Cass Business School
CITY UNIVERSITY LONDON

Social investment

Tools for success: doing the right things and doing them right

Intellectual leadership: developing talent, enhancing performance

www.cass.city.ac.uk/cce

What is social investment? >> 2
Becoming aware of social investment >>4
Engaging with and preparing for social investment >> 9
Using social investment >> 16
Delivering impact >>26
Social investment diagnostic tool >> 29
Signposts >> 33

About this guide

This guide will help you to understand social investment and how you can use it in your funding mix. It has been produced to complement the series 'Tools for Success: doing the right things and doing them right' which provides guidance on running an effective nonprofit.

This guide will help you to understand:

- What social investment is
- How to decide whether social investment is the right tool for you
- How to use social investment to deliver sustainability and impact.

It also includes a diagnostic tool that you can use to think about social investment.

Nonprofits have always relied on three main forms of funding: grants, donations, and public-sector contracts. Now that grant levels are falling, and competition for donations and contracts is greater, the sector needs to evolve to maintain its impact and the scope and scale of its work.

This is where social investment has a role. It is a more commercial way of funding activities, and is becoming a more important tool in a nonprofit's funding mix. It has considerable potential to fund the sector and help secure its future.

Authors

Mark Salway, Director of Social Finance and **Nikesh Davda**, Consultant, Cass Centre for Charity Effectiveness (Cass CCE) – the leading nonprofit and philanthropy centre in the UK (www.cass.city.ac.uk/cce)

Martyn Drake, Binley Drake Consultancy – helping ambitious business leaders dramatically improve the performance of their organisations (www.binleydrake.com)

Geoff Burnand, **Sarah Moreau** and **Alex Jarman**, Investing for Good – a leading finance intermediary (www.investingforgood.co.uk)

Acknowledgements

We would like to thank the **Worshipful Company of Management Consultants** for their financial and intellectual support in the development of this guide.

What is social investment?

> “Social investment is the use of repayable finance to achieve a social as well as a financial return.”
> **Source: Big Society Capital**

Social investment uses investment tools, but with a balanced focus on both social and financial returns.

It includes all forms of investment and repayment finance from loans, mortgages and simple borrowing, through to peer-to-peer lending and social impact bonds. The range of social investment instruments is wide.

Using social investment, you can borrow money to achieve the result you need, and then pay the money back. This is a much more commercial model. For example, you might develop a social enterprise, in which the money you have borrowed can be used to generate revenue to be able to repay the loan.

Social investment is not a ‘silver bullet’ and may not suit everyone, and it carries different risks from grants, donations and contracts. You will also need to be able to clearly demonstrate what you can achieve – and measure the social outcomes of your work – in order to gain access to this type of funding.

In summary, social investment can:

- Ensure your **sustainability** and viability by diversifying funding streams and providing funding for infrastructure
- Provide a platform enabling work to be **scaled up** or **replicated**, through careful investment and growth
- Increase the **impact** of your organisation by ensuring sufficient funds to expand your reach.

Once you engage with social investment, you will start to understand the potential value it can create. You will become aware of potential solutions for your organisation and engage with ideas for new funding models that you may not have considered before.

Social investment process

BECOME AWARE	ENGAGE	USE	DELIVER IMPACT
Understand social investment, and if this is right for your organisation or not.	Create impact-focused strategies and funding models.	Decide on the type of social investment model. Find funds and negotiate with funders.	Implement, and monitor, returns and impact. Evaluate your work.

Section highlights and takeaways

1. Social investment is a potential new way of funding your work. It uses repayable finance and investment to provide a social as well as a financial return. This is a more commercial method of funding.
2. Social investment is not a 'silver bullet', but used effectively it can enable you to make real social change.
3. This guide will help you understand social investment, engage with it and use it to deliver impact.

Becoming aware of social investment

Social investment is increasingly being seen as a way to finance innovation and growth. For financial investors, social investment can deepen engagement with communities and develop new responsible forms of lending.

Why borrow?

Social investment is the use of borrowing and investment to achieve a social as well as a financial return.

