Homeopathic Finance – Equitable Capital for Social Enterprises

This report is part of on-going research by the New Economics Foundation, leading to a book by the end of 2001. If you have any comments or feedback on the report, please send them to genevieve.matthews@neweconomics.org to guide our on-going research.

The social economy can play a key role in creating jobs, improving public services and combating social exclusion, as both the British government and the European Union have acknowledged. The social economy is growing in the UK, and interest in how to revive a full spectrum of activity within the sector is therefore intensifying. For this, the long and rich history of social enterprise, both in the UK and internationally, should not be ignored.

Over 5,000 non-profit-making organisations with tax-exempt status are currently registered each year in Britain. The pressure on grant funders has never been greater, and there is a growing recognition that the development of social enterprise may provide a more self-reliant approach for these organisations than dependence on grant support. Yet at present there is little practical understanding of how social businesses or co-operatives can best be funded and financed. This short report shows that there are clear, straightforward and achievable steps to support, develop, and finance social enterprises in the UK and recommends a radical new agenda and action to achieve this.

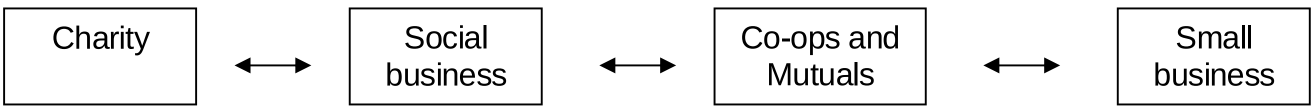
The report looks at what social enterprise is, the history of social enterprise in the UK (focusing on the lessons learned), the barriers the sector faces, how the sector is financed at the moment, what support structures will aid development, and what conclusions can be drawn. The case studies profiled are drawn from research that the New Economics Foundation has conducted over the past twelve months with social enterprise practitioners in England. A fuller account of this research will appear in a New Economics Foundation book in late 2001.[1]

What is social enterprise?

Social enterprise re-emerged in the mid-1990s, but it is in fact a form of business with a history longer than that of the corporate sector. Social enterprise can be placed diagrammatically, as Illustration 1 below shows, in between charitable organisations and the private sector. The spectrum of social enterprise therefore ranges from the trading activities of charities at one end, to mutual businesses at the other.

Illustration 1
The social enterprise way – the ethical path between charity and commerce

The mutuality bridge



[1] This interim report is based on in-depth qualitative research by Pat Conaty and Sarah McGeehan of the New Economics Foundation (NEF) which was conducted from April to September 2000 among a sample of over 40 social enterprises and support organisations. An earlier executive summary of this report was co-produced with Danyal Sattar. The research itself, this report and the forthcoming book, which will be co-authored by Pat Conaty and Ed Mayo, has been generously funded by the Calouste Gulbenkian Foundation.

Although the number of mutuals that started in the nineteenth century continues to decline, particularly with the ongoing privatisation in financial services, research by Demos and the New Economics Foundation has shown that a growing number of new enterprises are entering the social enterprise sector. NEF estimates that the number of social enterprises is growing at nine per cent per year, with wide variations in growth rates (from zero to 200 per cent) among different types of social enterprise. This new, wide-ranging resurgence in ethical business includes the emergence of credit unions, social firms, housing co-operatives, fair trade initiatives, ecological enterprises, managed workspaces, farmers' markets, recycling initiatives, employment services, community finance, community shops, artistic ventures, social care co-operatives, time banks and community enterprise mutuals. Most initiatives are still small and working at the margins of the scale of need they seek to address. However, a growing number of projects are demonstrating ways in which social enterprise activity can be strengthened, scaled up and made more successful. There is an urgent need to consolidate this information and make it more widely known. But there is also a real need to learn from the forgotten practices of the past.

Lessons from history overlooked

Social enterprises have developed in the past to address failures both of the market and of the state. The green philosopher Ivan Illich and labour historian E P Thompson have both, in their different ways, chronicled this culture of mutual aid and popular enterprise, which has roots extending back many centuries before the industrial revolution.

The earliest craft guilds were ethically-guided enterprises. They were locally-based micro-enterprises of, usually, under five employees. Their concept of socially 'just enterprise' pre-dated the modern 'value free' and amoral nineteenth century understanding of the free market by over eight hundred years (as social economic historians like Karl Polanyi and R H Tawney have shown). Present concerns with fair trade and the cancellation of debt to the poorest nations (see www.jubileeplus.org) have their ethical roots in the twelfth and thirteenth century prohibitions on usury and in the defence of the Just Price.

In the Elizabethan period, the craft guilds were brought under state regulation and lost their autonomy. At the same time, the international merchant guilds based in London were given exclusive royal charters with monopoly powers. Both corporations of today and charities can trace their history back to the Tudor period.

In the eighteenth century, autonomous social enterprise resurrected itself in the form of the friendly society movement, which aimed originally to provide basic insurance services to the working class in response to the upheavals caused by the Industrial Revolution. The Friendly Society Acts of 1757 and 1792 regulated a growing range of new social enterprises, which included building societies, savings clubs, 'coffin clubs', trade unions and early co-operatives.

It was not, however, until the Industrial and Provident Society Acts of 1852 and 1862 that social and mutual enterprise was given a robust legal framework including limited liability. The original industrial and provident society (IPS) law was drafted by Christian socialists J M Ludlow and Edward Neale in discussion with many practitioners in the growing co-operative movement. The legislation built upon the co-operative Rochdale principles of 1844 and from lessons drawn by Ludlow from the French mutualist structures which originated in Lyons in the 1830s.

