Investment Readiness in the UK

Dan Gregory, Katie Hill, Iona Joy, Sarah Keen

Additional research by Tom Harwood

July 2012

ClearlySo

New Philanthropy Capital

Commissioned by BIG LOTTERY FUND

Table of contents

Annexes

FOREWORD

Many of the charities, community groups and social enterprises that already receive funding from the Big Lottery Fund have enormous potential for growth that would allow them to achieve greater social impact. This report recognises that potential and addresses one of the key barriers organisations face in reaching that potential – the problem of investment readiness.

The Big Lottery Fund is committed to playing its part in efforts to grow the social investment market. Social investment offers the prospect of new financing tools and access to new sources of capital that could enable VCSE organisations to operate on a more sustainable footing as they provide their valued services to people and communities most in need. Furthermore if social investment unlocks an additional stream of finance, BIG's grant funding can be targeted better at those for whom it will be absolutely essential.

The social investment market has come a long way in recent years but the problem of investment readiness remains a real concern for investors, investees and the intermediaries who try to close the gap between the two.

This report is welcomed for its well rounded approach in reflecting the concerns of these three groups. It highlights where mismatches exist in the views of these groups who are key players in growing the social investment market.

This research will help voluntary organisations to understand more about what investors are looking for. In turn it provides an insight into the perspective of those organisations who are looking for investment. Finally, we hope, that in this emerging market this report will assist the voluntary sector to better understand the social investment market and what it means to be investment ready.

Peter Wanless

Chief Executive, Big Lottery Fund

EXECUTIVE SUMMARY

Background

The Big Lottery Fund plays a vital role in supporting community organisations to meet local needs. As part of its strategic planning, the Big Lottery Fund has commissioned research into the state of investment readiness of the Voluntary, Community and Social Enterprise (VCSE) sector and the support offered to them across the four countries of the UK, with a view to informing its role with regard to social investment

Aim

This report aims to promote a better understanding of how to help UK organisations in the voluntary, community and social enterprise (VCSE) sector prepare to secure repayable finance. Investment readiness, or lack of it, appears to be a major cause of drag to the acceleration of social investment, reflecting a similar experience in the 'mainstream' SME market. This report seeks to establish the support needs of potential investees, to cross check these with investors' and intermediaries' perceptions of needs and to suggest ways forward for the BIG Lottery Fund and the wider market to ensure that those organisations, for which it is suitable, are given the best possible chance of securing appropriate investment.

Research methodology

As part of this research, we surveyed 7,420 VCSE organisations from the Big Lottery Fund's grantee database and ClearlySo's membership database; 1,255 organisations completed the survey, which equates to a response rate of 17%. We also carried out a literature review and over 40 interviews with investors, intermediaries and support providers across the four countries of the UK. Five case studies were conducted to provide further practical insights into the journeys taken by organisations to secure investment. We categorised survey respondents using a 'dartboard' typology according to how far from the target of securing investment they perceived themselves to be.

Possible demand for investment awareness raising and readiness support

With extrapolation and caveats galore, we could conceive of a pipeline of potential demand for investment readiness support from the VCSE sector to be in the region of 70,000 or more organisations in the 'foreseeable' future (up to five years). The type of finance they seek will influence the support needs required, and therefore understanding more about their plans informs the preparation of appropriate investment readiness provision.

Investors' and intermediaries' perspectives

Investors reported significant challenges with investment readiness, particularly noting the lack of suitable financial skills as a critical barrier. Investors and intermediaries also identified wider problems in the market such as a general lack of understanding of the concept and the appropriateness of social investment; the absence of filtering systems which meant that organisations often approached investors too early; poor co-ordination and signposting; and the relative complexity of deals for the amount of finance sought. Intermediaries suggested improved generic information and early stage diagnostic tools be offered in advance of more expensive bespoke support to overcome patchy support which has generally been reliant on statutory funding sources.

Investees' perspectives

1255 organisations responded to our survey, generating one of the largest sources of data on potential demand for social investment. Over 70% of those respondents had charitable status, and 57% were either interested, actively looking, had tried to secure or had secured social investment. Organisations that are looking to raise finance are primarily interested in longer term finance of less than £100,000 to help them scale up their existing activities. This does not match the dominant type of capital on offer to this sector. Of the 21% of our survey who had been successful in securing investment, the majority secured longer-term loans. The main source of finance was mainstream investors, with roughly half of organisations having to provide security to back this finance. There are significant challenges posed to secure the scarce, high risk finance, which investment readiness support needs to address. Culturally, it appears there are still considerable barriers to charities taking on social investment - almost half of our survey respondents were not interested in investment. The majority view of this group believed that charities should not use loans to finance their work.

Conclusions and recommendations

Ironing out mismatches along the route of investment readiness

The first mismatch, as identified above, is around the type of capital sought and the most readily available capital on offer and secured. There are questions about the likely future supply of sufficient risk capital that organisations are interested in securing. Higher risk capital is hard to secure, is in much shorter supply and is concentrated in the hands of fewer investors, when compared to the provision of asset-backed finance to the sector.

Additionally, there are a number of mismatches between the perception of support required among investees and investors, as well as mismatches in availability and access to certain types of support. At the beginning of the route towards investment, there appears to be a mismatch in the type of advice and guidance on social investment required and that which is available. Organisations found it hard to sequence the stages around investment readiness provision and did not know when to look for finance and in which order to sequence their activities towards this goal. Those at early stages of interest in social investment are looking for step-by-step guides. Signposting is poorly coordinated and there are many gaps in provision, which is mixed and patchy across the UK. Organisations are often not 'near to ready' when seeking finance showing the need to develop more efficient filtering systems.

Further along the route to securing social investment, a lack of appropriate financial acumen was identified by investors and intermediaries as the biggest weakness. Yet potential investees seemed more upbeat about their financial skill sets, although financial skills did feature high on the list of support preferences. The viability of the revenue model on which to base an investment deal was identified as another area of mismatch of expectations which needs to be addressed in investment readiness support. At this point, the support becomes more 'bespoke' and costly and therefore needs to be focused on those organisations with the greatest chance of securing investment.

Investment readiness in public sector commissioning

Evidence of the measurement of social impact was not seen as a major barrier to securing finance, although in the specific case of public sector commissioning under payment by results (PbR) contracts, this becomes critical. VCSEs need to be able to show that they can create, replicate and price the real cost of their outcomes correctly in order to secure and deliver a public sector contract, and attract the necessary investment to deliver it. There is a need for specific sector-based expertise, which is currently in very short supply. In Scotland, a few mainstream private sector intermediaries are helping to fill the expertise gap as it enters the PbR marketplace. Northern Ireland and Wales are not fully involved in this agenda as yet, but England has a chance to pilot ideas ready for others as required.

Variations across the UK

In general, the picture of previous and current support varied across the four countries of the UK and was influenced by how support was financed, and whether it was closely connected to local need and to the supply of capital available. Smaller countries, such as Northern Ireland, have managed to deliver a more coordinated structure to investment readiness provision than other countries, making good use of its smaller but tighter networks across the sector. In England, the abolition of regional governments may influence the use of networks to support social investment. Wales faces issues raising investment awareness within its strong community-based organisations. Scotland could benefit from undertaking a mapping exercise, by sub-sector or locality to examine the full extent of the provision and gaps of support as well as the market opportunities open to VCSEs, as a basis for designing suitable investment readiness provision. There could be scope for different countries of the UK to take the lead in developing investment support according to areas of specific interest and according to the supply of the type of investment that actually exists.

Designing investment readiness support

Programme design should be flexible and piloted to provide high quality input to fill the identified gaps and mismatches described above. Generic support may be more suitable, particularly for the earlier stages of investment preparedness. The more costly and time-consuming tailored support is then reserved for organisations that have advanced beyond early stages of preparation and seek to tackle more specific and / or complex needs. Categorizing investment support into generic and bespoke provision can help make support as cost effective as possible. Support could be structured across any one or more of three different approaches: 1) by taking a sector approach 2) by taking a skills approach and 3) by taking an approach that focuses on the support needs associated with the development stage of an organisation. Building up pools of expertise, offering peer workshops, mentor support and linking with mainstream support are all also important. The development of the Investment and Contract Readiness Fund, which will use government grants to support larger, more ambitious organisations, will prove a useful source of learning. Investment readiness tools need to provide filtering and signposting, and identify ways to distinguish and provide for the specific needs of early stage organisations which are small but ambitious for growth from those which are small but will remain locally based.

Whilst we cannot categorically state that external support leads to a greater chance of securing investment, almost twice as many of those surveyed that had secured investment had received external support, compared to those that did not. This reinforces the rationale that to provide well-designed support to those for whom social investment could be beneficial.

End goal

The report authors recognize that social investment is not suitable for all VCSEs, and should not be seen as a panacea for all current difficulties faced in financing VCSEs. However, where social investment offers the potential for organisations to create new, extended or different ways of delivering their goods and services, then there is an important role to play to help them secure this. We see that much can be done to improve and tailor support offered to organisations to give them the skill sets they need to secure repayable finance. In the longer term, the goal is that VCSEs will be able to choose from all available mechanisms, including the market, to create a thriving social sector in the UK that meets society's needs.

1. AIM OF THE RESEARCH AND CONTEXT

Aim of this report

This report has been commissioned by the Big Lottery Fund to examine the issue of investment readiness in the VCSE sector across the UK. It aims to fill an important gap in the plethora of papers and research around social investment to date. Whilst investment readiness is regularly referred to as a critical barrier to accelerating the social investment marketplace, there is little recent focused work specifically addressing the issue of investment readiness across the various administrations in the UK.

This report aims to:

- Understand investment readiness in the voluntary and social enterprise sector across the UK
- Describe the landscape of investment readiness support
- Establish the varying self-identified support needs of potential investees
- Cross-check these with investors' and intermediaries' perceptions of needs
- Suggest ways forward for BIG and the wider market on how investment readiness may be more effectively provided and financed in future

The ultimate aim is to provide information and analysis that guides the future provision of support, helping to ensure that those organisations for whom investment is suitable are given the best possible chance of securing appropriate finance.

Definition of social investment

For the purposes of this report we use the term 'social investment' to refer to any form of finance offered to social organisations with the expectation that there will be a financial repayment. It does therefore include partial and full loans and equity structures but it excludes grants, where there is no expectation of repayment.

Approach and structure of the report

We start by setting the scene for social investment across the UK, moving on to a brief overview of 'investment readiness'. This includes a summary of current investment readiness provision in the UK (with further examples in Annex A). Our research methodology is outlined in section 3. The remainder of the report considers investment readiness from investors', intermediaries' and potential investees' perspectives. Further information on our survey is provided in Annex B. We subsequently aim to draw together key findings based on the different viewpoints and any mismatches. This helps to inform our principles of good design for investment readiness provision in section 8. We have also submitted a separate stand-alone report to our commissioners, the Big Lottery Fund, which includes a number of recommendations considering the potential of their unique position in this market. We have attempted to recognise national and regional differences as appropriate throughout the report, in a context where much of the investment activity (and therefore to some extent our work) is focused on England. Annex C provides a full list of those organisations we met with in this research and Annex D references key articles that informed our work.

Context: the social sector

The Big Lottery Fund is currently the largest single non-governmental funder of organisations which exist for a social purpose in the United Kingdom and provides close to £0.75 billion of funding per annum. The voluntary, community and social enterprise (VCSE) sector encompasses charities, community organisations, co-operatives, Community Interest Companies, other forms of social enterprises and even some mutuals and employee-owned businesses. While the terms 'third sector', 'civil society' or 'voluntary and community sector' remain contested, the significance of these organisations is undeniable. We use the label VCSE throughout this report and do not concern ourselves with definitional issues.

As Stuart Etherington, Chief Executive of the National Council for Voluntary Organisations describes it, "this is a broad and powerful social and economic movement". NCVO estimate almost a million civil society organisations across the country with a collective income of £170 billion[1]. The more tightly defined voluntary sector had income of over £36 billion in 2010[2] and there are over 160,000 general charities.

Meanwhile, the Government estimates that there are around 62,000 social enterprises in the UK contributing at least £24 billion to the UK economy[3], using the definition that social enterprises are "businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners". Social enterprises can take a number of forms. There are currently approximately 5000 Community Interest Companies registered in the last 5 years, of which about two thirds are established as Companies Limited by Guarantee with estimated turnover almost £1 billion[4]. Some research suggests that at least a further 100,000 'hidden social enterprises' exist, contributing even as much as £90 billion each year[5]. Boundaries are blurred between VCs and SEs too, with 45% of registered charities self-identifying as social enterprises[6].

The 'business model' of the Voluntary Community and Social Enterprise Sector (VCSE)

In the most uncertain economic climate for more than 50 years and with arguably unprecedented pressures on the public finances, *money* remains the most significant challenge for many in the sector. Increasingly over the past few decades, voluntary organisations and social enterprises are beginning to think less simply about money *per se* – and how to get more of it. Rather, much like their private and public sector cousins, they are considering more strategically the distinction and relationship between money they receive to carry out their activities (revenue, funding or income) and, alternatively, money that can help them develop sustainability or growth (capital, finance or investment).

[1] Clarke, J, Kane, D Wilding, K and Bass, P (2012) UK Civil Society Almanac 2012 NCVO
[2] Clarke, J, Kane, D Wilding, K and Bass, P (2012) UK Civil Society Almanac 2012 NCVO
[3] BIS (2011) BIS Small Business Survey Department for Business Innovation and Skills
[4] Clarke, J, Kane, D Wilding, K and Bass, P (2012) UK Civil Society Almanac 2012 NCVO
[5] Delta/IFF (2007) Hidden Social Enterprises: Why we need to look again at the numbers
[6] Clarke, J, Kane, D Wilding, K and Bass, P (2012) UK Civil Society Almanac 2012 NCVO

The sector's income is generated from a wide range of sources. Individuals remain the primary source of the voluntary sector's income - at £14.3 billion in 2009/10, particularly for smaller organisations - while contracts and grants from statutory sources were worth £13.9 billion. There are sector variations; those whose major income derives from delivering employment and training services, for instance, are far more reliant on statutory sources than those with an environmental focus (18%)[7]. NPC's recent commissioning survey for the charitable sector examines this more fully.[8]

Social Enterprise UK suggest that assumptions around social enterprise business models as primarily deliverers of public services have been misplaced, arguing they tell "the lesser part of the story. The most common (37%) main source of income for social enterprises is in fact trade with the general public."[9] A study for the Department of Business backs this up, telling us that 69% of social enterprises earn income from trading including retail compared to just 18% of other civil society organisations (CSOs)[10], and 53% earned income from contracts as opposed to just 12% among other CSOs. Donations are the main source of income for under 0.5% of social enterprises surveyed by SEUK[11].

In any case, earned income now accounts for over half of the voluntary sector's total income, and a trend in public sector behaviour from grants to contracts has focused minds on the question of investment, finance or capital.

Investment, social investment and lending to VCSEs

Social Enterprise UK report that "lack of / poor access to / affordability of finance" is the number one barrier facing social enterprises and twice as significant as any other response. This compares to 'mainstream' SMEs who "rank the availability of finance as only their sixth greatest obstacle to success"[12]. For many VCSEs, investment can provide real opportunities (if at sustainable levels) with the potential to help an organisation scale up services, develop new projects and smooth out uneven cash-flow, for example. But, crucially, investment is not a mechanism to replace lost revenue from public sector cuts or falls in donations. Of course, there can be investment challenges unique to the VCS sector with many organisations, for example, unwilling or unable to issue equity or dividends.

Market developments in social investment

With the establishment of Big Society Capital[13] combined with increasing interest from public bodies, grant-makers and philanthropists, there is a real prospect of an emerging marketplace for those who want to invest

[7] Clarke, J, Kane, D Wilding, K and Bass, P (2012) UK Civil Society Almanac 2012 NCVO

[8] Hedley, S and Joy, I (2012) When the going gets tough: Charities' experiences of public sector commissioning

[9] Villeneuve-Smith, F, Jones, C, Mavra, L et al (2011) (2011) Fightback Britain: A report on the State of Social Enterprise survey Social Enterprise UK

[10] Business Support for Social Enterprises: Findings from a longitudinal study

[11] Villeneuve-Smith, F, Jones, C, Mavra, L et al (2011) (2011) Fightback Britain: A report on the State of Social Enterprise survey Social Enterprise UK

[12] Villeneuve-Smith, F, Jones, C, Mavra, L et al (2011) (2011) Fightback Britain: A report on the State of Social Enterprise survey Social Enterprise UK

[13] Big Society Capital , launched in April 2012, was established as the world's first social investment wholesaler with the aim of building the social investment market in the UK with up to £600 million in capital from dormant bank accounts and from investment by the big four UK high street banks. See www.bigsocietycapital.com

in social as well as financial returns. The loan portfolios of social lenders alone in the UK are now worth more than £500m[14] and lending in general to the VCSE sector is in excess of £3billion[15].

But there are several persistent problems in the market. The first is that investment cannot be the answer for all - investment can help develop income but cannot replace it. It may involve significant risk which an organisation is unable to absorb and is only appropriate in certain circumstances. So, there is a judgement to be made about whether it is suitable or not. This is the early stages of investment readiness - sufficient awareness and then knowledge to judge whether to pursue the possibility further.

Second, as Dan Corry, Chief Executive of New Philanthropy Capital, puts it: “Many charities and social enterprises are still confused as to exactly what social investment is.” There is further confusion around what constitutes the terms of a social investment. Some - such as the Government and Big Society Capital - insist that social investment must deliver a financial return, and some providers - Triodos, Charity Bank and Unity Trust Bank - offer investment on broadly commercial terms, much like their high street counterparts who, indeed, also lend to the sector.

Meanwhile, others prefer to use the term ‘investment’ to mean expecting social returns without a financial return. The Big Lottery Fund, for example, in their latest strategic framework, refers to “£2.8 billion invested in communities across England” (although no financial return is expected, only social returns)[16]. This is backed up by Hines[17], who points out that different concepts of ‘return on investment’ between finance providers and SEs create further barriers to raising awareness about suitable finance. This is another aspect of investment readiness – willingness to engage with investors on their terms.

The Big Lottery Fund and social investment

The Big Lottery Fund has commissioned this research as part of their commitment to being an intelligent funder. While BIG’s new policy directions in England provide them with a fresh mandate to “consider further opportunities to support the growing social investment market", the Big Lottery Fund remains critically aware of its responsibility to position itself in the market with a clear rationale, not least in the light of recent and on-going interventions in financial markets by other public or quasi-public bodies, including the Cabinet Office, the Department for Business, the Department for Communities and Local Government, NESTA, Big Society Capital, HM Treasury, the Bank of England and others.

The Big Lottery Fund’s commitment to understanding and supporting organisations to be ready to secure investment where appropriate, could be of fundamental importance to the UK social sector’s development. The Big Lottery Fund has already played a key role in the development of the UK social investment market, through:

---

[14] Known loan book size of Triodos Bank, UK (> £500m) and Charity Bank (> £50m, as of 2010).

[15] Clarke, J, Kane, D Wilding, K and Bass, P (2012) UK Civil Society Almanac 2012 NCVO

[16] Perhaps somewhere between these extremes is a definition with a grounding in government accounting and economic theory which would define social investment as having primarily a social purpose, which may deliver financial return and which is intended to have an impact on the investee beyond the current financial year. This would allow for capital grants as well as debt and equity.

