

How can we crack the funding gap in the £5k-100k range?

1. Observations

- There is a leap from Grant to Loan with no stabilising stage – Sudden changes and different reporting requirements.
- Legal structures are limiting.
- Key Issue within the sector- Cashflow from public sector entities are plagued with delays.
- Regulation of business structuring : perception and money has not followed.
- Lack of innovation in financial products arising from lack of financial literacy; SEs don't know how to indicate demand for new products.
- Failure of SEs due to lack of knowledge and mentorship apart from funding.
- Loss making is frightening for founders- education and awareness is necessary.
- The difficulty of balancing a business and creating social impact.
- Difficulties as a SE getting a small loan; primarily perception issues?
- 'Natural pipeline' created- Firstport to SIS- is this necessary? Can the pipeline be more diversified and act more like a market?

2. References / Best Practices

- Canada- Private limited companies investing in impact
- We can learn from the corporate start-up funding pipeline
- Angel Investor networks
- Government and investor relationships to be created for interest flow so that socially minded people can take on the risk.

3. Key Insights

- Investor demands cause mission drift.
- Debt can be crippling in a social cause
- Start up to medium growth place is the hardest.
- A variety of challenges arise between the founder and the board in terms of funding decisions.
- No stabilisation or support system in growth stage.
- Time-consuming and resource-draining application procedures only for small amounts of funding.
- Founder risk appetite is low
- Having to spend money before receiving a grant is difficult
- Inefficient organisation of processes in funding structures

4. Ideas to explore

- Create pools of funds with mixtures of private and public monies (fund of funds).
- Market building activities lead to funding to deliver contracts.
- Social enterprise incubator - part of next national Action Plan?
- Masterclasses and mentorship; founder development
- Loan guarantee scheme
- Diversification of financial products specifically tailored to the diverse needs of the sector
- Policy change and legal structure possibilities.
- Blockchain applications to track cash flow and handle transfers efficiently.
- Finding the right investors: Targeted money and innovation on products; Social investment Vs Stock investment.
- 'Compare the market' for SE funding to raise awareness- Good finance specific to Scotland.
- Invest more in Community bonds and Community shares.
- Innovations in who should and can share the risk- first loss creation.
- Issues of scale- variety of small loan applications and investor proposals are less attractive.
- 'Smart Contract' technology- Online contracting system can be introduced.

5. Key performance indicators

- Increase in dialogue within the sector regarding funding pipeline
- Increase in success rate of accessing funding (avoiding burn out)
- Gap becomes filled with products meeting the SE code.

6. Warnings / Red Flags

- Different types of SEs require different financing vehicles - a gap for some but not for others
- The legal structures that currently operate (and perceptions about these) may lock us in/out of types of funding
- Self-interested organisations and lack of coordination among different players
- Founders and Board not willing to take a risk
- Deep structural change is challenging
- Reputation management & the use of public money

7. Questions to dive into for research

- Why does a funding gap exist? Micro perception? Financial product availability?
- How can funds that DO offer within £5k-100k better promote their products? Do they need to be structured differently to be more accessible? Do they suit the full range of SE needs?
- How effective are community bonds and shares?
- Why is an equity-friendly business model lacking in the SE sector?
- Technological improvements- Can there be standardisation among application and reporting requirements?
- If SEs are set up to be revenue generating, do what degree will there still be a reliance on grants? What complications or opportunities arise out of a blended model?
- Are there issues faced by mature organisations that also face start-up stage enterprises? Are funding vehicles available for small-scale non-start-up SEs?