



The State of Social Entrepreneurship - The Financing of Social Enterprises

About SEFORIS: Social Enterprise as FORce for more Inclusive and Innovative Societies

SEFORIS is a flagship multi-disciplinary, multi-method international research project on social enterprise funded by the European Commission. Through the generation of robust evidence and internationally leading research, SEFORIS aims to better understand the role that social enterprises play in the EU and beyond in the development and evolutions of inclusive and innovative societies.

SEFORIS will investigate key processes through which social enterprises deliver inclusion and innovation (spanning a range of domains, from organisation and governance, over financing and innovation to behavioural change) as well as the contexts in which social enterprises thrive. In terms of methodology, we will start from policy and social enterprise practitioner questions and challenges together with critically scrutinizing existing academic literature. We use this first step to develop theoretical frameworks that then serve as a basis for thinking systematically about innovation and inclusion processes in context. This is followed by field and lab experimentation with social enterprises and in-depth case studies to expand and enrich our understanding of social enterprises. Unique longitudinal survey data will be collected across 9 distinct countries to test new (and at times counterintuitive) hypotheses to reach novel insights and generalizable conclusions. We engage policy makers and social enterprises throughout the research process to ensure that our research is relevant for them and can inform their practice.

The SEFORIS partnership

SEFORIS is a consortium of 12 organisations from 10 countries including Belgium, China, Germany, Hungary, Portugal, Romania, Russia, Spain, Sweden, and the UK.

Academic partners and research institutes:

KU Leuven (Belgium), Hertie School of Governance (Germany), Autonomous University of Barcelona (UAB, Spain), University of Aveiro (Portugal), Centre for Economic and Financial Research (CEFIR, Russia), Stockholm School of Economics (Sweden), Aston Business School (United Kingdom)

Social entrepreneur support and financing organisations

Oksigen Lab (Belgium), i-propeller (Belgium), Non-Profit Incubator (NPI, China), Nonprofit Enterprise and Self-sustainability Team (NESsT, Hungary & Romania), and The Foundation for Social Entrepreneurs - UnLtd (United Kingdom)

Advisors

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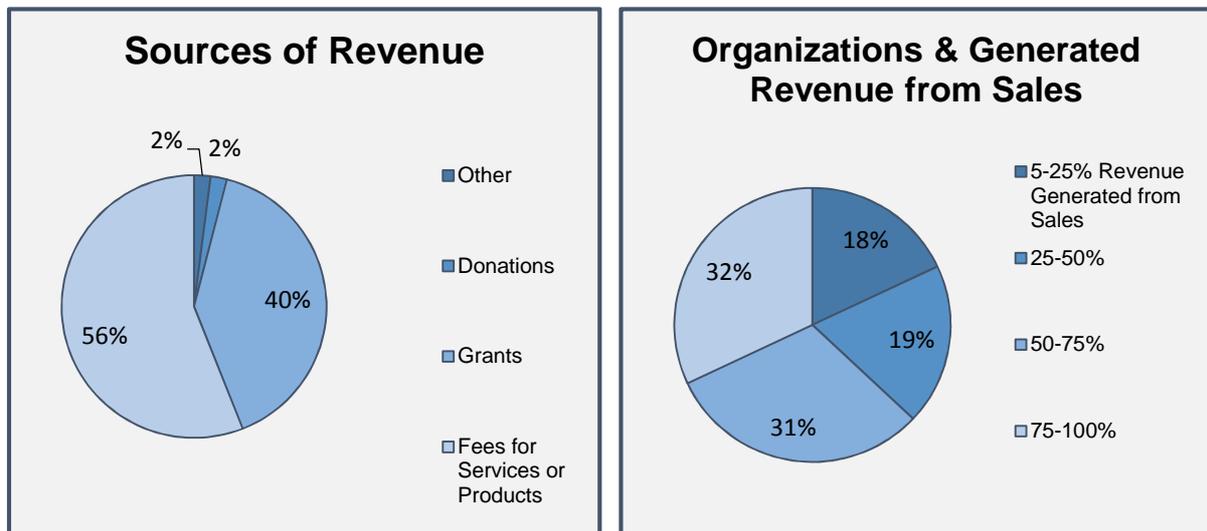
1. Belgium - Financing of social enterprises

“Does an investment always have to yield 15 percent? If you reach 5 percent with a new and inspiring company, isn't that great?”

- Piet Colruyt, Social Impact Investor (Humo, September 2013)

Sources of revenue and funding for social enterprises¹

- On average 56% of annual revenues were generated from selling products and services on the market, which underlines the strong entrepreneurial orientation of these ventures. In fact, 15% of the organizations were fully independent from any source of grant finance or donations, with 100% of their total yearly revenues generated via the sales of products and or services.
- On average 40% of the total revenues came from grant funding, most of which are provided by the public sector. This can be explained by the fact that the mission of numerous social enterprises was to accomplish a public service, and thus received financial means to do so. Throughout the interviews, we noticed a common trend of proactive search for new revenue sources in order to reduce the share of subsidy and become more and more independent.



Figures 1 & 2: Source of revenue (left), organizations and generated revenue from sales (right).

Financial Crisis

A recent study² on 6000 not-for-profit associations that had registered their annual accounts at the National Bank of Belgium (which over-represents the larger nonprofits) shows that over the period 2006-2012 the share of loss-making nonprofits has been on the rise. 2008 has clearly had an impact.

In part due to government budget cuts, there is a growing sense of urgency amongst mission-driven organizations to diversify revenue streams, become more market-facing - more social entrepreneurial, if you will.

¹ Huysentruyt, M., Kint, A., and Weymiens, S. 2013. "Mapping of social enterprises in Belgium." i-propeller with support of the King Baudoin Foundation.

² Het Economische Gewicht van Instellingen Zonder Winstoogmerk in België, 2013, King Baudouin Foundation

Two interesting cases to highlight in the banking sector: The Triodos Bank in Belgium realized a steady, balanced growth in its number of clients, size loans and savings, and net profits, despite the crisis. In March 2013, plans for launching a new participatory and cooperative bank, called newB, were made public; and 40,000 individuals signed up to become a member in less than 3 months' time. These phenomena underscore a widely held disappointment with and loss of confidence with mainstream banks, and the opportunity this creates for alternative forms of banking.

(New, dedicated) players

- Relatively new private social impact investors:
 - SI2Fund (15 M €), launched in 2012
 - KOIS Invest (5 M €), launched in 2010
- Other existing dedicated private financial players are: Triodos, Crédal, Hefboom, King Baudouin Foundation, Netwerk Rentevrij, ...
- Financial support for social enterprises from public authorities is organized at the regional level and exists already several years.
 - Flanders: Trividend, The Social Investment Fund
 - Wallonia: SOWECSOM
 - Brussels: Brusoc
- IWT, the Flemish e government agency for Innovation by Science and Technology, now also welcomes funding proposals for initiatives with a primary societal goal, societal innovation, proposals coming from social enterprises.
- Important new and redesigned European financing instruments are putting an ever greater emphasis on the importance of supporting social enterprises.

2. China - Financing of social enterprises

Sources of revenue and funding for social enterprises³

- 77% of social entrepreneurs raised their seed funding from family and friends with none of them using bank loans. In addition to family impact investors, government and bank loans also do not feature significantly.