[17] Frances Hines, (2005) "Viable social enterprise: an evaluation of business support to social enterprises" Social Enterprise Journal Emerald

- Early adoption of the pilot Social Impact Bond
- Interim management of the Big Society Investment Fund
- Support for UnLtd's Big Venture Challenge programme to 25 high potential social enterprises
- 'Next Steps' programme of support to create missing infrastructure by supporting the development of financial intermediaries

With the Big Lottery Fund's unparalleled reach into communities across the UK and its existing support, it is a key player in identifying, and possibly nurturing, the potential pipeline of future investable organisations. We aim for this report to add to their intelligent use of resources to continue to support the sector in doing what it does best.

2. INVESTMENT READINESS

In this section we look at what investment readiness means, describe our typology of investment readiness and draw some comparisons with those problems shared with the 'mainstream' experience. We also seek to dispel certain myths around the social sector as recipients of investment.

A definition

In order to arrive at a constructive definition and understanding of investment readiness, we propose that the term should be used:

- Regardless of the motivation of the investor – be they social, community or conventional financial institutions or otherwise
- In the context of repayable finance
- With regard to the existence of actual investors in the market – not an abstract theoretical model of investment readiness which serves no practical purpose

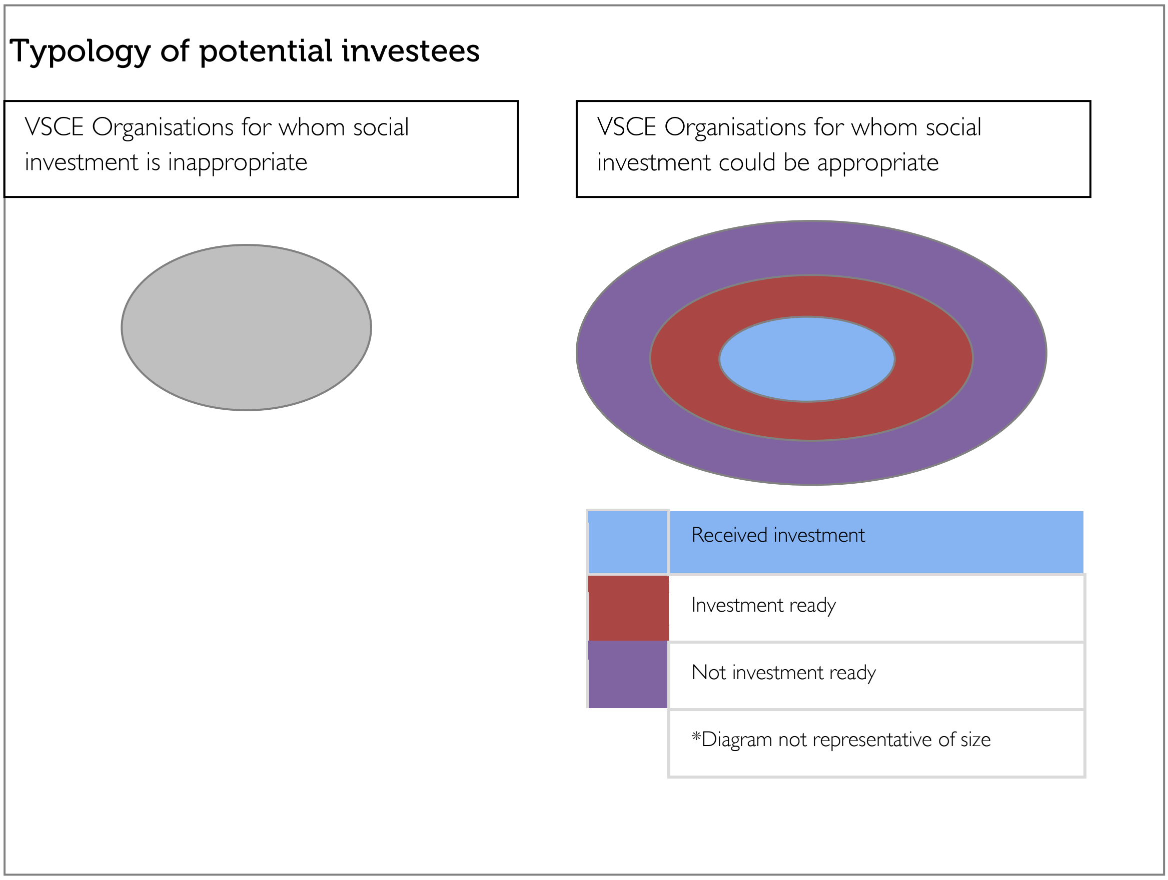
For the purposes of this report we therefore define investment readiness as "an investee being perceived to possess the attributes, which makes them an investible proposition by an appropriate investor for the finance they are seeking.". Investment awareness is a vital part of the picture and many of the skills that are required to reach investment readiness are also crucial to being business ready – whether or not investment is finally sought.

An emerging and shifting market

There is currently a highly active market building process underway in the social investment market. New infrastructure, such as the creation of Big Society Capital, combined with emergence of different funds and products, is creating a complex changing marketplace. This is occurring locally, regionally and nationally, across the UK, at the European level and internationally. Additionally, investors and investees, intermediaries, brokers and specialist advisors enter this market from different starting points, with a variety of motivations and expectations. The knowledge levels and experiences of investing in the social sector are also highly varied. Cumulatively, these dynamics have a significant effect on the various perceptions of what it means to be *investment ready*.

Investment readiness is often widely understood as a *state,* which comprises a number of key characteristics, much like business readiness or market readiness. But what it means to be investment ready will vary from one investee to another and is determined to a significant degree by the eye of the beholder – in this case the investor. We use the following typology to categorise an organisation's perception of its own state of readiness for investment.

An investment readiness typology*



There may be discrepancy between where an organisation perceives itself to be and where it is judged to be by an investor or intermediary. Investment readiness is not solely in the eye of the beholder, the potential investee must also itself become investment *aware*.

Who provides what?

Examples of investment readiness support include:

Types of support available	Key providers and content
Seminars and workshops, master classes	Useful to convey generic information and act as a basic filter (provided by NPC, the Young Foundation and others)
Bespoke business support	Services for those close to investment (ClearlySo and others) including pitching
Informal support	Word of mouth, ad hoc mentoring and reviewing

Challenge packages, competitions and awards	Based on competitions with limited winners (such as UnLtd, Deloitte Pioneers, Social Business Trust, Impetus Trust, etc.)
One-to-one support	For those near to the point of investment (which can be provided by investors and is often required after investment)
Mentoring	Including from experienced social or 'mainstream' entrepreneurs, but quality is hard to monitor
Peer-to-peer	Support and mentoring schemes (City Action, Impact Generation, Heart of the City and others)
Information sites	For help with navigation, presentation and diagnosis (such as NCVO, Social Enterprise UK and others)
Private providers	Ranging in depth, accessibility, price and quality (Setas[18] and others including mainstream providers)
Professional firms and technical support	Accountancy, legal, financial by experts with specialist knowledge of the sector
Courses	Accredited or otherwise, can be integrated into other business or management qualifications; specific social enterprise training e.g. Ulster University, School for Social Entrepreneurs
Expert support	Pools of specialist expertise brought in to an organisation or provides services provided on an outsourced basis to build up skill level; difficulty ensuring transfer of skills and knowledge occurs

Is there an investment readiness problem?

There is something of a conundrum in the social investment market. Despite the evidence of demand for finance, "the social investment market remains embryonic and inefficient" as the Cabinet Office suggests[19]. After a number of years bemoaning the lack of access to capital and suggesting that "if you build it they will come"[20], the emphasis has shifted amongst the experts to regret the absence of investment ready propositions.

[18] www.setas.co.uk – a database of investment and business support providers

[19] Cabinet Office (2011) *Growing the Social Investment Market: A vision and strategy*

[20] Sir Ronald Cohen

In the midst of a global credit crisis and with access to finance at the top of social ventures' concerns, we perversely see significant pools of unapplied capital with slow dispersal rates.

Successive governments have spent (or "invested") significant sums in the last decade - over £400m in Community Builders, Future Builders, the Social Enterprise Investment Fund and other mixed grant/loan funds - to support organisations towards investment. But while these programmes have no doubt supported a number of individual organisations, at a systemic level the investment readiness of the sector as a whole is still perceived to be lacking.

Furthermore, it seems that significant time and resources are being wasted by applicants and investors alike in working - but failing - to secure deals. This increases transaction costs and market inefficiencies and could be considered as a market failure. Conversion rates among social investors, (not including government-backed soft loan and grant funds) appear to sit between 5% and 15%[21]. At one extreme, Community Builders had 4000 enquiries leading to 200 applications and 37 investees – equivalent to less than a 1% conversion rate and thus a significant mismatch of perceptions between investors and applicants.

So the problem of investment readiness appears to be a major cause of drag to the acceleration of social investment. This raises a series of questions in relation to our typology which suggest that organisations may be wrongly categorised:

- Are there organisations who could receive investment, but who are not seeking it? (*Are organisations wrongly self-categorising themselves in our circle on the left of the page, but are actually somewhere on the right?)*
- Are the 'wrong' organisations seeking investment? (*Is the group on the left applying?)*
- Are the right organisations seeking it, but at the wrong time or without proper preparation? (*Are the organisations in the outer circle, rather than those in the inner circle approaching investors – just not yet ready?)*

An efficient market, supported by appropriate investment readiness provision, should help to identify organisations correctly by 'typology' at any given time and then provide the appropriate investment readiness support.

Challenging the myths of the social sector

There are some myths which investors in particular often identify as potential barriers for engaging in social investment[22]. There is also a danger that talk of the lack of investment readiness of the VCSE sector implies that somehow the sector is *failing*, and worse, that this is somehow the *sector's fault*. In fact, many organisations are overcoming significant odds and doing a remarkable job in surviving and continuing to deliver crucial services to the people they exist to serve.

[21] Triodos and Charity Bank conversion rates from initial applications

[22] Hill, K, ClearlySo (2011) Investor Perspectives on Social Enterprise Financing: City of London, City Bridge Trust and Big Lottery Fund

Recent evidence suggests that social enterprises and co-operatives appear to be performing better in terms of profitability, growth rates and in terms of numbers of new start -ups[23] (let alone in terms of social impact). With this in mind, we should be careful not to succumb to several myths with respect to the VCSE sector. These could be represented as:

- **Myth 1: VCSE sector is not business-like:** yet a report undertaken for BIS[24] suggests that VSCE organisations were more likely to possess a current business plan than non-VCSE organisations. This is borne out by all our case studies
- **Myth 2: Social enterprises cannot issue equity (shares)**: evidence suggests that 4%[25] of social enterprises sought to issue equity (e.g. CICs limited by share) whereas the Government report that less than 3%[26] of SMEs seek equity finance
- **Myth 3: The social sector is riskier or less attractive to invest in:** research suggests "little evidence that social enterprises are either riskier or less well understood ... no significant difference between social enterprises and mainstream businesses in the number that had been rejected"[27]
- **Myth 4: Social enterprises are not successful in raising finance**: Social Enterprise UK's annual survey of the sector indicated that 71% of social enterprises surveyed had obtained at least three-quarters of the finance they requested

This is not to say there is no truth at all in some of these perceptions for certain organisations or sub-sectors. The evidence can be conflicting, from a ground-breaking report by the Bank of England in 2003[28] through to a recent report on behalf of the Department for Business[29] almost a decade later.. We should therefore be careful to draw wider conclusions from anecdotes and acknowledge that while there are indeed problems in the market for access to finance for social enterprises and voluntary organisations, these may not necessarily be *social*-specific problems. Consequently, those looking at the investment readiness of the social sector may have much to learn from the mainstream experience of investment readiness.

Comparison with the mainstream SME market

As the VCSE sector has moved, reluctantly or enthusiastically, towards more commercial models and as competition for grants increases and government-backed grant and soft loan funds dry up, so their quest for finance places them on a more even footing with their SME counterparts, particularly when seeking loan finance. A social bank or a mainstream bank will require the same degree of rigour to show an ability to repay

[23] Villeneuve-Smith, F, Jones, C, Mavra, L et al (2011) (2011) Fightback Britain: A report on the State of Social Enterprise survey Social Enterprise UK and RBS SE 100

[24] Allinson, G, Braidford, P, Houston, M, Robinson, F and Stone, I (2011) Business Support for Social Enterprises: Findings from a Longitudinal Study University of Durham

[25] Villeneuve-Smith, F, Jones, C, Mavra, L et al (2011) (2011) Fightback Britain: A report on the State of Social Enterprise survey Social Enterprise UK

[26] Allinson, G, Braidford, P, Houston, M, Robinson, F and Stone, I (2011) Business Support for Social Enterprises: Findings from a Longitudinal Study University of Durham

[27] Allinson, G, Braidford, P, Houston, M, Robinson, F and Stone, I (2011) Business Support for Social Enterprises: Findings from a Longitudinal Study University of Durham

[28] Bank of England (2003) *The Financing of Social Enterprises: A Special Report by the Bank of England*

[29] See above references for University of Durham report

finance. Yet, the provision of investment readiness support has remained largely separate, to date, even though many similar issues are faced.

Parallels with investment readiness in the mainstream markets

The mainstream SME market also faces significant challenges around investment readiness with much existing research[30] highlighting the weakness of investment propositions. Inevitably, voluntary sector organisations and social enterprise will suffer from many of the same issues as SMEs in accessing finance. Established 'mainstream' investment readiness research[31] suggests the following problems:

- Weaknesses in the entrepreneur/management team; marketing and market-related factors, notably flawed or incomplete marketing strategies; and financial considerations, notably flawed financial projections
- Businesses which operate in highly competitive markets; lack of a unique selling point
- Insufficient information provided, business concept requires further development
- Limited growth prospects of the business, inability to demonstrate that there were sufficient potential customers to warrant the new business
- Presentational failings
- High level of equity aversion amongst entrepreneurs
- Lack of good fit between investment proposition and investment criteria

Angel Capital Group provides investment readiness provision for SMEs around three key features: a) positioning in the marketplace b) developing attractiveness to the investor and c) pitching the message and opportunity correctly. Mill Consultancy, which provides services for small mainstream start-ups as well as some social organisations, reflected very similar priorities for SME support.

There is now a growing recognition that "improving the access of SMEs to finance is not exclusively a supply-side issue. The impact of an increase in the supply of early stage venture capital will be limited because many of the businesses that come forward are not investment ready"[32]. This applies equally to the social sector.

[30] E.g. Mason, C and Kwok, J (2010) Facilitating Access to Finance: Discussion Paper on Investment Readiness Programmes OECD/EU

[31] Mason, C and Kwok, J (2010) Facilitating Access to Finance: Discussion Paper on Investment Readiness Programmes OECD/EU

[32] Mason, C and Kwok, J (2010) Facilitating Access to Finance: Discussion Paper on Investment Readiness Programmes OECD/EU

3. RESEARCH METHODOLOGY

This report follows a programme of research using the methodology outlined below.

Literature and media review

There is a considerable and diverse body of evidence exploring the issue of investment readiness. While much of this is focused on 'mainstream' access to finance, we have also examined the available evidence in the social investment arena; challenges that investment readiness programmes aim to tackle; and key features, gaps and best practice of previous and current investment readiness programmes. This also helped us to identify appropriate interviewees below.

Interviews

Interviews were undertaken with over forty stakeholders whom we knew had some interest in this sector. We list these in the Annex C. The aim here was to collect perspectives on the issue of investment readiness in the sector, taking into account a balance of perspectives and the varying levels of activity from investors, investees and intermediaries from around the four countries of the UK and regions of England. In each region we met with a sample of investors, intermediaries and investees as part of this research.

Survey

The survey was sent out to 7,420 UK voluntary and community organisations and social enterprises drawn from databases held by the Big Lottery Fund and ClearlySo. The survey was open for three weeks, from 12 April to 3 May 2012. Organisations were contacted about the survey by email, and completed the survey online. 1,255 organisations completed the survey, which equates to a response rate of 17%. We provide full details of the databases in Annex D.

The response rate to the survey was very good, comparing favourably with response rates of other online surveys. This means that we can be more confident that it is representative of our survey sample. However, there is still likely to be selection in terms of what organisations are included on the Big Lottery Fund's and ClearlySo's databases and some self-selection in terms of which type of organisations were more likely to complete the survey. We provide further explanation of this in Annex D. We analysed our findings using the 'dartboard typology' described in Section 2 on investment readiness.

Case studies

We carried out five case studies which were selected to ensure an appropriate spread across business models, sectors, sizes, countries of the UK and types of finance sought. These are not integrated into this report but informed us of key issues facing organisations when preparing to take on investment. They would be representatives, on the dartboard typology of organisations illustrated in the 'bullseye' as they are examples of organisations that have successfully secured repayable finance.

4. INVESTORS' PERSPECTIVES

In this section, we examine the investor community's perceptions of the investment readiness of the voluntary and social enterprise sector, the issues which need to be addressed and their views on the provision of support. We also aim to reveal the issues that investors face in seeking out the investment-ready organisations from the many requests for finance that they receive.

Who are social investors?

The sheer diversity of investors makes it difficult to summarise their perspectives. They range from individual investors of varying backgrounds (sometimes via crowd-funding platforms[33]) through to public sector, philanthropic institutions, foundations, and mainstream institutional investors, including high street banks. These investors have different perspectives on the importance of social impact: for the mainstream bank lenders, there are few if any demands as to how impact is generated or measured. For social investors, the creation of social benefit as a primary purpose of the organisation is a 'filter' through which potential investees must pass. Beyond that, the creation and / or measurement of social impact is rarely a deal-breaker[34].

There are two distinct extremes of the investor community: the philanthropic end and the commercially focused end. They offer diverse perspectives, for example on the growth of the sector and investor expectations of investment readiness itself.

Investors' views on the readiness of the VCSE sector

"Massive gaps in education exist" Isobel Newman, Investment Manager, Venturesome

"Investment is about very long term relationship building" Caroline Mason, BSC Chief Operating Officer

"Potential investees need clear signposting about type, stage, sector, suitability for investment" Suzanne Biegel, Catalyst at Large

Our interviews, combined with a round table held by the Big Lottery Fund in January 2012, identified the following investment readiness issues by investors:

- Lack of awareness by many VCSEs of what social investment is and what it involves
- Lack of signposting for types of support available, what is required
- Lack of knowledge of when to consider investment as part of the overall business development package

[33] Provides a network and an opportunity for individuals to pool money and other resources together, usually via the internet, to support efforts initiated by other people or organisations

[34] This opinion formed in interviews is backed up by other research including Hill, K, ClearlySo (2011) Investor Perspectives on Social Enterprise Financing City of London, City Bridge Trust and Big Lottery Fund

- The length of the journey to investment readiness is very long: often 18 months or more
- Lack of strategic thinking around use of investment and when to engage with it

Investors suggested that the most significant support need was among organisations who were seeking finance of less than £500,000. This affects the ratio of effort and reward and therefore the investor's appetite to provide support. Nevertheless, there is evidence of much pro-bono support offered by a range of social investors to organisations, in spite of the lack of financial benefit it brings. From interviews, we identified a series of characteristics which represent barriers to becoming investment ready.

Barriers to becoming investment ready

Investors identified an array of specific barriers to investment readiness confronted by VCSEs. These included concerns around basic business acumen, skills of management and board, marketing and financial management in particular. Investors suggested that advice and support was needed for both investor and investee throughout the process and beyond investment. Interviewees suggested that these barriers existed irrespective of the type of finance that was sought. This suggests that investors have a minimum level of 'readiness' across these parameters, whether seeking asset backed loan or higher risk growth capital. We can assume investors see this as a further way to minimise the risks of their investments.

