



# **Social Investment Scotland**

**LET'S DO IT. TOGETHER.**



**Learn Together 09**

# Purpose of the Survey

**The purpose of this survey is to help us improve investment products for social business**

The central theme running through our approach to business growth within SIS is activity focused through market segmentation. We will develop an in-depth understanding of different segments of the social business and community enterprise landscape in Scotland, work out where we can make maximum impact through our investments and develop products accordingly.

The purpose of this survey is to help us improve investment products for social business, so that packages are more relevant, more sector specific and more affordable. The findings from the survey results are available to view on the SIS website and will be the focus for discussions about improving funding for social business with Scottish Government, social businesses and intermediaries with a social enterprise support role.

We are grateful to Bannerman Technology, who offer a wide range of software and dynamic database solutions, for sponsoring this survey.

# Methodology

**SIS is extremely grateful to the undernoted organisations for their help and to the 88 social businesses that completed the survey in May 2009**

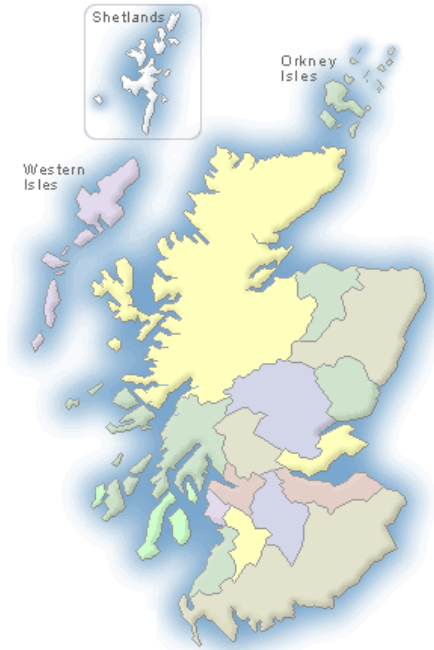
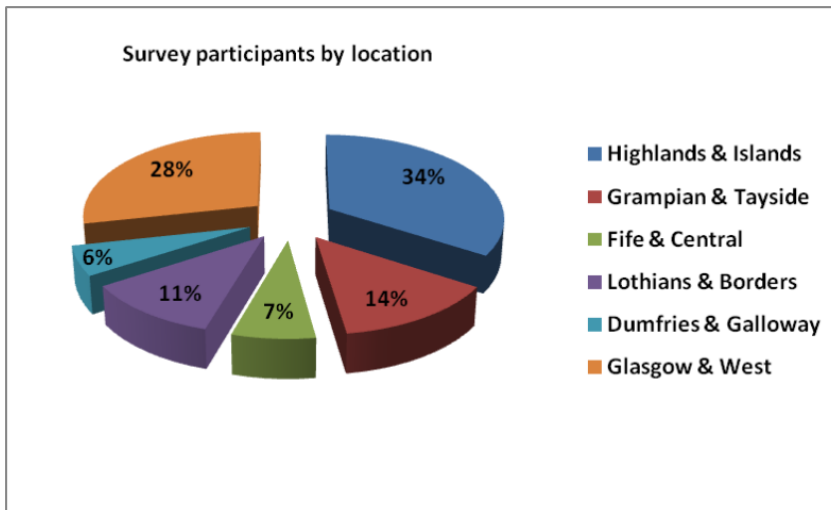
The questionnaire asked social businesses for contact details and for information on: future business development plans and how these will be funded; attitudes to loan finance and past experience of applying for it; and their need or desire for tailored financial products. The survey presented options on different types of investment product – loans, equity share and capital investment - and on different ways of structuring each product. This information will allow us to learn about the preferences of social business and how we might tailor products accordingly.



# Participants by Location

The undernoted table details the survey participants by geographical location

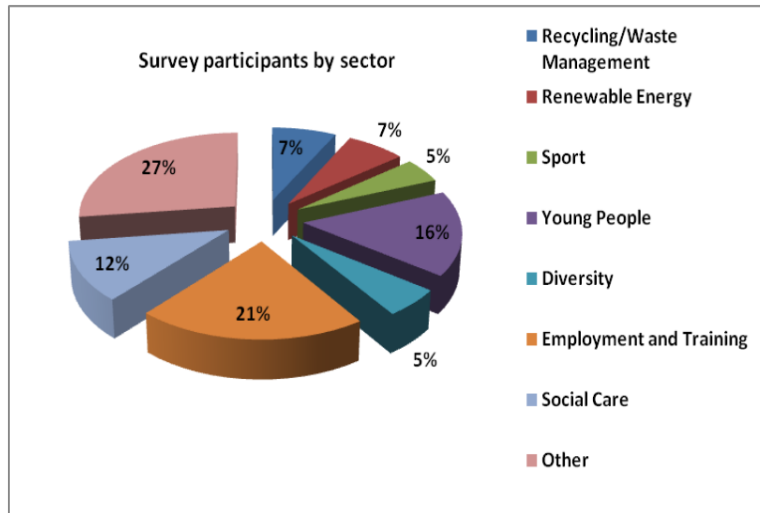
Organisations completing the survey provide a good geographical spread as shown in the chart below.



