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Scott Anderson is Chief Executive of Social Investment Scotland (SIS), which has approved nearly eight million pounds worth of loans to social enterprises since 2002. He's also responsible for the new £30 million 'Scottish Investment Fund' for social enterprise. **Anne-Marie McGeoch** found him quietly confident about the future.

INTERVIEW

AM: Before we talk about the new Scottish Investment Fund, could you tell me a bit about your own background?

SA: I qualified as a chartered accountant in 1972 in Edinburgh, did a couple of years with Peat Marwick Mitchell, now KPMG, spent a brief spell as financial controller with a builders merchants – which introduced me to the phrase, 'the cheque's in the post' – then joined Bank of Scotland. Among other things, I ran a syndications team which looked at multi-bank arrangements, often involving large sums of money and dealing not just with customers but with other banks – a challenge in itself. It was this general background that prompted the bank, when they were looking for someone to lead off on Social Investment Scotland, to ask me to take on the role. It was meant to be a two year secondment but when my two years expired the board asked me to carry on. I retired from the bank on a Friday, took up the job under my new paymasters on the Monday, and thought, 'I'll give this another year, just to ensure a bit more progress.' I look back five years later and I'm still here.

AM: What was the original rationale behind SIS?

SA: The mainstream banks were felt to be unwilling to lend to social economy organisations because of concerns about credit risk – hugely ironic now given some of these banks have been brought to their knees by pursuing lending policies that were inherently far more risky and dangerous – so the Scottish Executive and the four major Scottish banks established a social economy loan fund. Each of the banks contributed £750,000 and the Scottish Executive agreed to commit a mix of cash and 'in-kind' support totalling around £1.75m over five years. With the introduction of Community Investment Tax Relief the banks were able to obtain a tax benefit from their investment but they had to lend to us on a very low, fixed rate of interest over a five year period. This runs out in March 2009 and we're very hopeful they will allow it to roll over. I'd be bitterly disappointed at this stage if they said they would like us to repay the loan.

AM: It's not going to make much difference to their balance sheets ...

SA: It certainly isn't! It's not the most remunerative investment they've ever made but at least they would get their money back. At a recent presentation to the Chamber of Commerce I made a tongue-in-cheek comment that SIS was Scotland's original sub-prime lender. The difference is our customers are paying us back. It's clear now though, that a lot of the reluctance of the banks to engage with this sector had little to do with a detailed understanding of credit risk. It was as much as anything about what was perceived to be the amount of support and hand-holding that social organisations needed – it was about transaction costs basically. But if you take the time to understand the organisations and the risks involved and satisfy yourself that they understand the risks, then you are not going to experience the kind of difficulties we've seen in the wider financial world.

AM: Could you explain a bit about the new fund, the Scottish Investment Fund?

SA: The existing loan fund will roll over and continue – it's a long-term thing, but now we're managing the Scottish Investment Fund (SIF) as well. It's a £30 million fund and opened for business in September. The idea is to provide organisations that are looking to significantly increase their level of economic activity and their own financial sustainability, with the type of investment they need to make that happen. Once loan finance became more available, people started saying that wasn't enough on its own; we also need patient capital style instruments – risk capital – to help build capacity. For the first time a government has come forward and said, in effect, here you go, here's a fund that will provide loans, risk capital investment, and grant funding where appropriate. It is a very significant change and I think it has huge potential.

AM: What does this mean in practice?

SA: A recent case we dealt with before the new fund was launched, provides a good example of a situation that called for a mix of loan and risk capital funding. This was a social enterprise already engaged in a relatively small way in recycling electrical appliances, white goods, refrigerators etc, reconditioning them and making them available to low income families through a network of retail outlets. They wanted to expand this side of the operation and came to us with an overall funding requirement of close to £250,000. The initial capital

costs came to around £90,000, so we provided them with a term loan to cover that side of the costs, repayable over something like ten years. Over and above that they were looking for working capital to support the costs of building up the scale of their operation. We gave them access to a revolving credit facility, which they can draw when they need it and pay back when it's not needed. It's similar to an overdraft; they can borrow to keep their current account in credit and only pay interest on what they draw on. But we realised that the balance of the funding they needed probably couldn't be provided by way of conventional lending. It was by anyone's standard a risk capital investment.

