



FINANCING AGENCY FOR
Social **ENTREPRENEURSHIP**



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

vonUnruh & Team
Das Sozialunternehmen für Turnaround-Beratung

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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 **Attila von Unruh** in developing a **hybrid business model and a tailored financing model**. In addition to the already existing non-profit organization **BV INSO** (German Association for New Opportunities for People in Bankruptcy) and the new **Stiftung Finanzverstand** (Financial Literacy Foundation), the social entrepreneur Attila von Unruh founded the consulting firm, **von Unruh & Team UG**, and raised seed capital with the support of FASE.

The **Social Business for Turnaround Consultancy** offers advice and support for entrepreneurs threatened by bankruptcy.

For the first round of financing, FASE developed a **financing model**, specially adapted to the needs of social businesses, based on **conditional revenue sharing**. The investors in this transaction have been attracted from the recently established **Ashoka Angels Network**.

Insolvency stigma: the person behind the collapse

Entrepreneurs are risk takers and as a consequence may fail. **Every year, over 25,000** small and medium sized businesses are declared insolvent in Germany.

Business failure is considered a **stigma** in Germany. There is very little help for the **people** behind the businesses.

Who is able to suitably **advise** the entrepreneur on both an interpersonal and technical level, either to save the company from insolvency, or to restart the business after insolvency?

Debt advisors help private individuals, but entrepreneurs must help themselves in a situation in which they are **not experienced**.



Attila von Unruh: Ashoka Fellow and "changemaker"

The successful entrepreneur Attila von Unruh was unexpectedly declared insolvent in 2005. In the midst of this severe personal crisis, he rose again and founded **BV INSO** - Bundesverband Menschen in Insolvenz und neue Chancen e.V. (German Association for New Opportunities for People in Bankruptcy).

In 2007, the self-help group **Anonyme Insolvenzler** (Insolvency Anonymous) was founded, and now has branches throughout Germany. Attila von Unruh realised that there was little appropriate counselling available for self-employed professionals and entrepreneurs who were caught in a business-threatening crisis .

Since 2010, the BV INSO has offered **individual counselling and personal support** to entrepreneurs. Numerous business failures have either been prevented, or helped to restart after insolvency.



Increasing demand for consultancy - limited resources

Auszeichnungen

Geben gibt.
DEUTSCHER
ENGAGEMENTPREIS

2010

Deutschland
Land der Ideen

2011



2011

BV INSO has so far supported over 8,000 people both prior to and during insolvency proceedings. The association works with volunteers and is funded through **donations and membership fees**.

The overwhelming success of these services has led to increasing **demand** for individual consultancy. The expertise is provided by a few experts, who have their **own experience of a financial crisis**. Many professionals and entrepreneurs ask these experts for their invaluable advice.

In order to fulfill the social mission on a long-term basis, the association must concentrate on the **broad effect** of its activities, as well as on regional self-help groups. A growth in demand for individual consultancy can not be financed by **donations and membership fees**.

The crucial question: Can a **complementary self-sustaining service** be developed for the growing demand in individual consultancy?

Setting up a self-sustaining social business

The solution: A new, separately funded, **consultancy company**, managed as a social business with an **earned income strategy**.

