FASE

Financing Agency for Social Entrepreneurship

Impact report

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Introduction

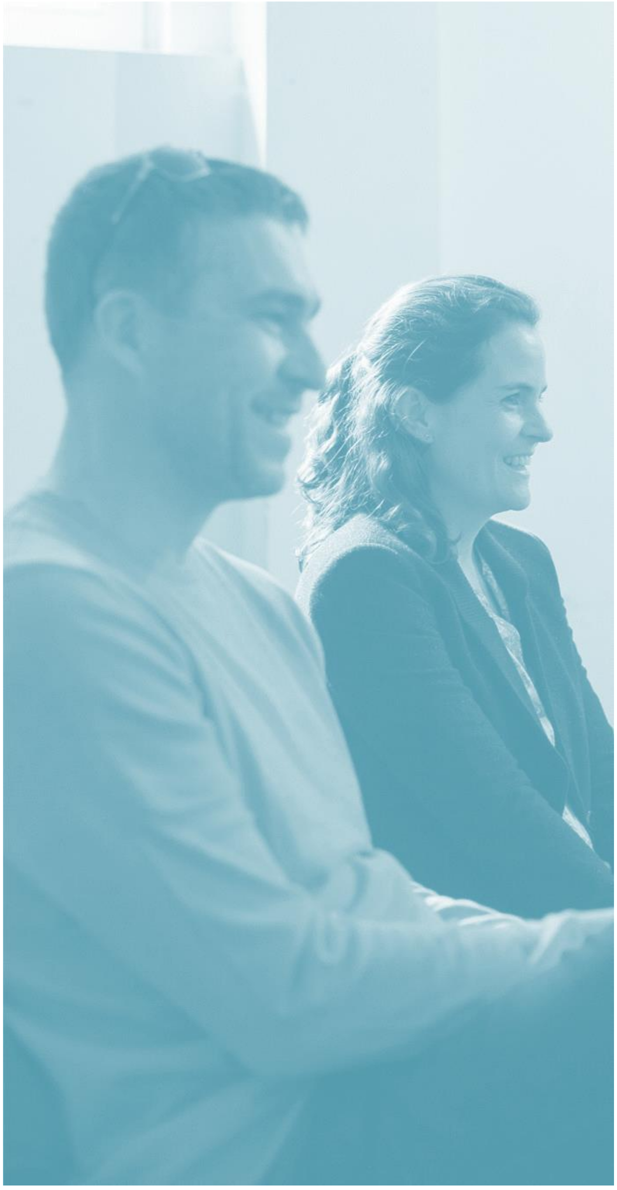
In Europe, social enterprises are increasingly recognized as important drivers of change. They operate on the basis of viable, sustainable business models and fill a very important role in the market: as agents of innovation, prevention and efficiency[1], situated between the public and the private sectors. 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 and implementing the Sustainable Development Goals (SDGs). For these agents of innovation, poor access to finance is still perceived as one of the most significant barriers. Social enterprises are chronically underfunded, often lack scale and struggle to access capital coming from mainstream financial markets. In addition, existent market actors are scattered and do not seem to cooperate very well.

Further, different suppliers of financing usually apply 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", which can prevent them from scaling their impact. They also face substantial difficulties when trying to develop an efficient mix of funding sources. When FASE was launched in 2013, we soon identified a bottleneck in early enterprise development stages, for which risk sharing is essential but very hard to find. While this funding gap was originally the strongest for smaller financing rounds up to EUR 500k, we are also observing a similar trend with larger ticket sizes of up to EUR 1 million in recent years. Due to these circumstances, suitable platforms or market facilitators that enable cooperation between investors, donors and public authorities are strongly needed to create a functioning market for social finance.

[1] *NAB Germany (2014): Social Impact Investing: Financing Social Change, final report. Available here.*

Vision & Value add

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 our clients to raise capital in a highly professional way, we improve their chances to achieve impact at scale.



At the heart of our activities is our drive to find the right kind of investors for every passionate entrepreneur we support. Our biggest value add is our team's knowhow and our network of funders. We cover 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, we offer inspiring opportunities to create tangible impact by investing directly into enterprises that fit their individual preferences.

