Design Council

Social finance in the UK

Designing the experience for ventures

The Design Council champions great design. For us that means design which improves lives and makes things better. As an enterprising charity, our work places design at the heart of creating value by stimulating innovation in business and public services, improving our built environment and tackling complex social issues such as ageing and obesity. We inspire new design thinking, encourage public debate and inform government policy to improve everyday life and help meet tomorrow's challenges today.

Contents

Foreword

The Design Council is delighted to have been asked to undertake this work, to uncover the ways in which entrepreneurs discover and access social finance and to identify opportunities for improvement. As an active social funder itself through its Design Challenges programme, the Design Council is passionate about the growth of social entrepreneurship in the UK and equipping innovators of all forms with the tools that they need. Design has long been recognised as a human-centred driver of innovation, using the experience of end-users' interactions with products, services and systems in order to improve them. While historically focused on commerce – using design to help companies grow – design methods are increasingly being used across a wider range of issues. How might we design better, more efficient public services? How might we design better solutions to the pressing social issues of our time?

A huge amount has been done already to meet the needs of social ventures and the UK is proud to have one of the most vibrant and advanced social enterprise ecosystems in the world. From the Social Incubator Fund that made £10m of match-funding available to those supporting the earliest stage support for new social ventures, to tax relief for Socia l Investment Diversity and a £20m Social Outcomes Fund the supply of social finance has never been stronger. This report therefore looks at the detailed experience of ventures accessing social finance and what holds them back from finding the funding that is right for them, so that all ventures can make the most of the support that exists.

The insights and tools within this report are intended to provide social funders – whether charities, foundations, government agencies, private sector consortia or others – with understanding and ways to fulfil the un-met needs of ventures that seek social finance in order to adapt and improve their funding products and services accordingly. We hope readers find it useful.

John Mathers
Chief Executive,
Design Council

Nick Hurd MP
Minister for Civil Society

In the UK we have made great progress in supporting social ventures to strengthen our communities and deliver better public services. Now 15% of SMEs are social, and they employ two million people, contributing £55bn to the national economy. By 2012 £200m was being invested into the social finance market.

But it is by no means easy being a social venture. As the social investment market grows we must ensure that its development is shaped by the voices and experiences of everyone involved in it – not just policymakers and investors but also social ventures and entrepreneurs.

We engaged the Design Council to help bring out these voices. The Design Council's expertise in putting users at the centre of designing systems and services has been invaluable in this research. And it is another leading example of central government embracing an open approach to policymaking.

I would like to extend my thanks to everyone who participated in this research, and who has made such rich insights from right across the sector possible. The challenge now is to take the recommendations from this discovery process forwards to reality.

01

Introduction and methodology

Introduction

In the emerging and fast growing market for social finance, ventures seeking investment can struggle to identify and obtain the funding and support that is right for them. The Cabinet Office and Design Council set out to better understand the reasons behind this and to identify the sorts of solutions that might help social ventures and funders align better.

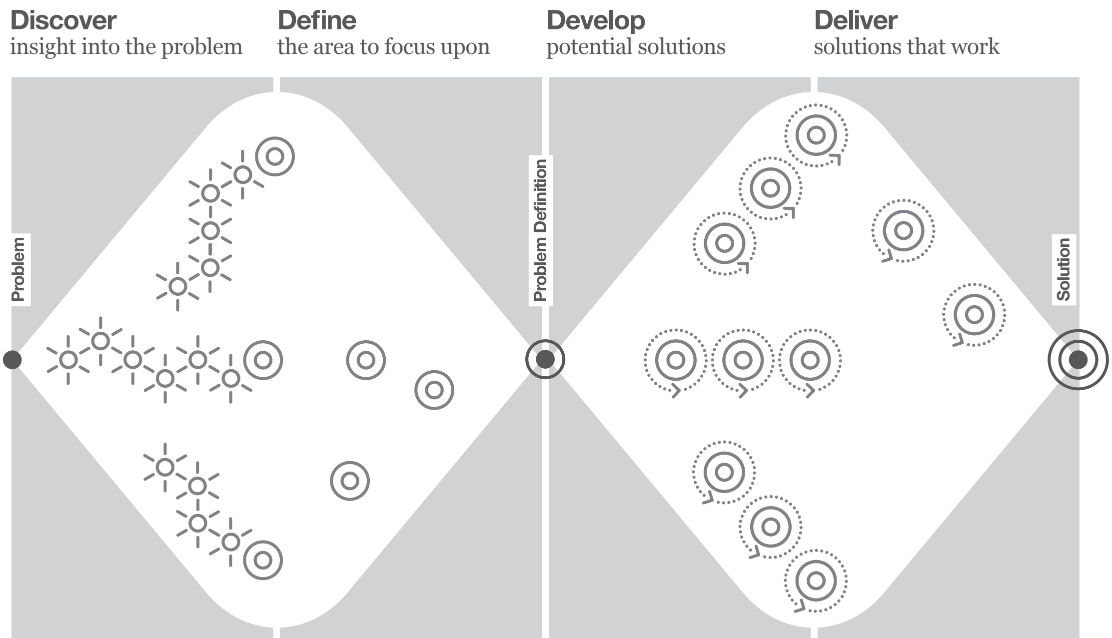
The design process starts by understanding the user needs – both those that are met by current products and services as well as those that are not – and only then starts to define what solutions might look like. This illustration, of the 'Double Diamond' visualises this approach.

This report has completed the Discover and Define stages, articulating the experiences and needs of ventures in finding social finance and now aims to inform the Development and Delivery by providing tools that will enable social funders to design products and services that better meet those needs.

This document is divided between two sections: Discovery phase and Define phase.

The last section 'What's next' offers a call for participation on developing solutions either as a self-initiative or in collaboration with other organisations.

The 'double diamond'



02

Discover

Research methodology

A note on terminology

We have used the term 'social venture' as a collective term for organisations with a social mission that might seek social finance (e.g. charities, community interest companies, for profit social ventures set up as companies limited by shares or guarantee).

We have also used the term 'funder' as a collective term for those organisations active in granting, raising, lending or investing money in social ventures.

Methodology

The research was undertaken over a 10-week period from October 2013 to December 2013, using a qualitative research approach to explore individual perceptions and behaviours.

This type of research is not intended to provide a statistically representative sample, but instead offer a variety of individual perspectives, which can be used to help generate insights to better understand the needs of social ventures in accessing finance and to develop ideas that might improve products and services.

We carried out a short literature review and mapping of the sector based on publicly available data. After this we interviewed 12 funders and 20 social ventures in total. These interviews were supported by an open online survey for social ventures, and separate focus groups with 6 social ventures and 15 funders.

Funders

The aim of the interviews was to understand funders' perspectives of how the existing social finance landscape currently functions and their experiences of interacting with different types of social venture.

The interviews covered their views of the collective social finance landscape and their place in the pipeline of funding opportunities; attitudes towards risk in investment and funding choices; the process of finding and selecting ventures to work with; their definitions of success and failure; how they engaged with 'users'; and their data collection practices.

A follow up workshop was held with funders to present the emerging findings and gather a response as to how the sector might take up some of the solution ideas. We are aware that some funders do not fit neatly within one type but have listed on page 8 the capacity in which we interviewed them.

Type	Organisation
Social lenders / Investors	Big Society Capital Triodos Social Investment Business Key Fund CAF Venturesome
Incubators	Wayra Bethnal Green Ventures Unltd
Intermediaries	Clearly So SEEM
Trusts and foundations	Esmee Fairburn Nominet

This table provides a list of organisations interviewed

Ventures

In constructing the list, key considerations were ensuring a spread across the stage of venture and of organisation type (for-profit, not-for-profit and charitable). We also looked for a spread of success stories versus those who had faced challenges; innovative versus more traditional business models; and spinouts versus start-up ventures.

The venture interviews were less narrowed than the funder interviews, using open questions with some targeted prompts to ensure that responses reflected reality of ventures' business situation and business and finance needs rather than being driven by research questions.

Founders shared:

- the **challenges of setting up their business and scaling**;
- key turning points or **milestones in the development of their business**;
- their current status and **ambitions for future growth**;
- their experiences of **seeking and accessing finance** and their views of funding opportunities available to them.

The focus group session with ventures was used to test some of the emerging findings we had identified from the venture interviews.

This table provides a breakdown of the 20 ventures interviewed

Legal structure	CICs	6
	Charities	4
	Ltd companies	10
Years of operation	Less than 5 years	7
	5-10 years	7
	10 to 20 years	4
	20+ years	2
Type of finance received	Grants and revenues	6
	Grants, Revenues and equity	7
	Revenues & equity	4
	Investment bonds	2
	Bank loan	2
Development stage	Early (pre revenue)	6
	Middle (sustainable/ consolidating)	8
	Late (operating at scale)	6
Location	London based	13
	Wider UK	7

To ensure that ventures felt able to speak openly about their experiences, the interviews and focus group were undertaken on a **confidential basis** and venture views are presented anonymously throughout this report.

Areas for further research

Inevitably with a project of this nature, which aims for rapid understanding of a broad and complex space, there are areas which would benefit from expanding the research scope.

Further research with individual angels and emerging large-scale investors in the social finance space would be valuable, as well as crowdfunders active in the social space.

With ventures, there is an extent to which the sector is self-defining, those who are seeking social finance are easier to access. Further research could explore in more depth ventures which have grown through revenues or private assets, those which are consolidating their business so are not actively networking or seeking social finance and also those ventures which have not continued to operate. We did speak to ventures of these types but there would be value in conducting a study of this kind with a larger sample size.

Another area of further research that would benefit the sector is a comparison between social ventures and SMEs. What role do Business Angels play? Is innovation as important in both worlds? etc.

An emerging landscape

It's also important to note that the social financing landscape is still in its infancy. The findings from this research inevitably provide a snapshot of the current moment in time, although they do also hint at questions and issues that may arise in the future which we elaborate on in the market trends section.

Understanding the findings

This section presents the findings from the discovery phase of research. It focuses primarily on conveying the experiences of social ventures in building their organisations and seeking social finance. It also compares ventures' experiences with those of funders and highlights where there are differences in perspective.

We have used segmentation to bring to life social ventures' differing attitudes and motivations – in particular with regard to business growth and finance. These are supported by business paths, which map different development journeys for the broad types of social venture we have identified and illustrate the different roles that social finance can play in their growth.

We have then drawn out a range of insights from our interviews, comparing and contrasting the stories of social ventures with the perspectives from funders. We have divided these into two sections.

1 Factors that shape whether ventures choose to seek social finance and if so what kind of social finance.

2 Experiences of applying for and accessing funding or investment.

The final section of this report transforms the insights into key needs and looks at how these can be addressed.

