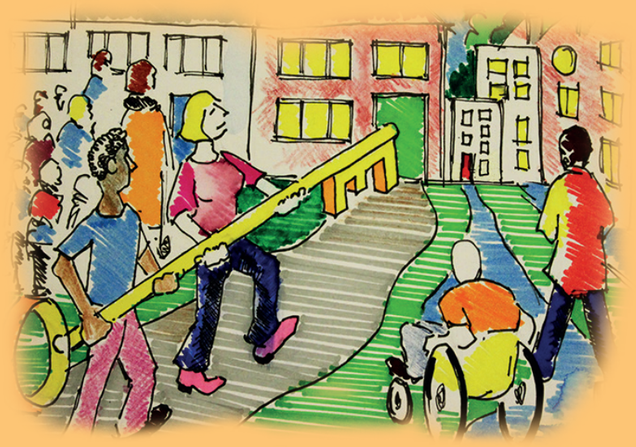
A NEW MODEL OF INVESTING IN LOCAL COMMUNITIES

WELLNORTH ENTERPRISES

Our goal is to dig deep into the everyday lives of communities to find out what's important to them and establish a culture of innovation, collaboration and disruption to help deliver transformative change.

Well North Enterprises has grown out of Well North, a piece of innovation funded by Public Health England to start to redefine public health. Part of this involved asking what role enterprise and entrepreneurship can play in transforming opportunities and life experiences in marginalised communities.

Accessing Social Investment: a new model of investing in local communities is part of our proposed solution, having the starting point of looking at opportunities for real local transformation and backing key local entrepreneurs as the vehicle to achieve this. This is in contrast to the usual needs analysis model.



WELL NORTH ENTERPRISES IS A SOCIAL BUSINESS WHICH WORKS ALONGSIDE OUR CLIENTS AND LOCAL COMMUNITIES TO HELP UNCOVER INNOVATIVE, COMPREHENSIVE AND EFFECTIVE SOLUTIONS TO EVERYDAY PROBLEMS, AND DRIVE CHANGE FROM THE GROUND UP

From the Artz Centre Photography Project
Image credit: www.artzcentre.co.uk

From the Artz Centre photography project, part of a successful arts based social business in Skelmersdale and Up Holland that is in control of its destiny because it relies on trading income not grants. Part of the Artz Centre's mission is to challenge the usual downbeat media image of the town and showcase all that is upbeat and high quality instead; precisely the kind of endeavour we are looking to invest in.

From the Artz Centre Photography Project
Image credit: www.artzcentre.co.uk

We propose an "asset based" approach, investing in these key local people in a joined up way. Crucially we want to explore new ways of working:

1. Find the people whose quality ethical businesses are making a real impact in their local community, and get away from the usual divide between "private" business and "social enterprise". Initially focus on "left behind" communities in the North.

2. Up the telescope – develop bespoke packages of support and make the programme fit the person, rather than the person fit the programme. Directly involve investors in supporting/mentoring local entrepreneurs.

3. Use a relational approach, i.e. really understand the individuals, not just the business model approach. Use a venture capital model, i.e. growth/risk oriented rather than bank lending.

4. A mix of support, equity, loans, and personal commitment i.e. rather than a legal agreement, a personal (not legally binding) commitment from the recipient to give back at least as much as received over time.

5. Invest in achieving real growth in local businesses which directly impact on the lives of local people. It's about enabling businesses to achieve a real step change in growth, rather than the number that take part.

The Liz and Terry Bramall Foundation has generously funded a pilot programme and we are now looking for the next round of investors. We anticipate that to achieve a step change in the business of a local entrepreneur will require £20,000 – £50,000 and we are looking to support around a further 3-5 entrepreneurs over the next 12 months.

To find out more contact Donald or Catherine on
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"We have supported this project because at the Foundation we believe in working within the heart of communities. Well North Enterprises search out individuals who are already a part of the neighbourhood and can work to develop and encourage sustainable solutions for the local residents. Their personal approach builds confidence and skills that help people to take responsibility for their own futures and over time build a foundation to create more prosperous and self sustaining communities."
The Liz and Terry Bramall Foundation

There has been a great deal of media focus in recent months on "left behind" towns and cities, especially in the north of England. Much of the focus is around addressing structural issues such as infrastructure, transport etc. Whilst addressing this is vital, we take a more relational approach, "people not structures". Our work over many decades suggests that detailed work supporting outstanding local entrepreneurs to grow their businesses and deliver a step change in the associated positive social impact is vital to deliver lasting and fundamental revitalisation to these communities, an "inside out" approach as Professor Germaine Greer described it.