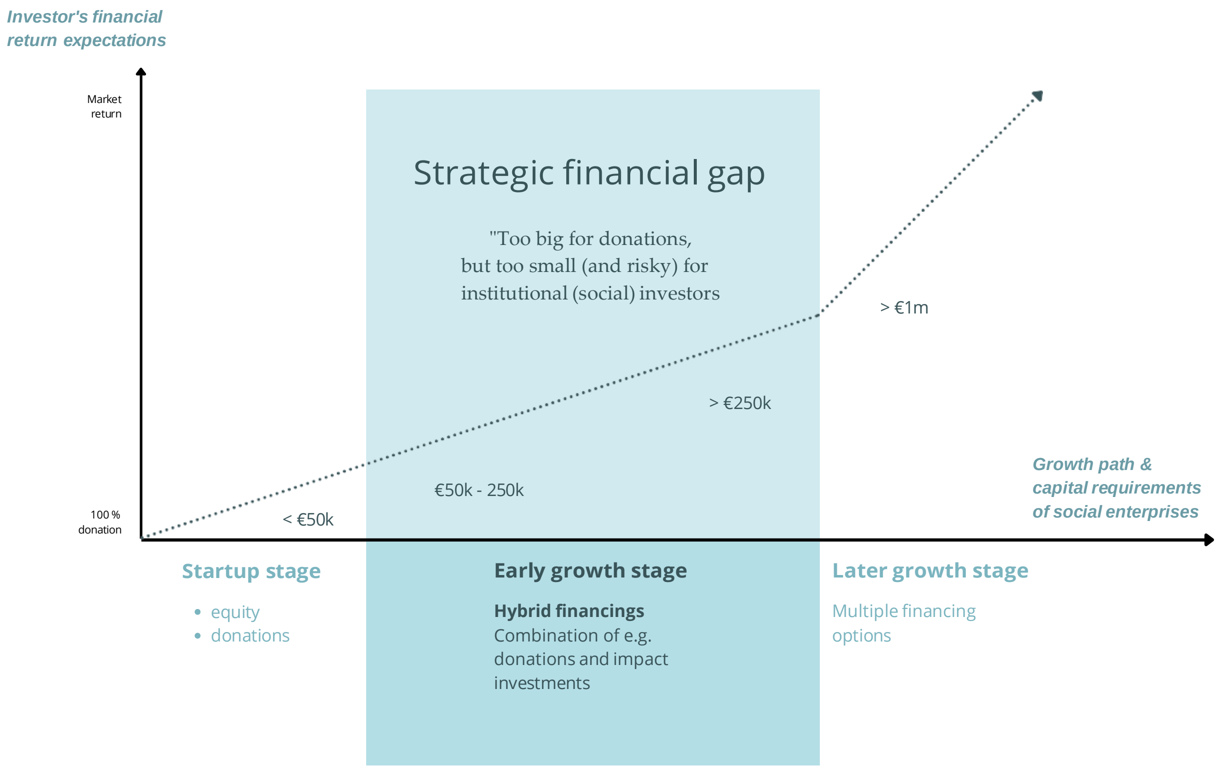
The social challenge & solution

The early-stage financing challenge

Social enterprises in Europe have come a long way in the past two decades. While access to repayable finance is slowly improving, the recent increase of impact investment volumes does not sufficiently flow to early-stage social ventures yet.

From a funding perspective, the lifecycle of a social enterprise typically involves a diverse group of capital providers. Most projects initially rely on friends and family and/or philanthropic funders to master the stage of designing and piloting the concept. In the following stage, - when the social enterprise sets out to enter the market and grow -, this type of funding is often insufficient. While many social enterprises become attractive candidates for institutional impact investors later in their life cycles, they are often considered to be too small and risky at this early stage. There are few core reasons for this phenomenon: (1) the majority of these ventures have volatile revenues, a distant break-even point, novel impact and business models as well as untested pioneer markets - in a nutshell, they do not offer risk-adjusted financial returns that potential investors perceive to be attractive, especially if judged by traditional investment rationales and market rates, (2) they have limited investment readiness i.e. "the capacity and capability to seek and utilize investment", and (3) financial markets do not sufficiently value the impact created by social enterprises (and some struggle to measure it!) and thus fail to monetize and pay for these positive externalities.

The social challenge & solution



For small financing rounds below EUR 1 million - which are sought by the majority of social enterprises in the stage following proof of concept, - there is an additional challenge: the transaction costs of sourcing, preparing and executing deals are disproportionately high for potential investors. As a result, most capital providers prefer to wait at 'the end of the pipeline' when 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.

