



EU PROJECT
REPORT 2020

DEVELOPING THE SOCIAL ENTERPRISE FINANCE ECOSYSTEM:

Building an open, pan-European pipeline of investment-ready, early-stage social enterprises with customized deal-by-deal support

A final report by the Financing Agency for Social Entrepreneurship (FASE) on a project mandated by the European Commission under the **EaSI 2014-2020** scheme.

WITH THE VALUABLE SUPPORT OF OUR PROJECT PARTNER:



EUROPEAN COMMISSION

DG Employment, Social Affairs and Inclusion

■ ABOUT THE FINANCING AGENCY FOR SOCIAL ENTREPRENEURSHIP (FASE)

FASE has the vision to create a thriving ecosystem for social innovation by boosting impact finance across Europe. We are passionate about building bridges between outstanding social entrepreneurs and investors inspired by the idea to create sustainable, positive impact. By helping clients to raise capital in a highly professional way, FASE improves their chances to achieve impact at scale. For more information please visit: <https://fa-se.de/en/>

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EXECUTIVE SUMMARY

AN IMPROVING BUT STILL IMPERFECT MARKET FOR SOCIAL FINANCE

Social enterprises in Europe have come a long way in the past two decades, but their potential “is still far from being fully harnessed”, as the European Commission concludes in its 2020 ecosystem report¹. While one of the most critical factors, access to repayable finance, is slowly improving, the recent sharp increase of impact investment volumes does not sufficiently flow to social enterprises in their early stages yet. There are two core reasons for this persistent phenomenon:

- (1) Most early-stage social enterprises offer risk-adjusted financial returns that potential investors perceive to be relatively low, especially if judged by traditional investment rationales.
- (2) The financial markets do not sufficiently value the impact created by social enterprises and thus fail to monetize positive externalities.

For **small financing rounds below EUR 500,000** - which are sought by the majority of social enterprises in the stage following proof of concept, - there is an additional challenge: The transaction cost of sourcing, preparing and executing deals are disproportionately high for investors. As a result, most capital providers prefer to wait at ‘the end of the pipeline’ when potential investees are more mature and investment tickets larger. Such behaviour, however, comes at a price: If social enterprises do not receive the financial support they require early-on, the mature investment pipeline will inevitably dry out.

On the demand side, the challenges need equal attention. In most European countries, social enterprises strongly underperform in their investment readiness², i.e. “the capacity and capability to seek and utilize investment”³ – a precondition that most, if not all, investors want to have met before becoming engaged. **Investment readiness** involves a variety of business and impact skills, spanning from the ability to do financial forecasting and correctly assessing financing needs, via measuring and managing impact, to installing management information systems to preparing a compelling documentation to convince investors. As a consequence, capacity building is an important cornerstone in the mission to establish a thriving European ecosystem for social enterprise finance.



Leveraging capital demand and supply for small transactions – a balancing act / Source: FASE

¹ European Commission (2020): “Social enterprises and their ecosystems in Europe | Comparative synthesis report”

² European Commission (2020): “Social enterprises and their ecosystems in Europe” | various country-specific reports

³ A definition of investment readiness used by the “Investment and Contract Readiness Fund” in the UK
<https://www.sibgroup.org.uk/investment-and-contract-readiness-fund>

While recent academic research comes to an unclear picture as to whether a limited supply of repayable capital is indeed the 'culprit' preventing social enterprises from scaling, it is important to note that an **appropriate supply of finance is key**. If financing costs are too high, instruments too restrictive or conditions unfavourable, social enterprises may easily shy away from seeking growth capital from external investors. As a result, they will miss opportunities to scale their solutions and create positive impact for the benefit of society. Mental hurdles such as concerns about a potential mission drift, fears of too much investor influence or pressures to provide an exit may add to this demand-supply paradox. Therefore, it is important to emphasize that quantity of available capital surely counts, but quality is equally important for a functioning market for social enterprise finance. **Non-financial support**, - such as strategic knowhow, access to networks and sector expertise from investors and funders -, is a benefit that can make a huge difference for social entrepreneurs and their ability to survive and scale.

Today, the stage of evolution amongst different regional impact ecosystems within the EU still varies a lot. To cite the most recent edition of the European Commission's 'recipe book for social finance', "*some markets are very advanced; others are waiting for the birth of the first loan fund or impact-oriented investment, while a decreasing number are still waiting for the pioneers that will set them up.*"⁴ At the same time, this is a situation -, no matter how challenging -, that provides excellent opportunities for intermediaries such as FASE to add value by bringing financial innovations and customized deal-by-deal support to as many European markets as possible. Together with other ecosystem-building actors, this contributes to bringing the vision of a **true pan-European market for early-stage social enterprise finance** one step closer to reality ("a Single European Market of Social Innovation").



THE ROLE OF SOCIAL ENTERPRISES AND THE MISSION OF FASE

Social enterprises are increasingly recognized as **important drivers of change** in Europe. They operate on the basis of viable, sustainable business models and fill a very important role in the market: as agents of innovation, prevention and efficiency⁵, situated between the public

⁴ European Commission (2019): „A recipe book for social finance“, second edition, <https://ec.europa.eu/social/main.jsp?catId=738&furtherPubs=yes&langId=en&pubId=8251>

⁵ NAB Germany: „Social Impact Investing: Financing Social Change“, final report, 2014, <https://www.bertelsmann-stiftung.de/de/publikationen/publikation/did/social-impact-investing-financing-social-change/>

and the private sectors. Social enterprises develop innovative approaches, models or practices for resolving societal challenges in an entrepreneurial way and “actively support a paradigm shift that prioritizes inclusive, socially fair and environmentally sustainable economic development and social change” – a role that is vital for reaching the Europe 2020 target⁶ and implementing the Sustainable Development Goals. With the onset of the recent COVID-19 crisis, the key role of these “agents of societal change” has become even more obvious – and so do their specific challenges.

This is the backdrop against which the **Financing Agency for Social Entrepreneurship (FASE)** was originally founded: By bridging the gap between social enterprises and impact investors through customized investment readiness and transaction support, FASE effectively connects both sides of the financing ‘equation’. An important component in this endeavour is to develop and pilot innovative financing models and state-of-the-art hybrid structures that meet the needs of all parties involved. This led to a number of successful blueprints for replication that FASE has created and will continue to expand⁷. Educating potential investors about the possibilities, risks and rewards of impact investing proved to be as important as coaching social entrepreneurs how to get ready for repayable capital. Knowledge dissemination is particularly important when it comes to the impact of social enterprise business models – a dimension that many impact investors, even experienced players, still struggle to fully understand, measure and manage⁸. Many new frameworks and tools have emerged in the market⁹ lately, but are not yet widely enough adopted by investors and funders¹⁰. Educating both sides – capital supply and demand - is therefore key and continues to be a vital part in FASE’s work.

THE PROJECT RESULTS

Between June 2018 and May 2020, FASE managed and implemented the action “Building an open, pan-European pipeline of investment-ready, early-stage social enterprises with customized deal-by-deal support”, which was generously supported by the European Commission. A consortium of network organizations and impact investors declared their willingness to help fuel the pipeline of small transactions and (co-)invest in hybrid deals identified by FASE. The following is a **summary of the project’s major results**:

- (1) FASE successfully addressed the mismatch of needed and sustainable ticket sizes for early-stage social enterprises. **Additionality came from mobilizing smaller risk-capital investments of below EUR 500k that otherwise would not be feasible due to disproportionately high transaction cost.** In specific, we extended its scope of deal-by-deal transaction support to additional European regions and substantially improved

⁶ See http://ec.europa.eu/europe2020/targets/eu-targets/index_en.htm

⁷ For an overview on these models see Annex 1 of this report, or FASE: „Creating Collaborative Funding Models for Social Enterprises”, final report on a project mandated by to the European Commission, 2015, <https://77cf4b2b65d8e527a5ddcb5f-piconda.netdna-ssl.com/static/uploads/sites/225/2015/12/FASE-Final-Report-EU-Project-July-2015.pdf>

⁸ See Brian Trelstad, Bridges Ventures: “Impact investing needs a common language”, 2017, <https://investmentmagazine.com.au/2017/11/impact-investing-needs-a-common-language/>

⁹ Examples are the frameworks developed by the Impact Management Project <https://impactmanagementproject.com/impact-management/impact-management-norms/> and Lean Data introduced by Acumen <https://acumen.org/lean-data/>

¹⁰ For a recent update on this aspect and relevant market data, see also: IFC: “Growing Impact - New Insights into the Practice of Impact Investing”, 2020, https://www.ifc.org/wps/wcm/connect/8b8a0e92-6a8d-4df5-9db4-c888888b464e/2020-Growing+Impact_FIN_Web.pdf?MOD=AJPERES&CVID=navn4gw

penetration of these services in our existing core markets. Altogether, we were able to establish customized deal-by-deal support in the German, Austrian, Benelux and CEE markets by combining different types of donors and investors and integrating a range of suitable financing instruments.

- (2) The action demonstrated the feasibility and benefits of an orchestrated approach to providing social finance by different types of donors, investors and public authorities, and integrating a range of financial instruments into fine-tuned packages. While this approach had been successfully tested with multiple cases before, it was now deepened in Germany and Austria and expanded to additional European regions. **We succeeded in starting activities in Netherlands, Luxemburg, Hungary and Poland by setting up regional teams, building a network of investors and establishing connections to other players in the respective ecosystems. We also screened more than 300 investment-ready social enterprises in Germany, Austria, Benelux and CEE and supported more than 20 social enterprises in raising hybrid growth capital.** Ten of these enterprises successfully completed their financing rounds by the end of this project, while two needed to end their fundraisings prematurely due to a lack of investor interest and another two due to changes of strategy. In three cases, the financing rounds are still ongoing and expected to be completed after the official end of this project. In two cases, we developed pay-for-success models and discussed these with different impact investors as well as outcome payers. Two social enterprises received targeted investment readiness support to develop their business models and test these with grant money before pursuing an investment round. In addition, we supported more than 10 social enterprises that were not yet investment-ready or hesitant to start raising rounds (e.g. due to lack of commitment, management expertise or too many operational challenges to cope with).
- (3) The action mobilized and committed additional investors, donors, banks, crowd-investors or public authorities from different European countries to co-operate in specific hybrid financing packages. **We were able to extend our investor network from our core markets Germany and Austria to further European countries by adding >700 new impact investors.** We were successful in matching different types of investors with individual social enterprises and actively supported these enterprises in raising hybrid growth capital. **In total, more than EUR 5 million in investment capital were mobilized towards early-stage investees** (including complementary grants and co-investments). An important insight we gained is that impact investors still prefer to pursue investment targets in their home countries. Yet we also observed an increasing appetite for cross-border deals into social enterprises. Furthermore, we were able to advance the launch of a new, innovative co-investment fund called **"European Social Innovation and Impact Fund (ESIIF)"** with a target size of EUR 20 million. The ESIIF will complement our deal-by-deal support by mobilizing additional investment capital for the benefit of early-stage social enterprises. As of today, it is fully designed, legally set-up and has secured a guarantee agreement with the EIF under the EaSI scheme in Germany.

THE KEY LEARNINGS

In addition, we gathered and extended our **key learnings in three dimensions: (1) the regional social finance ecosystems, (2) customized deal-by-deal support, and (3) the European-wide rollout.** The chart below visualizes the various aspects that our key learnings touch upon. A detailed description can be found in Section IV.2 below.

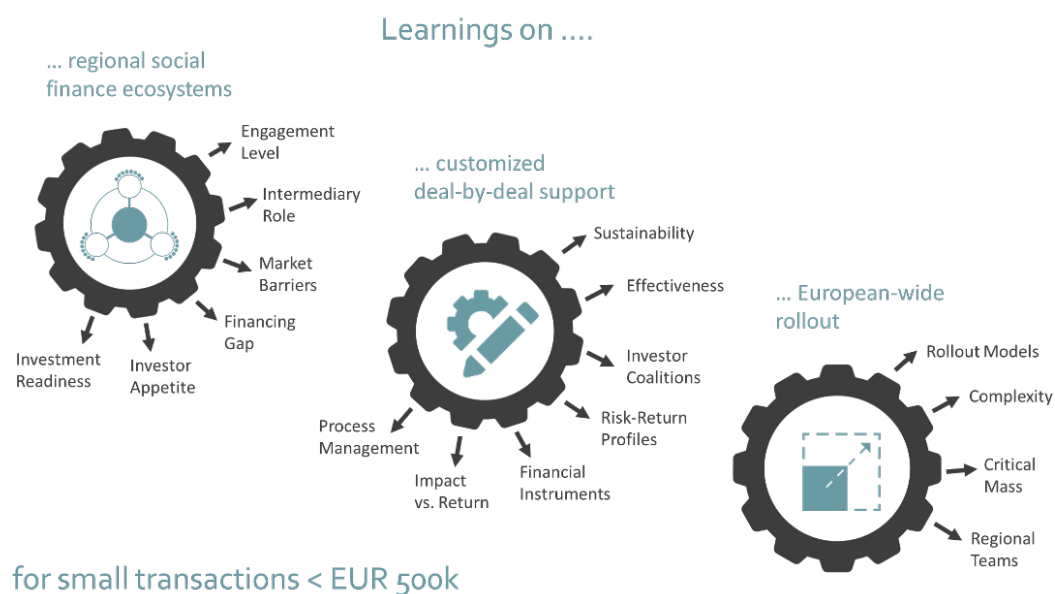


Chart 1: "Summary of EU project learnings" / Source: FASE

"Altogether, there was a wealth of findings and lessons that came with the implementation of this project. While we have defined strategies, models and tools to address each hurdle that we have encountered in the process, we also hope for more initiatives to come into existence and make use of our experiences, so that we can co-create an efficient social finance ecosystem within Europe."

Dr. Markus Freiburg, Founder & Managing Director FASE

I. THE ROLE OF FASE AND ITS PROJECT PARTNERS

■ ABOUT FASE

The Financing Agency for Social Entrepreneurship (FASE) has the vision to create a thriving ecosystem for social innovation by boosting impact finance across Europe. FASE is passionate about building bridges between outstanding social entrepreneurs and investors inspired by the idea to create sustainable, positive impact. By helping social enterprise clients to raise capital in a highly professional way, FASE improves their chances to achieve impact at scale. So far, more than 25 million EUR with 50+ successfully closed transactions to the sector.

At the heart of FASE's activities is the mission to find the right kind of investors for every passionate entrepreneur. The biggest value add is the team's extensive knowhow as well as the network of more than 1,000 funders across the entire universe of "financing planets" – from private investors, philanthropists, family offices and business angels, to foundations, impact funds, ethical banks and public funders. To them, FASE offers inspiring opportunities to create tangible impact by investing directly into enterprises that fit their individual preferences.

