Cabinet Office
Office of the Third Sector

Consultation on the risk capital investment fund for social enterprise

August 2007

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Introduction

1. In the 'Social Enterprise Action Plan, Scaling New Heights'[1], published on 16 November 2006, the Government committed itself to working with the finance and social enterprise sectors to develop a scheme that improves the ability of social enterprises to access the finance they need. As part of that work, the Office of the Third Sector is allocating £10 million to addressing the equity gap faced by social enterprises when trying to expand their businesses.

2. After analysing the various options available for the £10 million, the Office of the Third Sector is considering creating a 'pathfinder Fund' (the Fund) that will have a *pari passu* structure. Under this structure, any investment undertaken by the Government will be on an 'equal footing' to that of the independent[2] sector i.e. the Government, in acting like a market investor, will undertake an investment through the Fund into a social enterprise if the terms it is offered are the same or better than those offered to independent sector investors.

3. The intention is to have the Fund managed by an independent sector fund manager/s who will be appointed by open public tender that complies with the European Community procurement regime. The aim is for the £10 million to be co-invested with independent sector capital to assist social enterprises with their growth capital funding needs. It is possible that the Fund will be sub-divided into a number of smaller funds should market demand dictate. The final number of Funds that the Government will co-invest in will be set during the tender round.

Purpose of document

4. The main purpose of this document is to invite comment, by way of consultation, from the relevant market participants on the proposed structure of the Fund(s). It will also be used to demonstrate the existence of the equity gap faced by social enterprises recognising that the main evidence for the gap is derived from the experiences of mainstream[3] small and medium sized enterprises (SMEs). From this, the document looks to the market for further evidence to strengthen the case that social enterprises do encounter an equity gap when looking to expand their businesses.

5. The first part of this document looks at the equity gap the policy intervention is trying to address. It describes the factors that are contributing to it, giving particular consideration to how the mainstream venture capital market has changed, leaving the types of risk capital financing that social enterprises require behind. This document asks about the type of equity gap facing social enterprises, as experienced by the market participants, and asks questions about whether this equity gap is of a similar nature to that faced by mainstream SMEs. The document goes on to question whether there are additional factors that are specific to the social enterprise sector that are contributing to the perceived failure of the market to facilitate their risk capital funding needs.

6. The document then provides details of the Fund(s) structure being considered by the Office of the Third Sector and goes on to seek the views of bodies who are likely to be potential bidders for the contract to manage the Fund(s), social enterprises that would utilise the Fund(s), potential stakeholders, fund managers in general and other interested parties. It will also look for comment on whether potential investors in the Fund would be willing to invest on a purely commercial basis in social enterprises.

7. The Office of the Third Sector will carefully consider the responses to the consultation and publish a summary of these by the autumn. Should the decision be made to proceed with the Fund(s), it will be announced around the same time as the consultation responses are published. Once the decision to proceed is taken, the final structure will be decided and interested parties will be given the opportunity to tender for its management through a competitive tender process in compliance with EC procurement rules.

Research to support evidence of an equity gap facing social enterprises

8. During the course of the scheme, certain bodies will be invited to be equity investors, who, in return for their risk capital injection will receive a share of the business they invest in. This share entitles them to receive a proportional distribution of future profits. This form of financing is most appropriate when the business is at an early stage of development and is not yet generating a sufficient stream of revenue to service prospective debt interest repayments and/or the business is developing new products or markets with the potential to achieve substantial rates of growth balanced with a significant risk of failure.

9. The European Commission's Guidelines on State Aid to Promote Risk Capital[4] investments in SMEs state that specific factors can adversely affect the access of SMEs to risk capital. The Guidelines goes on to say that there is no general risk capital market failure in the Community whilst acknowledging that market gaps exist for some types of investments at certain stages (mainly at the growth

or development stage) of an SME's life. This market gap or equity gap arises when businesses with viable investment propositions fail to attract risk capital from those able to provide it, such as venture capitalists or business angels. The reasons for this failure are dealt with later in this document.