AM: What did you do?

SA: We effectively took a shareholders position and offered an investment of £50,000 which they don't pay interest on. Instead they pay us a fixed percentage of the turnover of the operation on a quarterly basis for a five year period. We have taken a stake in the success of the venture because if turnover falls well short of expectations we lose money. On the other hand, if things go really well, they could end up paying us quite a lot of money. Now, a venture capitalist would leave it at that and accept that if they happened to get back say, £150,000 pounds for their £50,000 investment, so be it. What we said was, we understand there is an underlying social purpose to what you are doing and if we can agree targets for what you will achieve in terms of your social outcomes, we'll use those targets to put a cap on what we will recover from you. So, instead of potentially taking £150,000 we will limit this to £75,000, not much better than we would have done with a high rate loan, providing you meet your social outcome targets.

AM: Is this how the new SIF fund will operate?

SA: What we are trying to do is apply an investment based approach that recognises that at the heart of these organisations is a social mission that we're keen to develop. We want to get a bit more focus on the social impacts organisations see themselves making as a result of our investment. We then have to decide if that is worth the risk. The thing about an investment based approach is that it is a continuing relationship. That means we have to be prepared, in circumstances where things are drifting for one reason or another, to assist in some way. That could mean asking people to go in and analyse the scale



and scope of the problem and suggest an action plan for correcting things, or it could simply be providing a little more money or time to see things through.

AM: How do you see the grant element of SIF working?