FASE uses a toolbox of state-of-the-art financing models¹¹ that are adapted to each specific transaction. This allows to bridge the needs of the entrepreneurs and investors involved so they can effectively work together to create the change they want to see in the world. The following graph summarizes the typical role that FASE assumes within the regional ecosystems for social finance:

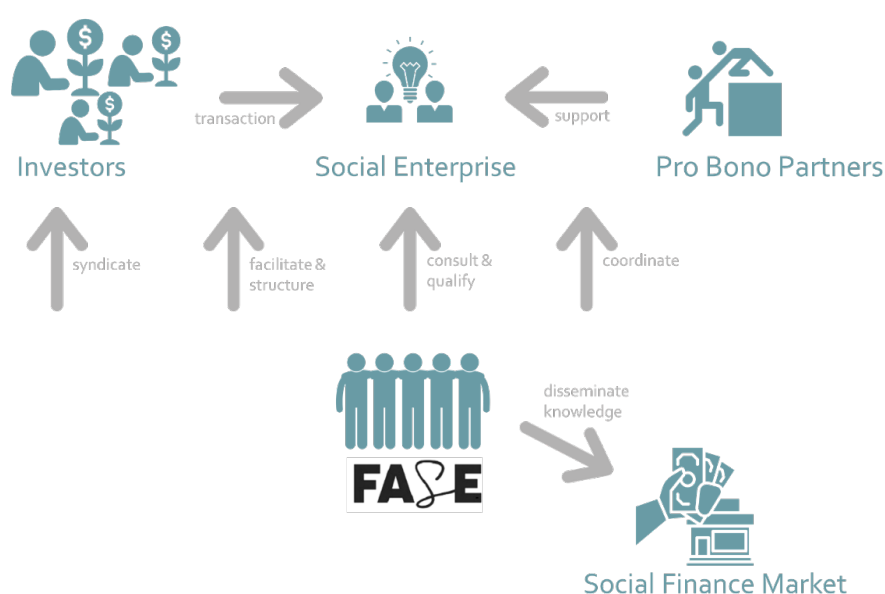


Chart 2: "FASE's role in the social finance ecosystem" / Source: FASE

¹¹ For examples of hybrid financing models, see Annex 1

Our support generally includes two different, complementary services:

(1) CONSULTANCY IN PLANNING, PREPARING AND CLOSING A FINANCING ROUND

Our scope in consulting social entrepreneurs spans from suggesting a suitable financing strategy and structure – i.e. an appropriate mix of different financing instruments such as equity, debt, or mezzanine – to compiling all necessary documents for approaching investors (e.g. investment teaser, investment memorandum). We coach the entrepreneurs to select and address the right investors from different “financing planets” (e.g. business angels, social investors, banks, foundations, private investors) and actively build coalitions between different investor types. Additionally, we manage the entire transaction process from the initial planning until the final closing, and support social entrepreneurs in their contract negotiations with potential financiers. With these services, we often help to close transactions that would otherwise not have been feasible.

(2) PREPARATION TOWARDS INVESTMENT READINESS

We coach social entrepreneurs to become investment-ready, which involves developing and sharpening business models and plans so that they become financially plausible from the point of view of potential investors. Additionally, we identify appropriate financing instruments that are (a) ideal to meet the entrepreneurs’ financial needs (e.g. equity, debt, and mezzanine) as well as (b) suitable to integrate various investors with their specific risk-return-impact profiles.

FASE IN A NUTSHELL



Mission: to create a thriving pan-European ecosystem for social innovation by boosting impact finance and investment readiness

Focus: social enterprises located in Europe and beyond

Founded: 2013 in Munich, Germany

Team: 11 professionals + 5 pro bono advisors

Closed mandates: > 50 social enterprise financings with > EUR 25 million raised (as of April 2020)

Investor network: > 1,000 private and institutional impact actors across Europe and beyond

Sector engagement: Member of the EVPA, of the German National Advisory Board of the G7 Social Impact Investing Task Force, and of the EU Commission’s Expert Group on Social Entrepreneurship (GECES)

More: www.fa-se.de/en

■ ABOUT THE ASSOCIATE ORGANIZATIONS

Several associate organizations committed themselves to support FASE in sourcing and developing a pipeline of early-stage social enterprises that seek smaller risk-capital investments of below EUR 500,000. The scope of this commitment included (a) providing access to their national networks of social enterprises as well as to potential investors from all different “financing planets”, and (b) sharing their deep insights into the characteristics of local social finance ecosystems with FASE.

The biggest group of associate organizations consisted of several **Ashoka country offices in Europe**. Ashoka was founded 1980 by Bill Drayton, who is recognized to have named, created and pioneered the global field of social entrepreneurship. All Ashoka Fellows receive a three-year living stipend as well as lifelong support of a network of like-minded

social business entrepreneurs. Ashoka is uniquely placed to accelerate the growth of social finance, given its dual communities of leading social entrepreneurs and supporters from all types of donors and investors. The country offices that supported FASE in this action were: [Ashoka Austria](#), [Ashoka Belgium](#), [Ashoka Europe](#), [Ashoka France](#), [Ashoka Germany](#), [Ashoka Italy](#), [Ashoka Scandinavia](#), and [Ashoka Spain](#).

Another associate organization in this action was **EVPA**. EVPA, the European Venture Philanthropy Association, helps investors and grant makers connect and learn from each other in their pursuit of deeper societal impact. Since its launch in 2004, EVPA has been building a community of organizations interested in or practicing venture philanthropy (VP) and social investment (SI) across Europe. EVPA defines venture philanthropy as an approach to building stronger investee organizations with a societal purpose, by providing them with both financial and non-financial support. Venture philanthropy's ultimate objective is to achieve societal impact, which is achieved this through both social investment and high-engagement grant making.

Finally, the office of **NESsT** in the CEE region joined this action as an associate organization. NESsT develops sustainable social enterprises that solve critical social problems in emerging market economies. The organization provides long-term support to grow and sustain a portfolio of high-impact social enterprises and identifies a pipeline of prospective portfolio members primarily through their national social enterprise competitions.

■ ABOUT THE CONSORTIUM OF IMPACT INVESTORS

In addition, a long list of **select impact investors** expressed their intent to support FASE in executing this action across Europe. This primarily involved their willingness to review, invest or co-invest in small hybrid deals supported and suggested by FASE as well as to share deep insights into specific geographical markets and sectors covered within their investment strategies. The list of impact investors involved is as follows: [BMW Foundation Herbert Quandt](#), [Creas](#), [Erste Bank](#), [GLS Treuhand](#), [KOIS Invest](#), [La Bolsa Social](#), [Nordic Impact](#), [Oltre Venture](#), [SNE Invest](#), [Scheuch Foundation](#), and [Shaerpa](#).

FASE's Associate Organizations



Chart 3: "FASE's associate organizations under this action" / Source: FASE

II. THE CONCEPT: CREATING AN OPEN PIPELINE OF INVESTMENT-READY SOCIAL ENTERPRISES

■ THE ROLE AND CHALLENGES OF SOCIAL ENTERPRISES

Social enterprises are considered important vehicles for job creation and drivers of social change, operating based on viable business models. Since they develop innovative approaches, models or practices for resolving societal challenges in an entrepreneurial way, they actively support a paradigm shift that prioritizes inclusive, socially fair and environmentally sustainable economic development and social change. This role is also vital for reaching the Europe 2020 targets and implementing the Sustainable Development Goals and the Paris climate accord.

For these “agents of innovation”, poor access to finance is still perceived as one of the most significant barriers. The Social Business Initiative, - that includes **the European Programme for Employment and Social Innovation "EaSI" 2014-2020**, - emphasizes that the funding system for social enterprises is underdeveloped in relation to that available to traditional businesses. Several pan-European and national studies confirm such imperfections in the social finance market. In specific, existent market actors do not seem to cooperate very well, with different suppliers of financing applying a broad range of mostly incoherent and unrelated eligibility criteria, return expectations, conditions for repayment, and requirements for accounting as well as reporting. This phenomenon often leaves social enterprises lost between different “financing planets”, preventing them from fulfilling their missions, achieving their potential and reaching impact at scale.

■ THE BOTTLENECK FOR SMALL TRANSACTIONS

In general, social enterprises face substantial difficulties when trying to develop an efficient mix of funding sources. Such bottleneck is especially prevalent in the critical segment of smaller deals (<500,000 EUR), where risk sharing is essential and hard to find. As a result, there is a strong need for suitable platforms or market facilitators that enable cooperation between investors, donors and public authorities. The situation is aggravated for social enterprises in the early stages of their life cycles. Here, the need for financing typically ranges between EUR 100,000 and 500,000, yet most investees are not able to cover more than 75% of their operating costs with revenues at this stage.

Concurrently, the majority of impact investors is expecting relatively mature social enterprises that have achieved – or are at least very close to - break-even. Given the small ticket sizes and often limited financial upside, investors also consider **transaction cost** for sourcing, preparing and executing small, customized deals below EUR 500,000 to be disproportionally high. This is why many capital providers shy away from getting financially involved in early-stage social enterprises and rather decide to wait at the end of the investment pipeline when investment candidates are more mature and tickets larger. Yet this syndrome, if not efficiently addressed, leaves early-stage social enterprises at the edge of a precipice: a “**strategic financing gap**” where the required amounts of funding tend to be too big for donations or philanthropist and too small and risky for institutional social investors.

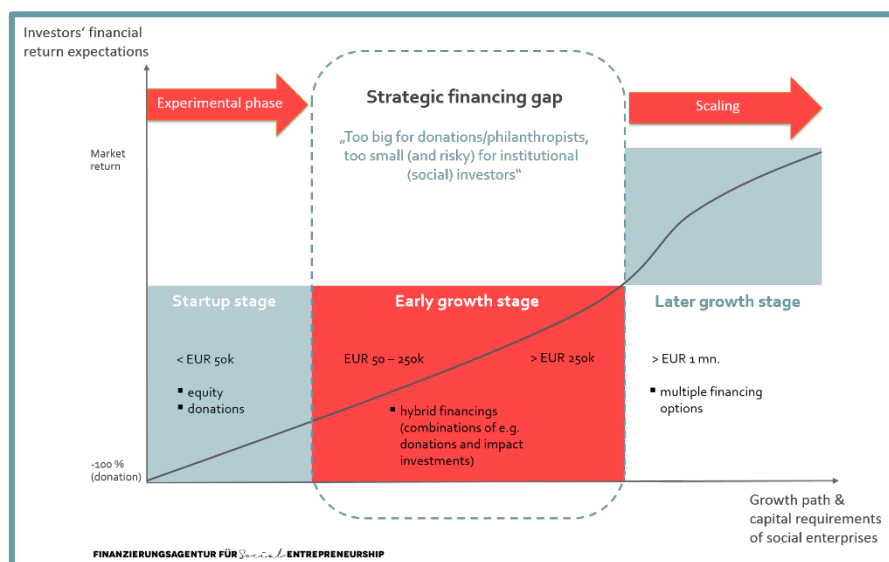


Chart 4: "The strategic financing gap for early-stage social enterprises" / Source: FASE

■ BARRIERS TO EARLY-STAGE SOCIAL FINANCE ACCESS

Barriers to social finance have a varying degree of importance across Europe. There are some **common hurdles**, however:

- (1) On the capital supply side, "impact-ready" investors are a rare breed. Most financiers willing to tap into social enterprise finance still miss the appropriate knowledge how to assess the dimension of social impact and understand their potential investee's double bottom-line business models.
- (2) Appropriate financing instruments, on the other hand, tend to be another missing link. What is most needed are hybrid, tailored financing models that effectively combine investors from different 'financing planets' and give social enterprises sufficient breathing space to grow, develop and thrive.
- (3) Market facilitators, such as qualified intermediaries or market places, represent another missing link. Such actors have the potential to effectively build bridges between supply of and demand for social finance and thus to overcome the strategic financing gap.
- (4) The legal frameworks in Europe are another stumbling block. Today, the majority of legal forms available do not cater to the specific needs of social enterprises. In order to be able to attract hybrid forms of financing - such as quasi-equity or a mix of sources e.g. a syndication of philanthropic and impact investors – social enterprises often have to adopt a hybrid organizational structure (e.g. non-profit and for-profit entities combined).

In general, the market for social finance is still rather intransparent: Demand and supply do not match well enough. One of the reasons behind this phenomenon is that **a vast number of social enterprises are not yet investment-ready** and need substantial time, money and effort to get there. Accelerators, incubators, specialized advisors or other forms of development

support (e.g. online courses¹²) are therefore an important link to make the ecosystem function.

With respect to the appetite of impact investors, the [2020 annual impact investor survey](#) run by the [Global Impact Investing Network \(GIIN\)](#) continues to provide encouraging but also sobering insights into social enterprise finance. While the GIIN estimates that the global impact investing market has reached a size of US\$ 715 billion in 2020 and is rapidly growing, **around 85% of the respondents continue to target risk-adjusted market-rate or close to market-rate financial returns**. Only a fraction of 15% is willing to accept returns that range closer to capital preservation, which is precisely the profile that most early-stage social enterprises offer when seeking growth capital. Often, they operate with business models allowing for a potential return range between -100% and +5% p.a. As a consequence, - and although these enterprises generate significant positive external effects -, they tend to be too commercial for philanthropists and too social and thus financially unattractive for traditional investors. This trend will probably exacerbate with the current economic crisis triggered by the COVID-19 pandemic. At least, it will delay investment decisions and new engagements pursued by impact investors¹³ or make them more cautious as to which enterprises to support and how. **This is why hybrid financing models continue to be essential tools to bridge demand and supply for social finance in a still imperfect ecosystem.**



From an optimistic standpoint, this situation offers a strong potential to overcome current market failures through a combination of (1) transaction cost coverage, (2) tailored, hybrid financing packages, and (3) transaction support by experienced intermediaries, who are able to cover the entire range of impact investor types on the one side, and of early-stage social enterprises seeking small rounds of capital on the other side. This is exactly the mission that FASE set out to achieve under this action supported by the European Commission.

■ CREATING AN OPEN PIPELINE OF INVESTMENT-READY SOCIAL ENTERPRISES

According to the FASE's experiences, there are several challenges that a **financial intermediary** pursuing this exact mission needs to address within a specific European region/country:

- The intermediary needs to build a regional network of impact-oriented investors from all financing planets and understand the investment preferences of individual investors. This is the basis for matching the right capital providers with individual social enterprises.
- The intermediary needs to select potential social enterprises according to their specific target profiles and consult with them in all questions of planning, organizing and coordinating a transaction process, which includes:

¹² For example, the "AIR: Accelerating Investment Readiness" MOOC/blended learning program developed by an Interregional consortium including FASE: www.air-mooc.teachable.com

¹³ For an initial barometer on the sentiment, mindset and activities of impact investors triggered by the COVID-19 crisis, please see FASE: "Impact investing in times of global pandemic" <https://fa-se.de/en/blog-en/impact-investing-in-time-of-global-pandemic/>

- examining the business model and the business plan of the social enterprise, particularly with respect to the comprehensibility and plausibility for external investors (e.g. with the use of a scoring tool);
- identifying and developing suitable financing instruments and financial structures (including potential cooperation models between investors);
- preparing a summary of the social enterprise and its financing needs with the purpose to address potential investors („teaser“);
- supporting the social enterprise in developing information documents needed for the investor process (e.g. information memorandum, management presentation);
- identifying and analyzing potential investors;
- moderating discussions between the social enterprise and potential investors;
- obtaining proposals from potential investors as well as consulting the social enterprise with respect to an evaluation and selection of the proposals to follow up upon;
- supporting the social enterprise in coordinating the information flow to potential investors once they approach the in-depth examination of the social enterprise („due diligence“);
- supporting the social enterprise in negotiations with selected investors; and
- cooperating with legal- and tax advisors of the social enterprise in order to obtain a solution that is optimized in terms of tax and corporate laws.

