impact investing institute

Financing structures for place-based impact investing – what works?

www.impactinvest.org.uk

Supported by Department for Digital, Culture, Media & Sport

Contents


DE CUBA
LLOYDS NO. 1 BAR
PITCHER & PIANO
CANTINA
V-SHED
ZA ZA BAZAAR

1. Introduction

Place-based impact investing is the meeting of two worlds – finance and regeneration. It is a response to the fact that the UK has some of the highest levels of sustained inequality in Europe, and that this inequality is expressed both within and between regions. There can be no doubt that significant Government intervention will be needed to change that, and this is reflected in the ambition to 'level up', and more tangibly in the recent Levelling Up White Paper (published 2nd February 2022)[1]. It is also clear, with the costs of levelling up expected to exceed £1 trillion over the next 10 years, that public action and investment will need to be matched by the private sector[2].

There is no set roadmap for addressing regional inequality and rebalancing access to opportunity between and within places, but an economy that works for all requires an intentional approach to place. Places become 'underperforming', 'left behind' and 'underinvested' as a result of a complex combination of factors which culminate in market failure and vicious cycles of asset depreciation.

By working together, places and financial institutions, supported by an encouraging policy and regulatory context set by Government, can start to break those cycles.

While, of course, the worlds of finance and regeneration have intersected for a long time, place-based impact investing seeks to frame the involvement of private finance in regeneration in the UK in a new way, building on the lessons of the past and carving a new niche for responsible mainstream financial institutions in addressing the challenges we face.

This started with "**Scaling up institutional investment for place-based impact**", published in May 2021 and delivered by the Impact Investing Institute in partnership with The Good Economy and Pensions for Purpose, which sets out the case for institutional investors, focusing on local government pension schemes, to adopt a place-based approach.

That report identified five key barriers to place-based impact investing by institutional investors. These are:

1. Lack of awareness of place-based impact investing
2. Lack of appropriate financing vehicles through which to invest
3. Lack of impact measurement frameworks
4. Issues around origination of investable projects
5. Lack of capacity and capability across these issues within many key organisations, including local authorities, financial institutions and government

These identified barriers have held true as the work on place-based impact investing has expanded to include more parts of both the finance and investment ecosystem, and as a broader range of organisations representing various places around the UK have been engaged in the work.

1 Levelling Up the United Kingdom, https://www.gov.uk/government/publications/levelling-up-the-united-kingdom, February 2022
2 The UK 2070 Commission's 'Go Big Go Local' report, http://uk2070.org.uk/2020/09/30/go-big-go-local-the-uk2070-report-on-a-new-deal-for-levelling-up-the-united-kingdom/, October 2020

2. The challenge

This report focuses on the second barrier – lack of appropriate financing vehicles through which to invest. In order to attract investment from institutional investors, opportunities must be of appropriate scale, meet the risk/return thresholds of those investors and be aligned with the asset owner's purpose (their investment strategy).

All of the case studies in Section 4 have addressed these challenges in different ways, showing how vehicles which are investable, generate appropriate risk-adjusted financial returns and are aligned with an investor's strategic goals can be structured.

Scale

One of the reasons why there aren't more place-based impact investing vehicles is that many institutional investors and mainstream finance organisations are set up and organised to undertake transactions or run programmes which stretch into the tens or hundreds of millions of pounds.

For mainstream financial institutions to invest in 'levelling up' and begin to help to address the inequalities between and within regions, they need ready access to vehicles which can mediate between the comparatively small scale of most impactful local projects and large-scale investment tranches.

Our case study, the Schroder BSC Social Impact Trust, demonstrates one way of mitigating the scale challenge. As a permanent, open-ended, listed investment vehicle managed by Big Society Capital (BSC), who have a deep knowledge of the UK social impact market, it makes a diversified, liquid portfolio of impact investments accessible to a broad range of investors (including institutional investors without specialist impact expertise).

Risk/return

Another reason there are so few investable vehicles which focus on achieving positive, place-based social and environmental impacts is that often they do not appear viable or capable of generating an appropriate risk-adjusted market return.

Addressing the challenges that we face will require interventions across the **Spectrum of Capital**. Within impact investing, including place-based impact investing, there are some opportunities which can generate an appropriate risk-adjusted financial return alongside positive impact without subsidy or intervention. Yet more opportunities exist which may not be able to generate an appropriate risk-adjusted financial return without subsidy or intervention.

