

Outside the Box



Access to finance can be a mixed blessing, enabling ambitious plans to be implemented but sometimes bringing a legacy of debt, warns Adele Blakebrough

It's difficult to get it right when it comes to borrowing money. If you avoid it altogether you're quite likely to get the kind of negative response my stepson had when he went for his first mortgage. Having never borrowed before, including not using a credit card, he was told he had a bad credit rating. On the other hand, politicians, parties and individuals are worried about levels of debts and rising bankruptcies in the UK.

So many people find their finances spiralling out of control and in an effort to get out of bad debt, they resort to loan sharks. Then a new breed of financial services emerge aimed at 'reconciling' your overwhelming debts.

The relaxations on borrowing are welcome, on the whole, but they do put increasing pressure on all of us to be our own regulators. When do we know what is a good loan and what isn't? And when do we know when we have over-stretched ourselves financially?

I have been a strong advocate of greater levels of borrowing to enable social enterprises to grow and not restrict themselves to often stifling grants. The sector is littered with 'grant junkies' and, like heroin addicts, most of us have been trying to wean ourselves off our habit over the years. When the first new social sector finance vehicles appeared, enabling social enterprises to borrow, there was rightly a sense of euphoria.

It's taken a while for us enterprises to take up these opportunities but now we seem to be getting the hang of it. So much so that the traditional banks are beginning to show an interest in adapting their products so that they can lend to us too. As they enter the fray, the social sector vehicles may have to take on higher risk cases to get their money out the door.

Whilst all of this appears to be good news, there are some potential downsides. This is a new market and relies on loans being paid back.

The number of defaulters is encouragingly small but if social enterprises borrow beyond their capacity to pay back, the financial instruments have two problems. One is that they will need to be tough enough to see some of those social enterprises go to the wall and the other is that if the sector gets a reputation for not paying back the money it has borrowed, it will eventually discredit the viability of lending to social enterprises. Organisations that have been set up to lend specifically to social enterprises won't be given more money to invest.

Increasingly, therefore, there will be a joint social responsibility between the financial institutions and the social enterprises to make sure that the loan is appropriate.

At CAN, we are replicating our successful Mezzanine model, providing affordable, high-quality serviced office space to the social sector in London. If we had waited for a grant to expand our service, we could have run the risk of losing the momentum needed to succeed. We therefore decided to take a loan to cover the initial upfront costs. We looked at the variety of options, but the one that attracted us most was the Adventure Capital Fund. We'll borrow £350,000, but as part of the package we will also receive a £100,000 grant plus business support. This mix is what CAN needed the most.

There will be times when straight borrowing is right for your social enterprise but there are also times when you should avoid taking on too much debt – there are, at present, several social enterprises that are getting dangerously close to being too indebted. And after the government's recent launch of its ambitious plan to bolster social enterprise, huge swathes of debt could be the biggest challenge to that growth.

In the end a blend of loans, grants, Mezzanine-type money and venture capital-style support is what we need to make sure we achieve the best results.

When all of this activity started, naturally the proponents of each different initiative tended to be most passionate about the particular angle they were coming from.

In our case, with the CAN Breakthrough programme, which helps scale up social enterprises with our partner, the private equity firm Permira, the funds we provide are in grant form; but they act more like an investment because of the emphasis on time, skill and experiences dedicated to the investees.

CAN would not be where it is today without that mix of loans and grants, and I see a clear need for both types of finance to come closer together.

In the meantime, only the social enterprise can be its own true guardian: survey your landscape and decide when it's healthy to borrow and when it's more prudent to say no.

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