Nonprofits have five main reasons to borrow:

1. **Cashflow** – Borrowing to maintain cashflow is often a necessary part of doing business, especially where funding is received in arrears. It typically takes the form of a secured loan against assets, but could be unsecured against activities.
2. **Asset purchase** – Investment could be used to purchase a building, property or purpose-built facility which meets your needs.
3. **Fundraising** – Some nonprofits are starting to borrow and invest against fundraising, which in turn allows them to raise more income and have greater impact.
4. **Funding a specific project or service** – Investment could allow you to develop a social enterprise or social venture which could generate income. This might link either directly or indirectly to your objectives. For example, a coffee shop in a library could simply generate revenue or could also give a homeless person a job.
5. **Change in business model** – you could invest in IT, for example, which could revolutionise your services and efficiency.

Choosing a funding model

When considering any move towards social investment, you need to revisit your activities and finance strategy to ensure that you can pay back what you have borrowed. It's very important that you consider business models carefully.

A recent CAF survey, *In demand: the changing need for repayable finance in the charity sector* (2014), showed that 71 per cent of organisations saw social investment as appropriate.

Social investment does not have to be complicated. Small loans are one of the most powerful investment tools to help you grow and a mix of grants, donations and social investment funding is seen as the future for much of the sector.

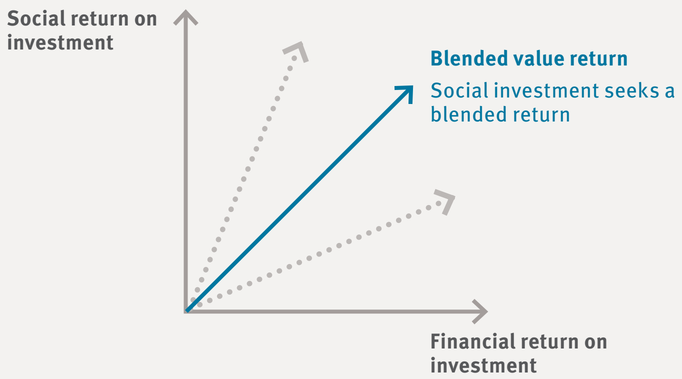
You may feel conflicted or uneasy about using commercial borrowing or investment. Allow managers and trustees some time to explore and become comfortable with these new tools.

Measuring impact and return on investment

Before considering social investment, it is important to realise that **impact measurement** and **measurement of social outcomes** are vital.

You need to able to measure what is important, and ensure these measures are robust enough to withstand scrutiny.

Social investment sees the creation of both a social as well as financial return on investment – a 'blended' value return on investment.



Things you need to do

- ☐ **Think about the balance of social versus financial return** when you negotiate terms with your investor. Any investment also needs to balance the risk of the investment against the social and financial return on investment to come to an appropriate interest rate.
- ☐ **Demonstrate how your organisation creates impact**. Is the investment generating real positive change for beneficiaries and/or the environment, and is the evidence for this clear?
- ☐ **Implement transparent impact reporting**. Are you demonstrating the achievement of social or environmental aims through impact measurement and reporting? If your organisation has no track record of impact reporting, will it be ready to report on its impact in the future, and specifically in terms of the investment?
- ☐ **Consider impact alongside the financial due diligence**. If the financial model and impact are aligned, then financial sustainability and impact-generation will go hand in hand.

Types of funding for social investment

These are typical external sources of social investment funding:

1. Commercial bank loans or loans from charity banks
2. Corporate organisations making social investments
3. Community investing, where the local community issues bonds or loans to each other
4. Crowd-funding using an online platform to collect and distribute loan funds
5. Foundations and family offices making social investments
6. High-net-worth individuals and 'angels' who are prepared to lend funds
7. Microfinance – lending small amounts of capital to nonprofits and individuals
8. Social impact bonds – a contract with the public sector where a commitment is made to pay for improved social outcomes that result in public-sector savings
9. Ethical institutional funds.

Find further details about sources of funds at Knowhow NonProfit: www.knowhownonprofit.org/funding/social-investment-1/what-is-social-investment

Equally, you could use your charity's reserves to invest in a new venture, or use your reserves to invest in other charities or social enterprises to generate impact.

Section highlights and takeaways

1. There can be a number of reasons to borrow money and social investment encourages innovation and growth.
2. Social investment uses investment tools to deliver a social and financial return on investment.
3. Measuring the social return in a transparent way is critical to its success.
4. 71% of all nonprofits feel that social investment is appropriate for them (CAF 2014).
5. Social investment does not have to be complicated. Small, unsecured loans are one of the most powerful social investment tools to help your organisation grow.
6. There are many different sources of social investment that may be appropriate to different organisations.