Whether or not a limited supply of repayable capital is indeed the 'culprit' that prevents social enterprises from scaling, it is important to say that an appropriate supply of finance is key. Moreover, non-financial support, - such as strategic knowhow, access to networks and sector expertise from investors and funders -, is a value add that can make a huge difference for social entrepreneurs and their ability to survive and scale. This has proven to hold particularly true in times of crises, such as the recent COVID-19 pandemic - see more on this in our 2020/2021 impact investing barometers available here.

The need for more impact-first finance

The impact investing market is steadily growing. Voices questioning the impact in impact investing are getting louder. There is increasing evidence that investors enjoy the positive feelings they get from doing good, but that they are much less interested in paying for more impact. Obviously, investing sustainably is a clear preference, but investors don't really care for the impact of these investments, a recent study finds.[2]

So, while the market is experiencing dynamic growth, the money still doesn't flow to where the biggest impact potential is. This problem is directly linked to an eternal and heated debate in our sector – whether or not impact investing requires financial concessions to be truly impactful or "additional".[3]

When it comes to scaling early-stage social enterprises with high impact potential, there is still a huge financial chasm: On the one side: classic philanthropists expecting no returns, but with limited means to fund larger financing rounds. On the other: the vast landscape of investors expecting high financial returns. And in the middle? A relatively small group of patient funders who clearly prioritise impact and are willing to accept moderate returns in order to be catalytic. This is where one finds most of the capital that is keeping promising high-impact targets from falling into the financial abyss. These **impact-first impact investors** aim to support enterprises or funds that have high impact potential but struggle to raise suitable financing.

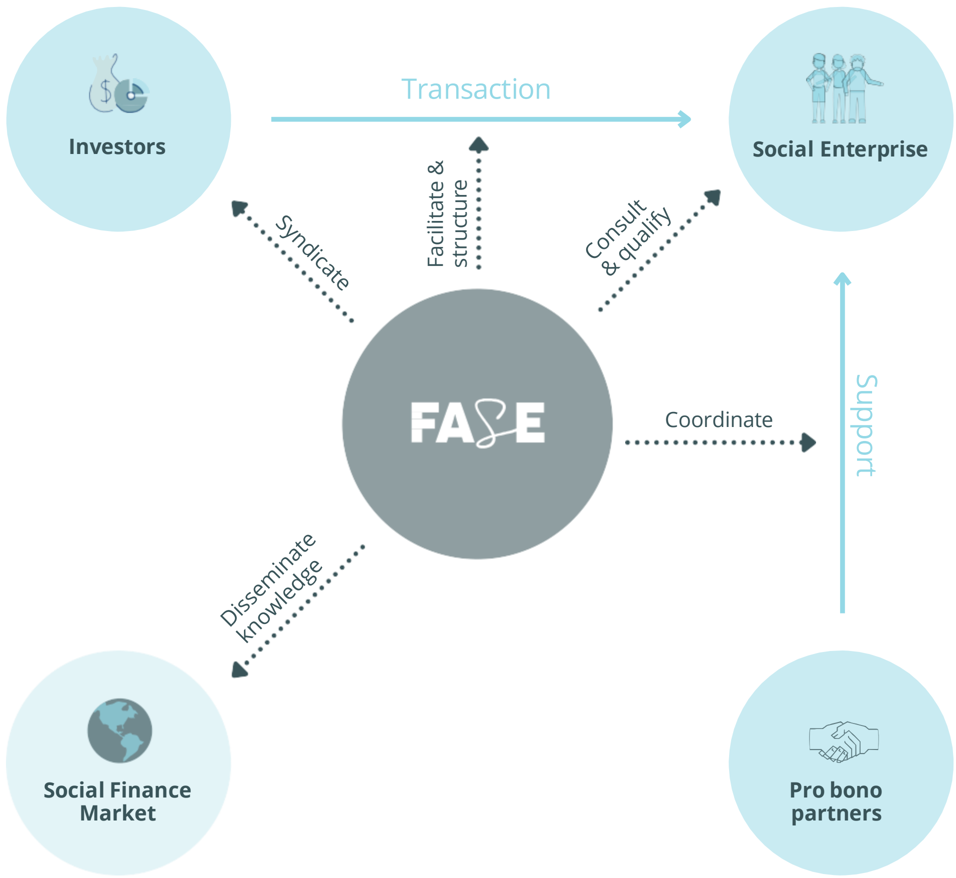
To date, the vast majority of these investors are (Ultra) High Net Worth Individuals, wealthy families, family offices, business angels, venture philanthropists and a few unconventional foundations.

At FASE, impact-first investors represent the bulk of our network of more than 1,300 investors across Europe and have provided most of the €30m in total raised by the more than 60 social enterprise clients that we supported in securing funding to date.