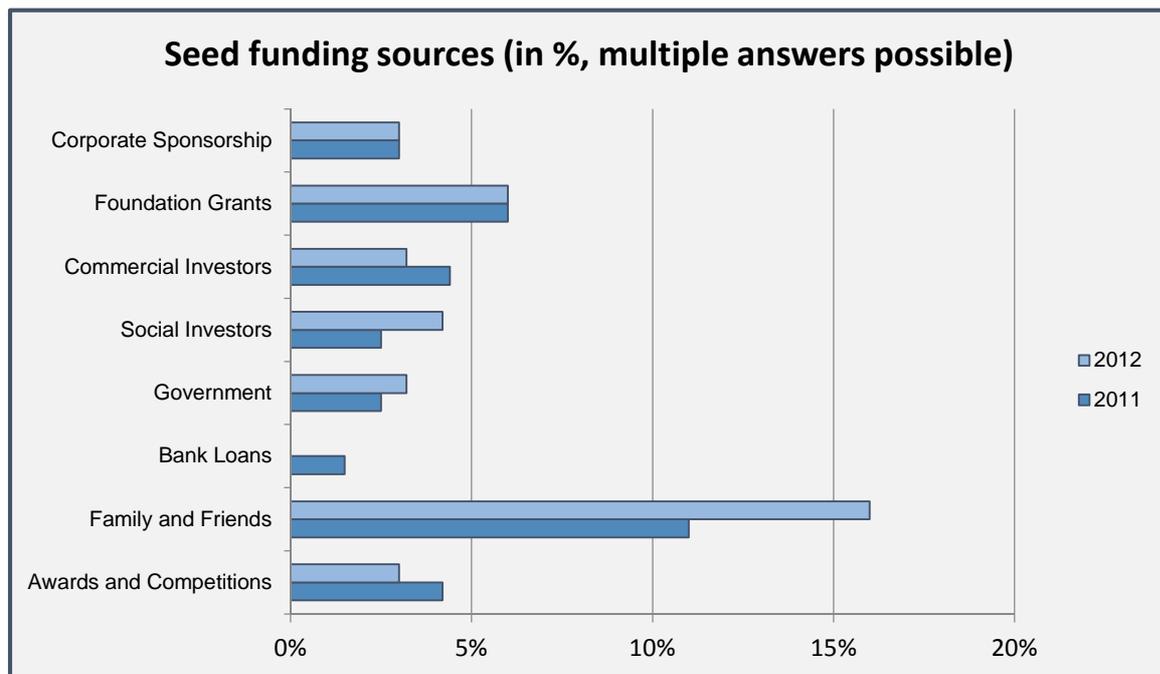


Figure 1: Seed Funding Sources (China Social Enterprise Report 2012)

- The majority of social enterprises derive their income from the sales of products and services. Social enterprises receive their income from a variety of sources including grants and investments, yet respondents generate on average 73% of their income from the sales of products and services, with 91% generating more than 70% and 13% generating less than 20% of their income this way. This gave 83% of social enterprises the confidence to believe that if all forms of income stopped except for selling products and services, either now or in the foreseeable future, the organization would not cease to exist.

Financial Crisis⁴

- In China, social enterprises, like SMEs and NGOs, are confronted with a challenge of accessing sufficient financial resources to start and scale their organizations. In China, most social entrepreneurs are not able to access bank loans which affect millions of SMEs as well.
- Bilateral and multilateral organizations, international foundations and INGOs, which have been the traditional sources of funding for civil society in China, have been reducing their funding for China in recent years in most areas (climate change is an area that has not

³ Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.P20.

⁴ Andrea Lane. 2012. "China Social Enterprise Report 2012". Foundation for Youth Social Entrepreneurship.P24-25.

experienced as dramatic a decrease as other areas). So-called “new donors” such as the Chinese government, corporations, and the 2,743 government-managed public foundations and private foundations have not yet mobilized—or are not yet willing to provide—the required financial resources to replace old donors or they exclude social enterprises from their funding.

- New donors themselves struggle with legal uncertainties and change. Private foundations still face major constraints in terms of fundraising, legal registration, capacity building and their own legitimacy. The uncertain regulatory environment also pushes foundations to fund projects and organizations in less risky sectors such as education, poverty relief, and environmental protection, and to stay away from more sensitive areas.

(New, dedicated) players⁵

In China, diverse participants constitute the current pool of social impact investors from government-backed agencies to business organizations and academic institutions. The main impact investors in China include the following:

- Private Foundations. According to the website of the China Foundation Center, as of August 20, 2012, there are 2,747 foundations, of which 1,259 are public foundations. The number of private foundations now exceeds public foundations, reaching 1,488. Private foundations are typically founded by high net worth individuals, and these individuals often provide key funding for impact investing and provide a channel for funding from corporations and other private investors.
- Government agencies. Under the guidance for Social Management Innovation, government procurement of social services became a new management method currently under experimentation.
- Overseas foundations. Many overseas foundations with mature and sophisticated operations have begun to focus on China’s economic development and the existing social services market gap. In addition to Hong Kong registration in 2009 of the Ashoka support network, many other pioneers in the field of social enterprise and impact investment have begun to fund projects in China, including the Ford Foundation and the SOW Asia Foundation.
- Private Equity Funds. Private equity funds have begun to play a role in social impact investing. One example is China’s first local private equity foundation -- Lanshan Social Investment. The foundation emphasized in its mission statement that it puts social impact first, financial return second, and aims to invest in high-growth social enterprise.
- Venture Capital. Presently, Tsing capital is one of China’s most influential triple-bottom line (economic, social, environmental) investment institutions. It is a leader in China’s venture capital industry and a pioneer investor in the industries of renewable energy, energy efficiency, environmental protection, new materials, sustainable agriculture, and cleaner production.
- Corporate social responsibility. As a business, the ideal social impact investment achieves dual social and economic returns by allowing the business to support societal development in areas such as environmental protection, aiding disadvantaged groups, and cultural education, at the same time as increasing the business’s own supply chain competitiveness.

⁵ United Bank of Switzerland(UBS).2013.”2013 China Social Enterprise and Impact Investment Report”. Accessed April 26, 2014. <http://www.serc-china.org/index.php/news/542-0814-.p45-51>.

Table 1: Major Social Impact Investment Institutions in China at a Glance (2013 China Social Enterprise and Impact Investment Report)

| Fund Name | Year Established | Founding Institutions | Numbers of Investments (in China) | Total investment Amount |
|---|-------------------------|---|--|---|
| Transist | 2012 | Schoenfeld Foundation | 2 | Unknown |
| China Impact Fund | 2012 | World Resources Institute | 4 | Unknown |
| LGT Venture Philanthropy | 2008 | LGT Foundation | 2 | Approximately \$300,000 |
| SA Capital | 2008 | SA Capital | 2 | Less than \$500,000 |
| Avantage Ventures Impact Fund | 2012 | Avantage Ventures | 3 | Expected to be approximately \$20 million |
| Lanshan Social Investment Fund | 2011 | Private Equality | 7 | 160 million RMB |
| Beijing Leping Social entrepreneur Foundation | 2008 | Fuping Development Institution | 5 | Unknown |
| SOW Asia Foundation | 2009 | SOW Asia Foundation | 1 | 500,000RMB |
| Xinhu-Yu Fund | 2012 | Xinhu-Yu Group, Venture Avenue | 2 | Unknown |
| Narada Foundaion | 2007 | Shanghai Narada Group Co.Ltd | Unknown | Unknown |
| YouChange Foundation(China Social Entrepreneur Foundation) | 2007 | Entrepreneurs from Mainland China, Taiwan, and HongKong | Unknown | Unknown |
| Tsing Capital | 2002 | Tsing Capital | >30 | Unknown |

3. Germany - Financing of social enterprises

Financing of social enterprises, similar to their governance structures, often display a hybrid nature as in the financing is linked not (exclusively) to return of investment but to provide support to the organizations to reach their social mission. In many cases hybrid organizational structures develop when social enterprises split into for-profit and non-profit units that often also mirror the resource base⁶.

