THE WHATS, THE WHYS AND THE HOWS

An introduction to social investment for youth sector organisations

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About the Young Foundation

We are The Young Foundation and we are determined to make positive social change happen. We pioneered the field of social innovation with The Open University, UpRising and Studio Schools. We work closely with individuals, communities and partners building relationships to ensure that our thinking does something, our actions matter and the changes we make together will continue to grow.
youngfoundation.org

About Catalyst

This briefing has been prepared as part of the Catalyst Investment Readiness Programme, offered by the Young Foundation.

Catalyst is a consortium of four organisations working with the Department for Education as the strategic partner for young people, as part of the Department's wider transition programme for the sector. Catalyst is working to deliver three key objectives over a two year period. We are strengthening the youth sector market, equipping the sector to work in partnership with Government and coordinating a skills development strategy for the youth sector's workforce. The consortium is coordinated by the National Council for Voluntary Youth Services (NVCYS) with three partners: National Youth Agency (NYA), Social Enterprise UK and the Young Foundation.

How do I find out more?

These are a few publications that will help you and your trustees to understand social investment in more depth:

Investment Readiness in the UK – Dan Gregory, Katie Hill, Iona Joy, Sarah Keen. July 2012

Best to Borrow – New Philanthropy Capital. November 2011

Growing Interest – The Young Foundation. July 3011

What is social investment?

Social investment is the provision of finance to create social and financial returns.

The most important thing to know about social investment is that it is not a form of grant, nor is it a replacement for grant funding. It needs to be repaid and for the most part comes in the form of loan finance, or what is more commonly referred to as debt.

Jargon buster - commonly used terms

Equity – Mainly relevant for 'for-profit' companies but community interest companies (CICs) can also have share capital. Equity owners, sometimes known as shareholders, 'share' in the ups and downs of an organisation, meaning the value of their investment changes with the performance of the organisation.

Quasi equity – A financial instrument that is used to invest in organisations that don't have shares (such as those limited by guarantee) but where the characteristics of the investment are similar to that of a hypothetical shareholder. Holders that have quasi equity do not have ownership rights to the organisation, but they do have a financial stake in its success or failure.

Patient capital – A long-term loan that has 'soft' or very favourable terms for the organisation taking it on. Typically this may have little to no interest payable on the loan. Often used in cases where an organisation may take several years to start to make enough surplus cash to repay an investment.

Unsecured loan – A loan that is not guaranteed by any underlying tangible object, such as property or other physical assets.

Secured loan – A loan that is guaranteed on a tangible asset. The most common example would be a mortgage which is secured on a physical property. If the loan cannot be repaid the investor has the right to take ownership of the underlying asset.

Social Impact Bond – A specific financial instrument where the financial return to the investor is directly linked to the organisation achieving targeted objectives which a third-party commissioner has agreed to pay for.

Payment by Results contract – This is NOT a financial instrument in itself. This describes a type of contract where payments are linked to achieving pre-agreed outcomes or results.

What is social investment used for?

Social investment is a form of capital finance. It is predominantly used to:

a) develop the infrastructure of an organisation;

b) grow or scale up an organisation;

c) bridge finance to meet short-term cash flow needs; or

d) back Payment by Results type contracts in the form of a Social Impact Bond.

Why is social investment relevant to the youth sector?

There are three key reasons why social investment is relevant to organisations working for and with young people:

1. **Scale of money available**. The funding landscape has experienced seismic changes over the last four years and what was 'normal' service shows no sign of a return. The social investment market was worth £165m in 2011 and is forecast to grow to £1bn by 2016.

2. **Long-term investment in your organisation**. Social investment offers investment in infrastructure and systems rather than direct operational delivery costs. This is funding that before now has been very limited in its availability but is much needed for organisational development and growth.

3. **Non-financial support**. Social investment is more than just someone writing a cheque. Social investment often comes with access to considerable non-financial support – whether in the form of new networks, pro bono expertise or just a new trustee/advisor on your board – all of which can be invaluable.

How do I access this pot of money?

Step one – Identify the type of funding you need

Step two – Identify the right investor(s)

Step three – Assess your organisation's investment readiness

Step four – Take action to become 'investment ready'

Step five – Negotiate and secure investment

Step One – Identify what type of funding you need

Key questions to ask yourself at this stage:

- What do I need the funding for? If it is for direct delivery then it is unlikely that social investment is appropriate, unless you are entering into a Payment by Results type contract.
- How will I repay the investment? Over what time period? How risky or likely is it that the repayments will go according to plan?
- Does my legal structure affect my ability to take on or repay investment?

Step Two – Identify the right investor(s)

Not all investors will offer the type of funding you need or be focused on achieving the social impact that you deliver. Do some research into the individual investors, their sector focus and existing portfolio of investments.

Social investment is very much people-focused and you need to be comfortable that you are working with an investor you trust and will feel comfortable calling on, particularly in difficult situations when things don't go according to your plan.

Step Three – Assess how 'investment ready' you are?

Once you know the type of investment you are looking for and have identified potential investors, it is time to put yourself into the shoes of the investor.

Ask yourself what sort of things will they are likely to look for in an investee and how would they expect you to evidence them. What are the key risks in your being able to meet the repayments? What assumptions have you based your financial projections and organisational strategy on? How do you evidence your social impact?

This can be done through The Young Foundation's 'Organisational Health Scorecard', used to assess your relative strengths and areas for development across your people, leadership and governance; business plan, strategy and financial projections; theory of change, evidence and evaluation; and operational capacity, systems and delivery.

Step Four – Take action to become 'investment ready'

This assessment should give you a clear sense of what action you need to take to strengthen your organisation's 'investment readiness.' This is not necessarily work that you need to do alone and you should consider reaching out to your trustees, existing networks, pro bono experts and professional organisations who can offer support.

Step Five – Negotiate and secure investment

You don't need to be 100% investment ready when you start discussions with investors, but you do need to be at a stage where you are able to confidently discuss your proposal and to negotiate the best possible terms for your organisation. Professional advice including legal advice can be helpful at this stage.