Guide to social investment for Big Local

This guide will help you consider some of the different – and sometimes more innovative – ways that some of your funding can be used. As you create and deliver your Big Local plan, there will be many decisions to make around what you want to achieve and how you finance your activities. Some of your plans are likely to involve buying particular services (procurement). Other plans might involve allocating grants. But you could also consider social investment, which can be an effective way of getting the best return for your area.

This brief guide aims to support you by covering:

- what social investment is and how it works
- the benefits and risks for your area
- why social investment is part of Big Local.

At the end of this guide, there are explanations of some of the terms associated with social investment.

As well as this guide, you can access more information on the different types of social investments:

- tackling financial exclusion through social investment (personal lending)
- growing your local economy through social investment (microfinance, small business lending, social enterprise lending) – (this guidance will be shared in the next few months)

What is social investment?

A social investment is a loan or other financial investment that aims to make a positive economic, social or environmental impact in a community, as well as earning income.

Big Local Collyhurst allocated £4,000 as grant funding to do a pilot project on access to low cost credit and financial management. This gave them some experience whilst they were developing their plan. They developed a good relationship with the local credit union and trained local residents to do all the paperwork locally for anyone opening an account with the local credit union.

What does a positive impact mean?

Impact means the difference we make. The purpose of a social investment is to improve the world around you. Social investments only work if they help individuals and reach organisations that are doing good in communities.

How does a social investment work?

As an example, you might decide to work with a community organisation that provides business start-up loans. They could provide a loan to someone to set up a local window cleaning business that will employ residents who have struggled to find work. Or they could fund a loan to a charity that manages local garden allotments, which provide good quality, affordable food to residents and healthy activity for people locally.

Social investments are different from high street bank loans because they are available to people and organisations who cannot borrow money to support their plans from traditional banks. If someone can get an appropriate loan from a high street bank, they should not need to use Big Local money.

With a social investment, those making the investment try to achieve a mix of economic, social and environmental returns, so there are different priorities that they take into account when they look at who or what to invest in.

Social investors do not have to maximise the profit they make. They take time to understand the people and organisations who want to borrow from them, looking at both the financial side and the social side, and how these are balanced. They are normally willing to make smaller loans and to help individuals and organisations to build a credit record.

Different types of social investment

There are many different types of social investment, but the following are likely to be most useful to Big Local areas.

Personal lending: loans to people that traditional banks would not lend to. These loans have slightly higher interest rates than traditional banks, but the rates are substantially lower than payday loan companies and other sources of finance that people sometimes consider when they need money.

The average personal loan is around £450 with an average interest rate of 67 per cent, annual percentage rate (APR). If some people in your area have money worries, and are paying high interest rates to doorstep lenders (which can be more than 150 per cent APR), or payday lenders (more than 4,000 APR – capped at an average rate of 1,270 APR from January 2015), your area could offer personal loans at lower rates. These are easier to repay and help people manage their debts. APR is the yearly cost of a loan, including interest, insurance, the fee for administration, which is expressed as a percentage.

Microfinance: small loans for self-employed people and very small businesses. Typical customers include gardeners, handymen, window cleaners, hairdressers, driving instructors, small shops and cafés. They may want to borrow money for equipment or vehicles, or to help expand or position their business to become more self-sustaining, or help people into employment. The average microfinance start-up loan is around £5,700 with an average interest rate of 6 per cent APR.

Small and medium enterprises: loans to help local businesses. Customers are generally businesses with fewer than 50 employees in local areas. They may use the loan to help create or save jobs. The average loan is around £46,900 with an average interest rate of 14 per cent APR.

Social enterprise loans: loans to charities, community organisations and social enterprises. These might be loans to pay the bills until grants arrive, to help the organisation buy furniture or equipment, do-up buildings or buy or build new premises. Sometimes loans are made as a part of an overall package of funding as they move towards greater self-sufficiency. The average loan to a small charity is around £46,000 with an average interest rate of 8 per cent APR. The average loan to a large charity is around £609,000. The average interest rate is not available. Interest rates are highest for the smallest loans and decrease as the loans get larger. This is because processing, assessing and giving out a loan costs a certain amount, no matter how large or small the loan. Covering this cost requires a higher percentage of a smaller loan.

When do we not make social investments?

If a person, a business or a voluntary or community organisation can get an affordable loan from a high street bank, they should do this in the first instance. The reason is that if someone else will finance the activity at an interest rate that is affordable, then Big Local money can be accessed by people, businesses and organisations that cannot get access to fair credit elsewhere.

