



SUMERIAN
FOUNDATION

Investing for Impact

Responding to the needs of Social
Enterprises in the UK

Sharing our Key Lessons Learned

Investing for Sustainable Social Impact

We believe social enterprises offer some of the most innovative, scalable and sustainable solutions to tackling social challenges faced by society. Despite this promise, too many social enterprises fail to get the support they need to grow or achieve their impact potential.

- The team at Sumerian Foundation has a long history in catalysing and scaling-up social enterprises in emerging economies. We sought to **apply our successful "Investing for Impact" approach – based on providing patient and flexible repayable finance alongside active skills support and mentorship – to supporting social enterprises** tackle different dimensions of inequality in the UK.
- All the **team members at Sumerian Foundation have their own lived experience of starting and growing charities and businesses.** We therefore know how difficult it can be to grow an organisation and the importance of getting the right of type investment - and investor. But it also means we empathise with the challenges faced by social enterprises and are able to offer practical advice and mentorship.
- Despite only supporting social enterprises in the UK for a few years, the lessons we have learned to date are consistent with those in the report by the Commission on Social Investment in January 2022 "Reclaiming the Future Reforming Social Investment for the Next Decade". We too believe that **structural reform of the UK social investment market is required**, based on providing the right breadth of products and services that respond to needs of most social enterprises, and particularly those founded by people from disadvantaged backgrounds.

How We Make a Difference



PROACTIVE SOURCING

From the outset in 2018, we made an intentional effort to ensure our "Investing for Impact" approach was provided in a way that was fair, equitable and inclusive. This required us to establish active partnerships with other organisations incubating early stage social enterprises outside of London and proactively meet social enterprises with women, Black or Asian founders.

PRE-INVESTMENT SKILLS SUPPORT

While the founders of most social enterprises either have lived experience or a deep understanding of the issues they seek to tackle, they typically lack wider business or financial skills - which are critical to success. Working alongside social enterprises, we take the time to understand their business models, and then share practical advice in ways that build their own capacity, mitigate risks they face, and help them understand different investment options.



THE HUMMINGBIRD PROJECT

'We'd heard about pre-investment support, but we weren't sure what that meant. We were delighted with what followed – especially with the transparency in the process. We needed to be challenged while grappling with developing a 3-year, sustainable, finance strategy and business plan. We needed a critical friend, someone who would gently guide us through any pitfalls in our thinking, offer expert advice and, always, give us choices. Sumerian took the time upfront to truly understand Hummingbird – everything about our values and ethics, our purpose, our people, our products, our policies and our impact.'

Leigh Carey, CEO



How We Make a Difference



PATIENT AND FLEXIBLE FUNDING

Tackling complex and deep-rooted social challenges is hard. **Social enterprises with different business models and at different stages of maturity require different types of funding.** We match this diversity by offering a breadth of financial products, mainly between £70k-£140k and expected to be repaid over 7-12 years. We structure the investment with each individual social enterprise, ensuring that funding is tailored to their specific needs and cash flow profile, and is structured in ways that are both transparent and affordable.

INNOVATING MINDS

'The patient and flexible funding was co-developed in a way that was open and honest, and any questions I had were answered and I was listened to. The choice of providing funding in the form of redeemable Preference Shares was chosen to ensure a robust balance sheet and enable flexible repayments matching our cash flow profile.'

Dr Asha Patel, CEO



How We Make a Difference



POST INVESTMENT MENTORSHIP

We provide mentorship to each social enterprise we invest in – ranging from business strategy, financial management, impact management to governance - **to help them navigate the inevitable challenges they encounter to achieving viable growth and impact.**

KINEARA

'Sumerian has become a critical friend to Kineara. They have shown genuine interest in the success of Kineara and they intentionally share in our ambition to make a meaningful impactful change through the work we do with communities and people. Their support has encouraged us to think and go for bigger and help build the tools needed for growth.'

Maria Morgan, CEO





Key Lessons Learned To Date

Over the past three years we have learned several lessons from investing in social enterprises tackling different dimensions of social inequality in the UK. These lessons bear enormous similarity with those we have learned from investing in social enterprises operating in emerging economies.

