# New approaches to financing charities and other social enterprises

# A snapshot – May 2003

"New approaches" is intended as an information resource for

- Charities and other social enterprises interested in accessing loans and other investment
- Financial providers who are either already practicing or considering new approaches to financing
- Researchers who are interested in the provision of financing to the voluntary sector

The report captures what is currently happening in the UK, including

- Gaps in the provision of financing
- Types of financing currently in existence
- Providers developing new methods of financing

## Preface

This paper seeks to record and to explain the enormous growth in interest in the provision of loans and other investment to charities and other social enterprises.

Remarkable progress has been made in the recent past. Only a few years ago, offering investment in various forms to charities and other social enterprises was regarded as new and radical. There are now a variety of providers testing out models and even more individuals and organisations willing to promote the approach. The government and the Charity Commission are encouraging change and growth.

We recognise that, at present, the market is in its infancy and information blockages are slowing down or preventing transactions. But our vision is that in ten years time, charities, social entrepreneurs and small social businesses will be aware of a wide range of sources of finance and will be able to choose those particularly suited to their different needs. This may seem unrealistic, but we should reflect on the changes in the personal finance world. Twenty five years ago the suppliers were dominant and had to be courted; today they tout for custom, trying to encourage us to borrow.

The picture is changing rapidly, as the momentum of change builds. This snapshot aims to capture the position at May 2003 and will, I hope, help us to track further progress towards the long-term objective – a market place in which a variety of models of financial supplier are working well, and in which power of choice is shifting to charities and other social enterprises.

Our intention is to publish a similar report periodically to monitor progress and to encourage debate and information exchange. If you have any comments on the content of this report (including information about other investors), please contact us. We would be pleased to hear from you.

John Kingston
Director Venturesome

The report was written by Margaret Bolton an independent consultant specialising in voluntary sector policy.

It was sponsored by Venturesome – an initiative of the Charities Aid Foundation.

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## Introduction

This report considers new approaches to financing charities and other social enterprises.

Most people have some understanding of charity as a concept but the term social enterprise is less familiar. A social enterprise, according to the DTI, is 'a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community'. Generally, a social enterprise will be engaged in one or more of the following:

- selling social or environmental goods (for example, childcare or recycling);
- trading to cross-subsidise social or environmental goods (for example, the trading arms of some charities);
- using processes or ways of working that have a significant social benefit (for example, co-operatives, social firms and fair trade organisations).

Social enterprises by definition combine social and commercial objectives. They may have real entrepreneurial flair. However, they often lack resources and find it difficult to access finance to launch projects and develop them to scale.

Growing interest in and awareness of charitable and social enterprise has led some innovators to consider whether approaches, distinct from traditional grant aid, might be used to support such organisations. This report seeks to describe these new approaches. It aims to provide valuable basic information to organisations and individuals considering becoming providers of finance; and to charities and other social enterprises interested in accessing it (an annex provides information about providers).

The report covers:

- social investment – providing loans to charities or providing loans to or taking a share in other social enterprises with the intention of achieving social purposes;
- the provision of 'patient capital' – which implies a return well below market rates and could include deferring payment of interest on loans or not taking a full return on an equity investment.
- an 'investment' or 'venture philanthropy' approach to grant making which aims to build the core capacity of funded organisations.

Some commentators emphasise the features that these approaches have in common, others the differences between them. As yet there are no commonly agreed definitions. This is a new a market place in which definitions are still evolving (see box 1).

**Box 1**

**Evolving definitions**

Social investment, the provision of 'patient capital' and an 'investment' approach to grant making form part of a continuum of funding activity.

Social investment

The term social investment is generally used to describe the provision of loans to, or subscription for shares in, charities and other social enterprises. The investment is 'social' if it is made to achieve social purposes. 'Patient capital' is an important sub set of social investment.

Patient capital

The terms on which social investment is offered determine whether or not it is 'patient capital'. Patient capital is finance provided over an extended period and below market rates. For example, a loan might be given with a ten year capital repayment holiday.

Some also suggest that a distinguishing feature of patient capital is that terms are not set until the prospects for the venture are clear. This means that loan terms might not be set until the loan is partially spent.

An 'investment' approach to grant making

Some suggest that the term patient capital also encompasses an 'investment' approach to grant making.

