



FINANZIERUNGSAGENTUR FÜR
Social ENTREPRENEURSHIP



Social Finance Case Study: Financing a Social Enterprise with a Hybrid Business Model

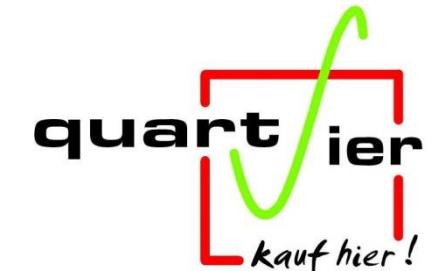
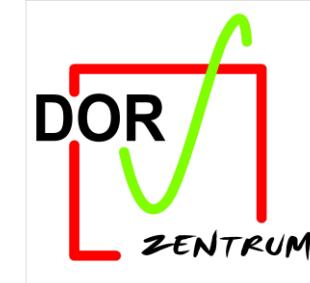


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The **Financial Agency for Social Entrepreneurship GmbH (FASE)** was launched by **Ashoka** to make growth for social enterprises financially viable. This document outlines a typical case study of a FASE-assisted transaction.

FASE supported the social entrepreneur and Ashoka Fellow **Heinz Frey** in developing **a hybrid business model and a tailored financing model**. The DORV project consist of two parts: 1) a non-profit organization, responsible for distributing and further developing the DORV idea as well as operating the inclusive DORV and quartVier centers, and 2) a for-profit company, dedicated to consulting municipalities and local communities in building DORV and quartVier centers and acting as a franchisor for them. The for-profit company successfully raised growth capital with the support of FASE.

The **social enterprise DORV UG** (German limited liability company) offers consulting and support for interested villages and urban districts that are determined to create their own DORV or quartVier centers.

For the first round of financing, FASE developed a **financing model**, specially adapted to the needs of social businesses, based on a **social impact incentive**. The investors in this transaction, who provided the initial capital to build and expand the social enterprise, were won from FASE's proprietary network.

The Social Problem: Deserted Living Environments without basic Local Supply

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In many residential areas – urban as well as rural environments – local suppliers are closing their doors, inhabitants are moving away, real estate is losing value and the social as well as technical infrastructure is shrinking. The environment is losing its quality of life.

The consequences of such an eroded infrastructure are serious and will be further fueled by demographic change: People – often with limited mobility – remain underserved in their residential quarters. The number of elderly citizens increases and the burden for the younger generation becomes inevitably heavier. The financial as well as social implications are incalculable.

In Germany approximately 22 million people live in scarcely populated areas and 12 million people are expected to relocate, if no counter-action is taken. A similar development is beginning to show in suburban areas.



The Solution: Innovative and multi-functional Local Supply

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The DORV project provides outstanding social impact for rural and urban areas suffering from weak infrastructure. The unique concept of a multi-functional local supply has already been implemented in 12 locations Germany-wide.

The DORV project offers inhabitants of villages and urban districts the opportunity to secure local supply and to break the vicious circle of emigration and fading local infrastructure.

In addition to products, services and socio-medical supply (groceries, postal service, nursing agencies,...), DORV centers also provide meeting points for human interactions.

The DORV centers guarantee the basic necessities of local supply, sustainable organic farming and the revival of the good old 'feel' of a village community.



The Team of Problem Solvers and Social Entrepreneurs

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**Heinz Frey –
Initiator and Founder**

Since his early childhood, Heinz Frey has been engaged pro bono in a number of social and cultural initiatives in his native village Jülich-Barmen. When the last shop in his village closed in 2004, he served as a teacher at the local high school and developed the first DORV center. Meanwhile, 12 DORV centers have been established Germany-wide, primarily supported by highly motivated pro bono workers. At the end of 2011, Heinz Frey was named Ashoka Fellow due to his passionate advocacy for social entrepreneurship.

