

A GUIDE TO FINANCE FOR SOCIAL ENTERPRISES IN SOUTH AFRICA

Researched, compiled and written
by Greater Capital

GREATER  CAPITAL



International
Labour
Organization

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First published 2016

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A GUIDE TO FINANCE FOR SOCIAL ENTERPRISES IN SOUTH AFRICA"

ISBN

978-92-2-130850-8 (print)

978-92-2-130853-9 (web pdf)

ILO Cataloguing in Publication Data

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INTRODUCTION

South Africa needs a thriving Social Entrepreneurship sector in order to overcome some of its critical social and development challenges. Social Entrepreneurs find creative and sustainable ways to address challenges confronting society; their approach innovates and combats challenges in ways that government, traditional charities or NGOs can't.



Social Enterprises utilise entrepreneurial activities to address a social need, social gap or towards a social goal.

Xolisa Dhlamini, Bertha Scholar

WHAT ARE SOCIAL ENTERPRISES?

Social Enterprises are revenue-generating businesses **with a twist.**

Whether operated by a non-profit organisation or by a for-profit company, a social enterprise has two goals:

- to achieve positive social, cultural, community, economic and/or environmental outcomes and
- to earn revenue and maintain sustainability

watch



[What are Social Enterprises?](#)



IS THIS GUIDE FOR YOU?

This guide to finance is aimed at Social Enterprises that need to access funding to grow and scale their enterprise.

Funding is increasingly available for all kinds of Social Enterprises and not dependent on life-stage or scale of your Social Enterprise; the reason you are seeking funding or your legal status.

There is a myriad of different funding mechanisms and channels through which you can access finance. This guide has been designed to help you navigate your way through what is available and finding the **most appropriate source of funding** for your unique Social Enterprise.

The information in this guide will be most useful for small and medium sized enterprises. These enterprises will have managers with financial understanding but will not necessarily have access to specialist financial advisors and fundraisers.

USE THIS GUIDE TO:

- ✓ Identify the type of funding your unique enterprise qualifies for
- ✓ Understand what financiers are looking for and how to look attractive to each type of investor
- ✓ Understand the due diligence process and how to prepare for it

BUSINESS IDEATION – AT THE VERY START OF YOUR JOURNEY

Funding is more difficult for seed and early-stage businesses with no track record or assets; there are several support and funding options available for these enterprises. Private sector organisations such as incubators and accelerators typically fill this role. These are organisations that provide mentoring, training, business services and sometimes funding for promising entrepreneurs to develop their business ideas.

The South African government is also involved in the support of seed stage businesses through the provision of technology transfer offices, business incubators and an accelerator that targets high growth enterprises.

Incubators are organisations that help promising start-ups acquire the resources needed to succeed. Services offered by incubators may include office space, professional services and business advice.

Accelerators are interested in assisting promising start-ups so that they have a better chance of succeeding. The major difference from an incubator is that an accelerator will typically make an investment in the early stages of the business.

Technology Transfer Offices assist in supporting the commercialising of research and development projects.

Resources



[SEDA Technology Programme: Business Incubator List](#)

[Small Business Connect: List of South African private sector business accelerators](#)

[Ventureburn: List of organisations supporting startups](#)

[Silicon Cape: List of South African private sector business accelerators](#)

[CSIR Technology Transfer](#)

[NYDA Business Support Services](#)

[Gazelles Accelerator Programme](#)



It's all about sustainability... think as a business and not as a social enterprise.

Mandla Kuphe, Ashburton

...and beyond initial ideation, some useful things to consider before applying for external finance

- **Be confident in your business.** A Social Enterprise must have a period of positive trading on record; many funders will need to see this track record before they even consider your application for finance.
- **Utilised and exhausted all local funding options.** The initial test phase of a business often comes from personal savings, contributions from friends or family, cross-subsidization from another business or loans secured against your own property.
- **Run as leanly as possible.** Minimizing your cost base will both make you more attractive to finance providers and reduce the amount of finance that you will likely have to attain to expand your operations.
- **Make sure the numbers add up.** Applications for finance depend heavily on solid evidence that the business is on track towards profitability. Important points to consider are sustainability and scalability.

TOP TIP



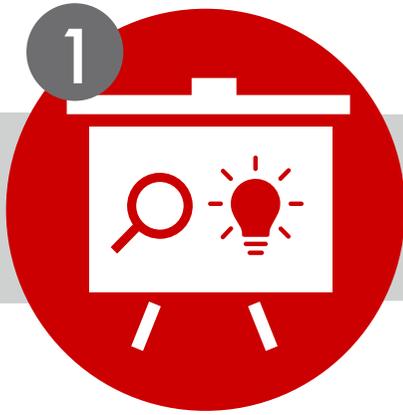
Obtaining finance for a business that has no proven track record is extremely difficult so only apply after an initial period of positive trading.

