



Discussions on Social Enterprise Financing in Manitoba

Report Summary

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**Social Enterprise
Manitoba**

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Full report available at www.socialenterprisemanitoba.ca

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Key Findings

- There is a significant need for additional, up-to-date research into the social enterprise sector in Winnipeg and Manitoba.
- Financing of a social enterprise requires innovative financing tools for each stage of the social enterprise's development.
- Attraction and retention of highly qualified personnel is a barrier to the development of the social enterprise sector.

Recommendations

- Conduct additional research to determine:
 - What business skills are required by social enterprises and how best to implement an educational strategy for current and future social entrepreneurs, and
 - What human resourcing issues are Winnipeg and Manitoba social enterprises facing and how best to manage current and future human resource issues?
- Financing tools should be created for each stage of social enterprise development to assist in their development and growth.
- A human resourcing strategy should be developed in partnership with post-secondary institutions for Winnipeg and Manitoba's social enterprise sector.

Environmental Scan of Social Enterprise Financing

An environmental scan on the availability of financing for social enterprise was conducted as a piece of this report. This included both granting and loan programs targeting social enterprise, as well as financing not targeted at, but available to, social enterprises.

While social enterprises may access debt and equity financing in a similar fashion as conventional firms, this does not provide social enterprises with a competitive advantage. The use of conventional funding sources does not offset the social costs associated with running a social enterprise, which makes it more difficult for social enterprises to access traditional financing.

Non-specific funding means social enterprises must not only compete with conventional businesses, but also use the funds for conventional business practices as dictated by the funding criteria. This use of funds does not address the specific needs of social enterprises, and does not help develop the social enterprise sector.

There is limited specific funding available for social enterprises in Winnipeg and Manitoba. The **United Way Winnipeg** and **Social Enterprise Manitoba** offer funding for social enterprises, but this funding is limited. In addition, these funding programs offered by these two organizations is intermixed with the myriad of other programs they administer on behalf of the social enterprise sector.

Conclusions from Environmental Scan

The environmental scan conducted for this report outlines two themes:

- There is funding available for social enterprises, but it is non-specific to the objectives of social enterprises. Social enterprises must compete with conventional firms for the same funding pools even though the conventional firms lack the costs associated with the mission of social enterprises.
- The time and knowledge required to access and manage the funds available is considerable. An individual would require considerable knowledge and time to properly navigate the funding environment only to be stymied by incomplete or inconsistent information. In addition, the caveats associated with utilizing the funds provided can be a deterrent to new social entrepreneurs.

Interviews with Local Leaders

This report includes analysis of five phone interviews of members of the **Winnipeg Social Finance Working Group** along with a key informant from **Manitoba Housing**.

The interviews were approximately 15-20 minutes in length and were comprised of four, directed questions developed by **CCEDNet Manitoba**:

- What gaps are social enterprises currently experiencing with the tools and financing available?
- What areas or tools should the Manitoba Social Enterprise Strategy explore?
- Of all the barriers facing social enterprise, what are the top two?
- What is needed to address these barriers?

Question 1

What gaps are social enterprises currently experiencing with the tools and financing available?

Three topic areas emerged in response to this question:

- **Management**
- **Debt Financing**
- **Grants**

MANAGEMENT

A common need for social enterprises is management acumen. The need to access highly qualified business individuals to help establish and grow social enterprise was seen as a gap by many of the interviewees.

“I would say, in order to prepare a social enterprise to access financing you must ensure there is appropriate, adequate management. Both in terms of the financial reporting and forecasting, but also in terms of the sector expertise.”

“I think it is critical that the board, much as we say the management, needs certain skill sets and acumen to run the business. The board also needs a certain skill set and acumen to govern the enterprise.”

DEBT FINANCING

While most interviewees agreed that no formal gaps exist for social enterprises to access traditional debt financing, the caveat is that debt financing is only affordable for established businesses with access to capital. Debt financing is a valid tool for growth for developed social enterprises, but is not a tool for developing social enterprises.

GRANTS

Grants are an important issue for social enterprise development. Interviewees acknowledged there are few local granters for social enterprises (United Way and Social Enterprise Manitoba). Interviewees also spoke to innovative financing tools, not currently offered in Manitoba, such as micro-loans to bridge the gap between grants and debt financing.

