleaf).

The programme aims to help places become more resilient by enabling collaboration between charities, social enterprises, investors, and other actors. In each place, a partnership has come together and developed a widely shared vision for the growth of the social economy.

Figure 12: The Local Access fund.

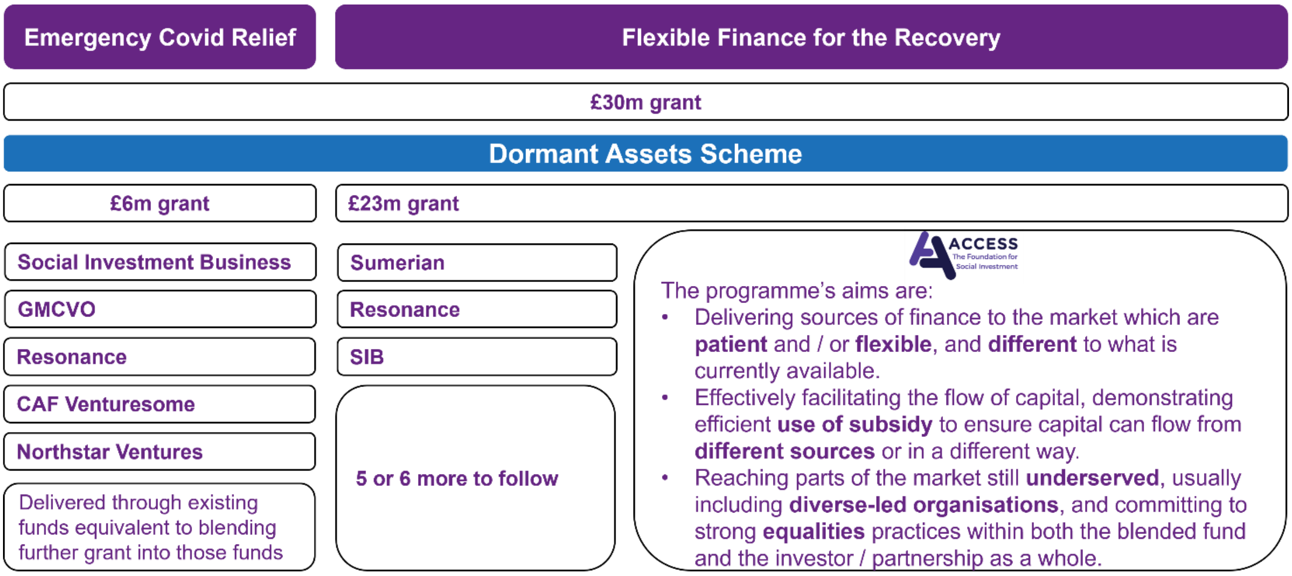
Covid Emergency Lending and Flexible Finance for the Recovery

In May 2020, Access received £30m of grant funding from dormant accounts to create new blended finance programmes in the social investment market to provide patient and flexible social investment for organisations post-covid.

£6m of this funding (‘Emergency Lending’) was used to support charities and social enterprises facing financial challenges due to the impact of Covid-19. Most of this subsidy was provided directly to frontline charities and social enterprises as grants alongside the loans they were receiving from social investment finance intermediaries, to ensure that their debt burden was appropriate and affordable at a time of great uncertainty and damage to income streams.

£23m of this funding (‘Flexible Finance for the Recovery’) is being used to support new blended finance initiatives to create more sources of patient and flexible repayable finance that serve the capital needs of charities and social enterprises. The balance of £1m was used for emergency support directly into the business models of a small number of investors who were struggling. Figure 13 on the next page shows Access’s Covid-19 response.

Figure 13: Access's Covid-19 response.



Enterprise Growth for Communities Fund

In February 2022, it was announced in the Levelling Up White Paper that Access will receive £20m from dormant account distributions to set up a fund with the aim of continuing supply of small-scale unsecured finance to grow and sustain the resilience of charities and social enterprises. The aim of this programme is to help charities and social enterprises looking to grow or diversify their business models, particularly those unlikely to have taken on social investment before, such as smaller organisations or those based in deprived areas. After consulting with the sector, it launched in April 2022, with individual funds due to launch later in 2022.

The Reach Fund

The Reach Fund is not a blended finance fund, but a grant fund designed to provide support to charities and social enterprises to enable them to overcome barriers to raising social investment such as blended finance. Barriers may include a lack of understanding of loans and social investment, and insufficient capacity to manage debt or financial modelling of new revenue streams. The Reach Fund therefore provides grants for investment readiness support by allowing grant subsidy to be used as a precursor to social investment.

What sources of grant subsidy have been used so far to support blended finance in England?

The predominant source of subsidy in England has come from the national government, either directly or through intermediaries and quasi-government structures

As mentioned earlier, grant subsidy has been used to support informal blended finance through funds such as Futurebuilders England and the Social Enterprise Investment Fund, both of which offered a blend of grant and loan to VCSEs. And since 2015, the Dormant Assets Scheme has been the major source of grant subsidy (£60m) into blended finance, although some of this remains to be deployed.

The next largest source of subsidy has been intermediaries and 'arm's length bodies' (ALBs) such as the National Lottery Community Fund, Power to Change, Heritage Lottery Fund, Arts Council England, Sports England, and British Gymnastics (see Appendix 1 for list).

Foundations and trusts are also sources of subsidy in England, however at a smaller magnitude

Foundations, trusts, and high net worth individuals have provided some grant subsidy into blended finance in England. Foundations that have done so include Nesta, Treebeard Trust, Cooperative Foundation, Barrow Cadbury Trust, Calouste Gulbenkian Foundation, and Esmée Fairbairn Foundation.

Three reasons were highlighted through the literature review and interviews for why trusts and foundations provide a smaller share of grant subsidy for blended finance to the market:

1. Trusts and foundations are reluctant to subsidise the returns of private investors.
2. The approach of most generalist blended finance funds is perceived to be at odds with the issue-specific grant-making methodology of foundations and trusts.[17]
3. Blended finance structuring is complex and requires significant human capital for effective delivery, which can constrain smaller foundations and trusts.

[17] Most blended finance funds do not have specific thematic areas (such as homelessness or mental health) but instead take a more inclusive, broad approach to the type of investments they make.

As a result, some trusts and foundations are offering 'blended products' from their own grant-making programmes without creating funds that are structured with a blend of grant and investment capital. These blended products are often sub-market blends of up to 50 / 50 grant / loan with 0% interest. Grant subsidy is provided directly to frontline charities and social enterprises with whom the trusts and foundations have, or want to build, a relationship.

The following case studies highlight foundations and trusts providing blended finance using different methodologies.

Case study: Esmée Fairbairn Foundation

Areas of focus	Invest across three themes: 1. A fairer future. 2. Our natural world. 3. Creative, confident communities.
Approach	• Impact-first: catalysing impactful organisations with finance. • Enterprise-first: work to understand their needs and then structures a blended product appropriate for the organisation.
Example of impact	• Esmée Fairbairn provided a £200,000 six-year, interest-free loan, to RefuAid for its Equal Access Loan Programme as part of creating creative, confident communities. Barrow Cadbury Trust also provided a £100,000 loan. • RefuAid supports access to language tuition, education, finance, and meaningful employment for newly settled refugees. The Equal Access Loan Programme provides interest-free loans of up to £10,000 to people with UK refugee status who are unable to pay for the cost of completing licensing or training required for professional employment. • Esmée Fairbairn tailored subsidy based on the goals of RefuAid. For the first four years, loan repayments can be redrawn and recycled to be re-lent to new borrowers. The foundation also provided £55,000 as a grant which was used to hire a Placement Lead to launch RefuAid's new recruitment arm. The recruitment arm enables RefuAid to secure work placements with employment partners to match their clients with and contributes to RefuAid's financial sustainability.

Case study: Treebeard Trust

Areas of focus	Small trust with just under £20m endowment. It aims to deploy all assets responsibly with 50% specifically through impact-driven investments. To date 30% invested for impact across various structures including charities, social enterprises and impact-driven business. Treebeard Trust prioritises direct investments over funds for greater additionality and deeper relationships.
Approach	• Impact investing. • Repayable 0% loans and grants. • Offer blended finance products to charities and social enterprises. • Patient and risk tolerant investment.
Example of impact	Treebeard Trust has provided blended finance products to six voluntary sector organisations. The main rationale has been to provide these funds for their financial resilience and building their investment readiness. One organisation that has had some funding fall through but was in the midst of hiring new staff came to Treebeard with the intention to get a line of credit. Treebeard Trust provided a 0% loan of £60,000 in order to retain key staff while the organisation successfully secured further funding elsewhere. The support was then transferred into a grant and then cancelled over time to support the organisation to become more independent. This shows the flexibility that foundations have when offering blended products. Another example is of an organisation that received a line of credit of £225,000 (three months' operating expenses) from which the organisation drew down a certain proportion, and then paid back at a rate of £10,000 a month once other income streams had been secured.

Local councils and authorities are another smaller source of grant subsidy into blended finance in England

Local councils have worked to grow the social enterprise market in their locality in a bid to address social issues of inequality and grow the local economy. Some examples of local councils that have provided grant subsidy successfully include Plymouth City Council, Bristol City Council, and the Greater Manchester Combined Authority. The blended finance loans are often smaller in size and more patient.

Plymouth Local Authority has combined different social investment mechanisms to grow the local social enterprise sector.

Case study: Plymouth City Council—Community Shares Programme and The Rank Foundation investments

Background	• The Plymouth Local Authority had a £20m jobs fund of which £2.5m was allocated to social enterprises: Social Enterprise Investment Fund (blended finance). • There is also a Community Shares Booster Programme run by Power to Change and the Cooperatives UK (alternative model) and The Rank Foundation is investing over £3m in Plymouth.
Approach	• The Social Enterprise Investment Fund was for local organisations. • 0% interest rate with easy application process, flexible with no investment jargon. • Long-term loans of up to £80,000 with grants up to £10,000. • The City Council provided advice and the Plymouth Social Enterprise Network contacts and support. The grant included support for professional advice to develop feasibility and business plans. • 40 investments in local social enterprises made. • Community Shares booster matched investment raised locally. • The Rank Foundation mix of direct and repayable grants, matched trading scheme, leadership and funded internship programme.
Examples of impact	• Blended finance: 200 social enterprises in Plymouth and it is a hub for social enterprises. The fund has built up the confidence and capacity of the sector. Funds used for working capital, assets and feasibility studies. • Community shares programme: A social enterprise is raising funds to bring a dilapidated building in Plymouth out of disuse to develop a music venue and business hub. They have raised £154,000 to date. • The Rank Foundation: Nearly 40 organisations supported, increases in earned income, raised awareness of social enterprise and support for economic policy and advocacy.

Greater Manchester Centre for Voluntary Organisation on the other hand takes a conventional approach as an intermediary to find social investments and disperse funding from national and local governments.

Case study: Greater Manchester Centre for Voluntary Organisations

Background	• GMCVO runs multiple projects to help tackle social, political and economic Inequality. One aspect of this is as a social investor. • Social Investment and Development Funding has come from Access, BSC, Greater Manchester Combined Authority and Esmée Fairbairn Foundation.
Approach	• Investment focused on most deprived areas of Greater Manchester to support economic activity. • It has a flexible approach to types of initiatives funded—e.g. STEM, employment, mental health, hospitality • Blended finance with a mixture of grants and loans.
Examples of impact	• GMCVO has invested in 80 organisations with an average investment of £40,000. • 32% of organisations that GMCVO has invested in in the last two years are BAME led. • 80% of GMCVO organisations are in the bottom third of areas by deprivation. • Example of an investment: Funding was provided to a group of African women to purchase a BBQ van for festivals. This asset is used to generate income and to teach other women language skills (as English is their second language) and employment skills.

Other sources of subsidy, although more informal, include investment readiness grants

Throughout the last two decades, government and the social investment sector have developed a variety of initiatives and products to support access to repayable finance for VCSEs, including from across a range of government departments.[18] Many of these initiatives focused on supporting VCSEs with investment readiness and capacity building support. This encompasses grant funds to support the development of revenue streams, such as the capacity to win government contracts. These funds form part of the background to blended finance, as capacity building or investment readiness grants were often informally blended with repayable finance by the recipient of those grants. This investment readiness is often a necessity for investees, whether supplied informally as a blended product, through a separate programme, or formally within a blended structure.

What sources of grant subsidy can be found which support blended finance for VCSEs outside of England?

In the international context, blended finance is used to invest in impact and development at scale

The UN Sustainable Development Goals (SDGs) face a $2.5 trillion funding gap and necessitate the need for more private capital for global development. To move private capital to the development sector, Convergence, a global network for blended finance, was set up in 2015. It is a membership body comprised of public, private, and philanthropic investors. Convergence provides grants to design vehicles that attract private capital to address the SDGs at scale. Because of the emphasis on the funding gap, many of these structures are oriented towards mobilising capital at scale. They are also oriented towards impact investing rather than social investment, as emerging economies and frontier markets do not have comparable legal forms to the UK (see Figure 14 overleaf). Blended structures employ a range of concessionary options in which some return may be forgone, or riskier investments may be made in exchange for greater positive impact (often referred to as catalytic capital options). However, government grant allocation is a major element in the provision of support or technical assistance.[19]

[18] For a summary of these see *Flip Finance: A Snapshot of the Social Investment Market* (2021).

[19] Convergence, *Blended Finance* (2022). Retrieved from https://www.convergence.finance/blended-finance#archetypes

Figure 14: Government donor commitments by investment type.[20]

In recent times, donor governments are using blended finance as a tool to mobilise additional sources of financing aligned to the SDGs

The role of donor governments in international development has primarily been to deploy public funds to help eradicate poverty in developing countries. Donor governments have typically provided funds to private sector development firms because the private sector offers market-driven solutions to development challenges and additional funding capacity, and because many developing countries have a weaker charity sector or no specific legal forms for social enterprises. Blended finance is being used as a strategic approach for optimising the use of finite public resources to maximise sustainable development for appropriate projects. Some interviewees and roundtable participants saw this as an example for the social investment sector in the UK to learn from. This was less about bridging a financing gap and more about mobilising capital towards social development goals. They noted that the missions and objectives of the Levelling Up White Paper moved in that direction but did not recognise that social investment was a powerful mechanism to realising them.

One example of innovation from a development context is crowdsourcing. Within the development context, this is where government grant is used as a subsidy to leverage in private capital at a retail rather than institutional level. The grant subsidy is used to match fund from retail investors through a digital platform allowing for small scale investments. Power to Change has offered grant subsidy for this purpose within social investment, but there is potential for exploring this model further even if the sums involved are generally smaller than institutional investors might provide.

Outside of the development context, blended finance has been used in the US, Europe, and Australia to grow the social enterprise sector. For instance, the Community Finance Fund—Social Enterprises (also referred to as Social Enterprise Finance Fund) is a $12.5m fund set up in

[20] Convergence, *Data Brief: How Donor Governments Blend* (May 2019).

Australia that is a partnership between a non-profit pension fund, Christian Super, and the government. Christian Super provided grant subsidy through $6m of funds and the remainder came from government. This fund has typically provided small loans of around $20,000 for a period of 3-5 years.[21] While global interest in impact investing continues to grow, the UK remains a leader in the field of building a social economy through social investment and in the use of grant subsidy to support VCSEs, with nothing comparable in scope and scale elsewhere. There is therefore the opportunity to build on this legacy of government investment on building a social investment market system and the risk that this investment and position of global leadership will be wasted if not built on.

Across the UK, outside of England, there are a range of notable players offering grant subsidy and blended finance

Dormant assets are the responsibility of the devolved administrations and their use for social investment by Access is restricted to England only. This means that Wales and Scotland have each approached building and supporting the social investment market in different ways.

Scotland

In Scotland, the social investment market has largely been supported by grant from the Scottish government and managed by Social Investment Scotland (SIS) to offer blended products to the market. In 2007, the Scottish government allocated £33m to develop the Scottish Investment Fund and appointed SIS to manage this fund. SIS has the remit to grow the social investment market in Scotland and attract private capital for social impact. The investments typically started at £100,000. The aim of the fund was to grow the third sector and it was deployed to around 63 organisations on a 50 / 50 grant / loan basis. Repayments then went onto the balance sheet of SIS to launch subsequent funds with the recycled grant from government matching investment capital from Big Society Capital to form two successive funds called the Social Growth Fund I and II. These funds have not offered a blended product but offered 100% repayable loans, with the recycled grant contributed to lowering the cost of capital.

SIS has played the role of market builder, which is included in its strategy. SIS has therefore served the role of Access but without the intermediation in Scotland. As a result, the social investment market in Scotland is dominated by fewer larger players (with Resilient Scotland being one) than the market in England.

[21] *Catalytic First-Loss Capital* (2022). Retrieved from: https://thegiin.org/research/publication/catalytic-first-loss-capital

The second Social Growth Fund was originally designed as a £17m fund with £8m of grant from the recycled Scottish government money matching £8m of investment capital from Big Society Capital and £2m of investment capital from the University of Edinburgh, which was a first-time investor in a social investment fund. This was then reduced to £6m each from Big Society Capital and SIS, with the £2m of grant then sitting outside of the fund structure but being used to offer grants alongside the loan—thereby being, in effect, a blended product. In part, this was to ensure deployment as there is an adequate supply of capital rather than an undersupply of capital for the social investment market in Scotland in the short term and the grant element in a blended product helps attract applicants.

Recently, the Scottish government has launched the Third Sector Growth Fund with a grant of £30m in a bid to increase social investment after the coronavirus pandemic. This fund includes:

1. The Social Catalyst fund, which totals £15m, to help organisations that do not have access to loans with loans which can be repaid based on turnover, rather than growing interest rates.
2. The Net Zero Transition Fund, totalling £5m, to support activity which enables growth of VCSCs through investment loans.
3. The Recovery and Resilience Fund, totalling £5m, to support organisations to rebuild following the Covid-19 pandemic.
4. The Social Impact Venture Portfolio, worth £5m, to offer investments of equity into mission-driven businesses, encouraging organisations to adopt a social enterprise model.[22]

The delivery partners are The Social Impact Venture Portfolio and Social Investment Scotland (SIS). SIS will manage the Net Zero Transition Fund and Recovery and Resilience Fund. The Impact Investment Partnership Scotland (IIPS), an entity owned equally by Firstport and Social Enterprise Scotland (SES), will manage the Social Catalyst Fund.

