HYBRID FINANCE FOR SOCIAL ENTERPRISES

SoCareNet Europe Jahreskonferenz
Dr. Markus Freiburg

Prag, 27. September 2016
Goals of presentation

- **Brief introduction** to concept of social entrepreneurship and impact investing
- **Create common understanding** of major challenges in financing social enterprises and successful remedies to deal with these
- **Show best practice examples and case studies** on how to raise hybrid growth capital and to close a financing round
- **Discuss your concrete questions** on social entrepreneurship and impact investing
Agenda

- The potential of Social Entrepreneurship
- The opportunity of Impact Investing
- Funding challenges for Social Enterprises
- Mastering the challenges: FASE
- Q&A Session
Social entrepreneurship defines new rules between society and business

Social entrepreneurs are mission driven entrepreneurs using innovative approaches and typically the power of markets to tackle social or environmental challenges. They are the engines of social change with the potential to change patterns across society.
Envisioned a different way for mankind to work with knowledge: How many times a day do you use Wikipedia?
Papilio conveys early emotional competencies for infants – with the pixies in the box.
He trains blind women to use their superior tactile senses for detection of early onset of breast cancer. He founded Discovering Hands.
The Ashoka way: Looking for the one who is able to change the system

Starting position

Mission accomplished
Radical innovation more important than type of funding

Social entrepreneurs, Ashoka is looking for

„Social entrepreneur“ typically defined

Using a for-profit business model as a means to an end for scaling social impact

fully self sustaining by earned income
partly philanthropic, partly earned income
funded by philanthropic capital solely

Radical innovation

more important

than type of funding

innovative radical disruptive

Social Idea

innovative incremental

not innovative, distribution of Established solutions

FINANZIERUNGSAGENTUR FÜR Social ENTREPRENEURSHIP
3,000 Ashoka Fellows in more than 80 countries

#17 of Top 100 NGOs (Ranking Global Journal 2013)

#1 most influential NGO in Social Media (Ranking klout April 2013)
The potential of Social Entrepreneurship

The opportunity of Impact Investing

Funding challenges for Social Enterprises

Mastering the challenges: FASE

Q&A Session
Introduction to Impact Investing
Definition of Impact Investing

“Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. “

Source: The Global Impact Investing Network (GIIN)

In other words:

“doing well by doing good“
the 'double bottom line' promise

Source: SROI - State of the art and Perspectives, University of Heidelberg, Center for Social Innovation & Investment, October 2013
The money is there ...

“A rush to the new field of ‘impact investing’ with hundreds of funds set up in just a few years and billions of dollars waiting to be invested."

Monitor, April 2012
... and there is momentum ...


“I want to use our G8 presidency to push this agenda forward. We will work with other G8 nations to grow the social investment market and increase investment, allowing the best social innovations to spread and help tackle our shared social and economic challenges.”

David Cameron Prime Minister, UK World Economic Forum, Davos 2013

“It is urgent that governments throughout the world commit themselves to developing an international framework capable of promoting a market of high impact investments and thus to combating an economy which excludes and discards.”

Pope Francis, June 2014
"There is an imminent lack of impact investing opportunities into which large amounts of capital could be placed at investors’ required rates of return."

"While we believe that this potential is real, we also believe that we are a long way from realizing it fully. The rosy picture of abundant opportunities to make high returns that many have drawn from the hype may be obscuring the challenges faced by investors seeking to deploy capital into inclusive businesses."

Monitor, 2013
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The market (challenge): capital (not) meeting investees

$500bn
market size 2014 (GIIN, 2010)

€1bn
currently committed in impact investing funds in EU (EVPA, 2012)

€50m
currently committed in impact investing funds in D

1700
social entrepreneurs in D (CSI Heidelberg, 2013)

150
Ashoka Support Network members in EU, about 1/3 willing to invest

€500k-1m
possible deal range for typical impact investing fund

10-15
Deals in Germany/yr.

350
Ashoka Fellows in EU about 1/3 “investable”

why?
Investors are waiting at the end of the pipeline -> early-stage financing gap
The mission: closing the ‘strategic financing gap’ with hybrid growth capital

Strategic financing gap - Early stage financing -

“Too large for philanthropists, too small (and risky) for institutional social investors”

Hybrid financing
Combination of philanthropic capital and impact “first” investments

Experimentation

-100% (grant)

Scaling

Market rate return

Start-up

- 50 TEUR
- Equity
- Donations

Early-stage growth

50 - 250 TEUR

Later-stage growth

- > 250 TEUR
- > 1 Mio. EUR
- Multiple financing options

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The challenge: early-stage social enterprises don’t fit into traditional types of funding

- Non-Profit
  - No return
  - Short-term horizon

- Hybrid
  - Modest returns
  - Few exit options
  - Not ‘one’ financing solution