Engaging with and preparing for social investment

Strategy and opportunity

To attract social investment, you need to look for opportunities that will deliver both a social and a financial return. These opportunities will have a measurable impact in their own right, and you need to be confident they will produce a reliable income stream.

You can develop propositions from either a mission-focused or commercial perspective.

Developing a mission-focused proposition

A good way to develop a social investment proposition is by looking at your organisation's vision and mission and at the activities required to achieve these. A **theory of change model** could help you establish a proposition by linking vision and mission to outcomes and activities. NPC have information about theory of change models at: www.thinknpc.org/publications/theory-of-change.

Activities that you identify through a theory of change process that create both revenue and a social return are ideal candidates for social investment.

The commercial perspective

You can take a commercial approach to developing a social investment proposition by looking at those areas of your work that can be commercialised in some way. You could, for example, start charging for services that were previously given for free.

Remember that charging for certain things could exclude those who can't pay from accessing vital services, so take real care to balance the commercial income flow and the needs of your beneficiaries. You could 'segment' products or services, so that those who could pay a little more underpin the social provision for those who can't afford it. Nurseries are a good example of this segmentation system in action.

Activities that are right for social investment include:

- Those already making money through, for example, a social enterprise, where investment could help grow them faster
- Those currently paid for through grants and donations, but which could be paid for by charging people for goods and services
- New activities that are aligned to the organisation's mission and which can be set up to generate income for the charity.

Many think that a new product in a new market is the best way to build a social investment focus. In reality, this is the hardest thing to do! 'Sticking close to the knitting' and working with what you know best typically make the most successful opportunities.

Example: A charity helping female ex-offenders

Previously the charity paid for female ex-offenders to be housed and gave them training to learn a skill to be able to find a job. The charity used grants and donations to pay for this service.

By changing their model, the charity found local businesses that were willing to take on ex-offenders as staff. The businesses got a dedicated member of staff, and the wage allowed the ex-offender to pay for their own housing and living costs.

Social investment was used to prime the model. It paid for the recruitment scheme to be set up and for the identification of businesses that would take the ex-offenders.

Example: A charity providing toilets to slum areas in an African country

Previously the charity donated toilets to the local community using grants and donations.

By changing their model, the charity found they could charge a small amount for the services. The local people were happy to pay an appropriate amount for this and worked really hard to ensure the upkeep of the facilities, whereas in the past the facilities fell rapidly into disrepair.

Social investment was used to prime the model and pay to build facilities.

Social investment is not just about social enterprise. It could be used to build capacity to take on new contracts or to purchase a building. It could pay to build a shared administration facility amongst small charities to help grow capacity whilst keeping the costs down. It could also underpin an expansion in fundraising. Whilst a social investment model does not work for every situation, the range of possibilities is vast.

Social entrepreneur mind-set

Many nonprofit organisations may have become locked into a certain way of working or thinking. Staff with the entrepreneurial flair to deliver the new social investment idea will be important for success. Without this change in approach, the idea may fail.

Do not under-estimate how culturally different this may feel. The new venture will need to focus on making money, and this can be hard if your mind-set is ‘nonprofit’. Accounting may also look different, moving from income and expenditure to more of a profit-and-loss format.

While subtle, these changes sit at the heart of why social investment sometimes fails. Thinking through the cultural and process changes in advance will improve the chances of success.

Stages of growth

There are three broad phases that social investment propositions go through as they grow:

Innovation

Demonstrate that a product or service works, as quickly and efficiently as possible. This may involve many iterations, testing and collaborating with partners or customers, as well as 'failing fast' and learning from experience about what works.

↓

Proof of concept

Demonstrate that products or services can deliver both revenue and social impact, and create the evidence that will persuade people that it should be taken to full-scale operation and can attract social investment.

↓

Scale up

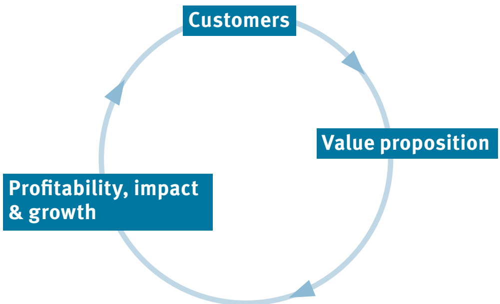
Invest to build the infrastructure to scale up and in turn increase both income and social impact.

Growth should not necessarily be an end unto itself. Nevertheless a recent Cass CCE survey, *Head over Heart: the future of charity finance* (2015), showed that less than 45 per cent of nonprofit organisations think about growth when planning their finances. Be aware that you may need different types of funding and social investment at each stage of growth.