The radical nineteenth century IPS legislation, building on the earlier friendly society framework, enabled the mutual business movement to develop rapidly between 1865 and 1914. This period saw the emergence of 43,000 friendly societies, 1,400 local co-operative societies, and almost 3,000 building societies. The speed and scale with which social enterprises sprang up far outstripped the numbers of charities being registered during the same period.

There has been a widespread failure on the part of social enterprise developers today (apart from community-based housing associations) to look to the IPS legislation which historically provided appropriate structures for ownership and governance. This oversight has, in part, been caused by delays on the part of the Registry of Friendly Societies, and the fact that the costs of establishing an IPS are higher than those of registering an off-the-shelf company. Another reason is that until recently IPS formation required at least seven founding members, which has discouraged new worker-owned enterprises from pursuing this route. The result has been that new enterprises have almost invariably chosen to adopt the legal structure under company law used to govern charities, i.e. the company limited by guarantee. Such a structure does not allow for equity to be raised, nor does it normally provide for service users or providers to participate equitably as stakeholders within a democratic mutual form (on the one member, one vote principle of co-operative law). Yet the IPS structure had been carefully designed, specifically to accommodate such needs and to allow for equity and share capital to be raised, both readily and cost effectively, to meet business funding requirements.

The famous economist John Stuart Mill helped secure passage of the Industrial and Provident Society Acts. He also devoted the fourth book of his *Principles of Political Economy* to the real prospects for the co-operative economy to replace the private sector economy in due course. In this early 'new economics' text, Mill also made the first arguments for an ecological economics where the economy could stop growing in future because, as the technology evolved to meet society's material needs, an enlightened ethics prioritising human growth, social and artistic development to improve the quality of life for all citizens could be fostered. In this future, fairer world, Mill argued, the operating principles and practices would be those of the co-operative, social economy. New economists Hazel Henderson and Herman Daly continue to draw attention to this Millian vision and to the potential for a revived social economy today. At the very least, there is a need to recover the wisdom of the past if we wish to create a new, sound, social economy for the future.

What are the barriers to reviving social enterprise?

In contrast to the period from 1865 to 1914, today the overwhelming majority of non-profit-making organisations routinely pursue charitable status, with little consideration given to an alternative social enterprise pathway. Likewise, the percentage of self-employed has grown from about 6 percent of the workforce twenty years ago to 16 percent today, and some 500,000 new private businesses start up each year. However, social enterprise as a choice within this broadening enterprise spectrum is still marginal. Why is this the case? Our research suggests that the expansion of social enterprise has been hindered since the 1970s as a result of a failure to consider what the appropriate legal structure for such enterprises should be and, in particular, a failure to consider how equity for effective social business growth might be provided.

Attempts have been made since the late 1970s to revive social enterprise through the Co-operative Development Agencies in England and Wales, and through the Community Business support services in Scotland. While there has been modest growth in the numbers of social enterprises, research has shown that expectations have not been fulfilled – although one notable exception here is the growth of credit unions. There is a need to evaluate the reasons why social enterprise has grown so slowly, compared to the expansion of the small business sector more generally over the same period.

Studies by Greater London Enterprise in 1988 revealed a problem of serious under-capitalisation which affected worker co-operatives; this was not helped by their prevalent structure as companies limited by guarantee, with the consequent constitutional barrier to attracting equity. European-wide studies of co-operatives since the 1970s have also highlighted the problems of low levels of equity and an over-reliance on debt finance (high levels of gearing). In Scotland, most community businesses failed in the early 1990s when regional authorities were abolished and revenue subsidies were withdrawn. Those that did survive had built up an asset base (for example, Govan

Workspace and housing co-ops in Glasgow) or had developed equity by issuing share capital (such as credit unions). It should, however, be noted that although social enterprise in the UK has had difficulties re-establishing itself for these reasons, social enterprise in Italy has been far more successful: the Italian worker co-operatives in the private sector employ over 300,000 and those in the social business sector employ a further 500,000.

There have, however, been many tremendous successes in the social business sector which the NEF research highlights. Community enterprise and co-operative enterprise in the 1980s focused primarily on start-up businesses rather than on business transformation strategies. In the 1990s, greater emphasis has been placed on business transformation and, consequently, an interesting range of larger social enterprises has emerged. For example, two social enterprises which have been particularly successful are the Big Issue and the Furniture Resource Centre.

John Bird started the Big Issue in 1991, specifically as a social business. It was one of the first social enterprises to demonstrate that, for social businesses which are determined not to behave like charities, there are opportunities for serious growth. The Big Issue was, originally, a creative experiment to find out whether a focused business approach could deliver work and dignity to the most disadvantaged in London – rough sleepers. Seed capital for the business came from a small grant of £30,000 from the Body Shop Foundation; little were John or his colleague Tessa Swinthenbank to realise the strength of demand on the part of homeless people to sell the paper, nor how many copies the public was prepared to buy. As a result of a line of credit from the Body Shop, they were able to expand and the paper has been trading profitably every year for the last ten years. Turnover is now over £13 million a year. The Big Issue supports over 120 jobs in producing the paper for London and the Midlands, and over 5,000 jobs for street vendors. There are now a further five Big Issue spin-off companies nationally and other clones of the model across the planet. Profits in the South East support the Big Issue Foundation's work, providing social support services, employment help, advice services, access to drug support services and housing aid.