■ DESIGNING AND IMPLEMENTING HYBRID FINANCING MODELS

In FASE's experience to date, many social enterprises choose to operate with **hybrid business models** that combine both non-profit and for-profit business elements. These business models are often mirrored by hybrid organizational structures that again include for-profit and non-profit parts. Typically, repayable financing instruments are well-suited to finance the for-profit activities of such an enterprise, while non-profit entities are best supported through donations or public grants. FASE's approach is to couple these two types of financing and thus enable a full coverage of the spectrum of funding sources and return expectations - from (100%) or donation-type to market rate- or investment-type of returns. A part of our first EU project mandate in 2014 was to come up with different **state-of-the-art hybrid financing models** that are briefly listed below and described in more detail in Annex I of this report. We have also explained these models in the final report of our first EU-mandated project and added concrete case studies to illustrate the practical aspects of implementation¹⁴.

In essence, the seven models have two features in common: 1) they smartly use the available financing instruments to exactly meet to the specific needs of social enterprises, and 2) they attract new types of investors and are capable of integrating different funders in one single deal, even if they come from distant financing planets. To date, the models have been piloted and implemented with more than 50 mandates, which provides the social finance sector with powerful blueprints to be replicated by other investors, donors and social enterprises. The following graph illustrates the 7 hybrid financing models developed by FASE. Model 7 was

¹⁴ FASE: „Creating Collaborative Funding Models for Social Enterprises“, final report on a project mandated by to the European Commission, 2015, <https://77cf4b2b65d8e527a5ddcb5f-piconda.netdna-ssl.com/static/uploads/sites/225/2015/12/FASE-Final-Report-EU-Project-July-2015.pdf>

successfully introduced in the meantime and will be further described in Section III.3 of this report. Models 3 and 6 have not yet been implemented beyond design stage to date.

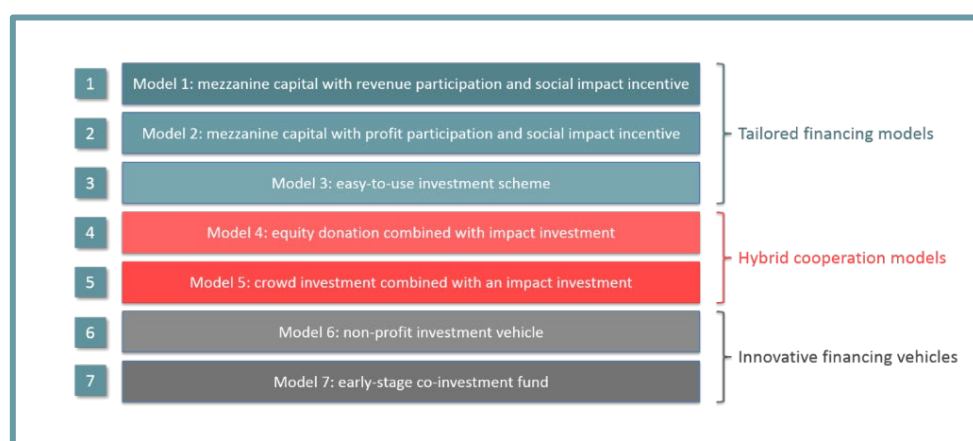


Chart 5: "Hybrid financing models developed by FASE" / Source: FASE

■ SUMMARY

A deal-by-deal support from experts such as FASE can be a highly effective mechanism to provide hybrid capital to social enterprises seeking small transactions in early stages of their growth path.

To date, **FASE was able to successfully support more than 50 social enterprises and channel beyond EUR 25 million to the social finance ecosystem** based on this strategy. Following the implementation of the concept in Germany, Austria, Benelux and CEE, FASE will continue to roll out its services to even more European regions. While doing so, a close collaboration with the regional Ashoka offices as well as with pro bono partners and the existing network of impact investors will be vital to help establishing local presence and to effectively boost the availability of social enterprise finance across Europe.

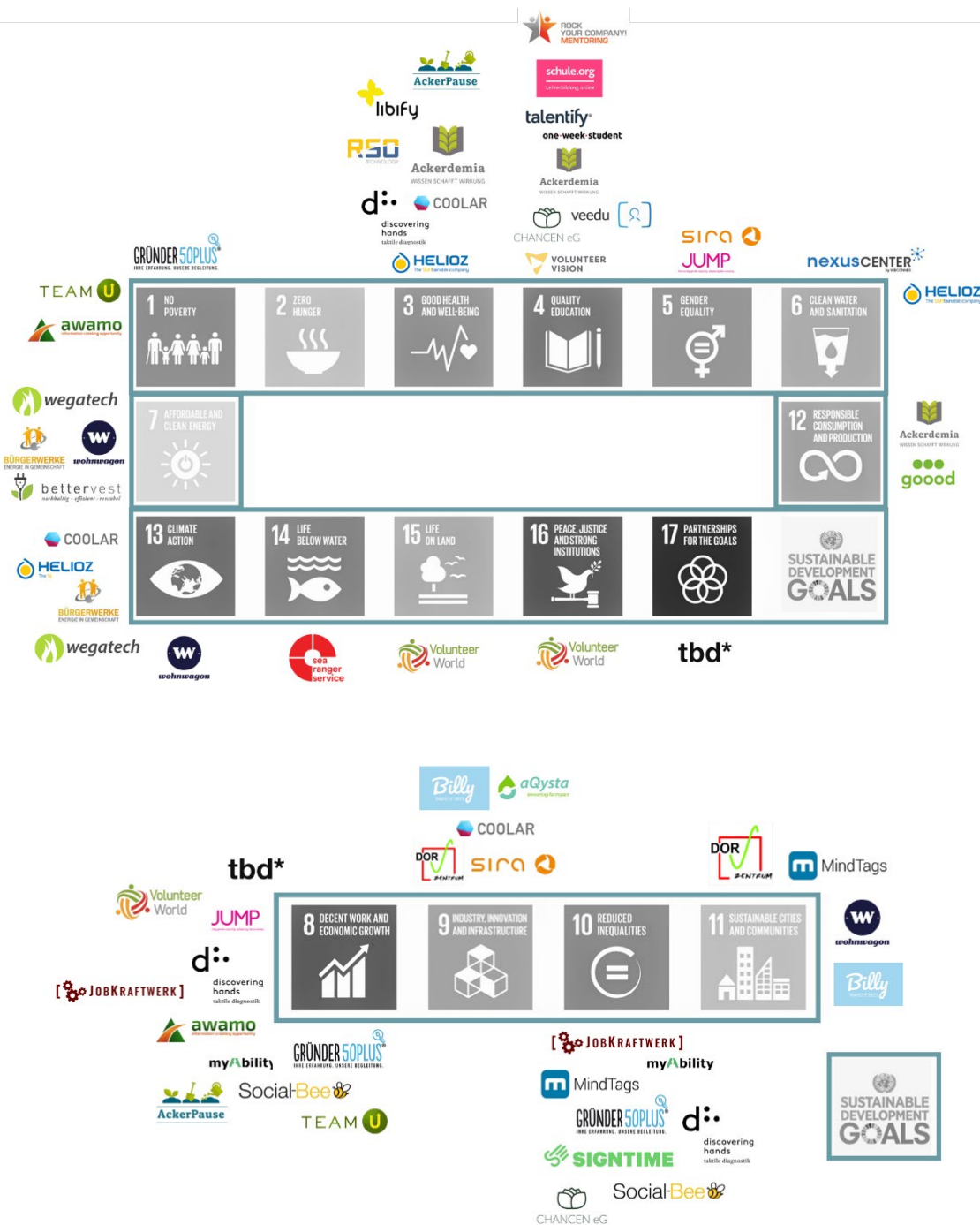


Chart 6: "Social enterprises supported by FASE and their SDG contribution"

III. THE IMPLEMENTATION OF THE PROJECT

1. OBJECTIVES AND ACTIVITIES

The goal of FASE for this EU-funded action was to **build a pan-European pipeline of investment-ready, early-stage social enterprises with a customized deal-by-deal support in the specific segment of small transactions below EUR 500,000**. The following is a summary of the objectives and activities within this project:

■ THE CHALLENGE: FACILITATING A THRIVING SOCIAL ENTERPRISE FINANCE MARKET FOR SMALL TRANSACTIONS

The objective of the project was to use the successfully tested, orchestrated approach developed by FASE to combine different types of donors and investors by using a wide range of financial instruments that are integrated with fine-tuned hybrid financing packages. The action was specifically targeted at catalysing smaller risk-capital investments of below EUR 500,000 that would otherwise be very difficult – if not impossible – to implement. This difficulty stems from the fact that investors' transaction costs for sourcing, preparing and executing these small, customized deals are considered to be disproportionately high as compared to the relatively small ticket sizes and often limited financial upside. This often prevents capital providers from investing in early-stage social enterprises and leads to the phenomenon that many decide to wait at the end of the investment 'pipeline' when social enterprises are more mature and transaction tickets larger. The action therefore aimed at generating effective demand among social enterprises for social finance, encouraging more social enterprises to take on repayable finance and boosting the supply of social finance by lowering transaction cost for small financing rounds. The ultimate goal was to overcome a critical market failure in the social enterprise finance ecosystem and to test a transaction cost support scheme in the form of a grant, which was combined with financing instruments as a means to address the mismatch of sustainable ticket sizes.

■ ACTIVITIES: LOWERING TRANSACTION COST FOR SMALL INVESTMENTS

The action comprised five distinct, but integrated activities:

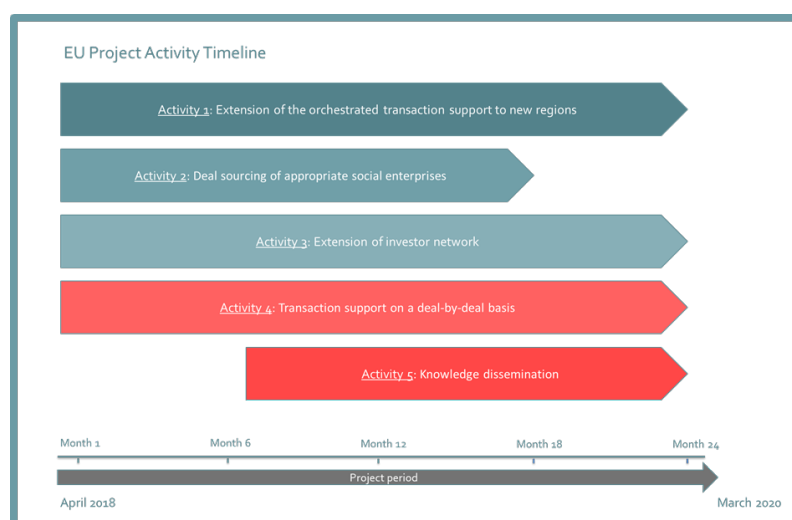


Chart 7: "EU project activity timeline FASE" / Source: FASE

■ Activity 1:

The extension of the orchestrated transaction support to 3 to 4 new European countries and/or regions (e.g., France, Spain, Italy, CEE, and Scandinavia), which involved the assessment of appropriate regions, a detailed market analysis, the set-up of regional teams, and the building of targeted partner networks.

■ Activity 2:

The sourcing of appropriate social enterprises who seek smaller risk-capital investments of below EUR 500,000, with the geographic scope of FASE's core markets Germany, Austria and Benelux as well as additional European countries such as France, Spain, Italia, the CEE and Scandinavian regions. This activity included the screening and selection of potential pipeline candidates and the provision of investment readiness support, mainly by thoroughly reviewing business and impact models.

■ Activity 3:

The expansion of FASE's investor network by ways of deepening existing relationships in Germany, Austria and Benelux as well as by building up networks in other European countries and regions (such as France, Spain, Italia, CEE, and Scandinavia). The objective of this activity was to add more than 200 new potential impact investors interested in engaging into smaller, early-stage deals. Specific tasks were identifying and meeting different types of potential investors and understanding their individual investment preferences.

■ Activity 4:

Providing deal-by-deal transaction support to 20 to 30 selected social enterprises seeking risk-capital investments of below EUR 500,000 in the above mentioned regional markets. FASE experts provided consultancy in all matters of planning, preparing and executing financial transactions, which also involved the preparation of investor documents, the approach of potential investors, the build-up of an appropriate investor coalition, and the support in drafting legal documents.

■ Activity 5:

Disseminating knowledge by case studies, publications, conference speeches and similar forms of sharing experiences and insights.

2. ACTIVITY 1: EXTENDING TRANSACTION SUPPORT TO NEW EUROPEAN REGIONS

After our rather mixed experiences with the set-up of a separate legal entity in the Benelux region (FASE Benelux Sprl, incorporated in June 2017, dissolved in December 2018 due to rather high complexity and lack of a critical mass), we decided to run our activities in the Netherlands, Luxemburg and the CEE region in the form of **regional hubs**. These hubs were firmly integrated and legally embedded in our 'home base' FASE Germany. Also, to build the operational basis for the extension of our transaction support to further European regions, we prepared an extensive **process handbook** with detailed business guidelines and procedures describing our core processes along our value chain (e.g., client acquisitions,

transaction management, investor relations). The purpose of these business guidelines and procedures is to ensure a) a standardization of our services, b) a high-quality management, c) a proper risk mitigation, and d) a sufficient preparation for further scaling.

Our expansion activities per target region unfolded as follows:

■ BENELUX

We successfully expanded our activities in the **Benelux region** by bringing in our new team member **Simone Pourier** as our Regional Manager the Netherlands based in The Hague. Her activities focused on three pillars: (1) setting up of a partner network in the ecosystem, (2) building a network of impact investors in the region, and (3) contacting and researching potential social enterprise mandates. These activities continue today and increasingly bear fruit with several signed and successfully closed mandates and an encouraging extension of our investor network (more information under Activities 3 and 4 below).

Unfortunately, we needed to discontinue our activities in **Belgium** at the end of 2018, since our colleague Christophe Baudin had to leave FASE for personal reasons. Due to the relatively small size of the Belgium market, however, we decided not to search for a direct replacement of his position and looked for a professional to get access to both the Belgian and French markets instead. As of June 2019, we successfully onboarded our new colleague **Laura Catana** in her role as our European Investor Relations Manager based in **Luxemburg**. Since then, she strongly contributes to expanding our impact investor base in Belgium, Luxemburg and France as well as to building our network of international impact investors (many of whom are EVPA members) as another source for our pan-European pipeline of investment-ready social enterprises.

■ CEE

In the **CEE region**, we started our expansion activities in September 2018 with the onboarding of our new colleague **Zsolt Pethe** as our Regional Manager CEE based in Budapest. After an initial assessment of the different regional markets, we decided to focus on Hungary, Poland, the Czech Republic and Romania for the starting points of our activities. The activities focused on three pillars: (1) setting up of a partner network in the ecosystem, (2) building a network of impact investors in the region, and (3) contacting and researching potential social enterprise mandates. As of today, these activities have begun to create positive traction with the first signed transaction mandates in Hungary and Poland. At the same time, the evolution of the regional impact investor ecosystem as well as the level of investment readiness among social enterprise targets continue to be challenging and at a very early stage (more details under Activities 3 and 4 below).

