

Factsheet 7: Feasibility studies

7.1 Starting points

There is a growing awareness among many communities that they can muster their own resources to develop the infrastructure, facilities and services they need and want. Rather than waiting on government or charity to provide for their needs, people in communities are turning to each other, and using a socially aligned business model to create sustainable ventures that serve these needs directly. Community investment is central to this new approach.

The starting point and driving force behind these actions is the community itself: its needs, interests, ambitions and aspirations. At an early stage it is important to determine whether these needs and interests can be addressed by a business model, or whether they are better addressed by a charitable approach. If the business model is appropriate, then the next step is to align the business model with the social objectives of the community, and there is no better way of doing this than getting the community involved as investors, members and part-owners of the venture.

There are four key components to all successful community investment initiatives:

- **A project team** with the track record and competencies to lead the community investment process through to fruition
- **Social objectives** capable of winning the interest, enthusiasm, and financial support of a target community
- **A viable business model** capable of generating sufficient profit to pay a return on the community investment
- **A capital finance plan** that is affordable, balanced, realistic and achievable.

7.2 Initial assessment checklist

The following checklist is designed to provide an initial assessment of the viability of a community investment proposal. It can be used to identify the strengths and weaknesses of the proposal and how much progress has been

made towards developing a feasible idea. It can also be used to identify where further progress needs to be made to strengthen the proposal.

The checklist expands on the four key components that make up a good community investment proposal. It lists a series of ingredients for each component, so the checklist can be used to measure how many of these ingredients are available to drive the proposal forward.

There are three ways of assessing each ingredient in the checklist: *Yes* means this ingredient is already in place; *In progress* means that this ingredient is being developed; *No, not relevant, not yet* means that this ingredient is not available or not relevant to the proposal. The maximum score is 40. Proposals scoring more than 20 are well on the way to being viable ideas and are worth developing further.

Initial assessment checklist			
Project team	Yes (score 2)	In progress (score 1)	No, not relevant, not yet (score 0)
I am developing my community investment idea with other people			
We are willing and able to invest our own time and resources into developing our plans			
We are a corporate entity with an established track record in this area of activity and strong links to the target community			
We have the backing of development partners who have raised community investment before			
We have built up sufficient reserves from trade in this area to part-fund our new initiative			
Score	/10		

Social objectives	Yes (score 2)	In progress (score 1)	No, not relevant, not yet (score 0)
Our idea addresses a well-known need, interest, ambition or aspiration amongst our target community			
There has already been positive media coverage of this issue and/or our proposals			
Other communities have already invested in similar initiatives elsewhere			
We can define our target community and can provide evidence to support our estimates of the total population of this community			
We already have the personal contact details of more than a quarter of our estimated target community			
Score	/10		
Business model	Yes (score 2)	In progress (score 1)	No, not relevant, not yet (score 0)
Our proposal is based on a robust business model capable of generating long-term profit and returns on investment			
We know of other businesses that are successfully trading in the same area of activity			
We have evidence that our proposed trading activity will generate sufficient profit to pay a return to our investors			
We are already trading in the area connected to our investment proposals and have a proven track record			
We can demonstrate that there is sufficient demand for our product or services to justify this further investment			
Score	/10		

Capital finance plan	Yes (score 2)	In progress (score 1)	No, not relevant, not yet (score 0)
The amount of community investment we plan to raise is consistent with the size of our target community and the median amount we expect people to invest			
We are planning to offer a return on community investment consistent with the expectations of our target community			
We have already identified other sources of capital as part of our capital finance plan			
The investment capital we raise will be mainly spent on tangible assets			
Our capital finance plans have addressed the cashflow needs of our business plan			
Score	/10		
Total score for all four components	/40		

7.3 Project teams

People will only invest their money in organisations in which they have a lot of confidence, so the strength and reputation of the project team developing the community investment proposal is critical to its success. Strong project teams are those that are based on one or more of the following:

- Well established and profitable ventures with links to the target community, which are seeking investment to expand or further develop their business activities
- Teams that include partners that have a track record in raising community investment for other similar projects
- Highly respected community organisations with active memberships
- Individuals with experience of successfully creating and running similar ventures
- Community leaders with strong links to the target community.

Developing partnerships, which bring together the above elements of a strong project team will greatly improve the prospects of the proposal.

7.4 Social objectives

The community investment proposal must address the needs, interests, ambitions or aspirations of the target community. The proposal should convert these community motivations into clear and simple social objectives. And the stronger the social objectives, the more likely it is that the target community will invest, and perhaps accept a lower rate of financial return.

The starting point for this process is to identify the target community. The project team may already have strong links with a particular community, but they need to decide whether to limit themselves to this audience, or to expand their target to include other people who might support their proposal. Factsheet 2 offers some advice on how to define target communities, based on the distinctions between geographic communities, communities of interest and communities of identity.

Building community support for a proposal will largely depend on how the proposals are communicated, and the opportunities that are available for the target community to get involved. For instance, some community retail stores involve their members as volunteer shop assistants, which reduces business costs and underlines the social nature of the venture.

It is important to establish and build a database of supporters, and maintain a relationship with them through regular contact. This can be done by creating opportunities for supporters to get involved in the development of the project.

7.5 The business model

Developing a strong business model is crucial. It should be kept as simple as possible, so that people can understand what is being proposed and have confidence in the predicted financial and social returns. The business model can be strengthened by members supporting the venture in more ways than just as investors. Communities can help reduce the cost of community services by providing volunteer support, or improve the efficiency of the business by drawing on local knowledge to target services more accurately.

It is also important to be realistic about the scale of the venture being planned. If it is too small it might not be a financially viable concern; if it is

too large it might be impossible to raise sufficient capital to get started. It might be worth considering the option of starting small and growing the business in line with demand.

7.6 Capital finance plan

There are four important questions to address when developing a capital finance plan:

Is it affordable? Understanding the demography of the target community is vital. How much are people willing and able to invest? It is useful to distinguish between the average investment and the median investment. In large and diverse communities, there will probably also be a large range in the amount people will invest.

Is it balanced? It is not a good idea to expect the community to provide all the capital required, or to rely on any other single source of capital. Community investment should be balanced by other sources of capital such as grants, gifts, donations and loans, and also retained profit, if the proposal is being developed by an established organisation. Factsheet 5 provides further information about getting the right mix of capital.

Is it realistic? The capital plan must be backed up by robust evidence that the business will generate sufficient revenues and surpluses to meet members' expectations of a return on their investment. Depending on the type of shares or bonds that have been issued, plans also need to be in place to meet requests for the withdrawal of share capital or the redemption of bonds.

Is it achievable? Is the target for the amount of capital to be raised achievable? How does the target compare with other successful community investment initiatives? Can the target amount be raised within the timescales set for the project? Has the project team got the capacity to handle the scale of project being developed?

7.7 Learning from others

Factsheet 1 has a list of 84 organisations that have already developed community investment initiatives. In addition to these organisations, the Community Shares programme has already identified more than 50 community investment projects in various stages of development. A lot can be learned from the experiences of others.

One of the principal aims of the Community Shares programme is to encourage organisations to share their knowledge and experiences, and to develop a better understanding of how community investment works. The Community Shares programme will work with ten projects developing community investment proposals, using action research techniques to improve practices. This research will be used to develop tools, resources and guidance for other organisations that want to develop their own community investment proposals.