

# Between two worlds

The Growth Impact Fund is a social investment fund that aims to help address UK inequality. To do this, we focus on what diverse-led social businesses and their communities need to take on investment. We've built a fund that tries to meet these needs, learning about what works (and what doesn't) and improving as we go.

There are limitations in how far we can change as an investment fund. We feel pulled between two worlds in our day-to-day delivery of the fund. On the one hand, we're pushing towards the reality of supporting diverse-led social businesses to achieve the equal world we are all striving for. On the one hand, we're still grounded in the norms and expectations of the investment sector as it is now.

This learning snapshot provides an overview of our experience as a Fund. It brings out the trade-offs we have made and the tensions that have surfaced as we try to address inequality through our investments. Each of these focus areas provides an opportunity for change. We hope together we can rise to these opportunities and overcome the challenges presented in these learnings.

In this report, we use terms such as 'investment', 'founders' and 'diverse social businesses'. We do this for simplification. However, our Fund's main focus is supporting early stage social purpose organisations who are working to tackle inequality and are under-represented in the investment sector.

Our Fund is a social investment fund, with a focus on investing in social impact as well as making an investment return. Our approach is subjective to our experience and may not be representative of the wide array of investors or audiences seeking investment. We welcome alternative narratives, framings and learnings.

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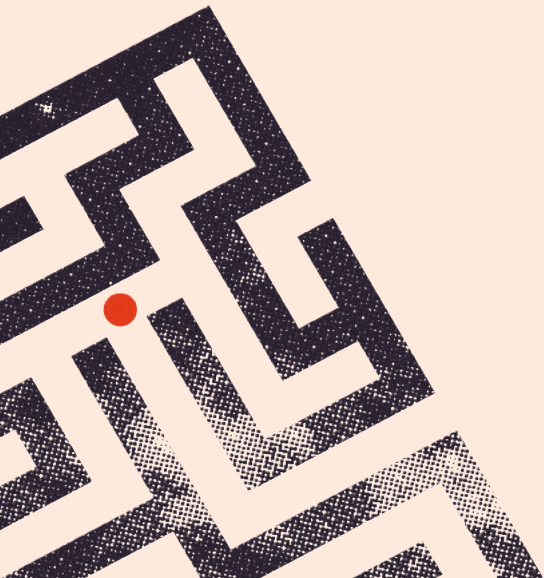


**Shift**



# Access: Navigating the maze

In the social investment space, social businesses are met with a dizzying array of information, funders, and support providers. Some of this exists specifically to help businesses navigate the maze of information. But many founders still don't know where to start, get stuck, lose steam, or find themselves back at square one.



## A world constrained

**The investment world:** Investors are typically time poor. They are rarely incentivised to support the development of networks for businesses seeking investment. They might also not be well placed to offer the connections, information, feedback, and resources that businesses need to find the right investment or support for them. In much of the investment world, outreach is in the hands of fund managers. When looking for “early-stage” organisations to invest in, fund managers typically conduct outreach activity in the most cost-effective way possible. This helps minimise the impact on the returns they can make. It tends to mean focusing outreach on areas they are already familiar with or via universities, accelerator programmes, or other innovation-focused institutions they have existing relationships with. This excludes those traditionally underserved by the investment market. Many individuals and organisations, who have no relationships with these institutions, have never heard of investment, or they want time to build their knowledge and understanding of investment within their own support network.