Key Lessons Learned To Date

01

BUILDING TRUST AND UNDERSTANDING

While many early stage social enterprises need investment to enable growth and build staff capacity, the founders are typically wary of investor motives, have a limited understanding of how much investment they need, or what type of investment is appropriate to their needs. We have learned it is necessary to build trust through providing practical advice at a pace suited to each enterprise – typically taking between six months to one year. We find this also helps empower social enterprises to understand alternative investment options.

EQUAL EDUCATION

'Even though it took two years for us to take the investment once we had decided what we wanted it for, the process was quick, inclusive and transparent. In our mind we knew this would be a long term relationship so two years was nothing as we know this relationship will last for years between our two organisations.'

Kim Rihal, Co-Founder



02

ENSURING EQUITABLE ACCESS TO SOCIAL INVESTMENT

Lack of equitable access to investment is a systemic barrier faced by Black and other ethnic minorities - and women - across the world. Power imbalances in investment processes can exacerbate these problems. We agree with the Commission on Social Investment conclusion that "social investment continues to have a serious problem with inclusion and equity". We believe that the high diversity of our portfolio and current pipeline is a consequence of us both making a deliberate effort to widen our referral network, and providing pre-investment support in ways that are collaborative, build trust and share decision-making on investment instruments and terms.

03

IT'S ABOUT PEOPLE

The success of any social enterprise is most dependent upon the commitment and resilience of the founder and/or management team. Growing a social enterprise is not for the faint-hearted. All the social enterprises we have invested in have successfully weathered the COVID pandemic, a testament to the fortitude of these people - and providing them with the right type of flexible funding and support.

04

SUCCESSFUL GROWTH REQUIRES EFFECTIVE GOVERNANCE

Establishing a Board is seldom seen as an immediate priority for social enterprises in their early stages of growth. And even when present, the principles of effective governance are often lacking. Addressing this practical need for support is best provided by people with their own experience of participating in the Boards of well-run charities and/or private companies.

Key Lessons Learned To Date



05

BESPOKE AND APPROPRIATE FUNDING

Our experience is that most social enterprises follow a "low and slow" growth path by nature of the challenging market in which they operate and the complex nature of the problems they seek to address. Reflecting these characteristics requires the provision of patient and flexible capital. In our experience, there is a widespread market need among social enterprises for more "equity" like social investment – which is why most of our investment has been in the form of revenue/profit-based financing or as equity.

FAIR FINANCE

'Sumerian played a catalytic role in structuring their investment in the form of transferrable shares. This allowed us to have the freedom to innovate in delivering impactful services to clients, as well as acting as leverage for other funders (commercial and non-commercial). Over the last decade Fair Finance has been able to get return of 1:10 in funding of equity leverage while also constantly adapting its business in a changing environment.'

Faisal Rahman, CEO & Founder

06

INVESTING REQUIRES PROVIDING MORE THAN MONEY

It is a general rule rather than an exception that all social enterprises will encounter frequent challenges to viable growth, often requiring the business model to pivot. An open and trusted relationship is key to ensuring these challenges are shared early on. Active skills support, mentorship and guidance is best provided by people with their own experience of starting and growing small businesses.

YOUR OWN PLACE

'Sumerian have supported and encouraged Your Own Place beyond mere investment. It took us the best part of two years to arrive at an investment decision, we got to know each other first. Since then, we have continued to benefit from support with regards to financial planning and management.'

Rebecca White, CEO



Impact Management

Sumerian Foundation is an "Investor for Impact", meaning that our primary objective is to structure our support in ways that help each social enterprise achieve its impact potential.

We proactively seek to ensure fair and inclusive access to investment by social enterprises led by people from traditionally disadvantaged communities who can demonstrate:



Based on evidence of commitment, competence and proven knowledge of the communities they seek to serve



Using the five dimensions of the Impact Management Project



Based on evidence that the products/services deliver value to their intended customers/beneficiaries



Towards achieving financial sustainability as well as a realism about the challenges involved

We never screen out any organisation that lacks a clear investment proposal, as we recognize that most early stage social enterprises do not have detailed financial knowledge or forecasts. Equally our investment process does not require any organisation to complete any forms, as often they do not understand their investment needs.

We monitor the performance of each social enterprise against a small number of pre-agreed outcome metrics that the social enterprise believes to be most meaningful, and which are informed by understanding and listening to their intended beneficiaries.