Even the most viable place-based impact investing opportunities are likely to struggle with one or more of the following barriers, all of which negatively impact how investable a project is:

- Lack of reliable track record data on financial performance
  - This could be true of either or all of: the underlying asset (e.g. innovative technology), the investee structure (e.g. a new SPV), the sector as a whole (e.g. Community Development Finance Institutions).
- Higher costs
  - Private market transaction costs are higher than institutional investors are accustomed to in listed markets.
  - There are costs associated with seeking out, performing due diligence on and executing deals which are individually relatively small-scale, and often require bespoke structuring.

Therefore, in bringing forward place-based impact investing vehicles, market actors will need to take a collaborative approach, recognising both impact and risk/return imperatives and, where necessary and possible, utilising blended finance tools to improve the risk/return profile of a project or an investment.

Our case studies showcase where this has already been done. The Social Investment Business (SIB) Recovery Loan Fund's low, fixed interest rate remains appealing to investors because its blended structure means that a high proportion of the portfolio would have to default for investors to lose any capital. The Schroder BSC Social Impact Trust has tackled this in a different way, not only because it is a listed vehicle, but also by targeting a low-risk portfolio of assets with underlying income which is largely inflation-linked and government-related.

Purpose

Institutional investors are guided by their investment strategies, which hold as paramount their fiduciary duty to their investors or, for pension funds, their members. While many investors have other strategic aims - which can include an interest in supporting local economic growth and/or contributing solutions to local problems - these impact interests often remain unarticulated, and only partially integrated into investment strategies.

Simply creating additional vehicles does not address this challenge, but any successful place-based impact investing vehicle would need to have a clear articulation of purpose, agreed by all parties involved.

Additionally, the introduction and success of more place-based impact investing vehicles would provide more evidence to challenge the idea that place-based impact investing is incompatible with fiduciary duty, and provide more examples of allocation policies which incorporate place and impact, while not compromising on portfolio returns.

While not all our case studies are place-focused, they each demonstrate that clarity of purpose across and between stakeholders is a key ingredient for success, suggesting that a shared intention to deliver positive impact in place is critical.

3. A way forward – blended finance and innovative structures

There is a broad range of potential approaches to structuring place-based impact investments, many of which are not only common but highly effective in other contexts and countries (for example development finance in emerging economies). If these approaches were used more frequently, and were actively and creatively deployed to address regional inequality in the UK and deliver local projects which improve people's lives, the results could be transformational.

Some of these approaches are outlined below, and our four case studies demonstrate how they are already working in practice.

Blended finance is the umbrella term used to indicate a structuring approach which supports private capital to invest in impactful opportunities. It is an approach that speaks to all three of the challenges articulated in Section 2. By altering the risk/return profile, blended finance can leverage private capital at scale, and enable a vehicle to focus on an impact purpose whilst also delivering for mainstream investors.

The range of blended finance instruments already actively used in market sectors such as development finance includes:

- Subordinated capital
    - Subordinated capital tranches provided by the public sector or private impact investors can provide an important de-risking mechanism. Essentially, the subordinated capital tranche (or junior tranche) absorbs losses first, so that the senior capital tranche benefits from loss protection because it is only affected by losses once the subordinated tranche has been zeroed.
    - This is also known as taking a 'first loss position', and is probably the most widely used tool for impact investing where the perception of risk may deter potential investors from participating.
    - Case study example: Bristol and Bath Regional Capital - City Fund.
- Guarantees
    - A guarantee can be issued by a range of organisations, and ensures that a proportion (up to 100%) of an investor's capital will be repaid in the event that a borrower defaults.
    - In this way, the guarantor (either the public sector or another body) removes some of the risk within an investment.
    - As well as the fact that the reduced risk makes an investment more likely to perform well against an investor's internal hurdles, a guarantee can mean an investment gets a higher credit rating (including an investment grade rating). That allows certain regulated investors to participate where they otherwise may not have been able to if the investment was not guaranteed.
    - Case study example: the SIB Recovery Loan Fund.
- Tax relief
    - UK tax relief schemes include Social Investment Tax Relief, the Enterprise Investment Scheme, and the Seed Enterprise Investment Scheme.
    - All of these offer investors incentives to invest in projects which may not meet market expectations through being either too risky and/or not generating a return in line with market expectations.
    - Investors can claim, for example, income or capital gains tax relief against investments in qualifying companies or Trusts.
    - This essentially de-risks the investment.
    - For example, investors in Community Development Finance Institutions (CDFIs) benefit from the Community Investment Tax Relief scheme, which seeks to encourage investment in disadvantaged communities via 33 accredited CDFIs[3].

