WORKSHOP: RAISING GROWTH CAPITAL FOR SOCIAL ENTERPRISES

Social Entrepreneurship Camp
Dr. Markus Freiburg

Berlin, March 14, 2015
Goals of today’s workshop

- **Give brief overview** of 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 growth capital and to close a financing round
- **Discuss your concrete questions** from your own social start-ups for raising growth capital
Agenda

- The potential of Social Entrepreneurship
- The opportunity of Impact Investing
- Funding challenges for Social Enterprises
- Mastering the challenges: FASE
- Case Study: SchulePLUS
- 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.
Dr. Frank Hoffmann

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
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

Case Study: SchulePLUS

Q&A Session
Introduction to Impact Investing

Impact Investing

- Financial Return
- Impact Investing
- Social Impact

Synonym:
- Double Bottom Line
- Triple Bottom Line
- Shared Value
...
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

Return for the Investor

Return for Society

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

Google search for Impact Investing 2005 - 2014
“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
... but investment opportunities are not

“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

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

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

20-25
Deals in Continental Europe per year

why?
planetary system not ecosystem needs new intermediary
Status Quo: Financiers live on separate planets – difficult for social enterprises to navigate in this universe
The invisible 'separation' of the market

(Venture) Philanthropy  Impact First Investing  Financials First Impact Investing  Sustainable Investing  Socially Responsible Investing  Traditional Investing

Focus

Adressing maximum social/environmental impact by allocation of capital

Sustainable Investing

Social/environmental impact in combination with expectation for capital preservation and financial return

Responsible profit generation resp. optimization incorporating sustainability criteria

Profit maximisation

Impact dimension

Deep penetration

Broad coverage

n/a
Everybody is waiting ...

... at the end of the pipeline
Financial instruments: our mission is to close 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
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

Scaling
Early-stage social enterprises don’t fit to traditional types of funding

Non-Profit
- No return
- Short-term horizon

Hybrid
- Modest returns
- Few exit options
- No “one” finance solution

Commercial
- Market-rate returns
- Exit options
The potential of Social Entrepreneurship

The opportunity of Impact Investing

Funding challenges for Social Enterprises

Mastering the challenges: FASE

Case Study: SchulePLUS

Q&A Session
FASE at a glance: We build a bridge between social entrepreneurs and investors

### Social entrepreneurs

- ✔ Support in developing their business model to investment readiness
- ✔ Identification of potential investors and recommendation for their optimal financing mix
- ✔ Comprehensive advisory consulting and coordination to guide them through the transaction process

### Investors

- ✔ Access to investment and financing opportunities of leading, investment ready social enterprises
- ✔ Specifically to their individual investment preferences customized impact investing opportunities
- ✔ Clearly structured investment and transaction processes for social enterprises
Investment readiness program: FASE helps social enterprises to get investment-ready

What is the social problem?

1. Problem definition
2. Target group definition
3. Competitor analysis

What is the approach to solve the problem?

4. Vision & strategy
5. Offering
6. Social impact / value

How is it implemented (business model)?

7. Distribution
8. Organization
9. Resources
10. Cooperations
11. Scalability
12. Quality control
13. Pilots

How is the business model funded?

14. Financial plan
15. Funding needs
FASE built a pipeline of investable social enterprises that have already closed deals to enable their growth.

**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 of EUR 500k to cover national rollout. Further investment is needed to tackle the international rollout.

**Attila von Unruh** 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.

- **Investment need:** For the start-up phase EUR 120k are needed, structured as revenue participation right.

Contracts with two institutional investors signed

**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:** Setup costs of EUR 150k are needed until break-even is reached and profits for the non-profit organization can be generated.

Contracts with one foundation and one business angel signed
FASE built a pipeline of investable social enterprises that have already closed deals to enable their growth.

Robert Greve
SchulePlus

- **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 are needed until break-even.

Contracts with business angel and two institutional investors signed

Robert Greve
SchulePlus

- **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 their second half of life that are keen to start their own businesses, either due to a lack of jobs and financial difficulties.
- **Investment need:** Setup for national social franchise implies EUR 200k.

Contracts with one business angel and one foundation signed

Ralf Sange
Gründer 50plus

- **Gregor's new venture, disAbility performance austria (dpa),** is the link between commerce and people with disability. The entrepreneurial and social goal is to help companies identifying the potential in disabled people.

Social impact: dpa is the first intermediary between companies and disabled people with the aim to identify and use new potential and use it.