Portfolio Overview



FAISEL RAHMAN
CEO & Founder



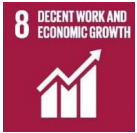
DIANE BURRIDGE
CEO



KIM RIHAL
CEO & Co-founder



PAUL SINGH
CEO & Co-founder



ASHA PATEL
CEO & Founder



ANDRES FONSECA
CEO & Founder



LEIGH CAREY
CEO & Founder

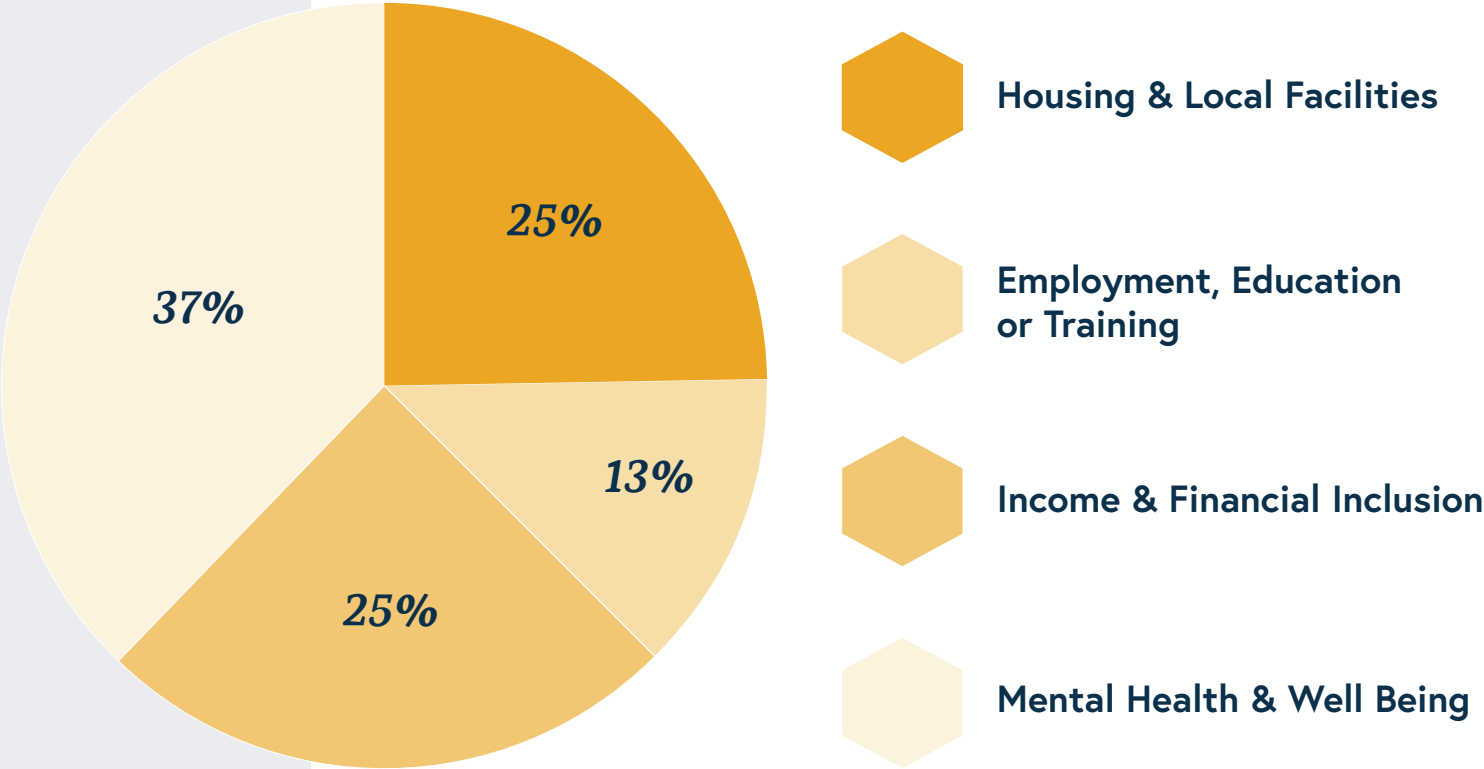


MARIA MORGAN
CEO & Founder



REBECCA WHITE
CEO & Founder

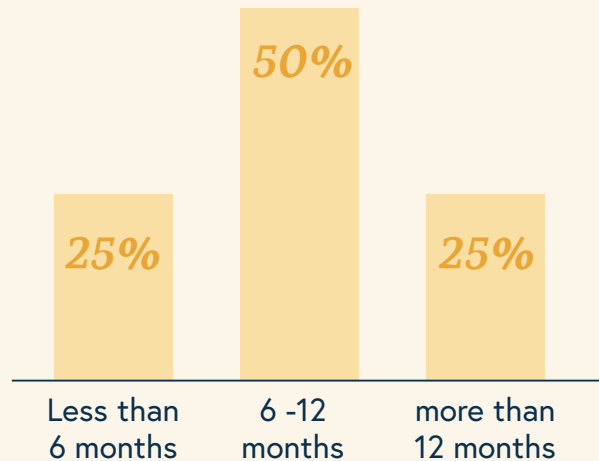
WE HAVE INVESTED IN SOCIAL ENTERPRISES ADDRESSING DIFFERENT DIMENSIONS OF SOCIAL INEQUALITY ACROSS THE UK.



Portfolio Construction

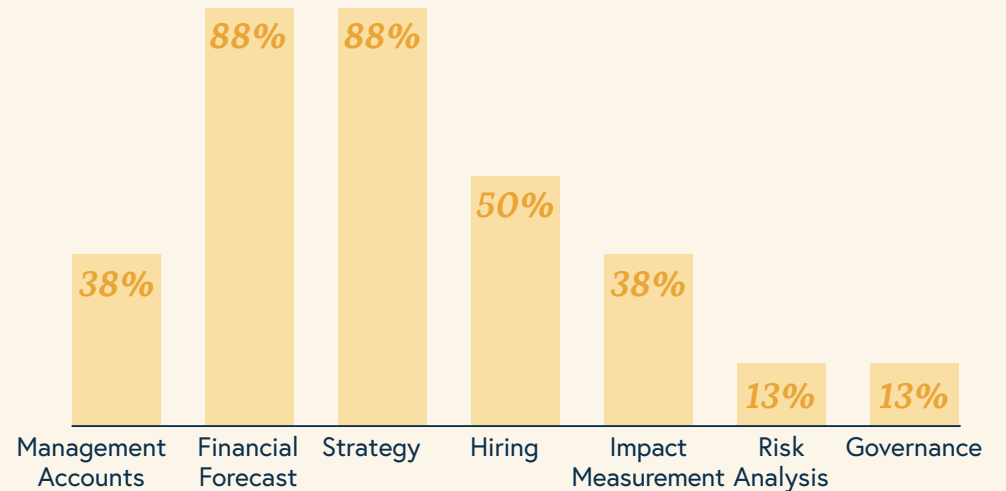
