Introduction

While there is plenty of available research on the demand from investors for social investment opportunities – and periodic research into the demand for finance from charities and social enterprises – there is little ongoing up-to-date information available about the nature of this demand for finance.

Research from Social Enterprise UK and others has consistently demonstrated that both early stage organisations and those looking to expand their existing activity regard ‘access to finance’ as a major problem – but there could be more detailed information available on what ‘access to finance’ means to these organisations and what sort of products may be useful to them – and in something more like real-time.

The Social Investment Intelligence Network (SIIN) is a new initiative that seeks to address this problem by bringing together a group of charity and social enterprise leaders from around the country – to provide their informed perspectives on developments in the social investment market and discuss how the market could work better for their organisations and others in their regions and sectors.

The SIIN panel meets on a quarterly basis with a short report published after each meeting to reflect the discussions and provide timely information to the market. This is our first report and we will welcome feedback and suggestions for future inquiry.
The context for investment in charities and social enterprises is somewhat mixed. The Bank of England’s inflation report of February 2018⁠¹ reports how the global economy is growing at its fastest pace in seven years. It describes how UK net trade is benefiting from robust global demand and the past depreciation of sterling. Relatively low cost of capital is supporting business investment. But this is restrained by Brexit-related uncertainties, which remain the most significant influence on, and source of uncertainty about, the economic outlook. Household consumption growth is expected to remain relatively subdued and GDP growth is expected to remain modest by historical standards. Inflation is expected to remain around 3% in the short term.

In this context, UK Finance’s latest data on Bank Support for SMEs from the 3rd Quarter of 2017² reported that SME borrowing levels remained relatively stable, continuing the trend of subdued demand for bank finance over the previous 12 months. Overdraft levels largely remained unchanged while application volumes for bank finance have been reducing for some time. Approval rates for SMEs were 79% for loans and 75% for overdrafts. The average loan value for SMEs was at £74,382.

In the public sector, local authorities remain under severe pressure with Northampton Council in particular trouble, for instance. Carillion’s challenges have prompted some to ask whether outsourcing has had a watershed moment. The spectre of Accountable Care Organisations³ in the NHS is prompting some to fear greater privatization, while others see the public sector circling the wagons and squeezing out charities and social enterprises. Meanwhile the charity sector is under some pressure in the wake of new stories about Oxfam and other development NGOs and the Presidents Club scandal. NCVO describe how we have already seen a number of charities walk away from public service contracts and rethink how they meet the needs of beneficiaries and ask whether this might be the year that the existing model of public services reaches its breaking point.⁴

In this context, the members of our network discussed the availability of finance from their perspective. While the School for Social Entrepreneurs match-funding model was identified as one example of a positive model, some of our panelists commented how, more widely, easy access to grants is now a thing of the past. Yet our panelists also described how grants were indeed available from funders who weren’t necessarily focused on the social sector. Innovate UK, for instance, were reported to have significant resources, including grants, for all businesses which could cover social enterprises, while there are also a number of small business grants available from a range of sources.

---

While the School for Social Entrepreneurs match-funding model was identified as one example of a positive model, some of our panelists commented how, more widely, easy access to grants is now a thing of the past. Yet our panelists also described how grants were indeed available from funders who weren’t necessarily focused on the social sector. Innovate UK, for instance, were reported to have significant resources, including grants, for all businesses which could cover social enterprises, while there are also a number of small business grants available from a range of sources.

In this context, our panellists described how investors’ biggest concern appears to be risk – they simply don’t like risk. Tax reliefs can help mitigate this lack of appetite but only occasionally. Members also agreed that the market for investment is still messy and difficult to navigate. There is no roadmap, leaving charities and social enterprises to blindly find their own way through.

Unsecured finance was identified as the biggest problem. SIIN members reported that there are places you can go for secured lending, which is possible to find. Some even suggested that it has become more difficult for social enterprises to find unsecured lending as investment criteria have narrowed. One panellist conclude that she had given up on unsecured finance and, instead, had just borrowed money to buy buildings – “Now I have an asset and I can borrow against that.”