Sources of revenue and funding for SE

As the Mercator Study has shown, social enterprises have particular, often hybrid financing structure. The financing instruments used range from private donations, sponsorship and foundation funding to public-sector grants and income self-generated on the markets and quasi-markets. With increasing revenue and age of the companies, importance of member contributions and public sector grants tends to increase⁷.

There is also a strong differentiation in terms of the area social enterprises are active in. While social enterprises in the field of education or environment often have access to market or quasi-market resources (e.g. through fees), social services are often financed through public investment⁸.

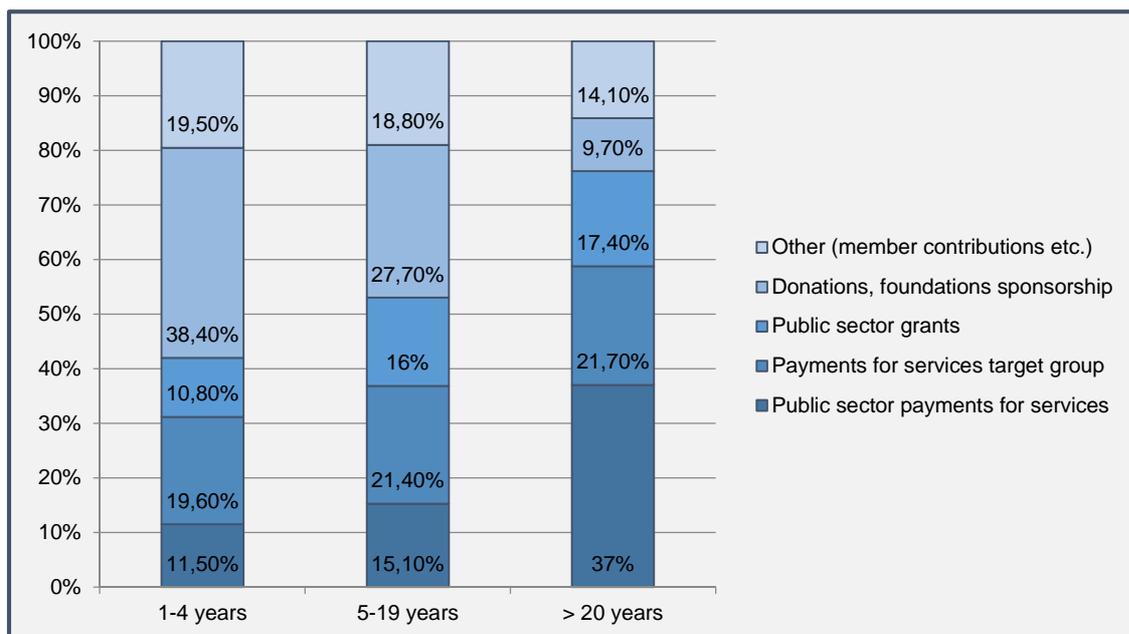


Figure 1: Financing structure of social enterprises in Germany⁹

⁶ Achleitner, Ann-Kristin, Judith Mayer, Wolfgang Spiess-Knafl. 2013. „Sozialunternehmen und ihre Kapitalgeber“. S.A. Jansen, R.G. Heinze, M. Beckmann, eds. Sozialunternehmen in Deutschland. Springer, Wiesbaden.

⁷ See Achleitner, Ann-Kristin, Judith Mayer, Wolfgang Spiess-Knafl. 2013. „Sozialunternehmen und ihre Kapitalgeber“. S.A. Jansen, R.G. Heinze, M. Beckmann, eds. Sozialunternehmen in Deutschland. Springer, Wiesbaden and Scheuerle, Thomas, and Albrecht Bauer. 2013. Social enterprises as an investment? Frankfurt.

⁸ Scheuerle, Thomas, and Albrecht Bauer. 2013. Social enterprises as an investment? Frankfurt.

⁹ Ibid.

Financial crisis

“We are in deep crisis but at the same time the crisis is our biggest opportunity“

- Muhammad Yunus at the a BMW foundation conference

Decreasing public funds and financial shortages of municipalities, that are responsible for many social services in Germany, often lead to situations where only the most urgent problems are addressed. Long-term investments and prevention work is therefore often neglected.

New dedicated players

With social enterprises becoming increasingly important in the German landscape, a variety of new players keep emerging around them.

Already quite established are players like Ashoka, as well as dedicated foundations such as the Bertelsmann Stiftung and the Vodafone Stiftung.

However, policy makers and also traditional welfare organizations are becoming more interested in the concept, and as indicated above, there is an increasing tendency of public actors to support social entrepreneurship.

Venture philanthropy funds such as BonVenture fund companies and organizations with a social purpose in German-speaking countries. The fund seeks projects that are innovative with a strong social impact, are led by motivated and committed social entrepreneurs, and will be financially self-sustaining in the long term in the areas of social businesses, ecological impact and societal improvement.

Various policy recommendations have emphasized the need for new dedicated players in the area of social entrepreneurship such as “*social innovation fonds*” or transfer agencies that enable interactions between traditional welfare organizations, social enterprises and potential investors¹⁰.

¹⁰ Scheuerle, Thomas, and Albrecht Bauer. 2013. Social enterprises as an investment? Frankfurt.

4. Hungary - Financing of social enterprises

“There are no large number of major private donors, especially on the field of supporting social enterprises. Therefore, others need take over this role. Major companies may consider this kind of support and target group as part of their CSR activities, but rather it would be more desired if they integrate it to their core business processes.”

- Eva Varga: Ecosystem of the social enterprises - International examples and best practices

Sources of revenue and funding for social enterprises

- Hungarian social enterprises are financing their activities from the following sources: 1) Fees for services or sales of products; 2) Investors' capital (equity); 3) Loans; 4) Grants; 5) Private donations; 6) Microfinance; or 7) Other. Sales and/or fees (38%) and grant finance (36%) are the most important sources of capital.¹¹
- As social enterprises are mainly unknown to the Hungarian political actors, there is no state support system to stimulate the concept of social entrepreneurship. Those social enterprises which function as a non-profit organization, due to their legal status, are excluded from the economic development tenders designed for small and medium-sized enterprises.¹²
- Social enterprises have realized the importance of diversifying revenue streams.