CONCLUSION

The financing of social enterprises needs to follow the needs of the enterprise along the development continuum. There needs to be grants for start-up social enterprises, grants and micro-loans for developing social enterprises, and debt financing available for developed social enterprises.

Question 2

What areas or tools should the Manitoba Social Enterprise Strategy explore?

Interviewees focused on the need to explore different forms of capital that match up with the development stage of a social enterprise. **Grants** appear to be lacking for the developing social enterprise, while debt financing was not seen as a gap for the growth of social enterprises.

“If it is a start-up vs. a mature established growing enterprise. The two different enterprises need different types of capital.”

The lack of capital is linked to the second conclusion from this interview question, **Expertise**. The need for the social enterprise sector to attract, retain or develop business expertise was an issue that warrants greater research to ascertain the best approaches to human resourcing the sector.

“Do they have the ability to, not only, screen and identify individuals with the right skill set at the management board level, but are they then able to recruit, attract and retain these people.”

Question 3

What are the top two barriers facing social enterprise?

The third question asked of interviewees was to identify the top two barriers facing social enterprises. The majority responded with:

- **Management / Technical skills**
- **Access to markets**

This top response flows into the responses from the previous two questions outlining the need to develop, attract and retain social entrepreneurs. In terms of accessing markets, interviewees identified numerous opportunities.

“Going back to the point of getting out of that insular thinking and looking at creative partnerships. Whether with the private sector or government or other social enterprises to leverage your collective strength to compete.”

A barrier to accessing markets is the extra **social cost** that social enterprises must take on:

“If they (*social enterprises*) didn't have those extra social costs, they might be a viable business, but because of the extra social costs, the commitment to the social mission, they need to be able to access, increased access to grants that help support the social mission.”

Question 4

What is needed to address these barriers?

Interviewees identified increasing the need to increase the business skills required to run a social enterprise. This is made more difficult by social enterprises' limited access to funds, which limits their access to highly qualified people.

In addition, a lack of collateral among social enterprises further emphasizes the need for differentiated financial products to support the social enterprise sector. Access to traditional lending is considered difficult for new social enterprises with limited collateral. This reinforces the need for financial products that address the entire continuum of social enterprise development.

"They (social entrepreneurs) don't understand the kind of business they are getting into and they have unrealistic expectations in terms of who is going to pay for the next bad business (or business failure)."

"You need to demonstrate there is value beyond just simply doing the good thing and a more ethical way of doing business. It is about the bottom line."

"You are going to have a very limited pool of people to draw from because most people won't be willing to work for half of what they could."

Conclusion

1) Need for Additional Research

Most of the current, peer-reviewed research is not applicable to the Winnipeg or Manitoba social enterprise environment. Given the strong focus on business expertise and human resourcing issues it is strongly recommended that additional research be conducted to determine: a) What business skills are required and how best to implement an educational strategy for current and future social enterprise leaders, and b) What human resourcing issues are Winnipeg and Manitoba social enterprises facing and how best to manage current and future human resource issues.

2) Financing Social Enterprises

Financing for social enterprises needs to be examined in terms of its ability to stimulate development or enhance growth within the social enterprise sector. At present, based on this report, most financing for social enterprises is focused on the growth of existing social enterprises. Any innovative financing for social enterprises needs to address the entire social finance continuum from initial start-up to established enterprise.

In addition, collaboration within the social enterprise sector around innovative partnerships to access new markets or opportunities should be explored to advance the sector. Partnerships within the sector would improve the success rate of new entrants. The partnerships could be in the form of mentorships that would help potential new social enterprises navigate the complex financial granting systems that exist for social enterprises.

3) Attraction and Retention of Highly Qualified Personnel

While a partnership/mentorship approach to new entrants into the social enterprise sector will provide some assistance in developing new highly qualified personal (HQP) for the sector, it is far from sufficient to rely on individual motivations to enter the sector as a strategy for HQP development. A strategy for human resourcing the social enterprise sector in Winnipeg and Manitoba needs to be developed based on sound research on the sector and its needs. It is strongly suggested that, based on further research into the human resource needs of the social enterprise sector, that a human resourcing strategy be developed specifically for Winnipeg and Manitoba. Partnerships with one or more postsecondary institutions should be developed to ensure that educators are involved in the development of future social entrepreneurs.