Cost of capital was not considered a major issue compared to availability. Panellists talked about a range of interest rates on offer between 6% and 8%. Although the latest statistical release from the Bank of England⁵ suggests effective interest rates for SMEs on new loans at the end of 2017 to be under 3.5%.⁶

Some panellists described the tough environment for all businesses but that social enterprises especially need to prove themselves to investors, highlighting particular concerns and perceptions around CICs. Sometimes this may not be because of prejudices or discrimination against social enterprise per se, rather its simply that social enterprises tend to be more likely to be doing something new or different. Panellists discussed how, sometimes, it may be easier to attract finance by adopting other structures or starting “normal” companies. There is a tension here between practical imperatives on one hand, and locking in a commitment to the social enterprise model on the other.

---

⁵ https://www.bankofengland.co.uk/statistics/effective-interest-rates/2017/december-2017
⁶ https://www.bankofengland.co.uk/statistics/visual-summaries/effective-interest-rates
Specialist Banks

These specialist banks include Triodos, Charity Bank and Unity Trust Bank, as well as the Ecology Building Society. The Co-operative Bank was also included in this group by our network members even though it has a wider remit more akin to the high street banks explored below.

Panellists were remarkably critical of the services provide by these banks. One panellist asked “Why do they have to have zero functionality?” One complained that “Direct debits with the Co-op aren’t an option even though we have 200 regular clients. The facilities aren’t there.” The absence of a branch network for these banks was also seen as problematic.

One panellist described how a similar organisation to theirs has secured a £50k overdraft from a specialist bank through a two week process yet their own organisation was flatly refused for a smaller facility. The reason offered was that overdrafts were only available to those with 3 years’ track record yet this was known, from other customers, to be untrue.

One panellist suggested that Charity Bank and Unity Trust Bank had wasted 18 months of their time through meetings which did not result in the securing of suitable finance. Another said they had wasted six months with Charity Bank and these institutions were all slow. One member reported how a specialist bank staff member was a retired banker from one of the Big Six giving some time to the specialist bank and told their social enterprise that “I’m on holiday for four weeks now and I’ll be back then”, exhibiting a real lack of drive or purpose and indicative of a low operational capacity.

Some of this frustration could perhaps be put down to misplaced expectations on the side of the applicants as the “trouble is you trust social investment more whereas with banks you go in with heels on and a hard nose. We were convinced we could refinance with social investment because of the way the market was being talked about. Yet the more we got into it we realised that for them it was only a commercial transaction. We had expected something”. Another panellist suggested they had “made the mistake of going in with Triodos. They held us back, they couldn’t do international transfers. At least normal banks deal with us on a commercial footing.”

High Street Banks

The main high street banks in the UK are Barclays, HSBC, Lloyds Banking Group, Santander UK, and the Royal Bank of Scotland. Network members banked with HSBC, RBS, Santander and Metro as well as one holding a Cashplus business account online.

Experience with these high street banks among our network compared much more favourably to the specialist banks. One member reported that “We can get something out of Barclays with a phone call. Whereas with the Co-op we’ve stopped bothering. Barclays can have a look and tell us what they can do straight away, while the Co-op are digging around and trying to find the right person”.

SIIN Quarterly Report  Banking
Research from *Big Society Capital*\(^7\) suggests there are now up to 120 organisations fulfilling some kind of intermediary function within the UK social investment market. Here, we focus on panelists’ experiences of engaging with intermediary social investors directly responsible for making investments into charities and social enterprises – mostly listed on the *Good Finance*\(^8\) website – rather than intermediaries providing support and advisory functions.

While some of these social investors, such as *Big Issue Invest* and *CAF Venturesome*, have been operating since the early-2000s, the ‘market’ for intermediary investment grew significantly following the launch of *Big Society Capital* in 2011. The launch of *Access: Growth Fund*\(^9\) in 2015 meant intermediaries were able to bid for blended finance at the wholesale level – a mix of grant and loan to then subsequently provide finance to charities seeking investment of £150,000 or less.

Panelists had a range of experiences, both positive and negative, of engaging with investors. One panelist cited their positive experiences with *Big Issue Invest*, describing their investment manager as “easy to deal with, supportive and quick” while noting the value of development funding provided by *Barrow Cadbury Trust* alongside the loan: “both are playing tag team to help us navigate a bigger picture.”