TOP TIP

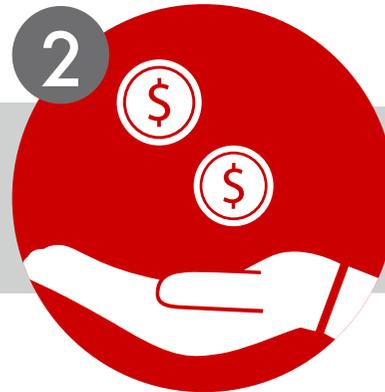


Crowdfunding and entrepreneurship competitions are exciting new ways to attract funds for business ideation.

THE THREE STEPS FOR SUCCESSFUL FUNDING



STEP 1
Understanding your
unique situation



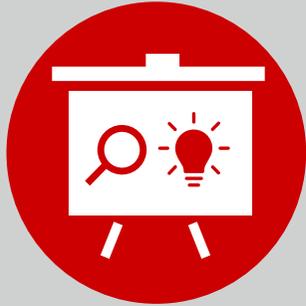
STEP 2
Understanding your
funding options



STEP 3
Positioning your Social
Enterprise for funding
success

STEP 1:

UNDERSTANDING YOUR UNIQUE SITUATION



There are several key factors to understand about your **unique situation** before approaching funders.

All of these can have an impact who you approach, how you present yourself and what sort of finance you apply for:

1. Life-stage and other important funding criteria
2. Your reason for seeking funding
3. How to assert your credibility through legal structures, industry certification or labels

In addition, your Enterprise's B-BBEE profile can have an impact on the funding options available.



[What are the key challenges?](#)



You need to have a good understanding of what kind of funding you want to source or can source given the nature of your organisation.

Xolisa Dhlamini,
Bertha Scholar

Leverage what you have, if you have a compelling story, if you have impact, there will be interest.

Luvuyo Rani, Silulo

1. Life-Stage and Funding Criteria

It is extremely rare to find a single financier that provides 'every type of funding' for every type of Social Enterprise.

Different types of finance are typically available for investors with different preferences, such as stage of business growth, sector or size of business.

This guide will cover 5 distinct stages, each with a number of different financial options available:

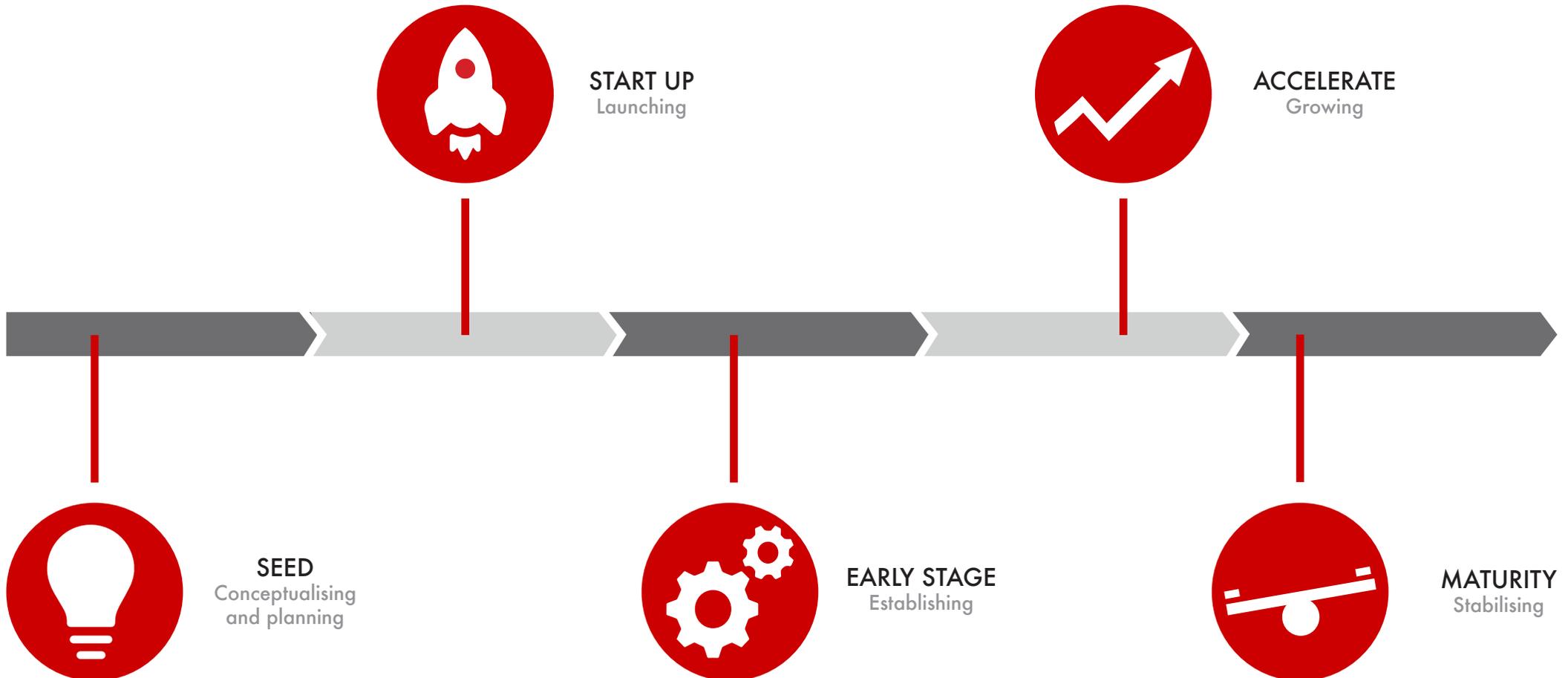


Not everyone that has money will give you money, you must understand their motives.

