



SIS Social
Investment
Scotland



Firstport

ACCESS REPORT SUMMARY

Investigating Access to Finance for Ethnic Minority Social Entrepreneurs in Scotland

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**The Scottish
Government**
Riaghaltas na h-Alba



Scottish Enterprise

INTRODUCTION

Scotland is experiencing an increase in social entrepreneurs from diverse ethnic backgrounds. However, these individuals often face challenges in accessing the necessary support to fulfil their dreams and ambitions, which have both social and economic value.

Dechomai in partnership with Social Investment Scotland (SIS) and Firstport conducted the study spanning from October 2023 to February 2024. This was only made possible with the support of the Scottish Government and Scottish Enterprise 2023/24 Ecosystem Fund.

The study aimed to investigate the understanding, perception, and availability of financial support particularly in the form of social investment to Scottish ethnic minority social entrepreneurs. Additionally, the study sought to identify existing gaps in the support system for Scottish ethnic minority social entrepreneurs.

SOME KEY FINDINGS:

- There is no data capturing the total number of ethnic minority social entrepreneurs operating in Scotland. The census captures the totality of social enterprise board members from minority backgrounds but lacks a quantified number.
- Confusion around the definition of social enterprise, with some entrepreneurs opting-out of participating in this research due to not identifying as 'social entrepreneurs.' Some of these individuals may own impact-led business and others may simply be unaware of their organisations being classed as social enterprises.
- There are currently more women social entrepreneurs from Scottish ethnic minority backgrounds than men.
- 48% of respondents felt that their understanding and awareness of social investment opportunities would influence their decision to seek social investment. 26% stated that the amount of capital required would be their top consideration, while 22% responded that additional support is an important factor.
- 15% of respondents asserted that concerns around the risk of taking out a loan constitute a significant barrier to seeking social investment.
- 39% of investors who provide monetary support to social entrepreneurs from ethnic minority backgrounds offer a wide range of assistance, varying from monetary to non-monetary support.
- A significant majority, 76% of respondent investors, offer "one size fits all" products to entrepreneurs, including social entrepreneurs. This approach suggests a lack of tailored support and individualized solutions for entrepreneurs, potentially overlooking the unique needs and challenges faced by social entrepreneurs, especially those from ethnic minority backgrounds.
- 70% of investors do not have goals and targets for ethnic minority social entrepreneurs they deal with. This suggests a lack of an intentional strategy to reach social entrepreneurs in Scotland.
- Majority of the respondents did not know about net zero or how to leverage net zero strategies to enhance their business

BARRIERS AND RECOMMENDATIONS

BARRIERS

Based on the findings, these barriers have been identified.

Limited Awareness: Ethnic minority social entrepreneurs may lack awareness regarding the diverse range of financial support options and social investment opportunities available to them. This limited awareness often steers them towards prioritizing grant funding as it is perceived as being more accessible.

Confusion Surrounding Business Support: The intricacies of the support systems in Scotland pose challenges for ethnic minority social entrepreneurs, creating difficulties in navigating these complex structures. The existing landscape in Scotland is not always tailored to the unique challenges faced by social enterprises led by individuals from ethnic minority backgrounds. This lack of customization can hinder these entrepreneurs from receiving the specific guidance and assistance they require to navigate the complexities of the investment landscape.

Trust in Financial Institutions: Ethnic minority social entrepreneurs exhibit a lower level of trust in financial institutions. This diminished trust can significantly influence their inclination towards favouring grant funding over alternative forms of support such as business loans. There exists a noticeable aversion towards loans and other social investment instruments, primarily due to perceived affordability risks, especially in the absence of revenue generation. Grant funding, perceived as a less risky option, becomes more appealing to ethnic minority social entrepreneurs.

Immigration Status: Entrepreneurs living in Scotland without citizenship not only disqualify themselves but find it difficult to access needed support. Their residency status and visa issues act as a barrier since there are either no pipelines or incubator programmes specifically tailored to their needs or no awareness of them as category of people who require tailored support.

Mutual Misunderstanding: Investors often lack a comprehensive understanding of the distinct needs and challenges faced by ethnic minority social entrepreneurs. This knowledge gap results in less effective support. Additionally, some entrepreneurs harbour misconceptions about the necessity of having a pre-established business plan before engaging with investment managers.

Ineffective and Limited Range of Support: The lack of open communication channels hinders investors' ability to tailor support to the unique needs of ethnic minority social entrepreneurs. The lack of formal assistance in the funding application process leaves entrepreneurs to independently navigate a complex landscape, causing frustration and discouragement.

Limited Engagement and Visibility: Barriers such as low awareness of enterprise support programs, intricate support systems, and limited visibility in underserved communities contribute to the low engagement levels of ethnic minority social entrepreneurs with investors.

Fear of Rejection: Ethnic minority social entrepreneurs often grapple with a fear of rejection, significantly impacting their willingness to engage with investors. This fear acts as a deterrent in seeking crucial financial support and opportunities.

RECOMMENDATIONS

Strategic Awareness Campaign

In pursuit of fostering an inclusive financial landscape, a comprehensive Strategic Awareness Campaign should be initiated. This multifaceted initiative will aim to elevate awareness surrounding a spectrum of investment products tailored to distinct business stages. To fortify this endeavour:

- Strategic collaborations should be forged with community organisations and enterprise support groups deeply rooted in ethnic minority communities. Central to this campaign is the cultivation of trust through meaningful engagement between funders and the ethnic minority community. This integrated approach will seek to not only inform but also to establish enduring connections and partnerships vital for an equitable financial ecosystem.
- Elevate awareness surrounding a spectrum of investment
- Outreach to spread the word about social enterprises. This can be done by partnering with grassroots community groups for a series of workshops (including financial compensation to the groups towards admin, organising people for outreach).