10. The Commission defines a medium-sized enterprise as employing "fewer than 250 persons and whose annual turnover does not exceed EUR 50 million or whose annual balance sheet does not exceed EUR 43 million"[5]. A small enterprise is defined as an enterprise which "employs fewer than 50 persons and whose annual turnover and/or balance sheet total does not exceed EUR 10million"[6]. As most social enterprises are likely to fall within the definition of a SME, it follows that they are likely to encounter the same obstacles as mainstream SMEs when trying to attract funding.

11. The concept of an equity gap dates back to at least the 1931 Macmillan report to the Parliamentary Committee on Finance and Industry[7]. The first major policy response came in 1945 with the establishment of the Industrial and Commercial Finance Corporation. The model was adjusted in the decades that followed but the next major boost to the private equity industry came with the relaxation of credit controls and liberalisation of public securities markets in the 1970s and 1980s. The combined effect of these was to make it easier and more attractive for independent sector organisations to invest risk capital in businesses that demanded it.

12. The Government has also responded to shortages of risk capital by using initiatives that address issues in specific parts of the market, both defined by lifecycle and sector, and more broadly by region. The basic model has been to provide capital to be managed by private fund managers, either supplemented by private sector investment in the fund or conditional on investments being matched by private sector capital. The first initiative was the launch of the University Challenge Seed Funds, funded by the Office of Science and Technology in partnership with charitable endowments and the recipient universities themselves. This was followed by the launch of nine Regional Venture Capital Funds by the Small Business Service, designed to make start-up and growth investments in SMEs. More recently, the Government has rolled out a series of Early Growth Funds and Enterprise Capital Funds aimed at increasing the availability of growth capital to SMEs with the intention to alleviate a significant barrier to enterprise and productivity growth.

13. In its 2003 Budget, the Government launched 'Bridging the Finance Gap: a consultation on improving access to growth capital for small businesses'[8]. The paper set out to ascertain what else the Government could do to ensure that small businesses had access to the finance they required for growth and that any opportunities the resulting growth could bring to the economy were not lost. These lost opportunities represent both an economic cost through reduced

productivity growth and job creation, and a social cost to the communities within which they trade.

14. By using the responses to the consultation, the Government produced a report ‘Bridging the Finance Gap: next steps in improving access to growth capital for small businesses’[9]. This report addressed the steps that the Government needed to take to help increase the growth capital to SMEs by targeting specific areas where market outcomes were presenting a barrier to successful enterprise.

15. The report has three main conclusions:

i) Access to finance has improved for the majority of businesses in Britain but this improvement is mainly focused on businesses looking to raise debt.

ii) There is still a key group of SMEs which, although are not suited to debt finance are unable to access the equity capital they need to “thrive”. These businesses tend to fall between the scope of individual business angels that provide financial backing and the desire of formal venture capitalist firms to accept the costs associated with making such investments.

iii) The equity gap was felt to have greatest impact for those SMEs looking to raise between £250,000 and £2 million. This gap was seen to be growing over time as venture capital firms moved towards larger deal sizes as their own success in investment selection matured and improved.

16. To address this equity gap, the Government stated its intention in the report to establish a round of pathfinder funds whose aim would be to increase the availability of private growth capital to those SMEs affected by the equity gap. The mechanism it selected to achieve this was the Enterprise Capital Fund investment vehicle. This is a new investment product focused on meeting the Government’s aim.

17. As part of its strategy for social enterprises[10], launched in July 2002, the Government commissioned the Bank of England to review access to finance for social enterprise because evidence relating to this topic was largely anecdotal. In 2003, the Bank produced the report ‘The Financing of Social Enterprises’[11] . The report discovered that the social enterprise sector was considered to have limited appeal to those private investors willing to consider venture capital investments. 32% of social enterprises cited lack of available external finance as a barrier to expanding trading activity. The report outlined three main reasons for this:

i) the difficulty of providing a commercial financial return as profits tend to be reinvested in the business to further its social mission rather than being distributed to investors.

ii) ownership issues: social enterprise entrepreneurs are conscious that ceding ownership of their business to outside investors has the potential to affect their social mission.

iii) liquidity issues: there is no established market mechanism for a secondary market exit for investors.

