How Community Trusts Can Assist Social Enterprise Development

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Disclaimer:
Any opinions expressed in this paper are those of the author and do not necessarily represent the views of the Canterbury Community Trust or the Christchurch Small Business Enterprise Centre.

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1.0 Introduction

This paper is informed by information collected during the author's study trip in 2004 to the United Kingdom, North America and Australia to investigate the financing of social enterprises. It questions whether the Community Trust funding model has kept pace with the changing not-for-profit landscape and especially its increasingly significant social enterprise section. It suggests that new funding approaches will be required if New Zealand social enterprises are to achieve their potential and help to overcome social, economic, environmental and cultural issues in disadvantaged communities. The challenge is for Community Trusts to examine overseas developments, develop appropriate New Zealand models and trial new funding approaches. In addition, Community Trusts should use their collective power to encourage government and private financial institutions to adopt attitudes, processes and strategies that will create an enabling environment to allow successful social enterprise development in New Zealand.

2.0 Background

The New Zealand economic landscape has changed considerably over the last two decades and the nation has moved from one of the most regulated to one of the less regulated economies in the world. This transformation has been well documented and its effects on the social, environmental and cultural fabric of society widely debated *(Easton 1997, Jesson 1987 & 1999, Kelsey 1993, 1997 & 1999).*

The not-for-profit sector of the economy has also undergone considerable transformation partly in response to the economic changes and partly due its own growing importance in the economy as measured by the sectors contribution to GDP and paid employment. Unfortunately, accurate figures will not be known until 2006 when Statistics NZ publishes its satellite accounts on the not-for-profit sector but official overseas statistics suggest that the social economy accounts for 6% GDP in the UK, 10-12% GDP in Canada and a similar figure in the EU.

Funding, for not-for-profit organisations traditionally came in the form of personal donations and/or grants/donations from central government, philanthropic trusts (including Community Trusts), New Zealand Lottery Grants Board, bequests and local government *(Robinson & Hanley, 2002).*

However, over the last two decades the State has increasingly contracted out its services to the private and not-for-profit sectors and also encouraged not-for-profits to become less dependent on the State and philanthropic giving. The State has suggested that they become even more commercially focussed and strive for self-sufficiency. Business methods and approaches have been imposed onto not-for-profits by the use of contracts, tenders and outcome driven projects/programmes (Kramer 2000).

As a result many existing not-for-profits have developed contracted service delivery arms and new community owned businesses have been created to deliver services especially in the areas of employment training, local economic development, environmental services, health and education. A number have begun separate commercial enterprises and some have become entrepreneurial businesses. Such organisations are increasingly referred to as social enterprises and have a dual purpose of fulfilling both social and business missions.

Funding for these social enterprises is through a mix of government contracts and grants, supplemented by donations from philanthropic trusts, individuals and local government, as the State's contracts rarely allow for full-cost recovery or capital expenditure. In addition, the State frequently requires the not-for-profit to pay up-front expenses such as wages, disbursements and other overhead costs and then reimburses the not-for-profit on a monthly invoice basis (often paid late). In the worst case, government departments will refer clients and then, once the service is provided, refuse to pay for the client on the grounds that they were ineligible. As a consequence many not-for-profits often face cashflow difficulties generated by others.

Recently, in New Zealand, Gaming Machine Trusts have become an important source of funding for not-for-profits as funds from traditional sources such as the Lottery Grants Board, local government and philanthropic trusts have decreased.

In countries such as the UK, Ireland, Australia, Canada and the USA social enterprises are being actively encouraged by governments as a means of overcoming social, employment and economic barriers in disadvantaged communities. Much is made of social enterprises ability to address employment, cultural, environmental and social issues by promoting community economic development *(DTI, 2002).*

Even in times of prosperity the need for community economic development is increasing, as Western countries experience a dual economy of mainstream growth and chronic pockets of poverty. This dual economy is well recognised overseas. Tony Blair (UK Prime Minister) considers such disadvantaged communities and individuals suffer from *market failure* as neither the private sector nor government schemes can overcome the problems or address the needs at the community level.

Consequently, a number of overseas governments have announced major social enterprise funding increases; new initiatives to ensure that community economic development becomes part of mainstream economic development; the appointment of Ministers with specific responsibility for social enterprises and the creation of Government departments with a focus on social enterprises.

