Department for the Economy
An Roinn Geilleagair
www.economy-ni.gov.uk

RESPONSES
TO ENGAGEMENT ON SOCIAL ENTERPRISE LOAN SCHEME

Summary of Responses - Social Enterprise Loan Scheme

Overview / Introduction

The Department for the Economy (DfE) recognizes the positive economic, social and environmental role social enterprises play within our communities. The social enterprise sector is a natural enabler of all four of the economic priorities of ‘Good Jobs’, ‘Regional Balance’, ‘Raise Productivity’, and ‘Decarbonisation’.

A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners. Social enterprises still compete in the open market and strive to maximise profits while also focusing on their social mission.

Through its interactions with the social enterprise sector, the Department became aware that there is a need for primarily capital funding to support and help facilitate growth. Access to funding to enable growth of a business can be difficult in any sector. This is particularly the case for the social enterprises who, while profit making, invest their profits back into their social mission. This can mean repaying loans takes longer, which not all lenders are content to support.

DfE launched an online survey on the 4th of September 2024 to seek the views on a potential capital loan fund for future growth of social enterprises. This pre-engagement aimed to gauge the appetite of the social enterprise sector on investment requirements and understand the current challenges, with a view to developing a potential loan scheme to support growth in existing social economy businesses.

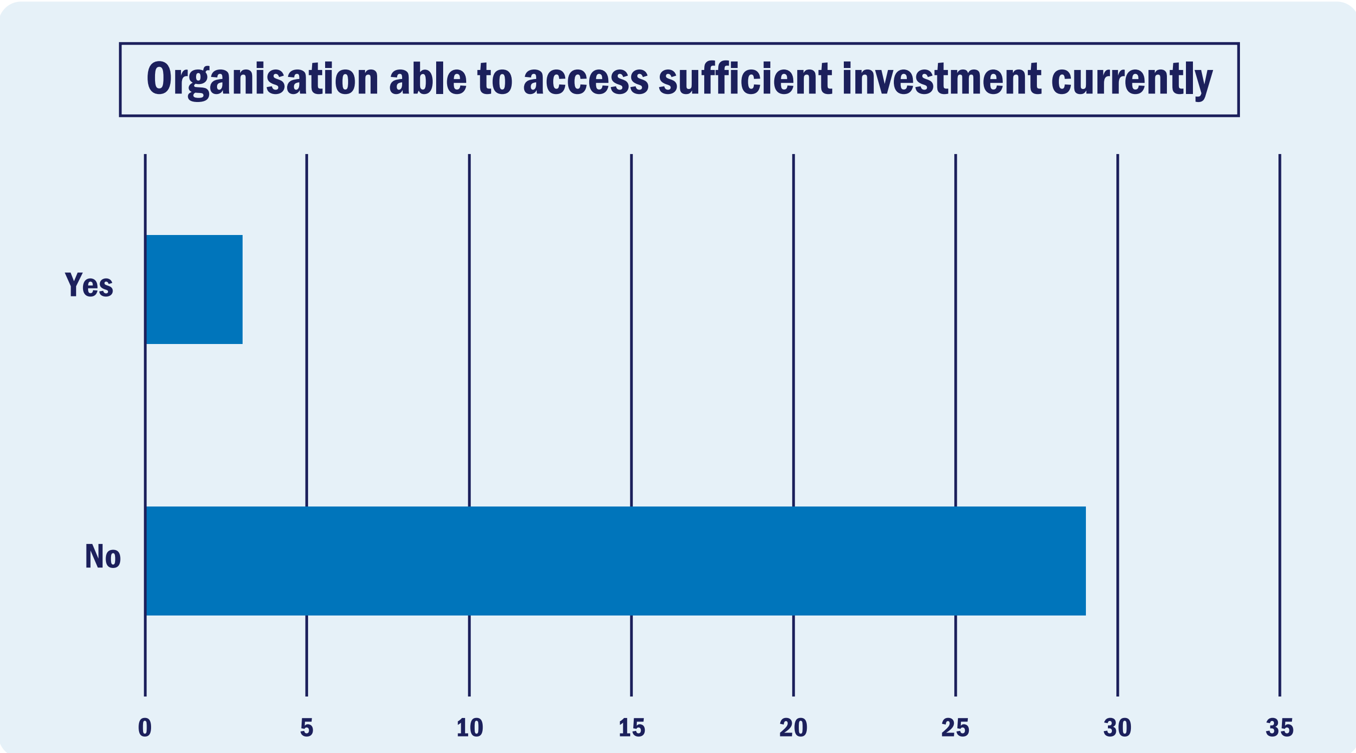
A focus group took place after the online survey to delve into greater detail following the responses.

