Social Financing for Social Enterprises

L. Jeffs
Unitec, Private Bag 92035, 1142 Auckland, New Zealand
lindsay@csbec.org.nz

Principal Topic

(This paper examines the many new developments occurring in the area of social enterprise financing in the United Kingdom, Canada, Australia, Ireland, USA and New Zealand from the perspective of both funding agencies and recipients. Particular emphasis is placed on the roles that Community Trusts and Gambling Trusts (the two largest non-government philanthropic funding groups in New Zealand) play in encouraging the social economy, social enterprises and community economic development in New Zealand.

The paper also compares and contrasts the respective roles of Government, government agencies, local government, private and not-for-profit organisations in establishing an enabling environment in which social enterprises can thrive.

Methodology/Key Propositions

(The chosen perspective of this paper is that of a practitioner. It is informed by practical experience working in the small business and not-for-profit sectors, academic study of practitioner literature and information collected during the author's study trips. A comprehensive review of relevant academic literature has not been undertaken as work-based experience reveals that the work of most practitioners in this field is not substantially informed by academic literature or university publications. However, the paper makes extensive use of reports, newsletters, magazines, websites, publicity material, government policy statements, industry colleagues, word-of-mouth comments, networks, field-workers, case studies, study trips and workshops. These items are also the prime information sources of social enterprise practitioners.

In the UK, the Bank of England (2003) reviewed the provision of debt and equity finance available to social enterprises. It found that the demand for debt finance among social enterprise was limited both by the availability of other, cheaper forms of funding such as grants, and by cultural aversion to the risks associated with borrowing. Social enterprises were more likely than for-profit small and medium enterprises to be rejected for finance. The reasons given for rejection will be discussed and compared to the New Zealand situation.

The availability of venture capital or business angel finance is also examined and issues such as commercial finance returns, ownership issues and exit strategies will be discussed.

The paper will examine why New Zealand financial institutions have been slow to respond to the changing social and economic environment for social enterprises. It will consider their lending policies; loan security requirements and legal requirements.

The attitudes of mainstream financial institutions towards the third sector will be discussed. It will consider the role of specific financial instruments such as specialty banks, community development financial institutions, micro credit, faith based funds, community sector banks and social venture capital funds.

The paper will suggest that if sustainable funding is to be provided to social enterprises it will require a shift from a grant to an investment culture mentality by funders. Social entrepreneurs report preferring a loan to grant approach because of the following:

· Credit is seen as dynamic, developing and useful when a project has the potential to become self-sustaining.

· Loans create an autonomy rather than a dependency mentality in an organisation. · Loans demand a continuously responsible financial performance by recipients so that the money can be repaid and then further circulated to other social enterprises.

In comparison, grants are viewed as being cultural, repairing and creators of dependency.

The New Zealand situation where there are currently limited opportunities for pre-commercial grants; limited social loan finances available from philanthropic bodies or micro and ethical financial institutions, restricted commercial loans and a lack of equity finance will be discussed.

Results and Implications

(The results of the study support the adoption of an integrated approach to funding social enterprises that recognises the gap between programme funding (grants from government and philanthropic organisations) and commercial financing (loans from banks and financial institutions). Specific recommendations will be made to government agencies, the philanthropic community, micro credit organisations, main stream financial institutions and third sector organisations.

If social enterprises could obtain funds on a equal footing with for profit organisations they would be able to significantly increase their contribution to the economic, social, cultural and environmental life of New Zealand.

Contact

Lindsay Jeffs. Unitec, Private Bag 92035, 1142 Auckland, New Zealand.
(T) , (F) , Email: lindsay@csbec.org.nz