Taking a proposition to market

You will need a plan that demonstrates how to take your proposition to market, to ensure the success of any idea which involves selling to customers or users.

There are three aspects to this plan:



Customers: who will use the product or service?

- The more you can learn about each market you intend to serve, and how the different customers in those markets will buy and benefit from what you are offering, the better able you will be to develop a suitable value proposition.

Value proposition: why would they choose you?

- Before a customer will buy or use your offering, they need to know it exists, have a sense of what they will gain from it and have a reason to choose it over alternatives.

Profitability, impact and growth: making money and impact

- Initial forecasts should provide answers to these questions, but both income and impact are inevitably based on many assumptions. You will need to research these and test with potential customers to ensure your ideas are viable and appropriately targeted.

The level of development of an idea will dictate how much evidence is needed to assure social investors that yours is a sound proposition. It is generally easier to obtain funding when an initiative has been proven and requires funding to scale up, compared with seed funding for new start-ups.

The business plan

Consolidate all of the information about your idea into a business plan, which then needs to be agreed by both management and trustees. The business plan will look at customer needs, competitors, opportunities and risks, as well as the financial and non-financial impacts of each. The business plan is different from the investment pack, which you will use to negotiate with funders (see **'Creating an investment pack' on page 16**).

Be aware that a business plan using social investment may change the risk profile of your organisation or bring new risks. Always consider and manage risk appropriately.

Governance – what needs to be considered?

Investors will look at your organisation's governance. They will specifically consider:

- Structure
- Key personnel
- Internal processes
- How the Board considers the social impact of their work and quality mechanisms.

Investors will often request to see terms of reference, agendas, lists of actions and minutes and also to meet the Chair and Vice-Chair.

Investors may also request a seat on the Board to oversee their investment (see **'What will an investor look for in an application?' on page 20**). This can either be seen as bringing new skills and resource to the Board, or can be seen as intrusive. In either case it requires careful thought and discussion with potential investors.

The essence of good governance is setting time aside regularly to share all of the relevant information in an organised way, and from which clear actions and decisions are made to direct your organisation. The cadence of good governance is about setting up and embedding that rhythm, those processes and those functional behaviours as the norm within an organisation. Any investor will expect this.

Governance of social investment activities can require more frequent attention to risks and to monitoring social and financial impact. If not already present, you may need to set up an 'investment' board or sub-committee to oversee and report back to the main board.

Legal and tax issues

To properly discuss the legal form and tax implications of social investment is beyond the scope of this guide. However, certain tax reliefs and benefits are available to investors who want to invest, specifically SITR (Social Investment Tax Relief).

When considering social investment you should always take appropriate legal and tax advice. Good advisors and social investment finance intermediaries (SIFIs) should be able to help.

Section highlights and takeaways

1. You can identify social investment propositions easily by linking activities to a mission focus through a theory of change model, or by identifying commercial opportunities through your existing business.
2. You may need a different entrepreneurial approach in your organisation to make this successful.
3. You will need to demonstrate a clear business case for any idea by looking at its stage of growth and how to take it to market and generate income from it.
4. Consider the risks – both the risk of failure of the investment and the risk of not taking up the opportunity.
5. Investors will need confidence in your governance: structure, personnel and internal processes.

Using social investment

This section explains how to develop an investment pack to take to investors, as well as how to find the right investor.

Creating an investment pack

Your investment pack should be direct and concise but provide sufficient information to enable the investor to get an overview of your organisation and how it intends to achieve social and financial returns, together with a clear view on the 'ask' from the investor. The process of completing an investment pack can also be valuable in itself, crystallising intent and aligning management teams around investment plans.

Sample structure for an investment pack

Section	What investors are looking for
Executive Summary	
Overview of the proposition	• No more than 2–3 pages containing the key points
Introduction	
Purpose of the investment pack	• Make this clear. What do you need from the investor (what is the 'ask')?
Background and introduction	• Explanation of the organisation's vision, mission and strategy • Some context on recent year's history, operations etc.
Management and governance	• Details of those who control and run the organisation (Board of trustees and key management staff) • Current structure and legal entity details
Current operations and future outlook	
Current operations	• Business segments, activities, locations, customers and funders • Current projects and priorities • Potential market – size, segment, value, opportunities • Competitors – who else is in the market?
Impact	• How your work will lead to measurable outcomes and long-term impact
Future outlook	• Outlook of your organisation – where does it see itself going? What plans does it have?

