Borrowing in the Wild:

An Initial Literature Review Into Social Investment From a Rural Perspective.

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Adrian Ashton
Insight | Development | Encouragement

www.adrianashton.co.uk

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INTRODUCTION

As part of their commitment to encouraging and enabling social enterprises through facilitating their access to social investment, the Key Fund commissioned an independent sector consultant, Adrian Ashton, to undertake an initial literature review into rural social enterprises accessing of social investment, at the start of 2018.

This review is intended to help inform wider programmes of activity being undertaken by the Key Fund, and also shared more widely through their links with the Barrow Cadbury Trust.

The consultant commissioned has a background in social investment from having previously managed and developed local social investment funds for co-operative and social enterprises in the East of England, and also actively working with a number of social investors nationally through their involvement with the now ended Big Potential programme.

BACKGROUND AND SCOPE

The Barrow Cadbury Trust are supporting a number of initiatives and interventions through its Connect fund that will advance a more open and accessible market for social investment.

As part of an award from this fund, the Key Fund are keen to better shape and pilot new approaches to how social investment is offered and managed in rural areas from an evidence-based perspective. In order to ensure that these approaches are most credible and in the interests of openly sharing learning and thinking through the Connect fund, it commissioned this initial desk top literature review.

This rural dimension is particularly important in light of the contribution of rural businesses to the overall economy: they make up 1/4 of all of England's business population, are responsible for 13% of all employment and 9% of all turnover. Additionally, the majority of all social enterprises are located in rural geographies[1].

Within the time available, the consultant sought to identify existing researches and published literatures relating to social investment from a rural perspective. This was sought to be supplemented where possible by data about investment into traditional private businesses for benchmarking purposes in best understanding the emergent findings. These researches were initially focussed in very broad thematic and sector terms, but initial material was also sought to be identified in the 3 locations that the Key Fund are keen to trial new approaches within. Again, as with the benchmarking, this was to seek to ensure that the emergent findings could be best understood and acted upon in a local context.

This report does not, therefore, claim to be an authoritative document on the issues relating to rural social investment. However, it is hoped that it will be able to offer practical direction and guidance to future programmes, and also contribute to future research agendas and activities for the sector.

[1] Distinctions between rural and urban England briefing 1348, Arthur rank centre, 2011
Rural social enterprise in Britain briefing 1428, Arthur rank centre, 2012

BARRIERS TO SOCIAL INVESTING IN RURAL LOCATIONS

Of the literatures identified and reviewed, there would seem to be no clear specific or unique issues that limit the take up of social investment in a rural setting that would otherwise not be expected or anticipated to either social investment generally, or to/by traditional mainstream investors in a rural setting.

However, this may also be due to the relative lack of historical or pre-existing research into this dimension of social investment, as there were very few specific published articles or works that were able to be identified of direct and exclusive relevance to this study.

This document is therefore structured to posit a series of extrapolated issues that rural social enterprises face that, if successfully addressed, could increase their demand and use of social investment – this is through considering how barriers to social investment, barriers to rural enterprise, opportunities and strategies identified through the literature review, were all scoped and sought to be correlated.

BARRIERS IDENTIFIED TO SOCIAL INVESTMENT IN GENERAL

Various researches[2] identify a number of barriers to social ventures engaging with, and pursuing, social investment. These comprise:

- Lack of confidence on the part of the venture about how their business model would be viewed by investors
- Leaders of enterprises fearful over losing control to investors
- A perceived lack of understanding between investors/investees as to their expectations of each other, and how they might be able to work together
- That many social enterprise investment opportunities were felt to be too small to many investors
- That ventures lacked sufficient rigour in their governance and management systems to be able to satisfy the due diligence of investors
- A perception amongst many social enterprises that mainstream banks would be able to offer more favourable terms and a quicker decision/deal than social investors: of the social enterprises that are actively seeking repayable investment, social investors are the 3rd choice of preference for enterprises after banks and non-social investors
- The majority of social enterprises do not consider social investment to be an appropriate option for them

- LOCATIONS OF SOCIAL INVESTORS AS POTENTIAL ADDITIONAL BARRIER

In addition to the above, the question of whether the physical location of a social investor could be a factor in how social enterprises engage with them was also considered. This reflects the notion that

[2] What are the barriers to investing in Social Enterprise?, University of Northampton, 2013
Evaluation of CDFI, BIS, 2010
Understanding the capacity and need to take on social investment with the social sector, NCVO, 2016
Financial social ventures and the demand for social investment, 3rd sector research centre, 2014

investors and investees seek to develop a working and ongoing relationship with each other over at least the term of an investment (a sentiment echoed by many high street retail banks' business account managers).

