INCLUSIVE SOCIAL INVESTMENT

Unlocking opportunities

CHALLENGES AND RECOMMENDATIONS

WWW.SUMERIANFOUNDATION.ORG

SUMERIAN FOUNDATION

UNLOCKING OPPORTUNITIES: INCLUSIVE MARKET DEVELOPMENT

CURRENT REALITY : THE TRUST DEFICIT

Many social enterprises are not actively looking for investment or are wary of taking on investment, resulting in a trust & awareness deficit. In order to overcome this, social investors must engage in inclusive market development through:

1

BUILDING RELATIONSHIPS

Trust is established more quickly if a social enterprise is referred by someone they already have a relationship with, or a shared lived experience. Outreach partners such as accelerators, incubators and community based organisations play a critical role in developing the social enterprise sector, and developing partnerships with these organisations is vital.

2

PROVIDING PRE-INVESTMENT SUPPORT

Provision of relationship based pre-investment support is the key to overcoming the trust deficit.

3

FOCUSING ON RESILIENCE

Wider recognition needs to be given to assessing, supporting and valuing the resilience of social enterprises who continue to deliver impact, despite difficult circumstances. Challenging the status quo is hard, and resilient organisations are needed for systems change.

OUTCOME: THE TRUST OPPORTUNITY

Emerging trends show that inclusive market development and overcoming the trust deficit through relationship based pre-investment support can present significant opportunities for investors through better repayment performance.

SUMMARY

Since 2017 we have invested in 21 social enterprises[1]. Consistent with our intentionality towards equitable and inclusive investment, 15 (71%) of our investees are social enterprises led by women and 9 (43%) by Black, Asian and ethnically diverse founders[2]. 20 social enterprises tackle inter-connected dimensions of social inequality and operate across the UK, with the majority (60%) based outside of London.

Many people are naturally nervous about taking on investment for the first time. Addressing this challenge has required us to provide a range of pre-investment support[3] to build personal relationships, share knowledge in ways that mitigate risks associated with viable growth and impact, and empower decision-making on the most appropriate form of investment. This takes time and flexibility, and is resource intensive.

We consistently find this 'trust deficit' in social investment to be highest amongst social enterprises led by those who were historically underrepresented in receiving investment such as women and Black, Asian and ethnically diverse founders. We've found that sharing information online or outsourcing skills support to consultants is unlikely to address either this trust deficit or reduce inherent power imbalances with investors. We hope these additional market development costs are transient and the trust deficit reduces - both as more Black, Asian and ethnically diverse people secure investment and more investors and advisers increase diversity among their own teams. But until then, **the reality is that embracing inclusive investment requires investors to secure funding associated with the vital provision of relationship based pre-investment support.**

[1] We use the umbrella term 'social enterprises' to refer to organisations with any legal status that seek to create social benefit using business models that wholly or in part are based on deploying market-based approaches

[2] We recognise that language about race and ethnicity is highly personal, constantly evolving, and should seek to uplift and empower people rather than marginalise them. The terminology we use is based upon canvassing the views of our investees, including reference to the Diversity Guide – Race and Ethnicity produced by bthechange.org.uk in 2024.

[3] Pre-investment support encompasses anything required to help a social enterprise seeking investment to achieve viable growth and mitigate risk, and typically includes support with developing a business strategy, building a financial and cash flow forecast, strengthening governance, organisational development, and advice on the pros and cons of different investment options.

Our experience is that **treating the process of social investment as akin to forming a partnership with the leaders of any social enterprise - rather than regarding it as a transaction - is key to building knowledge and capacity, aligning interests and reducing power imbalances.** Recognising and overcoming the many barriers faced in particular by social enterprises led by women and Black, Asian and ethnically diverse founders does not just in our experience help reduce the 'trust deficit', but can generate a 'trust opportunity' in terms of improved repayment performance. This is at odds with many misperceptions we still hear about inclusive investing.

Over the past few years, the UK has experienced the COVID pandemic, the cost-of-living crisis and a downward trend towards economic recession, resulting in funding streams for many of our social enterprises becoming more precarious. It is a testament to the leaders of our portfolio organisations that they have navigated this turbulence whilst continuing to deliver impact through their activities. This period has shown us that **it is just as important to support, value and measure resilience**[4] **of social enterprises, rather than just growth** and we have committed to measuring the resilience of our portfolio organisations across a number of variables.

On a positive note, **this report shares our emerging evidence that social enterprises led by Black, Asian and ethnically diverse founders – and especially those who are women - have a better track record in starting to make repayments.** We believe this needs to be further monitored and understood, as if substantiated it implies there are significant opportunities associated with inclusive investment which may not have been previously recognised or appreciated.

[4] In 2023 we started to score the resilience of each social enterprise on a scale of 0-10 against six broad measures of resilience encompassing management/governance, financial and organisational resilience. See further information on page 16.

SUMERIAN FOUNDATION AT A GLANCE

Our portfolio

Of our 20 UK based social enterprises:

- 71% are led by women
- 43% are led by Black and Asian founders
- 60% are located outside of London

Emerging repayment trends

- 80% of the organisations that are paying back our investment on time are led by Black, Asian and ehtnically diverse people
- Of these, women who are Black, Asian or ethnically diverse significantly out-perform all others in being the first to start repayments
- Organisations with Black, Asian and ethnically diverse leaders have repaid 13% of their capital owed to date versus only 1.8% for organisations led by others

Our portfolio companies

SUMERIAN FOUNDATION

Sumerian Foundation adopts an 'Impact First Investing' approach targeted at early stage social enterprises in the UK. We focus our support on such social enterprises, who we believe offer some of the most innovative, scalable and sustainable solutions to tackling a range of complex and systemic social challenges. We also have an intentional focus on social enterprises led by people from backgrounds historically underrepresented in receiving investment – who we believe fail to gain access on an equitable basis to the support they need to grow and achieve their impact potential.