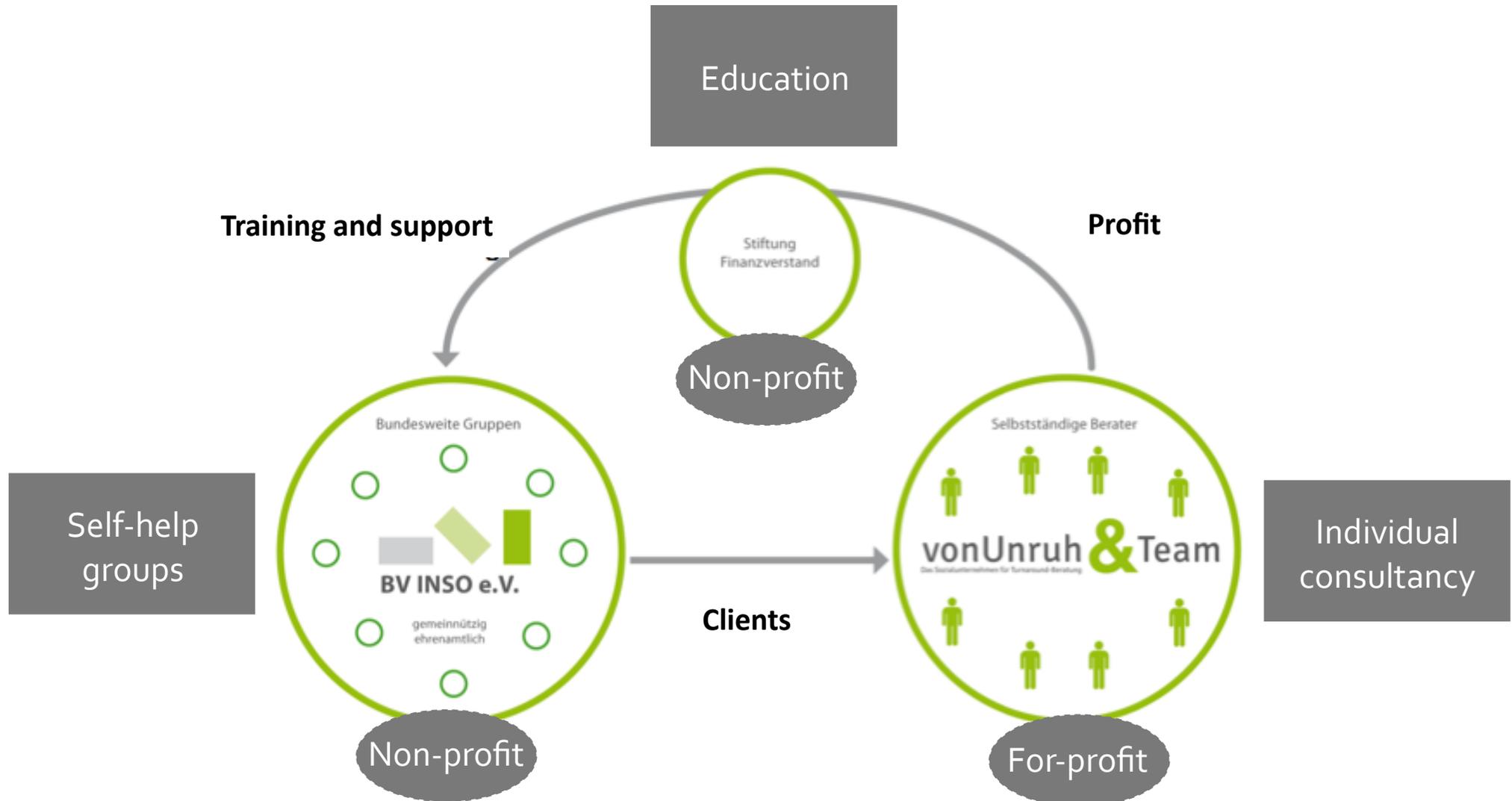
The social enterprise von Unruh & Team offers **crisis and turnaround advice** with focus on the person and its creative power. All consultants have personal experience of crisis, and are specially trained and certified. The consultants support their clients to a personal and entrepreneurial comeback.



With this approach, von Unruh & Team actively and effectively creates a '**second chance**' culture. Both consultants and clients are carefully selected and tested on their responsibility.

In addition to von Unruh & Team, a non-profit **Stiftung Finanzverstand** (Financial Literacy Foundation) has been founded. This organisation is active in the field of financial literacy, and is also responsible for the education of the individual consultants at von Unruh & Team .