Filtering those with a proven business model

"Organisations need to prove they have a model that is not just at pilot stage...they need mostly to go out and sell more of something even if it isn't the perfect product" Dan Brewer, CEO of Resonance

" There is a need to filter, to screen out those nowhere near ready"
Suzanne Biegel , Founder of Clearly Social Angels, - a view shared by other investors

Perhaps most frequently, investors reported fundamental weakness in organisations' understanding of their basic business model. The absence of a filter and/or weak, patchy or ineffective signposting, partly explains the poor conversion rates from applications to loans described earlier. On occasions, investors do make good use of the filtering that competitions, award schemes and other selective programmes offer to 'pick off' those which, in our typology, are closer to the 'bulls-eye' of securing investment. But without proper signposting and access to support, the market does not appear to operate very effectively.

Embedding the necessary financial skills requires special attention

Investors reported that part of the challenge in proving a robust business model is the shortage of financial skills, including financial strategy skills. These skills, which are not necessarily required and are significantly different from those required to manage grant funds, enable organisations not only to state their current financial position but to think and model how investment can be used as a tool for future development of the organisation. Lack of this skill was the most regularly quoted problem expressed by investors. Common concerns were also raised around the skills of senior management teams.

Ideas to provide a pool of financial expertise for organisations to draw on in order to embed the financial skills into the organisation were suggested by Dan Brewer, CEO of Resonance, who argued "we need more willing external Financial Directors to give a day a week for six months". Danyal Sattar from the Esmée Fairbairn Foundation also agreed that 'jobbing Finance Directors' (as used in the mainstream SME sector) could enhance the internal financial capacity as long as skills are transferred to the 'home team'.

Governance & management skills – role for mentoring, coaching and peer support

"There is a strong role for coaching on a 1:1 basis to work alongside the lonely role of an entrepreneur"
Graham Hodgkin, Signposts Advisors Ltd

"Collaborative programmes help peers support each other, are cost effective and good stepping stones for more bespoke support as required"
Niamh Goggin from Charity Bank, Northern Ireland

"Peer mentoring is good but often not enough and there is really patchy provision, and in depth consulting support is expensive"
Ed Siegel, Investment Director at Big Issue Invest

The need for support for those leaders who are taking organisations through significant cultural changes is important to recognise. Of course it is critical to have a sufficiently high quality management *team*. One investor felt that the stigma attached to financial management in charities was a hindrance in attracting sufficient numbers of talented finance directors and that this was an important issue to address in recruitment policy for the sector.

The potential benefit of mentoring was emphasised by Jonathan McAlpin, Director of Operations at Ulster Community Investment Trust, who also valued the merits of informal peer support, although this is difficult to do well and consistently and to monitor and evaluate the effect.

Help generate access to marketplace opportunities

Investors identified *market readiness* as lacking. James Perry of Panahpur, a charitable foundation which is seeking to dedicate 100% of its endowment income to social investment, identified the difficulty for delivery organisations to get themselves into the marketplace. He suggests the use of an 'agent' to promote their services to potential purchasers of the outcomes that they can deliver. Such a service could be funded by a payment on commission, or on a retainer basis and is not dissimilar to the way charities pay fundraisers to promote their donation stream. In fact, there is a potential role for investors to help organisations see fundraisers in the much broader commercial context alongside financial and capital development plans for an organisation, rather than an 'either donation or investment' mind-set.

Investors' own investment readiness needs

> *"Investors also need help with landscape analysis, as well as comparable valuations, comparable exits, investment structures, and legal/technical due diligence…the investor landscape is very mixed, not well coordinated, and with vastly different experience, expectations, and expertise"*
>
> Suzanne Biegel, Founder, Clearly Social Angels

Investors themselves often argue that they require filtering, signposting, due diligence and deal structuring support. These services can be expensive and time consuming but are nevertheless vital to ensuring good investment deals are made. However, there is a perception that limited detailed expertise is available across the range of sectors in which those seeking social investment operate, making it difficult to judge the market opportunities and potential challenges faced[35]. Most social angel investors, for example, have not had a background in the social sector but are 'cashed-out mainstream entrepreneurs'. A charitable trust that has recently entered into social investment identified the difficulty and time taken in structuring financial deals with investees, as this was uncharted territory for them.

The problems faced by investors include pricing an investment, costing in the risk and deciding on the detailed agreements. The shortage of templates and examples to draw on adds to these problems. The shortage of due diligence facilities across the sector adds to the need for investors to 'play safe' and may partially explain the heavy proportion of lending in this sector which is asset backed.

Charitable Trusts who are engaged in investment have even fewer resources to support their development of their investment portfolio than social investment fund managers, with investment a small part of a Trust's function, not its main purpose. This affects the role that can reasonably be played in supporting and guiding organisations in the run up to an investment. Without additional resources, there will be a limit to the capacity for social investors to judge fully the true investment readiness of an organisation and this sets the bar higher for potential investees to reach before approaching investors. External support and advisory services for such investors may be an appropriate response, currently undergoing feasibility analysis by Social Finance Ltd, for example.

[35] This seems remarkable in the context of the huge number of public sector consultants and recently redundant civil servants.

Specific issues around investment for delivering public sector contracts

There are particular complexities for both investors and investees around developing packages for Payment by Results contracts. Under a Social Impact Bond-type model, investors may effectively contract directly with commissioners, and in so doing change the typical relationship with an investee, which instead becomes more like part of the supply chain. Investors considering such structures expressed real need for advice and guidance on the contingencies faced, recognising that the contract complexity adds considerable transaction costs to the deal. As one active social investor stated: "The cost to effort ratio for investors can be problematic".

Community asset transfers can also pose problems as they can be hugely complex and take considerable time, which stretches investors' appetite to the limit. Specialist support on a range of different financial issues, such as are offered by organisations such as Locality and Development Trust Partnerships in Northern Ireland, help to meet this need.

Sustainable funding of investment readiness for investees and investors

Investors offered a number of perspectives on how provision for expensive pre-investment support and due diligence should be generated, paid for, accessed, structured and delivered, particularly following the closure or wind-down of Government-funded programmes such as capacity builders. There is much agreement on the need to develop a more strategic (and less scavenger-like) approach to both the search for investment and the provision of investment readiness support.

Pools of investment readiness support to draw on

Many investors were attracted by the idea of a pool of investment readiness support or a greater role for the Impetus Trust and Social Business Trust-type models. These models offer pools of experienced mainstream support from top-flight consultancy firms to a highly selected portfolio of organisations that have been filtered out through selective competitive process (success rates to receive the support can be as low as under 1%). These 'incubator' type programmes are funded by venture philanthropy and are much sought after. They are not directly intended as investment readiness programmes, but as general business development support. They act as a filter and provide much of the reassurance that investors seek in a deal. This reduces the costs incurred at due diligence stage and enables an investor to dispense with a wide range of initial (often pro-bono) support.

Role of grants to fund investment readiness support

"It's not worth wasting this [grant] money on any one pre-concept…[even when] granting money to those who have a business model but are pre-revenue, the route to sales needs to be VERY certain."
Daniel Brewer, Resonance Ltd

"Grants and investment complementing and supporting each other can be a really attractive model"
Ed Siegel, Big Issue Invest, with reference to the fund's investment into Cool2Care

There was much consensus on the continued use of grants, particularly with a view to supporting gaps in the market, as a way of funding certain aspects of investment readiness support. What is less clear is the appropriate size of grants, as a proportion of overall costs of support and the terms on which the grant should be offered. One investor felt £10,000 grants could make a huge difference to buying in bespoke support. Alternatively, grants should be larger in total, but 50% should be co-financed by the organisation to ensure buy-in. The Adventure Capital Fund suggested that support grants should definitely be below £75,000 in size and that the organisations supported pay themselves if they can. In comparison, mainstream SMEs have very few grant opportunities, with the exception of technology start–up grants from which to finance their investment readiness support.

Grants need to be carefully targeted. There is a risk that 'free money' may be wasted where the selection mechanisms to secure grants are so different to those for securing investment they fail to act as natural stepping stones to investment.

Multiple roles for investors

Danyal Sattar from the Esmée Fairbairn Foundation was one of the investors who highlighted the need to carefully distinguish between and clarify the relationship between investor, client and support provider, particularly when grants enter the equation. Several investors acknowledge that linking support with investment could pose challenges and create conflicts of interest. Intermediaries generally felt these functions should be separated (see Section 5). However, when the relationships between investee and investor, grants and investment, provider and purchaser are carefully constructed they can be attractive propositions, as the grants effectively de-risk the investment by providing the higher risk finance on different terms to investment.

While Cabinet Office suggest that their latest programme (see Section 5 on ICRF) will *"aim to pilot a model of financing investment readiness for potential pick up by the investors themselves in future if shown to be successful",* it is not clear the extent of investor appetite for funding investment readiness services. Not least because, as the Cabinet Office themselves also admit, "*social ventures can require extensive investment readiness support before they are ready to receive finance, and providing this can be prohibitively expensive for mainstream lender".*[36]. If is it not viable for mainstream lenders to fund such support, there is little evidence to suggest that specialist investors, with their fragile pipeline of investment opportunities and sometimes sub-commercial returns, would be able to fund this role either.

Investor perspectives in Northern Ireland

The main social investors in Northern Ireland are Ulster Community Investment Trust and Charity Bank, who account for approaching £30m and £3m of lending to the social sector respectively. The majority of this is providing asset backed lending. The four main retail banks of Northern Ireland have a lower profile of lending to this sector than in England. UCIT has worked with other English social financiers to attract a different sort of social investment to Northern Ireland but investible propositions have been thin on the ground. Grants have dominated the finance of the social economy and although there is the beginning of a decline of European and

[36] (2011) Growing the Social Investment Market: A vision and strategy Cabinet Office

government grants, the 'legacy of grant funding to voluntary and community organisations and social enterprises may have stifled demand' in Northern Ireland, leaving very weak appetite for finance, and then only really for loans. This is according to a recent report on the supply and demand for finance by the social sector, commissioned by the two leading social finance organisations in Northern Ireland - Ulster Community Investment Trust and Charity Bank[37].

Nevertheless, where demand was present, investors in Northern Ireland highlighted financial skills as a key barrier to investment readiness, as Niamh Goggin from Charity Bank describes a "lack of financial, accounting, book keeping and cash flow understanding". In response to this, Charity Bank Northern Ireland took action and established - with partners Atlantic Philanthropies and Sector Matters - an accredited one year course on investment readiness at Ulster University for which charity CEOs applied to attend. This is now in its first year. (See Annex A for further details on investment readiness provision).

The catalyst for an increase in demand for social investment is likely in part to arise from an interest of developing community based organisations, once the policy basis is in place. A mapping exercise of the role and opportunities open to VCSEs has recently been commissioned by the Department of Enterprise, Trade and Investment (DETI), and a charities register is currently in development. A government Social Investment Fund, which provides a mixture of grants and loans for general social and economic development, has been launched in May this year. All these building blocks will help to build the knowledge before the market for social investment is likely to flourish.

Investor perspectives in Scotland

In Scotland, the potential size of the marketplace for social investment is hard to ascertain. Demand for finance partly depends on the availability of other sources of finance, including grants. The VCSE sector has been predominantly financed through public funds, which provide grants and soft loans to social organisations. The main provider of this finance is Social Investment Scotland (SIS) with a current combined loan and grant book of c£35m. The Big Lottery Fund is also a large provider of grants to support the sector as it develops, and often its grants play a role as cornerstone funder to support SIS loans. Royal Bank of Scotland also provides predominantly asset backed lending to the sector through its Community Business Loan Fund. The social private equity investment field is currently largely under-developed, although Big Issue Invest is interested in opportunities within Scotland, as they emerge. Venture philanthropy has been more prominent than private models of social investment to date. Anecdotally, it was suggested that there is a cultural barrier in being perceived to provide repayable finance for social good, rather than donations. Angel investment into VCSEs is largely thought to be operating on a philanthropic basis. The US philanthropic trust, Omidyar, is granting social finance to support the expansion of Social Impact Bonds in various countries, including Scotland[38].

Demand for repayable finance is also influenced by the marketplace for VCSEs to sell their goods and services. With a heavy public sector and a lack of public procurement opportunities to tender for, the VCSEs struggle to

---

[37] Charity Bank and Ulster Community Investment Trust (2012) Social Finance in Northern Ireland: Innovative Thinking and Action Ecorys

[38] Cabinet office (2012) Growing the Social Investment Market: Progress Update Cabinet Office

reach a level of scale. Without this, new investors are reluctant to come forward to supply finance. However, as the Scottish Government is increasingly interested in developing preventative initiatives that help reduce its forecasted rising budget deficit[39], it has examined the possibility for Social Impact Bonds in a few key sectors around employment and vulnerable children. This has generated a surprising source of previously untapped interest in supplying capital to VCSEs. The first Social Impact Bond project in Scotland will fund Perth-based YMCA's charity work with young people. Jill McGraith, the YMCA's Acting Chief Executive, said: "We thought there would be a couple of big investors but what happened was small individuals and businesses came forward." Church congregations offered their financial support to this contract and were able to make decisions in time to meet the very tight deadlines of DWP. Larger organisations struggled to provide finance within the tight time-frame. There would be great benefit to getting to grips with the full range of opportunities that might exist within Scotland for greater development of social investment to finance social innovation and social provision. The related investment support could then be tailored to suit Scotland's investors' and investees' specific needs.

Investor perspectives in Wales

In Wales, there has been a considerable grant support for the VCSE sector from public funds, which are on-going. However, these exist alongside lending from both mainstream banks and social lenders such as Charity Bank Wales, which managed an investment fund for recycling organisations from 2008 -2011. The Welsh Assembly Government's Community Investment Fund took inspiration and learned lessons from the Futurebuilders experience in England and operates a fund of up to £6m, which includes packages of grants for investment readiness of up to £20k.

Further business support is provided, among others, by the WCVA and at the local level and by the Wales Co-operative Centre which offers relatively high-end business support. Sometimes, these streams can be brought together as a package and such support is likely to continue for a while yet, funded by Brussels and the Welsh Assembly Government. There is some consensus, however, that gaps exist in terms of early but expert 'culture-change' support and latter-stage long-term 'hands-on' mentoring.

Summary of key points raised by investors

- Financial skills of all kinds were the most common barriers to securing investment
- Organisations often approach investors too early without securing the fundamentals of their business plan
- Signposting of organisations to sources of relevant support is weak and the support is not available, inaccessible or just too expensive to be taken up; mostly investors have limited resources to provide it themselves
- Filtering systems, which are currently unavailable or ineffective, should be developed

[39] Christie Commission (2011) Commission on the Future Delivery of Public Services APS Group Scotland

- The range of investment opportunities open to investors is muddled, badly co-ordinated and the experience of the social sector by investors is very mixed
- Complex financial packages, particularly involving payment by results contracts are difficult; there are few objective experts in the field to advise on pricing and structuring of deals
- Funding of investment readiness through grants should be provided with great caution, with appropriate funding mix, in collaboration with investors, to ensure commitment maximises entrepreneurial potential of the grantee
- Advice and support was needed for both investor and investee throughout the process and beyond investment
- It will take time through greater deal flow to develop comprehensive sector specific social investment expertise

5. INTERMEDIARIES' PERSPECTIVES

Intermediaries – who are they?

Interviews with a range of relevant intermediaries, including support providers, grant-makers and public bodies have provided us with a useful, third party perspective which is distinct from that of either the investor or investee community.

The financial intermediary is one such service provider: its role is to act as a bridge between the social enterprise or investee and the financier. Other intermediaries are information providers, policy coordinators, and business support providers. Some organisations such as the Big Lottery Fund have more than one role – they are investors, grant-makers and increasingly involved in policy around social investment, as well as also considering other options open to them. For these reasons alone it is important to capture their views on investment readiness needs.

The readiness of voluntary sector and social enterprises to receive investment

"Providing high quality advice to assist social entrepreneurs raise capital requires the commitment of a significant amount of resources"
Elizabeth Corrado, Investment Advisor, ClearlySo

"Entrepreneurs need advice and help on landscape analysis, competitor analysis, market size and revenue streams"
Suzanne Biegel, Clearly Social Angels

"*There are different needs for small organisations, ambitious 'scalable' organisations and asset backed community businesses*"
Hugh Rolo, Locality

The overriding message from intermediaries is that the culture or mind-set change from a traditional charitable model to a business model is challenging and takes time. This transition requires a huge commitment of effort and resources: even award winners and visionaries need a huge amount of tailored support because the business model is complex, often operating where there is some degree of market failure. Intermediaries also emphasised the range of diverse support required at different stages in the development of organisations' business models with the need to differentiate between context, investment needs and market segments.

The role of intermediaries in supporting investment readiness

Social Business Trust and Deloitte, in developing their incubator or Social Pioneers Programmes, believe that it is critical for the development of the sector that promising ambitious social ventures receive the same high quality support as their mainstream counterparts. On Purpose is unique in providing training for future social entrepreneurs alongside learning by doing – it places selected paid apprentices in social enterprises to learn on the job and supplements this with expert consultancy support. This way they develop the know-how to use in their own enterprises at a later stage.

Characteristics of barriers to investment readiness

The Cabinet Office identifies the investment readiness need as including "help with developing a business plan; training in financial skills, for example help with making cash flow projections; help with building credible, rigorous business cases; and help with understanding the types of capital available, as appropriate to the needs of individual social ventures, and where to get it". Our research suggested the following areas, with variations across the UK, outlined later in this chapter:

1. Lack of a credible business model

Whereas investors tended to express the key weakness as financial, intermediaries tended to describe the problem in terms of the lack of understanding of the business model. James Wise from the Social Business Trust sums up the overarching message that many organisations simply did not have "a sustainable business model". UnLtd supports this view, arguing that there are significant problems with awareness about what it takes to scale up and the level of skills required to build a business. This may actually reflect the different roles that each play in evaluating the same problem – an organisation which does not provide a convincing case fails to attract investment. Furthermore, a shortage of financial skills may make it difficult to spot the flaws in a business model.

While intermediaries describe how the investment readiness journey can have a range of 'entry points' and is not necessarily a linear one, Jo Hill from UnLtd reports how most organisations "apply far too soon in their business journey". Jo also agrees that "the largest weaknesses in propositions are the lack of clarity and focus from the entrepreneur".

Meredith Niles from the Impetus Trust adds some additional concerns to the conventional wisdom of risk adverse boards, adding that "help with navigating financial implications of PBR-type structured contracts and monitoring of outcomes" are also significant issues.

2. Lack of coordinated support across the full range needed

Interviewees made the distinction between the type of support required and how it should be delivered at different stages, with the suggestion that there was too much focus on early stage support and very little latter stage. Nick Temple from SEUK describes how there is "lots of early introductory information available – mass market stuff" but believes progress can still be made with "slightly more diagnostic material". Meredith from Impetus agrees, suggesting "first, provide workshops and off the shelf guidance, save the tailored support for those further forward". Helping organisations understand their strengths, weaknesses and what they would need to do to become investment readiness would enable support to be targeted to those most likely to benefit from it.