1 Our pre-investment support ranges from four months to two years – though typically averages between six months to one year.

LENGTH OF PRE-INVESTMENT SUPPORT
(% of Portfolio)



2 The most common areas covered in pre-investment skills support are: clarifying the business strategy, financial management and forecasting, agreeing investment needs, and organisational development.

PRE-INVESTMENT SUPPORT
(% of Portfolio)

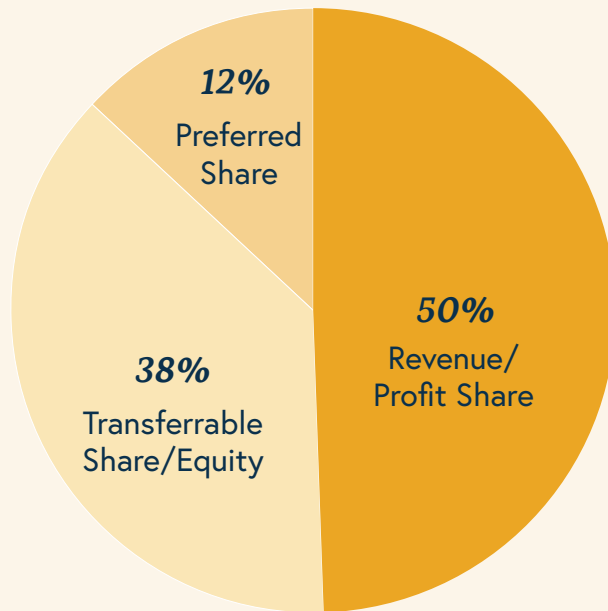


Our investments range from £70 to £140k, and average around £100k. In our experience this typically reflects the common needs of most early stage and growing social enterprises.

