

How the unbankable becomes bankable

In a recession, even ideas that change lives can be seen as an unacceptable risk by over-wary financiers. So how can "unbankable" social enterprises raise finance? **Sandra Haurant** checks out funding alternatives

You have a brilliant idea for a social enterprise, or perhaps your innovative new business is up and running and doing well. You can see the potential to change lives profoundly. All you need now is a bit of funding to take it to the next level. So where do you turn?

Welcome to the frustrating world of finance for the "unbankable". Despite increasing numbers of social enterprises, winning over lenders and investors is still a struggle. "At the moment it is difficult for small businesses of any kind to go to mainstream banks for finance, and for social enterprises even more so," says Bruce Wood, head of enterprise investment at the London Rebuilding Society.

For the mainstream banks, getting to grips with social enterprises can be challenging, as they operate under a number of different structures and are difficult to pin down. "There is a real lack of understanding of the sector," says Ron Green, of third-sector consultancy Innvete Solutions. "In a way it is a victim of its own desire to be different. It means that people have some reticence about funding them."

Malcolm Hayday, chief executive of Charity Bank, agrees. "There is a lack of understanding of what social enterprises are. There are many questions to ask, such as whether or not they are profit-distributing, and what happens to any surplus? Are they standalone organisations or did they emerge out of charities and NGOs?"

There is also a perception that these enterprises are a higher risk than private businesses. As Wood explains: "Some social enterprises are in open markets and very successful, but we deal with organisations with few potential customers. If they lose one, they have problems making ends meet." But, argues Dr Bevis Watts, head of business banking at ethical bank Triodos: "What a lot of mainstream banks don't realise is that they can be lower risk. Anecdotally, there are lower default rates."

The very people at the heart of social enterprises can also make finding funding tough for themselves. Many come from a business background and have translated that into a social enterprise structure, but plenty are individuals with an innovative idea and a clear mission but not the expertise to put across a convincing argument when attempting to woo lenders and investors.

With loans, the problem is often that small social enterprises have little to offer as security. "In privately owned small businesses, banks will want security in the form of personal guarantees," says Wood. "For social enterprises, in the main, there is no private ownership and people shouldn't and can't give personal guarantees. They have very small asset bases."

Ethical finance

Specialist lenders such as Charity Bank and Triodos will often lend where the mainstream refuses. And organisations such as the London Rebuilding Society (LRS) can supply solutions, too. LRS has been providing loans, on average worth £25,000 to £30,000, to enterprises in the capital since 2001. Its borrowers span the spectrum from waste management organ-



"Speed dating" at an event held by ClearlySo, a hub for social businesses, which brokers deals between social investors and social enterprises

isations to cultural groups, and its flexible terms aim to make it easier for enterprises to meet their repayments.

"We can find a way of spreading payments, perhaps with a longer term," says Wood. "We can offer an interest-only period - we have to charge at least the interest otherwise the debt will be growing rather than diminishing."

Wood says LRS makes enterprises "jump through a lot of hoops" before it grants loans. The Social Investment Business, formerly known as Futurebuilders, which now manages a £400m loan book, is similarly hands-on. While the Futurebuilders fund itself has committed all its cash, other funds are still open for applications.

Jonathan Lewis, chief executive of the Social Investment Business, says the process of due diligence that enterprises must undergo can be intimidating, but it

in fact helps to build their capacity. "Our default rate is very low, hopefully because we know what we are doing," says Lewis. "Due diligence can be a culture shock. But we are a social enterprise, and we do it with the organisation's best interests at heart."

Venturesome, the Charity Aid Foundation's social investment fund, also gets into the guts of each enterprise. Emilie Goodall, investment manager at Venture-some, says: "We often work with organisations for as long as 18 months before we get to the funding stage."

Types of funding

As well as making sure they are suitable candidates, this helps to ascertain the best kind of funding. Venturesome offers three main types: straightforward loans, including unsecured loans; a standby facility that organisations can draw down if they

need it; and equity-style investment.

Equity capital offers a different kind of funding to social enterprises, giving a cash boost without the immediate need to make repayments. Once social enterprises have reached the level of growth agreed, the returns are potentially higher, but there is more risk involved for investors.