The wider literature review undertaken for this study (see bibliography) did not identify this as a possible factor – indeed, there are more indicative reasons to suggest that a social investors physical location has no bearing on an enterprises decision to approach them, than there are to indicate otherwise:

- Many social enterprises hold their business accounts with national sector finance bodies banking online, and seek debt finance from them (such as Triodos or Charity Bank), but are not based on the same region as their main offices are located
- Social Investors are increasingly national in their reach and scope, but have limited physical presence in all geographies beyond 'travelling officers': a random selection of such investors' websites to identify where they have made investments show a spread across all parts of the country[3]
- The First ark social investment fund is based in Merseyside, but has a reach across the wider North West region, using home-based officers to travel to meetings with prospective investees and networking contacts more easily

BARRIERS TO SOCIAL ENTERPRISES IN RURAL LOCATIONS

As part of this initial literature review, it was felt prudent to begin to identify the likely barriers facing rural social enterprises in general. This is because any investment opportunity is predicated on the investee being able to grow – understanding any factors that may limit this could therefore help inform and shape future interventions in stimulating demand for social investment.

Various studies all seem to agree that there are a common set of challenges facing rural enterprises of all types[4]:

- The absence of a large local labour pool in comparison with urban areas means there is greater pressure on employers to invest in upskilling staff, but not necessarily the access to the resources needed to do this. This is leading to many people and employees in rural areas becoming increasing low skilled/low waged
- This shortcoming in the labour pool is likely attributable to people tending to leave rural areas around the age of 20, in part because there is a lack of affordable housing to enable people to be able to afford to remain living in rural areas which they cannot afford due to rural wages being notably lower than in urban contexts, and in part because of having less access to services than their urban counterparts (including banking facilities)

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[3] There appears to be a bias towards London and near-London based enterprises, but this reflects the higher population density of social enterprises in these areas

[4] Barriers to training and skills development in rural areas, University of Essex, 2009
Rural poverty in Wales, Public Policy Institute for Wales, 2016
Understanding the place based social value created by new-start social enterprises; People Place & Policy online, 2013
Barriers to rural economic development in Scotland, Wilson & Edwards, 2013
Distinctions between rural and urban England briefing 1348, Arthur rank centre, 2011
Rural areas as engines of growth briefing 1731, Arthur Rank Centre, 2013

- although there are more firms per head of population in rural areas than cities, they usually employ fewer people;
- there also appears to be an insufficient availability of business support (both in terms of networks and opportunities to collaborate);
- additional challenges identified include:
    - limited availability of appropriate workspaces
    - poor transport infrastructure and limited public transport
    - poor broadband connectivity
    - incomplete understanding of rural businesses by local authorities and other agencies (including negative impacts for planning)

Collectively these barriers hamper the market and business potential of rural enterprises of all types, with only a minority (39%) looking to grow and expand[5], and average turnovers per person employed being typically £50,000 lower than in urban areas[6], making them less financially resilient.

EXPERIENCES OF RURAL SOCIAL INVESTMENT

Mapping by Social Enterprise UK identifies that in comparison with their urban counterparts, rural social enterprises are far more likely to be successful when applying for social investment, although the amounts they are seeking to raise are notably smaller (typically £38,500)[7].

However, within the data sets used by Social Enterprise UK in this analysis, it was unclear if this higher level of success was due to the increased prevalence and likelihood of rural social enterprises pursuing community shares as their preferred model of investment. If this is the case, this would attract a significant amount of additional support in the form of training, consultancy, and even subsidy from national programmes seeking to encourage such models of community financing.

Additionally, with the principle reason given by social enterprises as to their motivation for seeking investment to grow[8], and the clear majority of rural enterprises having no aspirations or intention to grow, there would appear to be a clear disconnect in supply/demand with regards to social investment in a rural context.

IDENTIFIED OPPORTUNITIES FOR SOCIAL INVESTMENT IN RURAL LOCATIONS

Whilst many enterprises will seek investment as grant where possible, the criteria and management of some of these funds means that there is a need for bridging finance. The LEADER programme, a rural investment scheme, identified that in Scotland[9], short term social investment can enable an applying organisation to be able to manage their cash-flow while they await the receipt of awarded funds from the programme.