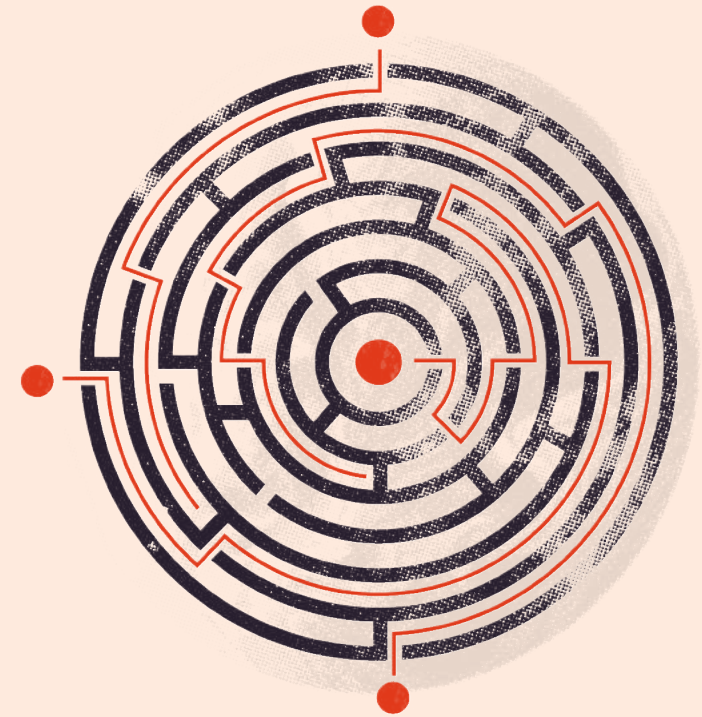
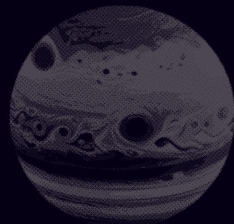
## A world excluded

**Diverse social businesses:** Many of the social businesses we speak to, particularly those from underserved communities, mention not knowing where to start when trying to access investment. We've heard that most information and support available is still disjointed, self-directed or generic. Many founders we've spoken to have shared challenges of having to decide whether to focus on trading income, grantmaking or investment. They often get mixed or contradictory advice from different people across the sector. Many of the individuals we've spoken to are looking for time and space to be able to explore social investment alongside other fundraising opportunities, despite having limited capacity for this. We've also heard that many businesses are not confident in knowing what social investment could do for their organisation. They do not have enough time and support to explore this, so they can decide whether investment is something they should commit time and effort towards. Despite the information available in the sector, it can still feel like the burden falls onto the founders or senior leaders of diverse social businesses themselves to navigate the complex web of investment information, support, and funding opportunities.

## Learning from the fund

Like many social investors operating in this space, we provide information sessions, 'meet the investor' workshops, networking events, and other engagement exercises to build knowledge and understanding. We also signpost applicants from the Fund to other support available. These approaches have had some success at supporting diverse social businesses to access the Fund. This is particularly true for those who've never applied for investment before. Yet, most of the businesses we've engaged with have been referred by others already well embedded in the sector, whether through investors, grant funders or via word of mouth. We need to build deeper, local relationships and develop more targeted marketing strategies to reach a wider audience. However, this needs to be achieved within a fund that has limited resources, budget, and capacity. Despite being committed to increasing access, our fund model makes it difficult to create lasting relationships with communities of diverse-led founders. This makes it hard to build trust and develop a shared language around investment that can help us overcome access challenges together.

"I just don't know where to start"



Access

## Connecting the dots

We'd like to explore how the growing ecosystem of information around investment can be better connected up. We see an opportunity to reshape this landscape to support diverse social businesses to navigate through, and find information in a way that suits them. This will take ongoing collaboration between various investors, place-based enterprise support providers, grant funders, and local infrastructure bodies, alongside national resources such as [Good Finance](#).



# Enterprise support: Searching for the right fit

Social businesses often find themselves moving in and out of support in search of the right fit. Investors, or those they partner with, try to provide the right type of support but are often limited by their own knowledge of “what works”. They can also be limited by the amount of resources and budget they have. As a result, businesses have to continue searching to find something that meets their current needs.