While SIS can receive capital investment from Big Society Capital due to its partial capitalisation from the 'Merlin' banks, it is unable to receive grant subsidy from Access because of Access's England-only remit. Any future provision of grant subsidy from government on a wholesale basis would be welcome on a UK-wide basis but would need careful consideration in terms of how it was set up from the perspective of SIS. There would need to be an acknowledgement of the different nation's needs of national social investment markets.

[22] *Third Sector Growth Fund* (2022). Retrieved from https://www.gov.scot/news/third-sector-growth-fund

Wales

In the Welsh context, grant subsidy for blended finance to support VCSEs has largely come from European Union funding out of the European Regional Development Fund. Two schemes were developed for different geographical areas, both of which offered a blended product but neither of which were blended structures. They offer a 40 / 60 grant / loan split with match funding of 40% required. The maximum funding provided under these funds is £150,000. As the EU grant fell under the 'repayable assistance' rather than 'financial instrument' stream within EU nomenclature, there is no interest payable on the repayable portion. This funding is coming to an end because of Brexit and it is unclear what future provision exists as devolved allocation of dormant assets does not go to social investment in Wales. Any future provision of grant subsidy from government on a wholesale basis, available throughout the UK but tailored as appropriate to the individual nations, would be welcome from Social Investment Cymru.

Social Investment Cymru estimates that the unblended social lending market in Wales amounts to approximately £1m per annum, with the amount of blended grant / loan deployed being approximately £1m per annum over the last five years in addition to this.

During the covid pandemic, the Welsh government provided some blended finance through the Third Sector Resilience Fund for Wales, in which up to £75,000 was available on a 75% grant and 25% repayable basis. The aim of this fund was to strengthen the resilience of businesses. Approximately £12m was allocated during the financial year 2021 / 2022.

Northern Ireland

The main social investors in Northern Ireland are Ulster Community Investment Trust and Charity Bank, which account for approximately £30m and £3m of lending to the social sector, respectively. The majority of this is through asset backed lending.

What key challenges has grant subsidy for blended finance been used to solve?

The key challenges that grant subsidy for blended finance was used to solve were market economy challenges, notwithstanding the end use of social investment to improve organisational resilience and growth to meet social issue challenges. In general, most of the respondents noted that grant subsidy had been used to solve the market economy challenge of providing affordable small-scale unsecured loans (under £150,000 but often much smaller, e.g. £10,000), to growth-stage VCSEs.

Market economy challenges

Most social investors referred to the challenges of covering the costs of investing in VCSEs. For some, the focus was on loan loss provision or loss cover, which covers enterprises that close with the loss of capital invested, low or non-performing loans resulting, or changes in expectations due to additional needs for flexibility or patience in repayment schedules. For others, the focus was on transaction costs for doing deals, sourcing and relationship management costs, due diligence, and additional time spent providing investment readiness support to VCSEs. Transaction costs are considered higher because a lot of the organisations are small and so the process is more similar to personal lending but they *'need more hand holding'* to produce the business case needed. '*We need a subsidy as the business model doesn't work. We are very slim and we do have some of the highest interest rates in the market already. We would need to increase interest rates to commercial rates to make it work.'* VCSEs in general cannot afford the interest rates applied by mainstream lenders to account for additional risk. These costs are exacerbated when the size of loans required are small, as is often the case when transacting with smaller or start-up charities and social enterprises. *'We know we lose money on every deal under £60k but our average deal is £50k and that's intentional.'*

The following were challenges that many respondents mentioned:

1. Attracting investment capital to the social investment market and frontline organisations.
2. Supporting scale in the social investment market to reduce transaction costs and attract capital at scale.
3. Improving the affordability of capital for frontline organisations.

One respondent also mentioned the importance of promoting and developing enterprise models in sectors where the untested nature of those models requires subsidy to attract risk or investment capital. '*Very few examples of blended finance in [x sector]. Hypothesis is that [x sector] is grant reliant sector and it shouldn't be. Lots of people relying on grants, just because they have always been there.'* This aligns with more general responses about overcoming the cost of developing the market for small, unsecured loans to VCSEs.

What key challenges has it not been used for?

Interviewees noted the success of grant subsidy in meeting the need for small-scale lending to VCSEs. However, they also acknowledged several unaddressed challenges. These technical challenges include:

1. **Product innovation**

   Some interviewees mentioned that grant subsidy could have been better used to develop new and innovative products as well as larger deals. Some intermediaries commented that the social investor could have had a stronger presence in the design of the funds, adding more local knowledge of need and potential pipeline. It is worth noting that more recent programmes designed by Access, such as the Flexible Finance for Recovery programme, have sought to address these issues.

2. **Even more concessional products for VCSEs**

   Other interviewees noted that grant subsidy could be used more strategically to ensure social investors and fund managers have the flexibility to provide VCSEs with the right money at the right time for the right reasons: *'[We need to] develop a product that works for clients based on their needs rather than what we have pieced together.'*

   One interviewee suggested that from the perspective of VCSEs, the terms that are needed are more like 50% loan / 50% grant with a 3% interest rate on the loan and terms that are flexible and patient. They reported that these terms, and others like them, are currently offered only by a small number of trusts and foundations like the Postcode Innovation Trust, which are very attractive to investees. Others noted the tension between supply and demand in terms of meeting the needs of the VCSEs and the sustainable provision of sufficient capital to service the market. They noted that a hyper-flexible, low-cost product, such as that referenced above, would be hugely in demand but would require much more grant subsidy at a much larger scale. This might also potentially make it harder to attract investment capital at scale.

3. **Addressing scale in financial solutions for social issues**

   Other interviewees noted the unrealised opportunity to meet scaling issues in financing solutions to social issues. One interviewee noted that there has been less work done with subsidy to tackle policy or social issues through fund design. While some of the Growth Fund's smaller funds have had specific themes, they noted that there was insufficient data on how those funds have reduced or improved outcomes in particular policy areas as they were not designed in that way. They noted that grant subsidy could be used to design funds to deliver public policy objectives through financing innovation and solutions at scale. Additionally, this may speak to impact measurement linked to the social policy objectives or more thematic giving around particular social objectives.

Another responded that a much wider segment of the social investment market needs subsidy to attract capital at scale because of the challenges faced by their enterprise models and the returns that they can make. They suggested that overcoming the constraints of VCSEs' enterprise models simply require some form of subsidy.

Impact of grant subsidy into blended finance for VCSEs

To understand the value of government support to date of the social investment market through the provision of grant subsidy into blended finance for VCSEs, and to assess whether there is a case for any ongoing or future provision of that grant subsidy, it is important to know what evidence exists for the impact it has had. This chapter will ask about the impact of grant subsidy into blended finance on the social investment ecosystem (has it enabled more financing?); on organisations (has it allowed them to grow?); and on social goals (has it delivered beneficial outcomes?).

What has been the impact of blended finance on the social investment ecosystem?

Blended finance has facilitated a growth in organisations focused on social investing to smaller organisations

The use of blended finance and Access's support and market-building has boosted the number of social investors in the sector and also improved their investor capabilities. The Growth Fund has increased the number and capability of social investors, and most hope to continue working in this space. For example, of the 15 different social investors within the Growth Fund, ten brought no prior organisational experience of specifically managing a loan portfolio.[23] *'The right subsidy will enable you to deliver the right things and make the right investment decisions.'* Interviewees also mentioned that blended finance had increased the number of social investors, broadened reach, and increased social investor capabilities. This view is also supported by the literature. '*Subsidy is needed to bring new entrants and new sectors into the market.'* One interviewee said that prior to the Growth Fund, the organisations offering social investment did not know enough about social enterprises. *'The rogue players have left the market. The market has thinned out to people who want to be in it, not people who are looking to make a profit.'*

[23] James Ronicle et al, *Growth Fund Independent Evaluation. Update Report 2: Full Report* (The National Lottery Community Fund, 2021) p. 59.

The growth in intermediaries in the social investment market has allowed for more local and tailored support

Another interviewee made the point that the growth in intermediaries has meant that *'blended finance isn't run out of London which is good.'* Localised support has enabled more tailored deals and local impact. Interviewees felt this local knowledge was particularly important in their success at targeting deprived communities (see pages 43-45). For example, an interviewee mentioned that 35% of their investments had been to Black-led organisations. On the flipside however, another interviewee thought that Black and minority ethnic organisations had been left behind by blended finance so far, and there was a need to further encourage more social investment in minority-led organisations that serve these cohorts. At the roundtables, there was consensus that recent developments in investing in Black and minority ethnic organisations was one important reason why the potential reduction of subsidy to blended finance is ill-timed.

Blended finance has helped sub-sectors with specialist expertise increase their involvement in social investment

One sub-sector provider mentioned that blended finance allowed the '*sector to take on a mixed economy'* and become less reliant on grants. The literature suggests this is partly around the use of unsecured lending, which is more attractive to organisations, and helps them access social investment for the first time. One interviewee backed this up: '*Secured only is just not going to work in this space.'*

What has been the impact of blended finance on VCSEs?

Blended finance helps VCSEs grow and consequently employ more people

Blended finance has helped organisations grow. The evaluation of the Growth Fund shows that two thirds of 150 VCSEs increased their income (the other third saw a decrease).[24] Most of the investees attributed increases to the Growth Fund, but it was not possible to compare this with a counterfactual, and so it is not clear why so many had a decrease, and whether this is better or worse than the counterfactual. Organisations used the funding to cover both working capital and

[24] James Ronicle et al, *Growth Fund Independent Evaluation. Update Report 2: Full Report* (The National Lottery Community Fund, 2021).

net assets. While working capital was often used to cover cashflow while they grew, the evaluation found that the impact on net assets was unclear.[25]

Figure 15 comes from a sub-sector of organisation-level data from the Growth Fund using financial data as an indicator of organisational impact.[26] It shows the average revenue increased by 43% in the three years following social investment indicating the strengthening of organisational balance sheets and their capacity to manage repayable finance.

Figure 15: Average revenue following social investment.[27]

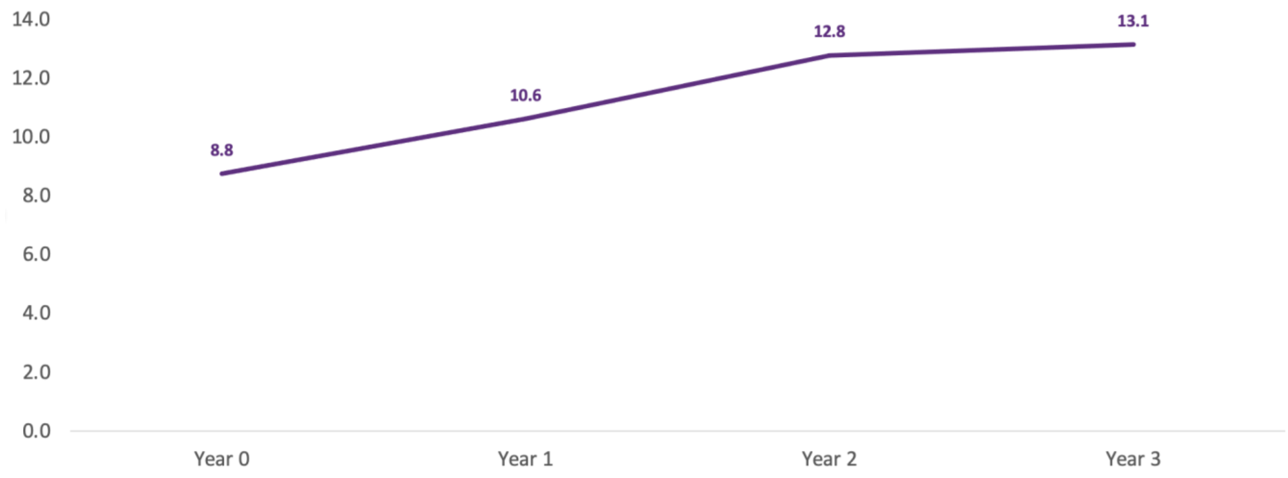
Almost all interviewees said that blended finance allowed organisations to grow—some said that it *'speeded up growth'* and that allowed organisations to employ more people *'on a proper wage'* and help more people. *'I think the use of blended has enabled our clients to do things they wouldn't have been able to do—they would have had slower business models.'* Figure 16 overleaf, from the same sub-set of the Growth Fund data, shows the increase in the number of people employed following social investment. There is a nearly 50% increase in the number of staff who are employed.

[25] James Ronicle et al, *Growth Fund Independent Evaluation. Update Report 2: Full Report* (The National Lottery Community Fund, 2021).

[26] The sample size for this data was small, drawing from 48 out of a total portfolio of 148 organisations within two funds from the Growth Fund. Organisations were excluded if they did not have more than three years of published accounts post-investment or if they did not report any of the core metrics. Beyond the small sample size, several additional caveats accompany this data, including the potential for selection bias (borrowers that went insolvent would not be included in the sample), and exclusion of the smallest of borrowers through lack of reporting requirements to company house. While there remain questions about how reliable and useful financial data is as a predicter of performance, this gives an indication of the relationship between social investment and organisational resilience.

[27] Data source: Big Society Capital.

Figure 16: Average of full-time equivalent employees following social investment.[28]



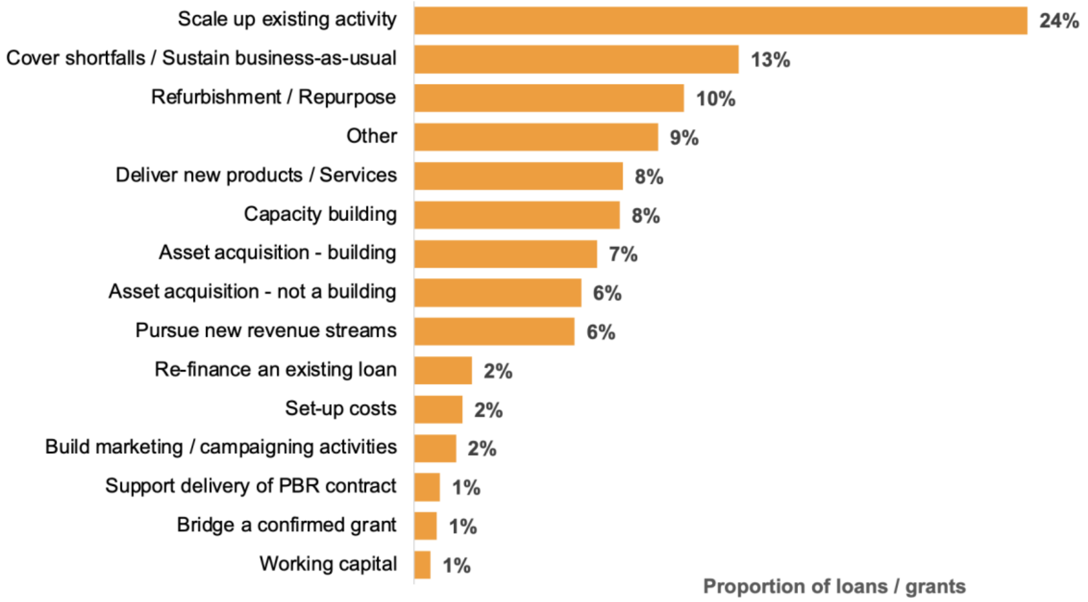
The fact that social enterprises have grown substantially in the last decade when blended finance has been increasingly deployed is clear from the literature. The Commission on Social Investment notes that there has been a 47% increase in the number of social enterprises, with a corresponding doubling of jobs.[29] It is not necessarily the case that this is attributable to blended finance, but it has coincided with a period of strong blended funding.

The fact that blended finance helps organisations grow can also be inferred from data about why organisations apply for blended finance. The reasons largely fall into three categories: growth, increasing resilience, and delivery of more impact (see Figure 17 overleaf). The desire to grow and scale up existing activity was the single biggest reason, followed by increasing the resilience of the organisation by sustaining operations or covering shortfalls, to which capacity building and pursuit of new revenue streams also contribute. While arguably all growth and resilience contribute to sustaining and increasing impact, this is also a stand-alone reason for applying for finance in 8% of cases. One investor said that a *'big percentage say if they hadn't gotten money from us they wouldn't have gotten the money or done the project.'* This indicates that blended finance is helping organisations grow that otherwise would not be able to.

[28] Data source: Big Society Capital.

[29] The Commission on Social Investment, *Reclaiming the Future* (2022).

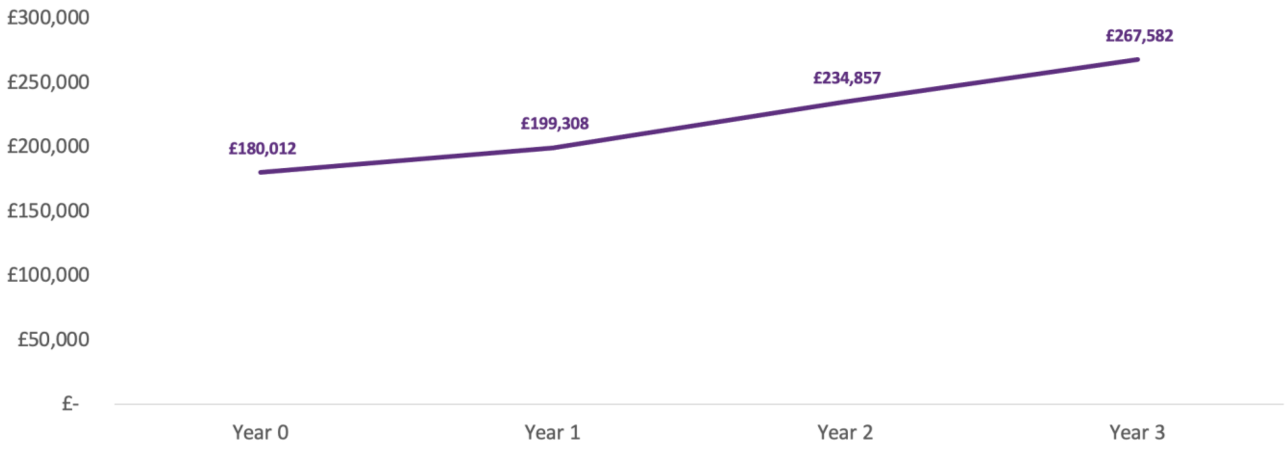
Figure 17: Why organisations applied for the Growth Fund.