Our impact first approach builds upon a successful track record in supporting start-up, growth and scaling-up of social enterprises in emerging economies. Sumerian has built a team that reflects the experience of their investees by hiring people who have started or grown small businesses and charities and has been innovative from the outset in offering diverse forms of patient and flexible capital which we believe most reflect market need and demand.

Sumerian provides all social enterprises with a blend of pre-investment skills support, patient and flexible repayable finance, and post-investment advice and networking. The provision of hands-on start-up experience helps us to understand and empathise with the challenges faced by social enterprises, build trust as well as offer our own practical advice.

In the following sections we discuss some of the things we've learnt so far regarding the challenges and opportunities associated with social enterprises unlocking and deploying social investment, as well as our evidence emerging from monitoring the performance of our investment portfolio.

	Financial Only	Responsible	Sustainable	Impact Investing			Impact Only
				Finance First	Impact First		
FOCUS	Limited or no regard of Environmental, Social, and Governance (ESG) Practises	Mitigate risky ESG practises in order protect value	Adopt progressive ESG practises that may enhance value	Address societal challenges that generate competitive financial returns for investors	Address societal challenges where returns are as yet unproven	Address societal challenges that require a below-market financial return for investors	Address societal challenges that can not generate a financial return for investors

Strong EDI Focus
Intentional EDI focus as evidenced by the leaders of our portfolio.

Hand on operational experience
Both starting and growing small businesses and charities.

Impact first
No financial hurdle, with our support being focused on achieving lasting impact.

Work in long-term partnerships
Actively seek to build trust and openness with social enterprises and charities for mutual benefit and success.

Provide hands-on business skills support Support and mentor social enterprises and charities to help them mitigate risk and achieve viable growth.

Provide patient and flexible finance
Funding is suited for long-term growth and impact.

Collaborate to structure appropriate funding By working in partnership, we structure funding most appropriate to meet the specific needs of each organisation.

Community focused referral partners
We have close referral partnerships with regional and community-based incubators/accelerators.

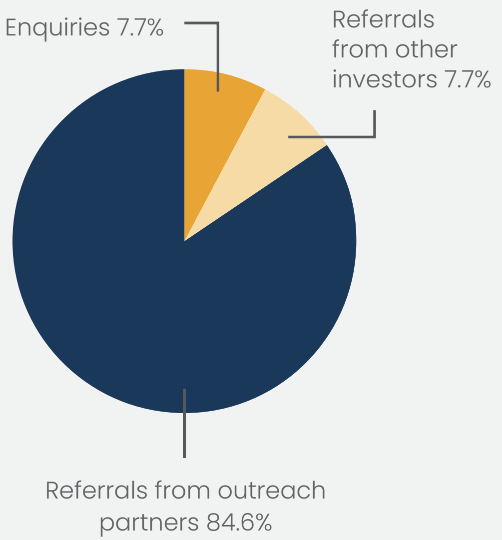
1

CHALLENGES AND OPPORTUNITIES TO UNLOCK SOCIAL INVESTMENT

1.1 CHALLENGE:

MANY SOCIAL ENTERPRISES ARE NOT ACTIVELY LOOKING FOR INVESTMENT

PIPELINE



Most leaders are focused on service delivery and either lack the time to give serious consideration to social investment, or conclude that it is inappropriate for them as they believe all social investment is in the form of traditional debt or would involve giving away a significant stake in their business. Equally, they often lack the information required for standard investor due diligence, are deterred by completing forms or reading material online, or do not fully understand their own funding needs. Founders are also incredibly time poor, and due diligence is a time consuming process. While there are some excellent consultants, we often hear that these are working to timescales and outputs that primarily address investor needs (i.e. to create investible deals) rather than working in ways that have a primary purpose of strengthening the understanding and internal capacity of the social enterprises themselves. Our concern is that social investment approaches to generating dealflow may mirror the unintentional bias common in commercial investment, whereby those who are privileged with the time, skills, financial security, networks, trust and confidence are most favoured from the outset.

Recommendation:

Avoiding unintentional bias requires both a proactive outreach strategy as well as engaging with people in ways that develop trust and understanding.

Most early stage social enterprises have an established relationship with accelerators/ incubators or community-based organisations - be these place-based (such as Kindred and GMCVO) or linking people with common lived experience (such as BUD Leaders). From the outset Sumerian has tried to develop partnerships with these outreach partners, who we believe play a critical role in developing the social enterprise sector. More recently we are seeing an increase in referrals made to us by our existing investees, which has resulted in establishing trust more quickly as well as generating quality investment opportunities. Leaders will always feel more comfortable working with a social investor if they have been recommended by another leader. Additionally, we recognise that founders and organisations are often working at capacity, and therefore the investor must work at the pace of the organisation during the due diligence process.

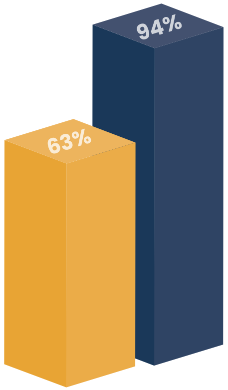
Our approach at Sumerian is for our own team to work alongside leaders of social enterprises to improve their understanding of their finance needs and explain the pros and cons of different instruments. We never expect any organisation to complete application forms, but instead seek to appraise investment opportunities in a transparent and collaborative manner. We have always felt that this approach helps foster a sense of partnership and is key to eroding the traditional power imbalance between investors and investees.