How do we make social investments?

The decision to make social investments with your Big Local money is made by the Big Local partnership, as part of the Big Local plan. The Big Local plan sets out how your area will use the £1m to achieve your vision and make your area an even better place to live. Looking carefully at different social investment options can make your Big Local money go further and contribute to creating lasting change. Social investment works well with other approaches – a combination of grants, social investment and buying products or services.

The North West Ipswich Big Local partnership decided to work with East of England Savings and Loans. They agreed to give a grant of £5,000 and to make a social investment of £20,000. In return, the credit union has agreed to set up Junior Savers Schemes in local schools, help residents join the credit union, saving £30,000 per year (by paying less interest than to doorstep or illegal lenders), and to open 'jam jar' budgeting accounts.

If your area wants to use social investment, Local Trust can support you by providing advice through Big Local social investment reps and Small Change and in finding a suitable community finance organisation or organisations to manage the loans on your behalf.

The organisations that might be able to help you include:

- credit unions – co-operatives that are owned and controlled by their members, and offer savings accounts and low interest loans.
- community development finance institutions (CDFIs) – specialist organisations that lend money to businesses, social enterprises and individuals who struggle to get loans from banks.

What are the risks?

Sometimes, social investment is not the right answer. If a person or organisation needs money now and there is no real chance that they can earn enough income to repay a loan, or generate a social or environmental return, they need to look for another form of financial support – this could be a grant or award.

Social investments can be risky. As with any loan or grant, there is no guarantee you will achieve the results you are aiming for. You must review your plans and be clear about how much risk you are willing to take and how you will monitor the results of your investments and learn how to improve them.

We know some people may object to lending on moral or religious grounds. We will only work with reputable, community-based lenders such as credit unions and community development finance institutions and will do our best to make lending available that complies with ethical and religious principles.

Why is social investment part of Big Local?

Social investment is an important option for Big Local areas to consider for the following reasons.

1. **Impact** – social investment can have a positive impact because the loans are designed to create economic, social and environmental benefits for your area.
2. **Make your money go further** – if the loan is successfully repaid, you can use the money to make another social investment. Over time, this means that you may be able to do more with your money and make a bigger impact. You may also earn interest on the loans.
3. **Helping people and reaching organisations that are doing good** – you may know people needing help or organisations in your area that are doing great work and who, with access to a loan, could make their communities even better places to live. These people and organisations may not usually receive grants, so by supporting them you are increasing resources in your area.
4. **Respect for the borrower and their ideas** - if you make a social investment, you are making a statement about believing in the difference your borrower can make. You are making a loan because you believe that the organisation or individual has the capacity to use that money well and to make economic, social, environmental and financial returns from it. Individuals and organisations can feel a sense of pride in their own achievements.
5. **Empowering and strengthening communities** – enabling people to understand and manage their money develops valuable skills. Many people have never had the opportunity to learn them. Hundreds of people living in communities across the country have been involved in managing investment for their areas, through credit unions and community development finance institutions, which make these types of loans. Having the funds and developing the skills to use them to deliver economic, social and environmental returns can empower and strengthen local communities. Social investment decisions made locally enable communities to identify needs and take action to make positive change.
6. **Thinking beyond 10 years** - social investment can help you to leave a legacy, where your Big Local area has invested in assets that will go on delivering social and financial impacts after the end of the Big Local programme.

Social investment jargon explained

There is a lot of jargon associated with the financial sector and social investments; here are a few key phrases that you might come across.

- Economic return – receiving economic benefits, such as creating or saving jobs, or providing business services in communities, in return for making an investment.
- Environmental return – receiving environmental benefits, such as reducing pollution, cleaning up green spaces, or reducing heating bills, in return for making an investment.
- Financial return – receiving money in return for making an investment. This money is from interest paid on the loan. This will mainly be required to cover the costs of setting up and running the social investment service.
- Social return – receiving non-financial benefits such as creating employment for others, improving your local community facilities or providing community services, in return for making an investment.
- Double bottom line – financial and social returns combined.
- Triple bottom line – financial, social and environmental returns combined.

More information

You can download this guide to social investment as well as two more detailed guides at http://localtrust.org.uk/library/programme-guidance

You can also talk to Local Trust on 020 3588 0565 or email: info@localtrust.org.uk

This document will be developed over time with input from the people using this material.

If you have thoughts on how this document can be made more useful for you, particularly if you live in one of the Big Local areas, please let us know.

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If you need this document in other formats or a community language please get in touch with Local Trust and we will help you.

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