Blended finance helps organisations become more stable and financially resilient

The evaluation of the Growth Fund shows that it helped organisations improve their financial resilience and that most organisations attributed this to the Growth Fund.[30] The increase in total assets after social investment is shown in Figure 18 overleaf from the subset of the Growth Fund data.

Figure 18: Average of total assets following social investment.[31]

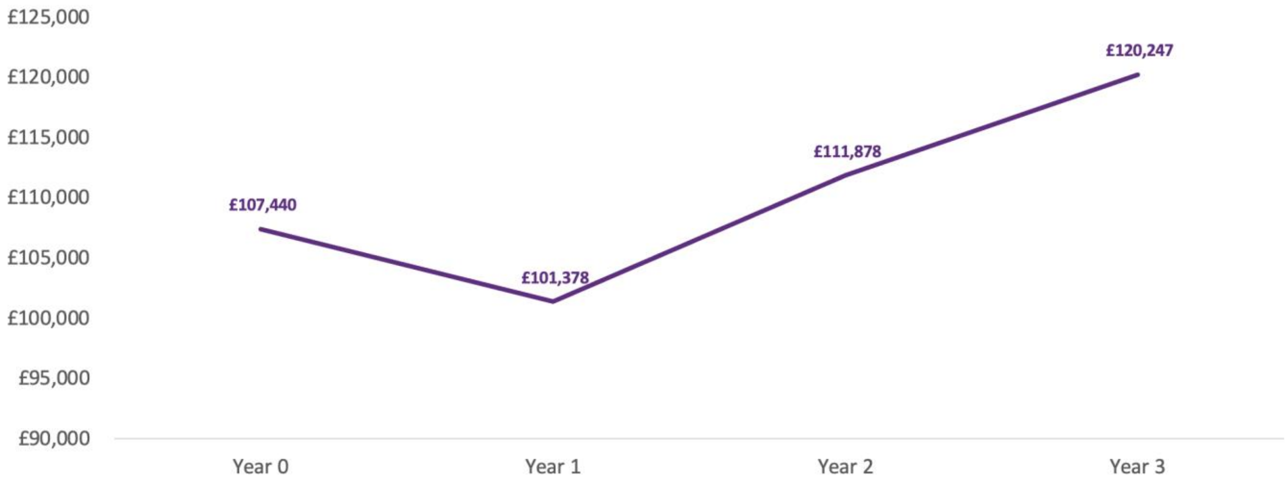


[30] James Ronicle et al, *Growth Fund Independent Evaluation. Update Report 2: Full Report* (The National Lottery Community Fund, 2021).

[31] Data source: Big Society Capital.

Figure 19 below shows the change in net assets following social investment. This follows a different trajectory to the total assets as it includes the liabilities. You can see from this that although the net assets go down as they take on a liability, they then increase to above their starting position. This indicates that social investment can make organisations more stable, even though they have taken on debt.

Figure 19: Average of net assets following social investment.



One interviewee made the point that the impact was slightly different for the Covid Emergency Relief Fund, which was more about helping organisations survive rather than grow: '*Choices were about survival, and blended finance mitigated that.'* However, that still enabled organisations to keep jobs in place. A few talked about organisations becoming more resilient and less reliant on grants. *'I see blended finance as beneficial for developing and catalysing new potentially really impactful ways of making orgs more sustainable so they don't want grant finance.'* Many interviewees talked about it moving organisations and sectors that were reliant on grants to be able to use loans, making them more financially sustainable. One interviewee argued that it had allowed the government to reduce the number of grants it gave without reducing the work that was done by VCSEs. *'If there [were] as many grants around as there used to be when the government gave more grants, then would there be this need for blended finance?'*

What has been the impact on social goals?

The social outcomes achieved by blended finance include:

1. Blended finance has increased capital to smaller organisations and lower socio-economic areas of England, which has resulted in more impact in these areas.

2. Blended finance has reached a wide range of sectors, including education, employment, and healthcare.

3. A large range of beneficiaries have been supported through blended finance.
4. Blended finance, particularly the Growth Fund, has expanded the reach of VCSEs.
5. Organisations report that the funding has improved social goals.

As such, an overarching conclusion is that blended finance can support VCSEs to reach more people in disadvantaged communities across a range of social outcomes important to the government's levelling up agenda. We give more detail on the evidence for each of these outcomes below; however, a cautionary note on the data is that beneficiary data is not as comprehensive as we would like. One interviewee said that they wanted more data on the impact on service users and had tried to encourage social investment intermediaries to collect that data. Others said that getting comparable data from such disparate organisations aimed at helping different people is not possible. Although this chimes with NPC's experience of getting different organisations to collect similar data, more could be done by collecting better data on beneficiaries (see Appendix 1 for further suggestions). However, it means we cannot be confident of the extent to which social goals are being met, and it means that analysis (such as a value for money analysis) is not possible.

1. Blended finance has funnelled capital to smaller organisations and lower socio-economic areas of England

Data from the Growth Fund shows that it has tackled the poorer areas of England. Figure 20 on the next page shows that nearly half of all beneficiaries reached by the Growth Fund money were in the poorest 20% of places on the index of multiple deprivation scale. This is also picked up by the literature, which has found that social investment more broadly is targeted at more deprived communities. '*Whether measured by # deals [number of investments] or £ [total value of investment], investments from the Growth Fund have been heavily biased towards supporting organisations based in the most deprived communities in England.*'[32]

The Growth Fund is currently better at targeting those experiencing the most disadvantage than social investment more generally—the literature says that looking at Big Society Capital's deal information, there is a bias towards London and away from the North of England.[33] This is also true when looking at bank data *'which has a more flat line across all the IMD deciles'.*[34] This means that

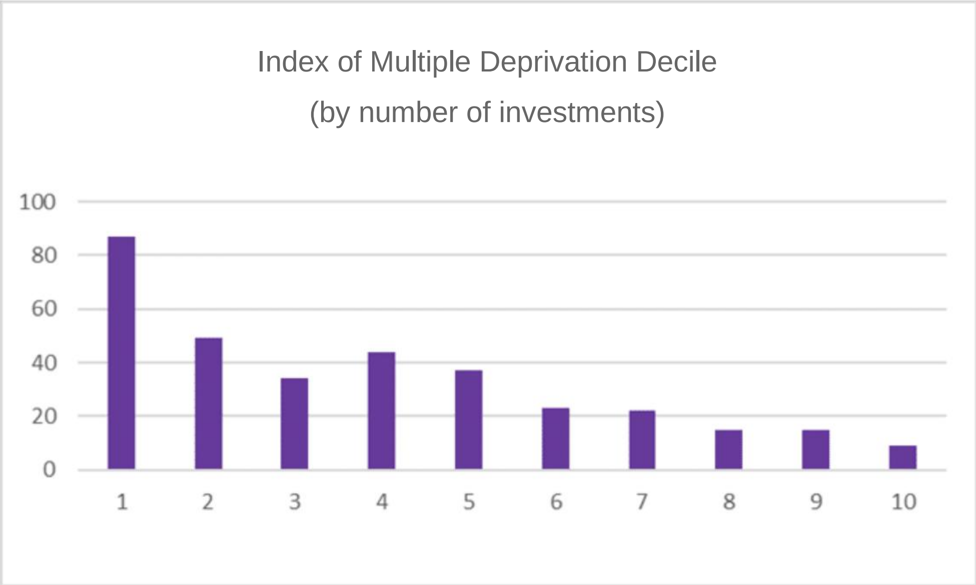
[32] Dan Gregory, *Levelling the Land: Social investment and 'left behind' places* (Local Trust, 2021).

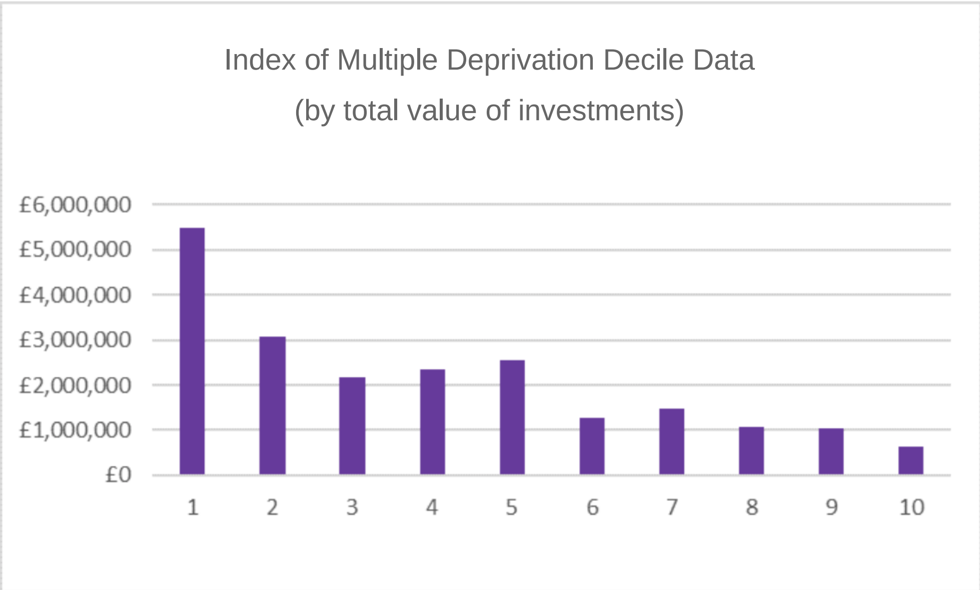
[33] Ibid.

[34] Ibid.

blended finance could be a suitable mechanism to use in driving the levelling up agenda. Furthermore, it highlights the importance of fund design in achieving social objectives and the knowledge of how to do this. This knowledge is currently embedded in institutions such as Access and other social investment intermediaries.

Figure 20: Growth Fund distribution by deprivation decile (2016-2022). [35]





[35] Graphs sourced from: https://access-socialinvestment.org.uk/blog/targeting-the-most-deprived-regions/

Figure 20 on the previous page shows the figures for the Growth Fund (by both number and amount of investments), and Figure 21 below shows the data for all funds we have data for, including the Growth Fund. Again, it shows that blended finance funds have been tilted towards organisations based in deprived communities. Although the analysis is based on the postcode of the organisation, rather than users of the service, because we know the organisations are fairly small, we can be reasonably confident that they are operating in the community that their postcode gives (rather than being a larger or national organisation spread across many areas).

Figure 21: Distribution by deprivation decile (2004-2022). [36]

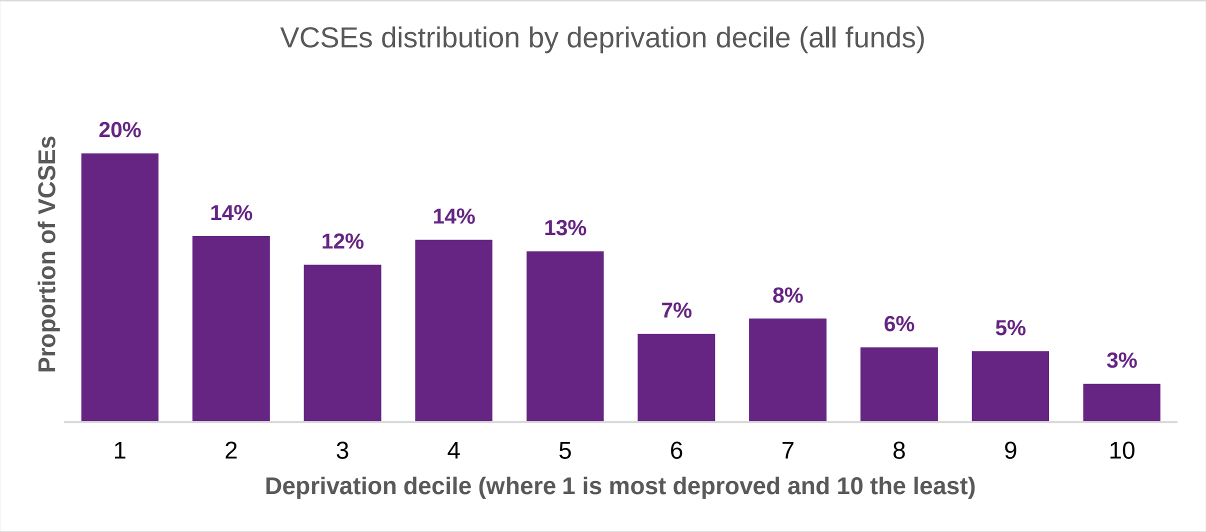


Figure 22 overleaf shows how blended finance has been targeted towards smaller organisations. The aim of blended finance was for it to support the smaller organisations, making it easier for them to access social investment and therefore grow and become more financially resilient. The data below shows that blended finance has successfully targeted this group.

[36] Geographical information was available only for 30% of the 2,353 VCSEs across all approved and deployed funds. Note that deprivation has been calculated using VCSE postcode—beneficiaries may live in a different postcode.

Figure 22: VCSEs by size (all funds). [37]

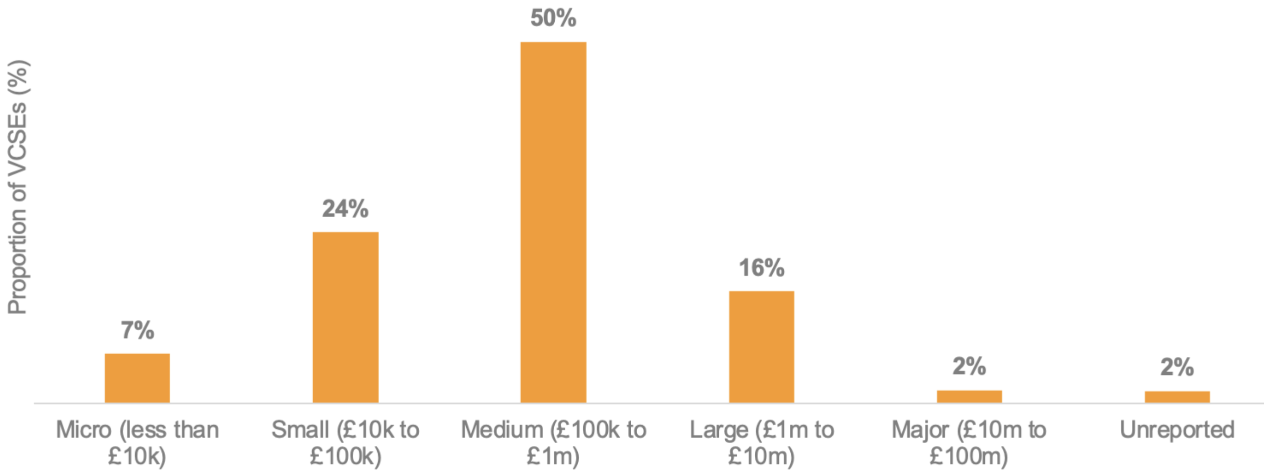
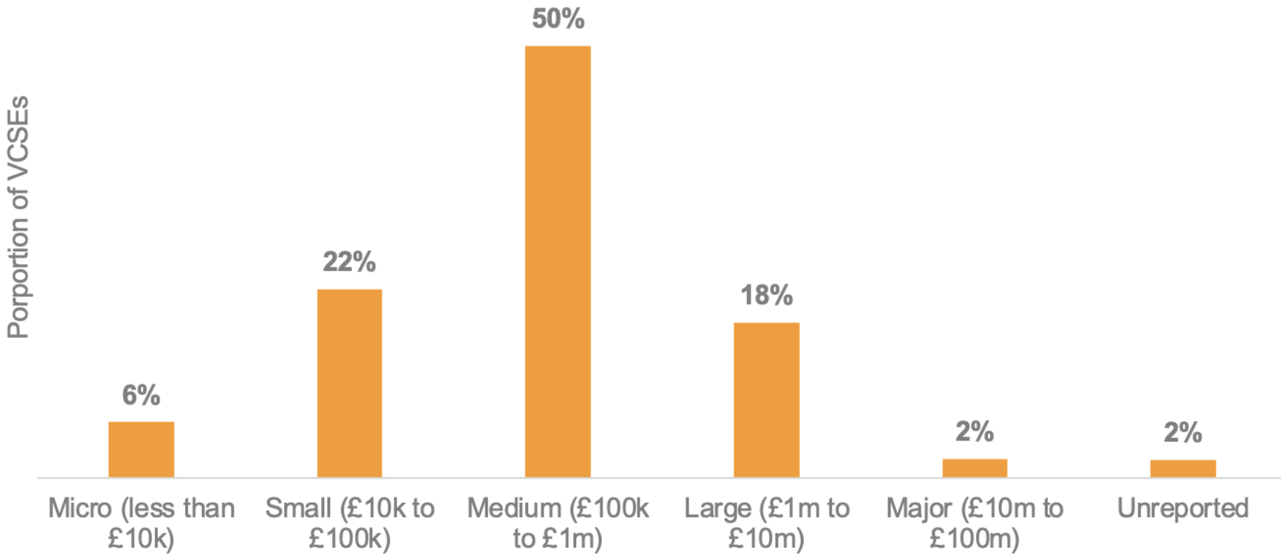


Figure 23 below shows the same data for the Growth Fund. It shows the same pattern—organisations with income less than £1m make up the majority of the funding partners. A focus for Access more recently has been targeting organisations led by ethnic minorities (which are often smaller organisations). One interviewee said that Access was important in making sure that *'BAME intermediaries had access to blended finance'.*

Figure 23: VCSEs by size (Growth Fund).



2. Organisations receiving blended finance work in a range of sectors

The data shows the areas of social challenge that grant subsidy for blended finance has been used to address. Where there is available data, it shows that education, training, and employment were

[37] This chart refers to overall approved and deployed funds only to 2,353 VCSEs. Income data was missing for 59% of the VCSEs in the dataset.

the primary challenges. Mental health and health and social care follow closely behind (see Table 3 below). The aggregate data includes the Growth Fund, which provides the most complete data set and moderately skews the results. The question provoked by this data is whether addressing education, training, and employment is also focused on economic welfare distribution by focusing on disadvantaged people and places.