Investment need: For the start-up phase in Austria EUR 300k are needed.

Gregor Demblin
Disability Performance Austria

Two institutional investors and two business angels are finalizing deal.
Investors: We have built a broad network of potential impact investors and established the first social business angel club in Germany

- Broad base of investors in Germany from all “financing planets” (business angels, foundations, private investors, family offices)
- Structured database of individual investor preferences on the basis of personal interviews and detailed investor profiles
- Recently established “Ashoka Angels Network” as first social business angel club in Germany
First scientific evaluation confirms our potential to transform social finance sector in Germany

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 respresent a first, institutionalized approach to systematically gain and use experiences with the intention to reduce risk.’
Team and partner: our efforts are driven by our core team and a strong network of partners

Our Team

**Dr. Markus Freiburg**
Founder and Managing Director

**Ellinor Dienst**
Founder and Managing Director

**Cecilia Bunnenberg**
Project Manager

**Christina Moehrle**
Assistant to the Managing Directors

Initiators and Co-Founders

**Felix Oldenburg**
Managing Director Ashoka

**Björn Strüwer**
Senior Advisor Ashoka

Karsten Zengerling,
Andreas Lange, Carsten Schymik
Markus Hipp, Thomas Jetter
- The potential of Social Entrepreneurship
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  - Case Study: SchulePLUS
- Q&A Session
SchulePLUS: Social network for schools

SchulePLUS connects schools with regional medium-sized business, cultural institutions, experts and sport clubs through a social online-network tool.

This significantly facilitates teacher’s search for local offers and expertise with the goal to improve to the teaching process (for instance, by use of a virtual pin board). This allows the pupils to learn better and faster. Simultaneously, the teachers will experience a higher job-satisfaction and the burn-out rates will drop.

Parallel to the free basis-offer, revenues will be generated through fee-based supplementary offers (e.g. premium profiles for companies). After a successful 8-month-piloting in Berlin, 45% of Berlin schools are already active on the platform. For the German-wide roll-out TEUR 450 is needed.
The Business Model for SchulePLUS is based on the networking of teachers and external service providers.
The pin board

Queries and offers can be published on the pin board.
The theme rooms

In the theme rooms, the user can comfortably search for offers.
The Business Model – the Messenger Function

Messenger function

Example: A teacher has found an offer and can now communicate with the provider through the messenger function.
The pupil's world (in development)

In this publicly accessible area, pupils have direct access to the offers from organisations, can contact them directly and download information about e.g. holiday camps, internships, studies, and apprenticeships.

For the pupil’s world a new unit is developed to facilitate for teachers to directly work with their pupils on computers at themes such as work orientation. This makes SchulePLUS an integral part of the work orientation guidance formed both at home and in school.
Social Impact

The goal of SchulePLUS is to promote the concept of multi-professional schools. The targets of SchulePLUS are:

- By 2016, 5% of all teachers in Germany shall use SchulePLUS, by 2018 this number shall increase to 10%,
- Every participating school shall on average enter into five school partnerships annually via SchulePLUS.

The pupil’s learning results should improve, the burn-out rate among teachers should drop. The social impact of the multi-professional school shall be measured on these two key performance indicators. For the evaluation SchulePLUS will use the following data:

- Potsdamer teaching study – survey of teacher’s burn-out rate and,
- The PISA study publishes a report on pupil’s performance.
Results from the 8-month pilot phase in Berlin - 45% of schools and 750 teachers are active on the platform

**Achievement:** Eight-month piloting results:

- 45% of the Berlin schools are registered
- 650 external organisations make offers
- 79 successful cooperations were announced
- 860 offers are currently published
- 14 organisations offers structural support to SchulePLUS
- 210 companies use the network

**Examples:**
- Pupils perform the school theatre play prior to the evening-performance in the theater,
- A group of pupils go on a canoe-trip,
- One school organises a career day with lectures from human resource experts,
- A university organises a students counseling day at a school.

