



Social Enterprise Fund - Request for proposals

The Office of the Third Sector (OTS) has appointed Capital for Enterprise Limited (CfEL) to assist it in establishing one or more funds that will offer risk capital investment to Social Enterprises based in England.

This document sets out the objectives that OTS wishes to achieve and the restrictions that will be imposed on any fund in order that it meets its public policy objectives. Detail is provided setting out the information that will be required from those wishing to submit a proposal, the assessment criteria that CfEL and OTS will apply, and an outline timetable for the award of funding.

Objectives of OTS

OTS will commit up to £10m via funds or co-investment to achieve the following policy objectives:

- (i) to demonstrate the viability of investment in Social Enterprises (see definition below), e.g. by encouraging an increase in the flow of independent risk capital into the equity gap;
- (ii) to improve access to equity funding for new and growing Social Enterprises that are seeking equity capital to develop their business;
- (iii) to demonstrate that there are meaningful numbers of investors interested in making commercial investment in the area of Social Enterprise and to test the terms on which they are prepared to invest; and
- (iv) to develop equity funding instruments that can be used when making investments into Social Enterprises.

In meeting the objectives the following definition will apply:

Social Enterprise	A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community.
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Funds will be expected to apply the following investment restrictions. Fund managers may offer to operate within further restrictions where they feel this is appropriate.



- The fund(s) must be operated in compliance with the market economy investor principle. In order to demonstrate that this condition is met the fund may not invest unless:
 - at least 50% of the funds invested into a Social Enterprise are from private or third sector investor sources, for the avoidance of doubt this condition would be met if the fund has been established with at least 50% private or third sector investment.
 - the investment from the fund is made on the same terms as that of the private or third sector investor.
- The maximum initial investment size shall be £1 million of equity or quasi equity in any single company in any six month period from the fund (including co investors if a co investment fund).
- Follow on investment may be made so long as no more than £2m¹ of OTS' capital is invested in any single Social Enterprise.
- The fund(s) can only make investments in Social Enterprises which are based in England and whose activities benefit the whole or any part of England.
- The investments made by the fund(s) must take the form of equity or quasi-equity; any investment that does not have a clear objective of creating capital growth and realising capital gain will not be permitted.

Information to be provided by applicants

- Name and contact details of organisation.
- Structure of organisation.
- Business activities of organisation.
- Assets under management stating separately any Social Enterprise investments.
- Other Social Enterprise funds or activities managed (not covered above).
- Brief details of investment team and tenure with organisation.
- Details of any investment track record; either from the bidding team or individuals within the team (supporting information should be included as an annex).
- Details of the proposed fund's investment strategy including, target sectors and investment stages, investment structures and any co-investment agreements, length of investment period and proportion of funding reserved for follow on investment.

¹ This limit may be reduced if necessary to reflect the size of particular funds.



- Experience of sourcing, selecting, managing and exiting investments in a way that is consistent with OTS policy objectives and the strategy set out.
- The amount of OTS funding sought.
- Sources of private or third sector investment.
- Details of management fee, start up costs and any other fees and costs that will be charged to the fund and details of all fees likely to be charged to investee companies by the fund or linked organisations.
- The nature of any arrangements that your organisation has with providers of investment readiness or other support organisations working with Social Enterprises. Such links are not a pre-requisite for a proposal to be accepted but, all else being equal, preference will be given to organisations which can demonstrate links (or strong potential links) with these support programmes.

Although this document refers to 'funds' CfEL will consider ways of meeting the objectives that do not follow the conventional LPA structure. For example there would be scope for applicants to propose alternative management arrangements and funding agreements where they offered better value for money or more appropriate skills etc.

Proposals could be for a conventional fund model, where third party investment is raised alongside OTS funding at the outset or a co investment fund model where OTS' funding is matched at the point of an investment into a Social Enterprise. For the latter CfEL will be looking for evidence that matching third party investment will be available.

If selected, fund managers will need to gather data on investee companies, which captures both financial and non-financial measurements of Social Enterprise.

Assessment of proposals and closing date

The assessment criteria will be based on evidence of how bidders demonstrate they will be able to meet the objectives of the fund.

Primary assessment criteria are as follows:

- the strength of the investment team and relevant experience of Social Enterprise and expertise, including track record;
- an investment strategy which targets Social Enterprises and which is consistent with the experience and expertise of the investment team;
- the ability of the investment team to source private third party investment to be invested alongside OTS funds; and
- financial terms including details of management fee, start up costs and any other fees and costs chargeable to the fund or Social Enterprise.



In addition to the primary assessment criteria above, proposals will generally be considered stronger where they can demonstrate:

- existing links or proposals for establishing links with providers of investment readiness programmes and
- proposals for managing the performance of social enterprises in meeting their business objectives through definition, measurement, reporting and improving social impact

Proposals will initially be assessed by CfEL, who have been appointed by OTS to assist them in the selection of fund managers.

Stakeholders have indicated that the 12 week period proposed in the consultation response is excessive. Consequently, unless CfEL receive representations from potential partners to revert to the original 12 week period by 10 October 2008, the closing date for proposals will be **Wednesday 12 November 2008**.

Applicants must submit 5 hard copies of the information requested above, along with an electronic version that is Word and Excel compatible. It is expected that proposals will be between 5 and 10 pages long but appendices may be used if necessary. Applicants may be rejected solely on the basis of this proposal. All information supplied by applicants as part of the process will be regarded as commercially confidential. The information will not be used for any purposes other than evaluating the proposal.

Proposals should be sent to:

Social Enterprise Fund Proposals
Capital for Enterprise Limited
9-11 London Road
Sheffield
S2 4LA

Tel: 0114 279 4392