SUBMISSION FROM EUROBIOTIX CIC

1. Purpose of Submission

This submission provides the Economy, Energy and Tourism Committee with written evidence on social enterprise and is submitted by James Roger McIlroy, Chief Executive Officer of EuroBiotix CIC.

I must welcome the EET Committee’s interest in social enterprise as a growing segment of Scotland’s economic and social landscape. As Chief Executive Officer of a pre-revenue startup social enterprise my evidence will focus on two key areas. Firstly, I will focus on the innovation EuroBiotix CIC is seeking to bring to market. Secondly, I will focus on what sources of funding and support are available for social enterprises based in Scotland.

2. About EuroBiotix CIC

EuroBiotix CIC is a startup social enterprise working in the biotechnology and healthcare sectors. The company was formed to fill an unmet need for safe access to a medical treatment called Faecal Microbiota Transplantation (FMT). To meet this need, EuroBiotix CIC is developing a range of market leading services and products that will catalyse research into the gut microbiome, and dramatically reduce the costs and complexities associated with performing FMT.

To meet this need, EuroBiotix CIC is developing a range of market leading services and products that dramatically reduce the costs and complexities associated with providing FMT while also catalysing research into the conditions and treatments related to the gut microbiome.

EuroBiotix CIC is registered in Scotland and is based in the University of Aberdeen. The company has won numerous business awards, grant funding, and support from clinicians working around the country, recognising that our model is a scalable social innovation that has the potential to treat thousands of patients across the United Kingdom annually.

3. Examples of innovation from EuroBiotix CIC

EuroBiotix CIC seeks to expand safe access to FMT by creating a donor bank of screened and ready-to-use faecal transplant preparations for the procedure. By centralising donor recruitment, stool processing and distribution, the EuroBiotix CIC service will add value to clinicians, health services, research institutions, and patients.

In addition, EuroBiotix CIC seeks to develop a highly scalable encapsulation process for capsule delivered FMT. This has the potential to further widen patient access to the treatment and remove discomfort and indignity of current
delivery methods. This innovation has significant funding requirements, and will require significant collaboration between a number of different organisations.

In order to facilitate the above, EuroBiotix CIC has formalised research partnerships with Universities and hospitals, built strong links with government and charities, and secured many letters of support from clinicians and researchers around the UK. Commercial traction comes from a number of letters of intent to purchase, and pilot trial agreements with an NHS Trust in Scotland and an NHS Trust in England.

There is no doubt that by being a social enterprise has engendered trust that we are not targeting profit as our main priority, and thereby helped us build relationships with partners and stakeholders, and this benefit is something that those considering the social enterprise business model should not overlook.

Being a social enterprise has not hindered our ability to identify unmet patient needs and progress innovative ideas and associated products/services to address these because these have come through careful and intensive review of publically available scientific literature, requiring relatively low levels of funding.

However, to perform effective operational research based on laboratory work, analysis of delivery methods, donor characterisation and patient treatment outcomes, EuroBiotix CIC will have to raise a substantial amount of capital to fund our R&D programme.

This leads nicely onto the second key issue of this discussion – funding for social enterprises. There are a number of issues with regards to funding that warrant discussion, and these will be discussed in the next section.

4. Sources of funding

Up to now, we have been mainly funded through our own personal resources, supplemented by business competition successes and associated grant funding. With regards to the number of business competitions available for startups to enter, Scotland really punches well above its weight, and this must forever remain the case. There are many opportunities for people to enter innovations at various stages of development (some competitions even accept concepts), and students especially are spoilt for choice.

I have enjoyed success at the Scottish Edge Competition, Converge Challenge, and SIE Young Innovators Challenge. I have raised over £20,000 in non-dilutive funding from these competitions. Furthermore, in addition to funding, all competitions offer support packages and mentors to winning teams.

As things are progressing quickly, we are seeking to raise a more substantial sum of funding in the near future. To facilitate this, we intend on leveraging schemes such as Social Investment Tax Relief (SITR) to attract investors and raise the capital we require. The Scottish Government should ensure that SITR and similar initiatives remain operational.
One problem I have repeatedly encountered when applying for funding (mainly in the form of grants) is that many funding bodies do not issue funding to companies limited by shares. This regrettably includes Community Interest Companies (CIC) limited by shares. The root cause of this is the belief that social enterprises cannot, or indeed should not, have shareholders. Indeed, the Senscot Code providing a code of practice for “Social Enterprises” in Scotland states that organisations that distribute dividends are disqualified from the ‘Social Enterprise’ title, with “honourable exceptions”. The document does not provide criteria for what qualifies an organisation as an “honourable exception”, and this in my opinion must be made more clear.

A CIC limited by Shares is a relatively new legal form that was created to bridge the gap between charities and for profit organisations. CIC’s differ from private limited companies in a number of ways. CIC’s have a ‘dividend cap’, which ensures that a CIC limited by shares can only distribute 35% of profits to shareholders, and the remaining 65% must be reinvested into the company’s community objectives (as outlined in its articles of association). In addition, to the dividend cap, CIC’s have an ‘Asset Lock’. This is an essential feature of all CICs. Its existence means that all assets and profits (aside from those distributed in accordance with the rules on dividend capping) must be retained within the CIC and used solely for community benefit. Finally, a CIC regulator ensures that CIC’s maintain their community purpose.

In light of the above, I believe that all community interest companies limited by shares must be social enterprises, and I urge Senscot to review their position on CIC’s limited by shares and update the code of practice.

It is worth noting that many funding bodies based in England only fund Social Enterprises based in England. This is frustrating, as many of these bodies have very sizeable pots of money to invest.

A further problem I have encountered is that many potential investors have never heard of the CIC legal structure before. A CIC limited by shares has the potential to offer favourable returns on investment, and also fulfil social and ethical objectives that investors may have. Furthermore, I don’t believe that the dividend cap is a hindrance for early stage startups, as most, if not all, should be reinvesting any profits back into the company to facilitate growth and scale.

Finally, it is technically feasible for a CIC limited by shares to make an initial public offering and hold PLC status. I frequently attend business events and conferences where keynote speakers speak about creating the next Scottish ‘Unicorn’ company. Well, what is stopping stopping the next Unicorn company being a social enterprise? Collectively, we need to work together to shift mainstream views on social enterprises, and educate investors about potential financial and social gains.

I would welcome efforts from the Scottish Government to promote social enterprises as attractive ethical investment opportunities. Creating a Scottish Government Social Enterprise Committee that advises potential investors could be useful, as I believe that the information available on the internet is disparate
and of varying quality. One way to deliver this would be through creating an organisation purely for social enterprise support. This could operate separate from Scottish Enterprise and Business Gateway.

In addition, the Scottish Government could do more to support startups/early stage social enterprises that have high growth potential. Startups are more risky investments than more established enterprises, and I believe that the Scottish Government could fill the unmet need for accessible social enterprise startup finance through the provision of targeted funding (such as generous startup loans or equity investments). I believe that this would work very well alongside funding bodies such as Social Investment Scotland, who invest in more established organisations that wish to scale and expand.

5. Summary

Taken collectively, I believe the evidence and accompanying recommendations presented in this submission will allow the committee to recognise that whilst Scotland is a fantastic place to start a social enterprise, and has considerable goodwill and support from the community, more can be done to support the sector in terms of guidance to potential stakeholders and investors and provision of funding routes.

I very much look forward to participating in the discussion in Holyrood on the 27th of January.