Summary of Responses – Online Survey

The online survey ran from the 4th of September 2024 to the 9th of October 2024 with engagement from 32 participants. The survey consisted of 9 questions to see how ready the sector is for a financial investment for the purpose of growth, and how this could better serve the sector. This section provides a summary of each survey question response.

1: Is your organisation able to access sufficient investment currently to enable any growth or expansion plans?

Question 1 was a multiple-choice question that set out to firstly see if social enterprises have been able to access sufficient investment for the purpose of growth to ensure that there is a need or opportunity for a scheme that can support the sector. From the participants 90.62% responded that they are unable to access sufficient investment. There were 32 responses to this part of the question.



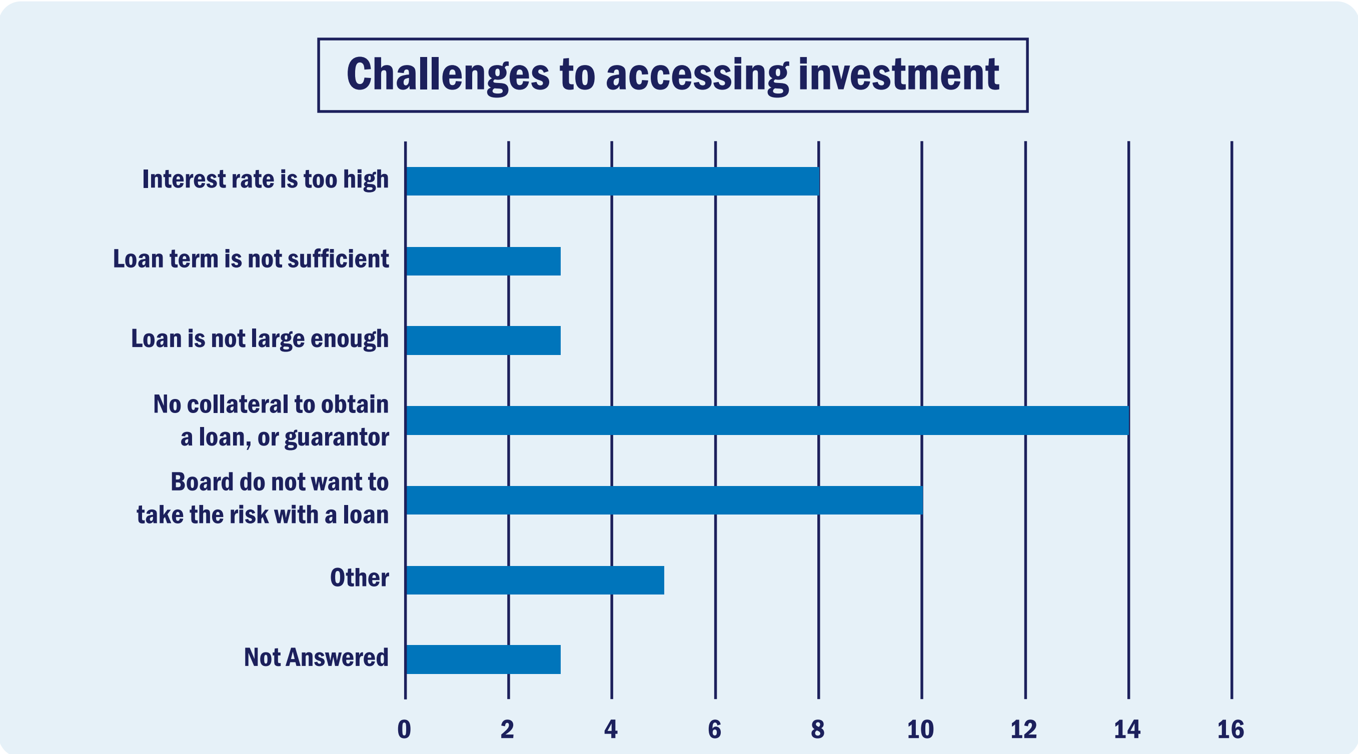
Option	Total	Percent
Yes	3	9.38%
No	29	90.62%
Not Answered	0	0.00%

2: What is your challenge in accessing investment for growth?