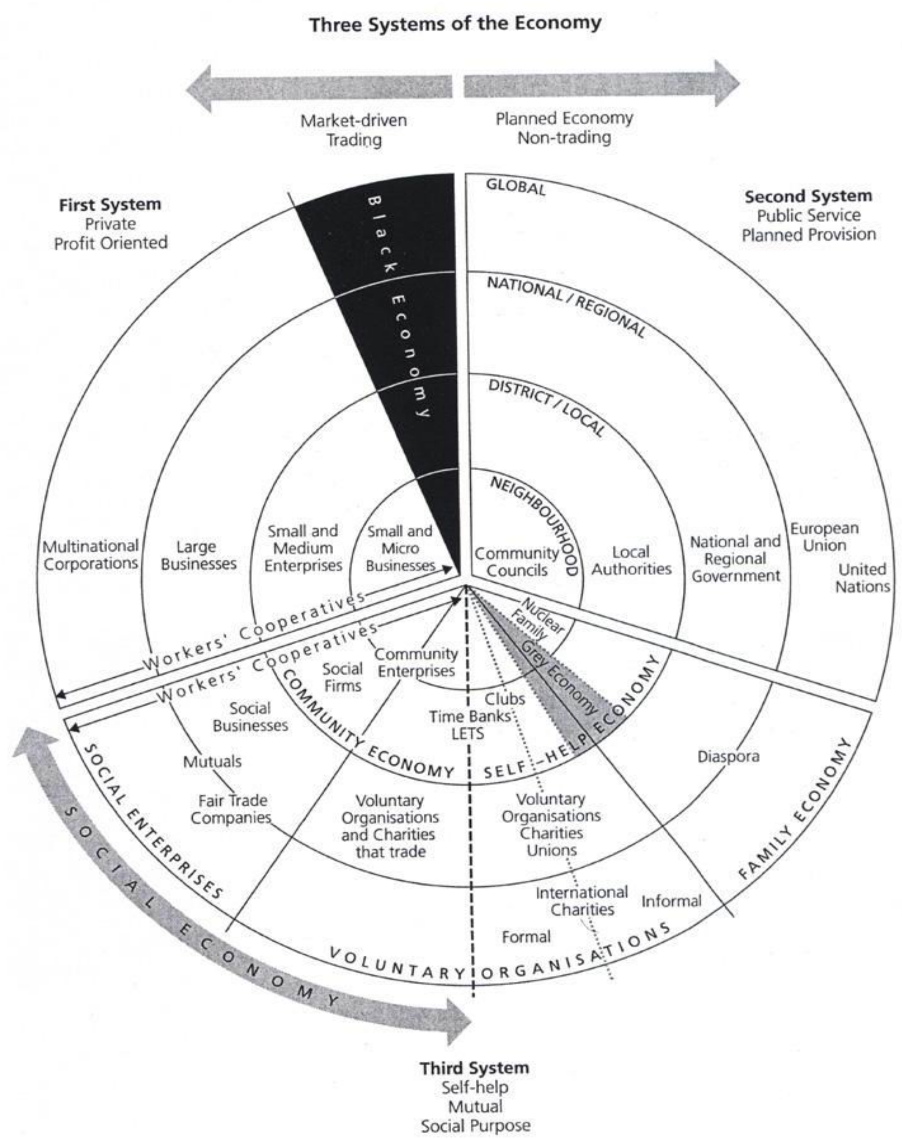
However, despite the emergence of an environment more conducive to social enterprise development funding remains an issue and such groups are increasingly turning to philanthropic organisations such as Community Trusts for financial support.

3.0 Definitions

Before the funding mechanisms used by Community Trusts to support social enterprises can be discussed in depth it is necessary to clarify the terminology being used in this paper.

A nation's economy is often divided into three broad categories, namely the private (first sector), the government (second sector) and the community and voluntary sector (third sector). Some writers argue that there is a fourth sector - namely the household sector. In Europe and Canada there is a growing consensus about the role of the three sectors or systems. The first sector/system is privately owned and profit orientated; the second sector/system is publicly owned with planned service provision and the third sector/system is socially owned and orientated towards non-personal profit, self-help, mutuality and social purpose.

The diagram below, developed by John Pearce, suggests that this analysis can be taken a step further. The third sector/system is divided into social enterprises, voluntary organisations and the family economy.



Source: John Pearce, Social Enterprise in Anytown, pg 25

Pearce, states social enterprises have six defining characteristics:

1. Social purpose or purposes.
2. Engaging in trading.
3. Not distributing profits to individuals.

4. Holding assets and wealth in trust for community benefit.
5. Democratically involving members in the governance of the organisation.
6. Independent organisations accountable to a defined constituency and to the wider community.

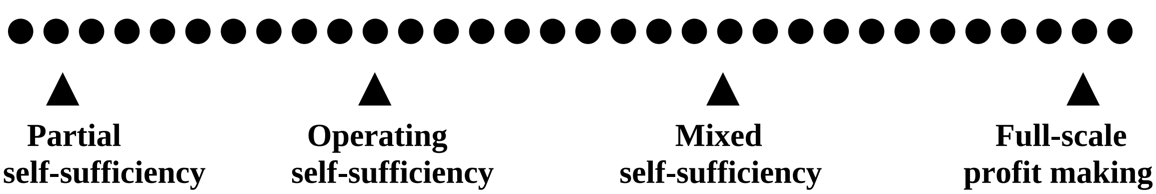
The United Kingdom Department of Trade and Industry (UKDTI) defines social enterprises as follows:
"A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners."
Pg 14, Social Enterprise A Strategy for Success UKDTI July 2002

4.0 Social Enterprises

4.1 Social Enterprise Continuum

Most not-for-profit organisations do not enter into the social enterprise pathway without considerable debate and anguish within the organisation. The initial phases are tentative steps to supplement grant income so that the group can achieve its social mission. At the other end of the continuum the social enterprise becomes a full scale profit-making body earning all its income from trading. At this point it may have changed from having a social mission to a profit mission. This could affect the group's charitable tax status. However, most social enterprises fall between the two ends of the continuum outlined below and attempt to achieve both social and business missions.

