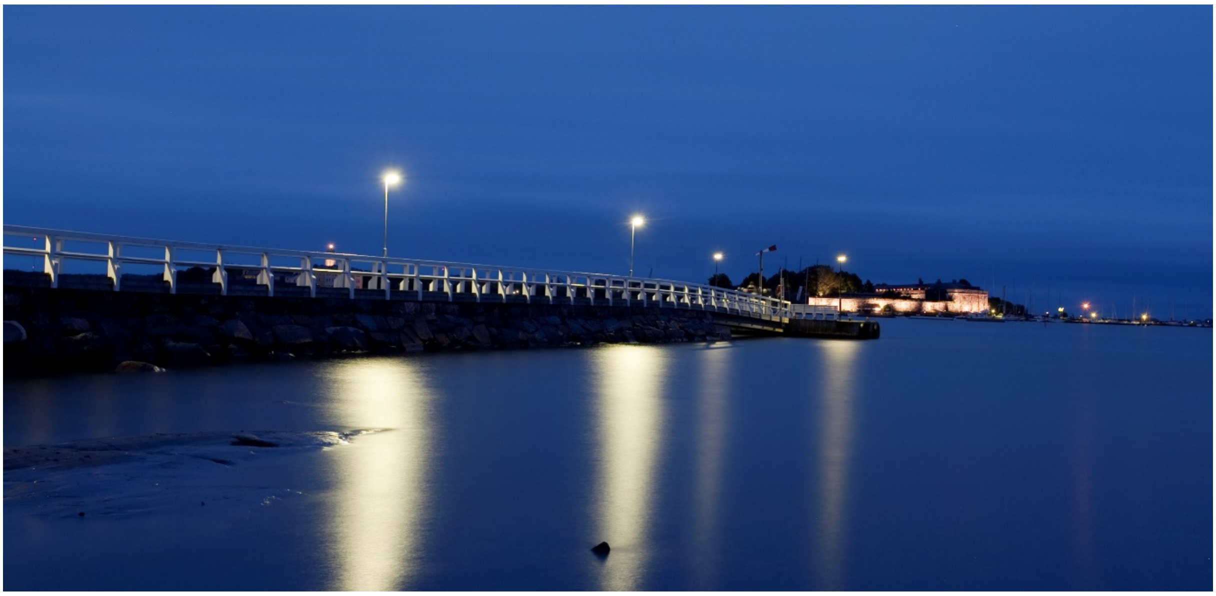
FASE

FINANZIERUNGSAGENTUR FÜR Social ENTREPRENEURSHIP

Financing Agency for Social Entrepreneurship



Creating Collaborative Funding Models for Social Enterprises:

How fine-tuned, state-of-the-art hybrid financing packages can build bridges and channel more investment capital into the social entrepreneurship sector.

A final report by the Financing Agency for Social Entrepreneurship (FASE) on a project mandated by the European Commission.

With the valuable support of our project partners:

EUROPEAN COMMISSION

DG Employment, Social Affairs and Inclusion

ASHOKA

BMW Stiftung Herbert Quandt

The Financing Agency for Social Entrepreneurship (FASE)

The mission of FASE is to assist social enterprises with outstanding concepts in finding appropriate financing. Through coaching and consulting services FASE enables them to attract capital and to achieve significant growth steps across the often rigid boundaries between donors, investors and the public sector. This is a major contribution to overcoming one of the most pressing obstacles to a wider social innovation in Germany and Europe. For more information please visit: www.fa-se.eu

Ashoka

For more than thirty years now Ashoka has been at the forefront of identifying and supporting the leading social entrepreneurs who are changing patterns and transforming systems. Ashoka's vision is to advance a Changemaker world where anyone can apply the skills of changemaking to solve complex social problems. Their mission is to support social entrepreneurs who are leading and collaborating with changemakers, in a team of teams' model that addresses the fluidity of a rapidly evolving society. For more information please visit www.ashoka.org

BMW Stiftung Herbert Quandt

The BMW Stiftung Herbert Quandt (BMW Foundation) inspires and supports people to work for the common good and for a society that is capable of meeting the challenges of the future. To this end, BMW Foundation engages in cross-sector collaborations with partners across the globe. Together, they search for innovative solutions in politics, business and society. Their work targets one group in particular: international leaders. As influential opinion makers with a wealth of experience, they can make an important contribution to a society based on solidarity. More information can be found at: www.bmw-stiftung.de

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Cover photo by Karsten Zengerling
Report photos by FASE

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EXECUTIVE SUMMARY

Impact investing is a growing trend in social finance. The concept rejects the idea of binary separation between social purpose on the one hand and business interest on the other. Public resources are getting scarce. As a reaction to the financial and euro crisis, Germany has experienced an ongoing phase of budget cuts and reduced public funding. At the same time, charitable financial resources are limited as well. Impact investing is therefore one reaction of a growing number of stakeholders searching for alternatives. While impact investing originally started in the context of development finance and charitable engagement, experts consider this investment philosophy to be at a turning point today: It increasingly enters the mainstream and attracts more and more "traditional" investors willing to explore this brand new field.

According to the EVPA, 1 billion EUR were invested in impact funds in Europe in 2012, out of which around 50 Million EUR went to Germany alone. In 2009, the Monitor Institute estimated the market size for impact investing at 50 Billion USD and saw a potential for growth to 500 Billion USD by 2019. However, social entrepreneurship in Europe is still in a nascent stage, even if it continues to gain momentum. The definition by David Bornstein outlines the significance of this type of entrepreneurs: "What business entrepreneurs are to the economy, social entrepreneurs are to social change. They are driven, creative individuals who question the status quo, exploit new opportunities, refuse to give up, and remake the world for the better." A social enterprise can be a "social business" in the narrow sense (a model coined by Nobel Peace Laureate Muhammad Yunus) but has become a much broader concept in practice. Typical charitable organizations can be included as long as they operate with an entrepreneurial spirit and pursue innovative solutions.

The current challenges and opportunities in the European social finance market can be described as follows:

(1) Many social enterprises are not yet investment-ready (e.g. in terms of well-defined business plans and structured revenue models) and strongly rely on grants or bursaries. Simultaneously, they are searching for appropriate business models that generate revenue streams and attract repayable forms of capital.

(2) Many investors are highly interested in impact investments, but are not able to engage in this new discipline yet. One major obstacle is the lack of an open and fluid pipeline providing them with investment-ready social enterprises.

(3) Intense transaction support is not economically viable for the majority of financing rounds in the size of 100-500k EUR. Transaction cost are often too high and cannot be offset by the limited financial upside that these impact investment opportunities typically offer.

The evolution of a social enterprise usually involves a diverse group of funders and supporters. Initially, most impact projects rely on philanthropic seed capital that is often referred to as venture philanthropy (e.g. grants). Later, social enterprises may reach a bigger scale and become feasible investment candidates. Yet many investors fail to meet the funding requirements of early- to mid-stage social entrepreneurs, when amounts of 100-500k EUR are required. Larger investments above 500k EUR are mostly covered by social venture funds or institutional banks that are primarily looking for well-established, bigger social businesses. Most social entrepreneurs, however, are not able to cover more than 75% of their operating costs with revenues. This situation creates a strong need for innovative financing strategies and calls for a more substantial number of dedicated impact investors.

This is where the Financing Agency for Social Entrepreneurship (FASE) enters the game: By bridging the gap between social enterprises and impact investors through investment readiness and transaction support it connects both sides of the financing equation. An important component in this task is to develop innovative financing models and state-of-the-art hybrid structures that meet the needs of all parties involved. Educating potential investors about the possibilities, risks and rewards of impact investing is as important as coaching social entrepreneurs to get ready for repayable capital. Knowledge dissemination is another vital part of FASE's work. Now, after more than two years of intensive pioneer work in the market, our key learnings and future tasks have become very clear:

Coaching and consulting proved to be very effective in enabling social enterprises to attract growth capital. The hybrid financing models that we developed stood the practical test and successfully combine different types of investors and donors. These blueprints can be easily replicated by other investors, donors and social enterprises. Thus, they help to prepare the ground for the much needed growth of the entire social finance sector.

In our experience, many social enterprises choose to operate with hybrid business models that combine both non-profit and for-profit business elements. These hybrid business models are often accompanied by hybrid organizational structures that again include for-profit and non-profit parts. Repayable financing instruments are well-suited to finance the for-profit activities of such a social enterprise, while non-profit entities are best supported through donations or public grants. Our idea was to couple these two types of financing and to enable a coverage of the full spectrum of funding sources and return expectations - from (100%) or donation-type to market rate- or investment-type of returns. Part of our EU project mandate was therefore to come up with different state-of-the-art hybrid financing models that will be briefly listed below and describe in much more detail in this Final EU Report. All of these seven models have two things in common: 1) they smartly use the available financing instruments to exactly meet to the specific needs of the respective social enterprise, and 2) they have been created to attract new types of investors and to integrate them in one deal, even if they come from distant "financing planets".

Tailored financing models

This group of models includes three financing solutions that can be applied to hybrid social enterprises with non-profit and for-profit components. As described earlier, the non-profit entity is able to accept donations or public grants, while the most appropriate instrument to finance for-profit entities proved to be quasi-equity (mezzanine capital).

(1) Our first model is called "mezzanine capital with revenue participation and social impact incentive". It uses quasi-equity ("Genussrechtskapital"). The mezzanine capital comes without loss participation, but features a fixed interest rate plus a revenue share. The basic intention of this structure is to define a target return for the investor but to cap the revenue share amount in the beginning. This enables the social enterprise to develop its business first 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 the target return will finally be reached.

(2) Our second model, "mezzanine capital with profit participation and social impact incentive", principally follows the same structure. 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) after break-even has been reached. Similar to model number 1, there is also a social impact incentive in the form of a one-time final payment that depends on the level of social impact that the

enterprise is able to reach. Typically, this impact goal is precisely quantified to avoid any misinterpretations.

(3) Our third model is an "easy-to-use investment scheme", i.e. a simplification of a mezzanine capital investment. Based on our experiences with potential impact investors it became obvious that there is a number of philanthropic financiers facing difficulties with the complexity of direct investments. Therefore, FASE developed a simplified and highly-standardized model that allows them to gain insights into the deal process: the "flight booking"-scheme. Potential investors are guided through a virtual transaction as easily as if booking a flight on the Internet.

Hybrid cooperation models

The second group of models features two solutions that are focused on combining different investor types.

(4) Model number four is called "equity donation combined with impact investment". A foundation, a philanthropist or a group of private donors contribute a part of the overall financing volume to the non-profit entity of a hybrid social enterprise. This donation increases the non-profit's capital stock and enables it to hand over capital to its second entity, a fully owned for-profit subsidiary. To further support the financing of the for-profit arm, additional growth capital can then be raised in the form of quasi-equity ("Mezzanine"). This impact investing part can come with either revenue or profit participation features.

(5) Our fifth model is also entirely new to the market: a "crowd investment combined with an 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 crowd part has the advantage of a high flexibility since the crowd can either finance the non-profit entity via donations or support the for-profit organization with investments. The impact investment part, on the other hand, is limited to the for-profit entity. It can be structured with the typical features and rights as previously described in models 1, 2 and 4.

Innovative financing vehicles

We also identified two additional co-operation mechanisms that rather address general gaps in the social finance ecosystem. Both require the set-up of an additional financial intermediary.

(6) Model number six is a "non-profit investment vehicle". It is specifically designed to channel donations into the social finance market and to engage a larger number of foundations. So far, foundations are not able to use donations and grants in a tax-efficient way to support social enterprises that are structured as for-profit entities. The same applies to grants or donations as a way to provide direct guarantees or repayable forms of capital. A non-profit vehicle, however, is able to make use of this funding source and to comply with legal, tax and regulatory framework. It also provides a care-free service for foundations and therefore clears the path for a more capable social finance ecosystem.

(7) Our sevenths model is an "early-stage co-investment fund" that addresses another systematic market gap: more financing for early-stage social enterprises. The main idea is to offer investors access to a diversified portfolio of early-stage deals at the identical terms and conditions defined by the lead investors ("pari-passu"). To make the fund economics attractive, the vehicle will be passively managed, i.e. automatically linked to FASE's open deal pipeline but administered by an experienced fund partner. In addition, the fund intends to apply for a newly established EU

guarantee program, which, in case of a successful participation, will further enhance the funds' risk-return profile.

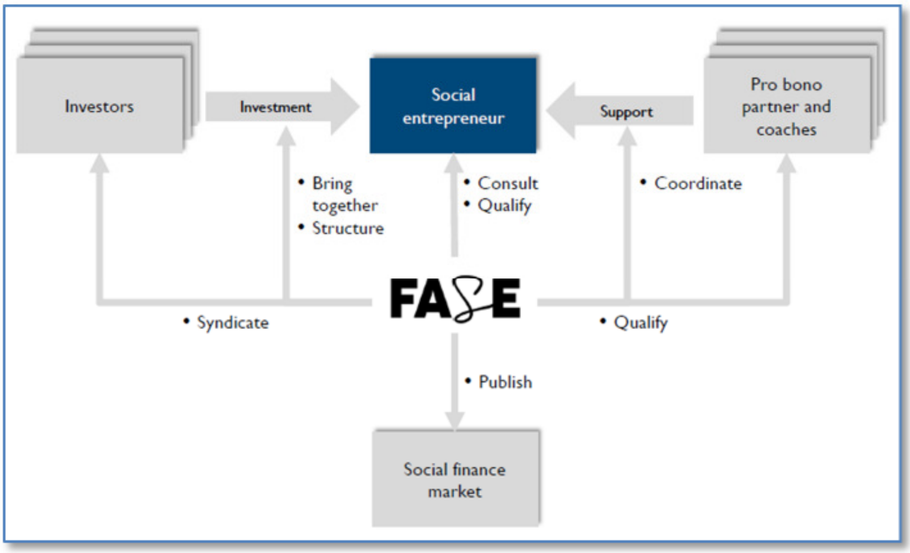
To summarize our experiences, a deal-by-deal support from experts like FASE can be a very effective mechanism to channel hybrid capital to social enterprises in early stages of their growth. This approach has been successfully demonstrated in Germany and Austria with 9 closed deals to date, bringing approximately 3 million EUR in additional resources to the social finance ecosystem. Since we became aware of a huge demand both in Germany and in other European countries, we now intend to scale our proven methodology by expanding our services to several European countries. We hope that this will contribute to a well-functioning ecosystem for social finance and will support the evolution of social entrepreneurship all across Europe.

THE ROLE AND SCOPE OF FASE AND ITS PROJECT PARTNERS

The Financing Agency for Social Entrepreneurship (FASE) helps selected social enterprises to raise growth capital. FASE was initiated by Ashoka - the world's first and leading organization supporting social entrepreneurs and connecting them with each other. We identify investors and financiers of the entire spectrum, ranging from private investors, family offices, foundations, social investors, to banks and development institutions. Our unique approach is to combine several types of investors with different financing components by creating innovative, hybrid solutions that serve as role models for the social finance sector and help to advance the ecosystem. When selecting social enterprises, we focus on a strong, measurable and scalable social and/or environmental impact.

Our mission is to assist social enterprises with outstanding concepts in finding appropriate financing. Through coaching and consulting we enable them to attract capital and to achieve significant growth steps across the often rigid boundaries between donors, investors and the public sector. This is our contribution to overcoming one of the most pressing obstacles to a wider social innovation in Germany and Europe.

Chart 1: "FASE's role in the emerging social finance ecosystem" / Source: FASE



Our support includes two different, complementary services:

(i) Preparation towards investment readiness

We coach social entrepreneurs to become investment-ready. This 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.

(ii) Consultancy in all questions of planning, preparation and closing of 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, and mezzanine – to compiling all necessary documents for the transaction process (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. Thus, we help to realize transactions that would otherwise not have been possible. 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.

Starting in early 2013, FASE has been successfully established as a new financial intermediary between social entrepreneurs and impact investors. In an initial step, we focused on building an open pipeline of outstanding social enterprise projects that are investment-ready and geared towards growth. Meanwhile, this pipeline comprises a wide range of more than 100 social enterprises in various stages whose business models have been reviewed and filtered to meet the requirements of our target investor market. Until today, nine mandates were signed and successfully closed, with more to come from Ashoka and non-Ashoka sources. Secondly, we were able to attract many potential investors from different "financing planets" so that our mission to create hybrid financing deals becomes reality. More than 200 interested parties (business angels, foundations, private investors, family offices, banks) form our network of active investors today. To have a better grasp of their individual preferences we compiled a structured database with the help of personal interviews and detailed investor information. We are also proud to have kick-started the "Ashoka Angels Network", the first social business angel club in Germany, which led to individual pre-commitments of angels for future investments ("soft pledges"). Thirdly, we designed innovative, tailored financing models that address the specific needs of social entrepreneurs. These state-of-the-art instruments have been piloted with concrete financing projects and are able to smartly combine different types of investors and their individual profiles. By now, the fourth pillar, the organizational set-up for FASE as a new intermediary in the social finance sector, is completed. We have built a core team with Dr. Markus Freiburg, Ellinor Dienst, Cecilia Bunnenberg, Christina Moehrle and a group of senior advisors (e.g. Bjoern Struewer, Karsten Zengerling, Felix Oldenburg, Thomas Jetter, and Markus Hipp). Additionally, FASE has put a strong network in place, ranging from partners who finance our activities (e.g. Apax Foundation, BMW Foundation Herbert Quandt, a private family office) to pro-bono partners who support us in realizing our mission (e.g. Hogan Lovells, Latham & Watkins, Vodafone foundation, Kreditanstalt für Wiederaufbau).

Our fifth task was to become an accepted thought leader for social finance innovations in Germany with an active presence in public discourses. Besides launching a professional online presence with homepage, social media and press articles, we were able to successfully raise our public profile by holding multiple presentations, workshops and panel discussions on all major sector events (e.g. EVPA Annual Conference, Vision Summit, Ashoka Sozialunternehmerkonferenz, StifterTage) within Europe. A scientific study conducted by CSI, the center of social investment of the University of Heidelberg ("Social Entrepreneurship in Deutschland – Potenziale und Wachstumsproblematiken", September 2013), was another plus for building our brand: the study acknowledges FASE's approach as best practice for the social finance sector in terms of transparency, market making, market efficiency, and risk sharing.

With Ashoka as a strong partner, FASE continues to benefit from Ashoka's network of social entrepreneurs, pro-bono partners and supporting sponsors. For thirty years now, Ashoka has been at the forefront of identifying and supporting the leading social entrepreneurs who are changing patterns and transforming systems. Ashoka's vision is to advance a Changemaker world where anyone can apply the skills of changemaking to solve complex social problems. Their mission is to support social leading entrepreneurs who are collaborating with change-makers, in a team of teams' model that addresses the fluidity of a rapidly evolving society.

The Global Fellowship of Ashoka is the active network of 3,000 Fellows worldwide (350 Fellows in Europe), offering services and opportunities designed to meet Fellows' needs at all stages of their careers. The program supports its members with tools, personal and professional support, and enhanced entrepreneurial opportunities. Connected through shared identity, values, goals, and approaches to social change, Ashoka Fellows seek support, ideas, inspiration, and motivation from their peers locally and globally. Collaborating across regions and fields, Ashoka Fellows achieve results more powerful than what they could accomplish on their own, including new initiatives, publicity, or theoretical concepts that will guide their respective fields and advance the citizen sector. Fellowship's ultimate goal is to enable Fellows to improve their own work by linking them to Ashoka's bird's-eye view of the thousands of social solutions developed and refined by Fellows worldwide.

Venture process is the mechanism through which Ashoka finds and supports the world's leading social entrepreneurs. It is the flagship model upon which Ashoka was founded and remains the heart of Ashoka. The process is long but also fruitful. In fact, many candidates describe the selection procedure as one of the most difficult but enlightening experiences of their careers. Candidates must communicate their ideas, scrutinize their methods, and reflect on themselves as individuals. After a rigorous selection process based on the five key criteria (new idea, creativity, entrepreneurial quality, social impact on the idea, ethical fiber), selected Ashoka fellows at the launch stage receive a living stipend for an average of three years (based on need), allowing them to focus full-time on building their institutions and spreading their ideas. Ashoka Fellows become part of a global support network of peers and strategic partnerships. Once elected to the Ashoka Fellowship, Fellows benefit from this community for life.