There were 29 responses to this question.

Question 2 looked at the possible reasons and challenges as to why the sector have been unable to access significant investment. The multiple choices provided the participants with common barriers to loans while also allowing for the participants to provide their own option if it differed from what was available.

As shown in the chart below, 15.62% of the participants provided their own options for the challenges they have been facing. The main point that came out of this was that mainstream lenders and financial institutions are more risk averse with social enterprise income streams not deemed secure enough. The comments provided suggest that there may be a lack of awareness and understanding from banks and traditional lenders regarding the social enterprise sector which contributes to the challenge of securing investment.

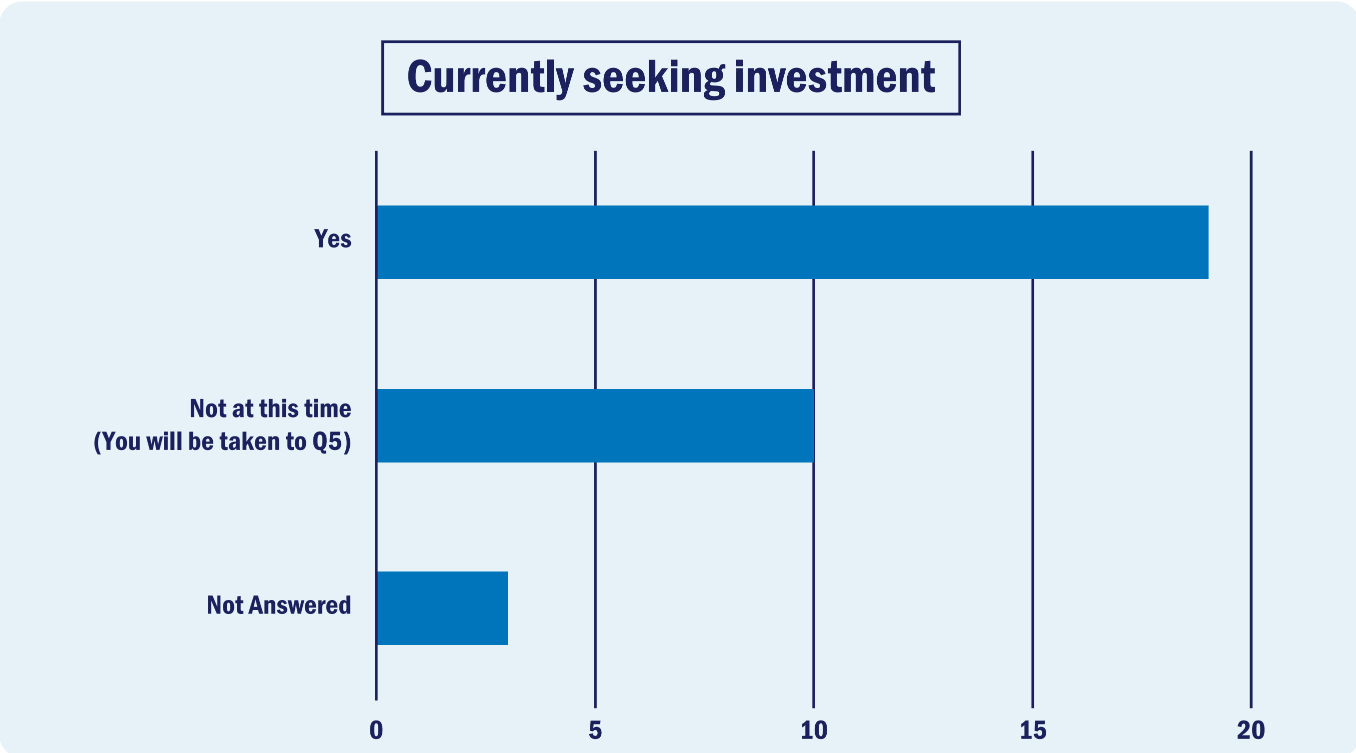


Option	Total	Percent
Interest rate is too high	8	25.00%
Loan term is not sufficient	3	9.38%
Loan is not large enough	3	9.38%
No collateral to obtain a loan, or guarantor	14	43.75%
Board do not want to take the risk with a loan	10	31.25%
Other	5	15.62%
Not Answered	3	9.38%

3: Are you currently seeking additional investment to grow your social enterprise that is inaccessible with existing providers?

