EUROPEAN
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A SHORT GUIDE TO TAILORED FINANCING

Financing for Social Impact

TAILORED FINANCING

Process through which a venture philanthropy organisation or social investor (VPO/SI) finds the most suitable financial instrument (FI) to support a social purpose organisation (SPO), choosing from the range of FIs available.

FINANCIAL INSTRUMENTS (FIs)

FIs are contracts involving monetary transfers through which VPO/SIs support SPOs financially.

GRANT-MAKING

GRANTS

Cash allocation with no rights to repayments, financial returns or any form of ownership rights for the donor.

SOCIAL INVESTMENT (SI)

DEBT INSTRUMENTS

Loans that the VPO/SI can provide to the SPO, charging interest at a certain rate. The interest charged can vary depending on the risk profile of the SPO and on the securitisation and repayment priority of the loan.

EQUITY

Contracts through which a VPO/SI provides funding to the SPO and in return acquires ownership rights over part of the SPO. If the SPO is successful, the equity share holds the possibility of a financial return. Equity also allows for the possibility of a transfer of ownership to other funders in the future.

HYBRID FINANCIAL INSTRUMENTS (HFIS)

Monetary contracts that combine features of the traditional FIs (grant, debt, equity) in order to achieve the best possible alignment of risk and impact/financial return for a specific investment. Examples include mezzanine finance (aka quasi-equity), convertible loans and recoverable grants.

EVPA'S 3-STEP PROCESS

1. ASSESS THE PRE-CONDITIONS OF THE VPO/SI

- Impact/financial/risk profile
- Legal structure
- Investors/funders
- Life cycle
- Duration of commitment
- Non-financial support provided
- Composition of the team

2. ASSESS THE FINANCIAL NEEDS OF THE SPO

Based on:

- Business model
- Organisational structure
- Stage in the life cycle
- Macro-environment
- Stakeholders

3. MATCH THE VPO/SI'S GOALS WITH THE SPO'S NEEDS

Choose which financial instrument(s) to deploy

STEP 2: ASSESSING FINANCIAL NEEDS OF THE SPO

Ask the following question: **"Does a (private or public) market exist for the SPO's products/services or activities?"**

NO MARKET ↑ … ↓ MARKET

EXAMPLES

NO → **1A. THERE IS NO MARKET**
The SPO will never become self-sustainable due to the segment of the market it is serving and/or due to the type of products/services it is offering
→ Grants

This scenario applies to VPOs supporting SPOs working, for example, on **advocacy**, as these SPOs will never become self-sustainable.

In this scenario, VPOs have **no financial return expectations**, but only aim to achieve social impact.

1B. THERE IS NO MARKET YET
Market infrastructures are not yet developed but there is a potential for the SPO to build the market and then become self-sustainable
→ Grants → Transition from a grant-based model to a social-investment model → Equity instruments, Loans, Hybrid financial instruments

IKARE LTD – STAMP OUT SLEEPING SICKNESS (SOS) INITIATIVE IN UGANDA

The SOS initiative aims to eradicate sleeping sickness, a disease affecting both animals and humans. IKARE's initial support was purely through **grants** as the initiative was an emergency intervention for public good. Then, in order to create sustainability, IKARE invested in building commercially viable veterinary services infrastructures in previously unserved areas. In this phase IKARE used both **grants** and **loans** (investing approximately $800,000 since 2006). It did also consider equity, but as the amounts involved were small, the legal costs and administrative hassles involved did not justify it.

The SOS Initiative is estimated to have prevented 1,829 cases of human sleeping sickness between 2006 and 2015, saved over $640,000 on treatment costs alone, and had over 400,000 cattle emergency treated. Assuming a 5% lower cattle mortality as a result, this corresponds to savings of $5m.

50/50 → **2. THERE IS A MARKET FOR PART OF THE SPO's PRODUCT/SERVICES**
There can be a market (either immediately or down the line) for some of the activities and/or for the products/services developed by the SPO but part of the activities will never become self-sustainable
→ **MIX** of Grants and Equity instruments, Grants and Loans, Hybrid financial instruments

FASE – DISCOVERING HANDS (DH)

DH has developed a solution for early breast cancer detection through visually impaired women. DH has a **hybrid structure**, which calls for a mix of financial instruments:

discovering hands® gUG
Not-for-profit
(research & education)
⟷
discovering hands® Service GmbH
For-profit
(operative business entity)

Grants → discovering hands® gUG
Revenues from examinations fee + franchises → discovering hands® Service GmbH
Mezzanine (over €1.2m) raised by FASE, institutional and private (e.g. BonVenture) investors, and KfW Bank → discovering hands® Service GmbH

YES → **3. THERE IS A MARKET**
The SPO has a business model that allows it to become self-sustainable
→ Equity instruments, Loans, Hybrid financial instruments

FRANCE ACTIVE – RÉZOSOCIAL

RézoSocial is a French social enterprise (SPO) fighting unemployment of unskilled workers, through a training programme in IT and digital skills. Unemployed people are hired, trained and get social support by RézoSocial for periods ranging from 6 months to 2 years before they can find a traditional job in other IT companies.