The Hybrid Business Model



Acquiring sponsors and attracting investors

The **BV INSO** has established a solid network of **philanthropic sponsors**. Specifically, foundations financially support the nation-wide activities of non-profit organisations. In addition, the association collects a small amount in membership fees. For the recently-established **Stiftung Finanzverband**, potential sponsors specifically interested in sponsoring the business concept “Education for Financial Competency” will be approached.

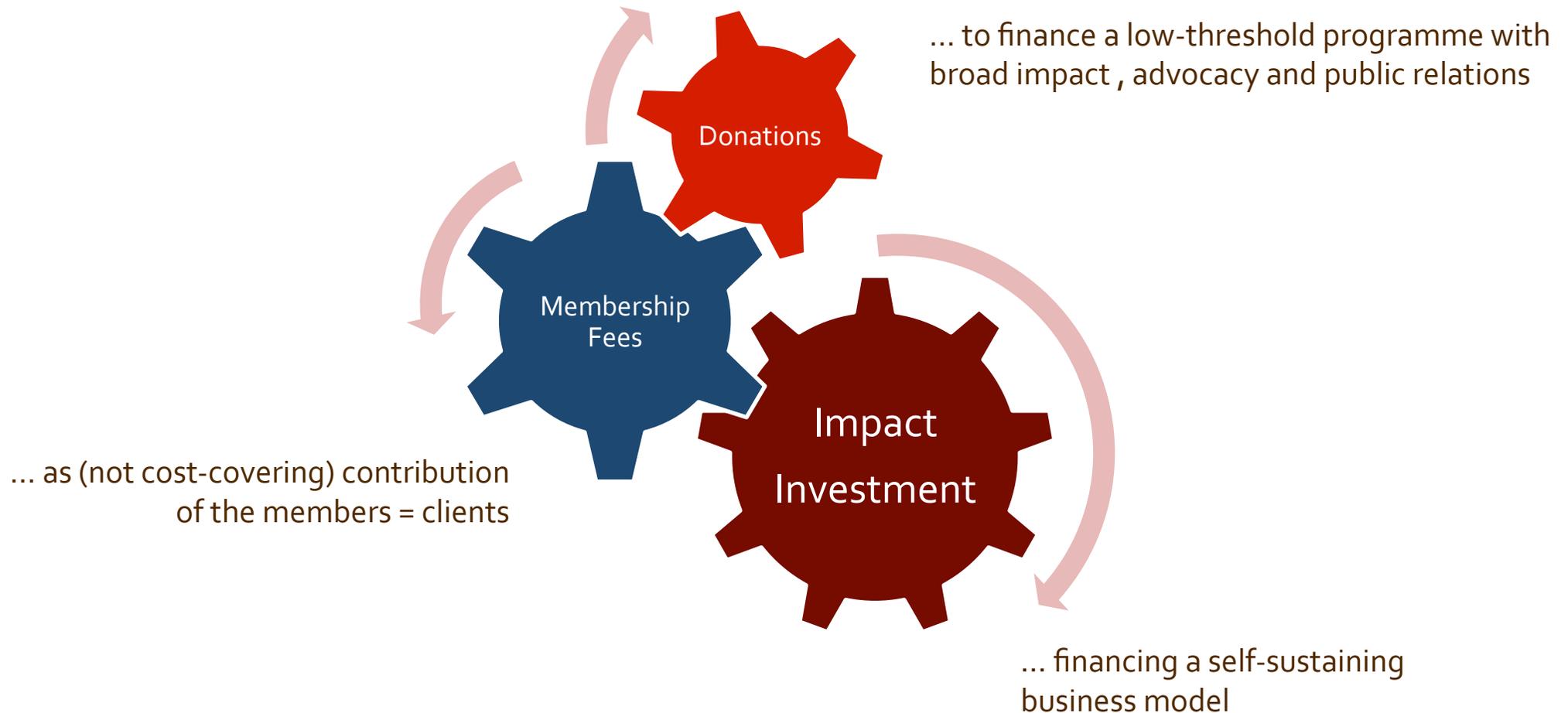
In order to avoid potential conflicts with the philanthropic donors when financing the new consultancy firm, as well as to create positive **synergies**, the new social business should be financed separately, but with the potential profits being used to support the social mission.