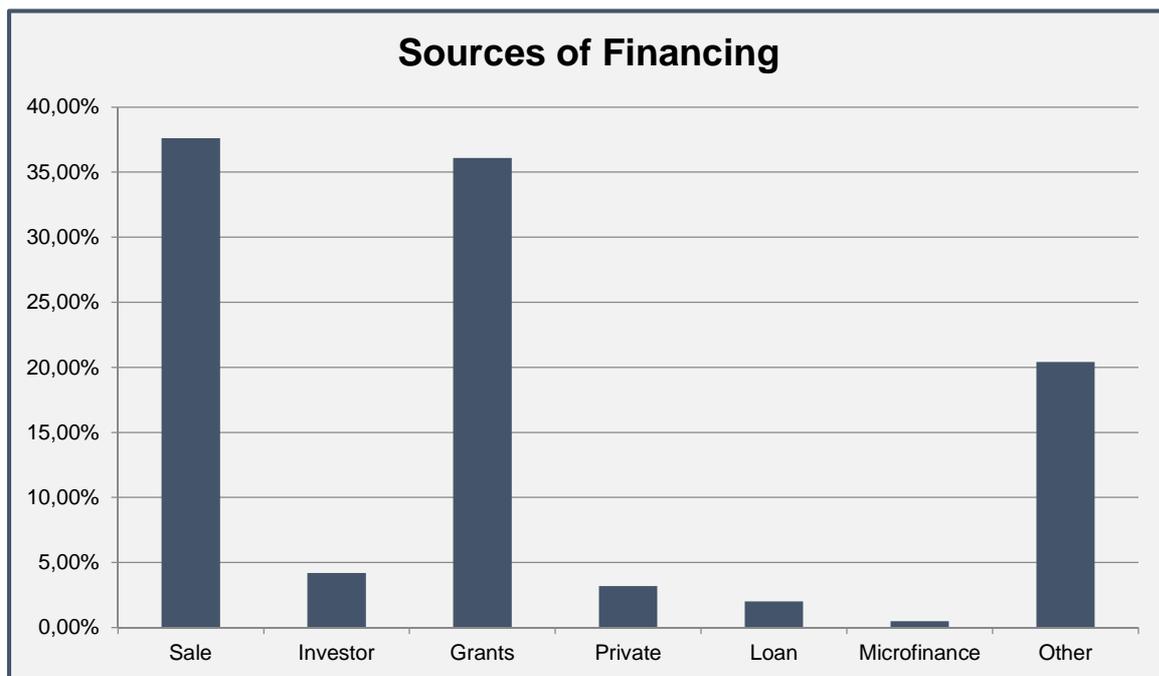


Figure 1: Sources of Liquidity over the Past 12 Months (Source: SELUSI, 2012. N=102)

¹¹ SELUSI, Personalized Feedback Report Hungary, 2011: http://www.selusi.eu/uploads/images/101216_Selusi_Report_HU.pdf.

¹² NESsT 2011 Hungary Country Assessment: <file:///G:/NESsT/Seforis/material/2011%20Nesst%20Country%20Assessment%20Hungary-hu.htm>.

Financial Crisis

Between November 2007 and November 2008 despite the financial crisis in Hungary, the overwhelming majority of social enterprises experienced moderate to strong growth: 40% reported moderate growth (up to 20%) and 38% reported strong growth (20% to 40% or more than 40%), with an even split between the latter two categories. 22% of social enterprises experienced a reduction in revenues, while zero reported stable revenues (i.e. 0% growth).

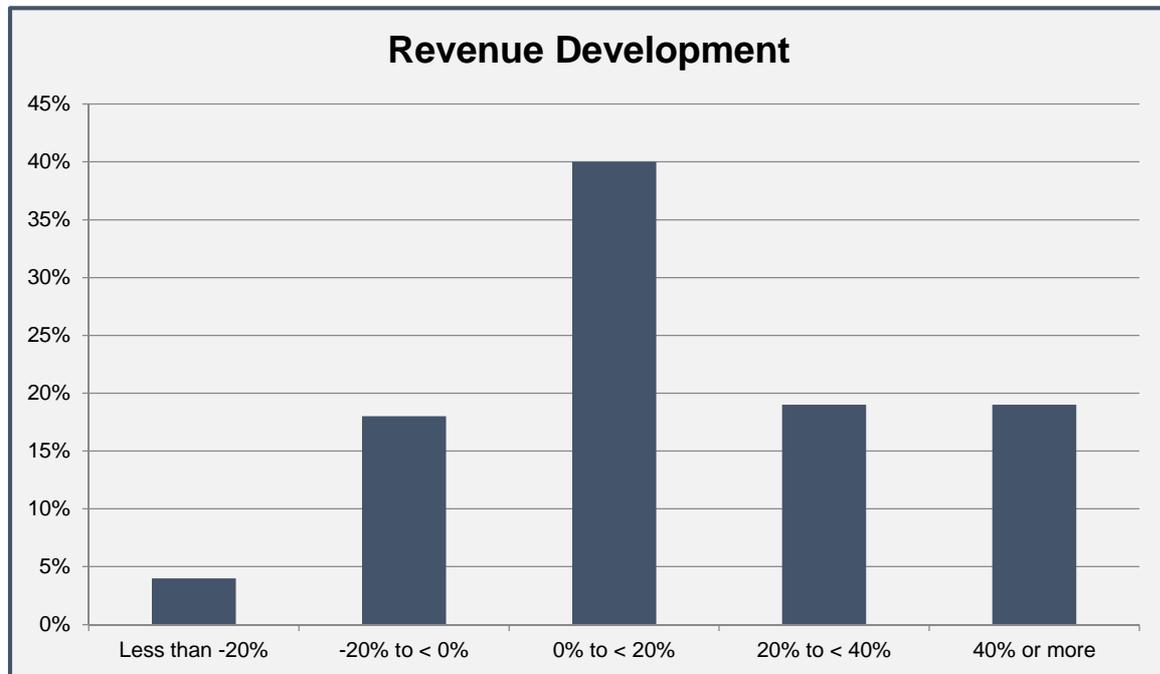


Figure 2: Revenue Change from Nov '08 to Nov '09 compared to Nov '07 – Nov '08 (Source: SELUSI, 2012. N=84). Figure shows percentage of social enterprises in each category. Number of companies for which this question does not apply because they were founded after November 2008 is equal to six.

(New, dedicated) players

- Private social impact investors:
 - NESsT, launched in 1997: investment: seed capital in the form of grants and soft loans; capacity support; social capital.
 - Ashoka¹³, launched in 1981: since 2009 it financially supports social entrepreneurs in Hungary for 3 years so that they can spread their model. However, not all social entrepreneurs supported by Ashoka are leading social enterprises they are solving social issues using some of the tenants of entrepreneurship but they are not necessarily running socially driven businesses.
 - Polgár Alapítvány az Esélyekért: Kiútprogram (group-based, unsecured microloans for people living in deep poverty, primarily Roma, to support their self-employment).

¹³ The mission of Ashoka is to support social entrepreneurs who are leading and collaborating with changemakers, using a team model that addresses the fluidity of a rapidly evolving society. Ashoka believes that anyone can learn and apply the critical skills of empathy, team work, leadership and changemaking to be successful in the modern world. Ashoka identifies and invests in leading social entrepreneurs and helps them achieve maximum social impact. For more information see: <https://www.ashoka.org>.

- Other dedicated private financial players are:
 - Banks: Citibank (since 2005 it has launched several tenders with NESsT for social enterprises); Raiffeisen Bank; Erste Bank (since 2010 it has led a campaign for the promotion of Mohammad Yunus's 'social business' model).
 - Venture capital and private equity industry: Hungarian Private Equity and Venture Capital Association (partner in NESsT's Business Development Program).
 - Funds: EEA/Norway NGO Fund.

- Corporate Social Responsibility is increasing in Hungary but private companies have provided no significant sources for non-profit social enterprises.

- The majority of the sources of the non-profit sector still come from the state (European Union funding included): central budget, local government budget, 1% of taxpayers' income tax and operational and project support of the National Civil Fund.

5. Portugal - Financing of social enterprises

Sources of revenue and funding for social enterprises¹⁴

In 2010, the Social Economy sector had a net borrowing of 570.7 million Euros. However, co-operatives (mainly due to those that integrate the financial area), mutual societies and foundations of Social Economy showed net lending capacity. The resources of social economy organizations were mainly generated by production (62.8%) and other current transfers and subsidies (23.8%).