Xolisa Dhlamini, Bertha Scholar



Understand the preferences of different funders before approaching them.



2. Reasons for Seeking Funding and How Much You Need

Understanding the reason behind your financial plan and the amount needed, will help you target applications to the most appropriate sources best suited to craft financial synergy.

The most common reasons for seeking financing are listed below, along with the most likely source of finance for each:

- **Starting income-generating activities from a previously traditional non-profit** - grants, patient capital, venture philanthropy, commercial debt
- **Converting an established business into a social enterprise** - venture philanthropy, grants, patient capital
- **Purchasing, renovating or fitting out a building** - business mortgage for residential property conversion, loan secured with the property, loan based on expected cash generation, patient capital, bond issue
- **Purchasing or leasing equipment** - invoice discounting, factoring, line of credit, bank overdraft, bridging loan and credit card.
- **Managing ongoing cash needs** - invoice discounting, factoring, line of credit, bank overdraft, bridging loan, credit card
- **Funding a growth in operations through increasing staff, production, adding new products or locations or upgrading systems** - working capital loan, equity, patient capital, term loan
- **Ongoing research and development** - grants



[Startup Growth Calculator: An online calculator to help show you how much funding your business idea may need](#)

[Entrepreneur Magazine: An online calculator to help show you how much funding your business idea may need](#)

Enterprise Development Stage	Seed 	Start-up 	Early Stage 	Accelerate 	Maturity 
Age (Guide)	Year 1	Year 2	Year 3-4	Year 5-8	Year 8 -
Core Activities	Idea/Readiness analysis Feasibility Study Business Planning	Raising Capital Preparing to Launch Begin Operations	Revise Strategy/ Business Plan Build enterprise and management capacity Move to profitability	Stability/success in initial market Expand to new products or markets Invest in equipment, facilities and HR	Become sustainable Geographic or product growth Spin-offs or new enterprises are established

Adapted from Van City Community Foundation

3. Strengthening Your Credibility

Through your legal structure

Your Social Enterprise’s legal incorporation will determine your tax liability, your financial reporting requirements and the types of finance that are available to you. The most important division is the simple separation of non-profit and for-profit companies:

\$ **For-profits** have relatively few restrictions on their finance options. However, many foundations and grant-issuers will explicitly limit the eligibility to non-profit companies except enterprise development, enterprises and supply chain developments. There are some examples where you can get tax exemption on grants and social enterprises that are small business corporations, eligible for preferential tax rates.

♥ **Non-profits** enjoy societal recognition for the work that they do, making it easier to attract grant funding and donations. Non-profits can also apply for PBO or Section 18a status, which if granted, will provide a tax advantage to the organization (and in the case of Section 18a, its donors). Many grants and much of government spending is reserved particularly for non-profits but registering as a non-profit also has some limitations. While non-profits may access debt, they cannot access equity finance because they cannot distribute profits to shareholders.

♥ **Hybrid models** are becoming increasingly popular amongst South African Social Enterprises, i.e. social enterprises choosing to create a for-profit and a non-profit legal entity in order to leverage the benefits of both structures. Choosing to operate two structures, you need to fully understand the parameters of this approach, the associated burden of additional compliance and administrative costs.

Top Tip



Split models must be careful to respect the spirit of the law and legal advice should be sought to determine its appropriateness for you.

Top Tip



REMEMBER:
You can access certain grants as a for-profit entity – carefully consider what is right for your business!

By getting appropriate certificates and accreditations

There are various forms of accreditation that can improve your chances of receiving funding:

- If you are a for-profit or a non-profit company that wants to highlight its mission, explore attaining some form of accreditation as a social enterprise such as the B-Corp Certification or the Trading for People and Planet accreditation by the Social Enterprise Mark (predominantly used in Europe).
- Explore industry specific certifications that demonstrate your commitment to industry, best practices or responsible business practices within your sector, such as: Fair Trade label, Eco Standard Certification, Green Star certification and the Marine Stewardship Council label.
- Use innovative, respected tools and frameworks commonly used in your sector to demonstrate your impact as well as facilitate learning to inform programme enhancements.