Grant makers using an investment approach may concentrate on pre-application support, support during the applications process and/or support during the life of the project. Venture philanthropy, an investment approach, provides all three. It is characterised by 'hands on' management assistance to charities and other voluntary organisations to help them grow and develop. Whereas, patient capital, if structured as equity or the subscription for shares in the organisation, generally means much less involvement by the funder.

## Filling gaps in provision?

Charities and other social enterprises often find it difficult to raise funds to invest in their growth and development. This is for a number of reasons.

The funding method most familiar to charities is grant aid. Most grants meet the recurrent costs of time limited projects or one-off capital projects in some particular sub sectors (eg the arts and education). They tend not to be readily or widely available for:

- asset purchase;
- core costs;
- projects aimed at developing the human capital of the organisation.

Many grant makers are also reluctant to fund the initial costs of projects aimed at generating funds to support organisations in the future. These projects may be regarded as too 'commercial' for grant aid. Some non-charitable social enterprises also seek grant aid to meet start up costs and, for the same reasons, have difficulty accessing it.

Some for-profit companies, during their start up phase, benefit from enterprise grants. However, their capital development is generally financed either by equity (the subscription for shares in the company) or debt (loan finance). Charities cannot provide equity and therefore cannot access this form of finance. Their assets are not owned privately or institutionally but are held in trust for public benefit purposes. Some non-charitable, not-for-profit organisations have shareholders. For example, mutual organisations including co-operatives and credit unions operate on the basis that members have a stake in the organisation. But there are limits on individual share holdings.

In theory, both charities and social enterprises should be able to access loan finance from commercial providers like the banks. However, they often find this difficult. High street banks have been unwilling to lend to small or new social enterprises because they are unfamiliar with:

- the organisational structures and status of social enterprises ( eg company limited by guarantee, co-operative, benefit to the community society, credit union and charity);
- lending to organisations or individuals without assets against which capital can be secured;
- lending to individuals who, in contrast with for-profit companies, do not have the same personal financial stake in the enterprise;
- contracting for the provision of public services.

Additionally, the banks' commercial objectives limit their capacity to lend relatively small amounts to organisations where the 'processing costs' of investigation and subsequent monitoring are relatively high.

There has also been some reluctance on the part of charity trustees to consider loan finance because they regard it as risky. Grant aid presents no financial risk for the organisation whereas a loan commits it to a particular level of financial performance. However, loans like the other forms of financing mentioned in this publication potentially provide charities and other social enterprises with a wider range of options (see box 2 ways and means of financing).

**Box 2**

**Ways and means of financing**

The funding innovators described in this report can help charities and other social enterprises grow and develop by providing:

- start up capital – to meet the set up costs of new income generating projects;
- working capital – to cover project costs before contract income comes through;
- pre-funding of fundraising income – for example, to enable a building project, for which all the money has not yet been raised, to start before costs escalate.

The support offered takes a variety of forms including:

- loans for projects if finance can not be found elsewhere (stand-by facilities/underwriting);
- secured and unsecured loans;
- loan guarantees;
- a loan which is only repayable by a royalty on future sales of a product or service (quasi-equity);
- the subscription or purchase of shares in a social enterprise.

## New approaches

### Social investment

There is a wide spectrum of social investment activity, and a growing range of providers, but they all have certain core characteristics in common.

*There is some financial return*

Social investment is distinct from grant aid. Grant aid is money given away. However, a financial return however small is expected on a social investment. This means that social investment decisions are based on a judgement not only about the social return from but also the financial viability of the project.

Some social investors need to re-cycle funds relatively quickly, and charge rates close to market rates, in order to remain sustainable. Others provide what is termed 'patient capital'. They offer finance over an extended period and at discounted or sub market rates (see also box 1 which covers evolving definitions).

Some may require repayment of a loan only if the social enterprise can afford it and some offer grants alongside loans. This activity however, because no return is required, falls outside the definition of social investment used in this paper.