3 https://www.gov.uk/government/publications/community-investment-tax-relief-citr/community-investment-tax-relief-citr
https://responsiblefinance.org.uk/the-community-investment-tax-relief-citr/

- Development grants that de-risk projects
  - Grant capital can be provided that is focused on making a project viable for commercial investment (e.g. grant to remediate brownfield land and make it ready for development, or early investment in technology related to renewable energy generation and/or storage).

Other financial instruments which don't necessarily involve subsidy, but which can make projects and transactions investable by private finance, include:

- Technical assistance
  - In the development finance context, often c.20% of an investment goes towards supporting deal structuring, building capacity and capability and, where necessary, designing a vehicle. Support even approaching that scale is largely lacking from domestic programmes and investments.
- Partnerships
  - Co-creation partnerships reduce the transaction costs of sourcing and signing deals, and the risk associated with competitive tendering.
  - Impact-linked finance links financial rewards to the achievement of positive social and/or environmental outcomes[4]. A variety of financial instruments can be impact-linked, from equity and debt to guarantees. The clearest example would be a lender linking a loan's interest rate to pre-determined impact performance metrics, decreasing the rate as the impact(s) are achieved.
  - Outcomes-based contracts typically link at least a portion of a contractor's payment, or a contract renewal or extension, to the achievement of specific, measurable, pre-determined positive social and/or environmental outcomes. In the UK, they are generally used to drive innovation in services commissioned by local and national government. Payment is only made once outcomes are achieved, so the service provider provides working capital for the contract delivery (usually via social investors, who essentially take on the performance risk).
  - Case study example – the Schroder BSC Social Impact Trust invests in some social outcomes contracts.
- Insurance
  - Commonly used effectively in development finance but less prevalent for domestic investments, insurance provides protection against specific, pre-determined risks.
  - In emerging markets, some of the most common examples are political risk and long-term non-payment insurance.
  - The insured loss is passed to an insurer (who administers a risk pool) against payment of an insurance premium.
  - In the UK, credit insurance products (which cover non-payment) can now cover project financing investments with tenors of up to 20 years[5].
- Securitisation
  - Securitisation is a complex financial structure, but is the process of grouping an asset with other assets to make one portfolio, and then selling that portfolio's cashflow (or parts of it) to investors, backed by the original asset.
  - It is generally a way of freeing up capital for the originator (the organisation which developed and owned the initial asset), which can then remove the original asset from its balance sheet and therefore make more loans or investments.

These instruments are outlined in further detail in "**Mobilising institutional capital towards the SDGs and a Just Transition**".

4 https://www.roots-of-impact.org/impact-linked-finance/
5 https://axaxl.com/fast-fast-forward/articles/nonpayment-insurance-evolving-to-meet-changing-needs

4. Case studies

The financing vehicles profiled here as case studies are just a few examples of where blended finance or innovative structuring is already being used to best effect in UK markets.

From the Institute's extensive conversations with actors across the financial markets about place-based impact investing, we know that there is a growing demand from investors for investable entities which deliver positive social and/or environmental benefits in particular regions or localities. Asset managers are therefore looking for inspiration in structuring vehicles which deliver for those investors, which we hope these case studies will provide.

These case studies showcase models which, taken together, act as the best blueprint the UK can offer for investment products which deliver for investors, communities and places. Not all of them are place-based impact investing vehicles, because not all of them take a specific, intentional approach to place by making it a criterion for investment decisions. However, they are all investment vehicles which either can attract or have attracted institutional investment, and which either already are or are likely to deliver significant positive impact in place.

PLACE-BASED IMPACT INVESTING FINANCING VEHICLE CASE STUDY:

Bristol & Bath Regional Capital - City Fund

With thanks to Edward Rowberry, Chief Executive and James Money-Kyrle, Interim Finance Director, Bristol & Bath Regional Capital, for their time in helping us compile this case study.

Vehicle Overview

Bristol & Bath Regional Capital (BBRC) is a Community Interest Company (CIC) which works with investors, local projects, enterprises, and the community to offer bespoke investment opportunities that provide both a financial and social return and support local projects.

BBRC acts as Investment Adviser to the Bristol City Fund, a £10m impact investment fund with associated grant from the Access Foundation which launched in 2019 and made its first investment in 2020.

What problem does the Fund solve?