Table 3: Intended activity or outcome for the Growth Fund and all funds.[38]

Activity / Outcome	The Growth Fund	All Funds
Access to services and facilities	1%	3%
Arts, heritage, sports and faith	6%	6%
Children and young people	0.3%	5%
Citizenship and community	8%	8%
Conservation	1%	1%
Crime	0%	2%
Education, Training and Employment (ETE)	34%	30%
Environment	0.1%	1%
Family, friends and relationships	4%	3%
Health and social care	0%	11%
Housing and local facilities	8%	6%
Legal aid	0%	0.1%
Mental health and well-being	21%	14%
Other	0%	0.3%
Physical health	14%	9%
Poverty and financial exclusion	3%	2%

3. Organisations receiving blended finance work with a large range of beneficiaries

Figure 24 overleaf shows the large range of target beneficiaries that the Growth Fund had (split by percentage of VCSEs saying they were working with that target group). The largest group for the Growth Fund was vulnerable young people and young people not in employment, education, or training. The largest group for other funds was the community / people of all ages. This data does not show what impact the funds had on those beneficiaries—although you can make some assumptions about intended impact from how the people have been categorised.

[38] Note that summary figures refer to applications approved and deployed only. Data sources: Access, The Key Fund, SIB, CAF, Power to Change, Nesta, and COOP. 9% of organisations in the Growth Fund dataset, and 46% across all funds combined, had missing data. The Growth Fund dataset consisted of 756 transactions and 389 VCSEs, whilst all funds combined refer to 2,591 transactions and 2,353 VCSEs.

Figure 24: Target beneficiaries by the Growth Fund and all funds.[39]

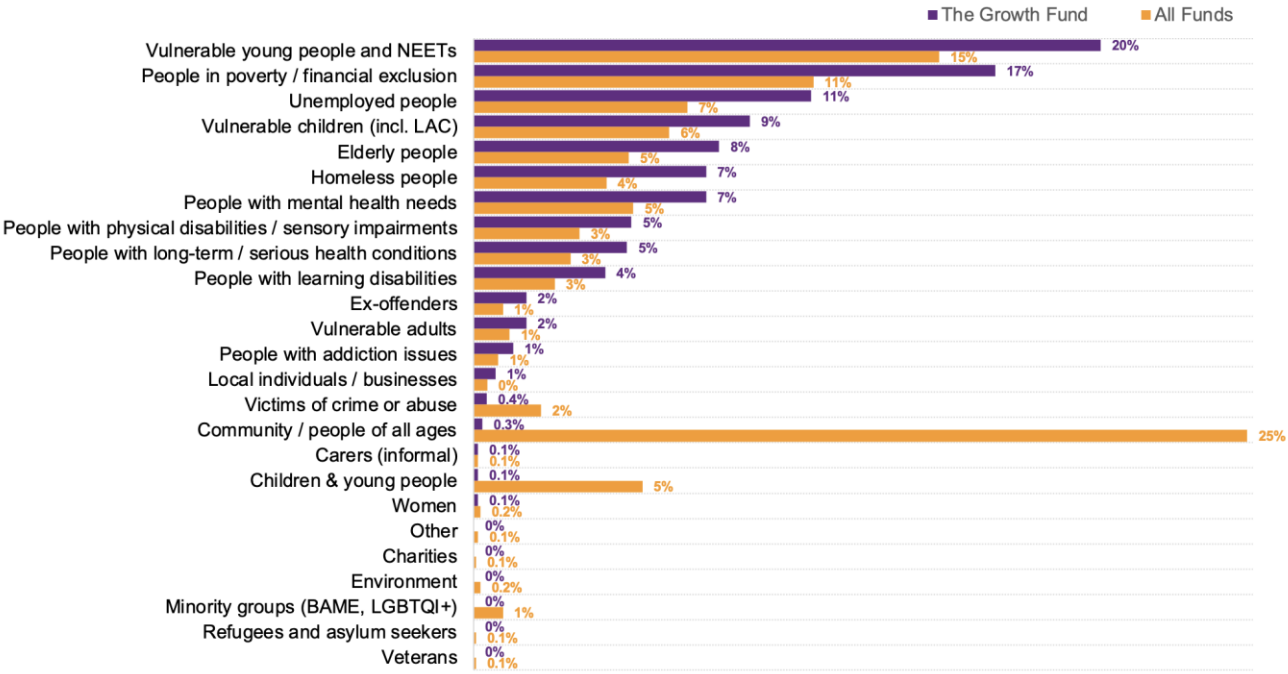
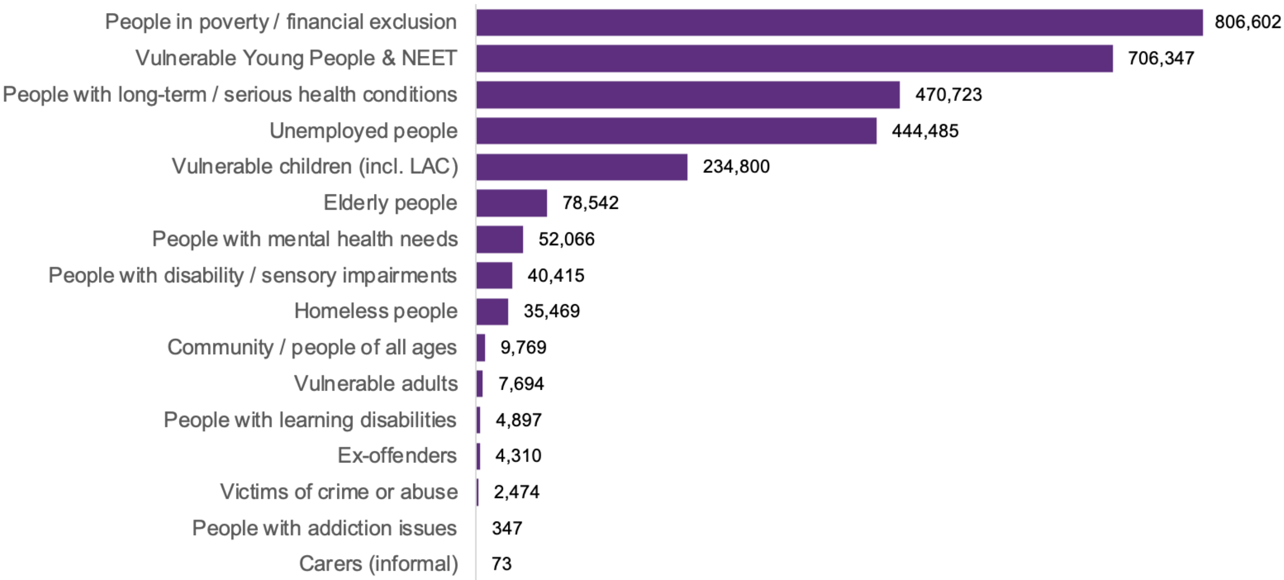


Figure 25: Primary and secondary beneficiary groups reached (2016-2022). [40]



The number of people reached by beneficiary groups is shown in Figure 25 above. It shows that people in poverty or suffering from financial exclusion, along with people who are unemployed,

[39] Note that figures refer to applications approved and deployed only. Data sources: Access, The Key Fund, SIB, CAF, Power to Change, Nesta and COOP. About the missing data: 10% in the Growth Fund dataset, and 46% across all funds combined. The Growth Fund dataset consisted of 756 transactions and 389 VCSEs, whilst all funds combined refer to 2,591 transactions and 2,353 VCSEs.

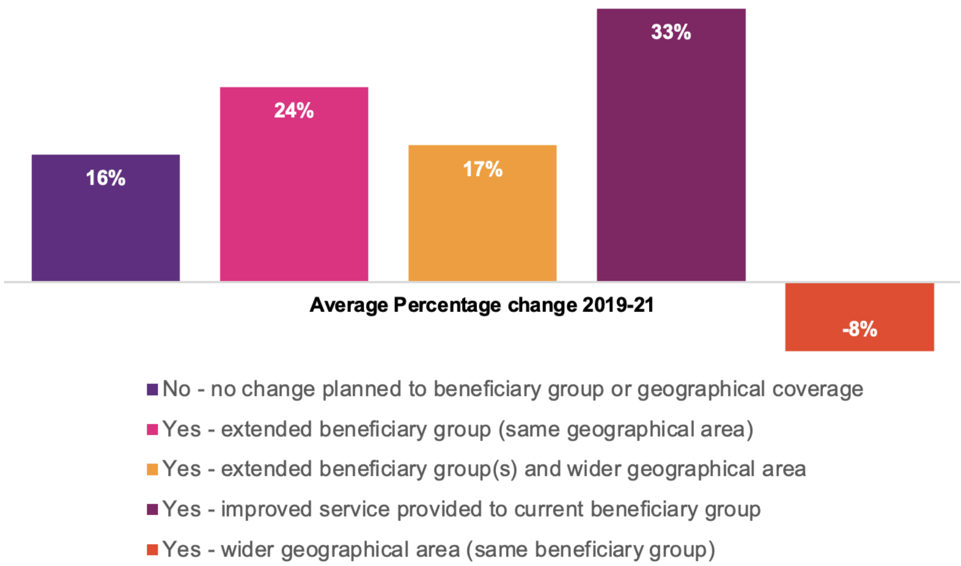
[40] Note: this data is for a sub-sample of 374 approved Growth Fund transactions. See Appendix for more details.

make up a significant percentage of the target beneficiaries. Cross-referencing this data with the thematic focus on social issue challenges, we can assume that the focus on education, training, and employment is targeted at redressing economic welfare disparities in deprived communities and places. This is also true for the other thematic areas such as mental health and health and well-being, where the target beneficiaries are again people in poverty or suffering from financial exclusion, people who are unemployed, and / or not in education or training, and the vulnerable.

4. The Growth Fund has enabled organisations to expand their reach

Looking again at Figure 25 above, you can see the numbers of people helped by the Growth Fund by beneficiary area. Taking that together with Figure 26 below, which shows the percentage of organisations that aimed to increase their reach, we can assume that organisations working with some of the poorest people were able to increase their reach thanks to the Growth Fund. Almost every interviewee said that blended finance helped organisations to grow and reach more people.

Figure 26: Average percentage change in beneficiaries reached by aim of social investment (2019-2021). [41]



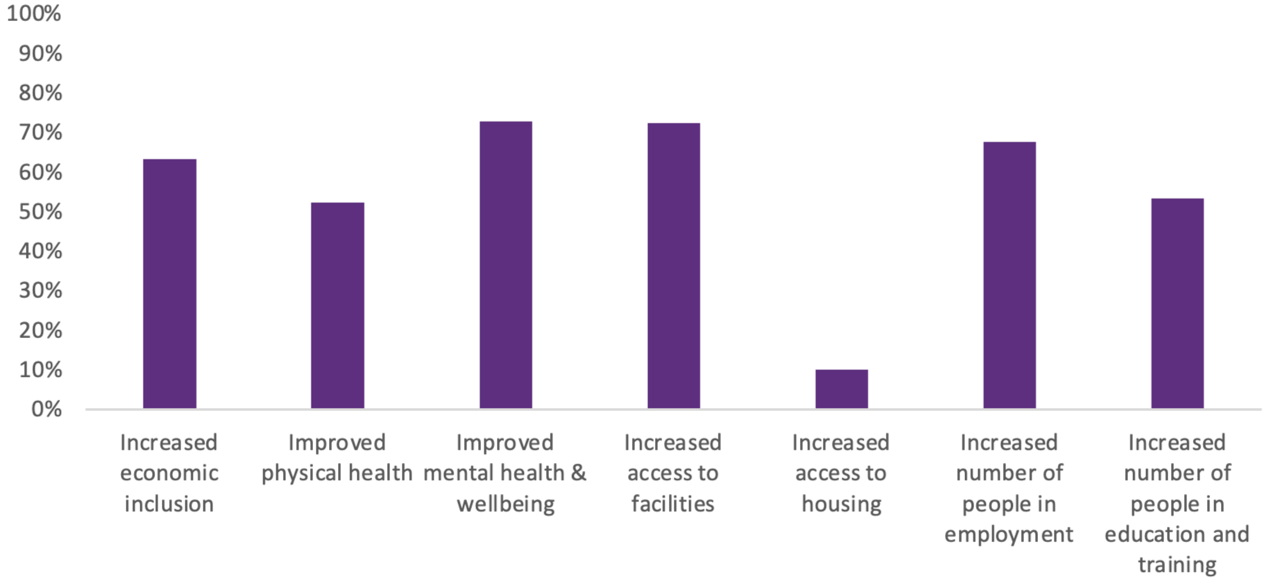
5. Organisations report that the funding has improved social goals

Some of the intermediaries have self-reported outcomes data—asking organisations to rate whether the funding has helped to improve beneficiaries' lives. In Figure 27 overleaf, we can see data from the Key Fund customer survey that shows this. The highest rating is for improved mental health and well-being, and increased access to facilities. This data is self-reported and does not let

[41] Data used in this chart is based on a sub-sample of the Growth Fund dataset, and it concerns 298 VCSEs for a total of 374 approved transactions deployed between 2016 and 2022. The minus figure refers to organisations that were not expecting to reach the same type and number of beneficiaries in a wider geographical area, despite that being stated as the aim of the investment they secured.

us know the importance or magnitude of the change for beneficiaries, but it does indicate some areas where the outcome data seems to be stronger, and links well to the objectives of the funding we saw earlier.

Figure 27: To the best of your knowledge, has the Key Fund award directly contributed to any of the following outcomes for your beneficiaries or their families? [42]



[42] Data taken from Key Fund customer surveys 2017-2020. 210 responses in the sample size.

Impact of withdrawing blended finance

Assessing the likely impact of withdrawing government intervention to provide grant subsidy into blended finance for VCSEs requires an assessment of the likely impact upon the social investment ecosystem, on VCSEs at an organisational level, and on the intended beneficiaries. It also requires an assessment of whether there are any other likely providers of grant subsidy that could step in to fill the role that government has played or whether government is the only viable provider.

What is the likely effect of withdrawing the grant subsidy for blended finance on the social investment ecosystem?

Interviewees felt that withdrawing grant subsidy for blended finance would be very harmful for the social investment ecosystem

All interviewees thought that withdrawing the grant subsidy would be detrimental to the social investment ecosystem, with one interviewee calling it a *'collapse'*. This view was echoed by the majority of respondents at the roundtables. Explanations for this view included:

- **The sector requires subsidy to make social investment attractive to social enterprises.**

  This is especially the case for first-time borrowers. One interviewee commented: *'It's a big ask to get people from cautious grants to borrowing money, and the softened interest rate makes that possible.'* Another social investor said, *'Our clients need more hand holding'* and without the subsidy that wouldn't be possible. Most organisations agreed with this view. *'During the pandemic we were able to use part of the money as 0% loans—but we still had trouble investing at 0% … There is something about the availability of the grant that makes it attractive.'*

- **A reduction in social investment will lead to a decline in funds available to VCSEs.**

  Some respondents mentioned that this will be most detrimental to smaller organisations. This would lead to them collapsing or changing their business model, and without the intermediaries only larger organisations or later-stage deals would be able to access social investment. *'You can't invest in small organisations doing good work with slow business models. That won't provide huge returns.'* This would then undo much of the progress we have seen in terms of poorer places and smaller organisations being able to grow. '*We would be narrowing our market if this were to happen. We wouldn't be able to do the really risky deals in disadvantaged communities. It's actually going to take too much time to work with them.'* The views of the interviewees are echoed by the literature review, which suggests that few intermediaries have philanthropic capital to allow them to continue to offer blended finance without subsidy.[43] Furthermore, roundtable attendees thought that it was a particularly bad time to withdraw the subsidy as the sector has just started to make in-roads on equalities issues, particularly funding of ethnic minority issues.

- **A relapse to grant-making will set the UK social investment market back years and is likely to result in more demand for government funding.**

  A reduction in social investment capital would then contribute to organisations going back to grant financing. This is likely to escalate the demand for government funding and cause a significant reputational loss for the UK. As in the words of one interviewee: *'They wouldn't be social enterprises [if they go back to grant funding], and the UK would lose its position in the world as a social enterprise hub.'* A reduction of social investment capital would also provide worse value for money for government, which would then have to either recreate this market at great cost or revert to grant funding, which does not leverage external capital and does not recycle returns back into delivering social impact.

- **The smaller, emerging VCSEs are likely to be worse hit by a reduced amount of subsidy.**

  Most respondents thought that withdrawal of subsidy would have a detrimental impact on the supply of the small loans market. Although interviewees did not necessarily have a framework for which sectors would be most affected, the energy sector, the sports sector, and the community sector were all amongst those that were mentioned. Instead, interviewees felt that sectors with emerging business models would suffer as the risk capital would no longer be there to prove the case for the business models where the risk return profile is less well understood. *'I have seen 3 deals over [my] time where everything is repaid / makes sense. Otherwise, financial modelling / cash flow is not right. There's a cost of giving support and working through that with the clients.'*

  This view is reinforced by the literature review, which suggests that community businesses that operate in struggling markets at small scale often struggle to finance a loan without the

[43] Coalition on the Future of Social Investment and Support, *Sustainable Financing of Intermediaries* (unpublished document, 2021). Read in advance of workshop on 11 November .

subsidy—even if there is a viable business model in the longer term.[44] The financing gap that the Access Growth Fund was designed to bridge and one of the primary use cases for blended finance to date has been the provision of smaller unstructured loans that tend to be needed by smaller or growth stage VCSEs. Reducing the amount of subsidy will disproportionately reduce the accessibility of financing options for these organisations.

- **Institutional knowledge that has been built up over the decades will be lost.**

  Interviewees felt that as well as the loss directly to the sectors, there would also be a loss of institutional knowledge that has been built up about how blended finance benefits certain sectors and how to design funds that serve them. This is the support and sector specialist knowledge that some of the intermediaries have developed through the work of Access, which government has funded and built up over nearly a decade. This would mean that there would be a loss of technical and design knowledge and a risk that government would need to reinvent the wheel if it decided that blended finance was necessary again at some point in the future. One interviewee commented: *'Within our sector, it's hard enough moving people away from grants, and it would seem very short sighted. The money recycles, and then the sector is paying for itself.'* This is particularly important when thinking about how to target more deprived communities.