SUPPORTING LOCAL ENTREPRENEURS

Well North Enterprises has been generously supported by The Liz and Terry Bramall Foundation to develop new ways to support local entrepreneurs. Our learning has grown out of being embedded in specific local communities and contexts, and working through the appropriate support needed to enable local entrepreneurs to grow their businesses and associated social impact.

We wish to explore a customised approach, built around individual entrepreneurs, creating a bespoke package of support, perhaps matching to specific investors, the view "up the telescope":

We do not draw the traditional distinction between types of legal entity. We target excellent entrepreneurs delivering a quality product or service which also creates social good.

We believe that it is important to create a "wrap around" programme of support. There is little point giving advice on how to grow a business, if the entrepreneur is working long hours and has no capacity to act on that advice. We have built in resources to enable the entrepreneur to offload part of their work and so have space to take advantage of customised support.

We want to give investors a direct link to the entrepreneurs we support, providing a mix of monetary and mentoring support, and to explore the possibility of investors working as a group similar to an Angel Consortium in spreading impact across a range of entrepreneurs.

We also think the principle of giving something back is crucially important. This is not traditional charity; it is investment. Sometimes this may take the form of a formal legal agreement such as a business loan or share of equity. But sometimes the commitment will be a moral one, a personal commitment, not legally binding, to seek to give back at a similar level to the support received, by giving investment and mentoring to another entrepreneur at some point in the future.

We are aware of and plan to work with other organisations operating in the same space, such as UnLtd, SSE, Access programme. What sets us apart is our focus of looking at this from the perspective of individual entrepreneurs embedded in specific local communities and working across the traditional small business/social enterprise divide.

We have an approach of learning by doing. We want to grow this approach one entrepreneur at a time. By creating a customised approach building on what individual contexts require, and only then thinking about a more systematic programme, we will create something that is fit for purpose and sustainable.

WELL NORTH ENTERPRISES SOCIAL INVESTMENT PILOT

The Liz and Terry Bramall Foundation generously funded Well North Enterprises to pilot this approach with an entrepreneur based in Girlington, Mumtaz Khan.

The funding which is customised to Mumtaz's circumstances includes (i) initial capacity, mentoring, development and working capital funding and (ii) assistance in accessing capital investment. This will provide learning as to whether the support was appropriate and sufficient, the barriers that were successfully overcome and those that were not, as well as the impact and benefit (or not) of mentoring. Specifically, was Mumtaz able to access capital funding to grow her business and secure appropriate premises?

Mumtaz Khan is a force of nature: a Bradford business woman who has used her talent to introduce young people from her community to sport. Mumtaz runs one of the country's most successful Ju-Jitsu clubs out of a tiny, run-down pre-fab extension built onto Girlington Community Centre in BD8. Many of the children she has coached have gone on to win national honours and many more have found self-respect and enjoyment from being part of this vibrant and inspiring club.

Mumtaz is now branching out and is seeking to take her "Onna" brand into new sporting arenas including: cycling, walking, boxing, swimming and archery. She is also keen to explore how she can help amateur sports coaches to turn their passion into a sustainable small business.

This is a good example of the "learning by doing" approach that Well North Enterprises is committed to, where the experience of participants is the primary driver of how we learn and develop.

WELL NORTH ENTERPRISES
SOCIAL INVESTMENT PROPOSITION

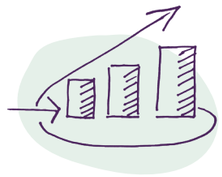
WNE is looking to gradually extend this approach, learning as we go, customising the programme for each participant. WNE is uniquely positioned to identify social entrepreneurs with investable potential and connect them with corporate and philanthropic investors to receive a combination of financial and mentoring support.

Through our work with Well North Enterprises' clients, we are able to identify the real and often hidden change makers in a city or town and understand those who have potential to succeed as social entrepreneurs.

We work across traditional SME/social enterprise boundaries and customise the scale and nature of support for each entrepreneur, so that the programme is shaped and developed by the local and individual context, the view "up the telescope".

By bringing together a group of social entrepreneurs, we provide a portfolio approach for investors to increase the likelihood that they will receive an investment return overall.

By bringing together a group of investors, we provide a consortium approach to spread the investment risk between the group members.



Through a blend of grants and revenue participation bonds (where repayment and interest is linked to profits), investors receive partial repayment and/or a low return dependent on financial performance of the portfolio of social businesses. There is a moral rather than legal commitment for recipients of support to "give back" over time to the same level of support they have received.