Resources



[Bertha Centre’s Guide to Legal Forms for Social Enterprises in South Africa](#)

[CIPC: Information on registering your legal structure](#)

[SARS Tax Guide for Small Businesses](#)

[TRASI: A database of impact measurement tools](#)

[Poverty Stoplight Tool: A method of measuring poverty alleviation](#)

A NOTE ON YOUR ENTERPRISE B-BBEE PROFILE

Eligibility opens doors

South Africa's Broad-Based Black Economic Empowerment (B-BBEE) is a policy framework to advance economic transformation through incentivising business behaviour that increases the meaningful economic participation of previously disadvantaged groups. There are five criteria that contribute to an organisation's B-BBEE rating but the following THREE qualify your enterprise for special funding sources:

- **Enterprise and Supplier Development (ESD)** - companies that support preferential procurement, supply chain development and the growth of small black-owned businesses.
- **Socio-Economic Development (SED)** - companies that help to bring 'sustainable economic inclusion' to previously disadvantaged groups (through grants or in-kind donations).
- **Skills Development (SD)** - companies that help provide access to training with an emphasis on youth and people with disabilities within previously disadvantaged groups.

Top Tip



Enterprise and Supplier Development funds and initiatives are significant providers of funding to qualifying SMMEs in South Africa.

Resources



[Werksmans Attorneys: Guide to B-BBEE, Including a discussion on how B-BBEE amendments affect small businesses](#)

[The dti: Familiarise yourself with the current B-BBEE Codes of Good Practice](#)

[Azana: Platform linking B-BBEE compliant SMEs to investors and business partner](#)

[B1 SA B-BBEE information platform](#)

[B-BBEE Verification Providers](#)

STEP 2:

UNDERSTANDING YOUR FUNDING OPTIONS



There are many different types of capital available for your Social Enterprise. Therefore, it is important to understand your funding options and your unique situation in order to be able to identify the capital source, or combination of sources, that will best suit the needs of your organisation.

Aligning your source of funding to your enterprise's life stage is a good starting point when looking for funding. The infographic on the following page will assist you in identifying your funding options based on your life stage. Make sure that you investigate all the pros and cons of the funding types on your shortlist.

Online databases of finance providers are available to help you find something to suit your needs. FinFind, in particular, is a database of finance providers with a built-in matching process to make your search easier. There is also some useful information about accessing finance on the FinFind platform.

Resources



[FinFind : Complete a finance readiness test and get a list of possible lenders for your specific enterprise.](#)



watch

[When it comes to debt finance, what advice do you have for other social enterprises?](#)



Understand who you are approaching, you don't want to waste time approaching someone who is not likely to fund you.