Another panelist talked about their engagement with *Social Investment Scotland* and talked about how they had supported their work. They also noted, however, the perception that SIS may be moving beyond work with charities and social enterprises to invest more in private enterprises.

One panelist explained that they had dealt with an investment manager at an intermediary social investor who was ‘previously from the banking sector’ and who had turned their organisation down for a loan. However, when another investment

\(^7\) [goo.gl/e5CeE3](http://goo.gl/e5CeE3)

\(^8\) [www.goodfinance.org.uk](http://www.goodfinance.org.uk)

manager at the same organisation with more experience of the voluntary sector came back from maternity leave they were given a loan immediately, and have since been back three times for more finance.

Another panelist cited positive experiences with Key Fund which can be largely attributed to a good understanding of what’s going on locally. They explained that seeking investment is often about “wanting to find people who want to go on a journey with you” and “someone who understands your precarious nature”.

One panelist explained how her organisation’s experience of dealing with investors seemed to change based on whether she or her male co-director were leading negotiations. She said that: “When [my co-director] leads we get certain answers very quickly. There is an assumption that there is someone behind [me] who is ultimately responsible.”

Race and gender and age were all perceived as part of the problem. A panelist explained that while these may be “typical societal barriers” the expectation is that “social investment would be better at that even if it was still finding its feet.” However the experienced reality is: “It’s a friends club and expensive and rubbish.”

Another panelist reflected that the stage at which a business is at in its development makes a big difference. Having been operating for 7 years, their organisation now has an asset to borrow against and “secured finance is whole different ball game”.

For another panelist, in their experience:

“the bottom line is they don’t want risk. SASC opened a fund and didn’t lend anything. We wasted a year and a half with them.”
Other Sources Of Investment

Research by members of the SIIN secretariat for Power to Change published last year looked at investment options for charities and social enterprises: “beyond banks and social investment, including opportunities presented through the local community, friends and family, local authorities and other public bodies.”

These sources of investment may include peer-to-peer lending available from platforms including Zopa and Funding Circle lending however these sources are not always available to charities and social enterprises. Panelists mentioned their experiences of seeking finance from Funding Circle, which describes itself as “the world’s leading lending platform where investors directly lend to small businesses.”

In one panelist’s experience, Funding Circle had been unable to lend to their organisation (a CIC) because the position was: “we can’t take the risk of lending to an organisation that might have social impact. They are worried about the reputational damage and if it comes to seizing assets.”

Another panelist had an offer in principle from Funding Circle until they did the due diligence and found out the organisations was a CIC. As a result the panelist had: “wasted a significant amount of time.”

Two other panelists had received regular letter from the site asking them to apply for finance despite knowing that they would not be eligible.

There is a current offer of peer-to-peer lending for charities and social enterprises from Community Chest, an offshoot of the Thin Cats lending platform, with backing from Big Society Capital’s Crowdmatch. However this offer seemed confusing.

One panelist had experience of Firstport’s Launch Me programme, that supports social entrepreneurs to raise finance from a range of sources, including match funding for SITR-eligible investments from individual private investors. The panelist reflected that: “private investors were swayed by the idea of match funding.”

One lesser-known finance option mention by panelists was the provision of credit by credit card processing providers such as iZettle and payers inc. One panelist explained: “I use iZettle as my overdraft. They give you loans against your credit card sales. I can get 4 or 5k tomorrow. I can just agree it for a fixed fee.”

The panelist had also looking into invoice factoring but found: “it is too expensive. They take 15% of invoice value.”

Another panelist described their challenges as a social enterprise when compared to the experience of a nearby commercial business that had started trading at the same time. The commercial business had secured a £50k overdraft to help them manage cashflow while the panelist’s social enterprise had not, despite the fact that: “we have growth and far more physical assets.”

10 www.powertochange.org.uk/research/uncharted-investment/
Social Investment Support Programmes

Since 2012 significant amounts of government and Big Lottery funding have been allocated to ‘investment readiness’ support via programmes such as the Investment and Contract Readiness Fund, Unltd’s Big Venture Challenge and Big Potential.

Alongside programmes specifically designed to support ‘investment readiness’, many wider support programmes provided by organisations such as Unltd and School for Social Entrepreneurs now have an ‘investment readiness’ element.