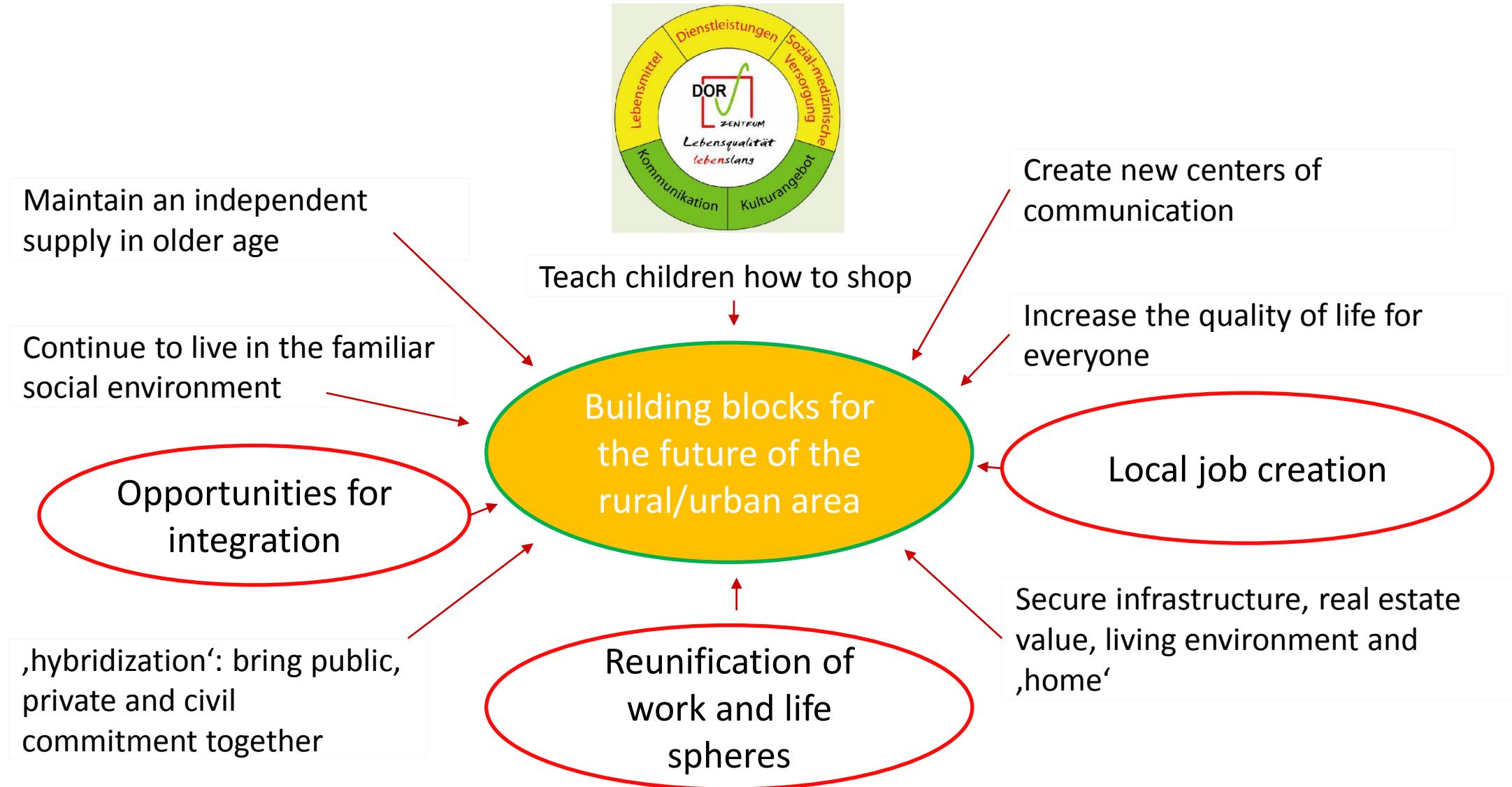


**Norbert Schommer –
Initiator und Co-Founder**

Social commitment is an integral part of Norbert Schommer's everyday life. In addition to multiple positions in local clubs and associations, he also serves as the community official in his native village Jülich-Barmen. He has joined and supported Heinz Frey in the pursuit of the DORV idea from the very beginning. As an engineer with an M.Sc. degree, he also became a pro bono member of DORV's management team when he retired early in 2004. Norbert Schommer made a vital contribution to founding DORV gGmbH and DORV UG, so that the social enterprise can be successfully stabilized and scaled.

DORV and quartVier Centers: An Overview

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DORV Centers unite Grocery Shops, Services and more to create a multi-functional Local Supply

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Groceries

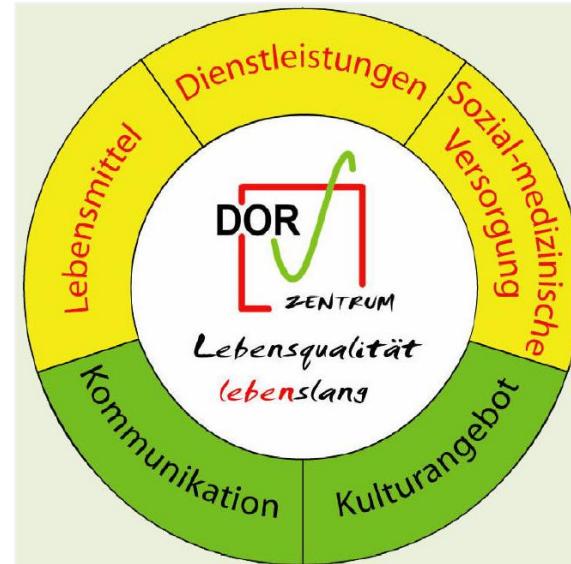
- **Basic Offering**
 - Daily & Fresh**
 - Bread
 - Meat & sausages
 - Fruit & vegetables
 - Dairy products
 - Basic Supply**
 - Dried food
 - Beverages
 - Frozen food
- **Additional Offering**
 - Regional products
 - Organic food
 - Delivery service

Communication

- **Basic Offering**
 - Coffee corner
 - Chat at the counter
- **Additional Offering**
 - Club meetings
 - Hobby & entertainment
 - Swap shops,....

Services

- **Basic Offering**
 - Postal service, dry cleaning, repair service
 - Electricity supplier, municipality...
- **Additional Offering**
 - Bank, insurance, lottery, ads
 - Car registration, photo printer, ..