Social venture segmentation and business paths

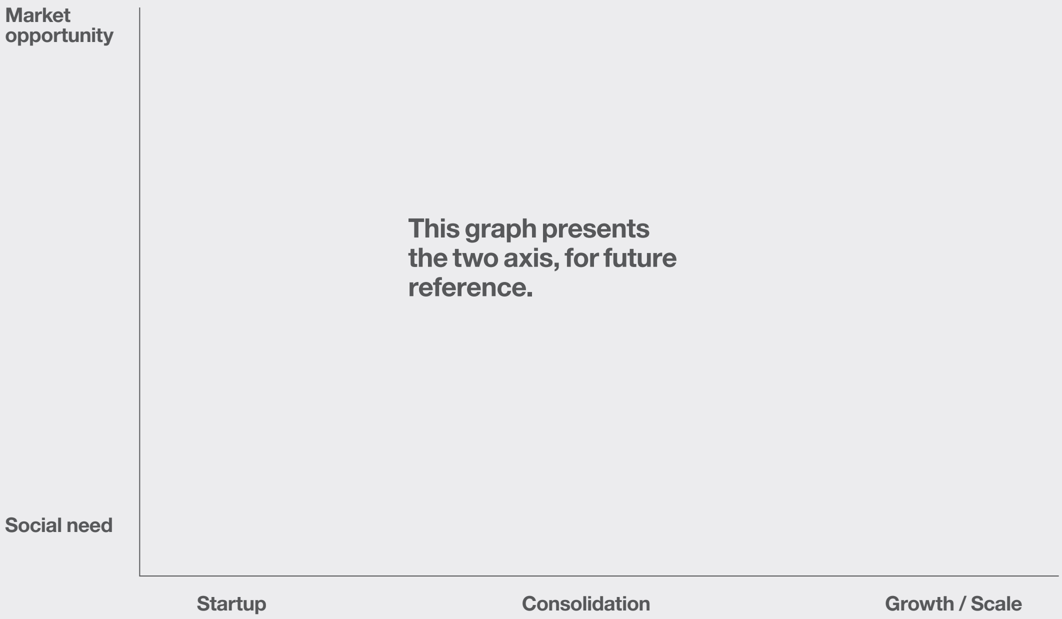
We have identified a total of four segments that represent the broad types of social ventures we have encountered in our conversations. Each segment is presented in an easily identifiable and understandable form and it brings together lots of information about similar people to create a single character that represents the group.

Reading the business paths

Each segment is supported by a map showing what we feel the average business journey is for this group.

The **vertical axis** on each map denotes a key differentiating factor in the attitudes and values that we observed between types of social venture. **At the top of the axis we have those who are more driven by market opportunity. Those who are more driven by social need appear at the lower end of the axis**. Neither is necessarily more social than the other; it's just their primary drivers are different. The former may be more revenue focused but as a means of achieving social impact. The latter may be more focused on generating impact with revenue supporting this.

The **horizontal axis** represents the **venture's development stage**, ranging from starting up through to significant growth and operating at scale. We interviewed ventures who were at all of these different stages of development. It's important to note that stage of development does not always correlate with age of venture, with several of those ventures in the start-up and consolidation stages, having been in operation for well over 10 years.



Social start-ups

About
Driven by addressing a social need they've seen in the world. These ventures are often innovative in how they do this, and some working around a tech-based idea.

Ambitions
Sustainability is prioritized over scale, and scale is only sought if social impact can be mantained.

Main funding sources
Grant funding, incubators or accelerators, quasi equity and self-funding.

Challenges & risks
Not necessarily a clear business model or market upfront. Therefore, achieving sustainability and consolidation is often the tough phase. The product or service underlying the business may also require multiple iterations.

A typical social start-up path
Social Start-ups are often successful in securing grant funding to develop an idea from scratch or subsisting off their own funds whether this is savings or income from maintaining a job. The risk point for social start-ups is when they are past seed funding and incubation stage but may be still prototyping or iterating their product, some will also be in the early stages of identifying revenue streams or the right revenue model. Ventures often cover this shortfall through slowing down or scraping by. These ventures often have to shift their focus to beefing up their business model rather than addressing the social need as they look for second stage investment (reflected by the rise upwards in the graph).

Quotes from 'Social start-ups'

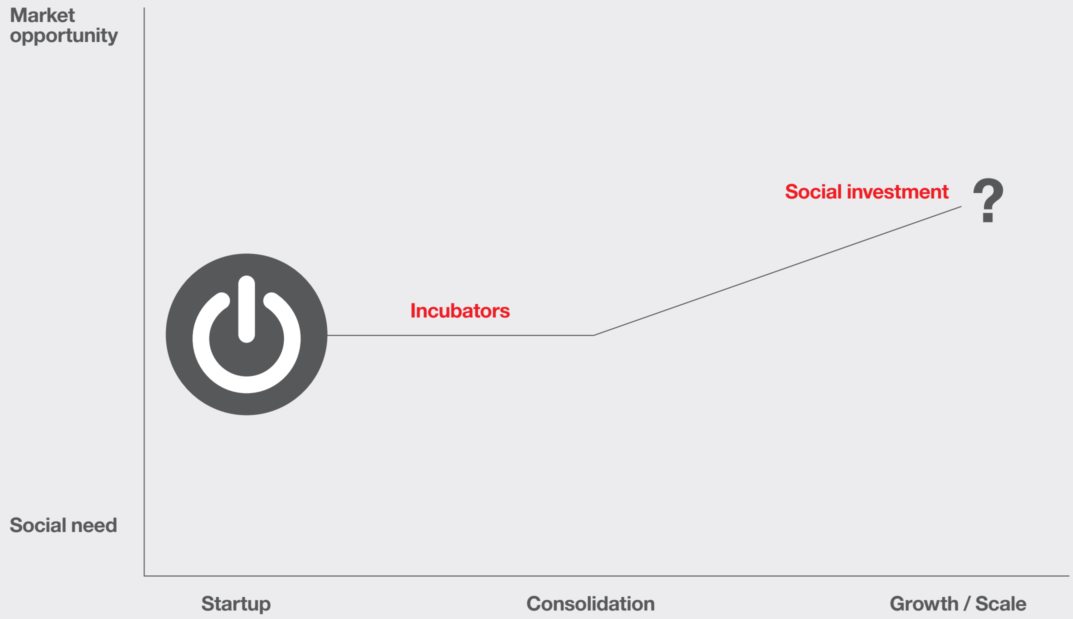
"I scraped together enough to cover costs with some part-time work and raised some extra money through family & friends. We worked without money for at least a year, it was a good discipline."

"We're currently in that 'boring, middle bit' and it feels as though this is a much less exciting moment for funders. Realistically we will probably need 2-3 years before we can prove sustainability."

"We want to grow more through our revenues now and really make sure we are sustainable. It's been a longer journey than we thought just to get this far."

Implications for the market

Significant investment has been made in incubator programmes with the aim of creating a flow of ventures who may become eligible for later stage finance. The question is whether enough 'Social start-ups' will be able to move out of incubation and successfully make the transition to being more sustainable or market driven.
There is a risk that without more funding opportunities in this transition period few ventures will make it through to later stage investment opportunities.



Shape shifters

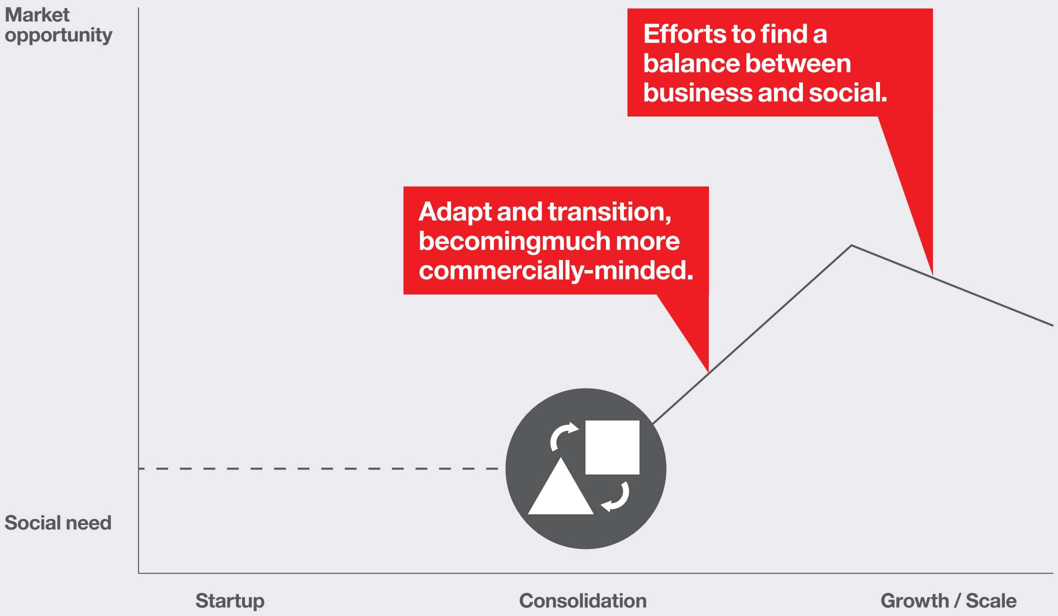
About
These are relatively established organisations (5-10 years plus). These were often developed in a different economic environment and were historically very dependant on grant funding and/or public sector contracts to achieve their social aim.

Ambitions
Securing the organisation's long term future.

Main funding sources
Originally receiving a mix of grants and revenues from public contracts, the 'Shape shifters' have now moved more towards repayable finance (subject to business success) and commercial revenues. They have had to become more commercial in recent years and have often secured grant funding to support the transition.

Challenges & risks
Some ventures of this nature will have fallen along the way as they have not been able to transition from public funding to more commercial sources. In particular trustees can be very risk averse but founders and CEOs may also have concerns around transition to more commercial models not compromising their social mission.

Shape shifter path
We spoke to these ventures part way into their journey (the dotted line denoting their historic experience). Having developed in a very different funding environment they were originally able to focus almost solely on the social side. As grant and public funding has been reduced, 'Shape shifters' have had to adapt and transition, becoming much more commercially-minded and needing investment to continue their work (reflected by the rising line on the graph). The falling line represents their efforts to find a balance between a greater business focus and the driving social mission.



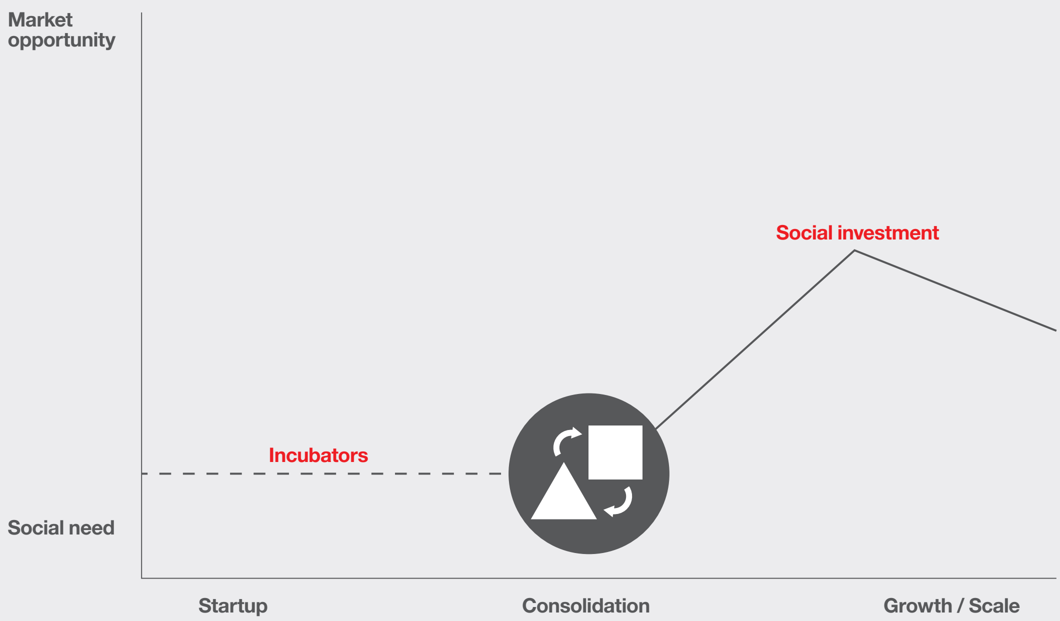
Quotes from shape shifters

“We had to face reality, we have taken the opportunity to build our business over the last 3 years with the transitional funding and investment. We have really shifted from being statutory and grant funding reliant. Many social enterprises are dependent on public sector.”