SOCIAL ENTERPRISE CONTINUUM



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4.2 Types of Social Enterprises

In New Zealand, social entrepreneurs in the 1980's created community businesses to overcome rising levels of unemployment, promote local economic development and address environmental issues. The majority of these initiatives were the result of the Local Employment Enterprise Development Scheme (LEEDS) run by the Community Employment Development Unit of the Department of Labour. This scheme operated for four years and provided funding of up to $150,000 per organisation *(Lancester 2000).* There are many examples from that era including Whalewatch, Kaikoura; People's Centres in Auckland, Mangere and Manakau; Buller Community Development Company, Westport; Community Business and Environment Centre, Kaitaia; Wai-ora Trust, Christchurch; Tairawhiti Pharmaceuticals, Te Araroa East Cape and Punakaiki Crafts, Greymouth.

In the 1990's such social enterprises were joined by a number of volunteer and charitable organisations in the health, housing, recreation, tourism and community facilities sectors who developed trading arms to create income generating activities to overcome funding deficits.

Unfortunately, the majority of these successful New Zealand examples of social enterprises have not been fully evaluated and the results published. Many are Maori or iwi-based organisations whose primary purposes is to fulfill the social missions of increasing the iwi members education, health, employment prospects and wealth. The success of such initiatives is due to several factors including the ability to access community and cultural infrastructure, funding (sometimes from Treaty of Waitangi settlements) and the drive and vision of members of the iwi.

Examples of social enterprises in the United Kingdom, Ireland, Canada, Australia and the USA are diverse and have a variety of legal structures ranging from trusts and companies with charitable status to incorporated societies or co-operatives (*Pearce 1993, Cannon 2000).*

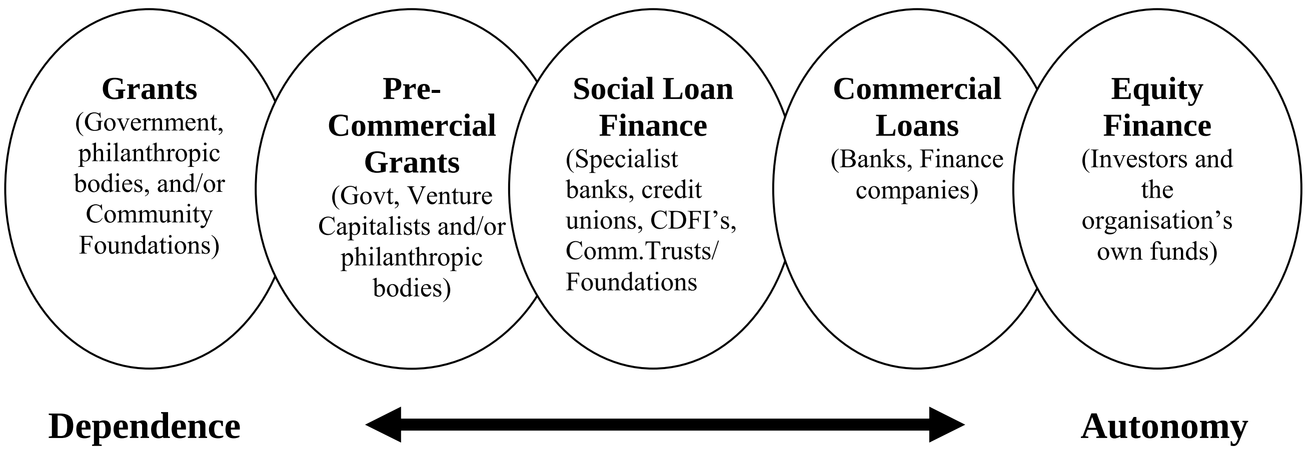
In recent years in the UK, Ireland and Canada the fastest growing areas for social enterprises have been in the fields of:

- Social housing (often co-operatively owned).
- Urban and Rural Regeneration.
- Community Owned Wind Farms.
- Environmental/Recycling Projects .
- Ownership and Management of Community Facilities.
- Specialist Banks.
- Community Development Financial Institutions (CDFIs).
- Social Investment Funds.

A common trend in social entrepreneurial businesses around the world is that they work in areas where private business does not wish to operate. Cliff Colquhoun of the Kaitaia Community Business and Environment Centre states "Community business operates in the area 10% above and below the profit line" (personal communication). Because of low operating margins and a hostile lending environment charitable tax status is essential. As a result social enterprises look to the philanthropic sector, especially Community Trusts for support throughout the organisation's growth stages.

5.0 Social Enterprise Funding Model

For social enterprises to develop successfully, and increase their level of autonomy, an integrated approach to funding is required that recognises the gap between programme/project funding (grants from government and philanthropic organisations), commercial financing (loans from banks and financial institutions) and equity funding (the organisation's own funds). An integrated funding approach would significantly increase the contribution of social enterprises and the social economy sector to the economic, social, cultural and environmental life of New Zealand. The following diagram highlights the links between financial mechanisms and differential levels of external dependence.



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In New Zealand several of the stages to successfully fund a social enterprise are missing. There are currently limited opportunities for pre-commercial grants; limited social loan finances available either from philanthropic bodies such as Community Trusts and/or through Ethical Investment Aotearoa (a grouping of micro and ethical financial institutions); restricted commercial loans which are almost impossible to obtain for social enterprises and a lack of equity finance. Occasionally, philanthropic bodies may give a large grant that builds the equity of the not-for-profit sufficiently for it to purchase a capital asset which can be used to develop a sustainable business,

In the late 1990's/early 2000's some New Zealand funders including the Government Department Community Employment Group (CEG), some local governments and philanthropic trusts developed new funding initiatives as they realised that there was a mis-match in the type of funding available for social enterprises. For example:

- CEG introduced its CEO funding which provided up to three years funding with a usual maximum of $50, 000 - $60,000 per year.
- In 2002 the Canterbury Development Corporation changed the management of its *Community Employment Initiatives Fund* (funded by the Christchurch City Council) from an annual grant donation pool of $500,000 (distributed to a large number of not-for-profit organisations working in the employment sector) to a fund to support only 10 social enterprises with a maximum grant of $50,000 per

organisation per annum. Each organisation could obtain funding for up to three years which decreased by $10,000 per annum.
- Some Community Trusts decided to commit to multi-year grant funding (normally between 2-3 years) whilst others introduced community loans schemes.