You want to dive deeper into the topic?
Read the full article published by FASE here.

[2] *Heeb, F.; Kölbel, J.; Paetzold, F.; Zeisberger, S. (2021): Do Investors Care About Impact? Available here.*
[3] *Next Billion (2021): Sorry, 'Feel Good' Investors: Deep Impact Requires Concessions. Read the full article here.*

FASE’s solution: Where passion for impact meets capital to scale



Emerging from this “missing middle” market failure are some compelling opportunities to develop innovative financing models, mobilize impact (-first) investors, and build a pipeline of investment-ready social enterprises - all contributing to a thriving pan-European ecosystem for social innovation.

The Financing Agency for Social Entrepreneurship (FASE) was originally founded by Ashoka 2013 to bridge 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 expand. 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 manage. Many new frameworks and tools have emerged in the market lately, for example the Impact Management Project (IMP), but are not yet widely enough adopted by investors and funders. Educating both sides – capital supply and demand - is therefore key and continues to be a vital part in FASE's work.

Target groups, processes & instruments

FASE's main target groups are **social enterprises** on the one hand, and **impact investors** and **philanthropists** on the other hand. Therefore, getting access to such enterprises and building a pipeline of investment-ready candidates are important processes in the work of FASE.

The two core processes, however, are

(1) transaction management, and
(2) investor relations.

FASE is working with several **hybrid financing models**. As these are core tools in FASE's daily work, they shall be explained in more detail in this chapter.

Pipeline management: process & instruments

FASE builds its pipeline through various channels and sources. Some of the potential mandates contact us directly, others are recommended to us. In addition, we also conduct a proactive search for suitable candidates. Potential candidates are considered on the basis of defined criteria. In addition to the business model, the impact theory and the impact measurement indicators, the proof of concept and the management team play a decisive role. After an initial contact with the social enterprise, our pipeline team discusses internally the company's potential on the basis of these criteria. In doing so, the FASE team also pays close attention to the interests of potential investors.

This is how we work:

Application

Social enterprises contacting FASE directly have the opportunity to fill out the questionnaire we published on our website. The questions may help the enterprise to verify, if the stage, impact and business model fit our criteria (and our investors interests). Some enterprises are recommended to FASE or proactively approached by the team. In these cases FASE usually receives a pitch-deck and an initial introductory call is set up. During the call both parties may check their expectations and channel questions.

Internal discussion and feedback

In its bi-weekly pipeline call the FASE team discusses new candidates. If both teams - the FASE team and the social enterprise - decide to proceed, they get to know each other better in further calls. Core elements of these virtual meetings are detailed discussions of the business and impact model.

Decision

The pipeline process ends with the decision of the social enterprise to sign the contract with FASE and to start the transaction process.

Transaction management: process & instruments

One of the key success factors of transaction management is to ensure a lean and transparent process. It has to be reliable, well-structured and efficient for a social enterprise and its potential investors alike in order to build trust. All participants need to know that they will save time, money and hassle by engaging with an experienced financial intermediary. The process typically begins with initial discussions and ends with the successful closing of a transaction.

These are our core services

Sharpening the investment story and definition of an investment scenario

FASE provides an important service by coaching the social entrepreneurs about the investors' expectations and attitudes. As a consequence, they are much better prepared to deal with different investor types and their very specific needs.

Approaching investors

FASE has built a network of impact investors and a database with their investment preferences. This allows FASE to profile, coordinate and syndicate different potential funders during the transaction process in a very effective way. FASE has also set up a targeted process when approaching investors so that the list can be narrowed down quickly to those who should have a greater interest in joining the deal. This process involves the preparation of suitable material such as teasers as well as the assistance in setting up management presentations with the social enterprise's team.

Consulting and managing of the transaction process

FASE guides the enterprises throughout the whole process in all relevant questions of financing, business planning and other important issues.

Investing with the ESIIF

Since October 2020, FASE clients have the unique opportunity to apply for matching funding by the European Social Innovation and Impact Fund (ESIIF), an impact fund initiated by FASE and managed by avesco Financial Services that provides mezzanine financings to select social enterprises in Europe. The fund offers tickets up to EUR 400k.

This is how we work:

Preparation

In this initial phase, FASE screens the social enterprise and its documents (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, once the mandate agreement is signed, FASE analyses and challenges the company's business plan and financial projections. This step is followed by identifying the most suitable financing model, which then gets tailored to the social enterprise's needs and supports its financial plan best.