*A need for a social return*

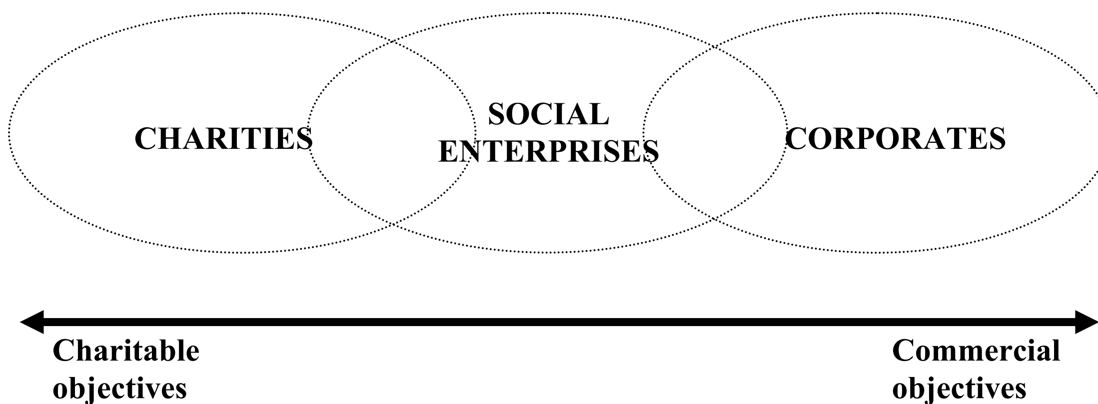
Social investors support charities and other social enterprises which contribute to particular social or environmental aims.

Some providers offer support to a wide range of charities and other social enterprises. Providers with charitable status, like Venturesome, are bound by charity law to support only those projects which contribute to achieving their charitable purposes. However, they have general charitable purposes and they are not bound to provide finance only to other charities. They may support non-charitable not-for-profit organisations or for-profit organisations provided that this support contributes to achieving charitable objects.

A spectrum of activity

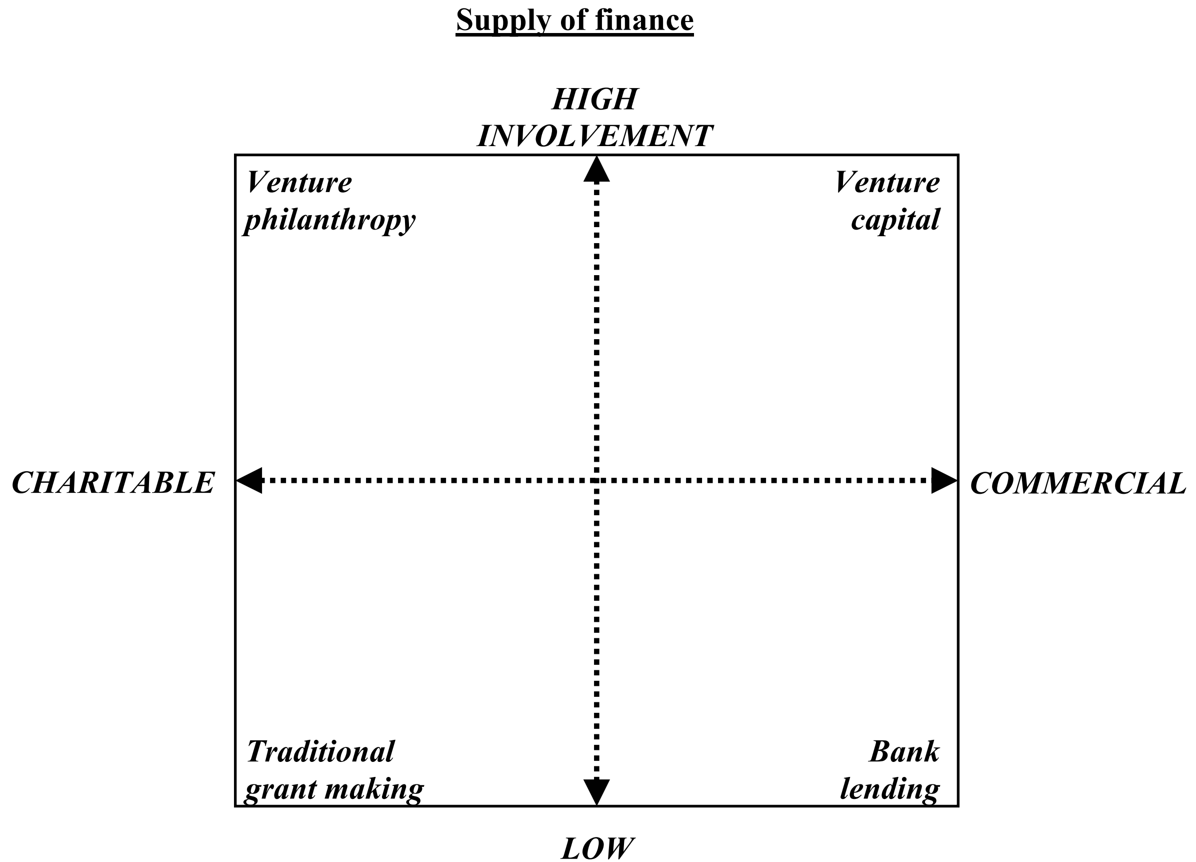
There is a wide range of enterprises requiring financial support (see diagram 1).