1.2 CHALLENGE:

MANY PEOPLE ARE VERY WARY ABOUT TAKING ON INVESTMENT

Despite sharing common goals, we find that the leaders of social enterprises fall into several different 'character' types, particularly with regards to their approach to risk. Rather unsurprisingly, most people are nervous about taking on any form of traditional debt, especially from investors they do not know, trust, or share similar lived experience. This explains why most people prefer to turn first to friends and family.

We consistently find the trust deficit in investors to be highest amongst organisations with Black, Asian or ethnically diverse leadership. Independent research conducted in 2023 by ClearView Research - clearviewresearch.co.uk (in partnership with ourselves and BUD Leaders - budleaders.org) among social enterprises led by such founders revealed that:



- 94% stated a need to conduct their own due diligence on any potential investor to both understand the sources of their funding as well as gain a sense of aligned values
- 63% stated they needed to understand the level of investment, beyond just finance, as well as their trust with the social investor

The recent Access Report 2024 (https://dechomai.co.uk/wp-content/uploads/2024/05/28_05_2024-ACCESS-Report-Final-Version.pdf) also confirmed through separate independent research that "ethnic minority social entrepreneurs may have lower trust in support institutions, which could influence their preference for grant funding over other forms of support".

Opportunity:

As with any form of relationship, building trust takes time, and is dependent upon having shared goals, being honest and transparent, and treating people as equals albeit with different attributes.

At Sumerian, our approach towards providing pre-investment support always starts with meeting people wherever they choose, and taking the time to understand their goals and explain the pros and cons of social investment. We consistently find that the best comfort a prospective investee can receive is through talking to one of our existing investees about their personal experience in taking on investment as well as the added value beyond just money. We find this is especially true for Black, Asian or ethnically diverse leaders, who gain trust and understanding from talking to people with similar backgrounds and lived experiences.

In 2023 we commissioned ClearView Research - clearviewresearch.co.uk to conduct an independent survey among our investees to ascertain their feedback on our support. While we were very pleased that the average score for Sumerian providing added value was 8 out of 10, this feedback provided useful suggestions on how we could improve further.

"Sumerian needed to prove to us that they cared about investing in ......the business rather than just the finance. So because they took that approach, they won over our trust"

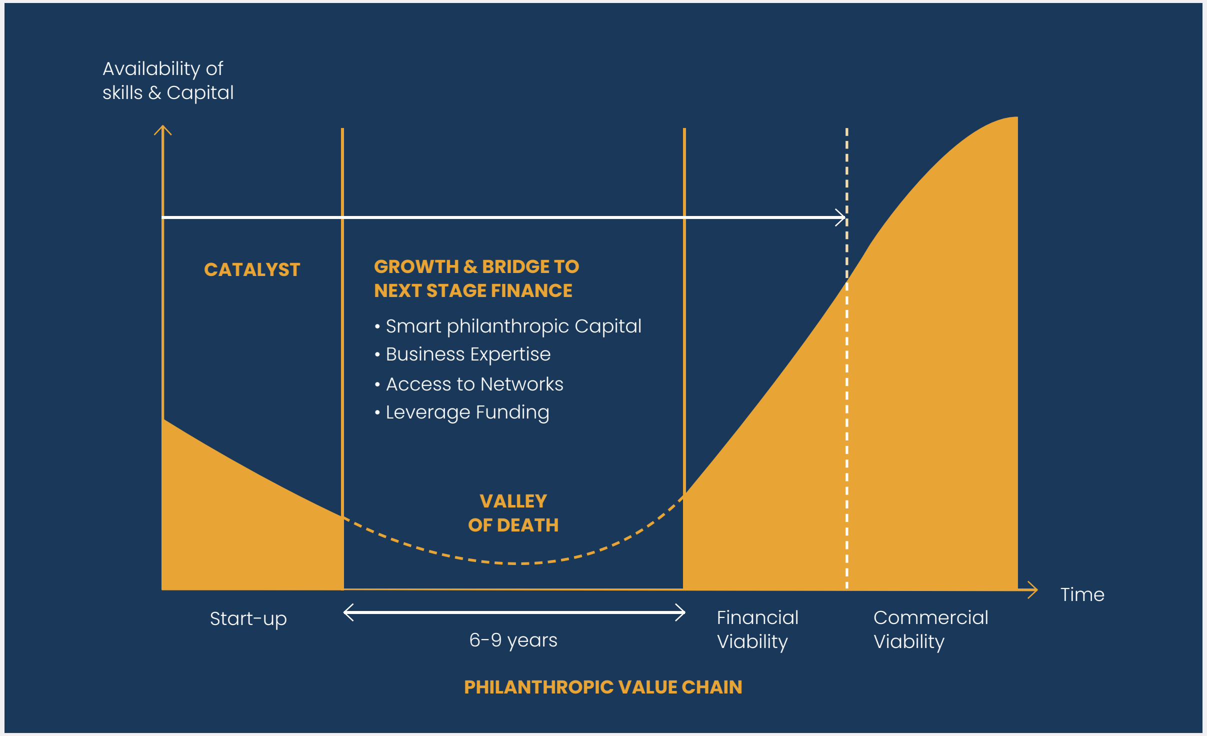
"We have had a lot of history where we have cause to question the intentions of people. This lack of trust and trauma does not disappear overnight. That's why relationship building is key, no pretence. That's what I really admire and respect about Sumerian"

"I would say Sumerian have been very supportive.....they have an approach where you feel like you can ask them for anything you need help with. I'm grateful for that, but I'd have to say they are the exception to the rule."