“The first 14 years was steady but not lightning growth. We were largely public sector funded 90/10 [...] We went from £3.2 million to £1.5 million. we’d worked hard to get quasi equity investment. With no more public sector funding we knew we needed to create new products and services, but we don’t have the money to develop these, the funding is helping us do that.”

Implications for the market

Transition funding has been essential in enabling ‘Shape shifters’ to transform themselves to become investable propositions. This funding has taken the form of loans which are only repayable subject to success and investment readiness funding. There is an ongoing need of this sort of funding for ‘Shape shifters’ who could benefit from it.



Not a social enterprise

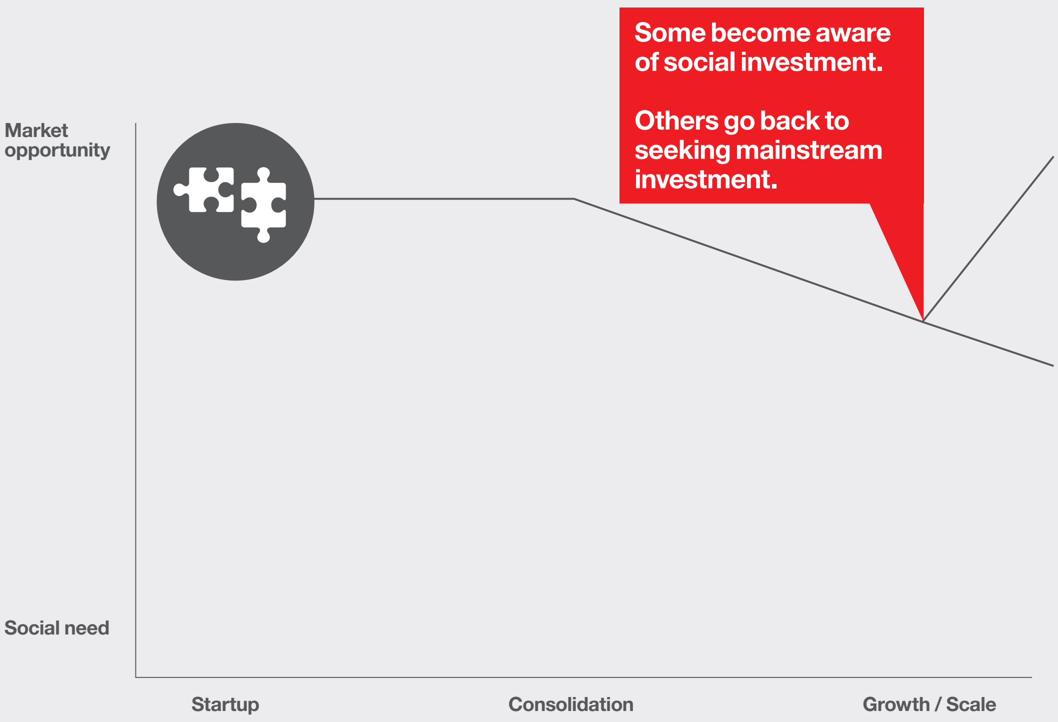
About
These organisations consider themselves first and foremost a business, but one motivated by delivering social impact. They do not tend to identify themselves with the term social enterprise or may only adopt this as a means to an end. Revenue growth is seen as a means to achieving greater social impact.

Ambitions
Achieving social impact at scale.

Main funding sources
In early stages, these are a mixture of their own money, commercial loans and revenues. In later stages some will succeed in gaining social investment, others may seek it but are unsuccessful and revert to angel investment.

Challenges & risks
Consolidation into investment.

'Not a social enterprise' path
This group are driven by a market opportunity that addresses a social need; they tend to be more product-based ventures, where doing better commercially means greater social impact too. This does not mean they are less socially-minded than others, just that their drivers are slightly different. Typically this group focus on growing revenues before seeking investment, often using personal finances or mainstream loans. Some become aware of social investment and try to fit with that, which works well for some. Others go back to seeking mainstream investment.



Quotes from 'not a social enterprise'

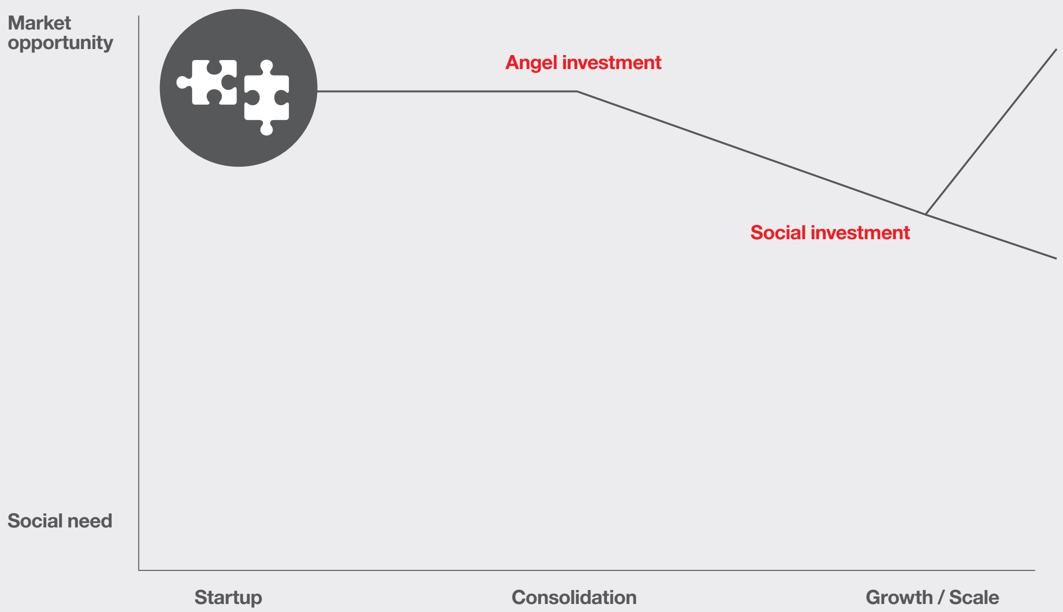
"I've put a lot into it; £50k of my own money at the beginning which I haven't recouped and that's also not thinking about the time and loss of potential earnings… so it's important to me that at some point I can still exit if I want to."

"Our focus is really on our revenues – that is our driver. It is directly linked to the impact we are able to make. The stronger our revenues are, the less we have to give away when we talk to investors. Going forward we would like to achieve major growth."

"As a business we have a 100% impact focus, there's nothing in our articles but our whole business model is structured that way. For me social enterprise is when the social is peripheral to the business - it's the bit you put back in, for us this is the core of what we do. Too many companies waste time thinking about how to be social before they actually have a business."

Implications for the market

There is a risk that these ventures fall between the cracks of social and commercial investment. 'Not a Social Enterprise' ventures can represent excellent funding propositions as they offer both sound commercial and social impact. The market may need to adapt to make sure it meets the needs of these ventures and supports them in delivering on their ambitions. Not to do so would be a missed opportunity for social impact and in supporting ventures that support the UK economy.



Steady Eddie

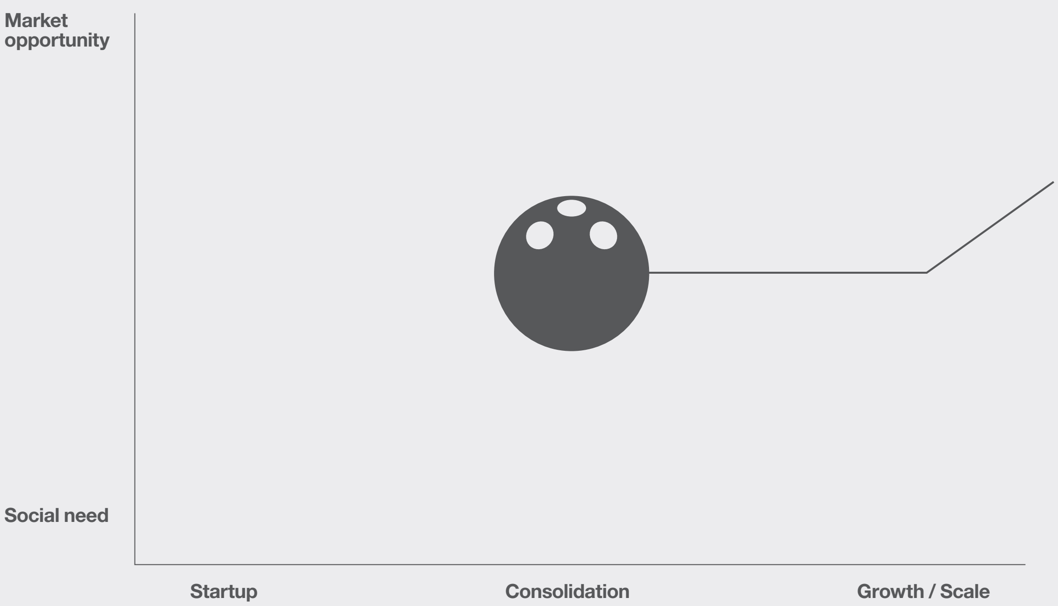
About
An organisation in this segment will be an established social enterprise operating at scale with a tried and tested model, often addressing a traditional social issue. 'Steady Eddies' tend to be a trusted, large charity or organisation with a strong and established social mission, often backed by a reputed charity brand. They are more likely to be service-based with a traditional business model.

Ambitions
Aiming for growth and scale.

Main funding sources
Initially 'Steady Eddies' were backed by the revenues of their host organisation. They are seen as a safe bet and are generally successful in raising investment from social banks and investors.

Challenges & risks
They tend to experience fewer risks other than the time and resource required to see through investment deals.

Steady Eddie path
This group avoid the start-up and consolidation phase of the business path as they are generally spinouts of major charities or other organisations. Their social and commercial focus is often well balanced as they will be a commercial initiative of an organisation with a clear social mission, they are also likely to hold assets or have a consistent revenue stream. Their business models tend to be proven and therefore ripe for scaling or replication. Ventures in this group can be very successful in achieving major investment but do require support to go through the process of seeking it. There is no risk point highlighted as these organisations don't tend to be risky propositions and risks to them are mitigated by the fact they are already consolidated.