**Diagram 1**



Social investment forms part of this broader spectrum of activity which ranges from the charitable or philanthropic to commercial. And where the supply of finance ranges from low to high involvement (see diagram 2).

**Diagram 2**




At the commercial, low involvement corner of the diagram are banks which assess the applicant's eligibility for loans and then have little or no contact with the project providing repayments are made. At the high involvement corner are venture capitalists who take a controlling stake in the business and engage in 'hands on' management to make the company profitable.

At the charitable or philanthropic low involvement corner of the diagram are traditional grant makers. At the high involvement corner are venture philanthropists. Impetus, for example, has been formed by individuals with experience in the venture capital industry and will use venture capital methods to underpin its grant giving. It proposes to invest in a small number of organisations, offering them a combination of core funding, hands on support and capacity building over an extended period, to enable a step change in their performance. It will also provide management expertise and support from Impetus itself and its network of 'associates' from the charity and business sectors.

Social investment is different from an investment approach to grant making. Venture philanthropists provide grants and therefore do not expect a financial return. They also typically become more involved with the charities that they support. Nonetheless both approaches have characteristics in common:

- the emphasis is on building the core capacity of an organisation and helping it achieve financial sustainability;
- support is offered with financial planning and management development;
- the relationship is likely to last longer than most conventional grant aid relationships where project rather than core funding is given.

An annex to this report provides information about providers of social investment, patient capital and those taking an investment or venture philanthropy approach to grant giving.

## This risky business?

Providing loans is generally regarded as much riskier than providing grants. However, loans are funds which can be recycled. They therefore, at least in theory, ensure that limited resources go farther and work harder.

It is also often wrongly assumed that financing charities and other not-for-profit organisations is more inherently risky than financing for-profits. In some instances such projects may be financially riskier because for example, the organisation can not offer security or has no experience of running the type of initiative for which funding is sought. However, these are contingent matters (ie they depend on the particular circumstances of the organisation). And they are, in any case, difficulties that can be overcome.

Some credit ratings systems used by the high street banks have disadvantaged charities and other not for profit enterprises. For example, in some instances they have been penalised because their management does not have a personal financial stake in the business. This shows the banks’ failure to recognise that those involved may be motivated by factors other than personal reward. Some social investors have therefore worked with the banks to encourage them to provide loans to social projects that are financially viable if properly assessed and not subject to insensitive credit ratings. Some have also helped charities and other not-for-profit enterprises put together mixed funding packages. An investment which seemed unattractive to one investor appears viable when others are prepared to put up funds and share the risk associated with the project.

The key factor here is expertise. The important thing is that financial risk is fully recognised, properly assessed and carefully managed. And this means that it is crucially important that the organisation making the investment has staff, or access to advisors, with the right mix of skills.

**Diagram 3**

**FINANCIAL RISK TO PROVIDER**

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**EXAMPLES OF PROVIDERS**

| GRANTS | Adventure Capital Fund | Venturesome | Charity Bank | BANKS |
|---|---|---|---|---|

All funders have to manage the risks associated with the projects they support but different funders inevitably focus on different types of risk:

- traditional grant makers tend to be most concerned about whether their support is likely to deliver the promised outputs;
- social investors by definition focus on both the likely financial return and the likely social return - however, although financial assessments may be quite sophisticated, the assessment of social return may be based more on instinct than hard evidence;
- grant makers using an investment approach are trying to develop methods to assess the social outcomes and wider impact of the projects they support.