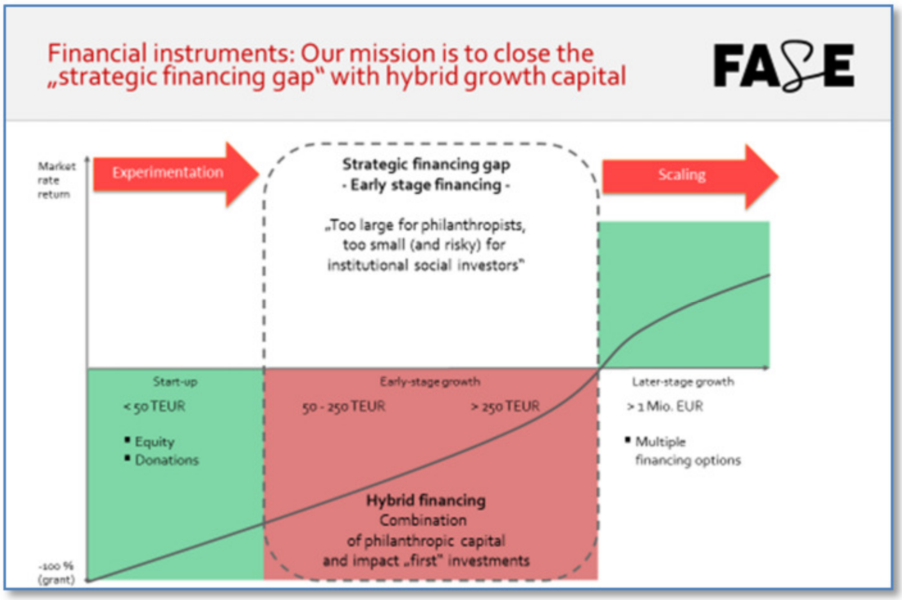
Through the Ashoka Support Network (ASN), an entrepreneurial community is created that builds business-social bridges through people. The ASN is a global community of 350 successful business people who share the belief that entrepreneurs are the primary engine for economic and social development. They engage with Ashoka, committing time and resources to support the work of social entrepreneurs. ASN members are business entrepreneurs, top executives, investment bankers, venture capitalists, and consultants from Europe, the US, South America, India and beyond. A three-year financial commitment of a minimum of US$10,000 (actual amount may vary by region), the willingness to share personal skills, experience and personal relations with Ashoka fellows and the commitment to being part of and expanding the ASN network are the attributes to become member in the ASN network. In Germany, this network has already committed around 1.5 million EUR to invest in impact opportunities (including early-stage grant support via Ashoka). This investment commitment can be extrapolated to approximately 5 million EUR, when also Ashoka UK and France are included, as there will be cross-border deals.

The BMW Stiftung Herbert Quandt ("BMW Foundation") inspires and supports people to work for the common good and for a society that is capable of meeting the challenges of the future. To this end, BMW Foundation engages in cross-sector collaborations with partners across the globe. Together, they search for innovative solutions in politics, business and society. Their work targets one group in particular: international leaders. As influential opinion makers with a wealth of experience, they can make an important contribution to a society based on solidarity. The BMW Foundation helps leaders to utilize their skills and networks in the form of pro-bono or philanthropic engagement, or to cooperate with civil-society organizations. In 1959, Herbert Quandt secured BMW's independence and thus laid the foundation for the successful development of the automobile company. To honor his entrepreneurial achievement, BMW AG in 1970 established this foundation.

THE CONCEPT: HYBRID FINANCING PACKAGES ON A DEAL-BY-DEAL BASIS

The mission of FASE is to contribute to the transformation of the social finance market by overcoming one of the most pressing obstacles to the expansion of social innovation in Germany and Europe: the financing gap *(see chart below)*. FASE assists social enterprises with outstanding concepts in finding significant growth capital that allows them to scale their businesses and their impacts on society. Through coaching and consulting they are enabled to attract funding across the often rigid boundaries between donors, investors and the public sector.

Chart 2: "The strategic financing gap" / Source: FASE



These hybrid financings are usually very complex and involve significant transaction costs. Such costs are structurally comparable with transaction costs for "classic" private equity deals in commercial businesses. By contrast, the investment amounts between 50,000 EUR and 500,000 EUR are relatively low. As a consequence, coaching and consulting services cannot be fully covered by market prices without destroying the economic viability of such deals. FASE therefore decided to finance its activities through a combination of infrastructure and deal oriented funding *(for more details see Section "Path to Sustainability" in this report).*

Today, our hybrid financing models successfully combine different types of investors and donors. We intensively piloted and tested these models with our mandates, providing the social finance sector with blueprints that can easily be replicated by other investors, donors and social enterprises. Innovative solutions that will be described in more detail in this report are: 1) mezzanine capital with revenue participation and social impact incentive, 2) mezzanine capital with profit participation and social impact incentive, 3) easy-to-use investment scheme for private philanthropists (simplification of mezzanine capital), 4) equity donation combined with impact investment, 5) crowd investment combined with impact investment, 6) a non-profit investment vehicle, and 7) an early-stage co-investment fund.

Our projects so far demonstrate that a deal-by-deal support from experts like FASE can be a very effective mechanism to provide hybrid capital to social enterprises in early stages of their growth. Now, we will start to gradually expand our services to regions such as Central and Eastern Europe, Austria, France, the Netherlands and Switzerland. A close collaboration with the regional Ashoka offices as well as with our pro bono partners will be vital help when launching our local representative offices. FASE Germany will continue to act as central hub.

THE IMPLEMENTATION OF THE EU PROJECT

1. DESCRIPTION OF THE PROJECT

The objective of the EU project was to create fine-tuned hybrid financing packages for social enterprises with an orchestrated approach. The specific objectives were twofold:

(i) The project aimed at demonstrating 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. Thereby, this project intended to improve the availability and effectiveness of suitable and needs-oriented financial instruments for social enterprises through collaboration and synergies between investors, donors and public authorities.

(ii) The project also intended to mobilize and commit potential investors and donors from different European countries to co-operate with a view to finding innovative approaches to providing finance to social enterprises. Thereby, the project aimed at broadening the donor and investor basis for impact investing in Europe and at identifying new donors and investors that are willing to invest in an open pipeline of investment-ready social enterprises.

The project was divided into four main activities:

Activity 1: Extension of investor network to other European countries: FASE intended to arrange individual meetings and calls with approximately 60-80 additional investors to present the open pipeline of investment-ready social entrepreneurs and to understand their specific investment preferences. The investors were to come from Germany and other European countries (including France, Poland, and the UK). Additionally, several visits to investor and sector conferences across Europe were planned. These activities were equally spread over a period of 12 months, between June 2014 and May 2015.

Activity 2: Development of cooperation models for different types of investors: FASE started with the design and assessment of new models of cooperation between investors, donors and public authorities. Initially (from June to August 2014), we defined alternative cooperation models. Based on a first feasibility assessment, 1-3 cooperation and financing models were then selected for further detailing and pre-discussion with potential donors and investors (from September to November 2014). All of these activities were mainly performed out of Germany.

Activity 3: Piloting and testing of hybrid financing models with transaction support for 2-3 selected social enterprises on a deal-by-deal basis: FASE initially started out by helping 3 selected social enterprises in raising hybrid growth capital. In the end, we managed to provide our services to 5 enterprises in total within the project's time frame. Expert coaches consulted the companies in all questions of planning, preparation and execution of the financial transaction process. These pilot and test activities took place in the period from June 2014 to May 2015. The transaction support on a deal-by-deal basis proved to be a time-consuming task. The regional focus of these pilot deals was Germany, with one mandate coming from Austria.

Activity 4: Knowledge dissemination: FASE planned to communicate its findings broadly into the relevant social finance market (e.g. by case studies). These activities happened mainly from January to May 2015. The cross-national knowledge dissemination of our findings was supported by Ashoka in the UK, France and Poland. In each of these countries, FASE organized social finance roundtables with investors and social entrepreneurs. The roundtables were planned to take place from March to May 2015, but eventually started earlier, in December 2014, with a first roundtable in Vienna, Austria.

The entire action of creating fine-tuned hybrid financing packages for social enterprises had a transnational dimension and followed a two-staged approach:

(i) In the first phase, FASE worked together with a limited number of social entrepreneurs in the pilot region Germany. We demonstrated the feasibility and benefits of an orchestrated approach when 1) providing social finance by different types of donors, investors and public authorities, and 2) integrating a range of financial instruments into tailored and fine-tuned packages. The working language with these social entrepreneurs was German. The fact that we initially focused on one pilot region was necessary to keep the complexity of the hybrid deals at a manageable level. Since this type of financings already involves multiple donors and investors to be coordinated, additional complexity, for example by different national legal frameworks on the investee side (e.g. for legal entities or financing instruments), would have been far too demanding in the beginning. The supply side, however, had an international dimension right from the start. FASE built an active network of >100 potential impact investors early in the process. These investors come from different "financing planets" (e.g. business angels, social investors, banks, foundations, private investors, public authorities) and have doubled to more than 200 impact actors as of today. The majority of these players is located in Germany, with an increasing share coming from Austria, Belgium, France, the UK and Switzerland.

(ii) In the second phase, FASE broadly communicated its findings in the national and European social finance markets (e.g. via press releases, case studies and concept papers). We followed an open-source approach and freely shared our insights and solutions in the relevant communities. Our goal was to encourage more social entrepreneurs and investors to copy our successful pilot concepts and use them as blueprints. With this approach, FASE was able to maximize its own social impact. The cross-national knowledge dissemination of our findings was further supported by our co-operation with Ashoka in the UK, France and Poland. In each of these countries the action included social finance roundtables with potential investors and social entrepreneurs looking for growth capital. This was an effective way to achieve cross-national knowledge dissemination, following the format of social finance roundtables that was piloted earlier with the Kreditanstalt für Wiederaufbau (KfW) in Germany.

Chart 3: "FASE Newsletter - Social Finance Roundtables" / Source: FASE

Social Finance Events in Vienna, Warsaw, Paris & London

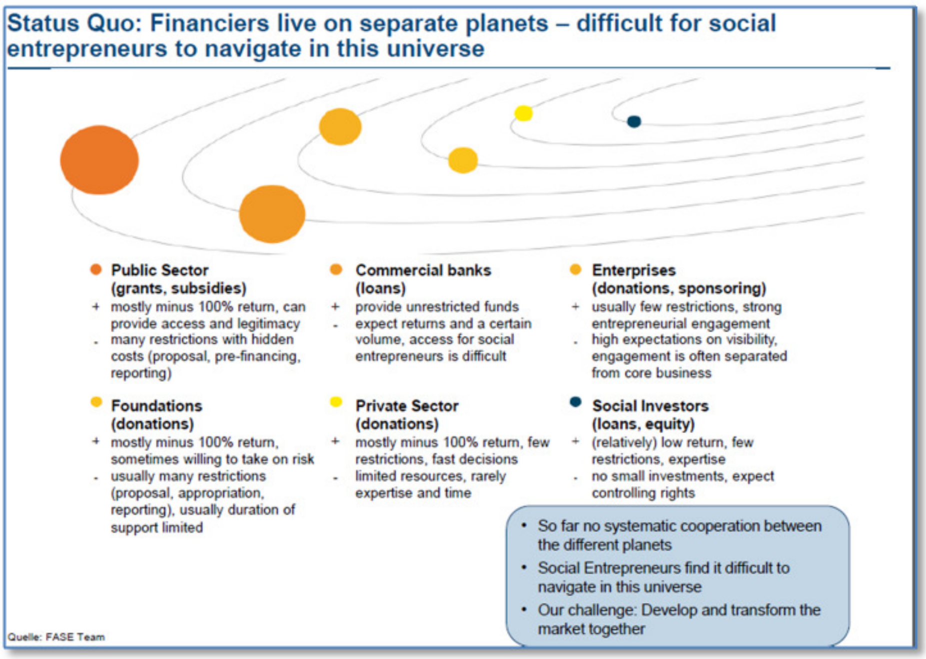
Thanks to our EU support FASE was able to host several exciting **Social Finance Roundtables** in Vienna, Warsaw and Paris, together with the local teams of Ashoka. Experienced and new impact investors were able to gain valuable insights and inspiration from social entrepreneurs and several case studies. The last **Social Finance lunchmeeting will take place on May 29th, 2015 in London.** If you have an appetite for social impact, please join us at 12am after registering here. For a small teaser please feel free to have a look at the image film of our last event in Warsaw.

2. EXTENSION OF INVESTOR NETWORK

I. THE "PLANETARY SYSTEM"

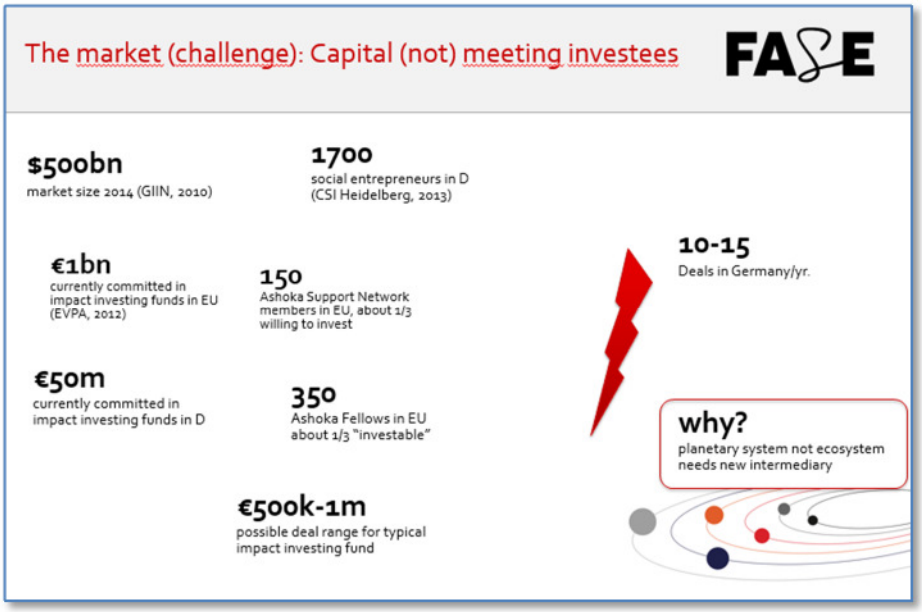
Before FASE was established, one major challenge prevented the growth of the European impact investing market: Although different types of actors were already operating in the social finance sector, there was almost no cooperation between them. Different suppliers of financing applied a broad range of mostly incoherent and unrelated eligibility criteria, return expectations, conditions for repayment, and requirements for accounting as well as reporting. This phenomenon continues to exist today, although the barriers begin to fade. As a result, social enterprises are usually quite lost between these different "financing planets" and do not manage to find appropriate financing to scale their social impact.

Chart 4: "The planetary system - financiers live on separate planets" / Source: FASE, Ashoka



Additionally, there is a lack of transparency. Social enterprises often face substantial difficulties when trying to develop an efficient mix of funding sources. In particular, this bottleneck applies to the critical segment of smaller deals (<250,000 EUR) and risky development activities, for which risk sharing is essential and hard to find. Before FASE entered the market as a specialized intermediary, the absence of suitable platforms or market facilitators prevented a much needed cooperation between investors, donors and public authorities. FASE's objective was therefore well received: to support the development of an impact investment market that will enable more social enterprises to take on repayable finance. This helped to boost the supply of social finance through institution and capacity building with philanthropic and commercial investors. It also contributed to developing and establishing feasible, suitable and reliable financial instruments. FASE explored effective ways of designing, consolidating, sustaining and linking social finance cooperation models and financial instruments and tested them with concrete cases. In addition, key learnings were prepared to inject this knowledge into the sector and to share what worked well (or not), how and why.

Chart 5: "The market challenge" / Source: FASE, Ashoka



II. SCOPE OF THE NETWORK EXTENSION ACTIVITIES

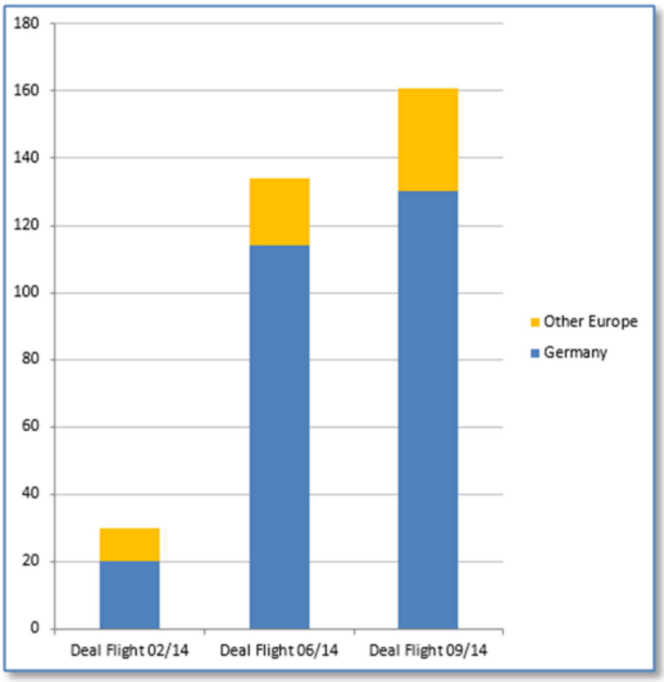
Since inception, FASE participated in multiple conferences, workshops, panels, events and meetings, inside as well as outside the social finance sector. Until the end of 2014, the team attended more than 40 events and held approximately 20 workshops and speeches on major occasions such as Vision Summit, EVPA Annual Meeting, StifterTage, IBAN launch and several entrepreneur breakfast meetings. More than 10 articles and interviews were published in which FASE contributed its insights and experiences with innovations in social finance. In addition, there were countless follow-up meetings and phone calls with potential investors that we met during such occasions or to which we were introduced by mouth-to-mouth propaganda and networking. Meanwhile, these activities bear fruit: our impact investor base has grown to more than 240 potential financiers from all different "financing planets".

Our network is mainly focused on investors seeking early-stage financing opportunities with individual, innovative social enterprises. In other words: they pursue a direct engagement on a deal-by-deal basis. We have accumulated all types of investors in our network: social business angels, philanthropists, social venture funds, foundations, banks, family offices and public authorities. It evolved through our own contacts as well as through those of our strategic partners (e.g. Ashoka, BMW Stiftung Herbert Quandt) or came as a result of our presence on sector conferences and public events. Our network building process is usually structured as follows: Typically, we start with a first meeting to understand the investors' individual preferences such as impact areas, ticket sizes, risk/return profile, engagement level, time horizon and preferred financial instruments. Based on these preferences, we approach the investors with concrete investment opportunities from our pipeline of social enterprise mandates ("deal flights"). The investors receive a short investment teaser ("2-pager") and a brief video that presents the social enterprise, its concept, market approach and team. Investors then decide if they are generally interested in the opportunity and would like to proceed. If the answer is yes, they receive more extensive material about the investment opportunity and the company ("information memorandum"). We also arrange management presentations where potential funders have the chance to meet the social enterprise's management and discuss all relevant questions. Based on the feedbacks that we receive to these events, we then continue to build investor coalitions of 2-4 investors and finalize the transaction. This involves the preparation of individual financing contracts. The deal closing takes place as soon as all investors are identified, aligned and ready to sign.

Although this effort to match investors and social enterprises is very time-consuming it is also very effective. In our experience, it pairs the most suitable investors with the right social enterprises and allows to customize each investor coalition to the specific needs of the respective enterprise. Impact investors tend to have very unique preferences as to which social enterprises they like to invest in and which not. Such preferences can only be considered appropriately if an individual deal-by-deal approach is used.

To better illustrate the evolution of our network, the first three "deal flights" may serve as a good example. During this systematic approach of investors, our network expanded substantially. Within 7 months only, it grew by 44% and reached 160 potential investors by September 2014. In terms of geographic origin, an increasing number of investors came from European countries, especially from Austria, Switzerland and the UK.