While UnLtd argue for regular, targeted strategic 'call-outs' by intermediaries and providers of investment readiness, Jo Hill recognises the desirability of "better coordination of intermediaries – pooling and signposting" or in other words, joining up the dots. One proposal to emerge from the first round of Big Venture Challenge 1 is to convene a panel which would help signpost unsuccessful organisations to the appropriate support required, based on an assessment of their needs. This could save considerable time, money and effort at many levels. Nick Temple from Social Enterprise UK suggested that grant-makers and BIG in particular potentially have a catalytic role in this respect as their "clear route to market makes it possible for them to able to provide a potential pipeline and play a referral role".

3. Use of peer support and mentoring – decoupled from investment

There were many concerns about the quality and coverage of investment readiness. While Jo Hill and others praised collaborative, peer-led and entrepreneur-led models along the lines of "signposting and peer groups and networking to help people move forward at these early stages", many took the view that the quality of support models could be much improved. Elizabeth Corrado - Investment Advisor at ClearlySo - suggests that, for example, "mentoring is not always of consistent quality and, by its very nature, is often focused on senior, high level support. Social entrepreneurs often require greater hands on commitment of time, resource and expertise across a broad spectrum of advisory services which are commonly interlinked".

In terms of how support can be effectively provided, Alistair Wilson from the School for Social Entrepreneurs was one of a number of interviewees who supported the model of "cohorts of peer support" while James Wise from the Social Business Trust is keen to emphasise that "social enterprises miss out on the professional support offered for mainstream businesses". A number of interviewees expressed the need to "decouple the support from the capital." This is echoed by Alistair Wilson who argues that investors and support organisations should think creatively about how to provide distance between their support and investment functions.

The Investment and Contract Readiness Fund

The Cabinet Office's £10 million ICR Fund, delivered by the Social Investment Business, is designed to help ambitious social ventures looking to scale up but that are not yet 'investment ready' or ready to win a public service contract. However, they seek to raise investment or bid for a contract to the value of £500,000 or more in the next 3 years. The ICR Fund funds a partnership between an investment support provider and an enterprise to identify and fund appropriate expert, professional, technical, financial, business or other advisory support services with regard to business planning, proving impact, building financial management systems and strengthening senior management teams, among other areas. The fund is led by an "Investors Panel" comprising some of the key players in the social investment market – including Big Issue Invest, Big Lottery Fund, Bridges Ventures, CAF Venturesome, Deutsche Bank, Esmée Fairbairn, Finance South East, NESTA, Panahpur, RBS/Nat West, the Social Investment Business, Triodos Bank and is chaired by Big Society Capital. The ICR Fund expects to provide around 130 investment grants of between £50,000 and £150,000 over the three years which will allow organisations to pay suppliers of advisory services.

The ICRF is designed such that it could be an ‘evergreen’ fund, in to which further capital is brought in to develop or extend its reach and scope. Currently only four investment readiness providers have been approved, and all are financial intermediaries. If the fund’s model were to be used for less ‘developed’ organisations, it may need to make greater use of the investment support services required at earlier stages of development, including providing support in assessing suitability of different types of social investment products and support in revenue generation. It would also need to focus on building up the characteristics that distinguish early stage ambitious scalable organisations from small local organisations who are intending to remain that way. The support needs of these two groups will diverge at an early stage and poor distinction would be costly in time and effort.

It is clear from interviews that there is much support for the design of the ICR Fund which can potentially offer a pioneering approach to support the provision of investment readiness. The test will be in delivery and, as Caroline Mason from Big Society Capital suggests, we will have much to “learn from the ICRF fund about the provision available in the market place”. Alongside the research described in this report, the ICR Fund will offer a practical parallel to help shape the design of any future provision of investment readiness.

Mainstream provision, as identified by Jenny Tooth (Angel Capital) suggested that most ventures came with no grant funding and were offered three different stages of support delivered mainly through mentors. These were a) to position themselves correctly in the marketplace b) to make themselves attractive to an investor; and c) to pitch their proposition effectively. However, most mainstream providers believe that in the not-for-profit marketplace it is much harder to develop this streamline approach and that peer group support may be a very good alternative, particularly in cases where organisations are going through structural change and where the issues faced have some commonality.

Sustainable funding of investment readiness

As with investors, there was a lack of a clear consensus from intermediaries around what a sustainable funding model of investment readiness might look like. While many lamented the lack of ability or willingness of potential investees to pay for provision, which could compromise the quality or availability of support, there was nevertheless some support for grants, provided they were conditional. Many suggested they could be awarded on the basis of achieving milestones, with support withdrawn altogether if these are not achieved. Charlotte Gardiner (formerly from the Big Lottery Fund) floated the idea that “grant holders could choose for their grant to be paid and managed as a contract, alongside tailored support”. Elements of support could, for example, include cash flow forecasting. James Wise proposed that grant funders “give grants for milestones to get nearer to investment… provide guidance and real tailored support for free but which is paid back” when organisations reach a certain level of investment or generate surpluses. Payment by results mechanisms were also suggested for support providers. Others, notably ACEVO, saw a role for government in funding investment readiness support.

Intermediaries' perceptions into investment readiness

While many of the intermediaries echoed the views of investors, they also provided a reminder that the problems in the market do not necessarily lie entirely on the side of investees. Charlotte Gardiner from the Big Lottery Fund noted the "divergent investor and investee perspectives", for example (see Section 6). Hugh Rolo from Locality argued that for investees "speed is really important – investors can take too long to decide which affects the motivation of the potential investee. One month is enough; rapid decision making requires real understanding from investors on what they are looking for".

Northern Ireland perspective

The perspective of intermediaries in Northern Ireland suggests that the market for finance is developing slowly, particularly as a result of uncertainty in government policy. Also, the demise of the Social Economy Network has left a gap in a 'go to' point for those seeking information and signposting for investment and support. The Big Lottery Fund has supported the creation of the Building Change Trust which aims to help build up the VC sector at a strategic level and to fill gaps that exist within networks and representation at policy level. Northern Ireland Council for Voluntary Associations (NICVA) plays an active role in helping represent the sector at a time when government policy is currently under development. Department for Enterprise Trade and Investment and Department for Social Development has recently commissioned a mapping exercise of the role and opportunities for the VC sector which will inform future investment readiness provision and the likely supply and demand for capital.

The Northern Ireland context may also see a particular focus on the possibilities of asset transfer and the Objective 1 area in Northern Ireland may also influence the role of government in the market as state aid rules will be applied differently compared to some other parts of the UK.

A new Social Investment Fund emerging from the Northern Ireland Executive aims to reduce poverty and build up economies and physical improvement in disadvantaged areas and is set to take the form of a mixture of grants and loans. There is an expectation that community development involving asset transfer will be a significant growth area of social investment in Northern Ireland in the coming few years. The Development Trust is already working closely with community groups under tough conditions to create and support such work. However, asset transfer is a very slow, painstaking process and requires a multiplicity of complex support to reach its goal. Across the whole of the UK, there is a need for specific support around such initiatives.

Sector Matters is set up as a wholly owned private subsidiary of NICVA – the Northern Ireland Council for Voluntary Organisations. Based on identified need for a range of support, Sector Matters was established with a view to proving the business model for providing flexible, bespoke or generic priced business support for the third sector organisations. It also provides outsourcing services for organisations in HR and accountancy. After one full year of trading, in which it has broken even, it has demonstrated a need to help build the capacity of this sector's organisations, and whilst not targeted at investment readiness per se, it provides services to lead organisations towards being ready to secure investment, if appropriate.

Meanwhile, the Building Change Trust is exploring how best to support the entire social economy organisations in Northern Ireland including how to lever in private money and create a range of support services to support the sector as a whole. Big Lottery Fund in Northern Ireland is considering how to make best use of the experience learned from recent programmes, which has benefited projects in a number of ways. These benefits include the provision of tailored development and support over the lifetime of a project's grant and support for projects to more effectively measure their outcomes, over the period of the grant.

Scotland perspective

In Scotland, particular commissioning and procurement challenges north of the border and a perceived shortage of innovative approaches on both sides of the public service market may hold back the interest in investment compared to some other parts of the UK. Part of the solution could be around better partnership working e.g. between funders and HNWIs and other public agencies, such as the Big Lottery Fund and the private and voluntary sector.

Meanwhile, there may be a particular issue in Scotland around aligning different stakeholders - those of investors and investees - so that the right structures can be put in place, as described by Andrew Muirhead from Inspiring Scotland. Inspiring Scotland takes a fund management approach to social organisations, but use venture philanthropy capital to deliver social projects. In this way, the supported organisations (called 'investees') are effectively provided with a variant of an investment readiness support programme; they learn the skills and rigour required in financial management that would be required if the finance was repayable. The thematic focus of Inspiring Scotland may also offer lessons for funders such as BIG when considering their approach to using grant programmes as a stepping stone towards investment readiness.

Karen McGregor from Firstport Scotland provides early stage business development support to VCSEs. She believes that the "real issue is about mindset, vision and ideas" on the demand side. This is likely to take a long time to deliver. There is a market need for provision beyond the two stages of grant that are available through the government's Social Entrepreneurs Fund (SEF) currently. Just Enterprise, also funded by SEF, funds a range of seminars, peer support, workshops and other activities – mainly online - for a disparate base of communities.

Wales perspective

Intermediaries in Wales, including the WCVA, the Welsh Social Enterprise Coalition and the Wales Co-operative Centre suggested that there was a lack of ambitious, potential high-growth investible propositions in Wales, which is perhaps the key challenge for investors. With the very notable exception of Welsh Water, there are few examples of organisations in the social sector operating at scale. Intermediaries supported the investor perspective that while the provision for broad, early stage business support was relatively well funded for the immediate future, so there were some instances of higher-spec bespoke packages for those nearer to investment. The pipeline could be supported at both ends through early stage investment awareness and later stage mentoring, or peer-to-peer programmes.

Key findings from UK intermediaries

- Social organisations' biggest weakness is the lack of a credible business model ; this mirrors the financial weaknesses that investors identify as dominant
- Filtering processes are essential to identify support needs at the right stage in the process; many apply far too early
- Competitions and award schemes have found themselves overwhelmed by applications but offer winners high quality support to maximise potential to achieve scale and impact
- Provision of support is patchy and heavily concentrated in urban areas especially in England
- Mainstream intermediaries predominantly use on-line, peer mentoring or generic format support; in comparison, the social sector is demanding considerably more resources
- Northern Ireland has pioneered a wide range of support initiatives in spite of its relatively small size (1.5million population) and Wales is well served, at least in terms of current funding
- Public funds provide much of the intermediary support for VCSEs across the UK
- There is a need to raise awareness of social investment by providing generic information and early stage diagnostic tools in advance of offering more expensive bespoke support; peer support could be more widely used as an effective mechanism
- The Investment and Contract Readiness Fund is a new development with potential to support scaling up, to continue beyond 3 years, which could be adapted to different sectors and market needs; learning from this will help identify gaps in provision and access of support

6. INVESTEES' PERSPECTIVES – FINDINGS FROM THE SURVEY

Our unprecedented survey of voluntary, community and social enterprise organisations, combined with interviews and case studies with investees, have provided us with a unique insight into what organisations see as the barriers to becoming investment ready, what would help in overcoming these barriers and why some organisations are not pursuing investment at all.

We have considerable data available for further analysis and we present some of this with further additional findings in the Annex C. Here we highlight the key issues under the following themes:

- Overall appetite for investment
- The types of investment that surveyed organisations seek and the use of it
- The type of support they seek and received
- Barriers to investment and changes required within organisations
- Time taken to secure investment
- External support

Overall appetite for investment

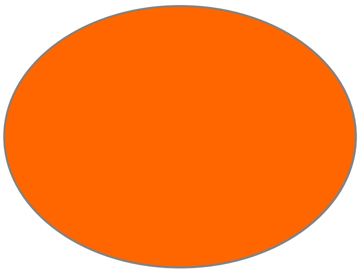
Our survey identified different groups of respondents using the typology we describe above. Respondents either:

- Had secured repayable finance
- Had sought but had been unsuccessful in securing repayable finance
- Are currently seeking repayable finance
- Are not currently looking for repayable finance but are interested to see if it is suitable
- Are not looking for and not interested in repayable finance.

The survey filtered respondents so that the groups are mutually exclusive. We defined repayable finance for survey respondents as "*any form of financial support, including equity, provided with the expectation that some or all of it is repaid—with or without interest, dividends or revenue participation*".

VCSE survey: pursuing social investment finance

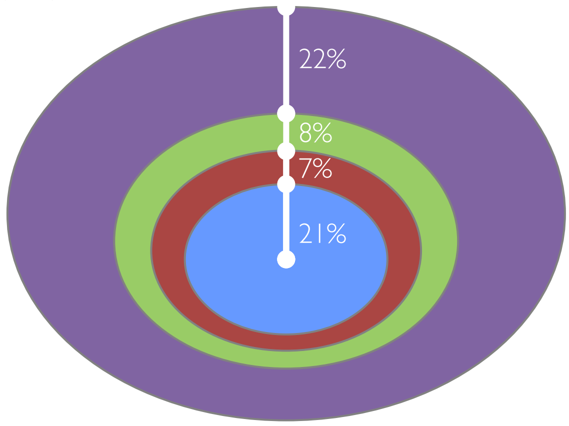
Not interested in pursuing social investment (43%)*



B4	Not interested	43%	543

N.B total does not add up to 100% due to rounding

Interested / Successful in securing social investment (58%)*



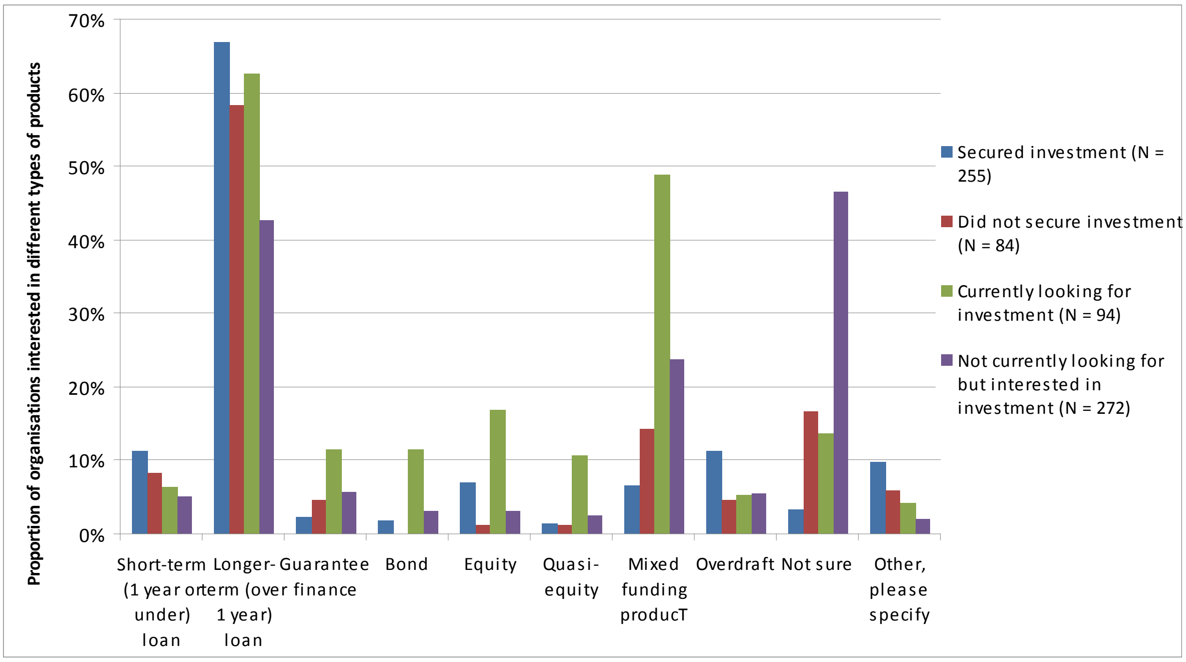
A	Successfully secured repayable finance	21%	259
B1	Tried but not yet successful in securing repayable finance	7%	86
B2	Actively seeking repayable finance	8%	95
B3	Interested to know more / to see if suitable fit	22%	272

- Total number of VCSE respondents to survey: 1255
- Typology group colour coding is used in all charts throughout this section
- Representation of group size is not statistically accurate

What type of investment are they interested in securing?

The big demand is for longer-term loans, both from those who secured investment and those who are seeking it. Longer term loans cover a multitude of types of lending, from asset backed, mortgage type lending through to more speculative risk capital. Given that over 70% of respondents to the survey were registered as charities, they will not be able to issue share capital as their underlying assets are locked for the public benefit. This makes loans (along with quasi-equity) the only real choices for such organisations, although these could be combined to create a demand for hybrid products. Loans can be highly punitive on young organisations developing their revenue stream because they need continual repayment, unlike equity. The chart below demonstrates the demand across the different groups in our typology.

Figure 1: The type of finance that organisations are interested in securing[40]



Aside from longer-term loans, there appears to be a mismatch between the types of finance that organisations have actually received and what organisations who are looking hope to secure. For example, only 7% of respondents have secured a mixed funding product—defined in the survey as a combination of different types of finance—but 49% of those currently looking are interested in securing this type of finance. One case study, Spartan Community Football Academy, did secure mixed funding products, combining various grants, donations and loans on various terms. However, the sequencing of these agreements was challenging and involved 'leaps of faith' as the management had to trust that one source of finance would be successful when applying for another.

The same disparity is true for equity and quasi-equity, with much higher proportions interested in securing these types of finance than have actually received them. This may reflect the recent growth of interest (or even hype) in this area or it may suggest a mismatch between the types of finance available and the types sought. Given that the level of detailed information about individual product types is not highly developed at the early stages of investigation, it is more likely to reflect the type of capital available (mainly asset backed loans, not higher risk equity or quasi-equity lending). This is reflected in the high blue line in the chart above representing those organisations which have received longer term loans (over 67% of all investment).

The "not sures" also reflect an investment readiness support need. It will be important that information is offered to help them fully understand the options and the suitability before approaching investors.

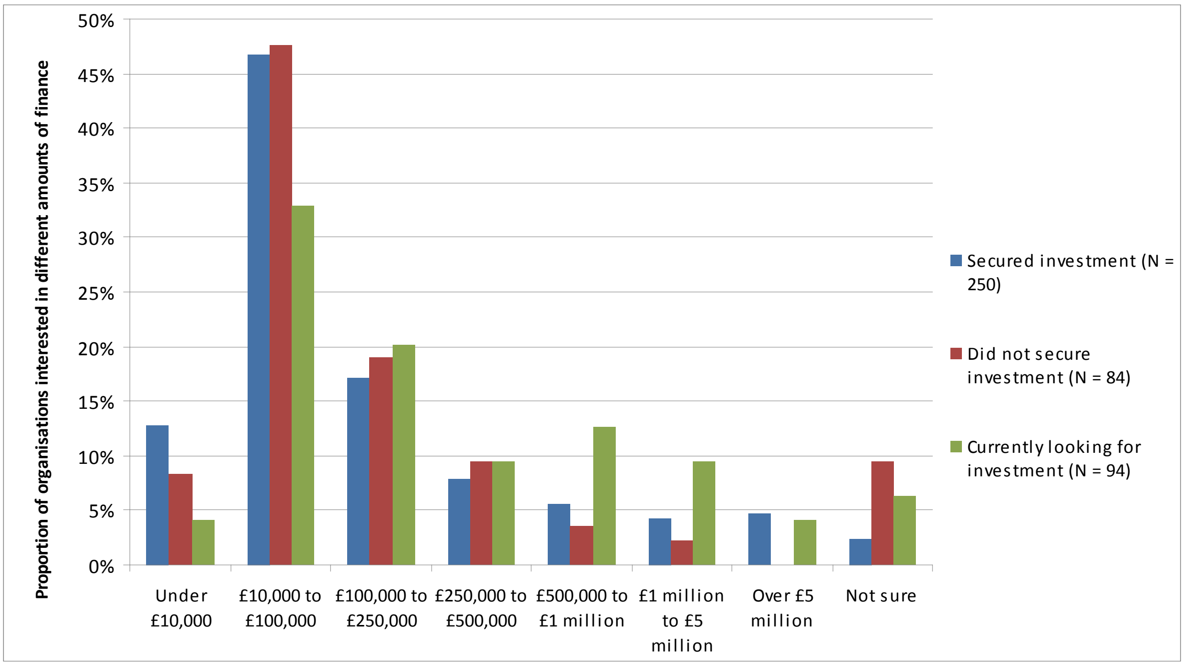
How much investment are they interested in securing?