[5] Rural business survey briefing 1068, Arthur Rank Centre, 2009
[6] Rural business statistics, DEFRA, August 2017
[77] Prospecting the Future, Social Enterprise UK, 2016
[8] Evaluation of CDFI, BIS, 2010
[9] How Social Investment can help organisations secure LEADER funding, Social Investment Scotland, 2017

An alternative model of Social Investment has also been identified as being a potential solution to the cost of affordable housing in rural areas: the Council for the Protection of Rural England have previously suggested that landowners could lease land to be developed for housing on a 99 year lease, but that instead of a lease/rental charge to the developer, the landowner and developer share the subsequent rental incomes between themselves. Although there are no examples of this identified within this initial literature review, it is a model that could fit well within the Community Land Trusts sector.

- SOCIAL INVESTMENT IN NORTHUMBERLAND

There would seem to be a relatively high level of interest in investment in this area on the basis of a local fund being fully committed[10], and there being a £4m+ social investment fund[11] for the wider NE region created by Big Society Capital and the Esmee Fairbairn Foundation.

The Access Foundation also convened a round table discussion between local social enterprises based in this area in October 2017, suggesting that they also felt it was an area noteworthy for social more development around investment.

However, there would also seem to be a lack of local networking and facilitated business support to enable the sector to best access these opportunities – the local sector networking body, Social Enterprise Northumberland, was dissolved 2 years after its incorporation, having no undertaken any apparent activity in that time.

- SOCIAL INVESTMENT IN CUMBRIA

As with Northumberland, there would appear to be latent and emergent interest in social investment from the launch of a new fund from First Ark with a value of £4m.

Unlike Northumberland, there remains a local social enterprise partnership, through which relationships with investors and enterprises might be able to be brokered, and the local Community Foundation hosts a regular informal network of local grant making bodies – conceivably this could be expanded to include social investors.

- SOCIAL ENTERPRISE IN THE EAST MIDLANDS

Unlike Northumberland and Cumbria, the East Midlands has a far larger physical footprint, encompassing a wider range, type, and number of local communities.

No area-specific loan funds were able to be identified for the East Midlands a whole, as they were in the other 2 locations, however whilst there is an on-line social enterprise network (SEEM), through whom relationships between investors and enterprises might be able to be brokered, it is unclear how much physical resource it may have to offer this[12].

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[10] Rivers Fund

[11] NE social investment fund

[12] Social Enterprise East Midlands Ltd was incorporated in 2002, but dissolved in 2016 having ceased trading in 2015 with an operating deficit.

IDENTIFYING IMPACT AND VALUE OF SOCIAL INVESTMENTS

Part of any intervention to encourage and enable greater access to social investment needs to identify appropriate measures against which to track the value and impact of any such increased level of investment. This is in order to best quantify and assure that interventions are structured to have the greatest effectiveness and value.

Big Society Capital have previously explored how this might be best approached in general terms through the creation of their Outcomes Matrix[13] – this seeks to aggregate the impacts that enterprises create as a result of investment received. However, for the purposes of this study, what such measures should be from a rural perspective were considered.

Views expressed by rural communities with regards to what they identify as priority outcomes, regardless of type of intervention and activity (and so relevant to consider adopting as it would allow for easier benchmarking) are[14]:

- creation of employment
- increased tourism
- increased access to services
- more opportunities to participate in local activities
- retention of population (people not moving away)

INTERVENTIONS IDENTIFIED TO ENCOURAGE TAKE UP OF, AND ACCESS TO, SOCIAL INVESTMENT

Within the literature review it is apparent that there are a number of interlinked issues that limit the potential and ability of rural social enterprises to grow and, therefore, have the interest and capacity to pursue social investment.

What is also apparent is that the range of interventions needed to address and resolve these barriers are too great for any single agency to intervene around.

However, the literature review identified a range of interventions that collectively could address the barriers to rural social enterprise (and therefore limiting their ability to pursue social investment):

1) training and briefings for local civil servants and planning officers to help them better appreciate the place and role of planning in rural development[15]
2) facilitating greater co-ordination between different bodies and agencies with a remit and interest in rural enterprises[16], and peer learning between rural social enterprises[17]
3) mentoring programmes and business association initiatives to bridge the gap in business support[18]

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[13] https://www.goodfinance.org.uk/impact-matrix
[14] Understanding the place based social value created by new start social enterprises, People Policy & Place Online, 2013
[15] Barriers to rural economic development in Scotland, Wilson & Edwards 2008
[16] Creating local finance partnerships toolkit, CDFA, 2017
[17] Rural social enterprise in britain briefing 1428, Arthur rank centre, 2012
[18] Rural micro-businesses: what makes some thrive in a challenging economic climate, commission for rural communities, 2013