Socio-medical supply

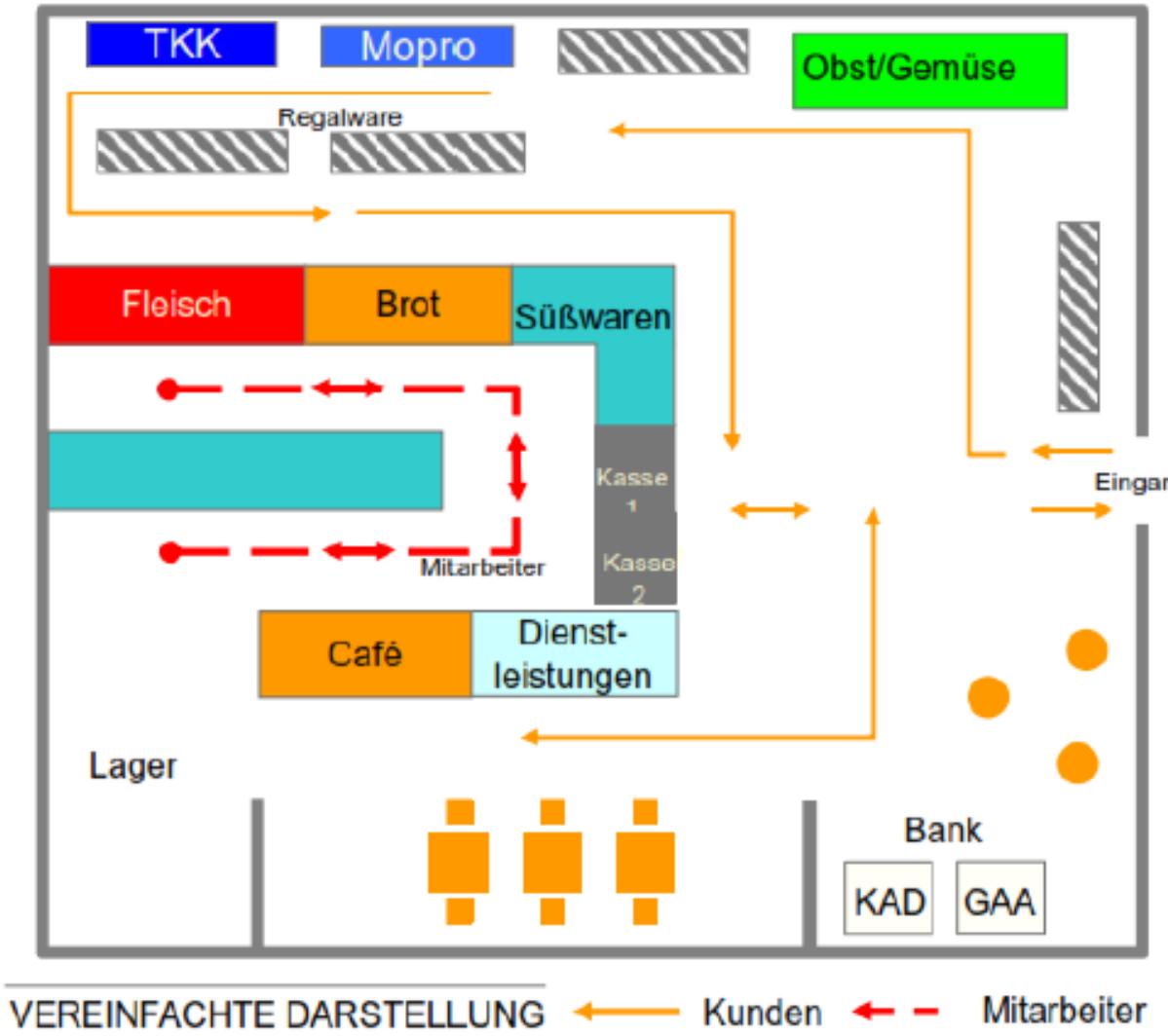
- **Basic Offering**
 - Nursery services
 - Meals on wheels
 - 'Social' consulting
- **Additional Offering**
 - Local doctor
 - Physiotherapy
 - Emergency calls
 - Assisted living
 -

Culture/ Entertainment

- **Basic Offering**
 - Event service
 - Club meetings
 - Courses/ education
- **Additional Offering**
 - Old reads to the young, ..
 - Theme evenings ...

A proven Shop Concept guarantees Success

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Groceries

- meat, sausages, cheese
- bread
- fruit, vegetables
- convenience Products
- other groceries
- non-food, tobacco, magazines
- beverages

Services

- Offer + sale of services
- service agency
- information

Bank

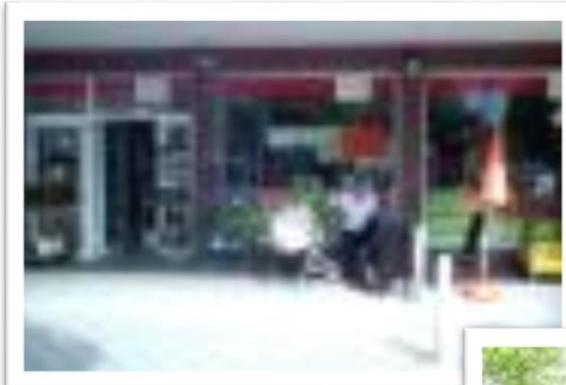
- 24-hour bank service
- bank statement printer
- ATM