Survey respondents are primarily interested in investment between £10,000 and £100,000. This reflects the perspectives of investors, as described earlier, which identify that most of the demand for investment and the need for support from organisations lies below £500,000. However, those that are currently looking for investment are

[40] Respondents' answers to this question differed by group, $\chi^2(3) = 33.13$, $p = .000$.

comparatively more interested in larger amounts, although those who secured finance were more successful at the lower range. This suggests either a recent change in the levels of ambition or that those in the early stages of their journey are yet to adjust their expectations downwards, which they are likely to do when they learn more about the finance on offer. (A spike in those currently seeking investment of between £500,000 to £1 million does offer some promise for demand for the support offered under the ICRF, which looks to provide investment readiness support to organisations seeking contracts and / or repayable finance of £500,000 or more in the next three years.)

Figure 2: Amount of finance that organisations are interested in securing[41]



63% of respondents that have received investment have secured the required capital they were seeking, with three quarters (75%) reporting that they felt the terms were appropriate. Almost half (47%) had to provide security.

Not interested in social investment

Just under half of those surveyed are not interested in investment. Those in this category are largely strongly against taking on finance that needs to be repaid to support their plans — only 8% agree that they would consider it. Three quarters feel that charitable money should be spent on delivery, not on repaying loans. The majority of organisations in this category are charities (over 80%) themselves. However, 70% of this group are interested in new ways of doing things and new ways of financing them but 63% agree that they are not able to generate the surpluses required to take on repayable finance. This suggests the majority are correctly placed into our category of organisations for which investment is not applicable. They will almost certainly have general organisational support needs, many of which might overlap with investment readiness needs, but these are beyond the scope of this particular research.

[41] Respondents' answers to this question differed by group, $\chi^2(14) = 32.85$, $p = .003$.

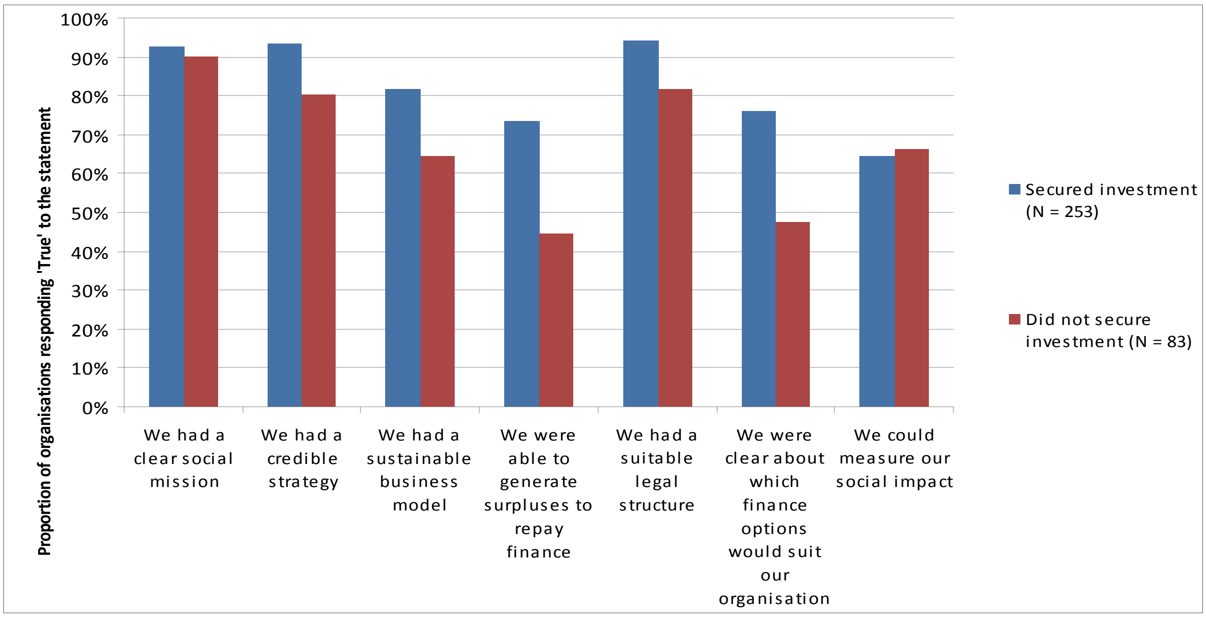
Investment readiness journey

How did organisations perceive their readiness at the beginning of the process?

A clear social mission does not appear to be a distinguishing factor for investment readiness; neither does the ability to measure social impact. It is informative, however, that 35% of respondents who had successfully attracted investment thought that they could not measure their social impact (or were not sure whether they could) at the beginning of the process, or thought that social impact measurement was not applicable to them securing investment. Only 11% felt that they had to improve their measurement as part of the process. This again reflects the perceptions gleaned from investors and intermediaries; the ability to create social impact was critical (as social investors screen out organisations which are not primarily intending to make a social impact) but the ability to measure social impact was rarely a deal-breaker.

The need to have a credible strategy and a suitable legal structure at the beginning of the process is clearly important as it influences the types of capital that can be invested into an organisation. However, having a sustainable business model—and being able to generate surpluses to repay the finance—as well as being clear about which finance options are suitable, are fundamental to making the investment proposition attractive to financiers. It appears those organisations that were not successful in securing finance may have sought it too early before establishing and / or presenting these features convincingly. This reflects the investors' perspectives described in Section 4 and is played out in the choices they have made on whom to provide with finance.

Figure 3: Organisations' perceptions of readiness at the beginning of the process[42]



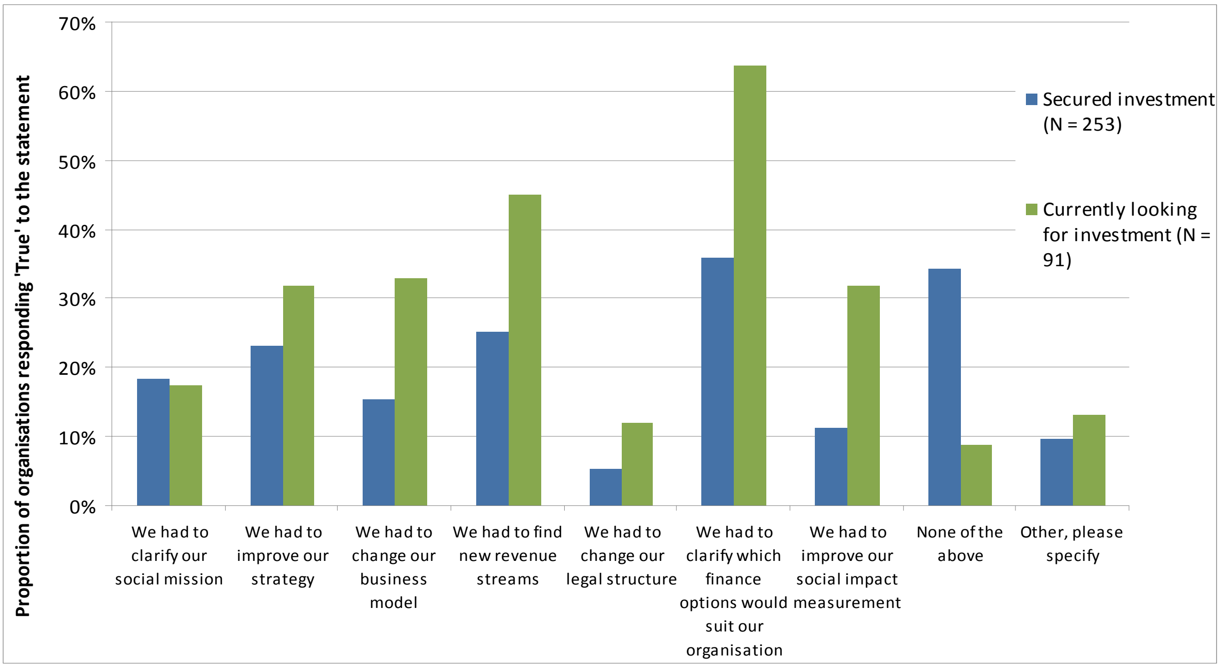
[42] Respondents' answers differed for the following statements: 'We had a credible strategy', $\chi^2(3) = 14.04$, $p = .003$; 'We had a sustainable business model', $\chi^2(3) = 13.43$, $p = .004$; 'We were able to generate surpluses to repay finance', $\chi^2(3) = 31.30$, $p = .000$; 'We had a suitable legal structure' $\chi^2(3) = 12.36$, $p = .006$; and 'We were clear about which finance options would suit our organisation', $\chi^2(3) = 25.22$, $p = .000$. Respondents' answers did not differ for the following statements: 'We had a clear social mission' $\chi^2(2) = .68$, $p = .711$ and 'We could measure our social impact' $\chi^2(3) = .37$, $p = .947$.

The graph above implies that many of the 45% of organisations that thought they needed to find ways to generate surpluses, failed to do so by the time they sought investment. In terms of support within the organisation, the majority (78%) of respondents that have received investment said that they had support from their trustee board and an even higher proportion (87%) from their senior management team. This pattern of management teams being more supportive than trustees and boards[43] at the beginning of the process is true for those that did not secure investment too, although in lower proportions. This reinforces the need for senior management teams to engage the trustees and board members at regular, early stages in the process, particularly where cultural changes are required to take on investment.

What changes are organisations making to become investment ready?

Those organisations that are currently looking for finance are occupied by bringing in several fundamental changes to their organisations—and more so than those that have secured finance. Most importantly, they are having to clarify which finance options would suit their organisation, and nearly one third said that they need to improve their strategy, change their business model, find new revenue streams and improve their social impact measurement. This echoes the views of investors that organisations are seeking funding too early, before these fundamental changes are in train. Only 9% said that they do not have to make any of the changes suggested.

Figure 4: Steps taken by organisations to become investment ready[44]



If the organisations in Figure 4 who are looking for investment have indeed managed to find new revenue streams, the chances of securing the finance will improve dramatically over those that are represented in Figure 3 above as unsuccessful in securing finance (and who knew they needed to generate surpluses to repay the finance). There

[43] Trustees of charities and board members of Community Interest Companies

[44] Respondents' answers to this question differed by group, $\chi^2(14) = 43.18$, $p = .000$

still needs to be an allowance for the potential difference in perception between investors and potential investees as to how secure are the revenue streams[45].

Skills Gaps

In terms of skills gaps, the majority of survey respondents that secured investment had the skills that they needed in-house. However, a sizeable proportion (23%) did hire someone with the suggested skills, with 11% needing to hire someone with financial skills and 10% needing to hire someone with business skills. Those currently looking for investment are more likely to be thinking about hiring new staff—particularly people with financial skills (24%).

For those organisations interested but not currently looking for investment, over three-quarters felt they needed to develop their social investment knowledge before they were ready to take on repayable finance. This category determined that developing marketing skills came above business, finance and management skills. As these skills are perceived of secondary importance to financiers when deciding on whether to invest, this suggests the need for greater early stage awareness of the financial and business skills that will be required on the journey towards securing investment.

Barriers to securing investment

Why did organisations fail to secure investment?

32% of survey respondents that did not secure investment were not successful because their organisation decided to withdraw from the process, rather than for other reasons. 44% abandoned before approaching investors, which suggests that even though the investor perception is that still too many organisations are approaching investors before they are ready, some organisations are self-filtering out of pursuing repayable finance.

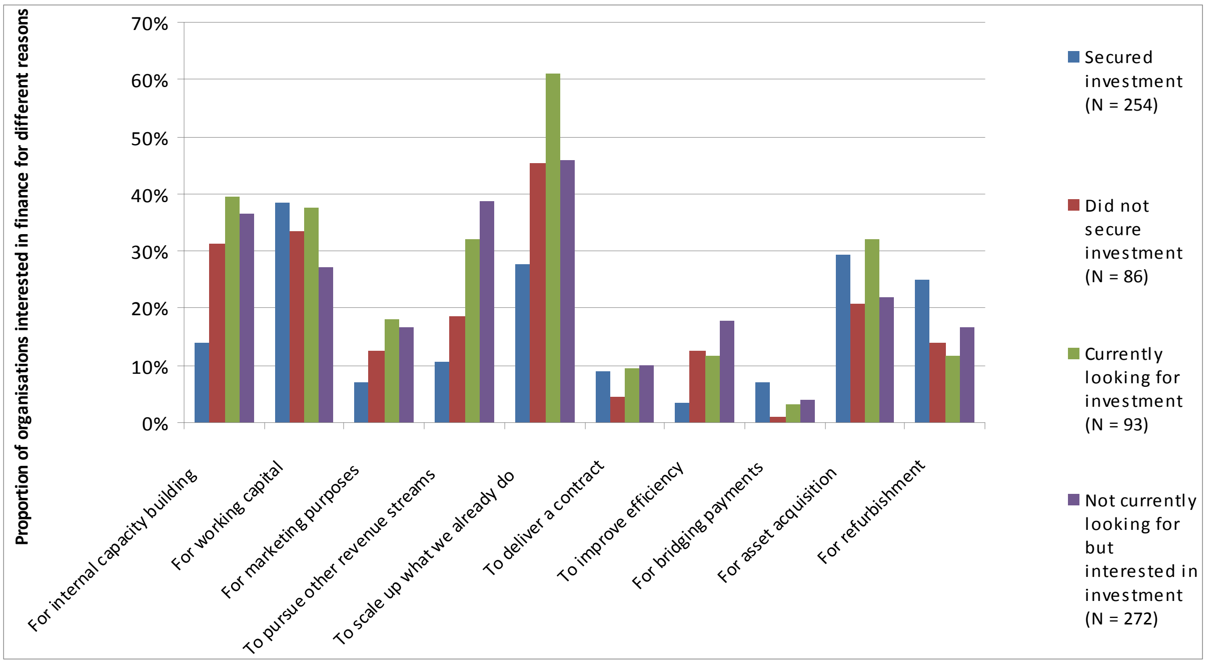
Almost half (47%) of those that did not secure investment believed that they did not lack any of the skills listed. For the 53% that did lack some of the skills listed, marketing skills were identified as their top skill type for improvement. It is unclear whether they are referring to making themselves attractive to investors, pitching propositions effectively or marketing products and services. However, if this represents the former two interpretations, it suggests a mismatch with investors' perceptions who believed the issues were more fundamentally related to underlying business models than presentational issues. Any such mismatches could be addressed through effective investment readiness support.

Reasons for seeking investment.

Amongst those that successfully secured investment, the most frequently cited purposes of the investment were for working capital and asset acquisition. This supports the assumptions held widely that most investment comes in the form of asset-backed lending and for short-term loans.

[45] Respondents could conceivably have selected 'None of the above' for one or two reasons: either they did not have to take any steps to become investment ready or they had to take a step that was not listed. Further analysis of the responses reveals that the vast majority of respondents only selected 'none of the above'. We can infer from this that 33% of respondents that have secured investment and 8% of respondents that are currently looking for investment had to take no steps to become investment ready

Figure 5: Reasons for seeking investment[46]



For those who had failed to secure investment, the principal use of investment would have been for 'scaling up'. This suggests there are significant problems for organisations wishing to access riskier, scarcer, growth capital - whether that is due to the absence of capital or the limited investment readiness of those chasing a relatively small pot. This issue could become more pronounced as, of those currently looking for investment, over 60% was for scaling up and 40% for capacity building. If we extrapolate from this the likely demand for such risk capital (irrespective of suitability at this point) we can see that it would be way in excess of the small pool of such capital currently available[47].

Overall, this suggests that many organisations are yet to discover that riskier growth capital is not as easy to secure as they might hope, or they are not ready for it, or both. It stresses the importance of providing support for the type of capital that is available as well as suitable and it raises the bar higher in terms of the readiness that organisations must attain to be successful.

The role of the social investment market and risk or growth capital is still relatively insignificant – at least for now – compared to lending by 'conventional' banks, overdraft facilities and loans from individuals or public authorities. Risk capital secured represents less than one third of all social investment in the UK (under £50million of £165million provided by social investors in the UK in 2010)[48]; to date, grant support has been helping to fill some of the gap for much of this demand (even though it is not categorised in this way).

[46] Respondents' answers to this question differed by group, $\chi^2(11) = 39.74$, $p = .000$

[47] Again, with caveats galore, and merely to give a sense of dimension, we could suggest that with an average request for £50,000 by the organisations categorised as actively looking for finance, and using a similar percentage seeking risk capital across the entire VCSE sector, there could be a potential demand for risk capital around £1billion in the 'foreseeable future'; current supply is dramatically below this point;

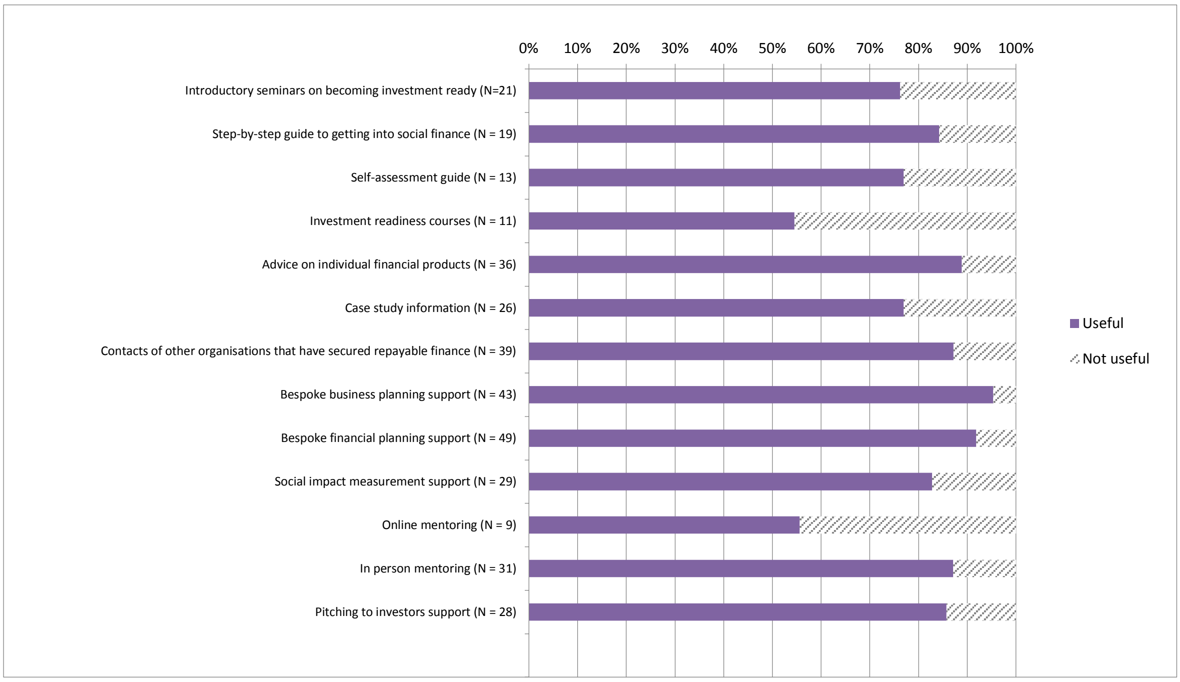
[48] Brown, A and Norman W 'Lighting the Touchpaper: Growing the market for social investment in England' (2011, Boston Consulting Group & the Young Foundation). Recent figures released by the Community Finance Development Association suggest that social investment into VCSE sector in 2011 is still in the same region of £160 - £200m (when social private equity funds are included). Please see CDFA Community Development Finance Institution, Inside Community Finance, 2012

External Support

42% of those that secured investment received external support, compared to 23% of those that did not secure investment[49]. Of course, correlation does not mean causation. Whilst we cannot categorically state that external support *leads to* a greater chance of securing investment, we can conclude that those who have received external support are more likely to have secured investment than those who did not. This suggests a strong case for the benefits of investment readiness support.