"....they hand-held us through the process. It wasn't that they left us to do the application and then wanted us to send it in at the end ....it was really handy for us to know that essentially we were getting into bed with an investor that wanted to be with us, and wanted our impact more than they wanted our money. That was really important, [without which] we just wouldn't have done it"

1.3 CHALLENGE:

A 'VALLEY OF DEATH' EXISTS IN THE UK, BUT IS DEEPER FOR SOME PEOPLE



The 'valley of death' is a widely recognised challenge, whereby start-ups initially struggle to cover their costs until such time as they are able to increase revenue, which results in many being bootstrapped and remaining subscale. Our experience is that the valley of death is wider in the UK than in emerging economies, largely because most social enterprises in the UK secure revenue from public sector clients (typically with long sales cycles and long payment terms), and because the majority of social investment available is traditional debt (which is seldom suited to building reserves or growing organisations). We also believe the valley of death is deeper for social enterprises led by women and Black, Asian and ethnically diverse people because of the trust deficit in investors. This is evidenced by Black and Asian led organisations often being smaller. (e.g. research by ClearView found that 52% of social enterprises led by people who identify as Black or Asian in London have an annual turnover of <£50K).

Recommendation: The current challenge faced by many early stage social enterprises is therefore analogous to trying to shift from first gear (start up funding) to fourth gear (market rate return investment) in a car without stalling. To solve this valley of death, we need to build an ecosystem addressing the entire capital spectrum. This requires the equivalent of providing both a second gear, in the form of more unrestricted grant funding, and a third gear, in the form of more concessional repayable finance.

We find that many leaders of early stage social enterprises maintain other employment in order to generate personal income. For these people, unrestricted grant funding provides an opportunity for them to focus fully on the social enterprise and develop a stronger track record of revenue generation. Concessional capital is then essential to build internal capacity - in terms of people, systems and processes – as well as further invest in product or service delivery.

Despite the excellent and vital skills and grant support from accelerators and incubators (such as UnLtd, Princes Trust, Investec Beyond Business, The Fore and many others), as well as place-based community based organisations (such as Kindred and GMCVO), we find that many social enterprises emerging from these schemes remain either too early-stage to take on repayable finance or cannot access the right type of patient and flexible repayable finance.

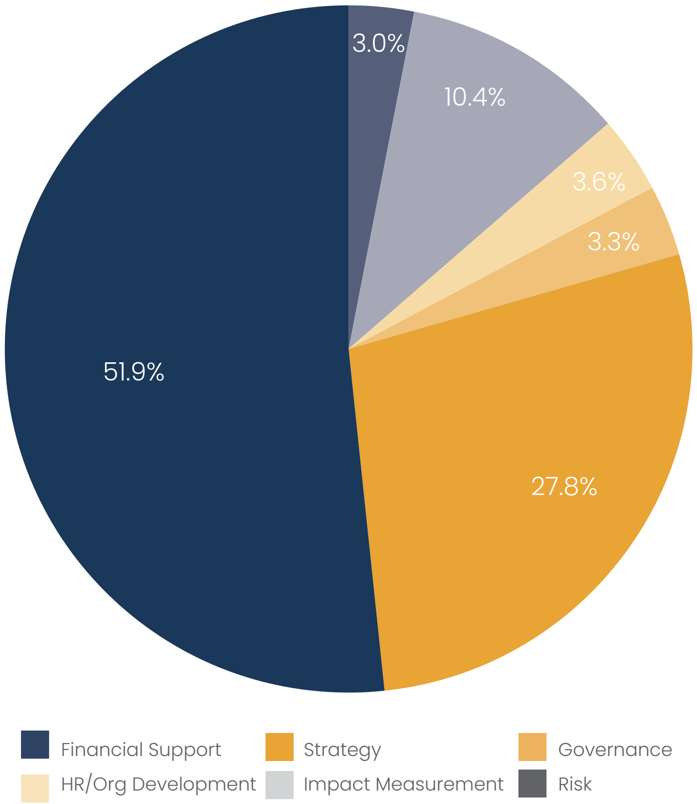
> We would be interested in grants at this stage rather than investment that would require monies to be paid back. Once we have secured contracts and a pipeline of unrestricted income, we would be looking to secure investment.[5]

Our view is that organisations with strong community links – be these place-based or among people with shared lived experiences – are best placed to provide sufficient unrestricted grant funding (e.g. at least £75k) to early stage social enterprises in ways that help them develop their revenue and impact track record, as well as act as the first provider of concessional, patient and flexible social investment. Existing social investors - such as Sumerian – are therefore well-positioned to share practical knowledge, processes and systems in ways that empower these community-based organisations to build on existing trusted relationships in ways that reduce the valley of death.

[5] Response from survey conducted by ClearView Research - clearviewresearch.co.uk.

1.4 CHALLENGE: THERE IS A COST TO INCLUSIVE MARKET DEVELOPMENT

PRE INVESTMENT SUPPORT



There is a cost to investors to build trust and provide pre-investment support[6] to social enterprises, both of which are essential inclusive market development. For Sumerian, the time we spend on pre-investment support ranges from 9 to 37 days (averaging 24 days) per organisation, and can extend over periods of between 2 to 13 months (averaging seven months). If one were to apply typical day rates associated with suitably experienced consultants, then our average costs of pre-investment support currently equate to approximately £20k per social enterprise.