- Commercial
  - Market-rate returns
  - Exit options
Starting position: Overview of potential funding streams for social enterprises

- **Social Enterprise Finance**
  - **Internal Financing (Income)**
    - Target Groups and Beneficiaries
      - Revenues, sponsoring, membership fees, other income
    - Public Bodies
      - Compensation for services provided
  - **External Financing (Investors)**
    - Investors expecting no financial return
      - Impact only
    - Investors seeking below market rate financial return
      - Impact first
    - Investors seeking market-rate financial return
      - Financial first

**Sources of financing**
**Financing instruments**
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The FASE solution: building a bridge between social entrepreneurs and investors

Social entrepreneurs receive:

✓ support in developing their business models to reach investment readiness
✓ identification of potential investors and recommendations for the ideal financing mix
✓ comprehensive consulting and coordination to guide them through the transaction processes

Investors benefit from:

✓ access to investment opportunities in leading, investment-ready social enterprises
✓ customized impact investing opportunities, selected according to individual investor preferences
✓ clearly structured and transparent investment and transaction processes between social enterprises and investors
Initial successes: open pipeline of investment-ready social enterprises with Euro 5 mn. injected

Major achievements so far:

- FASE was established as the leading financial intermediary in Germany, supporting social enterprises with outstanding impact in attracting growth capital.
- FASE has fuelled an open pipeline of leading, investment-ready social enterprises that are poised for growth: 14 deals closed so far, EUR 5 mn injected.
- FASE created an active network of more than 200 philanthropic and impact-oriented investors, incl. the first social business angel club (‘Ashoka Angels’).
- The EU supports FASE with grants to pilot hybrid financing models during 2014/2015.
- FASE is setting-up an early-stage co-investment fund to co-invest in social enterprises in Germany/Austria together with lead-investors (EUR 5,5 mn fund volume).
Hybrid finance models allow to finance both social enterprises with and without break-even to scale their impact.

**Financing strategy**

- Use "classical" financial instruments for impact investments
  - Equity
  - Mezzanine (quasi equity)
  - Subordinated loan

- Build hybrid model with for-profit and non-profit entity
  - Non-Profit: Grants
  - For-Profit: Equity, mezzanine, subordinated loan

- Use innovative financing tools to internalize external effects
  - Pay-for-success mechanism (e.g., social impact bond)
FASE built a pipeline of investable social enterprises that have already closed deals to enable their growth (I)

- **Frank** pioneers a diagnostically superior breast examination method by training blind people as skilled diagnosticians.
  - **Social impact:** Their superior sensitive touch enables blind women to detect breast cancer earlier than the average doctor. So far 10,000 women have been examined. 38,000 planned in the next five years to come.
  - **Investment need:** Investment for national rollout is already covered. Further investment is needed to tackle the international rollout.

- **Attila** established self-help groups for people in bankruptcy. Based on this, he builds a consulting company to advise entrepreneurs around bankruptcy.
  - **Social impact:** von Unruh & Team provides crisis and turnaround consulting. All consultants have made their own crisis experiences and advise on equal terms. Usually, they accompany their clients to their successful comeback.

- **Heinz Frey** creates DORV centers, which become a one-stop-shop for citizens so that they can stay in their areas instead of deserting them.
  - **Social impact:** DORV offers domestic goods and services, but also a place for personal interactions. Currently, 10,000 citizens already benefit from 12 centers. 50 new centers are planned in the next 5 years.

- **Investment need:** Growth capital for start-up phase needed, structured as revenue participation right.

Contracts with two institutional investors signed  
Contracts with two business angels signed  
Contract with one foundation signed
FASE built a pipeline of investable social enterprises that have already closed deals to enable their growth (II)

<table>
<thead>
<tr>
<th>Robert Greve</th>
<th>Ralf Sange</th>
<th>Gregor Demblin</th>
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<tr>
<td>SchulePlus</td>
<td>Gründer 50plus</td>
<td>Disability Performance Austria</td>
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- **Robert** has created a unique social online-network connecting schools with external partners, who offer various external offers to enrich the schooling curriculum.
- **Social impact:** the online market place is free of charge for schools and connects them with companies, cultural institutions, experts and sporting clubs (for example via a virtual pin board) to enhance the learning of students.
- **Investment need:** Setup costs of EUR 450k were needed until break-even. Contracts with business angel and two institutional investors signed

- **Ralf** is pioneering the movement of supporting people over age 50 to become entrepreneurs with economically sustainable models and is activating their creative potential for solving social problems.
- **Social impact:** He supports the growing number of men and women in the second half of their lives who are keen to start their own businesses, either due to a lack of jobs or to financial difficulties.
- **Investment need:** Setup for national social franchise implied EUR 150k. Contracts with one business angel and one foundation signed

- **Gregor’s** latest venture, disAbility performance austria (dpa), is the link between commerce and people with disability. The entrepreneurial and social goal is to help companies identify the potential of disabled people.
- **Social impact:** dpa is the first intermediary between companies and disabled people with the aim to identify and use their potential as customers and employees.
- **Investment need:** The start-up phase in Austria required EUR 300k. Contract with one institutional investor signed

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FASE built a pipeline of investable social enterprises that have already closed deals to enable their growth (III)

- **ROCK YOUR COMPANY!** has developed a highly efficient, one-on-one, pro-bono mentoring program for socially disadvantaged young people in schools. It extends this unique mentoring approach to companies for an effective, in-house mentoring solution to retain young employees.