There were 29 responses to this question.

Question 3 looks at whether the sector is currently in a position and is actively seeking investment for the purpose of growth currently. Around 59% of the participants stated they are seeking investment but are not able to access it with the current providers.



Option	Total	Percent
Yes	19	59.38%
Not at this time (You will be taken to Q5)	10	31.25%
Not Answered	3	9.38%

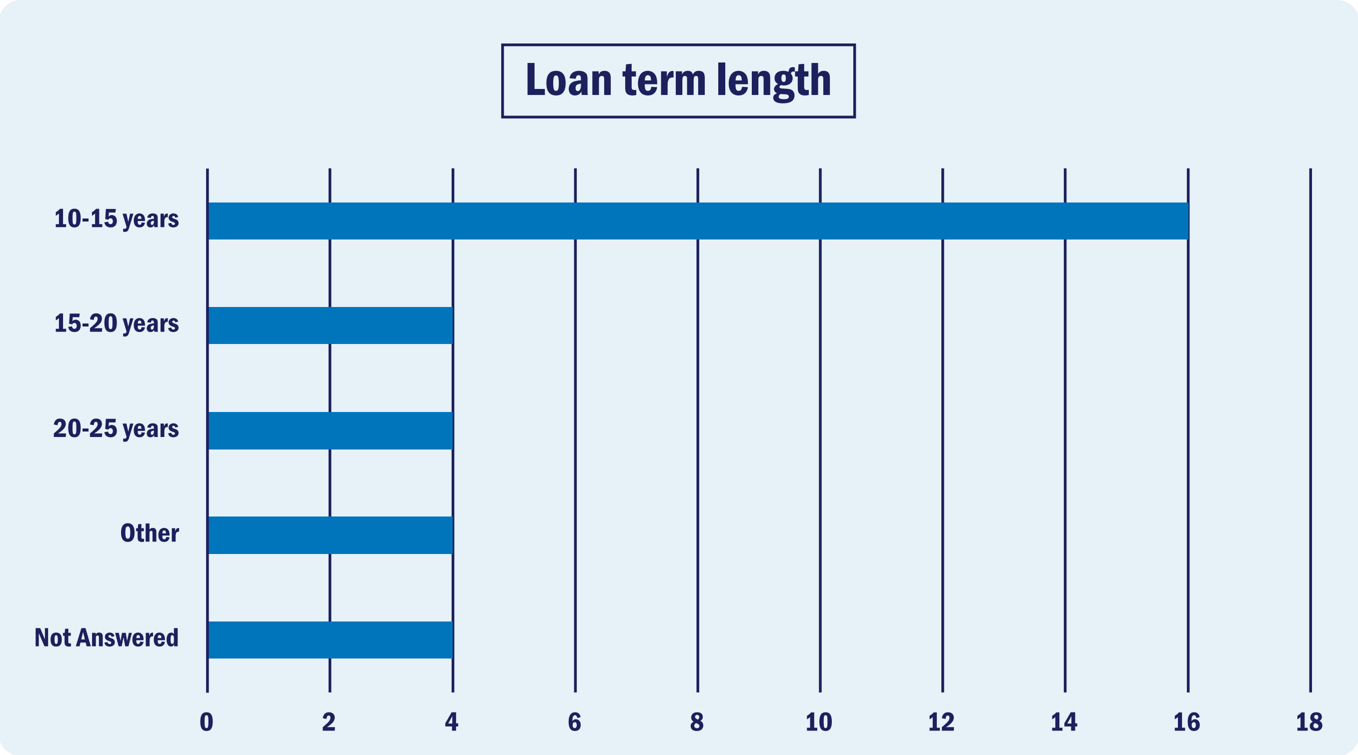
4: If you answered yes to Question 3, can you provide more detail on the investment you require.

Question 4 was asked to the participants who answered yes to question 3. The participants who are currently seeking additional investment for growth are asked to provide more detail on the investment they require. This is to help the Department again see the readiness of the sector for an investment of this nature and to gauge the amounts and potential outcomes at a high level that could be expected. The overwhelming response was for capital investment for purposes such as the procurement of the property that is currently being rented or to build extensions / warehouses to existing property to grow they output. There were also responses that sought not just capital but to have revenue alongside to ensure that staffing matched the growth and increased output.