The Furniture Resource Centre (FRC) in Liverpool is another major success story of the 1990s, and can provide lessons about strategies for business transformation. FRC began in the late 1980s as a furniture recycling project, but faced closure in the early 1990s when local trading standards officers stopped them recycling three-piece suites and other furniture that did not comply with new, tougher fire regulations. Nic Francis, an ex-stock broker who was then managing the project, decided to apply his private sector experience to raise capital and to expand into the primary production of furniture. FRC has not looked back since. Now led by Nic's successor, Liam Black, this social enterprise has diversified into a separate goods repair and recycling business, a complete furnishings service for housing associations and local authorities, a major retail outlet in the centre of Liverpool, and a training school for up-and-coming social entrepreneurs. A decade ago, 10 per cent of FRC's income came from trading and 90 per cent from grants. Today this ratio is inverted and over 90 per cent of its income comes from business trading. Every year, FRC takes on some 80 long-term unemployed people and places nine out of ten in jobs by the end of the year, either within its own operations or elsewhere.

Liam Black, John Bird and Tessa Swinthenbank have all been disappointed that so few voluntary sector organisations have followed their example and replicated what they have done. Bird sees the problem as a dominant 'alms culture' where the non-profit sector has grown accustomed to 'begging'. As a result, the mentality for many organisations and the ethos in the sector generally has become 'no grant, no go'. While accepting that there is a place for charity, Bird isolates the pervasiveness of this ethos as a huge barrier to a potential renaissance of social enterprise. This view was echoed by many of the other successful social enterprise developers interviewed by NEF.

Fieldwork interviews revealed a number of further barriers to the development and growth of social enterprises: these are summarised in Table A. The research identified that the key barriers were an unhealthy 'bids culture', a corresponding sense that resources are scarce (which interviewees said feeds into unhealthy forms of competition within the third sector), and a need for a more sophisticated approach to finance (including a more sophisticated use of grants and loans, and a need for 'patient' equity). There is also a vital cultural need to formulate a framework of management skills and expertise specific to social enterprise, both by looking to the emerging work of current practitioners and by rediscovering the rich historic tradition that has been lost.

Table A: Barriers to the development of social enterprises

Issue	Key finding
The 'charitable mind-set'	The pervasiveness of this ethos and 'bids culture' is the biggest barrier to social enterprise.
Lack of social venture capital	What is required is equitable, 'patient', 'up close', participation finance
The loss of the social enterprise tradition	The social enterprise tradition has been lost for several generations now, and there are few role models left who can pass on the old mutual business skills and trade secrets.
The company limited by guarantee legal structure	This structure is not appropriate for social enterprises which exceed five employees and need to raise equity for growth.
The confusion of social enterprise with charity	This confusion is a major impediment to clear-headed policy and practice.
A need for social entrepreneurs, as distinct from voluntary and charity association service managers	Social entrepreneurs do not have a network and are therefore isolated and invisible to each other and to the public. They do not have a voice of their own or the ability to advocate, as a body, on behalf of the social enterprise sector.
The difficulties social enterprises face if they wish to be multi-purpose organisations	Until social enterprises can scale up through business success, it is hard for them to be multi-purpose, unlike grant-supported organisations. Social enterprises need to find their market niche and focus initially on delivering one product or service, efficiently and at the right price.
The 'five Ms'	There are five vital ingredients that social enterprises need if they are to succeed: moral motivation, markets, management, monies (in the right ratios and types), and 'mouth'. Money is important, but only in conjunction with the other 'M's.
Skills gaps	As social enterprises grow, they run into skills gaps. Money and management expertise need to be brought or bought in, or be made available in other ways to address this (one example is by drafting in non-executive directors with the requisite knowledge and experience).
A need for better measurement of the social impact of social enterprise	In order to attract sympathetic ethical investors and wider involvement from the local community, social enterprises need a system of 'social accountancy' and must be able to demonstrate their financial, social and ethical performance.
A perception that the social enterprise sector is not as business-minded as the private sector	While social enterprises are developing a range of financial tools and skills, exit routes and better financial returns for investors do need to be addressed if they are to attract new sources of investment on an ongoing basis.
A need for locally available finance	This could come from a range of sources. Social enterprise development cannot rely on national funds, but needs 'up close', local

	finance.
The inadequacy of global capital markets	Global capital markets are inadequate for sustainable regional and local development. A radical look is needed at how to revive local capital markets: it may be helpful to look to mutualist traditions and co-operative banking practices both in Europe (e.g. Banca Etica Popolare in Italy) and elsewhere.

One of the major barriers identified in the research was that of the company limited by guarantee structure. Some organisations, like Coin Street Community Builders in London, operate complex group structures with four or more companies performing different functions. They recognised the limits of the company limited by guarantee structure for those organisations wishing to trade more extensively. Some social business pioneers like Traidcraft, Industrial Common Ownership Finance (ICOF) and the Centre for Alternative Technology had experimented with ‘ethical plc’ legal structures in the 1980s in order to raise equity. Since then, however, there has been a growing acknowledgement that the structure of the industrial and provident society for community benefit is a more versatile and cost-effective one for multi-stakeholder social businesses with growth prospects (as opposed to micro-enterprises with five or fewer employees).