Portfolio Construction

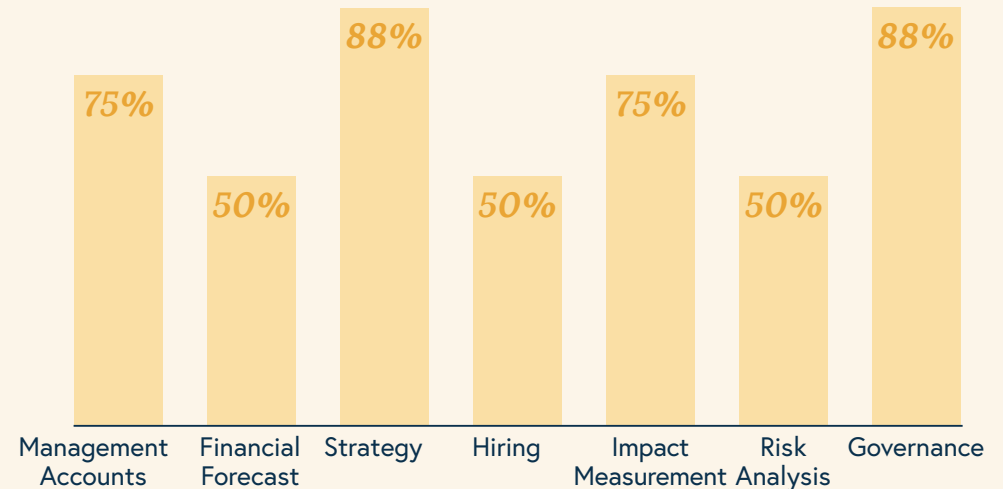
3 To date we have provided various types of patient and flexible financing, with repayments expected over seven to 12 years.

DIVERSITY OF SUMERIAN INSTRUMENTS
(% of Portfolio)



4 The four most common issues covered through post-investment support are helping establish management accounts, discuss evolving strategy, strengthening impact measurement and building governance.

POST-INVESTMENT SUPPORT
(% of Portfolio)



Portfolio Impact to Date

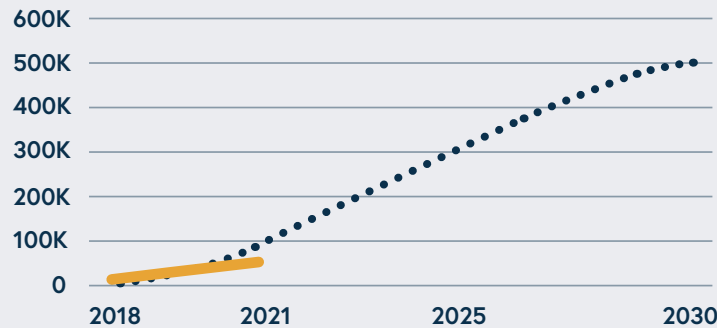
The Board of Sumerian Foundation has agreed four performance targets to be achieved by 2030.

Target 1

80% of the social enterprises we fund meet or exceed their impact targets

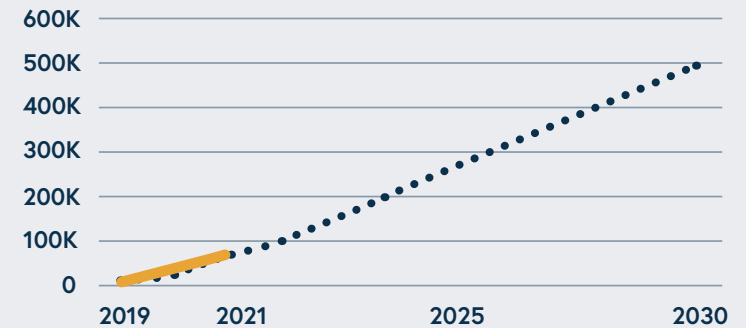
We always seek to use outcomes and impact measures that are appropriate and meaningful to each social enterprise. For simplicity, we report here upon only the cumulative numbers of beneficiaries reached to date by social enterprises we have funded against targets set by 2030 for each of the different dimensions of social inequality.