5: In order to make an impact to the growth of your social enterprise what do you believe would be the appropriate term for the investment you need?

There were 28 responses to this question.

Looking into the barriers and challenges more individually, this question looks at the loan length appropriate for social enterprises. The response from the sector shows that most of the respondents would prefer the shorter-term length at 10 – 15 years (50%) while the options for 15 – 20 and 20 – 25 years each got 12.50%. Participants who provided their own feedback suggested even shorter terms than the choices with 5 – 10 years being suggested multiple times and even shorter periods of 3 – 5 and 2 – 5 years. This indicates that the sector would like to see shorter loan periods and that the longer periods are not as sought after as previously thought.



Option	Total	Percent
10 – 15 years	16	50.00%
15 – 20 years	4	12.50%
20 – 25 years	4	12.50%
Other	4	12.50%
Not Answered	4	12.50%

6: In terms of a loan, what do you believe would be a reasonable interest rate?

There were 29 responses to this question.

Question 6 looks more into the interest rate and sector views on what would be a reasonable rate that would be attractive and achievable for social enterprises yet still be realistic for the lenders. Both "In line with the baseline rate" and "Fixed rate" were selected the most with 37.50% each. Participants could again provide their own suggestions. Participants suggested that a one size fits all may not be the best approach as the social enterprise sector is very diverse. It was also suggested that a very low to 0% interest rate would be appropriate as the social value that is provided through the enterprise social mission is something that traditional businesses do not provide and this extra value to local communities should be recognized by a lower interest rate.

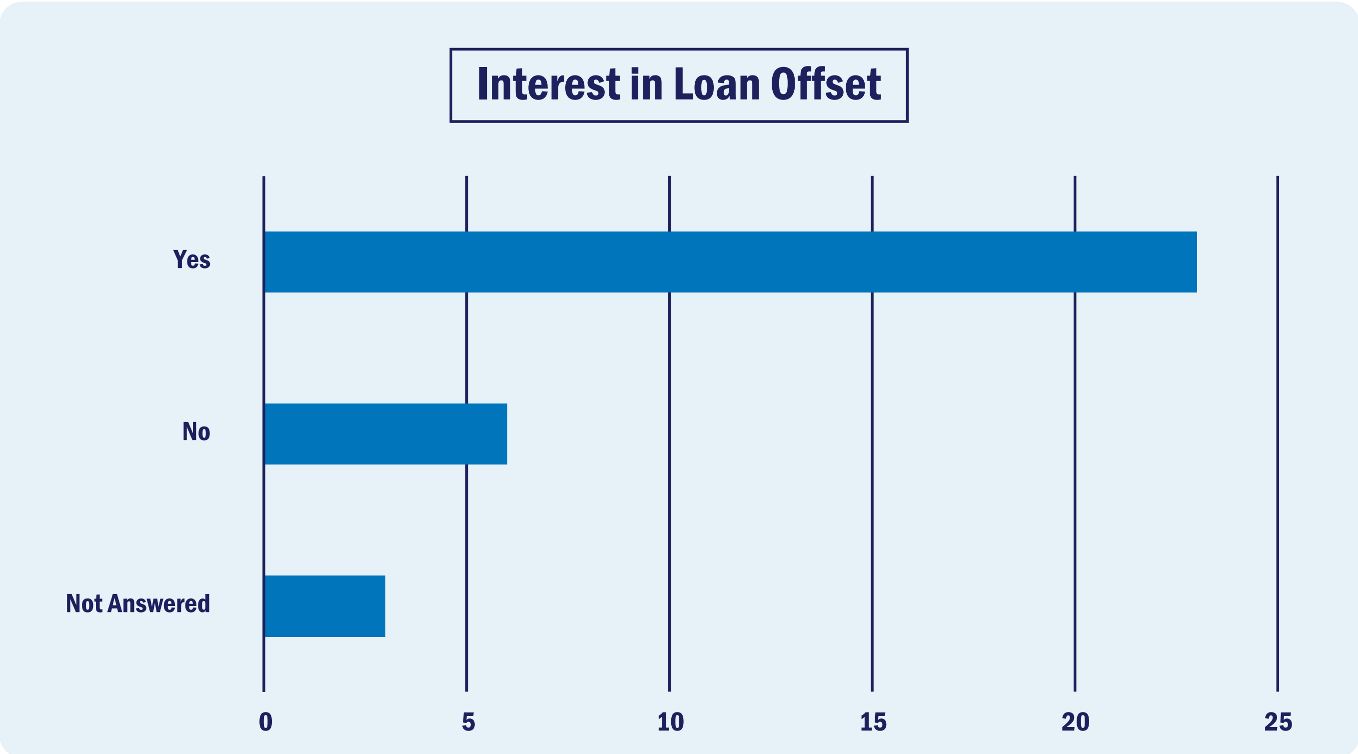
Option	Total	Percent
In line with the inflation rate	1	3.12%
In line with the baseline rate	12	37.50%
Fixed rate	12	37.50%
Other	4	12.50%
Not Answered	3	9.38%

