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Policy Briefing

Gender, Ethnicity, and Access to Finance: Evidence for UK Social Enterprises

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Social enterprises are organisations with social, ethical and environmental objectives, which generate income from trading activities, and use resultant profits to further social, ethical and environmental goals. Given the intersection of their respective commercial activities with ongoing social and environmental societal challenges, social enterprises have attracted the interest of academics and policymakers. In 2019, 8.11 per cent of SMEs (approximately 480,000 UK SMEs) met the LSBS definition of a social enterprise, which was slightly higher compared to 2017. Using data from the 2016-2019 Longitudinal Small Business Survey (LSBS), this study augments and complements prior evidence by investigating the underlying factors affecting the use of, and access to various forms of finance for social enterprises, and whether this differs for those that have women or Minority Ethnic Group (MEG) leadership.

Key findings

Access to finance for social enterprises

Although social enterprises rely on multiple sources of finance to fulfil operational, cash flow, and investment needs, our results suggest that relative to commercial SMEs, social enterprises are less likely to use bank overdrafts, loans (from either mainstream financial institutions or business partner/director/owner) and leasing or hire purchase, but are more likely to rely on grant funding provided by government and local authorities, and to a lesser extent factoring/invoice discounting. Our analysis also provides insights into the demand (funding applications) and supply (outcomes of funding applications) for the main sources of finance used by social enterprises to pursue their ambitions. The results suggest that there is a mismatch between the demand and supply of social enterprise funding in terms of bank overdrafts, commercial mortgages, credit cards, government grants and loans. Compared to commercial SMEs, social enterprises are less likely to apply for bank overdrafts, and more likely to apply for government grants. However, upon application, social enterprises are more likely to receive commercial mortgage and credit card funding and loans from mainstream financial intermediaries.

Authors

Jose Liñares-Zegarra
University of Essex and University of St Andrews
jmlina@essex.ac.uk

John O.S. Wilson
University of St Andrews
jsw7@st-andrews.ac.uk

Social enterprises and female entrepreneurship
Social enterprises are characterised by a more diverse leadership than commercial SMEs. Our results suggest that women-led social enterprises are less likely to use equity finance and loans from business partners/directors/owners. Considering the importance of leadership diversity of social enterprises for the demand and supply of finance, our results also suggest that women-led social enterprises are more likely to apply for loans from a bank, but conditional upon application, less likely to receive funding compared to male-led social enterprises.

Minority Ethnic Group led (MEG-led) social enterprises
MEG-led SMEs play a crucial role in adding value to the UK economy via employment and value generated in the production of goods and services. Our results suggest that MEG-led social enterprises rely less on commercial mortgages, factoring/invoice discounting, government grants and leasing or hire purchase forms of finance compared to non-MEG-led counterparts, but are more likely to use bank overdrafts, loans from mainstream financial intermediaries (such as a bank, building society or other financial institution) or loans from a business partner/director/owner. Our results also show that MEG-led social enterprises are less likely to apply for credit cards and government grants, and conditional upon application, are less likely to be granted a bank overdraft facility or a loan. However, upon application, MEG-led social enterprises exhibit the largest probability of securing funding from government or local authority grants. This combination of a paucity of bank-based funding and reliance on grant funding is likely to affect the longer-term sustainability of MEG-led social enterprises.

Policy and practice implications

The results presented in this study have important implications for public policy by providing valuable information for organisations and other key stakeholders introducing or monitoring interventions or offering financial support to UK social enterprises. Our data set also allows us to identify gender and ethnicity-based leadership characteristics, and thus investigate how leadership gender and ethnicity affect access to finance at social enterprises. Social enterprises face specific barriers to access to finance, which differ from those encountered by commercial SMEs. Having a business model where profits are used to achieve social, environmental and ethical goals appears to exacerbate many of the access barriers inherent in the SME finance market. The findings of an extensive empirical analysis suggest that social enterprises are less likely to apply for bank overdrafts compared to commercial SMEs, but are more likely to apply to government grants. However, upon applying for funding, social enterprises are more likely to receive commercial mortgages, credit card financing and loans from mainstream financial intermediaries compared to commercial SME counterparts. This is particularly important for MEG and women-led social enterprises, and it is here where more support should be provided to fill existing knowledge and funding gaps in order to ensure these enterprises can access finance appropriate to their mission, business model, industry and stage of development, and thus fulfil their full potential.

Full paper link:

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