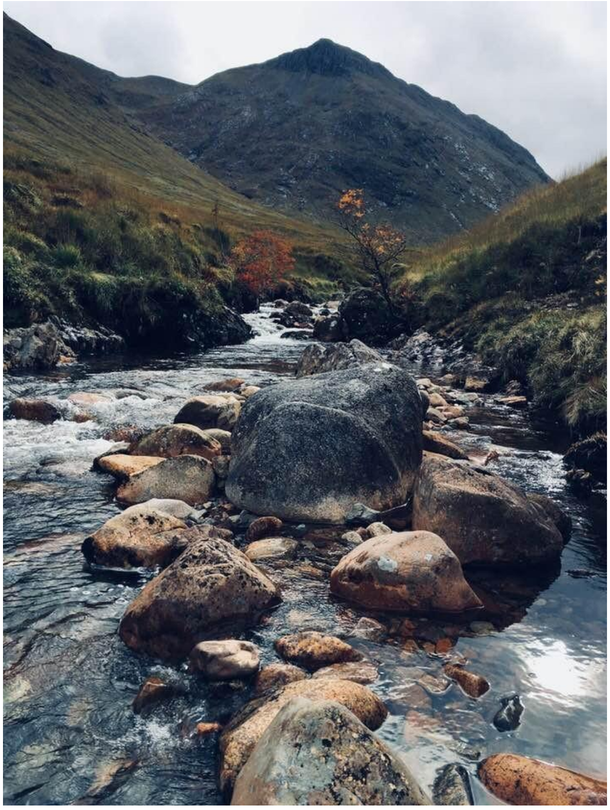

CONNECT TO INVEST

Final Report

Understanding barriers to investment in rural areas and identifying ways of addressing those barriers.

Key Fund

Connect Fund
Building a better social investment market

Key Fund Connect Fund

Introduction

In 2018 Key Fund was awarded a grant from The Connect Fund to examine barriers to social investment in rural areas. The Connect Fund has been set up to strengthen the social investment market in England to better meet the needs of charities and social enterprises. Known as the 'Social Investment Infrastructure Fund', it is a £3 million fund for grants and investments that Barrow Cadbury Trust manages in partnership with Access – the Foundation for Social Investment.

The focus for the work grew out of a perception that the levels of funds finding their way to rural communities were lower than might be explained simply by population density, comparative to towns and cities.

It was important, therefore, to understand if there were other influences at play and what might be done to address them. In delivering the project, we sought to work with a number of independent organisations with sector and place based expertise, to ensure a degree of rigour and openness in exploring the issues at hand. Particular thanks goes to Voluntary Organisations Network North East, Lincolnshire Community Foundation, Adrian Ashton, CERT and Big Society Capital for their input.

Approach

The first step was to establish a baseline position. In order to do this, we commissioned an independent consultant, Adrian Ashton, to undertake a desk review of existing studies into rural business and investment. The outcome was the report "Borrowing in the Wild".

The report identified a range of interventions that collectively could address the barriers to rural social enterprise, which currently limit 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, particularly around building and land use.
2) Facilitating greater co-ordination between different bodies and agencies with a remit and interest in rural enterprises.
3) Coordinating and encouraging peer learning between rural social enterprises
4) Mentoring programmes and business association initiatives to bridge the gap in business support
5) Investors should look to flex their monitoring and reporting requirements to be proportionate to the amount invested

The next step was to test the research and identify any further issues through primary sources in the form of consultation events and market research questionnaires. The events were planned for Wooler, Wigton and Horncastle, in Northumberland, Cumbria and Lincolnshire respectively.

Third party market research was also commissioned in Lincolnshire, Northumberland and Cumbria.

Similarly to the initial desk review, we felt that it was important to use independent third parties to avoid respondents telling us what they thought we wanted to hear, or for us to reinforce existing perceptions.

At this point it is important to note that both activities in Cumbria proved very hard to deliver. The event, publicised locally only attracted one attendee and the research was not completed. Activities in Northumberland and Lincolnshire were much more productive and a number of positive outcomes and clear messages emerged:

Event Messages

- There was a general lack of understanding about social investment among attendees
- There was uncertainty about the suitability of loans
- Neither area, but particularly Northumberland, had a widespread culture of borrowing
- There was more intent to borrow in Lincolnshire, but lack of understanding about social finance
- Some participating organisations had no intention of borrowing, despite the events being focussed on social investment

Event Outcomes

- Two attendees at the Wooler event made successful applications to join the Key Fund Newcastle Social Incubator
- Charity Bank picked up one investment leads from the Horncastle event

Research Outcomes

- Organisations in the counties targeted predominantly fell in the £50k-£500k turnover bracket
- More organisations felt they understood social investment than understood loans, which speaks of some confusion
- All respondents were predominantly grant focussed
- There were strong perceptions of a North South divide in relation to support and investment
- Most respondents identified capacity issues as a barrier to growth
- The use of reserves was preferred to borrowing

Next Steps

Following collation of the research findings and consultation/event responses, we felt that there were a few immediate steps we could take in addressing the concerns raised.

1. De-mystify the investment process and the language used around it to make the process as accessible as possible
2. Simplify the process to reduce the burden of work on the applicant
3. Bridge barriers created by physical distance and information gaps between investors and the market. Our original intention here was to concentrate on building direct relationships between investors and investees. However, issue of trust raised in conversation, led us to believe that working with trusted local intermediaries would also be hugely important. We deal with this more fully, later in the report.