■ OTHER REGIONS

For the extension of our transaction support to additional European regions (e.g., **Scandinavia, Italy, Spain**), we started to prepare pilot activities out of the German FASE team. In specific, the onboarding of our new colleague **Martin Hahn** as Senior Business Development Manager in October 2018 was a valuable step to implement this extension. Our activities focused on the buildup of a network of potential partners in these regional ecosystems as well as on securing the first pilot deals for which the transaction support could be covered out of the FASE Germany transaction team. As of today, these activities have

started to create positive traction with the first signed transaction mandates in Ireland, Sweden and Turkey and several ongoing pipeline discussions with social enterprises in Denmark, France, Italy, Portugal, Norway, Spain, Sweden, and the UK.

3. ACTIVITY 2: SOURCING SOCIAL ENTERPRISES

I. PREPARING THE PIPELINE

The sourcing of suitable social enterprises as potential investment candidates was an ongoing, time-intensive activity during the entire period of our project. We screened around 300 social enterprises that may need and seek risk-capital investments of below EUR 500,000. This screening took place in both, our current core markets (Germany and Austria) and in additional European target countries, for example the Netherlands, CEE (with a focus on Poland, Hungary, the Czech Republic and Romania), as well as Scandinavia, Italy and Spain.

The entire activity included:

- (1) selecting and meeting potential pipeline candidates,
- (2) reviewing their business and impact models, and
- (3) providing initial feedback on their investment readiness (where appropriate).

To identify a suitable deal flow for our customized deal-by-deal support, we leveraged the global network of Ashoka, actively screened social enterprises from partner organizations (e.g., Impact Labs, Impact Hubs, NESsT) and asked for referrals from later-stage investors (e.g., BonVenture, Ananda Impact Ventures, France Active, PhiTrust, Sl2 Fund, DOEN Foundation, Adessium Foundation, and other EVPA members). In addition, we sent out a nomination request for appropriate social enterprises to our partner network and established an online questionnaire on our homepage to receive initial information from potential social enterprise mandates. We also attended multiple sector conference with social enterprise pitching sessions, held various online webinars with partner organizations and spoke on many sector conference to actively create appetite among social enterprises to seek growth capital to scale (for more details of the events attended: see examples under Activity 5 below or visit our website at <https://fa-se.de/events/>).

In addition, we formalized our partnership with different pan-European partner organizations to ensure a more permanent, structural access to a broader pipeline of investment-ready social enterprises. With Ashoka Europe, we established a partnership to integrate our customized deal-by-deal support into a basic educational offering that covers the possibilities of hybrid financing as part of Ashoka's new pan-European fellowship program available to all European Ashoka Fellows. Furthermore, we established a partnership with their Globalizer program to get access to Europe-based social enterprises that participate in their program and have a financing need for repayable financing instruments. With Impact Hub Europe, we negotiated a partnership to test joint pilot activities in selected Impact Hubs (e.g., Milan, Prague, Stockholm, Madrid, and Berlin) to support social enterprises with our hybrid financing expertise and present our customized deal-by-deal support. The results of these new strategic partnerships will hopefully further strengthen our pipeline in the future.

II. PROVIDING INVESTMENT READINESS SUPPORT

Investment readiness is a vital precondition that social enterprises need to fulfill before being able to successfully attract growth capital from external investors. As a consequence, checking potential mandates with respect to where exactly they are in the process of mastering this important step is and has always been part of our selection process. Typically, - once we take over a mandate for transaction support -, advice and support on how to fulfill the last steps of becoming investment-ready are always part of our package. For social enterprises, who have a very promising business and impact model but are still in the very early stages of becoming investment-ready, FASE also offers dedicated **Investment Readiness (IR) Packages**. This offer is combined with the potential that such candidates can become suitable transaction candidates in the future, once they have sufficiently progressed with their impact and business models.

There were two social enterprises to which FASE provided such dedicated investment readiness (IR) packages in the course of this project. Details about these two enterprises, **Lilo Lausch/Stiftung Zuhören** and **Rheinflanke**, can be found under Activity 4 below. Such packages provide a full-scale, dedicated IR support over a period of 6 months, which includes several onsite workshops as well as a thorough analysis combined with strategic discussions delivered by two experienced FASE team members. The analysis is based on a proprietary Investment Readiness diagnostic developed by FASE that comprises 15 different IR categories (see chart below). Such packages are separate from a transaction mandate and strive to bring the social enterprise to a level of preparation where, after implementing a set of recommendations, raising an initial impact investment round becomes possible. The following chart outlines the basic 15 categories of this IR diagnostic:

FASE Investment Readiness Diagnostic: 15 Modules

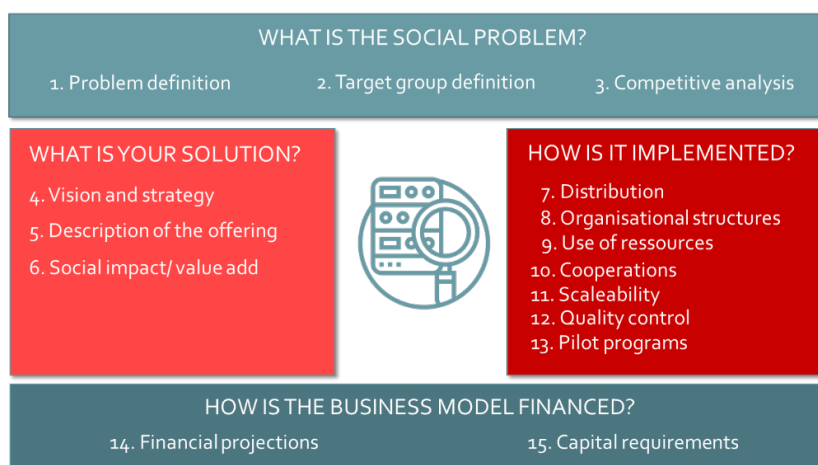


Chart 8: "FASE investment readiness diagnostic: 15 modules" / Source: FASE

4. ACTIVITY 3: EXPANDING THE INVESTOR NETWORK

I. NETWORK ACTIVITIES & RESULTS

The extension of our impact investor network was an ongoing activity during the entire period of this project. To build an appropriate pan-European investor basis for customized deal-by-deal support, we deepened the existing investor network in our core markets as well as expanded our impact investor outreach to new European countries. **Altogether, we were able to almost double our impact investor network**, coming from around 800 investor contacts in 2018 to more than 1,500 as of today (including multipliers). This has significantly increased our ability to approach potential investors of all types for a potential engagement in smaller, early-stage deals. In specific, our outreach involved arranging individual meetings and/or calls with new investors to understand and document their specific investment preferences in our CRM system (e.g., in terms of sector, size, risk, and return).

■ NEW EVENT FORMATS

In terms of approach, we leveraged our network of existing investors via personal recommendations and used the world-wide network of Ashoka to specifically identify members of the Ashoka Support Network (ASN). In addition, we participated in multiple **investor and sector conferences** across Europe as panellists, workshop moderators, key note speakers or participants to broaden our network of impact investors. For details on the many conferences and events we attended, please see under Activity 5 below or visit our website at <https://fa-se.de/events/>

While these activities were focused on the general broadening of our impact investor network for smaller, early-stage deals, we also ran investor activities to find concrete capital providers for social enterprises that we supported in raising hybrid growth capital. Among other events, we ran multiple **social finance events** where our social enterprise mandates were able to pitch in front of impact investors (more details under Activity 5 Knowledge Dissemination below). We also developed the concept of **online investor web lounges**, where impact investors can virtually meet social enterprises and experience a short online pitch given by a social enterprise, combined with a Q+A part thereafter. This concept proved to be very useful in reducing the entry barriers for potential impact investors and to becoming interested in actually meeting these social enterprises.

■ INVESTOR RELATIONS RAMP UP

We also were able to further increase the quality of our investor relations activities. As part of our efforts to develop concrete business guidelines and procedures for investor relations management, we defined specific criteria that we should know about all impact investors in our network. Examples are sector, size, risk, and return profiles of their investments. As a consequence, we were able to develop a completely **new structure for our CRM system** and to document these individual investor preferences in a meaningful way. We also defined specific activity levels for each investor as well as concrete action items to address the specific needs of each type of investor depending on his or her activity level. On top, we developed a **matching algorithm** to calculate the potential fit of an impact investor based on his or her investment preference and the investor search profile of a specific social enterprise.

■ LAUNCH OF AN INNOVATIVE INVESTMENT VEHICLE

Another very important activity was to continue our setup of the early-stage co-investment fund, an innovative concept that we had developed some time ago. Now marketed under the name the “European Social Innovation and Impact Fund” (ESIIF), the vehicle will invest alongside individual investors on a deal-by-deal basis in social enterprises with financing needs below EUR 500,000. Details to this game-changing instrument for the social enterprise finance market can be found below.

II. IMPLEMENTING THE “EUROPEAN SOCIAL INNOVATION AND IMPACT FUND”

The initial concept of the fund was already developed during the first project mandate received from the European Commission in 2014. The mission behind this innovative financing vehicle remains unchanged: Now marketed under the final name of the “**European Social Innovation and Impact Fund (ESIIF)**”, the fund intends to channel more growth capital to early-stage social enterprises by unleashing the full potential of professional and semi-professional private and institutional investors for the benefit of the impact ecosystem.



Chart 9: “The European Social Innovation and Impact Fund” / Source: FASE, avesco

■ THE CONCEPT IN DETAIL

The ESIIF is a novel fund model to address a systematic gap in social enterprise finance in Europe: it will finance a pipeline of early-stage social enterprises and will help them to bridge the early-stage financing gap (‘death valley’ or ‘missing middle’) and scale their impact after an initial proof of concept. Designed as a **passively managed matching fund**, - essentially matching the commitments of one or several direct investors, - it aims to provide vital funding with **mezzanine capital** to early-stage social enterprises located in Germany, Austria, Benelux, and other European countries within the European Union. On the capital supply side, the fund aims to achieve an attractive internal rate of return for professional and semi-professional German investors, who can choose between a senior and a junior tranche with different risk-return-profiles. On the capital demand side, the fund’s mission is to provide social enterprises with risk capital that they would otherwise have difficulties to obtain.

By applying a **layered structure with junior and senior tranches**, the fund overcomes barriers for a substantial number of (would-be) impact investors who, as compared to a direct investment, seek a more balanced and broadly diversified portfolio and need specific risk-return profiles to become engaged in early-stage social enterprise finance. Against this background, it is an essential ingredient of the fund that it was the first vehicle in the German market to secure the **EaSI Social Entrepreneurship Guarantee**: this enables the necessary fund economics as well as reasonable financing conditions for investors and social enterprises.



Chart 10: "Key features of the ESIF" / Source: FASE, avesco

The Fund will invest in early-stage social enterprises characterized by the primary objective to achieve a measureable, positive impact on society while being managed in an entrepreneurial, accountable and transparent way. These enterprises are typically, but not exclusively, active in the fields of education, environment, health, civic participation or other relevant social and/or ecological areas and display a strong potential for impact at scale. In addition, they have successfully tested their business and impact models in the market ('proof of concept'), generated initial revenues and are ready to take on repayable forms of growth capital. **Many of these early-stage social enterprises will typically seek small financing rounds of up to EUR 500,000, which makes the fund especially valuable for the specific transaction segment and the implementation of this EU action.**

As a lean and passively managed matching fund, the role of the direct investor(s) in each target investee is essential. The fund's decisions will be subject to the existence of one or more qualified direct investors and it will essentially match their investments. The portfolio companies will typically be clients of FASE. Following the matching fund principle, the fund will strictly follow a given set of clearly defined, yet rather formal investment criteria that will be supervised by an investment committee.

■ CURRENT STATUS & ACHIEVEMENTS

Together with **avesco Financial Services AG**, - who is managing the fund through its 100% subsidiary avesco Management GmbH, - FASE as the fund's initiator was able to complete the majority of the structural set-up and run an initial market sounding. The outreach to semi-professional and professional investors in Germany started in Q2 2020, with an initial closing of minimum EUR 4 million planned in 2020 and an ultimate target fund size of EUR 20 million. A first commitment by an institutional cornerstone investor was secured in May 2020.

5. ACTIVITY 4: PROVIDING TRANSACTION SUPPORT

1. CUSTOMIZED DEAL-BY-DEAL SUPPORT

A core part of implementing FASE's mission is to provide customized deal-by-deal support. In essence, this concept - developed and implemented by FASE in the past 6 years - focuses on building individual coalitions between different types of impact investors for every single social enterprise transaction. Although the effort of matching investors and social enterprises is quite time-consuming, it is also very effective. It ensures that the most suitable investors are paired with the right social enterprises and that each investor coalition can be tailored to the specific needs of the respective enterprise. **This approach is particularly relevant for early and small investment rounds, since social enterprises often haven't built an investor base yet and typically cannot offer compelling, short-term growth scenarios and prospects for high returns to potential investors at this stage.** There are also other, more investor-related benefits to this approach: Since impact investors tend to have unique preferences as to which social enterprises they would like to invest in - for example with priorities regarding specific sectors, stages, scopes, depths and regions of impact – such preferences can only be considered appropriately once investor coalitions are individually built through a customized approach.

The transaction management that FASE provides to a social enterprise is equally important. This process, which typically takes 6 to 9 months from mandate signing to successfully closing a financing round, tends to be very resource-intensive and time-consuming for all parties involved. The individual stages and tasks of this process are further outlined in Annex 2. This process established by FASE proved to very valuable in reaching results that would otherwise not have been feasible in the current state of the social finance ecosystem. A vital insight is that the more investors and social enterprises go through this exercise and share their experiences, the leaner, shorter and more scalable such transactions will become. This scaling effect, however, has definitive limits as a high degree of personal interaction and support will always be involved in an individual deal-by-deal support. The graph below illustrates again the scope of FASE's transaction support:



Chart 11: "Overview of FASE's transaction support tasks" / Source: FASE

II. SMALL TRANSACTIONS IN DETAIL

In the following section, we outline the profiles and the capital raising status of each of the **21 social enterprises that we provided with customized transaction support** under this action. Out of these 21, two social enterprises, **Lilo Lausch** and **Rheinflanke**, were supported with targeted investment readiness packages (described in Section III.3.). Two candidates, **Chancenwerk** and **Papilio**, continue to seek a social impact bond-type of transaction to roll out their models, which typically entails longer periods of time for preparation, especially with respect to securing a public or private funder paying for verified outcomes.

In addition, FASE is in early preparations to provide transaction support for **more than 10 social enterprises** without having entered into a formally signed mandate agreement yet. These enterprises are either pursuing a European expansion of their business and impact models or are potential candidates for a match funding to be provided by the European Social Innovation and Impact Fund (ESIIF). The Fund is not yet able to make commitments since - as of due date of this report, - the first fund closing did not yet materialize. More information about the ESIIF can be found in Section III.4 as well as in the Annex of this report.