Most of our pre-investment skills support time (52%) relates to financial issues, including building a financial forecast, discussing investment needs and explaining the pros and cons of different financing instruments and terms. The process is iterative, and designed to both empower the investee in decision-making as well as work at a pace that suits them.

28% of our time in pre-investment is spent providing strategic support and challenge to the management team. In several cases this has resulted in management changing strategy, including creating new revenue streams, re-pricing existing products, closing loss-making sites, and restructuring the organisation.

[6] This is defined as time to build a relationship with the entrepreneur to bridge the trust deficit, and provide skills support in order to make organisations investible.

Recommendation: Investment needs to move from a transaction to a partnership in order to reduce power imbalances and equalise risk.
If the sector as a whole is to embrace more inclusive and equitable investment,
investors need to change from a transactional to a partnership based approach - through broadening their outreach referral networks, visiting investees to understand their objectives and challenges, providing relationship based pre-investment support, and shouldering more of the burden in conducting the investment process. But accepting these changes means that social investment funds structured using the traditional private equity/venture capital model will from the outset have an inappropriate cost structure relevant to the pre-investment support needs of start-up social enterprises – and especially those targeting inclusive and equitable investment.

We know these challenges are recognised by other social investors. We therefore see a collective need for transparency about the costs associated with pre-investment support, as well as a mechanism to collate and share feedback from social enterprises on how best this can be provided. Sumerian has been fortunate to have received grant funding from Access - The Foundation for Social Investment and others to offset our pre-investment support costs. Continued funding support is vitally important if we – and others – can maintain an intentionality towards inclusive investment.

Our hope is that these costs will decline over time, both as we become more cost-efficient but also as the trust deficit declines. One way for this to happen will be an increase in the number of advisory firms, community-based organisations and investors staffed and led by women and Black, Asian and ethnically diverse people. To this end we applaud the ongoing progress made by Ubele, The Pathway Project, ClearView Research, BUD Leaders and the Growth Impact Fund (to name but a few). Another way will be through more positive cases of Black, Asian and ethnically diverse people securing social investment and achieving viable growth and impact.

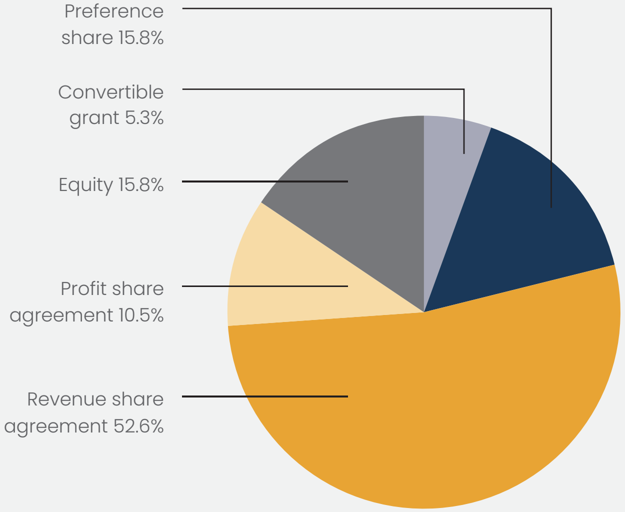
2

CHALLENGES AND OPPORTUNITIES IN DEPLOYING SOCIAL INVESTMENT

2.1 CHALLENGE:

THERE IS SIGNIFICANT UNMET MARKET DEMAND FOR MORE FLEXIBLE AND PATIENT GROWTH CAPITAL IN THE UK

PORTFOLIO BY INSTRUMENT



Our experience – from both the UK and emerging economies – is that the majority of social enterprises follow a low, slow and fragile growth trajectory. Matching this demand-side reality requires financial instruments that are both patient and flexible. But use of these instruments remains limited in the UK. While traditional debt is certainly appropriate for many asset-backed ventures with proven business models (e.g. social housing), it is our experience that it is neither desirable nor appropriate to the needs of many other early/growth stage social enterprises with few assets and unproven business models.

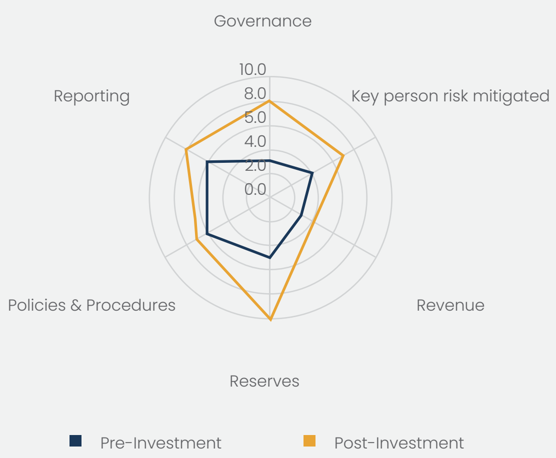
Recommendation:
While Sumerian will consider any type of financial instrument that best aligns with the specific needs and business model of each social enterprise, we typically find the most appropriate to be revenue share agreements.

While every financial instrument has its own pros and cons, we are increasingly of the view that revenue share agreements best reflect the needs of most early stage social enterprises, and deserve wider deployment. We have produced case studies to share the lessons we have learned in structuring such instruments.