Unfortunately, these initiatives have not all been sustained. The Community Employment Group is currently (2005) being disbanded by the government and the government's commitment to on-going multi-year funding to social enterprises is questionable. Canterbury Development Corporation has reduced its CEIF funding pool each year over the last two years and the fund pool is now down to $300,000 per annum. It has also opened the fund to private sector organisations. Many Community Trusts donation budgets have been reduced from previous years due to lower investment returns.

When compared to overseas, New Zealand social enterprises are not in a unique situation regarding financial support. In the UK, the Department of Trade and Industry commissioned the Bank of England to review the provision of debt and equity finance available to social enterprises. As a result the Bank of England produced a report entitled *The Financing of Social Enterprises: A Special Report by the Bank of England*, May 2003. Its key findings were as follows:

- Demand for debt finance among social enterprise is limited both by the availability of other, cheaper forms of funding such as grants, and by cultural aversion to the risks associated with borrowing.
- Borrowing is used for a number of reasons especially to address cashflow problems, often a result of government payments made in arrears or to purchase or develop assets.
- Social enterprises are more likely than for-profit (SMEs) to be rejected for finance. Reasons for rejection included lack of available security including personal guarantees, legal structures that are not familiar to main stream financers, lack of understanding by lenders of grant funding streams, use of credit and behavioural scoring by funders, risk of 'social backlash' to the lender and low levels of investment readiness.
- Venture capital or business angel finance is unavailable to social enterprises due to the difficulty of providing commercial finance returns, ownership issues and the lack of an exit strategy.

However, as a result of such reports Governments, particularly in the UK and Canada, have introduced new initiatives to assist those not-for- profit organisations who are attempting to move from a grant to a self-sufficiency mentality. Such initiatives include new financial incentives such as the establishment of Community Development Financial Institutions; leveraging of traditional banking funds; the transfer of surplus government and council assets to social enterprises and the opening of public procurement to not-for-profit organisations.

6.0 Risk Analysis

To investigate what role Community Trusts could play in financing social enterprises it is necessary to analyse financial risk from the perspective of the donee and donor in each of the different funding categories used.

From the donee's perspective a grant has no risk attached (provided it is spent for the agreed purpose) as the money is given as a donation and does not have to be repaid. However, a social loan or commercial loan has both repayment and interest costs. Equity funding, using the organisation's own resources, has lower cost (interest foregone) but does place the organisation's assets at risk. Consequently, from the donee's point of view it would appear that grant funding would be the most desirable form of financial assistance. This is often the case for many expenses such as overhead costs and annual wages and salary. However, grants are normally too small to provide the necessary funds for a commercial project and/or are not available for major capital purchases.

From the donor's perspective grant money represents lost funds and reduces the organisation's assets whereas a social loan has an interest component so revenue is received and there is a principal repayment obligation. Therefore, a social loan keeps the organisation's assets intact (except in the cases of loan default). However, even if some social loans default overall the organisation's assets are better protected. As the loan is repaid a higher level of investment funds is available. This should increase the amount of income earned by the donor and therefore allow it to either increase its donation/loan budget and/or ride out the inevitable market fluctuations for investment returns. Therefore, it would appear to be in the interest of donors to give social loans rather than grants.

This analysis can be further developed to consider the case of a donor who instead of giving a grant or loan provides a loan guarantee to a bank or other commercial lending organisation. In this case the donor does not have to distribute any of its own funds and therefore its investment capital remains intact which allows it to earn higher income. In the case of default the donor may be called upon to repay part or all of the outstanding loan. Overseas experience shows that this risk is not high if managed properly. The San Francisco Foundation reports that it has been making loans and loan guarantees since 1989 and has not encountered a single default. However, to meet accounting standards it carries a default reserve of 5% for loans and loan guarantees outstanding *(Searson, 2001)*.

Another approach that could be used by the donor, would be to raise funds separately for various projects or organisations. This can be done in several ways, for example by investment bonds, donations or loans to a project fund. The money raised is then lent to the project or organisation. There are many examples of such processes being used overseas by specialist banks, Community Foundations, neighbourhood corporations and mutual funds.

Consequently, from a funding and economic perspective it would appear that the interests of social enterprises and donors, including Community Trust's should match. The fact that little or no social loan finance, loan guarantees or alternative financing mechanisms are available in New Zealand is therefore surprising.

7.0 Funding Implications

7.1 Overview

Whilst Community Trusts in NZ share a common background and legislative framework each Trust operates in a different manner depending upon the needs of the local community and the collective decisions of Trustees. Each Trust can determine which area/s of the third sector and which not-for-profit organisations it will support, the level of that support and the form of the support. As Trustees are appointed for a limited period Trust priorities change over time. Some Trustees will view certain areas of the third sector as more worthy than others or hold particular funding ideologies.