Social investment and the investment approach to grant making are a new departure because both are concerned with building the capacity of the organisation as a whole. (However, see box 3 which considers new approaches by traditional grant makers). This entails close attention to the management potential of the organisation, analogous to that paid by private investors considering for profit investment vehicles. It also means closer monitoring of financial performance with defined milestones agreed in advance between the funder and the funded organisation.

However, none of this is to argue that social investment does not present particular difficulties for some organisations who wish to provide it. Charities face particular legal constraints because if they give a loan or invest in an organisation, it has to be in pursuit of their particular charitable purposes. This means for example, that trustees may be bound to exit the relationship should an investee change the way it operates so that its contribution to achieving the investor's charitable purposes is reduced. Sometimes, particularly where the charity holds shares in the enterprise exit may be difficult.

However again, such risks can and should be managed. For example, the charity might protect its interests by requiring the investee to make provision to buy back its shares.

**Box 3**

**New approaches by traditional grant makers**

In order to illustrate developments, this publication seeks to contrast traditional grant aid with new approaches. However, this does not mean that some long established trusts have not pioneered by:

- offering loans alongside grants;
- offering grants for core costs;
- being 'engaged' grant makers;
- developing methods for assessing outcomes and impact; and by
- providing grants to establish specialist social investors.

## The expansion of provision

There has been an expansion in the number of organisations adopting the funding approaches described in this publication. This growth has been driven by a number of factors:

*Funding pressures and the drive to be entrepreneurial*

Ten years ago there was concern that charitable fundraising might stall. The view was that new forms of finance were needed to help the sector meet the demands placed on it. CAF considered loan finance an option but knew that mainstream banks were reluctant to back charities and other social businesses. In 1995, it decided to plug the lending gap by setting up Investors in Society. Charity Bank, launched in 2002, developed from it. Over eight years, £10 million has been lent to over 200 charities.

Charitable fundraising did not stall, it has grown over the last ten years. However, relatively few charities benefit from large scale public fundraising campaigns. And, small and medium sized charities report intense competition for grants. This is particularly the case in the current economic climate. Some endowed charitable trusts have seen the value

of their endowments decline dramatically over recent years. Small and medium sized charities are therefore under intense financial pressure and often need to be entrepreneurial to survive.

Individuals acting as a catalyst

*Social entrepreneurs*

A large number of talented individuals have shown the way and have acted as a catalyst for the development of both social enterprises and the organisations which finance them. Many individual social entrepreneurs have shown that business tools can be used very effectively for social ends. Others, including respectively the founders of Impetus and Venturesome have brought venture capital experience to the charitable sector.

The founders of organisations such as ARK and SHINE are investing their own money in these organisations. Many of today's philanthropists want to engage with the organisations they support. They are concerned to contribute not only money but also knowledge and skills. This helps to ensure that the money they invest makes a real difference.

*Small scale investors*

The power of small scale investment by individuals in organisations with social purposes has been demonstrated by a number of recent initiatives including:

- Charity Bank which provides bank accounts for individuals as well as providing finance to organisations to enable them to pursue charitable purposes – individual account holders can donate their interest back into the fund;

- Triodos has developed a Charity Saver account – individuals with such an account have the option of targeting any proportion of their interest to a specified charity;

- Industrial Common Ownership Finance (ICOF) whose shares were mainly subscribed by individuals - the average shareholder holds around £1,000 worth;

- the Traidcraft share subscription which raised £3 million and the Ethical Property Company share subscriptions which raised £4 million.

Providers stimulate demand

Many charity trustees are reluctant to take out loans. They characterise loans as risky and expensive and are worried about personal liability. Charity trustees do indeed have a special duty of care. However, within the constraints of charity law and on the basis of appropriate advice, many could be making use of a wider range of financial tools. A major barrier appears to be lack of awareness of the range available and how they might be used in the best interests of the charity. CAF through Investors in Society and now

Venturesome is encouraging charities and other social enterprises to make more creative use of available options.

The market is also developing. Or in other words knowledge is growing about the needs of different segments of the market. Providers are tending to specialise more as their expertise and confidence grows and therefore gaps can be more easily identified. And, new providers are emerging to fill them, sometimes with government support.