Chart 6: "FASE investor network growth by deal flight" / Source: FASE



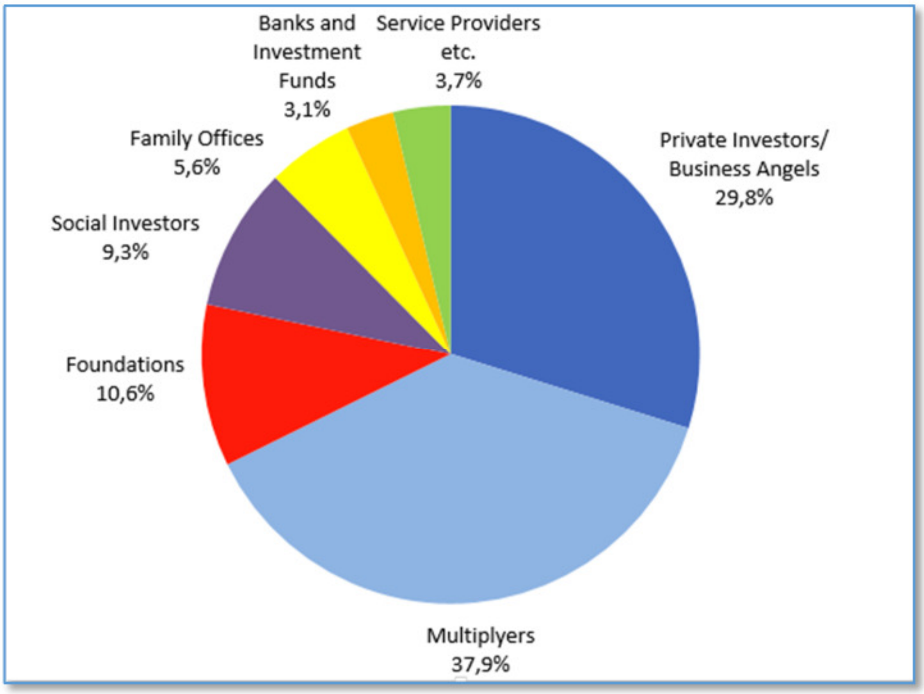
Today, private investors, business angels and family offices still represent the first movers and a majority of the investors in our network. Another important opportunity, however, presents itself with multipliers such as asset managers or business networks and clubs. This path requires a longer-term commitment and knowledge transfer, since there are several levels of decision makers and advisors that need to be convinced first. The process to get there is rather slow but nevertheless promising. Impact investing, unfortunately, is not yet a part of the mindset and/or investment philosophy of many representatives within this specific investor group.

Another potent source of funding are foundations. Although there are several pioneers in the market - which are all part of our network - the majority of foundations is only beginning to tap into the possibility of doing impact investing. Many of them have difficulties with embracing the idea of a "mission-related investment" philosophy: leveraging their social impact not only by making grants and donations out of program budgets, but by additionally investing (part of) their capital stock into projects that are close to their individual missions.

Finally, several investments into FASE mandates came from banks, investment funds and social investors. These are mostly impact players that pioneered the market and represent a vital part of today's social finance scene.

The chart below shows a breakdown of investor types within FASE's network as of September 2014 (160 investors in total). Meanwhile, our network has grown to more than 200 financiers with a similar allocation between types.

Chart 7:" Breakdown by investor types for FASE deal flight September 2014 "/ Source: FASE



III. ANALYSIS OF INVESTOR NEEDS

Another important outcome of our network expansion efforts was a thorough understanding of the needs, attitudes and profiles of investors. These insights enabled us to smartly map the ecosystem and to come up with a definition of gaps worth addressing with tailored solutions. As outlined before, classic foundations – either pursuing program related investments (PRI) or mission related investments (MRI) – are a rather untapped, but very sizeable opportunity. Another opportunity are corporates with either existing corporate social responsibility (CSR) initiatives or plans to set up a corporate social venture program. The chart below further outlines the results of our mapping exercise:

Chart 8: "The needs of major players not yet fully addressed in the current social finance ecosystem" / Source: FASE

Ecosystem: Needs of major players not fully addressed in current ecosystem for early-stage social finance

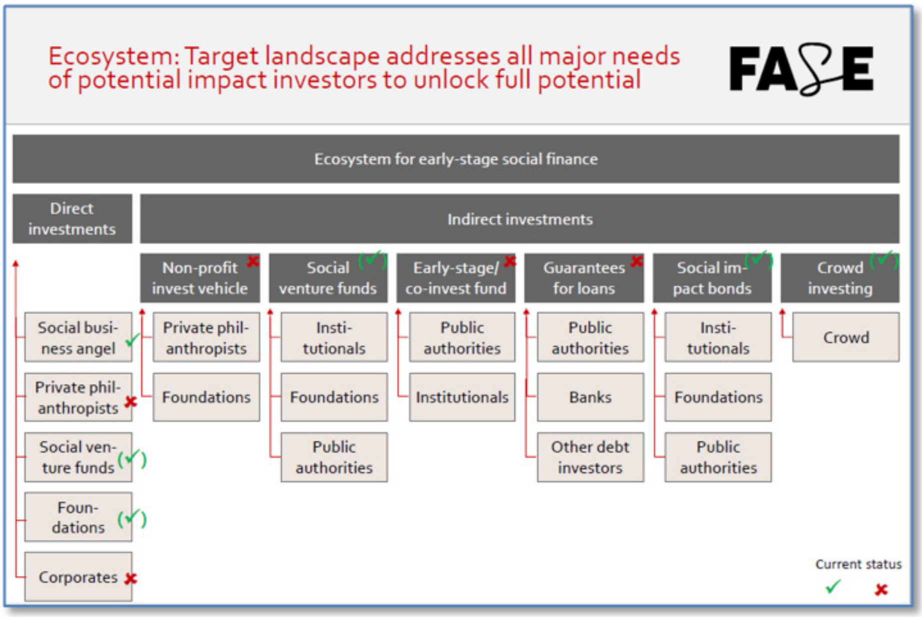
FASE

Investor type	Tickets (EUR k)	Return expectation: Donation	Return expectation: Impact	Return expectation: Financial	Risk potential	Financial expertise	Engagement: Active	Engagement: Passive	Currently addressed
1. Active social business angel	50-100		✓	✓	●	●	✓		✓
2. Passive social business angel	50-100		✓	✓	●	●		✓	✓
3. Social venture funds	250-1'000		✓	✓	◑	●	✓		(✓)
4. Private philanthropists	50-100	✓	✓		●	○		✓	✗
5. Classical foundations (PRI)	50-200	✓			●	◑		✓	✗
6. Classical foundations (MRI)	50-200		✓	✓	○	◑		✓	✗
7. Progressive foundations (PRI/MRI)	50-200	✓	✓	✓	●	◑		✓	✓
8. Public authorities (KfW/EIF)	>200		✓		●	●		✓	✗
9. Institutionals (family office, etc.)	>500			✓	◑	●		✓	✗
10. Corporates (CSR, CSVC)	50-200	✓	✓		●	◑	✓	✓	✗
11. Banks	100-500		✓	✓	◑	●		✓	✗
12. Crowd	<200		✓	✓	●	◑		✓	(✓)

The knowledge about these specific risk-return expectations has put us in a position where we can define a targeted approach and come up with innovative solutions. In this report, we will describe two examples of models designed to fit the profiles of foundations. Another result of the mapping exercise is our easy-to-use investment scheme: a model for private philanthropists that need less complex decision making and legal agreements due to a relatively low familiarity with financial structures.

The chart below summarizes the categories that we defined within the investor landscape, this time coming from the type of investment whether direct or indirect. Different investor types are arranged by models that either exist or need to be developed yet:

Chart 9: "The social finance ecosystem by engagement models and investor types" / Source: FASE

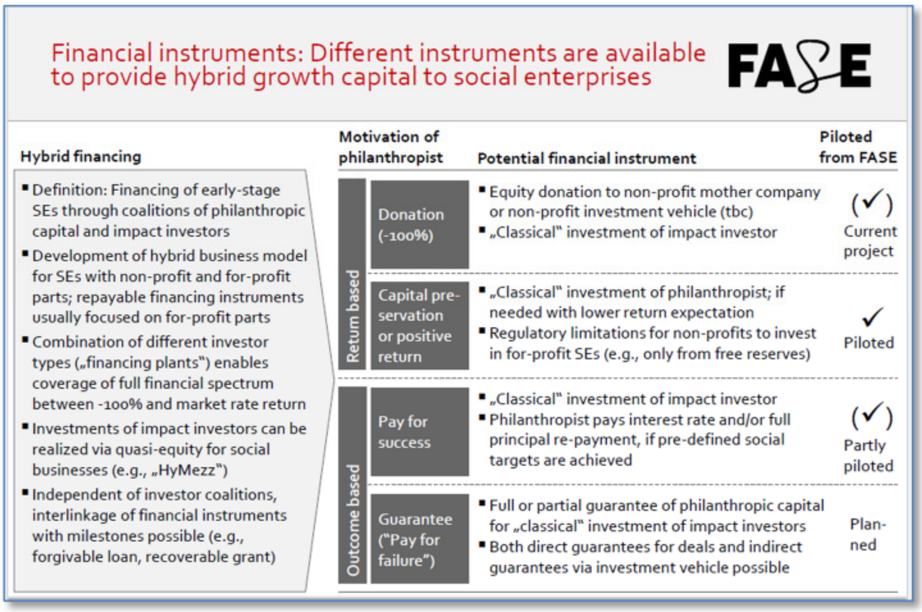


3. DEVELOPMENT OF COOPERATION MODELS

I. GENERAL DESCRIPTION

When designing new cooperation models between impact investors and philanthropists we were driven by the basic motivations of philanthropists: Are their goals defined by return expectations or rather by outcomes (i.e. social impact expectations)? As a result, we grouped our hybrid solutions by either return-based or outcome-based. The for-profit parts of a financing are supposed to come from repayable financing instruments, while non-profit components are typically provided by donations or guarantees. The idea was to combine these two financial sources in order to achieve a coverage of the full spectrum of return expectations from -100% (donation-type) to market rate (investment-type). Available instruments that serve such hybrid models are quasi-equity (mezzanine) for the repayable part as well as equity donations, direct or indirect guarantees for the non-repayable part. In addition, both instruments can be linked by milestone mechanisms. These milestones can either include specific impact or performance requirements that the social enterprise needs to fulfill. The following chart outlines our general approach when designing hybrid solutions:

Chart 10: "Different financial instruments available for hybrid growth capital" / Source: FASE



As a result, we came up with 3 groups of innovative financing models that will be described in detail in the paragraphs following this introduction: (i) tailored financing models, (ii) hybrid cooperation models, and (iii) innovative financing vehicles. There were several other ideas for potential co-operation models between donors and investors (i.e. recoverable grants, forgivable loans) but they had to be dropped after initial discussions with tax lawyers due to regulatory constraints. Furthermore, to add more "flesh to the bone", we will elaborate on the practical implementation of these models based on concrete cases with social enterprises that served as pilots to successfully demonstrate the impact of our hybrid solutions.

II. TAILORED FINANCING MODELS

Before we dive into the different models that FASE designed, it makes sense to better explain the nature of enterprise needs versus investor needs. Another aspect that will require some initial attention is the general suitability of certain repayable growth financing instruments to a social enterprise and its financing partners.

For most investors, top criteria for investment decision making are risk/security, liquidity, return, investor rights, structure and operational involvement/ participation. According to FASE's experiences, a typical impact investor would like to see a moderate return with regular (annual) cash flows for his equity-type of involvement. Also, most investors are ready to be engaged long-term. Financial returns do definitely play a role as they have to reflect a fair remuneration for the investment's risk profile. However, the kind of investors who are interested and suitable for our mandates do typically favor a strong social and/or ecological impact and are ready to put their support of the companies' goals first ("impact first investors"). Investor rights, on the other hand, should reflect certain market standards for equity, e.g. sufficient information and co-determination rights in case of a major management, ownership or strategy change. Common needs regarding structures are mostly simplicity and transparency, which keep investors' efforts to secure legal advice at a decent level. The expectations regarding the involvement in the target enterprise's operations are typically low. This is in line with the need of most social enterprises to remain independent in managing the company on a day-to-day basis. Investors often request membership in the advisory board though, in order to keep track of the enterprise's progress and to contribute their expertise and network to advance the common goal. Complementary needs of social enterprises mostly circle around the motivation to preserve their flexibility, either in terms of future financings or of repayments. This allows them to make sure that payments are kept in line with the company's available cash flow. The graph below again summarizes the main criteria and needs on both sides of the financing equation:

Chart 11:"Investor vs. enterprise needs" / Source: FASE

Investor vs. enterprise needs

FASE

Criteria	Needs of investors (assumption)	Complementary needs of enterprises
Security / Repayment	Equity-like involvement with potential to achieve attractive return; annual cash flows	Flexibility: → No „classic" loan (no securities) → Flexible repayments according to available cash flow
Liquidity / Term	Long-term	
Return	Fair remuneration for risk taking, but supporting the enterprise's goal and its social impact rank first Attractive target return	
Investor rights	Typical market standards for equity investors	
Structure	Simple and transparent	Flexible with respect to potential follow-on financing rounds
Level of operational involvement	Low; participation in advisory board requested	Participation via advisor board possible

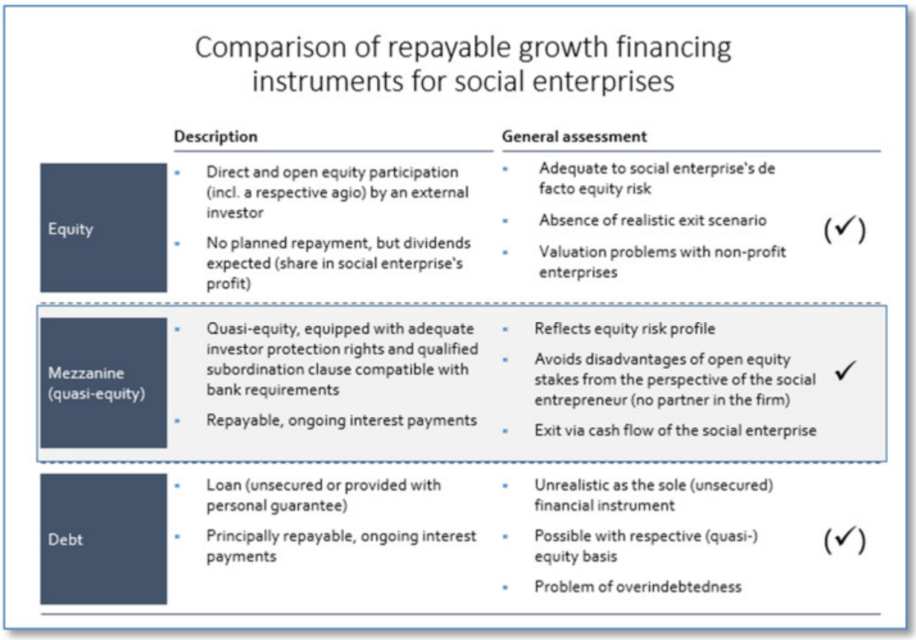
When it comes to financial instruments, there are several aspect that need to be considered in order to match expectations between investors and social enterprises. According to our experience, there is no such thing as a "one fits all" solution. Instead, a variety of instruments are available that should be smartly combined and fine-tuned to the enterprise's needs while at the same time satisfying a diverse mix of investor profiles.

Equity is a typical financing instrument for early-stage companies in other sectors (e.g. technology-oriented businesses) - but it is often less suitable for hybrid social enterprises. One of the main reasons is the lack of appropriate exit scenarios via M&A or IPO. In the current state of the social finance market, there is not yet enough liquidity to exit social enterprises and to find potential buyers on or off organized markets, e.g. social stock exchanges. If the social enterprise is structured as a non-profit entity, an additional problem arises: finding an adequate valuation to define the price per share at which the equity investor enters the company. On the other end of the spectrum are debt instruments. They often demand a decent level of securities and/or at least a reliable basis for ongoing interest payments. This is, however, a less realistic scenario for social enterprises. Debt can serve as a good complementary instrument if mixed with equity or mezzanine. But if social enterprises are relying on debt instruments alone, they can quickly become over-indebted. This stifles their ability then to grow and to develop their businesses as planned.

Quasi-equity, on the other hand, combines the best of both worlds. It can be structured in a flexible way, either with more equity or more debt character, depending on the subordination clauses, investor rights and other features. At the same time, it can serve as "economic" quasi-equity: it increases the social entrepreneur's ability to raise additional financing and to preserve existing securities. It is also flexible enough regarding its repayment terms and can do without the introduction of a stakeholder into the company who strongly participates in the entrepreneur's decision making. With mezzanine, there is also the opportunity to link payments and repayments of capital to specific milestones that are either financial performance- and/or social impact-driven.

The following graph outlines the main arguments for and against equity, mezzanine and debt from the point of view of a social enterprise:

Chart 12: "Comparison of repayable growth financing instruments for social enterprises" / Source: FASE


Comparison of repayable growth financing instruments for social enterprises

	Description	General assessment	
Equity	• Direct and open equity participation (incl. a respective agio) by an external investor • No planned repayment, but dividends expected (share in social enterprise's profit)	• Adequate to social enterprise's de facto equity risk • Absence of realistic exit scenario • Valuation problems with non-profit enterprises	(✓)
Mezzanine (quasi-equity)	• Quasi-equity, equipped with adequate investor protection rights and qualified subordination clause compatible with bank requirements • Repayable, ongoing interest payments	• Reflects equity risk profile • Avoids disadvantages of open equity stakes from the perspective of the social entrepreneur (no partner in the firm) • Exit via cash flow of the social enterprise	✓
Debt	• Loan (unsecured or provided with personal guarantee) • Principally repayable, ongoing interest payments	• Unrealistic as the sole (unsecured) financial instrument • Possible with respective (quasi-) equity basis • Problem of overindebtedness	(✓)

As a result of these insights, FASE developed five hybrid models on a deal-by-deal basis that will be further described in the following sections. All of them smartly combine the available instruments to exactly meet to the specific needs of the respective social enterprise. In addition, they have been designed to attract new types of investors and to integrate them in one deal, even if they come from distant "financing planets".

The first group of models combines three tailored financing solutions that can be applied to social enterprises with non-profit and for-profit organizational entities. While the non-profit entity can be supplied with donations or public grants, quasi-equity (mezzanine) is the most appropriate repayable instrument to finance the for-profit entities.

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

Our first model uses quasi-equity ("Genussrechtskapital") without loss participation and combines it with a revenue share. This share comes as a maximum percentage plus a fixed return. The basic intention is to define a target return for the investor but to cap the amount of the revenue share in the beginning. This enables the social enterprise to develop its business first, without initially paying too much for the freshly raised capital. A typical mechanism to achieve this is to set a cap. This cap is a certain percentage on the nominal value of the investment amount. Each year, revenue share and cap are compared. If the cap is lower, then the investors receive the lower payment but are entitled to catch-up on their claims in future years so that they are finally able to achieve the target return.

The effect of such a model is positive: the burden of the social enterprise to meet the investors' return claims is partly postponed to a later point in time when the company is more developed. This illustrates why such financing structures are often called "patient capital": they give the company room to focus on growth for a certain number of years.

Another important twist to this model is that it includes incentives for the enterprise to meet their social and/or ecological impacts. Impact investors are ready to waive a certain part of their target returns if a pre-defined impact goal is fulfilled. These impact goals are typically defined by quantity and by timing.

Altogether, this model provides the necessary flexibility to the entrepreneur while making sure that investors are "rewarded" appropriately with respect to financial return as well as social impact.

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

Model number 2 is principally equal to the first but uses a profit participation mechanism instead of a link to the enterprise's revenue streams. Otherwise, its features are quite similar: Quasi-equity comes with a qualified subordination clause but without loss participation, and is combined with a fixed interest rate plus a share in the enterprise's profit (EBIT). There is also a one-time final payment, defined as a range of percentages on the nominal value of the capital raised. This one-time payment only becomes due at the end of the term. The exact percentage number used to calculate this payment is again depending on the level of social impact that the enterprise achieves during the term of the financing. Typically, this impact goal is quantified as exactly as possible to avoid any misinterpretations or conflicts between the social enterprise and its investors. The result of this model is a range of potential target IRRs for the investors then.

Again, the purpose of this solution is to save liquidity in the beginning. The social entrepreneur received enough air to breathe for growing his or her business, while investors are able to achieve both, a financial return and a strong impact by the end of the term.

C) MODEL 3: EASY-TO-USE INVESTMENT SCHEME (SIMPLIFICATION OF MEZZANINE CAPITAL)

When speaking with potential impact investors it became clear that there are certain philanthropic financiers facing difficulties with direct investments into social enterprises due to complexity. Therefore, FASE developed a simplified model that will allow interested parties to get familiar with the process of choosing an appropriate social enterprise to invest in. The idea is to give them access to basic insights about the process in a playful way: the "flight booking"-scheme. Potential investors are guided through a virtual transaction as easily as if booking a flight on the Internet. FASE uses a three-step approach that is quite similar to selecting flight destinations, times and available seats.

