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News release

20 May 2003

The Financing of Social Enterprises

The Bank of England today publishes a special report on The Financing of Social Enterprises. This follows a request last year by the Department of Trade and Industry that the Bank should "review the provision of debt and equity finance to social enterprises".

The report draws on a new survey of 200 organisations, compared with a sample of conventional small and medium sized (SME) businesses. This evidence has been combined with wide ranging consultations with social enterprises and finance providers.

The report finds that demand for debt finance amongst social enterprises is constrained both by the availability of other, cheaper forms of funding such as grants, and by a cultural aversion to the risks associated with borrowing. Despite this, however, there is evidence that social enterprises, particularly the larger, more established organisations, do use a range of external financing techniques involving banks and other lenders, such as Community Development Finance Institutions (CDFIs). Borrowing is used for a variety of reasons, in particular to address cash flow difficulties or to purchase or develop assets. Social enterprises seem more likely than SMEs to have been rejected for finance, though many of those rejected by one lender appear subsequently to be successful with another.

In terms of equity finance, the report finds little evidence of demand for, or supply of, conventional venture capital or business angel finance to the social enterprise sector. The report concludes that this is not a result of market failure but instead reflects the specific characteristics of the social enterprise sector. In particular social enterprises may not generate a commercial financial return, may be unable or unwilling to concede ownership to external investors and may not offer a conventional exit strategy for investors.

However, there is evidence of demand for some form of long-term 'patient' finance, particularly at the start-up or expansion stages, in which investors are willing to accept lower financial returns in exchange for social outputs. Measures to encourage the supply of patient capital will need to be accompanied by efforts by the social enterprise sector to identify and promote suitable investment opportunities.

The report puts forward a number of recommendations, which the Bank believes could improve investment readiness; facilitate the supply of conventional debt finance by mainstream and social banks and CDFIs; and increase the supply of patient finance for development.

Patricia Hewitt, Secretary of State for Trade and Industry, said "The Bank of England review has an invaluable role to play in strengthening social enterprise in the UK. As the first thorough and independent analysis of the financing of the sector, it will be an essential guide for Government, lenders and investors to ensure social enterprises have better access to the right types of funding. I requested the review in recognition of the value of social enterprise as a growing sector and one that is bringing about important social change."

Sir Edward George, Governor of the Bank of England, said "The Bank has a long-standing interest in the financing of SMEs, where our aim has been to promote a better mutual understanding between lenders and borrowers. As with conventional businesses, social enterprises need to have access to a range of different sources of finance. I very much hope that this report will help in achieving that objective."

Notes to Editors

1. The report is available, free of charge, from http://www.bankofengland.co.uk/financialstability/businesshouseholdfinance/smallfirms or by ringing the Bank's Public Enquiries Group on 020 7601 4878. The recommendations are listed in the Executive Summary and discussed in Section 8, Conclusions and Recommendations.
2. The request from the DTI to the Bank was made as part of the DTI's strategy for social enterprise, launched in July 2002. The DTI report Social Enterprise: a strategy for success is available on http://www.dti.gov.uk/socialenterprise/index.htm#Strategy
3. The DTI defines a social enterprise as "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners." Examples range from small community businesses to national organisations such as The Big Issue and The Eden Project.
4. The Bank has published an annual report on finance for small firms every year since 1994. It has also published a number of special reports. For further details, see http://www.bankofengland.co.uk/financialstability/businesshouseholdfinance/smallfirms.
5. Community Development Finance Institutions are defined by the Community Development Finance Association as sustainable, independent financial institutions that provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets.

Key Resources

The Financing of Social Enterprises:
A Special Report by the Bank of England - May 2003
http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/publications/financeforsmallfirms/financing_social_enterprise_report.pdf