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Investor approach

This phase starts with FASE preparing an investment teaser that will serve for kicking off the transaction with potential investors. In the past 9 years, FASE actively built a network of more than 1,000 investors, covering a wide range of funder types and investment preferences. Before approaching concrete investors, FASE profiles its proprietary network according to the specifics of the social enterprise and of the transaction at hand. Over time, more detailed discussions with interested investors lead to a shortlist, which is then followed by management presentations given by the social enterprise to selected investors.

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Due Diligence & Negotiation

In this phase, 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 is to have all parties aligned with a fine-tuned and agreed-upon term sheet. Similar to the previous phases of marketing, it is crucial to exert soft pressure on all parties involved to keep the transaction process efficient, timely and lean.

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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 enterprises continue to interact directly with each other and focus on building an ongoing and beneficial relationship.

Investor relations: process & instruments

In general, FASE captures the profile of each investor in a customer database. To expand the investor network, FASE arranges meetings and calls with potential financiers to better understand their specific investment strategies, impact theme preferences as well as regional focus and return expectations. This investor profile serves to offer tailored impact investing opportunities according to the personal preferences of each investor. Periodically, the investors receive so-called "deal flights", which include short presentations of selected social enterprises that seek to attract growth capital. Interested investors are invited to management presentations, which allows them to get a deeper understanding of the social enterprise, its management team, business and impact models as well as investment (e.g. risk-return) profile. Although the effort to match investors and social enterprises is generally very time-consuming, it is also highly effective. With this approach, FASE is able to create the best possible fit between investors and social entrepreneurs and to customize investor coalitions according to the specific needs of each enterprise mandate.

In addition, our investor relations team organizes virtual events for FASE's impact investor community on a monthly basis. Together with experienced peers and sector experts, the FASE investor network gets a chance to discuss current trends and stay on top of the hottest topics in the impact sector. Furthermore, it is a welcome option for impact investing newcomers to witness social enterprises and their investors in a joint pitch and thus understand how this approach works in practice.

This is how we work:

1. A **meeting** is scheduled to understand the investor's individual preferences such as impact areas, ticket sizes, risk/return profile, engagement level, time horizon and preferred financing instruments.

2. Based on these preferences, FASE **approaches** investors with concrete, suitable investment opportunities that have been identified out of the pipeline of social enterprise mandates (**"deal flights"**).

3. The investors receive the social enterprise's **investment profile plus a brief video** presenting the enterprise's innovative approach and team. Investors are invited to a first virtual pitch presentation that allows for a first-hand impression of the management team. After that, investors decide whether they are generally interested in the opportunity and would like to proceed.

4. If the investors are positive, they receive a detailed **information memorandum** about the investment opportunity and the enterprise. FASE then arranges management presentations, during which potential funders have the chance to meet the social enterprise's management and discuss all relevant questions.

5. Based on the feedback received from these events, the FASE team continues to build **investor coalitions** of typically 2-4 investors and finalizes the transaction. This involves the preparation of individual financing contracts.

6. **Deal closing** takes place as soon as all investors are identified, aligned and ready to sign.

Hybrid financing models

Mezzanine capital with revenue participation and social impact incentive	Tailored financing models
Mezzanine capital with profit participation and social impact incentive	Tailored financing models
Equity donation combined with impact investment	Hybrid cooperation models
Crowd investment combined with impact investment	Hybrid cooperation models
Early-stage co-investment fund	Innovative financing vehicle

In FASE's experience to date, many social enterprises choose to operate with hybrid organisational structures and business models that combine both non-profit and for-profit business elements. These models are often best served by implementing equivalent hybrid financing models. Typically, repayable financing instruments are well-suited to finance for-profit activities of such enterprises. For non-profit entities, the ideal support often comes with donations and public grants.

FASE's innovative financing approach consists in coupling these two types of funding and thus enable a full coverage of the spectrum of sources and return expectations - from (100%) or donation-type of returns to market rate-or investment-type of returns. FASE designed five different models of this kind to enable cooperation between investors, donors and public authorities. Typically, the impact investment parts are based on mezzanine capital and include smart features such as revenue or profit participation agreements and/or social impact incentive mechanisms. With its open-source approach, FASE regularly shares these innovative models to allow for a replication of successful blueprints and create additional impact for the European ecosystem. This cross-national knowledge dissemination is supported by the European Union, who has identified and supported FASE as a key player for social enterprise finance in several projects that FASE successfully applied for.

FASE

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