GMCVO
Social Enterprise

A Brief Guide to Social Enterprise

GMCVO

St Thomas Centre
Ardwick Green North
Manchester
M12 6FZ

0161 277 1000
www.gmcvo.org.uk
gmcvo@gmcvo.org.uk
@gmcvo
GMCVO

Registered charity no. 504542. Company limited by guarantee registered in England no. 1223344. Registered office as above.

Contents

Introduction to GMCVO and our Brief Guide to Social Enterprise

At GMCVO, our work focuses on economic and social inclusion in Greater Manchester.

We:

- Support policy makers to understand the potential of local community organisations to support the growth of sustainable local economies and the challenges they face.
- Provide practical assistance to commissioners and funders to understand how they can create the conditions for local economic growth.
- Support a range of organisations focussed on reducing inequalities to influence policy and progress their own sustainable economic development.

In addition to this, we invest in social businesses and trading charities in Greater Manchester to help develop an ecosystem of support for social enterprises to flourish.

This guide aims to introduce the terms 'Social Enterprise' & 'Social Investment'.

It is by no means exhaustive but it should offer some insight into what it means to be and grow as a socially purposed business.

The first section of this guide discusses what Social Enterprise means (and does not mean), as well as ways in which these sorts of businesses can source funding for themselves through Social Investment.

The second half of the guide provides real-life examples of some existing GMCVO investees as well as case studies from further afield. You'll also find some resources for supporting Social Enterprises in Greater Manchester and beyond.

What is Social Enterprise?

'Social Enterprise' is a term coined to describe a business that has social purpose.

It can be a challenging term since there is no single legal definition of what a social enterprise is. This means there are lots of myths about what sort of businesses are, or aren't, social enterprises.

Myth #1 – Social Enterprises are Community Interest Companies (CIC)

This is false. CICs can be social enterprises, but social enterprises are not CICs. In 2005, the UK government introduced CICs as a way for entrepreneurs to establish businesses committed to using their profits and assets for the benefit of the community more easily.

CICs automatically build social purpose into their Articles from the point of their inception – however social purpose is not unique to CICs.

Myth #2 – Private Companies limited by Shares (LBS) cannot be Social Enterprises

This is also false. Private Companies can also build social purpose into their Articles. Companies that are LBS can also choose to cap their dividends, which means that they can commit to reinvesting a majority of their profits back into their social purpose.

The truth is that any business can be an Social Enterprise so long as it has a structure that allows it to embed social purpose into its Articles.

Social Purpose and Social Enterprises

When we talk about social purpose in business, we mean a company whose enduring reason for being is to create a better world. The company exists to create social benefit and therefore the act of it doing business is, by default, a good thing for the community.

Several common features exist across Social Enterprises:

- At their core, social enterprisess will have a clearly defined social mission.
- Although they can access multiple types of income (e.g. grants, trading, donations, loans and investments), they will place an emphasis on selling products and services (trading).
- They achieve, or aspire to achieve, the majority of their income through trading.

This means that social enterprises incorporate themselves in lots of different ways - from CICs & Charitable Incorporated Organisations (CIOs), Charities, Community Benefit Societies & Co-operatives all the way up to Private companies.

How do I spot a Social Enterprise?

Spotting a Social Enterprise can be difficult, especially because not all organisations that exhibit social purpose consider themselves a social enterprise. There can be many reasons for this – they may not be familiar with the term, they do not want to be perceived as a for-profit organisation, or something else.

Social enterprises are distinct from the rest of the voluntary, community and social enterprise (VCSE) sector because they are interested in generating a profit as well as social impact. On the other hand, social enterprises are also distinct from the commercial business sector because they are interested in generating social impact as well as a profit.

Not all social enterprises will be at a stage where the majority of their income comes from trading however; they may still consider themselves an social enterprise if this is what they aspire to. By contrast, some voluntary & community organisations do not aspire to use trading as their main source of income, however they may do some trading to contribute to their overall sustainability as an organisation. On paper, these types of organisations can be difficult to tell apart – therefore the main consideration to distinguish between them is their intention for their income generation.