In 2015, France Active provided RézoSocial with a **loan** (€100,000), which facilitated the SPO's growth, doubling its scope of impact in only two years. It also contributed to making RézoSocial a self-sustainable social enterprise employing over 30 people.

In 2017, the SPO raised €200,000 in **equity** and **convertible bonds** from France Active, with the aim of scaling up the project in France in the following six years.

YUNUS SOCIAL BUSINESS – IMPACT WATER UGANDA (IWU)

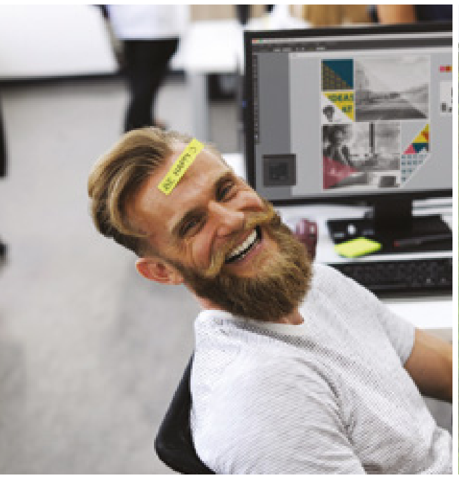
IWU is a self-sustainable social business that provides safe water systems to schools and health facilities in Uganda. It also offers adapted credit services to allow customers to pay for their systems over time (e.g. instalment payments for schools are scheduled at the beginning of each term).

IWU already serves around 1,000 schools in Uganda and provides clean drinking water to more than 500,000 children.

VPO/SI Yunus Social Business → $200,000 **loan at a concessionary rate** → **SPO** Impact Water Uganda (pays back loan ←)

SPO Impact Water Uganda → provides water purification system + adapted credit services → **Final beneficiaries** Schools & health facilities (pays for services (instalments) ←)

STEP 3: MATCHING THE VPO/SI'S GOALS WITH THE SPO'S FINANCIAL NEEDS



3V Vets © Anne Holm Rannaleet (right)
© RézoSocial (left)

NO MARKET ⟷ MARKET

VPO/SI'S IMPACT & FINANCIAL RETURN EXPECTATIONS	SPO'S BUSINESS MODEL: 1A. THERE IS NO MARKET	1B. THERE IS NO MARKET YET	2. THERE IS A MARKET FOR PART OF THE SPO'S PRODUCT/ SERVICES	3. THERE IS A MARKET
A. Social impact only	• Grants	• Grants (seed/market building)	• Grants (for the non-profit part)	• Grants
B. Social impact first, financial return accepted		• Grants (seed/market building) • Social investment (validation & scaling)	• Grants (for the non-profit part) • Social Investment (for the income-generating part)	• Grants • Social investment
C. Social Impact and financial return on the same level		• Social investment (scaling)	• Social Investment (for the income-generating part)	• Social investment

TAILORED FINANCING AND THE INVESTMENT PROCESS

	INVESTMENT PROCESS				
Investment Strategy	**Deal Screening**	**Due Diligence**	**Deal Structuring**	**Investment Management**	**Exit**
The VPO/SI **assesses its risk/return/impact profile** by defining its social impact and financial objectives, and by assessing the **risk** associated with not achieving a) social impact, and b) expected financial returns. The VPO/SI assesses its **pre-conditions** (its legal structure, its investors/funder, its life cycle, the duration of commitment, the non-financial support it is willing to provide and the composition of its team). (Step 1)	The VPO/SI makes a **preliminary assessment** of whether the characteristics and needs of the SPO **match** with the goals of the VPO/SI (as defined during the definition of the investment strategy). (Step 2)	**In-depth assessment** of the financial needs of the SPO based on its business model and stage of development. If alignment with the VPO/SI's goals, two scenarios: **(i) The VPO/SI can pick among several FIs:** The VPO/SI should assess which FI is best to use for the deal. **(ii) Only one type of FI possible for the VPO/SI:** The VPO/SI should assess whether the only FI it can deploy is the most appropriate (matching its own goals with the SPO's needs). (Step 2 & 3)	Structuring of the deal, deploying the chosen financial instrument(s). (Step 3)	**Deployment of FI(s)** and actual delivery of the financial support to the SPO.	Any considerations about exit **depend on the FIs deployed.**

GUIDELINES

FOR MORE INFORMATION

Read the full publication "Financing for Social Impact | The Key Role of Tailored Financing and Hybrid Finance"

Register for our course "Financing for Social Impact Training"

Contact us at knowledge.centre@evpa.eu.com

Disclaimer
The case studies presented in this report feature organisations that are continuously working on their tailored financing strategies. As a result, all cases are evolving organisations and thus their tailored financing solutions are continuously improving.

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