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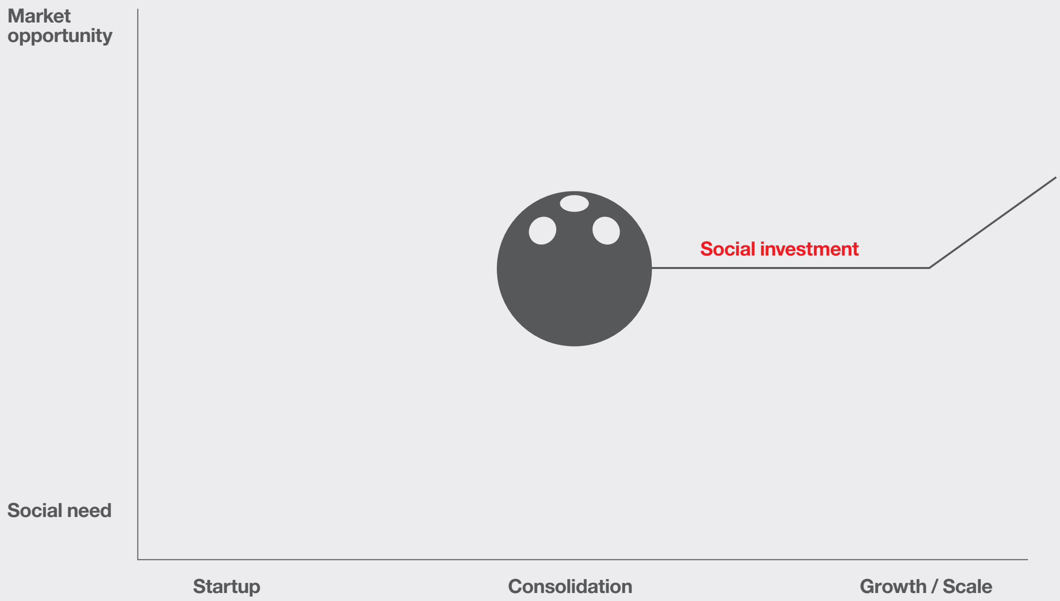
Quotes from Steady Eddie

"It's a simple idea with clear social impact, relating to a topical issue – this has undoubtedly been key to the success of the bond issue. The real advantage of this approach is that you raise the money upfront and then you can focus on delivery rather than having to do both at once. We now have 5 years to build and scale with a very clear model and delivery framework."

"The challenge is getting through the tricky risk phase when you're raising the money but there's no guarantee of getting it. You need a fairly significant amount of goodwill on all sides to get through the process and we certainly couldn't have done it without the Investment and Contract Readiness Fund (IRCF)."

Implications for the market

The market serves this group well. However, there are only a limited number of major charities or social sector organisations with the financial means to pursue major investment deals. This means that there is a risk that the pool of potential deals involving 'Steady Eddies' is likely to decline and could be used up entirely in the medium term.



The real and imagined 'pipeline' for social ventures

Many of these segments and business paths will be familiar to social funders, but how do they compare with the funding opportunities currently available in the social finance landscape? Given that funders have concerns about the future pipeline of social finance deals, understanding the degree to which the pipeline of emergent social ventures may fit funding opportunities, is useful.

The 'pipeline' from a funding perspective could be described as having three broad stages: testing – investment readiness – growth and scale. Available funding is concentrated around these stages. However, in reality ventures are not generally moving from testing their product or service straight onto seeking investment readiness to scale what they do. Most go through a long consolidation period where the focus may be on refining their product, testing business models or achieving sustainability.

At the moment the funding pipeline does not generally take account of the extra phases the ventures encounter on their business paths (for example, refining a product rather than scaling it). Some funders are providing support but in the main, ventures are finding their own way between testing and investment readiness. This can mean that their growth is both slower and more fragile as it is less well supported.

Ventures which are at the investment readiness stage tend to be either 'Shape shifters' who have already gone through long consolidation phases funded predominantly through public sector contracts and grants, or 'Steady Eddies' who have gone straight to this phase of the business path because of their organisational stability. **There is a risk that 'Social start-ups' and 'Not a Social Enterprises' may not get to this point. The exception being tech ventures which may be smaller but have the potential to grow and scale more rapidly**.

"Often the timeline for working out if you can make something happen is 4-8 years and there are few funding opportunities that reflect that. … The sector has an unhelpful belief that social tech businesses can work overnight. Social investors have to understand they're playing a long-term game."

“The landscape for startups is much better now due to the incubators. It’s easier at that level now but when you come out there’s a big gap. Is it survival of the fittest? Not really, if you’re a company that needs to do R&D then you can’t survive.”

“There is no sense of a pipeline for us, it simply feels like different funding pots that we apply to.”

“There is a need for longer funding periods in the social innovation space and more acknowledgement of the length of time it takes to get things off the ground. Funding that recognises you might need 2-3 years realistically before you can prove sustainability would be incredibly useful.”

Funders, particularly those active in the early stages and seeking to support post incubator ventures, also noted the lack of funding opportunities between testing and readiness stages.

“We get people coming out of incubators and innovative grant makers but usually they aren’t ready. There is a massive gap for 50-250k, ventures can be pre-revenue, starting to ge t traction but may think they have a big valuation. Sometimes they are solutions in search of a market.”

Ventures of all types are highly adaptable and will shape themselves to the opportunities in the social finance market. This might mean shifting their business or social impact model to secure available funding, but there are limits to how far they can adapt. It is important that the social finance market also remains responsive and can adapt to the changing business paths of ventures both in terms of who it funds and the financial products it has at its disposal.

In particular later stage funding opportunities are currently well matched to the needs of later stage ventures, but the profile of these ventures is likely to change over the next 5-10 years. There are likely be more ‘for profit’ ventures seeking finance in order to achieve social impact as opposed to charities and community interest companies. Without flexibility (by flexibility we mean the capacity of responding to all sorts of ventures) in the market there is a danger that these ventures will be locked out despite their strong investment and social impact potential.

Factors affecting decisions to seek finance

The following section explores the ventures' and funders' specific experiences of navigating individual funding processes in more detail.

Attitudes to risk

"I've had no stable salary for the last four and a half years which has been tough. It is hard to survive at times and to avoid burnout."

Attitude to risk is a key area where funders and ventures have different perspectives and this strongly shapes how each side approaches the social finance landscape.

Personal risk

Personal risk applies predominantly to "Social start-ups" and 'not a social enterprises' which are more likely to be founder led. It describes what people will do personally to ensure the success of their venture, from working unpaid for several years, to taking out a loan on their house.

Social venture founders had often invested considerable personal time and money to start and sustain their organisation, driven by their own belief and commitment to the social benefit they want to achieve. Many we spoke to had worked without pay or invested significant personal resources despite their ventures operating on a not-for-profit basis, meaning that they could not hope for share dividends or similar financial reward down the line.

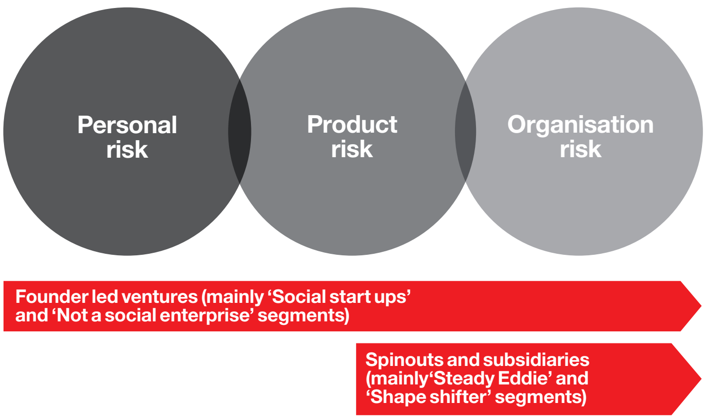
"The problem is that investors require a guaranteed return or for the entrepreneur to shoulder the risk - for a social business it's really hard to make those kinds of guarantees, and personally I don't think it makes sense to put your house on the line for a non-profit."

"I like to think that we could still have got it off the ground without external [grant] funding, but I'm not sure whether I would have had the appetite for the personal financial risk that it would have involved."

Understanding personal risk is critical when considering barriers and drivers for ventures in accessing social finance. High levels of personal investment and risk in developing a venture will impact willingness to take on further risk in the form of debt or equity finance to support growth. In practice this often manifests itself in a strong desire to 'tough it out' and pursue self-funded or revenue-based growth. When ventures distance themselves from funding in this way it can hamper the speed of their development.

Types of risk

Ventures experience three main types of risk as they develop and grow. The image on the right illustrates how risk plays out in different ways – personal, product and organisational - for different types of social ventures.



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“Trustee reluctance was a big issue. Were we taking too much of a risk for our beneficiaries? The fact that we wouldn’t have to pay back if things went wrong was critical.”

Product and organisational risk

As a venture develops the risk is likely to transfer from the individual to the product or service. For instance, iterating a service for a new audience or changing the features of a product to generate greater revenues.

‘Shape shifters’ tend to take on product risk as they become more market driven and less reliant on public funding. Several ventures described how they had tried new or adapted products to generate stronger revenue streams. Due to the well-funded environment many ‘Shape shifters’ emerged in, founders and CEOs are less likely to have so many personal risks in developing their organisations. ‘Social start ups’ and ‘Not a social enterprises’ will experience product risk in addition to their own personal risk. But the longer a founder-led venture has been in operation, the more likely they are to have found ways of managing their own personal risk.

Once ventures are more established and are preparing for investment, or to scale services, the risk transfers to the organisation. For ‘Steady Eddies’, who are often spinouts or subsidiaries, the risk is often with the originating organisation which may have offered significant financial backing and reputation backing when seeking investment, often against the organisation’s assets. All other segments may also be exposed to organisational risk once they are relatively established. **The risk for these ventures is that in exposing themselves to investment and scale, the core mission of the organisation, or the existence of the organisation, may be put at risk.**

“The thing that causes me concern is retaining the mission drive rather than just having the focus on income generation. I have constant battles with the new chairman and new partners about ‘why we are here?’. I have to make sure that it’s embedded within the organisation.”

“We’re worried all the time about risks. Coming out of [an organisation that initially supported us] was tough ... I’m concerned that if the market moves too much towards social investment, more radical ideas will be lost. If it hadn’t been for the flexibility from funders early on we wouldn’t have been able to get through the early growth stage, or it would have taken a lot longer.”

Product and organisational risk can affect the types of financing that ventures are able or willing to take on. Where product risk is concerned, ventures are likely to seek financing where any repayment is subject to the success of that product. Looking at major investments to enable a venture to scale, those who are able to take risks against the assets or cash flow of an originating institution are more likely to be able to take on this form of financing.

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“We are in an inherently risky space… as a sector, social funders have to be prepared to take the risk and back something, even if it means that at some point they’ll get their hands burnt.”

Funder attitudes to risk

Funders have diverse attitudes towards risk so there is no one view for the sector. However, on the whole they do have less personal view on risk within the social venture space, tending to focus more on financial and market risks.

A number of early-stage funders (both grant and equity) identified a need for risk capital at an earlier stage to support ventures as well as a more general need for the sector to consider embracing riskier investments. In particular, incubator schemes expressed this need so that the ventures they supported didn’t fall into a funding gap.

“Everyone knows there’s a clear gap for early stage risk capital.”

“Many social enterprises face a 9 month gap after coming out of an incubator when they are not ready. Their chance of success goes down 50% as they starve themselves or take the wrong type of capital. They are post incubator but pre investment ready.”

Later stage funders tended to focus more on the risk for their investors than for ventures.

They emphasised the need to demonstrate to their investors and to commercial lenders more widely, that **social finance can be a viable market proposition**, thereby securing an ongoing flow of finance into the space. For some this concern was **key to how the market could transition from being subsidised to one which can be sustainable**.

“Because the market is subsidised even now we are underpricing the risk on our lending. A key question we should be answering is what’s the discount on the lending rate for impact?”

“For us success is showing this is a sector that the mainstream markets could get involved in. Ultimately that would allow us to focus exclusively on niches in the social sector, that will always need grant subsidy, rather than mopping up all the stuff that mainstream lenders won’t support.”

“The current focus of later stage is very heavily on social – you need more flexibility than that”

These funders were also more likely to voiced frustrations that ventures didn’t fully appreciate the risk that social funders are taking.

“Organisations think that what we deem to be risky are not actually risky. They don’t accept that they need to do more than just plan for circumstances. We have got better at explaining this but charities tend to be overconfident and optimistic with projections.”