Social return overview	
Social impact	• Full details of social impact and how this is created, including an overview of the context for the generation of impact (i.e. what is the social need, how does it manifest in the local area, etc.) • How data is regularly collected, analysed and used • Historic trends • Any external reports and evaluative studies • Examples of any internal impact reporting used for communications with staff or the board
Financial overview	
Historical financial summary	• Define and describe each area of income and expenditure • Provide summary financials for previous years, highlighting key trends and large or unusual items
Current year	• Breakdown of current year budget, key insights and risks, including current year forecast and cashflow
Balance sheet	• Current year balance sheet with key insights
Loans and banking facilities	• Detail current loans and any facilities held with banks
Request for investment	
Request for investment	• Summary of the key request and what it will be used for (linked to the introductory section) • This should include full details of social and financial return on investment
Long-term financials	• Five-year plan for income & expenditure and cashflow

The content of the investment pack will vary depending on the size of your organisation and the complexity of the investment 'ask', as well as the type of investor you are approaching (commercial banks, charity banks, high-net-worth individuals, etc.). It is worth asking advice from the investor about what they expect to see.

You can also supplement the investment pack with:

- Financial reports and accounts and management accounts
- Product/services brochures
- Valuation of assets (where applicable).

Financial versus social return on investment

When considering a commercial investment, investors typically weigh up the financial return on investment against the risk of that investment. Social investment adds a further dimension to this, namely the generation of social impact and the risk associated with its delivery.

The balance of social return versus financial return and the associated risk is the critical conversation that you and your investor need to have.

Just as nonprofits seeking funding have various motivations and requirements, investors have the same needs too.

> **!** Finding an investor with the same alignment of mission and objective can result in a powerful combination.

How to find a funder

Typical places to find investment are:

- Current funders and supporters with existing relationships – including high-net-worth individuals, government, trusts, and foundations

- Commercial banks
- Charity banks.

You can find further details of sources of funds from:

- Big Society Capital (www.bigsocietycapital.com)
- ClearlySo's *Guide for the Ambitious Social Entrepreneur* (www.clearlyso.com)

Financial intermediaries are good contact points. Their role is to help nonprofits find funding and to build the market in social investment. These intermediaries are called social investment financial intermediaries (SIFIs). Examples are:

- Investing for Good (www.investingforgood.co.uk)
- The Social Impact Business (www.sibgroup.org.uk)

The process of going to market to find investment will typically take a considerable amount of time and resource, so you need to factor this into your plans.

What will an investor look for in an application?

A social investor will look at the balance of social return on investment, financial return on investment, and risk when considering an investment opportunity and deciding on an appropriate interest rate. An investor's typical approach to considering an application will be a mix of:

- **Social**: How the investor sees the 'social hurdle' and the level of social impact being delivered
- **The team**: How the investor sees the team (management and trustees) who will manage the investment and whether they trust them to deliver
- **Business idea**: How the investor sees the idea and whether it aligns with their requirements
- **Social and financial returns**: How the investor sees the social and financial returns on investment.

Working together with the investor to define investment returns and targets can create mission alignment as well as trust. It can also enable investors to engage meaningfully with your organisation. Finally, it allows investors to hold you accountable to results in an open and transparent way.

Investors will also consider the level of involvement they require with their investment – 'hands-on' or 'hands-off'. Those investors who have a hands-on approach may ask for a seat on the Board or to work closely with the management team and CEO to shape delivery. This can be challenging as it means a partnering arrangement, but it can also bring new skills and capacities to your organisation.

Impetus-PEF is a good example of a lender who is socially motivated and wants to have a high level of involvement with their clients (www.impetus-pef.org.uk)

Internal decision-making by investors

Identifying up front what the investor is looking for is critical. Look at the potential investor's website to identify their investment criteria before proceeding, or have an initial conversation with them to find out about their criteria and interests. These will be based on:

- Eligibility criteria and interests such as sectoral, beneficiary or geography
- The existing portfolio they hold and the risks they are prepared to take
- The balance of social versus financial return on investment they are looking for.

Investors often go through a **screening and mapping** process when considering a portfolio of investments – **screening** to identify investments that fit their criteria and **mapping** to ensure they can identify where those investments will fit in their portfolio.