Objective: a balanced cross financing system

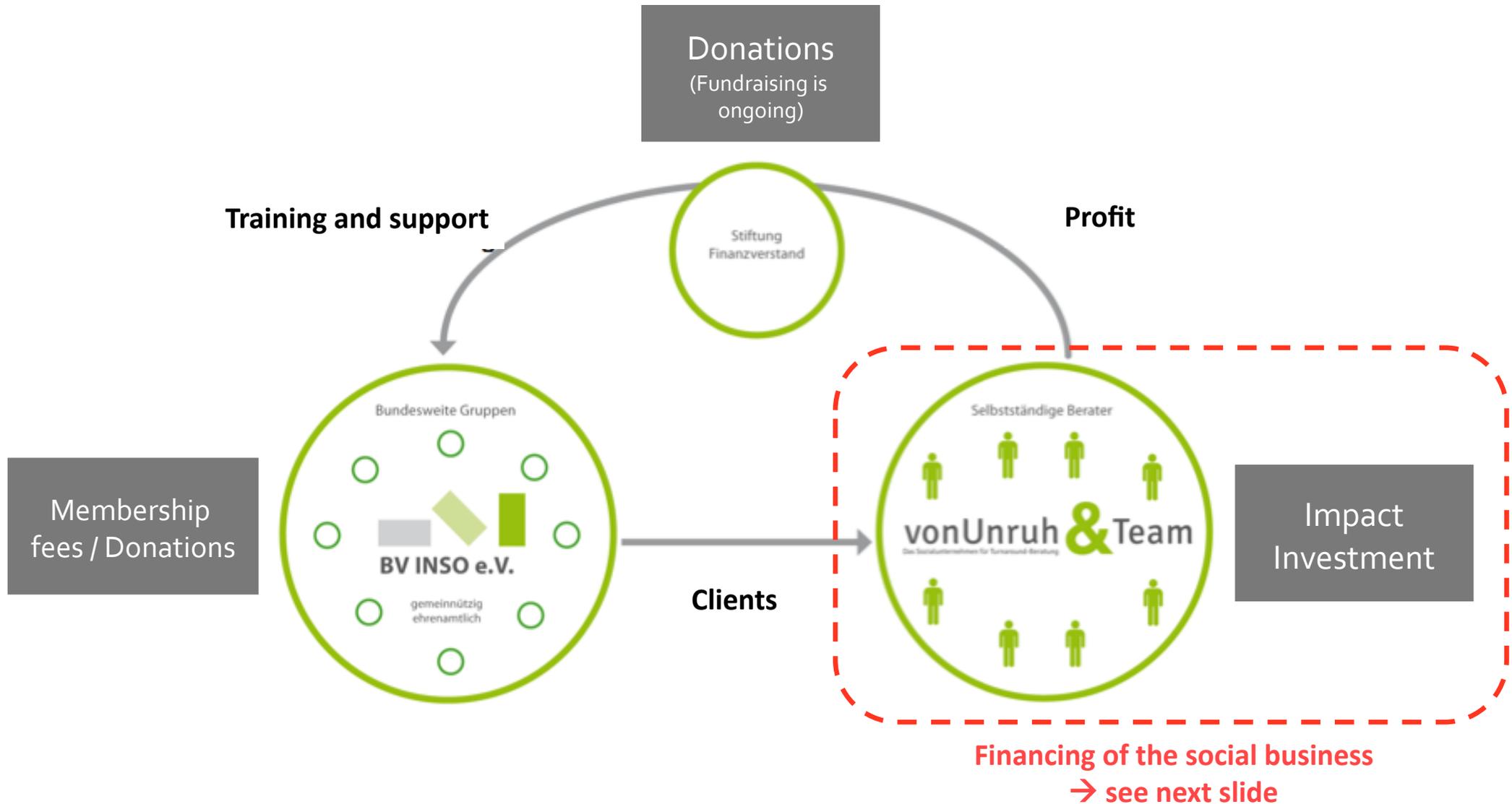
The goal is to invest the profit generated by von Unruh & Team in the further expansion of the social business and distribute it to the BV INSO and Finanzverband. This is a balanced cross financing system.