Coffee Shop

- coffee shop, lunch menu (socializing)
- event location

Insights into existing DORV Centers

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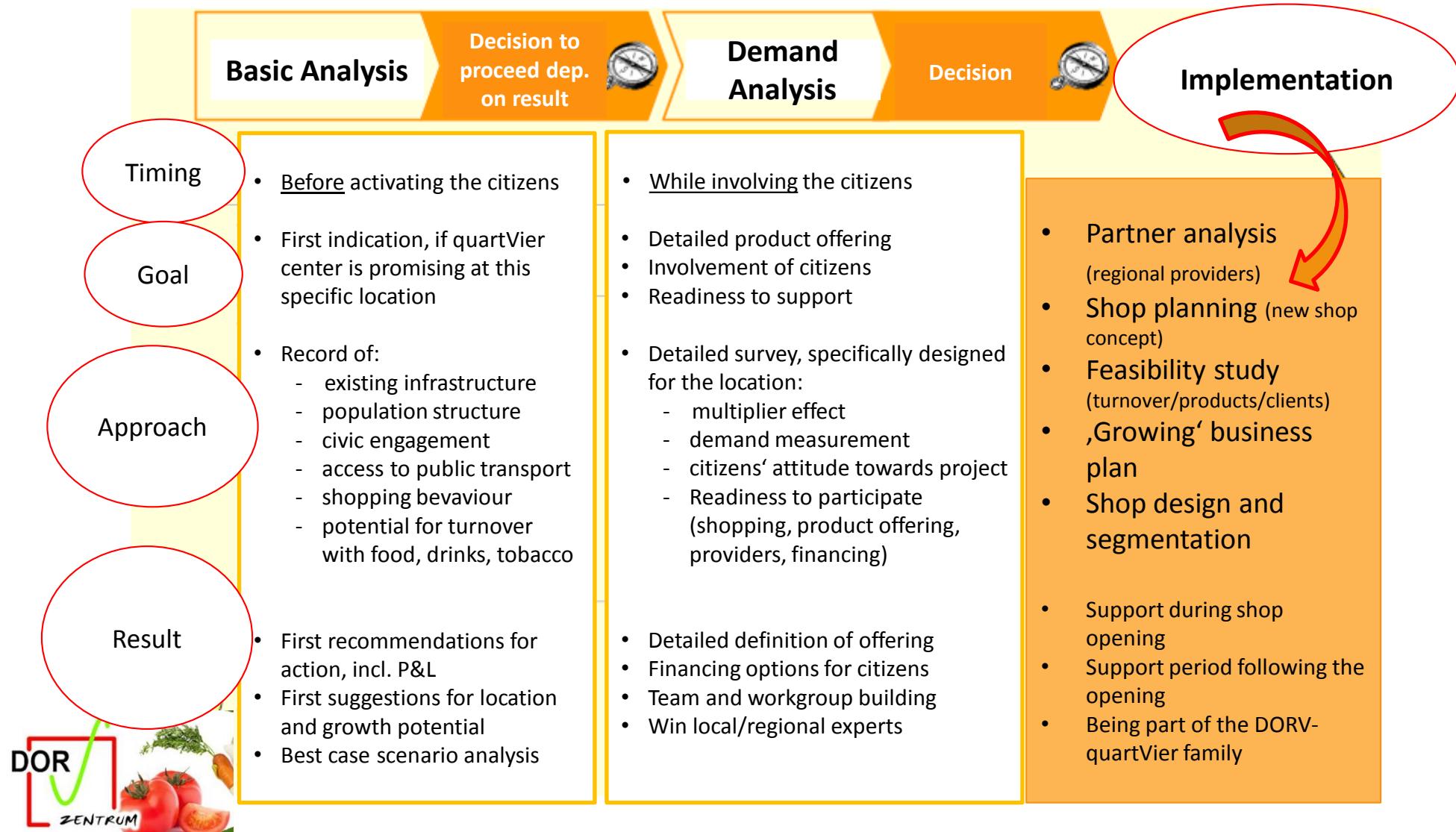
10 Success Factors demand an integrated Solution for DORV and quartVier Centers

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Description		Description	
Offering	<ul style="list-style-type: none"> • Products • Services • Communication 	Principles	<ul style="list-style-type: none"> • Regional • Close to life • Close to citizens
Operator	<ul style="list-style-type: none"> • Citizen Community • Corporates • Other operators 	Financing	<ul style="list-style-type: none"> • Subsidies • Grants • Citizens' capital
Citizen	<ul style="list-style-type: none"> • Shopping • (Pro bono) jobs • Capital 	Human Resources	<ul style="list-style-type: none"> • Qualification • Motivation • Employment contract
Legal Structure	<ul style="list-style-type: none"> • GmbH, gGmbH • Cooperatives • Self-employed 	Partner	<ul style="list-style-type: none"> • Farmers • Butcher • Food wholesale
,Shop'	<ul style="list-style-type: none"> • Space • Concept • Design 	Turnover/ Expenses	<ul style="list-style-type: none"> • Rent • Labour costs • Depreciation/amortiz.
Integrated solution required			
+	Location specifics	+	Individual requirements
+	What nobody has considered so far	+	...

A specifically designed Tool analyzes the Feasibility within a Village or Quarter

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Proven Concept: Successful Market Presence since 2004 - 12 established Centers and a strong Pipeline



Prototype centers managed by DORV:

- DORV-Zentrum Barmen, Kirchstraße 29, 52428 Jülich-Barmen (for village + rural environment)
- DORV-Quartier-Zentrum Düren, Grüngürtel 29, 52351 Düren (for city + urban district)
- In preparation: DORV-service-Punkt Stolberg, Rhenaniastraße 1, 52222 Stolberg (Bürger-Bahnhof)

Centers nearby (not labeled DORV or quartVier, but initiated and supported by DORV)

- Herzogenrath-Pannesheide (Nähe Aachen) – Contact: Winfried Hamers
- Möhnesee-Völlinghausen (Westfalen) – Contact: Rainer Norbisrath
- Kall-Sistig (Eifel) – Contact: Karl Vermöhlen
- Nettersheim-Frohgau (Eifel) – Contact: Dieter Hönighausen

Centers with a different market approach in Kervenheim, Voderstoder, Altenpleen, Brunow, Sarow

Centers under construction Germany-wide (operated by the local communities):

- Eisental, (BW, city district of Bühl) – Contact: Mr. Feuerer, opening 16.11.2013
- Seddin, (BB, near Potsdam) – Contact: Prof. Dr. Michael Schmidt, opening spring 2014
- Grambow, (MV, near Seddin) – Contact: Mr. Todt, opening 2014
- Nanzdietschweiler (RP, near Kaiserlautern) – Contact: Mr. Holzhauser, opening 2014
- Gelsenkirchen-Tossehof (Ruhr area, urban quarter) – Contact: Dr. Stephan Lob, GAFÖG, opening 2014

Challenges of Scaling

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The demand by municipalities and citizens' initiatives to transfer the DORV concept to other regions has risen continuously since the first DORV center was founded. In the past 5 years, Heinz Frey received around 100 requests to provide consulting for comparable centers all over Germany, out of which he actively supports 40.

