

BSSEC CIC
ECO-SYSTEMS ROUNDTABLE (16th May 2023)

Why do we need to consider developing a social investment eco-system in the West Midlands?

A] Introduction

Use of social Investment is a good indicator of the health and development of VCSE's in terms of new product and service development, new premises and equipment and increased delivery.

There has been low/poor take up of social investment by VCSE's for many years as identified by the West Midlands Social Economy Task Force and reported in the WMCA framework for [Growing the Social Economy](#). In the West Midlands, confidence in Social Investment has been impacted by many things which include postcode reliant business support which for many years has focused on startup; continued use of grants; national accelerator programmes often picking the 'best' of the brightest; and finally, a general lack of financial confidence more broadly amongst VCSE's.

Just a few of the contributing factors.

The aim of this first Roundtable of 2023 was to explore the key elements of an effective Social Investment West Midlands eco-system and how key stakeholders can work together to support VCSE access to finance which also links to the rest of the support provision in the region.

What is a social investment eco-system?

It is the operating environment for social economy organisations seeking to grow following social investment. The eco-system can be location based with the involvement of many or few stakeholders including public and private sector entities, accelerator programmes and the government. The agencies, support and services provided will vary as will the number of VCSEs taking advantage of investment. Supportive policies, sector champions in the public and private sector, access to procurement opportunities and risk-taking social entrepreneurs all contribute to the eco-system. The best social investment eco-system is one which provides an enabling environment for social economy growth.

Who/what does the ecosystem comprise of?

VCSE's and Charities, Local Authorities, CVS's, SE Business support, Public and Private Sector, Regeneration, Commissioners, Social Finance Agencies, WMCA, Funders with blended products, Grant funders, mainstream Banks, CDFI's, social investment banks, traditional VCSE infrastructure support, SE specialist development organisations local and national. Also important is access to market opportunities, customers, Government policy and strategy, environmental issues and access to products and materials. There will be others.

Background

Over the past two decades there have been many social economy 'start-up' programmes across the region. This has resulted in 45% of the sector in the West Midlands being less than 3 years old. The majority have remained as micro-businesses and are slow to grow either because they are lifestyle businesses or due to lack of support.

Funding criteria has led to success being measured by numbers starting businesses rather than its potential for sustainability or the opportunity to grow. Very recently the loss of European funding for business support for social businesses has gutted provision. This has similarly impacted on SME support which previously VCSE's could access where it was available.

We are currently experiencing a reorganisation of business support and new government funding is becoming available; however, it seems unlikely there will be dedicated VCSE provision.

VCSE's are reporting the need for good information on new market opportunities and where they should be developing new products and services. They report that they are struggling to navigate the array of online resources, portals and tools, uncertain of quality and where to invest time to analyse the information available.

Continued use of grants by many local authorities has made the transition to trading more difficult for VCSE's. The journey from trading to product and service development and the 'need' for social finance is less strong. There is no risk or pilot grant funding which can stimulate growth. The increase in availability of contracts to VCSE sector from the public sector where they may have favourable terms e.g., part payment in advance or payment in 30 days is good to see but it is not always the case. Many organisations are not seeking support for cash flow – why? We hear reports of organisations really struggling to meet pay roll for example, yet they are reluctant to seek support.

There is a lack of regional business support to improve financial confidence and bridge VCSE's into social finance e.g., offering services like financial confidence building with teams and CEO's, working with debt reluctant boards, supporting organisations to be ambitious and work with their assets, supporting improvement of growth plans/business plans, supporting improved financial confidence, improving pitching workshops where organisations can test out the viability of their proposals etc.

VCSE's report a lack of confidence to approach social finance organisations and as a result they are more likely to go for a grant when they have funding requirements for any purpose.

There is a need for an evidence base to really understand this eco-system, the impact of social investment on sector growth and where there are unmet needs that could develop be met. There is an expressed concern that ***'The conditions for growth aren't there and thus the money can't flow and be used as intended'***. *A comment from a social investment provider.*

Recent work undertaken by the WMCA to assess the need to set up a dedicated investment fund for VCSE's, identified that there was a plentiful supply of money. They found that the pressing need is for awareness raising of the financial products available, financial confidence and clear

roots to access, which in turn will increase choices around borrowing and ultimately organisational growth.

B] Presentations

1] Carole Donnelly - CJD Consulting

Carole led on social investment within the sector consortium that produced the [WMCA Framework for Growing the Social Economy \[2020/21\]](#) and was also part of the follow up consultancy in 2022 led by Power to Change to further consider the value of a West Midlands Fund.

Carole stressed the importance of mindset change for VCSE's regarding trading and the need to address the fear factor around borrowing. She emphasised the importance of education around social investment and financial literacy aligned with good communication on the many products from the lenders.

Carole emphasised that the eco-system needs to be able to support new start-up social businesses to look at the different ways they can grow and develop 'confidence' in undertaking the steps required to access new markets, broker new partnerships, and develop new products and services. She found through her research that there were plenty of social investment products available and therefore no need for a new WMCA fund and that the real work to be done is to support VCSE's to move from a reliance on grant funding to trading to achieve their social objectives.

2] Mel Mills- Big Society Capital

Mel took a focus on what can be done immediately. She asked the participants about their confidence to provide support to those seeking social investment [SI]. The response was mixed but there was agreement that those providing support should be very confident. Those taking part were from all elements of the broader ecosystem.