BBRC expertly develops financing solutions to local problems, bringing specialist knowledge and a long-term commitment to place into their assessment of risk and therefore enabling them to invest where others couldn't.

How was the Fund established?

The initial idea for a Fund of this kind came from the Mayor of Bristol, who had planned to aggregate the charitable contributions of businesses into a fund which would contribute towards shared efforts to reduce inequality and improve public spaces which were being delivered by civil society in Bristol.

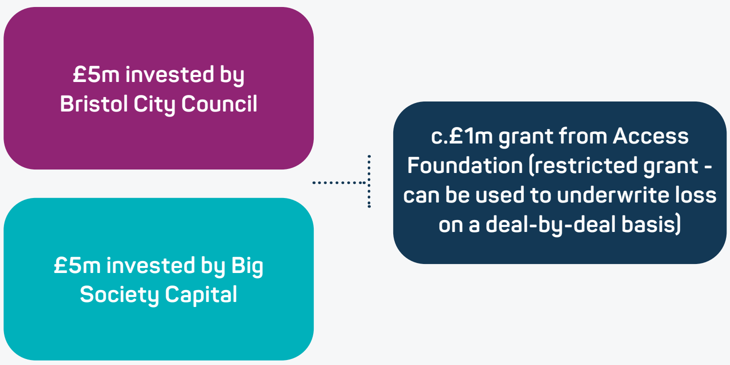
After some initial market scoping, it was deemed not possible to build a scalable fund in this way, so BBRC (with the support of the Mayor) worked with Big Society Capital to secure an original £5m investment into the City Fund, contingent on match funding from Bristol City Council, which was then secured.

The £1m Access Foundation grant was confirmed a little over a year later, and so was retrofitted into the existing structure.

How is the Fund structured and governed?

The City Fund is a Limited Partnership. While the fund manager is the ultimate decision-maker regarding investment decisions, BBRC acts as adviser to the Fund.

Fund structure



How is blended finance used in the Fund?

The £1m grant from the Access Foundation is a First Loss facility. This grant sits within BBRC, and BBRC are under contract with the Access Foundation to use that grant as first loss underwriting on a deal-by-deal basis. BBRC and the City Fund cannot use it as a resource to generally underwrite the Fund.

What are the Fund's return targets?

The Fund targets an Internal Rate of Return (IRR) of 4%. BBRC and partners are trying to make the City Fund as flexible as possible – the investment policy allows for c. 10% equity, 50% secured loans and 40% unsecured loans. While this flexibility has led to slightly higher-than-expected legal costs, given the success of Fund deployment (and thus the number of deals), overall it has been a beneficial approach.

How easy or difficult has it been to find projects to invest in via the Fund?

The Fund has deployed ahead of schedule, finding local investable opportunities through the extensive networks they had built ahead of launch.

How is impact measurement integrated into the Fund?

BBRC have worked with specialists at the Centre for Thriving Places to develop their impact thesis. This thesis includes their approach to place – for example, the Fund can invest in national or global organisations, but they must be locally based. While it is too early for publication of an impact report, BBRC and the City Fund will report on impact across a range of measures including health and wellbeing metrics.

Example investments:

Pre-planning (high-risk) investment in a community group to invest onwards in a wind energy project.

Xero-e, a green business-2-business delivery service.

Health-tech, including a global company which is headquartered in Bristol.

What advice would you give others trying to deliver place-based impact investing vehicles?

While a multi-stakeholder approach has served BBRC well in some ways, it did set delivery of the Fund back by over a year, so partnering with one reputable local anchor institution and then pursuing investment may have been quicker. That said, this open approach has paid dividends in terms of turning up investable opportunities, so a balanced outlook is needed.

Delivering impact will have different challenges in different places, but wherever you are looking to work it is likely that local government will know what the needs are and have data and analysis readily available.

BBRC are working on plans for a £30-50m Net Zero Fund – if you are interested in hearing more, get in touch with them via **info@bab-rc.uk**

PLACE-BASED IMPACT INVESTING FINANCING VEHICLE CASE STUDY:

Schroder BSC Social Impact Trust plc (the Trust)

With thanks to Andrew Beal, Head of Investor Engagement at BSC, for his time in helping us compile this case study.

Vehicle Overview

A partnership between Schroders and Big Society Capital (BSC), this is a listed investment trust with a portfolio of UK assets in high impact housing, social outcomes contracts and loans to social enterprises.

What problem does the Trust solve?

