



# **Third Sector Enterprise Fund**

**Investing in the Third Sector, investing in Scotland**

## **Investment Strategy 2008-11**

**Scottish Government  
December 2008**

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## Our Investment Strategy

### Introduction

This document sets out what we want to achieve with the Third Sector Enterprise Fund, how we will focus our investment, what forms our investment will take and how the fund will be delivered.

The Third Sector Enterprise Fund is part of a comprehensive funding package for the third sector as set out in the Enterprising Third Sector Action Plan:

- £30m [Scottish Investment Fund](#) for established third sector organisations
- £12m [Third Sector Enterprise Fund](#) for organisations at an earlier stage in enterprise development
- £1m for activities to support individual social entrepreneurs, including the [Social Entrepreneurs Fund](#) delivered in conjunction with a range of support through Firstport

This will ensure that we have a continuum of funding for a range of different types of organisation, underpinned by business support available through other Scottish Government programmes, intermediaries and agencies.

### Purpose of the Third Sector Enterprise Fund

The Scottish Government has been clear from the outset that it wants to take a strategic approach to government with a focus on outcomes. We are focusing all of government and public services on a single, over-arching purpose - to create a more successful country, with opportunities for all Scotland to flourish, through increasing sustainable economic growth. The Government established a [National Performance Framework](#), published in the Spending Review 2007, to underpin delivery of this purpose.

Our **vision** for the Third Sector Enterprise Fund is to make strategic investments in ambitious and enterprising third sector organisations enabling them to develop and grow in order to support the progression of those organisations towards meeting their full potential and increasing enterprise within the sector. We recognise that in the current economic climate there is potential for a significant increase in demand and opportunities for third sector organisations. In turn they become an even more vital component in ensuring resilience within our communities.

The **purpose** of the Third Sector Enterprise Fund is to build capacity, capability and financial sustainability in the third sector; we believe that a strong, active and ambitious third sector can make a key contribution to the [National Outcomes](#) of the Scottish Government.

The Third Sector Enterprise Fund will offer funding of between £25,000 and £100,000 to third sector organisations, based on an assessment of financial, social and environmental outcomes. We envisage investments in around 200 organisations over the period 2008-2011. We will be targeting those organisations that can make a strong contribution to our aims for Scotland.

In order to achieve this the fund will support the following types of activity:

- Development of enterprise business models to increase income generation and financial sustainability;
- Organisational development and capacity building - including operations, marketing and business development, workplace changes or re-organisation, governance and financial controls;
- Innovation to improve business and service efficiency and growth potential;
- Support for skills, skills utilisation and workforce development.

We expect to invest in both capital and revenue items, e.g., buildings, plant and machinery, advice and support on marketing, human resources, accountancy or legal aspects. The revenue support could also include business advice, support for growth management and financial sustainability. We are keen to encourage organisations to access mentoring support from mainstream businesses or other third sector organisations, and leadership training.

Awards from the fund will be made following an objective assessment of each application. Applicants must provide clear evidence of how they expect the fund to contribute towards improved outcomes. Applications for £70,000 or need to be accompanied by a business plan demonstrating how the investment will help to make a transformational step change in the organisation's capacity, capability and/or financial sustainability.

### **Focus of the Third Sector Enterprise Fund**

We aim to support organisations with ambition for their growth and development. The fund will **focus** on supporting enterprise in the third sector through investment in organisations – increasing organisational capacity, rather than project funding.

The fund will focus on supporting organisations that want to build their capacity to operate in an enterprising way. The investment criteria are the same as those we have used for the Scottish Investment Fund:

- Investment criteria 1 – the outcomes for Scotland realised by our investment
- Investment criteria 2 – the organisational potential realised by our investment

The initial priority for investment will be within organisations that address **employability, environmental action or tackle the underlying causes of health inequality.**

## Investment Package

Where possible we expect to see examples of how applicant organisations can attract additional funds to maximise the investment potential of the fund. We envisage investment packages bringing together a blend of funding sources and matching of other resources. An investment package could include loan funding from a variety of providers, funding from grant-making organisations and the private sector. And of course we shall take account of applicants' own resources.

## Eligibility

The Third Sector Enterprise Fund is designed for ambitious third sector organisations that want to operate in a business-like and enterprising way with a view to achieving increased sustainability and /or growth in turnover. Eligibility will not be related to the size of the organisation. However, we expect those organisations at a more developed level of enterprise activity to seek funding from the Scottish Investment Fund rather than the Third Sector Enterprise Fund. We will expect most applications to come from individual organisations but will also consider joint or consortia approaches. Applications from the subsidiaries of established third sector organisations will also be considered.

The following will be eligibility requirements:

- Established third sector organisations with an appropriate legal constitution in place, and social or environmental aims (including aims related to equality and diversity), and who reinvest surpluses for a social purpose;
- Organisations located or operating/ trading in Scotland. This could however include UK-based organisations working with Scottish beneficiaries;
- Organisations with the potential to grow their turnover and/or become financially sustainable;
- Organisations with appropriate management and governance arrangements in place to support our investment.