## In search of efficiency

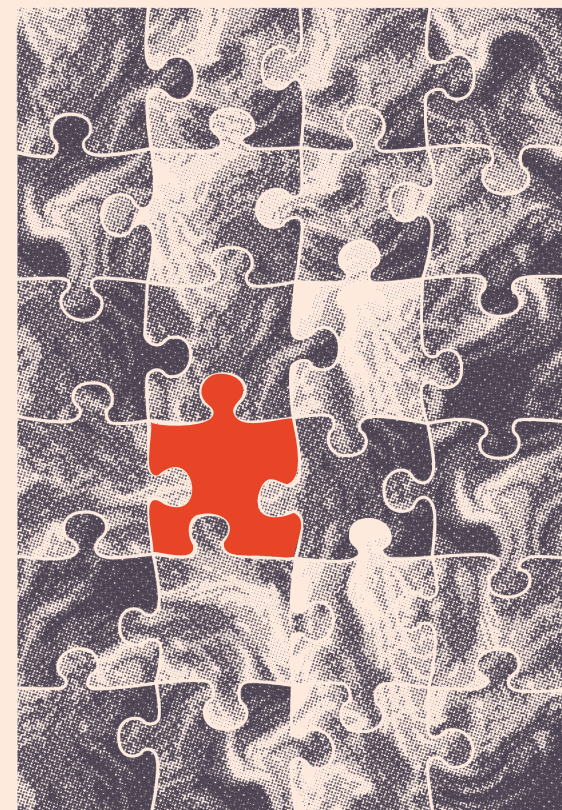
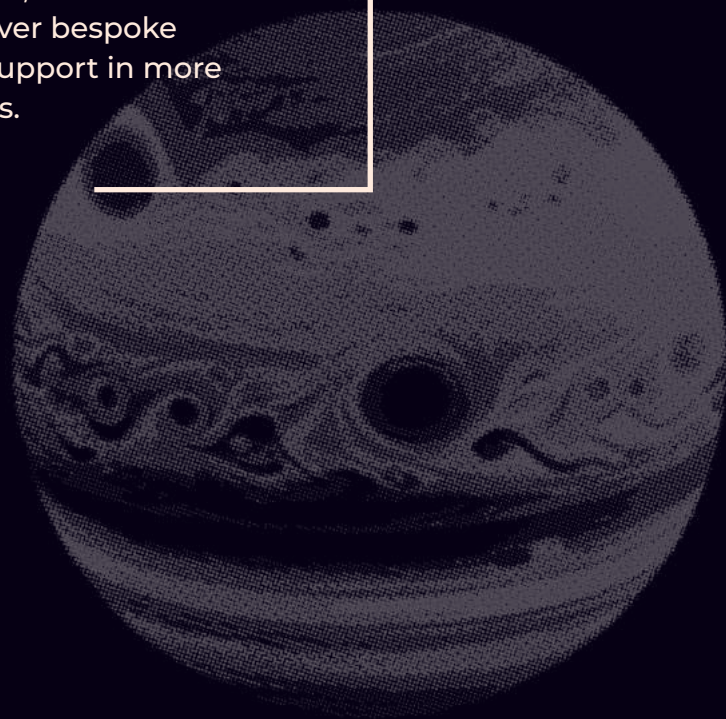
**The investment world:** Traditional investment support for early stage organisations tend to be structured as cohort-styled ‘incubator’ or ‘accelerator’ programmes. These are competitive and focused primarily on the needs of investment funds themselves. For those funds seeking organisations at a later stage, it’s common to use a consultancy model, which matches a business with a consultant that offers a particular type of support, often determined by the fund itself. It can be expensive to provide this type of support, and investors have to find ways to embed such support into the costs of their funds. As a result, support is most often time bound, short-term, and discrete, rather than more flexible, holistic, and open.

## In search of what works

**Diverse social businesses:** Early stage social businesses want support that leads to concrete results, and which reflects their own ambitions for growth. This might mean support in cementing future business plans, realising fundraising goals, or building confidence in their next steps for developing their team or operating structure. However, many founders or senior leaders have limited capacity to engage in support. They hold a range of other priorities and commitments, and will often need funding to be able to participate - which often isn’t available. Once support ends, it can be hard for many founders to apply the support received or embed the knowledge built. This is particularly true if there is no capacity or expertise within their organisation to sustain it.

