Factsheet 4  Funding and finance for social enterprise

This factsheet looks at the financial aspects of setting up a social enterprise, the different types of finance, what finance is required for and different sources.

Understanding the financial requirements of your social enterprise
Thinking about finance is an important part of the overall planning of the social enterprise and it is useful to consider what the finance is required for. This might include:

- **Getting started** - whether for a new organisation or a new project or activity for an existing one
- **Funding growth, new development or change** - an organisation may need working capital to meet the income-expenditure gap before trading income is generated
- **Development capital** - may be needed for a new project or activity e.g. where equipment is needed
- **Capital expenditure** – to fund large expenditure on items with a long life - e.g. for asset purchase or a build project
- **On-going operational costs** - funding may also be required to meet on-going revenue costs, especially where grant or contract funding does not meet the full costs of delivery.

Types of finance
Social enterprises may be funded from a number of different sources. It is quite common for a social enterprise to have a mixed funding profile.
Trading income
All social enterprises generate income from trading goods and/or services for profit or surplus.

Other sources of finance for social enterprise
Many social enterprises have a mixed funding profile and receive income from other sources in addition to their trading income. These include the organisation itself, banks and other lenders, investors, grant bodies and donors as well as in-kind contribution.

The sources of finance potentially available may be determined by a number of factors
- The amount of trading you expect to do
- The level of ‘profitability’
- Your existing assets and financial position
- Your organisation’s approach to finance and risk
- Your legal structure

Organisation’s own funds
It is common for businesses to use some of their own funds to invest in the development of new business and to meet working capital requirements. Any decision about the use of own funds needs to be made in accordance with the organisation’s structure, regulations and governance arrangements.

Social banks lenders
- Unity Trust Bank www.unity.co.uk
- Triodos bank www.triodos.co.uk
- The Co-Operative Bank www.co-operativebank.co.uk
- Charity Bank www.charitybank.org
- Cooperative and Community Finance www.coopfinance.coop
- Community Development Finance Association [CDF] www.cdfa.org.uk
- The Social enterprise Loan Fund www.tself.org.uk
- The Social Investment Business www.sibgroupo.org.uk

Loans are often used to meet requirements for working capital. They are usually for large amounts and are often secured on the organisation’s assets. Some organisations also arrange bank overdrafts. In addition to the commercial banks there are a number of social banks and other lenders.

Equity finance
The term ‘Equity’ in the world of finance has come to mean one’s fair share of an enterprise, so it describes the way in which a ‘share’ of a business can be allocated to someone in return for their investment.

It is distinct from loan finance as loans do not grant, in themselves, any rights of participation in the organisation e.g. give a right to vote in decisions about the affairs of the organisation. Having a share in a business can confer a strong sense of ownership, although many social enterprises are not structured so as to be able to use a share model. There are a number of different types of shares, including withdrawal shares, transferable shares and preference shares, membership shares, some of which are distinct to particular types of legal structure. This is a complex area and research will be needed before deciding about making an approach. For more information about equity finance as a potential financial model for social enterprise see Other Resources below.
Some equity investors include
- The Social Investment Business [www.sibgroup.org.uk](http://www.sibgroup.org.uk)
- Triodos bank [www.triodos.co.uk](http://www.triodos.co.uk)
- Venturesome [www.cafonline.org](http://www.cafonline.org)
- Bridges Community Ventures [www.bridgesventures.com](http://www.bridgesventures.com)

Grants
Many organisations with social purpose seek to access grants as one element of their funding model. Sources include charitable trusts and foundations, BIG Lottery fund, public sector funders and Parish Councils and European finance.

The advantage of grants is that they do not generally have to be repaid and are very useful for start-ups or project based funding. However, availability of grants varies over time, between areas and sectors. Eligibility criteria are individual to each scheme and may require match funding or to be paid as a loan. Grant schemes are usually competitive and take time and resources in dealing both with the application process and if successful with administration, monitoring and reporting processes. They also tend to be restricted sources of income so placing requirements as to when and how the money is used. See WSCC website for more information about grants and funding [https://www.westsussex.gov.uk/leisure-recreation-and-community/grants-and-funding/search-for-funding-sources-and-advice/](https://www.westsussex.gov.uk/leisure-recreation-and-community/grants-and-funding/search-for-funding-sources-and-advice/) or your local CVS may have information available.

Other web resources include
- [www.trustfunding.org.uk](http://www.trustfunding.org.uk)
- [www.governmentfunding.org.uk](http://www.governmentfunding.org.uk)
- [www.grantsonline.org.uk](http://www.grantsonline.org.uk)
- [www.j4b.co.uk](http://www.j4b.co.uk)
- [www.fundingcentral.org.uk](http://www.fundingcentral.org.uk)
- [www.grantfinder.co.uk](http://www.grantfinder.co.uk)

In-kind contributions
These can be provided in terms of people time or offers of equipment or supplies free or at a reduced cost.

Tips and suggestions
- Many social enterprises have a mixed funding profile alongside trading income
- Plan your finance both for the short and longer term as part of the overall planning of the enterprise
- Consider what type of finance is potentially available for your organisation
- Know all your costs and understand your pricing
- Look at your finance once you know the detail of what and how you are going to deliver
- Your legal structure may affect the types of financing available for your social enterprise
Crowdfunding
Crowdfunding is a method by which individuals, organisations and projects, social enterprises and businesses raise money from small investors online. It works through the web, using social media to engage with ‘the crowd’ and is seen as having the potential to reach large numbers of potential investors each contributing small amounts of money for wider benefit. Organisations and entrepreneurs typically use a crowd funding website as an intermediary, where potential investors can view proposed projects and choose to what extent they want to invest.

Examples of crowdfunding websites
- Kickstarter is open to creative projects [https://www.kickstarter.com](https://www.kickstarter.com)
- Crowdcube is for equity investment [https://www.crowdcube.com](https://www.crowdcube.com)
- Microgenius is a platform for Community shares [http://www.microgenius.org.uk/](http://www.microgenius.org.uk/)
- Buzzbnk is a UK social enterprise crowd funding platform for donations and loans [https://www.buzzbnk.org/](https://www.buzzbnk.org/)

Further information and resources
WSSEN factsheets series provides information about different aspects of setting up and running a social enterprise and can be downloaded from Business West Sussex [http://www.businesswestsussex.co.uk/wssen](http://www.businesswestsussex.co.uk/wssen), which also has information about social enterprise, workshops and events.

Other resources
- Simply Finance pub by Co-operatives UK [www.uk.coop](http://www.uk.coop)
- Unltd [https://unltd.org.uk/socialentrepreneurshiptoolkit/](https://unltd.org.uk/socialentrepreneurshiptoolkit/)
- Information about using community share models [www.communityshares.org.uk](http://www.communityshares.org.uk)

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