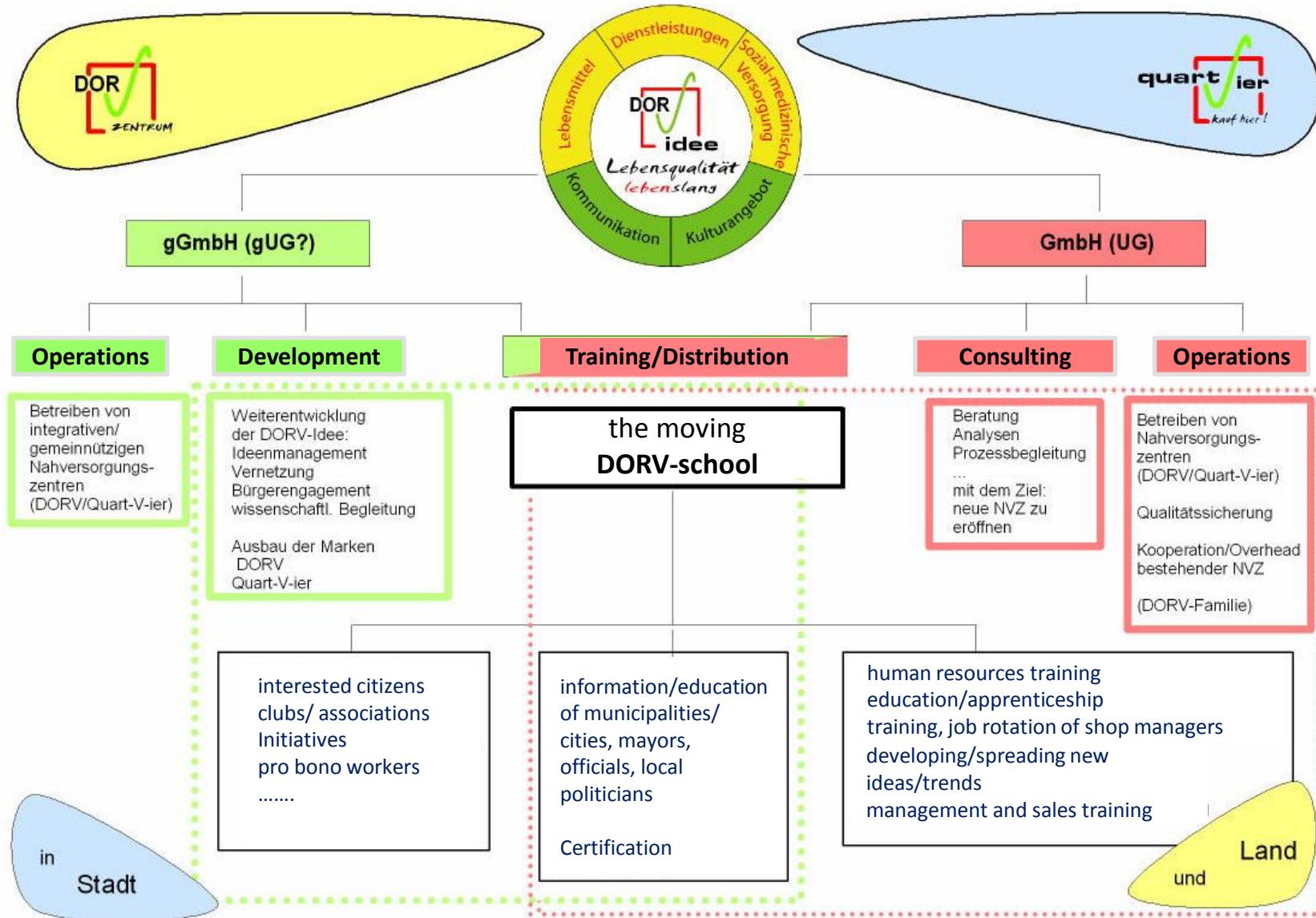
With the help of a grant received from Ashoka, Heinz Frey was able to professionally upscale the DORV concept in Germany based on a franchise model starting in mid 2004. In addition, he developed an adapted version of the DORV concept for urban residential quarters and piloted it successfully ('quartVier-centers').

50 new DORV and quartVier centers are planned for the coming 5 years. In order to be able to implement this plan, the social enterprise was in need for additional financing of 150,000 EUR. The capital was required to pre-finance the UG entity until its income will completely cover the expenses. With the help of the additional capital, the DORV team is now capable to fully roll out the social impact of their concept Germany-wide.