Like social enterprises and voluntary & community organisations, the commercial business sector can also generate social impact. However, the difference is that the business of social enterprises is driven directly by creating a social impact.

Where social enterprises are committed to reinvesting their profits back into their social purpose, commercial business instead generates the profits for the benefit of their stakeholders. This is typically known as Corporate Social Responsibility (CSR) and is optional to commercial businesses, rather than core to their function.

See the table below for a comparison between the voluntary & community, social enterprise and commercial business sectors:

Voluntary & Community Sector	**Social Enterprise**	**Business Sector**
• Not-for-profit • Trading is not their primary source of income • Social mission primarily achieved through activities funded by grants, donations and other forms of restricted income	• Profit-for-purpose • Uses/aims to use trading as their primary source of income • Social mission can be achieved through delivering activities and reinvesting profits generated from trading	• Profit-making • No in-built social purpose. May deliver Corporate Social Responsibility initiatives but this is not at the core of the business • Trades to generate profits for the benefit of shareholders

Social Business Accreditations

It's really important to be able to distinguish a social enterprise from their commercial business and Voluntary & Community counterparts so that they can be provided with the right kind of guidance and support.

It's also important to be able to distinguish true social enterprises from other commercial businesses who may brand themselves in this way without really having much social purpose at all.

Buying social is an increasingly attractive option to consumers and this will only grow as climate consciousness increases and the cost-of-living crisis deepens. As a result, branding a business as social is also an increasingly attractive way of drawing in more customers.

Unlike Charities, there's nothing to stop non-social enterprises labelling themselves as social businesses because there isn't a legal definition that underpins what it is to be a social enterprise.

As a result, various accreditations have begun to arise to enable businesses to reach an independent benchmark that indicates their social nature. Three examples of these are detailed below:

Social Enterprise UK (SEUK)

SEUK is the UK's membership body for social enterprises and the leader of the world's largest network of socially purposed businesses.

Social enterprises can become a member of SEUK if they pay a fee and meet specific criteria that entitles them to display the SEUK membership badge. The criteria is:

- The organisation has a clear social or environmental mission set out in its governing documents.
- The organisation is independent and earns, or aims to earn, more than half of its income through trading.
- The interests of its social mission control the organisation.
- The organisation reinvests or gives away a minimum of half of the profits for its social purpose.
- The organisation is transparent about how it operates and the impact that it has.

Social Enterprise Mark

The Social Enterprise Mark is an accreditation delivered by Social Enterprise Mark CIC. They are an international body that uses independent assessments to provide applicants with accreditation that they are a social enterprise.

To be awarded the Mark, social enterprises must pay a fee and meet specific criteria. The qualification criteria is the same as SEUK's with some additions:

- The organisation must commit that its assets will be used for social purposes in the event of its dissolution.
- The organisation must be able to demonstrate how its social mission is being achieved.

The Social Enterprise Mark is more rigorous than SEUK membership as it requires an asset lock on an organisation, meaning that the assets of an organisation will belong to its social mission even after the organisation has dissolved.

B Corp

B Corp certification is different to SEUK or the Social Enterprise Mark as it is not aimed at social enterprises, but business at large. There is a similar theme with regards to using business for the betterment of people and the planet, however it is much more flexible and accounts for a huge range of business types of all sizes. social enterprises may opt to apply for B Corp status, but Certified B Corps are not social enterprises by default.

What is Social Investment?

Social investment is a form of repayable finance tailored to voluntary, community and social enterprise (VCSE) organisations to support them to deliver their social impact.

Social investment is not exclusively for social enterrises. Being a social enterprise is a way of conducting business, whereas social investment is a source of finance tailored to organisations that deliver a social impact. To this end, an organisation that generates the majority of its income through grants and only does a small amount of trading could still secure social investment provided their unrestricted trading income makes it affordable to them.

So why not just go to the bank? Many organisations cannot access mainstream forms of lending and investment because they can pose a higher risk than commercial businesses due to their social focus. The nature of VCSE organisations also limits the distribution of their profits, so this often makes them less attractive to investors.