This enables investors to sort organisations into different groups of peers according to various criteria (e.g. organisations of similar size, or working with similar outcomes or beneficiaries). They use these peer groups for performing comparisons when carrying out subsequent analysis. When building and managing a portfolio of impact investments (e.g. for a fund), investors use information from mapping criteria to understand the contents of the portfolio, and to maintain the desired balance of risk and return.

Investors may also look at the following criteria:

- **Financial targets** – the nominal rate of financial return they are willing to accept
- **Impact targets** – the nominal volumes of outputs or outcomes created by the investment (e.g. a certain number of beneficiaries reached or homes built)
- **Stage of growth** – investors may be committed to investing in new innovation (high risk), or in proven approaches (low risk).

If a large amount of funding is required for a specific mission, a number of investors may come together in a consortium to offset risk and increase the level of investment.

Use of profits and ‘asset lock’

These are critical areas that investors will ask about. They may be an important part of any negotiation:

- **Use of profits** – What is the anticipated use of profits? Does your organisation have an explicit policy for this? The social investor may demand that profits are put back into your organisation to generate more impact.
- **Asset lock** – Are your organisation’s assets protected such that, if sold, the money will remain within the organisation and held over for social purposes? In the event of a wind-down, will the assets be distributed for social purposes, or can they be sold to pay shareholders or executives?

The investment approval process

A typical investment approval process will look like this:

Steps	Actions
Step 1 **Initial discussion**	• Initial discussions between you and the investor about the funding required.
Step 2 **Submission of the key documents**	• The investor will review this and provide a preliminary 'yes' or 'no' to the request.
Step 3 **Due diligence**	• If the investor says 'yes', a more detailed financial/social due diligence is carried out. This includes: a detailed review of the financial statements, delivery of social impact, budgets, cashflow, use of profits, 'asset lock', governance, and understanding of the risks and levers of the business. • The investor will often visit to meet key personnel including the executive team, audit committee and members of the Board.
Step 4 **Investor's decision**	• Once the above has been completed, a report is provided to the investor's credit committee for initial sanction of funds.
Step 5 **Negotiation**	• Based on a positive response to Step 4, the formal legal due diligence process commences as well as negotiation on terms.
Step 6 **Draw down of funds**	• Based on a positive response to Step 5, the funds are provided to the organisation.
Step 7 **Ongoing monitoring and reporting**	• Ongoing monitoring and reporting (social and financial) over the lifetime of the investment.

This process often takes much longer than negotiating a grant, but often moves very rapidly towards the end.

Investors will want to see that your organisation is ready to get on with implementing the business plans. In the nonprofit world there is a often a delay between getting funds and starting work; it is critical that you minimise this.

Lifetime and 'exit'

All investment funding will come to an end and the capital must then be repaid or rolled over. Typically, once an organisation has a successful track record of investment it becomes much easier to borrow again, even from the same investor.

Remember that interest rates could go up in the future, and any business plans must cater for this.

Things to consider

When negotiating the investment, consider the following:

- ☐ Amount required – either in total or piecemeal to draw down against
- ☐ Duration of the investment
- ☐ Any security that can be offered
- ☐ Repayment of capital (and interest)
- ☐ Interest rate
- ☐ How to evaluate the investment and ensure that the social impact was delivered
- ☐ How to roll over into a future investment.

Section highlights and takeaways

1. This section identifies how to develop an investment pack and find a funder. It also explains how funders make decisions.
2. Make the investment pack direct and concise but provide sufficient information to enable the investor to get an overview of the organisation, how it intends to achieve social and financial returns, and what the 'ask' is.
3. The balance of social return versus financial return and the associated risk is the critical conversation between you and the investor.
4. Investors will think about the following criteria to assess you:

- **Social**: How the investor sees the 'social hurdle' and the level of social impact being delivered.
- **The team:** How the investor sees the team managing the investment and whether they trust them to deliver.
- **Business idea**: How the investor sees the idea and whether it aligns with their requirements.
- **Social and financial returns**: How the investor sees the social and financial returns on investment.

5. You need to consider what happens to any profit and any 'asset lock'; an investor may require any profits or associated assets to be held over for a social purpose.
6. Investments come to an end and the capital must be repaid. You can use your track record to continue to grow through further cycles of investment.

Delivering impact

In this section we focus on monitoring, reporting and evaluation.