Financial support is predominantly in the form of grants for operating costs and occasionally capital projects. Some Trusts also provide community loans for the purchase or repair of community owned facilities and/or organisational fixed assets. Repayment of the principal is required over a certain time period. Security by way of a mortgage or debenture is normally required and interest rates vary but are normally significantly below bank interest rates.

Most Community Trusts have established working relationships with other funders such as government departments, local government, philanthropic organisations, other Community, Energy or Port Trusts and Gaming Trusts. In some instances this may result in joint funding of a programme, project or organisation.

The type of funding approach described above has generally served the community well and many organisations have been assisted, excellent projects and programmes supported and many worthwhile community facilities developed. For organisations that will always be dependent upon grants and donations and do not have the ability, or will, to become self-financing this funding model works well and should be maintained.

However, for social enterprises who earn all, or a significant portion (33% plus), of their income from trading by way of open tendered government contracts and/or by providing products or services in the open marketplace this approach rarely meets their requirements. In fact, the traditional approach of grants undermines their efforts to become self-sustaining and self-sufficient and maintains their dependence. Different types of funding mechanisms are needed to move social enterprises along the pathway to financial autonomy as outlined in the funding model previously discussed (page 8). Social enterprises primarily need access to pre-commercial grants, social loans and commercial loans. There are many reasons why such funding pathways have not been developed in New Zealand including:

- Successive New Zealand Governments have failed to recognise the importance of the social economy and social enterprises. It is ironic that at a time when many overseas governments are increasing their support of social enterprises New Zealand is heading in the opposite direction with the dis-establishment of the Community Employment Group (the only government department with a specific mandate to work in the field of community economic development) and reduced funding for community economic development.

- New Zealand financial institutions are slow to respond to the changing social and economic environment. They have extremely conservative lending policies; demand loan security in the form of property or personal guarantees; and appear to view the third sector with suspicion as its legal structure and *modus operandi* do not fit the business norm.

- The Community Trust movement has failed to divide third sector organisations into social enterprises and community and voluntary organisations. New funding strategies to meet the needs of the developing social economy movement have not been specifically developed. This failure is partly a refection of the legislation under which the Trusts operate, the taxation regime, the Trustee appointment process, the lack of policy work done on behalf of Trusts and the size and conservative nature of New Zealand society.

As a result many of the new funding approaches being developed by the public, private and the third sector overseas have yet to be introduced into New Zealand. Several of these approaches have multiple impacts influencing all of the three principal financial functions of philanthropic bodies namely, fund distribution, investment income and capital raising. For the purpose of this paper, and as possible options for Community Trusts to consider, the examples given below have been divided into these categories.

7.2 Fund Distribution

7.2.1 Pre-Commercial Funding

Generally overseas this area of funding remains the province of central Government as the risk involved is normally too high for philanthropic bodies. However, there is some potential for New Zealand Community Trusts to underwrite venture capital funds or become social angel funders. In New Zealand, in certain cases, especially in the areas of social housing and land development, such funding is necessary prior to resource consent being granted.

7.2.2 Social Investment Funds

There is opportunity for New Zealand Community Trusts to further diversify their funding model by encouraging the development of social investment funds based on proven overseas models. The Trust's involvement could range from directly establishing such funds, co-financing with partner organisations, establishing a joint venture organisation and/or encouraging existing organisations to lend to social enterprises.

Examples of overseas social investment funds, which could be used as models are outlined below:

7.2.2.1 Community Development Financial Institutions (CDFIs)

CDFI's in the UK and the USA provide capital and other financial support to enterprises in disadvantaged communities. Such support can be to either private small-businesses operating in poor, under-invested areas or to social enterprises deemed viable but not bankable who provide quality affordable housing and/or community services.

Terms offered include interest rates that are 3-4% above bank rate, 1.5-2% arrangement fees, capital holiday periods and tailored repayment schedules.

7.2.2.2 Specialist Banks
Several specialist banks serving the social economy sector have been established in the UK. These include Charity Bank, Triodos Bank and Unity Trust Bank.

7.2.2.3 Credit Unions
Credit Unions in Canada and Ireland can lend to businesses, social enterprises and not-for-profit organisations as well as individuals.

Many have specific products aimed at social enterprises including Community Banking, Social Enterprise Investments, Community Development Lending and Conservation Project Financing.

7.2.2.4 Specialist Social Finance Organisations
Several specialist social finance organisations have been established in Ireland, Canada and Australia including:

> **Social Finance Ireland**
> Clann Credo has pioneered in Ireland the raising of funds from religious communities which is then lent to people and communities for whom traditional financial and economic systems have failed.
>
> **Canadian Social Investment Funds**
> An example is *Rèseau d'investissement social du Quèbec* (RISQ) created in 1997 to make capital and loans accessible to social enterprises.
>
> **Social Ventures Australia (SVA)**
> Two major philanthropic trusts (the Smith Family and the Benevolent Society) plus WorkVentures Ltd have formed SVA as a capital fund to support social entrepreneurs.

7.2.2.5 Community Foundations (CFs)
In North America CFs grant "seed-capital" to social enterprises, match grants, act as *loan guarantors for bank loans* and/or provide project funding.

7.2.3 Commercial Loans
In North America, social enterprises can obtain commercial loan finance through the provision of loan guarantees by philanthropic organisations and Community Foundations to traditional financial institutions. The loan guarantee provides security and enables the leveraging of funds so that more money is available for social enterprises and community development.