# Segmentation

## The largest groups were Employment and Training and Young People

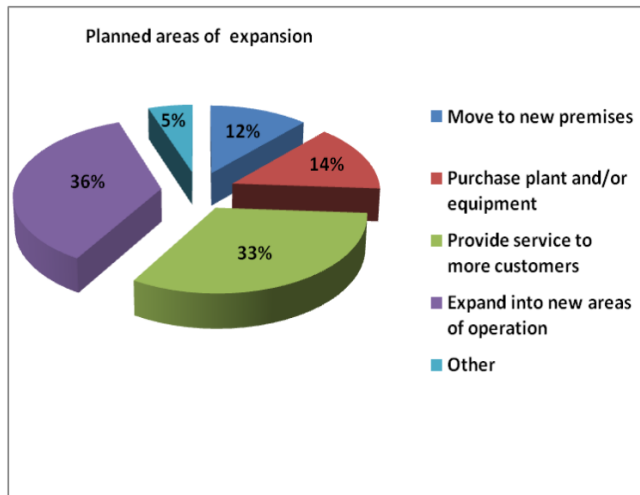
Survey respondents were asked to specify which of a list of market sectors best described their area of operation. Of the respondents that identified a specific sector, the largest group was Employment and Training (21%) followed by Young People (16%).



# Business Development

**93% of respondents are planning to expand their business over the next three years**

This demonstrates that social businesses have a sense of optimism and confidence about their future prospects. None of the respondents cited general economic conditions as a barrier to business expansion. An encouragingly high proportion (89%) of respondents has a business plan.

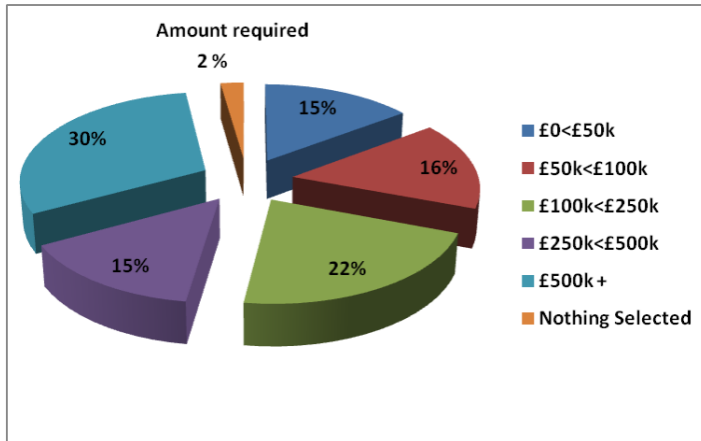


**69% of Organisations plan to expand into new areas of operation and/or provide their service to more customers**

# Investment Requirements

## 30% require substantial investment above £500,000

Respondents were given the opportunity to indicate the amount of investment needed for their expansion plans, in five bands ranging from £50,000 or less up to £500,000 plus. 30% require substantial investment above £500,000 and 22% require £100,000 to £250,000. The sectors with the highest percentage of businesses requiring investment above £500,000 were Recycling, Sport and Social Care. The total amount required by respondents for investment over the next three years, if taken at the top figure in each band but not exceeding £500,000, would reach £27 million.

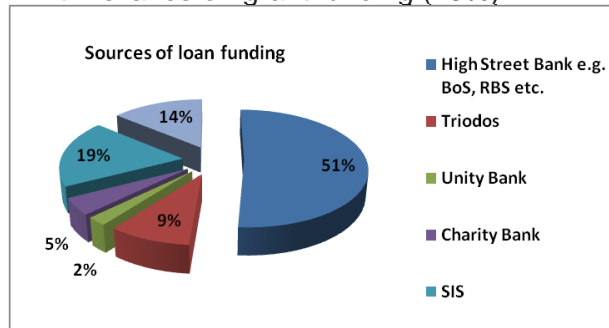


# Sources of Loan Funding

The survey sought to find out about the experience of respondents in applying to a range of lenders