Impact logic model

OUTPUTS	→	OUTCOMES	→	IMPACT
Products or services that result from your activities		Direct benefits that result from what your organisation makes, offers or provides		Broader or longer-term effects of your organisation's outputs, outcomes and activities

Monitoring outcomes and impact

During the implementation phase be careful to meet your obligations under the investment contract. These may include measuring both the social return on the investment as well as the financial, and may be part of the terms of drawing down funds from investors. Success is only achieved when there is tangible positive social or environmental change, as well as the repayment of capital with interest.

This positive change is the **social impact** of the investment and the **outcomes** this achieves for customers and beneficiaries.

The purpose of monitoring (and ultimately evaluation) is to determine if the investment is producing the intended social return and if it is proving to be an effective use of social capital. In the short and medium term, **outcomes** are often the most appropriate measure.

You should also demonstrate to investors how you are learning from the experience of monitoring and impact measurement to improve your work.

When to monitor

Monitoring reporting typically takes place quarterly; outputs will be presented as a minimum and this report is most commonly presented with the financial return.

At major review points, such as an annual review, investors will expect a more detailed report at three levels:

- **Direct** – outcomes for users, customers and beneficiaries flowing directly from the social investment
- **Indirect** – benefits to the community, the sector and society at large flowing indirectly from the investment
- **To the entity** – the impact that working with the investor and the investment capital has on your organisation, through better infrastructure and better impact measurement, for example.

If the investment term is short, you may need to continue monitoring beyond the investment term to establish if real impact is being generated, if it is sustainable and if your organisation is continuing to work in alignment with the mission and purpose of the original investment.

Reporting

Make sure your reporting is SMART – Specific, Measurable, Achievable, Relevant and Time-bound. Investors will need your reports to be:

- **Timely**
  - Produced on time, according to an agreed schedule
  - Complete, according to the determined scope
  - Focused on what is important
- **Of sufficient quality**
  - Are the indicators tracking outputs and outcomes effectively?
  - Is the data strong (i.e. properly collected, and treated appropriately)?
  - Is the perspective of customers, users and beneficiaries being included?
- **Verified**
  - Is there any independent verification of results?
  - Do the results and information you provide have an audit trail so they could be verified?
  - Can the outcomes be attributed to the investment?

Evaluation

A formal evaluation of the work is likely to take place at the end of the investment term and also at prescribed times during implementation. This acts as an independent verification of results. It can also act as a prompt to see if anything needs to be changed and inform future work. Generally, the need for a formal evaluation is written into the investment contract.

You should view the evaluation as a positive opportunity to learn from your hard work; it is often extremely rewarding to see how plans come to fruition.

Social investors also have to be transparent and accountable and social impact 'funds' will have their own investors to report to. With social investment there is the clear intention to be transparent and accountable for the social outcomes delivered across all parties.

Section highlights and takeaways

1. Any draw down on funds is likely to be predicated on your ability to demonstrate both social and financial outcomes.
2. A formal evaluation may be a pre-requisite of the investment.
3. Regular, open and transparent monitoring will be a key part of any social investment.

Social investment diagnostic tool

We hope you now have a clear picture of the cycle of investment.

Use the diagnostic tool on the following pages to help you think about:

- Whether social investment is right for your organisation
- Whether your organisation is investment-ready
- What type of social investment product could best help your organisation.

Social investment diagnostic tool

Answer all 26 questions 'Yes' or 'No'. The completed questionnaire will highlight strengths (Yes) and weaknesses (No).

Strategic fit & understanding social investment		
Question 1	Are planned activities and the impact from social investment in line with charitable articles/objects?	Yes / No
Question 2	Does your organisation understand social investment (and is there a cultural fit)?	Yes / No
Governance considerations		
Question 3	Is your Board engaged?	Yes / No
Question 4	Have you considered the financial risks of taking on repayable finance, including any impact on your reserves policy?	Yes / No
Commercial model		
Question 5	Do you have a clear commercial proposition for the social activities and clarity about the business model for this?	Yes / No
Question 6	Are you clear about the selling proposition and the customers – is there a compelling rationale why customers will choose you?	Yes / No
Question 7	Will the pricing model deliver strong investment returns?	Yes / No
Question 8	Do you have a track record of delivering activities in this area?	Yes / No

Social investment diagnostic tool (continued)