Some funders also noted a need for their own investors to develop a more sophisticated understanding of risk and return in relation to social investment.

“We have adopted the language of venture capital too soon and it has led us astray. There isn’t a direct relationship between risk and return in social investment, indeed, return can flatten out completely and even drop off.”

“A common issue behind things going wrong is a lack of flexibility from investors e.g. wanting too much return too fast. We pick up the pieces...If no-one can mitigate the risk, the market will shift towards safety.”

“Some investors are really interested in the social impact, others not remotely interested, only in the return.”

We also heard concerns from funders that later stage social finance and angel investment was too skewed towards traditional conceptions of social impact as being equivalent to what is charitable. **For funders that had been operating for some time in the social sector, there was a feeling that newer players lacked a sophisticated understanding of more complex or innovative social propositions.**

“It should be less about criteria and more about providing all kinds of businesses with ways of enshrining their social values.”

For funders risk can be a two-way street, they have to consider risk in relation to the ventures they support and also in relation to the funds they are investing. Both of these perspectives are important and the social finance market needs to balance these rather than let one dominate.

Attitudes to growth and scale

Ventures

Many of the current social funding opportunities focus on supporting ventures to scale up or achieve rapid growth, thereby also increasing their social impact. However, for ventures, attitudes to growth are more ambivalent.

Many, particularly "Social start-ups" and 'Shape Shifters', voiced concern about the risks of growing too fast, especially if it was felt this might compromise the quality or social impact of their offer. **Typically consolidation was more of an immediate priority for ventures than growth**. For some founders, scale was not the ultimate aim, with quality of social impact and service often seen as more of a priority. Others were highly ambitious about achieving scale in the long term, but were not prepared to put their existing businesses at risk by trying to speed this process up. **Those ventures with the strongest ambitions for growth tended to have a technology based product or service**.

"Growth is a dangerous time. If we were heading to a phase of growth, I'd want to find direct peer expertise of people who have done it. You can kill your business if you go in for fast growth."

"Growing more slowly means the screw-ups I've made have been on a more micro scale and I won't make them now we are bigger. A competitor entered the market with £2m backing and went bust in 6 months. It's not about the money you raise. I'm now much wiser on how I'd spend investment."

"Now it's all about consolidation, getting clients, return, and being incredibly focused. We're not going back for more investment until everything is solid."

Funders and the need for larger deals

Funders define scale in clear-cut terms, usually relating to the size of the venture (in turnover) and the amount of finance to be raised or size of funding to be granted. **For funders, scale and growth are seen in purely positive terms, which contrasts with the mixed views of ventures about growth.**

For those social funders in the area of repayable finance, this is driven by their own business imperatives. More than one later stage funder noted the **difficulty of covering the costs of multiple smaller deals in the social finance space where margins are low**, even though this is the area with the most demand from social ventures.

> *"We get a lot of smaller organisations applying and have a lot of smaller loans on the books. As a business it's hard for us to make much money from this so we have to balance this with bigger loans where the margins are lower but there's more of a contribution to our overheads."*

Funders and investors need to be aware of the motivations of ventures in relation to growth & scale. If there is to be a successful deal flow funders may need to take a longer term view in relation to growth or there may need to be more sources of funding to support the sustainability of a venture whilst early growth occurs.

Financing and the public sector

Public sector contracts and partnerships were a recurring theme in the interviews we carried out. For a significant number of those we spoke to, working with or being commissioned by the public sector was critical to the viability of the venture. This is not surprising given the large role that the public sector plays in addressing social issues.

Public sector contracts

Applying for public sector contracts was a specific area of frustration for ventures pitching for this type of work. Many felt that there was considerable rhetoric in support of their values, but that this was not backed up by decision-making criteria. **The costs and processes involved in bidding were highlighted as a particular problem with some tenders only suitable for major companies** to bid for, meaning that social ventures were involved in complex sub-contracting arrangements.

"When we won the contract but didn't get paid for six months we pooled resources with other companies in the tender process who we happened to know. Without this we couldn't have done it, our costs would have been too high to cope with being paid late."

In the current climate some ventures felt that seeking growth on the basis of public sector contracts was highly risky.

A key turning point in the development of several ventures had been a decision to turn down major contracts as the requirements of delivery were felt to be a threat to ongoing business viability. For some, this had been a first step on the path towards commercial growth and investment.

"A key turning point for us was handing back £1m of government funding…we realised that delivering the services in the way the contract stipulated would make us unsustainable. As a result we changed our board from a non-profit emphasis to one with a stronger commercial emphasis."

Funders did not voice particular views about public sector contracts in their interviews, so we haven't included these here. Clearly the sector has considered some of these issues in the development of Social Impact Bonds as a method for addressing some of the barriers the public sector faces in impact-based commissioning.

"The issue for us is not being able to be a prime contractor. The major boys get the infrastructure costs, we then get paid for contracts that are delivery focused and we don't get overheads."

"We were offered a big contract and turned it down as it didn't fit our values."

Attitudes to finance

Attitudes to finance were less likely to determine how a venture would interact with the social finance market than attitudes to risk and growth. However, ventures also made a number of specific comments about finance which we think are worth highlighting here. They demonstrate that both ventures and funders can have a very nuanced understanding of social finance and how it impacts on their organisations, as well as some wider frustrations with market structures over which neither side has much control.

It is perceived to be difficult to negotiate a deal that works for both sides – in particular relating to **expectations about reasonable levels of return and also the impact of legal structures which prevent organisations taking on investment**.

"When I talk to funders they're struggling to find organisations that are ready or right for it. Some of the funding payback is prohibitive and risky for us. It's hard to get any margin for us as a charity. It is crucial to understand that if it doesn't work they wont take the money back ... In any investment some will fail, some will succeed. It's important that if it fails the whole organisation doesn't go under.

"We have capital in order to be able to take risks but at the same time we want to have a sustainable pool of capital that will offer a return and demonstrate to other financial institutions that investing in social businesses is viable. It's a demanding balance to strike and a constant negotiation within the organisation."

"Many of the organisations we fund have a 'debt capacity' – i.e. there's a ceiling on the amount of money they can borrow and afford to service, especially as many can't take on equity because of the way they are structured ... for risk capital to a fairly large charity or social venture this tends to be between £0.5m and £5m."

"We need to look at blended finance. We just can not do double figure returns."

Attitudes towards each other

Overall it's hard to generalise about funder and venture attitudes towards each other. However, there are some clear areas, as detailed in this section – such as risk, growth, attitudes towards different types of finance – where ventures and funders often have very different perspectives, which shape their interactions with each other. The following section of this report then goes on to examine the detail of venture and funder interactions, looking at the specifics of how ventures and funders experience the variety of application processes involved in different types of social finance.

Venture reflections on funders

Many ventures spoke of developing positive relationships with funders who had supported them at crucial moments or with whom they had forged a strong, collaborative bond to shape how jointly they might develop their venture in the longer term. These were generally characterised by an ongoing involvement over several years.

"Undoubtedly the involvement of the [funders'] team helped us to be more ambitious in our plans for scaling. I also think their involvement was key for succeeding in getting the ICRF funding."

On the other hand, many ventures also voiced frustrations. These tended to centre around a sense of unevenness in the relationship. Some ventures felt that funders failed to appreciate the realities of building a social business and rarely had this kind of **hands-on expertise** in their teams. Another area of tension was a feeling that funders weren't flexible enough about their **definition of social impact** or unrealistic in their **expectations of the speed** at which results could be delivered. Several also noted that funders have considerable **power to shape social ventures**, whether through their own advice or that from third parties, and that this power wasn't perhaps used as carefully as it should be.

"A close relationship with trustees and directors of the funders we work with is very important. Some organisations don't do this, they go to funders late when things have gone wrong. You have to be frank to get the support you need."

"Funders and intermediaries are usually not staffed by entrepreneurs or people with experience of growing and exiting their businesses so for me where's the added value from this relationship? On top of this they also add a burden of reporting and impact assessment that is on their terms, not those of my business."

Another key area of tension was a feeling that funders **weren't flexible enough about their definition of social impact** or unrealistic in their expectations of the speed at which results could be delivered.

"The more we have behaved like a business, the bigger the contracts that we have won, and the better chance we have had to do social good. Social funders won't support us because we're too much like a business. Philanthropists won't fund us because they see us as brand building. Private equity won't fund us because we give money away to good causes. We have had a few conversations with a big social investor over a 5 year period, but they wanted us to restructure the business to more of a charity model before they would invest. At the same time most of the contracts we go for which generate our social impact, we wouldn't get as a charity."

With investment, several ventures noted how intermediaries could stand in the way of direct conversations with investors in order to understanding their criteria and needs.

"Generally ventures are less investment ready than they think and the business case is weaker."

"There are great organisations who support people to prepare for investment, but for us there is an element of blindness as an intermediary has supported you but themselves have the relationships. Sometimes we have been guided in a particular way that isn't right. ***We need the direct contact with investors sooner****."*

"Intermediaries are also a problem. They hoover up access to investors, when in fact the investors themselves have a much better understanding of potential investees and can add a lot more value."

"We have never really gone to intermediaries... they have an extra set of rules and actually become more risk averse, more bureaucratic. You need to have the conversation straight to the funder, to the person who has the power to make the decision."

"There is not nearly enough capacity [within the social finance world] on understanding the social sector or employing people from it."

Funder reflections on ventures

Overall funders had fewer general reflections on social ventures than social ventures on funders. This is probably partly reflective of the power dynamic at play between those with money (funders) and those seeking money (ventures). **The less powerful party, in this instance social venture, often have more frustrations to voice** and that comes across from the range of venture views shared here. A sense of this imbalance, was also echoed by funders, who themselves noted that the social finance sector could do more to engage with its 'user' base of social ventures outside of formal application processes. From the funder side, some ventures were felt to be at times naïve or over optimistic.

"We're sometimes surprised at the attitudes of lendees given their securities – at times they don't seem to feel the money is really repayable."

"There are not enough social enterprises/ charities out there that are investment ready, or worse there are lots of charities that can't get around repayable finance."

More generally, several funders noted that there was a pressing need for both sides to develop a better understanding of the other.

"Language is definitely an issue. Both sides tend to fall back on stereotypes of each other, which is really unhelpful. The conference circuit for social finance can be quite segregated between ventures and funders. Ways for the two to get together more meaningfully would be really useful. Social funders often have very strong views but don't really listen to social ventures."

"All ventures are very different and have very different needs. It's very hard to find the right kind of support. Often funders impose their systems/processes and then find the people to go in it, which isn't always the right way around."

Experiences of seeking and accessing social finance

To understand the experiences of seeking and accessing social finance from a user perspective we have structured our findings around a rough User Journey framework.

The User Journey framework has four steps:

1. Awareness
2. Consideration
3. Application
4. Response

Frameworks such as this, might traditionally be used to consider how a customer interfaces with a consumer service. They are a useful way of investigating all the different interactions a user will have on their journey through a defined process. This helps us understand which elements of the journey work for the user, and which parts might need improving.

At each stage we have provided a summary of key venture observations, along funders' corresponding experiences.

See annex: How to use the User Journey framework to improve your product and service?

1 Awareness | **2** Consideration | **3** Application | **4** Response

'Awareness'

The 'aware' stage of the User Journey for ventures typically had two key elements to it – a venture's **awareness of their need for finance in the first place** (what we have described as 'entry points' here) and their **awareness of the available sources of finance**, which might provide this.

