

# Big Local guide to social investment



# Foreword



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As director of Small Change - a consultancy firm which aims to make a difference - I am really pleased to work with Local Trust to promote social investment to the Big Local partnerships. For almost 20 years, I have seen how social investment can make community development funding go further, support local economic, social and environmental development and empower and strengthen local communities. This guide and other Big Local social investment tools can help you take the first steps to social investment in your Big Local area.

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# Welcome to the Big Local guide to social investment!

This brief guide has been written for Local Trust, by Small Change, a specialist firm that works with a network of expert researchers and consultants who are committed to making a better world. The guide will help your Big Local partnership consider some of the different – and sometimes more innovative – ways that some of your funding can be used.

As you move through the steps on the Big Local pathway, creating and delivering your Big Local plan, there will be many decisions to make around what you want to achieve and how your plans are financed.

Some of your plans are likely to involve buying particular services (procurement). Other plans might involve allocating grants. But you should also consider the opportunities for ‘social investment’, which can often be a very 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 local area
- why social investment is part of Big Local.

## MORE INFO

At the back of this guide, there are explanations of some of the terms associated with social investment, and you can also find some information in the Local Trust glossary on the website: [www.localtrust.org.uk](http://www.localtrust.org.uk)

## MORE INFO

There are also four short Big Local guides to different types of social investments:

- personal lending
- microfinance lending
- small business lending
- civil society lending.

## MORE INFO

Remind yourself of the seven steps along the Big Local pathway: see [www.localtrust.org.uk/big-local/pathway](http://www.localtrust.org.uk/big-local/pathway) or take a look at *What's Big Local all about?* on the resources section of the Local Trust website.

# 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. However, it is different from a traditional loan you might receive from a high street bank.

## What does 'a positive impact' mean?

It means that social investments will aim to make your money work for you, but also to improve the world around you. Social investments will only work if they reach individuals and organisations that are doing good in their communities.

## How a social investment works

You can make a social investment loan to a person or an organisation. In both cases, they must use the loan to make an economic, social or environmental impact. For example, you might decide to make a loan to someone to set up a local window cleaning business that will employ residents who have struggled to find work. Or you could make a loan to a charity that manages local garden allotments, which provide good quality, affordable food to residents and healthy activity for people in the local area.

Social investments are also different from high street bank loans because they are often available to people and organisations who

cannot borrow money to support their plans from traditional banks. If someone can get a loan from a high street bank, they should not need to use Big Local money.

With a social investment, those making the investment make a commitment to pursuing 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 £500 with an average interest rate of 26 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), your area could offer personal loans at lower rates. These are easier to repay and help people manage their debts.

## **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 loan is around £2,500 with an average interest rate of 12.3 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 £12,500 with an average interest rate of 11.5 per cent APR.

## **Civil society 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, to do up buildings or to buy or build new premises. The average loan to a small charity is around £17,500 with an average interest rate of 10 per cent APR. The average loan to a large charity is around £125,000 with an average interest rate of six per cent APR. 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.



# How do we make social investments?

The decision to make social investments using your Big Local money must make sense as part of your Big Local plan. The Big Local plan sets out how your area will spend the £1m to achieve your vision and make your local area an even better place to live.

Looking carefully at different social investment options can make your Big Local money go further and create lasting impact.

## MORE INFO

Detailed advice on creating your Big Local plan is contained in ***Making Big Local happen*** our guide to steps three, four and five of the Big Local pathway.

If your area wants to use social investments, Local Trust can support you in finding a trusted local community finance organisation or organisations to manage the loans on your behalf. Your Big Local rep or Local Trust can advise you on next steps for this.

The local trusted organisations we might recommend 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.

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## How Stockton-on-Tees is using social investment

One example of a community finance organisation that uses social investment to support local people is Five Lamps, based in Stockton-on-Tees. It provides personal, business and social enterprise loans and is managed by a local board.

Five Lamps aims to transform the lives of individuals and their families by helping them to find work, start their own business, improve their finances and boost the aspirations of young people. All of its work is underpinned by a commitment to 'making people matter'.

## MORE INFO

More information on Five Lamps is online at: [www.fivelamps.org.uk](http://www.fivelamps.org.uk)  
Information on CDFIs can be found at: [www.cdfa.org.uk](http://www.cdfa.org.uk)  
The umbrella body for credit unions, ABCUL, is at: [www.abcul.org](http://www.abcul.org)

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# What are the risks?