New Zealand Community Trusts could easily adopt similar practices which would be of benefit to many social enterprises especially those who are becoming increasingly self-supporting.

7.2.4 Equity Finance
New Zealand Community Trusts may wish to assist social enterprises to obtain equity capital without using the traditional financial donation approach. Some examples of overseas approaches are outlined below:

7.2.4.1 Asset Transfer
In the United Kingdom, the Home Office has decided that community owned assets such as community centres, parks and redundant buildings can be transferred to social enterprises at minimal cost to permit their use as loan collateral provided “asset lock” provisions are included in the contract.

7.2.4.2 Patient Capital
In Scotland, the concept “patient capital” or equity funding has been thoroughly investigated (CEiS, 2002). Patient capital fills the gap between *grant* programmes which are risk adverse and anti-enterprise and *loan* finance from CDFI’s. It involves equity-type share capital arrangements through various mechanisms including preference or co-operative shares (not ownership shares), loan stock, share capital with buy back provisions or joint ventures in which the social enterprise retains the controlling interest.

7.2.5 Other Initiatives
There are also non-grant or loan means to assist New Zealand social enterprises to develop. New Zealand Community Trusts could help by supporting and advocating for social enterprises to be able to compete with the private and public sector in winning contracts or being able to access government schemes run by NZ Trade & Industry from which they are currently specifically excluded.

Examples of such approaches overseas include:

7.2.5.1 Public Procurement
In the UK, Canada and the USA social enterprises are actively encouraged to tender for central and local government contracts (DTI, 2003).

7.2.5.2 The Community Economic Development Technical Assistance Programme
A joint project between the Canadian Community Economic Development Network, Carleton University and the J W McConnell Family Foundation it provides funding to build capacity in Canadian communities and increase awareness of community economic development.

7.3 Investment Income

7.3.1 Overview

Community Trusts in New Zealand are mandated to invest their funds in such a manner as to pay out annual donations and achieve capital growth. The level of donations is set each year depending upon community need, the level of investment income received and funding reserves. The capital growth of each Trust should be at least sufficient to cover inflation and population increases so that future generations will be able to enjoy the same level of funding support as the current generation.

To achieve such income and capital growth targets Community Trusts use the services of financial advisers and fund managers to invest their funds in a diversified portfolio of New Zealand and international financial instruments. Most Trusts rely upon income from such investments to maintain and grow their fund. These investments are normally categorised into fixed interest, bonds, equities, property or alternative assets classes.

However, several other investment income streams, which may more readily match the aspirations of social enterprises and Community Trusts should be considered.

7.3.2 Private Public Partnerships (PPP)

Representatives from the Community Trust Southland (Wayne Harpur and John Prendergast) have raised the possibility of adding an additional investment category namely public private partnerships (PPPs). The purpose of these partnerships is to raise money for particular community facilities or infrastructure development (such as transport and utilities). The Community Trust would receive interest and profit income from the investment with low financial risk. Harpur and Prendergast argue that "Community Trusts can be the public or the private in a PPP.... We are **public** in that we are owned by our community, but we are **private** in that we are in the third sector, separate from government". Community Trust Southland has also established Invest South as a mechanism to invest in strategically important privately owned Southland businesses.

In Australia, the Prime Minister's Department is actively encouraging community business partnerships at both national and local levels to promote social enterprises.

The concept of private public partnerships needs further investigation and development. It may be more appropriate to consider such partnerships from the context of either community public partnerships or community private partnerships or community community partnerships. Such an approach would show that Community Trusts are willing to work with the public, private and community sectors.

An example of a community public partnership could be the provision of social housing in partnership with Housing New Zealand.   An example of a community private partnership could be the building of toll roads, airport development or energy utilities. An example of community community partnership could be working with iwi authorities to create joint venture opportunities.

The rationale for Community Trusts to be involved in such partnerships is broader than investment income. If they are serious about helping their communities to develop in a sustainable manner then they must encourage the community to increase its ownership of community assets, both facilities and infrastructure. It is increasingly becoming apparent that if disadvantaged people are to improve their lot in society then they must increase not only their personal capabilities but also their capacity by increasing their ownership of assets. Several New Zealand organisations are promoting this approach including the New Zealand Institute (David Skillings, 2004) and Ngai Tahu (Tahu Potiki, 2005).

The situation is no different for a local community, region or the country as a whole. Without increased ownership of community assets wealth creation remains the province of the few who are often external or overseas investors. Community ownership of facilities and infrastructure is not only desirable it is readily achievable.   Overseas such models exist and operate successfully as outlined below:

Social Housing
Coin Street Community Builders (CSCB) is the largest social enterprise in the UK and the leading provider of social housing to low income families living on London's South Bank. Today it houses 1300 people and owns retail shops and office space.

Urban & Rural Regeneration
Creggan Enterprises operates in one of the most disadvantaged communities in Derry, Northern Ireland. It built the GBP3.2 million Rath Mor Centre housing a supermarket, retail stores, banking facilities, post office, out-of-school programmes and office space. In addition, they have developed Community Service Units and a GBP2million Enterprise Park with business incubators and managed workspaces.

Community Owned Wind Farms
Local communities are investing in community owned wind farms as a means of obtaining guaranteed income which is then diverted into community projects.   Examples include an operational two turbine community owned wind farm in Cumbia and the proposed joint venture Arts Factory and United Utilities Green Energy Ltd eight turbine wind farm in Rhonda Fach Wales – an area with an unemployment rate of 27%.