2.2 CHALLENGE:

MANAGING A SOCIAL ENTERPRISE IS TOUGH

RESILIENCE MEASURES – EXAMPLE



It is lonely being the CEO of any organisation. But leaders of social enterprises tackle some highly challenging and stressful issues, as well as often having their own lived experience of navigating these same social problems. Over the past few years, the UK has experienced austerity (with real-term cuts in local authority budgets), the COVID pandemic, Black Lives Matter Movement, the cost-of-living crisis and a downward trend towards economic recession. These external challenges impact disproportionately on most social enterprises, who tackle complex social issues with innovative business models. The commonly reported statistic is that 50% of all start-up small commercial businesses fail within five years. Yet there is widespread expectation that most social enterprises will not fail (or lack of much discussion about those that do).

Recommendation:

Let's measure and value resilience, rather than just growth. We believe wider recognition needs to be given to assessing, supporting and valuing the resilience of social enterprises. While efforts rightly focus upon ensuring effective safeguarding measures are in place to protect vulnerable adults and children, it is our experience that the vulnerability of the leaders themselves often gets overlooked.

Due principally to the commitment, capability and sheer bloody-mindedness of our investees, we are pleased that all those in our portfolio remain viable despite the unfavourable macro-environment. In 2023 we started to score the resilience of each social enterprise on a scale of 0-10 against six broad measures of resilience:

Management / Governance resilience

- To what extent has key person risk reduced?
- To what extent is there a functional board in place?

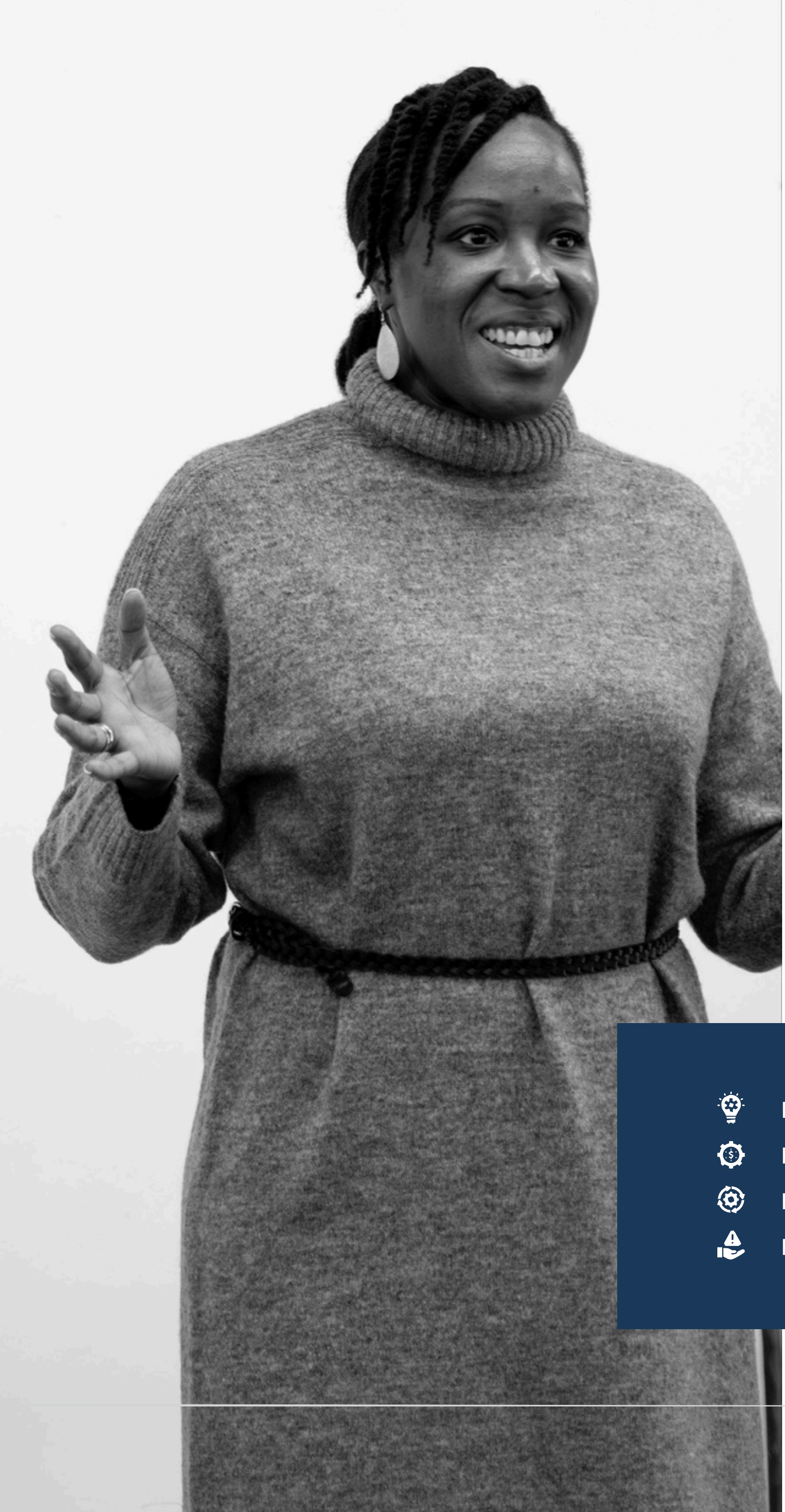
Financial resilience

- To what extent has revenue increased since investment?
- On average, how many months of reserves does the organisation have?

Operational resilience

- To what extent are standard operating procedures and policies in place and being implemented?
- To what extent are quality monthly management accounts and other reports being produced?