As a prerequisite, investors should preferably not be entitled to dividends, i.e. **no shares or stakes** in the company.

The Hybrid Financing Structure



The Hybrid Financing Structure



Specific Challenges of Financing the Social Business



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 financing with conditional revenue sharing (quasi-equity)

Structure

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

Remuneration

- Performance/ revenue based compensation (revenue sharing = X % of gross revenues).
- A maximum amount (Cap) on the nominal amount of Y % p.a.
- Compensation payment (Catch-Up) to achieve the target return of up to Z % p.a.

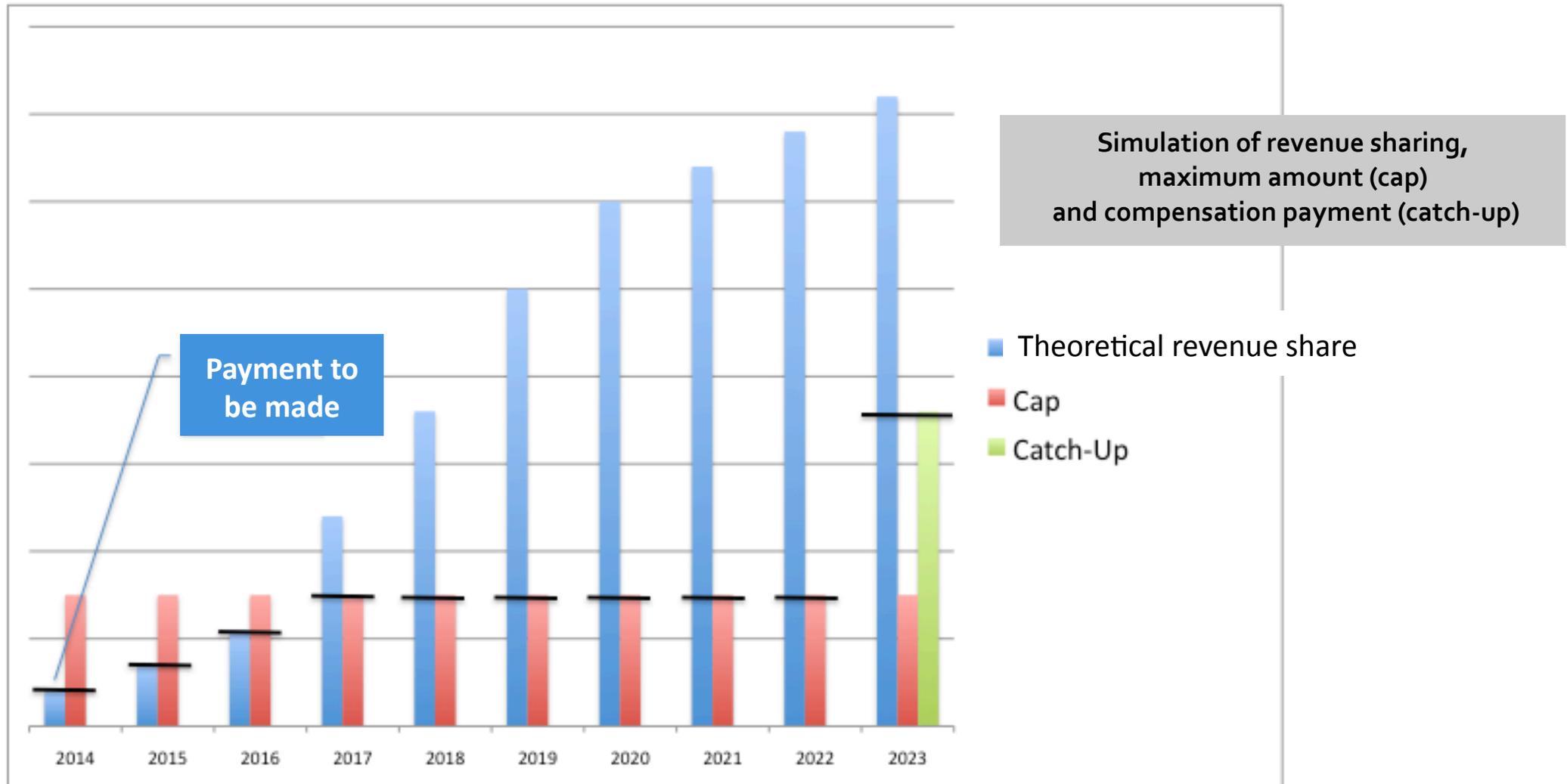
Maturity / Return

- 10 years of maturity with the possibility of early repayment by the company.

Investor rights

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

How the revenue sharing works



A financial model to support the social mission

Mezzanine financing with conditional revenue sharing takes into account the special requirements of the social business model. It provides the social entrepreneur with necessary flexibility, as well as letting the investor participate in the success of the business adequately.

The financial structure with **participation rights** (Genussrecht) entitles the investor to a pre-defined amount of the revenues of the company, up to a pre-determined maximum. The **revenue sharing model** provides the company with financial flexibility, especially in the start-up phase. Through very flexible repayment options and by limiting payouts, valuable liquidity for the company is secured, to re-invest in the expansion of its business activities.

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



Ashoka Angels – more than 'just investors'

The capital was provided by two investors from the Ashoka Angels Network, convinced by the scalability and social impact of the business model. In addition to the **personal integrity** of the entrepreneur Attila von Unruh, the **entrepreneurial solution to the social challenge** was a determining factor in the business angels' decision to invest. The investors are already acting as mentors for Attila von Unruh and will continue their role as **Social Business Angels** for the company.

What is the Ashoka Angels Network?

Ashoka is supported by a group of internationally successful entrepreneurs and managers. Many of these sponsors are interested in supporting social enterprises through direct investment, and also in actively engaging in these businesses. For this reason the Ashoka Angels Network was recently launched. Based on their personal investment preferences, the members of this "investment club" are regularly informed by FASE of **social impact investment opportunities** from the Ashoka network and beyond.