Organisations such as ClearlySo, a hub for social businesses, actively broker deals between social investors and social enterprises through an online network and face-to-face meetings. Simon Evill, social business champion at ClearlySo, organises "speed dating" events that try to bring social businesses and investors together. But equity-style investment is not always suitable. "Since rewards are dependent on returns, equity capital risk is much higher," says Charity Bank's Hayday. "Investors and funders are concerned about stability of income. To what extent

are purchasers looking to squeeze spending? Particularly in the public sector, could contracts be terminated?"

Furthermore, some social enterprises feel nervous that diluting capital through this form of investment could in turn affect their mission. Similar concerns have been raised around the idea of a social stock exchange. While the concept has long been mooted as a way to broaden funding of the sector, the reality of such a market is still a long way off, and support is mixed.

The potential success of a social stock exchange is unknown, but the sector is united on one thing. It is time the so-called "unbankable" became bankable. "What we really want to do is to make ourselves redundant, because that would mean the mainstream would have taken over our role," says Lewis. "This is our ultimate goal."

Five tips for raising finance

- 1. Be clear about what you want to achieve**, and how you want to achieve it. Be realistic when it comes to the figures - be sure how you would pay money back, and understand the risks you are taking and are asking investors to take. "Nail down your business plan," says Ron Green from Innvete Solutions. Venturesome's Emilie Goodall agrees, adding: "Boil it down to a coherent proposal, not a 100-page document."
- 2. Do your research.** Find out about all the different sources of funding available, get online and read up about different opportunities. Approach as many umbrella organisations as you can. "Try to network effectively with as many people in the sector as possible who might be able to help you," says Green.
- 3. But when it comes to applying, avoid the scattergun approach.** Go to those investors and funders who fit in with your aims. "Be discriminating, don't change

your model to fit funders," says Goodall, while Hayday adds: "Target those that match your risk map."

- 4. If you are lacking in certain areas of expertise, surround yourself with people who have it** in bucketloads. If you are a small organisation, consider bringing in a board and talk to advisers, friends and peers. "Make sure your corporate and organisational ideas are not all with one person," says Hayday.
- 5 "Be very prepared,"** says Lewis. A lot of organisations feel threatened by the due diligence process, but this is often inevitable if you are seeking loans or investment, so try to see it as something that could strengthen you rather than break you. Be ready to answer all questions promptly and be open and transparent at all times. "Most of the time, when there are problems, it is because people have not been forthcoming with information," says Lewis. **SH**

People before profit How Mutual Aid helped Women's Care to grow

Women's Care, based in the London borough of Brent, started life 12 years ago working with women refugees and asylum seekers who had fled war-torn countries.

"Initially our aim was to give advice, information and support," says Jane Lanyero, one of the organisation's founders. "Gradually we started to identify different issues, and one of those was domestic violence." The organisation began to move towards offering a range of support mechanisms for women in the immigrant community who were living in abusive relationships.

In 2006, Women's Care became a social enterprise and made the move into microfinance, thanks to Mutual Aid, a branch of the London Rebuilding Society that helps community organisations to become financial intermediaries. It is now offering loans to help women living with domestic violence to move on.

Mutual Aid lends to community organisations, typically cultural affinity support and self-help groups, which in turn lend on to members. Women's Care was a suitable candidate for funding because it had a track record and some reserves, says Rumbi Tarusenga, who heads up the Mutual Aid fund.

"We can't help organisations that have nothing - we are trying to break that cycle of handouts," says Tarusenga. "They have to be already up and running." Mutual Aid is working with 20 groups across London, 13 of which it has lent to while it is helping the rest to ready themselves.

Mutual Aid provided Women's Care with a pot of money that it could lend on

'A small loan of £1,000 can really change someone's life'

to members, along with the training and support it needed to gain expertise and a consumer credit licence. It has a small fund, and only lends to women in very specific circumstances.