By tracking changes every two years, we are able to gain a sense as to whether organisational resilience has increased or decreased. Of the 13 social enterprises in which we have invested for more than two years, 11 demonstrate a higher level of resilience, while two have either remained the same or declined. Key factors that we believe contribute to increased resilience are: hiring competent staff to senior management positions (which is often how our investment is utilised), producing quality monthly management accounts, and establishing effective governance – all areas on which we focus with our post investment support.



2.3 CHALLENGE:

INVESTMENT IS ABOUT PROVIDING MORE THAN JUST MONEY

Our experience of managing a portfolio of social investments is akin to spinning plates at a circus. At any time, any plate can start to wobble and unless quickly managed, can then fall and break. Active post investment mentorship is therefore vital to help leaders of social enterprises manage risks – either resulting from external or internal factors - as well as establish effective systems and processes essential for resilient growth and impact.

Recommendation:

Recognise the importance of post investment mentorship.

We find that most social enterprises need support immediately post investment to improve financial management and start to produce monthly management accounts. Typically we offer this support ourselves, though we also encourage some of our investees to draw upon trusted advisers (e.g. Friendly Finances). We also see a lack of effective governance being a widespread challenge. This is an area where we draw upon our own experience as Board members, and in which we have developed our own guidance and training materials.

- Business strategy and planning
- Financial management
- Business process and procedures
- Risk management
- Impact management
- Governance
- Sales and marketing
- Human resources and organisational development

3

CHALLENGES AND OPPORTUNITIES RELATED TO THE PERFORMANCE OF SOCIAL INVESTMENT

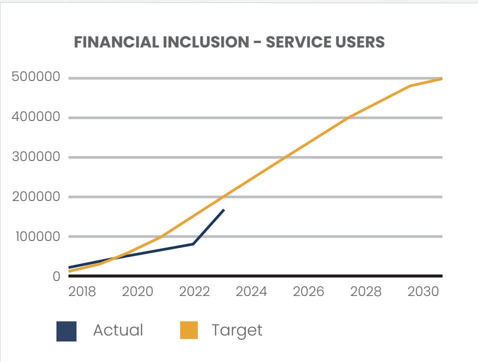
3.1 CHALLENGE: IMPACT MANAGEMENT REMAINS HARD

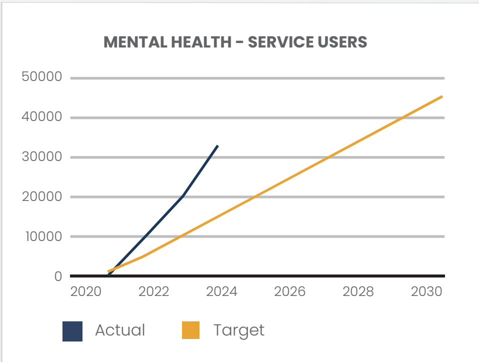
While we refer to ourselves as an impact first investor, irony is not lost on us in that we still struggle to measure and report impact – especially at the portfolio level. We therefore now only measure and report progress separately for each of the main dimensions of social inequality. This is done through tracking numbers of beneficiaries against our self-selected future projected targets – though we recognise this is still fraught with challenge in terms of being meaningful and reliable.

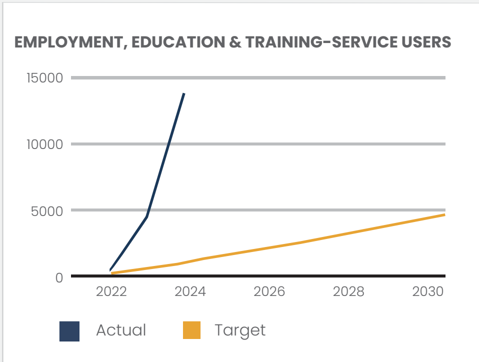
As can be seen from our reporting, we are meeting or exceeding targets in three of the four dimensions. Financial inclusion is below expectations due to several factors: the cost of living crisis has reduced the affordability of even low cost credit for many people, affordable credit providers have tightened risk controls to reduce increasing defaults, and the average borrower is only taking on a smaller number of loans. More recently impact has improved and demand for affordable credit is now exceeding supply.

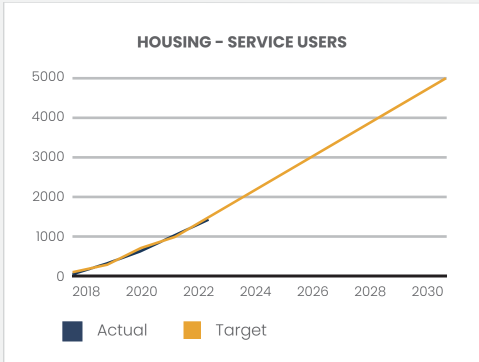
While most discussions about impact tend to focus on the intended beneficiaries, our view is that any definition of impact should also include an explicit focus on who has access to social investment.

This captures the importance of recognising that enabling equitable access to social investment is in itself a positive impact. One challenge here that needs to be recognised and addressed is that we often meet many social enterprises led by Black, Asian or ethnically diverse people who structure these as Companies Limited by Shares/Guarantee, which then limits their access to traditional grant funding in ways that may hinder their revenue growth and impact, and can result in these organisations not being in a position to take on any form of repayable investment.









Recommendation: Rather than requiring social enterprises to adopt or create legal structure that reflect restrictions imposed by many grant funding trusts and foundations, we believe that grant funders themselves need to more critically evaluate risks associated with their assessment of private gain exceeding public benefit.