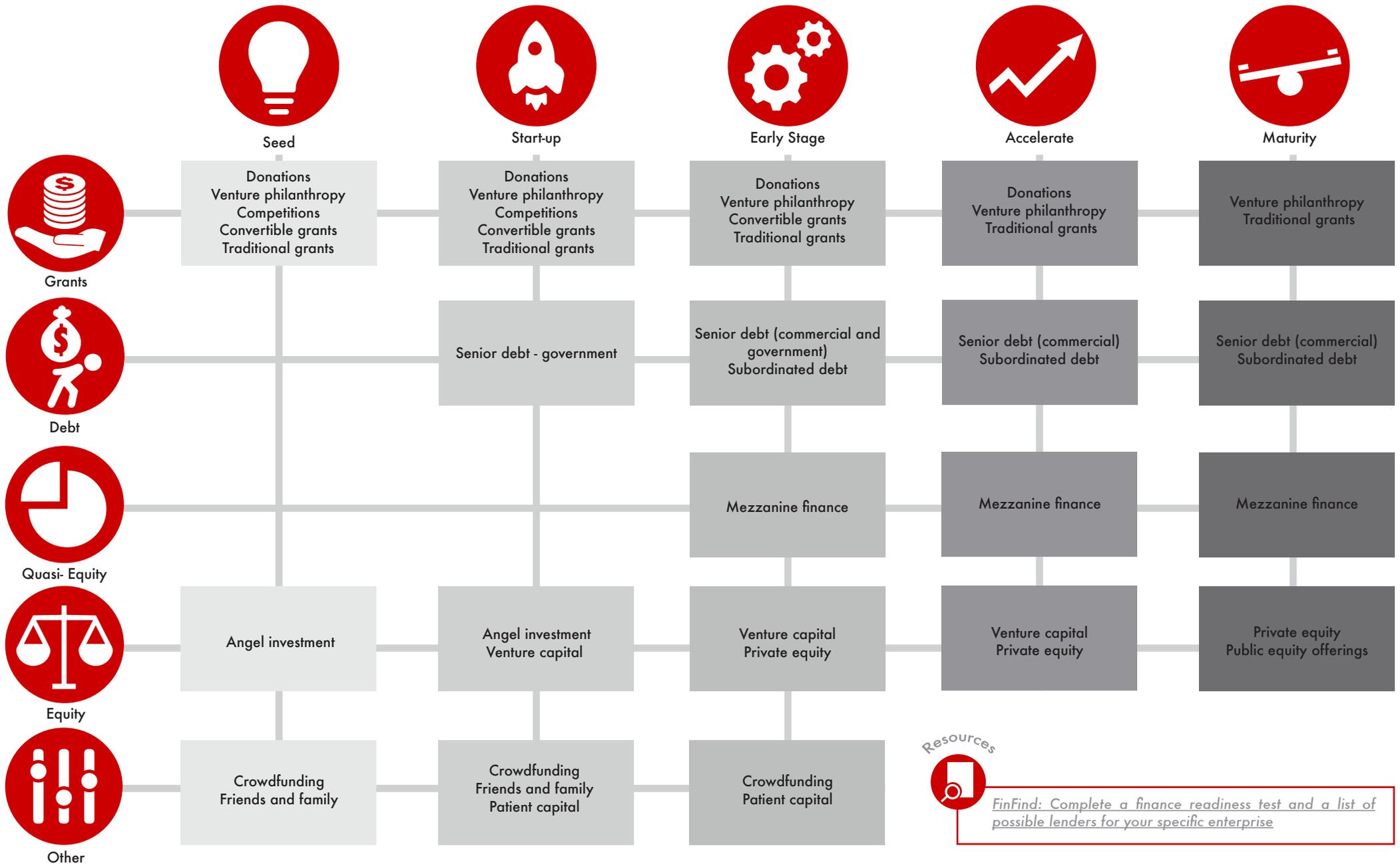
Xolisa Dhlamini,
Bertha Scholar

Beyond grants, to scale - find a partner not only for the money but for their expertise, networks and ability to open doors.

Luvuyo Rani, Silulo

Understanding your funding options

Explore this infographic to find out more about the types of finance available at each stage of business growth



Resources



FinFind: Complete a finance readiness test and a list of possible lenders for your specific enterprise

GRANT FUNDING AVAILABLE TO SOCIAL ENTERPRISES



What it is

Capital that does not need to be repaid and assists in supporting both revenue generating and non-revenue generating areas of any enterprise. Grant funding has the potential to cause cash-flow difficulties, create uncertainty for future planning, influence the business mission and may be insufficient in covering operating costs.

Who provides it:

- **Government agencies:** The South African government has numerous funding grant and loan schemes which usually tie in with its key deliverables such as black economic empowerment, job creation and developing the economy.
- **Corporate Foundations:** Some corporate foundations are specifically set up to support entrepreneurship and therefore provide grants and additional business support. They may accept direct applications or run annual competitions for businesses at different stages.
- **Corporate Enterprise Development initiatives:** Some corporates give support to businesses as part of their supplier development initiatives. This may include free office space, internet services and other means of support.
- **Development Finance Institutions:** These are government or international institutions seeking to pursue development through the provision of debt or grant finance, as well as technical assistance. Some DFIs are sector specific and some are targeted at certain regions or demographics.
- **Traditional grants:** Capital given for a specific purpose with no obligation to repay. The grant process includes a rigorous application and approval process.
- **Donations:** Capital allocated for an identified need with no obligation to repay and minimal application or approval processes.
- **Venture philanthropy:** Intermediated investments in social enterprises that show the potential for extensive social impact. This source of funding combines both capital and value-added activities in order to maximise the social impact of the investment. The investor may or may not receive financial returns from this investment, depending on the deal-structure.
- **Convertible grants:** Same as 'venture philanthropy'. In the case of a convertible grant, any financial returns are distributed back to investors.
- **Entrepreneurship Competitions:** A funder would run a competition where entrepreneurs are invited to submit their business ideas or their start-up business plans. The winning idea of business is then awarded a grant and/or given additional support.

Resources



[SA Government SMME Funding Tool: A list of grant and debt funds](#)

DEBT FUNDING AVAILABLE TO SOCIAL ENTERPRISES



What it is

Debt is a primary source of funding in the private sector. It is money borrowed from an external party that must be repaid in either a lump sum or regular installments, along with interest. Importantly, any organisation seeking debt financing must have the means to repay the debt in full. The lender is typically not involved in the business operations.

Who provides it:

- **Commercial banks:** Banks can issue credit cards, overdrafts, term loans and invoice discounting with factoring that shortens the cash conversion cycle by allowing the bank to pay you immediately for the money that you are owed. Remember that the bank will charge interest on the amount borrowed.
- **Development Finance Institutions:** These are government or international institutions that seek to pursue development aims through the provision of finance. They mostly provide senior debt and technical assistance often for certain regions, demographics or defined needs.
- **Government:** The South African government has numerous loan funds which usually tie in with its key deliverables such as black economic empowerment, job creation and developing the economy.
- **Fund Managers:** Fund managers may include Impact Investors (IE), Venture Capital investors (VC), Private Equity investors (PE), and Patient Capital investors(PC) are just some. Fund managers may manage multiple funds, a single fund with a specific focus or they may focus on funding.
- **B-BBEE Enterprise Development Intermediaries/ Enterprise Development Funds (ED):** Enterprise Development funds from corporations into small and medium enterprises, either in the form of debt or equity.
- **Merchant banks:** A bank that sources and provides commercial loans and investments.



Understanding the fine print of any agreement is vitally important and may require the help of a legal professional.



Debt requires interest payments and puts the business at risk of bankruptcy, however, it does retain ownership control with the founders.