The Trust makes a diversified portfolio of impact investments accessible to a broad range of investors (including those without specialist impact expertise) because it is a permanent, liquid investment vehicle, supported by BSC's deep knowledge of the UK social impact market.

How was the Trust established?

The Trust was established in December 2020 as a partnership between Schroders and BSC, aiming to demonstrate to the market how investors – both institutional and retail - can allocate capital to solving some of society's most deep-rooted social problems as well as providing a sustainable, inflation-linked return.

How is the Trust structured and governed?

The Trust is an Investment Company with an independent Board, listed on the London Stock Exchange. It is governed by company law and securities law, and the fund manager (Big Society Capital) is regulated by the Financial Conduct Authority.

It is highly transparent, publishing annual and interim financial reports, an Annual Impact Report as well as regular investment updates.

How is blended finance used in the Trust?

There is no public sector involvement or subordinated capital within the structure.
As well as Schroders' and BSC's cornerstone investments, the trust has attracted a broad range of investors including local authority pension funds, wealth managers, overseas impact investors and individuals.

What are the Trust's return targets?

The Trust aims to provide a Net Asset Value (NAV) total return of CPI+2% per annum, once the portfolio is fully invested and averaged over a rolling three- to five-year period, net of fees. As with all Investment Trusts, the share price can deviate from the NAV, including going to a discount as well as trading at a premium.
The Trust is targeting a low-risk portfolio. Risk is reduced in target investments because their underlying income is often inflation-linked and government-related (for example though social housing rents). The Trust's assets are typically less exposed to market and economic cycles than mainstream investments.

How easy or difficult has it been to find projects to invest in via the Fund?

The Trust's investment period was accelerated through an investment in kind from BSC. Instead of buying shares in the Trust in cash, BSC moved existing investments from its balance sheet into the Trust and therefore subscribed to the shares in kind.

This is innovative and has several benefits:

- It accelerated the build of the Trust portfolio, so that other investors were immediately invested, rather than committing and then needing to wait months for the portfolio to be built.
- When/if BSC sells their shares in the Trust, it will free up money on the BSC balance sheet and enable them to do further specialist, high-impact investing.
- This approach therefore enables all kinds of private investors to invest in high-impact private market assets with track record, cultivated by a specialist impact organisation, without compromising on liquidity.

How is impact measurement integrated into the Trust?

The whole investment process is built around impact measurement, and it is central to how BSC as the Investment Manager selects investments. In general, the Trust acts as a Fund of Funds, using impact specialist sub-managers such as Resonance and TriplePoint who are already committed to rigorous impact measurement and reporting.
For more information on BSC's approach to impact measurement, see **here**.

Example investments[6]:

Debt for social enterprises	High Impact Housing	Social outcomes contracts
The Alnwick Garden in Northumberland is a charity that runs a communal garden and several community programmes including drug education and employability	Target Housing provides accommodation and support to vulnerable people who have difficulties sustaining a tenancy (e.g. ex-offenders, adults with complex needs and/or mental health problems)	Pause for Change provides support for vulnerable women in Plymouth, Derbyshire and Norhamptonshire who have experienced, or are at risk of, repeat removals of children from their care
Charity bond investment via Rathbones	Investment in the SASC Social and Sustainable Housing LP	Investment via the Bridges Social Outcomes Fund I LP

What advice would you give others trying to deliver place-based impact investing vehicles?

Anchor investors were crucial to the establishment of the Trust. It would have been unlikely to happen without the two significant initial backers (BSC and Schroders), who worked closely together on design and launch of the Trust.

Investor targeting and selection is important. CPI+2% is an appropriate, risk-adjusted return for this portfolio, but it needs to be marketed to investors who are interested in UK-focused high social impact, low risk and a sustainable financial return.

For more information about the Schroder BSC Social Impact Trust plc, see here:
https://www.schroders.com/en/uk/private-investor/fund-centre/funds-in-focus/investment-trusts/schroders-investment-trusts/schroder-bsc-social-impact-trust/

6 https://www.alnwickgarden.com/, https://www.pause.org.uk/, https://targethousing.org.uk/

PLACE-BASED IMPACT INVESTING FINANCING VEHICLE CASE STUDY:

English Cities Fund (ECF)

Thank you to Rina Begum, Head of Equity, JV & Partnerships at Homes England, and the team at The English Cities Fund, for their help in compiling this case study.