The main choices in our model are 1) investment amount, 2) investment term and 3) investment return. For the first path, we offer amounts of 20,000, 50,000 and 100,000 EUR. Category number two comes with options of 5, 7 and 10 years. Three return alternatives will be set with a) social impact, b) return of capital, or c) financial IRR in the range of 4-6% p.a. This reflects the typical spectrum of investor profiles that we have seen during our network expansion process. At the same time, it also represents the common denominator of deal types that we find among our mandates.

At the end of this "booking" experience, each investor will virtually "board the investment plane": he or she receives a concrete outcome, either in the form of an investment proposal that FASE is currently mandated with, or in form of a case study that describes a previously completed transaction. The result is an easy, anonymous and playful way to get familiar with the topic of impact investing without requiring too much entry-level knowledge. Thus, psychological hurdles will be effectively lowered.

The easy-to-use investment scheme is planned to be implemented on FASE's website and will provide an easy access for everyone interested in the topic of impact investing.

III. HYBRID COOPERATION MODELS

The second group of financing models comes with two solutions that combine different types of investors in individual, hybrid transactions: 1) equity donation combined with impact investment and 2) crowd investment combined with impact investment.

A) MODEL 4: EQUITY DONATION COMBINED WITH IMPACT INVESTMENT

Model number 4 is a hybrid financing approach, combining a philanthropic donation with an impact oriented investment. A foundation, a philanthropist or a group of donors make a donation to a social enterprise that is structured as a non-profit vehicle (e.g. a German gGmbH). In addition, the social enterprise uses a second entity, a for-profit arm, which is set up as a fully owned subsidiary of the non-profit entity (e.g. a German GmbH). A donation is then injected into the non-profit arm which results in an increase of its capital stock. This enables it to hand over capital to the for-profit subsidiary, providing it with a sufficient equity shield. This component of the hybrid cooperation model is called "equity donation".

The stream of capital, originated from philanthropic sources, then prepares the ground for the next step: an impact investment. The for-profit structure, now equipped with basic equity, can attract further growth capital from external investors, allowing it to expand the scale of its products and services to other markets. For this part of the model, quasi-equity with revenue participation or profit participation can be used. Again, mezzanine capital typically comes with a qualified subordination clause but without loss participation.

To better illustrate the impact investment part of this model, we use the example of a revenue participation clause. The impact investors' compensation is calculated as a fixed percentage on the projected revenues of the for-profit entity. The annual payment amount, however, is limited by a cap to secure sufficient liquidity for the social enterprise in the first years. To reach the pre-defined target IRR, investors will then catch up on the difference between their revenue share claim and the payments received - in the years following the initial phase of the financing term.

Two charts visualize the basic structure of this hybrid cooperation model developed by FASE, based on the example of our pilot project ROCK YOUR LIFE!:

Chart 13: "Model equity donation with impact investment, example ROCK YOUR LIFE!" / Source: FASE

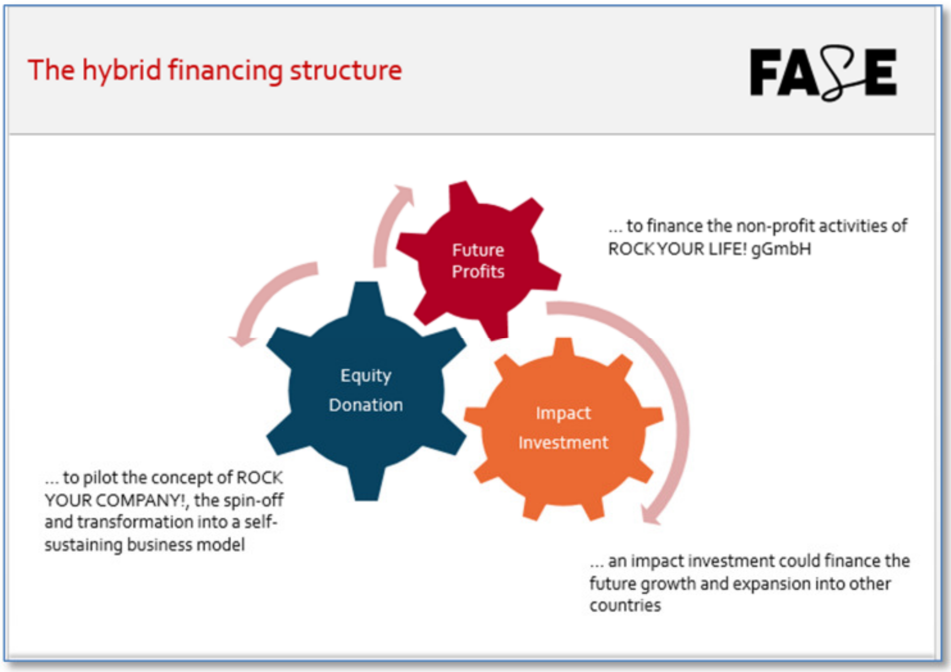
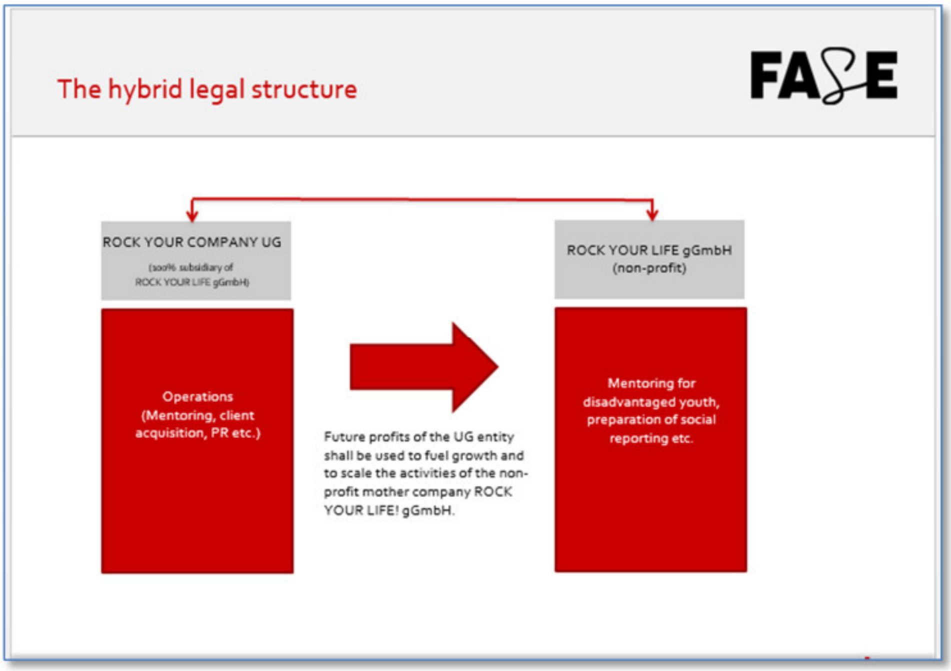


Chart 14: "Example of a hybrid legal company structure as the basis for hybrid cooperation model 4" / Source: FASE



B) MODEL 5: CROWD INVESTMENT COMBINED WITH IMPACT INVESTMENT

In this financing model, FASE uses a two-tier financial structure that honours the increasing importance of crowdfunding as a source of a social enterprise's financing mix. The crowd investment part typically comes in the form of a sub-ordinated loan with profit participation ("Partiarisches Nachrangdarlehen"). The impact investment is usually a classical equity investment.

This structure provides the social entrepreneur with sufficient flexibility and allows the crowd and the equity investors to participate in the corporate success. For a number of social enterprises, crowdfunding has become an important source, not only of capital but also of community to expand the reach of their brands. Yet crowdfunding tends to be limited in its ability to raise larger amounts and is usually very time-consuming for the social enterprise and its team. A combination with impact investments from professional value-add investors can therefore be a perfect solution to achieve both goals: larger funds AND positive community effects.

The equity investment provides the social entrepreneur with an attractive equity shield and reduces the debt-ratio of the company. This is also a plus to the crowd, since the social enterprise becomes stabilized, the loan repayment risk is reduced and the company is able to scale and increase its profits. The equity investor, on the other hand, takes a higher risk but is rewarded with a higher potential return rate. All parties involved benefit from the solution. In the pilot case that FASE used to implement this model, there is even a third benefit: The social enterprise is a crowdfunding platform itself, which allows equity and crowd investors to indirectly participate in a large portfolio of social/environmental projects – a triple plus, so-to-speak (for more details, please see our case study of "bettervest GmbH" in this report).

IV. INNOVATIVE FINANCING VEHICLES

Our financing models described so far perform on an individual deal-by-deal basis. Yet our goal was to also address other, more systematic gaps in the social finance sector. Therefore, we specifically developed two co-operation mechanisms that require the set-up of separate financial vehicles.

A) NON-PROFIT INVESTMENT VEHICLE

An investment vehicle specifically designed for donors is an important step towards engaging a particularly potent source of capital: foundations. So far, foundations are not able to use donations and grants in a tax-efficient way to support social enterprises structured as for-profit entities. The same applies to using grants or donations as direct guarantees or repayable forms of capital. To make the situation worse, foundations often lack the specific knowhow and experience to make assessments about how to structure investments in accordance with regulatory requirements.

A non-profit vehicle presents a compelling alternative: such a vehicle can use grants and donations in accordance with the legal, tax and regulatory framework and is able to provide a care-free service for foundations. It is also designed to take over all necessary administrative functions and thus reduce the workload for its investors. As a result, many arguments preventing foundations from getting engaged in the social finance sector suddenly become obsolete.

As of June 2015, our project called "Evergreen Foundation" is in the phase of early discussions. FASE is in close contact with the German Association for Foundations in order to gain support among their members as well as with legal advisors to check the details of the regulatory implementation.

B) EARLY-STAGE CO-INVESTMENT FUND

A multitude of early-stage social enterprises is trying to find appropriate financing. A dedicated early-stage fund structure - as it exists for German technology companies with the High-Tech Gründerfonds - is missing, however. Impact investors tend to wait at the end of the pipeline when deals are more mature and less risky. Some recent developments further increase this gap: the end of the co-investment scheme for social enterprises by Kreditanstalt für Wiederaufbau (KfW) and the fact that social venture funds increasingly focus on larger deals due to bigger follow-on fundraisings. Yet without a proper structure to fuel early-stage deals into the pipeline it will sooner or later dry out. There will be less deal flow passing the funnel and later-stage investors will miss out on attractive opportunities in the future – a vicious circle. Therefore, the social finance ecosystem is in need of an additional vehicle: an early-stage co-investment fund.

The main idea is to set up a vehicle that benefits from the open deal flow that FASE already creates. By using a co-investment structure, fund investors can join a diversified portfolio of social enterprises at the identical terms and conditions defined by the respective lead investors in each transaction ("pari-passu"). The vehicle targets a size of 5.5 million EUR with a scope of 32 co-investments in early-stage social enterprises over an investment period of 5 years. The enterprises usually have a financing need in the range of 100-500k EUR and the fund will take up to 50% of these amounts. Social impact has to be the primary goal of the social enterprises or at least an equivalent goal to financial objectives. The entire fund structure will then be passively managed, i.e. automatically linked to FASE's open deal pipeline but duly administered by an experienced fund partner.

To allow for a moderate positive net IRR to the investors, the fund will apply for a guarantee program that is offered by the EU ("EaSI"). FASE is currently in the process of approaching potential fund investors that are willing to act as market builders for this underserved but extremely important early-stage segment.

4. PILOTING AND TESTING NEW MODELS

I. GENERAL DESCRIPTION

There is a typical process that FASE applies to all its transaction mandates. This process is especially important when piloting and testing new models due to the innovative and complex nature of these deals.

Before choosing a mandate, FASE uses a specific, proprietary mechanism: the "scoring tool". It allows us to assess each potential mandate in a systematic way. The mechanism enables a summary of the main characteristics of each project by specific categories and a ranking of all projects according to the level of compliance with our general deal requirements. These requirements are mainly driven by what we know about our investor network's preferences. It is no "black or white" solution, though. The tool rather serves as a support for our own decision making vis-à-vis our potential mandates and for a communication of the open issues that need to be addressed in our view. The following two charts illustrate the five different categories and the tool's systematic setup:

Chart 15: "Scoring tool – a systematic approach to selecting mandates" / Source: FASE

Score: Very Low (1), Low (2), Moderate(3), High (4), Very High (5)

Aspect	Value	Average	Comments
Knock-Out Criteria			
Social Impact	Yes		Is social impact the primary goal of the enterprise (or at least equal to the financial goals)?
Proof of Concept	Yes		Is the enterprise active in the market for at least 2-3 years?
Business Model	No		Does the business model allow for a proprietary revenue generation (as opposed to a pure donation-based model)?
Ranking Criteria			
1. Social Impact		Weight: x%	
Is there a clear impact concept in place?	5		Is the impact concept well defined (i.e. input - output - outcome, theory of change)?
Does the enterprise create a distinctive social value add and a strong competitive edge?	5		Is the social impact big enough? Is there a compelling solution to the social problem? Does the offering differentiate itself from existing solutions and offer a value add?
Is the social impact being measured?	5		Is the social impact operationalized through KPIs? Does the enterprise measure and report these KPIs (e.g. by "SRS" reporting standard)?
Subtotal	*15*	*5,0*	
Max. subtotal	*15*		
2. Business Model		Weight: x%	
Does the enterprise have a commercial business model?	5		Is the business model clearly defined and attractive? Are there defined income streams? Have the target groups been defined? Are the target groups able to pay for the enterprises' products and/or services?
Is the business model scaleable?	5		Is the organisational structure poised for growth? Can the offering be adapted to future market trends as well as social and legal changes? Is the business model documented well enough?
Has a business plan been prepared?	5		Have KPIs for success/termination as well as milestones been set and can they be tracked? Is there a well defined growth plan for the coming years? (scaleability)
Subtotal	*15*	*5,0*	
Max. subtotal	*15*		
3. Proof of Concept		Weight: x%	
How long has the enterprise been in the market since being founded?	5		1 = 0 years 2 = 1 year 3 = 2 years 4 = 3 years 5= >4 years
Has it generated proprietary income already?	5		1 = No 2 = <10 TEUR p.a. 3 = 10-50 TEUR p.a. 4 = 50-100 TEUR p.a. 5 = >100 TEUR p.a.
Have pilots of the business model and its social impact been successfully implemented?	5		Are there one or more successful pilots (e.g. several locations)? Is there an existing demand in the market for the model (e.g. initial revenues)? Has the social enterprise received awards?
Subtotal	*15*	*5,0*	
Max. subtotal	*15*		
4. Team & Entrepreneurs		Weight: x%	
Do the entrepreneur(s) and his (their) team possess the necessary skills and experience ?	5		Do the entrepreneurs and his team possess the necessary skills and experience to meet the challenges (complementary skills - social as well as business-wise)?
Does the enterprise possess a reliable team structure?	5		Is there a solid team structure in place that allows to assign the responsibilities to several shoulders (no 'one man show')? Did the team already work together in its current constellation?
Summe	*10*	*5,0*	
Max. Summe	*10*		
5. Financial Planning		Weight: x%	
Did the enterprise prepare a detailed financial plan for the coming 3-5 years?	5		Is there a monthly P&L? Is there a monthly cash flow analysis?
Is the required financing amount well documented and explained?	5		Is there a model that sufficiently links growth with capital requirements (e.g. turnover and human resources requirements)? Have the capital requirements been broken down to activities and impact levels?
Is the social enterprise able to meet the financial expectations of the investors?	5		Is there a realistic ratio between financing amount and the stage of the business? Can the interest rate realistically be paid? What is the current company valuation? Are there clear exit strategies? Is there a potential for distributions?
Subtotal	*15*	*5,0*	
Max. subotal	*15*		
TOTAL	Value = X		

When the mandate has been signed and the transaction process starts, FASE's core role and value add can unfold as follows:

1) Coaching the social entrepreneur: FASE provides an important service by coaching the social entrepreneur about the investors' expectations and attitudes. As a consequence, he or she is much better prepared to deal with different investor types and their very specific needs. FASE also guides him or her throughout the whole process in all relevant questions of financing, business planning and other important issues.

2) Providing innovative financing instruments: FASE understands the specific profiles of social enterprises and impact investors. It is therefore in an excellent position to design new, state-of-the-art financing instruments that match both sides. During the transaction process, we contribute and explain our models in detail to both parties and adjust the instruments in a way that they achieve the best possible fit between social enterprises and their potential investors.

3) Approaching investors in a targeted way: FASE has built a network of impact investors and knows about their preferences. This allows us to profile, coordinate and syndicate different potential funders during the transaction process in a very effective way. We have also set up a targeted process when approaching investors so that we can narrow down the list quickly to those seriously interested in joining the deal. This process involves the preparation of suitable material such as teasers as well as our assistance in setting up management presentations with the social enterprise's team.

4) Involving strong partners: With Ashoka as a strong partner, FASE is able to engage Ashoka's pro bono network for the benefit of the social enterprise. This allows us to additionally secure valuable support, e.g. legal advice when designing the term sheet of the financing.

5) Securing neutrality: FASE is an independent financial intermediary that does not act as an investor in its own right. It is therefore able to consult with both sides of the financing equation without any conflicts of interest or an agenda of its own – other than helping the company to achieve the best possible impact on society.

These characteristics also represent FASE's unique selling proposition in the market. To better illustrate a typical transaction timeline, the following chart from our recent pilot project bettervest GmbH may serve as a good example (in German):

Chart 16: "Typical timeline of a transaction process based on example pilot project bettervest" / Source: FASE

Vorschlag Zeitplan: Bettervest

Meilensteine	Kalenderwoche
1) Vorphase (Überprüfung Machbarkeit/Fit; Review bestehender Dokumente)	Erledigt
2) Abschluss Mandatsvereinbarung	Noch offen
3) Erster Entwurf ausführlicher Business Plan (Infomemo)	4 bis 7
4) Erstellen Longlist und Shortlist von potentiellen Investoren	7 bis 8
5) Finalisierung Teaser und Festlegung Finanzierungsstruktur	7 bis 8
6) Abfrage erstes Investoreninteresse und Aussenden Teaser durch FASE	9 bis 14
7) Nachfassen durch FASE	13 bis 14
8) Eingang erster Interessensbekundung	13
9) Auswertung der Interessensbekundungen (ggf. Abbruch)	14
10) Finalisierung Informationsmemorandum	14
11) Finalisierung Management Präsentation	14
12) Empfehlung über engeren Investorenkreis durch FASE	15
13) Finalisierung Prozessbrief (Ziel: Binding Offer/LOI in einem begrenzten Zeitraum)	15
14) Versendung von Prozessbrief (bei Bedarf inkl. NDA) an engeren Investorenkreis	15
15) Rücklauf des NDAs (falls notwendig)	16
16) Versendung des Informationsmemorandums	16
17) Durchführung von Management-Präsentation	17 bis 18
18) Due Diligence Phase	18 bis 22
19) Abgabe eines LOI/Binding Offers	22
20) Vertragsverhandlungen	23-25
21) Signing	26

To test our hybrid financing models with concrete pilot projects, FASE selected five social enterprises. They came either through our open pipeline or from the broader market environment. During our cooperation in raising hybrid growth capital, expert coaches consulted the companies in all questions of planning, preparation and execution of the transaction process. This involved the review of the business model and discussions regarding its future development, especially with respect to the plausibility from the point of view of external investors. Another vital part of our work was the identification and design of financial instruments to structure the respective transactions. Special attention was turned on the combination of philanthropic and impact oriented investors into one single financing round. A third step was the preparation of investment teasers that served as overview documents for initial investor approaches. In stage number four, we coached the companies to develop a suitable information memorandum and a compelling management presentation. The last step in our process was to identify potential impact investors and to establish contact regarding the specific deal opportunity. This resulted in an initial term sheet draft to be discussed and then finally signed.

FASE worked with the following five social enterprises to test and pilot the co-operation models: (1) DisAbility Performance Social Enterprise GmbH, (2) Schmökerkisten UG, (3) ROCK YOUR LIFE! gGmbH, (4) Streetfootballworld plus GmbH, and (5) bettervest GmbH. The individual pilot projects will be described in much more detail in the following paragraphs. For more information please also find the individual investment teasers and case studies in the open annex to this report (information memorandum and management presentation of each project will be part of a confidential annex).