In our experience, very few founders of highly impactful social enterprises - whatever the legal structure - ever generate significant personal wealth. Equally we believe that the positive impact associated with more inclusive and equitable support to social enterprises led by Black, Asian and ethnically diverse people (who we find often structure their social enterprise as a CLS/CLG) should be taken into account when considering the definition of public benefit. In addition, we also see a need for more pro bono legal advice to founders of social enterprises about the pros and cons of different legal structures.

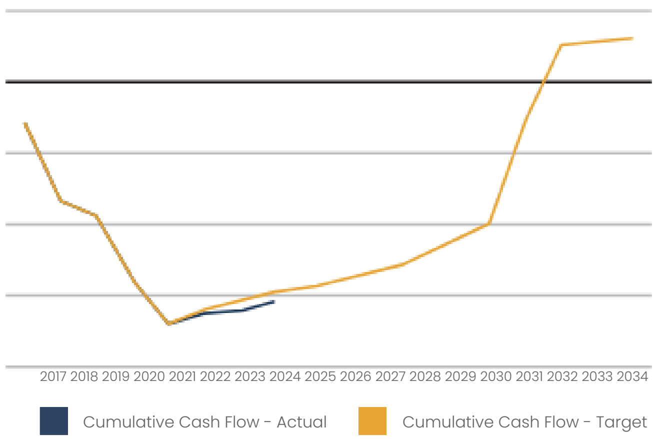
In the longer term, we see a need to shift from impact being simply regarded as an externality, to ways to recognise in financial terms the value of impact created. Such considerations are widespread in public funding (e.g. subsidy provision for renewables, sustainable farming and healthcare to name but a few). But we also need to explore new and appropriately structured outcomes-based payment models. Various models have been tested overseas - such as social impact incentives, social success note and volume guarantees – that could be piloted in the UK. In addition, shifting from a 'Matched Trading™' funding model to a 'Matched Impact' funding model merits exploration. Without such innovative solutions, we fear that 'impact' – which is at the heart of social investment – will remain unvalued and the success of any social enterprise will be judged largely upon its financial performance.

3.2 CHALLENGE:

THERE MAY BE MISPERCEPTIONS ABOUT OPPORTUNITIES ASSOCIATED WITH INCLUSIVE INVESTING

Total repayments from our portfolio against those re-forecasted post covid are shown below.

UK SOCIAL INEQUALITY CUMULATIVE CASH FLOW REPAYMENTS



We recognise that we are still at an early stage in managing our investment portfolio. The overall picture masks varying performance, but we find it very significant that to date a disproportionate level of repayments have been made from social enterprise with Black, Asian and ethnically diverse leadership:

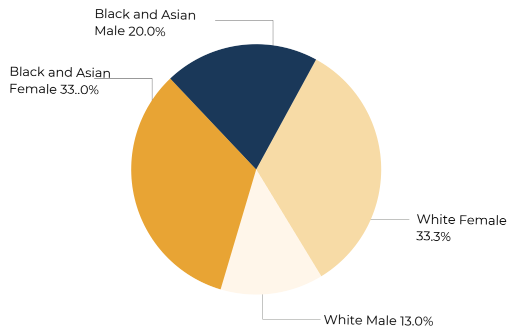
- 80% of the organisations that are paying back our investment on time are led by Black, Asian and ethnically diverse people
- Of these, women who are Black, Asian and ethnically diverse significantly out-perform all others in being the first to start repayments
- Organisations with Black, Asian and ethnically diverse leaders have repaid 18% of their capital owed to date versus only 1.8% for organisations led by others

Recommendation: Recognising and overcoming the many barriers faced in particular by social enterprises led by women and Black, Asian and ethnically diverse leaders generates a 'trust opportunity' in terms of improved repayment performance.

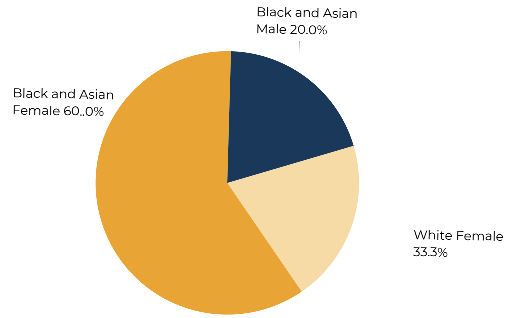
If our early evidence for a better repayment performance by social enterprises led by Black, Asian and ethnically diverse people - and especially those who are women - remains consistent (and is found by others) then we feel this deserves far wider recognition.

Recognising and overcoming the many barriers faced in particular by social enterprises led by women and Black, Asian or ethnically diverse people does not just in our experience help reduce the 'trust deficit', but can generate a 'trust opportunity' in terms of improved repayment performance. This is at odds with many misperceptions we still hear about inclusive investing.

Leadership of organisations outside repayment holiday



Leadership of organisations currently repaying



Sumerian's Next Steps

As detailed throughout this report, our experience is that taking a relationship based approach to social investment is key to building knowledge and capacity, aligning interests and reducing power imbalances.

At Sumerian, we are committed to recognising and working to help overcome the many barriers faced in particular by social enterprises led by women and Black, Asian and ethnically diverse people through:

- Building relationships
- Providing pre-investment support
- Focusing on resilience

Thank you to all of our partners, social enterprises and friends of Sumerian who have supported us to date.

SUMERIAN
FOUNDATION

Two Temple Place, London, WC2R 3BD | +442071935800 | info@sumerianfoundation.org

WWW.SUMERIANFOUNDATION.ORG