No.	Name of Social Enterprise	Transaction Amount (EUR)	Closed / Status
1	Jobkraftwerk	300.000	July 18
2	Team U (Runde 3)	175.000	October 18
3	Sea Ranger Service	250.000	December 18
4	Helioz	450.000	December 18
5	Rock Your Company	0	no closing
6	Ackerpause	100.000	April 19
7	Coolar	250.000	April 19
8	Papilio (SIB)	tbd	ongoing
9	Chancenwerk (SIB)	tbd	ongoing
10	Lilo Lausch (IR)	tbd	n/a
11	Rheinflanke (IR)	tbd	n/a
12	One Week Experience	0	no closing
13	HyHelp	0	no closing
14	Talentify	150.000	May 2020
15	Laka	220.000	February 20
16	Otsimo	0	no closing
17	Gerere	0	mandate on hold
18	AckerCompany	300.000	March 20
19	Healthy Entrepreneurs	500.000	March 20
20	IttaSzezon	450.000	ongoing
21	Conflict Food	300.000	ongoing

Chart 12: "Social enterprises supported by FASE under this action" / Source: FASE

SOCIAL ENTERPRISE "JOBKRAFTWERK"



EXECUTIVE SUMMARY

- Digital integration and case management tools for social workers to enable an improved inclusion of migrants into job market and society

JobKraftwerk, headquartered in Berlin (Germany), offers three complementary digital solutions to ease and accelerate the regional integration of refugees and migrants. The JobKraftwerk solution spans several activities to improve integration into the job market: (I) analysis and profile of the target group's competences and strengths, (II) individual integration planning with binding goals, (III) job matching with regional corporates and enterprises, (IV) digital links to the relevant processes of regional authorities, and (V) access to data for local municipalities. Thus, the JobKraftwerk platform is situated at the intersection of regional authorities, employment agencies, job centres and corporates. By receiving a Software-as-a-Service (SaaS) solution, these stakeholders are enabled to better integrate refugees regionally.

FINANCING AND INVESTORS

In July 2018, JobKraftwerk successfully closed a financing round of EUR 300,000 in mezzanine capital with transaction support from FASE. The capital was provided by a German foundation and the trust arm of a German ethical bank. An interview with one of JobKraftwerk's founders, Oliver Queck, detailing the experiences with this transaction, was published at <https://fa-se.de/blog/die-chemie-muss-einfach-stimmen/> (in German).

SOCIAL ENTERPRISE "TEAM U"



EXECUTIVE SUMMARY

- Turnaround and restart advisory for small and medium businesses (SMB)

There is no specific support for German small and medium businesses facing critical situations, although insolvency can permanently threaten the founders' existence. Insolvencies harm society, paralyze entrepreneurs and often exclude founders from economic life for a very long time. The TEAM U Holding company – which comprises the non-profit entity TEAM U Restart gGmbH as well as the for-profit arm TEAM U Die Turnaround Berater GmbH – addresses this social problem in a targeted way. It offers both, paid advisory services as well as pro bono consultancy, and helped more than 13,000 SMB entrepreneurs in critical situations to date. To extend the offering, the social enterprise developed plans to enhance the consulting arm as well as open up an online help platform. Through a proprietary

academy, TEAM U also aims to educate new TEAM U advisors, who, in close cooperation with the pro bono supporters, will ensure maximum social impact. These steps required additional funding to be raised with support by FASE.

FINANCING AND INVESTORS

TEAM U successfully closed a mezzanine capital round of EUR 175,000 in October 2018. The financing was provided by 3 business angels coming from FASE's network.

SOCIAL ENTERPRISE "SEA RANGER SERVICE"



EXECUTIVE SUMMARY

■ Building the world's first maritime ranger service

The Sea Ranger Service ('SRS'), headquartered in the Netherlands, is an innovative solution with a combined impact on ocean conservation and employability in the maritime sector. While there are international agreements to protect our oceans against the effects of climate change, pollution and overfishing, there is a lack of resources at sea to monitor and service marine protected areas ('MPAs'). The SRS vision is to fill this gap with a globally scalable model built on 3 legs: (1) training and employment of unemployed youths in the maritime sector, (2) purpose-built sailing vessels and (3) offshore services offered to governments, maritime agencies, private organizations and scientific institutions. The first Sea Ranger Bootcamp (training) was delivered in March-April 2018 with funding from the Rabobank Foundation and the municipality of Rotterdam.

FINANCING AND INVESTORS

The social enterprise was able to successfully close its first round of financing in the size of EUR 250,000 from four business angels in December 2018. The financing came in the form of a subordinated loan.

SOCIAL ENTERPRISE "HELIOZ"



EXECUTIVE SUMMARY

■ A simple and disruptive technology to disinfect water in developing countries

Safe drinking water is essential for humans to survive. Yet 1.8 million people worldwide have no or only limited access to this essential source. The solar-powered UV measurement device WADI was developed by HELIOZ in Austria and provides an innovative and simple method to

use the sun to disinfect water, which results in a sustainable and affordable access to safe drinking water. The product is patent-protected and its effectiveness was confirmed by WHO (World Health Organization), with disinfection performance exceeding the harsh threshold of 99.99% in terms of water quality. Using WADI instead of the usual approach of boiling water reduces the carbon footprint. It can be transferred by HELIOZ into carbon credit certificates that customers can acquire for CO₂ mitigation and CSR activities. In addition, HELIOZ distributes WADIs via NGOs, local distribution partners and corporate aid projects. Until today, 15,000 WADIs have been placed in the market in 15 collaborative projects.

FINANCING AND INVESTORS

HELIOZ was successful in securing a first round of financing in December 2018 with EUR 450,000 in the form of a convertible loan from an asset management firm. This initial financing enabled HELIOZ to secure another financing round with EUR 300,000 in the form of equity from a corporate investor and a business angel in 2019.

SOCIAL ENTERPRISE "ROCKYOURCOMPANY"



EXECUTIVE SUMMARY

- Providing in-house mentoring and training for apprentices, young employees and refugees

RockYourCompany! (RYC!) has been conducting in-house mentoring programs and training for young employees, trainees and refugees on behalf of corporate customers since 2015. The program builds on the experience of the non-profit company ROCK YOUR LIFE! (RYL!), which has been offering successful mentoring programs for socio-economically disadvantaged young people for more than 9 years. Because of the commercial potential of the offering for companies, RYC! Aims to transform into an independent, profit-oriented limited liability company.

FINANCING AND INVESTORS

FASE supported RYL! in the spin-off of the limited liability organizational entity and the push towards the development of a scalable company. In the course of the transaction process, the management team of the social enterprise, however, decided to adapt its strategy and to terminate the fundraising process.

SOCIAL ENTERPRISE "ACKERPAUSE" / "ACKERCOMPANY"



EXECUTIVE SUMMARY

- Sowing vegetables, reaping team spirit! Office gardening for a better appreciation of edibles in enterprises

With its office gardening concept, AckerPause brings fresh and unique vegetable experiences to corporates and start-ups. The offer addresses enterprises that wish to cope with today's challenges of fostering healthy nutrition and team spirit in their work environments. AckerPause helps clients to plan and install indoor or outdoor vegetable patches at or around corporate premises while offering the entire scope of services from planning and planting to providing materials and running workshops. AckerPause is a product of the social enterprise Ackerdemia, which to date focuses on educating youth at schools and kindergartens to appreciate and value food by growing and selling their own vegetables. With more than 5 years of practical experience and more than 250 locations in 15 German regions as well as a nation-wide network of gardening experts, Ackerdemia has a clear and sustainable competitive edge.

FINANCING AND INVESTORS

AckerPause (since 2020 offered under the separate legal entity AckerCompany GmbH) was able to secure EUR 400,000 in total with the help of FASE. A first successful closing of EUR 100,000 took place in 2019 and a second closing of EUR 300,000 in 2020, both providing equity to the enterprise. The capital came from several business angels and private investors.

SOCIAL ENTERPRISE "COOLAR"



EXECUTIVE SUMMARY

- The first refrigerator powered by solar heat to supply safe pharmaceuticals in the Global South

Insufficient cooling of life-saving vaccines and pharmaceuticals is an urgent problem for regions with unreliable access to electricity. Precious vaccines are damaged in 75% of all cases, resulting in humanitarian catastrophes and product waste ranging to billions. The innovative cooling system developed by Coolar converts the problem into a solution: heat, source of energy for cooling. Coolar's innovative refrigerators for vaccines will be introduced first where people need them the most: in the Global South.

FINANCING AND INVESTORS

The social enterprise closed an equity financing of EUR 250,000 in 2018, coming from one business angel introduced by FASE.

SOCIAL ENTERPRISE "LILO LAUSCH / STIFTUNG ZUHÖREN"



EXECUTIVE SUMMARY

■ Strengthening children's listening skills

With targeted offers for specific age classes and target groups, the "Stiftung Zuhören", a German foundation, supports and strengthens the important competence of listening and being listened to, which is also closely linked to an attitude of patience, respect and openness. Activities include building media competence, running practice-driven media projects for kids, educating teachers and providing pedagogic material on the subject. The various offers shall enable children to actively listen, express themselves and learn how to use media, to foster a climate of inclusion and intercultural competence, as well as increase mindfulness and children's ability to deal with noise and overstimulation.

INVESTMENT READINESS PACKAGE

Over a period of six months (in the second half of 2018), FASE supported the foundation in developing its business model so the foundation is able to slowly transition from an initial grant- and fundraising-dependent model to a more long-term, sustainable financing approach. In specific, the foundation developed a more realistic financial plan and improved cost-income structures. This business model will now be tested with grant money before an investment round can be pursued.

SOCIAL ENTERPRISE "RHEINFLANKE"



EXECUTIVE SUMMARY

■ Providing sports-based competence training for the youth

Rheinflanke offers programs for the integration of young people into the labor market by providing training to develop core competencies and skills. The proven, scientifically founded concept trains young people on team spirit and social skills, mental and emotional competences of self-management, violence prevention and health improvement, and supports them in the difficult transition phase between school and profession/vocational

training. The program is provided at schools, employers or as part of professional preparation programs.

INVESTMENT READINESS PACKAGE

Over a period of six months (ending in Q1 2019), FASE worked intensively with Rheinflanke on developing a hybrid business model and new ideas to create additional income sources, with the goal to establish a sustainable business and impact model. This hybrid business model will now be tested with grant money before an investment round can be pursued.

SOCIAL ENTERPRISE "ONE WEEK EXPERIENCE"



EXECUTIVE SUMMARY

- Using one week trial experiences to address the shortage of skilled workers and the high number of early terminated vocational trainings

One Week Experience (OWE) gives prospective vocational trainees concrete insights into everyday workflows and thus enables them to make informed career decisions. During an "experience", young people familiarize with their future jobs, employers and vocational schools. An experienced trainee accompanies a prospective applicant for one week and gives valuable, practice-driven insights into everyday workflows and training situations. By providing these experience weeks, OWE addresses the problem of an increasing shortage of skilled workers and a high rate of vocational training drop-outs in a simple and effective way. At the same time, OWE helps companies to better engage young people and find motivated trainees.

FINANCING AND INVESTORS

Although FASE supported the social enterprise throughout the entire transaction process in 2019, the social enterprise ran into early liquidity problems and had to file for insolvency before the financing round could be successfully completed.

SOCIAL ENTERPRISE "HYHELP"



EXECUTIVE SUMMARY

- Leading technology preventing infections in hospitals

Inadequate hospital hygiene entails significant health risks for patients: In Germany alone, every 20th patient suffers a hospital infection, which translates to up to 1 million cases per year. Appropriate hand disinfection could eliminate up to 40% of hospital infections. This is where "HyHelper" comes into play: The device is clipped onto the shirt of doctors and nurses

and automatically detects performed hand disinfections throughout the day, triggering a green light. This way, hospital staff receives important personal feedback to induce behavioral change. For hospitals and clinics applying the solution, hand disinfection rates could be increased by an average of more than 50%, resulting in a significant reduction in the rate of hospital infections.

FINANCING AND INVESTORS

During the transaction support provided by FASE, the social enterprise ran into severe liquidity problems, which unfortunately led to insolvency and prevented the planned financing round from materializing.

SOCIAL ENTERPRISE "TALENTIFY"

talentify®

EXECUTIVE SUMMARY

- Equal opportunities for young people through online peer-to-peer learning and professional orientation support

With talentify, the Austrian social enterprise talentify GmbH has developed an integrated concept to empower young people in building their talents, strengths and professional journeys – independent from socio-economic background. The offering aims to improve the youth's prospects for life and establish equal opportunities with respect to an often "inherited" education status. The first pillar, talentify.me, builds on an online network for peer-to-peer learning among students across many schools in Austria. The second pillar strengthens future competences such as creativity, social skills, responsibility and self-confidence with innovative online and offline elements provided by talentify.academy. The third pillar, the corporate platform talentify.works, supports young people with the help of a digital job orientation program to establish contact to suitable companies.

FINANCING AND INVESTORS

At the time of the completion of this EU project report, the Austrian social enterprise was in the final stages of closing a round of EUR 150,000 in total with three business angels and a public co-investment scheme in the form of a convertible loan.

SOCIAL ENTERPRISE "LAKA"



EXECUTIVE SUMMARY

■ Converting 'green desert lawns' to eco-friendly city meadows in public spaces

Poland has 100,000 hectares of municipal lawns across the country. These lawns act as 'green deserts', leading to the loss of habitat for pollinators and a vanishing biodiversity. In addition, pesticides used for lawn care kill weeds, bees and other insects. Lawn mowing also plays a big role in air-pollution. According to research, there has been a more than 75 percent decline over 27 years in total flying insect biomass. This negative trend breaks the food chain, affecting all species, including humans and their food production system. Laka creates unique seed packages with patented coating for various kinds of meadows and an end-to-end service process of installing and managing them for municipal clients. The social enterprise helps municipalities switch from lawns to flower meadows, helping reduce air pollution and restore natural, biodiverse habitats.

FINANCING AND INVESTORS

With support from FASE, the Polish social enterprise managed to close a first financing round of EUR 220,000 in 2020, coming from an institutional fund investor specialized in agricultural technology. The investment was an equity investment combined with a subordinated loan and blended with a public grant.

SOCIAL ENTERPRISE "OTSIMO"



EXECUTIVE SUMMARY

■ Democratizing access to special therapy through game-based apps for kids with special needs

In the US alone, the CDC identifies one in 59 children as diagnosed on the autism spectrum disorder (ASD). In 2010, the US Department of Education found that as many as 15 to 20 percent of Americans are affected by other learning disabilities or disorders. With such alarming rates and the fact that the cost of treatment for early age intervention and development can be as high US\$ 60,000 per year to support someone diagnosed with ASD, accessibility for treatment and therapy for all is an urgency. Otsimo is special education platform for children with special needs. It includes two apps, Special Education and Speech Therapy. Special Education is teaching core skills vital to cognitive and behavioral development. Speech Therapy is teaching early speech via a voice-controlled, video modeling-based language, and speech therapy app. Otsimo's educational apps incorporate

scientific therapy methods to develop and sharpen core competencies at an early age. Otsimo is a Turkish social enterprise.

FINANCING AND INVESTORS

Due to continued health issues of one key member of the social enterprise's management team, the transaction process with FASE had to be terminated prematurely. Therefore, no investment could be closed to date.

SOCIAL ENTERPRISE "GERERE"



EXECUTIVE SUMMARY

- Boosting customer engagement with mission-driven organizations with digital applications and games

Mission-driven organizations are losing the battle for customer digital engagement. As a result, they are wasting scarce resources creating poor digital products that fail to address the real, practical, emotional and motivational needs of people and to mobilize them for good social causes. To resolve this significant challenge, Gerere works directly with purpose-driven organizations on a wide range of services, including short gamification workshops, design sprints as well as full program/campaign design and implementation.