"We had one woman who was a dressmaker in her country. When she and her children had to leave her husband, she was rehoused. We gave her a loan to buy a sewing machine and now she is dressmaking from her own home," says Lanyero. "Another wanted to move into childcare. We lent her £1,000 to set up and buy the toys she needed. Now she is a childminder. A small loan of £1,000 can really change someone's life."

Women's Care does not make a profit from the loans, but the fact that it offers something so different makes it stand out from the rest when it comes to winning public sector contracts. "It has made a big difference to our credibility," says Lanyero. **SH**

Good business NHS/comment

Leap of faith

The government wants more social enterprises to provide care, but some target-wary primary care trusts are unwilling to try the unfamiliar

Saba Salman

Just over two years ago Amanda Welch was addicted to heroin and crack cocaine and about to lose her children to foster care.

Today, the mother-of-five is drug-free and lives with her two youngest children in Liverpool's Summergrove, a supported housing project for people who have detoxed. The 34-year-old is a mentor for a local drugs charity, has completed courses in computers and photography and is in constant contact with her eldest children, who are cared for by her parents.

Summergrove is a scheme run by the Big Life Group, a social enterprise scheme set up to support families affected by drug or alcohol addiction. Welch says: "It's because of my place here that my parents were able to carry on looking after my other children and the family is still together."

In the last six years, 78 adults and 109 children have lived in the converted Victorian house that offers 11 self-contained, two-bedroom flats with 24-hour support. The scheme has been funded since its launch in 2003 by the Liverpool primary care trust's integrated commissioning team for addictions and offender health and the Supporting People programme for housing support services.

According to the Department of Health (DH), 6,000 social enterprise schemes deliver health and social care in the UK, reinvesting profits into the community or service development. Bob Ricketts, DH director of system management and new enterprise, says: "Social enterprises are in a unique position to bring wider benefits such as community regeneration and social inclusion - reaching out to individuals and groups on the margins of our society."

The government wants the NHS to commission more organisations such as the Big Life Group to provide health and social care where the provider delivers efficiency, innovation and social value. However, while social enterprises bring community benefits such as regeneration and social inclusion, it can be hard to demonstrate their success. Furthermore, primary care trusts (PCTs) might be wary of casting their commissioning nets beyond the traditional NHS and private sector to a new breed of provider.

How to measure success?

As far as measuring success goes, one method is to use social return on investment (SROI), a framework for measuring value beyond that which is simply financial. An SROI analysis identifies those affected by the organisation - service users, providers and commissioners - and explains the difference its activities make to each stakeholder. The differences are described as positive or negative and measured as a social value expressed in financial terms.

According to a 2009 Cabinet Office report, A Guide to Social Return on Investment, this sort of analysis "tells the story of how change is being created by measuring social, environmental and economic outcomes and uses monetary values to represent them."

At Summergrove, for example, stakeholders that benefit from the programme include tenants, children, family members, Liverpool PCT (which commissions the service), and agencies such as the NHS, schools and police. An SROI analysis shows that the NHS investment in Summergrove realises potential savings further down the line across public services, in hospital admissions, the criminal justice system and reductions in the numbers of children taken into care. For every £1 invested in the scheme, according to a recent SROI analysis, there is a wider potential return on investment of £2.83.

Fay Selvan, chief executive of The Big Life Group, explains what sets the provider apart from its statutory counterparts: "What's different, compared with other recovery and support services, is that we work with families together rather than parents and children individually. We see the whole person and what their needs are in relation to the local community - we can help clients access other community schemes. We're not funded for children, but the outcomes for children are a byproduct of our supported housing contract."

Success stories

Since 2003, 20 children on the local authority child protection register have been accommodated at Summergrove, nine of whom have been subsequently removed from the register. A further 26 have returned from being cared for by the local authority or other family members to live with their parents.