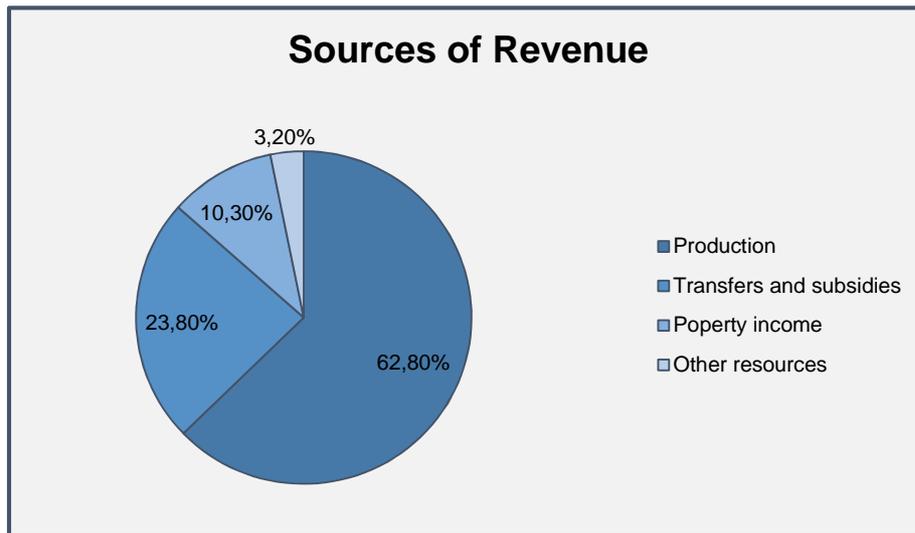


Figure 1: Sources of revenue of Social Economy Organizations

Financial Crisis

In Portugal, the social entrepreneurship became more popular mainly because of the actual situation. With the financial crisis, the government proceeds to budget cuts and social organizations, highly dependent of state funding, are more vulnerable. There is a growing sense of urgency amongst these organizations to diversify revenue streams, in order to survive and achieve financial sustainability.

(New, dedicated) players

- Relatively new private social impact investors
 - BIS Fund, launched in 2013
 - BVS (replicates the environment and concepts of a Stock Exchange, benefiting Social Organizations carefully selected to participate on that exchange)
- Other private financial players
 - Montepio Foundation, created in 1995
 - EDP Foundation, created in 2004

¹⁴ Statistics Portugal. 2010. "Satellite Account of Social Economy". Accessed February 11, 2014.

- Financial support from public authorities
 - SOCIAL INVESTE, Program launched in 2011
 - The programme supports social economy organizations in the investment in existing areas or new areas of intervention, in the modernization of services provided to communities and in the modernization and strengthening of treasury management. The projects submitted to finance should be economically viable, targeting the eligible operations (mentioned above) and its implementation should generate job opportunities in the entity.
 - COOPJOVEM, Program launched in 2012

Program designed to support the cooperative entrepreneurship, namely young people in the creation of cooperatives or investment projects involving the net creation of jobs in existing agricultural cooperatives as a way to develop a culture of solidarity and cooperation, and promote the self-employment. The participants have access to a grant for the development of their cooperative project, technical support to broaden skills in cooperative entrepreneurship and empowerment in the area of structuring cooperative project, and access to credit for investment, subsidized and guaranteed.

- Important new and redesigned European financing instruments are putting an ever greater emphasis on the importance of supporting social enterprises.

6. Romania - Financing of social enterprises

“Social enterprises need access to intelligent funding - grants, debt, equity, guarantee funds - according to the stage of development the social enterprise is in. Different development points mean different risk levels.”

- Conclusion from Malcom Hayday, Charity Bank UK, speaker at Social Enterprise Day 2012, event organized by NESsT in Romania

Sources of revenue and funding for social enterprises

- The source of revenue and funding differs based upon 2 main criteria: (1) legal form of the social enterprise (described in section 4.a) and (2) nature of funding, meaning direct funding for SE and sources relevant to SE, but not directly related to the sector. The non-profit legal form of a SE has access to more fiscal benefits such as the 2% donation from individuals' income tax or 20% from the profit tax of companies, or from CSR initiatives. For-profit legal forms of a SE (e.g. companies, cooperatives) on the other hand, can access incentives and grants for direct investment in tangible and intangible assets designed mainly to increase sales of products or services (Minimis Aid, National Programme for Young Entrepreneurs, National Programme START, etc.). In Romania the legal form of the social enterprise can dictate the major source of income.
- Most of the SE in Romania are associations and the latest available data¹⁵, summarizes the most frequent sources of revenue: (1) international funding (EU grants, foundations, etc.) was declared the most important revenue by 35.5 % of organizations; (2) national philanthropy is an important source of revenue for 18% of organizations; (3) public funding, including fiscal facilities and 2% donation mechanism, was considered a main source of revenue by 19% of organizations; (4) only 5.5% of organizations mentioned economic activity as the most important source of income. Although only 11% of the NGOs have economic activities, in 2009 sales revenues represented 18.5% of the total income of these organizations.¹⁶
- NESsT conducted an assessment to estimate the proportion of self-financing income generated by the social enterprise from its Romania portfolio. On average, 62% of annual revenues (2013) were generated from selling products and services, which underlines the strong entrepreneurial orientation of these SEs. But in fact, only 40% of the social enterprises generate 50% or more revenues from sales, and the rest of the budget is covered from on average 3 donors. Those who generate less than 50% from sales have on average 4 donors contributing to a sustainable funding mix. These 10 entities from the portfolio were intensively assisted in their business planning and implementation; other unassisted entities might present a smaller share of sales in their total income.

Financial Crisis

- There are no recent data regarding the effects of the financial crisis on social enterprises compared with other actors of the socio-economic environment. Although we can conclude that they were most likely affected given that they are highly dependent on funding from companies and individuals who in the crisis registered a lower profitability.
- The EU Programme focusing on the Social Economy (POSDRU 6.1) indirectly addressed through the creation of social enterprises and related employment. According to the

¹⁵ "Barometrul Liderilor ONG (FDSC, 2010)

¹⁶ INS data found in Atlasul Economiei Sociale, FDSC, 2011

Annual Report for 2012, this programme created 261 new social enterprises with 150 million EUR. Regarding the number of jobs created by the programme, this indicator has registered a spectacular growth in 2012 compared to 2011, increasing the number of jobs created approx. 17 times. The total number of jobs created by social economy structures in this programme (2007 - 2012) was 4684 jobs in 2012, a 129% increase from 3630 expected by the programme with only 35% of the funds allocated. However, it is important to keep in mind that most of these social enterprises are not necessarily market driven and might not be able to sustain themselves without continued EU funding.

- Despite crisis, the first bank financing of social enterprises initiated by Romanian Commercial Bank was done in 2010.

(New, dedicated) players

- Major private entities that decided to finance social economy:
 1. OMV Petrom with its programme Fabricat in Tara lui Andrei (Andrew's Country). In 2013, the company allocated 350,000 EUR (10 social enterprises x 32,000 EUR and 20 participants x 1,500 EUR).
 2. Romanian-American Foundation
 3. Citi Foundation/ Citi Bank
 4. Romanian Commercial Bank
 5. UnicreditTiriac Bank offered 61,000 EUR support to 4 social enterprises (2013).
 6. Among others we mention The Foundation for an Open Society (SOROS Foundation), Potsieu.ro – a new crowd founding platform, Velux Foundation, Erste Foundation fostering social entrepreneurship among students, etc
- The government financed social enterprises through national calls for projects within POSDRU 6.1. (European Social Fund) and other indirect calls for legal entities (National Programme for Rural Development, priority 3, National Programme for Young Entrepreneurs).
- The Swiss - Romanian Cooperation Programme and the European Economic Area Mechanism both managed by The Civil Society Development Foundation.
-
- Horizon 2020 call for proposals, Erasmus+ calls, and other European Commission's grants.
- NESsT is one of the only dedicated players providing long-term support for social enterprises in Romania, having invested over \$ 1 mil in capacity building and direct funding of start-ups and developing social enterprises.