E.g. Vattenfall, Siemens, Deutsche Bahn, Deutsche Post, Dussmann, Deutsche Bank, Tengelmann.
SchulePLUS is based on a freemium model with offers both free of charge and fee-based

## Offers and pricing

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<thead>
<tr>
<th>BASIS</th>
<th>PROFESSIONAL</th>
<th>PREMIUM</th>
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<tbody>
<tr>
<td>Recommended for:</td>
<td>Recommended for:</td>
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<tr>
<td>Teachers</td>
<td>SMBs</td>
<td>Corporations</td>
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<td>Parents</td>
<td>Educational Provider</td>
<td>Large Enterprises</td>
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<td>Volunteers</td>
<td>Foundations</td>
<td>Organisations</td>
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<td>Replacement teachers</td>
<td>Coaches</td>
<td>Public Agencies</td>
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### Basis Version: The above version

### Professional/Premium: Extended organisation profile. This allows for an individualised portrayal of the user (company) and makes it possible to bundle the company’s activities on school cooperations. It is possible to upload videos, insert a picture gallery, publish existing school partnerships and use an upload-center for information material. Above all the company is visible in the pupil’s world.
Robert Greve – Initiator, Founder and Chief Executive
During his teacher training, Robert Greve founded his first social business SWiM Bildung. Since 2007, he is bringing teacher students directly to the pupils in order to train key qualifications in group workshops. SWiM Bildung is active in four German states (“Bundesländer”) and employs 30 people. Since 2007, SWiM Bildung is generating positive annual results. In order to make schools even more flexible, Robert Greve simultaneously planned SchulePLUS. Through the financial support of Ashoka, it has been possible for Robert Greve to concentrate fully on the development of SchulePLUS since 2013.

Robert Greve is supported by a strong team with Julian Fürstenau, Christian Johann, Johanne Rothe, Anna Görg and Vasja Laharnar.
The Hybrid Business Model

SWIM Bildung UG (limited liability)

SchulePLUS GmbH (for-profit company)
(100% subsidiary of SWIM Bildung UG)
Operative business
Online platform
(establishment and expansion of the platform, customer acquisition, PR etc.)

SchulePLUS Forum gUG (non-profit company)
(100% subsidiary of SWIM Bildung UG)
Funding of school-cooperations from an overall societal standpoint
(training seminars, impact reports, organisation of events etc.)

Future profits should, after repayments, be invested in the growth of SchulePLUS GmbH or be distributed to the non-profit SchulePLUS Forum gUG.
The Hybrid Financial Structure

... participation rights capital (Genussrechtskapital) to finance investments in a self-sustainable business model (SchulePLUS platform with free and fee-based offers)

... donations for funding of school cooperations from an overall societal standpoint (training seminars, impact reports, organisation of events etc.)

... for work orientation for pupils, promotion of qualified jobs, examination of possible cooperation with child care, etc.
Financing the New Social Business

Participation rights capital with subordination agreement

- Revenue participation rights capital („Genussrechtskapital“) with qualified subordination clause („Nachrangabrede“), but without loss participation.
- Revenue participation model with an annual variable compensation based on a fixed share of revenues. The annual compensation is limited by a cap on the nominal amount and as compensation, there is a catch-up payment in the end in order to achieve a pre-defined target IRR.
- Disbursement in two tranches, conditional upon pre defined milestones
- Seven year maturity with the option for an early repayment.
- Appropriate information, participation and confirmation rights, but no shareholder rights.
- Establishment of an advisory board with appropriate representation of the investors, supervising and controlling financial and strategic issues.
Co-investments from private business angel, institutional investor and KfW

SchulePLUS was financially supported by a private business angel and an institutional investor. Together their participation accounts for approximately 70% of the total financing amount.

The KfW (German Development Bank) offers capital to medium sized and small businesses committed to tackle social problems in Germany through market-based innovative business models. The capital is provided as a co-investment within the KfW program 091. The KfW covers 30% of the total investment amount.

Consulting by FASE and Hogan Lovells

The Financing Agency for Social Entrepreneurship (FASE) consulted Robert Greve in the creation of the business structure and financing model. In addition, the international law firm Hogan Lovells, supported SchulePLUS in all legal matters on a pro bono basis.
Major Insights

- **Social impact and a successful business** are neither mutually exclusive, nor exclusively related – however in this specific case they are – the more successful the social business model, the higher the social impact.

- The higher the social impact of the social business, the more likely it is to attract **sponsors and supporters**. Social innovations have the potential to redefine a whole sector.

- **A hybrid business model** (including legal structuring) facilitates the combination of various financial instruments – creating a self sustaining financial system.

- The mix of **investments and philanthropic capital** accelerates the social impact.

- **Scaling up** the concept through a **national roll-out** allows SchulePLUS to approach the social problem on the whole German market, achieving **structural improvements on a larger scale**.

- Social entrepreneurs should **obtain professional advice**, both when preparing for investment readiness and for the financing process itself.
The potential of Social Entrepreneurship

The opportunity of Impact Investing

Funding challenges for Social Enterprises

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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