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Bridges over deprivation

By Stefan Stern

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In the pretty and affluent streets of Bayswater, west London, it seems odd to find financiers studying commercial opportunities in the UK's most deprived neighbourhoods. But the work of Bridges Community Ventures is by its nature unusual. It has nothing to do with charity, or "putting something back", in the fashionable phrase. Rather, this is a little-known face of venture capitalism.

Bridges is the first venture fund set up under legislation inspired by the Social Investment Task Force, which reported in October 2000. The task force, led by Sir Ronald Cohen, chairman of venture capitalist Apax, called for the creation of so-called community development venture funds.

Last week, a year after the launch of BCV's £40m fund, it announced its fifth (and riskiest) deal so far, a £650,000 investment in Elixir, a video games development company. The inspiration for community development venture funds came from two sources: the success of similar funds in the US, where about 70 of them are now managing a total of more than \$500m (£315m) of investment capital; and the established record of venture capital in the UK.

Michele Giddens, a director of BCV, says the fund's mission is to create a "positive spiral" of business activity, reversing the downward spiral that England's poorest regions have suffered.

"We look only at the most deprived parts of [England] - the bottom 25 per cent in the government's index of multiple deprivation," she says. "There are exciting business opportunities with strong growth potential out there; it's just that they are in parts of the country that don't usually get this sort of attention. Our ambition is to create a new sector in these underinvested areas."

BCV looks at equity investments between £150,000 and £2m (equating to anything between 20 and 45 per cent of the equity), a section of the market, Ms Giddens says, that is overlooked by finance houses and more conventional equity investors. "They walk away from this size of deal because it doesn't make commercial sense for them."

The companies in which BCV invests will usually have fewer than 250 employees and turn over £25m a year or less. They have to be linked to their local community by jobs, market or supply chain. The target overall net return for investors is about 10 per cent, a figure based on the record of similar funds in the US. That level should be high enough, BCV believes, to stimulate the launch of other community development venture funds.

In short, BCV is there to talk terms with the entrepreneurs who will not get a hearing from nervous banks (whose overdrafts are too expensive anyway) or corporate finance boutiques (which are too busy with bigger deals). In this way BCV is trying to make a reality of the notion of social investment.

The Social Investment Task Force, with which Ms Giddens worked as an adviser, received a fair wind from the government. And when BCV was launched in Downing Street, in May 2002, Paul Boateng, then a junior Treasury minister, declared: "In our inner cities and old industrial areas we need more businesses, not

more benefit offices."

Gordon Brown had already signalled his support for the taskforce's recommendation that community development venture funds should be supported by matched funding from government. And in last April's budget the chancellor said another such fund should be set up, following BCV's example.

But how has BCV managed to attract experienced financial professionals - seven full-time investment managers - into this line of work? Philip Newborough, managing director, admits they could earn more elsewhere. He is a former Apax executive, while Ms Giddens has more than 10 years' experience in the development and community finance fields.

"Maybe we have caught a wave here," Mr Newborough says. "Our people do have a strong sense of mission." There is a sober idealism about BCV's approach that is striking. If good businesses can win support and take root in these deprived areas, employment and prosperity will flow. The base of the pyramid of economic activity will be widened. "The supply of money can create its own demand," argues Ms Giddens. (If that sounds like a radical socioeconomic idea, it may have something to do with the fact that her father is Prof Tony Giddens, a distinguished sociologist and outgoing director of the London School of Economics.)

It is now a year since BCV announced it had raised £20m of investment capital from sources including 3i, Doughty Hanson, Apax and Royal Bank of Scotland. Matched by £20m of government money, an investment fund of £40m was established. And having raised these funds, BCV has been busy.

Four other businesses before Elixir have won backing so far, with several more deals in the pipeline. The first investment was a west London operation called Trust the DJ, which manages and books more than 30 disc jockeys, hosts the official website of 70 of the world's leading DJs and has released more than 35 albums.

Trust the DJ has deep roots in its community. The company offers opportunities to young people, who are often based in deprived areas. Some of its DJs train young people and the company donates unwanted vinyl to east London colleges that teach mixing and "scratching". BCV's £800,000 investment in December last year formed most of a £1.1m cash injection.

Its second investment was in Simply Energy, a start-up business offering a telephone-based service that helps consumers save on energy bills by enabling them to compare prices and switch suppliers without cost and with minimal effort. BCV invested £125,000 of equity here.

In February BCV made its third investment: £500,000 in the Coventry-based business Touch-n-Glow, which has pioneered the Intelliswitch, a sophisticated dimmer switch and security device. Its fourth investment was in Eyebright, a Hull-based medical business that offers affordable and speedy cataract treatments for National Health Service patients.

Elixir represents BCV's riskiest investment so far. "Video games are an all-or-nothing business," admits Mr Newborough. And Elixir's latest offering, Republic Revolution, a game based on the break-up of the Soviet Union, to be sold and marketed by Eidos, has been years in development. But the arrival of a new chief executive at Elixir this summer seems to have helped get the business ready for an investment of this kind. Elixir employs 60 staff, most of whom live in the run-down St Pancras ward in the London borough of Camden.

Mr Newborough warns that BCV may not achieve top-quartile returns when compared with other VC businesses. The average size of the deals the fund is backing is relatively small, so the proportion of cost in managing them is higher. Exits from these deals will rarely be a money-spinning initial public offering. And the risk profile, given the challenging location in which these businesses find themselves, is clearly high.

Nonetheless, BCV is fully supported by a distinguished array of advisers and non-executives, including Tom Singh, founder of New Look, the fashion retailer, Nigel Doughty of Doughty Hanson, and its chairman Sir Ronald Cohen, of Apax.

Sir Ronald told the FT in July how important the development of this new social investment sector was to him. Here, he said, "private equity firms and venture capitalists individually can make a major contribution to society".

"Really this is all about harnessing entrepreneurship," says Ms Giddens. Social investment simply means backing well run businesses with strong growth potential that just happen to be located on the wrong side of the tracks. It is an appealing idea. And the results will be worth watching.

WHERE DOES BRIDGES INVEST ITS MONEY?

To be eligible for Bridges' capital, a company must be based in the most deprived 25 per cent of English electoral wards based on the index of multiple deprivation (IMD), published by the Office of the Deputy Prime Minister in 2000.

See www.bridgesventures.com/map_england.htm and www.bridgesventures.com/map_london.htm. The IMD takes a broad definition of deprivation. It is based on the principle that deprivation is multifaceted.

A weighted index is calculated based on income (25 per cent), employment (25 per cent), health deprivation and disability (15 per cent), education, skills and training (15 per cent), geographical access to services (10 per cent) and housing (10 per cent). Each heading is itself constructed using a wide variety of indicators.

For example, the "geographical access to services" index is based on access to a post office, food shops, a family doctor and a primary school. The housing index is based on data on homeless households in temporary accommodation, household overcrowding and poor private sector housing provision.

The IMD uses 32 variables to construct its headings and was designed as a generic summary measure of deprivation.



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