INCOME AND FINANCIAL INCLUSION
– Currently below target*



— CUMULATIVE ACTUAL
..... TARGET: 500,000

HOUSING AND LOCAL FACILITIES
– Currently on target



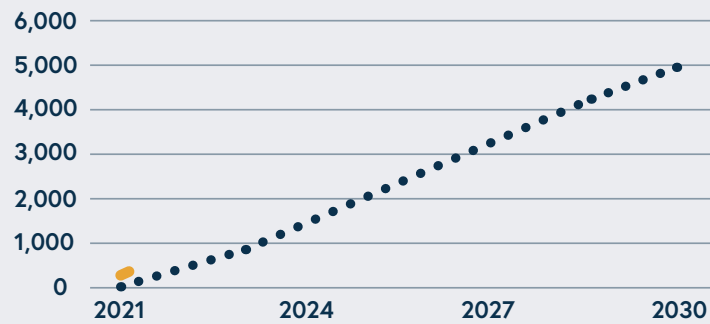
— CUMULATIVE ACTUAL
..... TARGET: 500,000

* We believe this largely reflects increases in the cost of living compounded by the impact of COVID.

Portfolio Impact to Date

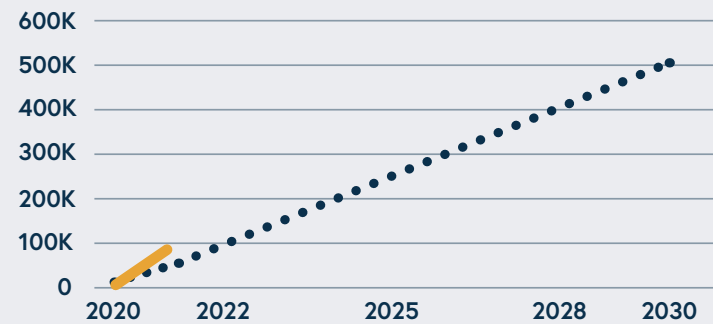
Target 1

EMPLOYMENT, TRAINING AND EDUCATION
– Currently above target



— CUMULATIVE ACTUAL
..... TARGET: 5,000

MENTAL HEALTH AND WELL-BEING
– Currently above target



— CUMULATIVE ACTUAL
..... TARGET: 500,000

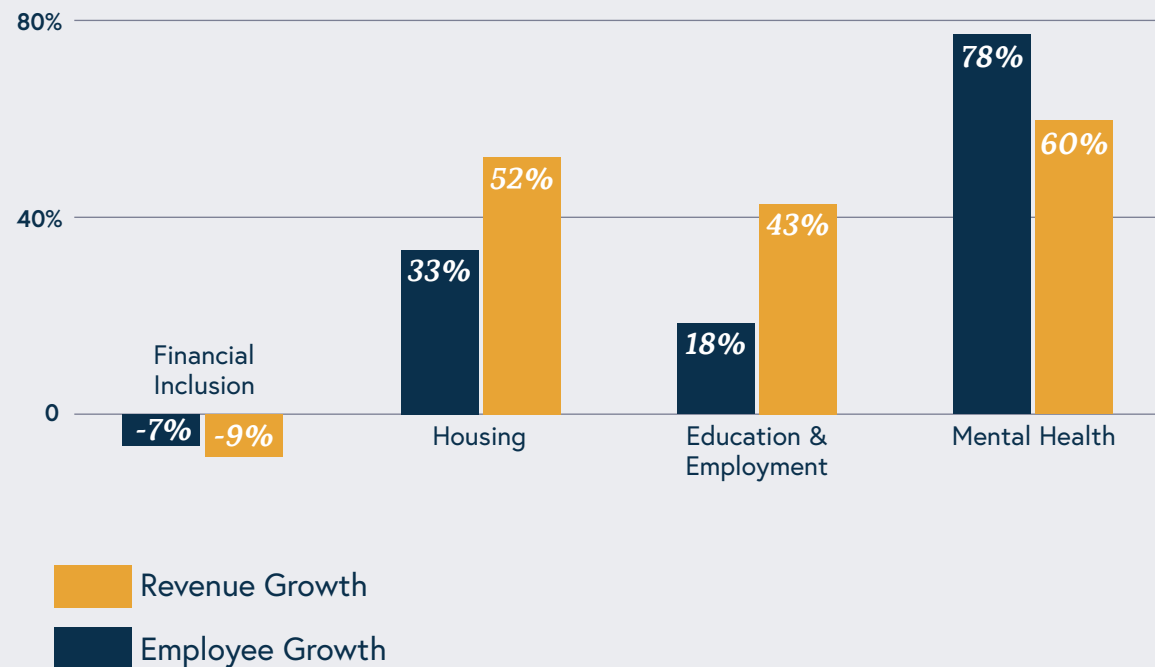
Portfolio Impact to Date

Target 2

80% of the social enterprises we fund meet or exceed their financial growth targets

On average, the social enterprises we have funded have increased headcount by 30+%. Despite COVID, the average revenue growth rate for the social enterprises we have funded is 35+%.