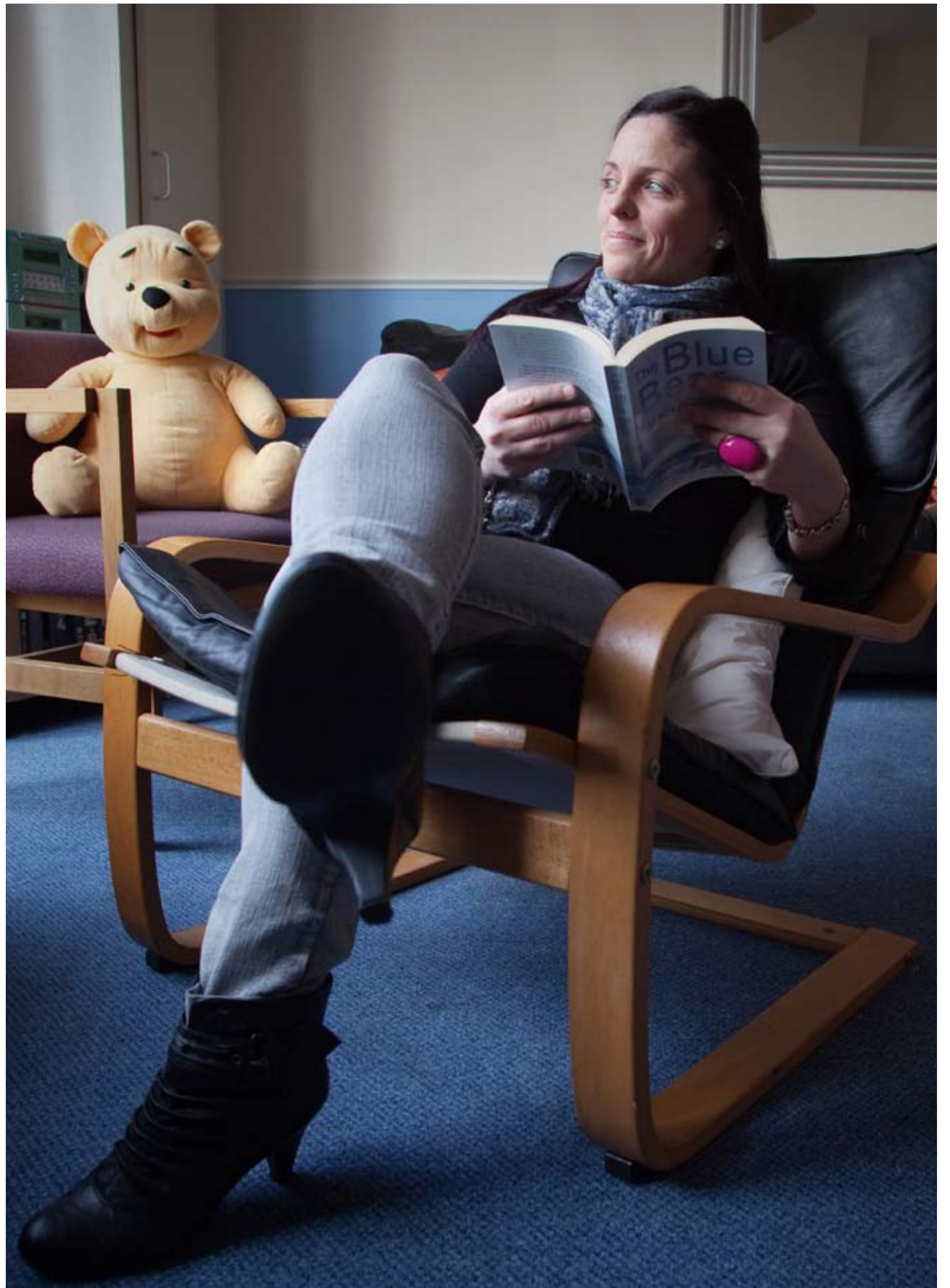
For Margaret Elliot, founder of social enterprise Sunderland Home Care (SHC), the advantage is that her organisation puts "people before profits". "Our workers own the company so they have a vested interest in providing a good service," she says.

SHC provides in-home care services to the elderly as an alternative to residential care. An SROI analysis calculated that for every £1 invested, the social return was equivalent to £2.52. SROI, adds Elliot, is "an official rubber stamp that's useful for commissioning organisations whose culture is about everything being measured and having targets."