7. Russia - Financing of social enterprises

Sources of revenue and funding for social enterprises¹⁷

- Sources of financing:
 - State and regional grants
 - Grants from private funds
 - Micro-financing
 - Contests for social projects
 - Economic activities (using economic activity to be able to use the revenues in other, more socially oriented activities)
- The majority of the social entrepreneurs said that they prefer fundraising to the entrepreneurial economic activities.
- Regional authorities sometimes provide a one-period grant but they do not supply systematic support.
- There is a need for credit system development.

Financial Crisis

There is no information on how social entrepreneurs are affected by the financial and economic crisis compared to the regular enterprises.

(New, dedicated) players

- Fund “Our future” opened a contest “Social Entrepreneur”, giving financial support to the winners.
- Bank “Uralsib” started a supporting program for social entrepreneurs together with the Fund “Our Future” and “Opora Rossii” (the Russian social organization for small and medium enterprises).
- The Russian Union of Industrialists and Entrepreneurs also started a supporting program for social entrepreneurs; it established a prize for organizations stimulating the development of social entrepreneurship in Russia.

¹⁷ Moskovskaja A. 2011. Social'noe predprinimatelstvo v Rossii: praktika i issledovanija, HSE Publishers, Moscow.

8. Spain - Financing of social enterprises

“ A social entrepreneur is not concerned about getting resources, because what motivates him is solving the problem. Whether they finance him or not, he is going to do it anyway.”

- Josep M. Miró, entrepreneur and social innovator

Sources of revenue and funding for social enterprises

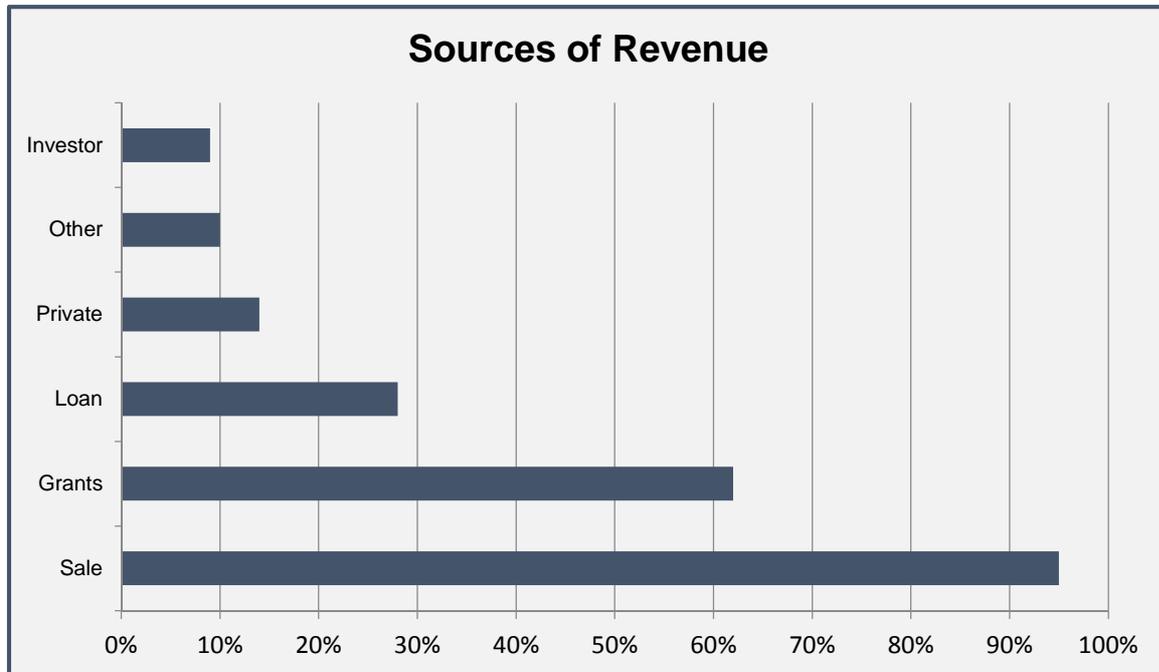


Figure 1: Sources of Liquidity over the Past 12 Months (SELUSI Project, 2011, N=104)

- The graph above represents the main sources of finance for the SELUSI Spanish sample. 15% of the respondents declared that more than 90% of their financing comes from sales of products or services. Participants declared they rely mostly on sales for financing their projects as there is very difficult to raise money during the crisis and they cannot rely on fundraising.
- The concept of “grant” is particularly important in the Spanish social entrepreneurship context as many financial institutions and the local governments use grants to promote and support social enterprise initiatives. The Spanish governments has a special type of grants for delivering social service benefits for socially excluded groups (elderly people, disabled or immigrants), for companies that offer employment for disabled people or offering temporary housing for the homeless. The competition is very high and some grants are exclusively for new projects, rather than existing ones.

Financial Crisis

Before the crisis, there were many initiatives from the Spanish government to promote and sustain social entrepreneurship. Two examples are noteworthy to mention.

1. The first is the “Dependency Law” (*Ley de Dependencia*), whose main objective was to guarantee public support for disabled, ill or elderly people, i.e. dependent, subsequently creating employment and promoting health education and training. The cost of the

implementation was supposed to be carried out by the autonomous communities, who, in the context of the crisis, could not guarantee it. Since 2006, the law has undergone massive reforms and budget cuts, making it not viable¹⁸.

2. The second example represents the “One-off Payment” (Pago Único) scheme implemented by the Spanish Government to encourage social economy growth. This way, an unemployed person could apply for the full or partial payment of unemployment benefits, and use the payment to create a social economy enterprise or invest in such an enterprise as a partner (in the case of worker owned cooperatives).

As a consequence of the economic recession, the Government was required to cut back on the budgets/projects focusing on social economy.

During the last 6 years, the Spanish banking system has undergone a difficult reform due to the economic crisis and to the crisis of the Spanish saving banks. Ever since their appearance in the XVIIIth century, saving banks (*cajas de ahorro*) have played a crucial role in promoting and funding social, cultural and charitable projects, fighting against social exclusion. They evolved into not-for-profit financial institutions, participating actively in development of social and economic sectors. The construction boom has led saving banks to overinvest in the real estate sector, approving loans in excess. Also, they were having difficulties raising equity capital. The first approach to restructure the banking system took place in 2009 with the creation of the *Fondo de Reestructuración Ordenada Bancaria* (FROB). FROB had the purpose to provide guarantees to *cajas* that were likely to default, aiming to improve solvency and cleaning up the balance sheets of entities.¹⁹

There were 47 saving banks in 2007. Gradually, the majority of them have disappeared either through mergers with stronger banks, either by transforming into commercial banks, leaving 12 bank entities.

Due to the significant financial aid that saving banks were transferring to social enterprises, the Spanish government was spending a low percentage of GDP on social entrepreneurship. Once these banks were transformed into commercial banks, they were not able to maintain the financing of social enterprises. Many social enterprises were financed by several smaller *cajas*, and when the funding stopped, they were not able to continue their activities and were forced to close.

(New, dedicated) players

- Fellowships: Ashoka Spain
- Funds: Creas (www.creas.org.es) - pioneers in Spain in the use of social equity [investment instrument](#) ensuring the economic and social impact. They manage two funds, [CREAS Inicia \(Seed capital\)](#) and [CREAS Desarrolla \(Growth capital\)](#), supporting social entrepreneurship and investing in business projects whose priority is creating social and environmental value.
- Prizes: Premio Jóvenes Emprendedores (offered by the European University of Madrid), Premio Emprendimiento Social (for students and alumni of Instituto de Empresa – sponsored by Mutua Madrileña), European Award for Social Entrepreneurship and Disability: Promoting Social Investment (ONCE)

¹⁸ “Government cuts to dependency law *most barbaric of all measures yet*”, *El Pais*, 18th July 2012, accessed on 21st of March 2014. http://elpais.com/elpais/2012/07/18/inenglish/1342622879_143861.html

¹⁹ International Monetary Fund, May 2012, “Spain: The Reform of Spanish Savings Banks Technical Notes”.