Social investment isn't for everyone as it consists of money that must be paid back – often with interest. Organisations of any kind should always carefully consider whether this type of finance suits their needs, legal structure and plans.

Social investment typically suits organisations that are seeking flexible, unrestricted funding to grow their business. This could mean:

- Recruiting more staff
- Purchasing equipment
- Buying or developing an asset
- Building up cash flow

Organisations considering social investment must have a clear understanding of how they plan to leverage their income to make any repayments affordable to them.

Good Finance have developed a short questionnaire called 'Is it right for us?'. This is an excellent starting tool for social enterprises who are curious about investment, to explore whether it might be suitable for them.

Types of Social Investment

Social investment mainly takes two forms: debt and equity.

Debt is borrowing. For example if you take a loan and agree to repay it over a set period, this would be debt.

Equity refers to shares. If you sell shares in your organisation to an investor, you receive money in exchange for a say in how your organisation runs and a share in any profits that are paid out from it.

Below we have described four key types of debt & equity arrangements to be aware of:

Debt Finance

Most debt finance takes the form of loans that are usually repaid over a set time period with interest, or overdrafts and standby credit facilities.

Loans can be secured or unsecured. A secured loan is one that is set against the ownership of an asset – often a building –which the lender can take charge of if the loan is not repaid. An unsecured loan is where a lender takes no security for the debt, so that if the loan is not repaid, the lender is not guaranteed to receive anything in return. For this reason, unsecured loans are viewed as a significantly higher risk to investors and often come with higher interest rates as a result.

It isn't uncommon to see social investment loans take the form of 'blended finance'. This means that they include a grant element. These can be more attractive to VCSE organisations who are familiar with grants and are newer to trading.

Loans from social investors are usually available to any organisation which has an embedded social purpose and relevant controls on its profit redistribution including an asset-lock and a directors remuneration clause. Organisations do not strictly need to generate the majority of their income through trading, but they must show that they generate a sustainable amount of trading income that makes a loan genuinely affordable to them.

Equity Finance

Equity finance is when an investor provides a sum of money to an organisation in exchange for a stake in it. This stake can be a say in how the organisation runs, a share in the profit dividends or both.

An organisation which receives equity finance has no legal obligation to repay the investment, or any interest, back to the investor. They also do not need to pay the investor anything unless they make a profit.

This form of finance is only available to organisations with legal structures that allow them to issue shares and distribute profits. For example, companies Limited by Shares and industrial provident societies. It is not available to charities or social enterprises that do not have shares options.

Some types of equity finance are highly community focused. For example, Community Shares are a type of investment specifically available to Co-operative and Community Benefit Society organisations. Community Shares are withdrawable, non-transferrable shares. Community shares require members of the community to purchase shares as a way of covering an organisation's costs..

Quasi-Equity Finance

Quasi-equity finance is similar to equity finance without requiring an organisation to issue shares. An investor will provide a sum of money to an organisation in exchange for a proportion of its income in the future.

If an organisation does not perform well financially, the returns to the investor might be lower than expected or nil. However, if the financial performance is good, then the returns will increase and can be beyond what was expected at the time of the investment. For this reason, quasi-equity can result in a less attractive deal for social enterprises that are very successful, as they could end up repaying more for the finance than if they had taken on a loan.

Quasi-equity is usually offered by social investor specialists and is aimed towards organisations whose legal structure does not include shares.

Social Impact Bonds

Social Impact Bonds (SIBs) are distinct from the above types of social investment. This sort of investment is for organisations that provide services with specific and measurable social outcomes that could help save government money.

These arrangements occur when investors provide money to an organisation to deliver a service. If the service is delivered successfully, the government will repay the investors with interest. If the service doesn't achieve the social outcomes it set out to, the government will not repay the investors.

SIBs can be expensive and take a lot of time to arrange. They require organisations that are able to evidence their social impact and value convincingly, investors who are willing to take a risk and a commissioner that can see the value of the arrangement. For organisations that are able to establish these relationships, they can be extremely attractive, as there is a guarantee that they will be paid.