II. DISABILITY PERFORMANCE SOCIAL ENTERPRISE GMBH ('DP')

Executive Summary

Around 630,000 people in Austria are disabled or have special needs. Yet only 40 percent of them are actively participating in the labour market. Companies do not recognize disabled people as a specific customer group and therefore lose billions of dollars due to unused talents and unserved clients. For disabled people, this structural weakness leads to an exclusion from society and an inability to lead a life based on equal rights and opportunities. Many of them are willing to work and to consume but they are underestimated based on a perceived lack of competences or deeply rooted prejudices. Simultaneously, their numbers are growing following demographic change. The problem is therefore not only a social burden but an economic challenge that can only be addressed by the economy itself.

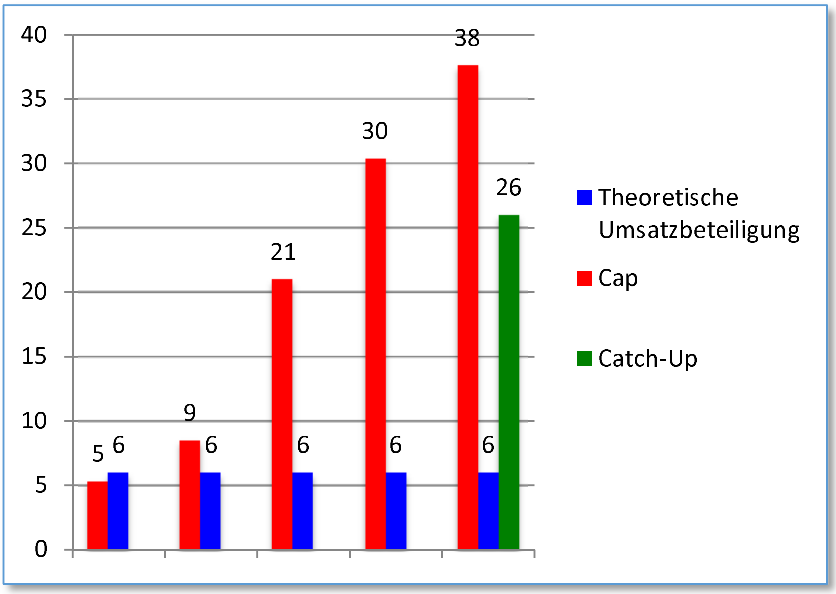
DP solves the problem by positioning itself at the gateway between economy and people. It is an innovative social consultant supporting corporate players to understand and identify the potential of people with disabilities as future employees and clients. At the same time, it connects best practice companies with each other in order to facilitate a knowledge transfer within the economy. The idea is simple: an ageing society will see an increasing number of people with special needs. If companies are able to build the necessary knowhow and flexibility to make use of this potential, they will be well equipped to cope with fundamental changes. To succeed in this, all corporate divisions need to be involved: from recruiting and design of work spaces, to products and services, barrier-free construction and management strategy. Since many companies already have initiated excellent projects for disabled people, one of the main tasks of DP is to increase visibility and to promote best practice examples through an economy-wide knowledge exchange.

Gregor Demblin was born in 1977 and sits in a wheel chair following an accident. In 2009, he co-founded Career Moves, a non-profit company that successfully integrates disabled people in the labour market. The company received many awards, among others the First European Award for Social Entrepreneurship and Disability, and is considered to be a unique light house project across Europe. Gregor is an Ashoka Fellow, a Global Associate of the Business Disability Forums UK, and an internationally renowned expert in the field of economy and disability. With the establishment of DP, he builds on his substantial experiences with Career Moves by meeting the needs of corporates for a professional disability consulting.

The Financing Model

DP operates as a for-profit limited liability entity which receives payments for its consulting and networking services. As a consequence, there is an opportunity for a financing model that is sustainable and secure. To build DP, the company needed 330k EUR. After the necessary repayments to the investors, future profits will be used to fuel the company's growth and to scale its proprietary non-profit job platform Career Moves. The financing model uses quasi-equity, i.e. mezzanine capital with revenue participation and social impact incentive ("model 1"). The basic ingredients and characteristics of this model are described under Section IV.3.II.a. The term of DP's financing is 5 years. The following chart outlines an illustrative remuneration of investors based on the revenue assumptions of DP's management. The blue bar represents the investors' theoretical revenue share, while the red column shows the cap and the green column the respective catch-up that is triggered after a defined number of years:

Chart 17: "Financing model for DisAbility Performance and investor remuneration based on projected company revenues"/ Source: FASE



The financial modelling builds on the base case scenario defined by DP and provides the source of the financial structure that FASE recommended for this specific pilot project.

The Investors

In 2014, FASE approached almost 120 investors with the opportunity to provide growth capital to DP. In the course of the transaction process, the group of interested investors narrowed down to four – two business angels, a bank and an institutional social venture fund. All of them went through detailed discussions and management presentations but at the end, the social venture fund decided to provide the entire financing amount of 330k EUR. The term sheet was signed and the transaction successfully closed in March 2015.

III. SCHMÖKERKISTEN UG ('SK')

Executive Summary

Schmökerkisten UG distributes specifically designed educational book boxes that also include proprietary learning material for language development at school. The product consists of a high-quality wooden box equipped with 25-30 language-sensitive books. These books are accompanied by reading recommendations that promote an independent learning experience for pupils. In addition, tutors receive interactive, nuanced material and suggestions how to directly use the boxes content during school lessons. To create a longer term offering, new book boxes will be developed on a quarterly basis. Update systems and seminars for teachers complete the company's product portfolio.

Schmökerkisten reacts to the social problem of insufficient language skills and literacy of pupils on Germany. 14% of all students leaving school have only rudimentary reading abilities. Although the PISA results are slowly improving due to massive efforts, Germany is still behind benchmarks when it comes to the school integration of children from immigrant families or from low educational backgrounds. However, the main cultural competence for a successful study and work career is language. Language development is therefore a vital task of schools which lack appropriate materials, advanced training and concepts for a broader expansion of language development.

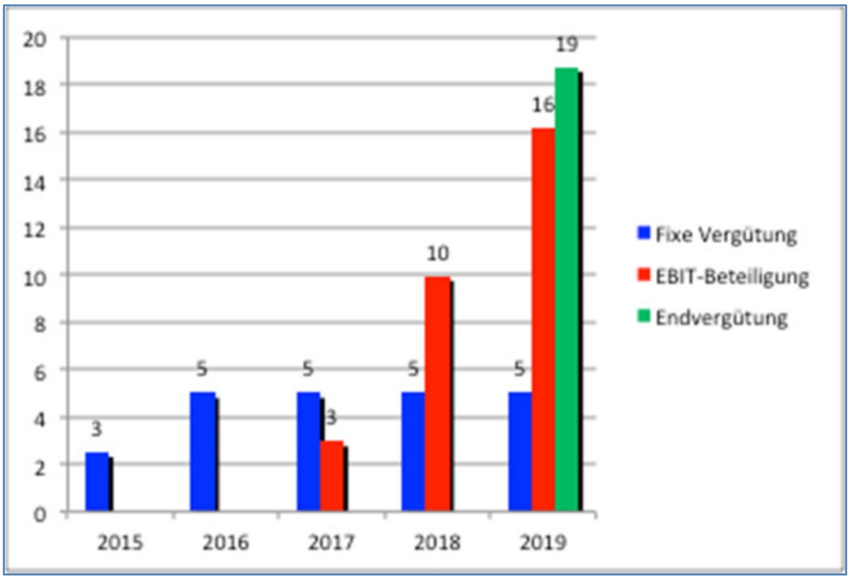
Schmökerkisten already proved the impact of its innovative approach with a successful pilot in Berlin: 130 boxes were sold within only nine months which resulted in a net revenue of 38k EUR. With this pilot only, 250 pupils were able to receive an active language training and 2,400 students in 18 schools came into contact with the unique concept of the book boxes. In a next step, the company plans to scale its services Germany-wide. A national market penetration of 5 percent by 2019 was defined as the main goal. If achieved, Schmökerkisten will reach 250,000 student and sell almost 4,000 book boxes at 1,570 schools.

The Financing Model

Schmökerkisten planned to raise growth capital in the amount of 225k EUR to establish the company as one of the most important institutions for inner-school language development in Germany. The mother company SWiM Bildung had initially provided equity to prepare the initial build-up of its subsidiary. The management of Schmökerkisten had a preference for mezzanine capital with a profit participation and a social impact incentive ("model 2"). This model was developed by FASE and is described in detail in Section IV.3.II.b. The financing will go directly to Schmökerkisten UG and will serve the company to cover staff cost for product development as well as marketing and sales expenses for the nationwide rollout. The term of the financing will be 5 years.

The following graph shows an illustrative example of the investors' remuneration should the management's base case scenario be achieved. The blue bar represents the investors' fixed remuneration, while the red column shows the profit participation based on EBIT and the green column the final payment that is depending on the company's achievement of certain pre-defined social impact goals (measured by number of book boxes sold).

Chart 18: "Financing model for Schmökerkisten and investor remuneration based on projected company revenues"/ Source: FASE



The Investors

FASE initially addressed more than 180 investors with the idea to support Schmökerkisten with growth capital. This process only started in March 2015. However, as of early July 2015, already three potential investors have indicated strong interest to invest – one corporate from the publishing sector, one bank and one foundation. The transaction is expected to close in early August 2015, i.e. after the completion of this report.

IV. ROCK YOUR LIFE! GGMBH ('RYC!')

Executive Summary

ROCK YOUR LIFE! gGmbH ("RYL") has developed a highly efficient, one-on-one, pro-bono mentoring program for socially disadvantaged young people in schools. The original concept was developed in 2009 and successfully scaled across Germany. The company's brand is well known and received a number of awards, among others winner of the 'start social' price of the German Chancellor in 2009. With more than 40 local subsidiaries, 5.000 trained participants, one hundred in-house trainers, 120 participating schools and numerous partnering companies, it is one of the largest and most successful mentoring programs in Germany today. To create even more social impact, the social enterprise developed a commercial solution, ROCK YOUR COMPANY!, that is supposed to generate profits for its mother company ROCK YOUR LIFE!, enabling it to achieve a sustainable financing and to further expand its social impact.

The new solution ROCK YOUR COMPANY! shall extend RYL's unique mentoring approach to companies and provide a commercial, effective, in-house mentoring solution, tailored to the individual corporate customers and their mentors and mentees. The market potential of the German target market is around 400-580 million EUR, out of which only 28 million EUR are currently adressed by competitors. The new RYL program shall enhance self-responsibility and self-management among young, non-academic employees who face higher challenges in unfolding their full potential as compared to their academic peers.

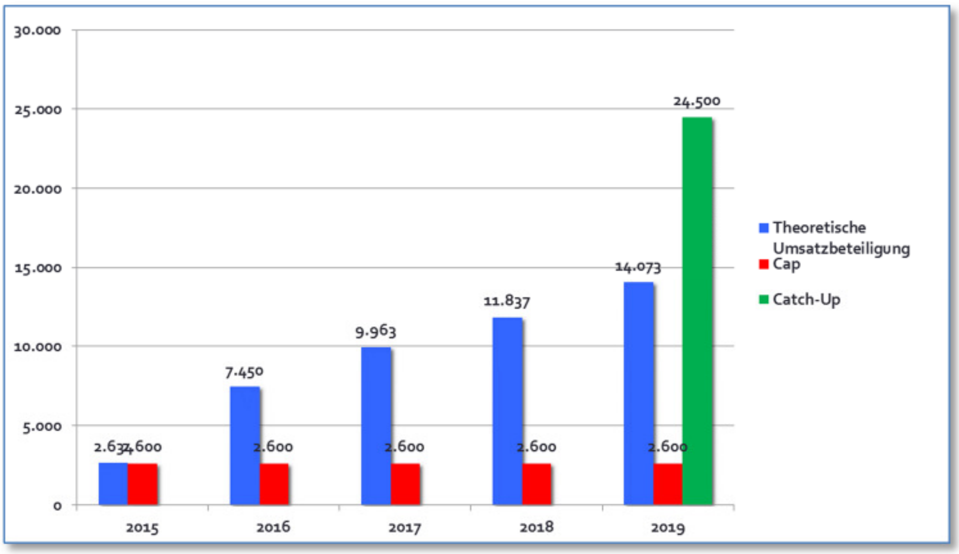
The Financing Model

Originally, RYL was seeking growth capital of 250k EUR in 2014. The management team was open to different financing instruments but preferred a hybrid financing model developed by FASE: the combination of an equity donation with an impact investment ("model 4"). The donation was meant for the non-profit entity, while the impact investment was planned to go directly as quasi-equity into ROCK YOUR COMPANY! UG, a 100% for-profit subsidiary of ROCK YOUR LIFE! gGmbH. This investment would then finance five pilot projects as well as the German-wide roll-out of the commercial mentoring program. After the reimbursement of the investors, future profits of ROCK YOUR COMPANY! would then go back to the non-profit mother company 'ROCK YOUR LIFE!' to finance its social impact.

The initial growth capital need was split into two phases. The equity donation was meant to enable RYL to reach a more solid proof of concept with five dedicated pilot projects. After this successful proof of concept, the impact investment was intended to serve for the set-up of the ROCK YOUR COMPANY! UG. However, in the course of the transaction process, a German foundation was persuaded by the concept and decided to provide the entire growth capital in the form of an upfront donation. Therefore, RYL postponed the impact investing part of the model until the program will require capital for further expansion.

Based on the original scenario, the illustrative remuneration of the impact investors was supposed to follow the path depicted in the chart below. Again, the investment model includes a variable repayment based on a revenue share (blue column) with a cap (red bar) and a catch-up clause (green):

Chart 19: "Financing model for ROCK YOUR COMPANY! and investor remuneration based on projected company revenues" / Source: FASE



The Investors

FASE approached almost 150 potential philanthropists and impact investors for the donation and the equity part of the hybrid cooperation model. Three foundations showed solid interest. One of them finally decided to make a donation to the RYL non-profit entity. The donation covers the complete capital requirement for now. It will allow the social enterprise to complete the pilot phase and to finance the Germany wide roll-out of the mentoring program. The transaction was successfully completed in the first quarter of 2015.

V. STREETFOOTBALLWORLD PLUS GMBH ('SFW')

Executive Summary

As the world's leading network for organizations using football for social change, Streetfootballworld is the expert of using football for sustainable, social transformation. The social enterprise has built a successful 12-year track record, reaching one million young people globally in 2013 alone. Its idea was to leverage this expertise by developing the Football for Good Agency ("FGA") that will link key actors of the football industry to high-impact initiatives which use football for social change. The agency shall offer high-impact consultancy and brokering services for professional football players and fans as represented by amateur football clubs. The offer shall range from fundraising by fans for pre-assessed beneficiaries to individualized evaluation of suitable engagements for football players, including foundation management.

The concept of FGA builds on a huge trend for philanthropic engagement from top football players and fans, but often this enthusiasm is shaped with little expertise of how to maximize social impact. Current engagement of professional football players is opportunistic and not focused on maximizing potential global impact. Additionally, there are no offers in place for football fans as well as for impact-driven philanthropists to use their passion for football to invest in social change. Even though the football industry (e.g. confederations, clubs, and leagues) has taken notice of the power of football for social change, the industry has not yet made it a priority. Only a handful of the world's most popular players have set up their own foundations, mostly without receiving any professional advice on maximizing impact. Yet the vast majority of top professional football players (e.g. Premier League, Bundesliga, Series A) earning 500k EUR or more do not even have their own foundations or a social engagement strategy. Additionally, there are a lot of football fans and philanthropists that would like to engage in impactful programmes closely linked to football.

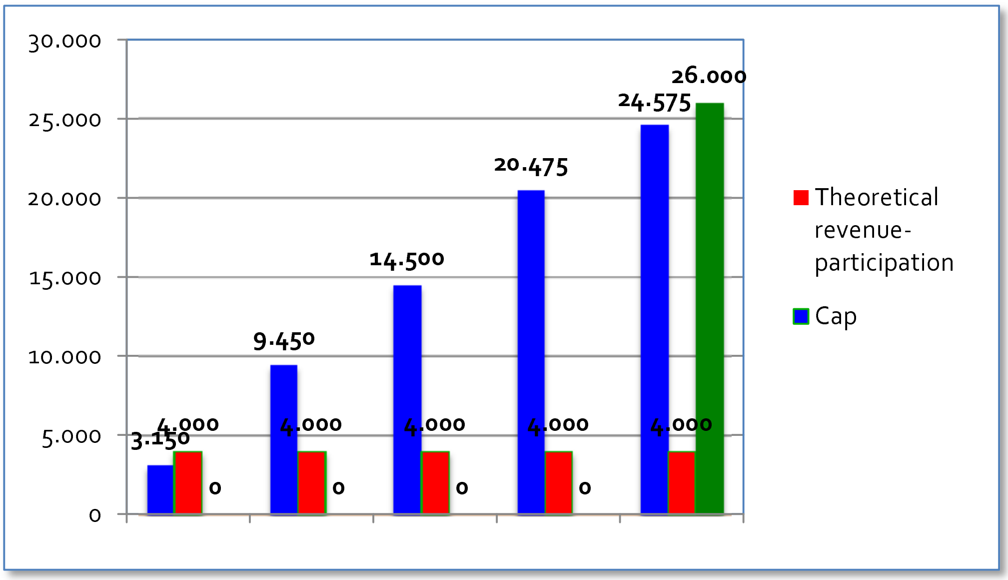
Based on this experience and market opportunity, FGA intends to offer a range of services from fundraising opportunities for fans in support of pre-assessed beneficiaries to individualized evaluation of suitable engagements for football players, including foundation management. The social enterprise seeks philanthropic capital that will mainly support educational scholarships and start-up grants. It will engage football players and fans in the acceleration of change across the entire football industry, turning it into a socially responsible sector.

The Financing Model

SFW was originally seeking growth capital of 250k EUR in 2014. The management team was open to different financing instruments but preferred a hybrid financing model developed by FASE: the combination of an equity donation combined with an impact investment ("model 4"). The donation was meant for the non-profit entity, while the impact investment was intended as quasi-equity for the new Football for Good Agency UG. The UG was planned to be fully owned by Streetfootballworld gGmbH and the management team. The investment was supposed to be used to build the new, independent social enterprise and to establish it as a key player in the football industry. After the reimbursement of the investors, future profits of the agency were planned to be invested in the international growth of the agency and/or to support the non-profit activities of SFW.

For the impact investment part of the model, FASE developed a quasi-equity model with revenue participation with a qualified subordination clause but without loss participation. The investors' compensation was calculated based on a percentage of FGA's revenues. The following chart depicts an illustrative remuneration of the investors based on the company's base case scenario. The revenue participation model involves an annual variable compensation based on a fixed share of revenues (red column). The annual compensation is limited by a cap (blue bar) on the nominal amount to secure sufficient liquidity for the social enterprise. As compensation, there is a catch-up payment (green column) in the end, so investors can achieve a pre-defined target IRR.

Chart 20: "Financing model for Football For Good Agency and investor remuneration based on projected company revenues" / Source: FASE



The Investors

FASE approached more than 150 investors after accepting the pilot project. In the course of the transaction process it became obvious, however, that the new program of SFW has not yet been sufficiently demonstrated in the market. According to several potential investors, a more solid proof of concept was missing. After several management presentations with a shortlist of interested investors – two business angels, one institutional social investor and a corporate venture arm – SFW therefore decided to first test the concept of FGA within the current organization of Streetfootballworld. The management's decision was taken in March 2015 and the impact investment postponed by 1-2 years until a more extensive proof of concept will be achieved.

VI. BETTERVEST GMBH ('BV')

Executive Summary

Bettervest is the first crowd-investing platform that allows citizens to participate in energy efficiency projects and to participate in the respective savings. bettervest brings together crowd investors with municipalities, associations and companies that strive to become more energy efficient. In order to reduce energy costs, initial investments are required which can be quite substantial. bettervest therefore provides initiators of such energy efficiency projects with the opportunity to materialise such measures through crowd investing, i.e. without the need to invest their own equity. So far, bettervest has managed to raise 1 million EUR for 21 projects, saving more than 600 tons of CO_2 annually.