18. The report also identified that there was a lack of uptake by social enterprises themselves in equity type investment that was being offered to them. This suggests that traditional forms of venture capital are unsuitable for social enterprises and that new forms of equity capital investment needed to be developed. The overall conclusion that can be drawn from this is that the equity gap facing social enterprises could be seen to be more acute than that facing regular SMEs since the sector lacked an investment product that was tailored specifically for the problems it faced.

19. In 2004, Bridges Community Ventures (BCV) released a report entitled 'Equity-like Capital for Social Ventures' which supported this conclusion. BCV is a private sector mission driven fund management company which aims to deliver both financial returns to its investors and measurable social impacts on society and the environment. It undertook an exploratory study to establish whether there was a need for such new forms of equity-like capital to assist social ventures with their growth ambitions and whether there is an investment model "that could create more substantial and sustainable flows of investment into social ventures".

20. BCV recommended that a "pilot social venture capital fund" be created to explore ways to link investors with social enterprises in need of equity-like investment and to demonstrate that investments of this type are sustainable.

21. To build upon the evidence outlined above, the Government's Small Business Service, which is part of the Department for Business Enterprise and Regulatory Reform, has conducted a survey that focuses on the experience of social enterprises when attempting to access finance. The subsequent report[12] indicates that larger social enterprises received significantly less finance than similar-sized SMEs in absolute terms. However, it should be noted that due to methodological constraints, the survey only covered established social enterprises registered as companies limited by guarantee or industrial and provident societies, which means that by definition it did not include many social enterprises that would be able to attract equity investment.

22. The Social Enterprise Action Plan points out that "social enterprises still report difficulties in accessing high-risk investment", as described above. In the 'Enabling Social Enterprises to Access Appropriate Finance', section of the Action Plan, the Government states its intention to "ensure that social

enterprises are able to access finance in the market". It finds that social enterprises do need adequate access to capital to grow and to operate efficiently. It is felt that social enterprises are more likely than conventional SMEs to cite access to finance as their most significant barrier to growth[13].

23. The position outlined above points to the need to establish an investment vehicle that meets the requirements of both the supply and demand side of the risk capital market for the social enterprise sector. Investors require a method to facilitate their investments into the sector and, in turn, social enterprises require a way to access the risk capital offered by such investors through an investment tool that fits their structure and capital requirements. The *pari passu* risk capital pathfinder Fund(s), described in this consultation document, is the vehicle the Government is considering to realise its policy intentions and meet the sector's needs. It is anticipating that by establishing such a Fund(s) the aims of the Social Enterprise Action Plan will be met.

24. At the same time, this work needs to be recognised within work led by the Department of Business, Enterprise and Regulatory Reform on the cross-government Business Support Simplification programme, to increase the ease of use, effectiveness and efficiency of government business support initiatives. In particular, development of a social enterprise investment fund will have to be integrated within the future shared portfolio of business support products as set out in the consultation document 'Simplifying Business Support'. This document also sets out proposals for the way in which Business Link will be developed as the primary access channel for all businesses who which to access public support.

Objectives of the Fund(s)

25. The objectives of the pathfinder Fund(s) are to:

i) demonstrate the viability of investment in social enterprise, by way of example, by encouraging an increase in the flow of independent risk capital into the equity gap.

ii) improve access for new and growing social enterprises that are seeking equity financing to develop their business.

iii) demonstrate that there are a meaningful number of investors interested in making a profit-maximising investment in the area of social enterprise and to test the terms on which they are willing to invest.

iv) develop equity funding investment instruments that can be utilised by fund managers when making investments into social enterprises.

Consultation questions

The equity gap

26. A risk capital market gap or equity gap exists for a social enterprise when a viable business proposition has been created and presented but it fails to attract investment from informal investors or venture capitalists. These informal investors or venture capitalists are the principal sources of equity finance for early growth businesses[14]. Informal investors, mainly business angels, have access to limited financial resources and therefore generally invest relatively small amounts of equity. By contrast, formal venture capital investors prefer investing in larger deal sizes to offset the fixed costs they face in evaluating potential investments. The equity gap therefore affects those businesses that are seeking a sum of money that is beyond the financial means of most informal investors but below the level at which it is viable for venture capitalists to invest.