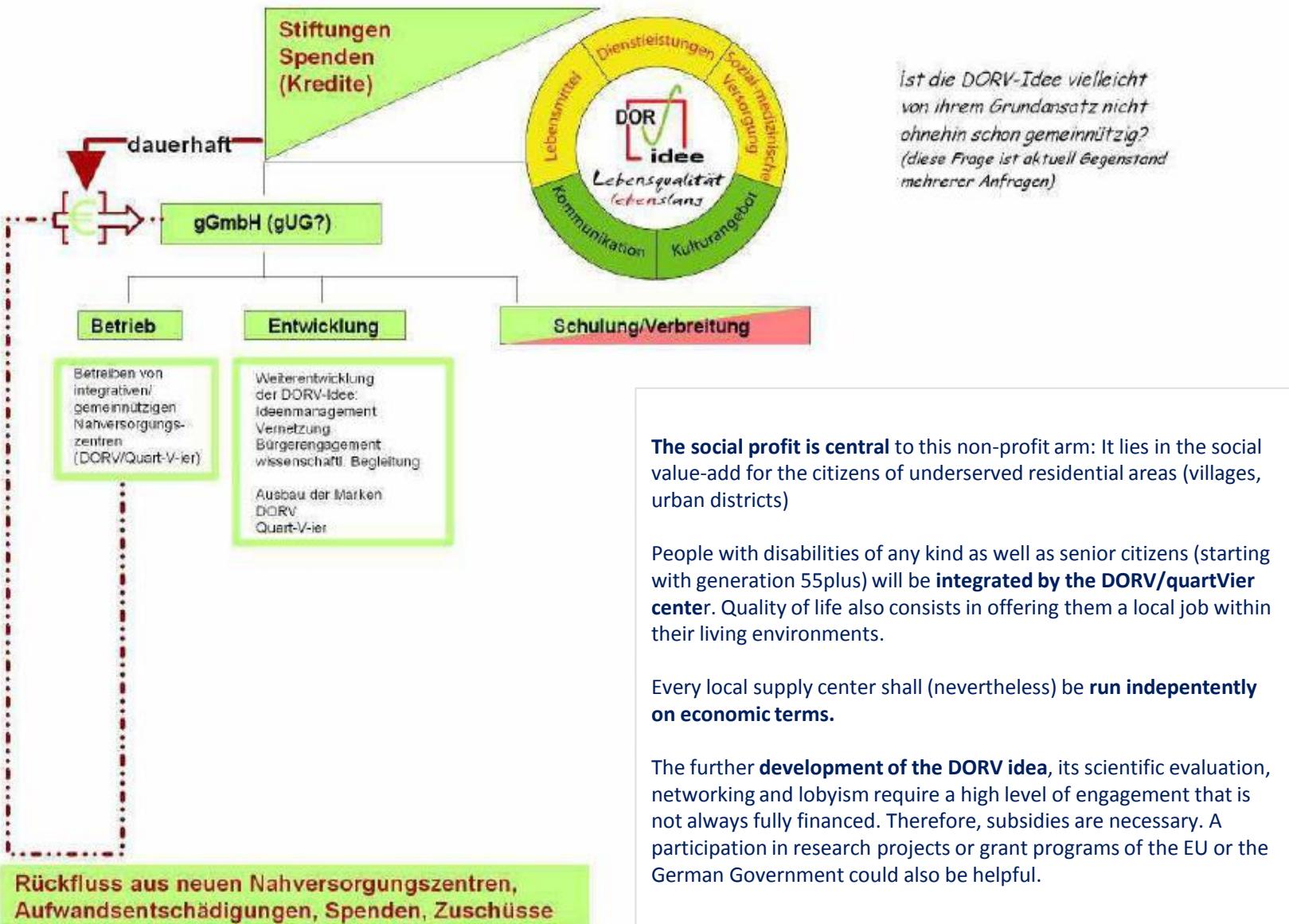
After successfully establishing the DORV Concept, a hybrid Model will provide the Basis for Scaling and Growth

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DORV – The non-profit Arm ...

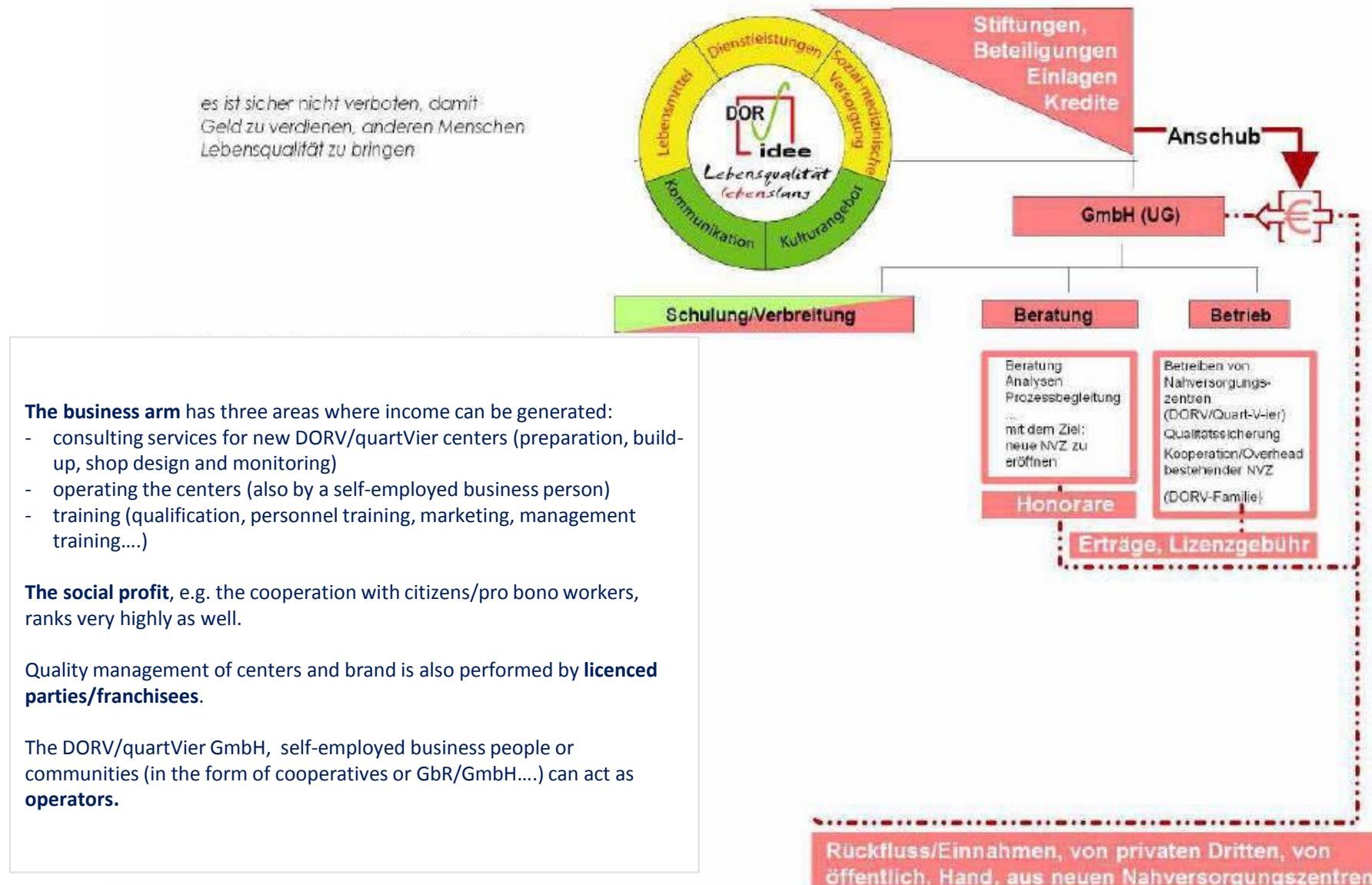
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Quelle: DORV