Shared Interest, which provides social finance for fair trade, and which grew out of the work of Traidcraft, has pioneered the IPS for community benefit approach following on from Traidcraft’s previous experiments with the ethical plc structure. Since the early 1990s other social finance organisations such as Aston Reinvestment Trust and ICOF Community Capital, fair trade organisations such as Out of this World, and the Phone Co-op have also adopted this approach. The Industrial Common Ownership Movement (ICOM) is now using the IPS for community benefit structure more and more frequently for fair trade enterprises and other mixed mutuals such as community-owned village shops (for example, at Slaidburn in North Lancashire). With this renewed interest in the IPS structure, there is a particularly poignant sense that history has been lost as, until the early 1960s, the IPS structure had been the norm as a means of raising capital within the British co-operative movement.

Another barrier to growth is the fact that as the social enterprise sector grows, it will need to be serviced by increasing amounts of local finance. Such finance is, however, becoming steadily available locally; indeed those social businesses which require capital in order to operate, such as community credit unions and community loan funds (such as Aston Reinvestment Trust and Portsmouth Area Regeneration Trust), are at the forefront of current social business redevelopment. This ‘up close’ finance from local communities and socially concerned ethical investors is a unique selling point for other social enterprises to promote to attract the participating finance they need from their own members and other potential members.

Longstanding social enterprise practitioners, such as Traidcraft, are pioneering methods of measuring their social impact and are therefore countering another barrier to growth. They have developed accountancy systems to help measure and track added social value. This is vital if practitioners are to demonstrate the distinction between social enterprise and conventional enterprise, and thereby attract ethical investors in order to build stronger and more successful social businesses.

It is crucial that third sector organisations that seek to operate as traditional multi-purpose charities recognise the importance of social economic discipline and focus - the research case studies bring this out. A multi-purpose or multi-service structure need not be absolutely ruled out for social enterprise. However, this form is not appropriate for small enterprises, which need to identify and focus on their niche markets in order to be successful. Learning to practice the five Ms of moral motivation, markets, management, monies (in the right debt to equity/grant ratios) and mouth is key to social business success.

The NEF research also highlights the inequality that social enterprises face in accessing services provided by banks and Business Links, particularly when seeking access to start-up grants and seed capital. Following the Policy Action Team 3 report for the National Neighbourhood Renewal Strategy, this problem is now being addressed by the Small Business Service (SBS) and by the Department of the Environment, Transport and the Regions.

How is the sector currently financed?

Table B below shows the range of innovative approaches that social enterprises have taken to fund themselves. It shows the creativity of the sector in developing finance mechanisms that can overcome the difficulties they face as social enterprises. Some of these mechanisms are considered in more detail further below.

Table B: Current mechanisms for finance of social enterprise

Currently used or available	
Ethical share issues using the plc rules	The Ethical Property Company, Traidcraft, Wind Fund plc and others are currently using this mechanism.
Withdrawable share capital	This is available to enterprises with industrial and provident society legal status.
Community finance loans	Loans are available from Investors in Society, Aston Reinvestment Trust, ICOF, Triodos Bank, and the Local Investment Fund, typically for property or equipment (i.e. asset based finance), but also for working capital.
Non-voting preference shares by cooperatives under the Companies Act	An available option
Low coupon loan stock raised by industrial and provident societies	An available option
Mutual guarantee mechanisms by a federation of mutuals	This is an innovative and highly successful system which is being developed by the Co-operative Development Society in London to finance housing co-operatives' costs of site acquisition and construction.
Non-profit licensing of new technology	This is available from the Technology Exchange Ltd in Hertfordshire with some patents for social enterprise and socially useful products.
Mezzanine finance	This is used by a wide range of community finance institutions (particularly in the USA) as quasi-equity and could be developed here; this form of deeply subordinated debt could be offered by British charitable foundations as a recoverable grant.
Social business angels	Risk capital from private individuals is available

	from Triodos Bank under their Triodos Match service for both social and ecological businesses.

Illustration 2
The financing spectrum for social enterprise between charity and commerce

Investment spectrums

Time and money

Financial

Statutory grants	Gifts and donations	Social investment	Commercial credit	Commercial equity

Time

Seconded time	Volunteered time	Sweat equity	Time at discounted rates	Time at market rates

Charity	**Social business**	**Commerce**

Source: Aston Reinvestment Trust (1996)

Traidcraft, Wind Fund plc and the Ethical Property Company have all used the mechanism of an ethical share issue using plc rules. Traidcraft established its ethical plc trading company in 1985 as a sister to its charitable older brother. Both companies have overlapping directors. Mark Hayes, a former venture capitalist with 3i, guided the success of their two share issues which, in the company's first year and again in the early 1990s, raised £2 million in non-voting redeemable preference shares. In good years, these shares have yielded a dividend of three to four per cent to investors. Because of the social justice nature of the business, most investors have either waived the take-up of this dividend or have covenanted it to Traidcraft's charitable, sister company. In the past 20 years Traidcraft has grown from a small charity of six staff, with a turnover of £110,000, to a social business with 120 staff and a turnover of just under £10 million. Wind Fund plc, which is backed by Triodos Bank, has supported the development of renewable energy in Britain and is another enterprise which has used the mechanism of the ethical plc share issue. Likewise, the Ethical Property Company's successful ethical plc share issue in 1999 raised over £1.3 million to fund the development of managed workspace for social and ecological enterprises in Bristol, Oxford, Sheffield and London. These workspaces range in size from 1,200 to 18,000 square feet.