By bringing together a group of investors alongside WNE's expertise and experience, we widen the range of expertise and knowledge from which we are able to provide pro-bono access to mentoring, training and networks to support each social entrepreneur to increase impact.

An optional element could be for corporate sponsors to act as guarantors for social businesses in guaranteeing repayment of funds.

WNE PROCESS

STEP 1

WNE uses its own and partner networks in areas where it is active, to identify investable social entrepreneurs. The goal is to proactively find "hidden" entrepreneurs who might not themselves have thought of accessing this sort of programme. A due diligence/screening process then takes place.

STEP 2A

WNE identifies a mixture of corporate, angel and philanthropic investors (the "Investor Group"), in a specific geographic area (eg Bradford, Doncaster etc) who would like to support local social entrepreneurs through provision of financial and mentoring support.

STEP 2B

WNE supports each entrepreneur to put together an investment and impact case, funded through "seed" philanthropic donation, and repaid through a slice of Investor Group funding.

STEP 3

WNE convenes an Entrepreneur Support Committee consisting of WNE staff/advisers and investors to select a portfolio of entrepreneurs for support (the "Entrepreneur Cohort").

STEP 4

WNE raises funding from the Investor Group to match the Entrepreneur Cohort requirements. For corporates this may be structured as sponsorship or a perhaps as a charitable donation.

STEP 5

WNE provides grants to the cohort of entrepreneurs and perhaps supports them if relevant to issue revenue participation notes (where repayment and interest is linked to profits), or to access these through WNE or a partner.

- The funding can cover working capital, training, mentoring and/or development capital.

STEP 6

Mentoring is provided pro-bono by the Investor Group and on a funded basis by WNE.

- Training and coaching is provided by WNE and/or perhaps School of Entrepreneurs, depending on topic and location.
- Business case seed funding is repaid.

STEP 7

Entrepreneur Cohort repayments/interest payments made to the Investor Cohort.

STEP 8

Impact reporting by WNE, funded through a slice of the Investor Group funding.

AT WELL NORTH ENTERPRISES, WE GIVE EVERYONE A VOICE

From the Artz Centre Photography Project
Image credit: www.artzcentre.co.uk

PERCEIVED MARKET ISSUES:

Many social businesses, especially start-ups, are undercapitalised, unable to raise equity investment. This can leave the businesses vulnerable due to lack of cashflow and capital. In addition whilst it is normal and expected for an entrepreneur, especially with a start-up, to work hard and put in long hours, if they are grossly undercapitalised there is a risk that this approach creates poor health and ultimately leads to business failure. Is the current funding approach complicit in this?

FUNDING

- Social businesses have difficulty accessing funding.
- Social businesses are not always able to repay capital or afford the required interest payments especially as many social lenders charge higher rates than high street lenders.
- Social Investment Vehicles are potentially not fully invested because social businesses do not often make the levels of financial return sought.
- "Many SIBs currently look at whether the intervention achieved results, but few look at whether it was due to the SIB approach itself. Looking at existing evidence, it seems that SIBs might alleviate perennial public service challenges, but we're not seizing the opportunity to learn from where they work well and where they don't". – Government Outcomes Lab "Building the tools for public services to secure better outcomes" July 2018.

BUSINESS ACUMEN

- Social entrepreneurs need access to support and training to develop their business acumen and bring their ideas to fruition.
- WNE is concerned that the needs of many social businesses don't really fit either mainstream business or social enterprise support programmes and networks. Their social goals don't really fit with mainstream business advice and if, for example, they are family owned they don't fit with standard social enterprise funding, most of which will be a mixture of grants and traditional lending.

NARROW DEFINITION LIMITS FUNDING SUPPORT

- A focus exclusively on charities and social businesses misses a broader range of entrepreneurs and businesses whose raison d'être is to achieve positive social change, in a financially sustainable way. The term social business is sometimes used to describe such businesses. We argue that support and investment should be orientated to the quality of the offer, rather than the form of governance chosen. Criteria might therefore include:

  1. The quality and value for money of the product and service, and its social impact
  2. The terms and conditions, training, support, childcare etc for staff, volunteers, contractors
  3. The financial sustainability, growth prospects, how wealth is created and is shared in the business
  4. The environmental footprint of the organisation.