The previous chapter described a number of broad, attitudinal factors, which can shape a venture's overall mindset to social finance. The table below provides a more specific list of the variety of reasons ventures are driven to seek funding. It splits these reasons between those well served by current funding opportunities and those less well served.

A key driver for seeking finance not included in this table, which was at times a standalone reason in its own right, was that of becoming aware of an open funding opportunity that they could apply to.

Ventures tended to enter the social finance landscape at the most familiar point to them when seeking funding for the first time.

They often have limited time to understand the broad landscape and go for what seems simplest in the time available. Their awareness of the available products was variable, often driven by the background of the founder and team and their stage of development. Luck, chance and personal networks also all played a significant role in shaping a venture's level of awareness of the social finance opportunities that might be relevant to them.

"We didn't think of ourselves as a social enterprise, we were a tech company that helped people. I got picked up by a social enterprise investment manager at an event, there were 24 hours to go to apply for a funding opportunity, ***we didn't have our financials ready but because we had the contact we were able to get through."***

"I saw Bethnal Green Ventures mentioned on a technology blog, seeing the opportunity made us get our idea in shape. We felt the social focus made it much more suitable for us than commercial incubators."

Well supported by current opportunities	Fewer funding opportunities available
To develop an idea from scratch	To support initial revenues
To develop a business model	To consolidate or achieve sustainability
R&D	To improve or extend a service
To develop a new product or service	To refine a product or service
To grow or scale	Cashflow

"When public sector funding was running low we found out about new forms of funding through luck. We're quite well networked and I happened to chat to someone who was at the Charities Aid Foundation who just happened to know about the new quasi equity investments that some grantmakers were offering."

Generally, **'Social start-ups' were very familiar with grant funders and incubators**, often having strong existing networks, but had lower levels of awareness of later stage social finance opportunities such as Social Investment Bonds or social lenders, which is to be expected given that many of these opportunities are not suitable for them.

"I don't see the advantage in getting repayable finance when grant funding is available. At some stage if we were looking to expand internationally and they felt we had enough of an understanding of what was involved and wanted to do some aggressive expansion, then it's something we might consider, but it's unlikely they would go down this route in the UK."

Some ventures had more knowledge of how they might go about raising commercial investment, than of existing later stage social finance products. The well-defined nature of **tech-start up investment stages was mentioned by several ventures as being easy to navigate.**

Those ventures with the most sophisticated understanding of how they could raise finance to grow and strengthen their business, were often the not social enterprise segment, who operate largely outside of the social finance sector. Several of these ventures had successfully raised mainstream finance and taken on mainstream bank loans.

Later stage ventures often had more awareness of a different range of available products, simply from having been around for longer and explored more avenues for securing investment. However it was clear that in many instances this knowledge had been gained organically as they had moved between different funding types.

> *“We don’t do proactive, the best enquiries come via recommendation or referral.”*

It is too early at this stage to be able to draw conclusions about the impact of the different levels of awareness between social ventures that will have on their ability to access social finance as their business develops. However, what these observations do flag up is that **different types of ventures clearly have certain predispositions towards and against certain types of finance, which may mean that in the future they will only consider a limited range of options.** This should be a consideration particularly for later stage funders who are considering where their future pipeline of deals will come from.

Funders

Funders were divided between those that actively undertook formal outreach activities to raise awareness of the opportunities they offered (often earlier stage funders or incubators) and those that were more reactive in their approach. The first group were often **seeking out those ventures who might be a good fit, but wouldn’t necessarily consider themselves as social ventures**. Alumni networks were also an important source of recommendations for funders. For the more reactive group, their attitude was often driven by a need to manage a high volume of enquiries and applications with limited resources, but also in some instances by a **belief that ventures should have the wherewithal to find out about relevant finance opportunities**.

“Promotion is really important to us. We do a regular online and physical workshops [with prospective applicants] as well as partnering with lots of people to share work.”

“We tend to be reactive as we get so many enquiries… we don’t want to get swamped by professionalised applications.”

“I think outreach is really critical for the sector. The issue is not that the people can’t find the money, it’s that the money can’t find the people.”

“I network directly with sectors like health, education and ageing to find ventures that wouldn't identify themselves as social but who are a good match for us to fund.”

Several funders spoke of being oversubscribed, but keen to help as much as possible, often referring on to others in the sector or suggesting alternatives where they could. Clearly a **strong referral network** exists within the sector, albeit an informal one, with almost all of the funders interviewed providing a list of other funders or investors they refer onto. If made more visible, this could be very valuable to ventures in understanding finance pipelines.

1 Awareness | 2 Consideration | 3 Application | 4 Response

‘Consideration’

This stage in the funding journey was often the area where ventures voiced the **greatest number of frustrations** about their experiences of seeking social finance.

Whether considering grant funding or investment opportunities, ventures spoke of their **difficulty in interpreting funding or investment criteria**, particularly those relating to a funders’ desired social and commercial impact.

“It’s very hard to judge from a funder’s website if your values fit. It would be great if there were more opportunities for funders and investors to be brutally honest about what they’re really looking for - it feels like such an art to able to detect the subtexts behind what is publicly presented.”

“We need more clarity on what investors want: social versus financial. There isn’t as much openness and transparency as there might be. We have had to work out for ourselves who cares about what. You have to meet investors and talk to them. There’s a definite need to help smaller players with this.”

Ventures seemed to experience particular problems when they were engaging with an application process without direct personal contact with the funder or investor. Where a meaningful conversation was possible, either upfront or as part of an application process, most ventures found they were able to develop a better sense of understanding of what the funder was looking for, and their fit with this.

Some ventures noted that **being in or close to London was critical** to their ability to build these kinds of relationships and that for those outside of London this was much harder.

“I’ve been lucky to live in the South East. I couldn’t have done this and got this far if I hadn’t been able to get into London. So much of the networking is down here. There’s support and a community. I couldn’t have done it anywhere else.”

“Approximately 85% of applications don’t fit our eligibility criteria, which wastes a lot of time.”

“Face to face interactions and investing in relationship building are really important. I don’t think we have ever been successful where we have gone in blind when applying for funding.”

Funders

Few funders made explicit remarks about this area. Those that did, were often those undertaking outreach activities to find and encourage them to join. Others, felt the **onus was very much on the venture’s side to be able to successfully work out whether or not they fit a funder’s criteria**, but also noted that many of the applications they received were ineligible in some way.

Some noted the tension between providing a set of very hard and fast selection criteria and their desire to maintain a degree of flexibility about what could be funded. Generally funders were very open to having a conversation with ventures to help them develop their understanding. However, the lack of resources make them struggle to provide the level of individual support that would enable ventures to fully understand how they fit with a particular funder’s offer.

“We’re not as transparent about what we offer – partly this is about trying to maintain some flexibility”

'Application'

In reality the distinction between the 'understand' and 'apply' stages of the journey is often quite blurred for ventures. In many cases it's only through the process of applying for funding or investment that ventures understand whether or how they fit a particular social finance opportunity.

A distinction should be drawn here between **'application' based processes** (usually grant funding or intermediary support) **and 'deal structuring' (investment)**. The former tends to focus on application form and interview based processes to select ventures. The latter, after an initial screening for eligibility, tends to be more of a two-way conversation to jointly shape an investment deal, which will be accompanied by a period of due diligence and deal negotiation.

Interestingly this area was one where there was no clear trend in terms of the different types of social ventures. Different ventures had different ways of navigating this process, often related to their internal skillsets and networks.

Application forms

Ventures talked about their frustrations in needing to present the same information in different formats to funders.

"When social impact application forms are being designed, it would be great if funders could realise that we might not have the time to articulate this in exactly the right way for you, and to have the metrics for measuring we need to focus on survival and driving our core model. There is too much onus on the organisation to provide all of this."

Others spoke of a desire to know how they compared to other ventures.

"It's very hard to know how you compare to other ventures applying. Understanding the real criteria behind funding decisions – even when we have been successful – has been really difficult."

As noted, **where ventures had good relationships with funders this could be a significant mitigating factor** to frustrations in the application process.

"We had to do a video which took us ages as it's not our skillset, we'd rather have spent half a day talking to them."

“It requires a lot of time and effort to go through the investment processes. The time you spend does detract you from doing core work”

Mid-stage investment readiness and later stage social investment

Ventures expressed fewer frustrations about the process of working with investors to structure a deal than with application-based processes, but the resource commitment required to complete the process was mentioned as a challenge. Many had often not anticipated the scale of time and effort required to go through due diligence and investment processes, and spoke of struggling to manage this alongside running their business.

Those ventures that had been involved in larger social investment deals often noted that this had only been possible because of additional funding to cover the resource implications of constructing the deal. Even then, the resource implications for seeing the deal through were felt to be very significant.

“Big Lottery seed money was vital, we couldn’t have done it otherwise. Also the track record and strong portfolio we had and the fact that we were asset backed also gave confidence, as did the recognised brand.”

Investment readiness

Some ventures expressed frustration with intermediaries and business planning services delivered by third party providers to be deemed ready for investment, often feeling that these were exercises imposed by funders but had little long-term value.

“We had to work with this company who had been subcontracted to deliver access to finance services. It was a complete waste of time. This is meant to be £3k worth of services. It was just a box ticking exercise, with no value added at all.”

“The second chunk [of funding] was much harder to get. We needed a very detailed business plan. I found it deeply frustrating. We ended up bringing in people from [xxx] to do the business plan and justification of where the market was. The document was massively detailed and is now sitting on a shelf somewhere.”

Angel investors

Ventures' experiences of interacting with angel investors were also very mixed.

"We went to several angel network events. At one we were squeezed into a backroom and told to behave whilst the investors were mollycoddled. The network presented us a contract at the event saying they'd take a 15% cut ... effectively just for putting us in the room. We didn't sign it. They wouldn't even share the list of who was at the event with us and they would have taken a percentage for doing nothing. It also felt like the angels there did very little else than bring cash to the table."

"There are a few diamonds in there [an angel network] - we were very lucky. He got in touch out of the blue. I'd felt like up to that point they were a load of jokers. I had one conversation where I managed to convince him of my knowledge of the market. He believes in me. Initially I was sceptical about what he could bring but he is a trusted colleague now on the board and has continued to put his faith in the business."

Funders' experiences selecting / due diligence

Funders were, on the whole, reflective about their selection processes and open to learn about how these could be improved, with a few – generally earlier stage - iterating and updating their procedures on a regular basis based on feedback from ventures.

Funders often had their own prioritisation of their funding criteria that they relied on when making funding decisions. This was particularly true for grant funders and much less so for social lenders and investors. For example, **if a social venture applying was felt to be a really good fit in terms of one key criteria, then the requirements for meeting other criteria could be loosened** somewhat. This behaviour often provided a particular slant to the broader set of criteria or conditions that a venture felt they had to meet from observing the publicly available

> *"We had a number of goes at getting the offer right. Our CEO and finance manager put in a lot of work. Having a team that could do business planning and forecasting was vital and we brought in an extra person."*

“It used to be just the idea that attracted us. Now we are focussing on good team building.”

materials on a fund, which could be hard to interpret from the outside. However, it should also be noted that **for funders these decisions were often quite subtle distinctions and generally made on a case by case basis**, making it hard to provide precise overall guidance. Generally strength and aspirations of the team (and trustees or management board) were a key **‘soft’ factor that funders were looking to assess**. Understanding the ability of team to deliver on their plans, was also seen as a critical.

Middle and later stage funders noted lack of **investment readiness** as a key issue for many of the ventures they worked with, in particular having strong financials in place. This was an area where funders and ventures had some of the most **divergent views**.

