

**Response by the Social Enterprise Coalition to the Enterprise
Investment Scheme consultation**

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Introduction

The Social Enterprise Coalition (the Coalition) welcomes the opportunity to respond to HM Treasury's consultation on the Enterprise Investment Scheme.

The Coalition was established in 2002 as the national voice of social enterprise. The Coalition represents a wide range of social enterprises, umbrella bodies and networks, with a combined membership reaching over 10,500 social enterprises. These include co-operatives and mutuals, development trusts, housing associations, leisure and football supporters' trusts and Social Firms. Social enterprises are businesses with primarily social or environmental 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. This response was informed by consultation with members of the Coalition who have experience of the Enterprise Investment Scheme.

We believe that social enterprises can make a real and sustained contribution to Government's objectives for achieving strong economic growth and high rates of employment. However, many social enterprises site poor access to finance as a major barrier to building a sustainable and successful enterprise. We are therefore fully supportive of the government's aims to ensure that companies have good access to both debt and equity finance in order to help support both business start-ups and growth.

Access to finance

Finance is the motor for all business development and social enterprise is no different. A lack of access to appropriate finance can be a significant barrier to growth. While access to finance has improved for social enterprises in recent years, our members have told us that more needs to be done. They have a number of important concerns.

- 1) The social investment market is under capitalised and fragmented. There are gaps in provision whilst other efforts are duplicated, and the system lacks overall capital. In the mainstream finance sector an investment bank takes on the role of connecting the market, supplying capital to intermediaries, tying the market together and identifying gaps. A social investment bank could play this role.
- 2) Standard ways of measuring and representing the 'blended return' of financial, social and environmental outcomes are not yet available. Although work has taken place to develop Social Return on Investment (SROI) as a way of putting a financial value on the social investment into an organisation, there is no official standard and the approach is still relatively untested.
- 3) There are no specific tax incentives to encourage direct investment into social enterprise. Because of their combined business and social aims, financial returns to investors from social enterprises are likely to be lower than in the private sector. This can act as a disincentive to investment. Creating an appropriate investor tax relief would provide investors with a basic return, making social investment a much more attractive option.
- 4) There is a lack of risk capital available to invest in long-term business growth. As the consultation document notes, many venture capitalists are reluctant to invest in small companies due to the perceived high-risk nature of investment. Because many investors are unfamiliar with social enterprise, they perceive the risk levels to be even higher for these businesses. In particular, risk capital such as equity finance is hard to access for social enterprises.

The Enterprise Investment Scheme

As with other risk investment schemes, the conditions for relief and form of investment of the Enterprise Investment Scheme exclude many social enterprises.

Many social enterprises either do not have legal structures which allow them to issue shares in return for investment, or have governance arrangements which make it difficult to give up ownership to an investor.

Even where equity can be released, there are limited ways in which investors can sell on their shares. Most social enterprises are unlikely to become listed on the stock market and there is no alternative 'social stock exchange'.

As such, because the Enterprise Investment Scheme only allows investors to invest in a company's shares, either directly or through an EIS fund that subscribes in a range of qualifying companies on behalf of investors, a significant majority of social enterprises are excluded from the scheme.

In addition to this, some social enterprises operate within sectors which fall under the list of activities which are excluded from the Enterprise Investment Scheme. In particular, there are social enterprises working in the fields of woodland management and operating care homes which are prohibited from participating in the scheme.

A further condition for relief which excludes a significant number of social enterprises is that companies must have fewer than 50 employees to qualify for the Enterprise Investment Scheme. Whilst the Coalition supports the government's aims to provide investment opportunities for small businesses, there is no comparable support for medium-sized enterprises which have between 50 and 249 employees under current European Commission definitions.

Suggestions for improving access to finance for social enterprise

Social enterprises currently fall between the incentives for investment which exist for charities, where donors are eligible for up to 40 per cent tax relief on their donations, and measures which support traditional businesses such as the tax relief available to investors in the Enterprise Investment Scheme and Venture Capital Trust.

The Coalition urges the government to address this gap either by making adjustments to existing measures such as the Enterprise Investment Scheme or by initiating new schemes which take into account the legal constraints on social enterprises as regards shares.

This is vital in ensuring that social enterprises are able to receive the levels of investment necessary to create sustainable and viable businesses.

Social Enterprise Coalition
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