Question 1

Do you agree that social enterprises face a similar equity gap as mainstream SMEs, i.e. that they fall into the gap between the finance available from informal investors and the failure of formal venture capital funds to invest into smaller deals?

If you agree, what evidence is there to support your belief?

Question 2

What size of social enterprise suffers from this market failure if it exists and at what point in its lifecycle is it most likely to suffer from it?

Question 3

From your experience, do you believe there are particular issues facing social enterprises in accessing equity financing? Are these issues specific to the social enterprise sector or are they the same generic issues that face all SMEs looking to source equity finance?

27. The European Commission accepted the existence of an equity gap in the United Kingdom when it gave its approval in May 2005 for the Government to establish the ECF scheme. This is a measure intended to increase the amount of equity funding available for SMEs seeking to raise equity between the thresholds of £250 000 and £2 million. The United Kingdom was able to demonstrate the equity gap facing SMEs by referencing the findings in the ‘Assessing the Finance Gap 2003’ and ‘Assessing the Scale of the Equity Gap in the UK Economy 2003’[15].

Question 4

If you agree that an equity gap exists for social enterprises, do they encounter the same financial thresholds as mainstream SMEs? If not, where is the equity gap most acute for social enterprises?

Question 5

From your experience, have you encountered social enterprises that have failed to achieve ECF funding or been deterred from applying for it? If so, why do you think that social enterprises have failed to benefit from existing interventions such as the ECF programme?

28. The Commission believes that there is a strong body of evidence that structural features of the venture capital market are contributing to a significant and growing equity gap facing businesses seeking modest amounts of risk capital to facilitate their growth. These structural causes relate to both the supply and demand sides of the market[16].

29. On the supply side, the main issues that are commonly faced by businesses willing to invest risk capital are:

    - information asymmetries
    - transaction costs
    - perception of risk and reward
    - lack of exit options.

30. Information asymmetries affect equity investors because of the significant costs they encounter when looking for investment opportunities and fulfilling their due diligence obligations. They involve the fees incurred when employing accountants, lawyers and industry specialists. These costs tend to be fixed and do not vary with investment size and hence represent a larger proportion of smaller investment deals. The information sought by investors is also not widely sponsored by independent enterprises that traditionally provide it as the investment size is too small to warrant the expenditure needed. Once an investment has been made, the investor can encounter further costs when trying to monitor the ongoing performance, and again, such costs are not dependent on investment size.

31. The transaction costs faced by a potential equity investor are also fixed and will not vary with investment size. These can act as a disincentive to investment uptake for smaller sums.

32. When coming to a decision about an investment, the specific characteristics of the investment's structure must be considered. One such characteristic is the perceived risk and the potential reward for taking that risk. If the investor has incorrect expectations then this will result in a sub-optimal allocation of capital that is incorrectly priced.

33. When investors want to realise the capital gain on their investment, they need to sell their share on. Trade sales are cyclical and the public markets for trading in smaller-firm shares are sometimes illiquid.

Question 6

When making a decision to invest in a social enterprise do, or will, investors encounter similar supply side constraints to those they would face when entering into an investment in a mainstream SME as described above?

Question 7

Are there any other supply side constraints not mentioned above that investors might encounter when considering an investment in a social enterprise?

Question 8

For those investors able to overcome their supply side constraints, are there a lack of quality investment opportunities to realise their investment intentions? If so, are you able to offer any insight as to why this may be the case?

34. As the venture capital markets have developed, further issues have arisen that contribute to the equity gap and its widening. Over time, fund managers establish a track record based on their selection performance. This improved reputation allows them to raise more funds leading to larger deals. The fixed costs described above, act as an incentive for them to leave the smaller deals behind as soon as they are able to do so.

Question 9

Do you agree that professional venture capital providers are not interested in pursuing smaller deals? If so, how does this lack of interest in pursuing smaller deals affect the social enterprise sector?

Question 10

Are venture capitalists focusing their interest on relatively established businesses resulting in the financing of smaller younger businesses being left behind? Do social enterprises tend to fall into this 'smaller younger business' sector and if so, how does this affect them?