What is the likely effect on organisations of withdrawing blended finance?

Organisations interested in blended finance are unlikely to get other social investment

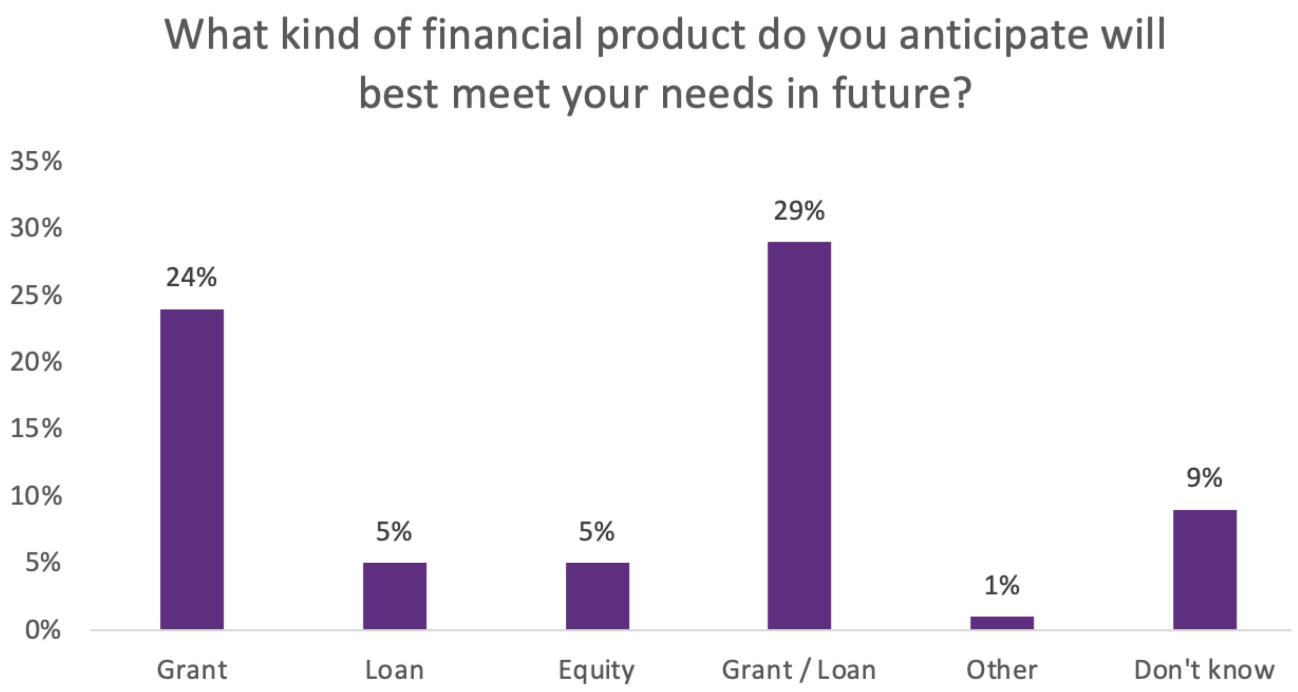
Most interviewees thought that withdrawing the subsidy would be bad for organisations in the pipeline or which were considering social investment (around 1,600 organisations in the data NPC analysed). *'It would be catastrophic to our pipeline.'* They thought that without this subsidy, organisations would not be interested in social investment and therefore would not get the benefits of growth discussed earlier. We heard from across the interviews and roundtables that the majority of VCSEs applied for loans from blended finance funds either because they were not able to access finance from elsewhere or because the terms on which it was offered elsewhere were unaffordable. The data suggests that blended funds or funds offering blended products amounted

[44] Chris Damm and Peter Wells, *Power to Change and blended finance* (Cresr, Sheffield Hallam University, 2021).

to at least £418m since 2004, not including any of the additional investment readiness or capacity building support offered, which gives an indication of the likely impact on the sector.

This is reinforced by the Key Fund customer survey (see Figure 28), where it was clear that other types of social investment were not really considered as an alternative to a grant / loan blend by social enterprises. This suggests that blended finance is dealing with the market failure around attracting investors into an otherwise unattractive market, and without the subsidy that market would not be served.

Figure 28: Financial products that Key Fund customers anticipated would best meet their future needs.[45]



One interviewee thought that the benefits of strengthening the social enterprise sector through blended finance were overblown, and that there could be other ways of getting the same result, including through legislation to strengthen governance, which could be explored if the subsidy was going to end. *'Social lending is not the answer to making charities feel more independent, confident. Better legislation, better support for trustees, better understanding of how the sector works in practice financially, all of those things are what strengthen the sector.'* However, this view is not shared by the literature review or other interviewees. The Access Quadrennial review says the funding is an important mechanism to supporting the sector—if that blended finance did not exist, but Access provided non-financial support, it would not have the same effect.[46]

[45] Surveys were administered between 2017 and 2021; overall sample size: 210 VCSEs.

[46] The Oversight Trust, *Quadrennial Review Report of ACCESS* (2021).

What is the likely effect of on beneficiaries of withdrawing grant subsidy for blended finance?

Organisations are expected to reach fewer people, especially in more disadvantaged communities, and become less mission focused

Interviewees noted the fact that withdrawing grant subsidy would mean that organisations were not able to grow and therefore could reach fewer people.

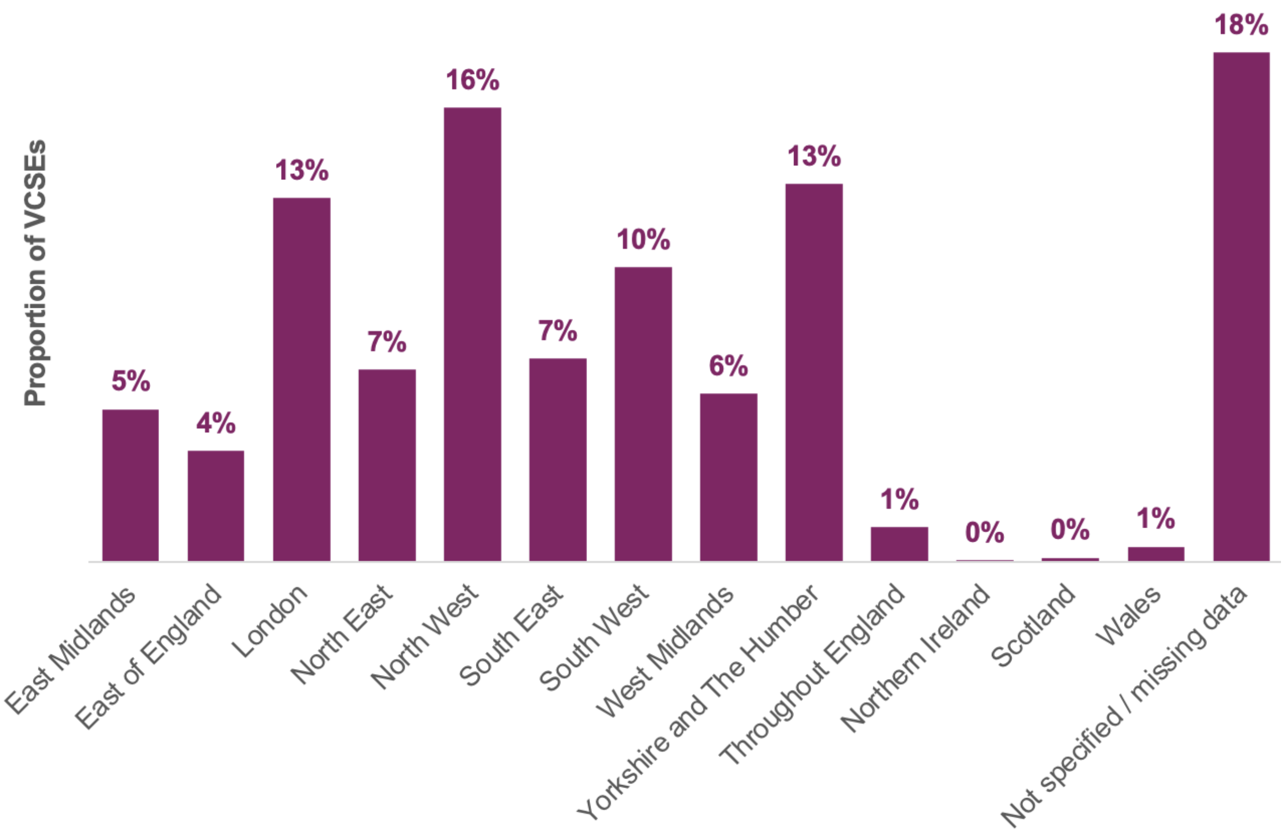
Some interviewees thought that without the subsidy, organisations would have to be more focused on making a surplus to repay finance, which would make them less mission focused and impact beneficiaries negatively. *'If you have a lot of costs related to social impact, no other business would have these costs. Your hockey stick to profitability is going to be a lot longer and shallower. I would argue that our grant is to offset that a little bit (the cost of their social impact).'* While any investing in early-stage enterprises may face high losses or default rates that puts the investment capital at risk, this points to the underlying market failure to price and pay for social value. Subsidy mitigates the market, incentivising financial rather than social outcomes.

Withdrawing subsidy is likely to have a greater effect on disadvantaged communities and those who need it most

One group of roundtable participants thought that withdrawing the subsidy for blended finance would mean that the riskier deals would not be done, and that those riskier deals were predominantly in poorer places because it was harder for organisations there to access capital. Withdrawing the subsidy would therefore have a bigger effect on poorer places, or people who were harder to help. This finding is backed up by analysis of the data about where the Growth Fund has been targeted (see Figure 29 overleaf). The Access Quadrennial review also backed this finding—pointing out that the Growth Fund was responsible for 20-30% of all UK social investment deals in 2018 and 2019 and predominantly supported organisations based in the most deprived communities.[47]

[47] The Oversight Trust, *The Quadrennial Review Report of ACCESS* (2021).

Figure 29: VCSEs' regional reach (all funds). [48]



How likely is it that non-governmental sources will provide grant subsidy for blended finance?

Almost all interviewees and roundtable attendees thought that government grant subsidy was a crucial component of blended finance's success

Some respondents felt that government has the remit to expand the social enterprise sector, and if it did not provide subsidy, it was unclear why any other organisation would. As described earlier, most interviewees thought that a government withdrawal would lead to a 'collapse' in the blended finance market. A few interviewees said that the collapse may only be temporary and that others, including foundations or banks, may fill the gap. However, it was not necessarily clear how long 'temporary' might be, with some respondents thinking that it could take more than 20 years for others to come into the market and build up their capacity to a place that they could reasonably replace government subsidy.

[48] This chart refers to all approved and deployed funds, for a total of 2,353 VCSEs.

Some talked about the added scope of quasi-governmental organisations like the Arts Council, Sports England, and Heritage England, all of whom have provided grant into blended finance, often for sector specific funds. Others suggested that the National Lottery Community Fund could play a significant role again (although it is unclear how well this fits with its new strategy).

Structural reasons prevent most philanthropic organisations from being involved

At one of the roundtables, several people expressed the view that although there was a slow journey of more philanthropic money coming into social investment, there was a limit to how much could come in, and therefore withdrawing the subsidy would be difficult. The primary reasons preventing philanthropic organisations from further involvement in the sector included:

1. **Capacity constraints**

   Respondents expressed the view that foundations did not have the staff to do social investment. This is because many of them did not have the experience in social investment and blending required for success. The support required by VCSEs in receiving and using blended finance means additional burden on the often-limited staff of philanthropic organisations. Managing blended finance funds also requires additional work and new skills which take time to build.

2. **Unwillingness to subsidise the profits of other organisations**

   Interviewees mentioned they were worried about subsiding profit-making investors. 'Asking foundations to make a legacy grant into an investment institution to reduce the cost of capital of another institution is a difficult ask.' The perception of giving money to profit-making is off-putting for philanthropic funders 'A lot of the time, subsidy and grant funding is about subsidised loans and that has meant that some organisations don't want to get involved in that.' Others thought that the worry about subsiding profit-making investors was overblown and that infrastructure bodies need to focus on encouraging philanthropists and foundations to give to social investment. This, however, will take time and as a result will not meet the rate of pace required by the sector.

3. **Perceptions of the scale of subsidy needed in the sector**

   Given the challenges above, many stakeholders believe that philanthropic funding as a source of subsidy for blended finance is not sufficient for the needs of the market. However, innovation and the provision of flexible and patient blended products to charities and social enterprises is likely to continue to grow amongst trusts and foundations. There is interest in blended finance within the membership of the Association of Charitable Foundations (ACF) and work currently being done by Change Coefficient on behalf of Access, Big Society Capital, and ACF to promote the understanding and use of catalytic capital. Most respondents suggested that while this innovation is likely to continue, it is less likely to translate into a significant uptick in grant capital allocation into blended structures in the near to medium-term future at least. Respondents talked about the inroads housing associations are taking into social investment but felt that the deals they are currently doing are too large and in the secured lending space to replace the support that blended finance gives to smaller organisations in the unsecured lending space.

Corporates could be a source of grant subsidy, if more was done to encourage them

There was also discussion about whether more corporate foundations could be brought into blended finance. Some thought that this was an attractive proposition for many corporate foundations given increased focus on corporate social responsibility and impact, and in particular, it was disappointing that the banks were not more involved. Others talked about the opportunities for more local efforts to bring in regional corporate foundations to provide this subsidy as they would be interested in cultivating stronger relationships with local VCSEs. One interviewee talked about efforts in their local area to attract local companies and provide more innovative sources for the subsidy in blended finance.

There was a perception by some that Big Society Capital did not adequately champion funding small social enterprises. They suggested that had a detrimental effect on the market and was not attracting either grant subsidy or additional investment capital. A few similarly felt that Access should have provided more encouragement to other organisations to provide subsidy. One person thought that there were not enough examples of the variety of subsidy around. In particular, they felt it was disappointing that more had not been done to encourage corporates into the market. They suggested that this advocacy role of Access should be strengthened in future if government did want an exit strategy.

There were mixed views on whether non-governmental subsidy was preferable

A few people thought that limited non-governmental actors were likely to provide general subsidy into social enterprises—and it was likely to be sector specific (for example, for health social enterprises)—as philanthropic actors were generally organised around specific social goals. This would be difficult for the intermediaries to manage and would make the market more fragmented. *‘Trying to find a wholesaler of grant money, that isn’t linked to a particular theme, is difficult.’* Others saw advantages in themes, particularly place-based or goal-oriented themes.

All the intermediaries interviewed described the difficulties of having 'formulaic' models—which some felt were needed so that people understood what they were applying for—but they felt flexibility was very important to be able to give what was needed to people. One interviewee talked about how the government's wish to bring other people into the sector would not necessarily be replicated by philanthropists. *'Obvious thing to say is very few of the foundations would have a metric to catalyse other investment.'*

In conclusion, non-governmental sources of grant subsidy are very unlikely to achieve anything close to replacing government provision should it cease. An advocacy remit for any future iteration of a grant subsidy wholesaler would support the growth of non-governmental sources of grant subsidy but there are significant barriers to overcome, notably the reluctance to subsidise profit-making organisations.

The need for future blended finance interventions

This chapter states the consensus view about the need for future blended finance interventions. Then, to assess the shape of the need for future interventions to provide grant subsidy to blended finance for VCSEs, it examines what improvements could be made to blended finance, what mechanisms would best serve the market in terms of the delivery of that grant subsidy into the market, what opportunities exist for the use of grant subsidy into blended finance, and what scale of grant subsidy is needed.

Is there a need for future interventions to provide grant subsidy to blended finance for VCSEs?

All respondents thought that there was a need for future interventions from government to provide grant subsidy into blended finance. Dormant assets are seen as a key source of funding, with one interviewee noting that *‘if dormant assets money doesn’t go into subsidy, it will be a real problem.’* This is primarily because a decline in subsidy will see a reduction in support for the social investment market, VCSEs, and their beneficiaries.

What improvements can be made to blended finance?

Products can be improved to be better suited

Some interviewees thought that the products needed to be better suited to the market. Some suggested that this was about increased flexibility, others felt that the products could be better designed by going to the market and asking what was needed. ‘*Have a process around how they design their own market—understand the challenges, rather than coming to market with a one-size-fits-all product.’* Although small samples, this is contradicted by the latest Key Fund customer survey data—where respondents said that the most important thing to them was the interest rate, then the relationship of support with the investor. Flexibility—in terms of changing the duration or the monthly repayments—was only rated as important by around half as many people as rated the interest rate as important. Interviews with social enterprises emphasised that support was very important, along with flexibility and the cost of capital. *‘We want to be able to include people who aren’t that financially savvy—people who have been homeless for instance—so it needs to have some support around them.’*

Others warned that the key performance indicators drive a lot of behaviour in the social investment sector, and therefore organisations should be careful about what is an indicator. *'The way the Access Growth fund was set up … drove deployment behaviours. If you didn't meet targets, there were pretty severe consequences … [It] drove us to make investment decisions that we didn't feel were right.'* Indicators could make products less flexible than they were meant to be if they are set up badly.

The interest rate is important to social enterprises

There were some interviewees who suggested that fundamentally the problem with blended finance is that the interest rate charged is still high. *'Biggest barrier is just the interest rate.'* This was talked about at the roundtables, where some social enterprises thought that the interest rate was so high that there already was no subsidy in the interest rate. One roundtable attendee thought that blend was something that used to happen, but was not really available anymore, because the interest rate was so high. The importance of the interest rate is clear from the Key Fund customer survey data—two thirds of people (91 respondents) said that a low interest rate was important to them—this is 11 percentage points above the next highest issue—showing its resonance with social enterprises.

A balance of the interests of the players in the blended finance market is important

One respondent cautioned about the need to acknowledge trade-offs between what is good for fund managers and grant-makers and VCSEs. Many of the VCSEs we spoke to were interested in what would drive more funding in—for example, suggesting less flexibility—even if those proposals would probably not be favourable to VCSEs.