## Learning from the fund


Our learning suggests that we need to expand the range of support we offer. We also need to be more effective at tailoring that support based on the stage of growth and needs of founders who are applying for investment. This could include providing a range of coaching, mentoring, and practical support. No one source of support will be able to provide everything a social business needs. And the sector needs to be better at recognising the wider ecosystem of support available to social businesses. Through this, it can channel businesses into the support best suited to them, and better collaborate to deliver bespoke combinations of support in more cost-effective ways.



Enterprise support

## The right support at the right time

We're encouraged by new approaches to supporting those previously excluded from investment support. This includes core funding to test enterprise business models, as well as community-informed coaching and peer support models for early stage founders. However, as a sector, more can be done to ensure that the support available is better integrated. This will ensure that founders and social businesses can engage with support based on their own needs.



## Investment process: Jumping through hoops

When applying for investment and navigating investment processes, there can be a limited sense of choice, control and agency for founders. Many feel that investment is only available based on investors' own terms. There is also a feeling of having to 'jump through hoops' to get funding.

### Only the best will do

**The investment world:** The investment world typically designs an investment process based on competition to attract the most high potential organisations that align with their investment strategy. Social businesses have to present themselves as a good fit through data, business plans, presentations and relationship building. In this process, power is held by the investor, in terms of the information they ask, the decision making process, and the investment terms they offer. A high level of rigour is an industry expectation for fund managers. This is there to help the fund's investors feel confident that measures are in place to find the strongest organisations and give them the best chance of getting their money back. Funds may recognise the challenges for applicants, but feel tied to their duties as an investment fund and meeting industry and investor expectations. This means maintaining rigorous assessment and diligence processes, often regardless of how founders and businesses experience the process.

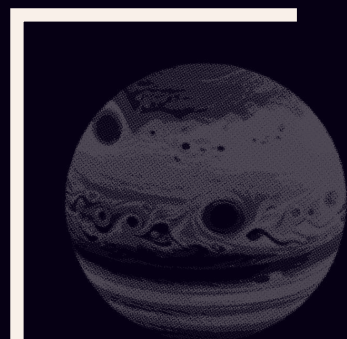
### Never enough

**Diverse social businesses:** For social businesses new to the investment process, the expectations and rigour of due diligence can be overwhelming. There is often a lengthy schedule of tasks required to complete the assessment process, which takes considerable time above and beyond day-to-day operations. Handing over internal documents is a trusting thing to do, especially if you aren't sure how the information will be used as part of an assessment. What's more, demands for new materials to be produced, or detailed questions from investors as part of their assessment can feel intrusive. This is particularly true if it's not clear why this information is being asked. Often, investment funds will speak to external stakeholders to validate or verify assumptions made by social businesses, but this may be done without the business's knowledge or consent. Some social businesses see the benefit of an external perspective on their business, but only if they feel part of the process. In general, positive experiences of the investment process are the exception rather than the norm, especially for those engaging with the investment sector for the first time.



## Learning from the fund

The Fund has made adjustments across its entire investment process to try and improve the experience for those applying to the Fund. Our main focus has been to develop relationships with founders so they're comfortable enough to share their business's challenges with us. As a fund, this helps us tailor deals and support around that. But not all feedback about our approach has been positive. Given tight budgets, as well as competing needs between the Fund and its applicants, there are real trade-offs to being inclusive. We've sometimes set unrealistic expectations about the rigour of our investment process, by emphasising our commitment to diversity and inclusion in our communications. There are also challenges in meeting founders' fundraising timelines, given how long our current process takes to get investment over the line.