35. The United Kingdom, in its ECF submission to the European Commission[17], points out that as venture capitalists migrate towards larger fund sizes, there is little evidence of a flow of new venture capital investment into the smaller end of the market. This is attributed to the importance of reputation in the venture capital sector. It creates a significant barrier to entry for new fund managers seeking to compete. This trend leads to a shortage of talent of quality fund managers able to make successful smaller scale and early stage investments.

Question 11

How does this barrier to entry for new fund managers seeking to enter the smaller end of the venture capital marketplace affect the equity finance available for social enterprises?

36. Equally important as supply-side obstacles are factors which can reduce the attractiveness of equity investment to SMEs. The most common of these demand side factors include:

- loss of control
- unwanted interference in management
- costs of securing equity financing
- lack of knowledge about external financing sources

Question 12

Are there any demand side constraints that are specifically found in the social enterprise arena or are the above mentioned deterrents found with both mainstream SMEs and social enterprises?

Pari passu fund(s)

37. The purpose behind establishing the pathfinder Fund(s) is to encourage potential investors to link up with potential investments. The reasons that such a linkage is not currently occurring is described above. In effect, the Government wishes to lead the way by example by using the Fund(s) to encourage this linkage and demonstrate that it does not require Government subsidy or guarantee to accomplish it. By following this route, the aim is to encourage a market change quickly and for the change to be sustainable without using a subsidy or guarantee to achieve it. After this initial co-investment Fund(s) is fully invested, it is anticipated that the market will continue to offer risk capital based investments in social enterprises and that social enterprises will demand such investment without any Government involvement.

38. The purpose of setting up the scheme as a *pari passu* fund is to enable the Government to rely on the Market Economy Investor Principle (MEIP) to make investments that will not be considered as State aid. The essence of the MEIP is that if the Government invests in an enterprise on terms and in conditions which would be acceptable to an independent investor operating under normal market economy conditions it is not State aid within the meaning of Article 87(1) of the EC Treaty.

39. The Member State must be able to demonstrate that funding relying on the MEIP is on genuinely commercial terms. In an article written by Ben Slocock of the Directorate General Competition, published in the June 2002 Competition Newsletter, it is argued that the most robust way of demonstrating that a state investment is on commercial terms is by ensuring that there is a matching investment by an actual commercial entity, provided that the risks and rewards are genuinely the same. The intention is for the Government's funds to be placed into the investment on a on a side-by-side basis with the independent sector according to their respective shares of the total funding committed to the investment.

40. The Fund(s) intended characteristics will be:

i) The responsibility of identifying and negotiating potential investment deals will be left to the Fund manager/s. The intention is for the Office of the Third Sector to monitor the Government's investment but without having direct control over the fund manager's individual investment decisions. The Office of the Third Sector will look to ensure that investments comply with the business plan and adhere to the terms of the successful bid.

ii) Participation in an investment by the Government will occur when they are offered exactly the same or better terms than the independent sector investors.

iii) The Government will be acting as a rational market investor would. Since such a rational market investor will expect their initial investment to be repaid along with an acceptable return, the Government will expect the same. The return the Government expects to receive will match that of the independent sector. The Government will not be providing any subordination or guarantee.

iv) The Fund(s) will combine public and independent money for onward investment into social enterprises. The Government's maximum contribution to any investment will be 50% of the deal size. However, the independent sector may contribute more than 50% thereby reducing the Government's contribution proportionately.

v) The capital flow of the Fund(s) is intended to operate so that the Government's funds can be drawn down once an investment has been identified. The Government will not invest unless the independent sector is committed to invest an equivalent or larger sum.

vi) The benefits of the measure will be aimed exclusively at social enterprises in England as the other parts of the UK have their own programmes to assist social enterprise access to risk capital.

vii) The investment structure that the Fund(s) undertakes in the social enterprise will have to be equity or quasi-equity. For those that are quasi-equity, they will have to be closer to equity than debt. The Fund(s) will be prohibited from entering into investments that have the potential to be classified as debt rather than equity.

Question 13

Are potential investors in the Fund(s) willing to invest on purely commercial terms? What other terms will investors be willing to enter into investments with the Fund(s)? What return are they likely to expect?

Question 14

How will potential social enterprises respond to a Fund(s) that will offer investments products as described in point 40(vii)?

