

Potential NZ Approaches to Social Finance

Presentation to New Zealand Community
Economic Development Conference
February 2010

Lindsay Jeffs
**Lecturer Unitec & Manager Christchurch Small Business
Enterprise Centre**

Social Enterprise - Definition

- “A Social Enterprise is a business with primarily social objectives whose surpluses are principally re-invested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.”

(UKDTI)

Social Enterprise – Key Features

1. Social, environmental, cultural or community economic development purpose
2. Engaged in trading (50% or more of its income derived from trading activities)
3. Not distributing profits to individuals
4. Holding assets and wealth in trust for community benefit
5. Independent organisation accountable to a defined constituency

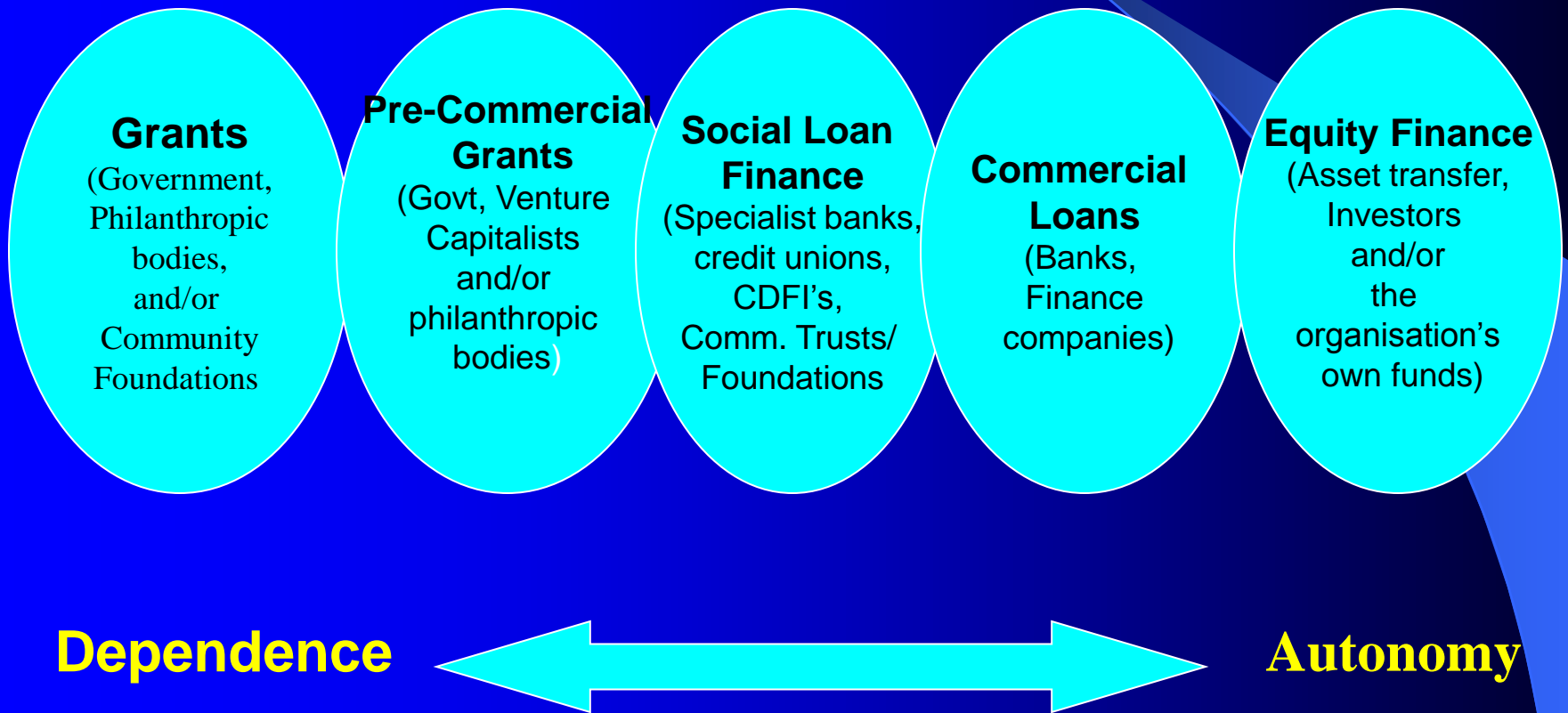
Social Lending, Social Investment and Capital Raising

- Social Lending – a social purpose loan which must be repaid (security & interest arrangements may vary)
- Social Investment – a guarantee to another lender or a form of venture capital or community, public or private partnership.
- Capital Raising – obtaining funds from the public or a specific sector.

Types of Finance Required by Social Enterprises

- Feasibility Studies
- Start-up Capital
- Fixed Capital eg. purchase of buildings/plant
- Working Capital eg. cashflow, market development
- Growth Capital eg. scaling-up, replication

Social Enterprise Funding Model



Specialist Social Finance Options

Project or Policy Based:

- Government Money
 - Public Health Org's (MOH)
 - Recycling (MfE)
 - Social Housing (HC)
 - Community Facilities (Local Govt.)
- Philanthropy Money
 - Community Foundations (TF)
 - Social Housing (CTs)
 - Community Facilities (Ptv/Public)

General Social Finance Options

Community Sector Banking
Specialist Banks/Credit Unions/Finance Companies
Community Development Financial Institutions
Community Foundations
Community/Public/Private Partnerships
Community Superannuation
Community Group Purchasing

Social Finance - Capital Raising Options

Successful Models for Funding Social Enterprise Development

1. Community Foundations
2. Employment Bonds
3. Community Economic Development Investment Funds
4. Regional Lotteries
5. Ethical Property Companies

Financial Risks Analysis

Donee's and Donor's Perspectives

1. Grant
2. Social Loan
3. Commercial Loan or Commercial Loan Guarantee
4. Equity Funding (Venture Capital, Joint Ventures)

Not-for-Profit Sector Perspective

1. Beginning of journey from grant dependency to financial independence
2. Emphasis on self-help, cooperation and mutuality rather than individualism and competition.
3. Reduced risk of funder capture

Barriers to Funding Social Enterprises

Key Findings Bank of England Report 2003

- Demand for debt finance is limited, due to social enterprise's historic cultural aversion to taking risks.
- Borrowings are used for cashflow and purchasing assets.
- Social enterprises are more likely to be rejected by banks for finance than for-profit businesses.
- Venture Capital is unavailable for social enterprises due to ownership issues, financial returns and lack of an exit strategy

Future Steps

Need to:

- Shift from a grant to an investment culture.
- Recognition of the unique funding needs of social enterprises compared to other third sector organisations.
- Commitment of funds to social enterprises
- Allocation of funds to new investment classes such as private/public/community partnerships.
- Raise new external capital for social enterprises.