When applying for debt, have several quotes - remember finance providers compete for business just as much as businesses compete for finance!

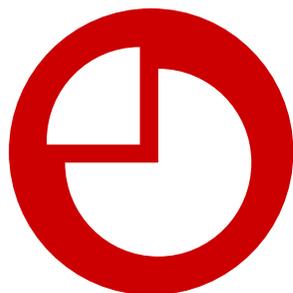
- **Senior debt:** This is a number of credit instruments which have a high claim to the enterprise's assets in the case of bankruptcy. This includes asset finance, contract finance, customer deposit finance, export finance, import finance and invoice discounting. Factoring mortgage loans, overdrafts, supplier finance, term loans, corporate bonds and credit notes. For more information on each of these products see: <https://www.finfindeasy.co.za/site/learn-about-finance#learnfive>
- **Subordinated debt:** Debt that has a lower claim to the business's assets in the event of bankruptcy. The debt is made without a collateral requirement (unsecured); it is rather based on the future potential of the business's profitability. This is a more flexible source of debt.

Resources



[*Funding Connection: A list of grant and debt funds*](#)

QUASI-EQUITY FUNDING AVAILABLE TO SOCIAL ENTERPRISES



What it is

A hybrid of debt and equity finance for enterprises where neither equity nor debt finance are appropriate to the needs of the enterprise in their traditional forms. It offers a viable financing option to enterprises who are not large enough to access conventional equity and who are not sufficiently risk-free to access commercial debt instruments. In the database, many organisations that are listed as offering debt or equity, offer types of quasi-equity.

Who provides it:

- **Fund Managers:** Fund managers may include Impact Investors (IE), Venture Capital investors (VC), Private Equity investors (PE) and Patient Capital investors(PC). Fund managers may manage multiple funds or a single fund with a specific focus or they may focus on funding businesses at a certain stage of the life cycle. Socially responsible investment funds are more inclined to have an interest in social enterprise investment.
- **B-BBEE Enterprise Development Intermediaries/ Enterprise Development Funds (ED):** Channeling Enterprise Development funds from corporations into small and medium enterprises, either in the form of debt or equity.
- **Merchant banks:** A bank that sources and provides commercial loans and investments.
- **Mezzanine Finance:** A short term loan which may be converted to preference shares when the company raises equity funding. This is a cost-efficient option for early-stage financing since there is not explicit valuation on the organisation, as is the case with equity investors; the option that the capital is not repaid remains. The deal structure may include discounts, warrants and/or a pre-specified value at which the debt will convert.

EQUITY FUNDING AVAILABLE TO SOCIAL ENTERPRISES



What it is

Equity provides the business with capital in return for an ownership stake or shareholding. Equity is typically issued to early stage businesses with a high growth potential and it requires that the organisation is set up as a for-profit business. Providers of equity finance may also become involved in the operations of the business and vote on major business decisions. Due to this involvement, founders may not have full control of the business as ownership and decision-making is shared among the shareholders. Careful structuring of equity finance is imperative so as not to dilute the returns to existing equity holders.



Some funders will want to be part of the thicker skin of your business, so they want equity... that has to be in line with what you want.

Luvuyo Rani, Silulo

Resources



[SAVCA Directory: A directory of venture capital funders](#)

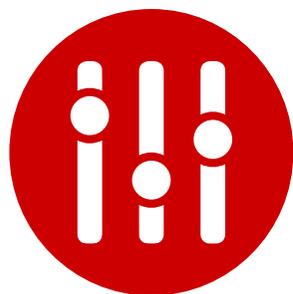
[Angel List Network: A platform linking businesses to angel investors](#)

[Angel Investment Network: A platform linking businesses to angel investors](#)

Who provides it:

- **Fund Managers:** These may include Impact Investors (IE), Venture Capital (VC), Private Equity (PE) and Patient Capital (PC) to name a few. Fund managers may manage multiple funds or a single fund with a specific focus or they may focus on funding businesses at a certain stage of their life cycle. Fund Managers may structure their investments in various ways.
- **B-BBEE Enterprise Development Intermediaries/ Enterprise Development Funds (ED):** Channel Enterprise Development funds from corporations into small and medium enterprises, either in the form of debt or equity.
- **Socially responsible Investment Funds:** Channel funds from pension funds and other sources into investments that are deemed socially responsible. The database lists only those who have invested in social enterprises. Investments tend to be large enterprises with fairly high growth potential.
- **Angel investment:** Wealthy individuals making private equity investments, often in very early stage businesses and on a ad hoc basis.
- **Venture capital investment:** Professionally managed funds directly investing in equity instruments provided by rapidly growing private companies. Typically non-financial support such as capacity development, training and mentorship is offered in addition to the financial support.
- **Private equity investment:** Share ownership of private companies.
- **Public equity offering:** Shares issued to the public on a stock exchange.