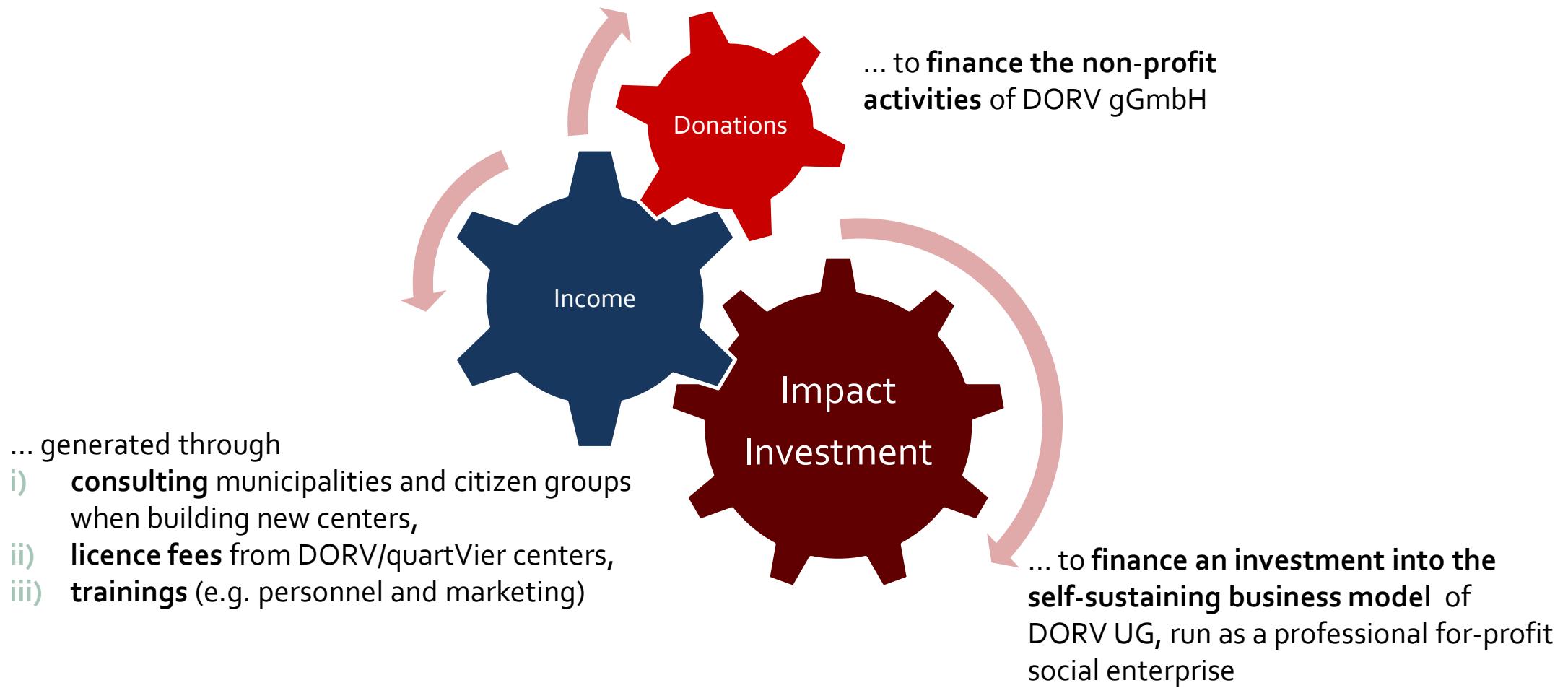
... is completed by the UG Entity to professionally expand the DORV Concept – this is the Financing Target

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The hybrid Financing Structure of DORV

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Secure donors – win Investors

The DORV project has built a solid network of **philanthropic supporters**. Especially foundations fuel the development and distribution of the DORV idea.

