I can still remember that very first discussion I ever had with a potential investor.

"My preparation for understanding investment was watching every episode of Dragons Den to see if I could understand every deal and to be able to answer any question."

Social Entrepreneur

It was the summer of 2008 and we were launching a new web-based social enterprise and we needed start-up capital. Up until that point I had never encountered the world of investment and my previous career was in senior NHS management. My preparation for understanding investment was watching every episode of Dragons' Den to see if I could understand every deal and to be able to answer any question.
We had written our detailed 19-page business plan, our 3-year monthly cashflow forecast and then came the first discussion with an actual investor.

“So how much equity are you offering?” he asked. “How much would you like?” I responded.

“How much have you got?” he continued. “Errrr... I am not sure” I responded. At this point he asked to look at our Memorandum and Articles and pointed out that we were a Company Limited by Guarantee and that we had no equity.

Hardly an auspicious start to my career as an investee!

But we finally did secure a quasi-equity deal for that first investment and this was my first inkling that there may be some problems in the social investment market. Despite the deal effectively giving any investor a 228% APR, and even though we had clear a social mission, we were turned down by ever UK-based social investor. Eventually we were funded by a private angel investor who was attracted by the financial return and utterly disinterested in our social mission and values.

I thought this was odd but when it happened again on another deal a few years later it got me thinking.

**Beginning to question how the market worked**

Over the last 8 years I have now completed 4 investment deals for different social enterprises (2 with social investors and 2 with private angel investors) and sat on multi-million pound investment panels, and I have reached the following conclusions:

1) **The UK social investment market is extremely risk averse**

There is plenty of funding for multi-million loans to buy properties for established social enterprises with healthy balance sheets. This is by far the lowest risk of the investment spectrum, as the loan is usually completely secured on assets and property value rises alone will secure a modest return.

There is far less funding (and far fewer social investors) operating at the medium to high-risk investment even though these promise much larger potential returns.

2) **There are only a handful of social investors who do deals under 70k**

This is probably the single largest problem in the social investment market at the moment and is starkly illustrated by the latest annual survey by Social Enterprise UK. In 2015 the third largest obstacle to social enterprise growth (identified by 25% of social enterprises) was inability to obtain debt or equity growth funding.

The reasons for this can also be found in the survey which also showed that the median amount of debt/equity needed was £63k and yet very few UK social investors offer loan finance or equity finance at less than £100k. So the amount of funding which is in the greatest demand is also the level of funding with the smallest supply – a classically broken market.

3) **No lobby group working with social investors on behalf of social enterprises**

Unfortunately there is no effective lobby group challenging these practices or holding social investors to account for their investment strategies or their impact on the social enterprise movement.
At a time when large amounts of public money are flowing into these investors, and when they claim to be motivated by social good and achieving social impact, we need a strong voice from the ranks of ordinary social enterprises that can challenge them.

4) Little genuine entrepreneurship amongst investors

There still appears to be little genuine entrepreneurship amongst investors. In any market you would normally expect entrepreneurs to find some niches and grow businesses in them. Unfortunately this isn’t happening to any major extent in the UK.

Transaction costs are often quoted as a reason that social investors won’t fund the levels of loan/debt that most social enterprises want. Yet at the same time the high street banks (and plenty of online alternatives) manage to deal with transactions under £100k and many below £10k, all within a profitable business model. There are really interesting examples of private sector investors who are investing at much earlier stages than social investors, and reaping far higher rewards by rethinking traditional approaches to investment.

I do remain cautiously optimistic about the future as I think that the current state of the social investment market is clearly unsustainable. My hope is that there is a new generation of social investors coming along who can learn from these mistakes and create the thriving social investment economy that the UK so badly needs.

**By a Social Entrepreneur**

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