Vehicle Overview

The English Cities Fund (ECF) is a national development company based on partnership. Established in 2001, ECF brought together three leading organisations in the built environment to deliver long-term transformative change that benefits communities: Legal & General, Muse Developments and a predecessor to Homes England, English Partnerships. ECF's continuing mission is to regenerate and support major economic development in areas in need.

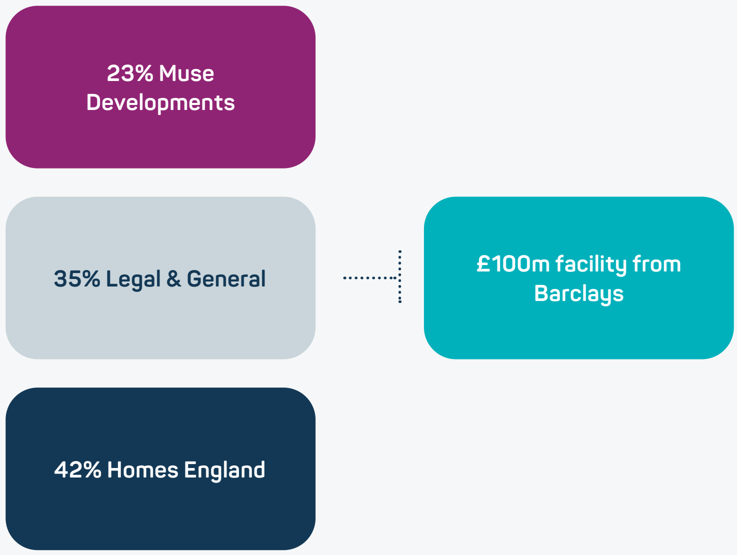
What problem does ECF solve?

ECF benefits from being a unique partnership with a unique approach; to directly leverage institutional capital into disadvantaged areas to create opportunities for growth and development. This creates a foundation for ECF to take on long-term, complex projects that can focus on sustainable placemaking and building meaningful local relationships.

How is ECF structured and governed?

ECF is governed by a Board made up of senior representatives from the three partners, with day-to-day management of the joint venture provided by Muse. ECF is an £100m equity partnership with an £100m bank facility provided by Barclays. Equity is split 42% Homes England, 35% L&G and 23% Muse Developments. The Partners share in the risk and profit of the Fund in proportion to their equity share. The investment approaches taken by the partnership organisations enables ECF to invest in projects which a more traditional market actor would not be able to undertake.

Fund structure



What are ECF's return targets?

ECF targets a minimum profit of between 10 and 20% per project and an internal rate of return (IRR) of 15-20%, depending on the risk profile of the project.

Finding schemes in line with the ECF model?

ECF's original strategic priority was mixed-use development with a focus on commercial uses typically on brownfield land, in areas of high need. In 2017, focus shifted given public-sector priorities and ECF now delivers over 50% residential-led regeneration schemes, still focusing on brownfield land.

ECF's focus is entirely on sustainable placemaking. ECF does not aim to displace other developers or deliver typical projects that the market would bring forward on its own, instead focusing on holistic, long-term regeneration, while delivering at pace. ECF has been able to secure schemes which meet the Fund's strategic objectives, as evidenced by the newly secured St Helens Town Centre Regeneration Scheme.

How is impact measurement integrated into ECF?

The socio-economic impact of ECF's projects are assessed over their entire lifetime (further detail below in relation to Salford Central).

Example investment:

Salford Central

An 18-hectare, 21-phase, £1bn project which began in 2009 and includes award-winning commercial buildings alongside residential development.

The 15-year vision was developed and agreed between ECF and Salford City Council and has brought forward higher quality, more comprehensive development of the area than would have otherwise happened.

The partnership enabled the Council and ECF to bring the full weight of their combined abilities to the scheme, adopting a portfolio approach to viability, levering in appropriate government grant funding and using the Council's planning powers to deliver the scheme.

Impact measurement and reporting was also integrated into this project from the beginning. ECF worked with the Social Value Portal, the University of Salford and Salford City council to develop a Social Value Development Framework and Social Delivery Strategy at the outset of the project, and continue to be involved in measuring, monitoring and reporting on local outcomes.

Source: SQW (2021) Salford Central, The English Cities Fund

What advice would you give others trying to deliver place-based impact investing vehicles?

1. Be patient – meaningful place-based impact investing is complex and takes time to realise results and returns.
2. Get involved early and work with public sector partners to create a shared vision and goals that are focused on community benefit. This helps tailor regeneration schemes to make sure that they are:
    - Deliverable – taking into account any foreseeable technical and structural challenges.
    - Financeable – determining capital need and viability in the early planning stages.
    - Reflective of local need and expectations – embracing that this is critical to good placemaking (and the economic viability and performance of projects).