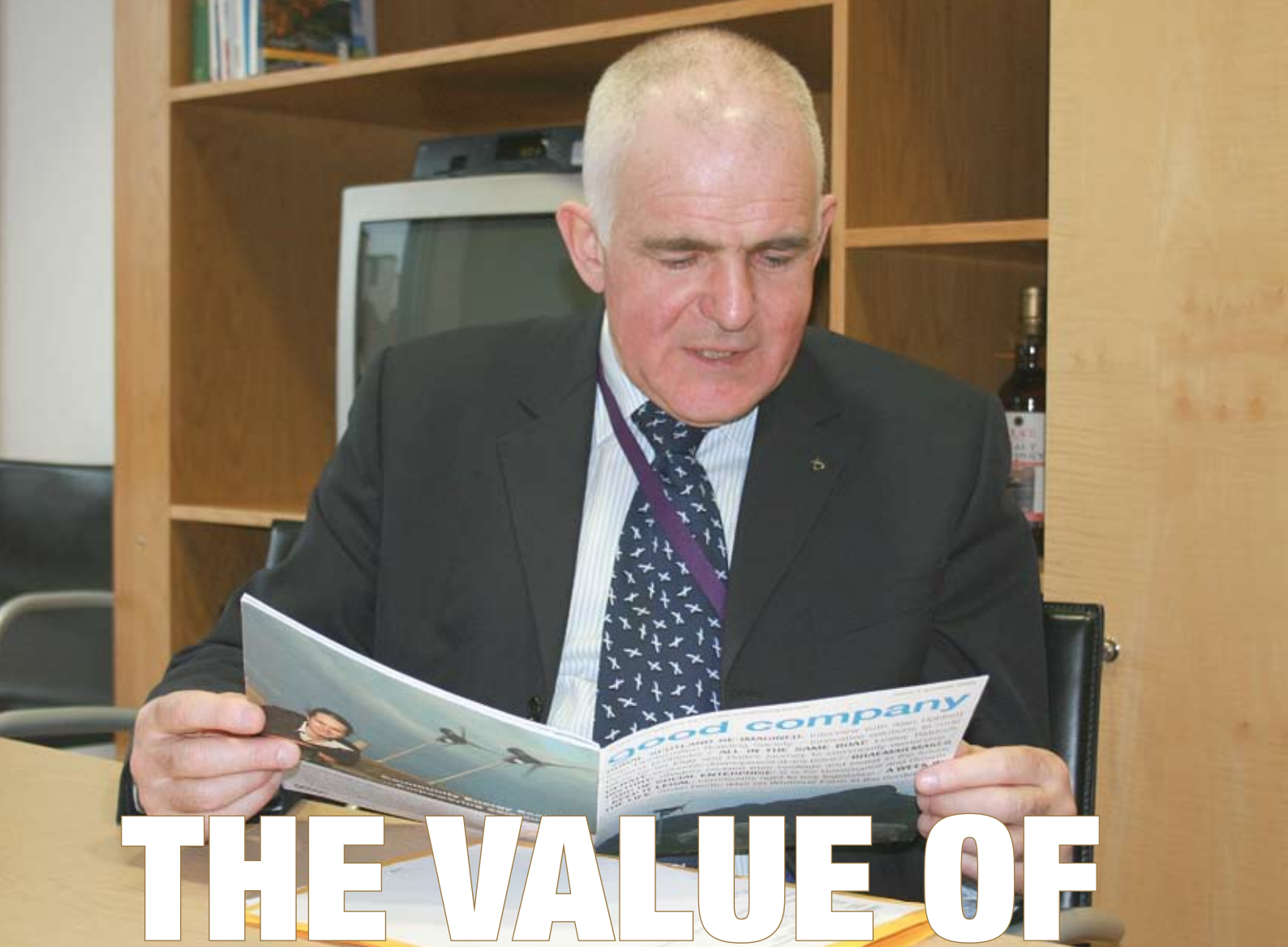
SA: No-one has any fixed ideas that the investment fund will provide X by way of loan, Y by way of risk capital and Z by way of grant. The solutions will be tailored to reflect the specific needs of the organisation. If you apply for a grant you either get it or you don't. We'll take a different approach and say, what kind of repayment framework can this project or proposal stand? It's about striking a balance between putting in place a repayment framework that they can cope with, that doesn't prejudice the success of the venture and at the same time gives us the opportunity to recycle some of the funds into the next generation of social enterprises. This is new territory and that's what makes it so exciting. It's also important to say that although SIF has some clearly-stated initial priorities, nothing is carved in marble. If you don't think you meet these priorities, just come and speak to us because we are interested in finding out what you're doing and if there are ways we can support you.

AM: The immediate outlook for the economy is not great. Do you think this might put social enterprises off investing in new ventures?

SA: Possibly. But in any change in an economic cycle, it's important to remember there are winners as well as losers and I would counsel organisations who are thinking of shelving development plans to think again. There are opportunities out there to expand on terms that make more sense than they might have done a year ago and it's important that we put as much effort as we can into maintaining levels of economic activity. SIF can provide organisations with the capital and resources they need to grow and it's a resource that most small to medium sized businesses would dearly love to have available over the next two or three years.

AM: One final question. How has your social banking career compared with your mainstream banking career?

SA: With SIS I've got any number of examples of things we have financed successfully where conventional wisdom would have said no – and we've taken an awful lot of satisfaction from that. Gigha Renewable Energy is one example, Out of the Blue is another – where committed individuals have done great things with our help. We take pride in the fact that we are often described as the lender of last resort. In a banking context that's usually a pejorative term – here we take a lot of pride in it because of the nature of the organisations we support and the outcomes we help them achieve. ●●●●●●●●●●



THE VALUE OF GOOD IDEAS

Jim Mather, Minister for Enterprise, Energy & Tourism, recently announced a £1 million fund to help social entrepreneurs develop new ideas. Anne-Marie McGeoch met up with him.