Some respondents suggested improvements to fund infrastructure by centralising more of it but balancing that with ensuring that more of the engagement and assessment was localised where there was sector or place-based knowledge to help ensure pipeline. Others suggested that there were smarter ways to balance the relationship between the local and national and use the existing capabilities within the market to greater effect.

There are possible changes to the design of the market that could be helpful

Some felt that the intermediary model could be better designed and that this could take cost out of the deals. Some suggested that this might come through capitalising the intermediaries by directly granting capital for social investment to social investment intermediaries, or by allowing investments by the wholesaler to return to the intermediary's balance sheets to reduce costs. It is unclear how this would work with the calls from some other stakeholders for better championing of blended finance, and who might do this in the absence of a wholesaler if each intermediary was separately capitalised.

There are improvements in progress

A few intermediaries pointed out that over the seven years since Access was set up, there have been improvements, some of which have not yet had a chance to come to fruition. In particular, both interviewees and roundtable attendees talked about diversity and equality issues. If government subsidy is withdrawn, this is likely to impact the number of VCSEs managed by people from Black, Asian and ethnic minority backgrounds that receive funding as well as to address the needs of people from diverse backgrounds. One organisation that was involved with the Growth Fund said that there are several things that would be done differently now—in particular, flexibility is considered to be really important.

What mechanism to blend grant subsidy with investment capital would best serve the market?

There is an ongoing role for Access or a wholesaler of subsidy

Most respondents thought that there was an ongoing role for Access as a wholesaler of subsidy into blended finance for VCSEs beyond its intended close date in 2025. One respondent thought that if Access did not exist then other actors would take the wholesaling role given the growth and learning in the sector and the benefits realised from Access's role. For them, what was more important was ensuring the flow of grant subsidy rather than the existence of Access to deliver it into the market.

There was a range of views about whether grant subsidy should be given to Access as a wholesaler to manage or given directly to social investment intermediaries to manage. Some suggested that the intermediaries be capitalised to improve their balance sheets and enable their growth, which would in turn give them greater flexibility to innovate and create simpler or more enterprise serving products.

Some suggested that Access should play a greater role in advocacy, education, and fundraising with respect to grant, and that there was no simple mechanism where foundations and trusts could come in with a grant element at present.

Most were keen to ensure that those closest to the front-line organisations had input into fund design and product development. It is worth noting that Access's recent consultation process as part of building the shape of the new Enterprise Growth for Communities fund has foregrounded this engagement.

These views have been included in our assessment of options in the following chapter.

Opportunities for the use of grant subsidy into blended finance

Reframing government investment in social investment

Many interviewees and roundtable participants expressed a hope that government would use the opportunity of this review to make a significant change to the way in which government support for social investment is framed. Currently, support for social investment is framed in terms of market failures. Some thought that there was an opportunity to reframe subsidy in terms of ‘catalytic’ or ‘impact maximisation’ or ‘enabling’.

A few noted the opportunity to emphasise the economic as well as the social value of the sector, comparing the level of subsidy given to other sectors. The opportunity for subsidy to be a long-term income generator through unlocking sustainable growth speaks to its value for money.

One participant of the roundtables noted the opportunity to present to government *‘a wonderfully positive vision of the UK as a global centre for excellence in social investment enabled by government finance, creating a fluid, entrepreneurial, and innovative environment within the social sector where government is actively encouraging the social finance ecosystem at scale in a way that delivers levelling up by tackling poverty, tackling social issues and tackling disadvantaged communities of place.’*

Many participants saw an opportunity for grant subsidy into blended finance to focus on large social challenges that it could help meet through mission-based funds. One suggested that the social investment could be used to deliver UK social development goals comparable to the UN social development goals, that the levelling up agenda moves in this direction, and that these could be immensely catalytic in terms of attracting private capital to deliver public value.

Dormant assets and their role moving forward

Dormant assets are seen as a viable pool of funding to provide grant subsidy into the sector. The government will be launching a consultation over the summer on the English portion of dormant assets, estimated to be worth approximately £738m over time. The consultation will ask for public input on the broad social and / or environmental focus for this funding. As part of this, it will ask for views on whether social investment wholesalers should remain a cause of the Dormant Assets Scheme in England. The consultation document will highlight the impact dormant assets funding has had to date; potential opportunities for future impact; and what the consequences would be if a current cause is removed.

A few interviewees hoped that government would take the opportunity to look beyond dormant assets for permanent endowment of a blended finance wholesaler and / or social lenders through capitalising the sector. This would be especially valuable for Wales, Scotland, and Northern Ireland as current dormant assets allocations to social investment are restricted to England and it would bring the wholesaler of grant subsidy in line with Big Society Capital, which is able to operate across the UK due to funding received from sources beyond dormant assets. This possibility was linked to reframing the need for social investment. If the need for blended finance was linked more explicitly to serving the levelling up goals, that would infer a UK-wide objective.

What scale of subsidy is needed to serve the market?

Current estimates of the scale of subsidy needed to serve the market are limited by their estimation of the amount of money available or shaped by past demand.

Access tentatively estimates the current demand for grant subsidy over the next decade to be approximately £300m, which on current leverage ratios would unlock between £600m-£1.2bn of non-governmental funding for the sector. It estimates that the provision of grant subsidy to sustain current flow of capital to be in the order of £15m per annum from 2025.

Table 4: Needs, solutions, and annualised grant requirements for charities and social enterprises.

The need	The solution	Annualised grant requirement
Small-scale unsecured debt for charities and social enterprises	Long-term supply of grant for blended finance structures, designed to complement the support which can be provided via guarantees and potential tax incentives. Volumes based on peak lending flow from Growth Fund and anticipated flows from the Enterprise Growth for Communities fund from 2025. Opportunity to drive scale and streamline the provision of senior debt. Current provision to end c. 2025.	c. £6m
Patient and flexible finance for charities and social enterprises to support growth	Supply of grant for fund managers to develop suitable patient (longer repayment terms) and flexible products (low interest rates) responding to market need. Likely to see greater diversity of products and structures. Estimates based on anticipated peak deal flow	c. £6m

	from Flexible Finance programme. Current provision to end c. 2025.	
Non-financial support to help charities and social enterprises take on repayable finance	Grants made available to charities and social enterprises actively seeking finance to overcome barriers jointly identified with their prospective lender and increase understanding of social investment. Estimates of demand based on Reach Fund deal flow pre-covid. Current provision to end c. 2026.	c. £3m

Additional to the above, Access has identified further gaps in the sector's access to finance which could be addressed through the enhanced supply of blended finance. Table 5 below outlines these needs, which remain the assessment of Access and have not been validated by NPC. This would add an additional £20m per annum bringing the total annual provision of grant subsidy to meet the market's need to be in the order of £35m per annum, reaching a total of some £300m by the end of the decade.

Table 5: Needs, solutions, and annualised grant requirements around access to finance.

The need	The solution	Annualised grant requirement
Supporting access to finance for organisations with viable business models across a variety of impact areas, but whose capital needs are greater than their ability to repay	Expanding the range of fund managers who have access to grant for blending at a deal level (building on the pilots managed by SASC and Key Fund, and on Access's experience with the Emergency Lending programme). No current market-wide provision.	c. £5m
Dedicated support for charities and social enterprises led by people from Black and minority communities	The Adebowale Commission showed clearly evidenced imbalance in access to capital for these organisations, and recommended the creation of a dedicated wholesaler to build the market to better serve the Black and minority ethnic social enterprise sector. (Proposed £50m fund, assumed over ten years.) No current market-wide provision.	c. £5m

Greater access to finance and enterprise development to boost the social economy in left-behind communities	Building on the Local Access programme and aligning where possible with Big Local areas / Community Wealth Funds, seek to develop place-based blended finance indicatives in a further ten places over at least five years. Assume development from 2025.	c. £10m

Despite these estimates, the scale of grant subsidy needed to serve the social investment market is an open question. In part this is because demand is dependent on the type and terms of any products offered, including the cost of capital and the amount of grant offered alongside any loan. The more favourable the terms, the more demand there will be from VCSEs. As we have written about earlier, many social enterprises feel that blended finance terms are not favourable enough.

Access was created in response to the identification of a particular financing gap in the market that could be bridged by using grant subsidy into a blended structure. This financing gap was for smaller VCSEs seeking loans below £150,000, particularly those working with underprivileged cohorts in deprived areas. This review has found evidence that grant subsidy has been an effective and efficient way of addressing this market failure and supporting those VCSEs to grow, become more resilient, and deliver more impact to their beneficiaries.

One question arising from these findings is whether the lessons learnt from the social impact of grant subsidy into blended finance for this segment of the market can be applied more widely, and particularly to meet government's policy objectives around levelling up.

Since its foundation, Access has identified more financing gaps that blended finance can be used to bridge. It remains focused on smaller sized loans to VCSEs as the area of the market where the underlying market failure is most exacerbated by other failures around lack of scale and high transaction costs, and around the lack of track record in knowing the risk return profile of the investees' business models.

The questions of what scale of subsidy is needed to serve the market and what mechanisms are best placed to deliver it depend on the aim of that grant subsidy and the problems it is trying to solve.

These aims may include:

- **Market security and confidence in the supply of grant subsidy into blended finance for VCSEs.**

Ensuring that the core infrastructure for delivering grant subsidy into the market is secured into the future with a longer-term horizon to support fundraising and pipeline development.

- **Delivery of affordable small scale unsecured debt for charities and social enterprises.** Ensuring a continuation of the currently proven use case evidenced through the Growth Fund by providing sufficient grant to meet the projected demand necessary to support growth stage VCSEs.

- **Knowledge and expertise to partner with government grant-making programmes.** Supporting the wholesaler, as a social investment infrastructure body, to develop and use its knowledge and expertise in blending grant with investment capital to partner with government departments or local authorities as they develop grant-making programmes for community-based or social purpose organisations. To support government to further the reach and impact of its grant money through attracting investment capital and providing structuring support.

- **Support the growth and development of the social economy.** The social economy represents a conception of economics in which market forces and economic practice serve social or collective interests alongside the growth of private capital. Social economy actors place social and environmental challenges and opportunities at the centre of economic activity, putting 'purpose before profit'. The social economy offers new options for government in designing recovery and transition plans beyond those provided by the 'welfare state', while simultaneously supporting civil society to become less grant dependent. A wider use of grant subsidy into blended finance for VCSEs beyond small scale unsecured debt could incentivise the wholesale growth of the social economy by providing easier access to affordable financing options that encourage the participation of mainstream financial providers and social investors in financing the social economy alongside government.

- **Expand the types of social purpose organisation that can take on repayable finance.** If the success of the Access Growth Fund can be seen as an effective pilot, then it demonstrates the potential to widen the scope and expand the scale of grant subsidy into blended finance for VCSEs with marginal business models for viably taking on repayable finance. These business models might be supported through community development finance institutions (CDFIs) or found in the financial inclusion and affordable credit sectors, for example.

- **To deliver social challenges such as levelling up deprived areas.** Addressing the social challenge of geographical inequalities in social and economic welfare through growing the social economy in deprived areas to support economic growth and high-quality employment opportunities through growing VCSEs themselves, along with scaling their social and environmentally beneficial impact to remediate hard-to-abate social issues and disparities. Grant subsidy can deliver these policy objectives through the design of funds with place-based and thematic lenses.

There are a range of options that could be explored to meet the scale of subsidy needed, depending on the aims. These options include:

- The use of dormant assets.
- Treasury capitalising the social investment market with a mandate to deliver levelling up policy objective.
- A percentage allocation of the Shared Prosperity Fund to capitalise Access to design place-based levelling up funds.
- Government departmental grant-making programmes deliverable by VCSEs.
- Arms-length bodies such as the National Lottery Community Fund or Heritage England.
- Fundraising from trusts and foundations (although this option is likely to be limited in scale).

Additionally, there are a range of options that could be explored to meet the scale of investment capital needed, depending on the aims. These options include:

- Fundraising from social investors, such as trust and foundations, with impact carve outs from their endowments or aspirations to expand their mission aligned investing. This option will be encouraged by the recent High Court judgement concerning mission aligned investing.[49]
- Fundraising from commercial investors with larger scaling opportunities.
- Capitalising social investment finance intermediaries in addition to providing a secure supply of grant subsidy to assist with fundraising, scale of deployment, and pipeline development.
- Capitalising a specialist wholesaler of both grant and investment capital to design and deploy blended strategies for financing the growth of the social economy and VCSEs.

[49] Butler-Sloss & Ors v The Charity Commission, https://www.bailii.org/ew/cases/EWHC/Ch/2022/974.html

Options for the future provision of subsidy into blended finance for VCSEs

Introduction

The options for consideration that emerged from the consultation range from offering no further provision of grant subsidy beyond the existing drawdown funding window for Access, to establishing a specialist blended finance wholesaler providing both investment capital and grant subsidy into blended finance for VCSEs.

These options have been appraised using a set of criteria that encapsulate:

1. the main policy objectives of using grant subsidy into blended finance for VCSEs.
2. the value for money of the government's use of grant subsidy to achieve these policy objectives.
3. the feasibility of implementing an option.

Some of these criteria are likely to be in opposition to each other and therefore we have prioritised the criteria through a weighted scoring mechanism.

While Access is the current wholesaler of grant subsidy into blended finance funds for VCSEs, any future wholesaler (including Access) would not necessarily have to take the same form. Its objectives, key performance indicators, and scope could all be redesigned.

Options to assess

The options we will be exploring are:

Do nothing. No additional provision of grant subsidy or ongoing support of Access beyond the existing funding window.

1. Access is re-endowed as a permanent actor in the market, capitalised as a wholesale provider of both grant subsidy and investment capital into blended finance for VCSEs,

and given a mandate to build the social investment market and enable VSCEs to access suitable capital through the provision of tailored solutions to fill funding gaps.

2. Access is re-endowed as a permanent actor in the market, capitalised as a wholesale provider of grant subsidy only into blended finance for VCSEs, and given a mandate to build the social investment market and enable VSCEs to access suitable capital when unavailable elsewhere through the provision of tailored solutions to fill funding gaps.
3. Access closes at the end of its ten-year life and grant subsidy is provided directly by government to established social investment intermediaries to make market-based decisions about the provision of capital to VCSEs.
4. Access closes at the end of its ten-year life and large funds are capitalised by government to lend and blend directly to the sector with a specified mandate.

For options 2 and 3, there are various design criteria that may be considered on a modular basis:

1. Objective:[50]
    a. Social investment market ecosystem building (i.e. VCSEs / social investment intermediaries / social investors).
    b. Financing for equity and inclusion (e.g. Black-led VCSEs).
    c. Financing to tackle place-based local or regional disadvantages.
2. An advocacy role:
    a. To attract grant capital to the market.
    b. To attract investment capital to the market.
3. A fundraising role:

[50] *HMG Subsidy Control Principles: Schedule 1.* https://bills.parliament.uk/publications/45935/documents/1668 p.53.

'Common interest

A. Subsidies should pursue a specific policy objective in order to—

(a) remedy an identified market failure, or

(b) address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns).

Proportionate and necessary:

B. Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it.'

   a. To increase supply of investment capital by fundraising to attract co-investors in funds.

4. A separate endowment of investment capital with consideration of:
   a. Expectations concerning rate of return related to erosion or preservation of capital.
   b. Expectations concerning capitalising social investment intermediaries through returns to their balance sheets rather than the wholesaler’s balance sheet.
   c. Expectations concerning restrictions to asset locked organisations to ensure grant subsidy is used within the social sector.
5. The separate provision of capital for use as grant subsidy according to:
   a. A timeframe-based funding arrangement subject to review after set periods of time and evaluation of impact.
   b. An objective-based funding arrangement with renewal subject to unmet need according to set criteria for market development or deployment.
   c. A demand-based funding arrangement with deployment criteria and ratios subject to review at set points.
6. A single allocation of concessionary capital for Access to allocate as grant or loan as best meets its objectives, with future funding based on the same criteria as in design consideration ‘e’ above.
7. Source of grant subsidy:
   a. Dormant assets: restricted to England.
   b. Other governmental sources: open to devolved administrations where dormant assets are not used to build the social investment market.
   c. Arm’s length bodies (e.g. National Lottery Community Fund).
   d. Trusts and foundations.
8. How to use blended finance to best support the growth of innovative models:
   a. Crowdsourcing to attract retail investment capital.
   b. Match-funding for community shares.

9. Identifying new VCSE business models with viable growth trajectories if able to receive subsidised investment capital.

Criteria for assessing options

The delivery mechanism options below will be assessed against how well they meet the following criteria.

Table 6: Criteria for assessing options.

Category	Criteria	Notes
Policy objectives	Ability to grow social economy in deprived areas and left-behind places	Meets the needs of the levelling up agenda by being geographically targeted. Ability to meet the needs of disadvantaged communities.
	Ability to support and reach VCSEs with social investment	Does not disadvantage organisations either because of their size or sector (including protected characteristics). Ability to provide tailored capital to VCSEs.
	Ability to grow the size of the social investment market	Ability to support social investment reaching VCSEs. Ability to increase the number and types of organisations reached.
	Ability to attract additional grant subsidy	Ability to encourage philanthropic and corporate forms of funding to reduce the level of government subsidy. Ability to encourage government budgetary allocations of grant subsidy into blended finance.
Value for money of government	Ability to provide value for money in terms of lowering the costs of delivering social investment	Ability to provide a more efficient delivery model (e.g. lowering transaction costs). Efficiency of delivering the objectives of blended finance (e.g. difficult to reach areas).

use of subsidy	Ability to provide value for money in terms of building on previous investment	Minimises set-up costs. Utilises existing learning, infrastructure, and expertise of wholesaler and intermediaries.
	Ability to attract additional investment capital from non-governmental sources	Increases the value of the subsidy through additionality. Increases the supply of investment capital.
Feasibility	Feasibility of delivery	Practicality, ease, or cost of option.

Scoring

The options have been scored on a scale from 0-5. The status quo is considered to be 2.5—therefore anything higher than that is considered to be better than the status quo, and anything lower than that is considered worse.