Government efforts to promote social enterprise

Government recognises that social enterprises have significant potential to tackle unemployment and regenerate deprived areas. It also knows that charities and other social businesses can contribute greatly to public service delivery. It has therefore sought to encourage the development of social enterprise by promoting social investment.

The Treasury accepted the recommendations of the Social Investment Task Force published in October 2000. From April 2003, it is providing a tax credit for investments in organisations which finance social and other businesses operating in underinvested areas or which finance groups experiencing discrimination in the labour market.

The Social Investment Task Force report also recommended that the Charity Commission should clarify the circumstances in which charities can provide debt and equity finance. The Commission published Guidelines on Programme Related Investment in May 2001. New guidelines called Guidelines on Social Investment, with some helpful revisions, were published in October 2002.

In July 2002 the DTI launched a Strategy for Social Enterprise. One of the issues considered was funding and finance for social enterprises. The report proposed that the Bank of England should undertake a review, identifying gaps and barriers to investment in social enterprises. This report has recently been published (see below).

The DTI also launched, in April 2003, a consultation on a new legal form for social enterprises, the Community Interest Company. This new form should make it easier for social enterprises to raise the finance they need. It is proposed that these new organisations will for example, be able to issue preference shares.

## The future

In the longer term, charities and other social enterprises should be aware of a wider range of sources of finance and should be able to choose those particularly suited to their needs. A range of specialist providers are currently testing different approaches and encouraging charities and other social enterprises to demonstrate greater creativity in the financial tools they use. They are also working to raise awareness of the financial needs and potential of charities and other social enterprises among mainstream providers, such as the clearing banks and major grant making trusts.

The success of the recent share issues by Ethical Property Company plc and Traidcraft plc should encourage significant fundraising from individual investors by other social enterprises, and the development of market mechanisms to allow trading in the shares of such companies.

Crucially, government has a growing interest in this area and has committed itself to monitor provision, identify gaps and encourage and support initiatives to fill them. The Bank of England report on the Financing of Social Enterprises recommends further development of patient capital building on the experience of recent initiatives including Venturesome (2002) and the pilot Adventure Capital Fund (2002). Indeed, the Treasury's *future*builders fund may well adopt some of the funding mechanisms described in this report.

All this activity means that funders generally, including charitable trusts and government departments, are adapting to this new environment. They are becoming more aware of the need to provide an individually tailored response to the charities and other social enterprises which approach them for support. And, they are beginning to use a wider range of financial tools including loans and subscription for shares.

**We will publish future 'snapshots' examining progress. Please contribute additional information, by email, to the following address: venturesome@CAFonline.org**

## Annex

## Providers taking a new approach to funding charities and other social enterprises

The providers listed in this section include not only those organisations providing social investment and/or patient capital but also those operating at the more commercial end of the spectrum who have financed/will finance charities and other social enterprises. It therefore includes some providers of venture capital and some banks who either specialise in this area or who have set up specialist units within their institution.

### Grant making trusts taking an investment approach

All of the organisations featured use an investment or venture philanthropy approach. They seek to develop the capacity of a relatively small number of not for profit organisations. They provide core funding and intensive support with management development. Generally, a collaborative approach is taken to business planning and objective setting before funding is given.

*Absolute Return for Kids (ARK)*

ARK supports local and international projects which transform the lives of children who are victims of abuse, disability, illness and/or poverty. It supports charitable projects which among other things are likely to be financially sustainable and are replicable. It operates as a swing investor making large grants relative to the turnover of the organisations supported. ARK builds a long-term relationship with the organisations it funds. To encourage good management practice it provides training, supervision and consultancy services. Each year it will select themes to focus its activities.

www.arkonline.org

*The Impetus Trust*

The Impetus Trust is a general venture philanthropy fund, which is now operational while still engaged in fundraising. It is seeking £3million from individual donors, and is more than halfway to this target; it has also received core funding from some leading grant making charities. Impetus is focussing on sectors that are under-funded or short of management capacity and on a small number of charities within those sectors that are capable of making a step-change to achieve higher impact. Funding will continue over a 3-5 year period and be combined with hands on management support and capacity building.