2020-2021: REVENUE AND EMPLOYMENT GROWTH PER IMPACT SECTOR



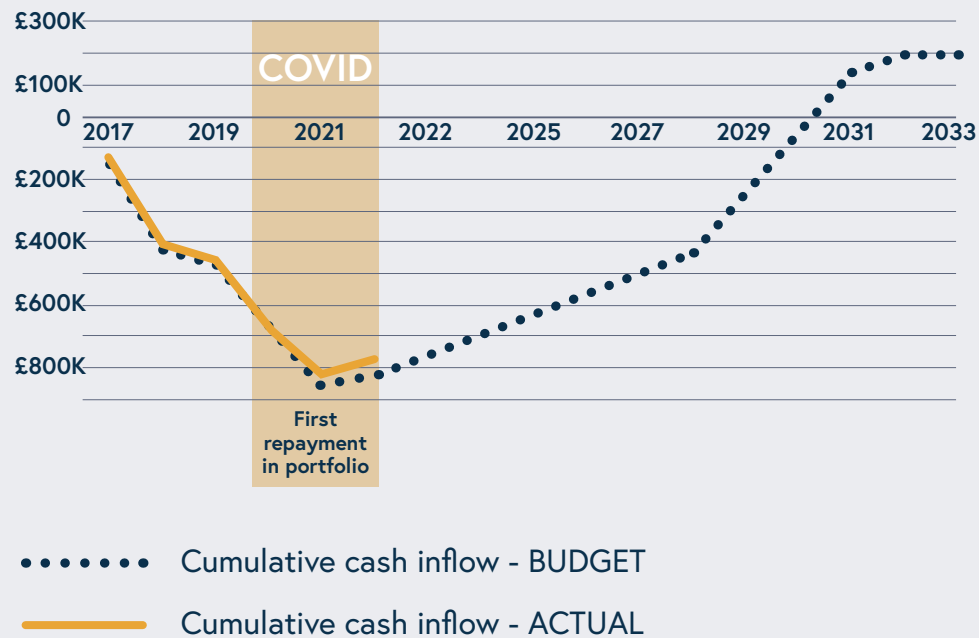
Portfolio Impact to Date

Target 3

Portfolio achieves or exceeds gross capital preservation

Repayment of our investment is currently above our budgeted expectations.

UK SOCIAL INEQUALITY CUMULATIVE CASH FLOW REPAYMENTS BUDGETED ACTUAL PERFORMANCE



Target 4

5x leverage of funds deployed at the portfolio level

To date, our funding has leveraged over 30x in funding from other investors. This largely reflects Fair4All Finance further capitalising transferable shares in Moneyline.

BUILDING OUR PIPELINE

We already have a pipeline of potential new investments, all of whom demonstrate a much wider market need for patient and flexible funding alongside skills support. We will strengthen our collaboration with organisations who have a track record in incubating young social enterprises in different regions of the UK, and continue to focus on ensuring our support goes predominantly to people from disadvantaged backgrounds.

SECURING PRIVATE CAPITAL

Building on significant new commitments from Comic Relief and Access - the Foundation for Social Investment, we will seek to secure further funding from private individuals and institutional investors keen to catalyse market-based solutions to complex social problems in the UK.

IMPROVING IMPACT MANAGEMENT

Through generous funding from the Connect Fund managed by Barrow Cadbury Trust, we have been able to draw on advice from The Good Economy in strengthening our own impact management processes. We are implementing these recommendations and will improve how we co-develop and report upon outcome metrics with the social enterprises we invest in.

PROMOTING "INVESTING FOR IMPACT"

We will continue to share our processes and procedures, coupled with practical training, so that we serve as a "Learning Platform" to help other Trusts and Foundations to integrate the principles of investing for impact into their own strategies.



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