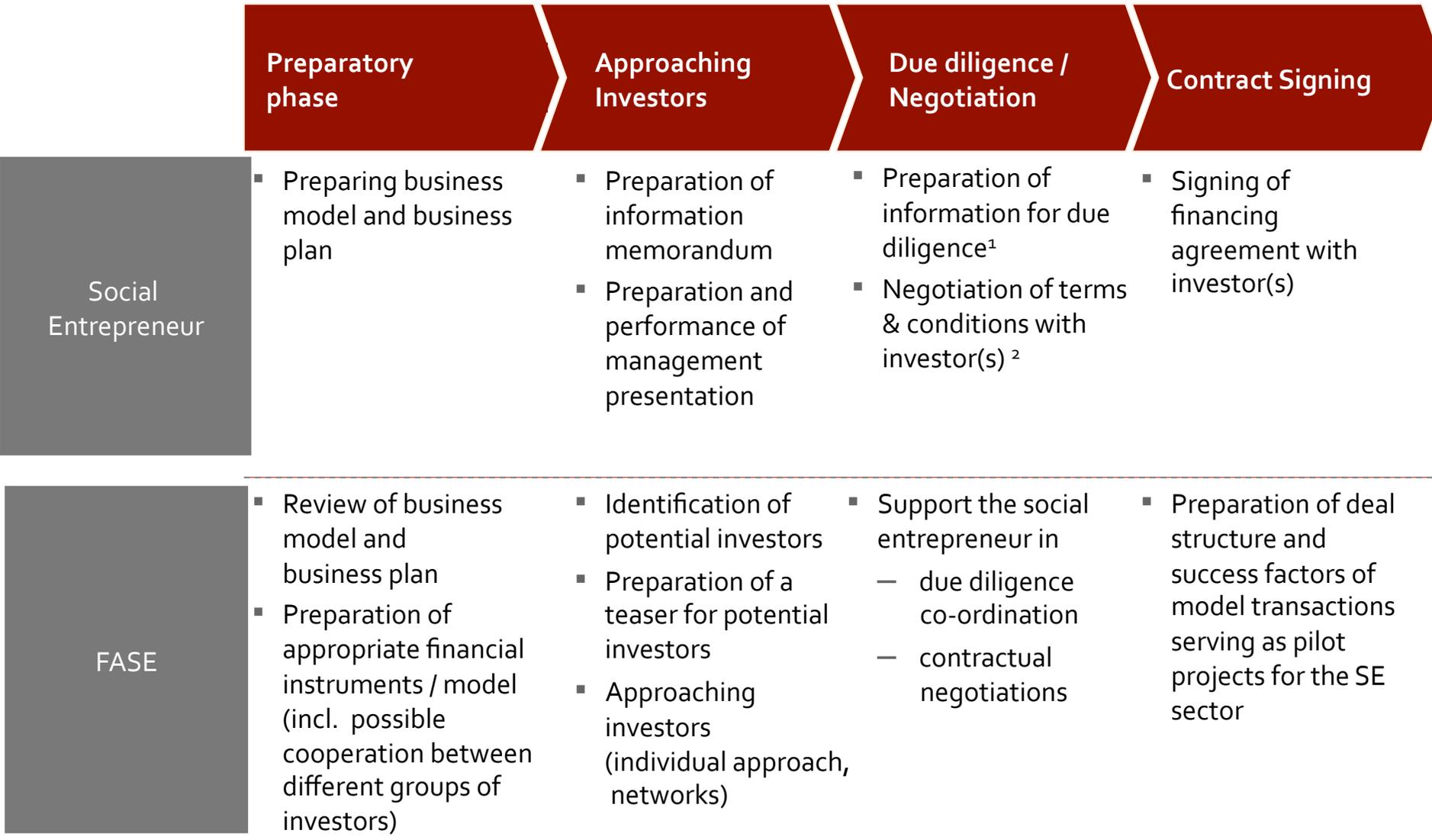
FASE makes growth for social enterprises financially viable

FASE has supported the social entrepreneur and Ashoka Fellow **Attila von Unruh** in the development of a **hybrid business model** and a **tailored financing model**. For the first round of financing described in this document, FASE has specially developed the financing model based on conditional revenue sharing, to meet the needs of the social enterprise. The investors in this transaction have been attracted from the newly-founded Ashoka Angels Network, and have provided the seed capital for the development and expansion of the social enterprise.

Björn Strüwer, a member of the Ashoka Support Network, and co-initiator of the FASE, assisted the transaction as a pro bono Senior Advisor.

The international legal consulting firm **Hogan Lovells** assisted the transaction as a pro bono consultant. Key aspects and components of the financing model contract are available as an open source document from the FASE website at www.fa-se.eu, and is accessible to other social enterprises and social investors (German only).





¹ If necessary, the involvement of external consultants for financial due diligence

² If necessary, involving external legal and / or tax advice

- A hybrid business model (including corporate structuring) facilitates the combination of different financing instruments / options.
- Philanthropic capital may be the crucial lever to deploy investment capital for the upscaling of the social impact of a business.
- There are viable alternatives to the conventional equity financing of start-ups - especially for social enterprises.
- The financing model follows the strategy, business plan and the expected cash flows - not vice versa.
- Realistic planning and return expectations help to find the right investors.
- Social Business Angels can play a crucial role in the start-up financing of social enterprises.
- Social entrepreneurs should take professional advice to prepare for the financing round (investment readiness), and for the financing process itself.

The **Financial 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.

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