*Support and Help in Education (SHINE)*

SHINE supports educational initiatives which encourage children and young people to raise their achievement levels. It funds organisations working with under-achieving 7-18 year olds from disadvantaged areas in Greater London. It focuses on value for money investment and proven educational impact ie it emphasises measurable educational outcomes. It develops solid proposals in partnership with the organisations seeking its support. The majority of its grants are in excess of £20,000.

www.shinetrust.org.uk

*World in Need (WIN)*

World in Need (WIN) has been using the venture philanthropy model of funding for fifty years. It has invested in Impetus as a way of scaling up this activity. The organisation was founded by the philanthropist Cecil Jackson-Cole. One of his first major initiatives was helping turn the Oxford Committee for Famine Relief into Oxfam. The organisation grew rapidly with his professional guidance. WIN also helped to develop major charities like Help the Aged and Action Aid and has supported organisations like Church Action on Unemployment. It currently has seven organisations in its portfolio.

www.world-in-need.org.uk

**Organisations providing patient capital to charities and other social enterprises**

Providers of patient capital tend to offer a mix of grants, loans and quasi-equity (for example, a loan which is repayable by a royalty on future sales of a product or service). The interest they charge on loans is generally below market levels and they may offer the option of deferral of capital repayments for an extended period. This lower and/or delayed return is compensated for by the likely social return of the projects supported.

This section focuses on specialist providers and not charitable trusts who offer a small element of debt financing alongside their grants programme. Some also describe the grant makers described above as providers of patient capital.

*The Adventure Capital Fund (ACF)*

The Adventure Capital Fund (ACF) is an initiative involving amongst others, the Home Office and the Development Trusts Association. The Home Office is investing £2 million in this pilot which aims to test a range of new financial products for community enterprises. ACF will provide grants, underwriting, unsecured loans and subordinated loans (ie repayment if the organisation is able to afford it). ACF call these subordinated loans ‘gift equity’. When an organisation is ready to repay the loan, rather than giving the money back to ACF, they lend it to a peer. This organisation uses it on their investment programme for example, to underwrite unsecured lending. Financial packages will be

tailored to the needs of each successful applicant. Business support will be made available and provision has been made for additional development grants or bursaries to bring projects to a state of 'investment readiness'.

*Venturesome (an initiative of the Charities Aid Foundation)*

Venturesome (VS) backs people with both the ambition and the skills to achieve charitable impact. Because VS uses risk capital to back such entrepreneurial teams, it is less inhibited by historical financial data (balance sheets etc) and available security, than the normal bank lender. VS aims to offset some of the higher risks that it takes by building expertise in this type of lending.

VS supports capital projects, either property/asset based or human capital. It does not fund on-going, recurrent costs. It seeks to demonstrate that grant money can 'work harder' by recycling funds and concentrates on underwriting and unsecured lending. It has recently agreed to provide quasi-equity to a charity. Its underwriting activity provides a safety net intended to help charities to proceed with projects and raise further finance.

Its loans/investments are in the range of between £25,000 and £125,000. It also provides financial advice and acts as a facilitator, bringing different investors together. Its current fund is £2 million.

www.venturesome.org

**Community Development Finance Institutions (CDFIs)**

Community Development Finance Institutions (CDFIs) are financial intermediaries. They attract funds, often from high street banks, and generally lend to businesses in deprived areas or to the under served market of charities and other not for profit organisations. Many offer business development services as well as finance. Because they are under pressure to be financially sustainable they tend to charge commercial interest rates unlike the providers of patient capital discussed above.

Some CDFIs provide loans to individuals for self employment or to refinance other creditors, others concentrate on providing finance to one person businesses. In this section the focus is on those CDFIs which support charities and other not for profit organisations.

*Aston Reinvestment Trust (ART)*

Since 1997, the Aston Reinvestment Trust (ART) has been providing access to finance for small businesses and social enterprises in targeted areas of disadvantage in Birmingham. It lends sums of £2,000 to £40,000 at commercial interest rates. Its support often shows that an enterprise is good for a conventional bank loan.

www.reinvest.co.uk

*Charity Bank*

Charity Bank was launched in 2002. It is both a registered charity and authorised to lend by the Financial Services Authority. It developed out of Investors in Society, formed by CAF in 1995 when the CAF trustees decided to plug the lending gap by providing loans to charities to help them move forward. Over eight years, £10 million has been lent to over 200 charities.