FINANCING AND INVESTORS

As of the time of the completion of this EU project report, the Polish social enterprise Gerere continues to be in the process of receiving transaction support, with the goal of raising EUR 250,000 from investors within FASE's network.

SOCIAL ENTERPRISE "HEALTHY ENTREPRENEURS"



EXECUTIVE SUMMARY

- Building an efficient last-mile distribution system for basic health services in Sub-Saharan Africa

Healthy Entrepreneurs (HE) thousands of rural community health workers in a sustainable business that allows them to improve access to health information and products in their communities while generating income for themselves and their families. Today, more than 600 million people in Sub-Saharan Africa are living without basic health knowledge and products. Through HE, community health workers are recruited and trained to provide vital

health information, products and medicines to families in their communities. These 'community health entrepreneurs' ('CHE's) are backed by a highly professional supply chain that ensures their ability to regularly deliver high-quality and affordable products to their customers at the last mile. Through HE's support, CHEs are empowered to substantially increase their skills, income and impact. To date, there are more than 4,000 active CHEs who serve around 1.2 million families in 5 African countries.

FINANCING AND INVESTORS

With support from FASE, the Dutch social enterprise HE successfully raised EUR 500,000 in impact investments in the form of mezzanine capital from several social business angels and the trust arm of a German ethical bank. This investment was leveraged by additional capital in the form of a senior loan of EUR 900,000 provided by a Dutch public bank as well as by one major grant from the Dutch postcode lottery of around EUR 1 million.

SOCIAL ENTERPRISE "ITTASZEZON"



EXECUTIVE SUMMARY

■ Empowering local, small-scale food providers

IttaSzezon is a Hungarian social business connecting small-scale producers and urban health-conscious customers. The company's online platform takes care of the ordering process, online payments and reviews. Since its start, IttaSzezon has organized over 200 pop-up fairs where the nearly 10000 registered customers purchase locally produced, fresh produce that is in season. Additionally, IttaSzezon also works on the development of the capacities of its 80+ small-scale producers in the form of webinars, ongoing consulting and an online peer community.

FINANCING AND INVESTORS

At the time of completion of this EU project report, the transaction support for the Hungarian social enterprise is still in an early stage of the process, with the aim to raise growth capital of EUR 450,000 from impact investors.

SOCIAL ENTERPRISE “CONFLICT FOOD”



EXECUTIVE SUMMARY

■ Fair and direct trading of local delicacies from conflict regions

Conflictfood sources unique agricultural products directly from conflict regions avoided by other distributors. By using this novel approach, the enterprise effectively addresses the root causes of poverty and migration. Local delicacies are bought directly from conflict regions and traded via the enterprise’s online platform as well as via retailers and partner networks. Active campaigning supports the model and raises awareness for the culture, culinary wealth and sources of conflict in the relevant countries. Currently, Conflictfood imports saffron from Afghanistan, tea from Myanmar and Freekeh (green wheat) from Palestine and delivers these products to customers in high-quality packages.

FINANCING AND INVESTORS

At the time of completion of this EU project report, the transaction support for the German social enterprise is still in an early stage of the process, with the objective to raise growth capital of EUR 450,000 from impact investors.

The following two social enterprises received support from FASE with respect to implementing a **Social Impact Bond (SIB)**¹⁵ (also called “Pay-for-Success”) type of transaction.

SOCIAL ENTERPRISE “PAPILIO”



EXECUTIVE SUMMARY

■ Increasing children’s socio-emotional capabilities and preventing behavioral problems

The German social enterprise Papilio e.V. developed a prevention program for kindergartens that reduces children’s behavioral problems and increases socio-emotional capabilities. Papilio’s program strongly contributes to the prevention of drug abuse and violence, an impact that has been scientifically verified. A study run in Augsburg, Germany (“Augsburger Längsschnittstudie”, ALEPP) demonstrated that children participating in Papilio’s program have significantly higher socio-emotional competences and are able to substantially reduce behavioral problems. Thereby, risk factors for children in kindergartens

¹⁵ Such Social Impact Bond type of structures have been highlighted and explained in detail in: FASE (2018): “Report on Financial Instruments Used to Provide Public Services in Germany: Recommendations for a successful model to be launched in Poland”, https://fa-se.de/static/fa_se_de/uploads/2018/07/TRUST-BON-Report-on-Financing-Instruments-to-Provide-Public-Services-FASE-2017-vfinal.pdf?x47903

- such as retreat or aggressive dissocial behaviors –become less prevalent, while prosocial behavior and feelings of safety are strengthened. As a result, the public sector experiences mid-and long-term savings on social follow-on costs due to a decrease in drug abuse and violence. Yet at the same time, there is a lack of financing to further roll out Papilio's compelling solution and scale its impact.

FINANCING AND INVESTORS

To address this challenge, FASE developed a financing model featuring a pay-for-success logic, which will enable Papilio to further scale its solution across Germany: An impact investor pre-finances the cost for Papilio to roll out its program in a specific geographical region. In return, the investor receives capital repayments and a moderate return once the social impact has been verified (i.e. the at-risk groups were decreased). In the first pilot, this rollout cost shall be borne by a private philanthropist or a foundation, who will act as an "outcome payer". Once the solution scales across Germany, public authorities should be in a position to step in and bear the cost by implementing a Social Impact Bond structure. The incentive for the public sector is that once the effectiveness of the solution is proven in practice, there are large potential savings in social spending to be achieved.

As of the completion date of this report, the German social enterprise is still looking for an outcome payer and is in ongoing discussion with several municipalities. Initial discussions with health insurances as potential outcome payers proved to be unsuccessful. An impact investor has made a soft commitment for the corresponding impact investment.

The following graph briefly illustrates again the basic model that FASE designed for Papilio:

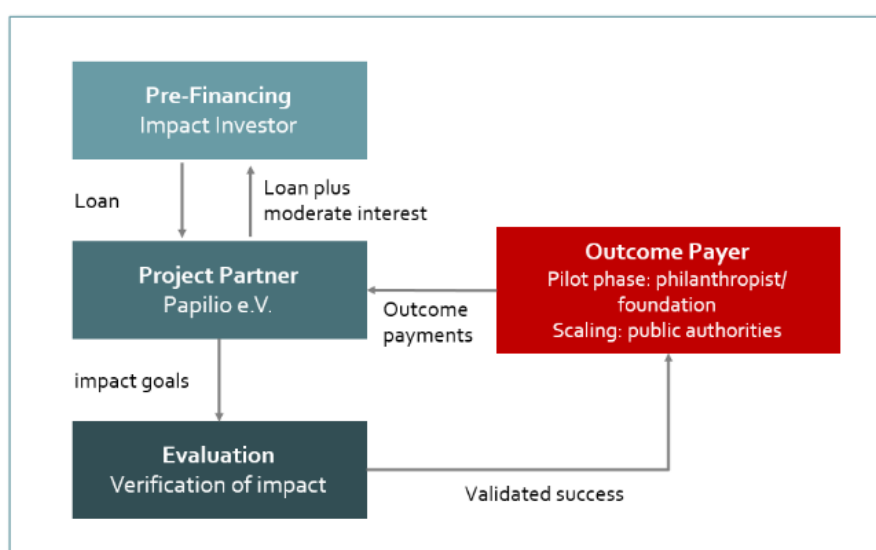


Chart 13: "Pay-for-results-based financing model for Papilio" / Source: FASE

SOCIAL ENTERPRISE "CHANCENWERK"

EXECUTIVE SUMMARY

■ Providing equal educational opportunities for disadvantaged youth

Chancenwerk e.V. is a non-profit organization that advocates equal educational opportunities in its partner schools across Germany. With its learning support, Chancenwerk supports children and adolescents in their educational and personal development. The core of the concept is a learning cascade, which is based on the principle of give and take: the enterprise trusts young people to support a group of children in their school tasks. The young people themselves receive free study aid from students in a subject of their choice. The pupils and the students are professionally prepared for their new role and continuously supported. Through the exchange of time and knowledge, the system is designed to be accessible to all students whose families cannot support their learning for financial, time or linguistic reasons. Initial scientific evaluations have demonstrated that children participating in Chancenwerk's programs could significantly increase their chances to secure vocational training or university education opportunities. On the long run, this will lead to substantial savings for governmental bodies due to reduced unemployment payments. To further build Chancenwerk's solution and scale it nation-wide - beyond current deployments in several German cities and cooperating schools -, the enterprise is in need of additional financing.

FINANCING AND INVESTORS

As of the completion date of this report, initial talks with the German municipalities Offenbach and Wiesbaden are still ongoing to determine whether there is sufficient interest to pilot a pay-for-results model in their respective areas. However, the availability of the outcome payer seems to be the major bottleneck for the implementation of such a model.

6. ACTIVITY 5: KNOWLEDGE DISSEMINATION

I. SOCIAL FINANCE EVENTS

■ SOCIAL FINANCE EVENINGS

To disseminate knowledge and expand the outreach to potential impact investors, FASE continued to build on its series of **social finance evenings** which enable first-hand experiences with social enterprises in a relaxed atmosphere. During the project period, 8 events of this kind took place to expand FASE's reach. Due to recent COVID-19 restrictions in 2020, FASE had to cancel or move these activities online.

The following is a short summary of the social finance evenings, locations and attendees:

- **June 28, 2018, Stuttgart:** Social Finance Evening in cooperation with Martina Merz / social enterprises presenting: Helioz and JobKraftwerk / 18 attendees
- **October 11, 2018, Cologne:** Social Finance Evening in cooperation with Rotonda Business Club / social enterprises presenting: Rock Your Company!, Sea Ranger Service, Bettermarks and AckerPause / 20 attendees
- **February 5, 2019, Stuttgart:** Social Finance Evening organized in cooperation with BBUG (Martina Merz) / social enterprise presenting: Social-Bee / 25 attendees
- **February 18, 2019, Munich:** Social Finance Evening / social enterprises presenting: Bettermarks and HyHelp / 17 attendees
- **March 19, 2019, Hamburg:** Social Finance Evening / social enterprises presenting: Bettermarks, HyHelp and Sea Ranger Service / 13 attendees
- **September 17, 2019, Salzburg:** Social Finance Evening in cooperation with Alpenbank / social enterprises presenting: Talentify, Wegatech and SV Brigantes / 23 attendees
- **October 9, 2019, Dusseldorf:** Social Finance Evening / social enterprises presenting: Bettermarks and aQysta / 15 attendees
- **November 20, 2019, Mannheim:** Social Finance Evening in cooperation with Bank Julius Bär / social enterprises presenting: Bettermarks, Bürgerwerke and ActiveKid / 17 attendees



■ WEB LOUNGES AND ONLINE HANGOUTS

In addition, FASE introduced the new format of **web lounges and online impact investor hangouts** to educate potential investors about the do's and don'ts of impact investing in an insightful, investor-only format that was enriched with practical insights from experienced social entrepreneurs or impact investors. Within the project period, 10 web lounges and impact investor hangouts (split between German and English speaking hangouts) have been organized by our investor relations professionals. In total, more than 200 potential investors attended these online events.

■ CONFERENCES, SECTOR EVENTS AND PANELS

In terms of the important opportunity to share knowledge on **conferences, workshops, sector events and panels**, FASE participated in more than 80 events of this kind during the project period between June 2018 and May 2020. Some highlights include: Family Office Forum Wiesbaden, EVPA conference Warsaw and EVPA conference in The Hague, CEE Impact Days Vienna, Hungarian Impact Day Budapest, EBAN Summit Luxembourg, UN Summit Geneva, Annual Conference German Foundations, EVPA conference public-private partnerships Brussels, EVPA C-Summit in Munich, GLS Mission Investing Forum Bochum, EWEC conference Geneva, ChangeNOW summit in Paris, Digital Social Summit in Berlin, Ashoka Fellow meeting in Paretz, German Business Angel Days, and many more. Due to recent COVID-19 restrictions, however, many planned events had to be cancelled, delayed or were moved to online events since March 2020.

■ RESULTS

These activities - combined with countless one-on-one interactions with potential investors, partners and multipliers -, have substantially increased our impact investor base from around 800 in 2018 (split into 53% institutional investors, 32% private individuals and 15% multipliers)¹⁶ to more than 1,500 as of May 2020. Without taking multipliers into account, **our current network consist of 1,050 investors of various activity levels and types** (s. charts on the following page). In addition, **the pipeline of social enterprises has grown by approximately 300 new candidates** within the project period (counting only those social enterprises having initial or advanced discussions about a mandate with our FASE team members).

The following two charts illustrate the breakdown of FASE's impact investor network by investor type and activity level as of the due date of this report. Due to the substantial expansion of the FASE investor network and the gradual build-up of closer relations and investor activities, there may be some contacts that need to be more thoroughly categorized yet.

¹⁶ For more details about the 2018 status, please refer to our [FASE Impact Report 2018](#).

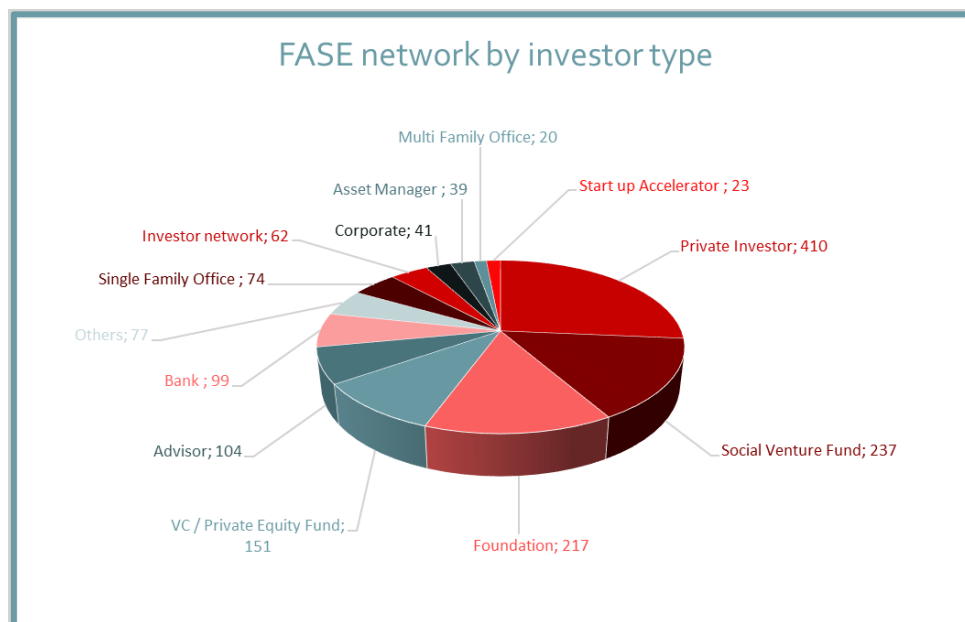


Chart 14: "FASE impact investor network by investor type" (Source: FASE / n=1554)

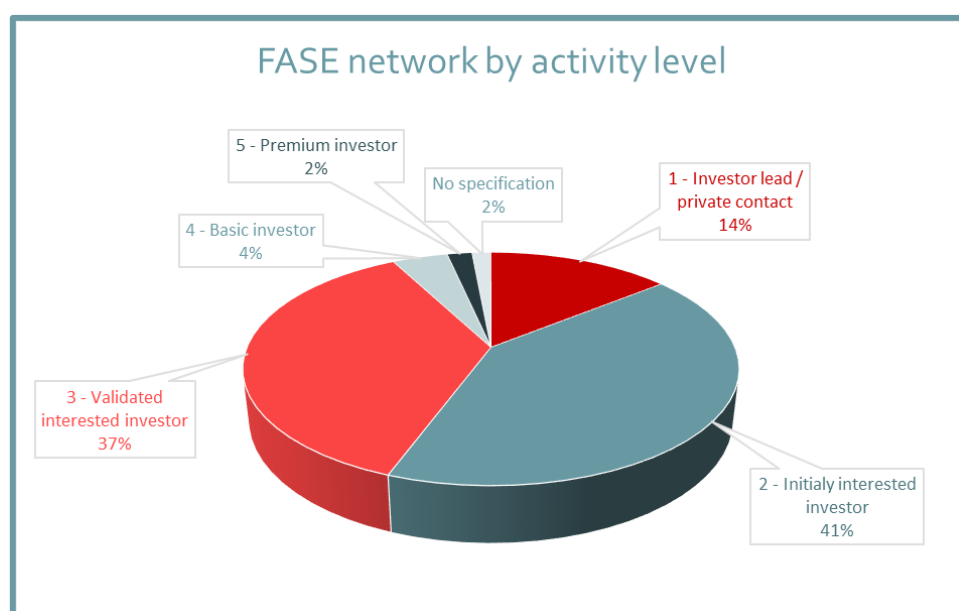


Chart 15: "FASE impact investor network by activity level" (Source: FASE / n=1554)

II. PUBLICATIONS

FASE has continued to be an active and passionate advocate of knowledge dissemination with **close to 80 publications on social finance** to date.

