Summary of Evidence to the Commission from Danyal Sattar, CEO Big Issue Invest

Recommendations to the Commission:

1. Social investment is only part of the solution of financing social enterprise and enterprising charities well. The role of the mainstream banks in financing organisations through the pandemic shows how banks can support our sector. With CBILS and Bounce Bank loans, they did a good job, thanks to government action and the British Business Bank. Support good action by mainstream banks.

2. Extend EFG/CBILS in its current, modified form. This current scheme, thanks to good work by the Social Investment Business and Big Society Capital on their Resilience and Recovery Loan Fund, that used the BBB guarantee, is better for Charities and Social Enterprises (various categories of income that did not count before, now count towards a definition of a viable business, meaning the guarantee can be applied to more of our sector). Being able to secure a guarantee on say, 80% of an individual loan and 20% of a total portfolio, solves a lot of downside risk on loans under £250K.

3. To serve larger investments (over £500K) use reclaim fund for loss layers. That would be genuinely additional, instead of side by side. Capital stacks of different kind of money taking different returns for different objectives are normal in the commercial world. We should draw on international development finance experience and commercial experience and use these loss layers. Organisations like BSC and Access could do this in a positive way – in exchange for taking a higher risk for say, the same nominal return, they could have more control over a fund they invest in, or trade off security and return. This may help bring in more finance to our sector, at better terms to the underlying investee.

4. Lobby for a 3-5 year settlement from the Reclaim fund. A 3-5 year settlement, to the Oversight Trust organisations (Access, BSC, Fair4All) would let us all plan out the future. This would enable these organisations to fulfil both parts of their mission – to be a wholesaler, with a continued stream of wholesale finance, as well as a development bank.

5. Power: put reverse-clauses in loan/investment agreements i.e. require social investors to report to their investees on their social impact, on their financial performance and make their senior management and boards available on request.

6. Transparency: require and publish equality, diversity and inclusion data in the sector.

Conclusions

I believe these are tangible and practical measure the Commission can take up, to help improve the social investment world and the service it gives to the social enterprises and enterprising charities it is there to serve.

I support you in seeking them out and wish you well. My Lord Victor Adebowale, fellow Commissioners and Secretariat, please do not hesitate to reach out to us as you need. We are at your service. Danyal Sattar, CEO Big Issue Invest danyal.sattar@bigissueinvest.com

Supporting narrative

1. **Wider context - we are a small part of the solution**

We are proud to be members of Social Enterprise UK. Its members stand up every day to make this country a better place to live in. We know the challenges. Real wages have been static since the Global Financial Crisis (more or less)[1], we have had coming onto a decade of austerity.[2] These impacts on our people and communities have been significant. Small policy changes such as £20 on universal credit might well outweigh the entire quantum of the impact of social investment on society, rightly or wrongly.

Social investment working better for social enterprises and charities is a good thing to do but we all know it is a small part of the change we need to see. Even at our best, I see us as a piece of the necessary solutions.

2. **Ordinary social investors are important**

Social investment is ordinary people's money. Cafedirect was a share issue; Traidcraft raised money at the back of the church for fair trade. Shared Impact raised cooperative shares to finance international microfinance, decades before it was a dream in the eye of international financiers. Ethical Property Company has a stalwart group of investors. The ordinary, everyday savers in Triodos Bank, Ecology Building Society and Charity Bank and on crowdfunding platforms like Triodos, make a difference with their money every day. Even our wholesalers, Access and Big Society Capital, and Fair4All Finance, are made up of ordinary people's money.

3. **We are a small social enterprise ourselves**

We have 20 staff, looking after c200 investments at any one time, with about £43m of invested funds at any one time. Our turnover is c£2m. We are a trading social enterprise ourselves. We don't have a rich parent or endowment behind us. As a social entrepreneur, our founder Nigel Kershaw built the Big Issue Invest from scratch as John Bird built the Big Issue.

4. **Don't miss small loans**

We tend hear from our heroes, the amazing social enterprises going to scale. I support them and back them. Most of our loans though, are under £100,000 to small charities and social enterprises. It is cash flow support for a school for special educational needs. It's investment for a community project that puts solar panels on local roofs.