To manage the energy shift („Energiewende") towards renewable energy sources in Germany, efficiency initiatives are crucial and represent the second pillar of a successful transition. Depending on the field, energy efficiency experts even see savings potential of up to 80%. The Federal Government has formulated an energy efficiency target of 20% by 2020. The greatest potential for savings next to savings in industry, business commerce, service- and public sectors are behavioural changes in the areas of building insulation, lighting and heating refurbishment. However, lack of funding opportunities is one of the main obstacles for the implementation of energy saving initiatives in companies and municipalities. bettervest acts as a facilitator between such initiatives and the crowd. Only those projects will be funded that have the potential of achieving high cost and energy savings and possess environmental benefits. The activities funded are planned and calculated by certified energy advisors. The project owner will receive the necessary investment capital through the crowd and can thus immediately reduce the energy consumption, CO_2 emissions and save costs. Investors receive an annual return as well as a part of their investment repaid (annuity repayment). The life cycle of the technologies exceeds the contractual maturities of on average two to five years, so that the project owner achieve long-term energy cost savings.

The bettervest concept has already convinced many renowned institutions and experts in the field of sustainability. The bettervest platform has received several awards: „Werkstatt N Siegel" by the Council of Sustainable Development, winner of „IKT innovativ Preis" by BMWi, the German energy efficiency reward "Perpetuum" for outstanding energy efficiency innovations, the enorm social entrepreneurship award, the KarmaKonsum founder award, GreenTec Awards Finalist and „Ort im Land der Ideen". Ernst Ulrich von Weizsäcker, internationally renowned energy expert and co-president of the Club of Rome, is the patron of bettervest.

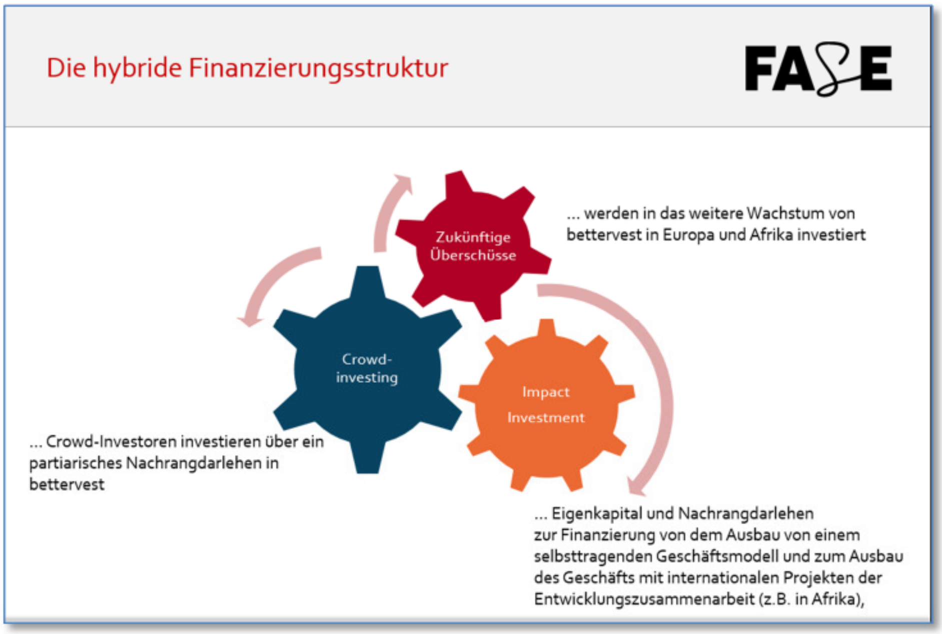
The Financing Model

For further development and expansion, bettervest is currently looking to raise 600k EUR of growth capital in 2015. Out of this amount, 350k EUR are needed for the base case scenario, while additional 250k EUR are required for a more aggressive growth path. The financial model suggested by FASE includes an impact-oriented investment in bettervest GmbH in the size of 300k EUR, while 300k EUR were planned to be raised through a crowd-investing campaign ("model 5"). The impact investment part will be realized in the form of an equity investment, as a slight variation to the general model 5 described earlier in this report.

The Investors

FASE addressed more than 180 investors with the idea to support bettervest with growth capital. This process only started in March 2015. As of early July 2015, multiple potential investors have already indicated strong interest to invest – among them two social business angels, two social venture capital funds and one foundation. The transaction is expected to close with a syndication of three investors in early August 2015, i.e. after the completion of this report.

Chart 21: "Hybrid financing model bettervest: Crowd investment combined with impact investment" / Source: FASE



5. BUILDING THE COMPLETE ECOSYSTEM

The pilot cases described above were used to test our co-operation models on a deal-by-deal basis. In addition, we developed two further co-operation mechanisms that will require the set-up of an additional financial intermediary. These innovative financing vehicles are important to complement the approach of FASE and to unfold the full potential of the ecosystem for social enterprise finance.

I. NON-PROFIT INVESTMENT VEHICLE

The non-profit investment vehicle is intended to leverage the full potential of grants and donations to finance non-profit social enterprises. The non-profit investment vehicle was already briefly described at the beginning of this report and is currently in legal review of the necessary regulatory requirements. The main arguments why such a vehicle is important to the social finance ecosystem are three-fold:

1) So far, foundations are not able to use donations and grants in a tax-efficient way to support social enterprises structured as for-profit entities. 2) The same applies to using grants or donations as direct guarantees or repayable forms of capital. 3) To make the situation worse, foundations often lack the specific knowhow and experience to make assessments about how to structure investments in accordance with regulatory requirements.

The following two graphs summarize the (regulatory) constraints that provide the ground for this solution and illustrate its goals (in German):

Chart 22: "Regulatory constraints for foundations to finance social enterprises" / Source: Ashoka Support Network, FASE

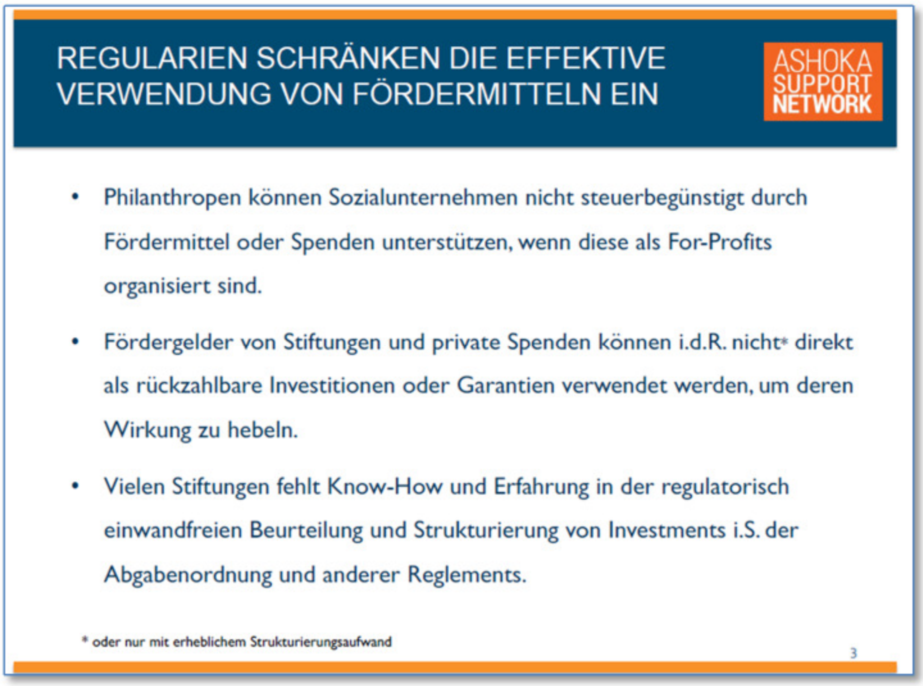
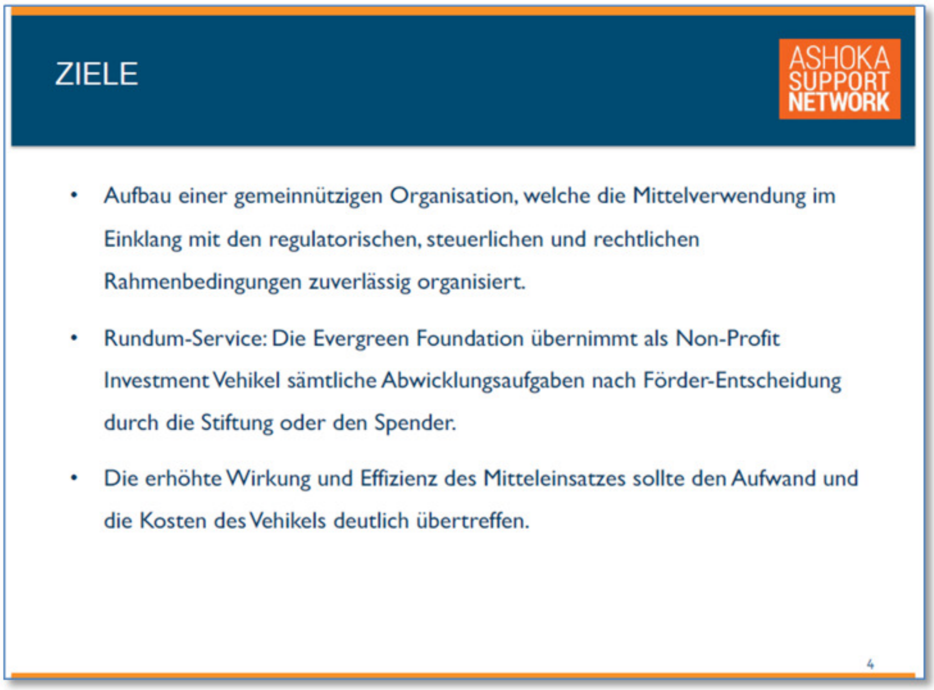


Chart 23: "Goals of the non-profit investment vehicle" / Source: Ashoka Support Network, FASE



The organizational set-up of such a structure is not trivial. This is why FASE is currently in discussions with the German Association of Foundations ("Bundesverband Deutscher Stiftungen") as well as with expert lawyers and potential participants to secure the necessary support, regulatory knowhow and capital. Some details about the requirements and general mechanism of the non-profit vehicle are given in the following two charts (in German):

Chart 24: "Necessary framework and limits of the non-profit investment vehicle" / Source: Ashoka Support Network, FASE

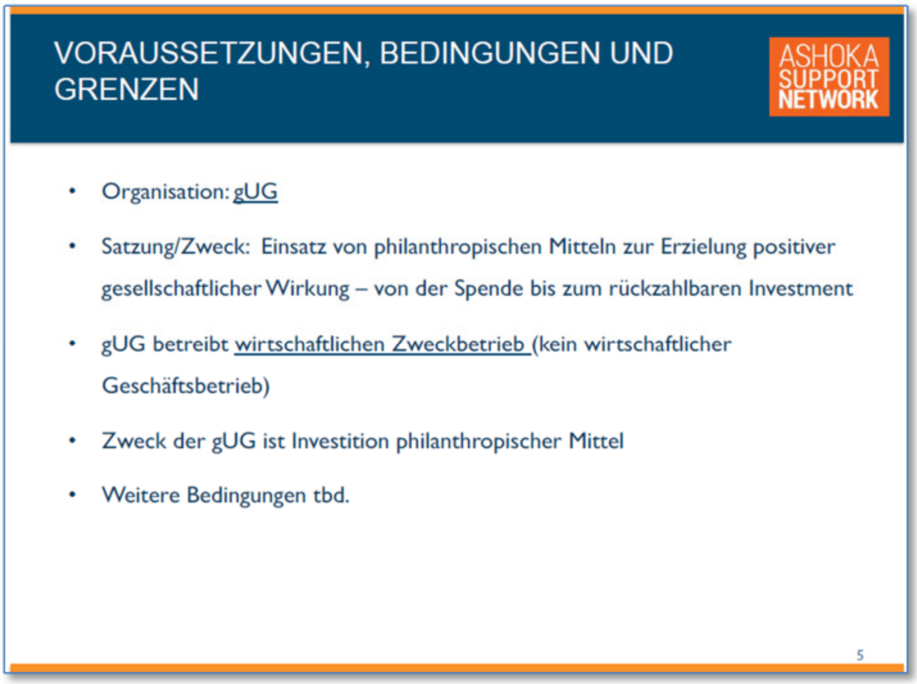
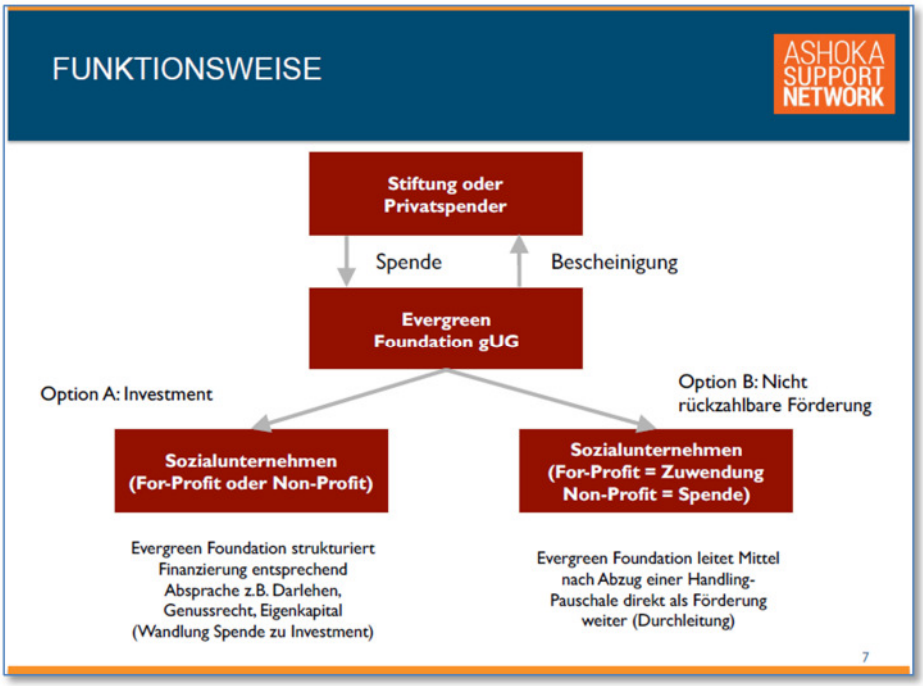


Chart 25: "Operating mode of the non-profit investment vehicle" / Source: Ashoka Support Network/FASE



II. EARLY-STAGE CO-INVESTMENT FUND

As explained before, the purpose of early-stage co-investment fund is to channel more growth capital into the early-stage segment of social enterprises and to unleash the full potential of institutional investors within the social finance ecosystem. A selected number of graphs outline the main arguments for this fund and illustrate the details:

Chart 26: "Summary of early-stage co-investment fund features" / Source: FASE

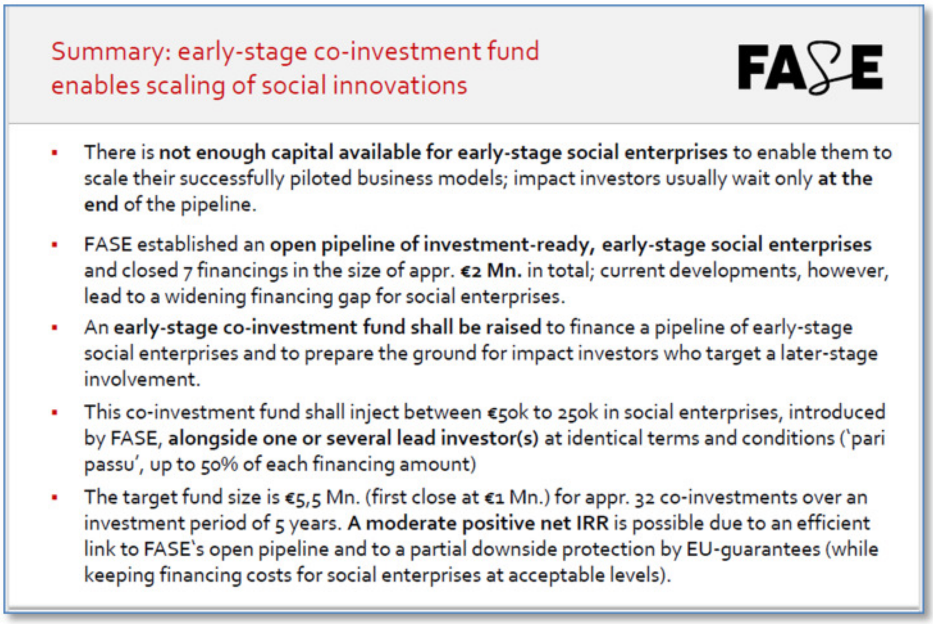
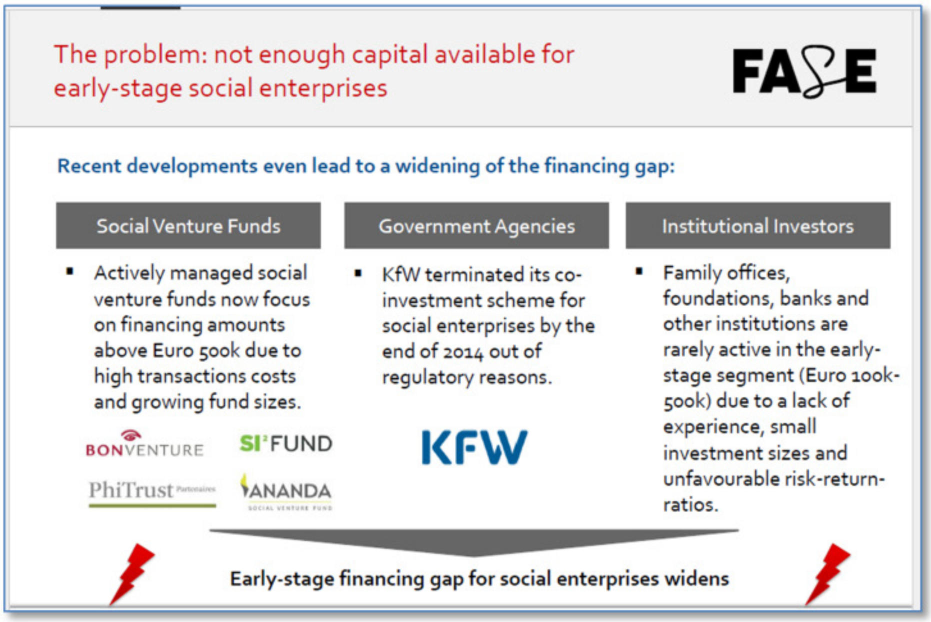


Chart 27: "The problem - a widening financing gap for early-stage social enterprises" / Source: FASE



Again, the purpose of this solution is to set up a vehicle that benefits from the open deal flow that FASE already creates. By using a co-investment structure, fund investors can join a diversified portfolio of social enterprises at the identical terms and conditions defined by the respective lead investors in each transaction ("pari-passu"). The vehicle targets a size of 5.5 million EUR with a scope of 32 co-investments in early-stage social enterprises over an investment period of 5 years. The enterprises usually have a financing need in the range of 100-500k EUR and the fund will take up to 50% of these amounts. Social impact has to be the primary goal of the social enterprises or at least an equivalent to financial objectives. The entire fund structure will then be passively managed, i.e. automatically linked to FASE's open deal pipeline but duly administered by an experienced fund partner. The following two charts summarize the main goals and the basic mechanisms of this innovative model:

Chart 28: "The goals of the co-investment fund" / Source: FASE

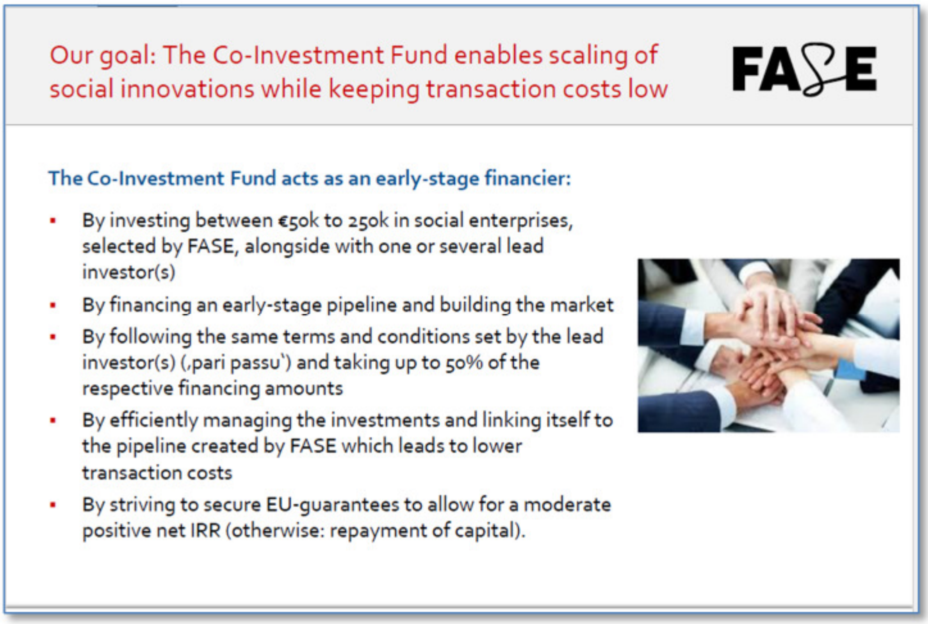
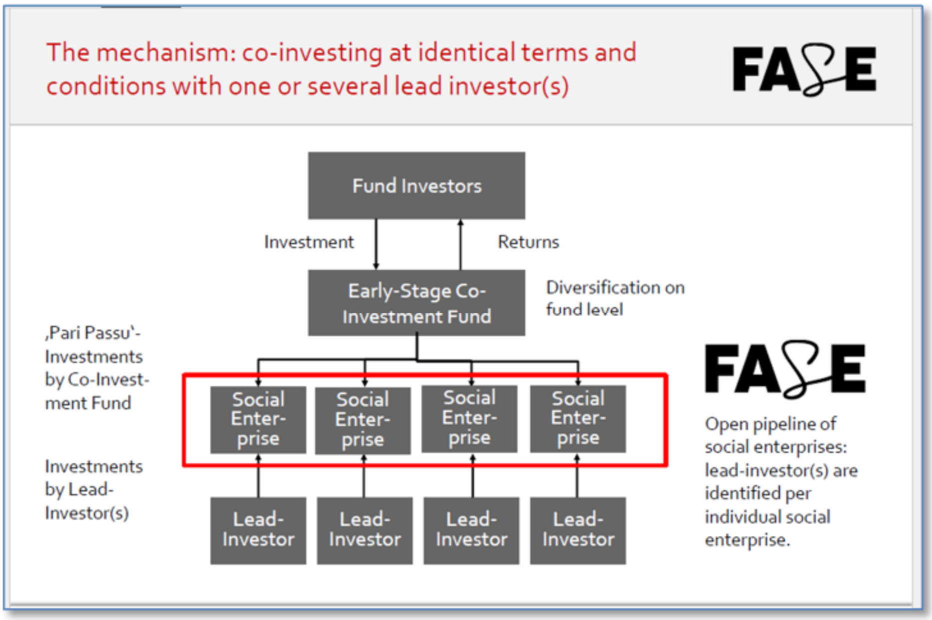


Chart 29: "The mechanism of the early-stage co-investment fund" / Source: FASE



As to the profile of the fund for potential fund investors, the following two charts will shed some light on the characteristics, parameters and assumptions of the model developed by FASE. As described earlier, the fund will apply for a guarantee program that is offered by the EU ("EaSI") so that a moderate net IRR to the investors can be achieved. Currently, FASE is in the process of approaching potential fund investors willing to be market builders for this underserved and crucial early-stage financing segment for social enterprises.

Chart 30: "The fund's investment focus" / Source: FASE

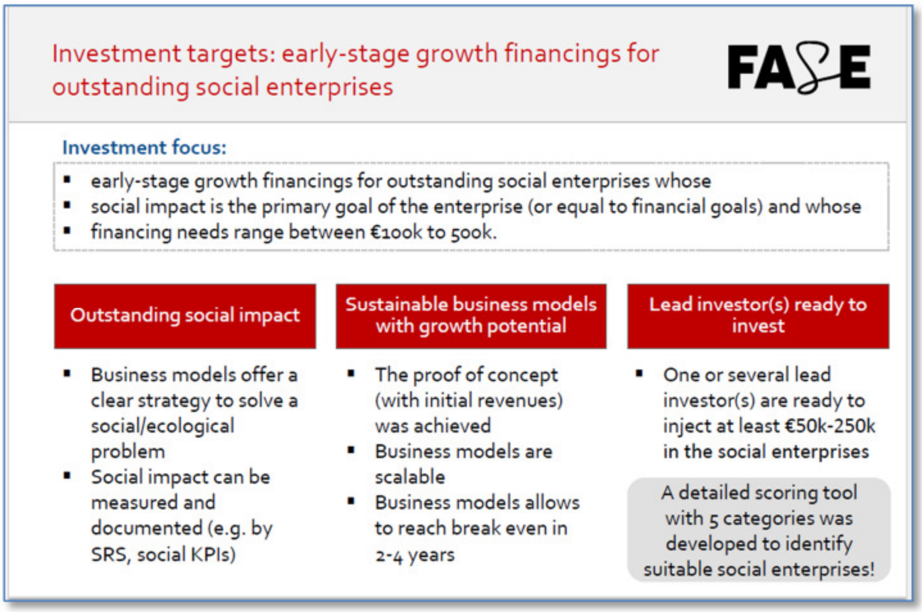
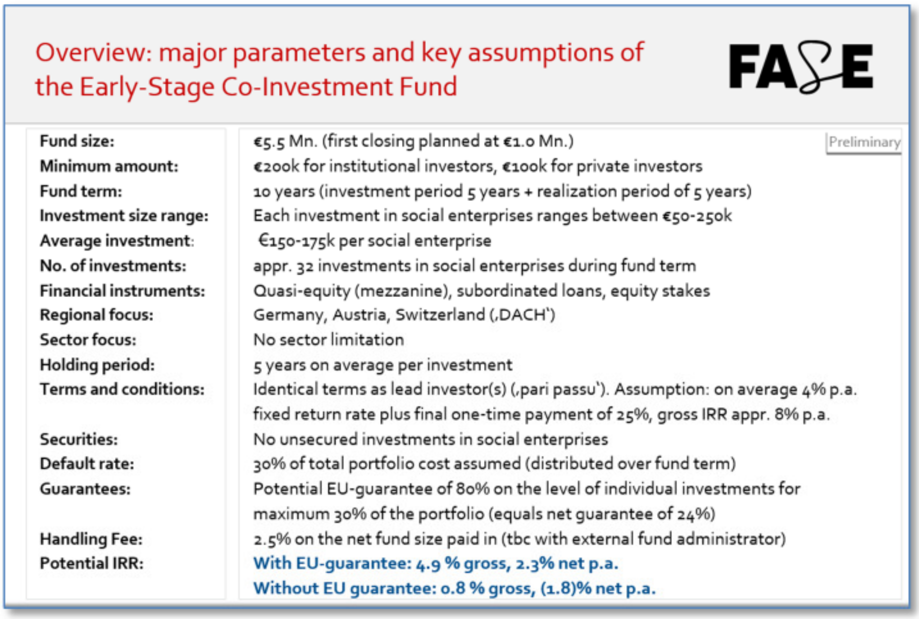


Chart 31: "Major fund parameters and key assumptions" / Source: FASE


Overview: major parameters and key assumptions of the Early-Stage Co-Investment Fund

FASE

Preliminary

Fund size:	€5.5 Mn. (first closing planned at €1.0 Mn.)
Minimum amount:	€200k for institutional investors, €100k for private investors
Fund term:	10 years (investment period 5 years + realization period of 5 years)
Investment size range:	Each investment in social enterprises ranges between €50-250k
Average investment:	€150-175k per social enterprise
No. of investments:	appr. 32 investments in social enterprises during fund term
Financial instruments:	Quasi-equity (mezzanine), subordinated loans, equity stakes
Regional focus:	Germany, Austria, Switzerland (‚DACH')
Sector focus:	No sector limitation
Holding period:	5 years on average per investment
Terms and conditions:	Identical terms as lead investor(s) (‚pari passu'). Assumption: on average 4% p.a. fixed return rate plus final one-time payment of 25%, gross IRR appr. 8% p.a.
Securities:	No unsecured investments in social enterprises
Default rate:	30% of total portfolio cost assumed (distributed over fund term)
Guarantees:	Potential EU-guarantee of 80% on the level of individual investments for maximum 30% of the portfolio (equals net guarantee of 24%)
Handling Fee:	2.5% on the net fund size paid in (tbc with external fund administrator)
Potential IRR:	**With EU-guarantee: 4.9 % gross, 2.3% net p.a.** **Without EU guarantee: 0.8 % gross, (1.8)% net p.a.**

6. KNOWLEDGE DISSEMINATION

I. SOCIAL FINANCE ROUNDTABLES

In order to provide social entrepreneurs and investors with the necessary knowledge, we identified four Ashoka offices in Europe that would set up workshops with FASE. We believe that the combination of additional know-how about impact investing and hybrid financing combined with a physical meeting is vital to establish long-term relationships and win-win situations for both target groups. Starting with Vienna, we were able to motivate 45 impact investors to join the luncheon on December 4th, 2014 with Ashoka Austria as co-host. The Austrian Ashoka Fellow, Gregor Demblin, presented his investment opportunity and financing needs of 330k EUR to scale his enterprise "DisAbility Performance Social Enterprise GmbH" throughout Austria. During the luncheon, the structure of hybrid financing was presented which led to a question and answers session regarding the terms and conditions of this investment. The next social finance roundtable was held in Warsaw on March 18th, 2015 and was attended by approximately 28 social finance fanatics. Next to two Ashoka Fellows who presented their financial needs, the discussion was spun around the question how social finance could be leveraged in Poland. The social finance roundtable in Paris on April 9th, 2015 was a pitching session for five Ashoka Fellows. The session was followed by a strong response with questions and answers to engage the 38 potential investors attending the roundtable. To create more room for details, there were also informal gatherings to exchange ideas and experiences. The London social finance roundtable was the final event of this kind on May 29th, 2015. Two Ashoka fellows and the Ashoka team were present together with 15 investors and foundations who joined the pitching session at lunchtime. Seasoned impact investors exchanged personal experiences about their impact investments accompanied by two pitches from entrepreneurs. To promote these activities, all events were announced via personal invitation, newsletter and Twitter. Furthermore, blogs and videos were posted and distributed over YouTube.

II. EVENTS AND WORKSHOPS

FASE was asked to join several expert panels in order to share knowhow about social investments and hybrid financing. Two examples were the EVPA conference in November 2014 in Berlin and a workshop at the Ashoka annual conference for the newly elected Fellows. In addition, FASE has been very active in holding workshops for potential social entrepreneurs who are interested in raising repayable growth capital once their business models are finalized. To guide them effectively on this path, Markus Freiburg organized 5 half-day workshops with several social entrepreneur teams and supported them in their strategic decision making. On the investor side, FASE is a regular presenter on at least one event per month, e.g. business club meetings, networking events or sector conferences. This has resulted in an increasing number of newsletter recipients and brought us approximately 240 impact investors that form our database as of July 2015.

III. CASE STUDIES

After a transaction has been finalized, FASE typically summarizes the details of each deal in a case study. Such studies include all relevant details of the transaction and are very helpful to give potential investors and interested social entrepreneurs an idea of how a deal is successfully orchestrated and closed. Until today, nine case studies have been prepared and published: 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 offering and the market, all case studies specifically focus on the respective financing models, the hybrid company structures, the business models and the (types of) investors that finally joined the deals. They also proved to be a great tool to disseminate the knowledge that FASE has successfully built in the past months.

KEY INSIGHTS AND LEARNINGS

The following chapters summarize (1) our major project results, (2) outline our key insights, and (3) discuss the replicability of our project results.

1. MAJOR PROJECT RESULTS

FASE supported social enterprises with outstanding concepts in raising growth capital. Through coaching and consulting services we enabled these social enterprises to attract growth capital across the often rigid boundaries between donors, investors and the public sector. We have developed hybrid financing models that successfully combine different types of investors and donors. We intensively piloted and tested these models with our projects for transaction support, providing the social finance sector with blueprints of appropriate financing solutions that can be easily replicated by other investors/donors and social enterprises. We therefore achieved major project results in all four areas of our activities.

Firstly, we were able to extend our investor network to other European countries. In total, we talked to >80 additional potential impact investors and visited many investor and sector conferences in the course of this project. Multiple meetings and calls were arranged with additional investors (e.g., single family offices, business angels, social impact fund and banks in Germany, Austria, Switzerland, France, UK, Poland) to present them with the concept of hybrid financing as well as with our open pipeline of investment-ready social enterprises. At the same time, we used these personal interactions to exactly understand the investors' preferences. Our activities also included preparing and holding follow-ups with participants of major events such as the annual EVPA conference, the GLS mission investing forum, the Impact Investing Taskforce meetings, the social finance roundtable Vienna, and the launch of Inclusive Business Action Network by GIZ.

In addition, we regularly spoke with impact investors from our existing network to update them on recent activities and to introduce them to new deal opportunities within our EU pilot projects. We also held co-ordination meeting with associate organizations Ashoka Poland (Warsaw), Ashoka France (Paris), Ashoka UK (London) and Ashoka Austria (Vienna) to align and co-ordinate our joint European-wide investor network extension. All these activities were rounded up by initial meetings with potential strategic partners so that the transaction support of FASE will be internationalized and learnings from our pilot project can be spread to other European countries.

Secondly, we developed different cooperation models between philanthropists and impact investors to jointly provide growth capital for early-stage social enterprises. In our experience, social enterprises often run hybrid business models combining both non-profit and for-profit business elements. These hybrid business models are often accompanied by a hybrid organizational structure with again both, a for-profit and a non-profit element. For-profit parts can be financed with repayable instruments, while non-profit components are supported by donations or public grants. The idea was to combine these two types of sources to enable a coverage of the full spectrum of return expectations from -100% (donation-type) to market rate (investment-type). As part of our EU project, we designed seven hybrid financing models. All of them smartly combine the available instruments to exactly meet to the specific needs of the respective social enterprise. In addition, they have been created to attract new types of investors and to integrate them in one deal, even if they come from distant "financing planets".

Tailored financing models

This group of model comprises three financing solutions that can be applied to hybrid social enterprises with non-profit and for-profit components. As described earlier, the non-profit entity is able to accept donations or public grants, while the most appropriate instrument to finance the for-profit entities proved to be quasi-equity (mezzanine capital).

(1) Our first model is called "mezzanine capital with revenue participation and social impact incentive" and uses quasi-equity ("Genussrechtskapital"). The mezzanine capital comes without loss participation, but features a fixed interest rate plus a revenue share agreement. The basic intention of this structure is to define a target return for the investor, but to cap the revenue share amount in the beginning. This enables the social enterprise to first develop its business without initially paying too much for its 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 the target return will finally be reached.

(2) Our second model, "mezzanine capital with profit participation and social impact incentive", principally follows the same structure. 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) after break-even has been reached. Similar to model number 1, there is also a social impact incentive in the form of a one-time final payment that depends on the level of social impact that the enterprise is able to achieve. Typically, this impact goal is precisely quantified to avoid any misinterpretations.

(3) Our third model is an "easy-to-use investment scheme", i.e. a simplification of a mezzanine capital investment. Based on our experiences with impact investors it became quite obvious that there is a number of potential philanthropic financiers facing difficulties with the complexity of direct investments. Therefore, FASE developed a simplified and highly-standardized model that allows such financiers to gain first insights into the process required to close such a deal: the "flight booking"-scheme. Potential investors are guided through a virtual transaction as easily as if booking a flight on the Internet.

Hybrid cooperation models

The second group of models comprises two solutions that allow for a combination of different investor types.

(4) Model number four is called "equity donation combined with impact investment". A foundation, a philanthropist or a group of private donors contribute a part of the overall financing volume to the non-profit entity through a donation. This step is meant to increase the equity shield of the non-profit arm. This amount can then be injected into a for-profit entity that is fully owned by the social enterprise's non-profit entity. To further support the for-profit entity, additional growth capital can be raised in the form of quasi-equity ("Mezzanine"). This impact investing part of the model can come with either profit or revenue participation rights.

(5) Our fifth model is also entirely new to the market: a "crowd investment combined with an 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 crowd part has the advantage of being very flexible since the crowd can either finance the non-profit entity via donations or support the for-profit organization with crowd investments. The impact investment part is again limited to the financing of the for-profit entity. It can be structured with the typical features and rights described above.

Innovative financing vehicles

We also identified two additional co-operation mechanisms that rather address general gaps in the social finance ecosystem. Both require the set-up of an additional financial intermediary.

(6) Model number six is a "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, foundations are not able to use donations and grants in a tax-efficient way to support social enterprises that are structured as for-profit entities. The same applies to using grants or donations as direct guarantees or repayable forms of capital. A non-profit vehicle, however, is able to make use of this funding source in accordance within the legal, tax and regulatory framework and provide a care-free service for foundations – an important step in building the social finance ecosystem.

(7) Our sevenths model is an "early-stage co-investment fund" that addresses a systematic market gap: financing specifically for early-stage social enterprises. Our main idea is to offer fund investors access to a diversified portfolio of early-stage deals at the identical terms and conditions defined by the lead investors in each round ("pari-passu"). To make the fund economics attractive, the fund will be passively managed, i.e. automatically linked to FASE's open deal pipeline, but administered by an experienced fund partner. In addition, the vehicle intends to apply for a newly established guarantee program by the EU, which, in the case of a successful participation, will further enhance the funds' risk-return profile.

Thirdly, we were able to test these hybrid financing models with concrete pilot projects. FASE initially selected five social enterprises. They either came through our open pipeline or from the broader market environment: DisAbility Performance Social Enterprise, Schmökerkisten, ROCK YOUR LIFE!, Streetfootballworld, and bettervest. During our cooperation in raising hybrid growth capital, expert coaches consulted the companies in all questions of planning, preparation and execution of the transaction process. This involved the review of the business model and discussions regarding its future development, especially with respect to the plausibility from the point of view of external investors. Another vital part of our work was the identification and design of financial instruments for structuring the respective transactions. Special attention was turned on the combination of philanthropic and impact oriented investors into one single financing round. A third step was the preparation of investment teasers that served as overview documents for initial investor approaches. In stage number four, we coached the companies to develop a suitable information memorandum and a compelling management presentation. The last step in our process was to identify potential impact investors and to establish contact with them regarding the specific deal opportunities. This resulted in an initial term sheet draft that was then discussed and finally signed. With the support of FASE, four out of the five supported social enterprises were able to successfully raise growth capital.

Our projects so far show that deal-by-deal support from experts like FASE can be a very effective mechanism to provide hybrid capital to social enterprises in early stages of their growth. Out approach has been successfully demonstrated in Germany/Austria with 9 closed deals, channeling approximately 3 million EUR in additional resources into the social finance ecosystem. Since we became aware of a huge demand both within Germany and from other European countries in the course of our activities, we now intend to scale our proven methodology. We hope to contribute to a much larger and well-functioning market for social enterprise finance all across Europe.

Fourthly, we disseminated our project results and key learnings as broadly as possible. FASE communicate its findings into the relevant social finance market (e.g. publication of eight case studies, final report, conference participations). The cross-national knowledge dissemination was supported by Ashoka in UK, France, Poland and Austria. In each of these countries, FASE organized one social finance roundtable with investors and social entrepreneurs (one roundtable per country). Additionally, FASE has developed a concept on how to expand our transaction support gradually to other European jurisdictions. We are also talking with different potential strategic partners that might finance such an extension of our services (e.g. foundations).

Altogether, this project has effectively developed innovative models of cooperation between investors and intermediaries on a deal-by-deal basis, providing more growth capital for outstanding social enterprises. The project has demonstrated the feasibility and impressive benefits of an orchestrated approach, combining different types of funders and integrating a wide range of financial instruments into fine-tuned packages. As a result, it has improved the availability and effectiveness of financial instruments for social enterprises by enabling a collaboration between investors, donors and public authorities. It has also encouraged more social enterprises to take on repayable finance in the future to develop and scale their business models. Another important achievement is the expansion of the impact investor network. The project mobilized and committed a substantial number of potential funders from different European countries, many of them investing in or looking at impact for the first time. Therefore, the project has not only broadened the impact investor base in Europe, but also identified new donors that are willing to invest in an open pipeline of investment-ready social enterprises.