Funding Accessibility

- It is recommended that specialised early-stage funding mechanisms are implemented, facilitating entrepreneurs in swift evaluation and validation of their innovative ideas, coupled with transparent accountability frameworks. This initiative could be realised through the introduction of dedicated funding streams explicitly designed for ethnic minorities. An integral aspect of this proposition involves the provision of a start-up programme tied to grants, ranging between £500 and £8,000, specifically allocated for the meticulous testing of entrepreneurial concepts, thereby setting defined timelines for idea validation. Hatch Enterprise offers support programmes for testing whether a business is a hobby, side hustle or a business with long term possibilities.
- Further financial commitment, could be contingent upon the demonstrable achievement of impactful outcomes. This strategic approach is poised to significantly enhance the accessibility and effectiveness of social investment within the ethnic minority entrepreneurial landscape.
- A funding catalogue detailing specific investment for ethnic minority support to inform ethnic minority entrepreneur the type and value of funding available at each stage of their growth.

Streamlined Application Process

Efforts to streamline eligibility and the application process are crucial for fostering inclusivity in the social investment landscape. Simplifying and diversifying the application process, including options such as video submissions, will cater to varied preferences and capacities. Implementing anonymous application processes is vital for mitigating biases and ensuring fair evaluation.

Additionally, committing to transparent and comprehensive feedback, coupled with a structured follow-up mechanism, will contribute to building trust and accountability in the application process.

Disruptive Ecosystem Initiatives

Implementing disruptive initiatives within the entrepreneurial ecosystem is essential to catalysing meaningful change. Tailoring bespoke business support programs specifically for ethnic minority entrepreneurs ensures targeted assistance that seamlessly integrates with the broader entrepreneurial landscape. By fostering collaborative efforts among support organisations, a cohesive and streamlined approach can be achieved. Additionally, encouraging, and empowering ethnic minority entrepreneurial support organisations to include grant-funding capabilities enhances their capacity to contribute significantly.

Networking

- A networking platform for ethnic minority social entrepreneur with regular networking events is suggested to improve business support, particularly at the pre and start-up stages of development. This is aimed to reduce the geographical isolation faced by some social enterprises and increase knowledge exchange.
- Suggested support for start-ups should include more mentoring, guiding and peer support to facilitate the development of ethnic minority led social enterprise business site as well as acknowledgement of the personal commitments required when setting up and running a business. The campaign should actively promote networking and mentoring opportunities, fostering collaborations between seasoned entrepreneurs and those just embarking on their entrepreneurial journey.

Detailing and Segmentation of Support

It is recommended that a strategic approach is followed in supporting ethnic minority social enterprises through microloans provided at different stages rather than as lump sums. This method can offer several benefits. By breaking down the financial support into smaller, manageable portions, it can enhance accountability as entrepreneurs are required to demonstrate progress to access subsequent funds. Additionally, this approach can improve the credibility of social entrepreneurs by showcasing their ability to effectively utilize resources and achieve milestones incrementally. Implementing microloans in stages could be a practical and effective way to support the growth and sustainability of ethnic minority social enterprises.

The following framework is designed for investors to follow:

1. Target existing communities with specific funding opportunities both urban and rural.
2. Assigning of consultants to offer support with application process
3. Applications screening which would encompass matching application to other funding and support opportunities even if not selected.
4. Feedback. Giving feedback to all applicants (both successful and unsuccessful)
5. Necessary support given to successful applicants to align streaming proposals to meet necessary KPIs

6. Application submitted for review by the funding committee
7. Funding plus support in form of training that would cover key subject areas.
8. Engagement in relational infrastructure network activities
9. Developing case for support
10. Monitor progress and support

Data on Ethnic Minority Social Entrepreneurs

It is suggested that a census be carried out on social enterprises that are founded and led by ethnic minorities so that business support can be tailored accordingly. This would constitute a strategic approach that will yield valuable insights. By gathering specific information through a census, organizations and policymakers can better understand the landscape of social enterprises within ethnic minority communities. This data can then be used to tailor support programs, address specific needs, and allocate resources effectively. Conducting a census can enhance the visibility of these enterprises, identify areas for growth and improvement, and ultimately contribute to fostering a more inclusive and supportive environment for ethnic minority social entrepreneurs in Scotland.

Migration Support

Entrepreneurs living in Scotland without citizenship should be supported to navigate the world of investment by engaging with various legal and advisory bodies that offer support and guidance tailored to their needs. By leveraging these resources and support systems, entrepreneurs in Scotland without citizenship can access valuable assistance in navigating investment opportunities and overcoming barriers to their enterprises.

Diversity and Bias Check-ins

- Support panels by offering bias training
- Continual Bias check for programme managers and funding panels.
- Invite Ethnic Minority leaders to funding panels

FURTHER RESEARCH AND COLLABORATION

- The study should be expanded to include rural communities and impact-led organisations who may not refer to themselves as social entrepreneurs but operate with the same principles.
- Conduct a comprehensive follow-up assessment to track the implementation and impact of initiatives outlined in this Report across various sectors. This follow-up report should focus on evaluating the effectiveness of strategies, identifying areas of improvement, and measuring the overall progress made. By monitoring and analysing these changes, stakeholders can gain valuable insights to inform future decision-making and ensure continuous advancement towards a more inclusive and accessible ecosystem.
- The report was limited to Ethnic Minority Social Entrepreneurs. However, a further report would be recommended to research overall experience of Ethnic Minority entrepreneurs accessing finance and investment (this would include experiences with banks).
- Creation of a culturally and socially sensitive course that is appropriate for ethnic minorities to address the low levels of awareness of on Net zero strategies.