We are good at small loans. We have a diverse team, with backgrounds in the sector, who connect well to the organisations we serve. We should not miss the organisations serving the smaller social enterprises, not just through Big Issue Invest but in the Responsible Finance network and supported by Access Foundation and Big Society Capital.

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[1] https://voxeu.org/article/paradox-stagnant-real-wages-yet-rising-living-standards-uk & https://www.resolutionfoundation.org/app/uploads/2018/05/Low-Pay-Britain-2018.pdf
[2] https://blogs.lse.ac.uk/politicsandpolicy/the-lost-decade-child-wellbeing/

5. **Large is hard, too**

For our loans between £0.5m and £3.5m (our current limit), we tend to have a different approach. Established organisations, that have built up assets over 20, 30 40 years or more of trading have no problem accessing mainstream finance. Flip Finance in their 2016 report quoted NCVO's estimate of £4bn of commercial bank lending to the sector. That's a multiple greater than the total stock of social investment in the UK.

Social Investors mainly serve the segment of the social enterprise and charity market, that does not have the asset base or trading record to be eligible for mainstream bank finance.

They are growing – growth is a hard one to predict. It is not an easy thing to get comfortable with investing in growing ventures. In the commercial world, perhaps you'd hire a firm of accountants, or extra people to assess and work through a business, with the cost put on the business one way or another. As social investors, our resources are tight and we don't want to load on more costs onto our investees (rightly or wrongly).

6. **Equity is a fundamental problem**

Unless you have a company limited by shares, equity is a problem. Typically therefore, we end up as debt, where a growing business, just as it needs to retain its resources for growth, is forced to pay a return to investors and the original capital invested. There are solutions out there – models based on permeant interest bearing shares, but there is no current market to exit to for that kind of debt. We have seen the growth of the for profit with purpose organisations that can take equity. We tend not to go there, as its not a space we understand well, but I see the attraction. We should not be dismissive of it. Triodos Bank and others lent to that space decades before anyone – renewable energy, organic agriculture – its been profit with purpose and done well.

7. **What's the right price?**

To do the loans under £100K, or even under £250K, with a loss rate of 7% on small loans, you cannot lend at less than you lose. Then you need to cover your operating costs. You can see the need a loss layer, which comes from government, or other subsidy sources, if you are to keep your lending below 9%-10%.

At the larger end, without a loss layer, the math is unforgiving. Take the easier end of the social investment world, some of the excellent social investment property funds. If returns to investors are c5%+ add 1%-1.5% for costs, you are at 6.5%. Add a % to cover losses and you are at 7%. And that, is on UK property funds. What will it be for a fund investing unsecured in social enterprises and charities? There are investors who give a discount for impact. Government, trusts, foundations, other social enterprises, such as housing associations, BSC, Access Foundation. Beyond friends of the sector, most investors will want something approaching a commercial return.

8. **Other barriers the Commission asked about: diversity, power dynamics and infrastructure**

Diversity

We've run successful small loan programmes supported by Access Foundation[3] and others, latterly aiming at minority led organisations and women led organisations. We have a mixed

[3] For more information on this, read our impact report at https://images.bigissueinvest.com/2020/12/BII-Impact-1-2.pdf

record here but there are some things that work: Hire people who are like the market you seek to serve. Make a an effort to reach people you don't normally serve. The effort is not disproportionate and you can see an effect. Do we fail? Sometimes. Do we succeed? Sometimes. As social investors, our starting point can be our own organisation and own practice. If that changes, we can bring about change. We can make diverse boards. We can make diverse investment committees.

Power dynamics

My hope was that social investment would be a better power dynamic than grant making. It is hard for even the most well motivated of grant makers (and many try hard) to get around that.

Social investment ought to be better. Power lies in the hands of the person who has got your money – in this case, the borrower. If they don't get it back to you, you've lost the money you've been given to invest. The power dynamic ought to be better (see recommendations).

Infrastructure

We value our wholesalers and trade bodies. We need people who can represent us into places we do not normally tread and we need a flow of wholesale funds to on lend.

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