4) investors should look to flex their monitoring and reporting requirements to be proportionate to the amount invested[19]

As suggested, these would seem to go beyond the remit of any single agency to be able to take responsibility for; and in the wake of less resource being available for funded business support of all types at local authority/area levels in general, it may be useful to briefly consider how they might be realised:

i) Local Economic Partnerships are now the principle route through which publicly funded business support is offered and managed. However, their remit and role would mean that any intervention or service offered should to be equally relevant and accessible to all businesses across a large area, and clearly help them to meet economic growth targets. With rural social enterprises likely to be smaller, and potentially less able to easily achieve economic growth on the basis of factors cited earlier in this document, it is hard to imagine how they might take on any such specific role.

ii) The Local Government Association may be a candidate to address the need for greater awareness amongst rural planning and civil servants (point 1). However, much of any support they could likely offer would take the form of passive briefing papers only: any training they could offer would be charged for, and with cuts to local authority budgets it is unlikely that the target officers would easily be able to engage in such development.

iii) The Access Foundation was formed with a remit to enable social investors and investees to be able to work better together, and remove barriers that hinder them from being able to engage with each other. To date, it has funded several initiatives to this end, although none have had any specific focus theme by either sector or geography. It is therefore conceivable in light of the findings in this document that have identified a set of specific barriers to rural social enterprise, that a new initiative to explore this further could be considered to be developed.

iv) Big Society Capital, whilst at first consideration may also seem a logical choice to support the above interventions in sharing similar purposes to the Access Foundation, is likely less so. This is because it has recently adopted a refreshed strategic priority around social investment that tackles specific themes, none of which have an exclusive rural dimension. However, given its role in generating additional capital for all social investors, it would be a logical choice to lead any activity that supported such lenders to review their monitoring and reporting requirements with a view to their becoming more flexible and processes more reflective of the amounts being sought – this would make the prospect of investment more attractive for prospective social investees, in addressing one of their perceptions about social investors in general.

v) There are also a number of sector support bodies within the wider social enterprise sector, and these should also be considered for what role they might also be able to offer. Whilst none will have an exclusive rural social investment remit, this theme will overlap with their purposes in places. These include: the Plunkett Foundation (rural co-operative

[19] Access foundation roundtable, October 2017

enterprises); the ACRE network (Action for Communities in Rural England); and the Rural Services Network (whose remit includes support rural areas to be able to access services relevant to them).

RECOMMENDATIONS OF APPROACHES, AND MEASURES TO CONSIDER EFFECTIVENESS OF THEM

In reflecting on the above findings, and how they might be applied in rural areas by social investors to encourage an increase in demand for, access to, and uptake of, social investment from them, the following actions are suggested:

- formalising referral routes with local agencies (not just networking bodies, but also banks and grant making programmes where bridging finance may be an issue for applying ventures); this could be pursued through joint training/briefings for other agencies, perhaps as part of wider existing programmes of networking events.

- review of how investment reporting requirements might be able to be flexed for applying enterprises, and clear guidance on maximum times needed for decisions to be made on loan applications.

- reviewing the Key Fund's existing 'lets talk good finance' events and format in more open training events using Big Society Capital materials for consistency and credibility. These could also be structured to be delivered using more informal action learning sets, which would also facilitate networking and peer business support.

- staging shared training events for business support teams in local authorities and other local support agencies to enable them to better understand the realities and opportunities of social investment and enablers needed that they can influence. These could use recognised Theories of Change[20] and monetised outcomes frameworks to best engage target audiences by presenting the content in terms and using references that they are most familiar with, and could also be offered alongside any existing networking or briefing events that an investor is organising or is part of.

In considering how progress against these, and the impact they create, could be tracked, there are several indicators that could be adopted:

- numbers of/change in number of applications received for investment in target areas over time, and against other rural areas where there are no formal interventions or activities delivered

[20] Evaluation of community development finance institutions, BIS, 2010
An economic impact tool for the community finance industry, cifi and cdfa, 2014

- changing perceptions of social enterprises as to the relevance of social investment as a pertinent option for them, as tracked by entry/exit forms to participants at Key Fund 'lets talk good finance' sessions, and similar

- changing perceptions of social enterprises as to the attractiveness of social investors as lenders of choice over banks, as tracked by entry/exit forms to participants at 'lets talk good finance' sessions, and similar

- numbers of/change in numbers of referral routes and numbers of referrals to investors made/received over time, and against other rural areas where there are no formal interventions or activities delivered

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