Of the external support that they received, organisations that secured investment found bespoke business and financial planning the most useful, (which appears to back up the analysis above as it matches investors' requirements) whereas 'investment readiness' and 'online mentoring' were perceived to be the least useful. However, relatively small numbers of respondents had received any of these individual types of external support, so these ratings should be interpreted cautiously. Interestingly, the type of external support that the biggest number of respondents that secured investment had received was bespoke financial planning.

Figure 7: Types of external support that organisations that have received investment found useful



Those that did not secure finance still found bespoke business planning useful and those currently seeking investment suggested that a step-by-step guide to getting into social finance was the most useful. In terms of the external support that they would like to receive, all those open to seeking investment agreed that a step-by-step guide to getting into social finance would be the most useful.

[49] Respondents' answers to this question differed by group, $\chi^2(2) = 10.37$, $p = .006$

Main conclusions from interviewee perspectives

- The case for the benefits of investment support to secure investment appears to be strong—42% of those that have secured investment received external support
- There is a big appetite for simple tools, advice and guidance and early stage signposting
- Those at early stages of interest in social investment are looking for step-by-step guides and other simple diagnostic tools to help organisations decide whether to proceed further
- Many organisations are looking for longer-term loans between £10,000 and £100,000
- Those organisations who were not successful primarily sought capital for scale-up or growth – this might suggest a lack of readiness or lack of the right type of capital, or both
- Financial planning to become investment ready is considered important, with 11% of those that have received investment hiring someone with financial skills
- Business skill support, particularly to help identify and realise new revenue options for those actively seeking investment is valued
- Clear social missions are almost taken as a given but social impact measurement seems not to be a distinguishing investment readiness factor between those that have been successful and unsuccessful in securing finance
- Those further down the line, who have secured finance, (and also those that were unsuccessful but tried), value more intensive business and financial planning support
- Pitching support to investors was deemed helpful, and the role of peer mentoring at all stages was rated as significant
- There still seem to be considerable cultural barriers to charities taking on social investment. Three quarters of those not interested in repayable finance feel that charitable money should be spent on delivery, not on repaying loans. Repayable finance is not for everyone

7. ANALYSIS AND CONCLUSIONS

Bringing together findings from interviews with investors, intermediaries, investees, the case studies and from the survey, we seek to draw conclusions on the issue of investment readiness. This leads us to suggest key features of investment readiness programmes in Section 8.

Potential size of the pipeline for investment readiness support from VCSEs

If we extrapolate from the estimated total size of the VCSE sector in the UK (erring on the side of caution), using our survey statistics, we can draw some 'ball park figures' to give a sense of scale to the likely size of the potential demand for investment readiness support. Based on extrapolation of our data against the overall size of the VCSE sector in the UK, we can suggest that potential size of demand for investment readiness services lies between 70,000 – 140,000 organisations within the foreseeable timeframe (fewer than 5 years). On the basis of our percentages, around one fifth of these might actually secure finance from any lender[50]. These figures could be considered alongside draft findings from BSC research which suggest that demand for social investment could grow to approximately £0.75 billion by 2015.

We stress these are merely 'ball park figures' to give a sense of scale and are in no way a predictor of likely demand. Many factors may skew this extrapolation, not least that BIG's database may reflect its programme bias based on its programming criteria, and the presence of social enterprises may artificially inflate the percentage take-up of interest in social investment. However, the data findings suggest there is a genuine pipeline that has sufficient scale to make investment readiness provision vital. Without such provision, opportunities for helping the VCSE sector thrive may be lost.

Mismatches between investor and investee perceptions with regard to investment readiness

These mismatches (or information asymmetries) could be categorised as follows:

a. Mismatches in perception of skills and attributes required for investment readiness between investees and others
b. Mismatches between the availability of support with what is required
c. Mismatches between access to support with organisations' ability to draw on it

[50] Estimated number of VCSE organisations in the UK: 950,000 Estimated number with income under £50,000: 600,000. Estimated number of organisations potentially open to consider Social Investment: 350,000. Using survey percentages, as ballpark estimates adjusted for SE bias; this would suggest that the potential pipeline of investible organisations could be between 20 – 40% of this total. Potential pipeline of organisations seeking investment c70,000 – 140,000 organisations.

a) Mismatches in perceptions of skills and attributes required

Mismatch No 1: Does the revenue model stack up?

Critical to an organisation's suitability for receiving investment is its ability to generate sufficient revenue to repay any finance. Survey findings suggested that over half of organisations felt positive that they could develop sufficient revenues to seek repayable finance, with time, and hence may at some point be appropriate investees.

Yet investors seem less sure about the business models with which they are currently presented. In fact, investors are more likely to identify organisations' revenue models according to their developmental stage, as suggested in the following table:

Table: Implications of different stages of VCSE development on the revenue generation model and its attractiveness to investors

Stage of development	Implication for revenue generation and on investment readiness perception
Organisations at start-up or early stage of development	Revenue model not fully tested *(likely to be on outer edges of the dartboard, although there are exceptions to this)*
Organisations that are in transition from, say, grant to revenue model, or taking on new assets which change its direction	Revenue model likely to be not fully developed or tested; involves considerable time to adjust organisation culturally and financially when faced with current levels of uncertainty *(more likely to be in the outer circles of the dartboard while the transition occurs; only when fully complete might it become investment ready and move nearer the centre)*
Organisations that are in growth mode	Revenue model might exist, but is it fully understood how an extra unit of revenue is created? *(if this is well understood and credible, it should sit close to the centre of the dartboard)*

There is a tension at the heart of investment readiness: it needs to help organisations who are near to establishing their revenue model to a sufficient level of clarity and certainty that investors will be persuaded of the ability of an organisation to repay its finance, whilst not wasting time and resources trying to support those for whom investment will never be appropriate. But the business model doesn't tell us everything - backed up by UnLtd findings from Big Venture Challenge, which suggested that organisations at an early stage who were high risk, with no fully tested business model, but yet had experienced members on the team, fared better in the selection for funding[51] than those whose business model was better developed but which did not have enough of the right people involved.

The ability to identify early those which are appropriate potential investees (through self-elimination or otherwise) is a vital part of managing the flow of support required in an investment readiness support programme.

Mismatch No 2: Lack of appropriate financial acumen

Almost without exception, investors identified the shortage of an appropriate level of financial skills in the majority of propositions which were rejected. However, we find investees seem to be less self-critical of their financial abilities, and are perhaps not aware of what they do not know or of what is required. The financial skills required for running revenue-based business are *significantly different* to those required to run 'budget-based' organisations. Cash flow, financial planning, understanding of balance sheets and financial strategy are essential skills to achieve a sustainable business. This mismatch of skills perceived to be lacking causes a blockage further down the pipeline: organisations either apply to competitions and awards, or approach financiers, long before they have sufficient financial understanding expressed in their model (see also Mismatch No 4).

Mismatch No 3: Investor readiness for investing in social returns

VCSEs aim to produce both financial and social returns. Investees appear to think that their ability to create social impact will be more significant to investors than seems to be the case on the evidence of those who have received investment. This perception amongst potential investees appears to weaken as they get closer towards securing finance. Investors on the other hand, in general, seem to be relatively undemanding about how social impact is shown to be generated; this was found in interviews and is supported by other findings on investors' perspectives[52]. It raises the question "how *social* is social investment?" and relates to the evidence that much investment in social ventures is actually undertaken by conventional financially-motivated investors. One explanation for this may be the limited number of investable propositions offered to social investors so social impact becomes a less significant criterion for investment than one might expect. The investors, particularly investors who are not focused exclusively on providing social investment, may need support in developing their understanding of the social returns they are seeking.

This mismatch is further evidenced by the type of capital demanded by and offered to the sector. Our survey respondents predominantly seek risk capital on sub-commercial terms of between the £10,000 and £100,000 range. However, if what is on offer from investors is larger asset-backed capital on near commercial terms, there is a market failure, captured in the typical exchange between investors and potential investees who accuse each other of "not understanding the social enterprise model" or "not being investment ready"[53]. A CAF report points out, in examining the mismatch of supply of and demand for finance in the North East of England, that the

[51] It will be interesting to see over time if these businesses did indeed generate the returns anticipated.

[52] City of London Corporation, City Bridge Trust and Big Lottery Fund: Investors' perspectives in Social Enterprise Financing, 2011 Hill, K and ClearlySo (2011) Investor Perspectives on Social Enterprise Financing City of London, City Bridge Trust and Big Lottery Fund

[53] David Floyd, Social Spider and others

mismatch is further exacerbated as charities are often excluded from supply of higher risk investment because more often than not their business models cannot afford the risk-adjusted cost of capital[54].

Intermediaries and progressive charities were keen to see investors and commissioners finance more comprehensively, based on the ability to generate impact. Models of incentives to deliver outcomes under Payment by Results contracts have implications for investment readiness. Investment readiness may require support to price these outcomes correctly when approaching investors and commissioners[55]. Investment readiness does not successfully address this and yet this model may feasibly become an increasingly large part of the market place for VCSEs. This applied equally to those models, proposed by some, whereby finance could be made available which is subsidised or conditional on evidence of social impact.

b) Mismatches in the availability of support

Mismatch No. 4: Lack of self-diagnostic tools, lack of clear referral processes

Investors describe how they are inundated with unsuitable propositions. This appears to be because there is not sufficient available support to help potential applicants assess their own suitability before approaching investors. This is reinforced by findings from UnLtd Advantage programme, in which only 14 were even sent to investors (8 were then successful) out of 186 applications. The majority were at too early a stage to work with. Under Big Venture Challenge, out of 638 applicants, 25 received initial funding and further investment readiness support. Interestingly, 75% of these were referrals to the competition by partners. Information on the journey taken by unsuccessful candidates after the competition is informative but has been difficult to secure on a systematic basis, though such organisations are represented in our survey findings and would appear in our category B2 under those who have tried but not succeeded in securing investment. Initiatives by the likes of UnLtd to track the route that a sample of unsuccessful organisations has taken since the competition should be welcomed and UnLtd and others are considering devising a referral panel for future rounds of BVC or similar programmes (see Section 5 and 8).

An improved referral system, greater collaboration of signposting to those organisations not yet ready to receive finance, and tools to help self-diagnosis (which might include self-elimination from approaching investors) all seem to be potentially critical ingredients in investment readiness provision to ensure organisations receive the right level and type of support at the right stage.

Mismatch No 5: Awareness raising and presentation of information on social investment

The survey findings revealed that potential investees faced a patchwork of 'fragmented information' around financial products. It was hard to identify which products or investors might best suit their needs and at what stage they should investigate this. In looking at taking on social investment, all categories in our survey who were

[54] CAF Advisory report for Northern Rock Foundation

[55] This is not unique to those seeking investment – this is relevant to all VCSEs providing services

interested in social investment listed 'information and support on financial products' and 'guide to social investment' in their top three lists of support needs.

Intermediaries, however, felt that there was a plethora of information available on product type and suitability, but did agree that there was a shortage of diagnostic guidance. Investors and intermediaries are finding that applicants are approaching them with little real understanding of the social investment options and how they could be applied to their organisations. This leads us to consider whether information could be provided in a more engaging, uniform and coordinated way, which conveys the key messages whilst helping lead towards self-diagnosis of its suitability. A small but significant example: if language was also used consistently, this might help to clarify the concept that social investment has the expectation of repayment. This raises issues more generally about 'messaging' the social investment concept to wider, diverse audiences over which the social investment community has no particular authority to define what is meant by 'investment'.

Mismatch No 6: Support for investors to create and broker deals

Social investors generally find that they are investing "disproportionate amounts of time" (in relation to the investment size) working through risk analysis, due diligence and finance package with organisations, where there were no templates, a weak knowledge base, few external experts and over-complicated bespoke arrangements. In complex deals, such as with public sector commissioning[56], investors face considerable lack of clarity over the risk factors influencing their investments. In an emerging market, learning is done on the job, often in collaboration with the investee. Investors seem to have limited access (if it is available) to known, available, third party support with sector-specific knowledge, with deal-pricing and structuring expertise, and with understanding of social investment. If this limits the willingness of investors to enter into such arrangements it suggests that this expertise needs to be identified and developed to meet this requirement as a significant component of future investment readiness requirements[57].

c) Mismatch in access to support

It is not straightforward to define what constitutes investment readiness provision and what does not and therefore it is challenging to assess the level of provision that exists. Government funds have tended to combine capacity building with investment readiness support and even with actual investment. Competitions, awards and other selective systems have an influence on the final investments made and also help to identify what support is needed across the board (not just for the winners). What is less clear is what, when and how support is then accessed. Measuring the supply (and quality) of active mentoring, pro-bono support, external private consultancy services contracted or active non-executive participation is near impossible, particularly in a dynamic market.

Access to support may be influenced by *physical geography* e.g. in Scotland, the Highlands and Islands Social Enterprise Zone organises a wide range of virtual support. In the south west of England, distances involved are large, so efficiencies are gained by creating a portal type 'one stop shop' (see Annex A). It may also be shaped by

[56] The government is likely to be a major purchase of VCSE services, according to research not yet published by Big Society Capital

[57] The Results Fund co-launched by BSC, Panuhpur, Omidyar and Esmee Fairbairn in June 2012 may consider how this can be included in their fund management plans

the *supply of capital* in a sector or region, particularly while social investment is more 'sticky' geographically than its main stream counterpart. It will also be influenced by the *cost of provision*, and whether public funds are subsidising it. Access to support is also shaped by the *perceived scale of demand* for such services and whether economies can be brought in if sufficient numbers request particular types of support. There is a common assumption in some quarters that demand for social investment is high and growing[58]. Yet, there seems little preparation for the impact this might have on the need for investment readiness provision. Given high failure rates of securing capital, it is highly likely that the demand for increased support will rise if demand for capital is rising. Our survey's findings would suggest potential demand for support is hidden, rather than small. However, take-up will depend on the accessibility of the support – influenced by cost, location and availability of capital amongst other factors. Currently, the provision of support is fragmented and probably unable to cope with a sudden considerable rise in demand. We build this into our recommendations in Section 8.

Conclusions

The demand for social investment readiness provision may considerably increase in the near future. Well-designed support needs to tackle mismatches in perceptions of what is required between investors and investees, and make support available and accessible across the UK. Creation and pricing of outcomes may need to become an increasing aspect of support programmes for those organisations seeking to provide services under payment by results structures. In a young market, investors also need access to a range of support, which is currently not available or accessible to them, to help them structure deals appropriately.

[58] The Social Investment Businsess (2012) Investing in the Future , BSC research by BCG, not yet published

8. INVESTMENT READINESS SUPPORT: PRINCIPLES OF GOOD DESIGN

General principles

Experience and lessons from public sector support programmes[59], from sector-specific interventions and from mainstream investment readiness provision over the last decade can help inform the future design of targeted, strategic and effective IR support. These indicate that investment readiness (IR) programmes do not necessarily provide a quick fix: the results, the capacity and capability of the advisory teams and the reputation of the programmes take time to develop. Support can be costly to the public purse (or whoever is paying) and programmes to date have been significantly shaped by the availability of grant funding to pay for the provision.

However, if demand and supply of capital are likely to grow, we can expect to see an increase in the demand for support services and thus a need to develop programmes in such a way that enhances the capacity of those who provide support to respond accordingly.

10 conclusions for the design of investment readiness provision UK-wide
1. Investment readiness provision needs to combine bespoke and generic information (e.g. on products and sources of finance) alongside better diagnostic facilities, which can act as an effective filter
2. Support could be more systematically provided, responding to generic skills gaps, sector specific needs or the stage of organisations' development
3. Provision may extend beyond pre-investment to post-investment - for both investors and investees
4. Monitoring and evaluating the standards of support, benchmarks and spreading best practice would help enhance the quality of provision
5. Referral mechanisms (along the lines of those suggested by UnLtd and the ICRF model) could help those organisations who fail to secure investment
6. The creation of pools of expertise to provide bespoke provision could improve the quality of provision (e.g. with experts embedded in the organisation to support skills transfer)
7. Provision could extend to supporting investors with aspects of due diligence, particularly in understanding the specific business models of the sector

[59] Such as Community Builders, SEATI, Capacity Builders, Futurebuilders and more

8.	Peer-to-peer learning could be more widely used as a popular and cost effective approach to provision, particularly where culture plays an important role in investment readiness
9.	Support could be funded through a combination of partners: through grant funds, co-funding, contribution from organisations themselves, and with a payment by results model
10.	New programmes must learn from the lessons of previous investment readiness provision

Geographical expertise in investment readiness across the UK

Organisations searching for investment readiness support will inevitably 'shop around' for the appropriate support, often without knowing exactly what it is they are looking for. As well as regional diversity, organisations operating in larger towns, for example, with strong networks and choice of providers, may not be as isolated in their search for support as their rural counterparts. So helping those looking for support to navigate the market can be crucial.

In England, provision should be more geared towards organisations looking to secure public sector contracts than in the rest of the UK. It may also be appropriate for England to lead the way in terms of a more competitive approach and market for provision than elsewhere, partly to reflect the political culture, but also that it can be easy for a handful of key players to come together and agree a common framework for action. It may be useful for those investors, intermediaries and providers with a particular regional focus in England to develop geographically-themed, peer-to-peer networks to replicate the potential for collaborative approaches elsewhere in the UK.

Investment Readiness for public sector contracts

Investment Readiness provision increasingly needs to take account of the changing public commissioning and procurement landscape. The traditional investor-investee relationship can be complicated by the role of the commissioning body and, in the case of the emerging Social Impact Bond model, it creates a direct relationship between commissioner and investor.

Potential investees (and investors) may need specific focused investment readiness advice in advance of contracting under payment by results contracts. Understanding of commissioning processes and implications on cash-flow, pricing and outcome management for different types of contracts may be critical.

Northern Ireland has a track record of relatively successful investment readiness programmes based on investors identifying market need (see Annex A for examples). The particular challenge here is to move towards a more sustainable long-term model of investment support provision and to increase the supply and demand of risk capital from organisations that are ready to secure it.

In Scotland, there may be a rationale for a specific focus on supporting land and asset-based enterprise models. The promise of early stage partnerships, which match investors with VCSEs to deliver payment by results programmes, should be supported by robust investment readiness programmes.