The Phone Co-op is a good example of the use of the old IPS tool of 'withdrawable share capital' to support the growth of a social enterprise. It was established in 1997 by Vivian Woodall to help social economy organisations bulk-buy telecom services at large discounts. The Phone Co-op's turnover has grown from £14,000 in year one to £166,000 in year two, and to over £500,000 in year three. The big boost came in August 1999 when the company was changed from a workers' co-operative registered as a company limited by guarantee to an IPS for community benefit. The issue of withdrawable share capital to original investors and to Phone Co-op customers raised £53,000 in equity, with a dividend of four per cent. The company has grown from one to nine employees and the business also supports over 80 sales agents on commission.

To date, attempts to establish mutual guarantee societies to help small businesses obtain less expensive bank loans, following similar schemes that exist elsewhere in Europe, have been held up due to legal and regulatory disputes. However, in 1995 the Co-operative Development Society in London was able to launch its Co-operative Housing Finance Society as a specialist loan guarantee subsidiary. This operates in close partnership with the Co-op Bank and Nationwide Building Society, and over £8 million in housing co-op loans has so far been guaranteed in the Greater London area.

Triodos Bank has striven to link together social and ecological entrepreneurs seeking ethical business opportunities, with better-off social investors who are able to bring in capital but are willing to be patient in respect to a financial return. Glen Saunders of Triodos describes this investment as ‘target accounting’, whereby the social bank acts as a transparent lens linking ethical investors with ethical borrowers. Triodos has now taken this idea further with its Triodos Match service – the first international social business angel service. The difference from earlier target accounting is that social business angels, like traditional business angels, bring both capital and business expertise (or money and management nouse) to help social enterprises with growth opportunities ‘get it right’.

How might the social enterprise sector be better financed in future?

The mechanisms currently deployed for financing social enterprises are generally still experimental and not widely known. The NEF research has isolated elements of good practice which are emerging, but there is no formal training available to help organisations gain an understanding of these financial tools.

The most widely-known finance mechanism is that of the existing Community Loan Funds in Britain, which provides services for either property development or equipment finance via for example the Local Investment Fund, the Charities Aid Foundation Investors in Society, Aston Reinvestment Trust, the Glasgow Regeneration Fund or ICOF Community Capital.

There are, however, a number of other financial services: some are under development, while others have been available in the past and could be reintroduced. These are set out in Table C below.

The London Rebuilding Society (LRS) is the first city-wide community finance organisation to be established specifically to meet the needs of social enterprises. LRS aims to meet the needs of many smaller community enterprise organisations and other non-profits which, as its research in London has shown, normally would not have access to credit because of their small size, lack of a track record, or lack of a detailed business plan. The LRS Mutual Aid Fund, which is currently under development and is to be piloted from late 2001, has been designed to make micro-credit available to non-profits and social enterprises in London. The fund will operate like other revolving loan funds, but as the loans will be small, LRS will experiment with peer-lending techniques and with interest-free ‘fee based’ lending, as practiced by the JAK co-operative credit societies in Denmark and Sweden.

InterWork is an alliance of Christian-based social co-operatives working with the long term unemployed, ex-offenders and those recovering from either alcohol or drug addiction. InterWork social firms look to the success of the Mondragon co-operatives in the Basque country of Spain both for inspiration and for guidance on financing techniques. For example, over the past five years Betel, in Birmingham, has developed four social enterprises in its group, which include a woodwork and furniture restoration business, a gardening business, a calendar business and four charity shops. This social business initially only had initially a seed capital grant of £5,000 and a peppercorn rent on premises, but has benefited as a fast expanding business in a series of loans from Aston Reinvestment Trust over the years. In Bristol, Aspire is a fair trade organisation which is at the centre of the InterWork alliance's work. Aspire is raising equity finance under the Enterprise Investment Scheme to develop a marketing business both for creating employment through fair trade and to market goods on behalf of InterWork members.

Table C: New social finance mechanisms under development

Finance mechanisms	
Mutual Aid Fund	This is under development by the London Rebuilding Society (LRS) as a revolving loan service with some similarities to, but major legal differences from, a credit union.
Social enterprise micro-credit	The London Rebuilding Society Mutual Aid Fund will pilot this as one of its products.
Invoice discounting service	An invoice discounting service was formerly run by West Midlands Co-operative Finance; although it was popular, it is no longer available to social enterprises. Greater London Enterprise runs a small business-focused scheme in London.
Social venture capital	This is under development with the InterWork group of social firms – including First Fruit in London, Betel in Birmingham, Aspire in Bristol, and Helping Hand in Blackpool.
Corporate venturing	This involves the use of larger businesses as stakeholders for new social enterprise development; for example, a proposal that the Co-op Group take on a corporate venturing role for Poptel, an internet co-op.
Venture philanthropy	This is under consideration by a range of different interested foundations (e.g. Guide Dogs for the Blind and the Charities Aid Foundation).

The issue of venture capital is a challenging one for the social enterprise sector. Conventional venture capital seeks an exit route via a listing on the Alternative Investment Market, other tradeable equity market or through a merger and acquistion. For this reason our research indicates that neo-liberal style 'social venture capital' is an oxymoron and a danger to the social economy. Some, fast-growing social enterprises, such as the co-operatively owned internet firm Poptel, have used venture capital funds creatively; in Poptel's case through corporate venturing. However, this has raised serious concerns for Poptel about how to preserve its own majority social ownership among its workforce which venture capital is antithetical to. Investment stakes sourced within the broader social economy itself to assist smaller social ventures through homeopathic finance from larger social enterprises can address this. Such mutualist solutions within the co-operative movement as were common in the nineteenth century are therefore being redeveloped by Poptel as a future safeguard mechanism to prevent privatisation.