“Often they have an established concept and a business plan, many think they’re investment ready, but few actually have an investment ready business plan. I work with them to help them see this from an investor’s point of view.”

“We want to help but they don’t help themselves. Some aren’t responsive, some don’t realise the time they need to put in, they need to get serious about how the business runs whilst they aren’t in charge as they are raising money. We tend to think if they are not responsive to us - how will they be with a customer?”

One intermediary also noted the timeline for putting together a deal as problematic.

“Timeline is a real issue. It can take funders 6-9 months to agree and distribute funds which is often too slow for the needs of the businesses we’re working with (and also given that they’re usually requiring fairly small amounts).”

1 Awareness | 2 Consideration | 3 Application | **4 Response**

‘Response’

We have considered the ‘Response’ stage of the User Journey in two senses. **Firstly, the outcome of an individual funding application or investment deal: ventures not receiving enough feedback from funders was a repeated cause of frustration.**

“With one application I had no idea why we didn’t get it. How do you know where they want their money to go? You need to use the language that they understand. Working blind is a real problem.”

“When feedback is provided and it’s good, it’s incredibly useful. But not receiving any feedback is very hard, especially after a lengthy application process. I’ve been approached by funders to apply who have then not funded us and it can feel that there is a lack of communications internally within these organisations about what’s expected.”

Secondly, and perhaps more important to consider in the context of this report, is **the extent to which individual funding experiences can shape future interactions with the social finance sector**.

Where ventures had negative experiences of seeking funding, this in some instances resulted in them exiting the social finance landscape permanently or seeing it as a last resort. The cost to their business of unsuccessful funding applications was felt to be prohibitively high and there was also a fear of mission drift, as a result of the time committed to exploring funding opportunities.

Where ventures were successful in navigating funding, there were many positive outcomes including establishing a trusting relationship with funders, based on trust, mutual understanding and openness. This often led to ongoing dialogue between venture and funders continuing outside of formal funding or investment agreements and in some instances a longer term funding agreement or repeat funding or investment. For many ventures there was a very clear link between their success in accessing funding and the growth of their venture and/or an increase in their ability to achieve greater impact more quickly.

> *“Trying to raise funding kills companies.”*

Market trends

Trends are only just beginning to emerge and those involved in the market are both learning and adapting all the time. Many of the funds backed by Big Society Capital have yet to make investments or are in the early stages of doing so. However, there are still some important points of consideration for the future of market that we have been able to identify through this research.

The findings in this area relate to more structural issues relating to the social finance market. Many of these are complex issues, requiring a long-term approach and policy intervention. Our intention here is to highlight the market-relevant findings from our research in the hope of making a useful contribution to the current debate about the future sustainability and impact of the social finance market should.

Factors external to social finance

The social finance sector does not operate in a vacuum. Many ventures we spoke to regarded public sector contracting and policies around tax incentives as having as significant an impact on their success, as than their ability to raise investment. Ventures operating in public sector markets found that the social value they brought was not being adequately recognised in the tendering arrangements of those commissioning services. In addition, the resource outlay required to even bid for public sector work was often prohibitive. Some we spoke to were turning away from working in the public sector altogether. If this were to occur more broadly it would be a worrying trend given the potential for generating social value in public services.

We also heard from ventures who were concerned as to **whether tax incentives for social investment would remain** and whether these would be targeted correctly i.e. would they be too narrow, only including community interest companies and excluding more commercially structure companies with strong social mission. Others were concerned that the social finance market would only be able to serve social ventures whilst interest rates remained low otherwise expected the returns would become too high.

Risk and reward in relation to social finance

We found that understanding and experience or risk was a key tension point between ventures and funders. There are a complex range of attitudes to risk and experiences of risk at play. Funders have expressed frustration that ventures aren't more willing to take on repayable finance. Ventures on the other hand, have suggested that the rates of return required on such products are unrealistic or that the terms are simply unsuitable for them.

There is a particular trend that we observed which should be of concern to the sector.

Ventures are choosing to grow purely through their own revenues or by scraping by to avoid taking on what they perceived as unsuitable finance. Founders and CEOs are willing to stomach personal risk but not forms of finance that they perceive as jeopardising the social impact that the venture has already built up. The downside for the market is that this may stunt, slow down and in some cases the growth of high quality ventures and the resulting social impact.

Addressing the middle-stage gap is part of the solution here but more consideration also needs to be given as to how repayable finance can play a greater role in the market. The successful uses of this form of finance tend to occur where repayment is guaranteed against an asset like a building or where the repayment only occurs when a venture is successful. But these instances are limited and a wider approach is required. A more blended approach between social and financial return may be important if founder led ventures without assets are to take on repayable finance. Critical too is Fostering a better shared understanding of risk between funders and ventures, is critical too.

Maintaining market flexibility to respond to future trends

The characteristics of social ventures forming the demand for later stage finance are likely to change significantly over the next five years. Those social ventures we spoke to who were currently seeking late stage finance had received a high level of public sector or grant funding in their growth journey. This had given them greater stability and allowed them to prioritise social focus alongside financial returns making them very appealing investment propositions.

On the other hand, we can see that those ventures who have started their business journey more recently without the availability of public sector funding or grants have faced more pressure to commercialise what they do sooner as their means to achieving stability. Current incubator programmes are also providing many of these ventures with more training to develop business and commercial skills that was available previously.

There is a danger that some of these younger social ventures will be perceived as too commercial if the market fixes itself around the current profile of those securing later stage finance. In particular investment strategies, which look only to organisations, which are or resemble charities, may lock out high potential and highly social deals. It is important that some flexibility is maintained in the social finance market in order to prevent ventures falling between the cracks of social and commercial investment in the future.

03

Define

A design approach for problem framing

The research revealed some of the un-met needs of ventures, but for us to design products and services that satisfy those needs we need to gather together the insights and use them to frame generative questions. This is one of the most important parts of the design process: framing problems in a way to generate the best solutions.

This final section highlights the importance of spending time in this 'Synthesis' stage of the design process, the moment when we move from a collection of insights towards a range of solutions. Where should we focus? What is relevant? How can we make sense of the findings? How can we integrate them and give them meaning?

The goal is clearly to find solutions (a product/service, a communication campaign..) that improve the experience for the user, however it's very easy for the idea generation process to become disconnected from the user insights. Either teams start with a poorly framed need or else become so focused on generating ideas (the 'what') that they forget to connect them back with the needs (the 'why').

Unlike the end of most reports, where there would be a series of conclusions, this final section defines the most important needs as generative questions. Those interested in improving the experience for ventures seeking social finance are recommended to build solutions that answer these questions.

We list seven key areas of opportunity as well as one specific Design brief that we consider to be the most important for action.

Key needs and opportunities framework

The following tool is shared to frame the seven key needs we found most relevant, they reflect the most pressing issues from our conversations. Some of these respond directly to specific difficulties in the process of seeking social finance, others to broader issues relating to attitudes and mindsets within the social finance space that have an effect on the sector's ability to support ventures.

These needs are framed first and foremost from a venture perspective but also including funders' views. They are meant to make reflect the both sides of the equation so that the market moves forward in a consistent way.

Key need

We frame problems from a user perspective. This means: all the stakeholders perceptions need to be taken into account, but framing it from the main user-perspective help to give direction on WHY we consider this is a need to address.

Some of the questions that should be answered in this space are:

- What is the User need?
- What are the stakeholders perception of that need?
- Why do we consider this need should be addressed?

Opportunities

The needs help us understand the rationale and relevance of that need, but we need to articulate the problem in an actionable way. A simple way of doing this is using 'How might we..?'.

The questions articulated under this umbrella will be used as starting point in creative sessions for thinking on solutions.

It's important to generate several How might we? questions before choosing the most interesting one.

A simple trick to do this is: break the key need description in the first column into small pieces. Look for aspects of the statement to complete the sentence 'How might we..?'.

Annex: in the annex we share a map that shows an overview of all the needs and opportunities connected with early potential solutions.

01

The middle stage gap

Need description and rationale

Ventures struggle to fund themselves when they have an initial service or product, but aren't yet ready to move towards scale or rapid growth. When still refining a product, developing a revenue stream or consolidation funding is not easily available. Founders are covering this through their own financial resources or scraping by and slowing growth whilst they do. Many ventures felt the funding environment created pressure to scale too quickly.

From a funders perspective, they also see lack of early stage risk capital as an issue, particularly for high potential ventures coming out of incubator programmes.

The main benefits of addressing this need will be an increased deal flow for later stage social finance and a decreased risk of ventures dropping out of the social finance landscape or slowing down their growth due to using revenue growth.

Opportunity

How might we... stretch the boundaries of the stage at which ventures can be funded?

02

Lack of skills crossover between funders and ventures

Needs description and rationale

The skills and insight of the social ventures could be better utilised within the social finance sector.

Ventures don't feel funders' understanding of their sector (particularly later stage funders) is sufficiently rooted in the day-to-day realities of sustaining and growing a social business. Several ventures made the comparison with the tech investment sector where investors are likely to have direct experience of the sector they invest in. Some ventures feel that they both have to understand the social finance world and doing all the legwork of explaining what it is they do.

Where funders were employing or using sector skills this was highly valued.

Some funders noted that there are very few advisory businesses supporting social ventures with direct experience of working in this world. We also observed that some funders were making significant efforts to hire staff or work with advisors who had experience of setting up and running social ventures.

Addressing this need will enable better mutual understanding between funders and ventures, and could also support more informed design of social finance products.

Opportunity

How might we…facilitate funders to make greater use of skills from ventures?

Ventures feel funding criteria and funding decisions are opaque

Need description and rationale

Ventures struggle to unpick the funders' criteria and understand what is really meant by some of these and which criteria are the most important or desirable as opposed to 'nice to have'. Definitions of what constituted 'social' or 'innovative' were highlighted as particularly subjective. Ventures felt they did not necessarily understand why they had received or had not received funding. Where ventures had been able to build a relationship with an individual funder contact this issue was much less marked.

On the other hand, funders want to preserve flexibility about who they can support, so may prefer not to provide hard and fast criteria.

Paying attention to this need will help to find the right people for the available funding options. It would reduce applications to unsuitable funds, which benefits both ventures and funders.

Opportunity

How might we... help social ventures understand the outcomes of funding applications in order for them to learn and develop?

04

Wasted time on applications

Need description and rationale

Ventures invest a significant amount of time on presenting the same information to meet slightly differing funding and investment formats. Whilst ventures did feel the process of due diligence could be valuable, it was also a big opportunity cost often diverting time and resource from achieving social impact. Funders, on their side, invest considerable resource in reviewing unsuitable applications. Several also mentioned an interest in sharing more data around application outcomes. Many funders have informal referral arrangements which can smooth things for ventures, but these are not transparent to the outside world.

The benefit of addressing this need would facilitate ventures reducing time spent on applications, as well as reduce high costs for funders in the assessment process.

Opportunity

How might we… remove overlapping processes for the application stage of funding opportunities?

Language barriers for 'not social enterprise'

Need description and rationale

Some ventures are excluding themselves from sources of funding they perceive as 'not for them' because they don't consider themselves to be social enterprises. Where this type of founder found their way into social finance it was often by chance or outreach into their network by a funder. Many of those who didn't consider themselves social enterprises were often both commercial and social, with potential for scale.

Some funders were making efforts to take their outreach efforts outside of traditional social enterprise networks, for example attending events for the general health or education sector; these efforts were yielding good results.

Addressing this need will enable more investable propositions for funders, and the 'not social enterprise' segment will find a better range of financial products to meet their needs.