Examples of Social Investment types

Example #1 - Debt Finance

Yellow Jigsaw funded by GMCVO's Access to Growth fund

Yellow Jigsaw are a Great Manchester social enterprise. They received an investment of £21,600 to expand their support of people aged 7 – 70 to develop new reporting and media skills. They used GMCVO's loan to develop their pop-up TV studio and newsroom Media Cubs clubs and to grow the online audience of the UK's first older people's-led news platform, Talking About My Generation.

You can watch their case study here.

Example #2 - Debt Finance

Highway Hope funded by GMCVO's Access to Growth fund

Highway Hope are a Community Interest Organisation (CIO) based in Manchester and Stockport. They offer cultural, social and learning initiatives for local people, with a specific focus on the needs of African communities. They received an investment of £50,000 in 2021 to expand their community food store.

You can watch their case study here.

Example #3 - Equity Finance

Community Shares is one example of equity finance used by community-focused organisations.

The Burley Gate Community Shop & Post Office is a great example of this type of equity finance. A Community Benefit Society (CBS) was set up to support local residents to save their Post Office and Village Shop from closure. Local residents invested in Community Shares through the CBS in order to raise money to save the only shop and post office on a 15 mile road locally.

You can find more great resources about Community Shares over on the Co-ops UK website.

Example #4 - Quasi-Equity

Many resources are available to describe quasi-equity including this 2008 paper by CAF Venturesome about Revenue Participation Agreements and this powerpoint from Access - The Foundation for Social Investment.

Example #5 - Social Impact Bonds (SIB)

Aspire Gloucestershire helps the most vulnerable young, homeless people in Gloucestershire, offering intensive and innovative support to drive better accommodation, education, training and employment.

They received funding through a SIB, arranged by Triodos Bank. Triodos Bank's repayment is on a payment-by-results contract with the Department of Communities and Local Government. The results will be measured by how many young people are successfully housed and maintain their tenancy as well as enter and maintain education, employment or training.

You can find out more about Aspire Gloucestershire on the Good Finance website.

These are just a selection of investment types that exist within the sphere of Social Investment – there are many other options too! For more information about what's available, Good Finance's website provides an in-depth section on the types of Social Investment.

GMCVO Social Investment

At GMCVO, we take a geographical approach to Social Investment, focusing exclusively on Greater Manchester to deliver accessible Social Investment initiatives to our city-region.

Like many social investors, for the majority of our funds, we will fund a wide range of organisations including trading charities, community businesses, social enterprises and Private Companies – provided they have social purpose embedded into their Articles.

GMCVO will provide support and guidance to anyone looking at social investment in Greater Manchester. We can explore different options for your organisation and, if necessary, introduce you to other social investors who can provide the right finance for you.

For enquiries, you can reach our investment team at: **gmsocinvest@gmcvo.org.uk**

Opportunities for investment change over time. The best way to keep in touch with what's on offer by signing up to GMCVO's Social Enterprise bulletin.

Funds managed by GMCVO

Access To Growth

Access to Growth began in 2017 and closed in Spring 2022. The fund offered unsecured loans between £10,000 and £150,000. Each investment combined grants with loans into a simple product to help organisations grow their ideas.

To learn more about Access To Growth, you can view our Impact Report.

We expect to see more Greater Manchester-wide funding appear again from Spring 2023.

Proper Good

Proper Good covers Bolton, Oldham, Stockport and Wigan. Hosted by GMCVO and delivered by local partners, the program combines £6.2m of investment with a further £2m of social enterprise business support built in.

The investment funds cater to social enterprises at a range of growth stages, from early stage organisations to those that are scaling up and looking to buy, build or develop building assets.

- **Early Stage (Proper Good Investment)**

  The early stage fund offers interest-free, unsecured loans of up to £30,000 to organisations in the early stages of their trading journey. Applicants should expect to have a clear, developed and tested business proposition.