Question 15

Is this a workable capital flow model for the Fund(s) to operate under? If not, what are the alternative models that the Government should consider?

Question 16

What evidence is there that there are informal investors and professional venture capitalists willing to provide risk capital to social enterprises but lack the investment vehicle to do so?

Fund's objectives

These, as previously stated, are:

i) demonstrate the viability of investment in social enterprise, by way of example, through encouraging an increase in the flow of independent risk capital into the equity gap.

ii) improve access for new and growing social enterprises that are seeking equity financing to develop their business.

iii) demonstrate that there are a meaningful number of investors interested in making a profit-maximising investment in the area of social enterprise and to test the terms on which they are willing to invest.

iv) develop equity funding investment instruments that can be utilised by fund managers when making investments into social enterprises.

Question 17

From your experience do you feel that these four objectives are achievable considering the proposed structure of the fund outlined above?

Requisite scale

41. The overall size of the funds available for investment will be a minimum of £20 million, consisting of £10 million from the Government and a minimum of £10 million from the independent sector. A fund pool of this size may require the appointment of more than one fund manager.

Question 18

What is the minimum fund size that allows the Fund(s) to operate on a commercially feasible scale and for the necessary conclusions to be drawn as to it successfully meeting its objectives?

Question 19

What are the advantages and disadvantages of the Government appointing one fund manager to run one large fund rather than several fund managers to run several smaller funds?

Legal structure

42. A Limited Partnership (LPs) constituted under English Law is the structure widely used for funds that are managed by professional fund managers on behalf of ‘passive’ third party investors. In addition fund managers are usually required to exit investments as soon as possible, normally when a return is realised that all parties are satisfied with.

43. The Office of the Third Sector acknowledges that this may not be the best model for social enterprises to operate within and an alternative structure may need to be developed. This structure could involve more evergreen characteristics (where profit is reinvested in the fund so as to make further investments rather than distributing immediately back to investors) or one which allows social enterprises more time to meet their performance targets or one

that involves creating flexibility around any capital commitments centring on the social enterprises ability to make payments.

Question 20

What would be a reasonable time span for the Fund(s) to run in order for its objectives to be properly evaluated by the Government?

Question 21

Are there any alterations to the traditional LP structure that the Office of the Third Sector should consider when forming the legal structure for the Fund(s) or are there alternative legal structures that might create a more suitable framework for the Fund(s) to operate within?

Definition of social enterprise

44. The Fund(s) is looking to invest in as many social enterprises as its capital contribution will allow and the Government wants to ensure that the Fund(s) tests its objectives fully without constraining too tightly the types of businesses that can apply to the Fund(s) for investment. One definition of a social enterprise is a "Business with primarily social or environmental objectives, principally reinvesting surpluses in the business or community".

Question 22

What level of demand does the market anticipate from social enterprises fitting the above definition?

Performance targets

45. It is important that the Office of the Third Sector is able to demonstrate to Ministers, the sector and the wider public the success of the Fund(s) in relation to its objectives, as stated above.

Question 23

What is the best way to evaluate whether the Fund(s) has increased the flow of independent risk capital into the equity gap faced by social enterprises?

Question 24

How can we measure whether there has been an improvement in the ability of social enterprises to access the equity they need?

Question 25

What is the best way to quantify the number of investors interested in making a profit-maximising investment in the area of social enterprise? This should involve a calculation of investors that were willing to accept the return but might not have participated in the eventual investment of the Fund(s).

Question 26

What are the key factors that should be considered when evaluating whether there has been a successful development of equity funding instruments for investing in social enterprises?

Overhead Costs

46. The Government is considering asking the fund manager to operate under a model where there would be no upfront payment of overhead costs or ongoing management fees. The payment of such costs would be dependent on the financial performance of the Fund(s) and eventually paid out after any profit had been realised but before profit distribution takes place.

Question 27

Are fund managers currently working under such terms to cover their overhead costs/management fee and if not, would fund managers be open to doing so?

47. As the Fund(s) will be operating under the *pari passu* structure, the operating costs and the management fee will have to be equally divided with the independent sector.

Question 28

Is there an existing model that the Government could rely on which would share the operating costs and management fee of a fund equally between the Government and the independent sector or would a new model have to be devised? If such a model exists, what are its characteristics?