- **Social Impact:** Companies get an effective tool to attract and retain talented young employees and to lower youth unemployment.

- **Investment need:** Setup costs for a social franchise model.

Contract closed with a foundation in order to roll out a pilot case

- **Schmökerkisten** develops professional, innovative, theme specific language support book boxes for schools.

- **Social impact:** Schmökerkisten addresses one of the most pressing problems in the German education system - almost 14% of the students cannot read or write satisfactorily when graduating from school. Poor language skills impede post-school education.

- **Investment need:** Financing is needed for the national rollout.

Deal closed with two foundations

- **bettervest** is a crowd-funding platform for small investors willing to help companies to become energy-efficient. In order to lower energy costs, bigger financial investments are often necessary to buy LED lighting or similar equipment. Thanks to **bettervest**, these projects have the chance to find crowd-investors that leverage the investment.

- **Social Impact:** Energy efficiency projects reduced about 600 tons of CO2 to date.

- **Investment need:** Growth to increase the capacities of the team.

Deal finalized with crowd funding and two business angels

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Bürgerwerke: 92% of German citizens support the expansion of renewable energies. Approx. 50% of these energy systems are run by citizens and more than 1 mn. people produce power with their own proprietary solar systems.

Social impact: Bürgerwerke strives to accelerate the exit from nuclear and fossil-fuel energy by bundling individual citizen energy cooperatives and increasing their efficiency.

Financing need: growth capital to accelerate buildup and expansion

Contracts closed with three business angels and one institutional investor

Ackerdemia addresses the increasing alienation of kids from natural food production („throwaway society“) and the consequences of an unhealthy nutrition.

Social impact: pupils learn to produce and market their own vegetables in proprietary school gardens with the help of educational guidance.

Financing need: growth capital to finance the Germany-wide rollout of this educational concept.

Contracts with one foundation and five business angels closed

Wegatech offers home owners systematic and digitalized advice when purchasing renewable energy systems. The online platform supplies a high degree of information and a very tailored service for their customers.

Social impact: private households are able to reach up to 70% energy independence and a reduction of energy consumption through a smart combination of photo-voltaic systems, heat pumps and accumulators.

Financing need: Buildup of the online platform and the team in Germany

Convertible loan provided by five business angels
First scientific evaluation confirms our potential to transform social finance sector in Germany

Excerpt from current research (September 2013):
'Social Entrepreneurship in Deutschland – Potenziale und Wachstumsproblematiken'

Best practice perspectives and solutions:

✓ Transparency and agency

'Financing Agency for Social Entrepreneurship (FASE), founded by Ashoka, makes a crucial effort in this respect.'

✓ Building competence for all parties involved

'Also regarding this aspect, Financing Agency for Social Entrepreneurship (FASE), founded by Ashoka, has to be mentioned first and foremost.'

✓ Improving efficiency/ lowering transaction cost

'Another function that serves to increase mid-term efficiency is taken over by FASE... in the context of building a pipeline of investments.'

✓ Reducing and diversifying risk

'The activities of FASE represent a first, institutionalized approach to systematically gain and use experiences with the intention to reduce risk.'
Our Team

Core Team

Dr. Markus Freiburg
Founder and Managing Director

Ellinor Schweyer
Founder and Managing Director

Sabine Kaiser
Senior Transaction Manager

Alexandra Heraeus
Transaction Manager

Christina Moehrle
Communications Manager

Initiators and Co-Founders

Felix Oldenburg
Secretary General of the Assoc. for German Foundations

Björn Strüwer
CEO and Founder Roots of Impact

Senior Advisors (Board)

Markus Hipp
Senior Advisor

Thomas Jetter
Senior Advisor

Cecilia Bunnenberg
Senior Advisor

Carsten Zengerling
Senior Advisor

Andreas Lange
Senior Advisor
The potential of Social Entrepreneurship
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Q&A Session
Dr. Markus Freiburg
Managing Director

Finanzierungsagentur für Social Entrepreneurship GmbH
Prinzregentenplatz 10
81675 München

Tel: +49 - 211 - 36 79 09 88
Mobil: +49 - 177 - 55 21 028
Fax: +49 - 3212 - 14 02 672
E-Mail: mfreiburg@fa-se.eu

www.fa-se.eu