In recent weeks social investment leaders including Nick Temple of Social Investment Business (SIB) and Seb Elsworth of Access have called to an end to the idea of ‘investment readiness’ with a report from SIB stating:

> “Many organisations do need help to take on investment. But framing support around raising investment – rather than the traits which may make it more likely – focuses work in the wrong place” adding that: “Instead, focusing on resilience will help more sector organisations be in the best place to improve people’s lives.”

Our panelists had mixed experiences of engaging with investment readiness support programmes. One panelist regarded the diagnostic process for Big Potential as being “very box-ticky”. Having received funded support, they felt the provider (chosen from the scheme’s approved list) had not responded to their needs: “I wanted the consultant to look at bringing in finance, I didn’t want marketing.” The panelist was also concerned by the fees charged by the consultants at £750 per day.

Another panelist reflected that the approved pool of consultants for investment readiness programmes seemed to be mostly consultants with experience working in a corporate environment when: “It’s small business experience that you need”.

---

Another panelist who had received investment readiness training as part of a social entrepreneur training course reflected that “They thought we were stupid. High school level commerce from someone younger [than me] with less experience. Investment readiness is usually par for the course. So you have to do it. I got the money but never found the mentoring useful.” This panelist felt funding for support was useful but it would be better if organisations had more choice – such as a voucher they could spend on the support they wanted.

Despite some of the negative experiences, panelists were keen to emphasise that business support for charities and social enterprises is important and, when done well, can have major benefits for organisations.

One panelist praised the flexibility of a funder who had given them money to carry out their own business development activity rather than commissioning from a set of approved consultants. Some of this funding had been spent on expert support from partners which had been worth the money. For any organisation, it is about having the resources to bring in the right additional support you need.

The panelist explained there are “15 or so things that take up director time are like chasing unpaid invoices. So if models like Big Potential can do that backfill stuff which releases people to do development work… we need to unpack and understand how people have used development funds. 25k backfill is gamechanger for us to release us.”
Much of this was not new but provided a useful flavour of where we are. Things that may be new or noteworthy to some:

- Seeking unsecured investment is a very different challenge to seeking secured investment
- To charity and social enterprise customers, the service from social banks seems worse than the service provided by high street banks
- Charities and social enterprises have very mixed experiences from intermediary to intermediary and even with different people within one intermediary
- Charities and social enterprise leaders feel they are treated differently based on who they are
- Credit card processors, such as iZettle are a good sources of easily available finance for some social enterprises
- Peer-to-peer lending is a potential source of finance that is currently hampered by the refusal of, in particular, Funding Circle to lend to charities and social enterprises
- Investment readiness models need refining and changing but are valued
- The opportunity to receive funding to backfill roles to enable leaders to carry out business development would be particularly valued.
What’s Next?

The first SIIN meeting was designed to explore panelists’ perspectives on a broad range of topics related to the social investment market, and their experiences of it.

Reflecting on problems, challenges and disappointing experiences is an important part of SIIN’s work but, while continuing to do that, we will also be putting forward practical and constructive ideas for improving the social investment market and access to finance for charities and social enterprises.

Future meetings (and the reports that follow) will look in more depth at particular aspects of the market.
Meeting Date: 21st February 2018
Venue: Impact Hub Birmingham

In attendance:

• David Floyd – Social Spider CIC (Secretariat)
• Ffion Plant – Social Spider CIC (Secretariat)
• Dan Gregory – Common Capital (Secretariat)

• Jill Bramall – Cycle Penistone (Panel Member)
• Eddie Bridgeman – Meanwhile Space (Panel Member)
• Rob Greenland – Leeds Community Homes (Panel Member)
• Mike Grimsdale – Community Benefits Group (Panel Member)
• Immy Kaur – Impact Hub Birmingham (Panel Member)
• Naomi Mwasambili – Chanua Health (Panel Member)
• Harsha Patel – Doing Social (Panel Member)
• Debra Riddell – Breadshare (Panel Member)

Apologies:

• Robert Ashton – Norwich Mustard (Panel Member)
• Dave Dawes – Community Health Innovation (Panel Member)
• Carl Ditchburn – Community Campus 87 (Panel Member)
• Vinay Nair – Lightful (Panel Member)