OTHER TYPES OF FUNDING AVAILABLE TO SOCIAL ENTERPRISES



- **Crowdfunding:** Capital raised through social media and marketing campaigns which request capital in small amounts from many individuals in return for debt, equity, products or involvement in the business.
- **Friends and family:** Initial funding may come from close personal networks. This can be structured in a comfortable manner for both parties.
- **Patient Capital:** Finance that targets long-term results and may include combinations of grants, debt and equity. This term includes products such as: soft loans, venture philanthropy, convertible grants and others seen in the in the link below.

Resources



[AFK Insider: 10 Crowdfunding Sites for African Businesses](#)

STEP 3:

POSITIONING YOUR SOCIAL ENTERPRISE FOR FUNDING SUCCESS

Before you even put pen to paper, remember:

Protect your social mission by placing it in the heart of your business narrative

Social entrepreneurs are often driven by their passion to address a social or environmental need. Accepting debt or equity funding may threaten the enterprise's core social mission as new shareholders or borrowers may want to focus on financial imperatives.

A good way to protect your organisation's social mission is to include your enterprise's social objectives in your incorporation documents.

Long lead times

You should be aware of **long lead times** between applying for and receiving finance, which are often much longer than the finance providers state themselves. It is crucial that your enterprise has cash available to cover operating expenses while you go through the financing process. Ensure applications for finance are submitted well before the time that the money is actually needed.



What type of enterprises does Ashburton prioritise for funding?



What do you think makes your business interesting/ attractive to impact investors/ investment funds?

There are two important stages to positioning your Social Enterprise for funding success:

1. Preparing your application for finance
2. Preparing for the due diligence process

Top Tip



Networking is key; use your networks and constantly create new networks!

Top Tip



Ask you bank and people you know about potential financing options, and pursue several simultaneously.

Our impact funds look at businesses that actually achieve some form of impact, whether it's job creation or socio-economic impact.

Dean Hand, Ashburton



You should always know the type of funder you are approaching.

Mandla Kuphe, Ashburton

1. PREPARING YOUR APPLICATION FOR FINANCE



We are looking for the business character of the organisation, is there a willingness to repay the loan? And do they have the financial capacity to repay...?
Dean Hand, Ashburton

Understand what different finance providers look for – the 5Cs, the critical criteria of success

Most financiers whether grant, debt or equity will follow a due diligence process which includes an assessment of the 5C's critical criteria of success. Some institutions may place more or less emphasis on one or two criteria. If you know you fall short in any of the categories, know before you submit your application how you will quantify and prepare sufficiently to make your case.

1

CAPACITY

Do you have the leadership and managerial capacity to do what has been committed in the business plan? Do you have a strong governance structure? Do you have a board consisting of the legally mandated number of members from various relevant fields of expertise, who meet regularly and take detailed minutes? Do you have the financial capacity and cash flow to meet your funder's requirements? How does the enterprise plan to fulfill the financial commitments?

2

CAPITAL

How much is at risk should the business fail? The investor will consider the companies debt-to-equity ratio. A high debt-to-equity ratio indicates that the company has a high level of debt and could be a high financial risk.

3

COLLATERAL

What valuable assets does the company have in place to increase investor confidence?



Consider the restraints that terms of financing may impose upon you. Defaulting or breaching conditions can have serious consequences for your credit rating.

Having accurate and up-to-date accounts is an area that no social enterprise can afford to gloss over; obtaining the help of an accountant is often key.

4

CONDITIONS

What is the intended purpose of the loan? The size of the loan in relation to the use will be considered. Conditions also include circumstances outside the control of the enterprise including micro and macro economic conditions and industry level conditions.

5

CHARACTER

How transparent and trustworthy is your business? Does your business have a good reputation? This may extend to business ethics and practices as well as financial history. The quality of your references, background and experience of your board and employees will also be considered. If applying for debt, the lender will review your organisation's and shareholder's credit history with the Credit Bureau.



[What advice would you give to a Social Enterprise that wants to apply for funding?](#)



[What are the key ingredients of a good funding proposal? What mistakes do you often come across?](#)

Prepare a compelling case for your enterprise

As a social enterprise, your products and services should be creating social or environmental value. A compelling impact story can be a competitive advantage when approaching prospective funders; it is important to dedicate time and energy to this development.

The Theory of Change (ToC) is a useful approach to strategic planning and to articulate how your enterprise will meet and measure its impact objectives and performance. Part of the ToC process includes identifying the right methods and tools that you can use to track and demonstrate your progress towards impact objectives.



At the end of the day, the decision to invest is a head decision, not a heart decision.

Dean Hand, Ashburton

Reporting and transparency are very big, it's important to have a good system... proof to say yes, this is what we are doing and this is our impact.

Xolisa Dhlamini, Bertha Scholar

Top Tip



Effective impact performance management can be very valuable to your social enterprise. Spend the time to find what works for you.

Top Tip



Once you have secured funding, remember to value the relationship and send regular updates and impact news or reports.

What to consider when looking for an impact measurement tool:

- Will the tool help give insight into key areas of your impact performance to help facilitate decision-making and enhance your activities or impact?
- Do you have the right skills and finances to integrate the approach into your operations?
- Will the tool help you to communicate key information of interest to your stakeholders?