Outputs

The tools and information emerging from our project have been the result of both deliberate commissioning based on existing perception and responses to need identified during project work. Throughout the project we were careful to consult with a range of individual enterprises, local infrastructure and social investment peers to ensure our work reflected investors and investees as broadly as possible and not just any preconceptions held by Key Fund.

Particular thanks goes to Carol Botten and Abi Lunn at VONNE, James Murphy at Lincolnshire Community Foundation, Neil King at CERT and Claire Trenaman.

Presenting our plans at the Connect Fund conference in London and subsequent conversations with colleagues in other projects, has also been very useful. Interaction with the team at Barrow Cadbury Trust has also been helpful in shaping thinking and building links to other projects.

- Borrowing in the Wild
- Research by LCF and VONNE
- Glossary of Investment Terms
- Business Plan for Investment (Tested by VOSCUR and CERT, used by VOSCUR as basis of assessment tool))
- Financial Model (Developed independently against brief)
- Animation on the investment journey and a “making of” film as a secondary promotion tool

Barriers to Investment

Whilst the research undertaken drew on wider sources than just the voluntary, community and social enterprise sector, many of the issues identified cut across ownership models. The key ones to emerge were:

- There is a lack of confidence from organisations about how their business model would be viewed by investors

- The leaders of enterprises were fearful about 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 a large number of 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

Wider Influences

- 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)

- 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)

- 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).

- 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, 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.

Conclusions

One of the more significant barriers between investors and investees appears to be trust. There is a clear divide to be bridged between investors and the sector.

This conclusion was reached on the basis of specific comments by Local Infrastructure Organisations at a VONNE event, the "Hear from a Peer" sessions in Let's Talk Good Finance events being the most valued and from responses to interviews conducted in Northumberland and Lincolnshire and Warwickshire.

The physical distance between rural organisations and most investors exacerbates the trust issue, reduces familiarity between organisations and exposure to interactions which may redress these concerns.

Interviews and research also highlighted a lack of understanding about the flexibility and wider characteristics of social investment, for example the availability of blended loan/grant funds or the use of community shares, a very successful route to raising funds in rural areas.

In addition, there were a number of characteristics of rural businesses which influenced the availability or take up of finance:

- A number of smaller, lower turnover organisations with less capacity to service debt. Blended grant/loan and more patient form of finance may assist with this.
- There is a cultural gap around debt finance which is stronger in some areas than others
- There are a higher proportion of geographically and purpose bound organisations, with fixed missions, operating on the edge of commerciality
- The more commercial organisations are often discreet entities such as pubs and shops, with limited requirement for social investment beyond the start-up phase

Recommendations

There's a triangle of trust to be built! Larger sector infrastructure needs to be confident in who investors are and what motivates them, local infrastructure needs to trust that the information they are being given by you is honest and independent and investors need to be happy that an accurate picture of them is being passed to the end user.

1. Addressing a trust deficit

The best approach to building trust is working through existing trust networks and peer group recommendations. There must be continued efforts at direct outreach by social investors, but ensuring that local infrastructure is well informed and equipped with appropriate tools is essential. This includes:

- Case studies and testimonials across industry themes and reflecting local geography
- Tools that enable LIOs and grassroots organisations to independently and simply, explore social investment and then engage both trusted networks and investors in conversation
- Locally hosted events emphasising lived experience with space to directly question investors in a peer group setting, rather than simply here the offers of individual investors.

2. Simplification

Barrow Cadbury Trust, working with Big Society Capital and the Good Finance team are in a unique position to assemble a set of simple, universal tools which help organisations to explore, understand and plan for social investment. Whilst every individual investment will have unique characteristics, the under pinning principles, assessment processes and baseline documentation will be fairly consistent.

Sharing experience, tools and understanding on as wide a basis as possible is essential if we are to maximise the value of investment available, build trust and understanding between supply and demand and most importantly enable the creation of social value in all our communities.

3. Responding to Rural Issues

It is obvious that general barriers to investment are amplified by isolation, poor transport routes and fewer local consumers than would be found in urban areas. As a result the flow of information, exposure to a range of investors and an understanding of options available, also tend to be lower in rural rather than urban areas.

There are some exceptions, such as community owned pubs and shops where discreet commercial models intersect with national programmes of support. The More Than a Pub Fund is a prime example, which supports easily quantified business opportunities in an environment where practitioners reach out to each other and share experience voluntarily, on a national basis.

Connectivity is the key to improving the situation. It is highly unlikely that any consistent, national resources to stimulate rural market development will emerge at scale in the foreseeable future, so we must become better at connecting what intelligence, networks and resources we do have.

Outside of the production of tools to better enable facilitated or independent analysis of opportunity, there are a few things we could do to address the current situation.

- Access to investors can be partially resolved by working with intermediaries. When seeking to build links between investors and potential investees, there is a clear role for local and regional infrastructure in addressing the trust deficit.
- Developing consistent training and briefings for local civil servants and planning officers will help them better appreciate the place and role of planning in rural development and the resources available to support appropriate development.
- Facilitating greater co-ordination between different bodies and agencies with a remit and interest in rural enterprises, and peer learning between rural social enterprises
- Mentoring programmes and business association initiatives to bridge the gap in business support