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Whose return is it anyway?

There is lots of talk in policy circles these days about 'social investment'. If you've heard of it, you may share my feeling that it's hard just to get past the sheer jargon of it all. If you haven't, it's probably a safe bet to say that you will hear more about it soon. Patient capital, soft loans, quasi-equity investment . . . what does it all mean?

I won't go into detail here but suffice it to say there are many different forms of social investment and it's evolving all the time. In a nutshell it's about using money to achieve both social outcomes – or 'returns' – as well as financial ones. Usually there is an element of 'recycling' the money, so that all or part of it may be repayable back to the funder in some way, based on various conditions.

Aside from all the complicated and inaccessible language, a major concern I have with this stuff is who gets the financial return? And what's their motivation? To me the answers to these questions make all the difference between this being a sensible approach in certain situations, or one fraught with moral hazard.

Consider a few hypothetical examples. A grant-making trust makes a capital grant to a charity which allows them to purchase a building, which the charity can then use in some way to generate revenue – say by hiring out rooms. The financial 'return' on the investment goes back to the charity to support its work and help it be sustainable. Great, right? It is grant funding that is given to the charity, but the financial returns reinforce the social returns directly in a virtuous circle. This isn't a particularly new idea.

But then think about this alternative scenario: Big Society Capital (BSC) – the social investment bank the Government is setting up – gets money from the mainstream banks, which charge BSC interest to use that money. BSC in turn lends some of these funds to a 'retail' social finance provider. The retailer then lends it to a charity, which has to start charging its service users to receive help that used to be free, in order to service the interest.

Who is getting the financial return here? For one thing, there are layers and layers of probably pretty expensive professional people earning salaries from the investment food chain. The final costs of the investment are bound to increase the longer that food chain is. And in the final analysis, aren't big corporate banks making money not just from charity – but from the people whom charities are there to help? In fact, there's the possibility that beneficiaries may even be worse off, if they have to pay or potentially receive no service. Surely this would be wrong?

Now to be fair I'm painting a fairly negative scenario here which greatly simplifies the intended role of Big Society Capital, and this is still just a hypothetical example. BSC is only just starting to become a functioning institution. The reality of social investment is that there are many different forms of it which will fall somewhere between the two examples I've outlined, and BSC is intended to help finance many of them.

But I think it's crucial that we make sure the future of social investment is more like the first example than the second if it is going to be a positive development. This is especially true I think for the hundreds of thousands of smaller charities, community groups, and their beneficiaries.

In my view, there is just not enough discussion and debate in our sector about this at the moment. Social investment policy, if you can call it that, is being largely driven by the Government's public services reform agenda and the difficult financial environment. It needs to be driven by what is going to help the widest range of organisations to help their beneficiaries in the most effective, sustainable, and morally sound way.