Business plans		
Question 9	Are your business plans robust and do they clearly articulate the use of social investment?	Yes / No
Question 10	Have you reworked funding models for the organisation so that it is clear that repayments can be made?	Yes / No
Question 11	Does the business plan discuss sustainability of the activities, their impact and how they may be replicated or grown?	Yes / No
Question 12	Do the business plans break down growth into different stages so that the organisation can think carefully about innovation, proof of concept and scaling this effectively?	Yes / No
Question 13	If the new activities involve trading and social investment, have you considered the legal and tax issues and any concerns over control?	Yes / No
Investment readiness & finding funds		
Question 14	Have you identified the type of social investment that fits your need?	Yes / No
Question 15	Are the reporting, evaluation and management processes in place to take on social investment?	Yes / No
Question 16	Have you created an investment pack? (Note this is different from the business plans above)	Yes / No
Question 17	Can you find funds and do you have good links to funders and SIFIs (social investment financial intermediaries)?	Yes / No
Question 18	Can you negotiate effectively with investors to get a good deal?	Yes / No

Social investment diagnostic tool (continued)

Infrastructure & implementation		
Question 19	Do you have robust implementation plans so you can hit the ground running from day one?	Yes / No
Question 20	Are the marketing and sales plans ready to go?	Yes / No
Question 21	Do you have the entrepreneurial skills, supporting culture and key relationships in place to deliver the activities?	Yes / No
Question 22	Do you have support functions in place to handle social investment? This includes being able to receive funds, account for this correctly and manage the change in activities.	Yes / No
Impact reporting & evaluation		
Question 23	Have you established appropriate data and management systems?	Yes / No
Question 24	Can you demonstrate and report effectively on outputs, outcomes and impact?	Yes / No
Question 25	Are you able to effectively attribute the impact to your activities, and have you planned to evaluate your work?	Yes / No
Starting		
Question 26	Are you ready to go and have you targeted enough resources for a successful implementation?	Yes / No

Signposts

Publications

Cass Centre for Charity Effectiveness (2012), *Tools for Success: doing the right things and doing them right*. This is a range of guides covering twelve topics (www.cass.city.ac.uk/cce)

Charities Aid Foundation (2014), *In demand: the changing need for repayable finance in the charity sector* (www.cafonline.org)

ClearlySo (2014), *Guide for the Ambitious Social Entrepreneur* (www.clearlyso.com)

Websites

Big Society Capital is the lead organisation for social investment in the country. Plenty of useful hints, tips and case studies: www.bigsocietycapital.com

Investing for Good has some useful information on how investors think, and acts as an intermediary: www.investingforgood.co.uk

Knowhow NonProfit has a useful section on 'What is social investment?' www.knowhownonprofit.org/funding/social-investment-1/what-is-social-investment

Profit on Purpose has some advice on how to develop social investment from a sales and marketing perspective: http://www.profitonpurpose.org

Social Enterprise UK is the umbrella body for social enterprise in the UK: www.socialenterprise.org.uk

Social Impact Business has access to capital, grants and specific money to help develop investment and contract readiness: http://www.sibgroup.org.uk

Where to go for advice

Cass Centre for Charity Effectiveness offers training in many aspects of management including social investment: www.cass.city.ac.uk/cce

NPC provides training on all aspects of social investment, theory of change and impact measurement: http://www.thinknpc.org/

Cass Centre for Charity Effectiveness

Inspiring transformation within the nonprofit sector

Cass Business School is in the City of London and at the heart of the capital's charity triangle. The School's research output is ranked as internationally excellent. Cass is triple-accredited by AMBA, EQUIS and AACSB, placing it in the elite of global business schools.

The Centre for Charity Effectiveness (Cass CCE) is the leading nonprofit and philanthropy centre in the UK and has significantly enhanced the performance of hundreds of organisations and thousands of individuals.

Our world-class blend of academic research, postgraduate programmes, talent development and consultancy services deliver powerful results by combining extensive practical experience with leading-edge theory.

Centre for Charity Effectiveness
Cass Business School
106 Bunhill Row
London EC1Y 8TZ
E: casscce@city.ac.uk
T: +44 (0)20 7040 5562
www.cass.city.ac.uk/cce

Cass Business School
In 2002, City University's Business School was renamed Sir John Cass Business School following a generous donation towards the development of its new building in Bunhill Row. The School's name is usually abbreviated to Cass Business School.

Sir John Cass's Foundation
Sir John Cass's Foundation has supported education in London since the 18th century and takes its name from its founder, Sir John Cass, who established a school in Aldgate in 1710. Born in the City of London in 1661, Sir John served as an MP for the City and was knighted in 1713.

published May 2016
ISBN 978-0-9560543-3-3