- **Buildings (Proper Good Investment)**

  The buildings fund offers blended finance investments of up to £350,000. Ten percent of the investment is a grant, with the remainder of the investment provided as an unsecured loan at a flat interest rate of 6.5%. This fund is for organisations seeking to buy, build, renovate or refurbish buildings, or are seeking matched capital funding for large building projects.

Resonance Community Developers

The Resonance Community Developers fund (RCD) is a £20m fund in Greater Manchester designed to empower neighbourhoods to create, build and own assets that meet local needs. The fund's focus is on affordable housing and sports & leisure facilities that incorporate energy efficiency and low carbon-emission initiatives into their design.

RCD is unique in that it provides a program of support from scratch – including supporting applicants to set up a Community Benefit Society as part of the first stage of investment, feasibility costs, building and refinancing the project once it is up and running.

Reach Fund

The Reach fund is as a grant program administered by SIB, used by social investors registered with the program in the UK. The program funds costs associated with social investment-readiness.

When organisations are planning to take on social investment, sometimes they require additional support to do so. Eligible organisations will have a clearly established need for investment but will be missing essential information that is preventing a social investor from making an offer. Missing information may be due to lack of capacity, a need for specialist consultancy or other barriers.

If approaching GMCVO about The Reach fund, organisations must gain our support in order for us to endorse their application to the program. Without the endorsement of a social investor, organisations will not be able to apply successfully.

We strongly recommended that any organisation curious about Social Investment should take the opportunity to chat with our Social Enterprise team so that we can support them on their journey to raising investment.

Resources for Social Enterprises

Social Investment resources

GMCVO Social Investment

Is your social impact focused in Greater Manchester? You can keep up to date with GMCVO's current investment offers here.

For regular Social Enterprise updates, you can sign up to our bulletin here.

Social Investment for first-timers

Organisations that are new SI need to make sure it is right for them. This portion of the Good Finance website provides a range of useful tools including key considerations, social impact support and links to other useful resources.

For those who have decided to pursue SI, they also provide a pre-investment support page, which details support for business planning, cash flow forecasting and more.

Case Studies

In addition to those earlier in this guide, there are a wealth of other case studies available.

You can find existing GMCVO investee case studies here.

For UK-wide case studies, you can search Good Finance's case study mapper.

Good Finance's Social Investment directory

This is a directory of social investors, funds and advisors in the UK. Searches can be tailored by region, social impact focus and types of investment available.

You can find the directory here.

Support for Social Enterprises (Greater Manchester)

Across Greater Manchester, there are a range of support offers both across the city-region and at a borough level. The table on the next page details these organisations and their websites.

Location	Resource	Website
Greater Manchester	Greater Manchester	gmsen.net
Greater Manchester	The Growth Company	www.growthco.uk/what-we-do/business
Manchester	Manchester Community Central	manchestercommunitycentral.org
Bolton	Bolton CVS	www.boltoncvs.org.uk
Bury	Bury VCFA	www.buryvcfa.org.uk
Stockport	Sector 3 (Stockport)	www.sector3sk.org
Oldham	Upturn (Oldham)	www.upturn.org.uk/en
Oldham, Rochdale & Tameside	Action Together (Oldham, Rochdale and Tameside)	www.actiontogether.org.uk
Salford	Salford CVS	www.salfordcvs.co.uk
Trafford	Thrive Trafford	www.thrivetrafford.org.uk
Trafford	Trafford Housing Trust	www.traffordhousingtrust.co.uk/our-services/communities-grants-and-support
Wigan & Leigh	Wigan & Leigh Community Charity	wlcommunity.org.uk

Support for Social Enterprises (UK)

Purposely

Organisations that are Private companies Limited By Shares must ensure social purpose is embedded into their Articles if considering Social Investment. The Get Purpose tool can be found here.

Scaling Up

For established Social Enterprises seeking to grow, Key Fund has a range of guides, templates, blogs and more all about scaling a social business.

School of Social Entrepreneurs (SSE)

SSE provide a knowledge hub for social entrepreneurs at any stage in their journey. You can expect to find a range of resources including training courses here.

Want to learn more? Contact the GMCVO Social Enterprise team at gmsocinvest@gmcvo.org.uk