7: If a proportion of the loan could be offset by savings generated to the public purse through the impact of your growth:

There were 29 responses to this question.

Question 7 relates to the innovative elements that is part of the potential loan scheme. This would enable part of the loan to be offset if it is determined by an independent third party that the growth of the social enterprise has provided savings to the NI government through the social value they provide. The question is to understand if the sector has interest in a mechanism of this nature. Just over 70% of the participants said they would be interested in this element.

Participants were then asked to suggest what they thought would be a fair percentage of the investment should be eligible to be offset by this function. There was a wide range of responses to this question. An eligible offset percentage of either 30%, 20% or 10% was suggested each represented by 11.5% of the responses. A 25% offset eligibility was suggested by 23% of the participants. A 50% offset was the most popular suggestion with 30.7% of participants.



Option	Total	Percent
Yes	23	71.88%
No	6	18.75%
Not Answered	3	9.38%

8: What specific outcomes do you anticipate from the proposed investment? Please provide as much detail as possible, including timescales for measuring and achieving outcomes.

Question 8 did not have the option for multiple choices, rather provided the opportunity for the participants to detail out what they anticipated the outcome would be for their social enterprise from an investment such as this. This question aimed to explore two areas. Firstly, to determine how the participants aim to use an investment such as this. Secondly, how the investment would impact the social enterprises and the outcomes that would be expected.

Social enterprises wish to either upgrade their current property either by investing in the current facilities to bring them to a modern standard, or by building extensions to allow for greater output of either service or product or purchase new venues and facilities for warehouse or workshop space. Investment is also sought to invest in new technology to streamline processed and create a lower costing more efficient operation.

Although outside of the scope of the proposals, there was demand for revenue investment for the purpose of increased employment. The anticipated outcomes were diverse as social enterprises work in such a wide range of areas. The majority of the responses wanted to employ more employees and provide increased training for the upskilling of current staff in order to grow the output as demand for product and services being provided. Also, the development and skills transfer for people living with disabilities and vulnerable people to assist them get into employment.

The main outcomes that came back with the end goal of growth of the enterprise with an aspiration on becoming self-sufficient, allowing for the enterprises to sustain the employment of their employes, growth in the uptake of their services and products, and ensuring that the business gains stability allowing for the social enterprises to focus more on helping the communities and their individual social missions.

9: Does your social enterprise have a board of directors?