The assessment criteria are all important, and their importance will vary according to where in the market any player stands. We have weighted the scores, based on the perspective of government policy implementation. The three most highly weighted are therefore:

1. Ability to grow the social economy in deprived areas and left-behind places.
2. Ability to attract additional investment capital.
3. Ability to feasibly deliver.

It is worth reiterating that this is not necessarily the same weighting as might be applied from the perspective of the social investor, VCSE, or beneficiary, and that this weighting reflects an appraisal of the policy options from a public policy perspective.

Furthermore, creating a precise science for scoring and appraising these options is difficult because of the qualitative nature of much of the data and the inevitability of evaluative judgements. This scoring mechanism is NPC's way of giving a summary of the data and evidence available, some of which is outlined in the report, some of which is outlined in the description of the options. It is a guide and heuristic rather than definitive proof of any one option's merits over another.

Options appraisal

Option 1

Do nothing. No additional provision of grant subsidy or ongoing support of Access beyond the existing funding window.

Description

This option allows the existing funding window for Access to end without renewal or re-endowment. This option would effectively cease government provision of grant subsidy into blended finance for VCSEs. As another funder is unlikely to replace the level of government subsidy, the infrastructure embodied in Access would be lost, as too would much of the knowledge of the market and expertise (including on how to give this type of funding to left-behind communities). A reduction of social investment capital would also provide worse value for money for government as it would lose the investment it has made in market infrastructure and would then have to recreate this market at great cost if it was deemed necessary again. While knowledge and learning from the partnerships Access has been involved in and evaluations of its funds will be retained in the market through social investment finance intermediaries, this would remain more concentrated and is unlikely to develop in the lack of sufficient grant subsidy to grow the market. Individual government departments may continue to provide a grant layer into structured blended finance funds for VCSEs, but this would be on an ad hoc basis rather than as a coordinated response to the needs of the social investment market or the funding gaps for VCSEs. There would no longer be a central body advocating for blended finance, and so the market is unlikely to develop as hoped or even be maintained at anywhere near its current levels. This option would run contrary to the findings of this report and the need identified for ongoing provision of grant subsidy into the social investment market and the identification of government as the only viable provider of that subsidy at the scale required.

Table 7: Assessment of Option 1.

Category	Score	Weighted score	Criteria	Comments
Policy objectives	0	0	Ability to grow social economy in deprived areas and left-behind places	The lack of blended finance is likely to reduce social investment into the most deprived areas. Therefore, it would shrink the social economy in deprived areas and left-behind places.
	0	0	Ability to support and reach VCSEs with social investment	This option would reduce the access of VCSEs to social investment, particularly smaller VCSEs in the most deprived areas with the highest risks associated with their enterprise models.
	0	0	Ability to grow the size of the social investment market	This option would shrink the size of the social investment market by reducing the capacity of social investment finance intermediaries to structure and offer blended products, and by reducing the number of viable intermediaries and available funds.
	3	2	Ability to attract additional grant subsidy	The withdrawal of government subsidy may force in non-governmental forms of subsidy, but it is very unlikely to amount to the required replacement rate for existing subsidy.
Value for money of government	0	0	Ability to provide value for money in terms of lowering the costs of delivering social investment	This option would erode the value for money already invested by reversing trends in transaction costs for smaller VCSEs and ultimately increasing the cost of capital.

use of subsidy	0	0	Ability to provide value for money in terms of building on previous investment	It would erode the investment in skills, knowledge, and infrastructure already built up (in large part by government).
	0	0	Ability to attract additional investment capital from non-governmental sources[51]	This option has no ability to leverage non-governmental investment capital alongside subsidy.
Feasibility	5	5	Feasibility of delivery	Highly feasible through inertia or lack of political will for alternatives.
Total weighted score	**7**			

[51] Additional investment capital can also come from reallocation of grant funding within existing government departmental budgets to be used as grant subsidy into blended finance.

Option 2

Establishing a specialist blended finance wholesaler for the UK social investment market. A wholesaler is re-endowed as a permanent actor in the market, capitalised as a wholesale provider of **both grant subsidy and investment capital** into blended finance for VCSEs, and given a mandate to build the social investment market and enable VSCEs to access suitable capital through the provision of tailored solutions to fill funding gaps.

Description

This option expands the current remit of Access to include the wholesale provision of both grant subsidy and investment capital into blended finance for VCSEs. The feasibility of this option is dependent on the provision of additional capital that supplements but does not reduce the amount of grant subsidy needed within the market.

The primary aim of capitalising a second social investment wholesaler would be to create a specialist wholesaler in blended finance, or concessionary capital. A specialist blended finance social investment wholesaler would have responsibility for stimulating both the supply of and the demand for social investment in areas where grant subsidy is required. Its primary objective would be to provide flexible, patient, repayable finance that is tailored to the needs of growth stage VCSEs, particularly smaller organisations seeking smaller amounts of investment capital, those developing new enterprise models, those in left-behind places, or those working to address various types of social difficulty.

The view of many interviewees in this review indicated that having a single entity providing both investment capital and grant subsidy might better allow that entity to balance the interests of investees, investors, and subsidisers than two separate wholesalers. It would achieve this by facilitating the design and structuring of funds to:

1. optimise the subsidiser's value for money by making the grant go as far as possible.
2. ensure the right rate of return, or risk return profile, to attract sufficient investment capital.
3. ensure the right product to meet the financing needs of VCSEs.

While capitalising a specialist blended finance wholesaler may shift the emphasis of Big Society Capital's strategy in time, it could continue to provide investment capital into blended structures—either as a cornerstone or co-investor.

The review found that grant subsidy will need to come primarily from public funds, at least initially. However, some interviewees thought that simplifying the structures around blended finance and putting more effort into encouraging other subsidy and capital investors might encourage more subsidy and capital investment from other providers.

The higher the level of subsidy to reduce the cost of capital for the VCSE, the higher the demand for the product from VCSEs. The higher the demand for the product, the greater the need for the supply of capital at that level of subsidy. On one hand, there is elasticity in demand for blended finance depending on the cost of capital. On the other hand, increasing the amount available for subsidy comes at the risk of taking money away from investment capital, which could then be recycled and used for further investment. The review heard evidence that the demand from VCSEs for capital costed at current market rates is not limited primarily by supply but by the cost of capital still being too high. This viewpoint leads us to believe that making this widespread a change to the blended finance market is only worth doing if the increased supply of investment capital does not come at the expense of subsidy.

Developing a new wholesaler with responsibility for capital as well as subsidy would have implications for the size of the team and their skills and experience. It is the most complicated of the options in terms of ensuring that the expertise built up in Big Society Capital and in Access would remain, and that the governance supports the management of the tension between investors and investees. The complication involved means that it is only worth doing with a very large investment. The design considerations would need to ensure clarity over how costs would be met and the relationship between endowment, capitalisation, and ongoing funding arrangements to account for the draw down on any grant subsidy allocation.

Table 8: Assessment of Option 2.

Category	Score	Weighted Score	Criteria	Comments
Policy objectives	5	5	Ability to grow the social economy in deprived areas and left-behind places	High. Will create a market maker with a mission to grow the social economy in deprived areas and left-behind places by creating suitable products and attract the needed capital. Ability to look for gaps in the provision of social investment in terms of underserved areas or cohorts and to design products that seek to address those gaps.
	5	1.7	Ability to support and reach VCSEs with social investment	High ability to support all VCSEs through attracting the type of capital that is needed to meet different types of market need—lower cost of capital, flexible terms etc.
	5	3.3	Ability to grow the size of the social investment market	High ability to design and create new structures and structuring models so that there are new opportunities to attract grant and concessionary funding.
	5	3.3	Ability to attract additional grant subsidy	Increasing the volume of both investment capital and grant subsidy creates structures that are more efficient. Combining both investment capital and grant subsidy within a single wholesaler will allow for greater innovation to create structures that are more efficient.

Value for money of government use of subsidy	5	1.7	Ability to provide value for money in terms of lowering the costs of delivering social investment	Will save time and lower costs of social investors in providing a single point of access. Will improve allocation efficiency through greater ability to hold different interests in balance. Will aid with fundraising by providing a cornerstone wholesale investor in social investment intermediaries. A dedicated wholesaler will reduce the human capital required by smaller foundations and trusts for effective delivery through assisting with blending.
	4	2.7	Ability to provide value for money in terms of building on previous investment	High ability to build on existing Access infrastructure, market position, and trust through expansion of remit. Moderate ability to build on Big Society Capital fundraising expertise, which could be amplified by knowledge sharing or secondment arrangements. High ability to draw on lessons learnt from Big Society Capital and Access, including a need to subside more VCSEs within the social investment market through the provision of higher risk capital.
	3	3	Ability to attract additional investment capital from non-governmental sources	Higher ability to attract more commercial investment through increasing volume and securing pipeline.

				Having an expert in blending grant and investment capital may aid the attraction of larger scale investors through aiding the increase of the ticket size. Higher ability to attract greater volume of capital through ability to signal to the market that capital deployment and the pipeline of investable deals is secure.
Feasibility	1	1	Feasibility of delivery	This is in many ways technically easy as you could grant Access capital investment and change its mandate; expand the core team to include investing and fundraising expertise. However, this is not easy to gain agreement to and implement from a public policy perspective, because it is only worth doing with very significant investment. At lower levels of government investment, subsidy only would be preferable.
Total Weighted Score	**21.7**			

Option 3

A wholesaler is re-endowed as a permanent actor in the market, capitalised as a wholesale provider of **grant subsidy** only into blended finance for VCSEs, and given a mandate to build the social investment market and enable VSCEs to access suitable capital when unavailable elsewhere through the provision of tailored solutions to fill funding gaps. This would be a continuation of the status quo, although there is the potential for design changes to change the targets and focus.

Description

This option extends the role of Access as the current wholesaler, by agreeing to renew Access's funding, and enabling it to continue providing subsidy for this cause. However, the design of the wholesaler, its objectives and key performance indicators, could all be subject to review and redesign. In addition to the design criteria mentioned for option 1, there could, for example, be a greater focus on places targeted in the levelling up agenda, or a greater focus on Diversity, Equity, and Inclusion (DEI) through targeted funds. Access could build on its work in the Flexible Finance for the Recovery and the new Enterprise for Growth programmes to develop an explicit focus around working with social intermediaries and enterprises to ensure more flexible innovative options. Access could have a more explicit objective to try to bring in funds from outside government as well. These were all considered by interviewees to be design considerations that would increase the impact of Access.

Table 9: Assessment of Option 3.

Category	Score	Weighted score	Criteria	Comments
Policy objectives	4	4	Ability to grow social economy in deprived areas and left-behind places	The evidence suggests that the current wholesaler model does target deprived areas and left-behind places. A more explicit focus on deprived areas could focus that funding even more.
	3	1	Ability to support and reach VCSEs with social investment	The evidence from our review suggests that the current model does target all VCSEs, and is successful at targeting the smaller ones. Comments from interviewees suggested that there is more that can be done in terms of targeting Black and ethnic minority-led organisations.
	3	2	Ability to grow the size of the social investment market	The current evidence is that Access has helped to create new social investment intermediaries and improved the resilience and growth of social enterprises and charities.
	3	2	Ability to attract additional grant subsidy	There is currently a reluctance from trust and foundations to subsidise Big Society Capital or mainstream institutional investors, which is a barrier that needs to be overcome. There is no reason why Access could not be the vehicle through which other funders give grant subsidy to blended finance. However, some interviewees thought that other funders may be less collaborative across the sector than Access has been. It should

				be possible to accommodate more restrictions within the current structure of using intermediaries, so this should not necessarily be a problem for Access.
Value for money of government use of subsidy	2.5	0.8	Ability to provide value for money in terms of lowering the costs of delivering social investment	Continuing to fund Access would mean that costs stay around their current level.
	5	3.3	Ability to provide value for money in terms of building on previous investment	Interviewees who had been closely involved with Access suggested that there had been a lot of lessons learned. They particularly referenced this in regards to diversity, increased flexibility, and the strategy and data asks of organisations. Some of them felt that stopping funding to Access now would mean that the progress that had been made would be undone.
	2.5	2.5	Ability to attract additional investment capital from non-governmental sources	Limited additional ability to leverage investment capital.
Feasibility	5	5	Feasibility of delivery	This is the most feasible of the options. It would require minimal oversight from DCMS and would also have the least resistance from the sector.
Total weighted score	**20.7**			

Option 4

Access closes at the end of its ten-year life and grant subsidy is provided directly by government to established social investment intermediaries to make market-based decisions about the provision of capital to VCSEs.

Description

Instead of Access being the provider of subsidy for the market, the funding would directly go to social investment intermediaries without need for a ‘wholesaler’. An example of what this would look like is provided by the Northern Cultural Regeneration Fund, a fund set up by DCMS and administered by Key Fund. This could mean that the relationship is held directly by DCMS, or that there was some other form of intermediation by an arms-length body. The main difference would be that there would not be a nominated wholesaler of grant subsidy into the social investment market. This should take out some of the costs and operate in a more devolved way but would not facilitate the market-level development of social investors nor enable fund design and fundraising at the same scale as a wholesaler. Arguments in favour of this option concern a judgement about the maturity of the social investment market, the desired number and size of market participants, and the market’s ability to design, structure and provide tailored capital to those VCSEs that need them the most.

Table 10: Assessment of Option 4.

Category	Score	Weighted score	Criteria	Comments
Policy objectives	2	2	Ability to grow social economy in deprived areas and left-behind places	There is evidence that place-based social investment intermediaries are able to build relationships in their communities to support VCSEs with enterprise development and build a demand pipeline. This option would support existing intermediaries working in deprived areas but would limit the development of place-based approaches in areas not well served by current intermediaries. However, if this model was combined with a matching element to incentivise fundraising, this may favour places that have a larger philanthropic or business community and disadvantage the most deprived areas.
	2	0.7	Ability to support and reach VCSEs with social investment	Providing the subsidy to the social investment intermediaries should mean that those intermediaries will have the ability to support all VCSEs as currently. If it became more difficult to get investment capital because of the devolved model, that would affect how many VCSEs were supported by social investment.

	3	2	Ability to grow the size of the social investment market	Taking out the costs of funding Access should mean that there is more money available to give to social investment intermediaries. This may mean that each social investment intermediary is able to grow, or that new ones can be set up. Other considerations would depend on the conditions given to the funding—e.g. longer-term funding should help organisations be more stable and attract more funders. However, under this model there would be no central body advocating for blended finance.
	2	1.3	Ability to attract additional grant subsidy	This option would mean that there is no central influencing body arguing for blended finance and so it is unlikely that it would attract additional non-governmental subsidy. To incentivise the social investment intermediaries to fundraise further, there would probably need to be some matching scheme.
Value for money of government use of subsidy	3	1	Ability to provide value for money in terms of lowering the costs of delivering social investment	It is not clear how this will affect transaction costs. Taking the costs of Access out of the relationship should mean transaction costs are lowered. However, some of those costs will have to be borne by DCMS through managing the relationship, entailing additional human capital costs. The costs of bringing in the investment will also have to be borne by the social investment intermediaries.

	1	0.7	Ability to provide value for money in terms of building on previous investment	Giving money to the existing social investment intermediaries would allow for the lessons they have learnt over the past ten years to be continued. However, the institutional memory that has been invested in and built up in Access would be lost.
	3	3	Ability to attract additional investment capital from non-governmental sources	The devolved nature of this model means that it might be harder to attract investment capital. The model could be set up in a way that incentivises social investment intermediaries to bring in more investment capital (in a similar way to a matched funding scheme). However, it would lack the wholesaler's capacity to attract investment capital at scale.
Feasibility	2	2	Feasibility of delivery	There would be costs required to wind up Access. It would also require grants for the subsidy to the social investment intermediaries to be managed by DCMS, which would increase the time, cost, and human capital required by DCMS.
Total weighted score	**12.7**			

Option 5

Access closes at the end of its ten-year life and large funds are capitalised by government to lend and blend directly to the sector with a specified mandate.

Description

A large fund taking a lead from the Futurebuilders England or Communitybuilders funds, managed either by existing social investor(s) or a standalone consortium. While these funds did not have a blended structure, they provide a model for largescale standalone funds that could attract investment capital at the outset, the difference from the wholesaler model being that they would invest directly in enterprises without the intermediaries. However, this would effectively damage existing social investment infrastructure and entail the loss of the localised knowledge that intermediaries have of the organisations and enterprise models that are suitable for social investment. There would be a significant trade-off to any gains from simplicity.

There are number of design characteristics that would need to be considered. The fund could be evergreen, subject to a government grant subsidy commitment. It may attract investment capital from institutional and social investors at scale, although adding fundraising capacity would move in the direction of a wholesaler. Consideration would also need to be given as to how to appropriately tailor products to the needs, size, mission, and location of the applicant.

Table 11: Assessment of Option 5.

Category	Score	Weighted score	Criteria	Comments
Policy objectives	2	2	Ability to grow social economy in deprived areas and left-behind places	The fund could be designed to tailor funding to deprived areas. However, without the local knowledge that the social intermediaries currently hold, it is unlikely to be as successful at targeting left-behind places as the current model. In addition, the fund would probably need to operate a one-size-fits-all approach, which would limit its ability to innovate and be flexible.
	2	0.7	Ability to support and reach VCSEs with social investment	As above, the lack of the social intermediaries would probably make it harder to target the small, growth stage VCSEs.
	0	0	Ability to grow the size of the social investment market	This model reduces the role of the social intermediaries and therefore takes out their role in finding other investment and growing the size of the social investment market.
	2	1.3	Ability to attract additional grant subsidy	There is no reason to think the organisation that would manage this fund would find it easier to attract grant subsidy than currently is present. In fact, the lack of a track record would probably make it slightly more difficult.