Opportunity

How might we… attract 'not social enterprise' to the social finance landscape?

06

Understanding different funding routes upfront

Need description and rationale

Ventures are very adaptable so may fit themselves to the first funding they access. They often don't realise the implications of their early funding decisions (e.g. if committed to a particular legal structure) on their potential to seek further finance. A lot of support materials assume wrongly, that people know and have made an informed decision as to the type funding they seek, but ventures often seek out the most familiar route, when considering funding options.

Funders have a clear overview of different funding routes. They feel that social ventures often focus too strongly on grant funding, and fail to consider debt or equity routes.

Addressing this need will help ventures to consider a wider array of funding options at the outset and fewer ventures hit a brick wall when it comes to accessing later stage finance due to their earlier decisions.

Opportunity

How might we … enable ventures to understand and consider different funding routes rather than just the one that is most familiar?

07

The triangle risk, return and social impact: repayable finance seen as too risky for ventures

Need description and rationale

Ventures often feel this form of funding is too risky or simply does not exist in a form, which they would feel able to commit to (i.e. an unsecured loan). This can lead founders to slow their business growth and rely on other forms of funding or their own personal finances instead. For ventures with an asset like a building or backed by another organisation this was less of an issue although managing trustees' fears around risk related to repayable finance can be an issue for some. Where ventures were taking on repayable finance this was often on the basis of clauses that meant that if they didn't succeed with their business objectives, the money would not be paid back.

There was strong feeling amongst funders that ventures need to shift from a grant mindset to an investment mindset. Repayable finance was seen as particular opportunity for larger charities.

Addressing this need will enable greater take up of newer social finance products. Discipline of repayable finance could strengthen some ventures.

Opportunity

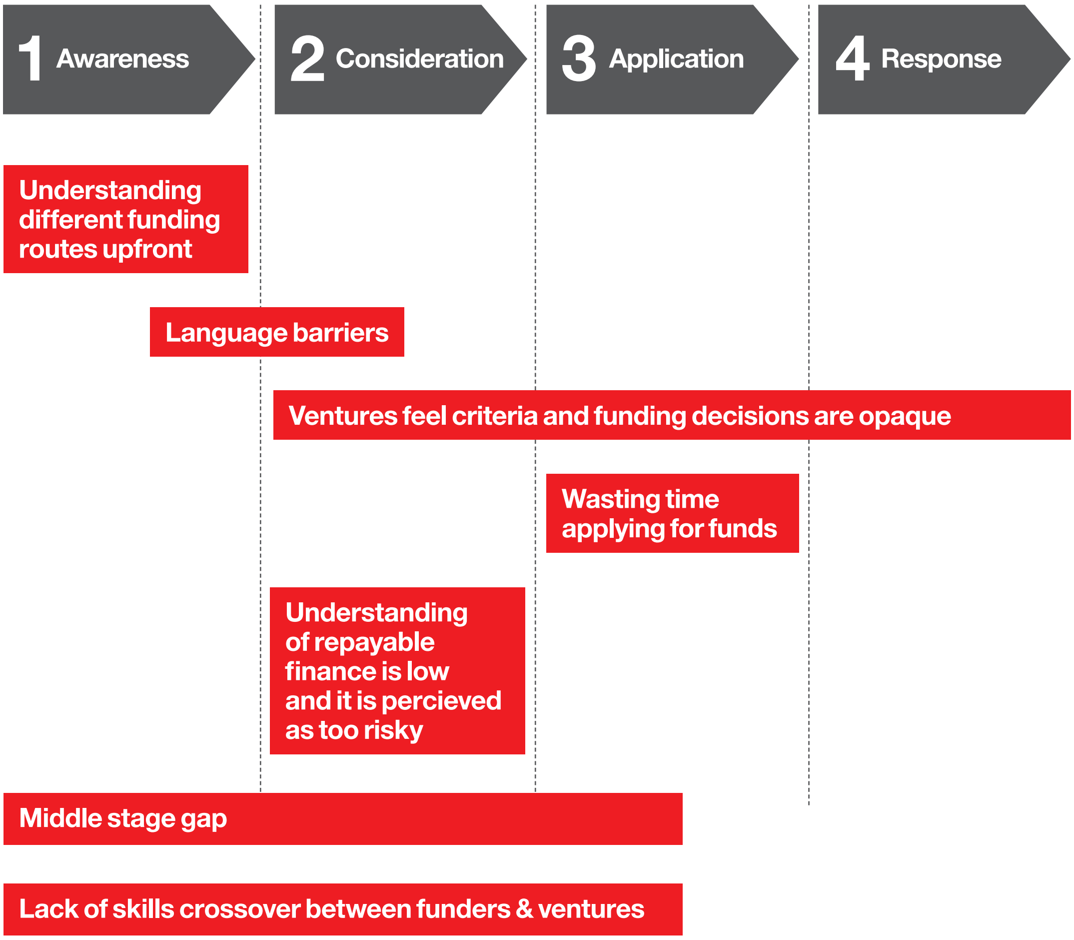
How might we...create more flexible repayment options for ventures that do not have assets like a building?

What is the main short-term priority?
The view of so many potential opportunities might delay the efforts to start generating potential solutions. With the intention of offering relevance, we use the User Journey (previously introduced in the 'Discovery' phase) to help us see where the 7 key needs lie.

Some of the seven key needs belong to only one stage of the User Journey (e.g. wasting time applying for funds or understanding funding routes upfront), but the great majority lie in the middle, in the 'Consideration' and 'Application' stage.

Based on this rationale, we have narrowed the Design brief to: 'a solution that allows social ventures to find their best fit in the most efficient way'.

Mapping needs against journey



Design brief

A solution that allows social ventures to find their best fit in the most efficient way.

04

Whats next?

A call for participation

Our goal is to inspire and inform the design of communications, decision making tools, funding processes and anything else that will further develop this investment marketplace. We have presented our research work as a design process – a way of thinking in a simple, creative, actionable and participatory way - showing how user needs can be framed as creative opportunities for improvement.

Acting on these insights and opportunities will be a collective endeavour, social funders and others working individually or collaboratively to improve existing products and services or creating whole new ones.

It can be hard to know what actions are most appropriate for organisations to take – what might fit with their strategic priorities. Here are some questions that might provide useful provocation:

1 Which venture segment do you better want to engage with?

Focusing on a particular segment and meeting their particular needs can create design solutions that work for everyone else. Even if your organisational mandate is to engage with a wide range of venture types, it's a good idea to focus innovation efforts more narrowly, at least at the idea generation stage.

2 Where will you find the 'quick wins'?

Often a user experience is perceived as poor overall because one or two parts of the system are weak. We have provided a more detailed 'User Journey' template on the annex to facilitate the reader identify what interactions exist, so that is easier to also point the blind spots not addressed.

3 Will incremental improvements be enough or do you need to consider more radical change?

Quick wins are always preferable to more complex and uncertain innovation initiatives, but is there something fairly structural that is causing venture funding needs not to be met? Thinking radically.

4 Can this be done alone or do you need to work with other organisations?

With any ecosystem, the value of common standards and approaches to create 'platforms' is increasingly seen as valuable. Some of the value to ventures will clearly come from more consistency of practice across funders.

We would be very happy to hear from any readers via e-mail: Socialfinance@designcouncil.org.uk about comments, questions, initiatives that we ought to know of, or requests for support and collaboration to develop some of these ideas. In return we will publish updates on designcouncil.org.uk of future developments.

05

Annex

User Journey

The User Journey map is an oriented graph that describes the journey of a user by representing the different touch points that characterise his interaction with the service.

How to use this tool in the simplest and fastest way?

1 Observe your client experience

Remember one of your social ventures client, a specific person or team.

Remember how you met that person, when was the first time that social venture got in touch with you? How? (maybe it was a referral, a direct call, or an e-mail). These e-mails, calls, conversations at events, are the 'touch-points', the moments of interaction between you and your client. These are the key points of your service, and need to be designed and aligned with your client needs.

Remember how the relationship evolved from the moment they got in touch with you and initiated the conversation, to when they decided to apply (meetings, filling in forms on the website, preparing presentations, etc.) and finally how they received their response from their application. How many interactions happened along this process? Where did those interactions happen? What platforms were used for those interactions to take place? What was the content of those interactions? What did you have to do to deliver the service? What did your client (social venture) have to do in order to receive the service?

2 Transform all those memories into a visual map

The visual map is the User Journey. It contains both the point of view of the social venture and your point view, as investor who delivers a service. In the middle, the touch-points, the moments of interaction, which includes the platforms and the actions from both sides.

Overleaf is a graphic representation of the main elements that the User Journey should contain.

We encourage you to use this tool, as a way to spot those touch-points that are already designed and aligned with the social venture's needs, and those touch-points that would benefit from a creative improvement.

User Journey template

User Journey stages
The user journey is presented in a linear time-frame. It represents the process of seeking finance: from the moment that the social venture is aware of the options until they receive a reply for their application.

		1 Awareness	2 Consideration	3 Application	4 Response
User point of view	Key needs				
Line of interaction	Visible touchpoints				
Funders/ investors point of view	Invisible touchpoints				
	Backstage process support				

Line of interaction
It is divided between visible touchpoints (the actions and platforms the user sees to interact with the investor/funder) and invisible interactions (what the investor/ funder needs to do to deliver the service, but the social venture doesn't see).

This difference is useful to reflect on what actions will be beneficial to be visible and which ones are only making the process less smooth.

Social ventures point of view
The framework shows two points of view (the demand side and the supply side). As we frame this process from a user point of view, we will first map out which key need (in this specific case, we have 7 key needs) should be addressed from our service.

If you would like collaboration in how to understand/improve your service and business from a user stand point, please get in touch with us at: Socialfinance@designcouncil.org.uk

Needs and opportunities map

Opportunities. How might we…

Solutions Initial early ideas

Needs and opportunities map	Opportunities. How might we…	Solutions Initial early ideas
Understanding different funding routes upfront	How might we … enable ventures to understand and consider different funding routes rather than just the one that is most familiar?	**'Peer-to-experienced peer'** A platform that facilitates social ventures without experience learn from other peers who went through similar finance journeys, or alternative routes who can display advantages and disadvantages.
Language barriers for non-social ventures	How might we… attract 'not-social-ventures' to the social finance landscape?	…
Ventures feel criteria and funding decisions are opaque	How might we… help social ventures understand the outcomes of funding applications in order for them to learn and develop?	**'Match-making' and 'self-assesment'** A better way of matchmaking between ventures and the funding opportunities available. The priority as first step focuses on accurately self-assess against funding opportunities.
Wasting time applying for funds	How might we… remove overlapping processes for the application stage of funding opportunities?	**'Passport'** A solution that shares commonly required information throughout the application stage and due diligence by funders and ventures. Analogies Linkedin: Can we imagine a platform that allows funders to see individual team members experiences and / or social venture journey in raising finance? Passport: Can we imagine a platform where each venture receives a stamp for their financial investments? (these could be tracked and viewed by the next investor).
Understanding of repayable finance is low and it is perceived as too risky	How might we…create more flexible repayment options for ventures that do not have assets like a building?	…
Middle stage gap	How might we stretch the boundaries of the stage at which ventures can be funded?	**'The Stretch'** Stretch the boundaries of when a venture could be funded. Either stretching seed funding or later stage funding. Trusts and foundations who dominate early stage investment might have more flexibility to do that.
Lack of skills to understand each other	How might we…facilitate funders to make greater use of skills from ventures?	…

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