*More than half of respondents (51%) had applied to a high street bank for a loan.* Perhaps surprisingly, none had applied to the Co-op Bank, which might be regarded as the bank most likely to be sympathetic to social business. Triodos, Unity Bank and Charity Bank had between them attracted loan applications from 16% of the respondents who had applied. *Social Investment Scotland had received applications from 19%.*

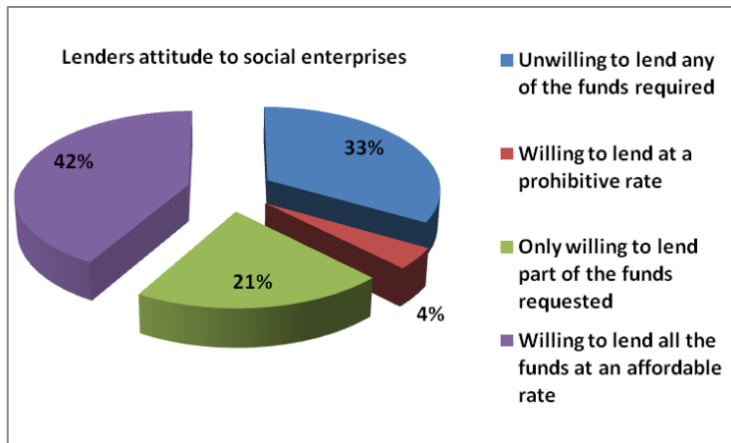
*The survey reveals a number of barriers to the use of loan finance that relate to the preferences of social businesses in the way that they operate.* Barriers cited by those respondents not in favour of taking on a loan include: concern about not being able to make the repayments (24%); reluctance on the part of board members and concerns about their personal liability (34%); and satisfaction with reliance on grant funding (29%).



# Attitude of Lenders to Social Business

**Fewer than half of respondents (42%) were able to find a lender that was willing to lend all of the funds requested at an affordable rate**

Applications from 33% were met with a straight refusal and lenders were willing to take on part of the risk for 21% of applications. Respondents' experience of approaching lenders is mixed. Of those that responded to this question, 46% indicated that the lender fully understood their needs and 46% that the lender did not fully understand their needs.



# Products that Meet Social Business Needs

55% of organisations indicated a willingness to take on loan finance

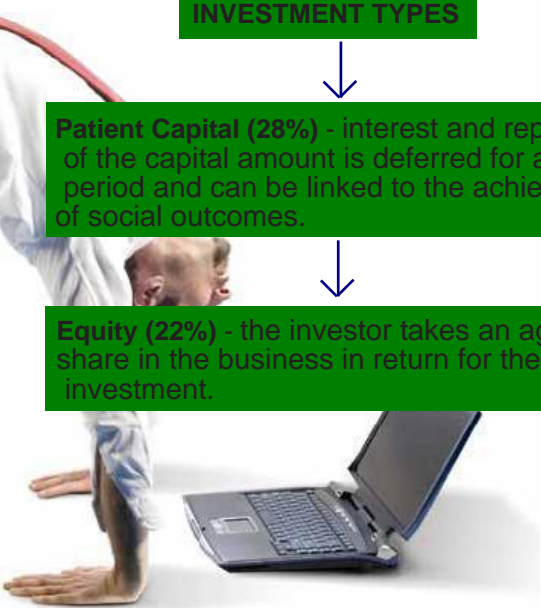
## INVESTMENT TYPES

**DESIRABLE FEATURES**  
Fixed repayment period (23%)  
Fixed interest rate (25%)  
Ability to miss occasional repayments (19%)  
Link repayment to levels of turnover (49%)

**Patient Capital (28%)** - interest and repayment of the capital amount is deferred for an agreed period and can be linked to the achievement of social outcomes.

**Equity (22%)** - the investor takes an agreed share in the business in return for the capital investment.

**FIXED INTEREST RATE**  
Helps mitigate effect of fluctuating rates  
Provides more predictable environment to plan development



# Willingness to take on loan finance

**Lenders need to be willing to respond to the needs of social business by offering appropriate investment products**

The scale of planned investment by social businesses over the next three years that has been uncovered by this survey will provide lenders with significant opportunities, but also significant challenges. If the high street banks continue their reluctance to lend to social business because of a perceived level of risk that is too high or because of a continuation in the lending freeze that affects business generally, other lenders need to be willing to respond to the needs of social business for investment by offering appropriate investment products.

A major challenge for those organisations that support social business development is to encourage a positive attitude to loan finance amongst the 38% of all respondents who expressed unwillingness to take this on and a further 7% who were undecided. External pressures may alone not be sufficient to change a culture within social business of aversion to loan funding.

The carrot of the availability of loan finance for social business in Scotland is accompanied by the looming stick of grant funding becoming increasingly scarce.