- Obra Social - LaCaixa Bank program for social enterprise funding early steps (seed funding).
- Banesto Bank - offers several platforms for entrepreneurs (e.g. Guadalfino).
- Networks: RUES – Red Universitaria de Emprendeduría Social – a University project focusing on strategy sharing in order to improve social entrepreneurship practices. The program focuses on research of initiatives, offering support and training for social innovation.
- Associations: Association of Social Entrepreneurs, Spanish Association of Social Entrepreneurship
- UpSocial – a group of social entrepreneurs created to promote and scale up social innovation. Their initiative, *Social Innovation for Communities*, aims to identify successful innovations and implements them in new contexts. Following the lead of the European Commission regarding the promotion of social entrepreneurship and innovation, in November 2011, they presented a proposal to change the current Spanish legislation on social entrepreneurship.
- Momentum Project – represents the initiative of BBVA Bank, together with ESADE Business School and PWC to promote and extend the activity of social entrepreneurs, offering them training and support. The project aims to create an ecosystem of support for all social enterprises. Each edition of Momentum Project lasts one year.
- ENISA Emprendedores Sociales Program – a public enterprise, fostered by the Ministry of Industry, Energy and Tourism and the General Directorate for Industry and SME who finances social innovation programs.
- Emprenduría Social Program – initiative of the Catalan Government (Departament d'Empresa i Ocupació) to bring awareness on social entrepreneurship and innovation. Another purpose of the program is to create a map of the social enterprise actors active in Catalonia.

9. Sweden - Financing of social enterprises

“ The need for social innovations also requires new financing solutions. In recent years we have seen several different platforms, ideas and solutions taking form aiming to increase access to capital for Social Innovation and social enterprises. Solutions that are in different ways taking into account the need for long-term perspectives, sustainability and Social Innovation and enterprises’ cross-sectorial nature”

- ABC I SOCIALA INVESTERINGAR- Mötesplats för Social Innovation²⁰

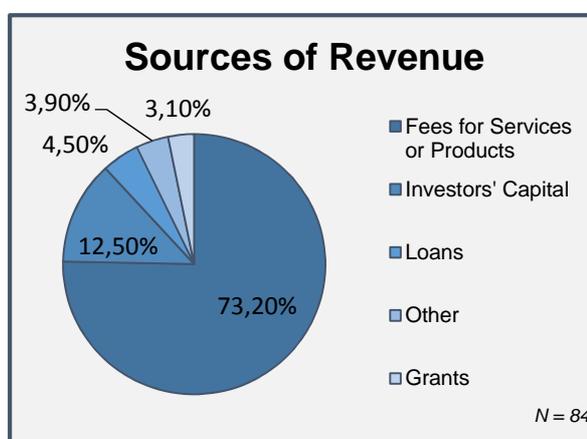
Sources of revenue and funding for social enterprises

Sources of financing is a highly topical subject in Sweden. All of the interviewed representatives (social entrepreneurs, incubators, officials for the funding and supporting agencies) mentioned financing issues as one of the main obstacles for new start-ups as well as hindrance in up-scaling and long-lasting social enterprise in the Swedish setting.

Figure 1: Sources of revenue (SELUSI 2010)

The SELUSI data (2010) suggests that Swedish social enterprises had high shares of capital coming from “Sales and/or fees” when they were asked about their source of liquidity in the past 12 months. Investors’ capital comprises the second largest financing source (with almost 13%) where the other alternatives were of marginal significance.

This underlines the strong entrepreneurial orientation of the ventures and the “laws of nature” for the earlier settlers, where you had to be self-supporting to not be eliminated on the market.



Thus, the rejuvenation of the sector has also imposed greater demands on available capital in various forms both in terms of long-term funding and seed money. This trend has in many aspects been slow in Sweden²¹. According to Pernilla Bard, founder of Social Initiative Sweden (est. 2002), an intermediary that is now increasingly focusing on Swedish projects:

“We have specialized in helping measure effect and social impact. Where our core idea is to create value in both ends: The social enterprises are helped to create their operation model, and the companies (the financiers) we wanted to encompass with a good involvement in society. That was long-term. This has been done since we saw that there was a fair amount of available capital to ‘create new’, but very little to scale-up.”

The diversity of products and services, functions and contributions creates the need for a mix of financing options.

- Regional social investment funds have enhanced their importance as a source of financing, especially in the mid-term perspective. It is the primary source of seed-money for socially-focused actions and projects in many counties. (Umeå and Norrköping are worth mentioning

²⁰ Augustinsson, Erika, ed. 2013. *ABC i Sociala Investeringar*, p 7. Malmö: Mötesplats Social Innovation. Available at: http://socialinnovation.se/wp-content/uploads/2013/06/abc_finansiering_uppslag.pdf

²¹ Herlitz in Florén, Anna-Karin ed. 2012 *Att lära av mirakel – att vända arbetslöshet till hållbart företagande. En antologi om arbetsintegrerande socialt företagande..* Publication 0465 Stockholm: Tillväxtverket <http://publikationer.tillvaxtverket.se/ProductView.aspx?id=1852>

as pioneering municipalities, which have allocated 12,5MSEK and 4,5MSEK respectively). At least 46 of the 290 municipalities have some type of social investment fund in 2013²².

- A political motion suggesting parliament to consider an introduction of a pilot scheme of Social Impact Bonds (henceforth SIBs) was given by Stefan Svanström (Christian Democrats, KD) on 7 October, 2013²³.
- There are currently two existing small banks that focus on Social, Ecological or Cultural surpluses: [Ekobanken](#) and [JAK-banken](#); it is however not clear if the terms are feasible as of yet for the social enterprises (i.e. if they can live up to the requirements). Additionally, [Ekobanken](#), [JAK-banken](#), [Coompanion](#) (a business advisor for cooperative enterprises), "[Hela Sverige ska leva](#)" (a national association consisting of 4700 village action groups and 40 member organisations) have initiated a promising joint venture between the private and the public sector to ensure microfinancing.
- There are several initiatives (mostly driven by incubators, academics, and intermediaries) working to encourage more venture capital investments, which historically has been scarce. Many Social Entrepreneurs testify that grants are often given to established players, while new players spend a lot of time trying to survive the first year.
- A handful of large Swedish companies have created funds to encourage projects that enhance social impacts: sometimes with a thematic focus and in some cases as a long-term inclusive project for their employees (examples are: "[Playing for Change](#)" created by Kinnevik and "[Idéer för Livet](#)" by Skandia).
- "Crowdfunding" is growing as a potential source of financing. Today, there are 3 available Swedish platforms, all founded in 2011²⁴ ([FundedByMe](#), [Polstjärna](#), and [Crowdcube](#)).

Financial crisis

Compared to many other countries, Sweden has not been as affected by the financial crisis. Sweden has outperformed many other emerging economies with high growth before the crisis, even in decadal key figures.

(New, dedicated) players

- [Allmänna Arvsfonden](#) has funded 67 projects that relate in some way to social enterprise and social entrepreneurs from 1994-2012, with a total allotment of 12,6 MSEK.
- [Impact Invest Scandinavia](#) is the first impact investor network in the Nordics.
- [Idéer för Livet](#) provides seed money funding for projects related to youth and children and have funded over 3000 projects since the start 1987.
- Regional social investment funds, such as the Swedish municipality Norrköping have been a pioneer with a total allotment of 40 MSEK.