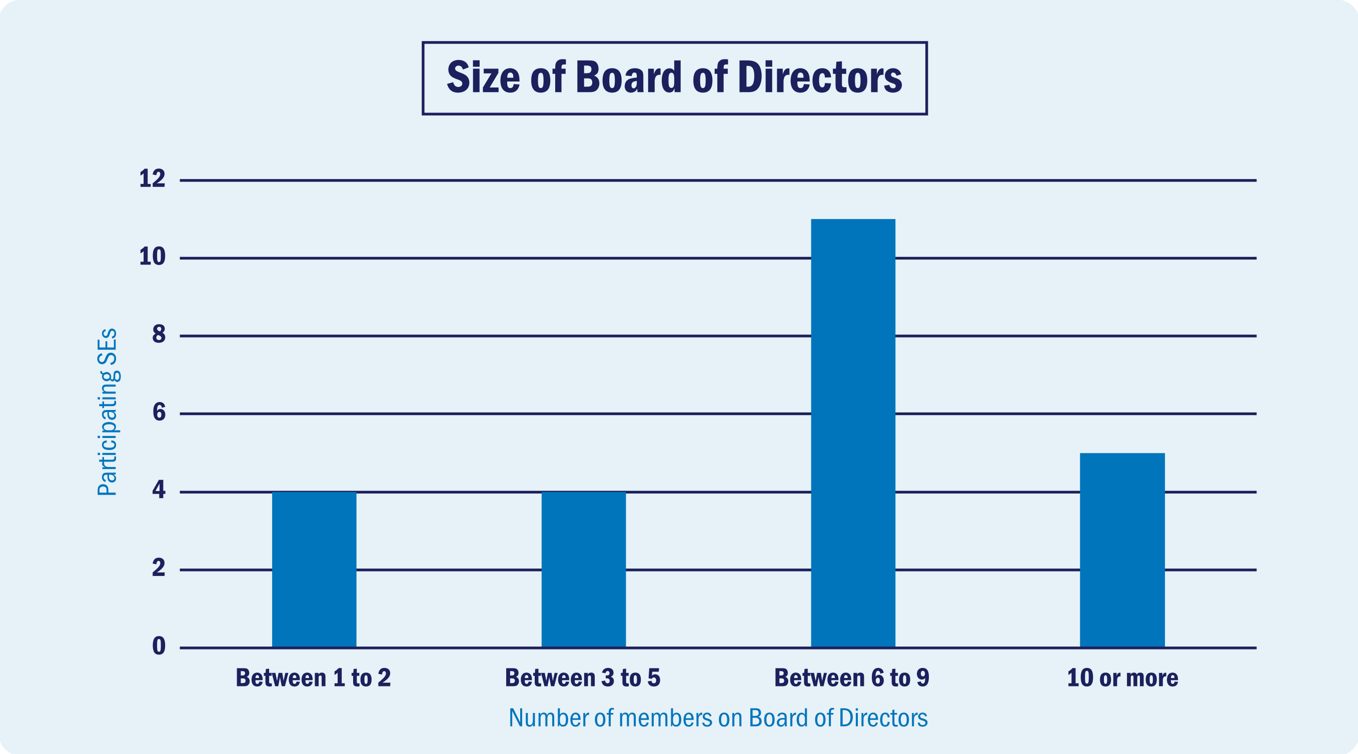
The 9th and final question relate to one of the potential barriers mentioned in question 2 “The board do not want to take on the risk with a loan” and sought to find explore how common it is for social enterprises to have a board of directors. Having a board of directors can indicate how investment-ready an enterprise is but also contribute to how risk averse an enterprise is in their decision making. 87.5% of the participants answered that they do have a board of directors.

There were 29 responses to this question. Over 85% of respondents had a board of directors.

If you answered yes, how many members are on the board?

There were 24 responses to this question.

It was also asked of each social enterprise to provide the number of members their board of directors consisted of, which is broken-down below:



Summary of Responses – Focus Group

Participants of the online survey were invited to take part in an in-person focus group held on Wednesday the 13th of November 2024. The focus group discussed the feedback received from the Online Survey results. The purpose of the focus group was to delve deeper into the responses of the survey and to allow the participants the opportunity to provide more detail and express more context to their answers. Participants were seated in a circle formation to encourage open discussion. The session was formatted into three discussion topics that began with a question and designed to be broken down into different issues and themes.

Discussion Topic 1
Question
In your experience what is the current access to significant investment funds like for social enterprise?
Discussion Aim
To get the groups feedback on what the current state of gaining significant investment looks like for their social enterprise and the sector as a whole. What are the challenges, barriers and posable solutions that might benefit the process. This section also sought to draw out the sector's ideas of what a loan that suits their needs would look like, where have they sought investment to date, why it did not suit and if they are currently ready for investment.

The focus group discussions began with the group echoing the results of the online survey and advising that there is limited access to funding. Access to finance can be sporadic with different organisations offering different things at different times, with funding streams regularly being time bound and removed.

Others stated that on accessing funding, it does not help that social enterprises do not look attractive to lenders due to a lack of awareness of the sector and that the social enterprise model. The group also stated that the same is true in the reverse where traditional lenders may not be attractive or the right fit for social enterprises where there is more hesitation to take on the risk of a loan due to the available interest rates and the loan periods.

Participants suggested that it would be good if Credit Unions could offer finance options to the SE sector.