Jim Mather clearly has something of a passion for sharing ideas; in the 30 minutes or so I had to talk with him he rattled off quotes from academics and management gurus on everything from evolutionary biology to industrial scenario planning. He sees government, business, the public sector and the third sector as working best when they work together to solve problems and share ideas. With the world in a state of flux, we need new ways of doing things.

He says, 'Many people in the commercial world are beginning to question the way they run businesses. I was given a book recently

called Profit Beyond Measure by Thomas Johnson and Anders Broms and their contention is that the west picked the wrong route in 1945 by going down the road of management by returns. Businesses went after bigger turnovers, a bigger market share and an ever bigger share price, and this couldn't be sustained. What Johnson and Broms advocate is something I think is more intrinsically at the core of social enterprise, which they call managing by means. This is about working in a more moral way with suppliers and communities; working with staff so they feel a sense of ownership and

are able to release their ingenuity into the business. Their basic premise is that you need to see organisations, whether a government department or a business, not as a machine but as a living system. You need to free up individual ingenuity and revel in diversity. That's what this fund is about, revelling in diversity, finding new and different ways of doing things that fit the need and that work'.

'Social enterprise,' as Jim Mather says, 'has lots of scope for meeting very real needs, and there's a lot of people out piloting them, whether it's in renewable energy, or care for the elderly, or providing food and drink.' The fund could help social

entrepreneurs pick up these ideas and adapt them. He says, 'There's a famous chemist called Leslie Orgel who's second law states, "evolution is cleverer than you are". In other words, if we can broadcast what works in one place, someone else can say, "well I could do that too".

Or what is even more interesting, they can say, "I'll add this to it and make it into something better". Then we can get this evolutionary process going.'

One way of inspiring people is to bring to wider attention all the by-products of a particular way of doing business. For example, 'We want to be able to say to people, look at what's happening at this community-owned butcher shop and abattoir in Mull. You might be interested in their results; here's what it's doing for the viability of local farmers in Mull, the quality of food on the tables of local restaurants and hotels, the number of return visitors, and the bottom line of keeping more people in work.'

Getting people into work and keeping them there will not be easy in the testing economic times ahead, but Jim Mather sees promising areas for collaboration. 'One of the interesting things we've been doing recently is having a conversation with Martin Stepek

from the Family Business Association.

Martin's got a horror statistic which is that 70% of family businesses die at the point of generation change. We want to look at what scope there is for them to convert into social enterprises. Sometimes mum and dad hang on to the tiller too long and don't involve other people early enough; maybe looking to move to a different model, from a sole trader or partnership to a social enterprise might be the right thing to do.'

Creating green jobs through developing sources of renewable energy for community benefit is also high on the agenda. Jim Mather helped launch Community Energy

Scotland at the Scottish

Parliament recently, and is fully behind their goal of making 10% of Scotland's energy community-based. 'I think this is hugely exciting. The blend of the potential scale of renewable energy and the dynamic of social enterprise is just a perfect mix. The scope is really amazing in terms of onshore wind, biomass, solar

and small scale hydro. There's a guy who's produced a study for us on small scale hydro; essentially he's created a topographical map looking at all the rivers and water storage potential and all the places where this could be economically and environmentally viable. It's tailor-made for small communities.'

The government is clear the extra money it's putting into social enterprise is part of a bigger picture. Everyone, from Local Authorities and Scottish Enterprise to SEPA, Transport Scotland and the voluntary sector have been asked to line up behind the same goal of increasing sustainable economic growth. We're all part of the same system and, according to Jim Mather, all sectors have, 'a parity of esteem'. There's a great opportunity here for people with ideas; we've rarely needed them more. The new fund is open from March 2009.

The fund will be administered by Firstport.

For details see www.firstport.org.uk ●●●●●●●●

**'You need to
free up
individual
ingenuity and
revel in
diversity.'**