Community Shares

promoting enterprise, equity and engagement through community shares and bonds

Community Investor Research Executive Summary

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Wessex Community Assets

DEVELOPMENT TRUSTS ASSOCIATION transforming communities for good

CO-OPERATIVES UK

Cabinet Office Office for Civil Society

Communities and Local Government

Who is Buying Community Shares and Why?

This guide is aimed at community groups considering a community share issue and is based on the findings of research into the community investor which aimed to find out who is buying community shares and why they are doing so. The research was carried out by Wessex Community Assets, and was commissioned by the Development Trusts Association for the national Community Shares programme and the Asset Transfer Unit.

The researchers analysed the findings from 240 questionnaires and 30 semi structured interviews completed by community share investors in 11 different societies, and also the findings from semi structured interviews with 7 financial intermediaries interested in ethical investment.

The research has discovered that there are **four primary types of investor**:

- **The local community investor.** This investor lives near to the project and is motivated by social benefits
- **The community of interest investor.** This investor is interested in the project though not living nearby or connected by a sense of location, but is also motivated by social benefits
- **The social investor.** An institution or experienced investor looking for a balance between social and financial benefits
- **The ethical investor.** Looking for mainly social benefits but not foregoing financial compensation, sometimes motivated by ideology and democratic structures

Questionnaire findings showed that **community share investors are**:

- **older** - aged 45+
- slightly more often **male** than female (this gender difference is more pronounced when looking at the investors who are located 50 miles + away from the project - more likely to be social, ethical and community of interest investors)
- of **higher and intermediate managerial level at work, or professional, or retired**.
- interested in being **members** of clubs and societies - 75% are members of other organisations. 52% are members of the National Trust and 30% are members of arts organisations.
- arguably politically left leaning as 65% **read the Guardian** given the choice
- **financially literate** - most have ISAs and many have actively purchased other shares
- **interested in other community investments -** a third hold investments in other community enterprises
- **not seeking financial advice** in general. This means that when drafting a community share offer document an organisation has a great responsibility to detail risks clearly and accurately
- **not taking undue risk** - they are investing sums that they have decided that they could afford to lose. They are assessing the risk themselves by reading the share offer document and looking at the people behind the project
- in most cases **satisfied with the investment** - but for **social and environmental reasons** rather than financial ones. The motivation for buying the shares in the first place was also mainly social and environmental
- **not planning to withdraw their shareholding in the foreseeable future**. But this does not mean that buying the shares is effectively a donation, the community share investor views the shares as a hybrid of investment and donation – it gives the investor influence, information and a sense of belonging
- **long term partners** for an organisation once a decision has been made to become a member

The research found that although generally financial intermediaries, such as Independent Financial Advisors, are not generally being used, some financial intermediaries do have clients interested in social investment. These are smaller in number, but will introduce larger sums. Societies need to assess whether they wish to attract investment from these clients, and if so will need to tailor their share offer to suit the needs of social investors (more sophisticated presentation and marketing).

Recommendations

- **Consider who the target market is**. Different investors have different motivations, look at the categories we have identified (local community, community of interest, ethical and social) and consider who you want to invest in your project. This is likely to be influenced by how much money you wish to raise - you may want to target all categories!
- **Design your offer around the needs of your target market as far as possible**. For example, if you need to access investment by social investors you may need to offer a rate of financial compensation which is more than the rate of inflation, if local community investors are your main target then a lower financial return might be acceptable as the social return will probably be more obvious to them
- **Consider how to reach potential investors.** Think about linking in to local networks to get the message across to potential local community investors and national media, specialist networks to reach out to community of interest and ethical investors and also financial intermediaries to find social investors
- **Consider the clarity of the share offer document.** Investors want clear information about the social benefits of a project and how these benefits will be measured. Clear information is also needed about the financial details, how an income stream will be generated, and the financial compensation available to investors
- **Consider tailoring the length of the offer to the needs of the target market**. Be clear with potential investors about their time frame to buy the shares, make sure your target market knows about what is being offered on the day of the launch – or before if possible (intermediaries in particular need advance warning to do a good job in helping your group to connect with social investors)
- **Consider the costs of marketing and allocate sufficient funds to marketing**. Generally, the larger the sum the community share issue is seeking to raise, the higher the marketing cost – especially if the target market is more than local community investors. Do not underestimate the cost and time needed to carry out appropriate marketing
- **Consider making good use of Enterprise Investment Scheme (EIS) tax relief**. EIS is a tax reducer for investors in certain kinds of enterprise, it is worth 20% of the value of the investment (as a one off reduction on the end of year tax bill for investments remaining in the enterprise for a minimum of 3 years). This will be attractive to all types of investor who require some financial compensation for being parted with their money and there is no cost to the society. Not all activities or share issues will qualify for EIS but it is well worth checking to see if yours does
- **Ensure that a statement of risk is included that is clear and accurate.** A clearly stated, robust business plan will be appreciated by investors even though it will need to include all risks. Investors must understand that their money is at risk and that they have no recourse to any financial compensation scheme. Being clear about the risks from the very start will protect you and your society in case of the society being unable to repay investors later on. Find the right balance between being clear about the risk and explaining the social benefits of the project - so that you are being fair to the investor at the same time as explaining the reasons to buy shares. Everything that you state in a share offer document must be true and fair and you should document this as part of your 'due diligence'
- **Consider how to make the most of the long term relationship with investors.** Members are willing to become more involved in the society's activities. They could also be approached for further investment if this became necessary. Many members see their role in the society as more than only financial. Societies need to consider how they nurture this relationship through communications and offering opportunities to their members for further involvement

Alison Ward. September 2010. A full report on the research is available at www.communityshares.org.uk