In our view, we have accomplished the main objective set out in our project application, which was to create fine-tuned hybrid financing packages for social enterprises with an orchestrated approach:

- We have developed seven different cooperation models for different types of investors that were detailed over the course of our project. Additionally, the piloting of these developed financing models with an orchestrated approach on a deal-by-deal basis into fine-tuned packages has been proven to be effective in providing the required growth capital to four out of five supported social enterprises.

- We have extended our impact investor network by >80 new impact investors and thereby broadened the donor and investor basis for impact investing in Europe. We were able to increase the number of European investors from outside Germany through our project from approx. 20 to >60. Future deals need to prove whether the majority of these new investors will also be willing to actually invest in our open pipeline of the investment-ready social enterprises. Regarding the Europeanisation of the social finance market, we still see a preference of impact investors for deals in their home country (as is evident also in classical financing, so-called home bias). However, we recognize an increasing appetite for cross-border impact deals in innovative social enterprises. In such cases, ideally a regional lead investor (in this case German) will co-invest with an impact investor from another country to secure a hands-on and pro-active support of the social enterprise following the investment.

2. KEY LEARNINGS

The main lessons that we learned from our project regarding the overall market for social finance can be described as follows:

- There are still significant, almost unconquerable barriers between the mental models of philanthropists (which like to donate and "lose" 100% of their money) and impact investors (which intend to earn a minimum of >5% p.a. return). Consequently, there is almost no financing available for social enterprises that offer a great solution for a well-known social problem. They rather operate with business models providing a potential return range of -100% and +5% p.a.. Although their models may generate significant positive external effects (e.g. savings for state or welfare system), these enterprises are still too commercial for philanthropists ("these enterprises are suspicious, because they earn income") and at the same time too social and thus financially unattractive for impact investors ("we want to save the world and earn market-based returns").
- It takes time and a lot of effort to develop a new market for social finance in Europe. This is nothing that you can achieve overnight: it is rather a mid- to long-term effort.
- Intermediaries linking potential investors and donors on the supply side with social enterprises on the demand side are one of the critical success factors in developing such a market.
- Due to disproportionally high transaction costs for financing social enterprises with deal sizes between 100k and 500k EUR, more and more institutional investors are moving towards (less-risky) later-stage investments and are thus increasing the strategic financing gap for early-stage social enterprises (e.g. closure of KfW co-investment program for social enterprises in Germany by the end of 2014; shifting investment focus of BonVenture and Ananda Social Venture Fund to larger and later-stage deals).
- There will be no purely market-based solution for such early-stage financing of social enterprises. This applies in two ways:
    - The significant external effects of many social enterprises (e.g. reduced unemployment rates of disabled people, savings for the public welfare systems) are not considered adequately by many impact investors due to their strong focus on risk and return. Thus, public or philanthropic money needs to become and remain one of the key capital suppliers for these early-stage deals.
    - Intermediaries working in the area of financing deals between 100k and 500k EUR (either social impact funds or match makers / transaction consultants like FASE) will not be able to develop economically sustainable business models for their own operations due to the disproportionally high transaction costs for such "small deals". Thus, these intermediaries will remain in need of public or philanthropic money in addition to proprietary earned income to cover their full costs (something which is already fully acknowledged for the field of commercial and technical start-ups which already get the respective infrastructure / capacity building support of public authorities across Europe).

The main lessons learned regarding the practical implementation of our project - transaction support for early-stage social enterprises - are summarized below. These lessons may also serve to facilitate the implementation of similar initiatives:

- Although the matching of investors and social enterprises on a deal-by-deal basis is time consuming, it is very effective: it brings together the most suitable combination of investors and social enterprises and allows to customize each investor coalition to the specific needs of an individual social enterprise. In our experience, impact investors often have very specific preferences about which social enterprises to invest in and which not. This phenomena can only be appropriately considered in an individual deal-by-deal approach.

- Our deal-by-deal approach allows impact investors from all financing planets (i.e. social business angels, philanthropists, social venture funds, foundations, banks, and family offices, public investors) to invest in social enterprises that we support in raising growth capital. Usually, we build coalitions of 2-4 different types of investors. So far, we saw the following coalitions of investors: a) social venture fund with public co-investment fund, b) two business angels, c) business angel with foundation, d) business angel with intuitional investors and public co-investment fund.
- The financial risk/ financial return profile depends on the individual social enterprise. Usually, social enterprises that we support in raising growth capital are rather high risk due to early-stage financing focus (e.g. seed stage, expansion stage) and offer financial returns typically below risk-adjusted market returns (e.g. IRR 4-10 %).
- Another learning refers to the financial products that are being integrated. We built individual combinations of the most appropriate financial products on a deal-by-deal basis with a customized financing approach, following the specific requirements of the individual social enterprise. Depending on the respective deal structuring, we usually designed a financial model based on quasi-equity for hybrid organizations (e.g. mezzanine) and on equity for pure for-profit models. These basic elements can then be combined with grants, loans, guarantees and co-investments.
- Regarding the general financing conditions for early-stage social enterprises, we learned that deal sizes usually vary between 100k and 500k EUR and require a financing contract with a duration of >5 years. The target IRR depends on investor preferences, but usually ranges between 4% and 10% p.a. with a pre-defined algorithm (e.g. revenue participation, social impact incentive). We mainly saw flexible repayment agreements at the discretion of the social enterprise depending on liquidity. The vast majority of financings we observed involved unsecured lending.
- Another learning concerns the expected relation between social impact and financial return that investors are seeking (e.g. trade-off or lock-step). Although this obviously depends on the individual investor, we usually observed three different types of investor attitudes: (i) impact only (typically grants), (ii) impact first (with reduced return expectations), and (iii) finance first (with market rate returns). Most investors we work with are "impact first investors" because they primarily support the social mission and want to see a sustainable business model that can return capital with a low interest rate. This means that most of the impact investors in our network accept a lower financial return for a measurable social impact (trade-off).
- We learned that a strict process management is an absolute 'must' in order to keep a slight pressure on both, the social entrepreneurs and the impact investors. This enables us to drive the transaction process successfully to an end. At the same time, this represents a major plus in hiring us as an intermediary: as compared to a situation in which the social entrepreneur would raise the money by him- or herself, the fundraising process becomes much more efficient and less time-consuming.
- Another important learning is critical mass. Only if we are able to accumulate a critical mass of interested impact investors in our network, there is a chance to finally match sufficient investors with the social enterprise. We decided to make use of this key learning every time before we sign a mandate, because otherwise, it can be very

difficult to get individual deals closed. This learning substantially increased our chances to succeed as a fundraiser for social enterprises.

- The next learning is the expected time frame: It takes much more time than expected to convert interested impact investors into actual investors that enter the deal mandate, i.e. actually sign a financial contract. The investor community shows a lot of variance in their behaviours and time frames. Some investors are very interested, look regularly at our pipeline deals - and never invest. Others need at least 12 months or more before they are mentally prepared to sign their first deal.
- Investors usually appreciate if you come up with a well prepared and pre-structured investment opportunity. Although some flexibility is needed, our experience at FASE shows that good deal preparation pays off and that only 10-20% (if not less) of the term sheet conditions are finally changed in the course of the discussions.

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. It will also be vital to find additional sources of funding and of support for FASE to be able to expand its role.

3. REPLICATION OF RESULTS

The project has developed innovative models of cooperation between investors and intermediaries on a deal-by-deal basis to provide growth capital for outstanding social enterprises. This will encourage and enable more social enterprises to take on repayable finance for developing and scaling their innovative business models. FASE follows an open-source approach and intends to share its innovative financial models broadly to encourage social entrepreneurs and investors to copy these successfully piloted concepts. With this approach, we intend to maximize our social impact.

Our hybrid financing models combine different types of investors and donors. They also serve as blueprints for innovative financing models that can be easily replicated by other investors/donors and social enterprises. From our perspective, the critical success factors for others to achieve this replicability are as follows:

- A relatively low complexity of the developed financing models so that a wide range of financial instruments can be integrated into fine-tuned packages.
- Affordable transaction costs of such an orchestrated approach. Otherwise, it will be too expensive to replicate.
- General openness of social enterprises and impact oriented investors to replicate the identified financial instruments and role models.
- Transferability of identified financing models of cooperation between investors and intermediaries on a deal-by-deal basis from our pilot region (i.e. Germany) to other European jurisdictions. This involves the question of adequate legal frameworks and low costs for the adaptation of these models.

In our view, other intermediaries will need to follow a similarly staged investment process to support social enterprises in raising growth capital in order to replicate the results of our pilot project. This involves a customized consulting concept to build individual coalitions between different impact investor types:

- The intermediary needs to build a regional network of impact oriented investors from all financing planets and to understand the investment preferences of individual investors. This is the basis for matching them 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, organisation and coordination of a transaction process, including:
    - examination of 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);
    - identification and development of suitable financing instruments and financial structures (including potential cooperation models between investors);
    - preparation of a summary of the social enterprise and its financing needs with the purpose to address potential investors („teaser");
    - support of the social enterprise in developing information documents needed for the investor process (e.g. information memorandum, management presentation);
    - identification and analysis of potential investors;
    - moderation of discussions between the social enterprise and potential investors;
    - obtaining proposals from potential investors as well as consultancy with regards to evaluation and selection of which proposals to follow up upon;
    - support of the social enterprise to coordinate the information flow to potential investors for their in-depth examination of the social enterprise („due diligence");
    - support of the social enterprise in negotiations with selected investors; and
    - cooperation with legal- and tax advisors of the social enterprise in order to obtain a solution which is optimized in terms of tax and corporate laws.

NEXT STEPS

In this section, we will briefly describe (1) how we envision to finance our transaction support of social enterprises on a deal-by-deal basis on a sustainable basis, (2) how we plan to scale-up our activities nationally, and (3) how we plan to gradually expand our service offering to other European countries.

1. PATH TO SUSTAINABILITY

When implementing a sustainable business model for FASE, we had to bear in mind how the current framework and boundaries of the social finance market present themselves. Most hybrid financings have a high complexity and are connected with significant transaction costs that are structurally comparable to the transaction costs for "classic" private equity deals in commercial businesses. By contrast, the investment amounts between 50,000 EUR and 500,000 EUR are relatively low. Therefore, the coaching and consulting services of FASE cannot be fully covered by market prices without destroying the economic viability of these deals. As a consequence, we decided to finance our activities - and become sustainable - through a combination of infrastructure and deal oriented funding:

(i) Infrastructure and project related funding: (a) In order to build an appropriate infrastructure (e.g. broad investor network, model deals between philanthropic and commercial investors, piloted innovative financing instruments), FASE applied for public funding with the European Commission in 2014. This step was intended to help us building a financing market for social entrepreneurs in Germany and Europe. This type of funding is structurally comparable to a public program that was made available for intermediaries in the area of technology-oriented start-ups in Germany several years ago, i.e. the High-Tech Gründerfonds. (b) In addition, FASE continued to search for long-term strategic partners among corporates who would collaborate to build the social finance market in Germany and Europe. (c) In regular discussions with philanthropists, FASE strived to gain supporters for its own infrastructure as an independent financial intermediary as well as for its mandates with social entrepreneurs.

(ii) Deal oriented funding: (a) In order to be able to offer investment readiness services to the most promising social entrepreneurs - regardless of the profit potential of their business model - FASE initially refrained from charging a fee for reviewing and sharpening business models. Instead, we focused on finding foundations or other philanthropists willing to provide investments readiness grants. Inspired from the investment readiness foundation in UK, these donors would then pay the professional services of FASE to help the social entrepreneurs become investment-ready. Meanwhile, FASE pursues a slightly adapted approach: We offer our investment readiness support packages for a reduced fee in the range of 4,000 – 6,000 EUR, which the social entrepreneur can either fund by himself, through a donation raised from a foundation (as described above) or through a public grant program.

Due to the requirements of the German tax laws, FASE is still not allowed to offer its transaction services free of charge as this is technically regarded as consulting services to social entrepreneurs. As a consequence, FASE will continue to be partly funded by transaction fees. Starting in 2014, we therefore introduced success fees that become due as soon as a financial transaction has been signed. These fees are in the order of magnitude of 5% of the transaction amount, but are not sufficient to cover all costs of FASE. To enable such complex hybrid deals between multiple investors - especially in the lower end of the financing spectrum between 50,000 EUR and 500,000 EUR - extensive work and resources are required. As a result, a complementary infrastructure and project related funding for FASE will still be necessary in the future.

2. NATIONAL SCALE-UP

We are both committed and convinced to scale up our proven methodology within Germany in order shape a well-functioning market for social finance and to build an open pipeline of investment-ready social enterprises.

Almost all social enterprises that we have supported so far had business models that aspired to become cash positive in the future (i.e. generate higher revenues than costs). They are therefore suitable to use repayable financial instruments to accelerate and pre-finance this path. However, we believe that there is even a bigger potential out there: innovative social enterprises that generate significant positive social impact but that will never be able to become cash positive (i.e. will always have higher cost than revenues). In other words: They are not able to monetarize their added-value and incorporate it into their business models.

Therefore, we believe that pay-for-success or pay-by-results models might offer a compelling solution: They could efficiently provide this breed of social enterprises with growth capital and thus enable them to scale. The basic mechanism is similar to that of social impact bonds.

An impact investor would pay up-front for the costs of a social enterprise when it performs a certain intervention in a defined region to the benefit of a specific target group. Only if the effectiveness of this intervention can be proven ex post (e.g. in comparison to a control group or to a pre-defined impact threshold), a commissioner (e.g. private philanthropists, or eventually the state) will step in and initiate repayments to the investor. This repayment would include both the principal investment amount and an interest payment, depending on the level of social impact that has been achieved. As a result, the commissioner will only pay for proven impact – a strong argument for this kind of approach.

Such a pay-for-success or pay-by-result logic might be able to prepare the field for social services with a strong market power and necessary market steering function. It could set prices that today are still mainly valued by their input - not output. Such paradigm shift could be successful in moving the focus from inputs towards concrete results. It has therefore the potential to unleash significant efficiency potential within the social welfare economy. FASE is currently working with the first social enterprise to pilot such a pay-for-success or pay-by-results financing mechanism. The pilot will involve both, an impact investor and a private commissioner (e.g. philanthropist or foundation).

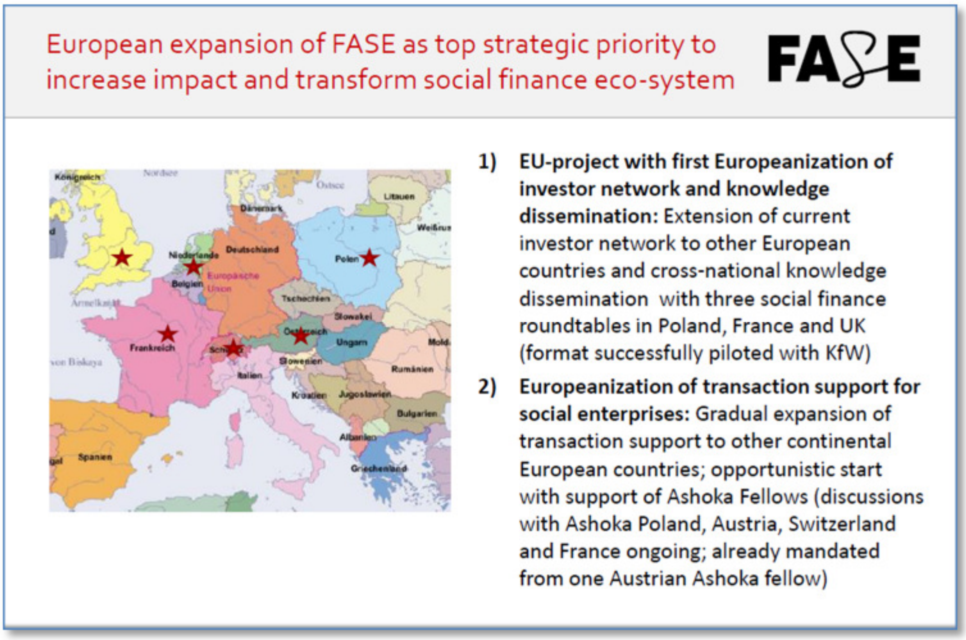
3. EUROPEAN EXPANSION

As outlined earlier in this report, we will gradually expand our services to other European countries. Now, that FASE has successfully been established as leading financial intermediary in Germany, there is clearly a need to support social enterprises with outstanding concepts in additional regions. This was an insight that we gained in many discussion and on multiple events: There is a huge demand to shape a financial ecosystem for social innovation all across Europe.

Our approach is intended to be quite similar to the path that we pursued in the German region: 1) creating an open pipeline of leading social enterprises that are investment-ready and geared towards growth (e.g. by starting with Ashoka Fellows and continuing with other mandates) and 2) building an active network of philanthropic and impact oriented investors in the target country and beyond. We will again work very closely with regional Ashoka offices and in addition search for philanthropic funders to launch local activities in selected European countries. This is necessary to secure the additional funding that FASE will need to kick-start its regional expansion.

To some extent, this cross-European initiative has already begun. In the process of acquiring mandates and potential investors, we were often introduced to deals in neighbouring regions such as Austria, France or Eastern European countries. The also holds true for investors coming to us from countries outside of Germany due to events, networking or personal introductions. Our social finance roundtables that were held in Poland, France and the UK, combined with our close ties to the European offices of Ashoka, have already initiated the process of FASE's expansion. The chart below summarizes our general approach:

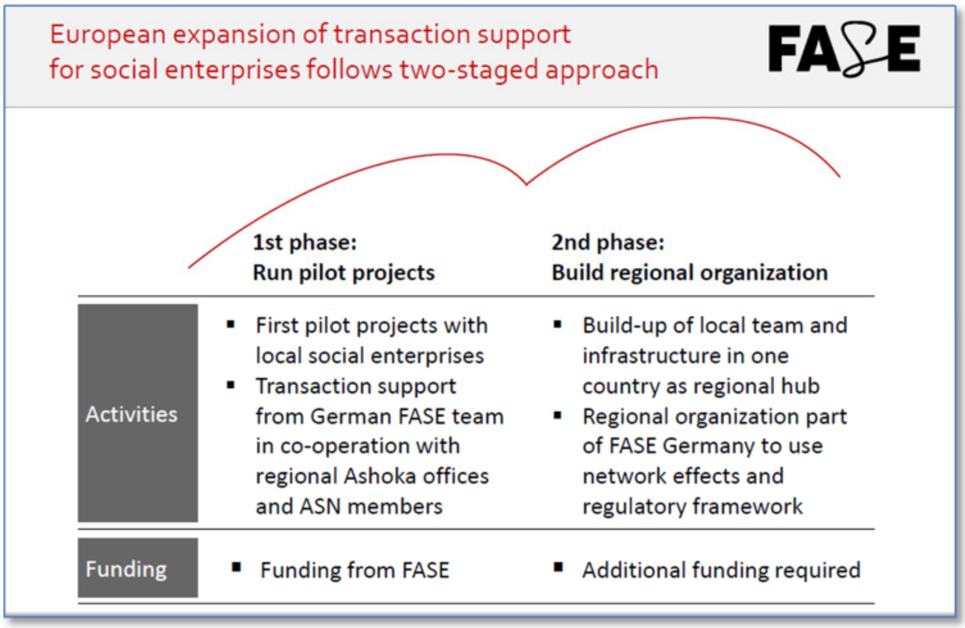
Chart 32: "The European expansion of FASE - a top priority" / Source: FASE



The expansion of FASE will follow a two-staged approach. Basically, the first phase is already up and running in several countries as of today: Poland, Czechia, Slovenia, Switzerland, Austria, Sweden and Spain. This initial step involves a close cooperation with the local offices of Ashoka, the screening of local Ashoka Fellows with respect to their projects and needs for growth financing, and finally the selection of specific projects for a first pilot demonstration. This phase will still be funded by FASE. We were also able to identify and secure our first strategic partners, e.g. one foundation in Austria and one in Czechia that are both willing to actively support us in our expansion plans.

The second phase, however, will definitely require additional resources. The setup of teams and infrastructures per country will not be feasible without the active support from local market players as well as without a fresh injection of financing for FASE itself. Interested supporters, investors and cooperation partners are very welcome.

Chart 33: "The European expansion of FASE – a two-staged approach" / Source: FASE



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Contact

Finanzierungsagentur für
Social Entrepreneurship (FASE)

Dr. Markus Freiburg
Prinzregentenplatz 10
81675 Munich
Germany
+49 (0) 89 960 85992
info@fa-se.eu
www.fa-se.eu