The venture philanthropy idea, which has been developed in the USA under the title of policy-related investment (PRI), is in the early stages of development in the wake of the report by the Social Investment Task Force. The Charities Aid Foundation, Guide Dogs for the Blind, Project

Connect and Unlimited are all working on the opportunities for venture philanthropy in the UK, supported by the Charities Commission. The Charities Commission has already released for consultation proposed guidelines on programme related investments by charities in the UK.

New market opportunities and support mechanisms

There is a clear strategic need to support the development of the social enterprise sector which, at present, is very small. The case studies produced by NEF (to be set out more fully in the forthcoming book) clearly indicate that practices within the sector are already highly creative. New approaches and ventures are constantly emerging, and new opportunities for social enterprise have been clarified by the research and by focus group discussions with social entrepreneurs. These new initiatives are given in Table D. It needs to be stressed that social enterprise is not an easy option. Unless policy-makers and those seeking to enter the non-profit social business sector all work together to address the barriers to action highlighted in Table A, these new ventures will be slow to develop and face considerable difficulty in moving forward. Again, some of these ventures are examined at more length below.

The model of a co-production mutual, involving key stakeholders to drive the social enterprise movement forward, is a concept which is very different from the way in which the UK co-operative sector has traditionally been segregated into either consumer or producer co-ops. This model can fit well within the IPS for community benefit structure. In the nineteenth century, this model was known as a Co-Partnership society and there were still 42 such mutual enterprises in 1935 (Jones, 2001).

Additionally the growing social co-operative business model in Italy which brings together professional workers and disadvantaged employees as well as service users in the governance of the enterprise has many lessons for the UK. However there are no off-the-shelf answers here as multi-stakeholder models are highly problematic; much further work will be needed to develop governance and accountability systems that are effective but do not hold back entrepreneurship and business focus.

Several of NEF's case studies highlighted the potential of the North American community land trust (CLT) model for holding land in stewardship. They examined experiments in using this model, including Stonesfield Community Trust in Oxfordshire and the Living Village Trust in Shropshire. Members of the Confederation of Co-operative Housing in Manchester, Birmingham and London are particularly interested in the opportunities provided to them by CLTs, and Community Finance Solutions in Salford is working on three rural CLT pilots in Wessex, Suffolk and North Lancashire.

The Rebuilding Society Network (RSN), the new national association for community development finance institutions supported by the UK Social Investment Forum, has significant experience among its members in IPS share issues. It is in a good position to take a lead in developing a centre of expertise and support for other non-financial social entrepreneurs who might want to learn how to raise equity in this way. It has formed the Ethical Investors' Club, a registered company that helps social and ecological enterprises raise equity. However, the Ethical Investors' Club will need continued support from bodies such as RSN if it is to develop this service and other secondary market opportunities.

The recent NEF book, *Low Flying Heroes: Micro-Social Enterprises under the Radar Screen* (April 2001), celebrates the enormous range of overlooked community initiatives, self-help groups, mutual aid ventures and sole traders in the social economy. The Scarman Trust is assisting these community entrepreneurs through its CanDo awards, and is also developing CanDo Alliances in its seven regions of Britain to provide collective buying services, access to individual learning accounts and mutually-organised training services. It is also working with Birmingham Credit Union Development Agency, Riverside Credit Union in Liverpool and NEF to encourage the wider availability of microfinance services to the socially excluded by the piloting of Community

Development Credit Unions – an American model for extending community banking services through social enterprise strategies.

Market development is crucial to the success of the social enterprise sector, which is currently tiny. There is, therefore, a vital need for a national network of social enterprises, which will be a focus of the national social enterprise conference, organised by Social Enterprise London on 31st May 2001, for which this report has been prepared. This association will create enormous possibilities for raising the profile of the most dynamic social enterprises, widening press and media interest, and developing the social enterprise sector's economic strength and political clout through trade fairs and exhibitions.

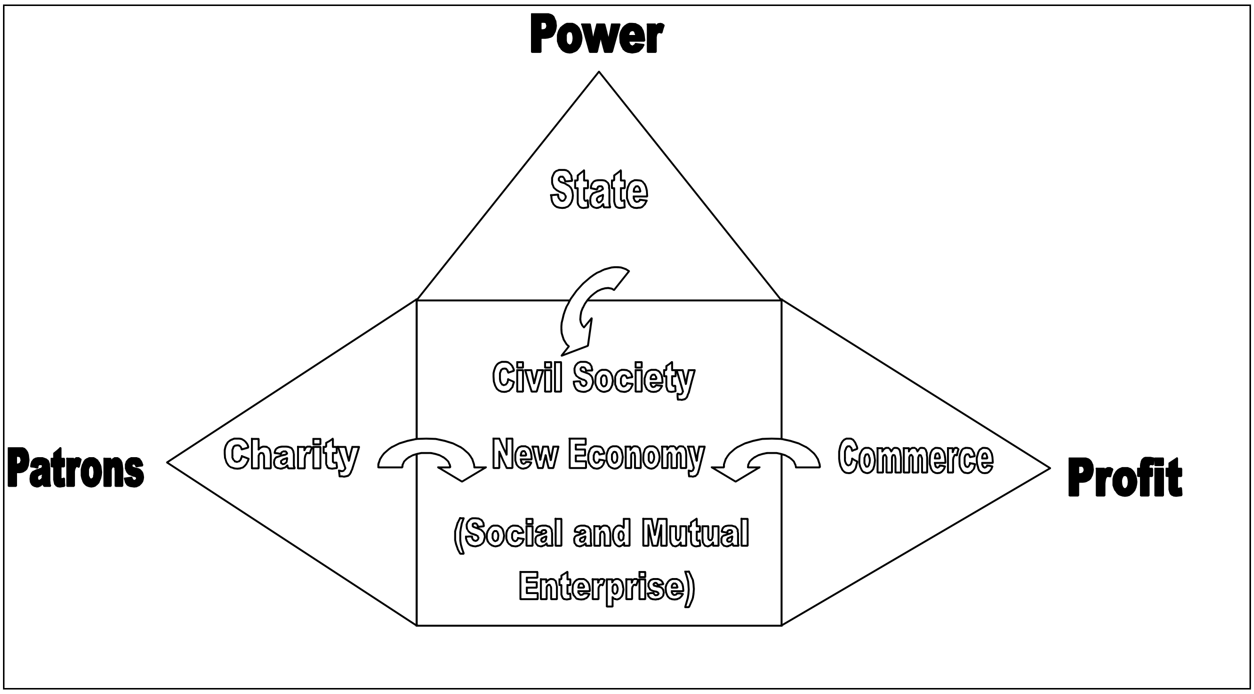
Table D: market opportunities, new ventures and support mechanisms