John Fisher, head of adult services at Sunderland city council, which commissions SHC, says that, compared with other providers, "the service is more flexible and responds quickly to requests and quickly adapts to new ways of working." He says the local economy benefits as care staff receive above minimum wage salaries, and low staff turnover means good continuity of care.

Fisher is not alone among his commissioning counterparts in appreciating how staff loyalty has a positive impact on service users. At NHS Surrey, Marion Heron, associate director of commissioning for community services, buys services such as community nursing from four-year-old social enterprise Central Surrey Health (CHS). Heron agrees that, because employees co-own the organisation, the "shared incentive drives them to make innovations and improvements in efficiency, productivity and patient care."

'Social enterprises are in a unique position to bring wider benefits such as community regeneration'



Ex drug-user Amanda Welch is testimony to the success of Summergrove supported housing project, a leading social enterprise: 'It's because of my place here that the family is still together' Mark Waugh

that "silo commissioning" is a problem: "There might be a pot of money for domestic violence or drugs or crime, and these issues are interrelated but they're commissioned separately."

Others, like SHC's Elliot, are frustrated about the lack of understanding about her fledgling sector: "Are we charities, or are we businesses? Are we the new upstarts?"

The answer, says the SEC, is for social enterprises to raise awareness among health commissioners of the sector's impact. "It's about increasing dialogue and opening channels and making PCTs understand social enterprises more," says Jones. "Social enterprises themselves need to communicate better with PCTs."

Now that all the major political parties are championing social enterprises as the way to deliver more efficient public services, this dialogue cannot happen soon enough.

The mark of responsible enterprise



Peter Holbrook
Comment

A few weeks ago, social enterprises took a big step forward towards mainstream visibility. The social enterprise mark is the new brand for businesses working primarily for social or environmen-

tal goals. It is meant to identify social enterprises working in all industries, at all sizes and in their many forms.

Social enterprises are already a force in the economy: 62,000 in the UK alone contribute £24bn to the economy every year and employ around 800,000 people. But most people might not realise that they regularly work with one, buy from one, or get their health, transport or IT services from one. So it's time to change that, and that's the main goal of the mark - to raise the visibility of social enterprises and give the public more choice in the kind of company they want to buy from and engage with.

Some big names are on board with the mark - The Eden Project is already a mark holder, as is The Phone Co-op, the UK's only telecoms co-operative; GLL, a social enterprise that manages more than 70 leisure centres across London, and

HCT Group, a bus company operating routes in London and Yorkshire. And the Big Issue has announced its intention to apply. Soon, you might be seeing the words "social enterprise" on buses, on your phone statement or at your local swimming pool.

Why does that matter? Because the recession has shown us that we need different models of business, particularly those that are run with ethics and sustainability at their core. Social enterprises are about creativity, entrepreneurialism and making a positive difference in communities and for the environment - it's the right time to get people educated and excited about them.

To get the mark, a social enterprise needs to provide evidence of its social and environmental aims, show that the company has its own constitution and governing body, and demonstrate that

50% of the company profits are spent on socially and/or environmentally beneficial purposes.

Those criteria (for the full list, go to socialenterprisemark.org.uk) were agreed by a steering group of social enterprise leaders and representatives in 2009 and informed by a pilot social enterprise mark run in the south-west.

There has always been debate about the nature of "defining" social enterprise, and since the launch, we've had views from both sides of the spectrum: the criteria are too narrow, too broad; the mark is too ambitious, it's not ambitious enough. But we're not the first movement [for change] to make a push for mainstream awareness. Not so long ago, people did not understand what the green movement was or what fair trade meant. And any time you put a label on an emerging, diverse

and vibrant movement, you get some ideological questions.

But how do you put a label on a movement that has so far resisted definition and comprises everything from housing associations to fashion brands? We have a choice. We can remain in relative obscurity fighting to be understood by the mainstream or we can take control of our identity.

And if the mark is going to be sustainable we need to make the application process as straightforward as possible, and having set criteria is really important. But there is room to challenge and debate. We want as many social enterprises as possible to be able to get the mark - this is about being inclusive, not exclusive.

Peter Holbrook is chief executive of the Social Enterprise Coalition