DORV UG, the franchisor and consulting arm, shall be financed independently in order to avoid potential conflicts with philanthropic donors and to create **positive synergies**. Profits of the UG shall, however, be used to support the social mission.

Goal: A closed, integrated financing model

DORV UG is managed as a **professional, for-profit social enterprise**. The profit shall be exclusively invested in the further buildup of the business and will be **transferred to the affiliated non-profit company DORV gGmbH**: It is a closed, integrated financing model.

Precondition: hybrid investors shall have no profit participation rights, i.e. no equity stake in the company.

Specific Challenges of Financing the Social Enterprise

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Flexible pay-back and support required...

- The financing structure should cover the **needs** of the investors as well as the needs of the company (see overview)
- The funding model shall provide the company with the **flexibility** to establish and expand its business
- The funding model must support the targeted **social impact and upscaling** of the business model

Criteria	Investors' needs	Additional company requirements
Security/ Pay-back	Performance-based and roughly predictable (with option for attractive returns)	Flexible (especially in case of deviations from the business plan) → No "classic" loan → Moderate burden of free cash flow → Flexible repayment options
Liquidity / maturity	Long-term	
Returns	Fair risk compensation, but stimulating the social mission is prioritised Target return: X% p.a.	
Investor rights	In line with market conditions for private equity investments	No "real" equity (no equity stake)
Structure	Plain and clear, in accordance with fiscal laws	Flexible structure allowing for possible additional financing rounds
Operational commitment	Advisory support	

Mezzanine capital (quasi-equity) with social impact incentive

Structure

- Participation rights (Genussrechtskapital) with qualified subordination (subordinated capital with equity character), but without loss participation

Renumeration

- Target return of x% in connection with a social impact incentive that gives the social enterprise the opportunity to reduce the financing cost by y% if it successfully reaches pre-defined social goals and milestones

Maturity / Return

- 7 years of maturity with the possibility of early repayment by the company
- Complete or partial repayment of the Genussrechtskapitals (Tilgung) by the social enterprise is allowed

Investor rights

- Appropriate information-, participation- and approval rights, but no shareholder rights.

A financial model to support the social mission

Mezzanine financing with social impact incentive takes into account the **special requirements** of the social business model. It provides the social entrepreneur with necessary **flexibility** while allowing him to **benefit from reduced financing costs if he successfully reaches pre-defined social goals.**

The financial structure with **participation rights** (Genussrecht) leads to very flexible financing costs for the social entrepreneur – especially in the start-up phase. Due to moderate interest payments that are independent from the company's success, valuable cash liquidity is kept within the social enterprise as it grows its turnover: this liquidity can be reinvested to expand the company's business activities.

The **social mission** and the **upscaleing** of the business model are strongly supported by the financial structure.



The Role of the Investors: Foundation and Business Angel

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Impact-driven investors – more than 'just' investors

The capital was provided by Schweisfurth-Stiftung (foundation) as well as a private business angel out of FASE's network of investors. Both are highly convinced of the business model's scalability and social impact. In addition to the high level of **integrity** demonstrated by founder Heinz Frey, the main argument for these investors to become involved was the **entrepreneurial solution** to the social challenge presented.

Schweisfurth-Stiftung views itself as an enterprise that fuels ideas. Since 1985 the foundation has been supporting innovations in science, economy and education that act as disruptive forces to develop a culture of sustainability. In particular, its scope of activities includes areas such as ecological methods for farming, the preservation of a holistic food quality, the promotion of a sustainable agriculture as well as a species-appropriate husbandry for animals. In addition, the foundation's operations increasingly focus on social questions regarding the development of rural areas.



The Support by FASE and Hogan Lovells



FASE makes growth for social enterprises financially viable

FASE strongly supported social entrepreneur and Ashoka Fellow **Heinz Frey** in developing the **hybrid business model and tailored financing structure**. FASE designed the financing model based on a social impact incentive for the first round of financing of the new consulting entity presented here. FASE also introduced and convinced investors from its network to participate, and coordinated the entire investment process including the negotiation of the legal documents.

The international law firm **Hogan Lovells** took over the task of advising on and designing the legal agreements – on a pro bono basis. Major characteristics and parts of the financing model are outlined on FASE's website www.fa-se.eu as an 'open source' information, so that other social entrepreneurs and social investors can benefit from these insights and adapt them to their needs.



- A **hybrid business model** (including corporate structuring) **facilitates the combination of different financing instruments/options**: a closed, integrated financing system can be built.
- There are meaningful alternatives to the common equity financings of start-ups – **especially for social enterprises with mezzanine capital** (e.g. participation rights, quasi-equity).
- A **financing model with social impact incentive** allows impact-driven investors to achieve a **financial as well as a social return**. If pre-defined social goals and milestones are achieved, the social enterprise is rewarded with lower financing costs.
- **Foundations and social business angels can play a vital role in early-stage financings of social enterprises**. By investing out of their free reserves, foundations are able to hold a stake in social enterprises in compliance with German law.
- **Social entrepreneurs should take professional advice** to prepare for the financing round (investment readiness), and for the financing process itself.

Contact



The **Financing Agency for Social Entrepreneurship GmbH (FASE)** was launched by **Ashoka**, to make growth for social enterprises financially viable. FASE allows co-investments by impact investors and philanthropists through an open pipeline of investment-ready social entrepreneurs, and develops innovative financing models specifically suitable for social enterprises. The objective is to create an ecosystem for the financing of social enterprises.

FASE

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