Investment process

## A new journey

Unless investors have a new approach to getting the information they need to make an appropriate assessment, the process will remain challenging. The cost and time associated with alternative options is not possible with existing fund budgets. Yet there are emerging approaches and practices in place that could support alternative, less extractive journeys for social businesses. We think at the centre of these should also be an ability to access support during the process itself and a commitment to more equal value exchanges between funds and diverse social businesses.

# Investment decisions: The odds stacked against

Diverse social businesses often feel that the odds are stacked against them, when they're being assessed by funds. There can be a perception that decisions are made using criteria that disadvantage diverse businesses, or that there is little control to influence a decision itself.



## Driven by standards

**The investment world:** Funds have high standards when managing risk. This makes sense. Investors expect fund managers to deliver a certain rate of investment return, often in uncertain economic climates. Fund managers assess risk using their own frameworks and criteria, typically backed up by data that helps them understand the risk-return profile of any potential investment. They typically explore risks of the economy itself, the sector, the market a business is working in, and the business model of the organisation, alongside internal factors around the team and its plans for growth. Criteria that funds use are often based on what's worked in the past. And if social businesses don't look similar to ones that have already proved successful, it's harder for decision makers to have confidence in an investment. This can bring increased fear around losing money and setting businesses up to fail, especially if the sector itself faces high levels of competition or barriers to growth.

## Rejected by design

**Diverse social businesses:** Assessments made by investors can feel deeply unfair. Founders often feel subject to demands that can't be met or expectations to grow rapidly in hypercompetitive markets. Many times, they are told with little detail that their business is 'just too risky'. Given a lack of transparency around investment decisions, it can feel that the investment sector is 'rigged' with only certain types of individuals able to receive investment. For many of the diverse social businesses we've spoken to, they want a clear understanding of how an assessment is being made and transparency about why they may or may not be perceived as 'investable'. Founders want to feel that they have real agency to make their case for investment and not to be pushed into presentations of their business that they feel don't do them justice. They also want feedback that helps them consider their next steps if they are unsuccessful.



## Learning from the fund

The growth impact fund already has a greater appetite for risk than many other investors in the sector. We've shown this in our fund structure, our commitment to long-term investments, and the products we offer. We also work with founders who are typically innovative in their field, aiming to achieve things that so far the market has not been able to deliver on, increasing the risk that some things may not become commercially viable. Yet, applicants to the Fund have sometimes felt that our present approach to risk assessment can remain in conflict with our values, particularly when we ask for more detailed information than other funders have requested of them. Our applicants have also felt a lack of control and agency when being assessed by our investment committee. We're seeing a need to do more as a fund to get this balance right and build founders' confidence and trust that we are making decisions fairly.

“We felt the sentiment of 'they were backing people that other people didn't want to back', but treating them as riskier and under more scrutiny, so basically the same as everyone else.”



Investment decisions

## Balancing the scales

There are alternative models emerging that are exploring a greater balance of power shared during the investment process, from outreach through to deal making and contracting. We're particularly excited about efforts exploring participatory investment - in which decisions are shaped or made by people impacted by social issues, by communities affected, or even by other businesses themselves. These approaches may be required to better channel the capital that social businesses need to build a more equal society.

# Want to learn more?

We want to make a contribution to the ongoing dialogue about the role of investment in addressing inequality.

In the short-term, our desire is for investors, diverse social businesses and the wider sector to collaborate as a shared community of practice, so that many of the existing barriers in the sector can be tackled together. Over time, we hope this work can start to move the dial on inequality in both the investment sector, markets and the communities we aim to serve.

If you'd like to learn more about the Growth Impact Fund, please visit our [website](#). You can also access further details about our learnings as a Fund in our full learning report, [Between Two Worlds](#).

If you'd like to learn more about social investment, we recommend exploring resources provided by [Good Finance](#).

If you'd like to learn more about investing for equality, we recommend navigating the ideas, resources, and toolkit provided by the [Equality Impact Investing Project](#).



**Shift**