New venture	What they are
Co-production mutuals	▪ These are mutual enterprises combining at least two different stakeholders, such as workers, consumers, and local investors. Poptel, the internet co-op, and the Phone Co-op are good examples, as are the social businesses in the InterWork association. ▪ ICOM has developed a model set of legal rules for these social enterprises and reports that this mixed mutual model has become the standard for fair trade bodies and for the community co-operatives involved in the nascent takeover of village shops and post offices in England, Scotland and Wales. ▪ Time banks and LETs require social investment in order to grow. The founder of time banks in the USA, Edgar Cahn, refers to them as co-production enterprises. ▪ In a number of cases, farmers' markets are also adopting this structure.
Community land trusts	▪ This mechanism brings local land into mutual ownership. It is used widely in the USA, Canada and India for a variety of purposes including organic farming, conservation of the natural habitat with community management, co-operative housing, mutualisation of caravan parks, equity-release finance to assist pensioner homeowners with repairs, and managed workspace. ▪ Aston Reinvestment Trust is working to pioneer this in Birmingham with three registered social landlords and the city council; in Scotland the mechanism is already in use for land reform in the Highlands and Islands, and rural community land trusts are under development in Dorset, Suffolk, Stroud, and North Lancashire.
Social enterprise stock exchanges	▪ Some Rebuilding Society Network members have already formed a legal entity, called the Ethical Investors' Club, to develop social enterprise investors' clubs and to develop a secondary market in social enterprise shares. However, progress here will require strategic support and involvement from a national network of social enterprises.
Social enterprise trade fairs	▪ In the 1980s an annual Co-ops Trade Fair was successful in building a network within the co-operative sector, but this has not been held for over a decade. However, other services are emerging. Aspire has developed a catalogue for InterWork social firms and Poptel is developing an e-commerce service for the social enterprise sector (as .coop – the alternative to .com).
Social enterprise sole traders	▪ Sole traders and other community entrepreneurs could be assisted by the development of social enterprise mutuals (as Demos, NEF and the Scarman Trust have all advocated in recent research).
Fund management services	▪ ICOF operates fund management services for community loan funds, but these could be developed further by the Rebuilding Society Network. The service would give guidance to those developing new IPSs or plc share issues. It could help them to develop a cost-effective product, and so help them raise socially-directed investment from ethical investors. ▪ The Furniture Resource Centre in Liverpool is considering social enterprise franchising and licensing as a means of allowing other regional social enterprises to replicate their formula. It has recently established a training centre for social businesses.
Social enterprise unions	▪ A national social enterprise association or regional networks could develop a bulk-purchasing service to cater for a wide range of business supply needs.

Conclusion and Recommendations

The research carried out by NEF initially focused on the third sector. During the course of our investigations, however, it became clear that many issues relating to social enterprise activity and business transformation could potentially apply to many private and public sector bodies as well. This larger potential for social enterprise solutions right across the economy is illustrated well below.

Illustration 3
Social enterprise at the inter-sectoral heart of a new social economy of active citizens



Greenwich Leisure in London is one example of a public sector service which has converted itself into a social enterprise. It was initially a local authority service, which in 1993 faced massive job cuts. It transformed itself into a social enterprise and in the past six years has increased its employees to over a thousand, has expanded the number of recreation services it offers from seven to 11, and has increased its business turnover by over 300 per cent. Greenwich Leisure has helped 13 other local authority services in England transform themselves into social enterprises in a similar way.

There are many opportunities for social enterprises in the areas of domiciliary care and childcare. Care co-ops in the Midlands and the North East are leading the way in these fields. However, because of regulatory requirements, training overheads and the need for working capital, domiciliary care businesses do need to obtain contracts for a minimum of 1,000 hours a week to be viable, and in order to meet this level of work they need to be able to support between 50 and 1,200 employees. The financing challenges here are therefore considerable.

In the environmental services, in energy services and in recycling, some strong businesses are emerging. Ealing Community Transport began in the early 1980s as a small non-profit enterprise. It is, today, a fast-growing social enterprise made up of four companies, employing over 200 employees. Its activities include transport services, home composting and delivery, commercial recycling, furniture recycling and CFC recovery. It provides services for eight local authorities and it is the national pioneer in kerbside recycling, providing direct services to over 425,000 households.