The group suggested that social enterprises should be treated similarly to traditional business in regard to grants. The group were interested in a past model (CRISP model) that was in use in the 1990s. This scheme involved 80% of the investment set as a grant with the remaining 20% set as a loan. Participants stated that a mix of grant and loan is more appealing than a standard loan.

The 'Patient Model' such as used with student loans where repayment is not required immediately was discussed as an option. Flexibility around repayments was a common suggestion, for example the interest rate would only activate at a particular stage or be half that of the full rate for the first year which will afford smaller social enterprises time to spend the investment and be in a position to level up their profit making before paying back the full rate.

General points raised through discussion included: -

Finance:

- Debt finance can be seen as a negative, especially when an organisation's finances are not currently in the best place.
- Seed funding matched by loan funding has been successful in the past.
- There is generally no access to high levels of capital funding for social enterprises and example of circa £2m was given.
- Any capital funding schemes should cover 100% of the funding and not on a proportion. DAERA was used as an example of giving 80% capital funding with the business having to source the 20%. It was argued that the business already is taking a risk with moving forward with their business.
- 'Big Issue Invest' was discussed as a good funding example where they can vary interest rates based on repayments and risk and also offer pauses if needed for a period of time (interest would still accrue but term would increase).
- Recycling of funding was discussed as an option to be used where repayments plus interest were used again at a lower interest rate for newer social enterprises.

Risk:

- Risk appetite varies across Boards and businesses with interest rate and loan duration generally being a factor. The percentage rate and duration need to be competitive with other offers available.
  - Social enterprises that have are past the point of being a new/start up enterprise but not large enough to be fully established and self-sufficient was discussed as a key point in all business and is a place where risk for the business and potential investors is high.

Additional points:

- Participants suggested CO3 would be a good organisation to get involved in leadership training programmes.
- Participants suggested that if a scheme were to open preparing social enterprises is key to ensure it is open to everyone that needs, it is able to prepare to make an application.

Discussion Topic 2
Question
What would the outcomes for your social enterprise, both in terms of business viability and sustainability, and in terms of the contribution towards your mission or purpose?
Discussion Aim
This topic is to gauge if there is a desire from social enterprises to grow the enterprise / profit making element to the organisation and to detail what that means and looks like. in addition, this topic explored the sector's idea of growth.

Discussion Topic 3
Question
Are you interested in the optional element of offsetting some loan requirements when savings to the public purse have been demonstrated from the use of the funding? This will require the social enterprise to allow access to records and data to provide evidence. Demonstrating the impact and financial savings would be done by a third-party impact assessment officer and would be fully funded by DfE.
Discussion Aim
This section is to detail the sector's thoughts on the hybrid element of the loan scheme. This section involved discussion on how this would function, what the metrics would be and if this were something that would benefit the sector.

Discussion topics two and three were discussed together. The Department provided background on the potential workings of the hybrid functionality of the scheme with the Social Return on Investment (SROI). There were mixed views on this element. Whilst the assistance with impact measurement was welcomed by organizations, the main areas of concern were how it would be measured and how much time would be needed from the enterprise. Participants felt that this had to remove the burden from the social enterprise and be fully covered through the impact measurement resource. Other points raised where:

- Most thought this was a good idea so long as it didn't take too much time away from the business.
- If they were viewed as an 'auditor' this could be seen as a negative and a hindrance rather than being beneficial.
- Confidentiality and GDPR issues would need fleshed out.
- Understanding baselines and how these would be established.
- It would give businesses the evidence of their impact which they could use to promote themselves and the social good they do.

Conclusion

Following both the online survey and the focus group held in-person, the Social Economy Branch has been provided with a clearer picture on what the sector requires and where the barriers to accessing significant investment have been in the past. The pre-engagement has also provided information and suggestions that will require further consideration and research.

The main issue around accessibility of investment is to create more awareness of what social enterprises are, how they work and provide a product that can reduce the level of risk that comes with traditional loans. Flexibility around the interest rate is something the sector is seeking as this is the main area of risk that the sector has when it comes to investment.

The additional functionality relating to offsetting some of the loan may bridge that gap of loan and risk, and it may have mixed responses initially. The main challenge is to ensure the resources required of social enterprises are minimised in terms of impact assessments and to ensure knowledge transfer enables continued impact measurement after the loan ends.

The evidence suggested the scheme should focus on those types of social enterprise unable to access existing financial offerings to ensure the market is not disrupted.