In Wales there is expertise to build on from support given to the environmental sector which could be widened, building on learning from investment readiness support aimed at cooperatives working in the recycling sector. Emerging ideas and practice from specific sectors (e.g. previous coalfields areas) which provide investment readiness support can complement generic business support for VCSEs[60] and signpost organisations to sources of investment.

Structure of investment readiness programme

A crucial distinction should be made between investment readiness provision provided generically - which can usually only take an organisation so far - and those activities which are demanded by an organisation specifically to address their individual situation. Broadly, the nearer an organisation gets towards seeking investment, the more bespoke support may be required, but this is not necessarily linear. This research suggests that the provision of investment readiness could be effectively provided through a mix of:

Generic	Bespoke
• Initial informational material in a variety of different forms (audio, visual, seminars, booklets, pamphlets etc.) • Self-diagnostic support and self-assessment tools (online problem checkers etc.)	• External challenge, peer-to-peer and group • Learning • Mentors and 'been there' entrepreneurs • Expert advice, online, intense one-to-one • Pools of specialist expertise, trustee recruitment, interim FDs

Components of an investment readiness support

While each organisation's journey to investment readiness will be different, the potential components of comprehensive investment readiness provision may include:

Generic

Investment awareness

- Awareness-raising on use and options that social investment offers
- Diagnostic information on suitability of different types of investment products
- Signposting to appropriate support providers
- Guidance on timing, types, terms and staging of investment

[60] Delivered through Social Firms Wales, and Wales Cooperative Centre

Legal and governance

- Legal structure and support in establishing right vehicle
- Governance structures and implementation guidance

Marketing and reporting

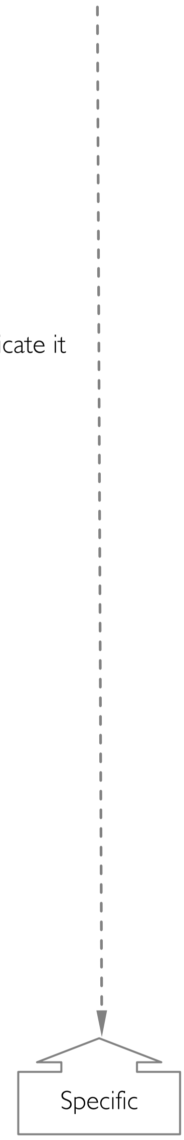
- Marketing and PR needs and skills
- Impact measurement assistance; understanding how to generate impact and how to replicate it
- Information, statistics gathering and presentation of data to investors
- Pitching support and preparation

Management and commercial expertise

- Management skills for overall strategic planning
- Advice on how to bid for, price services and base contracts on these prices
- Market analysis – full understanding of drivers of business model
- Analysis and advice on cost management and efficiencies (e.g. back office services)
- Using consortia structures

Financial support

- Degrees of financial skill support, screened for candidate's knowledge level, such as:
    - Financial management – cash flow
    - Financial planning and forecasting
    - Financial strategy – planning to borrow to raise revenue etc.
- Impact on tax of different structures



Focus of investment readiness programmes

In order to maximise their effectiveness and chances of success, designers of future programmes of investment readiness could consider using the evidence in this study to develop systematic approaches:

Sector specific approach

Identifying the specific needs which organisations operating in any given sector (e.g. care for the elderly, education and training, etc.) required to secure investment.

Skills gap approach – horizontal approach

Identifying the skills that are required by the VCSE sector, and providing these skills across the board to all - but in different stages of intensity or at different levels. For example financial skills, marketing skills and business strategy skills. (There could be economies of scale in providing a service across the entire VCSE).

Stage of an organisation's development approach

Examining the Investment Readiness needs of an organisation at different stages in its business cycle. For example, organisations at start-up and early stage may need support around market analysis. Different intensity of provision may be required according to the stage of an organisation's development. Again, there are economies and efficiencies of scale and development of specific expertise which the VCSE sector requires.

The "X Factor" - these broad approaches could be further refined by targeting organisations which already exhibit the characteristics of organisations which have successfully attracted investment.

Sustainable funding, payment and structure

Designers of investment readiness support should consider the sustainability of the funding of provision. While lessons from 'mainstream' investment readiness provision suggest some form of public, quasi-public charitable subsidy is likely to be required over time, it is still in the interests of these funders to seek to make the most effective use of the resources available to them, to leverage other resources from elsewhere. Furthermore, it is in the wider interest for funders to seek to minimise market distortion by crowding out.

Grant funding should be considered as one key means to fund much of investment readiness support. However, to ensure the appropriate incentives to secure value for money, this should include consideration of:

Conditionality

- Potentially repayable 'triggers' or partial repayment after investment is secured
- conditional milestones
- Co-funding from other sources and measurement to ensure minimal displacement of other funds and distorting effects
- Some contribution from the recipient (this has the benefits of the recipient having some 'skin in the game' and also potentially, in the longer term, improving the quality of support as a market develops and recipients make demands on the quality of support)

Partnerships

- Development of a referral panel (as suggested by UnLtd) to assess organisations' needs and redirect them to relevant support (particularly applicable after applications are attracted through competitions, awards or other draws)
- Creating a pool of a range of support providers via an 'approved provider' model or based on evidence of track record or peer recommendations, but in a way which still enables the recipient to have a say

in the choice of provider to ensure their buy-in and high quality provision; such a pool could generate revenue from providing some outsourcing services to subsidise bespoke support to organisations

- Some risk sharing with the provider along a payment by results model, although risks should not fall disproportionately on the investment readiness provider (as SEATI[61] did)

Targeting

- The stage in an organisation's development: grants should not be provided pre-concept and only rarely pre-revenue; the routes to sales should be very clear
- The use of credits / vouchers[62] which would empower recipients and incentivise providers to improve their marketing
- Ensuring that those support services which can be made generic are provided at scale in order to avoid unnecessary duplication and provide economies of scale. E.g. financial advisers being paid 20 times to deliver the same Excel model to 20 different organisations

Communication and access

Any programme of investment readiness support should be carefully communicated in order to ensure the most appropriate access by voluntary sector organisations and social enterprises. In particular consideration should be given to:

- Targeting the most appropriate potential beneficiaries in order not to waste unsuccessful applicants' time; large grant-based organisations have an advantage in this regard; forming partnerships with investors (including a broad range and not only sector specialists) and intermediaries for signposting, sharing and linking businesses with support;
- Links to mainstream provision where these services already exist; increasingly mainstream business support organisations are looking to develop longer term clients services from the VCSE sector (DeLoitte, PwC, others) and there is benefit on greater co-ordination of support
- Links with regional and local networks and providers of support and/or finance; local authorities are increasingly developing loan funds for VCSE organisations they work with.

Investor readiness

The issue of provision of support for investor readiness is out of the scope of this study. Nevertheless, interviews have highlighted a need for such support and in order to better align demand for investment with supply, support for investors could include the following:

- Understanding how to price and assess risk and how to structure a deal
- Ensuring the level of necessary support and expertise before during and after investment and signposting where to find it

[61] Social Enterprise Access to Investment, NESTA 2009;

[62] New opportunities to support social entrepreneurs access finance are under development in the European Commission ; co-financing with ESF or ERDF, use of voucher schemes and even an 'Erasmus for SEs' are all options under discussion.

- Understanding the demand for the outcomes that VCSEs generate, and assessing the competitive landscape in the social sector
- How to assess team competency – including the pro-activeness and resilience of founders, and their ability to 'let go' if needed at a later stage
- How to assess how well a public sector contract could work out for providers (to invest in working capital , for example)
- How to engage in social investment if they are considering supplying capital to the sector
- Providing master-classes for interested or active investors on what to expect from a social investment, specific sector issues, public commissioning risk and how to deleverage it

As UnLtd suggest, the marketplace at this stage could benefit from greater collaboration across intermediaries and financiers, for example in sourcing potential investees, joint pitching sessions and shared due diligence. This could also help reduce transaction costs for investees.

However, there are issues about how such a support should be funded, and whether public, quasi-public or charitable money should support financially motivated investors to better deliver against their business objectives, even if this helps to build the social investment marketplace more widely.

Further consideration

Designers of investment readiness programmes - be they public, quasi-public or other bodies – may also need to consider how the social sector – and indeed the so-called social investment market – operates in an environment that may be characterised as quasi-commercial. Competition for income streams is of course often as fierce as in the private sector. But as social sector organisations are driven by social aims, on occasions it is in their interests as much to collaborate (or even step aside for others) rather than compete. For example, a grant-maker may be willing to forego a commercial investment opportunity, even one which may deliver greater social impact, and pass it on to another investor, and use those resources to support other projects which the more commercial investor would decline. In this young market, it may be hard to develop truly commercial programmes if some players are operating on sub-commercial terms and undercutting commercial providers. This perhaps makes communication, consultation, flexibility and partnership working even more important.

ACKNOWLEDGEMENTS

Additional Research: Tom Harwood

Particular thanks to: John Bennett, Carrie Bishop, Matthew Brown, Chris Dadson, David Floyd, Daniel Frosh, Jo Hill, Jessica Holland, Philippa Jackson, Jonny Kates, Sarah McGeehan, Richard Morgan and Derek Walker. Many thanks too to Tara Mackey and her colleagues from the Big Lottery Fund for commissioning this work.

We would also like to thank our peer reviewers for taking the time to read and comment so helpfully on our draft report. They are:

David Carrington	Independent Third Sector Consultant, Board Member of Triodos Bank
Niamh Goggin	Director, Small Change (NI) Ltd
Dr Alex Nicholls	University Lecturer in Social Entrepreneurship, Skoll Centre for Social Entrepreneurship, Oxford University
Mark Richardson	Director for Social Impact Consulting
Isobel Spencer	Independent Management Consultant
Tom Harwood	Research Analyst, Abundance Generation

We are also grateful to the 1255 organisations that took the time to complete our survey and the variety of investors, investees and intermediaries and interested parties who gave us time to interview them; these are listed Annex C.

ANNEX A: INVESTMENT READINESS PROVISION

Examples of previous investment readiness provision and key features / lessons learned

Programme	Key features / lessons learned
SEATI – pilot fund to provide Social Enterprise Access to Investment	Very limited take-up (low promotion); risk of failure of securing investment fell too heavily on the investment readiness provider making it unattractive to bid for
Community Builders Development Grants	Grants of up to £75,000 offered to develop business model to then seek investment; required little ' skin in the game' and therefore did not act as a true filter of potential for investment; feasibility grants recently offered were for lower sums to circumvent this problem; issues of annual spending round constraints
Ulster Community Investment Fund (UCIT) developed 'network' – to develop investment readiness programme between Northern Ireland and Eire;	Considerable peer-to-peer learning took place and networks developed; considered successful but cost of delivering prohibitive and investor and supporter not separated. UCIT is currently running master classes on access to finance
Invest NI Social Entrepreneurs' Programme	Filtered organisations with social mission and potential to export; fast-tracked them to the mainstream programme– 3 social organisations successfully exporting now
Ulster University Investment Readiness Programme	Brainchild of Charity Bank and partners in response to lack of financial expertise evidenced in charities and third sector organisations; a one year intensive accredited academic qualification for 25 CEOs of large charities; philanthropically financed; maybe issues of ongoing sustainability both from demand and financing perspectives
Northern Ireland, Sector Matters	Has provided accountants 'implanted' into 20 selected organisations to train staff and board on financial strategic planning; provides volunteer run workshops on

	financial reporting within organisations operating in the 'age' sector; also provides a range of investment support on commercial/quasi-commercial basis; early days but evidence of a need being met so far
Wales Cooperative Centre, funded by Welsh government; Social Firms Wales, core-funded by Welsh government	Early stage business plan support and financial support, usually to cooperatives and wide range of social enterprises which are strongly supported by Welsh government rules on grant funding
Firstport Scotland; Level 1 Grant of £5000, Level 2, after demonstrated outcomes of £20,000	Funded through Social Entrepreneurs Fund from Scottish government, using part loan and part grant for early stage start-up social enterprises as they transition from Level 1 to full time on social venture in Level 2. Market place for beyond level 2 for smaller number to see ideas through to delivery stage; stress the importance of generating right culture and vision for SEs
UnLtd England	UnLtd has similar structure of early stage bespoke support for few award winners and generic information service for others; looking at how to develop a wider reach through partnerships with universities and colleges
UnLtd Big Venture Challenge Round 1	Competition focused on attracting investment to 25 winners from 638 applicants by providing grant match-funding alongside any investment attracted; provided new interest and learning on investors' perspectives; tackling the issue of providing suitable signposting to further support for the unsuccessful organisations
Other government programmes currently running with an element of investment readiness include Mutuals Support Programme, Community Right to Challenge and Department of Health Social Enterprise Investment, Investment and Contract Readiness Fund	Not all strictly designed as investment readiness funds; evaluations on these not yet carried out; ICRF for organisations seeking investment or contracts of over £500,000; currently four providers, all financial intermediaries, with more coming on stream shortly;

Charity Bank Wales – management of fund to develop capacity of recycling organisations in Wales (CYLCH)	£3m investment readiness fund with grant/ loan support with success rate of c3/10 (in line with venture capital generally); provides a useful template to build further possible programmes on using a sector based model
Charity Bank in the North (CBN) Investment Readiness Programme	Funded with support from Yorkshire Forward (RDA); £9.75m programme from 2006 – 2016 of which £7.5m was put into loan fund; 605 organisations received investment readiness support; 205 went on to receive grant/ loan support from Key Fund; it evaluates the benefits of providing guidance, revenue support and loan funding in one package (although not all by one provider or funder)
Other incubator/award/competition programmes including: Social Business Trust, Deloitte, Impetus Trust, CAN, funded by venture philanthropy grants and pro-bono contributions	Mostly not focused on investment per se but on business development and readiness, using a competitive process to secure the support; oversubscription suggests huge demand for such support; most of these programmes are new but built on mainstream VC models to provide the benefits of fully costed professional support
School for Social Entrepreneurs	Long track record; sponsorship model for attendance; presented with investors but separate the support from investor; many of today's leading social enterprises have been through SSE (e.g. Bikeworks); peer learning critical and intensive commitment to programme
Devon Investment Fund providing finance and related business finance support services in a joined-up way. Also bringing together public sector, charitable trusts and private providers.	Currently under development – further details around the provision of advisory services and the funding portal will be forthcoming shortly
Wales Social Support Fund part-managed by Community Enterprise Wales	Feasibility planning, business development for social enterprises developing in former coalfield areas of Wales
Cabinet Office, Office of Civil Society Social	To provide finance, advice and support for social

Incubator Fund (recently launched)	ventures from start up to investment and growth

ANNEX B: FINDINGS FROM SURVEY

Typology

A	Organisations that have successfully secured repayable finance
B1	Organisations that have tried but not yet successful in securing repayable finance
B2	Organisations that are actively seeking repayable finance
B3	Organisations that are interested to know more / to see if suitable fit
B4	Organisations that are not interested in pursuing repayable finance

Key findings

- Typology characteristics generally predictable, although perhaps some interesting sector and geographic variations
- 32% of Category B1 was not successful in securing repayable finance because their organisation decided to withdraw
- 44% of Category B1 abandoned before approaching investors
- Category B2 are primarily early stages, exploring which investors to approach (37%). 27% are getting ready to approach investors and 21% have approached investors

About the repayable finance

- Category A primarily wants investment for working capital. However, categories B1-B3 want to scale up what they already do
- Category A primarily secured finance from mainstream retail banks or from other sources. Looking at the responses here, these include individuals and local councils
- All organisations were or are most interested in investment between £10,000 and £100,000. Category B2 is more likely to be interested in larger amounts

- Categories A, B1 and B2 were or are most interested in securing longer-term loans. Category B2 is then most interested in mixed funding products, which not many of Category A or B1 looked to secure. Category B3 is interested in longer-term loans too, but more are not yet sure

- 63% of Category A has secured the capital that they need. 75% of Category A thinks that the terms are appropriate. 47% of Category A had to provide security to back the finance, 45% did not and 8% are unsure. Of those that did, 89% had assets to back the finance

About the repayable finance

For what reason did your organisation seek/is your organisation seeking repayable finance?

	A	B1	B2	B3
For internal capacity building e.g. to hire additional staff	14%	31%	40%	*37%*
For working capital i.e. to cover cash flow	39%	34%	38%	*27%*
For marketing purposes	7%	13%	18%	17%
To pursue other revenue streams	11%	19%	32%	39%
To scale up what we already do	28%	45%	61%	46%
To deliver a contract	9%	5%	10%	10%
To improve efficiency	4%	13%	12%	18%
For bridging payments	7%	1%	3%	4%
For asset acquisition	30%	21%	32%	22%
For refurbishment	25%	14%	12%	17%
Not sure	1%	1%	1%	8%
Other, please specify	15%	13%	13%	5%
TOTAL*	100%	100%	100%	100%
N =	*254*	*86*	*93*	*272*

*Percentages do not add up to 100% whenever respondents are asked to select all that apply

The early stages of the process

- Most respondents in Category A say that they had a clear social mission (93%), had a credible strategy (94%) and had a suitable legal structure (94%). Most also thought that they had a clear business model (82%). Fewer say that they were able to generate surpluses to repay finance (74%) and were clear about which finance options would suit their organisation (76%). Fewer still say that they were able to measure their social impact (65%), although this proportion is still high. Looking at Category B1, most respondents also say that they had a clear social mission (90%). Compared to Category A, a lower proportion say that they had a credible strategy (80%), a sustainable business model (65%) and a suitable legal structure (82%). Even fewer compared to Category A say that they were able to generate surpluses to repay finance (45%) and were clear about which finance options would suit their organisation (48%). Compared to Category A, a similar proportion (67%) says that they were able to measure their social impact. A similar pattern holds for Category B2, but with more (compared to Category B1) saying that were able to generate surpluses to repay finance (56%) and fewer saying they were clear about which finance options would suit their organisation (34%). The same proportion compared to Category B1 (67%) were able to measure their social impact.

- Most respondents in Category A say that they had suitable management skills (87%) and operational skills (84%). Fewer said that they had suitable business skills (76%) and finance skills (76%). Fewer still say that they had suitable marketing skills (62%) and social impact measurement skills (48%). However, these two skill groups were the ones that Category A say were most non-applicable. Looking at Category B1, a similar proportion as Category A say that they had suitable operational skills (85%). The other skills follow a similar pattern as Category A—with suitable management skills (78%) being more prevalent than suitable business skills (71%) and finance skills (70%), and those more prevalent than suitable marketing skills (54%) and social impact measurement skills (61%), but with smaller proportions for all compared to Category A, except for social impact measurement. Category B2 is similar to Category B1.

- The majority of respondents in Category A say that they had support from the trustee board (78%) and the management team (87%). This pattern of management teams being more supportive than trustee boards holds across Categories B1 and B2 too, although both are less supportive compared to Category A. 61% of Category B1 say that they had support from the trustee board and 74% say that they had support from the management team. The proportions for Category B2 are 62% and 84%. 67% of respondents in Category A had engagement from the finance team, less than support from the trustee board and management team, but with a relatively high proportion saying that this was not applicable (24%). This is true of Categories B1 and B2 too. The majority of respondents in Category A say that they had sufficient human resources (62%), sufficient financial resources (53%) and the time (69%) to take repayable finance forward. This contrasts to Categories B1 and B2. Only 45% of respondents in Category B1 say that they had sufficient human resources (41% for Category B2), 30% had the sufficient financial resources (33% for Category B2), and 39% had the time to take this forward (39% for Category B2).