Specialist enterprise credit unions and micro-credit services for small businesses are growing in London and elsewhere (such as WEETU in East Anglia and Street UK in Bradford, Glasgow, and Newcastle upon Tyne). This practice is showing the potential for the 'co-operative advantage' for the small business sector and the added value and cost saving of mutualist solutions for the self-employed and micro-enterprises in particular.

Farmers' markets, an innovation which began in Dorset, Devon and Somerset, have spread nationally. There should, by the end of 2001, be over 800 farmers' markets in Britain. In the South West, organic producers are developing networks to encourage mutual business opportunities, and West Dorset Food and Land Trust is developing with other partners a Mondragon-style venture to build extensive agricultural co-operation within the organic sector. The Plunkett Foundation (Parnell 2001) has announced a wider national strategy along similar lines to support the rebirth of rural co-operative services in England similar to the successful New Generation Farmer Co-operatives in the USA.

The conclusion from the research is that if we do not forget the rich history of social enterprise - its diversity and achievements, as well as its setbacks - and if we are prepared to learn from those past successes and failures, then there are truly radical opportunities for developing a renewed social enterprise sector. There are significant opportunities for attracting third sector organisations who wish to be more than simply traditional-style charities. Moreover there are also tangible possibilities for attracting private sector enterprises who can be shown the financial benefits of mutuality and who recognise the disadvantages of destructive price wars. It should not be forgotten that small businesses in the farming sector, in fishing and in the building trades were the very backbone of nineteenth century mutuality.

There are, in particular, superb opportunities to develop the model of mutuality on a large scale in strategic public services such as trains, water, energy, housing, health and education. NEF has been commissioned by the National Consumer Council to look at these opportunities over the next six months and will, during this period, be running a series of seminars to debate these and other exciting opportunities for developing social enterprise, in partnership with Social Enterprise London, the London School of Economics and the London Rebuilding Society.

As a result of the research findings, which are outlined in the case studies, and from focus group discussions, NEF have identified a number of straightforward recommendations. These address the barriers identified above, and aim to take forward the exciting opportunities for a new renaissance in the social enterprise sector. The recommendations are summarised below in Table E.

Table E: Key recommendations

Organisation	Action
The Small Business Service	▪ The Small Business Service should ensure that social enterprises benefit from the same advice, assistance and development programmes to which conventional businesses are entitled.
Department of Trade and Industry, Department of the Environment, Transport and the Regions, Financial Services Authority	▪ The government should give social enterprises breathing space and treat them as autonomous organisations just like other small businesses. They should be free to use a range of different legal forms and ways of raising finance. There is no one single model for social enterprises, and attempts to regulate for one should be avoided. The free spirit of social enterprise should be respected as this spirit is respected in the private business sector.
Registry of Friendly Societies, Financial Services Authority	▪ The industrial and provident society legislation should be applied more often to social enterprises. Unreasonable delays in registration should be tackled, to provide a more effective service.
Inland Revenue, Treasury	▪ Social enterprises and social firms employing a majority of disadvantaged groups should benefit from tax relief similar to provisions relating to the social co-operatives in Italy.
The Rebuilding Society Network	▪ The Network should take a lead in developing the Ethical Investors' Club, in providing advice and information to investors in the social economy, and in assisting the development of local social enterprise investors' clubs.
The Community Ventures Fund	▪ The Community Ventures Fund should provide funding on an experimental basis for a range of equitable finance mechanisms for social enterprise. This should be separate from any Community Development Venture Capital funds for conventional small businesses.
The Community Dividend system	▪ The Community Dividend scheme of the local co-operative societies should provide seed money, and other sources of start-up help, to new social enterprises regionally.
Future national association	▪ A national association for social enterprises should be established. ▪ More national training services for social enterprise development should be supported. The most experienced practitioners in the field of social enterprise will be needed to guide the appropriate content of the curriculum, to ensure quality training is supported and to ensure that this is done in a co-ordinated way.
Social auditing	▪ An appropriate system for measuring social and environmental added value needs to be developed which is affordable, user-friendly and builds on the social accountancy systems pioneered by organisations such as Traidcraft and the New Economics Foundation.

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Social Enterprise Finance Interviewees and Case Studies

Finance

Birmingham Credit Union Development Agency
Capital Strategies
Industrial Common Ownership Finance
Local Investment Fund
London Rebuilding Society
Investors in Society
Riverside Credit Union
Triodos Bank
Unity Trust Bank

Property Development

Candid Arts Trust
Coin Street
Co-operative Development Society
Ethical Property Company
Living Village Trust
Regeneration Trust

Social Firms

Betel
Helping Hand
InterWork
Social Firms' Development Network

Employee Ownership

Democratic Business
Job Ownership
SUMA Wholefoods
Video Engineering and Training
Scott Bader Commonwealth

Ecological Enterprise

Bristol Electric Railbus
Bugbugs
EAGA Partnership
Ealing Community Transport
Envolve
National Association of Farmers' Markets
Sharing Resources
West Dorset Food and Land Trust

New Mutuals

Greenwhich Leisure
Poptel
The Phone Shop Co-op

Employee Mutual / ILM

Bootstrap Enterprise
Furniture Resource Centre
NEWTEC
Scarman Trust
Time Dollar Institute

Fairtrade

Big Issue
Traidcraft

Legal Services / Other

Claros Consulting
ICOM
Wrigleys Solicitors
The School for Entrepreneurs
Open University Co-op research Unit