www.charitybank.org

*Industrial Common Ownership Fund (ICOF)*

ICOF is a loan fund for employee owned co-operatives and other social enterprises. It offers loans ranging from £5,000 to £50,000. It offers loan fund management to other lenders who have broadly ethical objectives.

www.icof.co.uk

*Local Investment Fund (LIF)*

The Local Investment Fund (LIF) was set up in 1995 by the DETR (now the Office of the Deputy Prime Minister), Business in the Community and the private sector (led by Nat West). LIF provides loan finance to not for profit community organisations to enhance their long-term sustainability. It provides technical assistance. Since 1995, LIF has provided 56 loans totalling in excess of £3.8 million and has leveraged almost £25 million into community regeneration.

Nationally LIF makes loans of between £25,000 and £250,000 to projects and organisations across England. It is in the process of establishing Regional Community Loan Funds in each of the English regions. Regional funds make loans of between £15,000 and £100,000.

www.lif.org.uk

*London Rebuilding Society*

London Rebuilding Society (launched in 2001) targets 'vibrant well run social enterprises' which generate new jobs and new services for London. It works with hundred of groups in the social sector and provides individuals with an opportunity to invest in some of the services which are important to them. It only lends to charities, co-operatives and social firms. It offers clients business expertise and financial help through a network of local development managers. It provides start-up capital to new enterprises or working capital to purchase equipment or refurbish run-down property. It also offers bridging loans, guidance on handling cash flow and access to general business support.

www.londonrebuilding.com

**Banks making special provision for social enterprises**

*Triodos*

Triodos Bank has provided banking services to individuals and social and environmental businesses and charities for the last twenty years. It lends to organisations which 'create real social, environmental and cultural value' and more than half its customers are charities.

www.triodos.co.uk

*Unity Trust Bank*

Established by the trades unions in 1984, Unity Trust Bank provides banking and financial services for the trade union movement and not-for-profit sector. It is one of the main bankers to the credit union movement. It established the UK Social Economy Forum in 1992 to raise the profile of organisations which trade for a social purpose, including charity, voluntary and community organisations, and also credit unions.

www.unity.uk.com

Nat West and other High Street banks have been instrumental in establishing some of the initiatives mentioned earlier. Some banks have recently established specialist units to enable them to better assess applications for finance from charities and other social enterprises.

www.natwest.co.uk

www.co-operativebank.co.uk

www.lloydstsb.co.uk

www.hsbc.co.uk

www.barclays.co.uk

**Venture Capital**

Venture capital is rarely an appropriate source of finance for charities and other social enterprises. Generally venture capitalists seek a share in the enterprise and a commercial return. Charities cannot offer equity because their assets are held in trust for public benefit purposes. Exit can also prove difficult for investors unless for example, the non charitable social enterprise makes provision to buy back shares. The level of control of the enterprise which venture capital implies also goes against the more democratic and consultative ethos of most social enterprises.

*Bridges Social Venture Fund*

Bridges was formed with backing from the venture capital industry in 2002. The initiative developed out of a recommendation in the UK Social Investment Task Force report. Bridges is a venture capital firm backing businesses located in disadvantaged areas. It aims to demonstrate that financial returns can be made by backing such entrepreneurs. It hopes by this means to attract increased private sector finance into disadvantaged areas. It invests in high growth potential businesses in their early and expansion stages, as well as management buy-outs and buy-ins. Its maximum investment in any single business is £2 million. The return it seeks is lower than would be dictated by a pure venture capital model.

www.bridgesventures.com

*Foursome*

Foursome is a venture capital firm that invests in socially responsible businesses. Projects invested in must be profitable and must also produce a complimentary social return. Environmental, educational, technological and cultural projects are financed. A small number of social enterprises have received investment but in the form of long-term debt rather than equity. These social enterprises had secure cash flow with which to service repayments.

www.foursome.net

*Regional Venture Capital Funds (RVCFs)*

The government has initiated Regional Venture Capital Funds (RVCFs) in order to fill a perceived ‘equity gap’ for small enterprises. They provide risk capital of up to £500,000 to small enterprises which demonstrate growth potential. RVCFs aim to generate commercial returns. It is therefore unlikely that many social enterprises will benefit from their support.

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