Further information about the work of The English Cities Fund can be found here: **https://englishcitiesfund.co.uk**

PLACE-BASED IMPACT INVESTING FINANCING VEHICLE CASE STUDY:

Social Investment Business Recovery Loan Fund 2

With thanks to Gen Maitland-Hudson, Deputy CEO, and Rob Benfield, Director of Investments, at Social Investment Business for their time in helping us to compile this case study.

Vehicle Overview

The Recovery Loan Fund (RLF) provides loans to UK charities and social enterprises which have been impacted by Covid 19. It was established by Social Investment Business (SIB) to make an existing Government guarantee scheme, the **Recovery Loan Scheme** (RLS), more easily accessible to charities and social enterprises. RLS is a time-limited government scheme which guarantees 70% of the finance to the lender.

What problem does the Fund solve?

The RLF's blended structure makes it attractive to investors who would perceive its underlying investee companies to be too risky to invest in. It also enables access to finance to organisations that wouldn't be able to afford market risk premiums.

How was the Fund established?

The RLF is a successor fund to the Resilience and Recovery Loan Fund (RRLF). SIB stood the £25m RRLF up in just six weeks in April 2020 to support social enterprises and charities through the pandemic.

This was possible because SIB was already in the process of exploring becoming an accredited provider of the **Enterprise Finance Guarantee** with the British Business Bank. That meant SIB was able to get accredited to run the Coronavirus Business Interruption Loan Scheme (CBILS) when it was launched.

Although CBILS finished and RRLF closed, the government launched the Recovery Loan Scheme (RLS) as a successor to CBILS. SIB was confident that the investment pipeline remained strong, and so launched the RLF in order to make the RLS available to the social sector.

How is the vehicle structured?

£18m senior debt, including follow on commitments

70% credit guarantee, via Recovery Loan Scheme

Equity, £4m from SIB Foundation

Investors include:

- The Archbishop's Council
- Big Society Capital (have a ramp-up agreed as additional funding is raised from other sources)
- MFS Investment Management (firm's capital)
- Treebeard Trust
- Fusion 21 (a social enterprise which invests profit in impact)

How is blended finance used in the Fund?

The RLF is a high-quality investment instrument with a high degree of loan protection, such that a very high percentage of the portfolio would have to default for investors to start to lose capital. This is secured through the combination of the SIB Foundation equity investment and the 70% credit guarantee offered via the RLS.

That enables the Fund to remain attractive to investors at a low, fixed interest rate.

How is the Fund governed?

It is a Special Purpose Vehicle (SPV), wholly owned by the SIB Foundation. The SPV is not a regulated instrument. It borrows money from investors structured as a club facility (with GLAS acting as the facility and security agent)[7]. The SPV has a Board made up of senior SIB staff and pays SIB to run its loan book.

That SPV is the entity which accesses the RLS via its accreditation from the British Business Bank and is therefore also required to comply with the terms of the RLS.

What are the Fund's return targets?

There is a pricing ratchet for return on senior debt depending on the size of the fund:
Up to £20m – 3% per annum
£20-30m – 3.25% per annum
£30m+ – 3.5% per annum

The equity investment by the SIB Foundation has a zero percentage return under the base case projections.

How easy or difficult has it been to find projects to invest in via the Fund?

The RLF is still young, but was built on the basis of a strong remaining pipeline at the close of the RRLF. Emerging from the pandemic with significant macroeconomic uncertainties is a challenging place to lend into, and a challenging time for charities and social enterprises to choose to invest and take on debt. That said, at the time of writing, £350k has been dispersed, with £580k approved and an additional £3.1m is in assessment.

SIB will soon be launching a grant offering alongside the Recovery Loan Fund, with up to 100% match grant funding with the loan amount for certain black- and minority-led applicant organisations.

SIB is working with a range of specialist referral and introducer networks, for example **the Ubele initiative** and **CreateEquity**. Thirty-six potential investees have submitted applications, of which 25% of eligible applications are from BAME-led organisations.

How is impact measurement integrated into the Fund?

SIB has a well-developed impact management framework (**more detail here**) which considers place as well as equalities, supply chain, governance, profit distribution and employment terms.

SIB believes its approach is based on asking questions of their investees which are useful and help to build an aggregated picture of the sector, rather than questions for questions' sake.