She was concerned that there is a need to get rid of the myths that surround social investment as these have become artificial barriers to growth. Of particular concern has been that SI is too expensive but with so many products now available and especially blended products of grant and loan these myths need challenging.

Mel proposed a 4-stage approach for the eco-system both for infrastructure organisations and VCSE's:

Confidence: Develop the confidence of infrastructure support. For VCSE's there is a need to help organisations consider their development and growth and see that SI is development capital. Awareness raising more broadly across sectors around social enterprise and its roots to growth e.g., for building purchase or supply chain support.

Engagement: Is SI the solution? How does it work? Learn of examples where SI has supported organisational development.

Education: What products are out there? How do they work? What level of engagement is there with the funder? What does the funder require to support applications? Is the organisation ready?

Support: Increase the level of support provided by infrastructure organisations and the understanding of when to pass organisations onto the funder.

Mel set a challenge to the group and the broader key stakeholders:

For anyone who provides support to VCSE's, **'Are you confident and able to triage, support and signpost VCSE's for social investment?'**

The level of confidence at the Roundtable was broadly of 50% confidence initially with further interactions resulted in those present setting a target for those advising VCSE's in the region of 85-90% confidence in triaging, supporting, and signposting to social investment.

3] Steve Walker – ART Business Loans

Steve introduced his background with ART and explained what CDFI's are. He made the point that social investment agencies have a focus not only on lending but they want their money back and therefore need a return on investment so money can be lent to others. He said not many have assets like buildings which make the lending proposition riskier for the lender.

Steve was concerned that support, especially after start-up, for VCSE's was limited and therefore need for SI was clear for VCSEs. Very few VCSE's have made applications to ART over recent years, and they seem to be unaware of how to apply and the products available.

4] Ged Devlin – Key Fund

Ged spoke about the need to work with those furthest away from the social finance. Ged described an environment in the West Midlands where lots of grant has not helped VCSE's to grow but keeps organisations stuck in a cycle especially as grants available are not for risk and new products and services. He felt the messaging and awareness was not strong enough to change thinking.

Ged felt we need to consider the following to underpin the SI ecosystem:

Customers: Market opportunities will drive growth – where are these? How are they promoted? Access?

Capability: All aspects of the ecosystem – business support, support for boards, financial confidence support, mentoring, access to procurement, consortium building.

Capital: Is it accessible, are the products attractive – ask VCSE's what products they want? Need a range of products available and use of grants to support growth. There is no grant to 'have a go' and take risk! Nothing for pilots.

Confidence: Where is the support? [communication, security of support not just short-term projects, upskilling of staff, support for collaboration].

There are many different products for social investment available which include blends of cash and loan but particularly in the West Midlands there needs to be a broader range of support especially around investment readiness.

C] Roundtable Discussion

Q1] How does support for SME's compare with support for VCSE's?

The broader audience responded by saying that there is more support for the SME eco-system and a more consistent level of support. There were some concerns expressed that going forward with the loss of resources from ERDF and ESF and less funding available from the government there is likely to be much less support. For the past few years there has been a strong focus on growth with programmes like 'Help to Grow'. There is no clear national strategy for VCSE's.

Q2] How do we meet the needs of leaders and boards for SI and debt?

Response from WMCA: Resources of over £2 million are currently being accessed to support the VCSE sector for a range of support opportunities and they include:

A] Resources to be made available for business support more broadly and especially growth and accelerator support.

B] VCSE Cluster development [Places] – each of the 7 Local Authorities will nominate a 'VCSE Growth Place' funded by WMCA and an additional Cluster will be funded by Power to Change.

C] Improved access to procurement for VCSE's.

D] Partnership working with the economic team to identify new and emerging business opportunities.

Q3] How do we lobby Local Authorities [LA] to embrace social enterprise. There still seems a broader lack of awareness of the sector. My experience with my LA's is it is risk adverse regarding trading with us and push us towards grants. We want to look at other ways of financing our organisation, it gives us freedom regarding the direction of our work.

Many responded expressing concern regarding continued lack of awareness of social enterprise within the broader public sector and the risk adverse nature of procurement.

D] Conclusions

Who: There is a need to understand the landscape, who is providing advice and support to VCSE's, their knowledge skills and expertise around sector growth and social investment and very importantly where are they working within the WMCA region. Who should be providing support and why are VCSE 's treated differently?

Information: Confidence building is required both for those providing support and those receiving support. A programme of support for infrastructure organisations to cover 'roots to market', investment readiness and SI products and services would be a good starting point.

Support: Dedicated accelerator programmes linked to social investment.

Customers: Good information to be made available on new markets, new contract opportunities, supply chain needs etc, as without customers VCSE's are not able to trade and will therefore not need growth finance.

Good communication: clear messaging about Social Investment that challenges the myths around cost and level of difficulty. This is messaging to both infrastructure support organisations and VCSE's and their boards.

An offer was made by Big Society Capital to make some proposals regarding how they might be able to support and address some of the challenges facing organisations working within the Ecosystem.

The next Roundtable will consider the role of Business Support in the Social Economy and is taking place on Tuesday 4th July 2023, 11.00am to 12.20pm, online.

To register for this event and receive your Roundtable event link, please email Sarah.Beaumont@bssec.org.uk.

This Roundtable was facilitated and noted by Sarah Beaumont, Director of BSSEC CIC.

BSSEC CIC is supporting the growth of the social economy in the West Midlands Combined Authority through a series of Roundtables, our information service and through our work across the sector.

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