Within the project period, **15 new contributions** were submitted and published. Most prominently, FASE contributed to compendiums and publications by OECD, EVPA, and the European Commission during that time. We also wrote insightful pieces for sector-relevant media such as Alliance, Impact Magazin, Venture Capital Magazin, and Die STIFTUNG, as well as for bank-owned client magazines such as Bethmann Bank and BW Bank. Several

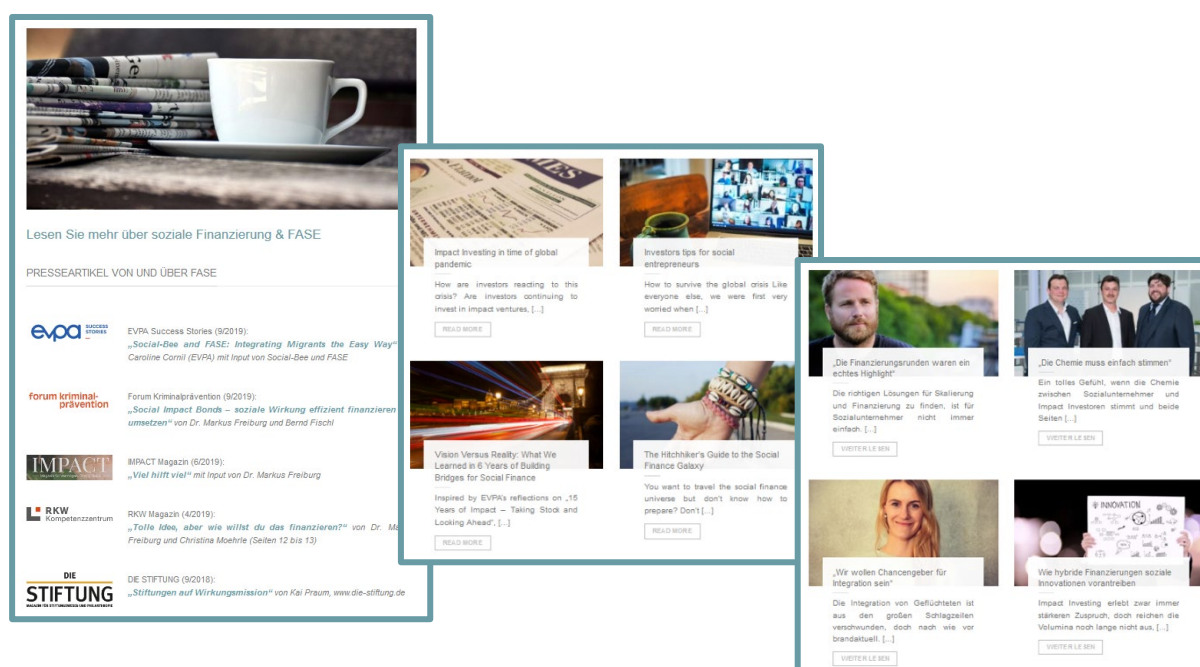
interviews, - both led by FASE with social entrepreneurs as well as those requested by major media such as Frankfurter Allgemeine Sonntagszeitung with FASE team members, - added to a continuous dissemination of concrete examples and best practices about how to create lasting impact by supporting and investing in early-stage social enterprises.

Another important possibility to spread knowledge and blueprints for replication are FASE's **case studies on closed transactions**. They specifically highlight hybrid solutions and include all relevant details of a transaction, providing potential investors and interested social entrepreneurs with practical insights into how a deal can be successfully orchestrated and closed. Until today, 12 case studies have been prepared and published: *Billy*, *Sign Time*, *Ackerdemia*, *Discovering Hands*, *von Unruh & Team*, *DORV*, *SchulePLUS*, *Gründer 50plus*, *DisAbility Performance*, *Rock Your Company!*, *Schmökerkisten* and *bettervest*. On top of presenting the social enterprise, its business model, market and impact, all case studies specifically focus on the individual hybrid financing packages and the (types of) investors that supported the deal. These case studies can be found here: <https://fa-se.de/en/category/case-studies/>

The **entire list of main publications** can be found in Annex 4 to this report. Alternatively, all articles and publications are available on our website under: <https://fa-se.de/en/press-links/>

Our **interviews with social entrepreneurs** as well as targeted blogposts on social finance and impact investing trends can be found here:

- English interviews and blogposts: <https://fa-se.de/en/blog-posts/>
- German interviews and blogposts: <https://fa-se.de/blog-posts/>



IV. KEY INSIGHTS AND LEARNINGS

1. MAJOR PROJECT RESULTS

The objective of the action was to build an open, pan-European pipeline of investment-ready, early-stage social enterprises with customized deal-by-deal support. The overall results can be summarized as follows:

- (4) We successfully addressed the mismatch of needed and sustainable ticket sizes for early-stage social enterprises. **Additionality came from mobilizing smaller risk-capital investments of below EUR 500,000 that otherwise would not be feasible due to disproportionately high transaction cost.** In specific, FASE extended its scope of deal-by-deal transaction support to additional European regions and substantially improved penetration of these services in existing core markets. Altogether, we were able to establish customized deal-by-deal support in the German, Austrian, Benelux and CEE markets by combining different types of donors and investors and integrating a range of suitable financing instruments.
- (5) The action demonstrated the feasibility and benefits of an orchestrated approach to providing social finance by different types of donors, investors and public authorities, and integrating a range of financial instruments into fine-tuned packages. While this approach had been successfully tested with multiple cases before, it was now deepened in Germany and Austria and expanded to additional European regions. **We succeeded in starting activities in Netherlands, Luxemburg, Hungary and Poland by setting up regional teams, building a network of investors and establishing connections to other players in the respective ecosystems. We also screened more than 300 investment-ready social enterprises in Germany, Austria, Benelux and CEE and supported more than 20 social enterprises in raising hybrid growth capital.** Ten of these enterprises successfully completed their financing rounds by the end of this project, while two needed to end their fundraisings prematurely due to a lack of investor interest and another two due to changes of strategy. In three cases, the financing rounds are still ongoing and are expected to be completed after the official end of this project. In two cases, we developed pay-for-success models and discussed these with different impact investors as well as outcome payers. Two social enterprises received targeted investment readiness support to develop their business models and test these with grant money before pursuing an investment round. In addition, we supported more than 10 social enterprises that were not yet investment-ready or hesitant to start raising rounds (e.g. due to lack of commitment, management expertise or too many operational challenges to cope with).
- (6) The action mobilized and committed additional investors, donors, banks, crowd-investors or public authorities from different European countries to co-operate in specific hybrid financing packages. **We were able to extend our investor network from our core markets Germany and Austria to further European countries by adding >700 new impact investors.** We were successful in matching different types of investors with individual social enterprises and actively supported these enterprises in raising hybrid growth capital. **In total, more than EUR 5 million in investment capital were mobilized towards early-stage investees** (including complementary grants and co-

investments). An important insight we gained is that impact investors still prefer to pursue investment targets in their home countries. Yet we also observed an increasing appetite for cross-border deals into social enterprises. Furthermore, we were able to advance the launch of a new, innovative co-investment fund called “**European Social Innovation and Impact Fund (ESIIF)**” with a target size of EUR 20 million. The ESIIF will complement our deal-by-deal support by mobilizing additional investment capital for the benefit of early-stage social enterprises. As of today, it is fully designed, legally set-up and has secured a guarantee agreement with the EIF under EaSI in Germany.

Altogether, the action served to effectively lower transaction cost for small financing rounds and to actively support the development of a pan-European social finance market (“Single European Market of Social Innovation”). It generated effective demand among social enterprises for social finance, encouraged more social enterprises to take on repayable finance and helped to boost the supply of social finance in general. Thereby, the action contributed to the overall objective to test a transaction cost support scheme in the form of a grant, to be combined with financial instruments as a means to address the mismatch of needed and sustainable ticket sizes. To achieve this mission would not have been feasible without the funding support from the EU.

2. KEY LEARNINGS

As compared to the experiences that FASE made during the early stages of rolling out deal-by-deal support in Germany, there were similar challenges and useful lessons when expanding our regional scope for small transactions in new regions:

■ LEARNINGS ON REGIONAL SOCIAL FINANCE ECOSYSTEMS

- **Engagement level:** It takes a lot of time and active effort to develop a functioning market for social finance. For example, while the Netherlands have a good basis of social enterprises and longer-term impact investors, the ecosystems in Belgium and Luxemburg are much less developed. Austria and many CEE countries have only a small impact scene with often very early-stage social enterprises where raising growth capital is not suitable or not yet required.
- **Intermediary role:** Intermediaries who link potential investors and donors on the supply side with social enterprises on the demand side are one of the critical success factors. Therefore, FASE can play a critical role here.
- **Existing barriers:** parallel to the German social finance market, there are significant barriers between the mental models of philanthropists and those of impact investors. Therefore, social enterprises that provide a return potential in the range of -50% and +5% p.a. tend to be too commercial for philanthropists and too social and financially unattractive for the majority of impact investors.
- **Strategic financing gap:** Transaction costs are disproportionately high when social enterprises raise financings in the amounts of EUR 100 000 to EUR 500 000. Therefore, more and more institutional impact investors are moving towards later-stage investments, not only in Germany. As a consequence, the strategic financing gap for

early-stage social enterprises threatens to become wider, which is why FASE can make a substantial difference with its services and investor network building activities, once established.

- **Investor appetite:** A pure market-based solution for financing early-stage social enterprises seems to be impossible at the current stage of the regional social finance markets. Most impact investors do not sufficiently 'value' the positive external effects that these social enterprises create. The vast majority of investors continue to target financial returns at or even above market rates (J.P. Morgan, GIIN, 2018). Thus, public and philanthropic money will remain a key element in supplying early-stage social enterprises with sufficient capital to survive and thrive.
- **Investment readiness of social enterprises:** Although we see a growing interest of founders in the concept of social entrepreneurship, the investment readiness of social enterprises often remains a challenge. The business and impact models are often too weak or don't have sufficient prove of concept to attract impact investor. Additionally, management teams are sometimes lacking the competences and skills that investors require. Thus, a functioning ecosystem needs to ensure sufficient capacity building and investment readiness support for these social enterprises in order to provide a large enough pipeline of high-qualified social enterprises.

■ LEARNINGS ON CUSTOMIZED DEAL-BY-DEAL SUPPORT

In addition, there are important insights about the deal-by-deal matching approach of FASE. The main conclusions to date are as follows:

- **Sustainability:** It is very challenging for financial intermediaries in area of early-stage social finance to develop an economically sustainable business model. Transaction costs for smaller deals continue to be high. Many early-stage social enterprises also struggle to pay for external services, no matter how reasonable they may be. Thus, intermediaries – at least in the first years of their activities - will need public or philanthropic money in addition to proprietary earned income in order to cover their costs.
- **Effectiveness:** Although matching investors and social enterprises on a deal-by-deal basis is time-consuming, it is also a very effective approach. First, the most suitable combination of investors happens. Second, each investor coalition can be customized to the specific needs of the individual social enterprise. Third, it is much easier to meet the specific investment preferences that many impact investors have, for example with respect to impact sectors.
- **Investor coalitions:** A deal-by-deal approach allows impact investors from different financing 'planets' to invest in the same social enterprise. In most cases, FASE has built coalitions of two to four different types of investors. Meanwhile, we have seen a wide range of combinations, e.g. a social venture fund paired with a public co-investment fund, a business angel joined by a foundation, business angels with institutional investors, a coalition of crowd investors, business angels and an ethical bank.

- **Risk-return profiles:** The financial risk and return profile of a deal depends much on the individual social enterprise. FASE typically supports rather high-risk, early-stage social enterprises. Therefore, financial returns range mostly well below risk-adjusted market rate returns. There may be exceptions to the rule when it comes to follow-on financing rounds with more mature social enterprises that FASE already supported in their first transactions.
- **Financial instruments:** In terms of financial instruments, it is key to use a customized approach. The specific requirements of the individual social enterprise have to be met, which is why FASE continues to design and suggest financing models that are based on quasi-equity for hybrid organizations (e.g. mezzanine) and on straight equity for pure for-profit business models. These basic elements can be combined with grants, loans, guarantees or co-investments. Additional features are incentives for verified social impact achieved or profit/ revenue participation agreements.
- **Impact vs. return:** Another learning highlights the ratio between social impact and financial return that impact investors expect. Although this depends much on the individual investor, FASE continues to observe three different types of attitudes in the pilot regions: (i) impact only investors (typically grants), (ii) investors for impact (impact first, reduced return expectations), and (iii) investors with impact (finance first, near or at market-rate return goals). Similar to the German region, most investors that FASE is working with are impact-first impact investors: these investors primarily support the social mission of the enterprise and expect to see a sustainable business model that can at least return capital and ideally provide for a low, single-digit interest rate.
- **Process management:** When preparing a transaction, we continue to experience that a strict process management is an absolute must. A financial intermediary has to keep pressure on both, the social entrepreneurs and the impact investors to successfully support the closing of a round. At the same time, this is one of the major benefit to a social enterprise when hiring an intermediary such as FASE: as compared to raising the money all by itself, the entire process becomes more efficient, reliable and timesaving.