Preparing to take on repayable finance

- Category A primarily says that they had to clarify the finance options that would suit their organisation. The next popular answer was none of the above, followed by having to find new revenue streams. For Category B1, when asked why they have had difficulties in securing, other, please specify is the most popular answer. This includes a number of reasons, perhaps most importantly that the organisation chose not to pursue or accept investment. After that, Category B1 also say that not being clear which finance options would suit their organisation and none of the above. Category B2 primarily say that they have to clarify which finance options would suit their organisation. They then think that they have to find new revenue streams, followed by improving their strategy, changing their business model and improving their social impact measurement. Over 30% say that they have to do this, but only about 10% of Category A organisations say that they had to improve their social impact measurement, even though slightly more Category B2 organisations say that could measure their social impact at the beginning of the process (67% vs. 65%).

- Looking at Category B3, the general picture is that organisations have clarified their social mission and investigated their legal structure (or think that they do not need to do this), are currently improving their strategy, developing their business model and finding new revenue streams. A roughly equal number are currently improving or planning to improve their social impact measurement. They are planning to investigate which finance options would suit their organisation.

- The majority (53%) of Category A say that they did not need to improve any of the skills listed of their existing staff. After that, the skills that most needed to be improved were financial skills, followed by business skills. 47% of Category B1 say that they did not lack any of the skills listed. After that, the skills that were most lacking were marketing skills. Again, for Category B2, one of the most frequently given responses is that existing staff do not need to improve any of the skills listed. The other most frequently given responses is that existing staff need to improve their social impact measurement skills. Improvement of financial skills is also up there.

- For Category B3, when asked what skills they needed to develop before they were ready to take on repayable finance, 77% said specific social investment knowledge, 67% marketing skills, 65% social impact measurement skills, 54% business skills, 46% finance skills, 36% operational skills and 32% management skills.

- 74% of Category A said that they did not have to hire anyone with any of the skills listed. 11% had to hire someone with financial skills and 10% had to hire someone with business skills. In contrast, 46% of Category B2 said that they do not have to hire anyone with any of the skills listed. 24% have to hire someone with financial skills, 17% with business skills, 17% with marketing skills, 15% with management skills, 10% with social impact measurement skills and 9% with operational skills.

- 62% of Category A had to get the support of the trustee board and 49% had to get the support of the management team. This fits with the pattern of management teams being more supportive than trustee boards, but not with high proportions that said that they had the support at the beginning of the process. Small proportions of Category B1 say that they lacked support from the trustee board (9%) or the management team (4%). 45% of Category B2 have to get the support of the trustee board and 31% have to get the support of the management team. 53% of Category A had to find the time to take the process forward, but only 20% had to find sufficient human resources and 30% sufficient financial resources. 39% of Category B1 says that they lacked sufficient financial resources, 33% the time to take the process forward and 21% sufficient human resources. 58% of Category B2 has to find sufficient financial resources and 49% sufficient human resources.

- More respondents in Category A say that repayable investment took less trustee, management and staff time to secure than other types of funding. In contrast, more respondents in Categories B1 and B2 say that securing repayable finance is taking more trustee, management and staff time than other types of funding.

- More respondents in Category A say that the process of securing investment—accessing targeted advice or support, learning about different finance options, identifying who to go to for finance, coordinating investors, negotiating the terms of the deal—is difficult or very difficult than easy or very easy. However, many more respondents in Category B1 and B2 say that the process is difficult or very difficult than easy or very easy. Respondents in Category B1 think 'identifying who to go to for finance' is the most difficult task, whereas respondents in Category B2 and B3 think 'coordinating investors' is the most difficult task.

- 59% of Category A say that investors did not want them to make any change before they would offer them repayable finance. This contrasts to 28% of Category B1. 29% of Category B1 was not sure what the biggest change investors wanted them to make was. 20% of Category B2 has to make no change, 26% are not sure and 18% have to access external support.

External support

- 42% of Category A received external support in securing repayable finance, compared to 23% of Category B1.

- Of the external support that they received, Category A found bespoke business and financial planning the most useful. Investment readiness and online mentoring received the highest proportions of 'Not useful' scores. In contrast, Category B1 found the bespoke business planning useful, but not the bespoke financial planning. Category B2 found a step-by-step guide to getting into social finance the most useful.

- When asked about the external support that they would like to receive, Category A's top three choices are a step-by-step guide to getting into social finance (41%), social impact measurement support (37%) and advice on individual financial products (36%). Category B1's top three choices are a step-by-step guide to getting into social finance (55%), advice on individual financial products (50%) and bespoke financial planning support (45%). Category B2's top three choices are a step-by-step guide to getting into social finance (53%), advice on individual financial products (53%) and pitching to investors support (45%). Category B3's top choices are a step-by-step guide to getting into social finance (79%); social impact measurement support (55%) and a self-assessment guide (52%).

B4ers

- Category B4 agrees (48%) or strongly agrees (22%) that they are interested in new ways of doing things and new ways of financing them. They also agree (43%) or strongly agree (16%) that they can see the potential to go beyond what they can achieve with their current mix of funding. Only 35% agree (29%) or strongly agree (6%) that their current funding mix is sufficient to meet their needs. But they are strongly against taking on finance that needed to be repaid to support their plans—with only 7% agreeing that they would consider it. None would strongly agree.

- Just over half agree (27%) or strongly agree (24%) that repayable finance is not suitable for charities. The majority agree (37%) or strongly agree (40%) that charitable money should be spent on delivery, not on repaying loans.

- Yet 63% either agree (34%) or strongly agree (28%) that they are not able to generate the surpluses to take on repayable finance.

Key characteristics of organisations identified by our typology

	Group A: Secured investment	
Type of investment	Barriers to securing	Support needed for overcoming these barriers
• Long-term loans (67% have secured) • Between £10,000 and £100,000 (47% have secured) • For working capital (39%), asset acquisition (30%), scaling up (28%) and refurbishment (25%)	Overall securing investment seems to have been a straightforward process for this group. Likely to be combination of: • Being more investment ready initially, at least from their own perspective: 93% thought they started off with a credible strategy, 94% a suitable legal structure and 82% a sustainable business model. At the outset 74% thought they were able to generate surpluses to repay finance and 76% were clear about which finance options would suit their organisation • So 34% did not need to make any of the changes given to become investment ready. Fewer than 30% had to make any changes given, except for 36% having to clarify finance options. • Few had to hire anyone or improve existing staff's skills. Those skills that needed improvement were finance and business skills. • So more said securing investment took less trustee, management and staff time than other types of funding • 47% had to provide security to back the finance • Longer-term loans of between £10,000 and £100,000 were of interest to two-thirds • 28% secured finance from mainstream retail banks, primarily for working capital and asset acquisition	• 42% received external support • Bespoke financial and business planning were the most popular, both in terms of the number of organisations receiving them and their rating of them as useful

	Group B1: Sought but did not secure investment	
Type of investment	Barriers to securing	Support needed for overcoming these barriers
• Also interested in longer-term loans [58%] but twice as many interested in a mixed funding product [14% compared to 7%] • Also interested in between £10,000 and £100,000 • Also for scaling up [45%], working capital [34%], and asset acquisition [21%], but also for internal capacity building [31% vs. 14%]	Combination of internal and external barriers likely for this group. NB includes those that opted out of securing finance because they turned out not to be suitable (rather than not ready) • Internal: At start of process, less likely to have thought that they were able to generate surpluses to repay finance [45% vs. 74%] and that they were clear about which finance options would suit their organisation [48% vs. 76%] • Internal: At start of process, lower levels of suitable management, business, finance and marketing skills. However, 47% believed that lack of suitable skills was not a reason for not securing • Internal: Lack of time and resources an important barrier for this group, with more believing securing investment takes more time than other types of funding • External: More likely to want for scaling up and internal capacity building—so fact that did not secure suggestive of a market failure? • Important to note that 32% decided to abandon the process before obtaining finance, and that many more had decided to abandon the process before approaching investors, than were rejected by investors or couldn't come to terms	• Less likely to have received external support, with only 23% receiving any • Those that did receive bespoke financial and business planning still found it useful

	Group B2: Currently seeking investment	
Type of investment	Barriers to securing	Support needed for overcoming these barriers
• Also interested in longer-term loans [63%] but seven times as many interested in a mixed funding product [49% compared to 7%], and more interested in equity and quasi-equity • Also interested in between £10,000 and £100,000, but more likely to be interested in larger amounts than the previous two categories • More for scaling up [61%] and internal capacity building [40%], than for working capital [38%] and asset acquisition [32%]. Also for pursuing other revenue streams [32%], which does not rate highly for the other two categories	Again a combination of internal and external barriers • Internal: Think that they have got lots to do—64% have to clarify which finance options would suit their organisation, with over 30% thinking that they have to improve their strategy, change their business model, find new revenue streams and improve their social impact measurement • Internal: Only 46% of those currently looking for investment think that they do not need to hire anyone with any of the listed skills, with 24% thinking that they need financial skills, 17% business skills, 17% marketing skills, 15% management skills, 10% social impact measurement skills and 9% operational skills • Internal: Lack of time and resources also an important barrier for this group, with more believing securing investment takes more time than other types of funding • External: Also more likely to want finance for scaling up and internal capacity building—a potential market failure problem	• 37% are receiving external support—higher than those that did not secure and lower than those that did • Think a step-by-step guide to getting into social finance was the most useful

	Group B3: Interested but not currently seeking investment	
Type of investment	Barriers to securing	Support needed for overcoming these barriers
• 47% not sure type of investment they are interested in, but longer-term loans and mixed funding products popular choices • Also interested between £10,000 and £100,000 • More for scaling up [46%] and pursuing other revenue streams [39%], than for internal capacity building [37%] and working capital [27%]. Asset acquisition at 22%	• Internal: 77% feel need to develop social investment knowledge • Internal: Developing marketing skills and social impact measurement skills came above business, finance and management skills • External: 57% would find it difficult or very difficult to identify who to go to for finance	• Also think a step-by-step guide to getting into social finance was the most useful

	Group B4: Not interested in seeking investment	
Type of investment	Barriers to securing	Support needed for overcoming these barriers
	• Less about attachment to the status quo • More about attitudes about what charitable money should be spent on • Practicalities of generating revenue streams to repay also an issue	• There will be significant support needs to ensure these organisations continue to provide services; (if society values their work it needs to find ways of ensuring that this can continue. This is out of scope of this research but an important issue).

ANNEX C: LIST OF INTERVIEWEES

We would like to thank the 1255 organisations that replied to our survey. This has generated a truly valuable bank of information to inform the sector.

We are most grateful to all of those who gave up their time to speak to us and inform our responses. Thank you very much. Contributors are listed below.

Claire Bench	Deloitte
John Bennett	Chief Executive, Welsh Social Enterprise Coalition
Suzanne Biegel	Angel Investor Circle, Catalyst at Large
Glen Bowen	Enterprise Programme Director, Wales Co-operative Centre
Daniel Brewer	Director, Resonance
Matthew Brown	Communities Investment Fund Manager, WCVA
Elizabeth Corrado	Investment Advisor, ClearlySo
Ian Courtney	Regional Director, Charity Bank Wales
Chris Dadson	OCS: Investment and contract readiness fund responsibility
Amra Dautovic	Managing Director, MyTimeCIC
Jerry Davison	Managing Director, Mill Consultancy
Chris Dunham	Director, Carbon Descent
Toby Eccles	Director, Social Finance Ltd
Caroline Forster	ACF Deputy Chief Executive, England
Charlotte Gardiner	Former UK Policy Advisor, the Big Lottery Fund
Niamh Goggin	Director, Charity Bank Northern Ireland
David Grahame	Chief Executive, LINCSCOT
Tom Hall	Director of Philanthropy & Partnerships, Scope
Helen Heap	Investment Manager, Tomorrow's People
Jo Hill	Head of Ventures, UnLtd
Graham Hodgkins	Managing Director, Signpost Advisors Ltd
Kirsten Howie	Head of Major Gifts and Trusts, Mencap
Deborah Keatley	Policy Officer, the Big Lottery Fund, Northern Ireland
Aliva Kilmurray	Director, Community Foundation

Peter Lancaster	Senior Chief Executive, Young Pioneers
Amar Lodhia	Chief Executive, The Small Business Consultancy CIC
Joe Ludlow	Director of Impact investment, NESTA
Tara Mackey	Evaluation and Research Analyst, the Big Lottery Fund
Caroline Mason	Chief Operating Director, Big Society Capital
Jonathan McAlpin	Director of Operations, Ulster Community Investment Trust
Sarah McGeehan	Consultant on ICRF, Social Investment Business
Frank McCourt	Invest Northern Ireland
Roy McGivern	Department for Social Development
Karen McGregor	Chief Executive, Firstport (Scotland)
Helen McKeever	Fund Development Manager, Community Foundation
Nigel McKinnney	Trust Administrator, Building Change Trust
Ralph Mitchell	Director of Policy, ACEVO
Richard Morgan	Director of Funding, Valleys Kids
Andrew Muirhead	CEO, Inspiring Scotland
Reena Mukhe	Director, Octavia Foundation
Isobel Newman	CAF Venturesome Investment Manager
Meredith Niles	Investment Director, Impetus Trust
Rob Owen	CEO, St Giles Trust
James Perry	Director, Panahpur
Geetha Rabindrakumar	Head of Finance, Scope
Laleh Rafiei	Co-Founder, Impact Generation
Mhairi Reed	Policy Advisor, The Big Lottery Fund Scotland
Paula Reynolds	CEO, Sector Matters
Hugh Rolo	Innovation Director, Locality, KeyFund, ACF
Douglas Samuel	Manager, Spartan Community Football Academy
Danyal Sattar	Investment Manager, Finance Fund Esmee Fairbairn Foundation
Ed Siegel	Director of Investments, Big Issue Invest
Laura Smith	Sustainable Funding Project Manager, NCVO

Nick Temple	Business Development Manager, SE UK
Jenny Tooth	Director, Angel Capital Group
Jackie Turpin	Head of Finance, Joseph Rowntree Charitable Trust
Stephanie Tyndall	Managing Director, Indigo Solutions
Derek Walker	Chief Executive, Wales Co-operative Centre
Mike Walsh	Deputy Director (Policy & External Affairs), Big Lottery Wales
Olof Williamson	Sustainable Funding Officer, NCVO
Jeanette Wilkins	Finance Director, Sue Ryder Charity, UK wide charity
Alastair Wilson	School for Social Entrepreneurs
James Wise	Portfolio Director, Social Business Trust

ANNEX D: CASE STUDIES & SURVEY BASE DETAILS

	Criteria applied	Number of organisations	Likely bias
Big Lottery Fund's database of grantees	UK grantees since January 2010 with incomes of £50,000 or over not classified as individuals or public sector organisations.	2,181	The income threshold may be set too low and our survey sample may therefore include organisations for which social investment is not appropriate. These organisations are likely not to be interested in social investment.
ClearlySo's customer relationship management database	UK social enterprises. No income threshold applied as this information is not captured and would exclude start-up social enterprises.	5,239	Our survey sample has greater percentage of social enterprises than the VCSEs sector overall. These organisations are likely to be interested in social investment.
TOTAL	'Investable' VCSE organisations in the UK	7,420	Bias is off-setting, but it is difficult to know if one outweighs the other.

Case Study Details

Case study name	Location	Type of organisation	Sector	Type of finance
Valley Kids	Wales	Charity	Youth	Loan
Scope	UK wide	Charity	Disability	Bond
Spartan Community Football Academy	Scotland	Charity	Community development	Hybrid/ grant and Loan
Young Pioneers	South East England	Charity	Youth	Loan
My Time CIC	England	Community Interest Company	Mental health	Equity

ANNEX E: REFERENCES & BIBLIOGRAPHY

Wales

Invest To Serve Fund Information;

Morgan, K and Price, A (2011) The Collective Entrepreneur Social Enterprise and the Smart State Charity Bank

National Assembly for Wales Enterprise and Learning Committee (2010) The Role of Social Enterprises in the Welsh Economy

Scotland

Big Lottery Fund Programmes – Life Changes Programme , Jessica Trust:

Christie Commission (2011) Commission on the Future Delivery of Public Services, APS Group Scotland

Enterprising Third Sector Action Plan 2008-2011, (2008) Scottish Government

Scottish Government (2008) **Evaluation of the Futurebuilders Scotland Funding Programme** Scottish Government and Social Research

Bunt, L, Harris, M and Puttick, R (2010) Radical Scotland: Confronting the challenges facing Scotland's public services Nesta

Northern Ireland

Charity Bank and Ulster Community Investment Trust (2012) Social Finance in Northern Ireland: Innovative Thinking and Action Ecorys

Department for Enterprise, Trade and Industry, Northern Ireland, Social Economy Enterprise Strategy, 2010-2011 Annual Report:

Charity Bank Northern Ireland; Research highlights need for Third Sector Investment Readiness Programme

England

ACEVO : Understanding Social Investment, (Chapter 2):

Big Lottery Fund programmes and consultations: BASIS consultation findings; People Powered Change (ongoing),

BSC Capitalising the Sector for Social Investment Demand (BCG) – (to be launched September 2012)

Brown, A and Norman W 'Lighting the Touchpaper: growing the market for social investment in England' (2011, Boston Consulting Group & the Young Foundation)

Wells, P, Dayson, C, Batty, E, Crisp, R, Sadie P (2011) Social Investment and its Impact The Evaluation of Charity Bank in the North

Wells, P, Chadwick-Coule , T Dayson, C, Morgan , G et al (2010) Futurebuilders Evaluation: Final Report Centre for Regional Economic and Social Research Sheffield Hallam University

NCVO website information and leaflets

UnLtd case studies

UK wide

Bank of England (2003) The Financing of Social Enterprises: A Special Report by the Bank of England

Big Issue investment cases studies:

BIG Lottery programmes: Millennium Now, Reaching Communities

Bridges Social Entrepreneurs Fund:

Cabinet Office (2011) Growing the Social Investment Market: A vision and strategy and update (2012):

Community Development Finance Institution, Inside Community Finance; 2012;

Capacity builders (2011) Social Enterprise Programme Evaluation Regional Report Rocket Science

Delta/IFF (2007) Hidden Social Enterprises: Why we need to look again at the numbers:

RBS Social Enterprise 100

Responses to the EU's consultation process on social investment:

Social Enterprise UK (2010) Annual Review and Impact Report

Villeneuve-Smith, F, Jones, C, Mavra, L et al (2011) (2011) Fightback Britain: A report on the State of Social Enterprise survey Social Enterprise UK

The Social Investment Business (2012) Investing in the Future

Shanmugalingam, C, Graham, J, Tucker, S and Mulgan, G (2011) Growing Social Ventures: The role of intermediaries and investors: who they are, what they do, and what they could become The Young Foundation

Venturesome case studies

Investment readiness programmes – mainstream and social sector

Allinson, G, Braidford, P, Houston, M, Robinson, F and Stone, I (2011) Business Support for Social Enterprises: Findings from a Longitudinal Study University of Durham

EU Jeremie Programme on Investment Readiness;

European Commission DG Enterprise (2006): Investment Readiness for Mainstream SMEs

The Mill Consultancy; Investment Readiness Discussion Paper

OECD Investment readiness research: OECD Facilitating Access to Finance: Discussion Paper on Investment Readiness Programmes