²² Swedish Television, SVT, (broadcasted 13 July, 2013). "[Kommuner satsar på 'riskabla fonder'](#)".

<http://www.svt.se/nyheter/sverige/kommuner-satsar-pa-riskabla-fonder>

²³ Stefan, Svanström. 2013. "Social impact bonds, Motion 2013/14:Fi275"., *Sveriges Riksdag*. (Accessed 15 March, 2014)

http://www.riksdagen.se/sv/Dokument-Lagar/Forslag/Motioner/Social-impact-bonds_H102Fi275/?text=true

²⁴ Lamprey, Rebecca. 2013. "Crowdfunding växer som finansieringsalternativ"., *Mötesplats Social Innovation*. (Accessed 15 February 2014). <http://www.samhallsentreprenor.se/sv/crowdfunding-vaxer-som-finansieringsalternativ/>

10. UK - Financing of social enterprises

Sources of revenue and funding for social enterprises

- Sale of products or services is the most significant source of capital (63%) for social enterprises in the UK. The second most significant source of capital (24%) is grants.²⁵ See figure 4 below.

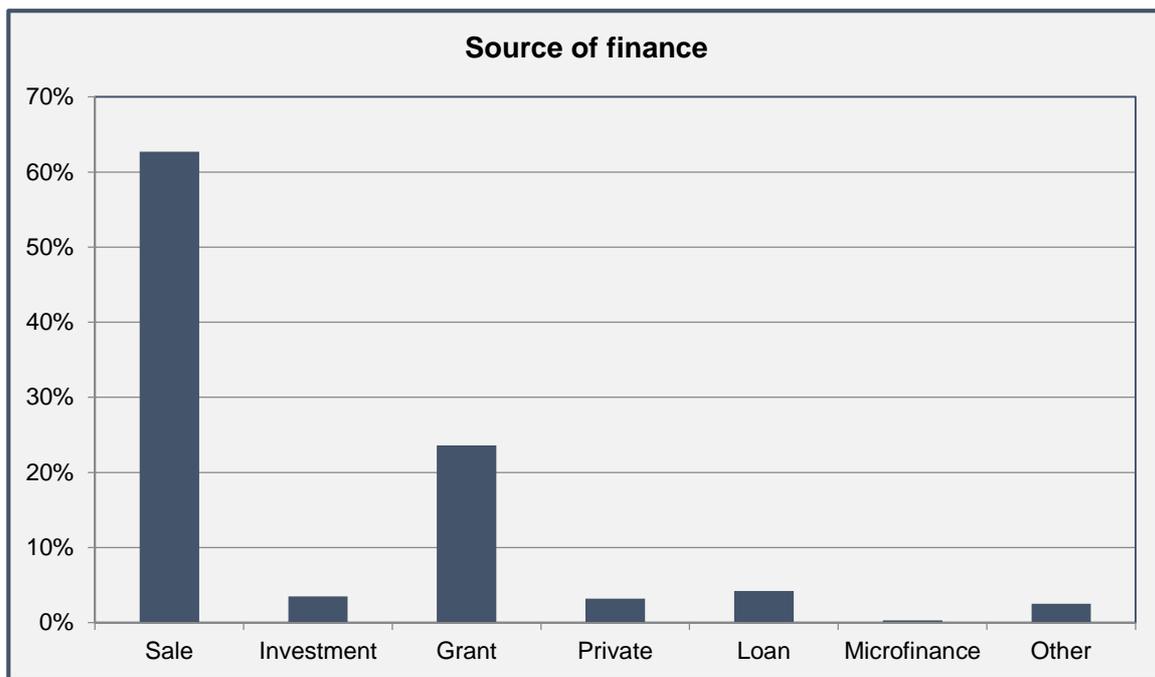


Figure 1: Sources of revenue for social enterprises in the UK (SELUSI, N=166)

- More than half of social enterprises (52%) trade with the public sector and for 23% of social enterprises in the UK that is the main source of revenue. The number of social enterprises that are commissioned to deliver public services and the volume of such work is expected to increase with the implementation of the Public Services (Social Value) Act.
- More social enterprises seek external sources of financing compared to commercial enterprises and they apply for larger amounts of financing.²⁶
- Lack of, or poor access to, finance is still perceived as the single most significant barrier for starting up, sustainability and growth by social entrepreneurs. This is in contrast with commercial enterprises for which access to financing is the 6th biggest barrier to sustainability and growth. One of the issues raised among start-up social enterprises is the lack of understanding of social enterprises among banks.²⁷

²⁵ SELUSI Research Consortium. 2010. "Social Entrepreneurs as Lead Users for Service Innovation." <http://www.selusi.eu>.

²⁶ Social Enterprise UK. 2013. "The People's Business: State of Social Enterprise Survey 2013." http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.

²⁷ Ibid.

Economic climate

- In 2013, social enterprises surveyed by Social Enterprise UK perceived the economic climate as the second most significant barrier to their sustainability and growth. This is especially the case for organisations with a turnover above £1 million. This is a dramatic difference from 2011 when economic climate ranked 11th, mentioned by only 8% of social enterprises as a barrier. It indicates that the financial crisis impacts UK social enterprises with a time delay.
- Considering that the public sector is a main source of revenue for social enterprises, it is important to note the impact of budget cuts in the last few years and the risks for social enterprises. In fact, 61% of social enterprises that trade primarily with the public sector have diversified into new markets in the past 12 months compared with 38% of other social enterprises.²⁸

Social investment

- Social impact investment is not a new concept in the UK: a number of established organisations have been investing for social impact and managing investment for about a decade (e.g. Investing for Good, Bridges Ventures, Key Fund, FSEGroup, Truestone Impact, Social Enterprise Investment Fund).
- The social impact investment market grew by a quarter in 2012 to reach £202m with 765 deals made by 29 social investment financial intermediaries.²⁹
- Big Society Capital was launched by the UK government in 2012 with a fund of £600m to support social investment intermediaries.
- More recently, new and more specialised funds have been launched to invest in specific sectors, outcomes or regions: City of London Corporation Social Investment Fund (£20 million), Social Incubator Fund (£10 million), Nesta Impact Investment Fund (£25 million), Impact Ventures UK Fund, and The Big Energy Idea.
- The number of social impact bonds, i.e. outcome-based contracts between public sector bodies and social enterprises, has drastically increased from one in 2011 to 13 in 2013, a number larger than the rest of the world combined. These social impact bonds involve about 40 organisations.³⁰
- Despite the growth of the market, the challenge for social enterprises is still access to high-risk early-stage finance above £50 000.³¹
- The UK government introduced a 30% social investment tax relief in April 2014 to encourage unsecured investment to asset-locked entities such as charities and community interest companies.

²⁸ **Social Enterprise UK.** 2013. "The People's Business: State of Social Enterprise Survey 2013." http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf.

²⁹ **Cabinet Office.** 2013. "Background Analysis on the UK Social Investment Market." https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277861/Background_analysis_on_the_UK_social_investment_market.pdf.

³⁰ **HM Government.** 2013. "Growing the Social Investment Market: 2013 Progress Report." https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205295/Social_Investment_Strategy_Update_2013.pdf.

³¹ **Howells, Grace, Stephen Miller, and Tom Fox.** 2012. "Attracting Early-Stage Social Investment." London: UnLtd. http://unltd.org.uk/wp-content/uploads/2013/01/UnLtd_Research_Publication_Number6_bvc_nocrops.pdf.



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