The following are **not** eligible for the fund:

- Organisations that are insolvent or at risk of insolvency;
- Organisations supporting beneficiaries who live outside Scotland;
- Organisations that are in the process of accessing, or have already accessed, the Scottish Investment Fund;
- Proposals that seek to replace existing debt finance;
- Third sector support, intermediary or infrastructure core functions;
- Housing construction and management operations of Registered Social Landlords (RSLs) – however, in line with the general eligibility criteria, RSL owned subsidiary social enterprise trading companies are eligible and it is possible for RSLs to be part of joint-ventures;
- Proposals that relate to the on-going delivery costs of services or projects, i.e., costs related to the existing day-to-day running of the organisation rather than funding which will positively impact on the organisation in relation to increasing capacity, capability and sustainability;
- Proposals that would normally be funded by commercial loan finance or other funding sources.

## **Investment Criteria**

In considering whether to invest in organisations we will consider two main criteria:

### **Investment Criteria 1 – the outcomes for Scotland realised by our investment**

The fund will invest in third sector organisations that contribute to the achievement of one or more of the [15 National Outcomes](#) which describe what the Scottish Government wants to achieve over the next 10 years. (see Annex A)

We believe that third sector organisations can contribute to these outcomes in multiple ways; this is why we value the third sector so highly. For example, through recycling organisations that also contribute to employability; working with young people who have not had the chances their peers have had in life; or providing support and services to homeless people.

### **Investment Criteria 2 – the organisational potential realised by our investment**

The fund will aim to secure a transformational step change in organisational capacity, capability and financial sustainability. The fund will invest in activities that will build this in areas such as:

- operations
- skills and skills utilisation
- marketing and business development
- governance and financial controls

The fund will also be able to invest in long-term assets, such as:

- buildings
- plant and machinery

The fund will therefore be able to invest in both capital and revenue aspects of business development. We expect approximately 50% of the fund to be invested in these types of capital items, which importantly will help develop long-term assets for the sector.

We will ensure that the fund incorporates a ‘working capital’ element to support activity that requires this flexibility of approach.

Investments will be targeted at organisations that can demonstrate that the investment will build their organisational capability and capacity to contribute to the Scottish Government’s priorities, and to develop their financial sustainability in the future, either through business growth and increasing their turnover or through making their existing business sustainable.

## **Application Process**

The fund will open in January 2009. Further details and guidance will be available on the Scottish Government website in due course.

The following process will operate:

- Pre application - Initial self-assessment as to an organisation's suitability for the fund by reference to published information and criteria.
- Submission of a full application explaining clearly the rationale for the proposal and the expected outcomes. In addition, applicants for funding of £70,000 or more will need to submit their business plan which will be required to assess development and demonstrate sustainability after the period of funding. In the case of a consortium making an application, the lead partner should submit a business plan specifically relating to the proposal.

### **Fund Delivery and Decision-making**

Scottish Government Third Sector Division will manage and deliver the Third Sector Enterprise Fund. Details of the assessment and appraisal process will be made available to all applicants.

Scottish Ministers will receive regular updates on progress and will consider whether any changes are required to the operation of the fund.

### **Additional Scottish Government Support for the Third Sector**

For organisations and individual social entrepreneurs at an early stage of development there will be alternative Scottish Government funding and other developmental support provided through many of the actions within our [Enterprising Third Sector Action Plan](#). The Action Plan aims to create the environment in which an enterprising third sector can grow and develop.

The £1 million **Social Entrepreneurs Fund** provides a new source of support for individuals to develop their social enterprise business ideas. The Entrepreneurs Fund will be managed and delivered by [Firstport](#) for to encourage individual entrepreneurs to establish new social enterprises.

Our **wider support for the third sector** will also complement the Third Sector Enterprise Fund. This will include strategic work on partnerships and relationship management with the Scottish Government, as well as areas covered by the Action Plan including skills and learning, procurement and service commissioning, new ways of investing in the third sector and local third sector infrastructure.

### **Further Information**

This Strategy and further information is available at:

[www.scotland.gov.uk/Topics/People/15300/funding/enterprising-skills-fund](http://www.scotland.gov.uk/Topics/People/15300/funding/enterprising-skills-fund)

If you cannot find the information you are looking for, please email your enquiry to: [enterprisefund@scotland.gsi.gov.uk](mailto:enterprisefund@scotland.gsi.gov.uk)

## **Annex A**

### **Scottish Government 15 National Outcomes**

1. We live in a Scotland that is the most attractive place for doing business in Europe.
2. We realise our full economic potential with more and better employment opportunities for our people.
3. We are better educated, more skilled and more successful, renowned for our research and innovation.
4. Our young people are successful learners, confident individuals, effective contributors and responsible citizens.
5. Our children have the best start in life and are ready to succeed.
6. We live longer, healthier lives.
7. We have tackled the significant inequalities in Scottish society.
8. We have improved the life chances for children, young people and families at risk.
9. We live our lives safe from crime, disorder and danger.
10. We live in well-designed, sustainable places where we are able to access the amenities and services we need.
11. We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others.
12. We value and enjoy our built and natural environment and protect it and enhance it for future generations.
13. We take pride in a strong, fair and inclusive national identity.
14. We reduce the local and global environmental impact of our consumption and production.
15. Our public services are high quality, continually improving, efficient and responsive to local people's needs.