Value for money of government use of subsidy	3	1	Ability to provide value for money in terms of lowering the costs of delivering social investment	With no social intermediaries in the model, this should slightly decrease the transaction costs.
	0	0	Ability to provide value for money in terms of building on previous investment	This model would mean that there would be losses both in Access and in the social intermediary level. There would therefore be a loss of intellectual capital.
	2	2	Ability to attract additional investment capital from non-governmental sources	There is no reason to think this organisation would find it easier to attract investment capital than others do at present. As above, the lack of a track record would probably make it slightly more difficult.
Feasibility	2	2	Feasibility of delivery	There would be resistance to this model from stakeholders in the sector. It would require the winding down of Access, and the management of the contract with the new fund by DCMS, thereby adding to its resourcing, time, and human capital costs, which would be considerable and require additional expertise.
Total weighted score	**9**			

Conclusion

This report concludes that there is an ongoing need for future public policy interventions by government to support the social investment market through the provision of grant subsidy into blended finance for VCSEs. There are three main reasons for this:

1. The persistent inability or failure of the market to price social value means that it is unable to adequately serve the social sector without subsidy. This is particularly true for growth stage or start-up VCSEs or with untested thematic or place-based approaches where transaction costs and information asymmetries exacerbate the underlying market failure.

2. Blended finance can support the government's levelling up agenda by targeting funds towards left-behind communities and enabling organisations in those areas to grow, employ more people, and help more people.

3. Blended finance also offers the potential to unlock non-governmental sources of funding into the levelling up agenda.

The impact that grant subsidy into blended finance for VCSEs has had is evident in the effect it has had on:

- **the social investment market**, particularly on the number and strength of social investors offering blended products.

- **the organisations** that have received investment, particularly in their improved resilience and growth and their ability to reach more people.

- **the beneficiaries** themselves, through an increase in the amount of impact and number of beneficiaries, although this is largely assumed from using the above as a proxy due to a lack of concrete beneficiary-level data.

The effect of government withdrawal from the provision of grant subsidy into blended finance would have a short- and long-term negative effect on the social investment market, on the VCSEs, and on their beneficiaries, as established in this paper. It would have an adverse effect on left-behind areas and deprived communities that would run counter to the policy objectives of the government's levelling up agenda and its efforts to unlock private capital to maximise social value.

It is clear from our research that there are currently no other sources sufficient to meet the need for grant subsidy besides government. With the right incentives and engagement, trusts and foundations may increasingly provide grant subsidy or other forms of concessionary capital, but this is unlikely to happen organically from this point at the scale and pace necessary to substitute for prior and existing government provision of grant subsidy.

This paper has shown that grant subsidy for blended finance is an effective way of encouraging organisations to flourish in left-behind places. It also helps social enterprises to thrive by increasing their resilience and scaling their operations, and based on the beneficiary data reported by organisations, that this enables them to deliver more social impact in left-behind places.

Government intervention to support the social investment market through the provision of grant subsidy into blended finance for VCSEs would thereby contribute to the four key objectives outlined in the government's Levelling Up White Paper:

- Boosting productivity, pay, jobs and living standards
- Spreading opportunity
- Restoring a sense of community, local pride and belonging
- Empowering local leaders and communities

Encouraging social enterprises to thrive through increasing their access to social investment will contribute to a greater number of resilient and growing organisations offering purposeful employment opportunities in left-behind areas. It will also support the organisations that are most experienced and best placed to support an improvement in well-being in disadvantaged communities. By doing so, social investment directly supports the achievement of two of the 12 missions designed to realise government's key levelling up policy objectives:

- Mission 1: By 2030, pay, employment and productivity will have risen in every area of the UK, with each containing a globally competitive city, with the gap between the top performing and other areas closing.
- Mission 8: By 2030, well-being will have improved in every area of the UK, with the gap between top performing and other areas closing.

Blended finance is therefore an important mechanism to deliver the government's levelling up policy objectives. Intervening to support the social investment market through the provision of grant subsidy into blended finance structures and products for VCSEs has a clear rationale based on the failure of the markets to optimise the social value that can be delivered through VCSEs and a clear alignment with the policy objectives of levelling up.

This report also finds that grant subsidy could be used more creatively and flexibly in fund design to support innovation, to meet the needs of VCSEs, and to scale the delivery of solutions to public policy objectives or social issues. It also notes the inherent tensions and trade-offs that exist between the provision of market supply of investment and the needs of the VCSEs.

This report finds a range of options to review concerning the role of a future wholesaler as the mechanism to deliver grant subsidy into the social investment market. These range from capitalising existing social investors directly to expanding the role of a wholesaler to include the wholesale provision of investment capital alongside grant into blended finance for the social sector.

It finds that the scale of future provision can be estimated according to past use and identifiable gaps, but that this scale is dependent on the scope and ambition of the public policy objectives that blended finance for the social sector could deliver through supporting innovation, growth, and scaling of the delivery of social value in hard-to-abate social issues or left-behind places.

Options for the future provision of subsidy into blended finance

Our review has found that government should continue to provide subsidy into blended finance as a strong value for money route to achieving key policy objectives. However, the sector agrees that there are improvements that could be made to the provision building on the lessons that have been learnt since the establishment of Access in 2015.

We have examined five options for how government might proceed—from not providing any further subsidy through to capitalising a wholesale provider of subsidy and investment capital. We have tried to assess which option would be best at delivering government's policy objectives and providing value for money, and which is the most feasible.

On the basis of that options appraisal **we recommend Option 2: establishing a specialist blended finance wholesaler for the UK social investment market** by re-endowing the current wholesaler of grant subsidy into the social investment market as a permanent actor in the market, capitalising it as a wholesale provider of **both grant subsidy and investment capital** into blended finance for VCSEs, and giving it a mandate to build the social investment market and enable VSCEs to access suitable capital through the provision of tailored solutions to fill funding gaps.

We recommend that this option explores funding possibilities in addition to dormant assets that are commensurate to the scale of opportunity provided by using social sector organisations and growing the social economy as mechanisms to deliver the levelling up challenge. We also recommend that consideration of additional funding possibilities without the Dormant Assets Scheme's England-only restriction take into account the potential advantages of unlocking a blended finance wholesaler with a UK-wide remit.

We recommend that this option also includes a limited version of Option 4, exploring a targeted capitalisation of a small number of social investment intermediaries using a proportion of its initial investment capital through a fund that flows to their balance sheets upon return to create a vibrant mixed economy of wholesaler and intermediaries within the social investment market.

We believe that this option is likely to deliver the greatest social impact. It will support enterprise-centric finance for organisations that need it, and continue to target left-behind communities, areas of regional disadvantage, and social difficulties. We believe that having a single specialist blended finance wholesaler able to structure and deploy both investment capital and grant subsidy should simplify things for the sector, help to lower transactions costs, and encourage other funding in. It would continue to support the existing social intermediaries so that their learning about what has and has not worked and the strength of their relationships with local organisations in their communities would continue. Therefore, we feel that it meets many of the objectives of government and it should consult further on this.

However, we recognise that for this to work, it requires a significant capital outlay, exceeding what has been given to blended finance as grant subsidy to date. **If any future investment is likely to be in the same order of magnitude as in the past, we feel that the best option is Option 3: to re-endow a wholesaler provider of grant subsidy into blended finance for VCSEs**, with a mandate to build the social investment market and enable VSCEs to access suitable capital when unavailable elsewhere through the provision of tailored solutions to fill funding gaps. **This will ensure that limited funds are used as grant subsidy, for which they are most needed**. This is essentially the status quo—but it could be improved through design features to ensure that more is done to attract other funders. This is also more feasible than Option 2, and builds on the knowledge built up in Access and Big Society Capital. We recognise this is the preferred option if the budget is less than £300m for grant subsidy over the next decade, as the evidence shows that subsidy is important in driving demand from growth-stage VCSEs.

Appendix 1: Data

In the impact section, we have used a sub-section of Access Growth Fund data to look in more detail at beneficiary data. These funds were chosen because they had better quality data. The data comes from the below funds. The data gives a total of 374 approved transactions deployed through the Growth Fund between 2016 and 2022. The figures refer to information as reported by the VCSEs. Since this is self-assessed information, figures should be treated as indicative.

Funds in the Access Growth Fund included in additional data set.

Social investor / intermediary	Name of fund
Key Fund	Northern Impact Fund
Big Issue Invest (BII)	Impact Loans England
Big Issue Invest	Impact Loans England II
Homeless Link	Homeless Link Social Investment Fund
LIVV (First Ark)	Invest for Impact
Nesta	Cultural Impact Development Fund
Greater Manchester Centre for Voluntary Organisation	GM Social Investment
The SIB Group and Forward Trust	Forward Enterprise Fund
Sporting Assets	Sporting Capital Fund

Methodology and recommendations

Data access and sample size: We requested to access raw data from 26 organisations, of which seven agreed to share their data with us. The summary figures presented in this report refer to grants and loans approved and deployed through 23 different funds.

Overview of the data used in this report

Data source	All applications (n)	Approved & deployed funds (n)	VCSEs (n)	Fund programmes (n)	Fund deployment (y)
Access	3,068	806	605	1	2016-2021
CAF	36	36	36	4	2019-2021
COOP	43	43	43	1	2017-2021
Key Fund	188	188	188	1	2016-2022
Nesta	552	75	38	4	2019-2021
Power to Change	232	232	232	9	2015-2022
SIB	1,211	1,211	1,211	3	2004-2014
Grand total	**5,330**	**2,591**	**2,353**	**23**	**2004-2022**

Duplicate records: We collated data shared by lenders and social investors who have worked with the same VCSEs, which resulted in duplicate records for some VCSEs supported through a combination of grants and loans. Duplicate records have been identified and removed by using a variety of indicators and identifiers, including VCSE's name and registration number, where available, investments deployment date, amounts of grants and loans, lender and social investors.

However, it is important to note that there are still instances where the same VCSE appears multiple times in the records used to produce descriptive analysis. This is the case for VCSEs that have successfully applied for more than one investment opportunity. For these reasons, information that refers to transactions, grants, and loans has been presented in this report as number of transactions rather than number of VCSEs / recipients. We have, however, provided the unique number of VCSEs in the respective summary tables and charts, where applicable.

Multiple deprivation: We have used the VCSEs' postcode to determine in which area of deprivation they operate by decile. We have adopted the same methodology outlined in the State of Social Enterprise 2019 report.[52]

[52] Social Enterprise UK, *Capitalism in Crisis: State of Social Enterprise 2019* (2019).

Missing data: We have encountered a number of indicators that were missing or not shared by the organisations that helped us gather the data. Some of the missing records are part of the 'approved and deployed' funds we focused on in this report and have not been included in the descriptive summaries (i.e. numbers and percentages). Instances where data or some indicators were missing have been classified as 'Not specified / missing' data. Examples of missing data include VCSE name or registration number, income, geographical reach, VCSE's postcode or location, fund deployment year, to name a few. However, we have added notes throughout the report to specify the size of the missing data.

For data concerning VCSEs' size, which has been based on NCVO's classification[53] using income data, we have also encountered instances where income or turnover data was not yet available in the Charity Commission register or Companies House datasets, because the information has not been provided or is not yet available. Such cases have been classified as 'unreported'.

Classification and consistency: In order to stay faithful to the original data sources, we have not changed the descriptions, categories, or grouping presented in the data that has been shared with us. We have simply fixed small errors in the data, such as typos.

Beneficiary data: We encountered two types of data relating to beneficiaries. The first category was target beneficiary group, a broad description of the primary target beneficiaries (for example, young people, people experiencing poverty), which appeared to be collected consistently for all approved and deployed funds and presented small inconsistencies due to manual inputting of the information (such as typos and inconsistent use of sentencing cases). The second category, which was richer in level of details as it included the number of beneficiaries supported by VCSEs, was available only for a sub-sample of the Growth Fund dataset.[54] It is important to emphasise that these figures, which included number of beneficiaries 'currently reached' (at the time the application was submitted) and the number 'expected to be reached' as result of the social investment, are self-reported measures as provided by the VCSEs. This calls for caution when reading these figures; an aspect we tried to mitigate by looking at the average percentage change in the number of reached vs expected to be reached beneficiaries at VCSE level and then across all funds in the sub-sample, rather than simply applying the numbers as stated by the VCSEs.

However, the lack of detailed information about the beneficiaries for the vast majority of funds examined in this report represents a missed opportunity. The fact that this data was only partially

[53] https://blogs.ncvo.org.uk/2019/01/21/small-charities-key-findings-from-our-data/

[54] Data concerning 298 (unique) VCSEs for a total of 374 approved transactions deployed between 2016 and 2022.

collected shows that the collection of beneficiary data is possible and does not represent an additional burden for the VCSEs. The ‘current beneficiary’ figures could be easily collected at application stage and the process could be facilitated by providing ranges for VCSEs to select, rather than the option of free text. The same approach could be applied for the ‘expected’ number of beneficiaries, although it would be useful to ask this question at application stage as well as at various points in time following the deployment of the blended funds. This would allow for a much more rigorous monitoring process of what has been achieved as result of the social investment, and whether the original self-reported estimates provided by VCSEs have been met in reality.

Furthermore, there is more data that could be collected on the socio-demographic characteristics and identities of intended beneficiary groups. Deprivation alone is not a measure robust enough to outline which segments of the society are likely to have benefitted the most from the service and support delivered by VCSEs. Characteristics such as ethnicity, gender, and age groups would be relatively easy to gather, and would provide a better understanding of the difference that social investment could make to the lives of groups who are marginalised, left behind, or belong to socio-demographic minority groups.

VCSE data: We identified gaps in data concerning VCSEs, with instances where basic information such as registration number, legal form, or address was missing. Where possible, through the use of additional indicators or by requesting it to the data shares, we have managed to retrieve the missing information.

Taxonomy and blending structure: We have observed some differences in the way providers, stakeholders and grantees refer to blended finance, its component mechanisms, and the set of indicators collected as part of the funding programmes. Whilst we appreciate blended finance has seen different iterations over the years, it is important to ensure common understanding and language around this market, the data collected and generated, and the people and organisations who are part of it. Examples include differentiating between the grant and loan components of the investment; clarity around the legal form of VCSEs; and a list of activities, outcomes, beneficiary groups that all VCSEs can refer to and use.

Unique References Numbers (URNs) and transactions: the organisations that shared data with us and, more broadly, organisations working in the blended finance market, should consider adopting a transferable URN, in addition to those generated by the systems and tools they use internally. This would ensure that data generated and collected by different organisations can be easily combined, assessed, and quality assured. Further implications include the potential to streamline how duplicate records are accounted for and significantly mitigated; and how the most up-to-date data is used for monitoring and analysis purposes (for example, some records we have worked with were more up to date than others, particularly at fund programme level).

Appendix 2: Blended finance funds and source of funds

The following table is our analysis of blended finance funds and where they have sourced their money from. This information is not always presented precisely in this form so there may be some errors in the data.

Fund	Grant	Grant source	Loan	Loan source	Years
The Growth Fund (Access)	£22.5m	National Lottery	£22.5m	Big Society Capital	2016-2022
	£500,000	Sports England		Bankers work	
Flexible Finance for the Recovery (Access)	£23m	Dormant Assets Scheme	£32m	Big Society Capital	2021-2025
Emergency Lending programme (Access)	£6m	Dormant Assets Scheme	£15m	Big Society Capital	2020-2021
Local Access (Access)	£10m	Dormant Assets Scheme	£11.5m	Big Society Capital	2022-2026
Arts & Culture Impact Fund (ACIF) (Nesta)	£2m	National Lottery	£6m	Big Society Capital	2020-2023
	£3m	Arts Council England	£6m	Nesta	
			£1m	Esmée Fairbairn	
			£3m	Freelands	
			£2m	Bank of America	
Arts Impact Fund (AIF) (Nesta)	£3m	Arts Council England	£4m		2015-2019

Booster (Co-operatives UK)	£3m	Power to Change	£3m	Match funding	2015-2022
SE Assist Fund (CAF Venturesome)	£97,500	CAF Resilience Funds and philanthropist	£195,000	Corporate foundation	2021-2022
CLH Fund (CAF Venturesome)	£189,000	Power to Change	£449,000	Trusts and foundations	2020-2021
CLT II Fund (CAF Venturesome)	£240,000	Power to Change	£382,500	Trusts and foundations	2019-2019
Development Fund (CAF Venturesome)	£500,000	Access	£1.065m	Philanthropists	2021-2021
	£500,000	Philanthropists			
Key Fund (Community Business Funds	£1.6m	Power to Change	£1.4m £2m	Power to Change EDRF	2015-2021
Community Investment Fund (CIF) (SASC)	£1.5m	Power to Change	£7m	Non-profit organisations	2015-2019
Communitybuilders Fund	£21.9m	Department of Communities and Local Government	£22.7m	N/A	2012-2019
Futurebuilders England (SIB)	£20.6m	Cabinet Office	£121m	N/A	2004-2010
Northern Cultural Regeneration Fund (Key Fund)	£930,000	Department for Digital, Culture Media & Sport	£2.170m	Department for Digital, Culture, Media & Sport	2019-
SEIF (SIB)	£100m split between loan and grant Department of Health				2007-2011
	£4m	Access	£5m		2021-

Resonance Community Developers	£200,000	Power to Change			
	£200,000	Sports England			
British Gymnastics Fund (Sporting Capital)	£2m	Sports England	£3.3m	Big Society Capital	2020-
	£2m	British Gymnastics	£200,000	Bank workers charity	
Bristol and Bath Regional Capital	£1.8m	Dormant accounts	£5m	Bristol City Council	
		Quartet Community Foundation	£5m	Big Society Capital	
Heritage Impact Fund	£2.5m	National Lottery Heritage Fund (repayable)	£2m	Rathbones	2019-
	£500,000	Historic England			
	£500,000	Historic Environment Scotland			
	£1m	Department for Communities Northern Ireland			
	£350,000	Cadw			
	£2m	Architectural Heritage Fund			
Ethex	£500,000	Postcode Lottery Trust	£500,000	Match funding by crowdfunding	
Social and Sustainable Housing (SASC) (Deal level market development)	£1.122m	Power to Change	Unknown	Unknown	2018-2018

Crowdmatch	£170,000	Power to Change	£170,000	Match funding by crowdfunding	2020-2021
Reboost	£195,655	Power to Change		Up to £25000 match funding	2019-2022
More than a Pub 1 and 2 (Key Fund)	£0 (but matched 50:50 with grant via Plunkett Foundation)	Power to Change	£1.05m	Power to Change	2016-2022
Regional Growth Fund	£1.1m	Regional Growth Fund	£1.1m	Unity Trust Bank	2015-