Environmental/Recycling Projects
Fairfield is a social enterprise that recycles 4,200 tonnes of waste per year from the Fairfield Produce and Fruit Market in Manchester using New Zealand designed and manufactured vertical compost units.

All of these projects could be replicated in New Zealand and support from their local Community Trusts could guarantee that sustainable, viable, locally owned and controlled social enterprises are established.

7.3.3 Community Banking (CB)

New Zealand Community Trusts came from a background of owning a local bank. The Taranaki Community Trust still owns the TSB bank. Whilst ownership of a bank is something most Trusts and Trustees would probably not contemplate the success of community owned banks can not be denied.

Overseas there are several examples of highly successful community banking initiatives. One of the best known is the Bendigo Bank which in1988 pioneered the Community Bank (CB) concept, a joint venture between Bendigo Bank and local communities. The community portion of the profits is returned to the community by way of dividends to shareholders and to community projects. In July 2004 there were 132 community banks, 320,000 account holders conducting business worth AUD$5billion.

7.3.4 Banking Consortia – Community Sector Banking (CSB)

Following the success of the Community banking model Bendigo Bank, in partnership with Community 21 Ltd (a consortium of third sector organisations) developed CSB to offer a tailor made, full banking service to social enterprises and voluntary sector organisations.

The success of community banking and CSB has forced other banks in Australia, especially the ANZ and Westpac, to launch various initiatives including researching into Community Development Finance in Australia (ANZ, 2004) and the launching by Westpac of the Community Financial Centre which provides community group banking, community treasurer's guide and financial literacy resources.

New Zealand Community Trusts could help to establish such community sector banking consortia in New Zealand at little cost and they could also receive the financial benefits of such a consortia.

7.4 Capital Raising

Currently, New Zealand Community Trusts are not in the business of raising capital from the community. Whether they should raise capital is an issue that they need to discuss carefully. There are many examples of successful philanthropic organisations in both New Zealand and overseas who do raise capital.

Some overseas examples are given below:

7.4.1 Community Foundations

Such organisations promote the growth of community philanthropy by raising, investing and granting money to build local communities and are particularly well established in North America.

In New Zealand, the concept of Community Foundations has been investigated by several people from the New Zealand philanthropic sector notably Ken Gordon , Community Trust Waikato; Judith Timpany, Whanganui Community Foundation and Peter Wyatt, Compass Foundation, Tauranga.

If New Zealand Community Trusts decide that they should be in the business of raising capital they could easily maintain their separate status but assist in the creation of Community Foundations. For example, Community Trusts could provide the following infrastructural support:

- low cost office facilities to host a local Community Foundation,
- investment advice,
- assistance in assessing grant or loan applications,
- fund distribution strategies, and
- fund monitoring.

In addition, Community Trusts could replicate the function of North American Community Foundations who provide management and investment services for private philanthropic trusts on a fee basis.

7.4.2 Employment Bonds

Such bonds raise money from mainly past and present residents of a specific geographical area to be spent on projects to create employment and to build social housing.

7.4.3 Community Economic Development Investment Funds

This Canadian model raises a pool of capital in a community through the sale of shares. The money is then invested in new or existing local businesses including social enterprises.

7.4.4 Neighbourhood Stock Corporation

This American model uses a publicly traded, for-profit corporation under the control of community entrepreneurs, residents and businesses that is limited by charter to a defined neighbourhood area.

7.4.5 Regional Lotteries

In the UK, the concept of regional lotteries has been pioneered in Pembrokeshire and the Isle of Wight. Money is raised locally through individual subscription payments of GBP1 per week. Three prizes are granted each week and the profit is used for a community loan fund to provide interest free loans to small and medium sized businesses in the region.

8.0 Grant Process

Most Community Trusts currently segment their client groups into either incorporated/not incorporated bodies and functional allocation by sector. To enable funding of social enterprises it will be necessary to further segment groups into whether they are a community and voluntary organisation or a social enterprise. Such segmentation would then allow the Trust to determine, in consultation with the client group, the best type of funding support for that organisation.

An example of the process could be as follows:

A Park Board running a major public recreation resource applies to its local Trust for funding support. The Park Board currently receives funding from grants, donations, gate-takings, concerts, mountain bike events, timber sales and various rentals (farm, horse trekking and outdoor education centre). Its previous applications have been for grants towards annual operating costs. However, this year's application is for replacement of capital assets and further park development.

A meeting with the Park Board established that it received central government funding to undertake a feasibility study into development options. The report, which has a timeframe of 20 years, has been debated and accepted by the Park Board. The financial forecasts show that for the park to continue to operate at its current level, in addition to its usual income generating activities and receipt of a local authority annual grant, it will require additional funding spread over a five year period for capital renewals. To develop the Park further over a 20 year period the Park Board will require in excess of $1.4 million in additional funds. Such funding should result in the Park Board becoming more self-sustaining as fees from the developments should result in it achieving a healthy balance sheet and cash position.

In the past, the Park Board has received an annual grant, which whilst welcome will not achieve any of the capital works required or the development plans. The Park Board could apply to its Community Trust for a capital grant to cover the cost of replacing fixed assets. However, this will not be sufficient to meet its needs. The Park Board could also apply for a community loan but would require back-to-back loans to obtain sufficient funding. Both of these options should be explored. Another option would be for the Community Trust to provide a loan guarantee to a commercial bank. Despite the Park Board having significant fixed assets – land, buildings, plant and equipment the banking sector is loathe to provide funds due to the ownership structure of the Park Board. If the bank could be encouraged to participate then the drain on the Community Trust's funds and its risk factor would also be reduced.