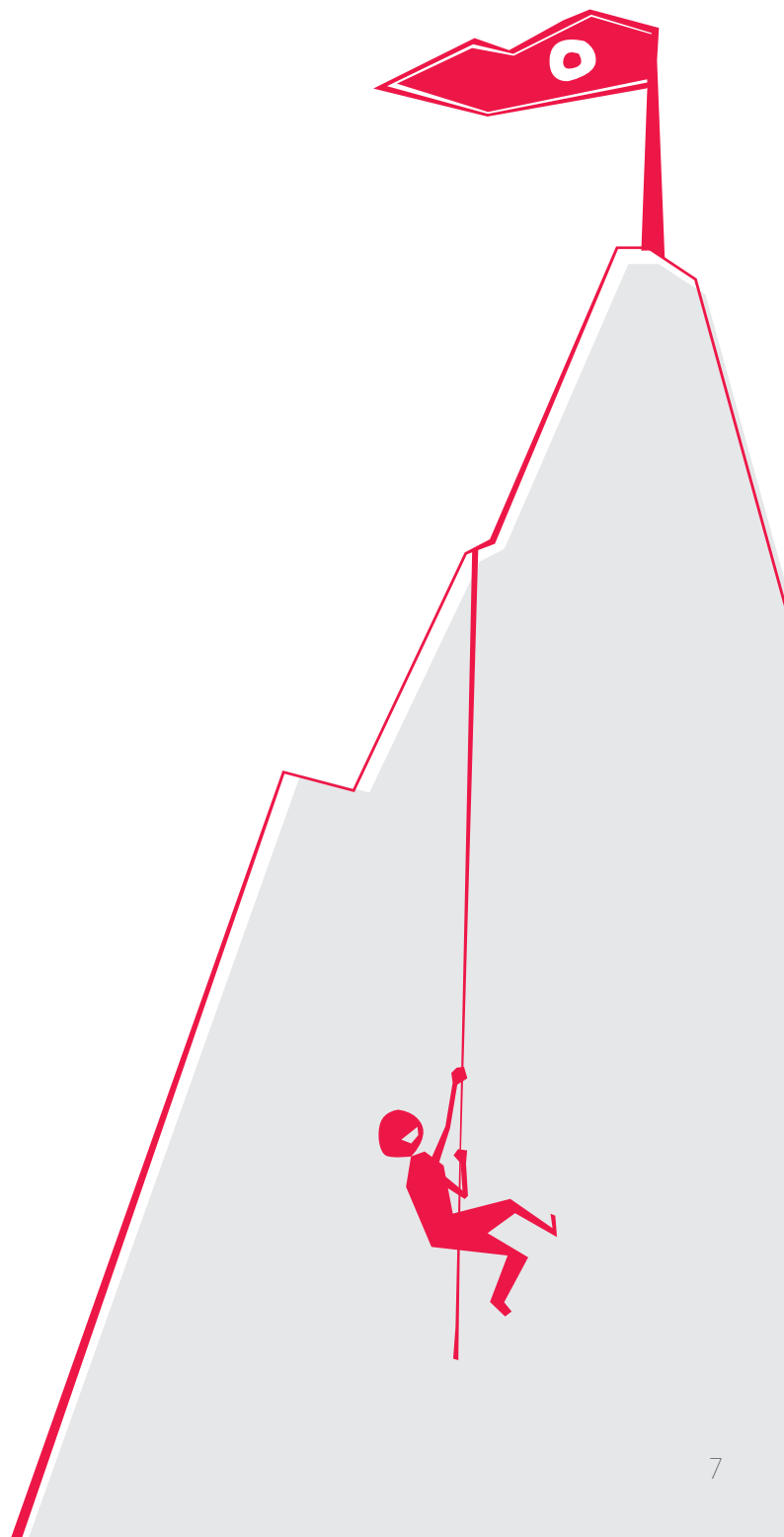
Sometimes, social investments are not the right answer. If a person or organisation needs money now and there is no real chance that they can earn enough income to repay a loan, or generate a social or environmental return, they need to look for another form of financial support - this could be a grant or award. For example, as part of the Big Local programme, our partners, UnLtd, make awards and offer support to social entrepreneurs.

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 on and how you will learn from your investments.

Some people or local areas may object to lending on moral or religious grounds. We will only work with reputable, community-based lenders such as CDFIs and credit unions (mentioned earlier) and will do our best to make lending available that complies with ethical and religious principles.

## MORE INFO

Our partners, UnLtd, offer funding awards and support for social entrepreneurs, through their Star People scheme. See [www.localtrust.org.uk](http://www.localtrust.org.uk)



# Why are social investments part of Big Local?

**Social investments are an important option for Big Local areas to consider for the following reasons.**

**1 Impact.**

Social investments 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 Reaching people who are doing good.**

You may know people or organisations in your area who 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 impact your borrower can achieve. 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.**

Understanding and managing social investments is a very valuable skill and many individuals and areas have never had the opportunity to learn it. 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 can 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.



# Social investment jargon explained

There is a lot of jargon associated with the financial sector and social investments. We will provide a full explanation of social investment terms in detailed guidance for areas at a later time, but in the meantime, 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.





Social investments are just one way that Big Local areas can spend some of their £1m. Areas can also make grants, and purchase services.



For more information on social investments, check out our four short guides:

- personal lending
- microfinance lending
- small business lending
- civil society lending.

You can also talk to your Big Local rep or Local Trust on 020 7812 5456 or email: [info@localtrust.org.uk](mailto: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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## Local Trust

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[www.localtrust.org.uk](http://www.localtrust.org.uk)

The endowment for the Big Local programme is held by the Big Local Trust and overseen by Local Trust. The Big Local Trust was established by the Big Lottery Fund with a National Lottery grant of £196,873,499.

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