Resources



[Impact Reporting and Investment Standards \(IRIS\) : A database of impact indicators](#)

[B Impact Assessment tool](#)

[Hivos: On developing your theory of change](#)

[Theory of Change: Tools and information for developing your theory of change](#)

[DIY Toolkit: Other tools for preparing a compelling case for your social enterprise](#)

Write a strong Business Plan

As a Social Enterprise you will typically apply for funding from various sources and compete with other commercial enterprises for resources. Most funders will not give preferential treatment to your enterprise simply because it has a positive social or environmental impact.

Your business plan should be able to compete with the business plans of other commercial businesses that do not necessarily have a social mission. Your business plan may include additional sections that explain your social mission, how you measure it or how it's influenced by your Theory of Change. A solid business plan must still contain all other relevant business related information, including:

1. **Business concept.** A business description around its products and the market it will serve. It should point out just exactly what will be sold, to whom and why the business will hold a competitive advantage. All finance providers will want to see evidence that your organization also understands the risks to its business; that it has a sensible and realistic plan for coping with any adverse events. One way to prove this is to include SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis within your business plan.
2. **Financial features.** The highlight the important financial points of the business including sales, profits, cash flows and return on investment.
3. **Financial requirements.** These state the capital needed to start the business and to expand. It should detail how the capital will be used and the equity, if any, that will be provided for funding. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.
4. **Current business position.** Furnishes relevant information about the company, its legal form of operation, the relevant information about when it was formed, the principal owners and key personnel.
5. **Major achievements.** Any developments within the company that are essential to the success of the business. Major achievements include items like patents, prototypes, location of a facility, any crucial contracts that need to be in place for product development or results from any test marketing that has been conducted.



The National Youth Development Agency (NYDA) offers a voucher system to give eligible enterprises access to professional business plan services. Click on the links in the tool boxes to see if your business is eligible!



Just because you are a Social Enterprise, there is no excuse for not having proper credentials and a proper business case...

Dean Hand, Ashburton



[SME Toolkit: On writing your business plan](#)

[NYDA Business Support Services](#)

[SEDA Business Support Services](#)

[Small Business Connect: List of South African business incubators](#)



Incubators are organisations that will be able to assist you develop a strong business plan, amongst other business services.

Prepare additional supporting documentation

Ensure you have accurately prepared the following documents that will typically be requested by funders:

- **A strategic plan** for the business, setting out how it would respond to various risks and challenges.
- **Key financial statements:**
 - **Income statement**, incorporating the projected revenue and expenditures of the enterprise over a given time period
 - **Cash-flow statement**, showing inflows and outflows of cash into the business, giving a strong indication of its liquidity and viability.
 - **Break-even analysis**, showing what conditions would be needed for the business to cover its costs and start making a profit.
 - **Balance sheet**, which describes the current financial state of the business in a 'snapshot,' showing the assets that the business owns, the amounts that it owes to debtors (liabilities) and the amount left over (equity).
- **Market research** showing an understanding of your competition, your customer base and suggesting your unique potential to grow in the industry.
- **Management team** descriptions explain how individuals are qualified to grow the business after new financing has been obtained.
- **Physical documentation** covers all aspects of your business, including audited financial statements, registration documents, credit checks, descriptions of assets and liabilities for all partners, directors, members and other key financial or business documents



Profits do not pay back the debt, it's actually the cash that pays back the debt, so we look at things like cash flow protection measures

Mandla Kuphe, Ashburton

2. PREPARING FOR THE DUE DILIGENCE PROCESS

What is due diligence?

Finance providers follow a rigid procedure to determine who to fund, usually known as a due diligence or verification process. Debt and equity funders are concerned with whether the applicant's business has the market, model, management and planning required to grow. Key points about the due diligence process:

- ✓ Investigations can take weeks or months to complete.
- ✓ Each finance provider will follow their own due diligence process.
- ✓ Funders will typically want the verification to take place at the business premises.

Funders that specifically look for projects with a social mission may request the following additional information or documentation:

- Logic model that reflects a thoughtful Theory of Change
- Evidence that good impact measures are in place and in use
- Clear industry benchmarks and relevant indicators for success
- External evaluation of impact
- Relevant sector specific and business accreditations



At due diligence stage, we look at the business risk and the financial risk... you need to know the business to understand the numbers

Mandla Kuphe, Ashburton

The due diligence process may include the following steps:



Some helpful tips to improve your due diligence performance:

1. Ensure that all management and staff are prepared for the due diligence team and that there is a common understanding about the organisation's objectives and policies.
2. Ensure that you are ready to answer tough questions about your financial statements and projections. Investors will review your financial statements carefully to identify possible gaps, fraudulent activities or any general red flags. Prepare for this step by reviewing your financial statements before the due diligence process begins.
3. Throughout the application process be open and transparent, because withholding information will rouse the suspicion of the due diligence team. Be open about mistakes that have been made and the corrective measures that have been or are being taken to address these.

Overview:

Social finance providers will want to see that your enterprise is able to demonstrate the following key elements:





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