7 GLAS is a global independent provider of debt administration services - https://glas.agency/

Example investments:

By supporting UK-based small and medium sized charities and enterprises, the RLF supports the creation and preservation of local jobs and enhances the resilience of the social sector across the UK. The social sector has supported vulnerable people before and throughout the pandemic, and will continue to do so into the future.

Because the RLF remains in its early stages, these two examples are from its predecessor fund, the RRLF, but give a good indication of the types of investment RLF is making.

The RRLF provided a £250k loan to the Royal Society for Blind Children, helping the organisation be confident about short-term liquidity and helping to bridge a funding gap during the pandemic which would otherwise have been filled by fundraising. It meant that the charity was able to expand its reach and reduce costs, rather than cutting back at a crucial time.

The RRLF provided both loan (£360k) and grant (£140k) to Autism Plus, which supports adults and young people with autism, learning disabilities, mental health conditions and complex needs. They employ over 450 people across the north of England.

What advice would you give others trying to deliver place-based impact investing vehicles?

It is important to be intelligent about outreach and marketing – partnering locally brings an element of local knowledge even to generalist funds, enabling them to be intentional about where as well as who and how when making investments.

If you are interested in learning more about the RLF, please visit **https://www.sibgroup.org.uk/recovery-loan-fund***, or the investments team can be contacted via* **RLF@sibgroup.org.uk**.

5. Recommendations

Recommendations to those structuring vehicles

- Involve an experienced commercial provider of financing vehicles.
    - Where investment from commercial or 'traditional' investors is important to the success of a project, partnership with a provider accustomed to working with that part of the market has proved a great advantage.
    - The benefits include:
        - Knowledge about vehicle structuring, regulatory requirements and investor needs and expectations ensure creation of a vehicle which is genuinely investable.
        - Networks which can open doors that would otherwise remain closed, and enable a vehicle or project to get in front of a broad range of investors.
- Where possible, secure subsidy for pre-work and concept due diligence, or accept higher-than-usual costs for these.
    - One of the barriers to place-based impact investing by institutional investors is the high level of complexity and distinctiveness of each investment, which makes due diligence more expensive.
    - For the majority of our case studies, and many more of the vehicles investigated, there was some element of due diligence or scoping done in advance by one or more participants who did not expect to be paid for that work.
- Connect with a place and secure local authority support.
    - For vehicles concentrated on place-based opportunities (of our case studies, ECF and Bristol and Bath Regional Capital), local relationships are fundamental to success.
    - To achieve place-based impact, investors need to respond to the needs of a place and its communities. Without local relationships and a connection to the place, that is impossible.
    - One way to build local relationships is to establish credibility both in terms of commitment to the place, and transparency of impact intention and performance against that intention through robust impact measurement and reporting.

Recommendations to Government

- Accelerate private capital mobilisation by making it part of the mandate, policies, allocation frameworks and, crucially, incentive structures of organisations like the British Business Bank, UK Infrastructure Bank, Scottish National Investment Bank and national funding programmes across sectors.
    - Mobilisation of private capital can and should be an objective of equal weight with balance sheet investment.
    - Targets and incentive structures should recognise £s mobilised and £s invested at the same level.
    - This will mean taking an open and proactive approach to providing concessionary funding in order to make a project or transaction investable by the private sector.
- Foster a regulatory environment in which fiduciary duty recognises double materiality as well as the need to deliver a financial return, which would ensure that fiduciary duty considerations are not a barrier to place-based impact investing[8].
- Demonstrate and encourage impact reporting best practice.

8 Double materiality is the concept that the environmental and social effects of financing and corporate activities is materially important, and so companies and financial firms should report not only on financial performance and the potential impacts of the environment and other issues on them, but also on their impact on the environment, and on society.

Recommendations to asset owners

- Create and foster cultures which value positive impact.
- Decide on an overall allocation strategy which enables you / your Board to take both place and impact into account when making decisions, and align procurement and governance processes with that strategy.
  - Consider, for example, creating explicit impact carve-outs with bespoke rules and strategies.
- Acknowledge and make allowance for the fact that many place-based impact investing interventions and vehicles may be unfamiliar and therefore due diligence may take longer or be more complex than usual.
  - Assess the governance structure of private market opportunities and establish whether they are appropriate and if not what would need to change to make those structures acceptable and investable.
- Be more demanding of advisers, incentivise them to pursue impact goals and actively seek out investment opportunities and vehicles which achieve them.