- We argue that profit is important. A major flaw in the current social enterprise movement is a focus on "not for profit". We have seen too many good enterprises cease trading because they aimed for break-even and then undershot. Without equity or realisable assets, when cashflow turns negative there is no way out.
- Instead, for businesses with a social goal, the test should be if the profit levels are appropriate and is profit distribution throughout the business reasonable and proportionate? If the initiator of the business has invested capital at risk, is it not appropriate that they should take a modest dividend, proportionate to that risk?
- Such businesses are often not attractive to private sector angels/venture capital funds as their scale is too small and their profit margins and growth prospects too low. They also generally fall outside the remit of social sector investment and support because for example they are for profit or owned by an individual or family.
- Social businesses of this type may be delivering quality local services, such as a wide range of care services, from childcare to support for the elderly, or education services from tutoring to adult education. A wide range of sports are run in this way, for both children and adults.
- Social businesses of this type are also not well placed to be supported by growth/accelerator hubs, as generally their business models and culture are not a good fit. Arguably social businesses of this type are more likely to be run by groups underrepresented in growth hubs: women, working class, ethnic minorities. They are often based in towns and villages rather than major conurbations. This group of entrepreneurs often does not have access to the family, social and network capital that wealthier and better-connected entrepreneurs have. This is therefore a good opportunity to address social inequality in an innovative and opportunity-led manner.

PERSONAL CONNECTION

- Many venture capital and angel investors place equal weight on the track record, degree of investment and commitment, both time and cash, of entrepreneurs in investable propositions when assessing their business plans.
- We think this is broadly a correct approach. By contrast most social investments take a bank lending approach, where the decision makers as a matter of policy don't meet the entrepreneur and their team.
- We propose to follow the venture capital and angel investor approach and to seek out local entrepreneurs creating genuine social value. Typically these will be people who are not well connected in terms of business support, networks etc, but are focused on running their business. They will typically be at the stage where they will need significant support if they are going to see a step change in the growth of their business and the associated social impact. This might be a sole trader moving to a limited company and starting to employ permanent staff, or it might be moving from rented to owned accommodation for the business or from one site to several, or to add new products/services.
- WNE however, by being embedded in local communities, is on the lookout and aware of such people. We would then seek to connect them to prospective lenders and investors where personal support/mentoring may be a significant element of the programme.

GIVING SOMETHING BACK

- WNE believes in reciprocity.
- WNE does not believe in something for nothing. The approach is strongly relational, developing a relationship of trust and mutual respect between all parties.
- Many of the entrepreneurs will not have significant fixed assets over which a legal charge can be taken and will in any event be reluctant to take out a formal loan.
- We therefore propose a grant model, but with a moral commitment. This commitment will be in two parts: the first will set out the social goals the grant will achieve, the second will be a moral commitment that at some point in the next 5-7 years the recipient will become a grant maker and a mentor, the roles will be reversed and they will help someone on the journey.
- There are two reasons for this. The first is to demonstrate that this is not just charity. We are investing in someone because we believe in their potential. In the broadest terms we believe that they are an investable proposition. This leads to the second reason, which is a business case: that many investees will in fact become regular repeat investors and mentors and will recruit others in their network to the programme, and this will over the longer term be a major driver for the financial sustainability of the approach.
- It will prove an interesting experiment where a relationship-based moral commitment replaces a more normal transactional agreement. This is perhaps where the greatest innovation (and indeed risk) lies, but it is we believe time for more genuine innovation.

EXISTING PROPOSITIONS AIMING TO ADDRESS THESE ISSUES

- For information on existing propositions, and updates on the wider work of Well North Enterprises, please go to our website: www.wellnorthenterprises.co.uk/news

REFERENCE INFORMATION

1. Social & Sustainable Capital
   www.socialandsustainable.com/why-sasc

2. Impetus Private Equity Foundation
   (UK's first Venture Philanthropy Trust Fund)
   www.impetus-pef.org.uk/why-we-exist

3. Good Finance
   www.goodfinance.org.uk

   "Our mission is to help charities & social businesses navigate the world of social investment. Good Finance is jointly funded by Access - The Foundation for Social Investment, Big Society Capital and DCMS, with in-kind support provided by members of the steering group."

4. Start Up Business Loans
   www.startuploans.co.uk

5. Allia
   www.allia.org.uk/our-work/#venture-support-row

6. School for Social Entrepreneurs
   www.the-sse.org

7. Investment Type information
   www.knowhow.ncvo.org.uk/funding/social-investment-1/investment-types

8. Crowdrise
   www.crowdrise.com

9. Power to Change
   www.powertochange.org.uk

10. UnLtd
    www.unltd.org.uk

11. Arts Impact Fund
    www.artsculturefinance.org/our-funds/arts-impact-fund

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