■ FINDINGS ON THE EUROPEAN-WIDE ROLL-OUT

In addition, there are important findings about the European roll-out of our customized deal-by-deal support. The main learnings to date are as follows:

- **Appropriate roll-out models:** For each individual European region, the appropriate roll-out model needs to be chosen carefully based on market size, market structure, market history and existing ecosystem. While some regions can be covered out of FASE Germany, other regions will require the set-up of a dedicated regional team.
- **Complexity:** The expansion of customized deal-by-deal support to further European regions brings a high level of complexity due to multiple jurisdictions. In specific, increasing the share of cross-border transactions substantially increases the efforts

and expenses due to several parties involved, often with the social enterprise, the impact investors and FASE as an intermediary coming from very different member states. The involvement of up to 27 different jurisdictions across Europe and the resulting transaction costs due to different regulatory, legal and tax systems remain an economic challenge for small social enterprises with limited resources.

- **Sustainability and critical mass:** It is very challenging for financial intermediaries in the area of early-stage social finance to develop an economically sustainable business model. Transaction costs for smaller deals continue to be high. Many early-stage social enterprises also struggle to pay for external services, no matter how reasonable they may be. While this is already a challenge for more mature markets like Germany, it is even more challenging when entering smaller and/or less developed ecosystems. Thus, intermediaries - at least in the first years of their activities - will need public or philanthropic monies on top of proprietary earned income to cover costs.
- **Regional management teams:** To enable a successful expansion of transaction support to more European regions, the identification and involvement of highly motivated, competent and regionally well-connected management teams are key success factors. Without a deep regional expertise it will be very difficult to attract the most promising social enterprises as well as secure sufficient suitable impact investors.



"Altogether, there was a wealth of findings and lessons that came with the implementation of this project. While we have defined strategies, models and tools to address each hurdle that we have encountered in the process, we also hope for more initiatives to come up and make use of our experiences, so that we can co-create an efficient social finance ecosystem within Europe."

Dr. Markus Freiburg, Founder & Managing Director FASE

OPEN ANNEX

ANNEX 1: HYBRID FINANCING MODELS

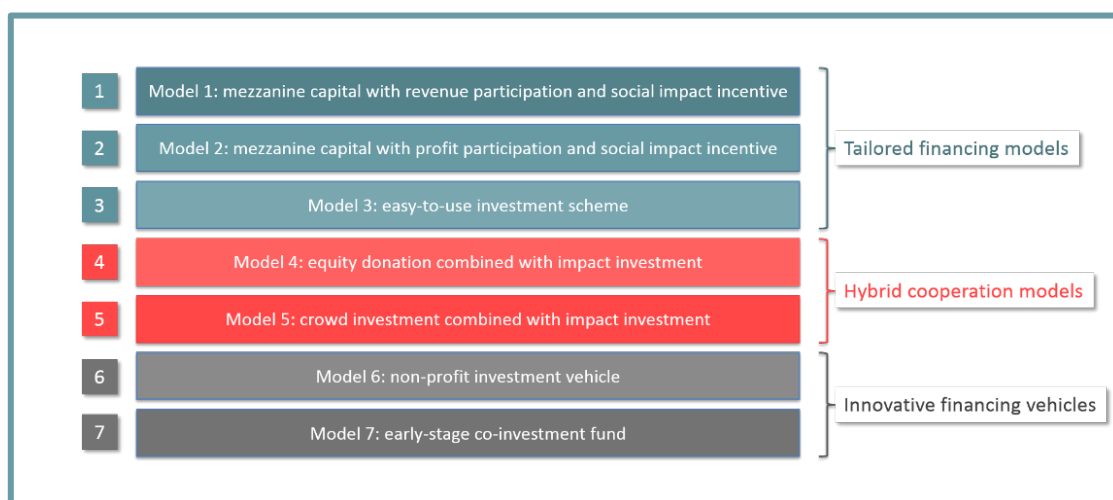


Chart 4: "Hybrid financing models developed by FASE" / Source: FASE

■ MODEL (1): MEZZANINE CAPITAL WITH REVENUE PARTICIPATION AND SOCIAL IMPACT INCENTIVE:

In this model, the mezzanine capital is designed without loss participation but it features a fixed interest rate coupled with a revenue share. The basic intention is to define a target return for the investor while capping the revenue share amount in the beginning. This enables the social enterprise to develop its business without initially paying too much for the freshly raised capital. One mechanism to achieve this goal is to define a cap on the revenue share. In the end, investors are entitled to catch up on their claims so that their target return is finally achieved.

■ MODEL (2): MEZZANINE CAPITAL WITH PROFIT PARTICIPATION AND SOCIAL IMPACT INCENTIVE:

This second model principally follows the same structure as the first. But this time, it uses a profit participation mechanism instead of a link to the social enterprise's revenue streams. A fixed interest rate is combined with a share in the enterprise's profit (EBIT). Similar to model number one, there is a social impact incentive embedded in the model: It comes in the form of a one-time final payment that is dependent on the level of social impact that the enterprise generates. To avoid any misinterpretations, this impact goal should be defined as precisely as possible.

■ MODEL (3): EASY-TO-USE INVESTMENT SCHEME:

This third model is a simplified version of a mezzanine capital investment. Based on the experiences that FASE had with potential investors, it became obvious that many financial supporters have difficulties to understand complex direct investments. Therefore, a simplified and highly standardized model allows them to gain insights into the nature of a typical deal process: the "flight-booking scheme". Investors are guided through a virtual transaction as easily as if booking a flight on the Internet.

■ MODEL (4): EQUITY DONATION COMBINED WITH IMPACT INVESTMENT:

Model number four combines philanthropic funders with investors: A foundation, a philanthropist or a group of private donors contribute a part of the overall financing by making a donation to the non-profit entity of a hybrid social enterprise. This donation then increases the non-profit's capital stock and enables it to hand over capital to the second entity, a fully owned for-profit subsidiary. This step opens up even more funding opportunities: To further support the financing of the for-profit arm, impact investors can now inject additional growth capital. This is typically done in the form of quasi-equity. Again, this impact investing part is very flexible and can come with features such as revenue or profit participation.

■ MODEL (5): CROWD INVESTMENT COMBINED WITH IMPACT INVESTMENT:

In this co-operation model, the financing of the hybrid social enterprise is split between a crowd investment and an impact investment. The crowdfunding is very beneficial as it is highly flexible: The crowd can either finance the non-profit entity via donations or support the for-profit organization with investments. The impact investment part, again, is meant for the for-profit entity. It can be structured with the typical features and rights as previously described in models one, two and four.

■ MODEL (6): NON-PROFIT INVESTMENT VEHICLE:

This vehicle is specifically designed to channel donations into the social finance market and to engage a larger number of foundations. So far, German foundations are not allowed to use donations and grants in a tax-efficient way to support social enterprises structured as for-profit entities. The same applies to grants or donations as a way of providing direct guarantees or repayable forms of capital to social enterprises. A non-profit vehicle, however, is able to make use of this important and substantial funding source: It is able to comply with the existing legal, tax and regulatory frameworks and thus to overcome an important hurdle. It also gives foundations a care-free service.

■ MODEL (7): EARLY-STAGE CO-INVESTMENT FUND:

This is another vehicle addressing systematic market failures: how to secure more financing for early-stage social enterprises. The main idea is to offer impact investors access to a diversified portfolio of early-stage deals. The fund will be linked to FASE's open pipeline of investment opportunities in social enterprises and will co-invest at the identical terms and conditions defined by the respective lead investors ('pari passu'). To make the fund economics more attractive, the vehicle will be passively managed, with fund administration performed by an experienced partner. In addition, the fund will apply for a newly established EU guarantee program ('EaSI'), which offers the potential to further improve the risk-return profile for investors. As of report date, this FASE project was successfully implemented and is in the stage of marketing under the name of "European Social Innovation and Impact Fund (ESIIF)" (see Section III).

ANNEX 2: TRANSACTION SUPPORT

One of the key success factors of **transaction support and management** is to ensure a lean and transparent process. It has to be reliable, well-structured and efficient, for both social enterprise and potential investors in order to build trust. All participants need to know that they will enjoy savings in time, money and hassle by engaging with an experienced financial intermediary. FASE has taken an active role in ensuring this. The process typically spans from initial discussions to the successful closing of a transaction. Often, it also involves support to fill in the last missing pieces of investment readiness.

To illustrate the typical phases of a transaction process, the following overview gives a summary of the main tasks of FASE and the social enterprise itself. Yet even in a perfect setting, approximately 6 months usually pass until the financing amount finally arrives in the social enterprise's bank account:

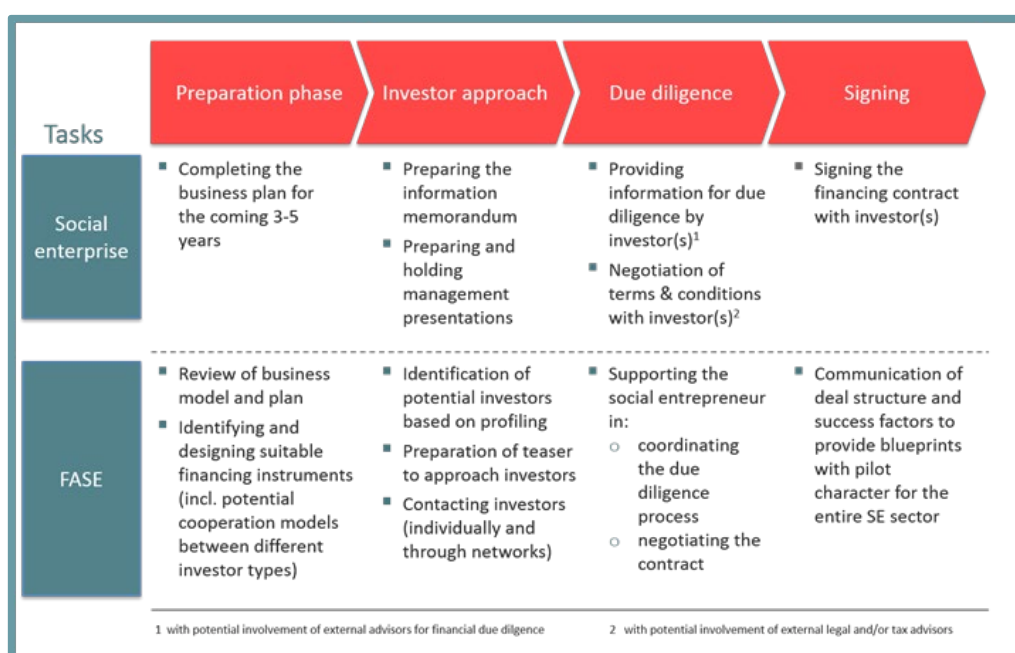


Chart 11: "Overview of FASE's transaction support task" / Source: FASE

The main support that FASE provides in each of the individual phases can be briefly described as follows:

■ PHASE 1 "PREPARATION":

In this initial phase, FASE screens the social enterprise and its documents provided (e.g. executive summary, pitch deck, financial projections) and makes an assessment if the transaction promises to be feasible, based on previous experiences and the preferences of the impact investors within FASE's network. Then, if the mandate is signed, business plan and financial projections are analyzed and challenged, followed by the identification of the most suitable financing model that is tailored to the social enterprise's needs and ideally supports its financial plan. While doing so, FASE mostly draws from the models that were specifically created and piloted in the course of first project with the European Commission.

■ PHASE 2 “INVESTOR APPROACH”:

This phase starts with FASE preparing an investment teaser that will serve for kicking off the transaction with potential investors. FASE actively built a network of more than 250 investors covering a wide range of different types of financiers and investment preferences. Before approaching concrete investors, FASE profiles its proprietary investor network according to the specific social enterprise and the transaction at hand. Over time, more detailed discussions with interested investors lead to a shortlist, which is followed by management presentations given by the social enterprise to selected investors.

■ PHASE 3 “DUE DILIGENCE AND NEGOTIATION”:

Here, FASE supports the social enterprise in the due diligence process with investors. FASE’s main role is to contribute its experience and act as a moderator between all parties involved. The goal of this phase is to have all parties aligned with a fine-tuned and agreed-upon term sheet at the end. Similar to the previous phases of marketing, it is crucial to exert soft pressure on all parties to keep the transaction process efficient, timely and lean.

■ PHASE 4 “SIGNING”:

This phase involves the signing of the financing contract between the social enterprise and its investors. FASE’s mandate is now fulfilled. Investors and social enterprise continue to interact directly with each other and focus on building an ongoing and beneficial relationship. FASE’s main role at this stage is to summarize and disseminate the knowledge about suitable deal structures and key learnings to the benefit of other social enterprises and the social finance market in general. Thereby, powerful blueprints for replication are created so that the ecosystem is able to evolve.

ANNEX 3: EUROPEAN SOCIAL INNOVATION AND IMPACT FUND (ESIIF) – BROCHURE

ANNEX 4: LIST OF MAIN FASE PUBLICATIONS

CONFIDENTIAL ANNEX

ANNEX 5: JOBKRAFTWERK – SHORT PROFILE

ANNEX 6: TEAM U – SHORT PROFILE

ANNEX 7: SEA RANGER SERVICE – SHORT PROFILE

ANNEX 8: HELIOZ – SHORT PROFILE

ANNEX 9: ROCK YOUR COMPANY! – SHORT PROFILE

ANNEX 10: ACKERPAUSE / ACKERCOMPANY – SHORT PROFILE

ANNEX 11: COOLAR – SHORT PROFILE

ANNEX 12: ONE WEEK EXPERIENCE – SHORT PROFILE

ANNEX 13: HYHELP – SHORT PROFILE

ANNEX 14: TALENTIFY – SHORT PROFILE

ANNEX 15: GERERE – SHORT PROFILE

ANNEX 16: HEALTHY ENTREPRENEURS – SHORT PROFILE

ANNEX 17: HEALTHY ENTREPRENEURS – CASE STUDY

ANNEX 18: CONFLICT FOOD – SHORT PROFILE

ANNEX 19: LILO LAUSCH – SHORT PRESENTATION

ANNEX 20: RHEINFLANKE – SHORT PRESENTATION

ANNEX 21: PAPILIO – SHORT PRESENTATION

ANNEX 22: CHANCENWERK – SHORT PRESENTATION

ANNEX 23: ESIIF – PRIVATE PLACEMENT MEMORANDUM

ANNEX 24: LAKA – SHORT PROFILE

ANNEX 25: ITTASZEZON – SHORT PROFILE

LIST OF CHARTS

No.	Title / Description	Source
1	"Summary of EU project learnings"	FASE
2	"FASE's role in the social finance ecosystem"	FASE
3	"FASE's associate organizations under this action"	FASE
4	"The strategic financing gap for early-stage social enterprises"	FASE
5	"Hybrid financing models developed by FASE"	FASE
6	"Social enterprises supported by FASE and their SDG contribution"	FASE
7	"EU project activity timeline FASE"	FASE
8	"FASE investment readiness diagnostic: 15 modules"	FASE
9	"The European Social Innovation and Impact Fund"	FASE, avesco
10	"Key features of the ESIF"	FASE; avesco
11	"Overview of FASE's transaction support tasks"	FASE
12	"Social enterprises supported by FASE under this action"	FASE
13	"Pay-for-results-based financing model for Papilio"	FASE
14	"FASE impact investor network by investor type"	FASE
15	"FASE impact investor network by activity level"	FASE



FASE - Building Bridges for Impact

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Contact

*FASE - Financing Agency for
Social Entrepreneurship
Dr. Markus Freiburg
Prinzregentenplatz 10
81675 Munich, Germany
+49 (0) 89 2422-6187
info@fa-se.de
www.fa-se.de/en/*