9.0 Other Support Mechanisms

For social enterprise to fully develop, an enabling environment is required. This means that their particular needs must be recognised and provided by national and local government, government departments, the private sector and philanthropic organisations including Community Trusts.

Whilst Community Trusts can mainly assist in the area of finance the provision of more accessible funding will not by itself result in a healthier social enterprise environment. Finance is only one of several key assets required by successful social enterprises. Others include human, personal, financial, social, cultural, physical and organisational assets coupled with a demand for the services and activities provided by the social enterprise.

Community Trusts in New Zealand need to lobby central and local government, commercial financial institutions and other philanthropic trusts to ensure that an enabling environment is created for social enterprises. The Community Trusts are in a powerful position to influence other stakeholders due to the size of their investment portfolio, reputation, community goodwill and access to Government and government agencies. Community Trusts need to be closely involved in ensuring that such Government proposals as the New Zealand Charities Commission do not result in restricting the ability of social enterprises and the trading arms of charities to produce income that is not taxable. Otherwise, Community Trusts will face an increased demand on their funding.

Overseas, several new initiatives have been developed to encourage social enterprise development which New Zealand Community Trusts may wish to see introduced into this country. For example:

- Community Investment Tax Credits
- Community Development Venture Funds
- Government Programmes
- Removal of Claw Back Clauses in Government contracts
- Special banking legislation

10.0 Future Steps

10.1 For Community Trusts to provide sustainable funding that will enable social enterprises to work towards self-sufficiency they will need to shift their emphasis from a grant to an investment culture. Such a culture would see grants not as a gift, but as an investment that will bring certain social, environmental and cultural benefits. Social loans would become a common approach and Community Trusts would assist in the development of the micro and ethical financial sector. They may also establish specific financial organisations such as Community Development Financial Institutions and provide loan guarantees to mainstream financial institutions.

However, the shift to an investment culture perspective would mean that Community Trusts would need to:

1. Determine which organisations are social enterprises or potential social enterprises.
2. Negotiate with the social enterprise the most effective type of funding to meet the organisation's business and social objectives.
3. Agree on social outcomes expected from the organisation, funder, community and specific beneficiaries.
4. Establish multiple year funding streams to enable projects to be completed.
5. Provide a complete funding package including seed capital, start-up capital, fixed capital, working capital and growth capital.
6. Create social accountability mechanisms that measure not only financial performance.

10.2 To achieve the above, Community Trusts would need to commit funds to social enterprise projects. Suggested fund distribution benchmarks may be:

- 1% of total funds be allocated to a community loan fund that would be on-lent at inflation plus 1-3%.
- 1% of total funds be allocated to a social enterprise funding pool to support the establishment of CDFIs etc. These funds would be lent at base rate plus 2-3%.
- 1% of total funds be allocated to a social venture capital guarantee fund in association with banks or Government.

10.3 For Community Trusts to obtain an acceptably consistent rate of return from their investments and to further diversify their investment streams, the public private partnerships model would help to future-proof the Trusts whilst delivering real social benefits. Investments in community infrastructure have a known rate of return with very little risk attached. In many cases a Government guarantee may be obtainable.

If Community Trusts were also willing to establish a banking consortia in association with leading social enterprises, voluntary and community organisations then this would enable those organisations to obtain higher interest rates, better banking facilities and possibly commercial finance. Such an approach would lower the financial dependency of such organisations on Community Trusts.

To achieve such investment outcomes, Community Trusts would need to allocate funds to new investment classes. Suggested investment benchmarks may be:

- 5% of total funds be allocated to PPPs.
- 1-2% of operational expenses excluding commission fees etc be allocated to researching the feasibility of creating banking consortia and other investment opportunities.

10.4 For Community Trusts to raise additional capital for social enterprises, and the broader community and voluntary sector, Trusts would need to make a commitment to developing Community Foundations, support or underwrite employment, housing and infrastructural bonds.

To achieve this, Community Trusts would need to provide funds for such initiatives. Suggested capital raising benchmarks may be:

- 5% of operational expenses excluding commission fees etc be allocated.

11.0 Recommendations

1 A major shift in attitude is required by Community Trusts and other funders to understand that their desire that donees reduce their dependency on grants and become more self-sufficient is a myth whilst funders create dependency through not providing full project funding and/or only funding selected expenses.

2 Community Trusts need to move from being risk adverse and grant funders to committing a certain percentage of their funds to social loans for social enterprises.

3 Community Trusts need to encourage the commercial banking sector to invest in social enterprises and deprived communities. This could be achieved by establishing a Working Party to investigate the necessary procedures.

4 Community Trusts need to establish a community loan guarantee scheme with traditional financial institutions, maybe in partnership with central government.

5 Community Development Financial Institutions (CDFIs) need to be developed in New Zealand. The initial capital for such organisations could be sought from several sources including commercial financial institutions and Community Trusts.

6 Community Trusts could help in the development of specialist third sector banks modeled on the Charity, Triodos and Unity Trust banks in the UK.

7 Community Trusts should assist in the development of community owned banking by forming, in partnership with other community and social enterprises a community sector banking consortia.

8 Community Trusts should encourage the establishment of Community Foundations by providing infrastructure support and fiduciary management of community financial assets.

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