Investing for Good:
Why Social Impact Investing is right for Scotland

FAQs

Are people willing to invest?

Yes.
90% of the Investors in the Living Balance Service in Perth indicated that they were keen to invest in new services using Social Impact Investment, indeed some of their associates indicated that they would like to invest in future services.

A number of established social investors have indicated that they are interested in principle in investing in services proposed in Scotland subject to the commitment of an appropriate outcome partner.

Additional parties with a new interest in social investment have indicated interest in investing.

Why does the Government not simply fund these services directly?

Many of the services where Social Impact Investment is the most appropriate financing tool are preventative in nature. We noted above that while investment in prevention is very attractive to government because it removes potential sink holes from future budgets, it is also very challenging because it is – essentially – speculative. Social Impact Investment, on the other hand, ensures the positive outcome of a preventative service – like the Host Homes Service – before payment is made, providing a 100% guaranteed impact of Government spending.

We also note above that capital for investment of this kind in social infrastructure is traditionally provided from tax-raised revenue or borrowing. Increasing tax or public borrowing in the current environment would be very challenging, particularly given the Scottish Government commitment not to raise income tax in this parliament and its constrained borrowing powers.

Additionally, even if government were able/willing to incur additional borrowing such funds would require to be repaid ***irrespective of the outcomes of the services which they funded***. By using Social Impact Investment, government would only pay in arrears for outcomes which have definitely been achieved.

The Growth Partnership
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Why should Government use tax-raised revenue to pay interest to investors?

We have noted above the difficulties involved in securing capital for investment in social infrastructure, particularly securing it at sufficient scale to address the level and complexity of social issues which we face in our communities. Social Impact Investment provides access to third-party capital to facilitate the transformational systemic changes we need to make to ensure the ongoing provision of high-quality, person-centred, sustainable, cost-effective services. As with any third-party capital it is necessary to pay interest to achieve access to the funds.

Given that Social Impact Investment ensures that government only pay for outcomes which have definitely been achieved, then:

a) There is no wastage of funds paying for services which didn't work.
b) The services created using Social Impact Investment are preventative in nature, thus they remove sink holes from future budgets, releasing significant value to the public purse which can be invested in services which further enhance the lives of citizens and communities. A modest level of interest on the capital is justified in light of the significant value released.
c) We have seen, in the case of the Living Balance Service in Perth, that investors who engage in this kind of financing are keen to do so again, which has the potential to create new services in the future. The payment of interest encourages this ongoing positive use of third-party capital.
d) Most government purchases involve the payment of an element of incentive to the party providing the product or service. For example, the payment for utilities at government offices will include an element of incentive payment to the utility provider – it may be an element that is used by the provider to pay a dividend to shareholders or to meet the cost of debt financing by the utility company. These costs are routine costs of doing business, without which the utility providers could not exist and continue to provide the service.
   In Social Impact Investment that incentive element to the investment partners is simply more transparent than in most transactions. It is no less legitimate for being more transparent.

Is Social Impact Investment not treating people as commodities for profit?

Social Impact Investment will not be attractive to every potential investor and will never create the kind of financial returns equivalent to those seeking quick and high returns from commercially based venture capital-type investment. That is not the purpose of Social Impact Investment.

Any parties using Social Impact Investment to finance a service in the community have the responsibility to ensure that they only engage investment partners who have a shared commitment to the best interests of the citizens and communities who will be served by the services created.

Not only will Social Impact Investment not be attractive to avaricious investors, it does not have to accept them – there are sufficient sources of socially motivated investment available to ensure that the capital does not treat our fellow citizens as commodities.

Is Social Impact Investment not just increasing Public Debt?

No.

Debt finance used by Government to create services in the community would have to be repaid whether the service was effective or not and the interest on that debt finance would have to be paid.

Social Impact Investment does not have to be repaid if the service is not effective in achieving the agreed outcomes. The risk of non-completion of outcomes has been transferred to the investment partners.

Isn't Impact Investment just contracting out to the private sector?

No. Social Impact Investment is essentially a group of relationships between parties with a common purpose of providing an effective service in communities with the service itself provided by a not-for-profit social sector organisation. These relationships are the key to the shared purpose and effectiveness of the service provision where all parties respect the skills, experience and limitations of their partners and work collaboratively to achieve in the best interests of the citizen.

It's worth noting that in over 200 services being delivered using Social Impact Investment during the pandemic we are not aware of any which reverted to legal actions to enforce service delivery or adherence to contractual obligation – the nature of the relationships created in the mutual partnership of a Social Impact Investment service meant that people worked together to find the best possible solutions for citizens being delivered by delivery partners embedded in their local communities where they are respected and valued.

Also, by using social franchising as the route to scale Social Impact Investment can ensure that these local roots of service delivery are maintained.

Will the influence of private sector Investment Partners not effectively make this a private sector service driven by profit?

No. The Investment Partners input will be valuable in helping to ensure effective, outcome focused performance and data management practice but the services will be delivered by Social Sector, not for profit organisations. The focus of the performance and data management is to ensure the best outcomes for the service participants, it is not focused on increasing profit for the Investment Partners.

The experience of the Living Balance Service in Scotland was that the Investment Partners were predominantly local citizens whose investment was socially motivated, not profit driven. Working with Investors this service was able to deliver very much in keeping with the four pillars of the Christie Commission – Prevention, Performance, Participation and Partnership.

Investment Partners will conduct appropriate due diligence before deploying their capital in this kind of investment but the Delivery and Outcome Partners will also conduct their appropriate due diligence to ensure that potential Investment Partners understand the nature of the service and their primary role in supporting effective service delivery.’