Remuneration of the fund manager

48. The Office of the Third Sector recognises that there are various models in use to remunerate fund managers for their management of a fund and the investment choices they make that are directly related to the financial performance of their funds and hence the return that investors receive. The models can be from modest remuneration packages to ones with more complex terms.

Question 29

How is this remuneration best structured so as to create a strong incentive for the fund manager to maximise the financial performance of the Fund(s)?

Question 30

The Office of the Third Sector would like opinion on features in current models being used in the market that although viable would be a deterrent for fund managers to bid.

Question 31

Looking outside the financial performance of the Fund(s) is it possible to compensate the fund manager for meeting the other objectives of the Fund(s) outlined in point 25 and if it is, how is this best achieved?

References:

[1] Social Enterprise Action Plan: Scaling new heights (Cabinet Office 2006) Crown Copyright
[2] Combination of the private sector and the third sector
[3] Mainstream SMEs are those businesses that would not consider themselves to fall within the social enterprise category of SMEs)
[4] OJ C 235, 21.08.01, p3 ff. This Communication has been replaced by the August 2006 Commission Guidelines (2006/C 194/02).
[5] http://europa.eu/scadplus/leg/en/lvb/n26026.htm
[6] http://europa.eu/scadplus/leg/en/lvb/n26026.htm
[7] Sessional papers 1931, volume number xiii, paper/bill number Cmd 3897
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[10] DTI (2002) Social Enterprise; a Strategy for Success
[11] http://www.bankofengland.co.uk/publications/financeforsmallfirms/financing_social_enterprise_report.pdf
[12] DTI Finance for Small and Medium-Sized Enterprises: Comparisons of Social Enterprises and Mainstream businesses.
[13] DTI Finance for Small and Medium-Sized Enterprises: Comparisons of Social Enterprises and Mainstream businesses.
[14] http://www.hm-treasury.gov.uk/media/0/6/small_business_452.pdf pg 11
[15] European Commission State Aid number: C 17/2004 – United Kingdom point 54, pg 9
[16] European Commission State Aid number: C 17/2004 – United Kingdom point 113, pg 23
[17] European Commission State Aid number: C 17/2004 – United Kingdom

About the consultation

The Government wishes to consult individuals and organisations about the Risk Capital Investment Fund for Social Enterprise, during the 12 weeks from Friday 10 August 2007 to Friday 2 November 2007.

Electronic versions of this consultation can be found at
www.cabinetoffice.gov.uk/thirdsector

We are able to supply copies of this consultation in alternative formats (such as large print or Braille) on request.

Following consultation, the Government intends to consider responses in November 2007. A summary of responses to the consultation will be published.

Please send your responses to the consultation by **Friday 2 November 2007** to:

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35 Great Smith Street
London SW1P 3BQ

or via email to:

riskcapital@cabinet-office.x.gsi.gov.uk

When responding, please summarise the people and organisations you represent and, where relevant, who else you have consulted in reaching your conclusions.

The information you send us may be passed to colleagues within the Cabinet Office or other Government departments and may be published in full or in a summary of responses.

All information in responses, including personal information may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004). If you want your response to remain confidential, you should explain why confidentiality is necessary and your request will be acceded to only if it is appropriate in the circumstances. An automatic confidentiality disclaimer generated by your IT department will not, of itself be regarded as binding on the Cabinet office. Contributions to this consultation will be anonymised if they are quoted.

Individual contributions will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond. If you have comments or complaints about the consultation process itself, please contact Ian Ascough in the Better Regulation Executive: ian.ascough@berr.gsi.gov.uk

Cabinet Office Code of Practice on Consultation

This document and the consultation process have been planned to adhere to the Code of Practice on Consultation produced by the Cabinet Office, and are in line with the six consultation criteria:

1. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.
2. Be clear about what the intended proposals are, who may be affected, what questions are being asked and the timescale for responses.
3. Ensure the consultation is clear, concise and widely accessible.
4. Give feedback regarding the responses received and how the consultation process influenced the policy.
5. Monitor the associated department’s effectiveness at consultation, including the use of designated consultation co-ordinator.
6. Ensure the consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.