

Social Capital Conference

Conference: 5/31/2011, Beurs Van Berlage, Amsterdam
From : 12:10 to 13:10

Panel Topic: “Funding Your Social Enterprise”

Panel Description:

This session is focused on exploring the various options to fund a social enterprise, sources of funding, approach, critical success factors and key challenges.

Moderator & Panelists:

Moderator: Naoko Felder-Kuzu, Socential

Naoko Felder-Kuzu is Chief Impact Investment Officer at Socential Ltd, a Swiss social impact organization that intermediates between donors/social investors and social entrepreneurs. In 2000, Naoko established NFK Felder Consulting to raise awareness on microfinance investments. In 2004, she joined the Board of Frey Charitable Foundation, a Swiss family foundation. Her first book [Making Sense-Microfinance and Microfinance Investments](#) (2004) was one of the first books published on microfinance investments. Her second book [Microfinance and Beyond: Introducing Microfranchising and Social Businesses](#) (2008) portrays the innovative social/business models that provide sustainable solutions to the problem of poverty. Her expertise and passion is promoting business models with a double bottom line (financial and social returns) and bridging the economic divide through the empowerment of social entrepreneurs in emerging countries.

Prior to her specialization in microfinance and impact investments, Naoko worked for 16 years in senior positions in the financial industry in Tokyo and Zurich. Born in Japan and raised in El Salvador and Guatemala, Naoko returned to Japan to attend the International Christian University in Tokyo. She has been living in Zurich since 1988.

Web address: <http://www.socential.org/>

Panelist: Patrik Elsa, Socential, Co-founder and CEO

Patrik Elsa is co-founder and CEO of Socential. Socential is an intermediary in the market for philanthropy, social investing, and social entrepreneurship. The Socential Marketplace is an online platform where social investors and donors can engage in innovative ventures and projects presented by high caliber social entrepreneurs. This way, Socential provides social entrepreneurs with the valuable access to dedicated capital, resources and know-how.

Before founding Socential, Patrik worked in the Swiss financial sector, most recently in Credit Suisse where he was a member of the Swiss senior management team.

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Design, Methodology, Approach: Reports and expert opinions from panelists. The session also had a practical part, the workshop “*Key challenges and how to overcome them.*”

Main Panel Discussion Points:

The two panelists presented what their organization, Socential, does: *intermediating between donors or social investors and social enterprises*. The donors and social investors Socential works with are: individuals, business professionals; philanthropic families’ offices and foundations; CSR, socially responsible corporations. Socential intermediates donations of seed capital, impact loans, service and knowhow transfer; it also helps their beneficiaries with reporting and due diligences. The social enterprises Socential works with are from different fields, such as: infrastructure and economic development, health, youth, education etc.

Ms. Naoko Felder-Kuzu continued presenting the *business model spectrum* of P. Ostlander (Sherpa), placing the social enterprises between charities (based on grants only, no trading) and traditional business (financial only), using a color code for the spectrum: trading revenues and grants (yellow), potentially sustainable, >75% trading revenues (red), break even, all income from trading (green), profitable surplus reinvested (blue), profit distributing socially driven (purple).

The financing of the different stages of social enterprises, transiting from the charity end towards the business end are: grants, loans, equity.

The main funding sources described were:

- friends and family, the network of the social entrepreneur;
- crowd funding, individuals;
- competitions, awards;
- grant giving foundations;
- family foundation;
- (U)HNWIs;
- business angels and Venture Capitalists;
- corporations.

Mr. Patrik Elsa presented the second part of the session, the workshop “***Key challenges and how to overcome them.***” The goal was *to identify fundraising challenges and how to overcome them.*

All the participants were asked to identify, within the color code of the business model spectrum, where they would like to see their social enterprise be in time. The group divided in two, with most participants selecting colors purple and blue (Group 1); a few selected yellow and red (Group 2). At the end of the sessions, the two groups presented, to the plenary, the conclusion of their discussion.

The main points that the participants in Group 1 made were related to identifying the optimal structure for a certain social enterprise, in such way that the entrepreneur will still be able to keep control of his business.

One participant was facing this exact problem, having to decide between his options - to start on equity/shares, with the risk of diluting his company, or worse, having to change the enterprise mission because of impact investors.

Ms. Naoko Felder-Kuzu emphasized that in order to choose the right investors, it is important first to have in mind what is the capital structure you want to have in the end for your enterprise, what a certain enterprise actually is, and what are the things you want to do. You should sell equity only when you have a clear idea of the direction you want to take your enterprise towards. Before that, just investigate what your options are, get an overview on what is out there, and find practical examples of successful business models that might fit your needs.

One participant observed the funding and investing differences between US and Europe; the EU Commission programs were shortly discussed, underlying the difficulties and limitation imposed by the legal guidelines, and the country-specific laws. It was stated that in other parts of the world the whole process is more organized.

Balancing the options, the group members embraced the idea of using grants in the present, but still keeping the option to sell equity later on.

Another participant expressed the need to keep the value in his business, while selling equity. One solution presented was selling dividends with no voting rights.

Ms. Naoko Felder-Kuzu emphasized that not every social enterprise has to go through all colors of the business spectrum model; there are successes at all levels and it's important to decide the best model for you and find the type of financing and investors that respect your mission and ultimate goal.

One participant presented the risks of choosing soft or commercial loans for a start-up social enterprise; it might not be affordable and in the end might hurt the business.

A wish-list for the social entrepreneurs was created by the participants, within Group 1:

- having one or multiple business projects, that with little money have a big social impact;
- raising money, finding seed investments and other small funds;
- growth and expansion of the social enterprise;
- knowing what to choose from different available models to begin with;
- using loans and equity or not, for the development of a social business;
- sharing experience and knowledge from around the world, with high appreciation of the opportunities presented by SoCap.

Outcomes & Analysis:

The plenary of the two groups showed that both groups identified similar key issues regarding the difficulties of funding a social enterprise.

Group 1 tackled the different **ways to find extra-finances** for the social enterprise, how to get equity but still to be able to maintain control of one's social business, how to choose the right business model, between for-profit, profit neutral or non-profit models.

Group 2 discussed mainly about how to **identify the right kind of funders**, the importance of getting to know them first, to find common grounds and shared values that converge with your business ultimate goal and set mission; also using grants to finance the start-up social business represents a very good solution.

Keywords: funding, social enterprise, social entrepreneur's wish-list

Paper type: Review of conference panel.

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